

30 August 2013 | 1HFY13 Results Review

## Sunway Berhad

*Construction segment affected by temporary stop work order*

**Maintain BUY**

**Revised Target Price (TP): RM3.57**

### INVESTMENT HIGHLIGHTS

- **Property segment key driver of earnings growth**
- **RM366m property sales in 2QFY13 and RM2.3b unbilled sales as at end 2QFY13**
- **Strong orderbook of RM4.2b for construction segment**
- **Maintain BUY with slightly higher TP of RM3.57**

**Earnings slightly above expectation:** Sunway Berhad (Sunway) registered core profit of RM201.1m in 1HFY13 which accounted for 55.8% of ours and 52% of consensus forecast. Earnings grew 41.7%yoy mainly attributable to strong revenue growth of 18%yoy as well as higher profit margin of 9.4% (7.8% in 1HFY12).

**Stronger progress billing of property segment:** Property segment's 1QFY13 revenue grew 40.4%yoy to RM489.6m mainly attributable to stronger sales and construction progress of projects in Sunway South Quay, Sunway Damansara, Sunway Velocity and Sunway Eastwood. EBIT of property segment outpaced revenue growth, increasing by 60%yoy to RM127.4m, as a result of higher EBIT margin of 26% (22.7% in 1HFY12). Higher EBIT margin was possibly due to better product mix as well as higher contribution from property developments in Singapore.

**Property sales improved:** Sales increased from RM238m in 1QFY13 to RM366m in 2QFY13. Unbilled sales also increased slightly from RM2.2b as at end 1QFY13 to RM2.3b as at end 2QFY13. With cumulative sales of RM604m for 1HFY13, we believe Sunway is on-track to meet their sales target. Sunway launched RM680m worth of projects in 1HFY13, which include Sunway Geo (RM373m worth of office suites & retail shops GDV), Sunway Cassia Penang (RM106m worth of 3 storey terrace house) and Sunway Lenang Heights (RM201m worth of Semi D & Bungalow).

**Stable performance of property investment segment:** EBIT of the property investment segment declined by 5.6%yoy to RM88.8m resulting from a flattish revenue growth and lower EBIT margin of 32.2% (34.3% in 1HFY12). Property investment segment's revenue was RM275.3m in 1HFY13. The segment was impacted by the lower contribution from the hospitality business as a result of higher maintenance expenditure and purchase of hotel operating equipment.

RETURN STATS	
Price (30 May 13)	RM2.75
Target Price	RM3.57
Expected Share Price Return	+29.96%
Expected Dividend Yield	1.74%
<b>Expected Total Return</b>	<b>+31.71%</b>

STOCK INFO	
KLCI	1703.78
Bursa / Bloomberg	5211/ SWB MK
Board / Sector	Main/ Property
Syariah Compliant	YES
Issued shares (mil)	1723.5
Par Value (RM)	1.00
Market cap. (RM'm)	4,739.6
Price over NA	0.95x
52-wk price Range	RM2.50 – 3.61
Beta (against KLCI)	1.57
3-mth Avg Daily Vol	1.32 m
3-mth Avg Daily Value	RM 4.22m
Major Shareholders	
Sungei Way Corp SB	44.5%
Cheah Yean Tih	13.5%
Government of Singapore Inv Corp	12.2%

## INVESTMENT STATISTICS

FY Dec	FY11	FY12E	FY13F	FY14F
Revenue (RM'm)	3,691.7	3,876.8	4,334.9	4,573.7
EBITDA (RM'm)	366.2	504.2	496.1	521.6
Pretax Profit (RM'm)	498.5	729.1	602.6	666.5
Net Profit (RM'm)	372.1	350.6	413.1	446.7
Net Profit Margin (%)	10.1	9.0	9.5	9.8
EPS (sen)	28.8	27.1	28.5	25.9
EPS Growth (%)	(45.7)	(5.8)	5.0	(9.0)
DPS(sen)	-	4.1	4.8	5.2
Dividend Yield (%)	-	1.5	1.7	1.9

