

Sunway (SWB MK)

Share Price: MYR3.40

Target Price: MYR3.48 (+2%)

MCap (USD): 1.4B

ADTV (USD): 2M

Malaysia

Real Estate

HOLD

 (Unchanged)

Earnings in line but sales fell short

- 1H15 core net profit of MYR267m (+13% YoY) is in line.
- Locked-in property sales and construction job wins fell short; management is likely to review property sales target soon.
- Maintain earnings forecasts and MYR3.48 RNAV-TP. HOLD.

What's New

Excluding MYR111m one-off revaluation gain at SunREIT, Sunway's 2Q15 core net profit of MYR137m (+9% YoY, +11% QoQ) lifted 1H15 core net profit to MYR267m (+13% YoY), accounting for 46%/44% of our/consensus full-year estimates - in line.

The YoY growth in 1H15 earnings was due to improved performance in the construction, property investment, quarry and healthcare segments which offset slower earnings in the property development (due to slower progress billings) and trading divisions (slowdown in local and overseas demand).

What's Our View

1H15 new property sales fell short as management has delayed all new launches to 2H15 due to the weak buying sentiment. 1H15 new property sales of MYR353m (accounting for only Sunway's effective stake in some JVs) met just 29% of its MYR1.2b target for 2015. Management maintains its MYR1.2b sales target for 2015 for now but may review this in end-Sep 2015. Unbilled sales stood at MYR1.7b at end-June 2015, 1.1x of our FY15 revenue forecast.

Elsewhere, construction job wins remain slow. Job wins YTD was MYR520m while the outstanding order book was MYR2.69b at end-June 2015 (47% internal). Management maintains its MYR2.5b job win target for FY15 and expects a sizeable construction contract to come in Sep 2015.

The slowdown in its property development business would be partially cushioned by steady dividend income from 36%-owned SunREIT and earnings from the listing of its construction unit. A special DPS of 25sen from the listing of its construction unit will be announced by end-Aug/early-Sep 2015, we understand.

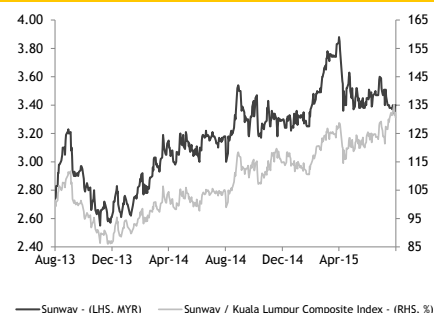
Our RNAV-TP is based on 0.59x P/RNAV (its historical mean).

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	4,733.7	4,841.9	6,033.5	6,524.6	6,109.7
EBITDA	563.1	504.2	798.3	809.7	903.7
Core net profit	482.7	591.7	564.2	576.7	630.8
Core FDEPS (sen)	26.9	32.5	31.0	28.6	31.3
Core FDEPS growth(%)	(0.8)	20.7	(4.6)	(7.5)	9.4
Net DPS (sen)	10.0	11.0	34.8	9.5	9.4
Core FD P/E (x)	12.6	10.5	11.0	11.9	10.9
P/BV (x)	1.1	1.0	1.0	0.8	0.9
Net dividend yield (%)	2.9	3.2	10.2	2.8	2.8
ROAE (%)	10.9	10.5	9.5	8.9	8.6
ROAA (%)	4.9	4.9	4.2	4.0	4.2
EV/EBITDA (x)	10.4	15.6	10.7	11.0	11.3
Net debt/equity (%)	23.9	30.4	35.3	30.0	37.1

Key Data

52w high/low (MYR)	3.88/3.00
3m avg turnover (USDm)	1.5
Free float (%)	35.8
Issued shares (m)	1,770
Market capitalization	MYR6.0B
Major shareholders:	
-Sungei Way Corp. Sdn. Bhd.	51.4%
-Permodalan Nasional Bhd.	7.0%
-Employees Provident Fund	4.8%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(5.3)	(1.4)	6.9
Relative to index (%)	1.1	8.0	25.0

