

Sunway Bhd

The Sun rises in the South; maintain OW

Sunway held an analyst briefing in Johor to unveil its upcoming launches and plans in Iskandar. We reiterate that the ability to differentiate and execute is key in Iskandar in light of rising competition, and we believe Sunway stands out as a likely winner given its prime location, strong product concept and execution track record, as well incentives in Medini where it operates in. We roll forward our RNAV based PT to Jun-15 and raise it to M\$3.80. Stay OW.

- **Maiden launch of 'Citrine' in Medini, Iskandar by Jul-14** to comprise retail (to keep), office and service apartments (indicative price of M\$700psf vs M\$900-1,200psf for peers) with total GDV of M\$300-350MM. Strong registrations so far for 'Citrine' comprising mainly Malaysians (60%).
- **Future plans – to replicate the success of Bandar Sunway in Iskandar.** 'Citrine' is Phase 1 of the Lakeview Precinct spanning 120 acres (M\$2B GDV) for Sunway in Iskandar which will also involve construction of Sunway International School (1st intake by 2017) and the launch of landed homes by late-2014/early-2015. Lakeview in turn is one of the six precincts within Sunway's entire 1,800-acre township in Iskandar (M\$30B GDV), which will encompass education, hospitality, theme-park, retail and healthcare components similar to Sunway's successful township in Bandar Sunway, Klang Valley (the only developer with this concept in Iskandar).
- **Key differentiation** for Sunway's Medini projects versus peers, in our view, is its low density (at 1x plot ratio vs 3-8x for peers), landed integrated township which is self sufficient (appeals also to locals which prefer landed to condo developments), as well as the incentives in Medini (i.e. tax free status, no Bumi quota, RPGT exemption, as well as waiver from the foreign minimum threshold property purchase of M\$1MM per unit).
- **Maintain OW.** For now, we have more conservatively forecast that the group's Iskandar projects will account for just 12%/18% of its new property sales of M\$1.7B/2.1B for FY14E/15E. Longer term prospects for Iskandar we believe will improve with the planned transport links (i.e. High Speed Rail, Rail Transit System) by 2018/2020.

Sunway Bhd (Reuters: SWAY.KL, Bloomberg: SWB MK)

M\$ in mn, year-end Dec	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (M\$ mn)	3,849	4,734	5,080	5,021	4,926
Reported Net Profit (M\$ mn)	531	1,500	428	498	493
Core Net Profit (M\$ mn)	351	483	470	525	520
Reported EPS (M\$)	0.41	0.87	0.25	0.29	0.29
DPS (M\$)	0.05	0.09	0.08	0.09	0.09
Revenue growth (%)	4.3%	23.0%	7.3%	(1.2%)	(1.9%)
Core EPS growth (%)	6.9%	6.9%	(2.6%)	11.5%	(0.9%)
ROCE	7.2%	23.6%	5.5%	5.9%	5.5%
ROE	11.1%	11.2%	8.9%	9.4%	8.9%
P/BV (x)	1.3	1.1	1.0	1.0	0.9
EV/EBITDA (x)	10.3	2.9	8.8	8.8	8.9
Dividend Yield	1.5%	2.7%	2.6%	2.9%	2.9%
Core FD EPS (M\$)	0.23	0.25	0.24	0.27	0.27
Adjusted P/E	13.7	12.8	13.2	11.8	11.9

Source: Company data, Bloomberg, J.P. Morgan estimates.

See page 15 for analyst certification and important disclosures, including non-US analyst disclosures.

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Overweight

SWAY.KL, SWB MK

Price: M\$3.18

▲ **Price Target: M\$3.80**
Previous: M\$3.60

Malaysia

Real Estate

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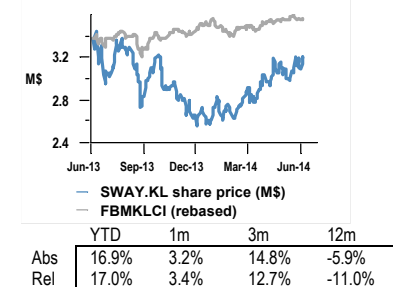
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Price Performance



This update focuses mainly on Sunway's Iskandar property development projects (the focus of the analyst briefing)...

...however, besides Sunway's edge in Iskandar, we also like the group for its diversified earnings (i.e. property investment, construction as well as Klang Valley and Singapore property development projects)

Company Data

Shares O/S (mn)	1,724
Market Cap (M\$ mn)	5,481
Market Cap (\$ mn)	1,692
Price (M\$)	3.18
Date Of Price	05 Jun 14
Free Float(%)	22.4%
3M - Avg daily vol (mn)	1.08
3M - Avg daily val (M\$ mn)	3.27
3M - Avg daily val (\$ mn)	1.0
FBMKLCI	1865.20
Exchange Rate	3.24
Price Target End Date	30-Jun-15
Price Target (M\$)	3.80

Key catalysts for the stock price:	Upside risks to our view:	Downside risks to our view:
<ul style="list-style-type: none"> • Strong projects and execution capability amid a property development slowdown. • Stable earnings from property investments (via 34% Sunway REIT) • Construction order-book to sustain earnings from this division. 	<ul style="list-style-type: none"> • Stronger than expected property sales. • Prospects for further value realization of its prime investment properties with the next phase of injection of assets into its REIT vehicle likely by FY15/16. 	<ul style="list-style-type: none"> • Slower-than-expected property sales. • Rising competition in Iskandar, but we believe the group's strength (i.e. low density landed development, integrated township model, low entry cost, tax free status in Medini, branding/good execution track record) will provide it an edge

