

Sunway (SWB MK)

Property- Real Estate
Market Cap: USD1,407m

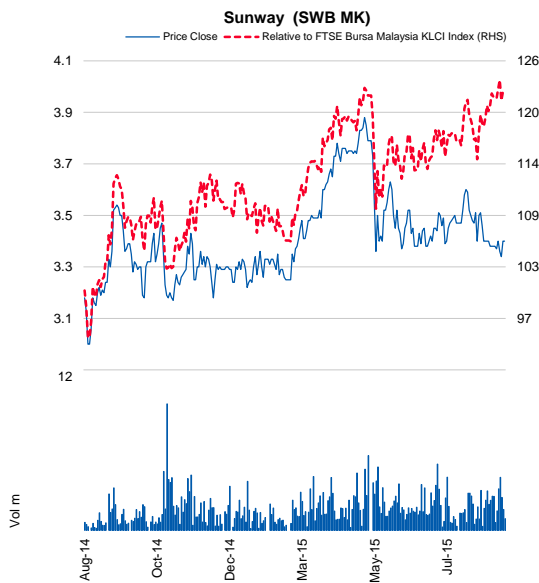
Buy (Maintained)

Target Price: MYR4.10

Price: MYR3.40

Awaiting Special Cash Dividend

Macro	◆◆◆
Risks	◆◆◆
Growth	◆◆
Value	◆◆◆



Source: Bloomberg

Avg Turnover (MYR/USD)	6.37m/1.67m
Cons. Upside (%)	16.5
Upside (%)	20.6
52-wk Price low/high (MYR)	3.00 - 3.88
Free float (%)	39
Share outstanding (m)	1,758
Shareholders (%)	
Tan Sri Dato' Jeffrey Cheah	55.4
Employees Provident Fund	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.3	(5.3)	(1.5)	0.6	6.9
Relative	13.6	2.3	8.5	13.8	22.5

Shariah compliant

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2Q15 results met expectations. Maintain BUY with an unchanged MYR4.10 TP (21% upside). While 1H new sales only achieved MYR478m, management expects sales from the unsold inventory in Singapore to boost new sales in 2H, hence potentially hitting its MYR1.7bn sales target for the year. Looking ahead, investors should look forward to the special cash dividend payout of around 25-26 sen/share.

- ◆ **Within expectations.** Sunway's 2Q15 results were broadly in line with our and market expectations. Earnings were largely flat from the previous quarter, with EBIT growth mainly driven by the construction division. Similar to 2Q14, a 5 sen interim dividend was declared for the quarter.
- ◆ **MYR231m new sales in 2Q.** Including the MYR63m land disposal into Daiwa/Sunway joint venture (JV), new sales achieved MYR231m in 2Q, bringing 1H total to MYR478m. The amount was mainly contributed by Velocity (MYR84m), South Quay (MYR68m) and the Singapore projects (MYR47m). While market conditions remain challenging, upcoming launches are carefully chosen, and the key ones include Gandaria service apartment & retail in Bangi (GDV: MYR200m), Velocity office & retail (GDV: MYR150m), Sunway GEO (GDV: MYR450m), Emerald Residences landed homes in Sunway Iskandar (GDV: MYR300m), as well as Sophia Hills in Singapore (GDV: MYR600m by effective stake). Although the property market remains soft, management expects sales from the unsold inventory in Singapore could potentially boost new sales in 2H, and hence it believes the MYR1.7bn sales target can be maintained.
- ◆ **Forecast.** Following the listing of Sunway Construction (SCGB MK, NR) in end-July, we lower our FY15 and FY16-17 earnings forecasts by 3%, and 11% p.a. respectively, to factor in the higher minority interest charge. Unbilled sales were resilient at MYR2.3bn vs MYR2.5bn in 1Q15, while construction orderbook slipped to MYR2.69bn from MYR2.76bn in 1Q15.
- ◆ **Maintain BUY.** Our SOP-based TP is kept at MYR4.10. Our BUY rating is mainly underpinned by the special cash dividend payout that will be announced in early September (ex-date will likely be in mid-Sep). Based on the share price performance of Sunway Construction since listing, we expect the special DPS to be around 25-26 sen.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	4,734	4,842	4,982	5,071	5,569
Reported net profit (MYRm)	1,500	743	572	526	561
Recurring net profit (MYRm)	483	592	572	526	561
Recurring net profit growth (%)	37.7	22.6	(3.3)	(8.1)	6.7
Recurring EPS (MYR)	0.32	0.34	0.33	0.30	0.32
DPS (MYR)	0.10	0.11	0.11	0.11	0.12
Recurring P/E (x)	10.6	9.9	10.4	11.4	10.8
P/B (x)	0.96	0.99	1.00	0.96	0.91
Dividend Yield (%)	2.9	3.2	3.2	3.2	3.5
Return on average equity (%)	33.7	13.2	9.6	8.6	8.7
Return on average assets (%)	15.1	6.2	4.4	3.9	3.9
Net debt to equity (%)	22.6	28.5	38.0	31.4	33.1
Our vs consensus EPS (adjusted) (%)			4.3	(5.7)	(4.3)

