


AmResearch
Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

26 Feb 2015

FY14 beats expectations on lower tax and minorities
BUY

(Maintained)

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Rationale for report: Company result

| | |
|------------------|---------------|
| Price | RM3.32 |
| Fair Value | RM3.60 |
| 52-week High/Low | RM3.67/RM2.76 |

Key Changes

| | |
|------------|---|
| Fair value | ↔ |
| EPS | ↔ |

| YE to Dec | FY14 | FY15F | FY16F | FY17F |
|-------------------------------|---------|---------|---------|---------|
| Revenue (RM mil) | 4,841.9 | 5,064.9 | 4,547.1 | 4,873.3 |
| Core net profit (RM mil) | 591.7 | 555.8 | 547.1 | 537.5 |
| FD Core EPS (sen) | 34.9 | 32.2 | 31.7 | 73.8 |
| FD Core EPS growth (%) | 14.4 | (7.5) | (1.5) | 132.5 |
| Consensus Net Profit (RM mil) | - | 479.8 | 530.2 | 552.1 |
| DPS (sen) | 11.0 | 10.0 | 10.0 | 10.0 |
| PE (x) | 9.5 | 10.3 | 10.5 | 11.5 |
| EV/EBITDA (x) | 9.5 | 10.3 | 11.5 | 11.8 |
| Div yield (%) | 3.3 | 3.0 | 3.0 | 3.0 |
| ROE (%) | 13.2 | 9.1 | 8.4 | 7.8 |
| Net Gearing (%) | 30.4 | 39.7 | 45.0 | 52.3 |

Stock and Financial Data

| | |
|------------------------------|---|
| Shares Outstanding (million) | 1,723.5 |
| Market Cap (RMmil) | 5,722.1 |
| Book Value (RM/share) | 3.44 |
| P/BV (x) | 1.0 |
| ROE (%) | 13.2 |
| Net Gearing (%) | 30.4 |
| Major Shareholders | Tan Sri Jeffrey Cheah (48.2%) EPF (5.7%) |
| Free Float | 22.4 |
| Avg Daily Value (RMmil) | 4.5 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|-------|------|-------|
| Absolute (%) | (1.8) | 4.4 | 16.5 |
| Relative (%) | (0.5) | 7.1 | 17.6 |


Investment Highlights

- We maintain BUY on Sunway, with an unchanged fair value of RM3.60/share, based on a 15% discount to the SOP value of RM4.25/share.
- Sunway posted a 4QFY14 core earnings of RM206mil (+38% QoQ; +30% YoY), bringing the full year total to RM592mil (+22% YoY). This beats expectations, 18% above of our and consensus estimates.
- It was beyond our forecasts mainly due to a much lower effective tax rate at just 15.3% vs. our assumption of 25%, while minority share was 21% lower.
- Its core pre-tax profit of RM797.6mil (+20% YoY) was right on the dot against our forecast of RM797.5mil, reflecting operating items largely coming in within our expectations.
- Sunway declared a dividend of 6 sen/share, bringing the total for the year to 11 sen/share – slightly higher than our forecast of 10 sen/share and representing a core payout of 32%.
- EBIT came in at 15% above our estimate, on better-than-expected results in all divisions, except for trading and manufacturing. EBIT margin improved by 4ppts YoY.
- The operating performance was offset by a poorer set of results for associates and JVs, whose combined numbers fell 33% YoY and were 40% short of our estimates. It also benefited from higher finance income and lower finance cost.
- Segment revenues were largely in line, except for property development, which were 21% above our estimate.
- For FY14, property sales reached RM1.7bil (effective: RM1.3bil), while unbilled sales totaled RM2.5bil (effective: RM1.9bil) as at 31 Dec 2014. It targets to launch RM2.0bil (effective: RM1.5bil) worth of properties in FY15, with sales of RM1.7bil (effective: RM1.2bil).
- Construction job replenishment totalled RM1.1bil for FY14, bringing the total outstanding order book to RM3.06bil vs. RM3.26bil as at end-Sept 2014. The outstanding external jobs total RM1.93bil, 1.1x FY14's construction revenue.
- Share price upside would come closer to the anticipated listing of its construction division – which may occur by the early part of the second half. We maintain our earnings forecasts for now.

