

01 March 2013

**Buy**

Price  
RM2.49

Target price  
RM3.70

Equity | Malaysia | Real Estate

**Flashnote**

# Sunway

## Positive surprise

**Sunway's 4Q12 normalized net profit grew strongly by 21% qoq and 13% yoy, mainly boosted by higher than expected property sales of RM1.56bn, far exceeding its target of RM800m. FY12 earnings of RM351m outperformed our forecast by 11% and consensus by 4%. We reiterate our view that expectations on the stock are low, with several positive developments overlooked. Buy.**

- On a qoq basis, Sunway's 4Q12 revenue improved by 38% due to higher property sales and construction revenue. Normalized net profit rose 21% qoq, after stripping out exceptional items amounting to RM105m, which are largely net gain on asset disposal to REIT of RM75m and fair value gain on investment properties of RM22m. The higher profitability was driven by better performance at the property development and investment divisions.
- On a yoy basis, revenue was up 30% while normalized net profit increased by 13% due to similar reasons of higher property sales and higher occupancy rates and visitors at its property investment division due to the year-end holiday season.
- Property development revenue surged by 125% qoq and 61% yoy, boosted by higher progressive sales billings from Sunway Nexis, Sunway Velocity and Sunway South Quay. Correspondingly, operating profit grew strongly by 64% qoq and 29% yoy. There was also a boost from its Singapore projects which likely explains the surge in JV contributions in 4Q12.
- According to management, effective sales as at December 2012 stood at RM1.56bn, far exceeding its FY12 sales target of RM800m. The better performance was mainly contributed by its Singapore projects which constituted 37% of total sales, followed by 14% each from Sunway Velocity and South Quay. Effective unbilled sales is RM2.41bn, which translates to 2.6x 2012 property development revenue.
- Property investment revenue was up 14% qoq and 5% yoy. The higher revenue yoy was due to higher contributions from Monash U-Residence, Sunway Putra Hotel and additional REIT management fees with the disposal of Sunway Medical. Operating profit rose 120% qoq and 8% qoq. Higher profitability qoq was due to seasonality factors.
- Construction revenue was up 35% qoq and 23% yoy. However, operating profit swung into a loss of RM6m in 4Q12 from an operating profit of RM18m in 3Q12, due to one-off provisions related to indirect taxes for previous India projects and bonuses. According to management, its key MRT project has not reached profit recognition stage as yet. Outstanding construction order book stand at RM3.2bn.
- Overall, FY12 revenue improved 5% while normalized net profit increased by 7% to RM351m. This beat our forecast of RM315m by 11% and Bloomberg consensus' forecast of RM336m by 4%.
- The stock trades at compelling valuations of 10.6x FY12F PE and 0.9x PB. Stripping out the market value of SREIT, it trades at a mere 6.3x FY12F PE and 0.7x PB

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**Table 1 : Quarterly performance trends**

