

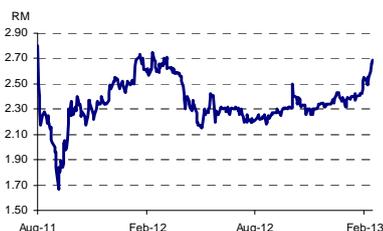
Company Update

Sunway Bhd

SWB MK
RM2.69

BUY (upgrade)

Price Target: RM3.28 (↑)



Price Performance

	1M	3M	12M
Absolute	+13.5%	+15.0%	+2.3%
Rel to KLCI	+11.3%	+12.6%	-2.4%

Stock Data

Issued shares (m)	1,292.5
Mkt cap (RMm)	3,476.8
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	2.12-2.73
Est free float	38.3%
NTA/share (RM)	2.51
P/NTA (x)	1.1
Net cash/(debt) (RMm)(4Q12)	(1,606)
ROE (FY13E)	10.1%
Derivatives	
Warr 2016 (WP:RM0.445, SP: RM2.80)	

Key Shareholders

Tan Sri Jeffrey Cheah	49.5%
GIC	12.2%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	26.8	27.5	30.9
Curr EPS (sen)	29.2	32.2	37.1
Chg (%)	+8.9	+17.1	+20.0
Prev target price (RM)		2.78	
Curr target price (RM)		3.28	

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An attractive proxy to Iskandar

Iskandar developers garnering attention

The newsflows on Iskandar have picked-up considerably over the past 2 months. Notable newsflows are the announcement of the proposed KL-Singapore High Speed Rail project and Singapore-JB Rail Transit System project, as well as the entry of major foreign real estate players like CapitaLand, Ascendas Land and Country Garden to undertake development projects in Iskandar. These positive developments, coupled with improved market sentiment, have resulted in the share price rally of developers with sizeable exposure to Iskandar.

Iskandar projects account for 59% of Sunway's total GDV

Sunway, traditionally viewed as a Klang-Valley focused integrated developer and major construction group, has been actively acquiring land bank in Iskandar. To-date, the group has accumulated 1,858 acres of land bank in Iskandar with a potential GDV of RM30.9bn, representing 48% of its total land bank and 59% of its total GDV. Sunway is now the 2nd largest land bank owner in Iskandar among the listed developers, behind UEM Land. However, Sunway has yet to launch any projects in Iskandar. Its maiden project, Phase 1 of Sunway Lenang Heights (comprises of RM200m worth of Semi-Ds and bungalows) is slated for launching in April 2013. Thereafter, Sunway will launch the Phase 1 of its Medini project, a RM400-500m integrated development project in end-2013/ early-2014.

Raising FY13-15 earnings forecast by 9-20%

We are raising our FY13-15 earnings forecast by 9-20%, imputing a higher FY13-15 property sales assumption of RM1.3bn per year (from RM1bn per year) on Sunway's stronger-than-expected FY13 property launches pipeline. Sunway plans to launch RM1.5bn worth of new properties in 2013, comprises of projects in Sunway South Quay (RM400m), Sunway Velocity (RM200m), Sunway Lenang Heights (RM200m), the Hoi Hup-Sunway Novena project (RM600m), and others (RM100m). Moving into 2014-15, we believe the Medini/ Pendas project will be a key contributor to Sunway with sales contributions of over RM300m per annum.

Upgrade to BUY with a higher TP of RM3.28 (from RM2.78)

We are upgrading Sunway to **BUY** from **ADD** with a higher TP of RM3.28 (from RM2.78) based on 30% discount to RNAV (from 40%). We have narrowed our TP discount to RNAV as we expect the positive developments in Iskandar, recent re-rating of Iskandar-focused developers and potential listing of Iskandar Waterfront Holdings to re-rate its share price closer to RNAV. We view Sunway as an attractive proxy to Iskandar: (i) Sunway trades at an attractive 9x CY13 EPS, substantially lower than UEM Land's 22x CY13 EPS; (ii) Sunway's low Iskandar land cost and favourable payment structure will ensure its long-term competitiveness; and (iii) Sunway's share price has lagged other Iskandar-focused developers, rising by 13% YTD vis-a-vis peers' YTD gains of 18-48%.

