

Thomas Soon

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1HFY13 result within expectations

HOLD

(Maintained)

Rationale for report: Company Result

| | |
|------------------|---------------|
| Price | RM2.75 |
| Fair Value | RM3.05 |
| 52-week High/Low | RM4.16/RM2.18 |

Key Changes

| | |
|------------|-----------|
| Fair value | unchanged |
| EPS | unchanged |

| YE to Dec | FY12 | FY13F | FY14F | FY15F |
|-------------------------|---------|---------|---------|---------|
| Revenue (RMmil) | 3,849.2 | 3,989.1 | 4,333.9 | 4,807.2 |
| Core net profit (RMmil) | 351.0 | 404.8 | 452.2 | 516.7 |
| EPS (Sen) | 23.7 | 23.5 | 26.2 | 30.0 |
| EPS growth (%) | 7.3 | n/a | 11.7 | 14.3 |
| Consensus EPS (Sen) | n/a | 22.3 | 24.6 | 28.5 |
| DPS (Sen) | 6.0 | 4.5 | 5.0 | 5.5 |
| PE (x) | 11.6 | 11.7 | 10.4 | 9.1 |
| EV/EBITDA (x) | 8.3 | 6.8 | 6.0 | 4.8 |
| Div yield (%) | 2.2 | 1.6 | 1.8 | 2.0 |
| ROE (%) | 16.1 | 9.8 | 9.2 | 9.7 |
| Net Gearing (%) | 28.8 | 9.3 | 6.7 | 1.9 |

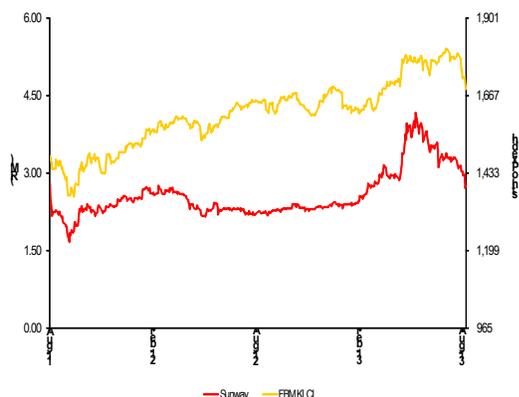
Stock and Financial Data

| | |
|------------------------------|---------|
| Shares Outstanding (million) | 1,292.5 |
| Market Cap (RMmil) | 3,541.5 |
| Book value (RM/share) | 2.77 |
| P/BV (x) | 1.0 |
| ROE (%) | 16.1 |
| Net Gearing (%) | 28.8 |

| | |
|--------------------|--|
| Major Shareholders | Tan Sri Jeffrey Cheah (47.7%) GIC (12.2%) |
|--------------------|--|

| | |
|-------------------------|------|
| Free Float (%) | 30.0 |
| Avg Daily Value (RMmil) | 4.2 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|------|------|-------|
| Absolute (%) | 42.6 | 45.1 | 47.6 |
| Relative (%) | 32.9 | 37.1 | 35.5 |


Investment Highlights

- We maintain HOLD on Sunway with an unchanged fair value of RM3.05/share, based on a 10% discount to a tweaked and higher SOP value of RM3.38/share (vs. RM3.21/share previously).
- Sunway yesterday announced a 1HFY13 core net profit of RM201mil (+51% YoY) – making up 50% of our forecast and 51% of consensus.
- Including an exceptional gain of RM60mil (share of fair value gain in SunREIT), its bottom line hit RM261mil (+19% YoY) on the back of an 18% rise in turnover to RM2.14bil – representing 54% of our projection.
- It declared a single-tier interim dividend of 5 sen/share (2% yield). We had expected a 1.5 sen/share interim dividend and 3 sen/share final dividend – for a payout ratio of ~20%.
- The 1HFY13 EBIT was below our forecast, but this continued to be largely mitigated by a lower effective tax rate at 17% vis-à-vis the corporate rate of 25%. Additionally, the interest charges represented only 34% of our projected full-year number.
- EBIT margin in 1HFY13 improved marginally by 0.4ppt YoY to 9.5% (our assumption at 12%), and for 2QFY13, it was up 2ppts QoQ to 10.4%. We maintain our operating margin assumptions for now.
- Property development and construction contributed more to earnings in 1HFY13 as operating margins improved by 1.1ppts and 1.5ppts respectively, while the quarry operations' margin had surged by 7.2ppts.
- For the first half, property sales came in at RM606mil (effective RM492mil; +27% YoY, -47% QoQ). YTD, property launches amounted to RM680mil. As at 30 June, 2013, unbilled sales amounted to RM2.2bil (effective RM1.8bil).
- Sunway says construction revenue and profit fell QoQ due to a slight delay in the LRT project arising from a stop work order imposed on all contractors as a result of accidents at the work site of other packages not undertaken by the group.
- The progress of the MRT project was also slightly delayed due to adverse weather conditions which resulted in slower progress billings.
- All in, we deem the results to be in-line with expectations. We maintain our numbers.

