

**Thomas Soon**

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*9MFY13 in line with expectations*
**BUY**

(Upgraded)

*Rationale for report: Company Result*

Price	RM2.65
Fair Value	RM3.05
52-week High/Low	RM4.16/RM2.30

**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	23.0	25.3	29.3
DPS (Sen)	6.0	5.0	5.0	5.5
PE (x)	11.2	11.3	10.1	8.8
EV/EBITDA (x)	8.1	6.6	5.8	4.7
Div yield (%)	2.3	1.9	1.9	2.1
ROE (%)	16.1	9.8	9.3	9.8
Net Gearing (%)	28.8	10.1	7.5	3.4

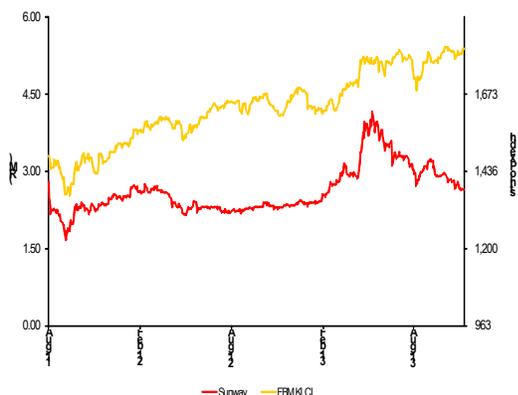
**Stock and Financial Data**

Shares Outstanding (million)	1,292.5
Market Cap (RMmil)	3,425.1
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)	3.0

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


**Investment Highlights**

- We upgrade Sunway to a BUY with an unchanged fair value of RM3.05/share, based on a 10% discount to an SOP value of RM3.38/share.
- The share price has fallen significantly, by 34%, since its peak of RM3.56/share on 31 May 2013. Sunway on Friday announced a 9MFY13 core net profit of RM325.4mil (37.6% YoY) – accounting for 80% and 82% of our and consensus forecasts, respectively.
- However, 9MFY13's effective tax rate was at only 17% vis-à-vis our projected corporate rate of 25%. Hence, we deem the result to be within expectations.
- Apart from the earlier 5 sen/share dividend for 2QFY13, no additional amount was declared.
- Group EBIT margin fell marginally by 0.2ppt YoY to 9.9% but this has improved compared to 1HFY13's 9.5% (vs. our assumption at 12%). The 3QFY13 EBIT continued to improve to 10.9% from the previous quarter's 10.4%.
- For 9MFY13, property development contributed significantly to the earnings improvement, as the division's revenue surged by 43%, while estimated EBIT rose by 33%, with high billings from developments in Sunway South Quay, Sunway Velocity and Sunway Nexis.
- YTD property sales reached RM1.1bil (effective: RM836mil), vs. 9MFY12's RM1.22bil (effective: RM1.06bil). It achieved sales of RM1.8bil in 2012.
- As at 30 September 2013, unbilled sales stood at RM2.2bil (effective: RM1.8bil) vs. RM2.41bil (effective: RM2.06bil) a year earlier. Launches, as of November 2013, totalled RM1.7bil.
- Construction also boosted the group's performance, as the division's revenue and estimated EBIT rose by 29% and 35%, respectively, in view of progress billings from the MRT job, while the quarry operations' margin surged by 6.3ppts.
- As of November 2013, construction order book replenishment totalled ~RM2bil, including internal works. External works secured so far, amounted to RM1.5bil – equal to our new order assumption for the year.
- All in all, we deem the results to be in line with expectations. We maintain our numbers.