Earnings & Valuation Summary

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Revenue	3,691.7	3,876.8	4,053.6	4,679.0	4,649.2
EBITDA	457.0	470.7	482.8	542.5	563.6
Pretax profit	498.5	728.2	540.3	608.5	678.2
Net profit	372.1	532.3	377.4	416.6	478.9
EPS (sen)	28.8	41.2	29.2	32.2	37.1
PER (x)	9.3	6.5	9.2	8.3	7.3
Core net profit	327.1	350.6	377.4	416.6	478.9
Core EPS (sen)	25.3	27.1	29.2	32.2	37.1
Core EPS chg (%)	14.3	7.2	7.7	10.4	15.0
Core PER (x)	10.6	9.9	9.2	8.3	7.3
DPS (sen)	-	6.0	7.0	8.0	8.0
Dividend Yield (%)	-	2.2	2.6	3.0	3.0
EV/EBITDA (x)	10.8	10.8	10.4	9.4	8.8
Consensus profit	-	-	374.1	419.3	499.4
Affin/Consensus (x)	-	-	1.0	1.0	1.0

Iskandar developers garnering attention

Iskandar developers garnering attention

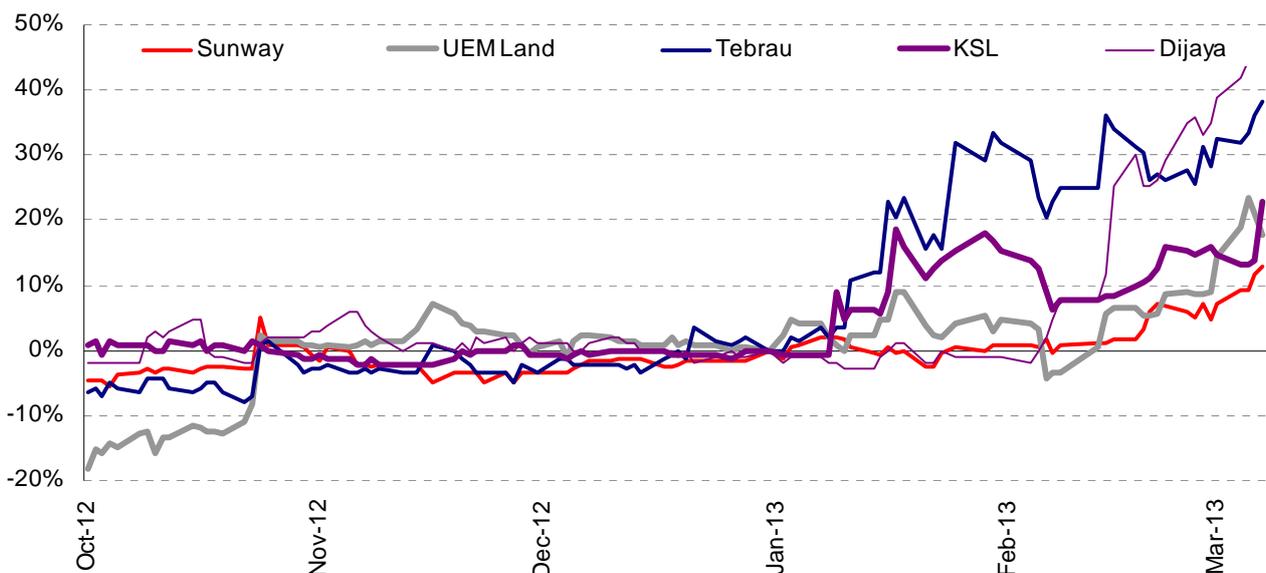
The newsflows on Iskandar have picked-up considerably over the past 2 months. Notable newsflows are the announcement of the proposed KL-Singapore High Speed Rail project and Singapore-JB Rail Transit System project, as well as the entry of major foreign real estate players like CapitaLand, Ascendas Land and Country Garden (at record transaction prices) to undertake development projects in Iskandar. These positive developments, coupled with improved market sentiment, have resulted in the share price rally (+18-48% YTD) of developers with sizeable exposure to Iskandar (UEM Land, Tebrau, KSL and Dijaya).

