

COMPANY RESULTS

Sunway (SWB MK)

1Q15: No Surprises

Sunway's 1Q15 core net profit came in at RM146.5m, or 24% of our full-year forecast. Outstanding construction orderbook stands at RM2.8b while the property division will ensure steady earnings delivery with unbilled sales of RM2.5b. Key catalysts in the near term include the listing of its construction division, which will see shareholders rewarded with a cash dividend and dividend in specie. Maintain BUY. Target price: RM3.79.

1Q15 RESULTS

Year to 31 Dec (RMm)	1Q15	4Q14	qoq % chg	yoy % chg
Revenue	1,060.0	1,477.5	(28.3)	3.3
Construction	375.3	478.0	(21.5)	4.6
Property Development	180.7	496.4	(63.6)	(18.7)
Property Investment	139.3	160.4	(13.2)	2.3
EBIT	204.9	373.2	(45.1)	86.9
Pre-tax Profit	193.5	968.8	(80.0)	36.1
Property Development	55.2	171.3	(67.8)	(19.9)
Property Investment	68.3	249.3	(72.6)	178.0
Construction	51.8	59.0	(12.2)	66.2
PBT	193.5	968.8	(80.0)	36.1
Core Net Profit	146.5	206.1	(28.9)	60.2
Pre-tax construction margin	13.8%	12.3%		
Pretax prop margin	30.5%	34.5%		

Source: Sunway, UOB Kay Hian

RESULTS

- Results within expectations.** Sunway reported 1Q15 revenue of RM1,060m (-28.3% qoq, +3.3% yoy) and net profit of RM146.5m (-28.9% qoq, +60.2% yoy). 1Q15 net profit accounts for 24% of our and 25.6% of consensus estimates respectively. Earnings growth was driven by the construction and property investment divisions, while growth at the property division was slow due to the slower progress billings from its local projects.
- Profits boosted by the construction division.** For the quarter, the construction division recorded revenue of RM375.3m (+4.6% yoy) and EBIT of RM51.8m (+66.2% yoy) with a healthy operating margin of 14.1%. Revenue and EBIT improved qoq due to higher progress billings for its local building jobs as well as higher sales at its precast concrete division.

KEY FINANCIALS

Year to 31 Dec (RMm)	2013	2014	2015F	2016F	2017F
Net turnover	4,734	4,842	6,409	6,395	6,639
EBITDA	608	596	778	794	880
Operating profit	471	509	680	684	758
Net profit (rep./act.)	1,501	789	600	610	623
Net profit (adj.)	483	637	600	610	623
EPS (sen)	31.7	31.1	29.3	29.7	30.4
PE (x)	11.1	11.3	12.0	11.8	11.6
P/B (x)	1.0	1.1	1.0	0.9	0.8
EV/EBITDA (x)	15.0	15.3	11.7	11.5	10.4
Dividend yield (%)	2.8	2.8	2.8	2.8	2.8
Net margin (%)	31.7	16.3	9.4	9.5	9.4
Net debt/(cash) to equity (%)	32.0	39.1	40.7	36.2	32.2
Interest cover (x)	5.9	19.6	18.6	17.5	20.4
ROE (%)	33.7	14.0	9.6	8.9	8.3
Consensus net profit	-	-	572	583	607
UOBKH/Consensus (x)	-	-	1.05	1.05	1.03

Source: Sunway, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.52
Target Price	RM3.79
Upside	+7.7%

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	SWB MK
Shares issued (m):	1,751.0
Market cap (RMm):	6,163.5
Market cap (US\$m):	1,698.2
3-mth avg daily t'over (US\$m):	2.1

Price Performance (%)

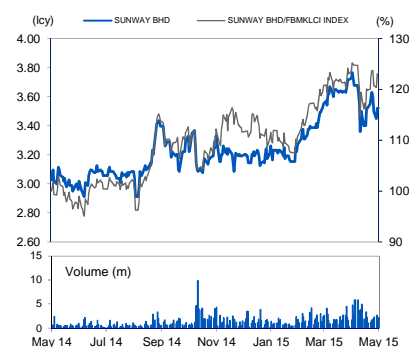
52-week high/low	RM3.77/RM2.91			
1mth	3mth	6mth	1yr	YTD
(5.3)	7.6	8.3	16.2	10.2

Major Shareholders

	%
Tan Sri Jeffrey Cheah	55.4
JP Morgan	5.8
Employees Provident Fund	5.7

FY15 NAV/Share (RM)	3.62
FY15 Net Debt/Share (RM)	1.47

PRICE CHART



Source: Bloomberg

ANALYST

Malaysia Research Team
+603 2147 1988
research@uobkayhian.com

STOCK IMPACT

- **External construction orderbook remained healthy at RM1.7b**, or 1x 2014 construction division revenue, mainly from government infrastructure jobs (LRT and MRT Line jobs) and other private infrastructure jobs. We are expecting the construction business to contribute 8.3-9.0% in EBIT margins from 2015 to 2017.
- **Property sales of RM247m in 1Q15**. Sunway achieved about RM247m worth of property sales in 1Q15, or about 15% of its 2015 sales target of RM1.7b. Among the notable sales were Sunway Velocity (GDV: RM62m), Sunway South Quay (RM49m), Eastwood (RM21m) and Sunway Iskandar (RM16m). We expect sales to improve in the following quarters as Sunway begins to progressively launch about RM2b worth of projects.
- **Strong unbilled sales of RM2.5b**, representing 2.1x 2014 property revenue. We expect property EBIT margin to hover at a healthy 26-28% on higher progress of billings from projects, which include Sunway South Quay (RM674m), Sunway Velocity (RM583m), Sunway Geo Residences (RM323m) and projects in Singapore (RM281m)
- **Listing of the construction division on track**. The listing of Sunway Construction Group (SCG) on Bursa Malaysia is expected to take place in Jul 15. Sunway will hold at least 51% of the newly-listed entity. The floatation of SCG, would allow current shareholders of Sunway to benefit from: a) a 1-for-10 distribution-in-specie of free SCG shares (worth about 9 sen/share), and b) a special cash dividend of 21-24 sen per share.

