

**Sunway (HOLD ↔; EPS ↔)**

INDUSTRY: NEUTRAL

COMPANY INSIGHT

9 June 2014

Price Target: RM3.38 (↔)

Share price: RM3.15

**Sunway Iskandar Site Visit Notes**
**Highlights**

- We paid a visit to SWB's high-profile Sunway Iskandar (SI) masterplan development (Figure #1) and came away feeling positive about its concept, locating and pricing.
- **Maiden launch:** To kick-start this 1800-acre project, SWB will be launching Citrine (GDV: RM350m) officially in July, (Figure #2) although previews are already current taking place. We understand that out of the 3,000 registrants, 60% originate from KL/Johor while another 30% are from Singapore.
- **Citrine's prospects.** We believe SWB has put a lot of thought into the overall concept, and its introductory pricing of RM700 psf should see healthy buying interest. Next door, E&O's Avira project has seen 70% takeup since its launch in Apr 14. However, management is cautioning for lower than usual margins, we believe likely to be in the low teens, but this will be mitigated by the corporate tax exemption in Medini until 2020.
- **Fast-track to critical mass.** We concur with SWB's strategy of starting off with an integrated high-rise development featuring high rise apartments together with retail and office elements. We believe that the office and international school (capacity: 600 students) will serve to bring up a healthy occupancy rate upon its completion in 3 years' time, and help establish the necessary critical mass early on in its lifecycle.
- **Looking ahead...** Citrine is located in the Lakeview Precinct (Figure #1). We understand SWB will be spreading out from Lakeview Precinct, with the subsequent launches likely to be the adjoining Marketplace and Seafront precincts, which will feature F&B/retail and residential elements. We understand SWB aims to ramp annual launches in SI up to RM1bn/year. SWB will also be looking for quality JV partners to bring in catalytic developments, similar to what UEMS has done for Nusajaya.

**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**
**HOLD (↔)**

- 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, SWB's integrated construction-property business model should give them an edge in terms of execution. However, in view of less than 10% upside from the current share), we maintain **HOLD**. A key upside risk to our call will be faster than anticipated take-up for its new property launches.

**Valuation**

- TP minutely increased from **RM3.38 to RM3.40** based on SOP valuation (see Figure #2), given relatively small size of Citrine's impact.

Low Yee Huap, CFA

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

(603) 2168 1078

KLCI	1,862.7
Expected share price return	7.3%
Expected dividend return	3.5%
Expected total return	10.8%

**Share price**

**Information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,724
Market cap (RM m)	5,430
3-mth avg. volume ('000)	1,074
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	5.0	10.9	-7.0
Relative	5.2	9.1	-11.4

**Major shareholders**

Sungei Way Corp Sdn Bhd	48.2%
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 (%)	1.9	3.1	3.4	3.4
P/E (x)	11.8	11.4	11.3	11.0
FD P/E (x)	14.1	13.3	13.2	12.9
P/B (x)	1.2	1.0	1.0	0.9
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

HLIB

Figure #1 Sunway Iskandar Masterplan



Company

Figure #2 Citrine - Sunway Iskandar Maiden Launch



Company

Figure #3 Sunway SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	15X Average of FY14-15 Earnings	100%	963	0.48	14
Property	NPV of profits + Shareholders Fund	100%	5,134	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)	6,575		
		No. of shares (m)	1,723		
		RM per share	3.82		
		Proceeds from warrants (RM m)	724	0.36	11
		Estimated Holding Company Net Debt	(460)	(0.23)	(7)
		SOP (RM m)	6,839		100
		Total no. of diluted shares (m)	2,013		
		<b>Target Price (RM)</b>	<b>3.40</b>		

HLIB

Figure #4 HLIB vs Consensus

FYE Dec (RM m)	FY14E			FY15E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,730.7	5,145.0	-8%	4,758.7	5,446.3	-13%
PATAMI	487.2	487.4	0%	499.7	527.9	-5%

Bloomberg, HLIB

## Financial Projections for Sunway (HOLD; 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)	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1
Revenue	1,021.0	1,118.0	1,066.1	1,342.2	1,025.7
Expenses	(946.8)	(1,024.4)	(1,001.2)	(1,198.4)	(932.6)
Other Income	11.8	22.9	10.0	1,045.1	16.4
EBIT	86.1	116.6	74.9	1,188.8	109.6
Derivatives	0.3	(0.1)	0.1	0.4	(0.0)
Net Interest Expense	(11.7)	(12.6)	(6.3)	(24.5)	(7.8)
Associates & JCE	47.9	108.6	49.4	83.4	40.4
Profit Before Tax	122.5	212.5	118.2	1,248.1	142.2
Tax	(26.3)	(32.5)	(16.6)	(45.5)	(30.4)
Net Profit	96.2	180.1	101.6	1,202.7	111.8
Minority Interests	(5.6)	(9.7)	(8.5)	(63.9)	(7.8)
<b>PATAMI</b>	<b>90.6</b>	<b>170.3</b>	<b>93.1</b>	<b>1,138.8</b>	<b>104.0</b>
Exceptionals	(0.3)	(59.6)	31.3	(981.3)	6.3
<b>Core Earnings</b>	<b>90.3</b>	<b>110.7</b>	<b>124.4</b>	<b>157.5</b>	<b>110.3</b>
Core EPS (sen)	6.99	8.57	7.76	9.14	6.40
FD Core EPS (sen)	6.99	8.26	7.59	8.78	6.27
W. Ave. Shares (m)	1,292.5	1,292.5	1,604.3	1,723.5	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)	12.6	11.8	11.4	11.3	11.0
FD Core PER (x)	15.1	14.1	13.3	13.2	12.9
Net DPS (sen)	-	6.0	10.0	11.0	11.0
Net DY (%)	-	1.9	3.1	3.4	3.4
BVPS (RM)	2.3	2.8	3.1	3.3	3.5
P/B (x)	1.4	1.2	1.0	1.0	0.9
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

## 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 09 June 2014, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 09 June 2014, the analyst, Low Yee Huap, 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)**  
 Level 23, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

## Equity rating definitions

<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.