

Sunway (BUY ↔; EPS ↔)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

30 August 2016

Price Target: RM3.72 (↔)

Share price: RM3.01

1HFY16: Results in line

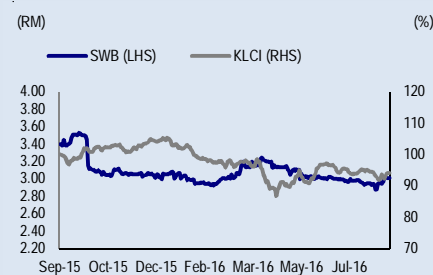
Results	<ul style="list-style-type: none"> ▪ Broadly in line: 2QFY16 core earnings surged by 27% QoQ, bringing 1HFY16 earnings to RM237m, making up 45% of our and consensus full year forecasts. We expect stronger 2H contribution from property and construction.
Deviation	<ul style="list-style-type: none"> ▪ None
Dividends	<ul style="list-style-type: none"> ▪ Declared dividend of 5 sen/share.
Highlights	<ul style="list-style-type: none"> ▪ YoY: 2QFY16 revenue up by 11% but core earnings fell by 3%. This is mainly attributed to lower profit recognition from construction segment due to upfront cost incurred in MRT job and drop in selling prices for aggregates and premix. ▪ QoQ: Core earnings surged by 27% QoQ due to better performance from trading and manufacturing and quarry division coupled with higher share of profit from JV and associates. ▪ Property... Effective property sales for 2QFY16 achieved RM312m (versus RM198m in 1QFY16) mainly contributed by sales from Sunway Mont Kiara, projects in Singapore and China. 1HFY16 effective sales already achieved RM510m, on track to meet full year sales target of RM1.1bn. ▪ For 1HFY16, Sunway only launched Sunway Mont Residences and Sunway Gandaria for a total GDV of RM500m. Both projects are well received with take up rate above 70%. For 2HFY16, Sunway will target to launch RM1.1bn of new projects including Sunway Geo Residences, Sunway Velocity and Sunway Iskandar. ▪ Property effective unbilled sales stood at RM1.5bn, representing 1.25x of FY15's property revenue. ▪ Flow of contract wins for construction... SunCon secured RM2.4bn new job wins YTD (FY15: RM2.6bn), almost hitting full year guidance of RM2.5bn. Its orderbook currently stands at a record high of RM4.9bn, translating to a healthy cover ratio of 2.6x FY15 revenue. ▪ Given its strong track record, SunCon has a strong chance to secure some packages of jobs from LRT3, MRT2 and BRT.
Risks	<ul style="list-style-type: none"> ▪ Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.
Forecasts	<ul style="list-style-type: none"> ▪ Unchanged.
Rating	BUY ↔
Valuation	<ul style="list-style-type: none"> ▪ Maintain BUY with TP unchanged at RM3.72 based on SOP valuation.

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KLCI	1,681.6
Expected share price return	23.6%
Expected dividend return	4.0%
Expected total return	27.6%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	2,033
Market cap (RM m)	6,120
3-mth avg. volume ('000)	1,085
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	2.7	-0.7	-4.3
Relative	1.0	-3.3	-8.2

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)	2014A	2015A	2016E	2017E
Revenue	4,558	4,451	4,576	4,773
EBITDA	859	803	809	891
EBIT	760	687	678	744
Profit Before Tax	963	930	808	879
PATAMI	737	733	533	586
Core PATAMI	585	592	533	586
Core EPS (sen)	33.8	34.3	31.0	34.0
FD EPS (sen)	28.9	29.3	23.2	25.5
Net DPS (sen)	11.0	48.0	12.0	12.0
Net DY (%)	3.7	15.9	4.0	4.0
P/E (x)	8.9	8.8	9.7	8.8
FD P/E (x)	10.4	10.3	13.0	11.8
P/B (x)	0.9	0.8	0.8	0.8
Net Gearing (%)	25.4	19.7	26.3	22.5
ROE (%)	10.4	9.6	8.5	9.3
ROA (%)	5.4	5.6	5.0	5.4

