

Sunway (BUY ↔; EPS ↔)

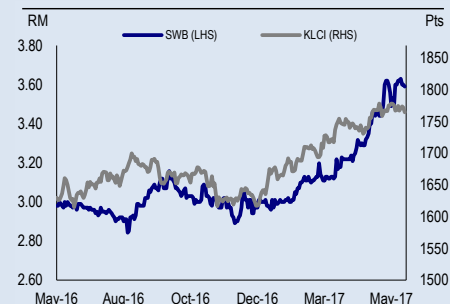
INDUSTRY: NEUTRAL
EARNINGS EVALUATION
30 May 2017
Price Target: RM3.86 (↑)
Share price: RM3.59

1Q17 In Line; Stronger Quarters Ahead

- | | |
|-------------------|--|
| Results | <ul style="list-style-type: none"> ▪ Within Expectation: Reported 1Q17 core earnings of RM107.9m, making up 18.5% and 19.2% of our and consensus full year forecasts, respectively. |
| Deviation | <ul style="list-style-type: none"> ▪ The results are deemed in line as 1Q is seasonally weaker and makes up around 19-20% of full year earnings. |
| Dividends | <ul style="list-style-type: none"> ▪ (1Q16: none) as it usually declares on semi-annual basis. |
| Highlights | <ul style="list-style-type: none"> ▪ QoQ: Core earnings contracted by 33.3% on the back of lower revenue (–by 20.0%), mainly due to high base effect in property development in 4Q16, which was boosted by the handovers of Sunway Geo Retail Shops and Flexi Suites Phase 1 coupled with sales of Penang land to Sunway REIT. ▪ YoY: 1Q17 revenue grew by 2.1% and core earnings improved by 3.3%. All segments showed improvements except for property development segment due to lower sales and progress billings. ▪ Property... Effective property sales for 1Q17 achieved RM125m (4Q16: RM285m) vs full year sales target of RM900m (flat yoy). We expect sales to pick up with more launches (10 planned projects with total GDV of RM2bn) in the subsequent quarters. Effective property unbilled sales stood at RM1.1bn, representing 0.9x of FY16's property revenue. ▪ Property Investment... Revenue grew 10.5% yoy and 8.2% qoq boosted by the newly opened Sunway Velocity Mall since Dec 16. Moving forward, the mall is expected to contribute positively as recurring income. ▪ Construction... SunCon (BUY, TP: RM2.25) has secured RM894.0m of new jobs so far (FY16: RM2.7bn), surpassing its initial target of RM2.5bn. Its high orderbook of RM4.6bn translates to a healthy cover of 2.6x on FY16 revenue. In FY17, SunCon aims to secure a further RM2.0bn worth of contracts, including LRT3 and government building jobs. |
| Risks | <ul style="list-style-type: none"> ▪ Prolonged downturn in Johor's property market, slowdown in property demand due to tightening of loan approval. |
| Forecasts | <ul style="list-style-type: none"> ▪ Unchanged. |
| Rating | BUY ↔ <ul style="list-style-type: none"> ▪ 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 | <ul style="list-style-type: none"> ▪ Maintain BUY with higher TP of RM3.86 (from RM3.75 previously) based on SOP valuation after we factor in the revised TP for construction segment (Figure #2). |

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KLCI	1764.9
Expected share price return	7.5%
Expected dividend return	3.3%
Expected total return	10.9%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	2,036
Market cap (RM m)	7,309
3-mth avg. volume ('000)	2,178
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	3.5	12.3	19.7
Relative	3.6	7.7	11.0

Major shareholders

Sungei Way Corp Sdn Bhd	56.7%
Skim Amanah Saham	7.4%
EPF	5.6%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018F	2019F
Revenue	4,656	4,773	5,045	5,173
EBITDA	861	891	966	986
EBIT	715	744	807	815
Profit Before Tax	859	874	931	943
PATAMI	586	583	629	655
Core PATAMI	547	583	629	655
Core EPS (sen)	26.5	28.3	30.5	31.7
FD EPS (sen)	26.5	28.3	30.5	31.7
Net DPS (sen)	9.0	12.0	12.0	12.0
Net DY (%)	2.5	3.3	3.3	3.3
P/E (x)	13.5	12.7	11.8	11.3
FD P/E (x)	13.5	12.7	11.8	11.3
P/B (x)	1.0	1.2	1.1	1.1
Net Gearing (%)	47.5	26.0	21.5	14.6
ROE (%)	7.8	9.6	9.7	9.6
ROA (%)	3.2	5.4	5.6	5.6

