



AmInvestment Bank

Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

30 May 2016

1QFY16 in line with expectations

BUY

(Maintained)

Thomas Soon

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03-2036 2300

Rationale for report: Company result

Price	RM3.02
Fair Value	RM3.54
52-week High/Low	RM3.36/RM2.89

Key Changes

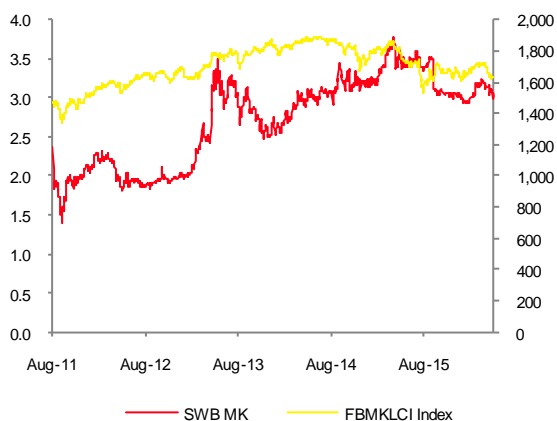
Fair value	↔
EPS	↔

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)	585.0	534.3	554.4	585.5
FD Core EPS (sen)	33.6	30.8	31.9	33.6
FD Core EPS growth (%)	6.7	(8.1)	3.5	5.2
Consensus Net Profit (RM mil)	-	547.9	569.3	602.1
DPS (sen)	37.0	10.0	10.0	10.0
PE (x)	9.0	9.8	9.5	9.0
EV/EBITDA (x)	11.1	10.6	10.8	10.5
Div yield (%)	12.3	3.3	3.3	3.3
ROE (%)	11.7	8.2	8.4	8.4
Net Gearing (%)	49.8	48.1	49.3	43.5

Stock and Financial Data

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	5,205.0
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%)
Free Float	22.4
Avg Daily Value (RMmil)	2.8

Price performance	3mth	6mth	12mth
Absolute (%)	0.3	(1.3)	(7.2)
Relative (%)	2.3	1.8	0.4



Investment Highlights

- We maintain BUY on Sunway, with an unchanged fair value of RM3.54/share, based on a 15% discount to our SOP value of RM4.18/share and an implied PE of 11x FY16F.
- Sunway posted a 1QFY16 core net profit of RM104.5mil (-41% QoQ, -20% YoY) – representing 20% and 19% of our and consensus full-year forecasts, respectively. As expected, no interim dividend was declared.
- We deem the core earnings and overall operating performance to be within expectations. The bottom line was impacted by higher minority interest, stemming from the listing of the construction division, but boosted by an effective tax rate at 18.4%.
- Traditionally, 1Q is weaker than 4Q due to seasonality. Vs. our segment estimates, the topline underperformance of the property development and trading/manufacturing divisions were made up for by stronger results in the others.
- Of particular concern was the continuing slowdown in property development, which registered sales of only RM263mil (effective: RM198mil) as of end-March 2016. Unbilled sales amounted to RM2bil (effective: RM1.5bil).
- It is targeting to launch RM1.6bil (effective: RM1.2bil) worth of projects this year. Property sales could rise to RM1.4bil (effective: RM1.1bil) from FY15's RM1.2bil (effective: RM912mil).
- YTD, the construction division has secured RM2bil worth of internal and external projects, including the 60-month RM1.2bil MRT viaduct Package V201 (Sg Buloh – Persiaran Dagang line). As at end-March, the outstanding order book totaled RM5.02bil.
- The construction division registered better-than-expected margins to offset the shortfall in revenue. However, we expect bookings to pick up in the coming quarters as progress of the major projects gather pace.
- We maintain our earnings forecasts for now.
- We believe Sunway's long-term prospects are intact. The stock is currently trading at undemanding forward PEs of less than 10x.
- The risks continue to be the lull in the property development market, but the construction division is expected to step up contributions to the group.

