

Sunway (BUY ↔, EPS ↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

20 March 2013

Price Target: RM3.38 (↔)

Share price: RM2.74

Parking RM304m order

News

- Sunway has been awarded a **RM304m** contract for the construction of North East Car Park underneath KLCC Park from Cititower S/B (JV between KLCC (Holdings) S/B and QD Asia Pasific Ltd). The scope of works include excavation works, construction and installation of diaphragm wall, foundation and piling works, construction of 6 levels basement car park and its associated works. The project is expected to be completed within **178 weeks** (44.5 months) of site possession.

Comments

- **3rd order...** Hot on the heels of winning the dedicated elevated Bus Rapid Transit project for RM452.5m last week (refer to our report "*Bagging the BRT project*" dated 12 Mar-13), Sunway's job win momentum continued. The latest basement car park project win makes up 24% of FY12's construction revenue and 11% of its previous outstanding order book of RM2.9bn. YTD, Sunway has won 3 projects worth RM801m, making up 53% of our annual order book replenishment assumption of RM1.5bn for FY13.
- **Technically challenging...** We believe that this project is a technically challenging project considering the depth of the basement car park and the karstic limestone geology formation. However, given Sunway's substructure and geotechnical expertise, we believe that the company is able to overcome the potential execution risk.
- **1.2 sen/share...** Assuming a net margin of 5%, this project translates to ~1.2 sen/share (FD: ~1.0 sen/share) for Sunway.
- **Earnings visibility...** The latest project win will lift its external outstanding order book to RM3.2bn (see Figure #1), translating to 2.5x FY12's construction revenue.

Risks

- Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.

Forecasts

- Unchanged as the order is already part of our annual order book replenishment assumption of RM1.5bn for FY13.

Rating

BUY (↔)

- Positives: (1) Acquiring strategic land bank. (2) Deep values and is still trading at a discount to its peers. (3) Integrated construction/property business model.
- Negatives: (1) Slower take-up for its property launches.

Valuation

- TP maintained at **RM3.38** based on SOP valuation (see Figure #2).

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| | |
|-----------------------------|---------|
| KLCI | 1,625.5 |
| Expected share price return | 23.4% |
| Expected dividend return | 2.2% |
| Expected total return | 25.5% |

Share price



Information

| | |
|--------------------------|--------|
| Bloomberg Ticker | SWB MK |
| Bursa Code | 5211 |
| Issued Shares (m) | 1,293 |
| Market cap (RM m) | 3,541 |
| 3-mth avg. volume ('000) | 972 |

| | | | |
|--------------------------|-----|------|-----|
| Price Performance | 1M | 3M | 12M |
| Absolute | 8.7 | 17.1 | 3.8 |
| Relative | 7.9 | 20.3 | 0.7 |

Major shareholders

| | |
|-----------------|-------|
| Tan Sri Jeffrey | 45.0% |
| GIC | 12.5% |
| Free Float | 51.7% |

Summary Earnings Table

| FYE Dec (RM m) | 2011A | 2012A | 2013E | 2014E |
|-------------------|-------|-------|-------|-------|
| Revenue | 3,692 | 3,877 | 3,957 | 4,491 |
| EBITDA | 457 | 594 | 503 | 592 |
| EBIT | 366 | 505 | 409 | 480 |
| Profit Before Tax | 499 | 728 | 474 | 549 |
| PATAMI | 372 | 532 | 364 | 423 |
| Core PATAMI | 328 | 351 | 364 | 423 |
| Core EPS (sen) | 25.4 | 27.1 | 28.1 | 32.7 |
| FD EPS (sen) | 21.1 | 22.6 | 23.4 | 27.3 |
| Net DPS (sen) | - | 6.0 | 6.0 | 6.0 |
| Net DY (%) | - | 2.2 | 2.2 | 2.2 |
| P/E (x) | 10.9 | 10.2 | 9.8 | 8.4 |
| FD P/E (x) | 13.1 | 12.2 | 11.8 | 10.1 |
| P/B (x) | 1.2 | 1.0 | 0.9 | 0.9 |
| Net Gearing (%) | 45.4 | 49.1 | 49.3 | 49.1 |
| ROE (%) | 10.1 | 10.7 | 9.8 | 10.5 |
| ROA (%) | 4.4 | 4.2 | 4.4 | 5.1 |

