

# Sunway (BUY ↔; EPS ↔)

**INDUSTRY: NEUTRAL**
**EARNINGS EVALUATION**
**30 August 2017**
**Price Target: RM5.16 (↑)**
**Share price: RM4.35**

## 1H17 in line; higher dividend declared

**Results**

- **Within Expectations:** Reported 1H17 core earnings of RM248.1m, making up 42.4% and 44.0% of ours and consensus full year forecasts, respectively.

**Deviations**

- The results are deemed in line considering stronger 2H17.

**Dividends**

- Declared interim dividend of 7 sen per share (2Q16: 5 sen), representing an annualized yield of 3.2%.

**Highlights**

- **QoQ:** Higher revenue (+13.7%) in 2Q17 was contributed by all segments except construction and trading and manufacturing segments. Core earnings improved by 29.9% largely driven by improved sales and vacant possession of Sunway Geo Residences.
- **YoY:** Core earnings grew by 5.5% on the back of higher revenue (+7.4%) thanks to higher contributions from all segments, except quarry. The higher profit from property development was achieved despite lower revenue due to higher margin from ongoing projects.
- **YTD:** Revenue grew by 4.8% and core earnings improved by 4.3%. All segments showed improvements except property development segment due to lower sales and progress billings without the contribution from Avant Parc.
- **Property...** Effective property sales for 1H17 achieved RM339m (2Q17: RM214m) vs full year sales target of RM900m (flat yoy). Sales are expected to pick up with more upcoming launches such as Serene, The Grid and industrial park in Subang. Effective property unbilled sales stood at RM908m, representing 0.8x of FY16's property revenue.
- **Property Investment...** Growth was largely attributable to additional revenue from Sunway Velocity Mall (opened in Dec 16), higher visitorship to the theme parks and higher contribution from Sunway Pyramid Hotel which was reopened in 2017 with additional rooms after refurbishment.
- **Construction...** Stronger results achieved due to stronger progress billings and lower intra-group elimination. SunCon's current order book of RM4.6bn translates to a healthy cover of 2.4x on FY16 revenue. In FY17, SunCon aims to secure RM2.0bn worth of contracts including jobs from LRT3.

**Risks**

- Prolonged downturn in property market.
- Execution risk.
- We raise our dividend forecasts for FY17 - FY19.

**Forecasts**
**Rating**
**BUY ↔, TP: RM5.16 ↑**

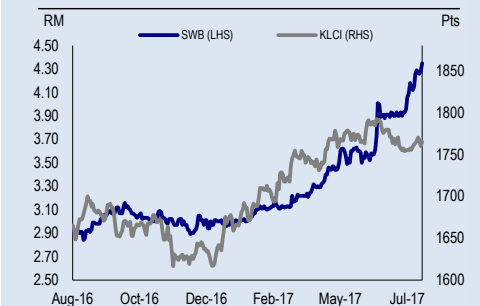
- Sunway is our **Top Pick** within the sector as we believe it should be rerated and trade closer to its peers such as IJM and Gamuda (Figure #5) given its diversified income stream and declassification from property sector. At a P/E of 14.2x as compared to peers, we opine that it represents a deep value stock with mature investment properties and the underappreciated trading and healthcare segment.

**Valuation**

- Our TP is raised to **RM5.16** (from RM5.14) based on a 10% holding discount from SOP derived valuation of RM5.74 after factoring in latest TP for SunCon (**HOLD, TP: RM2.33**).

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KLCI	1769.5
Expected share price return	18.6%
Expected dividend return	3.2%
Expected total return	21.8%

**Share price**

**Information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	2,053
Market cap (RM m)	8,829
3-mth avg. volume ('000)	3,240
SC Shariah compliant	Yes

