



AmResearch

Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

27 Nov 2015

9MFY15 within expectations

BUY

(Maintained)

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03-2036 2300

Rationale for report: Company result

Price	RM3.06
Fair Value	RM3.54
52-week High/Low	RM3.53/RM2.81

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	4,558.1	5,290.3	5,356.8	5,306.8
Core net profit (RM mil)	523.9	554.1	534.7	554.4
FD Core EPS (sen)	31.5	33.1	32.1	33.2
FD Core EPS growth (%)	3.2	5.4	(3.3)	3.4
Consensus Net Profit (RM mil)	-	479.8	530.2	552.1
DPS (sen)	11.0	36.0	10.0	10.0
PE (x)	9.7	9.2	9.5	9.2
EV/EBITDA (x)	10.1	9.9	9.6	9.6
Div yield (%)	3.6	11.8	3.3	3.3
ROE (%)	13.0	9.3	9.0	9.1
Net Gearing (%)	30.4	43.9	43.1	42.4

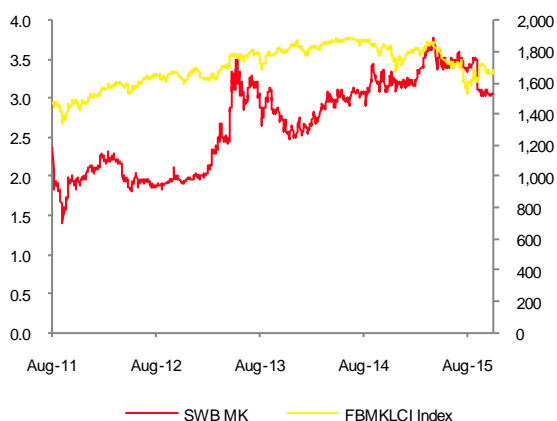
Stock and Financial Data

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	5,274.0
Book Value (RM/share)	3.43
P/BV (x)	0.9
ROE (%)	13.0
Net Gearing (%)	30.4

Major Shareholders	Tan Sri Jeffrey Cheah (48.2%) EPF (5.7%)
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Free Float	22.4
Avg Daily Value (RMmil)	4.6

Price performance	3mth	6mth	12mth
Absolute (%)	(2.7)	(6.0)	1.8
Relative (%)	(8.6)	(1.5)	11.4



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.
- Our fair value represents an implied PE of 11x FY15F – +2STDV above its historical 5-year forward PE mean of 8x.
- Sunway posted a 3Q core net profit of RM147mil (+7.5% QoQ, -1.5% YoY), bringing the total for 9MFY15 to RM414.4mil (+7.5% YoY) – in line with expectations and accounting for 75% of our and consensus forecasts.
- No dividend was declared, apart the first interim of 5 sen/share and the special dividend of 26 sen/share. We expect another 5 sen/share payout.
- Sunway's 9MFY15 net profit of RM518mil included a RM110.8mil fair value gain from associate and gain on disposal of RM23mil. The improved performance was mainly on the back of improved margins.
- Of continuing concern is the underperformance of the property development division, with the division's 9MFY15 revenue and core PBT accounting for only 60% and 35% of our full-year forecasts.
- Encouragingly, Sunway still had RM2.3bil (effective: RM1.7bil) worth of unbilled property sales as at end-Sept 2015 – maintained from end-June.
- The trading & manufacturing division was also affected due to the implementation of the GST and the drop in oil and commodity prices.
- The shortfalls were made up by the strong operating performance of the construction and the property investment divisions.
- For the construction division, revenue was lower YoY due to a greater intra-group elimination in 3Q15 as a result of higher proportion of internal jobs.
- The division was exceptionally strong, with EBIT being boosted mainly by a reversal of over-elimination of intra-group profit in the previous quarter.
- Sunway Construction Group's (SCG) current outstanding order book amounts to RM4.3bil vs. RM2.69bil as at end-June 2015. YTD, SCG has secured RM2.6bil worth of jobs.
- Reiterate BUY. We believe Sunway's long-term prospects are intact, notwithstanding the current blip in the property market, while its other divisions, including property investments, will cushion the negative impact.

