

30 May 2016

Property | Real Estate

Sunway

Buy (Maintained)

Expect Stronger Earnings In The Coming Quarters

We believe Sunway's potential asset disposal could be a share price catalyst going forward. While its annualised 1Q16 new sales missed management's target, launches scheduled for 2H16 should help to drive new sales. Also, the company's unbilled sales of MYR2bn and construction orderbook of MYR5bn should provide sufficient earnings visibility over the next 2-3 years. Maintain BUY, with a TP of MYR3.40 (12% upside)

Forecasts. We make no changes to our earnings forecasts. Its FY16F-18F earnings would be underpinned by MYR2bn of unbilled sales (from MYR2.1bn in 4Q15) and a record-high construction orderbook of MYR5bn.

Pipeline launches to drive new sales in 2H16. It is keeping its sales target of MYR1.4bn. 1Q16 new sales were only at MYR263m (from MYR466m in 4Q15) and Sunway will have to rely on pipeline launches to meet the target. In 2H, key projects that are slated for launch include Sunway Geo Residences 3, office suites at Sunway Velocity and Lost World service apartments. Thus far, response for Sunway Iskandar Emerald Residence and shops have been quite decent, at 30% and 50%.

Maintain BUY. We maintain our TP of MYR3.40, based on a 35% discount to RNAV. A potential asset disposal in 2H could be a catalyst for its share price catalyst. A key downside risk would be worse-than-expected economic conditions.

1Q16 earnings were below expectations

(MYRm)	1Q16	4Q15	QoQ	1Q15	YoY	Comments
Revenue	1,069.0	1,398.8	-23.6%	1,060.0	0.8%	All divisions recorded slower QoQ growth.
EBIT	149.6	259.3	-42.3%	169.9	-11.9%	
EBIT (%)	14.0%	18.5%		16.0%		
NI	102.1	214.7	-52.4%	146.5	-30.3%	
Core NI	104.5	174.4	-40.1%	133.1	-21.5%	Below expectations
Core NI (%)	9.8%	12.5%		12.6%		

Source: Company data, RHB

1Q16 results were below expectations, but this is in line with the historical trend – since 1Q is typically the weakest quarter in the year. All divisions recorded weaker QoQ growth, as progress billings were much higher in 4Q15, and a few construction projects were completed in late last year. In the meantime, Sunway's property investment segment was affected by seasonal factors.

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	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	10.5	10.0	9.7
P/B (x)	0.88	0.83	0.80	0.77	0.74
Dividend Yield (%)	3.6	16.2	3.6	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) (%)			(3.3)	(4.1)	(5.5)

Source: Company data, RHB

Target Price:	MYR3.40
Price:	MYR3.03
Market Cap:	USD1,464m
Bloomberg Ticker:	SWB MK

Share Data

Avg Daily Turnover (MYR/USD)	2.78m/0.70m
52-wk Price low/high (MYR)	2.92 - 3.60
Free Float (%)	39
Shares outstanding (m)	1,970
Estimated Return	12%

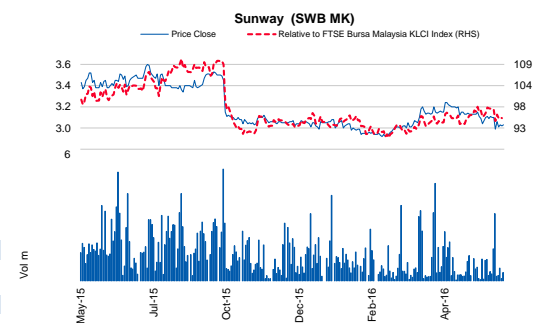
Shareholders (%)

Tan Sri Dato' Jeffrey Cheah	55.4
EPF	5.7

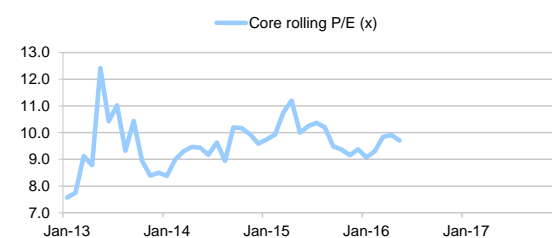
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.6)	(3.5)	0.7	(1.3)	(12.2)
Relative	2.0	0.1	2.7	1.8	(5.1)

