

Sunway Berhad

9M15 Results Inline

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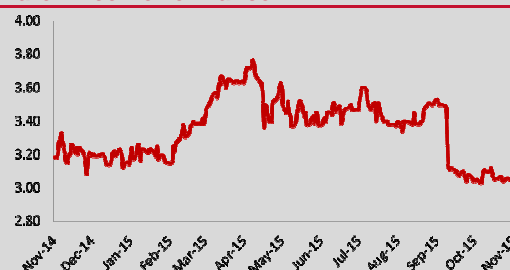
MARKET PERFORM ↔

Price: **RM3.06**

Target Price: **RM3.27** ↔

- Period** ▪ 3Q15/9M15
- Actual vs. Expectations** ▪ SUNWAY's 9M15 core net profit of RM414.2m is within expectations, accounting for 73% and 75% of our and streets' full-year estimates, respectively.
- In terms of property sales, it registered sales of RM734m, in-line with our FY15 sales assumptions of RM1.0b (reduced from RM1.7b, previously) but slightly behind managements' target of RM1.1b. However, we do note that management did scale down its sales target back in Oct-15, from its initial target of RM1.7b to RM1.1b.
- Dividends** ▪ No dividend was declared, but a special dividend of 26.0 sen was paid from SUNCON's listing proceeds.
- Key Results Highlights** ▪ **YoY**, SUNWAY managed to grow its 9M15 core net profit by 7% to RM414.2m, albeit a slump in revenue (-9%). In general, the improvements in earnings were mainly driven by several factors i.e. (i) stronger operating profit in most of its divisions i.e. construction (+69%), property investment (+44%), quarry (+66%) due to improvements in margins, (ii) reduction in net interest cost (-79%), and (iii) lower minority interest contribution (-20%). That said, it's trading and property divisions did not fare as well as the other divisions with a decline in operating profit by 21% and 41%, respectively. The decline in operating margin for its property division was mainly due to lower contribution from its Singaporean projects.
- **QoQ**, while its 3Q15 revenue declined by 9%, its core net profit still grew by 10% to RM147.0m due to similar reasons mentioned above i.e. (i) registering net interest income of RM15.8m vis-à-vis net interest cost of RM9.3m, and (ii) lower minority interest contribution (-38%).
- Outlook** ▪ Its property unbilled sales remain fairly healthy at c.RM2.3b, providing at least 1–1.5 years of visibility.
- We believe that SUNWAY will ride on the construction contract flows expected in early 2016, such as the MRT2 and LRT3 projects given their strong track records in such infrastructure projects.
- Change to Forecasts** ▪ Unchanged.
- Rating** **Maintain MARKET PERFORM**
- Valuation** ▪ Maintain MARKET PERFORM call on SUNWAY.
- We believe that SUNWAY's construction arm, SUNCON, will ride on strong construction contract flow expected in early 2016, such as MRT2, LRT3, BRT and more infrastructure projects.
- However, we reckon that the lacklustre sentiment in the property market will cap further upsides. Additionally, we expect its FY16E earnings to decline as well.
- No changes to our SoP-driven Target Price of RM3.27. Our applied discount of 54% on its property division is close to our overall sector average discount of 50%.
- Risks** ▪ Weaker-than-expected property sales and construction orderbook replenishment.
- Higher-than-expected sales and administrative costs.
- Negative real estate policies.
- Tighter lending environments.

Share Price Performance



KLCI	1,683.09
YTD KLCI chg	-4.4%
YTD stock price chg	3.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	5,474.0
Issued shares	1,788.9
52-week range (H)	3.53
52-week range (L)	2.81
3-mth avg daily vol:	1,366,405
Free Float	29%
Beta	0.6