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Figure #1 External outstanding construction order book

| Projects | (RM m) |
|---------------------------------------|--------------|
| MRT Package V4 | 1,137 |
| LRT KJ Extension Package B | 355 |
| Pinewood Studios | 182 |
| BioXcell – CUF | 25 |
| Legoland Water Park | 45 |
| UiTM campus expansion | 89 |
| Precinct 1, Hotel & Office, Putrajaya | 6 |
| Others | 358 |
| Singapore precast | 219 |
| BRT – Sunway Line | 452 |
| KLCC Park basement carpark | 304 |
| Total | 3,172 |

Sunway, HLIB

Figure #2 Sunway SOP valuation

| Division | Methodology | Stake | Value (RM m) | RM/share | % |
|-----------------------|------------------------------------|------------------------------------|--------------|----------|------|
| Construction | 14X Average of FY13-14 Earnings | 100% | 548 | 0.35 | 10 |
| Property | NPV of profits + Shareholders Fund | 100% | 4,761 | 3.07 | 91 |
| Trading/Manufacturing | 9X P/E | 100% | 335 | 0.22 | 6 |
| Quarry | 9X P/E | 100% | 70 | 0.04 | 1 |
| | | Sub-Total (RM m) | 5,714 | | |
| | | No. of shares (m) | 1,293 | | |
| | | RM per share | 4.42 | | |
| | | Proceeds from warrants (RM m) | 724 | 0.47 | 14 |
| | | Estimated Holding Company Net Debt | (1,200) | (0.77) | (23) |
| | | SOP (RM m) | 5,238 | | 100 |
| | | Total no. of diluted shares (m) | 1,551 | | |
| | | Target Price (RM) | 3.38 | | |

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Financial Projections for Sunway (BUY; TP: RM3.38)

Income Statement

| FYE 31 Dec (RM m) | 2010A | 2011A | 2012A | 2013E | 2014E |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 3,102.1 | 3,691.7 | 3,876.8 | 3,957.1 | 4,491.0 |
| EBITDA | 670.2 | 457.0 | 594.5 | 503.5 | 592.0 |
| D&A | (79.7) | (90.7) | (89.9) | (95.0) | (112.4) |
| EBIT | 590.5 | 366.3 | 504.5 | 408.5 | 479.7 |
| Interest Income | 27.3 | 27.5 | 27.1 | 21.4 | 8.7 |
| Finance Costs | (101.1) | (80.9) | (104.6) | (109.2) | (98.5) |
| Associates/JCE | 199.3 | 185.6 | 301.2 | 153.0 | 159.1 |
| Profit Before Tax | 715.9 | 498.5 | 728.2 | 473.7 | 549.0 |
| Tax | 277.7 | (86.1) | (128.5) | (80.0) | (96.7) |
| Net Profit | 993.7 | 412.4 | 599.7 | 393.7 | 452.3 |
| Minority Interests | (309.2) | (40.4) | (67.4) | (30.1) | (29.6) |
| PATAMI | 684.4 | 372.1 | 532.3 | 363.5 | 422.7 |
| Exceptionals | 392.4 | 44.1 | 181.8 | - | - |
| Core Earnings | 292.0 | 328.0 | 350.6 | 363.5 | 422.7 |
| Basic Shares (m) | 1,292.5 | 1,292.5 | 1,292.5 | 1,292.5 | 1,292.5 |
| Core EPS (sen) | 22.6 | 25.4 | 27.1 | 28.1 | 32.7 |
| FD Core EPS (sen) | 18.8 | 21.1 | 22.6 | 23.4 | 27.3 |

