

Sunway (SWB MK)

Earnings on track

Profits in line but property sales fall short

Sunway's 1Q16 core net profit came in as expected. 1Q16 effective locked-in property sales were however below expectations due to the lack of new launches. This was cushioned by strong YTD construction job wins of MYR2b. We maintain our earnings forecasts but raise Sunway TP to MYR3.37 (+6sen) after lifting TP for SCG (+15sen). Reiterate HOLD.

Results in line

Excluding MYR2.4m fair value for ESOS, Sunway's 1Q16 core net profit was MYR104.5m (-16% YoY, -42% QoQ), accounting for 20%/19% of our/consensus full-year estimates. Sunway seasonally performs better in the 2H. The 42% QoQ decline in earnings was dragged by slower progress billings at the local property projects (-42% QoQ). This was despite the better operating profit from the construction business (+33%).

Property sales lagged, strong construction job wins

In 3M16, Sunway's effective locked-in new property sales was MYR198m, just 18% of its sales target of MYR1.1b for 2016 (vs MYR912m in 2015). The weak sales were due to the lack of new launches. Effective unbilled sales stood at MYR1.5b at end-Mar 2016, 2.2x our FY17F revenue forecast. Elsewhere, 54%-owned Sunway Construction's YTD job wins was MYR2.0b raising outstanding orderbook to MYR5b, providing medium term earnings visibility.

Valuations

We maintain our earnings forecasts but raise our RNAV/sh estimate to MYR5.81 (+10sen) after factoring in a higher MYR1.80 (+15sen) TP for Sunway Construction (SCG MK; BUY). Consequently, we raise our TP for Sunway to MYR3.37 (+6sen) based on an unchanged 40% discount to RNAV. The 40% discount is in line with what we have accorded to the other large cap developers under our coverage.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	4,842	4,451	5,370	5,390	6,713
EBITDA	504	428	766	825	1,117
Core net profit	592	591	526	590	760
Core FDEPS (sen)	32.5	31.6	26.1	29.3	37.7
Core FDEPS growth(%)	20.7	(2.8)	(17.3)	12.1	28.8
Net DPS (sen)	11.0	37.0	8.6	8.8	11.3
Core FD P/E (x)	9.3	9.6	11.6	10.3	8.0
P/BV (x)	0.9	0.8	0.7	0.8	0.7
Net dividend yield (%)	3.6	12.2	2.8	2.9	3.7
ROAE (%)	10.5	9.5	7.4	7.5	9.1
ROAA (%)	4.9	4.1	3.2	3.4	4.2
EV/EBITDA (x)	15.6	21.8	12.8	13.7	10.8
Net debt/equity (%)	30.4	49.8	46.9	56.7	62.2
Consensus net profit	-	-	537	525	633
MKE vs. Consensus (%)	-	-	(2.1)	12.4	20.1

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HOLD

Share Price	MYR 3.03
12m Price Target	MYR 3.37 (+11%)
Previous Price Target	MYR 3.31

Company Description

Sunway Bhd is involved in property development, investment properties and construction businesses

Statistics

Shariah status	Yes
52w high/low (MYR)	3.60/2.92
3m avg turnover (USDm)	0.7
Free float (%)	31.4
Issued shares (m)	1,991
Market capitalisation	MYR6.0B USD1.5B

Major shareholders:

Sungei Way Corp. Sdn. Bhd.	57.5%
Employees Provident Fund	4.9%
CHEAH FOOK LING	4.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	1	(12)
Relative to index (%)	(0)	2	(6)

