

29 February 2016

Property | Real Estate

## Sunway

**Buy** (Maintained)

### Asset Disposal a Potential Share Price Catalyst

Target Price: MYR3.40  
 Price: MYR3.01  
 Market Cap: USD1,272m  
 Bloomberg Ticker: SWB MK

**While the diversified business model would help to mitigate earnings downside, asset disposal could potentially be the share price catalyst. Maintain BUY with a lower TP of MYR3.40 (13% upside), as we reflect the overall weaker property market conditions this year. Sunway's 2015 new sales hit MYR1.2bn, above management's expectation of MYR1bn. New sales target is 16% higher at MYR1.4bn.**

**We maintain our BUY rating**, but lower TP to MYR3.40 (from MYR3.60), based on a higher 35% discount to our updated RNAV (from 30%) to reflect weaker property market conditions. Potential share price catalysts include disposal or injection of property investment assets into the REIT.

**MYR1.2bn new sales in 2015** (vs MYR1.7bn in 2014). 4Q new sales reached MYR466m, from MYR254m in 3Q. The FY amount was mainly contributed by Velocity (MYR222m), South Quay (MYR171m), and China (MYR195m). The response for Sunway Iskandar Emerald Residence and shops in late 2015 is better than expected at c.60% bookings now, while Velocity's offices and retail shops are 90% sold (60% already signed sales and purchase agreements).

**MYR1.4bn target for 2016.** This year's launches are worth MYR1.6bn. These include Sunway Geo Residences 3 (GDV: MYR400m), office suites at Velocity (GDV: MYR200m), serviced apartment Sunway Gandaria in Bangi (GDV: MYR200m), and landed residences in Sunway Iskandar (GDV: MYR400m).

**Forecasts and risks.** We make minimal changes to our earnings forecast as we update the latest financial numbers. Unbilled sales fell slightly to MYR2.1bn (from MYR2.3bn in 3Q), while construction orderbook stood at MYR3.7bn. Total orderbook replenishment in 2015 was MYR2.6bn. Key risks are delays in launches and worse-than-expected market conditions.

#### 4Q15 earnings: in line with our estimate but above market expectations

(MYRm)	4Q15	3Q15	QoQ	4Q14	YoY	Comments
Revenue	1,398.8	951.0	47.1%	1,477.5	-5.3%	QoQ growth was driven by property development and construction divisions.
EBIT	259.3	118.7	118.4%	373.2	-30.5%	
EBIT (%)	18.5%	12.5%		25.3%		
NI	214.7	133.3	61.0%	313.0	-31.4%	
Core NI	174.4	147.0	18.6%	206.1	-15.4%	

Source: Company data, RHB

**4Q15 in line with our estimate but above market expectations.** Overall performance from all divisions was decent on a full-year basis, with the property investment division seeing a stronger growth, mainly on higher occupancy rates at Sunway Pinnacle and Sunway Putra Hotel. A 6 sen dividend was declared, bringing full-year total dividend to 49 sen,

Forecasts and Valuations	Dec-14	Dec-15F	Dec-16F	Dec-17F	Dec-18F
Total turnover (MYRm)	4,842	4,451	4,626	4,965	5,201
Reported net profit (MYRm)	743	620	524	558	578
Recurring net profit (MYRm)	592	591	524	558	578
Recurring net profit growth (%)	22.6	(0.1)	(11.4)	6.6	3.6
Recurring EPS (MYR)	0.34	0.33	0.29	0.30	0.31
DPS (MYR)	0.11	0.49	0.11	0.12	0.12
Recurring P/E (x)	8.8	9.2	10.4	9.9	9.6
P/B (x)	0.87	0.83	0.80	0.77	0.74
Dividend Yield (%)	3.7	16.3	3.7	4.0	4.0
Return on average equity (%)	13.2	9.9	7.8	7.9	7.8
Return on average assets (%)	6.2	4.3	3.2	3.3	3.3
Net debt to equity (%)	28.5	45.3	38.4	34.5	34.9
Our vs consensus EPS (adjusted) (%)		7.4	(2.7)	(7.9)	(5.5)

