



## Sunway Berhad

Solid End for FY16

**TP: RM3.40 (+7.4%)**

Last Traded: RM3.16

Hold

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### Review

- Sunway's FY16 normalised net profit of RM547.4mn beat expectations, accounting for 111% and 110% of ours and consensus' full-year forecasts respectively. The variance was largely due to: 1) higher-than-expected profit contribution from associates and JV entities, and 2) lower-than-expected effective tax rates.
- For this quarter, the board has declared a second interim single tier cash dividend of 4.0sen/share plus a distribution of treasury shares on the basis of 1 treasury share for every 100 shares held on the entitlement date of 13 April 2017. The effective dividend for 4Q16 works out to 7.14sen/share, bringing 2016 total dividends to 12.14sen/share. This also came in higher than our dividend projections of 11sen/share. Based on 12.14sen/share, the effective dividend yield is 3.8%.
- Sunway's FY16 revenue grew 6% YoY to RM4.7bn. The increase in revenue was driven by better performance across the key business divisions. However, the group's normalised net profit during the period declined 7% YoY to RM547.3mn. 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%.
- QoQ, 4Q16 normalised net profit advanced 9% to RM148.1mn, driven by 20% growth in revenue. The higher sequential profit was largely contributed by stronger performance for property development division due to the completion of several local development projects as well as higher progress billings from local projects. In addition, property development division EBIT margin expanded by +7.8ppt QoQ, benefiting from favourable product mix.
- Sunway's 2016 new sales were flat at RM1.2bn (effective: RM923mn) from a year ago. Nonetheless, this was slightly higher than both ours and management's sales projections of RM1.1bn. Key contributors to 2016 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 RM1.5bn (effective RM1.1bn), from RM1.8bn a quarter ago, providing earnings visibility of more than one year.

### Impact

- Our FY17 and FY18 earnings are adjusted by +10% and -2.1% respectively after factoring in the following;
  - Actual FY16 results;
  - Revised earnings for SunCon – see results report dated 24 Feb;
  - Change in progress billings assumptions to reflect the timing of launches;
  - Lower effective tax rate of 18% (from 20% previously).

### Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	2025.1
Market Cap (RMmn)	6399.3
Par Value	1.00
52-wk Hi/Lo (RM)	3.24/2.87
12-mth Avg Daily Vol ('000 shrs)	1022.7
Estimated Free Float (%)	27.5
Beta	0.50
<b>Major Shareholders (%)</b>	
	Sungei Way Corp (51.6)
	Employees Provident Fund (6.3)

### Forecast Revision

	FY17	FY18
Forecast Revision (%)	10.0	(2.1)
Net profit (RMmn)	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)	5.2	9.9
ROA (%)	3.0	3.2
NTA/Share (RM)	3.6	3.8
Price/NTA (x)	0.9	0.8

