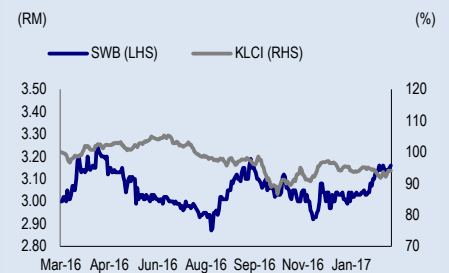


Sunway (BUY ↔; EPS ↔)
INDUSTRY: NEUTRAL
EARNINGS EVALUATION
28 February 2017
Price Target: RM3.75 (↔)
Share price: RM3.16
FY16: Results in line

Results	<ul style="list-style-type: none"> ▪ Within Expectation: 4QFY16 core earnings improved by 9% QoQ, bringing FY16 earnings to RM547m, making up 103% and 105% of our and consensus full year forecasts respectively.
Dividends	<ul style="list-style-type: none"> ▪ Declared cash dividend of 4 sen/share and share dividend distribution of 1 treasury share for every 100 shares held (equal to 3.14 sen/share), bringing full year dividend to 12.14sen/share (in line with our expectation).
Highlights	<ul style="list-style-type: none"> ▪ YoY: 4QFY16 revenue fell slightly by 3% and core earnings fell by 10%. This is mainly attributed to pre-opening expenses incurred for Sunway Velocity Mall and lower contribution from associates. ▪ QoQ: Core earning improved by 9% mainly due to higher contribution from property development which was boosted by the handover of Sunway Geo Retail Shops and Flexi Suites Phase 1 and sales of Penang land to Sunway REIT. ▪ Property... Effective property sales for 4QFY16 achieved RM285m (versus RM179m in 3QFY16), bringing 9MFY16 effective sales to RM923m, slightly exceeding full year sales target of RM900m. FY16 sales were mainly contributed by sales from Sunway Mont, Velocity, Gandaria, Singapore and China. Effective property unbilled sales stood at RM1.1bn, representing 1x of FY16's property revenue. Sunway is maintaining its effective sales target of RM900m (flat YoY) for FY17 on the back of 10 projects launches with total GDV of RM2bn (versus RM650m in FY16). ▪ Construction beat target... SunCon secured RM2.7bn new job wins (FY15: RM2.6bn), surpassing its initial target of RM2.5bn. Its orderbook of RM4.8bn translates to a healthy cover of 2.7x on FY16 revenue. Going forward, SunCon aims to secure RM2bn worth of contracts in 2017. ▪ Potential listing of the healthcare division could be one of the re-rating catalysts in long term as Sunway is targeting to increase total bed from 400 beds to 1,000 beds with new hospitals in Sunway Velocity and Seberang Prai.
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 unchanged TP of RM3.75 based on SOP valuation.

Jason Tan, CFA
yttan@hlib.hongleong.com.my
(603) 2168 1168

KLCI	1,693.8
Expected share price return	18.7%
Expected dividend return	3.8%
Expected total return	22.5%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	2,033
Market cap (RM m)	6,399
3-mth avg. volume ('000)	959
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	4.3	5.3	5.0
Relative	3.7	1.1	3.0

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)	2015A	2016A	2017E	2018F
Revenue	4,451	4,726	4,773	5,045
EBITDA	803	859	891	966
EBIT	687	727	744	807
Profit Before Tax	930	859	874	931
PATAMI	733	586	583	629
Core PATAMI	592	547	583	629
Core EPS (sen)	29.3	27.2	29.0	31.2
FD EPS (sen)	29.3	27.2	29.0	31.2
Net DPS (sen)	48.0	12.0	12.0	12.0
Net DY (%)	15.2	3.8	3.8	3.8
P/E (x)	10.8	11.6	10.9	10.1
FD P/E (x)	10.8	11.6	10.9	10.1
P/B (x)	1.0	1.1	1.0	1.0
Net Gearing (%)	20.5	29.3	25.9	21.3
ROE (%)	9.7	8.9	9.6	9.7
ROA (%)	5.6	5.1	5.4	5.6

