

# Sunway Berhad

## Braving tough times

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Yesterday, we attended SUNWAY's briefing hosted by its MD Sarena Cheah and came back feeling neutral on the overall property market outlook as the current condition has not seen much improvement. SUNWAY rescheduled its RM800.0m worth of planned launches to FY17 and lowered its sales target to RM1.1b from RM1.4b. Hence, we also lowered our FY17E core earnings by 6% with lower sales estimates of RM1.0b (previously, RM1.4b). **Maintain MARKET PERFORM with an unchanged SoP-driven Target Price of RM3.23.**

**Briefing update.** Sarena kick started the briefing with a quick recap on SUNWAY's recent land banking activities followed with an update on its 1H16 launches, progress of its existing projects, and lastly its launches and sales target for FY16. The main highlight of the briefing was the update of its planned launches and sales target for FY16 which seen a downward revision.

**Reschedules its planned launches.** In view of a challenging market, the group has decided to reschedule some of its planned launches i.e. Sunway Geo Residence 3, Sunway Iskandar residential projects and also to keep Velocity Offices as investment properties bringing down its planned launches to only RM800.0m from RM1.6b previously, which also scaled down its sales target of RM1.4b to RM1.1b. The rationale behind the rescheduling of the launches is to further enhancing its existing projects by adding in more amenities i.e. walk ways, link bridges, public transports, big boxes (warehouse like retails), petrol stations and etc. in its existing projects in Bandar Sunway and Sunway Iskandar, with the aim of establishing a strong branding for the future.

**Lowering FY17 estimates.** Post briefing, we adjusted our FY17E core earnings lower by 6% to RM490.0m as we lowered our FY16 sales assumptions to RM1.0b from RM1.4b, following SUNWAY's revision in sales target from RM1.4b to RM1.1b due to the rescheduling of its planned launches. To recap, we recently upgraded our FY16 sales estimates to RM1.4b premised on its strong 1H16 sales performance, as we did not anticipate any revision in their planned launches for FY16.

**Outlook.** Nonetheless, we remain confident with SUNWAY's ability in delivering a sturdy performance for the year premised on its strong unbilled sales of RM2.0b with 2-year visibility, a robust outstanding order book of RM4.9b that provides 2-3 year visibility and its 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: RM3.06**

**Target Price: RM3.23 ↔**

### Share Price Performance



KLCI	1,665.02
YTD KLCI chg	-1.6%
YTD stock price chg	-0.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	6,226.1
Issued shares	2,034.7
52-week range (H)	3.24
52-week range (L)	2.87
3-mth avg daily vol:	1,178,013
Free Float	34%
Beta	0.5

### Major Shareholders

Sungei Way Corporation S/B	56.2%
Employees Provident Fund Board	5.3%
Fook Ling Cheah	4.6%

### 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.	519	554
Earnings Revision	n.a.	0%	-6%
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)	7.2	10.6	10.8
Price/NTA (x)	1.0	0.9	0.8
Net Gearing (x)	0.5	0.4	0.5
Dividend Yield (%)	12.6%	3.2%	3.2%

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**2016 Revised Launches**

Project	GDV (RM'm)
Sunway Gandaria	200.0
Sunway Mont	300.0
Tianjin Eco-City	55.0
Sunway Iskandar	100.0
Tianjin Eco-City	95.0
Others	50.0
<b>Total</b>	<b>800.0</b>

Source: Company, Kenanga Research

**Deferred Launches**

Project	GDV (RM'm)
Sunway Geo Residences 3	400.0
Velocity Offices (To be kept as investment properties)	200.0
Sunway Iskandar	400.0
<b>Total</b>	<b>1,000.0</b>

Source: Company, Kenanga Research

**2017 Indicative Launches**

Project	Type	GDV (RM'm)
Sunway Geo Residence 3	Condo	400.0
Sunway Industrial Park	Industrial	100.0
Sunway Kelana Jaya	Condo	400.0
Sunway Paya Terubong Shops	Shops	100.0
Sunway Wellesley Condo	Condo	65.0
Sunway Lenang Heights	Semi-D	150.0
Sunway Iskandar	Apartments	180.0
Sunway Iskandar	Terrace & Semi-D	400.0
Tianjin Eco City	Condo	150.0
Others		50.0
<b>Total</b>		<b>1,995.0</b>

