



AmInvestment Bank

SUNWAY

(SWB MK EQUITY, SWAY.KL)

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Company report

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2036 2025

Positive growth sustained

BUY

(Maintained)

Rationale for report: Company result

Price	RM4.35
Fair Value	RM4.65
52-week High/Low	RM4.40/RM2.89

Key Changes

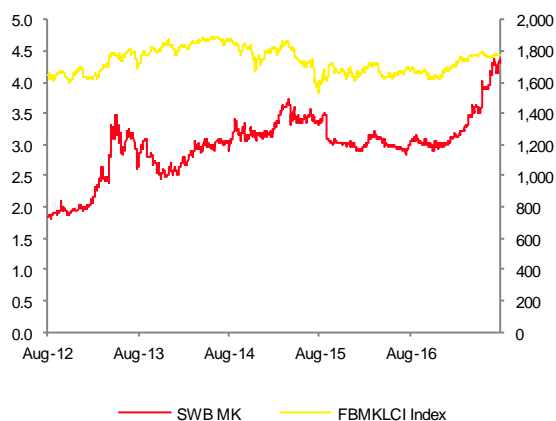
Fair value	↔
EPS	↔

YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	4,725.9	5,694.3	6,346.8	6,782.7
Core net profit (RM mil)	585.9	539.2	616.3	665.3
FD Core EPS (sen)	28.8	26.7	30.2	32.5
FD Core EPS growth (%)	(14.9)	(7.5)	13.3	7.5
Consensus Net Profit (RM mil)	-	563.9	599.5	654.7
DPS (sen)	10.0	10.0	10.0	10.0
PE (x)	15.1	16.3	14.4	13.4
EV/EBITDA (x)	12.9	13.3	12.8	11.8
Div yield (%)	2.3	2.3	2.3	2.3
ROE (%)	8.4	7.1	7.8	8.1
Net Gearing (%)	45.1	45.0	49.2	51.8

Stock and Financial Data

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	7,497.3
Book Value (RM/share)	3.54
P/BV (x)	1.2
ROE (%)	8.4
Net Gearing (%)	45.1
Major Shareholders	Tan Sri Jeffrey Cheah (48.2%) EPF (5.7%)
Free Float	22.4
Avg Daily Value (RMmil)	12.7

Price performance	3mth	6mth	12mth
Absolute (%)	21.2	36.0	46.0
Relative (%)	21.4	30.8	39.4



Investment Highlights

- We make no changes to our FY17-19F earnings forecasts, and maintain our BUY call on Sunway with an unchanged SOP-based fair value of RM4.65 per share.
- Sunway's 1HFY17 core net profit grew 6.0% YoY to RM271.8mil. This was in line with expectations, accounting for 50% of our full year forecast and 48% of consensus. A first interim dividend of 7.0 sen per share was declared.
- Sunway's 1HFY17 revenue grew 4.8% YoY to RM2.33bil, while pre-tax profit increased 11.8% YoY to RM424.6mil. The higher pre-tax profit was contributed by most business segments, except property development and quarry segments.
- Property development division's revenue dropped 24.5% YoY to RM414.4m while pre-tax profit dropped 22.7% YoY to RM100.3mil due to lower sales and progress billings from local development projects, and no sales recorded from its Avant Parc project in Singapore as the project was fully sold in Q216. Sunway registered new property sales of RM376mil in 1HFY17, while unbilled sales stood at RM1.2bil, made up mainly by Sunway Velocity. We expect the sales and revenue to pick up in the upcoming quarters, with Sunway set to launch RM2b GDV of new projects in 2017.
- Property investment segment's revenue grew 19.7% YoY to RM394.3mil while pre-tax profit grew 54.5% YoY to RM115.6mil, mainly due to Sunway Velocity Mall which opened in Dec 2016, and a higher fair value gain of Sunway REIT by RM33.1mil.
- Construction segment's revenue grew 11.9% YoY to RM627.7mil while pre-tax profit grew 9.7% YoY to RM79.2mil. Construction order book stood at RM4.3bil as at end-1HFY17, which should keep it occupied for the next 24 months. It replenished its order book by RM991mil in 1HFY17, mainly from Sunway Serene condo project (RM449m) and MRT Station Works S201 (RM212m).
- We expect Sunway to sustain its earnings growth even with the challenging outlook for the domestic property sector due to its diversified earnings base. Only around 40% of the group's earnings is contributed by property development, while the rest of its earnings base is made up of income from its investment properties and its stake in Sunway REIT, its construction segment, and other businesses, which include healthcare and trading. We also expect its property development division to benefit from its well-located land bank locally, as well as its geographical diversification.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM m)	2QFY17	2QFY16	1QFY17	YoY (%)	QoQ (%)	1HFY17	1HFY16	YoY (%)
Revenue	1,241.0	1,155.7	1,091.3	7.4	13.7	2,332.3	2,224.7	4.8
EBIT	193.9	161.4	116.8	20.1	66.1	310.7	311.1	(0.1)
Finance income	43.7	26.2	42.9	<i>nm</i>	<i>nm</i>	86.5	49.8	73.9
Finance costs	(62.4)	(41.7)	(49.6)	49.5	25.8	(112.0)	(81.4)	37.6
Share of profit from associates	83.0	47.0	27.0	76.7	207.6	109.9	71.2	54.4
Share of profit from JVs	13.3	10.9	16.1	21.6	(17.4)	29.4	29.3	0.6
EI/Others				<i>nm</i>	<i>nm</i>	33.1		
Pretax profit	271.4	203.8	153.1	33.2	77.3	424.6	379.9	11.8
Tax	(38.2)	(23.9)	(27.3)	59.8	39.6	(65.5)	(56.7)	15.5
Non-controlling interests	36.3	25.5	17.9			54.2	66.7	
Net Profit	196.9	154.4	107.9	27.6	82.5	304.9	256.5	18.9
Core Profit	196.9	154.4	107.9	27.6	82.5	271.8	256.5	6.0
<i>EBIT Margin (%)</i>	15.6%	14.0%	10.7%			13.3%	14.0%	
<i>Pretax Margin (%)</i>	21.9%	17.6%	14.0%			18.2%	17.1%	
<i>Effective tax rate (%)</i>	21.8%	16.4%	24.8%			23.0%	20.3%	
<i>Core net Margin (%)</i>	15.9%	13.4%	9.9%			13.1%	11.5%	

