

## Sunway (SWB MK)

Property - Real Estate  
Market Cap: USD1,503m

**Buy** (Maintained)

Target Price: MYR3.33

Price: MYR2.86

### Diversified Business Model Works Well

Macro   
Risks   
Growth   
Value



Source: Bloomberg

Avg Turnover (MYR/USD)	1.35m/0.41m
Cons. Upside (%)	23.8
Upside (%)	16.4
52-wk Price low/high (MYR)	2.16 - 3.61
Free float (%)	39
Shareholders (%)	
Tan Sri Dato' Jeffrey Cheah	51.5
GIC	8.7

Shariah compliant

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**Sunway's 4Q13 results beat expectations. The better numbers were driven by stronger growth in all core divisions. New sales were MYR1.8bn in FY13, and management expects to repeat the same amount of sales in FY14. Also, a big construction contract is under way. We maintain our BUY rating on the stock, as Sunway's diversified model helps cushion the temporary softening of the property market.**

- ◆ **Above expectations.** Sunway's FY13 earnings beat our and market expectations. Both property development and construction divisions recorded >20% growth in operating profit. Given the good set of results, a final single-tier dividend of 5 sen was declared (6 sen in FY12), bringing full-year DPS to 10 sen, representing a payout of 36%.
- ◆ **MYR1.8bn sales in FY13.** Similar to FY12's level, Sunway made MYR1.8bn worth of new property sales in FY13. Demand for most of its projects were encouraging, with Sunway Geo Residences recording a 90% take-up, Sunway Nexis almost 100%, and Royal Square @ Novena 50%. Going forward, management expects the same amount of sales for FY14. This is a decent target, in view of the pipeline launches. About MYR2.3bn worth of projects are slated for launch this year, including Sunway Velocity Residence (GDV: MYR250m), Sunway Geo Serviced Apartments (MYR200m), Citrine Sunway Iskandar (MYR300), and Mount Sophia Singapore (MYR600m), which is located near the Orchard Road shopping belt. Citrine, which comprises office and serviced apartments, is expected to be rolled out in 2Q, with an indicative pricing of close to MYR700 psf. As for the construction division, management is confident of hitting a new orderbook of MYR2.5bn this year, and we understand that the company is close to securing a big construction contract soon.
- ◆ **Forecasts.** We raise our FY14 earnings forecast by 15%. Earnings are well-supported by its MYR2.4bn unbilled sales (MYR2.2bn in 3Q13) and MYR3.9bn construction orderbook. The group's dividend payout is expected to stay within the 20-30% range.
- ◆ **Maintain BUY.** Amid the challenging market environment, Sunway stands out given its diversified business model that has helped cushion the temporary weakness in the property market. We maintain our BUY rating and MYR3.33 FV on the stock, at a 30% discount to RNAV.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover (MYRm)	3,739	3,877	4,734	5,258	5,742
Reported net profit (MYRm)	370	532	1,500	522	571
Recurring net profit (MYRm)	326	351	483	522	571
Recurring net profit growth (%)	0.2	7.7	37.7	8.2	9.4
Recurring EPS (MYR)	0.25	0.27	0.32	0.30	0.33
DPS (MYR)	0.00	0.06	0.10	0.10	0.12
Recurring P/E (x)	11.3	10.5	8.9	9.4	8.6
P/B (x)	1.24	1.04	0.81	0.87	0.81
Dividend Yield (%)	0.0	2.1	3.5	3.5	4.2
Return on average equity (%)	13.2	16.3	33.7	9.5	9.7
Return on average assets (%)	5.0	6.4	15.1	4.5	4.6
Net debt to equity (%)	44.7	41.5	22.6	18.8	18.9
Our vs consensus EPS (%)				27.3	29.0

