

**Sunway (BUY ↔, EPS ↑)**

**INDUSTRY: OVERWEIGHT**

**EARNINGS EVALUATION**

**1 March 2013**

**Price Target: RM3.38 (↑)**

**Share price: RM2.49**

**4Q results: Sunny ending**

**Results**

- FY12 core earnings (adjusted for RM0.4m derivative gain, RM76.5m Sunway REIT fair value gain, RM22.4m revaluation gain, RM75.4m SunMed disposal gain, and RM7.1m taxation reversal gain) grew by 7% to RM350.6m (27.1 sen/share) to beat ours and estimates slightly by making up 104% of full year forecasts.

**Deviations**

- Largely in line.

**Dividends**

- 6 sen/share, translating to a payout ratio of 22%.

**Comments**

- **4Q results...** YoY, revenue grew by 30% (QoQ: +38%) to RM1.2bn, driven by strong billings in the property division and higher construction activities. Core earnings grew by 13% and 21% on a YoY and QoQ basis respectively to RM114m.
- **FY results...** Revenue grew by 5% to RM3.9bn, driven by strong property billings and construction activities in the final quarter. Property investment division also lifted overall revenue through Monash U Residence and Sunway Putra Hotel. Hence, core earnings grew by 7% with improved performance in nearly all divisions except property investment and trading and manufacturing division.
- **Property sales...** Achieved effective new property sales of RM498m in 4Q, mainly derived from South Quay and Velocity developments. Hence, bringing FY12 effective new sales to RM1.6bn (1Q: RM175m, 2Q: RM443m, 3Q: RM445m), surpassing management's target of RM800m and FY12 effective new launches of RM1.19bn. We are encouraged by Sunway's rationalisation of property launches.
- **Earnings visibility...** Overall, outstanding construction order book stood at ~RM2.4bn (see Figure #3), translating to ~1.9x FY12 construction revenue, while its effective unbilled property sales stood at ~RM2.4bn (see Figure #4), translating to ~2.6x FY12 property revenue.

**Risks**

- Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.

**Forecasts**

- Tweaked FY13-14 earnings upwards by 0.7% and 1.5% respectively.

**Rating**

**BUY (↔)**

- Positives: (1) Acquiring strategic land bank. (2) Deep values and is still trading at a discount to its peers. (3) Integrated construction/property business model.
- Negatives: (1) Slower take-up for its property launches.

**Valuation**

- TP raised by 15% to **RM3.38** as we rollover our valuation based on SOP valuation (see Figure #5).

**Jarod Soon**

**smssoon@hlib.hongleong.com.my**  
**(603) 2168 1073**

KLCI	1,637.6
Expected share price return	35.7%
Expected dividend return	2.4%
Expected total return	38.2%

**Share price**



**Information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,293
Market cap (RM m)	3,218
3-mth avg. volume ('000)	799

**Price Performance**

	1M	3M	12M
Absolute	3.8	8.3	-4.6
Relative	3.1	6.5	-8.3

**Major shareholders**

Tan Sri Jeffrey	45.0%
GIC	12.5%
Free Float	48.1%

**Summary Earnings Table**

FYE Dec (RM m)	2011A	2012A	2013E	2014E
Revenue	3,692	3,877	3,957	4,491
EBITDA	457	594	503	592
EBIT	366	505	409	480
Profit Before Tax	499	728	474	549
PATAMI	372	532	364	423
Core PATAMI	328	351	364	423
Core EPS (sen)	25.4	27.1	28.1	32.7
FD EPS (sen)	21.1	22.6	23.4	27.3
Net DPS (sen)	-	6.0	6.0	6.0
Net DY (%)	-	2.4	2.4	2.4
P/E (x)	9.8	9.2	8.9	7.6
FD P/E (x)	11.8	11.0	10.6	9.1
P/B (x)	1.1	0.9	0.8	0.8
Net Gearing (%)	45.4	49.1	49.3	49.1
ROE (%)	10.1	10.7	9.8	10.5
ROA (%)	4.4	4.2	4.4	5.1

