

30 May 2017

Property | Real Estate

Sunway

Buy (Maintained)

Property Investment Assets a Potential Earnings Driver

Sunway's 1Q17 results were below expectations. However, we are not concerned with the weak earnings, as historically the company's 1H numbers are lower compared to that of 2H's. Although the property development segment is seeing the impact of slow sales, we think the property investment segment could potentially drive earnings. In addition, given the accumulation of a few new investment properties, an asset monetisation exercise could be on the cards over the medium term. **Maintain BUY with a higher TP of MYR3.95 (from MYR3.55, 10% upside).**

Below expectations. Sunway's 1Q17 results were below our and market expectations. While the weaker growth in the property development segment was mainly due to slow property sales and progress billings, as well as some handover of projects last year, the growth in the property investment segment was mainly driven by the maiden contribution from the Sunway Velocity Mall which opened in Dec 2016.

MYR142m new sales in 1Q17. Annualised 1Q17 new sales of MYR142m (vs MYR336m in 4Q16) were below management's target of MYR1.1bn for the year. Sales during the quarter were mainly contributed by the Sophia Hills project in Singapore (MYR62m), which saw the take-up rate improving to 42% from 20% in 2016. Other projects include Sunway Iskandar, Sunway Velocity and Sunway Eastwood. The company has not launched any new projects so far this year.

Pipeline launches. Management still plans to launch about MYR2bn worth of new projects this year, although some projects may be held back till late 2017. The upcoming launch in 2Q would be the Subang Industrial project (GDV: MYR110m), which is a new product segment that Sunway is venturing into. Other pipeline projects include Sunway GEO Residences 3 (GDV: MYR400m) and Sunway Kelana Jaya condominiums (GDV: MYR400m).

Forecasts. We make no changes to our earnings forecasts as 1H earnings typically made up 40-45% of full-year earnings in the past. Unbilled sales remained relatively stable at MYR1.4bn, vs. MYR1.5bn as at 4Q16. Meanwhile, its outstanding construction orderbook stood at MYR4.63bn, compared with MYR4.8bn as at 4Q16.

Maintain BUY. Given that Sunway has accumulated more and more investment properties in its portfolio over the last two years, including Sunway Velocity, Sunway Pinnacle and some other hospitality assets, we think that an asset injection into the REIT could be well on the cards. The asset monetisation process is important for Sunway to recycle its assets and to release some liquidity for its operations. As such, we raise our TP to MYR3.95 based on a lower discount to RNAV of 30% (from 35%). Also, we have attached our own valuations in our RNAV estimates for some of the newly completed properties, such as Sunway Velocity, and Sunway Pinnacle. The footfalls and occupancies for these properties are encouraging thus far based on our observations.

Target Price:	MYR3.95
Price:	MYR3.59
Market Cap:	USD1,712m
Bloomberg Ticker:	SWB MK

Share Data

Avg Daily Turnover (MYR/USD)	7.21m/1.66m
52-wk Price low/high (MYR)	2.87 - 3.63
Free Float (%)	39
Shares outstanding (m)	1,724
Estimated Return	10%

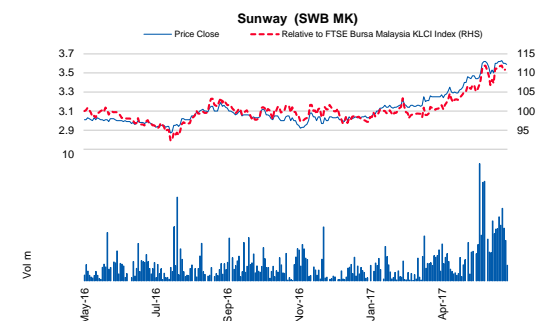
Shareholders (%)

Tan Sri Dato' Jeffrey Cheah	55.4
Employee Provident Fund	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	18.5	3.5	11.1	21.3	18.5
Relative	10.5	3.3	6.5	12.4	10.2

