

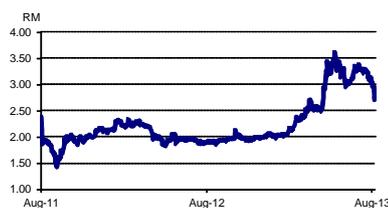
## Results Note

## Sunway Bhd

SWB MK  
RM2.75

BUY (maintain)

Price Target: RM4.04 (↑)



## Price Performance

	1M	3M	12M
Absolute	-15.9%	-18.4%	+42.6%
Rel to KLCI	-11.4%	-15.0%	+37.8%

## Stock Data

Issued shares (m)	1,723.5
Mkt cap (RMm)	4,739.6
Avg daily vol - 6mth (m)	1.6
52-wk range (RM)	1.89-3.61
Est free float	36.3%
BV/share (RM)	2.90
P/BV (x)	0.9
Net cash/(debt) (RMm)(2Q13)	(2,030)
ROE (FY13E)	10.9%
Derivatives	
Warr 2016 (WP:RM0.66, SP: RM2.50)	

## Key Shareholders

Tan Sri Jeffrey Cheah	51.5%
GIC	12.2%

## Earnings &amp; Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	25.4	25.2	28.7
Curr EPS (sen)	25.6	25.7	29.3
Chg (%)	+0.7	+2.1	+2.3
Prev target price (RM)		4.01	
Curr target price (RM)		4.04	

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## Strong results, within expectations

## 1H13 core net profit of RM201m (+42% yoy), within expectations

Sunway reported a strong 1H13 core net profit of RM201.1m (+41.7%) on stronger earnings from the property development and construction divisions. The property development business reported a stronger 1H13 EBIT of RM69.9m (+52.2% yoy) and higher PBT of RM126.7m (+59.8% yoy) driven by stronger sales achieved and higher progress billings of its Sunway South Quay, Sunway Damansara, Sunway Velocity and Singapore projects. 1H13 construction EBIT grew by 72% yoy to RM43m on stronger progress billings of the local infrastructure and building works as well as stronger sales of precast products. All in, the result is within consensus and our expectations. Sunway's 1H13 core net profit accounts for 52% of consensus and our full year earnings forecast. A pleasant surprise from the results announcement is the declaration of a 5 sen interim dividend (vs nil in 1H12).

## 2Q13 core net profit is 23% higher qoq

Sequentially, Sunway's 2Q13 core net profit grew by 22.6% to RM110.7m. The strong quarterly earnings growth was driven by higher EBIT contributions from property development (RM44.4m, +74.4% qoq) and trading & manufacturing divisions (RM15.6m, +72.7% qoq). Meanwhile, the construction division reported a weaker 2Q13 EBIT of RM15.7m (-42.5% qoq) due to the slight delay in the LRT project arising from a stop work order imposed on all contractors arising from accidents at the work site of other packages not undertaken by the group. The progress of the MRT project was also delayed slightly due to adverse weather conditions.

## Weaker but commendable 1H13 property sales of RM606m

Sunway achieved a weaker but commendable 1H13 property sales of RM606m (-10% yoy), on track to achieve our FY13 property sales assumption of RM1.3bn. The group's 1H13 property sales was, in our view, commendable considering Sunway did not launch any new major projects in 1H13. The 1H13 property sales was driven by older projects, in particular, the South Quay project where sales were boosted by the proposed Sunway BRT (Bus Rapid Transit) project. Moving into 2H13, Sunway has lined up over RM1bn worth of domestic property launches – Sunway Geo (RM570m), Lenang Heights (RM200m) and Sunway Velocity service residence (RM250m). Also, the Hoi-Hup Sunway JV plans to launch the S\$1bn (RM2.5bn) Novena project (medical/office suites, retail and hotel) in end 3Q/ early 4Q13 and the Sunway-Khazanah JV plans to launch Medini Phase 1 (RM400-500m) in end-2013/early 2014.

