



## Sunway Berhad

Growth Underpinned by Property Developments

**TP: RM3.63 (+45.9%)**

Last Traded: RM2.49

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**BUY**

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### Review

- Sunway Berhad's (Sunway) FY12 core profit (excluding fair value gain and gain on derivatives) came in line with our expectations at 103% of our full-year projection and 95% of consensus estimate. An interim dividend of 6.0 sen/share was declared which exceeded our dividend forecast of 4.5 sen/share.
- YoY, Sunway's FY12 core net profit down 1% YoY to RM323.9mn despite a 5% growth in revenue to RM3.9bn. This decline in core net profit was largely due to higher tax expense (+71% YoY) and minority charges (+63%). Nevertheless, on the operating level, margins expanded 2.9 ppt thanks to better product mix.
- QoQ, core net profit increased 8.5% to RM102.6mn on a stronger revenue growth of 38.3%. The three core operating divisions of Sunway, i.e. property development, property investment and construction divisions showed strong sequential revenue growth of 125.3%/13.7%/34.8% respectively have contributed to the improved performance.

### Impact

- We raise our FY13 and FY14 earnings forecasts by 3.0% and 2.3% respectively after adjusting progress billing assumptions. We continue to project the group to secure RM1.2bn and RM2.2bn new property sales for FY13 and FY14 respectively, and new construction jobs of RM1.1bn p.a. for FY13 and FY14.

### Outlook

- The group clinched RM580mn new sales in 4Q12, boosting its FY12 total new sales to RM1.8bn (effective: RM1.6bn, after adjusting for JV). This has exceeded the group's internal sales target of RM1.3bn. The encouraging sales in 4Q12 came mainly from its Commercial Project at Sunway Geo@Sunway South Quay and designer suites within Sunway Velocity that have garnered strong buying interests with a take up rate of 77% and 71% respectively. The increase in sales has boosted the unbilled amount to RM2.41bn vs. RM2.06bn in 3Q, which will keep the group busy over the next two years.
- On the construction front, Sunway has obtained the entire land possession for KVMRT V4 package in June-12 but the progress work has not reached profit recognition stage (below 10% completion). Meanwhile, the work progress on Kelana Jaya LRT extension project has reached 20% completion and the group has started recognising contribution from this project in 3Q12. Going forward, the construction unit is expected to be the engine of growth with an outstanding order book (excluding in house jobs) of RM2.4bn (see Table 1).

### Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	1292.5
Market Cap (RMmn)	3218.3
Par Value	1.00
52-wk Hi/Lo (RM)	2.75/2.12
12-mth Avg Daily Vol ('000 shrs)	653.1
Estimated Free Float (%)	47.4
Beta	-
<b>Major Shareholders (%)</b>	
	Sungei Way Corp (42.55)

### Forecast Revision

	FY13	FY14
Forecast Revision (%)	3.0	2.3
Net profit (RMm)	361.1	428.3
Consensus	372.1	413.0
TA's / Consensus (%)	97.0	103.7
Previous Rating		Buy (Maintained)

### Financial Indicators

	FY13	FY14
Net Debt / Equity (%)	30.6	27.6
FCPS (sen)	35.8	7.8
Price / CFPS (x)	7.0	31.8
ROA (%)	4.0	4.5
NTA/Share (RM)	2.8	3.1
Price/NTA (x)	0.9	0.8

### SCORECARD

	% of FY	
vs TA	102.9	Within
vs Consensus	95.3	Within

### Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	3.8	0.6
3 mth	8.3	1.7
6 mth	12.2	(0.5)
12 mth	(4.6)	4.1

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



Source: Bloomberg

- With total 1,858 acres of undeveloped landbank in Iskandar region, Sunway is one of the largest land-owner in Johor. We are positive on Sunway's land acquisitions spree in the Iskandar region recently given it is poised to be the main growth area for Malaysia. These lands are expected to yield a combined GDV of RM30bn with a development period of over 17 years. Sunway Construction arms will also stand to benefit from these projects as it is likely be awarded civil works packages.

