



## Sunway Berhad

Solid Performance

**TP: RM3.26 (+8.7%)**

Last Traded: RM3.00

Hold

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### Review

- Sunway's 9M16 normalised net profit of RM385.5mn came in within expectations, accounting for 76% and 75% of ours and consensus' full-year forecasts respectively.
- Sunway's 9M16 revenue grew 10% YoY to RM3.4bn. The increase in revenue was driven by better performance across all business divisions, with the exception of quarry. However, the group's normalised net profit during the period declined 7% YoY. This was mainly due to higher minority interest following the listing of SunCon in July-2015 that saw Sunway's stake in SunCon reduced to 54.4%.
- QoQ, 3Q16 normalised net profit advanced 12% to RM148.1mn, despite revenue falling by 2%. The higher sequential profit was largely due to better margin for property development division (+5.9ppt), benefiting from favourable product mix.
- Sunway's 9M16 new sales rose 18% to RM864mn (effective: RM689mn). Key contributors to 9M16 sales are Sunway Mont Residence in Mont Kiara, 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 eased to RM1.8bn (effective RM1.3bn), from RM2.0bn a quarter, providing earnings visibility of more than one year.

### Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	2031.0
Market Cap (RMmn)	6093.0
Par Value	1.00
52-wk Hi/Lo (RM)	3.24/2.87
12-mth Avg Daily Vol ('000 shrs)	1028.4
Estimated Free Float (%)	28.2
Beta	0.46
<b>Major Shareholders (%)</b>	
	Sungei Way Corp (56.3)
	EPF (5.7)

### Forecast Revision

	FY16	FY17
Forecast Revision (%)	(1.6)	0.0
Net profit (RMmn)	499.5	510.8
Consensus	513.7	550.7
TA's / Consensus (%)	97.2	92.8
Previous Rating	Hold (Maintained)	

### Financial Indicators

	FY16	FY17
Net Debt / Equity (%)	46.6	39.2
FCPS (sen)	22.4	32.5
Price / CFPS (x)	13.4	9.2
ROA (%)	3.1	3.1
NTA/Share (RM)	3.6	3.8
Price/NTA (x)	0.8	0.8

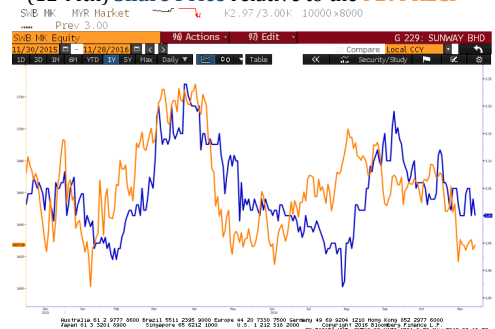
### SCORECARD

	% of FY	
vs TA	76.0	Within
vs Consensus	75.0	Within

### Share Performance (%)

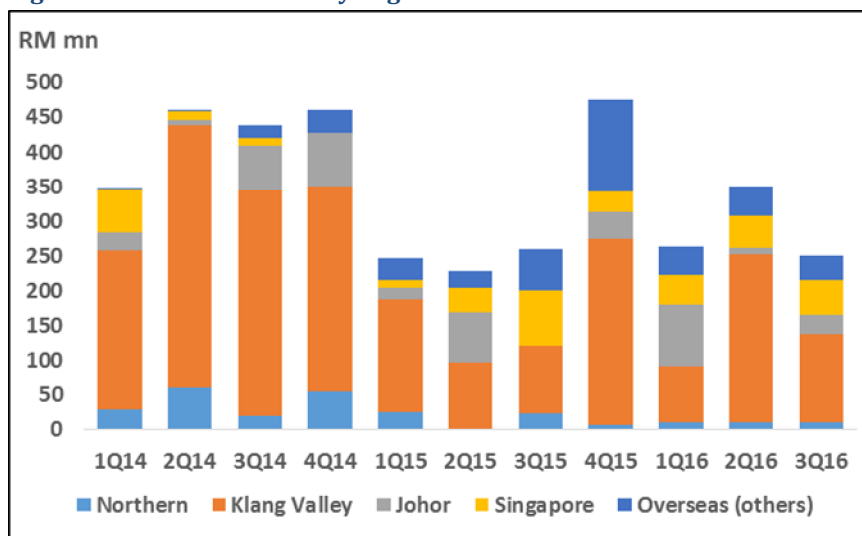
Price Change	Sunway	FBM KLCI
1 mth	(3.5)	(2.6)
3 mth	(0.3)	(3.3)
6 mth	(1.0)	(0.6)

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



Source: Bloomberg

Figure 1: Sales Breakdown by Region



Source; Sunway, TA Research

### Impact

- We cut our FY16 net profit forecast by 1.6% after factoring in the revised earnings for Sunway Construction.

