

28 February 2014

**Buy**

Price  
RM2.88

Target price  
RM4.20

Bloomberg code  
SWB MK

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# Sunway

## Above and beyond

**Sunway delivered a stellar set of FY13 earnings, growing by 38% and surpassing our and Bloomberg consensus' expectations, constituting 124% and 118% of full year forecasts. The group exceeded both its property sales and construction order book replenishment targets as well. We continue to advocate strong Buy on Sunway with compelling valuations at 12.1x FY14F PE and 1x PB for a diversified conglomerate with good earnings visibility.**

- On a yoy basis, 4Q13 revenue increased 8% while operating profit increased 13% mainly driven by the property development, construction and trading & manufacturing divisions. Overall, normalized net profit grew 38% upon stripping out adjustments from cessation of consolidation of Sunway REIT, fair value gain on remaining equity interest upon change in control of Sunway REIT as well as fair value gains from investment properties amounting to over RM1bn.
- On a qoq basis, 4Q13 revenue improved 26% while operating profit rose 44%. The stronger profitability was largely driven by the property development and property investment divisions. At the normalized net level, earnings grew by 27% qoq.
- Property development revenue was up 5% yoy attributable to strong sales achieved. Operating profit improved by 11% largely due to higher progressive billings from local development projects. However, at the normalized net level, earnings declined 12% yoy due to higher operating costs and lower profit recognition from some local and Singapore property projects (which are mainly JVs).
- The group achieved full year effective property sales of RM1.4bn relative to its sales target of RM1.1bn. Effective unbilled sales was RM1.9bn, translating to 1.2x FY13 property development revenue. For FY14, management is targeting effective property sales of RM1.3bn, whereby 26% of launches will be from the Klang Valley, 24% in Johor, 27% in Singapore, 13% in China, 8% in Penang and 2% in Ipoh. About 24% of these launches will be priced from RM500-700K while 47% will be priced from RM701K-1mil.
- Among its key launches in 2014 include the first launch of Citrine at Sunway Iskandar, which comprises of office and serviced apartments (GDV: RM300m) targeting to launch by 1H2014, with 51 units of retail shops which will be kept for property investment. The group also expects to launch its Tianjin project (GDV: RM200m) by 1H2014.
- Property investment revenue declined 2% yoy while operating profit fell 9% in the quarter mainly due to the one-off acquisition fee received by Sunway REIT for the acquisition of Sunway Medical Center in 4Q12 which boosted profits previously. However, on a qoq basis, revenue and operating profit grew strongly by 21% and 77% respectively due to the holiday season in 4Q13.
- While construction revenue was up 23% yoy due to progress billings from local projects and contributions from precast project in Singapore, normalized PBT improved by a lower 7% yoy. Management indicated that there was a one-off provision of RM23m for doubtful debt for Al-Reem project.
- Outstanding construction order book is now at RM3.9bn, and the company replenished RM2.2bn in order book, exceeding its full year target of RM2bn. Management is guiding for RM2.5bn in order book replenishments in FY14F, whereby 70% will be external projects and 30% internal.

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Important disclosures can be found in the Disclosure Appendix

- Overall, FY13 normalized net profit at RM483m indicates a growth of 38% yoy, surpassing ours and Bloomberg consensus' expectations, constituting 124% and 118% of full year forecasts respectively. This has also exceeded our FY14F earnings forecast of RM450m and consensus' forecast of RM453m.

**Table 1 : Quarterly performance trends**

(RM m)	Quarter								Change		Cumulative			KAF	
	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	% qoq	% yoy	FY12	FY13	% chg	FY13F	12M/F
Turnover	814.8	996.1	867.0	1,241.8	1,021.0	1,118.0	1,066.1	1,342.2	26	8	4,128.8	4,733.7	15	3,710.0	128
<b>EBIT</b>	<b>60.5</b>	<b>95.7</b>	<b>106.1</b>	<b>149.1</b>	<b>86.0</b>	<b>116.6</b>	<b>116.2</b>	<b>167.8</b>	<b>44</b>	<b>13</b>	<b>411.3</b>	<b>486.6</b>	<b>18</b>	<b>474.1</b>	<b>103</b>
EBIT margin (%)	7.4%	9.6%	12.2%	12.0%	8.4%	10.4%	10.9%	12.5%			10.0%	10.3%		13%	
Net interest expense	(18.6)	(22.8)	(19.5)	(33.6)	(11.7)	(12.6)	(6.3)	(24.5)	291	(27)	(94.4)	(55.0)	(42)	(63.9)	86
Associates and JVs	42.9	35.1	56.1	73.5	47.9	48.9	49.4	83.4	69	13	207.5	229.6	11	131.4	175
Exceptional items	0.2	85.2	(0.3)	23.1	0.3	59.6	(41.2)	1,021.4	(2,579)	4,322	108.2	1,040.1		-	nm
<b>Profit before tax</b>	<b>84.9</b>	<b>193.1</b>	<b>142.4</b>	<b>212.1</b>	<b>122.5</b>	<b>212.5</b>	<b>118.2</b>	<b>1,248.1</b>	<b>956</b>	<b>488</b>	<b>839.7</b>	<b>1,894.3</b>	<b>126</b>	<b>541.6</b>	<b>350</b>
<b>Normalized PBT</b>	<b>84.7</b>	<b>107.9</b>	<b>142.7</b>	<b>189.0</b>	<b>122.2</b>	<b>152.9</b>	<b>159.4</b>	<b>226.7</b>	<b>42</b>	<b>20</b>	<b>524.4</b>	<b>661.3</b>	<b>26</b>	<b>541.6</b>	<b>122</b>
Tax	(18.5)	(30.3)	(32.4)	(44.1)	(26.3)	(32.5)	(16.6)	(45.5)	174	3	(125.4)	(120.9)	(4)	(113.0)	107
Minority interest	(2.0)	(8.5)	(15.7)	(21.4)	(5.6)	(9.7)	(8.5)	(63.9)	656	199	(47.6)	(87.7)	84	(38.6)	227
<b>Net profit</b>	<b>64.4</b>	<b>154.3</b>	<b>94.3</b>	<b>146.6</b>	<b>90.6</b>	<b>170.3</b>	<b>93.1</b>	<b>1,138.8</b>	<b>1,123</b>	<b>677</b>	<b>438.8</b>	<b>1,500.5</b>	<b>242</b>	<b>390.0</b>	<b>385</b>
<b>Norm. net profit</b>	<b>64.2</b>	<b>77.6</b>	<b>94.6</b>	<b>114.2</b>	<b>90.3</b>	<b>110.7</b>	<b>124.4</b>	<b>157.5</b>	<b>27</b>	<b>38</b>	<b>350.7</b>	<b>482.9</b>	<b>38</b>	<b>390.0</b>	<b>124</b>
Norm. margin (%)	7.9%	7.8%	10.9%	9.2%	8.8%	9.9%	11.7%	11.7%			8.5%	10.2%			