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY15	1QFY16	2QFY16	Qoq (%)	Yoy (%)	Comments
Revenue	1041.5	1069.0	1155.7	8.1	11.0	Refer to segmental.
Property Development	324.1	234.1	315.1	34.6	(2.8)	Yoy: Flat. Qoq: Stronger billings from Sunway Velocity, Sunway Geo Residences and sale of completed Sunway Vivaldi units.
Property Investment	144.8	169.2	160.1	(5.3)	10.6	Yoy: Due to higher rental contribution from Sunway University New Academic Block and higher occupancy in Sunway Pinnacle. Qoq: Lower visitorship to the theme parks and Sunway Resort Hotel during the month of Ramadhan.
Construction	244.1	311.4	249.3	(19.9)	2.1	Qoq: Higher mix of internal job orders.
Trading/Manufacturing	122.3	193.1	218.5	13.1	78.6	Yoy & qoq: Mainly due to higher contribution from the Winstar.
Quarry	64.1	38.7	60.6	56.4	(5.4)	Yoy: Due to drop in selling price for both aggregates and premix. Qoq: Due to improve sales volume of premix.
EBIT	139.0	149.6	161.4	7.9	16.1	Refer to segmental.
Property Development	36.7	55.7	53.1	(4.7)	44.5	YoY: Higher due to vacant possession of Sunway Velocity Signature Retail Shops and Office coupled with higher contribution from Sunway Geo Residences. QoQ: Lower due to reduced contribution from oversea projects which command higher margin.
Property Investment	28.5	36.4	24.4	(32.9)	(14.4)	Yoy & qoq: Lower fair value gain on investment properties.
Construction	56.0	35.6	34.0	(4.6)	(39.4)	Yoy: Lower profit recognition and upfront cost incurred in Klang Valley MRT Package V201, which will commence work in 2H16.
Trading/Manufacturing	0.7	8.5	10.5	22.6	1457.6	
Quarry	15.5	6.4	11.7	82.7	(24.8)	
Net Interest Expense	(9.3)	(16.1)	(15.6)	(3.5)	67.4	
Share of Associates/JCE	150.7	42.6	57.9	36.1	(61.6)	
PBT	280.9	176.1	203.8	15.7	(27.5)	Filtered down from EBIT.
PAT	247.9	143.2	179.9	25.6	(27.4)	
PATAMI	237.9	102.1	154.4	51.2	(35.1)	
EI	(101.2)	2.4	(21.5)	(995.8)	(78.8)	Consist of fair value gain of RM24m and RM2m loss of ESOS in 2QFY16
Core Earnings	136.7	104.5	132.9	27.1	(2.8)	Filtered down from PATAMI ex. EI.
Core EPS (sen)	7.8	5.8	6.7	15.0	(13.5)	
EBIT Margin (%)	13.3	14.0	14.0	(0.2)	4.7	
Property Development	11.3	23.8	16.8	(29.2)	48.7	
Property Investment	19.7	21.5	15.2	(29.1)	(22.6)	
Construction	22.9	11.4	13.6	19.2	(40.6)	
Trading/Manufacturing	0.5	4.4	4.8	8.4	772.2	
Quarry	24.2	16.5	19.3	16.9	(20.5)	
PBT Margin Ex-Assoc (%)	12.5	12.5	12.6	1.0	1.0	

Sunway, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	1H15	1H16	Yoy (%)	Comments
Revenue	2101.5	2224.7	5.9	Refer to segmental.
Property Development	504.8	549.1	8.8	Mainly contributed by sales from Avant Parc project in Singapore and higher progress billings from local projects.
Property Investment	284.1	329.3	15.9	Due to higher rental and better occupancy rate.
Construction	619.4	560.8	(9.5)	Due to lower billings and profit recognition.
Trading/Manufacturing	314.2	411.5	31.0	Due to maiden profit contribution from the newly acquired Winstar group in Sep 15.
Quarry	117.9	99.3	(15.7)	Drop in the selling prices for aggregates and premix.
EBIT	308.9	311.1	0.7	Refer to segmental.
Property Development	76.8	108.7	41.7	

