

**Thomas Soon**

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*Operating result in line, awaiting Medini launch*
**HOLD**

(downgraded)

*Rationale for report: Company Result*

Price **RM2.91**  
Fair Value **RM3.08**  
52-week High/Low **RM4.16/RM2.55**

**Key Changes**

Fair value  unchanged  
EPS unchanged

YE to Dec	FY13	FY14F	FY15F	FY16F
Revenue (RMmil)	4,733.7	4,458.1	4,961.7	4,551.9
Core net profit (RMmil)	482.7	452.2	511.3	566.8
EPS (Sen)	28.0	26.2	29.7	32.9
EPS growth (%)	18.3	n/a	13.1	10.9
Consensus EPS (Sen)	n/a	26.8	29.2	30.8
DPS (Sen)	10.0	10.0	11.0	0.0
PE (x)	10.4	11.1	9.8	8.8
EV/EBITDA (x)	6.5	6.9	6.3	5.7
Div yield (%)	3.4	3.4	3.8	0.0
ROE (%)	35.1	8.2	8.8	9.1
Net Gearing (%)	18.4	23.9	22.0	22.1

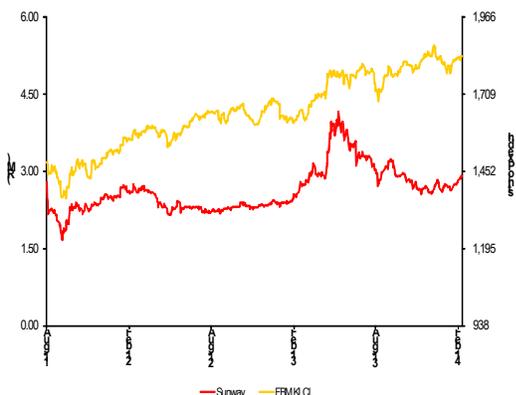
**Stock and Financial Data**

Shares Outstanding (million) 1,723.5  
Market Cap (RMmil) 5,015.5  
Book value (RM/share) 3.10  
P/BV (x) 0.9  
ROE (%) 35.1  
Net Gearing (%) 18.4

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

Free Float (%) 30.0  
Avg Daily Value (RMmil) 1.6

Price performance	3mth	6mth	12mth
Absolute (%)	8.4	(3.7)	12.2
Relative (%)	6.4	(10.3)	(0.8)


**Investment Highlights**

- We downgrade Sunway to HOLD, with a tweaked fair value of RM3.08/share (vs. RM3.05/share previously), based on a 5% discount to an SOP value of RM3.23/share.
- We maintain our FY14F-FY15F earnings following the release of its FY13 results last week. Our downgrade is based on its current share price which offers less than a 15% upside to our FV.
- Sunway's FY13 core net earnings of RM483mil (+37.6% YoY) beat our and consensus forecasts by 19% and 18%, respectively. The growth was on the back of an 18% growth in core revenue from RM3.85bil to RM4.53bil.
- Notwithstanding that, core EBIT(stripping out all impact of EIs) was in line with expectations, accounting for 96% and 97% of our and consensus estimates. Core PATMI margin improved to 10.2% in FY13F from 9.1% in FY12. Note too that the effective tax rate for FY13 was only 6% vs. 14% in FY12.
- It declared a second interim dividend of 5 sen/share, bringing the total for the year to 10 sen/share (vs. 6 sen/share in FY12) – translating to a payout ratio of 36% over core PATMI.
- For the full year, construction and property development contributed significantly to earnings, with operating profits growing by 29% and 22%, respectively, while core revenue of the two divisions grew by 27% and 28%, respectively.
- Notably though, construction posted an operating loss of RM11mil in 4QFY13. Construction EBIT plus share of associate and jointly-controlled entities amounted to RM20.2mil, impacted by a one-off provision of RM23mil for doubtful debts. For the full year, it stood at RM80mil, up by 30% from FY12's RM61.5mil.
- For property development, sales reached RM1.8bil (effective: RM1.4bil), while unbilled sales totalled RM2.4bil (effective: RM1.9bil) as at 31 December 2013. The group is targeting to launch RM2.3bil (effective: RM1.7bil) worth of properties in FY14, with a targeted sales of RM1.8bil (effective: RM1.3bil).
- Key launches include RM300mil worth of offices (167 units) and service apartments (328 units) in Medini, Sunway Iskandar, sometime in 2QFY14, including 51 retail units for its property investment division. The sales gallery is expected to be ready by April.
- For construction, the group has set a target of securing RM2.5bil worth of jobs, including 70% of external projects. As at end-2013, construction order book replenishment totalled ~RM2.16bil, including RM1.5bil of external jobs, while outstanding order book stood at RM3.92bil.

