

3Q15 results: more of the same

Quick Note

Fig. 1: 3Q15: Results synopsis

Above or below	In-line; 9M15 core net income ~75% of our and consensus full year estimates
What to make of it	Slowdown in property development offset by earnings from construction and property investment
Key numbers	1) YTD construction orderbook replenishment of MYR2.6bn (external + internal + precast); 2) Effective 9M15 property sales form 75% of management's revised target of MYR750mn
What next	1) Construction division to benefit from job inflows from local infra projects and SGD-denominated precast sales; 2) Earnings from construction and property investment to offset slowdown in property development earnings; 3) Maintain Buy, defensive pick in the sector

Source: Nomura research

3Q15 earnings within estimates; new property sales ~MYR210mn

- Sunway reported 3Q15 adjusted net income of MYR147mn, in line with our expectations. Cumulatively, 9M15 adjusted net income of MYR415mn forms ~75% of both our and consensus estimates for the full-year FY15F, respectively.
- During the quarter, positives such as: **1)** better pace of earnings recognition in construction, as well as **2)** higher sales from the quarry division due to strong demand for pre-mix were partially offset by: **1)** lower earnings from property development (on lower profit recognition), and **2)** pre-tax loss from the trading and manufacturing division due to a slowdown in sales in Malaysia after the implementation of the goods and services tax (GST) from 1 April, weaker MYR and reduced overseas demand due to slowdown in oil & gas and mining sectors.
- Effective new property sales in 3Q15 were ~MYR210mn (+26% q-q) (fig 3). 9M15 effective sales of MYR564mn formed 75% of management's full-year estimate of MYR750mn. Note that, last month management revised down its sales target by 40% from MYR1.2bn earlier and therefore, we expect earnings from property development to remain weak over the next two years. Unbilled sales stand at MYR2.3bn (ex-minorities = MYR1.7bn).
- Sunway's construction division (SCGB MK, Buy) managed to secure MYR2.6bn worth of projects YTD 2015 and has a current outstanding orderbook of MYR4.3bn (external MYR3.2bn) (see our note [Sunway Construction: 3Q15 results](#)).
- We expect limited stock price reaction to the result announcement and maintain our Buy rating on Sunway as we expect **1)** more order inflows for the construction division from Malaysian infra projects like the MRT 2, LRT 3 and Penang, and; **2)** steady earnings from its property investments (through Sunway REIT and non-REIT assets) which will continue to offset weakness in the property market in Malaysia, in our view. It currently trades at 11x 2016F P/E (EPS: 29 sen) and our TP values it at 14x 2016F P/E.

Global Markets Research

27 November 2015

Rating	Buy
Remains	
Target Price	MYR 4.00
Remains	
Closing price	MYR 3.06
26 November 2015	

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Key numbers

Net income was adjusted for: 1) a one-off gain of MYR23mn from the disposal of Sunway Hotel Georgetown and Wisma Sunway to its REIT in 1Q15, 2) MYR111mn fair value gain from associate in 2Q15, 3) MYR17mn loss on fair value of ESOS and 4) listing expense of MYR16mn.

Construction: Although construction revenues were down 60% y-y due to higher contribution from internal projects, PBT was up 36% y-y in 3Q15 due to higher profit recognition from local infrastructure projects (fig 2).

Property Development: Revenues were up 52% y-y, but PBT was down 61% y-y in 3Q15 due to lower billings from local projects and lower profit contribution from Singapore projects. (see fig 5 for upcoming launches)

Property investment: PBT was up 18% y-y. This excludes a one-off gain of MYR23mn from the disposal of Sunway Hotel Georgetown and Wisma Sunway to its REIT and MYR111mn fair value gain from its associate. The higher PBT was driven by higher rental income from Sunway Pinnacle (better occupancy) and new academic block for Sunway University.

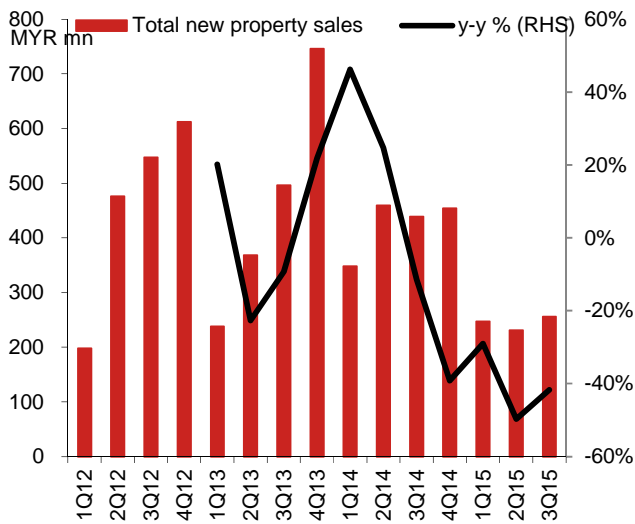
Trading & Manufacturing: PBT down 66% y-y due to a slowdown in sales in Malaysia after GST, and also low demand from overseas due to slowdown in oil & gas and mining sector.