Source: Company, Kenanga Research

**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	

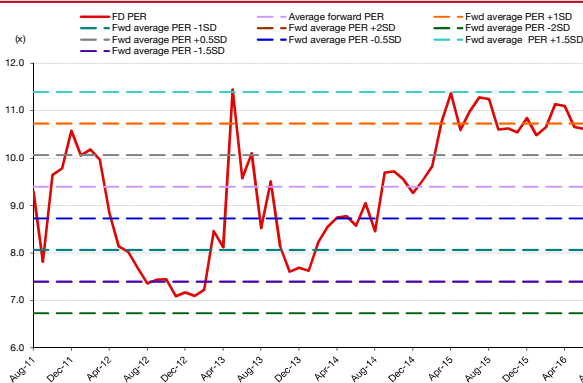
Source: Kenanga Research

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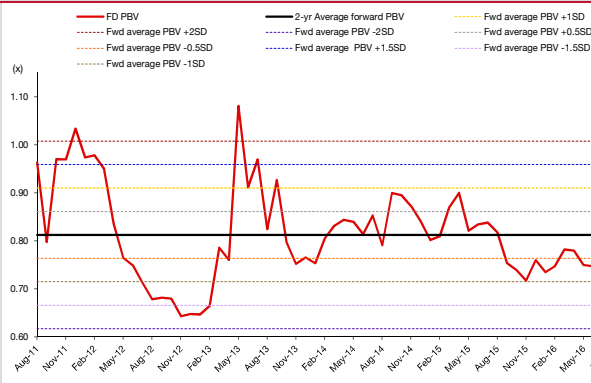
Income Statement						Financial Data & Ratios						
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E	FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E	
Revenue	4734	4842	4451	5042	5531	<b>Growth (%)</b>						
EBITDA	915	729	808	777	831	Revenue		2.3	-8.1	13.3	9.7	
Depreciation	-109	-114	-122	-131	-141	EBITDA		-20.3	10.8	-3.9	6.9	
EBIT	806	615	686	646	690	EBIT		-23.7	11.5	-5.9	6.9	
Interest Expense	-138	-79	-124	-96	-106	Pre-tax Income		-48.8	-4.1	-13.6	-7.8	
Investing	36	48	98	53	47	Net Income		-50.4	-1.5	-31.9	-1.8	
Associate/JCE	172	233	270	200	109	Core Net Profit		22.7	0.3	-18.4	1.0	
Exceptionals/FV	1018	152	138	0	0	<b>Profitability (%)</b>						
PBT	1894	969	929	803	740	EBITDA Margin		19.3	15.1	18.2	15.4	15.0
Taxation	-121	-148	-130	-185	-165	EBIT Margin		17.0	12.7	15.4	12.8	12.5
Minority Interest	-273	-78	-67	-133	-85	PBT Margin		40.0	20.0	20.9	15.9	13.4
Net Profit	1500	744	732	499	490	Net Margin		31.7	15.4	16.5	9.9	8.9
Core Net Profit	483	592	594	485	490	Core Net Margin		10.2	12.2	13.3	9.6	8.9
						Effective Tax Rate		-22.6	-22.3	-14.0	-23.0	-22.3
						ROE		33.6	13.2	11.7	7.4	7.1
						ROA		14.9	6.2	5.1	3.1	3.0
<b>Balance Sheet</b>						<b>DuPont Analysis</b>						
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E	Net margin (%)		31.7	15.4	16.5	9.9	8.9
Fixed Assets	3540	3766	5248	5614	6583	Assets T/O (x)		0.5	0.4	0.3	0.3	0.3
Intangibles	320	319	320	320	320	Leverage fac. (x)		2.3	2.1	2.3	2.4	2.3
Other FA	2369	2652	3362	3362	3362	ROE (%)		33.6	13.2	11.7	7.4	7.1
Inventories	623	598	693	690	767	<b>Leverage</b>						
Receivables	2679	3492	3633	3371	3698	Debt/Asset (x)		0.25	0.29	0.37	0.30	0.32
Other CA	63	111	111	111	111	Debt/Equity (x)		0.52	0.64	0.90	0.69	0.77
Cash	1527	1978	2627	2342	1803	Net Debt/(Cash)		1.3	1.8	3.3	2.4	3.5
Total Assets	11120	12917	15994	15810	16643	Net Debt/Eq. (x)		0.24	0.30	0.50	0.35	0.51
Payables	2154	2172	2446	2864	3156	<b>Valuations</b>						
ST Borrowings	1805	2283	3304	2283	2283	EPS (sen)		87.1	43.2	42.5	28.9	28.4
Other ST Liability	24	21	43	43	42	Core EPS		28.0	34.4	34.5	28.1	28.4
LT Borrowings	991	1502	2585	2498	3036	NDPS (sen)		10.0	13.8	38.5	9.8	9.7
Other LT Liability	486	605	416	417	421	BV/share (RM)		3.10	3.45	3.80	4.02	4.02
Minority Int.	317	389	651	784	784	Core PER (x)		3.5	7.1	7.2	10.6	10.8
<b>Net Assets</b>	<b>5343</b>	<b>5945</b>	<b>6550</b>	<b>6921</b>	<b>6921</b>	Net Div. Yield (%)		3.2%	4.5%	12.4%	3.2%	3.3%
Share Capital	1723	1731	1800	1800	1800	PBV (x)		1.0	0.9	0.8	0.8	0.8
Reserves	3620	4215	4750	5122	5122	EV/EBITDA (x)		7.1	9.7	10.6	9.9	10.6
<b>Shareholder Eqty</b>	<b>5343</b>	<b>5945</b>	<b>6550</b>	<b>6921</b>	<b>6921</b>							
<b>Cashflow Statement</b>												
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E							
Operating CF	755	271	195	1,452	301							
Investing CF	-1,131	-20	-2,948	-59	-1,152							
Financing CF	744	761	2,935	-1,321	312							
Net Chg in Cash	368	1,013	182	72	-539							
Free Cash Flow	532	545	-629	1,938	411							