TABLE 1 : RESULT SUMMARY

| | 2Q13 | 1Q13 | 2Q12 | QoQ % change | YoY % change | 1H13 | 1H12 | YoY % change |
|---------------------------------------|--------------|-------------|--------------|---------------------------|-------------------------------|--------------|--------------|---------------------------|
| Revenue | 1,118.0 | 1,021.0 | 996.1 | 9.5 | 12.2 | 2,139.1 | 1,810.9 | 18.1 |
| EBIT | 116.3 | 86.1 | 104.2 | 35.2 | 11.6 | 202.4 | 164.6 | 22.9 |
| Unusual Items | 59.6 | 0.3 | 85.2 | 23,189.5 | (30.0) | 59.9 | 85.4 | (29.9) |
| Associates & JVs | 49.2 | 47.9 | 26.5 | 2.7 | 85.4 | 97.0 | 69.4 | 39.9 |
| Net interest income | (12.6) | (11.7) | (22.8) | 8.2 | (44.6) | (24.3) | (41.4) | (41.3) |
| Pretax profit | 212.5 | 122.5 | 193.1 | 73.4 | 10.0 | 335.0 | 278.0 | 20.5 |
| Taxation | (32.5) | (26.3) | (30.3) | 23.2 | 7.0 | (58.8) | (48.8) | 20.4 |
| Minorities | 9.7 | 5.6 | 8.5 | 72.6 | 14.5 | 15.3 | 10.4 | 47.0 |
| Net profit | 170.3 | 90.6 | 154.3 | 88.1 | 10.4 | 260.9 | 218.8 | 19.3 |
| Core net profit | 110.7 | 90.3 | 69.2 | 22.6 | 60.1 | 201.0 | 133.4 | 50.7 |
| EPS (sen) | 11.8 | 16.5 | 11.8 | (28.5) | 0.0 | 69.1 | 69.1 | 0.0 |
| Basic EPS from continuing ops (sen) | 13.2 | 7.0 | 11.9 | 88.1 | 10.4 | 20.2 | 16.9 | 19.3 |
| Diluted EPS | 8.5 | 5.8 | 10.0 | 44.9 | (15.0) | 13.0 | 14.1 | (8.1) |
| Core EPS | 8.6 | 7.0 | 5.4 | 22.6 | 60.1 | 15.6 | 10.3 | 50.7 |
| Diluted core EPS | 5.5 | 5.8 | 4.5 | (5.5) | 23.3 | 10.0 | 8.6 | 16.1 |
| Gross DPS (sen) | 5.0 | 0.0 | 0.0 | n/m | n/m | 5.0 | 0.0 | n/m |
| BV/Share (RM) | 2.9 | 2.8 | 2.5 | 2.8 | 15.5 | 2.9 | 2.5 | 15.5 |
| Basic Weighted shares | 1,292.5 | 1,292.5 | 1,292.5 | 0.0 | 0.0 | 1,292.5 | 1,292.5 | 0.0 |
| Fully diluted # shares (for warrants) | 2,013.2 | 1,551.0 | 1,551.0 | 29.8 | 29.8 | 2,013.2 | 1,551.0 | 29.8 |
| | 2Q13 | 1Q13 | 2Q12 | QoQ ppt change | YoY ppt change | 1H13 | 1H12 | YoY ppt change |
| EBIT margin (%) | 10.4 | 8.4 | 10.5 | 2.0 | (0.1) | 9.5 | 9.1 | 0.4 |
| Pretax margin (%) | 19.0 | 12.0 | 19.4 | 7.0 | (0.4) | 15.7 | 15.4 | 0.3 |
| Effective tax rate (%) | 15.3 | 21.5 | 15.7 | (6.2) | (0.4) | 17.6 | 17.6 | (0.0) |

