

Sunway (SWB MK)

Earnings to pick up in 2H

HOLD

Share Price MYR 3.59
 12m Price Target MYR 3.45 (-4%)
 Previous Price Target MYR 3.26

Earnings in line but sales fell short

Sunway's 1Q17 net profit came in as expected but sales fell short on the lack of new launches and still slow property demand. Sunway's construction subsidiary, SCG's outstanding order book of MYR4.6b should help to support group earnings growth in 2017. We maintain our earnings forecasts but raise RNAV-TP to MYR3.45 (+19sen; on an unchanged 0.6x P/RNAV) on considering revised valuation for SCG. Maintain HOLD.

Marginal growth in earnings

Sunway's 1Q17 net profit was MYR108m (+3% YoY, -33% QoQ) accounting for 20%/19% of our/consensus full-year estimates - in line as earnings are seasonally stronger in the 2H. The marginal YoY growth in 1Q17 net earnings was mainly due to the lower tax charges which offset lower earnings contributions from the property development, property investment and quarry businesses.

Construction outshines property

In 1Q17, Sunway locked in MYR125m in effective property sales, at just 14% of its 2017 sales target of MYR900m due to the lack of new launches. However, sales should pick up in 2H17 with new launches by June 2017/2H17 such as Sunway Industrial Park (MYR100m) and Sunway Kelana Jaya (MYR400m). Effective unbilled sales was MYR1.1b end-Mar 2017 (1.9x our FY17F property revenue). Elsewhere, 54.4%-owned Sunway Construction Group (SCG)'s job wins were MYR894m in 1Q17, raising outstanding orderbook to MYR4.6b end-Mar 2017. We see strong revision potential in our job win assumption of MYR1b for 2017.

Maintain earnings forecasts but raise TP

There is no change to our earnings forecasts but we raise our RNAV-TP to MYR3.45 (+19sen; on an unchanged 0.6x P/RNAV) to factor in a higher TP of MYR2.30 for SCG (+21%, from MYR1.90), leading to a revised RNAV/sh estimate of MYR5.75 (+3%) for Sunway.

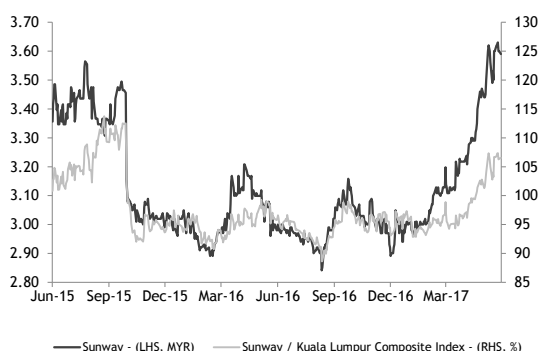
Statistics

Shariah status	Yes
52w high/low (MYR)	3.63/2.84
3m avg turnover (USDm)	1.8
Free float (%)	33.4
Issued shares (m)	1,732
Market capitalisation	MYR6.2B USD1.5B

Major shareholders:

Sungei Way Corp. Sdn. Bhd.	49.8%
Permodalan Nasional Bhd.	7.2%
Employees Provident Fund	5.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	12	20
Relative to index (%)	4	8	11

Source: FactSet

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	4,448	4,726	5,579	6,631	5,672
EBITDA	427	531	811	1,023	835
Core net profit	591	547	544	607	557
Core EPS (sen)	33.7	29.5	26.4	29.4	27.0
Core EPS growth (%)	(1.6)	(12.5)	(10.6)	11.7	(8.3)
Net DPS (sen)	37.0	12.1	7.9	8.8	8.1
Core P/E (x)	10.7	12.2	13.6	12.2	13.3
P/BV (x)	1.0	1.0	0.9	0.9	0.9
Net dividend yield (%)	10.3	3.4	2.2	2.5	2.3
ROAE (%)	11.7	8.4	7.1	7.5	6.6
ROAA (%)	4.1	3.1	2.9	3.1	2.8
EV/EBITDA (x)	21.7	18.3	15.7	13.4	17.8
Net gearing (%) (incl perps)	45.2	40.9	52.8	61.5	71.4
Consensus net profit	-	-	559	602	655
MKE vs. Consensus (%)	-	-	(2.8)	0.9	(14.9)

