

Sunway (BUY ↔; EPS ↔)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

27 November 2015

Price Target: RM3.63 (↓)

Share price: RM3.06

3QFY15 Result: Inline

Results	<ul style="list-style-type: none"> ▪ Within Expectations: 3QFY15 core PATAMI (after adjusting for EI of -RM13.7m) increased by 8% QoQ, bringing 9M core PATAMI to RM415m which came in within expectations, making up 74% and 75% of ours and consensus' full year forecasts, respectively.
Dividends	<ul style="list-style-type: none"> ▪ None. Total dividend declared year to date amounted to 43 sen/share (including special dividend of 26 sen and dividend in specie of 12 sen).
Highlights	<ul style="list-style-type: none"> ▪ Results inline... 3QFY15 core profit rose 8% QoQ to RM147m mainly due to improved performance from all business segments except property development and trading or manufacturing divisions. ▪ Property... EBIT from property decreased by 6% QoQ and 56% YoY mainly due to completion of Sunway Nexis, Sunway Alam Suria and lower contribution from Singapore projects. ▪ For 9MFY15, effective property sales was RM564m while its effective unbilled sales stood at RM1.7bn (1.4x of Sunway's FY14 property development revenue). Given the headwind in the property sector, Sunway has followed its peers in revising downward its full year effective sales target from RM1.2bn to RM750m and GDV launch from RM2bn to RM1.2bn. ▪ Major launches in FY15 included Mount Sophia in Singapore (GDV:RM600m), Emerald Residence in Sunway Iskandar (GDV:RM430m) and commercial phases in Velocity (GDV:RM130m). Given the weak sentiment, Sunway has delayed the launches of 3 high rise developments: i) Sunway Geo Residence, ii) Sunway Gendaria, and iii) Casa Kiara. ▪ Construction... SunCon was successfully listed on July 15. As at 3QFY15, the outstanding order book stands at RM4.3bn, implying a healthy cover ratio of 2.4x on FY14 revenue. YTD job wins currently stands at RM2.6bn, surpassing management's target of RM2.5bn. Given its strong track record, SunCon should be a main beneficiary of upcoming tenders for LRT, MRT and BRT.
Risks	<ul style="list-style-type: none"> ▪ Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.
Forecasts	<ul style="list-style-type: none"> ▪ Unchanged.
Rating	BUY ↔
Valuation	<ul style="list-style-type: none"> ▪ TP is adjusted slightly from RM3.75 to RM3.63, based on SOP valuation post adjustment on special dividend and higher SOP from Sunway Construction (based on TP RM1.59). Maintain BUY.

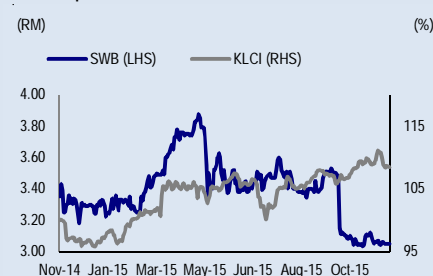
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KLCI	1,683.1
Expected share price return	18.6%
Expected dividend return	3.6%
Expected total return	22.2%

Share price



Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,751.0
Market cap (RM m)	5,474
3-mth avg. volume ('000)	1,395
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	1.0	-2.7	1.8
Relative	2.4	-8.6	11.4

Major shareholders

Sungei Way Corp Sdn Bhd	50.1%
Yean Tih Cheah	13.5%
EPF	5.3%
Skim Amanah Saham Bumiputera	5.0%

Summary Earnings Table

FYE Dec (RM m)	2013A	2014A	2015E	2016E
Revenue	4,734	4,731	4,759	4,676
EBITDA	1,960	723	748	779
EBIT	1,824	624	632	647
Profit Before Tax	1,894	720	742	779
PATAMI	1,500	544	558	562
Core PATAMI	482	544	558	562
Core EPS (sen)	28.0	31.6	32.4	32.6
FD EPS (sen)	24.0	27.0	27.7	24.4
Net DPS (sen)	10.0	11.0	11.0	12.0
Net DY (%)	3.3	3.6	3.6	3.9
P/E (x)	10.9	9.7	9.4	9.4
FD P/E (x)	12.8	11.3	11.0	12.5
P/B (x)	1.0	0.9	0.9	0.8
Net Gearing (%)	28.7	28.5	24.5	21.2
ROE (%)	10.8	9.9	9.5	9.0
ROA (%)	4.9	5.1	5.3	5.2

