

## Sunway (SWB MK)

Property - Real Estate  
Market Cap: USD1,413m

**Buy** (Maintained)

Target Price: **MYR3.30**

Price: **MYR2.65**

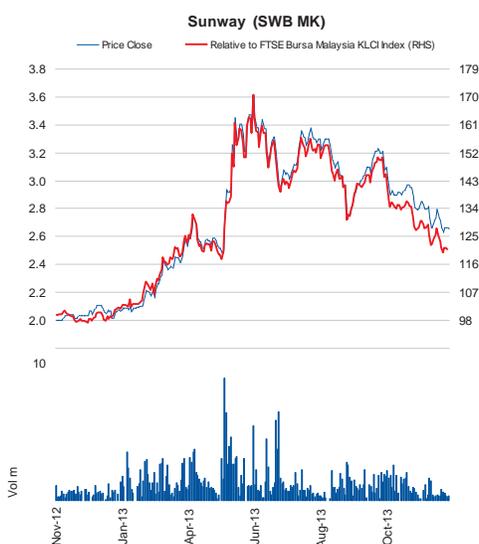
### Temporarily Overshadowed By Negative Sentiment

Macro

Risks

Growth

Value



Source: Bloomberg

Avg Turnover (MYR/USD)	2.85m/0.90m
Cons. Upside (%)	33.6
Upside (%)	24.5
52-wk Price low/high (MYR)	2.00 - 3.61
Free float (%)	39
Shareholders (%)	
Tan Sri Dato' Jeffrey Cheah	51.5
GIC	8.7

Shariah compliant

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Sunway's 3Q13 results beat our expectations. Sequential growth was mainly driven by better margins from property development. 9M13 sales hit MYR1.1bn, which will likely surpass management's MYR1.3bn 2013 target. Given the current negative sentiment arising from the impact of regulatory measures and the ongoing concerns on further stake disposal by GIC, we lower our FV to MYR3.30 (from MYR3.55).

- ◆ **Above expectations.** Sunway's 3Q13 results came in above our expectation, but in line with market estimates. Headline net profit was dragged down by a non-operational item – a MYR39.7m ESOS fair value expense, which does not have any cash flow impact. Q-o-q growth was mainly driven by the strong margin from its property development division, while construction and property investment saw slower growth on write-back of provisions, and lower hotel occupancy and theme park visitor numbers during July's fasting month.
- ◆ **9M13 MYR1.1bn sales.** 9M13 new property sales reached MYR1.1bn, from MYR606m in 1H13. Full-year sales could surpass management's MYR1.3bn target. Sunway GEO Residences (GDV MYR480m), which has achieved a booking rate of 85%; Velocity serviced apartments (70% sold); and Novena medical suites/retail units (45%/80% sold) are expected to contribute to 4Q13 sales. Despite the challenging outlook for the Iskandar Malaysia property market, Sunway may still preview Phase 1 of Sunway Iskandar Medini serviced apartments and office (GDV MYR300m) in December. This will be a good indication of local and foreign buyers' sentiment on the physical market after the 2014 Budget announcement.
- ◆ **Forecasts.** In view of the stronger-than-expected margins, we raise our FY13 earnings forecast marginally by 5%. Earnings will be backed by MYR2.2bn in unbilled sales (same as last quarter's) and a MYR3.7bn construction orderbook.
- ◆ **Reduce FV.** Although we maintain our BUY call, given the unchanged fundamentals, we lower our FV slightly to MYR3.30 (from MYR3.55) based on a larger discount to RNAV of 30% (from 25%) to reflect the current negative sentiment arising from the impact of regulatory measures, and the ongoing concerns on further stake disposal by GIC.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (MYRm)	3,134	3,739	3,877	4,446	5,258
Reported net profit (MYRm)	688	370	532	402	455
Recurring net profit (MYRm)	325	326	351	402	455
Recurring net profit growth (%)	45.7	0.2	7.7	14.7	13.0
Recurring EPS (MYR)	0.31	0.25	0.27	0.27	0.26
DPS (MYR)	0.00	0.00	0.06	0.07	0.08
Recurring P/E (x)	8.4	10.5	9.8	9.9	10.0
P/B (x)	1.31	1.15	0.96	1.04	1.09
Dividend Yield (%)	0.0	0.0	2.3	2.6	3.0
Return on average equity (%)	28.9	13.2	16.3	10.9	11.3
Return on average assets (%)	10.4	5.0	6.4	4.4	4.4
Net debt to equity (%)	48.5	44.7	41.5	45.3	44.0
Our vs consensus EPS (%)				0.0	0.0

