

19 November 2014

Sunway Berhad

9M14 Within Expectations

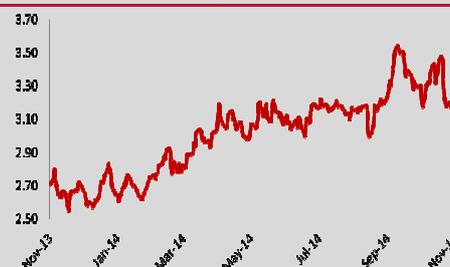
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OUTPERFORM ↔

Price: **RM3.23**
Target Price: **RM3.87** ↔

- Period** ■ 3Q14/9M14
- Actual vs. Expectations** ■ 9M14 core net earnings of RM385.7m is considered within expectations as it made up 71% and 80% of our, and consensus', full-year estimates, respectively.
- Its 9M14 property sales of RM1.2b was slightly behind the curve as it only makes up 67% of our, and management's, FY14E sales target of RM1.8b. We believe conversion of bookings to sales had been slower than expected resulting in the shortfall.
- Thus far, SUNWAY has replenished its internal orderbook by another RM881m, and yet to secure any external orderbook replenishments to date versus our assumptions of RM1.5b.
- Dividends** ■ No dividend was declared as expected.
- Key Results Highlights** ■ **YoY**, 9M14 core earnings continued to grow steadily, by 18.6% to RM385.7m underpinned by a 5% revenue growth and more significantly, continuous improvements in its operating margins to 12.1% (+2.5ppt). While property investment and construction (the two major drivers) registered revenue growth of 24.4% and 1.8%, the property division dragged down overall growth as the segment saw weaker progressive billings. Property investment enjoyed new income streams from its newly completed Sunway Pinnacle and Monash University campus extension while leisure and hospitality divisions reported better contributions. Its property development division boosted the expansion in operating margin due to lower common infrastructure cost allocated to the property development component within some of the integrated projects.
- **QoQ**, its 3Q14 core earnings increased by 18.5% to RM149.3m despite a lower revenue of RM1134.0m (-6%) mainly due to further improvements on its operating margin which increased by another 2.8ppt to 13.9%, lifted by its property development division, which saw its operating margin soaring by 25.3ppt to 44.5% due to lower common infrastructure cost and higher profit recognition for Sunway Damansara.
- Outlook** ■ We think the main reason that 9M14 sales is proportionately behind management's and our FY14E sales target of RM1.8b, is due to: (i) slower-than-expected conversion of booking to SPA sales, (ii) less launches for 1-2 month period running up to Budget announcement. We expect Sunway to ramp up launches totalling to RM830.0 GDV worth of projects like Citrine Service Apartment, Sunway Cassia and Sophia Hills in Singapore.
- Its property unbilled sales remain strong at RM2.8b providing at least 1 – 1.5 years earnings visibility.
- We are still hopeful that SUNWAY is able to secure some sizeable external orderbooks worth c.RM1.0n in 4Q14/1Q15.
- Change to Forecasts** ■ No change in our earnings estimates at this juncture.
- Rating Valuation** ■ **Maintain OUTPERFORM**
- We reiterate our OUTPERFORM call on SUNWAY with our SoP driven Target Price of RM3.87 that implies 18% discount to our FD SoP of RM4.74 (refer overleaf). We expect the listing of its construction arm by 1H15 and newsflow will be buoyed by more external jobs of (i) RM1.0b by end FY14 and (ii) RM1.5b for FY15.
- Risks to Our Call** ■ Failure to meet sales targets or replenish landbank and external contract replenishments. Sector risks, including overly negative policies.

