

### 4Q15: respectable property sales

## Quick Note

#### Fig. 1: 4Q15 results synopsis

<b>Above or below</b>	Slightly above; FY15 core net income forms ~107%/106% of our and consensus estimates.
<b>What to make of it</b>	Property sales momentum picked up recording effective sales of ~MYR 350mn which was up 65% q-q.
<b>Key numbers</b>	1) Construction orderbook replenishment of MYR2.6bn (external + internal + precast); 2) Effective property sales (for FY15) ~20% above management guidance of MYR750mn.
<b>What next</b>	1) Construction division to benefit from job inflows from local infrastructure 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: Company data, Bloomberg, Nomura research

#### 4Q15 results: new property sales of ~MYR350mn up 65% q-q

- Sunway reported 4Q15 adjusted net income of MYR170mn with FY15 adjusted net income of MYR585mn (flat y-y) coming in slightly above our and consensus estimates.
- Effective new property sales surprised positively in 4Q15. 4Q15 sales of ~MYR350mn were up 65% q-q (fig 3) which resulted in FY15 effective sales of ~MYR912mn ~20% above management's guidance of MYR750mn. Unbilled sales were MYR2.1bn (ex-minorities = MYR1.5bn).
- For FY16, company is targeting total property sales of MYR1.4bn (effective: MYR1.1bn) on the back of MYR1.6bn (effective: MYR1.2bn) launches (see Figure 5)
- Sunway's construction division (SCGB MK, Neutral) managed to secure MYR2.6bn worth of projects in 2015 and has a current outstanding orderbook of MYR3.7bn (external MYR2.7bn) (see our note [Sunway Construction - 4Q15 results](#)).
- We expect a slightly positive reaction from the stock price to the result announcement and maintain our Buy rating on Sunway as we expect **1)** more order inflows for the construction division from Malaysian infrastructure 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 10.5x 2016F P/E (EPS: 29 sen) and our TP values it at 14x 2016F P/E.

#### 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, 4) listing expense of MYR16mn and 5) MYR56mn fair value gain on the revaluation of investment property.

**Construction:** Although construction revenues almost doubled y-y due to lower elimination of revenue from internal projects, PBT was down 45% y-y in 4Q15 due to the normalisation of the profit margin in the quarter as some

### Global Markets Research

26 February 2016

<b>Rating</b> Remains	<b>Buy</b>
<b>Target Price</b> Remains	MYR 4.00
<b>Closing price</b> 26 February 2016	MYR 3.01

### Research analysts

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of the infrastructure projects with higher margins had been completed earlier (fig 2).

**Property Development:** Revenues were down 15% y-y due to fewer on-going projects under development, while PBT was down only 4% y-y in 4Q15 due to higher profit contribution from the Singapore property projects and profit from land sales. (see fig 5 for upcoming launches)

**Property investment:** PBT was down 10% y-y in the quarter. This excludes a one-off revaluation gain of MYR56mn on investment property.

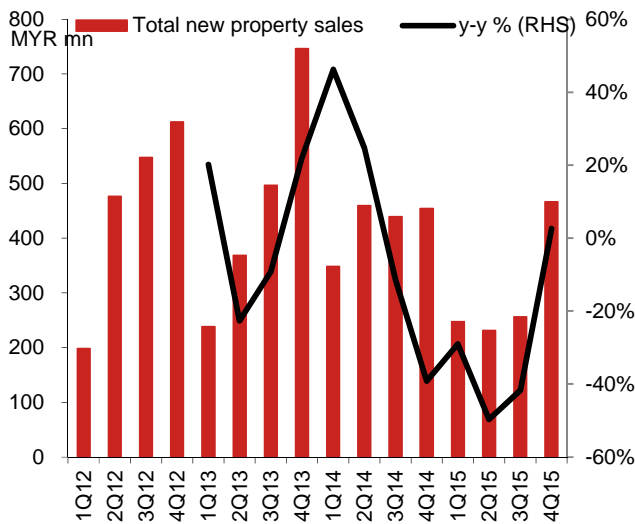
**Trading & Manufacturing:** PBT was up y-y marginally due to the maiden profit contribution from the newly acquired Winstar Group in September 2015.