Source: Company data, RHB estimates

Figure 1: Sunway's quarterly results

FYE Dec (MYR mil)	3Q12	2Q13	3Q13	q-o-q (%)	y-o-y (%)	9M12	9M13	y-o-y (%)	Comments
<b>Turnover</b>	<b>866.9</b>	<b>1,118.0</b>	<b>1,066.1</b>	<b>(4.6)</b>	<b>23.0</b>	<b>2,677.8</b>	<b>3,205.2</b>	<b>19.7</b>	
Prop dev	176.6	286.9	260.3	(9.3)	47.4	525.4	749.9	42.7	Key project contributors for 3Q13 include Sunway South Quay, Velocity and Nexis.
Prop invt	148.2	141.8	137.1	(3.3)	(7.5)	422.4	412.4	(2.4)	Slower growth was due to the fasting month which affected hotel occupancy and theme park visitorship.
Construction	267.3	372.8	376.5	1.0	40.9	914.6	1,178.7	28.9	
Trading & Manufacturing	143.3	171.6	151.9	(11.4)	6.0	436.0	453.1	3.9	
Quarry	53.8	55.8	47.1	(15.6)	(12.5)	139.7	147.2	5.4	
Investment holdings	0.3	(2.2)	(1.1)	(52.3)	n.m.	0.7	(0.3)	n.m.	
Others	77.3	91.4	94.3	3.1	22.0	239.1	264.2	10.5	
<b>EBIT</b>	<b>106.1</b>	<b>116.6</b>	<b>74.9</b>	<b>(35.8)</b>	<b>(29.4)</b>	<b>270.7</b>	<b>277.5</b>	<b>2.5</b>	
<i>EBIT Margin (%)</i>	<i>12.2%</i>	<i>10.4%</i>	<i>7.0%</i>			<i>10.1%</i>	<i>8.7%</i>		
Prop dev	53.0	44.3	62.0	39.9	17.1	98.9	131.9	33.3	Better margin was led by the higher contribution from commercial developments in 3Q13.
Prop invt	19.3	28.6	21.8	(23.6)	13.1	78.0	72.6	(7.0)	
Construction	18.3	15.7	15.4	n.m.	(15.9)	43.3	58.4	34.9	Despite stronger revenue, the write-back of provisions dragged down construction EBIT margin.
Trading & Manufacturing	11.7	15.6	11.7	(25.1)	0.2	36.7	36.3	(1.0)	
Quarry	3.4	6.9	5.2	(24.2)	52.7	7.2	16.8	134.0	
Investment holdings	(5.9)	(2.5)	(46.4)	n.m.	683.2	(11.9)	(53.9)	352.7	
Others	6.3	8.0	5.1	(36.6)	(20.0)	18.5	15.4	(16.6)	
Exceptional items	0.3	(59.6)	41.2	n.m.	n.m.	77.2	(18.7)	n.m.	
Finance cost	(19.4)	(21.0)	(6.3)	(70.1)	(67.8)	(60.8)	(38.9)	(36.1)	
Asso & jv	56.1	108.6	49.4	(54.5)	(11.8)	200.4	205.9	2.7	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	
Pretax profit	142.4	212.5	118.2	(44.4)	(17.0)	420.5	453.2	7.8	
<i>PBT margin (%)</i>	<i>16.4%</i>	<i>19.0%</i>	<i>11.1%</i>			<i>15.7%</i>	<i>14.1%</i>		
Tax	(32.4)	(32.5)	(16.6)	(48.9)	(48.8)	(81.2)	(75.4)	(7.2)	
<i>Tax (%)</i>	<i>22.8%</i>	<i>15.3%</i>	<i>14.0%</i>			<i>19.3%</i>	<i>16.6%</i>		
PAT	110.0	180.1	101.6	(43.6)	(7.7)	339.2	377.8	11.4	
MI	(15.7)	(9.7)	(8.5)	(12.9)	(46.3)	(26.2)	(23.8)	(9.1)	
<b>Net profit</b>	<b>94.3</b>	<b>170.3</b>	<b>93.1</b>	<b>(45.3)</b>	<b>(1.2)</b>	<b>313.1</b>	<b>354.0</b>	<b>13.1</b>	
<b>Core net profit</b>	<b>94.6</b>	<b>110.7</b>	<b>124.4</b>	<b>12.4</b>	<b>31.5</b>	<b>236.4</b>	<b>325.4</b>	<b>37.6</b>	Above our expectation
<i>Net margin (%)</i>	<i>10.9</i>	<i>9.9</i>	<i>11.7</i>			<i>8.8</i>	<i>10.2</i>		
EPS (sen)	7.3	8.6	7.8			18.3	23.3		
NTA (RM)	2.57	2.90	2.70			2.57	2.9		
DPS (sen)	0.0	5.0	0.0			0.0	5.0		

