

Sunway (SWB MK)

No Surprises

Earnings on track; maintain HOLD

Sunway's 9M16 core net profit came in as expected. 9M16 effective locked-in property sales of MYR689m were also in-line. Elsewhere, Sunway's construction unit, SCG's job wins of MYR2.6b has surpassed its target for 2016, supporting earnings growth moving into 2017. We maintain our earnings forecasts, MYR3.37 RNAV-TP (on unchanged 40% discount to MYR5.80 RNAV) and HOLD rating.

9M16 results in line

Excluding MYR4.5m fair value loss from ESOS, Sunway's 3Q16 core net profit was MYR148m (+0.7% YoY, +12% QoQ), lifting 9M16 core net earnings to MYR386m (-5% YoY), at 75% of our/consensus 12M estimates. Sunway's results are seasonally better in 2H. The 5% YoY decline in 9M16 earnings was due to higher minority interest post-the listing of SCG (SCGB MK). To recap, the IPO of SCG was completed by July 2015.

Revised down sales target

In 9M16, Sunway has locked in MYR689m effective sales or 77% of its 2016 revised sales target. Sunway has lowered its internal effective sales target for FY16 by -18% to MYR900m in Oct 2016 on delay in launching three new projects to 2017 - Sunway Geo Residences 3, Sunway Iskandar and Velocity offices. Effective unbilled sales stood at MYR1.3b at end-Sep 2016, 2.0x our FY17F revenue forecast. Elsewhere, 54%-owned SCG's YTD job wins were MYR2.6b, raising outstanding orderbook to MYR4.8b.

Surprises could come from asset disposals

Management remains cautious on the current property market outlook but expects the recovery in property demand to happen in 2H17; hence, it has lined up MYR2b worth of new launches for 2017. Potential surprises could come from the disposal of its campuses worth MYR1b into its REIT vehicle. Our TP is based on an unchanged 40% discount to RNAV.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	4,842	4,451	5,020	5,377	6,670
EBITDA	504	428	747	856	1,159
Core net profit	592	591	517	601	777
Core FDEPS (sen)	32.5	31.6	25.7	29.9	38.6
Core FDEPS growth(%)	20.7	(2.8)	(18.7)	16.3	29.2
Net DPS (sen)	11.0	37.0	8.4	9.0	11.6
Core FD P/E (x)	9.2	9.5	11.7	10.0	7.8
P/BV (x)	0.9	0.8	0.7	0.7	0.7
Net dividend yield (%)	3.7	12.3	2.8	3.0	3.9
ROAA (%)	4.9	4.1	3.1	3.5	4.3
EV/EBITDA (x)	15.6	21.8	13.1	13.1	10.3
Net gearing (%) (incl perps)	28.5	45.3	43.4	52.3	57.3
Consensus net profit	-	-	499	532	574
MKE vs. Consensus (%)	-	-	3.6	13.0	35.4

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HOLD

Share Price	MYR 3.00
12m Price Target	MYR 3.37 (+12%)
Previous Price Target	MYR 3.37

Statistics

Shariah status	Yes
52w high/low (MYR)	3.24/2.87
3m avg turnover (USDm)	0.8
Free float (%)	37.8
Issued shares (m)	2,063
Market capitalisation	MYR6.2B USD1.4B

Major shareholders:

Sungei Way Corp. Sdn. Bhd.	55.5%
Permodalan Nasional Bhd.	10.4%
Employees Provident Fund	5.1%

