

Sunway Berhad

Challenge Accepted! RM1.4b Sales Target!

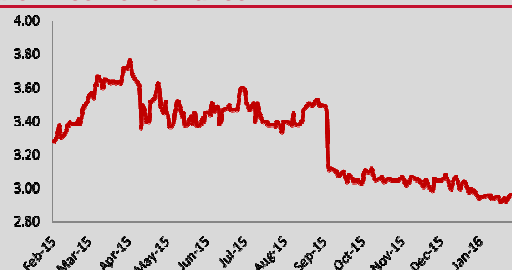
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MARKET PERFORM ↔

Price: **RM3.01**
Target Price: **RM3.20** ↔

Period	<ul style="list-style-type: none"> 4Q15/FY15
Actual vs. Expectations	<ul style="list-style-type: none"> SUNWAY's FY15 core net profit of RM594.2m was within expectations, accounting for 105% and 104% of our and streets full-year estimates, respectively. In terms of property sales, it registered sales of RM1.2b, higher than our and management's FY15 sales target of RM1.0b and RM1.1b, respectively. The stronger-than-expected sales number achieved was driven by the strong sales registered in Velocity and China. However, we do note that management did scale down its sales target back in Oct-15, from its initial target of RM1.7b to RM1.1b.
Dividends	<ul style="list-style-type: none"> 2nd interim dividend of 6.0sen declared, bringing its full-year cash dividend announced to 37.0sen, higher compared to our full-year expectation of 35.6sen.
Key Results Highlights	<ul style="list-style-type: none"> YoY, SUNWAY still managed to register a marginal growth of 0.4% on its CNP despite an 8% decrease in revenue. This is mainly due to the decrease in tax (-12%) and minorities interest (-14%) contribution. Operationally, its property division (-27%), property investment (-18%), and trading (-17%) division's operating profits declined, while construction (+19%) and quarry division (+10%) saw improvement in operating profit. The lower operating profit of RM213.5m registered by its property development division was mainly due to compression in margins to 17% (-7ppt) driven by lower margin projects both locally and in Singapore. QoQ, its 3Q15 CNP saw significant improvement (+22%), underpinned by strong revenue growth of 47%. The strong growth in revenue was mainly driven by its property division, which saw 55% growth in development revenue underpinned by better progressive billings from its on-going projects, i.e. Sunway South Quay, Sunway Citrine and also Singapore.
Outlook	<ul style="list-style-type: none"> Despite challenging market conditions, SUNWAY has set a higher sales target of RM1.4b for FY16 (refer overleaf) Nonetheless, we are still keeping our conservative FY16E sales target of RM1.0b, as we remain cautious with the property market.
Change to Forecasts	<ul style="list-style-type: none"> No changes to our FY16E CNP, while we introduce our FY17E CNP on the back our FY17 sales estimates of RM1.2b.
Rating Valuation	<p>Maintain MARKET PERFORM</p> <ul style="list-style-type: none"> Maintain MARKET PERFORM call on SUNWAY with an unchanged SoP-driven TP of RM3.20. While the stock is trading at FY16E PER of 10.4x, under the current market circumstances, we do not see any re-rating catalyst for SUNWAY, especially when property market sentiment remains weak and challenging. Our applied discount of 54% on its property division is close to our overall sector's average discount of 53%.
Risks	<ul style="list-style-type: none"> Weaker-than-expected property sales and construction orderbook replenishment. Higher-than-expected sales and administrative costs. Negative real estate policies. Tighter lending environments.

