

30 August 2016

# Sunway Berhad

## Gaining Momentum...

By Adrian Ng | [adrian.ng@kenanga.com.my](mailto:adrian.ng@kenanga.com.my); Sarah Lim | [sarahlim@kenanga.com.my](mailto:sarahlim@kenanga.com.my)

# UNDER REVIEW

Price: **RM3.01**  
Target Price: **UNDER REVIEW**

**1H16 CNP of RM232.8m met expectations accounting for 48%/44% of our/streets' full-year estimates. 1H16 property sales of RM613.0m exceeded ours but was within management's target of RM1.0b and RM1.4b, respectively. FY17E CNP raised by 3% post estimate upgrade for sales. 5.0 sen dividend declared as expected. Call/TP UNDER REVIEW (previously MP, TP: RM3.22).**

**Within expectations.** 1H16 CNP of RM232.8m came in within expectations, making up 48% and 44% of our and streets' full-year estimates, respectively. 1H16 property sales of RM613.0m exceeded our conservative sales target of RM1.0b for FY16 but is on-track to meet management's target of RM1.4b. 5.0 sen interim dividend was declared, as expected, amounting to 51% of our full-year DPS estimate of 9.8sen.

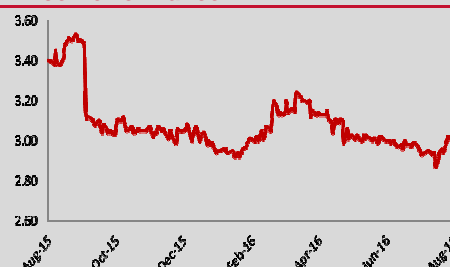
**Results highlight. YoY-Ytd,** 1H16 CNP was down by 13% despite revenue growth of 6%. The decline in CNP was mainly due to higher minority interest incurred due to lower recognition from SUNCON as it was listed back in July 2015. However, its 1H16 performance is highly commendable as its property division revenue and operating profit saw an improvement of 15% and 42%, respectively, driven by better contribution from its project in Singapore namely Avant Parc coupled with higher progressive billings from its local projects. That said, its trading & manufacturing arm also saw an improvement of 28% in operating profit underpinned by a strong revenue growth of 19% due to additional contribution from newly an acquired company, i.e. Winstar Group of companies. **QoQ,** 2Q16 CNP improved by 28% driven by several factors; (i) improvements in revenue (+8%), (ii) lower tax (-27%) due to deferred tax, (iii) lower minority interest contribution (-38%), and (iv) a marginal decline in interest cost (-3%).

**Upgrade in sales.** Post results, we raised our FY16E sales target of RM1.0b to match management's target of RM1.4b. Following the upgrade in sales, we raised our FY17E CNP by 3%. Its property unbilled sales of RM2.0b provide 2-year visibility while outstanding construction orderbook of RM4.9b provides visibility for 2-3 years.

**UNDER REVIEW.** We are placing our call/TP under review pending our sector update (previous call/TP:MP/TP@RM3.22 based on SoP). In our last sector strategy (8/7/16), we had highlighted that we are monitoring two key indicators; (i) developers 1H16 sales must meet 40% of full-year targets (before any revisions during the year), and (ii) unbilled sales must have more than one-year visibility. If majority of developers fail on one or both conditions, we are likely to maintain a negative bias on the sector; however, if both are mostly met, we may upgrade the sector to NEUTRAL. So, we will wait for the results round-up to determine our sector call, and thus, our individual stock calls.

**We are also aware that the feel-good sentiment from the upcoming Budget-2017 will soon be translated to positive news flow, which in turn may separate the weak sector fundamentals from developers' share price performance. Downside risks to our call include:** Weaker-than-expected property sales and construction orderbook replenishment, Higher-than-expected sales and administrative costs, Negative real estate policies, and Tighter lending environment.

### Share Price Performance



KLCI	1,681.60
YTD KLCI chg	-0.6%
YTD stock price chg	-2.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	6,119.7
Issued shares	2,033.1
52-week range (H)	3.28
52-week range (L)	2.87
3-mth avg daily vol:	1,085,267
Free Float	34%
Beta	0.5

### Major Shareholders

Sungei Way Corporation Sendirian Berhad	56.3%
Employees Provident Fund Board	5.1%
Amanah Saham Bumiputera	5.1%

### Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	4,451	5,129	5,600
EBIT	686	659	737
PBT	929	816	798
<b>Net Profit (NP)</b>	<b>732</b>	<b>499</b>	<b>520</b>
<b>Core NP</b>	<b>594</b>	<b>485</b>	<b>520</b>
Consensus (NP)	n.a.	524	565
Earnings Revision	n.a.	n.a.	3%
EPS (sen)	42.5	29.0	30.2
Core EPS (sen)	34.5	28.1	30.2
EPS growth (%)	-51%	-32%	4%
NDPS (sen)	38.5	9.8	10.3
NTA/Share (RM)	2.91	3.26	3.61
Core PER (x)	7.1	10.4	10.0
Price/NTA (x)	1.0	0.9	0.8
Net Gearing (x)	0.5	0.4	0.5
Dividend Yield (%)	12.8%	3.3%	3.4%