EXHIBIT 1: RESULT SUMMARY

| | FY13 | FY14 | % YoY change | 4Q13 | 3Q14 | 4Q14 | % QoQ change | % YoY change |
|----------------------------|-----------|---------|----------------|---------|---------|---------|----------------|----------------|
| Revenue | 4,721.4 | 4,841.9 | 2.6 | 1,329.9 | 1,134.0 | 1,477.5 | 30.3 | 11.1 |
| EBIT | 452.5 | 656.7 | 45.1 | 133.6 | 157.4 | 243.8 | 54.9 | 82.5 |
| Est. Unusual Items | 1,238.1 | 171.2 | (86.2) | 1,026.5 | (5.6) | 126.6 | (2,378.1) | (87.7) |
| Associates & JVs | 255.9 | 171.3 | (33.1) | 109.7 | 38.5 | 44.7 | 16.0 | (59.3) |
| Net interest income | (46.1) | (30.4) | (34.0) | (15.6) | (5.1) | (7.2) | 40.9 | (53.4) |
| PBT | 1,900.4 | 968.8 | (49.0) | 1,254.2 | 185.2 | 407.8 | 120.2 | (67.5) |
| Taxation | (137.0) | (148.0) | 8.0 | (61.6) | (21.8) | (50.8) | 132.8 | (17.5) |
| Minorities | (273.0) | (77.6) | (71.6) | (63.9) | (19.7) | (44.0) | 123.1 | (31.2) |
| Net profit | 1,490.4 | 743.2 | (50.1) | 1,128.6 | 143.7 | 313.0 | 117.8 | (72.3) |
| Total Els after tax and MI | 1,006.350 | 151.6 | (84.9) | 784.727 | (5.6) | 107.0 | (2,024.7) | (86.4) |
| Core tax (excludes Els) | (127.7) | (141.0) | 10.4 | (42.3) | (21.8) | (43.8) | 100.8 | 3.7 |
| Core PBT | 662.3 | 797.6 | 20.4 | 227.8 | 190.8 | 281.2 | 47.4 | 23.5 |
| Core net profit | 484.0 | 591.7 | 22.2 | 158.6 | 149.3 | 206.1 | 38.1 | 29.9 |
| Core EPS | 30.7 | 34.3 | 11.8 | 9.2 | 8.7 | 11.9 | 37.7 | 29.6 |
| Diluted core EPS | 30.5 | 32.8 | 7.7 | 8.8 | 8.2 | 11.3 | 37.3 | 27.8 |
| Margins (%) | FY13 | FY14 | ppt change YoY | 4Q13 | 3Q14 | 4Q14 | ppt change QoQ | ppt change YoY |
| EBIT | 9.6 | 13.6 | 4.0 | 10.0 | 13.9 | 16.5 | 2.6 | 6.5 |
| Core PBT | 14.0 | 16.5 | 2.4 | 17.1 | 16.8 | 19.0 | 2.2 | 1.9 |
| Core net profit | 10.3 | 12.2 | 2.0 | 11.9 | 13.2 | 13.9 | 0.8 | 2.0 |
| Core tax rate on core PBT | 19.3 | 17.7 | (1.6) | 18.6 | 11.4 | 15.6 | 4.1 | (3.0) |

