



Sunway Berhad

Better Margins for Property and Construction Division

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TP: RM3.85 (+20.8%)

Last Traded: RM3.19

BUY

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Review

- Sunway Berhad's 1Q14 core net profit of RM110.3mn was broadly in line with expectations, accounting for 21% and 23% of our and consensus full-year forecasts respectively.
- Sunway's 1Q14 revenue was flat YoY at RM1.0bn. However, the group's core net profit advanced 22% YoY to RM110.3mn, largely due to better margins at the property development (+3.2ppt YoY) and construction division (+2.2ppt YoY), and lower finance costs (-19% YoY).
- Sequentially, 1Q14 core net profit fell 31% mainly due to low progress billing given the short working month during the quarter. The property investment division also reported weaker results mainly due to seasonal factors as the leisure and hospitality business usually generate their peak earnings in the 4Q.

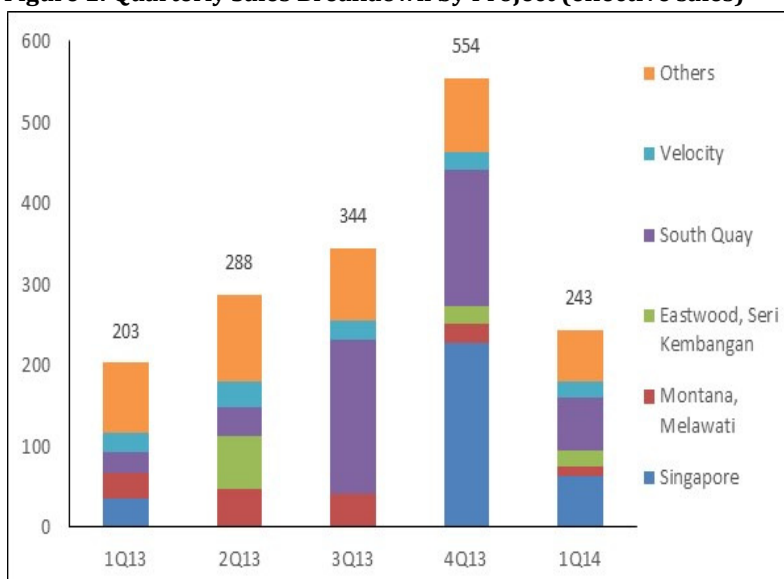
Impact

- No change to our FY14-16 earnings forecasts.

Outlook

- Sunway recorded new sales of RM348mn (effective RM252mn) in 1Q14, representing a growth of 20% YoY. The encouraging sales in 1Q14 came mainly from its on-going projects i.e. Serviced Residences at Sunway Geo @ Sunway South Quay and Medical Suites and Retail Shops at Royal Square @ Novena, Singapore (see **Figure 1**). Unbilled sales remained healthy at RM2.4bn (effective RM1.8bn), which will keep the group busy over the next two years.

Figure 1: Quarterly Sales Breakdown by Project (effective sales)



Source: Sunway, TA Research

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	1723.7
Market Cap (RMmn)	5498.5
Par Value	1.00
52-wk Hi/Lo (RM)	3.61/2.54
12-mth Avg Daily Vol ('000 shrs)	1009.2
Estimated Free Float (%)	22.4
Beta	1.20

Major Shareholders (%)

Sungei Way Corp (48.2)

Forecast Revision

	FY14	FY15
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	523.4	559.7
Consensus	487.4	527.9
TA's / Consensus (%)	107.4	106.0
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY14	FY15
Net Debt / Equity (%)	27.2	20.2
FCPS (sen)	(3.6)	30.7
Price / CFPS (x)	(87.4)	10.4
ROA (%)	4.6	4.8
NTA/Share (RM)	3.1	3.3
Price/NTA (x)	1.0	1.0

SCORECARD

	% of FY	
vs TA	21.0	Within
vs Consensus	23.0	Within

Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	2.9	0.3
3 mth	9.6	2.2
6 mth	20.4	3.5
12 mth	(5.4)	5.7

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

- The group launched 2 projects in 1Q14, namely Sunway Wellesley @ Bukit Mertajam, Penang (townhouses & Semi D, GDV: RM120mn) and Sunway Eastwood @ Seri Kembangan (Superlinks, GDV: RM85mn), which achieved booking rates of about 50%. Upcoming launches in the Klang Valley include Sunway Velocity Residences (GDV: RM250mn) and Sunway South Quay Serviced Apartments (GDV: RM200mn). In addition, Sunway is expected to roll out its maiden project at Sunway Iskandar with an estimated GDV of RM350mn by early July, which features offices and serviced apartments. Over to the overseas front, the group plans to launch condominiums in Mount Sophia, Singapore (Effective GDV: RM600mn) and Tianjin, China (GDV: RM200mn).
- On the construction front, Sunway has been awarded an internal job worth RM178mn to build Sunway Medical Centre Phase 3 in 1Q14, but yet to secure any external jobs. However, management is confident of securing jobs totaling RM2.5bn in 2014 (including internal orders). We gather that the group is actively tendering for external projects (tender book at around RM4.0bn), which comprise mainly building works.

