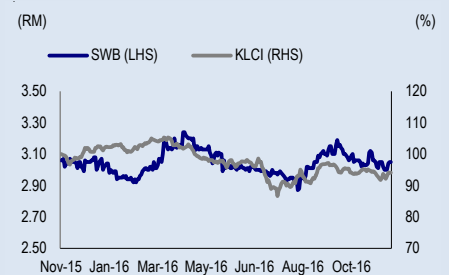


**Sunway (BUY ↔; EPS ↔)**
**INDUSTRY: NEUTRAL**
**EARNINGS EVALUATION**
**28 November 2016**
**Price Target: RM3.75 (↑)**
**Share price: RM3.00**
**9MFY16: Results in line**

- |                   |  |
|-------------------|--|
| <b>Results</b>    | <ul style="list-style-type: none"> <li>▪ <b>Within Expectation:</b> 3QFY16 core earnings improved by 12% QoQ, bringing 9MFY16 earnings to RM386m, making up 73% and 75% of our and consensus full year forecasts respectively.</li> </ul>  |
| <b>Dividends</b>  | <ul style="list-style-type: none"> <li>▪ None.</li> </ul>  |
| <b>Highlights</b> | <ul style="list-style-type: none"> <li>▪ <b>YoY:</b> 3QFY16 revenue was up by 20% but core earnings was flat. This is mainly attributed to lower interest income (-25%) and higher financing cost (+31%).</li> <li>▪ <b>QoQ:</b> Revenue fell slightly by 2% but core earnings improved by 12% QoQ due to better margin from property development and property investment.</li> <li>▪ <b>Property...</b> Effective property sales for 3QFY16 achieved RM179m (versus RM312m in 2QFY16), bringing 9MFY16 effective sales to RM638m. This is on track to meet full year sales target of RM900m. 9MFY16 sales mainly contributed by sales from Sunway Mont, Iskandar, Gandaria, Singapore and China. Effective property unbilled sales stood at RM1.3bn, representing 1.2x of FY15's property revenue. Sunway is targeting RM2bn worth of launches in FY17 (versus RM800m in FY16). We have assumed effective sales target of RM1.2bn in FY17 (+30% YoY) which we believe is likely to be achieved.</li> <li>▪ <b>Strong job wins for construction...</b> SunCon secured RM2.6bn new job wins YTD (FY15: RM2.6bn), surpassing its earlier guidance of RM2.5bn. Its orderbook of RM4.8bn translates to a healthy cover of 2.5x on FY15 revenue. Going forward, SunCon is hopeful to secure another private sector job (RM200m) by year end.</li> <li>▪ 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.</li> </ul> |
| <b>Risks</b>      | <ul style="list-style-type: none"> <li>▪ Prolonged downturn in Johor's property market, slowdown in property demand due to tightening of loan approval.</li> </ul>   |
| <b>Forecasts</b>  | <ul style="list-style-type: none"> <li>▪ Unchanged.</li> </ul>   |
| <b>Rating</b>     | <b>BUY ↔</b> <ul style="list-style-type: none"> <li>▪ 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.</li> </ul>  |
| <b>Valuation</b>  | <ul style="list-style-type: none"> <li>▪ Maintain <b>BUY</b> with TP increased slightly from <b>RM3.72</b> to <b>RM3.75</b> after incorporating new TP for SunCon based on SOP valuation.</li> </ul>   |

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KLCI	1,627.3
Expected share price return	24.0%
Expected dividend return	4.0%
Expected total return	28.0%

**Share price**

**Information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	2,033
Market cap (RM m)	6,093
3-mth avg. volume ('000)	1,081
SC Shariah compliant	Yes

<b>Price Performance</b>	1M	3M	12M
Absolute	-1.0	-0.3	-2.0
Relative	2.1	2.9	1.5

**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	805	873	929
PATAMI	733	531	582	628
Core PATAMI	592	531	582	628
Core EPS (sen)	29.3	26.4	28.9	31.2
FD EPS (sen)	29.3	26.4	28.9	31.2
Net DPS (sen)	48.0	12.0	12.0	12.0
Net DY (%)	16.0	4.0	4.0	4.0
P/E (x)	10.2	11.4	10.4	9.6
FD P/E (x)	10.2	11.4	10.4	9.6
P/B (x)	1.0	1.0	1.0	0.9
Net Gearing (%)	20.5	30.1	27.1	22.4
ROE (%)	9.7	8.7	9.6	9.8
ROA (%)	5.6	5.0	5.4	5.6

