9M14 Property sales up 14%

We upgrade Sunway to BUY on share price weakness (total return of 15%). TP unchanged at RM3.60. Sunway's 9M14 core earnings came within our and street estimates. YTD earnings were underpinned by higher contribution from property and construction segments.

9M14 core earnings came in within our expectation

Sunway's 9M14 core earnings of RM385m (+18% yoy) came in within our expectation, accounting for 77% of our and street estimates. The growth in earnings was driven by higher contribution from property segment (+13% yoy), construction (+33% yoy) and others (>100% yoy). However, this was mitigated by lower contribution from trading segment (-15% yoy). No dividend was declared during the quarter.

Qoq revenue was down but profit was grew

On qoq, 3Q14 revenue fell 5.9% mainly due to lower contribution from the property segment due to slower progress billings. However, core earnings improved 18.5% qoq on higher profit contributions from all business segments apart from construction and quarry. The lower profit contribution from construction was due to elimination of all intra-company profits (in compliance with IFRS 127 – construction profits related to fixed assets for Group to be eliminated)

9M14 property sales up 14% yoy

In 3Q14, Sunway reported property sales of RM323m, taking 9M14 property sales to RM951m (+14% yoy). Growth was driven by strong take-up for both new launches and older projects. These include the South Quay, Velocity, Montana and Eastwood. Meanwhile, total construction order book replenishment stood at RM881m as at end-Oct 2014, bringing the total order books to RM3.3bn.

Upgrade BUY with an unchanged TP of RM3.60

Given the recent share price weakness, we upgrade Sunway to BUY (from add) with an unchanged TP of RM3.60 (based on 30% discount to RNAV). Including a 3% dividend yield, it offers a total return of 15%. We continue to like Sunway for its strategic property land bank, extensive experience in the construction sector, and inexpensive valuation of 0.7x P/RNAV. Risk to recommendation include; i) sharper-than- expected slowdown in the domestic property market; ii) prolonged oversupply within the Johore region, iii) lower-than-expected construction contract wins.

Earnings & Valuation Summary

FYE 31 Dec	2012	2013	2014E	2015E	2016E
Revenue (RMm)	3,849.2	4,527.6	5,395.2	5,429.0	5,727.4
EBITDA (RMm)	469.6	608.3	643.7	645.2	672.8
Pretax profit (RMm)	722.9	1,007.8	706.8	705.1	757.9
Net profit (RMm)	530.6	839.3	498.2	509.4	569.4
EPS (sen)	41.1	55.7	28.9	29.6	33.0
PER (x)	7.9	5.8	11.2	10.9	9.8
Core net profit (RMm)	350.6	482.7	498.2	509.4	569.4
Core EPS (sen)	27.1	32.0	28.9	29.6	33.0
Core EPS growth (%)	7.2	18.0	(9.7)	2.2	11.8
Core PER (x)	11.9	10.1	11.2	10.9	9.8
Net DPS (sen)	6.0	10.0	10.0	10.0	12.0
Dividend Yield (%)	1.9	3.1	3.1	3.1	3.7
EV/EBITDA (x)	12.3	11.2	10.7	10.3	9.7
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang estimates

Results Note

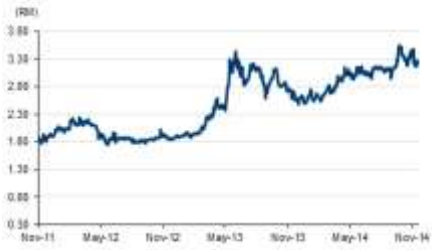
Sunway

SWB MK
Sector: Property

RM3.23 @ 18 November 2014

BUY (upgrade)
Upside 12%

Price Target: RM3.60
Previous Target: RM3.60



Price Performance

	1M	3M	12M
Absolute	+1.6%	+2.2%	+17.9%
Rel to KLCI	-0.1%	+4.7%	+16.2%

Stock Data

Issued shares (m)	1,719.7
Mkt cap (RMm)/(US$m)	5,554/1,656
Avg daily vol - 6mth (m)	1.0
52-wk range (RM)	2.54-3.67
Est free float	36%
BV per share (RM)	3.21
P/BV (x)	1.01
Net cash/ (debt) (RMm) (3Q14)	(1,762)
ROE (2015F)	8.7%
Derivatives	
Warr 2016 (SP:RM2.50)	
Shariah Compliant	Yes

Key Shareholders

Tan Sri Jeffrey Cheah	55.4%
GIC	8.7%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	3QFY14	QoQ % chg	YoY % chg	9M14	YoY % chg	Comment
Revenue	1134.0	(5.9)	6.4	3,364.4	5.0	YTD growth attributed to property investment (+6% yoy), construction (+5% yoy), and trading (+4% yoy), but mitigated by weaker property development (-6% yoy)
Op costs	(976.5)	(13.3)	1.7	(3013.3)	5.1	
EBIT	157.5	102.7	48.1	351.1	3.7	
EBIT margin (%)	13.9	+1.8%-pts	+6.4%-pts	10.4	-0.2%-pts	
Int expense	(16.4)	(27.1)	(11.7)	(56.9)	(7.8)	Total debt stood at RM3.2bn
Int and other income	11.2	(8.4)	(8.5)	33.7	8.1	
Associates	38.5	(64.9)	(22.1)	188.5	61.7	
EI	(5.6)	nm	nm	44.6	55.9	Fair value gains from Sunway REITs
Pretax profit	185.2	(20.7)	56.7	561.0	23.8	
Core pretax	190.8	7.8	27.7	516.4	21.6	Higher associate contribution
Tax	(21.8)	(51.3)	31.5	(97.1)	28.8	
Tax rate (%)	11.8	n.m	n.m	17.3	n.m	
MI	(19.7)	218.7	133.2	(33.7)	41.5	
Net profit	143.7	(21.3)	54.3	430.2	21.5	
EPS (sen)	8.3	(21.2)	43.5	25.0	(1.5)	
Core net profit	149.3	18.5	20.0	385.6	18.5	In line. Accounts for 78% of our full year estimate

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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