## Outlook

- In September, management decided to re-strategise some of its planned launches in view of the soft market condition. FY16 launch target is reduced by 50% to RM800mn, while sales target is revised lower to RM1.1bn from RM1.4bn previously. We believe the sales target is achievable as YTD sales accounted for 79% of the revised sales target.
- Looking forward, management is looking to ramp up launches next year, with new projects worth RM2.0bn ready for launch in 2017 – see **Figure 3**. Projects in Klang Valley is expected to contribute bulk of the launches (45% of total launches). New projects to be introduced in 2017 include Sunway Kelana Jaya (GDV: RM400mn, condominiums) and Sunway Industrial Park (GDV: RM100mn, industrial).

## Valuation

- Attaching a 10% discount to our SOP valuation, we value Sunway at RM3.26/share (unchanged). Reiterate **Hold**.

Figure 2: SOP Valuation

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY17 Property Earnings	186.7	12	100%	2240.5	1.27
SunCon @ RM1.85 TP	2390.2	1	54%	1300.3	0.74
SunREIT @ RM1.78 TP	5228.9	1	36%	1887.6	1.07
CY17 Other Business Earnings	79.83	12	100%	958.0	0.54
<b>SOP Value</b>				<b>6386.4</b>	<b>3.62</b>
Discount		10%		(638.6)	(0.4)
<b>Target Price</b>				<b>5747.8</b>	<b>3.26</b>

Figure 3: Indicative 2017 Launches

Development	Location	Type	GDV (RM mn)
Sunway Geo Residence 3	Bandar Sunway	Condominiums	400
Sunway Industrial Park	Kg Subang	Industrial	100
Sunway Kelana Jaya	Kelana Jaya	Condominium	400
Sunway Paya Terubong	Paya Terubong, Penang	Shops	100
Sunway Wellesley	Bkt Mertajam, Penang	Condominium	65
Sunway Lenang Heights	Bkt Lenang, Johor	Semi Detached	150
Sunway Iskandar	Sunway Iskandar, Johor	Apartments	180
Sunway Iskandar	Sunway Iskandar, Johor	Terrace and Semi D	400
Tianjin Eco-City	Tianjin, China	Condominium	150
Others			50
			1995

## Earnings Summary

YE Dec 31 (RM'mn)	2014	2015	2016F	2017F	2018F
Revenue	4558.1	4451.3	5220.3	5688.2	5928.5
EBITDA	652.1	823.7	823.8	807.3	874.3
EBITDA margin (%)	14.3	18.5	15.8	14.2	14.7
Pretax profit	797.6	781.8	793.2	787.2	848.5
Net profit	734.0	732.4	499.5	510.8	612.2
Net profit -adj	591.7	590.7	499.5	510.8	612.2
EPS (sen)	34.2	32.8	27.8	28.4	34.0
EPS - adj (sen)	34.2	34.1	28.9	29.5	35.4
EPS Growth (Core) (%)	21.8	(0.2)	(15.4)	2.3	19.9
PER (x)	8.8	8.8	10.4	10.2	8.5
GDPS (sen)	11.0	37.0	11.0	11.0	11.0
Div Yield (%)	3.7	12.3	3.7	3.7	3.7
ROE (%)	10.5	9.5	7.4	7.3	8.3

