

26 February 2015

**Buy**

Price  
RM3.32

Target price  
RM4.20

Bloomberg code  
SWB MK

# Sunway

## Yet another stellar end

**Sunway had another stellar year with normalized earnings surging 22% in FY14, driven by higher margins in property investment and construction divisions which could be due to lumpy earnings recognition. The results constituted 132% and 119% of our and Bloomberg consensus forecasts. For a diversified conglomerate with good earnings visibility, valuations are compelling at 12.1x FY15F PE and 1x PB (relative to sector at 13.7x). Remains a top pick.**

- On a yoy basis, 4Q14 revenue increased 11% while operating profit rose 64%. The strong performance was largely attributable to the construction division, which swung to profitability. Property investment, quarry, property development and the group's treasury operations also registered good performance. Normalized net profit rose 30% yoy, after stripping out loss on derivatives and fair value gains from ESOS option and investment properties.
- On a qoq basis, 4Q14 revenue rose 30% while operating profit increased 55%. The vast improvement was contributed by its three key divisions – property development, property investment and construction, as well as its quarry business. Normalized net profit rose 38% qoq.
- Property development revenue was up 179% qoq and 19% yoy due to higher progress billings from local projects mainly Sunway Damansara, Sunway Velocity and Sunway South Quay. EBIT improved 24% qoq and 2% yoy due to the completion of several local projects in 4Q14. This was despite an impairment loss of RM22m for completed property inventories in Singapore due to lower market prices.
- The group achieved its target FY14 effective property sales of RM1.3bn. Effective unbilled sales stand at RM1.9bn or 1.6x property development revenue. One of its key launches in FY14 was the maiden launch of Sunway Iskandar, whereby its office suites have achieved 81% take-up rate (with 19% bookings) while the serviced apartments has a lower 33% take-up rate (with 6% bookings).
- Property investment revenue was down 3% yoy while operating profit improved 29% mainly due to rental reversions and better performance in the hospitality division coupled with rental income from Monash University Malaysia campus extension. In addition, the third and fourth quarters tend to register seasonally higher growth due to year-end holidays.
- Construction division's revenue was up 8% yoy while it swung from an operating loss of RM11m to RM60m operating profit in 4Q14. Recall that there was provision of doubtful debts for a project in Abu Dhabi in 4Q13 amounting to RM24m. The better performance both qoq and yoy are due to higher profit contributions from the BRT project, Afiniti Medini and Sunway University new academic block projects.
- The outstanding construction order book stands at RM3.1bn, of which 63% are external jobs and 37% internal jobs. The group, however, missed its order book replenishment target of RM2.5bn, coming in at only RM1.1bn.
- Overall, FY14 was above expectations, having made up 132% of our full-year forecast and 119% of Bloomberg consensus forecasts. We believe this could be due to some lumpy recognitions and higher-than-expected margins in the property investment division.

**Analyst**

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- 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 12.1x FY15F PE and 1x PB.

