

Sunway (BUY ↔; EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK

18 December 2013

Price Target: RM3.35 (↔)

Share price: RM2.64

Sunshine in Penang
News

- Successfully tendered for 4 parcels of **freehold** land measuring **24.5 acres** (1.07m sq ft), situated along Jalan Paya Terubong, Penang (see Figure #1), for **RM267.4m** (RM251/sq ft). The acquisition is expected to be completed within 3 months.

Highlights

- **About the land...** The land is located within the vibrant center of Penang Island and is surrounded by tourism spots i.e. Kek Lok Si and Penang Hill, and matured townships. It also has good connectivity to the Airport, Penang Bridge and City Center.
- **Proposed development...** The land has a gross plot ratio of 2.4x (Gross Floor Area: 2.56m sq ft), translating to **RM104.5/sq ft/plot ratio**. The development will have an estimated GDV of RM1.5bn comprising of commercial shops, SOHO and residential units. Assuming a setback of 30%, the ASP is RM837/sq ft based on NFA of 1.79m sq ft. We believe that the ASP is on the high side, however if compared to IJM Land's – The Light, it is on par.
- **Slight boost...** With the latest acquisition, it will lift Sunway's landbank in Penang to 145 acres with total Penang GDV of 3.3bn, which represents 6% of Sunway's overall GDV.
- **Net gearing still comfortable...** Based on 3QFY13's numbers, the acquisition will see Sunway's net debt rising to RM1.55bn from RM1.29bn, with net gearing rising to 33.4% from 27.7%, which is still comfortable.

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.

Rating
BUY (↔)

- 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

- TP maintained at **RM3.35** based on SOP valuation (see Figure #2).

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KLCI	1,850.9
Expected share price return	26.9%
Expected dividend return	3.8%
Expected total return	30.7%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,724
Market cap (RM m)	4,550
3-mth avg. volume ('000)	929

Price Performance	1M	3M	12M
Absolute	-3.6	-13.4	31.0
Relative	-6.7	-17.2	17.4

Major shareholders

Tan Sri Jeffrey	51.5%
GIC	8.7%
Freefloat	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	9.7	11.7	9.8
FD P/E (x)	12.5	11.7	13.6	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 Sunway's Penang Land Acquisition

Location



Subject Land



URDA, HLIB

Figure #2 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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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	9.7	11.7	9.8
FD Core PER (x)	14.0	12.5	11.7	13.6	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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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
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