Source: Company / AmResearch

TABLE 2 : SEGMENT RESULTS

| Revenue | 2Q13 | 1Q13 | 2Q12 | QoQ % change | YoY % change | 1H13 | 1H12 | YoY % change |
|--------------------------------|---------|---------|-------|--------------|--------------|---------|---------|--------------|
| Property Dev | 286.9 | 202.7 | 188.6 | 41.6 | 52.1 | 489.6 | 348.7 | 40.4 |
| Property Inv | 141.8 | 133.5 | 143.7 | 6.2 | (1.3) | 275.3 | 274.2 | 0.4 |
| Construction | 372.8 | 429.4 | 388.3 | (13.2) | (4.0) | 802.2 | 647.3 | 23.9 |
| Trading and Manufacturing | 171.6 | 129.6 | 145.0 | 32.4 | 18.3 | 301.1 | 292.7 | 2.9 |
| Quarry | 55.8 | 44.3 | 48.5 | 25.8 | 14.9 | 100.1 | 85.9 | 16.6 |
| Investment Holdings | (2.2) | 3.0 | 0.1 | (173.8) | (1,656.3) | 0.8 | 0.3 | 210.1 |
| Others | 91.4 | 78.5 | 81.7 | 16.5 | 11.9 | 169.9 | 161.8 | 5.0 |
| Total | 1,118.0 | 1,021.0 | 996.1 | 9.5 | 12.2 | 2,139.1 | 1,810.9 | 18.1 |
| Operating profit (EBIT) | | | | | | | | |
| Property Dev | 44.3 | 25.5 | 27.8 | 74.0 | 59.4 | 69.8 | 45.9 | 52.0 |
| Property Inv | 28.6 | 22.1 | 37.5 | 29.2 | (23.8) | 50.7 | 58.7 | (13.6) |
| Construction | 15.7 | 27.3 | 17.6 | (42.5) | (11.0) | 43.0 | 25.0 | 72.1 |
| Trading and Manufacturing | 15.6 | 9.0 | 12.7 | 72.7 | 23.2 | 24.6 | 25.0 | (1.5) |
| Quarry | 6.9 | 4.8 | 2.9 | 43.7 | 139.1 | 11.6 | 3.8 | 207.0 |
| Investment Holdings | (2.5) | (5.0) | (1.1) | (49.7) | 122.4 | (7.6) | (6.0) | 26.1 |
| Others | 8.0 | 2.3 | 6.8 | 244.0 | 17.5 | 10.3 | 12.1 | (14.9) |
| Total | 116.6 | 86.1 | 104.2 | 35.5 | 11.9 | 202.6 | 164.6 | 23.1 |
| EBIT margin (%) | | | | | | | | |
| Property Dev | 15.5 | 12.6 | 14.7 | 2.9 | 0.7 | 14.3 | 13.2 | 1.1 |
| Property Inv | 20.2 | 16.6 | 26.1 | 3.6 | (6.0) | 18.4 | 21.4 | (3.0) |
| Construction | 4.2 | 6.4 | 4.5 | (2.2) | (0.3) | 5.4 | 3.9 | 1.5 |
| Trading and Manufacturing | 9.1 | 7.0 | 8.7 | 2.1 | 0.4 | 8.2 | 8.5 | (0.4) |
| Quarry | 12.3 | 10.8 | 5.9 | 1.5 | 6.4 | 11.6 | 4.4 | 7.2 |
| Investment Holdings | n/m | n/m | n/m | n/m | n/m | n/m | n/m | n/m |
| Others | 8.8 | 3.0 | 8.3 | 5.8 | 0.4 | 6.1 | 7.5 | (1.4) |
| Total | 10.4 | 8.4 | 10.5 | 2.0 | (0.0) | 9.5 | 9.1 | 0.4 |

Source: Company / AmResearch

| TABLE 3 : CURRENT ORDER BOOK | | |
|--|---------------------------|------------------|
| Projects | Value (RM mil) | 0/S value |
| MRT Package V4 (Sec 17 to Semantan) | 1,173 | 1,074 |
| Kelana Jaya LRT Line extn (Package B) | 569 | 305 |
| BRT-Sunway Line | 452 | 415 |
| Urban Wellness | 283 | 283 |
| Pinewood Iskandar Studio | 309 | 37 |
| Bio-Xcell EPCC | 109 | 12 |
| Legoland water theme park | 45 | 28 |
| KLCC car park (package 1) | 304 | 304 |
| KLCC piling & substructure (package 2) | 222 | 222 |
| Singapore pre-cast | 709 | 393 |
| Others | 643 | 251 |
| Total external works | 4,818 | 3,324 |
| Velocity Mall (Substructure) | 291 | 184 |
| Velocity Phase 2 (Substructure) | 179 | 74 |
| Velocity (Shop Offices & Apartment) | 230 | 77 |
| The Pinnacle (Superstructure) | 175 | 70 |
| New Academic Block | 192 | 192 |
| Sunway Putra Place | 258 | 250 |
| Total internal works | 1,325 | 847 |
| Total in hand | 6,143 | 4,171 |

