NOMURA

Sunway Bhd SWAY.KL SWB MK

EQUITY: PROPERTY

Preferred pick for Iskandar exposure

Diversification benefits during slowdown; unlocking value by monetising assets

Action: Our preferred Iskandar play with diversified earnings base

We initiate coverage of Sunway with a Buy rating and 19% potential upside. We like Sunway Bhd because it has: 1) a vertically integrated but diversified business model with growing construction and property investment segments (each ~20% of earnings); 2) asset monetisation opportunities through multiple avenues, eg, listing of the construction business and injection of assets into the separately listed REIT; and 3) a compelling and differentiated offering in Iskandar Malaysia, which should drive future earnings for the staple property business, once sentiment turns positive again. Sunway is our preferred way to play the longer-term Iskandar story, as we believe its relatively low cost in its Iskandar landbank at blended cost of MYR 17 psf, good location, and its integrated resort-city offering (with a 40% commitment to green spaces) indicate that the project will be successful. Its award-winning construction segment should also enable it to benefit from the ETP-related infrastructure spending (we estimate annual orderbook replenishment of MYR1.5bn, with big project awards on the horizon), and its Klang Valley property projects should sell well given their proximity to public transport infra (eg MRT/LRT/BRT).

Valuation: 40% discount to property-RNAV, implied P/B of 1.2x

We value Sunway on a 40% discount to its RNAV derived TP, in line with UEMS, due to its similar Iskandar exposure. Our TP implies a target P/B of 1.2x (BVPS of MYR3.5) for FY15F, vs the property sector average of 1.3x. In our opinion, Sunway's discount to RNAV will narrow as the group monetises its non-REIT property investments by injecting them into Sunway REIT, the listing of its construction business, and continued sales in Sunway Iskandar.

Catalysts: Construction awards, no further cooling measures, recovery of property market in Malaysia, listing of SunCon and special dividend

Year-end 31 Dec	FY13		FY14F		FY15F		FY16F
Currency (MYR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	4,515	N/A	4,539	N/A	5,498	N/A	4,769
Reported net profit (mn)	1,490	N/A	490	N/A	542	N/A	533
Normalised net profit (mn)	484	N/A	490	N/A	542	N/A	533
Normalised EPS	30.69c	N/A	28.40c	N/A	31.46c	N/A	27.56c
Norm. EPS growth (%)	28.6	N/A	-7.5	N/A	10.8	N/A	-12.4
Norm. P/E (x)	11.5	N/A	12.5	N/A	11.3	N/A	12.8
EV/EBITDA (x)	9.2	N/A	11.0	N/A	10.8	N/A	10.2
Price/book (x)	1.1	N/A	1.1	N/A	1.0	N/A	1.0
Dividend yield (%)	2.8	N/A	2.4	N/A	2.7	N/A	2.3
ROE (%)	34.9	N/A	8.9	N/A	9.3	N/A	7.9
Net debt/equity (%)	25.0	N/A	36.3	N/A	44.5	N/A	26.1

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart

Global Markets Research

29 September 2014

Rating Starts at	**Buy**
Target price Starts at	MYR 4.20
Closing price 24 September 2014	MYR 3.54
Potential upside	+18.6%

Anchor themes

With a young demographic, ongoing investment in public transport, and proximity to Singapore, we are structurally bullish on Malaysian property. However, for the next 6-12 months, we recommend selective exposure to large-cap stocks given the slowdown expected in property sales, and higher inventory.

Nomura vs consensus

Our TP is higher than consensus as we are more bullish on monetising asset values, eg, construction.

Research analysts

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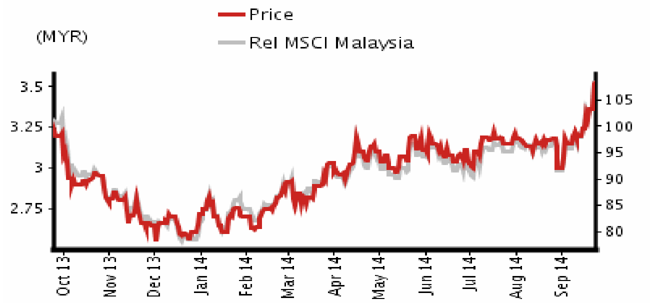
Key data on Sunway Bhd

Relative performance chart



Source: Thomson Reuters, Nomura research

Notes:

Performance

(%)	1M	3M	12M		
Absolute (MYR)	11.7	14.6	10.3	M cap (USDmn)	1,883.8
Absolute (USD)	8.9	13.6	9.4	Free float (%)	35.9
Rel to MSCI Malaysia	12.9	16.8	8.9	3-mth ADT (USDmn)	0.7

Income statement (MYRmn)

Year-end 31 Dec	FY12	FY13	FY14F	FY15F	FY16F
Investment properties					
Property development					
Hotels/serviced apartments					
Other Revenue	3,849	4,515	4,539	5,498	4,769
Revenue	3,849	4,515	4,539	5,498	4,769
EBIT contributions					
Investment properties					
Property development					
Hotels/serviced apartments					
Other income	382	452	521	576	535
Management expenses					
EBITDA	520	590	617	678	642
Dep and amort	-138	-137	-97	-101	-107
EBIT	382	452	521	576	535
Net interest expense	-77	-46	-6	-25	-38
Associates & JCEs	220	256	156	176	192
Other income					
Earnings before tax	524	662	671	727	689
Income tax	-121	-128	-135	-145	-130
Net profit after tax	403	535	536	583	558
Minority interests	-53	-51	-46	-40	-26
Other items					
Preferred dividends					
Normalised NPAT	351	484	490	542	533
Extraordinary items	88	1,006	0	0	0
Reported NPAT	439	1,490	490	542	533
Dividends	-78	-172	-147	-163	-177
Transfer to reserves	361	1,318	343	380	356

Valuations and ratios

	FY12	FY13	FY14F	FY15F	FY16F
Reported P/E (x)	11.8	3.7	12.5	11.3	12.8
Normalised P/E (x)	14.8	11.5	12.5	11.3	12.8
FD normalised P/E (x)	14.8	11.6	13.6	12.3	12.8
Dividend yield (%)	1.5	2.8	2.4	2.7	2.3
Price/cashflow (x)	9.2	5.1	12.9	10.8	13.7
Price/book (x)	1.6	1.1	1.1	1.0	1.0
EV/EBITDA (x)	15.8	9.2	11.0	10.8	10.2
EV/EBIT (x)	19.4	10.9	12.6	12.2	11.7
EBIT margin (%)	9.9	10.0	11.5	10.5	11.2
Effective tax rate (%)	23.1	19.3	20.1	19.9	18.9
Dividend payout (%)	17.7	11.6	30.0	30.0	33.2
ROA (pretax %)	5.7	6.8	6.6	6.5	5.8

Source: Company data, Nomura estimates

Cashflow statement (MYRmn)

Year-end 31 Dec	FY12	FY13	FY14F	FY15F	FY16F
EBITDA	520	590	617	678	642
Change in working capital	-254	97	-117	-68	-164
Other operating cashflow	302	407	15	7	23
Cashflow from operations	567	1,093	516	616	501
Capital expenditure	-212	-217	-197	-201	-207
Free cashflow	355	877	319	415	295
Reduction in investments	-203	-455	-724	-724	-274
Net acquisitions					
Dec in other LT assets	43	-25	0	0	0
Inc in other LT liabilities	-111	78	0	0	0
Adjustments	-103	-266	-156	-176	-192
CF after investing acts	-19	209	-561	-486	-171
Cash dividends	-182	-344	-160	-155	-170
Equity issue	0	733	0	0	1,079
Debt issue	741	-222	200	500	0
Convertible debt issue					
Others	-180	-124	0	0	0
CF from financial acts	379	42	40	345	910
Net cashflow	359	251	-521	-140	738
Beginning cash	838	1,197	1,449	928	788
Ending cash	1,197	1,449	928	788	1,526
Ending net debt	3,426	1,332	2,053	2,693	1,955

Balance sheet (MYRmn)