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	4,451	4,726	5,068	5,528	5,993
Reported net profit (MYRm)	620	586	562	606	658
Recurring net profit (MYRm)	597	547	562	606	658
Recurring net profit growth (%)	0.9	(8.3)	2.6	7.8	8.7
Recurring EPS (MYR)	0.33	0.27	0.27	0.29	0.31
DPS (MYR)	0.49	0.12	0.13	0.14	0.15
Recurring P/E (x)	10.8	13.5	13.3	12.5	11.6
P/B (x)	0.99	0.99	0.97	0.94	0.91
Dividend Yield (%)	13.6	3.4	3.6	3.9	4.2
Return on average equity (%)	9.9	8.4	7.4	7.7	8.0
Return on average assets (%)	4.3	3.4	2.9	3.0	3.1
Net debt to equity (%)	45.3	40.9	39.1	39.0	40.2
Our vs consensus EPS (adjusted) (%)			(5.7)	(7.2)	(3.2)

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2017-05-29

Asia	Financial summary	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Malaysia	Recurring EPS (MYR)	0.33	0.27	0.27	0.29	0.31
Property	EPS (MYR)	0.34	0.28	0.27	0.29	0.31
Sunway	DPS (MYR)	0.49	0.12	0.13	0.14	0.15
Bloomberg	BVPS (MYR)	3.64	3.61	3.72	3.83	3.95
SWB MK	Weighted avg adjusted shares (m)	1,800	2,063	2,084	2,105	2,126
Buy						
Valuation basis	Valuation metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
30% discount to RNAV	Recurring P/E (x)	10.8	13.5	13.3	12.5	11.6
	P/E (x)	10.4	12.6	13.3	12.5	11.6
	P/B (x)	0.99	0.99	0.97	0.94	0.91
	FCF Yield (%)	(1.5)	(1.9)	9.1	7.3	5.6
	Dividend Yield (%)	13.6	3.4	3.6	3.9	4.2
	EV/EBITDA (x)	15.0	12.9	12.5	12.2	12.3
	EV/EBIT (x)	18.1	15.9	15.2	14.7	14.8
Key drivers						
i. New property sales;						
ii. Disposal of investment properties.						
Key risks						
Weaker-than-expected market conditions.						
Company Profile	Income statement (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Sunway is a well-known developer in the Klang Valley. Its flagship project, Bandar Sunway is a well-established integrated township. The company has successfully transformed a mining land to a matured residential and commercial cluster.	Total turnover	4,451	4,726	5,068	5,528	5,993
	Gross profit	1,187	1,355	1,540	1,689	1,809
	EBITDA	693	892	950	1,023	1,076
	Depreciation and amortisation	(119)	(165)	(167)	(171)	(186)
	Operating profit	574	727	783	851	889
	Net interest	(27)	(60)	(49)	(43)	(30)
	Income from associates & JVs	270	192	326	368	383
	Pre-tax profit	816	859	1,060	1,176	1,242
	Taxation	(130)	(140)	(257)	(294)	(311)
	Minority interests	(67)	(133)	(242)	(276)	(273)
	Recurring net profit	597	547	562	606	658
	Cash flow (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Change in working capital	60	(391)	(161)	(195)	(197)
	Cash flow from operations	864	569	753	760	809
	Capex	(963)	(713)	(75)	(211)	(380)
	Cash flow from investing activities	(2,109)	(971)	(275)	(411)	(580)
	Proceeds from issue of shares	1,067	588	0	0	0
	Dividends paid	(1,082)	(268)	(271)	(295)	(319)
	Cash flow from financing activities	1,987	1,750	(372)	(395)	(418)
	Cash at beginning of period	1,978	2,627	4,060	4,014	3,855
	Net change in cash	741	1,347	106	(45)	(189)
	Ending balance cash	2,719	3,974	4,165	3,968	3,666
	Balance sheet (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Total cash and equivalents	2,627	4,060	4,014	3,855	3,587
	Tangible fixed assets	8,146	9,051	8,959	8,999	9,192
	Intangible assets	320	343	343	343	343
	Total other assets	463	286	812	1,380	1,962
	Total assets	15,994	18,831	19,588	20,496	21,469
	Short-term debt	3,304	4,831	4,831	4,831	4,831
	Total long-term debt	2,585	2,591	2,607	2,663	2,756
	Other liabilities	416	438	438	438	438
	Total liabilities	8,794	10,612	10,836	11,157	11,517
	Shareholders' equity	6,550	7,456	7,747	8,058	8,397
	Minority interests	651	764	1,005	1,281	1,555
	Total equity	7,200	8,219	8,752	9,339	9,952
	Net debt	3,262	3,361	3,424	3,639	4,000
	Total liabilities & equity	15,994	18,831	19,588	20,496	21,469
	Key metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Revenue growth (%)	(8.1)	6.2	7.2	9.1	8.4
	Recurrent EPS growth (%)	(3.3)	(20.0)	1.6	6.7	7.6
	Gross margin (%)	26.7	28.7	30.4	30.6	30.2
	Operating EBITDA margin (%)	15.6	18.9	18.7	18.5	17.9
	Net profit margin (%)	13.9	12.4	11.1	11.0	11.0
	Dividend payout ratio (%)	174.7	45.8	45.8	45.8	45.8
	Capex/sales (%)	21.6	15.1	1.5	3.8	6.3
	Interest cover (x)	4.61	4.33	4.79	5.18	5.62

