

12 March 2013

Sunway

Wins BRT award

Buy

Price
RM2.76

Target price
RM3.70

Sunway has been awarded the BRT-Sunway line worth RM453m by Prasarana, boosting its order book to RM3.9bn. Despite the share price rising 16% ytd, close to listing price of RM2.80, valuations remain compelling at 11.7x FY13F PE and 1x PB. Ex-SREIT stake, the stock trades at a mere 7.5x FY13F PE and 0.8x PB. Buy.

Market data

Bloomberg code	SWB MK
No. of shares (m)	1,292.5
Market cap (RMm)	3,567.3
52-week high/low (RM)	2.79 / 2.15
Avg daily turnover (RMm)	1.6
KLCI (pts)	1,657.96

Source: Bloomberg

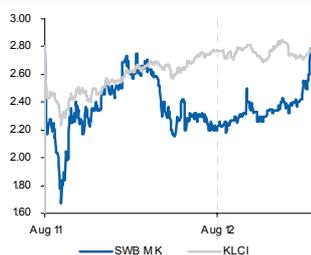
Valuation

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 (%)	15	17	6
Rel market (%)	13	16	1



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)	7.2	8.2	10.1
Gross DPS (RM)	0.21	-	0.08	0.07	0.08
PER (x)	11.9	11.3	11.5	11.7	10.7
ROE (%)	12.8	11.6	10.2	10.2	10.4
Gross yield (%)	7.7	-	2.7	2.7	3.0
PB (x)	1.4	1.1	1.1	1.0	0.9

Source: Company, KAF

Awarded RM453m Bus Rapid Transit (BRT) for Sunway line

Sunway announced that Sunway Construction has accepted the letter of award of RM452.5m from Syarikat Prasarana Negara on 11 March 2013, for the proposed design, construction, completion and commissioning of guide way and halts, depot, park and ride, and mechanization of oxidation pond of the Bus Rapid Transit – Sunway Line. Recall that the BRT is part of the Government's Transformation Program aimed to encourage higher public transport usage, being built under a public-private partnership. The BRT-Sunway line comprises of eco-friendly bus services on an elevated track of 5.4km, with 7 stations strategically connected to the LRT and KTM Komuter. Sunway will separately contribute works amounting to about RM99m as part of its corporate social responsibility initiative.

Win-win situation

Besides boosting Sunway's construction order book, the BRT project will enhance the public transportation system and hence, asset values within Sunway Resort City, as the proposed route has stops in 3 of its landmark projects, i.e. The Pinnacle & Sunway Resort Hotel, Sunway Geo & Sunway Medical Center and Monash University. We estimate that the project would contribute about RM12-14m p.a. to bottom line, assuming 24 months duration, PBT margin of 7-8% and tax rate of 25%. According to management, including this project, total order book replenishment ytd amount to RM947m. This constitutes 63% of its usual RM1.5bn annual replenishment target, and brings outstanding construction order book to RM3.9bn.

Playing catch up with SREIT

We are encouraged by Sunway's 16% increase in share price ytd, in contrast with a decline of 7% over 2012. The value of its REIT stake on a per share basis has increased 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 14% to RM1.58 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.

Additional information

Chart 1 : Proposed BRT-Sunway line route



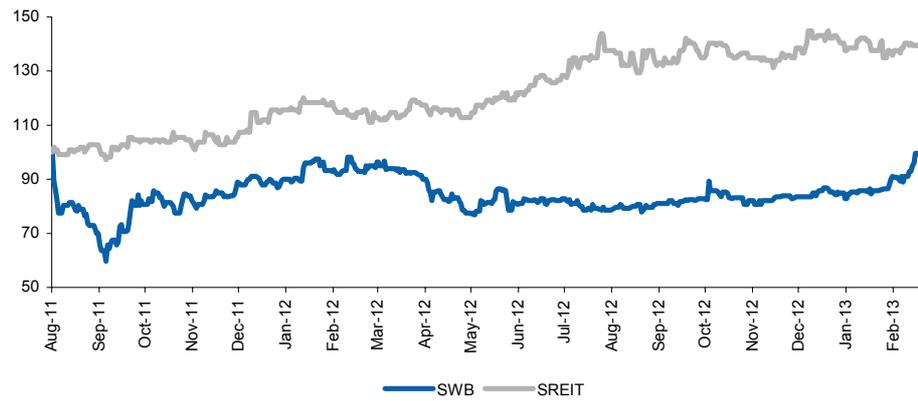
Source: Company

Chart 2 : Outstanding construction order book

YTD Order Book Replenishment:	Contract Sum RM'mil	O/S Order Book RM'mil	
<ul style="list-style-type: none"> Legoland Water Park – RM45 mil Sunway University New Academic Block – RM192 mil Sunway Putra Place – RM258 mil BRT – Sunway Line – RM452 mil Total YTD Replenishment – RM947 mil 			
<p>Artist's Impression</p>	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
	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	
	5,361	3,891	

Source: Company

Chart 3 : Relative share price performance of Sunway vs Sunway REIT



Source: Bloomberg

Table 1 : Sunway's per share value of residual businesses have shrunk 14%

	23 Aug 2011	11 Mar 2013
Sunway's market cap	3,218	3,567
Less: market value of Sunway REIT (37%)	1,101	1,521
Residual value	2,118	2,046
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	1.58

Source: KAF, Bloomberg

Income statement

FYE December (RM m)	2010A	2011A	2012F	2013F	2014F
Turnover	3,121.1	3,738.9	4,096.6	4,129.9	4,316.5
EBITDA	431.6	392.7	529.1	583.0	635.5
Depreciation & Amortisation	(80.5)	(61.4)	(64.4)	(91.7)	(117.3)
EBIT	351.0	331.3	464.7	491.3	518.2
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	-	-	-
Pretax profit	731.4	507.0	506.4	543.6	560.5
Taxation	280.7	(98.8)	(136.7)	(142.4)	(148.4)
Profit after tax	1,012.1	408.2	369.7	401.2	412.0
Minority interest	(307.0)	(38.5)	(54.6)	(58.5)	(32.5)
Net profit	705.1	369.7	315.1	342.7	379.5
Normalised net profit	299.1	325.6	315.1	342.7	379.5

Source:Company, KAF forecasts

Balance sheet

FYE December (RM m)	2010A	2011A	2012F	2013F	2014F
Non-current assets					
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
Total non-current assets	4,120.2	4,776.3	5,336.9	5,891.6	6,419.6
Current assets					
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)
Total current assets	2,926.2	3,039.1	2,969.9	2,765.1	2,669.5
Total Assets	7,046.4	7,815.4	8,306.8	8,656.7	9,089.1
Current liabilities					
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
Total current liabilities	1,981.0	2,259.8	2,444.5	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	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
Total Liabilities & Shareholders' Funds	7,046.4	7,815.4	8,306.8	8,656.7	9,089.1

Source:Company, KAF forecasts

Cash flow statement

FYE December (RM m)	2010A	2011A	2012F	2013F	2014F
Cashflow from operations (CFO)					
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)
CFO	418.4	323.2	348.8	364.0	426.1
Cashflow from investing (CFI)					
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	-	-	-
CFI	2,009.2	(290.6)	(500.0)	(500.0)	(499.0)
Cashflow from financing (CFF)					
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)	-	-	-
CFF	(2,271.5)	(85.9)	(146.3)	(162.6)	(180.0)
Net change in cash and cash equivalents	156.1	(53.4)	(297.6)	(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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