TABLE 1 : RESULT SUMMARY

	4Q13	4Q12	YoY % change	FY13	FY12	YoY % change
<b>Revenue</b>	1,342.2	1,241.8	8.1	4,733.7	4,128.8	14.6
Est. EBIT	160.9	131.5	22.3	471.4	457.7	3.0
Est. Unusual Items	1,013.3	(47.9)	(2,214.7)	1,298.5	314.3	313.2
Associates & JVs	91.6	144.6	(36.7)	172.5	144.6	19.3
Net interest income	(17.6)	(16.0)	9.6	(48.1)	(76.8)	(37.4)
Pretax profit	1,248.1	212.1	488.5	1,894.3	839.7	125.6
Taxation	(45.5)	(44.1)	3.0	(120.9)	(115.4)	4.8
Minorities	63.9	21.4	198.8	273.0	285.5	(4.4)
Core pre-tax profit	234.9	260.0	(9.7)	595.8	525.4	13.4
<b>Net profit</b>	<b>1,138.8</b>	<b>146.6</b>	<b>677.0</b>	<b>1,500.5</b>	<b>438.8</b>	<b>241.9</b>
<b>Total Eis (After tax)</b>	<b>981.3</b>	<b>32.4</b>	<b>n/a</b>	<b>1,017.8</b>	<b>88.1</b>	<b>1,054.9</b>
<b>Core net profit</b>	<b>157.5</b>	<b>114.2</b>	<b>37.9</b>	<b>482.7</b>	<b>350.7</b>	<b>37.6</b>
FD Core EPS	8.8	6.4	37.9	26.9	19.6	37.6
<b>Gross DPS (sen)</b>	<b>5.0</b>	<b>6.0</b>	<b>(16.7)</b>	<b>10.0</b>	<b>6.0</b>	<b>66.7</b>
	<b>4Q13</b>	<b>4Q12</b>	<b>YoY ppt change</b>	<b>FY13</b>	<b>FY12</b>	<b>YoY ppt change</b>
EBIT margin (%)	12.0	10.6	1.4	10.0	11.1	(1.1)
Core net margin (%)	11.7	9.2	2.5	10.2	8.5	1.7
Effective tax rate over core PBT (%)	19.4	17.0	2.4	20.3	22.0	(1.7)

Source: Company / AmResearch

TABLE 2 : KEY SEGMENT PERFORMANCE

	FY12	FY13	% YoY change	4Q12	3Q13	4Q13	% QoQ change	% YoY change
<b>Core revenue</b>								
Property Dev	910.2	1,167.1	28.2	384.8	260.3	417.2	60.3	8.4
Property Inv	585.2	578.3	(1.2)	162.7	137.1	165.8	20.9	1.9
Construction	1,274.9	1,621.7	27.2	360.3	376.5	443.0	17.7	23.0
<b>Operating profit (excl assoc/jv)</b>								
Property Dev	187.0	228.2	22.0	88.1	62.0	96.3	55.3	9.3
Property Inv	120.7	111.2	(7.8)	42.7	21.8	38.7	77.2	(9.4)
Construction	36.8	47.4	28.7	(0.7)	15.4	(11.1)	(172.0)	1,607.7
<b>Operating profit margin</b>								
Property Dev	20.5	19.5	█ -1.0	22.9	23.8	23.1	(0.7)	0.2
Property Inv	20.6	19.2	█ -1.4	26.2	15.9	23.3	7.4	(2.9)
Construction	2.9	2.9	█ 0.0	-0.2	4.1	-2.5	(6.6)	(2.3)

