



Sunway Berhad

Revising FY16 Sales Target to RM1.1bn

TP: RM3.26 (+6.6%)

Last Traded: RM3.06

Hold

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We left Sunway's analyst briefing feeling neutral with regards to Sunway's near term prospects. Given the soft market condition, management has decided to re-strategise some of its planned launches. As a result, FY16 launch target is reduced by 50% to RM800mn and FY16 sales target is revised lower to RM1.1bn from RM1.4bn previously. We cut our FY17 & FY18 earnings estimates by 2% and 6.5% respectively after revising our FY16-18 sales assumptions to RM1.1bn - 2.0bn from RM1.2bn - 2.3bn previously. We maintain our Hold recommendation on Sunway with a revised target price of RM3.26 (total return 10.2%), based on 10% discount to its SOP value.

Scaling Down FY16 Launches to RM800mn

Management has reduced its 2016 launch target by 50% to RM800mn from RM1.6bn previously – see **Table 1**. The revision in launches was mainly due to changes in plans for Sunway Geo Residences 3 and conversion of Velocity Offices into a property investment asset.

Management explained that the group plans to build additional walkway within the Sunway Geo development to provide greater accessibility and connectivity between the residential and commercial precincts of Sunway South Quay. With that, the launch of Sunway Geo Residence 3 will be deferred to 1H2017 as the group is required to resubmit the building plan, development order and subdivision of land for approval by authorities. As for Sunway Velocity Office, management has decided to retain it as property investment for better asset management given the subject property is located on top of the shopping mall.

Down south to Sunway Iskandar, management will hold back the launch of landed properties and introduce an integrated development comprising retail, offices and small unit apartments call The Grid. For a start, it will offer retail and offices in 4Q16 with a GDV of RM100mn.

Targeting RM1.1bn Sales for FY16

With the change in planned launches, 2016 sales target is adjusted lower RM1.1bn from RM1.4bn previously. Recall, Sunway's 1H16 new sales rose 29% YoY to RM613mn (effective: RM510mn). Notably, property sales has rebounded 33% on a QoQ basis to RM351mn, largely driven by encouraging sales from Sunway Mont Residence @ Mont Kiara that was launched in May-16 (GDV: RM300mn, take up rate: 80%). The cut in sales target is not a surprise to us as we had only assumed RM1.2bn sales in FY16. We highlighted in our recent result update report that the group's sales may fall short of its target given more than 50% of the group's launches for year are scheduled for launch only in 4Q16.

We think this is a prudent approach to slow down the group's new launches during this challenging period. However, the sales revision came in slightly greater than our expectations, as we did not expect the group to postpone the launch of landed residence in Sunway Iskandar given demand for landed homes in Iskandar region stay relatively healthy. According to management, YTD sales as at Sep 2016 amounted approximately to RM800mn.

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	2034.7
Market Cap (RMmn)	6226.1
Par Value	1.00
52-wk Hi/Lo (RM)	3.24/2.87
12-mth Avg Daily Vol ('000 shrs)	1027.30
Estimated Free Float (%)	28.8
Beta	0.5

Major Shareholders (%)

Sungei Way Corp	(56.2)
EPF	(5.3)

Forecast Revision

	FY16	FY17
Forecast Revision (%)	0.0	(2.0)
Net profit (RMm)	507.6	510.8
Consensus (RMm)	523.9	565.1
TA's / Consensus (%)	96.9	90.4
Previous Rating	Hold (Maintained)	

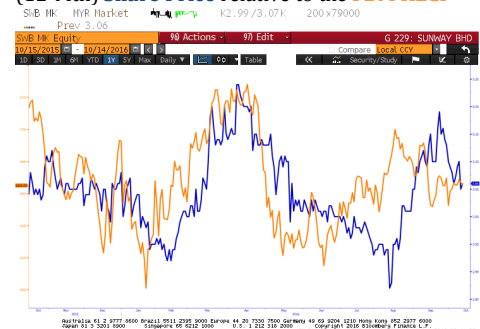
Financial Indicators

	FY16	FY17
Net Debt / Equity (%)	46.4	38.9
FCPS (sen)	22.7	32.9
Price / CFPS (x)	13.5	9.3
ROA (%)	3.1	3.1
NTA/Share (RM)	3.6	3.8
Price/NTA (x)	0.8	0.8

Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	(2.2)	0.2
3 mth	2.0	0.6
6 mth	(4.4)	(3.4)
12 mth	(0.6)	(2.7)

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



Source: Bloomberg

Laying the Groundwork for 2017

Looking forward, management is looking to ramp up launches next year, with new projects worth RM2.0bn ready for launch in 2017 – see **Table 3**. FY17 sales target was not provided as management has yet to determine the actual timing of these launches. 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).

