

30 May 2016

Sunway Berhad

Slow but Steady Start...

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

1Q16 CNP of RM102.1m met expectations, at 21% and 19% of our and streets' full-year estimates, respectively. We deem the results as broadly within streets' expectation as its 1Qs are generally weaker, and we expect performance to pick up in the 2H16. 1Q16 sales of RM263m are inline with our FY16 estimate of RM1.0b but missed management's target of RM1.4b. No dividends declared as expected. Maintains MP but with higher TP of RM3.22 (from RM3.20) as we roll forward our valuation base year to FY17E.

Meeting expectations. 1Q16 CNP of RM102.1m was within our estimate and we deem it as broadly within street's full-year estimates, at 21% and 19%, respectively, as its 1Qs are generally weaker and we expect performance to pick up in 2H16. In terms of sales, SUNWAY managed to record RM263m for 1Q16 driven by Sunway Iskandar and Singaporean projects, coming inline with our full-year estimate of RM1.0b but fell short of management's target of RM1.4b. No dividend was declared as expected.

Lower as expected. 1Q16 CNP was down by 23% YoY despite a flattish revenue growth of 1%, mainly due to a significant increase in minority interest contribution as a result of the listing of its construction arm and higher contribution from its joint-venture development projects. While most divisions' operating profits were down by between 16%-40%, its property division saw an improvement of 39% backed by improvement in operating margin of +2ppt and growth in development revenue of 30%. **QoQ**, 1Q16 CNP was down by 43% in tandem with its revenue, which declined by 24% due to less project handover in 1Q that are traditionally weaker as compared to 4Q seasonally. Its net gearing came down to 0.40x from 0.50x.

No changes to FY16-17E earnings, its property unbilled sales of RM2.0b while outstanding construction orderbook of RM5.0b provides earnings visibility for 2-3 years.

Maintain MARKET PERFORM call on SUNWAY with a higher SoP-driven TP of RM3.22 (vs. RM3.20 previously) as we roll forward our valuation base year to FY17E. While the stock is trading at FY16-17E PER of 10.5x-10.4x, under the current market circumstances, we do not see any excitement or re-rating catalyst for SUNWAY, especially when property market sentiment remains weak and challenging. Our applied discount of 61% on its property division is higher than our overall sector's average discount of 54% due to its high exposure in Johor, but is still below the average discount factor applied to Johor-focused developers of 77%-86%.

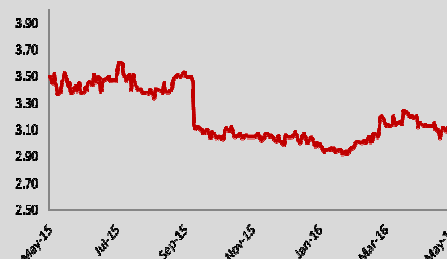
Downside risks to our call include: Weaker-than-expected property sales and construction orderbook replenishment, Higher-than-expected sales and administrative costs, Negative real estate policies, and Tighter lending environment.

MARKET PERFORM ↔

Price: **RM3.03**

Target Price: **RM3.22** ↑

Share Price Performance



KLCI	1,637.19
YTD KLCI chg	-3.3%
YTD stock price chg	-1.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	5,968.8
Issued shares	1,969.9
52-week range (H)	3.36
52-week range (L)	2.89
3-mth avg daily vol:	907,953
Free Float	25%
Beta	0.6

Major Shareholders

Sungei Way Corp Sdn	58.1%
Yean Tih Cheah	11.8%
Skim Amanah Saham Bu	5.0%

Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	4,451	5,042	5,531
EBIT	686	646	707
PBT	929	803	757
Net Profit (NP)	732	499	503
Core NP	594	485	503
Consensus (NP)	n.a.	548	569
Earnings Revision	n.a.	n.a.	n.a.
EPS (sen)	42.5	28.9	29.2
Core EPS (sen)	34.5	28.1	29.2
EPS growth (%)	-51%	-32%	1%
NDPS (sen)	38.5	9.8	9.9
NTA/Share (RM)	2.91	3.26	3.61
Core PER (x)	8.8	10.8	10.4
Price/NTA (x)	1.0	0.9	0.8
Net Gearing (x)	0.5	0.4	0.5
Dividend Yield (%)	12.7%	3.2%	3.3%



