

# Sunway Berhad

## Staying On Track

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**9M16 CNP of RM376.3m which accounted for 78%/73% of our and streets' full-year estimates was well within expectations. Property sales of RM864.0m are on track to meet our and management's target of RM1.0b and RM1.1b, respectively. No dividend declared as expected. Maintain MARKET PERFORM with an unchanged Target Price of RM3.23.**

**Within expectations.** 9M16 CNP of RM376.3m was within expectations, accounting for 78% and 73% of our and streets' full-year estimates, respectively. Property sales of RM864.0m are on track to meet our and management's respective target of RM1.0b and RM1.1b. However, we do note that our and management's sales targets only saw a downward revision from RM1.4b previously in October due to the revision in planned launches. No dividends declared in 3Q16 as expected.

**Results highlight.** 9M16 revenue saw a decent improvement of 10%, YoY backed by steady growth from most divisions, which registered growth of between 6%-33%, except for the construction and quarry divisions which registered decline in revenue of 14% and 15%, respectively. However, CNP still registered a decline of 9%, driven by the spike in minority interest (+248%, YoY) as a result of a lower effective holding in SUNCON of 54.4% as a result of the listing exercise.

QoQ, its 3Q16 CNP grew 10% albeit softer revenue, which saw a decline of 2%. The boost was mainly driven by improvement from its associate and jointly-controlled entities contributions, which registered growth of 36% due to better progressive billings from its Singaporean projects.

**Maintain FY16-17 earnings.** Post results, we make no changes to our FY16-17E earnings estimates of RM485.0-490.0m.

**Outlook.** We remain confident with SUNWAY's ability in delivering a sturdy performance for the year premised on its strong unbilled sales of RM1.8b with 2-year visibility, a robust outstanding order book of RM4.8b that provides 2-3 year visibility and other divisions that has been generating decent growth over the years.

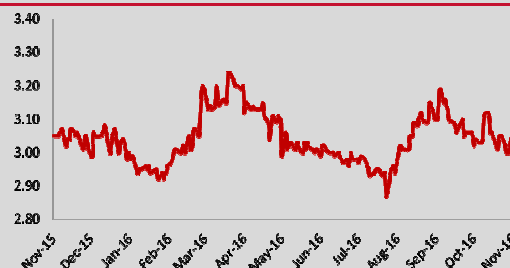
**MARKET PERFORM.** No changes to our MARKET PERFORM recommendation and SoP-driven Target Price of RM3.23, while maintaining our cautious view on the property market as we have yet to see much improvement in the market, especially bank loan approvals.

**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: RM3.00**  
**Target Price: RM3.23** ↔

### Share Price Performance



KLCI	1,627.26
YTD KLCI chg	-3.9%
YTD stock price chg	-2.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	6,093.0
Issued shares	2,031.0
52-week range (H)	3.24
52-week range (L)	2.87
3-mth avg daily vol:	1,081,227
Free Float	26%
Beta	0.5

### Major Shareholders

Sungei Way Corporation S/B	55.1%
Yean Tih Cheah	13.1%
Employees Provident Fund Board	5.7%

### Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	4,451	5,042	5,531
EBIT	686	646	690
PBT	929	803	740
<b>Net Profit (NP)</b>	<b>732</b>	<b>499</b>	<b>490</b>
<b>Core NP</b>	<b>594</b>	<b>485</b>	<b>490</b>
Consensus (NP)	n.a.	516	550
Earnings Revision	n.a.	n.a.	n.a.
EPS (sen)	42.5	28.9	28.4
Core EPS (sen)	34.5	28.1	28.4
EPS growth (%)	-51%	-32%	-2%
NDPS (sen)	38.5	9.8	9.7
NTA/Share (RM)	2.91	3.26	3.61
Core PER (x)	7.1	10.4	10.6
Price/NTA (x)	1.0	0.9	0.8
Net Gearing (x)	0.5	0.4	0.5
Dividend Yield (%)	12.8%	3.3%	3.2%

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Sum-of-Parts						
	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	6,487	n.a	61%	2,562	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,762	n.a		1,762	SUNREIT TP RM1.85
Construction	56%	1,303	14		1,303	14x FY17E PER- higher compared to mid cap construction Fwd PERs of 9x-13x.
Quarry & Buildings Mat	100%	37	8		37	8x FY17E PER
Trading & manufacturing	100%	450	8		450	8x FY17E PER
Group Shareholders Funds					0	
<b>Total SOP</b>		<b>10,039</b>			<b>6,114</b>	
Adjustment for Dilution					879	
<b>TP (RM)</b>					<b>3.23</b>	
Diluted no. of shares ('m)					2,168	