Source: FactSet

Table 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Comments
	1Q16	1Q15	%YoY	4Q15	%QoQ	
Revenue	1,069.0	1,060.0	0.8	1,398.8	(23.6)	QoQ decline was due to the weakness in all business divisions.
- Property development	234.1	180.7	29.5	420.0	(44.3)	
- Property investment	169.2	139.3	21.5	185.4	(8.7)	
- Construction	311.4	375.3	(17.0)	405.9	(23.3)	
- Trading	193.1	191.9	0.6	205.3	(5.9)	
- Quarry	38.7	53.8	(28.0)	57.5	(32.6)	
- Investment Holdings	0.9	0.8	4.0	2.7	(67.8)	
- Others	121.6	118.2	2.9	122.0	(0.3)	
EBIT	149.6	169.9	(11.9)	259.3	(42.3)	
- Property development	55.7	40.0	39.0	96.4	(42.3)	
- Property investment	36.4	44.4	(18.0)	101.0	(64.0)	
- Construction	35.6	52.9	(32.7)	26.8	33.0	
- Trading	8.5	14.1	(39.6)	11.7	(27.3)	
- Quarry	6.4	7.6	(15.8)	5.8	9.2	
- Investment Holdings	(1.9)	(7.0)	(72.4)	7.8	(124.6)	
- Others	9.0	17.9	(49.8)	9.7	(7.6)	
Finance costs	(16.1)	(11.4)	41.6	(21.8)	(25.9)	Net gearing stood at 0.40x, improved from 0.50x in end-4Q15.
Other income	42.6	57.8	(26.4)	49.6	(14.2)	
Profit before tax	176.1	193.5	(9.0)	283.8	(38.0)	
Profit before tax-EI	178.5	170.6	4.6	243.5	(26.7)	
Taxation	(32.8)	(36.1)	(9.0)	(29.2)	12.5	
Minority interest	(41.1)	(10.9)	278.1	(40.0)	2.9	
Net profit	102.1	146.5	(30.3)	214.7	(52.4)	
Net profit ex-EI	104.5	123.6	(15.5)	180.0	(41.9)	Within expectations. Earnings are seasonally stronger in the 2H.
Exceptional item (pretax)	0.0	22.9	(100.0)	34.7	(100.0)	
	1Q16	1Q15	+/- ppt	4Q15	+/- ppt	
EBIT margin (%)	14.0	16.0	(2.0)	18.5	(4.5)	
PBT margin (%) -ex EI	16.5	16.1	0.4	17.4	(0.9)	
Tax rate (%)	18.7	21.1	(2.5)	10.3	8.4	

The exceptional items relate to fair value gain, loss on derivatives, fair value of ESOS, disposal gain and listing expenses

Source: Company, Maybank KE

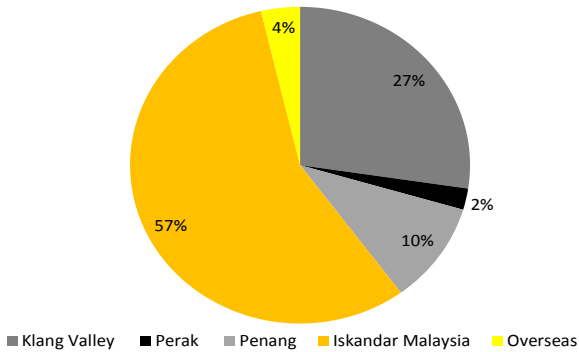
Sunway Bhd's RNAV estimates

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%	1079	705.1	596.6	65.1
Sub-total:					241.1
2. Active developments - WACC: 10.5-13.1%					
	Stake				(MYR m)
South Quay	60%				98.9
Sunway Cheras	100%				1.7
Sunway Damansara	60%				32.9
Sunway D' Mont Kiara	88%				0.0
Sunway Kayangan	100%				1.0
Sunway Duta	100%				13.3
Bangi	100%				5.7
Sunway Melawati	100%				20.0
Casa Kiara III	80%				13.1
Sunway Alam Suria	50%				2.4
Sunway Velocity	85%				154.4
Penang projects	100%				56.8
Wonderland Business Park, Australia	31%				7.0
Singapore Yi Shun	30%				5.5
Singapore Tampines	30%				0.0
Singapore Sembawang	100%				4.6
Thomson/Irrawady	30%				46.6
Mount Sophia	30%				40.1
Sunway Iskandar -leasehold (Medini)	51%				439.6
Kelana Jaya	100%				135.4
Sub-total:					1,079.0
3. Investment properties - MARKET VALUE					
	Stake		MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Monash University Campus	100%		158.0	158.0	0.0
Sunway University College	100%		150.0	150.0	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 MYR1.50 TP					178.0
Construction (based on MYR1.80 TP)					2,177.4
Building material (10x 2016PER)					325.2
Trading (10x 2016PER)					341.3
Grand total:					4,414.9
Shareholders fund (MYR m) - Dec 2015					6,549.8
Warrants conversion (MYR2.50 exercise price; expiring Aug 2016)					724.0
RNAV (MYR m)					11,688.7
Number of shares (m shares) - post rights issue					1,723.5
Enlarged share capital post warrant					2,013.1
FD RNAV/share (MYR) - post warrant					5.81
Target price (MYR) - based on 40% discount to RNAV					3.37
<i>Source: Company, Maybank KE</i>					