### Valuation

- Our SOP-derived target price was revised higher to RM3.63/share from RM3.41/share previously after adjusting for balance sheet items (see Table 2). Given a potential upside of 46%, we reiterate our **Buy** recommendation on Sunway.

**Table 1: Order book**

Project	RM'mn
<b>Local</b>	
MRT Package V4	1147
LRT Kelana Jaya Line Extension	369
Pinewood studios	198
UiTM campus expansion	99
Precinct 1, Putrajaya	10
BioXcell - Central Facilities Utility	27
Putrajaya GDC Plant	3
Others	308
<b>Foreign</b>	
Singapore - precast	238
<b>Total External</b>	<b>2399</b>
<b>Other in-house jobs</b>	
Sunway Velocity Mall (Substructure)	222
Sunway Velocity Phase 2 (Substructure)	103
Sunway Velocity (Shop offices & Apartment)	124
The Pinnacle (Superstructure)	147
Sunway Univeristy New Academic Block	192

### Earnings Summary

YE Dec 31 (RM'mn)	2010	2011	2012	FY13F	2014F
Revenue	3134.5	3691.7	3876.8	3783.7	4126.8
EBITDA	672.1	454.0	583.3	547.1	621.0
EBITDA margin (%)	21.4	12.3	15.0	14.5	15.0
Pretax profit	469.9	443.9	519.8	498.2	590.9
Net profit	688.2	369.7	532.3	509.9	428.3
Net profit -adj	323.1	325.6	323.9	361.1	428.3
EPS (sen)	53.3	28.6	41.2	39.4	33.1
EPS - adj (sen)	25.0	25.2	25.1	27.9	33.1
EPS Growth (Core) (%)	na	0.7	(0.5)	11.5	18.6
PER (x)	10.0	9.9	9.9	8.9	7.5
GDPS (sen)	31.0	0.0	6.0	6.0	6.0
Div Yield (%)	12.4	0.0	2.4	2.4	2.4
EV/EBITDA (x)	7.0	10.3	8.3	8.1	7.1
ROE (%)	12.4	11.6	9.9	9.6	10.3

#### 4Q12 Results analysis

YE 31 Dec (RM'mn)		4Q11	3Q12	4Q12	QOQ%	YOY%	FY11	FY12	YOY%
Revenue		921.4	867.0	1198.9	38.3	30.1	3691.7	3876.8	5.0
EBIT		208.8	106.1	233.5	120.0	11.8	374.1	504.2	34.8
Gain on derivative		0.5	(0.3)	0.3	(193.0)	(47.8)	(7.8)	0.4	(105.0)
Finance income		7.3	10.5	4.1	(60.8)	(43.5)	27.5	27.1	(1.5)
Finance costs		(23.0)	(29.9)	(20.8)	(30.4)	(9.4)	(80.9)	(104.6)	29.3
Associates		19.4	18.9	21.5	13.6	11.1	110.2	160.8	46.0
JV		(20.9)	37.1	77.8	109.3	(472.3)	85.9	148.9	73.3
EI		50.2	(0.3)	123.8	(41366.7)	146.6	63.1	208.5	230.4
PBT		192.1	142.4	316.3	122.1	64.7	509.0	736.7	44.7
Core PBT		141.9	142.7	192.5	34.9	35.7	445.9	528.3	18.5
Tax		(40.3)	(32.4)	(55.8)	72.2	38.4	(80.0)	(137.0)	71.2
MI		(10.1)	(15.7)	(41.2)	161.6	308.0	(41.4)	(67.4)	62.6
Net profit		141.6	94.3	219.3	132.6	54.8	387.6	532.3	37.4
Core net profit		117.1	94.6	102.6	8.5	(12.4)	343.5	339.0	(1.3)
Reported EPS	(sen)	11.0	7.3	17.0	132.8	54.8	30.0	41.2	37.3
Adj EPS	(sen)	9.1	7.3	7.9	8.6	(12.4)	26.6	26.2	(1.3)
DPS	(sen)	0.0	0.0	6.0	nm	nm	0.0	6.0	nm
EBIT margin	(%)	22.7	12.2	19.5	<i>ppt</i> 7.2	<i>ppt</i> (3.2)	10.1	13.0	2.9
PBT margin	(%)	15.4	16.5	16.1	(0.4)	0.7	12.1	13.6	1.5
Net margin	(%)	12.7	10.9	8.6	(2.4)	(4.2)	9.3	8.7	(0.6)
Effective tax rate	(%)	21.0	22.8	17.6	(5.1)	(3.4)	15.7	18.6	2.9

