

Sunway (BUY ↔; EPS ↔)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

2 December 2013

Price Target: RM3.35 (↔)

Share price: RM2.65

3Q results: Stability with backlog orders

Results	<ul style="list-style-type: none"> 9MFY13 core PATAMI (after EI adjustments of +RM28.6m) jumped by 38% to RM325.5m (23.3sen/share), beating estimates by making up 83% and 82% of ours and consensus estimates respectively.
Deviations	<ul style="list-style-type: none"> Due to stronger than expected performance in nearly all divisions.
Dividends	<ul style="list-style-type: none"> None. Dividends to be declared in 2Q and 4Q.
Highlights	<ul style="list-style-type: none"> 9M results... Revenue grew by 20% to RM3.2bn, lifted by strong progress in nearly all divisions except Property Investments. Its huge backlog orders in the property and construction division drove revenue up by 43% and 29% to RM749.9m and RM1.2bn respectively, with property and construction EBIT up by 33% and 35% to RM131.9m and RM58.4m respectively. Contributions from Singapore projects (reported under JCE) also boosted overall earnings growth. The only weakness was the Property Investment and Trading/Manufacturing division which posted slight decline in earnings. Overall, core PATAMI grew by 38% to RM325.5m. Quarter review... 3Q revenue climbed by 23% YoY but dipped by 5% QoQ to RM1.1bn. Meanwhile, core PATAMI grew by 32%/12% YoY/QoQ to RM124.4m. Earnings growth was driven mainly by the property division. Property... Achieved effective new property sales of RM344m in 3Q (2Q: RM288m, 1Q: RM203m), hence bring YTD sales of RM835m, making up 76% of its RM1.1bn FY13 new sales target. 3Q sales were largely driven by South Quay launches. Singapore Novena (Effective GDV: RM555m) launched in October has achieved a take-up rate of 45%. Hence, Sunway is on track to exceed its new sales target again. Its unbilled property sales stood at RM1.8bn (see Figure #3), translating to 1.9x FY12's property revenue. Construction... Secured RM1.5bn worth of external construction orders, meeting our annual order book replenishment assumption for FY13. External outstanding order book stood at RM3.0bn (see Figure #4), translating to 2.4x 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"> Prefer to remain conservative by keeping our forecasts unchanged.
Rating	BUY (↔) <ul style="list-style-type: none"> Despite the potential headwinds from property tightening measures and slower contract flows, its recapitalised balance sheet and large order book will be able to sustain earnings growth. Hence, we maintain our BUY call on Sunway.
Valuation	<ul style="list-style-type: none"> TP maintained at RM3.35 based on SOP valuation (see Figure #5).

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KLCI	1,812.7
Expected share price return	26.4%
Expected dividend return	3.8%
Expected total return	30.2%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,724
Market cap (RM m)	4,567
3-mth avg. volume ('000)	1,014

Price Performance	1M	3M	12M
Absolute	-5.7	-6.4	32.6
Relative	-5.8	-11.3	17.9

Major shareholders

Tan Sri Jeffrey Cheah	46.4%
Cheah Yean Tih	13.5%
GIC	8.7%
Free Float	24.4%

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	509	601
PATAMI	372	532	390	463
Core PATAMI	328	351	390	463
Core EPS (sen)	25.4	27.1	22.7	26.8
FD EPS (sen)	21.1	22.6	19.4	23.0
Net DPS (sen)	-	6.0	10.0	11.0
Net DY (%)	-	2.3	3.8	4.2
P/E (x)	10.4	9.8	11.7	9.9
FD P/E (x)	12.5	11.7	13.7	11.5
P/B (x)	1.1	1.0	1.0	0.9
Net Gearing (%)	45.4	49.1	26.1	26.7
ROE (%)	10.1	10.7	9.6	9.7
ROA (%)	4.4	4.2	4.5	5.2

