



Sunway Berhad

New Launches to Pick Up in the 2H17

TP: RM3.81 (+6.1%)

Last Traded: RM3.59

Hold

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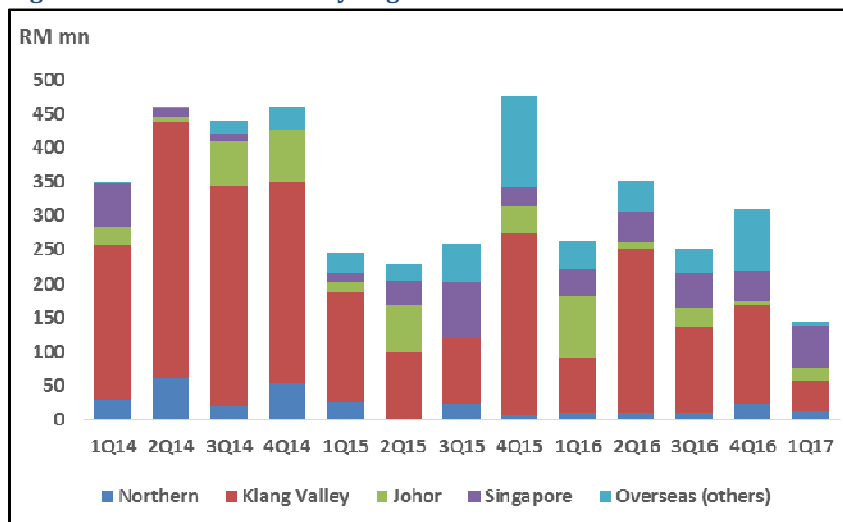
Review

- Sunway's 1Q17 net profit of RM107.9mn came broadly within expectations, accounting for 19% and 20% of ours and consensus' full-year forecasts respectively. For the past 5 financial years, Sunway group's 1Q net profit typically made up about 16-22% of its full-year earnings.
- YoY, Sunway's 1Q17 revenue and normalised net profit grew 2.1% and 3.3% to RM1.1bn and RM107.9mn respectively. The improvement was largely due to higher contribution from all business divisions, except property development. The property development division performance was lower mainly due to softer sales and progress billings from both local and overseas development projects.
- QoQ, 1Q17 normalised net profit fell 33%, as profits in 4Q16 was boosted by completion and handover of a number of property development projects. The property investment division reported weaker results attributed to seasonal factors as the leisure and hospitality business usually see earnings peak in the 4Q. In addition, the property investment division was impacted by higher opening and operating expenses incurred for the new Sunway Velocity Mall.
- Sunway reported RM142mn new property sales (effective: RM125mn, -46% YoY) in 1Q17. Softer sales performance was largely due to the lack of new launches in 1Q17. Key contributors to 1Q17 sales are Emerald Residences & Boulevard (landed homes and retail shops) in Sunway Iskandar, Sunway Velocity and Singapore projects. Unbilled sales eased to RM1.4bn (effective RM1.1bn), from RM1.5bn a quarter ago.

Impact

- No change to our FY17-19 earnings forecasts.

Figure 1: Sales Breakdown by Region



Source: Sunway, TA Research

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	2035.8
Market Cap (RMmn)	7308.5
Par Value	1.00
52-wk Hi/Lo (RM)	3.68/2.84
12-mth Avg Daily Vol ('000 shrs)	1357.8
Estimated Free Float (%)	29.0
Beta	0.5
Major Shareholders (%)	
	Sungei Way Corp (56.7)
	EPF (5.6)

Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	561.8	599.4
Consensus	543.6	584.0
TA's / Consensus (%)	103.3	102.6
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY17	FY18
Net Debt / Equity (%)	30.5	24.1
FCPS (sen)	60.2	31.9
Price / CFPS (x)	6.0	11.2
ROA (%)	3.0	3.2
NTA/Share (RM)	3.6	3.8
Price/NTA (x)	1.0	0.9

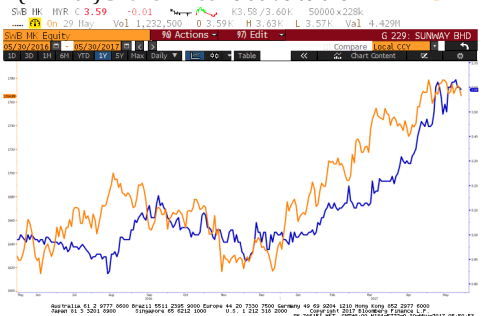
SCORECARD

	% of FY	
vs TA	19.0	Within
vs Consensus	20.0	Within

Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	3.5	(0.2)
3 mth	12.3	4.2
6 mth	22.9	9.0
12 mth	20.5	8.3

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



Source: Bloomberg

Outlook

- Despite only securing new sales of RM142mn in 1Q17, management has maintained its sales target of RM1.1bn in 2017, underpinned by new projects worth RM2.0bn (see **Figure 3**) and other existing projects. Klang Valley is expected to contribute bulk of the sales. New projects to be introduced in 2H2017 include Sunway Industrial Park (GDV: RM100mn, industrial), Sunway Wellesley (GDV: RM100mn, Shops), The Grid @ Sunway Iskandar (GDV: RM200mn, Apartments, Retail & Offices) and Tianjin Eco City (GDV: RM150mn, Condominium).
- The group's unbilled sales of RM1.4bn and outstanding construction order book of RM3.2bn (external jobs only) should provide earnings visibility for the next 2 years.

