

Corporate Highlights



RHB Research Institute Sdn Bhd
A member of the RHB Banking Group
Company No: 233327 -M

Results Note

Sunway Berhad

Maiden Dividend Declared

01 March 2013

Share Price : RM2.49
Fair Value : RM3.25
Recom : Buy
(Maintained)

Table 1 : Investment Statistics (SUNWAY; Code: 5211)

Bloomberg: SWB MK

FYE	Net						Net				
	Turnover	Profit #	EPS #	Growth	PER	C.EPS*	P/CF	P/NTA	ROE	Gearing	NDY
Dec	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(x)	(x)	(%)	(%)	(%)
2012	3,876.8	350.6	27.1	7.7	9.2	-	12.8	1.0	16.3	45.2	2.4
2013f	4,446.4	382.8	29.6	9.2	8.4	27.4	16.8	0.9	10.3	56.7	2.6
2014f	5,292.4	453.8	35.1	18.5	7.1	30.1	9.8	0.8	11.2	55.4	2.8
2015f	5,776.4	516.8	40.0	13.9	6.2	-	14.8	0.7	11.7	51.8	3.2

Main Market Listing /Trustee Stock/Syariah Approved Stock By The SC * Consensus Based On IBES Estimates # Normalised

◆ **Above expectations.** Sunway Berhad's 4Q12 core net profit of RM114.1m (+14.9% yoy; +20.6% qoq) came in 6% above our and market expectations. Sequential growth in turnover was mainly attributed to improvement in all three key divisions: property development +125.3%, property investment +13.7%, and construction +34.8%. Overall EBIT margin increase to 13.0% from 9.2% in FY11, mainly driven by the stronger margin from the property development division, as earnings from the Singapore projects kicked in more materially in 2H12. A 6 sen maiden single-tier dividend was declared (vs. our forecast of 5.5 sen), representing a payout of about 22%.

◆ **RM1.83bn sales in FY12.** Sunway achieved RM1.83bn property sales last year, up from RM1.22bn in Sept. A large chunk of the sales was contributed from the Singapore projects (RM571m), followed by Sunway GEO South Quay (RM350), and Velocity Designer Suites (RM258m). Average take-up rate for these projects is 70-80%. Going into FY13, Sunway has a lower sales target of RM1.3bn, on the back of RM1.5bn worth of launches. The lower guidance is mainly attributed to the lack of Singapore projects this year, as the Novena project will only be rolled out in end 2013. However, we think Sunway could potentially surprise the market, given the type of products that it plans to launch. These include Bukit Lenang JB, Velocity, Sunway GEO and Sunway Eastwood. Both Bukit Lenang and Sunway GEO projects are respectively located in matured areas, and hence there will be natural demand for the properties. Velocity, being close enough to the city centre, will pick up as prices for the properties in the outer KL city area are catching up fast.

◆ **Risks and concerns.** i) rising building input costs; ii) delays in approvals and launches; iii) new contracts secured in FY12/10-12 coming in below our target; and iv) country and macro risk.

◆ **Forecasts.** We fine tune our FY13-14 earnings forecasts slightly, after we update the latest balance sheet numbers. Future earnings will be backed by the RM2.78bn unbilled sales (from RM2.41bn) and construction orderbook of RM3.187bn.

◆ **Valuations.** Sunway remains our top pick for the sector. We like the stock for its strategic landbank exposure in the Iskandar region. The stock is undervalued on SOP basis. We maintain our Buy rating on the stock. Our fair value is revised up to RM3.25 (from RM3.18), based on 30% discount to RNAV, after we update our RNAV estimate for the latest financial numbers.

RHBRI	Vs.	Consensus
✓	Above	✓
	In Line	
	Below	

Issued Capital (m shares)	1,292.5
Market Cap (RMm)	3,218.3
Daily Trading Vol (m shs)	0.3
52wk Price Range (RM)	2.12 – 2.75
Major Shareholders:	(%)
Tan Sri Dato' Seri Dr Jeffrey Cheah	45.0
GIC	12.5

FYE Dec	FY13	FY14	FY15
EPS chg (%)	+3.6	+4.4	-
Var to Cons (%)	(1.7)	(6.4)	(0.0)

PE Band Chart



Relative Performance To FBM KLCI



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Please read important disclosures at the end of this report.

