



Sunway Berhad

Profit Within but Sales Exceeded Expectations

TP: RM3.28 (+9.1%)

Last Traded: RM3.01

Hold

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Review

- Sunway's FY15 normalised net profit of RM590.7mn came in within expectations, accounting for 103% of both ours and consensus' full-year forecasts respectively. A second interim dividend of 6.0sen/share was declared, which brought the full year dividend per share to 37sen (including special cash dividend of 26sen).
- Sunway's FY15 revenue declined 2.3% YoY to RM4.5bn, largely due to lower contribution from construction division following the listing of SunCon in July-2015 that saw Sunway's stake in SunCon reduced to 54.4%. Despite the revenue contraction, the group's normalized net profit was flat at RM590.7mn, primarily due to higher EBIT margin (+2.8ppt) and lower effective tax (-1.9ppt).
- Sequentially, 4Q15 normalised net profit increased 22.4% to RM180.0mn on the back of 47% growth in revenue. The better bottom-line performance was contributed by improved performance from property development, construction, property investment divisions.
- Sunway FY15 new sales contracted 29% YoY to RM1.2bn (effective RM912mn). This was above ours and management's sales projections of RM1.1bn and RM1.0bn respectively. The variance was largely due to better sales performance from overseas, which amounted to RM402mn or 33% of FY15 sales. This helped to cushion the lackluster sales in Malaysia. Excluding overseas sales contribution, the group's sales would have plunged 48% YoY. Unbilled sales remained healthy at RM2.1bn (effective RM1.5bn), which will keep the group busy over the next two years.

Impact

- Our FY16-17 earnings are revised higher by 2-3% after factoring in the following:
 - Revised earnings for Sunway Construction – see result update report dated 26 Feb.
 - Actual FY15 results.

Outlook

- Sunway is targeting new sales of RM1.4bn this year, underpinned by new projects worth RM1.6bn (see **Figure 1**) and other existing projects. Klang Valley is expected to contribute bulk of the sales. Of the upcoming launches, we believe Sunway Geo Residence 3 will fare relatively well, benefitting from the Bus Rapid Transit that has begun operation in June-15. New project to be introduced in 1Q16 is Sunway Gandaria, a new mixed-development comprises retail shops and a block of serviced apartments (GDV: RM200mn). Down south, the group will roll out new phase of landed residences within Sunway Iskandar development worth RM400mn in 4Q16 as it believes that demand for landed properties will stay relatively resilient.

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	1780.1
Market Cap (RMmn)	5358.1
Par Value	1.00
52-wk Hi/Lo (RM)	3.53/2.89
12-mth Avg Daily Vol ('000 shrs)	1605.6
Estimated Free Float (%)	24.2
Beta	0.60
Major Shareholders (%)	Sungei Way Corp (55.1)

Forecast Revision

	FY16	FY17
Forecast Revision (%)	2.5	2.4
Net profit (RMmn)	527.9	522.7
Consensus	536.0	566.0
TA's / Consensus (%)	98.5	92.3
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY16	FY17
Net Debt / Equity (%)	31.8	24.6
FCPS (sen)	70.8	33.9
Price / CFPS (x)	4.2	8.9
ROA (%)	3.3	3.1
NTA/Share (RM)	3.6	3.8
Price/NTA (x)	0.8	0.8

SCORECARD

	% of FY	
vs TA	103.0	Within
vs Consensus	103.0	Within

Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	2.0	(0.3)
3 mth	(0.3)	(0.5)
6 mth	(4.3)	3.1
12 mth	(0.8)	(8.7)

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



Source: Bloomberg

- Nevertheless, we opt to keep our 2016 sales assumptions of RM1.2bn unchanged for now as we see housing demand may be hurt by the jittery global economy outlook. Furthermore, we foresee financial institutions to remain cautious in granting mortgage loans this year. Given that 38% of the new projects are targeted for launch in 4Q16 (Sunway Iskandar and Sunway Velocity Office), 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 derived a new target price of RM3.28/share (from RM3.26/share previously) based on 12x CY16 property development and quarry & manufacturing earnings, and latest TPs for Sunway's listed entities. Maintain **Hold** with a total potential return of 12.8%.

Figure 2: 2016 New Launches

Development	Location	Type	Initial Planned GDV (RM mn)	Targeted Launch Date
Sunway Gandaria	Bangi	Retail & Service Apartment	200	1Q16
Sunway Geo Residence 3	South Quay	Condominiums & Townhouses	400	1Q16
Casa Kiara 3	Mont Kiara	Condominiums	200	2Q16
Velocity	Jalan Peel, Cheras	Offices	200	4Q16
Lost World Apartments	Ipoh	Service Apartments	100	2Q16
Sunway Iskandar	Iskandar	Landed Residences	400	4Q16
Others			100	
Total			1600	

Source: Sunway, TA Research

Figure 3: SOP Valuation

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY16 Property Earnings	224.4	12	100%	2693.2	1.53
SunCon @ RM1.72 TP	2222.2	1	54%	1208.9	0.69
SunREIT @ RM1.55 TP	4553.3	1	36%	1643.7	0.93
CY16 Other Business Earnings	73.8	12	100%	885.2	0.50
SOP Value				6431.0	3.65
Discount		10%		(643.1)	(0.4)
Target Price				5787.9	3.28