Valuation

- Attaching a 10% discount to our SOP valuation, we value Sunway at **RM3.81/share**, after: 1) rolling forward our valuation base year to CY18 for its property development and quarry & manufacturing earnings, and 2) factoring in latest TPs for Sunway's listed entities. Maintain **Hold** with a total potential return of 9.4%.

Figure 2: SOP Valuation

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY18 Property Earnings	218.7	12	100%	2624.6	1.49
SunCon @ RM2.26 TP	2919.9	1	54%	1588.4	0.90
SunREIT @ RM1.86 TP	5463.9	1	37%	2038.0	1.16
CY18 Other Business Earnings	100.9	12	100%	1211.3	0.69
SOP Value				7462.5	4.23
Discount		10%		(746.2)	(0.4)
Target Price				6716.2	3.81

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	Condominiums	400
Sunway Paya Terubong	Paya Terubong, Penang	Shops	100
Sunway Wellesley	Bkt Mertajam, Penang	Shops	100
Sunway Wellesley	Bkt Mertajam, Penang	Condominiums	65
Sunway Lenang Heights	Bkt Lenang, Johor	Semi Detached	150
The Grid	Sunway Iskandar, Johor	Apartments, retail & Offices	200
Sunway Iskandar	Sunway Iskandar, Johor	Terrace and Cluster	300
Tianjin Eco-City	Tianjin, China	Condominiums	150
Others			30
			1995

Source; Sunway, TA Research

Earnings Summary

YE Dec 31 (RM'mn)	2015	2016	2017F	2018F	2019F
Revenue	4448.4	4725.9	5262.0	5397.6	5619.6
EBITDA	805.3	864.9	860.4	881.2	904.7
EBITDA margin (%)	18.1	18.3	16.4	16.3	16.1
Pretax profit	783.0	803.5	809.5	807.4	850.7
Net profit	732.4	585.9	561.8	599.4	654.7
Net profit -adj	590.7	547.4	561.8	599.4	654.7
EPS (sen)	40.7	28.4	27.2	29.1	31.7
EPS - adj (sen)	32.8	26.5	27.2	29.1	31.7
EPS Growth (Core) (%)	(4.0)	(19.2)	2.6	6.7	9.2
PER (x)	10.9	13.5	13.2	12.4	11.3
GDPS (sen)	37.0	12.1	12.0	12.0	13.0
Div Yield (%)	10.3	3.4	3.3	3.3	3.6
ROE (%)	9.5	7.8	7.4	7.5	7.9

1Q17 Results analysis

YE 31 Dec (RM'mn)	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)
Revenue	1,069.0	1363.7	1091.3	(20.0)	2.1
<i>Property Development</i>	234.1	412.7	143.3	(65.3)	(38.8)
<i>Property Investment</i>	169.2	172.8	186.9	8.2	10.5
<i>Construction</i>	311.4	334.4	316.8	(5.2)	1.7
<i>Trading & Manufacturing</i>	193.1	215.1	245.2	14.0	27.0
<i>Quarry</i>	38.7	54.1	40.2	(25.7)	3.7
<i>Others</i>	122.5	174.7	158.9	(9.0)	29.8
EBIT	149.6	251.4	116.8	(53.6)	(22.0)
Gain on derivative	0.0	0.0	0.0	0.0	0.0
Finance income	23.6	26.6	42.9	61.4	81.8
Finance costs	(39.7)	(52.2)	(49.6)	(5.0)	25.0
Associates	24.2	28.7	27.0	(6.1)	11.2
JV	18.3	16.1	16.1	(0.1)	(11.9)
EI	(2.4)	40.9	0.0	nm	nm
PBT	176.1	270.6	153.1	(43.4)	(13.0)
Core PBT	178.5	229.7	153.1	(33.3)	(14.2)
<i>Property Development</i>	69.1	135.9	25.1	(81.6)	(63.7)
<i>Property Investment</i>	33.5	38.0	31.1	(18.0)	(7.2)
<i>Construction</i>	37.7	29.7	36.9	24.4	(2.1)
<i>Trading & Manufacturing</i>	5.3	16.4	8.8	(46.3)	64.3
<i>Quarry</i>	6.1	0.8	0.5	(39.5)	(91.8)
<i>Others</i>	26.6	8.9	50.7	>100	90.4
Tax	(32.8)	(46.0)	(27.3)	(40.5)	(16.8)
MI	(41.1)	(38.8)	(17.9)	(54.0)	(56.6)
Net profit	102.1	185.8	107.9	(41.9)	5.7
Core net profit	104.5	161.8	107.9	(33.3)	3.3
Reported EPS (sen)	5.7	9.1	5.3	(41.3)	(6.7)
Adj EPS (sen)	5.8	7.9	5.3	(32.6)	(8.8)
DPS (sen)	0.0	7.1	0.0	nm	nm
EBIT margin (%)	14.0	18.4	10.7	(7.7)	(3.3)
PBT margin (%)	16.7	16.8	14.0	(2.8)	(2.7)
<i>Property Development (%)</i>	9.8	11.9	9.9	(2.0)	0.1
<i>Property Investment (%)</i>	18.4	20.0	17.9	(2.2)	(0.5)
<i>Construction (%)</i>	12.1	8.9	11.7	2.8	(0.5)
<i>Trading & Manufacturing (%)</i>	2.8	7.6	3.6	(4.0)	0.8
<i>Quarry (%)</i>	15.9	1.5	1.2	(0.3)	(14.6)
<i>Others (%)</i>	21.8	5.1	31.9	26.8	10.2
Net margin (%)	12.9	13.0	11.9	(1.2)	(1.0)
Effective tax rate (%)	11.7	17.7	20.0	2.3	8.3

* Including distribution of treasury share on the basis of 1:100

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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. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

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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