

Sunway (BUY ↔; EPS ↓)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

30 May 2016

Price Target: RM3.72 (↓)

Share price: RM3.03

Slower start...

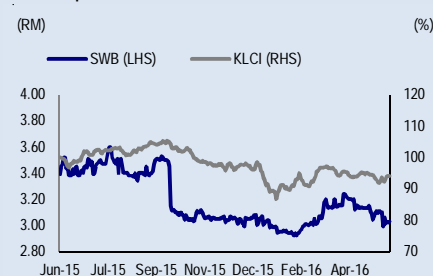
Results	<ul style="list-style-type: none"> ▪ Slightly Below Expectations: 1QFY16 core earnings fell 20% YoY to RM105m, making up 17% of ours and consensus' full year forecasts.
Deviation	<ul style="list-style-type: none"> ▪ 1Q is a seasonal weaker quarter comprising of 19-22% of historical full year earnings. The slight deviation is mainly due to slower than expected revenue recognition from property development revenue and slightly lower contribution from construction.
Highlights	<ul style="list-style-type: none"> ▪ Results below... 1QFY16 core profit fell 20% YoY to RM105m mainly due to weaker contribution from all segments. ▪ Property... Revenue dropped by 44% QoQ due to lower progress billings from ongoing local projects and higher base in 4Q15 which was boosted by higher recognition from few projects such as Sunway Velocity, South Quay and Sunway Montana. ▪ Effective property sales for 1QFY16 achieved RM198m (versus RM348m in 4QFY15), accounting for 18% of full year sales target of RM1.1bn (+21% YoY). We expect stronger sales ahead on the back of RM1.6bn worth of new project launching. ▪ 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. ▪ Strong contract newsflow from construction... Its orderbook currently stands at a record high of RM5bn, 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 such as the LRT3 (RM9bn), Pan Borneo (RM16bn), DASH (RM4bn and SUKE (RM4bn). Management is targeting to secure RM2.5bn worth of new contracts in FY16.
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"> ▪ FY16 and FY17 earnings are reduced by 10% and 6.5% after incorporated slower progress recognition from property development and lower contribution from construction. Following our downgrading of SunCon's TP from RM1.94 to RM1.84 posted earnings result, our SOP for Sunway is reduced slightly by 3 sen per share to RM3.72.
Rating	BUY ↔
Valuation	<ul style="list-style-type: none"> ▪ Maintain BUY with TP adjusted slightly from RM3.75 to RM3.72 based on SOP valuation.

Jason Tan, CFA

ytan@hlib.hongleong.com.my

(603) 2168 1168

KLCI	1,637.2
Expected share price return	23.1%
Expected dividend return	4.0%
Expected total return	27.1%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,751.0
Market cap (RM m)	5,969
3-mth avg. volume ('000)	905
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	-3.5	0.7	-3.1
Relative	-1.1	2.1	3.8

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 (%)	3.6	15.8	4.0	4.0
P/E (x)	9.0	8.8	9.8	8.9
FD P/E (x)	10.5	10.3	13.1	11.9
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)	1QFY16	4QFY15	1QFY16	Qoq (%)	Yoy (%)	Comments
Revenue	1060.0	1398.8	1069.0	(23.6)	0.8	Refer to segmental.
Property Development	180.7	420.0	234.1	(44.3)	29.5	Yoy: Higher due to strong sales from Avant Parc project in Singapore. Qoq: Due to lower progress bulling from on-going projects.
Property Investment	139.3	185.4	169.2	(8.7)	21.5	Yoy: Due to rental contribution from Sunway University New Academic Block and higher occupancy in Sunway Pinnacle. Qoq: Lower due to seasonality factor.
Construction	375.3	405.9	311.4	(23.3)	(17.0)	Yoy & qoq: Due to completion of some projects
Trading/Manufacturing	191.9	205.3	193.1	(5.9)	0.6	
Quarry	53.8	57.5	38.7	(32.6)	(28.0)	Yoy & qoq: Decrease in sales volume as major infrastructure projects had been completed.
EBIT	169.9	259.3	149.6	(42.3)	(11.9)	Refer to segmental.
Property Development	40.0	96.4	55.7	(42.3)	39.0	Inline with revenue.
Property Investment	44.4	101.0	36.4	(64.0)	(18.0)	Yoy & qoq: Lower due to a disposal gains on investment properties.
Construction	52.9	26.8	35.6	33.0	(32.7)	Qoq: Due to higher profit recognition from ongoing local projects.
Trading/Manufacturing	14.1	11.7	8.5	(27.3)	(39.6)	
Quarry	7.6	5.8	6.4	9.2	(15.8)	Yoy: Decrease in sales volume as major infrastructure projects had been completed. Qoq: Due to decrease in material costs.
Net Interest Expense	(11.4)	(21.8)	(16.1)	(25.9)	41.6	
Share of Associates/JCE	38.1	49.6	42.6	(14.2)	11.6	
PBT	193.5	283.8	176.1	(38.0)	(9.0)	Filtered down from EBIT.
PAT	157.4	254.7	143.2	(43.8)	(9.0)	
PATAMI	146.5	214.7	102.1	(52.4)	(30.3)	
EI	(15.8)	(34.7)	2.4	(106.9)	(115.2)	Consist of fair value loss of ESOS of RM2.4m in 1QFY16
Core Earnings	130.7	180.0	104.5	(41.9)	(20.1)	Filtered down from PATAMI ex. EI.
Core EPS (sen)	7.5	10.1	5.8	(42.1)	(22.5)	
EBIT Margin (%)	16.0	18.5	14.0	(24.5)	(12.7)	
Property Development	22.2	23.0	23.8	3.6	7.3	
Property Investment	31.9	54.5	21.5	(60.5)	(32.5)	
Construction	14.1	6.6	11.4	73.4	(18.9)	
Trading/Manufacturing	7.4	5.7	4.4	(22.7)	(40.0)	
Quarry	14.1	10.2	16.5	62.1	17.0	
PBT Margin Ex-Assoc (%)	14.7	16.7	12.5	(25.4)	(14.8)	

