



## Sunway Berhad

2013 Sales On Track

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**TP: RM3.66 (+38.1%)**

Last Traded: RM2.65

**BUY**

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### Review

- Sunway Berhad's 9M13 core net profit (excluding fair value gain, gain on derivatives and one-off ESOS expenses) of RM325.4mn beat expectations. The outperformance was attributed to 1) higher-than-expected EBIT margins on better product mix, 2) higher-than-expected finance income and 3) lower effective tax rate. 9M13 revenue was in line at 75% of our full-year forecast.
- 3Q13 core net profit grew 31.5% YoY to RM124.4mn on the back of 1) 23.0% growth in revenue and 2) lower net finance costs. Driven by strong progress billings from the property development division, which registered revenue and net profit growth of 47% and 36% respectively in 3Q13, the group has seen strong net profit growth of >30% YoY for 3 consecutive quarters (1Q13 and 2Q13 net profit rose 41% and 43% respectively). This has resulted in the cumulative YTD net profit surged 37.7% YoY to RM325.4mn.
- QoQ, 3Q13 revenue contracted by 4.6%, mainly due to lesser working days arising from Hari Raya and Merdeka break. However, core net profit grew 12.4%, thanks to higher PBT margin (+1.3ppt QoQ) and lower effective tax rates (-1.2ppt).

### Impact

- Given the stronger-than-expected 9M13 results, we raise our FY13 earnings by 10.5% after factoring in 1) higher blended PBT margins of 10.5% from 9.4% previously and 2) lower effective tax rates of 18% (20% previously). However, we take this opportunity to trim our new sales assumptions for FY14 and FY15 to RM1.5bn and RM2.0bn respectively (from RM2.0bn and RM2.5bn previously) considering the latest cooling measures announced in Budget 2014 which might dampen near-term buying interest. We anticipate the group to slow down new launches in 1H14 and only resume new projects launch in 2H14. As such, net impacts to our FY14 and 15 net profit are +0.8% and -6.1% respectively.

### Outlook

- Sunway recorded new sales of RM494mn in 3Q13 (effective sales RM344mn), bringing the YTD new sales to RM1.1bn (effective sales RM836mn). Although new sales were lower than 9M12's effective sales of RM1.06bn, the sales performance was considered as commendable in view of lack of sizable new launches in 1H13. Key projects which have contributed to the improving quarterly sales are Sunway Geo @ South Quay and Sunway Montana @ Melawati. Note that Sunway Geo (retail and office suites) contributed >50% to 3Q13 new sales. Unbilled sales remain healthy at RM2.2bn (effective RM1.8bn), which will keep the group busy over the next two years.

### Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	1723.5
Market Cap (RMmn)	4567.3
Par Value	1.00
52-wk Hi/Lo (RM)	3.61/1.96
12-mth Avg Daily Vol ('000 shrs)	1290.0
Estimated Free Float (%)	24.4
Beta	1.40
Major Shareholders (%)	Sungei Way Corp (46.4)

### Forecast Revision

	FY13	FY14
Forecast Revision (%)	10.5	0.8
Net profit (RMmn)	443.6	476.6
Consensus	399.3	454.2
TA's / Consensus (%)	111.1	104.9
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY13	FY14
Net Debt / Equity (%)	23.4	21.7
FCPS (sen)	(3.6)	9.5
Price / CFPS (x)	(72.6)	28.0
ROA (%)	4.7	4.6
NTA/Share (RM)	2.5	2.7
Price/NTA (x)	1.1	1.0

