

18 December 2013

Buy

Price
RM2.64

Target price
RM4.20

Market data

Bloomberg code	SWB MK
No. of shares (m)	1,723.5
Market cap (RMm)	4,550.1
52-week high/low (RM)	3.61 / 2.02
Avg daily turnover (RMm)	3.5
KLCI (pts)	1,850.90

Source: Bloomberg

Valuation

Target price (RM)	4.20
Methodology	Sum-of-parts
Key assumptions	PE multiple (property) = 14x PE multiple (construction) = 15x
Implied FY14 PE (x)	17.7
Implied FY14 PB (x)	1.5
Implied FY14 Yield (%)	1.2

Source: KAF

Performance

	1M	3M	12M
Absolute (%)	(3)	(15)	31
Rel market (%)	(6)	(18)	17



Source: Bloomberg

Analyst

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Sunway

Strengthening foothold in Penang

We are relatively neutral on Sunway's Penang land acquisition due to relatively high land cost given the location and product mix. However, this could be mitigated if the group is able to deliver a landmark development there. Valuations are compelling and its diversified earnings base gives it an edge in the event of worse than expected regulatory curbs. **Maintain Buy.**

Financial Highlights

Year to Dec (RMm)	FY11A	FY12A	FY13F	FY14F	FY15F
Revenue	3,691.7	3,876.8	3,710.0	4,038.3	5,047.7
Pre-tax profit	498.5	728.2	541.6	636.0	786.0
Normalised net profit	327.1	350.6	390.0	449.9	523.2
Normalised EPS (RM)	0.23	0.24	0.23	0.24	0.27
EPS growth (%)	(2.4)	6.3	(2.9)	2.0	15.5
Gross DPS (RM)	-	0.08	0.06	0.07	0.08
PER (x)	10.8	11.0	11.4	11.1	9.6
ROE (%)	11.6	10.7	9.6	9.4	10.1
Gross yield (%)	-	2.3	1.7	2.0	2.3
PB (x)	1.0	1.0	0.9	0.9	0.9

Source: Company, KAF

Strengthening presence in Penang

Sunway announced that it won the bid for four parcels of freehold land amounting to 24.458 acres located along Jalan Paya Terubong (Penang), acquired via open tender from C.H. William Talhar & Wong on behalf of Luxor Precision Sdn Bhd, for RM267.418mil (RM251psf). The proposed development will be for commercial shops, SOHO and high-rise residential units with a potential GDV of RM1.5bn and GFA of 2.56mil sq. ft. About 70% of the development will be residential with indicative prices of RM650-700psf while 30% will be commercial with indicative prices of RM1,000psf. The target market will be local buyers with potential launch in early 2015. Management believes the location is strategic being next to tourist attractions such as Kek Lok Si temple and Penang Hill with good connectivity to the city center, Penang Bridge and airport and intends to establish its first landmark development there.

Our take

We believe the land cost of RM267mil which translates to about 18% of potential GDV is slightly high relative to the vicinity as it is not located at the heart of the city. The recent property tightening measures in Penang such as the additional 2% levy on locals and 3% on foreigners on top of RPGT for all properties sold within 3 years from date of sales and purchase agreement signed from 1 February 2014 could dampen sentiments. However, given that the project will not be launched immediately, and Sunway's plan to transform the project to a landmark development, this could mitigate the impact. Assuming that the RM1.5bn GDV project is over 5 years and garners a PBT margin of 15%, this could add RM34m p.a. to bottom line. Assuming the purchase is funded fully by debt, net gearing will increase from 28% (as at 3Q13) to 33%.

Remains one of our top picks

We like the stock for its attractive valuations at 11.1x FY14F PE and 0.9x PB for a diversified conglomerate with exposure to property development, property investment and construction. The group expects FY13 sales to close at RM1.8bn, exceeding its target of RM1.3bn by 38%. Management has set FY14 sales target at RM1.8bn, mainly buoyed by its maiden Sunway Iskandar launch (GDV: RM550m) and Mount Sophia in Singapore (GDV: RM650m).

Produced by KAF-Seagroatt & Campbell Securities Sdn Bhd
Important disclosures can be found in the Disclosure Appendix

Additional information

Chart 1 : Location of the land

Location

Subject Land



Source: Company

Chart 2 : Site photo

Site Photo



Source: Company

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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