Table 2. Sunway Bhd Quarterly Results

FYE Dec (RMm)	4Q11	3Q12	4Q12	QoQ (%)	YoY (%)	FY11	FY12	YoY (%)	Comments
Turnover	968.6	866.9	1,198.9	38.3	23.8	3,738.9	3,876.8	3.7	Sequential growth was mainly anchored by the strong growth in the property development division. Revenue mainly contributed by Sunway Velocity, South Quay condos, Sunway Nexis.
Prop dev	243.9	176.6	397.9	125.3	63.1	669.3	923.2	37.9	
Prop invt	161.2	148.2	168.5	13.7	4.5	360.5	590.9	63.9	Revenue was higher qoq due to higher progressive billings from local infra and building works, and stronger sales contribution from precast products.
Construction	292.8	267.3	360.3	34.8	23.1	968.7	1,274.9	31.6	
Trading & Manufacturing	136.4	143.3	122.7	(14.4)	(10.1)	416.7	558.7	34.1	
Quarry	48.6	53.8	57.2	6.3	17.6	135.8	196.9	44.9	
Investment holdings	0.5	0.3	6.3	1896.2	1079.1	2.4	7.0	194.6	
Others	85.1	77.3	86.0	11.3	1.1	216.8	325.1	50.0	
EBIT	179.5	106.1	233.5	120.1	30.1	344.8	504.2	46.2	
Prop dev	66.8	53.0	88.7	67.5	32.9	63.2	187.6	197.0	
Prop invt	39.37	19.3	59.6	208.5	51.3	71.6	137.6	92.2	EBIT was higher due to the finalisation of accounts for Rihan Heights project, but this was partially offset by the one-off provisions for indirect taxes in India of RM7.7m and bonus provisions. Key infra projects such as the MRT has also not reached profit recognition stage.
Construction	23.7	18.3	(2.4)	(113.2)	(110.2)	28.3	40.9	44.6	
Trading & Manufacturing	13.7	11.7	10.5	(9.6)	(22.9)	36.6	47.2	29.0	
Quarry	1.2	3.4	5.0	45.6	326.9	7.2	12.2	68.1	
Investment holdings	21.4	(5.9)	(24.1)	307.0	(212.8)	(41.4)	(36.0)	(13.1)	
Others	13.5	6.3	96.2	n.m.	n.m.	(0.1)	114.7	n.m.	
Exceptional items									The EI in 4Q12 is largely made up by the gain from the disposal of Sunway Medical Centre to the REIT.
Finance cost	(24.5)	0.3	123.8	n.m.	n.m.	(8.3)	201.0	n.m.	
Asso & JV	(17.8)	(19.4)	(16.7)	(14.0)	(6.1)	(37.7)	(77.5)	105.5	
Other Income	1.6	56.1	99.3	77.1	6127.7	197.7	299.7	51.6	
Pretax profit	0.5	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.	
Tax	190.1	142.4	316.3	122.1	66.4	317.0	736.7	132.4	
PAT	(59.1)	(32.4)	(55.8)	72.2	(5.6)	(39.7)	(137.0)	245.1	
MI	131.0	110.0	260.5	136.8	98.9	277.3	599.7	116.3	
Net profit	(7.2)	(15.7)	(41.2)	161.6	474.0	(31.3)	(67.4)	115.0	
Core net profit	123.8	94.3	219.3	132.6	77.2	369.7	532.3	44.0	
EPS (sen)	99.3	94.6	114.1	20.6	14.9	325.6	350.5	7.6	Above expectations.
NTA (RM)	9.58	7.29	8.8			25.3	27.1		
DPS (sen)	2.31	2.57	2.75			2.31	2.75		
	0.0	0.0	6.0			0.0	6.0		A maiden dividend was declared.
EBIT Margin (%)									
Prop dev	18.5%	12.2%	19.5%			9.2%	13.0%		
Prop invt	27.4%	30.0%	22.3%			9.4%	20.3%		Higher margin from last year was due to profit contribution from the Singapore projects.
Construction	24.4%	13.0%	35.4%			19.9%	23.3%		
Trading & Manufacturing	8.1%	6.9%	-0.7%			2.9%	3.2%		
Quarry	10.0%	8.1%	8.6%			8.8%	8.5%		
Investment holdings	2.4%	6.3%	8.7%			5.3%	6.2%		
Others	n.m.	n.m.	n.m.			n.m.	n.m.		
PBT margin (%)	15.8%	8.2%	111.8%			-0.1%	35.3%		
Tax rate (%)	19.6%	16.4%	26.4%			8.5%	19.0%		
	31.1%	22.8%	17.6%			12.5%	18.6%		