Source: Company data, RHB

#### Share Data

Avg Daily Turnover (MYR/USD) 2.68m/0.63m  
 52-wk Price low/high (MYR) 2.92 - 3.88  
 Free Float (%) 39  
 Shares outstanding (m) 1,780  
 Estimated Return 13%

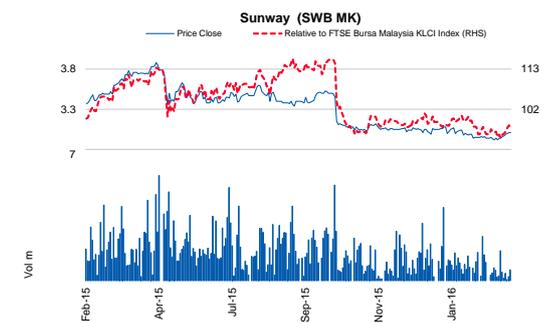
#### Shareholders (%)

Tan Sri Dato' Jeffrey Cheah 55.4  
 Employees Provident Fund 5.7

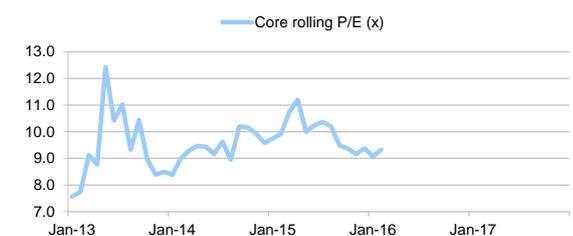
#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.3)	2.4	(1.6)	(11.5)	(10.7)
Relative	(0.6)	0.1	(0.4)	(16.8)	(2.0)

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

#### Analyst

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## Financial Exhibits

Profit & Loss (MYRm)	Dec-14	Dec-15F	Dec-16F	Dec-17F	Dec-18F	Cash flow (MYRm)	Dec-14	Dec-15F	Dec-16F	Dec-17F	Dec-18F
<b>Total turnover</b>	<b>4,842</b>	<b>4,451</b>	<b>4,626</b>	<b>4,965</b>	<b>5,201</b>	<b>Operating profit</b>	<b>769</b>	<b>574</b>	<b>742</b>	<b>763</b>	<b>770</b>
Cost of sales	(3,504)	(3,264)	(3,313)	(3,570)	(3,762)	Depreciation & amortisation	116	119	149	134	136
<b>Gross profit</b>	<b>1,337</b>	<b>1,187</b>	<b>1,313</b>	<b>1,395</b>	<b>1,440</b>	Change in working capital	(822)	60	(148)	(285)	(110)
Gen & admin expenses	(717)	(753)	(694)	(770)	(806)	Other operating cash flow	212	267	268	269	270
Other operating costs	148	140	123	138	136	<b>Operating cash flow</b>	<b>275</b>	<b>1,020</b>	<b>1,011</b>	<b>882</b>	<b>1,066</b>
<b>Operating profit</b>	<b>769</b>	<b>574</b>	<b>742</b>	<b>763</b>	<b>770</b>	Interest received	48	98	103	109	115
EBITDA	885	693	891	897	906	Interest paid	(79)	(124)	(129)	(128)	(128)
Depreciation of fixed assets	(116)	(119)	(149)	(134)	(136)	Tax paid	(148)	(130)	(253)	(267)	(281)
<b>Operating profit</b>	<b>769</b>	<b>574</b>	<b>742</b>	<b>763</b>	<b>770</b>	<b>Cash flow from operations</b>	<b>97</b>	<b>864</b>	<b>732</b>	<b>596</b>	<b>772</b>
Net income from investments	233	270	298	326	368	Capex	(691)	(963)	-	-	(324)
Interest income	48	98	103	109	115	Other investing cash flow	118	(1,146)	18	(4)	(200)
Interest expense	(79)	(124)	(129)	(128)	(128)	<b>Cash flow from investing activities</b>	<b>(573)</b>	<b>(2,109)</b>	<b>18</b>	<b>(4)</b>	<b>(524)</b>
Other non-recurring income	(3)	(1)	(1)	(1)	(1)	Dividends paid	(238)	(1,092)	(200)	(220)	(223)
<b>Pre-tax profit</b>	<b>969</b>	<b>816</b>	<b>1,013</b>	<b>1,069</b>	<b>1,123</b>	Proceeds from issue of shares	105	-	-	-	-
Taxation	(148)	(130)	(253)	(267)	(281)	Increase in debt	989	-	-	-	-
Minority interests	(78)	(67)	(236)	(244)	(264)	Other financing cash flow	(108)	(103)	(102)	(101)	(100)
<b>Reported net profit</b>	<b>743</b>	<b>620</b>	<b>524</b>	<b>558</b>	<b>578</b>	<b>Cash flow from financing activities</b>	<b>748</b>	<b>(1,196)</b>	<b>(302)</b>	<b>(321)</b>	<b>(323)</b>
<b>Recurring net profit</b>	<b>592</b>	<b>591</b>	<b>524</b>	<b>558</b>	<b>578</b>	Cash at beginning of period	1,519	1,978	2,627	2,846	2,902
						<b>Total cash generated</b>	<b>271</b>	<b>(2,441)</b>	<b>448</b>	<b>270</b>	<b>(74)</b>
						<b>Implied cash at end of period</b>	<b>1,790</b>	<b>(463)</b>	<b>3,075</b>	<b>3,116</b>	<b>2,828</b>

