

3Q14 – on track earnings and pre-sales

Quick Note

3Q14: in-line with expectations; new property sales of ~MYR 440mn

Sunway's 3Q14 earnings were in-line with our and consensus expectations. 9M14 core net income of MYR386mn represented 79%/80% of our and consensus full year forecasts for FY14 respectively. While the revenues for 9M14 were in-line (74% of our FY14F), earnings were higher due to higher PBT margins.

On-track: property pre-sales; below expectations: Construction projects

- **Property sales:** New sales in the quarter were MYR 440mn (MYR 320mn ex-minorities), bringing 9M14 effective sales of MYR 950mn (72% of FY14 targets). Management has a strong launch pipeline for the remainder of 2014, amounting to a GDV of MYR 830mn, including MYR 540mn in Singapore.
- **Construction division:** Sunway's construction division is lagging its new project targets. YTD there have been no external projects awarded (internal new projects = MYR 881mn YTD), vs our MYR 1.5bn assumption.

No change to guidance

Management is maintaining its FY14 launch targets of MYR2.3bn and full year sales target of MYR1.8bn (effective: MYR1.3bn). YTD launches for 2014 stood at MYR1.4bn and Sunway intends to launch another MYR830mn worth of projects soon.

Likely stock reaction

Neutral

Key numbers

All business segments delivered on-track performance contributing to improved results for 9M14. Although the progress billings for property development slowed in 3Q14, profit was up due to lower common infrastructure costs allocated to the division. As per management, progress billings are expected to improve in 4Q14. Quarterly property sales momentum was slow with effective sales declining 16% q-q in 3Q14 but we believe Sunway should be able to meet its full year sales target of MYR1.3bn (9M14 eff. sales: 73% of target) due to its launch pipeline.

Construction: Construction revenues and PBT was up by double digits y-y in 3Q14 due to higher sales of precast concrete products in Singapore and higher progress billings of its on-going local civil engineering and building projects.

Property Development: While revenue was by down double digits y-y, PBT was up by double digits y-y in 3Q14 as slow progress billings were compensated by lower infrastructure costs.

Property investment: revenue and PBT both were up y-y in 3Q14.

Global Markets Research

19 November 2014

Rating **Buy**
Remains

Target price **MYR 4.20**
Remains

Closing price **MYR 3.23**
18 November 2014

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Fig. 1: Sunway: 9M14 results review

MYR mn	3Q14	3Q13	% chg y-y	2Q14	% chg q-q	9M14	9M13	% chg y-y	FY14F	9M as % of FY14F
Quarterly Property sales										
Total	439	496	(11%)	459	(4%)	1,246	1,102	13%	1,800	69%
Effective	324	344	(6%)	386	(16%)	952	836	14%	1,300	73%
CORE REVENUES	1,134	1,066	6%	1,205	(6%)	3,364	3,205	5%	4,539	74%
Property development	178	260	(32%)	302	(41%)	702	750	(6%)	1,132	62%
Property investment	152	137	11%	146	4%	434	412	5%	625	69%
Construction	488	377	30%	426	15%	1,273	1,179	8%	1,540	83%
Trading and manufacturing	159	152	5%	162	(2%)	470	453	4%	616	76%
Quarry	56	47	20%	58	(2%)	162	147	10%	208	78%
Investment holdings	0	(1)	(103%)	0	(3%)	0	(0)	(123%)	0	NM
Others	100	94	6%	111	(10%)	323	264	22%	418	77%
CORE OPERATING PROFIT (EBIT)	157	116	36%	140	13%	413	319	30%	521	79%
Share of results of associates	39	49	(22%)	48	(19%)	127	146	(13%)	156	81%
CORE PBT	191	159	20%	177	8%	516	435	19%	671	77%
Property development	99	90	10%	76	31%	244	217	12%	297	82%
Property investment	32	25	28%	26	24%	82	83	(1%)	140	59%
Construction	18	15	14%	33	(46%)	82	62	32%	131	62%
Trading and manufacturing	10	11	(4%)	10	6%	29	34	(15%)	37	77%
Quarry	7	5	28%	9	(28%)	21	17	23%	29	72%
Investment holdings	11	4	188%	11	7%	27	0	7639%	0	NM
Others	14	9	54%	13	4%	32	22	48%	37	86%
Taxation	(22)	(27)	(18%)	(45)	(51%)	(97)	(85)	14%	(135)	72%
CORE PAT	169	133	27%	132	28%	419	349	20%	536	78%
Less, core minorities	(20)	(8)	134%	(6)	219%	(34)	(24)	42%	(46)	73%
CORE NPATAMI	149	124	20%	126	18%	386	325	19%	490	79%
One off gains / (losses)	(6)	(31)	(82%)	56	(110%)	45	29	56%	0	NM
HEADLINE NPATAMI	144	93	54%	182	(21%)	430	354	22%	490	88%
PBT margins	17%	15%	2 ppt	15%	2 ppt	15%	14%	2 ppt	15%	
Property development	56%	35%	21 ppt	25%	31 ppt	35%	29%	6 ppt	26%	
Property investment	21%	18%	3 ppt	17%	3 ppt	19%	20%	-1 ppt	22%	
Construction	4%	4%	0 ppt	8%	-4 ppt	6%	5%	1 ppt	9%	
Trading and manufacturing	7%	7%	-1 ppt	6%	0 ppt	6%	7%	-1 ppt	6%	
Quarry	12%	11%	1 ppt	16%	-4 ppt	13%	12%	1 ppt	14%	
Investment holdings	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Others	14%	9%	4 ppt	12%	2 ppt	10%	8%	2 ppt	9%	

