


AmResearch
Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

19 Nov 2014

9MFY14: Strong margins
BUY

(Upgraded)

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Rationale for report: Company result

Price	RM3.23
Fair Value	RM3.60
52-week High/Low	RM3.67/RM2.54

Key Changes

Fair value	↑
EPS	↑

YE to Dec	FY13	FY14F	FY15F	FY16F
Revenue (RM mil)	4,721.4	4,553.0	4,992.7	4,587.8
Core net profit (RM mil)	484.0	499.8	555.6	547.5
FD Core EPS (sen)	30.5	29.9	32.3	31.9
FD Core EPS growth (%)	27.5	(1.9)	8.2	(1.4)
Consensus Net Profit (RM mil)	-	479.8	530.2	552.1
DPS (sen)	10.0	10.0	10.0	10.0
PE (x)	10.6	10.8	10.0	10.1
EV/EBITDA (x)	11.7	11.4	10.7	12.1
Div yield (%)	3.1	3.1	3.1	3.1
ROE (%)	34.9	9.1	9.5	8.8
Net Gearing (%)	25.3	44.5	41.8	47.4

Stock and Financial Data

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	5,567.0
Book Value (RM/share)	3.09
P/BV (x)	1.0
ROE (%)	34.9
Net Gearing (%)	25.3
Major Shareholders	Tan Sri Jeffrey Cheah (48.2%) EPF (5.7%)
Free Float	22.4
Avg Daily Value (RMmil)	4.3

Price performance	3mth	6mth	12mth
Absolute (%)	2.2	5.2	17.9
Relative (%)	4.7	9.0	16.2


Investment Highlights

- We upgrade Sunway to a BUY, with a higher fair value of RM3.60/share (RM3.42/share previously), based on a 15% discount on our SOP value of RM4.25/share.
- This offers an upside potential of 25% comprising a capital gain of 12% and in the form of cash and dividend-in-specie (of Sunway Construction shares which is to be listed by 2Q15) at another ~13%. We have upped our numbers following the release of its latest quarterly result and raised the PE target for its construction division to 13x vs. 12x previously.
- Notwithstanding the lower tax rate and minority interest in the 9MFY14 vs. our estimates and while factoring the better performances of all divisions, we raise our FY14F-FY15F earnings by 11%-12%.
- Sunway posted a 3QFY14 core earnings of RM149mil (+18% QoQ; +20% YoY), bringing the 9M cumulative sum to RM386mil (+19% YoY). This beats expectations, accounting for 85% and 80% our previous and consensus estimates, respectively. No dividend was declared for 3Q.
- Operating-wise, EBIT accounted for 81% of our estimate, but was in line with consensus' at 72%. This was achieved on the back of strong margins in property development and the stronger-than-expected performance of the construction division.
- The 9MFY14 group EBIT margin improved by 2ppts YoY, aided by higher profit contributions from most segments. Property development's operating profit rose due to lower common infrastructure cost and higher profit recognition for Sunway Damansara.
- For 9MFY14, property sales reached RM1.2bil (effective: RM951mil), while unbilled sales totaled RM2.8bil (effective: RM2.1bil) as at 30 Sept 2014. It targets to launch RM2.3bil (effective: RM1.7bil) worth of properties in FY14, with sales of RM1.8bil (effective: RM1.3bil).
- Job replenishment totaled RM881mil (all internal), bringing the total outstanding order book to RM3.26bil vs. RM3.48bil as at end-June. The group has targeted ~RM2.0bil worth of jobs, including 70% of external projects, for FY14F. The outstanding external jobs total RM2.19bil, 1.3x FY13's construction revenue.
- The stock is now trading at an undemanding 11x and 10x PE on FY14F and FY15F fully diluted earnings, respectively (taking into account proceeds from warrants/ESOS and average price of RM3.02/share YTD).

