

Sunway (BUY ↔; EPS ↑)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

26 February 2015

Price Target: RM3.75 (↑)

Share price: RM3.32

FY14 Results Above Expectations

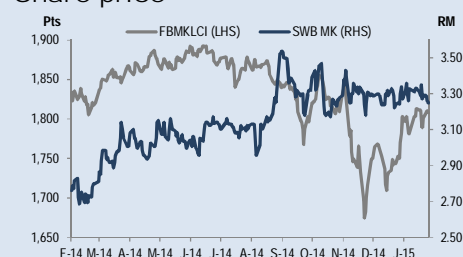
Results	<ul style="list-style-type: none"> FY14 core PATAMI (after adjusting for EI of RM151.5m) jumped by 22.3% yoy to RM591.7m (34.3 sen/share) which came above expectations, making up 113.4% and 118.2% of ours and consensus' full year forecasts, respectively.
Deviations	<ul style="list-style-type: none"> Wider-than-expected margins from property development.
Dividends	<ul style="list-style-type: none"> Declared second interim dividend of 6 sen/share, totalling FY14 dividend to 11 sen/share. This represents dividend payout and yield of 32% and 3.3%, respectively.
Highlights	<ul style="list-style-type: none"> Results... FY14 revenue of RM4.8bn showed a growth of 2.6% yoy mainly due to improved performance from all business segments except trading and manufacturing segment. The better-than-expected results also came from margins improvement by 2-ppts to 12.2% (FY13: 10.2%). Property... Local property development projects grew significantly in FY14 but were offset but the poor performance from its projects in Singapore, which resulted in flattish operating profit for the segment. As at FY14, property sales reached RM1.3bn while its effective unbilled sales stood at RM1.9bn (1.6x of Sunway's FY14 property development revenue). Sunway launched RM1.7bn worth of properties in FY14 and targets to launch another RM2.0bn in FY15. Property Investment... Slightly higher revenue in FY14 due to additional revenue from Sunway Pinnacle and the extension of Monash University Malaysia. EBIT grew further on the back of better performance by hospitality division and higher rental income. Construction... Higher progress billings in Malaysia resulted in higher FY14 revenue. Bottomline improved further from higher contribution from precast division, while FY13 was impacted by provisions of doubtful debts made in respect to a project in Abu Dhabi (RM24.0m). In FY14, Sunway managed to replenished RM1.1bn worth of order book and its outstanding order book now stands at RM3.1bn (1.7x of Sunway's FY14 construction revenue).
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"> We tweaked our margins for property development segment slightly higher, hence FY15-16 EPS is raised by 4%. We also introduced FY16 numbers.
Rating	BUY ↔ <ul style="list-style-type: none"> Despite headwinds from property tightening measures and slower contract flows, its recapitalised balance sheet and strong backlog orders will be able to sustain earnings growth for the Group. Moreover, Sunway's integrated construction-property business model should give them an edge in terms of execution.
Valuation	<ul style="list-style-type: none"> Post earnings revision, our TP is upgraded to RM3.71 from RM3.65, based on SOP valuation. Maintain BUY.

Grace Chew

PSChew@hlib.hongleong.com.my

(603) 2168 1165

KLCI	1,815.9
Expected share price return	13.0%
Expected dividend return	3.3%
Expected total return	16.3%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,723.1
Market cap (RM m)	5,720.7
3-mth avg. volume ('000)	1,369.6
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	1.5	-1.8	16.5
Relative	0.8	-0.5	17.5

Major shareholders

Sungei Way Corp Sdn Bhd	50.1%
Yean Tih Cheah	13.5%
EPF	5.3%
Skim Amanah Saham Bumiputera	5.0%

Summary Earnings Table

FYE Dec (RM m)	2013A	2014A	2015E	2016E
Revenue	4,734	4,842	4,759	4,676
EBITDA	1,960	883	748	779
EBIT	1,824	769	632	647
Profit Before Tax	1,894	969	742	779
PATAMI	1,500	743	558	562
Core PATAMI	482	592	558	562
Core EPS (sen)	28.0	34.3	32.4	32.6
FD EPS (sen)	24.0	32.8	27.7	24.4
Net DPS (sen)	10.0	11.0	11.0	12.0
Net DY (%)	3.0	3.3	3.3	3.6
P/E (x)	11.9	9.7	10.2	10.2
FD P/E (x)	13.8	10.1	12.0	13.6
P/B (x)	1.1	1.0	0.9	0.9
Net Gearing (%)	28.7	30.4	24.5	21.2
ROE (%)	10.8	12.2	9.5	9.0
ROA (%)	4.9	4.6	5.3	5.2

