

Sunway (HOLD ↓, EPS ↑)

INDUSTRY: OVERWEIGHT

EARNINGS EVALUATION

31 May 2013

Price Target: RM3.65 (↑)

Ex-Rights Price Target: RM3.17 (↑)

Share price: RM3.88 (Ex: RM3.34)

1Q results: Sunny start

Results	<ul style="list-style-type: none"> 1QFY13 core earnings (adjusted for RM0.3m derivative gain) surged by 41% to RM90.3m (6.99 sen/share), making up 25% and 24% of ours and consensus estimates respectively.
Deviations	<ul style="list-style-type: none"> As 1Q results tend to make up 17-18% of full year earnings, we consider the results to be above expectations. The upside surprise was mainly due to stronger construction and quarry margin.
Dividends	<ul style="list-style-type: none"> None. Usually declared in 4Q.
Comments	<ul style="list-style-type: none"> Results review... YoY, revenue climbed by 25% to RM1bn, due to increased activities in its construction, property development and quarry division. On the other hand, trading division saw its revenue contract by 12% to RM130m due to challenging economic conditions in Australia and Indonesia. Core earnings expanded by a faster pace of 41% due to better margins posted in the construction and quarry division which posted EBIT margins of 6.4% and 10.8% (vs 2.8% and 2.5% respectively) respectively. QoQ, due to seasonal weakness, revenue and core earnings fell by 15% and 21% respectively. Property... For FY13, management has targeted to achieve RM1.1bn in effective new property sales from scheduled launches (see Figure #2). During the quarter, Sunway has already achieved effective new sales of RM203m, making up 18% of FY13's target. Its unbilled property sales stood at RM1.9bn (see Figure #3), translating to 2.1x FY12's property revenue. Construction... Secure RM1bn worth of orders, making up 68% of our annual order book replenishment assumption of RM1.5bn for FY13. External outstanding order book stood at RM3.4bn (see Figure #4), translating to 2.7x FY12's construction revenue.
Risks	<ul style="list-style-type: none"> Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.
Forecasts	<ul style="list-style-type: none"> FY13-14 earnings raised by 5.1% and 5.5% respectively.
Rating	<p>HOLD (↓)</p> <ul style="list-style-type: none"> We continue to like Sunway for its integrated property cum construction business model and we are beginning to see the synergistic effect taking place. The company has strategic land banks in Malaysia coupled with healthy unbilled sales and order book to provide earnings visibility over the next 2 years. However, in view that its share price has exceeded our upwards revised TP, we downgrade Sunway to a HOLD call.
Valuation	<ul style="list-style-type: none"> TP raised by 8% to RM3.65 based on SOP valuation (see Figure #6) while our TERP TP works out to RM3.17 (see Figure #7). We have not included Iskandar potential in our valuation as contribution towards earnings will only be material from FY15 onwards. Our implied P/E for Sunway's property division already works out to ~20 P/E.

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

KLCI	1,774.9
Expected share price return	-5.9%
Expected dividend return	1.5%
Expected total return	-4.4%

Share price



Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,293
Market cap (RM m)	5,015
3-mth avg. volume ('000)	1,633

Price Performance	1M	3M	12M
Absolute	33.8	55.8	71.7
Relative	29.5	43.8	52.4

Major shareholders

Tan Sri Jeffrey	45.0%
GIC	12.5%
Free Float	32.8%

Summary Earnings Table

FYE Dec (RM m)	2011A	2012A	2013E	2014E
Revenue	3,692	3,877	3,957	4,491
EBITDA	457	594	528	622
EBIT	366	505	433	509
Profit Before Tax	499	728	498	580
PATAMI	372	532	382	446
Core PATAMI	328	351	382	446
Core EPS (sen)	25.4	27.1	29.6	34.5
FD EPS (sen)	21.1	22.6	24.6	28.7
Net DPS (sen)	-	6.0	6.0	6.0
Net DY (%)	-	1.5	1.5	1.5
P/E (x)	15.3	14.3	13.1	11.2
FD P/E (x)	18.3	17.2	15.7	13.5
P/B (x)	1.7	1.4	1.3	1.2
Net Gearing (%)	45.4	49.1	48.7	47.7
ROE (%)	10.1	10.7	10.3	11.0
ROA (%)	4.4	4.2	4.6	5.4

