

### COMPANY RESULTS

## Sunway (SWB MK)

1Q17: Expect A Strong 2H17

Sunway's 1Q17 results came in broadly within expectations at RM107.9m, accounting for 18% of our full-year estimate. Both the investment property and construction divisions were key earnings drivers this quarter. The group clinched RM142m in property sales during the quarter despite not undertaking any major launches. Key catalysts for the group include potential contract wins for its construction division. Maintain BUY. Target price: RM3.93.

### 1Q17 RESULTS

| Year to 31 Dec (RMm)          | 1Q17     | 4Q16     | qoq % chg   | yoy % chg   |
|-------------------------------|----------|----------|-------------|-------------|
| Revenue                       | 1,091.3  | 1,363.7  | (20.0)      | 2.1         |
| - Construction                | 316.8    | 334.4    | (5.2)       | 1.7         |
| - Property Development        | 143.3    | 412.7    | (65.3)      | (38.8)      |
| - Investment Property         | 186.9    | 172.8    | 8.2         | 10.5        |
| Pre-tax Profit                | 153.1    | 270.6    | (43.4)      | (13.0)      |
| - Construction                | 36.9     | 29.7     | 24.4        | (2.1)       |
| - Property Development        | 25.1     | 135.9    | (81.6)      | (63.7)      |
| - Investment Property         | 31.1     | 38.0     | (18.0)      | (7.2)       |
| PBT                           | 153.1    | 270.6    | (43.4)      | (13.0)      |
| PATAMI                        | 107.9    | 185.8    | (41.9)      | 5.7         |
| Core PATAMI                   | 107.9    | 161.8    | (33.3)      | 3.3         |
| <b>Margins</b>                | <b>%</b> | <b>%</b> | <b>+ppt</b> | <b>+ppt</b> |
| Pretax - Construction         | 11.7     | 8.9      | 2.8         | (0.5)       |
| Pretax - Property Development | 17.5     | 32.9     | (15.4)      | (12.0)      |

Source: Sunway Berhad, UOB Kay Hian

### RESULTS

• Results broadly in line with core net profit coming in at RM107.9m (-33.3% qoq, +3.3% yoy) on revenue of RM1,091.3m (-20.0% qoq, +2.1% yoy). 1Q17 net profit accounts for 18% of our and 19% of consensus' estimates. We deem results to be in line as 1H of the year has been seasonally weak for the group. Both the investment property and construction divisions were the primary earnings driver during the quarter while the property division underperformed.

### KEY FINANCIALS

| Year to 31 Dec (RMm)          | 2015  | 2016  | 2017F | 2018F | 2019F |
|-------------------------------|-------|-------|-------|-------|-------|
| Net turnover                  | 4,451 | 4,726 | 4,997 | 5,232 | 5,782 |
| EBITDA                        | 788   | 748   | 837   | 868   | 932   |
| Operating profit              | 687   | 608   | 670   | 695   | 752   |
| Net profit (rep./act.)        | 732   | 586   | 599   | 617   | 662   |
| Net profit (adj.)             | 591   | 547   | 599   | 617   | 662   |
| EPS (sen)                     | 28.8  | 26.7  | 26.0  | 26.7  | 28.7  |
| PE (x)                        | 12.5  | 13.5  | 13.9  | 13.5  | 12.6  |
| P/B (x)                       | 1.0   | 1.0   | 0.9   | 0.9   | 0.8   |
| EV/EBITDA (x)                 | 13.7  | 14.5  | 12.9  | 12.5  | 11.6  |
| Dividend yield (%)            | 2.8   | 3.3   | 3.2   | 3.3   | 3.6   |
| Net margin (%)                | 16.5  | 12.4  | 12.0  | 11.8  | 11.5  |
| Net debt/(cash) to equity (%) | 54.3  | 49.6  | 35.6  | 31.4  | 27.3  |
| Interest cover (x)            | 29.6  | 12.5  | 43.3  | 63.7  | 104.4 |
| ROE (%)                       | 11.7  | 8.4   | 7.7   | 7.4   | 7.4   |
| Consensus net profit          | -     | -     | 563   | 598   | 646   |
| UOBKH/Consensus (x)           | -     | -     | 1.06  | 1.03  | 1.03  |