As at 31 Dec	FY12	FY13	FY14F	FY15F	FY16F
Cash & equivalents	1,197	1,449	928	788	1,526
Properties held for sale	0	9	9	9	9
Accounts receivable	1,333	1,234	1,239	1,476	1,296
Other current assets	1,953	2,157	2,278	2,528	2,554
Total current assets	4,484	4,848	4,454	4,800	5,384
Investment properties	4,779	1,803	2,527	3,251	3,526
Other fixed assets (net)	2,170	1,761	1,861	1,961	2,061
Associates	571	2,305	2,461	2,637	2,829
Other LT assets	360	384	384	384	384
Total assets	12,364	11,102	11,688	13,034	14,184
Short-term debt	2,947	1,990	1,990	1,990	1,990
Accounts payable	1,845	1,971	1,981	2,400	2,082
Other current liabilities	30	113	113	113	113
Total current liabilities	4,821	4,074	4,084	4,503	4,185
Long-term debt	1,677	790	990	1,490	1,490
Convertible debt					
Other LT liabilities	514	592	592	592	592
Total liabilities	7,012	5,456	5,666	6,585	6,267
Minority interest	2,136	317	363	404	429
Preferred stock					
Shareholders' Equity	3,671	4,404	4,404	4,404	5,483
Other equity and reserves	-456	925	1,255	1,642	2,005
Total shareholders' equity	3,215	5,328	5,658	6,046	7,488
Total equity & liabilities	12,364	11,102	11,688	13,034	14,184
Leverage					
Interest cover	4.96	9.81	90.22	23.03	14.03
Gross debt/prop assets (%)	37.4	25.0	25.5	26.7	24.5
Net debt/EBITDA (x)	6.6	2.3	3.3	4.0	3.0
Net debt/equity (%)	106.6	25.0	36.3	44.5	26.1
Growth (%)					
Revenue		17.3	0.5	21.1	-13.3
EBITDA		13.5	4.7	9.8	-5.3
EBIT		18.6	15.1	10.7	-7.1
Normalised EPS		28.6	-7.5	10.8	-12.4
Normalised FDEPS		27.6	-14.8	10.8	-4.2
Dupont decomposition					
Net margin (%)	11.4	33.0	10.8	9.9	11.2
Asset utilisation (x)		0.4	0.4	0.4	0.4
ROA (%)		12.7	4.3	4.4	3.9
Leverage (Assets/Equity x)		2.7	2.1	2.1	2.0
ROE (%)		34.89	8.91	9.27	7.87
Per share					
Reported EPS (MYR)	29.88c	94.51c	28.40c	31.46c	27.56c
Norm EPS (MYR)	23.87c	30.69c	28.40c	31.46c	27.56c
FD norm EPS (MYR)	23.87c	30.47c	25.97c	28.77c	27.56c
BVPS (MYR)	2.16	3.09	3.28	3.51	3.50
DPS (MYR)	0.05	0.10	0.09	0.09	0.08

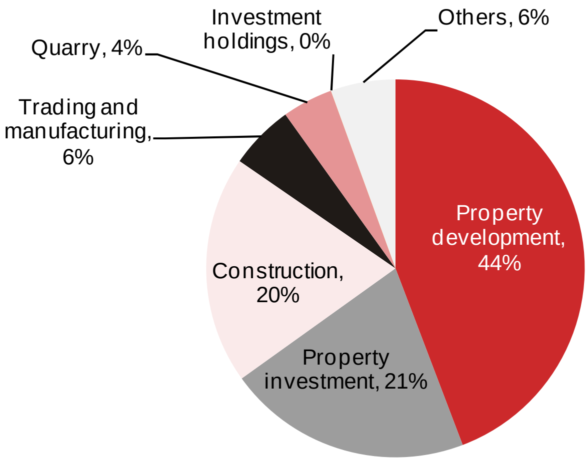
Source: Company data, Nomura estimates

Diversified exposure to help tide over slowdown

Diversified earnings to protect against slowdown in property

We have a positive view on Sunway because of its vertically integrated business model and multiple earnings streams, especially in the current environment where property sales momentum might take a breather. We believe Sunway's other businesses, eg, construction and property investment, will continue to support its earnings in the coming months. In addition, over the next few years, Sunway has indicated that it is looking to unlock the value of new property investment assets, by injecting them into the separately listed Sunway REIT (SREIT MK, Not Rated), along with the listing of the construction division, SunCon, which should help the market recognise the value for these assets and ascribe a higher multiple to the group, in line with a narrower RNAV discount.

Fig. 141: Segmental PBT breakdown: 2013



Source: Company data, Nomura research

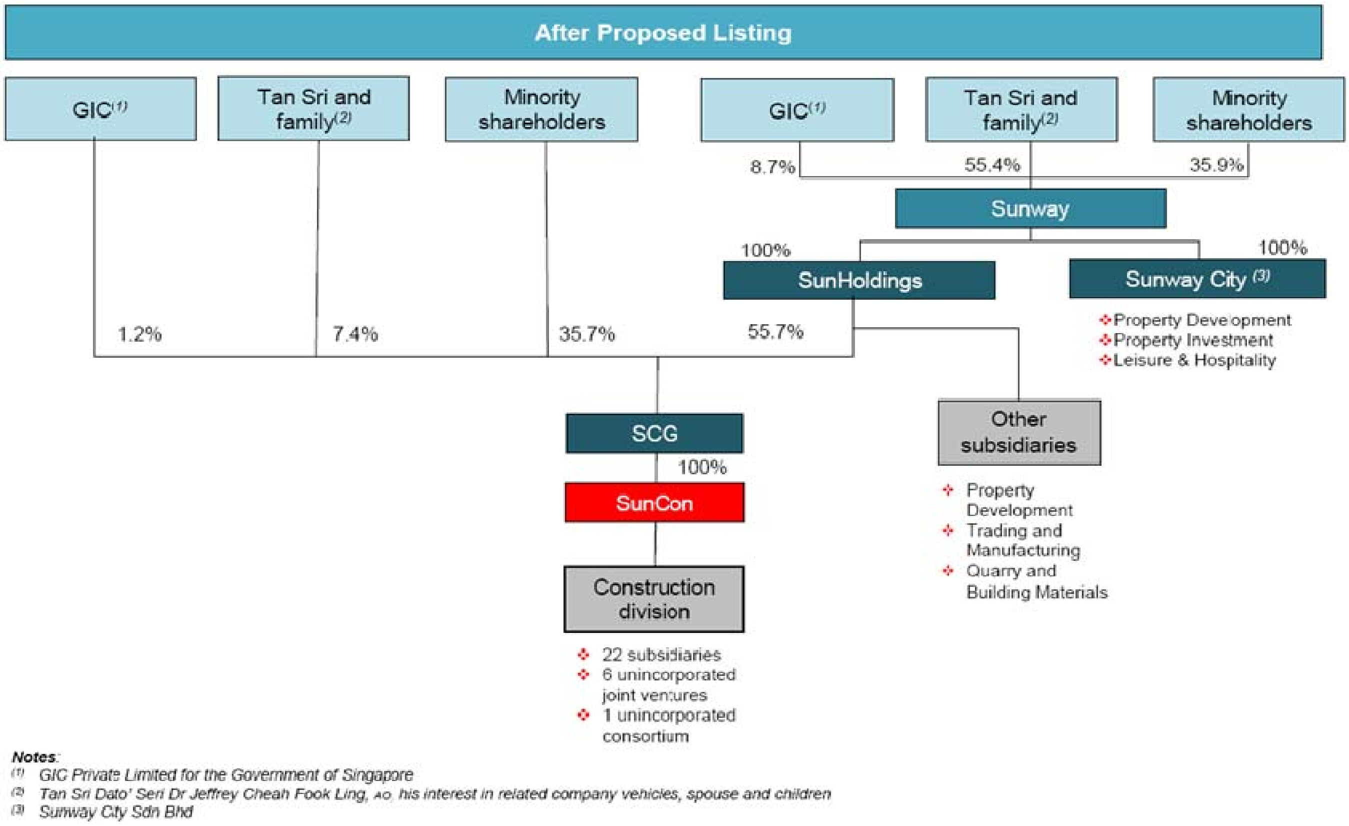
Construction division listing to be another catalyst along with possibility of special dividend of ~20+ sen/share

On 19 Sep, Sunway also announced that it intends to list its construction division (SunCon) on Bursa Malaysia to unlock the segment's value by 2Q15. The listing will involve the following:

- Proposed Distribution-in-Specie of 13.3% of issued and paid up share capital of SCG to existing shareholders of Sunway Bhd (1 SCG share for 10 SWB shares).
- Proposed Offer for Sale of 31.0% of issued and paid up share capital to Institutional & Retail Investors
- Sunway Bhd to retain control of 55.7% of SCG after proposed listing (before over-allotment option)

The funds raised at SWB level will be paid out substantially as a special dividend to SWB shareholders. We are positive on the corporate exercise as it can: 1) help SWB become more palatable to property funds which are looking for a more focused company in which to invest; 2) increase valuation for the group by narrowing the conglomerate discount. Based on the 1H14 net income of MYR50mn for SunCon, annualised FY14F profit will be ~MYR100mn and assuming a potential listing at a P/E of 13-15x, the market cap of SunCon will be ~MYR1.3-1.5bn. This implies that the total amount to be distributed as special dividend will be ~MYR400-450mn, which implies a special dividend per share of ~23-27 sen per share.