Source: Kenanga Research

Result Highlight								
FYE 31 Dec (RM'm)	3Q16	2Q16	QoQ%	3Q15	YoY%	9M16	9M15	YoY
Revenue	1,137.5	1,155.7	-2%	951.0	20%	3,362.2	3,052.6	10%
Op costs w/o depn/amort	-1,014.9	-1,022.9	-1%	-902.4	12%	-2,982.2	-2,781.3	7%
Other Op Income	41.7	28.7	46%	88.7	-53%	95.4	159.0	-40%
<b>EBITDA</b>	<b>203.7</b>	<b>192.8</b>	<b>6%</b>	<b>162.9</b>	<b>25%</b>	<b>575.1</b>	<b>515.2</b>	<b>12%</b>
<b>EBIT</b>	<b>164.3</b>	<b>161.4</b>	<b>2%</b>	<b>137.3</b>	<b>20%</b>	<b>475.4</b>	<b>430.2</b>	<b>10%</b>
Net Interest	-2.6	-15.6	-83%	15.8	-116%	-34.2	-4.9	600%
Associate & JCE	46.7	34.2	36%	31.5	48%	123.5	116.5	6%
Fair Value Adjustments on IP	0.0	23.7	-100%	-13.7	-100%	23.7	103.6	-77%
<b>Pretax profit</b>	<b>208.5</b>	<b>203.8</b>	<b>2%</b>	<b>171.0</b>	<b>22%</b>	<b>588.3</b>	<b>645.4</b>	<b>-9%</b>
Taxation	-37.7	-23.9	58%	-31.5	20%	-94.4	-100.6	-6%
Minority Interests	-27.2	-25.5	7%	-6.2	341%	-93.9	-27.0	248%
<b>Net profit</b>	<b>143.5</b>	<b>154.4</b>	<b>-7%</b>	<b>133.3</b>	<b>8%</b>	<b>400.0</b>	<b>517.8</b>	<b>-23%</b>
<b>Core Net profit</b>	<b>143.5</b>	<b>130.7</b>	<b>10%</b>	<b>147.0</b>	<b>-2%</b>	<b>376.3</b>	<b>414.2</b>	<b>-9%</b>
EPS (sen)	8.3	9.0	-7%	6.9	20%	23.2	29.2	-21%
Diluted EPS (sen)	6.6	6.0	10%	6.1	8%	17.4	18.5	-6%
NDPS (sen)	0.0	5.0		26.0		5.0	31.0	
NTA/share (RM)	3.45	3.38		3.64		3.45	3.64	
Net gearing/(cash) (x)	0.41	0.44		0.38		0.41	0.38	
EBITDA margin	18%	17%		17%		17%	17%	
EBIT margin	14%	14%		14%		14%	14%	
Pretax margin	18%	18%		18%		17%	21%	
Effective tax rate	18%	12%		18%		16%	16%	

Source: Company, Kenanga Research

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Segmental Breakdown								
	3Q16	2Q16	QoQ	3Q15	YoY	9M16	9M15	YoY
<b>Revenue</b>								
Property Development	279.6	347.0	-19%	270.9	3%	860.7	775.7	11%
Property Investment	223.7	193.4	16%	194.0	15%	621.0	538.8	15%
Construction	381.1	430.3	-11%	445.6	-14%	1235.7	1441.9	-14%
Trading & Manufacturing	226.0	215.3	5%	126.7	78%	683.0	512.3	33%
Quarry	54.9	64.5	-15%	69.5	-21%	159.8	188.9	-15%
Investment Holdings	58.0	175.5	-67%	79.4	-27%	379.2	358.7	6%
Others	174.8	163.7	7%	123.8	41%	471.8	423.3	11%
Eliminations	-260.5	-433.9	-40%	-358.8	-27%	-1049.0	-1186.9	-12%
<b>TOTAL</b>	<b>1137.5</b>	<b>1155.7</b>	<b>-2%</b>	<b>951.0</b>	<b>20%</b>	<b>3362.2</b>	<b>3052.6</b>	<b>10%</b>
<b>Operating Profit</b>								
Property Development	45.3	53.1	-15%	34.5	31%	154.0	111.3	38%
Property Investment	50.0	24.4	105%	39.6	26%	110.9	112.5	-1%
Construction	31.3	34.0	-8%	23.4	34%	100.9	132.3	-24%
Trading & Manufacturing	11.3	10.5	8%	5.4	110%	30.3	20.2	50%
Quarry	7.2	11.7	-38%	10.6	-32%	25.3	33.7	-25%
Investment Holdings	2.8	6.1	-55%	-5.4	-151%	6.9	-21.5	-132%
Others	16.3	21.8	-25%	10.6	55%	47.1	39.1	20%
Eliminations	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>TOTAL</b>	<b>164.3</b>	<b>161.4</b>	<b>2%</b>	<b>118.7</b>	<b>38%</b>	<b>475.4</b>	<b>427.6</b>	<b>11%</b>
<b>Operating Margin</b>								
Property Development	16%	15%		13%		18%	14%	
Property Investment	22%	13%		20%		18%	21%	
Construction	8%	8%		5%		8%	9%	
Trading & Manufacturing	5%	5%		4%		4%	4%	
Quarry	13%	18%		15%		16%	18%	
Investment Holdings	5%	3%		-7%		2%	-6%	
Others	9%	13%		9%		10%	9%	