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	9	4	0
	Maybank Consensus		% +/-
Target Price (MYR)	3.48	3.80	(8.5)
'15 PATMI (MYRm)	606	569	6.4
'16 PATMI (MYRm)	577	576	0.2

Source: FactSet; Maybank

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Table 1: Quarterly summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative			Comments
	2Q15	2Q14	% YoY	1Q15	% QoQ	6M15	6M14	%YoY	
Revenue	1,041.5	1,204.6	(13.5)	1,060.0	(1.7)	2,101.5	2,230.3	(5.8)	2Q15 : Improvement in all divisions except construction and trading.
- Property development	324.1	301.7	7.4	180.7	79.4	504.8	524.0	(3.7)	2Q15: YoY growth was due to higher progress billings from Sunway Montana and Sunway Lenang Heights. Sunway has locked in MYR353m in property sales in 6M15, just 29% of its MYR1.2b sales target for FY15. Elsewhere, unbilled sales were MYR1.7b or 1.1x of our 2015 revenue forecast.
- Property investment	144.8	146.0	(0.8)	139.3	4.0	284.1	282.2	0.7	
- Construction	244.1	426.1	(42.7)	375.3	(35.0)	619.4	784.8	(21.1)	2Q15: QoQ and YoY fall was due to higher intragroup elimination in the current quarter. As at June 2015, outstanding book stood at MYR2.7b.
- Trading	122.3	162.1	(24.5)	191.9	(36.3)	314.2	311.1	1.0	
- Quarry	64.1	57.7	11.1	53.8	19.1	117.9	106.0	11.2	
- Investment Hldgs	0.0	0.0	9.4	0.8	(95.8)	0.9	0.0	2,637.5	
- Others	142.0	111.1	27.9	118.2	20.2	260.2	222.2	17.1	
EBIT	139.0	134.0	3.7	169.9	(18.2)	308.9	243.6	26.8	
- Property development	36.7	58.0	(36.7)	40.0	(8.3)	76.8	110.1	(30.3)	
- Property investment	28.5	26.7	7.0	44.4	(35.7)	72.9	46.7	56.0	
- Construction	56.0	25.7	118.3	52.9	5.9	108.9	56.7	92.2	2Q15: QoQ and YoY growth was due to reversal of over-elimination of intragroup profit in previous quarters.
- Trading	0.7	11.0	(93.9)	14.1	(95.2)	14.8	20.1	(26.3)	
- Quarry	15.5	9.2	69.0	7.6	104.8	23.1	13.6	69.7	
- Investment Hldgs	(9.1)	(7.4)	22.2	(7.0)	30.5	(16.1)	(17.8)	(9.9)	
- Others	10.7	11.0	(2.7)	17.9	(40.4)	28.6	14.3	99.7	
Finance costs	(9.3)	(10.2)	(9.0)	(11.4)	(18.3)	(20.7)	(18.0)	14.6	Net gearing stood at 0.35x in end-2Q15, from 0.32x as at end-1Q15.
Other income	151.2	109.7	37.8	38.1	296.6	186.2	150.2	24.0	
Profit before tax	280.9	233.6	20.3	193.5	45.2	474.4	375.8	26.3	
Profit before tax-EI	179.7	177.1	1.5	170.6	5.4	357.4	325.6	9.8	
Taxation	(33.1)	(44.9)	(26.3)	(36.1)	(8.3)	(69.2)	(75.3)	(8.2)	
Minority interest	(9.9)	(6.2)	60.7	(10.9)	(8.6)	(20.8)	(14.0)	49.2	
Net profit	237.9	182.5	30.3	146.5	62.4	384.4	286.5	34.2	2Q15: YoY and QoQ growth in earnings was due to: 1) MYR22.9m disposal gain from the sale of Sunway Hotel Georgetown and Wisma Sunway and 2) fair value gain of MYR110.8m from the annual revaluation of Sunway REIT properties.

