29 February 2016

Buy

Price
RM3.01

Target price
RM4.10

Bloomberg code
SWB MK

Equity | Malaysia | Real Estate

Flashnote

Sunway

A good end

Sunway's FY15 normalized earnings rose 2% and constituted 107% of our estimates, despite the dilution from its lower Sunway Construction stake. For a diversified conglomerate with good earnings visibility, we believe valuations are compelling at 11x FY16F PE and 0.8x PB. Excluding its stakes in SCG and SREIT, the stock trades at a mere 7.4x PE. Buy.

- On a yoy basis, 4Q15 revenue was up 17% mainly due to lower elimination of intra-group construction revenue which decreased by RM289.7m, coupled with higher revenue from property investment and trading & manufacturing segments, offsetting the lower performance from property development and quarry.
- However, operating profit declined 9% yoy mainly due to normalization in profit margins in the construction segment as some of the higher margin infrastructure projects had been completed earlier. In addition, the quarry segment's sales volumes also declined due to completion of major infrastructure projects that it was supplying to. Normalized net profit declined 9% yoy, after stripping out RM56m in fair value gain in investment properties, RM12m in fair value of ESOS and RM3.3m loss in derivatives.
- On a qoq basis, 4Q15 revenue and EBIT rose 47% and 57% respectively. The higher revenue was due to significantly higher contributions from property development and construction which rose by RM358m. The higher EBIT were boosted mainly by property development which added RM62m in the quarter. Property investment, construction and trading & manufacturing segments also contributed positively to the quarter's performance, offsetting the lower quarry contributions. Normalized net profit rose a lower 22% due to higher minority interests, due to the dilution from Sunway Construction whereby Sunway's stake has been reduced to 54% post-listing from 100% previously.
- Property development revenue declined 15% yoy and was flattish yoy due to fewer ongoing projects and the handover of Sunway Nexis in the prior year. However, revenue was up significantly by 55% qoq due to higher progress billings from Sunway Velocity, South Quay, Lenang Heights, Eastwood and Geo Residence. As such, operating profit rose 179% qoq as Sunway Iskandar's maiden Citrine project has also started contributions, coupled with some of its Singapore projects.
- The group achieved property sales of RM1.2bn which was slightly above its target of RM1bn, mainly driven by Sunway Veocity, South Quay, Singapore and China (Tianjin) projects. Unbilled sales stand at RM2.1bn or 1.8x property development revenue.
- Property investment revenue was up 16% yoy due to higher occupancy at Sunway Pinnacle and Sunway Putra hotel. Operating profit was slightly lower at 9% yoy due to lower margins achieved. Qoq, revenue and operating profit were up 8% and 15% due to year-end holidays.
- Construction revenue was up 95% yoy due to lower intra-group eliminations but operating profit was down by 50% due to profit margin normalization. Qoq, construction revenue and operating profit were up by 106% and 14% respectively. Outstanding construction order book stands at RM3.7bn, of which 64% are external jobs. The group secured RM2.6bn in order book in 2015, surpassing its target of RM2.5bn.
- Overall, FY15 normalized earnings were up 2% and constituted 107-108% of our and Bloomberg consensus' forecasts, despite the dilution from Sunway Construction.

Analyst

Diana Teo
+60 3 2171 0505
diana@kaf.com.my

Table 1 : Quarterly performance trends

(RMm)	Quarter								Change		Cumulative			KAF	
FYE 31 Dec	**Mar-14**	**Jun-14**	**Sep-14**	**Dec-14**	**Mar-15**	**Jun-15**	**Sep-15**	**Dec-15**	**% qoq**	**% yoy**	**FY14**	**FY15**	**% chg**	**FY15F**	**12M/F**
Turnover	1,025.7	1,204.6	1,134.0	1,193.8	1,060.0	1,041.5	951.0	1,398.8	47	17	4,558.2	4,451.3	(2)	5,450.2	82
EBIT	**115.9**	**139.6**	**157.4**	**236.6**	**150.9**	**149.1**	**137.6**	**215.7**	**57**	**(9)**	**649.5**	**653.4**	**1**	**724.7**	**90**
EBIT margin (%)	11.3%	11.6%	13.9%	19.8%	14.2%	14.3%	14.5%	15.4%			14.2%	14.7%		13%	
Net interest expense	(7.8)	(10.2)	(5.1)	(7.2)	(11.4)	(9.3)	15.8	(21.8)	nm	200	(30.4)	(26.7)	(12)	(35.4)	75
Associates and JVs	40.4	47.7	38.5	44.8	38.1	39.9	31.5	49.6	57	11	171.5	159.1	(7)	123.6	129
Exceptional items	(6.3)	56.5	(5.6)	125.1	15.8	101.2	(14.0)	40.3	nm	(68)	169.7	143.3		117.0	123
Profit before tax	**142.2**	**233.6**	**185.2**	**399.2**	**193.5**	**280.9**	**171.0**	**283.8**	**66**	**(29)**	**960.2**	**929.2**	**(3)**	**960.2**	**97**
Normalized PBT	148.5	177.1	190.8	274.1	177.7	179.7	184.9	243.5	32	(11)	790.5	785.9	(1)	843.2	93
Tax	(30.4)	(44.9)	(21.8)	(51.5)	(36.1)	(33.1)	(31.5)	(29.2)	(7)	(43)	(148.6)	(129.8)	(13)	(160.7)	81
Minority interest	(7.8)	(6.2)	(19.7)	(44.0)	(10.9)	(9.9)	(6.2)	(40.0)	nm	(9)	(77.6)	(67.0)	(14)	(95.8)	70
Net profit	**104.0**	**182.5**	**143.7**	**303.8**	**146.5**	**237.9**	**133.3**	**214.7**	**61**	**(29)**	**734.0**	**732.4**	**(0)**	**673.4**	**109**
Norm. net profit	**110.3**	**126.0**	**149.3**	**198.3**	**130.7**	**136.7**	**147.3**	**180.1**	**22**	**(9)**	**583.9**	**594.8**	**2**	**556.4**	**107**
Norm. margin (%)	10.8%	10.5%	13.2%	16.6%	12.3%	13.1%	15.5%	12.9%			12.8%	13.4%		10.2%	

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF-Seagroatt & Campbell Securities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF-Seagroatt & Campbell Securities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.

Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)