Share Price Performance



KLCI	1,818.38
YTD KLCI chg	-2.6%
YTD stock price chg	18.8%

Stock Information

Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	5,554.7
Issued shares	1,719.7
52-week range (H)	3.67
52-week range (L)	2.54
3-mth avg daily vol:	1,312,795
Free Float	32%
Beta	1.3

Major Shareholders

SUNGEI WAY CORP SDN	48.3%
YEAN TIH CHEAH	13.5%
JPMORGAN CHASE & CO	5.8%

Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E
Turnover	4,734	5,953	6,284
EBIT	806	788	874
PBT	1,894	807	896
Net Profit (NP)	1,500	540	572
Core NP	483	540	572
Consensus (NP)	n.a.	480	530
Earnings Revision	n.a.	n.a.	n.a.
EPS (sen)	69.7	25.1	26.5
EPS growth (%)	126%	-64%	6%
NDPS (sen)	10.0	10.0	10.0
NTA/Share (RM)	2.91	3.15	3.41
PER (x)	11.5	10.3	9.7
Price/NTA (x)	1.1	1.0	0.9
Net Gearing (x)	0.2	0.3	0.3
Dividend Yield (%)	3.1%	3.1%	3.1%

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Result Highlight								
FYE 31 Dec (RM'm)	3Q14	2Q14	QoQ%	3Q13	YoY%	9M14	9M13	YtdYoY
Revenue	1,134.0	1,204.6	-6%	1,066.1	6%	3,364.4	3,205.2	5.0%
Op costs w/o depn/amort	-1,002.4	-1,086.6	-7.8%	-1,001.1	0.1%	-3,021.6	-2,972.1	1.7%
Other Op Income	25.9	16.2	59.9%	41.3	-37.2%	64.9	75.7	-14.3%
EBITDA	185.2	162.4	14.0%	132.5	39.8%	488.5	388.0	25.9%
EBIT	157.5	134.2	17.4%	106.3	48.2%	407.6	308.8	32.0%
Net Interest	-5.1	-10.2	-49.6%	-6.3	-17.9%	-23.2	-30.5	-24.1%
Associate & JCE	38.5	53.1	-27.5%	49.4	-22.1%	132.0	146.1	-9.6%
Fair Value Adjustments on IP	-5.6	56.5	-109.8%	-31.3	-82.2%	44.6	28.8	55.0%
Pretax profit	185.3	233.6	-20.7%	118.2	56.8%	561.1	453.2	23.8%
Taxation	-21.8	-44.9	-51.3%	-16.6	31.5%	-97.1	-75.4	28.8%
Minority Interests	-19.7	-6.2	218.7%	-8.5	133.2%	-33.7	-23.8	41.5%
Net profit	143.8	182.5	-21.2%	93.1	54.3%	430.3	354.0	21.5%
Core Net profit	149.3	126.0	18.5%	124.4	20.0%	385.7	325.2	18.6%
EPS (sen)	8.0	10.6	-24.3%	5.4	48.4%	24.6	20.5	20.0%
Diluted EPS (sen)	6.6	5.8	14.1%	5.7	15.5%	17.5	15.0	16.9%
