

## Results Note

## Sunway Bhd

SWB MK  
RM2.86 @ 27 Feb 2014

ADD (maintain)

Price Target: RM3.15 (↑)



## Price Performance

	1M	3M	12M
Absolute	+4.8%	+7.5%	+36.5%
Rel to KLCI	+1.7%	+5.6%	+14.5%

## Stock Data

Issued shares (m)	1,723.5
Mkt cap (RMm)/(US\$m)	4,929.3/1,501.3
Avg daily vol - 6mth (m)	0.8
52-wk range (RM)	2.16-3.61
Est free float	37.6%
BV/share (RM)	3.10
P/BV (x)	0.92
Net cash/(debt) (RMm)(4Q13)	(1,276.4)
ROE (FY2014F)	8.2%
Derivatives	Nil
Warr 2016 (WP: RM0.67, SP: RM2.50)	
Shariah Compliant	Yes

## Key Shareholders

Tan Sri Jeffrey Cheah	53.7%
GIC	8.7%

## Earnings &amp; Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	25.8	27.2	-
Curr EPS (sen)	27.3	28.0	31.5
Chg (%)	+5.6	+3.3	-
Prev target price (RM)		2.90	
Curr target price (RM)		3.15	

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## A record year

## Adoption of FRS 10 on historical financial statements

Sunway has adopted the FRS 10: Consolidated Financial Statement on its 2012-13 financial statements. FRS 10 establishes a single control model that applies to all entities including special purpose entities. Under FRS 10, Sunway has consolidated the financial position of Sunway REIT based on retrospective numbers. However, no consolidation is required for 2013 and beyond upon the disposal of a 20% stake in its wholly-owned subsidiary, Sunway REIT Management Sdn Bhd ("SRM") in 4Q2013. SRM is now viewed as a jointly controlled subsidiary and hence no longer requires consolidation. We prepared our financial comparison notes (Fig 1, 2 and 3) without the adjustment for: (i) meaningful comparison with historical results; and (ii) consolidation is not required for financial statements starting in 2014. After the adoption of FRS 10, Sunway's 2013 headline profit is RM1.5bn, a significant jump from 2012's headline net profit of RM439m.

## 2013 core net profit of RM483m, above expectations

Sunway reported a record 2013 core net profit of RM482.7m (+37.7% yoy) on higher earnings from all major business divisions, in particular, the property development, construction and quarry businesses. The property development division was the key growth driver, contributing to a higher 2013 PBT of RM347.5m (+12% qoq) on strong property sales and higher progress billings. The construction division booked in higher PBT of RM80.1m (+23% yoy) on higher progress billings from its local civil and building projects as well as higher contribution from its precast concrete products business in Singapore. Separately, the quarry segment recorded higher PBT of RM21.9m (+80%) due to higher selling price and better cost management at the quarry sites. Overall, the results were above market and our expectations by 18% and 15% respectively due to stronger-than-expected property development earnings in 4Q13. Sunway has declared a second interim dividend of 5 sen, bringing the full year dividend pay out to 10 sen (vs 6 sen in 2012).

## Sequentially stronger

Sequentially, Sunway's 4Q13 core net profit grew by 26.6% to RM157.5m on higher property development earnings as well as seasonally higher earnings for its hospitality and leisure businesses.

## Strong 2013 property sales at RM1.8bn, target RM1.8bn sales for 2014

Sunway has achieved a strong 2013 new property sales of RM1.8bn (effective stake is RM1.4bn) driven by its South Quay (RM701m), Singapore (RM266m), Montana (RM141m), Velocity (RM119m) and various other projects. Moving into 2014, Sunway plans to launch RM2.3bn worth of properties across multiple locations (Klang Valley, Johor, Singapore, Penang, China) with a sales target of RM1.8bn.

