

28 August 2015

**Buy**

Price  
RM3.40

Target price  
RM4.75

Bloomberg code  
SWB MK

Equity | Malaysia | Real Estate

Flashnote

# Sunway

## Sailing steadily

**Sunway's 1H15 normalized earnings improved 13% and constituted 52% of our estimates which is commendable. Better performance in property investment, construction and quarry divisions offset the weaker contribution from property development and trading segments. For a diversified conglomerate with good earnings visibility, valuations are compelling at 13x FY15F PE and 1x PB. Remains a top pick.**

- On a yoy basis, 2Q15 revenue was down 14% which management attributed to higher elimination of intra-group construction revenue which increased by RM230m in the quarter coupled with lower revenue from trading and manufacturing segment. However, operating profit rose 7% due to better performance from property investment, construction and quarry divisions, buffering the weaker performance of property development and trading arms.
- Upon stripping out fair value gain from annual revaluation of Sunway REIT properties of RM110.8m, coupled with gain on derivatives, fair value of ESOS and listing expenses, normalized net profit improved 8% yoy.
- On a qoq basis, 2Q15 revenue and EBIT declined 2% and 1% respectively. This was attributable to weaker performance in the property development and trading divisions. Normalized net profit improved 5% due to lower net interest and taxes.
- Property development revenue improved 7% yoy due to higher progress billings from Sunway Montana and Sunway Lenang Heights. However, operating profit declined 37% yoy due to the completion of its higher margin Sunway Nexis in Sunway Damansara project, resulting in margins declining by 8ppts to 11.3%.
- The group achieved effective property sales of RM353m (29% of target of RM1.2bn), driven by Sunway Velocity, South Quay and Singapore projects. Effective unbilled sales stand at RM1.7bn or 1.4x property development revenue.
- Property investment revenue was flattish while operating profit improved 7% yoy in 2Q15.
- Construction division revenue declined 43% yoy due to high intragroup elimination in the quarter. EBIT improved 118% yoy due to reversal of over-elimination in intragroup profits in previous quarters.
- Outstanding construction order book stands at RM2.69bn, of which 52% are external jobs.
- Overall, 1H15 constituted 52% of our estimates and 47% of Bloomberg consensus' forecasts which is commendable as the second half is typically seasonally stronger.

**Analyst**

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**Table 1 : Quarterly performance trends**

(RMm)	Quarter						Change		Cumulative			KAF	
	FYE 31 Dec	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	% qoq	% yoy	1H14	1H15	% chg	FY15F
Turnover	1,025.7	1,204.6	1,134.0	1,193.8	1,060.0	1,041.5	(2)	(14)	2,230.3	2,101.5	(6)	5,594.4	38
<b>EBIT</b>	<b>115.9</b>	<b>139.6</b>	<b>157.4</b>	<b>234.6</b>	<b>150.9</b>	<b>149.1</b>	<b>(1)</b>	<b>7</b>	<b>255.5</b>	<b>300.1</b>	<b>17</b>	<b>674.5</b>	<b>44</b>
EBIT margin (%)	11.3%	11.6%	13.9%	19.7%	14.2%	14.3%			11.5%	14.3%		12%	
Net interest expense	(7.8)	(10.2)	(5.1)	(7.2)	(11.4)	(9.3)	(18)	(9)	(18.0)	(20.7)	15	(37.4)	55
Associates and JVs	40.4	47.7	38.5	44.7	38.1	39.9	5	(16)	88.1	78.0	(11)	112.5	69
Exceptional items	(6.3)	56.5	(5.6)	126.6	15.8	101.2	541	79	50.2	117.0		-	nm
<b>Profit before tax</b>	<b>142.2</b>	<b>233.6</b>	<b>185.2</b>	<b>398.6</b>	<b>193.5</b>	<b>280.9</b>	<b>45</b>	<b>20</b>	<b>375.8</b>	<b>474.4</b>	<b>26</b>	<b>960.2</b>	<b>49</b>
<b>Normalized PBT</b>	<b>148.5</b>	<b>177.1</b>	<b>190.8</b>	<b>272.0</b>	<b>177.7</b>	<b>179.7</b>	<b>1</b>	<b>1</b>	<b>325.6</b>	<b>357.4</b>	<b>10</b>	<b>960.2</b>	<b>37</b>
Tax	(30.4)	(44.9)	(21.8)	(50.8)	(36.1)	(33.1)	(8)	(26)	(75.3)	(69.2)	(8)	(153.3)	45
Minority interest	(7.8)	(6.2)	(19.7)	(44.0)	(10.9)	(9.9)	(9)	61	(14.0)	(20.8)	49	(83.7)	25
<b>Net profit</b>	<b>104.0</b>	<b>182.5</b>	<b>143.7</b>	<b>303.8</b>	<b>146.5</b>	<b>237.9</b>	<b>62</b>	<b>30</b>	<b>286.5</b>	<b>384.4</b>	<b>34</b>	<b>512.6</b>	<b>75</b>
<b>Norm. net profit</b>	<b>110.3</b>	<b>126.0</b>	<b>149.3</b>	<b>196.9</b>	<b>130.7</b>	<b>136.7</b>	<b>5</b>	<b>8</b>	<b>236.3</b>	<b>267.4</b>	<b>13</b>	<b>512.6</b>	<b>52</b>
Norm net margin (%)	10.8%	10.5%	13.2%	16.5%	12.3%	13.1%			10.6%	12.7%			

