

Sunway Berhad

Within Our Expectation, Below Market's

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1H17 CNP of RM248.1m was inline with our but below consensus full-year estimates at 47% and 43%, respectively. In terms of property sales, while 1H17 sales of RM376.0m are still lagging behind our and management's full-year target of RM1.1b, we are banking on a stronger 2H17 performance. Single-tier interim dividend of 7.0sen was declared, higher than our full-year expectations of 9.5sen. No changes to FY17-18E CNPs. Maintain MARKET PERFORM with an unchanged SoP-driven Cum/Ex-TP of RM4.25/RM1.82.

Within our expectation but below consensus'. SUNWAY's 1H17 CNP of RM248.1m is inline with our full-year estimate but below consensus' at 47% and 43%, respectively. We believe that consensus could be slightly bullish with their development margin assumptions, especially on its property development division. 1H17 property sales stood at RM376.0m which is still lagging behind our and management's full-year target of RM1.1b. However, we believe that our and management's sales target is achievable largely due to timing of launches, which are skewed towards 2H17. Single-tier interim dividend of 7.0sen was declared, which makes up 73% of our full-year expectation of 9.5sen.

Results highlight. YoY, 1H17 CNP grew 7% on the back of its revenue growth of 5%. Most of its division registered revenue growth ranging from 4-32% with its property division being the only outlier that saw a decline of 29% in revenue due to lower contribution from its local on-going projects. On pre-tax level, all segments, except for its property development and quarry divisions, registered decent pre-tax growth of 10-72%, especially for its 'others' division, which registered the highest growth of 72% as it is driven by better contribution from its healthcare and building material division.

QoQ, 2Q17 CNP grew 30% underpinned by 14% growth in revenue. This time around, its property development and quarry segments are the star performers as they registered segment revenue growth of 87% and 29% with pre-tax margin expansions of 11ppt and 5ppt resulting in segment PBT growing by 200% and 634%, respectively. The impressive improvement in these two divisions were driven by higher local project contributions for its property division while its quarry division saw better sales volume for aggregates and premix coupled with a higher aggregate price.

Outlook. In terms of earnings delivery, we are confident that SUNWAY would be able to deliver our forecast earnings for the year premised on its strong property unbilled sales of RM1.2b with 2-year visibility, a robust outstanding order-book of RM4.3b that provides 2-3 year visibility and other divisions that have been generating decent growth. In terms of property sales, we are expecting a stronger 2H17 performance largely due to timing of launches, which are skewed towards 2H17.

Earnings unchanged. Post results, there are no changes to our FY17-18E CNPs of RM522.0m and RM543.0m, respectively. However, we raised our FY17-18E higher to 14.0sen as their 1H17 single-tier interim dividend of 7.0sen was higher than our earlier expectations.

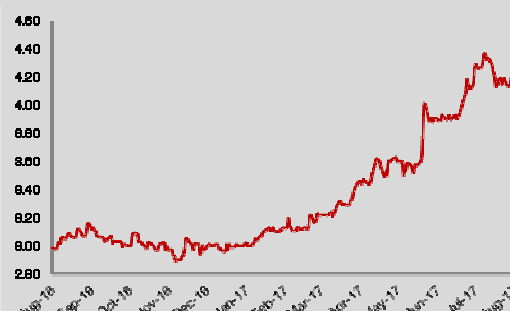
Reiterate MARKET PERFORM, with an unchanged SoP-driven Cum/Ex-TP of RM4.25/RM1.82 due to its unexciting sales trajectory while we remain comfortable with our valuations as follows; (i) applied property RNAV discount is 52%, (ii) factored in a remaining RM1.7b worth of GDV replenishments, (iii) already pegging premium valuations of 27.0x Fwd PER to its healthcare division.

Risks include: Weaker-than-expected property sales and construction replenishment, higher-than-expected administrative costs, negative real estate policies, and tighter lending environment.

