



AmInvestment Bank

## Company report

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2036 2025

# SUNWAY

(SWB MK EQUITY, SWAY.KL)

PROPERTY

30 May 2017

*Anchored by recurring income segments*

## BUY

(Maintained)

**Rationale for report: Company results**

### Investment Highlights

Price	RM3.60
Fair Value	RM3.81
52-week High/Low	RM3.68/RM2.84

### 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	579.0	643.7
FD Core EPS (sen)	28.8	26.7	28.5	31.5
FD Core EPS growth (%)	(14.9)	(7.5)	6.9	10.5
Consensus Net Profit (RM mil)	-	563.2	599.0	649.3
DPS (sen)	10.0	10.0	10.0	10.0
PE (x)	12.5	13.5	12.6	11.4
EV/EBITDA (x)	11.4	11.7	11.7	10.9
Div yield (%)	2.8	2.8	2.8	2.8
ROE (%)	8.4	7.1	7.3	7.9
Net Gearing (%)	45.1	45.0	49.6	52.7

### Stock and Financial Data

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	6,204.7
Book Value (RM/share)	3.54
P/BV (x)	1.0
ROE (%)	8.4
Net Gearing (%)	45.1

Major Shareholders	Tan Sri Jeffrey Cheah (48.2%) EPF (5.7%)
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Free Float	22.4
Avg Daily Value (RMmil)	7.5

Price performance	3mth	6mth	12mth
Absolute (%)	12.6	21.2	20.0
Relative (%)	7.6	11.3	10.9



- We make no changes to our FY17-19F earnings forecasts, and maintain our BUY call on Sunway with a higher SOP-based fair value of RM3.81 per share. This was derived after applying a 20% discount to its property development division's RNAV, and pegging its construction division at 14x CY18F P/E, as we roll forward our valuation to FY18F, in line with our target P/E of 13-15x for mid-sized construction stocks.
- Sunway's 1QFY17 net profit grew 5.7% YoY to RM107.9mil. This accounted for 20% of our full-year forecast and 19% of consensus. We deem this to be broadly in line as we expect stronger performance ahead for the group for the rest of the year. No dividend was declared, as expected
- Sunway's 1QFY17 revenue rose 2.1% YoY to RM1.09bil, but pre-tax profit dropped 13.0% YoY to RM153.1mil. The lower pre-tax profit was mainly due to weaker profit at its property development division.
- Property development division's revenue slipped 39% YoY to RM143.3mil while EBIT shrank 71% YoY to RM20.5mil 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 2Q16. Sunway registered new property sales of RM142mil in 1QFY17, while unbilled sales stood at RM1.4bil, made up mainly by Sunway Velocity. We expect the sales and revenue to pick up in the upcoming quarters, with Sunway set to launch RM2bil GDV of new projects in 2017.
- Property investment segment's revenue expanded 10% YoY to RM186.9mil while EBIT strengthened 16% YoY to RM74.2mil, mainly due to Sunway Velocity Mall which opened in Dec 2016.
- Construction segment's revenue edged up 1.7% YoY to RM316.8mil while EBIT shed 2.5% YoY to RM34.7mil. Construction order book stood at RM4.6bil as at end-1QFY17, which should keep it occupied for the next 24 months. It replenished its order book by RM894mil in 1QFY17, mainly from Sunway Serene condo project (RM449mil) and MRT Station Works S201 (RM212mil).
- 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 are 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 landbank locally, as well as its geographical diversification.

## EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM m)	1QFY17	1QFY16	4QFY16	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>1,091.3</b>	<b>1,069.0</b>	<b>1,363.7</b>	<b>2.1</b>	<b>(20.0)</b>
<b>EBIT</b>	<b>116.8</b>	<b>149.6</b>	<b>251.4</b>	<b>(22.0)</b>	<b>(53.6)</b>
Finance income	42.9	23.6	26.6	<i>nm</i>	<i>nm</i>
Finance costs	(49.6)	(39.7)	(52.2)	25.0	(5.0)
Share of profit from associates	27.0	24.2	28.7	11.2	(6.1)
Share of profit from JVs	16.1	18.3	16.1	(11.9)	(0.1)
EI/Others			24.0	<i>#DIV/0!</i>	<i>(100.0)</i>
<b>Pre-tax profit</b>	<b>153.1</b>	<b>176.1</b>	<b>270.6</b>	<b>(13.0)</b>	<b>(43.4)</b>
Tax	(27.3)	(32.8)	(46.0)	(16.8)	(40.5)
Non-controlling interests	17.9	41.1	38.8		
<b>Net Profit</b>	<b>107.9</b>	<b>102.1</b>	<b>185.8</b>	<b>5.7</b>	<b>(41.9)</b>
<b>Core Profit</b>	<b>107.9</b>	<b>102.1</b>	<b>161.8</b>	<b>5.7</b>	<b>(33.3)</b>
<i>EBIT Margin (%)</i>	10.7%	14.0%	18.4%		
<i>Pretax Margin (%)</i>	14.0%	16.5%	19.8%		
<i>Effective tax rate (%)</i>	24.8%	24.6%	20.4%		
<i>Core net Margin (%)</i>	9.9%	9.6%	11.9%		

Source: Company, AmlInvestment Bank Bhd

## EXHIBIT 2: SOP CALCULATION

	Value (RMmil)	Method
Property	3,511.7	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	2,149.4	14x FY18F earnings, in line with our benchmark forward PE of 13-15x for mid-cap construction stocks
Net cash/(debt)	(778.7)	As at 31 Dec 2016 (company level)
<b>SOP</b>	<b>7,760.6</b>	
Enlarged share base (mil shares)	2,034.9	
<b>SOP (RM/share)</b>	<b>3.81</b>	Fully-diluted