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY13	3QFY14	4QFY14	Qoq (%)	Yoy (%)	Comments
Revenue	1342.2	1134.0	1477.5	30.3	10.1	Refer to segmental.
Property Development	417.2	178.0	496.3	>100	19.0	Yoy: Revenue grew on the back of higher billings from Sunway Velocity and Sunway Damansara. Qoq: Increased revenue due to higher billings from Sunway Velocity, Sunway Damansara and Sunway South Quay. Achieved effective new sales of RM349m in 4Q. Effective unbilled sales of RM1.9bn (1.6x FY14's revenue).
Property Investment	403.4	151.8	160.4	5.7	(60.2)	Qoq: Revenue remained steady with slight growth due to higher leisure and hospitality revenue during the year-end holidays.
Construction	412.2	488.2	478.0	(2.1)	16.0	Yoy: Revenue improved from higher progress billings for BRT and building projects such as Sunway Velocity Shopping Mall and Afinity Medini. Backed by outstanding construction order book of RM3.1bn (1.7x FY14's construction revenue).
Trading/Manufacturing	133.7	159.4	168.9	6.0	26.4	Yoy & qoq: Contribution largely coming from local operations as overseas' operations remained challenging.
Quarry	50.5	56.3	74.5	32.4	47.4	Yoy & qoq: Boosted by stronger premix sales, partly offset by provision made in relation to receivables from the Caribbean operation which ceased operation in early-FY14.
EBIT	1188.8	151.9	373.2	145.6	(68.6)	Refer to segmental.
Property Development	93.4	79.1	96.6	22.1	3.4	Yoy: Flattish as strong domestic projects were offset by an impairment loss provision for its completed property inventories in Singapore due to lower current market prices. Qoq: Operating profit normalized after one-off margin adjustment in 3QFY14.
Property Investment	1286.4	31.2	182.3	>100	(85.8)	
Construction	(15.7)	21.8	54.8	>100	>100	Yoy & qoq: Higher profit contribution from the BRT, Afinity Medini and Sunway University New Academic Block projects. Furthermore, 4QFY13 was impacted by the RM23m provision for Al Reem project.
Trading/Manufacturing	8.2	10.8	7.7	(28.8)	(6.1)	Yoy & qoq: Impacted by overseas operations.
Quarry	3.0	6.7	15.7	135.3	413.7	
Net Interest Expense	(24.5)	(5.1)	(7.2)	40.9	(70.4)	
Share of Associates/JCE	83.4	38.5	44.7	16.0	(46.4)	
PBT	1248.1	185.2	407.8	120.2	(67.3)	Filtered down from EBIT.
PAT	1202.7	163.4	357.0	118.5	(70.3)	
PATAMI	1138.8	143.7	313.0	117.8	(72.5)	
EI	(981.3)	5.6	(106.9)	>100	(89.1)	Consist of gain of derivatives of RM2.8m, FV loss in investment properties of RM120.4m, and FV of ESOS options of RM10.7m.
Core Earnings	157.5	149.3	206.1	38.1	30.9	Filtered down from PATAMI ex. EI.
Core EPS (sen)	9.1	8.7	11.9	37.8	30.6	
EBIT Margin (%)	0.9	0.1	0.3			
Property Development	0.2	0.4	0.2			
Property Investment	3.2	0.2	1.1			
Construction	(0.0)	0.0	0.1			
Trading/Manufacturing	0.1	0.1	0.0			
Quarry	0.1	0.1	0.2			
PBT Margin Ex-Assoc (%)	0.9	0.1	0.2			

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Figure #2 Cumulative results comparison

FYE Dec (RM m)	FY13	FY14	Yoy (%)	Comments
Revenue	4733.7	4841.9	2.3	Made up 102.3% and 96.1% of ours and consensus' estimates respectively. Refer to segmental.
Property Development	1167.1	1198.3	2.7	Higher domestic property development projects partly offset by the poor performance in Singapore.
Property Investment	815.8	594.5	(27.1)	Excluding one-off gain, the division experienced an increase resulted from higher rental