EXHIBIT 1: RESULT SUMMARY

	9M14	9M15	% YoY	3Q14	2Q15	3Q15	% QoQ	% YoY	FY15F	% 9M over FY15F
Revenue	3,364.4	3,052.6	(9.3)	1,134.0	1,041.5	951.0	(8.7)	(16.1)	5,290.3	58
EBIT	412.9	437.3	5.9	157.4	149.1	137.3	(7.9)	(12.8)	680.0	64
Est. Unusual Items	44.6	103.4	131.7	(5.6)	101.2	(13.6)	(113.5)	145.6	0.0	nm
Associates & JVs	126.6	109.6	(13.5)	38.5	39.9	31.5	(21.0)	(18.1)	193.7	57
Net interest income	(23.2)	(4.9)	(78.9)	(5.1)	(9.3)	15.8	(269.9)	(406.8)	(42.0)	12
PBT	561.0	645.4	15.0	185.2	280.9	171.0	(39.1)	(7.7)	831.8	78
Taxation	(97.1)	(100.6)	3.6	(21.8)	(33.1)	(31.5)	(4.8)	44.2	(166.4)	60
Minorities	(33.7)	(27.0)	(19.8)	(19.7)	(9.9)	(6.2)	(37.9)	(68.7)	(111.3)	24
Net profit	430.2	517.8	20.3	143.7	237.9	133.3	(44.0)	(7.2)	554.1	93
Total Els after tax and MI	44.6	103.4	131.7	(5.6)	101.2	(13.6)	(113.5)	145.6	0.0	nm
Tax	(97.1)	(100.6)	3.6	(21.8)	(33.1)	(31.5)	(4.8)	44.2	(166.4)	60
Core PBT	516.4	542.0	5.0	190.8	179.7	184.6	2.7	(3.2)	831.8	65
Core net profit	385.6	414.4	7.5	149.3	136.7	147.0	7.5	(1.5)	554.1	75
Core EPS	22.4	24.0	7.5	8.7	7.8	8.5	9.6	(1.5)	32.1	75
Diluted core EPS	21.5	23.1	7.5	8.2	7.3	8.1	11.6	(1.5)	30.7	75
Margins (%)	9M14	9M15	ppt change YoY	3Q14	2Q15	3Q15	ppt change QoQ	ppt change YoY	FY15F	ppt difference
EBIT	12.3	14.3	2.1	13.9	14.3	14.4	0.1	0.6	12.9	1.5
Core PBT	15.3	17.8	2.4	16.8	17.3	19.4	2.2	2.6	15.7	2.0
Core net profit	11.5	13.6	2.1	13.2	13.1	15.5	2.3	2.3	10.5	3.1
Tax rate (%)	18.8	18.6	(0.2)	11.4	18.4	17.1	(1.4)	5.6	20.0	(1.4)

Source: Company, AmResearch

EXHIBIT 2: LAUNCHES IN 2015

Project	Product Type	Location	GDV (RM mil)
Mount Sophia	Low rise condo	Singapore	600.0
Emerald Residences	Landed Residential & retail	Sunway Iskandar	430.0
Cassia	Semi-D & Terrace House	Batu Maung, Penang	80.0
Velocity	Office & Retail	Jalan Peel	130.0
Total			1,240.0

