

20 March 2013

Sunway

Another feather to its cap

Buy

Price
RM2.74

Target price
RM3.70

Sunway has been awarded the KLCC North East Car Park project worth RM304m, bringing its order book to a burgeoning RM4.2bn. Despite the share price rising 15% ytd, close to its listing price of RM2.80, valuations are compelling at 11.7x FY13F PE and 1x PB. Ex-REIT stake, it trades at a mere 7.4x PE and 0.8x PB. Buy.

Market data

Bloomberg code	SWB MK
No. of shares (m)	1,292.5
Market cap (RMm)	3,541.5
52-week high/low (RM)	2.79 / 2.15
Avg daily turnover (RMm)	1.6
KLCI (pts)	1,625.46

Source: Bloomberg

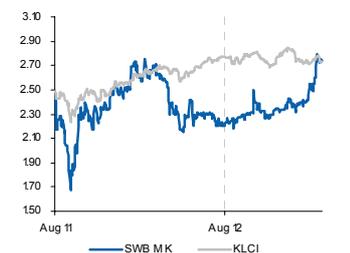
Valuation

Target price (RM)	3.70
Methodology	Sum-of-parts
Key assumptions	PE multiple (property) = 14x
	PE multiple (construction) = 12x
Implied FY13 PE (x)	15.7
Implied FY13 PBV (x)	1.4
Implied FY13 Yield (%)	2.0

Source: KAF

Performance

	1M	3M	12M
Absolute (%)	11	18	3
Rel market (%)	11	21	(0)



Source: Bloomberg

Analyst

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Financial Highlights

Year to Dec (RMm)	FY10A	FY11A	FY12E	FY13F	FY14F
Revenue	3,121.1	3,738.9	3,876.8	4,129.9	4,316.5
Pre-tax profit	731.4	507.0	736.7	543.6	560.5
Normalised net profit	299.1	325.6	350.5	342.7	379.5
Normalised EPS (RM)	0.23	0.22	0.24	0.23	0.26
EPS growth (%)	(9.6)	(3.2)	6.7	(2.1)	10.1
Gross DPS (RM)	0.21	-	0.08	0.07	0.08
PER (x)	11.9	11.3	11.4	11.7	10.7
ROE (%)	12.8	11.6	10.7	10.2	10.4
Gross yield (%)	7.7	-	3.0	2.7	3.0
PB (x)	1.4	1.1	1.0	1.0	0.9

Source: Company, KAF

Awarded RM304m KLCC North East Car Park

Sunway announced that Sunway Construction has accepted the letter of award of RM304m from Cititower Sdn Bhd (a JV between KLCC Holdings Sdn Bhd and QD Asia Pacific Ltd) for the construction of 6 levels basement car park and associated works for North East Car Park, which will be located below KLCC Park. This is part of the proposed mixed development at Persiaran KLCC, located between Suria KLCC and Asy-Syakirin mosque, currently being undertaken by the JV company. The project is expected to start upon handing over of the site possession and construction will take 178 weeks (or about 3.4 years).

63% of target order book replenishment achieved

We estimate that the project will contribute about RM5m p.a. to bottom line, assuming a 178 weeks construction period, PBT margin of 7-8% and tax rate of 25%. We have not factored this into our forecasts. This brings total order book replenishment ytd to RM1.25bn, comprising of Sunway University New Academic Block (RM192m), Legoland Water Park (RM45m), Sunway Putra Place (RM258m), Bus Rapid Transit (Sunway Line) (RM452m) and KLCC North East Car Park (RM304m). This is a commendable feat, in our view, given that it has accomplished 63% of its target order book replenishment which has been revised to RM2bn p.a. (from RM1.5bn p.a.) three months into FY13. Outstanding construction order book is boosted to a burgeoning RM4.2bn.

Playing catch up with SREIT

We are encouraged by Sunway's 15% appreciation ytd, in contrast with a decline of 7% over 2012. Its 34% associate, Sunway REIT, has declined 2% ytd as compared to a surge of 24% over 2012. Even with the catch-up in Sunway's share price vs SREIT, the value of its REIT stake on a per share basis still shows an increase of 23% to RM1.18 currently from RM0.96 at its listing in August 2011. On the flipside, the value of its residual business has declined 15% to RM1.56 per share from RM1.84. This mispricing is unjustified for a conglomerate which is a proven township developer with quality investment assets, reputable construction arm and trading and manufacturing divisions, in our view.

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Important disclosures can be found in the Disclosure Appendix

Additional information

Chart 1 : Outstanding construction order book

	Contract Sum RM'mil	O/S Order Book RM'mil
Infrastructure		
MRT Package V4 (Sec 17 to Semantan)	1,173	1,137
LRT Kelana Jaya Line Extension (Package B)	569	355
BRT Sunway Line	452	452
Johor		
Pinewood Iskandar Malaysia Studios Sdn Bhd	309	182
BioXcell – Central Facilities Utility	109	25
Legoland Water Park	45	45
Others		
UITM campus expansion	200	89
Precinct 1, Putrajaya (Hotel & Office)	159	6
KLCC NEC	304	304
Others	551	358
Internal		
Sunway Velocity Mall (Substructure)	291	219
Sunway Velocity Phase 2 (Substructure)	179	98
Sunway Velocity (Shop Offices & Apartment)	230	120
The Pinnacle (Superstructure)	175	136
Sunway University New Academic Block	192	192
Sunway Putra Place	258	258
Singapore		
Precast	469	219
	5,665	4,195

YTD Order Book Replenishment:

- Sunway University New Academic Block – RM192 mil
- Legoland Water Park – RM45 mil
- Sunway Putra Place – RM258 mil
- BRT – Sunway Line – RM452 mil
- KLCC NEC – RM304 mil
- **Total YTD Replenishment – RM1.25 bil**



KLCC Park Aerial View

Source: Company

Chart 2 : Relative share price performance of Sunway vs Sunway REIT



Source: Bloomberg

Table 1 : Sunway's per share value of residual businesses have shrunk 15%

	23 Aug 2011	19 Mar 2013
Sunway's market cap	3,218	3,542
Less: market value of Sunway REIT (37%)	1,101	1,521
Residual value	2,118	2,021
No of shares - fully diluted	1149.0	1292.5
Per share value - Sunway REIT stake (RM)	0.96	1.18
Per share value - Residual operations (RM)	1.84	1.56

Source: KAF, Bloomberg

Income statement

FYE December (RM m)	2010A	2011A	2012E	2013F	2014F
Turnover	3,121.1	3,738.9	3,876.8	4,129.9	4,316.5
EBITDA	431.6	392.7	412.7	583.0	635.5
Depreciation & Amortisation	(80.5)	(61.4)	(89.9)	(91.7)	(117.3)
EBIT	351.0	331.3	322.8	491.3	518.2
Net interest	(75.4)	(55.5)	(77.5)	(94.1)	(104.1)
Associates	180.4	168.2	301.2	146.4	146.3
Exceptional items	275.4	63.1	181.8	-	-
Pretax profit	731.4	507.0	728.2	543.6	560.5
Taxation	280.7	(98.8)	(128.5)	(142.4)	(148.4)
Profit after tax	1,012.1	408.2	599.7	401.2	412.0
Minority interest	(307.0)	(38.5)	(67.4)	(58.5)	(32.5)
Net profit	705.1	369.7	532.3	342.7	379.5
Normalised net profit	299.1	325.6	350.6	342.7	379.5

Source:Company, KAF forecasts

Balance sheet

FYE December (RM m)	2010A	2011A	2012E	2013F	2014F
Non-current assets					
Property, Plant and Equipment	967.8	1,014.5	806.9	1,860.2	2,242.8
Investment properties	717.1	865.5	1,150.3	865.5	865.5
Land held for development	508.9	942.7	1,042.3	942.7	942.7
Investment in associates & jointly controlled entity	1,556.1	1,583.9	1,580.5	1,855.3	2,001.6
Goodwill	330.1	325.3	318.7	323.6	322.7
Deferred tax assets	40.2	44.3	31.8	44.3	44.3
Total non-current assets	4,120.2	4,776.3	4,930.5	5,891.6	6,419.6
Current assets					
Properties under development	617.7	647.1	600.2	807.1	887.1
Inventories	301.5	454.1	626.0	501.5	524.2
Total Receivables	1,169.5	1,096.3	1,400.1	1,210.9	1,265.7
Tax recoverable	54.6	58.1	47.8	58.1	58.1
Deposits, cash and bank balances	782.8	783.6	1,140.2	187.4	(65.5)
Total current assets	2,926.2	3,039.1	3,814.3	2,765.1	2,669.5
Total Assets	7,046.4	7,815.4	8,744.9	8,656.7	9,089.1
Current liabilities					
Total Payables	1,395.8	1,930.5	1,605.1	2,132.4	2,228.8
Bank borrowings	496.2	301.4	782.7	301.4	301.4
Other liabilities	22.0	26.5	-	26.5	26.5
Taxation	67.0	1.4	31.0	1.4	1.4
Total current liabilities	1,981.0	2,259.8	2,418.8	2,461.7	2,558.1
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	2,265.9	2,217.0	2,520.6
Shareholders' funds	2,628.5	2,983.3	3,558.4	3,509.5	3,813.1
Minority interest	354.1	331.2	310.0	444.3	476.8
Long-term bank borrowings	1,793.2	1,963.0	1,964.2	1,963.0	1,963.0
Other liabilities	206.8	180.0	444.0	180.0	180.0
Deferred tax liabilities	82.7	98.2	49.4	98.2	98.2
Total Liabilities & Shareholders' Funds	7,046.4	7,815.4	8,744.9	8,656.7	9,089.1

Source:Company, KAF forecasts

Cash flow statement

FYE December (RM m)	2010A	2011A	2012E	2013F	2014F
Cashflow from operations (CFO)					
Pretax profit	731.4	507.0	728.2	543.6	560.5
Tax paid	(106.9)	(140.3)	(92.8)	(142.4)	(148.4)
Others	(376.7)	(29.5)	(133.8)	39.4	75.1
Net change in working capital	170.6	(14.0)	(735.6)	(76.6)	(61.0)
CFO	418.4	323.2	386.1	364.0	426.1
Cashflow from investing (CFI)					
Purchase of property, plant and equipment (Capex)	(189.6)	(261.8)	(465.5)	(500.0)	(499.0)
Investments	(52.7)	(66.2)	(247.3)	-	-
Others	2,251.4	37.4	355.1	-	-
CFI	2,009.2	(290.6)	(357.7)	(500.0)	(499.0)
Cashflow from financing (CFF)					
Interest paid	(101.7)	(71.6)	(115.7)	(106.3)	(106.3)
Interest received	25.6	30.1	27.1	12.2	2.2
Repayment of term loans	(784.8)	-	-	-	-
Dividends paid	(142.3)	(5.1)	(38.9)	(68.5)	(75.9)
Others	(1,268.3)	(39.3)	374.4	-	-
CFF	(2,271.5)	(85.9)	246.9	(162.6)	(180.0)
Net change in cash and cash equivalents	156.1	(53.4)	275.2	(298.6)	(252.9)

Source: Company, KAF forecasts

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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