



AmInvestment Bank

# SUNWAY

(SWB MK EQUITY, SWAY.KL)

29 Feb 2016

## Company report

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Rationale for report: Company result

# BUY

(Maintained)

Price	RM3.01
Fair Value	RM3.54
52-week High/Low	RM3.53/RM2.89

### Key Changes

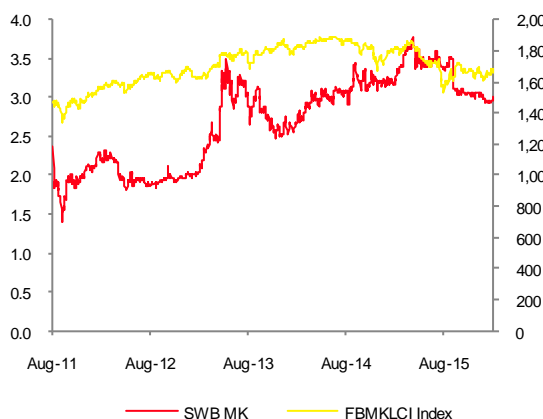
Fair value	↔
EPS	↔

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)	-	-	530.2	552.1
DPS (sen)	37.0	10.0	10.0	10.0
PE (x)	9.0	9.8	9.4	9.0
EV/EBITDA (x)	11.1	10.6	10.8	10.4
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)	5,187.8
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%)
Free Float	22.4
Avg Daily Value (RMmil)	3.1

Price performance	3mth	6mth	12mth
Absolute (%)	(1.6)	(4.3)	(0.5)
Relative (%)	(0.5)	(9.0)	9.0



### 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.
- Sunway posted a 4QFY15 core net profit of RM170.4mil (+18% QoQ, 23% YoY) – bringing the total for FY15 to RM585mil (+12%) – representing ~6% above our and consensus numbers.
- The FY15 performance beat expectations, but this was largely due to a lower-than-expected effective tax rate (~14%) and lower minority interest.
- The actual core PBT accounted for 94% and 97% of our and street estimate, respectively. At the operating level, the result was also in line with expectations, as EBIT accounted for 96% and 101% of our and consensus estimates.
- Sunway's net profit includes fair value gains in associate (RM110mil) and in investment properties (RM56mil), and listing expenses (RM16mil).
- It declared a second interim dividend of 6 sen/share – bringing the total cash dividend for the year to 37 sen/share – one sen more than our estimate. This excludes the dividend-in-specie of Sunway Construction Group share valued at 12 sen/share.
- While property development lagged expectations, the result was boosted by the construction and property investment divisions, with significant improvements in margins.
- For property development, it posted sales of RM1.2bil (effective: RM912mil) for FY15, while unbilled sales stood at RM2.1bil (effective: RM1.5bil) as at end-Dec 2015 vs. RM2.3bil (effective: RM1.7bil) as at end-Sept 2015.
- 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).
- The construction division's current outstanding order book stands at RM3.7bil, after raking in RM2.6bil worth of new jobs in FY15. We maintain our earnings forecasts for now.
- Reiterate BUY. We believe Sunway's long-term prospects are intact. The risks continue to be the lull in the property development market.

