

31 May 2013 | 1QFY13 Results Review

Sunway Berhad

Strong start for FY13

Maintain BUY

Revised Target Price (TP): RM4.50
(previously RM3.50)

INVESTMENT HIGHLIGHTS

- **Construction and property segments drive earnings growth**
- **RM238m property sales in 1QFY13 and RM2.3b unbilled sales as at end 1QFY13**
- **Strong orderbook of RM4.4b for construction segment and 67% are external contracts**
- **Maintain BUY with higher TP of RM4.50**

Earnings within expectation: Sunway Berhad (Sunway) core profit of RM90.6m in 1QFY13 kept pace with expectations, accounting for 23% and 24% of ours consensus forecasts respectively. Earnings grew 40.5%yoy mainly attributable to strong revenue growth of 25%yoy as well as higher margin (refer to appendix) from property, construction and quarry segments.

Stronger progress billing of property segment: Property segment's 1QFY13 revenue grew 26.6%yoy to RM202.7m, due to good progress of projects in Sunway South Quay, Sunway Damansara, Sunway Velocity and Sunway Montana. Profit grew 33.6%yoy to RM44.7m outpacing revenue growth, possibly due to differences in product mix as well as higher contribution from joint venture developments in Singapore (RM29.2m PBT vs RM23.6m in 1QFY12).

Property sales declined: Sales declined from RM610m in 4QFY12 to RM238m, due to a lack of significant launches. Unbilled sales also declined from RM2.41b as at end 4QFY12 to RM2.3b as at end 1QFY13. Sales in 1QFY13 only accounted for 18% of full year sales target. Nonetheless, we are not concerned with the slack in performance. We believe that sales will rebound with more launches in subsequent quarters. Sunway has targeted to launch RM1.3b worth of projects in FY13.

Stable performance of property investment segment: Profit declined slightly by 4.5%yoy to RM16.7m mainly due to higher tax rates and shares of profit attributable to minority interest. Excluding the aforementioned factors, earnings before interest and tax increased by 2.8%yoy. The higher EBIT was due to better cost management.

Construction segment benefit from good progress: Revenue from the construction segment increased by 50.6%yoy while profit grew 226%yoy to RM20.8m. Revenue growth was mainly driven by higher progress billings including for the Pinewood, MRT and LRT projects as well as stronger sales of precast products. Construction orderbook stands at RM4.4b and 67% are external contracts. Year to date, construction order book has been replenished with 6 contracts worth RM1.47b.

RETURN STATS	
Price (30 May 13)	3.88
Target Price	4.50
Expected Share Price Return	15.98%
Expected Dividend Yield	1.55%
Expected Total Return	+17.53%

STOCK INFO	
KLCI	1774.92
Bursa / Bloomberg	5211/ SWB MK
Board / Sector	Main/ Property
Syariah Compliant	YES
Issued shares (mil)	1292.5
Par Value (RM)	1.00
Market cap. (RM'm)	5014.90
Price over NA	1.38x
52-wk price Range	RM2.15 – 4.08
Beta (against KLCI)	NA
3-mth Avg Daily Vol	1.62 m
3-mth Avg Daily Value	RM 5.02m
Major Shareholders	
Sungei Way Corp SB	44.5%
Gov of Singapore Inv Corp Pte	12.2%
Cheah Fook Ling	1.8%

INVESTMENT STATISTICS

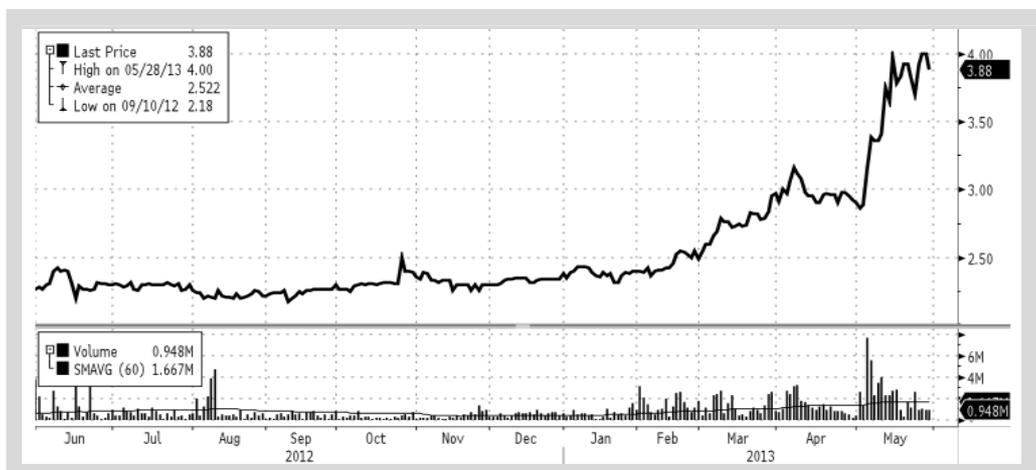
FY Dec	FY11	FY12E	FY13F	FY14F
Revenue (RM'm)	3,691.7	3,876.8	4,386.2	4,723.5
EBITDA (RM'm)	366.2	504.2	500.8	535.1
Pretax Profit (RM'm)	498.5	729.1	607.2	680.0
Net Profit (RM'm)	372.1	350.6	388.2	417.0
Net Profit Margin (%)	10.1	9.0	8.9	8.8
EPS (sen)	28.8	27.1	30.0	32.3
EPS Growth (%)	(45.7)	(5.8)	10.7	7.4
DPS(sen)	-	5.4	6.0	6.5
Dividend Yield (%)	-	1.4	1.5	1.7

Source: Company, Forecasts by MIDFR

Valuation: We maintain our forecasts as the results are within our expectation. We reiterate our BUY recommendation with a revised target price of RM4.50 based on 10% discount (previously 30%) to fully-diluted sum-of-parts. We are reducing the discount as we believe sentiment towards property companies will remain strong and Sunway's P/NAV valuation is still one of the lowest among the big cap stocks. We like Sunway due to its solid fundamentals, contributed by a diversified property and construction-related business.