## Earnings &amp; Valuation Summary

FYE 31 Dec	2012	2013	2014E	2015E	2016E
Revenue (RMm)	3,849.2	4,527.6	5,470.0	5,496.3	5,879.0
EBITDA (RMm)	469.6	608.3	656.2	664.2	683.4
Pretax profit (RMm)	722.9	1,007.8	699.3	705.4	751.2
Net profit (RMm)	530.6	839.3	469.8	483.4	543.0
EPS (sen)	41.1	55.7	27.3	28.0	31.5
PER (x)	7.0	5.1	10.5	10.2	9.1
Core net profit (RMm)	350.6	482.7	469.8	483.4	543.0
Core EPS (sen)	27.1	32.0	27.3	28.0	31.5
Core EPS growth (%)	7.2	18.0	(14.8)	2.9	12.3
Core PER (x)	10.5	8.9	10.5	10.2	9.1
Net DPS (sen)	6.0	10.0	10.0	10.0	12.0
Dividend Yield (%)	2.1	3.5	3.5	3.5	4.2
EV/EBITDA (x)	11.3	10.2	10.1	9.5	9.0
Consensus profit (RMm)	-	-	454.5	517.3	-
Affin/Consensus (x)	-	-	1.0	0.9	-

### Raising EPS by 3-6%, maintain ADD

We have raised our 2014-15E EPS by 3-6%, imputing strong earnings from property development and quarry businesses. We have updated our RNAV and raised our TP to RM3.15 (from RM2.90) based on an unchanged 30% discount to RNAV. Maintain **ADD**. We continue to like Sunway for its integrated real estate business model, extensive experience in the construction sector and established footprint in Singapore. That said, we believe that the stock lacks near term re-rating catalyst and general weakness in high-end condominium market (especially in Iskandar Malaysia) may continue to cap its share price performance. Key risks to our positive view on Sunway include: (i) a sharper-than-expected slowdown in the domestic property market; (ii) lower-than-expected construction contract wins; and (iii) execution risk.

Fig 1: Quarterly Results Comparison

FYE 31 Dec (RMm)	4Q12	3Q13	4Q13	QoQ % chg	YoY % chg	Comment
Revenue	1198.9	1066.1	1322.4	24.0	10.3	Higher revenue qoq due to stronger sales of on-going property projects as well as higher progressive billings. 4Q is also a seasonally strong quarter for Sunway's hospitality and leisure businesses.
Op costs	(1089.0)	(949.9)	(1169.8)	(23.1)	(7.4)	
EBIT	109.9	116.2	152.6	31.3	38.8	
<i>EBIT margin (%)</i>	<i>9.2</i>	<i>10.9</i>	<i>11.5</i>	<i>Nm</i>	<i>Nm</i>	4Q profit margin strengthened slightly to 11.5% on higher property development and property investment profit margin, partly offset by a lower construction margin due to a one-off provision of RM23m for doubtful debts
EI	123.8	(41.2)	328.0	<i>nm</i>	<i>nm</i>	Gain on fair value adjustment of investment properties and disposal of subsidiaries
Int expense	4.1	12.3	3.0	(75.5)	(26.6)	
Interest income	(20.8)	(18.6)	(20.6)	(11.0)	1.2	
Associates	99.3	49.4	91.6	85.2	(7.8)	
<b>Pretax</b>	<b>316.3</b>	<b>118.2</b>	<b>554.6</b>	<b>&gt;100</b>	<b>75.4</b>	
Tax	(55.8)	(16.6)	(35.5)	>(100)	36.4	
<i>Tax rate (%)</i>	<i>17.6</i>	<i>14.0</i>	<i>6.4</i>	<i>Nm</i>	<i>Nm</i>	
MI	(41.2)	(8.5)	(33.9)	>(100)	17.6	
<b>Net profit</b>	<b>219.3</b>	<b>93.1</b>	<b>485.2</b>	<b>&gt;100</b>	<b>&gt;100</b>	
EPS (sen)	17.0	5.8	28.2	>100	65.9	
<b>Core net profit</b>	<b>114.1</b>	<b>124.4</b>	<b>157.5</b>	<b>26.6</b>	<b>38.0</b>	Higher core net profit qoq driven by stronger earnings across all major divisions – property development, property investment and construction

