



Sunway Berhad

1H15 New Property Sales Contracted 41% YoY

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TP: RM3.43 (+0.1%)

Last Traded: RM3.40

Hold

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Review

- Sunway Berhad's 1H15 core net profit of RM260.3mn was broadly in line with expectations, accounting for 43% and 46% of our and consensus full-year forecasts respectively. We are expecting a stronger 2H, underpinned by commencement of new property developments and potential construction contracts win. An interim dividend of 5sen/share was declared, similar to the corresponding period of last year.
- Sunway's 1H15 revenue declined 5.8% YoY to RM2.1bn. However, the group's core net profit advanced 10.2% YoY to RM260.3mn, largely due to better margins recorded by the construction (+9.4 ppt YoY) and quarry divisions (+6.3 ppt YoY) and lower effective tax rates.
- Sequentially, 2Q15 core net profit increased 10.6% RM136.7mn. All divisions posted satisfactory results except the trading and manufacturing segment which was affected by post GST slowdown and lower exports following drops in oil and commodity prices.
- Sunway's 1H15 new sales contracted 41% YoY to RM478mn (effective RM353mn). We understand that the property sales are derived mainly from its on-going projects in Klang Valley such as Sunway Velocity and Sunway South Quay (see **Figure 1**). Unbilled sales remained healthy at RM2.3bn (effective RM1.7bn), which will keep the group busy over the next two years.

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	1757.7
Market Cap (RMmn)	5976.2
Par Value	1.00
52-wk Hi/Lo (RM)	3./1/2.91
12-mth Avg Daily Vol ('000 shrs)	1709.7
Estimated Free Float (%)	24.2
Beta	0.74
Major Shareholders (%)	
	Sungei Way Corp (51.6)

Forecast Revision

	FY15	FY16
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	604.3	543.8
Consensus	571.9	580.9
TA's / Consensus (%)	105.7	93.6
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY15	FY16
Net Debt / Equity (%)	24.5	16.4
FCPS (sen)	51.2	37.1
Price / CFPS (x)	6.6	9.2
ROA (%)	4.6	4.0
NTA/Share (RM)	3.5	3.7
Price/NTA (x)	1.0	0.9

SCORECARD

	% of FY	
vs TA	43.0	Within
vs Consensus	46.0	Within

Share Performance (%)

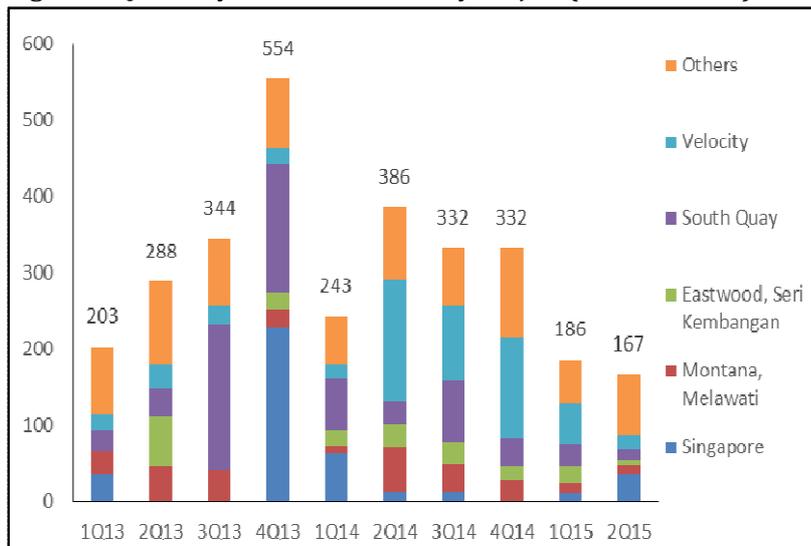
Price Change	Sunway	FBM KLCI
1 mth	(3.4)	(5.8)
3 mth	(0.9)	(8.8)
6 mth	3.7	(12.1)
12 mth	11.9	(14.6)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Figure 1: Quarterly Sales Breakdown by Project (effective sales)



Source: Sunway, TA Research

Impact

- No change to our FY15-17 earnings forecasts. We continue to project the group to record sales of RM1.2 – 2.0bn new sales in FY15-17.