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	3QFY12	2QFY13	3QFY13	QoQ (%)	YoY (%)	Comments
Revenue	867.0	1,118.0	1,066.1	-5	23	Made up 27% and 25% of ours and consensus' estimates respectively. Refer to segmental.
Property Development	176.6	286.9	260.3	-9	47	YoY: Driven by billings from South Quay, Velocity and Nexis. QoQ: Due to high sales of Vivaldi in 2Q. Achieved effective new sales of RM344m in 3Q. Backed by effective unbilled sales of RM1.8bn.
Property Investment	148.2	141.8	137.1	-3	-8	YoY: Due to lower occupancy rate and partially closed Sunway Putra Hotel for refurbishment. QoQ: Due to fasting month.
Construction	267.3	372.8	376.5	1	41	YoY: Driven by MRT project progress billings. Backed by external outstanding construction order book of RM3.0bn.
Trading/Manufacturing	143.3	171.6	151.9	-11	6	YoY: Driven by higher sales in Malaysia which offset less favourable conditions in Australia and Indonesia. QoQ: 2Q was exceptionally strong.
Quarry	53.8	55.8	47.1	-16	-13	YoY/QoQ: Affected by temporary closure of one of the quarries.
EBIT	106.1	116.6	74.9	-36	-29	Refer to segmental.
Property Development	53.0	44.3	62.0	40	17	YoY: Due to increase in revenue. QoQ: Higher despite decline in revenue due to better margin achieved for commercial developments.
Property Investment	19.3	28.6	21.8	-24	13	YoY: Higher despite decline in revenue as 3QFY12 was affected by provisions for doubtful debts. QoQ: Due to decline in revenue.
Construction	18.3	15.7	15.4	-2	-16	YoY: Lower despite increase in revenue as 3QFY12 was lifted by writeback of provisions.
Trading/Manufacturing	11.7	15.6	11.7	-25	0	
Quarry	3.4	6.9	5.2	-24	53	
Net Interest Expense	(19.4)	(12.6)	(6.3)	-50	-68	Net debt reduced to RM1.3bn from RM2.0bn in 2QFY13, due to rights issue. Hence, net gearing ratio improved to 27.7% from 54.1%.
Share of Associates/JCE	56.1	108.6	49.4	-54	-12	YoY: Made up of contributions from Singapore developments and Sunway REIT. QoQ: RM59.7m revaluation gain for Sunway REIT in 2QFY13.
PBT	142.4	212.5	118.2	-44	-17	
PAT	110.0	180.1	101.6	-44	-8	Effective tax rate of 24.1%.
PATAMI	94.3	170.3	93.1	-45	-1	
EI	0.3	(59.6)	31.3	n/a	>100	Derivative gain of RM0.1m, tax consultation professional fee or RM1.6m, deferred taxation provision reversal of RM9.9m and ESOS fair value expenses of RM39.7m.
Core Earnings	94.6	110.7	124.4	12	32	Made up 32% and 31% of ours and consensus' estimates respectively.
Core EPS (sen)	7.32	8.57	7.76	-9	6	YoY/QoQ: Lower due to dilution of rights issue.
EBIT Margin (%)	12%	10%	7%	-33	-43	
Property Development	30%	15%	24%	54	-21	YoY: Lower as 3QFY12 was lifted by finalisation of certain projects.
Property Investment	13%	20%	16%	-21	22	
Construction	7%	4%	4%	-3	-40	
Trading/Manufacturing	8%	9%	8%	-15	-5	
Quarry	6%	12%	11%	-10	75	YoY: Due to higher selling prices.
PBT Margin Ex-Assoc (%)	10%	9%	6%	-31	-35	

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Figure #2 Cumulative results comparison

