27 November 201527/11/2015

Buy

Price
RM3.06

Target price
RM4.10

Bloomberg code
SWB MK

Equity | Malaysia | Real Estate

Flashnote

Sunway

Diversity pays

Sunway's 9M15 normalized earnings improved 8% and constituted 75% of our estimates, which is commendable. Overall, the property development and trading & manufacturing arm's performance was lower, but this was buffered by the stronger performance of its other divisions – property investment, construction and quarry. For a diversified conglomerate with good earnings visibility, valuations are compelling at 11.2x FY16F PE and 0.8x PB. Remains a top pick.

- On a yoy basis, 3Q15 revenue was down 16% mainly due to higher in-group construction revenue which increased by RM289m in the quarter, coupled with lower revenue from trading and manufacturing segment which declined 18% yoy. Operating profit declined 13% yoy due to lower performance from property development and trading & manufacturing divisions, offsetting the better performance of property investment, construction and quarry. Normalized net profit declined by 1% due to higher interest income.
- On a qoq basis, 3Q15 revenue and EBIT declined 9% and 8%, respectively. This was mainly due to weaker performance across all divisions except for trading & manufacturing. Normalized net profit rose 8% qoq, however, due to the higher interest income.
- Property development revenue improved 52% yoy due to higher progress billings from local projects such as Sunway South Quay, Montana, Wellesley and Avant Parc @ Sembawang (Singapore). However, EBIT was lower due to completion of Sunway Nexis and Alam Suria in 3Q14.
- The group achieved property sales of RM734m (73% of target of RM1bn), driven by Sunway South Quay, Velocity and Singapore projects. Unbilled sales stand at RM2.3bn or 1.9x property development revenue.
- Property investment revenue and EBIT were up 13% and 27% yoy, respectively. This was due to higher occupancy at Sunway Pinnacle and new rental income from Sunway University new academic block which was opened in June 2015 and higher visitorship to the theme parks.
- Construction division revenue declined 60% yoy due to high intragroup elimination in the quarter with more internal jobs, while EBIT improved 7% yoy.
- Outstanding construction order book stands at RM4.3bn, of which 74% are external jobs. The group has secured RM2.6bn in order book ytd, surpassing its target of RM2.5bn.
- Overall, 9M15 normalized earnings constituted 75% of our and Bloomberg consensus' forecasts, which is commendable as the last quarter is typically seasonally stronger.

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Table 1 : Quarterly performance trends

(RM m)				Quarter				Change		Cumulative			KAF	
FYE 31 Dec	**Mar-14**	**Jun-14**	**Sep-14**	**Dec-14**	**Mar-15**	**Jun-15**	**Sep-15**	**% qoq**	**% yoy**	**9M14**	**9M15**	**% chg**	**FY15F**	**9M/F**
Turnover	1,025.7	1,204.6	1,134.0	1,193.8	1,060.0	1,041.5	951.0	(9)	(16)	3,364.4	3,052.6	(9)	5,450.2	56
EBIT	**115.9**	**139.6**	**157.4**	**254.3**	**150.9**	**149.1**	**137.6**	**(8)**	**(13)**	**412.9**	**437.6**	**6**	**724.7**	**60**
EBIT margin (%)	11.3%	11.6%	13.9%	21.3%	14.2%	14.3%	14.5%			12.3%	14.3%		13%	
Net interest expense	(7.8)	(10.2)	(5.1)	(7.2)	(11.4)	(9.3)	15.8	nm	nm	(23.2)	(4.9)	(79)	(35.4)	14
Associates and JVs	40.4	47.7	38.5	44.7	38.1	39.9	31.5	(21)	(18)	126.6	109.6	(13)	123.6	89
Exceptional items	(6.3)	56.5	(5.6)	106.9	15.8	101.2	(14.0)	(114)	151	44.6	103.0		117.0	88
Profit before tax	**142.2**	**233.6**	**185.2**	**398.6**	**193.5**	**280.9**	**171.0**	**(39)**	**(8)**	**561.0**	**645.4**	**15**	**960.2**	**67**
Normalized PBT	**148.5**	**177.1**	**190.8**	**291.7**	**177.7**	**179.7**	**184.9**	**3**	**(3)**	**516.4**	**542.3**	**5**	**843.2**	**64**
Tax	(30.4)	(44.9)	(21.8)	(50.8)	(36.1)	(33.1)	(31.5)	(5)	44	(97.1)	(100.6)	4	(160.7)	63
Minority interest	(7.8)	(6.2)	(19.7)	(44.0)	(10.9)	(9.9)	(6.2)	(38)	(69)	(33.7)	(27.0)	(20)	(95.8)	28
Net profit	**104.0**	**182.5**	**143.7**	**303.8**	**146.5**	**237.9**	**133.3**	**(44)**	**(7)**	**430.2**	**517.8**	**20**	**673.4**	**77**
Norm net profit	**110.3**	**126.0**	**149.3**	**196.9**	**130.7**	**136.7**	**147.3**	**8**	**(1)**	**385.6**	**414.7**	**8**	**556.4**	**75**
Norm net margin (%)	10.8%	10.5%	13.2%	16.5%	12.3%	13.1%	15.5%			11.5%	13.6%			

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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