

30 August 2016

Property | Real Estate

Sunway

Buy (Maintained)

Business Diversification Mitigates Earnings Risks

We maintain our BUY rating and MYR3.40 TP. While management may be cautious with its pipeline launches, given the challenging market environment, Sunway's property investment and construction divisions should provide support to earnings. Unbilled sales of MYR2bn and a MYR4.93bn construction orderbook will drive earnings going forward.

Forecast. We make no changes to our earnings forecast and expect 2H16 net profit to come in stronger, in line with its historical trend. FY16F-18F earnings will be underpinned by MYR2bn in unbilled sales (unchanged from 1Q16) and a construction orderbook of MYR4.93bn, of which 26% comprises internal jobs.

MYR1.4bn sales target is unchanged for now. Sunway will likely launch more projects to drive new sales this year. Its 1H16 new sales reached MYR613m vs MYR263m in 1Q16, as Sunway Mont (80% taken up) was the key contributor followed by Sunway Gandaria (90% taken up for retail, 30% for residences).

Key projects in the pipeline include Sunway Geo Residences 3 (GDV: MYR400m), office suites at Velocity (GDV: MYR200m) and Lost World service apartments (GDV: MYR100m). That said, market conditions will help determine if management may review its upcoming projects again.

Maintain BUY. We maintain our TP of MYR3.40, based on a 35% discount to RNAV. The resilient contributions from the property investment and construction segments should be able to mitigate the potential earnings weakness in its property development business. A key downside risk to our call is worse-than-expected economic conditions.

2Q16 earnings are below expectations

(MYRm)	2Q16	1Q16	QoQ	2Q15	YoY	Comments
Revenue	1,155.7	1,069.0	8.1%	1,041.5	11.0%	
EBIT	161.4	149.6	7.9%	139.0	16.1%	
EBIT (%)	14.0%	14.0%		13.3%		
NI	154.4	102.1	51.2%	237.9	-35.1%	Headline net profit was lifted by a MYR21.5m fair value gain from Sunway REIT.
Core NI	132.9	104.5	27.1%	136.7	-2.8%	Below expectations
Core NI (%)	9.8%	12.5%		12.6%		

Source: Company data, RHB

2Q16 results below expectations. Overall, Sunway's core earnings were better than the previous quarter. 2Q16 profits were mainly driven by the non-core divisions such as trading and quarry. While the weaker property development profit was due to reduced contributions from overseas projects, the property investment segment was affected by seasonal factors – there were fewer visitors to the theme parks during the fasting month. The lower construction revenue was attributed to higher intra-group revenue elimination. Just as 2Q15, a 5 sen interim DPS was declared for the quarter.

Forecasts and Valuations	Dec-14	Dec-15	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	597	524	558	578
Recurring net profit growth (%)	22.6	0.9	(12.3)	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	9.1	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) (%)			1.1	(2.9)	(2.5)

Source: Company data, RHB

Target Price:	MYR3.40
Price:	MYR3.01
Market Cap:	USD1,524m
Bloomberg Ticker:	SWB MK

Share Data

Avg Daily Turnover (MYR/USD)	3.16m/0.78m
52-wk Price low/high (MYR)	2.87 - 3.53
Free Float (%)	39
Shares outstanding (m)	2,033
Estimated Return	13%

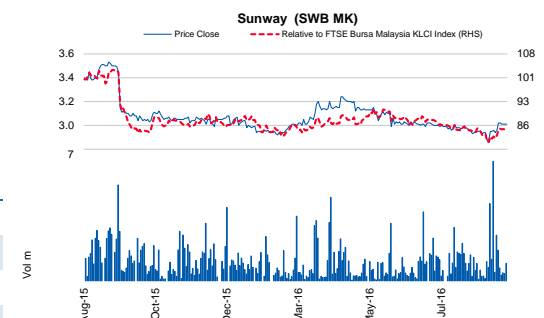
Shareholders (%)

