

**Sunway (BUY ↔; EPS ↔)**

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

28 August 2015

Price Target: RM3.75 (↔)

Share price: RM3.40

**Waiting for special dividend**

Results	<ul style="list-style-type: none"> <li>▪ Within Expectations: 2QFY15 core PATAMI (after adjusting for EI of -RM101.2m) increased by 9% yoy, bringing 1H core PATAMI to RM267m which came in within expectations, making up 48% and 47% of ours and consensus' full year forecasts, respectively.</li> </ul>
Dividends	<ul style="list-style-type: none"> <li>▪ Declared interim dividend of 5 sen/share (versus our full year forecast of 11 sen/share).</li> </ul>
Highlights	<ul style="list-style-type: none"> <li>▪ <b>Results...</b> 2QFY15 core profit of RM137m showed a growth of 9% yoy mainly due to improved performance from all business segments except property development and trading or manufacturing divisions.</li> <li>▪ <b>Property...</b> EBIT from property showed a decline of 8% QoQ, mainly due to slower progress billings and lower contribution from Sunway Velocity.</li> <li>▪ As at 1HFY15, effective property sales was RM353m while its effective unbilled sales stood at RM1.7bn (1.4x of Sunway's FY14 property development revenue). We expect property sales for FY15 to remain modest given tough market environment. Management still maintain its full year target of RM1.2bn effective sales and target to launch RM2.1bn worth of projects in 2H15.</li> <li>▪ <b>Construction...</b> EBIT surged YoY and QoQ mainly due to reversal of over-elimination of intragroup profit in previous quarter. As at 2QFY15, the group's outstanding order book stands at RM2.7bn (1.5x of Sunway's FY14 construction revenue).</li> <li>▪ <b>Special Dividend on the way...</b> Upon listing of SunCon on July 15, Sunway's shareholders are expected to receive a special cash dividend of 25-28 sen/share (based on 90-100% payout from the restricted offer proceed). The company is expected to announce the ex-date in early Sept. In addition to regular dividend of 11sen/share, this will offer potential dividend yield of 11-11.5%.</li> <li>▪ <b>No impact from strengthening USD...</b> We understand there are circa RM1.85bn of US borrowing in the balance sheet but this has been fully hedged and reflected in the latest quarter result report.</li> </ul>
Risks	<ul style="list-style-type: none"> <li>▪ Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.</li> </ul>
Forecasts	<ul style="list-style-type: none"> <li>▪ Unchanged.</li> </ul>
Rating	<b>BUY ↔</b> <ul style="list-style-type: none"> <li>▪ We remain optimistic about the group especially given the special dividend is on the card. As such, we are maintaining our recommendation to BUY.</li> </ul>
Valuation	<ul style="list-style-type: none"> <li>▪ TP is unchanged at <b>RM3.75</b>, based on SOP valuation. Maintain <b>BUY</b>.</li> </ul>

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KLCI	1,601.7
Expected share price return	10.3%
Expected dividend return	3.2%
Expected total return	13.5%

**Share price**

**Information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,751.0
Market cap (RM m)	5,976
3-mth avg. volume ('000)	1,901
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	-5.3	-1.4	10.2
Relative	1.1	8.0	28.8

**Major shareholders**

Sungei Way Corp Sdn Bhd	50.1%
Yean Tih Cheah	13.5%
EPF	5.3%
Skim Amanah Saham Bumiputera	5.0%

**Summary Earnings Table**

FYE Dec (RM m)	2013A	2014A	2015E	2016E
Revenue	4,734	4,731	4,759	4,676
EBITDA	1,960	723	748	779
EBIT	1,824	624	632	647
Profit Before Tax	1,894	720	742	779
PATAMI	1,500	544	558	562
Core PATAMI	482	544	558	562
Core EPS (sen)	28.0	31.6	32.4	32.6
FD EPS (sen)	24.0	27.0	27.7	24.4
Net DPS (sen)	10.0	11.0	11.0	12.0
Net DY (%)	2.9	3.2	3.2	3.5
P/E (x)	12.1	10.8	10.5	10.4
FD P/E (x)	14.2	12.6	12.3	13.9
P/B (x)	1.1	1.0	1.0	0.9
Net Gearing (%)	28.7	28.5	24.5	21.2
ROE (%)	10.8	9.9	9.5	9.0
ROA (%)	4.9	5.1	5.3	5.2