Major Shareholders

SUNGEI WAY CORP SDN	51.6%
YEAN TIH CHEAH	13.2%
SKIM AMANAH SAHAM BU	5.7%

Summary Earnings Table

FYE Dec (RM m)	2014A	2015E	2016E
Turnover	4,842	5,093	5,043
EBIT	615	660	642
PBT	969	865	805
Net Profit (NP)	744	570	507
Core NP	592	570	493
Consensus (NP)	n.a.	553	546
Earnings Revision	n.a.	n.a.	n.a.
EPS (sen)	43.2	33.1	29.4
Core EPS (sen)	34.4	33.1	28.6
EPS growth (%)	-50%	-23%	-11%
NDPS (sen)	13.8	35.7	10.0
NTA/Share (RM)	2.91	3.26	3.52
Core PER (x)	7.1	9.2	10.4
Price/NTA (x)	1.0	0.9	0.9
Net Gearing (x)	0.3	0.2	0.2
Dividend Yield (%)	4.5%	11.7%	3.3%

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Sum-of-Parts						
	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	6,460	n.a	54%	2,972	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,782	n.a		1,782	SUNREIT TP RM1.76
Construction	56%	1,009	14		1,009	14x FY16E PER- pegged with the mid end of mid cap construction Fwd PERs of 12x-15x.
Quarry & Buildings Mat	100%	35	8		35	8x FY16E PER
Trading & manufacturing	100%	421	8		421	8x FY16E PER
Group Shareholders Funds					0	
Total SOP		9,706			6,218	
Adjustment for Dilution					879	
TP (RM)					3.27	
Diluted no. of shares ('m)					2,168	

Source: Kenanga Research

Result Highlight									
FYE 31 Dec (RM'm)	3Q15	2Q15	QoQ%	3Q14	YoY%	9M15	9M14	YoY	
Revenue	951.0	1,041.5	-9%	1,134.0	-16%	3,052.6	3,364.4	-9%	
Op costs w/o depn/amort	(902.4)	(935.8)	-4%	(1,002.4)	-10%	-2,781.3	-3,021.6	-8%	
Other Op Income	88.7	33.8	162%	25.9	242%	159.0	64.9	145%	
EBITDA	162.9	169.8	-4%	185.2	-12%	515.2	488.5	5%	
EBIT	137.3	139.5	-2%	157.5	-13%	430.2	407.6	6%	
Net Interest	15.8	(9.3)	-270%	(5.1)	-407%	-4.9	-23.2	-79%	
Associate & JCE	31.5	46.8	-33%	38.5	-18%	116.5	132.0	-12%	
Fair Value Adjustments on IP	(13.7)	103.9	-113%	(5.6)	146%	103.6	44.6	132%	
Pretax profit	171.0	280.9	-39%	185.3	-8%	645.4	561.1	15%	
Taxation	(31.5)	(33.1)	-5%	(21.8)	44%	-100.6	-97.1	4%	
Minority Interests	(6.2)	(9.9)	-38%	(19.7)	-69%	-27.0	-33.7	-20%	
Net profit	133.3	237.9	-44%	143.8	-7%	517.8	430.3	20%	
Core Net profit	147.0	134.0	10%	149.3	-2%	414.2	385.7	7%	
EPS (sen)	6.9	13.8	-50%	8.0	-13%	29.2	24.6	19%	
Diluted EPS (sen)	6.1	6.2	-1%	6.6	-7%	18.5	17.5	5%	
NDPS (sen)	26.0	5.0		0.0		31.0	5.0		
NTA/share (RM)	3.6	3.4		3.1		3.64	3.09		
Net gearing/(cash) (x)	0.4	0.4		0.3		0.38	0.31		
EBITDA margin	17%	16%		16%		17%	15%		
EBIT margin	14%	13%		14%		14%	12%		
Pretax margin	18%	27%		16%		21%	17%		
Effective tax rate	18%	12%		12%		16%	17%		