Impact

Our FY16 earnings forecasts are largely unchanged as its solid unbilled sales of RM2.0bn and strong construction orderbook of RM5.0bn from its 54%-owned SunCon will keep near-term earnings intact. However, we cut our FY17 and FY18 earnings forecasts by 2.0 and 6.5% respectively, after factoring in 1) revised FY16-18 sales assumptions of RM1.1bn – RM2.0bn from RM1.2bn - RM2.3bn previously, and 2) revised earnings for SunCon on stronger-than-expected contract wins to date (refer report dated 27 Sep).

Valuation

We maintain our **Hold** Recommendation on Sunway with a lower target price of RM3.26/share (from RM3.33/share previously), pegged to a 10% discount to its revised SOP value of RM3.62/share. Our new target price takes into account our revised sales and property earnings assumptions, as well as the recent upgrade in SunCon's TP to RM1.85.

SOP Valuation Table

	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
SOP Value				6386.4	3.62
Discount		10%		(638.6)	(0.4)
Target Price				5747.8	3.26

Figure 1: FY16 Planned Launches

Development	Location	Type	GDV (RM mn)
Launched			
Gandaria	Bangi	Serviced apartments & retail units	200
Sunway Mont	Mont Kiara	Condominiums	300
Tianjin Eco-City	Tianjin, China	Condominiums	55
Upcoming launches			
Sunway Iskandar	Sunway Iskandar, Johor	Retail/Office	100
Tianjin Eco-City	Tianjin, China	Condominiums	95
Others			50
Total			800
Launches Deferred or Amended			
Development	Location	Type	GDV (RM mn)
Geo Residence 3	Bandar Sunway	Condominiums & townhouses	400
Velocity	Jalan Peel, Cheras	Shops and office suites	200
Sunway Iskandar	Sunway Iskandar, Johor	Landed homes	400

Source: Sunway

Figure 2: Indicative Launches for 2017

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

Source: Sunway

Financial Statements

Profit and Loss (RM'mn)

FYE Dec	2014	2015	2016F	2017F	2018F
Revenue	4,558.1	4,451.3	5,466.3	5,688.2	5,928.5
EBITDA	652.1	823.7	841.0	807.3	874.3
Depreciation	(56.5)	(78.7)	(77.7)	(76.8)	(75.8)
Amortisation	(0.9)	(0.9)	(0.8)	(0.8)	(0.7)
EBIT	594.7	744.1	762.4	729.8	797.8
Finance cost	(30.4)	(49.2)	(78.4)	(77.1)	(75.8)
Associate & JV	233.4	269.9	112.6	116.9	126.6
EI	150.1	141.7	0.0	0.0	0.0
PBT	960.2	929.2	810.4	787.2	848.5
Tax	(148.6)	(129.8)	(164.1)	(159.4)	(171.8)
MI	(77.6)	(67.0)	(138.7)	(117.1)	(64.5)
Net profit	734.0	732.4	507.6	510.8	612.2
Core profit	591.7	590.7	507.6	510.8	612.2
Core EPS (sen)	34.2	34.1	29.3	29.5	35.4
DPS (sen)	11.0	38.5	11.4	11.4	11.4

Cash Flow (RM'mn)

