



Sunway Berhad

Outperformance Driven by Strong Progress Billings

TP: RM3.83(+39.3%)

Last Traded: RM2.75

BUY

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Review

- Sunway Berhad's (Sunway) 1H13 core net profit (excluding fair value gain and gain on derivatives) of RM201.1mn beat analysts' expectations. The outperformance can be attributed to stronger-than-expected progress billing from the property development division and higher revenue from trading & services and quarry divisions.
- An interim single tier dividend of 5sen/share was declared for this quarter. Note that Sunway's board has decided to pay dividends on a semi-annual basis with effect from FY2013 onwards. We are mildly positive on this new dividend policy.
- 2Q13 net profit grew 42.7% YoY to RM110.7mn on the back of 12.2% growth in revenue as well as margin improvement (PBT margin grew 2.8ppt YoY). Driven by strong progress billings from the property development division, the group has chalked up net profit growth of >40% YoY for 2 consecutive quarters (1Q13 net profit rose 41%). This has resulted in the cumulative 6-month net profit surged 42% YoY to RM201.1mn.
- QoQ, 2Q13 net profit grew at a faster pace than revenue, thanks to higher EBIT margin (+1.1% QoQ to 13.7%) and lower effective tax rates (-6.2ppt). Note that EBIT margin continued to expand due to favourable product mix and healthy price appreciation for its existing projects.

Impact

- Given the stronger-than-expected 1H13, we raise our FY13-15 earnings by 8-10% after factoring in 1) higher revenue contribution from trading & services and quarry divisions and 2) change in progress billing assumptions in property and construction divisions.

Outlook

- Sunway recorded new sales of RM368mn in 2Q13 (effective sales RM288mn), bringing the YTD new sales to RM606mn (effective sales RM492mn). Although new sales were lower than 1H12's new sales of RM674mn, we deem the sales performance was commendable in view of lack of sizable new launches in 1H13. Key projects which have contributed to improving quarterly sales include Sunway Vivaldi @ Mont Kiara, Sunway Eastwood @ Puchong and Sunway Cassia @ Penang. Unbilled sales remains healthy at RM2.2bn (effective RM1.8bn), which will keep the group busy over the next two years.
- We believe the group is on track to meet both its sales target and our sales assumptions of RM1.1bn and RM1.2bn respectively. Sales will likely to pick up in 2H as new launches are scheduled to come to the market from July-13 onwards. YTD, the group has launched RM680mn worth of new properties and has further lined up RM650mn and SGD950mn worth of launches in Malaysia and Singapore respectively for the remaining of the year – see **Table 1**. Recently, the group has soft-launched the first phase of Lenang Height @ Johor (GDV: RM201mn) and garnered 50% take-up thus far.

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	1723.5
Market Cap (RMmn)	4739.6
Par Value	1.00
52-wk Hi/Lo (RM)	3.61/1.89
12-mth Avg Daily Vol ('000 shrs)	1140.6
Estimated Free Float (%)	25.0
Beta	1.60

Major Shareholders (%)

Sungei Way Corp (44.5)

Forecast Revision

	FY13	FY14
Forecast Revision (%)	10.1	8.8
Net profit (RMmn)	401.6	476.6
Consensus	387.3	450.8
TA's / Consensus (%)	103.7	105.7
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY13	FY14
Net Debt / Equity (%)	16.9	15.9
FCPS (sen)	14.0	8.7
Price / FCPS (x)	19.6	31.5
ROA (%)	4.3	4.6
NTA/Share (RM)	2.5	2.6
Price/NTA (x)	1.1	1.0

SCORECARD

	% of FY	
vs TA	55.0	Above
vs Consensus	53.0	Above

Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	(15.9)	(5.1)
3 mth	(18.4)	(4.0)
6 mth	27.1	4.0
12 mth	42.6	3.5

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



Source: Bloomberg

Elsewhere, retail shops and flexi suites within the Sunway Geo development also registered take up rate of 90% and 75% respectively.

- On the construction front, Sunway has secured new jobs worth RM1.3bn – see **Table 2**. These jobs have boosted its order book to RM3.3bn (excluding in-house works), providing 2-3 years earnings visibility for the group's construction division (at 2.1x our projected FY14 construction revenue). According to management, performance of the construction division were affected by the stop work order imposed on all contractors arising from the accidents occurred at the work site of Kelana Jaya LRT extension project. Meanwhile, the progress of the MRT project was also delayed slightly due to adverse weather conditions which resulted in slower progress billings. However, management assured that the construction progress for both projects still well within the targeted timeline.

