

28 February 2017

Property | Real Estate

Sunway

Buy (Maintained)

Construction And Property Investment To Drive Profits

Sunway's diversified business model provides earnings resilience. While management expects property sales to be flat in 2017, we believe that its construction and property investment divisions should help to provide earnings growth. We maintain our BUY rating, with a revised TP of MYR3.55 (from MYR3.40, 12% upside).

Expect flat sales in 2017. Management has set a conservative property sales target of MYR1.1bn for 2017, ie the same amount as that of 2016, indicating that the company is still holding a cautious view on the market. Sunway achieved MYR336m in sales in 4Q16, bringing its full-year new property sales to MYR1.2bn (2015: MYR1.2bn). It also exceeded its revised sales target of MYR1.1bn. The key contributors include Sunway Mont, Singapore projects, Sunway Iskandar as well as Tianjin Eco-City.

Pipeline launches. About MYR2bn worth of new projects are slated for launch this year. The major ones are Sunway Geo Residences 3 (GDV: MYR400m), Sunway Kelana Jaya condominiums (GDV: MYR400m), and Sunway Iskandar townhouses and cluster (GDV: MYR300m). These projects suit the market conditions, in our view.

Forecast. We have made only minimal changes to our forecasts. Unbilled sales fell to MYR1.5bn from MYR1.8bn as at 3Q16, while its construction orderbook was unchanged at MYR4.8bn, of which 32% comprise internal jobs. The construction unit has successfully replenished its orderbook by MYR2.66bn.

Maintain BUY. After we updated our numbers to reflect the latest financials and landbank data, we revised our TP to MYR3.55 (from MYR3.40). Maintain BUY.

4Q16 results announced on 27 Feb are within expectations

(MYRm)	4Q16	3Q16	QoQ	4Q15	YoY	Comments
Revenue	1,363.7	1,137.5	19.9%	1,398.8	-2.5%	Mainly driven by property development.
EBIT	251.4	164.3	53.0%	259.3	-3.0%	
EBIT (%)	18.4%	14.4%		18.5%		
NI	185.8	143.6	29.4%	214.7	-13.4%	
Core NI	161.8	148.1	9.3%	180.0	-10.1%	In line but beat market expectations.
Core NI (%)	11.9%	13.0%		12.9%		

Source: Company data, RHB

4Q16 results are in line. Earnings during the quarter were mainly boosted by the handover of Sunway Geo retail shops and Flexi Suites Phase 1, as well as the sale of Penang land to Sunway REIT. The property investment division, however, was affected by the temporary closure of Pyramid Hotel due to renovations and the pre-opening expenses incurred for Sunway Velocity Mall, which opened in December. A cash DPS of 4 sen was declared, and share dividend distribution of one treasury share for every 100 ordinary shares held (equivalent to 3.14 sen per share), bringing FY16 DPS to 12.14 sen.

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	4,451	4,726	5,068	5,528	5,993
Reported net profit (MYRm)	620	586	562	606	658
Recurring net profit (MYRm)	597	547	562	606	658
Recurring net profit growth (%)	0.9	(8.3)	2.6	7.8	8.7
Recurring EPS (MYR)	0.33	0.27	0.27	0.29	0.31
DPS (MYR)	0.49	0.12	0.13	0.14	0.15
Recurring P/E (x)	9.5	11.9	11.7	11.0	10.2
P/B (x)	0.87	0.87	0.85	0.83	0.80
Dividend Yield (%)	15.5	3.8	4.1	4.4	4.7
Return on average equity (%)	9.9	8.4	7.4	7.7	8.0
Return on average assets (%)	4.3	3.4	2.9	3.0	3.1
Net debt to equity (%)	45.3	40.9	39.1	39.0	40.2
Our vs consensus EPS (adjusted) (%)			(13.9)	(10.1)	(3.2)

Source: Company data, RHB

Target Price:	MYR3.55
Price:	MYR3.16
Market Cap:	USD1,442m
Bloomberg Ticker:	SWB MK

Share Data

Avg Daily Turnover (MYR/USD)	2.64m/0.59m
52-wk Price low/high (MYR)	2.87 - 3.24
Free Float (%)	39
Shares outstanding (m)	1,724
Estimated Return	12%

