

Sunway (SWB MK)

Property - Real Estate
Market Cap: USD1,405m

Buy (Maintained)

Target Price: MYR3.33

Price: MYR2.64

Accumulating Landbank In Penang

Macro
Risks
Growth
Value



Source: Bloomberg

Avg Turnover (MYR/USD)	2.58m/0.81m
Cons. Upside (%)	34.1
Upside (%)	26.1
52-wk Price low/high (MYR)	2.02 - 3.61
Free float (%)	39
Shareholders (%)	
Tan Sri Dato' Jeffrey Cheah	51.5
GIC	8.7

Shariah compliant

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We raise our FV on Sunway to MYR3.33 (from MYR3.30) due to its new land acquisition in Penang. The land will be developed into a mix of commercial shops and high-rises worth a GDV of MYR1.5bn. Meanwhile, Sunway will likely hit MYR1.8bn in sales for FY13. Its sales target for next year will be at the same level, and we think this is achievable given its pipeline of projects. Maintain BUY.

- ◆ **New land near Air Itam.** Sunway has successfully won the bid for 24.458 acres of freehold land at MYR251 psf (total sum: MYR267.4m) via open tender from CH Williams Talhar & Wong. The minimum reserve price was MYR200 psf. This level plot of land was originally owned by Lee Rubber, with a factory on-site.
- ◆ **A good price.** Sunway paid a good price for the land, given the stubbornly high land value on Penang Island. While Jelutong land is already going at MYR400-500 psf, some parcels in Tanjung Tokong are priced at MYR500-1,000 psf. Based on our checks, Sunway's land is some 100m away from EcoWorld's project in Air Itam.
- ◆ **Adding MYR1.5bn to GDV.** We are positive on this acquisition. The land will help Sunway widen its presence in Penang. Its exposure to this market is not big (145 acres) – about 6% of total GDV with this latest addition. The land will be developed into commercial shops, SOHOs and high-rise residences worth MYR1.5bn GDV, with ASP working out to a reasonable MYR590 psf based on 2.56m GFA.
- ◆ **Full-year sales likely to hit MYR1.8bn.** As expected, Sunway will exceed its MYR1.3bn FY13 conservative sales target. Full-year sales are expected to hit MYR1.8bn (9M13 sales: MYR1.1bn). Going into FY14, management expects another MYR1.8bn in sales – achievable in our opinion, given its carefully selected pipeline of projects amidst the challenging market conditions. Key developments slated for 2014 launches include Velocity Service Apartments (GDV: MYR250m), South Quay Service Apartments (MYR200m), Bukit Mertajam (MYR150m), Sunway Iskandar (MYR550m), China Tianjin (MYR300m) and Mount Sophia Singapore (MYR2bn).
- ◆ **Maintain BUY.** We make no changes to our earnings forecasts as the project is not expected to be launched next year. Due to the incremental value, we raise our FV slightly to MYR3.33 (from MYR3.30).

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	9.7	9.9	10.0
P/B (x)	1.31	1.14	0.96	1.03	1.09
Dividend Yield (%)	0.0	0.0	2.3	2.7	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: Location of the land



