



AmInvestment Bank

Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

30 Aug 2016

1HFY16 operating performance remains in line

BUY

(Maintained)

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Rationale for report: Company result

Price	RM3.01
Fair Value	RM3.50
52-week High/Low	RM3.28/RM2.87

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY15	FY16F	FY17F	FY18F
Revenue (RM mil)	4,451.3	5,338.0	5,154.3	5,146.8
Core net profit (RM mil)	590.7	485.3	487.2	491.8
FD Core EPS (sen)	33.9	28.2	28.3	28.6
FD Core EPS growth (%)	7.7	(16.7)	0.4	0.9
Consensus Net Profit (RM mil)	-	523.9	565.1	591.3
DPS (sen)	37.0	10.0	10.0	10.0
PE (x)	8.9	10.7	10.6	10.5
EV/EBITDA (x)	11.1	10.6	10.9	10.7
Div yield (%)	12.3	3.3	3.3	3.3
ROE (%)	11.7	7.5	7.5	7.2
Net Gearing (%)	49.8	49.2	51.9	47.8

Stock and Financial Data

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	5,187.8
Book Value (RM/share)	3.64
P/BV (x)	0.8
ROE (%)	11.7
Net Gearing (%)	49.8

Major Shareholders	Tan Sri Jeffrey Cheah (48.2%) EPF (5.7%)
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Free Float	22.4
Avg Daily Value (RMmil)	3.2

Price performance	3mth	6mth	12mth
Absolute (%)	(0.7)	0.3	(4.3)
Relative (%)	(3.3)	(1.3)	(8.2)



Investment Highlights

- We maintain BUY on Sunway, with a cut fair value of RM3.50/share (vs. RM3.54/share previously), based on a 15% discount to our SOP value of RM4.11/share and an implied PE of 13x FY16F.
- Following its 2QFY16 result that came in below expectations, we cut our FY16F earnings by 9% to account for lower JV share of profit (-60% vs. previous forecast) and higher minority interest (+18%), but factoring in a lower tax rate of 18% vs. 24% previously. Likewise, we have cut FY17F and FY18F earnings by 12% and 16%, respectively.
- Sunway posted a 2QFY16 core net profit of RM120.4mil (+15% QoQ, -12% YoY), bringing the 1HFY16 total to RM225mil (-16% YoY). It declared an interim dividend of 5 sen/share (2QFY15: 5 sen/share).
- The 1HFY16 core earnings made up 42% and 43% of our and consensus full-year forecasts, respectively. The variance with our earlier projection was largely due to lower- than-expected contributions from JV share of profit, of which we have duly adjusted downwards.
- The operating line was within expectation, with EBIT accounting for 48% of our unchanged estimate. While the construction division underperformed at the topline, EBIT performance was in line as margin was 6.5ppts better-than-expected at 12.4% (-5.2ppts YoY).
- YTD, the group has secured a total of RM2.4bil worth of projects, for an outstanding order book of RM4.9bil (4x FY15 construction revenue). Recall, the new jobs include the 60-month RM1.2bil MRT viaduct Package V201 (Sg Buloh – Persiaran Dagang line). Sunway said preliminary costs were incurred on the MRT package, the works for which would start in 2HFY16.
- In property development, Sunway registered sales RM613mil (effective: RM510mil) as at end-June 2016 vs. RM478mil (effective RM353mil) in the same period 2015.
- This meant a more than doubling from 1QFY16 numbers. As at end-March 2016, it had recorded sales of RM263mil (effective: RM198mil). Unbilled sales remained at RM2bil (effective: RM1.5bil) compared to end-March.
- It is targeting to launch RM1.6bil (effective: RM1.2bil) worth of projects this year. Property sales are targeted to rise to RM1.4bil (effective: RM1.1bil) from FY15's RM1.2bil (effective: RM912mil).
- The stock is currently trading at undemanding forward PEs of 10x-11x, and at 0.8x PBV FY15. Apart from property development, the other divisions are expected to drive growth ahead.

