

# Malaysia Company Guide

## Sunway

Version 4 | Bloomberg: SWB MK | Reuters: SWAY.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Aug 2016

### HOLD

Last Traded Price: RM3.01 (KLCI : 1,681.60)

Price Target 12-mth: RM2.90 (-4% downside) (Prev RM2.90)

**Potential Catalyst:** Stronger-than-expected property sales

**Where we differ:** One of the lowest TP, more conservative earnings assumption

**Analyst**

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### What's New

- 2Q16 results met expectations
- Resilient business model to ride out challenging environment
- Declared interim DPS of 5 sen

### Price Relative



### Forecasts and Valuation

FY Dec (RM m)	2015A	2016F	2017F	2018F
Revenue	4,451	5,085	4,777	5,013
EBITDA	929	946	907	962
Pre-tax Profit	929	737	699	743
Net Profit	732	497	490	538
Net Pft (Pre Ex.)	591	497	490	538
Net Pft Gth (Pre-ex) (%)	(0.2)	(15.9)	(1.5)	9.9
EPS (sen)	41.1	27.9	27.5	30.2
EPS Pre Ex. (sen)	33.2	27.9	27.5	30.2
EPS Gth Pre Ex (%)	(3)	(16)	(1)	10
Diluted EPS (sen)	35.6	24.1	23.8	26.1
Net DPS (sen)	49.0	8.37	8.25	9.07
BV Per Share (sen)	368	388	407	428
PE (X)	7.3	10.8	10.9	10.0
PE Pre Ex. (X)	9.1	10.8	10.9	10.0
P/Cash Flow (X)	6.2	62.1	8.4	9.8
EV/EBITDA (X)	10.0	10.4	10.9	10.3
Net Div Yield (%)	16.3	2.8	2.7	3.0
P/Book Value (X)	0.8	0.8	0.7	0.7
Net Debt/Equity (X)	0.5	0.5	0.4	0.4
ROAE (%)	11.7	7.4	6.9	7.2
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		28.6	31.6	33.5
Other Broker Recs:		B: 7	S: 0	H: 6

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

### Cautious outlook

#### Challenging property market to limit stock re-rating potential.

Sunway's focus on sustainable township developments has resulted in stable property sales (RM1.7bn-1.8bn in FY12-14). However, the weak sentiment in the property markets in Malaysia and Singapore makes it challenging for Sunway to sustain its high sales momentum, as property sales dipped 29% to RM1.2bn in FY15. In view of the persistent headwinds in the property market, especially in high-end developments, we believe property sales may remain lacklustre in FY16. However, Sunway's unbilled property sales remain healthy at RM2bn (~1.2x FY16 property revenue) to support near-term earnings visibility.

#### Long gestation period for landbank in Iskandar Malaysia.

Sunway has 1,830 acres of landbank (RM30bn GDV) in Iskandar Malaysia, which accounts for ~50% of its total land bank. However, near-term prospects may be clouded by concerns of excess supply of properties in Iskandar Malaysia.

**Supported by non-property segment.** Apart from the property development segment, Sunway continues to register stable growth from other business divisions, especially the construction and property investment segments. Construction order book is near an all-time high at RM4.9bn after securing several major jobs over the past 12 months. Meanwhile, property investments are expected to stay resilient, contributing ~20% of Sunway's earnings.

#### Valuation:

We maintain our SOP-derived TP of RM2.90, based on a 10% discount to our revised SOP valuation of RM3.20. While we continue to like Sunway for its superior and unrivalled 'build-own-operate' model, there is no re-rating catalyst in the near term in view of the challenging property market outlook.

#### Key Risks to Our View:

**Slow property sales.** Weak sentiment in the property market could drag its property sales.

#### At A Glance

Issued Capital (m shrs)	2,033
Mkt. Cap (RMm/US\$m)	6,120 / 1,515
Major Shareholders (%)	
Sungei Way Corp	58.3
EPF	5.1
Free Float (%)	36.6
3m Avg. Daily Val (US\$m)	0.83
<b>ICB Industry</b> : Real Estate / Real Estate Investment & Services	

**WHAT'S NEW****Challenging environment**

**2Q16 met expectations.** Stripping out exceptional items, Sunway reported a 2Q16 core profit of RM133m (+27% q-o-q, -3% y-o-y). This takes 1H16 core earnings to RM237.4m (-11% y-o-y) which comprises 48% of our full-year projection. Property development remains the largest contributor, accounting for 33% for Sunway's 2Q16 EBIT, followed by construction business (21%) and property investment (15%).

