



Sunway Berhad

New Launches to Pick Up in the 2H

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TP: RM4.15, ex-bonus: RM1.78 (-4.6%),

Last Traded: RM4.35, ex-bonus: RM1.86

Sell

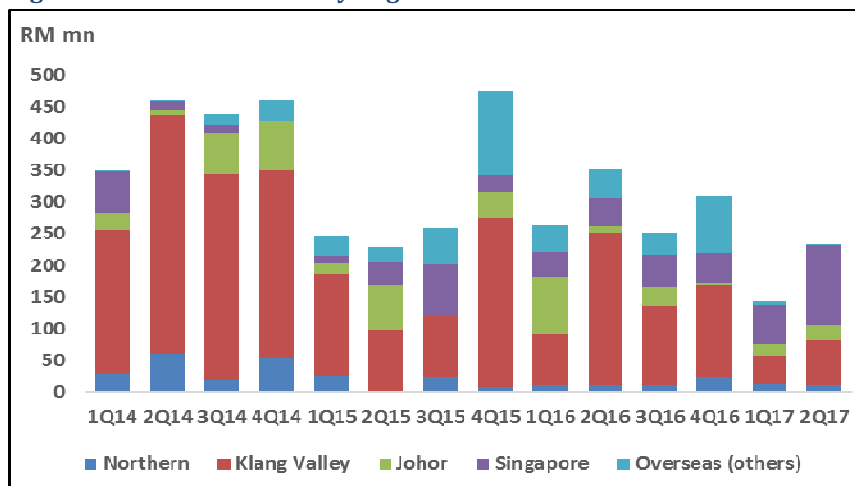
Review

- Excluding the fair value gain from Sunway REIT of RM56.8mn, Sunway's 1H17 normalised net profit of RM248.1mn came in broadly in line with expectations, accounting for 45% of both ours and consensus' full-year forecasts. An interim dividend of 7sen/share was declared, 2sen higher than the corresponding period of last year. Note that if the dividend entitlement date is after the entitlement date of the proposed 4-for-3 bonus issue, and 3-for-10 bonus warrant, the interim dividend of 7sen/share will be adjusted accordingly to 3sen/share.
- YoY, Sunway's 1H17 revenue and normalised net profit grew 4.8% and 4.5% to RM2.3bn and RM248.1mn respectively. The improvement was largely due to higher revenue contribution from all business segments, except property development. Property development division performance was lower, mainly due to lower sales and progress billings from both local and overseas development projects.
- QoQ, 2Q17 normalised net profit increased 30% to RM140.1mn, boosted by higher property sales and better profit recognition from progress billings for the local projects during quarter under review.
- Sunway reported RM234mn new property sales in 2Q17 (+65% QoQ, -33% YoY), bringing the 1H17 sales to RM376mn (-39% YoY). 1H17 sales were soft on a YoY basis, due to lack of new launches during the period under review. Nonetheless, 2Q17 property sales picked up significantly as compared to a quarter ago, largely due to improve sales for Mount Sophia project in Singapore - see **Figure 1**. Unbilled sales eased to RM1.2bn (effective RM908mn), from RM1.4bn a quarter ago.

Impact

- No change to our FY17-19 earnings forecasts.

Figure 1: Sales Breakdown by Region



Source: Sunway, TA Research

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	2053.9
Market Cap (RMmn)	8934.4
Par Value	1.00
52-wk Hi/Lo (RM)	4.40/2.89
12-mth Avg Daily Vol ('000 shrs)	1905.2
Estimated Free Float (%)	29.7
Beta	0.50

Major Shareholders (%)

Sungei Way Corp	(56.2)
EPF	(5.5)

Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	558.5	599.7
Consensus	563.9	599.5
TA's / Consensus (%)	99.0	100.0
Previous Rating	Sell (Maintained)	

Financial Indicators

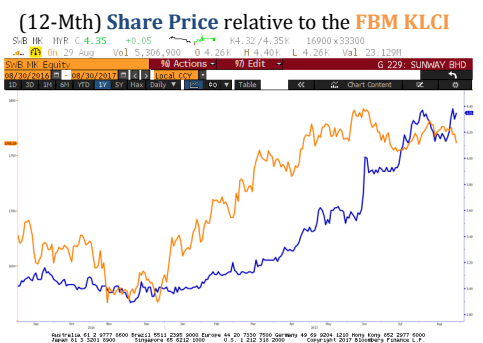
	FY17	FY18
Net Debt / Equity (%)	39.8	36.6
FCPS (sen)	20.3	14.2
Price / CFPS (x)	9.2	13.2
ROA (%)	3.0	3.2
NTA/Share (RM)	1.5	1.6
Price/NTA (x)	1.3	1.2