Share Price Performance



KLCI	1,663.44
YTD KLCI chg	-1.7%
YTD stock price chg	-2.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	5,358.1
Issued shares	1,780.1
52-week range (H)	3.53
52-week range (L)	2.89
3-mth avg daily vol:	994,275
Free Float	26%
Beta	0.6

Major Shareholders

SUNGEI WAY CORP SDN	55.1%
YEAN TIH CHEAH	13.1%
EMPLOYEES PROVIDENT	5.7%

Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	4,451	5,047	5,522
EBIT	686	646	708
PBT	929	803	757
Net Profit (NP)	732	499	503
Core NP	594	485	503
Consensus (NP)	n.a.	553	546
Earnings Revision	n.a.	n.a.	n.a.
EPS (sen)	42.5	29.0	29.2
Core EPS (sen)	34.5	28.2	29.2
EPS growth (%)	-51%	-32%	1%
NDPS (sen)	38.5	9.9	9.9
NTA/Share (RM)	2.91	3.26	3.61
Core PER (x)	7.1	10.4	10.3
Price/NTA (x)	1.0	0.9	0.8
Net Gearing (x)	0.5	0.4	0.5
Dividend Yield (%)	12.8%	3.3%	3.3%

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Other Points

Despite the challenging market conditions, SUNWAY has set a higher sales target of RM1.4b for FY16 vis-à-vis its revised target of RM1.1b back in FY15, on the back of planned launches of RM1.6b coming from Sunway Gandaria (GDV: RM200m), Sunway Geo Residence 3 (GDV: RM400m), Casa Kiara 3 (GDV: RM200m), Velocity (GDV: RM200m), Lost Word Apartments (GDV: RM100m), and Sunway Iskandar (GDV: RM400m). As for its property unbilled sales, it remains fairly healthy at RM2.1b, providing at least 1–1.5 years of visibility

Sum-of-Parts						
	Stake	Value @ Stake	PER	Discount	Value	Assumptions
		RM'm	(x)	(%)	RM'm	
Property Development & Investment	100%	6,470	n.a	54%	2,976	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,620	n.a		1,620	SUNREIT TP RM1.60
Construction	56%	1,009	14		1,009	14x FY16E PER- pegged with the mid end of mid cap construction Fwd PERs of 12x-15x.
Quarry & Buildings Mat	100%	35	8		35	8x FY16E PER
Trading & manufacturing	100%	421	8		421	8x FY16E PER
Group Shareholders Funds					0	
Total SOP		9,554			6,060	
Adjustment for Dilution					879	
TP (RM)					3.20	
Diluted no. of shares ('m)					2,168	

Source: Kenanga Research

Result Highlight

FYE 31 Dec (RM'm)	4Q15	3Q15	QoQ%	4Q14	YoY%	FY15	FY14	YoY
Revenue	1,398.8	951.0	47%	1,477.5	-5%	4,451.3	4,841.9	-8%
Op costs w/o depn/amort	-1,248.1	-902.4	38%	-1,318.7	-5%	-4,029.4	-4,340.3	-7%
Other Op Income	70.8	88.7	-20%	104.6	-32%	229.8	169.5	36%
EBITDA	221.4	162.9	36%	296.8	-25%	736.6	785.3	-6%
EBIT	221.4	137.3	61%	263.5	-16%	651.6	671.1	-3%
Net Interest	-21.8	15.8	-238%	-7.2	200%	-26.6	-30.4	-12%
Associate & JCE	49.6	31.5	57%	44.7	11%	166.0	176.7	-6%
Fair Value Adjustments on IP	34.6	-13.7	-353%	106.9	-68%	138.2	151.5	-9%
Pretax profit	283.8	171.0	66%	407.8	-30%	929.2	968.9	-4%
Taxation	-29.2	-31.5	-7%	-50.8	-43%	-129.8	-148.0	-12%
Minority Interests	-40.0	-6.2	548%	-44.0	-9%	-67.0	-77.6	-14%
Net profit	214.7	133.3	61%	313.0	-31%	732.4	743.3	-1%
Core Net profit	180.1	147.0	22%	206.1	-13%	594.3	591.8	0%
EPS (sen)	14.5	6.9	108%	24.4	-41%	43.7	49.0	-11%
Diluted EPS (sen)	9.9	6.1	61%	14.4	-31%	28.4	32.0	-11%
NDPS (sen)	6.0	26.0		6.0		37.0	11.0	
NTA/share (RM)	3.5	3.6		3.2		3.46	3.25	
Net gearing/(cash) (x)	0.5	0.4		0.4		0.50	0.37	
EBITDA margin	16%	17%		20%		17%	16%	
EBIT margin	16%	14%		18%		15%	14%	
Pretax margin	20%	18%		28%		21%	20%	
Effective tax rate	10%	18%		12%		14%	15%	