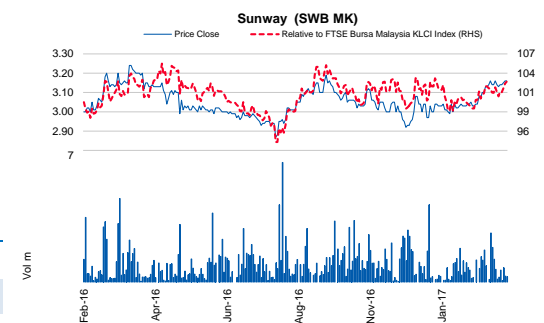
Shareholders (%)

Tan Sri Dato' Jeffrey Cheah	55.4
Employees Provident Fund	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.3	4.3	5.3	5.0	5.0
Relative	1.1	3.9	1.2	4.4	3.2

Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Financial model updated on : 2017-02-27.

Asia	Financial summary	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Malaysia	Recurring EPS (MYR)	0.33	0.27	0.27	0.29	0.31
Property	EPS (MYR)	0.34	0.28	0.27	0.29	0.31
Sunway	DPS (MYR)	0.49	0.12	0.13	0.14	0.15
Bloomberg	BVPS (MYR)	3.64	3.61	3.72	3.83	3.95
SWB MK	Weighted avg adjusted shares (m)	1,800	2,063	2,084	2,105	2,126
Buy						
Valuation basis	Valuation metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
35% discount to RNAV	Recurring P/E (x)	9.5	11.9	11.7	11.0	10.2
	P/E (x)	9.2	11.1	11.7	11.0	10.2
Key drivers	P/B (x)	0.87	0.87	0.85	0.83	0.80
i. New property sales;	FCF Yield (%)	(1.7)	(2.2)	10.3	8.3	6.4
ii. Disposal of investment properties	Dividend Yield (%)	15.5	3.8	4.1	4.4	4.7
Key risks	EV/EBITDA (x)	13.9	11.9	11.6	11.3	11.4
Weaker-than-expected market conditions	EV/EBIT (x)	16.7	14.6	14.1	13.6	13.8
Company Profile	Income statement (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Sunway is a well-known developer in the Klang Valley. Its flagship project, Bandar Sunway, is a well-established integrated township. The company has successfully transformed mining land to a matured residential and commercial cluster	Total turnover	4,451	4,726	5,068	5,528	5,993
	Gross profit	1,187	1,355	1,540	1,689	1,809
	EBITDA	693	892	950	1,023	1,076
	Depreciation and amortisation	(119)	(165)	(167)	(171)	(186)
	Operating profit	574	727	783	851	889
	Net interest	(27)	(60)	(49)	(43)	(30)
	Income from associates & JVs	270	192	326	368	383
	Pre-tax profit	816	859	1,060	1,176	1,242
	Taxation	(130)	(140)	(257)	(294)	(311)
	Minority interests	(67)	(133)	(242)	(276)	(273)
	Recurring net profit	597	547	562	606	658
	Cash flow (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Change in working capital	60	(391)	(161)	(195)	(197)
	Cash flow from operations	864	569	753	760	809
	Capex	(963)	(713)	(75)	(211)	(380)
	Cash flow from investing activities	(2,109)	(971)	(275)	(411)	(580)
	Proceeds from issue of shares	1,067	588	0	0	0
	Dividends paid	(1,082)	(268)	(271)	(295)	(319)
	Cash flow from financing activities	1,987	1,750	(372)	(395)	(418)
	Cash at beginning of period	1,978	2,627	4,060	4,014	3,855
	Net change in cash	741	1,347	106	(45)	(189)
	Ending balance cash	2,719	3,974	4,165	3,968	3,666
	Balance sheet (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Total cash and equivalents	2,627	4,060	4,014	3,855	3,587
	Tangible fixed assets	8,146	9,051	8,959	8,999	9,192
	Intangible assets	320	343	343	343	343
	Total other assets	463	286	812	1,380	1,962
	Total assets	15,994	18,831	19,588	20,496	21,469
	Short-term debt	3,304	4,831	4,831	4,831	4,831
	Total long-term debt	2,585	2,591	2,607	2,663	2,756
	Other liabilities	416	438	438	438	438
	Total liabilities	8,794	10,612	10,836	11,157	11,517
	Shareholders' equity	6,550	7,456	7,747	8,058	8,397
	Minority interests	651	764	1,005	1,281	1,555
	Total equity	7,200	8,219	8,752	9,339	9,952
	Net debt	3,262	3,361	3,424	3,639	4,000
	Total liabilities & equity	15,994	18,831	19,588	20,496	21,469
	Key metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Revenue growth (%)	(8.1)	6.2	7.2	9.1	8.4
	Recurrent EPS growth (%)	(3.3)	(20.0)	1.6	6.7	7.6
	Gross margin (%)	26.7	28.7	30.4	30.6	30.2
	Operating EBITDA margin (%)	15.6	18.9	18.7	18.5	17.9
	Net profit margin (%)	13.9	12.4	11.1	11.0	11.0
	Dividend payout ratio (%)	174.7	45.8	45.8	45.8	45.8
	Capex/sales (%)	21.6	15.1	1.5	3.8	6.3
	Interest cover (x)	4.61	4.33	4.79	5.18	5.62