Fig 1: Notable newsflows/ land acquisitions relating to Iskandar Malaysia

Date	Newsflows
19-Feb-13	Malaysia and Singapore to build a high speed rail link between Singapore and KL.
19-Feb-13	Temasek and CapitaLand entered into an agreement with Iskandar Waterfront Holdings Bhd to buy a man-made island measuring 28.3 ha in Danga Bay for RM800m (RM262 psf).
19-Feb-13	Malaysia and Singapore agreed to go ahead with the Rapid Transit System (RTS) linking Johor Bahru and Singapore. Both countries had a year to draft the plans on the preferred option for the RTS.
24-Jan-13	Sunway-IIB bought a second plot of land in Pendas measuring 300 acres for RM183.8m (RM14 psf).
4-Dec-12	China's Country Garden buy 55-acres of land at Danga Bay for RM900m from IWH (RM376 psf).
4-Dec-12	Sunway-IIB acquired a 779-acre land bank in Pendas for RM413m (RM12 psf).
4-Dec-12	Singapore's Fastrack Autosports and UEM Land to jointly develop an integrated motorsports hub in Iskandar. The JVCo will acquire 109 ha of land from UEM for RM223m (RM19 psf).
2-Nov-12	WCT acquired from IIB 18.1 acres of land in Medini for RM99m (RM126 psf).
23-Oct-12	Ascendas Land to JV with UEM Land to develop an integrated eco-friendly tech park in Nusajaya. The JVCo will acquire 519-acre of land in Iskandar for RM294-416m (RM13-20 psf).
18-Oct-12	Mah Sing acquired from IIB 8.2 acres of land in Medini for RM75n (RM209 psf).

Source: Various, Affin

Fig 2: Share price performance of developers with significant exposure to Iskandar



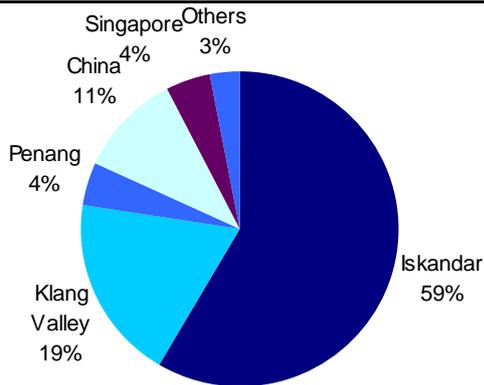
Source: Bloomberg

Sunway is an emerging Iskandar play

Iskandar projects account for 59% of Sunway's total GDV

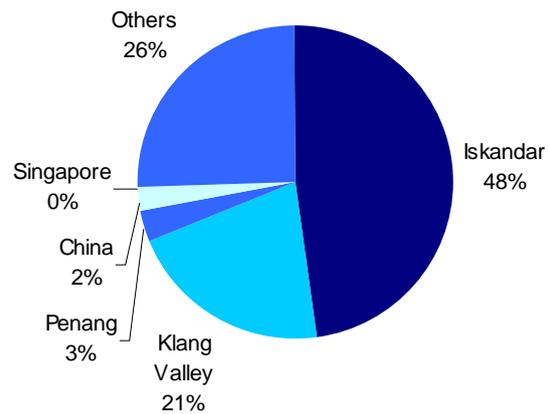
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Fig 3: Sunway's GDV breakdown (RM52.3bn)



Source: Company

Fig 4: Sunway's land bank breakdown (3,894 acres)