### SCORECARD

	% of FY	
vs TA	81.0	Above
vs Consensus	81.0	Above

### Share Performance (%)

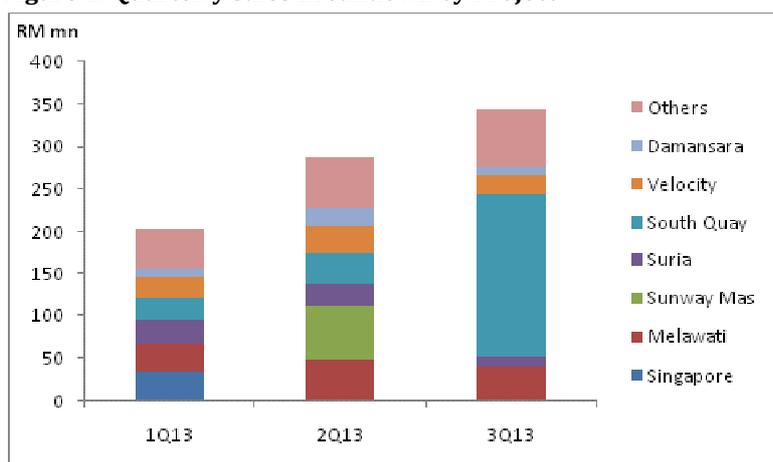
Price Change	Sunway	FBM KLCI
1 mth	(5.7)	0.1
3 mth	(6.4)	5.5
6 mth	(26.7)	2.5
12 mth	32.6	12.5

### (12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

**Figure 1: Quarterly Sales Breakdown by Project**



Source: Sunway, TA Research

- We believe the group is on track to meet both its sales target and our sales assumptions of RM1.1bn and RM1.2bn respectively, underpinned by RM1.7bn worth of new properties launched as of Nov-13. Recently, the group has soft-launched the serviced apartments within Sunway Geo @ South Quay development (GDV: RM480mn) and received 85% bookings as at Nov-13. We gather that half of the bookings have been converted to real purchases and we estimate Sunway Geo Residence to contribute RM200mn new sales in 4Q13. Elsewhere, Sunway's 30%-stake project in Singapore, Royal Square @ Novena Singapore, (project GDV: SGD740mn, comprises medical Suites & retail shops), was launched in Oct-13. According to management, the project is well received with take rate rates of 40% and 50% for medical suites and shops respectively.
- In view of the recent cooling measures announced in Budget 2014, management will likely to postpone maiden launch for Sunway Iskandar to 1Q14 (from Dec-13). Nevertheless, awareness program is expected to begin in Dec-13. We are of the view that Sunway is not in a hurry to launch the project given its relatively low land cost coupled with favourable payment terms that are staggered and deferred over a period of 10 years.
- On the construction front, Sunway has secured new jobs worth RM1.3bn mainly consists of civil and building contracts – see **Table 1**. These jobs have boosted its order book to RM3.0bn (excluding in-house works), providing more a year's earnings visibility for the group's construction division (at 1.8x our projected FY13 construction revenue).

## Valuation

- In tandem with the change in earnings projections, our SOP-derived target price is lowered to RM3.66/share (from RM3.73/share) – see **Table 2**. We reiterate our to **Buy** recommendation on Sunway as we like its 1) clear earnings visibility underpinned by strong unbilled sales and construction order book; 2) large presence in Iskandar Malaysia should continue drawing investors' interest; and 3) the group's construction expertise should benefit from various domestic infrastructure works in the pipeline. Its relatively low land cost in Medini Iskandar coupled with favourable payment terms should be able to minimize the overall project risks.

**Table 1: Order book**

Project	RM'mn
<b>Infrastructure</b>	
MRT Package V4	868
LRT Kelana Jaya Line Extension	268
* BRT Sunway Line	402
<b>Johor</b>	
* Urban Wellness	283
Pinewood Studios	24
BioXcell - Central Facilities Utility	10
* Legoland Water Park	3
<b>Others</b>	
UiTEM Campus Expansion	21
* KLCC NEC	296
* KLCC Package 2	222
Others	274
<b>Foreign</b>	
Singapore - precast	351
<b>Total External Orderbook</b>	<b>3022</b>
<b>Other in-house jobs</b>	
Sunway Velocity Mall (Substructure)	159
Sunway Velocity Phase 2 (Substructure)	65
Sunway Velocity (Shop offices & Apartment)	60
The Pinnacle (Superstructure)	50
Sunway University New Academic Block	186
Sunway Putra Place	205
<b>Total Orderbook</b>	<b>3747</b>

