



AmInvestment Bank

Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

28 Nov 2016

Order Backlogs To Sustain Earnings

BUY

(Maintained)

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Rationale for report: Company result

Price	RM3.00
Fair Value	RM3.46
52-week High/Low	RM3.24/RM2.87

Key Changes

Fair value	↕
EPS	↔

YE to Dec	FY15	FY16F	FY17F	FY18F
Revenue (RM mil)	4,448.4	4,708.0	5,694.3	6,346.8
Core net profit (RM mil)	590.7	484.8	486.4	493.5
FD Core EPS (sen)	33.9	24.2	24.2	24.6
FD Core EPS growth (%)	(2.7)	(28.7)	0.3	1.3
Consensus Net Profit (RM mil)	-	515.5	550.0	582.3
DPS (sen)	37.0	10.0	10.0	10.0
PE (x)	8.9	12.4	12.4	12.2
EV/EBITDA (x)	10.5	10.4	10.5	10.5
Div yield (%)	12.3	3.3	3.3	3.3
ROE (%)	11.7	6.9	6.3	6.2
Net Gearing (%)	49.6	40.1	44.7	48.8

Stock and Financial Data

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	5,170.6
Book Value (RM/share)	3.65
P/BV (x)	0.8
ROE (%)	11.7
Net Gearing (%)	49.6

Major Shareholders Tan Sri Jeffrey Cheah (48.2%) EPF (5.7%)

Free Float 22.4 Avg Daily Value (RMmil) 3.4

Price performance	3mth	6mth	12mth
Absolute (%)	(0.3)	(1.0)	(2.3)
Relative (%)	3.1	(0.4)	1.0



Investment Highlights

- We maintain our forecasts and BUY call, but tweak our FV down slightly to RM3.46 (from RM3.50) after some minor housekeeping on our SOP valuation (Exhibit 5). Our SOP value is derived by applying a 20% discount to property RNAV (to reflect the soft property market and hence greater challenges in realising it) and valuing Sunway's construction business at 15x FY17F earnings, in line with our 1-year forward target PE of 13-15x for mid-sized construction stocks.
- Sunway's 9MFY16 core net profit of RM385.6mil (excluding fair value gains and ESOS expenses) came in with expectations at 79%/75% of our full-year forecast and the full-year consensus estimates respectively.
- 9MFY16 core net profit eased 7% yoy. Precast products (grouped under construction) reported lower profits as margins normalised. The division registered exceptionally high margins a year ago due to lumpy profits on finalisation of accounts). The weaker precast profits were partially cushioned by surprisingly resilient property profits (+38% yoy), driven by sizeable new and unbilled sales.
- Sunway recorded RM864mil new property sales in 9MFY16 (+18% yoy), underpinned largely by sales from Sunway Mont (RM195mil), Singapore (RM138mil), Iskandar (RM122mil) and China (RM100mil). However, its unbilled sales eased by 10% to RM1.8bil (from RM2.0bil three months ago), we believe due to substantial billings during the quarter.
- Its construction order backlog was at a record high of RM4.8bil as at end-3QFY16 (Exhibit 6), which should keep the 54.4%-owned unit busy for the next 12-24 months.
- We like Sunway for its strong earnings visibility underpinned by sizeable property unbilled sales and construction orderbook.
- It has been able to weather the slowdown in the property market relatively well thanks to its well located landbank locally, as well as geographical diversification (Singapore and China).
- Its construction division has already benefited from the booming local construction sector, with its involvement in the construction of MRT2 and the massive new government complex called "Parcel F" in Putrajaya.

## EXHIBIT 1: RESULTS SUMMARY

YE Dec (RMmil)	FY16 1Q	FY16 2Q	FY16 3Q	QoQ Chg	FY15 9M	FY16 9M	YoY Chg
<b>Turnover</b>	<b>1,069.0</b>	<b>1,155.7</b>	<b>1,137.5</b>	<b>(2%)</b>	<b>3,052.6</b>	<b>3,362.2</b>	<b>10%</b>
Property Development	234.1	315.1	247.6	(21%)	775.7	796.7	3%
Property Investment	169.2	160.1	189.9	19%	456.3	519.2	14%
Construction	311.4	249.3	287.9	15%	816.2	848.7	4%
Trading/Manufacturing	193.1	218.5	206.7	(5%)	444.7	618.2	39%
Quarry	38.7	60.6	54.0	(11%)	184.6	153.3	(17%)
Others	122.5	152.1	151.4	(0%)	374.9	426.0	14%
<b>EBIT</b>	<b>149.6</b>	<b>161.4</b>	<b>164.3</b>	<b>2%</b>	<b>427.6</b>	<b>475.4</b>	<b>11%</b>
Property Development	55.7	53.1	45.3	(15%)	111.3	154.0	38%
Property Investment	36.4	24.4	50.0	105%	112.5	110.9	(1%)
Construction	35.6	34.0	31.3	(8%)	132.3	100.9	(24%)
Trading/Manufacturing	8.5	10.5	11.3	8%	20.2	30.3	50%
Quarry	6.4	11.7	7.2	(38%)	33.7	25.3	(25%)
Others	7.1	27.8	19.1	(31%)	17.7	54.0	206%
Net inc/(exp)	(16.1)	(15.6)	(2.5)	(84%)	(2.6)	(34.1)	1197%
Associates	24.2	47.0	25.1	(47%)	175.3	96.3	(45%)
JV	18.3	10.9	21.6	97%	45.0	50.8	13%
<b>Pretax profit</b>	<b>176.1</b>	<b>203.8</b>	<b>208.5</b>	<b>2%</b>	<b>645.4</b>	<b>588.4</b>	<b>(9%)</b>
Taxation	(32.8)	(23.9)	(37.7)	58%	(100.6)	(94.4)	(6%)
Minority interest	(41.1)	(25.5)	(27.2)	7%	(27.0)	(93.9)	248%
<b>Net profit</b>	<b>102.1</b>	<b>154.4</b>	<b>143.6</b>	<b>(7%)</b>	<b>517.8</b>	<b>400.1</b>	<b>(23%)</b>
EPS (sen)	5.7	7.8	7.0	(10%)	29.5	20.7	(30%)
<b>Core net profit</b>					<b>414.5</b>	<b>385.6</b>	<b>(7%)</b>
EBIT margin	14%	14%	14%	0%	14%	14%	0%
Pretax margin	16%	18%	18%	1%	21%	18%	(4%)
Effective tax rate	19%	12%	18%	6%	16%	16%	0%

