

28 February 2017

# Sunway Berhad

## Above Expectations

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**FY16 CNP of RM541.6m exceeded our/streets' full-year estimates by 12%/6%. FY16 sales of RM1.2b came in higher than our/management's target of RM1.1b. 7.14 sen dividend declared, bringing full-year dividend to 12.14 sen which is also higher than our estimate of only 9.8 sen. Raised FY17E CNP by 6.5% and rolled out our FY18E CNP of RM542.6m. Maintain MARKET PERFORM, with a higher SoP-driven Target Price of RM3.24 (previously, RM3.23).**

**Above expectations.** Exceeding our/streets' full-year estimates by 12%/6%, SUNWAY's FY16 CNP of RM541.6m was above expectations, due to better-than-expected development margins and also higher contribution from its others division. Its full-year property sales of RM1.2b also surpassed our and management's targets of RM1.0b and RM1.1b, respectively. However, we do note that management had scaled back its initial FY16 sales target of RM1.4b to RM1.1b back in Oct 2016. In terms of dividend, 4.0 sen cash dividend and 1 treasury share for every 100 shares held (translating to 3.14sen/share) was declared in 4Q16, bringing its full-year dividend declared to 12.14 sen which is higher than our full-year dividend estimate of 9.8 sen.

**Results review.** FY16 CNP saw a decline of 9% despite 6% growth in revenue, as its performance was dragged down by several divisions, which reported lower operating profits, i.e. property investment (-24%), construction (-19%), and quarry division (-32%). The sharp decline in margins of 10ppt to 19% for its property investment division was mainly due to higher operational costs due to the pre-opening expenses incurred for Sunway Velocity, provisions made for the termination of Sunway International Vacation Club and the impairment for BRT Park N' Ride facilities. **QoQ**, the 15% improvement in its 4Q16 CNP was mainly driven by its property development division, which saw 163% increase in operating profit on the back of a revenue growth of 25% due to the handover of Sunway Geo Retail Shops and Flexi Suites Phase 1 coupled with the sale of Penang land to Sunway REIT. Consequently, its property development margin also improved significantly by 18ppt to 34%.

**Raising FY17E earnings.** Post results, we raised our FY17E CNP by 6.5% to RM521.7m after we factored in higher contribution from its other division and also fine-tuned our development margin assumptions. That said, we also take the opportunity to introduce our FY18E CNP of RM542.6m.

**Outlook.** We remain confident with SUNWAY's ability in delivering a sturdy performance for the year premised on its strong unbilled sales of RM1.5b with 2-year visibility, a robust outstanding order book of RM4.8b that provides 2-3 year visibility and other divisions that has been generating decent growth over the years.

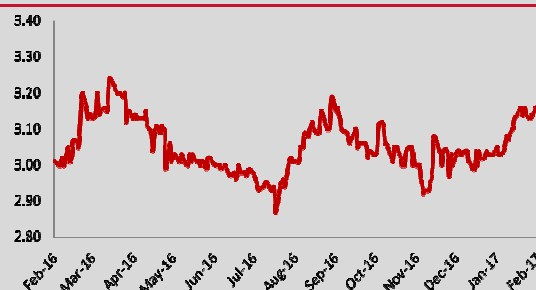
**MARKET PERFORM.** We continue to maintain our MARKET PERFORM recommendation on SUNWAY but tweaked our SoP-driven Target Price higher to RM3.24 (previously, RM3.23), after we have factored in the changes in valuation on its other divisions, i.e. SUNREIT, which saw an upgrade in TP to RM1.74 (previously, RM1.68), while SUNCON saw a downgrade in TP to RM1.77 (previously, RM1.81). However, we are still maintaining our cautious view on the property market as we have yet to see much improvement in the market, especially bank loan approvals.

**Downside risks to our call include:** Weaker-than-expected property sales and construction order book replenishment, Higher-than-expected sales and administrative costs, negative real estate policies, and tighter lending environment.