Source: Company data, RHB estimates

Figure 1: Sunway's quarterly results

FYE Dec (MYR mil)	4Q12	3Q13	4Q13	q-o-q (%)	y-o-y (%)	FY12	FY13	y-o-y (%)	Comments
<b>Turnover</b>	<b>1,198.9</b>	<b>1,066.1</b>	<b>1,342.2</b>	<b>25.9</b>	<b>11.9</b>	<b>3,876.8</b>	<b>4,733.7</b>	<b>22.1</b>	
Prop dev	397.9	260.3	417.2	60.3	4.9	923.2	1,167.1	26.4	Growth was mainly driven by higher progress billings from local projects
Prop invt	168.5	137.1	165.9	21.0	(1.6)	590.9	815.8	38.1	Contribution was higher in 4Q13 due to seasonality factor.
Construction	360.3	376.5	443.0	17.7	22.9	1,274.9	1,590.9	24.8	Growth was attributed to higher progress billings from local civil and building projects, and stronger contribution from precast concrete business in Singapore.
Trading & Manufacturing	122.7	151.9	133.7	(12.0)	8.9	558.7	586.7	5.0	
Quarry	57.2	47.1	50.5	7.4	(11.7)	196.9	197.7	0.4	
Investment holdings	6.3	(1.1)	0.0	(100.0)	n.m.	7.0	0.0	n.m.	
Others	86.0	94.3	111.2	17.9	29.2	325.1	375.4	15.5	
<b>EBIT</b>	<b>233.5</b>	<b>74.9</b>	<b>1,188.8</b>	<b>1487.2</b>	<b>409.2</b>	<b>504.2</b>	<b>1,823.6</b>	<b>261.7</b>	
<b>EBIT Margin (%)</b>	<b>19.5%</b>	<b>7.0%</b>	<b>88.6%</b>			<b>13.0%</b>	<b>38.5%</b>		
Prop dev	88.7	62.0	93.4	50.5	5.3	187.6	225.3	20.1	
Prop invt	59.6	21.8	1,286.4	5788.9	2059.8	137.6	1,359.0	887.8	
Construction	(2.4)	15.4	(15.7)	n.m.	548.5	40.9	42.8	4.6	Lower EBIT margin was due to one-off provision of MYR23m for doubtful debts for Al Reem project.
Trading & Manufacturing	10.5	11.7	8.2	(29.8)	(22.2)	47.2	44.5	(5.7)	
Quarry	5.0	5.2	3.0	(41.4)	(38.5)	12.2	19.9	63.6	
Investment holdings	(24.1)	(46.4)	170.0	n.m.	(805.6)	(36.0)	116.1	(422.4)	
Others	96.2	5.1	0.6	(88.5)	(99.4)	114.7	16.0	(86.0)	
Exceptional items	123.8	41.2	1,036.5	n.m.	737.2	201.0	1,017.8	n.m.	
Finance cost	(16.7)	(6.3)	(24.5)	290.7	46.3	(77.5)	(63.3)	(18.3)	
Asso & jv	99.3	49.4	83.4	68.7	(16.0)	299.7	289.3	(3.5)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	
Pretax profit	316.3	118.2	1,248.1	956.0	294.6	736.7	1,701.4	130.9	
<b>PBT margin (%)</b>	<b>26.4%</b>	<b>11.1%</b>	<b>93.0%</b>			<b>19.0%</b>	<b>35.9%</b>		
Tax	(55.8)	(16.6)	(45.5)	173.9	(18.5)	(137.0)	(120.9)	(11.8)	
<b>Tax (%)</b>	<b>17.6%</b>	<b>14.0%</b>	<b>3.6%</b>			<b>18.6%</b>	<b>7.1%</b>		
PAT	260.5	101.6	1,202.7	1083.8	361.7	599.7	1,580.5	163.5	
MI	(41.2)	(8.5)	(63.9)	656.3	55.2	(67.4)	(87.7)	30.2	
<b>Net profit</b>	<b>219.3</b>	<b>93.1</b>	<b>1,138.8</b>	<b>1122.6</b>	<b>419.3</b>	<b>532.3</b>	<b>1,492.8</b>	<b>180.4</b>	
<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>	<b>350.5</b>	<b>482.9</b>	<b>37.8</b>	<b>Above expectations.</b>
<b>Net margin (%)</b>	<b>9.5</b>	<b>11.7</b>	<b>11.7</b>			<b>9.0</b>	<b>10.2</b>		
EPS (sen)	8.8	7.8	7.2			27.1	30.6		
NTA (RM)	2.75	2.70	3.10			2.75	3.10		
DPS (sen)	6.0	0.0	5.0			6.0	10.0		

