


**AmResearch**
**Company report**

# SUNWAY

(SWB MK EQUITY, SWAY.KL)

28 Aug 2015

*Development slowdown mitigated by other divisions*
**BUY**

(Maintained)

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**Rationale for report: Company result**

Price	RM3.40
Fair Value	RM3.74
52-week High/Low	RM3.81/RM2.91

**Key Changes**

Fair value	↔
EPS	↔

YE to Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	4,558.1	5,310.3	5,496.8	5,466.8
Core net profit (RM mil)	523.9	554.1	534.7	554.4
FD Core EPS (sen)	31.5	33.1	32.1	33.2
FD Core EPS growth (%)	3.2	5.4	(3.3)	3.4
Consensus Net Profit (RM mil)	-	479.8	530.2	552.1
DPS (sen)	11.0	32.5	10.0	10.0
PE (x)	10.8	10.3	10.6	10.3
EV/EBITDA (x)	10.9	10.7	10.2	10.1
Div yield (%)	3.2	9.6	2.9	2.9
ROE (%)	13.0	9.3	8.9	9.0
Net Gearing (%)	30.4	43.9	42.2	41.6

**Stock and Financial Data**

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	5,860.0
Book Value (RM/share)	3.43
P/BV (x)	1.0
ROE (%)	13.0
Net Gearing (%)	30.4

Major Shareholders	Tan Sri Jeffrey Cheah (48.2%) EPF (5.7%)
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Free Float	22.4
Avg Daily Value (RMmil)	6.5

Price performance	3mth	6mth	12mth
Absolute (%)	(1.4)	3.6	10.2
Relative (%)	8.0	17.9	28.8


**Investment Highlights**

- We maintain BUY on Sunway, with an unchanged fair value of RM3.74/share, based on a 20% discount to the SOP value of RM4.65/share.
- Sunway posted a 2Q core net profit of RM137mil (+4.6% QoQ, +8.4% YoY), bringing the total for 1H to RM267mil (+13% YoY) – in line with expectations and accounting for 48% and 54% of our and consensus forecasts, respectively.
- It declared a 5 sen/share dividend for 1H15. Apart from the regular dividends, Sunway is expected to distribute 25 sen-28 sen/share in a special payout by the end of next month.
- The slowdown in the property development division was palpable, with revenue and operating profit accounting for only 39% and 23% of our forecasts, respectively amid a significant decline in margins.
- The trading and manufacturing division was also affected, with operating margin contracting by over 6% QoQ and YoY. Sunway said the division was affected by post GST slowdown and reduced demand overseas following a drop in oil and commodity prices.
- As expected, the absence of property launches in 1H15 was made up for by the construction and quarry divisions. Property sales in 1H15 totalled RM478mil (effective: RM353mil). Notably, unbilled sales amounted to RM2.3bil (effective: RM1.7bil) as at end-June 2015.
- The construction division was exceptionally strong, with its 1H15 EBIT already making up 98% of our full-year number. However, this was mainly due to a reversal of over-elimination of intra-group profit in previous quarters.
- As at end-June, the outstanding order book amounted to RM2.69bil (vs. RM2.76bil as at end-March 2015). We maintain our numbers and our forecasts, for now. Sunway is targeting to launch RM2.1bil worth of projects in 2H15.
- We believe Sunway's long-term prospects are intact, notwithstanding the current blip in the property market, while its other divisions, including property investments, will cushion the impact of the soft property market.
- Apart from the anticipated special dividend payout, we maintain BUY, for continued exposure to the southern economic development corridor, specifically in Sunway Iskandar.