Source: Company / AmResearch

CHART 1 : PB BAND CHART

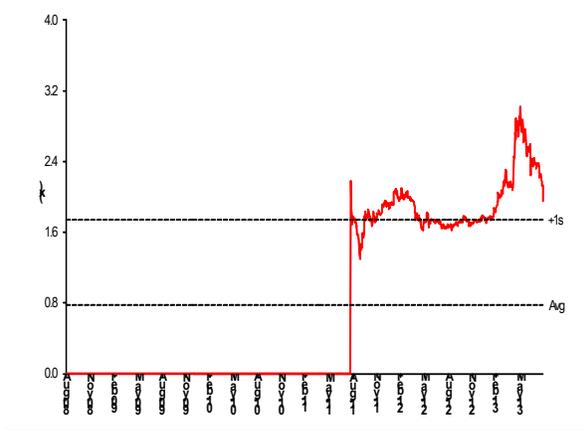


CHART 2 : PE BAND CHART

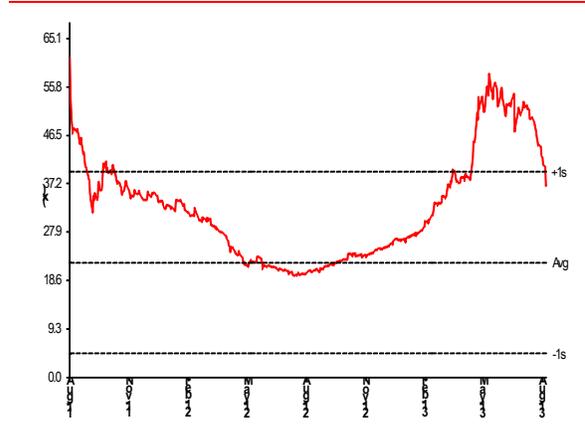


TABLE 4 : FINANCIAL DATA

| Income Statement (RMmil, YE 31 Dec) | 2011 | 2012 | 2013F | 2014F | 2015F |
|---|----------------|----------------|----------------|----------------|----------------|
| Revenue | 3,691.7 | 3,849.2 | 3,989.1 | 4,333.9 | 4,807.2 |
| EBITDA | 435.3 | 477.7 | 586.3 | 646.7 | 743.0 |
| Depreciation | (90.7) | (96.2) | (93.0) | (98.0) | (105.0) |
| Operating income (EBIT) | 344.6 | 381.5 | 493.3 | 549 | 638.0 |
| Other income & associates | 154.5 | 219.8 | 223.1 | 226.5 | 230.0 |
| Net interest | (53.4) | (76.8) | (87.4) | (83.1) | (89.8) |
| Exceptional items | 52.9 | 198.5 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 498.5 | 722.9 | 629.0 | 692.2 | 778.2 |
| Taxation | (69.6) | (125.4) | (157.3) | (173.0) | (194.6) |
| Minorities/pref dividends | (41.4) | (66.9) | (66.9) | (66.9) | (66.9) |
| Net profit | 387.6 | 530.6 | 404.8 | 452.2 | 516.7 |
| Core net profit | 327.0 | 351.0 | 404.8 | 452.2 | 516.7 |
| Balance Sheet (RMmil, YE 31 Dec) | 2011 | 2012 | 2013F | 2014F | 2015F |
| Fixed assets | 2,875.6 | 2,654.2 | 2,611.3 | 2,797.0 | 2,895.7 |
| Intangible assets | 326.5 | 318.1 | 309.7 | 301.2 | 292.8 |
| Other long-term assets | 1,357.0 | 1,581.7 | 1,684.0 | 1,691.0 | 1,697.2 |
| Total non-current assets | 4,559.0 | 4,554.0 | 4,604.9 | 4,789.3 | 4,885.7 |
| Cash & equivalent | 776.7 | 1,158.9 | 2,335.9 | 2,661.2 | 3,188.2 |
| Stock | 451.8 | 650.3 | 692.6 | 734.1 | 778.2 |
| Trade debtors | 1,319.1 | 1,568.8 | 1,595.6 | 1,713.6 | 1,875.6 |
| Other current assets | 736.9 | 1,051.6 | 1,111.1 | 1,142.6 | 1,175.1 |
| Total current assets | 3,284.6 | 4,429.5 | 5,735.1 | 6,251.6 | 7,017.0 |
| Trade creditors | 1,662.2 | 1,771.9 | 1,887.0 | 2,000.2 | 2,120.3 |
| Short-term borrowings | 320.0 | 1,773.2 | 992.3 | 1,092.3 | 1,092.3 |
| Other current liabilities | 28.7 | 31.2 | 31.2 | 31.2 | 31.2 |
| Total current liabilities | 2,010.8 | 3,576.2 | 2,910.5 | 3,123.8 | 3,243.8 |
| Long-term borrowings | 1,933.7 | 983.3 | 1,864.1 | 1,964.1 | 2,214.1 |
| Other long-term liabilities | 554.8 | 466.5 | 466.5 | 466.5 | 466.5 |