HLIB

**Figure #1 Quarterly results comparison**

FYE Dec (RM m)	4QFY11	3QFY12	4QFY12	QoQ (%)	YoY (%)	Comments
Revenue	921.4	867.0	1,198.9	38	30	Refer to segmental.
Property Development	243.9	176.6	397.9	>100	63	YoY: Higher billings from Nexis, Velocity, and South Quay. QoQ: Seasonally stronger quarter.
Property Investment	161.2	148.2	168.5	14	5	YoY: Higher contribution from Monash U Residence and Sunway Putra Hotel. QoQ: Seasonally stronger quarter for theme parks and hotels.
Construction	292.8	267.3	360.3	35	23	YoY/QoQ: Driven by LRT and MRT project.
Trading/Manufacturing	136.4	143.3	122.7	-14	-10	YoY/QoQ: Affected by challenging economic conditions.
Quarry	48.6	53.8	57.2	6	18	YoY/QoQ: Due to higher selling prices.
EBIT	208.8	106.1	233.5	>100	12	Refer to segmental.
Property Development	65.5	53.0	88.7	68	36	YoY/QoQ: Affected by fluctuations in margin.
Property Investment	86.4	19.3	59.6	>100	-31	RM22.4m revaluation gain on investment properties.
Construction	23.7	18.3	(2.4)	n/a	n/a	YoY/QoQ: Hit by provisions on refundable operational taxes in India, while MRT project has not reached profit recognition stage.
Trading/Manufacturing	13.7	11.7	10.5	-10	-23	.YoY/QoQ: Due to decline in revenue and margin.
Quarry	1.2	3.4	5.0	46	>100	YoY/QoQ: Further lifted by margin expansion.
Net Interest Expense	(15.7)	(19.4)	(16.7)	-14	6	Net debt dipped to RM1.6bn from RM1.9bn in 3QFY12. Hence, net gearing ratio dropped to 45% from 57%.
Share of Associates/JCE	(1.5)	56.1	99.3	77	n/a	YoY/QoQ: Strong contribution from Singapore developments, Sunway REIT, and finalisation of accounts for Rihan Heights project in Abu Dhabi.
PBT	192.1	142.4	316.3	>100	65	
PAT	151.7	110.0	260.5	>100	72	
PATAMI	141.6	94.3	219.3	>100	55	Higher MI charge as development profits are largely from subsidiaries.
EI	(40.9)	0.3	(105.2)	n/a	>100	Derivative gain of RM0.3m, revaluation gain of RM22.4m, SunMed disposal gain of RM75.4m, reversal taxation gain of RM7.1m.
Core Earnings	100.7	94.6	114.1	21	13	Made up 34% of ours and consensus' estimates respectively.
Core EPS (sen)	7.79	7.32	8.83	21	13	
EBIT Margin (%)	22.7%	12.2%	19.5%	59	-14	
Property Development	26.8%	30.0%	22.3%	-26	-17	
Property Investment	53.6%	13.0%	35.4%	>100	-34	
Construction	8.1%	6.9%	-0.7%	n/a	n/a	
Trading/Manufacturing	10.0%	8.1%	8.6%	6	-14	
Quarry	2.4%	6.3%	8.7%	37	>100	
PBT Margin Ex-Assoc (%)	21.0%	10.0%	18.1%	82	-14	

