

30 May 2017

Sunway Berhad

Pending for Launch...

By Adrian Ng | adrian.ng@kenanga.com.my; Sarah Lim | sarahlim@kenanga.com.my

1Q17 CNP of RM107.9m was within ours but below streets' full-year estimates, potentially due to more aggressive assumption on its property development margins and billings progress. Property sales of RM142.0m were also slower compared to house and management's target of RM1.1b. No dividends declared as expected. No changes to our FY17-18E core earnings. Downgrade to MARKET PERFORM with a higher SoP-driven Target Price of RM3.50 (previously, OP; TP: RM3.41).

A slow start... SUNWAY's 1Q17 CNP of RM107.9m was within ours but below streets' full-year estimates at 21%/19%, respectively. Property sales registered in 1Q17 was sharply slower at only RM142.0m, vis-à-vis our and managements' target of RM1.1b. We believe that streets' might be slightly aggressive on its assumptions for its property development division margin and billing progress, while its slow sales are due to the lack of new launches.

Results review. Its 1Q17 CNP saw a growth of 6%, YoY premised on several factors, i.e. i) growth in revenue (+2%) driven by all of its divisions except for its property development division, ii) a substantial decrease on its effective interest cost (-58%), iii) lower effective tax rate of 18% versus 19% back in 1Q16, and iv) decrease in minority interest contributions by 57%. **QoQ wise**, 1Q17 CNP decreased by 35% underpinned by, i) decrease in revenue (-20%) whereby the main drag is from its property development division due to the handover of Sunway Geo Retail Shops and Flexi Suites Phase 1 and the sale of Penang land to Sunway REIT in 4Q16, and ii) decrease in property development operating margins by 29ppt to 5% due to low billings progress from its local developments.

Outlook. While SUNWAY might have kicked off the year with a slower set of results, we remain confident with SUNWAY's ability in delivering a sturdy performance for the year premised on its strong unbilled sales of RM1.4b with 2-year visibility, a robust outstanding order book of RM4.6b that provides 2-3 year visibility and other divisions that has been generating decent growth over the years. That said, we also expect its sales to pick up once it launch its RM2.0b worth of projects, resulting its development margins to normalise from 2Q17 onwards.

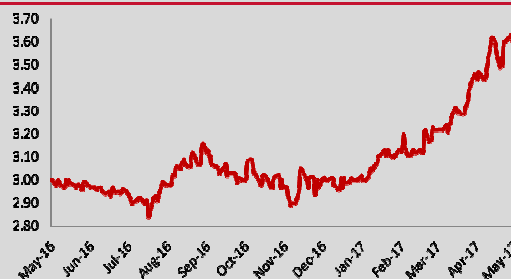
MARKET PERFORM. We downgrade our recommendation on SUNWAY to MARKET PERFORM (previously, OUTPERFORM) but tweaked our SoP-driven Target Price higher to RM3.50 (previously, RM3.41), after we have updated in the changes in valuation on its other divisions, i.e. SUNREIT and SUNCON. SUNREIT saw an upgrade in TP to RM1.80 (previously, RM1.74) while SUNCON from TP of RM1.77 to RM2.00. Nonetheless, we are still maintaining our cautious view on the property market as we have yet to see much improvement in the market.

Downside risks to our call include: Weaker-than-expected property sales and construction order book replenishment, Higher-than-expected sales and administrative costs, negative real estate policies, and tighter lending environment.

MARKET PERFORM

Price: **RM3.59**
Target Price: **RM3.50**

Share Price Performance



KLCI	1,764.89
YTD KLCI chg	7.5%
YTD stock price chg	19.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	7,308.5
Issued shares	2,035.8
52-week range (H)	3.68
52-week range (L)	2.84
3-mth avg daily vol:	2,178,447
Free Float	33%
Beta	0.5

