

26 February 2015

Sunway Berhad

FY14 Performance Beats the Street!

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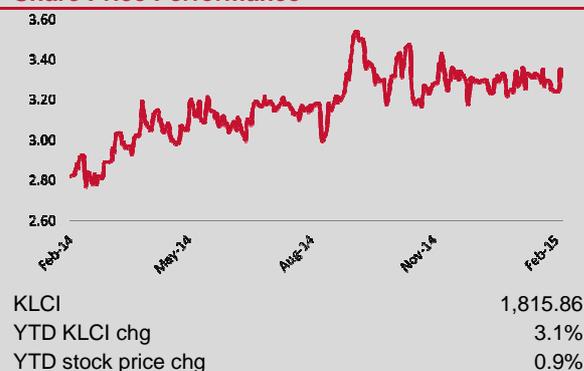
OUTPERFORM ↔

Price: **RM3.32**

Target Price: **RM3.65** ↔

- Period** ■ 4Q14/FY14
- Actual vs. Expectations** ■ FY14 core net earnings of RM592m came in strong, beating our and consensus expectations by 10% and 18%, respectively. This was primarily due to lower-than-expected interest costs.
■ In terms of property sales, SUNWAY achieved total sales of RM1.7b, which was inline with our, and management's, FY14 target of RM1.65b. However, its external construction orderbook replenishments lagged behind our assumptions of RM1.5b as it only managed to secure c.RM200m worth of external jobs for FY14.
- Dividends** ■ Proposed a second interim dividend of 6.0 sen. As for the full-year, SUNWAY has proposed a total dividend of 11.0 sen vis-à-vis our estimates of 10.0 sen for FY14, implying a net dividend yield of 3.3%.
- Key Results Highlights** ■ **YoY**, FY14 core earnings improved by 22% despite a marginal revenue growth (+3%). This was mainly due to better operating margins (+2.9ppt) from its property development (+4.5ppt), property investment (+3.4ppt) and construction (+4.7ppt). The construction segment was the most improved division as its core operating profit was up by+193% due to high contribution from its precast operations that completed multiple projects. To top it off, net interest costs had also come down substantially (-48%) due to renegotiation of interest costs on its financing instruments.
■ **QoQ**, 4Q14 core earnings soared by 38%, underpinned by a strong revenue growth (+30%) coming from its property development and construction divisions, improvements in operating margins (+3.9ppt), better contributions from associate & joint-ventures (+16%). Its property revenue climbed by 179% due to higher billings from Sunway Velocity, Sunway Damansara and Sunway South Quay. Construction revenue (+22%) was driven by higher progress billings for BRT and its building projects i.e. Sunway Velocity Shopping Mall and Afiniti Medini.
- Outlook** ■ Management maintains flattish sales of RM1.7b for 2015, on the back of RM2.0b planned launches in 2015. As for its construction division, management are targeting to replenish another RM2.5b total worth of jobs of which RM1.5b are external jobs and RM1.0b internal.
■ Its property unbilled sales and outstanding external construction orderbook remains fairly healthy at RM2.5b and RM1.9b, respectively, providing at least 1 – 1.5 years of visibility.
- Change to Forecasts** ■ Slight upward revision in FY15E earnings by 11% post house-keeping. We have lowered out net interest assumptions accordingly by 30%.
- Rating Valuation** **Maintain OUTPERFORM**
■ We reiterate our OUTPERFORM call on SUNWAY with our SoP-based Target Price of RM3.65 which implies FY15E core PER of 10.5x which is inline with its historical average of 10.0x.
■ We expect the listing of its construction arm by 1H15 and newflow will be buoyed by more external construction jobs in FY15, coupled with SUNWAY's ability to maintain its property sales despite a challenging market.
- 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



Stock Information

Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	5,720.7
Issued shares	1,723.1
52-week range (H)	3.67
52-week range (L)	2.76
3-mth avg daily vol:	1,369,556
Free Float	31%
Beta	1.2