HLIB

**Figure #1 Quarterly results comparison**

FYE Dec (RM m)	3QFY15	2QFY16	3QFY16	Qoq (%)	Yoy (%)	Comments
Revenue	951.0	1155.7	1137.5	(1.6)	19.6	Refer to segmental.
Property Development	270.9	315.1	247.6	(21.4)	(8.6)	<b>Yoy/Qoq:</b> Lower contribution from the Avant Parc @ Sembawang in Singapore which is nearing completion.
Property Investment	172.2	160.1	189.9	18.6	10.3	<b>Yoy:</b> Due to better occupancy rate at Sunway Pinnacle, increase in the number of visitor to the theme parks and additional contribution from Sunway Putra Hotel and Sunway Clio Hotel. <b>Qoq:</b> Higher number of visitors to the theme parks and higher hotel occupancy rates.
Construction	196.8	249.3	287.9	15.5	46.3	<b>Qoq:</b> Higher due to lower intra-group eliminations.
Trading/Manufacturing	130.5	218.5	206.7	(5.4)	58.4	<b>Yoy &amp; qoq:</b> Mainly due to higher contribution from the Winstar.
Quarry	66.8	60.6	54.0	(10.9)	(19.1)	<b>Yoy:</b> Due to drop in selling price for both aggregates and premix. <b>Qoq:</b> Due to improve sales volume of premix.
EBIT	118.7	161.4	164.3	1.8	38.4	Refer to segmental.
Property Development	34.5	53.1	45.3	(14.6)	31.2	<b>YoY:</b> Higher due to higher progress billings from Singapore project. <b>QoQ:</b> Lower due to vacant possession of Sunway Velocity Signature Retail Shops and Offices.
Property Investment	39.6	24.4	50.0	105.0	26.2	<b>Yoy &amp; qoq:</b> Inline with higher revenue.
Construction	23.4	34.0	31.3	(7.7)	33.9	<b>Yoy:</b> Higher progress billings from ongoing local construction projects.
Trading/Manufacturing	5.4	10.5	11.3	8.2	110.4	
Quarry	10.6	11.7	7.2	(38.2)	(31.8)	
Net Interest Expense	15.8	(15.6)	(2.6)	(83.4)	(116.3)	
Share of Associates/JCE	31.5	57.9	46.7	(19.4)	48.1	
PBT	171.0	203.8	208.5	2.3	22.0	Filtered down from EBIT.
PAT	139.5	179.9	170.8	(5.0)	22.5	
PATAMI	133.3	154.4	143.6	(7.0)	7.7	
EI	13.7	(21.5)	4.5	(120.9)	(67.2)	Consist of changes in fair value of ESOS for RM4.5m.
Core Earnings	147.0	132.9	148.1	11.5	0.7	Filtered down from PATAMI ex. EI.
Core EPS (sen)	7.2	6.5	7.2	11.5	0.7	
EBIT Margin (%)	12.5	14.0	14.4	3.4	15.7	
Property Development	12.7	16.8	18.3	8.6	43.6	
Property Investment	23.0	15.2	26.4	72.9	14.5	
Construction	11.9	13.6	10.9	(20.1)	(8.5)	
Trading/Manufacturing	4.1	4.8	5.5	14.4	32.8	
Quarry	15.8	19.3	13.4	(30.6)	(15.6)	
PBT Margin Ex-Assoc (%)	14.7	12.6	14.2	12.7	(2.9)	

Sunway, HLIB

**Figure #2 Cumulative results comparison**

FYE Dec (RM m)	9M15	9M16	Yoy (%)	Comments
Revenue	3052.6	3362.2	10.1	Refer to segmental.
Property Development	775.7	796.7	2.7	Mainly contributed by sales from Avant Parc project in Singapore and higher progress billings from local projects.
Property Investment	456.3	519.2	13.8	Due to higher rental and better occupancy rate.
Construction	816.2	848.7	4.0	Due to lower intra group revenue elimination.
Trading/Manufacturing	444.7	618.2	39.0	Due to maiden profit contribution from the newly acquired Winstar group in Sep 15.
Quarry	184.6	153.3	(17.0)	Drop in the selling prices for aggregates and premix.
EBIT	427.6	475.4	11.2	Refer to segmental.
Property Development	111.3	154.0	38.4	
Property Investment	112.5	110.9	(1.5)	

Construction	132.3	100.9	(23.7)	
Trading/Manufacturing	20.2	30.3	50.2	
Quarry	33.7	25.3	(25.0)	
Net Interest Expense	(4.9)	(34.2)	600.3	
Share of Associates/JCE	220.4	147.2	(33.2)	
PBT	645.4	588.5	(8.8)	
PAT	544.7	494.0	(9.3)	
PATAMI	517.8	400.1	(22.7)	
EI	(103.3)	(14.5)	(86.0)	Consist of fair value gain of RM23.7mm and RM9.2m loss on ESOS.
Core Earnings	414.5	385.6	(7.0)	
Core EPS (sen)	0.0	0.0	(7.0)	
EBIT Margin (%)	14.0	14.1	0.9	
Property Development	14.3	19.3	34.8	
Property Investment	24.7	21.3	(13.4)	
Construction	16.2	11.9	(26.6)	
Trading/Manufacturing	4.5	4.9	8.0	
Quarry	18.2	16.5	(9.6)	
PBT Margin Ex-Assoc (%)	13.9	13.1	(5.7)	