**Property development is the largest contributor.** Property development's EBIT grew 45% y-o-y but dipped 5% q-o-q during the quarter. EBIT margin improved to 16.8% from 11.3% in 2Q15 (but moderated from 23.8% in 1Q16) which is in line with our expectation.

**Property investment dragged by fasting month.** Property investment's 2Q16 EBIT fell 14% y-o-y and 33% q-o-q given the lower visitorship to the theme parks and Sunway Resort Hotel due to the fasting month during the quarter. This is despite higher revenue (+11% y-o-y, -5% q-o-q) arising from higher rental contribution from Sunway University New Academic Block and better occupancy at Sunway Pinnacle. Therefore, 2Q16 EBIT margin was weaker at 15.2%, compared to 19.7% in 2Q15 and 21.5% in 1Q16.

**Construction remains steady.** While construction's 2Q16 EBIT dropped 14% y-o-y and 33% q-o-q due to lower profit recognition from ongoing projects and the upfront planning and preliminary costs incurred on the Klang Valley MRT package V201, we expect the earnings momentum to pick up in 2H16 as it delivers on its peak construction order book.

**Focus on in-demand property projects.** After achieving RM263m sales in 1Q16, Sunway's property sales improved to RM350m in 2Q16, of which RM130m was driven by its Sunway Mont project (RM800psf) in Mont Kiara which was highly successful. The group is targeting RM1.4bn sales in FY16, though we only assume RM1.1bn property sales as we believe the market sentiment will remain soft in the near to medium term.

**Relatively healthy earnings visibility.** Unbilled sales remain healthy at RM2bn (1.2x FY16 property development revenue), although it is the lowest in recent years due to slower sales – reflecting the weaker sentiment for high-end developments. Meanwhile, its construction order book is near an all-time high at RM4.9bn, thanks to the strong replenishment over the past 12 months.

**Quarterly / Interim Income Statement (RMm)**

FY Dec	2Q2015	1Q2016	2Q2016	% chg yoy	% chg qoq
Revenue	1,042	1,069	1,156	11.0	8.1
Cost of Goods Sold	(936)	(944)	(1,023)	9.2	8.3
<b>Gross Profit</b>	<b>105</b>	<b>125</b>	<b>133</b>	<b>26.2</b>	<b>6.6</b>
Other Oper. (Exp)/Inc	43.9	27.5	30.8	(29.8)	12.1
<b>Operating Profit</b>	<b>149</b>	<b>152</b>	<b>164</b>	<b>9.7</b>	<b>7.6</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	39.9	42.6	34.2	(14.3)	(19.6)
Net Interest (Exp)/Inc	(9.3)	(16.1)	(15.6)	(67.4)	3.5
Exceptional Gain/(Loss)	101	(2.4)	21.5	(78.7)	nm
<b>Pre-tax Profit</b>	<b>281</b>	<b>176</b>	<b>204</b>	<b>(27.5)</b>	<b>15.7</b>
Tax	(33.1)	(32.8)	(23.9)	(27.8)	(27.3)
Minority Interest	(9.9)	(41.1)	(25.5)	(157.0)	(37.9)
<b>Net Profit</b>	<b>238</b>	<b>102</b>	<b>154</b>	<b>(35.1)</b>	<b>51.2</b>
Net profit bef Except.	137	105	133	(2.8)	27.0
EBITDA	219	224	229	4.5	2.5
<b>Margins (%)</b>					
Gross Margins	10.1	11.7	11.5		
Opg Profit Margins	14.3	14.2	14.2		
Net Profit Margins	22.8	9.6	13.4		

Source of all data: Company, AllianceDBS

## CRITICAL DATA POINTS TO WATCH

### Earnings Drivers:

**Integrated property developer.** Sunway boasts an integrated real estate business model which includes property development, property investment, construction, trading & manufacturing, quarry & building materials as well as healthcare. Property development and construction are the two largest EBIT contributors at ~40% and ~25% share, respectively. We are projecting relatively subdued earnings growth in FY16F-18F after seeing an impressive 3-year core earnings CAGR of 19% over FY12-15.

