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Buy

Price
RM2.75

Target price
RM4.20

Bloomberg code
SWB MK

Equity | Malaysia | Real Estate

Flashnote

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Sunway

A sunny quarter

Sunway's 2Q13 normalized earnings grew strongly by 43% yoy and 23% qoq. The star performer was its property development division, with higher sales especially for properties close to key transport networks such as the BRT and MRT lines, and higher progress billings. 1H13 earnings, typically the weaker half, exceeded ours and Bloomberg consensus' expectations constituting 52% of full year numbers. We view the recent share price weakness as a good buying opportunity. Valuations are compelling at 11.8x FY13F PE and 0.9x PB. Buy.

- On a yoy basis, 2Q13 revenue was up 12% while normalized net profit surged 43%. This is upon stripping out RM59.7m for its share in fair value gain from associate Sunway REIT and RM0.1m in derivatives losses. The good performance was largely attributable to its property development division with higher sales and contributions from Singapore projects, which offset the weaker performance at its construction division. Property investment division showed flat growth yoy.
- On a qoq basis, revenue rose 10% while normalized net profit was up 23%. The better performance was due to growth in property development, property investment, trading & manufacturing and quarry divisions, offsetting the decline in construction earnings.
- Property development's revenue was up 42% qoq and 52% yoy. The higher revenue was due to stronger sales achieved in recently launched projects, in particular, those located near its Bus Rapid Transit (BRT) and Mass Rapid Transit (MRT) lines in Sunway Damansara and Sunway Velocity. Operating profit rose 74% qoq and 59% yoy. The strong performance was due to higher progress billings from Sunway South Quay, Sunway Damansara, Sunway Velocity and Sunway Eastwood.
- According to management, effective sales as at June 2013 is RM492m (March 2013: RM202m), which constitutes about 45% of FY13 effective sales target of RM1.1bn. Effective unbilled sales is RM1.8bn, which translates to 1.3x 2012 property development revenue.
- Property investment revenue was up 6% qoq but down 1% yoy. Operating profit was up 29% qoq and down 24% yoy. The slower yoy performance was due to lower occupancy rate coupled with higher maintenance expenditure and purchase of hotel operating equipment for its hospitality division. The better qoq performance was due to seasonality with higher visitorship and occupancy rate in 2Q13.
- Construction division underwhelmed this quarter with revenue down 13% qoq and 4% yoy. Operating profit also declined 43% qoq and 11% yoy. This was due to a slight delay in the LRT project arising from stop work order imposed on all contractors due to accidents at a work site of other packages not undertaken by Sunway. MRT project progress was also slightly delayed due to adverse weather conditions.
- Outstanding construction order book is RM4.2bn, and it has replenished RM1.76bn in order book ytd, or 88% of full year target of RM2bn.
- Overall, 1H13 normalized net profit exceeded expectations, constituting 52% of ours' and Bloomberg consensus' forecasts. In the past, second half earnings typically constitute 60% of the full year. We also expect property launches and sales to further pick up in 2H13.

Table 1 : Quarterly performance trends

(RM m)	Quarter						Change		Cumulative			KAF	
FYE 31 Dec	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	% qoq	% yoy	1H12	1H13	% chg	FY13F	1H/F
Turnover	814.8	996.1	867.0	1,198.9	1,021.0	1,118.0	10	12	1,810.9	2,139.1	18	3,710.0	58
EBIT	60.5	95.7	106.1	109.9	86.0	116.6	36	22	156.1	202.6	30	474.1	43
EBIT margin (%)	7.4%	9.6%	12.2%	9.2%	8.4%	10.4%			8.6%	9.5%		13%	
Net interest expense	(18.6)	(22.8)	(19.5)	(16.7)	(11.7)	(12.6)	8	(45)	(41.4)	(24.3)	(41)	(63.9)	38
Associates and JVs	42.9	35.1	56.1	99.3	47.9	48.9	2	40	77.9	96.8	24	131.4	74
Exceptional items	0.2	85.2	(0.3)	123.8	0.3	59.6	19,767	nm	85.4	59.9		-	nm
Profit before tax	84.9	193.1	142.4	316.3	122.5	212.5	73	10	278.0	335.0	20	541.6	62
Normalized PBT	84.7	107.9	142.7	192.5	122.2	152.9	25	42	192.6	275.1	43	541.6	51
Tax	(18.5)	(30.3)	(32.4)	(55.8)	(26.3)	(32.5)	23	7	(48.8)	(58.8)	20	(113.0)	52
Minority interest	(2.0)	(8.5)	(15.7)	(41.2)	(5.6)	(9.7)	73	14	(10.4)	(15.3)	47	(38.6)	40
Net profit	64.4	154.3	94.3	219.3	90.6	170.3	88	10	218.8	260.9	19	390.0	67
Norm. net profit	64.2	77.6	94.6	114.1	90.3	110.7	23	43	141.9	201.0	42	390.0	52
Norm. margin (%)	7.9%	7.8%	10.9%	9.5%	8.8%	9.9%			7.8%	9.4%			

