

28 February 2014

Sunway Berhad

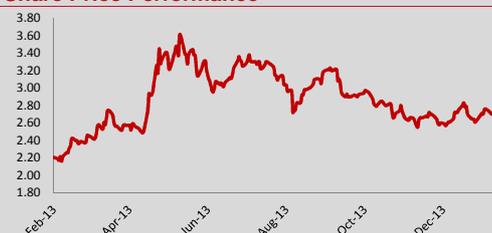
Commendable Year

- Period**
- 4Q13 / FY13
- Actual vs. Expectations**
- Sunway Berhad ("SUNWAY") registered core net earnings of RM482m for FY13, which we deem broadly inline within our expectations at a fulfilment rate of 106%, but well exceeded street consensus' estimates by 17%.
 - Sales for the year of RM1.8b was also well within our assumptions.
- Dividends**
- A second interim single tier dividend of 5 sen was proposed, as expected. For the year, SUNWAY had announced a total net dividend of 10 sen (3.7%yield), which is inline with our estimates.
- Key Results Highlights**
- For the full-year, SUNWAY reported net profit of RM1.5b which included RM1.0b of non-cash gains where the bulk was coming from the revaluation gain on the remeasurement of the Group's remaining equity interest in SRM, the shareholding at Sunway REIT and also the consolidation of Sunway REIT. Excluding this item, FY13 core earnings improved by 38% to RM482.3m on the back of revenue growth of 17%. The commendable set of results are mainly driven by better revenue contribution from its major divisions i.e. property development (+26%), property investment (+33%), construction (+26%), trading & manufacturing (+10%) and quarry (+2%). While property PATAMI margins were relatively flat (-0.8ppt), segments like construction, quarry and 'others' (health care and building materials) saw improved margins, which boosted group PATAMI margins by 1.2ppt.
 - QoQ, 4Q13 core earnings of RM157m also saw an improvement of 38% despite a slight dip in its core margin (-1.4ppt) which was cushioned by the 44% growth in revenue. Core earnings were largely driven by growth from: (i) property revenue (+60%) due to higher billings, particularly from Singapore projects, (ii) construction topline improvement of 16% while core PATAMI expanded by 0.7ppt, and (iii) seasonally better contributions from property investments which core PATAMI rose by 89%.
- Outlook**
- For FY14, management would be targeting to launch another RM2.3b worth of property development projects with a sales target of RM1.8b. We think that the target is still highly realistic. Reason being that about 82% of its upcoming development products are being priced below RM1.0m/unit, which is more palatable for today's demand profile, which emphasis is on 'affordability'. Unbilled sales of RM2.4b provide 2-years visibility.
 - The group targets FY14 orderbook replenishment of RM2.5b (30% internal and 70% external jobs). Judging from SUNWAY's orderbook replenishment of RM2.2b back in 2013, we believe that the management's orderbook replenishment target remains achievable. Nonetheless, as a conservative approach, we only factor in an external orderbook replenishment assumption of RM1.5b. Its outstanding external orderbook currently stands at RM3.1b, which is sufficient for two years churn.
- Change to Forecasts**
- No changes in earnings estimate at this juncture.

OUTPERFORM ↔

Price: RM2.86
Target Price: RM3.08 ↔

Share Price Performance



KLCI	1,831.66
YTD KLCI chg	-1.9%
YTD stock price chg	5.1%

Stock Information

Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	4,929.3
Issued shares	1,723.5
52-week range (H)	3.61
52-week range (L)	2.16
3-mth avg daily vol:	558,831
Free Float	31%
Beta	1.2

Major Shareholders

SUNGEI WAY CORP SDN	46.4%
YEAN TIH CHEAH	13.5%
GIC PRIVATE LIMITED	8.7%

Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E
Turnover	4,734	5,953	6,284
EBIT	705	786	873
PBT	1,893	807	896
Net Profit (NP)	1,499	540	572
Core NP	482	540	572
Consensus (NP)	-	453	510
Earnings Revision	-	-	-
EPS (sen)	69.6	25.1	26.5
EPS growth (%)	126%	-64%	6%
NDPS (sen)	10.0	7.8	8.3
NTA/Share (RM)	3.11	3.36	3.63
PER (x)	4.1	11.4	10.8
Price/NTA (x)	0.9	0.8	0.8
Net Gearing (x)	0.1	0.2	0.2
Dividend Yield (%)	3.5%	2.7%	2.9%

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Rating

Maintain **OUTPERFORM**

- We reiterate our OP call on SUNWAY for its synergistic business, which enriches its core driver as an integrated township developer. The stock is currently trading at close to trough valuations of FY14-15E PER of 11.4x-10.7x and Fwd PBV of 0.9x.