Construction	1590.9	1751.0	10.1	income following the rental reversion of some of the investment properties.
Trading/Manufacturing	586.7	639.4	9.0	Higher profit contribution from the local infrastructure projects and precast concrete products.
Quarry	197.7	236.7	19.7	Local operations remained strong.
EBIT	1823.6	768.8	(57.8)	Strong local demand underpinned by the buoyant construction sector and public roadworks.
Property Development	225.3	285.8	26.9	Refer to segmental.
Property Investment	1359.0	260.2	(80.9)	Boosted by lower common infrastructure costs allocated to the property development component as well as higher profit recognition in local projects.
Construction	42.8	133.3	>100	Boosted by its precast division in Singapore.
Trading/Manufacturing	44.5	38.6	(13.3)	
Quarry	19.9	35.9	80.7	
Net Interest Expense	(102.4)	(30.4)	(70.3)	
Share of Associates/JCE	172.5	233.2	35.2	
PBT	1894.3	968.8	(48.9)	
PAT	1773.4	820.9	(53.7)	
PATAMI	1500.5	743.2	(50.5)	
EI	(1017.8)	(151.5)	(85.1)	Consist of gain of derivatives of RM2.7m, FV loss in investment properties of RM120.4m, share value loss under associate of RM61.9m and FV of ESOS options of RM28.1m.
Core Earnings	482.7	591.7	22.6	Made up 113.4% and 118.2% of ours and consensus' estimates respectively.
Core EPS (sen)	30.6	34.3	12.1	
EBIT Margin (%)	0.4	0.2		
Property Development	0.2	0.2		
Property Investment	1.7	0.4		
Construction	0.0	0.1		
Trading/Manufacturing	0.1	0.1		
Quarry	0.1	0.2		
PBT Margin Ex-Assoc (%)	0.4	0.2		

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	11.1
Property	NPV of profits + Shareholders Fund	100%	5,517	2.74	73.0
Trading/Manufacturing	9X P/E	100%	291	0.14	3.9
Quarry	15X P/E	100%	187	0.09	2.5
Dividend in-specie			200	0.10	2.6
Special cash dividend			326	0.16	4.3
		Sub-Total (RM m)	7,356		
		No. of shares (m)	1,723		
		RM per share	4.27		
		Proceeds from warrants (RM m)	657	0.33	8.7
		Estimated Holding Company Net Debt	(460)	(460)	(0.23)
		SOP (RM m)	7,553		
		Total no. of diluted shares (m)	2,013		
		Target Price (RM)	3.75		

HLIB

Figure #4 HLIB vs Consensus

FYE Dec (RM m)	FY15E			FY16E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,758.7	5,428.0	-12%	4,676.4	5,424.0	-14%
PATAMI	558.4	543.7	3%	561.9	557.8	1%

Bloomberg, HLIB

Financial Projections for Sunway (BUY; TP: RM3.75)

Income Statement

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	3,876.8	4,733.7	4,841.9	4,758.7	4,676.4
EBITDA	594.5	1,960.5	883.1	748.4	779.1
D&A	(89.9)	(136.9)	(114.3)	(116.3)	(131.9)
EBIT	504.5	1,823.6	768.8	632.0	647.2
Interest Income	27.1	35.6	48.4	26.2	26.7
Finance Costs	(104.6)	(138.1)	(78.9)	(107.1)	(102.3)
Associates/JCE	301.2	172.5	233.2	190.9	207.9
Profit Before Tax	728.2	1,893.6	968.8	742.1	779.5
Tax	(128.5)	(120.9)	(148.0)	(137.2)	(142.7)
Net Profit	599.7	1,772.7	820.9	604.8	636.8
Minority Interests	(67.4)	(273.0)	(77.6)	(46.4)	(74.9)
PATAMI	532.3	1,499.8	743.2	558.4	561.9
Exceptionals	181.8	1,017.8	(151.5)	-	-
Core Earnings	350.6	482.0	591.7	558.4	561.9
Basic Shares (m)	1,292.5	1,723.4	1,723.4	1,723.4	1,723.4
Core EPS (sen)	27.1	28.0	34.3	32.4	32.6
FD Core EPS (sen)	22.6	24.0	32.8	27.7	24.4