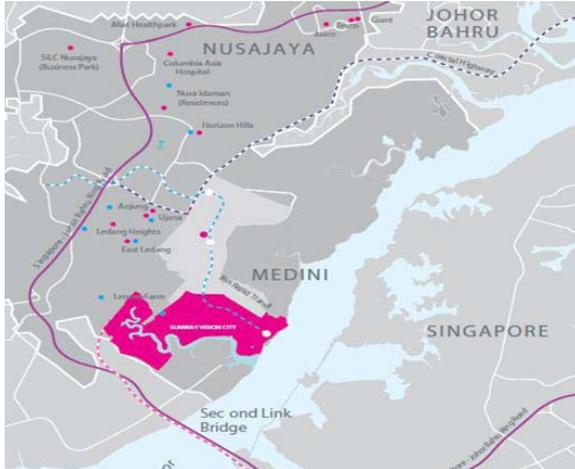
Source: Company

Land bank strategically located at Plentong, Medini and Pendas

Sunway's Iskandar land bank can be broadly divided into 2 parcels:

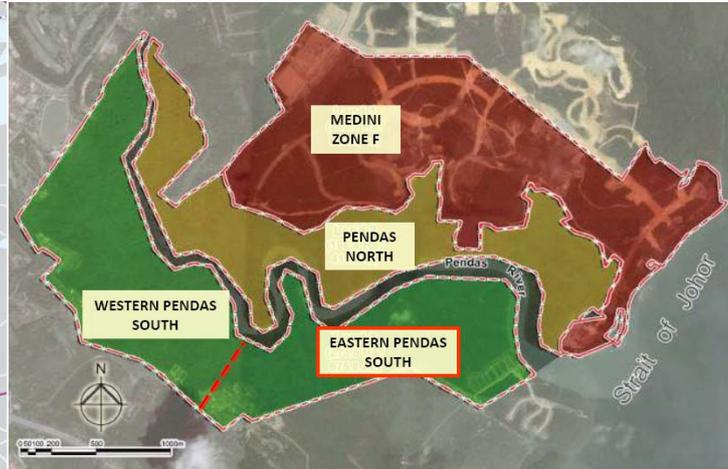
- (i) 65-acre land in Plentong acquired in end-2010 for RM59.20 psf. The land is surrounded by matured townships such as Taman Molek, Taman Redang and Taman Johor Jaya. Sunway plans to develop the land into a high-end residential project with GDV of RM932m. Sunway plans to launch phase 1 of the project (Sunway Lenang Heights) in April 2013. The project Phase 1 has a GDV of RM200m, comprises of over 100 units of semi-D and bungalows priced at RM1.2m-RM2m. The subsequent phases will include more semi-Ds, bungalows as well as condominiums;
- (ii) 1,770-acre land in Medini Zone F and Pendas, South of Medini Iskandar (acquired in end-2011, end-2012 and Jan-2013). This contiguous land bank comprises of 4 parcels – a 691-acre land in Medini owned by Sunway-Khazanah JV and 3 parcels of land in Pendas owned by Sunway-IIB JV. Sunway plans to develop a comprehensive, complementary RM30bn project across the 4 parcels of land with a 60% residential and 40% commercial mixed. Preliminarily, the concept will be similar to that of Bandar Sunway where the development will comprise of landed residential, integrated development, hotel, a marina, theme park, education hubs and healthcare facility. Sunway plans to launch Phase 1 of Medini project, a RM400-500m integrated development which comprises of commercial units (20%), offices (20%), service apartments (30%) and hotels (30%) in end-2013/ early 2014.

Fig 5: Location map the Medini/ Pendas land



Source: Company

Fig 6: Medini Zone F is contiguous to the Pendas land



Source: Company

Sunway’s Iskandar advantage: low land cost, favourable payment terms, strong partners, strong Singapore property track record

Given the strong upcoming property supply in Iskandar, developers will need to provide good product offerings with strong concept/ brandings, innovative designs and competitive selling prices to attract the potential buyers. In our view, Sunway has several inherent advantages to compete in the Iskandar property market:

- (i) low land cost. Sunway’s Medini/ Pendas land cost of RM12-25psf is lower than peers’ land costs of RM19-376psf;
- (ii) the Sunway-Khazanah and Sunway-IIB JVCos enjoy favourable payment terms where the land costs are to be paid over a period of 10-years, thereby easing cash flow / interest burden on JVCo, lowering operating cost and increase competitiveness;
- (iii) Sunway has strong project partners in Khazanah and IIB, the strategic developers of major catalytic projects in Iskandar;
- (iv) Sunway has extensive experience with integrated township development (Bandar Sunway) as well as standalone integrated projects development (Sunway Velocity, Sunway Nexis); and
- (v) Sunway’s strong property development track record in Singapore (via the Hoi Hup Sunway JV) will be an added advantage for the group to attract Singapore buyers.