Fig. 2: Sunway: 3Q15 results review

MYR mn	3Q15	3Q14	% chg y-y	2Q15	% chg q-q	9M15	9M14	% chg y-y	FY15F	as % of FY15F
Quarterly Property sales										
Total	256	439	(42%)	231	11%	734	1,246	(41%)	1,365	54%
Effective	211	324	(35%)	167	26%	564	952	(41%)	1,091	52%
CORE REVENUES	951	1,134	(16%)	1,042	(9%)	3,053	3,364	(9%)	4,909	62%
Property development	271	178	52%	324	(16%)	776	702	10%	1,094	71%
Property investment	172	152	13%	145	19%	456	434	5%	636	72%
Construction	197	488	(60%)	244	(19%)	816	1,273	(36%)	1,768	46%
Trading and manufacturing	130	159	(18%)	122	7%	445	470	(5%)	703	63%
Quarry	67	56	19%	64	4%	185	162	14%	260	71%
Investment holdings	1	0	NM	0	NM	2	0	NM	3	NM
Others	113	100	12%	142	(21%)	373	323	16%	446	84%
CORE OPERATING PROFIT (EBIT)	119	157	(25%)	139	(15%)	428	413	4%	614	70%
Share of results of associates + JVs	32	39	(18%)	40	(21%)	110	127	(13%)	165	67%
CORE PBT	185	191	(3%)	180	3%	542	516	5%	734	74%
Property development	38	99	(61%)	53	(27%)	148	244	(39%)	327	45%
Property investment	37	32	18%	22	69%	80	82	(3%)	132	60%
Construction	24	18	36%	56	(57%)	133	82	62%	141	94%
Trading and manufacturing	4	10	(66%)	(1)	>100%	16	29	(46%)	41	38%
Quarry	10	7	52%	16	(33%)	34	21	60%	42	81%
Investment holdings	35	11	>100%	9	>100%	47	27	72%	0	NM
Others	36	14	>100%	25	45%	86	32	>100%	52	166%
Taxation	(31)	(22)	44%	(33)	(5%)	(101)	(97)	4%	(113)	89%
CORE PAT	153	169	(9%)	147	5%	442	419	5%	621	71%
Less, core minorities	(6)	(20)	(69%)	(10)	(38%)	(27)	(34)	(20%)	(74)	36%
CORE NPATAMI	147	149	(1%)	137	8%	415	386	8%	547	76%
One off gains / (losses)	(14)	(6)	NM	101	NM	103	45	NM	16	NM
HEADLINE NPATAMI	133	144	(7%)	238	(44%)	518	430	20%	563	92%
PBT margins (ex associates/JVs)	19%	17%	3 ppt	17%	2 ppt	18%	15%	2 ppt	15%	
Property development	13%	46%	-33 ppt	11%	2 ppt	19%	35%	-16 ppt	23%	
Property investment	6%	5%	1 ppt	0%	6 ppt	17%	19%	-2 ppt	7%	
Construction	12%	4%	8 ppt	23%	-11 ppt	16%	6%	10 ppt	8%	
Trading and manufacturing	3%	6%	-3 ppt	(1%)	3 ppt	3%	6%	-3 ppt	6%	
Quarry	16%	12%	3 ppt	24%	-9 ppt	18%	13%	5 ppt	16%	
Investment holdings	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Others	32%	14%	18 ppt	17%	15 ppt	23%	10%	13 ppt	12%	