EXHIBIT 1: 1HFY16 RESULT SUMMARY

	1HFY15	1HFY16	% YoY	2QFY15	1QFY16	2QFY16	% QoQ	% YoY	FY16F	% 1H over FY16F
Revenue	2,101.5	2,224.7	5.9	1,041.5	1,069.0	1,155.7	8.1	11.0	5,338.0	41.7
EBIT	300.0	315.7	5.2	149.1	152.1	163.6	7.6	9.7	654.4	48.2
Est. Unusual Items	117.1	19.1	(83.7)	101.2	(2.4)	21.5	(982.6)	(78.7)	0.0	n/a
Associates & JVs	78.0	76.8	(1.6)	39.9	42.6	34.2	(19.6)	(14.3)	156.0	49.2
Net interest income	(20.7)	(31.7)	53.2	(9.3)	(16.1)	(15.6)	(3.5)	67.4	(60.0)	52.8
PBT	474.4	379.9	(19.9)	280.9	176.1	203.8	15.7	(27.5)	750.4	50.6
Taxation	(69.2)	(69.2)	0.0	(33.1)	(32.8)	(36.3)	10.6	9.8	(135.1)	51.2
Minorities	(20.8)	(66.7)	220.3	(9.9)	(41.1)	(25.5)	(37.9)	157.0	(130.0)	51.3
Net profit	384.4	244.0	(36.5)	237.9	102.1	141.9	39.0	(40.3)	485.3	50.3
Total EIs after tax and MI	117.1	19.1	(83.7)	101.2	(2.4)	21.5	(982.6)	(78.7)		
Tax	(69.2)	(69.2)	0.0	(33.1)	(32.8)	(36.3)	10.6	9.8	(135.1)	51.2
Core PBT	357.4	360.8	1.0	179.7	178.5	182.2	2.1	1.4	750.4	48.1
Core net profit	267.4	224.9	(15.9)	136.7	104.5	120.4	15.2	(11.9)	485.3	46.3
Core EPS	15.3	12.9	(15.9)	7.8	5.9	6.1	4.2	(21.6)	27.7	46.6
Diluted core EPS	15.0	11.6	(22.9)	7.3	5.6	6.0	7.1	(17.6)	25.9	44.7
Margins (%)	1HFY15	1HFY16	ppt change YoY	2QFY15	1QFY16	2QFY16	ppt change QoQ	ppt change YoY	FY16F	ppt variation
EBIT	14.3	14.2	(0.1)	14.3	14.2	14.2	(0.1)	(0.2)	12.3	1.9
Core PBT	17.0	16.2	(0.8)	17.3	16.7	15.8	(0.9)	(1.5)	14.1	2.2
Core net profit	12.7	10.1	(2.6)	13.1	9.8	10.4	0.6	(2.7)	9.1	1.0
Tax rate (%)	19.4	19.2	(0.2)	18.4	18.4	19.9	1.5	1.5	18.0	1.2

Source: Company

EXHIBIT 2: SEGMENT CORE PBT

	1HFY15	1HFY16	% YoY	2QFY15	1QFY16	2QFY16	% QoQ	% YoY	FY16F	% 1H over FY16F
Core pretax profit	113.2	130.9	15.6	55.3	69.7	61.2	(12.3)	10.6	368.0	35.6
Property Dev	113.2	130.9	15.6	55.3	69.7	61.2	(12.3)	10.6	368.0	35.6
Property Inv	48.6	53.4	9.9	26.6	34.7	18.7	(46.3)	(29.8)	89.2	59.8
Construction	108.5	72.2	(33.5)	56.3	37.7	34.5	(8.6)	(38.8)	129.7	55.7
Trading and Manufacturing	12.0	12.0	0.3	(0.7)	5.3	6.7	25.1	(1,003.0)	38.2	31.6
Quarry	23.3	17.5	(24.9)	15.5	6.1	11.3	84.3	(27.1)	19.8	88.4
Investment Holdings	14.8	40.7	174.1	10.7	14.0	26.7	91.3	nm	66.5	61.2
Others	36.9	34.1	(7.8)	16.0	10.9	23.2	113.3	44.9	39.0	87.3
Total	357.4	360.8	1.0	179.7	178.5	182.2	2.1	1.4	750.4	48.1
Core PBT margin	1HFY15	1HFY16	ppt change YoY	2QFY15	1QFY16	2QFY16	ppt change QoQ	ppt change YoY	FY16F	ppt variation
Property Dev	22.4	23.8	1.4	17.1	29.8	19.4	(10.4)	2.4	27.6	(3.8)
Property Inv	17.1	16.2	(0.9)	18.4	20.5	11.7	(8.9)	(6.7)	14.7	1.5
Construction	17.5	12.9	(4.6)	23.1	12.1	13.8	1.7	(9.2)	6.4	6.5
Trading and Manufacturing	3.8	2.9	(0.9)	(0.6)	2.8	3.1	0.3	3.7	6.0	(3.1)
Quarry	19.7	17.6	(2.1)	24.3	15.9	18.7	2.8	(5.6)	8.3	9.3
Investment Holdings	nm	nm	nm	nm	nm	nm	nm	nm	1,392.4	nm
Others	14.2	12.7	(1.5)	11.3	8.9	15.8	6.9	4.5	7.9	4.8
Overall	17.0	16.2	(0.8)	17.3	16.7	15.8	(0.9)	(1.5)	14.1	2.2

