

Sunway (SWB MK)

Property- Real Estate

Market Cap: USD1,705m

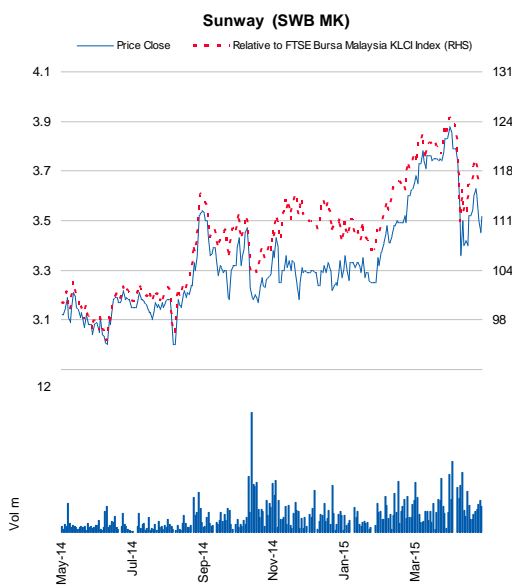
Buy (Maintained)

Target Price: MYR4.10

Price: MYR3.52

Dragged Down By Slower Progress Billings

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



Source: Bloomberg

Avg Turnover (MYR/USD)	7.38m/2.03m
Cons. Upside (%)	10.2
Upside (%)	16.5
52-wk Price low/high (MYR)	3.00 - 3.88
Free float (%)	39
Share outstanding (m)	1,751
Shareholders (%)	
Tan Sri Dato' Jeffrey Cheah	55.4
Employees Provident Fund	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.0	(8.1)	4.5	5.1	12.8
Relative	5.5	(4.1)	6.3	8.1	16.9

Shariah compliant

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1Q15 results missed our and market expectations. Maintain BUY with an unchanged MYR4.10 TP (17% upside). While new sales in 1Q were only at MYR247m, we expect sales from overseas projects to be stronger – and anticipate it to hit its MYR1.7bn target. We keep our earnings forecasts as 1H is historically weaker. Any upside to its share price would largely depend on Sunway Construction's valuations.

- ◆ **Below expectation.** Sunway's 1Q15 results were below our and market expectations. Both property development and property investment divisions recorded weaker QoQ growth, mainly due to slower progress billings from local projects as well as the completion of Sunway Nexis in the previous quarter while its visitors and hotel occupancy numbers were lower due to seasonal factors. Earnings from its construction unit remained resilient during the quarter.
- ◆ **MYR247m of new sales in 1Q15.** Sunway secured MYR247m in new sales, compared with MYR500m in 4Q14 and MYR348m in 1Q14. The amount was mainly contributed by its Velocity (MYR62m), South Quay (MYR49m) and Australia (MYR28m) projects. We expect sales from overseas to come in stronger in 2H, and believe that it can meet its target of MYR1.7bn. Projects in the pipeline for this year include Sunway Damansara retail (GDV: MYR250m), South Quay condominiums (GDV: MYR300m), Sunway Iskandar landed homes (GDV: MYR300m) and Sophia Hills in Singapore (GDV: MYR600m by effective stake).
- ◆ **Forecasts remain.** We make no changes to our earnings forecasts as 1H is a typically weaker period. Its unbilled sales were unchanged at MYR2.5bn (same as the previous quarter) while its construction orderbook fell to MYR2.76bn from MYR3bn in 4Q14. Based on our discussion with management, its orderbook will likely be replenished soon. Hence, we are not overly concerned with the depletion.
- ◆ **Maintain BUY.** Our SOP-based TP is kept at MYR4.10. The potential upside to its share price will largely depend on the valuations of Sunway Construction, as higher valuations will likely translate to a higher special cash dividend paid out to Sunway shareholders. Maintain BUY.

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	589	590	634
Recurring net profit (MYRm)	483	592	589	590	634
Recurring net profit growth (%)	37.7	22.6	(0.5)	0.2	7.5
Recurring EPS (MYR)	0.32	0.34	0.34	0.34	0.36
DPS (MYR)	0.10	0.11	0.11	0.11	0.12
Recurring P/E (x)	11.0	10.3	10.4	10.5	9.9
P/B (x)	0.99	1.02	0.97	0.92	0.87
Dividend Yield (%)	2.8	3.1	3.1	3.1	3.4
Return on average equity (%)	33.7	13.2	9.6	9.0	9.1
Return on average assets (%)	15.1	6.2	4.4	4.2	4.3
Net debt to equity (%)	22.6	28.5	29.9	24.3	26.5
Our vs consensus EPS (adjusted) (%)			7.0	6.1	5.0

