

28 November 2016

Property | Real Estate

Sunway

Buy (Maintained)

Property Investment Segment To Support Earnings

Given the challenges in its property development segment, we believe Sunway could rely on its property investment and construction divisions to support its earnings. After using some capex, the theme parks and hotel have seen positive results. We maintain our earnings forecast, MYR3.40 TP (13% upside) and BUY rating.

MYR1.1bn sales target is more realistic. Sunway cut its 2016 sales target in October, to MYR1.1bn from MYR1.4bn (vs MYR1.2bn in 2015). This looks more achievable, as 9M new sales reached MYR864m (3Q16 new sales: MYR251m).

As some projects such as Sunway Geo Residences 3, Velocity Offices and Sunway Iskandar landed homes have been held back or amended, it had lesser launches in 2H. Thus far, property sales were mainly contributed by Sunway Mont', Singapore projects and Sunway Iskandar. Due to the economic headwinds – particularly after the US presidential election – management would likely relook at its planned launches for 2017. We believe some of these projects, worth a total of MYR2bn, would be further delayed.

Forecast. We make no changes to our earnings forecast. Unbilled sales declined slightly to MYR1.8bn from MYR2bn as at 2Q16. Meanwhile, its construction orderbook was relatively unchanged at MYR4.8bn (vs MYR4.93bn as at 2Q16), of which 27% comprised internal jobs.

Maintain BUY. We keep our TP of MYR3.40, based on a 35% discount to RNAV. Despite the challenges in the property development segment, we expect Sunway's property investment and construction divisions to support its FY17 earnings.

3Q16 earnings were within expectations

(MYRm)	3Q16	2Q16	QoQ	3Q15	YoY	Comments
Revenue	1,137.5	1,155.7	-1.6%	951.0	19.6%	
EBIT	164.3	161.4	1.8%	118.7	38.4%	
EBIT (%)	14.4%	14.0%		12.5%		
NI	143.6	154.4	-7.0%	133.3	7.7%	Headline net profit was lifted by a MYR21.5m fair value gain from Sunway REIT.
Core NI	148.1	132.9	11.5%	147.0	0.7%	In line
Core NI (%)	13.0%	11.5%		15.5%		

Source: Company data, RHB

3Q16 results were in line. Earnings during the quarter were largely driven by the strong growth in the property investment division. In 3Q16, the theme parks saw an increase in the number of visitors following the opening of Nickelodeon Lost Lagoon, as well as higher hotel occupancy rates, while its performance in the previous quarter was negatively affected by the fasting month. For the property development division, EBIT was lower due to the vacant possession of Sunway Velocity retail shops and offices, and a higher contribution from Sunway GEO in the previous 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	0.25	0.26	0.27
DPS (MYR)	0.11	0.49	0.11	0.12	0.12
Recurring P/E (x)	8.7	9.0	11.9	11.3	11.2
P/B (x)	0.87	0.82	0.91	0.89	0.86
Dividend Yield (%)	3.7	16.3	3.7	4.0	4.0
Return on average equity (%)	13.2	9.9	7.8	8.0	7.9
Return on average assets (%)	6.2	4.3	3.2	3.3	3.3
Net debt to equity (%)	28.5	45.3	38.9	35.5	36.3
Our vs consensus EPS (adjusted) (%)			(8.0)	(5.6)	(7.4)

Source: Company data, RHB

Target Price:	MYR3.40
Price:	MYR3.00
Market Cap:	USD1,367m
Bloomberg Ticker:	SWB MK

Share Data

Avg Daily Turnover (MYR/USD)	3.17m/0.76m
52-wk Price low/high (MYR)	2.87 - 3.24
Free Float (%)	39
Shares outstanding (m)	1,724
Estimated Return	13%

