

27 November 2015 | 3QFY15 Results review

Sunway Berhad

Property division remains a drag

INVESTMENT HIGHLIGHTS


- Core net income within expectations
- 9MFY15 core net income increased 7%yoy
- Muted performance from property division
- Earnings forecast maintained
- Maintain NEUTRAL with unchanged TP of RM3.20

Core net income within expectations. Sunway Berhad's (SUNWAY) 9MFY15 core net income of RM415m was within expectations, meeting 74% and 72% of our and consensus full year estimates respectively.

9MFY15 core net income increased 7%yoy. Sunway reported lower 9MFY15 revenue of RM3b (-9%yoy) due to higher elimination of intra-group construction revenue. Nevertheless, its core net income was 7% higher at RM415m, underpinned by higher earnings contribution from construction, property investment, and quarry divisions which cushioned the lower earnings from property development and trading and manufacturing divisions. Notably, operating profit of construction segment surged 69%yoy on better performance from the local construction projects. Note that net profit contribution from construction has been reduced to 54.4% following the listing of Sunway Construction Group on 28 July 2015.

Muted performance from property division. Property arm of Sunway recorded lower operating profit of RM111.3m (-41%yoy) for 9MFY15, mainly attributed to lower recognition from its projects while 9MFY14 segment profit was boosted by the completion of Sunway Nexis and Sunway Alam Suria. Meanwhile, Sunway achieved sales of RM734m in 9MFY15, on track to hit management sales target of RM1b. To recap, Sunway had revised downward its sales target to RM1b from RM1.7b in October after it adjusted the timing of launches for some key property projects due to challenging market outlook. Separately, unbilled sales stood at RM2.3b as of Sept-15.

Earnings forecasts maintained. We maintain our earnings forecasts for FY15/FY16. We maintain our sales assumption of RM1b and RM1.1b for FY15 and FY16 respectively.

Maintain NEUTRAL with unchanged TP of RM3.20. We maintain our Target Price of RM3.20, based on 20% discount to RNAV. We expect limited immediate catalysts for Sunway due to the challenging property market outlook. Nevertheless, the robust performance of its construction arm is expected to cushion the weakness in property division. 

Maintain NEUTRAL

Unchanged Target Price (TP): RM3.20

RETURN STATS	
Price (26 Nov 2015)	RM3.06
Target Price	RM3.20
Expected Share Price Return	+4.6%
Expected Dividend Yield	+3.6%
Expected Total Return	+8.2%

STOCK INFO	
KLCI	1683.09
Bursa / Bloomberg	5211 / SWB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	1799.5
Par Value (RM)	1.00
Market cap. (RM'm)	5,506.5
Price over NA	0.86
52-wk price Range	RM2.80 - RM3.52
Beta (against KLCI)	0.55
3-mth Avg Daily Vol	1.39m
3-mth Avg Daily Value	RM4.55m
Major Shareholders	
SUNGEI WAY CORP	50.15%
YEAN TIH CHEAH	13.44%

INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY12A	FY13A	FY14A	FY15F	FY16F
Revenue	4129	4721	4842	5018	5010
Core EBIT	719	824	567	517	516
Core PBT	716	915	767	717	722
Net Income	439	1490	743	538	542
Core Net Income	315	505	541	538	542
EPS (sen)	33.95	94.51	43.09	31.02	31.25
Core EPS (sen)	24.40	32.03	31.38	31.02	31.25
Net DPS (sen)	6	10	11	37	11
Net Dvd Yield	2.0%	3.3%	3.6%	12.0%	3.6%
Core PER	12.5	9.6	9.8	9.9	9.8
NTA/share (RM)	2.51	2.96	3.35	3.55	3.75
P/NTA	1.22	1.03	0.91	0.86	0.82
Core ROE	8.9%	9.9%	8.8%	8.3%	7.9%
Core ROA	12.2%	4.6%	4.2%	4.1%	4.0%

Source: Company, MIDF Research Estimate

Sunway: 3QFY15 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	3QFY15	%YoY	%QoQ	9MFY15	%YoY	
Revenue	951.0	-16%	-9%	3,052.6	-9%	Revenue dropped 9%yoy due to higher elimination of intra-group construction revenue.
EBIT	118.7	-22%	-15%	427.6	8%	
Core PBT	184.7	-3%	3%	542.1	5%	Better performance of construction, property investment, and quarry divisions were more than enough to offset lower earnings from property development and trading and manufacturing divisions.
Net Income	133.3	-7%	-44%	517.8	20%	
Core Net Income	147.0	-2%	8%	414.5	7%	Exclude mainly RM111m fair value gain at associate level (Sunway REIT).
EPS (sen)	7.54	-10%	-44%	29.54	18%	
Core EPS (sen)	8.31	-4%	7%	23.65	6%	
Net DPS (sen)	5.00	0%	NA	10.00	100%	
NTA/share (RM)	3.70	20%	9%	3.70	20%	
Net Gearing (x)	0.40	NA	NA	0.40	NA	
Core EBIT Margin	12.5%	NA	NA	14.0%	NA	
Core PBT Margin	19.4%	NA	NA	17.8%	NA	

