

Sunway Berhad

Good Start for the Year

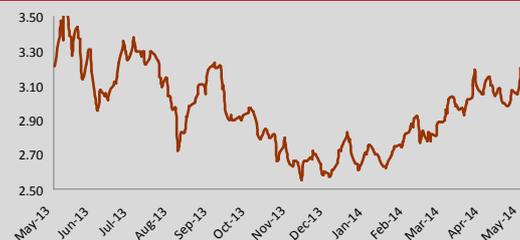
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OUTPERFORM ↔

Price: **RM3.19**
Target Price: **RM3.62** ↑

- Period** ■ 1Q14
- Actual vs. Expectations** ■ Sunway Berhad (SUNWAY) registered core net earnings of RM110.3m for 1Q14, which is within our forecast and streets' expectation at fulfilment rates of 20.4% and 22.6%, respectively.
- 1Q14's property sales of RM348m are considered broadly inline with management's and our sales estimate of RM1.8b. The key driver for 1Q14 sales are Geo Residences, which made up 40% of total sales, which were launched towards end 4Q13. Considering that the group launched only two projects, i.e. Sunway Wellesley and Sunway Eastwood in 1Q14 with a total GDV of RM205m, the achieved sales is commendable as it made up 19% of targets. Furthermore, the amount of GDV launched in 1Q14 only makes up 8.9% of their FY14E planned launches of RM2.3b, as more launches are skewed towards 2H14.
- However, SUNWAY has only replenished its internal orderbook by another RM178m, and has yet to secure any external orderbook replenishments to date versus our assumptions of RM1.5b.
- Dividends** ■ No dividend was declared, as expected
- Key Results Highlights** ■ **YoY**, SUNWAY's reported core net profit rose by 22.1% from RM90.3m to RM110.3m, despite a flattish revenue of RM1025.7m (+0.5%). Its revenue remains flattish as the growth from its property development (9.7%), construction (1.8%) and quarry division (+13.3%) was offset by lower revenue contribution from its trading & manufacturing (-8.5%), and investment holding (-33.9%). The improvement of its core earnings was due to 2.9ppt expansion in its core operating margins to 11.3% underpinned by the better margins recorded in its property development division of 23.4% (+10.8ppt) followed by its construction division core operating margin of 7.1% (+0.7ppt).
- **QoQ**, its core earnings of RM110.3m decreased by 29.7% due to lower revenue of RM1025.7m (-24%) as all major divisions registered seasonally weaker results. This is typical for Sunway as their 1Qs tend to be the weakest and we believe this has to do with seasonal festivities, which affect both billings from the property and construction segment.
- Outlook** ■ Moving forward, we still think that management's sales target of RM1.8b on the back RM2.3b targeted launches is still highly realistic. Reason being that 82% of its upcoming launches are being priced below RM1.0m/unit which is more palatable for the market's demand for 'affordability'. We also believe the stock could be re-rated if its upcoming Sunway Iskandar secures strong take-ups. Property unbilled sales of RM2.4b and remaining external orderbook of RM2.9b provides 1-1.5 years visibility.
- Change to Forecasts** ■ No changes in our earnings estimate at this juncture.
- Rating** ■ **Maintain OUTPERFORM**
- Valuations** ■ Raised our SoP based TP to RM3.62 from RM3.33 (refer overleaf). We reiterate our OP call on SUNWAY for its synergistic business, which enriches its core driver as an integrated township developer. We also like the group for its strong orderbook replenishments and being a beneficiary the KVMRT 2 project. The stock is our 1Q14 Top Pick and has done well to date with 17.3% YTD returns.
- Risks to Our Call** ■ Failure to meet sales targets or replenish landbank. Sector risks, including overly negative policies.