Fig. 142: Sunway Corporate Structure post SunCon listing(before over-allotment option)

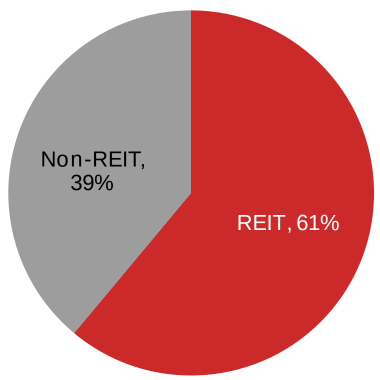


Source: Company data

Property Investment: majority of earnings to come from stable REIT assets

Property investment contributed 19% to the group's FY13 PBT; in FY14F it should contribute 21%, of which 61% will be from stable REIT assets. Sunway Putra Mall, which is closed for refurbishment, is scheduled to open in 3Q15 with occupancy levels to reach above 70%, as per management. Thus, SREIT earnings should improve further after the full impact from Sunway Putra mall is seen from FY16F. Injection is always a possibility as the group still has MYR1bn of investment properties ready for injection at any time.

Fig. 143: FY14F PBT from property investment – 60% from REIT



Source: Company data, Nomura estimates

Fig. 144: REIT and Non-REIT assets

REIT assets	Non-REIT assets
Retail	Monash University
Sunway Pyramid Shopping Mall	Sunway University
Sunway Carnival Shopping Mall	Monash U Residence
SunCity Ipoh Hypermarket	Sunway Pinnacle
Sunway Putra Mall	Sunway Giza Mall
Office	Sunway Hotel Georgetown
Menara Sunway	Lost World Hotel
Sunway Tower	Sunway Hotel Phnom Penh
Sunway Putra Tower	Sunway Hotel Hanoi
Hotel	Sunway Lagoon
Sunway Resort Hotel & Spa	Lost World of Water Park
Pyramid Tower Hotel	
Sunway Hotel Seberang Jaya	
Sunway Putra Hotel	
Other	
Sunway Medical Centre	

Source: Company data, Nomura research

Sunway Iskandar: cheap land cost and eco-themed landed development to be driver for longer-term growth

Aside from UEM Sunrise, Sunway Group is one of the key domestic developers with a sizeable exposure to Johor (Iskandar Malaysia), which the group has made a key pillar for future growth. The group has invested a big sum of money (see below), building up a contiguous landbank in coastal Iskandar, around the Pendas river, close to the Tuas second link. The total landbank now spans ~1,700 acres, and the projected 15 year GDV is ~MYR30bn – making it the biggest constituent of Sunway's landbank. As well, the Iskandar land Sunway is sitting on is relatively inexpensive (as compared to some of recent purchases of land in Johor by Chinese developers), which should enable it to stick to their 1x plot ratio and 40% green space commitment. The result will be an eco-themed integrated resort city, on the lines of its Sunway Resort City in Klang Valley, complete with education hub, theme park, and malls.

We believe Sunway Iskandar stands a strong likelihood of success over the medium – long term due to Sunway's proven track record, lower cost of land which gives it the edge in pricing and margins, integrated development which would imply better standard of product offering and the green space commitment. Note that Sunway Iskandar comprises ~10% of our total TP for the company.

Fig. 145: Sunway Iskandar development

Location	Medini Iskandar	Pendas, Johor
Area	691 acres (280 ha)	1,079 acres (437 ha)
Purchase consideration	- 99 yr lease: Up to MYR 745.3mn - 30 yr lease ext: MYR 74.5mn (10%) - MYR 27.23 psf	- Up to MYR 503.4mn - MYR 10.71 psf
Tenure	129 years lease	Freehold
Potential Development and GDV	Mixed integrated development Potential GDV: MYR 12bn over 10 years	Mixed integrated development Potential GDV: MYR 18bn over 15 years

Source: Company data, Nomura research

Fig. 146: Sunway Iskandar master plan

Source: Company data, Nomura research

Initial launch of Sunway Citrine 100% sold

Sunway unveiled the master plan for Sunway Iskandar in June 2014, along with launching its Sunway Citrine Phase 1 development, with 167 units of designer offices which were 100% taken up. The 328 units of Serviced apartments are due for launch in 2H14.

Fig. 147: Sunway Citrine

Citrine - Sunway Iskandar Phase 1		
GDV	MYR 300mn	
Type	Office	Svc Apt
No. of units	167	328
Launch date	July 2014	Q3 2014
Bookings	100%	NA
Property Investment	Retail (51 units)	

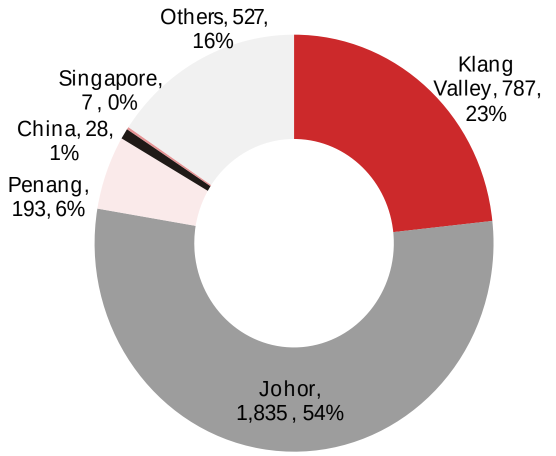
Source: Company data, Nomura research

Property development benefits from transport projects in Klang Valley and cheap land in Iskandar

Sunway has exposure to both Klang Valley and Iskandar…

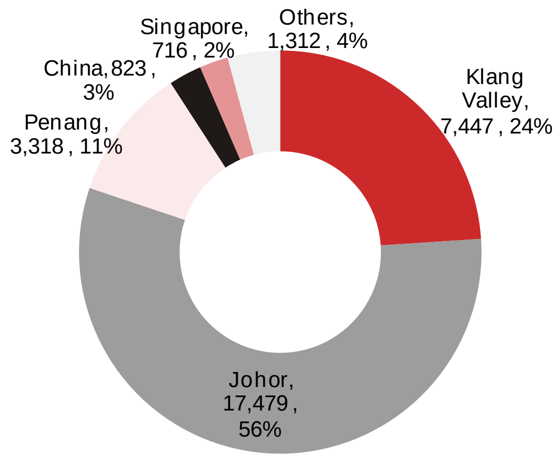
Sunway's property development business, which is its largest segment, accounting for 52% of FY13 earnings (PBT), is diversified across Malaysia, with ~55-60% of its roughly ~3400 acre landbank (and GDV) in the Iskandar Malaysia, and another 20% in the Klang Valley. Its current GDV of MYR50bn (stake adjusted for SWB: MYR31bn) is sufficient to last it for the next 15-20 year period, as per management. It also has a small presence in Penang, and niche developments in China and Singapore, which are promoted as eco-friendly and medical developments respectively, and have seen steady sales momentum.

