

Sunway (BUY ↑; EPS ↑)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

19 November 2014

Price Target: RM3.65 (↑)

Share price: RM3.23

9MFY14 Results Above Expectations

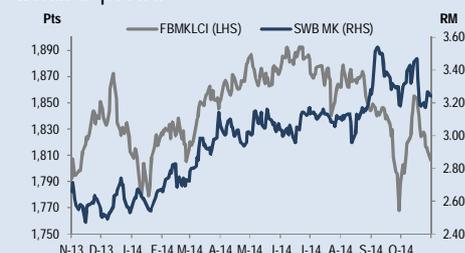
Results	<ul style="list-style-type: none"> 9MFY14 core PATAMI (after adjusting for EI of RM44.6m) jumped by 18% yoy to RM385.6m (22.37 sen/share) which came above expectations, making up 79% and 80% of ours and consensus' full year forecasts.
Deviations	<ul style="list-style-type: none"> Wider-than-expected margins from property development.
Dividends	<ul style="list-style-type: none"> None.
Highlights	<ul style="list-style-type: none"> Results... 9MFY14 revenue of RM3.4bn showed a growth of 5% yoy mainly coming from stronger sales in property development, construction progress, quarry and healthcare segments. Apart from that, the group's treasury operations also contributed strongly to the improved performance. Property... Lower 3Q revenue was recorded for both yoy and qoq comparison due to lower revenue recorded as progress billings slowed. Operating profit however increased on the back of lower costs and higher profit recognition from Sunway Damansara. As at 9MFY14, effective sales and unbilled sales stand at RM951m and RM2.1bn respectively. Property Investment... 3Q revenue was up yoy and qoq from higher rental income in the newly completed Sunway Pinnacle and Monash University campus extension, as well as from its leisure and hospitality division. Apart from the incremental impact in revenue, operating profit grew further on the back of higher contribution from Sunway REIT. Construction... Higher progress billings in Malaysia resulted in higher yoy and qoq 3Q revenue. Operating profit yoy improved as well thanks to higher profit contribution from precast in Singapore but operating profit qoq decline due to provision made for compensation of SILK Highway and rectification costs provided for Rihan Heights. SunCon... No material updates to date, apart from the recent announcement on the changes in numbers of shares offered in the proposed listing of SunCon following the exercise of warrants and ESOS (ratio of 1 SunCon for every 10 Sunway shares remained unchanged).
Risks	<ul style="list-style-type: none"> Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.
Forecasts	<ul style="list-style-type: none"> Although property development's margin in 3Q was exceptionally higher and we view that it would normalise in the coming quarter, we remained positive with the ability of the segment to record higher margins yoy on average. Hence, we increased our margins assumptions, resulting in an upgrade in FY14-15 EPS by 7.1-7.2%.
Rating	BUY ↑ <ul style="list-style-type: none"> Although share price have declined 4% since our upgrade in target price in Sept '14, we remain optimistic about the group, especially with the proposed listing of SunCon as it would further enhance shareholders' value. As such, we are upgrading our recommendation to BUY and advise investors to accumulate.
Valuation	<ul style="list-style-type: none"> Post earnings revision, our TP is upgraded to RM3.65 from RM3.55, based on SOP valuation.

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KLCI	1,818.4
Expected share price return	13.0%
Expected dividend return	3.4%
Expected total return	16.4%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,719.7
Market cap (RM m)	5,554.7
3-mth avg. volume ('000)	1,312.8
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	1.6	2.2	17.9
Relative	-0.1	4.5	16.4

Major shareholders

Sungei Way Corp Sdn Bhd	48.3%
Yean Tih Cheah	13.5%
EPF	5.7%
Skim Amanah Saham Bumiputera	5.0%

Summary Earnings Table

FYE Dec (RM m)	2012A	2013A	2014E	2015E
Revenue	3,877	4,734	4,731	4,759
EBITDA	594	1,960	699	724
EBIT	505	1,824	599	608
Profit Before Tax	728	1,894	689	710
PATAMI	532	1,500	523	536
Core PATAMI	351	482	523	536
Core EPS (sen)	27.1	28.0	30.3	31.1
FD EPS (sen)	22.6	24.0	26.0	26.6
Net DPS (sen)	6.0	10.0	11.0	11.0
Net DY (%)	1.9	3.1	3.4	3.4
P/E (x)	11.9	11.5	10.7	10.4
FD P/E (x)	14.3	13.5	12.4	12.1
P/B (x)	1.2	1.0	1.0	0.9
Net Gearing (%)	49.1	28.7	28.8	25.2
ROE (%)	10.7	10.8	9.5	9.1
ROA (%)	4.2	4.9	4.9	5.1