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY15	3QFY16	4QFY16	Qoq (%)	Yoy (%)	Comments
Revenue	1398.8	1137.5	1363.7	19.9	(2.5)	Refer to segmental.
Property Development	420.0	247.6	412.7	66.7	(1.7)	Yoy: Lower contribution from the Avant Parc @ Sembawang in Singapore which is nearing completion. Qoq: Higher due to handover of Sunway Geo Retail Shops, Flexi Suite Phase 1 in 4Q16 and higher revenue from Sunway Gandaria and sales of Penang land to Sunway REIT.
Property Investment	185.4	189.9	172.8	(9.0)	(6.8)	Yoy: Due to closure of Sunway Pyramid Hotel for renovation. Qoq: Lower occupancy rate for hotels in Sunway City.
Construction	405.9	287.9	334.4	16.1	(17.6)	Yoy: Lower due to higher intra group eliminations. Qoq: Higher due to higher progress billings.
Trading/Manufacturing	205.3	206.7	215.1	4.1	4.8	Yoy & qoq: Mainly due to higher contribution from the Winstar.
Quarry	57.5	54.0	54.1	0.2	(6.0)	Yoy: Due to drop in selling price for both aggregates and premix. Qoq: Due to improve sales volume of premix.
EBIT	259.3	164.3	251.4	53.0	(3.0)	Refer to segmental.
Property Development	96.4	45.3	119.0	162.8	23.5	YoY/QoQ: Boosted by the handover of Sunway Geo Retail Shops and Flexi Suites Phase 1 and sales of Penang land to Sunway REIT.
Property Investment	101.0	50.0	51.7	3.3	(48.8)	Yoy: Due to lower fair value gains and pre-opening expenses incurred for Sunway Velocity Mall. Qoq: Fair value gains were offset by pre-opening expenses and provisions.
Construction	26.8	31.3	28.3	(9.7)	5.7	Yoy: Higher progress billings from ongoing local construction projects.
Trading/Manufacturing	11.7	11.3	20.7	82.7	76.3	
Quarry	5.8	7.2	1.5	(79.8)	(75.0)	Yoy/Qoq: Due to higher accelerated depreciation expenses for fixed assets at one of the sites as the group plans to exit in 2017.
Net Interest Expense	(21.8)	(2.6)	(25.7)	895.0	18.0	
Share of Associates/JCE	49.6	46.7	44.9	(3.9)	(9.5)	
PBT	283.8	208.5	270.6	29.8	(4.7)	Filtered down from EBIT.
PAT	254.7	170.8	224.7	31.5	(11.8)	
PATAMI	214.7	143.6	185.8	29.4	(13.4)	
EI	(34.7)	4.5	(24.0)	(633.3)	(30.8)	Consist of fair value gain of RM20.5m and fair value change in ESOS for RM4.5m.
Core Earnings	180.0	148.1	161.8	9.3	(10.1)	Filtered down from PATAMI ex. EI.
Core EPS (sen)	8.8	7.2	7.9	9.3	(10.1)	
EBIT Margin (%)	18.5	14.4	18.4	27.6	(0.5)	
Property Development	23.0	18.3	28.8	57.6	25.6	
Property Investment	54.5	26.4	29.9	13.5	(45.1)	
Construction	6.6	10.9	8.5	(22.3)	28.4	
Trading/Manufacturing	5.7	5.5	9.6	75.6	68.2	
Quarry	10.2	13.4	2.7	(79.8)	(73.4)	
PBT Margin Ex-Assoc (%)	16.7	14.2	16.6	16.4	(1.2)	

Sunway, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	FY15	FY16	Yoy (%)	Comments
Revenue	4451.3	4725.9	6.2	Refer to segmental.
Property Development	1195.7	1209.4	1.2	
Property Investment	641.7	692.0	7.8	Due to higher rental and better occupancy rate.
Construction	1222.1	1183.1	(3.2)	Due to higher intra group revenue elimination.
Trading/Manufacturing	650.0	833.3	28.2	Due to maiden profit contribution from the newly acquired Winstar group in Sep 15.
Quarry	242.1	207.4	(14.4)	Drop in the selling prices for aggregates and premix.