Valuation and Recommendation

Raising FY13-15 earnings forecast by 8-20%

We are raising our FY13-15 earnings forecast by 9-20%, imputing a higher FY13-15 property sales assumption of RM1.3bn per year (from RM1bn per year) on Sunway's stronger-than-expected FY13 property launches pipeline. We recently met up with management for an update on its 2013 property launching pipelines. We gathered that Sunway plans to launch RM1.5bn worth of new properties in 2013, comprises of projects in Sunway South Quay (RM400m), Sunway Velocity (RM200m), Sunway Lenang Heights (RM200m), the Hoi Hup-Sunway Novena project (RM600m), and others (RM100m). Moving into 2014-15, we believe the Medini/ Pendas project will be a key contributor to Sunway with sales contributions of over RM300m per annum.

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Fig 7: Peers comparison

Stock	Rating	Sh Pr		Mkt Cap	Year End	Core PE (x)		EPS growth (%)		EV/EBITDA (x)	P/B (x)	ROE (%)		Div Yield (%)	
		(RM)	(RM)			CY13	CY14	CY13	CY14			CY13	CY14	CY13	CY14
KLCCP*	BUY	6.70	7.20	12,096	Dec	17.9	17.0	3.6	5.3	14.6	1.4	6.6	5.9	4.9	5.0
UEM Land**	NR	2.47	na	10,694	Dec	21.7	19.4	14.0	11.4	19.0	2.0	8.9	9.0	1.1	1.3
SP Setia	ADD	3.35	3.55	6,719	Oct	17.2	15.6	-3.8	10.2	15.4	1.7	9.9	9.1	4.8	5.4
Sunway	BUY	2.69	3.28	3,477	Dec	9.2	8.3	7.7	10.4	10.5	1.0	10.2	10.4	2.6	3.0
JMLand	ADD	2.34	2.36	3,284	Mar	13.0	11.3	35.0	15.0	11.8	1.3	8.3	10.2	2.1	2.4
Mah Sing**	NR	2.27	na	2,543	Dec	8.6	7.0	6.0	21.9	6.8	2.0	19.3	20.2	4.6	5.5
UOA Dev	BUY	1.93	2.42	2,453	Dec	7.3	6.7	54.7	9.4	4.0	1.2	15.3	15.4	6.7	7.3
Dijaya**	NR	1.52	na	1,206	Dec	15.8	11.3	118.2	40.6	7.8	0.6	4.2	5.9	3.3	3.3
KSL	BUY	1.77	2.18	691	Dec	5.4	4.7	-0.5	13.8	4.8	0.6	11.4	11.6	1.7	1.7