DAILY PRICE CHART



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Sunway Berhad: 1QFY13				
Quarterly Results				Comments
FYE Dec (RM m)	1Q13	YoY (%)	QoQ (%)	
Revenue	1,021.0	25.3	(14.8)	
Operating profit	86.1	42.5	(63.1)	
Operating margin	8.4	13.7	(56.7)	
EBIT	42.0	239.0	(78.2)	
Pre-tax profit	122.5	44.3	(61.3)	
Tax	(26.3)	(42.4)	52.8	Effective tax 21.5% vs 21.8% in 1QFY12
Net Profit	90.6	40.5	(58.7)	
EPS (sen)	7.0	40.5	(58.7)	
Segmental Breakdown				
Revenue				
Property development	202.7	26.6	(49.1)	The lower revenue recorded in the current quarter was mainly due to lower new sales recorded which was partly impacted by the uncertainties generated by the impending general elections. The lower current profit before tax was also due to lower profit contribution from the Singapore development projects as compared to the previous quarter.
Property investment	138.8	(7.6)	(26.5)	The lower performance in the current quarter as compared to the previous quarter was mainly due to seasonal factors as the leisure and hospitality businesses generate their peak earnings in the last quarter of the financial year
Construction	429.4	50.6	(1.3)	The increase in revenue was due to stronger progress billings of infrastructure and building works, and stronger sales of precast products.
Trading & manufacturing	162.9	(7.6)	(1.4)	The performance of this segment was mainly affected by the difficult trading environment in the overseas markets, namely Australia and Indonesia due to the slowdown in their mining industry which affected the sales of related products.
Quarry	45.3	15.3	(21.3)	The higher revenue was due to stronger sales volume and better selling prices. The higher profit before tax was also helped by better cost management.
Investment holdings	87.1	752.1	(31.0)	
Others	85.8	(4.7)	(8.4)	
Eliminations	(130.8)	79.6	50.8	
Total	1,021.0	25.3	(14.8)	
Profit				
Property development	44.7	41.0	(50.8)	
Property investment	16.7	(6.0)	(48.4)	
Construction	20.8	250.4	334.3	
Trading & manufacturing	6.2	(31.6)	166.6	
Quarry	3.5	256.7	16.0	
Investment holdings	(3.0)	32.3	78.8	
Others	1.7	(46.8)	135.9	The lower profit was mainly due to the rental expense incurred by the healthcare unit subsequent to the disposal of the hospital building to Sunway REIT which was completed at the end of 2012 and higher losses in the building material division at China as a result of slower market condition.
Eliminations	0.0	0.0	0.0	
Total	90.6	41.1	(20.8)	

Outstanding orderbook

Projects	Contract Sum (RM'm)	Outstanding (RM'm)
Infrastructure		
MRT Package V4 (Sec 17 to Semantan)	1173	1117
LRT Kelana Jaya Line Extension (Package B)	569	336
BRT Sunway Line	452	452
Johor		
Pinewood Iskandar Malaysia Studios Sdn Bhd	309	122
BioXcell – Central Facilities Utility	109	24
Legoland Water Park	45	41
Others		
UiTM campus expansion	200	57
Precinct 1, Putrajaya (Hotel & Office)	159	6
KLCC NEC	304	304
KLCC Package 2 (Piling & Substructure)	222	222
Others	551	268
Internal		
Sunway Velocity Mall (Substructure)	291	208
Sunway Velocity Phase 2 (Substructure)	179	93
Sunway Velocity (Shop Offices & Apartment)	230	113
The Pinnacle (Superstructure)	175	136
Sunway University New Academic Block	192	192
Sunway Putra Place	258	258
Singapore		
Precast	764	466
Total	6125	4402

Sum-of-parts (SOP) Valuation

Developments	Shareholding (%)	Remaining GDV (RM'm)	Effective GDV (RM'm)	Net Present Value (RM'm)
Selangor/KL				
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
Bangi				
Melawati 2	100%	59.0	59.0	5.3
Taman Equine	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
Ipoh				
Sunway City Ipoh	65%	285.8	185.8	15.4
Penang				
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
Johor				
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
Singapore				
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
China				
Sunway Guanghao	65%	66.8	26.0	2.9
Tianjin Eco City	60%	5,343.9	3,206.3	206.2
India				
Sunway OPUS Grand India	50%	702.4	351.2	41.6
Sunway MAK Signature Residence	60%	181.2	108.7	13.5
Australia				
Wonderland Business Park (Sydney)	45%	441.0	134.9	13.0
Total		55,479.8	33,199.2	2,168.1
	Stake	Method	Multiplier	NPV
REITS_MIDF Valuation	37%	DCF	-	700.0
Construction		PER	13.0	730.9
Trading and manufacturing		PER	10.0	345.0
Quarry		PER	10.0	39.5
Total				3,983.5
shareholder funds				2,983.3
warrant proceeds at RM2.80 per share				723.8
Total SOP				7,690.6
Enlarged shares with full warrant conversion				1,551.0
FD SOP (After 10% Discount)				4.50

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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.