

# Malaysia Company Guide

## Sunway

Version 5 | Bloomberg: SWB MK | Reuters: SWAY.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Nov 2016

### HOLD

Last Traded Price ( 25 Nov 2016): RM3.00 (KLCI : 1,627.26)  
Price Target 12-mth: RM2.90 (-3% downside) (Prev RM2.90)

**Potential Catalyst:** Stronger-than-expected property sales  
**Where we differ:** One of the lowest TPs in the market, more conservative earnings assumption

#### Analyst

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### What's New

- 3Q16 results met expectations
- Resilient business model to ride out challenging business environment
- Maintain Hold and RM2.90 TP

#### 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	10.7	10.9	9.9
PE Pre Ex. (X)	9.0	10.7	10.9	9.9
P/Cash Flow (X)	6.2	61.9	8.4	9.8
EV/EBITDA (X)	10.0	10.4	10.8	10.3
Net Div Yield (%)	16.3	2.8	2.8	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):		27.4	29.3	32.4
Other Broker Recs:		B: 8	S: 0	H: 5

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 has made 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, property sales may remain lacklustre in FY16. However, Sunway's unbilled property sales remain healthy at RM1.8bn (~1.5x FY17 property revenue), providing near-term earnings visibility.

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

Sunway has 1,830 acres of landbank (Gross Development Value :RM30bn) 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 segments.** 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 RM4.8bn 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)	2,031
Mkt. Cap (RMm/US\$m)	6,093 / 1,366
Major Shareholders (%)	
Sungei Way Corp	58.3
EPF	5.7
Free Float (%)	36.6
3m Avg. Daily Val (US\$m)	0.77

ICB Industry : Real Estate / Real Estate Investment & Services

## WHAT'S NEW

## Headwinds ahead

**3Q16 met expectations.** Stripping out exceptional items, Sunway reported 3Q16 core profit of RM148m (+12% q-o-q, +1% y-o-y). This takes 9M16 core earnings to RM386m (-7% y-o-y) which comprises 78% of our full-year projection. Property investment was the largest contributor, accounting for 30% for 3Q16 EBIT, followed by property development (28%) and construction (19%).

**Stellar performance from property investment.** Property investment's 3Q16 EBIT surged 26% y-o-y and 105% q-o-q due to better occupancy at Sunway Pinnacle, increase in the number of visitors to theme parks as well as contributions from refurbished Sunway Putra Hotel (completed in 4Q15) and newly opened Sunway Clío in 1Q16. Also, its segmental EBIT margin of 26.4% is also the highest in recent years (15.2% in 2Q16, 23% in 3Q15).

**Steady progress billings from property development.** Property development's EBIT grew 31% y-o-y but dipped 15% q-o-q during the quarter. EBIT margin was better at 18.3%, compared to 12.7% in 3Q15 and 16.8% in 2Q16.

**Construction remains steady.** Construction's 3Q16 EBIT rose 34% y-o-y (but dropped 8% q-o-q) due to higher progress billings from on-going local construction projects. Meanwhile, its construction order book is near an all-time high at RM4.8bn, thanks to the strong replenishment over the past 12 months.

**Focus on in-demand property projects.** Sunway's 3Q16 property sales came in at RM251m (-28% q-o-q, -2% y-o-y), taking 9M16 sales to RM864m (+18% y-o-y) which is underpinned by Sunway Mont (RM195m), Singapore projects (RM138m) and Iskandar projects (RM122m). Recall that management has revised down its FY16 sales target to RM1.1bn from RM1.4bn in Oct16 due to a change in its launch pipeline in view of the relatively weaker market. This is in line with our conservative sales assumption of RM1.07bn.

Sunway's initial launch target of RM1.6bn has now been revised to RM800m due to changes in plans for Sunway Geo Residences 3 (Gross Development Value (GDV) : RM400m) which will now be launched in FY17, deferred launches of RM400m worth of landed residences in Sunway Iskandar as well as the conversion of Velocity Offices into a property investment asset (RM200m GDV).

**Unbilled sales hit by weaker property sales.** Unbilled sales has been on a declining trend at RM1.8bn (vs RM2.8bn in 3Q14, RM2.3bn in 3Q15) which is also the lowest in recent years due to the relatively weak property market. While this will still underpin its earnings visibility for the property development division over the next two years, continued weakness in sales replenishment could result in less inspiring earnings for the group as property development is traditionally its largest EBIT contributor.

## Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2015	2Q2016	3Q2016	% chg yoy	% chg qoq
Revenue	951	1,156	1,137	19.6	(1.6)
Cost of Goods Sold	(902)	(1,023)	(1,015)	12.5	(0.8)
<b>Gross Profit</b>	<b>48.7</b>	<b>133</b>	<b>123</b>	<b>152.1</b>	<b>(7.6)</b>
Other Oper. (Exp)/Inc	88.6	30.8	46.3	(47.7)	50.3
<b>Operating Profit</b>	<b>137</b>	<b>164</b>	<b>169</b>	<b>23.1</b>	<b>3.3</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	31.5	34.2	46.7	48.1	36.5
Net Interest (Exp)/Inc	15.8	(15.6)	(2.6)	nm	83.4
Exceptional Gain/(Loss)	(13.7)	21.5	(4.5)	66.8	nm
<b>Pre-tax Profit</b>	<b>171</b>	<b>204</b>	<b>209</b>	<b>22.0</b>	<b>2.3</b>
Tax	(31.5)	(23.9)	(37.7)	19.8	57.9
Minority Interest	(6.2)	(25.5)	(27.2)	(341.4)	6.6
<b>Net Profit</b>	<b>133</b>	<b>154</b>	<b>144</b>	<b>7.7</b>	<b>(7.0)</b>
Net profit bef Except.	147	133	148	0.8	11.5
EBITDA	194	229	255	31.2	11.3
<b>Margins (%)</b>					
Gross Margins	5.1	11.5	10.8		
Opg Profit Margins	14.4	14.2	14.9		
Net Profit Margins	14.0	13.4	12.6		

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.

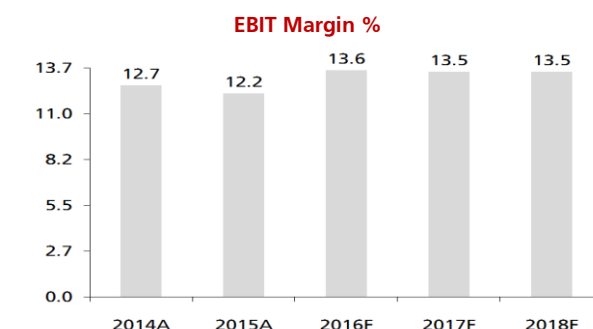
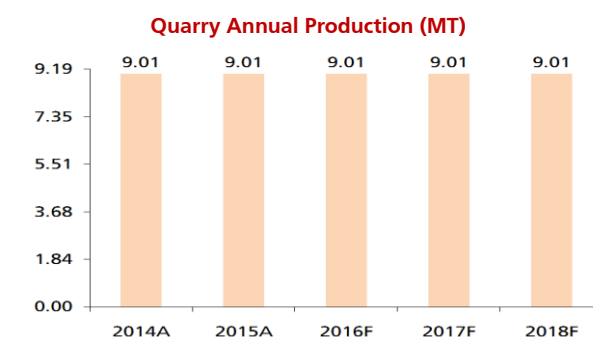
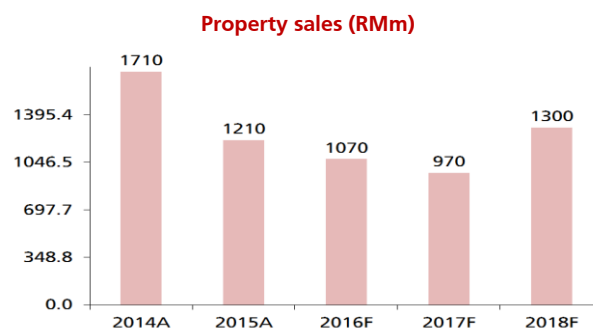
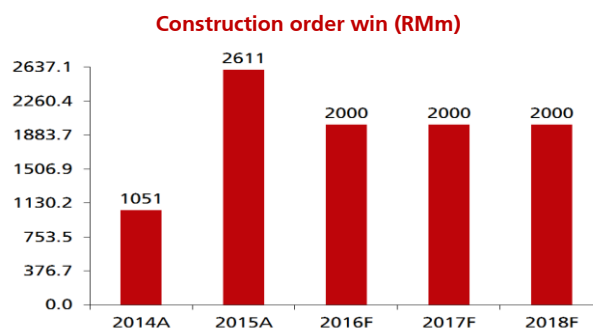
**High-end projects may see weak sales.** Supported by an established brand name that is synonymous with resort lifestyle integrated townships, Sunway's properties are generally priced at a premium. Sales had been stable in the past few years, but the impact of the property market's weak sentiment has already been felt in FY15 with property sales dropping 29% y-o-y to RM1.2bn, compared to its usual level of sales of RM1.7-1.8bn during FY12-14. Sunway is targeting RM1.1bn sales in FY16 but the weak demand for high-end properties may continue to pressure 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 RM4.8bn 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, stemming from its integrated business model for township development. Currently, Sunway has several investment properties under development to beef up its property investment assets.

**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 0.4x as at Sep16 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 in line with management's revised target of RM1.1bn. 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 RM4.8bn 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.

