

### Outperformance to continue

Defensive exposure to Malaysia property; special dividend to be announced soon

#### Maintain Buy; our defensive pick among Malaysia developers

We reiterate our Buy rating for Sunway with a marginally revised TP of MYR4.00 (a 16% upside potential), implying 14x FY16F P/E (EPS: 29sen) and 1.2x P/B (BVPS: MYR3.4). Sunway has outperformed the KLCI by 11% and the KL Property Index by 16% over the past six months, and we expect this resilience to continue, supported by: **1)** the upcoming listing of its subsidiary Sunway Construction on 28 July, followed by a 25-28 sen/share special dividend to be paid to Sunway's shareholders, implying FY15F yield of 10%; **2)** more order inflows expected for the construction division from Malaysian infra projects like the MRT 2, LRT 3 and Penang; and **3)** steady earnings from property investment (through Sunway REIT and non-REIT assets) to help offset the industrywide slowdown in property sales in Malaysia, making it a defensive pick among Malaysia developers.

#### Building in SunCon listing, lower property sales

We raise our FY15F/16F earnings by 1%/5% to account for the better PBT margins in the property development business, offset by a lower stake in SunCon after the listing and our lower property target for FY15F, where we (MYR1.4bn pre-sales) are lower than management guidance (MYR1.7bn pre-sales) in view of the macro weakness. Additionally, we raise our SOTP discount for the property segment to 50% (from 40% earlier) to account for a more prolonged slowdown in Iskandar Malaysia, where 55% of the remaining GDV is based.

However, we remain confident about the group's longer-term prospects for its Iskandar landbank due to the low land cost (~MYR17psf) and a product focused on landed housing (plot ratio = 1, 40% green space commitment) along with education hub, theme park and malls, which should see a better take-up rate compared to the high-rise supply glut in the Iskandar region.

Year-end 31 Dec	FY14		FY15F		FY16F		FY17F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New	
Revenue (mn)	4,558	5,498	4,909	4,769	4,975		5,065	
Reported net profit (mn)	734	542	567	533	558		626	
Normalised net profit (mn)	584	542	547	533	558		626	
Normalised EPS	33.85c	31.46c	31.62c	27.56c	28.77c		29.15c	
Norm. EPS growth (%)	10.3	10.8	-6.6	-12.4	-9.0		1.3	
Norm. P/E (x)	10.2	N/A	10.9	N/A	12.0	N/A	11.8	
EV/EBITDA (x)	8.8	N/A	10.6	N/A	9.1	N/A	9.0	
Price/book (x)	1.0	N/A	1.0	N/A	1.0	N/A	1.0	
Dividend yield (%)	3.2	N/A	10.2	N/A	2.7	N/A	2.7	
ROE (%)	13.0	9.3	9.6	7.9	8.5		8.3	
Net debt/equity (%)	30.4	44.5	48.2	26.1	26.4		27.0	

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart

### Global Markets Research

10 July 2015

Rating	<b>Buy</b>
Remains	
Target price	MYR 4.00
Reduced from 4.20	
Closing price	MYR 3.45
9 July 2015	
Potential upside	+15.9%

#### Anchor themes

With a young demographic, ongoing investment in public transport, and proximity to Singapore, we are structurally bullish on Malaysian property. However, for the next 6-12 months, we recommend selective exposure to large-cap stocks given the slowdown expected in property sales.

#### Nomura vs consensus

Our TP is in line with consensus and our FY15F earnings are 5% lower than consensus.

#### Research analysts

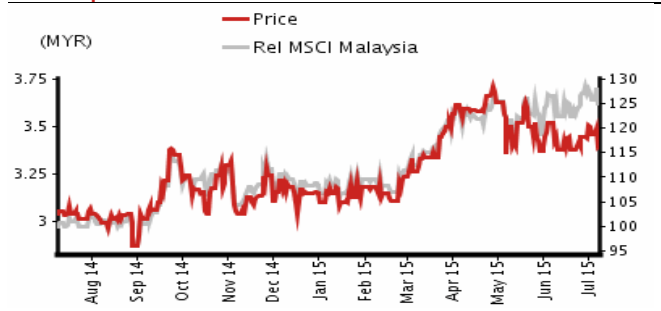
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# Key data on Sunway Bhd

## Relative performance chart



Source: Thomson Reuters, Nomura research

### Notes:

We are building in a 25 sen special dividend in FY15F following the listing of Sunway Construction

### Performance

(%)	1M	3M	12M		
Absolute (MYR)	0.0	-4.1	13.4	M cap (USDmn)	1,601.2
Absolute (USD)	-1.4	-8.5	-5.5	Free float (%)	29.7
Rel to MSCI Malaysia	2.7	4.5	25.2	3-mth ADT (USDmn)	2.2

### Income statement (MYRmn)

Year-end 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Investment properties					
Property development					
Hotels/serviced apartments					
Other Revenue	4,515	4,558	4,909	4,975	5,065
Revenue	4,515	4,558	4,909	4,975	5,065
EBIT contributions					
Investment properties					
Property development					
Hotels/serviced apartments					
Other income	452	649	614	643	650
Management expenses					
EBITDA	590	767	717	752	764
Dep and amort	-137	-118	-104	-109	-114
EBIT	452	649	614	643	650
Net interest expense	-46	-30	-44	-75	-47
Associates & JCEs	256	171	165	195	220
Other income					
Earnings before tax	662	791	734	763	823
Income tax	-128	-142	-113	-113	-120
Net profit after tax	535	649	621	650	703
Minority interests	-51	-65	-74	-92	-77
Other items					
Preferred dividends					
Normalised NPAT	484	584	547	558	626
Extraordinary items	1,006	150	20	0	0
Reported NPAT	1,490	734	567	558	626
Dividends	-172	-190	-610	-201	-204
Transfer to reserves	1,318	544	-44	357	423

