

### UOBKH HIGHLIGHTS

## Sunway Bhd (SWB MK/BUY/RM3.06/Target: RM3.60)

3Q15: No Surprises

Year to 31 Dec	3Q15 (RMm)	2Q15 (RMm)	qoq % chg	yoy % chg	9M15 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	951.0	1,041.5	(8.7)	(16.1)	3,052.5	(9.3)	2015F	32.7	9.4
Property Development	270.9	324.1	(16.4)	52.2	775.7	10.5	2016F	33.7	9.1
Property Investment	172.2	144.8	18.9	13.4	456.3	5.1	2017F	34.4	8.9
Construction	196.8	244.1	(19.4)	(59.7)	816.2	(35.9)			
EBIT	155.2	290.2	(46.5)	2.1	650.3	64.4			
Pre-tax Profit	171.0	280.9	(39.1)	(7.7)	645.4	15.0			
Property Development	38.5	54.8	(29.7)	(13.7)	148.4	(21.6)			
Property Investment	37.3	107.6	(65.3)	(209.3)	213.2	173.8			
Construction	24.1	56.7	(57.5)	67.0	132.6	69.0			
PBT	171.0	280.9	(39.1)	(7.7)	645.4	15.0			
PATMI	133.3	237.9	(44.0)	(10.7)	517.7	17.1			
Core PATMI	147.0	136.7	7.5	(1.5)	430.2	(2.8)			
<b>Margins (%)</b>									
Pretax construction margin	12.2	23.2			16.3				
Pretax property margin	14.2	16.9			19.1				

Source: Sunway, UOB Kay Hian

### WHAT'S NEW

- **Sunway Bhd's results were in line**, with core net profit coming in at RM147m (+7.5% qoq, -1.5% yoy), on revenues of RM951m (-8.7% qoq, -16.1% yoy) for 3Q15. The difference in core and net profit for 3Q15 takes into account one-off items including: a) listing expenses incurred for the listing of Sunway Construction (RM14.9m), gains on derivatives (RM4.9m), fair value of ESOS (-RM3.9m) and an asset disposal gain (RM0.2m). 9M15 earnings of Rm430m (-2.8%) came in within expectations, representing about 74.8% of our full-year estimates of RM575m and 77.8% of consensus full-year estimates of RM552m. Net profit was down yoy largely due to the slowdown in the property segment of the group.
- **Property development division was seeing slowdown effects.** On a qoq basis, revenue was down 16.4% as contributions from the local developments slowed down, which consequently led to the 29.7% qoq drop. But on a yoy comparison, although revenue was up, EBIT was down largely due to the higher common infrastructure works that the group incurred for its Sunway Iskandar development. Margins were lower this quarter due to the higher costs incurred for the infant stage developments.
- **Construction earnings are slowing down as projects are at their tail end.** Revenue for the division dropped to RM196.8m (-19% qoq, -60% yoy) due to the fact that projects are at the tail end of completion, particularly the LRT and MRT jobs. EBIT saw a large qoq drop due to the reversal of over-elimination of the group's performance in the previous quarter post the completion of the construction division's listing. Margins wise, the construction division margins have normalised to 12.2%, which is in line with our expectations.

### COMMENTS

- **Property sales of RM256m in 3Q15 lifted 9M15 property sales to RM734m**, 9M15 property sales represent only 73% of its revised full-year target of RM1b. The launches planned for the year amount to RM1.2b, with a large proportion coming from its Mount Sophia project (RM600m) in Singapore, RM430m worth of landed shops in Sunway Iskandar and office suites in Sunway Velocity (RM130m).
- **Construction orderbook remained healthy at RM4.3b**, comprising mainly rail infrastructure jobs (RM439m), Putrajaya building job (RM1.6b) and KLCC-related jobs (RM490m). Ytd, the construction division has secured about RM2.6b worth of new contracts, which are mainly building and precast manufacturing jobs. Looking ahead, we expect the construction division to further top up its orderbook as mega contracts are awarded next year.

### RECOMMENDATION

- **Maintain BUY but lower our SOTP based target price to RM3.60 (from RM3.79)**, after adjusting the stake for Sunway Construction post listing and special dividend payout. While property demand may be sluggish in the near term, Sunway's REIT and construction divisions would be able to cushion the negative earnings impact. Our target price implies a 2016F PE of 10.7x.

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian (Malaysia) Holdings Sdn. Bhd. ("UOBKHM") which is a licensed corporation providing investment advisory services in Malaysia.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKHM. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKHM may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKHM and its associated persons (as defined in the Capital Market Services Act 2007) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKHM to be reliable. However, UOBKHM makes no representation as to the accuracy or completeness of such sources or the Information and UOBKHM accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKHM and its associate may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKHM and its connected persons are subject to change without notice. UOBKHM reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKHM, its associated persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKHM, its associated persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKHM may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKHM may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report is prepared by UOBKHM, a company authorized, as noted above, to engage in investment advisory in Malaysia. UOBKHM is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKHM (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKHM by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKHM.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

## Analyst Certification/Regulation AC

Each research analyst of UOBKHM who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKHM or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKHM's total revenues, a portion of which are generated from UOBKHM's business of investment advisory.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Securities, which is regulated by Financial Services Authority of Indonesia. Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ("U.S.")	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2015, UOB Kay Hian (Malaysia) Holdings Sdn. Bhd. All rights reserved.

<http://www.utrade.com.my>