

Sunway Berhad

A Steady Start!

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- Period** ■ 1Q15
- Actual vs. Expectations** ■ SUNWAY's 1Q15 core net profit of RM133.2m came in well within expectations, accounting for 22% and 23% of our and streets' full-year estimates, respectively.
- As for property sales, it registered sales of RM247.0m, which only accounts for 15% of both our and management's FY15 target of RM1.7b. However, we deem the sales to be still inline as 1Qs are generally the weakest/slowest quarters for SUNWAY.

- Dividends** ■ No dividends were declared, as expected.

- Key Results Highlights** ■ **YoY**, SUNWAY's 1Q15 core net profit saw an impressive improvement by 21%, underpinned by marginal revenue growth of 3% coupled with 3ppt improvements in operating margin to 14%. The marginal improvement in revenue was driven by almost all divisions due to better progressive billings on its on-going local construction projects, sales of precast concrete products in Singapore, pre-GST demand for hardware and stronger sales of premix; the exception is the property division which saw a decline of 19% due to slow progressive billings. Their operating margins were lifted by its construction and quarry division, which improved by 4ppt and 5ppt, respectively.
- **QoQ, 1Q15** revenue was down by 28% followed with a 35% decline in core net profit. The significant decrease in revenue was mainly due to slow progressive billings from its property division coupled with the fact that their property division had completed several projects back in 4Q14. Positively, its trading and manufacturing division registered a spike in operating profit by 84%, supported by revenue growth of 11%, driven by better sales in Malaysia due to pre-GST demand surge.

- Outlook** ■ Its property unbilled sales and outstanding external construction orderbook remains fairly healthy at RM2.5b and RM1.7b, respectively, providing at least 1–1.5 years of visibility.
- The listing of its construction arm, i.e. SUNCON is still right on track, scheduled for mid-2015, and we are expecting them to secure at least RM1.0b worth of external orderbook replenishments for FY15.

- Change to Forecasts** ■ No changes to our FY15-16E earnings.

Rating Valuation ■ **Downgrade to MARKET PERFORM**

- We are downgrading SUNWAY to MARKET PERFORM (previously, OUTPERFORM). Post the listing of SUNCON, we expect our SOP-based TP of RM3.78 to be adjusted down to RM3.35, with the last traded share price hypothetically lowered from RM3.52 to RM3.28, based on our scenario analysis (refer overleaf). This would imply a limited total upside of 5%. Meanwhile, we are comfortable with our SOP assumptions considering we have applied better-than-sector average valuations for each segment. More glaring is SUNWAY's YTD share price performance of 12%, which ranks it as one of the top-performing developers this year against the KLPRP's -0.3%. Post SUNCON listing, we see no near-term catalysts and expect the stock to take a breather.

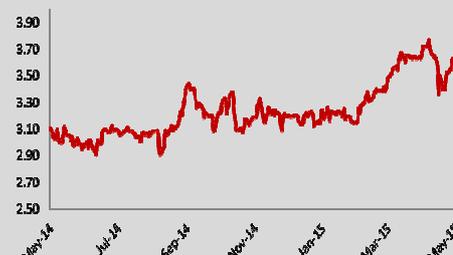
- Risks to Our Call** ■ Stronger-than-expected property sales and construction orderbook replenishment.
- Better real estate policies.
- Easier lending criteria.

MARKET PERFORM

Price: **RM3.52**

Target Price: **RM3.78**

Share Price Performance



KLCI	1,764.07
YTD KLCI chg	0.2%
YTD stock price chg	10.2%

Stock Information

Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	6,163.5
Issued shares	1,751.0
52-week range (H)	3.81
52-week range (L)	2.91
3-mth avg daily vol:	2,103,068
Free Float	31%
Beta	0.8