Source: Company

EXHIBIT 3: SEGMENT OPERATING PERFORMANCE

Core revenue	1HFY15	1HFY16	% YoY	2QFY15	1QFY16	2QFY16	% QoQ	% YoY	FY16F	% 1H over FY16F
Property Dev	504.8	549.1	8.8	324.1	234.1	315.1	34.6	(2.8)	1,334.0	41.2
Property Inv	284.1	329.3	15.9	144.8	169.2	160.1	(5.3)	10.6	607.5	54.2
Construction	619.4	560.8	(9.5)	244.1	311.4	249.3	(19.9)	2.1	2,022.5	27.7
Trading and Manufacturing	314.2	411.5	31.0	122.3	193.1	218.5	13.1	78.6	637.0	64.6
Quarry	117.9	99.3	(15.7)	64.1	38.7	60.6	56.4	(5.4)	237.3	41.9
Investment Holdings	0.9	6.3	620.4	0.0	0.9	5.4	nm	15,431.4	4.8	132.2
Others	260.2	268.3	3.1	142.0	121.6	146.7	20.6	3.3	494.9	54.2
Total	2,101.5	2,224.7	5.9	1,041.5	1,069.0	1,155.7	8.1	11.0	5,338.0	41.7
Est. EBIT										
Property Dev	80.0	109.9	37.4	38.9	56.3	53.6	(4.8)	37.7	320.0	34.3
Property Inv	56.4	63.1	12.0	33.0	37.6	25.5	(32.2)	(22.7)	109.4	57.7
Construction	108.9	69.6	(36.1)	56.0	35.6	34.0	(4.6)	(39.4)	128.6	54.1
Trading and Manufacturing	14.8	19.0	28.3	0.7	8.5	10.5	22.6	1,457.6	46.5	40.9
Quarry	23.1	18.1	(21.9)	15.5	6.4	11.7	82.7	(24.8)	20.2	89.5
Investment Holdings	(12.9)	5.3	(141.1)	(6.9)	(1.3)	6.6	(603.0)	(195.9)	0.0	n/a
Others	29.8	30.8	3.4	11.9	9.0	21.8	142.6	83.7	29.7	103.6
Total	300.0	315.7	5.2	149.1	152.1	163.6	7.6	9.7	654.4	48.2
Est. EBIT margin										
	1HFY15	1HFY16	ppt change YoY	2QFY15	1QFY16	2QFY16	ppt change QoQ	ppt change YoY	FY16F	ppt variation
Property Dev	15.8	20.0	4.2	12.0	24.0	17.0	(7.0)	5.0	24.0	(4.0)
Property Inv	19.8	19.2	(0.7)	22.8	22.2	15.9	(6.3)	(6.8)	18.0	1.2
Construction	17.6	12.4	(5.2)	22.9	11.4	13.6	2.2	(9.3)	6.4	6.0
Trading and Manufacturing	4.7	4.6	(0.1)	0.5	4.4	4.8	0.4	4.2	7.3	(2.7)
Quarry	19.6	18.2	(1.4)	24.2	16.5	19.3	2.8	(5.0)	8.5	9.7
Investment Holdings	nm	nm	nm	nm	nm	nm	nm	nm	0.0	nm
Others	11.4	11.5	0.0	8.4	7.4	14.9	7.5	6.5	6.0	5.5
Overall	14.3	14.2	(0.1)	14.3	14.2	14.2	(0.1)	(0.2)	12.3	1.9

