

Results Note

Sunway Bhd

SWB MK
RM2.65

BUY (maintain)

Price Target: RM3.45 (↔)



Price Performance

	1M	3M	12M
Absolute	-5.7%	-6.4%	+32.6%
Rel to KLCI	-5.8%	-11.3%	+17.9%

Stock Data

Issued shares (m)	1,723.5
Mkt cap (RMm)	4,567.3
Avg daily vol - 6mth (m)	1.16
52-wk range (RM)	1.96-3.61
Est free float	37.9%
BV/share (RM)	2.70
P/BV (x)	1.0
Net cash/(debt) (RMm)(3Q13)	(1,287.1)
ROE (FY13E)	11.0%
Derivatives	
Warr 2016 (WP: RM0.66, SP: RM2.80)	

Key Shareholders

Tan Sri Jeffrey Cheah	53.4%
GIC	8.7%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	25.6	25.7	29.3
Curr EPS (sen)	27.9	25.7	29.4
Chg (%)	+8.8	+0.2	+0.2
Prev target price (RM)		3.45	
Curr target price (RM)		3.45	

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A good set of results, above expectations

Strong 9M13 core net profit of RM325m, above expectations

Sunway reported a strong 9M13 core net profit of RM325.4m (+37.6% yoy) on higher revenue (+19.7% yoy), lower net interest expenses and higher associates/JCE earnings contributions (+16.5% yoy). The group's property development business reported a stronger 9M13 core earnings (EBIT plus JCE earnings) of RM219.8m (+30.1% yoy) on stronger property sales and higher progress billings from key projects. The group's construction business also reported stronger 9M13 earnings on higher progress billings from the MRT job and writeback of provisions. Overall, Sunway's 9M13 result is above market expectations and also our expectations – the group's 9M13 core net profit accounted for 83-84% of consensus and our full year earnings forecast.

3Q13 core net profit is 12% higher qoq

Sequentially, Sunway's 3Q13 core net profit was 12.4% higher due to lower net interest expenses and lower effective tax rate. The group's EBIT and associates/JCE earnings contributions was relatively unchanged qoq at RM116.2m (-0.3% qoq) and RM49.4m (+1.1% qoq) respectively. The group's 3Q13 headline net profit had, however, declined by a sharp 45.3% qoq due to: (i) booking of RM39.7m expenses in relation to its new ESOS option scheme that was implemented in 3Q13; and (ii) Sunway recognized a RM59.7m share of fair value gain from Sunway REIT in 2Q13.

Solid 9M13 property sales of RM1.1bn

Sunway achieved a solid 9M13 property sales of RM1.1bn, which is on track to achieve our FY13 property sales assumption of RM1.3bn. Key properties sold in 9M13 include South Quay (RM420m), Montana (RM118m), Velocity (RM94m), Damansara (RM67m) and Sunway Suria (RM67m). Sunway has launched RM1.7bn worth of properties as of end November 2013. Of which, most of the launches were mainly in 3Q/4Q13 where bookings had yet to be converted into actual sales. These new projects include Sunway Cassia@ Penang (RM105m), Sunway Lenang Heights@ Johor (RM200m), Sunway Geo@ South Quay (RM855m) and Royal Square @ Novena (Sunway's effective share is RM555m).

Raising FY13 core net profit forecast by 9%, maintain BUY

We have raised our FY13 core net profit forecast by 9% to account for the stronger-than-expected 9M13 results, imputing higher sales of inventory properties, lower net interest expenses and a lower effective tax rate. We maintain our key operating assumptions for FY14-15 but tweaked our core profit forecast by 0.2% as a result of the higher FY13 net profit. Maintain **BUY** on Sunway with an unchanged TP of RM3.45 based on a 15% discount to RNAV.