Source: Company, AmResearch

EXHIBIT 3: SEGMENTAL PERFORMANCE

Core revenue	9M14	9M15	% YoY	3Q14	2Q15	3Q15	% QoQ	% YoY	FY15F	% 9M over FY15F
Property Dev	702.0	775.7	10.5	178.0	324.1	270.9	(16.4)	52.2	1,301.5	60
Property Inv	434.0	456.3	5.1	151.8	144.8	172.2	18.9	13.5	605.8	75
Construction	1,273.0	816.2	(35.9)	488.2	244.1	196.8	(19.4)	(59.7)	2,055.3	40
Trading and Manufacturing	470.5	444.7	(5.5)	159.4	122.3	130.5	6.7	(18.1)	671.4	66
Quarry	162.2	184.6	13.8	56.3	64.1	66.8	4.2	18.7	248.5	74
Investment Holdings	0.1	2.0	3,084.1	0.0	0.0	1.1	3,128.6	3,545.2	2.6	79
Others	322.6	372.9	15.6	100.3	142.0	112.8	(20.6)	12.4	405.3	92
Total	3,364.4	3,052.6	(9.3)	1,134.0	1,041.5	951.0	(8.7)	(16.1)	5,290.3	58
Est. EBIT										
Property Dev	189.2	115.4	(39.0)	79.1	38.9	35.5	(8.8)	(55.2)	351.4	33
Property Inv	78.4	97.7	24.6	31.2	33.0	41.3	25.4	32.6	109.0	90
Construction	78.5	132.3	68.6	21.8	56.0	23.4	(58.2)	7.3	111.0	119
Trading and Manufacturing	30.9	20.2	(34.7)	10.8	0.7	5.4	701.2	(50.3)	52.4	39
Quarry	20.3	33.7	66.1	6.7	15.5	10.6	(31.9)	58.9	29.8	113
Investment Holdings	(10.3)	(17.3)	67.6	(3.8)	(6.9)	(4.4)	(36.0)	15.0	0.0	nm
Others	26.0	55.3	112.8	11.7	11.9	25.5	115.0	118.6	26.3	210
Total	412.9	437.3	5.9	157.4	149.1	137.3	(7.9)	(12.8)	680.0	64
Est. EBIT margin										
	9M14	9M15	ppt change YoY	3Q14	2Q15	3Q15	ppt change QoQ	ppt change YoY	FY15F	ppt difference
Property Dev	27.0	14.9	(12.1)	44.5	12.0	13.1	1.1	(31.358)	27.0	(12.1)
Property Inv	18.1	21.4	3.3	20.5	22.8	24.0	1.2	3.466	18.0	3.4
Construction	6.2	16.2	10.0	4.5	22.9	11.9	(11.1)	7.424	5.4	10.8
Trading and Manufacturing	6.6	4.5	(2.0)	6.8	0.5	4.1	3.6	(2.664)	7.8	(3.3)
Quarry	12.5	18.2	5.7	11.8	24.2	15.8	(8.4)	4.008	12.0	6.2
Investment Holdings	nm	nm	nm	nm	nm	nm	nm	nm	0.0	nm
Others	8.1	14.8	6.8	11.6	8.4	22.6	14.3	10.992	6.5	8.3
Overall	12.3	14.3	2.1	13.9	14.3	14.4	0.1	0.552	12.9	1.5

Source: Company, AmResearch

EXHIBIT 4: SEGMENT CORE PBT

Core pretax profit	9M14	9M15	% YoY	3Q14	2Q15	3Q15	% QoQ	% YoY	FY15F	% 9M over FY15F
Property Dev	243.8	152.6	(37.4)	99.2	55.3	39.5	(28.7)	(60.2)	436.0	35
Property Inv	82.3	87.6	6.4	31.7	26.6	39.0	46.8	22.9	122.3	72
Construction	81.7	132.6	62.4	17.7	56.3	24.1	(57.2)	36.2	145.7	91
Trading and Manufacturing	28.6	15.5	(45.7)	10.4	(0.7)	3.5	(574.2)	(66.2)	49.9	31
Quarry	21.0	33.7	60.1	6.8	15.5	10.4	(33.0)	52.1	30.9	109
Investment Holdings	27.2	50.8	86.9	11.3	10.7	35.9	235.1	217.6	12.5	408
Others	31.8	69.1	117.2	13.7	16.0	32.2	101.1	135.6	34.6	200
Total	516.4	542.0	5.0	190.8	179.7	184.6	2.7	(3.2)	831.8	65
Core PBT margin										
	9M14	9M15	ppt change YoY	3Q14	2Q15	3Q15	ppt change QoQ	ppt change YoY	FY15F	ppt difference
Property Dev	34.7	19.7	(15.1)	55.7	17.1	14.6	(2.5)	(41.145)	33.5	(13.8)
Property Inv	19.0	19.2	0.2	20.9	18.4	22.6	4.3	1.744	20.2	(1.0)
Construction	6.4	16.3	9.8	3.6	23.1	12.2	(10.8)	8.618	7.1	9.2
Trading and Manufacturing	6.1	3.5	(2.6)	6.5	(0.6)	2.7	3.3	(3.826)	7.4	(3.9)
Quarry	13.0	18.2	5.3	12.2	24.3	15.6	(8.7)	3.428	12.4	5.8
Investment Holdings	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Others	9.9	18.5	8.7	13.6	11.3	28.6	17.3	14.934	8.5	10.0
Overall	15.3	17.8	2.4	16.8	17.3	19.4	2.2	2.586	15.7	2.0