## Earnings &amp; Valuation Summary

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Revenue	3,691.7	3,876.8	4,147.5	4,980.0	5,029.2
EBITDA	457.0	470.7	488.4	560.5	586.4
Pretax profit	498.5	728.2	615.8	649.2	721.3
Net profit	372.1	532.3	446.3	442.7	505.8
EPS (sen)	28.8	41.2	29.6	25.7	29.3
PER (x)	9.6	6.7	9.3	10.7	9.4
Core net profit	327.1	350.6	386.5	442.7	505.8
Core EPS (sen)	25.3	27.1	25.6	25.7	29.3
Core EPS chg (%)	14.3	7.2	(5.5)	0.2	14.2
Core PER (x)	10.9	10.2	10.8	10.7	9.4
DPS (sen)	-	6.0	7.0	8.0	8.0
Dividend Yield (%)	-	2.2	2.5	2.9	2.9
EV/EBITDA (x)	11.0	11.0	11.6	10.5	9.8
Consensus profit	-	-	388.6	453.5	501.9
Affin/Consensus (x)	-	-	1.1	1.0	1.0

### RM1.6bn year-to-date construction contract wins, above expectations

Sunway's construction division has achieved a notable year-to-date contract wins of RM1.56bn, above our full year forecast of RM1bn. Key new construction contracts won include Legoland Water Park (RM45m), Sunway Putra Palace (RM258m), BRT-Sunway Line (RM452m), KLCC NEC (RM304m), KLCC Package 2 (RM222m) and Urban Wellness Centre (RM283m). In view of the stronger-than-expected contract ytd contract win, we have raised our FY13 contract win assumption to RM1.8bn (from RM1bn).

### Raising FY13-15 EPS by 1-2%, maintain BUY with a higher TP of RM4.04

We have raised our FY13-15 core EPS forecast by 1-2%, imputing higher FY13 construction contract wins of RM1.8bn (from RM1bn). Also, we have incorporated a RM59.7m share of fair value gain from Sunway REIT investment properties. In tandem with our earnings upgrade, we have adjusted our RNAV estimate and tweaked up our TP to RM4.04 (from RM4.01), valuing Sunway at parity to our RNAV estimate. Maintain **BUY**. We continue to like Sunway and view it as an attractive proxy to Iskandar (Iskandar project accounts for 59% of its total GDV). Key re-rating catalysts are stronger-than-expected property sales, further news flow on private investment in Iskandar and the listing of Iskandar Waterfront Holding (IWH).

Fig 1: Quarterly results comparison

FYE Dec (RMm)	2QFY12	1QFY13	2QFY13	QoQ % chg	YoY % chg	Comment
Revenue	996.1	1021.0	1118.0	9.5	12.2	Higher revenue qoq on higher contributions from the property development (+RM84.3m qoq) and trading & manufacturing divisions (+RM42m qoq). The construction division reported a lower revenue of RM372.8m (-RM56.6m qoq) due to a slight delay in the LRT project arising from the stop work order imposed on all contractors as a result of accidents at the work site of other packages not undertaken by the group.
Op costs	(891.9)	(935.0)	(1001.4)	(7.1)	(12.3)	
EBIT	104.2	86.1	116.6	35.5	11.9	Higher EBIT qoq due to higher property development EBIT (+RM19m qoq), higher property investment income (+RM6.5m qoq) and higher trading & manufacturing EBIT (+RM6.6m qoq). Construction EBIT fell by RM11.6m qoq to RM15.7m due to abovementioned delay in LRT project.
<i>EBIT margin (%)</i>	10.5	8.4	10.4	<i>Nm</i>	<i>Nm</i>	
Exceptional items	85.2	0.3	59.6	<i>nm</i>	<i>nm</i>	Share of fair value gain from Sunway REIT.
Int income	7.0	10.5	8.4	(20.5)	19.7	
Int expense	(29.7)	(22.2)	(21.0)	5.4	29.5	
Associates / JCE	26.6	47.9	48.9	2.2	84.2	
<b>Pretax profit</b>	<b>193.1</b>	<b>122.5</b>	<b>212.5</b>	73.4	10.0	
Tax	(30.3)	(26.3)	(32.5)	(23.2)	(7.0)	
<i>Tax rate (%)</i>	15.7	21.5	15.3	<i>Nm</i>	<i>Nm</i>	
MI	(8.5)	(5.6)	(9.7)	(72.6)	(14.5)	
<b>Net profit</b>	<b>154.3</b>	<b>90.6</b>	<b>170.3</b>	88.1	10.4	
EPS (sen)	11.9	7.0	13.2	88.1	10.4	
<b>Core net profit</b>	<b>77.6</b>	<b>90.3</b>	<b>110.7</b>	22.6	42.7	

