

Sunway (BUY ↔; EPS ↔)

INDUSTRY: NEUTRAL

COMPANY INSIGHTS

14 October 2016

Price Target: RM3.72 (↔)

Share price: RM3.06

Integrated Real Estate Business
Highlights

- We attended Sunway's analyst briefing yesterday and uphold our positive view on the company. Key takeaways as below:
- **Revised sales target of RM900m due to difference in timing of launching...** With the deferred launching of Sunway Geo Residences 3 (GDV: RM400m), Sunway Iskandar (GDV: RM400m) and conversion of Velocity Offices (GDV: RM200m) into property investment assets, effective sales target in FY16 will be adjusted slightly from RM1.1bn to RM900m. The deferred launching of Sunway Geo 3 is mainly due to resubmission of plan for subdivision of land to include additional walkway connecting to BRT. 9MFY16 effective sales already achieved RM638m which was contributed mainly by Sunway Mont, Iskandar, Gandaria, Singapore and China.
- **FY17 launches more than double ...** With the deferred launching of the 2 projects in FY16, Sunway is targeting RM2bn worth of launches in FY17 (versus RM800m in FY16). We have assumed effective sales target of RM1.2bn (+30% YoY) which we believe is likely to be achieved.
- **Underappreciated integrated real estate business model...** We continue to like its strong foothold in integrated township development (which is further underpinned by retail, healthcare and education elements). Non-property division contributed 60% of PATAMI which is recurring. Active effort on capital management will continue to reward shareholders given the potential RM2bn worth of assets to be injected into REIT in the near future.
- **Healthcare: Growing at fast pace...** With the opening of a cancer centre in Sunway Hospital, total beds will be increased from 400 to 600 in FY17. Sunway is targeting a total of 1,000 beds with new hospitals in Sunway Velocity and Seberang Prai. Potential listing of the healthcare division could be one of the re-rating catalysts.
- **Exciting development in Sunway Velocity...** Sunway Velocity (NLA: 880k sf) has secured 90% occupancy rate and is expected to open by Dec 16. Meanwhile, Velocity Hotel with 350 rooms is under construction and is due for opening in 2H17.

Risks

- Prolonged downturn in Johor's property market, slowdown in property demand due to tightening of loan approval.

Forecasts

- Unchanged despite lower effective sales target in FY16 as progress of construction and earnings recognition remains intact.

Rating
BUY ↔

- We like the company given its unique integrated real estate business model which provides competitive edge against its competitor. Active capital management will continue to reward shareholders.

Valuation

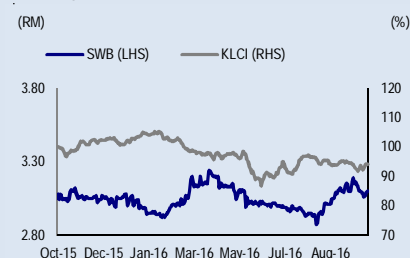
- Maintain **BUY** with TP unchanged at **RM3.72** based on SOP valuation.

Jason Tan, CFA

yttan@hlib.hongleong.com.my

(603) 2168 1168

KLCI	1,665.0
Expected share price return	21.6%
Expected dividend return	3.9%
Expected total return	25.5%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	2,033
Market cap (RM m)	6,226
3-mth avg. volume ('000)	1,220
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	-2.2	2.0	-0.6
Relative	-2.4	1.4	2.1

Major shareholders

Sungei Way Corp Sdn Bhd	50.1%
Yean Tih Cheah	13.5%
EPF	5.3%
Skim Amanah Saham Bumiputera	5.0%

Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017F	2018F
Revenue	4,451	4,576	4,773	5,045
EBITDA	803	809	891	966
EBIT	687	678	744	807
Profit Before Tax	930	808	879	936
PATAMI	733	533	586	633
Core PATAMI	592	533	586	633
Core EPS (sen)	34.3	31.0	34.0	36.7
FD EPS (sen)	29.3	23.2	25.5	27.5
Net DPS (sen)	48.0	12.0	12.0	12.0
Net DY (%)	15.7	3.9	3.9	3.9
P/E (x)	8.9	9.9	9.0	8.3
FD P/E (x)	10.4	13.2	12.0	11.1
P/B (x)	0.8	0.9	0.8	0.8
Net Gearing (%)	19.7	26.3	22.5	17.5
ROE (%)	9.6	8.5	9.3	9.4
ROA (%)	5.6	5.0	5.4	5.5

HLIB

Figure #1 Revised 2016 Launch List

Project	Product Type	GDV (RM m)
Launched		
Sunway Gandaria	Retail & Serviced Apartments	200
Sunway Mont	Condominium	300
Tianjin Eco-City	Condominium	55
Upcoming Launches		
Sunway Iskandar	Retail/ Office	100
Tianjin Eco-City	Condominium	95
Others		50
Total		800