EXHIBIT 1: 1QFY16 RESULT SUMMARY

	1QFY15	1QFY16	% YoY change	4QFY15	1QFY16	% QoQ change	FY16F	% 1Q over FY16F
Revenue	1,060.0	1,069.0	0.8	1,395.8	1,069.0	(23.4)	5,338.0	20.0
EBIT	150.9	152.1	0.8	212.3	152.1	(28.4)	654.4	23.2
Est. Unusual Items	15.8	(2.4)	(115.4)	43.5	(2.4)	(105.6)	0.0	nm
Associates & JVs	38.1	42.6	11.6	49.6	42.6	(14.2)	253.4	16.8
Net interest income	(11.4)	(16.1)	41.6	(21.8)	(16.1)	(25.9)	(60.0)	26.8
PBT	193.5	176.1	(9.0)	283.6	176.1	(37.9)	847.8	20.8
Taxation	(36.1)	(32.8)	(9.0)	(29.2)	(32.8)	12.5	(203.5)	16.1
Minorities	(10.9)	(41.1)	278.1	(40.0)	(41.1)	2.9	(110.0)	37.4
Net profit	146.5	102.1	(30.3)	214.4	102.1	(52.4)	534.3	19.1
Total Els after tax and MI	15.8	(2.4)	(115.4)	37.8	(2.4)	(106.5)		
Tax	(36.1)	(32.8)	(9.0)	(23.5)	(32.8)	39.9		
Core PBT	177.7	178.5	0.5	240.1	178.5	(25.6)		
Core net profit	130.7	104.5	(20.0)	176.6	104.5	(40.8)	534.3	19.6
Core EPS	7.5	5.9	(22.4)	9.9	5.9	(40.9)	30.5	19.2
Diluted core EPS	7.1	5.6	(21.3)	9.5	5.6	(41.2)	28.6	19.6
Margins (%)	1QFY15	1QFY16	ppt change YoY	4QFY15	1QFY16	ppt change QoQ	FY16F	ppt variation
EBIT	14.2	14.2	(0.0)	15.2	14.2	(1.0)	12.3	2.0
Core PBT	16.8	16.7	(0.1)	17.2	16.7	(0.5)	15.9	0.8
Core net profit	12.3	9.8	(2.6)	12.7	9.8	(2.9)	10.0	(0.2)
Tax rate (%)	20.3	18.4	(1.9)	9.8	18.4	8.6	24.0	(5.6)

Source: Company

EXHIBIT 2: SEGMENT CORE PBT – IN LINE

	1QFY15	1QFY16	% YoY change	4QFY15	1QFY16	% QoQ change	FY16F	% 1Q over FY16F
Core pretax profit	177.7	178.5	0.5	240.1	178.5	(25.6)	847.8	21.1
Property Dev	57.9	69.7	20.5	116.2	69.7	(40.0)	447.5	15.6
Property Inv	22.0	34.7	57.8	50.2	34.7	(30.9)	108.8	31.9
Construction	52.2	37.7	(27.8)	30.0	37.7	(25.6)	128.1	29.4
Trading and Manufacturing	12.7	5.3	(58.1)	8.6	5.3	(37.5)	38.2	14.0
Quarry	7.7	6.1	(20.3)	5.6	6.1	10.2	19.8	31.1
Investment Holdings	4.1	14.0	238.6	19.0	14.0	(26.4)	66.5	21.0
Others	20.9	10.9	(48.0)	10.4	10.9	4.1	39.0	27.9
Total	177.7	178.5	0.5	240.1	178.5	(25.6)	847.8	21.1
Core PBT margin	1QFY15	1QFY16	ppt change YoY	4QFY15	1QFY16	ppt change QoQ	FY16F	ppt variation
Property Dev	32.0	29.8	(2.2)	27.7	29.8	2.1	33.5	(3.8)
Property Inv	15.8	20.5	4.7	27.5	20.5	(7.0)	17.9	2.6
Construction	13.9	12.1	(1.8)	7.4	12.1	4.7	6.3	5.8
Trading and Manufacturing	6.6	2.8	(3.9)	4.2	2.8	(1.4)	6.0	(3.2)
Quarry	14.3	15.9	1.5	9.7	15.9	6.2	8.3	7.5
Investment Holdings	nm	1,596.7	nm	741.9	1,596.7	854.8	nm	nm
Others	17.7	8.9	(8.8)	8.6	8.9	0.4	7.9	1.1
Overall	16.8	16.7	(0.1)	17.2	16.7	(0.5)	15.9	0.8