Source: Company data, RHB

Figure 1: Quarterly results

FYE Dec (MYR mil)	3Q15	3Q16	4Q16	QoQ (%)	YoY (%)	FY15	FY16	YoY (%)	Comments
Turnover	951.0	1,137.5	1,363.7	19.9	(2.5)	4,451.3	4,725.9	6.2	
Prop developemtn	270.9	247.6	412.7	66.7	(1.7)	1,195.7	1,209.4	1.2	Due to the handover of Sunway Geo retail shops and Flexi Suites Phase 1, and higher progress billings from Sunway Gandaria.
Prop investment	172.2	189.9	172.8	(9.0)	(6.8)	641.7	692.0	7.8	Affected by closure of Pyramid Hotel.
Construction	196.8	287.9	334.4	16.1	(17.6)	1,222.1	1,183.1	(3.2)	
Trading & manufacturing	130.5	206.7	215.1	4.1	4.8	650.0	833.3	28.2	
Quarry	66.8	54.0	54.1	0.2	(6.0)	242.1	207.4	(14.4)	
Investment holdings	1.1	4.3	15.4	n.m.	n.m.	4.7	26.0	n.m.	
Others	112.8	147.1	159.3	8.3	30.6	494.9	574.7	16.1	
EBIT	118.7	164.3	251.4	53.0	(3.0)	686.9	726.8	5.8	
<i>EBIT margin (%)</i>	<i>12.5%</i>	<i>14.4%</i>	<i>18.4%</i>			<i>15.4%</i>	<i>15.4%</i>		
Prop development	34.5	45.3	119.0	162.8	23.5	207.7	273.1	31.5	
Prop investment	39.6	50.0	51.7	3.3	(48.8)	213.5	162.5	(23.9)	Margin was hit by start-up expenses incurred for Sunway Velocity Mall.
Construction	23.4	31.3	28.3	(9.7)	5.7	159.0	129.2	(18.8)	
Trading & manufacturing	5.4	11.3	20.7	82.7	76.3	31.9	51.0	59.8	
Quarry	10.6	7.2	1.5	(79.8)	(75.0)	39.5	26.7	(32.4)	
Investment holdings	(5.4)	2.8	8.2	n.m.	4.5	(13.6)	15.0	(210.2)	
Others	10.6	16.3	22.2	35.7	128.1	48.8	69.3	41.8	
Exceptional items	13.7	4.5	(40.9)	n.m.	1.5	(114.4)	(55.5)	n.m.	
Finance cost	15.8	(2.6)	(25.7)	895.0	18.0	(26.6)	(59.9)	124.9	
Asso & jv	31.5	46.7	44.9	(3.9)	(9.5)	269.9	192.0	(28.9)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	
Pretax profit	171.0	208.5	270.6	29.8	(4.7)	929.2	859.0	(7.6)	
<i>PBT margin (%)</i>	<i>18.0%</i>	<i>18.3%</i>	<i>19.8%</i>			<i>20.9%</i>	<i>18.2%</i>		
Tax	(31.5)	(37.7)	(46.0)	21.9	57.5	(129.8)	(140.4)	8.2	
<i>Tax (%)</i>	<i>18.4%</i>	<i>18.1%</i>	<i>17.0%</i>			<i>14.0%</i>	<i>16.3%</i>		
PAT	139.5	170.8	224.7	31.5	(11.8)	799.4	718.6	(10.1)	
MI	(6.2)	(27.2)	(38.8)	42.5	(2.9)	(67.0)	(132.7)	98.2	
Net profit	133.3	143.6	185.8	29.4	(13.4)	732.4	585.9	(20.0)	
Core net profit	147.0	148.1	161.8	9.3	(10.1)	596.8	547.3	(8.3)	Within expectations.
<i>Net margin (%)</i>	<i>15.5</i>	<i>13.0</i>	<i>11.9</i>						
EPS (sen)	8.2	7.0	9.1			33.7	29.6		
NTA (RM)	3.82	3.60	3.61			3.64	3.61		
DPS (sen)	0.0	0.0	7.1			11.0	12.1		
EBIT margin:									
Prop development	12.7%	18.3%	28.8%			17.4%	22.6%		
Prop investment	23.0%	26.4%	29.9%			33.3%	23.5%		
Construction	11.9%	10.9%	8.5%			13.0%	10.9%		
Trading & manufacturing	4.1%	5.5%	9.6%			4.9%	6.1%		
Quarry	15.8%	13.4%	2.7%			16.3%	12.9%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	9.4%	11.1%	13.9%			9.9%	12.1%		