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: SOP CALCULATION

Segment	Value (RMmil)	Method
Property	4,131.6	20% discount to RNAV
Investment properties	1,013.3	Estimated equity value as at 31 Dec 2016
Sunway REIT	1,865.0	Market value
Construction & others	2,303.6	15x FY18F earnings, in line with our benchmark forward PE of 14-16x for large-cap construction stocks
Others (healthcare)	925.6	
Net cash/(debt)	(778.7)	As at 31 Dec 2016 (company level)
SOP	9,460.3	
Enlarged share base (mil shares)	2,034.9	
SOP (RM/share)	4.65	Fully-diluted

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

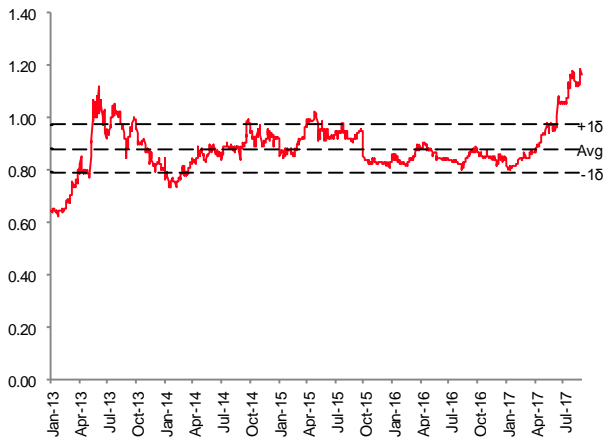


EXHIBIT 4: PE BAND CHART

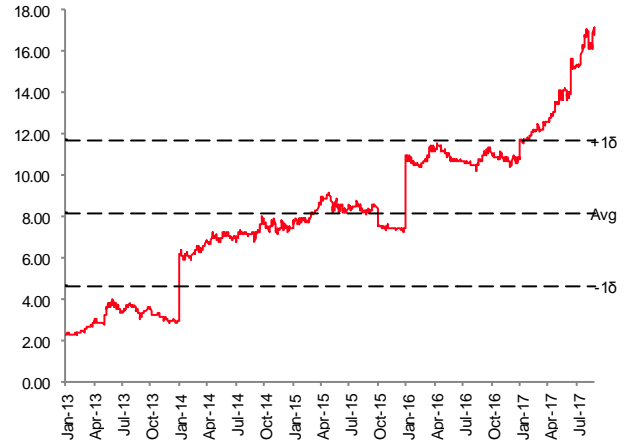


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	4,448.4	4,725.9	5,694.3	6,346.8	6,782.7
EBITDA	804.4	840.7	827.6	894.5	1,006.2
Depreciation/Amortisation	(117.3)	(113.9)	(136.0)	(144.0)	(150.0)
Operating income (EBIT)	687.1	726.9	691.6	750.5	856.2
Other income & associates	269.9	192.0	167.0	200.0	180.0
Net interest	(26.6)	(59.9)	(44.1)	(19.4)	(31.1)
Exceptional items	-	-	-	-	-
Pretax profit	930.4	859.0	814.5	931.0	1,005.0
Taxation	(130.9)	(140.4)	(125.4)	(143.4)	(154.8)
Minorities/pref dividends	(67.0)	(132.7)	(149.9)	(171.3)	(184.9)
Net profit	732.4	585.9	539.2	616.3	665.3
Core net profit	590.7	585.9	539.2	616.3	665.3
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	1,333.6	1,875.8	1,770.6	1,976.6	2,176.6
Intangible assets	358.5	342.6	358.5	358.5	358.5
Other long-term assets	7,569.3	7,461.6	8,892.3	9,592.3	10,272.3
Total non-current assets	9,261.3	9,679.9	11,021.3	11,927.3	12,807.3
Cash & equivalent	2,631.0	4,059.8	2,377.6	1,918.4	1,542.8
Stock	693.1	661.8	693.1	693.1	693.1
Trade debtors	1,541.1	2,828.4	1,541.1	1,541.1	1,541.1
Other current assets	1,874.4	1,601.5	1,874.4	1,874.4	1,874.4
Total current assets	6,739.6	9,151.5	6,486.2	6,027.0	5,651.4
Trade creditors	1,287.0	2,708.3	1,287.0	1,287.0	1,287.0
Short-term borrowings	3,068.6	4,830.7	3,068.6	3,068.6	3,068.6