Outlook

- Despite 1H15 sales of only RM478mn, management is maintaining its FY15 sales target of RM1.7bn. We understand that the group has yet to roll out any new launches amounting to RM2.2bn GDV that were budgeted for 2015 as at July-15 - see **Figure 3**. Of the upcoming launches, we believe Sunway Geo Residence 3 will fare relatively well, benefitting from the Bus Rapid Transit that has begun operation in June-15. In view of the current weak market sentiment, we do not discount the possibility that Sunway will hold back some of the launches to next year. As such, we maintain our FY15 sales forecast at RM1.2bn vs management's target of RM1.7bn..
- On the construction front, Sunway's 55.6%-owned subsidiary, SunCon has secured contracts worth RM520mn in 1H15. However, management is confident to secure job worth RM2.0bn in 2015 (including internal orders). We gather that the group is close to bag some sizable building contracts by end of this year. Going forward, we also see SunCon as a strong contender for upcoming mega projects such as LRT line 3, MRT 2 and BRT.

Valuation

- In our SOP valuation, we are now using P/E valuation method to value the property business as we believe RNAV estimates are less meaningful during the sector down cycle given the uncertainties in project launches. Attaching a 10% discount to our SOP valuation, we derived a new target price of **RM3.43** based on 12x CY16 property development and quarry & manufacturing earnings, and latest TPs for Sunway's listed entities. Maintain **Hold** with a total potential return of 10.7%. At this juncture, we see limited downside to the share price as investors anticipate the special cash dividends. However, post special dividend distribution, we believe reality checks will focus on its sales performance in Iskandar Region given the gloomy outlook arising from oversupply concerns.

Figure 2: SOP Valuation

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY16 Property Earnings	267.5	12	100%	3210.6	1.82
SunCon @ RM1.18 TP	1524.6	1	56%	847.7	0.48
SunREIT @ RM1.69 TP	4964.5	1	36%	1792.2	1.02
CY16 Other Business Earnings	72.80	12	100%	873.7	0.50
SOP Value				6724.1	3.82
Discount		10%		(672.4)	(0.4)
Target Price				6051.7	3.43

Figure 2: Upcoming Property Launches

Development	Location	Type	GDV (RM mn)
Geo Residence 3	Bandar Sunway	Condominiums & townhouses	450
Gandaria	Bangi	Serviced apartments & retail units	200
Casa Kiara 3	Mont Kiara	Condominiums	300
Velocity	Jalan Peel, Cheras	Shops and office suites	150
Cassia	Batu Maung, Penang	Landed homes	90
Emerald Residence	Sunway Iskandar, Johor	Landed homes	300
Mount Sophia	Singapore	Low Rise Condominium	600
Total			2090

Source: Sunway, TA Research

Figure 3: Outstanding Order book

Project	RM'mn
Infrastructre	
MRT Package V4	431
LRT Kelana Jaya Line Extension	78
Johor	
Urban Wellness	73
Coastal Highway Southern Link	155
Others	
KLCC NEC	203
KLCC Package 2	96
Others	73
Foreign	
Singapore - precast	306
Total External Orderbook	1415
Other in-house jobs	
Sunway Velocity 2 mall	179
Sunway Pyramid 3	90
Sunway Geo Retail Shops & Flexi Suites	122
Sunway Medical Centre Phase 3	143
Sunway Iskandar - Citrine Svc Apt	161
Sunway Geo Retail Shops & Flexi Suites Ph.2	244
Sunway Lenang Phase 1A	86
Others	251
Total Orderbook	2690

Source: Sunway, TA Research

Earnings Summary

YE Dec 31 (RM'mn)	2013	2014	2015F	2016F	2017F
Revenue	4721.4	4841.9	5303.0	5361.0	5056.9
EBITDA	642.8	655.8	836.9	837.7	796.4
EBITDA margin (%)	13.6	13.5	15.8	15.6	15.7
Pretax profit	662.2	797.6	830.2	864.6	829.4
Net profit	1490.4	743.2	972.2	543.8	552.8
Net profit -adj	483.9	591.7	604.3	543.8	552.8
EPS (sen)	30.6	34.2	34.9	31.4	31.9
EPS - adj (sen)	28.1	34.2	34.9	31.4	31.9
EPS Growth (Core) (%)	57.3	21.8	2.1	-10.0	1.7
PER (x)	12.1	9.9	9.7	10.8	10.6
GDPS (sen)	10.0	11.0	36.0	11.0	11.0
Div Yield (%)	2.9	3.2	10.6	3.2	3.2
ROE (%)	11.3	10.5	9.9	8.4	8.1