Source: Company, RHB estimates

Figure 2: Sunway's RNAV

Landbank	Size (acres)	GDV (MYR m)	Equity interest	NPV @ 13% (MYR m)	
<b>Malaysia</b>					
Sunway South Quay	52.0	3,893	60%	137.54	
Sunway Velocity	22.0	2,000	50%	68.74	
Sunway Damansara	18.0	826	60%	43.47	
Sunway Semenyih	398.0	729	70%	31.08	
Integrated Resorts	18.0	660	100%	44.78	
Melawati	31.0	555	100%	35.76	
Sunway Tower 1	1.0	240	100%	17.24	
Casa Kiara 3	3.0	230	80%	13.22	
Suria	14.0	60	100%	4.85	
Taman Duta	3.0	120	60%	5.52	
Penang	108.0	1,202	100%	87.85	
Paya Terubong land, Penang	24.5	1,500	100%	97.45	
Bukit Lenang JB	64.0	1,000	80%	58.29	
Iskandar Pendas I	779.1	10,000	60%	258.30	
Iskandar Pendas II	300.0	10,000	60%	382.56	
Sunway Iskandar	691.0	10,000	60%	309.44	
Ipoh	899.0	286	65%	10.52	
Others	12.0	38	77%	1.71	
Taman Equine	33.0	250	100%	14.89	
Bangi	3.0	59	100%	3.74	
Melawati 2	2.0	43	100%	2.46	
Sg Long Balakong	111.0	277	80%	12.04	
Mont Putra	163.0	156	100%	8.48	
<b>Overseas</b>					
Opus, India	35.0	750	50%	5.83	
MAK, India	14.0	134	60%	1.45	
Guanghao, China	17.0	450	65%	5.28	
Tianjin, China	102.0	5,000	60%	46.65	
Australia	91.0	612	31%	8.50	
Yishun, Singapore	7.0	851	30%	25.57	
Tampines, Singapore	5.0	1,070	30%	33.44	
Yuan Ching Rd, Singapore	5.0	828	30%	25.88	
Sembawang, Singapore	0.8	75	100%	10.55	
Thomson/Irrawaddy	1.7	2,288	30%	71.49	
Mount Sophia, Singapore	5.9	2,000	30%	61.57	
Sri Lanka	1.0	250	65%	1.56	
Pasir Ris, Singapore	4.3	893	30%	27.89	
Unbilled sales				253.00	
Subtotal				2,228.57	
<b>Investment properties</b>	<b>EBITDA</b>	<b>Market value</b>	<b>Book value</b>	<b>Equity interest</b>	<b>Net surplus</b>
	<b>(MYR m)</b>	<b>(MYR m)</b>	<b>(MYR m)</b>		<b>(MYR m)</b>
Monash University Campus	13.4	200.0	200.0	100%	0.0
Sunway University College	9.5	153.0	153.0	100%	0.0
Sunway Hotel Georgetown	2.3	60.0	60.0	100%	0.0
Sunway Medical Centre	17.0	310.0	160.2	78%	0.0
Sunway Hotel Phnom Penh	3.0	17	17.0	53%	0.0
Sunway Hotel Hanoi	0.1	12.0	12.0	100%	0.0
Sunway Giza	1.1	42.7	42.7	60%	0.0
Subtotal					0.0
<b>Other divisions</b>	<b>Market value</b>	<b>Book value</b>	<b>FY14 EPS</b>	<b>PE target</b>	<b>Equity value surplus</b>
	<b>(MYR m)</b>	<b>(MYR m)</b>	<b>(sen)</b>	<b>(x)</b>	<b>(MYR m)</b>
Construction			0.10	15	1,827.53
34% Sunway REIT	1,655.9	882.0			773.90
Subtotal					2,601.43
Total					4,830.00
Shareholders' equity					3,558.40
Total RNAV					8,388.40
Share base (mil)					1,723.49
No. of warrants					289.39
ESOS					172.35
Warrants conversion @ MYR2.50					723.48
Rights issue					732.48
ESOS					551.52
Total SOP value					10,395.88
Enlarged share base (mil)					2,185.23
Fully diluted RNAV per share					4.76
Discount					30%
Fair value (MYR)					3.33