SCORECARD

	% of FY	
vs TA	45.0	Within
vs Consensus	45.0	Within

Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	2.1	(0.0)
3 mth	24.3	0.1
6 mth	36.0	4.3
12 mth	44.0	5.3



Source: Bloomberg

Outlook

- Despite only securing new sales of RM376mn in 1H17, management has maintained its sales target of RM1.1bn in 2017, underpinned by new projects worth RM2.0bn - see **Figure 3** and other existing projects. Klang Valley is expected to contribute bulk of the sales. New projects to be introduced in 2H2017 include Sunway Industrial Park (GDV: RM100mn, industrial units), Sunway Serene, Kelana Jaya (GDV: RM400mn, condominiums), and The Grid @ Sunway Iskandar (GDV: RM200mn, apartments, retail & offices).
- The group's unbilled sales of RM1.2bn and outstanding construction order book of RM3.0bn (external jobs only) should provide earnings visibility for the next 2 years.
- YTD the group has sealed 5 land deals in the Klang Valley with a combined GDV potential of RM4.86bn – see **Figure 4**. We believe these land acquisitions will augur well for the group over the long term, as Sunway further expand the group's land bank in the Klang Valley and reduces its concentration risk in Johor.

Valuation

- No change to our target price of RM4.15/share (ex-bonus TP: RM1.78/share), based on SOP valuation. We believe the recent sharp rally in share price has largely factored in positive news flow such as new land acquisitions, proposed 4-for-3 bonus issue and 3-for-10 bonus warrants. Maintain **Sell**.

Figure 2: SOP Valuation Table – (Ex- Bonus)

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY18 Property Earnings	213.2	14	100%	2984.8	0.62
SunCon @ RM2.26 TP	2922.2	1	54%	1589.7	0.33
SunREIT @ RM1.87 TP	5493.3	1	37%	2049.0	0.43
CY18 Healthcare Earnings	60.0	20	100%	1200.0	0.25
CY18 Other Business Earnings	61.6	12	100%	739.2	0.15
SOP Value				8562.6	1.78

Figure 3: Indicative 2017 Launches

Development	Location	Type	GDV (RM mn)
Sunway Geo Residence 3	Bandar Sunway	Condominiums	400
Sunway Industrial Park	Kg Subang	Industrial	100
Sunway Serene	Kelana Jaya	Condominium	400
Sunway Paya Terubong	Paya Terubong, Penang	Shops	100
Sunway Wellesley	Bkt Mertajam, Penang	Shops	100
Sunway Wellesley	Bkt Mertajam, Penang	Condominium	65
Sunway Lenang Heights	Bkt Lenang, Johor	Semi Detached	150
The Grid	Sunway Iskandar, Johor	Apartments, retail & Offices	200
Sunway Iskandar	Sunway Iskandar, Johor	Terrace and Cluster	300
Tianjin Eco-City	Tianjin, China	Condominium	150
Others			30
			1995

Source; Sunway, TA Research

Figure 4: Landbanking in 2017

Date of announcement	Location	Land size (Acres)	Purchase consideration (RM'mil)	Purchase consideration RM/sf	GDV (RM'mil)	Land cost/GDV (%)
12-Feb-17	Jalan Peel, Cheras	8.5	228.2	620.0	1400	16.3
13-Jul-17	Kuala Lumpur	4.5	165.0	836.2	1100	15.0
1-Aug-17	Kajang	5.3	63.0	273.9	460	13.7
1-Aug-17	Subang Jaya	14.8	167.6	260.0	1400	12.0
16-Aug-17	Wangsa Maju	4.3	51.1	270.3	500	10.2
Total		37.4			4860.0	

Source; Sunway, TA Research

Earnings Summary

YE Dec 31 (RM'mn)	2015	2016	2017F	2018F	2019F
Revenue	4448.4	4725.9	5252.0	5434.0	5735.3
EBITDA	805.3	864.9	859.2	905.1	929.1
EBITDA margin (%)	18.1	18.3	16.4	16.7	16.2
Pretax profit	783.0	803.5	804.5	807.4	851.0
Net profit	732.4	585.9	558.5	939.7	662.4
Net profit -adj	590.7	547.4	558.5	599.7	662.4
EPS (sen)	40.7	28.4	11.6	19.5	13.8
EPS - adj (sen)	12.3	11.4	11.6	12.5	13.8
EPS Growth (Core) (%)	(0.2)	(7.3)	2.0	7.4	10.5
PER (x)	15.2	16.4	16.1	15.0	13.5
GDPS (sen)	13.8	5.2	5.0	5.0	6.0
Div Yield (%)	7.4	2.8	2.7	2.7	3.2
ROE (%)	9.5	7.8	7.5	7.9	8.5

