

COMPANY RESULTS

Sunway (SWB MK)

2Q16: Expect A Strong 2H16

Sunway reported 2Q16 core net profit of RM132.9m (+27.1% qoq, -2.8% yoy) on revenue of RM1.2b (+8.1% qoq, +11% yoy). Cumulatively, 1H16 net profit came in at RM237.4m (-16.2%), representing 47% of our full-year estimate. The negative growth was due to higher construction division costs incurred for the MRT Line 2 construction. However, we expect 2H16 to be stronger, given the seasonal trend. **Maintain BUY with a target price of RM3.60.**

2Q16 RESULTS

| Year to 31 Dec (RMm) | 2Q16 | 1Q16 | qoq % chg | yoy % chg | 1H16 | yoy % chg |
|-------------------------------|---------|---------|-----------|-----------|---------|-----------|
| Revenue | 1,155.7 | 1,069.0 | 8.1 | 11.0 | 2,224.7 | 5.9 |
| - Construction | 249.3 | 311.4 | (19.9) | 2.1 | 560.8 | (9.5) |
| - Property Development | 315.1 | 234.1 | 34.6 | (2.8) | 549.1 | 8.8 |
| - Investment Property | 160.1 | 169.2 | (5.3) | 10.6 | 329.3 | 15.9 |
| Pre-tax Profit | 203.8 | 176.1 | 15.7 | (27.5) | 379.9 | (19.9) |
| - Construction | 34.5 | 37.7 | (8.6) | (38.8) | 72.2 | (33.5) |
| - Property Development | 60.6 | 69.1 | (12.3) | 14.2 | 129.7 | 18.0 |
| - Investment Property | 41.3 | 33.5 | 23.1 | (68.9) | 74.8 | (57.5) |
| PBT | 203.8 | 176.1 | 15.7 | (27.5) | 379.9 | (19.9) |
| PATAMI | 154.4 | 102.1 | 51.2 | (35.1) | 256.5 | (33.3) |
| Core PATAMI | 132.9 | 104.5 | 27.1 | (2.8) | 237.4 | (16.2) |
| Margins | % | % | +ppt | +ppt | % | +ppt |
| Pretax - Construction | 13.8 | 12.1 | 1.7 | (9.2) | 12.9 | (4.6) |
| Pretax - Property Development | 19.2 | 29.5 | (10.3) | 2.9 | 23.6 | 1.8 |

Source: Sunway Berhad, UOB Kay Hian

KEY FINANCIALS

| Year to 31 Dec (RMm) | 2014 | 2015 | 2016F | 2017F | 2018F |
|-------------------------------|-------|-------|-------|-------|-------|
| Net turnover | 4,558 | 4,451 | 5,124 | 5,608 | 5,787 |
| EBITDA | 844 | 789 | 802 | 887 | 917 |
| Operating profit | 760 | 687 | 678 | 752 | 773 |
| Net profit (rep./act.) | 734 | 732 | 515 | 532 | 542 |
| Net profit (adj.) | 583 | 591 | 515 | 532 | 542 |
| EPS (sen) | 28.4 | 28.8 | 25.1 | 26.0 | 26.5 |
| PE (x) | 10.6 | 10.4 | 12.0 | 11.6 | 11.4 |
| P/B (x) | 0.9 | 0.8 | 0.8 | 0.7 | 0.7 |
| EV/EBITDA (x) | 12.1 | 13.0 | 12.8 | 11.6 | 11.2 |
| Dividend yield (%) | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| Net margin (%) | 16.1 | 16.5 | 10.0 | 9.5 | 9.4 |
| Net debt/(cash) to equity (%) | 39.2 | 54.7 | 51.7 | 44.9 | 40.5 |
| Interest cover (x) | 27.8 | 29.6 | 13.2 | 15.2 | 17.1 |
| ROE (%) | 13.0 | 11.7 | 7.6 | 7.3 | 6.9 |
| Consensus net profit | - | - | 524 | 565 | 591 |
| UOBKH/Consensus (x) | - | - | 0.98 | 0.94 | 0.92 |

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|--------------|--------|
| Share Price | RM3.01 |
| Target Price | RM3.60 |
| Upside | +19.6% |

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

STOCK DATA

| | |
|---------------------------------|------------|
| GICS sector | Financials |
| Bloomberg ticker: | SWB MK |
| Shares issued (m): | 2,033.1 |
| Market cap (RMm): | 6,119.7 |
| Market cap (US\$m): | 1,512.8 |
| 3-mth avg daily t'over (US\$m): | 0.8 |

Price Performance (%)

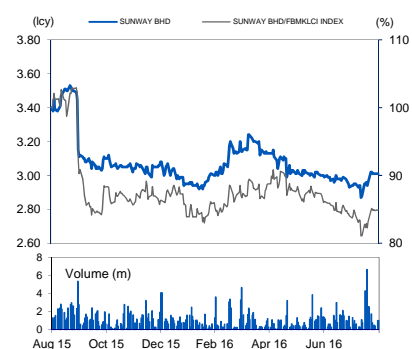
| | | | | |
|------------------|---------------|-------------|------------|------------|
| 52-week high/low | RM3.53/RM2.87 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 2.7 | (0.7) | 0.3 | (4.3) | (2.3) |