Quarterly Financial Summary

| FYE 31 Dec (RM m) | 2011Q4 | 2012Q1 | 2012Q2 | 2012Q3 | 2012Q4 |
|----------------------|--------------|-------------|--------------|-------------|--------------|
| Revenue | 921.4 | 814.8 | 996.1 | 867.0 | 1,198.9 |
| Expenses | (846.1) | (770.5) | (917.8) | (786.0) | (1,109.8) |
| Other Income | 133.4 | 16.1 | 25.9 | 25.1 | 144.4 |
| EBIT | 208.8 | 60.4 | 104.2 | 106.1 | 233.5 |
| Derivatives | 0.5 | 0.2 | 0.2 | (0.3) | 0.3 |
| Net Interest Expense | (15.7) | (18.6) | (22.8) | (19.4) | (16.7) |
| Associates & JCE | (1.5) | 42.9 | 111.6 | 56.1 | 99.3 |
| Profit Before Tax | 192.1 | 84.9 | 193.1 | 142.4 | 316.3 |
| Tax | (40.3) | (18.5) | (30.3) | (32.4) | (55.8) |
| Net Profit | 151.7 | 66.4 | 162.8 | 110.0 | 260.5 |
| Minority Interests | (10.1) | (2.0) | (8.5) | (15.7) | (41.2) |
| PATAMI | 141.6 | 64.4 | 154.3 | 94.3 | 219.3 |
| Exceptionals | (40.9) | (0.2) | (76.7) | 0.3 | (105.2) |
| Core Earnings | 100.7 | 64.2 | 77.7 | 94.6 | 114.1 |
| Core EPS (sen) | 7.79 | 4.97 | 6.01 | 7.32 | 8.83 |
| FD Core EPS (sen) | 7.79 | 4.97 | 6.01 | 7.32 | 8.83 |
| W. Ave. Shares (m) | 1,292.5 | 1,292.5 | 1,292.5 | 1,292.5 | 1,292.5 |

Balance Sheet

| FYE 31 Dec (RM m) | 2010A | 2011A | 2012A | 2013E | 2014E |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash | 868.5 | 776.7 | 1,140.2 | 283.3 | 299.7 |
| Trade Receivables | 741.5 | 789.4 | 1,404.0 | 975.7 | 1,107.4 |
| Inventories | 301.5 | 451.8 | 626.0 | 596.3 | 676.7 |
| Development Costs | 621.3 | 669.3 | 600.2 | 787.8 | 994.0 |
| Associates/JCE | 1,241.8 | 1,281.2 | 1,553.2 | 1,630.8 | 1,694.7 |
| PPE | 2,197.4 | 2,875.6 | 3,007.6 | 3,212.7 | 3,400.3 |
| Goodwill | 329.2 | 326.5 | 318.7 | 318.7 | 318.7 |
| Others | 679.2 | 673.1 | 94.9 | 94.9 | 94.9 |
| Total Assets | 6,980.5 | 7,843.6 | 8,744.9 | 7,900.2 | 8,586.5 |
| Trade Payables | 826.2 | 1,039.5 | 1,605.1 | 1,084.1 | 1,230.4 |
| Total Debt | 1,405.8 | 2,253.7 | 2,746.9 | 2,107.1 | 2,272.3 |
| Others | 849.9 | 1,238.6 | 524.5 | 524.5 | 524.5 |
| Total Liabilities | 3,081.9 | 4,531.8 | 4,876.4 | 3,715.7 | 4,027.2 |
| Shareholders' Funds | 3,517.9 | 2,985.4 | 3,558.4 | 3,844.4 | 4,189.6 |
| Minority Interests | 380.7 | 326.4 | 310.0 | 340.2 | 369.8 |
| Total Capital | 3,898.6 | 3,311.8 | 3,868.4 | 4,184.6 | 4,559.3 |