Major Shareholders

Sungei Way Corporation S/B	56.7%
Employees Provident Fund Board	5.6%
Fook Ling Cheah	4.6%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	4,725.9	5,262.3	5,583.7
EBIT	726.9	728.4	771.9
PBT	859.0	796.8	845.3
Net Profit (NP)	585.9	521.7	542.6
Core net profit	541.6	521.7	542.6
Consensus (NP)	n.a.	563.2	599
Earnings Revision	n.a.	n.a.	n.a.
Core Basic EPS	26.3	25.3	26.3
Core EPS growth (%)	-20%	-11%	4%
DPS (sen)	12.1	8.9	9.2
Basic PER (x)	13.7	14.2	13.6
BVPS (RM)	3.61	3.78	3.95
Net Gearing (x)	0.5	0.4	0.4
Dividend Yield (%)	3.4%	2.5%	2.6%

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Result Highlight					
FYE 31 Dec (RM'm)	1Q17	4Q16	QoQ%	1Q16	YoY%
Revenue	1,091.3	1,363.7	-20%	1,069.0	2%
Op costs w/o depn/amort	-992.1	-1,212.6	-18%	-944.4	5%
Other Op Income	17.5	79.8	-78%	25.1	-30%
EBITDA	116.8	245.0	-52%	178.6	-35%
EBIT	116.8	230.9	-49%	149.6	-22%
Net Interest	-6.7	-25.7	-74%	-16.1	-58%
Associate & JCE	43.1	44.9	-4%	42.6	1%
Fair Value Adjustments on IP	0.0	20.5	-100%	0.0	n.m.
Pretax profit	153.1	270.6	-43%	176.1	-13%
Taxation	-27.3	-46.0	-41%	-32.8	-17%
Minority Interests	-17.9	-38.8	-54%	-41.1	-57%
Net profit	107.9	185.8	-42%	102.1	6%
Core Net profit	107.9	165.3	-35%	102.1	6%
EPS (sen)	5.2	9.0	-42%	5.1	1%
Diluted EPS (sen)	5.0	7.6	-35%	4.7	6%
NDPS (sen)	7.1	7.1		0.0	
NTA/share (RM)	3.52	3.46		3.38	
Net gearing/(cash) (x)	0.47	0.45		0.40	
EBITDA margin	11%	18%		17%	
EBIT margin	11%	17%		14%	
Pretax margin	14%	20%		16%	
Effective tax rate	18%	17%		19%	

Source: Company, Kenanga Research

Segmental Breakdown					
	1Q17	4Q16	QoQ	1Q16	YoY
Revenue					
Property Development	144.3	349.1	-59%	234.1	-38%
Property Investment	228.1	246.0	-7%	203.9	12%
Construction	531.0	1153.4	-54%	424.4	25%
Trading & Manufacturing	298.8	352.3	-15%	241.8	24%
Quarry	47.6	66.3	-28%	40.3	18%
Investment Holdings	289.3	461.5	-37%	145.8	98%
Others	180.6	205.2	-12%	133.3	35%
Eliminations	-628.5	-1470.1	-57%	-354.5	77%
TOTAL	1091.3	1363.7	-20%	1069.0	2%
Operating Profit					
Property Development	7.9	119.0	-93%	55.7	-86%
Property Investment	44.1	51.7	-15%	36.4	21%
Construction	34.7	28.3	23%	35.6	-2%
Trading & Manufacturing	12.5	20.7	-39%	8.5	47%
Quarry	0.9	1.5	-39%	6.4	-86%
Investment Holdings	-3.5	8.2	-142%	-1.9	80%
Others	20.1	22.2	-9%	9.0	123%
Eliminations	0.0	0.0	n.m.	0.0	n.m.
TOTAL	116.8	251.5	-54%	149.6	-22%
Operating Margin					
Property Development	5%	34%		24%	
Property Investment	19%	21%		18%	
Construction	7%	2%		8%	
Trading & Manufacturing	4%	6%		4%	
Quarry	2%	2%		16%	
Investment Holdings	-1%	2%		-1%	
Others	11%	11%		7%	

Source: Company, Kenanga Research

Sum-of-Parts						
	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
		RM'm	(x)	(%)	RM'm	
Property Development & Investment	100%	6,623	n.a	55%	2,980	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin
Sunway Reit	35%	1,834	n.a		1,834	(ii) Property Inv: Zero surplus on Book Value SUNREIT TP RM1.80
Construction	56%	1,438	14		1,438	16x FY18E PER- Inline with Big-Cap peers range of 16-18x.
Quarry & Buildings Mat	100%	158	8		158	8x FY18E PER
Trading & manufacturing	100%	288	8		288	8x FY18E PER
Group Shareholders Funds					0	
Total SOP		10,342			6,700	
Adjustment for Dilution					879	
TP (RM)					3.50	