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Table 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly				
	1Q17	1Q16	%YoY	4Q16	%QoQ
Revenue	1,091.3	1,069.0	2.1	1,363.7	(20.0)
- Property dev	143.3	234.1	(38.8)	412.7	(65.3)
- Property inv	186.9	169.2	10.5	172.8	8.2
- Construction	316.8	311.4	1.7	334.4	(5.2)
- Trading	245.2	193.1	27.0	215.1	14.0
- Quarry	40.2	38.7	3.7	54.1	(25.7)
- Others	157.1	121.6	29.2	159.3	(1.4)
EBIT	116.8	149.6	(22.0)	239.3	(51.2)
- Property dev	7.9	55.7	(85.7)	106.8	(92.6)
- Property inv	44.1	36.4	21.1	51.7	(14.7)
- Construction	34.7	35.6	(2.5)	28.3	22.7
- Trading	12.5	8.5	46.8	20.7	(39.5)
- Quarry	0.9	6.4	(86.0)	1.5	(38.9)
- Others	20.1	9.0	123.4	22.2	(9.5)
Finance costs	(6.7)	(16.1)	(58.2)	(25.7)	(73.7)
Other income	43.1	18.3	135.5	44.9	(3.9)
Pretax profit	153.1	176.1	(13.0)	270.6	(43.4)
Pretax profit-EI	153.1	178.5	(14.2)	229.7	(33.3)
Taxation	(27.3)	(32.8)	(16.8)	(46.0)	(40.5)
Minority interest	(17.9)	(41.1)	(56.6)	(38.8)	(54.0)
Net profit	107.9	102.1	5.7	185.8	(41.9)
Net profit ex-EI	107.9	104.5	3.3	161.8	(33.3)
Exceptional item (pretax)	0.0	2.4	NA	(40.9)	NA
			+/- ppt		+/- ppt
EBIT margin (%)	10.7	14.0	(3.3)	17.5	(6.8)
- Property dev	5.5	23.8	(18.2)	25.9	(20.3)
- Property inv	23.6	21.5	2.1	29.9	(6.3)
- Construction	11.0	11.4	(0.5)	8.5	2.5
- Trading	5.1	4.4	0.7	9.6	(4.5)
- Quarry	2.2	16.5	(14.3)	2.7	(0.5)
- Others	12.8	7.4	5.4	13.9	(1.1)
Tax rate (%)	17.9	18.4	(0.5)	17.0	0.9

Source: Company

Sunway Bhd's RNAV estimates

1. Landbank - MARKET VALUE	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Semenyih	70%	398.1	260.1	128.0	92.5
Suncity Ipoh	65%	440.5	76.8	58.7	11.7
Sunway Integrated Resort	100%	14.9	9.3	8.3	1.1
Sunway Tower KL 1	100%	1.0	56.6	28.3	28.3
Sunway JB, Bukit Lenang	80%	64.8	50.8	134.5	(67.0)
Sg Long Balakong	80%	111	140.2	21.8	94.8
Mont Putra Rawang	100%	163	49.7	35.1	14.6
Sunway Iskandar - Pendas, freehold	60%	1,079	705.1	596.6	65.1
Sub-total:					241.1
2. Active developments - WACC: 10.5-13.1%					
	Stake				(MYR m)
South Quay	60%				98.5
Sunway Cheras	100%				1.7
Sunway Damansara	60%				20.1
Sunway D' Mont Kiara	88%				0.0
Sunway Kayangan	100%				0.5
Sunway Duta	100%				10.6
Bangi	100%				6.5
Sunway Melawati	100%				14.1
Casa Kiara III	80%				14.7
Sunway Alam Suria	50%				1.7
Sunway Velocity	85%				162.1
Penang projects	100%				49.4
Wonderland Business Park, Australia	31%				5.5
Singapore Yi Shun	30%				4.8
Singapore Tampines	30%				0.0
Singapore Sembawang	100%				4.4
Thomson/Irrawady	30%				45.5
Mount Sophia	30%				40.3
Sunway Iskandar -leasehold (Medini)	51%				443.7
Kelana Jaya	100%				119.8
Sub-total:					1,044.0
3. Investment properties - MARKET VALUE					
	Stake		MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Monash University Campus	100%		310.0	310.0	0.0
Sunway University College	100%		480.0	480.0	0.0
Sunway Giza (shopping mall)	60%		42.4	42.4	0.0
Sunway Hotel Phnom Penh	52.5%		15.7	21.7	(3.1)
Sunway Lagoon Theme Park	100%		165.0	59.1	105.9
Lost World of Tambun	65%		38.7	36.0	1.8
Sunway Hotel Hanoi	100%		14.1	45.8	(31.8)
Sub-total:					72.8
4. Other businesses or assets					
35.7% stake in SunREIT based on Maybank IB's MYR1.85 TP					571.2
Construction (based on MYR1.90 TP)					1,467.8
Building material (10x 2017PER)					359.5
Trading (10x 2017PER)					437.5
Grand total:					4,193.9
Shareholders fund (MYR m) - Dec 2016					7,455.7
RNAV (MYR m)					11,649.7
Enlarged share capital post warrant					2,025.1
RNAV/share (MYR)					5.75
Target price (MYR) - based on 0.6x RNAV					3.45