Source: Company, AmResearch

EXHIBIT 2: CONSTRUCTION ORDER AS AT 31 DEC 2014

As at Dec 31 2014

| Projects | Value (RM mil) | O/S value |
|--|----------------|----------------|
| MRT Package V4 (Sec 17 to Semantan) | 1,173.0 | 557.0 |
| Kelana Jaya LRT Line extn (Package B) | 569.0 | 165.0 |
| BRT-Sunway Line | 453.0 | 125.0 |
| Afiniti Urban Wellness Centre, Johor | 283.0 | 164.0 |
| Coastal Highway Southern Link | 170.0 | 170.0 |
| KLCC car park (package 1) | 304.0 | 224.0 |
| KLCC piling & substructure (package 2) | 222.0 | 143.0 |
| Singapore pre-cast | 494.0 | 317.0 |
| Others | 71.0 | 61.0 |
| Total external works | 3,739.0 | 1,926.0 |
| Sunway Velocity 2 Mall | 350.0 | 262 |
| Sunway University New Academic Block | 204.0 | 28 |
| Sunway Putra Place refurbishment | 258.0 | 16 |
| Sunway Pyramid Mall Phase 3 | 193.0 | 125 |
| Sunway Medical Centre Phase 3 | 167.0 | 163 |
| Sunway Geo Retail Shops & Flexi Suites | 153.0 | 143 |
| SI Citrine Service Apart' (superstructure) | 180.0 | 180 |
| Others | 903.0 | 218 |
| Total internal works | 2,408 | 1,135 |
| Total in hand (RM mil) | 6,145 | 3,059 |