Share Price Performance



KLCI	1876.62
YTD KLCI chg	0.5%
YTD stock price chg	17.3%

Stock Information

Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	5,498.5
Issued shares	1,723.7
52-week range (H)	3.61
52-week range (L)	2.54
3-mth avg daily vol:	1,116,426
Free Float	30%
Beta	1.2

Major Shareholders

SUNGEI WAY CORP SDN	48.2%
YEAN TIH CHEAH	13.5%
GIC PRIVATE LIMITED	8.7%

Summary Earnings Table

FY Dec (RM'm)	2013A	2014E	2015E
Turnover	4,734	5,953	6,284
EBIT	806	786	873
PBT	1,894	807	897
Net Profit (NP)	1,500	540	572
Core NP	483	540	572
Consensus (NP)	-	487	527
Earnings Revision	-	-	-
EPS (sen)	69.7	25.1	26.6
EPS growth (%)	126%	-64%	6%
NDPS (sen)	10.0	7.8	8.3
NTA/Share (RM)	2.91	3.17	3.44
PER (x)	4.6	12.7	12.0
Price/NTA (x)	1.1	1.0	0.9
Net Gearing (x)	0.2	0.3	0.3
Dividend Yield (%)	3.1%	2.5%	2.6%

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Raising SoP driven TP to RM3.62 from RM3.33. Currently, we apply 40%-50% property RNAV discount on large cap developers that came below expectations in terms of sales (e.g. UEMS, IOIP, UOA, TROPICANA). Developers which met our expectations in terms of sales (e.g. IJMLAND, MAHSING) are being pegged at 15% to 30% property RNAV discount rates. Hence, we believe that Sunway deserves a narrower property RNAV discount as they have met our expectations and thus, we narrow its property RNAV discount from 40% to 30%.

Sum-of-Parts						
	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	6,335	n.a		6,335	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	34%	1,398	n.a		1,398	SUNREIT TP of RM1.39
Construction	100%	813	15		813	15x FY14E PER - pegged with big cap construction of 15x-16x
Quarry & Buildings Mat	100%	30	8		30	8x FY14E PER
Trading & manufacturing	100%	298	8		298	8x FY14E PER
Group Shareholders Funds					0	
Total SOP		8,873			8,873	
Discount Rate to Property Division RNAV				30%	(1,901)	
Discounted SOP					6,973	
Dilution impact					879	
FD SOP (RM)					4.50	
SOP Discount Rate					-19%	
TP (RM)					3.62	
Diluted no. of shares ('m)					2,168	

Source: Company, Kenanga Research

Result Highlight						
FYE 31 Dec (RM'm)	1Q14	4Q13	QoQ%	1Q13	YoY%	
Revenue	1,025.7	1,342.2	-24%	1,021.0	0%	
Op costs w/o depn/amort	(957.6)	(1,225.4)	-21.9%	(970.7)	-1.4%	
Other Op Income	22.7	63.8	-64.3%	11.5	97.9%	
EBITDA	90.9	180.5	-49.6%	61.8	47.2%	
EBIT	115.9	210.7	-45.0%	86.0	34.8%	
Net Interest	(7.8)	(27.6)	-71.7%	(11.7)	-32.9%	
Associate & JCE	40.4	83.4	-51.5%	47.9	-15.5%	
Fair Value Adjustments on IP	(6.3)	981.3	-	0.3	-	
Pretax profit	142.2	1,247.7	-88.6%	122.5	16.1%	
Taxation	(30.4)	(45.5)	-33.0%	(26.3)	15.6%	
Minority Interests	(7.8)	(63.9)	-87.9%	(5.6)	38.1%	
Net profit	104.0	1,138.3	-90.9%	90.6	14.9%	
Core Net profit	110.3	157.0	-29.7%	90.3	22.2%	
EPS (sen)	6.0	66.0	-90.9%	5.3	14.9%	
Diluted EPS (sen)	5.1	7.2	-29.7%	4.2	22.2%	
NDPS (sen)	-	8.5	-	-	-	
NTA/share (RM)	3.0	2.9		1.9		
Net gearing/(cash) (x)	0.3	0.2		0.5		
EBITDA margin	8.9%	13.4%		6.1%		
Pretax margin	13.9%	93.0%		12.0%		
Effective tax rate	21.4%	3.6%		21.5%		