## MARKET PERFORM ↔

**Price: RM3.16**  
**Target Price: RM3.24 ↑**

### Share Price Performance



KLCI	1,693.84
YTD KLCI chg	3.2%
YTD stock price chg	4.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	6,399.3
Issued shares	2,025.1
52-week range (H)	3.24
52-week range (L)	2.87
3-mth avg daily vol:	958,487
Free Float	33%
Beta	0.5

### Major Shareholders

Sungei Way Corporation S/B	56.5%
Employees Provident Fund Board	6.3%
Fook Ling Cheah	4.6%

### Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	4,725.9	5,262.3	5,583.7
EBIT	726.9	728.4	771.9
PBT	859.0	796.8	845.3
<b>Net Profit (NP)</b>	<b>585.9</b>	<b>521.7</b>	<b>542.6</b>
<b>Core net profit</b>	<b>541.6</b>	<b>521.7</b>	<b>542.6</b>
Consensus (NP)	n.a.	543.6	584
Earnings Revision	n.a.	6.5%	n.a.
Basic EPS	30.4	29.3	30.5
EPS growth (%)	-20%	-11%	4%
DPS (sen)	12.1	10.3	10.7
Basic PER (x)	10.4	10.8	10.4
BVPS (RM)	4.19	4.38	4.58
Net Gearing (x)	0.5	0.4	0.4
Dividend Yield (%)	3.8%	3.2%	3.4%