Source: Company, AmResearch

EXHIBIT 3: SEGMENT BREAKDOWN

| Core revenue | FY13 | FY14 | % YoY change | 4Q13 | 3Q14 | 4Q14 | % QoQ change | % YoY change |
|---------------------------|----------------|----------------|--------------|----------------|----------------|----------------|--------------|--------------|
| Property Dev | 1,167.1 | 1,198.3 | 2.7 | 417.2 | 178.0 | 496.3 | 178.8 | 19.0 |
| Property Inv | 578.3 | 594.5 | 2.8 | 185.6 | 151.8 | 160.4 | 5.7 | (13.5) |
| Construction | 1,621.7 | 1,751.0 | 8.0 | 443.0 | 488.2 | 478.0 | (2.1) | 7.9 |
| Trading and Manufacturing | 586.8 | 639.4 | 9.0 | 133.7 | 159.4 | 168.9 | 6.0 | 26.3 |
| Quarry | 197.7 | 236.7 | 19.7 | 50.5 | 56.3 | 74.5 | 32.4 | 47.4 |
| Investment Holdings | 0.0 | 3.2 | nm | 0.3 | 0.0 | 3.1 | nm | nm |
| Others | 363.9 | 418.8 | 15.1 | 99.7 | 100.3 | 96.3 | (4.1) | (3.4) |
| Total | 4,515.4 | 4,841.9 | 7.2 | 1,329.9 | 1,134.0 | 1,477.5 | 30.3 | 11.1 |
| Est. EBIT | | | | | | | | |
| Property Dev | 229.0 | 287.3 | 25.5 | 97.1 | 79.1 | 98.1 | 23.9 | 1.0 |
| Property Inv | 109.9 | 128.3 | 16.7 | 37.3 | 31.2 | 49.9 | 60.0 | 33.5 |
| Construction | 30.9 | 138.7 | 349.3 | (27.6) | 21.8 | 60.2 | 176.1 | (318.6) |
| Trading and Manufacturing | 46.7 | 40.0 | (14.3) | 10.4 | 10.8 | 9.1 | (15.7) | (12.3) |
| Quarry | 21.2 | 36.7 | 73.6 | 4.3 | 6.7 | 16.5 | 147.5 | 280.6 |
| Investment Holdings | (9.8) | (12.5) | 27.4 | 4.4 | (3.8) | (2.2) | (42.0) | (151.0) |
| Others | 24.6 | 38.2 | 55.1 | 7.7 | 11.7 | 12.2 | 5.0 | 59.4 |
| Total | 452.5 | 656.7 | 45.1 | 133.6 | 157.4 | 243.8 | 54.9 | 82.4 |
| Est. EBIT margin | | | | | | | | |
| Property Dev | 19.6 | 24.0 | 4.4 | 23.3 | 44.5 | 19.8 | (24.7) | (3.5) |
| Property Inv | 19.0 | 21.6 | 2.6 | 20.1 | 20.5 | 31.1 | 10.5 | 11.0 |
| Construction | 1.9 | 7.9 | 6.0 | (6.2) | 4.5 | 12.6 | 8.1 | 18.8 |
| Trading and Manufacturing | 8.0 | 6.3 | (1.7) | 7.8 | 6.8 | 5.4 | (1.4) | (2.4) |
| Quarry | 10.7 | 15.5 | 4.8 | 8.6 | 11.8 | 22.1 | 10.3 | 13.5 |
| Investment Holdings | nm | nm | nm | nm | nm | nm | nm | nm |
| Others | 6.8 | 9.1 | 2.4 | 7.7 | 11.6 | 12.7 | 1.1 | 5.0 |
| Overall | 10.0 | 13.6 | 3.5 | 10.0 | 13.9 | 16.5 | 2.6 | 6.5 |
| Core pretax profit | | | | | | | | |
| Property Dev | 346.9 | 362.1 | 4.4 | 130.1 | 99.2 | 118.3 | 19.3 | (9.1) |
| Property Inv | 127.5 | 133.3 | 4.6 | 44.3 | 31.7 | 51.0 | 60.7 | 15.1 |
| Construction | 81.3 | 142.9 | 75.8 | 19.5 | 17.7 | 61.2 | 245.9 | 213.5 |
| Trading and Manufacturing | 43.3 | 36.8 | (15.2) | 9.5 | 10.4 | 8.2 | (21.1) | (14.1) |
| Quarry | 21.9 | 37.8 | 72.4 | 4.8 | 6.8 | 16.8 | 145.3 | 250.4 |
| Investment Holdings | 9.0 | 38.1 | 322.0 | 8.7 | 11.3 | 10.9 | (3.4) | 26.0 |
| Others | 32.4 | 46.7 | 44.2 | 10.9 | 13.7 | 14.8 | 8.6 | 36.6 |
| Total | 662.3 | 797.6 | 20.4 | 227.8 | 190.8 | 281.2 | 47.4 | 23.5 |
| Core PBT margin | | | | | | | | |
| Property Dev | 29.7 | 30.2 | 0.5 | 31.2 | 55.7 | 23.8 | (31.9) | (7.3) |
| Property Inv | 22.0 | 22.4 | 0.4 | 23.9 | 20.9 | 31.8 | 10.9 | 7.9 |
| Construction | 5.0 | 8.2 | 3.1 | 4.4 | 3.6 | 12.8 | 9.2 | 8.4 |
| Trading and Manufacturing | 7.4 | 5.7 | (1.6) | 7.1 | 6.5 | 4.9 | (1.7) | (2.3) |
| Quarry | 11.1 | 16.0 | 4.9 | 9.5 | 12.2 | 22.6 | 10.4 | 13.1 |
| Investment Holdings | nm | nm | nm | nm | nm | nm | nm | nm |
| Others | 8.9 | 11.1 | 2.2 | 10.9 | 13.6 | 15.4 | 1.8 | 4.5 |
| Overall | 14.7 | 16.5 | 1.8 | 17.1 | 16.8 | 19.0 | 2.2 | 1.9 |