Tan Sri Dato' Jeffrey Cheah	55.4
Employees Provident Fund	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.3)	2.7	(0.7)	0.3	(11.5)
Relative	(1.7)	0.9	(3.5)	(1.4)	(15.9)

Source: Bloomberg



Source: Bloomberg

Analyst

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Figure 1: Quarterly results review

FYE Dec (MYR mil)	2Q15	1Q16	2Q16	QoQ (%)	YoY (%)	1H15	1H16	YoY (%)	Comments
Turnover	1,041.5	1,069.0	1,155.7	8.1	11.0	2,101.5	2,224.7	5.9	
Prop dev	324.1	234.1	315.1	34.6	(2.8)	504.8	549.1	8.8	
Prop invt	144.8	169.2	160.1	(5.3)	10.6	284.1	329.3	15.9	Revenue fell QoQ due to lower visitor numbers to the theme parks and hotel during <i>Ramadan</i>
Construction	244.1	311.4	249.3	(19.9)	2.1	619.4	560.8	(9.5)	Lower revenue QoQ was due to higher intra-group elimination
Trading & manufacturing	122.3	193.1	218.5	13.1	78.6	314.2	411.5	31.0	
Quarry	64.1	38.7	60.6	56.4	(5.4)	117.9	99.3	(15.7)	
Investment holdings	0.0	0.9	5.4	n.m.	n.m.	0.9	6.3	n.m.	
Others	142.0	121.6	146.7	20.6	3.3	260.2	268.3	3.1	
EBIT	139.0	149.6	161.4	7.9	16.1	308.9	311.1	0.7	
<i>EBIT margin (%)</i>	<i>13.3%</i>	<i>14.0%</i>	<i>14.0%</i>			<i>14.7%</i>	<i>14.0%</i>		
Prop dev	36.7	55.7	53.1	(4.7)	44.5	76.8	108.7	41.7	Margin was lower due to lower contributions from overseas projects
Prop invt	28.5	36.4	24.4	(32.9)	(14.4)	72.9	60.8	(16.6)	
Construction	56.0	35.6	34.0	(4.6)	(39.4)	108.9	69.6	(36.1)	
Trading & manufacturing	0.7	8.5	10.5	22.6	1457.6	14.8	19.0	28.3	
Quarry	15.5	6.4	11.7	82.7	(24.8)	23.1	18.1	(21.9)	
Investment holdings	(9.1)	(1.9)	6.1	n.m.	(166.6)	(16.1)	4.1	(125.7)	
Others	10.7	9.0	21.8	142.6	104.3	28.6	30.8	7.7	
Exceptional items	(101.2)	2.4	(21.5)	n.m.	(78.8)	(87.8)	(19.1)	n.m.	
Finance cost	(9.3)	(16.1)	(15.6)	(3.5)	67.4	(20.7)	(31.7)	53.2	
Asso & jv	150.7	42.6	57.9	36.1	(61.6)	188.8	100.5	(46.8)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	
Pretax profit	280.9	176.1	203.8	15.7	(27.5)	474.4	379.9	(19.9)	
<i>PBT margin (%)</i>	<i>27.0%</i>	<i>16.5%</i>	<i>17.6%</i>			<i>22.6%</i>	<i>17.1%</i>		
Tax	(33.1)	(32.8)	(23.9)	(27.3)	(27.8)	(69.2)	(56.7)	(18.0)	
<i>Tax (%)</i>	<i>11.8%</i>	<i>18.7%</i>	<i>11.7%</i>			<i>14.6%</i>	<i>14.9%</i>		
PAT	247.8	143.2	179.9	25.6	(27.4)	405.3	323.1	(20.3)	
MI	(9.9)	(41.1)	(25.5)	(37.9)	157.0	(20.8)	(66.7)	220.3	
Net profit	237.9	102.1	154.4	51.2	(35.1)	384.4	256.5	(33.3)	
Core net profit	136.7	104.5	132.9	27.1	(2.8)	269.9	237.4	(12.0)	Below expectations
<i>Net margin (%)</i>	<i>13.1</i>	<i>9.8</i>	<i>11.5</i>						
EPS (sen)	7.9	5.7	7.8			15.5	13.5		
NTA (RM)	3.55	3.55	3.54			3.55	3.54		
DPS (sen)	5.0	0.0	5.0			5.0	5.0		
EBIT margin:									
Prop dev	11.3%	23.8%	16.8%			15.2%	19.8%		
Prop invt	19.7%	21.5%	15.2%			25.7%	18.5%		
Construction	22.9%	11.4%	13.6%			17.6%	12.4%		
Trading & manufacturing	0.5%	4.4%	4.8%			4.7%	4.6%		
Quarry	24.2%	16.5%	19.3%			19.6%	18.2%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	7.5%	7.4%	14.9%			11.0%	11.5%		