Source: Kenanga Research

### Fwd PER Band



### Fwd PBV Band



Source: Bloomberg, Kenanga Research

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## Peer Comparison

NAME	Price (13/10/16)	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>															
S P SETIA BHD*	3.50	9,863	10.0	13.3	12.4	4.8%	13.9%	1.20	918.3	692.0	744.2	-24.6%	7.5%	3.40	MARKET PERFORM
IOI PROPERTIES GROUP BHD*	2.50	11,028	17.1	14.8	14.7	3.2%	4.1%	0.68	648.5	749.1	750.5	15.5%	0.2%	2.57	MARKET PERFORM
UEM SUNRISE BHD*	1.21	5,490	21.4	32.7	32.0	1.3%	3.9%	0.87	257.2	168.5	172.4	-34.5%	2.3%	1.00	UNDERPERFORM
SUNWAY BHD	3.06	6,226	7.2	10.6	10.8	3.2%	11.7%	0.76	594.2	484.6	489.7	-18.4%	1.0%	3.23	MARKET PERFORM
MAH SING GROUP BHD^	1.60	3,855	10.8	10.2	9.9	4.0%	14.3%	1.15	357.2	379.7	389.5	6.3%	2.6%	1.53	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.34	3,168	72.1	31.3	15.4	0.0%	2.5%	0.98	44.0	126.5	257.7	187.8%	103.7%	1.58	OUTPERFORM
UOA DEVELOPMENT BHD*	2.60	4,241	9.9	10.1	9.5	5.8%	14.1%	1.19	399.0	391.0	414.6	-2.0%	6.0%	2.54	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.30	2,704	-49.2	29.3	53.7	0.6%	-3.3%	1.34	-74.6	125.2	68.4	-267.8%	-45.3%	1.33	MARKET PERFORM
KSL HOLDINGS BHD	1.13	1,163	5.1	5.4	5.7	0.0%	10.5%	0.49	211.5	198.4	190.3	-6.2%	-4.1%	1.10	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.59	1,478	6.2	7.1	6.4	5.7%	31.8%	1.50	255.2	224.2	248.1	-12.1%	10.7%	2.65	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.52	346	19.5	13.6	11.0	2.9%	2.2%	0.40	17.8	25.5	31.6	43.0%	24.1%	1.60	MARKET PERFORM
HUA YANG BHD	1.28	451	4.1	4.2	4.7	2.4%	25.9%	0.70	110.1	106.2	96.9	-3.6%	-8.8%	1.37	MARKET PERFORM
<b>CONSENSUS NUMBERS</b>															
IGB CORPORATION BHD	2.49	3,324	16.6	12.5	11.3	2.8%	4.7%	0.8	200.1	267.0	293.7	33.4%	10.0%	3.55	NEUTRAL
GLOMAC BHD	0.78	561	3.9	8.6	7.0	5.4%	14.2%	0.5	145.4	65.1	79.6	-55.2%	22.2%	0.77	NEUTRAL
PARAMOUNT CORP BHD	1.40	592	9.2	8.8	8.2	5.7%	7.2%	0.7	64.1	67.7	71.9	5.6%	6.3%	2.18	BUY
TAMBUN INDAH LAND BHD	1.50	640	6.0	6.3	5.9	5.1%	23.5%	1.3	106.9	101.6	108.8	-5.0%	7.1%	1.57	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

**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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