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY14	1QFY15	2QFY15	Qoq (%)	Yoy (%)	Comments
Revenue	1204.6	1060.0	1041.5	(1.7)	(13.5)	Refer to segmental.
Property Development	301.7	180.7	324.1	79.4	7.4	<b>Yoy &amp; qoq:</b> Due to higher progress billings from Sunway Montana and Sunway Lenang Heights in 2015. Achieved effective new sales of RM292m in 2Q. Effective unbilled sales stood at RM1.7bn (1.4x FY14's revenue).
Property Investment	146.0	139.3	144.8	4.0	(0.8)	
Construction	426.1	375.3	244.1	(35.0)	(42.7)	<b>Yoy &amp; qoq:</b> Due to high intragroup elimination in the current quarter. Backed by outstanding construction order book of RM2.7bn (1.5x FY14's construction revenue).
Trading/Manufacturing	162.1	191.9	122.3	(36.3)	(24.5)	<b>Yoy &amp; qoq:</b> Affected by post GST slowdown and reduced demand overseas following a drop in oil prices.
Quarry	57.7	53.8	64.1	19.1	11.1	<b>Yoy &amp; QoQ:</b> Boosted by stronger premix sales.
EBIT	134.0	169.9	139.0	(18.2)	3.7	Refer to segmental.
Property Development	58.0	40.0	36.7	(8.3)	(36.7)	<b>Yoy:</b> Due to completion of Sunway Nexis in Sunway Damansara. <b>Qoq:</b> Due to lower contribution from Sunway Velocity.
Property Investment	26.7	44.4	28.5	(35.7)	7.0	<b>Yoy:</b> Higher mainly due to fair value gain from the annual revaluation of Sunway REIT properties. <b>Qoq:</b> Lower mainly due to gains on disposal of Sunway Hotel Georgetown and Wisma Sunway of RM22.9m in 1Q15.
Construction	25.7	52.9	56.0	5.9	118.3	<b>Yoy &amp; qoq:</b> Due to reversal of over-elimination of intragroup profit in previous quarters.
Trading/Manufacturing	11.0	14.1	0.7	(95.2)	(93.9)	
Quarry	9.2	7.6	15.5	104.8	69.0	<b>Yoy &amp; qoq:</b> Reversal of provision made for the Caribbean operation that ceased in 2014.
Net Interest Expense	(10.2)	(11.4)	(9.3)	(18.3)	(9.0)	
Share of Associates/JCE	109.6	38.1	150.7	295.3	37.5	<b>Yoy &amp; qoq:</b> Higher mainly due to fair value gain of RM110.8m in 2Q15.
PBT	233.6	193.5	280.9	45.2	20.3	Filtered down from EBIT.
PAT	188.7	157.4	247.9	57.4	31.3	
PATAMI	182.5	146.5	237.9	62.4	30.3	
EI	(56.6)	(13.4)	(101.2)	655.2	79.0	Consist of fair value gain of RM110.8m, fair value of ESOS of RM8.9m, listing expenses of RM1.2m.
Core Earnings	126.0	133.1	136.7	2.7	8.5	Filtered down from PATAMI ex. EI.
Core EPS (sen)	7.3	7.7	7.8	1.3	6.5	
EBIT Margin (%)	11.1	16.0	13.3	(16.8)	19.9	
Property Development	19.2	22.2	11.3	(48.9)	(41.1)	
Property Investment	18.3	31.9	19.7	(38.2)	7.8	
Construction	6.0	14.1	22.9	62.9	281.1	
Trading/Manufacturing	6.8	7.4	0.5	(92.5)	(91.9)	
Quarry	15.9	14.1	24.2	71.9	52.1	
PBT Margin Ex-Assoc (%)	10.3	14.7	12.5	(14.7)	21.5	

Sunway, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	FY14	FY15	Yoy (%)	Comments
Revenue	2230.3	2101.5	(5.8)	Made up 44% and 39% of ours and consensus' estimates respectively. Refer to segmental.
Property Development	524.0	504.8	(3.7)	Lower domestic property development projects coupled with poor performance in Singapore.
Property Investment	282.2	284.1	0.7	
Construction	784.8	619.4	(21.1)	Due to high intragroup elimination.
Trading/Manufacturing	311.1	314.2	1.0	Local operations remained strong.

Quarry	106.0	117.9	11.2	Strong local demand underpinned by the buoyant construction sector and public roadworks.
EBIT	243.6	308.9	26.8	Refer to segmental.
Property Development	110.1	76.8	(30.3)	
Property Investment	46.7	72.9	56.0	
Construction	56.7	108.9	92.2	
Trading/Manufacturing	20.1	14.8	(26.3)	
Quarry	13.6	23.1	69.7	
Net Interest Expense	(18.0)	(20.7)	14.6	
Share of Associates/JCE	150.0	188.8	25.9	
PBT	375.8	474.4	26.3	
PAT	300.5	405.3	34.9	
PATAMI	286.5	384.4	34.2	
EI	(50.2)	(117.0)	133.0	Consist of fair value gain of RM110.8m, fair value of ESOS of RM12.8m, listing expenses of RM1.2m and gain on disposal of RM23m.
Core Earnings	236.3	267.4	13.2	Made up 48% and 47% of ours and consensus' estimates respectively.
Core EPS (sen)	13.7	15.3	11.8	
EBIT Margin (%)	0.1	0.1	34.6	
Property Development	0.2	0.2	(27.6)	
Property Investment	0.2	0.3	55.0	
Construction	0.1	0.2	143.5	
Trading/Manufacturing	0.1	0.0	(27.0)	
Quarry	0.1	0.2	52.5	
PBT Margin Ex-Assoc (%)	0.1	0.1	34.3	

