



Sunway Berhad

New Launches to Pick Up from 2Q Onwards

TP: RM3.28 (+8.1%)

Last Traded: RM3.03

Hold

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Review

- Sunway's came in broadly in line with our forecasts but lower than consensus. 1Q16 normalised net profit of RM104.5mn accounted for 20% and 18% of ours and consensus estimates.
- Sunway's 1Q16 revenue was marginally higher at RM1.07bn (+0.8% YoY) although the group's normalised net profit during the quarter declined by 20% YoY. This was mainly due to higher minority interest arising from the listing of SunCon in July-2015, which saw Sunway's stake in SunCon reduced to 54.4%. Segmental wise, property division posted decent results with revenue and PBT accelerate by 30% and 22% respectively. The increase was mainly contributed by higher sales from its Singapore project, Avant Parc. Meanwhile, the construction division's revenue and PBT decreased by 17% and 28% respectively, largely due to lower billings from both civil and building works as some of the projects had reached or were near completion stage.
- QoQ, 1Q16 normalised net profit fell 42%, as profits in the immediate preceding quarter was boosted by land sales, as well as completion and handover of a number of property development projects. The property investment division also reported weaker results mainly due to seasonal factors as the leisure and hospitality business usually generate their peak earnings in the 4Q.
- Sunway reported RM263mn new property sales (effective: RM198mn, +6.5% YoY) in 1Q16. Key contributors to 1Q16 sales are Emerald Residences & Boulevard (landed homes and retail shops) in Sunway Iskandar, Singapore projects and Sunway Gandaria (retail shops) in Bangi. Unbilled sales remained healthy at RM2.0bn (effective RM1.5bn), providing earnings visibility of more than a year.

Impact

- Our FY16/FY17/FY18 earnings are revised by -3.5%/+0.6%/+1.7% after factoring in the revised earnings for Sunway Construction Group Bhd and Sunway REIT.

Outlook

- Despite only securing new sales of RM263mn in 1Q16, management maintained its sales target of RM1.4bn in 2016 (effective: RM1.1bn), as the RM1.5bn worth of new properties are now scheduled for launch from 2Q16 onwards. Key new launches in the Klang Valley include Sunway Geo Residence 3, Brook Residence Mont Kiara, Sunway Gandaria (Service Apartments) and Sunway Velocity (office). Down south, Sunway is expected to roll out phase 2 of landed properties at Sunway Iskandar in 4Q16 with an estimated GDV of RM400mn.
- Nevertheless, we maintain our FY16 sales assumptions of RM1.2bn, largely to factor in current weak market sentiment. Furthermore, we foresee financial institutions staying cautious in granting mortgage loans

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	1969.9
Market Cap (RMmn)	5968.8
Par Value	1.00
52-wk Hi/Low (RM)	3.36/2.89
12-mth Avg Daily Vol ('000 shrs)	1286.0
Estimated Free Float (%)	20.4
Beta	0.55
Major Shareholders (%)	Sungei Way Corp (58.1)

Forecast Revision

	FY16	FY17
Forecast Revision (%)	(3.5)	0.6
Net profit (RMmn)	509.5	525.6
Consensus	536.0	566.0
TA's / Consensus (%)	95.1	92.9
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY16	FY17
Net Debt / Equity (%)	32.1	24.9
FCPS (sen)	69.9	34.1
Price / CFPS (x)	4.3	8.9
ROA (%)	3.2	3.2
NTA/Share (RM)	3.6	3.8
Price/NTA (x)	0.8	0.8

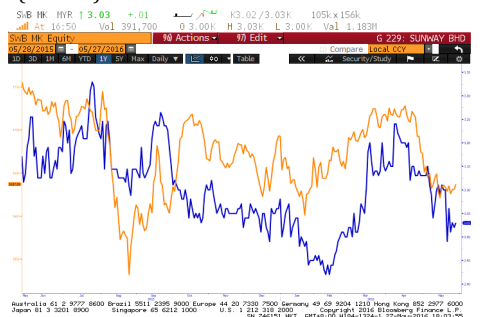
SCORECARD

	% of FY	
vs TA	20.0	Within
vs Consensus	18.0	Below

Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	(3.2)	(2.1)
3 mth	1.0	(1.1)
6 mth	0.3	(2.1)
12 mth	(2.8)	(6.3)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

this year. Given that 38% of the new projects are targeted for launch in 4Q16 (Sunway Iskandar and Sunway Velocity Office), those interested buyers may take longer time to secure end financing and potentially lead to a shortfall in sales target.

Valuation

- Attaching a 10% discount to our SOP valuation, we value Sunway at RM3.28/share, after: 1) rolling forward our valuation base year to CY17 for its property development and quarry & manufacturing earnings, and 2) factoring in latest TPs for Sunway's listed entities. Maintain **Hold** with a total potential return of 11.8%.