30 May 2016

Sum-of-Parts

	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	6,470	n.a	61%	2,556	(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 RM1.60
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	
Total SOP		10,022			6,108	
Adjustment for Dilution					879	
TP (RM)					3.22	
Diluted no. of shares ('m)					2,168	

Source: Kenanga Research

Result Highlight

FYE 31 Dec (RM'm)	1Q16	4Q15	QoQ%	1Q15	YoY%
Revenue	1,069.0	1,398.8	-24%	1,060.0	1%
Op costs w/o depn/amort	-944.4	-1,248.1	-24%	-943.1	0%
Other Op Income	25.1	70.8	-65%	36.5	-31%
EBITDA	178.6	251.3	-29%	182.5	-2%
EBIT	149.6	221.4	-32%	153.4	-2%
Net Interest	-16.1	-21.8	-26%	-11.4	42%
Associate & JCE	42.6	49.6	-14%	38.1	12%
Fair Value Adjustments on IP	0.0	34.6	n.m.	13.4	n.m.
Pretax profit	176.1	283.8	-38%	193.5	-9%
Taxation	-32.8	-29.2	13%	-36.1	-9%
Minority Interests	-41.1	-40.0	3%	-10.9	278%
Net profit	102.1	214.7	-52%	146.5	-30%
Core Net profit	102.1	180.1	-43%	133.2	-23%
EPS (sen)	5.9	14.5	-59%	8.5	-30%
Diluted EPS (sen)	4.7	9.9	-52%	6.1	-23%
NDPS (sen)	0.0	6.0		0.0	
NTA/share (RM)	3.4	3.5		3.3	
Net gearing/(cash) (x)	0.4	0.5		0.3	
EBITDA margin	17%	18%		17%	
EBIT margin	14%	16%		14%	
Pretax margin	16%	20%		18%	
Effective tax rate	19%	10%		19%	

Source: Company, Kenanga Research

30 May 2016

Segmental Breakdown

	1Q16	4Q15	QoQ	1Q15	YoY
Revenue					
Property Development	234.1	420.0	-44%	180.7	30%
Property Investment	203.9	207.6	-2%	168.2	21%
Construction	424.4	475.0	-11%	496.1	-14%
Trading & Manufacturing	241.8	205.3	18%	228.2	6%
Quarry	40.3	57.5	-30%	54.6	-26%
Investment Holdings	145.8	601.2	-76%	88.1	65%
Others	133.3	133.2	0%	154.5	-14%
Eliminations	-354.5	-701.0	-49%	-310.4	14%
TOTAL	1069.0	1398.8	-24%	1060.0	1%
Operating Profit					
Property Development	55.7	96.4	-42%	40.0	39%
Property Investment	36.4	101.0	-64%	44.4	-18%
Construction	35.6	26.8	33%	52.9	-33%
Trading & Manufacturing	8.5	11.7	-27%	14.1	-40%
Quarry	6.4	5.8	9%	7.6	-16%
Investment Holdings	-1.9	7.8	-125%	-7.0	-72%
Others	9.0	9.7	-8%	17.9	-50%
Eliminations	0.0	0.0	n.m.	0.0	n.m.
TOTAL	149.6	259.3	-42%	169.9	-12%
Operating Margin					
Property Development	24%	23%		22%	
Property Investment	18%	49%		26%	
Construction	8%	6%		11%	
Trading & Manufacturing	4%	6%		6%	
Quarry	16%	10%		14%	
Investment Holdings	-1%	1%		-8%	
Others	7%	7%		12%	

Source: Company, Kenanga Research

This section is intentionally left blank.