Source: Company, Affin

**Fig 2: Cumulative Results Comparison**

FYE 31 Dec (RMm)	2012	2013	YTD % chg	Comment
Revenue	3,876.8	4,527.6	16.8	Higher revenue contributions from property development and construction businesses.
Op costs	(3,496.1)	(4,056.2)	(16.0)	
EBIT	380.7	471.4	23.8	Positive adjustments on gains on fair value adjustment, gain on disposal, partly offset by an one-off expenses on fair value of ESOS option
<i>EBIT margin (%)</i>	<i>9.8</i>	<i>10.4</i>	<i>Nm</i>	
EI	123.9	287.0	<i>Nm</i>	
Int expense	27.1	34.2	26.2	
Interest income	(104.6)	(82.3)	21.4	
Associates	301.2	297.5	(1.2)	
<b>Pretax</b>	<b>728.2</b>	<b>1,007.8</b>	<b>38.4</b>	
Tax	(128.5)	(110.9)	13.7	
<i>Tax rate (%)</i>	<i>17.6</i>	<i>11.0</i>	<i>Nm</i>	
MI	(67.4)	(57.7)	14.3	
<b>Net profit</b>	<b>532.3</b>	<b>839.3</b>	<b>57.7</b>	
EPS (sen)	41.2	53.2	29.2	
<b>Core net profit</b>	<b>350.6</b>	<b>482.7</b>	<b>37.7</b>	Above market and our expectations

Source: Company, Affin

**Fig 3: Core segmental results breakdown**

	4Q12	3Q13	4Q13	Qoq Chg (%)	Yoy Chg (%)	2012	2013	Yoy Chg (%)
<b>Revenue (RMm)</b>								
Property Development	397.9	260.3	417.2	60.3	4.9	923.2	1,167.1	26.4
Property Investment	168.5	137.1	165.8	21.0	(1.6)	590.9	578.3	(2.1)
Construction	360.3	376.5	443.0	17.6	22.9	1,274.9	1,621.7	27.2
Trading & Manufacturing	122.7	151.9	133.7	(12.0)	9.0	558.7	586.8	5.0
Quarry	57.2	47.1	50.5	7.4	(11.7)	196.9	197.7	0.4
Others	92.3	93.2	112.2	20.3	21.5	332.1	376.1	nm
<b>Total revenue</b>	<b>1,198.9</b>	<b>1,066.1</b>	<b>1,322.4</b>	<b>24.0</b>	<b>10.3</b>	<b>3,876.8</b>	<b>4,527.6</b>	<b>16.8</b>
<b>Core EBIT (RMm)</b>								
Property Development	87.0	62.0	96.3	55.2	10.7	185.9	228.2	22.7
Property Investment	42.5	21.8	38.7	77.0	(9.0)	120.5	111.2	(7.7)
Construction	(6.5)	15.4	(11.1)	>(100)	>(100)	36.8	47.4	28.6
Trading & Manufacturing	7.8	11.7	10.3	(11.7)	33.0	44.4	46.6	5.0
Quarry	5.0	5.2	4.3	(16.8)	(12.8)	12.2	21.2	74.1
Others	(25.7)	(0.0)	14.1	>100	>100	(19.2)	16.8	nm
<b>Total EBIT</b>	<b>110.0</b>	<b>116.2</b>	<b>152.6</b>	<b>31.3</b>	<b>38.8</b>	<b>380.7</b>	<b>471.4</b>	<b>23.8</b>
<b>Core EBIT margin (%)</b>								
				<b>Qoq Chg (ppt)</b>	<b>Yoy Chg (ppt)</b>			<b>Yoy Chg (ppt)</b>
Property Development	21.9%	23.8%	23.1%	-0.8%	1.2%	20.1%	19.5%	-0.6%
Property Investment	25.2%	15.9%	23.3%	7.4%	-1.9%	20.4%	19.2%	-1.2%
Construction	-1.8%	4.1%	-2.5%	-6.6%	-0.7%	2.9%	2.9%	0.0%
Trading & Manufacturing	6.3%	7.7%	7.7%	0.0%	1.4%	8.0%	7.9%	0.0%
Quarry	8.7%	11.1%	8.6%	-2.5%	-0.1%	6.2%	10.7%	4.5%
Others	-27.9%	0.0%	12.5%	12.5%	nm	-5.8%	4.5%	nm
<b>Group EBIT margin</b>	<b>9.2%</b>	<b>10.9%</b>	<b>11.5%</b>	<b>0.6%</b>	<b>2.4%</b>	<b>9.8%</b>	<b>10.4%</b>	<b>0.6%</b>
<b>Core Associates / JCE earnings (RMm)</b>								
Property Development	54.2	30.3	37.2	22.5	(31.4)	124.3	125.1	0.7
Property Investment	20.9	19.0	23.1	21.4	10.6	75.3	80.2	6.5
Construction	25.5	-	31.3	nm	22.5	26.6	32.7	22.6
Others	0.7	0.1	0.0	nm	(97.4)	0.6	(0.2)	nm
<b>Total associates/ JCE earnings</b>	<b>101.3</b>	<b>49.4</b>	<b>91.6</b>	<b>85.2</b>	<b>(9.6)</b>	<b>226.8</b>	<b>237.8</b>	<b>4.9</b>