Property Investment	72.9	60.8	(16.6)	
Construction	108.9	69.6	(36.1)	
Trading/Manufacturing	14.8	19.0	28.3	
Quarry	23.1	18.1	(21.9)	
Net Interest Expense	(20.7)	(31.7)	53.2	
Share of Associates/JCE	188.8	100.5	(46.8)	
PBT	474.4	379.9	(19.9)	
PAT	405.3	323.1	(20.3)	
PATAMI	384.4	256.5	(33.3)	
EI	(117.0)	(19.1)	(83.7)	Consist of fair value gain of RM4m and RM4.6m loss on ESOS.
Core Earnings	267.4	237.4	(11.2)	
Core EPS (sen)	15.3	0.0	(99.9)	
EBIT Margin (%)	14.7	14.0	(4.9)	
Property Development	15.2	19.8	30.2	
Property Investment	25.7	18.5	(28.0)	
Construction	17.6	12.4	(29.4)	
Trading/Manufacturing	4.7	4.6	(2.1)	
Quarry	19.6	18.2	(7.3)	
PBT Margin Ex-Assoc (%)	13.6	12.6	(7.6)	

Sunway, HLIB

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	Recomm	TP	Upside	Mkt Cap (m)	Discount to RNAV	P/E (x)		P/B (x)		Dividend Yield	
	Px						CY16	CY17	CY16	CY17	CY16	CY17
IOI PROPERTIES	2.52	Buy	2.77	10%	11,116.3	(40.8)	16.5	14.9	0.7	0.7	3.2	3.2
UEM SUNRISE BHD	1.09	Hold	0.91	-16%	4,945.8	(64.2)	22.5	15.8	0.7	0.7	1.3	1.9
SP SETIA BHD	3.37	Hold	3.11	-8%	9,495.3	(29.5)	13.6	13.9	1.4	1.3	3.7	3.6
MAH SING GROUP	1.65	Hold	1.53	-7%	3,975.5	(29.8)	10.4	9.1	1.2	1.1	3.9	4.4
SUNWAY BHD	3.01	Buy	3.72	24%	6,119.7		9.7	8.8	0.8	0.8	4.0	4.0
MATRIX CONCEPTS	2.52	Buy	2.91	15%	1,424.6	(30.7)	6.1	5.8	1.6	1.3	6.0	6.0
TAMBUN	1.50	Hold	1.40	-7%	639.8	(35.6)	6.6	6.8	1.2	1.1	5.8	5.6
GLOMAC BHD	0.79	Hold	0.80	1%	571.5	(55.5)	6.6	6.5	0.6	0.5	5.1	5.6
ECO WORLD DEVELO	1.34	NR			3,168.1	(41.7)	30.2	15.7	0.9	0.9	-	-
Average						(41.0)	13.6	10.8	1.0	0.9	3.7	3.8

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

Income Statement

FYE 31 Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	4,733.7	4,558.1	4,451.3	4,576.4	4,773.0
EBITDA	1,960.5	859.2	803.3	809.5	890.5
D&A	(136.9)	(99.3)	(116.3)	(131.9)	(146.2)
EBIT	1,823.6	759.9	686.9	677.5	744.3
Interest Income	35.6	48.4	97.8	25.1	20.3
Finance Costs	(138.1)	(78.9)	(124.5)	(102.3)	(99.9)
Associates/JCE	172.5	233.4	269.9	207.9	214.0
Profit Before Tax	1,893.6	962.8	930.2	808.2	878.8
Tax	(120.9)	(148.6)	(129.8)	(149.9)	(166.2)
Net Profit	1,772.7	814.2	800.4	658.4	712.6
Minority Interests	(273.0)	(77.6)	(67.0)	(124.9)	(126.3)
PATAMI	1,499.8	736.6	733.4	533.5	586.4
Exceptionals	1,017.8	151.5	141.7	-	-
Core Earnings	482.0	585.1	591.7	533.5	586.4
Basic Shares (m)	1,723.4	1,723.4	1,723.4	1,723.4	1,723.4
Core EPS (sen)	28.0	33.8	34.3	31.0	34.0
FD Core EPS (sen)	24.0	28.9	29.3	23.2	25.5