Source: Company data, RHB

Figure 1: Sunway's quarterly results

FYE Dec (MYRm)	2Q14	1Q15	2Q15	QoQ (%)	YoY (%)	1H14	1H15	YoY (%)	Comments
Turnover	1,204.6	1,060.0	1,041.5	(1.7)	(13.5)	2,230.3	2,101.5	(5.8)	
Prop dev	301.7	180.7	324.1	79.4	7.4	524.0	504.8	(3.7)	QoQ growth was mainly from Sunway Montana, Sunway Lenang Heights and Sunway Eastwood.
Prop invt	146.0	139.3	144.8	4.0	(0.8)	282.2	284.1	0.7	
Construction	426.1	375.3	244.1	(35.0)	(42.7)	784.8	619.4	(21.1)	Revenue was lower due to high intragroup elimination.
Trading & Manufacturing Quarry	162.1	191.9	122.3	(36.3)	(24.5)	311.1	314.2	1.0	
Investment holdings	57.7	53.8	64.1	19.1	11.1	106.0	117.9	11.2	
Others	0.0	0.8	0.0	n.m.	n.m.	0.0	0.9	n.m.	
	111.1	118.2	142.0	20.2	27.9	222.2	260.2	17.1	
EBIT	134.0	169.9	139.0	(18.2)	3.7	243.6	308.9	26.8	
EBIT Margin (%)	11.1%	16.0%	13.3%			10.9%	14.7%		
Prop dev	58.0	40.0	36.7	(8.3)	(36.7)	110.1	76.8	(30.3)	EBIT was lower due to the completion of Sunway Nexis and Sunway Damansara.
Prop invt	26.7	44.4	28.5	(35.7)	7.0	46.7	72.9	56.0	EBIT was higher due to the fair value gain from annual revaluation of Sunway REIT properties.
Construction	25.7	52.9	56.0	5.9	118.3	56.7	108.9	92.2	Higher EBIT was due to the reversal of over-elimination of intragroup profit in previous quarters.
Trading & Manufacturing Quarry	11.0	14.1	0.7	(95.2)	(93.9)	20.1	14.8	(26.3)	
Investment holdings	9.2	7.6	15.5	104.8	69.0	13.6	23.1	69.7	
Others	(7.4)	(7.0)	(9.1)	n.m.	22.2	(17.8)	(16.1)	(9.9)	
	11.0	17.9	10.7	(40.4)	(2.7)	14.3	28.6	99.7	
Exceptional items	(56.5)	13.4	101.2	n.m.	(279.1)	(50.2)	114.6	n.m.	
Finance cost	(10.2)	(11.4)	(9.3)	(18.3)	(9.0)	(18.0)	(20.7)	14.6	
Asso & jv	109.6	38.1	150.7	295.3	37.5	150.0	188.8	25.9	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	
Pretax profit	233.6	193.5	280.9	45.2	20.3	375.8	474.4	26.3	
PBT margin (%)	19.4%	18.3%	27.0%			16.8%	22.6%		
Tax	(44.9)	(36.1)	(33.1)	(8.3)	(26.3)	(75.3)	(69.2)	(8.2)	
Tax (%)	19.2%	18.6%	11.8%			20.0%	14.6%		
PAT	188.7	157.4	247.8	57.4	31.3	300.5	405.3	34.9	
MI	(6.2)	(10.9)	(9.9)	(8.6)	60.7	(14.0)	(20.8)	49.2	
Net profit	182.5	146.5	237.9	62.4	30.3	286.5	384.4	34.2	
Core net profit	126.0	133.1	136.7	2.7	8.5	236.3	269.9	14.2	Within expectations.
Net margin (%)	10.5	12.6	13.1			10.6	12.8		
EPS (sen)	7.3	7.7	7.8			13.3	15.4		
NTA (RM)	3.21	3.52	3.55			3.21	3.55		
DPS (sen)	5.0	0.0	5.0			5.0	5.0		
EBIT margin:									
Prop dev	19.2%	22.2%	11.3%			21.0%	15.2%		
Prop invt	18.3%	31.9%	19.7%			16.6%	25.7%		
Construction	6.0%	14.1%	22.9%			7.2%	17.6%		
Trading & Manufacturing Quarry	6.8%	7.4%	0.5%			6.5%	4.7%		
Investment holdings	15.9%	14.1%	24.2%			12.8%	19.6%		
Others	n.m.	n.m.	n.m.			n.m.	n.m.		
	9.9%	15.1%	7.5%			6.4%	11.0%		