Sunway, HLIB

**Figure #2 Cumulative results comparison**

FYE Dec (RM m)	FY11	FY12	YoY (%)	Comments
Revenue	3,691.7	3,876.8	5	Refer to segmental.
Property Development	913.3	923.2	1	Slower billings for the first 9MFY12.
Property Investment	521.7	590.9	13	Higher contribution from Monash U Residence and Sunway Putra Hotel.
Construction	1,261.5	1,274.9	1	Affected by slower construction activities in 1Q and 3Q.
Trading/Manufacturing	553.2	558.7	1	Held steady despite challenging economic conditions.
Quarry	184.5	196.9	7	Lifted by higher selling prices since 2HFY12.
EBIT	374.1	504.2	35	Refer to segmental.
Property Development	128.6	187.6	46	Boosted by margin expansion.
Property Investment	158.0	137.6	-13	Hit by refurbishment costs and provisions for doubtful debts in 3Q.
Construction	52.0	40.9	-21	Due to losses incurred in 4Q.
Trading/Manufacturing	50.3	47.2	-6	
Quarry	8.4	12.2	45	Boosted by margin expansion.
Net Interest Expense	(53.4)	(77.5)	45	Net debt climbed to RM1.6bn from RM1.5bn in FY11. However, net gearing ratio dipped from 49% to 45%.
Share of Associates/JCE	185.6	301.2	62	Stronger contribution from Singapore developments and construction division. The latter suffered losses impairment in Sunway Global, China, in FY11.
PBT	498.5	728.2	46	
PAT	429.0	599.7	40	
PATAMI	387.6	532.3	37	
EI	(60.4)	(181.8)	>100	Derivative gain of RM0.4m, fair value gain of RM76.5m on Sunway REIT, revaluation gain of RM22.4m, SunMed disposal gain of RM75.4m, reversal taxation gain of RM7.1m.
Core Earnings	327.1	350.6	7	YoY and QoQ earnings growth in every quarter. Made up 104% of ours and consensus' estimates.
Core EPS (sen)	25.31	27.12	7	
EBIT Margin (%)	10.1%	13.0%	28	
Property Development	14.1%	20.3%	44	
Property Investment	30.3%	23.3%	-23	
Construction	4.1%	3.2%	-22	
Trading/Manufacturing	9.1%	8.5%	-7	
Quarry	4.5%	6.2%	36	
PBT Margin Ex-Assoc (%)	8.5%	11.0%	30	

Sunway, HLIB

**Figure #3 Construction order book as of 4QFY12**

Projects	(RM m)
MRT Package V4	1,147
LRT KJ Extension Package B	369
Pinewood Studios	198
BioXcell – CUF	27
UiTM campus expansion	99
Precinct 1, Hotel & Office, Putrajaya	10
Putrajaya GDC plant	3
Others	308
Singapore precast	238
<b>Total</b>	<b>2,399</b>

Sunway, HLIB

**Figure #4 Effective unbilled property sales as of 4QFY12**

Developments	(RM m)
Singapore	1,292
Sunway Damansara	182
Sunway South Quay	275
Velocity	250
China	6
Melawati	181
Suria	73
Penang	32
Others	125
<b>Total</b>	<b>2,416</b>

Sunway, HLIB

**Figure #5 Sunway SOP valuation**

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	14X Average of FY13-14 Earnings	100%	548	0.35	10
Property	NPV of profits + Shareholders Fund	100%	4,761	3.07	91
Trading/Manufacturing	9X P/E	100%	335	0.22	6
Quarry	9X P/E	100%	70	0.04	1
		Sub-Total (RM m)	5,714		
		No. of shares (m)	1,293		
		RM per share	4.42		
		Proceeds from warrants (RM m)	724	0.47	14
		Estimated Holding Company Net Debt	(1,200)	(0.77)	(23)
		SOP (RM m)	5,238		100
		Total no. of diluted shares (m)	1,551		
		<b>Target Price (RM)</b>	<b>3.38</b>		

HLIB

**Figure #6 HLIB vs Consensus**

FYE Dec (RM m)	FY13E			FY14E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	3,957.1	4,010.3	-1%	4,491.0	4,463.5	1%
PATAMI	363.5	371.0	-2%	422.7	412.6	2%