Source: Company, AmResearch

EXHIBIT 4: PB BAND CHART

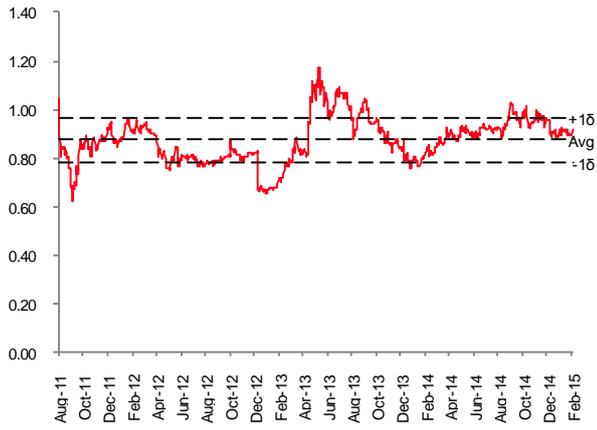


EXHIBIT 5: PE BAND CHART

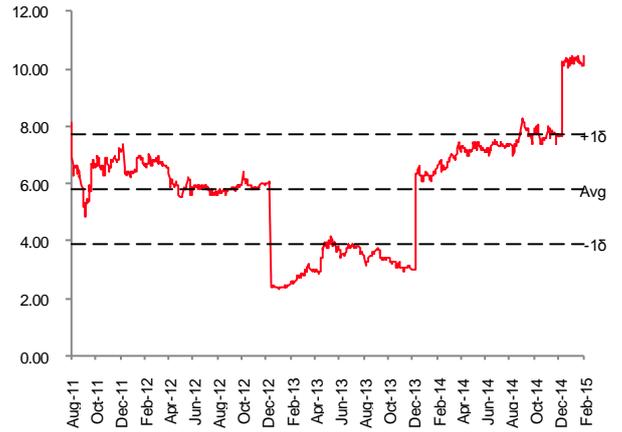


EXHIBIT 6: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Dec) | FY13 | FY14 | FY15F | FY16F | FY17F |
|--|----------------|----------------|----------------|----------------|----------------|
| Revenue | 4,721.4 | 4,841.9 | 5,064.9 | 4,547.1 | 4,873.3 |
| EBITDA | 589.5 | 795.7 | 800.9 | 762.6 | 794.0 |
| Depreciation/Amortisation | (137.0) | (139.0) | (141.0) | (159.0) | (201.0) |
| Operating income (EBIT) | 452.5 | 656.7 | 659.9 | 603.6 | 593.0 |
| Other income & associates | 255.9 | 171.3 | 177.4 | 358.6 | 360.6 |
| Net interest | (46.1) | (30.4) | (45.0) | (45.0) | (49.0) |
| Exceptional items | 1,238.1 | 171.2 | - | - | - |
| Pretax profit | 1,900.4 | 968.8 | 792.3 | 917.2 | 904.6 |
| Taxation | (137.0) | (148.0) | (158.5) | (220.1) | (217.1) |
| Minorities/pref dividends | (273.0) | (77.6) | (78.0) | (150.0) | (150.0) |
| Net profit | 1,490.4 | 743.2 | 555.8 | 547.1 | 537.5 |
| Core net profit | 484.0 | 591.7 | 555.8 | 547.1 | 537.5 |
| Balance Sheet (RMmil, YE 31 Dec) | FY13 | FY14 | FY15F | FY16F | FY17F |
| Fixed assets | 866.2 | 1,046.8 | 1,117.5 | 1,858.2 | 2,558.0 |
| Intangible assets | 319.4 | 319.4 | 319.4 | 319.4 | 318.3 |
| Other long-term assets | 5,067.7 | 5,371.2 | 5,679.8 | 5,912.0 | 6,144.3 |
| Total non-current assets | 6,253.3 | 6,737.4 | 7,116.7 | 8,089.6 | 9,020.7 |
| Cash & equivalent | 1,448.8 | 1,978.2 | 1,038.0 | 934.5 | 660.8 |
| Stock | 615.8 | 597.8 | 530.8 | 562.7 | 596.4 |
| Trade debtors | 1,114.1 | 1,719.9 | 1,213.9 | 1,089.8 | 1,168.0 |
| Other current assets | 1,678.2 | 1,883.1 | 1,936.3 | 1,991.0 | 2,047.4 |
| Total current assets | 4,856.9 | 6,179.0 | 4,719.1 | 4,578.1 | 4,472.7 |
| Trade creditors | 1,150.2 | 2,171.9 | 964.7 | 1,022.5 | 1,083.9 |
| Short-term borrowings | 2,000.7 | 2,282.9 | 1,285.9 | 1,585.9 | 1,886.9 |
| Other current liabilities | 988.0 | 20.8 | 20.8 | 20.8 | 20.8 |
| Total current liabilities | 4,138.9 | 4,475.6 | 2,271.3 | 2,629.2 | 2,991.5 |
| Long-term borrowings | 794.7 | 1,501.5 | 2,259.6 | 2,359.6 | 2,458.6 |
| Other long-term liabilities | 522.8 | 605.5 | 605.5 | 605.5 | 605.5 |