Source: Company data, RHB

Key Ratios	Dec-14	Dec-15F	Dec-16F	Dec-17F	Dec-18F
Revenue growth (%)	2.3	(8.1)	3.9	7.3	4.8
Operating profit growth (%)	(57.8)	(25.3)	29.2	2.9	0.8
Recurring net profit growth (%)	22.6	(0.1)	(11.4)	6.6	3.6
Recurrent EPS growth (%)	7.2	(4.2)	(12.3)	5.5	2.6
Gross margin (%)	27.6	26.7	28.4	28.1	27.7
Operating EBITDA margin (%)	18.3	15.6	19.3	18.1	17.4
Operating margin (%)	15.9	12.9	16.0	15.4	14.8
Recurring net profit margin (%)	12.2	13.3	11.3	11.2	11.1
Return on average assets (%)	6.2	4.3	3.2	3.3	3.3
Return on average equity (%)	13.2	9.9	7.8	7.9	7.8
Net debt to equity (%)	28.5	45.3	38.4	34.5	34.9
Interest cover (x)	9.75	4.61	5.76	5.98	6.00
Capex/Free cash flow (%)	714.5	111.5	0.0	0.0	41.9
BVPS (MYR)	3.45	3.64	3.78	3.93	4.08
DPS (MYR)	0.11	0.49	0.11	0.12	0.12
Dividend payout ratio (%)	32.1	32.1	32.1	32.1	32.1
Free cash flow per share (MYR)	(0.34)	(0.06)	0.40	0.32	0.24