Major Shareholders

SUNGEI WAY CORP SDN	50.1%
YEAN TIH CHEAH	13.5%
EMPLOYEES PROVIDENT	5.3%

Summary Earnings Table

FYE Dec (RM m)	2014A	2015E	2016E
Turnover	4,842	5,074	5,185
EBIT	615	664	683
PBT	969	868	887
Net Profit (NP)	744	601	611
Core NP	592	601	611
Consensus (NP)	n.a.	541	554
Earnings Revision	n.a.	11%	n.a.
EPS (sen)	43.2	34.9	35.4
Core EPS (sen)	34.4	34.9	35.4
EPS growth (%)	-50%	-19%	2%
NDPS (sen)	11.0	10.3	10.4
NTA/Share (RM)	2.91	3.26	3.54
Core PER (x)	9.6	9.5	9.3
Price/NTA (x)	1.1	1.0	0.9
Net Gearing (x)	0.3	0.2	0.2
Dividend Yield (%)	3.3%	3.1%	3.1%

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Outlook:

- Moving ahead, management remains fairly cautious on the outlook for the property market especially in Singapore, which is expected to remain soft due to the cooling measures imposed by the Singapore Government. Hence, they are only expecting flattish sales of RM1.7b for 2015 at best, on the back of RM2.0b planned launches in 2015, which is pretty much inline with our sales estimates of RM1.65b for FY15E.
- On the construction end, management is targeting to replenish another RM2.5b total worth of jobs of which RM1.5b are external jobs while RM1.0b are internally sourced. We believe that management's optimism in replenishing its order book hinges on their experience of the tenders they have submitted back in 2014 (i.e. government building projects) and they are also banking on MRT2 and LRT3. In fact, they had participated in pre-qualification exercise for PDP role in LRT 3. We expect the outcome of the PDP role should be known before year-end.

Upcoming Project Launches for 2015

Projects	GDV Estimates (RM'm)
Serene Villas, Sunway City Ipoh	50.0
Sunway Wellesley Condo & Townhouses	100.0
Sunway Damansara Retail	250.0
Sunway Velocity Shops & Offices	150.0
Sunway South Quay Condominium	300.0
Sunway Iskandar Landed	300.0
Sophia Hills, Singapore (effective)	600.0
Others	200.0
Total	1,950.0

Source: Company, Kenanga Research

Result Highlight

FYE 31 Dec (RM'm)	4Q14	3Q14	QoQ%	4Q13	YoY%	FY14	FY13	YtdYoY
Revenue	1,477.5	1,134.0	30%	1,342.2	10%	4,841.9	4,721.4	2.6%
Op costs w/o depn/amort	-1,318.7	-1,002.4	31.5%	-1,195.3	10.3%	-4,340.3	-4,167.3	4.2%
Other Op Income	104.6	25.9	303.8%	65.2	60.5%	169.5	140.8	20.4%
EBITDA	296.8	185.2	60.3%	242.2	22.5%	785.3	630.3	24.6%
EBIT	263.5	157.5	67.3%	212.1	24.2%	671.1	520.9	28.8%
Net Interest	-7.2	-5.1	40.9%	-27.6	-73.8%	-30.4	-58.2	-47.7%
Associate & JCE	44.7	38.5	16.0%	83.4	-46.4%	176.7	229.5	-23.0%
Fair Value Adjustments on IP	106.9	-5.6	-2022.7%	979.9	-89.1%	151.5	1,008.7	-85.0%
Pretax profit	407.8	185.3	120.1%	1,247.7	-67.3%	968.9	1,701.0	-43.0%
Taxation	-50.8	-21.8	132.8%	-45.5	11.8%	-148.0	-120.9	22.4%
Minority Interests	-44.0	-19.7	123.1%	-63.9	-31.2%	-77.6	-87.7	-11.5%
Net profit	313.0	143.8	117.7%	1,138.3	-72.5%	743.3	1,492.4	-50.2%
Core Net profit	206.1	149.3	38.0%	158.4	30.1%	591.8	483.7	22.4%
EPS (sen)	24.4	8.0	203.8%	66.0	-63.1%	49.0	86.6	-43.4%
Diluted EPS (sen)	14.4	6.6	117.7%	7.3	97.6%	32.0	22.3	43.3%
NDPS (sen)	6.0	0.0		8.5		11.0	13.5	
NTA/share (RM)	3.48	3.09		2.91		3.48	2.91	
Net gearing/(cash) (x)	0.29	0.31		0.24		0.29	0.24	
EBITDA margin	20.1%	16.3%		18.0%		16.2%	13.3%	
EBIT margin	17.8%	13.9%		15.8%		13.9%	11.0%	
Pretax margin	27.6%	16.3%		93.0%		20.0%	36.0%	
Effective tax rate	12.5%	11.8%		3.6%		15.3%	7.1%	