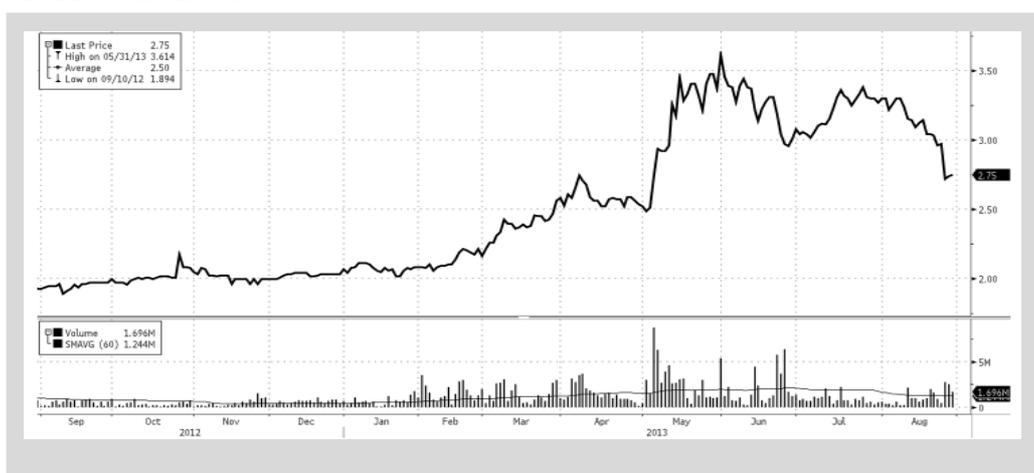
Source: Company, Forecasts by MIDFR

**Construction segment affected by LRT stop work order:** Revenue and EBIT of the construction segment grew strongly on a cumulative basis in 1HFY13, increased by 24%yoy and 70.7%yoy to RM802.2m and RM44.4m respectively. Nevertheless, for the individual quarter of 2QFY13, revenue declined by 4%yoy and 13.2%qoq to RM372.8m while EBIT declined by 6.6%yoy and 37%qoq to RM17.1m. The construction segment was affected by the slight delay in the LRT project arising from the stop work order imposed on all contractors as a result of the accident at the work site of other packages not undertaken by Sunway. In addition, MRT project was also slightly project was also slightly delayed due to adverse weather conditions which resulted in slower progress billings.

**Valuation:** We believe Sunway's strong earnings growth is sustainable for 2HFY13 as the construction segment will recover from the stop work order and adverse weather conditions. We are revising upwards our earnings forecasts by 11% and 6.5% respectively for FY13 and FY14 as we are expecting strong performance across all the segment. We reiterate our BUY recommendation with a slight increase of target price to RM3.57 (previously RM3.53) based on 15% discount to FD SOP.



## DAILY PRICE CHART



Sean Liong Cheng Fatt  
 Sean.Liong@midf.com.my  
 03-2173 8227

Sunway Berhad: 1HFY13						
	Quarterly Results					Comments (QoQ)
FYE Dec (RM m)	2Q13	YoY (%)	QoQ (%)	1H13	YoY (%)	
Revenue	1,118.0	12.2	9.5	2,139.1	18.1	The higher current quarter revenue was mainly attributed to higher property development and trading and manufacturing revenue which more than offset lower construction revenue recorded in the current quarter
Gross profit	116.6	11.9	35.5	202.6	23.1	
Gross margin	10.4	(0.3)	23.7	9.5	4.2	
EBIT	74.6	66.2	77.7	116.5	103.6	
Pre-tax profit	212.5	10.0	73.4	335.0	20.5	
Tax	(32.5)	7.0	23.2	(58.8)	20.4	
Net Profit	170.3	10.4	88.1	260.9	19.3	
Core Profit	110.7	42.7	22.6	201.1	41.7	
EPS (sen)	13.2	10.4	88.0	20.2	19.3	
<b>Segmental Breakdown</b>						
<b>Revenue</b>						
Property development	286.9	52.1	41.6	489.6	40.4	The higher revenue and profit recorded in the current quarter was mainly due to stronger sales achieved and higher progressive billings from local development projects which benefited from the new infrastructure developments such as the elevated BRT line and the first MRT line.
Property investment	157.5	(3.3)	13.5	296.3	(5.4)	The better performance in the current quarter as compared to 1QFY13 was mainly due to the seasonality factors as the leisure and hospitality businesses recorded better visitorship and occupancy rate during the current quarter
Construction	461.4	18.8	7.5	890.8	32.3	
Trading & manufacturing	171.6	(1.9)	5.3	334.4	(4.8)	The significant increase in revenue was attributed to better sales volume, leading to a higher profit before tax, as compared to the slower 1QFY13 which was affected by the festive season
Quarry	55.8	11.8	23.2	101.1	13.3	The improved performance was due to stronger sales volume from the local markets and better average selling price.
Investment holdings	39.0	(32.1)	(55.2)	126.1	185.9	
Others	94.6	(3.4)	10.3	180.4	(4.0)	
Eliminations	(148.7)	20.0	13.7	-279.5	42.1	
<b>Net Profit</b>						
Property development	48.6	73.7	8.7	93.2	56.4	
Property investment	26.8	0.4	60.3	43.5	(2.2)	
Construction	12.6	(18.0)	(39.5)	33.4	57.0	
Trading & manufacturing	10.7	10.7	71.6	17.0	(9.8)	
Quarry	4.7	(670.9)	33.8	8.2	4,999.4	
Investment holdings	(1.5)	(73.0)	(50.6)	(4.5)	(54.8)	
Others	8.7	98.4	414.7	10.4	37.4	
Eliminations	0.0	0.0	0.0	0.0	0.0	