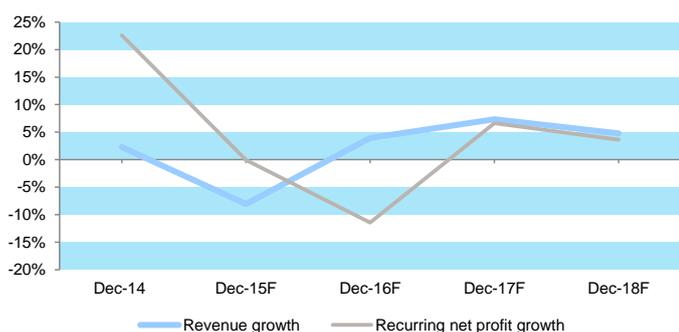
Source: Company data, RHB

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-14	Dec-15F	Dec-16F	Dec-17F	Dec-18F
<b>Total cash and equivalents</b>	<b>1,978</b>	<b>2,627</b>	<b>2,846</b>	<b>2,902</b>	<b>2,759</b>
Inventories	2,370	1,687	1,901	2,176	2,280
Accounts receivable	1,720	2,640	2,662	2,857	2,993
Other current assets	111	111	111	111	111
<b>Total current assets</b>	<b>6,179</b>	<b>7,065</b>	<b>7,520</b>	<b>8,046</b>	<b>8,142</b>
Tangible fixed assets	6,257	8,146	7,779	7,449	7,637
Intangible assets	319	320	320	320	320
Total other assets	161	463	962	1,488	2,055
Total non-current assets	6,737	8,930	9,061	9,257	10,012
<b>Total assets</b>	<b>12,916</b>	<b>15,994</b>	<b>16,581</b>	<b>17,303</b>	<b>18,154</b>
Short-term debt	2,283	3,304	3,304	3,304	3,304
Accounts payable	2,172	2,446	2,535	2,721	2,850
Other current liabilities	21	43	43	43	43
<b>Total current liabilities</b>	<b>4,476</b>	<b>5,793</b>	<b>5,882</b>	<b>6,067</b>	<b>6,197</b>
Total long-term debt	1,502	2,585	2,523	2,478	2,580
Other liabilities	605	416	416	416	416
<b>Total non-current liabilities</b>	<b>2,107</b>	<b>3,001</b>	<b>2,939</b>	<b>2,893</b>	<b>2,996</b>
<b>Total liabilities</b>	<b>6,583</b>	<b>8,794</b>	<b>8,821</b>	<b>8,961</b>	<b>9,193</b>
Share capital	1,731	1,800	1,800	1,800	1,800
Retained earnings reserve	2,457	2,802	3,126	3,464	3,820
Other reserves	1,757	1,948	1,948	1,948	1,948
<b>Shareholders' equity</b>	<b>5,945</b>	<b>6,550</b>	<b>6,873</b>	<b>7,211</b>	<b>7,567</b>
Minority interests	389	651	887	1,130	1,394
Other equity	0	-	-	-	-
<b>Total equity</b>	<b>6,334</b>	<b>7,200</b>	<b>7,760</b>	<b>8,342</b>	<b>8,962</b>
<b>Total liabilities &amp; equity</b>	<b>12,916</b>	<b>15,994</b>	<b>16,581</b>	<b>17,303</b>	<b>18,154</b>