Valuation

- In tandem with the change in earnings projections, our SOP-derived target price is nudged up slightly to **RM3.83/share** (from RM3.79/share) – see **Table 3**. We reiterate our **Buy** recommendation on Sunway as we continue to like its 1) clear earnings visibility underpinned by strong unbilled sales and order book; 2) large presence in Iskandar Malaysia should continue draw investors' interest; and 3) construction expertise should benefit from domestic infrastructure boom with various mega infrastructure works in the pipeline.

Table 1: New Property Launches in the pipeline

Launch Date	Project	Type of property	GDV (RM mn)
June 2013	Sunway Geo @ Bandar Sunway	3 Storey Terrace House	106
July 2013	Sunway Cassia @ Penang	Office Suites & Retail Shops	373
July 2013	Sunway Lenang Heights @ Johor	Semi D & Bungalows	201
Sep 2013	Sunway Velocity	Serviced Apartment	200
2H 2013	Novena @ Singapore	Med. Suites, hotel and retail	SGD 915mn
2H 2013	Sembawang @ Singapore	3 Storey Terrace	SGD 35mn
2H 2013	Sunway Geo Residence @ Bandar Sunway	Serviced Apartment	150
Dec 2013	Sunway Iskandar @ Medini	Serviced apartments, office suites and retail	300

Source: Sunway, TA Research

Table 2: Order book

Project	RM'mn
Infrastrucutre	
MRT Package V4	1074
LRT Kelana Jaya Line Extension	305
* BRT Sunway Line	415
Johor	
* Urban Wellness	283
Pinewood Studios	37
BioXcell - Central Facilities Utility	12
* Legoland Water Park	28
Others	
* KLCC NEC	304
* KLCC Package 2	222
Others	251
Foreign	
Singapore - precast	393
Total External Orderbook	3324
Other in-house jobs	
Sunway Velocity Mall (Substructure)	184
Sunway Velocity Phase 2 (Substructure)	74
Sunway Velocity (Shop offices & Apartment)	77
The Pinnacle (Superstructure)	70
Sunway University New Academic Block	192
Sunway Putra Place	250
Total Orderbook	4171

* 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	4803.1	4849.6
EBITDA	454.0	583.3	589.7	679.1	721.9
EBITDA margin (%)	12.3	15.0	13.8	14.1	14.9
Pretax profit	443.9	546.4	539.3	635.2	689.8
Net profit	369.7	532.3	401.6	476.6	520.1
Net profit -adj	325.6	350.5	401.6	476.6	520.1
EPS (sen)	25.2	27.1	23.3	27.7	30.2
EPS - adj (sen)	18.9	20.3	23.3	27.7	30.2
EPS Growth (Core) (%)	0.8	7.7	14.6	18.7	9.1
PER (x)	13.2	12.2	10.7	9.0	8.2
GDPS (sen)	0.0	4.5	8.0	9.0	10.0
Div Yield (%)	0.0	1.8	3.2	3.6	4.0
ROE (%)	11.6	10.7	9.9	10.1	10.3

2Q13 Results analysis

YE 31 Dec (RM'mn)	2Q12	1Q13	2Q13	QoQ (%)	YoY (%)	1HFY12	1HFY13	YoY (%)
Revenue	996.1	1021.0	1118.0	9.5	12.2	1810.9	2139.1	18.1
EBIT	104.2	86.1	116.6	35.5	11.9	164.6	202.6	23.1
Gain on derivative	0.2	0.3	(0.1)	nm	nm	0.4	0.2	(56.8)
Finance income	7.0	10.5	8.4	(20.5)	19.7	12.5	18.9	50.8
Finance costs	(29.7)	(22.2)	(21.0)	(5.4)	(29.5)	(53.9)	(43.1)	(19.9)
Associates	101.5	18.7	78.8	321.4	(22.4)	120.4	97.5	(19.0)
JV	10.0	29.2	29.8	2.2	197.1	34.0	59.0	73.4
EI	85.2	(0.3)	59.6	nm	(30.0)	85.0	59.4	(30.1)
PBT	193.1	122.5	212.5	73.4	10.0	278.0	335.0	20.5
Core PBT	107.9	122.2	152.9	25.1	41.6	193.1	275.1	42.5
Tax	(30.3)	(26.3)	(32.5)	23.2	7.0	(48.8)	(58.8)	20.4
MI	(8.5)	(5.6)	(9.7)	72.6	14.5	(10.4)	(15.3)	47.0
Net profit	154.3	90.6	170.3	88.1	10.4	218.8	260.9	19.3
Core net profit	77.6	90.3	110.7	22.6	42.7	141.9	201.1	41.7
Reported EPS (sen)	11.9	7.0	13.2	88.0	10.4	16.9	20.2	19.3
Adj EPS (sen)	6.0	7.0	8.6	22.5	42.7	11.0	15.6	41.7
DPS (sen)	0.0	0.0	5.0	nm	nm	0.0	5.0	nm
EBIT margin (%)	10.5	8.4	10.4	2.0	(0.0)	9.1	9.5	0.4
PBT margin (%)	10.8	12.0	13.7	1.7	2.8	10.7	12.9	2.2
Net margin (%)	7.8	8.8	9.9	1.1	2.1	7.8	9.4	1.6
Effective tax rate (%)	15.7	21.5	15.3	(6.2)	(0.4)	17.6	17.6	(0.0)