### Valuations and ratios

Reported P/E (x)	3.7	8.1	10.5	12.0	11.8
Normalised P/E (x)	11.2	10.2	10.9	12.0	11.8
FD normalised P/E (x)	11.3	10.7	11.8	12.0	11.8
Dividend yield (%)	2.9	3.2	10.2	2.7	2.7
Price/cashflow (x)	5.0	8.8	12.6	12.2	12.3
Price/book (x)	1.1	1.0	1.0	1.0	1.0
EV/EBITDA (x)	9.1	8.8	10.6	9.1	9.0
EV/EBIT (x)	10.8	10.1	12.1	10.2	10.1
EBIT margin (%)	10.0	14.2	12.5	12.9	12.8
Effective tax rate (%)	19.3	17.9	15.4	14.8	14.5
Dividend payout (%)	11.6	25.9	107.7	36.0	32.5
ROA (pretax %)	6.8	8.0	6.8	6.7	6.6

Source: Company data, Nomura estimates

### Cashflow statement (MYRmn)

Year-end 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
EBITDA	590	767	717	752	764
Change in working capital	167	-613	-210	-212	-215
Other operating cashflow	337	554	8	7	54
Cashflow from operations	1,093	708	515	546	603
Capital expenditure	-214	-470	-124	-129	-135
Free cashflow	880	238	391	417	468
Reduction in investments	-455	-255	-653	-203	-203
Net acquisitions					
Dec in other LT assets	-25	-70	0	0	0
Inc in other LT liabilities	78	16	0	0	0
Adjustments	-199	-71	-145	-195	-220
CF after investing acts	279	-142	-407	19	45
Cash dividends	-344	-213	-623	-192	-202
Equity issue	733	-11	0	1,071	0
Debt issue	-222	867	500	0	0
Convertible debt issue					
Others	-124	-42	0	0	0
CF from financial acts	42	601	-123	879	-202
Net cashflow	321	459	-530	899	-157
Beginning cash	1,197	1,519	1,978	1,448	2,347
Ending cash	1,519	1,978	1,448	2,347	2,190
Ending net debt	1,262	1,802	2,832	1,933	2,090

### Balance sheet (MYRmn)

As at 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Cash & equivalents	1,519	1,978	1,448	2,347	2,190
Properties held for sale	9	98	98	98	98
Accounts receivable	1,234	1,368	1,459	1,476	1,500
Other current assets	2,087	2,538	2,819	3,045	3,278
Total current assets	4,848	5,982	5,825	6,967	7,066
Investment properties	1,833	2,370	3,023	3,226	3,429
Other fixed assets (net)	1,731	1,529	1,549	1,570	1,591
Associates	2,305	2,521	2,686	2,881	3,101
Other LT assets	384	454	454	454	454
Total assets	11,102	12,857	13,538	15,098	15,641
Short-term debt	1,990	2,130	2,130	2,130	2,130
Accounts payable	1,971	2,115	2,278	2,308	2,350
Other current liabilities	113	31	31	31	31
Total current liabilities	4,074	4,276	4,439	4,469	4,511
Long-term debt	790	1,650	2,150	2,150	2,150
Convertible debt					
Other LT liabilities	592	608	608	608	608
Total liabilities	5,456	6,533	7,196	7,227	7,268
Minority interest	317	387	461	554	631
Preferred stock					
Shareholders' Equity	4,404	4,395	4,395	5,466	5,466
Other equity and reserves	925	1,541	1,485	1,851	2,276
Total shareholders' equity	5,328	5,936	5,880	7,318	7,742
Total equity & liabilities	11,102	12,857	13,538	15,098	15,641

### Leverage

Interest cover	9.81	21.35	13.91	8.55	13.96
Gross debt/prop assets (%)	25.0	29.4	31.6	28.3	27.4
Net debt/EBITDA (x)	2.1	2.3	3.9	2.6	2.7
Net debt/equity (%)	23.7	30.4	48.2	26.4	27.0

### Growth (%)

Revenue	17.3	0.9	7.7	1.3	1.8
EBITDA	13.5	30.2	-6.5	4.8	1.6
EBIT	18.6	43.5	-5.5	4.8	1.0
Normalised EPS	26.8	10.3	-6.6	-9.0	1.3
Normalised FDEPS	25.9	6.3	-10.0	-1.3	1.3

### Dupont decomposition

Net margin (%)	33.0	16.1	11.5	11.2	12.4
Asset utilisation (x)	0.4	0.4	0.4	0.3	0.3
ROA (%)	12.7	6.1	4.3	3.9	4.1
Leverage (Assets/Equity x)	2.7	2.1	2.2	2.2	2.0
ROE (%)	34.89	13.03	9.60	8.46	8.32

### Per share

Reported EPS (MYR)	94.51c	42.55c	32.76c	28.77c	29.15c
Norm EPS (MYR)	30.69c	33.85c	31.62c	28.77c	29.15c
FD norm EPS (MYR)	30.47c	32.39c	29.14c	28.77c	29.15c
BVPS (MYR)	3.09	3.43	3.40	3.41	3.60
DPS (MYR)	0.10	0.11	0.35	0.09	0.09