FYE Dec	2014	2015	2016F	2017F	2018F
PBT	960.2	929.2	810.4	787.2	848.5
Depr & Amort	117.8	117.3	78.5	77.5	76.6
Change in working assets	(36.6)	(131.8)	63.3	(7.9)	(8.6)
Tax	(148.6)	(129.8)	(164.1)	(159.4)	(171.8)
Others	(152.8)	(536.3)	(23.5)	(20.5)	(19.9)
CFO	740.0	248.7	764.6	677.0	724.9
Capex	(60.0)	(346.0)	(332.9)	(60.0)	(60.0)
Property Inv	(324.0)	(24.0)	(24.0)	(24.0)	(24.0)
Disposal		456.8			
CFI	(384.0)	86.8	(356.9)	(84.0)	(84.0)
Net Addition/Rpmt	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Dividend Paid	(190.4)	(665.9)	(198.0)	(198.0)	(198.0)
Others	20.9	0.0	0.0	0.0	0.0
CFF	(269.5)	(765.9)	(298.0)	(298.0)	(298.0)
Change in cash	86.5	(430.4)	109.8	295.0	342.9
FCF/share	20.6	18.6	22.7	32.9	35.6

Assumptions (RM mn)

FYE Dec	2014	2015	2016F	2017F	2018F
New Property Sales	1,700.0	1,209.0	1,052.5	1,731.4	1,982.0
Property Margins (%)	23.5	23.4	24.7	24.0	22.0
Orderbook Replenishment	800.0	2,800.0	2,600.0	2,000.0	2,000.0
Construction margins (%)	8.6	9.2	10.1	9.9	9.9

Balance Sheet (RM'mn)

FYE Dec	2014	2015	2016F	2017F	2018F
PPE	985.2	1,372.0	1,354.3	1,337.5	1,321.6
Land held for dev	535.5	1,194.1	1,467.0	1,467.0	1,467.0
Associate & JV	2,521.4	3,181.2	3,204.7	3,225.2	3,245.1
Investment Properties	2,370.4	2,722.3	2,746.3	2,770.3	2,794.3
Goodwill	319.4	320.1	320.1	320.1	320.1
Others	142.9	471.6	470.8	470.0	469.3
LT Assets	6,874.9	9,261.3	9,563.1	9,590.1	9,617.4
Property dev. Cost	1,518.3	978.0	978.0	978.0	978.0
Inventories	580.0	693.1	703.9	732.5	763.4
Trade & other receivables	1,664.2	1,823.3	1,917.0	1,994.8	2,079.0
Cash & Cash equivalent	1,978.2	2,631.0	2,740.7	3,035.7	3,378.6
Others	143.5	614.2	614.2	614.2	614.2
ST Assets	5,884.3	6,739.6	6,953.8	7,355.1	7,813.3
Assets Held for Sale	98.0	0.0	0.0	0.0	0.0
Total Assets	12,857.1	16,000.9	16,516.9	16,945.3	17,430.7
Trade and other payables	2,118.0	2,258.5	2,426.1	2,524.6	2,631.3
ST Borrowings	2,132.9	3,217.6	3,167.6	3,117.6	3,067.6
Others	24.9	88.1	88.1	88.1	88.1
ST Liabilities	4,275.8	5,564.2	5,681.8	5,730.3	5,787.0
LT Borrowings	1,651.5	2,815.2	2,765.2	2,715.2	2,665.2
Others	605.9	408.2	408.2	408.2	408.2
LT Liabilities	2,257.5	3,223.4	3,173.4	3,123.4	3,073.4
Share Cap	1,730.6	1,799.8	1,799.8	1,799.8	1,799.8
Reserves	4,205.8	4,763.0	5,072.6	5,385.5	5,799.7
Shareholder's Funds	5,936.4	6,562.7	6,872.4	7,185.2	7,599.5
MI	387.5	650.6	789.2	906.3	970.8
Liabilities + Equities	12,857.1	16,000.9	16,516.9	16,945.3	17,430.7

Ratios

EPS Growth (%)	21.8	(0.2)	(14.1)	0.6	19.9
PER (x)	8.9	9.0	10.4	10.4	8.6
GDPS (sen)	11.0	38.5	11.4	11.4	11.4
Div Yield (%)	3.6	12.6	3.7	3.7	3.7
Net cash (RMm)	(1,806.2)	(3,401.9)	(3,192.1)	(2,797.1)	(2,354.2)
Net gearing (x)	0.3	0.5	0.5	0.4	0.3
ROE (%)	10.5	9.5	7.6	7.3	8.3
ROA (%)	4.9	4.1	3.1	3.1	3.6
NTA/share (RM)	3.2	3.5	3.6	3.8	4.0
P/NTA (x)	0.9	0.9	0.8	0.8	0.8

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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