NDPS (sen)	0.0	5.0		0.0		5.0	5.0	
NTA/share (RM)	3.1	3.0		2.5		3.1	2.5	
Net gearing/(cash) (x)	0.3	0.3		0.3		0.3	0.3	
EBITDA margin	16.3%	13.5%		12.4%		14.5%	12.1%	
EBIT margin	13.9%	11.1%		10.0%		12.1%	9.6%	
Pretax margin	15.9%	19.4%		11.1%		16.7%	14.1%	
Effective tax rate	12.1%	19.2%		14.0%		17.3%	16.6%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE 31 Dec (RM'm)	3Q14	2Q14	QoQ	3Q13	YoY	9M14	9M13	YoY
Revenue								
Property Development	178.0	301.7	-41.0%	260.4	-31.6%	702.1	749.9	-6.4%
Property Investment	255.3	155.4	64.3%	143.7	77.7%	547.1	439.9	24.4%
Construction	450.4	466.9	-3.5%	440.1	2.3%	1354.3	1330.8	1.8%
Trading & Manufacturing	198.3	233.5	-15.1%	233.0	-14.9%	580.7	567.4	2.4%
Quarry	57.1	56.2	1.6%	49.4	15.7%	164.6	150.4	9.4%
Investment Holdings	94.5	147.9	-36.1%	127.3	-25.8%	299.9	253.4	18.4%
Others	110.3	128.8	-14.3%	107.8	2.3%	352.9	288.3	22.4%
Eliminations	-209.8	-285.8	-26.6%	-295.5	-29.0%	-637.3	-575.0	10.8%
TOTAL	1134.0	1204.6	-5.9%	1066.1	6.4%	3364.4	3205.2	5.0%
CORE Operating Profit								
Property Development	79.1	58.0	36.4%	44.3	78.5%	189.2	131.9	43.5%
Property Investment	31.2	26.7	16.9%	28.6	9.0%	78.4	72.6	8.0%
Construction	21.8	25.7	-15.0%	15.7	38.9%	78.5	58.4	34.3%
Trading & Manufacturing	10.8	11.0	-1.5%	15.6	-30.6%	30.9	36.3	-14.9%
Quarry	6.7	9.2	-27.5%	6.9	-3.0%	20.3	16.8	20.4%
Investment Holdings	-3.8	-1.9	106.5%	-2.5	51.5%	-10.3	-14.2	-27.3%
Others	11.7	11.0	6.4%	8.0	45.7%	26.0	17.0	53.1%
Eliminations	0.0	0.0	#DIV/0!	0.0	#DIV/0!	0.0	0.0	#DIV/0!
TOTAL	157.4	139.6	12.7%	116.6	35.0%	412.9	318.8	29.5%
CORE Operating Margin								
Property Development	44.5%	19.2%		17.0%		27.0%	17.6%	
Property Investment	12.2%	17.2%		19.9%		14.3%	16.5%	
Construction	4.8%	5.5%		3.6%		5.8%	4.4%	
Trading & Manufacturing	5.5%	4.7%		6.7%		5.3%	6.4%	
Quarry	11.7%	16.4%		13.9%		12.3%	11.2%	
Investment Holdings	-4.1%	-1.3%		-2.0%		-3.4%	-5.6%	
Others	10.6%	8.5%		7.4%		7.4%	5.9%	