Sunway, HLIB

**Figure #3 Sunway SOP valuation**

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	Target price of RM1.93	54%	1,358	0.67	18.0
Property	NPV of profits + Shareholders Fund	100%	5,517	2.74	73.1
Trading/Manufacturing	9X P/E	100%	291	0.14	3.9
Quarry	15X P/E	100%	187	0.09	2.5

Sub-Total (RM m)	7,353
Estimated Holding Company Net Debt	190
Total	7,543
No. of shares (m)	2,013

Target Price (RM) 3.75

HLIB

**Figure #4 HLIB vs Consensus**

FYE Dec (RM m)	FY16E			FY17F		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,576.4	4,853.0	-6%	4,773.0	5,111.0	-7%
PATAMI	531.2	512.4	4%	582.0	544.2	7%

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	2.29	Hold	2.54	11%	10,096.0	(41.3)	16.9	16.6	0.7	0.8	2.6	1.7
UEM SUNRISE BHD	1.05	Hold	1.06	1%	4,764.3	(65.5)	27.9	18.1	0.7	0.7	1.1	1.7
SP SETIA BHD	3.31	Hold	3.11	-6%	9,444.9	(30.8)	13.4	13.6	1.3	1.3	3.7	3.7
MAH SING GROUP	1.52	Hold	1.52	0%	3,662.3	(35.0)	10.0	9.9	1.1	1.0	4.0	4.0
SUNWAY BHD	3.00	Buy	3.75	25%	6,093.0		9.7	8.8	0.8	0.8	4.0	4.0
MATRIX CONCEPTS	2.46	Buy	2.89	17%	1,405.7	(31.9)	6.3	6.0	1.6	1.3	5.7	6.1
TAMBUN	1.44	Hold	1.39	-3%	615.0	(37.9)	6.3	7.8	1.2	1.1	6.3	4.9
GLOMAC BHD	0.77	Hold	0.72	-6%	553.4	(52.3)	9.5	8.7	0.6	0.5	4.8	4.8
ECO WORLD DEVELO	1.36	NR			3,803.5	(40.9)	30.7	15.9	0.9	0.9	-	-
<b>Average</b>						(41.9)	<b>14.5</b>	<b>11.7</b>	<b>1.0</b>	<b>0.9</b>	<b>3.6</b>	<b>3.4</b>

## Financial Projections for Sunway (BUY; TP: RM3.75)

### Income Statement

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
<b>Revenue</b>	<b>4,558.1</b>	<b>4,451.3</b>	<b>4,576.4</b>	<b>4,773.0</b>	<b>5,045.2</b>
EBITDA	859.2	803.3	809.5	890.5	966.2
D&A	(99.3)	(116.3)	(131.9)	(146.2)	(159.3)
<b>EBIT</b>	<b>759.9</b>	<b>686.9</b>	<b>677.5</b>	<b>744.3</b>	<b>806.9</b>
Interest Income	48.4	97.8	22.0	14.5	18.8
Finance Costs	(78.9)	(124.5)	(102.3)	(99.9)	(97.5)
Associates/JCE	233.4	269.9	207.9	214.0	201.0
<b>Profit Before Tax</b>	<b>962.8</b>	<b>930.2</b>	<b>805.2</b>	<b>873.0</b>	<b>929.3</b>
Tax	(148.6)	(129.8)	(149.1)	(164.7)	(182.1)
<b>Net Profit</b>	<b>814.2</b>	<b>800.4</b>	<b>656.1</b>	<b>708.3</b>	<b>747.3</b>
Minority Interests	(77.6)	(67.0)	(124.9)	(126.3)	(119.6)
<b>PATAMI</b>	<b>736.6</b>	<b>733.4</b>	<b>531.2</b>	<b>582.0</b>	<b>627.6</b>
Exceptionals	151.5	141.7	-	-	-
<b>Core Earnings</b>	<b>585.1</b>	<b>591.7</b>	<b>531.2</b>	<b>582.0</b>	<b>627.6</b>
Basic Shares (m)	2,013.0	2,013.0	2,013.0	2,013.0	2,013.0
Core EPS (sen)	28.9	29.3	26.4	28.9	31.2
FD Core EPS (sen)	28.9	29.3	26.4	28.9	31.2