Fig. 148: Landbank (acres) distribution by geography as of June 2014



Source: Company data, Nomura research

Fig. 149: Effective GDV (MYR mn) distribution by geography as of June 2014



Source: Company data, Nomura research

Fig. 150: Sunway: Remaining landbank as at June 2014

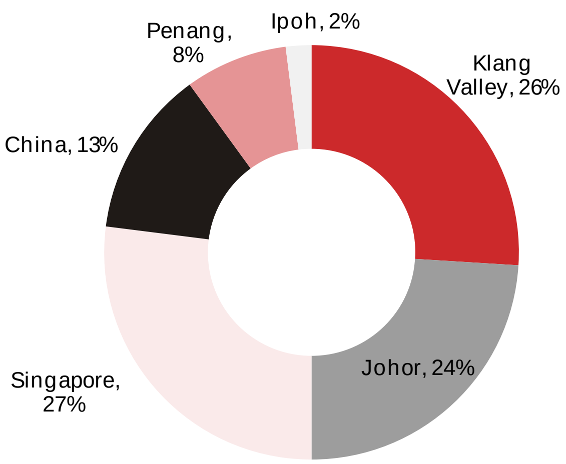
Remaning landbank as at Jun'14	
Total landbank	3,376 acres
Total GDV	MYR 50.1bn
Effective GDV	MYR 31.1bn
Development Period	up to 15 years

Source: Company data, Nomura research

85% of 2014 launches to be priced below MYR1mn

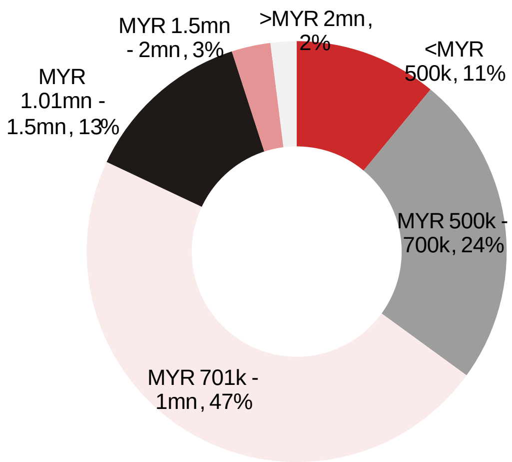
Roughly 85% of 2014 launches will be priced below MYR1mn, which implies that they lie in the mid-tier pricing sweet spot, and should be more affordable to consumers – implying better take-up rates. Roughly 25% of new launches by value will be in Klang Valley, Singapore and Iskandar each, suggesting a fairly even geographical spread.

Fig. 151: Distribution of property launches by geography for FY14F



Source: Company data, Nomura research

Fig. 152: Distribution of property launches by price points for FY14F



Source: Company data, Nomura research

1HFY14: new property sales of MYR807mn (unbilled sales of MYR2.4bn)

New property sales momentum for Sunway in 1H14 remained healthy, with new sales of MYR807mn (eff: MYR628mn) which brings unbilled sales to MYR2.4bn (eff: MYR1.9bn), or 2x its annual property development revenue. This is tracking well compared to its full-year target of MYR1.8bn (eff MYR1.3bn), with the bulk of new property sales comprising of Sunway Velocity, Sunway Geo, and Penang and Singapore projects. New launches for 1H14 are MYR1.15bn. Additionally, take-ups for the Geo2 serviced apartments (GDV MYR210mn, 318 units) are 70% sold, and Citrine (GDV: RM73mn, 167 units) are 100% sold in July.

Fig. 153: Property sales in 1H14

MYR mn	Sales for 1H14	Effective sales for 1H14
Velocity	210	179
Montana	70	70
Geo Residences	171	69
Eastwood	50	50
South Quay	45	27
Vivaldi	22	19
Damansara	24	15
Others	35	27
Johor	33	27
Penang	70	70
Singapore	76	76
Total	**807**	**628**

Source: Company data, Nomura research

Sunway Velocity: MRT proximity creating strong demand

Sunway Velocity, a MYR3bn mixed development, spread over 19 acres, is capitalising on the proximity to the MRT Line (close to the Cochrane/Maluri stations) approx 4km from KLCC. In addition, it is designed as an integrated city with a 1.4mn NLA shopping mall, which has meant strong demand to the property launches.

Fig. 154: Sunway velocity project details

Sunway Velocity

GDV: MYR 3bn
Area 19 acres

	GDV (MYR mn)	Take-up
V-Residences 2	270	62% (+16% bookings)
V-Designer Suites	251	99%
V-Retail & Office	175	100%
V-Residences	245	99%

Source: Company data, Nomura research

Sunway South Quay: benefits from the established Sunway Resort City

Sunway South Quay, located in Bandar Sunway, is an integrated township which stands to benefit from the surrounding established amenities, and integrated transport project like the Bus Rapid Transit (BRT) and the an LRT extension station, along with presence of highways. Sunway South Quay is spread over an area of 49 acres with a GDV of MYR4bn, with Sunway Geo (condos, shops and flexi suites) showing strong sales momentum. For the 1HFY14, sales at Geo Residences+South Quay stand at MYR216mn.

Fig. 155: Sunway Quay project details

Sunway South Quay			
	Type	Take up/ Bookings	GDV (MYR mn)
Sunway Geo			
Sunway Geo Residences	Condo	82%	400
Sunway Geo Residences 2	Svc Apartment	70%	210
Phase 1	Retail	97%	480
Phase 2	Retail	78% (inc bookings 90%)	
Phase 1	Flexi Suites	85%	200
Phase 2	Flexi Suites	89%	
Other Residences			
A'Marine		95%	240
LaCosta		89%	403
Nautica		100%	171
Bayrocks		80%	434

Source: Company data, Nomura research

Other projects also seeing good take-ups

- Nexis at Sunway Damansara, with a GDV of MYR1.7bn spread over 15 acres has seen take ups of 80-90%+, and is also located near the Dataran Sunway MRT Station.
- Singapore sales targeted for 2H14 are at Mount Sophia (low rise condominiums) and at Avant Parc Sembawang.
- China will see the launch of Tianjin project in 2H14.

Fig. 156: Singapore property developments (as of June 2014)

	Royal Square @Novena	Mount Sophia	Avant Parc, Sembawang
Location	Novena MRT	Dhoby Ghaut MRT	Sembawang
GDV	SGD 776mn (excl hotel)	SGD 822mn	SGD 35mn
Type	Medical Suites, Hotel & Retail	Low rise Condominium	3-storey terrace
Units	Medical Suites - 171, Retail - 51	487	15
Launch	Oct-13	Q3 2014	Q3 2014
Take-up	Medical Suites (50%), Hotel (en bloc), Retail (55%)		
Project Attraction	Novena is zoned as the medical hub of Singapore	Located 10 mins walk from Orchard and the Istana	One of few landed residential developments in Singapore

Source: Company data, Nomura research

Fig. 157: China property developments (as of June 2014)

	Tianjin
GDV	MYR 90mn
Type	Condominium
Units	168
Launch	2H 2014
Stake	Sunway (60%), SSTEC (40%)

Source: Company data, Nomura research

Fig. 158: New land bank in Penang (as of June 2014)

New land bank in Penang	
Location	- Along Jalan Paya Terubong - 5 mins from Kek Lok Si Temple - 15 mins from Penang Airport & Penang
Total Land size	24.458 acres (1,065,390 sqft)
Purchase Price	MYR 267.4 mn (MYR 251 psf)
Tenure	Freehold
Total GDV	~MYR 1.5bn
Proposed	Commercial shops, SOHO and high-rise
Development Mix	50% Residential: 50% Commercial

Source: Company data, Nomura research

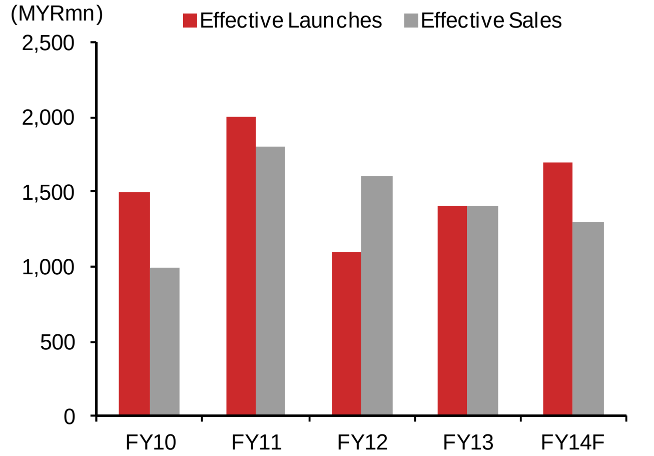
Putting it together: MYR1.3bn sales targets on MYR1.7bn launches in FY14F, but margin dip due to GST

Overall, management stated that it is targeting MYR1.7bn in effective launches in FY14F, and a slight moderation in sales to MYR1.3bn (eff). Thus, we forecast MYR1.3bn sales in FY15F as well, as market absorbs the impact of GDV, before growing to MYR2bn in FY16F as property demand is expected to return.