Key financial metrics	FY13A	FY14E	FY15E	FY16E
Revenues (M\$mn)	4,734	5,080	5,021	4,926
Revenue growth (%)	23%	7%	-1%	-2%
EBITDA (M\$mn)	1,913	662	711	689
EBITDA margin (%)	40%	13%	14%	14%
Tax rate (%)	6%	20%	18%	18%
Net income (M\$mn)	1,500	428	498	493
Core net income (M\$mn)	483	470	525	520
Core EPS (M\$)	0.25	0.24	0.27	0.27
Core EPS growth (%)	7%	-3%	11%	-1%
DPS (M\$)	0.09	0.08	0.09	0.09
BVPS (M\$)	2.91	3.06	3.24	3.42
Operating cash flow (M\$mn)	1,341	574	589	573
Free cash flow (M\$mn)	702	(252)	(107)	381
Interest cover (x)	18.8	6.4	6.2	6.8
Net margin (%)	32%	8%	10%	10%
Sales/assets (X)	0.47	0.44	0.42	0.40
Debt/equity (%)	49%	47%	44%	42%
Net debt/equity (%)	23%	28%	32%	29%
ROE (%)	11%	9%	9%	9%
Key model assumptions	FY13A	FY14E	FY15E	FY16E
Prop sales: Domestic (M\$mn)	1,582	1,343	1,544	1,846
Op margins: Prop dev	19.5%	20.3%	21.3%	22.4%
Operating margins: Construction	4.7%	4.7%	6.2%	6.2%

Source: Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
	FY14E	FY15E	FY14E	FY15E
Sensitivity to				
5% chg in Domestic sales	0.7%	1.7%	0.5%	1.2%
1ppt chg in Prop dev op margins	2.8%	2.6%	3.2%	3.0%
1ppt chg in Const op margins	2.7%	2.5%	3.1%	2.8%

Source: J.P. Morgan estimates

Valuation and price target basis
We maintain our forecast but have rolled forward our PT timeframe from Dec-14 to Jun-15. This raises our RNAV from M\$5.00 to M\$5.20, and in turn raises our PT to M\$3.80 (from M\$3.60) based on an unchanged 30% discount to RNAV, in-line with the sector's historical mean.

	Value (M\$mn)	Comments
Revaluation surplus	4,513	
Book value	5,274	
Gain from investment prop (34% stake in SREIT)	0	At market value
Gain from construction	735	At 12.5x FY14E PE
Outstanding cash obligations (Iskandar land purchase)	-516	Discounted value
Total RNAV	10,006	
Proceeds from warrants	1,085	
Adjusted RNAV	11,091	
FD no of shares	2,147	ESOS & warrants
FD RNAV per share	5.20	
PT	3.80	30% RNAV disc

Source: J.P. Morgan estimates.

JPMe vs. consensus, change in estimates		
EPS (LC)	FY14E	FY15E
JPMe old	0.25	0.29
JPMe new	0.25	0.29
% chg	0%	0%
Consensus	0.28	0.31

Source: Bloomberg, J.P. Morgan estimates. Consensus EPS we believe is not based on fully diluted basis. Our EPS is on a fully diluted basis after warrant conversion. At the net profit level which is therefore more representative, our forecast is 5% below consensus for FY14E and 2% below consensus for FY15E.

Table 1: Property sector peer comparison

As at: 5 Jun-14	FYE	Mkt cap (M\$mn)	Price (M\$)	Rating	Target (M\$)	P/E		EPS growth		Net div yield		P/B	ROE	RNAV (M\$)	Prem/disc to RNAV
						CY14E	CY15E	CY14E	CY15E	FY14E	FY15E				
IGB Corporation	Dec	3,698	2.77	UW	2.40	15.7	15.0	13.2%	4.7%	2.3%	2.3%	0.8	5.3	5.02	-45%
IJM Land*	Mar	5,097	3.27	OW	3.70	15.4	14.4	20.2%	6.9%	2.0%	2.1%	1.7	11.5	4.53	-28%
Mah Sing Group	Dec	3,242	2.27	N	2.10	11.1	9.4	18.9%	18.3%	4.2%	5.1%	1.5	17.3	2.58	-12%
SP Setia	Oct	7,376	2.93	N	3.20	14.0	11.2	19.3%	25.0%	4.1%	5.2%	1.3	8.7	5.30	-45%
Sunway	Dec	5,533	3.18	OW	3.80	13.2	11.8	-2.6%	11.5%	2.6%	2.9%	1.0	8.9	5.17	-38%
UEM Sunrise	Dec	9,483	2.09	UW	1.85	16.3	21.0	0.7%	-22.5%	1.9%	2.2%	1.6	6.6	3.23	-35%
Sector weighted average**		34,430				14.6	14.7	10.1%	4.2%	2.8%	3.2%	1.4	9.0		-35%

Source: Bloomberg, J.P. Morgan estimates. * FY15E and FY16E for IJM Land given its Mar-31 year-end.

Analyst briefing highlights

Sunway held an analyst briefing in Iskandar, Johor yesterday to unveil its upcoming launches, and overall product concept and plans in Iskandar. We reiterate that the ability to differentiate and execute is key in Iskandar in light of rising competition and near term challenges from the cooling measures, and we believe Sunway stands out as a likely winner given its prime location, strong product concept and execution track record, as well incentives in Medini where it operates in.

This update focuses mainly on Sunway's Iskandar property development projects (the focus of the analyst briefing). However, we reiterate that besides Sunway's edge in Iskandar, we also like the group for its diversified earnings (i.e. property investment, construction as well as Klang Valley and Singapore property development projects).

We roll forward our PT for Sunway from Dec-14 to Jun-15 and raise it to M\$3.80 **(from M\$3.60) based on a 30% RNAV discount or in line with the sector's historical mean. We maintain OW.** Sunway remains one of our top two picks among developers in Malaysia aside from IJM Land (OW). Following its strong outperformance YTD, we believe shares are likely to consolidate in the near term especially in light of the sector slowdown this year from the various cooling measures, but we remain positive on Sunway's long term growth prospects.

