

1Q15 within estimates; property sales slow

Quick Note

1Q15 earnings within estimates, albeit seasonally weaker

- Sunway's headline net income of MYR147mn for 1Q15 forms 27%/ 26% of our and consensus estimates for the full year, respectively. This however includes a one-off gain of MYR23mn from the disposal of Sunway Hotel Georgetown and Wisma Sunway to REIT (excluding this, earnings are 23% of full year – in line given the seasonally weak 1Q).
- During the quarter, the positives such as: 1) better pace of earnings recognition in construction, as well as 2) higher sales from trading and manufacturing division prior to implementation of GST were partially offset by lower earnings from property development (due to lower billings).
- Effective new property sales in 1Q15 stood at MYR186mn (-47% q-q) and formed 16% of management's full year estimate of MYR1.2bn. Unbilled sales stands at MYR2.5bn (ex-minorities = MYR 1.8bn).
- Sunway has not won any material external construction jobs in 1Q15. We build-in MYR1.5bn worth of external project wins in our estimates for 2015F and expect Sunway to meet the target in the remaining 9M of 2015F, with several infrastructure projects in the pipeline like MRT2, and LRT3.

Defensive Buy in Malaysia property

We maintain our Buy rating on Sunway, which currently trades at 12x 2015F P/E (EPS: 28 sen) – which is our defensive pick among Malaysia property developers, due to its stable REIT and construction divisions. We believe the stock can continue to re-rate in the run-up to the proposed listing of SunCon (estimated by July-2015 as per management), after which its shareholders stand to gain a special dividend of ~30sen/share, as per our calculations.

Likely stock reaction

Neutral

Key numbers

Construction: Construction revenues were up 5% y-y and PBT was up 67% y-y in 1Q15 due to stronger progress billings from the local infrastructure projects and precast concrete product projects in Singapore.

Property Development: revenues were down 19% y-y with a similar fall in segment PBT. This was due to slower progress billings from Malaysia property development projects and lower profits from projects in Singapore.

Property investment: PBT was down 20% y-y in 1Q15 due to lower earnings from leisure and hospitality divisions which recorded fewer visitors and hotel occupancy rate. This excludes the one-off gain of MYR23mn from the disposal of Sunway Hotel Georgetown and Wisma Sunway to REIT.

Trading & Manufacturing: Both revenues and PBT were up in double digits y-y due to higher demand prior to the implementation of GST from 2Q15.

Global Markets Research

27 May 2015

Rating Remains	Buy
Target price Remains	MYR 4.20
Closing price 26 May 2015	MYR 3.52

Research analysts

Malaysia Property

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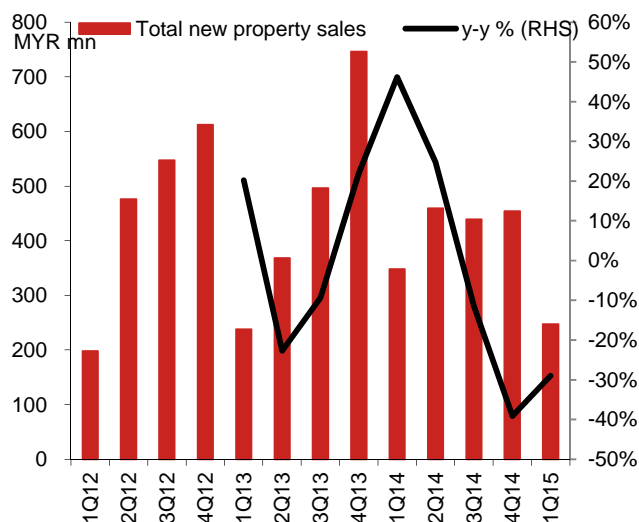
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Fig. 1: Sunway: 1Q15 results review