Source: Company, Kenanga Research

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Segmental Breakdown						
FYE 31 Dec (RM'm)	1Q14	4Q13	QoQ	1Q13	YoY	
Revenue						
Property Development	222.4	417.3	-46.7%	202.7	9.7%	
Property Investment	136.4	451.5	-69.8%	138.8	-1.7%	
Construction	437.0	510.4	-14.4%	429.4	1.8%	
Trading & Manufacturing	149.0	187.0	-20.4%	162.9	-8.5%	
Quarry	51.3	54.4	-5.7%	45.3	13.3%	
Investment Holdings	57.5	55.7	3.3%	87.1	-33.9%	
Others	113.9	120.3	-5.4%	85.8	32.8%	
Eliminations	-141.8	-268.2	-47.1%	-130.8	8.4%	
TOTAL	1025.7	1528.4	-32.9%	1021.0	0.5%	
CORE Operating Profit						
Property Development	52.1	96.3	-45.9%	25.5	104.3%	
Property Investment	20.6	38.7	-46.8%	22.1	-7.1%	
Construction	31.0	-11.1	-380.3%	27.3	13.4%	
Trading & Manufacturing	9.1	10.3	-11.8%	9.0	0.7%	
Quarry	4.4	4.3	2.4%	4.8	-7.2%	
Investment Holdings	-4.6	6.3	-173.8%	-5.0	-8.0%	
Others	3.3	7.8	-57.1%	2.3	43.7%	
Eliminations	0.0	0.0	!	0.0		
TOTAL	115.9	152.6	-24.1%	86.1	34.6%	
CORE Operating Margin						
Property Development	23.4%	23.1%		12.6%		
Property Investment	15.1%	8.6%		15.9%		
Construction	7.1%	-2.2%		6.4%		
Trading & Manufacturing	6.1%	5.5%		5.5%		
Quarry	8.6%	8.0%		10.5%		
Investment Holdings	-8.0%	11.3%		-5.8%		
Others	2.9%	6.5%		2.7%		
Total	11.3%	10.0%		8.4%		

Source: Company, Kenanga Research

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Income Statement

FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	3692	3849	4734	5953	6284
EBITDA	427	417	806	900	996
Depreciation	-105	-95	0	-113	-122
EBIT	322	322	806	786	873
Interest Expense	-81	-100	-138	-115	-121
Investing	28	23	36	43	31
Associate/JCE	186	296	172	93	113
Exceptionals/FV	44	182	1018	0	0
PBT	499	723	1894	807	897
Taxation	-70	-125	-121	-182	-200
Minority Interest	-41	-67	-273	-85	-124
Net Profit	388	530	1500	540	572
Core Net Profit	354	350	483	540	572

Balance Sheet

FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Fixed Assets	2866.8	2646.1	3540.2	4325.3	5004.5
Intangibles	326.5	318.1	319.9	319.9	319.9
Other FA	1365.8	1589.7	2368.8	2368.8	2368.8
Inventories	451.8	650.3	622.9	839.2	924.8
Receivables	1451.7	2127.5	2678.7	3297.3	3480.7
Other CA	604.3	492.8	62.7	62.7	62.7
Cash	776.7	1158.9	1527.3	1114.6	1043.4
Total Assets	7843.6	8983.5	11120.4	12327.8	13204.8
Payables	1647.1	1771.8	2154.0	2676.5	2801.1
ST Borrowings	311.0	1764.8	1804.9	1804.9	1804.9
Other ST Liability	52.7	31.2	24.2	24.2	24.2
LT Borrowings	1914.9	972.2	990.6	1143.4	1304.2
Other LT Liability	573.6	477.6	486.5	494.9	497.2
Minority Int.	327.3	380.9	317.3	402.2	526.7
Net Assets	3016.9	3585.1	5342.9	5781.7	6246.6
Share Capital	1292.5	1292.5	1723.4	1723.4	1723.4
Reserves	1724.4	2292.6	3619.6	4058.3	4523.2
Shareholders Equity	3016.9	3585.1	5342.9	5781.7	6246.6

Cashflow Statement

FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Operating CF	399.0	389.7	863.9	633.6	862.5
Investing CF	-293.0	-369.8	-1240.0	-553.3	-396.6
Financing CF	-196.3	274.1	744.3	-54.2	-72.2
Net Change in Cash	-90.2	293.9	368.3	26.1	393.7
Free Cash Flow	172.4	-43.5	531.6	412.8	938.2