Price Performance



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

Source: FactSet

Table 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative			Comments
	3Q16	3Q15	%YoY	2Q16	%QoQ	9M16	9M15	%YoY	
Revenue	1,137.5	951.0	19.6	1,155.7	-1.6	3,362.2	3,052.6	10.1	9M16: YoY growth was supported by all divisions except for quarry.
- Property dev	247.6	270.9	-8.6	315.1	-21.4	796.7	775.7	2.7	
- Property inv	189.9	172.2	10.3	160.1	18.6	519.2	456.3	13.8	
- Construction	287.9	196.8	46.3	249.3	15.5	848.7	816.2	4.0	
- Trading	206.7	130.5	58.4	218.5	-5.4	618.2	444.7	39.0	
- Quarry	54.0	66.8	-19.1	60.6	-10.9	153.3	184.6	-17.0	
- Others	4.3	1.1	281.2	5.4	-20.8	10.6	2.0	429.3	
EBIT	164.3	118.7	38.4	201.2	-18.3	475.4	427.6	11.2	
- Property dev	45.3	34.5	31.2	92.8	-51.2	154.0	111.3	38.4	
- Property inv	50.0	39.6	26.2	24.4	105.0	110.9	112.5	-1.5	
- Construction	31.3	23.4	33.9	34.0	-7.7	100.9	132.3	-23.7	
- Trading	11.3	5.4	110.4	10.5	8.2	30.3	20.2	50.2	
- Quarry	7.2	10.6	-31.8	11.7	-38.2	25.3	33.7	-25.0	
- Others	2.8	-5.4	-151.2	6.1	-54.6	6.9	-21.5	-132.1	
Finance costs	-2.6	15.8	-116.3	-15.6	-83.4	-34.2	-4.9	600.3	3Q16: Net gearing stood at 0.41x, from 0.44x in end-2Q16.
Other income	46.8	31.5	48.4	57.9	-19.2	147.3	220.4	-33.2	
Pretax profit	208.5	171.0	22.0	203.8	2.3	588.4	645.4	-8.8	
Pretax profit-EI	213.0	184.7	15.4	182.3	16.9	573.8	535.0	7.3	
Taxation	-37.7	-31.5	19.8	-23.9	57.9	-94.4	-100.6	-6.2	
Minority interest	-27.2	-6.2	341.4	-25.5	6.6	-93.9	-27.0	248.0	
Net profit	143.6	133.3	7.7	154.4	-7.0	400.1	517.8	-22.7	
Net profit ex-EI	148.1	147.0	0.7	132.9	11.5	385.5	407.4	-5.4	
Exceptional item (pretax)	4.5	13.7	-67.2	-21.5	-120.9	-14.6	110.4	-113.2	
			+/- ppt		+/- ppt			+/- ppt	
EBIT margin (%)	14.4	12.5	2.0	17.4	-3.0	14.1	14.0	0.1	
- Property dev	18.3	12.7	5.6	29.5	-11.2	19.3	14.3	5.0	
- Property inv	26.4	23.0	3.3	15.2	11.1	21.3	24.7	-3.3	
- Construction	10.9	11.9	-1.0	13.6	-2.7	11.9	16.2	-4.3	
- Trading	5.5	4.1	1.4	4.8	0.7	4.9	4.5	0.4	
- Quarry	13.4	15.8	-2.5	19.3	-5.9	16.5	18.2	-1.8	
- Others	11.1	9.4	1.7	14.9	-3.7	11.3	10.5	0.9	
Tax rate (%)	17.7	17.0	0.7	11.7	6.0	16.5	18.8	-2.4	

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%	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%				95.5
Sunway Cheras	100%				1.7
Sunway Damansara	60%				32.4
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:					1,075.1
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:					4,410.9
Shareholders fund (MYR m) - Dec 2015					6,549.8
Warrants conversion (MYR2.50 exercise price; expiring Aug 2016)					724.0
RNAV (MYR m)					11,684.8
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					5.80
Target price (MYR) - based on 40% discount to RNAV					3.37
<i>Source: Maybank KE</i>					

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	7.2	8.1	10.7	10.0	7.8
Core P/E (x)	8.8	8.9	10.7	10.0	7.8
Core FD P/E (x)	9.2	9.5	11.7	10.0	7.8
P/BV (x)	0.9	0.8	0.7	0.7	0.7
P/NTA (x)	0.9	0.8	0.7	0.7	0.7
Net dividend yield (%)	3.7	12.3	2.8	3.0	3.9
FCF yield (%)	14.8	16.4	nm	nm	nm
EV/EBITDA (x)	15.6	21.8	13.1	13.1	10.3
EV/EBIT (x)	10.2	13.6	13.7	13.8	10.7

INCOME STATEMENT (MYR m)

Revenue	4,841.9	4,451.3	5,020.1	5,376.8	6,669.9
Gross profit	504.2	427.8	747.4	855.8	1,158.5
EBITDA	504.2	427.8	747.4	855.8	1,158.5
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	712.7	817.1	1,115.6
Net interest income / (exp)	(30.4)	(26.6)	(116.1)	(135.2)	(150.1)
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	795.8	930.0	1,257.7
Income tax	(148.0)	(129.8)	(199.0)	(232.5)	(314.4)
Minorities	(77.6)	(67.0)	(79.9)	(96.4)	(166.7)
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	517.0	601.1	776.5
Core net profit	591.7	590.7	517.0	601.1	776.5

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,978.2	2,627.3	2,291.1	1,336.5	591.7
Accounts receivable	1,719.9	2,639.6	2,639.6	2,639.6	2,639.6
Inventory	597.8	693.1	619.8	663.8	823.5
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	6,843.7	8,196.8	9,763.2
Total assets	12,916.4	15,994.4	16,878.2	17,459.0	18,582.6
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	2,251.8	2,411.8	2,991.9
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	8,591.9	8,751.9	9,332.0
Shareholders Equity	5,945.2	6,549.8	7,635.8	8,056.5	8,600.1
Minority Interest	388.7	650.6	650.6	650.6	650.6
Total shareholder equity	6,333.9	7,200.4	8,286.3	8,707.1	9,250.7
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	12,916.4	15,994.4	16,878.2	17,459.0	18,582.6

