

**Sunway (BUY ↔; EPS ↑)**

INDUSTRY: NEUTRAL

COMPANY BRIEFING/EARNINGS EVALUATION

28 February 2014

Price Target: RM3.38 (↑)

Share price: RM2.86

**4Q Results: Scorching results**

Results	<ul style="list-style-type: none"> <li>FY13 core PATAMI (after adjusting for total EI of RM1.02bn) jumped by 38% to RM482.7m (30.61 sen/share), beating ours/consensus estimates by making up 121%/118% of full year forecasts.</li> </ul>
Deviations	<ul style="list-style-type: none"> <li>Strong contribution from construction and property divisions.</li> </ul>
Dividends	<ul style="list-style-type: none"> <li>Net dividend of 5 sen/share declared (2Q: 5 sen), bringing full year payout to 10 sen/share, translating to payout ratio of ~33%, which is in line with our dividend forecast.</li> </ul>
Highlights	<ul style="list-style-type: none"> <li><b>Results...</b> Full year revenue grew by 15% to RM4.73bn, lifted by stronger activities in nearly all divisions. We believe that the merger between SunCity-Sunway is beginning to bear its synergistic fruits. Overall, core earnings grew by 38% to RM482.7m (30.61 sen/share).</li> <li><b>Property...</b> Achieved effective new property sales of RM612m in 4Q, with the bulk of it coming from Novena Singapore and South Quay. Hence, bringing full year effective new sales to RM1.45bn (1Q: RM203m; 2Q: RM288m; 3Q: RM344m), which is largely in line with its effective new sales target for FY13.</li> <li>For FY14, Sunway is expected to launch RM1.75bn worth of projects mainly in Mount Sophia Singapore and the balance revolving around public transportation theme i.e. BRT in South Quay and MRT railway for Velocity. Overall, effective unbilled property sales stood at RM1.90bn, translating to 1.6x FY13's property revenue.</li> <li><b>Construction...</b> Contrary to our cautious view on the construction sector, Sunway is aiming for RM2bn worth of new external contracts, mainly coming from Government-related tenders. Overall, the division has an outstanding external order book of RM3.12bn, translating to 2.0x FY13's construction revenue.</li> </ul>
Risks	<ul style="list-style-type: none"> <li>Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.</li> </ul>
Forecasts	<ul style="list-style-type: none"> <li>FY14 earnings raised by 6.1% while introducing FY15 earnings.</li> </ul>
Rating	<b>BUY (↔)</b> <ul style="list-style-type: none"> <li>Despite headwinds from property tightening measures and slower contract flows, its recapitalised balance sheet and strong backlog orders will be able to sustain earnings growth for the Group. Moreover, Sunway's integrated construction-property business model should give them an edge in terms of execution. We maintain our <b>BUY</b> call on Sunway.</li> </ul>
Valuation	<ul style="list-style-type: none"> <li>TP raised by 0.9% to <b>RM3.38</b> from RM3.35 previously based on SOP valuation (see Figure #3).</li> </ul>

Jarod Soon

[smssoon@hlib.hongleong.com.my](mailto:smssoon@hlib.hongleong.com.my)

(603) 2168 1073

KLCI	1,831.7
Expected share price return	18.2%
Expected dividend return	4.2%
Expected total return	22.4%

**Share price**

**Information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,724
Market cap (RM m)	4,929
3-mth avg. volume ('000)	552

Price Performance	1M	3M	12M
Absolute	5.9	7.9	32.2
Relative	4.3	6.8	18.2

**Major shareholders**

Sungei Way Corp	46.4%
Yean Tih Cheah	13.5%
GIC	8.7%

**Summary Earnings Table**

FYE Dec (RM m)	2012A	2013A	2014E	2015E
Revenue	3,877	4,734	4,731	4,759
EBITDA	594	1,960	661	687
EBIT	505	1,824	561	571
Profit Before Tax	728	1,894	635	655
PATAMI	532	1,500	487	500
Core PATAMI	351	482	487	500
Core EPS (sen)	27.1	28.0	28.3	29.0
FD EPS (sen)	22.6	24.0	24.2	24.8
Net DPS (sen)	6.0	10.0	11.0	11.0
Net DY (%)	2.3	3.8	4.2	4.2
P/E (x)	9.7	9.4	9.3	9.1
FD P/E (x)	11.7	11.0	10.9	10.6
P/B (x)	1.0	0.9	0.8	0.8
Net Gearing (%)	49.1	28.7	29.5	26.5
ROE (%)	10.7	10.8	8.9	8.6
ROA (%)	4.2	4.9	4.6	4.8