Value Proposition

- A developer with a diversified earnings base. Sunway owns a 54.4% stake in Sunway Construction Group (SCG) and 37.3% in SunREIT.
- 57% of the remaining GDV is derived from its Iskandar Malaysia projects, followed by Klang Valley (27%), Penang (10%), Perak (2%) and overseas (4%).
- Share price drivers include potential job wins from infrastructure works and RNAV-accretive land deals.

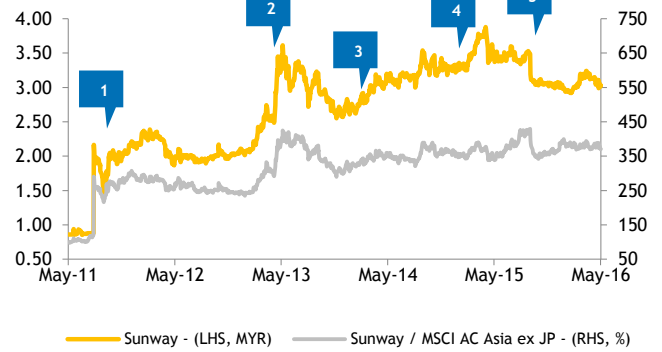
Effective GDV breakdown by location



Source: Company

Price Drivers

Historical share price trend



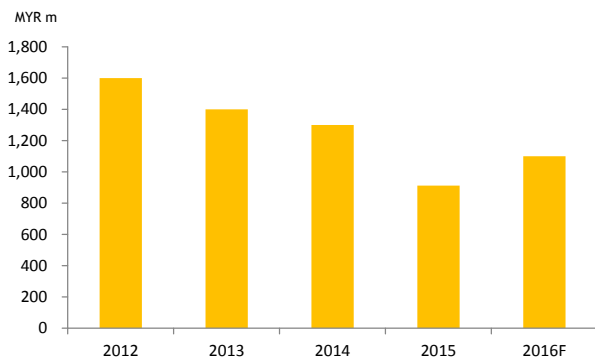
Source: Company, Maybank Kim Eng

1. Merger between Sunway City (property) and Sunway Holdings (construction).
2. Strong interest in developers with exposure to Iskandar Malaysia including Sunway.
3. Concerns on huge supply of high-rise condominiums in Iskandar Malaysia.
4. De-merger plan for its property and construction businesses announced in Sep 2014.
5. Listing of its construction unit (SCG) in Jul 2015.

Financial Metrics

- Property sales have been declining since 2011. Fortunately, the decline was cushioned by strong job wins in construction and steady rental income from its REIT.
- Our 9% 3-yr net profit CAGR forecast (2015-18) is based on MYR1.04b (2016F) and MYR1.54b (2017F) sales assumptions. Earnings growth is also supported by MYR1.5b unbilled sales (property; 2.2x our 2017F revenue) and MYR5.0b outstanding orderbook (construction). ROE expected to improve with higher contributions from better margin property projects. Also, better margin from Viaduct 4 package under KVMRT1 as the project is close to completion.
- Expanding its landbank in the Klang Valley.

Property Sales Trend



Source: Company

Swing Factors

Upside

- Potential RNAV-accretive land acquisitions.
- Stronger-than-expected take-up rates for its ongoing and new projects.
- Potential job wins from KVLRT3 and KL-Klang BRT.

Downside

- A prolonged slowdown in the property sector.
- Weaker-than-expected operating margins on higher marketing expenses.
- Currency risks.