Source: Company data, RHB

Figure 1: Quarterly results

FYE Dec (MYR mil)	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)	Comments
Turnover	1,069.0	1,363.7	1,091.3	(20.0)	2.1	
Property development	234.1	412.7	143.3	(65.3)	(38.8)	The weaker YoY growth was due to lower sales and progress billings, while the QoQ drop was due to the handover of Sunway GEO retail shops and Flexi Suites Phase 1, and land sale to Sunway REIT in 4Q16.
Property investment	169.2	172.8	186.9	8.2	10.5	The QoQ growth was due to a revenue contribution from the new Sunway Velocity Mall which opened in Dec 2016
Construction	311.4	334.4	316.8	(5.2)	1.7	
Trading & Manufacturing	193.1	215.1	245.2	14.0	27.0	
Quarry	38.7	54.1	40.2	(25.7)	3.7	
Investment holdings	0.9	15.4	1.8	n.m.	n.m.	
Others	121.6	159.3	157.1	(1.4)	29.2	
EBIT	149.6	251.4	116.8	(53.6)	(22.0)	
<i>EBIT margin (%)</i>	<i>14.0%</i>	<i>18.4%</i>	<i>10.7%</i>			
Property development	55.7	119.0	7.9	(93.3)	(85.7)	
Property investment	36.4	51.7	44.1	(14.7)	21.1	The lower EBIT QoQ was due to the MYR37.4m fair value gains on investment properties in 4Q16.
Construction	35.6	28.3	34.7	22.7	(2.5)	
Trading & Manufacturing	8.5	20.7	12.5	(39.5)	46.8	
Quarry	6.4	1.5	0.9	(38.9)	(86.0)	
Investment holdings	(1.9)	8.2	(3.5)	n.m.	80.0	
Others	9.0	22.2	20.1	(9.5)	123.4	
Exceptional items	2.4	(40.9)	0.0	n.m.	(100.0)	
Finance cost	(16.1)	(25.7)	(6.7)	(73.7)	(58.2)	
Associates & JV	42.6	44.9	43.1	(3.9)	1.3	
Other Income	0.0	0.0	0.0	n.m.	n.m.	
Pretax profit	176.1	270.6	153.1	(43.4)	(13.0)	
<i>PBT margin (%)</i>	<i>16.5%</i>	<i>19.8%</i>	<i>14.0%</i>			
Tax	(32.8)	(46.0)	(27.3)	(40.5)	(16.8)	
<i>Tax (%)</i>	<i>18.7%</i>	<i>17.0%</i>	<i>17.9%</i>			
PAT	143.2	224.7	125.8	(44.0)	(12.2)	
MI	(41.1)	(38.8)	(17.9)	(54.0)	(56.6)	
Net profit	102.1	185.8	107.9	(41.9)	5.7	
Core net profit	104.5	161.8	107.9	(33.3)	3.3	Below expectations
<i>Net margin (%)</i>	<i>9.8</i>	<i>11.9</i>	<i>9.9</i>			
EPS (sen)	5.7	9.1	5.3			
NTA (RM)	3.55	3.61	3.68			
DPS (sen)	0.0	7.1	0.0			
EBIT margin:						
Prop dev	23.8%	28.8%	5.5%			
Prop invt	21.5%	29.9%	23.6%			
Construction	11.4%	8.5%	11.0%			
Trading & Manufacturing	4.4%	9.6%	5.1%			
Quarry	16.5%	2.7%	2.2%			
Investment holdings	n.m.	n.m.	n.m.			
Others	7.4%	13.9%	12.8%			

