

Buy

Price
RM2.65

Target price
RM4.20

Bloomberg code
SWB MK

Analyst

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Sunway

On track to a record year

Sunway's 3Q13 normalized earnings grew strongly by 32% yoy and 12% qoq. The star performer was property development with higher sales especially for projects close to key transport networks and higher progress billings. 9M13 earnings beat our and consensus expectations, and comprise 83% and 82% of our full-year forecast, respectively. We view the recent share price weakness as a good buying opportunity. Valuations are compelling at 11.1x FY14F PE and 0.9x PB. Strong Buy.

- On a yoy basis, 3Q13 revenue increased 23% driven by higher contributions from the property development and construction divisions. Operating profit rose 10% yoy due to better performance of the property development and property investment divisions. Overall, normalized net profit grew by 32% upon stripping out RM39.7m of fair value of ESOS option, RM1.6m of professional fee and RM0.1m gain on derivatives.
- On a qoq basis, 3Q13 revenue declined 5% while operating profit was flat. Profitability improved, however, due to strong performance from the property development division, which rose 40% qoq, offsetting the seasonal decline in other segments.
- Property development revenue was up 47% yoy due to higher progress billings from Sunway South Quay, Sunway Velocity and Sunway Nexus, but declined 9% qoq due to high sales of Sunway Vivaldi in 2Q13. Operating profit surged 17% yoy and 40% qoq due to higher contributions from commercial segments in 3Q13 and contributions from its Singapore projects.
- According to management, effective property sales as at 9M13 amounted to RM836m, which constitute 76% of the FY13 effective sales target of RM1.1bn. Effective unbilled sales were RM1.8bn, translating to 1.5x FY12 property development revenue (excluding Singapore projects). Recent launches include Sunway Geo condominium (October 2013), which achieved a take-up of 85% including bookings as at 20 November 2013, and Sunway Velocity serviced apartments (November 2013) with a take-up of 60%. Its Royal Square in Novena, Singapore, comprising medical suites and shops, was launched in October 2013 and has achieved a take-up of 40%.
- Property investment revenue declined 8% yoy and 3% qoq due to lower hotel occupancy rates and theme park visitorship as the fasting month fell in the quarter coupled with Sunway Putra hotel being partially closed for refurbishments. While operating profit declined 24% qoq, it was up 13% yoy due to 3QFY12 being impacted by provisions for doubtful debts which did not recur this quarter.
- Construction revenue was up 41% yoy and 1% qoq due to progress billings from the MRT project, which has commenced revenue recognition from FY13. Operating profit, however, declined by 16% yoy due to the write-back of provisions in 3QFY12, and was down 2% qoq due to lower margins from its local projects.
- Outstanding construction order book is RM3.7bn, and the company has replenished RM2bn in order book as at November 2013, achieving its full-year target of RM2bn ahead of time.
- Overall, 9M13 normalized net profit exceeded expectations, constituting 82% and 83% of our and Bloomberg consensus forecasts. Given that 2H13 is typically the stronger half, the group appears on track for record profits in FY13.

Table 1 : Quarterly performance trends

(RM m) FYE 31 Dec	Quarter							Change		Cumulative			KAF	
	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	% qoq	% yoy	9M12	9M13	% chg	FY13F	9M/F
Turnover	814.8	996.1	867.0	1,198.9	1,021.0	1,118.0	1,066.1	(5)	23	2,677.8	3,205.2	20	3,710.0	86
EBIT	60.5	95.7	106.1	109.9	86.0	116.6	116.2	(0)	10	262.2	318.8	22	474.1	67
<i>EBIT margin (%)</i>	7.4%	9.6%	12.2%	9.2%	8.4%	10.4%	10.9%			9.8%	9.9%		13%	
Net interest expense	(18.6)	(22.8)	(19.5)	(16.7)	(11.7)	(12.6)	(6.3)	(50)	(68)	(60.8)	(30.5)	(50)	(63.9)	48
Associates and JVs	42.9	35.1	56.1	99.3	47.9	48.9	49.4	1	(12)	134.0	146.2	9	131.4	111
Exceptional items	0.2	85.2	(0.3)	123.8	0.3	59.6	(41.2)	(169)	13,633	85.1	18.7		-	nm
Profit before tax	84.9	193.1	142.4	316.3	122.5	212.5	118.2	(44)	(17)	420.5	453.2	8	541.6	84
Normalized PBT	84.7	107.9	142.7	192.5	122.2	152.9	159.4	4	12	335.4	434.5	30	541.6	80
Tax	(18.5)	(30.3)	(32.4)	(55.8)	(26.3)	(32.5)	(16.6)	(49)	(49)	(81.2)	(75.4)	(7)	(113.0)	67
Minority interest	(2.0)	(8.5)	(15.7)	(41.2)	(5.6)	(9.7)	(8.5)	(13)	(46)	(26.2)	(23.8)	(9)	(38.6)	62
Net profit	64.4	154.3	94.3	219.3	90.6	170.3	93.1	(45)	(1)	313.1	354.0	13	390.0	91
Norm. net profit	64.2	77.6	94.6	114.1	90.3	110.7	124.4	12	32	236.5	325.4	38	390.0	83
<i>Norm. margin (%)</i>	7.9%	7.8%	10.9%	9.5%	8.8%	9.9%	11.7%			8.8%	10.2%			