Source: Company, RHB estimates

## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>
Total turnover	3,739	3,877	4,734	5,258	5,742
Cost of sales	(2,755)	(2,809)	(3,382)	(3,772)	(4,186)
<b>Gross profit</b>	<b>984</b>	<b>1,068</b>	<b>1,352</b>	<b>1,486</b>	<b>1,556</b>
Gen & admin expenses	(785)	(775)	(698)	(1,078)	(1,252)
Other operating costs	172	212	1,170	129	143
<b>Operating profit</b>	<b>371</b>	<b>504</b>	<b>1,824</b>	<b>537</b>	<b>447</b>
Operating EBITDA	438	575	1,914	641	549
Depreciation of fixed assets	(67)	(71)	(91)	(104)	(102)
<b>Operating EBIT</b>	<b>371</b>	<b>504</b>	<b>1,824</b>	<b>537</b>	<b>447</b>
Net income from investments	199	301	172	406	528
Interest income	30	27	36	37	39
Interest expense	(86)	(105)	(138)	(122)	(122)
Other non-recurring income	(8)	0	1	127	185
<b>Pre-tax profit</b>	<b>507</b>	<b>728</b>	<b>1,894</b>	<b>985</b>	<b>1,078</b>
Taxation	(99)	(129)	(121)	(246)	(269)
Minority interests	(38)	(67)	(273)	(217)	(237)
<b>Profit after tax &amp; minorities</b>	<b>370</b>	<b>532</b>	<b>1,500</b>	<b>522</b>	<b>571</b>
<b>Reported net profit</b>	<b>370</b>	<b>532</b>	<b>1,500</b>	<b>522</b>	<b>571</b>
<b>Recurring net profit</b>	<b>326</b>	<b>351</b>	<b>483</b>	<b>522</b>	<b>571</b>

Source: Company data, RHB estimates

<b>Cash flow (MYRm)</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14F</b>	<b>Dec-15F</b>
<b>Operating profit</b>	<b>371</b>	<b>504</b>	<b>1,824</b>	<b>537</b>	<b>447</b>
<b>Depreciation &amp; amortisation</b>	<b>67</b>	<b>71</b>	<b>91</b>	<b>104</b>	<b>102</b>
<b>Change in working capital</b>	<b>385</b>	<b>(741)</b>	<b>(148)</b>	<b>22</b>	<b>(175)</b>
Other operating cash flow	146	295	(449)	212	267
<b>Operating cash flow</b>	<b>970</b>	<b>129</b>	<b>1,317</b>	<b>875</b>	<b>641</b>
Interest received	30	27	36	37	39
Interest paid	(86)	(105)	(138)	(122)	(122)
Tax paid	(99)	(129)	(121)	(246)	(269)
<b>Cash flow from operations</b>	<b>816</b>	<b>(77)</b>	<b>1,094</b>	<b>544</b>	<b>290</b>
Capex	(261)	(148)	(780)	-	-
Other investing cash flow	(537)	79	(280)	(180)	(123)
<b>Cash flow from investing activities</b>	<b>(799)</b>	<b>(69)</b>	<b>(1,060)</b>	<b>(180)</b>	<b>(123)</b>
Dividends paid	-	(118)	(490)	(172)	(207)
Proceeds from issue of shares	15	161	766	-	-
Increase in debt	(65)	483	49	-	-
Other financing cash flow	(52)	(23)	(189)	(108)	(103)
<b>Cash flow from financing activities</b>	<b>(102)</b>	<b>503</b>	<b>135</b>	<b>(281)</b>	<b>(310)</b>
Cash at beginning of period	869	784	1,140	1,519	1,602
<b>Total cash generated</b>	<b>(85)</b>	<b>357</b>	<b>169</b>	<b>83</b>	<b>(143)</b>
Forex effects			210		
<b>Implied cash at end of period</b>	<b>784</b>	<b>1,140</b>	<b>1,519</b>	<b>1,602</b>	<b>1,459</b>