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Result Highlight								
FYE 31 Dec (RM'm)	4Q16	3Q16	QoQ%	4Q15	YoY%	FY16	FY15	YoY
Revenue	1,363.7	1,137.5	20%	1,398.8	-3%	4,725.9	4,451.3	6%
Op costs w/o depn/amort	-1,212.6	-1,014.9	19%	-1,248.1	-3%	-4,194.8	-4,029.4	4%
Other Op Income	79.8	41.7	91%	70.8	13%	175.2	229.8	-24%
<b>EBITDA</b>	<b>245.0</b>	<b>203.7</b>	<b>20%</b>	<b>251.3</b>	<b>-2%</b>	<b>820.2</b>	<b>766.5</b>	<b>7%</b>
<b>EBIT</b>	<b>230.9</b>	<b>164.3</b>	<b>41%</b>	<b>221.4</b>	<b>4%</b>	<b>706.3</b>	<b>651.6</b>	<b>8%</b>
Net Interest	-25.7	-2.6	895%	-21.8	18%	-59.9	-26.6	125%
Associate & JCE	44.9	46.7	-4%	49.6	-9%	168.3	166.0	1%
Fair Value Adjustments on IP	20.5	0.0	n.m.	34.6	-41%	44.2	138.2	-68%
<b>Pretax profit</b>	<b>270.6</b>	<b>208.5</b>	<b>30%</b>	<b>283.8</b>	<b>-5%</b>	<b>858.9</b>	<b>929.2</b>	<b>-8%</b>
Taxation	-46.0	-37.7	22%	-29.2	58%	-140.4	-129.8	8%
Minority Interests	-38.8	-27.2	43%	-40.0	-3%	-132.7	-67.0	98%
<b>Net profit</b>	<b>185.8</b>	<b>143.5</b>	<b>29%</b>	<b>214.7</b>	<b>-13%</b>	<b>585.8</b>	<b>732.4</b>	<b>-20%</b>
<b>Core Net profit</b>	<b>165.3</b>	<b>143.5</b>	<b>15%</b>	<b>180.1</b>	<b>-8%</b>	<b>541.6</b>	<b>594.3</b>	<b>-9%</b>
EPS (sen)	10.8	8.3		14.5		34.0	43.7	
Diluted EPS (sen)	7.6	6.6		9.9		25.0	28.4	
NDPS (sen)	7.1	0.0		6.0		12.1	37.0	
NTA/share (RM)	3.46	3.45		3.46		3.46	3.46	
Net gearing/(cash) (x)	0.45	0.41		0.50		0.45	0.50	
EBITDA margin	18%	18%		18%		17%	17%	
EBIT margin	17%	14%		16%		15%	15%	
Pretax margin	20%	18%		20%		18%	21%	
Effective tax rate	17%	18%		10%		16%	14%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE 31 Dec (RM'm)	4Q16	3Q16	QoQ	4Q15	YoY	FY16	FY15	YoY
<b>Revenue</b>								
Property Development	349.1	279.6	25%	420.0	-17%	1209.8	1195.7	1%
Property Investment	246.0	223.7	10%	207.6	18%	867.0	746.4	16%
Construction	1153.4	381.1	203%	475.0	143%	2389.1	1916.9	25%
Trading & Manufacturing	352.3	226.0	56%	205.3	72%	1035.3	717.6	44%
Quarry	66.3	54.9	21%	57.5	15%	226.0	246.4	-8%
Investment Holdings	461.5	58.0	696%	601.2	-23%	840.7	959.9	-12%
Others	205.2	174.8	17%	133.2	54%	677.0	556.4	22%
Eliminations	-1470.1	-260.5	464%	-701.0	110%	-2519.1	-1887.9	33%
<b>TOTAL</b>	<b>1363.7</b>	<b>1137.5</b>	<b>20%</b>	<b>1398.8</b>	<b>-3%</b>	<b>4725.9</b>	<b>4451.3</b>	<b>6%</b>
<b>Operating Profit</b>								
Property Development	119.0	45.3	163%	96.4	23%	273.1	207.7	31%
Property Investment	51.7	50.0	3%	101.0	-49%	162.5	213.5	-24%
Construction	28.3	31.3	-10%	26.8	6%	129.2	159.0	-19%
Trading & Manufacturing	20.7	11.3	83%	11.7	76%	51.0	31.9	60%
Quarry	1.5	7.2	-80%	5.8	-75%	26.7	39.5	-32%
Investment Holdings	8.2	2.8	196%	7.8	5%	15.0	-13.6	-210%
Others	22.2	16.3	36%	9.7	128%	69.3	48.8	42%
Eliminations	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>TOTAL</b>	<b>251.5</b>	<b>164.3</b>	<b>53%</b>	<b>259.3</b>	<b>-3%</b>	<b>726.9</b>	<b>686.9</b>	<b>6%</b>
<b>Operating Margin</b>								
Property Development	34%	16%		23%		23%	17%	
Property Investment	21%	22%		49%		19%	29%	
Construction	2%	8%		6%		5%	8%	
Trading & Manufacturing	6%	5%		6%		5%	4%	
Quarry	2%	13%		10%		12%	16%	
Investment Holdings	2%	5%		1%		2%	-1%	
Others	11%	9%		7%		10%	9%	

Source: Company, Kenanga Research

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Sum-of-Parts						
	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
		RM'm	(x)	(%)	RM'm	
Property Development & Investment	100%	6,623	n.a	61%	2,616	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,773	n.a		1,773	SUNREIT TP RM1.74
Construction	56%	1,272	14		1,272	14x FY17E PER- higher compared to mid cap construction Fwd PERs of 9x-13x.
Quarry & Buildings Mat	100%	37	8		37	8x FY17E PER
Trading & manufacturing	100%	450	8		450	8x FY17E PER
Group Shareholders Funds					0	
<b>Total SOP</b>		<b>10,155</b>			<b>6,148</b>	
Adjustment for Dilution					879	
<b>TP (RM)</b>					<b>3.24</b>	