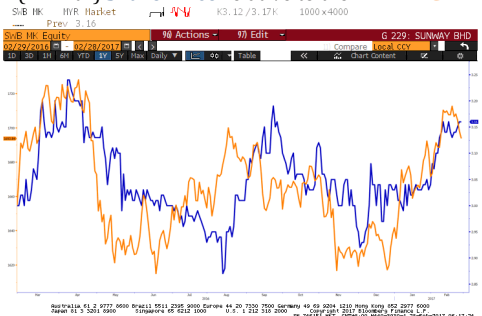
### SCORECARD

	% of FY	
vs TA	111.0	Above
vs Consensus	110.0	Above

### Share Performance (%)

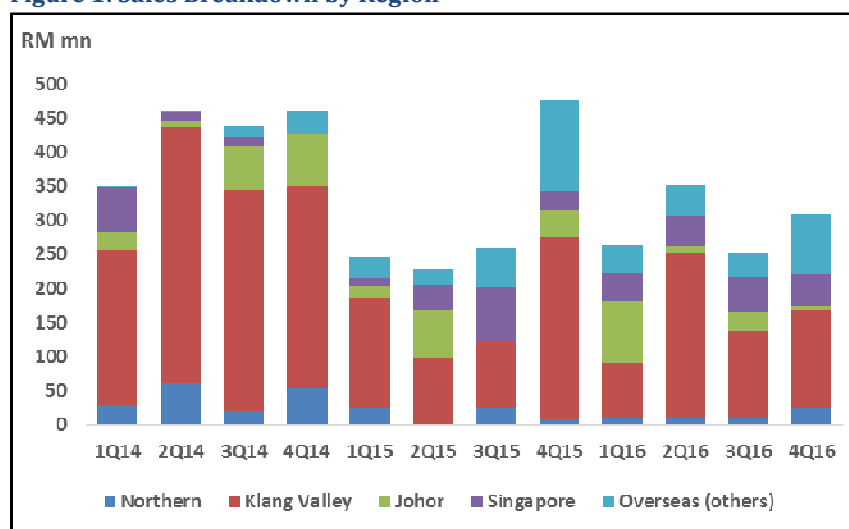
Price Change	Sunway	FBM KLCI
1 mth	3.9	1.3
3 mth	7.1	4.6
6 mth	3.6	0.9
12 mth	5.3	2.4

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



Source: Bloomberg

Figure 1: Sales Breakdown by Region



Source; Sunway, TA Research

### Outlook

- Sunway is targeting new sales of RM1.1bn this year, underpinned by new projects worth RM2.0bn (see **Figure 3**) and other existing projects. New projects to be introduced in 2Q17 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).
- We are positive on Sunway's recent acquisition of 8.45 acres of land along Jalan Peel, Cheras, which will be developed into Sunway Velocity TWO, directly opposite the Sunway Velocity Mall. We see synergies between the two developments as more than 70% of Sunway Velocity TWO will comprise residential units, which will complement the existing Sunway Velocity. Note that Sunway Velocity consists of 75% commercial units, including Sunway Velocity Shopping Mall, Sunway Velocity Medical Centre and Sunway Velocity Hotel.

### Valuation

- Taking into account the earnings adjustment and new target price for SunCon, our target price is revised higher to **RM3.40/share**, (from RM3.27/share previously), which is pegged to a 10% discount to is SOP value of RM3.77/share. Reiterate **Hold**.

Figure 2: SOP Valuation

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY17 Property Earnings	192.8	12	100%	2313.5	1.31
SunCon @ RM1.90 TP	2454.8	1	54%	1335.4	0.76
SunREIT @ RM1.79 TP	5258.3	1	36%	1898.2	1.08
CY17 Other Business Earnings	91.85	12	100%	1102.1	0.63
<b>SOP Value</b>				<b>6649.3</b>	<b>3.77</b>
Discount		10%		(664.9)	(0.4)
<b>Target Price</b>				<b>5984.4</b>	<b>3.40</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	Shops	100
Sunway Wellesley	Bkt Mertajam, Penang	Condominium	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	Condominium	150
Others			30
			<b>1995</b>

**Earnings Summary**

YE Dec 31 (RM'mn)	2014	2015	2016	2017F	2018F
Revenue	4558.1	4448.4	4725.9	5262.0	5397.6
EBITDA	652.1	766.6	837.1	860.4	881.2
EBITDA margin (%)	14.3	17.2	17.7	16.4	16.3
Pretax profit	797.6	783.0	803.5	809.5	807.4
Net profit	734.0	732.4	585.9	561.8	599.4
Net profit -adj	591.7	590.7	547.4	561.8	599.4
Reported EPS (sen)	42.4	40.7	28.4	27.2	29.1
EPS - adj (sen)	34.2	32.8	26.5	27.2	29.1
EPS Growth (Core) (%)	21.8	(4.0)	(19.2)	2.6	6.7
PER (x)	9.2	9.6	11.9	11.6	10.9
GDPS (sen)	11.0	38.5	12.1	12.0	12.0
Div Yield (%)	3.5	11.7	3.8	3.8	3.8
ROE (%)	10.5	9.5	7.8	7.4	7.5