**Fig 2: Cumulative results comparison**

FYE Dec (RMm)	1H12	1H13	YTD % chg	Comment
Revenue	1,810.9	2,139.1	18.1	Higher revenue contributions from property development (+RM140.8m yoy) and construction (+RM154.9m) divisions.
Op costs	(1,646.2)	(1,936.4)	(17.6)	
EBIT	164.6	202.7	23.1	Higher EBIT yoy driven by higher revenue. Key contributors to the EBIT growth are property development (+RM24m yoy) and construction (+RM18m) businesses.
<b>EBIT margin (%)</b>	<b>9.1</b>	<b>9.5</b>	<b>Nm</b>	
Exceptional items	85.4	59.8	Nm	Share of fair value gain from Sunway REIT.
Int income	12.5	18.9	50.8	
Int expense	(53.9)	(43.1)	19.9	
Associates / JCE	69.4	96.8	39.5	
<b>Pretax profit</b>	<b>278.0</b>	<b>335.0</b>	<b>20.5</b>	
Tax	(48.8)	(58.8)	(20.4)	
<b>Tax rate (%)</b>	<b>17.6</b>	<b>17.6</b>	<b>Nm</b>	
MI	(10.4)	(15.3)	(47.0)	
<b>Net profit</b>	<b>218.8</b>	<b>260.9</b>	<b>19.3</b>	
EPS (cents)	16.9	20.2	19.3	
<b>Core net profit</b>	<b>141.9</b>	<b>201.1</b>	<b>41.7</b>	Inline with market and our expectations.