Source: Company

**Fig 4: Sunway's RNAV**

Description	Stake	Acres	GDV (RMm)	NPV (RMm)	Surplus (RMm)
<b>Property Development</b>					
Sunway South Quay	60%	42.2	3,297.0	213.2	127.9
Sunway Velocity Damansara	85%	17.9	2,859.0	133.2	113.2
Melawati	60%	15.4	1,691.0	183.2	109.9
Sunway Towers KL	100%	2.0	43.0	2.7	2.7
Taman Duta	100%	1.0	240.0	17.0	17.0
Casa Kiara	60%	3.0	120.0	11.6	7.0
Sunway Monterez	80%	3.0	210.0	18.8	15.0
Sunway Resort City	60%	5.4	43.7	3.9	2.3
Klang Valley (Others)	100%	14.9	660.0	53.0	53.0
Bkt Lenang, Johor	100%	220.0	618.4	51.7	51.7
Penang Grp	80%	64.0	700.0	60.7	48.5
Semenyih	100%	150.0	1,768.0	99.9	99.9
Ipoh	70%	398.0	729.0	43.2	30.2
Bangi	65%	441.0	1,048.0	65.1	42.3
Sg Long	100%	3.0	59.0	3.7	3.7
Medini	80%	111.0	277.0	17.9	14.3
Pedas	46%	691.0	12,000.0	300.5	138.2
Novena, Singapore	60%	1,079.0	18,000.0	412.3	247.4
Sembawang, Singapore	30%	1.7	2,137.0	199.1	59.7
Tianjin, China	100%	0.8	75.0	1.7	1.7
Opus, India	60%	24.0	1,300.0	55.6	33.4
MAK, India	50%	23.8	702.0	53.0	26.5
Australia	60%	14.0	181.0	15.7	9.4
<b>Subtotal:</b>	45%	48.4	378.1	23.5	10.6
<b>Subtotal:</b>		<b>3,374</b>	<b>49,136</b>	<b>2,040</b>	<b>1,265.6</b>
<b>Other business</b>					<b>RMm</b>
Construction @ 12x FY14 PER					1,125.0
Other business @ 10x FY14 PER					623.7
<b>Subtotal:</b>					<b>1,748.7</b>
<b>Total (RMm)</b>					<b>3,014.3</b>
Shareholders' fund @ Dec, 2013 (RMm)					5,334.9
Add: Warrants conversion (RMm)					724.0
RNAV (RMm)					9,073.2
Enlarged shares base (m)					2013.1
Fully diluted RNAV per share (RM)					4.51
<b>Fair value based on 30% discount to RNAV</b>					<b>3.15</b>
<i>Source: Affin</i>					

## Equity Rating Structure and Definitions

<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
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<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
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