Source: Bursa Malaysia

## EXHIBIT 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	4,558.1	4,448.4	4,708.0	5,694.3	6,346.8
EBITDA	871.4	804.4	788.0	827.6	868.3
Depreciation/Amortisation	(114.1)	(117.3)	(127.0)	(136.0)	(144.0)
Operating income (EBIT)	757.3	687.1	661.0	691.6	724.3
Other income & associates	233.4	269.9	156.0	167.0	170.0
Net interest	(30.4)	(26.6)	(84.7)	(123.8)	(148.9)
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>960.2</b>	<b>930.4</b>	<b>732.3</b>	<b>734.8</b>	<b>745.5</b>
Taxation	(148.6)	(130.9)	(112.8)	(113.2)	(114.8)
Minorities/pref dividends	(77.6)	(67.0)	(134.7)	(135.2)	(137.2)
<b>Net profit</b>	<b>734.0</b>	<b>732.4</b>	<b>484.8</b>	<b>486.4</b>	<b>493.5</b>
Core net profit	583.9	590.7	484.8	486.4	493.5
Balance Sheet (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Fixed assets	985.2	1,333.6	1,556.6	1,770.6	1,976.6
Intangible assets	319.4	358.5	358.5	358.5	358.5
Other long-term assets	5,570.2	7,569.3	8,225.3	8,892.3	9,562.3
<b>Total non-current assets</b>	<b>6,874.9</b>	<b>9,261.3</b>	<b>10,140.3</b>	<b>11,021.3</b>	<b>11,897.3</b>
Cash & equivalent	1,978.2	2,631.0	2,860.4	2,390.1	1,933.9
Stock	580.0	693.1	693.1	693.1	693.1
Trade debtors	1,184.7	1,541.1	1,541.1	1,541.1	1,541.1
Other current assets	2,239.4	1,874.4	1,874.4	1,874.4	1,874.4
<b>Total current assets</b>	<b>5,982.3</b>	<b>6,739.6</b>	<b>6,969.0</b>	<b>6,498.8</b>	<b>6,042.5</b>
Trade creditors	1,275.8	1,287.0	1,287.0	1,287.0	1,287.0
Short-term borrowings	2,132.9	3,068.6	3,068.6	3,068.6	3,068.6
Other current liabilities	867.1	1,208.5	1,208.5	1,208.5	1,208.5
<b>Total current liabilities</b>	<b>4,275.8</b>	<b>5,564.2</b>	<b>5,564.2</b>	<b>5,564.2</b>	<b>5,564.2</b>
Long-term borrowings	1,651.5	2,815.2	2,815.2	2,815.2	2,815.2
Other long-term liabilities	605.9	408.2	408.2	408.2	408.2
<b>Total long-term liabilities</b>	<b>2,257.5</b>	<b>3,223.4</b>	<b>3,223.4</b>	<b>3,223.4</b>	<b>3,223.4</b>
<b>Shareholders' funds</b>	<b>5,936.4</b>	<b>6,562.7</b>	<b>7,536.4</b>	<b>7,812.0</b>	<b>8,094.6</b>
Minority interests	387.5	650.6	785.3	920.5	1,057.7
BV/share (RM)	3.43	3.65	3.57	3.70	3.84
Cash Flow (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Pretax profit	960.2	930.4	732.3	734.8	745.5
Depreciation/Amortisation	114.1	117.3	127.0	136.0	144.0
Net change in working capital	(311.9)	152.9	-	-	-
Others	(54.5)	(261.0)	(184.0)	(156.3)	(135.9)
<b>Cash flow from operations</b>	<b>708.0</b>	<b>939.6</b>	<b>675.2</b>	<b>714.4</b>	<b>753.5</b>
Capital expenditure	(323.9)	(412.9)	(350.0)	(350.0)	(350.0)
Net investments & sale of fixed assets	65.8	18.7	-	-	-
Others	(627.9)	(1,693.4)	(500.0)	(500.0)	(500.0)
<b>Cash flow from investing</b>	<b>(886.0)</b>	<b>(2,087.6)</b>	<b>(850.0)</b>	<b>(850.0)</b>	<b>(850.0)</b>
Debt raised/(repaid)	298.3	1,763.8	-	-	-
Equity raised/(repaid)	-	180.1	699.9	-	-
Dividends paid	(172.7)	(656.7)	(210.9)	(210.9)	(210.9)
Others	475.9	(171.1)	(84.7)	(123.8)	(148.9)
<b>Cash flow from financing</b>	<b>601.4</b>	<b>1,116.0</b>	<b>404.2</b>	<b>(334.7)</b>	<b>(359.7)</b>
<b>Net cash flow</b>	<b>423.4</b>	<b>(32.0)</b>	<b>229.5</b>	<b>(470.3)</b>	<b>(456.2)</b>
<b>Net cash/(debt) b/f</b>	<b>871.7</b>	<b>1,292.9</b>	<b>1,285.0</b>	<b>1,514.5</b>	<b>1,044.2</b>
<b>Net cash/(debt) c/f</b>	<b>1,292.9</b>	<b>1,285.0</b>	<b>1,514.5</b>	<b>1,044.2</b>	<b>588.0</b>
Key Ratios (YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue growth (%)	(3.5)	(2.4)	5.8	20.9	11.5
EBITDA growth (%)	48.7	(7.7)	(2.0)	5.0	4.9
Pretax margin (%)	21.1	20.9	15.6	12.9	11.7
Net profit margin (%)	16.1	16.5	10.3	8.5	7.8
Interest cover (x)	24.9	25.8	7.8	5.6	4.9
Effective tax rate (%)	15.5	14.1	15.4	15.4	15.4
Dividend payout (%)	25.9	90.9	43.5	43.4	42.7
Debtors turnover (days)	92	112	119	99	89
Stock turnover (days)	59	64	65	52	46
Creditors turnover (days)	120	128	120	97	86