Source: Company

EXHIBIT 3: SEGMENT OPERATING PERFORMANCE – IN LINE

Core revenue	1QFY15	1QFY16	% YoY change	4QFY15	1QFY16	% QoQ change	FY16F	% 1Q over FY16F
Property Dev	180.7	234.1	29.5	420.0	234.1	(44.3)	1,334.0	17.5
Property Inv	139.3	169.2	21.5	182.6	169.2	(7.3)	607.5	27.8
Construction	375.3	311.4	(17.0)	405.9	311.4	(23.3)	2,022.5	15.4
Trading and Manufacturing	191.9	193.1	0.6	205.3	193.1	(5.9)	637.0	30.3
Quarry	53.8	38.7	(28.0)	57.5	38.7	(32.6)	237.3	16.3
Investment Holdings	0.8	0.9	nm	2.6	0.9	(65.8)	4.8	18.3
Others	118.2	121.6	2.9	122.0	121.6	(0.3)	494.9	24.6
Total	1,060.0	1,069.0	0.8	1,395.8	1,069.0	(23.4)	5,338.0	20.0

Est. EBIT	1QFY15	1QFY16	% YoY change	4QFY15	1QFY16	% QoQ change	FY16F	% 1Q over FY16F
Property Dev	41.0	56.3	37.2	98.4	56.3	(42.8)	320.0	17.6
Property Inv	23.4	37.6	60.8	49.9	37.6	(24.7)	109.4	34.4
Construction	52.9	35.6	(32.7)	26.8	35.6	(33.0)	128.6	27.7
Trading and Manufacturing	14.1	8.5	(39.6)	11.7	8.5	(27.3)	46.5	18.4
Quarry	7.6	6.4	(15.8)	5.8	6.4	9.2	20.2	31.6
Investment Holdings	(6.0)	(1.3)	(78.1)	9.8	(1.3)	(113.4)	0.0	nm
Others	17.9	9.0	(49.8)	9.7	9.0	(7.6)	29.7	30.2
Total	150.9	152.1	0.8	212.3	152.1	(28.4)	654.4	23.2

Est. EBIT margin	1QFY15	1QFY16	ppt change YoY	4QFY15	1QFY16	ppt change QoQ	FY16F	ppt variation
Property Dev	22.7	24.0	1.3	23.4	24.0	0.6	24.0	0.1
Property Inv	16.8	22.2	5.4	27.4	22.2	(5.1)	18.0	4.2
Construction	14.1	11.4	(2.7)	6.6	11.4	4.8	6.4	5.1
Trading and Manufacturing	7.4	4.4	(2.9)	5.7	4.4	(1.3)	7.3	(2.9)
Quarry	14.1	16.5	2.4	10.2	16.5	6.3	8.5	8.0
Investment Holdings	nm	nm	nm	nm	nm	nm	0.0	nm
Others	15.1	7.4	(7.8)	8.0	7.4	(0.6)	6.0	1.4
Overall	14.2	14.2	(0.0)	15.2	14.2	(1.0)	12.3	2.0