EBIT	686.9	726.9	5.8	Refer to segmental.
Property Development	207.7	273.1	31.5	
Property Investment	213.5	162.5	(23.9)	
Construction	159.0	129.2	(18.8)	
Trading/Manufacturing	31.9	51.0	59.8	
Quarry	39.5	26.7	(32.4)	
Net Interest Expense	(26.6)	(59.9)	124.9	
Share of Associates/JCE	269.9	192.0	(28.9)	
PBT	929.2	859.0	(7.6)	
PAT	799.4	718.6	(10.1)	
PATAMI	732.4	585.9	(20.0)	
EI	(141.7)	(38.5)	(72.8)	Consist of fair value gain of RM44.2m and change in fair value of ESOS for RM4.5m.
Core Earnings	590.7	547.4	(7.3)	
Core EPS (sen)	0.0	0.0	(7.3)	
EBIT Margin (%)	15.4	15.4	(0.3)	
Property Development	17.4	22.6	30.0	
Property Investment	33.3	23.5	(29.4)	
Construction	13.0	10.9	(16.1)	
Trading/Manufacturing	4.9	6.1	24.6	
Quarry	16.3	12.9	(21.0)	
PBT Margin Ex-Assoc (%)	14.8	14.1	(4.7)	

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	190
Net Debt	
Total	7,543
No. of shares (m)	2,013

Target Price (RM) 3.75

HLIB

Figure #4 HLIB vs Consensus

FYE Dec (RM m)	FY17E			FY18F		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,773.0	5,103.0	-6%	5,045.2	5,439.0	-7%
PATAMI	583.1	549.0	6%	629.0	610.2	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	2.15	Hold	2.54	18%	9,474.0	(44.9)	15.8	15.6	0.7	0.7	2.8	1.9
UEM SUNRISE BHD	1.15	Hold	1.03	-11%	5,218.1	(60.8)	35.4	23.4	0.8	0.8	-	1.3
SP SETIA BHD	3.41	Hold	3.29	-3%	9,730.6	(32.7)	11.1	12.8	1.4	1.3	5.9	5.1
MAH SING GROUP	1.45	Hold	1.52	5%	3,493.7	(38.0)	9.5	9.5	1.0	1.0	4.2	4.2
SUNWAY BHD	3.16	Buy	3.75	19%	6,399.3		11.6	10.9	1.1	1.0	3.8	3.8
MATRIX CONCEPTS	2.51	Buy	2.89	15%	1,436.2	(30.5)	6.5	6.2	1.6	1.3	5.6	6.1
TAMBUN	1.41	Hold	1.39	-1%	603.6	(39.2)	6.2	7.6	1.1	1.0	6.4	5.0
GLOMAC BHD	0.70	Hold	0.67	-4%	506.1	(53.0)	12.0	10.9	0.5	0.5	4.8	4.3
ECO WORLD DEVELO	1.51	NR			4,223.0	(34.3)	34.1	17.7	1.0	1.0	-	-
Average						(41.7)	15.8	12.7	1.0	1.0	3.7	3.5

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

Income Statement

FYE 31 Dec (RM m)	2014A	2015A	2016A	2017E	2018F
Revenue	4,558.1	4,451.3	4,725.9	4,773.0	5,045.2
EBITDA	859.2	803.3	858.8	890.5	966.2
D&A	(99.3)	(116.3)	(131.9)	(146.2)	(159.3)
EBIT	759.9	686.9	726.9	744.3	806.9
Interest Income	48.4	97.8	107.8	16.0	20.6
Finance Costs	(78.9)	(124.5)	(167.7)	(99.9)	(97.5)
Associates/JCE	233.4	269.9	192.0	214.0	201.0
Profit Before Tax	962.8	930.2	859.0	874.5	931.2
Tax	(148.6)	(129.8)	(140.4)	(165.1)	(182.5)
Net Profit	814.2	800.4	718.6	709.4	748.6
Minority Interests	(77.6)	(67.0)	(132.7)	(126.3)	(119.6)
PATAMI	736.6	733.4	585.9	583.1	629.0
Exceptionals	151.5	141.7	38.5	-	-
Core Earnings	585.1	591.7	547.4	583.1	629.0
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	27.2	29.0	31.2
FD Core EPS (sen)	28.9	29.3	27.2	29.0	31.2