MARKET PERFORM ↔

Ex/Cum Price : RM1.86/RM4.35
Ex/Cum-Target Price : RM1.82/RM4.25 ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,761.14 |
| YTD KLCI chg | 7.3% |
| YTD stock price chg | 45.0% |

Stock Information

| | |
|----------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | SWB MK Equity |
| Market Cap (RM m) | 8,934.4 |
| Issued shares | 2,053.9 |
| 52-week range (H) | 4.40 |
| 52-week range (L) | 2.89 |
| 3-mth avg daily vol: | 3,185,416 |
| Free Float | 34% |
| Beta | 0.5 |

Major Shareholders

| | |
|--------------------------|-------|
| Sungei Way Corp Sdn Bhd | 56.2% |
| Employees Provident Fund | 5.5% |
| Fook Ling Cheah | 4.6% |

Summary Earnings Table

| FYE Dec (RM m) | 2016A | 2017E | 2018E |
|------------------------|------------|------------|------------|
| Turnover | 4,726 | 5,262 | 5,584 |
| EBIT | 727 | 728 | 772 |
| PBT | 859 | 797 | 846 |
| Net Profit (NP) | 586 | 551 | 543 |
| Core NP | 542 | 522 | 543 |
| Consensus (CNP) | n.a. | 564 | 600 |
| Earnings Revision | n.a. | n.a. | n.a. |
| Core Basic EPS | 26.3 | 25.3 | 26.3 |
| Core EPS growth(%) | -20% | -6% | -2% |
| NDPS (sen) | 12.1 | 14.0 | 14.0 |
| Basic PER (x) | 16.6 | 17.2 | 16.5 |
| BVPS (RM) | 3.61 | 3.74 | 3.86 |
| Net Gearing (x) | 0.5 | 0.5 | 0.5 |
| Dividend Yield (%) | 2.8% | 3.2% | 3.2% |

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| Result Highlight | | | | | | | | |
|------------------------------|--------------|--------------|------------|--------------|------------|--------------|--------------|------------|
| FYE 31 Dec (RM'm) | 2Q17 | 1Q17 | QoQ% | 2Q16 | YoY% | 1H17 | 1H16 | QoQ |
| Revenue | 1,241.0 | 1,091.3 | 14% | 1,155.7 | 7% | 2,332.3 | 2,224.7 | 5% |
| Op costs w/o depn/amort | -1,071.6 | -992.1 | 8% | -1,022.9 | 5% | -2,063.7 | -1,967.4 | 5% |
| Other Op Income | 24.5 | 17.5 | 40% | 28.7 | -14% | 42.0 | 53.7 | -22% |
| EBITDA | 227.2 | 151.3 | 50% | 192.8 | 18% | 378.5 | 371.4 | 2% |
| EBIT | 193.9 | 116.8 | 66% | 161.4 | 20% | 310.7 | 311.1 | 0% |
| Net Interest | -18.7 | -6.7 | 178% | -15.6 | 20% | -25.5 | -31.7 | -20% |
| Associate & JCE | 39.5 | 43.1 | -8% | 34.2 | 15% | 82.6 | 76.8 | 8% |
| Fair Value Adjustments on IP | 56.8 | 0.0 | n.m. | 23.7 | 140% | 56.8 | 23.7 | 140% |
| Pretax profit | 271.4 | 153.1 | 77% | 203.8 | 33% | 424.6 | 379.9 | 12% |
| Taxation | -38.2 | -27.3 | 40% | -23.9 | 60% | -65.5 | -56.7 | 15% |
| Minority Interests | -36.3 | -17.9 | 103% | -25.5 | 42% | -54.2 | -66.7 | -19% |
| Net profit | 196.9 | 107.9 | 83% | 154.4 | 28% | 304.9 | 256.5 | 19% |
| Core Net profit | 140.1 | 107.9 | 30% | 130.7 | 7% | 248.1 | 232.8 | 7% |
| EPS (sen) | 9.5 | 5.2 | 83% | 7.6 | 25% | 14.7 | 12.7 | 15% |
| Diluted EPS (sen) | 6.5 | 5.0 | 30% | 6.0 | 7% | 11.4 | 10.7 | 7% |
| NDPS (sen) | 7.0 | 0.0 | | 5.0 | | 7.0 | 5.0 | |
| NTA/share (RM) | 3.45 | 3.52 | | 3.38 | | 3.45 | 3.38 | |
| Net gearing/(cash) (x) | 0.46 | 0.47 | | 0.44 | | 0.46 | 0.44 | |
| EBITDA margin | 18% | 14% | | 17% | | 16% | 17% | |
| EBIT margin | 16% | 11% | | 14% | | 13% | 14% | |
| Pretax margin | 22% | 14% | | 18% | | 18% | 17% | |
| Effective tax rate | 14% | 18% | | 12% | | 15% | 15% | |

