

Sunway (SWB MK)

Share Price: MYR3.52

Target Price: MYR3.32 (-6%)

MCap (USD): 1.7B

ADTV (USD): 2M

Malaysia

Real Estate

HOLD

 (Unchanged)

No surprises

- 1Q15 core net profit of MYR124m (+12% YoY) is in line.
- Expect property sales and construction job wins to pick up in 2H15.
- Maintain earnings forecasts, HOLD rating but raise RNAV-TP to MYR3.32 on a higher TP for its ≈36%-owned SunREIT.

What's New

Excluding MYR23m one-off net disposal gain arising from the sale of Sunway Hotel Georgetown and Wisma Sunway, Sunway's 1Q15 core net profit of MYR124m (+12% YoY, -40% QoQ) accounted for 21% of our and consensus full-year estimates - in line.

The YoY growth in 1Q15 earnings was due to improved performance in the construction, trading, property investment and healthcare segments which offset slower earnings in the property development division due to slower progress billings.

What's Our View

1Q15 locked-in property sales of MYR186m (accounting for just Sunway's effective stake in some JVs) met just 16% of its MYR1.2b internal target for 2015. The poor sales was due to the lack of new launches in 1Q15. However, management remains confident of achieving its MYR1.2b sales target for FY15. It has lined up close to MYR2b worth of new launches for 2H15. Unbilled sales stood at MYR1.8b at end-Mar 2015, 1.1x of our FY15 revenue forecast.

Elsewhere, construction job wins remain slow. Outstanding order book was MYR2.8b at end-Mar 2015 (49% external). Management maintains its MYR2b job win target for FY15 and expect a sizeable construction contract to come in 3Q15.

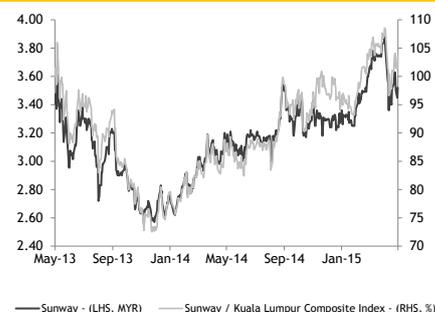
We maintain our earnings forecasts but raise TP to MYR3.32 (from MYR3.29) after factoring in a higher TP of MYR1.60 (+10sen) for SunREIT.

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	4,733.7	4,841.9	5,580.2	5,893.9	4,928.7
EBITDA	563.1	504.2	802.4	801.8	894.0
Core net profit	482.7	591.7	593.4	628.3	667.4
Core FDEPS (sen)	26.9	32.5	32.6	31.2	33.2
Core FDEPS growth (%)	(0.8)	20.7	0.3	(4.2)	6.2
Net DPS (sen)	10.0	11.0	6.9	6.9	6.6
Core FD P/E (x)	13.1	10.8	10.8	11.3	10.6
P/BV (x)	1.1	1.0	0.9	0.8	0.9
Net dividend yield (%)	2.8	3.1	2.0	2.0	1.9
ROAE (%)	10.9	10.5	9.6	8.9	8.4
ROAA (%)	4.9	4.9	4.5	4.4	4.4
EV/EBITDA (x)	10.4	15.6	10.8	11.1	11.4
Net debt/equity (%)	23.9	30.4	33.6	27.7	33.5

Key Data

52w high/low (MYR)	3.88/3.00
3m avg turnover (USDm)	2.1
Free float (%)	33.6
Issued shares (m)	1,761
Market capitalization	MYR6.2B
Major shareholders:	
-Sungei Way Corp. Sdn. Bhd.	49.9%
-Permodalan Nasional Bhd.	7.1%
-Employees Provident Fund	4.8%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute (%)	(8.1)	4.5	12.8
Relative to index (%)	(3.0)	7.8	19.1

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	10	2	0
	Maybank Consensus		% +/-
Target Price (MYR)	3.29	3.85	(14.5)
'15 PATMI (MYRm)	593	570	8.4
'16 PATMI (MYRm)	628	575	9.3

Source: FactSet; Maybank

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Table 1: Quarterly summary table - Sunway