FYE Dec (RM m)	9MFY12	9MFY13	YoY (%)	Comments
Revenue	2,677.8	3,205.2	20	Made up 81% and 74% of ours and consensus' estimates respectively. Refer to segmental.
Property Development	525.4	749.9	43	Driven by billings from South Quay, Velocity and Nexis. Achieved effective new sales of RM835m in 9MFY13. Backed by effective unbilled sales of RM1.8bn.
Property Investment	422.4	412.4	-2	Due to partially closed Sunway Putra Hotel for refurbishment.
Construction	914.6	1,178.7	29	Lifted by accelerating project progress. Backed by external outstanding construction order book of RM3.0bn.
Trading/Manufacturing	436.0	453.1	4	Driven by higher sales in Malaysia which offset less favourable conditions in Australia and Indonesia.
Quarry	139.7	147.2	5	Stronger sales volume and higher average selling prices.
EBIT	270.7	277.5	3	Refer to segmental.
Property Development	98.9	131.9	33	Due to increase in revenue.
Property Investment	78.0	72.6	-7	Largely in line with decline in revenue.
Construction	43.3	58.4	35	Due to increase in revenue.
Trading/Manufacturing	36.7	36.3	-1	Lower despite increase in revenue due to lower margin.
Quarry	7.2	16.8	>100	Further lifted by better margin.
Net Interest Expense	(60.8)	(30.5)	-50	Net debt reduced to RM1.3bn from RM1.6bn in FY12. Hence, net gearing ratio improved to 27.7% from 45.2%.
Share of Associates/JCE	210.5	205.9	-2	Stronger contribution from Singapore developments after adjusting for Sunway REIT revaluation gain.
PBT	420.5	453.2	8	
PAT	339.2	377.8	11	Effective tax rate of 30.5%.
PATAMI	313.1	354.0	13	
EI	(76.6)	(28.6)	-63	Derivative gain of RM0.3m, Sunway REIT revaluation gain of RM59.7m, tax consultation professional fee or RM1.6m, deferred taxation provision reversal of RM9.9m and ESOS fair value expenses of RM39.7m.
Core Earnings	236.4	325.5	38	Made up 83% and 82% of ours and consensus' estimates respectively.
Core EPS (sen)	18.29	23.29	27	
EBIT Margin (%)	10%	9%	-14	
Property Development	19%	18%	-7	
Property Investment	18%	18%	-5	
Construction	5%	5%	5	
Trading/Manufacturing	8%	8%	-5	
Quarry	5%	11%	>100	Expansion due to higher selling prices.
PBT Margin Ex-Assoc (%)	8%	8%	-2	

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Figure #3 Effective unbilled property sales as of 3QFY13

Developments	(RM m)
Singapore	458
Sunway Damansara	153
Sunway South Quay	410
Sunway Velocity	247
Sunway Melawati	209
Sunway Mas	121
Sunway Suria	74
Penang	72
Others	37
Total	1,781

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Figure #4 External outstanding construction order book as of 3QFY13

Projects	(RM m)
MRT Package V4	868
LRT KJ Extension Package B	268
Pinewood Studios	24
UiTM campus expansion	21
BioXcell – CUF	10
Singapore precast	351
Others	274
Legoland Water Park	3
BRT – Sunway Line	402
KLCC Park basement carpark	296
KLCC Package 2 substructure	222
Urban Wellness	283
Total	3,022

*shaded in grey denotes jobs won in 2013

Sunway, HLIB

Figure #5 Sunway 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%	5,106	2.54	76
Trading/Manufacturing	9X P/E	100%	277	0.14	4
Quarry	15X P/E	100%	186	0.09	3
		Sub-Total (RM m)	6,487		
		No. of shares (m)	1,723		
		RM per share	3.76		
		Proceeds from warrants (RM m)	724	0.36	11
		Estimated Holding Company Net Debt	(461)	(0.23)	(7)
		SOP (RM m)	6,751		100
		Total no. of diluted shares (m)	2,013		
		Target Price (RM)	3.35		

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Figure #6 HLIB vs Consensus

FYE Dec (RM m)	FY13E			FY14E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	3,957.1	4,304.1	-8%	4,491.0	4,870.6	-8%
PATAMI	390.5	399.0	-2%	462.6	456.6	1%

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Financial Projections for Sunway (BUY; TP: RM3.35)