Source: Company, Kenanga Research

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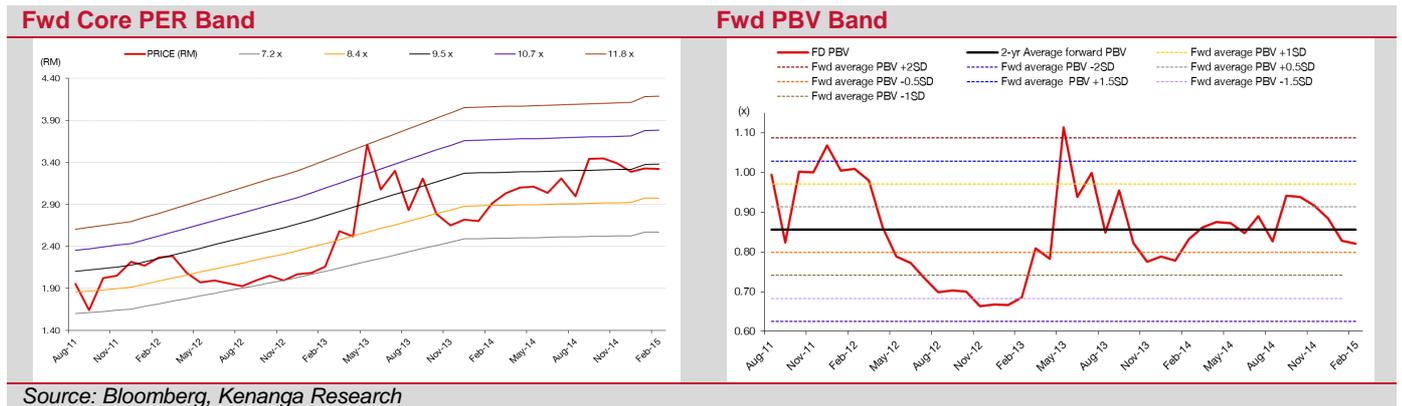
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Segmental Breakdown								
FYE' Dec (RM'm)	4Q14	3Q14	QoQ	4Q13	YoY	FY14	FY13	YoY
Revenue								
Property Development	496.3	178.0	178.8%	417.3	18.9%	1198.4	1167.2	2.7%
Property Investment	259.8	255.3	1.8%	451.5	-42.4%	806.9	891.4	-9.5%
Construction	538.2	450.4	19.5%	510.4	5.4%	1892.5	1841.3	2.8%
Trading & Manufacturing	205.9	198.3	3.8%	187.0	10.1%	786.6	754.4	4.3%
Quarry	76.0	57.1	33.1%	54.4	39.7%	240.6	204.9	17.4%
Investment Holdings	69.1	94.5	-26.8%	55.7	24.2%	369.1	309.1	19.4%
Others	159.1	110.3	44.2%	120.3	32.2%	512.0	408.6	25.3%
CORE Operating Profit								
Property Development	98.1	79.1	23.9%	96.3	1.9%	287.3	228.2	25.9%
Property Investment	49.9	31.2	60.0%	38.7	29.0%	128.3	111.2	15.3%
Construction	60.2	21.8	176.1%	-11.1	-644.8%	138.7	47.4	192.8%
Trading & Manufacturing	9.1	10.8	-15.7%	10.3	-11.5%	40.0	46.6	-14.2%
Quarry	16.5	6.7	147.5%	4.3	280.6%	36.7	21.2	73.6%
Investment Holdings	-2.2	-3.8	-42.0%	6.3	-135.4%	-12.5	-7.9	58.2%
Others	12.2	11.7	5.0%	7.8	57.0%	38.2	24.8	54.4%
CORE Operating Margin								
Property Development	19.8%	44.5%		23.1%		24.0%	19.5%	
Property Investment	19.2%	12.2%		8.6%		15.9%	12.5%	
Construction	11.2%	4.8%		-2.2%		7.3%	2.6%	
Trading & Manufacturing	4.4%	5.5%		5.5%		5.1%	6.2%	
Quarry	21.7%	11.7%		8.0%		15.3%	10.3%	
Investment Holdings	-3.2%	-4.1%		11.3%		-3.4%	-2.6%	
Others	7.7%	10.6%		6.5%		7.5%	6.1%	