Source: Company, Kenanga Research

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Segmental Breakdown

	4Q15	3Q15	QoQ	4Q14	YoY	FY15	FY14	YoY
Revenue								
Property Development	420.0	270.9	55%	496.3	-15%	1195.7	1198.4	0%
Property Investment	207.6	194.0	7%	259.8	-20%	746.4	806.9	-8%
Construction	475.0	445.6	7%	538.2	-12%	1916.9	1892.5	1%
Trading & Manufacturing	205.3	126.7	62%	205.9	0%	717.6	786.6	-9%
Quarry	57.5	69.5	-17%	76.0	-24%	246.4	240.6	2%
Investment Holdings	601.2	79.4	657%	69.1	770%	959.9	369.1	160%
Others	133.2	123.8	8%	159.1	-16%	556.4	512.0	9%
Eliminations	-701.0	-358.8	95%	-327.1	114%	-1887.9	-964.5	96%
TOTAL	1398.8	951.0	47%	1477.3	-5%	4451.3	4841.6	-8%
Operating Profit								
Property Development	96.4	34.5	179%	96.6	0%	207.7	285.8	-27%
Property Investment	101.0	39.6	155%	182.3	-45%	213.5	260.2	-18%
Construction	26.8	23.4	14%	54.8	-51%	159.0	133.3	19%
Trading & Manufacturing	11.7	5.4	118%	7.7	52%	31.9	38.6	-17%
Quarry	5.8	10.6	-45%	15.7	-63%	39.5	35.9	10%
Investment Holdings	7.8	-5.4	-245%	7.3	6%	-13.6	-19.8	-31%
Others	9.7	10.6	-8%	8.8	11%	48.8	34.8	41%
Eliminations	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
TOTAL	259.3	118.7	118%	373.2	-31%	686.9	768.8	-11%
Operating Margin								
Property Development	23%	13%		19%		17%	24%	
Property Investment	49%	20%		70%		29%	32%	
Construction	6%	5%		10%		8%	7%	
Trading & Manufacturing	6%	4%		4%		4%	5%	
Quarry	10%	15%		21%		16%	15%	
Investment Holdings	1%	-7%		11%		-1%	-5%	
Others	7%	9%		6%		9%	7%	

Source: Company, Kenanga Research

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Income Statement					
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	4734	4842	4451	5047	5522
EBITDA	915	729	808	778	848
Depreciation	-109	-114	-122	-131	-141
EBIT	806	615	686	646	708
Interest Expense	-138	-79	-124	-96	-106
Investing	36	48	98	53	47
Associate/JCE	172	233	270	200	109
Exceptionals/FV	1018	152	138	0	0
PBT	1894	969	929	803	757
Taxation	-121	-148	-130	-185	-169
Minority Interest	-273	-78	-67	-133	-85
Net Profit	1500	744	732	499	503
Core Net Profit	483	592	594	485	503

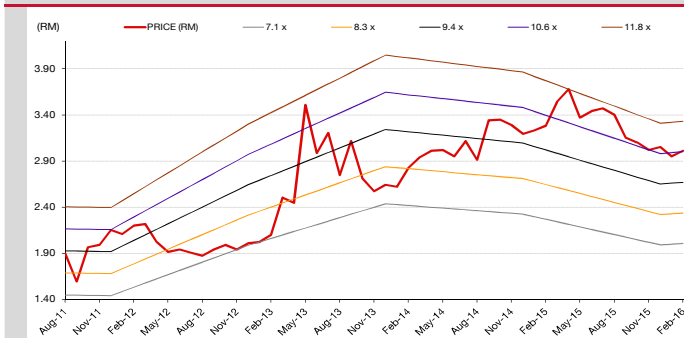
Balance Sheet					
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed Assets	3540	3766	5248	5614	6583
Intangibles	320	319	320	320	320
Other FA	2369	2652	3362	3362	3362
Inventories	623	598	693	691	766
Receivables	2679	3492	3633	3374	3692
Other CA	63	111	111	111	111
Cash	1527	1978	2627	2341	1792
Total Assets	11120	12917	15994	15813	16626
Payables	2154	2172	2446	2867	3138
ST Borrowings	1805	2283	3304	2283	2283
Other ST Liability	24	21	43	43	42
LT Borrowings	991	1502	2585	2498	3036
Other LT Liability	486	605	416	417	421
Minority Int.	317	389	651	784	784
Net Assets	5343	5945	6550	6922	6922
Share Capital	1723	1731	1800	1800	1800
Reserves	3620	4215	4750	5122	5122
Shareholders Equity	5343	5945	6550	6922	6922