| RMm<br>FYE 31 Dec        | Quarter     |              |              |              |             |              |              |              | Change     |             | Cumulative   |              |           | KAF          |            |
|--------------------------|-------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|------------|-------------|--------------|--------------|-----------|--------------|------------|
|                          | Mar-11      | Jun-11       | Sep-11       | Dec-11       | Mar-12      | Jun-12       | Sep-12       | Dec-12       | % qoq      | % yoy       | FY11         | FY12         | % chg     | FY12F        | 12M/F      |
| Turnover                 | 833.7       | 1,002.6      | 934.0        | 921.4        | 814.8       | 996.1        | 867.0        | 1,198.9      | 38         | 30          | 3,691.7      | 3,876.8      | 5         | 4,096.6      | 95         |
| <b>EBIT</b>              | <b>50.9</b> | <b>47.3</b>  | <b>77.1</b>  | <b>158.8</b> | <b>60.5</b> | <b>95.7</b>  | <b>106.1</b> | <b>109.9</b> | <b>4</b>   | <b>(31)</b> | <b>334.0</b> | <b>372.2</b> | <b>11</b> | <b>464.7</b> | <b>80</b>  |
| EBIT margin (%)          | 6.1%        | 4.7%         | 8.3%         | 17.2%        | 7.4%        | 9.6%         | 12.2%        | 9.2%         |            |             | 9.0%         | 9.6%         |           | 11%          |            |
| Net interest exp         | (12.7)      | (6.8)        | (18.2)       | (15.7)       | (18.6)      | (22.8)       | (19.5)       | (16.7)       | (14)       | 6           | (53.4)       | (77.6)       | 45        | (83.3)       | 93         |
| Associates and JVs       | 45.3        | 64.6         | 56.7         | (1.5)        | 42.9        | 35.1         | 56.1         | 99.3         | 77         | nm          | 165.0        | 233.2        | 41        | 125.0        | 187        |
| Exceptional items        | (4.3)       | 42.0         | (24.8)       | 50.5         | 0.2         | 85.2         | (0.3)        | 123.8        | nm         | 145         | 63.4         | 208.9        |           | -            | nm         |
| <b>Profit before tax</b> | <b>79.2</b> | <b>147.0</b> | <b>90.7</b>  | <b>192.1</b> | <b>84.9</b> | <b>193.1</b> | <b>142.4</b> | <b>316.3</b> | <b>122</b> | <b>65</b>   | <b>509.0</b> | <b>736.7</b> | <b>45</b> | <b>506.4</b> | <b>145</b> |
| <b>Normalized PBT</b>    | <b>83.5</b> | <b>105.0</b> | <b>115.5</b> | <b>141.6</b> | <b>84.7</b> | <b>107.9</b> | <b>142.7</b> | <b>192.5</b> | <b>35</b>  | <b>36</b>   | <b>445.6</b> | <b>527.8</b> | <b>18</b> | <b>506.4</b> | <b>104</b> |
| Tax                      | 9.7         | (30.7)       | (18.7)       | (40.3)       | (18.5)      | (30.3)       | (32.4)       | (55.8)       | 72         | 38          | (80.0)       | (137.0)      | 71        | (136.7)      | 100        |
| Minority interest        | (20.6)      | (7.9)        | (2.8)        | (10.1)       | (2.0)       | (8.5)        | (15.7)       | (41.2)       | 162        | 308         | (41.4)       | (67.4)       | 63        | (54.6)       | 123        |
| <b>Net profit</b>        | <b>68.3</b> | <b>108.4</b> | <b>69.2</b>  | <b>141.6</b> | <b>64.4</b> | <b>154.3</b> | <b>94.3</b>  | <b>219.3</b> | <b>133</b> | <b>55</b>   | <b>387.6</b> | <b>532.3</b> | <b>37</b> | <b>315.1</b> | <b>169</b> |
| <b>Norm.net profit</b>   | <b>55.4</b> | <b>76.9</b>  | <b>94.0</b>  | <b>100.7</b> | <b>64.2</b> | <b>77.6</b>  | <b>94.6</b>  | <b>114.1</b> | <b>21</b>  | <b>13</b>   | <b>327.1</b> | <b>350.5</b> | <b>7</b>  | <b>315.1</b> | <b>111</b> |
| Norm. margin (%)         | 6.6%        | 7.7%         | 10.1%        | 10.9%        | 7.9%        | 7.8%         | 10.9%        | 9.5%         |            |             | 8.9%         | 9.0%         |           |              |            |

