



## Sunway Berhad

No Surprises

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**TP: RM3.33 (+10.5%)**

Last Traded: RM3.01

Hold

Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

### Review

- Sunway's 1H16 normalised net profit of RM237.4mn came in within expectations, accounting for 47%/45% of ours/consensus' expectations. An interim dividend of 5sen/share was declared, similar to the corresponding period of last year.
- Sunway's 1H16 revenue grew 6% YoY to RM2.2bn but the group's normalised net profit during the period declined 11% YoY. This was mainly due to higher minority interest arising from the listing of SunCon in July-2015 that saw Sunway's stake in SunCon reduced to 54.4%.
- Segmental wise, the property division posted decent results with revenue and PBT increasing by 9% YoY and 18% YoY respectively. The increase was mainly contributed by completion of Sunway Velocity Signature Retail Shops and Offices and higher contribution from Sunway Geo Residences. Meanwhile, the construction division's revenue and PBT decreased 10% YoY and 34% YoY respectively, largely due to: 1) lower profit recognition from ongoing projects, and 2) upfront planning and preliminary costs incurred in the Klang Valley MRT Package V201, which will commence work in 2H2016.
- QoQ, 2Q16 normalised net profit surged 27% to RM132.9mn, on the back of 8% growth in revenue. The higher sequential profit was largely due to lower effective tax rates of 13.1% (-5.3ppt QoQ).
- Sunway's 1H16 new sales rose 29% to RM613mn (effective: RM510mn). Key contributors to 1H16 sales are Sunway Mont Residence in Mont Kiara (condominiums), Emerald Residences & Boulevard (landed homes and retail shops) in Sunway Iskandar, Sunway Gandaria (retail shops & Serviced Apartments) in Bangi and overseas projects in Singapore and China. Unbilled sales remained healthy at RM2.0bn (effective RM1.5bn), which provides earnings visibility of more than a year.

### Impact

- We fine tune our FY16-18 earnings slightly by -1% after factoring in the revised earnings for Sunway REIT.

### Outlook

- Despite only securing new sales of RM613mn in 1H16, management maintained its sales target of RM1.4bn in 2016 (effective: RM1.1bn), driven by RM1.0bn worth of new properties scheduled for launch in 4Q16. Key new launches in the Klang Valley include Sunway Geo Residence 3 (GDV: RM400mn) and Sunway Velocity office (GDV: RM200mn). Down south, Sunway is expected to roll out phase 2 of landed properties at Sunway Iskandar in 4Q16 with an estimated GDV of RM400mn.
- Nevertheless, we maintain our FY16 sales assumptions of RM1.2bn, largely to factor in current weak market sentiment. Furthermore, we foresee financial institutions to remain cautious in granting mortgage

### Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	2033.1
Market Cap (RMmn)	6119.7
Par Value	1.00
52-wk Hi/Lo (RM)	3.28/2.87
12-mth Avg Daily Vol ('000 shrs)	1092.6
Estimated Free Float (%)	23.9
Beta	0.54

### Major Shareholders (%)

Sungei Way Corp	(56.3)
EPF	(5.1)
Skim Amanah Saham Bumiputera	(5.1)

### Forecast Revision

	FY16	FY17
Forecast Revision (%)	(0.3)	(0.4)
Net profit (RMmn)	507.7	521.4
Consensus	523.9	565.1
TA's / Consensus (%)	96.9	92.3
Previous Rating	Hold (Maintained)	

### Financial Indicators

	FY16	FY17
Net Debt / Equity (%)	32.1	25.0
FCPS (sen)	69.8	33.9
Price / CFPS (x)	4.3	8.9
ROA (%)	3.1	3.2
NTA/Share (RM)	3.6	3.8
Price/NTA (x)	0.8	0.8

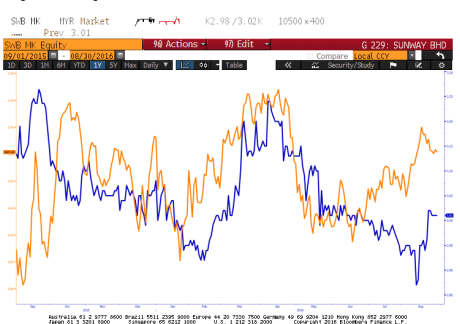
### SCORECARD

	% of FY	
vs TA	47.0	Within
vs Consensus	45.0	Within

### Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	2.7	1.7
3 mth	0.0	3.2
6 mth	0.3	1.6
12 mth	(4.3)	4.3

### (12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

loans this year. Given that more than 50% of the group's FY16 launches are scheduled for launch in 4Q16, those interested buyers may take longer time to secure end financing and potentially lead to a shortfall in sales target.

### Valuation

- Attaching a 10% discount to our SOP valuation, we value Sunway at RM3.33/share, after factoring in latest TP for Sunway REIT. Maintain **Hold** with a total potential return of 14%.

**Figure 1: SOP Valuation**

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY17 Property Earnings	200.5	12	100%	2406.5	1.37
SunCon @ RM1.80 TP	2325.6	1	54%	1265.1	0.72
SunREIT @ RM1.78 TP	5228.9	1	36%	1887.6	1.07
CY17 Other Business Earnings	79.6	12	100%	955.6	0.54
<b>SOP Value</b>				<b>6514.8</b>	<b>3.70</b>
Discount		10%		(651.5)	(0.4)
<b>Target Price</b>				<b>5863.3</b>	<b>3.33</b>

