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

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)	
EBIT margin (%)	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	
EI	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
Tax rate (%)	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

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
(formerly known as HwangDBS Investment Bank Berhad)
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