Note: EPS, DPS adjusted for 4 for 3 bonus issue proposed in FY17

2Q17 Results analysis

YE 31 Dec (RM'mn)	2Q16	1Q17	2Q17	QoQ (%)	YoY (%)	1HFY16	1HFY17	YoY(%)	
Revenue	1,155.7	1091.3	1241.0	13.7	7.4	2224.7	2332.3	4.8	
<i>Property Development</i>	315.1	143.3	271.1	89.2	(13.9)	549.1	414.4	(24.5)	
<i>Property Investment</i>	160.1	186.9	207.4	10.9	29.5	329.3	394.3	19.7	
<i>Construction</i>	249.3	316.8	310.9	(1.9)	24.7	560.8	627.7	11.9	
<i>Trading & Manufacturing</i>	218.5	245.2	226.0	(7.8)	3.5	411.5	471.2	14.5	
<i>Quarry</i>	60.6	40.2	58.7	46.0	(3.1)	99.3	98.9	(0.4)	
<i>Others</i>	152.1	158.9	166.9	5.0	9.7	274.6	325.8	18.6	
EBIT	161.4	116.8	193.9	66.1	20.1	311.1	310.7	(0.1)	
Gain on derivative	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Finance income	26.2	42.9	43.7	1.9	66.8	49.8	86.5	73.9	
Finance costs	(41.7)	(49.6)	(62.4)	25.8	49.5	(81.4)	(112.0)	37.6	
Associates	47.0	27.0	83.0	207.6	76.7	71.2	109.9	54.4	
JV	10.9	16.1	13.3	(17.4)	21.6	29.3	29.4	0.6	
EI	21.5	0.0	56.8	>100	164.2	19.1	56.8	197.4	
PBT	203.8	153.1	271.4	77.3	33.2	379.9	424.6	11.8	
Core PBT	182.3	153.1	214.6	40.2	17.8	360.8	367.8	1.9	
<i>Property Development</i>	60.6	25.1	75.2	200.0	24.1	129.7	100.3	(22.7)	
<i>Property Investment</i>	41.3	31.1	27.6	(11.2)	(33.1)	74.8	58.8	(21.4)	
<i>Construction</i>	34.5	36.9	42.3	14.6	22.8	72.2	79.2	9.7	
<i>Trading & Manufacturing</i>	6.7	8.8	10.3	17.6	54.4	12.0	19.1	58.8	
<i>Quarry</i>	11.3	0.5	3.7	634.5	(67.4)	17.5	4.2	(76.0)	
<i>Others</i>	27.9	50.7	55.5	9.4	98.9	54.5	106.2	94.8	
Tax	(23.9)	(27.3)	(38.2)	39.6	59.8	(56.7)	(65.5)	15.5	
MI	(25.5)	(17.9)	(36.3)	103.4	42.3	(66.7)	(54.2)	(18.7)	
Net profit	154.4	107.9	196.9	82.5	27.6	256.5	304.9	18.9	
Core net profit	132.9	107.9	140.1	29.9	5.5	237.4	248.1	4.5	
Reported EPS	(sen)	7.8	5.3	9.6	80.5	23.0	13.5	15.0	10.5
Adj EPS	(sen)	6.7	5.3	6.8	28.4	1.7	12.6	12.2	(3.2)
DPS	(sen)	5.0	0.0	7.0	0.0	40.0	5.0	7.0	40.0
EBIT margin	(%)	14.0	10.7	15.6	4.9	1.7	14.0	13.3	(0.7)
PBT margin	(%)	15.8	14.0	17.3	3.3	1.5	16.2	15.8	(0.4)
<i>Property Development</i>	(%)	19.2	17.5	27.7	10.2	8.5	23.6	24.2	0.6
<i>Property Investment</i>	(%)	25.8	16.7	13.3	(3.3)	(12.5)	22.7	14.9	(7.8)
<i>Construction</i>	(%)	13.8	11.7	13.6	2.0	(0.2)	12.9	12.6	(0.3)
<i>Trading & Manufacturing</i>	(%)	3.1	3.6	4.6	1.0	1.5	2.9	4.1	1.1
<i>Quarry</i>	(%)	18.7	1.2	6.3	5.0	(12.4)	17.6	4.2	(13.4)
<i>Others</i>	(%)	18.3	31.9	33.2	1.3	14.9	19.9	32.6	12.7
Net margin	(%)	11.5	9.9	11.3	1.4	(0.2)	10.7	10.6	(0.0)
Effective tax rate	(%)	13.1	17.9	17.8	(0.1)	4.7	15.7	17.8	2.1

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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