HLIB

Figure #1 Quarterly Results Comparison

FYE Dec (RM m)	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)	Comments
Revenue	1069.0	1363.7	1091.3	(20.0)	2.1	Refer to segmental.
Property Development	234.1	412.7	143.3	(65.3)	(38.8)	QoQ: Lower sales from Sunway Velocity, Sunway Rymba Hills and Sunway Nexis in current quarter and high base effect due to handover of Sunway Geo Retail Shops, Flexi Suite Phase 1 in 4Q16 coupled with sales of Penang land to Sunway REIT. YoY: Lower sales and progress billings and no contribution from the Avant Parc @ Sembawang in Singapore as it was fully sold.
Property Investment	169.2	172.8	186.9	8.2	10.5	QoQ/YoY: Additional revenue from newly opened Sunway Velocity Mall since Dec 16.
Construction	311.4	334.4	316.8	(5.2)	1.7	QoQ: Lower due to progressive billings.
Trading/Manufacturing	193.1	215.1	245.2	14.0	27.0	QoQ & YoY: Improved due to better overall market condition and sentiment, both locally and overseas.
Quarry	38.7	54.1	40.2	(25.7)	3.7	QoQ: Due to weaker sales volume of aggregates and premix. YoY: Improve sales volume for both aggregates and premix.
Others	121.6	159.3	157.1	(1.4)	29.2	QoQ: Flat. YoY: Higher contribution from the healthcare, building materials segments and Group treasury operations.
EBIT	149.6	251.4	116.8	(53.6)	(22.0)	Refer to segmental.
Property Development	55.7	119.0	7.9	(93.3)	(85.7)	QoQ: Filtered down from sales. YoY: Lower profit recognition from local development projects and in line with the lower revenue.
Property Investment	36.4	51.7	44.1	(14.7)	21.1	QoQ: Lower due to fair value gains of RM37.4m in 4Q16. YoY: Higher due to income from Sunway Velocity Mall.
Construction	35.6	28.3	34.7	22.7	(2.5)	QoQ: Higher profit recognition from local construction projects.
Trading/Manufacturing	8.5	20.7	12.5	(39.5)	46.8	QoQ: Due to high base effect boosted by provision write-back from Winstar. YoY: Improve sales volume for both aggregates and premix.
Quarry	6.4	1.5	0.9	(38.9)	(86.0)	QoQ/YoY: Due to lower operating margin.
Others	9.0	22.2	20.1	(9.5)	123.4	YoY: Higher contribution from the healthcare, building materials segments and Group treasury operations.
Net Interest Expense	(16.1)	(25.7)	(6.7)	(73.7)	(58.2)	
Share of Associates/JCE	42.6	44.9	43.1	(3.9)	1.3	
PBT	176.1	270.6	153.1	(43.4)	(13.0)	Filtered down from EBIT.
PAT	143.2	224.7	125.8	(44.0)	(12.2)	
PATAMI	102.1	185.8	107.9	(41.9)	5.7	
EI	2.4	(24.0)	0.0	NM	NM	
Core Earnings	104.5	161.8	107.9	(33.3)	3.3	Filtered down from PATAMI ex. EI.
Core EPS (sen)	5.1	7.9	5.3	(33.3)	3.3	
EBIT Margin (%)	14.0	18.4	10.7	(42.0)	(23.6)	
Property Development	23.8	28.8	5.5	(80.8)	(76.7)	
Property Investment	21.5	29.9	23.6	(21.2)	9.6	
Construction	11.4	8.5	11.0	29.5	(4.1)	
Trading/Manufacturing	4.4	9.6	5.1	(46.9)	15.6	
Quarry	16.5	2.7	2.2	(17.8)	(86.5)	
Others	7.4	13.9	12.8	(8.2)	73.0	
PBT Margin Ex-Assoc (%)	12.5	16.6	10.1	(39.1)	(19.3)	

Sunway, HLIB

Figure #2 Sunway SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	Target price of RM2.25	54%	1,583	0.79	20.4
Property	NPV of profits + Shareholders Fund	100%	5,517	2.74	71.0
Trading/Manufacturing	9X P/E	100%	291	0.14	3.7
Quarry	15X P/E	100%	187	0.09	2.4
Sub-Total			7,578		
Estimated Holding Company Net Debt			190		2.4
Total			7,768		
No. of shares (m)			2,013		
Target Price (RM)			3.86		