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3QFY14	2QFY15	3QFY15	Qoq (%)	Yoy (%)	Comments
Revenue	1134.0	1041.5	951.0	(8.7)	(16.1)	Refer to segmental.
Property Development	178.0	324.1	270.9	(16.4)	52.2	Yoy: Higher contribution from Sunway South Quay, Sunway Montana, Sunway Wellesley and Singapore project. Qoq: Due to lower contribution from local projects. Achieved effective new sales of RM211m in 3Q. Effective unbilled sales stood at RM1.7bn (1.4x FY14's revenue).
Property Investment	151.8	144.8	172.2	18.9	13.5	Yoy & qoq: Due to higher occupancy and new rental income from the Sunway University New Academic Block (which opened in June 15)
Construction	488.2	244.1	196.8	(19.4)	(59.7)	Yoy & qoq: Due to high intragroup elimination in the current quarter. Backed by outstanding construction order book of RM4.3bn (2.4x FY14's construction revenue).
Trading/Manufacturing	159.4	122.3	130.5	6.7	(18.1)	Yoy: Affected by post GST slowdown and reduced demand overseas following a drop in oil prices. Qoq: Higher revenue following the post-GST adjustments.
Quarry	56.3	64.1	66.8	4.2	18.7	Yoy & QoQ: Boosted by stronger premiss sales.
EBIT	151.9	139.0	118.7	(14.6)	(21.9)	Refer to segmental.
Property Development	79.1	36.7	34.5	(6.0)	(56.4)	Yoy: Due to completion of Sunway Nexis and Sunway Alam Suria. Qoq: Due to lower contribution from Singapore projects.
Property Investment	31.2	28.5	39.6	39.0	27.2	Yoy & qoq: Inline with revenue grow.
Construction	21.8	56.0	23.4	(58.2)	7.3	Qoq: Due to reversal of over-elimination of intragroup profit in previous quarters.
Trading/Manufacturing	10.8	0.7	5.4	701.2	(50.3)	
Quarry	6.7	15.5	10.6	(31.9)	58.9	Yoy: Reversal of provision made for the Caribbean operation that ceased in 2014.
Net Interest Expense	(5.1)	(9.3)	15.8	(269.9)	(406.8)	
Share of Associates/JCE	38.5	150.7	31.5	(79.1)	(18.1)	Qoq: Lower mainly due to fair value gain of RM110.8m in 2Q15.
PBT	185.2	280.9	171.0	(39.1)	(7.7)	Filtered down from EBIT.
PAT	163.4	247.9	139.5	(43.7)	(14.6)	
PATAMI	143.7	237.9	133.3	(44.0)	(7.2)	
EI	5.6	(101.2)	13.7	(113.5)	144.6	Consist of fair value gain of ESOS of RM3.9m, listing expenses of RM15m and gain of derivative of RM4.9m
Core Earnings	149.3	136.7	147.0	7.5	(1.5)	Filtered down from PATAMI ex. EI.
Core EPS (sen)	8.7	7.8	8.3	6.8	(4.0)	
EBIT Margin (%)	13.4	13.3	12.5	(6.5)	(6.8)	
Property Development	44.5	11.3	12.7	12.5	(71.3)	
Property Investment	20.5	19.7	23.0	16.9	12.1	
Construction	4.5	22.9	11.9	(48.2)	166.1	
Trading/Manufacturing	6.8	0.5	4.1	651.1	(39.2)	
Quarry	11.8	24.2	15.8	(34.6)	33.9	
PBT Margin Ex-Assoc (%)	12.9	12.5	14.7	17.3	13.3	

Sunway, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	9M14	9M15	Yoy (%)	Comments
Revenue	3364.4	3052.6	(9.3)	Made up 64% and 59% of ours and consensus' estimates respectively. Refer to segmental.
Property Development	702.0	775.7	10.5	Higher contribution from local projects.
Property Investment	434.0	456.3	5.1	Due to higher occupancy and new rental income from the Sunway University New Academic Block (which opened in June 15)
Construction	1273.0	816.2	(35.9)	Due to high intragroup elimination.

