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## Clear earnings visibility

**HOLD**

(Maintained)

### Rationale for report: Result Update

Price	RM2.49
Fair Value	RM2.60
52-week High/Low	RM2.75/RM2.12

#### Key Changes

Fair value	Unchanged
EPS	Unchanged

YE to Dec	FY11	FY12	FY13F	FY14F
Revenue (RMmil)	3,738.9	3,876.8	3,738.9	3,575.6
Core net profit (RMmil)	326.0	350.6	446.0	452.0
EPS (Sen)	25.2	27.1	34.5	35.0
EPS growth (%)	0.0	7.7	27.2	1.4
Consensus EPS (Sen)				
DPS (Sen)	5.7	8.2	6.9	7.0
PE (x)	9.5	8.8	7.0	6.9
EV/EBITDA (x)	9.8	9.4	7.6	6.7
Div yield (%)	2.4	3.4	2.9	2.9
ROE (%)	10.9	9.9	11.4	10.3
Net Gearing (%)	49.6	45.2	24.2	9.3

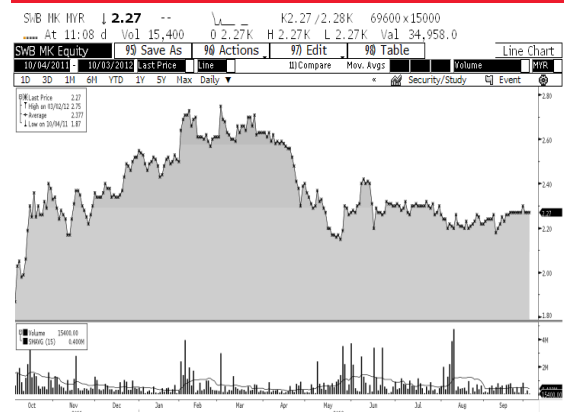
#### Stock and Financial Data

Shares Outstanding (million)	1,292.5
Market Cap (RMmil)	3218.3
Book value (RM/share)	2.31
P/BV (x)	1.0
ROE (%)	24.8
Net Gearing (%)	30.9

Major Shareholders  
 Sungei Way Corp (40.6%)  
 Cheah Ling Fook (4.2%)

Free Float (%)	30.0
Avg Daily Value (RMmil)	1.5

Price performance	3mth	6mth	12mth
Absolute (%)	0.0	(14.0)	15.8
Relative (%)	(1.9)	(17.1)	0.6



#### Investment Highlights

- We reiterate our HOLD recommendation on Sunway Bhd (Sunway), with our fair value kept at RM2.60/share – based on a 25% discount to our sum-of-parts value of RM3.50/share.
- Sunway reported a strong sequential growth in core earnings (21% QoQ) to RM114mil in 4QFY12, on the back of a 38% growth in turnover.
- This brings its FY12 core earnings to RM351mil, which is broadly in-line with our and street's estimates, coming in at +2% and 4% higher, respectively.
- The group declared a first and final dividend of 6 sen/share, which translates into a payout ratio of about 22% – just a tad higher than our assumption of 20%.
- As expected, the property division, i.e. both development & investment, was the key driver to earnings, contributing 64% to group's operating profit.
- The bulk of the development's revenue was driven by progress billings from Sunway Nexis, Velocity & South Quay. Meanwhile Singapore projects contributed to strong EBIT margins.
- Meanwhile, the construction unit was affected mostly by one-off provisions for indirect taxes in India amounting to RM7.7mil and bonus provisions. However, tail-end contributions from Rihan Heights more than compensated for the provisions.
- Going forward, Sunway's earnings would be driven by a strong outstanding order book of RM3.2bil (2.5x FY12 construction revenue) and property unbilled sales of RM2.4bil (2.6x property development turnover), providing solid earnings visibility in the medium term.
- From what we gather, the group plans to launch about RM1.5bil for FY13F with a new sales target of RM1.3bil. This appears conservative compared to other property players.
- From a valuation standpoint, Sunway Bhd appears cheap, currently trading at an FY13F PE of 8x supported by clear earnings visibility in the near- to medium-term.
- While the stock continues to trade at a cheap PE multiple (8x FY13F earnings), we expect its shares to trade sideways in the near term due to lack of appetite for property and construction counters amid election risks.