FY Dec (MYRm)	Quarterly					Comments
	1Q15	1Q14	% YoY	4Q14	% QoQ	
Revenue	1,060.0	1,025.7	3.3	1,477.5	(28.3)	1Q15 : YoY higher revenue in all divisions, except property development.
- Property development	180.7	222.3	(18.7)	496.3	(63.6)	1Q15: Lower revenue both YoY and QoQ due to slower progress billings from the local projects and the completion of Sunway Nexis in Sunway Damansara in 4Q14. Sunway has locked in MYR186m in property sales in 3M15, just 16% of its MYR1.2b sales target for FY15. Elsewhere, unbilled sales were MYR1.8b or 1.1x of our 2015 revenue forecast.
- Property investment	139.3	136.2	2.2	160.4	(13.2)	1Q15: YoY expansion was due to the commencement of leasing of Sunway Pinnacle while QoQ decline was due to seasonal factors.
- Construction	375.3	358.7	4.6	478.0	(21.5)	1Q15: YoY growth was due to higher works recognition at the local building projects and precast concrete division. As at Mar 2015, outstanding book stood at MYR2.8b.
- Trading	191.9	149.0	28.8	168.9	13.6	
- Quarry	53.8	48.3	11.4	74.5	(27.8)	
- Investment Holdings	0.8	0.0	NA	3.1	(72.9)	
- Others	118.2	111.2	6.3	96.3	22.7	
EBIT	169.9	109.6	55.0	373.2	(54.5)	
- Property development	40.0	52.1	(23.1)	96.6	(58.6)	
- Property investment	44.4	20.1	>+100	182.3	(75.7)	
- Construction	52.9	31.0	70.6	54.8	(3.6)	
- Trading	14.1	9.1	55.4	7.7	83.6	
- Quarry	7.6	4.4	71.1	15.7	(51.6)	
- Investment Holdings	(7.0)	(10.4)	(32.8)	7.3	>-100	
- Others	17.9	3.3	>+100	8.8	>+100	
Finance costs	(11.4)	(7.8)	45.5	(7.2)	57.0	Net gearing stood at 0.32x as at end-Mar 2015, from 0.30x in end-Dec 2014.
Other income	38.1	40.4	(5.7)	44.7	(14.6)	
Profit before tax	193.5	142.2	36.1	407.8	(52.6)	
Profit before tax-EI	170.6	148.5	14.9	281.2	(39.3)	
Taxation	(36.1)	(30.4)	18.5	(50.8)	(29.0)	
Minority interest	(10.9)	(7.8)	40.1	(44.0)	(75.3)	
Net profit	146.5	104.0	40.9	313.0	(53.2)	1Q15: YoY growth in earnings was boosted by MYR22.9m in disposal gains arising from the sale of Sunway Hotel Georgetown and Wisma Sunway.
Net profit ex-EI	123.6	110.3	12.1	206.1	(40.0)	1Q15: Within expectations, accounting for 21% of our and consensus full-year estimates.
Exceptional item (pretax)	22.9	(6.3)	>-100	106.9	(78.6)	
	1Q15	1Q14	+/- ppt	4Q14	+/- ppt	
EBIT margin (%)	16.0	10.7	5.3	25.3	(9.2)	
- Property development	22.2	23.4	(1.3)	19.5	2.7	
- Property investment	31.9	14.7	17.1	113.6	(81.8)	
- Construction	14.1	8.6	5.4	11.5	2.6	
- Trading	7.4	6.1	1.3	4.6	2.8	
- Quarry	14.1	9.2	4.9	21.0	(6.9)	
- Others	15.1	3.0	12.1	9.1	6.0	
PBT margin (%) - ex EI	16.1	14.5	1.6	19.0	(2.9)	
Tax rate (%)	18.6	21.4	(2.8)	12.5	6.2	