However, we assume that property development margins will take a hit in FY15F/16F as developers recognise revenues from projects sold prior to April 2015, but have not priced in the impact of GST (ie, current unbilled sales). We assume blended PBT margins to fall from 20% in FY14F to 18% in FY16F and then recover as unbilled sales are recognised and new sales (which are pricing in the GST impact) rise.

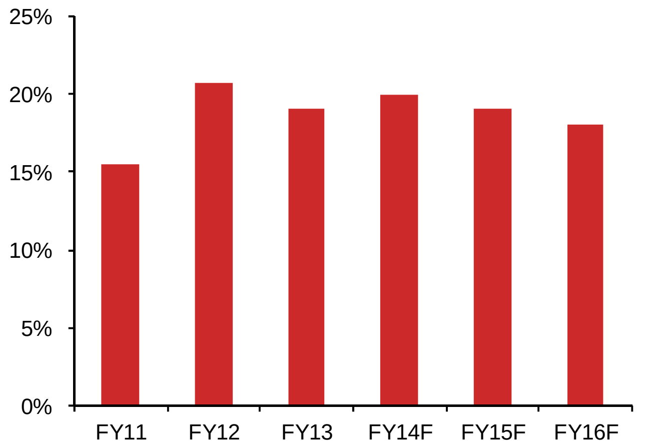
Fig. 159: Effective launches and sales

2014: Management's target



Source: Company data, Nomura research; management estimate for FY14

Fig. 160: PBT margins (ex JV+Associate)



Source: Company data, Nomura estimates

Fig. 161: Company's launch and NMR's sales target for FY14F

MYR mn	FY14F launches (Company's target)	FY14F sales (NMR targets)
Sunway Velocity Residences	250	200
Sunway South Quay Service Apartment	200	160
Citrine, Sunway Iskandar	300	240
Sunway Wellesley, Penang	100	80
Mount Sophia, Singapore	600	480
Tianjin	200	160
Total launches for year	**1,650**	**1,320**

Source: Company data, Nomura research

Construction: good track record implies high likelihood of future packages

Sunway has a solid track record in construction projects, and managed to secure MYR4bn new projects in 2012-13, which included the V4 package from MRT Line 1, which it is currently working on. Another key project was the Bus Rapid Transit Sunway Line (MYR452mn) and the LRT Kelana Jaya extension package B, worth MYR569mn. These public infrastructure projects imply that Sunway has a strong likelihood of winning portions of future construction packages, like MRT Line 2 / 3, along with other residential / commercial buildings (eg its current KLCC projects).

We also expect construction margins to rebound in FY14F, normalising from a one-off provisions in FY13. Overall we estimate construction PBT to grow to 8.5% in FY14F and to 7% in FY15F, owing to a faster pace of recognition as progress billings reach higher completion rates.

We are also building in new external project awards of MYR1.5bn in FY14F-16F, mainly premised on the high infrastructure capex due to ETP, and Sunway's tenderbook of MYR 3bn+. Current orderbook is MYR3.5bn, (73% external). We expect one or two big project awards in the 4Q14 period to be another catalyst for the stock.

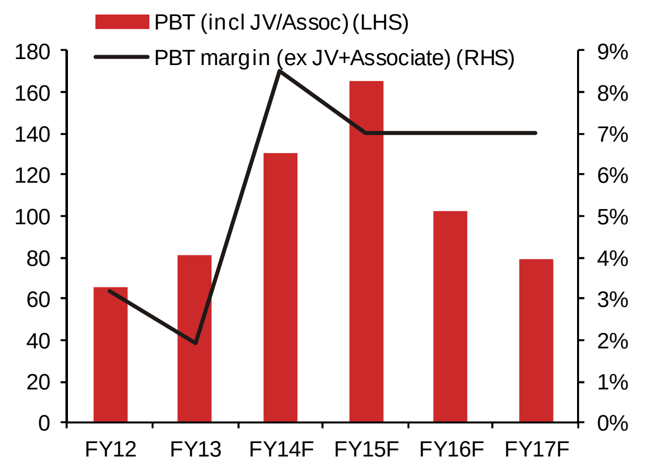
Fig. 162: Construction order book as at June 2014

	Contract Sum (MYR mn)	Outstanding order book (MYR mn)
Infrastructure		
MRT Package V4 (Sec 17 to Semantan)	1,173	693
LRT Kelana Jaya Line Extension (Package B)	569	219
BRT Sunway Line	452	260
Johor		
Urban Wellness Centre	283	229
Others		
KLCC NEC	304	245
KLCC Package 2 (Piling & Substructure)	222	173
Others	770	258
Internal		
Sunway Velocity mall (Substructure)	291	41
Sunway Velocity Phase 2 (Substructure)	179	23
Sunway University New Academic Block	192	94
Sunway Putra Place	258	93
Sunway Pyramid 3	203	170
Sunway Medical Centre Phase 3	178	178
Sunway Geo Retail Shops & Flexi Suites	153	153
Sunway iskandar - Citrine Service Apartments	200	189
Singapore		
Precast	812	460
Total	**6,239**	**3,478**

Orderbook replenishment (NMR's target)	MYR mn
FY14F	1,500
FY15F	1,500
FY16F	1,500

Source: Company data, Nomura research

Fig. 163: Construction PBT and margins



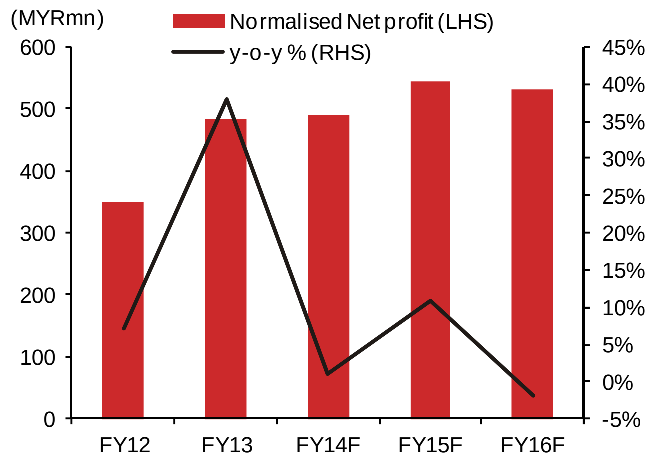
Source: Company data, Nomura estimates

Net income to show 6% CAGR over FY13-15F

In our opinion, the current level of unbilled sales and external orderbook are sufficient to support a net income expansion of 6% CAGR over FY13-15F. We think FY16F earnings may take a dip slightly due to PBT margin pressures on GST implementation, but will rebound again thereafter. We think property will continue to be the major contributor to earnings (44% of FY14F PBT).

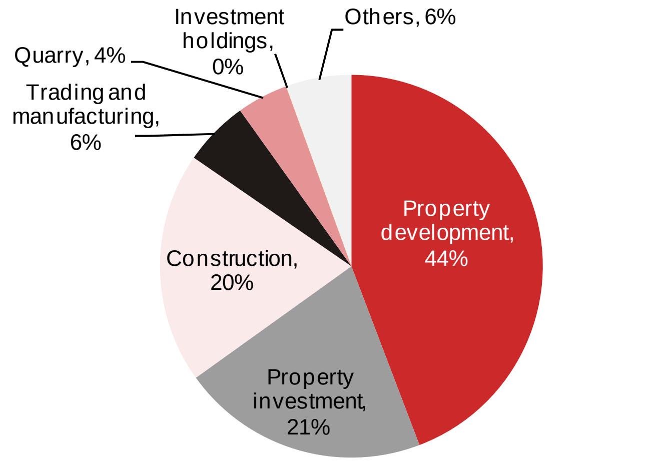
We are roughly in line with consensus on our FY14-15F earnings, but 4% lower on FY16F earnings due to GST impact, which, in our view, consensus has not yet built in.