Source: Company, KAF

## Income statement

FYE December (RMm)	2013	2014	2015F	2016F	2017F
Turnover	4,721.4	4,558.1	5,594.4	5,778.2	6,290.1
<b>EBITDA</b>	<b>589.5</b>	<b>765.8</b>	<b>813.5</b>	<b>921.6</b>	<b>1,018.9</b>
Depreciation & Amortisation	(137.0)	(117.8)	(139.0)	(190.4)	(234.5)
<b>EBIT</b>	<b>452.5</b>	<b>648.0</b>	<b>674.5</b>	<b>731.2</b>	<b>784.4</b>
Net interest	(100.4)	(30.4)	(37.4)	(41.4)	(45.7)
Associates	190.6	233.4	112.5	123.3	125.0
Exceptional items	1,357.7	109.3	-	-	-
<b>Pretax profit</b>	<b>1,900.4</b>	<b>960.2</b>	<b>749.6</b>	<b>813.0</b>	<b>863.7</b>
Taxation	(137.0)	(148.6)	(153.3)	(166.0)	(177.7)
<b>Profit after tax</b>	<b>1,763.3</b>	<b>811.6</b>	<b>596.3</b>	<b>647.1</b>	<b>686.0</b>
Minority interest	(273.0)	(77.6)	(83.7)	(117.4)	(117.7)
<b>Net profit</b>	<b>1,490.4</b>	<b>734.0</b>	<b>512.6</b>	<b>529.7</b>	<b>568.3</b>
<b>Normalized net profit</b>	<b>484.0</b>	<b>583.9</b>	<b>512.6</b>	<b>529.7</b>	<b>568.3</b>