Sources: Company, Maybank KE

Table 2: Sunway Bhd's RNAV estimates

1. Landbank - MARKET VALUE	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Semenyih	70%	398.1	433.5	128.0	213.9
Suncity Ipoh	65%	440.5	76.8	58.7	11.7
Sunway Integrated Resort	100%	14.9	9.3	8.3	1.1
Sunway Tower KL 1	100%	1.0	57.0	28.3	28.6
Sunway JB, Bukit Lenang	80%	64.8	141.3	134.5	5.4
Tmn Equine	100%	33.0	38.7	37.8	0.9
Sg Long Balakong	80%	111	140.2	21.8	94.8
Mont Putra Rawang	100%	163	49.7	35.1	14.6
Sunway Iskandar - Pendas, freehold	60%	1079	2350.3	596.6	1052.2
Sub-total:					1423.2
2. Active development: DCF @ 10.5-13% WACC	Stake				(MYR m)
South Quay	60%				196.9
Sunway Cheras	100%				1.5
Sunway Damansara	60%				46.1
Sunway D' Mont Kiara	88%				5.4
Sunway Kayangan	100%				1.5
Sunway Duta	100%				23.7
Bangi	100%				5.9
Sunway Melawati	100%				30.7
Casa Kiara III	80%				8.8
Sunway Alam Suria	50%				3.6
Sunway Velocity	85%				187.1
Penang projects	100%				71.3
Wonderland Business Park, Australia	31%				9.0
Singapore Yi Shun	30%				6.6
Singapore Tampines	30%				11.2
Singapore Sembawang	100%				4.8
Thomson/Irrawady	30%				46.1
Mount Sophia	30%				47.0
Sunway Iskandar -leasehold (Medini)	51%				450.0
Kelana Jaya	100%				123.6
Sub-total:					1,280.7
3. Investment properties - MARKET VALUE	Stake		MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Monash University Campus	100%		158.0	158.0	0.0
Sunway University College	100%		150.0	150.0	0.0
Sunway Giza (shopping mall)	60%		42.4	42.4	0.0
Sunway Hotel Georgetown	100%		17.8	62.2	(44.4)
Sunway Hotel Phnom Penh	52.5%		15.7	21.7	(3.1)
Sunway Lagoon Theme Park	100%		165.0	59.1	105.9
Lost World of Tambun	65%		38.7	36.0	1.8
Sunway Hotel Hanoi	100%		14.1	45.8	(31.8)
Sub-total:					28.4
4. Other businesses or assets					
35.7% stake in SunREIT based on Maybank IB's MYR1.60 TP					282.8
Construction (13x 2015PER)					921.4
Building material (10x 2015PER)					294.3
Trading (10x 2015PER)					391.4
Grand total:					4,622.1
Disposal gains					24.0
Shareholders fund (MYR m) - Dec 2014					5,945.2
Warrants conversion (MYR2.50 exercise price; expiring Aug 2016)					724.0
RNAV (MYR m)					11,315.4
Number of shares (m shares) - post rights issue					1,723.5
Enlarged share capital post warrant					2,013.1
FD RNAV/share (MYR) - post warrant					5.62
Target price (MYR)					3.32

Source: Company, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	3.7	8.2	9.9	10.2	10.6
Core P/E (x)	11.5	10.3	10.2	10.2	10.6
Core FD P/E (x)	13.1	10.8	10.8	11.3	10.6
P/BV (x)	1.1	1.0	0.9	0.8	0.9
P/NTA (x)	1.0	1.0	0.9	0.8	0.9
Net dividend yield (%)	2.8	3.1	2.0	2.0	1.9
FCF yield (%)	19.7	12.6	2.1	nm	nm
EV/EBITDA (x)	10.4	15.6	10.8	11.1	11.4
EV/EBIT (x)	3.2	10.2	11.2	11.6	11.9

INCOME STATEMENT (MYR m)

Revenue	4,733.7	4,841.9	5,580.2	5,893.9	4,928.7
Gross profit	563.1	504.2	802.4	801.8	894.0
EBITDA	563.1	504.2	802.4	801.8	894.0
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,823.6	768.8	771.6	767.1	855.3
Net interest income / (exp)	(102.4)	(30.4)	(71.7)	(70.8)	(83.3)
Associates & JV	172.5	233.2	165.9	200.3	216.6
Exceptionals	0.7	0.0	24.0	0.0	0.0
Other pretax income	0.0	(2.7)	(2.7)	(2.7)	(2.7)
Pretax profit	1,894.3	968.8	887.0	893.9	985.9
Income tax	(120.9)	(148.0)	(215.8)	(223.5)	(246.5)
Minorities	(273.0)	(77.6)	(53.9)	(42.1)	(72.0)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,500.5	743.2	617.4	628.3	667.4
Core net profit	482.7	591.7	593.4	628.3	667.4