Major Shareholders

SUNGEI WAY CORP SDN	50.1%
YEAN TIH CHEAH	13.5%
EMPLOYEES PROVIDENT	5.4%

Summary Earnings Table

FYE Dec (RM m)	2014A	2015E	2016E
Turnover	4,842	5,159	5,378
EBIT	615	671	696
PBT	969	875	900
Net Profit (NP)	744	606	620
Core NP	592	606	620
Consensus (NP)	n.a.	572	583
Earnings Revision	n.a.	n.a.	n.a.
EPS (sen)	43.2	35.2	36.0
Core EPS (sen)	34.4	35.2	36.0
EPS growth (%)	-50%	-18%	2%
NDPS (sen)	13.8	10.3	10.6
NTA/Share (RM)	2.91	3.26	3.54
Core PER (x)	8.2	10.0	9.8
Price/NTA (x)	1.2	1.1	1.0
Net Gearing (x)	0.3	0.2	0.2
Dividend Yield (%)	3.9%	2.9%	3.0%

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Other Points:

- SUNWAY's share price has already been adjusted for the dividend-in-specie of SUNCON shares in early May-15; currently, as SUNCON shares have not been listed, the market value is not known. Meanwhile, the cash portion of the spin-off deal has not been paid out yet; once the cash dividend is paid out, we expect another adjustment in SUNWAY's share price.
- We are estimating that the listing of SUNCON will raise RM548m (maximum scenario) should they offer 370.5m shares for sale while we are currently valuing SUNCON at RM1.48/share (15x FY15E PER) in our SoP valuation. We have also assumed that SUNWAY will keep a 51% stake in SUNCON. This should result in a special cash dividend of 23.8sen per SUNWAY share assuming a generous 90% payout. If so, we can expect the share price to adjust by the same amount; to illustrate, yesterday's last price of RM3.52 would be adjusted down to RM3.28.
- Our current SoP valuation of RM3.78 has not been adjusted for the spin-off of SUNCON. Post the spin-off, we expect our SoP valuation to be adjusted down to RM3.35 vs. yesterday's theoretical adjusted last price of RM3.28, implying very limited up total return of 5%. Since SUNWAY's YTD performance of 12% places it as one of the best-performing developer stocks this year, outperforming the KLPRP Index -0.3% YTD returns, we reckon most of the goodies have already been priced in. Post listing of SUNCON, we see no exciting near-term catalysts for the stock and expect the stock to be influenced by sector dynamics.

Potential Cash Dividends**Illustration: Assumes Full Conversion of Warrants and ESOS**

Total SUNCON Shares Upon Listing (millions)	1,293.0	Total Shares of SUNCON, details provided by company
Total Offer For Sale (millions)	370.5	Offer for sale of up to 28.7% of SUNCON shares, details provided by company
Potential Listing Proceeds (RM'm)	547.6	Assumed based on our theoretical market cap of RM1.9b on our 15x FY15E PER valuation multiplied by 28.7% which is the offer for sale quantum provided by the company.
Potential Special Dividend Payout (RM'm)	492.8	Assumed 90% payout ratio from the listing proceeds as special cash dividend. (SUNCON circular assumes 93% payout).
Special Dividend Per Share (sen)	23.8	Derived from our potential special dividend payout divided by its SUNWAY's current share base of 2,074.0m.

Source: Company, Kenanga Research

Illustrative Target Price Post SUNCON Listing

	Stake	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	n.a	0%	6,460.3	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin
Sunway Reit	35%	n.a	0%	1,782.0	(ii) Property Inv: Zero surplus on Book Value SUNREIT TP RM1.76
Construction	51%	15.0	0%	974.6	15x FY15E PER- pegged with the mid end of mid cap construction Fwd PERs of 12x-15x.
Quarry & Buildings Mat	100%	8.0	0%	32.2	8x FY15E PER
Trading & manufacturing	100%	8.0	0%	356.6	8x FY15E PER
Group Shareholders Funds					
Total SOP				9,605.6	
Discount Rate to Property Division RNAV			50%	-3,230.1	
Discounted SOP				6,375.5	
Dilution impact				878.92	
FD SOP (RM)				4.84	
				28%	
Illustrative TP (RM)				3.35	
Diluted no. of shares ('m)				2,168.2	

