

Sunway Bhd

Sector: Property

SWB MK

RM3.19 @ 29 May 2014

REDUCE (downgrade from ADD)

Price Target: RM3.15 (↔)



Price Performance

| | 1M | 3M | 12M |
|-------------|-------|--------|--------|
| Absolute | +1.9% | +13.4% | -3.2% |
| Rel to KLCI | +2.6% | +7.2% | -10.5% |

Stock Data

| | |
|-------------------------------------|-------------|
| Issued shares (m) | 1,723.7 |
| Mkt cap (RMm)/(US\$m) | 5,499/1,713 |
| Avg daily vol - 6mth (m) | 0.8 |
| 52-wk range (RM) | 2.54-3.61 |
| Est free float | 36% |
| BV per share (RM) | 3.15 |
| P/BV (x) | 1.0 |
| Net cash/ (debt) (RMm) (1Q14) | (1,562.4) |
| ROE (2014E) | 8.6% |
| Derivatives | |
| Warr 2016 (WP: RM0.815, SP: RM2.50) | |
| Shariah Compliant | Yes |

Key Shareholders

| | |
|-----------------------|-------|
| Tan Sri Jeffrey Cheah | 55.4% |
| GIC | 8.7% |

Earnings & Valuation Revisions

| | 14E | 15E | 16E |
|------------------------|------|------|------|
| Prev EPS (sen) | 27.3 | 28.0 | 31.5 |
| Curr EPS (sen) | 27.3 | 28.0 | 31.5 |
| Chg (%) | - | - | - |
| Prev target price (RM) | | | 3.15 |
| Curr target price (RM) | | | 3.15 |

Source: Affin, Bloomberg

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Higher earnings yoy, within expectations

1Q14 core net profit grew by 22% yoy to RM110m, within expectations

Sunway's 1Q14 core net profit came in 22% higher yoy at RM110.3m on improved EBIT margin (11.3% in 1Q14 vs 8.4% in 1Q13), driven by better performance from its property development business. Property development EBIT margin expanded from a subpar 12.6% in 1Q13 to a healthy 23.4% in 1Q14, resulting in a higher pretax profit of RM69.8m (+28% yoy). Elsewhere, the construction pretax profit grew by 13% yoy to RM31m on stronger profit recognition from existing contracts (these contracts have reached advanced construction stage) while profit from other key business divisions were relatively stable. Overall, the results are within market and our expectations. Sunway's 1Q14 core net profit accounted for 23% of consensus and our full year earnings forecast.

Core earnings is sequentially weaker

Sequentially, Sunway's 1Q14 core net profit fell by 30% to RM110.3m due to weaker earnings from property development and property investment segments. Property development pretax profit fell by 48% qoq due to lower progress billings from local and Singapore development projects. Meanwhile the property investment pretax profit fell by 30% qoq to RM43.3m due to the seasonality factor – the leisure and hospitality divisions typically delivered best earnings in the last quarter of the year. A higher construction pretax profit (+53% qoq to RM31m) due to an absence of provisions has helped to buffer the earnings drop.

RM242m effective property sales in 1Q14, within our expectations

Sunway has achieved RM242m of effective property sales in 1Q14 (RM348m gross property sales), driven by sales of Singapore properties (RM64m), Geo Residences (RM56m), Johor (RM21m), Velocity (RM20m) and other projects in Klang Valley, Penang and Ipoh worth RM81m. The group is on track to achieve our 2014E net property sales assumption of RM1.1bn.

Maintain EPS forecast and TP, downgrade to REDUCE on share price gain

We maintain our earnings forecast and TP of RM3.15 based on a 30% discount to RNAV. Sunway's share price has appreciated by 12% since our earnings and TP upgrade in end-February 2014 and the stock now trades above our TP of RM3.15. As such, we are downgrading the stock to **REDUCE** (from ADD). While we like Sunway for its integrated real estate business model and experience in the construction sector, we opine that current share price has fairly reflected these positive attributes. Further weakness in the high-end condominium / integrated development segment may potentially drag the group's property sales and share price performance. Key upside risks to our REDUCE rating include stronger-than-expected sales, higher-than-expected construction contract wins and better-than-expected quarterly earnings.

Earnings & 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) | 7.8 | 5.7 | 11.7 | 11.4 | 10.1 |
| 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) | 11.8 | 10.0 | 11.7 | 11.4 | 10.1 |
| Net DPS (sen) | 6.0 | 10.0 | 10.0 | 10.0 | 12.0 |
| Dividend Yield (%) | 1.9 | 3.1 | 3.1 | 3.1 | 3.8 |
| EV/EBITDA (x) | 12.2 | 11.1 | 10.9 | 10.3 | 9.8 |
| Consensus profit (RMm) | - | - | 487.4 | 527.9 | 536.3 |
| Affin/Consensus (x) | - | - | 1.0 | 0.9 | 1.0 |

