

Malaysia Company Focus

Sunway

Bloomberg: SWB MK | Reuters: SWAY.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Aug 2015

HOLD

Last Traded Price: RM3.40 (KLCI : 1,601.70)

Price Target : RM3.20 (-6% downside) (Prev RM3.80)

Reason for Report : 2Q15 results

Where we differ: One of the earliest to downgrade to Hold after strong share price rally

Analyst

QUAH He Wei, CFA +603 2604 3966 hewei@alliancedbs.com

Result Summary

FY Dec (RM m)	2Q 2015	2Q 2014	1Q 2015	% Chg y-o-y	% Chg q-o-q
P&L Items					
Turnover	1,041.5	1,204.6	1,060.0	(13.5)	(1.7)
Gross Profit	105.2	117.8	120.1	(10.8)	(12.4)
Opg Profit	149.1	139.6	150.3	6.8	(0.8)
EBITDA	219.3	215.5	217.6	1.8	0.8
Net Profit	237.9	182.5	146.5	30.3	62.4
Other Data					
Gross Margin (%)	10.1	9.8	11.3		
Opg Margin (%)	14.3	11.6	14.2		
Net Margin (%)	22.8	15.2	13.8		

Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Turnover	4,842	5,361	5,943	5,236
Operating Profit	615	675	706	685
EBITDA	962	949	1,000	969
Net Pft (Pre Ex.)	592	542	547	507
EPS (sen)	43.1	31.5	31.8	29.4
EPS Pre Ex. (sen)	34.3	31.5	31.8	29.4
EPS Gth (%)	(50)	(27)	1	(7)
EPS Gth Pre Ex (%)	22	(8)	1	(7)
Net DPS (sen)	11.0	9.4	9.5	8.8
BV Per Share (sen)	344.9	367.0	389.2	409.8
PE (X)	7.9	10.8	10.7	11.6
PE Pre Ex. (X)	9.9	10.8	10.7	11.6
EV/EBITDA (X)	8.4	8.3	7.9	8.2
Net Div Yield (%)	3.2	2.8	2.8	2.6
P/Book Value (X)	1.0	0.9	0.9	0.8
Net Debt/Equity (X)	0.3	0.2	0.2	0.2
ROAE (%)	13.2	8.8	8.4	7.4

At A Glance

Issued Capital (m shrs)	1,761
Mkt. Cap (RMm/US\$m)	5,986 / 1,415
3m Avg. Daily Val (US\$m)	1.5

ICB Industry : Real Estate

ICB Sector: Real Estate Investment & Services

Principal Business: Property and construction group with interests in quarrying, building materials manufacturing and trading

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Cautious outlook

- 2Q15 results in line
- Strong earnings visibility supported by unbilled sales and construction order book
- Declares 5 sen interim DPS
- Maintain HOLD with revised TP of RM3.20

Highlights

In line

- Excluding RM101m exceptional items, 2Q15 core earnings came in at RM137m (+5% q-o-q, +8% y-o-y), taking 1H15 profit to RM267m (+13% y-o-y). This is 47% of our full-year forecast.
- 2Q15 core EBIT margin was firm at 14.3%, compared to 14.2% in 1Q15 and 11.6% in 2Q14.
- Construction emerged as the largest EBIT contributor at RM53m (+6% q-o-q, +118% y-o-y), accounting for 40% of 2Q15 EBIT. Meanwhile, Property EBIT dipped 8% q-o-q and 37% y-o-y to RM37m (26% of Group EBIT) because of smaller contribution from Sunway Velocity.
- Trading & Manufacturing EBIT dipped 95% q-o-q and 94% y-o-y to RM0.7m because of post-GST slowdown and weaker demand from overseas.

Outlook

Healthy earnings visibility

- Sunway's construction order book remains healthy at RM2.7bn, while unbilled sales at its property segment stand at RM2.3bn. It will be launching RM2bn worth of projects in FY15, including Sophia Hills@Singapore (RM600m GDV), Sunway Geo condos and townhouses (RM450m), and Sunway Iskandar landed homes (RM300m).

Challenging property market

- Given the weaker sentiment in Malaysia and Singapore, especially for high-end condos, it may be challenging for Sunway to hit its RM1.7bn sales target; it has only secured RM478m property sales in 1H15 (vs RM807m in 1H14).

Valuation:

We trimmed FY15-17F earnings by 5%/8%/8% after accounting for a smaller 55% stake in its construction arm following the listing of Sunway Construction Group on 28 July. Consequently, we nudged down the SOP-derived TP to RM3.20.

Sunway

Key Risks:

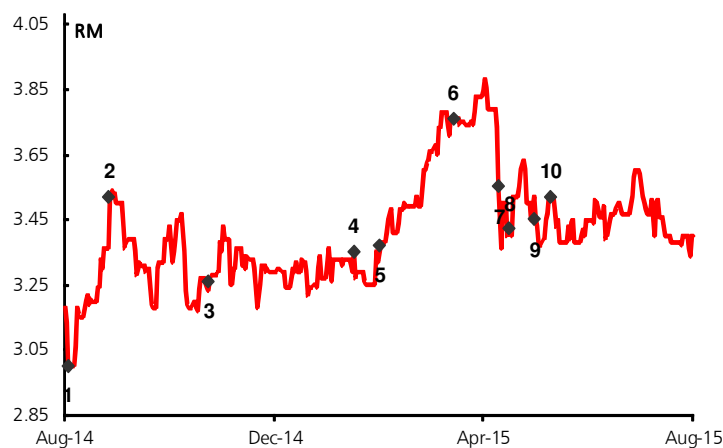
Delay in contract awards

- Construction job wins had been slow in FY14 and Sunway could be affected by slowing tenders for new contracts.

Slowdown in property

- Given several tightening policies aimed at Malaysia's property sector, demand for property (residential and commercial) could weaken in the near future.

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

SOP valuation

Segment	RMm	RM/share	Method
Property Development	2,501.1	1.25	40% discount to RNAV
Property Investment	2,189.6	1.09	Market Value
REIT	1,767.8	0.88	AllianceDBS TP of RM1.75
Construction	975.7	0.49	15x FY15 PE
Quarry	235.3	0.12	12x FY15 PE
Building Materials & trading	451.2	0.22	12x FY15 PE
Net cash / (debt)	(1,614.9)	(0.80)	
Cash conversion from warrants issue	712.5	0.35	
Total SOP	7,218.2		
No. of shares outstanding	1,723.5		
Warrants	285.0		
Fully diluted no. of shares	2,008.5		
SOP/share (RM)	3.60		
Target price	3.20		10% discount to SOP

Source: AllianceDBS

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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AllianceDBS Research Sdn Bhd (128540 U)
19th Floor, Menara Multi-Purpose, Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.

Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com