Source: Company, Kenanga Research

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Segmental Breakdown								
	3Q15	2Q15	QoQ	3Q14	YoY	9M15	9M14	YoY
Revenue								
Property Development	270.9	324.2	-16%	178.0	52%	775.7	702.1	10%
Property Investment	194.0	176.6	10%	255.3	-24%	538.8	547.1	-2%
Construction	445.6	500.2	-11%	450.4	-1%	1441.9	1354.3	6%
Trading & Manufacturing	126.7	157.4	-20%	198.3	-36%	512.3	580.7	-12%
Quarry	69.5	64.8	7%	57.1	22%	188.9	164.6	15%
Investment Holdings	79.4	191.1	-58%	94.5	-16%	358.7	299.9	20%
Others	123.8	145.0	-15%	110.3	12%	423.3	352.9	20%
Eliminations	-358.8	-517.7	-31%	-209.8	71%	-1186.9	-637.3	86%
TOTAL	951.0	1041.5	-9%	1134.0	-16%	3052.6	3364.4	-9%
Operating Profit								
Property Development	34.5	36.7	-6%	79.1	-56%	111.3	189.2	-41%
Property Investment	39.6	28.5	39%	31.2	27%	112.5	77.9	44%
Construction	23.4	56.0	-58%	21.8	7%	132.3	78.5	69%
Trading & Manufacturing	5.4	0.7	701%	10.8	-50%	20.2	30.9	-35%
Quarry	10.6	15.5	-32%	6.7	59%	33.7	20.3	66%
Investment Holdings	-5.4	-9.1	-41%	-9.3	-42%	-21.5	-27.2	-21%
Others	10.6	10.7	-1%	11.7	-9%	39.1	26.0	51%
Eliminations	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
TOTAL	118.7	139.0	-15%	151.9	-22%	427.6	395.6	8%
Operating Margin								
Property Development	13%	11%		44%		14%	27%	
Property Investment	20%	16%		12%		21%	14%	
Construction	5%	11%		5%		9%	6%	
Trading & Manufacturing	4%	0%		5%		4%	5%	
Quarry	15%	24%		12%		18%	12%	
Investment Holdings	-7%	-5%		-10%		-6%	-9%	
Others	9%	7%		11%		9%	7%	