Source: Company, KAF

## Income statement

| FYE December (RMm)           | 2010           | 2011         | 2012F        | 2013F        | 2014F        |
|------------------------------|----------------|--------------|--------------|--------------|--------------|
| Turnover                     | 3,121.1        | 3,738.9      | 4,096.6      | 4,129.9      | 4,316.5      |
| <b>EBITDA</b>                | <b>431.6</b>   | <b>392.7</b> | <b>529.1</b> | <b>583.0</b> | <b>635.5</b> |
| Depreciation & Amortisation  | (80.5)         | (61.4)       | (64.4)       | (91.7)       | (117.3)      |
| <b>EBIT</b>                  | <b>351.0</b>   | <b>331.3</b> | <b>464.7</b> | <b>491.3</b> | <b>518.2</b> |
| Net interest                 | (75.4)         | (55.5)       | (83.3)       | (94.1)       | (104.1)      |
| Associates                   | 180.4          | 168.2        | 125.0        | 146.4        | 146.3        |
| Exceptional items            | 275.4          | 63.1         | -            | -            | -            |
| <b>Pretax profit</b>         | <b>731.4</b>   | <b>507.0</b> | <b>506.4</b> | <b>543.6</b> | <b>560.5</b> |
| Taxation                     | 280.7          | (98.8)       | (136.7)      | (142.4)      | (148.4)      |
| <b>Profit after tax</b>      | <b>1,012.1</b> | <b>408.2</b> | <b>369.7</b> | <b>401.2</b> | <b>412.0</b> |
| Minority interest            | (307.0)        | (38.5)       | (54.6)       | (58.5)       | (32.5)       |
| <b>Net profit</b>            | <b>705.1</b>   | <b>369.7</b> | <b>315.1</b> | <b>342.7</b> | <b>379.5</b> |
| <b>Normalised net profit</b> | <b>299.1</b>   | <b>325.6</b> | <b>315.1</b> | <b>342.7</b> | <b>379.5</b> |

Source: Company, KAF

## Balance sheet

| FYE December (RMm)                                   | 2010           | 2011           | 2012F          | 2013F          | 2014F          |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Non-current assets</b>                            |                |                |                |                |                |
| Property, Plant and Equipment                        | 967.8          | 1,014.5        | 1,451.0        | 1,860.2        | 2,242.8        |
| Investment properties                                | 717.1          | 865.5          | 865.5          | 865.5          | 865.5          |
| Land held for development                            | 508.9          | 942.7          | 942.7          | 942.7          | 942.7          |
| Investment in associates & jointly controlled entity | 1,556.1        | 1,583.9        | 1,708.9        | 1,855.3        | 2,001.6        |
| Goodwill   | 330.1          | 325.3          | 324.5          | 323.6          | 322.7          |
| Deferred tax assets                                  | 40.2           | 44.3           | 44.3           | 44.3           | 44.3           |
| <b>Total non-current assets</b>                      | <b>4,120.2</b> | <b>4,776.3</b> | <b>5,336.9</b> | <b>5,891.6</b> | <b>6,419.6</b> |
| <b>Current assets</b>                                |                |                |                |                |                |
| Properties under development                         | 617.7          | 647.1          | 727.1          | 807.1          | 887.1          |
| Inventories  | 301.5          | 454.1          | 497.5          | 501.5          | 524.2          |
| Total Receivables                                    | 1,169.5        | 1,096.3        | 1,201.2        | 1,210.9        | 1,265.7        |
| Tax recoverable                                      | 54.6           | 58.1           | 58.1           | 58.1           | 58.1           |
| Deposits, cash and bank balances                     | 782.8          | 783.6          | 486.0          | 187.4          | (65.5)         |
| <b>Total current assets</b>                          | <b>2,926.2</b> | <b>3,039.1</b> | <b>2,969.9</b> | <b>2,765.1</b> | <b>2,669.5</b> |
| <b>Total assets</b>                                  | <b>7,046.4</b> | <b>7,815.4</b> | <b>8,306.8</b> | <b>8,656.7</b> | <b>9,089.1</b> |
| <b>Current liabilities</b>                           |                |                |                |                |                |
| Total Payables                                       | 1,395.8        | 1,930.5        | 2,115.2        | 2,132.4        | 2,228.8        |
| Bank borrowings                                      | 496.2          | 301.4          | 301.4          | 301.4          | 301.4          |
| Other liabilities                                    | 22.0           | 26.5           | 26.5           | 26.5           | 26.5           |
| Taxation   | 67.0           | 1.4            | 1.4            | 1.4            | 1.4            |
| <b>Total current liabilities</b>                     | <b>1,981.0</b> | <b>2,259.8</b> | <b>2,444.5</b> | <b>2,461.7</b> | <b>2,558.1</b> |
| Financed by:   |                |                |                |                |                |
| Share capital  | 1,292.5        | 1,292.5        | 1,292.5        | 1,292.5        | 1,292.5        |
| Share premium & Reserves                             | 1,336.0        | 1,690.8        | 1,942.9        | 2,217.0        | 2,520.6        |
| Shareholders' funds                                  | 2,628.5        | 2,983.3        | 3,235.4        | 3,509.5        | 3,813.1        |
| Minority interest                                    | 354.1          | 331.2          | 385.8          | 444.3          | 476.8          |
| Long-term bank borrowings                            | 1,793.2        | 1,963.0        | 1,963.0        | 1,963.0        | 1,963.0        |
| Other liabilities                                    | 206.8          | 180.0          | 180.0          | 180.0          | 180.0          |
| Deferred tax liabilities                             | 82.7           | 98.2           | 98.2           | 98.2           | 98.2           |
| <b>Total liabilities &amp; shareholders' funds</b>   | <b>7,046.4</b> | <b>7,815.4</b> | <b>8,306.8</b> | <b>8,656.7</b> | <b>9,089.1</b> |