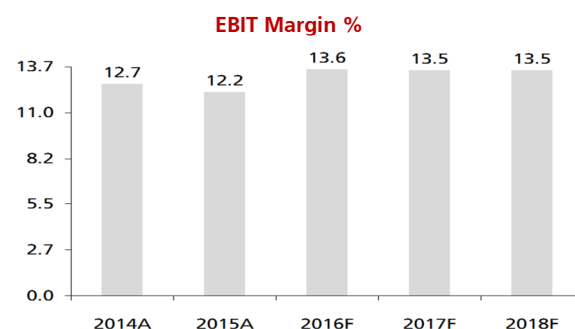
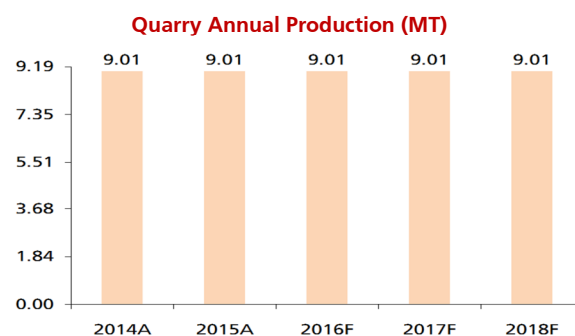
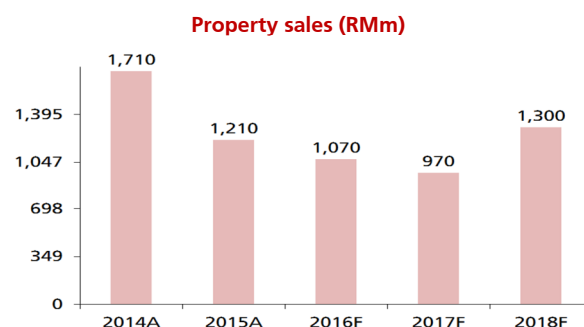
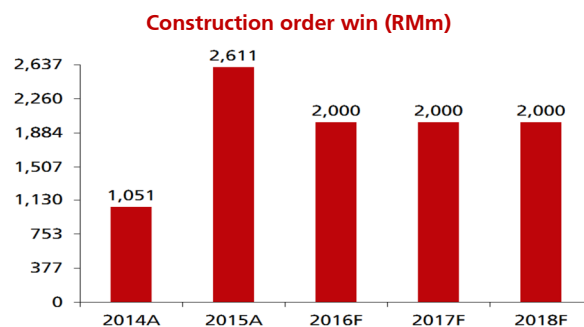
**High-end projects may see weak sales.** Supported by an established brand name that is synonymous with resort lifestyle integrated townships, Sunway's properties are generally priced at a premium. Sales had been stable in the past few years, but the impact of the property market's weak sentiment has already been felt in FY15 with property sales dropping 29% y-o-y to RM1.2bn, compared to its usual sales of RM1.7-1.8bn during FY12-14. Sunway is targeting RM1.4bn sales in FY16 but the weak demand for high-end properties may continue to pressure its sales momentum.

### Construction arm benefits from infrastructure spending.

Sunway Construction is set to benefit from mega infrastructure projects such as MRT Line 2 and LRT 3 given its good reputation and track record in the construction sector. It also gets internal jobs from Sunway's property arm which awards them through competitive bidding. While its FY15 order replenishment of RM2.6bn was higher than expected, huge order wins may be hard to come by in view of the relatively weaker economic outlook. Nevertheless, its outstanding RM4.9bn order book could underpin near-term earnings visibility.