Source: Company data, Nomura estimates

Fig. 2: Sunway: Property launches YTD 2014 and upcoming launches

Property Launches YTD 2014				
Project	Type	Stake	Total GDV (MYR mn)	Take up / Bookings
Sunway Wellesley	Townhouses & Semi-D	100%	120	59% (+8% bookings)
Sunway Eastwood	Superlink	100%	85	61% (+12% bookings)
V-Residences 2	Service Apartments	85%	271	82% (+5% bookings)
Sunway Geo Residences 2	Service Apartments	60%	210	65% (+6% bookings)
Citrine, Sunway Iskandar	Offices	51%	73	66% (+34% bookings)
Signature Retail & Offices, Sunway Velocity	Retail Shops & Offices	85%	200	78% (+19% bookings)
V-Residences Suites	Service Apartments	85%	280	43% (+5% bookings)
Sunway Gardens	Condominium	60%	90	21% (+9% bookings)
Avant Parc, Singapore	Terrace Homes	100%	100	15%
Total Launches @31 Oct 2014			1,429	
Upcoming Launches				
Sunway Iskandar	Citrine Service Apartment		220	
Sunway Cassia	Semi-D & Townhouses		70	
Sophia Hills	Condominium		540	
Total upcoming launches			830	

Source: Company data

Appendix A-1

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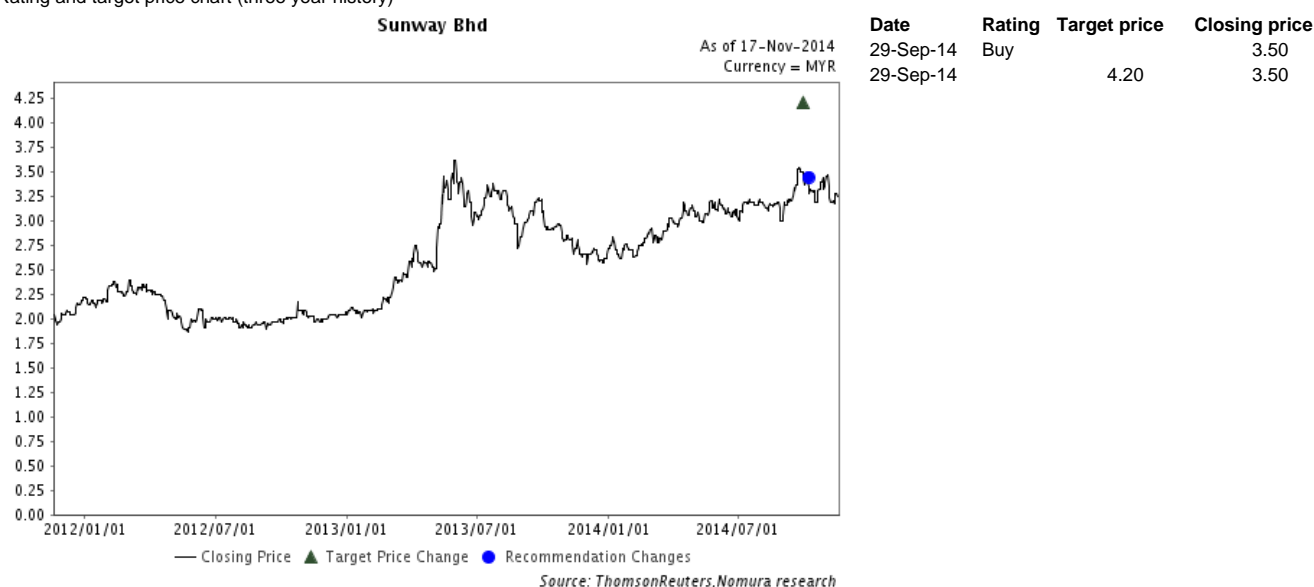
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Bhd	SWB MK	MYR 3.23	18-Nov-2014	Buy	N/A	

Sunway Bhd (SWB MK)

MYR 3.23 (18-Nov-2014) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

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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