

Outthink. Outperform.

Property sales up 45% yoy

Sunway reported a 2.8% decline in 2Q16 core earnings, taking 1H16 core earnings to RM235m (-9.8% yoy), on lower contribution from construction and property development segments. However, this is in line with our expectations. We make no changes to our earnings forecast and BUY recommendation with TP of RM3.90.

1H16 core earnings within expectation

In 2Q16, Sunway reported a lower core net profit of RM133m or -2.8% yoy (+30.0% qoq), taking 1H16 core net profit to RM235m (-9.8% yoy). 1H16 earnings accounts for 43% of our and street estimates. Although 2Q16 EBITDA margin improved by 8.4ppts, the impact was dragged down by lower contribution from associates (-62% yoy). Sunway declared an interim dividend of 5 sen (1H15: 5 sen).

Revenue boosted by property investment division

2Q16 revenue improved 11% yoy to RM1,156m boosted by; (i) 10% increase in property investment on higher rental contribution from Sunway University and better occupancy at Sunway Pinnacle and (ii) 79% increase in trading and manufacturing segment. However, impact mitigated by 2.8% drop in contribution from property segment.

1H16 effective property sales up 45% yoy

In 2Q16, Sunway achieved effective property sales of RM165m taking 1H16 sales to RM510m (+45% yoy). Bulk of the sales were generated from Sunway Mont, Iskandar and Gandaria. Effective unbilled sales stood at RM1.5bn as at end-Jun 2016. Similarly, total outstanding construction order book remain high at RM4.9bn.

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 Johor 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	7.1	9.6	8.6	8.2
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)	8.9	8.6	9.6	8.6	8.2
Net DPS (sen)	11.0	49.0	10.0	11.0	11.0
Dividend Yield (%)	3.7	16.3	3.3	3.7	3.7
EV/EBITDA (x)	9.5	7.8	9.0	7.9	7.2

Chg in EPS (%)	-	-	-
Affin/Consensus (x)	1.0	1.1	1.0

Source: Company, Affin Hwang estimates

Results Note

Sunway

SWB MK
Sector: Property

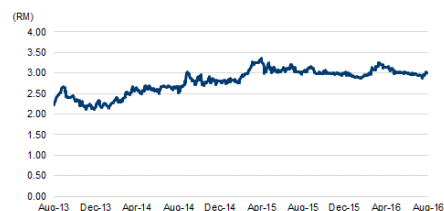
RM3.01 @ 29 August 2016

BUY (maintain)

Upside 28%

Price Target: RM3.90

Previous Target: RM3.90



Price Performance

	1M	3M	12M
Absolute	+2.7%	-0.7%	-4.3%
Rel to KLCI	+1.0%	-3.3%	-8.2%

Stock Data

Issued shares (m)	2,033.1
Mkt cap (RMm)/(US\$m)	6,119/1,513
Avg daily vol - 6mth (m)	1.0
52-wk range (RM)	2.87-3.28
Est free float	23.9%
BV per share (RM)	3.55
P/BV (x)	0.85
Net cash/ (debt) (RMm) (2Q16)	(3,139)
ROE (2016F)	9.0%
Derivatives	
Warr 2016 (SP:RM2.50)	
Shariah Compliant	Yes

Key Shareholders

Sungei Way Corp Sdn Bhd	56.3%
EPF	5.1%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	2QFY16	QoQ % chg	YoY % chg	1H16	YoY % chg	Comment
Revenue	1155.7	8.1	11.0	2,224.7	5.9	Boosted by trading and manufacturing segment and property investment but partially mitigated by lower contribution from property division
Op costs	(1015.8)	10.5	1.3	(1935.1)	0.8	.
EBIT	139.9	(6.5)	265.3	289.6	59.0	
<i>EBIT margin (%)</i>	12.1	-1.9ppt	+8.4ppt	13.0	+4.3ppt	
Int expense	(41.7)	5.2	55.1	(81.4)	54.0	Total debt stood at RM6.8bn (+55% yoy)
Int and other income	26.2	11.1	48.7	49.8	54.6	
Associates	57.9	36.1	(61.6)	100.5	(46.8)	
EI	21.5	nm	nm	21.5	(82.7)	Fair value gain from annual revaluation of Sunway REITs properties
Pretax profit	203.8	15.7	(27.5)	379.9	(19.9)	
Core pretax	182.3	3.5	1.4	358.4	2.3	
Tax	(23.9)	(27.3)	(27.8)	(56.7)	(18.0)	Lower due to deferred taxation
<i>Tax rate (%)</i>	11.7	n.m	n.m	14.9	n.m	
MI	(25.5)	(37.9)	157.0	(66.7)	220.3	
Net profit	154.4	51.2	(35.1)	256.5	(33.3)	
EPS (sen)	7.8	37.0	(42.2)	13.5	(38.5)	
Core net profit	132.9	30.1	(2.8)	235.0	(9.8)	Accounts for 43% 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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