

Company Focus

Sunway

Bloomberg: SWB MK | Reuters: SWAY.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

27 May 2015

HOLD RM3.52 KLCI : 1,764.07

Price Target : 12-Month RM 3.80

Shariah Compliant : Yes

Reason for Report : 1Q15 results

Potential Catalyst: Strong property sales and huge construction order win

Where we differ: Among the first to downgrade to Hold after recent share price rally

Analyst

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Result Summary

FY Dec (RM m)	1Q 2015	1Q 2014	4Q 2014	yoy % chg	qoq % chg
P&L Items					
Turnover	1,060.0	1,025.7	1,477.5	3.3	(28.3)
Gross Profit	120.1	93.2	161.7	28.9	(25.7)
Opg Profit	150.3	115.9	263.5	29.7	(43.0)
EBITDA	217.6	156.3	341.5	39.2	(36.3)
Net Profit	146.5	104.0	313.0	40.9	(53.2)
Other Data					
Gross Margin (%)	11.3	9.1	10.9		
Opg Margin (%)	14.2	11.3	17.8		
Net Margin (%)	13.8	10.1	21.2		

Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Turnover	4,842	5,361	5,943	5,236
Operating Profit	615	675	706	685
EBITDA	962	949	1,000	969
Net Pft (Pre Ex.)	592	569	597	552
EPS (sen)	43.1	33.0	34.6	32.0
EPS Pre Ex. (sen)	34.3	33.0	34.6	32.0
EPS Gth (%)	(50)	(23)	5	(7)
EPS Gth Pre Ex (%)	22	(4)	5	(7)
Net DPS (sen)	11.0	9.9	10.4	9.6
BV Per Share (sen)	344.9	368.0	392.3	414.7
PE (X)	8.2	10.7	10.2	11.0
PE Pre Ex. (X)	10.3	10.7	10.2	11.0
EV/EBITDA (X)	8.6	8.5	8.1	8.4
Net Div Yield (%)	3.1	2.8	3.0	2.7
P/Book Value (X)	1.0	1.0	0.9	0.8
Net Debt/Equity (X)	0.3	0.2	0.2	0.2
ROAE (%)	13.2	9.3	9.1	7.9

At A Glance

Issued Capital (m shrs)	1,748
Mkt. Cap (RMm/US\$m)	6,152 / 1,702
Avg. Daily Vol.('000)	2,112

ICB Industry : Real Estate

ICB Sector: Real Estate Investment & Services

Principal Business: Sunway Bhd is involved in property development and construction. The other business segments include quarrying, trading and manufacturing of building materials, hospitality, leisure, and healthcare.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Steady quarter

- **1Q15 results within expectations**
- **Strong earnings visibility supported by unbilled sales and construction order book**
- **Weaker property sentiment may affect property sales**
- **Maintain HOLD and RM3.80 TP**

Highlights

In line

- Sunway reported 1Q15 core earnings of RM130m (-37% q-o-q, +18% y-o-y) after stripping out RM16m net gains on exceptional items which were largely due to gains on disposal of Sunway Hotel Georgetown and Wisma Sunway. 1Q15 earnings contributed 23% of our full-year profit.
- 1Q15 core EBIT margin was steady at 14.2%, compared to 17.8% in 4Q14 and 11.3% in 1Q14.
- Construction emerged as its largest EBIT contributor at RM53m (-12% q-o-q, +71% y-o-y), accounting for 36% of 1Q15 EBIT. Meanwhile, Property EBIT dipped 59% q-o-q and 23% y-o-y to RM40m (27% of Group EBIT) due to slower progress billings and completion of Sunway Nexis in Sunway Damansara in 4Q14.

Outlook

Strong earnings visibility

- Sunway's construction order book remains strong at RM2.8bn (1.3x of FY15F construction revenue), while unbilled sales at its property segment stand at RM2.5bn (1.7x of FY15 property revenue).

Bumper dividend from Sunway Construction IPO

- Sunway Construction Group Berhad (SunCon) is on track for listing by Jul15. The estimated special cash dividend of ~RM395m (23sen/share) will be distributed within six months of listing, which translates into 6.7% yield for Sunway's existing shareholders. This excludes the dividend-in-specie of SunCon shares (1-for-10 at 11sen/share) which went ex on 6 May 2015.

Challenging outlook for high-end properties

- Sunway has a RM2bn launch pipeline for FY15, of which 30% is from Sophia Hills in Singapore. Given weaker sentiment in Malaysia and Singapore, especially for high-end condos, it may be challenging for the Group to hit its RM1.7bn sales target as it only secured RM247m property sales in 1Q15 (RM500m in 4Q14, RM348m in 1Q14).

Sunway

Valuation

Our TP of RM3.80 is based on 10% discount to our SOP valuation of RM4.20.

Risks

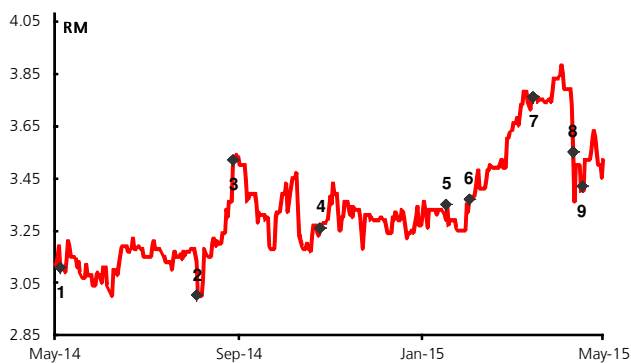
Delay in contract awards

- Construction job wins had been slow in FY14 and Sunway could be affected by slowing tenders for new contracts.

Slowdown in property

- Given several tightening policies for Malaysia's property sector, demand for property (residential and commercial) could weaken in the near future.

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	30 May 14	3.11	3.50	Buy
2:	29 Aug 14	3.00	3.90	Buy
3:	22 Sep 14	3.52	3.90	Buy
4:	19 Nov 14	3.26	3.90	Buy
5:	11 Feb 15	3.35	3.80	Buy
6:	26 Feb 15	3.37	3.80	Buy
7:	10 Apr 15	3.76	3.80	Buy
8:	06 May 15	3.55	3.80	Buy
9:	12 May 15	3.42	3.80	Hold

Source: AllianceDBS

DISCLOSURE**Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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