MYR mn	1Q15	1Q14	% chg y-y	4Q14	% chg q-q	FY15F	as % of FY15F
Quarterly Property sales							
Total	247	348	(29%)	454	(46%)	1,700	15%
Effective	186	242	(23%)	348	(47%)	1,200	16%
CORE REVENUES	1,060	1,026	3%	1,478	(28%)	5,498	19%
Property development	181	222	(19%)	496	(64%)	1,144	16%
Property investment	139	136	2%	160	(13%)	658	21%
Construction	375	359	5%	478	(21%)	2,370	16%
Trading and manufacturing	192	149	29%	169	14%	647	30%
Quarry	54	48	11%	74	(28%)	218	25%
Investment holdings	1	0	NM	3	(73%)	0	NM
Others	118	111	6%	96	23%	460	26%
CORE OPERATING PROFIT (EBIT)	170	116	47%	244	(30%)	576	29%
Share of results of associates + JVs	38	40	(6%)	45	(15%)	176	22%
CORE PBT	174	148	17%	281	(38%)	727	24%
Property development	57	69	(17%)	118	(52%)	300	19%
Property investment	20	25	(20%)	51	(61%)	151	13%
Construction	52	31	67%	61	(15%)	166	31%
Trading and manufacturing	13	8	53%	8	55%	39	33%
Quarry	8	5	65%	17	(54%)	31	25%
Investment holdings	3	5	(40%)	11	(71%)	0	NM
Others	21	5	320%	15	41%	41	51%
Taxation	(36)	(30)	19%	(44)	(18%)	(145)	25%
CORE PAT	138	118	17%	237	(42%)	583	24%
Less, core minorities	(11)	(8)	40%	(31)	(65%)	(40)	27%
CORE NPATAMI	127	110	15%	206	(38%)	542	23%
One off gains / (losses)	20	(6)	(429%)	107	(82%)	0	NM
HEADLINE NPATAMI	147	104	41%	313	(53%)	542	27%
PBT margins	16%	14%	2 ppt	19%	-3 ppt	13%	
Property development	31%	31%	0 ppt	24%	8 ppt	26%	
Property investment	14%	18%	-4 ppt	32%	-17 ppt	23%	
Construction	14%	9%	5 ppt	13%	1 ppt	7%	
Trading and manufacturing	7%	6%	1 ppt	5%	2 ppt	6%	
Quarry	14%	10%	5 ppt	23%	-8 ppt	14%	
Investment holdings	NM	NM	NM	NM	NM	NM	
Others	18%	4%	13 ppt	15%	2 ppt	9%	