2Q15 Results analysis

YE 31 Dec (RM'mn)	2Q14	1Q15	2Q15	QoQ (%)	YoY (%)	1HFY14	1HFY15	YoY(%)	
Revenue	1204.6	1060.0	1041.5	(1.7)	(13.5)	2230.3	2101.5	(5.8)	
<i>Property Development</i>	301.7	180.7	324.1	79.4	7.4	524.0	504.8	(3.7)	
<i>Property Investment</i>	146.0	139.3	144.8	4.0	(0.8)	282.2	284.1	0.7	
<i>Construction</i>	426.1	375.3	244.1	(35.0)	(42.7)	784.8	619.4	(21.1)	
<i>Trading & Manufacturing</i>	162.1	191.9	122.3	(36.3)	(24.5)	311.1	314.2	1.0	
<i>Quarry</i>	57.7	53.8	64.1	19.1	11.1	106.0	117.9	11.2	
<i>Others</i>	111.1	119.0	142.0	19.4	27.9	222.3	261.0	17.5	
EBIT	134.0	169.9	139.0	(18.2)	3.7	243.6	308.9	26.8	
Gain on derivative	0.2	(3.2)	0.5	(116.1)	227.6	0.1	(2.7)	(2219.0)	
Finance income	12.3	14.6	17.6	20.8	43.5	22.5	32.2	43.4	
Finance costs	(22.5)	(26.0)	(26.9)	3.7	19.7	(40.5)	(52.9)	30.6	
Associates	81.5	20.6	130.6	534.9	60.3	101.6	151.1	48.8	
JV	28.1	17.6	20.1	14.6	(28.4)	48.5	37.7	(22.3)	
EI	56.5	22.9	101.2	341.9	79.1	50.2	124.1	147.2	
PBT	233.6	193.5	280.9	45.2	20.3	375.8	474.4	26.3	
Core PBT	177.1	170.6	179.7	5.4	1.5	325.6	350.3	7.6	
<i>Property Development</i>	75.7	56.9	53.1	(6.7)	(29.9)	144.6	110.0	(24.0)	
<i>Property Investment</i>	25.5	20.1	32.1	59.4	25.5	50.6	52.2	3.1	
<i>Construction</i>	32.7	52.2	56.3	7.8	72.1	64.0	108.5	69.7	
<i>Trading & Manufacturing</i>	9.8	12.7	(0.7)	(105.8)	(107.5)	18.2	12.0	(33.9)	
<i>Quarry</i>	9.5	7.7	15.5	101.5	63.7	14.2	23.3	64.0	
<i>Others</i>	23.7	20.9	23.5	12.5	(1.0)	34.0	44.4	30.6	
Tax	(44.9)	(36.1)	(33.1)	(8.3)	(26.3)	(75.3)	(69.2)	(8.2)	
MI	(6.2)	(10.9)	(9.9)	(8.6)	60.7	(14.0)	(20.8)	49.2	
<i>Net profit</i>	182.5	146.5	237.9	62.4	30.3	286.5	384.4	34.2	
Core net profit	126.0	123.6	136.7	10.6	8.5	236.3	260.3	10.2	
Reported EPS	(sen)	10.6	8.5	13.5	60.2	27.9	16.6	22.0	32.3
Adj EPS	(sen)	7.3	7.1	7.8	9.1	6.4	13.7	14.9	8.8
DPS	(sen)	5.0	0.0	5.0	nm	0.0	5.0	5.0	0.0
EBIT margin	(%)	11.1	16.0	13.3	(2.7)	2.2	10.9	14.7	3.8
PBT margin	(%)	14.7	16.1	17.3	1.2	2.6	14.6	16.7	2.1
<i>Property Development</i>	(%)	25.1	31.5	16.4	(15.1)	(8.7)	27.6	21.8	(5.8)
<i>Property Investment</i>	(%)	17.5	14.4	22.1	7.7	4.6	17.9	18.4	0.4
<i>Construction</i>	(%)	7.7	13.9	23.1	9.1	15.4	8.2	17.5	9.4
<i>Trading & Manufacturing</i>	(%)	6.1	6.6	(0.6)	(7.2)	(6.7)	5.8	3.8	(2.0)
<i>Quarry</i>	(%)	16.5	14.3	24.3	9.9	7.8	13.4	19.7	6.3
<i>Others</i>	(%)	21.4	17.6	16.5	(1.0)	(4.8)	15.3	17.0	1.7
Net margin	(%)	10.5	11.7	13.1	1.5	2.7	10.6	12.4	1.8
Effective tax rate	(%)	25.3	21.1	18.4	(2.7)	(6.9)	23.1	13.4	(9.7)

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