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FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	7.0	7.3	10.6	10.3	8.0
Core P/E (x)	8.8	9.0	10.6	10.3	8.0
Core FD P/E (x)	9.3	9.6	11.6	10.3	8.0
P/BV (x)	0.9	0.8	0.7	0.8	0.7
P/NTA (x)	0.9	0.8	0.7	0.7	0.7
Net dividend yield (%)	3.6	12.2	2.8	2.9	3.7
FCF yield (%)	14.7	16.2	nm	nm	nm
EV/EBITDA (x)	15.6	21.8	12.8	13.7	10.8
EV/EBIT (x)	10.2	13.6	13.4	14.4	11.3

INCOME STATEMENT (MYR m)

Revenue	4,841.9	4,451.3	5,370.4	5,389.9	6,713.0
Gross profit	504.2	427.8	765.5	825.2	1,116.6
EBITDA	504.2	427.8	765.5	825.2	1,116.6
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	768.8	686.9	730.8	786.5	1,073.8
Net interest income / (exp)	(30.4)	(26.6)	(115.9)	(135.5)	(151.0)
Associates & JV	233.2	269.9	199.2	248.2	292.2
Exceptionals	0.0	147.4	0.0	0.0	0.0
Other pretax income	(2.7)	0.0	0.0	0.0	0.0
Pretax profit	968.8	929.2	814.2	899.2	1,215.0
Income tax	(148.0)	(129.8)	(203.5)	(224.8)	(303.7)
Minorities	(77.6)	(67.0)	(84.5)	(84.6)	(151.4)
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	743.2	732.4	526.2	589.8	759.8
Core net profit	591.7	590.7	526.2	589.8	759.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,978.2	2,627.3	2,305.1	1,324.4	550.1
Accounts receivable	1,719.9	2,639.6	2,639.6	2,639.6	2,639.6
Inventory	597.8	693.1	663.0	665.4	828.8
Property, Plant & Equip (net)	1,046.8	1,364.3	1,273.6	1,411.9	1,554.2
Intangible assets	319.4	320.1	320.1	320.1	320.1
Investment in Associates & JVs	2,481.0	2,890.3	2,890.3	2,890.3	2,890.3
Other assets	4,773.3	5,459.7	6,950.0	8,211.7	9,805.7
Total assets	12,916.4	15,994.4	17,041.8	17,463.4	18,588.8
ST interest bearing debt	2,282.9	3,303.8	3,303.8	3,303.8	3,303.8
Accounts payable	2,171.9	2,446.3	2,409.0	2,417.7	3,011.2
LT interest bearing debt	1,501.5	2,585.5	2,585.5	2,585.5	2,585.5
Other liabilities	626.0	459.0	451.0	451.0	451.0
Total Liabilities	6,582.6	8,794.1	8,749.1	8,757.8	9,351.3
Shareholders Equity	5,945.2	6,549.8	7,642.2	8,055.0	8,586.9
Minority Interest	388.7	650.6	650.6	650.6	650.6
Total shareholder equity	6,333.9	7,200.4	8,292.7	8,705.6	9,237.5
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	12,916.4	15,994.4	17,041.8	17,463.4	18,588.8

CASH FLOW (MYR m)

Pretax profit	968.8	929.2	814.2	899.2	1,215.0
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	273.7	236.0	(115.9)	(135.5)	(151.0)
Change in working capital	(91.4)	87.6	(900.0)	(900.0)	(900.0)
Cash taxes paid	(150.5)	(140.6)	(203.5)	(224.8)	(303.7)
Other operating cash flow	(231.3)	(250.3)	0.0	0.0	0.0
Cash flow from operations	769.4	861.9	(371.0)	(322.9)	(97.4)
Free cash flow	769.4	861.9	(371.0)	(322.9)	(97.4)
Dividends paid	(212.9)	(673.2)	(175.2)	(157.9)	(176.9)
Equity raised / (purchased)	41.6	145.7	724.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	872.9	1,752.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(71.9)	(2,392.0)	(500.0)	(500.0)	(500.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1,399.1	(305.6)	(322.2)	(980.7)	(774.3)