Rates and Ratios

| FYE 31 Dec (RM m) | 2010A | 2011A | 2012A | 2013E | 2014E |
|-------------------|-------|-------|-------|-------|-------|
| Core PER (x) | 12.2 | 10.9 | 10.2 | 9.8 | 8.4 |
| FD Core PER (x) | 14.7 | 13.1 | 12.2 | 11.8 | 10.1 |
| Net DPS (sen) | - | - | 6.0 | 6.0 | 6.0 |
| Net DY (%) | - | - | 2.2 | 2.2 | 2.2 |
| BVPS (RM) | 2.7 | 2.3 | 2.8 | 3.0 | 3.2 |
| P/B (x) | 1.0 | 1.2 | 1.0 | 0.9 | 0.9 |
| NTA/Share (RM) | 2.5 | 2.1 | 2.5 | 2.7 | 3.0 |
| EBITDA Margin (%) | 21.6 | 12.4 | 15.3 | 12.7 | 13.2 |
| EBIT Margin (%) | 19.0 | 9.9 | 13.0 | 10.3 | 10.7 |
| PBT Margin (%) | 29.5 | 18.5 | 26.6 | 15.8 | 15.8 |
| PATAMI Margin (%) | 9.4 | 8.9 | 9.0 | 9.2 | 9.4 |
| ROE (%) | 8.3 | 10.1 | 10.7 | 9.8 | 10.5 |
| ROA (%) | 4.2 | 4.4 | 4.2 | 4.4 | 5.1 |
| Net Gearing (%) | 15.3 | 45.4 | 49.1 | 49.3 | 49.1 |

Cashflow Analysis

| FYE 31 Dec (RM m) | 2010A | 2011A | 2012A | 2013E | 2014E |
|---------------------|------------------|----------------|----------------|----------------|----------------|
| EBITDA | 670.2 | 457.0 | 594.5 | 503.5 | 592.0 |
| Working Capital | 492.0 | (52.9) | (154.1) | (250.5) | (272.0) |
| Interest Received | 27.3 | 27.5 | 27.1 | 21.4 | 8.7 |
| Dividends fr Assoc | 70.7 | 153.9 | 151.8 | 75.4 | 95.2 |
| Others | (792.6) | (186.5) | (233.2) | (80.0) | (96.7) |
| CFO | 467.4 | 399.0 | 386.1 | 269.7 | 327.3 |
| Capex | (121.4) | (142.2) | (465.5) | (300.0) | (300.0) |
| Purchase/Disposal | 3,322.4 | (71.2) | 317.4 | - | - |
| Others | (1,203.9) | (79.6) | (209.7) | - | - |
| CFI | 1,997.0 | (293.0) | (357.7) | (300.0) | (300.0) |
| Financing | 46.9 | 847.9 | 493.2 | (639.8) | 165.2 |
| Shares Issued | (128.0) | (42.5) | - | - | - |
| Dividends | (1,958.3) | (944.2) | - | (77.6) | (77.6) |
| Interest Paid | (101.1) | (80.9) | (104.6) | (109.2) | (98.5) |
| Others | (92.7) | 23.5 | (141.7) | - | - |
| CFF | (2,233.2) | (196.3) | 246.9 | (826.6) | (10.9) |
| Net Cashflow | 231.3 | (90.2) | 275.2 | (856.9) | 16.4 |

Assumption Metrics

| FYE 31 Dec (RM m) | 2010A | 2011A | 2012A | 2013E | 2014E |
|---------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 3,102 | 3,692 | 3,877 | 3,957 | 4,491 |
| Property | 623 | 916 | 923 | 959 | 1,209 |
| Property Investment | 547 | 518 | 591 | 609 | 627 |
| Construction | 1,005 | 1,221 | 1,275 | 1,255 | 1,463 |
| Trading/Manufacture | 482 | 553 | 559 | 587 | 616 |
| Quarry | 179 | 184 | 197 | 207 | 217 |
| | 267 | 300 | 332 | 341 | 358 |
| EBIT Margins (%) | 19.0 | 9.9 | 13.0 | 10.3 | 10.7 |

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| | |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| BUY | Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside. |
| TRADING BUY | Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity. |
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| | |
|--------------------|------------------------------------------------------------------------------------------------------------------------------|
| OVERWEIGHT | The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months. |
| NEUTRAL | The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months. |
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