Figure #2 Indicative 2017 Launches - RM2bn

Project	Product Type	GDV (RM m)
Sunway Geo Residences 3	Condominium	400
Sunway Industrial Park	Industrial	100
Sunway Kelana Jaya	Condominium	400
Sunway Paya Terubong Shops	Shops	100
Sunway Wellsley Condominium	Condominium	65
Sunway Lenang Heights	Semi Detached	150
Sunway Iskandar	Apartments	180
Sunway Iskandar	Terrace and Semi D	400
Tianjian Eco City	Condominium	150
Others		50
Total		2000

Figure #3 Sunway SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	Target price of RM1.84	54%	1,294	0.64	17.3
Property	NPV of profits + Shareholders Fund	100%	5,517	2.74	73.7
Trading/Manufacturing	9X P/E	100%	291	0.14	3.9
Quarry	15X P/E	100%	187	0.09	2.5
Dividend in-specie					
Special cash dividend					
		Sub-Total (RM m)	7,289		
		No. of shares (m)	1,723		
		RM per share	4.23		
		Proceeds from warrants (RM m)	657	0.33	8.8
		Estimated Holding Company Net Debt	(460)	(0.23)	(6.1)
		SOP (RM m)	7,486		
		Total no. of diluted shares (m)	2,013		
		Target Price (RM)	3.72		

HLIB

Figure #4 HLIB vs Consensus

FYE Dec (RM m)	FY16E			FY17E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,576.4	4,935.0	-7%	4,773.0	5,136.0	-7%
PATAMI	533.5	528.2	1%	586.4	568.3	3%

Bloomberg, HLIB

Figure #5 Peer Comparison

Company	Current Px	Recomm	TP	Upside	Mkt Cap (m)	Discount to RNAV	P/E (x)		P/B (x)		Dividend Yield	
							CY16	CY17	CY16	CY17	CY16	CY17
IOI PROPERTIES	2.50	Buy	2.77	11%	11,028.0	(41.3)	16.4	14.7	0.7	0.7	3.2	3.2
UEM SUNRISE BHD	1.21	Hold	1.06	-12%	5,490.3	(60.2)	32.2	20.9	0.8	0.8	0.9	1.4
SP SETIA BHD	3.50	Hold	3.11	-11%	9,863.3	(26.8)	14.1	14.4	1.4	1.3	3.5	3.5
MAH SING GROUP	1.60	Hold	1.53	-5%	3,855.1	(31.9)	10.1	8.8	1.1	1.1	4.0	4.5
SUNWAY BHD	3.06	Buy	3.72	22%	6,226.1		9.9	9.0	0.9	0.8	3.9	3.9
MATRIX CONCEPTS	2.59	Buy	2.91	12%	1,478.3	(28.8)	6.3	6.0	1.6	1.3	5.8	5.8
TAMBUN	1.50	Hold	1.40	-7%	640.1	(35.6)	6.6	6.8	1.2	1.1	5.8	5.6
GLOMAC BHD	0.78	Hold	0.72	-7%	560.6	(51.7)	9.7	8.8	0.6	0.5	4.7	4.8
ECO WORLD DEVELO	1.34	NR			3,168.1	(41.7)	30.2	15.7	0.9	0.9	-	-
Average						(39.8)	15.0	11.7	1.0	0.9	3.5	3.6

Financial Projections for Sunway (BUY; TP: RM3.72)

Income Statement

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
Revenue	4,558.1	4,451.3	4,576.4	4,773.0	5,045.2
EBITDA	859.2	803.3	809.5	890.5	966.2
D&A	(99.3)	(116.3)	(131.9)	(146.2)	(159.3)
EBIT	759.9	686.9	677.5	744.3	806.9
Interest Income	48.4	97.8	25.1	20.3	25.8
Finance Costs	(78.9)	(124.5)	(102.3)	(99.9)	(97.5)
Associates/JCE	233.4	269.9	207.9	214.0	201.0
Profit Before Tax	962.8	930.2	808.2	878.8	936.3
Tax	(148.6)	(129.8)	(149.9)	(166.2)	(183.8)
Net Profit	814.2	800.4	658.4	712.6	752.5
Minority Interests	(77.6)	(67.0)	(124.9)	(126.3)	(119.6)
PATAMI	736.6	733.4	533.5	586.4	632.9
Exceptionals	151.5	141.7	-	-	-
Core Earnings	585.1	591.7	533.5	586.4	632.9
Basic Shares (m)	1,723.4	1,723.4	1,723.4	1,723.4	1,723.4
Core EPS (sen)	33.8	34.3	31.0	34.0	36.7
FD Core EPS (sen)	28.9	29.3	23.2	25.5	27.5