Source: RHB

Figure 2: RNAV estimate

Developments	Remaining Landbank (acre)	Remaining GDV (MYR m)	Effective stake	NPV @ 11%
Selangor/KL				
Sunway Damansara	15.36	1,691.28	60%	115.6
Sunway South Quay	40.16	3,086.66	60%	201.7
Sunway Monterez	4.40	38.00	60%	2.5
Sunway Semenyih	398.11	728.59	70%	45.6
Sunway Cheras	5.97	16.82	100%	1.4
Sunway Duta	3.16	120.00	60%	6.1
Sunway Montana	1.99	55.51	100%	5.7
Sunway Resort City	14.9	660	100%	61.9
Sunway Velocity	10.00	1,983.98	85%	163.5
Sunway Velocity 2	8.45	2,000.00	50%	52.9
Sunway Tower KL 1	1.00	240.00	100%	19.3
Melawati	2.00	43.00	100%	4.0
Sg Long	111.00	277.00	80%	17.8
Mont Putra, Rawang	163.00	156.00	100%	12.5
Kelana Jaya	21.84	1,900.00	100%	121.6
Subang industrial	6.35	110.00	80%	5.9
Perak				
Sunway City Ipoh	440.5	1,048.38	65%	66.1
Penang				
Sunway Hills	80.70	849.00	100%	66.0
Sunway Wellesley, Bukit Mertajam	52.80	725.47	100%	68.0
Paya Terubong	24.46	1,500.00	100%	117.2
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.2
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.4
S'pore				
Anchorvale Lane, Sengkang	5.19	1,560.00	30%	38.8
Johor				
Bukit Lenang	64.79	698.40	80%	65.5
Medini	655.73	11,293.00	56%	529.2
Pendas	1,079.07	18,000.00	60%	708.4
China				
Sunway Guanghao	3.73	66.78	65%	4.3
Tianjin Eco City	6.23	575.02	60%	26.7
India				
Sunway OPUS Grand India	23.80	702.36	50%	20.2
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	6.6
Australia				
Wonderland Business Park (Sydney)	12.99	43.80	45%	1.1
Unbilled sales				217.5
TOTAL	3,322.02	55,375.03		2,791.11