30 May 2016

Income Statement

FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	4734	4842	4451	5042	5531
EBITDA	915	729	808	777	847
Depreciation	-109	-114	-122	-131	-141
EBIT	806	615	686	646	707
Interest Expense	-138	-79	-124	-96	-106
Investing	36	48	98	53	47
Associate/JCE	172	233	270	200	109
Exceptionals/FV	1018	152	138	0	0
PBT	1894	969	929	803	757
Taxation	-121	-148	-130	-185	-169
Minority Interest	-273	-78	-67	-133	-85
Net Profit	1500	744	732	499	503
Core Net Profit	483	592	594	485	503

Balance Sheet

FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed Assets	3540	3766	5248	5614	6583
Intangibles	320	319	320	320	320
Other FA	2369	2652	3362	3362	3362
Inventories	623	598	693	690	767
Receivables	2679	3492	3633	3371	3698
Other CA	63	111	111	111	111
Cash	1527	1978	2627	2342	1792
Total Assets	11120	12917	15994	15810	16632
Payables	2154	2172	2446	2864	3145
ST Borrowings	1805	2283	3304	2283	2283
Other ST Liability	24	21	43	43	42
LT Borrowings	991	1502	2585	2498	3036
Other LT Liability	486	605	416	417	421
Minority Int.	317	389	651	784	784
Net Assets	5343	5945	6550	6921	6921
Share Capital	1723	1731	1800	1800	1800
Reserves	3620	4215	4750	5122	5122
Shareholders Equity	5343	5945	6550	6921	6921

Cashflow Statement

FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Operating CF	755	271	195	1,452	302
Investing CF	-1,131	-20	-2,948	-59	-1,160
Financing CF	744	761	2,935	-1,321	307
Net Change in Cash	368	1,013	182	72	-550
Free Cash Flow	532	545	-629	1,938	412

Source: Kenanga Research

Financial Data & Ratios

FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Growth (%)					
Revenue		2.3	-8.1	13.3	9.7
EBITDA		-20.3	10.8	-3.9	9.1
EBIT		-23.7	11.5	-5.9	9.5
Pre-tax Income		-48.8	-4.1	-13.6	-5.7
Net Income		-50.4	-1.5	-31.9	0.8
Core Net Profit		22.7	0.3	-18.4	3.7
Profitability (%)					
EBITDA Margin		19.3	15.1	18.2	15.4
EBIT Margin		17.0	12.7	15.4	12.8
PBT Margin		40.0	20.0	20.9	15.9
Net Margin		31.7	15.4	16.5	9.9
Core Net Margin		10.2	12.2	13.3	9.6
Effective Tax Rate		-22.6	-22.3	-14.0	-23.0
ROE		33.6	13.2	11.7	7.4
ROA		14.9	6.2	5.1	3.1

DuPont Analysis

Net margin (%)	31.7	15.4	16.5	9.9	9.1
Assets Turnover (x)	0.5	0.4	0.3	0.3	0.3
Leverage Factor (x)	2.3	2.1	2.3	2.4	2.3
ROE (%)	33.6	13.2	11.7	7.4	7.3

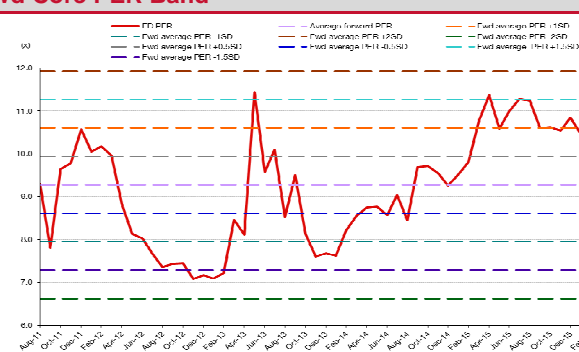
Leverage

Debt/Asset (x)	0.25	0.29	0.37	0.30	0.32
Debt/Equity (x)	0.52	0.64	0.90	0.69	0.77
Net Debt/(Cash)	1.3	1.8	3.3	2.4	3.5
Net Debt/Equity (x)	0.24	0.30	0.50	0.35	0.51

