

## 1QFY14 within expectations

**HOLD**

(maintained)

Thomas Soon

soon-guan-chuan@ambankgroup.com

+603 2036 2300

*Rationale for report: Company Result*

Price	RM3.12
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)	4,721.4	4,458.0	4,961.6	4,551.9
Core net profit (RMmil)	484.0	452.2	511.0	566.5
EPS (Sen)	30.7	26.2	29.6	32.9
EPS growth (%)	28.4	n/a	13.0	10.9
Consensus EPS (Sen)	n/a	27.0	29.3	30.6
DPS (Sen)	10.0	10.0	11.0	0.0
PE (x)	10.2	11.9	10.5	9.5
EV/EBITDA (x)	8.0	6.6	6.1	5.8
Div yield (%)	3.2	3.2	3.5	0.0
ROE (%)	34.9	8.3	8.8	9.2
Net Gearing (%)	19.3	20.8	19.8	22.3

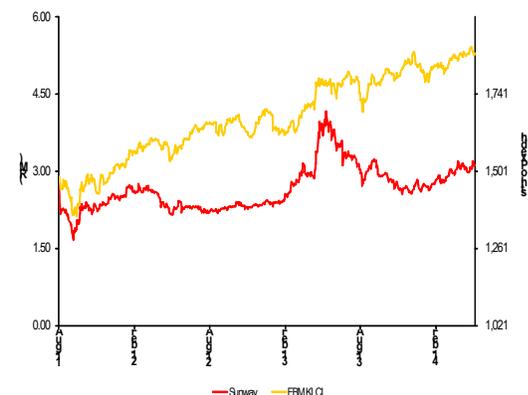
### Stock and Financial Data

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	5,377.4
Book value (RM/share)	3.09
P/BV (x)	1.0
ROE (%)	34.9
Net Gearing (%)	19.3

Major Shareholders	Tan Sri Jeffrey Cheah (47.7%) GIC (12.2%)
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Free Float (%)	30.0
Avg Daily Value (RMmil)	3.3

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



### Investment Highlights

- We maintain HOLD on Sunway, with an unchanged fair value of RM3.08/share, based on a 5% discount to an SOP value of RM3.23/share.
- Sunway's 1QFY14 core net earnings of RM110mil (-30.5% QoQ, +22% YoY) are in line with expectations, accounting for 24% and 23% of our and consensus forecasts, respectively. No dividend was declared.
- The bottom line performance was on the back of a flat YoY revenue growth (+0.5%) to RM1.03bil, but down 24% QoQ. Its1Q is traditionally weaker than 4Q due to seasonality.
- Operating profit (EBIT) at RM116mil (-13% QoQ, +35% YoY) was just about in line, accounting for ~20% of our and consensus forecasts. Notably, group EBIT margin improved by 1ppt-3ppts QoQ and YoY to 11.3%, with a strong progress in the construction division.
- The effective tax rate has normalised to 21.4% vs. 4.3% in 4QFY13. Interest cost was lower due to the rights issue proceeds raised last year August.
- The construction division returned to the black, posting an EBIT of RM31mil vs. a loss of RM27.6mil in the previous quarter and up by 13% from a year earlier.
- Sunway said although YoY and QoQ revenue was lower, profit was higher due to the stronger profit recognition from the portfolio of contracts which had reached a more advanced stage with less preliminary expenses.
- Job replenishment totaled RM178mil (for the Sunway Medical Centre Phase 3), bringing the total outstanding order book to RM3.7bil vs. RM3.92bil as at end FY13. The group has set a target of securing RM2.5bil worth of jobs, including 70% of external projects, for FY14F.
- In property development, sales reached RM348mil (effective: RM242mil), while unbilled sales totalled RM2.4bil (effective: RM1.8bil) as at 31 March 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 RM205mil worth of townhouses and semi-Ds at Sunway Wellesley (RM120mil), and Superlink units at Sunway Eastwood Park Villa (RM85mil).
- Sunway is to launch its first properties in Iskandar Sunway Iskandar. The launches include RM300mil worth of offices (167 units) and service apartments (328 units) in Medini.