Sunway, HLIB

Figure #2 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 #3 HLIB vs Consensus

FYE Dec (RM m)	FY16E			FY17E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,576.4	4,921.0	-7%	4,773.0	5,146.0	-7%
PATAMI	540.7	541.6	0%	601.0	569.3	6%

Bloomberg, HLIB

Figure #4 Peer Comparison

Company	Current	Recomm	TP	Upside	Mkt Cap (m)	Discount to RNAV	P/E (x)		P/B (x)		Dividend Yield	
	Px						CY15	CY16	CY15	CY16	CY15	CY16
IOI PROPERTIES	2.24	Buy	2.77	24%	9,925.5	(47.4)	17.5	15.1	0.64	0.63	1.7	2.0
UEM SUNRISE BHD	1.00	Hold	0.91	-9%	4,537.4	(67.1)	17.7	20.7	0.70	0.68	1.7	1.5
SP SETIA BHD	3.17	Hold	3.12	-2%	8,279.8	(33.9)	9.1	11.8	1.35	1.28	7.3	4.2
MAH SING GROUP	1.50	Hold	1.41	-6%	3,565.9	(36.2)	10.1	9.4	1.15	1.07	4.0	4.2
SUNWAY BHD	3.02	Buy	3.75	24%	5,968.8	0.0	8.8	9.6	0.81	0.77	15.9	4.0
MATRIX CONCEPTS	2.50	Buy	2.91	16%	1,411.3	(31.3)	5.5	5.8	1.72	1.44	7.5	6.0
TAMBUN	1.36	Hold	1.40	3%	582.4	(41.5)	6.1	6.9	1.44	1.39	6.6	5.9
GLOMAC BHD	0.78	Hold	0.89	14%	564.6	(56.1)	7.1	6.3	0.58	0.54	5.4	5.6
ECO WORLD DEVELO	1.26	NR			2,979.0	(45.2)	54.8	21.0	0.83	0.81	-	-
Average						(39.9)	15.2	11.8	1.02	0.96	5.6	3.7

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	34.8	39.9
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	817.9	898.4
Tax	(120.9)	(148.6)	(129.8)	(152.3)	(171.1)
Net Profit	1,772.7	814.2	800.4	665.6	727.3
Minority Interests	(273.0)	(77.6)	(67.0)	(124.9)	(126.3)
PATAMI	1,499.8	736.6	733.4	540.7	601.0
Exceptionals	1,017.8	151.5	141.7	-	-
Core Earnings	482.0	585.1	591.7	540.7	601.0
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	31.4	34.9
FD Core EPS (sen)	24.0	28.9	29.3	23.5	26.1

Quarterly Financial Summary

FYE 31 Dec (RM m)	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1
Revenue	1,060.0	1,041.5	951.0	1,398.8	1,069.0
Expenses	(939.9)	(936.4)	(902.4)	(1,244.9)	(944.4)
Other Income	49.8	33.8	70.1	105.4	25.1
EBIT	169.9	139.0	118.7	259.3	149.6
Derivatives	(3.2)	0.5	4.9	(3.3)	-
Net Interest Expense	(11.4)	(9.3)	15.8	(21.8)	(16.1)
Associates & JCE	38.1	150.7	31.5	49.6	42.6
Profit Before Tax	193.5	280.9	171.0	283.8	176.1
Tax	(36.1)	(33.1)	(31.5)	(29.2)	(32.8)
Net Profit	157.4	247.9	139.5	254.7	143.2
Minority Interests	(10.9)	(9.9)	(6.2)	(40.0)	(41.1)
PATAMI	146.5	237.9	133.3	214.7	102.1
Exceptionals	(15.8)	(101.2)	13.7	(34.7)	2.4
Core Earnings	130.7	136.7	147.0	180.0	104.5
Core EPS (sen)	7.54	7.78	8.31	10.10	5.85
FD Core EPS (sen)	7.10	7.27	7.83	9.69	5.59
W. Ave. Shares (m)	1,733.2	1,756.9	1,768.2	1,782.7	1,786.6

Balance Sheet

FYE 31 Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Cash	1,519	1,033	1,085	1,233	1,424
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	11,289	11,810
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	6,790	7,185
Minority Interests	317	395	462	587	713
Total Capital	5,652	6,291	6,901	7,377	7,898

Rates and Ratios

FYE 31 Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Core PER (x)	10.8	9.0	8.8	9.8	8.9
FD Core PER (x)	12.6	10.5	10.3	13.1	11.9
Net DPS (sen)	10.0	11.0	48.0	12.0	12.0
Net DY (%)	3.3	3.6	15.8	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	34.8	39.9
Dividends fr Assoc	83.1	91.6	104.2	114.6	126.1
Others	(865.8)	(141.1)	(129.8)	(152.3)	(171.1)
CFO	1,092.9	441.8	811.1	793.7	850.5
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)	(189.6)	(206.8)
Interest Paid	(117.5)	(118.3)	(107.1)	(102.3)	(99.9)
Others	(184.3)	-	-	-	-
CFF	135.4	(625.4)	(458.2)	(345.2)	(360.1)
Net Cashflow	393.5	(483.6)	52.9	148.5	190.5

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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 Level 23, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

Equity rating definitions

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.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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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.