Source: Company, AmResearch

EXHIBIT 5: SCG'S ORDER BOOK AS AT SEPT 30 2015

Projects	Value (RM mil)	O/S value
Civil & infrastructure		
MRT Package V4 (Sec 17 to Semantan)	1,173.0	373.0
Kelana Jaya LRT Line extn (Package B)	569.0	66.0
Affinity Medini Mixed Development	283.0	39.0
Coastal Highway Southern Link	170.0	133.0
KLCC car park (package 1)	304.0	206.0
KLCC piling & substructure (package 2)	222.0	134.0
KLCC Package 2A (Substructure)	107.0	120.0
Putrajaya Parcel F	1,610.0	1,610.0
Others	87.0	30.0
Subtotal	4,525.0	2,711.0
Internal		
Sunway Velocity 2 Mall (substructure)	350.0	136.0
Sunway Geo Retail Shops & Flexi Suites	153.0	112.0
Sunway Iskandar - Citrine Svc Apt (Superstructure)	213.0	146.0
Sunway Iskandar - Emerald Residences	175.0	141.0
Sunway Geo Retail Shops & Flexi Suites Phase 2	244.0	244.0
Sunway Lenang Phase 1A	96.0	68.0
Sunway Pyramid Mall Phase 3	193.0	43.0
Sunway Medical Centre Phase 3	167.0	134.0
Others	622.0	98.0
Subtotal	2,213.0	1,122.0
Precast	873.0	466.0
Total	7,610.0	4,298.0

Source: Company

EXHIBIT 6: NEW JOBS SECURED YTD

Projects	Contract Sum (RM mil)
Sunway Geo Retail Shops & Flexi Suites Phase 2	244
Sunway Lenang Phase 1A	96
Sunway Iskanfar - Emerald Residences	175
Putrajaya Parcel F	1,610
KLCC Package 2A (Substructure)	120
Precast	316
Others	48
Total	2,609