Source: Kenanga Research



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Sum-of-Parts						
	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	6,460	n.a		6,460	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,782	n.a		1,782	SUNREIT TP RM1.76
Construction	100%	1,911	15		1,911	15x FY15E PER- pegged with the mid end of mid cap construction Fwd PERs of 12x-15x.
Quarry & Buildings Mat	100%	32	8		32	8x FY15E PER
Trading & manufacturing	100%	357	8		357	8x FY15E PER
Group Shareholders Funds					0	
Total SOP		10,542			10,542	
Discount Rate to Property Division RNAV				50%	-3,230	
Discounted SOP					7,312	
Dilution impact					879	
FD SOP (RM)					5.27	
Implied SOP Discount Rate					-28%	
TP (RM)					3.78	
Diluted no. of shares ('m)					2,168	

Source: Kenanga Research

Result Highlight						
FYE 31 Dec (RM'm)	1Q15	4Q14	QoQ%	1Q14	YoY%	
Revenue	1,060.0	1,477.5	-28%	1,025.7	3%	
Op costs w/o depn/amort	-943.1	-1,318.7	-28%	-932.6	1%	
Other Op Income	36.5	104.6	-65%	22.7	60%	
EBITDA	182.5	296.8	-39%	140.9	30%	
EBIT	153.4	263.5	-42%	115.9	32%	
Net Interest	-11.4	-7.2	57%	-7.8	46%	
Associate & JCE	38.1	44.7	-15%	40.4	-6%	
Exceptional Gain/(Loss)	13.4	106.9	-87%	-6.3	-312%	
Pretax profit	193.5	407.8	-53%	142.2	36%	
Taxation	-36.1	-50.8	-29%	-30.4	19%	
Minority Interests	-10.9	-44.0	-75%	-7.8	40%	
Net profit	146.5	313.0	-53%	104.0	41%	
Core Net profit	133.2	206.1	-35%	110.3	21%	
EPS (sen)	8.5	24.4	-65%	6.0	41%	
Diluted EPS (sen)	6.1	14.4	-57%	5.1	21%	
NDPS (sen)	0.0	6.0		0.0		
NTA/share (RM)	3.34	3.25		2.97		
Net gearing/(cash) (x)	0.32	0.37		0.29		
EBITDA margin	17%	20%		14%		
EBIT margin	14%	18%		11%		
Pretax margin	18%	28%		14%		
Effective tax rate	19%	12%		21%		

Source: Company, Kenanga Research

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Segmental Breakdown					
FYE 31 Dec (RM'm)	1Q15	4Q14	QoQ	1Q14	YoY
Revenue					
Property Development	180.7	496.3	-64%	222.4	-19%
Property Investment	168.2	259.8	-35%	136.4	23%
Construction	496.1	538.2	-8%	437.0	14%
Trading & Manufacturing	228.2	205.9	11%	149.0	53%
Quarry	54.6	76.0	-28%	51.3	6%
Investment Holdings	88.1	69.1	27%	57.5	53%
Others	154.5	159.1	-3%	113.9	36%
Eliminations	-310.4	-327.1	-5%	-141.8	119%
TOTAL	1060.0	1477.3	-28%	1025.7	3%
Operating Profit					
Property Development	40.0	96.6	-59%	52.1	-23%
Property Investment	44.4	182.3	-76%	20.1	121%
Construction	52.9	54.8	-4%	31.0	71%
Trading & Manufacturing	14.1	7.7	84%	9.1	55%
Quarry	7.6	15.7	-52%	4.4	71%
Investment Holdings	-7.0	7.3	-195%	-10.4	-33%
Others	17.9	8.8	104%	3.3	435%
Eliminations	0.0	0.0	n.m.	0.0	n.m.
TOTAL	169.9	373.2	-54%	109.6	55%
Operating Margin					
Property Development	22%	19%		23%	
Property Investment	26%	70%		15%	
Construction	11%	10%		7%	
Trading & Manufacturing	6%	4%		6%	
Quarry	14%	21%		9%	
Investment Holdings	-8%	11%		-18%	
Others	12%	6%		3%	