**Fig 3: Core segmental results breakdown**

	2QFY12	1QFY13	2QFY13	Qoq Chg (%)	Yoy Chg (%)	6M12	6M13	Yoy Chg (%)
<b>Revenue (RMm)</b>								
Property Development	188.6	202.7	286.9	41.6	52.1	348.7	489.6	40.4
Property Investment	143.7	133.5	141.8	6.2	(1.3)	274.2	275.3	0.4
Construction	388.3	429.4	372.8	(13.2)	(4.0)	647.3	802.2	23.9
Trading & Manufacturing	145.0	129.6	171.6	32.4	18.3	292.7	301.1	2.9
Quarry	48.5	44.3	55.8	25.8	14.9	85.9	100.1	16.6
Others	81.9	81.5	89.2	nm	nm	162.0	170.7	nm
<b>Total revenue</b>	<b>996.1</b>	<b>1,021.0</b>	<b>1,118.0</b>	<b>9.5</b>	<b>12.2</b>	<b>1,810.9</b>	<b>2,139.1</b>	<b>18.1</b>
<b>Core EBIT (RMm)</b>								
Property Development	27.8	25.5	44.4	74.4	59.8	45.9	69.9	52.2
Property Investment	37.5	22.1	28.6	29.2	(23.8)	58.7	50.7	(13.6)
Construction	17.6	27.3	15.7	(42.5)	(11.0)	25.0	43.0	72.1
Trading & Manufacturing	12.7	9.0	15.6	72.7	23.2	25.0	24.6	(1.5)
Quarry	2.9	4.8	6.9	43.7	139.1	3.8	11.6	207.0
Others	5.7	(2.7)	5.5	nm	nm	6.1	2.8	nm
<b>Total EBIT</b>	<b>104.2</b>	<b>86.1</b>	<b>116.7</b>	<b>35.6</b>	<b>12.0</b>	<b>164.6</b>	<b>202.7</b>	<b>23.2</b>
<b>Core EBIT margin (%)</b>				<b>Qoq Chg (ppt)</b>	<b>Yoy Chg (ppt)</b>			<b>Yoy Chg (ppt)</b>
Property Development	14.7%	12.6%	15.5%	2.9%	0.7%	13.2%	14.3%	1.1%
Property Investment	26.1%	16.6%	20.2%	3.6%	-6.0%	21.4%	18.4%	-3.0%
Construction	4.5%	6.4%	4.2%	-2.2%	-0.3%	3.9%	5.4%	1.5%
Trading & Manufacturing	8.7%	7.0%	9.1%	2.1%	0.4%	8.5%	8.2%	-0.4%
Quarry	5.9%	10.8%	12.3%	1.5%	6.4%	4.4%	11.6%	7.2%
Others	6.9%	-3.3%	6.1%	nm	nm	3.8%	1.6%	nm
<b>Group EBIT margin</b>	<b>10.5%</b>	<b>8.4%</b>	<b>10.4%</b>	<b>2.0%</b>	<b>0.0%</b>	<b>9.1%</b>	<b>9.5%</b>	<b>0.4%</b>
<b>Core Associates / JCE earnings (RMm)</b>								
Property Development	9.5	29.2	28.4	(2.6)	198.7	33.1	57.6	73.7
Property Investment	16.5	18.9	19.1	0.9	16.1	35.3	38.0	7.7
Construction	0.5	-	1.4	nm	168.7	0.9	1.4	61.5
Others	0.0	(0.2)	(0.0)	nm	nm	0.0	(0.2)	nm
<b>Total associates/ JCE earnings</b>	<b>26.5</b>	<b>47.9</b>	<b>48.9</b>	<b>2.2</b>	<b>84.4</b>	<b>69.4</b>	<b>96.8</b>	<b>39.5</b>

**Fig 4: Sunway's RNAV**

<b>Description</b>					
<b>Property Development</b>	<b>Stake</b>	<b>Acres</b>	<b>GDV (RMm)</b>	<b>NPV (RMm)</b>	<b>Surplus (RMm)</b>
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
<b>Subtotal:</b>		<b>4,009</b>	<b>56,871</b>	<b>2,632</b>	<b>1,498.8</b>
<b>REIT</b>	<b>Stake</b>		<b>Book Value (RMm)</b>	<b>Mkt Value (RMm)</b>	<b>Surplus (RMm)</b>
Sunway REIT @ RM1.30 per unit	34.4%		969.1	1,306.8	116.2
<b>Subtotal:</b>					<b>116.2</b>
<b>Other business</b>					<b>RMm</b>
Construction @ 12x FY14 PER					910.8
Other business @ 10x FY14 PER					570.2
<b>Subtotal:</b>					<b>1,481.0</b>
<b>Total (RMm)</b>					<b>3,096.0</b>
Shareholders' fund @ Dec, 2012 (RMm)					3,576.6
Add: Warrants conversion (RMm)					724.3
Add: Rights issue (RMm)					732.4
RNAV (RMm)					8,129.4
Enlarged shares base (m)					2013.1
Fully diluted RNAV per share (RM)					4.04
<b>Fair value at parity to RNAV (RM)</b>					<b>4.04</b>

## Equity Rating Structure and Definitions

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<b>BUY</b>	Total return is expected to exceed +15% over a 12-month period
<b>TRADING BUY (TR BUY)</b>	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
<b>ADD</b>	Total return is expected to be between 0% to +15% over a 12-month period
<b>REDUCE</b>	Total return is expected to be between 0% to -15% over a 12-month period
<b>TRADING SELL (TR SELL)</b>	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
<b>SELL</b>	Total return is expected to be below -15% over a 12-month period
<b>NOT RATED</b>	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	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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