Valuation

- We maintain our **Buy** recommendation on Sunway with an unchanged SOP-derived target price of RM3.85/share.

Figure 2: Outstanding Order book

Project	RM'mn
Infrastructure	
MRT Package V4	749
LRT Kelana Jaya Line Extension	251
BRT Sunway Line	313
Johor	
Urban Wellness	248
Others	
KLCC NEC	267
KLCC Package 2	188
Others	311
Foreign	
Singapore - precast	53
Total External Orderbook	2380
Other in-house jobs	
Sunway Velocity Mall (Substructure)	127
Sunway Velocity Phase 2 (Substructure)	42
Sunway Velocity (Shop offices & Apartment)	21
Sunway University New Academic Block	154
Sunway Putra Place	139
Sunway Pyramid 3	182
Sunway Medical Centre Phase 3	178
Total Orderbook	3915

Source: Sunway, TA Research

Earnings Summary

YE Dec 31 (RM'mn)	2012	2013E	2014F	2015F	2016F
Revenue	4128.8	4733.7	5047.1	5351.5	5715.9
EBITDA	850.7	521.6	702.8	733.2	780.5
EBITDA margin (%)	20.6	11.0	13.9	13.7	13.7
Pretax profit	524.4	661.1	707.8	748.4	812.6
Net profit	438.8	1500.5	523.4	559.7	567.4
Net profit -adj	350.7	482.7	523.4	559.7	567.4
EPS (sen)	23.9	30.6	30.4	32.5	32.9
EPS - adj (sen)	17.9	28.0	30.4	32.5	32.9
EPS Growth (Core) (%)	(5.1)	56.3	8.4	6.9	1.4
PER (x)	17.8	11.4	10.5	9.8	9.7
GDPS (sen)	4.5	10.0	11.5	12.0	12.5
Div Yield (%)	1.9	3.1	3.6	3.8	3.9
ROE (%)	11.3	11.3	9.5	9.6	9.2

* 2011 and 2012 numbers were based on audited results

1Q14 Results analysis

YE 31 Dec (RM'mn)	1Q13	4Q13	1Q14	QoQ (%)	YoY (%)
Revenue	1021.0	1310.2	1025.7	(21.7)	0.5
<i>Property Development</i>	202.7	417.2	222.3	(46.7)	9.7
<i>Property Investment</i>	133.5	165.8	136.2	(17.8)	2.0
<i>Construction</i>	429.4	443.0	358.7	(19.0)	(16.5)
<i>Trading & Manufacturing</i>	129.6	133.7	149.0	11.4	15.0
<i>Quarry</i>	44.3	50.5	48.3	(4.4)	8.9
<i>Others</i>	81.5	100.0	111.2	11.2	36.3
EBIT	86.1	207.5	109.6	(47.2)	27.4
Gain on derivative	0.3	0.4	(0.0)	>-100	>-100
Finance income	10.5	3.2	10.2	220.9	(3.1)
Finance costs	(22.2)	(27.6)	(18.0)	(34.9)	(18.8)
Associates	18.7	13.4	20.1	49.5	7.5
JV	29.2	69.9	20.3	(70.9)	(30.3)
EI	(0.3)	977.8	6.3	(99.4)	>-100
PBT	122.5	1447.1	142.2	(90.2)	16.1
Core PBT	122.2	227.8	148.5	(34.8)	21.5
<i>Property Development</i>	56.3	130.7	68.9	(47.3)	22.5
<i>Property Investment</i>	26.1	44.2	24.6	(44.4)	(5.7)
<i>Construction</i>	27.9	18.4	31.2	69.7	11.7
<i>Trading & Manufacturing</i>	8.3	9.4	8.3	(11.6)	1.0
<i>Quarry</i>	4.8	4.8	4.7	(2.3)	(3.1)
<i>Others</i>	(1.1)	20.3	10.9	(46.6)	>-100
Tax	(26.3)	(45.5)	(30.4)	(33.0)	15.6
MI	(5.6)	(63.9)	(7.8)	(87.9)	38.1
Net profit	90.6	1136.3	104.0	(90.8)	14.8
Core net profit	90.3	158.6	110.3	(30.5)	22.1
Reported EPS (sen)	7.0	66.1	6.0	(90.9)	(14.0)
Adj EPS (sen)	7.0	9.1	6.0	(34.0)	(13.7)
DPS (sen)	0.0	5.0	0.0	nm	nm
EBIT margin (%)	8.4	15.5	10.7	(4.8)	2.3
PBT margin (%)	12.0	16.9	14.5	(2.4)	2.5
<i>Property Development (%)</i>	27.8	31.3	31.0	(0.3)	3.2
<i>Property Investment (%)</i>	19.5	26.6	18.0	(8.6)	(1.5)
<i>Construction (%)</i>	6.5	4.1	8.7	4.5	2.2
<i>Trading & Manufacturing (%)</i>	6.4	7.1	5.6	(1.5)	(0.8)
<i>Quarry (%)</i>	10.9	9.5	9.7	0.2	(1.2)
<i>Others (%)</i>	(1.3)	20.3	9.8	(10.6)	11.1
Net margin (%)	8.8	11.7	10.8	(1.0)	1.9
Effective tax rate (%)	21.6	20.1	20.5	0.4	(1.1)