Key highlights from the analyst briefing as follows:

Citrine launch – Phase 1 of Lakeview Precinct, Iskandar

Sunway will launch its maiden 'Citrine' project in Medini, Iskandar by Jul-14 to comprise three components: 1) Retail (51 units which the group plans to keep as investment property). 2) Office (167 units of designer office suites priced at M\$450-550psf or in line with market value in Johor. 3) Service apartments (328 units with indicative price of M\$700psf). Total GDV for Citrine is M\$300-350MM (residential component at an estimated 70% of this value). The group has received strong registrations so far for 'Citrine' at about 6x the units available for launch comprising mainly Malaysians (60%), Singaporeans (30%), and others (10%).

The pricing of M\$700psf for the service apartments of 'Citrine' or at M\$0.5-1MM per unit based on unit size of 700-1,500sqft falls in the affordable range where demand is still holding up better. Nearby developments include E&O Bhd's (EAST MK, Not Covered) recent 'Avira' launch of landed properties at M\$620-650psf or at M\$1.3-1.4MM per unit which has received 70% take-up to date following launch a month ago. The pricing of M\$700psf for 'Citrine' we believe is competitive compared to more recent condo developments by peers or foreign developers at M\$900-1,200psf

Future project plans in Iskandar - A self-sufficient township

The 'Citrine' project represents Phase 1 of the Lakeview Precinct spanning 120 acres (M\$2B GDV) for Sunway in Iskandar which will also involve: 1) Construction of Sunway International School (1st intake by 2017) with an initial student capacity of 600 and 2) Launch of landed homes by late-2014/early-2015. Sunway International School is already operational in Bandar Sunway, Klang Valley since 2008 following

the successful track records of Sunway College and Sunway University under the education arm of the group.

Lakeview in turn is one of the six precincts within Sunway's entire 1,800-acre township in Iskandar covering both the Medini and Pendas area (M\$30B GDV), which will encompass education, hospitality, theme-park, retail and healthcare components similar to Sunway's successful township in Bandar Sunway, Klang Valley (the only developer with this concept in Iskandar). For details of the six precincts or catalytic developments within the group's planned Iskandar township, refer to Figure 3.

Sunway's competitive edge/key differentiation in Iskandar

Key differentiation for Sunway's Medini projects versus peers, we reiterate as follows:

- **Its low density** (at 1x plot ratio versus 3-8x for peers), landed integrated township which is self-sufficient equipped with amenities (appeals also to locals which prefer landed to condo developments). A total of close to 700-acres or 40% of the entire 1,800-acre township will be conserved for nature (greenery/forest) and water. This compares to the much keener competition in the high-density condo market.
- **The incentives in Medini** (i.e. tax free status, no Bumi quota, RPGT exemption, as well as waiver from the foreign minimum threshold property purchase of M\$1MM per unit). Sunway currently has the largest single parcel of land-bank in Medini (accounting for 30% of the total size of Medini's land). Sunway also owns the only sea-fronting land in Medini (2.5km).
- **Its low land cost** at just M\$20psf per plot ratio versus up to M\$80-120psf per plot ratio for recent land transactions by its peers in the Danga Bay area, which will enable competitive pricing for its projects.
- **Its in-house construction arm, SunCon** which allows for better management of cost. SunCon is undertaking construction of the 'Citrine' project, and was also involved in the construction of Lego Land and Pinewood Studios in Iskandar.

Other benefits

The likely alignment of the High Speed Rail in Johor?

To recap, the Prime Minister has already announced that the main terminus of the KL-Singapore High Speed Rail (HSR) by 2020 will be in Bandar Malaysia in Sg Besi in KL (a new growth area located next to the Tun Razak Exchange or the new financial centre), though the alignment and terminus in Johor as it connects to Singapore is yet to be confirmed. However, the key view or feedback from property consultants and industry players/experts at The Edge Real Estate Investment forum recently is that in Johor **the HSR will likely have its last station in Malaysia located in Gerbang Nusajaya**, especially since Singapore has already announced that the HSR terminus could be at Tuas West or Jurong East, or west of the country. **Key large developers with projects in and nearby Gerbang Nusajaya are UEM Sunrise and Sunway Bhd, which are hence seen as long term beneficiaries. We are currently UW on UEM and prefer Sunway (OW).**

Figure 1: Sunway's Citrine project in Medini, Iskandar comprising retail (51 units), office (167 units) and high rise service apartments (328 units)



Source: Company, J.P. Morgan.

Figure 2: Artist's impression of Sunway International School, Iskandar campus at the Lakeview Precinct and facing the lake



Source: Company.

Figure 2: Sunway's Iskandar masterplan (Medini-Pendas artist's impression) comprising the six planned Precincts



Source: Company.

Key assumptions & forecasts

Table 2: Sunway's property pre-sales by project (M\$MM)