Source: Company

EXHIBIT 4: PB BAND CHART

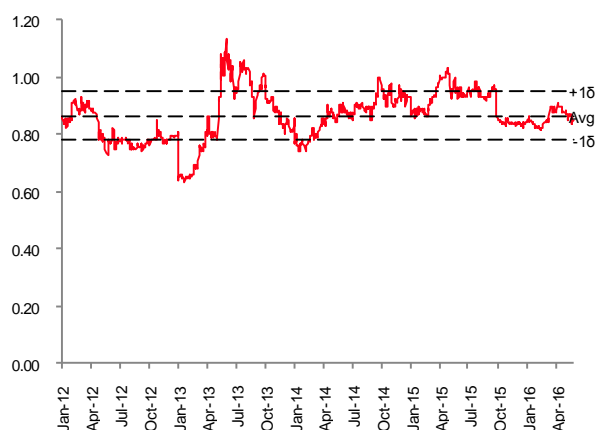


EXHIBIT 5: PE BAND CHART

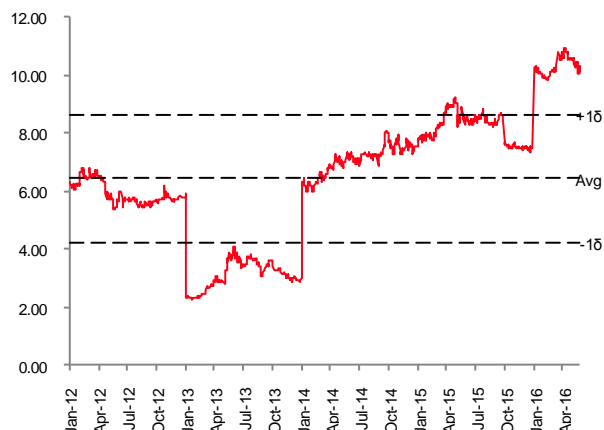


EXHIBIT 6: ORDER BOOK AS AT END-MARCH 2016

Projects	Value (RM mil)	0/S value
Civil & infrastructure		
MRT Package V4 (Sec 17 to Semantan)	1,173.0	43.0
MRT Package V201 (Sg Buloh - Persiaran Dagang)	1,213.0	1,213.0
Coastal Highway Southern Link	170.0	66.0
KLCC car park (package 1)	304.0	191.0
KLCC piling & substructure (package 2)	222.0	127.0
KLCC Package 2A (Substructure)	120.0	96.0
Putrajaya Parcel F	1,610.0	1,450.0
Others	92.0	33.0
Subtotal	4,904.0	3,219.0
Internal		
Sunway Velocity 2 Mall (substructure)	350.0	72.0
Sunway Velocity Hotel & Office	93.0	69.0
Sunway Velocity Medical Centre	150.0	150.0
Sunway Geo Retail Shops & Flexi Suites	153.0	59.0
Sunway Medical Centre Phase 3 (Sub & Superstructure)	167.0	96.0
Sunway Medical Centre 4	350.0	350.0
Sunway Iskandar - Citrine Svc Apt (Superstructure)	213.0	106.0
Sunway Geo Retail Shops & Flexi Suites Phase 2	244.0	207.0
Sunway Lenang Phase 1A	96.0	30.0
Sunway Iskandar - Emerald Residences	175.0	133.0
Others	224.0	110.0
Subtotal	2,215.0	1,382.0
Precast	844.0	416.0
Total	7,961.0	5,016.0

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	253.4	289.0	340.0
Net interest	(30.4)	(26.6)	(60.0)	(62.0)	(64.0)
Exceptional items	229.7	147.4	-	-	-
Pretax profit	960.2	929.2	847.8	880.8	928.3
Taxation	(148.6)	(129.8)	(203.5)	(211.4)	(222.8)
Minorities/pref dividends	(77.6)	(67.0)	(110.0)	(115.0)	(120.0)
Net profit	734.0	732.4	534.3	554.4	585.5
Core net profit	523.9	585.0	534.3	554.4	585.5
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	1,812.9	1,152.0	1,319.6
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	5,740.8	5,384.0	5,621.0
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	6,418.2	6,792.6	7,198.2
Minority interests	387.5	650.6	650.6	650.6	650.6
BV/share (RM)	3.43	3.64	3.57	3.77	4.00
Cash Flow (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Pretax profit	960.2	929.2	847.8	880.8	928.3
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)	(26.9)	(326.6)	(438.2)
Cash flow from operations	708.0	861.9	823.2	247.7	630.2
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)	(300.0)	(400.0)	(300.0)
Cash flow from investing	(886.0)	(2,274.1)	(218.1)	(417.1)	(316.1)
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	(326.9)	(361.8)	(118.8)
Cash flow from financing	601.4	1,106.6	(743.5)	(292.5)	(49.5)
Net cash flow	423.4	(305.6)	(138.3)	(461.8)	264.6
Net cash/(debt) b/f	871.7	1,292.9	1,011.5	873.2	411.3
Net cash/(debt) c/f	1,292.9	1,011.5	873.2	411.3	675.9
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	15.9	17.1	18.0
Net profit margin (%)	16.1	16.5	10.0	10.8	11.4
Interest cover (x)	19.4	24.4	10.9	10.5	10.2
Effective tax rate (%)	15.5	14.0	24.0	24.0	24.0
Dividend payout (%)	25.9	90.9	33.7	32.5	30.7
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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