Source: Kenanga Research

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Peer Comparison

NAME	Price (29/5/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	Fwd P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	2.09	11,508	17.7	14.4	14.3	3.5%	4.1%	4.2%	0.61	648.5	800.2	803.6	23.4%	0.4%	2.30	OUTPERFORM
S P SETIA BHD*	3.79	10,818	13.4	14.2	17.4	4.9%	9.7%	8.0%	1.30	808.0	761.3	620.6	-5.8%	-18.5%	3.86	OUTPERFORM
UEM SUNRISE BHD*	1.24	5,626	38.2	24.1	34.9	0.0%	2.2%	3.4%	0.88	147.3	233.5	161.3	58.5%	-30.9%	1.45	OUTPERFORM
SUNWAY BHD*	3.59	7,309	13.5	14.0	13.5	2.9%	7.3%	6.7%	0.82	541.6	521.7	542.6	-3.7%	4.0%	3.50	MARKET PERFORM
MAH SING GROUP BHD^	1.56	3,759	10.8	11.1	11.5	4.1%	10.1%	10.0%	1.08	346.8	338.9	327.5	-2.3%	-3.4%	1.67	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.58	4,652	36.0	41.2	18.7	0.0%	3.7%	4.4%	1.23	129.3	112.9	248.8	-12.7%	120.4%	1.72	OUTPERFORM
UOA DEVELOPMENT BHD*	2.70	4,405	11.8	11.6	11.3	5.6%	19.4%	9.8%	1.12	373.9	379.2	391.4	1.4%	3.2%	2.63	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	1.21	3,080	12.6	44.8	40.7	0.2%	8.6%	2.4%	1.32	244.1	68.8	75.7	-72%	10.0%	1.32	MARKET PERFORM
KSL HOLDINGS BHD	1.21	1,246	6.1	7.2	7.0	0.0%	8.8%	6.9%	0.46	204.6	173.7	177.1	-15.1%	2.0%	1.30	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.75	1,588	8.4	7.1	6.7	5.3%	31.8%	22.7%	1.45	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFORM
SUNSURIA BERHAD	1.39	1,110	30.3	11.3	7.1	2.2%	6.9%	13.3%	1.40	36.7	98.0	157.0	167.2%	60.1%	1.61	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.68	382	13.2	11.4	11.0	2.9%	2.2%	8.0%	0.50	28.9	33.6	34.6	16.4%	3.0%	1.70	MARKET PERFORM
HUA YANG BHD	1.07	377	6.2	6.1	5.2	1.7%	21.9%	12.2%	0.58	61.0	62.0	72.0	1.6%	16.1%	1.24	MARKET PERFORM
A&M REALTY BHD	1.68	613	30.6	22.9	17.7	0.0%	3.3%	4.2%	0.93	20.1	26.7	34.6	33.2%	29.5%	3.00	OUTPERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.95	3,938	13.2	12.8	16.4	3.1%	6.7%	6.4%	0.80	298.0	307.0	240.3	3.0%	-21.7%	3.00	NEUTRAL
GLOMAC BHD	0.70	502	6.2	12.6	7.3	5.3%	12.7%	6.0%	0.50	80.9	39.8	68.7	-50.9%	72.7%	0.74	SELL
PARAMOUNT CORP BHD	1.82	772	10.3	9.6	9.1	4.9%	8.0%	8.3%	0.79	75.0	80.6	84.9	7.5%	5.3%	2.24	BUY
TAMBUN INDAH LAND BHD	1.47	636	5.7	6.6	6.9	6.0%	21.5%	16.4%	1.06	112.2	96.4	91.7	-14.1%	-4.9%	1.58	NEUTRAL
LBS BINA GROUP BHD	2.04	1,359	15.9	12.1	9.7	4.7%	8.1%	9.1%	1.09	85.3	112.0	139.9	31.2%	25.0%	2.12	BUY

* Core NP and Core PER

^ Last price and TP is Ex-rights and Ex-Bonus.

MRCB's prices are of ex-rights

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my Email: research@kenanga.com.my



Chan Ken Yew
Head of Research