

02 December 2013

# Sunway Berhad

## Within expectations

# OUTPERFORM ↔

**Price: RM2.65**  
**Target Price: RM3.08 ↔**

- |                                |   |
|--------------------------------|---|
| <b>Period</b>                  | <ul style="list-style-type: none"> <li>3Q13 / 9M13</li> </ul>   |
| <b>Actual vs. Expectations</b> | <ul style="list-style-type: none"> <li>At 73% of our full-year FY13 estimates, the 9M13 net profit of RM354m came in within our estimates but above consensus estimates at 82%. <b>9M13 sales of RM1.1b</b> are on schedule to meeting our and the company's FY13E sales target of RM1.3b.</li> </ul>   |
| <b>Dividends</b>               | <ul style="list-style-type: none"> <li>None as expected.</li> </ul>   |
| <b>Key Results Highlights</b>  | <ul style="list-style-type: none"> <li><b>YoY</b>, 9M13 core earnings increased by 37.6% mainly buoyed by a 19.7% YoY revenue growth. The improvement was mainly due to the stronger performance from the property development and construction segment, which the revenues and core earnings for both YoY jumped by 42.7%-30.1% and 50.2%-20.2%, respectively. The better results from property development were attributable to the increasing progress billings from on-going projects such as Sunway South Quay, Sunway Velocity and Sunway Nexis while the stronger construction results were due to stronger progress billings of the local infrastructure, building projects and precast concrete products. Despite the Pretax margin compressed by 1.6ppts, the core earnings margin improved by 1.3ppts due (i) the fall in other income by 33% was mostly mitigated by the 26% drop in finance cost and (ii) the lower tax bracket of 16.6% vs 19.3% for 9M12.</li> <li>Despite a 4.6% decline in revenue, core earnings were up by 12.3% QoQ. The revenue of property development division was marginally lower by 9.3% QoQ due to higher sales of Sunway Vivaldi in 2Q13. However, its core earnings QoQ were up by 12.3% as we saw core margin increased 10.9ppts due to the handing over of two completed property projects which helped softened QoQ weaknesses in other divisions.</li> </ul> |
| <b>Outlook</b>                 | <ul style="list-style-type: none"> <li>We remain positive on the company given its healthy unbilled sales of RM2.2b (effective RM1.8b) which provides up to 2 years earnings visibility. Meanwhile, we are looking forward to more new launches of on-going projects such as Sunway South Quay, Sunway Velocity and Sunway Nexis and new projects that include the Medini land next year.</li> </ul>  |
| <b>Change to Forecasts</b>     | <ul style="list-style-type: none"> <li>Maintaining earnings forecast of RM487m-RM495m for FY13-14E.</li> </ul>  |
| <b>Rating</b>                  | <p><b>Maintain OUTPERFORM</b></p> <ul style="list-style-type: none"> <li>In line with our sector call. Notably, the stock is trading near trough valuations at FY13-14E PER of 10.4x-9.2x and Fwd PBV of 1.0x-0.9x.</li> </ul>  |
| <b>Valuation</b>               | <ul style="list-style-type: none"> <li>Maintain TP of RM3.08. Our TP is based on a 25% discount to our FD RNAV of RM3.36.</li> </ul>  |
| <b>Risks</b>                   | <ul style="list-style-type: none"> <li>Unable to meet sales targets. Sector risks, including negative policies.</li> </ul>  |

### Share Price Performance



KLCI	1812.72
YTD KLCI chg	7.3%
YTD stock price chg	28.2%

### Stock Information

Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	4,567.3
Issued shares	1,723.5
52-week range (H)	3.61
52-week range (L)	1.96
3-mth avg daily vol:	1,013,947
Free Float	31%
Beta	1.3

### Major Shareholders

SUNGEI WAY CORP SDN	46.4%
YEAN TIH CHEAH	13.5%
GIC PRIVATE LIMITED	8.7%

### Summary Earnings Table

FYE Dec (RM m)	2012A	2013E	2014E
Turnover	3,849	4,271	5,514
EBIT	322	551	713
PBT	723	671	734
<b>Net Profit (NP)</b>	<b>530</b>	<b>487</b>	<b>495</b>
Consensus (CNP)		399	457
Earnings Revision		-	-
Core EPS (sen)	30.8	22.6	23.0
Core EPS growth (%)	11.1	11.8	12.5
NDPS (sen)	6.0	9.2	7.2
BV/Share (RM)	2.08	2.71	2.95
PER (x)	8.6	11.7	11.5
Price/BV (x)	1.3	1.0	0.9
Net Gearing (x)	0.4	0.2	0.3
Dividend Yield (%)	2.3	3.5	2.7