Source: Company, KAF

Income statement

FYE December (RMm)	2011A	2012A	2013F	2014F	2015F
Turnover	3,691.7	3,876.8	3,710.0	4,038.3	5,047.7
EBITDA	396.6	412.7	549.6	649.6	862.0
Depreciation & Amortisation	(90.7)	(89.9)	(75.5)	(115.3)	(151.3)
EBIT	305.9	322.8	474.1	534.3	710.8
Net interest	(53.4)	(77.5)	(63.9)	(54.8)	(57.0)
Associates	185.6	301.2	131.4	156.5	132.2
Exceptional items	60.4	181.8	-	-	-
Pretax profit	498.5	728.2	541.6	636.0	786.0
Taxation	(69.6)	(128.5)	(113.0)	(136.7)	(186.3)
Profit after tax	429.0	599.7	428.6	499.3	599.7
Minority interest	(41.4)	(67.4)	(38.6)	(49.4)	(76.5)
Net profit	387.6	532.3	390.0	449.9	523.2
Normalised net profit	327.1	350.6	390.0	449.9	523.2

Source: Company, KAF

Balance sheet

FYE December (RMm)	2011A	2012A	2013F	2014F	2015F
Non-current assets					
Property, plant and equipment	960.6	806.9	1,231.4	1,616.1	1,964.8
Investment properties	888.9	1,150.3	1,150.3	1,150.3	1,150.3
Land held for development	1,017.3	1,042.3	1,042.3	1,042.3	1,042.3
Investment in associates & jointly controlled entity	1,332.5	1,580.5	1,711.9	1,868.3	2,000.6
Goodwill	326.5	318.7	318.7	318.7	318.7
Deferred tax assets	33.3	31.8	31.8	31.8	31.8
Total non-current assets	4,559.0	4,930.5	5,486.4	6,027.6	6,508.6
Current assets					
Properties under development	669.3	600.2	531.2	462.1	393.0
Inventories	451.8	626.0	599.0	652.1	815.1
Total receivables	1,319.1	1,400.1	1,339.9	1,458.4	1,823.0
Tax recoverable	67.6	47.8	47.8	47.8	47.8
Deposits, cash and bank balances	776.7	1,140.2	1,754.5	1,656.1	1,629.6
Total current assets	3,284.6	3,814.3	4,272.4	4,276.4	4,708.4
Total assets	7,843.6	8,744.9	9,758.8	10,304.0	11,217.0
Current liabilities					
Total payables	2,005.6	1,605.1	1,536.0	1,671.9	2,089.9
Bank borrowings	319.2	782.7	782.7	782.7	782.7
Other liabilities	1.6	-	-	-	-
Taxation	27.1	31.0	31.0	31.0	31.0
Total current liabilities	2,353.4	2,418.8	2,349.8	2,485.7	2,903.6
Financed by:					
Share capital	1,292.5	1,292.5	1,723.3	1,723.3	1,723.3
Share premium & Reserves	1,724.4	2,265.9	2,879.4	3,239.4	3,657.9
Shareholders' funds	3,016.9	3,558.4	4,602.8	4,962.7	5,381.2
Minority interest	327.3	310.0	348.6	398.0	474.5
Long-term bank borrowings	1,934.5	1,964.2	1,964.2	1,964.2	1,964.2
Other liabilities	154.9	444.0	444.0	444.0	444.0
Deferred tax liabilities	56.6	49.4	49.4	49.4	49.4
Total liabilities & shareholders' funds	7,843.6	8,744.9	9,758.8	10,304.0	11,217.0

Source: Company, KAF

Cash flow statement

FYE December (RMm)	2011A	2012A	2013F	2014F	2015F
Cashflow from operations (CFO)					
Pretax profit	498.5	728.2	541.6	636.0	786.0
Tax paid	(117.0)	(92.8)	(113.0)	(136.7)	(186.3)
Others	(124.9)	293.3	8.0	13.6	76.0
Net change in working capital	122.9	(586.5)	87.2	33.4	(40.5)
CFO	399.0	386.1	523.8	546.3	635.2
Cashflow from investing (CFI)					
Purchase of property, plant and equipment (Capex)	(337.2)	(465.5)	(500.0)	(500.0)	(500.0)
Investments	(54.2)	(247.3)	-	-	-
Others	98.5	355.1	-	-	-
CFI	(293.0)	(357.7)	(500.0)	(500.0)	(500.0)
Cashflow from financing (CFF)					
Interest paid	(66.4)	(115.7)	(114.9)	(114.9)	(114.9)
Interest received	27.5	27.1	51.1	60.1	57.9
Repayment of term loans	(44.9)	-	-	-	-
Dividends paid	(39.5)	(38.9)	(78.0)	(90.0)	(104.6)
Others	(73.0)	374.4	732.4	-	-
CFF	(196.3)	246.9	590.5	(144.8)	(161.6)
Net change in cash and cash equivalents	(90.2)	275.2	614.3	(98.4)	(26.4)

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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