

27 May 2015

Buy

Price
RM3.45

Target price
RM4.20

Bloomberg code
SWB MK

Sunway

Still sunny

Sunway started the year well with 1Q15 normalized earnings up 21% yoy, driven by better performance across all divisions except for property development. Overall, the result constituted 25% and 23% of ours' and Bloomberg consensus' forecasts which is commendable given the seasonally weaker first quarter. For a diversified conglomerate with good earnings visibility, valuations are compelling at 12.6x FY15F PE and 1x PB (relative to sector at 14x). Remains a top pick.

- On a yoy basis, 1Q15 revenue rose 3% while operating profit improved 32%. The stronger performance was attributable to higher contributions across all its operating segments except for property development. Normalized net profit improved 21% yoy after stripping out RM22.9m realized capital gains from disposal of Sunway Hotel Georgetown and Wisma Sunway, coupled with unrealized forex gains and fair value of ESOS.
- On a qoq basis, revenue and operating profit declined 11% and 35% respectively mainly due to lower contributions from property development and property investment divisions. Earnings were also impacted by seasonality as 4Q14 is typically the strongest quarter. Normalized net profit declined 32% qoq.
- Property development revenue was down 19% yoy due to slower progress billings from local projects and the completion of Sunway Nexis in Sunway Damansara in 4Q14. As a result, operating profit declined 23% yoy.
- The group achieved effective property sales of RM186m (16% of target of RM1.2bn), driven by Sunway Velocity, South Quay and Eastwood projects. Effective unbilled sales stand at RM1.8bn or 1.5x property development revenue.
- Property investment revenue and operating profit also improved 2% and 4% yoy respectively, with the commencement of leasing operations at its new office tower, Sunway Pinnacle.
- Construction division performed well with revenue up 2% while operating profit surged 71% yoy due to higher contributions from local building projects and precast concrete product projects in Singapore.
- Outstanding construction order book stands at RM2.76bn, of which 62% are external jobs and 38% internal jobs.
- Overall, 1Q15 constituted 25% of our estimates and 23% of Bloomberg consensus' forecasts which is commendable given that the first quarter is typically the weakest.
- We maintain Buy on Sunway as the stock provides exposure to the three key sectors of property development, property investment and construction at compelling valuations of 12.6x FY15F PE and 1x PB.

Analyst

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Table 1 : Quarterly performance trends

(RMm)	Quarter									Change		KAF	
FYE 31 Dec	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	% qoq	% yoy	FY15F	1Q/F
Turnover	1,021.0	1,118.0	1,066.1	1,329.9	1,025.7	1,204.6	1,134.0	1,193.8	1,060.0	(11)	3	5,047.7	21
EBIT	86.0	116.6	116.2	148.7	115.9	139.6	157.4	234.6	153.3	(35)	32	710.8	22
EBIT margin (%)	8.4%	10.4%	10.9%	11.2%	11.3%	11.6%	13.9%	19.7%	14.5%			14%	
Net interest expense	(11.7)	(12.6)	(6.3)	(22.5)	(7.8)	(10.2)	(5.1)	(7.2)	(11.4)	57	46	(77.2)	15
Associates and JVs	47.9	48.9	49.4	101.5	40.4	47.7	38.5	44.7	38.1	(15)	(6)	132.2	29
Exceptional items	0.3	59.6	(41.2)	1,026.5	(6.3)	56.5	(5.6)	126.6	13.4	(89)	nm	-	nm
Profit before tax	122.5	212.5	118.2	1,254.2	142.2	233.6	185.2	398.6	193.5	(51)	36	765.8	25
Normalized PBT	122.2	152.9	159.4	227.7	148.5	177.1	190.8	272.0	180.1	(34)	21	765.8	24
Tax	(26.3)	(32.5)	(16.6)	(61.6)	(30.4)	(44.9)	(21.8)	(50.8)	(36.1)	(29)	19	(166.0)	22
Minority interest	(5.6)	(9.7)	(8.5)	(63.9)	(7.8)	(6.2)	(19.7)	(44.0)	(10.9)	(75)	40	(76.5)	14
Net profit	90.6	170.3	93.1	1,128.6	104.0	182.5	143.7	303.8	146.5	(52)	41	523.3	28
Norm. net profit	90.3	110.7	124.4	158.5	110.3	126.0	149.3	196.9	133.1	(32)	21	523.3	25