Earnings Summary

YE Dec 31 (RM'mn)	2013	2014	2015	2016F	2017F
Revenue	4721.4	4558.1	4451.3	5524.3	5786.5
EBITDA	642.8	652.1	825.8	846.8	808.9
EBITDA margin (%)	13.6	14.3	18.6	15.3	14.0
Pretax profit	662.2	797.6	781.8	837.1	805.9
Net profit	1490.4	734.0	732.4	527.9	522.7
Net profit -adj	483.9	591.7	590.7	527.9	522.7
EPS (sen)	30.6	34.2	32.8	29.3	29.0
EPS - adj (sen)	28.1	34.2	34.1	30.5	30.2
EPS Growth (Core) (%)	57.3	21.8	(0.2)	(10.6)	(1.0)
PER (x)	10.7	8.8	8.8	9.9	10.0
GDPS (sen)	10.0	11.0	37.0	11.0	11.0
Div Yield (%)	3.3	3.7	12.3	3.7	3.7
ROE (%)	11.3	10.5	9.5	7.9	7.4

4Q15 Results analysis

YE 31 Dec (RM'mn)	3Q14	3Q15	4Q15	QoQ (%)	YoY (%)	FY14	FY15	YoY(%)	
Revenue	1477.5	951.0	1398.8	47.1	(5.3)	4558.1	4451.3	(2.3)	
<i>Property Development</i>	496.3	270.9	420.0	55.0	(15.4)	702.0	775.7	10.5	
<i>Property Investment</i>	160.4	172.2	185.4	7.6	15.5	434.0	456.3	5.1	
<i>Construction</i>	478.0	196.8	405.9	106.3	(15.1)	1273.0	816.2	(35.9)	
<i>Trading & Manufacturing</i>	168.9	130.5	205.3	57.3	21.5	470.5	444.7	(5.5)	
<i>Quarry</i>	74.5	66.8	57.5	(13.8)	(22.8)	162.2	184.6	13.8	
<i>Others</i>	99.4	113.9	124.7	9.5	25.5	322.6	374.9	16.2	
EBIT	216.3	118.7	259.3	118.4	19.9	611.9	686.9	12.3	
Gain on derivative	(2.8)	4.9	(3.3)	(166.3)	17.2	(2.7)	(1.0)	(62.9)	
Finance income	14.7	42.1	23.6	(43.9)	60.0	48.4	97.8	102.0	
Finance costs	(22.0)	(26.3)	(45.3)	72.5	106.2	(78.9)	(124.5)	57.8	
Associates	22.9	24.2	26.5	9.5	15.9	147.2	201.8	37.1	
JV	21.8	7.3	23.1	214.4	5.8	86.0	68.1	(20.8)	
EI	106.9	(13.7)	34.7	>100	(67.5)	150.1	141.7	(5.6)	
PBT	407.8	171.0	283.8	66.0	(30.4)	968.8	929.2	(4.1)	
Core PBT	281.2	184.7	249.1	34.9	(11.4)	797.6	781.8	(2.0)	
<i>Property Development</i>	118.3	38.5	114.2	196.8	(3.4)	243.8	148.4	(39.1)	
<i>Property Investment</i>	51.0	50.3	177.4	>100	>100	82.3	102.4	24.4	
<i>Construction</i>	61.2	24.1	30.0	24.7	(50.9)	81.7	132.6	62.4	
<i>Trading & Manufacturing</i>	8.2	3.5	8.6	143.4	4.3	28.6	15.5	(45.7)	
<i>Quarry</i>	16.8	10.4	5.6	(46.5)	(66.8)	21.0	33.7	60.1	
<i>Others</i>	25.8	57.9	(121.4)	(309.7)	(571.2)	59.0	109.4	85.3	
Tax	(50.8)	(31.5)	(29.2)	(7.3)	(42.6)	(148.0)	(129.8)	(12.3)	
MI	(44.0)	(6.2)	(40.0)	548.2	(9.1)	(77.6)	(67.0)	(13.7)	
<i>Net profit</i>	313.0	133.3	214.7	61.0	(31.4)	743.2	732.4	-1.5	
Core net profit	206.1	147.0	180.0	22.4	(12.7)	591.7	590.7	-0.2	
Reported EPS	(sen)	18.1	7.5	12.0	59.7	(33.6)	25.0	41.6	66.5
Adj EPS	(sen)	11.9	8.3	10.1	21.4	(15.4)	22.4	33.7	50.8
DPS	(sen)	6.0	26.0	6.0	(76.9)	0.0	5.0	37.0	>100
EBIT margin	(%)	14.6	12.5	18.5	6.1	3.9	13.4	15.4	2.0
PBT margin	(%)	19.0	19.4	17.8	(1.6)	(1.2)	17.5	17.6	0.1
<i>Property Development</i>	(%)	23.8	14.2	27.2	13.0	3.4	34.7	19.1	(15.6)
<i>Property Investment</i>	(%)	31.8	29.2	95.7	66.5	63.9	19.0	22.4	3.5
<i>Construction</i>	(%)	12.8	12.2	7.4	(4.9)	(5.4)	6.4	16.2	9.8
<i>Trading & Manufacturing</i>	(%)	4.9	2.7	4.2	1.5	(0.7)	6.1	3.5	(2.6)
<i>Quarry</i>	(%)	22.6	15.6	9.7	(5.8)	(12.8)	12.9	18.3	5.3
<i>Others</i>	(%)	25.9	50.8	(97.4)	(148.2)	(123.3)	18.3	29.2	10.9
Net margin	(%)	13.9	15.5	12.9	(2.6)	(1.1)	13.0	13.3	0.3
Effective tax rate	(%)	18.1	17.0	11.7	(5.3)	(6.4)	18.6	16.6	(1.9)

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