

Out think. Out perform.

Construction segment drove earnings

Sunway's 2014 core earnings came in above our and street estimates. Strong earnings were underpinned by higher contribution from the construction segment. Maintain forecast and BUY recommendation with a TP of RM3.60.

2014 core earnings came in above our expectation

Sunway's 2014 core earnings of RM592m (+22% yoy) came in 19% above our expectation and street estimates. The discrepancy was mainly due to better-than-expected margins especially from the construction segment on higher profit contribution from the BRT, Afiniti Medini and Sunway University project, as well as high contribution from its precast division which completed multiple projects and finalisation of accounts during the year. Sunway declared a final dividend of 6 sen taking full year payout to 11 sen (32% payout).

The construction segment drove earnings

2014 core earnings were driven by higher contribution from construction (>100%), property investment (+13% yoy), quarry and others (>100% yoy). Contribution from property development, which accounts for 39% of the group's overall core earnings, fell marginally by 6% yoy.

2014 property sales reached RM1.3bn

In 2014, Sunway achieved property sales of RM1.3bn. Sunway's 2014 property sales were generated from various projects in different locations including; Velocity, Montana, South Quay, and Eastwood. Effective unbilled sales stood at RM1.9bn as at end-Dec14. Meanwhile, total outstanding construction order book stood at RM3bn as at end-Dec 2014 with total replenishment of RM1.1bn.

Maintain BUY with an unchanged TP of RM3.60

We maintain our forecast and BUY rating and TP of RM3.60 (based on 30% discount to RNAV). 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	2013	2014	2015E	2016E	2017E
Revenue (RMm)	4,721.4	4,841.9	5,429.0	5,727.4	5,907.9
EBITDA (RMm)	1,927.7	845.9	737.2	769.3	795.6
Pretax profit (RMm)	1,900.4	968.8	707.4	762.4	785.1
Net profit (RMm)	1,490.4	743.2	510.7	572.1	587.6
EPS (sen)	55.7	28.9	29.6	33.2	34.1
PER (x)	6.0	11.5	11.2	10.0	9.7
Core net profit (RMm)	484.0	591.7	510.7	572.1	587.6
Core EPS (sen)	32.1	34.3	29.6	33.2	34.1
Core EPS growth (%)	18.3	7.0	(13.7)	12.0	2.7
Core PER (x)	10.4	11.5	11.2	10.0	9.7
Net DPS (sen)	10.0	11.0	10.0	12.0	12.0
Dividend Yield (%)	3.0	3.3	3.0	3.6	3.6
EV/EBITDA (x)	11.5	9.5	9.0	8.3	7.7
Chg in EPS (%)			-	-	NA
Affin/Consensus (x)			1.0	1.0	NA

Source: Company, Affin Hwang estimates

Results Note

Sunway

SWB MK
Sector: Property

RM3.32 @ 25 February 2015

BUY (maintain)

Upside 9%

Price Target: RM3.60

Previous Target: RM3.60



Price Performance

	1M	3M	12M
Absolute	+1.5%	-1.8%	+16.5%
Rel to KLCI	+0.8%	-0.5%	+17.6%

Stock Data

Issued shares (m)	1,723.1
Mkt cap (RMm)/(US\$m)	5,720/1,587
Avg daily vol - 6mth (m)	1.4
52-wk range (RM)	2.76-3.67
Est free float	36%
BV per share (RM)	3.28
P/BV (x)	1.01
Net cash/ (debt) (RMm) (4Q14)	(1,806)
ROE (2015F)	8.8%
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)	4QFY14	QoQ % chg	YoY % chg	2014	YoY % chg	Comment
Revenue	1477.5	30.3	11.1	4,841.9	2.6	2014 growth attributed to property development (+3% yoy), property investment (+3%), construction (+8% yoy), trading (+9% yoy), but negated by others (-10% yoy)
Op costs	(1214.0)	24.3	7.9	(4227.3)	7.8	
EBIT	263.5	67.3	28.5	614.6	(23.2)	
<i>EBIT margin (%)</i>	17.8	3.9	2.4	12.7	(4.3)	
Int expense	(22.0)	34.2	(20.1)	(78.9)	(42.8)	Total debt stood at RM3.7bn
Int and other income	14.7	31.2	190.3	48.4	29.0	
Associates	44.7	16.0	(56.0)	233.2	20.4	
EI	106.9	nm	nm	151.5	(84.9)	Fair value gains from Sunway REITs
Pretax profit	407.8	120.2	(67.5)	968.8	(49.0)	
Core pretax	300.9	57.7	5.9	817.3	(8.6)	
Tax	(50.8)	132.8	(17.5)	(148.0)	8.0	
<i>Tax rate (%)</i>	12.5	n.m	n.m	15.3	n.m	
MI	(44.0)	123.1	(31.2)	(77.6)	(71.6)	
Net profit	313.0	117.8	(72.3)	743.2	(50.1)	
EPS (sen)	18.1	117.3	(72.3)	43.1	(54.4)	
Core net profit	206.1	38.1	30.0	591.7	22.3	18% above expectation; driven by construction segment

Source: Affin Hwang, Company data

Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% 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

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

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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