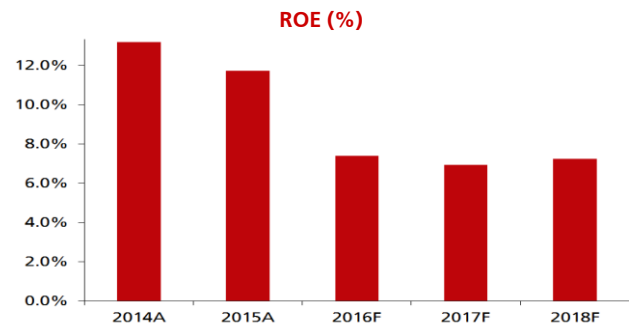
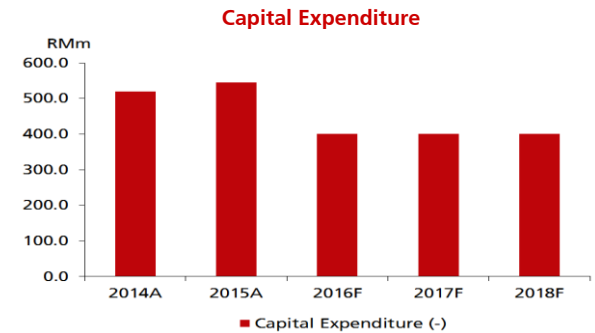
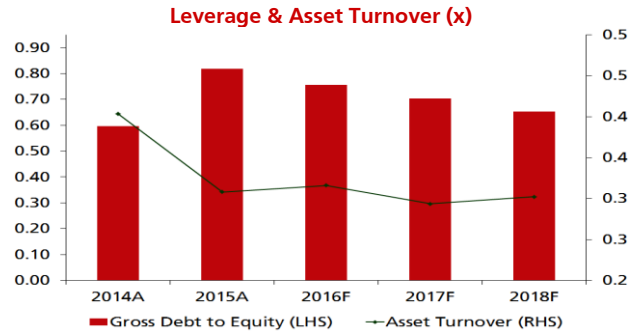
**Key Risks:**

**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
<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

## Sunway

## Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016
Revenue	951	1,399	1,069	1,156	1,137
Cost of Goods Sold	(902)	(1,245)	(944)	(1,023)	(1,015)
<b>Gross Profit</b>	<b>48.7</b>	<b>154</b>	<b>125</b>	<b>133</b>	<b>123</b>
Other Oper. (Exp)/Inc	88.6	67.5	27.5	30.8	46.3
<b>Operating Profit</b>	<b>137</b>	<b>221</b>	<b>152</b>	<b>164</b>	<b>169</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	31.5	49.6	42.6	34.2	46.7
Net Interest (Exp)/Inc	15.8	(21.8)	(16.1)	(15.6)	(2.6)
Exceptional Gain/(Loss)	(13.7)	34.6	(2.4)	21.5	(4.5)
<b>Pre-tax Profit</b>	<b>171</b>	<b>284</b>	<b>176</b>	<b>204</b>	<b>209</b>
Tax	(31.5)	(29.2)	(32.8)	(23.9)	(37.7)
Minority Interest	(6.2)	(40.0)	(41.1)	(25.5)	(27.2)
<b>Net Profit</b>	<b>133</b>	<b>215</b>	<b>102</b>	<b>154</b>	<b>144</b>
Net profit bef Except.	147	180	105	133	148
EBITDA	194	301	224	229	255

## Growth

Revenue Gth (%)	(8.7)	47.1	(23.6)	8.1	(1.6)
EBITDA Gth (%)	(11.4)	54.8	(25.7)	2.5	11.3
Opg Profit Gth (%)	(7.9)	61.3	(31.3)	7.6	3.3
Net Profit Gth (Pre-ex) (%)	7.5	22.5	(41.9)	27.0	11.5

## Margins

Gross Margins (%)	5.1	11.0	11.7	11.5	10.8
Opg Profit Margins (%)	14.4	15.8	14.2	14.2	14.9
Net Profit Margins (%)	14.0	15.3	9.6	13.4	12.6

## Balance Sheet (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	3,245	1,364	1,660	1,938	2,199
Invt 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 Invt	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 margins

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:	27 Nov 15	3.07	3.20	HOLD
2:	22 Feb 16	2.97	3.20	HOLD
3:	29 Feb 16	3.00	3.00	HOLD
4:	08 Mar 16	3.01	3.00	HOLD
5:	12 Apr 16	3.21	3.00	HOLD
6:	30 May 16	3.01	2.90	HOLD
7:	10 Jun 16	3.02	2.90	HOLD
8:	14 Jul 16	3.00	2.90	HOLD
9:	30 Aug 16	3.05	2.90	HOLD
10:	07 Sep 16	3.11	2.90	HOLD
11:	27 Sep 16	3.16	2.90	HOLD
12:	14 Oct 16	3.06	2.90	HOLD

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

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: 26 Nov 2016 23:34:37 (MYT)

Dissemination Date: 28 Nov 2016 08:22:52 (MYT)

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