Figure 1: 2016 New Launches

Development	Location	Type	Initial Planned GDV (RM mn)	Targeted Launch Date	Remark
Sunway Gandaria	Bangi	Retail & Service Apartment	200	1Q16 (retail) 2Q16 (Serviced Apartments)	Retail (90% Sold), Svc Apartments (50% booked)
Sunway Geo Residence 3	South Quay	Condominiums & Townhouses	400	1Q16	3Q16
Brook Residence	Mont Kiara	Condominiums	200	2Q16	Previewed in May
Velocity	Jalan Peel, Cheras	Offices	200	4Q16	4Q16
Lost World Apartments	Ipoh	Service Apartments	100	2Q16	2Q16
Sunway Iskandar	Iskandar	Landed Residences	400	4Q16	4Q16
Others			100		
Total			1600		

Source: Sunway, TA Research

Figure 2: SOP Valuation

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY17 Property Earnings	203.4	12	100%	2440.9	1.38
SunCon @ RM1.80 TP	2325.6	1	54%	1265.1	0.72
SunREIT @ RM1.65 TP	4847.0	1	36%	1749.8	0.99
CY17 Other Business Earnings	80.0	12	100%	960.2	0.54
SOP Value				6416.1	3.64
Discount		10%		(641.6)	(0.4)
Target Price				5774.5	3.28

Earnings Summary

YE Dec 31 (RM'mn)	2014	2015	2016F	2017F	2018F
Revenue	4558.1	4451.3	5474.3	5686.5	6247.8
EBITDA	652.1	825.8	842.3	826.2	946.5
EBITDA margin (%)	14.3	18.6	15.4	14.5	15.1
Pretax profit	797.6	781.8	812.8	806.7	912.9
Net profit	734.0	732.4	509.5	525.6	650.0
Net profit -adj	591.7	590.7	509.5	525.6	650.0
EPS (sen)	34.2	32.8	28.3	29.2	36.1
EPS - adj (sen)	34.2	34.1	29.4	30.4	37.6
EPS Growth (Core) (%)	21.8	(0.2)	(13.7)	3.1	23.7
PER (x)	8.9	8.9	10.3	10.0	8.1
GDPS (sen)	11.0	38.5	11.4	11.4	11.4
Div Yield (%)	3.6	12.2	3.6	3.6	3.6
ROE (%)	10.5	9.5	7.6	7.5	8.8

1Q16 Results analysis

YE 31 Dec (RM'mn)		1Q15	4Q15	1Q16	QoQ (%)	YoY (%)
Revenue		1060.0	1395.8	1069.0	(23.4)	0.8
<i>Property Development</i>		180.7	420.0	234.1	(44.3)	29.5
<i>Property Investment</i>		139.3	185.4	169.2	(8.7)	21.5
<i>Construction</i>		375.3	405.9	311.4	(23.3)	(17.0)
<i>Trading & Manufacturing</i>		191.9	205.3	193.1	(5.9)	0.6
<i>Quarry</i>		53.8	57.5	38.7	(32.6)	(28.0)
<i>Others</i>		119.0	121.8	122.5	0.6	2.9
EBIT		169.9	259.3	149.6	(42.3)	(11.9)
Gain on derivative		(3.2)	(3.3)	0.0	(100.0)	(100.0)
Finance income		14.6	23.6	23.6	(0.0)	61.8
Finance costs		(26.0)	(45.3)	(39.7)	(12.5)	52.9
Associates		20.6	26.5	24.2	(8.5)	17.9
JV		17.6	23.1	18.3	(20.7)	4.2
EI		15.8	34.7	(2.4)	(106.9)	(115.2)
PBT		193.5	285.0	176.1	(38.2)	(9.0)
Core PBT		177.7	244.7	178.5	(27.1)	0.4
<i>Property Development</i>		56.9	114.2	69.1	(39.5)	21.5
<i>Property Investment</i>		20.1	212.1	33.5	(84.2)	66.8
<i>Construction</i>		52.2	30.0	37.7	25.6	(27.8)
<i>Trading & Manufacturing</i>		12.7	8.6	5.3	(37.5)	(58.1)
<i>Quarry</i>		7.7	5.6	6.1	10.2	(20.3)
<i>Others</i>		28.0	(125.8)	26.6	(121.2)	(4.9)
Tax		(36.1)	(29.2)	(32.8)	12.5	(9.0)
MI		(10.9)	(40.0)	(41.1)	2.9	278.1
<i>Net profit</i>		146.5	214.7	102.1	(52.4)	(30.3)
Core net profit		130.7	180.0	104.5	(41.9)	(20.1)
Reported EPS	(sen)	8.5	12.0	5.7	(52.6)	(32.4)
Adj EPS	(sen)	7.5	10.1	5.8	(42.1)	(22.5)
DPS	(sen)	0.0	6.0	0.0	(100.0)	0.0
EBIT margin	(%)	16.0	18.5	14.0	(4.5)	(2.0)
PBT margin	(%)	16.8	17.8	16.7	(1.1)	(0.1)
<i>Property Development</i>	(%)	31.5	27.2	29.5	2.3	(2.0)
<i>Property Investment</i>	(%)	14.4	114.4	19.8	(94.6)	5.4
<i>Construction</i>	(%)	13.9	7.4	12.1	4.7	(1.8)
<i>Trading & Manufacturing</i>	(%)	6.6	4.2	2.8	(1.4)	(3.9)
<i>Quarry</i>	(%)	14.3	9.7	15.9	6.2	1.5
<i>Others</i>	(%)	23.5	(103.3)	21.8	125.1	(1.8)
Net margin	(%)	12.3	12.9	9.8	(3.1)	(2.6)
Effective tax rate	(%)	20.3	11.7	18.4	6.7	(1.9)

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