Source: Company, KAF

## Balance sheet

FYE December (RM m)	2013	2014	2015F	2016F	2017F
<b>Non-current assets</b>					
Property, Plant and Equipment	827.6	977.1	1,338.0	1,647.6	1,913.2
Investment properties	1,833.4	2,370.4	2,236.4	2,236.4	2,236.4
Land held for development	886.8	535.5	535.5	535.5	535.5
Investment in associates & jointly controlled entity	2,348.4	2,629.8	2,742.2	2,865.5	2,990.5
Goodwill	319.4	319.4	319.4	319.4	319.4
Deferred tax assets	37.7	42.7	42.7	42.7	42.7
<b>Total non-current assets</b>	<b>6,253.3</b>	<b>6,874.9</b>	<b>7,214.3</b>	<b>7,647.1</b>	<b>8,037.7</b>
<b>Current assets</b>					
Properties under development	1,175.0	1,518.3	1,745.4	1,972.4	2,199.4
Inventories	615.8	580.0	711.8	735.2	800.3
Total Receivables	1,455.5	1,664.2	1,975.3	2,030.4	2,184.0
Tax recoverable	55.1	69.9	69.9	69.9	69.9
Deposits, cash and bank balances	1,518.8	1,978.2	2,018.6	1,823.9	1,708.7
Assets held for sale	28.0	171.7	171.7	171.7	171.7
<b>Total current assets</b>	<b>4,848.3</b>	<b>5,982.3</b>	<b>6,692.6</b>	<b>6,803.5</b>	<b>7,134.1</b>
<b>Total assets</b>	<b>11,101.6</b>	<b>12,857.1</b>	<b>13,906.9</b>	<b>14,450.6</b>	<b>15,171.7</b>
<b>Current liabilities</b>					
Total Payables	1,970.8	2,114.7	2,595.5	2,680.7	2,918.2
Bank borrowings	1,990.2	2,130.2	2,130.2	2,130.2	2,130.2
Other liabilities	91.7	6.1	6.1	6.1	6.1
Taxation	21.4	24.9	24.9	24.9	24.9
<b>Total current liabilities</b>	<b>4,074.0</b>	<b>4,275.8</b>	<b>4,756.6</b>	<b>4,841.8</b>	<b>5,079.3</b>
Financed by:					
Share capital	1,723.5	1,730.6	1,730.6	1,730.6	1,730.6
Share premium & Reserves	3,604.8	4,205.8	4,535.9	4,876.9	5,242.8
Shareholders' funds	5,328.3	5,936.4	6,266.4	6,607.5	6,973.4
Minority interest	316.9	387.5	471.2	588.6	706.3
Long-term bank borrowings	790.5	1,649.7	1,804.9	1,804.9	1,804.9
Other liabilities	517.9	521.2	521.2	521.2	521.2
Deferred tax liabilities	74.0	86.5	86.5	86.5	86.5
<b>Total liabilities &amp; shareholders' funds</b>	<b>11,101.6</b>	<b>12,857.1</b>	<b>13,906.9</b>	<b>14,450.6</b>	<b>15,171.7</b>

Source: Company, KAF

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**Cash flow statements**

<b>FYE December (RMm)</b>	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
<b>Cash flow from operations (CFO)</b>					
Pretax profit	1,900.4	960.2	749.6	813.0	863.7
Tax paid	(127.4)	(156.0)	(153.3)	(166.0)	(177.7)
Others	(1,025.2)	(243.2)	64.0	108.5	155.1
Net change in working capital	195.8	(83.1)	(189.1)	(220.3)	(208.3)
<b>CFO</b>	<b>1,093.4</b>	<b>708.0</b>	<b>471.1</b>	<b>535.3</b>	<b>632.8</b>
<b>Cash flow from investing (CFI)</b>					
Purchase of property, plant and equipment (Capex)	(623.0)	(519.9)	(500.0)	(500.0)	(500.0)
Investments	(162.4)	(63.7)	134.0	-	-
Others	(104.6)	(260.9)	-	-	-
<b>CFI</b>	<b>(889.9)</b>	<b>(844.5)</b>	<b>(366.0)</b>	<b>(500.0)</b>	<b>(500.0)</b>
<b>Cash flow from financing (CFF)</b>					
Interest paid	(125.4)	(77.1)	(92.7)	(94.6)	(94.6)
Interest received	-	-	55.4	53.2	48.9
Repayment of term loans	(2,838.9)	-	(45.0)	-	-
Dividends paid	(344.3)	(212.9)	(182.5)	(188.6)	(202.3)
Others	3,351.1	885.3	200.2	-	-
<b>CFF</b>	<b>42.4</b>	<b>595.3</b>	<b>(64.7)</b>	<b>(230.0)</b>	<b>(248.0)</b>
<b>Net change in cash and cash equivalents</b>	<b>245.8</b>	<b>458.8</b>	<b>40.4</b>	<b>(194.7)</b>	<b>(115.2)</b>

Source: Company, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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