

Results Note

Sunway Bhd

SWB MK
RM3.88

BUY (maintain)

Price Target: RM4.66 (↑)



Price Performance

	1M	3M	12M
Absolute	+33.8%	+55.8%	+71.7%
Rel to KLCI	+29.5%	+43.8%	+52.4%

Stock Data

Issued shares (m)	1,292.5
Mkt cap (RMm)	5,014.9
Avg daily vol - 6mth (m)	1.23
52-wk range (RM)	2.17-4.08
Est free float	36.3%
BV/share (RM)	2.82
P/BV (x)	1.4
Net cash/(debt) (RMm)(1Q13)	(1,698)
ROE (FY13E)	10.1%
Derivatives	
Warr 2016 (WP:RM1.19, SP: RM2.80)	

Key Shareholders

Tan Sri Jeffrey Cheah	51.5%
GIC	12.2%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	29.2	32.2	37.1
Curr EPS (sen)	29.2	32.2	37.1
Chg (%)	-	-	-
Prev target price (RM)		3.28	
Curr target price (RM)		4.66	

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Solid 1Q13 net profit, maintain BUY

Solid 1Q13 core net profit of RM90m, within expectations

Sunway's 1Q13 core net profit grew by 40.7% to RM90.3m on higher revenue (+25.3% yoy), improved EBIT margin and higher associates/ JCE earnings (+11.7% yoy). Sunway's property development segment reported a stronger revenue of RM202.7m (+26.6% yoy) and higher EBIT of RM25.5m (+40.6% yoy) due to strong property sales and higher progress billings. The group's construction business had also reported a significantly stronger 1Q13 EBIT of RM27.3m (from RM7.4m) on higher progress billings of infrastructure and buildings works as well as stronger sales of precast products. Overall, the group's core net profit is inline with market expectations and our expectations, accounted for 24% of consensus and our full year earnings forecast.

Sequentially weaker

Sequentially, Sunway's 1Q13 core net profit was however 20.9% weaker due to lower EBIT from the property development (-70.7% qoq) and property investment businesses (-47.9% qoq) but partly cushioned by stronger EBIT contribution from construction business. The weaker property development earnings was due to lower new property sales in 1Q13 given the uncertainties of general election. Weaker 1Q13 property investment income was due to seasonal factor - the leisure and hospitality division typically enjoys higher visitorship and occupancy rate at year end due to the holiday season. A strong turnaround in construction EBIT (from RM6.5m loss in 4Q12 to RM27.3m profit in 1Q13) was due to higher progress billings and finalisation of accounts of some projects.

A slow 1Q13 property sales of RM238m, expect sales to pick-up in 2H13

Sunway achieved a weak (but expected) 1Q13 property sales of RM238m (+20.2% yoy, -60.9% qoq) due to lower property launches and weaker take-up - sentiment was cautious in the run-up to 13GE. No change to our RM1.3bn property sales target as we expect Sunway to accelerate launches and achieve better take-up in 2H13.

Maintain BUY with a higher TP of RM4.66

No change to our earnings forecast. We are raising our TP for Sunway to RM4.66 (from RM3.28), valuing Sunway at parity to RNAV (from 30% discount). We have removed our discount to RNAV due to better visibility in the domestic economic environment (especially Johor) post election, improving property market sentiment as well as higher investor appetite and portfolio allocation for the cyclical property sector. Maintain **BUY**. We view Sunway as an attractive proxy to Iskandar and we continue to like Sunway as we expect the positive development in Iskandar and planned listing of Iskandar Waterfront Holdings to re-rate its share price to RNAV.

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)	13.5	9.4	13.3	12.0	10.5
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)	15.3	14.3	13.3	12.0	10.5
DPS (sen)	-	6.0	7.0	8.0	8.0
Dividend Yield (%)	-	1.5	1.8	2.1	2.1
EV/EBITDA (x)	14.1	14.1	13.5	12.3	11.5
Consensus profit	-	-	381.0	431.6	479.1
Affin/Consensus (x)	-	-	1.0	1.0	1.0