Source: RHB estimates

Figure 2: Sunway's RNAV

Landbank	Size (acres)	GDV (MYR m)	Equity interest	NPV @ 13% (MYR m)	
<b>Malaysia</b>					
Sunway South Quay	52	3,893	60%	137.54	
Sunway Velocity	22	2,000	50%	68.74	
Sunway Damansara	18	826	60%	43.47	
Sunway Semenyih	398	729	70%	31.08	
Integrated Resorts	18	660	100%	44.78	
Melawati	31	555	100%	35.76	
Sunway Tower 1	1	240	100%	17.24	
Casa Kiara 3	3	230	80%	13.22	
Suria	14	60	100%	4.85	
Taman Duta	3	120	60%	5.52	
Penang	108	1,202	100%	87.85	
Bukit Lenang JB	64	1,000	80%	58.29	
Iskandar Pendas I	779.07	10,000	60%	258.30	
Iskandar Pendas II	300	10,000	60%	382.56	
Sunway Iskandar	691	10,000	60%	309.44	
Ipoh	899	286	65%	10.52	
Others	12	38	77%	1.71	
Taman Equine	33	250	100%	14.89	
Bangi	3	59	100%	3.74	
Melawati 2	2	43	100%	2.46	
Sg Long Balakong	111	277	80%	12.04	
Mont Putra	163	156	100%	8.48	
<b>Overseas</b>					
Opus, India	35	750	50%	5.83	
MAK, India	14	134	60%	1.45	
Guanghao, China	17	450	65%	5.28	
Tianjin, China	102	5,000	60%	46.65	
Australia	91	612	31%	8.50	
Yishun, Singapore	7	851	30%	25.57	
Tampines, Singapore	5	1,070	30%	33.44	
Yuan Ching Rd, Singapore	5	828	30%	25.88	
Sembawang, Singapore	0.77	75	100%	10.55	
Thomson/Irrawaddy	1.65	2,288	30%	71.49	
Mount Sophia, Singapore	5.87	2,000	30%	61.57	
Sri Lanka	1	250	65%	1.56	
Pasir Ris, Singapore	4.3	893	30%	27.89	
Unbilled sales				253.00	
Subtotal				2,131.12	
<b>Investment properties</b>	<b>EBITDA</b>	<b>Market value</b>	<b>Book value</b>	<b>Equity</b>	<b>Net surplus</b>
	<b>(MYR m)</b>	<b>(MYR m)</b>	<b>(MYR m)</b>	<b>interest</b>	<b>(MYR m)</b>
Monash University Campus	13.4	200.0	200.0	100%	0.0
Sunway University College	9.5	153.0	153.0	100%	0.0
Sunway Hotel Georgetown	2.3	60.0	60.0	100%	0.0
Sunway Medical Centre	17.0	310.0	160.2	78%	0.0
Sunway Hotel Phnom Penh	3.0	17	17.0	53%	0.0
Sunway Hotel Hanoi	0.1	12.0	12.0	100%	0.0
Sunway Giza	1.1	42.7	42.7	60%	0.0
Subtotal					0.0
<b>Other divisions</b>	<b>Market value</b>	<b>Book value</b>	<b>FY14 EPS</b>	<b>PE target</b>	<b>Equity value surplus</b>
	<b>(MYR m)</b>	<b>(MYR m)</b>	<b>(sen)</b>	<b>(x)</b>	<b>(MYR m)</b>
Construction			0.10	15	1,827.53
34% Sunway REIT	1,655.9	882.0			773.90
Subtotal					2,601.43
Total					4,732.55
Shareholders' equity					3,558.40
Total RNAV					8,290.95
Share base (mil)					1,723.49
No. of warrants					289.39
ESOS					172.35
Warrants conversion @ MYR2.50					723.48
Rights issue					732.48
ESOS					551.52
Total SOP value					10,298.43
Enlarged share base (mil)					2,185.23
Fully diluted RNAV per share					4.71
Discount					30%
Fair value (MYR)					3.30

