

Sunway (BUY ↔; EPS ↔)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

27 May 2015

Price Target: RM3.75 (↔)

Share price: RM3.52

1QFY15 Results Within Expectations

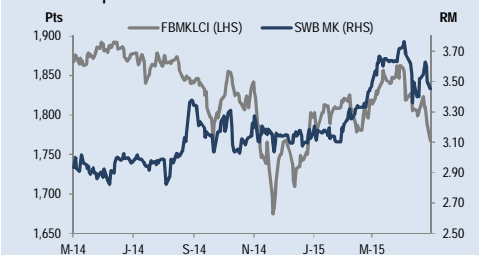
Results	<ul style="list-style-type: none"> 1QFY15 core PATAMI (after adjusting for EI of -RM13.4m) jumped by 20.7% yoy to RM133.1m (7.7 sen/share) which came in within expectations, making up 23.8% and 23.2% of ours and consensus' full year forecasts, respectively.
Deviations	<ul style="list-style-type: none"> None.
Dividends	<ul style="list-style-type: none"> None.
Highlights	<ul style="list-style-type: none"> Results... 1QFY15 revenue of RM1.1bn showed a growth of 3.3% yoy mainly due to improved performance from all business segments except property development segment. PATAMI margin during the quarter was 13.8%, an improvement of 3.7-ppts yoy from 10.1% in 1QFY14. Property... The segment showed a decline of 18.7%, mainly due to slower progress billings from local projects, as well as the completion of Sunway Nexis in Sunway Damansara in 4QFY14. As at 1QFY15, effective property sales was RM186m while its effective unbilled sales stood at RM1.8bn (1.5x of Sunway's FY14 property development revenue). We expect property sales for FY15 to remain modest given tough market environment. Property Investment... Slightly higher revenue in 1QFY15 due to additional revenue from disposal of Sunway Hotel Georgetown and Wisma Sunway, which totalled RM22.9m. Excluding the sale, revenue and operating profit would arrive at RM116.4 and RM21.5m, showing a yoy decline of -9.4% and -51.9%, respectively). Construction... Higher revenue of 4.6% yoy was attributable to local building projects and precast concrete division. Similarly, operating profit was higher mainly contributed by local building projects. As at 1QFY15, the group's outstanding order book stands at RM2.8bn (1.6x of Sunway's FY14 construction revenue).
Risks	<ul style="list-style-type: none"> Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.
Forecasts	<ul style="list-style-type: none"> Unchanged.
Rating	BUY ↔ <ul style="list-style-type: none"> We remain optimistic about the group, especially with the proposed listing of SunCon as it would further enhance shareholders' value. As such, we are maintaining our recommendation to BUY and advise investors to accumulate.
Valuation	<ul style="list-style-type: none"> TP is unchanged at RM3.75, based on SOP valuation. Maintain BUY.

Grace Chew

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KLCI	1,764.1
Expected share price return	6.5%
Expected dividend return	3.1%
Expected total return	9.6%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,751.0
Market cap (RM m)	6,163.5
3-mth avg. volume ('000)	2,111.5
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	-5.6	7.3	16.2
Relative	-0.4	10.5	21.8

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	4,842	4,759	4,676
EBITDA	1,960	883	748	779
EBIT	1,824	769	632	647
Profit Before Tax	1,894	969	742	779
PATAMI	1,500	743	558	562
Core PATAMI	482	592	558	562
Core EPS (sen)	28.0	34.3	32.4	32.6
FD EPS (sen)	24.0	32.8	27.7	24.4
Net DPS (sen)	10.0	11.0	11.0	12.0
Net DY (%)	2.8	3.1	3.1	3.4
P/E (x)	12.6	10.3	10.9	10.8
FD P/E (x)	14.7	10.7	12.7	14.4
P/B (x)	1.1	1.0	1.0	0.9
Net Gearing (%)	28.7	30.4	24.5	21.2
ROE (%)	10.8	12.2	9.5	9.0
ROA (%)	4.9	4.6	5.3	5.2