TABLE 1 : RESULT SUMMARY

	3Q13	2Q13	3Q12	QoQ % change	YoY % change	9M13	9M12	YoY % change
<b>Revenue</b>	1,066.1	1,118.0	867.0	(4.6)	23.0	3,205.2	2,677.8	19.7
EBIT	116.2	116.6	106.1	(0.3)	9.5	318.8	270.7	17.8
Unusual Items	(41.2)	59.6	(0.3)	(169.1)	13,675.6	18.7	85.1	(78.0)
Associates & JVs	49.5	48.9	56.1	1.1	(11.8)	146.2	125.4	16.6
Net interest income	(6.3)	(12.6)	(19.4)	(50.4)	(67.8)	(30.5)	(60.8)	(49.8)
Pretax profit	118.2	212.5	142.4	(44.4)	(17.0)	453.2	420.5	7.8
Taxation	(16.6)	(32.5)	(32.4)	(48.9)	(48.8)	(75.4)	(81.2)	(7.2)
Minorities	8.5	9.7	15.7	(12.9)	(46.3)	23.8	26.2	(9.1)
<b>Net profit</b>	<b>93.1</b>	<b>170.3</b>	<b>94.3</b>	<b>(45.3)</b>	<b>(1.2)</b>	<b>354.0</b>	<b>313.1</b>	<b>13.1</b>
<b>Total Els (incl after tax)</b>	<b>(31.3)</b>	<b>59.6</b>	<b>(0.3)</b>	<b>(152.4)</b>	<b>n/a</b>	<b>28.6</b>	<b>76.7</b>	<b>(62.6)</b>
<b>Core net profit (deduct total Els)</b>	<b>124.4</b>	<b>110.7</b>	<b>94.6</b>	<b>12.4</b>	<b>31.5</b>	<b>325.4</b>	<b>236.4</b>	<b>37.6</b>
Core EPS	7.8	8.6	7.3	(9.5)	6.0	23.3	18.3	27.3
Diluted EPS	7.6	8.3	6.1	(8.1)	24.5	22.8	18.3	24.7
<b>Gross DPS (sen)</b>	<b>0.0</b>	<b>5.0</b>	<b>0.0</b>	<b>n/m</b>	<b>n/m</b>	<b>5.0</b>	<b>0.0</b>	<b>n/m</b>
BV/Share (RM)	2.70	2.90	2.57	(6.9)	5.1	2.70	2.57	5.1
Weighted av # of shares	1,604.3	1,292.5	1,292.5	24.1	24.1	1,397.6	1,292.5	8.1
Fully diluted EPS	1,638.8	1,340.8	1,551.0	22.2	5.7	1,426.7	1,292.5	10.4
				<b>QoQ ppt change</b>	<b>YoY ppt change</b>			<b>YoY ppt change</b>
EBIT margin (%)	10.9	10.4	12.2	0.5	(1.3)	9.9	10.1	(0.2)
Core net margin (%)	11.7	9.9	10.9	1.8	0.8	10.2	8.8	1.3
Effective tax rate (%)	14.0	15.3	22.8	(1.2)	(8.7)	16.6	19.3	(2.7)

