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**Buy**

Price  
RM3.03

Target price  
RM4.10

Bloomberg code  
SWB MK

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# Sunway

## Good start

**Sunway's 1Q16 EBIT was up 1% yoy due to better performance from property development and property investment with contributions from new investment assets. However, this was diluted by its lower Sunway Construction stake which listed mid-2015, resulting in normalized net profit declining 20% yoy. All in all, we opine it is a commendable set of results constituting 19% of our estimates, given that second half is usually stronger. For a diversified conglomerate with good earnings visibility, valuations look compelling at 11.1x FY16F PE and 0.8x PB. Buy.**

- On a yoy basis, 1Q16 revenue and operating profit were up 1% mainly due to better performance in property development and property investment segments. However, normalized net profit, upon stripping out RM2.4m in fair value gains from ESOS in 1Q16, was down 20% yoy. This was mainly due to higher net interest coupled with significantly higher minority interest which is likely due to the group's lower effective stake in Sunway Construction (SCG MK, RM1.52, Not rated) at 54% (from 100% previously) post listing in July 2015.
- On a qoq basis, 1Q16 revenue and EBIT declined 24% and 30% respectively which were mainly due to lower profitability in property development and property investment segments which could be impacted by seasonality given that 4Q is typically the group's strongest quarter. Normalized net profit declined by 42% qoq due to higher effective taxes and minority interest coupled with lower associates' contributions.
- Property development revenue was up 30% while EBIT rose 39% yoy. The increase in revenue and profitability was due to contributions from the group's wholly owned project in Singapore, Avant Parc.
- The group achieved property sales of RM263m which is 19% of its FY16 sales target of RM1.4bn. The bulk of sales were from Sunway Iskandar (35%), Singapore (16%), China (11%), Sunway Gandaria at Bangi (9%) and Sunway Velocity at Cheras (8%). Unbilled sales stand at RM2bn or 1.7x property development revenue.
- Property investment revenue was up 21% yoy while EBIT rose 69% yoy. The better performance was due to higher rental contribution from Sunway University new academic block (completed in mid-2015) and higher occupancy at Sunway Pinnacle. In addition, the opening of Nickelodeon Lost Lagoon in 1Q16 and the completion of Sunway Putra Hotel refurbishment at the end of 2015 also boosted earnings.
- Construction revenue and EBIT declined 17% and 33% yoy respectively. Management attributed this to key projects such as the BRT, Sunway Pyramid Phase 3 and Sunway Putra being at advanced stages of completion in 1Q15 and subsequently completed the same year, resulting in a high base previously.
- Outstanding construction order book stands at a record high of RM5bn, of which 72% are external jobs. The group has secured RM2bn in order book ytd, with the key project being the MRT Package V201 worth RM1.2bn.
- Overall, FY15 normalized earnings constituted 19% of our and Bloomberg consensus' forecasts, despite the dilution from Sunway Construction, which is within expectations given that earnings in the second half is typically stronger than the first half.

**Table 1 : Quarterly performance trends**

(RMm)	Quarter									Change		KAF	
FYE 31 Dec	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	% qoq	% yoy	FY16F	1Q/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	1,069.0	(24)	1	5,804.0	18
<b>EBIT</b>	<b>115.9</b>	<b>139.6</b>	<b>157.4</b>	<b>236.6</b>	<b>150.9</b>	<b>149.1</b>	<b>137.6</b>	<b>215.7</b>	<b>152.0</b>	<b>(30)</b>	<b>1</b>	<b>759.3</b>	<b>20</b>
<i>EBIT margin (%)</i>	<i>11.3%</i>	<i>11.6%</i>	<i>13.9%</i>	<i>19.8%</i>	<i>14.2%</i>	<i>14.3%</i>	<i>14.5%</i>	<i>15.4%</i>	<i>14.2%</i>			<i>13%</i>	
Net interest expense	(7.8)	(10.2)	(5.1)	(7.2)	(11.4)	(9.3)	15.8	(21.8)	(16.1)	(26)	42	(37.0)	44
Associates and JVs	40.4	47.7	38.5	44.8	38.1	39.9	31.5	49.6	42.6	(14)	12	118.9	36
Exceptional items	(6.3)	56.5	(5.6)	125.1	15.8	101.2	(14.0)	40.3	(2.4)	n.m.	n.m.	-	nm
<b>Profit before tax</b>	<b>142.2</b>	<b>233.6</b>	<b>185.2</b>	<b>399.2</b>	<b>193.5</b>	<b>280.9</b>	<b>171.0</b>	<b>283.8</b>	<b>176.1</b>	<b>(38)</b>	<b>(9)</b>	<b>841.1</b>	<b>21</b>
<b>Normalized PBT</b>	<b>148.5</b>	<b>177.1</b>	<b>190.8</b>	<b>274.1</b>	<b>177.7</b>	<b>179.7</b>	<b>184.9</b>	<b>243.5</b>	<b>178.5</b>	<b>(27)</b>	<b>0</b>	<b>841.1</b>	<b>21</b>
Tax	(30.4)	(44.9)	(21.8)	(51.5)	(36.1)	(33.1)	(31.5)	(29.2)	(32.8)	13	(9)	(168.4)	20
Minority interest	(7.8)	(6.2)	(19.7)	(44.0)	(10.9)	(9.9)	(6.2)	(40.0)	(41.1)	3	278	(135.2)	30
<b>Net profit</b>	<b>104.0</b>	<b>182.5</b>	<b>143.7</b>	<b>303.8</b>	<b>146.5</b>	<b>237.9</b>	<b>133.3</b>	<b>214.7</b>	<b>102.1</b>	<b>(52)</b>	<b>(30)</b>	<b>537.5</b>	<b>19</b>
<b>Norm. net profit</b>	<b>110.3</b>	<b>126.0</b>	<b>149.3</b>	<b>198.3</b>	<b>130.7</b>	<b>136.7</b>	<b>147.3</b>	<b>180.1</b>	<b>104.5</b>	<b>(42)</b>	<b>(20)</b>	<b>537.5</b>	<b>19</b>
<i>Norm net margin (%)</i>	<i>10.8%</i>	<i>10.5%</i>	<i>13.2%</i>	<i>16.6%</i>	<i>12.3%</i>	<i>13.1%</i>	<i>15.5%</i>	<i>12.9%</i>	<i>9.8%</i>				

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.

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