Valuation

- Maintaining at 3.0x on our FD RNAV of RM3.36.

Risks to Our Call

- Failure to meet sales targets or replenish landbank. Sector risks, including overly negative policies.

Results Highlights

FYE 31 Dec (RM'm)	4Q13	3Q13	QoQ%	4Q12	YoY%	FY13	FY12	YtdYoY
Revenue	1,342.2	1,066.1	25.9%	1,198.9	11.9%	4,547.4	3,876.8	17.3%
EBITDA	180.5	80.2	125.2%	108.7	66.0%	350.3	232.8	50.5%
EBIT	210.7	106.3	98.2%	128.5	63.9%	459.7	322.7	42.4%
Net Interest	(27.6)	(6.3)	341.4%	(16.7)	65.2%	(58.2)	(77.5)	-25.0%
Associate & JCE	83.4	49.4	68.7%	99.3	-16.0%	289.3	309.7	-6.6%
Fair Value Adjustments on IP	981.3	(31.3)	-3235.1%	105.2	832.8%	1,010.1	181.8	455.6%
Pretax profit	1,247.7	118.2	955.7%	316.3	294.5%	1,701.0	736.7	130.9%
Taxation	(45.5)	(16.6)	173.9%	(55.8)	-18.5%	(120.9)	(137.0)	-11.8%
Minority Interests	(63.9)	(8.5)	656.3%	(41.2)	55.2%	(87.7)	(67.4)	30.2%
Net profit	1,138.3	93.1	1122.1%	219.3	419.1%	1,492.4	532.3	180.3%
Core Net profit	157.0	124.4	26.2%	114.1	37.6%	482.3	350.5	37.6%
EPS (sen)	66.0	5.4	1122.1%	12.7	419.1%	86.6	30.9	180.3%
Diluted EPS (sen)	7.2	5.7	26.2%	5.3	37.6%	22.2	16.2	37.6%
NDPS (sen)	8.5	-		6.0		13.5	6.0	
NTA/share (RM)	2.9	2.5		1.9		2.91	1.88	
Net gearing/(cash) (x)	0.2	0.3		0.5		1.52	2.08	
EBITDA margin	13.4%	7.5%		9.1%		7.7%	6.0%	
Pretax margin	93.0%	11.1%		26.4%		37.4%	19.0%	
Effective tax rate	-3.6%	-14.0%		-17.6%		-7.1%	-18.6%	