### Quarterly Financial Summary

FYE 31 Dec (RM m)	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3
Revenue	951.0	1,398.8	1,069.0	1,155.7	1,137.5
Expenses	(902.4)	(1,244.9)	(944.4)	(1,022.9)	(1,014.9)
Other Income	70.1	105.4	25.1	28.7	41.7
<b>EBIT</b>	<b>118.7</b>	<b>259.3</b>	<b>149.6</b>	<b>161.4</b>	<b>164.3</b>
Derivatives	4.9	(3.3)	-	-	0.1
Net Interest Expense	15.8	(21.8)	(16.1)	(15.6)	(2.6)
Associates & JCE	31.5	49.6	42.6	57.9	46.7
<b>Profit Before Tax</b>	<b>171.0</b>	<b>283.8</b>	<b>176.1</b>	<b>203.8</b>	<b>208.5</b>
Tax	(31.5)	(29.2)	(32.8)	(23.9)	(37.7)
<b>Net Profit</b>	<b>139.5</b>	<b>254.7</b>	<b>143.2</b>	<b>179.9</b>	<b>170.8</b>
Minority Interests	(6.2)	(40.0)	(41.1)	(25.5)	(27.2)
<b>PATAMI</b>	<b>133.3</b>	<b>214.7</b>	<b>102.1</b>	<b>154.4</b>	<b>143.6</b>
Exceptional	13.7	(34.7)	2.4	(21.5)	4.5
<b>Core Earnings</b>	<b>147.0</b>	<b>180.0</b>	<b>104.5</b>	<b>132.9</b>	<b>148.1</b>
Core EPS (sen)	8.31	10.10	5.85	6.73	7.24
FD Core EPS (sen)	7.83	9.69	5.59	6.61	7.17
W. Ave. Shares (m)	2046	2046	2046	2046	2046

### Balance Sheet

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
Cash	1,033	1,053	415	551	704
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
<b>Total Assets</b>	<b>10,462</b>	<b>10,800</b>	<b>10,471</b>	<b>10,938</b>	<b>11,465</b>
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
<b>Total Liabilities</b>	<b>4,220</b>	<b>4,029</b>	<b>4,010</b>	<b>4,011</b>	<b>4,032</b>
Shareholders' Funds	5,847	6,309	5,874	6,214	6,600
Minority Interests	395	462	587	713	833
<b>Total Capital</b>	<b>6,242</b>	<b>6,771</b>	<b>6,460</b>	<b>6,927</b>	<b>7,433</b>

### Rates and Ratios

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
Core PER (x)	10.4	10.2	11.4	10.4	9.6
FD Core PER (x)	10.4	10.2	11.4	10.4	9.6
Net DPS (sen)	11.0	48.0	12.0	12.0	12.0
Net DY (%)	3.7	16.0	4.0	4.0	4.0
BVPS (RM)	2.9	3.1	2.9	3.1	3.3
P/B (x)	1.0	1.0	1.0	1.0	0.9
NTA/Share (RM)	2.7	3.0	2.8	2.9	3.1
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	22.1	22.8	22.4
PATAMI Margin (%)	12.8	13.3	11.6	12.2	12.4
ROE (%)	10.5	9.7	8.7	9.6	9.8
ROA (%)	5.4	5.6	5.0	5.4	5.6
Net Gearing (%)	25.5	20.5	30.1	27.1	22.4

### 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	31.3	22.0	14.5	18.8
Dividends fr Assoc	91.6	104.2	114.6	126.1	138.7
Others	(141.1)	(129.8)	(149.1)	(164.7)	(182.1)
<b>CFO</b>	<b>441.8</b>	<b>810.6</b>	<b>784.2</b>	<b>831.5</b>	<b>844.6</b>
Capex	(300.0)	(300.0)	(300.0)	(300.0)	(300.0)
Purchase/Disposal	-	-	-	-	-
Others	-	-	-	-	-
<b>CFI</b>	<b>(300.0)</b>	<b>(300.0)</b>	<b>(300.0)</b>	<b>(300.0)</b>	<b>(300.0)</b>
Financing	(334.8)	(161.5)	(53.4)	(53.4)	(53.4)
Shares Issued	-	-	-	-	-
Dividends	(172.3)	(221.4)	(966.2)	(241.6)	(241.6)
Interest Paid	(118.3)	(107.1)	(102.3)	(99.9)	(97.5)
Others	-	-	-	-	-
<b>CFF</b>	<b>(625.4)</b>	<b>(490.0)</b>	<b>(1,121.9)</b>	<b>(394.8)</b>	<b>(392.4)</b>
<b>Net Cashflow</b>	<b>(483.6)</b>	<b>20.6</b>	<b>(637.8)</b>	<b>136.7</b>	<b>152.2</b>

### Assumption Metrics

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
<b>Revenue</b>	<b>4,731</b>	<b>4,759</b>	<b>4,576</b>	<b>4,773</b>	<b>5,045</b>
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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## 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.
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## 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.