**Resilient contribution from investment properties.** Sunway derives about 20% of group earnings from a portfolio of investment properties in the retail, office, education, and hospitality sectors, because of its integrated business model for township development. Currently, Sunway has several investment properties under development: Sunway Pyramid 3, Sunway Medical phase 3, Office Tower@Sunway South Quay and Sunway Velocity Shopping Mall. These properties are scheduled for completion progressively by end-2017.

**Recycling assets through Sunway REIT.** Its 37%-owned associate, Sunway REIT, continues to do well as the owner of prime asset, Sunway Pyramid Shopping Centre. Sunway REIT offers an avenue for Sunway Group to unlock the value of its mature investment properties, and this has proven to be synergistic for both entities.



Source: Company, AllianceDBS

**Sunway**

**Balance Sheet:**

**Expanding recurring income stream.** Sunway's net gearing stood at 44% as at Jun 16 due to its aggressive expansion in the investment property division to boost recurring income. Sunway could always recycle mature investment properties through Sunway REIT to lock in development gains.

**Share Price Drivers:**

**Higher-than-expected property sales.** We have conservatively assumed RM1.1bn property sales in FY16, which is lower than management's target of RM1.4bn, given the current soft market conditions. It will be a pleasant surprise if the group is able to achieve this. Sunway's product mix comprises mainly relatively higher-end properties, which may be challenging to sell as buyers are increasingly going for affordable homes. Nevertheless, its unique offering of a resort lifestyle township could help to sustain sales.

**Strong replenishment of construction order book.** Sunway's order wins in FY13/14/15 stood at RM2.2bn/RM1.1bn/RM2.6bn. While the current order book of RM5bn could still last until FY18, strong replenishment is critical to re-rate the share price. The right of first refusal granted by the group for internal construction jobs might address part of the replenishment concern.

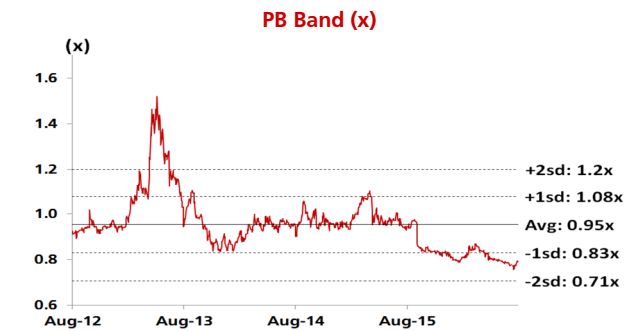
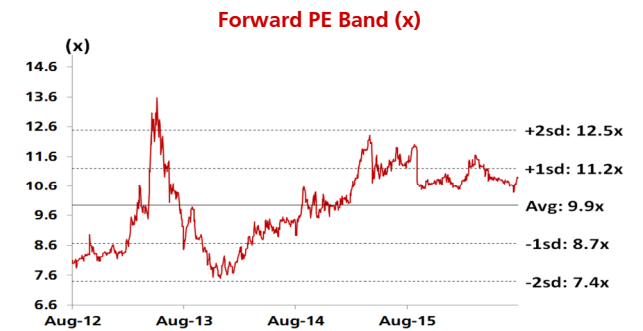
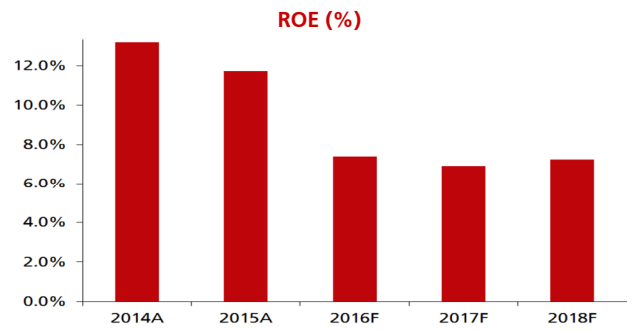
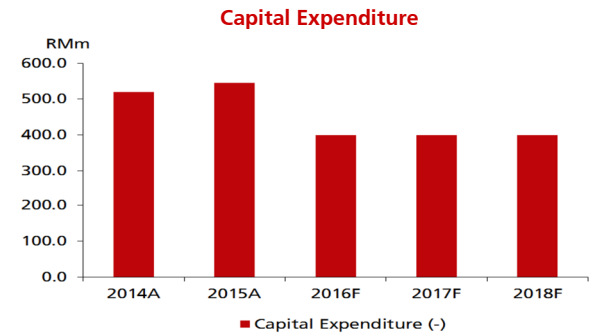
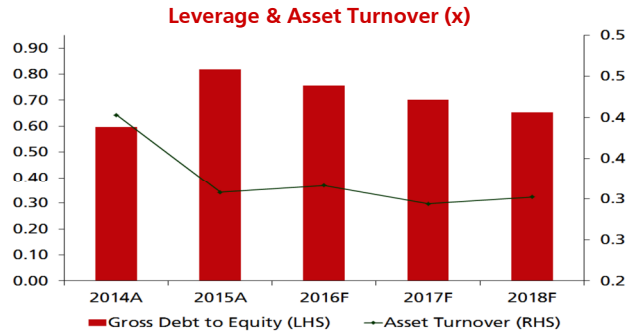
**Key Risks:**