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY14	4QFY14	1QFY15	Qoq (%)	Yoy (%)	Comments
Revenue	1025.7	1477.5	1060.0	(28.3)	3.3	Refer to segmental.
Property Development	222.3	496.3	180.7	(63.6)	(18.7)	Yoy & qoq: Due to slower progress billings from local projects and completion of Sunway Nexis in Sunway Damansara in 4QFY14. Achieved effective new sales of RM186m in 4Q. Effective unbilled sales stood at RM1.8bn (1.5x FY14's revenue).
Property Investment	136.2	160.4	139.3	(13.2)	2.2	
Construction	358.7	478.0	375.3	(21.5)	4.6	Yoy: Higher revenue on the back of higher progress billings from local building projects and precast concrete product projects in Singapore. Backed by outstanding construction order book of RM2.8bn (1.6x FY14's construction revenue).
Trading/Manufacturing	149.0	168.9	191.9	13.6	28.8	Yoy & qoq: Contribution largely coming from local operations, which was partly helped by higher pre-GST implementation demand.
Quarry	48.3	74.5	53.8	(27.8)	11.4	Yoy: Boosted by stronger premix sales. Qoq: Lower due to lower sales from both aggregates and premix.
EBIT	109.6	373.2	169.9	(54.5)	55.0	Refer to segmental.
Property Development	52.1	96.6	40.0	(58.6)	(23.1)	Yoy & qoq: Due to lower revenue recorded, coupled with poorer sales in Singapore.
Property Investment	20.1	182.3	44.4	(75.7)	121.2	Yoy: Higher mainly due to gains on disposal of Sunway Hotel Georgetown and Wisma Sunway. Qoq: Lower due to fair value gain of RM137.5m from annual revaluation exercise in 4QFY14 for investment properties held, mitigated by the gains of disposal mentioned above.
Construction	31.0	54.8	52.9	(3.6)	70.6	Yoy: From higher construction revenue, coupled with higher profit recognition from local building projects.
Trading/Manufacturing	9.1	7.7	14.1	83.6	55.4	Yoy & qoq: Mainly from higher revenue.
Quarry	4.4	15.7	7.6	(51.6)	71.1	
Net Interest Expense	(7.8)	(7.2)	(11.4)	57.0	45.5	
Share of Associates/JCE	40.4	44.7	38.1	(14.6)	(5.7)	Yoy & qoq: Contribution from Singapore property projects was lower due to fewer ongoing development projects.
PBT	142.2	407.8	193.5	(52.6)	36.1	Filtered down from EBIT.
PAT	111.8	357.0	157.4	(55.9)	40.9	
PATAMI	104.0	313.0	146.5	(53.2)	40.9	
EI	6.3	(106.9)	(13.4)	(87.5)	(311.7)	Consist of foreign exchange gains of RM5.6m, fair value of ESOS of RM3.9m and gain on disposal of RM22.9.
Core Earnings	110.3	206.1	133.1	(35.4)	20.7	Filtered down from PATAMI ex. EI.
Core EPS (sen)	6.4	11.9	7.7	(35.6)	20.0	
EBIT Margin (%)	10.7	25.3	16.0	(36.5)	50.0	
Property Development	23.4	19.5	22.2	13.8	(5.4)	
Property Investment	14.7	113.6	31.9	(72.0)	116.3	
Construction	8.6	11.5	14.1	22.8	63.0	
Trading/Manufacturing	6.1	4.6	7.4	61.6	20.6	
Quarry	9.2	21.0	14.1	(33.0)	53.6	
PBT Margin Ex-Assoc (%)	9.9	24.6	14.7	(40.4)	47.8	

Sunway, HLIB

Figure #2 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		
Target Price (RM)	3.75		

 HLIB

Figure #3 HLIB vs Consensus

FYE Dec (RM m)	FY15E			FY16E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,758.7	5,318.0	-11%	4,676.4	5,431.0	-14%
PATAMI	558.4	571.7	-2%	561.9	583.0	-4%