(M\$MM)	Project status	2010	2011	2012	2013	2014E	2015E	2016E
Klang Valley								
Sunway South Quay	Ongoing			350	701	413	418	501
Sunway Damansara	Ongoing			79	77	73	75	75
Sunway Alam Suria	Ongoing			91	70	-	-	-
Melawati	Ongoing			116	88	-	-	-
Sunway Velocity	Ongoing			258	119	367	324	324
Sunway Montez	Ongoing			-	-	-	-	23
Sunway Semenyih	Ongoing			-	-	-	-	-
Sunway Cheras	Ongoing			-	-	-	-	-
Sunway Duta	Ongoing			-	-	-	-	-
Sunway Montana	Ongoing			-	141	-	-	-
Sunway Resort City	Ongoing			-	-	-	-	-
Casa Kiara III	Ongoing			68	69	52	33	44
Sunway Tower KL 1	Ongoing			-	-	-	-	-
Bangi	Ongoing			-	-	-	-	-
Sg Long	Ongoing			-	-	-	-	-
Mont Putra, Rawang	Ongoing			-	-	-	-	-
Others				193	120			
				1,155	1,385	905	850	967
Ipoh/Penang								
Sunway City Ipoh	Ongoing			29	45	8	26	26
Penang	Ongoing			78	79	39	79	79
				107	124	47	105	105
Johor								
Bukit Lenang	New			0	73	184	206	257
Medini	New			0	0	206	383	516
Pendas	New			0	0	0	0	0
				-	73	391	589	774
Overseas								
Novena	Ongoing			571	266	396	580	724
Sembawang, Singapore	Ongoing			-	-	-	-	-
Sunway Guanghao	Ongoing			-	-	-	-	-
Tianjin Eco City	Ongoing			-	-	-	-	-
Sunway OPUS Grand India	Ongoing			-	-	-	-	-
Sunway MAK Signature Residence	Ongoing			-	-	-	-	-
Wonderland Business Park (Sydney)	Ongoing			-	-	-	-	-
				571	266	396	580	724
Overall total		1,771	2,100	1,833	1,848	1,739	2,124	2,570
Growth %		81%	19%	-13%	1%	-6%	22%	21%
Domestic sales								
Domestic sales		987	1,200	1,262	1,582	1,343	1,544	1,846
Overseas		784	900	571	266	396	580	724
Total		1,771	2,100	1,833	1,848	1,739	2,124	2,570
Domestic sales growth			22%	5%	25%	-15%	15%	20%
% of property sales								
Domestic - Klang Valley		0%	0%	63%	75%	52%	40%	38%
Domestic - Johor		0%	0%	0%	4%	22%	28%	30%
Domestic - Ipoh/Penang		0%	0%	6%	7%	3%	5%	4%
Overseas - Singapore		0%	0%	31%	14%	23%	27%	28%
Overseas - Others		0%	0%	0%	0%	0%	0%	0%
		0%	0%	100%	100%	100%	100%	100%

Source: Company, J.P. Morgan estimates. * Others include 10 ongoing projects in the Klang Valley, i.e. Sunway Montez, Sunway Semenyih, Sunway Cheras, Sunway Duta, Sunway Montana, Sunway Resort City, Casa Kiara 111, Sunway Tower KL 1, Bangi, Sungai Long and Mont Putra, Rawang.

Table 3: Sunway P&L statement

P&L	2011	2012	2013E	2014E	2015E	2016E
Yr to Dec-31 (M\$MM)						
Revenue	3,691.7	3,849.2	4,733.7	5,080.1	5,021.3	4,925.9
Property development	915.8	910.2	1,167.1	1,514.5	1,450.6	1,224.8
Property investment	517.6	585.2	815.8	615.1	637.3	665.9
Construction	1,221.0	1,274.9	1,590.9	1,781.0	1,754.2	1,846.2
Trading & manufacturing	553.2	558.7	586.7	592.6	598.5	604.5
Quarry	184.5	196.9	197.7	197.7	197.7	197.7
Investment holding	3.4	7.0	-	-	-	-
Others	296.3	316.4	375.4	379.2	383.0	386.8
Cost of sales	(2,630.0)	(2,581.1)	(2,959.3)	(3,239.5)	(3,148.0)	(3,099.3)
Gross profit	1,061.7	1,268.1	1,774.3	1,840.5	1,873.3	1,826.6
Operating profit	366.3	503.5	1,823.6	570.7	618.5	596.2
Property development	130.6	187.0	228.2	307.4	309.7	274.7
Property investment	108.4	120.7	111.2	129.4	134.0	140.1
Construction	58.4	36.8	47.4	83.7	108.8	114.5
Trading & manufacturing	49.8	45.0	46.6	46.6	46.6	46.6
Quarry	8.4	12.2	21.2	21.6	22.0	22.5
Investment holding	(22.7)	(37.1)	(7.9)	(1.7)	(0.4)	(0.1)
Others	11.8	16.9	24.8	25.0	25.3	25.5
Unusual items	21.7	121.6	1,352.1	(41.3)	(27.6)	(27.6)
Finance income	27.5	22.7	36.4	36.2	25.8	23.9
Finance costs	(80.9)	(99.6)	(138.1)	(139.5)	(139.5)	(125.8)
Associates	99.7	152.3	13.2	77.3	86.5	95.6
Core associates	68.5	75.8	78.5	77.3	86.5	95.6
Unusual items	31.2	76.5	(65.3)	0.0	0.0	0.0
JVs	85.9	144.0	159.3	67.0	99.0	83.6
Property development	81.3	119.3	125.1	67.0	99.0	83.6
Construction	4.7	24.6	32.7	0.0	0.0	0.0
Pre-tax	498.5	722.9	1,894.3	611.7	690.3	673.4
Taxation	(69.6)	(125.4)	(120.9)	(121.0)	(127.0)	(121.2)
PAT	428.9	597.6	1,773.4	490.7	563.2	552.2
MI	(41.4)	(66.9)	(273.0)	(62.5)	(65.5)	(59.4)
Reported net profit	387.5	530.6	1,500.5	428.2	497.7	492.8
Exceptional items	60.4	179.9	1,017.8	(41.3)	(27.6)	(27.6)
Core net profit	327.1	350.7	482.7	469.5	525.3	520.4
% growth		7%	38%	-3%	12%	-1%
Share base	1,292.5	1,292.5	1,723.5	1,723.5	1,723.5	1,723.5
FD share base	1,582.1	1,582.1	2,013.1	2,013.1	2,013.1	2,013.1
Reported EPS (sen)	29.98	41.05	87.06	24.84	28.88	28.59
% growth		37%	112%	-71%	16%	-1%
FD Core/adjusted EPS (sen)	21.71	23.20	24.79	24.13	26.90	26.66
% growth		7%	7%	-3%	11%	-1%
<u>Margins</u>						
Gross margin	28.8%	32.9%	37.5%	36.2%	37.3%	37.1%
Op margin	9.9%	13.1%	38.5%	11.2%	12.3%	12.1%
PBT margin	13.5%	18.8%	40.0%	12.0%	13.7%	13.7%
<u>Operating margin by segment</u>						
Property development	14.3%	20.5%	19.5%	20.3%	21.3%	22.4%
Property investment	20.9%	20.6%	13.6%	21.0%	21.0%	21.0%
Construction	4.8%	2.9%	3.0%	4.7%	6.2%	6.2%
Trading & manufacturing	9.0%	8.1%	7.9%	7.9%	7.8%	7.7%
Quarry	4.5%	6.2%	10.7%	10.9%	11.1%	11.4%

Source: Company, J.P. Morgan estimates.