TABLE 1: RESULTS SUMMARY

YE 31 Dec (RM mil)	FY11	FY12	% YoY	3QFY12	4QFY12	% QoQ
Turnover	3691.7	3876.8	5.0	867.0	1198.9	38.3
EBIT	366.3	504.5	37.7	105.8	233.7	120.9
Net interest inc./(exp)	(53.4)	(77.5)	45.1	(19.4)	(16.7)	(14.0)
Pre-exceptional Profit	312.9	427.0	36.5	86.3	217.0	151.3
Exceptionals	0.0	0.0	#DIV/0!	0.0	0.0	n/a
Associates & JV	185.6	301.2	62.3	56.1	99.3	77.1
Pretax Profit	498.5	728.2	46.1	142.4	316.3	122.1
Taxation	(69.6)	(128.5)	84.8	(32.4)	(55.8)	72.2
Minorities	(41.4)	(67.4)	62.6	(15.7)	(41.2)	161.6
Net Profit	387.6	532.3	37.4	94.3	219.3	132.6
Core net profit	327.1	350.6	7.2	94.6	114.1	20.6
EPS (sen)	30.0	41.2	37.4	7.3	17.0	132.8
Gross DPS (sen)	0.0	0.0	n/a	0.0	0.0	n/a
BV/Share (RM)	2.3	2.8	19.0	0.0	2.8	#DIV/0!
EBIT margin (%)	9.9	13.0	31.2	12.2	19.5	59.8
Pretax margin (%)	13.5	18.8	39.1	16.4	26.4	60.6
Effective tax rate (%)	14.0	17.7	26.5	22.8	17.6	(22.4)
<b>Segmental Breakdown</b>						
Revenue	FY11	FY12	% YoY	3QFY12	4QFY12	% QoQ
Property Development	915.8	923.2	0.8	176.6	397.9	125.3
Property investment	517.6	590.9	14.2	148.2	168.5	13.7
Construction	1,221.0	1,274.9	4.4	267.3	360.3	34.8
Trading	553.2	558.7	1.0	143.3	122.7	(14.4)
Quarry	184.5	196.9	6.7	53.8	57.2	6.3
Inv Holding	3.4	7.0	104.0	0.4	6.3	1,370.4
Others	296.3	325.1	9.7	77.3	86.0	11.3
	3,691.7	3,876.8	5.0	867.0	1,198.9	38.3
<b>Results</b>						
Property Development	130.6	187.6	43.7	53.0	88.7	67.5
Property investment	108.4	137.6	26.9	19.3	59.6	208.5
Construction	58.4	40.9	(29.9)	18.3	(2.4)	(113.2)
Trading	49.8	47.2	(5.1)	11.7	10.5	(9.6)
Quarry	8.4	12.2	44.8	3.4	5.0	45.6
Inv Holding	(22.7)	(36.0)	58.4	(5.9)	(24.1)	307.0
Others	11.8	114.7	872.2	6.4	96.2	1,414.2
Operating profit	344.6	504.2	46.3	106.1	233.5	120.0