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Sum-of-Parts						
	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	6,470	n.a	Under Review	2,556	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,762	n.a		1,762	SUNREIT TP RM1.60
Construction	56%	1,303	14		1,303	14x FY17E PER- higher compared to mid-cap construction Fwd PERs of 9x-13x.
Quarry & Buildings Mat	100%	37	8		37	8x FY17E PER
Trading & manufacturing	100%	450	8		450	8x FY17E PER
Group Shareholders Funds					0	
<b>Total SOP</b>		<b>10,022</b>			<b>6,108</b>	
Adjustment for Dilution TP (RM)					879	
					<b>Under Review</b>	
Diluted no. of shares ('m)					2,168	

Source: Kenanga Research

Result Highlight								
FYE 31 Dec (RM'm)	2Q16	1Q16	QoQ%	2Q15	YoY%	1H16	1H15	YoY-Ytd
Revenue	1,155.7	1,069.0	8%	1,041.5	11%	2,224.7	2,101.5	6%
Op costs w/o deprn/amort	-1,022.9	-944.4	8%	-935.8	9%	-1,967.4	-1,878.9	5%
Other Op Income	28.7	25.1	14%	33.8	-15%	53.7	70.3	-24%
<b>EBITDA</b>	<b>192.8</b>	<b>178.6</b>	<b>8%</b>	<b>169.8</b>	<b>14%</b>	<b>371.4</b>	<b>352.3</b>	<b>5%</b>
<b>EBIT</b>	<b>161.4</b>	<b>149.6</b>	<b>8%</b>	<b>139.5</b>	<b>16%</b>	<b>311.1</b>	<b>292.9</b>	<b>6%</b>
Net Interest	-15.6	-16.1	-3%	-9.3	67%	-31.7	-20.7	53%
Associate & JCE	34.2	42.6	-20%	46.8	-27%	76.8	84.9	-10%
Fair Value Adjustments on IP	23.7	0.0	n.m.	103.9	-77%	23.7	117.3	-80%
<b>Pretax profit</b>	<b>203.8</b>	<b>176.1</b>	<b>16%</b>	<b>280.9</b>	<b>-27%</b>	<b>379.9</b>	<b>474.4</b>	<b>-20%</b>
Taxation	-23.9	-32.8	-27%	-33.1	-28%	-56.7	-69.2	-18%
Minority Interests	-25.5	-41.1	-38%	-9.9	157%	-66.7	-20.8	220%
<b>Net profit</b>	<b>154.4</b>	<b>102.1</b>	<b>51%</b>	<b>237.9</b>	<b>-35%</b>	<b>256.5</b>	<b>384.4</b>	<b>-33%</b>
<b>Core Net profit</b>	<b>130.7</b>	<b>102.1</b>	<b>28%</b>	<b>134.0</b>	<b>-2%</b>	<b>232.8</b>	<b>267.2</b>	<b>-13%</b>
EPS (sen)	9.0	5.9	51%	13.8	-35%	14.9	22.3	-33%
Diluted EPS (sen)	6.0	4.7	28%	6.2	-2%	10.7	12.3	-13%
NDPS (sen)	5.0	0.0		5.0		5.0	5.0	
NTA/share (RM)	3.38	3.38		3.37		3.38	3.37	
Net gearing/(cash) (x)	0.44	0.40		0.35		0.44	0.35	
EBITDA margin	17%	17%		16%		17%	17%	
EBIT margin	14%	14%		13%		14%	14%	
Pretax margin	18%	16%		27%		17%	23%	
Effective tax rate	12%	19%		12%		15%	15%	

Source: Company, Kenanga Research

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## Segmental Breakdown

	2Q16	1Q16	QoQ	3Q15	YoY	1H16	1H15	YoY-Ytd
<b>Revenue</b>								
Property Development	347.0	234.1	48%	270.9	28%	581.1	504.9	15%
Property Investment	193.4	203.9	-5%	194.0	0%	397.3	344.8	15%
Construction	430.3	424.4	1%	445.6	-3%	854.6	996.3	-14%
Trading & Manufacturing	215.3	241.8	-11%	126.7	70%	457.0	385.6	19%
Quarry	64.5	40.3	60%	69.5	-7%	104.9	119.4	-12%
Investment Holdings	175.5	145.8	20%	79.4	121%	321.2	279.3	15%
Others	163.7	133.3	23%	123.8	32%	297.0	299.5	-1%
Eliminations	-433.9	-354.5	22%	-358.8	21%	-788.4	-828.1	-5%
<b>TOTAL</b>	<b>1155.7</b>	<b>1069.0</b>	<b>8%</b>	<b>951.0</b>	<b>22%</b>	<b>2224.7</b>	<b>2101.5</b>	<b>6%</b>
<b>Operating Profit</b>								
Property Development	53.1	55.7	-5%	34.5	54%	108.7	76.8	42%
Property Investment	24.4	36.4	-33%	39.6	-38%	60.8	72.9	-17%
Construction	34.0	35.6	-5%	23.4	45%	69.6	108.9	-36%
Trading & Manufacturing	10.5	8.5	23%	5.4	94%	19.0	14.8	28%
Quarry	11.7	6.4	83%	10.6	10%	18.1	23.1	-22%
Investment Holdings	6.1	-1.9	-415%	-5.4	-213%	4.1	-16.1	-126%
Others	21.8	9.0	143%	10.6	106%	30.8	28.6	8%
Eliminations	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>TOTAL</b>	<b>161.4</b>	<b>149.6</b>	<b>8%</b>	<b>118.7</b>	<b>36%</b>	<b>311.1</b>	<b>308.9</b>	<b>1%</b>
<b>Operating Margin</b>								
Property Development	15%	24%		13%		19%	15%	
Property Investment	13%	18%		20%		15%	21%	
Construction	8%	8%		5%		8%	11%	
Trading & Manufacturing	5%	4%		4%		4%	4%	
Quarry	18%	16%		15%		17%	19%	
Investment Holdings	3%	-1%		-7%		1%	-6%	
Others	13%	7%		9%		10%	10%	

