Sunway (BUY ←→; EPS ↑)

INDUSTRY: NEUTRAL
EARNINGS EVALUATION

29 February 2016
Price Target: RM3.63 (←→)
Share price: RM3.01

FY15 result: Above Expectation

Results

- **Above Expectations**: FY15 core earnings (after adjusting for EI of -RM142m) was flat YoY, making up 106% and 103% of ours and consensus' full year forecasts, respectively.

Deviation

- Mainly due to stronger than expected profit contribution from construction division.

Dividends

- Declared dividend of 6 sen/share. Total dividend declared year to date amounted to 49 sen/share (including special dividend of 26 sen and dividend in specie of 12 sen), translating to 16% dividend yield.

Highlights

- **Results beat expectation…** 4QFY15 core profit rose 22% QoQ to RM180m mainly due to improved performance from all business segments except quarry division.
- **Property…** EBIT improved QoQ mainly due to higher revenue from Sunway South Quay, Sunway Iskandar and Singapore projects.
- Effective property sales for 4QFY15 reached RM348m, bringing FY15 sales to RM912m, exceeding company target of RM750m.
- Its effective unbilled sales stood at RM1.5bn (1.3x of Sunway's FY15 property development revenue). Going into 2016, Sunway targets to launch RM1.6bn worth of new projects with effective sales target of RM1.1bn (+21% YoY). Major launches in FY16 include Sunway Gandaria (RM200m), Sunway Geo Residences 3 (GDV:RM400m), Casa Kiara 3 (GDV:RM200m), Velocity (GDV:RM200m), Sunway Iskandar (GDV:RM400m) and others.
- **Construction…** SunCon was successfully listed on July 15. As at 4QFY15, the outstanding order book stands at RM3.7bn, implying a healthy cover ratio of 3x on FY15 revenue. YTD job wins currently stands at RM2.6bn, surpassing management's target of RM2.5bn. Given its strong track record, we reckon that SunCon has a strong participating chance with jobs such as the MRT2 (RM26bn), LRT3 (RM9bn), Pan Borneo (RM16bn), DASH (RM4bn and SUKE (RM4bn), all of which are expected to be rolled out this year.

Risks

- Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.

Forecasts

- FY16 earnings raised by 7% after incorporated higher contribution from construction segment.

Rating

BUY ←→

Valuation

- Maintain **BUY** with unchanged TP of **RM3.63**, based on SOP valuation.

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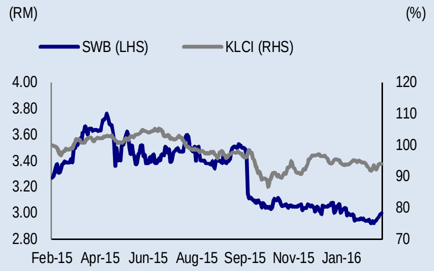
KLCI	1,663.4
Expected share price return	20.6%
Expected dividend return	4.0%
Expected total return	24.6%

Share price



Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,751.0
Market cap (RM m)	5,358
3-mth avg. volume ('000)	1,014
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	2.4	-1.6	-0.5
Relative	0.1	-0.5	9.0

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)	2013A	2014A	2015E	2016E
Revenue	4,734	4,558	4,451	4,676
EBITDA	1,960	859	803	824
EBIT	1,824	760	687	692
Profit Before Tax	1,894	963	930	831
PATAMI	1,500	737	733	601
Core PATAMI	482	585	592	601
Core EPS (sen)	28.0	33.8	34.3	34.9
FD EPS (sen)	24.0	28.9	29.3	26.1
Net DPS (sen)	10.0	11.0	11.0	12.0
Net DY (%)	3.3	3.7	3.7	4.0
P/E (x)	10.7	8.9	8.8	8.6
FD P/E (x)	12.6	10.4	10.3	11.5
P/B (x)	1.0	0.9	0.8	0.8
Net Gearing (%)	28.7	25.4	19.7	16.5
ROE (%)	10.8	10.4	9.6	9.0
ROA (%)	4.9	5.4	5.6	5.4