**Price Performance**

	1M	3M	12M
Absolute	2.1	20.8	46.0
Relative	0.8	19.6	37.2

**Major shareholders**

Sungei Way Corp Sdn Bhd	56.2%
Skim Amanah Saham	7.3%
EPF	5.5%

**Summary Earnings Table**

FYE Dec (RM m)	2016A	2017E	2018F	2019F
Revenue	4,656	4,799	5,175	5,458
EBITDA	852	965	1,058	1,129
EBIT	715	719	788	836
PATAMI	586	585	630	688
Core PATAMI	547	585	630	688
Core EPS (sen)	26.5	28.4	30.6	33.3
DPS (sen)	12.1	14.0	15.1	16.5
DY (%)	2.8	3.2	3.5	3.8
P/E (x)	16.4	15.3	14.2	13.0
BV / share	3.6	3.8	3.9	4.1
P/BV (x)	1.2	1.1	1.1	1.1
Net Gearing	43.2	36.2	32.8	30.3
ROA (%)	2.9	3.0	3.1	3.3
ROE (%)	6.6	6.7	6.9	7.1

HLIB

**Figure #1 Quarterly Results Comparison**

FYE Dec (RM m)	2Q16	1Q17	2Q17	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>1155.7</b>	<b>1091.3</b>	<b>1241.0</b>	<b>13.7</b>	<b>7.4</b>	<b>Refer to segmental.</b>
Property Development	315.1	143.3	271.1	89.2	(13.9)	<b>QoQ:</b> Higher sales, vacant possession of Sunway Geo Residences and higher progress billings from Sunway Velocity. <b>YoY:</b> Lower sales and progress billings and high base effect from the contribution of Avant Parc in Singapore and Sunway Velocity Signature Retail Shops and Offices.
Property Investment	160.1	186.9	207.4	10.9	29.5	<b>QoQ:</b> Better occupancy and visitorships as well as the progressive reopening of Sunway Pyramid Hotel with additional rooms after refurbishment exercise. <b>YoY:</b> Additional revenue from newly opened Sunway Velocity Mall since Dec 16.
Construction	249.3	316.8	310.9	(1.9)	24.7	<b>YoY:</b> Stronger progress billings and lower intra-group eliminations.
Trading/Manufacturing	218.5	245.2	226.0	(7.8)	3.5	<b>QoQ:</b> Lower sales in building materials and heavy equipment parts and the Winstar group of companies. <b>YoY:</b> Improved due to better overall market condition and sentiment, both locally and overseas.
Quarry	60.6	40.2	58.7	46.0	(3.1)	<b>QoQ:</b> Higher sales volume for both aggregates and premix, and higher selling price for aggregates. <b>YoY:</b> Lower sales volume for both aggregates and premix, and lower selling price for aggregates.
Others	146.7	157.1	167.1	6.4	13.9	<b>QoQ/YoY:</b> Higher contribution from the healthcare, building materials segments and Group treasury operations.
<b>EBIT</b>	<b>161.4</b>	<b>116.8</b>	<b>193.9</b>	<b>66.1</b>	<b>20.1</b>	<b>Refer to segmental.</b>
Property Development	53.1	7.9	65.8	728.9	23.9	<b>QoQ:</b> Filtered down from higher sales and better profit margin. <b>YoY:</b> Higher margin from local and overseas projects.
Property Investment	24.4	44.1	43.0	(2.5)	76.1	<b>YoY:</b> Higher due to income from all investment properties.
Construction	34.0	34.7	40.8	17.5	20.1	<b>QoQ/YoY:</b> Lower intra-group elimination.
Trading/Manufacturing	10.5	12.5	13.9	11.3	33.2	<b>QoQ/YoY:</b> Better operating margins.
Quarry	11.7	0.9	4.2	367.6	(64.2)	<b>QoQ:</b> Higher revenue and operating margin. <b>YoY:</b> Due to lower operating margin.
Others	21.8	20.1	25.3	25.9	16.0	<b>QoQ/YoY:</b> Higher contribution from the healthcare, building materials segments and group treasury operations.
Net Interest Expense	(15.6)	(6.7)	(18.7)	178.0	20.5	
Share of Associates/JCE	57.9	43.1	96.3	123.4	66.3	
PBT	203.8	153.1	271.4	77.3	33.2	Filtered down from EBIT.
PAT	179.9	125.8	233.3	85.5	29.7	
<b>PATAMI</b>	<b>154.4</b>	<b>107.9</b>	<b>196.9</b>	<b>82.5</b>	<b>27.6</b>	
EI	(21.5)	0.0	(56.8)	NM	164.2	Fair value gain from SREIT.
<b>Core Earnings</b>	<b>132.9</b>	<b>107.9</b>	<b>140.1</b>	<b>29.9</b>	<b>5.5</b>	Filtered down from PATAMI ex. EI.
<b>Core EPS (sen)</b>	<b>6.5</b>	<b>5.3</b>	<b>6.8</b>	<b>29.7</b>	<b>5.4</b>	
				<b>QoQ (ppt)</b>	<b>YoY (ppt)</b>	
EBIT Margin (%)	14.0	10.7	15.6	4.9	1.6	
Property Development	16.8	5.5	24.3	18.8	7.5	
Property Investment	15.2	23.6	20.7	-2.9	5.5	
Construction	13.6	11.0	13.1	2.1	-0.5	
Trading/Manufacturing	4.8	5.1	6.2	1.1	1.4	
Quarry	19.3	2.2	7.1	4.9	-12.2	
Others	14.9	12.8	15.1	2.3	0.2	
PBT Margin Ex-Assoc (%)	12.6	10.1	14.1	4	1.5	