Source: Affin, Bloomberg

Fig 1: Quarterly results comparison

| FYE Dec (RMm) | 1Q13 | 4Q13 | 1Q14 | QoQ % chg | YoY % chg | Comment |
|------------------------|--------------|--------------|--------------|---------------|--------------|---|
| Revenue | 1021.0 | 1322.4 | 1025.7 | (22.4) | 0.5 | Higher yoy revenue from all major business segments except construction that reported a 17% decline due to lower progress billings from its ongoing projects. |
| Op costs | (935.0) | (1169.8) | (909.9) | (22.2) | (2.7) | |
| EBIT | 86.1 | 152.6 | 115.9 | (24.1) | 34.7 | |
| <i>EBIT margin (%)</i> | <i>8.4</i> | <i>11.5</i> | <i>11.3</i> | <i>nm</i> | <i>nm</i> | Higher EBIT margin yoy on improved property development EBIT margin. |
| Exceptional items | 0.3 | 328.0 | (6.3) | nm | nm | Fair value of the ESOS option that was implemented in September 2013. |
| Int income | 10.5 | 3.0 | 10.2 | >100 | (3.1) | |
| Int expense | (22.2) | (20.6) | (18.0) | (12.5) | (18.8) | |
| Associates / JCE | 47.9 | 91.6 | 40.4 | (55.8) | (15.5) | |
| Pretax profit | 122.5 | 554.6 | 142.2 | (74.4) | 16.1 | |
| Tax | (26.3) | (35.5) | (30.4) | (14.2) | 15.6 | |
| <i>Tax rate (%)</i> | <i>21.5</i> | <i>6.4</i> | <i>21.4</i> | <i>nm</i> | <i>nm</i> | |
| MI | (5.6) | (33.9) | (7.8) | (77.1) | 38.1 | |
| Net profit | 90.6 | 485.2 | 104.0 | (78.6) | 14.8 | |
| EPS (sen) | 7.0 | 28.2 | 6.0 | (78.6) | (14.0) | |
| Core net profit | 90.3 | 157.5 | 110.3 | (30.0) | 22.1 | Within market and our expectations |

Source: Company, Affin

Fig 2: Core segmental results breakdown

| | 1Q13 | 4Q13 | 1Q14 | Qoq Chg (%) | Yoy Chg (%) |
|---|----------------|----------------|----------------|--------------------------|--------------------------|
| Revenue (RMm) | | | | | |
| Property Development | 202.7 | 417.2 | 222.3 | (46.7) | 9.7 |
| Property Investment | 133.5 | 165.8 | 136.2 | (17.8) | 2.0 |
| Construction | 429.4 | 443.0 | 358.7 | (19.0) | (16.5) |
| Trading & Manufacturing | 129.6 | 133.7 | 149.0 | 11.4 | 15.0 |
| Quarry | 44.3 | 50.5 | 48.3 | (4.4) | 8.9 |
| Others | 81.5 | 112.2 | 111.2 | (0.9) | 36.3 |
| Total revenue | 1,021.0 | 1,322.4 | 1,025.7 | (22.4) | 0.5 |
| Core EBIT (RMm) | | | | | |
| Property Development | 25.5 | 96.3 | 52.1 | (45.9) | >100 |
| Property Investment | 22.1 | 38.7 | 20.6 | (46.8) | (7.1) |
| Construction | 27.3 | (11.1) | 31.0 | >100 | 13.4 |
| Trading & Manufacturing | 9.0 | 10.3 | 9.1 | (11.8) | 0.7 |
| Quarry | 4.8 | 4.3 | 4.4 | 2.4 | (7.2) |
| Others | (2.7) | 14.1 | (1.3) | >(100) | (52.4) |
| Total EBIT | 86.1 | 152.6 | 115.9 | (24.1) | 34.6 |
| Core EBIT margin (%) | | | | | |
| | | | | Qoq Chg (ppt) | Yoy Chg (ppt) |
| Property Development | 12.6% | 23.1% | 23.4% | 0.3% | 10.8% |
| Property Investment | 16.6% | 23.3% | 15.1% | -8.2% | -1.5% |
| Construction | 6.4% | -2.5% | 8.6% | 11.1% | 2.3% |
| Trading & Manufacturing | 7.0% | 7.7% | 6.1% | -1.6% | -0.9% |
| Quarry | 10.8% | 8.6% | 9.2% | 0.6% | -1.6% |
| Others | -3.3% | 12.5% | -1.2% | -13.7% | 2.2% |
| Group EBIT margin | 8.4% | 11.5% | 11.3% | -0.2% | 2.9% |
| Core Associates / JCE earnings (RMm) | | | | | |
| Property Development | 29.2 | 37.2 | 17.8 | (52.3) | (39.1) |
| Property Investment | 18.9 | 23.1 | 22.7 | (1.7) | 19.9 |
| Construction | - | 31.3 | - | nm | nm |
| Others | (0.2) | 0.0 | (0.0) | nm | nm |
| Total associates/ JCE earnings | 47.9 | 91.6 | 40.4 | (55.8) | (15.5) |

Source: Company, Affin

Fig 3: Sunway's RNAV

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

Source: Company, Affin

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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