

2Q15 within estimates; property sales slow

Quick Note

2Q15 earnings within estimates; new property sales ~MYR167mn

- Sunway reported 2Q15 adjusted net income of MYR137mn, in line with our expectations. Cumulatively, 1H15 adjusted net income of MYR267mn forms 49%/ 47% of our/ consensus estimates for the full-year FY15F, respectively.
- Net income was adjusted for: 1) a one-off gain of MYR23mn from the disposal of Sunway Hotel Georgetown and Wisma Sunway to its REIT in 1Q15, 2) MYR111mn fair value gain from associate in 2Q15, and 3) MYR13mn loss on fair value of ESOS.
- During the quarter, positives such as: 1) better pace of earnings recognition in construction, as well as 2) higher sales from the quarry division due to strong demand for pre-mix were partially offset by: 1) lower earnings from property development (on lower profit recognition), and 2) pre-tax loss from the trading and manufacturing division due to a slowdown in sales in Malaysia after the implementation of GST from 1 April and reduced overseas demand on falling oil and commodity prices.
- Effective new property sales in 2Q15 stood at MYR167mn (-10% q-q). 1H15 effective sales of MYR353mn formed 29% of management's full-year estimate of MYR1.2bn. Note that we have a slightly lower effective sales target of MYR1.1bn for FY15F. Unbilled sales stand at MYR2.3bn (ex-minorities = MYR 1.7bn).
- Sunway's construction division has an outstanding order book of MYR2.7bn (external MYR1.4bn) as at end-2Q15, but its replenishment has been slow. YTD 2015, it has won MYR 520mn worth of new jobs, of which only ~MYR120mn of precast works in Singapore is external.
- With 1H15 already behind us, risk of the company falling short of our construction order-book replenishment (MYR1.5bn) and property sales target for FY15F is rising. This might pose downside risks to earnings in future years.

Defensive Buy in Malaysia property

YTD, Sunway has outperformed the KLCI by 16% and the KL Property Index by 21%, and we expect this resilience to continue due to: **1)** the 25-28 sen/share special dividend to be paid to Sunway's shareholders, implying FY15F yield of 10%; **2)** more order inflows expected for the construction division from Malaysian infra projects like the MRT 2, LRT 3 and Penang, and; **3)** steady earnings from its property investments (through Sunway REIT and non-REIT assets) which should help offset the industrywide slowdown in property sales in Malaysia, making it a defensive pick among Malaysia developers. It currently trades at 12x 2015F P/E (EPS: 29 sen). Maintain Buy.

Likely stock reaction

Neutral

Global Markets Research

28 August 2015

Rating Remains	Buy
Target price Remains	MYR 4.00
Closing price 27 August 2015	MYR 3.40

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Key numbers

Construction: Although construction revenues were down 43% y-y due to higher contribution from internal projects, PBT was up 72% y-y in 2Q15 due to higher profit recognition from local infrastructure projects.

Property Development: Revenues were up 7% y-y, but PBT was down 30% y-y in 2Q15. The marginal growth in revenue was due to higher billings from its Malaysia property development projects while PBT fell y-y on lower profit from local as well as projects in Singapore.

Property investment: PBT was down 14% y-y. This excludes a one-off gain of MYR23mn from the disposal of Sunway Hotel Georgetown and Wisma Sunway to its REIT and MYR111mn fair value gain from its associate.

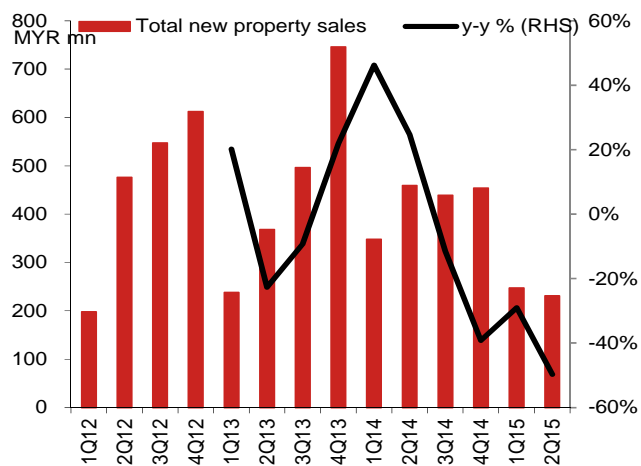
Trading & Manufacturing: Reported no pre-tax profit in 2Q15 due to a slowdown in sales in Malaysia after GST, and also low demand from overseas due to falling oil and commodity prices.