HLIB

Figure #3 1Q17 Results Vs. Consensus & HLIB Estimates

	Actual 1Y17	HLIB FY17	Actual vs HLIB (%)	Consensus FY17	Actual vs Consensus (%)
Revenue	1,091.3	4,773.0	22.9	5,086.0	21.5
Normalised PAT	107.9	583.1	18.5	563.2	19.2

Company, HLIB, Bloomberg

Figure #4 HLIB vs Consensus

FYE Dec (RM m)	FY17E			FY18F		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,773.0	5,086.0	-6%	5,045.2	5,454.0	-7%
PATAMI	583.1	563.2	4%	628.8	599.0	5%

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						CY17	CY18	CY17	CY18	CY17	CY18
IOI PROPERTIES	2.09	Hold	2.54	21%	11,507.8	(46.4)	13.0	12.7	0.7	0.7	1.9	1.9
SP SETIABHD	3.79	Buy	4.00	6%	10,818.0	(33.6)	14.2	10.5	1.2	1.1	4.6	4.8
SUNWAY BHD	3.59	Buy	3.86	8%	7,308.5		12.4	11.5	1.2	1.2	3.3	3.3
UEM SUNRISE BHD	1.24	Hold	1.18	-5%	5,626.4	(57.7)	25.3	23.0	0.8	0.8	0.8	0.8
MAH SING GROUP	1.56	Hold	1.56	0%	3,758.7	(33.3)	10.2	8.6	1.0	1.0	3.9	5.0
MATRIX CONCEPTS	2.75	Buy	2.98	8%	1,587.6	(23.8)	6.3	5.2	1.3	1.1	5.6	6.8
TAMBUN	1.47	Hold	1.39	-5%	635.6	(36.6)	7.9	6.9	1.4	1.5	4.8	4.8
ECO WORLD DEVELO	1.58	NR			4,652.1	(31.3)	35.6	18.5	1.1	1.0	-	-
Average						(37.5)	15.6	12.1	1.1	1.1	3.1	3.4

Bloomberg, HLIB

Financial Projections for Sunway (BUY; TP: RM3.86)

Income Statement

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
Revenue	4,448.4	4,655.6	4,773.0	5,045.2	5,173.1
EBITDA	816.2	861.4	890.5	966.2	986.4
D&A	(129.2)	(146.3)	(146.2)	(159.3)	(171.2)
EBIT	687.0	715.1	744.3	806.9	815.2
Interest Income	97.9	119.9	15.9	20.4	27.6
Finance Costs	(124.5)	(167.9)	(99.9)	(97.5)	(95.1)
Associates/JCE	269.9	191.9	214.0	201.0	195.4
Profit Before Tax	930.4	859.0	874.4	930.9	943.1
Tax	(130.9)	(140.4)	(165.1)	(182.5)	(186.9)
Net Profit	799.4	718.6	709.3	748.4	756.2
Minority Interests	(67.0)	(132.7)	(126.3)	(119.6)	(101.2)
PATAMI	732.4	585.9	583.1	628.8	654.9
Exceptionals	141.7	38.5	-	-	-
Core Earnings	590.7	547.4	583.1	628.8	654.9
Basic Shares (m)	1,799.8	2,063.1	2,063.1	2,063.1	2,063.1
Core EPS (sen)	32.8	26.5	28.3	30.5	31.7
FD Core EPS (sen)	32.8	26.5	28.3	30.5	31.7

Quarterly Financial Summary

FYE 31 Dec (RM m)	1Q16	2Q16	3Q16	4Q16	1Q17
Revenue	1,069.0	1,155.7	1,137.5	1,363.7	1,091.3
Expenses	(944)	(1,023)	(1,015)	(1,213)	(992)
Other Income	25.1	28.7	41.7	100.3	17.5
EBIT	149.6	161.4	164.3	251.4	116.8
Derivatives	-	-	0.1	-	-
Net Interest Expense	(16.1)	(15.6)	(2.6)	(25.7)	(6.7)
Associates & JCE	42.6	57.9	46.7	44.9	43.1
Profit Before Tax	176.1	203.8	208.5	270.6	153.1
Tax	(32.8)	(23.9)	(37.7)	(46.0)	(27.3)
Net Profit	143.2	179.9	170.8	224.7	125.8
Minority Interests	(41.1)	(25.5)	(27.2)	(38.8)	(17.9)
PATAMI	102.1	154.4	143.6	185.8	107.9
Exceptional	2.4	(21.5)	4.5	(24.0)	0
Core Earnings	104.5	132.9	148.1	161.8	107.9
Core EPS (sen)	5.85	6.73	7.24	7.91	5.27
FD Core EPS (sen)	5.59	6.61	7.17	7.85	5.22
W. Ave. Shares (m)	2046	2046	2046	2046	2046

