

Sunway (SWB MK)

Property- Real Estate

Market Cap: USD1,297m

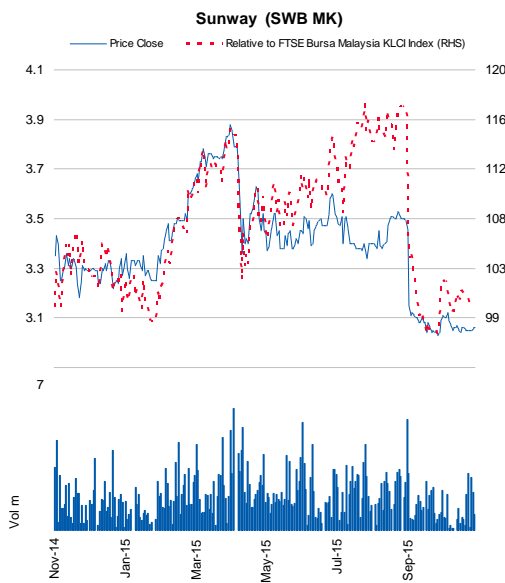
Buy (Maintained)

Target Price: MYR3.60

Price: MYR3.06

In Line With Expectations

Macro	◆◆◆
Risks	◆◆◆
Growth	◆◆
Value	◆◆◆



Source: Bloomberg

Avg Turnover (MYR/USD)	4.13m/0.96m
Cons. Upside (%)	19.3
Upside (%)	17.6
52-wk Price low/high (MYR)	3.03 - 3.88
Free float (%)	39
Share outstanding (m)	1,789
Shareholders (%)	
Tan Sri Dato' Jeffrey Cheah	55.4
Employees Provident Fund	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.0)	1.0	(10.0)	(13.1)	(8.7)
Relative	(2.6)	2.4	(16.5)	(8.5)	(0.1)

Shariah compliant

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3Q15 results met expectations. Maintain BUY and MYR3.60 TP (18% upside). Despite its lower stake in Sunway Construction, earnings remained resilient due to the exposure to other business segments. 9M new sales hit MYR734m, and should be able to reach its MYR1bn year-end sales target, which has been revised down earlier from MYR1.7bn. MYR2.3bn unbilled sales and MYR4.3bn construction orderbook are sufficient for earnings visibility.

- ◆ **Within expectations.** Sunway's 3Q15 results were in line with our and market expectations. While the slower QoQ growth in property development was attributed to slower progress billings and weaker sales, the lower earnings from the construction division were due to a higher proportion of internal jobs, and hence higher intragroup elimination during the quarter.
- ◆ **MYR254m new sales in 3Q.** New sales hit MYR254m in 3Q, compared with MYR233m in 2Q, bringing 9M total to MYR734m. The amount was mainly contributed by South Quay (MYR105m), Velocity (MYR97m) and Singapore (MYR128m). Sunway should be able to achieve its MYR1bn sales target by year-end given that a few new projects have been rolled out recently. These include Emerald Residences (GDV: MYR430m) landed houses in Sunway Iskandar, Cassia in Penang (MYR80m), Velocity office and retail (MYR130m), and Mount Sophia in Singapore (MYR600m). Thus far, Mount Sophia has received a 15% take-up and Velocity has 25% booking.
- ◆ **Forecast.** We make no changes to our earnings forecast. Unbilled sales dropped slightly to MYR2.3bn from MYR2.5bn in 2Q15, while construction orderbook stood at MYR4.3bn. Orderbook replenishment has been encouraging this year with a total of MYR2.61bn to date.
- ◆ **Maintain BUY.** We maintain our BUY rating and MYR3.60 TP, based on a 30% discount to RNAV. Although the property market should remain soft, Sunway's strategic exposure to other business segments such as property investment and construction should help to mitigate downside risk and provide earnings visibility.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	4,734	4,842	4,982	5,071	5,569
Reported net profit (MYRm)	1,500	743	572	526	561
Recurring net profit (MYRm)	483	592	572	526	561
Recurring net profit growth (%)	37.7	22.6	(3.3)	(8.1)	6.7
Recurring EPS (MYR)	0.32	0.34	0.33	0.30	0.32
DPS (MYR)	0.10	0.11	0.49	0.11	0.12
Recurring P/E (x)	9.6	8.9	9.3	10.2	9.7
P/B (x)	0.86	0.89	1.01	0.96	0.91
Dividend Yield (%)	3.3	3.6	16.0	3.6	3.9
Return on average equity (%)	33.7	13.2	10.2	9.7	9.7
Return on average assets (%)	15.1	6.2	4.5	4.1	4.1
Net debt to equity (%)	22.6	28.5	53.8	45.1	45.9
Our vs consensus EPS (adjusted) (%)			7.4	1.0	(4.3)