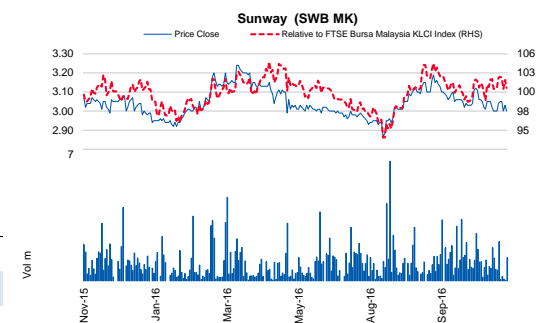
Shareholders (%)

Tan Sri Dato' Jeffrey Cheah	55.4
Employees Provident Fund	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.6)	(1.0)	(0.3)	(1.0)	(2.0)
Relative	1.3	2.0	2.9	(0.8)	1.4

Source: Bloomberg



Source: Bloomberg

Analyst

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Financial Exhibits

Financial model updated on : 2016-11-26.

Asia	Financial summary	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Malaysia	Recurring EPS (MYR)	0.34	0.33	0.25	0.26	0.27
Property	EPS (MYR)	0.43	0.34	0.25	0.26	0.27
Sunway	DPS (MYR)	0.11	0.49	0.11	0.12	0.12
Bloomberg	BVPS (MYR)	3.45	3.64	3.31	3.39	3.47
SWB MK	Weighted avg adjusted shares (m)	1,725	1,800	2,070	2,111	2,153
Buy						
Valuation basis	Valuation metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
35% discount to RNAV	Recurring P/E (x)	8.7	9.0	11.9	11.3	11.2
	P/E (x)	7.0	8.7	11.9	11.3	11.2
	P/B (x)	0.87	0.82	0.91	0.89	0.86
Key drivers	FCF Yield (%)	(11.5)	(1.8)	11.8	9.4	6.9
i. New property sales;	Dividend Yield (%)	3.7	16.3	3.7	4.0	4.0
ii. Disposal of investment properties	EV/EBITDA (x)	8.3	13.4	11.3	11.6	12.2
	EV/EBIT (x)	9.6	16.2	13.6	13.6	14.4
Key risks						
Weaker-than-expected market conditions						
Company Profile	Income statement (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Sunway is 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)	(228)	(253)	(258)
	Cash flow from financing activities	748	1,987	(330)	(354)	(359)
	Cash at beginning of period	1,519	1,978	2,627	2,818	2,841
	Net change in cash	271	741	420	237	(110)
	Ending balance cash	1,790	2,719	3,048	3,056	2,731
	Balance sheet (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
	Total cash and equivalents	1,978	2,627	2,818	2,841	2,662
	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	16,553	17,242	18,058
	Short-term debt	2,283	3,304	3,304	3,304	3,304
	Total long-term debt	1,502	2,585	2,523	2,478	2,580
	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	6,846	7,151	7,471
	Minority interests	389	651	887	1,130	1,394
	Total equity	6,334	7,200	7,732	8,281	8,865
	Net debt	1,806	3,262	3,009	2,940	3,222
	Total liabilities & equity	12,916	15,994	16,553	17,242	18,058
	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)	(23.7)	4.5	1.6
	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

