

30 August 2016 | 2QFY16 Results Review

## Sunway Berhad

*Earnings weaker than expected*

### INVESTMENT HIGHLIGHTS

- **1HFY16 earnings below expectations**
- **2QFY16 earnings growth lower than expected**
- **New property sales of RM613m within expectation**
- **Maintain NEUTRAL with lower TP of RM3.05**

**1HFY16 earnings below expectations.** Sunway Berhad (SUNWAY) 1HFY16 core net income of RM237.4m was below expectations, making up only 40% and 44% of our and consensus estimates respectively. The negative deviation could be attributed to the weaker than expected earnings from property investment and construction division in 2QFY16. Dividend of 5sen/share was declared for the quarter.

**2QFY16 earnings growth lower than expected.** Earnings growth in 2QFY16 was below than what we have anticipated. Revenue for 2QFY16 grew by single digit of 8%qoq despite coming off from traditionally low base in 1QFY16, as higher revenue contribution from property division was partially offset by lower contribution from property investment and construction divisions. Meanwhile, lower tax rate in 2QFY16 of 12% as compared to tax rate of 19% in 1QFY16 has partially aided earnings growth. As a result, core net income grew 27%qoq to RM133m.

**Lower cumulative earnings.** On a cumulative basis, 1HFY16 core net income declined 11%yoy to RM237.4m, primarily due to reduced earnings contribution from construction division following the listing of Sunway Construction Berhad. EBIT of construction segment declined 36%yoy due to the above-mentioned factor and also due to lower profit recognition from civil and building projects. Meanwhile, property development segment registered higher segment EBIT (+42%yoy), underpinning by sales from Avant Parc project in Singapore and higher progress billings from local projects. However, EBIT of property investment division dropped 17%yoy mainly due to higher operating cost. On a separate note, unbilled sales stood at RM2b as of June16, unchanged from the previous quarter, providing 1.7years earnings visibility to property development division.

**New property sales of RM613m within expectation.** SUNWAY registered property sales of RM350m in 2QFY16, bringing property sales to RM613m in 1HFY16. Property sales of RM613m are within our expectation, at 47% of our full year sales target of RM1.3b while meeting only 44% of management's sales target of RM1.4b.

**Maintain NEUTRAL**

**Adjusted Target Price (TP): RM3.05**  
(previously: RM3.25)

#### RETURN STATS


Price (29 Aug 2016)	RM3.01
Target Price	RM3.05
Expected Share Price Return	+1.3%
Expected Dividend Yield	+3.5%
<b>Expected Total Return</b>	<b>+4.8%</b>

#### STOCK INFO

KLCI	1,681.60
Bursa / Bloomberg	5211 / SWB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	2,033.11
Par Value (RM)	1.00
Market cap. (RM'm)	6,119.65
Price over NA	0.85
52-wk price Range	RM2.87 - RM3.28
Beta (against KLCI)	0.54
3-mth Avg Daily Vol	1.11m
3-mth Avg Daily Value	RM3.30m

#### Major Shareholders

Sungei Way Corp	56.25%
EPF	5.06%
Skim Amanah Saham	5.05%
Cheah Fook Ling	4.56%

**Maintain NEUTRAL with lower TP of RM3.05.** We revised our earnings forecasts for FY16 and FY17 by -12% and -9% respectively to reflect the lower than expected earnings contribution from property investment and construction divisions. Our TP is cut to RM3.05 (previously: RM3.25) as we increase our RNAV discount to 25% from 20% following the weaker than expected earnings outlook. We are maintaining our Neutral recommendation on SUNWAY due to subdued outlook. 

## INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY13A	FY14A	FY15A	FY16F	FY17F
Revenue	4721	4842	4451	4523	4941
Core EBIT	824	619	545	443	504
Core PBT	915	819	788	692	752
Net Income	1490	743	732	519	564
Core Net Income	505	593	591	519	564
EPS (sen)	94.51	43.09	41.77	29.93	32.56
Core EPS (sen)	32.03	34.39	33.69	29.93	32.56
Net DPS (sen)	10	11	38	11	11
Net Dvd Yield	3.3%	3.7%	12.6%	3.5%	3.5%
Core PER	9.4	8.8	8.9	10.1	9.2
NTA/share (RM)	2.96	3.35	3.55	3.79	4.19
P/NTA	1.02	0.90	0.85	0.79	0.72
Core ROE	9.9%	9.7%	9.0%	7.5%	7.8%
Core ROA	4.6%	4.6%	3.7%	3.2%	3.4%