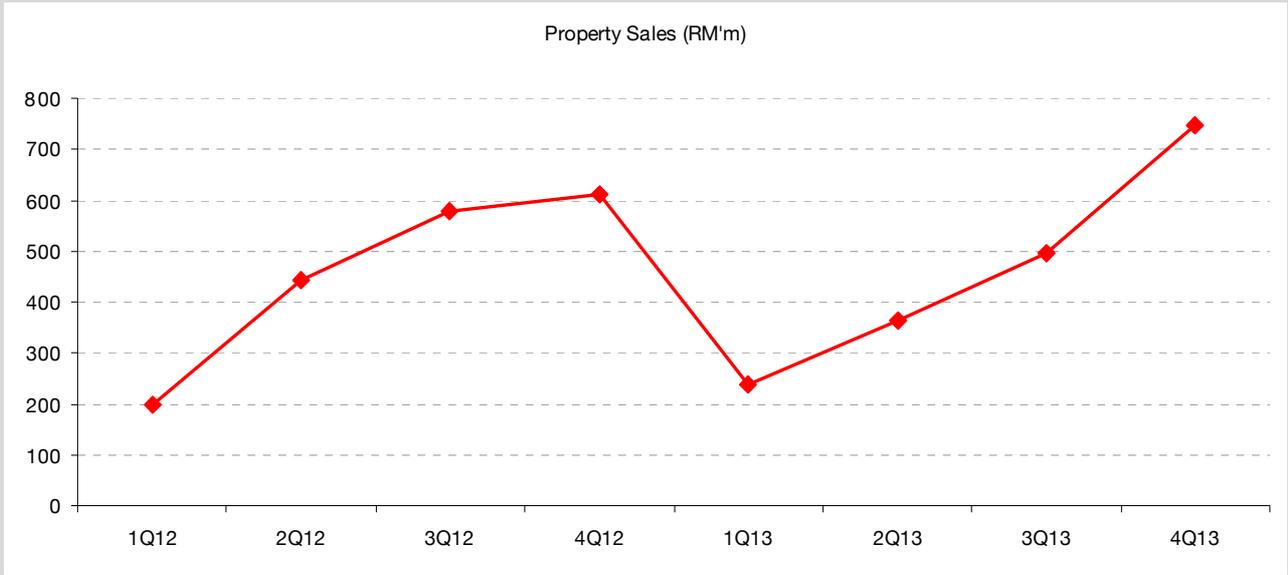
Source: Company, Kenanga Research

Segmental Breakdown

	4Q13	3Q13	QoQ	4Q12	YoY	FY13	FY12	YoY
Revenue								
Property Development	417.3	260.4	60.3%	397.9	4.9%	1167.2	923.3	26.4%
Property Investment	451.5	143.7	214.2%	188.9	139.0%	891.4	669.2	33.2%
Construction	510.4	440.1	16.0%	435.2	17.3%	1841.3	1458.3	26.3%
Trading & Manufacturing	187.0	233.0	-19.7%	165.2	13.2%	754.4	687.2	9.8%
Quarry	54.4	49.4	10.3%	57.7	-5.7%	204.9	201.3	1.8%
Investment Holdings	55.7	127.3	-56.3%	126.1	-55.8%	309.1	190.6	62.2%
Others	120.3	107.8	11.6%	93.7	28.4%	408.6	374.4	9.1%
Eliminations	-268.2	-295.5	-9.2%	-265.8	0.9%	-843.2	-627.6	34.3%
TOTAL	1528.4	1066.1	43.4%	1198.9	27.5%	4733.7	3876.8	22.1%
CORE PATAMI								
Property Development	79.7	72.4	10.1%	90.8	-12.2%	245.3	201.1	22.0%
Property Investment	35.2	18.6	89.4%	32.1	9.6%	97.3	97.8	-0.5%
Construction	14.9	9.5	55.7%	4.8	211.8%	57.8	40.5	42.8%
Trading & Manufacturing	7.1	8.4	-15.0%	2.3	203.0%	32.4	29.8	8.9%
Quarry	3.7	3.9	-5.4%	3.0	22.4%	15.7	3.3	383.7%
Investment Holdings	8.1	4.1	101.0%	-14.2	-157.3%	7.7	-29.2	-126.4%
Others	8.6	7.5	14.3%	-4.7	-282.9%	26.5	7.4	257.5%
Eliminations	0.0	0.0		0.0		0.0	0.0	
TOTAL	157.3	124.4	26.5%	114.1	37.8%	482.7	350.6	37.7%
CORE PATAMI Margin								
Property Development	19.1%	27.8%	-8.7%	22.8%		21.0%	21.8%	
Property Investment	7.8%	12.9%		17.0%		10.9%	14.6%	
Construction	2.9%	2.2%		1.1%		3.1%	2.8%	
Trading & Manufacturing	3.8%	3.6%		1.4%		4.3%	4.3%	
Quarry	6.8%	7.9%		5.2%		7.7%	1.6%	
Investment Holdings	14.6%	3.2%		-11.3%		2.5%	-15.3%	
Others	7.2%	7.0%		-5.0%		6.5%	2.0%	
Eliminations	0.0%	0.0%		0.0%		0.0%	0.0%	
TOTAL	10.3%	11.7%		9.5%		10.2%	9.0%	