TABLE 1 : RESULT SUMMARY

FY 31 Dec (RM mil)	1Q13	1Q14	% YoY	4Q13	1Q14	% QoQ
Revenue	1,021.0	1,025.7	0.5	1,310.2	1,025.7	(21.7)
Core revenue	1,021.0	1,025.7	0.5	1,310.2	1,025.7	(21.7)
<b>EBIT</b>	<b>86.054</b>	<b>115.9</b>	<b>34.6</b>	<b>133.6</b>	<b>115.9</b>	<b>(13.3)</b>
Est. Unusual Items	0.3	(6.3)	n/a	1,222.0	(6.3)	(100.5)
Associates & JVs	47.9	40.4	(15.5)	109.7	40.4	(63.1)
Net interest income	(11.7)	(7.8)	(32.9)	(15.6)	(7.8)	(49.8)
<b>Pretax profit</b>	<b>122.521</b>	<b>142.2</b>	<b>16.1</b>	<b>1,449.8</b>	<b>142.2</b>	<b>(90.2)</b>
Taxation	(26.3)	(30.433)	15.5	(61.6)	(30.4)	(50.6)
Minorities	(5.6)	(7.767)	38.1	(249.2)	(7.8)	(96.9)
Net profit from discontinued op.	0.0	0.0	n/a	0.0	0.0	n/m
<b>Net profit</b>	<b>90.6</b>	<b>104.0</b>	<b>14.8</b>	<b>1,139.0</b>	<b>104.0</b>	<b>(90.9)</b>
<b>Els after tax</b>	<b>0.3</b>	<b>(6.3)</b>	<b>n/a</b>	<b>980.3</b>	<b>(6.3)</b>	<b>(100.6)</b>
<b>Core net profit</b>	<b>90.3</b>	<b>110.3</b>	<b>22.1</b>	<b>158.6</b>	<b>110.3</b>	<b>(30.5)</b>
<b>Core pre-tax profit</b>	<b>122.3</b>	<b>148.5</b>	<b>21.4</b>	<b>227.8</b>	<b>148.5</b>	<b>(34.8)</b>
EPS (sen)	7.0	6.0	(13.9)	66.1	6.0	(90.9)
Diluted EPS	7.0	5.92	(15.6)	63.5	5.9	(90.7)
Core EPS	7.0	6.4	(8.4)	9.2	6.4	(30.5)
Diluted core EPS	7.0	6.3	(10.2)	8.8	6.3	(29.1)
Gross DPS (sen)	0.0	0.0	n/m	5.0	0.0	n/m
BV/Share (RM)	2.82	3.15	11.7	3.1	3.15	1.9
EBIT margin (%)	8.4	11.3	2.9	10.20	11.3	1.1
Core Pretax margin (%)	12.0	14.5	2.5	17.4	13.9	(3.5)
Effective tax rate (%)	21.5	21.4	(0.1)	4.3	21.4	17.2

Source: Company / AmResearch

TABLE 2 : SEGMENT PERFORMANCE

Revenue	1QFY13	1QFY14	% YoY		1QFY14	% QoQ
			change	4QFY13		change
Property Dev	202.7	222.3	9.7	417.2	222.3	(46.7)
Property Inv	133.5	136.2	2.0	165.8	136.2	(17.9)
Construction	429.4	358.7	(16.5)	443.0	358.7	(19.0)
Trading and Manufacturing	129.6	149.0	15.0	133.7	149.0	11.4
Quarry	44.3	48.3	8.9	50.5	48.3	(4.4)
Investment Holdings	3.0	0.0	(100.0)	0.3	0.0	n/a
Others	78.5	111.2	41.6	99.7	111.2	11.5
<b>Total</b>	<b>1,021.0</b>	<b>1,025.7</b>	<b>0.5</b>	<b>1,310.2</b>	<b>1,025.7</b>	<b>(21.7)</b>
<b>Est. EBIT</b>						
Property Dev	25.5	52.1	104.3	97.1	52.1	(46.4)
Property Inv	22.1	20.6	(7.1)	37.3	20.6	(44.9)
Construction	27.3	31.0	13.4	(27.6)	31.0	212.5
Trading and Manufacturing	9.0	9.1	0.7	10.4	9.1	(12.6)
Quarry	4.8	4.4	(7.2)	4.3	4.4	2.4
Investment Holdings	(5.0)	(4.6)	(8.0)	4.4	(4.6)	(206.3)
Others	2.3	3.3	43.7	7.7	3.3	(56.5)
<b>Total</b>	<b>86.1</b>	<b>115.9</b>	<b>34.6</b>	<b>133.6</b>	<b>115.9</b>	<b>(13.3)</b>
<b>Est. EBIT margin</b>						
Est. EBIT margin	1QFY13	1QFY14	ppt change		1QFY14	ppt change
			YoY	4QFY13		QoQ
Property Dev	12.6	23.4	10.8	23.3	23.4	0.1
Property Inv	16.6	15.1	(1.5)	22.5	15.1	(7.4)
Construction	6.4	8.6	2.3	(6.2)	8.6	14.9
Trading and Manufacturing	7.0	6.1	(0.9)	7.8	6.1	(1.7)
Quarry	10.8	9.2	(1.6)	8.6	9.2	0.6
Investment Holdings	n/a	n/a	n/a	n/a	n/a	n/a
Others	3.0	3.0	0.0	7.7	3.0	(4.7)
<b>Overall</b>	<b>8.4</b>	<b>11.3</b>	<b>2.9</b>	<b>10.2</b>	<b>11.3</b>	<b>1.1</b>

