# Weak property segment

**Net profit of RM108m (+6% yoy) in 1Q17 was within expectations. We leave our forecasts unchanged as 1Q is traditionally weaker than later quarters. Construction order book of RM4.6bn and property unbilled effective sales of RM1.1bn should support core EPS growth of 16% yoy in 2017E. We see the core 2017E PER of 12x as attractive and reaffirm our BUY call and TP of RM3.90 based on 30% RNAV discount.**

### In line with expectations

Sunway's 1Q17 result was within consensus and our expectations. Net profit of RM108m (+6% yoy) in 1Q17 accounted for 18-19% of consensus and our full-year forecasts of RM566-609m. We expect better performance in subsequent quarters on higher sales and progress billings. Net profit fell by 42% qoq on lower revenue (-20% qoq). Property development revenue declined 39% qoq in 1Q17 as the Penang land sale to Sunway REIT and Sunway Geo Phase 1 project were completed in 4Q16.

### Lower sales and progress billing

Group revenue grew 2% yoy to RM1.09bn with all business segments seeing yoy revenue growth; ie, property investment (+11%); construction (+2%); trading and manufacturing (+27%); quarry (+4%) and others (+30%). But property development revenue fell 39% yoy on lower effective sales (RM125m) and progress billing on local projects and no sale was recorded for Avant Parc, Singapore, as the project was fully sold in 2Q16.

### PBT contraction

In 1Q17 PBT fell 13% yoy to RM153m on lower operating margins in the property-development division, higher expenses for the opening of Sunway Velocity mall, and lower operating margins at its aggregates and premix-quarry business. PBT fell by a sharper 43% qoq in 1Q17 on the absence of fair value gains from the year-end revaluations of investment properties (RM37.4m) and write-back of loss provisions for Winstar group in 4Q16.

### Maintaining our forecasts and TP of RM3.90

We maintain our earnings forecasts at this juncture as Sunway has planned more aggressive launches worth RM2bn in 2017. It achieved sales of RM142m (effective sales of RM125m) in 1Q17. The current unbilled sales of RM1.4bn (unbilled effective sales of RM1.1bn) and year-to-date new contracts secured worth RM894m should sustain our projected earnings growth. The current construction order book stands at RM4.6bn. We reaffirm our BUY call. Key risk: prolonged property market weakness.

### Earnings & Valuation Summary

| FYE 31 Dec | 2015 | 2016 | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| Revenue (RMm) | 4,451.3 | 4,725.9 | 4,831.6 | 5,336.0 | 4,984.2 |
| EBITDA (RMm) | 831.6 | 840.7 | 747.7 | 790.8 | 809.9 |
| Pretax profit (RMm) | 930.4 | 859.0 | 826.2 | 881.6 | 890.5 |
| Net profit (RMm) | 732.4 | 585.9 | 609.2 | 644.9 | 651.0 |
| EPS (sen) | 23.3 | 28.8 | 30.0 | 31.8 | 32.1 |
| PER (x) | 15.4 | 12.4 | 12.0 | 11.3 | 11.2 |
| Core net profit (RMm) | 585.0 | 527.0 | 609.2 | 644.9 | 651.0 |
| Core EPS (sen) | 18.6 | 25.9 | 30.0 | 31.8 | 32.1 |
| Core EPS growth (%) | (45.0) | 39.5 | 15.6 | 5.9 | 0.9 |
| Core PER (x) | 19.3 | 13.8 | 12.0 | 11.3 | 11.2 |
| Net DPS (sen) | 37.0 | 12.1 | 11.0 | 11.0 | 11.0 |
| Dividend Yield (%) | 10.3 | 3.4 | 3.1 | 3.1 | 3.1 |
| EV/EBITDA (x) | 23.6 | 12.7 | 13.6 | 13.1 | 13.1 |
| | | | | | |
| Chg in EPS (%) | | | 0.0 | 0.0 | 0.0 |
| Affin/Consensus (x) | | | 1.1 | 1.1 | 1.0 |

