

Outthink. Outperform.

Lower construction contribution

Sunway's 1H15 core earnings (+13% yoy) came in within our expectation. The higher earnings was however mainly due to lower tax rate. Revenue was down on lower contribution from the construction segment. Maintain forecast and BUY recommendation with an unchanged TP of RM3.90.

1H15 core earnings came in within our and street expectations

In 2Q15, Sunway reported core earnings of RM137m (+8.5% yoy) despite a 13.5% drop in sales, but boosted by lower effective tax rate. Our core net profit excludes fair value gain from annual revaluation of Sunway REITs properties amounting to RM101m. This takes 1H15 core net profit to RM260m (+13 yoy) which is within our expectation, accounting for 49% of our full year forecast. No dividend was declared (2Q14: Nil).

Revenue dragged down by construction segment

Revenue in 2Q15 fell by 13.5% yoy as contribution from construction segment halved on higher intragroup elimination. However, this was partially mitigated by growth from the property and property investment segment. Property was boosted by higher progress billings from Sunway Montana, Sunway Lenang Heights and Sunway Eastwood.

Unbilled sales stood at RM2.5bn

In 2Q15, Sunway achieved property sales of RM231m (2Q14: 348m; -29% yoy), mainly contributed by projects like Velocity, South Quay, and Eastwood. 1H15 property sales were 478m (1H14:807m; -41% yoy). Effective unbilled sales stood at RM1.7bn as at end-June 15. Meanwhile, total outstanding construction order book stood at RM2.7bn. Sunway targets to launch several projects with an estimated GDV of RM2bn in 2015 – Gandaria, Sunway Geo, Mount Sophia, Emerald Residences.

Maintain BUY with an unchanged target price of RM3.90

We maintain our earnings forecast, BUY rating and TP of RM3.90 (based on 30% discount to RNAV). We continue to like Sunway for its strategic property land bank, extensive experience in the construction sector, and inexpensive valuation of 0.7x P/RNAV. Risk to recommendation include; i) sharper-than-expected slowdown in the domestic property market; ii) prolonged oversupply within the Johore region, iii) lower-than-expected construction contract wins.

Earnings & Valuation Summary

| FYE 31 Dec | 2013 | 2014 | 2015E | 2016E | 2017E |
|-----------------------|---------|---------|---------|---------|---------|
| Revenue (RMm) | 4,721.4 | 4,841.9 | 5,429.0 | 5,727.4 | 5,907.9 |
| EBITDA (RMm) | 608.3 | 735.6 | 737.2 | 769.3 | 795.6 |
| Pretax profit (RMm) | 1,900.4 | 968.8 | 718.3 | 766.5 | 789.8 |
| Net profit (RMm) | 1,490.4 | 743.2 | 516.9 | 574.6 | 590.4 |
| EPS (sen) | 98.8 | 43.0 | 29.9 | 33.2 | 34.1 |
| PER (x) | 3.4 | 7.9 | 11.4 | 10.2 | 10.0 |
| Core net profit (RMm) | 482.7 | 743.2 | 531.9 | 589.6 | 605.4 |
| Core EPS (sen) | 32.0 | 43.0 | 29.9 | 33.2 | 34.1 |
| Core EPS growth (%) | 18.0 | 34.4 | (30.6) | 11.2 | 2.8 |
| Core PER (x) | 10.6 | 7.9 | 11.4 | 10.2 | 10.0 |
| Net DPS (sen) | 10.0 | 11.0 | 9.0 | 10.0 | 11.0 |
| Dividend Yield (%) | 2.9 | 3.2 | 2.6 | 2.9 | 3.2 |
| EV/EBITDA (x) | 11.7 | 10.5 | 9.8 | 9.1 | 8.5 |
| Chg in EPS (%) | - | - | - | - | - |
| Affin/Consensus (x) | - | - | 1.0 | 1.1 | 1.1 |

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

Sunway

SWB MK
Sector: Property

RM3.40 @ 27 August 2015

BUY (maintain)

Upside 15%

Price Target: RM3.90

Previous Target: RM3.90



Price Performance

| | 1M | 3M | 12M |
|-------------|-------|-------|-------|
| Absolute | -3.4% | -0.9% | 11.9% |
| Rel to KLCI | 2.5% | 8.6% | 31.1% |

Stock Data

| | |
|-------------------------------|-------------|
| Issued shares (m) | 1,757.7 |
| Mkt cap (RMm)/(US\$m) | 5,976/1,425 |
| Avg daily vol - 6mth (m) | 2.0 |
| 52-wk range (RM) | 2.91-3.81 |
| Est free float | 12% |
| BV per share (RM) | 3.52 |
| P/BV (x) | 0.97 |
| Net cash/ (debt) (RMm) (2Q15) | (2,227) |
| ROE (2015F) | 8.4% |
| Derivatives | |
| Warr 2016 (SP:RM2.50) | |
| Shariah Compliant | Yes |

Key Shareholders

| | |
|-----------------------|-------|
| Tan Sri Jeffrey Cheah | 55.4% |
| GIC | 8.7% |

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

| FYE 31 Dec (RMm) | 2Q15 | QoQ % chg | YoY % chg | 1H15 | YoY % chg | Comment |
|------------------------|----------|--------------|--------------|-----------|--------------|--|
| Revenue | 1041.5 | (1.7) | (13.5) | 2,101.5 | (5.8) | Dragged down by lower contribution from construction segment |
| Op costs | (1003.2) | 9.5 | (11.0) | (1,919.4) | (6.1) | |
| EBIT | 38.3 | (73.4) | (50.7) | 182.2 | (2.7) | |
| <i>EBIT margin (%)</i> | 3.7 | -9.9ppt | -2.7ppt | 8.7 | +0.3ppt | |
| Int expense | (26.9) | 3.7 | 19.7 | (52.9) | 30.6 | Total debt stood at RM4.4bn (+7% yoy) |
| Int and other income | 17.6 | 20.8 | 43.5 | 32.2 | 43.4 | |
| Associates | 150.7 | 295.3 | 37.5 | 188.8 | 25.9 | |
| El | 101.2 | nm | nm | 124.1 | 119.6 | Fair value gain from annual revaluation of Sunway REITs properties |
| Pretax profit | 280.9 | 45.2 | 20.3 | 474.4 | 26.3 | |
| Core pretax | 179.7 | 5.4 | 1.5 | 350.3 | 9.7 | |
| Tax | (33.1) | (8.3) | (26.3) | (69.1) | (8.2) | Lower due to deferred taxation |
| <i>Tax rate (%)</i> | 11.8 | n.m | n.m | 14.6 | n.m | |
| MI | (9.9) | (8.6) | 60.7 | (20.8) | 49.2 | |
| Net profit | 237.9 | 62.4 | 30.3 | 384.5 | 34.2 | |
| EPS (sen) | 13.5 | 60.2 | 27.9 | 22.0 | 32.3 | |
| Core net profit | 136.7 | 10.6 | 8.5 | 260.4 | 13.2 | In line; Accounts for 49% of our full year forecast |

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

| | |
|------------------|--|
| BUY | Total return is expected to exceed +10% over a 12-month period |
| HOLD | Total return is expected to be between -5% and +10% over a 12-month period |
| SELL | Total return is expected to be below -5% over a 12-month period |
| NOT RATED | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

| | |
|--------------------|--|
| OVERWEIGHT | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| NEUTRAL | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| UNDERWEIGHT | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |

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