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.3	(8.1)	20.6	0.4	24.5
EBITDA growth	(10.5)	(15.2)	78.9	7.8	35.3
EBIT growth	(57.8)	(10.6)	6.4	7.6	36.5
Pretax growth	(48.9)	(4.1)	(12.4)	10.4	35.1
Reported net profit growth	(50.5)	(1.5)	(28.2)	12.1	28.8
Core net profit growth	22.6	(0.2)	(10.9)	12.1	28.8
Profitability ratios (%)					
EBITDA margin	10.4	9.6	14.3	15.3	16.6
EBIT margin	15.9	15.4	13.6	14.6	16.0
Pretax profit margin	20.0	20.9	15.2	16.7	18.1
Payout ratio	25.6	88.6	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	15.4	16.5	9.8	10.9	11.3
Revenue/Assets (x)	0.4	0.3	0.3	0.3	0.4
Assets/Equity (x)	2.2	2.4	2.2	2.2	2.2
ROAE (%)	10.5	9.5	7.4	7.5	9.1
ROAA (%)	4.9	4.1	3.2	3.4	4.2
Liquidity & Efficiency					
Cash conversion cycle	(12.8)	27.4	nm	nm	nm
Days receivable outstanding	116.1	176.3	176.9	176.3	141.6
Days inventory outstanding	50.7	57.8	nm	nm	nm
Days payables outstanding	179.5	206.6	nm	nm	nm
Dividend cover (x)	3.9	1.1	3.3	3.3	3.3
Current ratio (x)	1.4	1.2	1.4	1.5	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	1.8	1.9	2.0	2.0
Net debt/equity (%)	30.4	49.8	46.9	56.7	62.2
Net interest cover (x)	25.3	25.8	6.3	5.8	7.1
Debt/EBITDA (x)	7.5	13.8	7.7	7.1	5.3
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	1,806.2	3,262.0	3,584.2	4,564.9	5,339.2

Source: Company; Maybank

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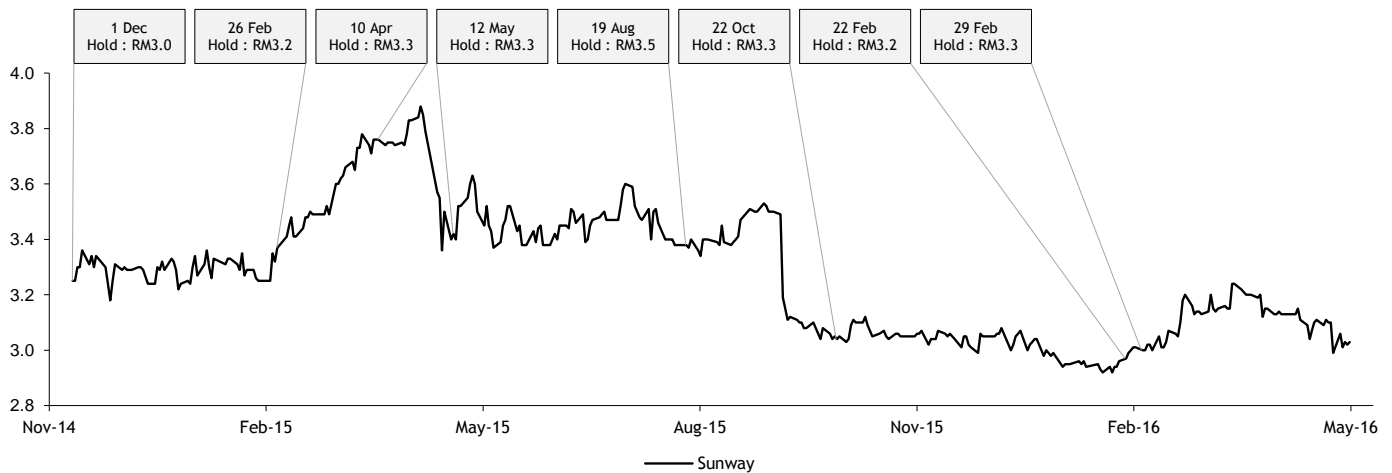
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