## EXHIBIT 1: RESULT SUMMARY

	FY14	FY15	% YoY change	4Q14	3Q15	4Q15	% QoQ change	% YoY change	FY15F
<b>Revenue</b>	<b>4,558.1</b>	<b>4,451.3</b>	<b>(2.3)</b>	<b>1,193.8</b>	<b>951.0</b>	<b>1,398.8</b>	<b>47.1</b>	<b>17.2</b>	<b>5,290.3</b>
<b>EBIT</b>	<b>589.5</b>	<b>649.3</b>	<b>10.1</b>	<b>176.6</b>	<b>137.6</b>	<b>211.7</b>	<b>53.9</b>	<b>19.9</b>	<b>680.0</b>
Est. Unusual Items	229.7	147.4	(35.8)	185.1	(14.0)	44.3	(417.5)	(76.1)	0.0
Associates & JVs	171.4	159.1	(7.2)	44.8	31.5	49.6	57.2	10.6	193.7
Net interest income	(30.4)	(26.6)	(12.4)	(7.2)	15.8	(21.8)	(237.8)	200.3	(42.0)
<b>PBT</b>	<b>960.2</b>	<b>929.2</b>	<b>(3.2)</b>	<b>399.2</b>	<b>171.0</b>	<b>283.8</b>	<b>66.0</b>	<b>(28.9)</b>	<b>831.8</b>
Taxation	(148.6)	(129.8)	(12.6)	(51.5)	(31.5)	(29.2)	(7.3)	(43.3)	(166.4)
Minorities	(77.6)	(67.0)	(13.7)	(44.0)	(6.2)	(40.0)	548.2	(9.1)	(111.3)
<b>Net profit</b>	<b>734.0</b>	<b>732.4</b>	<b>(0.2)</b>	<b>303.8</b>	<b>133.3</b>	<b>214.7</b>	<b>61.0</b>	<b>(29.3)</b>	<b>554.1</b>
Total Els after tax and MI	210.101	147.4	(29.8)	165.5	(14.0)	44.3	(417.5)	(73.2)	0.0
Tax	(141.7)	(129.8)	(8.4)	(44.5)	(31.5)	(29.2)	(7.3)	(34.5)	(166.4)
Core PBT	730.6	781.8	7.0	214.2	184.9	239.5	29.6	11.9	831.8
<b>Core net profit</b>	<b>523.9</b>	<b>585.0</b>	<b>11.7</b>	<b>138.3</b>	<b>147.3</b>	<b>170.4</b>	<b>15.7</b>	<b>23.2</b>	<b>554.1</b>
<b>Core EPS</b>	<b>30.4</b>	<b>33.4</b>	<b>9.8</b>	<b>8.0</b>	<b>8.5</b>	<b>9.6</b>	<b>11.9</b>	<b>19.4</b>	<b>32.1</b>
Diluted core EPS	29.1	31.3	7.6	7.6	8.1	9.2	12.8	20.8	30.7
<b>Margins (%)</b>	<b>FY14</b>	<b>FY15</b>	<b>ppt change YoY</b>	<b>4Q14</b>	<b>3Q15</b>	<b>4Q15</b>	<b>ppt change QoQ</b>	<b>ppt change YoY</b>	<b>FY15F</b>
EBIT	12.9	14.6	1.7	14.8	14.5	15.1	0.7	0.3	12.9
Core PBT	16.0	17.6	1.5	17.9	19.4	17.1	(2.3)	(0.8)	15.7
Core net profit	11.5	13.1	1.6	11.6	15.5	12.2	(3.3)	0.6	10.5
Tax rate (%)	19.4	16.6	(2.8)	20.8	17.0	12.2	(4.8)	(8.6)	20.0