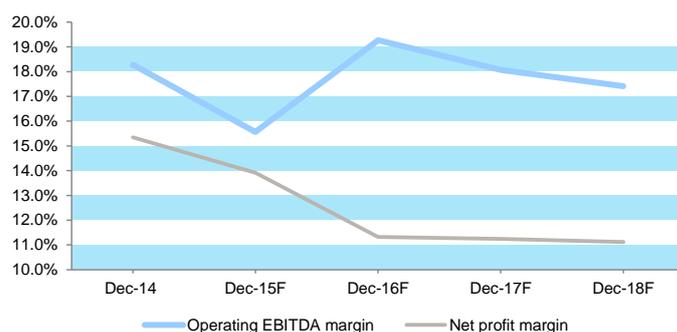
Source: Company data, RHB

Revenue growth vs Recurring net profit growth



Source: Company data, RHB

EBITDA margin vs Net profit margin



Source: Company data, RHB

Figure 1: Sunway's quarterly results

FYE Dec (MYRm)	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	FY14	FY15	YoY (%)	Comments
<b>Turnover</b>	<b>1,477.5</b>	<b>951.0</b>	<b>1,398.8</b>	<b>47.1</b>	<b>(5.3)</b>	<b>4,841.9</b>	<b>4,458.1</b>	<b>(7.9)</b>	
Prop dev	496.3	270.9	420.0	55.0	(15.4)	1,198.3	1,195.7	(0.2)	QoQ growth was due to higher progress billings from Velocity, South Quay, Lenang Heights, Eastwood and Geo Residence.
Prop invt	160.4	172.2	185.4	7.6	15.5	594.5	641.7	7.9	QoQ growth was due to year-end holidays.
Construction	478.0	196.8	405.9	106.3	(15.1)	1,751.0	1,222.1	(30.2)	Better performance was due to lower elimination of intragroup construction revenue.
Trading & Manufacturing	168.9	130.5	205.3	57.3	21.5	639.4	650.0	1.7	
Quarry	74.5	66.8	57.5	(13.8)	(22.8)	236.7	242.1	2.3	
Investment holdings	3.1	1.1	2.7	n.m.	n.m.	3.2	4.7	n.m.	
Others	96.3	112.8	122.0	8.2	26.7	418.8	494.9	18.2	
<b>EBIT</b>	<b>373.2</b>	<b>118.7</b>	<b>259.3</b>	<b>118.4</b>	<b>(30.5)</b>	<b>768.8</b>	<b>686.9</b>	<b>(10.6)</b>	
<i>EBIT Margin (%)</i>	<i>25.3%</i>	<i>12.5%</i>	<i>18.5%</i>			<i>15.9%</i>	<i>15.4%</i>		
Prop dev	96.6	34.5	96.4	179.3	(0.2)	285.8	207.7	(27.3)	
Prop invt	182.3	39.6	101.0	154.8	(44.6)	260.2	213.5	(17.9)	
Construction	54.8	23.4	26.8	14.3	(51.2)	133.3	159.0	19.3	
Trading & Manufacturing	7.7	5.4	11.7	118.1	52.4	38.6	31.9	(17.3)	
Quarry	15.7	10.6	5.8	(44.7)	(62.7)	35.9	39.5	10.0	
Investment holdings	7.3	(5.4)	7.8	n.m.	6.3	(19.8)	(13.6)	(31.2)	
Others	8.8	10.6	9.7	(7.9)	10.7	34.8	48.8	40.5	
Exceptional items	126.6	13.7	(40.3)	n.m.	(131.8)	82.0	(114.4)	n.m.	
Finance cost	(7.2)	15.8	(21.8)	(237.8)	200.1	(30.4)	(26.6)	(12.4)	
Asso & jv	44.7	31.5	49.6	57.2	11.0	233.2	269.9	15.8	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	
Pretax profit	407.8	171.0	283.8	66.0	(30.4)	968.8	929.2	(4.1)	
<i>PBT margin (%)</i>	<i>27.6%</i>	<i>18.0%</i>	<i>20.3%</i>			<i>20.0%</i>	<i>20.8%</i>		
Tax	(50.8)	(31.5)	(29.2)	(7.3)	(42.6)	(148.0)	(129.8)	(12.3)	
<i>Tax (%)</i>	<i>12.5%</i>	<i>18.4%</i>	<i>10.3%</i>			<i>15.3%</i>	<i>14.0%</i>		
PAT	357.0	139.5	254.7	82.6	(28.7)	820.9	799.4	(2.6)	
MI	(44.0)	(6.2)	(40.0)	548.2	(9.1)	(77.6)	(67.0)	(13.7)	
<b>Net profit</b>	<b>313.0</b>	<b>133.3</b>	<b>214.7</b>	<b>61.0</b>	<b>(31.4)</b>	<b>743.2</b>	<b>732.4</b>	<b>(1.5)</b>	
<b>Core net profit</b>	<b>206.1</b>	<b>147.0</b>	<b>174.4</b>	<b>18.6</b>	<b>(15.4)</b>	<b>591.7</b>	<b>591.2</b>	<b>(0.1)</b>	
<i>Net margin (%)</i>	<i>13.9</i>	<i>15.5</i>	<i>12.5</i>			<i>12.2</i>			
EPS (sen)	18.1	8.2	9.7			40.2	33.4		
NTA (RM)	3.44	3.82	3.64			3.44	3.64		
DPS (sen)	6.0	0.0	6.0			11.0	11.0		
EBIT margin:									
Prop dev	19.5%	12.7%	23.0%			23.9%	17.4%		
Prop invt	113.6%	23.0%	54.5%			43.8%	33.3%		
Construction	11.5%	11.9%	6.6%			7.6%	13.0%		Margin was lower as some of the infrastructure projects with higher margins were completed earlier.
Trading & Manufacturing	4.6%	4.1%	5.7%			6.0%	4.9%		
Quarry	21.0%	15.8%	10.2%			15.2%	16.3%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	9.1%	9.4%	8.0%			8.3%	9.9%		