Sunway, HLIB

**Figure #2 Cumulative results comparison**

FYE Dec (RM m)	1H16	1H17	YoY (%)	Comments
<b>Revenue</b>	<b>2224.7</b>	<b>2332.3</b>	<b>4.8</b>	<b>Refer to segmental.</b>
Property Development	549.1	414.4	(24.5)	Lower sales and progress billings from local development projects and no contribution from Avant Parc project in Singapore.
Property Investment	329.3	394.3	19.7	Boosted by the newly-opened Sunway Velocity Mall, theme parks and the refurbished Sunway Pyramid Hotels.
Construction	560.8	627.7	11.9	Due to higher progress billings and lower intra group revenue elimination.
Trading/Manufacturing	411.5	471.2	14.5	Due to higher sales in heavy equipment, heavy equipment parts and building materials divisions.
Quarry	99.3	98.9	(0.4)	
Others	268.3	324.2	20.8	Higher contribution from the healthcare, building materials segments and Group treasury operations.
<b>EBIT</b>	<b>311.1</b>	<b>310.7</b>	<b>(0.1)</b>	<b>Refer to segmental.</b>
Property Development	108.7	73.7	(32.2)	Lower sales and progress billings from local development projects and no contribution from Avant Parc project in Singapore.
Property Investment	60.8	87.1	43.2	Boosted by the newly-opened Sunway Velocity Mall, theme parks and the refurbished Sunway Pyramid Hotels.
Construction	69.6	75.5	8.6	Higher progress billings and lower intra group revenue elimination.
Trading/Manufacturing	19.0	26.5	39.3	Higher revenue and margins.
Quarry	18.1	5.1	(72.0)	Lower operating margin and higher depreciation expenses.
Others	30.8	45.3	47.3	Higher contribution from the healthcare, building materials segments and group treasury operations.
Net Interest Expense	(31.7)	(25.5)	(19.5)	
Share of Associates/JCE	100.5	139.4	38.7	
PBT	379.9	424.6	11.8	
PAT	323.1	359.1	11.1	
<b>PATAMI</b>	<b>256.5</b>	<b>304.9</b>	<b>18.9</b>	
EI	(19.1)	(56.8)	197.4	Consist of fair value gain from SREIT.
<b>Core Earnings</b>	<b>237.4</b>	<b>248.1</b>	<b>4.5</b>	
<b>Core EPS (sen)</b>	<b>11.6</b>	<b>12.2</b>	<b>5.0</b>	
			<b>YoY (ppt)</b>	
EBIT Margin (%)	14.0	13.3	-0.7	
Property Development	19.8	17.8	-2	
Property Investment	18.5	22.1	3.6	
Construction	12.4	12.0	-0.4	
Trading/Manufacturing	4.6	5.6	1	
Quarry	18.2	5.1	-13.1	
Others	11.5	14.0	2.5	
PBT Margin Ex-Assoc (%)	12.6	12.2	-0.4	

Sunway, HLIB

**Figure #3 1H17 Results Vs. Consensus & HLIB Estimates**

FYE Dec (RM m)	Actual 1H17	HLIB FY17	Actual vs HLIB (%)	Consensus FY17	Actual vs Consensus (%)	Comments
Revenue	2332.3	4798.8	48.6	5135.0	45.4	In line.
Normalised PAT	248.1	585.5	42.4	563.9	44.0	In line.