Table 4: Sunway core EBIT breakdown including associates

	2010	2011	2012	2013	2014E	2015E	2016E
Core EBIT	524.8	491.3	619.9	709.2	756.3	831.6	802.9
Property development	204.3	211.9	306.4	353.3	374.4	408.7	358.3
Property investment	181.6	176.9	196.5	191.3	206.7	220.5	235.6
Construction	118.0	63.1	61.5	80.0	83.7	108.8	114.5
Trading & manufacturing	37.8	49.8	45.0	46.6	46.6	46.6	46.6
Quarry	8.3	8.4	12.2	21.2	21.6	22.0	22.5
Investment holding	(19.0)	(30.5)	(20.4)	(7.9)	(1.7)	(0.4)	(0.1)
Others	(6.1)	11.8	16.9	24.8	25.0	25.3	25.5
Checking	524.8	491.3	618.0	709.2	756.3	831.6	802.9
Segmental breakdown							
Property development	39%	43%	50%	50%	49%	49%	45%
Property investment	35%	36%	32%	27%	27%	27%	29%
Construction	22%	13%	10%	11%	11%	13%	14%
Trading & manufacturing	7%	10%	7%	7%	6%	6%	6%
Quarry	2%	2%	2%	3%	3%	3%	3%
Investment holding	-4%	-6%	-3%	-1%	0%	0%	0%
Others	-1%	2%	3%	3%	3%	3%	3%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Company, J.P. Morgan estimates.

Pre-sales we believe is the key share price driver rather than earnings which is largely locked-in. To recap, the group has total unbilled sales of M\$2.4B as at end-1Q14 or at 2.1x historical revenue.

Investment Thesis, Valuation and Risks

Sunway Bhd (Overweight; Price Target: M\$3.80)

Investment Thesis

We are cautious on the outlook for property developers in 2014 following Budget cooling measures that are expected to impact Iskandar-focused stocks most. While Sunway Bhd (SWB) has some exposure to Iskandar, we believe it commands an edge in terms of location, product concept (landed township) and execution in Iskandar, and that its diversified earnings base will also provide support. The stock may still be vulnerable to selling pressure short-term until the market absorbs the new property measures, but we continue to like its long-term fundamentals in view of the following:

1. **Strong commercial asset backing:** Via 34%-owned Sunway REIT, the group owns prime investment properties, with prospects for unlocking value and raising cash here in the next phase of asset injection into its REIT vehicle, which we believe is likely from FY15/16.
2. **Low base of property development sales:** Unlike purer developers, property development accounts for a smaller 50% of SWB's earnings. The group also has a low base, with domestic property development sales at just M\$1.6bn for FY13 (versus over M\$2-3bn for peers), despite its ample land bank. In Iskandar, SWB is starting from a zero base, with its maiden launch expected by early 2014, so we believe it has more to gain than to lose, as opposed to the existing Iskandar dominant player, UEM. For now,

we have more conservatively forecast that the Medini, Iskandar projects will account for no more than 12%/18% of new property sales over FY14E/15E.

3. **Construction sector growth:** Existing construction order-book of M\$3.7B accounts for 2.3x historical revenue with the group tendering for an additional over M\$2B worth of domestic projects. Higher proportion of domestic construction projects going forward will also contribute to stronger operating margins forecast at 5-6% over FY14E/16E (versus 3-5% over last 3 years).

Valuation

Our Jun-15E PT of M\$3.80 is based on a c.30% discount to RNAV, in line with the sector's historical mean. In a worst-case scenario, stripping out value accretion from Iskandar projects and valuing the assets here at just book or its land cost of M\$20psf (versus recent transactions at M\$35-147psf), our PT would fall to M\$2.50 at a 37% discount to RNAV (-1SD from the historical sector mean).