Source: Company

EXHIBIT 4: PB BAND CHART

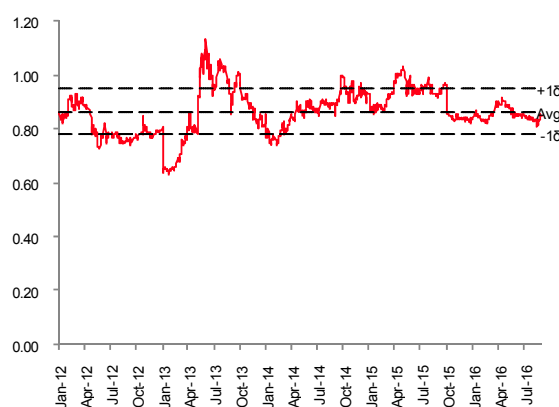


EXHIBIT 5: PE BAND CHART

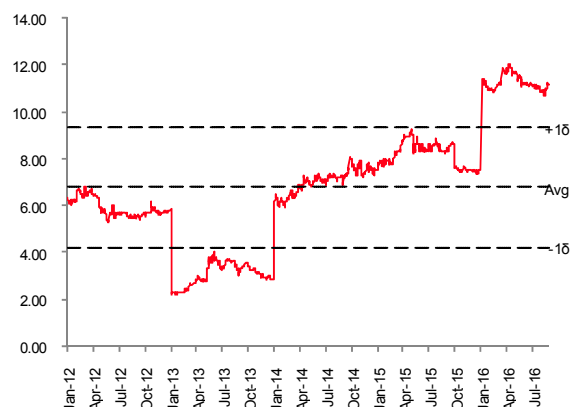


EXHIBIT 6: ORDER BOOK AS AT END-JUNE 2016

Projects	Value (RM mil)	O/S value
Civil & infrastructure		
MRT Package V4 (Sec 17 to Semantan)	1,173.0	18.0
MRT Package V201 (Sg Buloh - Persiaran Dagang)	1,213.0	1,199.0
Coastal Highway Southern Link	170.0	46.0
KLCC (NEC + Packages 2 & 2A)	646.0	349.0
HUKM (MEP Works)	66.0	66.0
International School of Kuala Lumpur	268.0	268.0
Putrajaya Parcel F	1,610.0	1,292.0
Others	93.0	26.0
Subtotal	5,239.0	3,264.0
Internal		
Sunway Velocity 2 Mall + Link Bridge	370.0	67.0
Sunway Velocity Hotel & Office	113.0	64.0
Sunway Velocity Medical Centre	185.0	160.0
Sunway Geo Retail Shops & Flexi Suites	153.0	24.0
Sunway Medical Centre Phase 3 (Sub & Superstructure)	167.0	65.0
Sunway Medical Centre 4 (2 towers)	428.0	422.0
Sunway Iskandar - Citrine Svc Apt (Superstructure)	213.0	71.0
Sunway Geo Retail Shops & Flexi Suites Phase 2	244.0	198.0
Sunway Lenang Phase 1A	96.0	13.0
Sunway Iskandar - Emerald Residences	175.0	152.0
Others	135.0	46.0
Subtotal	2,279.0	1,282.0
Singapore		
Precast	888.0	380.0
Total	8,406.0	4,927.0