Source: Company, MIDFR

**Outstanding orderbook**

<b>Projects</b>	<b>Contract Sum (RM'm)</b>	<b>Outstanding (RM'm)</b>
<b>Infrastructure</b>		
MRT Package V4 (Sec 17 to Semantan)	1173	1074
LRT Kelana Jaya Line Extension (Package B)	569	305
BRT Sunway Line	452	415
<b>Johor</b>		
Urban Wellness	283	283
Pinewood Iskandar Malaysia Studios Sdn Bhd	309	37
BioXcell – Central Facilities Utility	109	12
Legoland Water Park	45	28
<b>Others</b>		
KLCC NEC	304	304
KLCC Package 2 (Piling & Substructure)	222	222
Others	643	251
<b>Internal</b>		
Sunway Velocity Mall (Substructure)	291	184
Sunway Velocity Phase 2 (Substructure)	179	74
Sunway Velocity (Shop Offices & Apartment)	230	77
The Pinnacle (Superstructure)	175	70
Sunway University New Academic Block	192	192
Sunway Putra Place	258	250
<b>Singapore</b>		
Precast	764	393
<b>Total</b>	<b>6143</b>	<b>4171</b>

## Sum-of-parts (SOP) Valuation

Developments	Shareholding (%)	Remaining GDV (RM'm)	Effective GDV (RM'm)	Net Present Value (RM'm)
<b>Selangor/KL</b>				
Sunway Damansara	60%	825.5	495.3	51.3
Sunway South Quay	60%	3,892.7	2,335.6	179.4
Sunway Kayangan	60%	21.6	13.0	1.3
Sunway Semenyih	70%	728.6	510.0	41.7
Sunway Cheras	100%	16.8	16.8	1.7
Sunway Duta	60%	120.0	72.0	7.7
Sunway Melawati	100%	554.9	554.9	48.4
Sunway Alam Suria	100%	60.1	30.0	3.0
Sunway integrated resort	100%	660.1	660.1	51.4
Casa Kiara III	80%	230.0	184.0	20.1
Sunway Velocity	59%	3,063.1	1,807.2	135.6
Sunway Tower KL 1	100%	240.0	240.0	25.4
<b>Bangi</b>				
Melawati 2	100%	43.0	43.0	3.9
Taman Equine	100%	250.0	250.0	21.3
Sg Long, Balakong	80%	277.0	221.6	18.9
Mont Putra	100%	156.0	156.0	17.6
<b>Ipoh</b>				
Sunway City Ipoh	65%	285.8	185.8	15.4
<b>Penang</b>				
Sunway City Penang	100%	173.7	173.7	17.4
Sunway Grand	100%	37.6	37.6	3.9
Sungai Ara, New Land	100%	840.7	840.7	70.5
Bukit Mertajam, New Land	100%	149.6	149.6	14.4
<b>Johor</b>				
Bukit Lenang, New Land	80%	932.0	745.6	50.1
Medini Living	60%	12,000.0	7,200.0	341.3
Western Pendas South	60%	12,000.0	7,200.0	389.2
Eastern Pendas South	60%	6,000.0	3,600.0	196.1
<b>Singapore</b>				
Tampines, Singapore	30%	1,070.0	321.0	34.0
Sembawang, Singapore	100%	75.0	75.0	7.9
Yuan Ching Road, Singapore	30%	828.0	248.4	26.3
Parcel 826	30%	867.0	260.1	27.5
Novena	30%	2,286.8	686.0	62.8
<b>China</b>				
Sunway Guanghao	65%	66.8	26.0	2.9
Tianjin Eco City	60%	5,343.9	3,206.3	206.2
<b>India</b>				
Sunway OPUS Grand India	50%	702.4	351.2	41.6
Sunway MAK Signature Residence	60%	181.2	108.7	13.5
<b>Australia</b>				
Wonderland Business Park (Sydney)	45%	441.0	134.9	13.0
<b>Total</b>		<b>55,479.8</b>	<b>33,199.2</b>	<b>2,168.1</b>
	<b>Stake</b>	<b>Method</b>	<b>Multiplier</b>	<b>NPV</b>
REITS_MIDF Valuation	37%	DCF	-	792.3
Construction		PER	13.0	625.3
Trading and manufacturing		PER	10.0	378.5
Quarry		PER	10.0	50.2
<b>Total</b>				<b>4,014.4</b>
Shareholder funds				2,983.3
Warrant proceeds at RM2.80 per share				723.8
<b>Total SOP</b>				<b>8,454.0</b>
Enlarged shares with full warrant conversion				2,010.6
FD SOP (After 15% Discount)				3.57

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.