Valuations

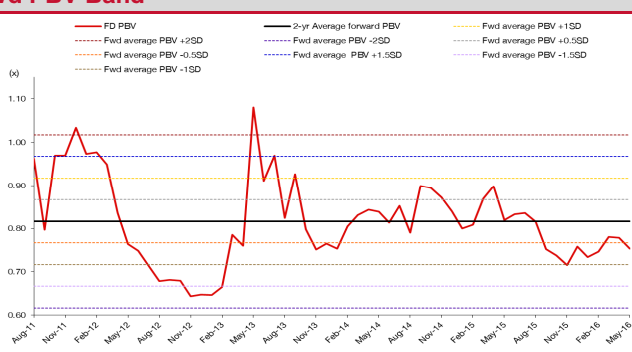
EPS (sen)	87.1	43.2	42.5	28.9	29.2
Core EPS	28.0	34.4	34.5	28.1	29.2
NDPS (sen)	10.0	13.8	38.5	9.8	9.9
BV/share (RM)	3.10	3.45	3.80	4.02	4.02
Core PER (x)	10.8	8.8	8.8	10.8	10.4
Net Div. Yield (%)	3.3%	4.6%	12.7%	3.2%	3.3%
PBV (x)	1.0	0.9	0.8	0.8	0.8
EV/EBITDA (x)	7.1	9.6	10.5	9.9	10.3

Fwd Core PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



30 May 2016

Peer Comparison

NAME	Price (27/5/16)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. 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)	
<u>DEVELOPERS UNDER COVERAGE</u>															
S P SETIA BHD*	3.15	8,280	9.0	11.7	9.9	5.5%	13.9%	1.1	918.3	708.4	834.4	-22.9%	17.8%	3.13	MARKET PERFORM
IOI PROPERTIES GROUP BHD*	2.25	9,925	18.8	14.1	13.9	2.7%	3.9%	0.7	528.6	705.5	716.8	33.5%	1.6%	2.09	UNDERPERFORM
UEM SUNRISE BHD*	1.00	4,537	17.7	21.6	19.4	1.6%	3.9%	0.7	257.2	210.4	234.6	-18.2%	11.5%	1.00	UNDERPERFORM
SUNWAY BHD	3.03	5,969	8.8	10.8	10.4	3.2%	11.7%	0.8	594.2	484.6	502.6	-18.4%	3.7%	3.22	MARKET PERFORM
MAH SING GROUP BHD^	1.48	3,566	10.0	9.4	9.2	4.4%	14.3%	1.1	357.2	379.7	389.5	6.3%	2.6%	1.46	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.26	2,979	67.8	29.4	14.4	0.0%	2.5%	0.9	44.0	126.6	257.8	188.0%	103.7%	1.55	OUTPERFORM
UOA DEVELOPMENT BHD*	2.26	3,434	8.6	9.7	9.5	6.2%	14.1%	1.0	399.0	355.7	363.1	-10.9%	2.1%	2.22	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.16	2,188	-29.3	57.0	33.5	0.3%	-3.3%	1.0	-74.6	38.4	65.3	-151.4%	70.1%	1.39	MARKET PERFORM
KSL HOLDINGS BHD	1.14	1,147	5.1	5.5	5.7	0.0%	10.0%	0.5	211.5	198.4	190.3	-6.2%	-4.1%	0.99	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.50	1,411	6.0	6.8	6.2	5.9%	29.5%	1.4	255.2	224.2	248.1	-12.1%	10.7%	2.46	MARKET PERFORM
CRESCENDO CORPORATION BHD*	1.59	362	8.4	20.4	17.9	2.1%	15.3%	0.4	43.3	19.1	20.3	-55.9%	6.3%	1.74	UNDERPERFORM
HUA YANG BHD	1.79	473	4.3	4.5	4.9	2.2%	25.9%	1.3	110.6	110.1	96.7	-0.4%	-12.2%	1.94	MARKET PERFORM
<u>CONSENSUS NUMBERS</u>															
IGB CORPORATION BHD	2.41	3,217	16.0	13.8	12.7	3.5%	5.1%	0.8	200.5	233.6	253.6	16.5%	8.6%	3.87	NEUTRAL
GLOMAC BHD	0.78	565	6.4	7.0	6.5	4.4%	9.2%	0.6	88.2	81.1	86.9	-8.1%	7.1%	0.91	NEUTRAL
PARAMOUNT CORP BHD	1.52	643	11.8	9.5	8.9	5.3%	7.3%	0.7	54.3	67.7	71.9	24.6%	6.3%	2.18	BUY
TAMBUN INDAH LAND BHD	1.37	582	6.1	6.0	5.4	5.4%	24.0%	1.4	95.3	96.9	107.5	1.7%	11.0%	1.59	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

30 May 2016

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research