Source: Company, KAF

Income statement

FYE December (RMm)	2011A	2012A	2013E	2014E	2015F
Turnover	3,691.7	4,128.8	4,721.4	4,841.9	5,047.7
EBITDA	396.6	824.7	589.5	771.1	823.1
Depreciation & amortisation	(90.7)	(89.9)	(137.0)	(114.3)	(112.4)
EBIT	305.9	734.8	452.5	656.8	710.8
Net interest	(53.4)	(147.9)	(100.4)	(30.4)	(77.2)
Associates	185.6	144.6	190.6	233.2	132.2
Exceptional items	60.4	108.2	1,357.7	109.3	-
Pretax profit	498.5	839.7	1,900.4	968.8	765.8
Taxation	(69.6)	(115.4)	(137.0)	(148.0)	(166.0)
Profit after tax	429.0	724.3	1,763.3	820.9	599.8
Minority interest	(41.4)	(285.5)	(273.0)	(77.6)	(76.5)
Net profit	387.6	438.8	1,490.4	743.2	523.3
Normalised net profit	327.1	350.7	484.0	591.7	523.3

Source: Company, KAF

Balance sheet

FYE December (RMm)	2011A	2012A	2013E	2014E	2015F
Non-current assets					
Property, plant and equipment	960.6	1,562.8	866.2	1,046.8	1,670.4
Investment properties	888.9	4,779.1	1,803.0	2,189.6	1,804.3
Land held for development	1,017.3	598.9	886.8	529.2	877.9
Investment in associates & jointly controlled entity	1,332.5	586.9	2,340.2	2,610.1	2,619.8
Goodwill	326.5	318.1	319.4	319.4	319.9
Deferred tax assets	33.3	33.7	37.7	42.4	37.7
Total non-current assets	4,559.0	7,879.5	6,253.3	6,737.4	7,330.0
Current assets					
Properties under development	669.3	991.5	1,175.0	1,772.5	1,845.2
Inventories	451.8	650.3	615.8	597.8	664.2
Total receivables	1,319.1	1,584.9	1,455.5	1,719.9	1,495.7
Tax recoverable	67.6	47.8	55.1	66.7	55.3
Deposits, cash and bank balances	776.7	1,197.5	1,448.8	1,978.2	740.8
Assets held for sale	-	12.2	98.0	44.0	7.5
Total current assets	3,284.6	4,484.2	4,848.3	6,179.0	4,808.6
Total assets	7,843.6	12,363.7	11,101.6	12,916.4	12,138.6
Current liabilities					
Total payables	2,005.6	1,844.8	1,970.8	2,171.9	2,296.9
Bank borrowings	319.2	2,955.0	1,990.2	2,282.9	1,804.9
Other liabilities	1.6	0.2	91.7	0.0	0.1
Taxation	27.1	21.0	21.4	20.7	24.0
Total current liabilities	2,353.4	4,821.0	4,074.0	4,475.6	4,126.0
Financed by:					
Share capital	1,292.5	1,292.5	1,723.5	1,730.6	1,723.5
Share premium & Reserves	1,724.4	1,922.3	3,604.8	4,214.6	4,368.9
Shareholders' funds	3,016.9	3,214.8	5,328.3	5,945.2	6,092.4
Minority interest	327.3	2,136.5	316.9	388.7	443.2
Long-term bank borrowings	1,934.5	1,688.4	790.5	1,501.5	990.6
Other liabilities	154.9	449.7	517.9	519.4	431.1
Deferred tax liabilities	56.6	53.2	74.0	86.1	55.3
Total liabilities & shareholders' funds	7,843.6	12,363.7	11,101.6	12,916.4	12,138.6

Source: Company, KAF

Cash flow statement

FYE December (RMm)	2011A	2012A	2013E	2014E	2015F
Cashflow from operations (CFO)					
Pretax profit	498.5	839.7	1,900.4	968.8	765.8
Tax paid	(117.0)	(105.3)	(127.4)	(150.5)	(166.0)
Others	(124.9)	778.8	(1,026.5)	(200.9)	57.3
Net change in working capital	122.9	(947.1)	197.1	(91.3)	(257.1)
CFO	399.0	591.8	1,093.4	769.4	400.0
Cashflow from investing (CFI)					
Purchase of property, plant and equipment (Capex)	(337.2)	(414.3)	(623.0)	(519.9)	(500.0)
Investments	(54.2)	(227.9)	(162.4)	(63.7)	-
Others	98.5	(60.4)	(104.6)	(260.9)	-
CFI	(293.0)	(702.6)	(889.9)	(844.5)	(500.0)
Cashflow from financing (CFF)					
Interest paid	(66.4)	(180.4)	(125.4)	(77.1)	(103.8)
Interest received	27.5	24.2	-	-	26.6
Repayment of term loans	(44.9)	-	(2,838.9)	-	-
Dividends paid	(39.5)	(181.7)	(344.3)	(212.9)	(115.7)
Others	(73.0)	716.5	3,351.1	885.3	-
CFF	(196.3)	378.6	42.4	595.3	(192.9)
Net change in cash and cash equivalents	(90.2)	267.8	245.8	520.2	(292.9)

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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