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

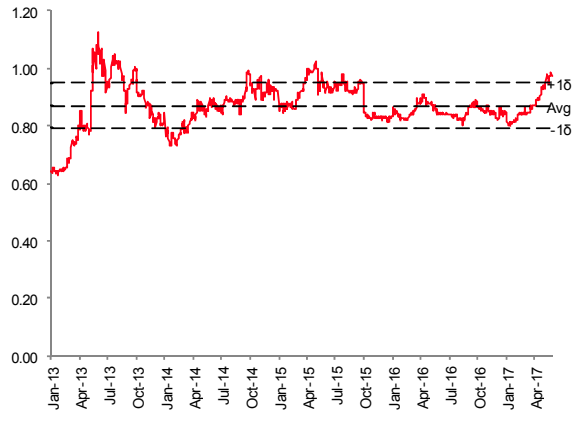
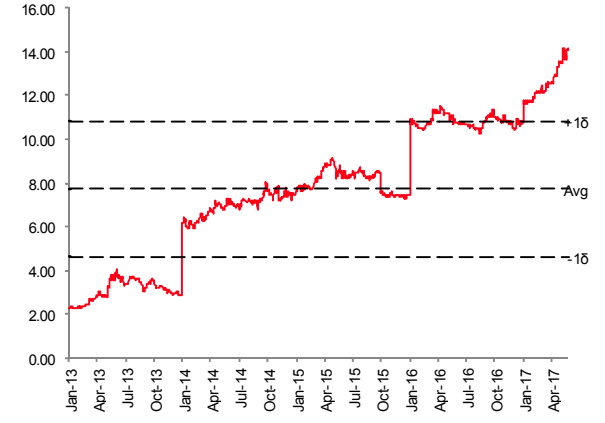


EXHIBIT 4: PE BAND CHART



## 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	868.3	974.8
Depreciation/Amortisation	(117.3)	(113.9)	(136.0)	(144.0)	(150.0)
Operating income (EBIT)	687.1	726.9	691.6	724.3	824.8
Other income & associates	269.9	192.0	167.0	170.0	180.0
Net interest	(26.6)	(59.9)	(44.1)	(19.8)	(32.4)
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>930.4</b>	<b>859.0</b>	<b>814.5</b>	<b>874.5</b>	<b>972.4</b>
Taxation	(130.9)	(140.4)	(125.4)	(134.7)	(149.7)
Minorities/pref dividends	(67.0)	(132.7)	(149.9)	(160.9)	(178.9)
<b>Net profit</b>	<b>732.4</b>	<b>585.9</b>	<b>539.2</b>	<b>579.0</b>	<b>643.7</b>
Core net profit	590.7	585.9	539.2	579.0	643.7
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	9,562.3	10,242.3
<b>Total non-current assets</b>	<b>9,261.3</b>	<b>9,679.9</b>	<b>11,021.3</b>	<b>11,897.3</b>	<b>12,777.3</b>
Cash & equivalent	2,631.0	4,059.8	2,377.6	1,900.6	1,497.4
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
<b>Total current assets</b>	<b>6,739.6</b>	<b>9,151.5</b>	<b>6,486.2</b>	<b>6,009.2</b>	<b>5,606.0</b>
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
<b>Total current liabilities</b>	<b>5,564.2</b>	<b>7,583.3</b>	<b>5,564.2</b>	<b>5,564.2</b>	<b>5,564.2</b>
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
<b>Total long-term liabilities</b>	<b>3,223.4</b>	<b>3,028.9</b>	<b>3,223.4</b>	<b>3,223.4</b>	<b>3,223.4</b>
<b>Shareholders' funds</b>	<b>6,562.7</b>	<b>7,455.7</b>	<b>7,784.8</b>	<b>8,022.9</b>	<b>8,320.7</b>
Minority interests	650.6	763.5	935.2	1,096.1	1,275.0
BV/share (RM)	3.65	3.54	3.69	3.80	3.95
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	930.4	859.0	814.5	874.5	972.4
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)	(284.9)	(297.4)
<b>Cash flow from operations</b>	<b>939.6</b>	<b>537.7</b>	<b>702.1</b>	<b>733.7</b>	<b>825.0</b>
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)
<b>Cash flow from investing</b>	<b>(2,087.6)</b>	<b>(1,592.4)</b>	<b>(850.0)</b>	<b>(850.0)</b>	<b>(850.0)</b>
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)	(149.8)	(167.4)
<b>Cash flow from financing</b>	<b>1,116.0</b>	<b>1,571.3</b>	<b>(334.9)</b>	<b>(360.7)</b>	<b>(378.3)</b>
<b>Net cash flow</b>	<b>(32.0)</b>	<b>516.6</b>	<b>(482.8)</b>	<b>(477.0)</b>	<b>(403.3)</b>
<b>Net cash/(debt) b/f</b>	<b>1,292.9</b>	<b>1,247.9</b>	<b>1,514.5</b>	<b>1,031.7</b>	<b>554.7</b>
<b>Net cash/(debt) c/f</b>	<b>1,285.0</b>	<b>1,787.0</b>	<b>1,031.7</b>	<b>554.7</b>	<b>151.4</b>
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)	4.9	12.3
Pretax margin (%)	20.9	18.2	14.3	13.8	14.3
Net profit margin (%)	16.5	12.4	9.5	9.1	9.5
Interest cover (x)	25.8	12.1	15.7	36.6	25.5
Effective tax rate (%)	14.1	16.3	15.4	15.4	15.4
Dividend payout (%)	90.9	36.0	39.1	36.4	32.8
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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