Source: Company data, Nomura estimates

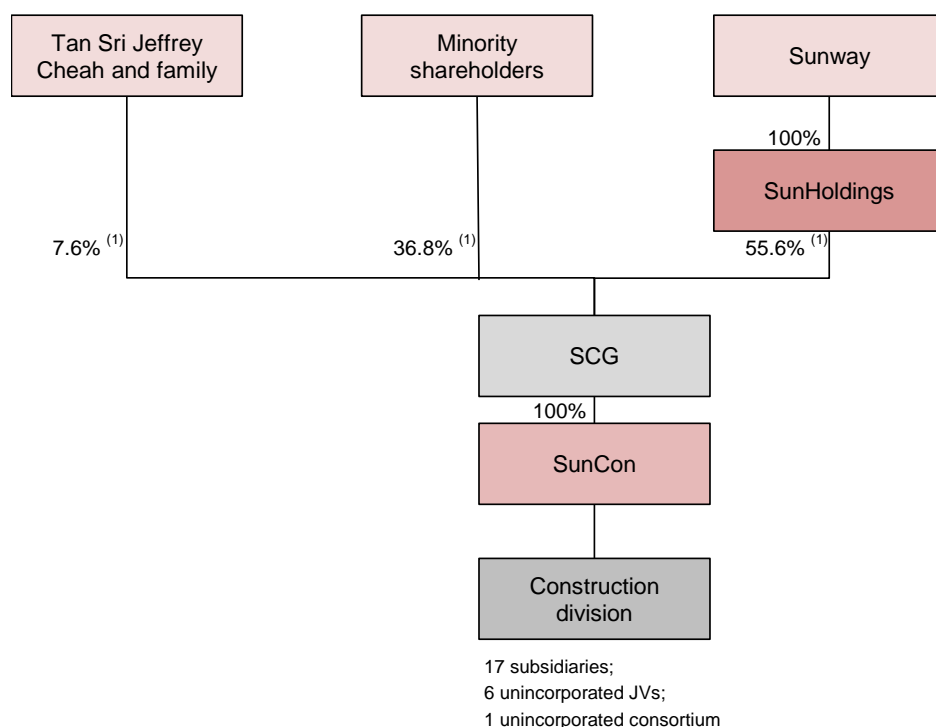
# Business updates

## Sunway Construction to list on 28 July; special dividend next

On 19 September 2014, Sunway announced that it intends to list its construction division (SunCon) on Bursa Malaysia to unlock the segment's value. As per management, the process is on track and the construction division will be listed on 28 July. Key points:

- Sunway has offered 30.8% of SunCon's share capital to the public including institutional, Bumiputera and retail investors (see Fig. 2).
- As per management, bookbuilding was completed on 7 July and shares offered to institutional investors were fully covered and management has fixed the offer price at MYR1.20 per share. The offer price for retail investors is also set at MYR1.20/share, implying 13x P/E and a market cap of MYR1.55bn, making it the largest pure-play construction stock in Bursa Malaysia.
- There is also an over-allotment option for institutional investors of an additional 4.6% of the total share capital, which if exercised by the company, will increase the offered share base to 35.5% (see Fig. 2).
- **The shares of Sunway Construction will be Shariah-compliant and after the listing, the cash raised will be channelled to the parent Sunway Berhad, and later paid out as special dividend of 25-28sen per share, based on our estimates. This implies a yield of 10% for FY15F.**

Fig. 1: Sunway's corporate structure after SunCon's listing



(1) Based on company's register of substantial shareholders' shareholdings and assuming the over-allotment option is not exercised

Source: Company data, Nomura research

**Fig. 2: Proceeds to be raised from the listing**

	Assuming the over-allotment option not exercised			Assuming the over-allotment option is exercised		
	No. of shares (mn)	%	Proceeds (MYR mn)	No. of shares	%	Proceeds (MYR mn)
Total shareholdings	1,293	100		1,293	100	
Institutional	192	14.8	230	252	19.5	302
MITI	136	10.5	163	136	10.5	163
Retail	71	5.5	85	71	5.5	85
Total offered shares	399	30.8	478	459	35.5	550

Source: Company data, Nomura research

## Property development – sales slowing due to macro

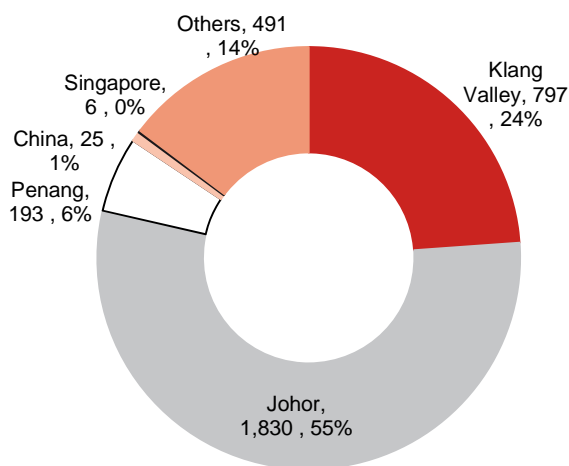
For FY15F, management is targeting MYR1.5bn in effective launches (no launches YTD 2015) and a slight moderation in sales to MYR1.2bn (ex-minorities). However, we think this target might be a bit optimistic, especially in light of the industrywide slowdown seen in FY15. We think that the wait-and-watch policy adopted by buyers might persist for long and accordingly we forecast lower sales of MYR1.1bn (ex-minorities) for FY15F (vs our earlier assumption of MYR1.3bn). 1Q15 sales were slow (down 47% q-q), but we expect sales to pick up as 1Q is a seasonally weak quarter for Sunway in terms of property sales (see Fig. 9).

Another issue which might delay launches is the new Strata Management Act for strata developments in Malaysia, which offers better protection for buyers of strata properties and promotes better maintenance. As per the act, strata titles need to be issued to buyers by the time the property is completed, or else a developer cannot deliver vacant possession. Due to the lengthy process of obtaining titles, management is making preparations to ensure compliance.

PBT margins have been improving for the business and stood at 24% (+5pp y-y) in FY14. In line with this, we raise our property development PBT margins estimate to 23% (vs. 19% earlier) for FY15F, 22% (vs. 18% earlier) for FY16F and 24% for FY17F.

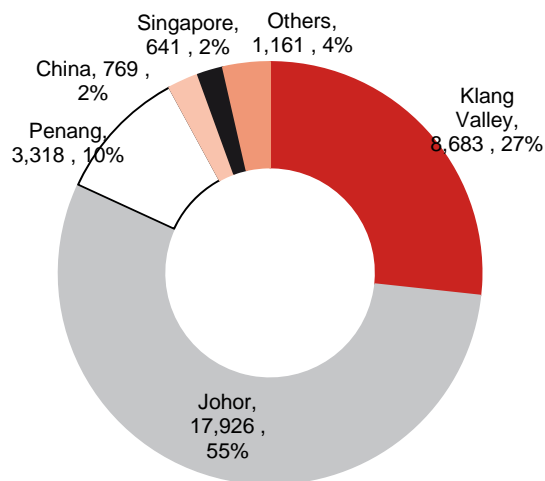
Sunway's property development business accounted for 46% of FY14 earnings (PBT) and has current outstanding GDV of MYR50bn (ex-minority stakes: MYR32bn), which is sufficient for more than 15 years, as per management. Its GDV is diversified across Malaysia, with 55% in Johor and another ~25% in Klang valley. It also has a small presence in Penang, and niche developments in China and Singapore, which are promoted as eco-friendly and medical developments, respectively, and have seen steady sales momentum.