Source: Company, RHB

Figure 2: Sunway's RNAV

Developments	Remaining Landbank (acre)	Remaining GDV (MYR m)	Effective stake	NPV @ 11%
Selangor/KL				
Sunway Damansara	15.36	1,691.28	60%	114.6
Sunway South Quay	42.17	3,296.66	60%	213.2
Sunway Montereiz	5.36	43.67	60%	2.9
Sunway Semenyih	398.11	728.59	70%	45.3
Sunway Cheras	5.97	16.82	100%	1.2
Sunway Duta	3.16	120.00	60%	5.0
Sunway Montana	1.99	55.51	100%	5.7
Sunway Alam Suria	0.65	12.00	100%	1.1
Sunway Resort City	14.9	660	100%	56.3
Casa Kiara III	2.88	210.00	80%	15.8
Sunway Velocity	17.94	2,858.98	85%	233.7
Sunway Tower KL 1	1.00	240.00	100%	17.5
Bangi	3.00	59.00	100%	5.5
Melawati	2.00	43.00	100%	3.7
Sg Long	111.00	277.00	80%	17.6
Mont Putra, Rawang	163.00	156.00	100%	12.4
Kelana Jaya	17.00	1,800.00	100%	113.4
Perak				
Sunway City Ipoh	440.5	1,048.38	65%	65.5
Penang				
Sunway Hills	80.70	849.00	100%	65.3
Sunway Cassia, Batu Maung	6.62	74.00	100%	7.0
Sunway Wellesley, Bukit Mertajam	63.00	845.00	100%	78.7
Paya Terubong	24.46	1,500.00	100%	116.4
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.2
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.3
S'pore				
Mount Sophia	5.87	2,137.20	30%	74.6
Sembawang, Singapore	0.77	75.00	100%	9.2
Royal Square @ Novena	1.65	2,287.50	30%	79.9
Johor				
Bukit Lenang	64.79	698.40	80%	65.0
Medini	691.00	12,000.00	60%	594.3
Pendas	1,079.07	18,000.00	60%	694.2
China				
Sunway Guanghao	3.73	66.78	65%	4.2
Tianjin Eco City	24.00	1,300.00	60%	59.5
India				
Sunway OPUS Grand India	23.80	702.36	50%	19.9
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	6.5
Australia				
Wonderland Business Park (Sydney)	48.40	378.10	45%	9.2
Unbilled sales				336.0
TOTAL	3,406.75	54,581.52		3,167.74