Cashflow Statement					
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Operating CF	755	271	195	1,452	305
Investing CF	-1,131	-20	-2,948	-59	-1,160
Financing CF	744	761	2,935	-1,321	307
Net Change in Cash	368	1,013	182	72	-549
Free Cash Flow	532	545	-629	1,937	414

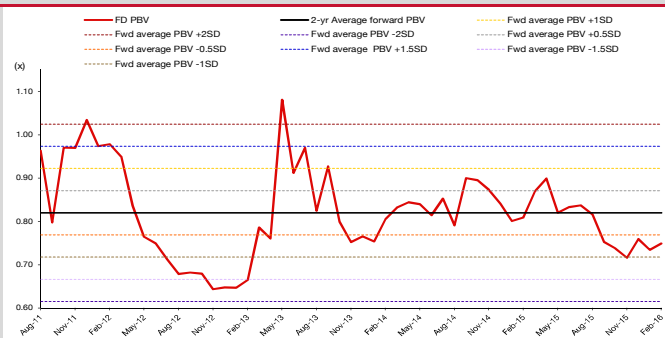
Financial Data & Ratios					
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Growth (%)					
Revenue		2.3	-8.1	13.4	9.4
EBITDA		-20.3	10.8	-3.8	9.1
EBIT		-23.7	11.5	-5.8	9.5
Pre-tax Income		-48.8	-4.1	-13.6	-5.7
Net Income		-50.4	-1.5	-31.8	0.8
Core Net Profit		22.7	0.3	-18.4	3.7
Profitability (%)					
EBITDA Margin	19.3	15.1	18.2	15.4	15.4
EBIT Margin	17.0	12.7	15.4	12.8	12.8
PBT Margin	40.0	20.0	20.9	15.9	13.7
Net Margin	31.7	15.4	16.5	9.9	9.1
Core Net Margin	10.2	12.2	13.3	9.6	9.1
Effective Tax Rate	-22.6	-22.3	-14.0	-23.0	-22.3
ROE	33.6	13.2	11.7	7.4	7.3
ROA	14.9	6.2	5.1	3.1	3.1
DuPont Analysis					
Net margin (%)	31.7	15.4	16.5	9.9	9.1
Assets Turnover (x)	0.5	0.4	0.3	0.3	0.3
Leverage Factor (x)	2.3	2.1	2.3	2.4	2.3
ROE (%)	33.6	13.2	11.7	7.4	7.3
Leverage					
Debt/Asset (x)	0.25	0.29	0.37	0.30	0.32
Debt/Equity (x)	0.52	0.64	0.90	0.69	0.77
Net Debt/(Cash)	1.3	1.8	3.3	2.4	3.5
Net Debt/Equity (x)	0.24	0.30	0.50	0.35	0.51
Valuations					
EPS (sen)	87.1	43.2	42.5	29.0	29.2
Core EPS	28.0	34.4	34.5	28.2	29.2
NDPS (sen)	10.0	13.8	38.5	9.9	9.9
BV/share (RM)	3.10	3.45	3.80	4.02	4.02
Core PER (x)	3.5	7.0	7.1	10.4	10.3
Net Div. Yield (%)	3.3%	4.6%	12.8%	3.3%	3.3%
PBV (x)	1.0	0.9	0.8	0.7	0.7
EV/EBITDA (x)	7.1	9.6	10.5	9.8	10.3