Major Shareholders

| | |
|------------------------------|------|
| Sungei Way Corp Sdn Bhd | 51.6 |
| Skim Amanah Saham Bumiputera | 5.7 |
| Sharp Ventures Sdn Bhd | 4.0 |

| | |
|--------------------------|------|
| FY16 NAV/Share (RM) | 3.90 |
| FY16 Net Debt/Share (RM) | 2.02 |

PRICE CHART



Source: Bloomberg

ANALYST

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RESULTS

- **Results were broadly in line** with net profit coming in at RM132.9m (+27.1% qoq, -2.8% yoy) on revenue of RM1,156m (+8.1% qoq, 11.0% yoy). This quarter, earnings were primarily driven by its property development arm, which saw several completions and product deliveries. Cumulatively, 1H16 net profit of RM237m (-16.2% yoy) accounts for about 47% of our and 46% of consensus estimates respectively. Core earnings showed negative growth due to the increase in minority interest contribution as a result of the listing of its construction division which was completed in 2H15. We expect 2H16 to be stronger, as 1H is a seasonally weaker period for the group.
- **Profits boosted by the property division.** For the quarter, the property division recorded revenue of RM315m (-2.8% yoy) and PBT of RM60.6m (+14.2% yoy) with a healthy margin of 19.2%. While revenue was down from the previous corresponding quarter, PBT was up largely due to the delivery of Sunway Velocity shops and offices and higher contributions from the Sunway Geo Residences.
- **Construction's negative growth well expected.** Revenue for the construction division improved by 2.1% yoy. However, PBT for the division showed a -39% contraction largely due to the upfront planning and preliminary costs incurred for the MRT Line 2 job. Nevertheless, we expect this division to play catch-up in 2H16, as the construction billings improve as a result of new contract wins.
- **Investment property revenues improved due to completion of new assets.** Revenue for the division grew by 10.6% yoy to RM160.1m due to: a) higher rental contribution from the completion of the Sunway University Academic Block, and b) better occupancy at Sunway Pinnacle. However, EBIT for the division showed a 14.3% yoy contraction due to lower visitors at its theme parks because of the Ramadhan period.

STOCK IMPACT

- **Property sales on track.** The group clinched RM350m worth of property sales for 2Q16, lifting its 1H16 property sales to RM613m, representing about 56% of its 2016 sales target. For 2016, the group is aiming to launch RM1.2b worth of properties (it undertook about RM500m in launches in 1Q16), driven by a mix of residential and commercial properties. Earnings for its property division would continue to be steady, given its healthy unbilled sales of about RM2b (which represents about 1.7x its 2015 property development revenue).
- **Construction earnings backed by strong orderbook backlog.** As at Jun 16, its construction division's outstanding orderbook stood at about RM4.9b (or 4x its 2015 construction revenue). Its orderbook includes the recently-won: a) MRT Line 2 viaduct package worth RM1.2b, and b) the International School of KL RM268m campus. Ytd, the company has secured about RM2.4b worth of new jobs, including RM749m which was awarded by its parent, Sunway Bhd.

EARNINGS REVISION/RISK

- No change.
- Key risks include: a) rising interest rates, b) tighter lending policies by banks, and c) rising cost of raw materials leading to margin erosion.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of RM3.60.** We continue to like Sunway for its diversified business nature which includes property development, construction and a REIT. While property demand may be sluggish in the near term, Sunway's REIT and construction divisions would be able to cushion the negative earnings impact. Our target price implies a 2017F PE of 13.8x.

SHARE PRICE CATALYST

- Securing more construction jobs.
- Better property sales.
- Unlocking of value of investment properties via REIT avenue.

SOTP

| | |
|------------------------------|-------------|
| Property development | 6,117.0 |
| REIT | 1,777.7 |
| Construction | 809.7 |
| Quary & building materials | 553.3 |
| Trading | 649.0 |
| Investment Properties | 788.9 |
| Warrants conversion proceeds | 575.3 |
| Less: Net debt | (2,325.6) |
| Total SOP value | 8,945.2 |
| Outstanding shares | 1,723.0 |
| Warrants | 255.7 |
| Enlarged sharebase | 1,978.7 |
| SOP/share (RM) | 4.52 |
| Discount | 20% |
| Target price (RM) | 3.60 |

Source: UOB Kay Hian

PROPERTY SALES

| Region/Development | RMm |
|--------------------|------------|
| Sunway Mont | 130 |
| Sunway Iskandar | 99 |
| Gandaria | 58 |
| Velocity | 45 |
| South Quay | 32 |
| Vivaldi | 24 |
| Eastwood | 20 |
| China 67 | 67 |
| Singapore | 87 |
| Others | 51 |
| Total | 613 |

Source: Sunway, UOB Kay Hian

CONSTRUCTION ORDERBOOK

| Job | RMm |
|------------------|--------------|
| MRT | 1,217 |
| Johor | 46 |
| KLCC & Putrajaya | 1,641 |
| Sunway | 1,282 |
| Precast | 380 |
| Total | 4,927 |