Source: Company

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	4,558.1	4,451.3	5,338.0	5,154.3	5,146.8
EBITDA	703.6	764.0	781.7	790.1	796.7
Depreciation/Amortisation	(114.1)	(114.7)	(127.3)	(136.3)	(144.3)
Operating income (EBIT)	589.5	649.3	654.4	653.8	652.3
Other income & associates	171.4	159.1	156.0	167.0	170.0
Net interest	(30.4)	(26.6)	(60.0)	(62.0)	(64.0)
Exceptional items	229.7	147.4	-	-	-
Pretax profit	960.2	929.2	750.4	758.8	758.3
Taxation	(148.6)	(129.8)	(135.1)	(136.6)	(136.5)
Minorities/pref dividends	(77.6)	(67.0)	(130.0)	(135.0)	(130.0)
Net profit	734.0	732.4	485.3	487.2	491.8
Core net profit	523.9	590.7	485.3	487.2	491.8
Balance Sheet (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Fixed assets	985.2	1,364.3	1,351.1	1,349.3	1,339.5
Intangible assets	319.4	320.1	319.4	318.4	316.4
Other long-term assets	5,570.2	7,245.5	6,937.5	7,132.8	7,328.3
Total non-current assets	6,874.9	8,929.8	8,608.0	8,800.5	8,984.2
Cash & equivalent	1,978.2	2,627.3	1,763.9	1,035.8	1,109.7
Stock	580.0	693.1	634.7	672.8	713.2
Trade debtors	1,184.7	1,948.6	1,578.7	1,814.1	1,811.4
Other current assets	2,239.4	1,795.6	1,714.4	1,745.1	1,776.7
Total current assets	5,982.3	7,064.6	5,691.8	5,267.9	5,411.1
Trade creditors	1,275.8	964.9	1,022.8	1,084.2	1,149.3
Short-term borrowings	2,132.9	3,303.8	1,710.8	1,410.8	1,510.8
Other current liabilities	867.1	1,524.3	943.0	743.0	743.0
Total current liabilities	4,275.8	5,793.0	3,676.7	3,238.0	3,403.1
Long-term borrowings	1,651.5	2,585.5	3,187.7	3,087.7	2,937.7
Other long-term liabilities	605.9	415.6	415.6	415.6	415.6
Total long-term liabilities	2,257.5	3,001.0	3,603.3	3,503.3	3,353.3
Shareholders' funds	5,936.4	6,549.8	6,369.2	6,676.4	6,988.3
Minority interests	387.5	650.6	650.6	650.6	650.6
BV/share (RM)	3.43	3.64	3.54	3.71	3.88
Cash Flow (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Pretax profit	960.2	929.2	750.4	758.8	758.3
Depreciation/Amortisation	114.1	114.7	127.3	136.3	144.3
Net change in working capital	(311.9)	(24.2)	(125.0)	(442.7)	(4.3)
Others	(54.5)	(157.9)	138.9	(129.8)	(181.9)
Cash flow from operations	708.0	861.9	891.6	322.5	716.5
Capital expenditure	(323.9)	(104.9)	16.1	(82.9)	(81.9)
Net investments & sale of fixed assets	65.8	65.8	65.8	65.8	65.8
Others	(627.9)	(2,235.0)	(614.3)	(771.8)	(464.8)
Cash flow from investing	(886.0)	(2,274.1)	(532.3)	(788.9)	(480.9)
Debt raised/(repaid)	298.3	249.3	249.3	249.3	249.3
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(172.7)	(193.8)	(665.9)	(180.0)	(180.0)
Others	475.9	1,051.1	(130.0)	(132.0)	(134.0)
Cash flow from financing	601.4	1,106.6	(546.6)	(62.7)	(64.7)
Net cash flow	423.4	(305.6)	(187.3)	(529.0)	170.9
Net cash/(debt) b/f	871.7	1,292.9	1,011.5	824.1	295.1
Net cash/(debt) c/f	1,292.9	1,011.5	824.1	295.1	466.0
Key Ratios (YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue growth (%)	(3.5)	(2.3)	19.9	(3.4)	(0.1)
EBITDA growth (%)	20.1	8.6	2.3	1.1	0.8
Pretax margin (%)	21.1	20.9	14.1	14.7	14.7
Net profit margin (%)	16.1	16.5	9.1	9.5	9.6
Interest cover (x)	19.4	24.4	10.9	10.5	10.2
Effective tax rate (%)	15.5	14.0	18.0	18.0	18.0
Dividend payout (%)	25.9	90.9	37.1	36.9	36.6
Debtors turnover (days)	92	128	121	120	129
Stock turnover (days)	57	63	53	55	58
Creditors turnover (days)	115	111	80	88	94

Source: Company, AmlInvestment Bank Bhd estimates

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