**Delay in contract awards.** Construction contract awards could be delayed by a weaker-than-expected economic outlook.

**Slowdown in property sales.** Given several tightening policies aimed at Malaysia's property sector, demand for property (residential and commercial) could weaken in the near future.

**Company Background**

Sunway is a property and construction group which also has interests in quarrying, building materials manufacturing and trading.



Source: Company, AllianceDBS

**Key Assumptions**

FY Dec	2014A	2015A	2016F	2017F	2018F
Construction order win (RMm)	1,051	2,611	2,000	2,000	2,000
Property sales (RMm)	1,710	1,210	1,070	970	1,300
Quarry Annual Production (MT)	9.01	9.01	9.01	9.01	9.01
EBIT Margin %	12.7	12.2	13.6	13.5	13.5

**Segmental Breakdown**

FY Dec	2014A	2015A	2016F	2017F	2018F
<b>Revenues (RMm)</b>					
Property Development	1,198	1,196	1,307	919	1,186
Property Investment	594	642	634	648	661
Construction	1,751	1,222	1,748	1,770	1,680
Trading & Manufacturing	639	650	683	717	752
Others	237	242	194	203	733
<b>Total</b>	<b>4,842</b>	<b>4,451</b>	<b>5,085</b>	<b>4,777</b>	<b>5,013</b>
<b>EBIT (RMm)</b>					
Property Development	287	208	272	225	273
Property Investment	128	135	154	162	165
Construction	139	159	168	156	133
Trading & Manufacturing	40.0	31.9	27.3	28.7	30.1
Others	20.3	10.6	70.0	72.8	75.5
<b>Total</b>	<b>615</b>	<b>544</b>	<b>691</b>	<b>645</b>	<b>677</b>
<b>EBIT Margins (%)</b>					
Property Development	24.0	17.4	20.8	24.5	23.0
Property Investment	21.6	21.0	24.3	25.0	25.0
Construction	7.9	13.0	9.6	8.8	7.9
Trading & Manufacturing	6.3	4.9	4.0	4.0	4.0
Others	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>12.7</b>	<b>12.2</b>	<b>13.6</b>	<b>13.5</b>	<b>13.5</b>