Table 7: Sunway RNAV

Projects	% stake	Description	Undeveloped land (acres)	Remaining GDV (M\$ M)	Years to develop	Revaluation surplus (M\$ M)	Comments
Selangor/KL							
Sunway Damansara	60%	Residential/commercial township	15	1,691	5	141	Discounted at WACC of 10%
Sunway South Quay	60%	Lakeside mixed development	52	3,990	7	335	Discounted at WACC of 10%
Sunway Monterez	60%	Residential	5	44	3	4	Discounted at WACC of 10%
Sunway Semenyih	70%	Residential	398	729	10	71	Discounted at WACC of 10%
Sunway Cheras	100%	Residential	6	17	3	2	Discounted at WACC of 10%
Sunway Duta	60%	Residential	3	120	3	2	Discounted at WACC of 10%
Sunway Montana	100%	Residential	2	56	3	4	Discounted at WACC of 10%
Sunway Alam Suria	100%	Residential	1	12	2	5	Discounted at WACC of 10%
Sunway Resort City	100%	Commercial	15	660	6	81	Discounted at WACC of 10%
Casa Kiara III	80%	Residential	3	210	3	21	Discounted at WACC of 10%
Sunway Velocity	85%	Mixed development	18	2,859	6	343	Discounted at WACC of 10%
Sunway Tower KL 1	100%	Office	1	240	3	24	Discounted at WACC of 10%
Bangi	100%	Residential	3	59	2	6	Discounted at WACC of 10%
Melawati	100%	Residential	2	43	2	9	Discounted at WACC of 10%
Sg Long	80%	Residential	111	277	4	29	Discounted at WACC of 10%
Mont Putra, Rawang	100%		163	156	6	17	Discounted at WACC of 10%
Perak							
Sunway City Ipoh	65%	Residential	895	1,048	10	97	Discounted at WACC of 10%
Penang							
Sunway City Penang	100%	Residential	16	172	2	20	Discounted at WACC of 10%
Sunway Grand	100%	Residential	12	186	2	22	Discounted at WACC of 10%
Sungai Ara	100%	Residential	56	849	3	101	Discounted at WACC of 10%
Bukit Mertajam	100%	Residential	42	694	2	82	Discounted at WACC of 10%
S'pore							
Novena	30%	Medical suites, retail, hotel	2	2,242	3	177	Discounted at WACC of 10%
Sembawang, Singapore	100%		1	75	2	-	Discounted at WACC of 10%
Johor							
Bukit Lenang	80%	Residential	88	932	5	106	Discounted at WACC of 10%
Medini	38%	Mixed development	691	12,000	10	890	Discounted at WACC of 10%
Pendas	60%	Mixed development	1,079	18,000	15	1,411	Discounted at WACC of 10%
China							
Sunway Guanghao	65%	Mixed development	4	67	2	5	Discounted at WACC of 10%
Tianjin Eco City	60%	Mixed development	91	5,344	6	438	Discounted at WACC of 10%
India							
Sunway OPUS Grand India	50%	Condos	24	702	5	39	Discounted at WACC of 10%
Sunway MAK Signature Residence (JV with M.A.K Builders)	60%		14	181	5	14	Discounted at WACC of 10%
Australia							
Wonderland Business Park (Sydney)	45%		48	378	6	16	Discounted at WACC of 10%
Total			3,861	54,032		4,513.3	

Source: Company data, J.P. Morgan estimates.

Table 8: Sunway RNAV

	Value (M\$ M)	Comments
Revaluation surplus	4,513.3	
Book value as at Dec-14	5,273.7	
Revaluation gain from investment properties	-	Valuing 34%-owned Sunway REIT at market value
Revaluation gain from construction division	734.7	Valued at 12.5x P/E on FY14E
Outstanding cash obligation for land	(515.8)	Discounted value for Iskandar land purchase
Total RNAV	10,005.8	
Number of shares (millions)	1,723.5	
RNAV per share	5.81	
FD RNAV		
<u>Warrants & ESOS</u>		
Add proceeds from warrants & ESOS	1,084.7	258.5mn outstanding warrants at M\$2.50/share and 133.6MM ESOS
Adjusted RNAV	11,090.5	
Fully diluted number of shares	2,146.7	With warrants and ESOS
RNAV per share	5.17	
RNAV per share (rounded off)	3.75	
Price target (30% discount to RNAV)	3.80	

Source: Company data, J.P. Morgan estimates.

Figure 3: Property sector RNAV band



Source: Bloomberg, J.P. Morgan estimates.

Risks to Rating and Price Target

Key downside risks include:

1. Slower-than-expected property sales versus our forecast following the Budget 2014 property cooling measures.
2. Rising competition in Iskandar. Medini projects, which have yet to be launched and currently have no earnings contribution, account for an estimated 23% of our base-case RNAV.

JPM Q-Profile

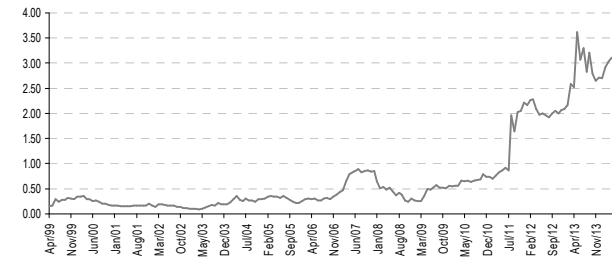
Sunway Bhd. (MALAYSIA / Financials)

As Of: 30-May-2014

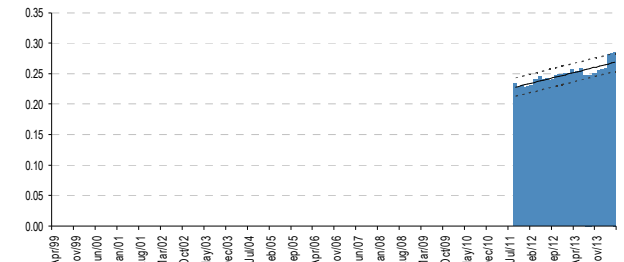
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

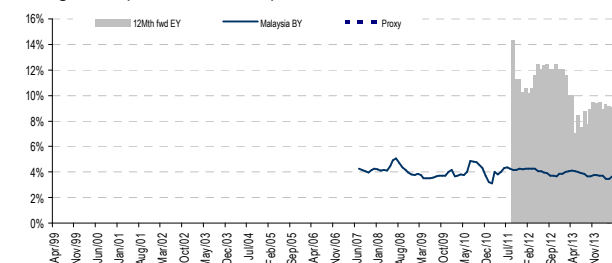
Local Share Price Current: **3.15**



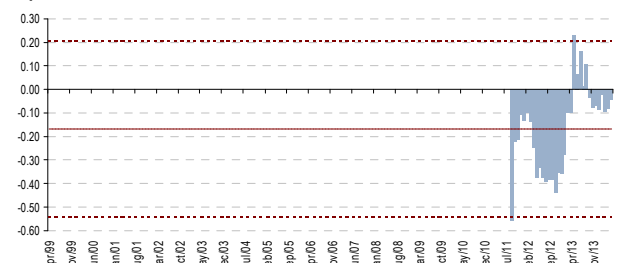
12 Mth Forward EPS Current: **0.29**



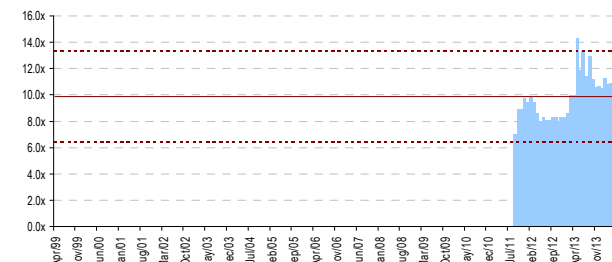
Earnings Yield (& local bond Yield) Current: **9%**



