

Sunway (SWB MK)

Expects flat sales growth

HOLD

Share Price MYR 3.16
 12m Price Target MYR 3.26 (+3%)
 Previous Price Target MYR 3.37

Earnings above expectations, sales in-line

Sunway's 2016 core net profit came in above expectations while 2016 effective locked-in property sales of MYR923m were in-line. Elsewhere, Sunway's construction subsidiary, SCG's job wins of MYR2.6b in 2016 will support group earnings growth moving into 2017. We lower our 2017/18 earnings forecasts by -7%/-20%. Our RNAV-TP is trimmed to MYR3.26 (-10sen) on an unchanged 40% discount to MYR5.61 RNAV. Maintain HOLD.

Results above expectations

Excluding MYR24m fair value gain from ESOS and investment properties, Sunway's 4Q16 core net profit was MYR162m (-10% YoY, +9% QoQ), lifting 2016 core net earnings to MYR547m (-7% YoY), beating our/consensus estimates by 6-7%. The 7% YoY decline in 2016 earnings was due to higher minority interest post the listing of SCG in Jul 2015. Sunway has declared a second interim cash DPS of 4sen and share dividend distribution of one treasury share for every 100 Sunway shares held, translating into a total DPS of 12.1sen for 2016 - above expectations. Effective unbilled sales were MY1.1b in end-2016 (1.9x FY17F property revenue).

Sets MYR900m sales target for 2017

In 2016, Sunway has locked in MYR923m (+1.2% YoY) effective property sales, slightly above its 2016 sales target of MYR900m. In view of the current challenging property market, Sunway expects effective sales growth to be flat at MYR900m in 2017. Elsewhere, its 54%-owned SCG's job wins in 2016 were MYR2.7b, raising outstanding orderbook to MYR4.8b end-2016. Management has set a MYR2b internal job win target for 2017, of which it has already secured MYR449m in Jan 2017.

Earnings adjustments

We lower our 2017/18 earnings forecasts by -7%/-20% after factoring in actual 2016 results and a lower sales assumption of MYR914m (-21% from MYR1.2b) for 2017. Our new RNAV-TP is MYR3.26 (-10sen) based on an unchanged 40% discount to MYR5.61 RNAV (-19sen).

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)	9.4	10.7	12.0	10.7	11.7
P/BV (x)	0.9	0.9	0.8	0.8	0.8
Net dividend yield (%)	11.7	3.8	2.5	2.8	2.6
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)	21.8	18.4	14.6	12.5	16.8
Net gearing (%) (incl perps)	45.2	40.9	52.8	61.5	71.4
Consensus net profit	-	-	519	609	na
MKE vs. Consensus (%)	-	-	4.9	(0.2)	na

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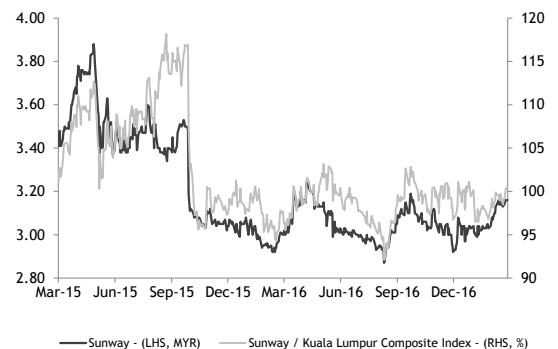
Statistics

Shariah status	Yes
52w high/low (MYR)	3.24/2.87
3m avg turnover (USDm)	0.7
Free float (%)	33.4
Issued shares (m)	1,732
Market capitalisation	MYR5.5B USD1.2B

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 (%)	4	5	5
Relative to index (%)	4	1	3