**Fig. 3: Landbank (acres) distribution by geography as of July 2015**



Source: Company data, Nomura research

**Fig. 4: Effective GDV (MYR mn) distribution by geography as of July 2015**



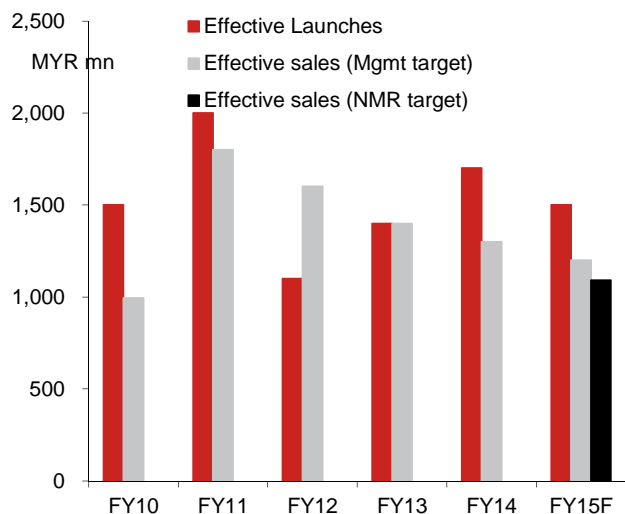
Source: Company data, Nomura research

**Fig. 5: Sunway: Remaining landbank as in July 2015**

Remaning landbank as at July'15	
Total landbank	3,343 acres
Total GDV	MYR 50.4bn
Effective GDV	MYR 32.5bn
Development Period	up to 15 years

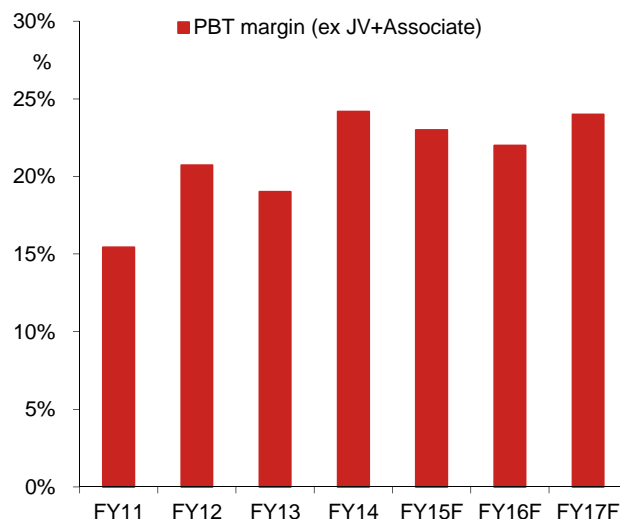
Source: Company data, Nomura research

**Fig. 6: Effective launches and sales**



Source: Company data, Nomura estimates

**Fig. 7: PBT margins (ex JV + Associate)**



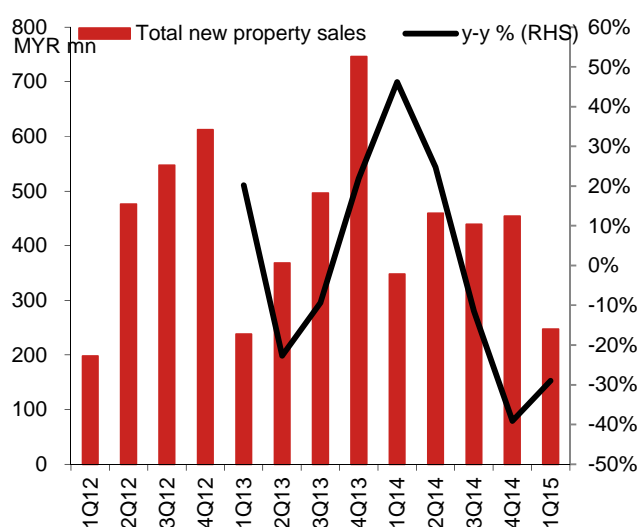
Source: Company data, Nomura estimates

**Fig. 8: Company's launch targets and our sales target for FY15F (ex-minorities)**

MYR mn	FY15F launches (Company's target)	FY15F sales (NMR targets)
Serene Villas, Sunway City Ipoh	33	23
Sunway Wellesley Condo & Townhouses	100	70
Sunway Damansara Retail	150	105
Sunway Velocity Shops & Offices	128	89
Sunway South Quay Condominium	180	126
Sunway Iskandar Landed	168	118
Mount Sophia, Singapore	600	420
Others	200	140
<b>Total</b>	<b>1,558</b>	<b>1,091</b>

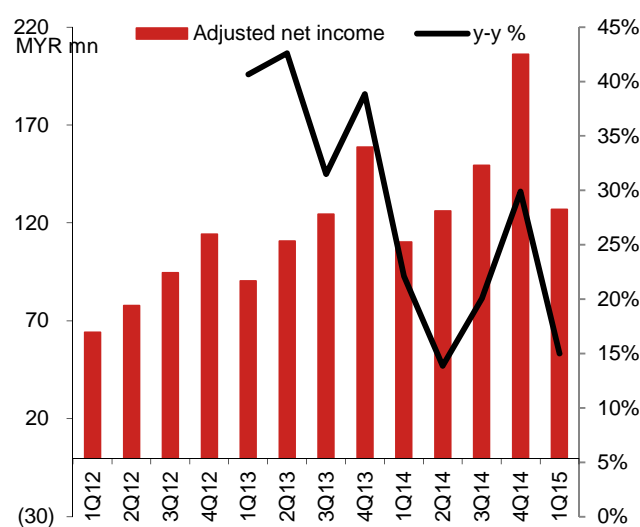
Source: Company data, Nomura estimates

**Fig. 9: Total new property sales – 1Q seasonally weak**



Source: Company data, Nomura research

**Fig. 10: Adjusted net income - 1Q seasonally weak**

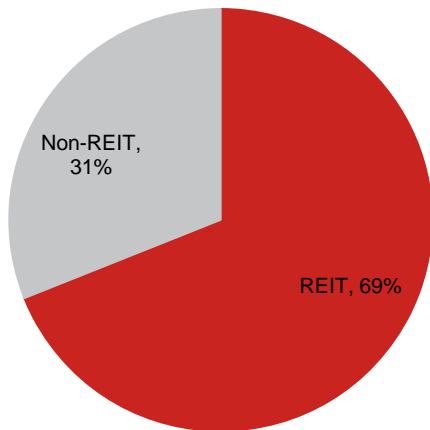


Source: Company data, Nomura research

### Property investment – Steady going, but GST impact yet to be seen

We expect the property investment division to contribute 18% to the group's PBT in FY15F. Sunway, in late 2014, announced to sell two of its properties (Wisma Sunway and Sunway George Town Hotel) to its REIT for MYR134mn (MYR23mn net gain to Sunway group) and completed the disposal in March this year. The guaranteed rent from Sunway George Town hotel stands at MYR4.4mn each for the first two years and MYR3.3mn per year after the initial two years until expiry.