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY14	3QFY15	4QFY15	Qoq (%)	Yoy (%)	Comments
Revenue	1193.8	951.0	1398.8	47.1	17.2	Refer to segmental.
Property Development	496.3	270.9	420.0	55.0	(15.4)	**Yoy:** Lower due to fewer ongoing projects and handover of Sunway Nexis in the prior year. **Qoq**: Due to higher progress billings from Sunway Velocity, Sunway South Quay, Sunway Lenang Heights, Sunway Eastwood and Sunway Geo Residences. Achieved effective new sales of RM348m in 4Q. Effective unbilled sales stood at RM1.5bn (1.3x FY15's revenue).
Property Investment	160.4	172.2	185.4	7.6	15.5	**Yoy:** Due to higher occupancy at Sunway Pinnacle and Sunway Putra Hotel. **Qoq:** Due to higher revenue from the leisure and hospitality divisions.
Construction	208.5	196.8	405.9	106.3	94.7	**Yoy & qoq:** Due to lower intragroup elimination in the current quarter. Backed by outstanding construction order book of RM3.7bn (3x FY15's construction revenue).
Trading/Manufacturing	168.9	130.5	205.3	57.3	21.5	**Yoy & qoq:** Due to maiden profit contribution from the newly acquired Winstar group in Sep 15.
Quarry	74.5	66.8	57.5	(13.8)	(22.8)	**Yoy & qoq:** Decrease in sales volume as major infrastructure projects had been completed.
EBIT	364.3	118.7	259.3	118.4	(28.8)	Refer to segmental.
Property Development	96.6	34.5	96.4	179.3	(0.2)	**Qoq:** Due to higher revenue from Sunway South Quay, Sunway Iskandar and Singapore projects.
Property Investment	182.3	39.6	101.0	154.8	(44.6)	**Yoy:** Lower due to a lower fair value gain on investment properties of RM55.6m in 2015 as compared to RM138.8m.
Construction	47.9	23.4	26.8	14.3	(44.2)	**YoY:** Due to normalisation of margin.
Trading/Manufacturing	7.7	5.4	11.7	118.1	52.4	
Quarry	15.7	10.6	5.8	(44.7)	(62.7)	**Yoy:** Decrease in sales volume as major infrastructure projects had been completed.
Net Interest Expense	(7.2)	15.8	(21.8)	(237.8)	200.3	
Share of Associates/JCE	44.8	31.5	49.6	57.2	10.6	
PBT	399.2	171.0	283.8	66.0	(28.9)	Filtered down from EBIT.
PAT	347.8	139.5	254.7	82.6	(26.8)	
PATAMI	303.8	133.3	214.7	61.0	(29.3)	
EI	(106.9)	13.7	(34.7)	(353.3)	(67.5)	Consist of fair value loss of ESOS of RM12m, loss of derivative of RM3.3m and fair value gain properties for RM50m.
Core Earnings	196.9	147.0	180.0	22.4	(8.6)	Filtered down from PATAMI ex. EI.
Core EPS (sen)	11.4	8.3	10.1	21.4	(11.4)	
EBIT Margin (%)	30.5	12.5	18.5	48.5	(39.3)	
Property Development	19.5	12.7	23.0	80.1	17.9	
Property Investment	113.6	23.0	54.5	136.7	(52.0)	
Construction	23.0	11.9	6.6	(44.6)	(71.3)	
Trading/Manufacturing	4.6	4.1	5.7	38.6	25.4	
Quarry	21.0	15.8	10.2	(35.8)	(51.7)	
PBT Margin Ex-Assoc (%)	29.7	14.7	16.7	14.3	(43.6)	

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Figure #2 Cumulative results comparison

FYE Dec (RM m)	FY14	FY15	Yoy (%)	Comments
Revenue	4558.1	4451.3	(2.3)	Refer to segmental.
Property Development	1198.3	1195.7	(0.2)	Lower due to fewer ongoing projects and handover of Sunway Nexis in the prior year.
Property Investment	594.5	641.7	7.9	Due to higher occupancy at Sunway Pinnacle and Sunway Putra Hotel.
Construction	1481.5	1222.1	(17.5)	Due to high intragroup elimination.