Driven by unbilled sales

**Income Statement (RMm)**

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	4,842	4,451	5,085	4,777	5,013
Cost of Goods Sold	(4,338)	(4,024)	(3,577)	(3,364)	(3,530)
<b>Gross Profit</b>	<b>504</b>	<b>428</b>	<b>1,508</b>	<b>1,412</b>	<b>1,482</b>
Other Opng (Exp)/Inc	110	116	(817)	(767)	(805)
<b>Operating Profit</b>	<b>615</b>	<b>544</b>	<b>691</b>	<b>645</b>	<b>677</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	233	270	151	140	146
Net Interest (Exp)/Inc	(30.4)	(26.6)	(104)	(86.6)	(79.9)
Exceptional Gain/(Loss)	152	142	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>969</b>	<b>929</b>	<b>737</b>	<b>699</b>	<b>743</b>
Tax	(148)	(130)	(125)	(119)	(126)
Minority Interest	(77.6)	(67.0)	(115)	(90.5)	(78.5)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>743</b>	<b>732</b>	<b>497</b>	<b>490</b>	<b>538</b>
Net Profit before Except.	592	591	497	490	538
EBITDA	962	929	946	907	962
<b>Growth</b>					
Revenue Gth (%)	2.6	(8.1)	14.2	(6.1)	4.9
EBITDA Gth (%)	(15.0)	(3.4)	1.8	(4.1)	6.0
Opg Profit Gth (%)	(23.5)	(11.4)	26.9	(6.6)	4.9
Net Profit Gth (Pre-ex) (%)	22.3	(0.2)	(15.9)	(1.5)	9.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	10.4	9.6	29.6	29.6	29.6
Opg Profit Margin (%)	12.7	12.2	13.6	13.5	13.5
Net Profit Margin (%)	15.4	16.5	9.8	10.2	10.7
ROAE (%)	13.2	11.7	7.4	6.9	7.2
ROA (%)	6.2	5.1	3.1	3.0	3.2
ROCE (%)	5.3	3.9	4.2	3.8	3.9
Div Payout Ratio (%)	28.4	119.1	30.0	30.0	30.0
Net Interest Cover (x)	20.2	20.4	6.6	7.5	8.5

Subdued growth prospects

Source: Company, AllianceDBS

## Quarterly / Interim Income Statement (RMm)

FY Dec	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Revenue	1,042	951	1,399	1,069	1,156
Cost of Goods Sold	(936)	(902)	(1,245)	(944)	(1,023)
<b>Gross Profit</b>	<b>105</b>	<b>48.7</b>	<b>154</b>	<b>125</b>	<b>133</b>
Other Oper. (Exp)/Inc	43.9	88.6	67.5	27.5	30.8
<b>Operating Profit</b>	<b>149</b>	<b>137</b>	<b>221</b>	<b>152</b>	<b>164</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	39.9	31.5	49.6	42.6	34.2
Net Interest (Exp)/Inc	(9.3)	15.8	(21.8)	(16.1)	(15.6)
Exceptional Gain/(Loss)	101	(13.7)	34.6	(2.4)	21.5
<b>Pre-tax Profit</b>	<b>281</b>	<b>171</b>	<b>284</b>	<b>176</b>	<b>204</b>
Tax	(33.1)	(31.5)	(29.2)	(32.8)	(23.9)
Minority Interest	(9.9)	(6.2)	(40.0)	(41.1)	(25.5)
<b>Net Profit</b>	<b>238</b>	<b>133</b>	<b>215</b>	<b>102</b>	<b>154</b>
Net profit bef Except.	137	147	180	105	133
EBITDA	219	194	301	224	229

## Growth

Revenue Gth (%)	(1.7)	(8.7)	47.1	(23.6)	8.1
EBITDA Gth (%)	0.5	(11.4)	54.8	(25.7)	2.5
Opg Profit Gth (%)	(1.2)	(7.9)	61.3	(31.3)	7.6
Net Profit Gth (Pre-ex) (%)	4.6	7.5	22.5	(41.9)	27.0

## Margins

Gross Margins (%)	10.1	5.1	11.0	11.7	11.5
Opg Profit Margins (%)	14.3	14.4	15.8	14.2	14.2
Net Profit Margins (%)	22.8	14.0	15.3	9.6	13.4

