

Sunway (BUY ↔; EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK

30 December 2014

Price Target: RM3.65 (↔)

Share price: RM3.30

LoA of Coastal Highway Southern Link

News	<ul style="list-style-type: none"> Sunway Bhd announced that its wholly-owned subsidiary, Sunway Construction Sdn Bhd (SunCon) have signed the Letter of Acceptance (LoA) issued by SJIC Bina Sdn Bhd, a wholly-owned subsidiary of Iskandar Investment Bhd. The LoA is in relation to the proposed design, construction, testing and completion of the Coastal Highway Southern Link, Johor Darul Ta'zim (Design & Build) for RM169.9m. The proposed project is expected to commence on 7 Jan 2015 with a contract period of 24 months.
Highlights	<ul style="list-style-type: none"> We are positive with the announced project as it will further increase the group's outstanding orderbook to RM3.3bn (as at 29 Dec 2014). This implies 2.26x cover over Sunway's FY13 construction revenue. The announced project would be the fourth largest orderbook replenishment after Sunway Velocity 2 Mall (RM350m), Sunway Iskandar – Citrine Service Apartments (RM200m) and Sunway Medical Centre Phase 3 (RM178m). The fifth largest project held by SunCon would be Sunway Geo Retail Shops & Flexi Suites of RM153m. The Coastal Highway Southern Link is expected to benefit Sunway Iskandar, a major township by Sunway, Khazanah and Iskandar Investment Bhd, and other developments in Medini Iskandar. This also includes surrounding developments by UEM Sunrise and Mulpha International Bhd as the highway will improved connectivity and shortened travelling time to the Second Link to Singapore.
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"> Unchanged.
Rating	<p>BUY ↔</p> <ul style="list-style-type: none"> We remain optimistic about the group, especially with the proposed listing of SunCon as it would further enhance shareholders' value. Hence, we are maintaining our BUY recommendation and continue to advise investors to accumulate.
Valuation	<ul style="list-style-type: none"> TP remained unchanged at RM3.65 based on SOP valuations. Maintain BUY.

Grace Chew

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KLCI	1768.4
Expected share price return	10.6%
Expected dividend return	3.3%
Expected total return	13.9%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,722
Market cap (RM m)	5,681
3-mth avg. volume ('000)	1,655
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-2.7	-4.1	24.5
Relative	0.2	0.2	31.9

Major shareholders

Sungei Way Corp Sdn Bhd	50.1%
Yean Tih Cheah	13.5%
EPF	5.5%
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 (%)	1.8	3.0	3.3	3.3
P/E (x)	12.2	11.8	10.9	10.6
FD P/E (x)	14.6	13.8	12.8	12.4
P/B (x)	1.2	1.1	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

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)	13.0	12.2	11.8	10.9	10.6
FD Core PER (x)	15.7	14.6	13.8	12.8	12.4
Net DPS (sen)	-	6.0	10.0	11.0	11.0
Net DY (%)	-	1.8	3.0	3.3	3.3
BVPS (RM)	2.3	2.8	3.1	3.3	3.5
P/B (x)	1.4	1.2	1.1	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.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
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