Source: Company data, RHB estimates

## Financial Exhibits

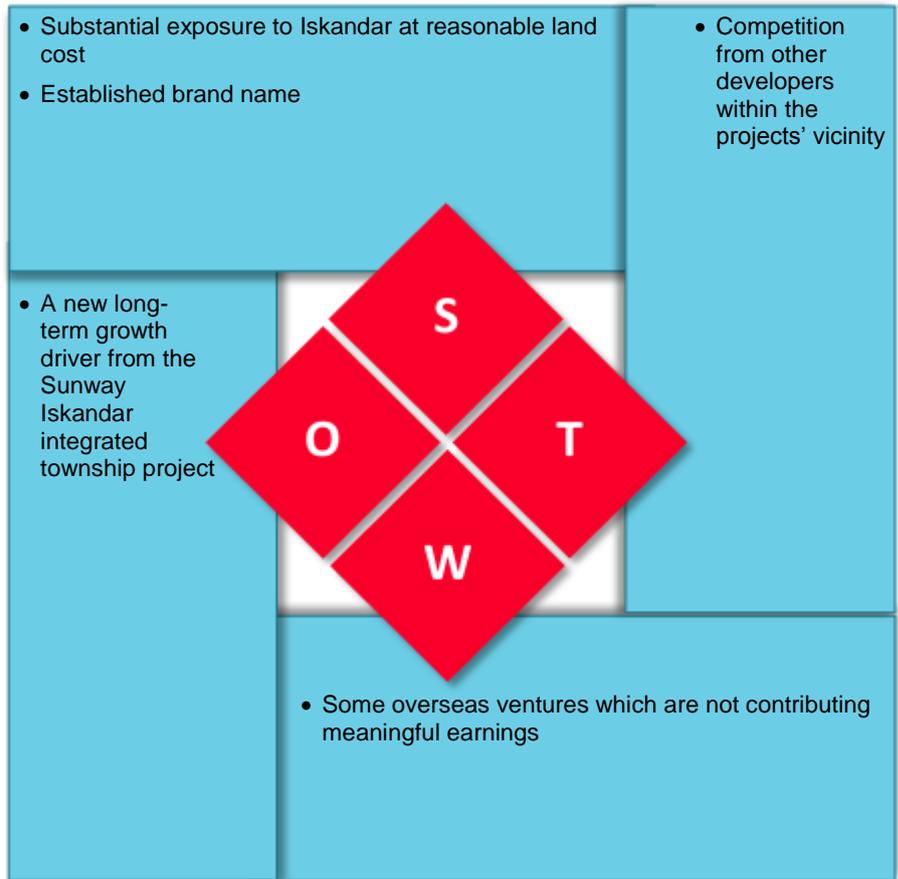
Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	784	1,140	1,519	1,602	1,459
Inventories	1,101	1,226	1,899	2,014	2,195
Accounts receivable	1,096	1,400	1,403	1,553	1,768
Other current assets	58	48	63	63	63
<b>Total current assets</b>	<b>3,039</b>	<b>3,814</b>	<b>4,883</b>	<b>5,231</b>	<b>5,485</b>
Tangible fixed assets	4,350	4,553	5,834	5,710	5,531
Intangible assets	325	319	320	320	320
Total other assets	101	58	75	681	1,409
Total non-current assets	4,776	4,931	6,229	6,711	7,260
<b>Total assets</b>	<b>7,815</b>	<b>8,745</b>	<b>11,112</b>	<b>11,943</b>	<b>12,745</b>
Short-term debt	301	783	1,805	1,805	1,805
Accounts payable	1,931	1,605	2,154	2,442	2,663
Other current liabilities	28	31	24	24	24
<b>Total current liabilities</b>	<b>2,260</b>	<b>2,419</b>	<b>3,983</b>	<b>4,271</b>	<b>4,492</b>
Total long-term debt	1,963	1,964	991	967	946
Other liabilities	278	493	486	486	486
<b>Total non-current liabilities</b>	<b>2,241</b>	<b>2,458</b>	<b>1,477</b>	<b>1,454</b>	<b>1,433</b>
<b>Total liabilities</b>	<b>4,501</b>	<b>4,876</b>	<b>5,460</b>	<b>5,724</b>	<b>5,925</b>
Share capital	1,293	1,293	1,724	1,724	1,724
Retained earnings reserve	372	937	1,896	2,245	2,610
Other reserves	1,319	1,329	1,716	1,716	1,716
<b>Shareholders' equity</b>	<b>2,983</b>	<b>3,558</b>	<b>5,335</b>	<b>5,685</b>	<b>6,049</b>
Minority interests	331	310	317	534	771
<b>Total equity</b>	<b>3,314</b>	<b>3,868</b>	<b>5,652</b>	<b>6,219</b>	<b>6,820</b>
<b>Total liabilities &amp; equity</b>	<b>7,815</b>	<b>8,745</b>	<b>11,112</b>	<b>11,943</b>	<b>12,745</b>