Source: Company, AmlInvestment Bank Bhd

## EXHIBIT 2: SEGMENTAL PERFORMANCE

Core revenue	FY14	FY15	% YoY change	4Q14	3Q15	4Q15	% QoQ change	% YoY change	FY15F	Actual over FY15F
Property Dev	1,198.3	1,195.7	(0.2)	496.3	270.9	420.0	55.0	(15.4)	1,301.5	91.9
Property Inv	578.3	641.7	11.0	160.4	172.2	185.4	7.6	15.6	605.8	105.9
Construction	1,481.5	1,222.1	(17.5)	208.5	196.8	405.9	106.3	94.7	2,055.3	59.5
Trading and Manufacturing	639.4	650.0	1.7	168.9	130.5	205.3	57.3	21.5	671.4	96.8
Quarry	236.7	242.1	2.3	74.5	66.8	57.5	(13.8)	(22.8)	248.5	97.4
Investment Holdings	2.5	4.7	nm	2.5	1.1	2.7	nm	nm	2.6	185.1
Others	405.3	494.9	22.1	82.7	112.8	122.0	8.2	47.5	405.3	122.1
<b>Total</b>	<b>4,542.0</b>	<b>4,451.3</b>	<b>(2.0)</b>	<b>1,193.8</b>	<b>951.0</b>	<b>1,398.8</b>	<b>47.1</b>	<b>17.2</b>	<b>5,290.3</b>	<b>84.1</b>
<b>Est. EBIT</b>										
Property Dev	287.3	213.9	(25.6)	98.1	35.5	98.4	177.2	0.4	351.4	60.9
Property Inv	128.2	147.4	15.0	49.8	41.6	49.4	18.8	(0.7)	109.0	135.2
Construction	132.1	159.0	20.4	53.6	23.4	26.8	14.3	(50.1)	111.0	143.2
Trading and Manufacturing	40.1	31.9	(20.4)	9.2	5.4	11.7	118.1	27.6	52.4	61.0
Quarry	36.7	39.5	7.6	16.5	10.6	5.8	(44.7)	(64.5)	29.8	132.5
Investment Holdings	(13.5)	(7.5)	(44.8)	(3.2)	(4.4)	9.8	(323.4)	(407.8)	0.0	nm
Others	(21.4)	65.0	(403.6)	(47.4)	25.5	9.7	(61.9)	(120.5)	26.3	246.7
<b>Total</b>	<b>589.5</b>	<b>649.3</b>	<b>10.1</b>	<b>176.6</b>	<b>137.6</b>	<b>211.7</b>	<b>53.9</b>	<b>19.9</b>	<b>680.0</b>	<b>95.5</b>
<b>Est. EBIT margin</b>										
Property Dev	24.0	17.9	(6.1)	19.8	13.1	23.4	10.3	3.7	27.0	(9.1)
Property Inv	22.2	23.0	0.8	31.0	24.2	26.7	2.5	(4.4)	18.0	5.0
Construction	8.9	13.0	4.1	25.7	11.9	6.6	(5.3)	(19.1)	5.4	7.6
Trading and Manufacturing	6.3	4.9	(1.4)	5.4	4.1	5.7	1.6	0.3	7.8	(2.9)
Quarry	15.5	16.3	0.8	22.1	15.8	10.2	(5.7)	(11.9)	12.0	4.3
Investment Holdings	nm	nm	nm	nm	nm	nm	nm	nm	0.0	nm
Others	(5.3)	13.1	18.4	(57.3)	22.6	8.0	(14.7)	65.2	6.5	6.6
<b>Overall</b>	<b>13.0</b>	<b>14.6</b>	<b>1.6</b>	<b>14.8</b>	<b>14.5</b>	<b>15.1</b>	<b>0.7</b>	<b>0.3</b>	<b>12.9</b>	<b>1.7</b>
<b>Core pretax profit</b>										
Property Dev	362.2	268.9	(25.8)	118.4	39.5	116.2	194.5	(1.8)	436.0	61.7
Property Inv	133.3	137.6	3.3	50.9	39.3	49.7	26.6	(2.3)	122.3	112.6
Construction	136.2	162.7	19.4	54.6	24.1	30.0	24.7	(45.0)	145.7	111.7
Trading and Manufacturing	36.8	24.1	(34.6)	8.3	3.5	8.6	143.4	3.4	49.9	48.3
Quarry	37.8	39.2	3.7	16.8	10.4	5.6	(46.5)	(66.8)	30.9	127.0
Investment Holdings	37.1	69.8	87.9	10.0	35.9	19.0	(47.2)	90.6	12.5	nm
Others	(13.0)	79.6	(714.6)	(44.8)	32.2	10.4	(67.6)	(123.3)	34.6	230.2
<b>Total</b>	<b>730.6</b>	<b>781.8</b>	<b>7.0</b>	<b>214.2</b>	<b>184.9</b>	<b>239.5</b>	<b>29.6</b>	<b>11.9</b>	<b>831.8</b>	<b>94.0</b>
<b>Core PBT margin</b>										
Property Dev	30.2	22.5	(7.7)	23.9	14.6	27.7	13.1	3.8	33.5	(11.0)
Property Inv	23.0	21.4	(1.6)	31.7	22.8	26.8	4.0	(4.9)	20.2	1.3
Construction	9.2	13.3	4.1	26.2	12.2	7.4	(4.8)	(18.8)	7.1	6.2
Trading and Manufacturing	5.8	3.7	(2.1)	4.9	2.7	4.2	1.5	(0.7)	7.4	(3.7)
Quarry	16.0	16.2	0.2	22.6	15.6	9.7	(5.9)	(12.9)	12.4	3.8
Investment Holdings	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Others	(3.2)	16.1	19.3	(54.1)	28.6	8.6	(20.0)	62.7	8.5	7.6
<b>Overall</b>	<b>16.1</b>	<b>17.6</b>	<b>1.5</b>	<b>17.9</b>	<b>19.4</b>	<b>17.1</b>	<b>(2.3)</b>	<b>(0.8)</b>	<b>15.7</b>	<b>1.8</b>