**Table 1 : Quarterly performance trends**

(RMm)	Quarter								Change		Cumulative			KAF	
	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	% qoq	% yoy	FY13	FY14	% chg	FY14F	12M/F
Turnover	1,021.0	1,118.0	1,066.1	1,329.9	1,025.7	1,204.6	1,134.0	1,477.5	30	11	4,721.4	4,841.9	3	4,038.3	120
<b>EBIT</b>	<b>86.0</b>	<b>116.6</b>	<b>116.2</b>	<b>148.7</b>	<b>115.9</b>	<b>139.6</b>	<b>157.4</b>	<b>243.8</b>	<b>55</b>	<b>64</b>	<b>467.5</b>	<b>656.7</b>	<b>40</b>	<b>534.3</b>	<b>123</b>
EBIT margin (%)	8.4%	10.4%	10.9%	11.2%	11.3%	11.6%	13.9%	16.5%			9.9%	13.6%		13%	
Net interest expense	(11.7)	(12.6)	(6.3)	(22.5)	(7.8)	(10.2)	(5.1)	(7.2)	41	(68)	(100.4)	(30.4)	(70)	(65.5)	46
Associates and JVs	47.9	48.9	49.4	101.5	40.4	47.7	38.5	44.7	16	(56)	190.6	171.3	(10)	156.5	109
Exceptional items	0.3	59.6	(41.2)	1,026.5	(6.3)	56.5	(5.6)	126.6	nm	(88)	1,045.2	171.2		-	nm
<b>Profit before tax</b>	<b>122.5</b>	<b>212.5</b>	<b>118.2</b>	<b>1,254.2</b>	<b>142.2</b>	<b>233.6</b>	<b>185.2</b>	<b>407.8</b>	<b>120</b>	<b>(67)</b>	<b>1,900.4</b>	<b>968.8</b>	<b>(49)</b>	<b>625.3</b>	<b>155</b>
<b>Normalized PBT</b>	<b>122.2</b>	<b>152.9</b>	<b>159.4</b>	<b>227.7</b>	<b>148.5</b>	<b>177.1</b>	<b>190.8</b>	<b>281.2</b>	<b>47</b>	<b>24</b>	<b>662.2</b>	<b>797.6</b>	<b>20</b>	<b>625.3</b>	<b>128</b>
Tax	(26.3)	(32.5)	(16.6)	(61.6)	(30.4)	(44.9)	(21.8)	(50.8)	133	(18)	(137.0)	(148.0)	8	(126.6)	117
Minority interest	(5.6)	(9.7)	(8.5)	(63.9)	(7.8)	(6.2)	(19.7)	(44.0)	123	(31)	(273.0)	(77.6)	(72)	(49.4)	157
<b>Net profit</b>	<b>90.6</b>	<b>170.3</b>	<b>93.1</b>	<b>1,128.6</b>	<b>104.0</b>	<b>182.5</b>	<b>143.7</b>	<b>313.0</b>	<b>118</b>	<b>(72)</b>	<b>1,490.4</b>	<b>743.2</b>	<b>(50)</b>	<b>449.3</b>	<b>165</b>
<b>Norm. net profit</b>	<b>90.3</b>	<b>110.7</b>	<b>124.4</b>	<b>158.5</b>	<b>110.3</b>	<b>126.0</b>	<b>149.3</b>	<b>206.1</b>	<b>38</b>	<b>30</b>	<b>483.9</b>	<b>591.7</b>	<b>22</b>	<b>449.3</b>	<b>132</b>
Norm. net margin (%)	8.8%	9.9%	11.7%	11.9%	10.8%	10.5%	13.2%	14.0%			10.2%	12.2%			

Source: Company, KAF

## Income statement

FYE December (RMm)	2011A	2012A	2013E	2014F	2015F
Turnover	3,691.7	4,128.8	4,733.7	4,038.3	5,047.7
<b>EBITDA</b>	<b>396.6</b>	<b>824.7</b>	<b>921.1</b>	<b>609.5</b>	<b>823.1</b>
Depreciation & Amortisation	(90.7)	(89.9)	(136.9)	(75.2)	(112.4)
<b>EBIT</b>	<b>305.9</b>	<b>734.8</b>	<b>784.2</b>	<b>534.3</b>	<b>710.8</b>
Net interest	(53.4)	(147.9)	(102.4)	(65.5)	(77.2)
Associates	185.6	144.6	172.5	156.5	132.2
Exceptional items	60.4	108.2	1,040.1	-	-
<b>Pretax profit</b>	<b>498.5</b>	<b>839.7</b>	<b>1,894.3</b>	<b>625.3</b>	<b>765.8</b>
Taxation	(69.6)	(115.4)	(120.9)	(126.6)	(166.0)
Profit after tax	<b>429.0</b>	<b>724.3</b>	<b>1,773.4</b>	<b>498.7</b>	<b>599.8</b>
Minority interest	(41.4)	(285.5)	(273.0)	(49.4)	(76.5)
<b>Net profit</b>	<b>387.6</b>	<b>438.8</b>	<b>1,500.5</b>	<b>449.3</b>	<b>523.3</b>
<b>Normalised net profit</b>	<b>327.1</b>	<b>350.7</b>	<b>482.9</b>	<b>449.3</b>	<b>523.3</b>