Trading/Manufacturing	639.4	650.0	1.7	Due to maiden profit contribution from the newly acquired Winstar group in Sep 15.
Quarry	236.7	242.1	2.3	Stronger local demand for aggregates and premix.
EBIT	759.9	686.9	(9.6)	Refer to segmental.
Property Development	285.8	207.7	(27.3)	
Property Investment	260.2	213.5	(17.9)	
Construction	126.4	159.0	25.8	
Trading/Manufacturing	38.6	31.9	(17.3)	
Quarry	35.9	39.5	10.0	
Net Interest Expense	(30.4)	(26.6)	(12.4)	
Share of Associates/JCE	233.4	269.9	15.7	
PBT	960.2	929.2	(3.2)	
PAT	811.6	799.4	(1.5)	
PATAMI	734.0	732.4	(0.2)	
EI	(151.5)	(141.7)	(6.5)	Consist of fair value gain of RM110.8m, fair value gain on properties of RM50m, fair value of ESOS of RM24.8m, listing expenses of RM16.1m, gain on disposal of RM23m and loss on derivatives of RM1m.
Core Earnings	582.5	590.7	1.4	
Core EPS (sen)	33.8	33.7	(0.2)	
EBIT Margin (%)	16.7	15.4	(7.4)	
Property Development	23.9	17.4	(27.2)	
Property Investment	43.8	33.3	(24.0)	
Construction	8.5	13.0	52.5	
Trading/Manufacturing	6.0	4.9	(18.6)	
Quarry	15.2	16.3	7.5	
PBT Margin Ex-Assoc (%)	15.9	14.8	(7.1)	

Sunway, HLIB

Figure #3 Sunway SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	Target price of RM1.59	54%	1,118	0.56	15.3
Property	NPV of profits + Shareholders Fund	100%	5,517	2.74	75.5
Trading/Manufacturing	9X P/E	100%	291	0.14	4.0
Quarry	15X P/E	100%	187	0.09	2.6
Dividend in-specie					
Special cash dividend					
		Sub-Total (RM m)	7,113		
		No. of shares (m)	1,723		
		RM per share	4.13		
		Proceeds from warrants (RM m)	657	0.33	9.0
		Estimated Holding Company Net Debt	(460)	(460)	(0.23)
		SOP (RM m)	7,310		
		Total no. of diluted shares (m)	2,013		
		Target Price (RM)	**3.63**		

HLIB

Figure #4 HLIB vs Consensus

FYE Dec (RM m)	FY15E			FY16E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,451.3	5,134.0	-13%	4,676.4	5,286.0	-12%
PATAMI	590.7	577.0	2%	600.7	539.7	11%

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		Unbilled Sales Coverage (x)
							CY15	CY16	CY15	CY16	CY15	CY16	
IOI PROPERTIES	2.07	Buy	2.77	34%	9,131.4	(51.4)	15.0	12.1	0.57	0.56	2.0	2.5	0.9
UEM SUNRISE BHD	1.01	Hold	0.92	-9%	4,582.8	(67.2)	17.8	14.0	0.70	0.68	1.7	2.1	2.9
SP SETIA BHD	3	Hold	3.12	4%	7,885.2	(37.5)	8.6	11.2	1.28	1.21	7.7	4.5	2.6
MAH SING GROUP	1.31	Hold	1.41	8%	3,156.3	(44.3)	8.8	8.2	1.00	0.93	4.5	4.9	1.7
SUNWAY BHD	3.01	Buy	3.63	21%	5,358.1	0.0	8.8	8.6	0.81	0.76	15.9	4.0	1.4
MATRIX CONCEPTS	2.39	Buy	2.91	22%	1,343.7	(34.3)	5.4	5.4	1.59	1.35	6.0	7.4	1.1
TAMBUN	1.36	Hold	1.39	3%	577.1	(41.5)	5.9	6.8	1.44	1.39	6.7	5.8	0.8
YNH PROPERTY BHD	1.94	Hold	1.85	-4%	787.8	(47.7)	31.9	20.1	0.89	0.82	0.6	1.0	0.0
GLOMAC BHD	0.865	Hold	0.89	3%	626.6	(51.3)	7.9	7.0	0.64	0.60	4.9	5.1	1.5
ECO WORLD DEVELO	1.3	NR			3,073.5	(43.5)	56.5	21.7	0.86	0.83	-	-	2.5
Average						(41.9)	**16.7**	**11.5**	**0.98**	**0.91**	**5.0**	**3.7**	**1.5**