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3QFY14	2QFY14	3QFY14	Qoq (%)	Yoy (%)	Comments
Revenue	1,066.1	1,204.6	1,134.0	-6	6	Refer to segmental.
Property Development	260.3	301.7	178.0	-41	-32	Yoy & qoq: Due to slower progress billing but is expected to improve in the following quarter. Achieved effective new sales of RM323m in 3Q. Effective unbilled sales of RM2.1bn (1.8x FY13's revenue).
Property Investment	137.1	146.0	151.8	4	11	Yoy & qoq: Higher contribution from Sunway REIT and stronger profits from the leisure and hospitality business which achieved higher visitorship and better hotel occupancy rates.
Construction	376.5	426.1	488.2	15	30	Yoy & qoq: Higher sales of precast concrete products in Singapore and higher progress billings of its on-going local civil engineering and building projects. Backed by outstanding construction order book of RM3.3bn (2.1x FY13's revenue).
Trading/Manufacturing	151.9	162.1	159.4	-2	5	Yoy & qoq: Contribution largely coming from local operations as overseas' operations remained challenging.
Quarry	47.1	57.7	56.3	-2	20	Yoy: Boosted from stronger premiss sales, which partly offsets the lower sales of aggregates.
EBIT	74.9	134.0	151.9	13	103	Refer to segmental.
Property Development	62.0	58.0	79.1	36	28	Yoy & qoq: Attributed to higher profit recognition in some of its projects, coupled with lower common infrastructure costs allocated.
Property Investment	21.8	26.7	31.2	17	43	Yoy & qoq: Higher visitorship and occupancy rate in leisure and hospitality services.
Construction	15.4	25.7	21.8	-15	42	Yoy: Boosted by its precast division in Singapore. Qoq: Due to elimination of all intra-company construction profits.
Trading/Manufacturing	11.7	11.0	10.8	-2	-7	Yoy & qoq: Impacted by overseas operations.
Quarry	5.2	9.2	6.7	-28	28	
Net Interest Expense	(6.3)	(10.2)	(5.1)	-50	-18	
Share of Associates/JCE	49.4	109.6	38.5	-65	-22	
PBT	118.2	233.6	185.2	-21	57	Filtered down from EBIT.
PAT	101.6	188.7	163.4	-13	61	
PATAMI	93.1	182.5	143.7	-21	54	
EI	31.3	(56.6)	5.6	-110	-82	Consist of gain of derivatives (RM0.1m) and FV of ESOS options (RM5.5m).
Core Earnings	124.4	126.0	149.3	19	20	Filtered down from PATAMI ex. EI.
Core EPS (sen)	7.76	7.31	8.66	18	12	
EBIT Margin (%)	7%	11%	13%	20	91	
Property Development	24%	19%	44%	131	87	
Property Investment	16%	18%	21%	12	29	
Construction	4%	6%	4%	-26	9	
Trading/Manufacturing	8%	7%	7%	0	-12	
Quarry	11%	16%	12%	-26	7	
PBT Margin Ex-Assoc (%)	6%	10%	13%	26	101	

Sunway, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	9MFY13	9MFY14	Yoy (%)	Comments
Revenue	3,205.2	3,364.4	5	Made up 71% and 66% of ours and consensus' estimates respectively. Refer to segmental.
Property Development	749.9	702.0	-6	Lower revenue due to slower progress billings.
Property Investment	412.4	434.0	5	Improved performance in the hospitality and leisure division and rental income from Sunway Pinnacle.
Construction	1,178.7	1,273.0	8	Higher progress billings and precasts sales in Singapore.
Trading/Manufacturing	453.1	470.5	4	Local operations remained strong but were partly impacted by poorer performance of its overseas operations.
Quarry	147.2	162.2	10	Strong local demand underpinned by the buoyant construction sector.
EBIT	277.5	395.6	43	Refer to segmental.