EXHIBIT 1: RESULT SUMMARY

	9M13	9M14	% YoY	3Q13	2Q14	3Q14	% QoQ	% YoY
Revenue	3,205.2	3,364.4	5.0	1,066.1	1,204.6	1,134.0	(5.9)	6.4
EBIT	318.8	412.9	29.5	116.2	139.6	157.4	12.7	35.5
Est. Unusual Items	18.7	44.6	138.6	(41.2)	56.5	(5.6)	(109.8)	(86.5)
Associates & JVs	146.2	126.6	(13.4)	49.4	47.7	38.5	(19.3)	(22.1)
Net interest income	(30.5)	(23.2)	(24.1)	(6.3)	(10.2)	(5.1)	(49.6)	(17.9)
PBT	453.2	561.0	23.8	118.2	233.6	185.2	(20.7)	56.7
Taxation	(75.4)	(97.1)	28.8	(16.6)	(44.9)	(21.8)	(51.3)	31.5
Minorities	(23.8)	(33.7)	41.5	(8.5)	(6.2)	(19.7)	218.7	133.2
Net profit	354.0	430.2	21.5	93.1	182.5	143.7	(21.3)	54.3
Total Els after tax and MI	28.7	44.6	55.7	(31.211)	56.5	(5.6)	(109.8)	(82.2)
Effective tax (excludes Els)	(85.4)	(97.1)	13.7	(26.6)	(44.9)	(21.8)	(51.3)	(17.9)
Core PBT	434.5	516.4	18.8	159.4	177.1	190.8	7.7	19.7
Core net profit	325.4	385.6	18.5	124.4	126.1	149.3	18.4	20.0
Core EPS	23.3	22.4	(3.9)	8.9	7.3	8.7	18.4	(2.7)
Diluted core EPS	22.8	21.5	(5.6)	8.7	7.0	8.2	17.1	(5.5)
Margins (%)	9M13	9M14 ppt change YoY		3Q13	2Q14	3Q14 ppt change QoQ	ppt change YoY	
EBIT	9.9	12.3	2.3	10.9	11.6	13.9	2.3	2.986
Core PBT	13.6	15.3	1.8	14.9	14.7	16.8	2.1	1.877
Core net profit	10.2	11.5	1.3	11.7	10.5	13.2	2.7	1.498
Effective tax rate on core PBT	19.7	18.8	(0.8)	16.7	25.3	11.4	(13.9)	(5.247)

Source: Company, AmResearch

EXHIBIT 2: CONSTRUCTION ORDER AS AT 30 SEPT 2014

Projects	Value (RM mil)	O/S value
MRT Package V4 (Sec 17 to Semantan)	974.0	594.0
Kelana Jaya LRT Line extn (Package B)	569.0	173.0
BRT-Sunway Line	452.0	190.0
Urban Wellness Centre, Johor	282.9	204.0
KLCC car park (package 1)	304.0	233.0
KLCC piling & substructure (package 2)	222.0	157.0
Singapore pre-cast	556.0	384.0
Others	755.0	250.0
Total external works	4,114.9	2,185.0
Velocity Mall (Substructure)	291	31
Velocity Phase 2 (Substructure)	179	11
Sunway Velocity 2 Mall	350	267
Sunway University New Academic Block	192	65
Sunway Putra Place	258	54
Sunway Pyramid 3	203	147
Sunway Medical Centre Phase 3	178	178
Sunway Geo Retail Shops & Flexi Suites	153	146
Sunway Iskandar - Citrine Service Apart'	180	177
Total internal works	1,984	1,076
Total in hand (RM mil)	6,099	3,261