Source: Company, RHB estimates

## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Dec-10</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13F</b>	<b>Dec-14F</b>
Total turnover	3,134	3,739	3,877	4,446	5,258
Cost of sales	(2,076)	(2,755)	(2,809)	(3,168)	(3,812)
<b>Gross profit</b>	<b>1,058</b>	<b>984</b>	<b>1,068</b>	<b>1,278</b>	<b>1,446</b>
Gen & admin expenses	(661)	(785)	(775)	(987)	(1,167)
Other operating costs	195	172	212	148	153
<b>Operating profit</b>	<b>592</b>	<b>371</b>	<b>504</b>	<b>439</b>	<b>431</b>
Operating EBITDA	698	438	575	517	512
Depreciation of fixed assets	(105)	(67)	(71)	(78)	(81)
<b>Operating EBIT</b>	<b>592</b>	<b>371</b>	<b>504</b>	<b>439</b>	<b>431</b>
Net income from investments	218	199	301	313	406
Interest income	27	30	27	28	30
Interest expense	(101)	(86)	(105)	(127)	(136)
Other non-recurring income	(19)	(8)	0	107	127
<b>Pre-tax profit</b>	<b>717</b>	<b>507</b>	<b>728</b>	<b>759</b>	<b>858</b>
Taxation	280	(99)	(129)	(190)	(214)
Minority interests	(309)	(38)	(67)	(167)	(189)
<b>Profit after tax &amp; minorities</b>	<b>688</b>	<b>370</b>	<b>532</b>	<b>402</b>	<b>455</b>
<b>Reported net profit</b>	<b>688</b>	<b>370</b>	<b>532</b>	<b>402</b>	<b>455</b>
<b>Recurring net profit</b>	<b>325</b>	<b>326</b>	<b>351</b>	<b>402</b>	<b>455</b>

Source: Company data, RHB estimates

<b>Cash flow (MYRm)</b>	<b>Dec-10</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13F</b>	<b>Dec-14F</b>
<b>Operating profit</b>	<b>592</b>	<b>371</b>	<b>504</b>	<b>439</b>	<b>431</b>
<b>Depreciation &amp; amortisation</b>	<b>105</b>	<b>67</b>	<b>71</b>	<b>78</b>	<b>81</b>
<b>Change in working capital</b>	<b>(303)</b>	<b>385</b>	<b>(741)</b>	<b>(211)</b>	<b>(84)</b>
Other operating cash flow	60	146	295	202	233
<b>Operating cash flow</b>	<b>455</b>	<b>970</b>	<b>129</b>	<b>508</b>	<b>661</b>
Interest received	27	30	27	28	30
Interest paid	(101)	(86)	(105)	(127)	(136)
Tax paid	280	(99)	(129)	(190)	(214)
<b>Cash flow from operations</b>	<b>661</b>	<b>816</b>	<b>(77)</b>	<b>219</b>	<b>340</b>
Capex	-	(261)	(148)	(70)	(64)
Other investing cash flow	2,035	(537)	79	(300)	(200)
<b>Cash flow from investing activities</b>	<b>2,035</b>	<b>(799)</b>	<b>(69)</b>	<b>(370)</b>	<b>(264)</b>
Dividends paid	-	-	(118)	(106)	(138)
Proceeds from issue of shares	(262)	15	161	-	-
Increase in debt	730	(65)	483	-	-
Other financing cash flow	(2,734)	(52)	(23)	193	18
<b>Cash flow from financing activities</b>	<b>(2,266)</b>	<b>(102)</b>	<b>503</b>	<b>88</b>	<b>(120)</b>
Cash at beginning of period	438	869	784	1,140	1,077
<b>Total cash generated</b>	<b>430</b>	<b>(85)</b>	<b>357</b>	<b>(63)</b>	<b>(44)</b>
<b>Implied cash at end of period</b>	<b>869</b>	<b>784</b>	<b>1,140</b>	<b>1,077</b>	<b>1,033</b>