Source: Maybank KE

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
P/E (reported) (x)	8.0	9.5	13.6	12.2	13.3
Core P/E (x)	10.7	12.2	13.6	12.2	13.3
P/BV (x)	1.0	1.0	0.9	0.9	0.9
P/NTA (x)	0.9	0.8	0.9	0.8	0.8
Net dividend yield (%)	10.3	3.4	2.2	2.5	2.3
FCF yield (%)	14.9	8.1	nm	nm	nm
EV/EBITDA (x)	21.7	18.3	15.7	13.4	17.8
EV/EBIT (x)	13.5	13.3	16.5	14.0	18.9

INCOME STATEMENT (MYR m)

Revenue	4,448.4	4,725.9	5,579.1	6,630.5	5,671.8
Gross profit	427.2	531.1	811.0	1,023.3	834.7
EBITDA	427.2	531.1	811.0	1,023.3	834.7
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	687.0	726.9	772.3	980.4	787.6
Net interest income / (exp)	(26.6)	(59.9)	(146.5)	(166.7)	(190.0)
Associates & JV	269.9	192.0	221.9	202.0	263.1
Exceptionals	147.4	55.4	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	930.4	859.0	847.6	1,015.7	860.6
Income tax	(130.9)	(140.4)	(211.9)	(253.9)	(215.2)
Minorities	(67.0)	(132.7)	(91.8)	(154.4)	(88.4)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	732.4	585.9	543.9	607.4	557.1
Core net profit	590.7	547.4	543.9	607.4	557.1
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET (MYR m)

Cash & Short Term Investments	2,631.0	4,059.8	2,877.2	1,866.8	702.0
Accounts receivable	2,326.3	2,828.4	2,828.4	2,828.4	2,828.4
Inventory	693.1	661.8	688.8	818.6	700.3
Property, Plant & Equip (net)	1,333.6	1,875.8	1,411.9	1,554.2	1,700.8
Intangible assets	320.1	311.9	311.9	311.9	311.9
Investment in Associates & JVs	3,181.2	3,223.1	3,223.1	3,223.1	3,223.1
Other assets	5,515.7	5,870.5	7,661.5	9,296.5	10,392.9
Total assets	16,000.9	18,831.4	19,002.8	19,899.6	19,859.5
ST interest bearing debt	3,070.9	4,830.7	4,830.7	4,830.7	4,830.7
Accounts payable	2,450.9	2,708.3	2,502.6	2,974.2	2,544.2
LT interest bearing debt	2,818.2	2,590.5	2,590.5	2,590.5	2,590.5
Other liabilities	448.0	483.0	479.0	479.0	479.0
Total Liabilities	8,787.6	10,612.2	10,402.9	10,874.5	10,444.4
Shareholders Equity	6,562.7	7,455.7	7,836.4	8,261.6	8,651.6
Minority Interest	650.6	763.5	763.5	763.5	763.5
Total shareholder equity	7,213.3	8,219.2	8,599.9	9,025.1	9,415.1
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	16,000.9	18,831.4	19,002.8	19,899.6	19,859.5

CASH FLOW (MYR m)