Other current liabilities	1,208.5	44.4	1,208.5	1,208.5	1,208.5
Total current liabilities	5,564.2	7,583.3	5,564.2	5,564.2	5,564.2
Long-term borrowings	2,815.2	2,590.5	2,815.2	2,815.2	2,815.2
Other long-term liabilities	408.2	438.4	408.2	408.2	408.2
Total long-term liabilities	3,223.4	3,028.9	3,223.4	3,223.4	3,223.4
Shareholders' funds	6,562.7	7,455.7	7,784.8	8,060.2	8,379.7
Minority interests	650.6	763.5	935.2	1,106.5	1,291.4
BV/share (RM)	3.65	3.54	3.69	3.82	3.97
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	930.4	859.0	814.5	931.0	1,005.0
Depreciation/Amortisation	117.3	113.9	136.0	144.0	150.0
Net change in working capital	152.9	(328.7)	-	-	-
Others	(261.0)	(106.5)	(248.4)	(323.9)	(303.6)
Cash flow from operations	939.6	537.7	702.1	751.1	851.4
Capital expenditure	(412.9)	(288.2)	(350.0)	(350.0)	(350.0)
Net investments & sale of fixed assets	18.7	(193.4)	-	-	-
Others	(1,693.4)	(1,071.7)	(500.0)	(500.0)	(500.0)
Cash flow from investing	(2,087.6)	(1,592.4)	(850.0)	(850.0)	(850.0)
Debt raised/(repaid)	1,763.8	1,457.2	-	-	-
Equity raised/(repaid)	180.1	595.0	-	-	-
Dividends paid	(656.7)	(260.8)	(210.9)	(210.9)	(210.9)
Others	(171.1)	(163.2)	(124.1)	(149.4)	(166.1)
Cash flow from financing	1,116.0	1,571.3	(334.9)	(360.3)	(377.0)
Net cash flow	(32.0)	516.6	(482.8)	(459.2)	(375.6)
Net cash/(debt) b/f	1,292.9	1,247.9	1,514.5	1,031.7	572.5
Net cash/(debt) c/f	1,285.0	1,787.0	1,031.7	572.5	196.9
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	(2.4)	6.2	20.5	11.5	6.9
EBITDA growth (%)	(7.7)	4.5	(1.6)	8.1	12.5
Pretax margin (%)	20.9	18.2	14.3	14.7	14.8
Net profit margin (%)	16.5	12.4	9.5	9.7	9.8
Interest cover (x)	25.8	12.1	15.7	38.6	27.5
Effective tax rate (%)	14.1	16.3	15.4	15.4	15.4
Dividend payout (%)	90.9	36.0	39.1	34.2	31.7
Debtors turnover (days)	112	169	140	89	83
Stock turnover (days)	64	64	51	46	37
Creditors turnover (days)	128	188	150	86	69

Source: Company, AmlInvestment Bank Bhd estimates

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