Investment properties	EBITDA (MYR m)	Market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)
Monash University Campus	17	299.5	299.5	100%	0
Monash U Residence	15	226.6	226.6	100%	0
Sunway University College	10	255.0	255.0	100%	0
Sunway Hotel Georgetown	4	74.0	37.6	100%	36.4
Sunway Hotel Phnom Penh	2	17.3	17.3	53%	0
Sunway Hotel Hanoi	2	8.8	8.8	100%	0
Sunway Giza	5	55.1	55.1	60%	0
Sunway Pinnacle	N/A	280.0	280.0	100%	0
Wisma Sunway	4	60.0	59.1	100%	0.9

Other divisions	Market value (MYR m)	Book value (MYR m)	Est. FY15 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
34% Sunway REIT	1,663.3	1,479.0			184.32
Others			110	6.5	715.00
Total					4,104.35
Shareholders' equity (ex cons.)					5,545.20
ESOS proceeds					551.52
Warrants conversion @ MYR2.50					723.48
Total RNAV (ex cons.)					10,924.55
Discount to RNAV					30%
Discounted RNAV					7,647.19
SCG's listing (based on 13x PE and MYR120m PATMI)					1,560.00
SOP value					9,207.19
Share base (mil)					1,723.52
No. of warrants					289.39
ESOS					172.35
Enlarged share base (mil)					2,185.27
Value per share (MYR)					4.21
Minus: Dividend-in-specie @ MYR1.10 indicative price					0.11
Target price (MYR)					4.10

Source: RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	4,734	4,842	4,982	5,071	5,569
Cost of sales	(3,382)	(3,504)	(3,636)	(3,711)	(4,073)
Gross profit	1,352	1,337	1,346	1,359	1,496
Gen & admin expenses	(698)	(717)	(747)	(761)	(863)
Other operating costs	1,170	148	152	158	153
Operating profit	1,824	769	751	756	785
Operating EBITDA	1,914	885	876	891	924
Depreciation of fixed assets	(91)	(116)	(125)	(134)	(139)
Operating EBIT	1,824	769	751	756	785
Net income from investments	172	233	202	298	326
Interest income	36	48	52	54	57
Interest expense	(138)	(79)	(86)	(89)	(90)
Other non-recurring income	1	(3)	(3)	(3)	(3)
Pre-tax profit	1,894	969	916	1,017	1,075
Taxation	(121)	(148)	(229)	(254)	(269)
Minority interests	(273)	(78)	(114)	(237)	(245)
Profit after tax & minorities	1,500	743	572	526	561
Reported net profit	1,500	743	572	526	561
Recurring net profit	483	592	572	526	561

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	1,824	769	751	756	785
Depreciation & amortisation	91	116	125	134	139
Change in working capital	(148)	(822)	(197)	310	51
Other operating cash flow	(449)	212	267	268	269
Operating cash flow	1,317	275	946	1,468	1,245
Interest received	36	48	52	54	57
Interest paid	(138)	(79)	(86)	(89)	(90)
Tax paid	(121)	(148)	(229)	(254)	(269)
Cash flow from operations	1,094	97	683	1,179	943
Capex	(780)	(691)	(256)	(270)	(578)
Other investing cash flow	(502)	118	(200)	(200)	(200)
Cash flow from investing activities	(1,282)	(573)	(456)	(470)	(778)
Dividends paid	(490)	(238)	(192)	(194)	(213)
Proceeds from issue of shares	766	105	-	-	-
Increase in debt	49	989	-	-	-
Other financing cash flow	(189)	(108)	(103)	(102)	(101)
Cash flow from financing activities	135	748	(295)	(296)	(314)
Cash at beginning of period	1,140	1,519	1,978	1,562	1,857
Total cash generated	(53)	271	(68)	414	(150)
Forex effects	210				
Implied cash at end of period	1,297	1,790	1,910	1,976	1,707