## 4Q16 Results analysis

YE 31 Dec (RM'mn)	4Q15	3Q16	4Q16	QoQ (%)	YoY (%)	FY15	FY16	YoY(%)
<b>Revenue</b>	<b>1,395.8</b>	<b>1137.5</b>	<b>1363.7</b>	<b>19.9</b>	<b>(2.3)</b>	<b>4448.4</b>	<b>4725.9</b>	<b>6.2</b>
Property Development	420.0	247.6	412.7	66.7	(1.7)	1195.7	1209.4	1.2
Property Investment	185.4	189.9	172.8	(9.0)	(6.8)	641.7	692.0	7.8
Construction	405.9	287.9	334.4	16.1	(17.6)	1222.1	1183.1	(3.2)
Trading & Manufacturing	205.3	206.7	215.1	4.1	4.8	650.0	833.3	28.2
Quarry	57.5	54.0	54.1	0.2	(6.0)	242.1	207.4	(14.4)
Others	121.8	151.4	174.7	15.4	43.5	496.7	600.6	20.9
EBIT	259.3	164.3	251.4	53.0	(3.0)	686.9	726.8	5.8
Gain on derivative	(3.3)	0.0	0.0	nm	nm	(1.0)	0.0	nm
Finance income	23.6	31.5	26.6	(15.8)	12.6	97.8	107.8	10.2
Finance costs	(45.3)	(34.1)	(52.2)	53.1	15.2	(124.5)	(167.7)	34.8
Associates	26.5	25.1	28.7	14.3	8.4	201.8	125.1	(38.0)
JV	23.1	21.6	16.1	(25.2)	(30.0)	68.1	67.0	(1.7)
EI	34.7	(4.5)	40.9	>100	17.9	138.0	55.5	(59.8)
PBT	285.0	208.5	270.6	29.8	(5.0)	930.4	859.0	(7.7)
<b>Core PBT</b>	<b>244.7</b>	<b>213.0</b>	<b>229.7</b>	<b>7.8</b>	<b>(6.1)</b>	<b>783.0</b>	<b>803.5</b>	<b>2.6</b>
Property Development	114.2	62.2	135.9	118.5	19.0	262.7	327.8	24.8
Property Investment	101.3	45.9	38.0	(17.2)	(62.5)	203.7	158.7	(22.1)
Construction	30.0	32.2	29.7	(7.8)	(1.2)	162.7	134.1	(17.6)
Trading & Manufacturing	8.6	7.3	16.4	125.4	91.3	24.1	35.7	48.1
Quarry	5.6	6.7	0.8	(87.6)	(85.1)	39.2	25.0	(36.3)
Others	(15.0)	58.8	8.9	(84.8)	(159.6)	94.4	122.3	29.6
Tax	(29.2)	(37.7)	(46.0)	21.9	57.5	(129.8)	(140.4)	8.2
MI	(40.0)	(27.7)	(38.8)	40.1	(2.9)	(67.0)	(133.2)	98.9
Net profit	214.7	143.6	185.8	29.4	(13.4)	732.4	585.9	(20.0)
Core net profit	180.0	148.1	161.8	9.3	(10.1)	590.7	547.4	(7.3)
Reported EPS (sen)	12.0	7.0	9.1	29.3	(24.6)	41.6	30.0	(27.9)
Adj EPS (sen)	10.1	7.2	7.9	9.2	(21.7)	32.8	30.4	(7.3)
DPS (sen)	6.0	0.0	7.1*	nm	19.0	37.0	12.1*	(67.2)
EBIT margin (%)	18.5	14.4	18.4	4.0	(0.1)	15.4	15.4	(0.1)
<b>PBT margin (%)</b>	<b>17.8</b>	<b>18.7</b>	<b>16.8</b>	<b>(1.9)</b>	<b>(1.0)</b>	<b>17.6</b>	<b>17.0</b>	<b>(0.6)</b>
Property Development (%)	27.2	25.1	32.9	7.8	5.7	22.0	27.1	5.1
Property Investment (%)	54.7	24.2	22.0	(2.2)	(32.7)	31.8	22.9	(8.8)
Construction (%)	7.4	11.2	8.9	(2.3)	1.5	13.3	11.3	(2.0)
Trading & Manufacturing (%)	4.2	3.5	7.6	4.1	3.4	3.7	4.3	0.6
Quarry (%)	9.7	12.4	1.5	(10.9)	(8.2)	16.2	12.1	(4.2)
Others (%)	(12.3)	38.9	5.1	(33.7)	17.4	19.0	20.4	1.4
Net margin (%)	12.9	13.0	11.9	(1.2)	(1.0)	13.3	11.6	(1.7)
Effective tax rate (%)	11.7	17.7	20.0	2.3	8.3	16.6	17.5	0.9

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

## 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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