* Post completion of restructuring exercise

** Consensus estimates

Source: Bloomberg, Affin

Fig 8: Sunway's RNAV

Description					
Property Development	Stake	Acres	GDV (RMm)	NPV @ 8% (RMm)	Surplus (RMm)
Sunway South Quay	60%	52.0	3,893.0	241.8	145.1
Sunway Velocity	50%	22.0	3,191.0	198.2	99.1
Damansara	60%	18.0	826.0	69.0	41.4
Melawati	100%	31.0	555.0	34.5	34.5
Sunway Towers KL	100%	1.0	240.0	21.5	21.5
Taman Duta	60%	3.0	120.0	11.6	7.0
Casa Kiara	80%	3.0	230.0	20.6	16.5
Johor	80%	64.0	932.0	80.8	64.6
Penang Grp	100%	108.0	1,202.0	77.7	77.7
Semenyih	70%	398.0	729.0	43.2	30.2
Ipoh	65%	899.0	286.0	17.8	11.5
Taman Equine	100%	33.0	250.0	15.5	15.5
Bangi	100%	3.0	59.0	3.7	3.7
Melawati 2	100%	2.0	43.0	2.7	2.7
Sg Long	80%	111.0	277.0	17.9	14.3
Mont Putra	100%	163.0	156.0	11.8	11.8
Johor - Medini + Pedas	60%	1,770.0	30,000.0	937.0	562.2
Others (Malaysia)	77%	12.0	38.0	2.2	1.7
Yishun, Singapore	30%	7.0	851.0	56.9	17.1
Tampines, Singapore	30%	5.0	1,070.0	71.6	21.5
Yuan Ching Road, Singapore	30%	5.0	828.0	55.4	16.6
Novena, Singapore	30%	1.7	2,196.0	204.6	61.4
Pasir Ris, Singapore	30%	4.3	861.6	83.3	25.0
Sembawang, Singapore	100%	0.8	75.0	2.6	2.6
Tianjin, China	60%	102.0	5,000.0	214.0	128.4
Jiangyin, China	39%	17.0	454.0	5.3	2.0
Opus, India	50%	35.0	745.0	56.2	28.1
MAK, India	60%	14.0	181.0	15.7	9.4
Australia	31%	91.0	612.0	38.0	11.8
Sri Lanka	65%	1.0	250.0	21.7	14.1
Subtotal:		4,009	56,871	2,632	1,498.8
REIT	Stake		Book Value (RMm)	Mkt Value (RMm)	Surplus (RMm)
Sunway REIT @ RM1.51 per unit	36.5%		969.6	1,609.2	233.7
Subtotal:					233.7
Other business					RMm
Construction @ 12x FY13 PER					643.6
Other business @ 10x FY13 PER					608.5
Subtotal:					1,252.1
Total (RMm)					2,984.6
Shareholders' Fund @ Dec, 2012 (RMm)					3,558.4
Warrants conversion (RMm)					723.8
RNAV (RMm)					7,266.8
Enlarged shares base (m)					1551.0
Fully diluted RNAV per share (RM)					4.69
Discount (%)					30%
Fair value per share (RM)					3.28

Sunway Bhd – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RMm)	2011	2012	2013E	2014E	2015E
Revenue	3,692	3,877	4,054	4,679	4,649
Operating expenses	(3,235)	(3,406)	(3,571)	(4,137)	(4,086)
EBITDA	457	471	483	542	564
Depreciation	(91)	(90)	(94)	(99)	(104)
EBIT	366	381	388	443	460
Net int inc/(exp)	(53)	(78)	(70)	(69)	(71)
Associates' contribution	186	301	222	234	289
Exceptional items	-	124	-	-	-
Pretax profit	499	728	540	608	678
Tax	(86)	(129)	(79)	(94)	(97)
Minority interest	(40)	(67)	(83)	(98)	(102)
Net profit	372	532	377	417	479
Core Net Profit	327	351	377	417	479

Balance Sheet Statement

FYE 31 Dec (RMm)	2011	2012	2013E	2014E	2015E
Fixed assets	2,867	3,000	3,105	3,206	3,302
Other long term assets	1,692	1,931	2,100	2,278	2,493
Total non-curr assets	4,559	4,931	5,205	5,484	5,795
Cash and equivalents	777	1,140	680	451	511
Stocks	452	626	644	744	739
Debtors	1,319	1,400	1,484	1,713	1,703
Other current assets	737	648	633	828	828
Total current assets	3,285	3,814	3,441	3,735	3,780
Creditors	2,006	1,605	1,683	1,945	1,924
Short term borrowings	310	783	600	500	400
Other current liabilities	38	31	31	31	31
Total current liab	2,353	2,419	2,314	2,476	2,355
Long term borrowings	1,916	1,964	1,600	1,600	1,600
Other long term liabilities	263	493	493	493	493
Total long term liab	2,178	2,458	2,093	2,093	2,093
Shareholders' Funds	2,985	3,558	3,845	4,159	4,534
Minority Interest	326	310	393	492	594