Source: Company, Kenanga Research

| Segmental Breakdown | | | | | | | | |
|-------------------------|---------------|---------------|------------|---------------|------------|---------------|---------------|-----------|
| Revenue | 2Q17 | 1Q17 | QoQ | 2Q16 | YoY | 1H17 | 1H16 | QoQ |
| Property Development | 270.2 | 144.3 | 87% | 347.0 | -22% | 414.6 | 581.1 | -29% |
| Property Investment | 249.3 | 228.1 | 9% | 193.4 | 29% | 477.4 | 397.3 | 20% |
| Construction | 521.5 | 531.0 | -2% | 430.3 | 21% | 1052.5 | 854.6 | 23% |
| Trading & Manufacturing | 303.0 | 298.8 | 1% | 215.3 | 41% | 601.8 | 457.0 | 32% |
| Quarry | 61.5 | 47.6 | 29% | 64.5 | -5% | 109.1 | 104.9 | 4% |
| Investment Holdings | 102.2 | 289.3 | -65% | 175.5 | -42% | 391.4 | 321.2 | 22% |
| Others | 191.0 | 180.6 | 6% | 163.7 | 17% | 371.6 | 297.0 | 25% |
| Eliminations | -457.6 | -628.5 | -27% | -433.9 | 5% | -1086.1 | -788.4 | 38% |
| TOTAL | 1241.0 | 1091.3 | 14% | 1155.7 | 7% | 2332.3 | 2224.7 | 5% |
| Pre-tax Profit | | | | | | | | |
| Property Development | 75.2 | 25.1 | 200% | 60.6 | 24% | 100.3 | 129.7 | -23% |
| Property Investment | 27.6 | 31.1 | -11% | 17.6 | 57% | 58.8 | 51.1 | 15% |
| Construction | 42.3 | 36.9 | 15% | 34.5 | 23% | 79.2 | 72.2 | 10% |
| Trading & Manufacturing | 10.3 | 8.8 | 18% | 2.7 | 280% | 19.1 | 8.1 | 137% |
| Quarry | 3.7 | 0.5 | 634% | 6.9 | -47% | 4.2 | 13.1 | -68% |
| Investment Holdings | 28.2 | 28.6 | -1% | 23.3 | 21% | 56.8 | 36.6 | 55% |
| Others | 27.3 | 22.1 | 23% | 17.9 | 53% | 49.4 | 28.8 | 72% |
| Eliminations | 0.0 | 0.0 | n.m. | 0.0 | n.m. | 0.0 | 0.0 | n.m. |
| TOTAL | 214.6 | 153.1 | 40% | 163.5 | 31% | 367.8 | 339.5 | 8% |
| Pre-tax Margin | | | | | | | | |
| Property Development | 28% | 17% | | 17% | | 24% | 22% | |
| Property Investment | 11% | 14% | | 9% | | 12% | 13% | |
| Construction | 8% | 7% | | 8% | | 8% | 8% | |
| Trading & Manufacturing | 3% | 3% | | 1% | | 3% | 2% | |
| Quarry | 6% | 1% | | 11% | | 4% | 12% | |
| Investment Holdings | 28% | 10% | | 13% | | 15% | 11% | |
| Others | 14% | 12% | | 11% | | 13% | 10% | |