Source: Company / AmResearch

TABLE 3 : ORDER BOOK AS AT MARCH 31, 2014

As at March 31 2014		
Projects	Value (RM mil)	O/S value
MRT Package V4 (Sec 17 to Semantan)	1,173	749
Kelana Jaya LRT Line extn (Package B)	569	251
BRT-Sunway Line	452	313
Urban Wellness Centre	283	248
KLCC car park (package 1)	304	267
KLCC piling & substructure (package 2)	222	188
Singapore pre-cast	825	537
Others	1,050	311
<b>Total external works</b>	<b>4,878</b>	<b>2,864</b>
Velocity Mall (Substructure)	291	127
Velocity Phase 2 (Substructure)	179	42
Velocity (Shop Offices & Apartment)	230	21
Sunway University New Academic Block	192	154
Sunway Putra Place	258	139
Sunway Pyramid 3	203	182
Sunway Medical Centre Phase 3	178	178
<b>Total internal works</b>	<b>1,531</b>	<b>843</b>
<b>Total in hand</b>	<b>6,409</b>	<b>3,707</b>

Source: Company / AmResearch

CHART 1 : PB BAND CHART

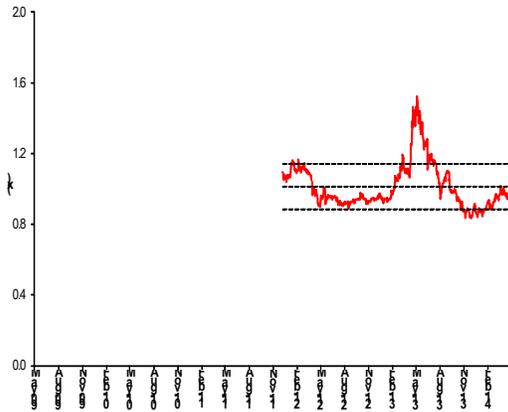


CHART 2 : PE BAND CHART



TABLE 4 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2012	2013	2014F	2015F	2016F
Revenue	4,128.8	4,721.4	4,458.0	4,961.6	4,551.9
EBITDA	519.5	589.5	727.7	778.0	888.1
Depreciation	(138.0)	(137.0)	(139.0)	(141.0)	(159.0)
Operating income (EBIT)	381.5	452.5	588.7	637	729.1
Other income & associates	219.8	255.9	225.9	258.0	265.7
Net interest	(76.8)	(46.1)	(80.5)	(94.3)	(132.9)
Exceptional items	315.2	1,238.1	0.0	0.0	0.0
<b>Pretax profit</b>	<b>839.6</b>	<b>1,900.4</b>	<b>734.1</b>	<b>800.7</b>	<b>862.0</b>
Taxation	(115.4)	(137.0)	(183.5)	(200.2)	(215.5)
Minorities/pref dividends	(285.5)	(273.0)	(98.4)	(89.6)	(80.0)
<b>Net profit</b>	<b>438.8</b>	<b>1,490.4</b>	<b>452.2</b>	<b>511.0</b>	<b>566.5</b>
Core net profit	350.7	484.0	452.2	511.0	566.5
<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	3,564.1	3,978.4	4,242.7	5,197.2
Intangible assets	318.1	319.4	319.4	319.4	319.4
Other long-term assets	612.6	2,369.7	2,520.3	2,531.3	2,549.8
<b>Total non-current assets</b>	<b>7,879.5</b>	<b>6,253.3</b>	<b>6,818.2</b>	<b>7,093.5</b>	<b>8,066.4</b>
Cash & equivalent	1,197.5	1,448.8	1,436.5	1,995.5	2,720.9
Stock	650.3	615.8	834.2	884.2	937.3
Trade debtors	1,584.9	1,525.5	1,456.7	1,596.9	1,482.9
Other current assets	1,051.6	1,258.1	1,284.6	1,320.9	1,358.3
<b>Total current assets</b>	<b>4,484.2</b>	<b>4,848.3</b>	<b>5,012.1</b>	<b>5,797.6</b>	<b>6,499.4</b>
Trade creditors	1,844.8	2,051.8	2,366.5	2,508.5	2,659.0
Short-term borrowings	2,955.0	2,000.7	935.9	1,285.9	1,585.9
Other current liabilities	21.2	86.3	21.5	21.5	21.5