Source: Company data, RHB

Figure 1: Sunway's quarterly results

FYE Dec (MYR mil)	1Q14	4Q14	1Q15	QoQ (%)	YoY (%)	Comments
Turnover	1,025.7	1,477.5	1,060.0	(28.3)	3.3	
Prop dev	222.3	496.3	180.7	(63.6)	(18.7)	Due to slower progress billings from local projects and the completion of Sunway Nexis in 4Q14.
Prop invt	136.2	160.4	139.3	(13.2)	2.2	Affected by seasonal trends
Construction	358.7	478.0	375.3	(21.5)	4.6	
Trading & Manufacturing	149.0	168.9	191.9	13.6	28.8	
Quarry	48.3	74.5	53.8	(27.8)	11.4	
Investment holdings	0.0	3.1	0.8	n.m.	n.m.	
Others	111.2	96.3	118.2	22.7	6.3	
EBIT	109.6	373.2	169.9	(54.5)	55.0	
<i>EBIT Margin (%)</i>	<i>10.7%</i>	<i>25.3%</i>	<i>16.0%</i>			
Prop dev	52.1	96.6	40.0	(58.6)	(23.1)	
Prop invt	20.1	182.3	44.4	(75.7)	121.2	
Construction	31.0	54.8	52.9	(3.6)	70.6	
Trading & Manufacturing	9.1	7.7	14.1	83.6	55.4	
Quarry	4.4	15.7	7.6	(51.6)	71.1	
Investment holdings	(10.4)	7.3	(7.0)	n.m.	(32.8)	
Others	3.3	8.8	17.9	103.8	435.4	
Exceptional items	6.3	126.6	13.4	n.m.	112.7	
Finance cost	(7.8)	(7.2)	(11.4)	57.0	45.5	
Asso & jv	40.4	44.7	38.1	(14.6)	(5.7)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	
Pretax profit	142.2	407.8	193.5	(52.6)	36.1	
<i>PBT margin (%)</i>	<i>13.9%</i>	<i>27.6%</i>	<i>18.3%</i>			
Tax	(30.4)	(50.8)	(36.1)	(29.0)	18.5	
<i>Tax (%)</i>	<i>21.4%</i>	<i>12.5%</i>	<i>18.6%</i>			
PAT	111.8	357.0	157.4	(55.9)	40.9	
MI	(7.8)	(44.0)	(10.9)	(75.3)	40.1	
Net profit	104.0	313.0	146.5	(53.2)	40.9	
Core net profit	110.3	206.1	133.1	(35.4)	20.7	Below expectations
<i>Net margin (%)</i>	<i>10.8</i>	<i>13.9</i>	<i>12.6</i>			
EPS (sen)	6.0	18.1	7.7			
NTA (RM)	3.15	3.44	3.52			
DPS (sen)	0.0	6.0	0.0			
EBIT margin:						
Prop dev	23.4%	19.5%	22.2%			
Prop invt	14.7%	113.6%	31.9%			
Construction	8.6%	11.5%	14.1%			
Trading & Manufacturing	6.1%	4.6%	7.4%			
Quarry	9.2%	21.0%	14.1%			
Investment holdings	n.m.	n.m.	n.m.			
Others	3.0%	9.1%	15.1%			

Source: Company data, 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%	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)	(98)	(173)	(172)
Profit after tax & minorities	1,500	743	589	590	634
Reported net profit	1,500	743	589	590	634
Recurring net profit	483	592	589	590	634

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	1,962	2,257
Total cash generated	(53)	271	(68)	414	(150)
Forex effects	210				
Implied cash at end of period	1,297	1,790	1,910	2,376	2,107