Source: Company, Kenanga Research

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## Peer Comparison

NAME	Price (25/11/16)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY16/17 NP Growth	FY17/18 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY15/16	FY16/17	FY17/18	(%)	(%)	(x)	FY15/16	FY16/17	FY17/18	(%)	(%)	(RM)	
<b>DEVELOPERS UNDER COVERAGE</b>															
IOI PROPERTIES GROUP BHD*#	2.11	10,096	18.0	15.5	15.4	2.1%	4.1%	0.61	648.5	753.2	755.5	16.1%	0.3%	2.23	MARKET PERFORM
S P SETIA BHD*	3.31	9,445	9.5	12.6	11.1	5.1%	13.9%	1.14	918.3	692.0	780.0	-24.6%	12.7%	3.53	OUTPERFORM
UEM SUNRISE BHD*	1.05	4,764	18.6	28.4	27.7	1.5%	3.9%	0.76	257.2	168.5	172.4	-34.5%	2.3%	1.00	UNDERPERFORM
SUNWAY BHD	3.00	6,093	8.7	10.7	10.6	3.3%	11.7%	0.75	594.2	484.6	489.7	-18.4%	1.0%	3.23	MARKET PERFORM
MAH SING GROUP BHD^	1.52	3,662	12.0	11.6	11.6	4.0%	14.3%	1.09	357.2	369.1	369.5	3.3%	0.1%	1.49	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.36	3,804	73.2	31.8	15.6	0.0%	2.5%	0.99	44.0	126.5	257.7	187.8%	103.7%	1.58	OUTPERFORM
UOA DEVELOPMENT BHD*	2.42	3,948	9.9	10.0	9.2	6.2%	14.1%	1.19	399.0	395.0	427.0	-1.0%	8.1%	2.54	OUTPERFORM
MALAYSIAN RESOURCES CORP BHD	1.28	2,744	-48.5	25.6	52.8	0.7%	-3.3%	1.47	-74.6	140.3	68.4	-288.0%	-51.2%	1.33	MARKET PERFORM
KSL HOLDINGS BHD	1.09	1,122	4.9	5.2	6.0	0.0%	10.5%	0.47	211.5	198.4	190.3	-6.2%	-4.1%	0.99	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.46	1,406	5.9	6.7	5.9	6.0%	31.8%	1.42	255.2	224.2	253.0	-12.1%	12.8%	2.65	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.48	337	19.0	13.3	10.7	3.0%	2.2%	0.39	17.8	25.5	31.6	43.0%	24.1%	1.60	MARKET PERFORM
HUA YANG BHD	1.10	387	3.5	4.3	4.6	2.4%	21.9%	0.62	110.1	90.5	84.8	-17.8%	-6.3%	1.32	MARKET PERFORM
<b>CONSENSUS NUMBERS</b>															
IGB CORPORATION BHD	2.47	3,297	10.8	13.7	12.5	3.2%	4.7%	0.8	304.2	240.3	263.0	-21.0%	9.4%	4.80	NEUTRAL
GLOMAC BHD	0.77	553	3.8	8.6	7.0	5.5%	14.2%	0.5	145.4	64.4	79.6	-55.7%	23.6%	0.77	NEUTRAL
PARAMOUNT CORP BHD	1.39	588	9.9	8.7	8.2	5.8%	7.2%	0.7	59.5	67.7	71.9	13.7%	6.3%	2.18	BUY
TAMBUN INDAH LAND BHD	1.44	615	5.7	6.1	6.1	6.5%	22.9%	1.2	108.4	101.6	101.6	-6.2%	0.0%	1.66	BUY

\* Core NP and Core PER

\*\* Crescendo per share data is based on non-Fully Diluted

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

# IOIPG's Price/per share data is based on 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% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

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