Fig. 164: Net profit to see 6% CAGR over FY13-15F



Source: Company data, Nomura research

Fig. 165: PBT contribution: FY14F



Source: Company data, Nomura research

Fig. 166: Nomura vs Consensus

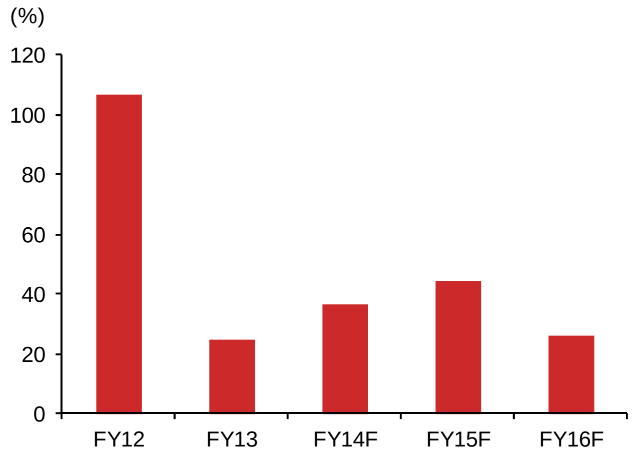
MYR mn	Nomura			Consensus			Nomura vs Consensus		
	FY14F	FY15F	FY16F	FY14F	FY15F	FY16F	FY14F	FY15F	FY16F
Revenue	4,539	5,498	4,769	5,091	5,418	5,416	(11%)	1%	(12%)
Adj EBITDA	617	678	642	687	733	732	(10%)	(8%)	(12%)
Adj PBT	671	727	689	717	774	765	(6%)	(6%)	(10%)
Normalised Net income	490	542	533	496	540	553	(1%)	0%	(4%)

Source: Bloomberg, Nomura estimates

Strengthened by rights issue, gearing to remain steady

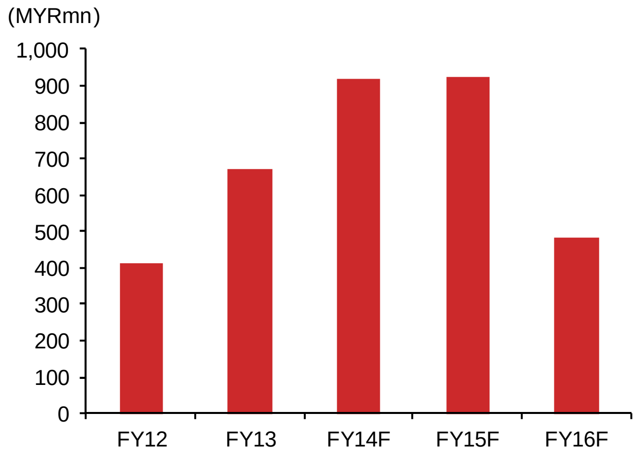
- After the MYR732mn rights issue in FY13, net gearing for the group (net debt-to-equity) came down from >100% in FY12 to 25% in FY13. In our opinion, this should be enough to support the group's capex needs (mainly in its property investment division) over FY14-16F.
- We forecast total capex and investments of MYR2.3bn over FY14-16F. We are only building in MYR100mn in landbanking each year, but the group might also be looking at other bigger landbanks at the right prices.
- RoEs for the group should remain at the 9% levels over the next few years, as per our estimates.

Fig. 167: Sunway: Net gearing



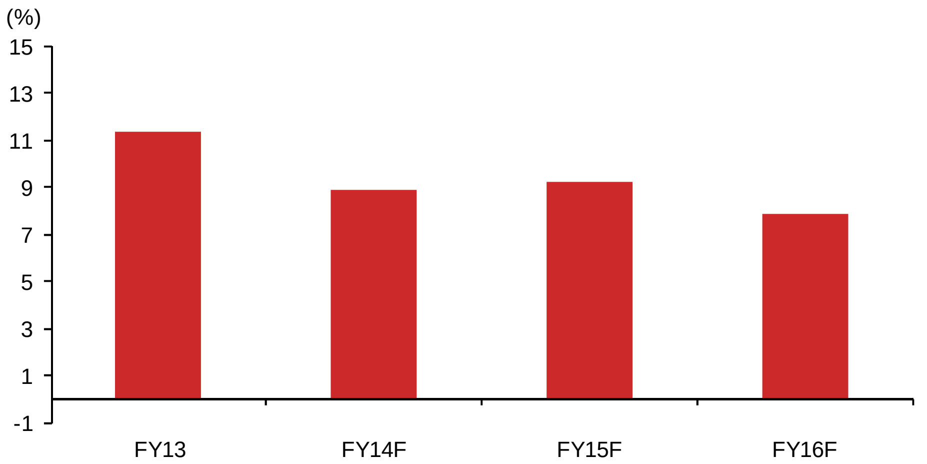
Source: Company data, Nomura estimates

Fig. 168: Sunway: Capex



Source: Company data, Nomura estimates

Fig. 169: Sunway: ROE



Source: Company data, Nomura estimates

Valuation: 40% discount to property RNAV to capture Iskandar exposure

SOTP derived price target at a 40% discount to RNAV

We value the group based on SOTP derived RNAV.

- We value the property development business using DCF of future profits from all the projects and unbilled sales. We use a discount rate (cost of equity) of 10.1% for Malaysia, 11.1% for Singapore, 16.4% for China, 12.9% for India and 12.1% for Australia projects. To that we add the book value of property development to derive the NAV from property development business.
- We value construction business at 15x FY15F P/E which is Malaysia construction sector average multiple, given its award-winning construction segment.
- REIT arm of property investment is valued at market value while the non-REIT assets are valued at carrying value.
- We value other businesses at 10x FY15F P/E (historical average).

We sum the values from all business to derive the group's RNAV and add cash from warrants and ESOS to reach a fully diluted RNAV of MYR11.6bn.

To that we ascribe a 40% discount to the property development and non-REIT investment RNAV (equal to our UEMS discount), which we think is fair given the high exposure to Iskandar region and the conglomerate structure. We also believe that as the group monetises its non-REIT property investments by injecting them into Sunway REIT, the valuation discount to RNAV will narrow with time. Using fully diluted shares of 2bn and applying a discount of 40%, we derive our target price of MYR 4.20.

Our target price is MYR4.20. It values the company at 13x FY15F P/E and 1.2x P/B vs the property sector average of 13x and 1.3x, respectively. Sunway itself has traded on long term P/E and P/B averages of 10x and 1x, which we expect to expand in the future, in line with bigger property developers.

Fig. 170: Property development RNAV calculations

Developments	% Stake	Total remaining GDV (MYR mn)	Remaining Landbank (acre)	NAV Surplus (NPV of future profits)
Selangor/KL				
Sunway Damansara	60%	1,691	15.4	86
Sunway South Quay	60%	3,297	42.2	161
Sunway Monterez	60%	44	5.4	2
Sunway Semenyih	70%	729	398.1	21
Sunway Cheras	100%	17	6.0	2
Sunway Duta	60%	120	3.2	7
Sunway Montana	100%	56	2.0	5
Sunway Alam Suria	100%	12	0.7	1
Sunway Resort City	100%	660	14.9	56
Casa Kiara III	80%	210	2.9	16
Sunway Velocity	85%	2,604	16.1	188
Sunway Tower KL 1	100%	240	1.0	23
Bangi	100%	59	3.0	6
Melawati	100%	43	2.0	4
Sg Long	80%	277	111.0	11
Mont Putra, Rawang	100%	156	163.0	9
Perak				
Sunway City Ipoh	65%	1,048	440.5	58
Penang				
Sunway Hills	100%	849	80.7	56
Sunway Cassia, Batu Maung	100%	74	6.6	8
Sunway Wellesley, Bukit Mertajam	100%	725	52.8	67
Paya Terubong	100%	1,500	24.5	122
Sunway Tunas, Balik Pulau	100%	60	9.0	6
Sunway Betong, Balik Pulau	100%	110	19.9	11
S'pore				
Mount Sophia	30%	2,137	5.9	60
Sembawang, Singapore	100%	75	0.8	8
Johor				
Bukit Lenang	80%	698	64.8	50
Medini	51%	12,000	691.0	407
Pendas	60%	18,000	1,079.1	528
China				
Sunway Guanghao	65%	67	3.7	4
Tianjin Eco City	60%	1,300	24.0	50
India				
Sunway OPUS Grand India	50%	702	23.8	28
Sunway MAK Signature Residence (JV M.A.K Builders)	60%	181	14.0	5
Australia				
Wonderland Business Park (Sydney)	45%	378	48.4	15
Unbilled sales		2,367		205
Subtotal - Property Development NAV surplus		**52,487**	**3,376**	**2,285**
Add, property development book value				**2,574**
PROPERTY DEVELOPMENT - TOTAL NAV				**4,860**