**Fig. 11: FY15F PBT from property investment – 69% from REIT**



Source: Company data, Nomura estimates

**Fig. 12: REIT and Non-REIT assets**

REIT assets	Non-REIT assets
<b>Retail</b>	Monash University
Sunway Pyramid Shopping Mall	Sunway University
Sunway Carnival Shopping Mall	Monash U Residence
SunCity Ipoh Hypermarket	Sunway Pinnacle
Sunway Putra Mall	Sunway Giza Mall
<b>Office</b>	Sunway Hotel Georgetown
Menara Sunway	Lost World Hotel
Sunway Tower	Banjaran Hotsprings Retreat
Sunway Putra Tower	Sunway Hotel Phnom Penh
Wisma Sunway	Sunway Hotel Hanoi
<b>Hotel</b>	Sunway Lagoon
Sunway Resort Hotel & Spa	Lost World of Water Park
Pyramid Tower Hotel	
Sunway Hotel Seberang Jaya	
Sunway Putra Hotel	
Sunway George Town Hotel	
<b>Other</b>	
Sunway Medical Centre	

Source: Company data, Nomura research

### Construction – Orderbook momentum to accelerate

Sunway’s construction division has an outstanding orderbook of MYR 2.8bn (external MYR 1.7bn) as at end-Mar-15, but its replenishment has been slow. In 2014, the group only managed to secure ~MYR170mn of external projects (internal new projects = MYR 940mn, but they are eliminated on consolidation at the group level), and YTD 2015, it has won only one external project worth MYR 244mn. We build in MYR1.5bn worth project wins in our estimates for 2015F-17F and expect Sunway to meet its 2015 target in 2H15 with several infrastructure projects in the pipeline like MRT2 and LRT3.

Going forward, SunCon targets MYR1.5-2bn of new project awards annually, of which MYR500-800mn will be underwritten by the parent Sunway Bhd.

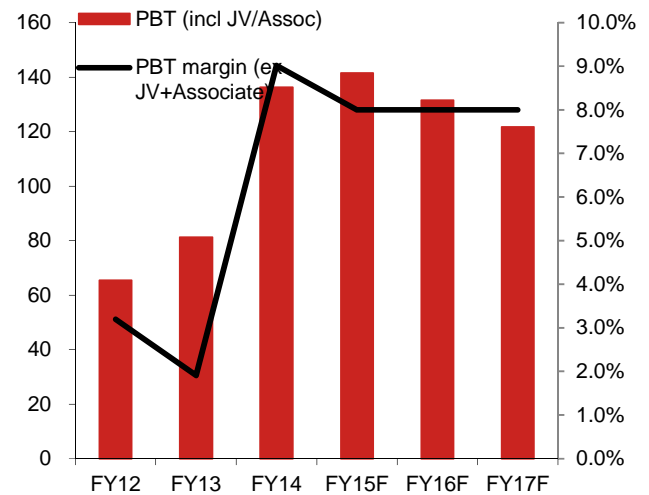
We raise our construction PBT margins estimate by 1pp to 8% for FY15-17F and build in the group’s lower stake (of 55%) in the construction arm after its listing on Bursa by end-July.

Fig. 13: Construction order book as in March 2015

MYR mn	Contract Sum	Outstanding order book
<b>Infrastructure</b>		
MRT Package V4 (Sec 17 to Semantan)	1,173	502
LRT Kelana Jaya Line Extension (Package B)	569	129
BRT Sunway Line	453	62
<b>Johor</b>		
Urban Wellness Centre	283	113
Coastal Highway Southern Link	170	162
<b>Others</b>		
KLCC NEC	304	215
KLCC Package 2 (Piling & Substructure)	222	113
Others	71	61
<b>Internal</b>		
Sunway Velocity 2 Mall	350	223
Sunway University New Academic Block	201	8
Sunway Pyramid 3	193	106
Sunway Geo Retail Shops & Flexi Suites	153	129
Sunway Medical Centre Phase 3	167	157
Sunway Iskandar - Citrine Service Apartments	180	171
Others	626	247
<b>Singapore</b>		
Precast	598	359
<b>Total</b>	<b>5,714</b>	<b>2,760</b>
<b>Orderbook replenishment (NMR's target)</b>		
FY15F		1,500
FY16F		1,500
FY17F		1,500

Source: Company data, Nomura research

Fig. 14: Construction PBT and margins



Source: Company data, Nomura estimates

## Trading & manufacturing, and quarry also stable

Due to higher demand from the construction and property divisions for hardware, we raise our earnings estimates for the manufacturing and quarry businesses. Also, Sunway acquired two hardware distributors in Malaysia and Singapore in April 2015, which guarantees a PAT of ~MYR16mn per year for the next three years, as per management (see our note, [First Look - Sunway Bhd \(SWB MK, Buy\) - Three small acquisitions](#)).



## Raising net income estimates marginally by 1%/5% for FY15-16F

We incorporate the above-mentioned changes into our estimates for each division and raise our PBT forecasts by 1%/11% for FY15F/16F. However, our net income estimates are only up by 1%/ 5% for FY15F/16F as we reduce the group's stake in the construction division (after its listing), which increases the minority income and reduces the income for equity holders.

