

Malaysia Company Focus

Sunway

Bloomberg: SWB MK | Reuters: SWAY.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Nov 2015

HOLD

Last Traded Price: RM3.06 (KLCI : 1,683.09)

Price Target : RM3.20 (5% upside)

Reason for Report : 3Q15 results

Where we differ: One of the earliest to downgrade to Hold after strong share price rally

Analyst

QUAH He Wei, CFA +603 2604 3966 hewei@alliancedbs.com

Result Summary

FY Dec (RM m)	3Q 2015	3Q 2014	2Q 2015	% Chg y-o-y	% Chg q-o-q
P&L Items					
Turnover	951.0	1,134.0	1,041.5	(16.1)	(8.7)
Gross Profit	48.6	131.6	105.2	(63.0)	(53.7)
Opg Profit	137.3	157.5	149.1	(12.8)	(7.9)
EBITDA	194.4	196.0	219.3	(0.8)	(11.4)
Net Profit	133.3	143.7	237.9	(7.2)	(44.0)
Other Data					
Gross Margin (%)	5.1	11.6	10.1		
Opg Margin (%)	14.4	13.9	14.3		
Net Margin (%)	14.0	12.7	22.8		

Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Turnover	4,842	5,361	5,943	5,236
Operating Profit	615	675	706	685
EBITDA	962	949	1,000	969
Net Pft (Pre Ex.)	592	542	547	507
EPS (sen)	43.1	30.6	30.9	28.6
EPS Pre Ex. (sen)	34.3	30.6	30.9	28.6
EPS Gth (%)	(50)	(29)	1	(7)
EPS Gth Pre Ex (%)	22	(11)	1	(7)
Net DPS (sen)	11.0	35.2	9.3	8.6
BV Per Share (sen)	344.9	331.3	353.0	373.0
PE (X)	7.1	10.0	9.9	10.7
PE Pre Ex. (X)	8.9	10.0	9.9	10.7
EV/EBITDA (X)	7.8	8.4	7.9	8.2
Net Div Yield (%)	3.6	11.5	3.0	2.8
P/Book Value (X)	0.9	0.9	0.9	0.8
Net Debt/Equity (X)	0.3	0.2	0.2	0.2
ROAE (%)	13.2	9.2	9.0	7.9

At A Glance

Issued Capital (m shrs)	1,789
Mkt. Cap (RMm/US\$m)	5,474 / 1,300
3m Avg. Daily Val (US\$m)	1.1

ICB Industry : Real Estate

ICB Sector: Real Estate Investment & Services

Principal Business: Property and construction group with interests in quarrying, building materials manufacturing and trading

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Cautious outlook

- 3Q15 results met expectations
- Strong earnings visibility supported by unbilled sales and construction order book
- Maintain HOLD and RM3.20 TP

Highlights

In line

- Excluding RM13.7m exceptional items, 3Q15 core earnings came in at RM147m (+8% q-o-q, -2% y-o-y), taking 9M15 core profit to RM414m (+7% y-o-y). This achieved 76% of our full-year forecast.
- 3Q15 core EBIT margin was stable at 14.4%, compared to 14.3% in 2Q15 and 13.9% in 3Q14.
- Property investment emerged as the largest EBIT contributor at RM40m (+39% q-o-q, +27% y-o-y), accounting for 33% of 3Q15 EBIT given the higher contribution from Sunway University New Academic Block and Sunway Pinnacle.
- However, Property EBIT dipped 6% q-o-q and 56% y-o-y to RM35m (29% of Group EBIT) because of lower contribution from local projects.
- Construction EBIT dropped 58% q-o-q but grew 7% y-o-y to RM23m (12% of Group EBIT) in tandem with lower revenue after higher elimination of intra-group activities.

Outlook

Healthy earnings visibility

- Following its strong YTD order replenishment of RM2.6bn, Sunway's construction order book stood at RM4.3bn. Meanwhile unbilled sales at its property segment stand at RM2.3bn.

Challenging property market

- Given the weaker sentiment in Malaysia and Singapore, especially for high-end condos, Sunway has earlier lowered its sales target to RM1bn from RM1.7bn previously; it has secured RM734m property sales in 9M15 (vs RM1.2bn in 9M14).

Valuation:

Our TP of RM3.20 is based on 10% discount to our SOP valuation of RM3.55. 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 given the challenging market outlook.

Sunway

Key Risks:

Delay in contract awards

- Construction contract awards could be delayed by 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.

Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	11 Feb 15	3.35	3.80	BUY
2:	26 Feb 15	3.37	3.80	BUY
3:	10 Apr 15	3.76	3.80	BUY
4:	06 May 15	3.55	3.80	BUY
5:	12 May 15	3.42	3.80	HOLD
6:	27 May 15	3.45	3.80	HOLD
7:	05 Jun 15	3.52	3.80	HOLD
8:	28 Aug 15	3.40	3.20	HOLD
9:	09 Sep 15	3.40	3.20	HOLD
10:	14 Sep 15	3.50	3.20	HOLD

Source: AllianceDBS

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by AllianceDBS Research Sdn Bhd ("ADBSR"). This report is solely intended for the clients of DBS Bank Ltd and DBS Vickers Securities (Singapore) Pte Ltd, its respective connected and associated corporations and affiliates (collectively, the "DBS Vickers Group") only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd., its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group")) do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company (or companies) referred to in this report.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the Alliance Bank Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.


ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report. As of 27 Nov 2015, the analyst(s) and his/her spouse and/or relatives who are financially dependent on the analyst(s), do not hold interests in the securities recommended in this report ("interest" includes direct or indirect ownership of securities).

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd., DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of 31 Oct 2015.
2. **Compensation for investment banking services:**
DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), both of which are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report is being distributed in Hong Kong by DBS Vickers (Hong Kong) Limited which is licensed and regulated by the Hong Kong Securities and Futures Commission.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Securities Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.  Wong Ming Tek, Executive Director, ADBSR
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd. Research reports distributed are only intended for institutional clients only and no other person may act upon it.
United Kingdom	This report is being distributed in the UK by DBS Vickers Securities (UK) Ltd, who is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
Dubai	This research report is being distributed in The Dubai International Financial Centre ("DIFC") by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3 rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United States	This report was prepared by AllianceDBS Research Sdn Bhd ("ADBSR"). DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

AllianceDBS Research Sdn Bhd (128540 U)
19th Floor, Menara Multi-Purpose, Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com