

Outthink. Outperform.

Unbilled sales remain high at RM1.5bn

Sunway reported a 17% decline in core earnings to RM102m, on lower contribution from the construction and manufacturing segments. We make no changes to our earnings forecast as we expect earnings to come in stronger in subsequent quarters. Effective unbilled sales remain high at RM1.5bn. Maintain BUY with an unchanged TP of RM3.90.

1Q16 core earnings within expectation

In 1Q16, Sunway reported a core net profit of RM102m (-17.4% yoy; -43.3 qoq). Although earnings only accounted for 19% of our full year forecast, we deem it to be in line, as we expect stronger earnings in subsequent quarters. EBITDA margin was relatively flat yoy (+0.6ppt). As expected no dividend was declared during the quarter (1Q15: nil).

Revenue boosted by property and property investment segments

Group's revenue improved 0.8% yoy to boosted by; (i) 29% increase in property development segment mainly contributed by its Avant Parc project in Singapore (ii) 21% increase in the property investment segment – higher rental and better occupancy rate. However, the impact was partially dragged down by a 17% drop in construction revenue and 28% decline in quarry segment.

Unbilled sales remain high at RM1.5bn

In 1Q16, Sunway achieved effective property sales of RM263m which were generated from various projects in different locations including; Iskandar, Gandaria, Velocity and from its projects in China and Singapore. Effective unbilled sales stood at RM1.5bn as at end-March 2016. Meanwhile, total outstanding construction order book rose to a new record high of RM5.0bn from RM3.7bn as at end-2015.

Maintain BUY with an unchanged TP of RM3.90

We make no changes to our earnings forecast as well as our target price of RM3.90, (based on 30% discount to RNAV). We continue to like Sunway for its strategic property land bank, extensive experience in the construction sector, and inexpensive valuation of 0.7x P/RNAV. Maintain BUY. Risk to recommendation include; i) sharper-than-expected slowdown in the domestic property market; ii) prolonged oversupply within the Johore region, iii) lower-than-expected construction contract wins.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	4,841.9	4,451.3	4,308.3	4,658.3	4,750.8
EBITDA (RMm)	735.6	929.8	762.6	852.3	892.2
Pretax profit (RMm)	960.2	929.2	726.4	824.4	861.6
Net profit (RMm)	734.0	732.4	541.9	608.2	632.9
EPS (sen)	42.5	42.3	31.3	35.1	36.6
PER (x)	7.1	7.2	9.7	8.6	8.3
Core net profit (RMm)	583.9	606.8	541.9	608.2	632.9
Core EPS (sen)	33.8	35.1	31.3	35.1	36.6
Core EPS growth (%)	5.6	3.7	(10.7)	12.2	4.1
Core PER (x)	9.0	8.6	9.7	8.6	8.3
Net DPS (sen)	11.0	49.0	10.0	11.0	11.0
Dividend Yield (%)	3.7	16.3	3.3	3.6	3.6
EV/EBITDA (x)	9.5	7.8	9.0	7.9	7.2
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.1	1.1

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

Sunway

SWB MK
Sector: Property

RM3.03 @ 27 May 2016

BUY (maintain)

Upside 29%

Price Target: RM3.90

Previous Target: RM3.90



Price Performance

	1M	3M	12M
Absolute	-3.2%	+1.0%	-2.8%
Rel to KLCI	-1.1%	+2.1%	+3.8%

Stock Data

Issued shares (m)	1,969.9
Mkt cap (RMm)/(US\$m)	5,697/1,464
Avg daily vol - 6mth (m)	0.9
52-wk range (RM)	2.89-3.36
Est free float	11.6%
BV per share (RM)	3.69
P/BV (x)	0.82
Net cash/ (debt) (RMm) (1Q16)	(2,835)
ROE (2016F)	9.0%
Derivatives	
Warr 2016 (SP:RM2.50)	
Shariah Compliant	Yes

Key Shareholders

Sungei Way Corp Sdn Bhd	55.1%
Yean Tin Cheah	11.8%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q16	QoQ % chg	YoY % chg	Comment
	1069.0	(23.6)	0.8	Boosted by property and property investment segments but partially mitigated by lower contribution from construction and quarry business
Revenue				
Op costs	(919.4)	(21.9)	0.4	
EBIT	149.6	(32.4)	4.0	
<i>EBIT margin (%)</i>	14.0	+1.8ppt	+0.6ppt	
Int expense	(39.7)	(12.5)	52.9	Total debt stood at RM5.8bn
Int and other income	23.6	(0.0)	61.8	
Associates	42.6	(14.2)	11.6	
EI	0.0	nm	nm	
Pretax profit	176.1	(38.0)	(9.0)	
Core pretax	176.1	(29.3)	3.2	
Tax	(32.8)	12.5	(9.0)	Lower due to deferred taxation
<i>Tax rate (%)</i>	18.7	n.m	n.m	
MI	(41.1)	2.9	278.1	
Net profit	102.1	(52.4)	(30.3)	
EPS (sen)	5.7	(52.6)	(32.4)	
Core net profit	102.1	(43.3)	(17.4)	Accounts for 19% of our full year forecast

Source: Affin Hwang, Company data

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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