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY12	3QFY13	4QFY13	QoQ (%)	YoY (%)	Comments
Revenue	1,241.8	1,066.1	1,342.2	26	8	Made up 34% and 31% of ours and consensus' estimates respectively. Refer to segmental.
Property Development	397.9	260.3	417.2	60	5	YoY/QoQ: Lifted by stronger property billings. Achieved effective new sales of RM612m in 4Q. Backed by effective unbilled sales of RM1.90bn.
Property Investment	168.5	137.1	403.4	>100	>100	YoY/QoQ: Distorted by FRS10 accounting standard.
Construction	360.3	376.5	412.2	9	14	YoY/QoQ: Lifted by higher progress billings. Backed by external outstanding construction order book of RM3.12bn.
Trading/Manufacturing	122.7	151.9	133.7	-12	9	
Quarry	57.2	47.1	50.5	7	-12	
EBIT	171.9	74.9	1,188.8	>100	>100	Refer to segmental.
Property Development	88.7	62.0	93.4	51	5	YoY/QoQ: Due to increase in property revenue.
Property Investment	59.6	21.8	1,286.4	>100	>100	YoY/QoQ: Distorted by FRS10 accounting standard and revaluation gains.
Construction	(2.4)	15.4	(15.7)	n/a	>100	YoY/QoQ: Hit by RM23m provision for Al Reem project.
Trading/Manufacturing	10.5	11.7	8.2	-30	-22	
Quarry	5.0	5.2	3.0	-41	-39	
Net Interest Expense	(33.6)	(6.3)	(24.5)	>100	-27	Net debt reduced slightly to RM1.28bn from RM1.29bn in 3QFY13. Hence, net gearing ratio improved to 23.9% from 27.7%.
Share of Associates/JCE	73.5	49.4	83.4	69	13	
PBT	212.1	118.2	1,248.1	>100	>100	
PAT	167.9	101.6	1,202.7	>100	>100	
PATAMI	146.6	93.1	1,138.8	>100	>100	
EI	(32.4)	31.3	(981.3)	n/a	>100	Derivative gain of RM0.4m; investment property fair value gain of RM173.2m; deferred taxation provision reversal of RM17.8m ; subsidy disposal gain of RM27.0m; FRS10 impact gain of RM761.5m; ESOS fair value gain of RM1.4m.
Core Earnings	114.2	124.4	157.5	27	38	Made up 40% and 38% of ours and consensus' estimates respectively.
Core EPS (sen)	8.83	7.76	9.14	18	3	YoY/QoQ: Lower due to dilution of rights issue.
EBIT Margin (%)	14%	7%	89%	>100	>100	
Property Development	22%	24%	22%	-6	0	
Property Investment	35%	16%	319%	>100	>100	
Construction	-1%	4%	-4%	n/a	>100	
Trading/Manufacturing	9%	8%	6%	-20	-29	
Quarry	9%	11%	6%	-45	-30	
PBT Margin Ex-Assoc (%)	11%	6%	87%	>100	>100	

Sunway, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	FY12	FY13	YoY (%)	Comments
Revenue	4,128.8	4,733.7	15	Made up 120% and 110% of ours and consensus' estimates respectively. Refer to segmental.
Property Development	923.2	1,167.1	26	Lifted by stronger property billings. Achieved effective new sales of RM1.45bn in FY13. Backed by effective unbilled sales of RM1.90bn.
Property Investment	590.9	815.8	38	Distorted by FRS10 accounting standard.
Construction	1,274.9	1,590.9	25	Lifted by accelerating project progress. Backed by external outstanding construction order book of RM3.12bn.
Trading/Manufacturing	558.7	586.7	5	
Quarry	196.9	197.7	0	
EBIT	842.6	1,823.6	116	Refer to segmental.
Property Development	187.6	225.3	20	Due to increase in property revenue.
Property Investment	137.6	1,359.0	>100	Distorted by FRS10 accounting standard and revaluation gains.
Construction	40.9	42.8	5	Weighted down by RM23m provision for Al Reem project in 4Q.
Trading/Manufacturing	47.2	44.5	-6	
Quarry	12.2	19.9	64	
Net Interest Expense	(147.9)	(102.4)	-31	Net debt reduced to RM1.28bn from RM1.61bn in FY12. Hence, net gearing ratio improved to 23.9% from 45.2%.
Share of Associates/JCE	144.6	172.5	19	
PBT	839.7	1,894.3	>100	
PAT	724.3	1,773.4	>100	
PATAMI	438.8	1,500.5	>100	
EI	(88.1)	(1,017.8)	>100	Derivative gain of RM0.7m; investment property fair value gain of RM173.2m; professional fees expenses of RM1.6m; deferred taxation provision reversal of RM27.8m; Sunway REIT revaluation gain of RM59.7m; subsidy disposal gain of RM27.0m; FRS10 impact gain of RM769.3m; ESOS fair value expenses of RM38.3m.
Core Earnings	350.7	482.7	38	Made up 121% and 118% of ours and consensus' estimates respectively.
Core EPS (sen)	27.14	30.61	13	
EBIT Margin (%)	20%	39%	89	
Property Development	20%	19%	-5	
Property Investment	23%	167%	>100	
Construction	3%	3%	-16	
Trading/Manufacturing	8%	8%	-10	
Quarry	6%	10%	63	
PBT Margin Ex-Assoc (%)	17%	36%	>100	

