Higher operating profit

Sunway was above market expectations but in line with ours. Net profit fell 23% yoy to RM400m in 9M16 due to lower fair value gain on property investments. Core net profit fell by a lower 4% yoy, mainly due to lower construction earnings. Although Sunway Construction's (Suncon) result was below our expectation, the better performance of other divisions led us to maintain our forecasts. Maintain BUY with RM3.90 target price, based on 30% discount to RNAV.

In line with our expectation

Sunway's net profit of RM400m (-23% yoy) comprise 78% of full-year forecast of RM515m and 74% of our RM542m estimate. Revenue was up 10% yoy to RM3.36bn in 9M16 with all divisions reporting higher revenue except its quarry operation. The group reported EBIT growth of 38% yoy to RM579m in 9M16, driven mainly by higher property development earnings and profit margin. Lower net one-off gain of RM15m in 9M16 compared to RM103m in 9M15 led to lower net profit yoy.

Lower sales

Effective property sales declined 20% yoy to RM689m in 9M16 compared to RM864m in 9M15. Sales in Malaysia (contributing 71% of total sales) and China (9% of total) declined while it maintained the same level of sales in Singapore (20% of total).Sunway is on track to achieve its revised sales target of RM1.1bn (RM0.9bn effective sales) for 2016. Sunway Mont Kiara, Iskandar and Gandaria are the main projects contributing to sales in 9M16.

More aggressive launches and larger order book

Sunway has planned more aggressive launches worth RM2bn for 2017 compared to RM0.8bn in 2016. Unbilled sales were at RM1.8bn (unbilled effective sales of RM1.3bn). Suncon also secured RM2.6bn new contracts to lift its order book to RM4.8bn. This will support earnings growth in FY17E. We reduce our EPS forecasts for the higher number of shares.

Still a BUY

We like Sunway for its expertise and diversity in property and construction. We reiterate our BUY call with RM3.90 target price, based on 30% discount to RNAV. Risks to recommendation include; i) prolonged downturn in the domestic property market; ii) oversupply within the Johor region persist, iii) execution risks for construction projects.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	4,841.9	4,451.3	4,308.3	4,658.3	4,750.8
EBITDA (RMm)	735.6	929.8	762.6	852.3	892.2
Pretax profit (RMm)	960.2	929.2	726.4	824.4	861.6
Net profit (RMm)	734.0	732.4	541.9	608.2	632.9
EPS (sen)	42.5	42.3	31.3	35.1	36.6
PER (x)	7.1	7.1	9.6	8.6	8.2
Core net profit (RMm)	583.9	606.8	541.9	608.2	632.9
Core EPS (sen)	33.8	35.1	31.3	35.1	36.6
Core EPS growth (%)	5.6	3.7	(10.7)	12.2	4.1
Core PER (x)	8.9	8.6	9.6	8.6	8.2
Net DPS (sen)	11.0	49.0	10.0	11.0	11.0
Dividend Yield (%)	3.7	16.3	3.3	3.7	3.7
EV/EBITDA (x)	9.5	7.8	9.0	7.9	7.2
Chg in EPS (%)			(14.8)	(14.7)	(14.9)
Affin/Consensus (x)			1.1	1.1	1.1

Source: Company, Affin Hwang estimates

Results Note

Sunway

SWB MK
Sector: Property

RM3.00 @ 25 November 2016

BUY (maintain)

Upside 30%

Price Target: RM3.90

Previous Target: RM3.90

Price Performance

	1M	3M	12M
Absolute	-1.0%	-0.3%	-2.0%
Rel to KLCI	+2.1%	+2.9%	+1.5%

Stock Data

Issued shares (m)	2,031.0
Mkt cap (RMm)/(US$m)	6093/1364.9
Avg daily vol - 6mth (m)	1.1
52-wk range (RM)	2.87-3.24
Est free float	28.2%
BV per share (RM)	3.57
P/BV (x)	0.84
Net cash/ (debt) (RMm) (2Q16)	(3,139)
ROE (2016F)	9.0%
Derivatives	
Warr 2016 (SP:RM2.50)	
Shariah Compliant	Yes

Key Shareholders

Sungei Way Corp Sdn Bhd	56.3%
EPF	5.1%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	3Q16	QoQ % chg	YoY % chg	9M16	YoY % chg	Comment
Revenue	1,137.5	(1.6)	19.6	3,362.2	10.1	Higher sales and revenue recognition for all divisions except quarry operations in 9M16. Higher recognition for Avant Parc in Singapore and local projects, lifted revenue.
Op costs	(932.1)	(3.0)	17.7	(2,783.5)	5.7	
EBIT	205.4	5.5	29.1	578.7	38.5	
EBIT margin (%)	*18.1*	*1.2*	*1.3*	*17.2*	*4.6*	Better property development and construction profit margins.
Depn and amort	(39.4)	25.6	54.3	(99.7)	17.4	
EBIT	166.0	1.6	24.3	479.0	43.8	
Int expense	(34.1)	(18.3)	29.7	(115.5)	46.0	
Int and other inc	31.5	20.4	(25.1)	81.3	9.5	
Associates	46.7	(19.4)	48.1	147.2	(33.2)	Lower fair value gain for Sunway REIT.
EI	(1.5)	(17.8)	(84.4)	(3.5)	(103.6)	Gain from sale of 2 properties to Sunway REIT in 9M15.
Pretax profit	**208.5**	**2.3**	**22.0**	**588.4**	**(8.8)**	
Core pretax	**210.1**	**2.2**	**16.2**	**591.9**	**7.9**	
Tax	(37.7)	57.9	18.8	(94.4)	(6.2)	
Tax rate (%)	*18.1*	*6.4*	*(0.5)*	*16.0*	*2.1*	
MI	(27.2)	6.6	>100	(93.9)	248.0	Higher earnings contribution for partially-owned property and construction subsidiaries.
Net profit	**143.6**	**(7.0)**	**7.9**	**400.1**	**(22.7)**	In line with expectation.
EPS (sen)	7.0	(10.2)	(6.9)	20.7	(29.8)	
Core net profit	**145.1**	**(7.1)**	**1.6**	**403.6**	(4.1)	Excluding other one-off items, net profit is up 12% yoy.

Source: Affin Hwang, Company data

Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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