Company, HLIB, Bloomberg

**Figure #4 HLIB vs Consensus**

FYE Dec (RM m)	FY17E			FY18F		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	5,175.2	5,527.0	(6.4)	5,458.4	5,705.0	(4.3)
PATAMI	630.5	599.5	5.2	688.5	954.6	(27.9)

Bloomberg, HLIB

**Figure #5 Peers comparison**

Company	Segmental Profit Contribution (%)				FYE	Forward PE (x)	Net Gearing (x)	Div Yield (%)
	Property Development	Recurring Income	Construction	Others				
<b>Sunway</b> (RM4.35)	38%	23% (Property Investment)	17%	Trading & Services - 22% (~9% from Healthcare)	Dec	14.2	0.36	2.8
<b>IJM Corp</b> (RM3.35)	14%	48% (Infrastructure)	15%	Manufacturing & Quarrying - 11% Plantation - 4%; Others - 8%	Mar	18.7	0.40	2.2
<b>Gamuda</b> (RM5.39)	22%	53% (Water & expressway concessions)	25%		Jul	16.4	0.54	2.2

Company, HLIB

**Figure #6 SOP valuation**

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.4%	1,638	0.79	Based on TP of RM 2.33
Sunway REIT	37.3%	1,869	0.91	Based on TP of RM 1.70
Property Development & Investment	100%	6,489	3.14	35% discount on estimated RNAV
Healthcare	100%	1,840	0.89	25X forward P/E
Trading/Manufacturing	100%	250	0.12	10X trailing P/E
Quarry	100%	191	0.09	10X trailing P/E
		12,278	5.95	
Holding Company Net Debt		(439)	(0.21)	
		11,839	5.74	
10% Holding Company Discount		(1,184)	(0.57)	
<b>Equity Value (RM)</b>		<b>10,655</b>	<b>5.16</b>	

HLIB

## Financial Projections for Sunway (BUY; TP: RM5.16)

### Income statement

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
<b>Revenue</b>	<b>4,448</b>	<b>4,656</b>	<b>4,799</b>	<b>5,175</b>	<b>5,458</b>
Operating cost	(3,644)	(3,803)	(3,834)	(4,117)	(4,329)
<b>EBITDA</b>	<b>804</b>	<b>852</b>	<b>965</b>	<b>1,058</b>	<b>1,129</b>
D&A	(117)	(137)	(245)	(270)	(293)
Net Interest	(27)	(48)	(46)	(46)	(40)
Associates	202	125	127	133	140
Jointly controlled entities	68	67	67	67	87
Exceptionals	142	39	-	-	-
<b>Pretax profit</b>	<b>930</b>	<b>859</b>	<b>867</b>	<b>942</b>	<b>1,023</b>
Taxation	(131)	(140)	(161)	(178)	(191)
Minority Interest	(67)	(133)	(120)	(133)	(144)
PATAMI	732	586	585	630	688
<b>Core Earning</b>	<b>591</b>	<b>547</b>	<b>585</b>	<b>630</b>	<b>688</b>
Basic shares (m)	1,800	2,063	2,063	2,063	2,063
<b>Core EPS (sen)</b>	<b>32.8</b>	<b>26.5</b>	<b>28.4</b>	<b>30.6</b>	<b>33.3</b>