Source: Company, Kenanga Research

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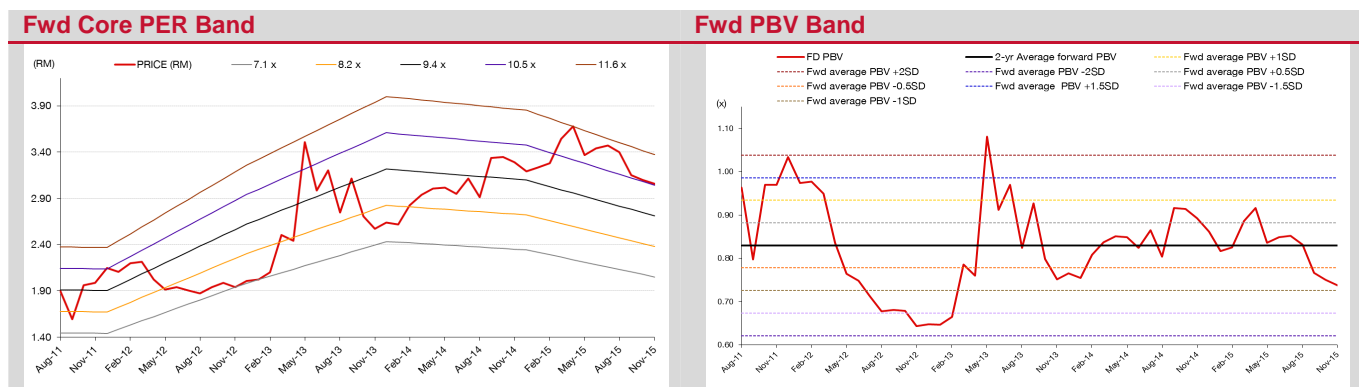
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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E	FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	3849	4734	4842	5093	5043	Growth (%)					
EBITDA	417	915	729	783	773	Revenue	4.3	23.0	2.3	5.2	-1.0
Depreciation	-95	-109	-114	-122	-131	EBITDA	-2.4	119.5	-20.3	7.3	-1.2
EBIT	322	806	615	660	642	EBIT	-0.2	150.5	-23.7	7.4	-2.8
Interest Expense	-100	-138	-79	-85	-96	Pre-tax Income	45.0	162.0	-48.8	-10.8	-6.9
Investing	23	36	48	49	56	Net Income	36.8	183.0	-50.4	-23.3	-11.1
Associate/JCE	296	172	233	240	202	Core Net Profit	-1.1	37.7	22.7	-3.7	-13.6
Exceptionals/FV	182	1018	152	0	0	Profitability (%)					
PBT	723	1894	969	865	805	EBITDA Margin	10.8	19.3	15.1	15.4	15.3
Taxation	-125	-121	-148	-193	-179	EBIT Margin	8.4	17.0	12.7	13.0	12.7
Minority Interest	-67	-273	-78	-102	-133	PBT Margin	18.8	40.0	20.0	17.0	16.0
Net Profit	530	1500	744	570	507	Net Margin	13.8	31.7	15.4	11.2	10.0
Core Net Profit	350	483	592	570	493	Core Net Margin	9.1	10.2	12.2	11.2	9.8
						Effective Tax Rate	-17.3	-22.6	-22.3	-22.3	-22.3
						ROE	16.1	33.6	13.2	9.2	7.7
						ROA	6.3	14.9	6.2	4.2	3.5
						DuPont Analysis					
						Net margin (%)	13.8	31.7	15.4	11.2	10.0
						Assets Turnover (x)	0.5	0.5	0.4	0.4	0.3
						Leverage Factor (x)	2.5	2.3	2.1	2.2	2.2
						ROE (%)	16.1	33.6	13.2	9.2	7.7
						Leverage					
						Debt/Asset (x)	0.30	0.25	0.29	0.30	0.32
						Debt/Equity (x)	0.76	0.52	0.64	0.66	0.71
						Net Debt/(Cash)	1.6	1.3	1.8	1.4	1.6
						Net Debt/Equity (x)	0.39	0.24	0.30	0.23	0.24
						Valuations					
						EPS (sen)	30.8	87.1	43.2	33.1	29.4
						Core EPS	20.3	28.0	34.4	33.1	28.6
						NDPS (sen)	6.0	10.0	13.8	35.7	10.0
						BV/share (RM)	2.08	3.10	3.45	3.71	3.93
						Core PER (x)	9.9	3.5	7.1	9.2	10.4
						Net Div. Yield (%)	2.0%	3.3%	4.5%	11.7%	3.3%
						PBV (x)	1.5	1.0	0.9	0.8	0.8
						EV/EBITDA (x)	16.4	7.1	9.7	8.6	8.9

Balance Sheet					
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Fixed Assets	2646	3540	3766	4305	5086
Intangibles	318	320	319	319	319
Other FA	1590	2369	2652	2652	2652
Inventories	650	623	598	720	666
Receivables	2128	2679	3492	3121	3090
Other CA	493	63	111	111	111
Cash	1159	1527	1978	2798	3136
Total Assets	8983	11120	12917	14025	15062
Payables	1772	2154	2172	2276	2255
ST Borrowings	1765	1805	2283	2283	2283
Other ST Liability	31	24	21	21	21
LT Borrowings	972	991	1502	1961	2498
Other LT Liability	478	486	605	605	615
Minority Int.	381	317	389	490	623
Net Assets	3585	5343	5945	6390	6767
Share Capital	1293	1723	1731	1731	1731
Reserves	2293	3620	4215	4659	5037
Shareholders Equity	3585	5343	5945	6390	6767

Cashflow Statement					
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Operating CF	390	755	271	1,281	851
Investing CF	-370	-1,131	-20	-273	-475
Financing CF	274	744	761	256	326
Net Change in Cash	294	368	1,013	1,264	702
Free Cash Flow	-43	532	545	1,478	944