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

## BUY

(Maintained)

|               |        |
|---------------|--------|
| Share Price   | RM3.60 |
| Target Price  | RM3.93 |
| Upside        | +9.2%  |
| (Previous TP) | RM3.80 |

### COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

### STOCK DATA

|                                 |             |
|---------------------------------|-------------|
| GICS sector                     | Real Estate |
| Bloomberg ticker:               | SWB MK      |
| Shares issued (m):              | 2,034.9     |
| Market cap (RMm):               | 7,325.5     |
| Market cap (US\$m):             | 1,716.1     |
| 3-mth avg daily t'over (US\$m): | 1.7         |

### Price Performance (%)

52-week high/low RM3.63/RM2.84

| 1mth | 3mth | 6mth | 1yr  | YTD  |
|------|------|------|------|------|
| 4.3  | 15.1 | 21.2 | 20.4 | 20.0 |

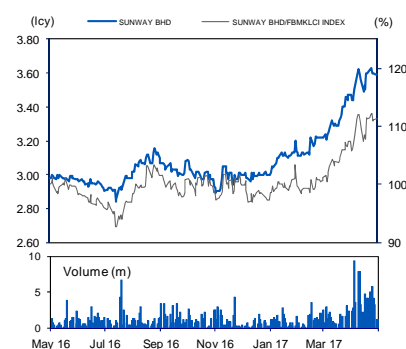
### Major Shareholders

|                              | %    |
|------------------------------|------|
| Sungei Way Corp Sdn Bhd      | 51.6 |
| Skim Amanah Saham Bumiputera | 5.7  |
| Sharp Ventures Sdn Bhd       | 4.0  |

FY17 NAV/Share (RM) 3.89

FY17 Net Debt/Share (RM) 1.38

### PRICE CHART



Source: Bloomberg

### ANALYST

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- Profits dragged down by property division.** For the quarter, the property division recorded revenue of RM143m (-65.3% qoq, -38.8% yoy) and PBT of RM25m (-81.6% qoq, -63.7% yoy) with a margin of 17.5%. Revenue and PBT were weak due to: a) lower sales and progress billings from local projects, and b) handover of projects in 4Q16. We expect the property division to stage a comeback in 2H as the progress billings go into high gear.
- Construction division saw flattish growth.** Revenue increased 1.7% yoy while PBT declined 2.1% yoy to RM317m and RM37m respectively. The drop was largely due to: a) completion of jobs in the previous quarter, coupled with b) slower construction progress during the quarter. Nevertheless, we expect this division to play catch-up in 2H17, as construction billings improve as a result of new contract wins.
- Investment property revenue improved due to completion of new assets.** Revenue for the division grew by 10.5% yoy to RM187m due additional revenue from Sunway Velocity Mall which was opened in Dec 16. The lower PBT was primarily due to opening expenses incurred for Sunway Velocity Mall.

### STOCK IMPACT

- RM142m in property sales in 1Q17.** The group clinched about RM142m in property sales despite not undertaking any major launches during the period. Nevertheless, earnings growth momentum for this division is intact, backed by its RM1.1b unbilled sales, mainly from Sunway Velocity, Sunway Mont and its Singapore projects.
- Lining up RM2b worth of property launches in 2017.** Sunway has set a RM2b sales target for the year. To achieve this, it has earmarked about RM2b worth of new launches, with the two largest launches being condominiums in Sunway South Quay and Kelana Jaya with GDV of RM400m each. The bulk of the launches earmarked for the year were earlier planned for launch in 2016, but were deferred to this year as the group moves to further enhance the amenities surrounding the developments before launch.
- Construction division earnings backed by strong orderbook backlog.** As at Mar 17, Sunway Construction (64.5% owned by Sunway Bhd) had an outstanding construction orderbook of about RM4.6b (or 3.0x its 2016 revenue). Its orderbook includes the MRT Line 2 viaduct package worth RM1.2b, Putrajaya Parcel F worth RM1.6b, and Kelana Jaya Condo worth RM449m. Ytd, the company has secured about RM0.9b worth of new jobs, including RM453m which was awarded by its parent, Sunway Bhd.

### EARNINGS REVISION/RISK

- No change.
- Key risks include: a) rising interest rates, b) tighter lending policies by banks, and c) rising cost of raw materials leading to margin erosion.

### VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of RM3.93** (from RM3.80), as we recently upgraded our target price for the construction division. We like Sunway for its diversified business exposure which includes the strong construction and REIT divisions. Also, better capital management as a result of the amendment of REIT guidelines could translate into higher dividends. Our target price implies 13x 2018F PE.

### SHARE PRICE CATALYST

- Better property sales.
- Securing more construction jobs.
- Unlocking the value of investment properties via a REIT.

### KEY LAUNCHES IN 2017

|   | RMm          |
|---|--------------|
| Sunway Geo Residences 3 (Condominium), South Quay | 400          |
| Sunway Industrial Park, Kg Subang                 | 100          |
| Sunway Kelana Jaya (Condominium)                  | 400          |
| Sunway Paya Terubong (Shops), Penang              | 100          |
| Sunway Wellesley (Shops), Penang                  | 100          |
| Sunway Wellesley (Condominium), Penang            | 65           |
| Sunway Lenang Heights (Semi-D), Johor             | 150          |
| The Grid (Apartments), Sunway Iskandar            | 200          |
| Sunway Iskandar (Townhouses)                      | 300          |
| Tianjin Eco City (Condominium), China             | 150          |
| Others  | 30           |
| <b>Total</b>                                      | <b>2,000</b> |

Source: Sunway

### REVENUE BY SEGMENT (2017F)

|                            |                |
|----------------------------|----------------|
| <b>Total Turnover</b>      | <b>4,997.5</b> |
| Construction               | 1,536.4        |
| Property Development       | 1,081.0        |
| Property Investment        | 705.9          |
| Trading & Manufacturing    | 850.0          |
| Quary & Building Materials | 211.5          |

Source: UOB Kay Hian

### SOTP VALUATION

|                            | (RMm)           |
|----------------------------|-----------------|
| Property development       | 6,117.0         |
| REIT                       | 1,966.9         |
| Construction               | 1,208.2         |
| Quary & building materials | 267.3           |
| Trading                    | 595.0           |
| Investment Properties      | 788.9           |
| Less: Holding co debt      | (778.7)         |
| <b>Total SOP value</b>     | <b>10,164.6</b> |
| Sharebase (m)              | 2,069.0         |
| SOP/share (RM)             | 4.91            |
| Discount                   | 20%             |
| <b>Target price (RM)</b>   | <b>3.93</b>     |

Source: UOB Kay Hian

### PROFIT & LOSS

| Year to 31 Dec (RMm)          | 2016         | 2017F        | 2018F        | 2019F        |
|-------------------------------|--------------|--------------|--------------|--------------|
| <b>Net turnover</b>           | <b>4,726</b> | <b>4,997</b> | <b>5,232</b> | <b>5,782</b> |
| EBITDA                        | 748          | 837          | 868          | 932          |
| Deprec. & amort.              | 140          | 167          | 174          | 180          |
| EBIT                          | 608          | 670          | 695          | 752          |
| Associate contributions       | 272          | 228          | 228          | 228          |
| Net interest income/(expense) | (60)         | (19)         | (14)         | (9)          |
| <b>Pre-tax profit</b>         | <b>859</b>   | <b>879</b>   | <b>909</b>   | <b>971</b>   |
| Tax                           | (140)        | (141)        | (145)        | (155)        |
| Minorities                    | (133)        | (139)        | (146)        | (154)        |
| <b>Net profit</b>             | <b>586</b>   | <b>599</b>   | <b>617</b>   | <b>662</b>   |
| Net profit (adj.)             | 547          | 599          | 617          | 662          |

### BALANCE SHEET

| Year to 31 Dec (RMm)                  | 2016          | 2017F         | 2018F         | 2019F         |
|---------------------------------------|---------------|---------------|---------------|---------------|
| <b>Fixed assets</b>                   | <b>1,876</b>  | <b>1,959</b>  | <b>2,035</b>  | <b>2,105</b>  |
| Other LT assets                       | 7,804         | 7,810         | 8,038         | 8,266         |
| Cash/ST investment                    | 4,060         | 4,898         | 5,036         | 5,211         |
| Other current assets                  | 5,092         | 5,145         | 5,567         | 5,957         |
| <b>Total assets</b>                   | <b>18,831</b> | <b>19,812</b> | <b>20,677</b> | <b>21,541</b> |
| ST debt                               | 4,831         | 4,831         | 4,831         | 4,831         |
| Other current liabilities             | 2,753         | 3,273         | 3,668         | 4,023         |
| LT debt                               | 2,931         | 2,931         | 2,931         | 2,931         |
| Other LT liabilities                  | 98            | 98            | 98            | 98            |
| Shareholders' equity                  | 7,456         | 8,055         | 8,672         | 9,334         |
| Minority interest                     | 764           | 624           | 478           | 324           |
| <b>Total liabilities &amp; equity</b> | <b>18,831</b> | <b>19,812</b> | <b>20,677</b> | <b>21,541</b> |