Fig. 15: Changes in our estimates

MYR mn	Old estimates		New estimates		% change	
	FY15F	FY16F	FY15F	FY16F	FY15F	FY16F
Property pre-sales (total)	1,700	2,500	1,365	1,835	(20%)	(27%)
Construction order-book replenishment	1,500	1,500	1,500	1,500	0%	0%
<b>Revenue</b>	<b>5,498</b>	<b>4,769</b>	<b>4,909</b>	<b>4,975</b>	<b>(11%)</b>	<b>4%</b>
Property development	1,144	1,199	1,094	1,109	(4%)	(8%)
Property investment	658	694	636	669	(3%)	(4%)
Construction	2,370	1,462	1,768	1,644	(25%)	12%
Trading and manufacturing	647	679	703	774	9%	14%
Quarry	218	229	260	286	19%	25%
Investment holdings	0	0	3	3	NA	NA
Others	460	506	446	490	(3%)	(3%)
<b>Adj EBITDA</b>	<b>678</b>	<b>642</b>	<b>717</b>	<b>752</b>	<b>6%</b>	<b>17%</b>
<b>Adj PBT</b>	<b>727</b>	<b>689</b>	<b>734</b>	<b>763</b>	<b>1%</b>	<b>11%</b>
Property development	300	299	327	333	9%	11%
Property investment	151	169	132	151	(13%)	(11%)
Construction	166	102	141	131	(15%)	29%
Trading and manufacturing	39	41	41	45	4%	9%
Quarry	31	32	42	46	36%	43%
Investment holdings	0	0	0	0	NA	NA
Others	41	45	52	57	26%	26%
<b>Normalised Net income</b>	<b>542</b>	<b>533</b>	<b>547</b>	<b>558</b>	<b>1%</b>	<b>5%</b>

Source: Nomura estimates

## Lowering TP to MYR4.00; valuing at a 50% discount to property RNAV

### SOTP-derived target price at a 50% discount to RNAV

We continue to value the group based on SOTP-derived RNAV, but raise the discount to property RNAV from 40% to 50%, in line with the sector average and to account for a more prolonged slowdown in Iskandar Malaysia, where 55% of the remaining GDV is based. We roll forward our valuation to 2016F.

- We value the property development business using DCF of future profits from all the projects and unbilled sales. We use a discount rate (cost of equity) of 10.1% for Malaysia, 11.1% for Singapore, 16.4% for China, 12.9% for India and 12.1% for Australia projects (all unchanged). To that we add the book value of property development to derive the NAV from the property development business.
- We now value the construction business at 13x FY16F P/E (earlier 15x FY15F P/E) to reflect the target valuation for the SunCon listing.

- The REIT arm of property investment is valued based on Nomura Singapore Property analyst Min Chow Sai's TP of MYR1.61 for Sunway REIT (SREIT MK, Neutral) (earlier on market value), while the non-REIT assets are valued at carrying value (unchanged).
- We value other businesses at 10x FY16F P/E (historical average) (unchanged).

We sum the values from all businesses to derive the group's RNAV and add cash from warrants and ESOS to reach a fully-diluted RNAV of MYR12.4bn.

To that we ascribe a 50% discount to the property development and non-REIT investment RNAV (equal to the sector average), which we think is fair given the high exposure to the Iskandar region and the conglomerate structure. We also believe that as the group monetises its non-REIT property investments by injecting them into Sunway REIT, the valuation discount to RNAV should narrow with time. Using fully-diluted shares of 2bn and applying a discount of 50%, we derive our new target price of MYR4.00.

Our new target price is MYR4.00. It values the company at 14x FY16F P/E (EPS: 29sen) and 1.2x P/B (BVPS: MYR3.4) vs. the property sector average of 9x and 0.8x, respectively. Sunway itself has traded on long-term P/E and P/B averages of 10x and 1x, respectively, which we expect will expand in the future, in line with bigger property developers.

Fig. 16: Property development RNAV calculations

Developments	% Stake	Total remaining GDV (MYR mn)	Remaining Landbank (acre)	NAV Surplus (NPV of future profits)
<b>Selangor/KL</b>				
Sunway Damansara	60%	1,691	15.4	86
Sunway South Quay	60%	3,087	40.2	151
Sunway Monterez	60%	38	4.4	2
Sunway Semenyih	70%	729	398.1	21
Sunway Cheras	100%	17	6.0	1
Sunway Duta	60%	120	3.2	7
Sunway Montana	100%	56	2.0	5
Sunway Resort City	100%	660	14.9	56
Casa Kiara III	80%	210	2.9	16
Sunway Velocity	85%	2,108	13.4	167
Sunway Tower KL 1	100%	240	1.0	22
Bangi	100%	59	3.0	6
Melawati	100%	43	2.0	4
Sg Long	80%	277	111.0	9
Mont Putra, Rawang	100%	156	163.0	8
Kelana Jaya	100%	1,800	17.0	86
<b>Perak</b>				
Sunway City Ipoh	65%	1,048	440.5	58
<b>Penang</b>				
Sunway Hills	100%	849	80.7	42
Sunway Cassia, Batu Maung	100%	74	6.6	8
Sunway Wellesley, Bukit Mertajam	100%	725	52.8	67
Paya Terubong	100%	1,500	24.5	122
Sunway Tunas, Balik Pulau	100%	60	9.0	6
Sunway Betong, Balik Pulau	100%	110	19.9	11
<b>S'pore</b>				
Mount Sophia	30%	2,137	5.9	60
<b>Johor</b>				
Bukit Lenang	80%	698	64.8	50
Medini	56%	11,727	686.5	436
Pendas	60%	18,000	1,079.1	528
<b>China</b>				
Sunway Guanghao	65%	67	3.7	4
Tianjin Eco City	60%	1,210	21.3	47
<b>India</b>				
Sunway OPUS Grand India	50%	702	23.8	28
Sunway MAK Signature Residence (JV M.A.K Builders)	60%	181	14.0	5
<b>Australia</b>				
Wonderland Business Park (Sydney)	45%	44	13.0	2
<b>Unbilled sales</b>		2,529		202
<b>Subtotal - Property Development NAV surplus</b>		<b>52,953</b>	<b>3,343</b>	<b>2,321</b>
<b>Add, property development book value</b>				<b>3,572</b>
<b>PROPERTY DEVELOPMENT - TOTAL NAV</b>				<b>5,893</b>