Source: Company / AmResearch

TABLE 2 : SEGMENT RESULTS

	3Q13	2Q13	3Q12	QoQ % change	YoY % change	9M13	9M12	YoY % change
<b>Revenue</b>								
Property Dev	260.3	286.9	176.6	(9.3)	47.4	749.9	525.4	42.7
Property Inv	137.1	141.8	148.2	(3.3)	(7.5)	412.4	422.4	(2.4)
Construction	376.5	372.8	267.3	1.0	40.9	1,178.7	914.6	28.9
Trading and Manufacturing	151.9	171.6	143.3	(11.4)	6.0	453.1	436.0	3.9
Quarry	47.1	55.8	53.8	(15.6)	(12.5)	147.2	139.7	5.4
Investment Holdings	(1.1)	(2.2)	0.4	(52.3)	(349.0)	(0.3)	0.7	(139.5)
Others	94.3	91.4	77.3	3.1	21.9	264.2	239.1	10.5
<b>Total</b>	<b>1,066.1</b>	<b>1,118.0</b>	<b>867.0</b>	<b>(4.6)</b>	<b>23.0</b>	<b>3,205.2</b>	<b>2,677.8</b>	<b>19.7</b>
<b>Est. EBIT</b>								
Property Dev	62.0	44.3	53.0	39.9	17.1	131.9	98.9	33.3
Property Inv	21.8	28.6	19.3	(23.6)	13.1	72.6	78.0	(7.0)
Construction	15.4	15.7	18.3	(1.9)	(15.9)	58.4	43.3	34.9
Trading and Manufacturing	11.7	15.6	11.7	(25.1)	0.2	36.3	36.7	(1.0)
Quarry	5.2	6.9	3.4	(24.2)	52.7	16.8	7.2	134.0
Investment Holdings	(6.7)	(2.5)	(5.9)	163.8	12.6	(14.2)	(11.9)	19.4
Others	6.7	8.0	6.4	(16.6)	5.1	17.0	18.5	(8.0)
<b>Total</b>	<b>116.2</b>	<b>116.6</b>	<b>106.1</b>	<b>(0.3)</b>	<b>9.5</b>	<b>318.8</b>	<b>270.7</b>	<b>17.8</b>
				<b>QoQ ppt change</b>	<b>YoY ppt change</b>			<b>YoY ppt change</b>
<b>EBIT margin (%)</b>	<b>3Q13</b>	<b>2Q13</b>	<b>3Q12</b>			<b>9M13</b>	<b>9M12</b>	
Property Dev	23.8	15.5	30.0	8.4	(6.2)	17.6	18.8	(1.2)
Property Inv	15.9	20.2	13.0	(4.2)	2.9	17.6	18.5	(0.9)
Construction	4.1	4.2	6.9	(0.1)	(2.8)	5.0	4.7	0.2
Trading and Manufacturing	7.7	9.1	8.1	(1.4)	(0.4)	8.0	8.4	(0.4)
Quarry	11.1	12.3	6.3	(1.2)	4.7	11.4	5.2	6.3
Investment Holdings	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m
Others	7.1	8.8	8.2	(1.7)	(1.1)	6.4	7.7	(1.3)
<b>Total</b>	<b>10.9</b>	<b>10.4</b>	<b>12.2</b>	<b>0.5</b>	<b>(1.3)</b>	<b>9.9</b>	<b>10.1</b>	<b>(0.2)</b>

Source: Company / AmResearch

TABLE 3 : CURRENT ORDER BOOK

As at Sept 30 2013		
Projects	Value (RM mil)	O/S value
MRT Package V4 (Sec 17 to Semantan)	1,173	868
Kelana Jaya LRT Line ext'n (Package B)	569	268
BRT-Sunway Line	452	402
Urban Wellness Centre	283	283
Pinewood Iskandar Studio	309	24
Bio-Xcell EPCC	109	10
Legoland water theme park	45	3
UiTM campus expansion	200	21
KLCC car park (package 1)	304	296
KLCC piling & substructure (package 2)	222	222
Singapore pre-cast	674	351
Others	560	274
<b>Total external works</b>	<b>4,900</b>	<b>3,022</b>
Velocity Mall (Substructure)	291	159
Velocity Phase 2 (Substructure)	179	65
Velocity (Shop Offices & Apartment)	230	60
The Pinnacle (Superstructure)	175	50
New Academic Block	192	186
Sunway Putra Place	258	205
<b>Total internal works</b>	<b>1,325</b>	<b>725</b>
<b>Total in hand</b>	<b>6,225</b>	<b>3,747</b>