Source: Company, Kenanga Research

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Peer Comparison

NAME	Price (26/5/15)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY15/16 NP Growth	FY16/17 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY14/15	FY15/16	FY16/17	(%)	(%)	(x)	FY14/15	FY15/16	FY16/17	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE															
S P SETIA BHD*	3.37	8,578	23.7	14.4	11.1	3.5%	6.8%	1.2	361.0	595.5	772.8	64.9%	29.8%	3.95	OUTPERFORM
IOI PROPERTIES GROUP BHD*	1.99	7,517	15.7	18.1	17.1	3.5%	4.3%	0.6	479.2	414.4	438.6	-13.5%	5.8%	2.12	MARKET PERFORM
UEM SUNRISE BHD*	1.11	5,037	11.7	14.6	12.9	2.3%	7.8%	0.8	479.9	385.6	434.3	-19.7%	12.6%	1.26	MARKET PERFORM
SUNWAY BHD	3.52	6,163	10.2	10.0	9.8	2.9%	13.2%	0.9	592.2	606.3	620.5	2.4%	2.3%	3.78	MARKET PERFORM
MAH SING GROUP BHD^	1.70	4,071	12.0	10.8	10.2	3.8%	16.1%	1.1	339.2	375.6	399.4	10.7%	6.3%	1.74	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.62	3,830	533.8	102.7	23.1	0.0%	7.9%	1.2	7.2	37.3	165.5	419.8%	343.8%	2.05	OUTPERFORM
UOA DEVELOPMENT BHD*	2.22	3,177	11.4	11.3	10.5	5.9%	12.2%	1.1	279.1	281.7	301.6	0.9%	7.1%	2.10	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.27	2,269	15.6	23.0	29.1	0.9%	2.6%	1.3	41.6	62.1	72.1	49.5%	16.1%	1.27	UNDERPERFORM
KSL HOLDINGS BHD	1.81	1,730	5.6	5.2	4.7	7.6%	15.3%	0.8	252.0	271.5	301.9	7.8%	11.2%	2.48	OUTPERFORM
TROPICANA CORP BHD	1.07	1,524	3.9	6.3	9.0	2.8%	11.9%	0.5	304.5	189.5	131.5	-37.7%	-30.6%	1.10	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD^^	2.74	1,479	6.8	6.5	6.5	6.9%	29.5%	1.6	182.6	190.2	190.5	4.1%	0.2%	2.80	MARKET PERFORM
CRESCENDO CORPORATION BHD*	2.27	516	12.0	11.7	11.3	3.4%	18.4%	0.6	43.3	44.5	45.7	2.7%	2.9%	2.46	MARKET PERFORM
HUA YANG BHD	2.08	549	5.0	4.9	4.8	6.3%	25.9%	1.0	110.6	111.6	115.2	0.9%	3.3%	2.20	OUTPERFORM
CREST BUILDER HOLDINGS BHD	1.18	197	9.9	12.4	10.0	2.0%	8.9%	0.5	13.9	15.7	19.5	13.1%	23.8%	1.27	MARKET PERFORM
CONSENSUS NUMBERS															
IGB CORPORATION BHD	2.87	3,831	17.2	15.7	14.1	2.6%	5.2%	0.9	223.3	244.3	271.0	9.4%	10.9%	4.80	NEUTRAL
YNH PROPERTY BHD	1.92	774	17.2	12.4	9.4	2.2%	5.3%	0.9	45.1	62.5	82.7	38.6%	32.3%	1.58	SELL
GLOMAC BHD	0.95	690	8.7	9.7	7.2	4.4%	8.8%	0.7	79.5	71.2	95.9	-10.4%	34.7%	0.96	SELL
PARAMOUNT CORP BHD	1.76	743	10.6	10.4	9.8	4.5%	8.6%	0.9	70.0	71.8	76.0	2.6%	5.9%	2.00	BUY
TAMBUN INDAH LAND BHD	1.74	735	6.7	6.2	5.7	5.6%	30.2%	1.9	109.3	118.2	127.9	8.1%	8.2%	2.16	BUY
* Core NP and Core PER															
** Crescendo per share data is based on non-Fully Diluted															
^ Last price and TP is Ex-rights and Ex-Bonus.															
^^ Last price and TP is Ex-bonus															
Source: Kenanga Research															

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Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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