Source: Company data, Nomura estimates

Fig. 17: Sunway: SOTP-based Valuation

	Valuation methodology	FY16F Net income (MYR mn)	Multiple (x)	NAV (MYR mn)	Per share value (RM)
<b>Property Development</b>				<b>5,893</b>	<b>1.38</b>
<b>Construction (adjusted for 55% stake post IPO)</b>	Construction sector P/E	58	13	<b>754</b>	<b>0.35</b>
<b>Trading, Quarry and other ancillary businesses</b>	Historical avg P/E	118	10	<b>1,176</b>	<b>0.55</b>
<b>Property investment - REIT (35.7% stake in SREIT MK)</b>	Based on NMR TP of MYR1.61		35.7%	<b>1,683</b>	<b>0.79</b>
<b>Property investment - non REIT assets</b>					
Monash University				310	
Sunway University (incl new block under construction)				407	
Monash U Residence				260	
Sunway Pinnacle				340	
Sunway Giza Mall				60	
Lost World Hotel				25	
Banjaran Hotsprings Retreat				65	
Sunway Hotel Phnom Penh				20	
Sunway Hotel Hanoi				10	
Sunway Lagoon				240	
Lost World Water Park				38	
<b>Subtotal - Property investment - non-REIT assets</b>				<b>1,775</b>	<b>0.42</b>
<b>TOTAL RNAV</b>				<b>11,281</b>	
Add, cash from warrants				716	<b>0.34</b>
Add, cash from ESOS				355	<b>0.17</b>
<b>FULLY DILUTED RNAV</b>				<b>12,353</b>	
Discount to Property development + non REIT investment RNAV				50.0%	
<b>DISCOUNTED FULLY DILUTED RNAV</b>				<b>8,519</b>	
Number of shares o/s				1,731	
Add, dilution from warrants				286	
Add, dilution from ESOS				129	
<b>FD number of shares</b>				<b>2,146</b>	
<b>Price target</b>				<b>4.00</b>	

Source: Company data, Bloomberg, Nomura estimates

Fig. 18: Sunway: 1-year forward P/B (consensus)

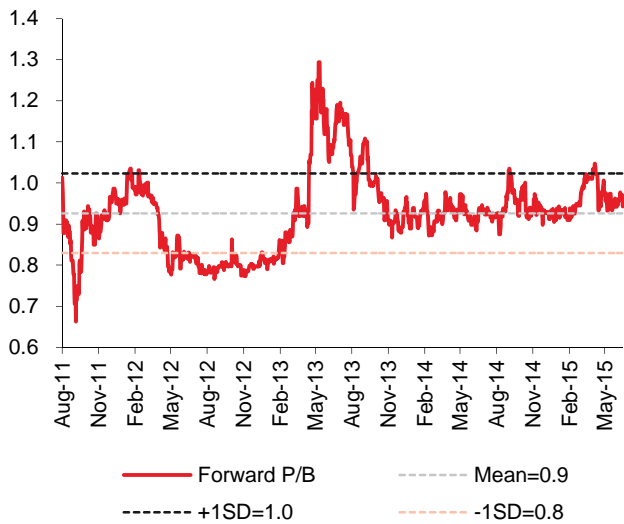
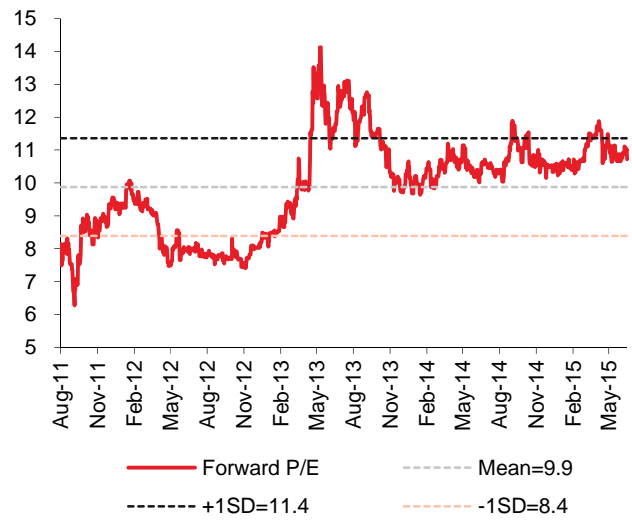


Fig. 19: Sunway: 1-year forward P/E (consensus)



Source: Bloomberg, Nomura research

Source: Bloomberg, Nomura research

Fig. 20: Comparative valuation

		Nomura Rating	Last Close 9/Jul	Mcap (US\$m)	ADTV USD mn	P/E		P/B		Discount to RNAV		ROE CY16F	Div Yld CY16F
						CY15F	CY16F	CY15F	CY16F	Market	Target		
<b>MALAYSIA DEVELOPERS</b>													
SP Setia Bhd	SPSB MK	NR	3.03	2,078	0.8	11.9	10.2	1.2	1.1	-40%	-28%	11.3	5.0
IOI Properties Group Bhd	IOIPG MK	NR	1.8	1,793	1.3	11.3	9.2	0.5	0.5	-59%	-45%	5.8	4.8
<b>Sunway Bhd</b>	<b>SWB MK</b>	<b>Buy</b>	<b>3.45</b>	<b>1,608</b>	<b>2.0</b>	<b>10.9</b>	<b>12.0</b>	<b>1.0</b>	<b>1.0</b>	<b>-50%</b>	<b>-50%</b>	<b>8.5</b>	<b>2.7</b>
UEM Sunrise Bhd	UEMS MK	Neutral	0.975	1,169	1.8	10.3	8.8	0.7	0.6	-71%	-40%	7.3	3.8
<b>Mah Sing Group Bhd</b>	<b>MSGB MK</b>	<b>Buy</b>	<b>1.5</b>	<b>955</b>	<b>0.6</b>	<b>8.7</b>	<b>8.2</b>	<b>1.0</b>	<b>0.9</b>	<b>-43%</b>	<b>-25%</b>	<b>13.3</b>	<b>4.9</b>
Eco World Development Grd	ECW MK	NR	1.46	912	1.0	40.7	18.5	1.0	1.0	-45%	-28%	5.8	0.2
Malaysian Resources Corp B	MRC MK	NR	1.14	538	0.5	21.9	15.6	1.2	1.2	-50%	-21%	6.1	2.2
Eastern & Oriental Bhd	EAST MK	NR	1.65	532	0.6	13.5	12.3	1.2	1.1	-69%	-57%	9.0	2.4
KSL Holdings Bhd	KSL MK	NR	1.65	418	0.6	5.9	5.3	0.9	0.8			15.0	7.9
Tropicana Corp Bhd	TRCB MK	NR	1	381	0.2	8.4	9.1	0.5	0.5	-71%	-57%	5.3	3.1
Glomac Bhd	GLMC MK	NR	0.79	152	0.1	6.2	5.6	0.6	0.5			9.6	6.1
Crescendo Corporation Bhd	CCDO MK	NR	2.28	137	0.0	10.0	13.2	0.7	0.7			5.2	3.5
Hua Yang Bhd	HYB MK	NR	1.86	130	0.1	4.3	4.1	0.9	0.8			23.0	7.7
<b>Median</b>						<b>10.3</b>	<b>9.2</b>	<b>0.9</b>	<b>0.8</b>	<b>-50%</b>	<b>-40%</b>	<b>8.5</b>	<b>3.8</b>