Source: Company data, RHB estimates

## Financial Exhibits

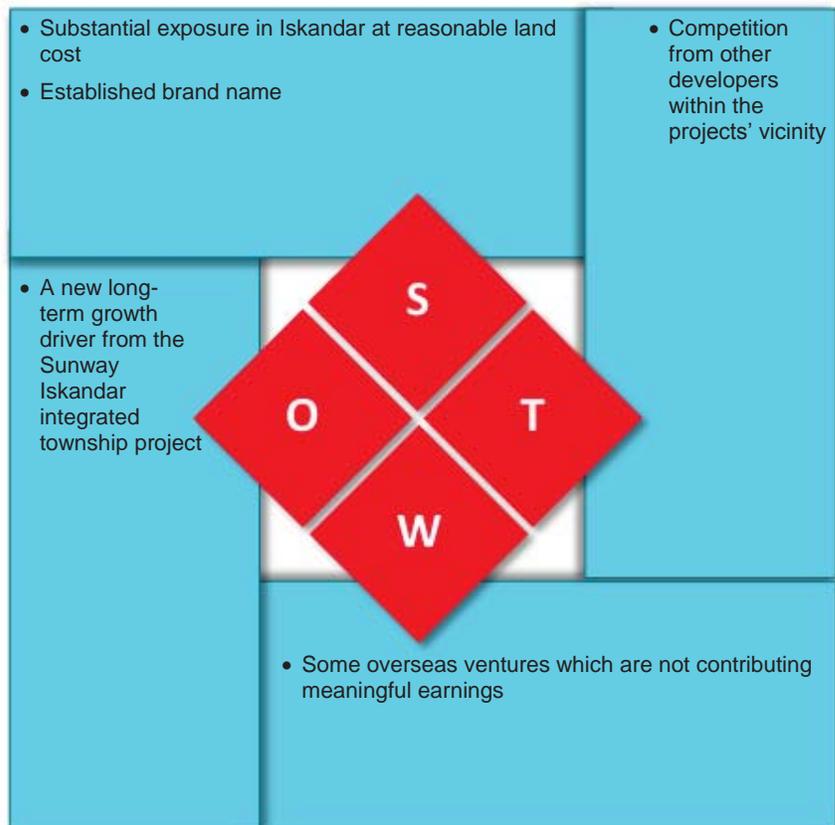
Balance Sheet (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	881	784	1,140	1,077	1,033
Inventories	932	1,101	1,226	1,429	1,646
Accounts receivable	1,143	1,096	1,400	1,642	1,915
Other current assets	55	58	48	48	48
<b>Total current assets</b>	<b>3,011</b>	<b>3,039</b>	<b>3,814</b>	<b>4,196</b>	<b>4,642</b>
Tangible fixed assets	3,615	4,350	4,553	4,649	4,633
Intangible assets	330	325	319	319	319
Total other assets	69	101	58	571	1,177
Total non-current assets	4,014	4,776	4,931	5,538	6,129
<b>Total assets</b>	<b>7,025</b>	<b>7,815</b>	<b>8,745</b>	<b>9,735</b>	<b>10,770</b>
Short-term debt	505	301	783	933	933
Accounts payable	1,380	1,931	1,605	1,839	2,245
Other current liabilities	68	28	31	31	31
<b>Total current liabilities</b>	<b>1,953</b>	<b>2,260</b>	<b>2,419</b>	<b>2,803</b>	<b>3,209</b>
Total long-term debt	1,824	1,963	1,964	2,106	2,231
Other liabilities	264	278	493	493	493
<b>Total non-current liabilities</b>	<b>2,087</b>	<b>2,241</b>	<b>2,458</b>	<b>2,600</b>	<b>2,724</b>
<b>Total liabilities</b>	<b>4,040</b>	<b>4,501</b>	<b>4,876</b>	<b>5,403</b>	<b>5,933</b>
Share capital	1,289	1,293	1,293	1,293	1,293
Retained earnings reserve	(8)	372	937	1,233	1,550
Other reserves	1,318	1,319	1,329	1,329	1,329
<b>Shareholders' equity</b>	<b>2,599</b>	<b>2,983</b>	<b>3,558</b>	<b>3,855</b>	<b>4,172</b>
Minority interests	386	331	310	477	666
<b>Total equity</b>	<b>2,984</b>	<b>3,314</b>	<b>3,868</b>	<b>4,332</b>	<b>4,838</b>
<b>Total liabilities &amp; equity</b>	<b>7,025</b>	<b>7,815</b>	<b>8,745</b>	<b>9,735</b>	<b>10,770</b>