Figure 1: Quarterly results

FYE Dec (MYRm)	3Q15	2Q16	3Q16	QoQ (%)	YoY (%)	9M15	9M16	YoY(%)	Comments
Turnover	951.0	1,155.7	1,137.5	(1.6)	19.6	3,052.6	3,362.2	10.1	
Prop dev	270.9	315.1	247.6	(21.4)	(8.6)	775.7	796.7	2.7	
Prop invt	172.2	160.1	189.9	18.6	10.3	456.3	519.2	13.8	The higher revenue was due to the opening of Nickelodeon Lost Lagoon and higher occupancy rates for hotels.
Construction	196.8	249.3	287.9	15.5	46.3	816.2	848.7	4.0	The higher revenue YoY was due to higher progress billings from ongoing local construction projects.
Trading & Manufacturing	130.5	218.5	206.7	(5.4)	58.4	444.7	618.2	39.0	
Quarry	66.8	60.6	54.0	(10.9)	(19.1)	184.6	153.3	(17.0)	
Investment holdings	1.1	5.4	4.3	n.m.	n.m.	2.0	10.6	n.m.	
Others	112.8	146.7	147.1	0.3	30.4	372.9	415.4	11.4	
EBIT	118.7	161.4	164.3	1.8	38.4	427.6	475.4	11.2	
EBIT Margin (%)	12.5%	14.0%	14.4%			14.0%	14.1%		
Prop dev	34.5	53.1	45.3	(14.6)	31.2	111.3	154.0	38.4	
Prop invt	39.6	24.4	50.0	105.0	26.2	112.5	110.9	(1.5)	
Construction	23.4	34.0	31.3	(7.7)	33.9	132.3	100.9	(23.7)	
Trading & Manufacturing	5.4	10.5	11.3	8.2	110.4	20.2	30.3	50.2	
Quarry	10.6	11.7	7.2	(38.2)	(31.8)	33.7	25.3	(25.0)	
Investment holdings	(5.4)	6.1	2.8	n.m.	(151.2)	(21.5)	6.9	(132.1)	
Others	10.6	21.8	16.3	(25.0)	54.7	39.1	47.1	20.4	
Exceptional items	13.7	(21.5)	4.5	n.m.	(67.2)	(74.1)	(14.6)	n.m.	
Finance cost	15.8	(15.6)	(2.6)	(83.4)	(116.3)	(4.9)	(34.2)	600.3	
Asso & JV	31.5	57.9	46.7	(19.4)	48.1	220.4	147.2	(33.2)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	
Pretax profit	171.0	203.8	208.5	2.3	22.0	645.4	588.4	(8.8)	
PBT margin (%)	18.0%	17.6%	18.3%			21.1%	17.5%		
Tax	(31.5)	(23.9)	(37.7)	57.9	19.8	(100.6)	(94.4)	(6.2)	
Tax (%)	18.4%	11.7%	18.1%			15.6%	16.0%		
PAT	139.5	179.9	170.8	(5.0)	22.5	544.7	494.0	(9.3)	
MI	(6.2)	(25.5)	(27.2)	6.6	341.4	(27.0)	(93.9)	248.0	
Net profit	133.3	154.4	143.6	(7.0)	7.7	517.8	400.1	(22.7)	
Core net profit	147.0	132.9	148.1	11.5	0.7	416.9	385.5	(7.5)	Within expectations
Net margin (%)	15.5	11.5	13.0						
EPS (sen)	8.2	7.8	7.0			23.7	20.6		
NTA (RM)	3.82	3.54	3.60			3.82	3.60		
DPS (sen)	0.0	5.0	0.0			5.0	5.0		
EBIT margin:									
Prop dev	12.7%	16.8%	18.3%			14.3%	19.3%		
Prop invt	23.0%	15.2%	26.4%			24.7%	21.3%		
Construction	11.9%	13.6%	10.9%			16.2%	11.9%		
Trading & Manufacturing	4.1%	4.8%	5.5%			4.5%	4.9%		
Quarry	15.8%	19.3%	13.4%			18.2%	16.5%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	9.4%	14.9%	11.1%			10.5%	11.3%		

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 Monterezh	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