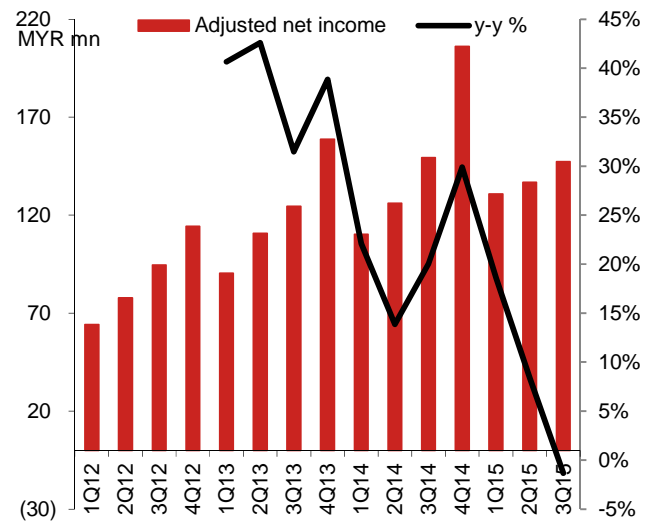
Source: Company data, Nomura estimates

Fig. 3: Total new property sales



Source: Company data, Nomura research

Fig. 4: Adjusted net income



Source: Company data, Nomura research

Fig. 5: Sunway: Upcoming launches in 2015

Project	Product Type	Location	GDV (MYR mn)
Mount Sophia	Low rise condominium	Singapore	600
Emerald Residences & shops	Landed residential & Retail shops	Sunway Iskandar	430
Cassia	Semi-D & Terrace House	Batu Maung, Penang	80
Velocity	Office & Retail	Jalan Peel	130
Total			1,240

Source: Company data, Nomura research

Valuation Methodology: We value Sunway based on SOTP-derived RNAV. We sum the values from all businesses to get the group's RNAV and add cash from warrants and ESOS to get fully-diluted RNAV of MYR12.4bn. To that we ascribe a 50% discount to the property development and non-REIT investment RNAV and derive our TP of MYR4.00. Our TP values the company at 14x FY16F P/E and 1.2x P/B.

Risks to our view: 1) project delays or disappointing take-up rates; 2) failure to meet its sales targets or pass on cost increases to customers; 3) further weakening of Iskandar sentiment; 4) failure of Sunway Putra Mall to get tenancy targets; and 5) unexpected government policy measures to curb the sentiment in the property sector.

Appendix A-1

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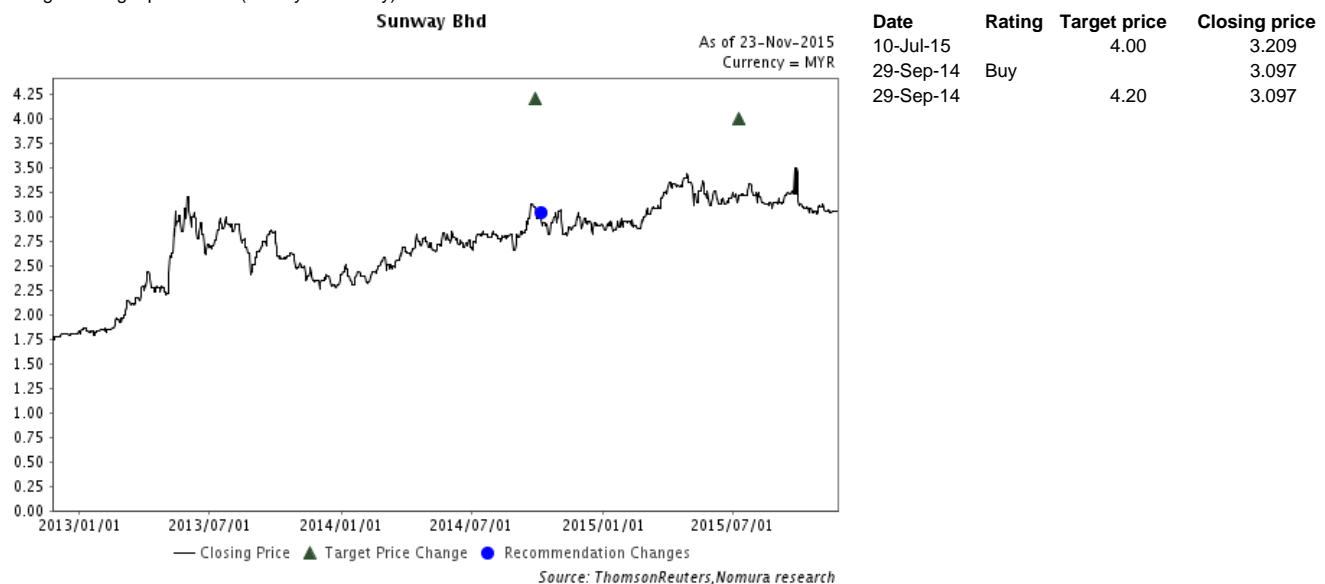
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction Group Bhd	SCGB MK	MYR 1.37	26-Nov-2015	Buy	N/A	
Sunway Bhd	SWB MK	MYR 3.06	26-Nov-2015	Buy	N/A	

Sunway Bhd (SWB MK)