Bloomberg, HLIB

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

Income Statement

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	3,876.8	4,733.7	4,841.9	4,758.7	4,676.4
EBITDA	594.5	1,960.5	883.1	748.4	779.1
D&A	(89.9)	(136.9)	(114.3)	(116.3)	(131.9)
EBIT	504.5	1,823.6	768.8	632.0	647.2
Interest Income	27.1	35.6	48.4	26.2	26.7
Finance Costs	(104.6)	(138.1)	(78.9)	(107.1)	(102.3)
Associates/JCE	301.2	172.5	233.2	190.9	207.9
Profit Before Tax	728.2	1,893.6	968.8	742.1	779.5
Tax	(128.5)	(120.9)	(148.0)	(137.2)	(142.7)
Net Profit	599.7	1,772.7	820.9	604.8	636.8
Minority Interests	(67.4)	(273.0)	(77.6)	(46.4)	(74.9)
PATAMI	532.3	1,499.8	743.2	558.4	561.9
Exceptionals	181.8	1,017.8	(151.5)	-	-
Core Earnings	350.6	482.0	591.7	558.4	561.9
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	34.3	32.4	32.6
FD Core EPS (sen)	22.6	24.0	32.8	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	1,978	858	921
Trade Receivables	1,404	1,405	1,720	1,173	1,153
Inventories	626	623	598	717	705
Development Costs	600	1,276	1,772	1,006	1,085
Associates/JCE	1,553	2,284	2,481	2,458	2,551
PPE	3,008	3,548	1,047	3,933	4,101
Goodwill	319	320	319	320	320
Others	95	137	3,001	130	130
Total Assets	8,745	11,112	12,916	10,594	10,965
Trade Payables	1,605	2,154	2,172	1,304	1,281
Total Debt	2,747	2,795	3,784	2,299	2,246
Others	524	511	626	511	511
Total Liabilities	4,876	5,460	6,583	4,114	4,038
Shareholders' Funds	3,558	5,335	5,945	6,076	6,448
Minority Interests	310	317	389	405	480
Total Capital	3,868	5,652	6,334	6,480	6,928

Rates and Ratios

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Core PER (x)	13.0	12.6	10.3	10.9	10.8
FD Core PER (x)	15.6	14.7	10.7	12.7	14.4
Net DPS (sen)	6.0	10.0	11.0	11.0	12.0
Net DY (%)	1.7	2.8	3.1	3.1	3.4
BVPS (RM)	2.8	3.1	3.4	3.5	3.7
P/B (x)	1.3	1.1	1.0	1.0	0.9
NTA/Share (RM)	2.5	2.9	3.4	3.3	3.6
EBITDA Margin (%)	15.3	41.4	18.2	15.7	16.7
EBIT Margin (%)	13.0	38.5	15.9	13.3	13.8
PBT Margin (%)	26.6	43.6	20.0	19.6	21.1
PATAMI Margin (%)	9.0	10.2	12.2	11.7	12.0
ROE (%)	10.7	10.8	10.0	9.5	9.0
ROA (%)	4.2	4.9	4.6	5.3	5.2
Net Gearing (%)	49.1	28.7	30.4	24.5	21.2

Cashflow Analysis

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
EBITDA	594.5	1,960.5	883.1	748.4	779.1
Working Capital	(154.1)	(124.7)	145.8	(15.0)	(69.5)
Interest Received	27.1	39.9	49.7	26.2	26.7
Dividends fr Assoc	151.8	83.1	193.6	104.2	114.6
Others	(233.2)	(865.8)	(502.8)	(137.2)	(142.7)
CFO	386.1	1,092.9	769.4	726.6	708.3
Capex	(465.5)	(657.9)	(205.5)	(300.0)	(300.0)
Purchase/Disposal	317.4	38.2	(675.8)	-	-
Others	(209.7)	(215.0)	36.8	-	-
CFI	(357.7)	(834.7)	(844.5)	(300.0)	(300.0)
Financing	493.2	48.6	872.9	(161.5)	(53.4)
Shares Issued	-	732.9	-	-	-
Dividends	-	(344.3)	(212.9)	(189.6)	(189.6)
Interest Paid	(104.6)	(117.5)	(77.1)	(107.1)	(102.3)
Others	(141.7)	(184.3)	12.3	-	-
CFF	246.9	135.4	595.3	(458.2)	(345.2)
Net Cashflow	275.2	393.5	520.2	(31.6)	63.0

Assumption Metrics

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	3,877	4,734	4,842	4,759	4,676
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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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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