Figure 3: SOP Valuation

SOP Valuation	% Shareholdings	Effective land size (acres)	Effective GDV (RM'mn)	NPV (RM'mn)
Project				
Selangor/KL				
Sunway Damansara	60%	9.2	1014.8	73.7
Sunway South Quay	60%	31.2	2393.8	107.6
Sunway Monterez	60%	3.2	26.2	2.3
Sunway Semenyih	70%	278.7	510.0	28.6
Sunway Cheras	100%	6.0	16.8	1.5
Sunway Duta	60%	1.9	72.0	4.6
Sunway Montana	100%	2.0	55.5	3.5
Sunway Alam Suria	100%	0.7	12.0	0.8
Sunway Resort City	100%	14.9	660.1	37.0
Casa Kiara III	80%	2.3	168.0	14.5
Sunway Velocity	85%	15.2	2430.1	104.9
Sunway Tower KL 1	100%	1.0	240.0	20.7
Bangi	100%	3.0	59.0	5.3
Melawati	100%	2.0	43.0	3.8
Sg Long	80%	88.8	221.6	19.8
Mont Putra, Rawang	100%	163.0	156.0	13.9
Perak				
Sunway City Ipoh	65%	581.6	681.4	35.8
Penang				
Sunway City Penang	100%	15.9	171.7	15.3
Sunway Grand	100%	11.9	186.0	16.6
Sungai Ara	100%	56.1	849.2	75.7
Bukit Mertajam	100%	42.3	694.1	61.9
Paya Terubong Land	100%	24.5	1500.0	86.9
Singapore				
Novena	30%	0.5	672.5	58.3
Sembawang	100%	0.8	75.0	6.2
Mount Sophia	30%	1.8	616.8	39.9
Johor				
Bukit Lenang	80%	70.4	745.6	50.8
Medini	38%	262.6	4560.0	223.9
Pendas	60%	647.4	10800.0	374.2
China				
Sunway Guanghao	65%	2.4	43.4	2.8
Tianjin Eco City	60%	54.5	3206.3	76.4
India				
Sunway OPUS Grand India	50%	11.9	351.2	18.2
Sunway MAK Signature Residence	60%	8.4	108.7	6.0
Australia				
Wonderland Business Park (Sydney)	45%	21.8	170.1	9.4
TOTAL		2411.5	31394.3	1600.4
Current unbilled sales			1800	189.0
Sub-total				1789.39

Construction	Effective stake (%)	Balance of works (RM'mn)	NPV
Kelana Line - Package B	100.0	251.0	12.6
Singapore - Precast	100.0	537.0	15.6
KVMRT - V4 Section 17	100.0	749.0	26.2
BRT Sunway Line	100.0	313.0	-36.7
KLCC NEC	100.0	267.0	13.4
KLCC Package 2	100.0	188.0	9.4
Urban Wellness	100.0	248.0	12.4
Other	100.0	311.0	9.6
Sub-total			62.43

	Effective stake (%)	Book value (RM'mn)	Est. fair value (RM'mn)	Difference (RM'mn)
Investment in Sunway REIT (less 20% holding company discount)	34.30	1353.81	1564.53	168.6
Total surplus				2020.4
Total NTA				5015.0
Total revised enterprised value				7035.4
Conversion of warrants @ RM2.50				724.3
SOP valuation (RM mn)				7759.7
Fully Diluted Share Base (mn shares)				2013.2
Fair Value (RM/Share)				3.85

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