Earnings & Valuation Summary

FYE Dec (RMm)	2011	2012	2013E	2014E	2015E
Revenue	3,691.7	3,849.2	4,238.8	4,986.8	5,036.3
EBITDA	457.0	469.6	513.3	563.6	587.3
Pretax profit	498.5	722.9	606.9	650.9	722.9
Net profit	372.1	530.6	449.1	443.5	506.6
EPS (sen)	28.8	41.1	29.8	25.7	29.4
PER (x)	9.2	6.5	8.9	10.3	9.0
Core net profit	327.1	350.6	420.5	443.5	506.6
Core EPS (sen)	25.3	27.1	27.9	25.7	29.4
Core EPS chg (%)	14.3	7.2	2.8	(7.7)	14.2
Core PER (x)	10.5	9.8	9.5	10.3	9.0
DPS (sen)	-	6.0	7.0	8.0	8.0
Dividend Yield (%)	-	2.3	2.6	3.0	3.0
EV/EBITDA (x)	10.7	10.7	10.8	10.1	9.5
Consensus profit	-	-	399.0	456.6	512.0
Affin/Consensus (x)	-	-	1.1	1.0	1.0

Fig 1: Quarterly results comparison

FYE Dec (RMm)	3QFY12	2QFY13	3QFY13	QoQ % chg	YoY % chg	Comment
Revenue	867.0	1118.0	1066.1	(4.6)	23.0	Lower revenue qoq due to lower contributions from all key business divisions (except the construction business). The property development business reported slightly lower revenue due to high sales of Sunway Vivaldi in the previous quarter while the property investment division reported lower revenue due to the fasting month.
Op costs	(760.9)	(1001.4)	(949.9)	5.1	(24.8)	
EBIT	106.1	116.6	116.2	(0.3)	9.5	
<i>EBIT margin (%)</i>	<i>12.2</i>	<i>10.4</i>	<i>10.9</i>	<i>Nm</i>	<i>Nm</i>	Higher EBIT margin qoq on improved property development EBIT margin.
Exceptional items	(0.3)	59.6	(41.2)	<i>nm</i>	<i>nm</i>	Fair value of the ESOS option that was implemented in September 2013.
Int income	10.5	8.4	12.3	47.1	17.4	
Int expense	(29.9)	(21.0)	(18.6)	11.5	38.0	
Associates / JCE	56.1	48.9	49.4	1.1	(11.8)	
Pretax profit	142.4	212.5	118.2	(44.4)	(17.0)	
Tax	(32.4)	(32.5)	(16.6)	48.9	48.8	
<i>Tax rate (%)</i>	<i>22.8</i>	<i>15.3</i>	<i>14.0</i>	<i>Nm</i>	<i>Nm</i>	
MI	(15.7)	(9.7)	(8.5)	12.9	46.3	
Net profit	94.3	170.3	93.1	(45.3)	(1.2)	
EPS (sen)	7.3	13.2	5.8	(55.9)	(20.3)	
Core net profit	94.6	110.7	124.4	12.4	31.5	

Fig 2: Cumulative results comparison

FYE Dec (RMm)	9M12	9M13	YTD % chg	Comment
Revenue	2,677.8	3,205.2	19.7	Higher revenue yoy on higher contributions from the property development (+47.4%) and construction (+28.9%) business divisions.
Op costs	(2,407.1)	(2,886.4)	(19.9)	
EBIT	270.7	318.8	17.8	Higher EBIT yoy driven by higher revenue. Key contributors to the EBIT growth are property development (+33%) and construction (+35%) businesses.
<i>EBIT margin (%)</i>	<i>10.1</i>	<i>9.9</i>	<i>Nm</i>	
Exceptional items	85.1	18.7	<i>Nm</i>	
Int income	23.0	31.2	35.6	
Int expense	(83.8)	(61.7)	26.4	
Associates / JCE	125.5	146.2	16.5	
Pretax profit	420.5	453.2	7.8	
Tax	(81.2)	(75.4)	7.2	
<i>Tax rate (%)</i>	<i>19.3</i>	<i>16.6</i>	<i>Nm</i>	
MI	(26.2)	(23.8)	9.1	
Net profit	313.1	354.0	13.1	
EPS (cents)	24.2	25.3	4.6	
Core net profit	236.4	325.4	37.6	Above market and our expectations.