Fig. 2: Sunway: 4Q15 results review

MYR mn	4Q15	4Q14	% chg y-y	3Q15	% chg q-q	FY15	FY14	% chg y-y	FY15F	as % of FY15F
<b>Quarterly Property sales</b>										
Total	466	454	3%	256	82%	1,200	1,700	(29%)	1,365	88%
Effective	348	348	0%	211	65%	912	1,300	(30%)	1,091	84%
<b>CORE REVENUES</b>	<b>1,399</b>	<b>1,194</b>	<b>17%</b>	<b>951</b>	<b>47%</b>	<b>4,451</b>	<b>4,558</b>	<b>(2%)</b>	<b>4,909</b>	<b>91%</b>
Property development	420	496	(15%)	271	55%	1,196	1,198	(0%)	1,094	109%
Property investment	185	160	16%	172	8%	642	594	8%	636	101%
Construction	406	208	95%	197	>100%	1,222	1,481	(18%)	1,768	69%
Trading and manufacturing	205	169	22%	130	57%	650	639	2%	703	92%
Quarry	58	74	(23%)	67	(14%)	242	237	2%	260	93%
Investment holdings	3	2	10%	1	>100%	5	3	87%	3	NM
Others	122	83	48%	113	8%	495	405	22%	446	111%
<b>CORE OPERATING PROFIT (EBIT)</b>	<b>259</b>	<b>237</b>	<b>10%</b>	<b>119</b>	<b>118%</b>	<b>687</b>	<b>649</b>	<b>6%</b>	<b>614</b>	<b>112%</b>
<b>Share of results of associates + JVs</b>	<b>50</b>	<b>45</b>	<b>11%</b>	<b>32</b>	<b>57%</b>	<b>159</b>	<b>171</b>	<b>(7%)</b>	<b>165</b>	<b>97%</b>
<b>CORE PBT</b>	<b>240</b>	<b>274</b>	<b>(13%)</b>	<b>185</b>	<b>30%</b>	<b>782</b>	<b>791</b>	<b>(1%)</b>	<b>734</b>	<b>106%</b>
Property development	114	118	(4%)	38	>100%	263	362	(27%)	327	80%
Property investment	46	51	(10%)	37	23%	125	133	(6%)	132	95%
Construction	30	55	(45%)	24	25%	163	136	19%	141	115%
Trading and manufacturing	9	8	3%	4	>100%	24	37	(35%)	41	59%
Quarry	6	17	(67%)	10	(46%)	39	38	4%	42	94%
Investment holdings	17	10	70%	35	(51%)	64	37	71%	0	NM
Others	18	15	22%	36	(49%)	104	47	>100%	52	202%
Taxation	(29)	(45)	(34%)	(31)	(7%)	(130)	(142)	(8%)	(113)	115%
<b>CORE PAT</b>	<b>210</b>	<b>230</b>	<b>(8%)</b>	<b>153</b>	<b>37%</b>	<b>652</b>	<b>649</b>	<b>0%</b>	<b>621</b>	<b>105%</b>
<b>Less, core minorities</b>	<b>(40)</b>	<b>(31)</b>	<b>28%</b>	<b>(6)</b>	<b>&gt;100%</b>	<b>(67)</b>	<b>(65)</b>	<b>3%</b>	<b>(74)</b>	<b>91%</b>
<b>CORE NPATAMI</b>	<b>170</b>	<b>198</b>	<b>(14%)</b>	<b>147</b>	<b>16%</b>	<b>585</b>	<b>584</b>	<b>0%</b>	<b>547</b>	<b>107%</b>
<b>One off gains / (losses)</b>	<b>44</b>	<b>107</b>	<b>(59%)</b>	<b>(14)</b>	<b>NM</b>	<b>147</b>	<b>152</b>	<b>NM</b>	<b>16</b>	<b>NM</b>
<b>HEADLINE NPATAMI</b>	<b>215</b>	<b>305</b>	<b>(30%)</b>	<b>133</b>	<b>61%</b>	<b>732</b>	<b>735</b>	<b>(0%)</b>	<b>563</b>	<b>130%</b>
<b>PBT margins (ex associates/JVs)</b>	<b>17%</b>	<b>23%</b>	<b>-6 ppt</b>	<b>19%</b>	<b>-2 ppt</b>	<b>18%</b>	<b>17%</b>	<b>0 ppt</b>	<b>15%</b>	
Property development	22%	20%	2 ppt	13%	10 ppt	22%	30%	-8 ppt	23%	
Property investment	9%	16%	-7 ppt	6%	3 ppt	20%	22%	-3 ppt	7%	
Construction	7%	26%	-19 ppt	12%	-5 ppt	13%	9%	4 ppt	8%	
Trading and manufacturing	4%	5%	-1 ppt	3%	1 ppt	4%	6%	-2 ppt	6%	
Quarry	10%	23%	-13 ppt	16%	-6 ppt	16%	16%	0 ppt	16%	
Investment holdings	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Others	15%	18%	-3 ppt	32%	-16 ppt	21%	12%	9 ppt	12%	