Table 1: Quarterly summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative			Comments
	2Q15	2Q14	% YoY	1Q15	% QoQ	6M15	6M14	%YoY	
Net profit ex-EI	136.7	126.0	8.5	123.6	10.6	267.4	236.3	13.2	1H15: Within expectations, accounting for 46%/44% of our and consensus full-year estimates.
Exceptional item (pretax)	101.2	56.5	79.1	22.9	341.9	117.0	50.2	133.1	
	2Q15	2Q14	+/- ppt	1Q15	+/- ppt	6M15	6M14	+/- ppt	
EBIT margin (%)	13.3	11.1	2.2	16.0	(2.7)	14.7	10.9	3.8	
- Property development	11.3	19.2	(7.9)	22.2	(10.8)	15.2	21.0	(5.8)	
- Property investment	19.7	18.3	1.4	31.9	(12.2)	25.7	16.6	9.1	
- Construction	22.9	6.0	16.9	14.1	8.9	17.6	7.2	10.4	
- Trading	0.5	6.8	(6.2)	7.4	(6.8)	4.7	6.5	(1.7)	
- Quarry	24.2	15.9	8.3	14.1	10.1	19.6	12.8	6.7	
- Others	7.5	9.9	(2.4)	15.1	(7.6)	11.0	6.4	4.5	
PBT margin (%) - ex EI	17.3	14.7	2.6	16.1	1.2	17.0	14.6	2.4	
Tax (%)	11.8	19.2	(7.4)	18.6	(6.9)	14.6	20.0	(5.5)	

Sources: Company, Maybank KE

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 developments - WACC: 10.5-13.1%					
	Stake				(MYR m)
South Quay	60%				187.9
Sunway Cheras	100%				1.4
Sunway Damansara	60%				45.7
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%				185.3
Penang projects	100%				64.1
Wonderland Business Park, Australia	31%				9.0
Singapore Yi Shun	30%				6.1
Singapore Tampines	30%				11.2
Singapore Sembawang	100%				4.5
Thomson/Irrawady	30%				44.6
Mount Sophia	30%				45.6
Sunway Iskandar -leasehold (Medini)	51%				443.1
Kelana Jaya	100%				123.6
Sub-total:					1,251.5
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 MYR1.55 TP					230.4
Construction					1,529.6
Building material (10x 2015PER)					294.3
Trading (10x 2015PER)					391.4
Grand total:					5,148.8
Disposal gains - Sunway Hotel Georgetown, Wisma Sunway					22.9
Disposal gain - land sale at Medini project					17.5
Shareholders fund (MYR m) - Dec 2014					5,945.2
Warrants conversion (MYR2.50 exercise price; expiring Aug 2016)					724.0
RNAV (MYR m)					11,858.5
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					5.89
Target price (MYR)					3.48

Source: Company, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	3.6	7.9	9.7	10.7	10.9
Core P/E (x)	11.1	9.9	10.4	10.7	10.9
Core FD P/E (x)	12.6	10.5	11.0	11.9	10.9
P/BV (x)	1.1	1.0	1.0	0.8	0.9
P/NTA (x)	1.0	1.0	0.9	0.8	0.9
Net dividend yield (%)	2.9	3.2	10.2	2.8	2.8
FCF yield (%)	20.4	13.1	2.4	nm	nm
EV/EBITDA (x)	10.4	15.6	10.7	11.0	11.3
EV/EBIT (x)	3.2	10.2	11.1	11.5	11.8

INCOME STATEMENT (MYR m)