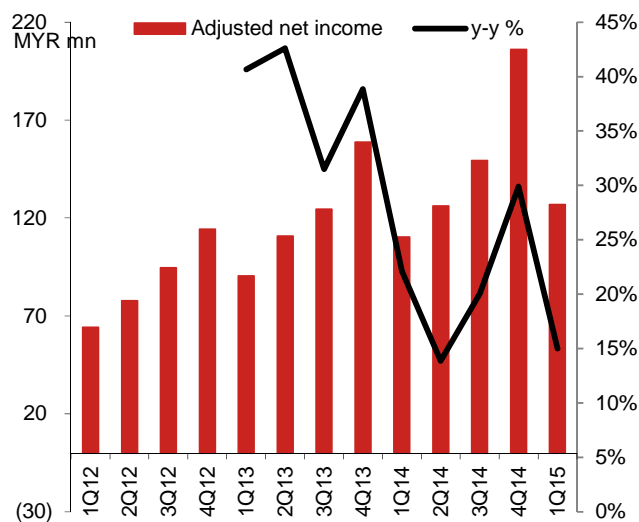
Source: Company data, Nomura estimates

Fig. 2: Total new property sales – 1Q seasonally weak



Source: Company data, Nomura research

Fig. 3: Adjusted net income - 1Q seasonally weak



Source: Company data, Nomura research

Fig. 4: Sunway: Property launches 2014 and upcoming launches in 2015

Property Launches 2014					
Project	Type	Stake	Total GDV (MYR mn)	Take up / Bookings	
Sunway Wellesley	Townhouses & Semi-D	100%	120	59% (+8% bookings)	
Sunway Eastwood	Superlink	100%	85	61% (+12% bookings)	
V-Residences 2	Service Apartments	85%	271	82% (+5% bookings)	
Sunway Geo Residences 2	Service Apartments	60%	210	65% (+6% bookings)	
Citrine, Sunway Iskandar	Offices	51%	73	66% (+34% bookings)	
Signature Retail & Offices, Sunway Velocity	Retail Shops & Offices	85%	200	78% (+19% bookings)	
V-Residences Suites	Service Apartments	85%	280	43% (+5% bookings)	
Sunway Gardens	Condominium	60%	90	21% (+9% bookings)	
Avant Parc, Singapore	Terrace Homes	100%	100	15%	
Citrine	Service Apartments	51%	220	33% (+6% bookings)	
Total Launches @31 Dec 2014			1,649		
Upcoming Launches in 2015					
Serene Villas, Sunway City Ipoh			50		
Sunway Wellesley Condo & Townhouses			100		
Sunway Damansara Retail			250		
Sunway Velocity Shops & Offices			150		
Sunway South Quay Condominium			300		
Sunway Iskandar Landed			300		
Sophia Hills, Singapore			600		
Others			200		
Total upcoming launches			1,950		
2015 Effective launches target			1,500		
2015 Sales Target (Total)			1,700		
2015 Sales Target (Effective)			1,200		

Source: Company data

Appendix A-1

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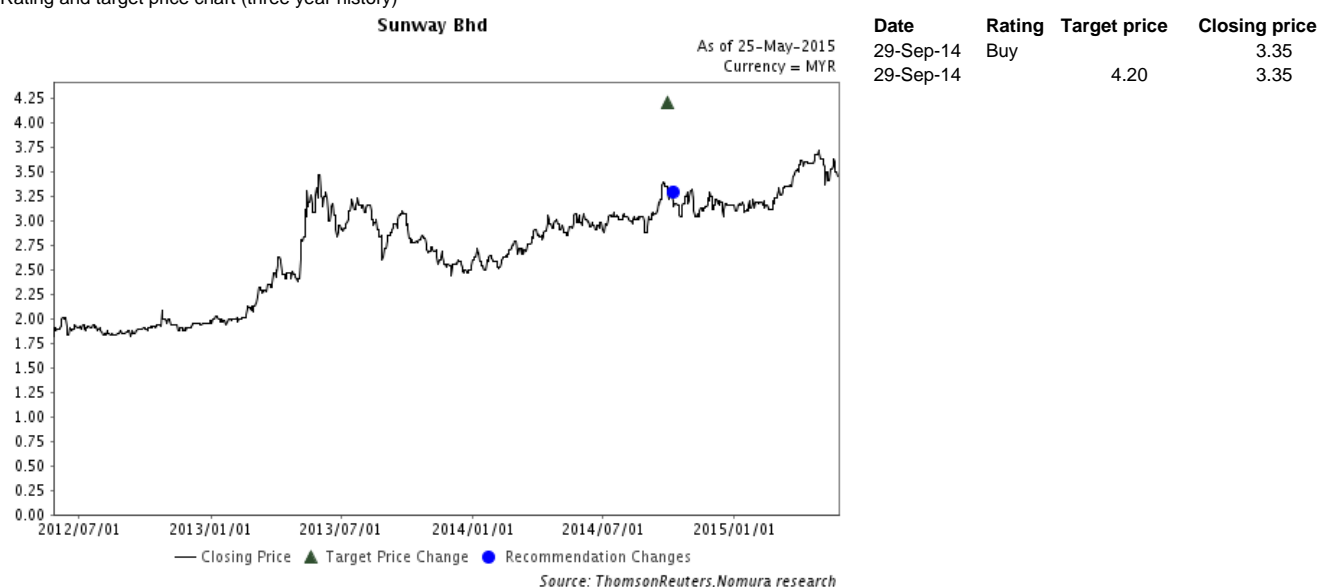
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Bhd	SWB MK	MYR 3.52	26-May-2015	Buy	N/A	

Sunway Bhd (SWB MK)

MYR 3.52 (26-May-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 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 property development business. We value construction business at 15x FY15F P/E which is Malaysia's construction sector average multiple. The REIT arm of property investment is valued at market value while the non-REIT assets are valued at carrying value. We value other businesses at 10x FY15F P/E (historical average). We sum the values from all business to get the group's RNAV and add cash from warrants and ESOS to get fully diluted RNAV of MYR11.6bn. To that we ascribe a 40% discount to the property development and non-REIT investment RNAV. Using fully diluted shares of 2bn and applying a discount of 40%, we derive our TP of MYR4.20. Our TP values the company at 13x FY15F 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) failure to meet construction orderbook targets or list 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 sentiment in the property sector are downside risks to our call.

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