Source: RHB

Figure 2: RNAV estimate

Developments	Remaining Landbank (acre)	Remaining GDV (MYR m)	Effective stake	NPV @ 11%
Selangor/KL				
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
Perak				
Sunway City Ipoh	440.5	1,048.38	65%	66.6
Penang				
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
S'pore				
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
Johor				
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
China				
Sunway Guanghao	3.73	66.78	65%	4.3
Tianjin Eco City	24.00	1,300.00	60%	61.0
India				
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
Australia				
Wonderland Business Park (Sydney)	48.40	378.10	45%	9.5
Unbilled sales				362.5
TOTAL	3,413.10	54,691.52		3,283.78

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

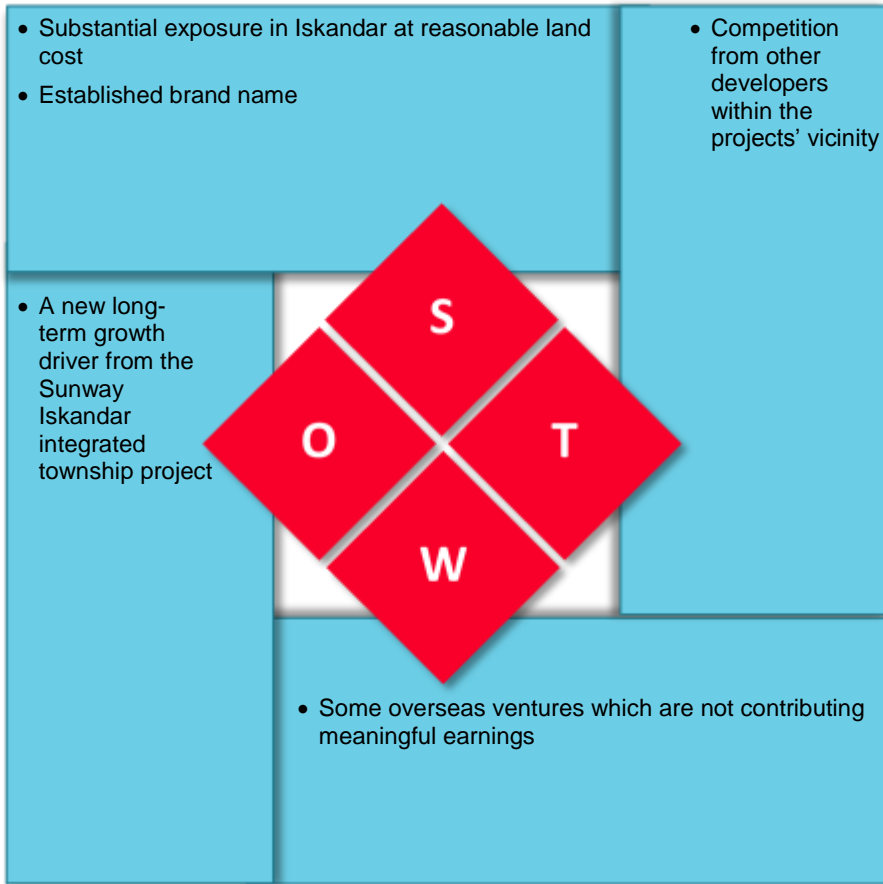
Financial Exhibits

Financial model updated on : 2016-08-29.