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<b>Segmental Breakdown</b>								
	<b>3Q13</b>	<b>2Q13</b>	<b>QoQ</b>	<b>3Q12</b>	<b>YoY</b>	<b>9M13</b>	<b>9M12</b>	<b>YoY</b>
<b>Revenue</b>								
Property Development	260.4	286.9	-9.3%	176.7	47.4%	749.9	525.4	42.7%
Property Investment	143.7	157.5	-8.8%	167.3	-14.1%	439.9	480.3	-8.4%
Construction	440.1	461.4	-4.6%	349.7	25.9%	1330.8	1023.2	30.1%
Trading & Manufacturing	233.0	171.6	35.8%	170.9	36.3%	567.4	522.0	8.7%
Quarry	49.4	55.8	-11.5%	54.4	-9.3%	150.4	143.6	4.8%
Investment Holdings	127.3	39.0	226.6%	20.4	525.2%	253.4	64.5	293.1%
Others	107.8	94.6	13.9%	92.8	16.2%	288.3	280.7	2.7%
Eliminations	-295.5	-148.7	98.7%	-165.1	79.0%	-575.0	-361.8	58.9%
<b>TOTAL</b>	<b>1066.1</b>	<b>1118.0</b>	<b>-4.6%</b>	<b>867.0</b>	<b>23.0%</b>	<b>3205.2</b>	<b>2677.8</b>	<b>19.7%</b>
<b>CORE PATAMI</b>								
Property Development	72.4	48.6	49.1%	50.6	43.0%	165.6	110.2	50.2%
Property Investment	18.6	26.8	-30.5%	21.2	-12.4%	62.0	65.6	-5.5%
Construction	9.5	12.6	-24.1%	14.4	-33.9%	42.9	35.7	20.2%
Trading & Manufacturing	8.4	10.7	-22.1%	8.6	-3.1%	25.3	27.4	-7.7%
Quarry	3.9	4.7	-16.6%	0.1	4481.2%	12.1	0.2	4819.6%
Investment Holdings	4.1	-1.2	-424.8%	-5.0	-181.0%	-0.4	-15.0	-97.0%
Others	7.5	8.7	-13.3%	4.6	64.6%	17.9	12.1	47.7%
Eliminations	0.0	0.0	-	0.0	-	0.0	0.0	-
<b>TOTAL</b>	<b>124.4</b>	<b>110.7</b>	<b>12.3%</b>	<b>94.6</b>	<b>31.5%</b>	<b>325.4</b>	<b>236.4</b>	<b>37.6%</b>
<b>CORE PATAMI Margin</b>								
Property Development	27.8%	16.9%		28.7%		22.1%	21.0%	
Property Investment	12.9%	17.0%		12.7%		14.1%	13.7%	
Construction	2.2%	2.7%		4.1%		3.2%	3.5%	
Trading & Manufacturing	3.6%	6.2%		5.0%		4.5%	5.3%	
Quarry	7.9%	8.4%		0.2%		8.0%	0.2%	
Investment Holdings	3.2%	-3.2%		-24.6%		-0.2%	-23.2%	
Others	7.0%	9.2%		4.9%		6.2%	4.3%	
Eliminations	0.0%	0.0%		0.0%		0.0%	0.0%	
<b>TOTAL</b>	<b>11.7%</b>	<b>9.9%</b>		<b>10.9%</b>		<b>10.2%</b>	<b>8.8%</b>	

Source: Company

<b>Result Highlight</b>								
<b>FYE 31 Dec (RM'm)</b>	<b>3Q13</b>	<b>2Q13</b>	<b>QoQ%</b>	<b>3Q12</b>	<b>YoY%</b>	<b>9M13</b>	<b>9M12</b>	<b>YoY</b>
Revenue	1,066.1	1,118.0	-4.6	867.0	23.0	3,205.2	2,677.8	19.7
Op costs w/o depr/amort	-1,027.3	-1,053.3	-2.5	-809.3	26.9	-3,051.3	-2,544.3	19.9
Other Op Income	10.0	22.9	-56.5	25.1	-60.3	44.7	67.2	-33.5
EBITDA	48.9	87.7	-44.3	82.8	-41.0	198.6	200.7	-1.0
Net interest	-6.3	-12.6	-50.3	-19.4	-67.8	-30.5	-60.8	-49.8
<b>Pretax profit</b>	<b>118.2</b>	<b>212.5</b>	<b>-44.4</b>	<b>142.4</b>	<b>-17.0</b>	<b>453.2</b>	<b>420.5</b>	<b>7.8</b>
Taxation	-16.6	-32.5	-48.9	-32.4	-48.8	-75.4	-81.2	-7.2
Minority Interests	-8.5	-9.7	-12.9	-15.7	-46.3	-23.8	-26.2	-9.1
<b>Net profit</b>	<b>93.1</b>	<b>170.3</b>	<b>-45.3</b>	<b>94.3</b>	<b>-1.2</b>	<b>354.0</b>	<b>313.1</b>	<b>13.1</b>
Core Net Profit	124.4	110.5	12.6	94.6	31.6	325.2	236.5	37.6
EPS (sen)	5.4	9.9	-45.3	5.5	-1.2	20.5	18.2	13.1
Diluted EPS (sen)	5.7	5.1	12.6	4.4	31.6	15.0	10.9	37.6
NDPS (sen)	-	5.0	-	-	-	5.0	-	-
NTA/share (RM)	2.5	2.0		1.7		2.51	1.73	
Net gearing/(cash) (x)	0.3	0.5		0.6		0.28	0.57	
EBITDA margin	4.6	7.8		9.5		6.2	7.5	
Pretax margin	11.1	19.0		16.4		14.1	15.7	
Effective tax rate	14.0	15.3		22.8		16.6	19.3	