Source: Company, AmResearch

EXHIBIT 3: SEGMENT BREAKDOWN

Core revenue	9M13	9M14	% YoY	3Q13	2Q14	3Q14	% QoQ	% YoY
Property Dev	749.9	702.0	(6.4)	260.3	301.7	178.0	(41.0)	(31.6)
Property Inv	412.4	434.0	5.2	137.1	146.0	151.8	4.0	10.7
Construction	1,178.7	1,273.0	8.0	376.5	426.1	488.2	14.6	29.7
Trading and Manufacturing	453.1	470.5	3.8	151.9	162.1	159.4	(1.7)	4.9
Quarry	147.2	162.2	10.2	47.1	57.7	56.3	(2.5)	19.5
Investment Holdings	(0.3)	0.1	(123.2)	(1.1)	0.0	0.0	(3.1)	(102.9)
Others	264.2	322.6	22.1	94.3	111.1	100.3	(9.6)	6.4
Total	3,205.2	3,364.4	5.0	1,066.1	1,204.6	1,134.0	(5.9)	6.4
Est. EBIT								
Property Dev	131.9	189.2	43.5	62.0	58.0	79.1	36.4	27.5
Property Inv	72.6	78.4	8.0	21.8	26.7	31.2	16.9	42.7
Construction	58.4	78.5	34.3	15.4	25.7	21.8	(15.0)	41.6
Trading and Manufacturing	36.3	30.9	(14.9)	11.7	11.0	10.8	(1.5)	(7.4)
Quarry	16.8	20.3	20.4	5.2	9.2	6.7	(27.5)	27.9
Investment Holdings	(14.2)	(10.3)	(27.3)	(6.6)	(1.9)	(3.8)	106.5	(42.3)
Others	17.0	26.0	53.1	6.6	11.0	11.7	6.4	76.0
Total	318.8	412.9	29.5	116.2	139.6	157.4	12.7	35.5
Est. EBIT margin								
	9M13	9M14	ppt change YoY	3Q13	2Q14	3Q14	ppt change QoQ	ppt change YoY
Property Dev	17.6	27.0	9.4	23.8	19.2	44.5	25.2	20.627
Property Inv	17.6	18.1	0.5	15.9	18.3	20.5	2.3	4.597
Construction	5.0	6.2	1.2	4.1	6.0	4.5	(1.6)	0.377
Trading and Manufacturing	8.0	6.6	(1.4)	7.7	6.8	6.8	0.0	(0.900)
Quarry	11.4	12.5	1.1	11.1	15.9	11.8	(4.1)	0.777
Investment Holdings	nm	nm	nm	nm	nm	nm	nm	nm
Others	6.4	8.1	1.6	7.0	9.9	11.6	1.8	4.596
Overall	9.9	12.3	2.3	10.9	11.6	13.9	2.3	2.986
Core pretax profit								
	9M13	9M14	% YoY	3Q13	2Q14	3Q14	% QoQ	% YoY
Property Dev	216.8	243.8	12.4	90.1	75.7	99.2	30.9	10.0
Property Inv	83.2	82.3	(1.0)	24.8	25.5	31.7	24.2	28.1
Construction	61.7	81.7	32.3	15.5	32.7	17.7	(45.9)	14.2
Trading and Manufacturing	33.8	28.6	(15.5)	10.8	9.8	10.4	5.6	(3.8)
Quarry	17.1	21.0	22.6	5.3	9.5	6.8	(27.9)	28.0
Investment Holdings	0.4	27.2	7,638.7	3.9	10.6	11.3	6.9	187.5
Others	21.5	31.8	48.0	8.9	13.2	13.7	3.7	53.7
Total	434.5	516.4	18.8	159.4	177.1	190.8	7.7	19.7
Core PBT margin								
	9M13	9M14	ppt change YoY	3Q13	2Q14	3Q14	ppt change QoQ	ppt change YoY
Property Dev	28.9	34.7	5.8	34.6	25.1	55.7	30.6	21.092
Property Inv	20.2	19.0	(1.2)	18.1	17.5	20.9	3.4	2.831
Construction	5.2	6.4	1.2	4.1	7.7	3.6	(4.1)	(0.492)
Trading and Manufacturing	7.5	6.1	(1.4)	7.1	6.1	6.5	0.4	(0.591)
Quarry	11.7	13.0	1.3	11.4	16.5	12.2	(4.3)	0.808
Investment Holdings	nm	nm	nm	nm	nm	nm	nm	nm
Others	8.1	9.9	1.7	9.4	11.9	13.6	1.7	4.187
Overall	13.6	15.3	1.8	14.9	14.7	16.8	2.1	1.877