\* denotes external jobs secured in 2013

Source: Sunway, TA Research

### Earnings Summary

YE Dec 31 (RM'mn)	2011	2012	2013F	2014F	2015F
Revenue	3691.7	3876.8	4272.5	4650.7	4458.6
EBITDA	454.0	583.3	589.7	647.3	642.0
EBITDA margin (%)	12.3	15.0	13.8	13.9	14.4
Pretax profit	443.9	546.4	581.0	644.0	649.2
Net profit	369.7	532.3	443.6	476.6	481.8
Net profit -adj	325.6	350.5	443.6	476.6	481.8
EPS (sen)	25.2	27.1	25.7	27.7	28.0
EPS - adj (sen)	18.9	20.3	25.7	27.7	28.0
EPS Growth (Core) (%)	0.8	7.7	26.5	7.4	1.1
PER (x)	14.0	13.0	10.3	9.6	9.5
GDPS (sen)	0.0	4.5	8.0	9.0	10.0
Div Yield (%)	0.0	2.3	3.0	3.4	3.8
ROE (%)	11.6	10.7	10.9	10.0	9.5

### 3Q13 Results analysis

YE 31 Dec (RM'mn)	3Q12	2Q13	3Q13	QoQ (%)	YoY (%)	9MFY12	9MFY13	YoY (%)
Revenue	867.0	1118.0	1066.1	(4.6)	23.0	2677.8	3205.2	19.7
EBIT	106.1	116.6	74.9	(35.8)	(29.4)	270.7	277.5	2.5
Gain on derivative	(0.3)	(0.1)	0.1	(240.5)	(137.0)	0.1	0.3	161.8
Finance income	10.5	8.4	12.3	47.1	17.4	23.0	31.2	35.6
Finance costs	(29.9)	(21.0)	(18.6)	(11.5)	(38.0)	(83.8)	(61.7)	(26.4)
Associates	18.9	78.8	19.1	(75.8)	1.0	139.3	116.6	(16.3)
JV	37.1	29.8	30.3	1.8	(18.3)	71.2	89.3	25.5
EI	0.3	(59.6)	41.4	(30.5)	>100	(84.7)	(18.7)	(77.9)
PBT	142.4	212.5	118.2	(44.4)	(17.0)	420.5	453.2	7.8
Core PBT	142.7	152.9	159.4	4.3	11.7	335.8	434.5	29.4
Tax	(32.4)	(32.5)	(16.6)	(48.9)	(48.8)	(81.2)	(75.4)	(7.2)
MI	(15.7)	(9.7)	(8.5)	(12.9)	(46.3)	(26.2)	(23.8)	(9.1)
Net profit	94.3	170.3	93.1	(45.3)	(1.2)	313.1	354.0	13.1
Core net profit	94.6	110.7	124.4	12.4	31.5	236.4	325.4	37.7
Reported EPS (sen)	7.3	13.2	5.8	(55.9)	(20.3)	24.2	26.0	7.3
Adj EPS (sen)	7.3	8.6	7.8	(9.4)	6.1	18.3	23.3	27.5
DPS (sen)	0.0	5.0	0.0	nm	nm	0.0	5.0	nm
EBIT margin (%)	12.2	10.4	7.0	(3.4)	(5.2)	10.1	8.7	(1.4)
PBT margin (%)	16.5	13.7	15.0	1.3	(1.5)	12.5	13.6	1.0
Net margin (%)	10.9	9.9	11.7	1.8	0.8	8.8	10.2	1.3
Effective tax rate (%)	22.8	15.3	14.0	(1.2)	(8.7)	19.3	16.6	(2.7)