Trading/Manufacturing	470.5	444.7	(5.5)	Affected by post GST slowdown and reduced demand overseas following a drop in oil prices.
Quarry	162.2	184.6	13.8	Strong local demand underpinned by the buoyant construction sector and public roadworks.
EBIT	395.6	427.6	8.1	Refer to segmental.
Property Development	189.2	111.3	(41.2)	
Property Investment	77.9	112.5	44.5	
Construction	78.5	132.3	68.6	
Trading/Manufacturing	30.9	20.2	(34.7)	
Quarry	20.3	33.7	66.1	
Net Interest Expense	(23.2)	(4.9)	(78.9)	
Share of Associates/JCE	188.5	220.4	16.9	
PBT	561.0	645.4	15.0	
PAT	463.9	544.7	17.4	
PATAMI	430.2	517.8	20.3	
EI	(44.6)	(103.3)	131.6	Consist of fair value gain of RM110.8m, fair value of ESOS of RM16.7m, listing expenses of RM13.1m, gain on disposal of RM23m and gain on derivatives of RM2.3m.
Core Earnings	385.6	414.5	7.5	Made up 74% and 75% of ours and consensus' estimates respectively.
Core EPS (sen)	22.4	23.6	5.7	
EBIT Margin (%)	0.1	0.1	19.1	
Property Development	0.3	0.1	(46.8)	
Property Investment	0.2	0.2	37.4	
Construction	0.1	0.2	162.9	
Trading/Manufacturing	0.1	0.0	(30.9)	
Quarry	0.1	0.2	46.0	
PBT Margin Ex-Assoc (%)	0.1	0.1	25.8	

Sunway, HLIB

Figure #3 Sunway SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	Target price of RM1.59	54%	1,118	0.56	15.3
Property	NPV of profits + Shareholders Fund	100%	5,517	2.74	75.5
Trading/Manufacturing	9X P/E	100%	291	0.14	4.0
Quarry	15X P/E	100%	187	0.09	2.6
Dividend in-specie					
Special cash dividend					
		Sub-Total (RM m)	7,113		
		No. of shares (m)	1,723		
		RM per share	4.13		
		Proceeds from warrants (RM m)	657	0.33	9.0
		Estimated Holding Company Net Debt	(460)	(460)	(0.23)
		SOP (RM m)	7,310		
		Total no. of diluted shares (m)	2,013		
		Target Price (RM)	3.63		

HLIB

Figure #4 HLIB vs Consensus

FYE Dec (RM m)	FY15E			FY16E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,758.7	5,212.0	-9%	4,676.4	5,320.0	-12%
PATAMI	558.4	552.8	1%	561.9	545.7	3%