Source: Company, Kenanga Research

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E	FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	3849	4734	4842	5074	5185	Growth (%)					
EBITDA	417	915	729	786	815	Revenue	4.3	23.0	2.3	4.8	2.2
Depreciation	-95	-109	-114	-122	-131	EBITDA	-2.4	119.5	-20.3	7.8	3.6
EBIT	322	806	615	664	683	EBIT	-0.2	150.5	-23.7	8.0	2.9
Interest Expense	-100	-138	-79	-85	-96	Pre-tax Income	45.0	162.0	-48.8	-10.4	2.2
Investing	23	36	48	49	56	Net Income	36.8	183.0	-50.4	-19.2	1.6
Associate/JCE	296	172	233	240	244	Core Net Profit	-1.1	37.7	22.7	1.5	1.6
Exceptionals/FV	182	1018	152	0	0	Profitability (%)					
PBT	723	1894	969	868	887	EBITDA Margin	10.8	19.3	15.1	15.5	15.7
Taxation	-125	-121	-148	-194	-198	EBIT Margin	8.4	17.0	12.7	13.1	13.2
Minority Interest	-67	-273	-78	-74	-79	PBT Margin	18.8	40.0	20.0	17.1	17.1
Net Profit	530	1500	744	601	611	Net Margin	13.8	31.7	15.4	11.8	11.8
Core Net Profit	350	483	592	601	611	Core Net Margin	9.1	10.2	12.2	11.8	11.8
Balance Sheet						Effective Tax Rate	-17.3	-22.6	-22.3	-22.3	-22.3
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E	ROE	16.1	33.6	13.2	9.7	9.2
Fixed Assets	2646	3540	3766	4305	5086	ROA	6.3	14.9	6.2	4.5	4.2
Intangibles	318	320	319	319	319	DuPont Analysis					
Other FA	1590	2369	2652	2652	2652	Net margin (%)	13.8	31.7	15.4	11.8	11.8
Inventories	650	623	598	717	685	Assets Turnover (x)	0.5	0.5	0.4	0.4	0.4
Receivables	2128	2679	3492	3109	3177	Leverage Factor (x)	2.5	2.3	2.1	2.2	2.2
Other CA	493	63	111	111	111	ROE (%)	16.1	33.6	13.2	9.7	9.2
Cash	1159	1527	1978	2796	3125	Leverage					
Total Assets	8983	11120	12917	14009	15156	Debt/Asset (x)	0.30	0.25	0.29	0.30	0.32
Payables	1772	2154	2172	2264	2308	Debt/Equity (x)	0.76	0.52	0.64	0.66	0.69
ST Borrowings	1765	1805	2283	2283	2283	Net Debt/(Cash)	1.6	1.3	1.8	1.4	1.7
Other ST Liability	31	24	21	21	21	Net Debt/Equity (x)	0.39	0.24	0.30	0.23	0.24
LT Borrowings	972	991	1502	1961	2498	Valuations					
Other LT Liability	478	486	605	604	615	EPS (sen)	30.8	87.1	43.2	34.9	35.4
Minority Int.	381	317	389	462	541	Core EPS	20.3	28.0	34.4	34.9	35.4
Net Assets	3585	5343	5945	6414	6890	NDPS (sen)	6.0	10.0	11.0	10.3	10.4
Share Capital	1293	1723	1731	1731	1731	BV/share (RM)	2.08	3.10	3.45	3.72	4.00
Reserves	2293	3620	4215	4683	5159	Core PER (x)	16.3	11.8	9.6	9.5	9.3
Shareholders Equity	3585	5343	5945	6414	6890	Net Div. Yield (%)	1.8%	3.0%	3.3%	3.1%	3.1%
Cashflow Statement						PBV (x)	1.6	1.1	1.0	0.9	0.8
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E	EV/EBITDA (x)	17.5	7.6	10.3	9.1	9.0
Operating CF	390	755	271	1,338	1,014						
Investing CF	-370	-1,131	-68	-299	-527						
Financing CF	274	744	810	247	318						
Net Change in Cash	294	368	1,013	1,286	805						
Free Cash Flow	-43	532	545	1,535	1,107						

