

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

Affin Hwang Investment Bank Bhd (14389-U)

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

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Source: Company, Bloomberg, Affin Hwang forecasts

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)	
<i>EBIT margin (%)</i>	<i>14.2</i>	<i>-4.8ppt</i>	<i>-2.9ppt</i>	
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	
El	(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)	
<i>Tax rate (%)</i>	<i>17.9</i>	<i>0.9ppt</i>	<i>-0.8ppt</i>	
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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