Asia		Financial summary	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Malaysia		Recurring EPS (MYR)	0.34	0.33	0.29	0.30	0.31
Property		EPS (MYR)	0.43	0.34	0.29	0.30	0.31
Sunway		DPS (MYR)	0.11	0.49	0.11	0.12	0.12
Bloomberg	SWB MK	BVPS (MYR)	3.45	3.64	3.78	3.93	4.08
Buy		Weighted avg adjusted shares (m)	1,725	1,800	1,818	1,836	1,854
Valuation basis		Valuation metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
35% discount to RNAV		Recurring P/E (x)	8.8	9.1	10.4	9.9	9.6
		P/E (x)	7.0	8.7	10.4	9.9	9.6
Key drivers		P/B (x)	0.87	0.83	0.80	0.77	0.74
i. New property sales;		FCF Yield (%)	(11.4)	(1.8)	13.4	10.8	8.0
ii. Disposal of investment properties		Dividend Yield (%)	3.7	16.3	3.7	4.0	4.0
		EV/EBITDA (x)	8.3	13.5	10.5	10.6	11.2
Key risks		EV/EBIT (x)	9.6	16.3	12.6	12.5	13.1
Weaker-than-expected market conditions							
Company Profile		Income statement (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Sunway is a well-known developer in the Klang Valley. Its flagship project, Bandar Sunway, is a well-established integrated township. The company has successfully transformed mining land to a matured residential and commercial cluster.		Total turnover	4,842	4,451	4,626	4,965	5,201
		Gross profit	1,337	1,187	1,313	1,395	1,440
		EBITDA	885	693	891	897	906
		Depreciation and amortisation	(116)	(119)	(149)	(134)	(136)
		Operating profit	769	574	742	763	770
		Net interest	(30)	(27)	(26)	(19)	(13)
		Income from associates & JVs	233	270	298	326	368
		Pre-tax profit	969	816	1,013	1,069	1,123
		Taxation	(148)	(130)	(253)	(267)	(281)
		Minority interests	(78)	(67)	(236)	(244)	(264)
		Recurring net profit	592	597	524	558	578
		Cash flow (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
		Change in working capital	(822)	60	(148)	(285)	(110)
		Cash flow from operations	97	864	732	596	772
		Capex	(691)	(963)	0	0	(324)
		Cash flow from investing activities	(573)	(2,109)	18	(4)	(524)
		Proceeds from issue of shares	105	1,067	0	0	0
		Dividends paid	(238)	(1,082)	(200)	(220)	(223)
		Cash flow from financing activities	748	1,987	(302)	(321)	(323)
		Balance sheet (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
		Total cash and equivalents	1,978	2,627	2,846	2,902	2,759
		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 assets	12,916	15,994	16,581	17,303	18,154
		Short-term debt	2,283	3,304	3,304	3,304	3,304
		Other liabilities	605	416	416	416	416
		Total liabilities	6,583	8,794	8,821	8,961	9,193
		Shareholders' equity	5,945	6,550	6,873	7,211	7,567
		Minority interests	389	651	887	1,130	1,394
		Total equity	6,334	7,200	7,760	8,342	8,962
		Net debt	1,806	3,262	2,981	2,880	3,125
		Total liabilities & equity	12,916	15,994	16,581	17,303	18,154
		Key metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
		Revenue growth (%)	2.3	(8.1)	3.9	7.3	4.8
		Recurrent EPS growth (%)	7.2	(3.3)	(13.1)	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
		Net profit margin (%)	15.4	13.9	11.3	11.2	11.1
		Dividend payout ratio (%)	32.1	174.7	174.7	174.7	174.7
		Capex/sales (%)	14.3	21.6	0.0	0.0	6.2
		Interest cover (x)	9.75	4.61	5.76	5.98	6.00

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-05-29	Buy	3.40	3.03
2016-02-29	Buy	3.40	3.00
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

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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