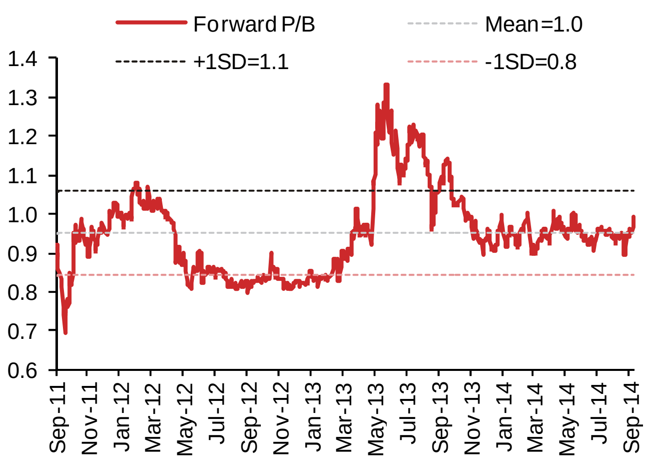
Source: Company data, Nomura estimates

Fig. 171: Sunway: SOTP based Valuation

	Valuation methodology	FY15F Net income (MYR mn)	Multiple (x)	NAV (MYR mn)	Per share value (RM)
Property Development				**4,860**	**1.35**
Construction	Construction sector P/E	122	15	**1,835**	**0.85**
Trading, Quarry and other ancillary businesses	Historical avg P/E	82	10	**820**	**0.38**
Property investment - REIT (34.5% stake in SREIT MK)	Market Value		34.5%	**1,484**	**0.69**
Property investment - non REIT assets					
Monash University				300	
Sunway University (incl new block under construction)				255	
Monash U Residence				227	
Sunway Pinnacle				280	
Sunway Giza Mall				55	
Sunway Hotel Georgetown				65	
Lost World Hotel				25	
Sunway Hotel Phnom Penh				17	
Sunway Hotel Hanoi				10	
Sunway Lagoon				240	
Lost World Water Park				38	
Subtotal - Property investment - non-REIT assets				**1,512**	**0.42**
TOTAL RNAV				**10,511**	
Add, cash from warrants				724	**0.34**
Add, cash from ESOS				355	**0.17**
FULLY DILUTED RNAV				**11,590**	
Discount to Property development + non REIT investment RNAV				40.0%	
DISCOUNTED FULLY DILUTED RNAV				**9,042**	
Number of shares o/s				1,724	
Add, dilution from warrants				290	
Add, dilution from ESOS				129	
FD number of shares				**2,142**	
Price target				**4.20**	

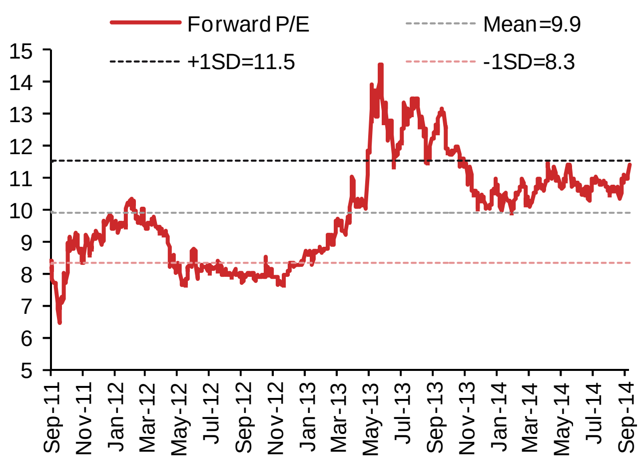
Source: Company data, Bloomberg, Nomura estimates

Fig. 172: Sunway: 1 year forward P/B (consensus)



Source: Bloomberg, Nomura research

Fig. 173: Sunway: 1 year forward P/E (consensus)



Source: Bloomberg, Nomura research

Catalysts

Steady property sales momentum and earnings delivery; adequate response to its Iskandar project and construction orderbook replenishment should drive the stock price. Sunway Putra Mall reaching good occupancy post refurbishment and injecting assets to its REIT are likely to provide other catalysts for the stock. Improvement in Malaysian property markets and no further cooling measures will be positive. Further construction contract awards in the next few months will also be taken positively by market.

Downside risks

1) *Project delays*. Any project delays or disappointing take-up rates could dent our earnings forecasts. Project delays could arise from longer-than-expected approval/completion on land acquisition and building designs. 2*) Missing sales targets*. A failure of the company to meet its sales targets or pass on cost increases to customers could pose downside risks to our earnings and price targets. 3) *Further weakening of Iskandar sentiment* will pose downside risk to earnings. 4) *Failure to meet construction orderbook targets* or list division. 5) *Failure of Sunway Putra Mall to get tenancy targets*. 6) *General economic conditions and cooling measures.* The company's operational as well as stock performance is closely tied to general domestic economic conditions and consumer sentiment. Any contractions in GDP growth or unexpected government policy measures to curb sentiment in the property sector are downside risks to our call.

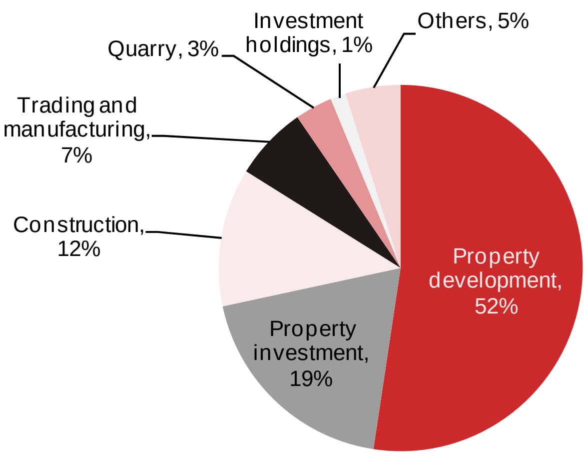
Sunway: Vertically integrated Property developer

Sunway was initially incorporated as a private limited company in 1978 under the name Sungei Way Holdings Sdn Bhd. The primary operations at that time were mining and quarrying after which it expanded into construction, property development, trading and manufacturing and building materials industries via subsidiaries. It was listed on Bursa Malaysia in 1984 and changed its name to Sunway Holdings Bhd in 2007.

In 2011, Sunway holdings Bhd merged with Sunway City Bhd which was a property giant in Malaysia. Sunway city was formed in 1982 (originally Sri Jasa Sdn Bhd) and was listed in 1996. Sunway city developed first integrated resort city in Malaysia (Sunway Resort City) and became a real estate conglomerate with interests in property development, property investment, hospitality, leisure and healthcare.