Source: Company, Kenanga Research

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Sum-of-Parts						
	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	6,335	n.a		6,335	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	34%	1,569	n.a		1,569	SUNREIT TP of RM1.39
Construction	100%	1,154	15		1,154	15x FY15E PER (previously, 15x FY14E PER) - pegged with big cap construction of 15x-16x
Quarry & Buildings Mat	100%	32	8		32	8x FY15E PER (previously, 8x FY14E PER)
Trading & manufacturing	100%	319	8		319	8x FY15E PER (previously, 8x FY14E PER)
Group Shareholders Funds					0	
Total SOP		9,408			9,408	
Discount Rate to Property Division RNAV				30%	-1,901	
Discounted SOP					7,508	
Dilution impact					879	
FD SOP (RM)					4.74	
SOP Discount Rate					-18%	
TP (RM)					3.87	
Diluted no. of shares ('m)					2,168	

Source: Company, Kenanga Research

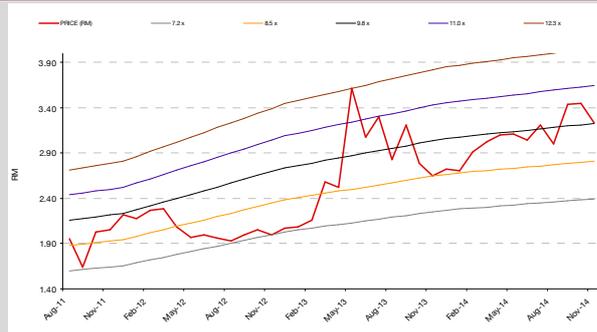
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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E	FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	3692	3849	4734	5953	6284	Growth (%)					
EBITDA	427	417	806	901	996	Revenue	19.0	4.3	23.0	25.8	5.6
Depreciation	-105	-95	0	-113	-122	EBITDA	-36.8	-2.4	93.3	11.8	10.6
EBIT	322	322	806	788	874	EBIT	-45.4	-0.2	150.5	-2.3	11.0
Interest Expense	-81	-100	-138	-115	-121	Pre-tax Income	-30.4	45.0	162.0	-57.4	11.0
Investing	28	23	36	42	30	Net Income	-43.4	36.8	183.0	-64.0	5.8
Associate/JCE	186	296	172	93	113	Core Net Profit	n.a.	-1.1	37.7	11.9	5.8
Exceptionals/FV	44	182	1018	0	0	Profitability (%)					
PBT	499	723	1894	807	896	EBITDA Margin	11.6	10.8	17.0	15.1	15.9
Taxation	-70	-125	-121	-182	-200	EBIT Margin	8.7	8.4	17.0	13.2	13.9
Minority Interest	-41	-67	-273	-85	-124	PBT Margin	13.5	18.8	40.0	13.6	14.3
Net Profit	388	530	1500	540	572	Net Margin	10.5	13.8	31.7	9.1	9.1
Core Net Profit	354	350	483	540	572	Core Net Margin	9.6	9.1	10.2	9.1	9.1
						Effective Tax Rate	-14.0	-17.3	-22.6	-22.3	-22.3
						ROE	11.9	16.1	33.6	9.7	9.6
						ROA	5.2	6.3	14.9	4.6	4.5
						DuPont Analysis					
						Net margin (%)	10.5	13.8	31.7	9.1	9.1
						Assets Turnover (x)	0.5	0.5	0.5	0.5	0.5
						Leverage Factor (x)	2.3	2.5	2.3	2.1	2.1
						ROE (%)	11.9	16.1	33.6	9.7	9.6
						Leverage					
						Debt/Asset (x)	0.28	0.30	0.25	0.24	0.24
						Debt/Equity (x)	0.74	0.76	0.52	0.51	0.50
						Net Debt/(Cash)	1.4	1.6	1.3	1.9	2.1
						Net Debt/Equity (x)	0.37	0.39	0.24	0.32	0.34
						Valuations					
						EPS (sen)	22.5	30.8	69.7	25.1	26.5
						Core EPS	20.6	20.3	28.0	31.3	33.2
						NDPS (sen)	0.0	6.0	10.0	10.0	10.0
						BV/share (RM)	1.75	2.08	3.10	3.34	3.60
						Core PER (x)	15.7	15.9	11.5	10.3	9.7
						Net Div. Yield (%)	0.0%	1.9%	3.1%	3.1%	3.1%
						PBV (x)	1.8	1.6	1.0	1.0	0.9
						EV/EBITDA (x)	16.4	17.1	8.5	8.2	7.7

