

Sunway (BUY ↔, EPS ↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

12 March 2013

Price Target: RM3.38 (↔)

Share price: RM2.76

Bagging the BRT project

News

- Sunway has finalised the public-private partnership project with Prasarana for the Bus Rapid Transit (BRT) – Sunway Line (see Figure #1) for **RM452.5m**. The project involves the design and construction of dedicated elevated bus lanes and related facilities. The Sunway Line spans 5.4km, linking up Bandar Sunway and Subang Jaya with 7 stations as well as connection to the LRT and KTM Komuter.
- Sunway will additionally and separately contribute works estimated to cost **RM99m** as part of its corporate social responsibility initiatives. The project is expected to be completed within **24 months**.

Comments

- **Sizable win...** This project was officially approved last year in June, and we are glad that it has finally taken off. The project is a sizable one, representing 35% of FY12's construction revenue and 19% of its previous external outstanding order book of RM2.4bn.
- Hence, the latest project win will lift its order book to RM2.9bn (see Figure #2), translating to 2.3x FY12's construction revenue.
- **1.8 sen/share...** Assuming a net margin of 5%, this project translates to ~1.8 sen/share (FD: ~1.5 sen/share) for Sunway.
- **In line cost...** The cost per km for the BRT line works out to RM102m, which we believe is within estimates for elevated roads in urban area. Moreover, given Sunway's strong presence and familiarity with the area, execution risks should be minimal.
- **CSR...** On Sunway's end, the RM99m contribution will be capitalised and charged out over the 7-10 years development period of Sunway South Quay. With a land bank of ~52 acres and assuming a plot ratio of 3x, this will work out to an additional infrastructure cost of RM15/sq ft. We are positive on this initiative as it will enhance South Quay's future GDV.

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

- Unchanged as the order is already part of our annual order book replenishment assumption of RM1.5bn for FY13.

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

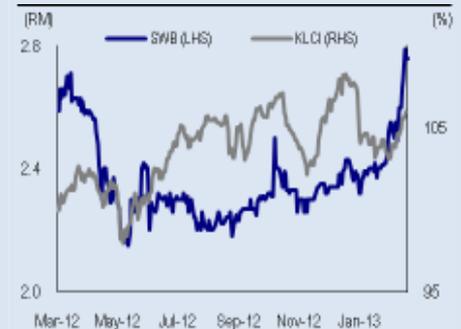
- TP maintained at **RM3.38** based on SOP valuation (see Figure #4).

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KLCI	1,658.0
Expected share price return	22.5%
Expected dividend return	2.2%
Expected total return	24.6%

Share price



Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,293
Market cap (RM m)	3,567
3-mth avg. volume ('000)	931

Price Performance

	1M	3M	12M
Absolute	15.0	17.4	6.2
Relative	12.6	16.9	0.2

Major shareholders

Tan Sri Jeffrey	45.0%
GIC	12.5%
Free Float	51.7%

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 (%)	-	2.2	2.2	2.2
P/E (x)	10.9	10.2	9.8	8.4
FD P/E (x)	13.1	12.2	11.8	10.1
P/B (x)	1.2	1.0	0.9	0.9
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 BRT – Sunway Line



Prasarana

Figure #2 Outstanding external construction order book

Projects	(RM m)
MRT Package V4	1,137
LRT KJ Extension Package B	355
Pinewood Studios	182
BioXcell – CUF	25
Legoland Water Park	45
UiTM campus expansion	89
Precinct 1, Hotel & Office, Putrajaya	6
Others	358
Singapore precast	219
BRT – Sunway Line	452
Total	2,868

Sunway, HLIB

Figure #3 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
Total	2,416

Sunway, HLIB

Figure #4 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		
		Target Price (RM)	3.38		

HLIB

Figure #5 HLIB vs Consensus

FYE Dec (RM m)	FY13E			FY14E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	3,957.1	4,066.7	-3%	4,491.0	4,474.5	0%
PATAMI	363.5	376.8	-4%	422.7	424.8	0%

Bloomberg, HLIB

Financial Projections for Sunway (TP: RM3.38)

Income Statement

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue	3,102.1	3,691.7	3,876.8	3,957.1	4,491.0
EBITDA	670.2	457.0	594.5	503.5	592.0
D&A	(79.7)	(90.7)	(89.9)	(95.0)	(112.4)
EBIT	590.5	366.3	504.5	408.5	479.7
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
Profit Before Tax	715.9	498.5	728.2	473.7	549.0
Tax	277.7	(86.1)	(128.5)	(80.0)	(96.7)
Net Profit	993.7	412.4	599.7	393.7	452.3
Minority Interests	(309.2)	(40.4)	(67.4)	(30.1)	(29.6)
PATAMI	684.4	372.1	532.3	363.5	422.7
Exceptionals	392.4	44.1	181.8	-	-
Core Earnings	292.0	328.0	350.6	363.5	422.7
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)
PATAMI	141.6	64.4	154.3	94.3	219.3
Exceptionals	(40.9)	(0.2)	(76.7)	0.3	(105.2)
Core Earnings	100.7	64.2	77.7	94.6	114.1
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
Total Assets	6,980.5	7,843.6	8,744.9	7,900.2	8,586.5
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
Total Liabilities	3,081.9	4,531.8	4,876.4	3,715.7	4,027.2
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
Total Capital	3,898.6	3,311.8	3,868.4	4,184.6	4,559.3

Rates and Ratios

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Core PER (x)	12.2	10.9	10.2	9.8	8.4
FD Core PER (x)	14.7	13.1	12.2	11.8	10.1
Net DPS (sen)	-	-	6.0	6.0	6.0
Net DY (%)	-	-	2.2	2.2	2.2
BVPS (RM)	2.7	2.3	2.8	3.0	3.2
P/B (x)	1.0	1.2	1.0	0.9	0.9
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)
CFO	467.4	399.0	386.1	269.7	327.3
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)	-	-
CFI	1,997.0	(293.0)	(357.7)	(300.0)	(300.0)
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)	-	-
CFF	(2,233.2)	(196.3)	246.9	(826.6)	(10.9)
Net Cashflow	231.3	(90.2)	275.2	(856.9)	16.4

Assumption Metrics

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue	3,102	3,692	3,877	3,957	4,491
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

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