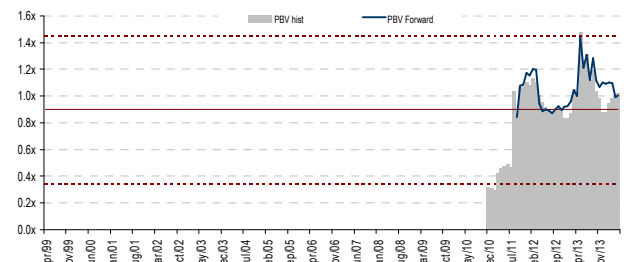
Implied Value Of Growth* Current: **-4.56%**



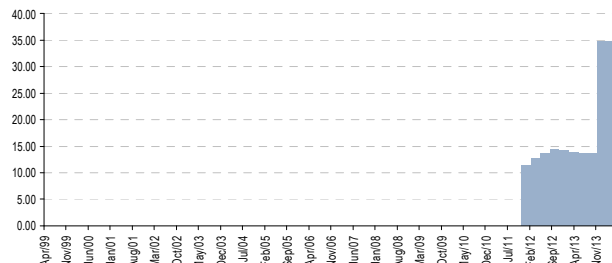
PE (1Yr Forward) Current: **11.0x**



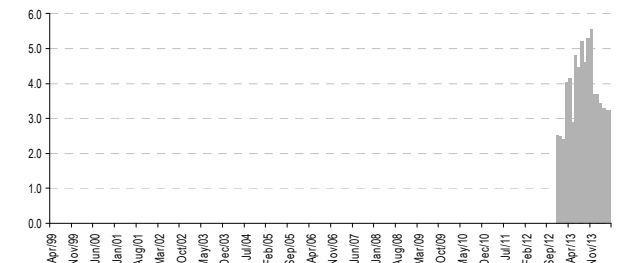
Price/Book Value Current: **1.0x**



ROE (Trailing) Current: **34.89**



Dividend Yield (Trailing) Current: **3.23**



Summary

Sunway Bhd. MALAYSIA Financials	SEDOL	B6VGS93					As Of:	30-May-14			
							Local Price:	3.15			
							EPS:	0.29			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	11.02x	7.01	14.27	9.76	9.86	13.31	6.41	-36%	29%	-11%	-11%
P/BV (Trailing)	1.02x	0.30	1.48	0.95	0.90	1.45	0.35	-71%	45%	-7%	-12%
Dividend Yield (Trailing)	3.23	0.00	5.57	0.00	1.64	5.69	-2.41	-100%	73%	-100%	-49%
ROE (Trailing)	34.89	11.44	34.89	13.80	17.76	35.26	0.25	-67%	0%	-60%	-49%
Implied Value of Growth	-4.6%	-0.56	0.23	-0.11	-0.17	0.21	-0.54	-1120%	599%	-140%	-267%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

Sunway Bhd: Summary of Financials

Profit and Loss Statement						Cash flow statement					
M\$ in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	M\$ in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Revenues	3,849	4,734	5,080	5,021	4,926	EBIT	503	1,824	571	618	596
% change Y/Y	4.3%	23.0%	7.3%	(1.2%)	(1.9%)	Depr. & amortization	95	90	91	92	93
EBIT	503	1,824	571	618	596	Change in working capital	(312)	566	(9)	(22)	(23)
% change Y/Y	37.5%	262.2%	(68.7%)	8.4%	(3.6%)	Taxes paid	(125)	(121)	(121)	(127)	(121)
EBIT margin (%)	13.1%	38.5%	11.2%	12.3%	12.1%	Others	(180)	(1,018)	41	28	28
Net Interest	(77)	(102)	(103)	(114)	(102)	Cash flow from operations	(19)	1,341	574	589	573
Earnings before tax	723	1,894	612	690	673	Capex	(293)	(705)	(600)	(600)	(100)
% change Y/Y	45.0%	162.0%	(67.7%)	12.8%	(2.4%)	Disposals/(Purchases)	535	(29)	(308)	(189)	(175)
Tax	(125)	(121)	(121)	(127)	(121)	Net Interest	(77)	(102)	(103)	(114)	(102)
as % of EBT	17.3%	6.4%	19.8%	18.4%	18.0%	Free cash flow	287	702	(252)	(107)	381
Net income (reported)	531	1,500	428	498	493	Equity raised/(repaid)	107	430	0	0	0
% change Y/Y	36.9%	182.8%	(71.5%)	16.2%	(1.0%)	Debt raised/(repaid)	511	59	0	0	0
Shares outstanding	1,582	2,013	2,013	2,013	2,013	Other	(312)	(453)	229	99	84
EPS (reported)	0.41	0.87	0.25	0.29	0.29	Dividends paid	(78)	(172)	(168)	(188)	(186)
% change Y/Y	36.9%	112.1%	(71.5%)	16.2%	(1.0%)	Beginning cash	777	1,159	1,519	1,151	749
Core FD EPS	0.23	0.25	0.24	0.27	0.27	Ending cash	1,159	1,519	1,151	749	843
% change Y/Y	6.9%	6.9%	(2.6%)	11.5%	(0.9%)	DPS	0.05	0.09	0.08	0.09	0.09
Balance sheet						Ratio Analysis					
M\$ in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	M\$ in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Cash and cash equivalents	1,159	1,519	1,151	749	843	EBIT Margin	13.1%	38.5%	11.2%	12.3%	12.1%
Accounts receivable	1,136	1,403	1,505	1,488	1,460	Net margin	9.5%	10.5%	9.6%	10.8%	10.9%
Inventories	650	623	668	661	648	SG&A/Sales	15.4%	14.7%	14.7%	14.7%	14.7%
Others	1,233	1,339	1,339	1,339	1,339	Sales per share growth	4.3%	(7.8%)	7.3%	(1.2%)	(1.9%)
Current assets	4,430	4,883	4,663	4,237	4,290	Sales growth	4.3%	23.0%	7.3%	(1.2%)	(1.9%)
LT investments	600	879	1,056	1,106	1,156	Net profit growth	36.9%	182.8%	(71.5%)	16.2%	(1.0%)
Net fixed assets	805	858	866	874	881	EPS growth	6.9%	6.9%	(2.6%)	11.5%	(0.9%)
Total Assets	8,983	11,112	11,745	12,073	12,376	Interest coverage (x)	7.8	18.8	6.4	6.2	6.8
Liabilities						Net debt to total capital	28.5%	18.4%	21.6%	24.4%	22.5%
ST Loans	1,765	1,805	1,805	1,805	1,805	Net debt to equity	39.9%	22.6%	27.5%	32.2%	29.1%
Payables	1,148	2,154	2,286	2,239	2,175	Sales/assets	0.5	0.5	0.4	0.4	0.4
Others	663	24	40	40	40	Assets/equity	2.6	2.3	2.1	2.1	2.0
Total current liabilities	3,576	3,983	4,131	4,084	4,020	ROE	11.1%	11.2%	8.9%	9.4%	8.9%
Long-term debt	972	991	991	991	991	ROCE	7.2%	23.6%	5.5%	5.9%	5.5%
Other liabilities	478	486	648	648	648						
Total Liabilities	5,026	5,460	5,770	5,723	5,659						
Minorities	381	317	380	445	505						
Shareholders' equity	3,577	5,335	5,595	5,906	6,213						
BVPS	2.52	2.91	3.06	3.24	3.42						