Source: Company data. RHB

Figure 2: RNAV estimate

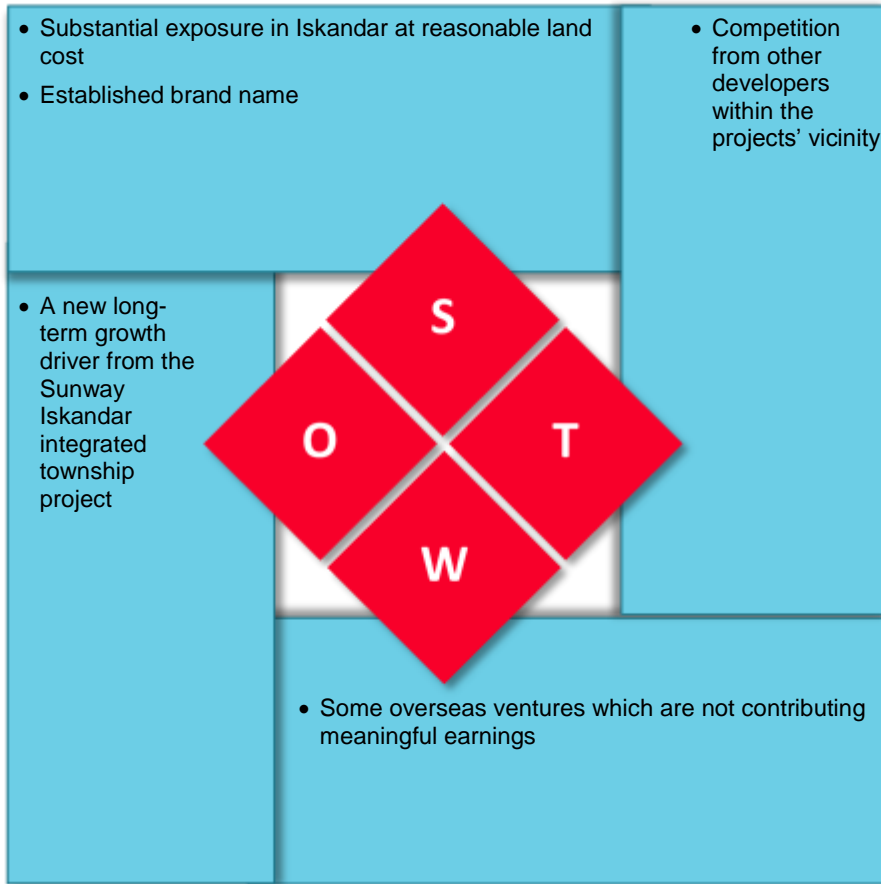
Developments	Remaining Landbank (acre)	Remaining GDV (MYR m)	Effective stake	NPV @ 11%
Selangor/KL				
Sunway Damansara	15.36	1,691.28	60%	108.4
Sunway South Quay	40.16	3,086.66	60%	176.5
Sunway Monterez	4.40	38.00	60%	2.5
Sunway Semenyih	398.11	728.59	70%	45.6
Sunway Cheras	5.97	16.82	100%	1.4
Sunway Duta	3.16	120.00	60%	6.1
Sunway Montana	1.99	55.51	100%	5.7
Sunway Resort City	14.9	660	100%	61.9
Sunway Velocity	10.00	1,983.98	85%	163.5
Sunway Velocity 2	8.45	2,000.00	50%	52.9
Sunway Tower KL 1	1.00	240.00	100%	19.3
Melawati	2.00	43.00	100%	4.0
Sg Long	111.00	277.00	80%	17.8
Mont Putra, Rawang	163.00	156.00	100%	12.5
Kelana Jaya	21.84	1,900.00	100%	121.6
Subang industrial	6.35	110.00	80%	5.9
Perak				
Sunway City Ipoh	440.5	1,048.38	65%	55.9
Penang				
Sunway Hills	80.70	849.00	100%	66.0
Sunway Wellesley, Bukit Mertajam	52.80	725.47	100%	68.0
Paya Terubong	24.46	1,500.00	100%	117.2
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.2
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.4
S'pore				
Anchorvale Lane, Sengkang	5.19	1,560.00	30%	38.8
Johor				
Bukit Lenang	64.79	698.40	80%	56.8
Medini	655.73	11,293.00	56%	491.4
Pendas	1,079.07	18,000.00	60%	566.7
China				
Sunway Guanghao	3.73	66.78	65%	3.9
Tianjin Eco City	6.23	575.02	60%	24.4
India				
Sunway OPUS Grand India	23.80	702.36	50%	20.2
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	6.6
Australia				
Wonderland Business Park (Sydney)	12.99	43.80	45%	1.1
Unbilled sales				195.0
TOTAL	3,322.02	55,375.03		2,535.22