Source: Kenanga Research



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Peer Comparison

NAME	Price (25/2/15)	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															
S P SETIA BHD*	3.46	8,794	24.3	19.2	17.2	2.9%	6.8%	1.3	361.0	457.0	510.9	26.6%	11.8%	3.95	OUTPERFORM
IOI PROPERTIES GROUP BHD*	2.11	7,973	16.6	18.6	16.4	3.3%	4.3%	0.6	479.2	428.6	487.3	-10.6%	13.7%	2.12	MARKET PERFORM
UEM SUNRISE BHD*	1.38	6,262	13.6	11.8	16.6	1.8%	10.2%	1.0	459.1	528.9	376.2	15.2%	-28.9%	1.60	MARKET PERFORM
SUNWAY BHD	3.32	5,721	9.7	9.5	9.4	3.1%	13.2%	0.9	592.2	601.1	610.6	1.5%	1.6%	3.65	OUTPERFORM
IJM LAND BHD*	3.65	5,690	17.0	16.9	16.2	1.6%	17.7%	1.6	335.2	336.0	352.1	0.2%	4.8%	3.55	ACCEPT OFFER
MAH SING GROUP BHD^	1.62	3,898	11.5	10.2	9.5	4.0%	16.1%	1.2	339.2	380.3	411.3	12.1%	8.2%	1.74	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.12	3,034	10.9	10.8	10.1	6.1%	12.2%	1.1	279.1	281.7	301.6	0.9%	7.1%	2.00	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.36	2,430	16.7	36.2	31.2	0.9%	2.6%	1.4	41.6	62.1	72.1	49.5%	16.1%	1.27	UNDERPERFORM
KSL HOLDINGS BHD	2.35	2,149	10.5	6.3	6.0	4.8%	13.8%	1.2	176.4	293.3	310.0	66.2%	5.7%	2.76	OUTPERFORM
TROPICANA CORP BHD	1.05	1,442	3.8	6.1	8.7	2.1%	11.9%	0.4	304.5	191.7	133.0	-37.0%	-30.6%	1.15	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.92	1,338	7.2	6.9	6.9	6.5%	29.5%	1.7	182.6	190.2	190.5	4.1%	0.2%	3.05	OUTPERFORM
CRESCENDO CORPORATION BHD*	2.50	569	6.8	8.7	7.3	4.7%	18.4%	0.9	84.2	65.7	78.8	-21.9%	19.9%	2.46	MARKET PERFORM
HUA YANG BHD	2.18	576	7.0	5.6	5.6	6.1%	22.8%	1.2	82.2	102.9	102.8	25.2%	-0.1%	2.20	MARKET PERFORM
CREST BUILDER HOLDINGS BHD	1.21	198	6.1	14.4	13.7	1.7%	8.9%	0.6	13.9	14.6	16.4	5.1%	12.0%	1.29	MARKET PERFORM
CONSENSUS NUMBERS															
BERJAYA LAND BHD	0.76	3,792	115.2	n.a.	n.a.	n.a.	0.6%	0.7	32.9	n.a.	n.a.	n.a.	n.a.	0.93	SELL
IGB CORPORATION BHD	2.88	3,845	17.7	16.0	14.0	2.5%	5.0%	0.9	216.9	240.3	273.7	10.8%	13.9%	4.10	NEUTRAL
YNH PROPERTY BHD	1.95	801	16.4	12.2	10.5	2.7%	5.7%	0.9	48.8	65.7	76.0	34.7%	15.6%	1.88	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.80	663	31.9	n.a.	33.3	n.a.	2.3%	0.7	20.8	n.a.	19.9	n.a.	n.a.	n.a.	BUY
GLOMAC BHD	0.98	709	9.0	7.8	6.6	4.8%	8.9%	0.8	78.7	90.9	107.6	15.4%	18.4%	0.97	SELL
PARAMOUNT CORP BHD	1.54	650	9.3	9.6	9.1	5.2%	8.6%	0.8	69.7	67.6	71.8	-3.0%	6.3%	1.54	SELL
IVORY PROPERTIES GROUP BHD	0.43	189	8.3	n.a.	n.a.	n.a.	6.0%	0.4	22.8	n.a.	n.a.	n.a.	n.a.	n.a.	BUY
TAMBUN INDAH LAND BHD	1.88	793	7.5	6.7	6.2	5.2%	28.9%	2.0	106.3	118.0	127.7	11.1%	8.2%	2.15	BUY

* Core NP and Core PER

** Crescendo per share data is based on non-Fully Diluted

^ Ex-rights and Ex-Bonus

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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