Source: Company reports and J.P. Morgan estimates.

Other Companies Discussed in This Report (all prices in this report as of market close on 05 June 2014)
 IJM Land (IJML.KL/M\$3.20/Overweight), UEM Sunrise Bhd (UMSB.KL/M\$2.06/Underweight)

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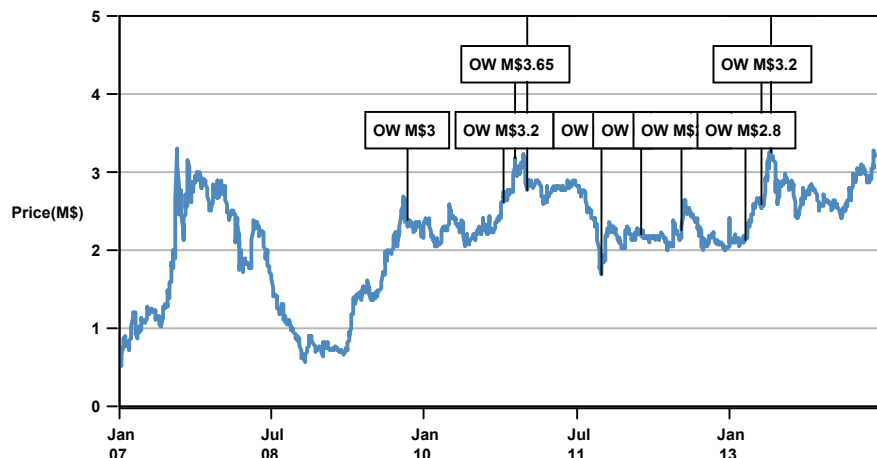
Sunway Bhd (SWAY.KL, SWB MK) Price Chart



Date	Rating	Share Price (M\$)	Price Target (M\$)
26-Jul-13	OW	3.30	4.00
28-Oct-13	OW	2.88	3.60

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Jul 26, 2013.

IJM Land (IJML.KL, IJMLD MK) Price Chart



Date	Rating	Share Price (M\$)	Price Target (M\$)
29-Oct-09	OW	2.39	3.00
08-Oct-10	OW	2.61	3.20
24-Nov-10	OW	3.19	3.65
03-Jan-11	OW	2.77	3.40
26-Sep-11	OW	1.70	2.40
22-Feb-12	OW	2.20	2.60
12-Jul-12	OW	2.26	2.90
26-Feb-13	OW	2.13	2.80
28-Apr-13	OW	2.59	3.20
28-May-13	OW	3.25	3.70

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Oct 29, 2009.

UEM Sunrise Bhd (UMSB.KL, UEMS MK) Price Chart



Date	Rating	Share Price (M\$)	Price Target (M\$)
21-Mar-13	N	2.64	2.80
16-May-13	OW	3.15	3.60
05-Oct-13	OW	2.54	3.00
28-Oct-13	N	2.60	2.30
26-Mar-14	N	2.18	2.00
27-May-14	UW	2.24	1.85

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Mar 21, 2013.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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Coverage Universe: Yeoh, Simone Xenia: CapitaMalls Malaysia Trust (CAMA.KL), IGB Corporation (IGBS.KL), IGB REIT (IGRE.KL), IHH Healthcare Bhd (IHHH.KL), IJM Land (IJML.KL), KLCC Property Holdings (KLCC.KL), KPJ Healthcare Berhad (KPJH.KL), MISC Berhad (MISC.KL), Mah Sing Group Berhad (MAHS.KL), Media Prima Berhad (MPRM.KL), SP Setia (SETI.KL), Sunway Bhd (SWAY.KL), Sunway REIT (SUNW.KL), Top Glove Corporation (TPGC.KL), UEM Sunrise Bhd (UMSB.KL)

J.P. Morgan Equity Research Ratings Distribution, as of March 31, 2014

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	44%	44%	11%
IB clients*	58%	49%	40%
JPMS Equity Research Coverage	45%	48%	7%
IB clients*	78%	67%	60%

*Percentage of investment banking clients in each rating category.

For purposes only of FINRA/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above.

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