Source: Company

Figure 2: The factory on-site



Source: Company

Figure 3: Sunway's RNAV

Landbank	Size (acres)	GDV (MYR m)	Equity interest	NPV @ 13% (MYR m)	
Malaysia					
Sunway South Quay	52.0	3,893	60%	137.54	
Sunway Velocity	22.0	2,000	50%	68.74	
Sunway Damansara	18.0	826	60%	43.47	
Sunway Semenyih	398.0	729	70%	31.08	
Integrated Resorts	18.0	660	100%	44.78	
Melawati	31.0	555	100%	35.76	
Sunway Tower 1	1.0	240	100%	17.24	
Casa Kiara 3	3.0	230	80%	13.22	
Suria	14.0	60	100%	4.85	
Taman Duta	3.0	120	60%	5.52	
Penang	108.0	1,202	100%	87.85	
Paya Terubong land, Penang	24.5	1,500	100%	97.45	
Bukit Lenang JB	64.0	1,000	80%	58.29	
Iskandar Pendas I	779.1	10,000	60%	258.30	
Iskandar Pendas II	300.0	10,000	60%	382.56	
Sunway Iskandar	691.0	10,000	60%	309.44	
Ipoh	899.0	286	65%	10.52	
Others	12.0	38	77%	1.71	
Taman Equine	33.0	250	100%	14.89	
Bangi	3.0	59	100%	3.74	
Melawati 2	2.0	43	100%	2.46	
Sg Long Balakong	111.0	277	80%	12.04	
Mont Putra	163.0	156	100%	8.48	
Overseas					
Opus, India	35.0	750	50%	5.83	
MAK, India	14.0	134	60%	1.45	
Guanghao, China	17.0	450	65%	5.28	
Tianjin, China	102.0	5,000	60%	46.65	
Australia	91.0	612	31%	8.50	
Yishun, Singapore	7.0	851	30%	25.57	
Tampines, Singapore	5.0	1,070	30%	33.44	
Yuan Ching Rd, Singapore	5.0	828	30%	25.88	
Sembawang, Singapore	0.8	75	100%	10.55	
Thomson/Irrawaddy	1.7	2,288	30%	71.49	
Mount Sophia, Singapore	5.9	2,000	30%	61.57	
Sri Lanka	1.0	250	65%	1.56	
Pasir Ris, Singapore	4.3	893	30%	27.89	
Unbilled sales				253.00	
Subtotal				2,228.57	
Investment properties	EBITDA	Market value	Book value	Equity	Net surplus
	(MYR m)	(MYR m)	(MYR m)	interest	(MYR m)
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
Other divisions	Market value	Book value	FY14 EPS	PE target	Equity value surplus
	(MYR m)	(MYR m)	(sen)	(x)	(MYR m)
Construction			0.10	15	1,827.53
34% Sunway REIT	1,655.9	882.0			773.90
Subtotal					2,601.43
Total					4,830.00
Shareholders' equity					3,558.40
Total RNAV					8,388.40
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					10,395.88
Enlarged share base (mil)					2,185.23
Fully diluted RNAV per share					4.76
Discount					30%
Fair value (MYR)					3.33

Source: RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
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)
Gross profit	1,058	984	1,068	1,278	1,446
Gen & admin expenses	(661)	(785)	(775)	(987)	(1,167)
Other operating costs	195	172	212	148	153
Operating profit	592	371	504	439	431
Operating EBITDA	698	438	575	517	512
Depreciation of fixed assets	(105)	(67)	(71)	(78)	(81)
Operating EBIT	592	371	504	439	431
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
Pre-tax profit	717	507	728	759	858
Taxation	280	(99)	(129)	(190)	(214)
Minority interests	(309)	(38)	(67)	(167)	(189)
Profit after tax & minorities	688	370	532	402	455
Reported net profit	688	370	532	402	455
Recurring net profit	325	326	351	402	455

Source: Company data, RHB estimates

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

Source: Company data, RHB estimates

Financial Exhibits

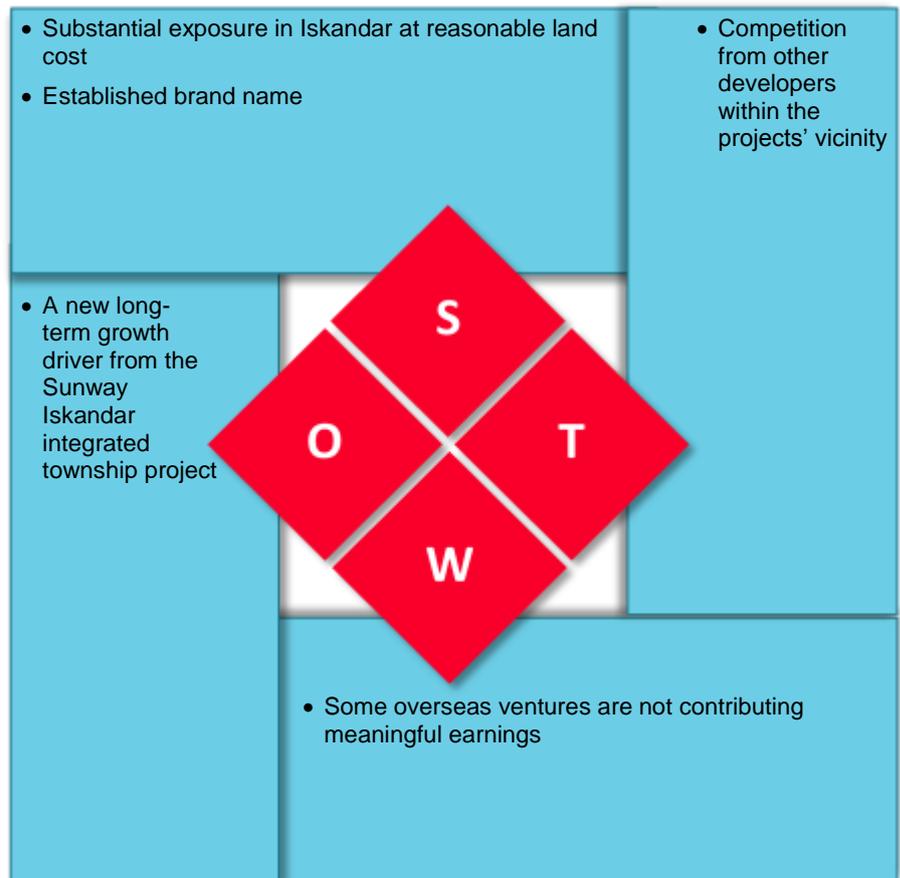
Balance Sheet (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	881	784	1,140	1,077	1,033
Inventories	932	1,101	1,226	1,429	1,646
Accounts receivable	1,143	1,096	1,400	1,642	1,915
Other current assets	55	58	48	48	48
Total current assets	3,011	3,039	3,814	4,196	4,642
Tangible fixed 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
Total assets	7,025	7,815	8,745	9,735	10,770
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
Total current liabilities	1,953	2,260	2,419	2,803	3,209
Total long-term debt	1,824	1,963	1,964	2,106	2,231
Other liabilities	264	278	493	493	493
Total non-current liabilities	2,087	2,241	2,458	2,600	2,724
Total liabilities	4,040	4,501	4,876	5,403	5,933
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
Shareholders' equity	2,599	2,983	3,558	3,855	4,172
Minority interests	386	331	310	477	666
Total equity	2,984	3,314	3,868	4,332	4,838
Total liabilities & equity	7,025	7,815	8,745	9,735	10,770