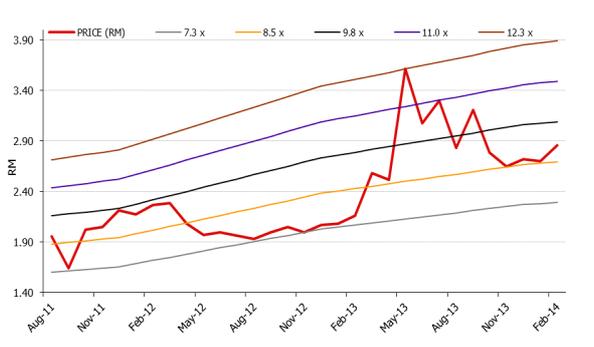
Source: Company, Kenanga Research

Historical Sales Trend



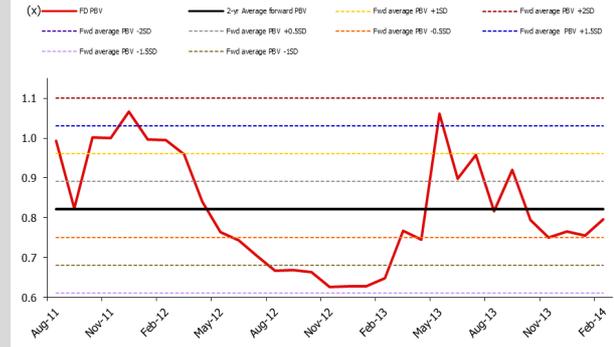
Source: Kenanga Research

Fwd PER Band



Source: Kenanga Research

Fwd PBV Band



NAME	Price (27/02/14)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY13/14 NP Growth (%)	FY14/15 NP Growth (%)	Target Price (RM)	Rating
	(RM)		FY12/13	FY13/14	FY14/15				FY12/13	FY13/14	FY14/15				
DEVELOPERS UNDER COVERAGE															
UEM Sunrise*	2.12	9,619	21.0	15.9	15.0	1.9%	10.2%	1.5	459.1	603.3	643.1	31.4%	6.6%	2.60	OUTPERFORM
IOI Properties	2.60	8421	15.6	14.5	11.8	0.7%	5.2%	0.8	538.9	580.0	711.4	7.6%	22.7%	3.68	OUTPERFORM
SP Setia	2.91	7,155	17.1	16.0	11.3	3.8%	8.7%	1.1	400.2	446.7	633.0	11.6%	41.7%	3.03	MARKET PERFORM
Sunway Berhad	2.86	4929	10.2	9.1	8.6	2.7%	32.4%	0.8	482.3	540.0	571.9	12.0%	5.9%	3.08	OUTPERFORM
IJM Land*	2.56	3,991	20.4	12.7	11.2	2.0%	8.5%	1.2	196.1	315.0	356.0	60.7%	13.0%	3.15	OUTPERFORM
Mah Sing Group	2.06	2,912	10.1	8.5	6.9	4.5%	19.9%	1.5	230.6	275.5	335.5	19.5%	21.8%	2.56	OUTPERFORM
UOA Development*	2.02	2,705	7.9	7.5	7.3	6.9%	16.0%	1.0	344.6	361.0	371.2	4.8%	2.8%	2.10	OUTPERFORM
Matrix Concepts	3.76	1,134	7.4	6.8	6.0	6.6%	29.8%	1.8	152.9	167.2	190.2	9.4%	13.8%	4.80	OUTPERFORM
Crescendo*	2.90	659	11.9	7.9	6.9	5.3%	9.7%	0.9	55.7	83.6	95.3	50.1%	14.0%	4.00	OUTPERFORM
Hua Yang	1.86	491	7.0	6.4	4.8	5.9%	23.5%	1.3	70.5	76.6	102.9	8.7%	34.4%	2.33	OUTPERFORM
* Core NP and Core PER															
** Crescendo per share data is based on non-Fully Diluted															
CONSENSUS NUMBERS															
BERJAYA LAND BHD	0.83	4,105	36.0	n.a.	n.a.	n.a.	2.2%	0.8	114.0	n.a.	n.a.	n.a.	n.a.	0.93	BUY
IGB CORPORATION BHD	2.56	3,451	17.1	15.7	15.1	2.8%	4.7%	0.9	202.4	219.7	229.2	8.6%	4.3%	3.15	BUY
YNH PROPERTY BHD	1.80	747	17.5	11.6	10.3	2.8%	5.6%	0.9	42.6	64.3	72.6	50.9%	12.9%	1.78	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.90	746	33.7	47.4	40.9	n.a.	2.5%	0.8	22.1	15.8	18.2	-28.8%	15.8%	1.00	NEUTRAL
GLOMAC BHD	1.10	799	6.7	6.0	5.3	5.0%	14.8%	0.9	119.0	133.7	151.2	12.4%	13.0%	1.23	BUY
KSL HOLDINGS BHD	2.13	823	4.8	3.9	4.1	1.4%	19.1%	0.6	172.5	208.7	200.9	20.9%	-3.7%	2.04	BUY
PARAMOUNT CORP BHD	1.57	530	9.9	8.3	6.5	5.7%	7.5%	0.7	53.3	64.2	81.1	20.3%	26.3%	1.71	BUY
IVORY PROPERTIES GROUP BHD	0.63	281	19.3	9.0	n.a.	n.a.	1.5%	0.7	14.6	31.2	n.a.	114.1%	n.a.	n.a.	BUY
TAMBUN INDAH LAND BHD	1.72	679	8.8	6.8	5.4	5.5%	22.0%	2.1	77.2	99.9	125.1	29.4%	25.3%	1.84	NEUTRAL
Source: Kenanga Research															

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 stock'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 stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:	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 are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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