### Balance sheet

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
Fixed assets	5,296	5,910	6,164	6,394	6,602
Other long-term assets	3,966	3,827	3,845	3,912	3,998
Other short-term assets	2,740	4,503	4,322	4,449	4,623
<b>Working capital</b>	<b>4,775</b>	<b>5,000</b>	<b>5,977</b>	<b>6,333</b>	<b>6,602</b>
Receivables	1,823	1,892	1,971	2,099	2,195
Payables	2,258	2,438	3,018	3,169	3,282
Inventory	693	670	988	1,066	1,124
<b>Net cash / (debt)</b>	<b>(4,404)</b>	<b>(5,461)</b>	<b>(4,917)</b>	<b>(4,920)</b>	<b>(4,908)</b>
Cash	1,483	1,950	2,496	2,493	2,505
ST debt	3,069	4,858	7,413	7,413	7,413
LT debt	2,818	2,553	0	0	0
<b>Shareholders' funds</b>	<b>7,213</b>	<b>8,233</b>	<b>8,688</b>	<b>9,163</b>	<b>9,684</b>
Share capital	1,800	2,063	2,063	2,063	2,063
Reserves	3,195	3,549	3,884	4,225	4,602
Minorities	651	764	883	1,016	1,161
Other liabilities	5,159	5,545	6,703	7,005	7,232

### Summary Earnings Table

<b>Revenue</b>	4,448	4,656	4,799	5,175	5,458
EBITDA	804	852	965	1,058	1,129
Core PATAMI	591	547	585	630	688
P/E (x)	13.3	16.4	15.3	14.2	13.0
BV / share	3.6	3.6	3.8	3.9	4.1
P/BV (x)	1.2	1.2	1.1	1.1	1.1
ROA (%)	3.7	2.9	3.0	3.1	3.3
ROE (%)	8.2	6.6	6.7	6.9	7.1

### Cashflow

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
EBIT	687	715	719	788	836
D&A	117	137	245	270	293
Working capital changes	78	(143)	413	(181)	(215)
Taxation	(144)	(109)	(161)	(178)	(191)
Others	(166)	(240)	(67)	(67)	(87)
<b>Operating cashflow</b>	<b>940</b>	<b>668</b>	<b>1,483</b>	<b>973</b>	<b>1,010</b>
Capex & acquisitions	(1,396)	(737)	(500)	(500)	(500)
<b>Free cashflow</b>	<b>(456)</b>	<b>(69)</b>	<b>983</b>	<b>473</b>	<b>510</b>
Others	(692)	(898)	-	-	-
<b>Investing cashflow</b>	<b>(2,088)</b>	<b>(1,635)</b>	<b>(500)</b>	<b>(500)</b>	<b>(500)</b>
Equity Raised	180	595	-	-	-
Others	(30)	(57)	-	-	-
Net Borrowing	1,764	1,427	-	-	-
<b>Financing cashflow</b>	<b>1,116</b>	<b>1,537</b>	<b>(438)</b>	<b>(476)</b>	<b>(498)</b>
<b>Net cashflow</b>	<b>(32)</b>	<b>570</b>	<b>546</b>	<b>(3)</b>	<b>12</b>

### Valuation ratios

Net DPS (sen)	37.0	12.1	14.0	15.1	16.5
FCF/ share (sen)	(25)	(3)	48	23	25
FCF yield (%)	(5.8)	(0.8)	11.0	5.3	5.7
Market capitalization (m)	7,829	8,974	8,974	8,974	8,974
Net cash (m)	(4,404)	(5,461)	(4,917)	(4,920)	(4,908)
Enterprise value	12,233	14,435	13,891	13,894	13,883
EV/ EBITDA (x)	15.2	16.9	14.4	13.1	12.3

### Growth margins ratios

Growth (%)					
Sales Growth	(2.4)	4.7	3.1	7.8	5.5
Operating expenses	(1.1)	4.4	0.8	7.4	5.2
EBITDA Growth	(8.1)	5.9	13.2	9.7	6.7
PBT Growth	(3.1)	(7.7)	0.9	8.7	8.7
PATMI	1.4	(7.3)	7.0	7.7	9.1
Basic EPS Growth	(2.5)	(19.2)	7.0	7.7	9.1

### Assumption Metrics

Revenue	4448	4656	4799	5175	5458
Property	1196	1203	1109	1251	1446
Property Investment	639	692	758	777	788
Construction	1222	1137	1271	1405	1405
Trading/Manufacture	650	833	858	901	946
Quarry	242	207	207	218	218
Others	495	577	595	624	656
EBIT margin	15%	15%	15%	15%	15%

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## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage and report is intended purely for informational purposes.

## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.