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
<b>EBITDA</b>	<b>396.6</b>	<b>412.7</b>	<b>549.6</b>	<b>649.6</b>	<b>862.0</b>
Depreciation & Amortisation	(90.7)	(89.9)	(75.5)	(115.3)	(151.3)
<b>EBIT</b>	<b>305.9</b>	<b>322.8</b>	<b>474.1</b>	<b>534.3</b>	<b>710.8</b>
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	-	-	-
<b>Pretax profit</b>	<b>498.5</b>	<b>728.2</b>	<b>541.6</b>	<b>636.0</b>	<b>786.0</b>
Taxation	(69.6)	(128.5)	(113.0)	(136.7)	(186.3)
Profit after tax	<b>429.0</b>	<b>599.7</b>	<b>428.6</b>	<b>499.3</b>	<b>599.7</b>
Minority interest	(41.4)	(67.4)	(38.6)	(49.4)	(76.5)
<b>Net profit</b>	<b>387.6</b>	<b>532.3</b>	<b>390.0</b>	<b>449.9</b>	<b>523.2</b>
<b>Normalised net profit</b>	<b>327.1</b>	<b>350.6</b>	<b>390.0</b>	<b>449.9</b>	<b>523.2</b>

Source: Company, KAF

## Balance sheet

FYE December (RMm)	2011A	2012A	2013F	2014F	2015F
<b>Non-current assets</b>					
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
<b>Total non-current assets</b>	<b>4,559.0</b>	<b>4,930.5</b>	<b>5,486.4</b>	<b>6,027.6</b>	<b>6,508.6</b>
<b>Current assets</b>					
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
<b>Total current assets</b>	<b>3,284.6</b>	<b>3,814.3</b>	<b>4,272.4</b>	<b>4,276.4</b>	<b>4,708.4</b>
<b>Total assets</b>	<b>7,843.6</b>	<b>8,744.9</b>	<b>9,758.8</b>	<b>10,304.0</b>	<b>11,217.0</b>
<b>Current liabilities</b>					
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
<b>Total current liabilities</b>	<b>2,353.4</b>	<b>2,418.8</b>	<b>2,349.8</b>	<b>2,485.7</b>	<b>2,903.6</b>
<b>Financed by:</b>					
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
<b>Shareholders' funds</b>	<b>3,016.9</b>	<b>3,558.4</b>	<b>4,602.8</b>	<b>4,962.7</b>	<b>5,381.2</b>
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
<b>Total liabilities &amp; shareholders' funds</b>	<b>7,843.6</b>	<b>8,744.9</b>	<b>9,758.8</b>	<b>10,304.0</b>	<b>11,217.0</b>

Source: Company, KAF

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**Cash flow statement**

<b>FYE December (RMm)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
<b>Cashflow from operations (CFO)</b>					
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)
<b>CFO</b>	<b>399.0</b>	<b>386.1</b>	<b>523.8</b>	<b>546.3</b>	<b>635.2</b>
<b>Cashflow from investing (CFI)</b>					
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	-	-	-
<b>CFI</b>	<b>(293.0)</b>	<b>(357.7)</b>	<b>(500.0)</b>	<b>(500.0)</b>	<b>(500.0)</b>
<b>Cashflow from financing (CFF)</b>					
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	-	-
<b>CFF</b>	<b>(196.3)</b>	<b>246.9</b>	<b>590.5</b>	<b>(144.8)</b>	<b>(161.6)</b>
<b>Net change in cash and cash equivalents</b>	<b>(90.2)</b>	<b>275.2</b>	<b>614.3</b>	<b>(98.4)</b>	<b>(26.4)</b>

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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