Bloomberg, HLIB

## Financial Projections for Sunway (TP: RM3.38)

### Income Statement

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
<b>Revenue</b>	<b>3,102.1</b>	<b>3,691.7</b>	<b>3,876.8</b>	<b>3,957.1</b>	<b>4,491.0</b>
EBITDA	670.2	457.0	594.5	503.5	592.0
D&A	(79.7)	(90.7)	(89.9)	(95.0)	(112.4)
<b>EBIT</b>	<b>590.5</b>	<b>366.3</b>	<b>504.5</b>	<b>408.5</b>	<b>479.7</b>
Interest Income	27.3	27.5	27.1	21.4	8.7
Finance Costs	(101.1)	(80.9)	(104.6)	(109.2)	(98.5)
Associates/JCE	199.3	185.6	301.2	153.0	159.1
<b>Profit Before Tax</b>	<b>715.9</b>	<b>498.5</b>	<b>728.2</b>	<b>473.7</b>	<b>549.0</b>
Tax	277.7	(86.1)	(128.5)	(80.0)	(96.7)
<b>Net Profit</b>	<b>993.7</b>	<b>412.4</b>	<b>599.7</b>	<b>393.7</b>	<b>452.3</b>
Minority Interests	(309.2)	(40.4)	(67.4)	(30.1)	(29.6)
<b>PATAMI</b>	<b>684.4</b>	<b>372.1</b>	<b>532.3</b>	<b>363.5</b>	<b>422.7</b>
Exceptionals	392.4	44.1	181.8	-	-
<b>Core Earnings</b>	<b>292.0</b>	<b>328.0</b>	<b>350.6</b>	<b>363.5</b>	<b>422.7</b>
Basic Shares (m)	1,292.5	1,292.5	1,292.5	1,292.5	1,292.5
Core EPS (sen)	22.6	25.4	27.1	28.1	32.7
FD Core EPS (sen)	18.8	21.1	22.6	23.4	27.3

### Quarterly Financial Summary

FYE 31 Dec (RM m)	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4
Revenue	921.4	814.8	996.1	867.0	1,198.9
Expenses	(846.1)	(770.5)	(917.8)	(786.0)	(1,109.8)
Other Income	133.4	16.1	25.9	25.1	144.4
EBIT	208.8	60.4	104.2	106.1	233.5
Derivatives	0.5	0.2	0.2	(0.3)	0.3
Net Interest Expense	(15.7)	(18.6)	(22.8)	(19.4)	(16.7)
Associates & JCE	(1.5)	42.9	111.6	56.1	99.3
Profit Before Tax	192.1	84.9	193.1	142.4	316.3
Tax	(40.3)	(18.5)	(30.3)	(32.4)	(55.8)
Net Profit	151.7	66.4	162.8	110.0	260.5
Minority Interests	(10.1)	(2.0)	(8.5)	(15.7)	(41.2)
<b>PATAMI</b>	<b>141.6</b>	<b>64.4</b>	<b>154.3</b>	<b>94.3</b>	<b>219.3</b>
Exceptionals	(40.9)	(0.2)	(76.7)	0.3	(105.2)
<b>Core Earnings</b>	<b>100.7</b>	<b>64.2</b>	<b>77.7</b>	<b>94.6</b>	<b>114.1</b>
Core EPS (sen)	7.79	4.97	6.01	7.32	8.83
FD Core EPS (sen)	7.79	4.97	6.01	7.32	8.83
W. Ave. Shares (m)	1,292.5	1,292.5	1,292.5	1,292.5	1,292.5

### Balance Sheet

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Cash	868.5	776.7	1,140.2	283.3	299.7
Trade Receivables	741.5	789.4	1,404.0	975.7	1,107.4
Inventories	301.5	451.8	626.0	596.3	676.7
Development Costs	621.3	669.3	600.2	787.8	994.0
Associates/JCE	1,241.8	1,281.2	1,553.2	1,630.8	1,694.7
PPE	2,197.4	2,875.6	3,007.6	3,212.7	3,400.3
Goodwill	329.2	326.5	318.7	318.7	318.7
Others	679.2	673.1	94.9	94.9	94.9
<b>Total Assets</b>	<b>6,980.5</b>	<b>7,843.6</b>	<b>8,744.9</b>	<b>7,900.2</b>	<b>8,586.5</b>
Trade Payables	826.2	1,039.5	1,605.1	1,084.1	1,230.4
Total Debt	1,405.8	2,253.7	2,746.9	2,107.1	2,272.3
Others	849.9	1,238.6	524.5	524.5	524.5
<b>Total Liabilities</b>	<b>3,081.9</b>	<b>4,531.8</b>	<b>4,876.4</b>	<b>3,715.7</b>	<b>4,027.2</b>
Shareholders' Funds	3,517.9	2,985.4	3,558.4	3,844.4	4,189.6
Minority Interests	380.7	326.4	310.0	340.2	369.8
<b>Total Capital</b>	<b>3,898.6</b>	<b>3,311.8</b>	<b>3,868.4</b>	<b>4,184.6</b>	<b>4,559.3</b>