Source: Company data, RHB

Financial Exhibits

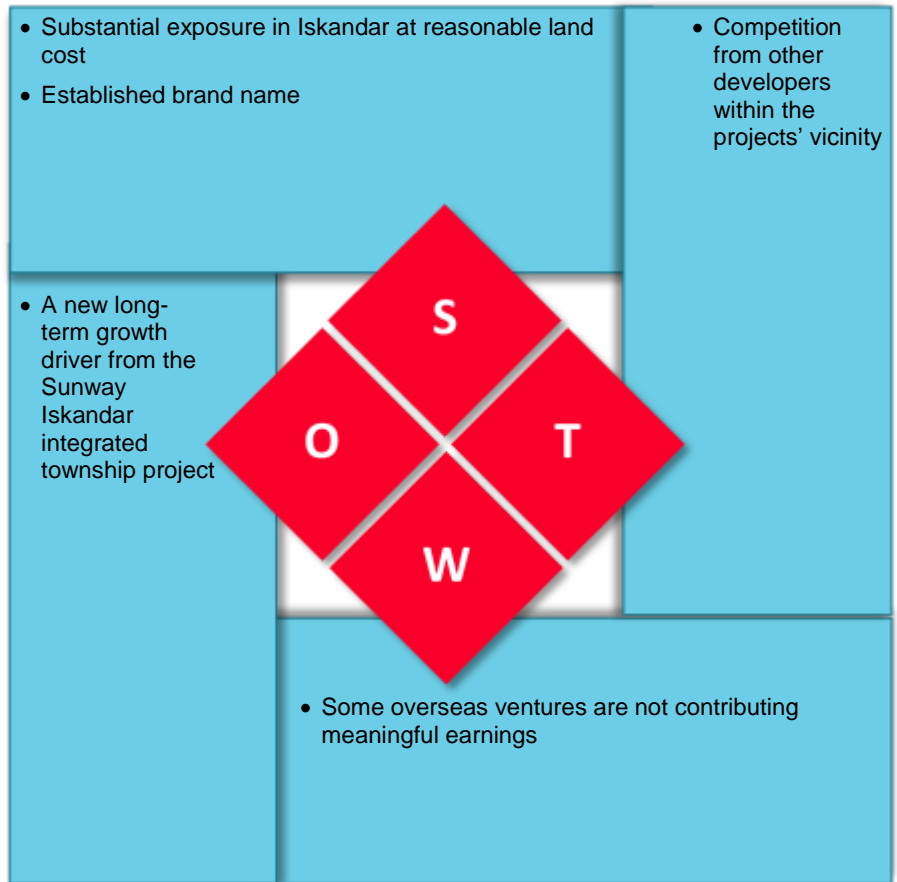
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	1,519	1,978	1,962	2,257	2,053
Inventories	1,899	2,370	2,525	2,362	2,441
Accounts receivable	1,403	1,720	1,843	1,736	1,831
Other current assets	63	111	111	111	111
Total current assets	4,883	6,179	6,440	6,466	6,436
Tangible 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	13,710	14,370	15,305
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	2,855	3,251	3,672
Other reserves	1,716	1,757	1,757	1,757	1,757
Shareholders' equity	5,335	5,945	6,342	6,739	7,160
Minority interests	317	389	487	660	832
Other equity	-	0	-	-	-
Total equity	5,652	6,334	6,829	7,399	7,992
Total liabilities & equity	11,112	12,916	13,710	14,370	15,305

Source: Company data, RHB

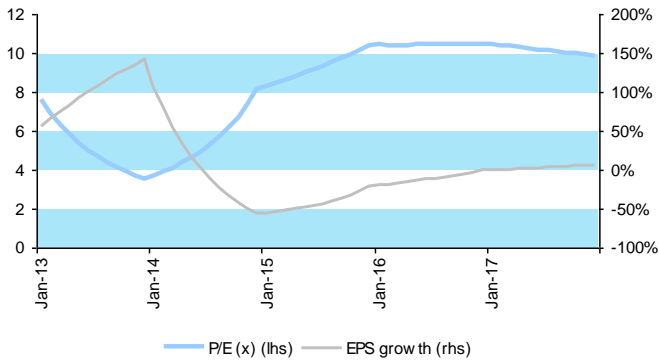
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	22.1	2.3	2.9	1.8	9.8
Operating profit growth (%)	261.7	(57.8)	(2.4)	0.8	3.8
Net profit growth (%)	181.9	(50.5)	(20.8)	0.2	7.5
EPS growth (%)	141.6	(56.7)	(21.6)	(0.8)	6.4
BVPS growth (%)	28.5	(2.6)	5.6	5.2	5.2
Operating margin (%)	38.5	15.9	15.1	14.9	14.1
Net profit margin (%)	31.7	15.4	11.8	11.6	11.4
Return on average assets (%)	15.1	6.2	4.4	4.2	4.3
Return on average equity (%)	33.7	13.2	9.6	9.0	9.1
Net debt to equity (%)	22.6	28.5	29.9	24.3	26.5
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

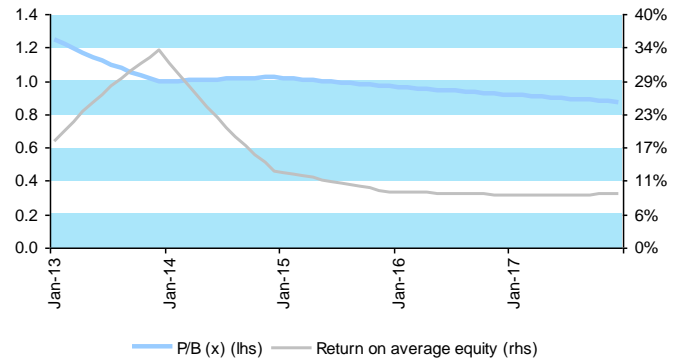


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Sunway 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 mining land to a matured residential and commercial cluster.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2013-12-02	Buy	3.30	2.55

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

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