Source: Kenanga Research



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Peer Comparison

NAME	Price (26/11/15)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY15/16 NP Growth (%)	FY16/17 NP Growth (%)	Target Price (RM)	Rating
	(RM)		FY14/15	FY15/16	FY16/17				FY14/15	FY15/16	FY16/17				
DEVELOPERS UNDER COVERAGE															
S P SETIA BHD*	3.20	8,411	22.5	11.6	10.2	4.3%	7.1%	1.3	361.0	701.5	795.6	94.3%	13.4%	3.50	MARKET PERFORM
IOI PROPERTIES GROUP BHD*	2.12	7,985	10.5	17.0	16.7	2.8%	3.9%	0.6	528.6	552.4	562.8	4.5%	1.9%	2.09	MARKET PERFORM
UEM SUNRISE BHD*	1.18	5,354	11.2	21.3	17.6	2.1%	7.8%	0.8	479.9	251.7	304.1	-47.6%	20.8%	1.28	MARKET PERFORM
SUNWAY BHD	3.06	5,474	8.9	9.2	10.7	3.2%	13.2%	0.8	592.2	570.2	492.6	-3.7%	-13.6%	3.27	MARKET PERFORM
MAH SING GROUP BHD^	1.44	3,470	10.2	9.3	8.9	4.4%	16.1%	1.1	339.2	372.4	388.6	9.8%	4.3%	1.47	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.40	3,310	461.3	88.9	28.9	0.0%	2.2%	1.0	7.2	37.2	114.6	419.1%	207.5%	1.90	OUTPERFORM
UOA DEVELOPMENT BHD*	2.13	3,237	11.6	9.6	8.9	6.6%	12.2%	1.1	279.1	338.1	363.1	21.2%	7.4%	2.22	OUTPERFORM
MALAYSIAN RESOURCES CORP BHD	1.33	2,376	52.8	114.4	49.3	0.0%	2.6%	1.3	41.6	19.2	44.5	-53.8%	131.9%	1.63	MARKET PERFORM
KSL HOLDINGS BHD	1.46	1,441	4.6	5.1	5.0	7.8%	15.3%	0.8	252.0	271.7	276.5	7.8%	1.8%	1.72	OUTPERFORM
TROPICANA CORP BHD	0.96	1,372	3.5	5.4	7.8	3.2%	11.9%	0.5	304.5	194.3	136.3	-36.2%	-29.9%	0.99	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.48	1,365	8.3	6.2	7.6	7.2%	29.5%	1.8	182.6	243.1	198.9	33.1%	-18.2%	2.46	MARKET PERFORM
CRESCENDO CORPORATION BHD*	1.86	423	9.8	22.1	20.9	1.8%	15.3%	0.5	43.3	19.1	20.3	-55.9%	6.3%	1.90	UNDERPERFORM
HUA YANG BHD	1.91	504	4.6	4.5	4.4	6.9%	25.9%	0.9	110.6	111.6	115.2	0.9%	3.3%	2.20	OUTPERFORM
CREST BUILDER HOLDINGS BHD	1.05	183	12.5	11.0	8.9	2.3%	8.9%	0.5	13.9	15.7	19.5	13.1%	23.8%	1.10	MARKET PERFORM
CONSENSUS NUMBERS															
IGB CORPORATION BHD	2.38	3,177	14.4	13.0	11.7	3.2%	4.9%	0.7	221.1	244.3	271.0	10.5%	10.9%	4.10	NEUTRAL
YNH PROPERTY BHD	1.89	760	33.0	13.7	10.2	3.2%	2.8%	0.9	23.0	55.5	74.4	140.8%	34.1%	1.48	SELL
GLOMAC BHD	0.90	653	7.5	6.9	6.3	5.8%	9.3%	0.7	87.3	94.3	104.5	8.0%	10.8%	1.01	BUY
PARAMOUNT CORP BHD	1.61	680	10.8	8.9	8.5	5.0%	7.7%	0.8	63.0	76.0	80.2	20.7%	5.6%	2.40	BUY
TAMBUN INDAH LAND BHD	1.38	585	6.0	5.9	5.9	5.9%	25.6%	1.4	97.5	99.7	98.8	2.2%	-0.9%	1.62	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.

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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