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**Table 2: SOP Valuation**

SOP Valuation	Equity stake (%)	Land size (acres)	Effective GDV (RM'mn)	NPV (RM'mn)
Sunway Damansara	60.00	18.20	495.00	24.75
Sunway Iskandar	60.00	691.00	12000.00	120.00
Sunway South Quay	60.00	52.40	2336.00	105.12
Sunway Kayangan	60.00	5.40	13.00	0.78
Sunway Semenyih	70.00	398.10	510.00	30.60
Sunway Cheras	100.00	6.90	17.00	1.02
Sunway Duta	60.00	3.20	72.00	4.32
Sunway Melawati	100.00	30.60	555.00	33.30
Sunway Alam Suria	100.00	14.10	60.00	3.60
Sunway Integrated Resort	100.00	18.50	660.00	39.60
Casa Kiara III	80.00	2.90	184.00	11.04
Sunway Velocity	59.00	19.50	1807.00	108.42
Sunway Tower KL1	100.00	1.00	240.00	14.40
Sunway City Ipoh	65.00	899.20	186.00	11.16
Sunway City Penang	100.00	15.80	174.00	10.44
Sunway Grand	100.00	3.80	38.00	2.28
Sg. Ara	100.00	68.30	841.00	50.46
Bukit Mertajam	100.00	17.80	150.00	9.00
Bukit Lenang	80.00	64.00	746.00	44.76
From Sunway Holdings				
Bangi	100.00	3.00	59.00	2.95
Melawati	100.00	2.00	43.00	2.15
Taman Equine	100.00	33.00	250.00	12.50
Sg. Long, Balakong	80.00	111.00	222.00	11.10
Mont Putra	100.00	163.00	156.00	7.80
Overseas				
Sunway Guanghao	65.00	3.70	43.00	2.15
Tianhin Eco City	60.00	90.90	3206.00	105.80
Sunway OPUS Grand India	50.00	23.80	351.00	17.55
Sunway MAK Signature residence	60.00	14.00	109.00	5.45
Wonderland Business Park, Sydney	45.00	65.50	198.00	9.90
From Sunway Holdings				
Tampines, Singapore	30.00	5.00	321.00	16.05
Sembawang, Singapore	100.00	0.80	75.00	3.75
Yuan Ching Road, Singapore	30.00	5.00	248.00	11.16
Jalan Loyang Besar/Pasir Ris Rise	30.00	4.30	690.00	31.05
Unbilled sales				168.70
<b>Sub-total</b>				<b>1033.11</b>
<b>Construction</b>				
	Effective stake (%)		Balance of works (RM'mn)	NPV
Pinewood Studios	100.00		198.00	11.68
Kelana Line - Package B	100.00		369.00	21.03
Bio-Xcell - Central facilities utility	100.00		27.00	1.53
UiTM campus expansion & KLCC link bridge	100.00		99.00	5.74
Putrajaya P7 & P8 - Roadworks, EPCC of gas district cooling plant	100.00		3.00	0.13
3-star Hotel & Office tower@ Precinct 1	100.00		10.00	0.65
Singapore - Precast	100.00		238.00	6.90
KVMRT - V4 Section 17	100.00		1147.00	40.15
Other	100.00		308.00	9.55
<b>Sub-total</b>				<b>97.36</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	1048.08	1723.98	540.72
Total surplus				1671.19
Total NTA				3239.68
Total revised enterprised value				4910.87
Conversion of warrants @ RM2.80				723.80
SOP valuation				5634.67
Enlarged share cap (mil shares)				1551.01
<b>Fair value (RM/share)</b>				<b>3.63</b>

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