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY12	4QFY12	1QFY13	QoQ (%)	YoY (%)	Comments
Revenue	814.8	1,198.9	1,021.0	-15	25	Made up 26% and 25% of ours and consensus' estimates respectively. Refer to segmental.
Property Development	160.1	397.9	202.7	-49	27	Achieved effective new sales of RM202m in 1Q. Backed by effective unbilled sales of RM1.9bn. YoY: Billings from Sunway South Quay, Sunway Damansara, Sunway Velocity and Sunway Montana. QoQ: Seasonally weak quarter.
Property Investment	130.5	168.5	133.5	-21	2	QoQ: Seasonally weak quarter due to its theme parks and hotel.
Construction	259.0	360.3	429.4	19	66	YoY/QoQ: Driven by Pinewood, LRT and MRT projects. Backed by external outstanding construction order book of RM3.4bn.
Trading/Manufacturing	147.7	122.7	129.6	6	-12	YoY/QoQ: Affected by challenging economic conditions, namely in Australia and Indonesia.
Quarry	37.4	57.2	44.3	-22	19	YoY: Due to higher volume and selling prices.
EBIT	60.4	233.5	86.1	-63	42	Refer to segmental.
Property Development	18.1	88.7	25.5	-71	41	YoY: Due to increase in revenue and EBIT margin.
Property Investment	21.2	59.6	22.1	-63	5	QoQ: Due to RM22.4m revaluation gain on investment properties in 4QFY12. YoY: Due to increase in revenue and EBIT margin.
Construction	7.4	(2.4)	27.3	n/a	>100	QoQ: Hit by provisions on refundable operational taxes in India in 4QFY12. YoY: Due to increase in revenue and EBIT margin.
Trading/Manufacturing	12.4	10.5	9.0	-14	-27	YoY/QoQ: Due to decline in EBIT margin.
Quarry	0.9	5.0	4.8	-4	>100	YoY: Due to increase in revenue and EBIT margin.
Net Interest Expense	(18.6)	(16.7)	(11.7)	-30	-37	Net debt inched up to RM1.7bn from RM1.6bn in 4QFY12. Hence, net gearing ratio increased to 47% from 45%.
Share of Associates/JCE	42.9	99.3	47.9	-52	12	YoY: Strong contribution from Singapore developments and Sunway REIT. QoQ: Due to finalisation of accounts for Rihan Heights project in Abu Dhabi in 4QFY12.
PBT	84.9	316.3	122.5	-61	44	
PAT	66.4	260.5	96.2	-63	45	Effective tax rate of 35.3%.
PATAMI	64.4	219.3	90.6	-59	41	
EI	(0.2)	(105.2)	(0.3)	-100	3	Derivative gain of RM0.3m.
Core Earnings	64.2	114.1	90.3	-21	41	Made up 25% and 24% of ours and consensus' estimates respectively.
Core EPS (sen)	4.97	8.83	6.99	-21	41	
EBIT Margin (%)	7.4%	19.5%	8.4%	-57	14	
Property Development	11.3%	22.3%	12.6%	-44	11	Still low due to infrastructure costs incurred for new developments.
Property Investment	16.2%	35.4%	16.6%	-53	2	
Construction	2.8%	-0.7%	6.4%	n/a	>100	Expected to sustain between 5-7%.
Trading/Manufacturing	8.4%	8.6%	7.0%	-19	-17	
Quarry	2.5%	8.7%	10.8%	24	>100	Due to higher selling prices.
PBT Margin Ex-Assoc (%)	5.2%	18.1%	7.3%	-60	42	

Sunway, HLIB

Figure #2 Property launches for FY13

Launches	Stake (%)	GDV (RM m)	Effective GDV (RM m)
Sunway Geo	60%	200	120
Sunway Geo Commercial Ph 2	60%	250	150
Velocity Apartments	59%	200	118
Sunway Lenang Heights	80%	200	160
Novena	30%	400	400
Others	100%	200	200
Total		1,450	1,148

HLIB, Sunway

Figure #3 Effective unbilled property sales as of 1QFY13

Developments	(RM m)
Singapore	767
Sunway Damansara	172
Sunway South Quay	272
Velocity	243
China	6
Melawati	185
Suria	83
Penang	30
Others	154
Total	1,912

Sunway, HLIB

Figure #4 External outstanding construction order book as of 1QFY13

Projects	(RM m)
MRT Package V4	1,117
LRT KJ Extension Package B	336
BRT – Sunway Line	452
Pinewood Studios	122
BioXcell – CUF	24
Legoland Water Park	41
UiTM campus expansion	57
Precinct 1, Hotel & Office, Putrajaya	6
KLCC Park basement carpark	304
KLCC Package 2 substructure	222
Others	268
Singapore precast	466
Total	3,415

*shaded in grey denotes jobs won in 2013

Sunway, HLIB

Figure #5 HLIB vs Consensus

FYE Dec (RM m)	FY13E			FY14E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	3,957.1	4,107.0	-4%	4,491.0	4,479.9	0%
PATAMI	382.2	381.0	0%	445.9	431.6	3%

Bloomberg, HLIB

Figure #6 Sunway SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	15X Average of FY13-14 Earnings	100%	917	0.59	16
Property	NPV of profits + Shareholders Fund	100%	4,761	3.07	84
Trading/Manufacturing	9X P/E	100%	277	0.18	5
Quarry	15X P/E	100%	186	0.12	3
		Sub-Total (RM m)	6,142		
		No. of shares (m)	1,293		
		RM per share	4.75		
		Proceeds from warrants (RM m)	724	0.47	13
		Estimated Holding Company Net Debt	(1,200)	(0.77)	(21)
		SOP (RM m)	5,666		100
		Total no. of diluted shares (m)	1,551		
		Target Price (RM)	3.65		