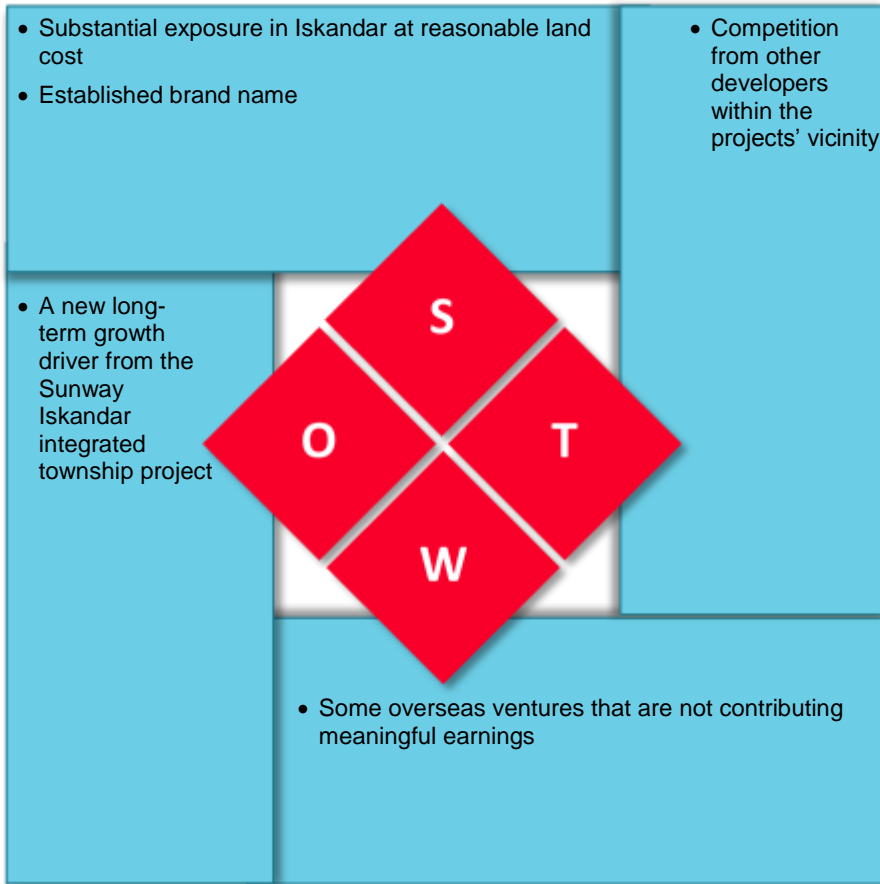
Investment properties	EBITDA (MYR m)	Market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)
Monash University Campus	17	299.5	299.5	100%	0
Monash U Residence	15	226.6	226.6	100%	0
Sunway University College	10	255.0	255.0	100%	0
Sunway Hotel Georgetown	4	74.0	37.6	100%	36.4
Sunway Hotel Phnom Penh	2	17.3	17.3	53%	0
Sunway Hotel Hanoi	2	8.8	8.8	100%	0
Sunway Giza	5	55.1	55.1	60%	0
Sunway Pinnacle	N/A	280.0	280.0	100%	0

Other divisions	Market value (MYR m)	Book value (MYR m)	Est. FY16 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
34% Sunway REIT	1,447.4	1,479.0		-	31.61
54.4% Sunway Construction	1,442.0	844.1			597.88
Others			115	5	575.00

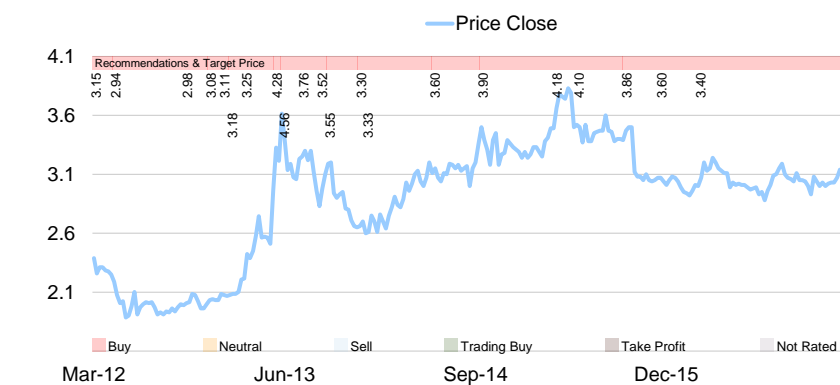
Total					3,968.79
Shareholders' equity (ex cons.)					7,055.72
ESOS proceeds					551.52
Warrants conversion @ MYR2.25					651.13
Total RNAV					12,227.15
Discount to RNAV					35%
Discounted RNAV					7,947.65
Share base (mil)					1,780.00
No. of warrants					289.39
ESOS					172.35
Enlarged share base (mil)					2,241.74
TP (MYR)					3.55

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-11-27	Buy	3.40	3.00
2016-08-29	Buy	3.40	3.01
2016-05-29	Buy	3.40	3.03
2016-02-29	Buy	3.40	3.00
2016-02-22	Buy	3.60	2.97
2015-11-27	Buy	3.60	3.07
2015-09-03	Buy	3.86	3.45
2015-08-27	Buy	4.10	3.40
2015-05-26	Buy	4.10	3.52
2015-05-11	Buy	4.10	3.40

Source: RHB, Bloomberg

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Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

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