Sunway, HLIB

Figure #3 Sunway SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	15X Average of FY14-15 Earnings	56%	836	0.42	11.1
Property	NPV of profits + Shareholders Fund	100%	5,517	2.74	73.0
Trading/Manufacturing	9X P/E	100%	291	0.14	3.9
Quarry	15X P/E	100%	187	0.09	2.5
Dividend in-specie			200	0.10	2.6
Special cash dividend			326	0.16	4.3
		Sub-Total (RM m)	7,356		
		No. of shares (m)	1,723		
		RM per share	4.27		
		Proceeds from warrants (RM m)	657	0.33	8.7
		Estimated Holding Company Net Debt	(460)	(460)	(0.23)
		SOP (RM m)	7,553		
		Total no. of diluted shares (m)	2,013		
		<b>Target Price (RM)</b>	<b>3.75</b>		

HLIB

Figure #4 HLIB vs Consensus

FYE Dec (RM m)	FY15E			FY16E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,758.7	5,325.0	-11%	4,676.4	5,523.0	-15%
PATAMI	558.4	569.5	-2%	561.9	580.2	-3%

Bloomberg, HLIB

## Financial Projections for Sunway (BUY; TP: RM3.75)

### Income Statement

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
<b>Revenue</b>	<b>3,876.8</b>	<b>4,733.7</b>	<b>4,730.7</b>	<b>4,758.7</b>	<b>4,676.4</b>
EBITDA	594.5	1,960.5	723.0	748.4	779.1
D&A	(89.9)	(136.9)	(99.3)	(116.3)	(131.9)
<b>EBIT</b>	<b>504.5</b>	<b>1,823.6</b>	<b>623.6</b>	<b>632.0</b>	<b>647.2</b>
Interest Income	27.1	35.6	36.1	26.2	26.7
Finance Costs	(104.6)	(138.1)	(118.3)	(107.1)	(102.3)
Associates/JCE	301.2	172.5	178.7	190.9	207.9
<b>Profit Before Tax</b>	<b>728.2</b>	<b>1,893.6</b>	<b>720.2</b>	<b>742.1</b>	<b>779.5</b>
Tax	(128.5)	(120.9)	(134.9)	(137.2)	(142.7)
<b>Net Profit</b>	<b>599.7</b>	<b>1,772.7</b>	<b>585.3</b>	<b>604.8</b>	<b>636.8</b>
Minority Interests	(67.4)	(273.0)	(40.9)	(46.4)	(74.9)
<b>PATAMI</b>	<b>532.3</b>	<b>1,499.8</b>	<b>544.4</b>	<b>558.4</b>	<b>561.9</b>
Exceptionals	181.8	1,017.8	-	-	-
<b>Core Earnings</b>	<b>350.6</b>	<b>482.0</b>	<b>544.4</b>	<b>558.4</b>	<b>561.9</b>
Basic Shares (m)	1,292.5	1,723.4	1,723.4	1,723.4	1,723.4
Core EPS (sen)	27.1	28.0	31.6	32.4	32.6
FD Core EPS (sen)	22.6	24.0	27.0	27.7	24.4

### Quarterly Financial Summary

FYE 31 Dec (RM m)	2013Q4	2013Q1	2014Q2	2014Q3	2014Q4
Revenue	1,025.7	1,204.6	1,134.0	1,477.5	1,060.0
Expenses	(932.6)	(1,086.8)	(1,002.4)	(1,315.9)	(939.9)
Other Income	16.4	16.2	20.4	211.5	49.8
EBIT	109.6	134.0	151.9	373.2	169.9
Derivatives	(0.0)	0.2	(0.1)	(2.8)	(3.2)
Net Interest Expense	(7.8)	(10.2)	(5.1)	(7.2)	(11.4)
Associates & JCE	40.4	109.6	38.5	44.7	38.1
Profit Before Tax	142.2	233.6	185.2	407.8	193.5
Tax	(30.4)	(44.9)	(21.8)	(50.8)	(36.1)
Net Profit	111.8	188.7	163.4	357.0	157.4
Minority Interests	(7.8)	(6.2)	(19.7)	(44.0)	(10.9)
PATAMI	104.0	182.5	143.7	313.0	146.5
Exceptionals	31.3	(981.3)	6.3	(56.6)	5.6
Core Earnings	124.4	157.5	110.3	126.0	149.3
Core EPS (sen)	6.40	7.31	8.66	11.93	7.68
FD Core EPS (sen)	6.27	7.03	8.24	11.32	7.23
W. Ave. Shares (m)	1,723.5	1,723.7	1,724.0	1,727.9	1,733.2