Source: Company, Kenanga Research

NAME	Price (29/11/13)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY12/13 NP Growth (%)	FY13/14 NP Growth (%)	Target Price (RM)	Rating
	(RM)		(RMm)	FY12/13	FY13/14				FY14/15	(%)	(%)				
<b>DEVELOPERS UNDER COVERAGE</b>															
UEM Sunrise	2.30	10,004	22.2	15.5	17.2	0.9%	8.8%	1.7	448.4	644.4	577.8	43.7%	-10.3%	2.76	OUTPERFORM
SP Setia	2.85	7,007	17.8	16.8	14.2	2.6%	10.5%	1.2	393.8	418.1	494.8	6.2%	18.3%	3.60	MARKET PERFORM
Sunway Berhad	2.65	4567	11.6	10.4	9.2	3.5%	16.1%	1.0	393.9	440.3	495.5	11.8%	12.5%	3.08	OUTPERFORM
IJM Land*	2.60	4,053	20.7	13.9	11.0	1.9%	8.5%	1.2	196.1	292.6	368.8	49.3%	26.0%	3.15	OUTPERFORM
Mah Sing Group	2.21	3,068	10.8	9.1	7.4	4.2%	19.9%	1.6	230.6	275.5	335.5	19.5%	21.8%	2.56	OUTPERFORM
UOA Development*	1.99	2,666	8.4	8.2	7.3	6.5%	15.4%	1.0	301.3	306.9	346.0	1.9%	12.7%	2.10	MARKET PERFORM
Scientex Berhad	5.61	1,241	11.7	8.3	7.1	4.2%	17.5%	1.8	110.3	155.0	182.8	40.5%	17.9%	6.28	OUTPERFORM
Crescendo	3.06	696	14.8	10.4	8.4	4.9%	9.7%	1.3	55.7	80.2	100.0	43.9%	24.7%	4.00	OUTPERFORM
Hua Yang	2.13	562	8.0	7.3	5.0	4.1%	23.5%	1.4	70.5	77.5	112.0	10.0%	44.5%	2.91	OUTPERFORM
Hunza Properties*	2.31	487	23.4	29.8	22.5	1.3%	26.7%	0.6	19.8	15.6	20.6	-21.5%	32.3%	2.15	UNDERPERFORM
<i>* Core NP and Core PER</i>															
<b>CONSENSUS NUMBERS</b>															
BERJAYA LAND BHD	0.83	4,130	32.2	83.0	51.9	n.a.	2.4%	0.8	128.4	49.8	79.6	-61.2%	60.0%	0.93	BUY
IGB CORPORATION BHD	2.71	3,699	19.6	17.7	17.2	2.7%	4.6%	0.9	189.2	208.8	215.6	10.4%	3.3%	3.82	NEUTRAL
YNH PROPERTY BHD	1.75	737	15.6	12.5	10.9	2.3%	5.7%	0.9	47.2	59.0	67.4	25.0%	14.3%	1.78	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.96	792	31.7	50.3	43.4	n.a.	2.6%	0.8	25.0	15.8	18.2	-36.9%	15.8%	1.40	BUY
GLOMAC BHD	1.09	792	7.5	5.3	5.1	5.2%	13.3%	0.9	105.2	149.0	154.8	41.6%	3.9%	1.30	BUY
KSL HOLDINGS BHD	2.05	792	3.6	4.3	4.9	1.5%	17.7%	0.6	221.9	185.5	160.4	-16.4%	-13.5%	2.38	BUY
PARAMOUNT CORP BHD	1.53	517	9.8	9.0	8.1	5.9%	7.7%	0.7	52.7	57.4	64.2	8.9%	11.8%	1.71	BUY
IVORY PROPERTIES GROUP BHD	0.62	274	48.4	n.a.	8.8	n.a.	10.5%	0.7	5.7	n.a.	31.2	n.a.	n.a.!	n.a.	BUY
TAMBUN INDAH LAND BHD	1.42	558	8.3	8.7	6.8	5.5%	21.3%	1.9	67.0	64.1	82.6	-4.4%	28.8%	1.88	BUY
<i>Source: Kenanga Research</i>															



**Stock Ratings are defined as follows:**

**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

***\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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