Source: Kenanga Research

FwdCore PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

NAME	Price	Mkt Cap	PER (x)			Est. NDiv. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY15/16 NP Growth (%)	FY16/17 NP Growth (%)	Target Price (RM)	Rating
	(RM)	(RMm)	FY14/15	FY15/16	FY16/17				FY14/15	FY15/16	FY16/17				
DEVELOPERS UNDER COVERAGE															
S P SETIA BHD*	3.00	7,885	8.6	11.1	9.4	5.7%	13.9%	1.0	918.3	708.4	834.4	-22.9%	17.8%	3.08	MARKET PERFORM
IOI PROPERTIES GROUP BHD*	2.07	9,131	10.3	13.0	12.8	2.9%	3.9%	0.6	528.6	705.5	716.8	33.5%	1.6%	2.09	MARKET PERFORM
UEM SUNRISE BHD*	1.01	4,583	17.9	15.4	15.2	1.6%	3.9%	0.7	257.2	299.3	303.2	16.4%	1.3%	1.07	MARKET PERFORM
SUNWAY BHD	3.01	5,358	7.1	10.4	10.3	3.3%	11.7%	0.7	594.0	485.0	503.0	-18.4%	3.7%	3.20	MARKET PERFORM
MAH SING GROUP BHD^	1.31	3,156	8.8	8.3	8.1	4.9%	14.3%	0.9	357.2	379.7	389.5	6.3%	2.6%	1.35	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.30	3,074	69.9	24.3	11.9	0.0%	2.5%	0.9	44.0	126.6	257.8	188.0%	103.7%	1.90	OUTPERFORM
UOA DEVELOPMENT BHD*	2.10	3,191	8.0	9.0	8.8	6.7%	14.1%	1.0	399.0	355.7	363.1	-10.9%	2.1%	2.22	OUTPERFORM
MALAYSIAN RESOURCES CORP BHD	1.13	2,019	-27.1	52.6	30.9	28.8%	-3.3%	1.0	-74.6	38.4	65.3	-151.4%	70.1%	1.39	MARKET PERFORM
KSL HOLDINGS BHD	1.30	1,302	4.6	6.3	6.5	6.4%	10.0%	0.6	212.0	198.0	190.0	-6.6%	-4.0%	1.18	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.39	1,344	8.0	6.0	6.8	7.5%	29.5%	1.6	182.6	243.1	213.0	33.1%	-12.4%	2.46	MARKET PERFORM
CRESCENDO CORPORATION BHD*	1.70	387	9.0	20.2	19.1	1.9%	15.3%	0.5	43.3	19.1	20.3	-55.9%	6.3%	1.74	UNDERPERFORM
HUA YANG BHD	1.81	478	4.3	4.3	4.5	7.2%	25.9%	0.9	110.6	111.6	106.1	0.9%	-4.9%	2.20	OUTPERFORM
CONSENSUS NUMBERS															
IGB CORPORATION BHD	2.40	3,204	15.1	12.8	12.0	3.3%	5.1%	0.7	212.7	249.6	267.0	17.4%	7.0%	4.10	NEUTRAL
YNH PROPERTY BHD	1.94	788	61.4	14.4	11.2	1.5%	1.5%	0.9	12.8	54.8	70.2	327.2%	28.1%	1.83	NEUTRAL
GLOMAC BHD	0.87	627	6.8	7.3	6.7	5.1%	9.8%	0.7	91.9	85.5	94.2	-6.9%	10.2%	1.03	BUY
PARAMOUNT CORP BHD	1.54	650	9.6	9.1	8.1	5.2%	7.3%	0.7	67.6	71.8	80.2	6.2%	11.8%	2.32	BUY
TAMBUN INDAH LAND BHD	1.36	577	5.9	5.8	5.8	6.0%	24.0%	1.3	97.6	99.7	98.9	2.2%	-0.9%	1.60	BUY

* Core NP and Core PER

** Crescendo per share data is based on non-Fully Diluted

^ Last price and TP is Ex-rights and Ex-Bonus.

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% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

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