Table 3: SOP Valuation

SOP Valuation	% Shareholdings	Effective land size (acres)	Effective GDV (RM'mn)	NPV (RM'mn)
Selangor/KL				
Sunway Damansara	60%	9.2	1014.8	96.8
Sunway South Quay	60%	31.2	2393.8	169.4
Sunway Monterez	60%	3.2	26.2	2.4
Sunway Semenyih	70%	278.7	510.0	31.8
Sunway Cheras	100%	6.0	16.8	1.6
Sunway Duta	60%	1.9	72.0	5.0
Sunway Montana	100%	2.0	55.5	3.9
Sunway Alam Suria	100%	0.7	12.0	0.8
Sunway Resort City	100%	14.9	660.1	41.1
Casa Kiara III	80%	2.3	168.0	15.5
Sunway Velocity	85%	15.2	2430.1	188.9
Sunway Tower KL 1	100%	1.0	240.0	22.2
Bangi	100%	3.0	59.0	5.6
Melawati	100%	2.0	43.0	4.1
Sg Long	80%	88.8	221.6	21.0
Mont Putra, Rawang	100%	163.0	156.0	14.8
Perak				
Sunway City Ipoh	65%	581.6	681.4	38.6
Penang				
Sunway City Penang	100%	15.9	171.7	16.3
Sunway Grand	100%	11.9	186.0	17.6
Sungai Ara	100%	56.1	849.2	80.5
Bukit Mertajam	100%	42.3	694.1	65.8
S'pore				
Novena	30%	0.5	672.5	67.5
Sembawang, Singapore	100%	0.8	75.0	8.0
Johor				
Bukit Lenang	80%	70.4	745.6	46.5
Medini	38%	262.6	4560.0	321.5
Pendas	60%	647.4	10800.0	761.5
China				
Sunway Guanghao	65%	2.4	43.4	3.0
Tianjin Eco City	60%	54.5	3206.3	122.2
India				
Sunway OPUS Grand India	50%	11.9	351.2	20.5
Sunway MAK Signature Residence	60%	8.4	108.7	6.7
Australia				
Wonderland Business Park (Sydney)	45%	21.8	170.1	10.5
Total		2411.5	31394.3	2211.5
Current unbilled sales			1800	243.0
Sub-total				2560.9

Construction	Effective stake (%)	Balance of works (RM'mn)	NPV
Pinewood Studios	100.00	122.00	7.20
Kelana Line - Package B	100.00	336.00	19.15
Bio-Xcell - Central facilities utility	100.00	24.00	1.36
UiTM campus expansion & KLCC link bridge	100.00	57.00	3.31
3-star Hotel & Office tower@ Precinct 1	100.00	6.00	0.39
Singapore - Precast	100.00	466.00	13.51
KVMRT - V4 Section 17	100.00	1117.00	39.10
Legoland Water Park	100.00	41.00	2.42
BRT Sunway Line	100.00	452.00	-55.00
KLCC NEC	100.00	304.00	13.38
KLCC Package 2	100.00	222.00	9.77
Urban Wellness	100.00	283.00	11.32
Other	100.00	268.00	8.31
Sub-total			74.21

	Effective stake (%)	Book value (RM'mn)	Est. fair value (RM'mn)	Difference (RM'mn)
Investment in Sunway REIT (less 20% holding company discount)	34.30	1048.08	1514.71	373.3
Total surplus				3008.4
Total NTA				3972.2
Total revised enterprised value				6980.6
Conversion of warrants @ RM2.50				724.3
SOP valuation (RM mn)				7704.9
Fully Diluted Share Base (mn shares)				2013.2
Fair Value (RM/Share)				3.83

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