Source: Company, Kenanga Research

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| Sum-of-Parts | | | | | | |
|-----------------------------------|-------|---------------|-----|----------|--------------|---|
| | Stake | Value @ Stake | PER | Discount | Value | Assumptions |
| | | RM'm | (x) | (%) | RM'm | |
| Property Development & Investment | 100% | 7,862 | n.a | 52% | 3,774 | (i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin property RNAV discount of 52% (ii) Property Inv: Zero surplus on Book Value |
| Sunway Reit | 35% | 1,936 | n.a | | 1,936 | SUNREIT TP RM1.90 |
| Construction | 56% | 1,438 | 16 | | 1,438 | 16x FY18E PER- Inline with Big-Cap peers range of 16-18x. |
| Quarry & Buildings Mat | 100% | 158 | 8 | | 158 | 8x FY18E PER |
| Trading & manufacturing | 100% | 288 | 8 | | 288 | 8x FY18E PER |
| Healthcare | 100% | 1,334 | 27 | | 1,334 | 27x FY18E PER inline with KPJ |
| Group Shareholders Funds | | | | | | |
| Total SOP | | 13,018 | | 31% | 8,929 | |
| Adjustment for Dilution | | | | | 1,157 | |
| Ex-TP (RM) | | | | | 1.82 | |
| Diluted no. of shares ('m) | | | | | 5,539 | |