## EXHIBIT 1: 1H15 RESULT SUMMARY

	1H14	1H15	% YoY	2Q14	1Q15	2Q15	% QoQ	% YoY
<b>Revenue</b>	<b>2,230.3</b>	<b>2,101.5</b>	<b>(5.8)</b>	<b>1,204.6</b>	<b>1,060.0</b>	<b>1,041.5</b>	<b>(1.7)</b>	<b>(13.5)</b>
<b>EBIT</b>	<b>255.5</b>	<b>300.0</b>	<b>17.4</b>	<b>139.6</b>	<b>150.9</b>	<b>149.1</b>	<b>(1.2)</b>	<b>6.8</b>
Est. Unusual Items	50.2	117.1	133.3	56.5	15.8	101.2	539.2	79.3
Associates & JVs	88.1	78.0	(11.5)	47.7	38.1	39.9	4.7	(16.3)
Net interest income	(18.0)	(20.7)	14.6	(10.2)	(11.4)	(9.3)	(18.3)	(9.0)
<b>PBT</b>	<b>375.8</b>	<b>474.4</b>	<b>26.3</b>	<b>233.6</b>	<b>193.5</b>	<b>280.9</b>	<b>45.2</b>	<b>20.3</b>
Taxation	(75.3)	(69.2)	(8.2)	(44.9)	(36.1)	(33.1)	(8.3)	(26.3)
Minorities	(14.0)	(20.8)	49.2	(6.2)	(10.9)	(9.9)	(8.6)	60.7
<b>Net profit</b>	<b>286.5</b>	<b>384.4</b>	<b>34.2</b>	<b>182.5</b>	<b>146.5</b>	<b>237.9</b>	<b>62.4</b>	<b>30.3</b>
Total Els after tax and MI	50.2	117.1	133.3	56.5	15.8	101.2	539.2	79.3
Tax	(75.3)	(69.2)	(8.2)	(44.9)	(36.1)	(33.1)	(8.3)	(26.3)
Core PBT	325.6	357.4	9.8	177.1	177.7	179.7	1.1	1.5
<b>Core net profit</b>	<b>236.3</b>	<b>267.4</b>	<b>13.1</b>	<b>126.1</b>	<b>130.7</b>	<b>136.7</b>	<b>4.6</b>	<b>8.4</b>
<b>Core EPS</b>	13.7	15.3	11.7	8.0	7.5	7.8	3.2	(2.9)
<b>Diluted core EPS</b>	13.3	15.0	13.1	7.8	7.1	7.3	2.4	(6.3)
<b>Margins (%)</b>	<b>1H14</b>	<b>1H15</b>	<b>ppt change YoY</b>	<b>2Q14</b>	<b>1Q15</b>	<b>2Q15</b>	<b>ppt change QoQ</b>	<b>ppt change YoY</b>
EBIT	11.5	14.3	2.8	11.6	14.2	14.3	0.1	2.7
Core PBT	14.6	17.0	2.4	14.7	16.8	17.3	0.5	2.6
Core net profit	10.6	12.7	2.1	10.5	12.3	13.1	0.8	2.7
Tax rate (%)	23.1	19.4	(3.8)	25.3	20.3	18.4	(1.9)	(6.9)

Source: Company, AmResearch

## EXHIBIT 2: UPCOMING LAUNCHES IN 2H15

	Product Type	Location	GDV
			RM'mil
Gandaria	Service Apartment & Retail	Bangi	200
Velocity	Office & Retail	Jalan Peel	150
Sunway Geo	Condominium & Townhouses	South Quay	450
Casa Kiara 3	Condominium	Mont Kiara	300
Cassia	Semi-D	Batu Maung, Penang	90
Emerald Residences	Landed residential	Sunway Iskandar	300
Mount Sophia	Low rise condominium	Singapore	600
			<b>2090</b>