Source: Company, KAF

## Balance sheet

FYE December (RMm)	2011A	2012A	2013E	2014F	2015F
<b>Non-current assets</b>					
Property, plant and equipment	960.6	1,562.8	857.9	1,282.8	1,670.4
Investment properties	888.9	4,779.1	1,804.3	1,804.3	1,804.3
Land held for development	1,017.3	598.9	877.9	877.9	877.9
Investment in associates & jointly controlled entity	1,332.5	586.9	2,331.1	2,487.5	2,619.8
Goodwill	326.5	318.1	319.9	319.9	319.9
Deferred tax assets	33.3	33.7	37.7	37.7	37.7
<b>Total non-current assets</b>	<b>4,559.0</b>	<b>7,879.5</b>	<b>6,228.8</b>	<b>6,810.1</b>	<b>7,330.0</b>
<b>Current assets</b>					
Properties under development	669.3	991.5	1,276.1	1,560.6	1,845.2
Inventories	451.8	650.3	622.9	531.4	664.2
Total receivables	1,319.1	1,584.9	1,402.6	1,196.6	1,495.7
Tax recoverable	67.6	47.8	55.3	55.3	55.3
Deposits, cash and bank balances	776.7	1,197.5	1,519.1	1,033.7	740.8
Assets held for sale	-	12.2	7.5	7.5	7.5
<b>Total current assets</b>	<b>3,284.6</b>	<b>4,484.2</b>	<b>4,883.4</b>	<b>4,385.0</b>	<b>4,808.6</b>
<b>Total assets</b>	<b>7,843.6</b>	<b>12,363.7</b>	<b>11,112.3</b>	<b>11,195.2</b>	<b>12,138.6</b>
<b>Current liabilities</b>					
Total payables	2,005.6	1,844.8	2,154.0	1,837.6	2,296.9
Bank borrowings	319.2	2,955.0	1,804.9	1,804.9	1,804.9
Other liabilities	1.6	0.2	0.1	0.1	0.1
Taxation	27.1	21.0	24.0	24.0	24.0
<b>Total current liabilities</b>	<b>2,353.4</b>	<b>4,821.0</b>	<b>3,983.0</b>	<b>3,666.6</b>	<b>4,126.0</b>
<b>Financed by:</b>					
Share capital	1,292.5	1,292.5	1,723.5	1,723.5	1,723.5
Share premium & Reserves	1,724.4	1,922.3	3,611.3	3,961.3	4,368.9
<b>Shareholders' funds</b>	<b>3,016.9</b>	<b>3,214.8</b>	<b>5,334.9</b>	<b>5,684.8</b>	<b>6,092.4</b>
Minority interest	327.3	2,136.5	317.3	366.7	443.2
Long-term bank borrowings	1,934.5	1,688.4	990.6	990.6	990.6
Other liabilities	154.9	449.7	431.1	431.1	431.1
Deferred tax liabilities	56.6	53.2	55.3	55.3	55.3
<b>Total liabilities &amp; shareholders' funds</b>	<b>7,843.6</b>	<b>12,363.7</b>	<b>11,112.3</b>	<b>11,195.2</b>	<b>12,138.6</b>

Source: Company, KAF

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**Cash flow statement**

<b>FYE December (RMm)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014F</b>	<b>2015F</b>
<b>Cashflow from operations (CFO)</b>					
Pretax profit	498.5	839.7	1,894.3	625.3	765.8
Tax paid	(117.0)	(105.3)	(127.3)	(126.6)	(166.0)
Others	(124.9)	778.8	(943.0)	(15.8)	57.3
Net change in working capital	122.9	(947.1)	234.3	(303.4)	(257.1)
<b>CFO</b>	<b>399.0</b>	<b>591.8</b>	<b>1,093.6</b>	<b>179.4</b>	<b>400.0</b>
<b>Cashflow from investing (CFI)</b>					
Purchase of property, plant and equipment (Capex)	(337.2)	(414.3)	(612.6)	(500.0)	(500.0)
Investments	(54.2)	(227.9)	(163.3)	-	-
Others	98.5	(60.4)	(129.2)	-	-
<b>CFI</b>	<b>(293.0)</b>	<b>(702.6)</b>	<b>(905.1)</b>	<b>(500.0)</b>	<b>(500.0)</b>
<b>Cashflow from financing (CFF)</b>					
Interest paid	(66.4)	(180.4)	(117.5)	(103.8)	(103.8)
Interest received	27.5	24.2	35.6	38.3	26.6
Repayment of term loans	(44.9)	-	-	-	-
Dividends paid	(39.5)	(181.7)	(344.3)	(99.4)	(115.7)
Others	(73.0)	716.5	561.6	-	-
<b>CFF</b>	<b>(196.3)</b>	<b>378.6</b>	<b>135.4</b>	<b>(164.8)</b>	<b>(192.9)</b>
<b>Net change in cash and cash equivalents</b>	<b>(90.2)</b>	<b>267.8</b>	<b>323.9</b>	<b>(485.4)</b>	<b>(292.9)</b>

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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