Source: Company, KAF

Income statement

FYE December (RMm)	2011A	2012A	2013F	2014F	2015F
Turnover	3,691.7	3,876.8	3,710.0	4,038.3	5,047.7
EBITDA	396.6	412.7	549.6	649.6	862.0
Depreciation & Amortisation	(90.7)	(89.9)	(75.5)	(115.3)	(151.3)
EBIT	305.9	322.8	474.1	534.3	710.8
Net interest	(53.4)	(77.5)	(63.9)	(54.8)	(57.0)
Associates	185.6	301.2	131.4	156.5	132.2
Exceptional items	60.4	181.8	-	-	-
Pretax profit	498.5	728.2	541.6	636.0	786.0
Taxation	(69.6)	(128.5)	(113.0)	(136.7)	(186.3)
Profit after tax	429.0	599.7	428.6	499.3	599.7
Minority interest	(41.4)	(67.4)	(38.6)	(49.4)	(76.5)
Net profit	387.6	532.3	390.0	449.9	523.2
Normalised net profit	327.1	350.6	390.0	449.9	523.2

Source: Company, KAF

Balance sheet

FYE December (RMm)	2011A	2012A	2013F	2014F	2015F
Non-current assets					
Property, plant and equipment	960.6	806.9	1,231.4	1,616.1	1,964.8
Investment properties	888.9	1,150.3	1,150.3	1,150.3	1,150.3
Land held for development	1,017.3	1,042.3	1,042.3	1,042.3	1,042.3
Investment in associates & jointly controlled entity	1,332.5	1,580.5	1,711.9	1,868.3	2,000.6
Goodwill	326.5	318.7	318.7	318.7	318.7
Deferred tax assets	33.3	31.8	31.8	31.8	31.8
Total non-current assets	4,559.0	4,930.5	5,486.4	6,027.6	6,508.6
Current assets					
Properties under development	669.3	600.2	531.2	462.1	393.0
Inventories	451.8	626.0	599.0	652.1	815.1
Total receivables	1,319.1	1,400.1	1,339.9	1,458.4	1,823.0
Tax recoverable	67.6	47.8	47.8	47.8	47.8
Deposits, cash and bank balances	776.7	1,140.2	1,754.5	1,656.1	1,629.6
Total current assets	3,284.6	3,814.3	4,272.4	4,276.4	4,708.4
Total assets	7,843.6	8,744.9	9,758.8	10,304.0	11,217.0
Current liabilities					
Total payables	2,005.6	1,605.1	1,536.0	1,671.9	2,089.9
Bank borrowings	319.2	782.7	782.7	782.7	782.7
Other liabilities	1.6	-	-	-	-
Taxation	27.1	31.0	31.0	31.0	31.0
Total current liabilities	2,353.4	2,418.8	2,349.8	2,485.7	2,903.6
Financed by:					
Share capital	1,292.5	1,292.5	1,723.3	1,723.3	1,723.3
Share premium & Reserves	1,724.4	2,265.9	2,879.4	3,239.4	3,657.9
Shareholders' funds	3,016.9	3,558.4	4,602.8	4,962.7	5,381.2
Minority interest	327.3	310.0	348.6	398.0	474.5
Long-term bank borrowings	1,934.5	1,964.2	1,964.2	1,964.2	1,964.2
Other liabilities	154.9	444.0	444.0	444.0	444.0
Deferred tax liabilities	56.6	49.4	49.4	49.4	49.4
Total liabilities & shareholders' funds	7,843.6	8,744.9	9,758.8	10,304.0	11,217.0

Source: Company, KAF

Cash flow statement

FYE December (RMm)	2011A	2012A	2013F	2014F	2015F
Cashflow from operations (CFO)					
Pretax profit	498.5	728.2	541.6	636.0	786.0
Tax paid	(117.0)	(92.8)	(113.0)	(136.7)	(186.3)
Others	(124.9)	293.3	8.0	13.6	76.0
Net change in working capital	122.9	(586.5)	87.2	33.4	(40.5)
CFO	399.0	386.1	523.8	546.3	635.2
Cashflow from investing (CFI)					
Purchase of property, plant and equipment (Capex)	(337.2)	(465.5)	(500.0)	(500.0)	(500.0)
Investments	(54.2)	(247.3)	-	-	-
Others	98.5	355.1	-	-	-
CFI	(293.0)	(357.7)	(500.0)	(500.0)	(500.0)
Cashflow from financing (CFF)					
Interest paid	(66.4)	(115.7)	(114.9)	(114.9)	(114.9)
Interest received	27.5	27.1	51.1	60.1	57.9
Repayment of term loans	(44.9)	-	-	-	-
Dividends paid	(39.5)	(38.9)	(78.0)	(90.0)	(104.6)
Others	(73.0)	374.4	732.4	-	-
CFF	(196.3)	246.9	590.5	(144.8)	(161.6)
Net change in cash and cash equivalents	(90.2)	275.2	614.3	(98.4)	(26.4)

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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