Source: Company, Kenanga Research

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Peer Comparison															
NAME	Price (29/8/16)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	P/BV	Net Profit (RMm)			FY16/17 NP Growth	FY17/18 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY15/16	FY16/17	FY17/18	(%)	(%)	(x)	FY15/16	FY16/17	FY17/18	(%)	(%)	(RM)	
<b><u>DEVELOPERS UNDER COVERAGE</u></b>															
S P SETIA BHD*	3.37	9,495	9.6	12.8	11.9	5.0%	13.9%	1.2	918.3	692.0	744.2	-24.6%	7.5%	UNDER REVIEW	UNDER REVIEW
IOI PROPERTIES GROUP BHD*	2.52	11,116	17.2	14.9	14.9	3.2%	4.1%	0.7	648.5	749.1	750.5	15.5%	0.2%	UNDER REVIEW	UNDER REVIEW
UEM SUNRISE BHD*	1.09	4,946	19.3	23.6	21.2	1.5%	3.9%	0.8	257.2	210.4	234.6	-18.2%	11.5%	1.00	UNDERPERFORM
SUNWAY BHD	3.01	6,120	8.7	10.7	10.0	3.3%	11.7%	0.7	594.2	485.1	519.8	-18.4%	7.2%	UNDER REVIEW	UNDER REVIEW
MAH SING GROUP BHD^	1.65	3,976	11.1	10.5	10.2	3.9%	14.3%	1.2	357.2	379.7	389.5	6.3%	2.6%	UNDER REVIEW	UNDER REVIEW
ECO WORLD DEVELOPMENT GROUP BHD	1.34	3,168	72.1	31.3	15.4	0.0%	2.5%	1.0	44.0	126.5	257.7	187.8%	103.7%	1.58	OUTPERFORM
UOA DEVELOPMENT BHD*	2.47	4,029	9.4	9.6	9.1	6.1%	14.1%	1.1	399.0	391.0	414.6	-2.0%	6.0%	UNDER REVIEW	UNDER REVIEW
MALAYSIAN RESOURCES CORP BHD	1.25	2,600	-47.3	28.2	51.6	0.7%	-3.3%	1.3	-74.6	125.2	68.4	-267.8%	-45.3%	UNDER REVIEW	UNDER REVIEW
KSL HOLDINGS BHD	1.12	1,153	5.0	5.4	5.6	0.0%	10.5%	0.5	211.5	198.4	190.3	-6.2%	-4.1%	UNDER REVIEW	UNDER REVIEW
MATRIX CONCEPTS HOLDINGS BHD	2.52	1,425	6.0	6.9	6.2	5.8%	31.8%	1.5	255.2	224.2	248.1	-12.1%	10.7%	UNDER REVIEW	UNDER REVIEW
CRESCENDO CORPORATION BHD*	1.53	348	19.6	19.1	18.4	2.1%	2.2%	0.4	17.8	18.3	19.0	2.6%	4.0%	1.50	UNDERPERFORM
HUA YANG BHD	1.87	494	4.5	4.7	5.1	2.2%	25.9%	0.8	110.1	106.1	96.7	-3.7%	-8.9%	1.83	MARKET PERFORM
<b><u>CONSENSUS NUMBERS</u></b>															
IGB CORPORATION BHD	2.68	3,578	17.9	16.0	14.9	3.5%	4.8%	0.8	199.4	222.9	240.3	11.8%	7.8%	4.80	NEUTRAL
GLOMAC BHD	0.79	571	7.1	7.3	6.6	5.2%	8.3%	0.6	80.8	78.1	86.1	-3.3%	10.2%	0.79	NEUTRAL
PARAMOUNT CORP BHD	1.45	613	9.6	9.1	8.5	5.5%	7.2%	0.7	64.1	67.7	71.9	5.6%	6.3%	2.18	BUY
TAMBUN INDAH LAND BHD	1.50	640	6.0	6.3	5.9	5.1%	23.5%	1.3	106.9	101.5	108.8	-5.0%	7.1%	1.62	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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia  
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: [www.kenanga.com.my](http://www.kenanga.com.my)



Chan Ken Yew  
Head of Research