Fig 3: Core segmental results breakdown

	3QFY12	2QFY13	3QFY13	Qoq Chg (%)	Yoy Chg (%)	9M12	9M13	Yoy Chg (%)
Revenue (RMm)								
Property Development	176.6	286.9	260.3	(9.3)	47.4	525.4	749.9	42.7
Property Investment	148.2	141.8	137.1	(3.3)	(7.5)	422.4	412.4	(2.4)
Construction	267.3	372.8	376.5	1.0	40.9	914.6	1,178.7	28.9
Trading & Manufacturing	143.3	171.6	151.9	(11.4)	6.0	436.0	453.1	3.9
Quarry	53.8	55.8	47.1	(15.6)	(12.5)	139.7	147.2	5.4
Others	77.7	89.2	93.2	4.5	nm	239.8	263.9	nm
Total revenue	867.0	1,118.0	1,066.1	(4.6)	23.0	2,677.8	3,205.2	19.7
Core EBIT (RMm)								
Property Development	53.0	44.3	62.0	39.9	17.1	98.9	131.9	33.3
Property Investment	19.3	28.6	21.8	(23.6)	13.1	78.0	72.6	(7.0)
Construction	18.3	15.7	15.4	(1.9)	(15.9)	43.3	58.4	34.9
Trading & Manufacturing	11.7	15.6	11.7	(25.1)	0.2	36.7	36.3	(1.0)
Quarry	3.4	6.9	5.2	(24.2)	52.7	7.2	16.8	134.0
Others	0.4	5.5	(0.0)	(100.1)	nm	6.6	2.8	nm
Total EBIT	106.1	116.6	116.2	(0.4)	9.5	270.7	318.8	17.8
Core EBIT margin (%)				Qoq Chg (ppt)	Yoy Chg (ppt)			Yoy Chg (ppt)
Property Development	30.0%	15.5%	23.8%	8.4%	-6.2%	18.8%	17.6%	-1.2%
Property Investment	13.0%	20.2%	15.9%	-4.2%	2.9%	18.5%	17.6%	-0.9%
Construction	6.9%	4.2%	4.1%	-0.1%	-2.8%	4.7%	5.0%	0.2%
Trading & Manufacturing	8.1%	9.1%	7.7%	-1.4%	-0.4%	8.4%	8.0%	-0.4%
Quarry	6.3%	12.3%	11.1%	-1.2%	4.7%	5.2%	11.4%	6.3%
Others	0.6%	6.1%	0.0%	nm	nm	2.7%	1.1%	nm
Group EBIT margin	12.2%	10.4%	10.9%	0.5%	-1.3%	10.1%	9.9%	-0.2%
Core Associates / JCE earnings (RMm)								
Property Development	36.9	28.4	30.3	6.8	(17.8)	70.1	87.9	25.5
Property Investment	19.1	19.1	19.0	(0.5)	(0.1)	54.4	57.1	4.9
Construction	0.2	1.4	-	nm	(100.0)	1.1	1.4	25.9
Others	(0.1)	(0.0)	0.1	nm	nm	(0.1)	(0.2)	nm
Total associates/ JCE earnings	56.1	48.9	49.4	1.1	(11.8)	125.4	146.2	16.6

Fig 4: 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 @ RM1.30 per unit	34.4%		969.1	1,306.8	116.2
Subtotal:					116.2
Other business					RMm
Construction @ 12x FY14 PER					910.8
Other business @ 10x FY14 PER					570.2
Subtotal:					1,481.0
Total (RMm)					3,096.0
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
Fair value based on 15% discount to RNAV					3.45

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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