Balance Sheet

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
Cash	1,033	1,085	588	764	956
Trade Receivables	1,124	1,098	1,128	1,177	1,244
Inventories	687	671	690	719	760
Development Costs	994	1,006	1,003	1,014	1,077
Associates/JCE	2,426	2,591	2,685	2,773	2,835
PPE	3,749	3,933	4,101	4,255	4,395
Goodwill	320	320	320	320	320
Others	130	130	130	130	130
Total Assets	10,462	10,832	10,644	11,151	11,718
Trade Payables	1,249	1,220	1,254	1,308	1,382
Total Debt	2,461	2,299	2,246	2,192	2,139
Others	511	511	511	511	511
Total Liabilities	4,220	4,029	4,010	4,011	4,032
Shareholders' Funds	5,896	6,439	6,146	6,525	6,951
Minority Interests	395	462	587	713	833
Total Capital	6,291	6,901	6,732	7,238	7,784

Cashflow Analysis

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
EBITDA	859.2	803.3	809.5	890.5	966.2
Working Capital	(406.1)	1.7	(12.9)	(34.9)	(97.1)
Interest Received	38.3	31.8	25.1	20.3	25.8
Dividends fr Assoc	91.6	104.2	114.6	126.1	138.7
Others	(141.1)	(129.8)	(149.9)	(166.2)	(183.8)
CFO	441.8	811.1	786.5	835.9	849.8
Capex	(300.0)	(300.0)	(300.0)	(300.0)	(300.0)
Purchase/Disposal	-	-	-	-	-
Others	-	-	-	-	-
CFI	(300.0)	(300.0)	(300.0)	(300.0)	(300.0)
Financing	(334.8)	(161.5)	(53.4)	(53.4)	(53.4)
Shares Issued	-	-	-	-	-
Dividends	(172.3)	(189.6)	(827.2)	(206.8)	(206.8)
Interest Paid	(118.3)	(107.1)	(102.3)	(99.9)	(97.5)
Others	-	-	-	-	-
CFF	(625.4)	(458.2)	(982.9)	(360.1)	(357.7)
Net Cashflow	(483.6)	52.9	(496.4)	175.8	192.2

Quarterly Financial Summary

FYE 31 Dec (RM m)	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2
Revenue	1,041.5	951.0	1,398.8	1,069.0	1,155.7
Expenses	(936.4)	(902.4)	(1,244.9)	(944.4)	(1,022.9)
Other Income	33.8	70.1	105.4	25.1	28.7
EBIT	139.0	118.7	259.3	149.6	161.4
Derivatives	0.5	4.9	(3.3)	-	-
Net Interest Expense	(9.3)	15.8	(21.8)	(16.1)	(15.6)
Associates & JCE	150.7	31.5	49.6	42.6	57.9
Profit Before Tax	280.9	171.0	283.8	176.1	203.8
Tax	(33.1)	(31.5)	(29.2)	(32.8)	(23.9)
Net Profit	247.9	139.5	254.7	143.2	179.9
Minority Interests	(9.9)	(6.2)	(40.0)	(41.1)	(25.5)
PATAMI	237.9	133.3	214.7	102.1	154.4
Exceptionals	(101.2)	13.7	(34.7)	2.4	(21.5)
Core Earnings	136.7	147.0	180.0	104.5	132.9
Core EPS (sen)	7.78	8.31	10.10	5.85	6.73
FD Core EPS (sen)	7.27	7.83	9.69	5.59	6.61
W. Ave. Shares (m)	1,756.9	1,768.2	1,782.7	1,786.6	1,786.6

Rates and Ratios

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
Core PER (x)	9.1	8.9	9.9	9.0	8.3
FD Core PER (x)	10.6	10.4	13.2	12.0	11.1
Net DPS (sen)	11.0	48.0	12.0	12.0	12.0
Net DY (%)	3.6	15.7	3.9	3.9	3.9
BVPS (RM)	3.4	3.7	3.6	3.8	4.0
P/B (x)	0.9	0.8	0.9	0.8	0.8
NTA/Share (RM)	3.2	3.6	3.4	3.6	3.8
EBITDA Margin (%)	18.8	18.0	17.7	18.7	19.2
EBIT Margin (%)	16.7	15.4	14.8	15.6	16.0
PBT Margin (%)	26.2	27.0	22.2	22.9	22.5
PATAMI Margin (%)	12.8	13.3	11.7	12.3	12.5
ROE (%)	10.4	9.6	8.5	9.3	9.4
ROA (%)	5.4	5.6	5.0	5.4	5.5
Net Gearing (%)	25.4	19.7	26.3	22.5	17.5

Assumption Metrics

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
Revenue	4,731	4,759	4,576	4,773	5,045
Property	1,209	1,223	1,220	1,233	1,310
Property Investment	840	865	891	918	946
Construction	1,463	1,391	1,122	1,212	1,309
Trading/Manufacture	616	647	679	713	749
Quarry	208	218	229	240	252
Others	394	414	435	456	479
EBIT Margins (%)	16.7	15.4	14.8	15.6	16.0

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 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

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TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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