Source: Company / AmResearch

CHART 1 : PB BAND CHART

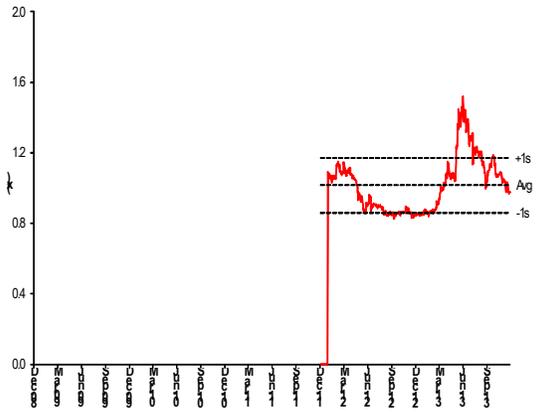


CHART 2 : PE BAND CHART

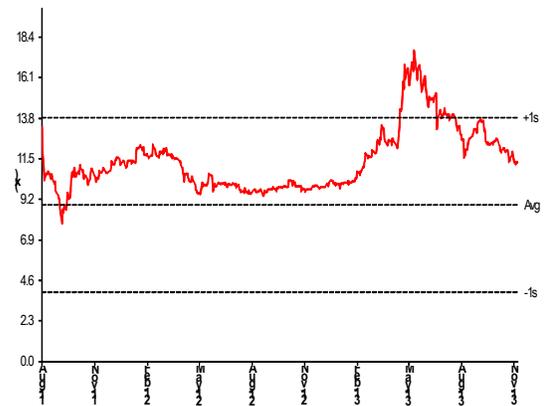


TABLE 4 : FINANCIAL DATA

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
<b>Pretax profit</b>	<b>498.5</b>	<b>722.9</b>	<b>629.0</b>	<b>692.2</b>	<b>778.2</b>
Taxation	(69.6)	(125.4)	(157.3)	(173.0)	(194.6)
Minorities/pref dividends	(41.4)	(66.9)	(66.9)	(66.9)	(66.9)
<b>Net profit</b>	<b>387.6</b>	<b>530.6</b>	<b>404.8</b>	<b>452.2</b>	<b>516.7</b>
Core net profit	327.0	351.0	404.8	452.2	516.7
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
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
<b>Total non-current assets</b>	<b>4,559.0</b>	<b>4,554.0</b>	<b>4,604.9</b>	<b>4,789.3</b>	<b>4,885.7</b>
Cash & equivalent	776.7	1,158.9	2,290.6	2,616.0	3,097.7
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
<b>Total current assets</b>	<b>3,284.6</b>	<b>4,429.5</b>	<b>5,689.9</b>	<b>6,206.3</b>	<b>6,926.5</b>
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
<b>Total current liabilities</b>	<b>2,010.8</b>	<b>3,576.2</b>	<b>2,910.5</b>	<b>3,123.8</b>	<b>3,243.8</b>
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
<b>Total long-term liabilities</b>	<b>2,488.5</b>	<b>1,449.8</b>	<b>2,330.6</b>	<b>2,430.6</b>	<b>2,680.6</b>
<b>Shareholders' funds</b>	<b>3,016.9</b>	<b>3,576.6</b>	<b>4,672.8</b>	<b>5,060.4</b>	<b>5,507.0</b>
Minority interests	327.3	380.9	380.9	380.9	380.9
BV/share (RM)	2.33	2.77	2.71	2.94	3.20
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
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)
<b>Cash flow from operations</b>	<b>399.0</b>	<b>389.7</b>	<b>432.6</b>	<b>447.8</b>	<b>492.4</b>
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
<b>Cash flow from investing</b>	<b>(293.0)</b>	<b>(369.8)</b>	<b>231.7</b>	<b>(15.9)</b>	<b>154.1</b>
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	(64.6)	(64.6)	(71.1)
Others	(1,053.1)	(160.4)	129.0	(340.3)	(342.9)
<b>Cash flow from financing</b>	<b>(196.3)</b>	<b>274.1</b>	<b>562.6</b>	<b>(106.6)</b>	<b>(164.7)</b>
<b>Net cash flow</b>	<b>(90.2)</b>	<b>293.9</b>	<b>1,226.9</b>	<b>325.4</b>	<b>481.8</b>
<b>Net cash/(debt) b/f</b>	<b>856.2</b>	<b>773.3</b>	<b>1,063.7</b>	<b>2,290.6</b>	<b>2,616.0</b>
<b>Net cash/(debt) c/f</b>	<b>773.3</b>	<b>1,063.7</b>	<b>2,290.6</b>	<b>2,616.0</b>	<b>3,097.7</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
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	16.0	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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