Source: Company data, RHB estimates

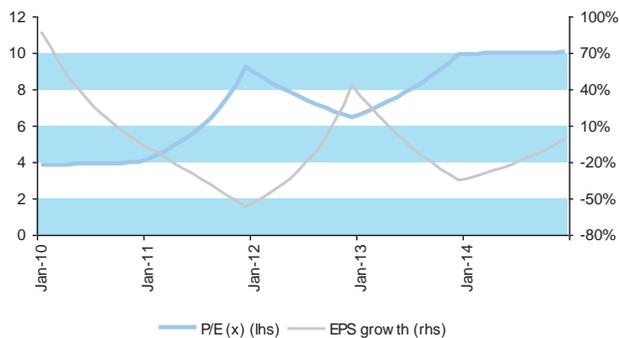
Key Ratios (MYR)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	95.8	19.3	3.7	14.7	18.3
Operating profit growth (%)	60.3	(37.3)	35.8	(13.0)	(1.7)
Net profit growth (%)	27.9	(46.3)	44.0	(24.4)	13.0
EPS growth (%)	(3.6)	(57.0)	43.8	(35.2)	(1.1)
Bv per share growth (%)	(27.7)	14.5	19.3	(7.1)	(5.3)
Operating margin (%)	18.9	9.9	13.0	9.9	8.2
Net profit margin (%)	22.0	9.9	13.7	9.0	8.6
Return on average assets (%)	10.4	5.0	6.4	4.4	4.4
Return on average equity (%)	28.9	13.2	16.3	10.9	11.3
Net debt to equity (%)	48.5	44.7	41.5	45.3	44.0
DPS	0.00	0.00	0.06	0.07	0.08
Recurrent cash flow per share	0.64	0.63	(0.06)	0.15	0.20

Source: Company data, RHB estimates

## SWOT Analysis

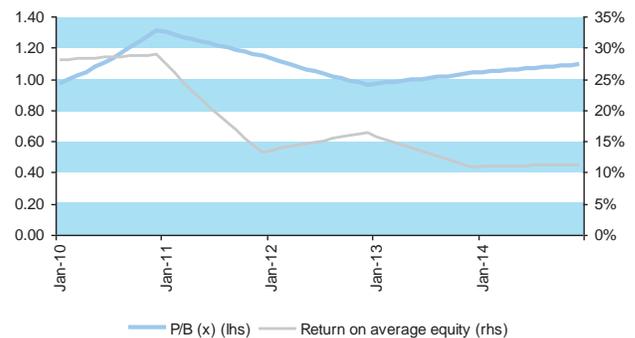


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

## Company Profile

Sunway is a well-known developer in the Klang Valley. Its flagship project – Bandar Sunway – is a well-established integrated township. The company has successfully transformed a mining land to a matured residential and commercial cluster.

## Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-09-18	Buy	3.55	3.05
2013-08-30	Buy	3.52	2.83
2013-07-16	Buy	3.76	3.36
2013-05-31	Buy	4.56	3.61
2013-05-13	Buy	4.28	3.26
2013-03-20	Buy	3.25	2.46
2013-03-12	Buy	3.25	2.40
2013-03-07	Buy	3.25	2.34
2013-03-01	Buy	3.25	2.22
2013-01-25	Buy	3.18	2.08

Source: RHB estimates, Bloomberg

## RHB Guide to Investment Ratings

**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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