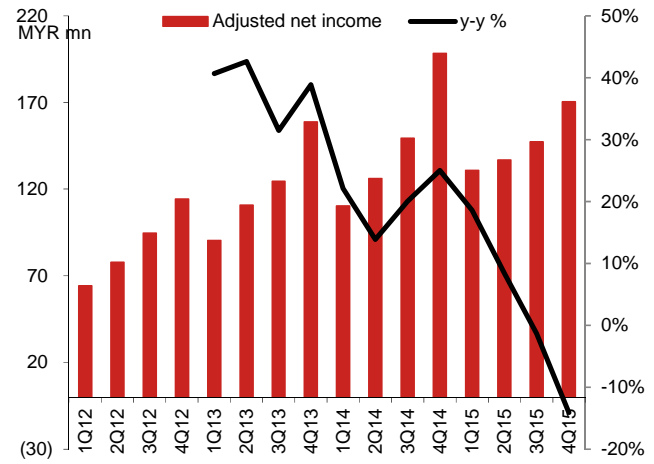
Source: Company data, Nomura estimates

**Fig. 3: Total new property sales**



Source: Company data, Nomura research

**Fig. 4: Adjusted net income**



Source: Company data, Nomura research

**Fig. 5: Sunway: Property launches in 2015 & upcoming launches in 2016**

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
Sunway Gardens	Condominium	Tianjin, China	150
<b>Total</b>			<b>1,390</b>

Upcoming Launches in 2016			
Project	Product Type	Location	GDV (MYR mn)
Sunway Gandaria	Retail & Service Apartment	Bangi	200
Sunway Geo Residences 3	Condominium & Townhouses	South Quay	400
Casa Kiara 3	Condominium	Mont Kiara	200
Velocity	Offices	Jalan Peel	200
Lost World Apartments	Service Apartment	Ipoh	100
Sunway Iskandar	Landed residences	Iskandar	400
Others			100
<b>Total</b>			<b>1,600</b>

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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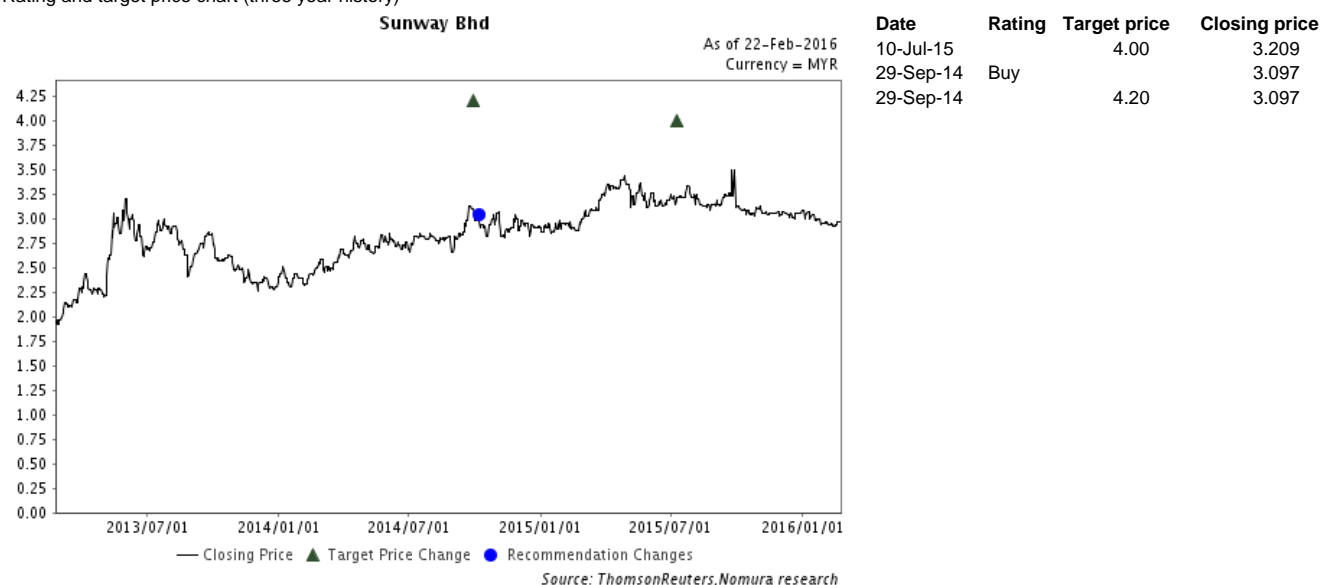
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Bhd	SWB MK	MYR 3.01	26-Feb-2016	Buy	N/A	

### Sunway Bhd (SWB MK)

MYR 3.01 (26-Feb-2016) 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.

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