### CASH FLOW

| Year to 31 Dec (RMm)                        | 2016           | 2017F        | 2018F        | 2019F        |
|---|----------------|--------------|--------------|--------------|
| <b>Operating</b>                            | <b>538</b>     | <b>1,327</b> | <b>635</b>   | <b>690</b>   |
| Pre-tax profit                              | 859            | 879          | 909          | 971          |
| Tax   | (111)          | (141)        | (145)        | (155)        |
| Deprec. & amort.                            | 140            | 167          | 174          | 180          |
| Associates                                  | (248)          | 0            | 0            | 0            |
| Working capital changes                     | (329)          | 721          | (3)          | (7)          |
| Other operating cashflows                   | 227            | (299)        | (299)        | (299)        |
| <b>Investing</b>                            | <b>(1,592)</b> | <b>(250)</b> | <b>(250)</b> | <b>(250)</b> |
| Capex (growth)                              | (288)          | (250)        | (250)        | (250)        |
| Investments                                 | (248)          | 0            | 0            | 0            |
| Proceeds from sale of assets                | 64             | 0            | 0            | 0            |
| Others                                      | (1,120)        | 0            | 0            | 0            |
| <b>Financing</b>                            | <b>1,571</b>   | <b>(240)</b> | <b>(247)</b> | <b>(265)</b> |
| Dividend payments                           | (219)          | (240)        | (247)        | (265)        |
| Issue of shares                             | 595            | 0            | 0            | 0            |
| Proceeds from borrowings                    | 1,457          | 0            | 0            | 0            |
| Loan repayment                              | 0              | 0            | 0            | 0            |
| Others/interest paid                        | (261)          | 0            | 0            | 0            |
| <b>Net cash inflow (outflow)</b>            | <b>517</b>     | <b>838</b>   | <b>138</b>   | <b>175</b>   |
| <b>Beginning cash &amp; cash equivalent</b> | <b>1,248</b>   | <b>4,060</b> | <b>4,898</b> | <b>5,036</b> |
| Changes due to forex impact                 | 2,295          | 0            | 0            | 0            |
| <b>Ending cash &amp; cash equivalent</b>    | <b>4,060</b>   | <b>4,898</b> | <b>5,036</b> | <b>5,211</b> |

### KEY METRICS

| Year to 31 Dec (%)        | 2016   | 2017F | 2018F | 2019F |
|---------------------------|--------|-------|-------|-------|
| <b>Profitability</b>      |        |       |       |       |
| EBITDA margin             | 15.8   | 16.8  | 16.6  | 16.1  |
| Pre-tax margin            | 18.2   | 17.6  | 17.4  | 16.8  |
| Net margin                | 12.4   | 12.0  | 11.8  | 11.5  |
| ROA                       | 3.4    | 3.1   | 3.0   | 3.1   |
| ROE                       | 8.4    | 7.7   | 7.4   | 7.4   |
| <b>Growth</b>             |        |       |       |       |
| Turnover                  | 6.2    | 5.7   | 4.7   | 10.5  |
| EBITDA                    | (5.1)  | 11.9  | 3.7   | 7.3   |
| Pre-tax profit            | (7.6)  | 2.3   | 3.4   | 6.8   |
| Net profit                | (20.0) | 2.3   | 3.0   | 7.3   |
| Net profit (adj.)         | (7.3)  | 9.5   | 3.0   | 7.3   |
| EPS                       | (7.3)  | (2.8) | 3.0   | 7.2   |
| <b>Leverage</b>           |        |       |       |       |
| Debt to total capital     | 48.6   | 47.2  | 45.9  | 44.6  |
| Debt to equity            | 104.1  | 96.4  | 89.5  | 83.1  |
| Net debt/(cash) to equity | 49.6   | 35.6  | 31.4  | 27.3  |
| Interest cover (x)        | 12.5   | 43.3  | 63.7  | 104.4 |

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