Source: Company, AmResearch

EXHIBIT 4: DERIVATION OF FAIR VALUE

NPV of development profits@ 8%				4,587.6
Investment Properties	Stake (%)	Method	Mkt value (RM'mil)	
Sunway Giza	60	Cap Rate	44.2	
Monash Uni Campus	100		220.0	
Sunway Uni College	100		219.0	
Sunway Hotel Georgetown	100	RM300k/room@240	72.0	
Sunway Hotel Phnom Penh	53	RM200k/room@138	14.6	
Sunway Hotel Hanoi	100	RM200k/room@142	28.4	
Subtotal			598.2	
Other divisions				
	FY15F EPS	PE (x)		
Construction	126.2	13	1,640.1	
Trading	22.5	8	180.3	
Building material	18.9	8	151.1	
	Stake (%)	Mkt cap (RM'mil)		
Sunway REIT	35.7	4,385.6	1,564.3	
			8,721.6	
Warrants proceeds (exercise price of RM2.50/share)			724.0	
ESOS proceeds (exercise price of RM2.50/share)			333.9	
less: Net debt FY13 @company level			(658.6)	
SOP			9,120.9	
Outstanding shares (million)			1,723.5	
Outstanding warrants (million)			289.6	
Outstanding ESOS (million)			133.6	
Enlarged share base (million)			2,146.7	
SOP/share (RM)			4.25	
Discount (%)			(15)	
Fair Value (RM/share)			3.60	
Capital gain (%)			11.5	
Normal dividend yield (FY15F)			3.1	
Est. cash and share dividend yield			10.0	
Total upside potential (%)			24.6	