### Rates and Ratios

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Core PER (x)	11.0	9.8	9.2	8.9	7.6
FD Core PER (x)	13.2	11.8	11.0	10.6	9.1
Net DPS (sen)	-	-	6.0	6.0	6.0
Net DY (%)	-	-	2.4	2.4	2.4
BVPS (RM)	2.7	2.3	2.8	3.0	3.2
P/B (x)	0.9	1.1	0.9	0.8	0.8
NTA/Share (RM)	2.5	2.1	2.5	2.7	3.0
EBITDA Margin (%)	21.6	12.4	15.3	12.7	13.2
EBIT Margin (%)	19.0	9.9	13.0	10.3	10.7
PBT Margin (%)	29.5	18.5	26.6	15.8	15.8
PATAMI Margin (%)	9.4	8.9	9.0	9.2	9.4
ROE (%)	8.3	10.1	10.7	9.8	10.5
ROA (%)	4.2	4.4	4.2	4.4	5.1
Net Gearing (%)	15.3	45.4	49.1	49.3	49.1

### Cashflow Analysis

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
EBITDA	670.2	457.0	594.5	503.5	592.0
Working Capital	492.0	(52.9)	(154.1)	(250.5)	(272.0)
Interest Received	27.3	27.5	27.1	21.4	8.7
Dividends fr Assoc	70.7	153.9	151.8	75.4	95.2
Others	(792.6)	(186.5)	(233.2)	(80.0)	(96.7)
<b>CFO</b>	<b>467.4</b>	<b>399.0</b>	<b>386.1</b>	<b>269.7</b>	<b>327.3</b>
Capex	(121.4)	(142.2)	(465.5)	(300.0)	(300.0)
Purchase/Disposal	3,322.4	(71.2)	317.4	-	-
Others	(1,203.9)	(79.6)	(209.7)	-	-
<b>CFI</b>	<b>1,997.0</b>	<b>(293.0)</b>	<b>(357.7)</b>	<b>(300.0)</b>	<b>(300.0)</b>
Financing	46.9	847.9	493.2	(639.8)	165.2
Shares Issued	(128.0)	(42.5)	-	-	-
Dividends	(1,958.3)	(944.2)	-	(77.6)	(77.6)
Interest Paid	(101.1)	(80.9)	(104.6)	(109.2)	(98.5)
Others	(92.7)	23.5	(141.7)	-	-
<b>CFF</b>	<b>(2,233.2)</b>	<b>(196.3)</b>	<b>246.9</b>	<b>(826.6)</b>	<b>(10.9)</b>
<b>Net Cashflow</b>	<b>231.3</b>	<b>(90.2)</b>	<b>275.2</b>	<b>(856.9)</b>	<b>16.4</b>

### Assumption Metrics

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
<b>Revenue</b>	<b>3,102</b>	<b>3,692</b>	<b>3,877</b>	<b>3,957</b>	<b>4,491</b>
Property	623	916	923	959	1,209
Property Investment	547	518	591	609	627
Construction	1,005	1,221	1,275	1,255	1,463
Trading/Manufacture	482	553	559	587	616
Quarry	179	184	197	207	217
	267	300	332	341	358
EBIT Margins (%)	19.0	9.9	13.0	10.3	10.7

## Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 01 March 2013, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 01 March 2013, the analyst, Jarod Soon Sien Ming, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & Printed by  
**Hong Leong Investment Bank Berhad (10209-W)**  
 (Formerly known as MIMB Investment Bank Berhad)  
 Level 8, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage and report is intended purely for informational purposes.

## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.