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

Balance Sheet

FYE 31 Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Cash	1,519	1,033	1,085	588	764
Trade Receivables	1,405	1,124	1,098	1,128	1,177
Inventories	623	687	671	690	719
Development Costs	1,276	994	1,006	1,003	1,014
Associates/JCE	2,284	2,426	2,591	2,685	2,773
PPE	3,548	3,749	3,933	4,101	4,255
Goodwill	320	320	320	320	320
Others	137	130	130	130	130
Total Assets	11,112	10,462	10,832	10,644	11,151
Trade Payables	2,154	1,249	1,220	1,254	1,308
Total Debt	2,795	2,461	2,299	2,246	2,192
Others	511	511	511	511	511
Total Liabilities	5,460	4,220	4,029	4,010	4,011
Shareholders' Funds	5,335	5,896	6,439	6,146	6,525
Minority Interests	317	395	462	587	713
Total Capital	5,652	6,291	6,901	6,732	7,238

Rates and Ratios

FYE 31 Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Core PER (x)	10.7	8.9	8.8	9.7	8.8
FD Core PER (x)	12.6	10.4	10.3	13.0	11.8
Net DPS (sen)	10.0	11.0	48.0	12.0	12.0
Net DY (%)	3.3	3.7	15.9	4.0	4.0
BVPS (RM)	3.1	3.4	3.7	3.6	3.8
P/B (x)	1.0	0.9	0.8	0.8	0.8
NTA/Share (RM)	2.9	3.2	3.6	3.4	3.6
EBITDA Margin (%)	41.4	18.8	18.0	17.7	18.7
EBIT Margin (%)	38.5	16.7	15.4	14.8	15.6
PBT Margin (%)	43.6	26.2	27.0	22.2	22.9
PATAMI Margin (%)	10.2	12.8	13.3	11.7	12.3
ROE (%)	10.8	10.4	9.6	8.5	9.3
ROA (%)	4.9	5.4	5.6	5.0	5.4
Net Gearing (%)	28.7	25.4	19.7	26.3	22.5

Cashflow Analysis

FYE 31 Dec (RM m)	2013A	2014A	2015A	2016E	2017E
EBITDA	1,960.5	859.2	803.3	809.5	890.5
Working Capital	(124.7)	(406.1)	1.7	(12.9)	(34.9)
Interest Received	39.9	38.3	31.8	25.1	20.3
Dividends fr Assoc	83.1	91.6	104.2	114.6	126.1
Others	(865.8)	(141.1)	(129.8)	(149.9)	(166.2)
CFO	1,092.9	441.8	811.1	786.5	835.9
Capex	(657.9)	(300.0)	(300.0)	(300.0)	(300.0)
Purchase/Disposal	38.2	-	-	-	-
Others	(215.0)	-	-	-	-
CFI	(834.7)	(300.0)	(300.0)	(300.0)	(300.0)
Financing	48.6	(334.8)	(161.5)	(53.4)	(53.4)
Shares Issued	732.9	-	-	-	-
Dividends	(344.3)	(172.3)	(189.6)	(827.2)	(206.8)
Interest Paid	(117.5)	(118.3)	(107.1)	(102.3)	(99.9)
Others	(184.3)	-	-	-	-
CFF	135.4	(625.4)	(458.2)	(982.9)	(360.1)
Net Cashflow	393.5	(483.6)	52.9	(496.4)	175.8

Assumption Metrics

FYE 31 Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	4,734	4,731	4,759	4,576	4,773
Property	1,167	1,209	1,223	1,220	1,233
Property Investment	816	840	865	891	918
Construction	1,591	1,463	1,391	1,122	1,212
Trading/Manufacture	587	616	647	679	713
Quarry	198	208	218	229	240
Others	375	394	414	435	456
EBIT Margins (%)	38.5	16.7	15.4	14.8	15.6

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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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Industry rating definitions

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