| Total long-term liabilities | 1,317.5 | 2,107.0 | 2,865.1 | 2,965.1 | 3,064.1 |
| Shareholders' funds | 5,328.3 | 5,945.2 | 6,310.7 | 6,684.7 | 7,049.1 |
| Minority interests | 316.9 | 388.7 | 388.7 | 388.7 | 388.7 |
| BV/share (RM) | 3.09 | 3.44 | 3.65 | 3.86 | 4.07 |
| Cash Flow (RMmil, YE 31 Dec) | FY13 | FY14 | FY15F | FY16F | FY17F |
| Pretax profit | 1,900.4 | 968.8 | 792.3 | 917.2 | 904.6 |
| Depreciation/Amortisation | 137.0 | 139.0 | 141.0 | 159.0 | 201.0 |
| Net change in working capital | 93.0 | (1,065.2) | (687.5) | 95.4 | (107.0) |
| Others | (1,037.1) | 726.7 | (48.3) | (514.8) | (508.7) |
| Cash flow from operations | 1,093.4 | 769.4 | 197.5 | 656.8 | 489.8 |
| Capital expenditure | (85.4) | (332.9) | (83.0) | (133.9) | (132.9) |
| Net investments & sale of fixed assets | 11.3 | 11.2 | 11.2 | 11.2 | 11.2 |
| Others | (815.9) | (522.8) | (260.0) | (47.9) | (47.9) |
| Cash flow from investing | (889.9) | (844.5) | (331.7) | (170.5) | (169.5) |
| Debt raised/(repaid) | 498.3 | 298.3 | 249.3 | 249.3 | 249.3 |
| Equity raised/(repaid) | - | - | - | - | - |
| Dividends paid | (163.7) | (172.7) | (190.4) | (173.1) | (173.1) |
| Others | (292.2) | 469.7 | (862.2) | (666.0) | (671.2) |
| Cash flow from financing | 42.4 | 595.3 | (803.3) | (589.8) | (595.0) |
| Net cash flow | 245.8 | 520.2 | (937.5) | (103.5) | (274.7) |
| Net cash/(debt) b/f | 1,102.3 | 1,359.1 | 1,885.8 | 948.3 | 844.8 |
| Net cash/(debt) c/f | 1,359.1 | 1,885.8 | 948.3 | 844.8 | 570.1 |
| Key Ratios (YE 31 Dec) | FY13 | FY14 | FY15F | FY16F | FY17F |
| Revenue growth (%) | 14.4 | 2.6 | 4.6 | (10.2) | 7.2 |
| EBITDA growth (%) | 13.5 | 35.0 | 0.6 | (4.8) | 4.1 |
| Pretax margin (%) | 40.2 | 20.0 | 15.6 | 20.2 | 18.6 |
| Net profit margin (%) | 31.6 | 15.4 | 11.0 | 12.0 | 11.0 |
| Interest cover (x) | 9.8 | 21.6 | 14.7 | 13.4 | 12.1 |
| Effective tax rate (%) | 7.2 | 15.3 | 20.0 | 24.0 | 24.0 |
| Dividend payout (%) | 11.6 | 25.6 | 31.1 | 31.6 | 32.2 |
| Debtors turnover (days) | 87 | 107 | 106 | 92 | 85 |
| Stock turnover (days) | 56 | 55 | 48 | 53 | 52 |
| Creditors turnover (days) | 102 | 150 | 134 | 96 | 94 |

Source: Company, AmResearch estimates

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