Table 3: SOP valuations

Landbank	Size (acres)	GDV (RM mil)	Equity interest	NPV @ 13% (RM mil)	
Malaysia					
Sunway South Quay	52	3,893	60%	96.16	
Sunway Velocity	22	2,000	50%	49.20	
Sunway Damansara	18	826	60%	32.39	
Sunway Semenyih	398	729	70%	25.81	
Integrated Resorts	18	660	100%	40.09	
Melawati	31	555	100%	31.81	
Sunway Tower 1	1	240	100%	15.44	
Casa Kiara 3	3	230	80%	11.83	
Suria	14	60	100%	4.11	
Taman Duta	3	120	60%	4.64	
Penang	108	1,202	100%	72.95	
Bukit Lenang JB	64	932	80%	32.87	
Iskandar Pendas I	779.07	10,000	60%	176.00	
Iskandar Pendas II	300	5,000	60%	147.61	
Sunway Iskandar	691	10,000	60%	193.25	
Ipoh	899	286	65%	7.65	
Others	12	38	77%	1.35	
Taman Equine	33	250	100%	12.71	
Bangi	3	59	100%	2.65	
Melawati 2	2	43	100%	1.93	
Sg Long Balakong	111	277	80%	9.38	
Mont Putra	163	156	100%	6.60	
Overseas					
Opus, India	35	750	50%	3.29	
MAK, India	14	134	60%	0.83	
Guanghao, China	17	450	65%	3.03	
Tianjin, China	102	5,000	60%	26.36	
Australia	91	612	31%	6.93	
Yishun, Singapore	7	851	30%	18.59	
Tampines, Singapore	5	1,070	30%	23.37	
Yuan Ching Rd, Singapore	5	828	30%	18.08	
Sembawang, Singapore	0.77	75	100%	7.28	
Thomson/Irrawaddy	1.65	2,288	30%	58.71	
Sri Lanka	1	250	65%	1.52	
Pasir Ris, Singapore	4.3	893	30%	24.63	
Unbilled sales				180.00	
Subtotal				1,349.07	
Investment properties	EBITDA	Market value	Book value	Equity interest	Net surplus
	(RM mil)	(RM mil)	(RM mil)		(RM mil)
Monash University Campus	13.4	200.0	200.0	100%	0.0
Sunway University College	9.5	153.0	153.0	100%	0.0
Sunway Hotel Georgetown	2.3	60.0	60.0	100%	0.0
Sunway Medical Centre	17.0	310.0	160.2	78%	0.0
Sunway Hotel Phnom Penh	3.0	17	17.0	53%	0.0
Sunway Hotel Hanoi	0.1	12.0	12.0	100%	0.0
Sunway Giza	1.1	42.7	42.7	60%	0.0
Subtotal					0.0
Other divisions	Market value	Book value	FY13 EPS	PE target	Equity value surplus
	(RM mil)	(RM mil)	(sen)	(x)	(RM mil)
Construction			0.14	10	944.41
34% Sunway REIT	1,510.5	882.0			628.54
Subtotal					1,572.95
Total					2,922.02
Shareholders' equity					3,558.40
Total RNAV					6,480.42
Share base (mil)					1,292.51
No. of warrants					258.50
Warrants conversion @ RM2.80					723.80
Total SOP value					7,204.22
Enlarged share base (mil)					1,551.01
Fully diluted RNAV per share					4.64
Discount					30%
Fair value (RM)					3.25

* Equity value surplus = equity value of the construction division based on PE minus estimated BV of Sunway Holdings to avoid double counting (the discounted PE target for the construction division is 7x)
 Source: Company, RHBRI

Table 4. Earnings Forecasts

FYE Dec (RMm)	FY12	FY13F	FY14F	FY15F
Revenue	3,876.8	4,446.4	5,292.4	5,776.4
Gross Profit	1,068.0	1,241.4	1,452.5	1,504.9
EBIT	504.2	402.0	429.9	399.0
Interest income	27.1	28.4	29.9	31.4
Finance costs	(104.6)	(127.3)	(136.6)	(141.4)
PBT	728.2	722.3	856.3	975.1
Exceptional item	0.0	148.8	0.0	0.0
Tax + minority interest	(195.9)	(339.5)	(402.5)	(458.3)
Normalised net profit	350.6	382.8	453.8	516.8
Normalised EPS	27.1	29.6	35.1	40.0
Gross DPS	6.0	6.5	7.0	8.0
Dividend payout	22.1	21.9	19.9	20.0

Source: Company, RHBRI estimates

IMPORTANT DISCLOSURES

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Stock Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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