Fig. 1: Sunway: 2Q15 results review

MYR mn	2Q15	2Q14	% chg y-y	1Q15	% chg q-q	1H15	1H14	% chg y-y	FY15F	as % of FY15F
Quarterly Property sales										
Total	231	459	(50%)	247	(6%)	478	807	(41%)	1,365	35%
Effective	167	386	(57%)	186	(10%)	353	628	(44%)	1,091	32%
CORE REVENUES	1,042	1,205	(14%)	1,060	(2%)	2,102	2,230	(6%)	4,909	43%
Property development	324	302	7%	181	79%	505	524	(4%)	1,094	46%
Property investment	145	146	(1%)	139	4%	284	282	1%	636	45%
Construction	244	426	(43%)	375	(35%)	619	785	(21%)	1,768	35%
Trading and manufacturing	122	162	(25%)	192	(36%)	314	311	1%	703	45%
Quarry	64	58	11%	54	19%	118	106	11%	260	45%
Investment holdings	0	0	NM	1	(96%)	1	0	NM	3	NM
Others	142	111	28%	118	20%	260	222	17%	446	58%
CORE OPERATING PROFIT (EBIT)	139	140	(0%)	170	(18%)	309	255	21%	614	50%
Share of results of associates + JVs	40	48	(16%)	38	5%	78	88	(11%)	165	47%
CORE PBT	180	177	1%	178	1%	357	326	10%	734	49%
Property development	53	76	(30%)	57	(7%)	110	145	(24%)	327	34%
Property investment	22	26	(14%)	20	10%	42	51	(17%)	132	32%
Construction	56	33	72%	52	8%	109	64	70%	141	77%
Trading and manufacturing	(1)	10	(108%)	13	(106%)	12	18	(34%)	41	30%
Quarry	16	9	64%	8	101%	23	14	64%	42	56%
Investment holdings	9	11	(20%)	3	170%	12	16	(27%)	0	NM
Others	25	13	89%	25	0%	50	18	174%	52	96%
Taxation	(33)	(45)	(26%)	(36)	(8%)	(69)	(75)	(8%)	(113)	61%
CORE PAT	147	132	11%	142	4%	288	250	15%	621	46%
Less, core minorities	(10)	(6)	61%	(11)	(9%)	(21)	(14)	49%	(74)	28%
CORE NPATAMI	137	126	8%	131	5%	267	236	13%	547	49%
One off gains / (losses)	101	56	80%	16	541%	117	50	133%	16	NM
HEADLINE NPATAMI	238	182	31%	147	62%	384	287	34%	563	68%
PBT margins (ex associates/JVs)	17%	15%	3 ppt	17%	0 ppt	17%	15%	2 ppt	15%	
Property development	11%	19%	-8 ppt	23%	-12 ppt	22%	28%	-6 ppt	23%	
Property investment	0%	2%	-2 ppt	(3%)	3 ppt	15%	18%	-3 ppt	7%	
Construction	23%	6%	17 ppt	14%	9 ppt	18%	8%	9 ppt	8%	
Trading and manufacturing	(1%)	6%	-7 ppt	7%	-7 ppt	4%	6%	-2 ppt	6%	
Quarry	24%	16%	8 ppt	14%	10 ppt	20%	13%	6 ppt	16%	
Investment holdings	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Others	17%	12%	5 ppt	21%	-4 ppt	19%	8%	11 ppt	12%	

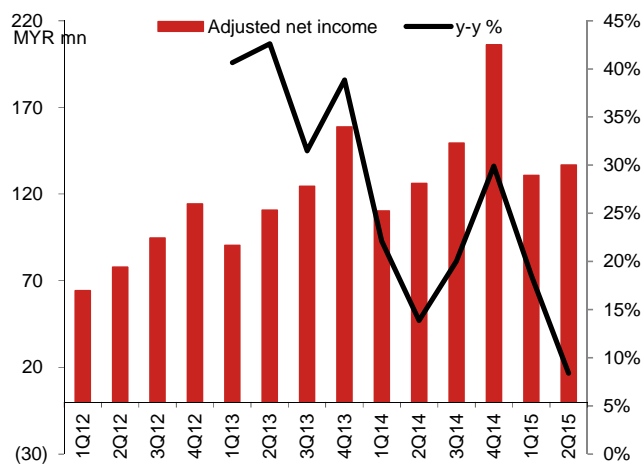
Source: Company data, Nomura estimates

Fig. 2: Total new property sales



Source: Company data, Nomura research

Fig. 3: Adjusted net income



Source: Company data, Nomura research

Fig. 4: Sunway: Upcoming launches in 2015

Project	Product Type	Location	GDV (MYR mn)
Gandaria	Service Apartment & Retail	Bangi	200
Velocity	Office & Retail	Jalan Peel	150
Sunway Geo	Condominium & Townhouses	South Quay	450
Casa Kiara 3	Condominium	Mont Kiara	300
Cassia	Semi-D	Batu Maung, Penang	90
Emerald Residences	Landed residential	Sunway Iskandar	300
Mount Sophia	Low rise condominium	Singapore	600
Total			2,090