Cash Flow Statement

FYE 31 Dec (RMm)	2011	2012	2013E	2014E	2015E
Profit before tax	499	728	540	608	678
Depreciation & amortizatic	91	90	94	99	104
Working capital changes	346	(573)	(10)	(262)	(5)
Associates' contribution	(186)	(301)	(222)	(234)	(289)
Others	(350)	442	(79)	(94)	(97)
Cashflow frm ops	399	386	323	118	390
Capex	(337)	(465)	(200)	(200)	(200)
Disposal/(purchases)	(14)	317	-	-	-
Others	59	(210)	54	56	74
Cash flow frm inv't	(293)	(358)	(146)	(144)	(126)
Debt raised/(repaid)	867	401	(547)	(100)	(100)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(39)	(39)	(90)	(103)	(103)
Others	(1,023)	(116)	-	-	-
Cash flow frm fin.	(196)	247	(637)	(203)	(203)
Free Cash Flow	62	(79)	123	(82)	190

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2011	2012	2013E	2014E	2015E
Growth					
Revenue (%)	19.0	5.0	4.6	15.4	(0.6)
EBITDA (%)	(31.8)	3.0	2.6	12.4	3.9
Core net profit (%)	14.3	7.2	7.7	10.4	15.0
Profitability					
EBITDA margin (%)	12.4	12.1	11.9	11.6	12.1
PBT margin (%)	13.5	18.8	13.3	13.0	14.6
Net profit margin (%)	10.1	13.7	9.3	8.9	10.3
Effective tax rate (%)	17.3	17.7	14.7	15.4	14.3
ROA (%)	11.4	16.3	10.2	10.4	11.0
Core ROE (%)	10.1	10.7	10.2	10.4	11.0
ROCE (%)	7.3	6.6	6.3	7.2	7.2
Dividend payout ratio (%)	-	14.6	24.0	24.8	21.6
Liquidity					
Current ratio (x)	1.4	1.6	1.5	1.5	1.6
Op. cash flow (RMm)	399.0	386.1	323.3	118.3	390.2
Free cashflow (RMm)	61.8	(79.4)	123.3	(81.7)	190.2
FCF/share (sen)	4.8	(6.1)	9.5	(6.3)	14.7
Asset management					
Debtors turnover (days)	130.4	131.8	133.7	133.7	133.7
Stock turnover (days)	44.7	58.9	58.0	58.0	58.0
Creditors turnover (days)	220.1	167.6	167.6	167.6	167.6
Capital structure					
Net gearing (%)	48.5	45.2	39.5	39.7	32.8
Interest cover (x)	8.6	6.1	6.9	7.9	8.0

Quarterly Profit & Loss

FYE 31 Dec (RMm)	4Q11	1Q12	2Q12	3Q12	4Q12
Revenue	921.4	814.8	996.1	867.0	1,198.9
Operating expenses	(739.9)	(731.9)	(869.4)	(739.0)	(1,067)
EBITDA	181.5	82.9	126.6	128.0	132.4
Depreciation	(22.7)	(22.5)	(22.5)	(22.5)	(22.5)
EBIT	158.8	60.4	104.2	105.5	109.9
Net int income/(expense)	(15.7)	(18.6)	(22.8)	(19.4)	(16.7)
Associates' contribution	(1.5)	42.9	111.6	56.1	99.3
Exceptional Items	50.5	0.2	0.2	0.3	123.8
Pretax profit	192.1	84.9	193.1	142.4	316.3
Tax	(40.3)	(18.5)	(30.3)	(32.4)	(55.8)
Minority interest	(10.1)	(2.0)	(8.5)	(15.7)	(41.2)
Net profit	141.6	64.4	154.3	94.3	219.3
Core net profit	100.8	64.2	77.6	94.6	114.1
Margins (%)					
EBITDA	19.7	10.2	12.7	14.8	11.0
PBT	20.8	10.4	19.4	16.4	26.4
Net profit	15.4	7.9	15.5	10.9	18.3

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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