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	32.7	30.7
Finance Costs	(101.1)	(80.9)	(104.6)	(109.2)	(98.5)
Associates/JCE	199.3	185.6	301.2	153.0	160.0
Profit Before Tax	715.9	498.5	728.2	509.3	601.5
Tax	277.7	(86.1)	(128.5)	(88.9)	(109.6)
Net Profit	993.7	412.4	599.7	420.4	491.9
Minority Interests	(309.2)	(40.4)	(67.4)	(29.9)	(29.3)
PATAMI	684.4	372.1	532.3	390.5	462.6
Exceptionals	392.4	44.1	181.8	-	-
Core Earnings	292.0	328.0	350.6	390.5	462.6
Basic Shares (m)	1,292.5	1,292.5	1,292.5	1,723.4	1,723.4
Core EPS (sen)	22.6	25.4	27.1	22.7	26.8
FD Core EPS (sen)	18.8	21.1	22.6	19.4	23.0

Quarterly Financial Summary

FYE 31 Dec (RM m)	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3
Revenue	867.0	1,198.9	1,021.0	1,118.0	1,066.1
Expenses	(786.0)	(1,109.8)	(946.8)	(1,024.4)	(1,001.2)
Other Income	25.1	144.4	11.8	22.9	10.0
EBIT	106.1	233.5	86.1	116.6	74.9
Derivatives	(0.3)	0.3	0.3	(0.1)	0.1
Net Interest Expense	(19.4)	(16.7)	(11.7)	(12.6)	(6.3)
Associates & JCE	56.1	99.3	47.9	108.6	49.4
Profit Before Tax	142.4	316.3	122.5	212.5	118.2
Tax	(32.4)	(55.8)	(26.3)	(32.5)	(16.6)
Net Profit	110.0	260.5	96.2	180.1	101.6
Minority Interests	(15.7)	(41.2)	(5.6)	(9.7)	(8.5)
PATAMI	94.3	219.3	90.6	170.3	93.1
Exceptionals	0.3	(105.2)	(0.3)	(59.6)	31.3
Core Earnings	94.6	114.1	90.3	110.7	124.4
Core EPS (sen)	7.32	8.83	6.99	8.57	7.76
FD Core EPS (sen)	7.32	8.83	6.99	8.26	7.59
W. Ave. Shares (m)	1,292.5	1,292.5	1,292.5	1,292.5	1,604.3

Balance Sheet

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Cash	868.5	776.7	1,140.2	1,042.5	1,002.8
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	1,695.6
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	8,659.4	9,290.5
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	4,603.8	4,894.1
Minority Interests	380.7	326.4	310.0	339.9	369.3
Total Capital	3,898.6	3,311.8	3,868.4	4,943.8	5,263.3

Rates and Ratios

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Core PER (x)	11.7	10.4	9.8	11.7	9.9
FD Core PER (x)	14.1	12.5	11.7	13.7	11.5
Net DPS (sen)	-	-	6.0	10.0	11.0
Net DY (%)	-	-	2.3	3.8	4.2
BVPS (RM)	2.7	2.3	2.8	2.7	2.8
P/B (x)	1.0	1.1	1.0	1.0	0.9
NTA/Share (RM)	2.5	2.1	2.5	2.5	2.7
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	16.7	17.0
PATAMI Margin (%)	9.4	8.9	9.0	9.9	10.3
ROE (%)	8.3	10.1	10.7	9.6	9.7
ROA (%)	4.2	4.4	4.2	4.5	5.2
Net Gearing (%)	15.3	45.4	49.1	26.1	26.7

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	32.7	30.7
Dividends fr Assoc	70.7	153.9	151.8	75.4	95.2
Others	(792.6)	(186.5)	(233.2)	(88.9)	(109.6)
CFO	467.4	399.0	386.1	296.4	366.0
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)	-	732.5	-
Dividends	(1,958.3)	(944.2)	-	(77.6)	(172.3)
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	(94.1)	(105.7)
Net Cashflow	231.3	(90.2)	275.2	(97.7)	(39.7)

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
Others	267	300	332	341	358
EBIT Margins (%)	19.0	9.9	13.0	10.9	11.3

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Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
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