Source: Company data, RHB

Figure 1: Sunway's quarterly results

FYE Dec (MYRm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	Comments
Turnover	1,134.0	1,041.5	951.0	(8.7)	(16.1)	3,364.4	3,052.6	(9.3)	
Prop dev	178.0	324.1	270.9	(16.4)	52.2	702.0	775.7	10.5	The QoQ drop was due to slower billings from local projects and weak property sales.
Prop invt	151.8	144.8	172.2	18.9	13.5	434.0	456.3	5.1	
Construction	488.2	244.1	196.8	(19.4)	(59.7)	1,273.0	816.2	(35.9)	Lower construction revenue was due to a higher proportion of internal jobs and hence intragroup elimination.
Trading & Manufacturing	159.4	122.3	130.5	6.7	(18.1)	470.5	444.7	(5.5)	
Quarry	56.3	64.1	66.8	4.2	18.7	162.2	184.6	13.8	
Investment holdings	0.0	0.0	1.1	n.m.	n.m.	0.1	2.0	n.m.	
Others	100.3	142.0	112.8	(20.6)	12.4	322.6	372.9	15.6	
EBIT	151.9	139.0	118.7	(14.6)	(21.9)	395.6	427.6	8.1	
<i>EBIT Margin (%)</i>	<i>13.4%</i>	<i>13.3%</i>	<i>12.5%</i>			<i>11.8%</i>	<i>14.0%</i>		
Prop dev	79.1	36.7	34.5	(6.0)	(56.4)	189.2	111.3	(41.2)	
Prop invt	31.2	28.5	39.6	39.0	27.2	77.9	112.5	44.5	
Construction	21.8	56.0	23.4	(58.2)	7.3	78.5	132.3	68.6	
Trading & Manufacturing	10.8	0.7	5.4	701.2	(50.3)	30.9	20.2	(34.7)	
Quarry	6.7	15.5	10.6	(31.9)	58.9	20.3	33.7	66.1	
Investment holdings	(9.3)	(9.1)	(5.4)	n.m.	(42.4)	(27.2)	(21.5)	(21.0)	
Others	11.7	10.7	10.6	(1.0)	(9.5)	26.0	39.1	50.6	
Exceptional items	5.6	101.2	13.7	n.m.	144.6	(44.6)	128.3	n.m.	
Finance cost	(5.1)	(9.3)	15.8	(269.9)	(406.8)	(23.2)	(4.9)	(78.9)	
Asso & jv	38.5	150.7	31.5	(79.1)	(18.1)	188.5	220.4	16.9	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	
Pretax profit	185.2	280.9	171.0	(39.1)	(7.7)	561.0	645.4	15.0	
<i>PBT margin (%)</i>	<i>16.3%</i>	<i>27.0%</i>	<i>18.0%</i>			<i>16.7%</i>	<i>21.1%</i>		
Tax	(21.8)	(33.1)	(31.5)	(4.8)	44.2	(97.1)	(100.6)	3.6	
<i>Tax (%)</i>	<i>11.8%</i>	<i>11.8%</i>	<i>18.4%</i>			<i>17.3%</i>	<i>15.6%</i>		
PAT	163.4	247.8	139.5	(43.7)	(14.6)	463.9	544.7	17.4	
MI	(19.7)	(9.9)	(6.2)	(37.9)	(68.7)	(33.7)	(27.0)	(19.8)	
Net profit	143.7	237.9	133.3	(44.0)	(7.2)	430.2	517.8	20.3	Bottomline saw the effect of lower stake after the listing of Sunway Construction.
Core net profit	149.3	136.7	147.0	7.5	(1.5)	385.6	416.9	8.1	
<i>Net margin (%)</i>	<i>13.2</i>	<i>13.1</i>	<i>15.5</i>			<i>11.5</i>			
EPS (sen)	8.7	7.9	8.2			13.3	15.5		
NTA (RM)	3.28	3.55	3.82			3.21	3.55		
DPS (sen)	0.0	5.0	0.0			5.0	5.0		
EBIT margin:									
Prop dev	44.5%	11.3%	12.7%			27.0%	14.3%		
Prop invt	20.5%	19.7%	23.0%			17.9%	24.7%		
Construction	4.5%	22.9%	11.9%			6.2%	16.2%		
Trading & Manufacturing	6.8%	0.5%	4.1%			6.6%	4.5%		
Quarry	11.8%	24.2%	15.8%			12.5%	18.2%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	11.6%	7.5%	9.4%			8.1%	10.5%		

