

UOBKH HIGHLIGHTS

Sunway Bhd (SWB MK/BUY/RM3.16/Target: RM3.60)

4Q16: ABOVE EXPECTATIONS

Year to 31 Dec	4Q16 (RMm)	3Q16 (RMm)	qoq % chg	yoy % chg	2016 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	1,363.7	1,137.5	19.9	(2.3)	4,725.9	6.2	2017F	31.1	10.2
- Construction	334.4	287.9	16.1	(17.6)	1,183.1	(3.2)	2018F	31.7	10.0
- Property Development	412.7	247.6	66.7	(1.7)	1,209.4	1.1	2019F	36.3	8.7
- Investment Property	172.8	189.9	(9.0)	(6.8)	692.0	7.8			
Pre-tax Profit	270.6	208.5	29.8	(4.7)	859.0	(7.6)			
- Construction	29.7	32.2	(7.8)	(1.2)	134.1	(17.6)			
- Property Development	135.9	62.2	118.5	19.0	327.8	24.8			
- Investment Property	38.0	45.9	(17.2)	(62.5)	158.7	(49.6)			
PBT	270.6	208.5	29.8	(4.7)	859.0	(7.6)			
PATAMI	185.8	143.6	29.4	(13.0)	585.9	(19.9)			
Core PATAMI	161.8	148.1	9.3	51.7	547.3	4.6			
Margins	(%)	(%)	ppt	ppt	(%)	ppt			
Pre-tax – Construction	8.9	11.2	(2.3)	1.5	11.3	(2.0)			
Pret-ax – Property Development	32.9	25.1	7.8	5.7	27.1	5.1			

Source: Sunway, UOB Kay Hian

WHAT'S NEW

- **Results were above expectations** with 4Q16 core net profit coming in at RM161.8m (+9.3% qoq, +51.7% yoy) on revenue of RM1,363.7m (+19.9% qoq, -2.3% yoy). Revenue declined yoy due to higher yoy group eliminations as a result of the spin-off of Sunway Construction (SunCon). However, core earnings were up by 51.7% to RM161.8m due to a boost in earnings from the property development arm. Cumulatively, core net profit of RM547.3m (+4.6% yoy) accounts for about 106% and 107% of our and consensus estimates respectively.
- **Property PBT margin boosted by handover of developments**, which includes Sunway Geo Retail Shops and Flexi Suites Phase 1. For the quarter, the property division recorded revenue of RM412.7m (+66.7% qoq, -1.7% yoy) and PBT of RM135.9m (+118.5% qoq, +19.0% yoy) with a healthy margin of 32.9%. While revenue was down from the previous corresponding quarter, PBT was up due to a boost in margins as a result of the handover of Sunway Geo and Flexi Suites. For the full-year, the group reported PBT margin of 27%, higher than our estimate of 22%.
- **Construction division's revenue declined 17.6% yoy to RM334.4m in 4Q16**, due to: a) eliminations as a result of the spin-off of SunCon, and b) the MRT Line 1 being at its tail-end stage. The division recorded a PBT margin of 8.9%, which we deem healthy. Earnings from this division should continue to post steady growth, particularly in 2017 as the MRT Line 2 job move into a more advanced stage of construction.
- **Investment property revenues declined to RM172.8m**. Revenue for the division declined (-9.0% qoq, -6.8% yoy) due to: a) the closure of Sunway Pyramid Hotel for renovation, and b) lower occupancy rates at the group's hotels. In terms of PBT, the division recorded RM38.0m, (-17.2% qoq, -62.5% yoy) due to: a) lower fair value gains, and b) expenses incurred for the opening of Sunway Velocity Mall in December.
- **Clinched about RM234m worth of property sales in 4Q16**, lifting its full-year sales to RM923m. Sales ytd were mainly driven by the Sunway Mont Residences (RM176m), Sunway Iskandar (RM77m) and its Singapore developments (RM184m). Earnings for its property division would continue to be steady, given its healthy unbilled sales of about RM1.1b (which represents about 0.9x its 2016 property development revenue).

RECOMMENDATION

- **Maintain BUY and SOTP based target price of RM3.60**. We like Sunway for its diversified business which includes a strong construction and REIT division. Also, better capital management as a result of the amendment of REIT guidelines could translate into higher dividends. Our target price implies a modest 11.6x 2017F PE.

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