Source: RHB

Figure 2: Sunway's RNAV

Developments	Remaining Landbank (acre)	Remaining GDV (MYR m)	Effective stake	NPV @ 11%
<b>Selangor/KL</b>				
Sunway Damansara	15.36	1,691.28	60%	116.7
Sunway South Quay	42.17	3,296.66	60%	217.8
Sunway Monterez	5.36	43.67	60%	2.9
Sunway Semenyih	398.11	728.59	70%	46.0
Sunway Cheras	5.97	16.82	100%	1.4
Sunway Duta	3.16	120.00	60%	6.1
Sunway Montana	1.99	55.51	100%	5.8
Sunway Alam Suria	0.65	12.00	100%	1.2
Sunway Resort City	14.9	660	100%	62.3
Casa Kiara III	2.88	210.00	80%	17.4
Sunway Velocity	17.94	2,858.98	85%	237.5
Sunway Tower KL 1	1.00	240.00	100%	19.5
Bangi	3.00	59.00	100%	5.5
Melawati	2.00	43.00	100%	4.0
Sg Long	111.00	277.00	80%	18.0
Mont Putra, Rawang	163.00	156.00	100%	12.7
Kelana Jaya	17.00	1,800.00	100%	117.0
Subang industrial	6.35	110.00	80%	6.0
<b>Perak</b>				
Sunway City Ipoh	440.5	1,048.38	65%	66.6
<b>Penang</b>				
Sunway Hills	80.70	849.00	100%	66.6
Sunway Cassia, Batu Maung	6.62	74.00	100%	7.0
Sunway Wellesley, Bukit Mertajam	63.00	845.00	100%	79.8
Paya Terubong	24.46	1,500.00	100%	118.0
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.2
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.4
<b>S'pore</b>				
Mount Sophia	5.87	2,137.20	30%	75.7
Sembawang, Singapore	0.77	75.00	100%	9.3
Royal Square @ Novena	1.65	2,287.50	30%	81.0
<b>Johor</b>				
Bukit Lenang	64.79	698.40	80%	66.0
Medini	691.00	12,000.00	60%	610.8
Pendas	1,079.07	18,000.00	60%	723.0
<b>China</b>				
Sunway Guanghao	3.73	66.78	65%	4.3
Tianjin Eco City	24.00	1,300.00	60%	61.0
<b>India</b>				
Sunway OPUS Grand India	23.80	702.36	50%	20.4
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	6.6
<b>Australia</b>				
Wonderland Business Park (Sydney)	48.40	378.10	45%	9.5
Unbilled sales				362.5
<b>TOTAL</b>	<b>3,413.10</b>	<b>54,691.52</b>		<b>3,283.78</b>