Sunway, HLIB

Figure #3 Sunway SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	15X Average of FY13-14 Earnings	100%	963	0.48	14
Property	NPV of profits + Shareholders Fund	100%	5,106	2.54	75
Trading/Manufacturing	9X P/E	100%	291	0.14	4
Quarry	15X P/E	100%	187	0.09	3
		Sub-Total (RM m)	6,548		
		No. of shares (m)	1,723		
		RM per share	3.80		
		Proceeds from warrants (RM m)	724	0.36	11
		Estimated Holding Company Net Debt	(460)	(0.23)	(7)
		SOP (RM m)	6,812		100
		Total no. of diluted shares (m)	2,013		
		<b>Target Price (RM)</b>	<b>3.38</b>		

HLIB

Figure #4 HLIB vs Consensus

FYE Dec (RM m)	FY14E			FY15E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,730.7	4,912.2	-4%	4,758.7	5,218.4	-9%
PATAMI	487.2	454.6	7%	499.7	513.7	-3%

Bloomberg, HLIB

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

### Income Statement

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
<b>Revenue</b>	<b>3,691.7</b>	<b>3,876.8</b>	<b>4,733.7</b>	<b>4,730.7</b>	<b>4,758.7</b>
EBITDA	457.0	594.5	1,960.5	660.8	686.9
D&A	(90.7)	(89.9)	(136.9)	(99.3)	(116.3)
<b>EBIT</b>	<b>366.3</b>	<b>504.5</b>	<b>1,823.6</b>	<b>561.5</b>	<b>570.5</b>
Interest Income	27.5	27.1	35.6	35.4	24.1
Finance Costs	(80.9)	(104.6)	(138.1)	(118.3)	(107.1)
Associates/JCE	185.6	301.2	172.5	156.4	167.3
<b>Profit Before Tax</b>	<b>498.5</b>	<b>728.2</b>	<b>1,893.6</b>	<b>635.0</b>	<b>654.9</b>
Tax	(86.1)	(128.5)	(120.9)	(118.8)	(121.4)
<b>Net Profit</b>	<b>412.4</b>	<b>599.7</b>	<b>1,772.7</b>	<b>516.2</b>	<b>533.5</b>
Minority Interests	(40.4)	(67.4)	(273.0)	(29.0)	(33.8)
<b>PATAMI</b>	<b>372.1</b>	<b>532.3</b>	<b>1,499.8</b>	<b>487.2</b>	<b>499.7</b>
Exceptionals	44.1	181.8	1,017.8	-	-
<b>Core Earnings</b>	<b>328.0</b>	<b>350.6</b>	<b>482.0</b>	<b>487.2</b>	<b>499.7</b>
Basic Shares (m)	1,292.5	1,292.5	1,723.4	1,723.4	1,723.4
Core EPS (sen)	25.4	27.1	28.0	28.3	29.0
FD Core EPS (sen)	21.1	22.6	24.0	24.2	24.8

### Quarterly Financial Summary

FYE 31 Dec (RM m)	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Revenue	1,198.9	1,021.0	1,118.0	1,066.1	1,342.2
Expenses	(1,109.8)	(946.8)	(1,024.4)	(1,001.2)	(1,198.4)
Other Income	144.4	11.8	22.9	10.0	1,045.1
EBIT	233.5	86.1	116.6	74.9	1,188.8
Derivatives	0.3	0.3	(0.1)	0.1	0.4
Net Interest Expense	(16.7)	(11.7)	(12.6)	(6.3)	(24.5)
Associates & JCE	99.3	47.9	108.6	49.4	83.4
Profit Before Tax	316.3	122.5	212.5	118.2	1,248.1
Tax	(55.8)	(26.3)	(32.5)	(16.6)	(45.5)
Net Profit	260.5	96.2	180.1	101.6	1,202.7
Minority Interests	(41.2)	(5.6)	(9.7)	(8.5)	(63.9)
<b>PATAMI</b>	<b>219.3</b>	<b>90.6</b>	<b>170.3</b>	<b>93.1</b>	<b>1,138.8</b>
Exceptionals	(105.2)	(0.3)	(59.6)	31.3	(981.3)
<b>Core Earnings</b>	<b>114.1</b>	<b>90.3</b>	<b>110.7</b>	<b>124.4</b>	<b>157.5</b>
Core EPS (sen)	8.83	6.99	8.57	7.76	9.14
FD Core EPS (sen)	8.83	6.99	8.26	7.59	8.78
W. Ave. Shares (m)	1,292.5	1,292.5	1,292.5	1,604.3	1,723.5