Source: Company / AmResearch



TABLE 3 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2012	2013	2014F	2015F	2016F
Revenue	3,849.2	4,733.7	4,458.1	4,961.7	4,551.9
EBITDA	659.7	662.7	727.7	778.0	888.1
Depreciation	(131.0)	(136.9)	(139.0)	(141.0)	(159.0)
Operating income (EBIT)	528.7	525.8	588.7	637	729.1
Other income & associates	144.6	172.5	228.5	261.1	268.9
Net interest	(147.9)	(102.4)	(83.1)	(97.0)	(135.6)
Exceptional items	314.3	1,298.5	0.0	0.0	0.0
<b>Pretax profit</b>	<b>839.7</b>	<b>1,894.3</b>	<b>734.1</b>	<b>801.2</b>	<b>862.5</b>
Taxation	(115.4)	(120.9)	(183.5)	(200.3)	(215.6)
Minorities/pref dividends	(285.5)	(273.0)	(98.4)	(89.6)	(80.0)
<b>Net profit</b>	<b>438.8</b>	<b>1,500.5</b>	<b>452.2</b>	<b>511.3</b>	<b>566.8</b>
Core net profit	351.0	482.7	452.2	511.3	566.8
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Fixed assets	6,948.8	3,548.3	4,289.6	4,432.3	5,188.0
Intangible assets	318.1	319.9	301.2	292.8	284.4
Other long-term assets	612.6	2,360.6	2,264.5	2,270.9	2,284.9
<b>Total non-current assets</b>	<b>7,879.5</b>	<b>6,228.8</b>	<b>6,855.3</b>	<b>6,996.1</b>	<b>7,757.3</b>
Cash & equivalent	1,197.5	1,519.1	1,178.8	1,812.2	2,785.3
Stock	650.3	622.9	734.1	778.2	824.9
Trade debtors	1,584.9	1,402.6	1,711.2	1,904.5	1,747.3
Other current assets	1,051.6	1,338.8	1,145.3	1,177.8	1,211.2
<b>Total current assets</b>	<b>4,484.2</b>	<b>4,883.4</b>	<b>4,769.4</b>	<b>5,672.7</b>	<b>6,568.6</b>
Trade creditors	1,844.8	2,154.0	2,082.6	2,207.6	2,340.0
Short-term borrowings	2,955.0	1,804.9	1,092.3	1,442.3	1,742.3
Other current liabilities	21.2	24.1	24.1	24.1	24.1
<b>Total current liabilities</b>	<b>4,821.0</b>	<b>3,983.0</b>	<b>3,199.0</b>	<b>3,674.0</b>	<b>4,106.5</b>
Long-term borrowings	1,688.4	990.6	1,964.1	2,164.1	2,964.1
Other long-term liabilities	503.0	486.5	486.5	486.5	486.5
<b>Total long-term liabilities</b>	<b>2,191.4</b>	<b>1,477.0</b>	<b>2,450.6</b>	<b>2,650.6</b>	<b>3,450.6</b>
<b>Shareholders' funds</b>	<b>3,214.8</b>	<b>5,334.9</b>	<b>5,657.8</b>	<b>6,026.9</b>	<b>6,451.5</b>
Minority interests	2,136.5	317.3	317.3	317.3	317.3
BV/share (RM)	2.49	3.10	3.28	3.50	3.74
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Pretax profit	839.7	1,894.3	734.1	801.2	862.5
Depreciation	131.0	136.9	139.0	141.0	159.0
Net change in working capital	(814.7)	234.3	(297.7)	(144.9)	209.6
Others	435.8	(1,171.9)	(261.2)	(73.8)	(285.0)
<b>Cash flow from operations</b>	<b>591.8</b>	<b>1,093.6</b>	<b>314.2</b>	<b>723.4</b>	<b>946.0</b>
Capital expenditure	(399.4)	(7.3)	(254.8)	(4.9)	(133.9)
Net investments & sale of fixed assets	238.9	238.9	238.9	238.9	238.9
Others	(542.1)	(1,136.8)	(467.4)	(260.0)	(47.9)
<b>Cash flow from investing</b>	<b>(702.6)</b>	<b>(905.1)</b>	<b>(483.2)</b>	<b>(25.9)</b>	<b>57.2</b>
Debt raised/(repaid)	434.5	498.3	298.3	249.3	249.3
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	(163.7)	(129.3)	(142.2)	(142.2)
Others	(56.0)	(199.2)	(340.3)	(171.2)	(137.3)
<b>Cash flow from financing</b>	<b>378.6</b>	<b>135.4</b>	<b>(171.2)</b>	<b>(64.1)</b>	<b>(30.2)</b>
<b>Net cash flow</b>	<b>267.8</b>	<b>323.9</b>	<b>(340.3)</b>	<b>633.5</b>	<b>973.0</b>
<b>Net cash/(debt) b/f</b>	<b>838.0</b>	<b>1,102.3</b>	<b>1,429.4</b>	<b>1,089.1</b>	<b>1,722.5</b>
<b>Net cash/(debt) c/f</b>	<b>1,102.3</b>	<b>1,429.4</b>	<b>1,089.1</b>	<b>1,722.5</b>	<b>2,695.6</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Revenue growth (%)	4.3	23.0	n/a	11.3	n/a
EBITDA growth (%)	51.6	0.4	9.8	6.9	14.2
Pretax margins (%)	21.8	40.0	16.5	16.1	18.9
Net profit margins (%)	11.4	31.7	10.1	10.3	12.5
Interest cover (x)	3.1	3.8	4.4	4.0	3.7
Effective tax rate (%)	13.7	6.4	25.0	25.0	25.0
Net dividend payout (%)	13.3	8.6	28.6	27.8	0.0
Debtors turnover (days)	138	115	127	133	146
Stock turnover (days)	52	49	56	56	64
Creditors turnover (days)	166	154	173	158	182

Source: Company, AmResearch estimates

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