Source: Company, AmResearch

EXHIBIT 5: PB BAND CHART



EXHIBIT 6: PE BAND CHART

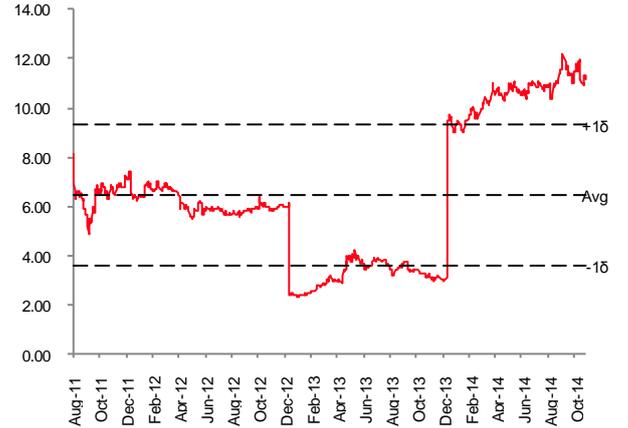


EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Revenue	4,128.8	4,721.4	4,553.0	4,992.7	4,587.8
EBITDA	519.5	589.5	709.6	754.0	712.0
Depreciation/Amortisation	(138.0)	(137.0)	(139.0)	(141.0)	(159.0)
Operating income (EBIT)	381.5	452.5	570.6	613.0	553.0
Other income & associates	219.8	255.9	286.9	322.2	358.6
Net interest	(76.8)	(46.1)	(60.0)	(75.0)	(75.0)
Exceptional items	315.2	1,238.1	-	-	-
Pretax profit	839.6	1,900.4	797.5	860.2	836.6
Taxation	(115.4)	(137.0)	(199.4)	(215.1)	(209.2)
Minorities/pref dividends	(285.5)	(273.0)	(98.4)	(89.6)	(80.0)
Net profit	438.8	1,490.4	499.8	555.6	547.5
Core net profit	351.0	484.0	499.8	555.6	547.5
Balance Sheet (RMmil, YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Fixed assets	1,562.8	866.2	1,066.8	1,117.5	1,858.2
Intangible assets	318.1	319.4	319.4	319.4	319.4
Other long-term assets	5,998.6	5,067.7	5,431.9	5,656.6	5,888.8
Total non-current assets	7,879.5	6,253.3	6,818.2	7,093.5	8,066.4
Cash & equivalent	1,197.5	1,448.8	489.1	1,029.9	1,617.7
Stock	650.3	615.8	500.8	530.8	562.7
Trade debtors	1,149.1	1,114.1	1,091.3	1,196.6	1,099.6
Other current assets	1,487.3	1,678.2	1,500.6	1,536.9	1,574.3
Total current assets	4,484.2	4,856.9	3,581.7	4,294.3	4,854.4
Trade creditors	1,150.7	1,150.2	910.1	964.7	1,022.5
Short-term borrowings	2,955.0	2,000.7	935.9	1,285.9	1,585.9
Other current liabilities	715.3	988.0	21.5	21.5	21.5
Total current liabilities	4,821.0	4,138.9	1,867.4	2,272.0	2,629.9
Long-term borrowings	1,688.4	794.7	2,059.6	2,259.6	3,059.6
Other long-term liabilities	503.0	522.8	522.8	522.8	522.8
Total long-term liabilities	2,191.4	1,317.5	2,582.3	2,782.3	3,582.3
Shareholders' funds	3,214.8	5,328.3	5,633.2	6,016.4	6,391.6
Minority interests	2,136.5	316.9	316.9	316.9	316.9
BV/share (RM)	2.49	3.09	3.27	3.49	3.71
Cash Flow (RMmil, YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Pretax profit	839.6	1,900.4	797.5	860.2	836.6
Depreciation/Amortisation	138.0	137.0	139.0	141.0	159.0
Net change in working capital	(379.0)	93.0	(1,039.1)	(117.1)	85.7
Others	(31.6)	(1,037.1)	(397.5)	(219.7)	(473.8)
Cash flow from operations	567.0	1,093.4	(500.1)	664.4	607.5
Capital expenditure	(399.4)	(85.4)	(332.9)	(83.0)	(133.9)
Net investments & sale of fixed assets	55.6	11.3	11.2	11.2	11.2
Others	(334.0)	(815.9)	(467.4)	(260.0)	(47.9)
Cash flow from investing	(677.8)	(889.9)	(789.1)	(331.7)	(170.5)
Debt raised/(repaid)	434.5	498.3	298.3	249.3	249.3
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	(163.7)	(172.4)	(172.4)	(172.4)
Others	(56.0)	(292.2)	203.5	131.2	74.0
Cash flow from financing	378.6	42.4	329.4	208.1	150.9
Net cash flow	267.8	245.8	(959.8)	540.8	587.9
Net cash/(debt) b/f	838.0	1,102.3	1,359.1	399.3	940.2
Net cash/(debt) c/f	1,102.3	1,359.1	399.3	940.2	1,528.0
Key Ratios (YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Revenue growth (%)	11.8	14.4	(3.6)	9.7	(8.1)
EBITDA growth (%)	19.3	13.5	20.4	6.3	(5.6)
Pretax margin (%)	20.3	40.2	17.5	17.2	18.2
Net profit margin (%)	10.6	31.6	11.0	11.1	11.9
Interest cover (x)	5.0	9.8	9.5	8.2	7.4
Effective tax rate (%)	13.7	7.2	25.0	25.0	25.0
Dividend payout (%)	17.7	11.6	34.5	31.0	31.5
Debtors turnover (days)	100	87	88	84	91
Stock turnover (days)	56	56	53	44	51
Creditors turnover (days)	111	102	98	81	94

Source: Company, AmResearch estimates

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