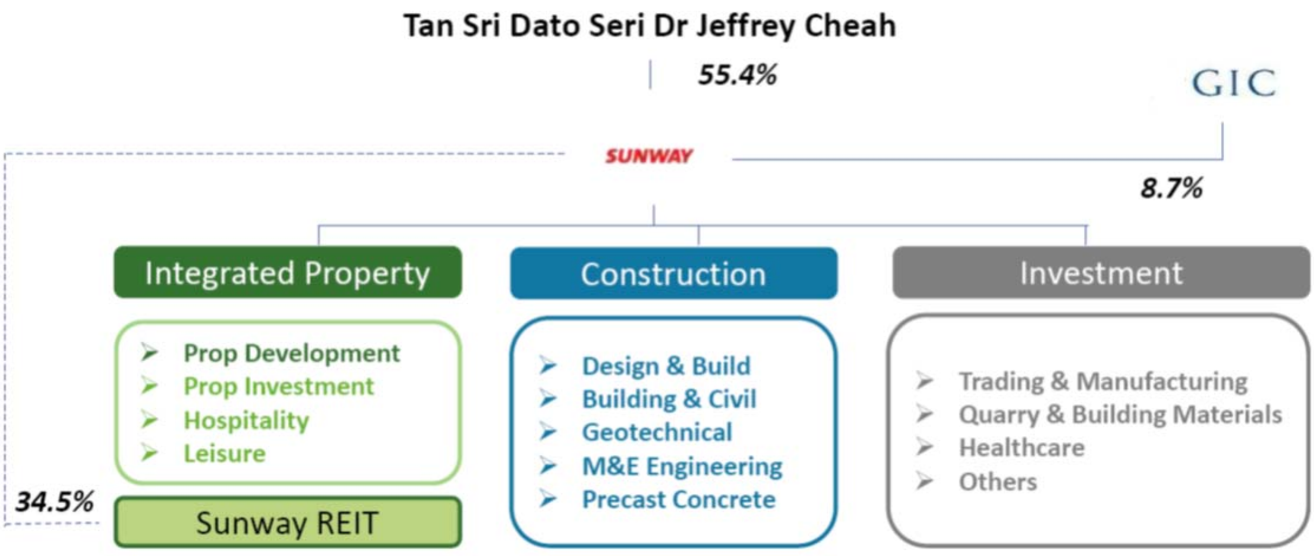
Sunway also has a REIT arm where it transfers stable assets to unlock value from them. It owns 34.5% in Sunway REIT. Sunway, being a property and construction company has a unique business model which comprises the entire property value chain beginning from landbanking to master plan development to design and construction to marketing and sales to property management and finally recycling capital via its own REIT.

Fig. 174: Segmental PBT breakdown: 2013



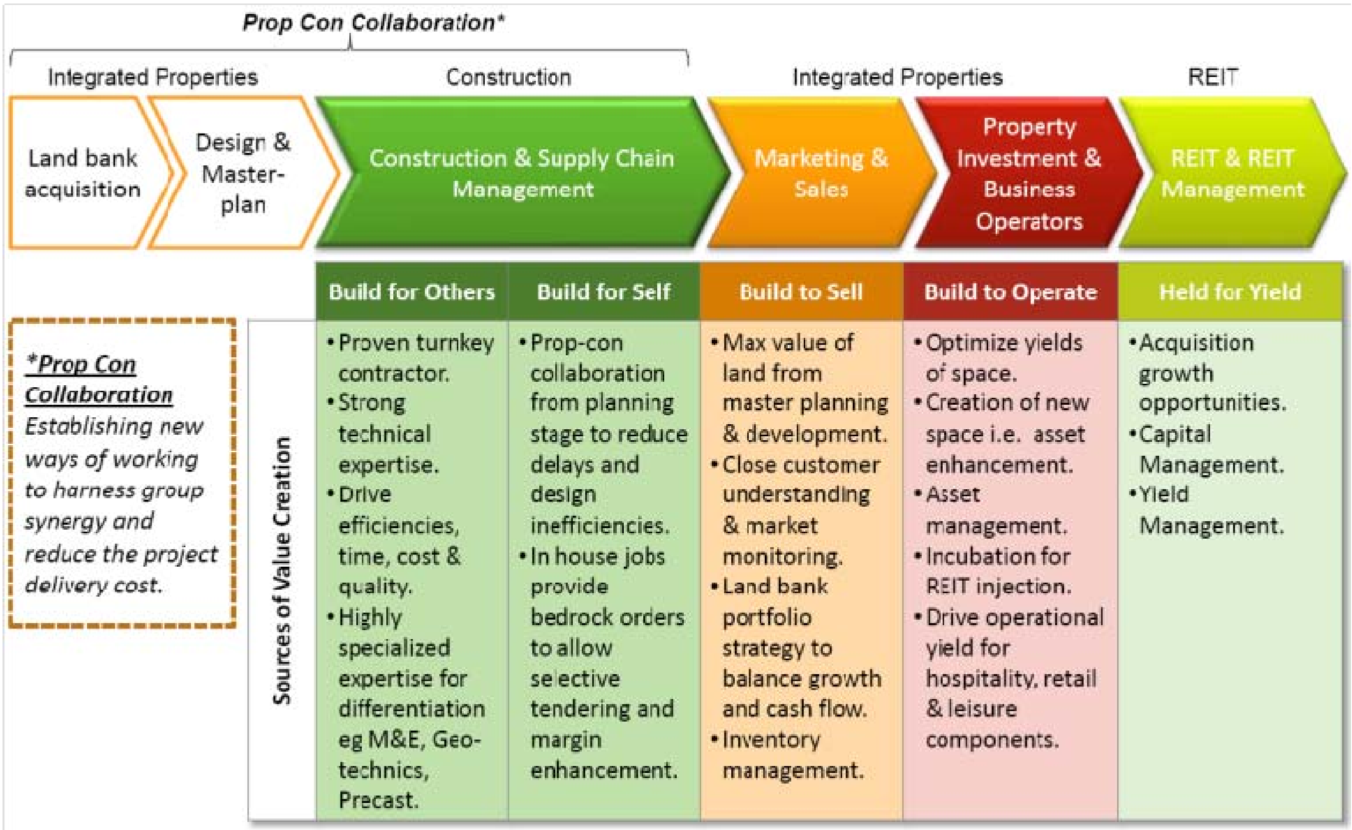
Source: Company data, Nomura research

Fig. 175: Sunway corporate profile



Source: Company data, Nomura research

Fig. 176: Sunway Property construction collaboration



Source: Company data, Nomura research

Appendix A-1

Analyst Certification

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Bhd	SWB MK	MYR 3.53	23-Sep-2014	Buy	N/A	

Sunway Bhd (SWB MK) **MYR 3.53 (23-Sep-2014)** Buy (Sector rating: N/A)

Chart Not Available

Valuation Methodology We value the group based on SOTP-derived RNAV. We value the property development business using DCF of future profits from all the projects and unbilled sales. We use a discount rate (cost of equity) of 10.1% for Malaysia, 11.1% for Singapore, 16.4% for China, 12.9% for India and 12.1% for Australia projects. To that we add the book value of property development to get the NAV from property development business. We value construction business at 15x FY15F P/E which is Malaysia's construction sector average multiple. The REIT arm of property investment is valued at market value while the non-REIT assets are valued at carrying value. We value other businesses at 10x FY15F P/E (historical average). We sum the values from all business to get the group's RNAV and add cash from warrants and ESOS to get fully diluted RNAV of MYR11.6bn. To that we ascribe a 40% discount to the property development and non-REIT investment RNAV. Using fully diluted shares of 2bn and applying a discount of 40%, we derive our TP of MYR4.20. Our TP values the company at 13x FY15F P/E and 1.2x P/B. The benchmark index for the stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Downside risks: 1) any project delays or disappointing take-up rates could dent our earnings forecasts; 2) a failure of the company to meet its sales targets or pass on cost increases to customers; 3) further weakening of Iskandar sentiment; 4) failure to meet construction orderbook targets or list division; 5) failure of Sunway Putra Mall to get tenancy targets; and 6) any contractions in GDP growth or unexpected government policy measures to curb sentiment in the property sector are downside risks to our call.

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The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock, subject to limited management discretion. An analyst’s target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of **'Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan:** Russell/Nomura Large Cap.

SECTORS

A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as **'Not rated'** or shown as **'N/A'** are not assigned ratings. Benchmarks are as follows: **United States:** S&P 500; **Europe:** Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan:** Sector ratings are not assigned.

Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc. A **'Buy'** recommendation indicates that potential upside is 15% or more. A **'Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%. A **'Reduce'** recommendation indicates that potential downside is 5% or more. A rating of **'Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

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Target Price

A Target Price, if discussed, reflects in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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