

# Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 May 2017

## Sunway (SWB MK) : HOLD

Mkt. Cap: US\$1,711m | 3m Avg. Daily Val: US\$1.8m

Last Traded Price ( 29 May 2017): RM3.59

Price Target 12-mth: RM3.30 (8% downside) (Prev RM2.97)

### Analyst

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### Company Guide

#### Sunway



Summary of our point of view, and highlights the relevant data points, which are actively tracked

## Resilient business model

- 1Q17 results met expectations
- Resilient business model to ride out challenging business environment
- Maintain HOLD with higher TP of RM3.30

### Forecasts and Valuation

FY Dec (RMm)	2016A	2017F	2018F	2019F
Revenue	4,726	4,867	5,037	5,154
EBITDA	994	964	1,017	1,008
Pre-tax Profit	859	773	798	807
Net Profit	586	544	576	618
Net Pft (Pre Ex.)	547	544	576	618
Net Pft Gth (Pre-ex) (%)	(7.3)	(0.7)	5.9	7.3
EPS (sen)	32.9	26.4	27.8	29.8
EPS Pre Ex. (sen)	30.8	26.4	27.8	29.8
EPS Gth Pre Ex (%)	(7)	(14)	5	7
Diluted EPS (sen)	28.3	26.2	27.8	29.8
Net DPS (sen)	14.1	7.92	8.33	8.94
BV Per Share (sen)	419	381	397	418
PE (X)	10.9	13.6	12.9	12.0
PE Pre Ex. (X)	11.7	13.6	12.9	12.0
P/Cash Flow (X)	11.9	32.8	12.0	11.2
EV/EBITDA (X)	10.6	12.4	11.8	11.9
Net Div Yield (%)	3.9	2.2	2.3	2.5
P/Book Value (X)	0.9	0.9	0.9	0.9
Net Debt/Equity (X)	0.4	0.4	0.4	0.4
ROAE (%)	8.4	7.1	7.2	7.3

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

### What's New

**In-line 1Q17 showing.** Sunway reported a 1Q17 core profit of RM107.9m (-33% q-o-q, +3% y-o-y), comprising 20% of our full-year estimates. This is within our expectation as 1Q17 is traditionally Sunway's weakest quarter.

Property development which is typically Sunway's largest earnings contributor only accounted for 16% of 1Q17 pretax profit due to lower sales and progress billings from its Malaysian projects. Nevertheless, property investment and construction continued to maintain their respective stellar performance with 20% and 24% pretax profit contributions respectively.

**Focus on in-demand property projects.** Sunway's 1Q17 property sales came in at RM142m (-54% q-o-q, -46% y-o-y), which is mainly due to its Mount Sophia project in Singapore (RM62m) following the relaxation of cooling measures there. Management has a FY17 sales target of RM1.1bn which will be underpinned by RM2bn worth of launches in FY17 – substantially higher than FY16's launches of RM650m due to the deferment of several project launches. Some of the key projects to be launched in FY17 include Sunway Geo Residences 3 (RM400m GDV), Sunway Kelana Jaya (RM400m) and Sunway Iskandar (RM300m).

## Flash Note

**Unbilled sales hit by weaker property sales.** Unbilled sales has been on a declining trend, coming in at RM1.4bn in 1Q17 (vs RM2.0bn in 1Q16, RM2.5bn in 1Q15), 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.

**TP revision.** We revise our SOP-derived TP to RM3.30 after incorporating ADBS' latest TPs for its listed Sunway REIT (TP RM1.84) and Sunway Construction (TP RM2.60), as well as a lower holding company discount of 5% (vs 10% previously) to reflect its resilient business model as a proven integrated real estate player.

### Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2016	4Q2016	1Q2017	% chg yoy	% chg qoq
Revenue	1,069	1,364	1,091	2.1	(20.0)
Cost of Goods Sold	(944)	(1,213)	(992)	5.0	(18.2)
<b>Gross Profit</b>	<b>125</b>	<b>151</b>	<b>99.3</b>	<b>(20.3)</b>	<b>(34.3)</b>
Other Oper. (Exp)/Inc	27.5	76.3	17.5	(36.4)	(77.1)
<b>Operating Profit</b>	<b>152</b>	<b>227</b>	<b>117</b>	<b>(23.2)</b>	<b>(48.7)</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	42.6	44.9	43.1	1.3	(3.9)
Net Interest (Exp)/Inc	(16.1)	(25.7)	(6.7)	58.2	73.7
Exceptional Gain/(Loss)	(2.4)	24.0	0.0	nm	(100.0)
<b>Pre-tax Profit</b>	<b>176</b>	<b>271</b>	<b>153</b>	<b>(13.0)</b>	<b>(43.4)</b>
Tax	(32.8)	(46.0)	(27.3)	(16.8)	(40.5)
Minority Interest	(41.1)	(38.8)	(17.9)	56.6	(54.0)
<b>Net Profit</b>	<b>102</b>	<b>186</b>	<b>108</b>	<b>5.7</b>	<b>(41.9)</b>
Net profit bef Except.	105	162	108	3.2	(33.3)
EBITDA	224	286	194	(13.1)	(32.1)
<b>Margins (%)</b>					
Gross Margins	11.7	11.1	9.1		
Opg Profit Margins	14.2	16.7	10.7		
Net Profit Margins	9.6	13.6	9.9		

Source of all data: Company, AllianceDBS

## Target Price &amp; Ratings History



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

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

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

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**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*

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