Source: Company, RHB

Figure 2: Sunway's RNAV

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 Montereiz	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
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	3,406.75	54,581.52		3,277.82

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. FY15 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
34% Sunway REIT	1,570.3	1,479.0			91.28
54.4% Sunway Construction	759.4	759.4			-
Others			110	7	770.00

Total					4,176.40
Shareholders' equity (ex cons.)					5,868.36
ESOS proceeds					551.52
Warrants conversion @ MYR2.25					651.13
Total RNAV					11,247.41
Discount to RNAV					30%
Discounted RNAV					7,873.18
Share base (mil)					1,723.52
No. of warrants					289.39
ESOS					172.35
Enlarged share base (mil)					2,185.27
TP (MYR)					3.60

Source: RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	4,734	4,842	4,982	5,071	5,569
Cost of sales	(3,382)	(3,504)	(3,636)	(3,711)	(4,073)
Gross profit	1,352	1,337	1,346	1,359	1,496
Gen & admin expenses	(698)	(717)	(747)	(761)	(863)
Other operating costs	1,170	148	152	158	153
Operating profit	1,824	769	751	756	785
Operating EBITDA	1,914	885	876	891	924
Depreciation of fixed assets	(91)	(116)	(125)	(134)	(139)
Operating EBIT	1,824	769	751	756	785
Net income from investments	172	233	202	298	326
Interest income	36	48	52	54	57
Interest expense	(138)	(79)	(86)	(89)	(90)
Other non-recurring income	1	(3)	(3)	(3)	(3)
Pre-tax profit	1,894	969	916	1,017	1,075
Taxation	(121)	(148)	(229)	(254)	(269)
Minority interests	(273)	(78)	(114)	(237)	(245)
Profit after tax & minorities	1,500	743	572	526	561
Reported net profit	1,500	743	572	526	561
Recurring net profit	483	592	572	526	561