Source: Kenanga Research

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Peer Comparison

| NAME | Price (29/8/17) | Mkt Cap | PER (x) | | | Est. NDiv. Yld. | Hist. ROE | Fwd ROE | P/BV | Net Profit (RMm) | | | FY17/18 NP Growth | FY18/19 NP Growth | Target Price | Rating |
|------------------------------------|--------------------|------------|---------|---------|---------|-----------------------|--------------|------------|------|------------------|---------|---------|-------------------------|-------------------------|-----------------|----------------|
| | (RM) | (RMm) | FY16/17 | FY17/18 | FY18/19 | (%) | (%) | (%) | (x) | FY16/17 | FY17/18 | FY18/19 | (%) | (%) | (RM) | |
| DEVELOPERS UNDER COVERAGE | | | | | | | | | | | | | | | | |
| IOI PROPERTIES GROUP BHD* | 2.01 | 11,067 | 12.2 | 11.9 | 11.6 | 3.6% | 4.1% | 4.2% | 0.59 | 910.6 | 928.6 | 951.9 | 2.0% | 2.5% | 2.30 | OUTPERFORM |
| S P SETIA BHD*# | 3.41 | 10,392 | 12.9 | 13.7 | 15.9 | 3.9% | 9.7% | 8.0% | 1.39 | 808.0 | 761.3 | 653.4 | -5.8% | -14.2% | 4.08 | OUTPERFORM |
| UEM SUNRISE BHD* | 1.16 | 5,263 | 35.7 | 22.5 | 32.6 | 0.0% | 2.2% | 3.4% | 0.82 | 147.3 | 233.5 | 161.3 | 58.5% | -30.9% | 1.33 | OUTPERFORM |
| SUNWAY BHD^ | 1.86 | 8,934 | 16.5 | 17.1 | 16.5 | 4.8% | 7.3% | 6.7% | 0.49 | 541.6 | 521.7 | 542.6 | -3.7% | 4.0% | 1.82 | MARKET PERFORM |
| MAH SING GROUP BHD | 1.49 | 3,597 | 10.4 | 10.6 | 11.0 | 4.3% | 10.1% | 10.0% | 1.03 | 346.8 | 338.9 | 327.6 | -2.3% | -3.3% | 1.70 | OUTPERFORM |
| ECO WORLD DEVELOPMENT GROUP BHD | 1.56 | 4,593 | 35.5 | 40.7 | 18.5 | 0.0% | 3.7% | 4.4% | 1.22 | 129.3 | 112.9 | 248.8 | -12.7% | 120.4% | 1.72 | MARKET PERFORM |
| UOA DEVELOPMENT BHD* | 2.54 | 4,402 | 11.8 | 11.6 | 11.2 | 5.9% | 19.4% | 9.8% | 1.05 | 373.9 | 379.2 | 391.4 | 1.4% | 3.2% | 2.63 | MARKET PERFORM |
| MALAYSIAN RESOURCES CORP BHD# | 1.10 | 2,609 | 10.7 | 48.2 | 35.9 | 0.2% | 8.6% | 2.4% | 0.89 | 244.1 | 54.1 | 72.6 | -78% | 34.2% | 1.23 | OUTPERFORM |
| MATRIX CONCEPTS HOLDINGS BHD | 2.75 | 1,613 | 8.6 | 7.2 | 6.8 | 5.3% | 31.8% | 22.7% | 1.45 | 188.0 | 224.0 | 238.0 | 19.1% | 6.3% | 2.65 | MARKET PERFORM |
| SUNSURIA BERHAD | 1.43 | 1,142 | 31.1 | 13.6 | 10.2 | 1.8% | 6.9% | 11.6% | 1.49 | 36.7 | 84.2 | 111.9 | 129.5% | 32.9% | 1.55 | OUTPERFORM |
| CRESCENDO CORPORATION BHD* | 1.48 | 337 | 11.7 | 11.0 | 10.7 | 3.0% | 2.2% | 8.0% | 0.44 | 28.9 | 30.6 | 31.6 | 6.0% | 3.3% | 1.70 | MARKET PERFORM |
| HUA YANG BHD | 0.85 | 297 | 4.9 | 6.9 | 5.9 | 1.4% | 21.9% | 12.2% | 0.47 | 61.0 | 43.0 | 50.0 | -29.5% | 16.3% | 0.95 | UNDERPERFORM |
| A&M REALTY BHD | 1.41 | 515 | 25.6 | 19.3 | 14.9 | 0.0% | 3.3% | 4.2% | 0.80 | 20.1 | 26.7 | 34.6 | 33.2% | 29.5% | 3.00 | OUTPERFORM |
| MAGNA PRIMA BHD | 1.43 | 476 | 60.2 | 73.2 | 43.2 | 0.4% | 7.4% | 1.1% | 1.17 | 7.9 | 6.5 | 11.0 | -17.7% | 69.2% | 1.60 | MARKET PERFORM |
| CONSENSUS NUMBERS | | | | | | | | | | | | | | | | |
| IGB CORPORATION BHD | 2.86 | 3,818 | 12.8 | 11.9 | 15.9 | 3.5% | 8.6% | 6.4% | 0.77 | 298.0 | 320.4 | 240.3 | 7.5% | -25.0% | 3.00 | NEUTRAL |
| GLOMAC BHD | 0.65 | 466 | 4.2 | 8.2 | 6.6 | 4.7% | 10.7% | 5.3% | 0.42 | 110.4 | 57.1 | 70.8 | -48.3% | 24.1% | 0.70 | NEUTRAL |
| PARAMOUNT CORP BHD | 1.80 | 764 | 10.2 | 12.0 | 9.5 | 9.4% | 7.0% | 14.7% | 0.83 | 75.0 | 63.6 | 80.6 | -15.2% | 26.7% | 2.37 | BUY |
| TAMBUN INDAH LAND BHD | 1.21 | 524 | 4.7 | 6.0 | 6.6 | 6.6% | 20.0% | 14.6% | 0.88 | 112.2 | 87.5 | 79.7 | -22.0% | -8.9% | 1.41 | NEUTRAL |
| LBS BINA GROUP BHD | 1.90 | 1,288 | 15.1 | 11.4 | 9.0 | 5.1% | 8.4% | 9.1% | 1.02 | 85.3 | 112.6 | 143.7 | 31.9% | 27.7% | 2.30 | BUY |

* Core NP and Core PER

^ Last price and TP is Ex-Bonus.

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Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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