Bloomberg, HLIB

Figure #5 Peer Comparison

Company	Price	Recomm	TP	Upside	Mkt Cap (m)	Discount to RNAV	P/E (x)		P/B (x)		Dividend Yield		Sales Target	Unbilled Sales Coverage (x)
							CY15	CY16	CY15	CY16	CY15	CY16		
IOI PROPERTIES	2.12	Buy	2.77	31%	7,985.1	(50.2)	15.4	12.4	0.59	0.57	1.9	2.4	1,700.0	1.0
UEM SUNRISE BHD	1.18	Hold	0.94	-20%	5,354.2	(62.5)	21.8	13.0	0.82	0.79	1.4	2.3	2,000.0	2.4
SP SETIA BHD	3.20	Hold	3.47	9%	8,410.7	(35.5)	11.2	11.7	1.29	1.21	3.6	3.4	4,000.0	2.8
MAH SING GROUP	1.44	Hold	1.44	0%	3,469.6	(34.9)	9.4	8.7	1.11	1.03	4.2	4.6	2,300.0	1.8
SUNWAY BHD	3.06	Buy	3.63	19%	5,474.0	0.0	9.4	9.4	0.87	0.82	15.7	3.9	1,000.0	1.4
MATRIX CONCEPTS	2.48	Hold	2.54	2%	1,365.3	(31.7)	6.5	5.7	1.71	1.45	6.1	7.0	700.0	1.1
TAMBUN	1.38	Hold	1.39	1%	585.2	(40.6)	6.0	6.9	1.46	1.41	6.7	5.8	400.0	0.8
YNH PROPERTY BHC	1.89	Sell	1.49	-21%	759.9	(49.3)	28.8	15.8	0.87	0.65	0.7	1.3	-	-
GLOMAC BHD	0.90	Hold	0.89	-1%	652.9	(49.6)	7.9	6.9	0.66	0.63	4.9	5.1	600.0	1.6
ECO WORLD DEVEL	1.40	NR			3,310.0	(39.1)	60.9	23.3	0.93	0.90	-	-	3,000.0	2.9
Average						(39.3)	17.7	11.4	1.03	0.94	4.5	3.6		1.6

Financial Projections for Sunway (BUY; TP: RM3.63)

Income Statement

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	3,876.8	4,733.7	4,730.7	4,758.7	4,676.4
EBITDA	594.5	1,960.5	723.0	748.4	779.1
D&A	(89.9)	(136.9)	(99.3)	(116.3)	(131.9)
EBIT	504.5	1,823.6	623.6	632.0	647.2
Interest Income	27.1	35.6	36.1	26.2	26.7
Finance Costs	(104.6)	(138.1)	(118.3)	(107.1)	(102.3)
Associates/JCE	301.2	172.5	178.7	190.9	207.9
Profit Before Tax	728.2	1,893.6	720.2	742.1	779.5
Tax	(128.5)	(120.9)	(134.9)	(137.2)	(142.7)
Net Profit	599.7	1,772.7	585.3	604.8	636.8
Minority Interests	(67.4)	(273.0)	(40.9)	(46.4)	(74.9)
PATAMI	532.3	1,499.8	544.4	558.4	561.9
Exceptionals	181.8	1,017.8	-	-	-
Core Earnings	350.6	482.0	544.4	558.4	561.9
Basic Shares (m)	1,292.5	1,723.4	1,723.4	1,723.4	1,723.4
Core EPS (sen)	27.1	28.0	31.6	32.4	32.6
FD Core EPS (sen)	22.6	24.0	27.0	27.7	24.4

Quarterly Financial Summary

FYE 31 Dec (RM m)	2013Q4	2013Q1	2014Q2	2014Q3	2014Q4
Revenue	1,025.7	1,204.6	1,134.0	1,477.5	1,060.0
Expenses	(932.6)	(1,086.8)	(1,002.4)	(1,315.9)	(939.9)
Other Income	16.4	16.2	20.4	211.5	49.8
EBIT	109.6	134.0	151.9	373.2	169.9
Derivatives	(0.0)	0.2	(0.1)	(2.8)	(3.2)
Net Interest Expense	(7.8)	(10.2)	(5.1)	(7.2)	(11.4)
Associates & JCE	40.4	109.6	38.5	44.7	38.1
Profit Before Tax	142.2	233.6	185.2	407.8	193.5
Tax	(30.4)	(44.9)	(21.8)	(50.8)	(36.1)
Net Profit	111.8	188.7	163.4	357.0	157.4
Minority Interests	(7.8)	(6.2)	(19.7)	(44.0)	(10.9)
PATAMI	104.0	182.5	143.7	313.0	146.5
Exceptionals	31.3	(981.3)	6.3	(56.6)	5.6
Core Earnings	124.4	157.5	110.3	126.0	149.3
Core EPS (sen)	6.40	7.31	8.66	11.93	7.68
FD Core EPS (sen)	6.27	7.03	8.24	11.32	7.23
W. Ave. Shares (m)	1,723.5	1,723.7	1,724.0	1,727.9	1,733.2

