

Sunway Berhad

Sunway Iskandar: Where Living Takes Place

By Sarah Lim | sarahlim@kenanga.com.my; Adrian Ng | adrian.ng@kenanga.com.my

OUTPERFORM ↔

Price: **RM3.21**

Target Price: **RM3.62** ↔

We visited Sunway Berhad (SUNWAY)'s flagship development project in Johor, namely the Sunway Iskandar yesterday, and came back feeling positive on Sunway Iskandar's master plan as it could potentially replicate Sunway Resort City's success in the Klang Valley. At the same time, we are also excited with the launch of Citrine at the Lakeview (GDV: RM300m) which marks the first phase of development in Sunway Iskandar as the take-up rate would be a major indicator on buying interests in the Iskandar region and whether buyers are becoming more discerning in selecting an evolving development in which SUNWAY could be the game changer on the property landscape in Iskandar. Hence, we reiterate our **OUTPERFORM** call on SUNWAY with an unchanged SoP driven Target Price of RM3.62.

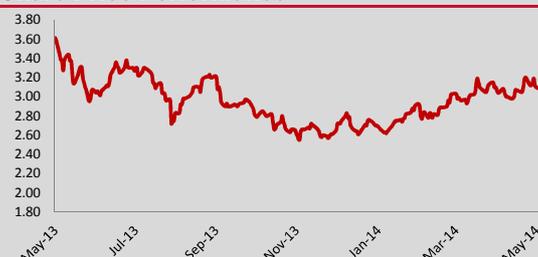
Nature's Capital City. Sunway Iskandar with an estimated GDV of RM30.0b is SUNWAY's flagship township development measuring approximately 1,800 acres of land across Medini and Pendas in Iskandar, Johor strategically located in Nusajaya has close proximity to the Tuas Second Link (5 minutes) which connects Johor Bahru and Singapore through the proposed Southern Access link and 40% of its land would be preserved as green space which strikes a perfect balance between nature and city living lifestyle.

Emulating Sunway Resort City's success. We note that the management would be emulating Sunway Resort City's successful development approach in Sunway Iskandar through value creation and enhancements in townships security, connectivity and also accessibility to public amenities. Sunway Iskandar will be a low-density development (plot ratio: 1) that consists 6 self-sustaining and interconnectable precincts namely the Capital, the Market Place, the Riverside, the Parkview, the Seafront and the Lakeview that would have easy access to world-class amenities i.e. retail malls, education hub, medical city, and theme parks coupled with tight security features due to SUNWAY's strong auxiliary police force.

Citrine, the beginning of Sunway Iskandar. In 3Q14, management is looking forward to launch its first phase of development in Sunway Iskandar namely Citrine at the Lakeview (GDV: RM300-350m), which consists 328 units of service apartments, 167 units of designer office suites, and also 51 retail units (managed by SUNWAY) with interconnectable car parks. Its serviced apartments will be adjacent to its upcoming Sunway International School and home owner-occupiers' children could potentially enjoy lower tuition fee rates for being a part of Sunway Iskandar's community. Hence, with its well-planned integrated amenities which will be on-going and evolve over the development of Sunway Iskandar and being competitively priced at c.RM700 psf vis-à-vis the pricing ranges c.RM600-1000 psf on the developments nearby like Meridin @ Medini, Medini Signature, Iskandar Residences, Paradiso Nuova and etc. which are mostly 'one-off' developments, we believe that Citrine's service apartments would garner strong interest from foreign working nationals nearby i.e. Pinewoods Studio (right beside Sunway Iskandar). As there are no major office developments in Medini, we believe that its designer offices should fare well coupled with the fact that Medini has an exemption from corporate tax up to 2020 for selective industries. However, we do note that Citrine's take-up rate upon launch in 3Q14 would be major indicator of whether interests are still present in the Iskandar region and also if buyers are becoming more discerning in selecting an evolving development rather than one-off type of development.

OUTPERFORM maintained. We reiterate our **OUTPERFORM** call on SUNWAY with an unchanged SoP driven Target Price of RM3.62 for its synergistic business, which enriches its core driver as an integrated township developer and also its ability to create and enhance value to its developments.

Share Price Performance



KLCI	1865.20
YTD KLCI chg	-0.1%
YTD stock price chg	18.0%

Stock Information

Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	5,533.0
Issued shares	1,723.7
52-week range (H)	3.47
52-week range (L)	2.54
3-mth avg daily vol:	1,082,679
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)	-	493	534
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)	11.5	10.2	9.7
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%

05 June 2014

Sum-of-Parts

	Stake	Value @ Stake RM'm	PE R (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

Sunway Iskandar Masterplan



Source: Company, Kenanga Research

Sunway Iskandar Showroom Viewing Deck



Source: Company, Kenanga Research

Sunway Iskandar Showroom



Source: Company, Kenanga Research

View of Pendas River and Tuas Second Link



Sunway Citrine at The Lakeview Artist Impression



Source: Company, Kenanga Research

05 June 2014

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

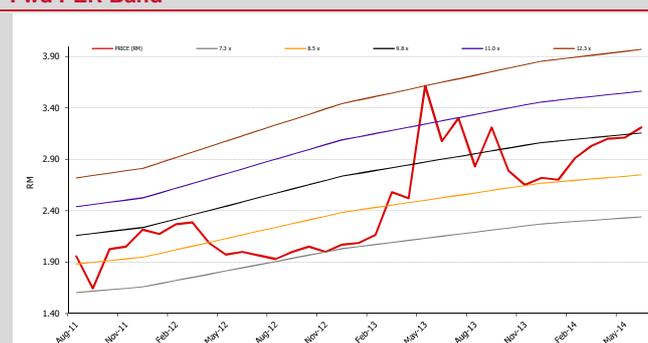
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Operating CF	399.0	389.7	863.9	633.6	862.5
Investing CF	-293.0	-369.8	-1240.0	-553.3	-396.6
Financing CF	-196.3	274.1	744.3	-54.2	-72.2
Net Change in Cash	-90.2	293.9	368.3	26.1	393.7
Free Cash Flow	172.4	-43.5	531.6	412.8	938.2