Source: Kenanga Research

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## Peer Comparison

NAME	Price (27/2/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	P/BV	Net Profit (RMm)			FY16/17 NP Growth	FY17/18 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY15/16	FY16/17	FY17/18	(%)	(%)	(%)	(x)	FY15/16	FY16/17	FY17/18	(%)	(%)	(RM)	
<b>DEVELOPERS UNDER COVERAGE</b>																
S P SETIA BHD*	3.41	9,731	12.0	12.8	15.7	5.5%	9.7%	8.0%	1.17	808.0	761.3	620.6	-5.8%	-18.5%	3.53	OUTPERFORM
IOI PROPERTIES GROUP BHD*	2.00	8,795	13.6	11.0	10.9	3.6%	4.1%	4.2%	0.58	648.5	800.2	803.6	23.4%	0.4%	2.23	OUTPERFORM
UEM SUNRISE BHD*	1.15	5,218	35.4	32.4	32.3	0.0%	2.2%	2.3%	0.82	147.3	160.8	161.3	9.2%	0.3%	1.24	MARKET PERFORM
SUNWAY BHD	3.16	6,399	11.8	12.3	11.8	3.2%	7.3%	6.7%	0.72	541.6	521.7	542.6	-3.7%	4.0%	3.24	MARKET PERFORM
MAH SING GROUP BHD^	1.45	3,494	9.8	9.5	9.5	4.2%	14.3%	11.4%	1.04	357.2	369.1	369.5	3.3%	0.1%	1.49	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.51	4,223	32.7	31.0	18.5	0.0%	3.7%	3.5%	1.06	129.3	136.3	228.4	5.4%	67.5%	1.53	OUTPERFORM
UOA DEVELOPMENT BHD*	2.55	4,160	11.1	11.0	10.6	5.9%	19.4%	9.8%	1.05	373.9	379.2	391.4	1.4%	3.2%	2.54	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.43	3,070	12.6	44.6	40.6	0.3%	8.6%	2.4%	1.56	244.1	68.8	75.7	-72%	10.0%	1.46	MARKET PERFORM
KSL HOLDINGS BHD	1.13	1,163	5.7	6.7	6.6	0.0%	8.8%	6.9%	0.43	204.6	173.7	177.1	-15.1%	2.0%	0.99	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.51	1,436	5.6	6.8	6.0	5.5%	31.8%	22.7%	1.47	255.2	210.0	239.0	-17.7%	13.8%	2.65	OUTPERFORM
SUNSURIA BERHAD	1.32	1,054	28.7	10.8	6.7	2.3%	6.9%	13.3%	1.33	36.7	98.0	157.0	167.2%	60.1%	1.50	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.56	355	19.9	12.7	10.6	3.1%	2.2%	3.3%	0.41	17.8	28.0	33.5	57.2%	19.6%	1.68	MARKET PERFORM
HUA YANG BHD	1.12	394	3.6	5.6	6.4	1.8%	21.9%	12.2%	0.65	110.1	70.3	61.7	-36.2%	-12.3%	1.18	MARKET PERFORM
<b>CONSENSUS NUMBERS</b>																
IGB CORPORATION BHD	2.90	3,871	13.0	12.6	16.1	3.1%	7.0%	6.4%	0.78	298.0	307.0	240.3	3.0%	-21.7%	4.80	BUY
GLOMAC BHD	0.70	506	6.3	12.5	7.4	5.3%	14.2%	6.0%	0.51	80.9	40.5	68.7	-50.0%	69.6%	0.75	SELL
PARAMOUNT CORP BHD	1.67	706	9.4	8.8	8.4	5.4%	8.2%	8.3%	0.73	75.0	80.4	84.6	7.1%	5.3%	2.24	BUY
TAMBUN INDAH LAND BHD	1.41	604	5.4	6.2	6.2	6.0%	22.9%	16.7%	1.05	112.2	97.2	96.7	-13.4%	-0.4%	1.63	BUY

\* Core NP and Core PER

^ Last price and TP is Ex-rights and Ex-Bonus.

# IOIPG's Price/per share data is based on ex-rights

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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