Source: Sunway, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (RMm) | 2015 | 2016F | 2017F | 2018F |
|-------------------------------|--------------|--------------|--------------|--------------|
| Net turnover | 4,451 | 5,124 | 5,608 | 5,787 |
| EBITDA | 789 | 802 | 887 | 917 |
| Deprec. & amort. | 102 | 124 | 135 | 144 |
| EBIT | 687 | 678 | 752 | 773 |
| Associate contributions | 270 | 272 | 228 | 228 |
| Net interest income/(expense) | (27) | (61) | (58) | (54) |
| Pre-tax profit | 929 | 889 | 922 | 947 |
| Tax | (130) | (204) | (212) | (218) |
| Minorities | (67) | (170) | (179) | (187) |
| Net profit | 732 | 515 | 532 | 542 |
| Net profit (adj.) | 591 | 515 | 532 | 542 |

BALANCE SHEET

| Year to 31 Dec (RMm) | 2015 | 2016F | 2017F | 2018F |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Fixed assets | 1,364 | 1,490 | 1,606 | 1,711 |
| Other LT assets | 7,566 | 7,662 | 7,679 | 7,907 |
| Cash/ST investment | 2,627 | 2,554 | 2,798 | 2,912 |
| Other current assets | 4,437 | 4,627 | 4,838 | 5,072 |
| Total assets | 15,994 | 16,333 | 16,920 | 17,603 |
| ST debt | 3,304 | 3,304 | 3,304 | 3,304 |
| Other current liabilities | 2,489 | 2,483 | 2,717 | 3,046 |
| LT debt | 2,903 | 2,903 | 2,903 | 2,903 |
| Other LT liabilities | 98 | 98 | 98 | 98 |
| Shareholders' equity | 6,550 | 7,064 | 7,596 | 8,138 |
| Minority interest | 651 | 481 | 302 | 115 |
| Total liabilities & equity | 15,994 | 16,333 | 16,920 | 17,603 |

CASH FLOW

| Year to 31 Dec (RMm) | 2015 | 2016F | 2017F | 2018F |
|---|----------------|--------------|--------------|--------------|
| Operating | 862 | 358 | 675 | 545 |
| Pre-tax profit | 929 | 889 | 922 | 947 |
| Tax | (170) | (204) | (212) | (218) |
| Deprec. & amort. | 102 | 124 | 135 | 144 |
| Associates | (949) | 0 | 0 | 0 |
| Working capital changes | 88 | (152) | 129 | (29) |
| Other operating cashflows | 862 | (299) | (299) | (299) |
| Investing | (2,274) | (250) | (250) | (250) |
| Capex (growth) | (383) | (250) | (250) | (250) |
| Investments | (949) | 0 | 0 | 0 |
| Proceeds from sale of assets | 38 | 0 | 0 | 0 |
| Others | (980) | 0 | 0 | 0 |
| Financing | 1,107 | (181) | (181) | (181) |
| Dividend payments | (657) | (181) | (181) | (181) |
| Issue of shares | 180 | 0 | 0 | 0 |
| Proceeds from borrowings | 1,752 | 0 | 0 | 0 |
| Loan repayment | 0 | 0 | 0 | 0 |
| Others/interest paid | (169) | 0 | 0 | 0 |
| Net cash inflow (outflow) | (306) | (73) | 244 | 114 |
| Beginning cash & cash equivalent | 1,293 | 2,627 | 2,554 | 2,798 |
| Changes due to forex impact | 1,640 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 2,627 | 2,554 | 2,798 | 2,912 |

KEY METRICS

| Year to 31 Dec (%) | 2015 | 2016F | 2017F | 2018F |
|---------------------------|-------|--------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 17.7 | 15.6 | 15.8 | 15.8 |
| Pre-tax margin | 20.9 | 17.4 | 16.4 | 16.4 |
| Net margin | 16.5 | 10.0 | 9.5 | 9.4 |
| ROA | 5.1 | 3.2 | 3.2 | 3.1 |
| ROE | 11.7 | 7.6 | 7.3 | 6.9 |
| Growth | | | | |
| Turnover | (2.3) | 15.1 | 9.4 | 3.2 |
| EBITDA | (6.6) | 1.6 | 10.6 | 3.3 |
| Pre-tax profit | (3.2) | (4.3) | 3.7 | 2.7 |
| Net profit | (0.2) | (29.7) | 3.3 | 1.9 |
| Net profit (adj.) | 1.4 | (12.9) | 3.3 | 1.9 |
| EPS | 1.4 | (12.8) | 3.3 | 1.9 |
| Leverage | | | | |
| Debt to total capital | 46.3 | 45.1 | 44.0 | 42.9 |
| Debt to equity | 94.8 | 87.9 | 81.7 | 76.3 |
| Net debt/(cash) to equity | 54.7 | 51.7 | 44.9 | 40.5 |
| Interest cover (x) | 29.6 | 13.2 | 15.2 | 17.1 |

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