Source: Kenanga Research

Financial Data & Ratios

FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Growth (%)					
Revenue	19.0	4.3	23.0	25.8	5.6
EBITDA	-36.8	-2.4	93.3	11.6	10.7
EBIT	-45.4	-0.2	150.5	-2.4	11.0
Pre-tax Income	-30.4	45.0	162.0	-57.4	11.1
Net Income	-43.4	36.8	183.0	-64.0	6.0
Core Net Profit	n.a.	-1.1	37.7	11.9	6.0
Profitability (%)					
EBITDA Margin	11.6	10.8	17.0	15.1	15.8
EBIT Margin	8.7	8.4	17.0	13.2	13.9
PBT Margin	13.5	18.8	40.0	13.6	14.3
Net Margin	10.5	13.8	31.7	9.1	9.1
Core Net Margin	9.6	9.1	10.2	9.1	9.1
Effective Tax Rate	-14.0	-17.3	-22.6	-22.3	-22.3
ROE	11.9	16.1	33.6	9.7	9.5
ROA	5.2	6.3	14.9	4.6	4.5

DuPont Analysis

Net margin (%)	10.5	13.8	31.7	9.1	9.1
Assets Turnover (x)	0.5	0.5	0.5	0.5	0.5
Leverage Factor (x)	2.3	2.5	2.3	2.1	2.1
ROE (%)	11.9	16.1	33.6	9.7	9.5

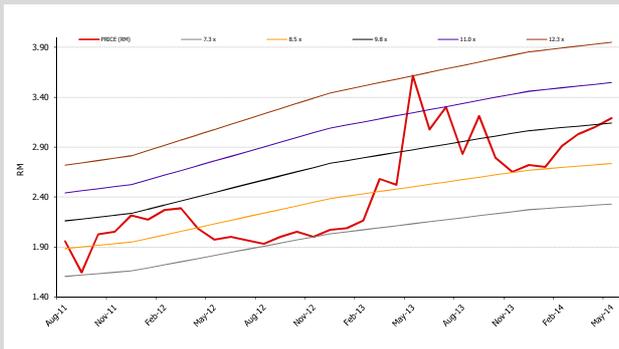
Leverage

Debt/Asset (x)	0.28	0.30	0.25	0.24	0.24
Debt/Equity (x)	0.74	0.76	0.52	0.51	0.50
Net Debt/(Cash)	1.4	1.6	1.3	1.8	2.1
Net Debt/Equity (x)	0.37	0.39	0.24	0.32	0.33

Valuations

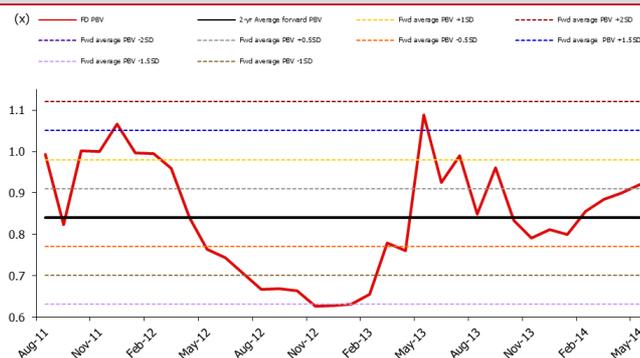
EPS (sen)	22.5	30.8	69.7	25.1	26.6
Core EPS	20.6	20.3	28.0	31.3	33.2
NDPS (sen)	0.0	6.0	10.0	7.8	8.3
BV/share (RM)	1.75	2.08	3.10	3.35	3.62
Core PER (x)	15.5	15.7	11.4	10.2	9.6
Net Div. Yield (%)	0.0%	1.9%	3.1%	2.5%	2.6%
PBV (x)	1.8	1.5	1.0	1.0	0.9
EV/EBITDA (x)	16.3	17.0	8.4	8.1	7.6