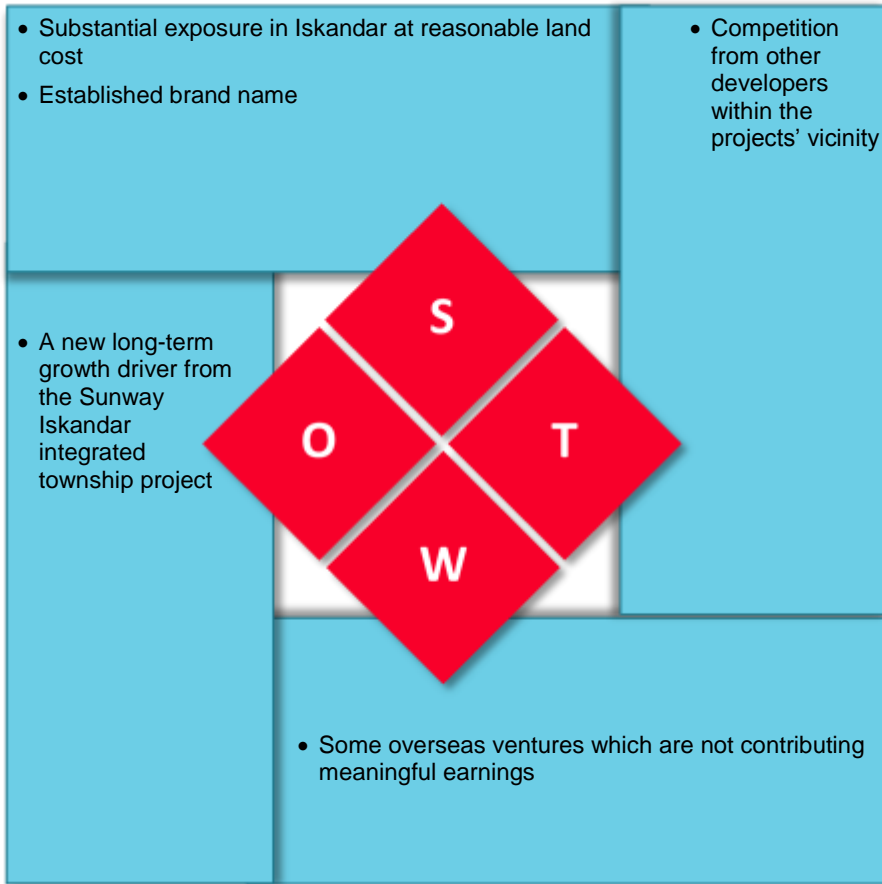
Investment properties	EBITDA (MYR m)	Market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)
Monash University Campus	17	299.5	299.5	100%	0
Monash U Residence	15	226.6	226.6	100%	0
Sunway University College	10	255.0	255.0	100%	0
Sunway Hotel Georgetown	4	74.0	37.6	100%	36.4
Sunway 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

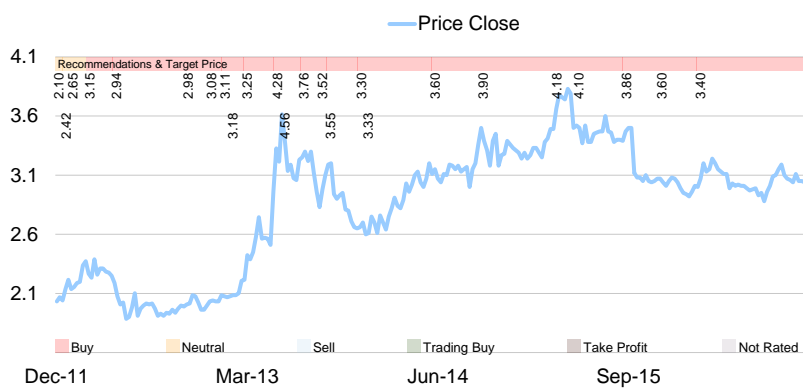
Total					4,361.76
Shareholders' equity (ex cons.)					6,149.82
ESOS proceeds					551.52
Warrants conversion @ MYR2.25					651.13
Total RNAV					11,714.23
Discount to RNAV				35%	
Discounted RNAV					7,614.25
Share base (mil)					1,780.00
No. of warrants					289.39
ESOS					172.35
Enlarged share base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

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-08-29	Buy	3.40	3.01
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

Source: RHB, Bloomberg

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