Source: Company, KAF

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**Cash flow statement**

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| <b>FYE December (RMm)</b>                         | <b>2010</b>      | <b>2011</b>    | <b>2012F</b>   | <b>2013F</b>   | <b>2014F</b>   |
|---|------------------|----------------|----------------|----------------|----------------|
| <b>Cashflow from operations (CFO)</b>             |                  |                |                |                |                |
| Pretax profit                                     | 731.4            | 507.0          | 506.4          | 543.6          | 560.5          |
| Tax paid  | (106.9)          | (140.3)        | (136.7)        | (142.4)        | (148.4)        |
| Others  | (376.7)          | (29.5)         | 22.7           | 39.4           | 75.1           |
| Net change in working capital                     | 170.6            | (14.0)         | (43.6)         | (76.6)         | (61.0)         |
| <b>CFO</b>  | <b>418.4</b>     | <b>323.2</b>   | <b>348.8</b>   | <b>364.0</b>   | <b>426.1</b>   |
| <b>Cashflow from investing (CFI)</b>              |                  |                |                |                |                |
| Purchase of property, plant and equipment (Capex) | (189.6)          | (261.8)        | (500.0)        | (500.0)        | (499.0)        |
| Investments                                       | (52.7)           | (66.2)         | -              | -              | -              |
| Others  | 2,251.4          | 37.4           | -              | -              | -              |
| <b>CFI</b>  | <b>2,009.2</b>   | <b>(290.6)</b> | <b>(500.0)</b> | <b>(500.0)</b> | <b>(499.0)</b> |
| <b>Cashflow from financing (CFF)</b>              |                  |                |                |                |                |
| Interest paid                                     | (101.7)          | (71.6)         | (106.3)        | (106.3)        | (106.3)        |
| Interest received                                 | 25.6             | 30.1           | 22.9           | 12.2           | 2.2            |
| Repayment of term loans                           | (784.8)          | -              | -              | -              | -              |
| Dividends paid                                    | (142.3)          | (5.1)          | (63.0)         | (68.5)         | (75.9)         |
| Others  | (1,268.3)        | (39.3)         | -              | -              | -              |
| <b>CFF</b>  | <b>(2,271.5)</b> | <b>(85.9)</b>  | <b>(146.3)</b> | <b>(162.6)</b> | <b>(180.0)</b> |
| Net change in cash and cash equivalents           | 156.1            | (53.4)         | (297.6)        | (298.6)        | (252.9)        |

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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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