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

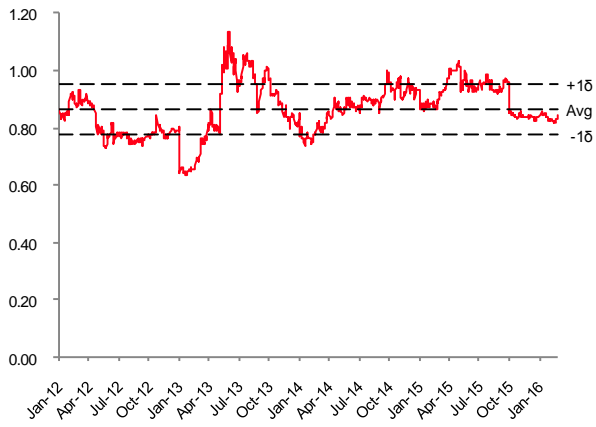
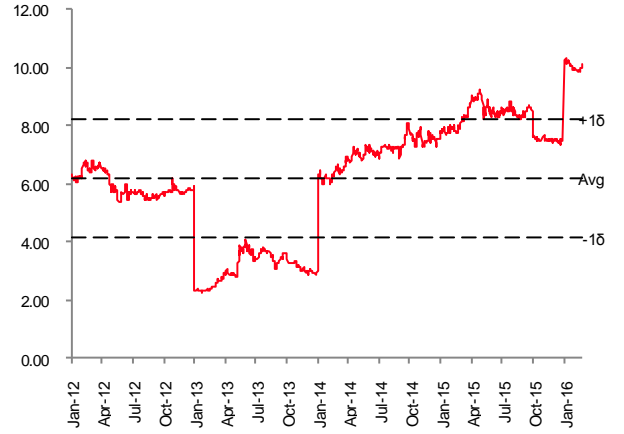


EXHIBIT 4: PE BAND CHART



## EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	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	-	-	-
<b>Pretax profit</b>	<b>960.2</b>	<b>929.2</b>	<b>847.8</b>	<b>880.8</b>	<b>928.3</b>
Taxation	(148.6)	(129.8)	(203.5)	(211.4)	(222.8)
Minorities/pref dividends	(77.6)	(67.0)	(110.0)	(115.0)	(120.0)
<b>Net profit</b>	<b>734.0</b>	<b>732.4</b>	<b>534.3</b>	<b>554.4</b>	<b>585.5</b>
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
<b>Total non-current assets</b>	<b>6,874.9</b>	<b>8,929.8</b>	<b>8,608.0</b>	<b>8,800.5</b>	<b>8,984.2</b>
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
<b>Total current assets</b>	<b>5,982.3</b>	<b>7,064.6</b>	<b>5,740.8</b>	<b>5,384.0</b>	<b>5,621.0</b>
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
<b>Total current liabilities</b>	<b>4,275.8</b>	<b>5,793.0</b>	<b>3,676.7</b>	<b>3,238.0</b>	<b>3,403.1</b>
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
<b>Total long-term liabilities</b>	<b>2,257.5</b>	<b>3,001.0</b>	<b>3,603.3</b>	<b>3,503.3</b>	<b>3,353.3</b>
<b>Shareholders' funds</b>	<b>5,936.4</b>	<b>6,549.8</b>	<b>6,418.2</b>	<b>6,792.6</b>	<b>7,198.2</b>
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)
<b>Cash flow from operations</b>	<b>708.0</b>	<b>861.9</b>	<b>823.2</b>	<b>247.7</b>	<b>630.2</b>
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)
<b>Cash flow from investing</b>	<b>(886.0)</b>	<b>(2,274.1)</b>	<b>(218.1)</b>	<b>(417.1)</b>	<b>(316.1)</b>
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)
<b>Cash flow from financing</b>	<b>601.4</b>	<b>1,106.6</b>	<b>(743.5)</b>	<b>(292.5)</b>	<b>(49.5)</b>
<b>Net cash flow</b>	<b>423.4</b>	<b>(305.6)</b>	<b>(138.3)</b>	<b>(461.8)</b>	<b>264.6</b>
<b>Net cash/(debt) b/f</b>	<b>871.7</b>	<b>1,292.9</b>	<b>1,011.5</b>	<b>873.2</b>	<b>411.3</b>
<b>Net cash/(debt) c/f</b>	<b>1,292.9</b>	<b>1,011.5</b>	<b>873.2</b>	<b>411.3</b>	<b>675.9</b>
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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