Quarterly Financial Summary

FYE 31 Dec (RM m)	2013Q4	2013Q1	2014Q2	2014Q3	2014Q4
Revenue	1,342.2	1,025.7	1,204.6	1,134.0	1,477.5
Expenses	(1,198.4)	(932.6)	(1,086.8)	(1,002.4)	(1,315.9)
Other Income	1,045.1	16.4	16.2	20.4	211.5
EBIT	1,188.8	109.6	134.0	151.9	373.2
Derivatives	0.4	(0.0)	0.2	(0.1)	(2.8)
Net Interest Expense	(24.5)	(7.8)	(10.2)	(5.1)	(7.2)
Associates & JCE	83.4	40.4	109.6	38.5	44.7
Profit Before Tax	1,248.1	142.2	233.6	185.2	407.8
Tax	(45.5)	(30.4)	(44.9)	(21.8)	(50.8)
Net Profit	1,202.7	111.8	188.7	163.4	357.0
Minority Interests	(981.3)	6.3	(56.6)	5.6	(106.9)
PATAMI	157.5	110.3	126.0	149.3	206.1
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)	2012A	2013A	2014A	2015E	2016E
Cash	1,140	1,519	1,978	858	921
Trade Receivables	1,404	1,405	1,720	1,173	1,153
Inventories	626	623	598	717	705
Development Costs	600	1,276	1,772	1,006	1,085
Associates/JCE	1,553	2,284	2,481	2,458	2,551
PPE	3,008	3,548	1,047	3,933	4,101
Goodwill	319	320	319	320	320
Others	95	137	3,001	130	130
Total Assets	8,745	11,112	12,916	10,594	10,965
Trade Payables	1,605	2,154	2,172	1,304	1,281
Total Debt	2,747	2,795	3,784	2,299	2,246
Others	524	511	626	511	511
Total Liabilities	4,876	5,460	6,583	4,114	4,038
Shareholders' Funds	3,558	5,335	5,945	6,076	6,448
Minority Interests	310	317	389	405	480
Total Capital	3,868	5,652	6,334	6,480	6,928

Rates and Ratios

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Core PER (x)	12.2	11.9	9.7	10.2	10.2
FD Core PER (x)	14.7	13.8	10.1	12.0	13.6
Net DPS (sen)	6.0	10.0	11.0	11.0	12.0
Net DY (%)	1.8	3.0	3.3	3.3	3.6
BVPS (RM)	2.8	3.1	3.4	3.5	3.7
P/B (x)	1.2	1.1	1.0	0.9	0.9
NTA/Share (RM)	2.5	2.9	3.4	3.3	3.6
EBITDA Margin (%)	15.3	41.4	18.2	15.7	16.7
EBIT Margin (%)	13.0	38.5	15.9	13.3	13.8
PBT Margin (%)	26.6	43.6	20.0	19.6	21.1
PATAMI Margin (%)	9.0	10.2	12.2	11.7	12.0
ROE (%)	10.7	10.8	10.0	9.5	9.0
ROA (%)	4.2	4.9	4.6	5.3	5.2
Net Gearing (%)	49.1	28.7	30.4	24.5	21.2

Cashflow Analysis

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
EBITDA	594.5	1,960.5	883.1	748.4	779.1
Working Capital	(154.1)	(124.7)	145.8	(15.0)	(69.5)
Interest Received	27.1	39.9	49.7	26.2	26.7
Dividends fr Assoc	151.8	83.1	193.6	104.2	114.6
Others	(233.2)	(865.8)	(502.8)	(137.2)	(142.7)
CFO	386.1	1,092.9	769.4	726.6	708.3
Capex	(465.5)	(657.9)	(205.5)	(300.0)	(300.0)
Purchase/Disposal	317.4	38.2	(675.8)	-	-
Others	(209.7)	(215.0)	36.8	-	-
CFI	(357.7)	(834.7)	(844.5)	(300.0)	(300.0)
Financing	493.2	48.6	872.9	(161.5)	(53.4)
Shares Issued	-	732.9	-	-	-
Dividends	-	(344.3)	(212.9)	(189.6)	(189.6)
Interest Paid	(104.6)	(117.5)	(77.1)	(107.1)	(102.3)
Others	(141.7)	(184.3)	12.3	-	-
CFF	246.9	135.4	595.3	(458.2)	(345.2)
Net Cashflow	275.2	393.5	520.2	(31.6)	63.0

Assumption Metrics

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	3,877	4,734	4,842	4,759	4,676
Property	923	1,167	1,198	1,223	1,320
Property Investment	591	816	594	865	891
Construction	1,275	1,591	1,751	1,391	1,122
Trading/Manufacture	559	587	639	647	679
Quarry	197	198	237	218	229
Others	332	375	422	414	435
EBIT Margins (%)	13.0	38.5	15.9	13.3	13.8

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 Level 23, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
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