## 3Q16 Results analysis

YE 31 Dec (RM'mn)	3Q15	2Q16	3Q16	QoQ (%)	YoY (%)	9MFY15	9MFY16	YoY (%)	
<b>Revenue</b>	<b>951.0</b>	<b>1155.7</b>	<b>1137.5</b>	<b>(1.6)</b>	<b>19.6</b>	<b>3052.6</b>	<b>3362.2</b>	<b>10.1</b>	
<i>Property Development</i>	270.9	315.1	247.6	(21.4)	(8.6)	775.7	796.7	2.7	
<i>Property Investment</i>	172.2	160.1	189.9	18.6	10.3	456.3	519.2	13.8	
<i>Construction</i>	196.8	249.3	287.9	15.5	46.3	816.2	848.7	4.0	
<i>Trading &amp; Manufacturing</i>	130.5	218.5	206.7	(5.4)	58.4	444.7	618.2	39.0	
<i>Quarry</i>	66.8	60.6	54.0	(10.9)	(19.1)	184.6	153.3	(17.0)	
<i>Others</i>	113.9	152.1	151.4	(0.5)	32.9	374.9	426.0	13.6	
EBIT	118.7	161.4	164.3	1.8	38.4	427.6	475.4	11.2	
Gain on derivative	4.9	0.0	0.0	0.0	(100.0)	2.3	0.0	(100.0)	
Finance income	42.1	26.2	31.5	20.4	(25.1)	74.3	81.3	9.5	
Finance costs	(26.3)	(41.7)	(34.1)	(18.3)	29.7	(79.1)	(115.5)	46.0	
Associates	24.2	47.0	25.1	(46.5)	3.8	175.3	96.3	(45.1)	
JV	7.3	10.9	21.6	97.1	193.9	45.0	50.8	12.9	
EI	(13.7)	21.5	(4.5)	(120.9)	(67.2)	103.3	14.6	(85.9)	
PBT	171.0	203.8	208.5	2.3	22.0	645.4	588.4	(8.8)	
<b>Core PBT</b>	<b>184.7</b>	<b>182.3</b>	<b>213.0</b>	<b>16.9</b>	<b>15.4</b>	<b>542.1</b>	<b>573.8</b>	<b>5.9</b>	
<i>Property Development</i>	38.5	60.6	62.2	2.6	61.7	148.4	191.9	29.3	
<i>Property Investment</i>	50.3	41.3	45.9	11.1	(8.8)	102.4	120.7	17.8	
<i>Construction</i>	24.1	34.5	32.2	(6.6)	33.6	132.6	104.4	(21.3)	
<i>Trading &amp; Manufacturing</i>	3.5	6.7	7.3	8.5	106.5	15.5	19.3	24.3	
<i>Quarry</i>	10.4	11.3	6.7	(40.9)	(35.7)	33.7	24.2	(28.2)	
<i>Others</i>	57.9	27.9	58.8	110.9	1.6	109.4	113.3	3.6	
Tax	(31.5)	(23.9)	(37.7)	57.9	19.8	(100.6)	(94.4)	(6.2)	
MI	(6.2)	(25.5)	(27.7)	8.5	349.1	(27.0)	(94.4)	249.7	
<b>Net profit</b>	<b>133.3</b>	<b>154.4</b>	<b>143.6</b>	<b>(7.0)</b>	<b>7.7</b>	<b>517.8</b>	<b>400.1</b>	<b>(22.7)</b>	
Core net profit	147.0	132.9	148.1	11.5	0.7	414.5	385.5	(7.0)	
Reported EPS	(sen)	7.5	7.8	7.0	(10.2)	(6.9)	29.5	20.6	(30.4)
Adj EPS	(sen)	8.3	6.7	7.2	7.6	(12.9)	23.6	19.8	(16.2)
DPS	(sen)	26.0	5.0	0.0	<100	<100	31.0	5.0	<100
EBIT margin	(%)	12.5	14.0	14.4	0.5	2.0	14.0	14.1	0.1
<b>PBT margin</b>	<b>(%)</b>	<b>19.4</b>	<b>15.8</b>	<b>18.7</b>	<b>3.0</b>	<b>(0.7)</b>	<b>17.8</b>	<b>17.1</b>	<b>(0.7)</b>
<i>Property Development</i>	(%)	14.2	19.2	25.1	5.9	10.9	19.1	24.1	5.0
<i>Property Investment</i>	(%)	29.2	25.8	24.2	(1.6)	(5.0)	22.4	23.2	0.8
<i>Construction</i>	(%)	12.2	13.8	11.2	(2.6)	(1.1)	16.3	12.3	(4.0)
<i>Trading &amp; Manufacturing</i>	(%)	2.7	3.1	3.5	0.4	0.8	3.5	3.1	(0.4)
<i>Quarry</i>	(%)	15.6	18.7	12.4	(6.3)	(3.2)	18.2	15.8	(2.5)
<i>Others</i>	(%)	50.8	18.3	38.9	20.5	(11.9)	29.2	26.6	(2.6)
Net margin	(%)	15.5	11.5	13.0	1.5	(2.4)	13.6	11.5	(2.1)
Effective tax rate	(%)	17.0	13.1	17.7	4.6	0.7	18.6	16.5	(2.1)

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#### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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