Balance Sheet

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
Cash	1,483	1,950	605	752	1,085
Trade Receivables	1,569	1,601	1,177	1,244	1,276
Inventories	693	670	719	760	780
Development Costs	978	1,171	1,014	1,077	1,012
Associates/JCE	3,181	3,230	2,757	2,819	2,862
PPE	5,296	5,910	4,255	4,395	4,524
Goodwill	320	312	320	320	320
Others	1,333	1,778	149	149	149
Total Assets	14,853	16,622	10,995	11,517	12,008
Trade Payables	1,287	1,346	1,308	1,382	1,417
Total Debt	5,889	7,413	2,192	2,139	2,086
Others	1,451	1,608	511	511	511
Total Liabilities	8,627	10,366	4,011	4,032	4,013
Shareholders'					
Funds	6,563	7,470	6,264	6,645	7,052
Minority Interests	651	764	721	841	942
Total Capital	7,213	8,233	6,985	7,486	7,994

Rates and Ratios

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
Core PER (x)	10.9	13.5	12.7	11.8	11.3
FD Core PER (x)	10.9	13.5	12.7	11.8	11.3
Net DPS (sen)	37.0	9.0	12.0	12.0	12.0
Net DY (%)	10.3	2.5	3.3	3.3	3.3
BVPS (RM)	3.6	3.6	3.0	3.2	3.4
P/B (x)	1.0	1.0	1.2	1.1	1.1
NTA/Share (RM)	3.5	3.5	2.9	3.1	3.3
EBITDA Margin (%)	18.3	18.5	18.7	19.2	19.1
EBIT Margin (%)	15.4	15.4	15.6	16.0	15.8
PBT Margin (%)	27.0	22.6	22.8	22.4	22.0
PATAMI Margin (%)	13.3	11.8	12.2	12.5	12.7
ROE (%)	9.5	7.8	9.6	9.7	9.6
ROA (%)	4.1	3.2	5.4	5.6	5.6
Net Gearing (%)	52.1	47.5	26.0	21.5	14.6

Cashflow Analysis

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
EBITDA	836.0	577.9	890.5	966.2	986.4
Working Capital	77.6	(142.8)	(16.4)	(97.1)	49.3
Interest Received	97.6	115.6	15.9	20.4	27.6
Dividends fr Assoc	111.6	118.5	126.1	138.7	152.6
Others	(183.3)	(1.122)	(165.1)	(182.5)	(186.9)
CFO	939.6	668.1	851.0	845.8	1,028.9
Capex	(411.1)	(309.5)	(300.0)	(300.0)	(300.0)
Purchase/Disposal	(735.8)	(164.7)	-	-	-
		(1,160.9)			
Others	(940.7))	-	-	-
	(2,087.6)	(1,635.2)			
CFI))	(300.0)	(300.0)	(300.0)
Financing	1,763.8	1,427.4	(53.4)	(53.4)	(53.4)
Shares Issued	180.1	595.0	-	-	-
Dividends	(673.2)	(260.8)	(247.6)	(247.6)	(247.6)
Interest Paid	(124.5)	(167.9)	(99.9)	(97.5)	(95.1)
Others	(30.1)	(56.9)	-	-	-
CFF	1,116.0	1,536.8	(400.8)	(398.4)	(396.0)
Net Cashflow	(32.0)	569.7	150.2	147.3	332.9

Assumption Metrics

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
Revenue	4,448	4,656	4,773	5,045	5,173
Property	1,196	1,203	1,233	1,310	1,231
Property Investment	639	692	918	946	974
Construction	1,222	1,137	1,212	1,309	1,413
Trading/Manufacture	650	833	713	749	786
Quarry	242	207	240	252	265
Others	500	582	456	479	503
EBIT Margins (%)	15.4	4.4	15.6	16.0	15.8

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2. As of 30 May 2017, the analyst, Lee Meng Horng, who prepared this report, has interest in the following securities covered in this report:

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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

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
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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.