## Balance Sheet (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	3,245	1,364	1,660	1,938	2,199
Invts in Associates & JVs	2,481	2,890	3,041	3,182	3,328
Other LT Assets	1,012	4,675	4,675	4,675	4,675
Cash & ST Invts	1,978	2,627	2,064	2,052	1,935
Inventory	598	693	616	575	601
Debtors	1,720	2,640	3,015	2,832	2,972
Other Current Assets	1,883	1,105	1,105	1,105	1,105
<b>Total Assets</b>	<b>12,916</b>	<b>15,994</b>	<b>16,176</b>	<b>16,359</b>	<b>16,815</b>
ST Debt	2,283	3,304	3,304	3,304	3,304
Creditor	2,172	2,446	2,173	2,029	2,122
Other Current Liab	20.8	43.0	135	129	136
LT Debt	1,502	2,585	2,485	2,385	2,285
Other LT Liabilities	605	416	416	416	416
Shareholder's Equity	5,945	6,550	6,898	7,240	7,617
Minority Interests	389	651	765	856	934
<b>Total Cap. &amp; Liab.</b>	<b>12,916</b>	<b>15,994</b>	<b>16,176</b>	<b>16,359</b>	<b>16,815</b>
Non-Cash Wkg. Capital	2,008	1,948	2,427	2,354	2,420
Net Cash/(Debt)	(1,806)	(3,262)	(3,725)	(3,637)	(3,655)
Debtors Turn (avg days)	111.3	178.7	203.0	223.4	211.3
Creditors Turn (avg days)	179.0	215.6	242.8	236.6	223.4
Inventory Turn (avg days)	52.4	60.3	68.8	67.0	63.3
Asset Turnover (x)	0.4	0.3	0.3	0.3	0.3
Current Ratio (x)	1.4	1.2	1.2	1.2	1.2
Quick Ratio (x)	0.8	0.9	0.9	0.9	0.9
Net Debt/Equity (X)	0.3	0.5	0.5	0.4	0.4
Net Debt/Equity ex MI (X)	0.3	0.5	0.5	0.5	0.5
Capex to Debt (%)	13.7	9.3	6.9	7.0	7.2
Z-Score (X)	1.4	1.1	1.1	1.1	1.2

Source: Company, AllianceDBS

Within expectations

Stable margin

Healthy balance sheet

## Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	969	929	737	699	743
Dep. & Amort.	114	115	104	122	139
Tax Paid	(167)	(170)	(33.1)	(125)	(119)
Assoc. & JV Inc/(loss)	(233)	(270)	(151)	(140)	(146)
Chg in Wkg.Cap.	(91.4)	87.6	(571)	79.3	(73.1)
Other Operating CF	177	171	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>769</b>	<b>862</b>	<b>86.2</b>	<b>634</b>	<b>544</b>
Capital Exp.(net)	(520)	(545)	(400)	(400)	(400)
Other Invts.(net)	(257)	(555)	0.0	0.0	0.0
Invts in Assoc. & JV	(63.7)	(159)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(3.4)	(1,015)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(844)</b>	<b>(2,274)</b>	<b>(400)</b>	<b>(400)</b>	<b>(400)</b>
Div Paid	(213)	(657)	(149)	(147)	(161)
Chg in Gross Debt	873	1,752	(100.0)	(100.0)	(100.0)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(64.8)	11.3	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>595</b>	<b>1,107</b>	<b>(249)</b>	<b>(247)</b>	<b>(261)</b>
Currency Adjustments	9.19	955	0.0	0.0	0.0
Chg in Cash	529	649	(563)	(12.5)	(117)
Opg CFPS (sen)	49.9	43.5	36.9	31.2	34.7
Free CFPS (sen)	14.5	17.8	(17.6)	13.2	8.10

Source: Company, AllianceDBS

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Aug 15	3.40	3.20	HOLD
2:	09 Sep 15	3.40	3.20	HOLD
3:	14 Sep 15	3.50	3.20	HOLD
4:	27 Nov 15	3.07	3.20	HOLD
5:	22 Feb 16	2.97	3.20	HOLD
6:	29 Feb 16	3.00	3.00	HOLD
7:	08 Mar 16	3.01	3.00	HOLD
8:	12 Apr 16	3.21	3.00	HOLD
9:	30 May 16	3.01	2.90	HOLD
10:	10 Jun 16	3.02	2.90	HOLD
11:	14 Jul 16	3.00	2.90	HOLD

Source: AllianceDBS

Analyst: He Wei QUAH

AllianceDBS recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

Completed Date: 29 Aug 2016 19:59:50

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