Source: Company

EXHIBIT 7: PB BAND CHART

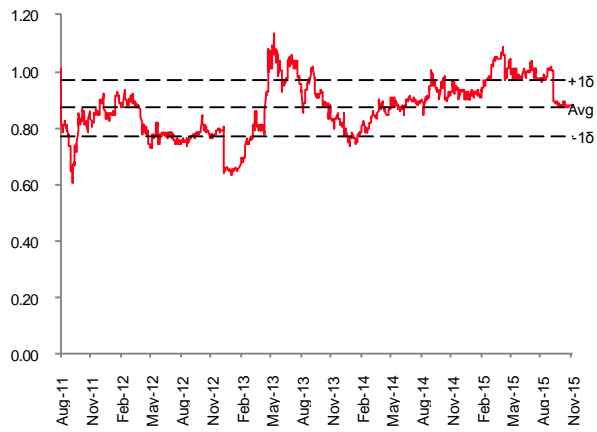


EXHIBIT 8: PE BAND CHART

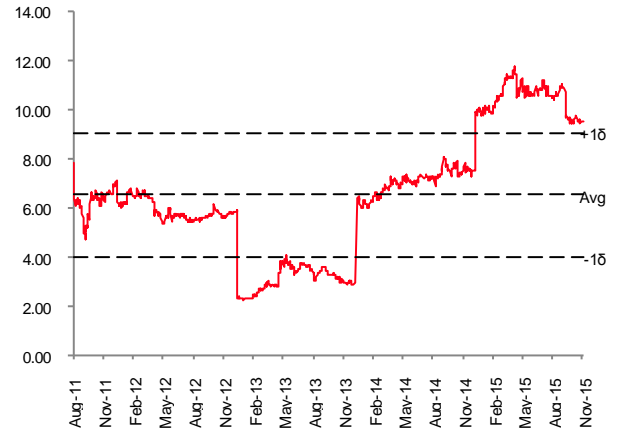


EXHIBIT 9: SUNWAY – FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	4,721.4	4,558.1	5,290.3	5,356.8	5,306.8
EBITDA	585.9	703.6	800.3	815.7	830.6
Depreciation/Amortisation	(133.4)	(114.1)	(120.3)	(130.3)	(140.3)
Operating income (EBIT)	452.5	589.5	680.0	685.4	690.3
Other income & associates	255.9	171.4	193.7	253.4	289.0
Net interest	(46.1)	(30.4)	(42.0)	(69.0)	(81.0)
Exceptional items	1,238.1	229.7	-	-	-
Pretax profit	1,900.4	960.2	831.8	869.8	898.3
Taxation	(137.0)	(148.6)	(166.4)	(208.7)	(215.6)
Minorities/pref dividends	(273.0)	(77.6)	(111.3)	(126.3)	(128.3)
Net profit	1,490.4	734.0	554.1	534.7	554.4
Core net profit	484.0	523.9	554.1	534.7	554.4
Balance Sheet (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Fixed assets	835.8	985.2	1,038.3	1,042.5	1,036.7
Intangible assets	319.4	319.4	319.4	319.4	318.4
Other long-term assets	5,098.1	5,570.2	6,214.7	6,410.0	6,605.5
Total non-current assets	6,253.3	6,874.9	7,572.4	7,771.9	7,960.6
Cash & equivalent	1,518.8	1,978.2	1,345.2	1,576.7	1,460.6
Stock	615.8	580.0	531.0	562.9	596.6
Trade debtors	1,114.1	1,184.7	1,268.0	983.9	1,271.9
Other current assets	1,599.5	2,239.4	2,091.7	2,040.5	2,088.9
Total current assets	4,848.3	5,982.3	5,235.8	5,164.0	5,418.0
Trade creditors	1,150.2	1,275.8	964.9	1,022.8	1,084.2
Short-term borrowings	2,000.7	2,132.9	1,660.8	1,510.8	1,410.8
Other current liabilities	923.1	867.1	724.9	724.9	724.9
Total current liabilities	4,074.0	4,275.8	3,350.7	3,258.6	3,220.0
Long-term borrowings	794.7	1,651.5	2,323.6	2,623.6	2,723.6
Other long-term liabilities	587.6	605.9	605.9	605.9	605.9
Total long-term liabilities	1,382.3	2,257.5	2,929.5	3,229.5	3,329.5
Shareholders' funds	5,328.3	5,936.4	6,018.6	5,930.3	6,311.7
Minority interests	316.9	387.5	517.5	517.5	517.5
BV/share (RM)	3.09	3.43	3.48	3.43	3.65
Cash Flow (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Pretax profit	1,900.4	960.2	831.8	869.8	898.3
Depreciation/Amortisation	133.4	114.1	120.3	130.3	140.3
Net change in working capital	93.0	(311.9)	(532.9)	263.2	(308.7)
Others	(1,033.4)	(54.5)	(70.1)	(57.1)	(348.8)
Cash flow from operations	1,093.4	708.0	349.1	1,206.2	381.1
Capital expenditure	(88.5)	(323.9)	(104.9)	(83.9)	(82.9)
Net investments & sale of fixed assets	11.2	65.8	65.8	65.8	65.8
Others	(1,300.1)	(627.9)	(500.0)	(300.0)	(400.0)
Cash flow from investing	(1,377.4)	(886.0)	(539.1)	(318.1)	(417.1)
Debt raised/(repaid)	498.3	298.3	249.3	249.3	249.3
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(163.7)	(172.7)	(190.4)	(623.0)	(173.1)
Others	(292.2)	475.9	(287.1)	(282.8)	(157.3)
Cash flow from financing	42.4	601.4	(228.2)	(656.6)	(81.1)
Net cash flow	(241.6)	423.4	(418.1)	231.5	(117.1)
Net cash/(debt) b/f	1,102.3	871.7	1,292.9	874.8	1,106.3
Net cash/(debt) c/f	871.7	1,292.9	874.8	1,106.3	989.2
Key Ratios (YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue growth (%)	14.4	(3.5)	16.1	1.3	(0.9)
EBITDA growth (%)	12.8	20.1	13.7	1.9	1.8
Pretax margin (%)	40.2	21.1	15.7	16.2	16.9
Net profit margin (%)	31.6	16.1	10.5	10.0	10.4
Interest cover (x)	9.8	19.4	16.2	9.9	8.5
Effective tax rate (%)	7.2	15.5	20.0	24.0	24.0
Dividend payout (%)	11.6	25.9	112.4	32.4	31.2
Debtors turnover (days)	87	92	85	77	78
Stock turnover (days)	56	57	45	44	47
Creditors turnover (days)	102	115	91	80	86

Source: Company, AmResearch estimates

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