Fwd PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



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NAME	Price (29/5/14)	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)		FY13/ 14	FY14/ 15	FY15/ 16				FY13/ 14	FY14/ 15	FY15/ 16				
DEVELOPERS UNDER COVERAGE															
UEM Sunrise*	2.11	9,574	20.9	16.4	17.5	1.9%	10.2%	1.5	459.1	603.3	643.1	31.4%	6.6%	2.60	OUTPERFORM
IOI Properties*	2.57	8324	15.4	18.6	14.1	0.0%	5.2%	0.8	538.9	446.5	589.4	-17.1%	32.0%	3.08	OUTPERFORM
SP Setia*	2.96	7,452	17.4	16.5	13.0	4.4%	8.7%	1.1	417.9	441.2	558.4	5.6%	26.6%	3.03	MARKET PERFORM
Sunway Berhad	3.19	5499	11.4	10.2	9.6	2.5%	33.6%	1.0	482.7	540.0	572.2	11.9%	6.0%	3.62	OUTPERFORM
IJM Land*	3.06	4,770	14.2	13.0	11.9	2.0%	17.7%	1.3	335.2	368.0	400.2	9.8%	8.7%	3.31	OUTPERFORM
Mah Sing Group	2.26	3,228	11.4	9.5	8.3	4.2%	17.6%	1.5	280.6	334.6	385.5	19.2%	15.2%	2.45	OUTPERFORM
UOA Development*	2.12	2,839	8.2	8.3	7.7	6.6%	16.0%	1.1	344.6	342.0	368.8	-0.8%	7.8%	2.25	MARKET PERFORM
Tropicana	1.52	2,080	11.6	7.2	8.1	2.8%	15.3%	0.6	145.3	233.1	207.3	60.4%	-11.1%	1.94	OUTPERFORM
Matrix Concepts	4.07	1,236	8.0	7.3	6.4	6.1%	29.8%	1.9	152.9	167.2	190.2	9.4%	13.8%	3.20***	OUTPERFORM
Crescendo*	2.70	614	7.3	7.3	6.6	5.6%	18.4%	0.8	84.2	84.4	93.2	0.3%	10.5%	3.15	OUTPERFORM
Hua Yang	1.90	502	6.1	4.9	4.4	7.0%	22.8%	1.1	82.2	102.9	113.7	25.2%	10.5%	1.96	OUTPERFORM
* Core NP and Core PER															
** Crescendo per share data is based on non-Fully Diluted															
***RM3.20 is a post bonus TP. Pre-bonus TP is RM4.80															
CONSENSUS NUMBERS															
BERJAYA LAND BHD	0.85	4,230	37.9	n.a.	n.a.	n.a.	2.1%	0.8	111.5	n.a.	n.a.	n.a.	n.a.	0.93	BUY
IGB CORPORATION BHD	2.75	3,671	17.3	16.7	15.7	2.4%	4.7%	0.9	211.7	220.3	233.6	4.0%	6.1%	3.75	NEUTRAL
YNH PROPERTY BHD	1.94	781	16.6	11.8	10.5	2.6%	5.6%	1.0	47.2	66.4	74.5	40.9%	12.1%	1.76	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.93	771	28.5	54.7	42.3	n.a.	2.5%	0.8	27.0	14.1	18.2	-47.9%	29.4%	n.a.	NEUTRAL
GLOMAC BHD	1.07	778	6.7	6.9	6.1	4.7%	14.1%	0.9	116.1	112.7	126.5	-3.0%	12.3%	1.22	NEUTRAL
KSL HOLDINGS BHD	2.20	850	4.6	4.1	4.2	1.4%	19.1%	0.7	185.6	208.7	200.9	12.4%	-3.7%	n.a.	BUY
PARAMOUNT CORP BHD	1.63	551	9.4	9.6	9.6	5.5%	7.5%	0.8	58.3	57.4	57.4	-1.6%	0.0%	1.88	BUY
IVORY PROPERTIES GROUP BHD	0.63	278	17.5	n.a.	n.a.	n.a.	1.5%	0.7	15.9	n.a.	n.a.	n.a.	n.a.	n.a.	BUY
TAMBUN INDAH LAND BHD	1.98	800	8.9	8.5	6.8	4.4%	22.0%	2.4	89.8	94.2	117.2	4.9%	24.5%	2.23	BUY
Source: Kenanga Research															

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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 sector'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 sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector'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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