Property Development	131.9	189.2	43	Boosted by lower common infrastructure costs allocated to the property development component as well as higher profit recognition in local projects.
Property Investment	72.6	77.9	7	
Construction	58.4	78.5	34	Boosted by its precast division in Singapore.
Trading/Manufacturing	36.3	30.9	-15	
Quarry	16.8	20.3	20	
Net Interest Expense	(30.5)	(23.2)	-24	
Share of Associates/JCE	205.9	188.5	-8	
PBT	453.2	561.0	24	
PAT	377.8	463.9	23	
PATAMI	354.0	430.2	22	
EI	(28.6)	(44.6)	56	Consist of gain of derivatives (RM0.1m), FV of ESOS options (RM17.4m) and FV gain on associates (RM61.9m)
Core Earnings	325.5	385.6	18	Made up 79% and 80% of ours and consensus' estimates respectively.
Core EPS (sen)	23.29	22.37	-4	
EBIT Margin (%)	9%	12%	36	
Property Development	18%	27%	53	
Property Investment	18%	18%	2	
Construction	5%	6%	24	
Trading/Manufacturing	8%	7%	-18	
Quarry	11%	12%	9	
PBT Margin Ex-Assoc (%)	8%	11%	43	

Sunway, HLIB

Figure #3 Sunway SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	15X Average of FY14-15 Earnings	56%	836	0.42	11.4
Property	NPV of profits + Shareholders Fund	100%	5,315	2.64	72.3
Trading/Manufacturing	9X P/E	100%	291	0.14	4.0
Quarry	15X P/E	100%	187	0.09	2.5
Dividend in-specie			200	0.10	2.7
Special cash dividend			326	0.16	4.4
		Sub-Total (RM m)	7,154		
		No. of shares (m)	1,723		
		RM per share	4.15		
		Proceeds from warrants (RM m)	657	0.33	8.9
		Estimated Holding Company Net Debt	(460)	(460)	(0.23)
		SOP (RM m)	7,351		
		Total no. of diluted shares (m)	2,013		
		Target Price (RM)	3.65		

HLIB

Figure #4 HLIB vs Consensus

FYE Dec (RM m)	FY14E			FY15E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,730.7	5,064.0	-7%	4,758.7	5,382.0	-12%
PATAMI	522.6	479.8	9%	536.0	530.2	1%

Bloomberg, HLIB

Financial Projections for Sunway (BUY; TP: RM3.65)

Income Statement

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	3,691.7	3,876.8	4,733.7	4,730.7	4,758.7
EBITDA	457.0	594.5	1,960.5	698.8	723.9
D&A	(90.7)	(89.9)	(136.9)	(99.3)	(116.3)
EBIT	366.3	504.5	1,823.6	599.5	607.6
Interest Income	27.5	27.1	35.6	35.9	25.4
Finance Costs	(80.9)	(104.6)	(138.1)	(118.3)	(107.1)
Associates/JCE	185.6	301.2	172.5	171.9	183.7
Profit Before Tax	498.5	728.2	1,893.6	688.9	709.5
Tax	(86.1)	(128.5)	(120.9)	(128.8)	(131.0)
Net Profit	412.4	599.7	1,772.7	560.1	578.6
Minority Interests	(40.4)	(67.4)	(273.0)	(37.6)	(42.6)
PATAMI	372.1	532.3	1,499.8	522.6	536.0
Exceptionals	44.1	181.8	1,017.8	-	-
Core Earnings	328.0	350.6	482.0	522.6	536.0
Basic Shares (m)	1,292.5	1,292.5	1,723.4	1,723.4	1,723.4
Core EPS (sen)	25.4	27.1	28.0	30.3	31.1
FD Core EPS (sen)	21.1	22.6	24.0	26.0	26.6

Quarterly Financial Summary

FYE 31 Dec (RM m)	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3
Revenue	1,066.1	1,342.2	1,025.7	1,204.6	1,134.0
Expenses	(1,001.2)	(1,198.4)	(932.6)	(1,086.8)	(1,002.4)
Other Income	10.0	1,045.1	16.4	16.2	20.4
EBIT	74.9	1,188.8	109.6	134.0	151.9
Derivatives	0.1	0.4	(0.0)	0.2	(0.1)
Net Interest Expense	(6.3)	(24.5)	(7.8)	(10.2)	(5.1)
Associates & JCE	49.4	83.4	40.4	109.6	38.5
Profit Before Tax	118.2	1,248.1	142.2	233.6	185.2
Tax	(16.6)	(45.5)	(30.4)	(44.9)	(21.8)
Net Profit	101.6	1,202.7	111.8	188.7	163.4
Minority Interests	(8.5)	(63.9)	(7.8)	(6.2)	(19.7)
PATAMI	93.1	1,138.8	104.0	182.5	149.3
Exceptionals	31.3	(981.3)	6.3	(56.6)	5.6
Core Earnings	124.4	157.5	110.3	126.0	149.3
Core EPS (sen)	7.76	9.14	6.40	7.31	10.59
FD Core EPS (sen)	7.59	8.78	6.27	7.03	10.19
W. Ave. Shares (m)	1,604.3	1,723.5	1,723.5	1,723.7	1,724.0