Quarterly Financial Summary

FYE 31 Dec (RM m)	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4
Revenue	1,398.8	1,069.0	1,155.7	1,137.5	1,363.7
Expenses	(1,244.9)	(944.4)	(1,022.9)	(1,014.9)	(1,212.6)
Other Income	105.4	25.1	28.7	41.7	100.3
EBIT	259.3	149.6	161.4	164.3	251.4
Derivatives	(3.3)	-	-	0.1	-
Net Interest Expense	(21.8)	(16.1)	(15.6)	(2.6)	(25.7)
Associates & JCE	49.6	42.6	57.9	46.7	44.9
Profit Before Tax	283.8	176.1	203.8	208.5	270.6
Tax	(29.2)	(32.8)	(23.9)	(37.7)	(46.0)
Net Profit	254.7	143.2	179.9	170.8	224.7
Minority Interests	(40.0)	(41.1)	(25.5)	(27.2)	(38.8)
PATAMI	214.7	102.1	154.4	143.6	185.8
Exceptional	(34.7)	2.4	(21.5)	4.5	(24.0)
Core Earnings	180.0	104.5	132.9	148.1	161.8
Core EPS (sen)	10.10	5.85	6.73	7.24	7.91
FD Core EPS (sen)	9.69	5.59	6.61	7.17	7.85
W. Ave. Shares (m)	2046	2046	2046	2046	2046

Balance Sheet

FYE 31 Dec (RM m)	2014A	2015A	2016A	2017E	2018F
Cash	1,033	1,053	455	611	765
Trade Receivables	1,124	1,098	1,165	1,177	1,244
Inventories	687	671	712	719	760
Development Costs	994	1,006	1,003	1,014	1,077
Associates/JCE	2,426	2,591	2,669	2,757	2,819
PPE	3,749	3,933	4,101	4,255	4,395
Goodwill	320	320	320	320	320
Others	130	130	130	130	130
Total Assets	10,462	10,800	10,555	10,982	11,510
Trade Payables	1,249	1,220	1,295	1,308	1,382
Total Debt	2,461	2,299	2,246	2,192	2,139
Others	511	511	511	511	511
Total Liabilities	4,220	4,029	4,051	4,011	4,032
Shareholders' Funds	5,847	6,309	5,928	6,270	6,657
Minority Interests	395	462	595	721	841
Total Capital	6,242	6,771	6,523	6,991	7,498

Rates and Ratios

FYE 31 Dec (RM m)	2014A	2015A	2016A	2017E	2018F
Core PER (x)	10.9	10.8	11.6	10.9	10.1
FD Core PER (x)	10.9	10.8	11.6	10.9	10.1
Net DPS (sen)	11.0	48.0	12.0	12.0	12.0
Net DY (%)	3.5	15.2	3.8	3.8	3.8
BVPS (RM)	2.9	3.1	2.9	3.1	3.3
P/B (x)	1.1	1.0	1.1	1.0	1.0
NTA/Share (RM)	2.7	3.0	2.8	3.0	3.1
EBITDA Margin (%)	18.8	18.0	18.2	18.7	19.2
EBIT Margin (%)	16.7	15.4	15.4	15.6	16.0
PBT Margin (%)	26.2	27.0	22.2	22.8	22.4
PATAMI Margin (%)	12.8	13.3	11.6	12.2	12.5
ROE (%)	10.5	9.7	8.9	9.6	9.7
ROA (%)	5.4	5.6	5.1	5.4	5.6
Net Gearing (%)	25.5	20.5	29.3	25.9	21.3

Cashflow Analysis

FYE 31 Dec (RM m)	2014A	2015A	2016A	2017E	2018F
EBITDA	859.2	803.3	858.8	890.5	966.2
Working Capital	(406.1)	1.7	(31.3)	(16.4)	(97.1)
Interest Received	38.3	31.3	22.6	16.0	20.6
Dividends fr Assoc	91.6	104.2	114.6	126.1	138.7
Others	(141.1)	(129.8)	(140.4)	(165.1)	(182.5)
CFO	441.8	810.6	824.4	851.1	846.0
Capex	(300.0)	(300.0)	(300.0)	(300.0)	(300.0)
Purchase/Disposal	-	-	-	-	-
Others	-	-	-	-	-
CFI	(300.0)	(300.0)	(300.0)	(300.0)	(300.0)
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	-	-	-	-	-
CFF	(625.4)	(490.0)	(1,121.9)	(394.8)	(392.4)
Net Cashflow	(483.6)	20.6	(597.5)	156.3	153.5

Assumption Metrics

FYE 31 Dec (RM m)	2014A	2015A	2016A	2017E	2018F
Revenue	4,731	4,759	4,576	4,773	5,045
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	15.4	15.6	16.0

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1. As of 28 February 2017, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 28 February 2017, the analyst, Jason Tan, who prepared this report, has interest in the following securities covered in this report:

(a) -.

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 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.
TRADING SELL	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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NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

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