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,519.1	1,978.2	1,616.6	1,661.5	1,039.5
Accounts receivable	1,402.6	1,719.9	1,719.9	1,719.9	1,719.9
Inventory	622.9	597.8	688.9	727.7	608.5
Property, Plant & Equip (net)	857.9	1,046.8	1,425.5	1,273.6	1,411.9
Intangible assets	319.9	319.4	319.4	319.4	319.4
Investment in Associates & JVs	2,284.0	2,481.0	2,619.0	2,619.0	2,619.0
Other assets	4,105.9	4,773.3	5,354.2	6,789.8	7,493.7
Total assets	11,112.3	12,916.4	13,743.6	15,111.0	15,212.0
ST interest bearing debt	1,804.9	2,282.9	2,282.9	2,282.9	2,282.9
Accounts payable	2,154.0	2,171.9	2,503.1	2,643.8	2,210.9
LT interest bearing debt	990.6	1,501.5	1,501.5	1,501.5	1,501.5
Other liabilities	511.0	626.0	623.0	623.0	623.0
Total Liabilities	5,460.1	6,582.6	6,911.0	7,051.7	6,618.7
Shareholders Equity	5,334.9	5,945.2	6,443.9	7,670.6	8,204.6
Minority Interest	317.3	388.7	388.7	388.7	388.7
Total shareholder equity	5,652.2	6,333.9	6,832.6	8,059.3	8,593.2
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	11,112.3	12,916.4	13,743.6	15,111.0	15,212.0

CASH FLOW (MYR m)

Pretax profit	1,894.3	968.8	887.0	893.9	985.9
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	198.3	273.7	(71.7)	(70.8)	(83.3)
Change in working capital	295.7	(91.4)	(500.0)	(900.0)	(900.0)
Cash taxes paid	(127.3)	(150.5)	(215.8)	(223.5)	(246.5)
Other operating cash flow	(1,167.4)	(231.3)	0.0	0.0	0.0
Cash flow from operations	1,093.6	769.4	129.8	(266.3)	(205.6)
Free cash flow	1,093.6	769.4	129.8	(266.3)	(205.6)
Dividends paid	(344.3)	(212.9)	(190.1)	(118.7)	(125.7)
Equity raised / (purchased)	727.5	41.6	0.0	724.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	872.9	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(1,022.6)	(71.9)	(301.3)	(294.2)	(290.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	454.2	1,399.1	(361.6)	44.9	(622.0)

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	22.1	2.3	15.2	5.6	(16.4)
EBITDA growth	5.2	(10.5)	59.1	(0.1)	11.5
EBIT growth	261.7	(57.8)	0.4	(0.6)	11.5
Pretax growth	160.1	(48.9)	(8.4)	0.8	10.3
Reported net profit growth	181.9	(50.5)	(16.9)	1.8	6.2
Core net profit growth	37.7	22.6	0.3	5.9	6.2
Profitability ratios (%)					
EBITDA margin	11.9	10.4	14.4	13.6	18.1
EBIT margin	38.5	15.9	13.8	13.0	17.4
Pretax profit margin	40.0	20.0	15.9	15.2	20.0
Payout ratio	10.5	25.6	19.2	20.0	20.0
DuPont analysis					
Net profit margin (%)	31.7	15.4	11.1	10.7	13.5
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.3
Assets/Equity (x)	2.1	2.2	2.1	2.0	1.9
ROAE (%)	10.9	10.5	9.6	8.9	8.4
ROAA (%)	4.9	4.9	4.5	4.4	4.4
Liquidity & Efficiency					
Cash conversion cycle	(1.8)	(12.8)	nm	nm	nm
Days receivable outstanding	106.6	116.1	111.0	105.1	125.6
Days inventory outstanding	53.9	50.7	nm	nm	nm
Days payables outstanding	162.2	179.5	nm	nm	nm
Dividend cover (x)	9.5	3.9	5.2	5.0	5.0
Current ratio (x)	1.2	1.4	1.4	1.7	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.0	2.0	2.1	2.3
Net debt/equity (%)	23.9	30.4	33.6	27.7	33.5
Net interest cover (x)	17.8	25.3	10.8	10.8	10.3
Debt/EBITDA (x)	5.0	7.5	4.7	4.7	4.2
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	1,276.4	1,806.2	2,167.8	2,122.9	2,744.9

Source: Company; Maybank

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