Balance Sheet

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Cash	777	1,140	1,519	871	821
Trade Receivables	789	1,404	1,405	1,166	1,173
Inventories	452	626	623	713	717
Development Costs	669	600	1,276	994	1,006
Associates/JCE	1,281	1,553	2,284	2,364	2,444
PPE	2,876	3,008	3,548	3,749	3,933
Goodwill	326	319	320	320	320
Others	673	95	137	130	130
Total Assets	7,844	8,745	11,112	10,307	10,542
Trade Payables	1,040	1,605	2,154	1,296	1,304
Total Debt	2,254	2,747	2,795	2,461	2,299
Others	1,239	524	511	511	511
Total Liabilities	4,532	4,876	5,460	4,267	4,114
Shareholders' Funds	2,985	3,558	5,335	5,685	6,031
Minority Interests	326	310	317	355	397
Total Capital	3,312	3,868	5,652	6,040	6,429

Rates and Ratios

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Core PER (x)	12.7	11.9	11.5	10.7	10.4
FD Core PER (x)	15.3	14.3	13.5	12.4	12.1
Net DPS (sen)	-	6.0	10.0	11.0	11.0
Net DY (%)	-	1.9	3.1	3.4	3.4
BVPS (RM)	2.3	2.8	3.1	3.3	3.5
P/B (x)	1.4	1.2	1.0	1.0	0.9
NTA/Share (RM)	2.1	2.5	2.9	3.1	3.3
EBITDA Margin (%)	12.4	15.3	41.4	14.8	15.2
EBIT Margin (%)	9.9	13.0	38.5	12.7	12.8
PBT Margin (%)	18.5	26.6	43.6	18.2	18.8
PATAMI Margin (%)	8.9	9.0	10.2	11.0	11.3
ROE (%)	10.1	10.7	10.8	9.5	9.1
ROA (%)	4.4	4.2	4.9	4.9	5.1
Net Gearing (%)	45.4	49.1	28.7	28.8	25.2

Cashflow Analysis

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
EBITDA	457.0	594.5	1,960.5	698.8	723.9
Working Capital	(52.9)	(154.1)	(124.7)	(427.4)	(15.0)
Interest Received	27.5	27.1	39.9	35.9	25.4
Dividends fr Assoc	153.9	151.8	83.1	91.6	104.2
Others	(186.5)	(233.2)	(865.8)	(121.3)	(131.0)
CFO	399.0	386.1	1,092.9	277.5	707.6
Capex	(142.2)	(465.5)	(657.9)	(300.0)	(300.0)
Purchase/Disposal	(71.2)	317.4	38.2	-	-
Others	(79.6)	(209.7)	(215.0)	-	-
CFI	(293.0)	(357.7)	(834.7)	(300.0)	(300.0)
Financing	847.9	493.2	48.6	(334.8)	(161.5)
Shares Issued	(42.5)	-	732.9	-	-
Dividends	(944.2)	-	(344.3)	(172.3)	(189.6)
Interest Paid	(80.9)	(104.6)	(117.5)	(118.3)	(107.1)
Others	23.5	(141.7)	(184.3)	-	-
CFF	(196.3)	246.9	135.4	(625.4)	(458.2)
Net Cashflow	(90.2)	275.2	393.5	(647.9)	(50.6)

Assumption Metrics

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	3,692	3,877	4,734	4,731	4,759
Property	916	923	1,167	1,209	1,223
Property Investment	518	591	816	840	865
Construction	1,221	1,275	1,591	1,463	1,391
Trading/Manufacture	553	559	587	616	647
Quarry	184	197	198	208	218
Others	300	332	375	394	414
EBIT Margins (%)	9.9	13.0	38.5	12.7	12.8

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.