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	1,824	769	751	756	785
Depreciation & amortisation	91	116	125	134	139
Change in working capital	(148)	(822)	(197)	310	51
Other operating cash flow	(449)	212	267	268	269
Operating cash flow	1,317	275	946	1,468	1,245
Interest received	36	48	52	54	57
Interest paid	(138)	(79)	(86)	(89)	(90)
Tax paid	(121)	(148)	(229)	(254)	(269)
Cash flow from operations	1,094	97	683	1,179	943
Capex	(780)	(691)	(256)	(270)	(578)
Other investing cash flow	(502)	118	(200)	(200)	(200)
Cash flow from investing activities	(1,282)	(573)	(456)	(470)	(778)
Dividends paid	(490)	(238)	(854)	(194)	(213)
Proceeds from issue of shares	766	105	-	-	-
Increase in debt	49	989	-	-	-
Other financing cash flow	(189)	(108)	(103)	(102)	(101)
Cash flow from financing activities	135	748	(957)	(296)	(314)
Cash at beginning of period	1,140	1,519	1,978	900	1,195
Total cash generated	(53)	271	(730)	414	(150)
Forex effects	210				
Implied cash at end of period	1,297	1,790	1,248	1,314	1,045

Source: Company data, RHB

Financial Exhibits

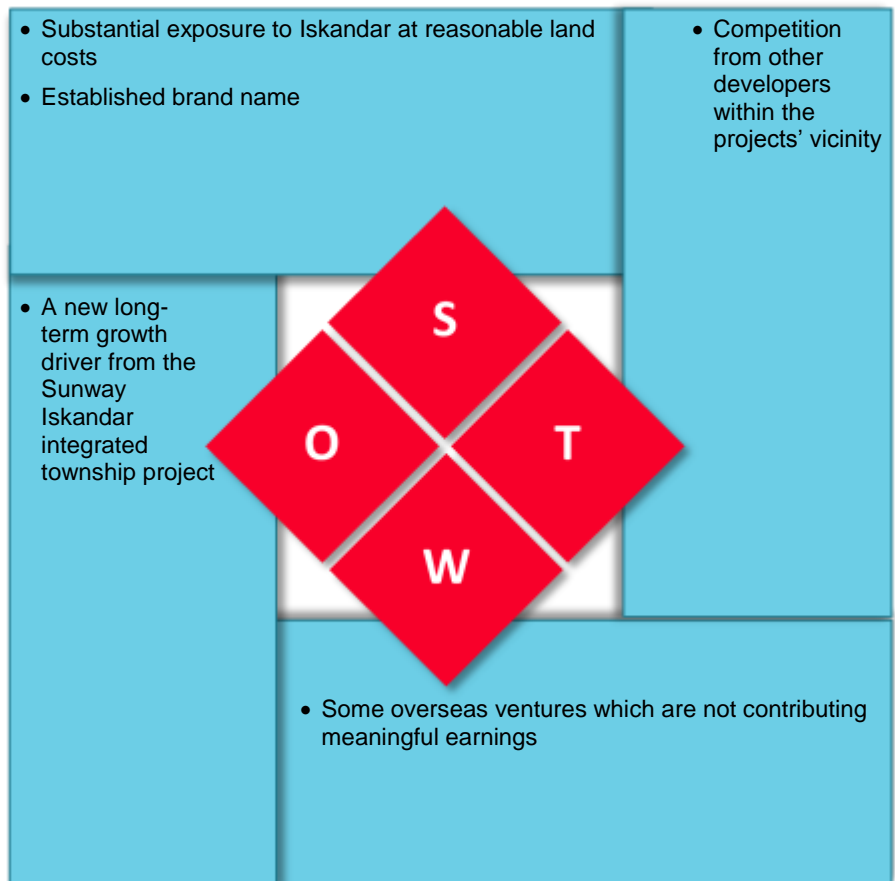
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	1,519	1,978	900	1,195	991
Inventories	1,899	2,370	2,525	2,362	2,441
Accounts receivable	1,403	1,720	1,843	1,736	1,831
Other current assets	63	111	111	111	111
Total current assets	4,883	6,179	5,378	5,404	5,373
Tangible fixed assets	5,834	6,257	6,387	6,523	6,963
Intangible assets	320	319	319	319	319
Total other assets	75	161	563	1,061	1,587
Total non-current assets	6,229	6,737	7,270	7,904	8,869
Total assets	11,112	12,916	12,648	13,308	14,243
Short-term debt	1,805	2,283	2,283	2,283	2,283
Accounts payable	2,154	2,172	2,252	2,292	2,517
Other current liabilities	24	21	21	21	21
Total current liabilities	3,983	4,476	4,556	4,596	4,821
Total long-term debt	991	1,502	1,720	1,770	1,886
Other liabilities	486	605	605	605	605
Total non-current liabilities	1,477	2,107	2,326	2,376	2,492
Total liabilities	5,460	6,583	6,881	6,972	7,313
Share capital	1,724	1,731	1,731	1,731	1,731
Retained earnings reserve	1,896	2,457	2,176	2,508	2,857
Other reserves	1,716	1,757	1,357	1,357	1,357
Shareholders' equity	5,335	5,945	5,264	5,596	5,944
Minority interests	317	389	503	740	985
Other equity	-	0	-	-	-
Total equity	5,652	6,334	5,767	6,337	6,930
Total liabilities & equity	11,112	12,916	12,648	13,308	14,243