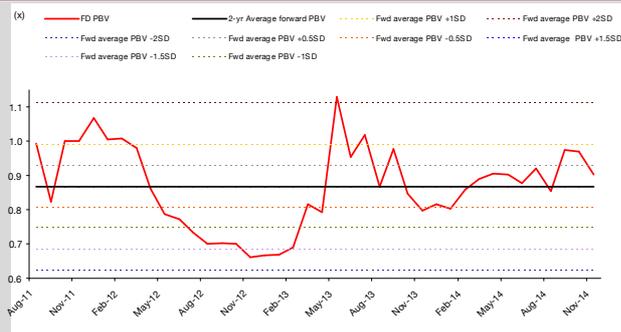
Source: Kenanga Research

Fwd PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



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Peer Comparison

NAME	Price (18/11/14)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY13/14 NP Growth	FY14/15 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY13/14	FY14/15	FY15/16	(%)	(%)	(x)	FY13/14	FY14/15	FY15/16	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE															
UEM Sunrise*	1.79	8,122	17.7	15.4	20.8	2.2%	10.2%	1.3	459.1	528.8	389.9	15.2%	-26.3%	1.93	MARKET PERFORM
IOI Properties*	2.46	7968	16.6	13.9	13.0	3.3%	4.3%	0.7	479.2	573.0	611.0	19.6%	6.6%	3.10	OUTPERFORM
SP Setia*	3.25	8,250	19.1	24.6	15.8	3.1%	8.7%	1.3	417.9	325.3	504.6	-22.2%	55.1%	3.30	MARKET PERFORM
Sunway Berhad	3.23	5555	11.5	10.3	9.7	3.1%	33.6%	1.0	482.7	540.0	572.2	11.9%	6.0%	3.87	OUTPERFORM
IJM Land*	3.43	5,347	16.0	14.5	13.4	1.7%	17.7%	1.5	335.2	368.0	400.2	9.8%	8.7%	3.55	ACCEPT OFFER
Mah Sing Group	2.30	3,394	11.6	9.7	8.4	4.1%	17.6%	1.5	280.6	334.6	385.5	19.2%	15.2%	3.05	OUTPERFORM
UOA Development*	2.15	3,077	8.4	10.3	8.6	6.5%	16.0%	1.1	344.6	280.8	336.2	-18.5%	19.7%	2.00	MARKET PERFORM
Tropicana	1.25	1,716	9.5	5.9	6.7	3.4%	15.3%	0.5	145.3	233.1	207.3	60.4%	-11.1%	1.28	MARKET PERFORM
Matrix Concepts	2.89	1,321	8.5	7.8	6.9	5.8%	29.8%	2.0	152.9	167.2	190.2	9.4%	13.8%	3.48	OUTPERFORM
Crescendo*	2.77	630	11.4	7.5	7.5	5.5%	18.4%	0.9	84.2	84.4	93.2	0.3%	10.5%	2.95	OUTPERFORM
Hua Yang	2.18	576	7.0	5.6	5.3	6.1%	22.8%	1.2	82.2	102.9	109.6	25.2%	6.5%	2.60	OUTPERFORM
* Core NP and Core PER															
** Crescendo per share data is based on non-Fully Diluted															
CONSENSUS NUMBERS															
BERJAYA LAND BHD	0.82	4,091	112.3	n.a.	n.a.	n.a.	0.7%	0.8	36.4	n.a.	n.a.	n.a.	n.a.	0.93	NEUTRAL
IGB CORPORATION BHD	2.94	3,925	17.8	17.8	16.3	2.3%	5.3%	0.9	220.3	220.3	240.3	0.0%	9.1%	4.10	NEUTRAL
YNH PROPERTY BHD	2.04	841	17.8	11.3	9.7	2.5%	5.6%	1.0	47.2	74.2	86.6	57.2%	16.7%	n.a.	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.89	738	34.4	n.a.	37.1	n.a.	2.4%	0.7	21.5	n.a.	19.9	n.a.	n.a.	n.a.	BUY
GLOMAC BHD	1.13	821	7.8	7.9	7.5	4.7%	12.0%	0.9	104.7	103.9	109.0	-0.8%	4.9%	1.13	SELL
KSL HOLDINGS BHD	4.52	1,755	8.8	5.8	6.5	5.1%	14.9%	1.2	199.1	302.9	271.8	52.1%	-10.3%	n.a.	BUY
PARAMOUNT CORP BHD	1.48	625	8.1	8.7	8.7	6.1%	9.1%	0.7	77.0	71.8	71.8	-6.8%	0.0%	1.76	BUY
IVORY PROPERTIES GROUP BHD	0.51	225	9.4	n.a.	n.a.	n.a.	1.5%	0.6	23.9	n.a.	n.a.	n.a.	n.a.	n.a.	BUY
TAMBUN INDAH LAND BHD	2.11	870	8.4	8.9	7.3	4.5%	30.3%	2.5	103.5	98.2	118.8	-5.1%	21.0%	2.55	BUY

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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