## Sunway: 2QFY16 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY16	%YoY	%QoQ	FY16	%YoY	
Revenue	1155.7	11%	8%	2,224.7	6%	
EBIT	161.4	16%	8%	311.1	1%	
Core PBT	182.3	1%	2%	360.8	1%	
Net Income	154.4	-35%	51%	256.5	-33%	Lower earnings mainly due to lower contribution from construction division following the listing of the division.
Core Net Income	132.9	-3%	27%	237.4	-11%	Exclude mainly fair value gain at associate level (Sunway REIT).
EPS (sen)	7.82	-42%	37%	7.8	-65%	
Core EPS (sen)	6.73	-14%	15%	6.7	-56%	
Net DPS (sen)	5.0	0%	NA	5.0	0%	
NTA/share (RM)	3.48	3%	-7%	3.48	3%	
Net Gearing (x)	0.44	NA	NA	0.44	NA	
EBIT Margin	14.0%	NA	NA	14.0%	NA	
Core PBT Margin	15.8%	NA	NA	16.2%	NA	

Source: Company, MIDF Research Estimate

## DAILY PRICE CHART



Jessica Low Jze Tieng  
 Jessica.low@midf.com.my  
 03-2173 8391

Source: Bloomberg

## SUNWAY RNAV

Landbank	Location	Size (Ac)	Size (Sq ft)	Price (RM/sqft)	Stake	Value (RM m)
<b>Property Development - Malaysia</b>						
Sunway South Quay	Bandar Sunway, Selangor	49	2,134,440	466.2	60%	597.0
Sunway Velocity	Kuala Lumpur	19	827,640	200	85%	140.7
Sunway Damansara	Petaling Jaya, Selangor	15	653,400	256	60%	100.4
Medini Iskandar	Iskandar, Johor	678	29,532,809	110.4	56%	1825.8
Daiwa JV	Iskandar, Johor	13	DCF @ WACC 10%		17%	7.0
Pendas	Iskandar, Johor	1079	47,001,240	102	60%	2876.5
Sunway Lenang	Johor Bahru, Johor	71	3,091,453	93.5	80%	231.2
Sunway Wellesley	Penang	60	2,613,600	50	100%	130.7
Paya Terubong	Penang	24	1,045,440	45	100%	47.0
Sunway Hillds	Penang	81	3,528,360	30	100%	107.3
Balik Pulau	Penang	29	1,263,240	23	100%	29.1
Sunway Cassia	Penang	7	304,920	25	100%	7.7
Sunway Semenyih	Ulu Langat, Selangor	508	22,141,548	25	100%	544.7
Kelana Jaya Land	Kelana Jaya, Selangor	17	740,084	394	100%	291.7
<b>Property Development - Singapore</b>						
Miltonia Residences	Yishun, Singapore	NA	DCF @ WACC 10%		30%	37.5

Arc	Tampines, Singapore	NA	DCF @ WACC 10%	30%	45.9
Lake Vista	Yuan Ching Road, Singapore	NA	DCF @ WACC 10%	30%	36.0
Sea Esta	Pasir Ris, Singapore	NA	DCF @ WACC 10%	30%	35.3
Royale Square	Novena MRT, Singapore	NA	DCF @ WACC 10%	30%	48.7
Mount Sophia	Dhoby Ghaut MRT, Singapore	NA	DCF @ WACC 10%	30%	93.1
Avant Parc	Sembawang	NA	DCF @ WACC 10%	100%	20.0
<b>Property Development - Other Countries</b>					
Tianjin Eco City	Tianjin, China	91	DCF @ WACC 10%	60%	221.7
Sunway Guanghao	Jianyin, China	4	DCF @ WACC 10%	65%	2.2
Sunway OPUS Grand India	Hyderabad, India	24	DCF @ WACC 10%	50%	23.6
Sunway MAK Signature Residence	Hyderabad, India	14	DCF @ WACC 10%	60%	9.1
Wonderland Business Park	Sydney, Australia	66	DCF @ WACC 10%	45%	10.6
<b>Investment Property</b>					
Monash University	Bandar Sunway, Selangor	12.0	916,640	NA 100%	300.0
Sunway Pinnacle	Bandar Sunway, Selangor	1.8	1,141,499	NA 100%	280.0
Sunway Velocity Shopping Mall	Kuala Lumpur	21.4	259,497	NA 100%	259.5
Sunway University Campus	Bandar Sunway, Selangor	12.4	704,577	NA 100%	255.0
Monash Residence Hostel	Bandar Sunway, Selangor	2.5	623,010	NA 100%	226.6
<b>Total Value Of Properties</b>					<b>8841.6</b>
Stake					
Sunway REIT			34.5%		1721.7
Sale of 70% stake in 13 acres land to Daiwa			56.0%		24.7
Payment for Kelana Jaya land					-286.0
Construction Division Asset		1297.8		51%	661.9
Trading & Manufacturing Asset					415.1
Quarry Division Asset					165.9
Other Division Asset					1116.5
Total Liabilities (excl. deferred tax liabilities)					-
					4931.3
<b>Total RNAV</b>					<b>7730.1</b>
No of shares (m)					1751.0
<b>RNAV per share</b>					<b>4.41</b>
Warrants, Exercise Price RM2.50					289.6
ESOS, Exercise Price RM2.80					132.8
Fully Diluted No Of Shares					2173.4
<b>FD RNAV Per Share</b>					<b>4.06</b>
Discount					25%
<b>Target Price for SUNWAY Post SCG IPO</b>					<b>3.05</b>

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.