Revenue	4,733.7	4,841.9	6,033.5	6,524.6	6,109.7
Gross profit	563.1	504.2	798.3	809.7	903.7
EBITDA	563.1	504.2	798.3	809.7	903.7
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	767.5	775.0	864.9
Net interest income / (exp)	(102.4)	(30.4)	(70.4)	(70.8)	(84.1)
Associates & JV	172.5	233.2	165.9	183.1	210.5
Exceptionals	0.7	0.0	41.5	0.0	0.0
Other pretax income	0.0	(2.7)	(2.7)	(2.7)	(2.7)
Pretax profit	1,894.3	968.8	901.8	884.6	988.6
Income tax	(120.9)	(148.0)	(219.4)	(221.2)	(247.1)
Minorities	(273.0)	(77.6)	(76.6)	(86.8)	(110.6)
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	605.7	576.7	630.8
Core net profit	482.7	591.7	564.2	576.7	630.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,519.1	1,978.2	1,682.8	1,664.3	996.1
Accounts receivable	1,402.6	1,719.9	1,719.9	1,719.9	1,719.9
Inventory	622.9	597.8	744.9	805.5	754.3
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	5,132.2	6,589.9	7,426.6
Total assets	11,112.3	12,916.4	13,643.8	14,991.7	15,247.2
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	2,706.4	2,926.7	2,740.6
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	7,114.3	7,334.6	7,148.5
Shareholders Equity	5,334.9	5,945.2	5,949.7	7,077.4	7,518.9
Minority Interest	317.3	388.7	579.8	579.8	579.8
Total shareholder equity	5,652.2	6,333.9	6,529.4	7,657.1	8,098.7
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	11,112.3	12,916.4	13,643.8	14,991.7	15,247.2

CASH FLOW (MYR m)

Pretax profit	1,894.3	968.8	901.8	884.6	988.6
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	198.3	273.7	(70.4)	(70.8)	(84.1)
Change in working capital	295.7	(91.4)	(500.0)	(900.0)	(900.0)
Cash taxes paid	(127.3)	(150.5)	(219.4)	(221.2)	(247.1)
Other operating cash flow	(1,167.4)	(231.3)	0.0	0.0	0.0
Cash flow from operations	1,093.6	769.4	142.2	(273.1)	(204.5)
Free cash flow	1,093.6	769.4	142.2	(273.1)	(204.5)
Dividends paid	(344.3)	(212.9)	(616.1)	(175.2)	(173.0)
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)	178.5	(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	(295.4)	(18.5)	(668.2)

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	22.1	2.3	24.6	8.1	(6.4)
EBITDA growth	5.2	(10.5)	58.3	1.4	11.6
EBIT growth	261.7	(57.8)	(0.2)	1.0	11.6
Pretax growth	160.1	(48.9)	(6.9)	(1.9)	11.7
Reported net profit growth	181.9	(50.5)	(18.5)	(4.8)	9.4
Core net profit growth	37.7	22.6	(4.6)	2.2	9.4
Profitability ratios (%)					
EBITDA margin	11.9	10.4	13.2	12.4	14.8
EBIT margin	38.5	15.9	12.7	11.9	14.2
Pretax profit margin	40.0	20.0	14.9	13.6	16.2
Payout ratio	10.5	25.6	99.3	30.0	30.0
DuPont analysis					
Net profit margin (%)	31.7	15.4	10.0	8.8	10.3
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	2.1	2.2	2.3	2.1	2.0
ROAE (%)	10.9	10.5	9.5	8.9	8.6
ROAA (%)	4.9	4.9	4.2	4.0	4.2
Liquidity & Efficiency					
Cash conversion cycle	(1.8)	(12.8)	nm	nm	nm
Days receivable outstanding	106.6	116.1	102.6	94.9	101.3
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	1.0	3.3	3.3
Current ratio (x)	1.2	1.4	1.3	1.6	1.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.0	1.9	2.0	2.1
Net debt/equity (%)	23.9	30.4	35.3	30.0	37.1
Net interest cover (x)	17.8	25.3	10.9	10.9	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	2,101.6	2,120.1	2,788.3

Source: Company; Maybank

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