Financial Projections for Sunway (BUY; TP: RM3.63)

Income Statement

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015A	2016E
Revenue	**3,876.8**	**4,733.7**	**4,558.1**	**4,451.3**	**4,676.4**
EBITDA	594.5	1,960.5	859.2	803.3	824.0
D&A	(89.9)	(136.9)	(99.3)	(116.3)	(131.9)
EBIT	**504.5**	**1,823.6**	**759.9**	**686.9**	**692.1**
Interest Income	27.1	35.6	48.4	97.8	33.5
Finance Costs	(104.6)	(138.1)	(78.9)	(124.5)	(102.3)
Associates/JCE	301.2	172.5	233.4	269.9	207.9
Profit Before Tax	**728.2**	**1,893.6**	**962.8**	**930.2**	**831.2**
Tax	(128.5)	(120.9)	(148.6)	(129.8)	(155.6)
Net Profit	**599.7**	**1,772.7**	**814.2**	**800.4**	**675.6**
Minority Interests	(67.4)	(273.0)	(77.6)	(67.0)	(74.9)
PATAMI	**532.3**	**1,499.8**	**736.6**	**733.4**	**600.7**
Exceptionals	181.8	1,017.8	151.5	141.7	-
Core Earnings	**350.6**	**482.0**	**585.1**	**591.7**	**600.7**
Basic Shares (m)	1,292.5	1,723.4	1,723.4	1,723.4	1,723.4
Core EPS (sen)	27.1	28.0	33.8	34.3	34.9
FD Core EPS (sen)	22.6	24.0	28.9	29.3	26.1

Quarterly Financial Summary

FYE 31 Dec (RM m)	2013Q4	2013Q1	2014Q2	2014Q3	2014Q4
Revenue	1,025.7	1,204.6	1,134.0	1,477.5	1,060.0
Expenses	(932.6)	(1,086.8)	(1,002.4)	(1,315.9)	(939.9)
Other Income	16.4	16.2	20.4	211.5	49.8
EBIT	109.6	134.0	151.9	373.2	169.9
Derivatives	(0.0)	0.2	(0.1)	(2.8)	(3.2)
Net Interest Expense	(7.8)	(10.2)	(5.1)	(7.2)	(11.4)
Associates & JCE	40.4	109.6	38.5	44.7	38.1
Profit Before Tax	142.2	233.6	185.2	407.8	193.5
Tax	(30.4)	(44.9)	(21.8)	(50.8)	(36.1)
Net Profit	111.8	188.7	163.4	357.0	157.4
Minority Interests	(7.8)	(6.2)	(19.7)	(44.0)	(10.9)
PATAMI	104.0	182.5	143.7	313.0	146.5
Exceptionals	31.3	(981.3)	6.3	(56.6)	5.6
Core Earnings	124.4	157.5	110.3	126.0	149.3
Core EPS (sen)	6.40	7.31	8.66	11.93	7.68
FD Core EPS (sen)	6.27	7.03	8.24	11.32	7.23
W. Ave. Shares (m)	1,723.5	1,723.7	1,724.0	1,727.9	1,733.2