Balance Sheet

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Cash	1,140	1,519	890	858	921
Trade Receivables	1,404	1,405	1,166	1,173	1,153
Inventories	626	623	713	717	705
Development Costs	600	1,276	994	1,006	1,085
Associates/JCE	1,553	2,284	2,371	2,458	2,551
PPE	3,008	3,548	3,749	3,933	4,101
Goodwill	319	320	320	320	320
Others	95	137	130	130	130
Total Assets	8,745	11,112	10,333	10,594	10,965
Trade Payables	1,605	2,154	1,296	1,304	1,281
Total Debt	2,747	2,795	2,461	2,299	2,246
Others	524	511	511	511	511
Total Liabilities	4,876	5,460	4,267	4,114	4,038
Shareholders' Funds	3,558	5,335	5,707	6,076	6,448
Minority Interests	310	317	358	405	480
Total Capital	3,868	5,652	6,065	6,480	6,928

Rates and Ratios

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Core PER (x)	11.3	10.9	9.7	9.4	9.4
FD Core PER (x)	13.5	12.8	11.3	11.0	12.5
Net DPS (sen)	6.0	10.0	11.0	11.0	12.0
Net DY (%)	2.0	3.3	3.6	3.6	3.9
BVPS (RM)	2.8	3.1	3.3	3.5	3.7
P/B (x)	1.1	1.0	0.9	0.9	0.8
NTA/Share (RM)	2.5	2.9	3.1	3.3	3.6
EBITDA Margin (%)	15.3	41.4	15.3	15.7	16.7
EBIT Margin (%)	13.0	38.5	13.2	13.3	13.8
PBT Margin (%)	26.6	43.6	19.0	19.6	21.1
PATAMI Margin (%)	9.0	10.2	11.5	11.7	12.0
ROE (%)	10.7	10.8	9.9	9.5	9.0
ROA (%)	4.2	4.9	5.1	5.3	5.2
Net Gearing (%)	49.1	28.7	28.5	24.5	21.2

Cashflow Analysis

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
EBITDA	594.5	1,960.5	723.0	748.4	779.1
Working Capital	(154.1)	(124.7)	(427.4)	(15.0)	(69.5)
Interest Received	27.1	39.9	36.1	26.2	26.7
Dividends fr Assoc	151.8	83.1	91.6	104.2	114.6
Others	(233.2)	(865.8)	(127.4)	(137.2)	(142.7)
CFO	386.1	1,092.9	295.9	726.6	708.3
Capex	(465.5)	(657.9)	(300.0)	(300.0)	(300.0)
Purchase/Disposal	317.4	38.2	-	-	-
Others	(209.7)	(215.0)	-	-	-
CFI	(357.7)	(834.7)	(300.0)	(300.0)	(300.0)
Financing	493.2	48.6	(334.8)	(161.5)	(53.4)
Shares Issued	-	732.9	-	-	-
Dividends	-	(344.3)	(172.3)	(189.6)	(189.6)
Interest Paid	(104.6)	(117.5)	(118.3)	(107.1)	(102.3)
Others	(141.7)	(184.3)	-	-	-
CFF	246.9	135.4	(625.4)	(458.2)	(345.2)
Net Cashflow	275.2	393.5	(629.5)	(31.6)	63.0

Assumption Metrics

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	3,877	4,734	4,731	4,759	4,676
Property	923	1,167	1,209	1,223	1,320
Property Investment	591	816	840	865	891
Construction	1,275	1,591	1,463	1,391	1,122
Trading/Manufacture	559	587	616	647	679
Quarry	197	198	208	218	229
Others	332	375	394	414	435
EBIT Margins (%)	13.0	38.5	13.2	13.3	13.8

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.