

Sunway (SWB MK)

Sales target lowered

Lower sales target; maintain HOLD

We are surprised by the downward revision in Sunway's FY16 internal sales target. The lower sales target is mainly due to the delay in launching new projects worth MYR1b in GDV. We trim our earnings forecasts by -0.1% to -2.6% on a lower sales assumption. Our RNAV-TP is intact at MYR3.37 on an unchanged 40% disc. to RNAV. Reiterate HOLD.

Delay in launching new projects

Sunway has lowered its internal effective sales target for FY16 by -18% to MYR900m (MYR1.1b at the project level). This is due to the delay in launching three new projects to 2017 - Sunway Geo Residences 3, Sunway Iskandar (landed residences) and Velocity offices. As a result, total new launches for 2016 have been lowered to MYR800m (effective MYR640m), from MYR1.6b (effective MYR1.2b). As at Sep 2016, Sunway has locked in MYR638m effective sales (72:28 local: overseas). The delay for Velocity offices is due to conversion into a property investment asset.

Rebalances landbank portfolio

Sunway currently has 3,303 acres of landbank in Malaysia, Singapore, Australia and China worth MYR49b in GDV. Of this, 61% is derived from Iskandar Malaysia. To dilute its Johor exposure, Sunway intends to diversify into the Klang Valley and other areas. It has thus far acquired land in Kelana Jaya and Kampung Baru Subang as well as Sengkang, Singapore together with its JV partners. These new landbank has brought in additional MYR688m in GDV.

Earnings adjustments

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. We trim our FY16/17/18 earnings forecasts by -2.6%/-0.6%/-0.1% to factor in a lower sales assumption of MYR945m (-9.6%) for FY16. Our RNAV estimate is largely intact at MYR5.80 (-1sen). Potential surprises could come from the disposal of its campuses worth MYR1b into its REIT vehicle.

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)	9.4	9.7	11.9	10.2	7.9
P/BV (x)	0.9	0.8	0.7	0.8	0.7
Net dividend yield (%)	3.6	12.1	2.8	2.9	3.8
ROAA (%)	4.9	4.1	3.1	3.5	4.3
EV/EBITDA (x)	15.6	21.8	13.2	13.3	10.5
Net gearing (%) (incl perps)	28.5	45.3	43.4	52.3	57.3
Consensus net profit	-	-	507	552	574
MKE vs. Consensus (%)	-	-	2.0	9.0	35.4

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HOLD

Share Price	MYR 3.06
12m Price Target	MYR 3.37 (+10%)
Previous Price Target	MYR 3.37

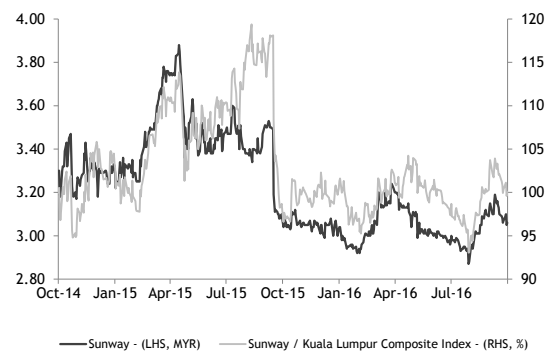
Statistics

Shariah status	Yes
52w high/low (MYR)	3.24/2.87
3m avg turnover (USDm)	0.9
Free float (%)	37.8
Issued shares (m)	2,061
Market capitalisation	MYR6.3B USD1.5B

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)	3	(1)
Relative to index (%)	(0)	3	2

Source: FactSet

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					
Warrants conversion (MYR2.50 exercise price; expiring Aug 2016)					
RNAV (MYR m)					
					6,549.8
					724.0
					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
Source: Company, Maybank KE					

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	7.1	7.3	10.9	10.2	7.9
Core P/E (x)	8.9	9.1	10.9	10.2	7.9
Core FD P/E (x)	9.4	9.7	11.9	10.2	7.9
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	12.1	2.8	2.9	3.8
FCF yield (%)	14.6	16.1	nm	nm	nm
EV/EBITDA (x)	15.6	21.8	13.2	13.3	10.5
EV/EBIT (x)	10.2	13.6	13.9	13.9	10.9

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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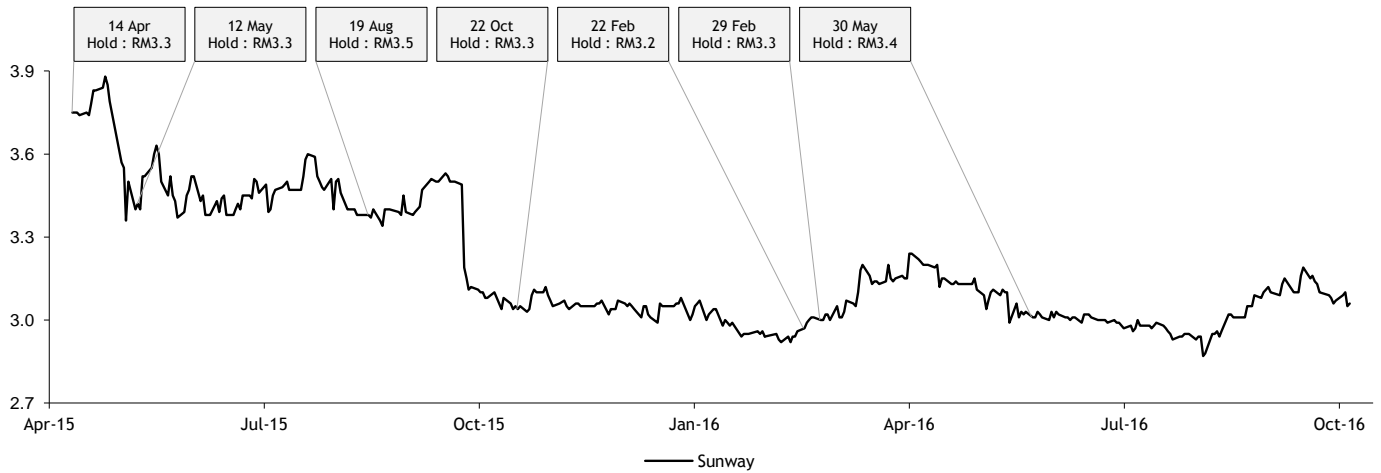
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Historical recommendations and target price: Sunway (SWB MK)



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