Source: Company, MIDF Research Estimate

DAILY PRICE CHART



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Source: Bloomberg

SUNWAY RNAV

Landbank	Location	Size (Ac)	Size (Sq ft)	Price (RM/sq ft)	Stake	Value (RM m)
Property Development - Malaysia						
Sunway South Quay	Bandar Sunway, Selangor	49	2,134,440	466.2	60%	597.0
Sunway Velocity	Kuala Lumpur	19	827,640	200	85%	140.7
Sunway Damansara	Petaling Jaya, Selangor	15	653,400	256	60%	100.4
Medini Iskandar	Iskandar, Johor	678	29,532,809	108	56%	1786.1
Daiwa JV	Iskandar, Johor	13	DCF @ WACC 10%		17%	7.0
Pendas	Iskandar, Johor	1079	47,001,240	98.4	60%	2775.0
Sunway Lenang	Johor Bahru, Johor	71	3,091,453	93.5	80%	231.2
Sunway Wellesley	Penang	60	2,613,600	50	100%	130.7
Paya Terubong	Penang	24	1,045,440	45	100%	47.0
Sunway Hillds	Penang	81	3,528,360	30	100%	107.3
Balik Pulau	Penang	29	1,263,240	23	100%	29.1
Sunway Cassia	Penang	7	304,920	25	100%	7.7
Sunway Semenyih	Ulu Langat, Selangor	508	22,141,548	25	100%	544.7
Kelana Jaya Land	Kelana Jaya, Selangor	17	740,084	394	100%	291.7
Property Development - Singapore						
Miltonia Residences	Yishun, Singapore	NA	DCF @ WACC 10%		30%	37.4
Arc	Tampines, Singapore	NA	DCF @ WACC 10%		30%	45.8

Lake Vista	Yuan Ching Road, Singapore	NA	DCF @ WACC 10%	30%	36.0	
Sea Esta	Pasir Ris, Singapore	NA	DCF @ WACC 10%	30%	35.3	
Royale Square	Novena MRT, Singapore	NA	DCF @ WACC 10%	30%	48.6	
Mount Sophia	Dhoby Ghaut MRT, Singapore	NA	DCF @ WACC 10%	30%	92.9	
Avant Parc	Sembawang	NA	DCF @ WACC 10%	100%	19.9	
Property Development - Other Countries						
Tianjin Eco City	Tianjin, China	91	DCF @ WACC 10%	60%	221.1	
Sunway Guanghao	Jianyin, China	4	DCF @ WACC 10%	65%	2.2	
Sunway OPUS Grand India	Hyderabad, India	24	DCF @ WACC 10%	50%	23.5	
Sunway MAK Signature Residence	Hyderabad, India	14	DCF @ WACC 10%	60%	9.1	
Wonderland Business Park	Sydney, Australia	66	DCF @ WACC 10%	45%	10.6	
Investment Property						
Monash University	Bandar Sunway, Selangor	12.0	916,640	NA	100%	300.0
Sunway Pinnacle	Bandar Sunway, Selangor	1.8	1,141,499	NA	100%	280.0
Sunway Velocity Shopping Mall	Kuala Lumpur	21.4	259,497	NA	100%	259.5
Sunway University Campus	Bandar Sunway, Selangor	12.4	704,577	NA	100%	255.0
Monash Residence Hostel	Bandar Sunway, Selangor	2.5	623,010	NA	100%	226.6
Total Value Of Properties					8699	
		Stake				
Sunway REIT			34.5%		1721.7	
Sale of 70% stake in 13 acres land to Daiwa			56.0%		24.7	
Payment for Kelana Jaya land					-286.0	
Construction Division Asset			1297.8	54%	661.9	
Trading & Manufacturing Asset					415.1	
Quarry Division Asset					165.9	
Other Division Asset					1116.5	
Total Liabilities (excl. deferred tax liabilities)					-4931.3	
Total RNAV					7587.7	
No of shares (m)					1751.0	
RNAV per share					4.33	
Warrants, Exercise Price RM2.50					289.6	
ESOS, Exercise Price RM2.80					132.8	
Fully Diluted No Of Shares					2173.4	
FD RNAV Per Share					4.00	
Discount					20%	
Target Price					3.20	

Source: Company, MIDF Research Estimate

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.