**Table 2: SOP Valuation**

SOP Valuation	% Shareholdings	Effective land size (acres)	Effective GDV (RM'mn)	NPV (RM'mn)
<b>Selangor/KL</b>				
Sunway Damansara	60%	9.2	1014.8	85.0
Sunway South Quay	60%	31.2	2393.8	135.1
Sunway Monterez	60%	3.2	26.2	2.3
Sunway Semenyih	70%	278.7	510.0	28.6
Sunway Cheras	100%	6.0	16.8	1.5
Sunway Duta	60%	1.9	72.0	4.6
Sunway Montana	100%	2.0	55.5	3.5
Sunway Alam Suria	100%	0.7	12.0	0.8
Sunway Resort City	100%	14.9	660.1	37.0
Casa Kiara III	80%	2.3	168.0	14.5
Sunway Velocity	85%	15.2	2430.1	164.2
Sunway Tower KL 1	100%	1.0	240.0	20.7
Bangi	100%	3.0	59.0	5.3
Melawati	100%	2.0	43.0	3.8
Sg Long	80%	88.8	221.6	19.8
Mont Putra, Rawang	100%	163.0	156.0	13.9
<b>Perak</b>				
Sunway City Ipoh	65%	581.6	681.4	34.8
<b>Penang</b>				
Sunway City Penang	100%	15.9	171.7	15.3
Sunway Grand	100%	11.9	186.0	16.6
Sungai Ara	100%	56.1	849.2	75.7
Bukit Mertajam	100%	42.3	694.1	61.9
<b>S'pore</b>				
Novena	30%	0.5	672.5	64.8
Sembawang, Singapore	100%	0.8	75.0	7.7
	30%	1.8	616.8	39.9
<b>Johor</b>				
Bukit Lenang	80%	70.4	745.6	63.5
Medini	38%	262.6	4560.0	298.5
Pendas	60%	647.4	10800.0	614.8
<b>China</b>				
Sunway Guanghao	65%	2.4	43.4	2.8
Tianjin Eco City	60%	54.5	3206.3	100.4
<b>India</b>				
Sunway OPUS Grand India	50%	11.9	351.2	18.2
Sunway MAK Signature Residence	60%	8.4	108.7	6.0
<b>Australia</b>				
Wonderland Business Park (Sydney)	45%	21.8	170.1	9.4
Total		2411.5	31394.3	1970.5
Current unbilled sales			1800	243.0
<b>Sub-total</b>				<b>2213.5</b>
<b>Construction</b>				
		Effective stake (%)	Balance of works (RM'mn)	NPV
Pinewood Studios		100.0	24.0	1.4
Kelana Line - Package B		100.0	268.0	15.3
Bio-Xcell - Central facilities utility		100.0	10.0	0.6
UiTM campus expansion & KLCC link bridge		100.0	21.0	1.2
Singapore - Precast		100.0	351.0	10.2
KVMRT - V4 Section 17		100.0	868.0	30.4
Legoland Water Park		100.0	3.0	0.2
BRT Sunway Line		100.0	402.0	-48.0
KLCC NEC		100.0	296.0	17.5
KLCC Package 2		100.0	222.0	13.1
Urban Wellness		100.0	283.0	16.7
Other		100.0	274.0	8.5
<b>Sub-total</b>				<b>67.0</b>
<b>Investment in Sunway REIT (less 20% holding company discount)</b>				
	Effective stake (%)	Book value (RM'mn)	Est. fair value (RM'mn)	Difference (RM'mn)
	34.30	1048.1	1544.6	397.2
Total surplus				2677.7
Total NTA				3972.2
Total revised enterprised value				6649.9
Conversion of warrants @ RM2.50				724.3
SOP valuation (RM mn)				7374.2
Fully Diluted Share Base (mn shares)				2013.2
<b>Fair Value (RM/Share)</b>				<b>3.66</b>

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