Source: Company data, RHB estimates

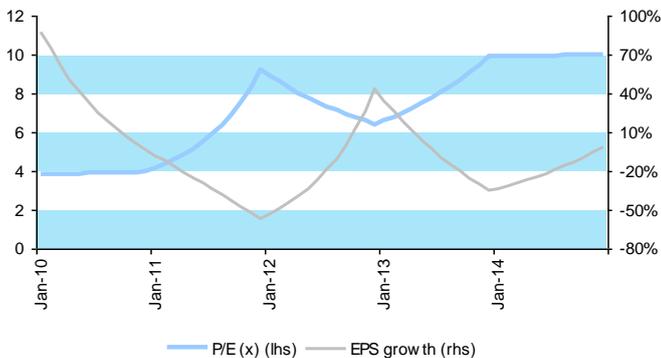
Key Ratios (MYR)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	95.8	19.3	3.7	14.7	18.3
Operating profit growth (%)	60.3	(37.3)	35.8	(13.0)	(1.7)
Net profit growth (%)	27.9	(46.3)	44.0	(24.4)	13.0
EPS growth (%)	(3.6)	(57.0)	43.8	(35.2)	(1.1)
Bv per share growth (%)	(27.7)	14.5	19.3	(7.1)	(5.3)
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

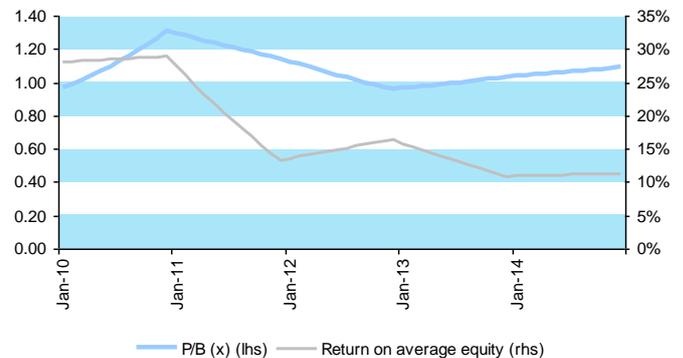


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE

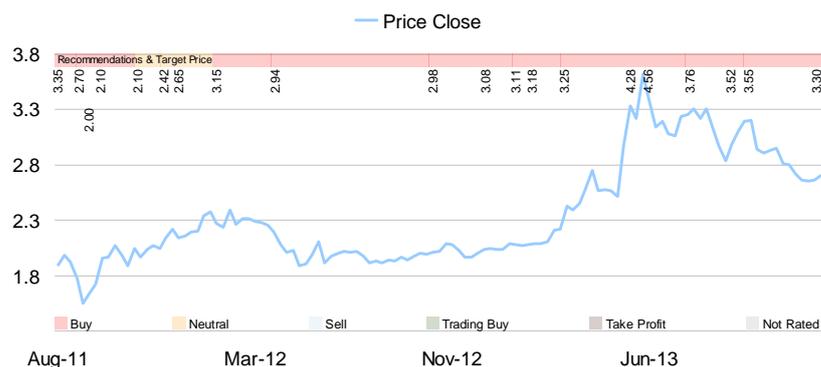


Source: Company data, RHB estimates

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
2013-12-02	Buy	3.30	2.55
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

Source: RHB estimates, Bloomberg

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