<b>Total current liabilities</b>	<b>4,821.0</b>	<b>4,138.9</b>	<b>3,323.9</b>	<b>3,815.9</b>	<b>4,266.4</b>
Long-term borrowings	1,688.4	794.7	2,059.6	2,259.6	3,059.6
Other long-term liabilities	503.0	522.8	522.8	522.8	522.8
<b>Total long-term liabilities</b>	<b>2,191.4</b>	<b>1,317.5</b>	<b>2,582.3</b>	<b>2,782.3</b>	<b>3,582.3</b>
<b>Shareholders' funds</b>	<b>3,214.8</b>	<b>5,328.3</b>	<b>5,607.2</b>	<b>5,975.9</b>	<b>6,400.2</b>
Minority interests	2,136.5	316.9	316.9	316.9	316.9
BV/share (RM)	2.49	3.09	3.25	3.47	3.71
<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	839.6	1,900.4	734.1	800.7	862.0
Depreciation	138.0	137.0	139.0	141.0	159.0
Net change in working capital	(379.0)	93.0	(65.6)	(84.5)	174.1
Others	(31.6)	(1,037.1)	(288.1)	(104.4)	(316.3)
<b>Cash flow from operations</b>	<b>567.0</b>	<b>1,093.4</b>	<b>519.4</b>	<b>752.8</b>	<b>878.7</b>
Capital expenditure	(399.4)	(85.4)	(332.9)	(83.0)	(133.9)
Net investments & sale of fixed assets	56.5	11.3	11.2	11.2	11.2
Others	(334.9)	(815.9)	(467.4)	(260.0)	(47.9)
<b>Cash flow from investing</b>	<b>(677.8)</b>	<b>(889.9)</b>	<b>(789.1)</b>	<b>(331.7)</b>	<b>(170.5)</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)	(150.8)	(142.2)	(142.2)
Others	(56.0)	(292.2)	110.0	30.7	(89.8)
<b>Cash flow from financing</b>	<b>378.6</b>	<b>42.4</b>	<b>257.4</b>	<b>137.8</b>	<b>17.3</b>
<b>Net cash flow</b>	<b>267.8</b>	<b>245.8</b>	<b>(12.3)</b>	<b>558.9</b>	<b>725.4</b>
<b>Net cash/(debt) b/f</b>	<b>838.0</b>	<b>1,102.3</b>	<b>1,359.1</b>	<b>1,346.8</b>	<b>1,905.8</b>
<b>Net cash/(debt) c/f</b>	<b>1,102.3</b>	<b>1,359.1</b>	<b>1,346.8</b>	<b>1,905.8</b>	<b>2,631.2</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 (%)	11.8	14.4	n/a	11.3	n/a
EBITDA growth (%)	19.3	13.5	23.4	6.9	14.2
Pretax margins (%)	20.3	40.2	16.5	16.1	18.9
Net profit margins (%)	10.6	31.6	10.1	10.3	12.4
Interest cover (x)	3.8	5.5	4.4	4.1	3.7
Effective tax rate (%)	13.7	7.2	25.0	25.0	25.0
Net dividend payout (%)	13.3	8.7	28.6	27.8	0.0
Debtors turnover (days)	128	120	122	112	123
Stock turnover (days)	49	49	59	63	73
Creditors turnover (days)	155	151	181	179	207

Source: Company, AmResearch estimates

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15th Floor Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel: (03)2070-2444 (research)  
Fax: (03)2078-3162

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50200 Kuala Lumpur  
Tel: (03)2070-2444 (research)  
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Managing Director