MYR 3.06 (26-Nov-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



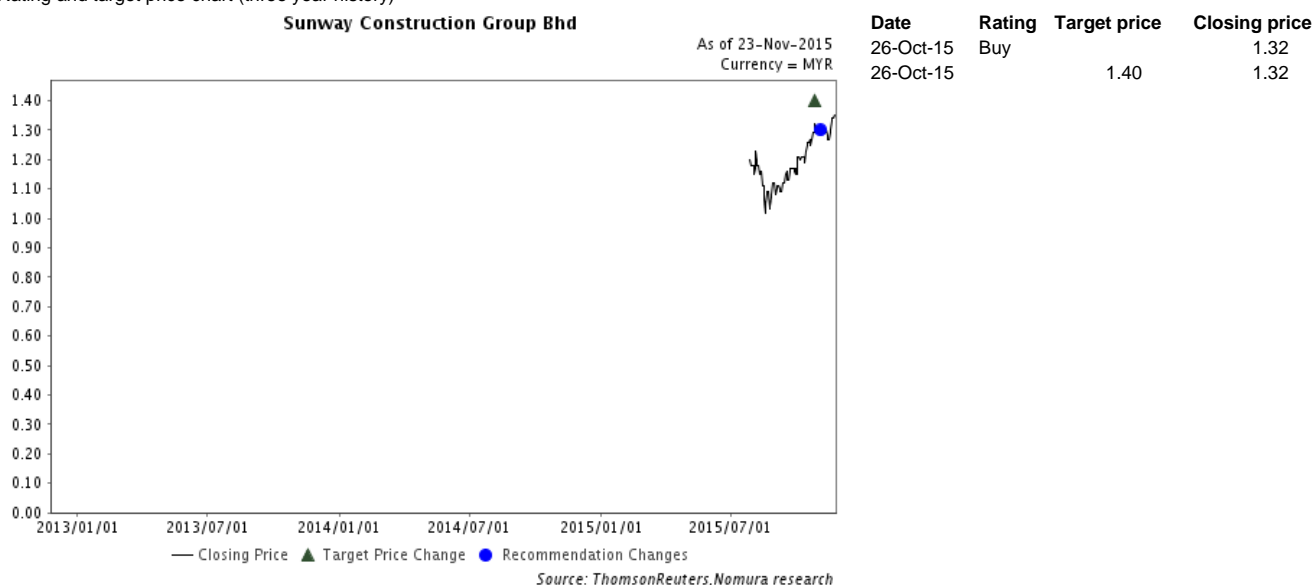
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value the group based on SOTP-derived RNAV. We value the property development business using the DCF of future profits from all the projects and unbilled sales. We use a discount rate (cost of equity) of 10.1% for Malaysia, 11.1% for Singapore, 16.4% for China, 12.9% for India and 12.1% for Australia projects. To that we add the book value of property development to get the NAV from the property development business. We value the construction business at 13x FY16F P/E to reflect Sunway construction listing multiple. The REIT arm of property investment is valued at Nomura's TP of MYR1.61 while the non-REIT assets are valued at carrying value. We value other businesses at 10x FY16F P/E (historical average). We sum the values from all businesses to get the group's RNAV and add cash from warrants and ESOS to get fully-diluted RNAV of MYR12.4bn. To that we ascribe a 50% discount to the property development and non-REIT investment RNAV. Using fully diluted shares of 2bn and applying a discount of 50%, we derive our TP of MYR4.00. Our TP values the company at 14x FY16F P/E and 1.2x P/B. The benchmark index for the stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Downside risks: 1) any project delays or disappointing take-up rates could dent our earnings forecasts; 2) a failure of the company to meet its sales targets or pass on cost increases to customers; 3) further weakening of Iskandar sentiment; 4) failure of Sunway Putra Mall to get tenancy targets; and 5) any contractions in GDP growth or unexpected government policy measures to curb the sentiment in the property sector are downside risks to our call.

Sunway Construction Group Bhd (SCGB MK)**MYR 1.37 (26-Nov-2015)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value SCGB based on CY16F target P/E of 14x which is higher than the average P/E of Malaysian listed contractors but lower than valuations of large-caps like IJM and GAM. We believe the premium is justified due to SCGB's exposure to Singapore's growing precast market. Using our fully diluted EPS forecast of 10sen for CY16F and target multiple of 14x, we arrive at our target price of MYR1.40. The benchmark index for the stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Downside risks to our view: 1) Delay in construction project awards; 2) lower-than-expected margins; 3) Singapore housing units not growing as expected; 4) lower-than-expected orderbook inflows.

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