Source: Company, AmResearch

## EXHIBIT 3: SEGMENTAL PERFORMANCE

Core revenue	1H14	1H15	% YoY	2Q14	1Q15	2Q15	% QoQ	% YoY	FY15F	% 1H over FY15F
Property Dev	524.0	504.8	(3.7)	301.7	180.7	324.1	79.4	7.4	1,301.5	38.8
Property Inv	282.2	284.1	0.7	146.0	139.3	144.8	4.0	(0.8)	605.8	46.9
Construction	784.8	619.4	(21.1)	426.1	375.3	244.1	(35.0)	(42.7)	2,055.3	30.1
Trading and Manufacturing	311.1	314.2	1.0	162.1	191.9	122.3	(36.3)	(24.5)	671.4	46.8
Quarry	106.0	117.9	11.2	57.7	53.8	64.1	19.1	11.1	248.5	47.4
Investment Holdings	0.0	0.9	2,637.5	0.0	0.8	0.0	nm	9.4	2.6	34.3
Others	222.2	260.2	17.1	111.1	118.2	142.0	20.2	27.9	405.3	64.2
<b>Total</b>	<b>2,230.3</b>	<b>2,101.5</b>	<b>(5.8)</b>	<b>1,204.6</b>	<b>1,060.0</b>	<b>1,041.5</b>	<b>(1.7)</b>	<b>(13.5)</b>	<b>5,290.3</b>	<b>39.7</b>
<b>Est. EBIT</b>										
Property Dev	110.1	80.0	(27.4)	58.0	41.0	38.9	(5.1)	(32.9)	351.4	22.8
Property Inv	47.2	56.4	19.3	26.7	23.4	33.0	40.9	23.6	109.0	51.7
Construction	56.7	108.9	92.2	25.7	52.9	56.0	5.9	118.3	111.0	98.1
Trading and Manufacturing	20.1	14.8	(26.3)	11.0	14.1	0.7	(95.2)	(93.9)	52.4	28.3
Quarry	13.6	23.1	69.7	9.2	7.6	15.5	104.8	69.0	29.8	77.4
Investment Holdings	(6.5)	(12.9)	98.6	(1.9)	(6.0)	(6.9)	14.8	271.1	0.0	n/a
Others	14.3	29.8	108.1	11.0	17.9	11.9	(33.7)	8.2	26.3	113.0
<b>Total</b>	<b>255.5</b>	<b>300.0</b>	<b>17.4</b>	<b>139.6</b>	<b>150.9</b>	<b>149.1</b>	<b>(1.2)</b>	<b>6.8</b>	<b>680.0</b>	<b>44.1</b>
<b>Est. EBIT margin</b>										
	<b>1H14</b>	<b>1H15</b>	<b>ppt change YoY</b>	<b>2Q14</b>	<b>1Q15</b>	<b>2Q15</b>	<b>ppt change QoQ</b>	<b>ppt change YoY</b>	<b>FY15F</b>	<b>ppt difference</b>
Property Dev	21.0	15.8	(5.2)	19.2	22.7	12.0	(10.7)	(7.2)	27.0	(11.2)
Property Inv	16.7	19.8	3.1	18.3	16.8	22.8	6.0	4.5	18.0	1.8
Construction	7.2	17.6	10.4	6.0	14.1	22.9	8.9	16.9	5.4	12.2
Trading and Manufacturing	6.5	4.7	(1.7)	6.8	7.4	0.5	(6.8)	(6.2)	7.8	(3.1)
Quarry	12.8	19.6	6.7	15.9	14.1	24.2	10.1	8.3	12.0	7.6
Investment Holdings	nm	nm	nm	nm	nm	nm	nm	nm	0.0	nm
Others	6.4	11.4	5.0	9.9	15.1	8.4	(6.8)	(1.5)	6.5	4.9
<b>Overall</b>	<b>11.5</b>	<b>14.3</b>	<b>2.8</b>	<b>11.6</b>	<b>14.2</b>	<b>14.3</b>	<b>0.1</b>	<b>2.7</b>	<b>12.9</b>	<b>1.4</b>

Source: Company, AmResearch

## EXHIBIT 4: SEGMENT CORE PBT

Core pretax profit	1H14	1H15	% YoY	2Q14	1Q15	2Q15	% QoQ	% YoY
Property Dev	144.6	113.2	(21.8)	75.7	57.9	55.3	(4.5)	(27.0)
Property Inv	50.6	48.6	(4.0)	25.5	22.0	26.6	20.7	4.0
Construction	64.0	108.5	69.7	32.7	52.2	56.3	7.8	72.1
Trading and Manufacturing	18.2	12.0	(33.9)	9.8	12.7	(0.7)	(105.8)	(107.5)
Quarry	14.2	23.3	64.0	9.5	7.7	15.5	101.5	63.7
Investment Holdings	15.9	14.8	(6.3)	10.6	4.1	10.7	159.8	nm
Others	18.2	36.9	103.4	13.2	20.9	16.0	(23.5)	21.4
<b>Total</b>	<b>325.6</b>	<b>357.4</b>	<b>9.8</b>	<b>177.1</b>	<b>177.7</b>	<b>179.7</b>	<b>1.1</b>	<b>1.5</b>
<b>Core PBT margin</b>								
	<b>1H14</b>	<b>1H15</b>	<b>ppt change YoY</b>	<b>2Q14</b>	<b>1Q15</b>	<b>2Q15</b>	<b>ppt change QoQ</b>	<b>ppt change YoY</b>
Property Dev	27.6	22.4	(5.2)	25.1	32.0	17.1	(15.0)	(8.0)
Property Inv	17.9	17.1	(0.8)	17.5	15.8	18.4	2.5	0.9
Construction	8.2	17.5	9.4	7.7	13.9	23.1	9.1	15.4
Trading and Manufacturing	5.8	3.8	(2.0)	6.1	6.6	(0.6)	(7.2)	(6.7)
Quarry	13.4	19.7	6.3	16.5	14.3	24.3	9.9	7.8
Investment Holdings	nm	nm	nm	nm	nm	nm	nm	nm
Others	8.2	14.2	6.0	11.9	17.7	11.3	(6.4)	(0.6)
<b>Overall</b>	<b>14.6</b>	<b>17.0</b>	<b>2.4</b>	<b>14.7</b>	<b>16.8</b>	<b>17.3</b>	<b>0.5</b>	<b>2.6</b>