Source: FactSet

Fig 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative		
	4Q16	4Q15	%YoY	3Q16	%QoQ	2016	2015	%YoY
Revenue	1,363.7	1,395.8	(2.3)	1,137.5	19.9	4,725.9	4,448.4	6.2
- Property dev	412.7	420.0	(1.7)	247.6	66.7	1,209.4	1,195.7	1.2
- Property inv	172.8	185.4	(6.8)	189.9	(9.0)	692.0	641.7	7.8
- Construction	334.4	405.9	(17.6)	287.9	16.1	1,183.1	1,222.1	(3.2)
- Trading	215.1	205.3	4.8	206.7	4.1	833.3	650.0	28.2
- Quarry	54.1	57.5	(6.0)	54.0	0.2	207.4	242.1	(14.4)
- Others	159.3	122.0	30.6	147.1	8.3	574.7	494.9	16.1
EBIT	251.4	257.2	(2.2)	235.5	6.8	726.8	687.0	5.8
- Property dev	119.0	96.4	23.5	116.4	2.2	273.1	207.7	31.5
- Property inv	51.7	101.0	(48.8)	50.0	3.3	162.5	213.5	(23.9)
- Construction	28.3	26.8	5.7	31.3	(9.7)	129.2	159.0	(18.8)
- Trading	20.7	11.7	76.3	11.3	82.7	51.0	31.9	59.8
- Quarry	1.5	5.8	(75.0)	7.2	(79.8)	26.7	39.5	(32.4)
- Others	22.2	9.7	128.1	16.3	35.7	69.3	48.8	41.8
Finance costs	(25.7)	(21.7)	18.1	(2.6)	895.0	(59.9)	(222.3)	(73.1)
Other income	44.9	49.6	(9.5)	46.7	(3.9)	192.0	269.9	(28.9)
Pretax profit	270.6	285.0	(5.0)	208.5	29.8	859.0	930.4	(7.7)
Pretax profit-EI	229.7	244.7	(6.1)	213.0	7.8	803.6	783.0	2.6
Taxation	(46.0)	(30.3)	51.7	(37.7)	21.9	(140.4)	(130.9)	7.2
Minority interest	(38.8)	(40.0)	(2.9)	(27.2)	42.5	(132.7)	(67.0)	98.2
Net profit	185.8	214.7	(13.4)	143.6	29.4	585.9	732.4	(20.0)
Net profit ex-EI	161.8	180.0	(10.1)	148.1	9.3	547.4	590.7	(7.3)
Exceptional item (pretax)	(40.9)	(40.3)	1.5	4.5	>-100	(55.4)	(147.4)	(62.4)
			+/- ppt		+/- ppt			+/- ppt
EBIT margin (%)	18.4	18.5	(0.1)	20.7	(2.3)	15.4	15.4	(0.1)
- Property dev	28.8	23.0	5.9	47.0	(18.2)	22.6	17.4	5.2
- Property inv	29.9	54.5	(24.6)	26.4	3.6	23.5	33.3	(9.8)
- Construction	8.5	6.6	1.9	10.9	(2.4)	10.9	13.0	(2.1)
- Trading	9.6	5.7	3.9	5.5	4.1	6.1	4.9	1.2
- Quarry	2.7	10.2	(7.5)	13.4	(10.7)	12.9	16.3	(3.4)
- Others	13.9	8.0	5.9	11.1	2.8	12.1	9.9	2.2
Tax rate (%)	20.0	12.4	7.6	18.1	1.9	17.5	16.7	0.7

Source: Company

Fig 2: 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)					1,186.4
Building material (10x 2017PER)					359.5
Trading (10x 2017PER)					437.5
Grand total:					3,912.6
Shareholders fund (MYR m) - Dec 2016					7,455.7
RNAV (MYR m)					11,368.3
Enlarged share capital post warrant					2,025.1
RNAV/share (MYR)					5.61
Target price (MYR) - based on 40% discount to RNAV					3.26

Source: Maybank KE

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
P/E (reported) (x)	8.1	9.6	12.0	10.7	11.7
Core P/E (x)	9.4	10.7	12.0	10.7	11.7
P/BV (x)	0.9	0.9	0.8	0.8	0.8
P/NTA (x)	0.8	0.7	0.8	0.7	0.7
Net dividend yield (%)	11.7	3.8	2.5	2.8	2.6
FCF yield (%)	17.0	9.2	nm	nm	nm
EV/EBITDA (x)	21.8	18.4	14.6	12.5	16.8
EV/EBIT (x)	13.6	13.4	15.3	13.1	17.8

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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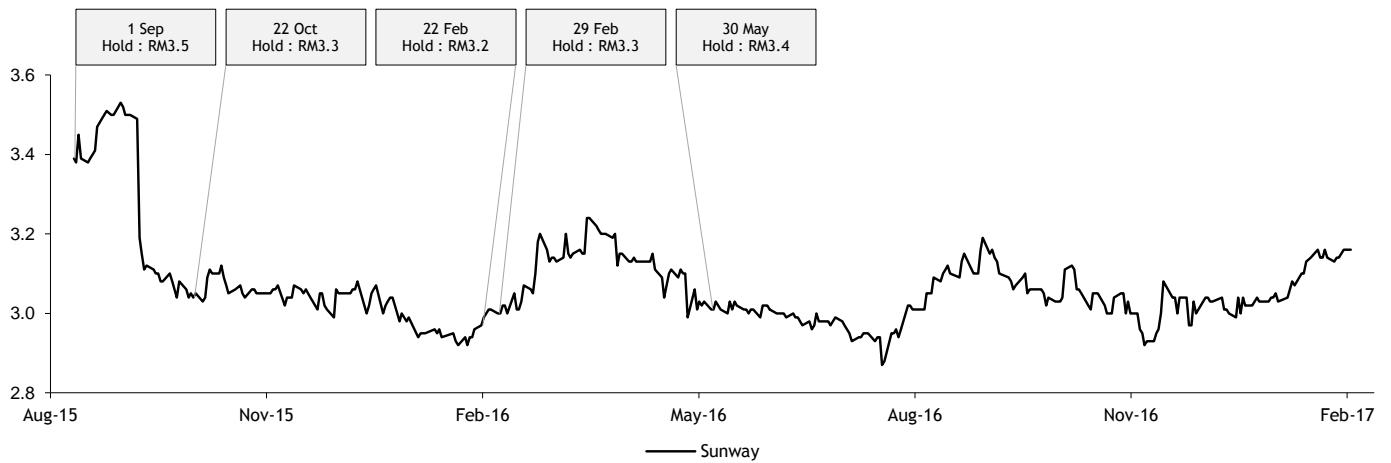
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