Source: Company data, RHB

Financial Exhibits

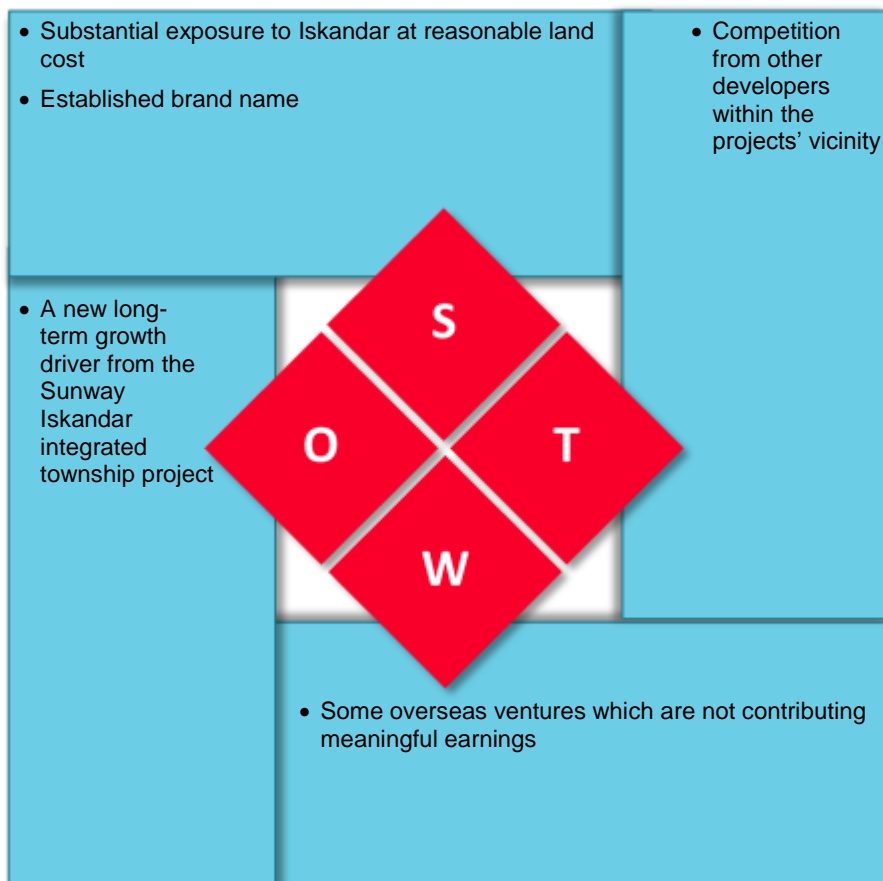
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	1,519	1,978	1,562	1,857	1,653
Inventories	1,899	2,370	2,525	2,362	2,441
Accounts receivable	1,403	1,720	1,843	1,736	1,831
Other current assets	63	111	111	111	111
Total current assets	4,883	6,179	6,040	6,066	6,036
Tangible fixed assets	5,834	6,257	6,387	6,523	6,963
Intangible assets	320	319	319	319	319
Total other assets	75	161	563	1,061	1,587
Total non-current assets	6,229	6,737	7,270	7,904	8,869
Total assets	11,112	12,916	13,310	13,970	14,905
Short-term debt	1,805	2,283	2,283	2,283	2,283
Accounts payable	2,154	2,172	2,252	2,292	2,517
Other current liabilities	24	21	21	21	21
Total current liabilities	3,983	4,476	4,556	4,596	4,821
Total long-term debt	991	1,502	1,720	1,770	1,886
Other liabilities	486	605	605	605	605
Total non-current liabilities	1,477	2,107	2,326	2,376	2,492
Total liabilities	5,460	6,583	6,881	6,972	7,313
Share capital	1,724	1,731	1,731	1,731	1,731
Retained earnings reserve	1,896	2,457	2,838	3,171	3,519
Other reserves	1,716	1,757	1,357	1,357	1,357
Shareholders' equity	5,335	5,945	5,926	6,258	6,606
Minority interests	317	389	503	740	985
Other equity	-	0	-	-	-
Total equity	5,652	6,334	6,429	6,999	7,592
Total liabilities & equity	11,112	12,916	13,310	13,970	14,905