### Earnings Summary

YE Dec 31 (RM'mn)	2014	2015	2016F	2017F	2018F
Revenue	4558.1	4451.3	5474.3	5677.5	6184.3
EBITDA	652.1	825.8	842.3	824.0	932.1
EBITDA margin (%)	14.3	18.6	15.4	14.5	15.1
Pretax profit	797.6	781.8	810.5	800.3	897.7
Net profit	734.0	732.4	507.7	521.4	641.5
Net profit -adj	591.7	590.7	507.7	521.4	641.5
EPS (sen)	34.2	32.8	28.2	29.0	35.6
EPS - adj (sen)	34.2	34.1	29.3	29.0	35.6
EPS Growth (Core) (%)	21.8	(0.2)	(14.0)	2.7	23.0
PER (x)	8.8	8.8	10.3	10.0	8.1
GDPS (sen)	11.0	38.5	11.4	11.4	11.4
Div Yield (%)	3.7	12.3	3.7	3.7	3.7
ROE (%)	10.5	9.5	7.6	7.4	8.7

## 2Q16 Results analysis

YE 31 Dec (RM'mn)	2Q15	1Q16	2Q16	QoQ (%)	YoY (%)	1H15	1H16	YoY(%)	
<b>Revenue</b>	<b>1041.5</b>	<b>1069.0</b>	<b>1155.7</b>	<b>8.1</b>	<b>11.0</b>	<b>2101.5</b>	<b>2224.7</b>	<b>5.9</b>	
<i>Property Development</i>	324.1	234.1	315.1	34.6	(2.8)	504.8	549.1	8.8	
<i>Property Investment</i>	144.8	169.2	160.1	(5.3)	10.6	284.1	329.3	15.9	
<i>Construction</i>	244.1	311.4	249.3	(19.9)	2.1	619.4	560.8	(9.5)	
<i>Trading &amp; Manufacturing</i>	122.3	193.1	218.5	13.1	78.6	314.2	411.5	31.0	
<i>Quarry</i>	64.1	38.7	60.6	56.4	(5.4)	117.9	99.3	(15.7)	
<i>Others</i>	142.0	122.5	152.1	24.2	7.1	261.0	274.6	5.2	
EBIT	139.0	149.6	161.4	7.9	16.1	308.9	311.1	0.7	
Gain on derivative	0.5	0.0	0.0	0.0	(100.0)	(2.7)	0.0	>100	
Finance income	17.6	23.6	26.2	11.1	48.7	32.2	49.8	54.6	
Finance costs	(26.9)	(39.7)	(41.7)	5.2	55.1	(52.9)	(81.4)	54.0	
Associates	130.6	24.2	47.0	93.7	(64.0)	151.1	71.2	(52.9)	
JV	20.1	18.3	10.9	(40.2)	(45.6)	37.7	29.3	(22.4)	
EI	101.2	(2.4)	21.5	(995.8)	(78.8)	117.0	19.1	(83.7)	
PBT	280.9	176.1	203.8	15.7	(27.5)	474.4	379.9	(19.9)	
<b>Core PBT</b>	<b>179.7</b>	<b>178.5</b>	<b>182.3</b>	<b>2.1</b>	<b>1.4</b>	<b>357.4</b>	<b>360.8</b>	<b>0.9</b>	
<i>Property Development</i>	53.1	69.1	60.6	(12.3)	14.2	110.0	129.7	18.0	
<i>Property Investment</i>	32.1	33.5	41.3	23.1	28.8	52.2	74.8	43.4	
<i>Construction</i>	56.3	37.7	34.5	(8.6)	(38.8)	108.5	72.2	(33.5)	
<i>Trading &amp; Manufacturing</i>	(0.7)	5.3	6.7	25.1	>100	12.0	12.0	0.3	
<i>Quarry</i>	15.5	6.1	11.3	84.3	(27.1)	23.3	17.5	(24.9)	
<i>Others</i>	23.5	26.6	27.9	4.7	18.7	51.5	54.5	5.9	
Tax	(33.1)	(32.8)	(23.9)	(27.3)	(27.8)	(69.2)	(56.7)	(18.0)	
MI	(9.9)	(41.1)	(25.5)	(37.9)	157.0	(20.8)	(66.7)	220.3	
<i>Net profit</i>	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)	267.4	237.4	(11.2)	
Reported EPS	(sen)	13.5	5.7	7.8	37.0	(42.2)	22.0	13.5	(38.5)
Adj EPS	(sen)	7.8	5.8	6.7	15.2	(13.5)	15.3	12.6	(17.9)
DPS	(sen)	5.0	0.0	5.0	>100	0.0	5.0	5.0	0.0
EBIT margin	(%)	13.3	14.0	14.0	(0.0)	0.6	14.7	14.0	(0.7)
<b>PBT margin</b>	<b>(%)</b>	<b>17.3</b>	<b>16.7</b>	<b>15.8</b>	<b>(0.9)</b>	<b>(1.5)</b>	<b>17.0</b>	<b>16.2</b>	<b>(0.8)</b>
<i>Property Development</i>	(%)	16.4	29.5	19.2	(10.3)	2.9	21.8	23.6	1.8
<i>Property Investment</i>	(%)	22.1	19.8	25.8	6.0	3.6	18.4	22.7	4.4
<i>Construction</i>	(%)	23.1	12.1	13.8	1.7	(9.2)	17.5	12.9	(4.6)
<i>Trading &amp; Manufacturing</i>	(%)	(0.6)	2.8	3.1	0.3	3.7	3.8	2.9	(0.9)
<i>Quarry</i>	(%)	24.3	15.9	18.7	2.8	(5.6)	19.7	17.6	(2.1)
<i>Others</i>	(%)	16.5	21.8	18.3	(3.4)	1.8	19.7	19.9	0.1
Net margin	(%)	13.1	9.8	11.5	1.7	(1.6)	12.7	10.7	(2.1)
Effective tax rate	(%)	18.4	18.4	13.1	(5.3)	(5.3)	19.3	15.7	(3.6)

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Kaladher Govindan – Head of Research