Pretax profit	930.4	859.0	847.6	1,015.7	860.6
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	235.8	165.6	(146.5)	(166.7)	(190.0)
Change in working capital	152.9	(328.7)	(900.0)	(900.0)	(900.0)
Cash taxes paid	(143.7)	(111.7)	(211.9)	(253.9)	(215.2)
Other operating cash flow	(235.8)	(46.5)	0.0	0.0	0.0
Cash flow from operations	939.6	537.7	(372.6)	(262.6)	(398.0)
Free cash flow	939.6	537.7	(372.6)	(262.6)	(398.0)
Dividends paid	(673.2)	(260.8)	(225.4)	(163.2)	(182.2)
Equity raised / (purchased)	145.8	538.1	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,763.8	1,457.2	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(2,207.9)	(1,755.5)	(584.6)	(584.6)	(584.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(32.0)	516.7	(1,182.6)	(1,010.4)	(1,164.8)

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.1)	6.2	18.1	18.8	(14.5)
EBITDA growth	(15.3)	24.3	52.7	26.2	(18.4)
EBIT growth	(10.6)	5.8	6.2	26.9	(19.7)
Pretax growth	(4.0)	(7.7)	(1.3)	19.8	(15.3)
Reported net profit growth	(1.5)	(20.0)	(7.2)	11.7	(8.3)
Core net profit growth	(0.2)	(7.3)	(0.6)	11.7	(8.3)
Profitability ratios (%)					
EBITDA margin	9.6	11.2	14.5	15.4	14.7
EBIT margin	15.4	15.4	13.8	14.8	13.9
Pretax profit margin	20.9	18.2	15.2	15.3	15.2
Payout ratio	88.6	38.5	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	16.5	12.4	9.7	9.2	9.8
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	2.4	2.5	2.4	2.4	2.3
ROAE (%)	11.7	8.4	7.1	7.5	6.6
ROAA (%)	4.1	3.1	2.9	3.1	2.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.8	1.8	1.8	1.9
Net gearing (%) (incl perps)	45.2	40.9	52.8	61.5	71.4
Net gearing (%) (excl. perps)	45.2	40.9	52.8	61.5	71.4
Net interest cover (x)	25.8	12.1	5.3	5.9	4.1
Debt/EBITDA (x)	13.8	14.0	9.2	7.3	8.9
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	3,258.2	3,361.4	4,544.0	5,554.4	6,719.2

Source: Company; Maybank

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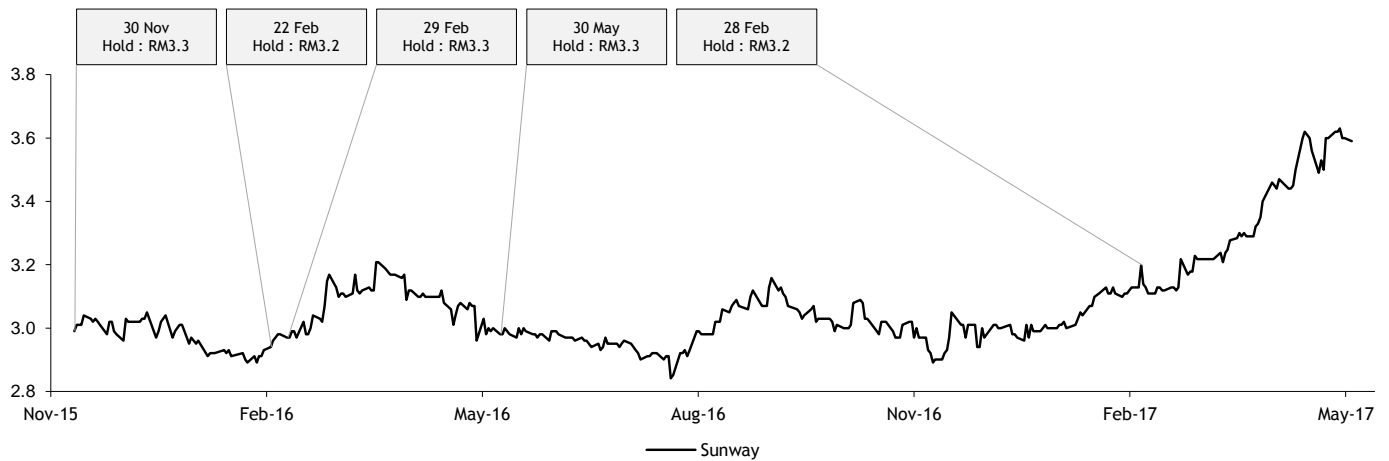
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