Source: Company data, RHB estimates

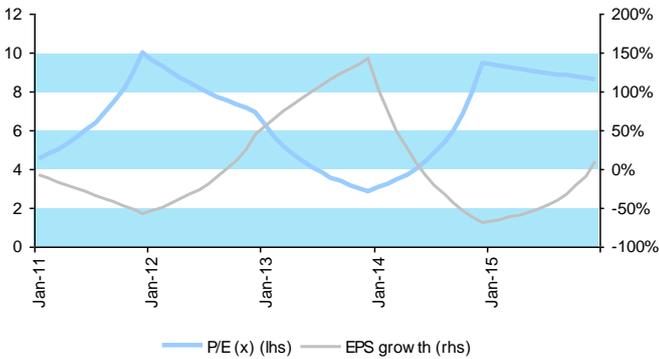
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	19.3	3.7	22.1	11.1	9.2
Operating profit growth (%)	(37.3)	35.8	261.7	(70.6)	(16.8)
Net profit growth (%)	(46.3)	44.0	181.9	(65.2)	9.4
EPS growth (%)	(57.0)	43.8	141.6	(69.6)	9.4
Bv per share growth (%)	14.5	19.3	28.5	(6.8)	6.4
Operating margin (%)	9.9	13.0	38.5	10.2	7.8
Net profit margin (%)	9.9	13.7	31.7	9.9	9.9
Return on average assets (%)	5.0	6.4	15.1	4.5	4.6
Return on average equity (%)	13.2	16.3	33.7	9.5	9.7
Net debt to equity (%)	44.7	41.5	22.6	18.8	18.9
DPS	0.00	0.06	0.10	0.10	0.12
Recurrent cash flow per share	0.63	(0.06)	0.73	0.32	0.17

Source: Company data, RHB estimates

# SWOT Analysis

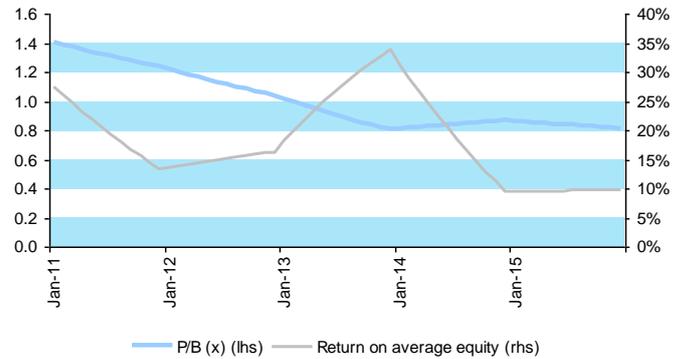


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE

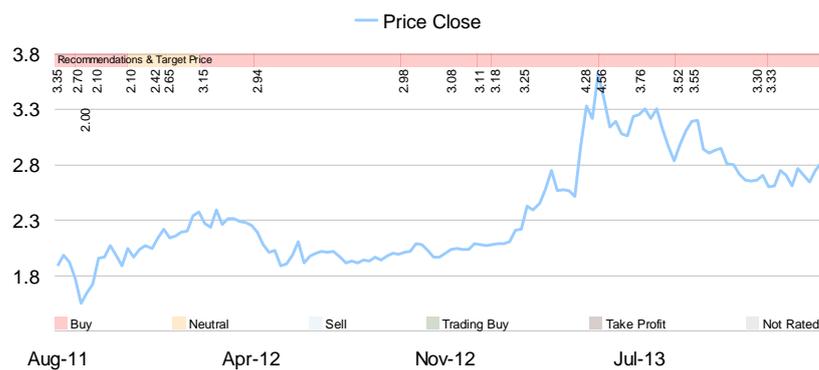


Source: Company data, RHB estimates

## Company Profile

Sunway Bhd is a well-known developer in the Klang Valley. Its flagship project, Bandar Sunway is a well-established integrated township. The company has successfully transformed a mining land to a matured residential and commercial cluster.

## Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-12-18	Buy	3.33	2.59
2013-12-02	Buy	3.30	2.55
2013-09-18	Buy	3.55	3.05
2013-08-30	Buy	3.52	2.83
2013-07-16	Buy	3.76	3.36
2013-05-31	Buy	4.56	3.61
2013-05-13	Buy	4.28	3.26
2013-03-20	buy	3.25	2.46
2013-03-12	buy	3.25	2.40
2013-03-07	buy	3.25	2.34

Source : RHB estimates, Bloomberg

## RHB Guide to Investment Ratings

- Buy:** Share price may exceed 10% over the next 12 months  
**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain  
**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months  
**Take Profit:** Target price has been attained. Look to accumulate at lower levels  
**Sell:** Share price may fall by more than 10% over the next 12 months  
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