EARNINGS REVISION/RISK

- We maintain our earnings forecasts.
- Key risks include: a) rising interest rates, b) tighter lending policies by banks, and c) rising cost of raw materials leading to margin erosion.

VALUATION/RECOMMENDATION

- **Maintain BUY and SOTP-based target price of RM3.79**, or 13.6x 2016F PE. Sunway is expected to be one of the key contractors for the MRT Line 2, BRT and LRT Line 3 construction. Also, the stock would be supported by an expected cash dividend of 21-24 sen/share, which implies a yield of 5.5-6.3%.

SHARE PRICE CATALYST

- Finalisation of its construction division listing.
- Construction orderbook replenishment.

SOTP VALUATION

Property development	6,117.0
REIT	1,777.7
Construction	1,584.4
Quarry & building materials	503.0
Trading	649.0
Investment Properties	788.9
Warrants conversion proceeds	723.8
ESOS Proceeds	551.5
Less: Net debt as of 4Q14	(2,325.6)
Total value [a]	10,369.7
Outstanding shares (m)	1,723.0
Warrants (m)	258.5
ESOS (m)	172.4
Enlarged share base (m) [b]	2,153.9
SOTP/share (RM) [a/b]	4.81
Discount (%)	20
(less) Dividend in Specie (RM)	0.09
Target Price (RM)	3.79

Source: UOB Kay Hian

PROPERTY SALES IN 1Q15

	(RMm)
Sunway Velocity	62
Sunway South Quay	49
Eastwood	21
Australia	28
Singapore	11
Others	76

Source: Sunway, UOB Kay Hian

EXTERNAL CONSTRUCTION ORDERBOOK

	(RMm)
MRT Package V4	502
Sunway Velocity 2 Mall	223
KLCC NEC	215
Others	1,810

Source: Sunway, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Net turnover	4,842	6,409	6,395	6,639
EBITDA	596	778	794	880
Deprec. & amort.	87	98	110	122
EBIT	509	680	684	758
Associate contributions	233	251	272	228
Net interest income/(expense)	(30)	(42)	(45)	(43)
Pre-tax profit	863	890	910	943
Tax	(148)	(214)	(218)	(226)
Minorities	(78)	(76)	(82)	(94)
Net profit	789	600	610	623
Net profit (adj.)	637	600	610	623

BALANCE SHEET

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Fixed assets	1,047	1,199	1,339	1,467
Other LT assets	5,691	5,942	6,214	6,442
Cash/ST investment	1,978	1,638	1,711	1,799
Other current assets	4,201	4,606	4,677	4,974
Total assets	12,916	13,384	13,941	14,682
ST debt	2,283	2,283	2,283	2,283
Other current liabilities	2,193	2,136	2,165	2,377
LT debt	2,021	2,021	2,021	2,021
Other LT liabilities	86	86	86	86
Shareholders' equity	5,945	6,545	7,155	7,778
Minority interest	389	313	231	137
Total liabilities & equity	12,916	13,384	13,941	14,682

CASH FLOW

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Operating	769	90	504	519
Pre-tax profit	863	890	910	943
Tax	(167)	(214)	(218)	(226)
Deprec. & amort.	87	98	110	122
Associates	(169)	0	0	0
Working capital changes	(91)	(385)	1	(20)
Other operating cashflows	246	(299)	(299)	(299)
Investing	(844)	(250)	(250)	(250)
Capex (growth)	(205)	(250)	(250)	(250)
Investments	(169)	0	0	0
Proceeds from sale of assets	102	0	0	0
Others	(572)	0	0	0
Financing	595	(181)	(181)	(181)
Dividend payments	(172)	(181)	(181)	(181)
Issue of shares	20	0	0	0
Proceeds from borrowings	873	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(126)	0	0	0
Net cash inflow (outflow)	520	(341)	73	88
Beginning cash & cash equivalent	1,359	1,978	1,638	1,711
Changes due to forex impact	99	0	0	0
Ending cash & cash equivalent	1,978	1,638	1,711	1,799

KEY METRICS

Year to 31 Dec (%)	2014	2015F	2016F	2017F
Profitability				
EBITDA margin	12.3	12.1	12.4	13.3
Pre-tax margin	17.8	13.9	14.2	14.2
Net margin	16.3	9.4	9.5	9.4
ROA	6.6	4.6	4.5	4.4
ROE	14.0	9.6	8.9	8.3
Growth				
Turnover	2.3	32.4	(0.2)	3.8
EBITDA	(2.1)	30.6	2.0	10.9
Pre-tax profit	(54.4)	3.1	2.3	3.6
Net profit	(47.4)	(23.9)	1.6	2.1
Net profit (adj.)	32.0	(5.8)	1.6	2.1
EPS	(1.9)	(5.8)	1.6	2.1
Leverage				
Debt to total capital	40.5	38.6	36.8	35.2
Debt to equity	72.4	65.8	60.1	55.3
Net debt/(cash) to equity	39.1	40.7	36.2	32.2
Interest cover (x)	19.6	18.6	17.5	20.4

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