### Balance Sheet

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Cash	1,140	1,519	890	858	921
Trade Receivables	1,404	1,405	1,166	1,173	1,153
Inventories	626	623	713	717	705
Development Costs	600	1,276	994	1,006	1,085
Associates/JCE	1,553	2,284	2,371	2,458	2,551
PPE	3,008	3,548	3,749	3,933	4,101
Goodwill	319	320	320	320	320
Others	95	137	130	130	130
<b>Total Assets</b>	<b>8,745</b>	<b>11,112</b>	<b>10,333</b>	<b>10,594</b>	<b>10,965</b>
Trade Payables	1,605	2,154	1,296	1,304	1,281
Total Debt	2,747	2,795	2,461	2,299	2,246
Others	524	511	511	511	511
<b>Total Liabilities</b>	<b>4,876</b>	<b>5,460</b>	<b>4,267</b>	<b>4,114</b>	<b>4,038</b>
Shareholders' Funds	3,558	5,335	5,707	6,076	6,448
Minority Interests	310	317	358	405	480
<b>Total Capital</b>	<b>3,868</b>	<b>5,652</b>	<b>6,065</b>	<b>6,480</b>	<b>6,928</b>

### Rates and Ratios

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Core PER (x)	12.5	12.1	10.8	10.5	10.4
FD Core PER (x)	15.0	14.2	12.6	12.3	13.9
Net DPS (sen)	6.0	10.0	11.0	11.0	12.0
Net DY (%)	1.8	2.9	3.2	3.2	3.5
BVPS (RM)	2.8	3.1	3.3	3.5	3.7
P/B (x)	1.2	1.1	1.0	1.0	0.9
NTA/Share (RM)	2.5	2.9	3.1	3.3	3.6
EBITDA Margin (%)	15.3	41.4	15.3	15.7	16.7
EBIT Margin (%)	13.0	38.5	13.2	13.3	13.8
PBT Margin (%)	26.6	43.6	19.0	19.6	21.1
PATAMI Margin (%)	9.0	10.2	11.5	11.7	12.0
ROE (%)	10.7	10.8	9.9	9.5	9.0
ROA (%)	4.2	4.9	5.1	5.3	5.2
Net Gearing (%)	49.1	28.7	28.5	24.5	21.2

### Cashflow Analysis

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
EBITDA	594.5	1,960.5	723.0	748.4	779.1
Working Capital	(154.1)	(124.7)	(427.4)	(15.0)	(69.5)
Interest Received	27.1	39.9	36.1	26.2	26.7
Dividends fr Assoc	151.8	83.1	91.6	104.2	114.6
Others	(233.2)	(865.8)	(127.4)	(137.2)	(142.7)
<b>CFO</b>	<b>386.1</b>	<b>1,092.9</b>	<b>295.9</b>	<b>726.6</b>	<b>708.3</b>
Capex	(465.5)	(657.9)	(300.0)	(300.0)	(300.0)
Purchase/Disposal	317.4	38.2	-	-	-
Others	(209.7)	(215.0)	-	-	-
<b>CFI</b>	<b>(357.7)</b>	<b>(834.7)</b>	<b>(300.0)</b>	<b>(300.0)</b>	<b>(300.0)</b>
Financing	493.2	48.6	(334.8)	(161.5)	(53.4)
Shares Issued	-	732.9	-	-	-
Dividends	-	(344.3)	(172.3)	(189.6)	(189.6)
Interest Paid	(104.6)	(117.5)	(118.3)	(107.1)	(102.3)
Others	(141.7)	(184.3)	-	-	-
<b>CFF</b>	<b>246.9</b>	<b>135.4</b>	<b>(625.4)</b>	<b>(458.2)</b>	<b>(345.2)</b>
<b>Net Cashflow</b>	<b>275.2</b>	<b>393.5</b>	<b>(629.5)</b>	<b>(31.6)</b>	<b>63.0</b>

### Assumption Metrics

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
<b>Revenue</b>	<b>3,877</b>	<b>4,734</b>	<b>4,842</b>	<b>4,759</b>	<b>4,676</b>
Property	923	1,167	1,198	1,223	1,320
Property Investment	591	816	594	865	891
Construction	1,275	1,591	1,751	1,391	1,122
Trading/Manufacture	559	587	639	647	679
Quarry	197	198	237	218	229
Others	332	375	422	414	435
EBIT Margins (%)	13.0	38.5	15.9	13.3	13.8

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## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage and report is intended purely for informational purposes.

## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.