Source: Company data, RHB

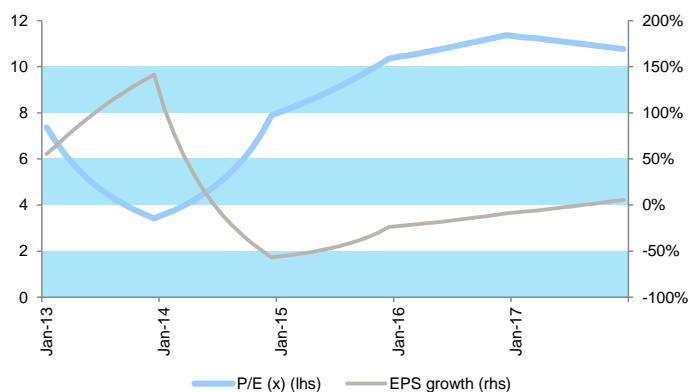
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	22.1	2.3	2.9	1.8	9.8
Operating profit growth (%)	261.7	(57.8)	(2.4)	0.8	3.8
Net profit growth (%)	181.9	(50.5)	(23.0)	(8.1)	6.7
EPS growth (%)	141.6	(56.7)	(23.8)	(9.0)	5.6
BVPS growth (%)	28.5	(2.6)	(1.3)	4.6	4.5
Operating margin (%)	38.5	15.9	15.1	14.9	14.1
Net profit margin (%)	31.7	15.4	11.5	10.4	10.1
Return on average assets (%)	15.1	6.2	4.4	3.9	3.9
Return on average equity (%)	33.7	13.2	9.6	8.6	8.7
Net debt to equity (%)	22.6	28.5	38.0	31.4	33.1
DPS	0.10	0.11	0.11	0.11	0.12
Recurrent cash flow per share	0.73	0.06	0.39	0.67	0.53

Source: Company data, RHB

SWOT Analysis

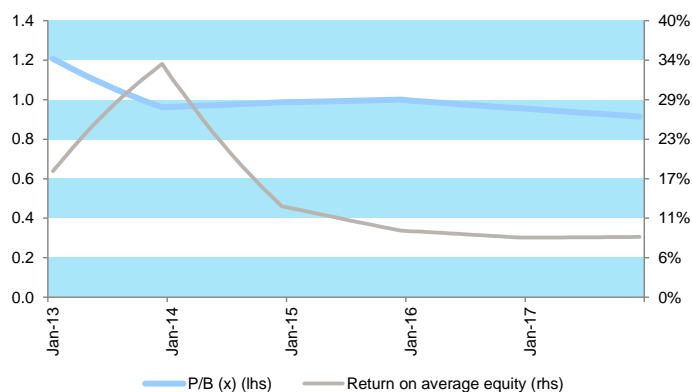


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Sunway Bhd is a well-known developer in the Klang Valley. Its flagship project - Bandar Sunway is a well-established integrated township. The company has successfully transformed a mining land into a matured residential and commercial cluster.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-05-26	Buy	4.10	3.52
2015-05-11	Buy	4.10	3.40
2015-03-19	Buy	4.18	3.52
2015-02-25	Buy	3.90	3.32
2014-11-19	Buy	3.90	3.26
2014-09-22	Buy	3.90	3.52
2014-08-29	Buy	3.60	3.00
2014-05-29	Buy	3.60	3.19
2014-02-28	Buy	3.33	2.91
2013-12-18	Buy	3.33	2.59

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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