Balance Sheet

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015A	2016E
Cash	1,140	1,519	1,033	1,085	1,149
Trade Receivables	1,404	1,405	1,124	1,098	1,153
Inventories	626	623	687	671	705
Development Costs	600	1,276	994	1,006	1,085
Associates/JCE	1,553	2,284	2,426	2,591	2,685
PPE	3,008	3,548	3,749	3,933	4,101
Goodwill	319	320	320	320	320
Others	95	137	130	130	130
Total Assets	**8,745**	**11,112**	**10,462**	**10,832**	**11,327**
Trade Payables	1,605	2,154	1,249	1,220	1,281
Total Debt	2,747	2,795	2,461	2,299	2,246
Others	524	511	511	511	511
Total Liabilities	**4,876**	**5,460**	**4,220**	**4,029**	**4,038**
Shareholders' Funds	3,558	5,335	5,896	6,439	6,850
Minority Interests	310	317	395	462	537
Total Capital	**3,868**	**5,652**	**6,291**	**6,901**	**7,387**

Rates and Ratios

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015A	2016E
Core PER (x)	11.1	10.7	8.9	8.8	8.6
FD Core PER (x)	13.3	12.6	10.4	10.3	11.5
Net DPS (sen)	6.0	10.0	11.0	11.0	12.0
Net DY (%)	2.0	3.3	3.7	3.7	4.0
BVPS (RM)	2.8	3.1	3.4	3.7	4.0
P/B (x)	1.1	1.0	0.9	0.8	0.8
NTA/Share (RM)	2.5	2.9	3.2	3.6	3.8
EBITDA Margin (%)	15.3	41.4	18.8	18.0	17.6
EBIT Margin (%)	13.0	38.5	16.7	15.4	14.8
PBT Margin (%)	26.6	43.6	26.2	27.0	22.2
PATAMI Margin (%)	9.0	10.2	12.8	13.3	12.8
ROE (%)	10.7	10.8	10.4	9.6	9.0
ROA (%)	4.2	4.9	5.4	5.6	5.4
Net Gearing (%)	49.1	28.7	25.4	19.7	16.5

Cashflow Analysis

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015A	2016E
EBITDA	594.5	1,960.5	859.2	803.3	824.0
Working Capital	(154.1)	(124.7)	(406.1)	1.7	(107.4)
Interest Received	27.1	39.9	38.3	31.8	33.5
Dividends fr Assoc	151.8	83.1	91.6	104.2	114.6
Others	(233.2)	(865.8)	(141.1)	(129.8)	(155.6)
CFO	**386.1**	**1,092.9**	**441.8**	**811.1**	**709.2**
Capex	(465.5)	(657.9)	(300.0)	(300.0)	(300.0)
Purchase/Disposal	317.4	38.2	-	-	-
Others	(209.7)	(215.0)	-	-	-
CFI	**(357.7)**	**(834.7)**	**(300.0)**	**(300.0)**	**(300.0)**
Financing	493.2	48.6	(334.8)	(161.5)	(53.4)
Shares Issued	-	732.9	-	-	-
Dividends	-	(344.3)	(172.3)	(189.6)	(189.6)
Interest Paid	(104.6)	(117.5)	(118.3)	(107.1)	(102.3)
Others	(141.7)	(184.3)	-	-	-
CFF	**246.9**	**135.4**	**(625.4)**	**(458.2)**	**(345.2)**
Net Cashflow	**275.2**	**393.5**	**(483.6)**	**52.9**	**63.9**

Assumption Metrics

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015A	2016E
Revenue	**3,877**	**4,734**	**4,731**	**4,759**	**4,676**
Property	923	1,167	1,209	1,223	1,320
Property Investment	591	816	840	865	891
Construction	1,275	1,591	1,463	1,391	1,122
Trading/Manufacture	559	587	616	647	679
Quarry	197	198	208	218	229
Others	332	375	394	414	435
EBIT Margins (%)	13.0	38.5	13.2	13.3	13.8

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
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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UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than –5% over 12-months.