| Total long-term liabilities | 2,488.5 | 1,449.8 | 2,330.6 | 2,430.6 | 2,680.6 |
| Shareholders' funds | 3,016.9 | 3,576.6 | 4,718.1 | 5,105.6 | 5,597.5 |
| Minority interests | 327.3 | 380.9 | 380.9 | 380.9 | 380.9 |
| BV/share (RM) | 2.33 | 2.77 | 2.74 | 2.96 | 3.25 |
| Cash Flow (RMmil, YE 31 Dec) | 2011 | 2012 | 2013F | 2014F | 2015F |
| Pretax profit | 498.5 | 722.9 | 629.0 | 692.2 | 778.2 |
| Depreciation | 90.7 | 96.2 | 93.0 | 98.0 | 105.0 |
| Net change in working capital | (26.2) | (620.0) | (34.4) | (77.9) | (118.5) |
| Others | (164.0) | 190.6 | (255.0) | (264.4) | (272.4) |
| Cash flow from operations | 399.0 | 389.7 | 432.6 | 447.8 | 492.4 |
| Capital expenditure | (337.2) | (399.4) | (7.3) | (254.8) | (84.9) |
| Net investments & sale of fixed assets | 47.8 | 238.9 | 238.9 | 238.9 | 238.9 |
| Others | (3.5) | (209.3) | 0.0 | 0.0 | 0.0 |
| Cash flow from investing | (293.0) | (369.8) | 231.7 | (15.9) | 154.1 |
| Debt raised/(repaid) | 856.8 | 434.5 | 498.3 | 298.3 | 249.3 |
| Equity raised/(repaid) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | 0.0 | 0.0 | (19.4) | (64.6) | (25.9) |
| Others | (1,053.1) | (160.4) | 129.0 | (340.3) | (342.9) |
| Cash flow from financing | (196.3) | 274.1 | 607.9 | (106.6) | (119.5) |
| Net cash flow | (90.2) | 293.9 | 1,272.2 | 325.4 | 527.0 |
| Net cash/(debt) b/f | 856.2 | 773.3 | 1,063.7 | 2,335.9 | 2,661.2 |
| Net cash/(debt) c/f | 773.3 | 1,063.7 | 2,335.9 | 2,661.2 | 3,188.2 |
| Key Ratios (YE 31 Dec) | 2011 | 2012 | 2013F | 2014F | 2015F |
| Revenue growth (%) | 19.0 | 4.3 | 3.6 | 8.6 | 10.9 |
| EBITDA growth (%) | n/a | 9.7 | 22.7 | 10.3 | 14.9 |
| Pretax margins (%) | 13.5 | 18.8 | 15.8 | 16.0 | 16.2 |
| Net profit margins (%) | 10.5 | 13.8 | 10.1 | 10.4 | 10.7 |
| Interest cover (x) | 4.3 | 3.8 | 3.9 | 4.1 | 4.2 |
| Effective tax rate (%) | 14.0 | 17.3 | 25.0 | 25.0 | 25.0 |
| Net dividend payout (%) | 0.0 | 11.0 | 14.4 | 14.3 | 13.8 |
| Debtors turnover (days) | 129 | 137 | 145 | 139 | 136 |
| Stock turnover (days) | 37 | 52 | 61 | 60 | 57 |
| Creditors turnover (days) | 151 | 163 | 167 | 164 | 156 |

Source: Company, AmResearch estimates

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