Fig 1: Quarterly results comparison

FYE Dec (RMm)	1QFY12	4QFY12	1QFY13	QoQ % chg	YoY % chg	Comment
Revenue	814.8	1198.9	1021.0	(14.8)	25.3	Higher revenue yoy on higher contributions across all major business segments (except trading & manufacturing). The trading & manufacturing business was affected by difficult trading environment in the overseas markets, namely Australia and Indonesia.
Op costs	(754.4)	(1089.0)	(935.0)	14.1	(23.9)	
EBIT	60.4	109.9	86.1	(21.7)	42.5	Higher EBIT yoy due to higher property development EBIT (+RM7.4m yoy) on higher progress billings and higher construction EBIT (+RM20m yoy) driven by stronger progress billings of infrastructure and building works and stronger sales of precast products.
<i>EBIT margin (%)</i>	<i>7.4</i>	<i>9.2</i>	<i>8.4</i>	<i>Nm</i>	<i>Nm</i>	
Exceptional items	0.2	123.8	0.3	<i>nm</i>	<i>nm</i>	
Int income	5.5	4.1	10.5	156.0	90.0	
Int expense	(24.1)	(20.8)	(22.2)	(6.4)	8.1	
Associates	42.9	99.3	47.9	(51.8)	11.7	Stronger EBIT yoy on strong contribution from Singapore property projects.
Pretax profit	84.9	316.3	122.5	(61.3)	44.3	
Tax	(18.5)	(55.8)	(26.3)	52.8	(42.4)	
<i>Tax rate (%)</i>	<i>21.8</i>	<i>17.6</i>	<i>21.5</i>	<i>Nm</i>	<i>Nm</i>	
MI	(2.0)	(41.2)	(5.6)	86.3	(188.3)	
Net profit	64.4	219.3	90.6	(58.7)	40.5	
EPS (sen)	5.0	17.0	7.0	(58.7)	40.5	
Core net profit	64.2	114.1	90.3	(20.9)	40.7	Inline with market and our expectations.

Fig 2: Core segmental results breakdown

	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	Qoq Chg (%)	Yoy Chg (%)
Revenue (RMm)							
Property Development	160.1	188.6	176.6	397.9	202.7	(49.1)	26.6
Property Investment	130.5	143.7	148.2	168.5	133.5	(20.8)	2.3
Construction	259.0	388.3	267.3	360.3	429.4	19.2	65.8
Trading & Manufacturing	147.7	145.0	143.3	122.7	129.6	5.6	(12.2)
Quarry	37.4	48.5	53.8	57.2	44.3	(22.5)	18.7
Others	80.2	81.9	77.7	92.3	81.5	(11.7)	1.7
Total revenue	814.8	996.1	867.0	1,198.9	1,021.0	(14.8)	25.3
Core EBIT (RMm)							
Property Development	18.1	27.8	71.1	87.0	25.5	(70.7)	40.6
Property Investment	21.2	37.5	40.5	42.5	22.1	(47.9)	4.6
Construction	7.4	17.6	25.7	(6.5)	27.3	>100	>100
Trading & Manufacturing	12.4	12.7	24.0	7.8	9.0	>100	(26.8)
Quarry	0.9	2.9	4.3	5.0	4.8	(3.8)	>100
Others	0.5	5.7	(60.1)	(25.7)	(2.7)	nm	nm
Total EBIT	60.4	104.2	105.5	110.0	86.1	(21.7)	42.5
Core EBIT margin (%)						Qoq Chg (ppt)	Yoy Chg (ppt)
Property Development	11.3%	14.7%	40.3%	21.9%	12.6%	-9.3%	1.3%
Property Investment	16.2%	26.1%	27.3%	25.2%	16.6%	-8.6%	0.4%
Construction	2.8%	4.5%	9.6%	-1.8%	6.4%	8.2%	3.5%
Trading & Manufacturing	8.4%	8.7%	16.8%	6.3%	7.0%	0.7%	-1.4%
Quarry	2.5%	5.9%	8.0%	8.7%	10.8%	2.1%	8.3%
Others	0.6%	6.9%	-77.3%	-27.9%	-3.3%	nm	nm
Group EBIT margin	7.4%	10.5%	12.2%	9.2%	8.4%	-0.7%	1.0%
Core Associates / JCE earnings (RMm)							
Property Development	23.6	9.5	36.9	54.2	29.2	(46.2)	23.4
Property Investment	18.9	16.5	19.1	20.9	18.9	(9.3)	0.3
Construction	0.3	0.5	0.2	23.5	-	(100.0)	(100.0)
Others	-	0.0	(0.1)	0.6	(0.2)	nm	nm
Total associates/ JCE earnings	42.9	26.5	56.1	99.3	47.9	(51.8)	11.7

Fig 3: Sunway's RNAV

Description					
Property Development	Stake	Acres	GDV (RMm)	NPV (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	34.4%		969.6	1,513.6	186.9
Subtotal:					186.9
Other business					RMm
Construction @ 12x FY13 PER					643.6
Other business @ 10x FY13 PER					608.5
Subtotal:					1,252.1
Total (RMm)					2,937.9
Shareholders' Fund @ Dec, 2012 (RMm)					3,558.4
Warrants conversion (RMm)					723.8
RNAV (RMm)					7,220.1
Enlarged shares base (m)					1551.0
Fully diluted RNAV per share (RM)					4.66
Fair value at parity to RNAV (RM)					4.66

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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