CASH FLOW (MYR m)

Pretax profit	968.8	929.2	795.8	930.0	1,257.7
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	273.7	236.0	(116.1)	(135.2)	(150.1)
Change in working capital	(91.4)	87.6	(900.0)	(900.0)	(900.0)
Cash taxes paid	(150.5)	(140.6)	(199.0)	(232.5)	(314.4)
Other operating cash flow	(231.3)	(250.3)	0.0	0.0	0.0
Cash flow from operations	769.4	861.9	(385.1)	(299.5)	(64.5)
Free cash flow	769.4	861.9	(385.1)	(299.5)	(64.5)
Dividends paid	(212.9)	(673.2)	(175.2)	(155.1)	(180.3)
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)	(336.2)	(954.6)	(744.8)

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.3	(8.1)	12.8	7.1	24.1
EBITDA growth	(10.5)	(15.2)	74.7	14.5	35.4
EBIT growth	(57.8)	(10.6)	3.8	14.6	36.5
Pretax growth	(48.9)	(4.1)	(14.4)	16.9	35.2
Reported net profit growth	(50.5)	(1.5)	(29.4)	16.3	29.2
Core net profit growth	22.6	(0.2)	(12.5)	16.3	29.2
Profitability ratios (%)					
EBITDA margin	10.4	9.6	14.9	15.9	17.4
EBIT margin	15.9	15.4	14.2	15.2	16.7
Pretax profit margin	20.0	20.9	15.9	17.3	18.9
Payout ratio	25.6	88.6	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	15.4	16.5	10.3	11.2	11.6
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 (%)	na	na	na	na	na
ROAA (%)	4.9	4.1	3.1	3.5	4.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	1.8	2.0	2.0	2.0
Net gearing (%) (incl perps)	28.5	45.3	43.4	52.3	57.3
Net gearing (%) (excl. perps)	28.5	45.3	43.4	52.3	57.3
Net interest cover (x)	25.3	25.8	6.1	6.0	7.4
Debt/EBITDA (x)	7.5	13.8	7.9	6.9	5.1
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	1,806.2	3,262.0	3,598.2	4,552.8	5,297.6

Source: Company; Maybank

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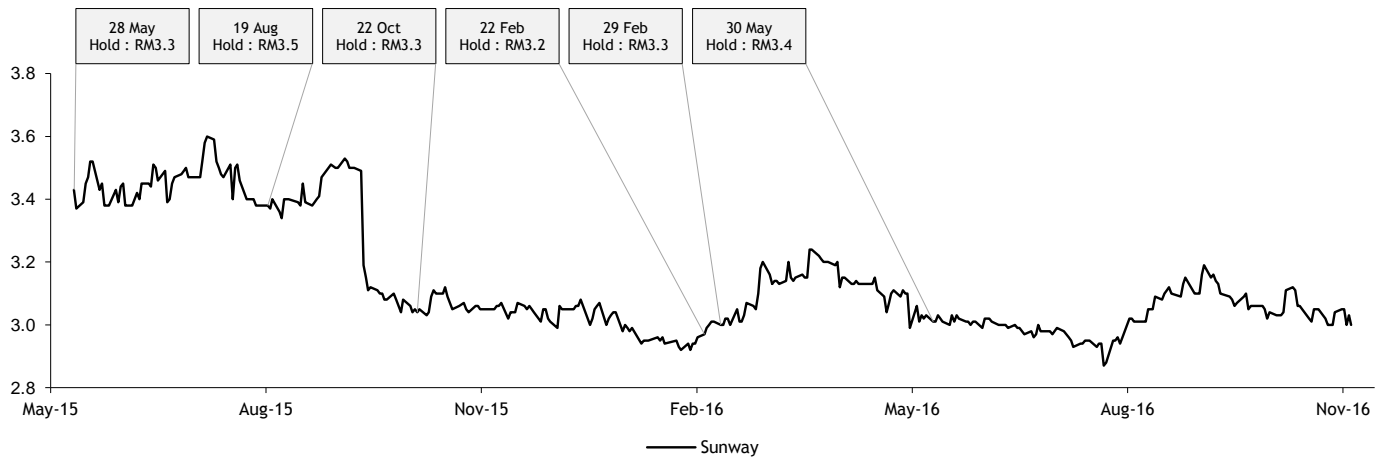
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