Source: Company, AmResearch

EXHIBIT 5: PB BAND CHART

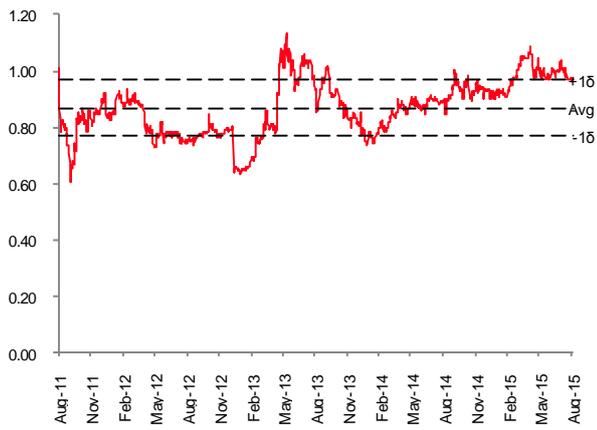
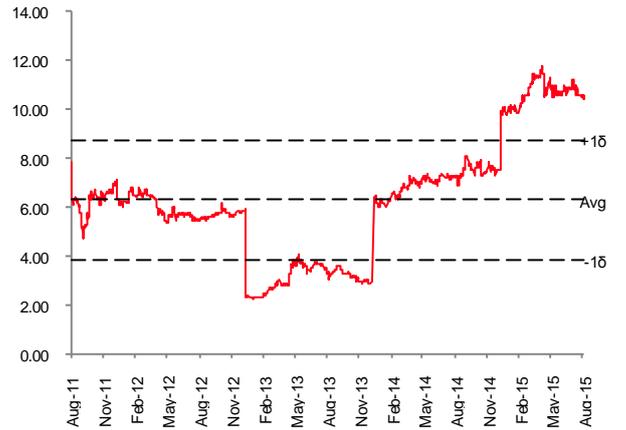