Source: Company, Bloomberg, Affin Hwang forecasts

## Results Note

# Sunway

SWB MK

Sector: Property

### RM3.59 @ 29 May 2017

### BUY (maintain)

Upside 9%

### Price Target: RM3.90

Previous Target: RM3.90


### Price Performance

| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | +3.5% | +12.3% | +19.7% |
| Rel to KLCI | +3.6% | +7.7% | +11.0% |

### Stock Data

| | |
|---|---|
| Issued shares (m) | 2,025.1 |
| Mkt cap (RMm)/(US$m) | 6,399.3/1,441.6 |
| Avg daily vol - 6mth (m) | 1.0 |
| 52-wk range (RM) | 2.87-3.24 |
| Est free float | 27.5% |
| BV per share (RM) | 3.66 |
| P/BV (x) | 0.86 |
| Net cash/ (debt) (RMm) | (3,361.4) |
| ROE (2017E) | 8.1% |
| Derivatives | Nil |
| Shariah Compliant | Yes |

### Key Shareholders

| | |
|---|---|
| Sungei Way Corp Sdn Bhd | 56.7% |
| EPF | 5.6% |
| Amanah Saham | 3.8% |

*Source: Affin Hwang, Bloomberg*

Loong Chee Wei, CFA
(603) 2146 7548
cheewei.loong@affinhwang.com

Cassandra Ooi
(603) 2146 7481
cassandra.ooi@affinhwang.com

**Fig 1: Results comparison**

| FYE 31 Dec (RMm) | 1Q17 | QoQ % chg | YoY % chg | Comment |
|---|---|---|---|---|
| Revenue | 1091.3 | (20.0) | 2.1 | All business segments saw yoy revenue growth; i.e. property investment (+10.5%); construction (+1.7%); trading and manufacturing (+27%); quarry (3.9%) and others (29.7%) while property development segment contracted by 38.8% yoy resulted in marginal overall revenue growth. |
| Op costs | (936.8) | (15.3) | 5.6 | |
| EBIT | 154.6 | (40.1) | (15.1) | |
| *EBIT margin (%)* | *14.2* | *-4.8ppt* | *-2.9ppt* | |
| Depn and amort | (34.5) | 144.6 | 19.2 | |
| EBITDA | 120.0 | (50.8) | (21.7) | |
| Int expense | (49.6) | (5.0) | 25.0 | |
| Int and other inc | 42.9 | 61.4 | 81.8 | |
| Associates | 43.1 | (3.9) | 1.3 | |
| Forex gain (losses) | 0.9 | (86.6) | NA | |
| EI | (4.2) | NA | NA | |
| **Pretax profit** | **153.1** | **(43.4)** | **(13.0)** | Overall lower operating profit margin from property development, higher expenses incurred for the opening of Sunway Velocity mall, lower operating profit margin for its aggregates and premix quarry. But PBT plunged qoq due to the absence of fair value gains from year-end investment property revaluation (RM37.4m) and write-back loss provisions for Winstar group in 4Q16. |
| **Core pretax** | **157.3** | **(41.7)** | **(10.7)** | |
| Tax | (27.3) | (40.5) | (16.8) | |
| *Tax rate (%)* | *17.9* | *0.9ppt* | *-0.8ppt* | |
| MI | (17.9) | (54.0) | (56.6) | |
| **Net profit** | **107.9** | **(41.9)** | **5.7** | |
| EPS (sen) | 5.3 | (41.3) | (6.7) | |
| **Core net profit** | **111.2** | **(37.7)** | **5.2** | |

*Source: Company, Affin Hwang*

**Equity Rating Structure and Definitions**

| | |
|---|---|
| **BUY** | Total return is expected to exceed +10% over a 12-month period |
| **HOLD** | Total return is expected to be between -5% and +10% over a 12-month period |
| **SELL** | Total return is expected to be below -5% over a 12-month period |
| **NOT RATED** | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

| | |
|---|---|
| **OVERWEIGHT** | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| **NEUTRAL** | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| **UNDERWEIGHT** | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |



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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com