HLIB

Figure #7 Sunway Ex-Rights SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	15X Average of FY13-14 Earnings	100%	917	0.46	14
Property	NPV of profits + Shareholders Fund	100%	4,761	2.36	74
Trading/Manufacturing	9X P/E	100%	277	0.14	4
Quarry	15X P/E	100%	186	0.09	3
		Sub-Total (RM m)	6,142		
		No. of shares (m)	1,293		
		RM per share	4.75		
		Proceeds from warrants (RM m)	725	0.36	11
		Estimated Holding Company Net Debt	(1,200)	(0.60)	(19)
		SOP (RM m)	5,667		
		Total no. of diluted shares (m)	1,585		
		RM per share	3.58		
		Cash raised from rights issue (RM m)	732	0.36	11
		SOP including rights (RM m)	6,399		
		Total no. of shares including rights (m)	2,016		
		Target Price Ex-Rights (RM)	3.17		

HLIB

Financial Projections for Sunway (HOLD; TP: RM3.65, Ex TP: RM3.17)

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	527.7	621.7
D&A	(79.7)	(90.7)	(89.9)	(95.0)	(112.4)
EBIT	590.5	366.3	504.5	432.8	509.3
Interest Income	27.3	27.5	27.1	21.6	9.6
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	498.2	579.5
Tax	277.7	(86.1)	(128.5)	(86.1)	(104.3)
Net Profit	993.7	412.4	599.7	412.1	475.2
Minority Interests	(309.2)	(40.4)	(67.4)	(29.9)	(29.3)
PATAMI	684.4	372.1	532.3	382.2	445.9
Exceptionals	392.4	44.1	181.8	-	-
Core Earnings	292.0	328.0	350.6	382.2	445.9
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	29.6	34.5
FD Core EPS (sen)	18.8	21.1	22.6	24.6	28.7

Quarterly Financial Summary

FYE 31 Dec (RM m)	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1
Revenue	814.8	996.1	867.0	1,198.9	1,021.0
Expenses	(770.5)	(917.8)	(786.0)	(1,109.8)	(946.8)
Other Income	16.1	25.9	25.1	144.4	11.8
EBIT	60.4	104.2	106.1	233.5	86.1
Derivatives	0.2	0.2	(0.3)	0.3	0.3
Net Interest Expense	(18.6)	(22.8)	(19.4)	(16.7)	(11.7)
Associates & JCE	42.9	111.6	56.1	99.3	47.9
Profit Before Tax	84.9	193.1	142.4	316.3	122.5
Tax	(18.5)	(30.3)	(32.4)	(55.8)	(26.3)
Net Profit	66.4	162.8	110.0	260.5	96.2
Minority Interests	(2.0)	(8.5)	(15.7)	(41.2)	(5.6)
PATAMI	64.4	154.3	94.3	219.3	90.6
Exceptionals	(0.2)	(76.7)	0.3	(105.2)	(0.3)
Core Earnings	64.2	77.7	94.6	114.1	90.3
Core EPS (sen)	4.97	6.01	7.32	8.83	6.99
FD Core EPS (sen)	4.97	6.01	7.32	8.83	6.99
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	301.7	341.0
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	7,918.6	8,627.8
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	3,863.0	4,231.4
Minority Interests	380.7	326.4	310.0	339.9	369.3
Total Capital	3,898.6	3,311.8	3,868.4	4,203.0	4,600.6

Rates and Ratios

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Core PER (x)	17.2	15.3	14.3	13.1	11.2
FD Core PER (x)	20.6	18.3	17.2	15.7	13.5
Net DPS (sen)	-	-	6.0	6.0	6.0
Net DY (%)	-	-	1.5	1.5	1.5
BVPS (RM)	2.7	2.3	2.8	3.0	3.3
P/B (x)	1.4	1.7	1.4	1.3	1.2
NTA/Share (RM)	2.5	2.1	2.5	2.7	3.0
EBITDA Margin (%)	21.6	12.4	15.3	13.3	13.8
EBIT Margin (%)	19.0	9.9	13.0	10.9	11.3
PBT Margin (%)	29.5	18.5	26.6	16.5	16.4
PATAMI Margin (%)	9.4	8.9	9.0	9.7	9.9
ROE (%)	8.3	10.1	10.7	10.3	11.0
ROA (%)	4.2	4.4	4.2	4.6	5.4
Net Gearing (%)	15.3	45.4	49.1	48.7	47.7

Cashflow Analysis

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
EBITDA	670.2	457.0	594.5	527.7	621.7
Working Capital	492.0	(52.9)	(154.1)	(250.5)	(272.0)
Interest Received	27.3	27.5	27.1	21.6	9.6
Dividends fr Assoc	70.7	153.9	151.8	75.4	95.2
Others	(792.6)	(186.5)	(233.2)	(86.1)	(104.3)
CFO	467.4	399.0	386.1	288.1	350.2
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	(838.5)	39.3

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	10.9	11.3

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 31 May 2013, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 31 May 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

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

Industry rating definitions

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