Source: Company data, RHB

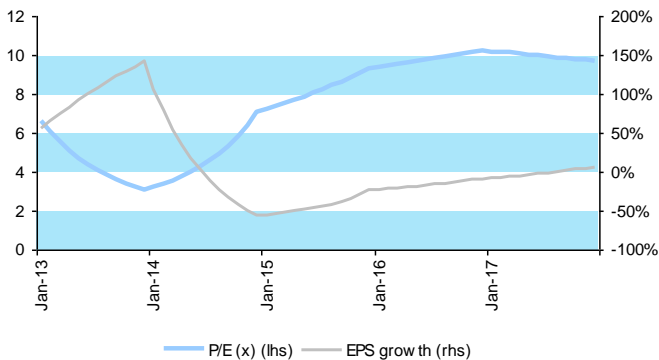
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	22.1	2.3	2.9	1.8	9.8
Operating profit growth (%)	261.7	(57.8)	(2.4)	0.8	3.8
Net profit growth (%)	181.9	(50.5)	(23.0)	(8.1)	6.7
EPS growth (%)	141.6	(56.7)	(23.8)	(9.0)	5.6
BVPS growth (%)	28.5	(2.6)	(12.3)	5.3	5.2
Operating margin (%)	38.5	15.9	15.1	14.9	14.1
Net profit margin (%)	31.7	15.4	11.5	10.4	10.1
Return on average assets (%)	15.1	6.2	4.5	4.1	4.1
Return on average equity (%)	33.7	13.2	10.2	9.7	9.7
Net debt to equity (%)	22.6	28.5	53.8	45.1	45.9
DPS	0.10	0.11	0.49	0.11	0.12
Recurrent cash flow per share	0.73	0.06	0.39	0.67	0.53

Source: Company data, RHB

SWOT Analysis

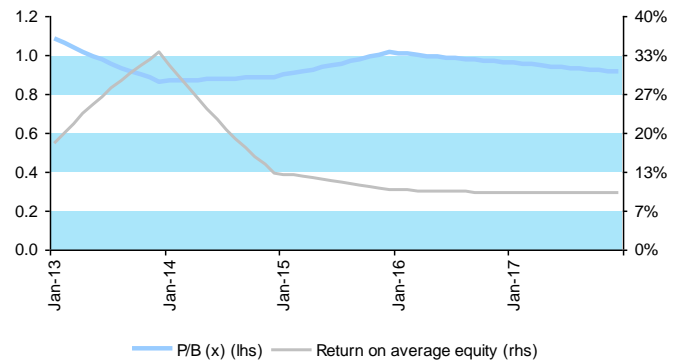


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Sunway Bhd 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 a mining land to a matured residential and commercial cluster.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2014-08-29	Buy	3.60	3.00
2014-05-29	Buy	3.60	3.19

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

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

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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