Investment properties	EBITDA (MYR m)	Est. market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)
Monash University Campus	17	299.5	299.5	100%	0
Monash U Residence	15	226.6	226.6	100%	0
Sunway University College	10	255.0	255.0	100%	0
Sunway Hotel Georgetown	4	74.0	37.6	100%	36.4
Sunway Hotel Phnom Penh	2	17.3	17.3	53%	0
Sunway Hotel Hanoi	2	8.8	8.8	100%	0
Sunway Giza	5	55.1	55.1	60%	0
Sunway Pinnacle	N/A	406.0	350.7	100%	47.0
Sunway Velocity Mall	N/A	1,620.0	1,172.3	100%	380.5
Sunway Clio Hotel	N/A	352.9	296.3	100%	48.1

Other divisions	Market value (MYR m)	Book value (MYR m)	Est. FY16 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
34% Sunway REIT	1,654.2	1,479.0			175.16
54.4% Sunway Construction	1,442.0	844.1			597.88
Others			115	5	575.00
Total					4,395.34
Shareholders' equity (ex cons.)					7,055.72
ESOS proceeds					551.52
Warrants conversion @ MYR2.25					651.13
Total RNAV					12,653.70
Discount to RNAV					30%
Discounted RNAV					8,857.59
Share base (mil)					1,780.00
No. of warrants					289.39
ESOS					172.35
Enlarged share base (mil)					2,241.74
TP (MYR)					3.95

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-02-28	Buy	3.55	3.23
2016-11-27	Buy	3.40	3.00
2016-08-29	Buy	3.40	3.01
2016-05-29	Buy	3.40	3.03
2016-02-29	Buy	3.40	3.00
2016-02-22	Buy	3.60	2.97
2015-11-27	Buy	3.60	3.07
2015-09-03	Buy	3.86	3.45
2015-08-27	Buy	4.10	3.40
2015-05-26	Buy	4.10	3.52

Source: RHB, Bloomberg

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