Source: Nomura estimates for rated stocks, Bloomberg consensus for others. Prices as on 9 July 2015

## Catalysts

Steady property sales momentum and earnings delivery; adequate response to its Iskandar project and construction orderbook replenishment should drive the stock price. Sunway Putra Mall reaching good occupancy post refurbishment and injecting assets to its REIT are likely to provide other catalysts for the stock. An improvement in Malaysian property markets and no further cooling measures will be positive. Further construction contract awards in the next few months will also be taken positively by the market.

## Downside risks

1) *Project delays*. Any project delays or disappointing take-up rates could dent our earnings forecasts. Project delays could arise from longer-than-expected approval/completion on land acquisition and building designs. 2) *Missing sales targets*. A failure of the company to meet its sales targets or pass on cost increases to customers could pose downside risks to our earnings and price targets. 3) *Further weakening of Iskandar sentiment* will pose downside risk to earnings. 4) *The failure to meet construction orderbook targets* or list division. 5) *The failure of Sunway Putra Mall to get tenancy targets*. 6) *General economic conditions and cooling measures*. The company's operational as well as stock performance is closely tied to general domestic economic conditions and consumer sentiment. Any contractions in GDP growth or unexpected government policy measures to curb sentiment in the property sector are downside risks to our call.

# Appendix A-1

## Analyst Certification

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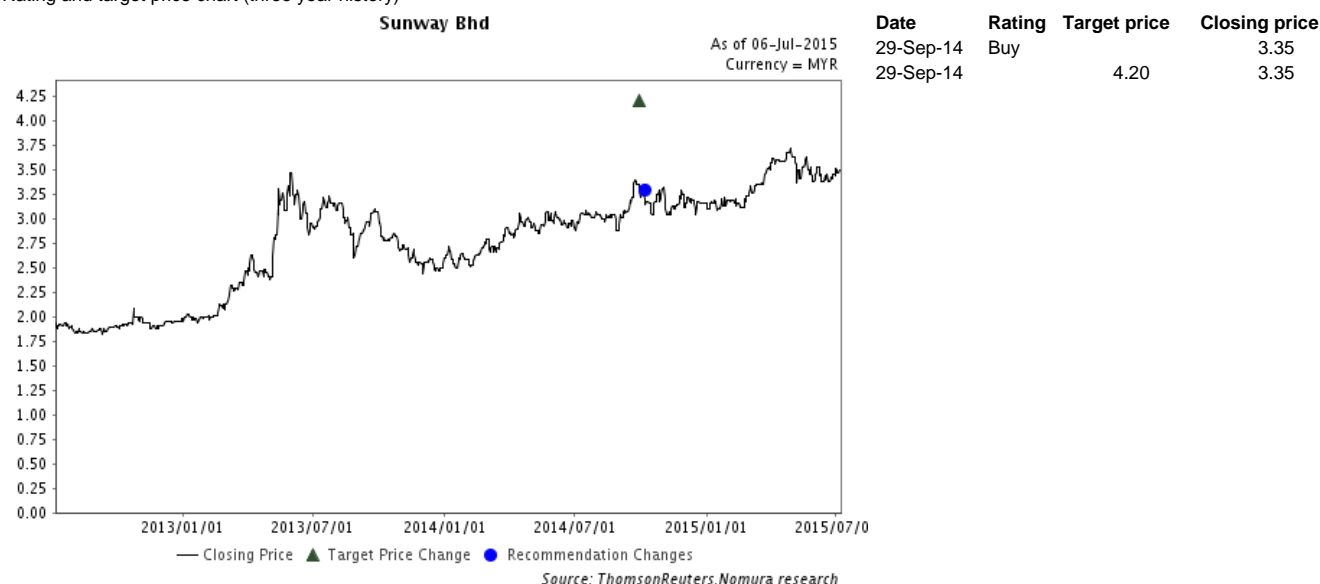
### Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Bhd	SWB MK	MYR 3.45	09-Jul-2015	Buy	N/A	

### Sunway Bhd (SWB MK)

MYR 3.45 (09-Jul-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We value the group based on SOTP-derived RNAV. We value the property development business using the DCF of future profits from all the projects and unbilled sales. We use a discount rate (cost of equity) of 10.1% for Malaysia, 11.1% for Singapore, 16.4% for China, 12.9% for India and 12.1% for Australia projects. To that we add the book value of property development to get the NAV from the property development business. We value the construction business at 13x FY16F P/E to reflect Sunway construction listing multiple. The REIT arm of property investment is valued at Nomura's TP of MYR1.61 while the non-REIT assets are valued at carrying value. We value other businesses at 10x FY16F P/E (historical average). We sum the values from all businesses to get the group's RNAV and add cash from warrants and ESOS to get fully-diluted RNAV of MYR12.4bn. To that we ascribe a 50% discount to the property development and non-REIT investment RNAV. Using fully diluted shares of 2bn and applying a discount of 50%, we derive our TP of MYR4.00. Our TP values the company at 14x FY16F P/E and 1.2x P/B. The benchmark index for the stock is MSCI Malaysia.

**Risks that may impede the achievement of the target price** Downside risks: 1) any project delays or disappointing take-up rates could dent our earnings forecasts; 2) a failure of the company to meet its sales targets or pass on cost increases to customers; 3) further weakening of Iskandar sentiment; 4) the failure to meet construction orderbook targets or list the division; 5) failure of Sunway Putra Mall to get tenancy targets; and 6) any contractions in GDP growth or unexpected government policy measures to curb the sentiment in the property sector are downside risks to our call.

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