Source: Kenanga Research

Financial Data & Ratios

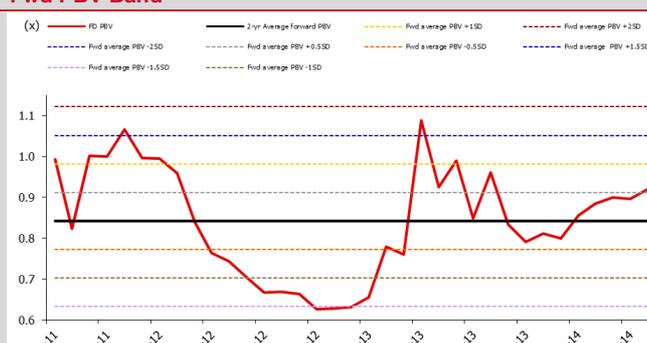
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Growth (%)					
Revenue	19.0	4.3	23.0	25.8	5.6
EBITDA	-36.8	-2.4	93.3	11.6	10.7
EBIT	-45.4	-0.2	150.5	-2.4	11.0
Pre-tax Income	-30.4	45.0	162.0	-57.4	11.1
Net Income	-43.4	36.8	183.0	-64.0	6.0
Core Net Profit	n.a.	-1.1	37.7	11.9	6.0
Profitability (%)					
EBITDA 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)	15.6	15.8	11.5	10.2	9.7
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



05 June 2014

NAME	Price (4/6/14)	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*	2.09	9,483	20.7	16.2	17.3	1.9%	10.2%	1.5	459.1	603.3	643.1	31.4%	6.6%	2.60	OUTPERFORM
IOI Properties*	2.50	8098	15.0	18.1	13.7	0.0%	5.2%	0.7	538.9	446.5	589.4	-17.1%	32.0%	3.08	OUTPERFORM
SP Setia*	2.93	7,376	17.2	16.3	12.9	4.4%	8.7%	1.1	417.9	441.2	558.4	5.6%	26.6%	3.03	MARKET PERFORM
Sunway Berhad	3.21	5533	11.5	10.2	9.7	2.4%	33.6%	1.0	482.7	540.0	572.2	11.9%	6.0%	3.62	OUTPERFORM
IJM Land*	3.27	5,097	15.2	13.9	12.7	1.8%	17.7%	1.4	335.2	368.0	400.2	9.8%	8.7%	3.31	OUTPERFORM
Mah Sing Group	2.27	3,242	11.4	9.6	8.3	4.2%	17.6%	1.5	280.6	334.6	385.5	19.2%	15.2%	2.45	OUTPERFORM
UOA Development*	2.14	2,866	8.3	8.4	7.8	6.5%	16.0%	1.1	344.6	342.0	368.8	-0.8%	7.8%	2.25	MARKET PERFORM
Tropicana	1.49	2,039	11.4	7.1	8.0	2.8%	15.3%	0.6	145.3	233.1	207.3	60.4%	-11.1%	1.94	OUTPERFORM
Matrix Concepts	4.04	1,227	8.0	7.3	6.4	6.2%	29.8%	1.9	152.9	167.2	190.2	9.4%	13.8%	3.20***	OUTPERFORM
Crescendo*	2.67	607	7.2	7.2	6.5	5.7%	18.4%	0.8	84.2	84.4	93.2	0.3%	10.5%	3.15	OUTPERFORM
Hua Yang	1.93	510	6.2	4.9	4.5	6.9%	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	2.77	3,698	17.5	16.8	15.8	2.4%	4.7%	0.9	211.7	220.3	233.6	4.0%	6.1%	3.75	NEUTRAL
YNH PROPERTY BHD	2.00	805	17.1	12.1	11.1	2.3%	5.6%	1.0	47.2	66.4	72.5	40.9%	9.1%	1.76	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.91	755	27.9	53.5	41.4	n.a.	2.5%	0.8	27.0	14.1	18.2	-47.9%	29.4%	n.a.	BUY
GLOMAC BHD	1.06	770	6.6	6.7	5.8	4.7%	14.1%	0.9	116.1	114.8	132.3	-1.1%	15.2%	1.22	NEUTRAL
KSL HOLDINGS BHD	2.16	835	4.5	4.0	4.2	1.4%	19.1%	0.6	185.6	208.7	200.9	12.4%	-3.7%	n.a.	BUY
PARAMOUNT CORP BHD	1.62	547	9.4	9.5	9.5	5.6%	7.5%	0.8	58.3	57.4	57.4	-1.6%	0.0%	1.88	BUY
IVORY PROPERTIES GROUP BHD	0.61	272	17.0	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	2.07	837	9.3	8.9	7.1	4.3%	22.0%	2.5	89.8	94.2	117.2	4.9%	24.5%	2.23	BUY
Source: Kenanga Research															

05 June 2014

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research