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

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Figure 1: Quarterly results

FYE Dec (MYR mil)	1Q15	4Q15	1Q16	QoQ (%)	YoY (%)	Comments
Turnover	1,060.0	1,398.8	1,069.0	(23.6)	0.8	
Prop dev	180.7	420.0	234.1	(44.3)	29.5	QoQ drop was due to the higher progress billings from key projects in 4Q15.
Prop invt	139.3	185.4	169.2	(8.7)	21.5	Partly due to seasonal factors, but it also offset the higher contributions from Sunway University's new academic block, the higher occupancy rate in Sunway Pinnacle, and the opening of Nickelodeon Lost Lagoon.
Construction	375.3	405.9	311.4	(23.3)	(17.0)	The lower revenue was due to the completion of Sunway Pyramid Phase 3, BRT and Sunway Putra in 2015.
Trading & Manufacturing	191.9	205.3	193.1	(5.9)	0.6	
Quarry	53.8	57.5	38.7	(32.6)	(28.0)	
Investment holdings	0.8	2.7	0.9	n.m.	n.m.	
Others	118.2	122.0	121.6	(0.3)	2.9	
EBIT	169.9	259.3	149.6	(42.3)	(11.9)	
EBIT Margin (%)	16.0%	18.5%	14.0%			
Prop dev	40.0	96.4	55.7	(42.3)	39.0	
Prop invt	44.4	101.0	36.4	(64.0)	(18.0)	1Q15 saw a disposal gain of MYR22.9m and 4Q15 had a fair value gain of MYR55.6m.
Construction	52.9	26.8	35.6	33.0	(32.7)	
Trading & Manufacturing	14.1	11.7	8.5	(27.3)	(39.6)	
Quarry	7.6	5.8	6.4	9.2	(15.8)	
Investment holdings	(7.0)	7.8	(1.9)	n.m.	(72.4)	
Others	17.9	9.7	9.0	(7.6)	(49.8)	
Exceptional items	13.4	(40.3)	2.4	n.m.	(82.1)	
Finance cost	(11.4)	(21.8)	(16.1)	(25.9)	41.6	
Asso & jv	38.1	49.6	42.6	(14.2)	11.6	
Other Income	0.0	0.0	0.0	n.m.	n.m.	
Pretax profit	193.5	283.8	176.1	(38.0)	(9.0)	
PBT margin (%)	18.3%	20.3%	16.5%			
Tax	(36.1)	(29.2)	(32.8)	12.5	(9.0)	
Tax (%)	18.6%	10.3%	18.7%			
PAT	157.4	254.7	143.2	(43.8)	(9.0)	
MI	(10.9)	(40.0)	(41.1)	2.9	278.1	
Net profit	146.5	214.7	102.1	(52.4)	(30.3)	
Core net profit	133.1	174.4	104.5	(40.1)	(21.5)	Below expectations.
Net margin (%)	12.6	12.5	9.8			
EPS (sen)	7.7	9.7	5.7			
NTA (RM)	3.52	3.64	3.55			
DPS (sen)	0.0	6.0	0.0			
EBIT margin:						
Prop dev	22.2%	23.0%	23.8%			
Prop invt	31.9%	54.5%	21.5%			
Construction	14.1%	6.6%	11.4%			
Trading & Manufacturing	7.4%	5.7%	4.4%			
Quarry	14.1%	10.2%	16.5%			
Investment holdings	n.m.	n.m.	n.m.			
Others	15.1%	8.0%	7.4%			

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

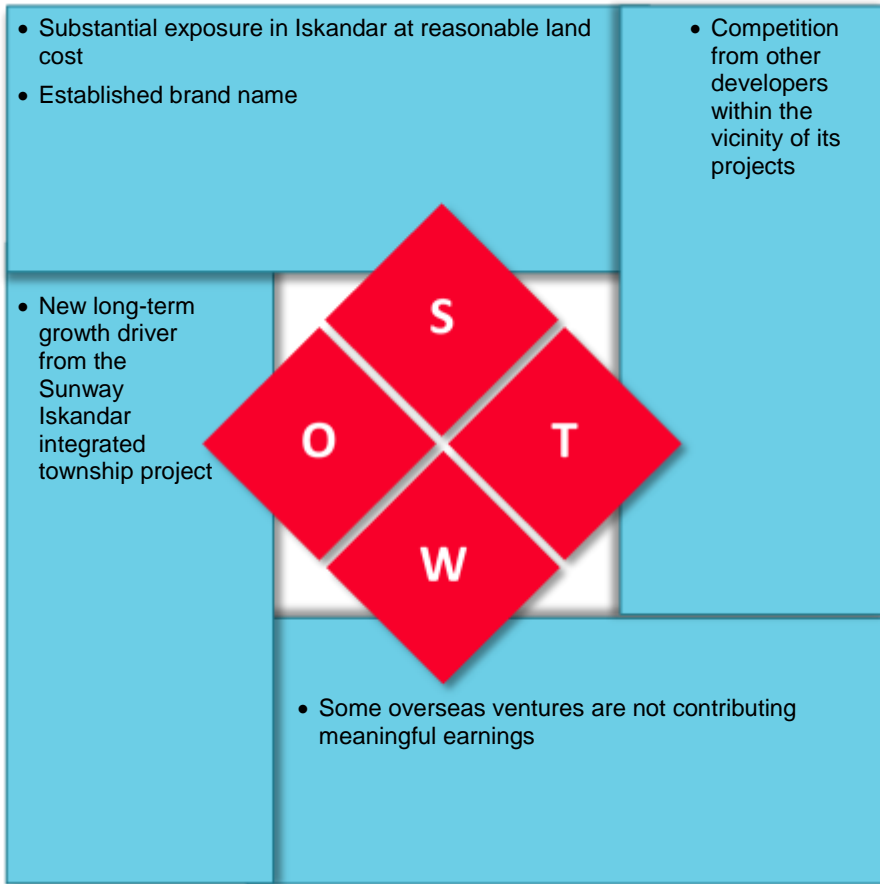
Financial Exhibits

Financial model updated on : 2016-05-27.

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	9.2	10.5	10.0	9.7
		P/E (x)	7.0	8.8	10.5	10.0	9.7
Key drivers		P/B (x)	0.88	0.83	0.80	0.77	0.74
i. New property sales;		FCF Yield (%)	(11.4)	(1.8)	13.3	10.7	8.0
ii. Disposal of investment properties		Dividend Yield (%)	3.6	16.2	3.6	4.0	4.0
		EV/EBITDA (x)	8.4	13.5	10.5	10.7	11.2
Key risks		EV/EBIT (x)	9.7	16.3	12.6	12.5	13.2
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	591	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	1,078	0	0	0
		Dividends paid	(238)	(1,092)	(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	(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
		Net profit margin (%)	15.4	13.9	11.3	11.2	11.1
		Dividend payout ratio (%)	32.1	176.3	176.3	176.3	176.3
		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
2016-02-29	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
2014-11-19	Buy	3.90	3.26

Source: RHB, Bloomberg

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