Source: Company data, Nomura research

Appendix A-1

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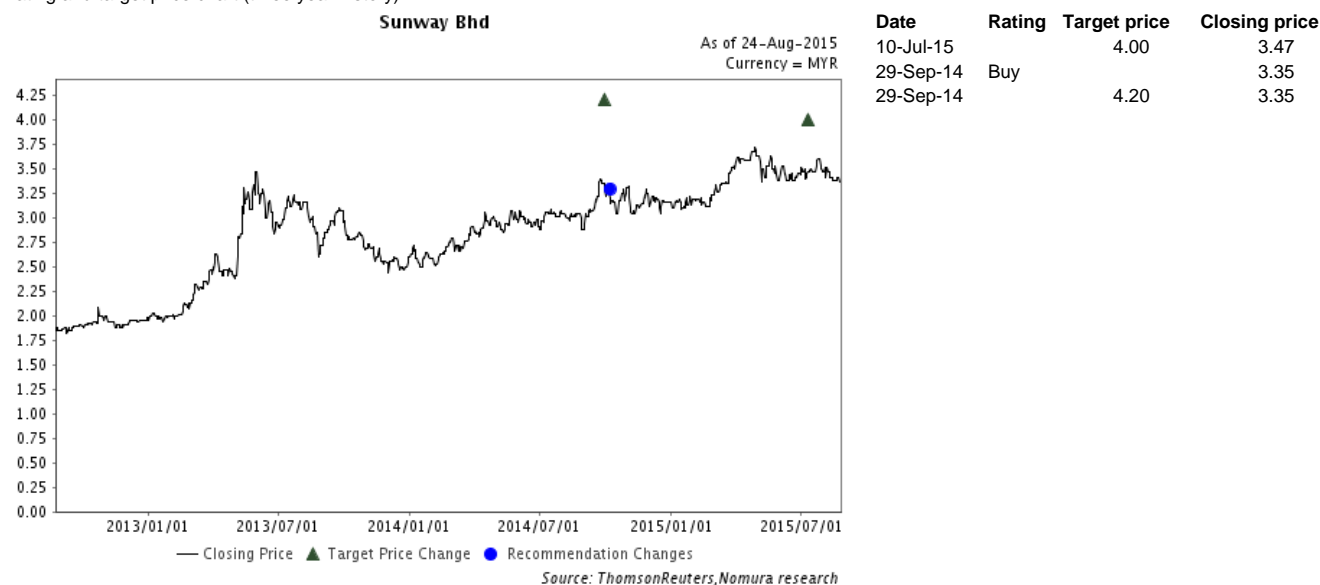
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Bhd	SWB MK	MYR 3.40	27-Aug-2015	Buy	N/A	

Sunway Bhd (SWB MK)

MYR 3.40 (27-Aug-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value the group based on SOTP-derived RNAV. We value the property development business using the DCF of future profits from all the projects and unbilled sales. We use a discount rate (cost of equity) of 10.1% for Malaysia, 11.1% for Singapore, 16.4% for China, 12.9% for India and 12.1% for Australia projects. To that we add the book value of property development to get the NAV from the property development business. We value the construction business at 13x FY16F P/E to reflect Sunway construction listing multiple. The REIT arm of property investment is valued at Nomura's TP of MYR1.61 while the non-REIT assets are valued at carrying value. We value other businesses at 10x FY16F P/E (historical average). We sum the values from all businesses to get the group's RNAV and add cash from warrants and ESOS to get fully-diluted RNAV of MYR12.4bn. To that we ascribe a 50% discount to the property development and non-REIT investment RNAV. Using fully diluted shares of 2bn and applying a discount of 50%, we derive our TP of MYR4.00. Our TP values the company at 14x FY16F P/E and 1.2x P/B. The benchmark index for the stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Downside risks: 1) any project delays or disappointing take-up rates could dent our earnings forecasts; 2) a failure of the company to meet its sales targets or pass on cost increases to customers; 3) further weakening of Iskandar sentiment; 4) the failure to meet construction orderbook targets or list the division; 5) failure of Sunway Putra Mall to get tenancy targets; and 6) any contractions in GDP growth or unexpected government policy measures to curb the sentiment in the property sector are downside risks to our call.

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