Source: Bursa Malaysia

TABLE 1 : FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2010	2011	2012	2013F	2014F
Revenue	n/a	3,738.9	3,876.8	3,738.9	3,575.6
EBITDA	n/a	<b>468.0</b>	<b>498.6</b>	<b>536.3</b>	<b>527.0</b>
Depreciation	n/a	(74.8)	(89.9)	(78.2)	(80.6)
Operating income (EBIT)	n/a	<b>393.2</b>	<b>408.7</b>	<b>458.1</b>	<b>446.4</b>
Other income & associates	n/a	191.5	292.4	296.8	304.0
Net interest	n/a	(55.5)	(53.9)	(80.3)	(67.7)
Exceptional items	n/a	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>n/a</b>	<b>507.0</b>	<b>728.2</b>	<b>674.7</b>	<b>682.7</b>
Taxation	n/a	(98.8)	(128.5)	(168.7)	(170.7)
Minorities/pref dividends	n/a	(38.5)	(67.4)	(60.0)	(60.0)
<b>Net profit</b>	<b>n/a</b>	<b>369.7</b>	<b>532.3</b>	<b>446.0</b>	<b>452.0</b>
Core net profit	n/a	<b>326.0</b>	<b>350.6</b>	<b>446.0</b>	<b>452.0</b>
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>
Fixed assets	n/a	1014.5	806.9	1039.1	1091.1
Intangible assets	n/a	325.3	318.7	318.7	318.7
Other long-term assets	n/a	3436.4	3804.9	3898.4	4011.4
<b>Total non-current assets</b>	<b>n/a</b>	<b>4776.3</b>	<b>4930.5</b>	<b>5256.3</b>	<b>5421.2</b>
Cash & equivalent	n/a	783.6	1140.2	1699.2	1739.1
Stock	n/a	454.1	626.0	409.7	430.2
Trade debtors	n/a	1096.3	1400.1	1024.4	979.6
Other current assets	n/a	705.2	648.0	764.8	786.3
<b>Total current assets</b>	<b>n/a</b>	<b>3039.1</b>	<b>3814.3</b>	<b>3898.2</b>	<b>3935.3</b>
Trade creditors	n/a	1930.5	1605.1	1475.1	1519.3
Short-term borrowings	n/a	301.4	782.7	882.7	782.7
Other current liabilities	n/a	27.9	31.0	31.0	31.0
<b>Total current liabilities</b>	<b>n/a</b>	<b>2259.8</b>	<b>2418.8</b>	<b>2388.8</b>	<b>2333.1</b>
Long-term borrowings	n/a	1963.0	1964.2	1764.2	1364.2
Other long-term liabilities	n/a	278.1	493.5	694.5	899.3
<b>Total long-term liabilities</b>	<b>n/a</b>	<b>2241.1</b>	<b>2457.6</b>	<b>2458.7</b>	<b>2263.5</b>
<b>Shareholders' funds</b>	<b>n/a</b>	<b>2983.3</b>	<b>3558.4</b>	<b>3921.0</b>	<b>4373.1</b>
Minority interests	n/a	331.2	310.0	385.8	386.8
BV/share (RM)	n/a	2.31	2.75	3.03	3.38
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>
Pretax profit	n/a	507.0	728.2	674.7	682.7
Depreciation	n/a	74.8	89.9	78.2	80.6
Net change in working capital	n/a	(193.4)	262.1	(445.2)	120.0
Others	n/a	(65.3)	(694.2)	228.8	(612.0)
<b>Cash flow from operations</b>	<b>n/a</b>	<b>323.2</b>	<b>386.1</b>	<b>536.5</b>	<b>271.3</b>
Capital expenditure	n/a	(261.8)	(473.5)	(100.0)	(100.0)
Net investments & sale of fixed assets	n/a	7.9	0.0	0.0	0.0
Others	n/a	(36.7)	115.7	0.0	(391.0)
<b>Cash flow from investing</b>	<b>n/a</b>	<b>(290.6)</b>	<b>(357.7)</b>	<b>(100.0)</b>	<b>(491.0)</b>
Debt raised/(repaid)	n/a	908.0	401.5	300.0	350.0
Equity raised/(repaid)	n/a	2.4	0.0	0.0	0.0
Dividends paid	n/a	(975.2)	0.0	(89.2)	(90.4)
Others	n/a	(51.3)	(154.6)	0.0	0.0
<b>Cash flow from financing</b>	<b>n/a</b>	<b>(116.0)</b>	<b>246.9</b>	<b>210.8</b>	<b>259.6</b>
<b>Net cash flow</b>	<b>n/a</b>	<b>(83.4)</b>	<b>275.2</b>	<b>647.3</b>	<b>39.9</b>
<b>Net cash/(debt) b/f</b>	<b>n/a</b>	<b>856.2</b>	<b>780.1</b>	<b>1,051.9</b>	<b>1,699.2</b>
<b>Net cash/(debt) c/f</b>	<b>n/a</b>	<b>780.1</b>	<b>1,051.9</b>	<b>1,699.2</b>	<b>1,739.1</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>
Revenue growth (%)	n/a	19.3	3.7	(3.6)	(4.4)
EBITDA growth (%)	n/a	n/a	6.5	7.6	(1.7)
Pretax margins (%)	n/a	13.6	18.8	18.0	19.1
Net profit margins (%)	n/a	9.9	13.7	11.9	12.6
Interest cover (x)	n/a	7.1	7.6	5.7	6.6
Effective tax rate (%)	n/a	19.5	17.7	25.0	25.0
Net dividend payout (%)	n/a	20.0	20.0	20.0	20.0
Debtors turnover (days)	n/a	107.0	131.8	100.0	100.0
Stock turnover (days)	n/a	44.3	58.9	40.0	43.9
Creditors turnover (days)	n/a	215.4	173.4	168.1	181.9

Source: Company, AmResearch estimates

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