EXHIBIT 6: PE BAND CHART



## EXHIBIT 7: SUNWAY – FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	4,721.4	4,558.1	5,310.3	5,496.8	5,466.8
EBITDA	585.9	703.6	795.2	823.1	839.5
Depreciation/Amortisation	(133.4)	(114.1)	(120.3)	(130.3)	(140.3)
Operating income (EBIT)	452.5	589.5	674.9	692.8	699.1
Other income & associates	255.9	171.4	193.7	253.4	289.0
Net interest	(46.1)	(30.4)	(42.0)	(69.0)	(81.0)
Exceptional items	1,238.1	229.7	-	-	-
<b>Pretax profit</b>	<b>1,900.4</b>	<b>960.2</b>	<b>826.6</b>	<b>877.2</b>	<b>907.1</b>
Taxation	(137.0)	(148.6)	(165.3)	(210.5)	(217.7)
Minorities/pref dividends	(273.0)	(77.6)	(107.2)	(132.0)	(135.0)
<b>Net profit</b>	<b>1,490.4</b>	<b>734.0</b>	<b>554.1</b>	<b>534.7</b>	<b>554.4</b>
Core net profit	484.0	523.9	554.1	534.7	554.4
Balance Sheet (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Fixed assets	835.8	985.2	1,038.3	1,042.5	1,036.7
Intangible assets	319.4	319.4	319.4	319.4	318.4
Other long-term assets	5,098.1	5,570.2	6,214.7	6,410.0	6,605.5
<b>Total non-current assets</b>	<b>6,253.3</b>	<b>6,874.9</b>	<b>7,572.4</b>	<b>7,771.9</b>	<b>7,960.6</b>
Cash & equivalent	1,518.8	1,978.2	1,340.3	1,603.6	1,482.7
Stock	615.8	580.0	531.0	562.9	596.6
Trade debtors	1,114.1	1,184.7	1,272.8	1,017.4	1,310.3
Other current assets	1,599.5	2,239.4	2,091.7	2,040.5	2,088.9
<b>Total current assets</b>	<b>4,848.3</b>	<b>5,982.3</b>	<b>5,235.7</b>	<b>5,224.5</b>	<b>5,478.5</b>
Trade creditors	1,150.2	1,275.8	964.9	1,022.8	1,084.2
Short-term borrowings	2,000.7	2,132.9	1,660.8	1,510.8	1,410.8
Other current liabilities	923.1	867.1	724.9	724.9	724.9
<b>Total current liabilities</b>	<b>4,074.0</b>	<b>4,275.8</b>	<b>3,350.7</b>	<b>3,258.6</b>	<b>3,220.0</b>
Long-term borrowings	794.7	1,651.5	2,323.6	2,623.6	2,723.6
Other long-term liabilities	587.6	605.9	605.9	605.9	605.9
<b>Total long-term liabilities</b>	<b>1,382.3</b>	<b>2,257.5</b>	<b>2,929.5</b>	<b>3,229.5</b>	<b>3,329.5</b>
<b>Shareholders' funds</b>	<b>5,328.3</b>	<b>5,936.4</b>	<b>6,018.6</b>	<b>5,990.8</b>	<b>6,372.2</b>
Minority interests	316.9	387.5	517.5	517.5	517.5
BV/share (RM)	3.09	3.43	3.48	3.46	3.68
Cash Flow (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Pretax profit	1,900.4	960.2	826.6	877.2	907.1
Depreciation/Amortisation	133.4	114.1	120.3	130.3	140.3
Net change in working capital	93.0	(311.9)	(537.7)	234.4	(313.5)
Others	(1,033.4)	(54.5)	(69.1)	(58.9)	(350.9)
<b>Cash flow from operations</b>	<b>1,093.4</b>	<b>708.0</b>	<b>340.2</b>	<b>1,183.0</b>	<b>383.0</b>
Capital expenditure	(88.5)	(323.9)	(104.9)	(83.9)	(82.9)
Net investments & sale of fixed assets	11.2	65.8	65.8	65.8	65.8
Others	(1,300.1)	(627.9)	(500.0)	(300.0)	(400.0)
<b>Cash flow from investing</b>	<b>(1,377.4)</b>	<b>(886.0)</b>	<b>(539.1)</b>	<b>(318.1)</b>	<b>(417.1)</b>
Debt raised/(repaid)	498.3	298.3	249.3	249.3	249.3
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(163.7)	(172.7)	(190.4)	(562.4)	(173.1)
Others	(292.2)	475.9	(283.0)	(288.5)	(164.0)
<b>Cash flow from financing</b>	<b>42.4</b>	<b>601.4</b>	<b>(224.1)</b>	<b>(601.7)</b>	<b>(87.8)</b>
<b>Net cash flow</b>	<b>(241.6)</b>	<b>423.4</b>	<b>(423.0)</b>	<b>263.3</b>	<b>(121.9)</b>
<b>Net cash/(debt) b/f</b>	<b>1,102.3</b>	<b>871.7</b>	<b>1,292.9</b>	<b>869.9</b>	<b>1,133.2</b>
<b>Net cash/(debt) c/f</b>	<b>871.7</b>	<b>1,292.9</b>	<b>869.9</b>	<b>1,133.2</b>	<b>1,011.4</b>
Key Ratios (YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue growth (%)	14.4	(3.5)	16.5	3.5	(0.5)
EBITDA growth (%)	12.8	20.1	13.0	3.5	2.0
Pretax margin (%)	40.2	21.1	15.6	16.0	16.6
Net profit margin (%)	31.6	16.1	10.4	9.7	10.1
Interest cover (x)	9.8	19.4	16.1	10.0	8.6
Effective tax rate (%)	7.2	15.5	20.0	24.0	24.0
Dividend payout (%)	11.6	25.9	101.5	32.4	31.2
Debtors turnover (days)	87	92	84	76	78
Stock turnover (days)	56	57	45	43	46
Creditors turnover (days)	102	115	91	78	83

Source: Company, AmResearch estimates

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