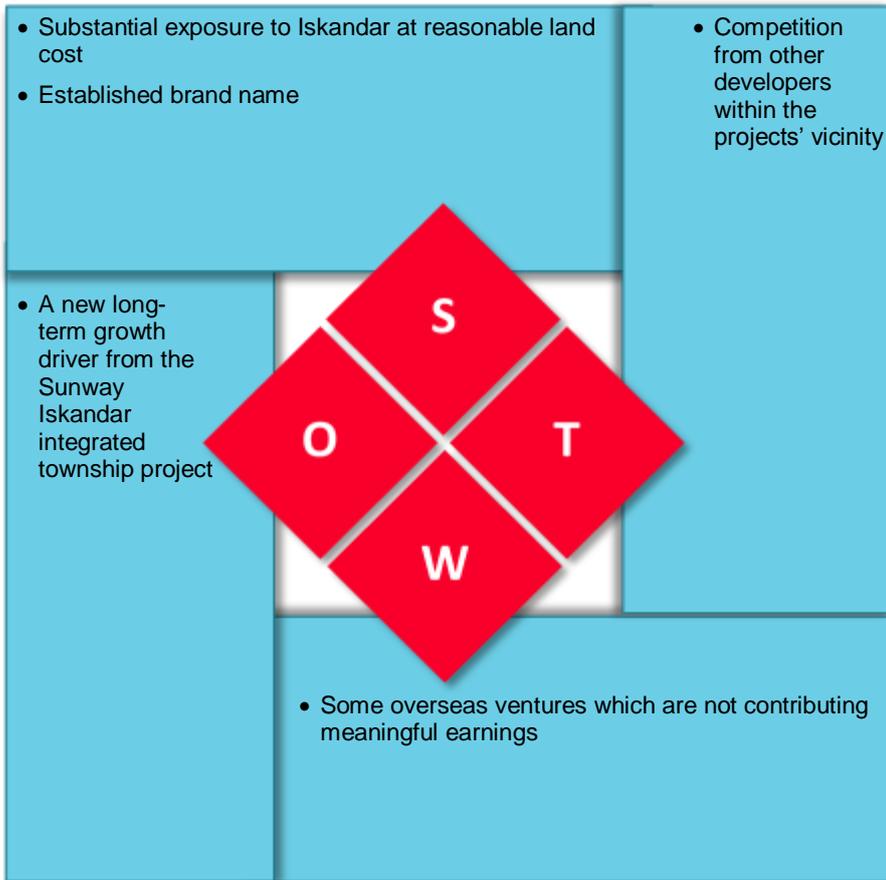
Investment properties	EBITDA (MYR m)	Market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)
Monash University Campus	17	299.5	299.5	100%	0
Monash U Residence	15	226.6	226.6	100%	0
Sunway University College	10	255.0	255.0	100%	0
Sunway Hotel Georgetown	4	74.0	37.6	100%	36.4
Sunway Hotel Phnom Penh	2	17.3	17.3	53%	0
Sunway Hotel Hanoi	2	8.8	8.8	100%	0
Sunway Giza	5	55.1	55.1	60%	0
Sunway Pinnacle	N/A	280.0	280.0	100%	0
Wisma Sunway	4	60.0	59.1	100%	0.9

Other divisions	Market value (MYR m)	Book value (MYR m)	Est. FY16 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
34% Sunway REIT	1,447.4	1,479.0		-	31.61
54.4% Sunway Construction	1,111.4	844.1			267.29
Others			115	7	805.00

Total					4,361.76
Shareholders' equity (ex cons.)					6,149.82
ESOS proceeds					551.52
Warrants conversion @ MYR2.25					651.13
Total RNAV					11,714.23
Discount to RNAV					35%
Discounted RNAV					7,614.25
Share base (mil)					1,780.00
No. of warrants					289.39
ESOS					172.35
Enlarged share base (mil)					2,241.74
TP (MYR)					3.40

Source: RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-02-22	Buy	3.60	2.97
2015-11-27	Buy	3.60	3.07
2015-09-03	Buy	3.86	3.45
2015-08-27	Buy	4.10	3.40
2015-05-26	Buy	4.10	3.52
2015-05-11	Buy	4.10	3.40
2015-03-19	Buy	4.18	3.52
2015-02-25	Buy	3.90	3.32
2014-11-19	Buy	3.90	3.26
2014-09-22	Buy	3.90	3.52

Source: RHB, Bloomberg

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**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

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