Source: Company, AmlInvestment Bank Bhd estimates

EXHIBIT 3: PB BAND CHART

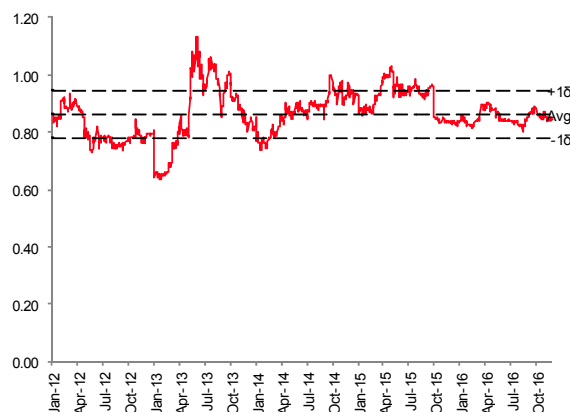


EXHIBIT 4: PE BAND CHART

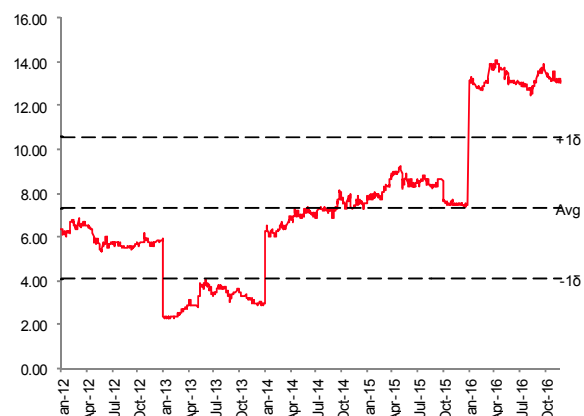


EXHIBIT 5: VALUATION TABLE

	Value (RMmil)	
Property	3,468.3	20% discount to RNAV
Investment properties	1,013.3	Estimated equity value as at 31 Dec 2015
Sunway REIT	1,865.0	Market value
Construction & others	1,943.6	15x FY17F earnings, in line with our benchmark forward PE of 13-15x for mid-cap construction stocks
Net cash/(debt)	(923.7)	As at 31 Dec 2015 (company level)
Proceeds from ESOS	217.7	
<b>SOP</b>	<b>7,584.2</b>	
<b>Enlarged share base (mil shares)</b>	<b>2,191.4</b>	
<b>SOP (RM/share)</b>	<b>3.46</b>	Fully-diluted

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 6: OUTSTANDING ORDERBOOK

Project	Outstanding Value (RMmil)
Internal works*	1,290
Putrajaya Parcel F	1,252
Package V201, MRT2	1,234
Precast orders	305
International School of KL	268
KLCC NEC	142
Others	309
<b>Total</b>	<b>4,800</b>

\*Including Sunway Velocity, Sunway Iskandar & Sunway Medical Centre 4

Source: Company

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