### Balance Sheet

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Cash	869	777	1,140	1,519	843
Trade Receivables	742	789	1,404	1,405	1,166
Inventories	302	452	626	623	713
Development Costs	621	669	600	1,276	994
Associates/JCE	1,242	1,281	1,553	2,284	2,349
PPE	2,197	2,876	3,008	3,548	3,749
Goodwill	329	326	319	320	320
Others	679	673	95	137	130
<b>Total Assets</b>	<b>6,981</b>	<b>7,844</b>	<b>8,745</b>	<b>11,112</b>	<b>10,263</b>
Trade Payables	826	1,040	1,605	2,154	1,296
Total Debt	1,406	2,254	2,747	2,795	2,461
Others	850	1,239	524	511	511
<b>Total Liabilities</b>	<b>3,082</b>	<b>4,532</b>	<b>4,876</b>	<b>5,460</b>	<b>4,267</b>
Shareholders' Funds	3,518	2,985	3,558	5,335	5,650
Minority Interests	381	326	310	317	346
<b>Total Capital</b>	<b>3,899</b>	<b>3,312</b>	<b>3,868</b>	<b>5,652</b>	<b>5,996</b>

### Rates and Ratios

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Core PER (x)	11.3	10.5	10.2	10.1	9.9
FD Core PER (x)	13.5	12.7	11.9	11.8	11.5
Net DPS (sen)	-	6.0	10.0	11.0	11.0
Net DY (%)	-	2.1	3.5	3.8	3.8
BVPS (RM)	2.3	2.8	3.1	3.3	3.5
P/B (x)	1.2	1.0	0.9	0.9	0.8
NTA/Share (RM)	2.1	2.5	2.9	3.1	3.3
EBITDA Margin (%)	12.4	15.3	41.4	14.0	14.4
EBIT Margin (%)	9.9	13.0	38.5	11.9	12.0
PBT Margin (%)	18.5	26.6	43.6	16.7	17.3
PATAMI Margin (%)	8.9	9.0	10.2	10.3	10.5
ROE (%)	10.1	10.7	10.8	8.9	8.6
ROA (%)	4.4	4.2	4.9	4.6	4.8
Net Gearing (%)	45.4	49.1	28.7	29.5	26.5

### Cashflow Analysis

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
EBITDA	457.0	594.5	1,960.5	660.8	686.9
Working Capital	(52.9)	(154.1)	(124.7)	(427.4)	(15.0)
Interest Received	27.5	27.1	39.9	35.4	24.1
Dividends fr Assoc	153.9	151.8	83.1	91.6	104.2
Others	(186.5)	(233.2)	(865.8)	(111.4)	(121.4)
<b>CFO</b>	<b>399.0</b>	<b>386.1</b>	<b>1,092.9</b>	<b>249.0</b>	<b>678.8</b>
Capex	(142.2)	(465.5)	(657.9)	(300.0)	(300.0)
Purchase/Disposal	(71.2)	317.4	38.2	-	-
Others	(79.6)	(209.7)	(215.0)	-	-
<b>CFI</b>	<b>(293.0)</b>	<b>(357.7)</b>	<b>(834.7)</b>	<b>(300.0)</b>	<b>(300.0)</b>
Financing	847.9	493.2	48.6	(334.8)	(161.5)
Shares Issued	(42.5)	-	732.9	-	-
Dividends	(944.2)	-	(344.3)	(172.3)	(189.6)
Interest Paid	(80.9)	(104.6)	(117.5)	(118.3)	(107.1)
Others	23.5	(141.7)	(184.3)	-	-
<b>CFF</b>	<b>(196.3)</b>	<b>246.9</b>	<b>135.4</b>	<b>(625.4)</b>	<b>(458.2)</b>
<b>Net Cashflow</b>	<b>(90.2)</b>	<b>275.2</b>	<b>393.5</b>	<b>(676.4)</b>	<b>(79.3)</b>

### Assumption Metrics

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
<b>Revenue</b>	<b>3,692</b>	<b>3,877</b>	<b>4,734</b>	<b>4,731</b>	<b>4,759</b>
Property	916	923	1,167	1,209	1,223
Property Investment	518	591	816	840	865
Construction	1,221	1,275	1,591	1,463	1,391
Trading/Manufacture	553	559	587	616	647
Quarry	184	197	198	208	218
Others	300	332	375	394	414
EBIT Margins (%)	9.9	13.0	38.5	11.9	12.0

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**Hong Leong Investment Bank Berhad (10209-W)**  
 Level 23, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

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<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.