

02 December 2013 | 9MFY13 Results Review

## Sunway Berhad

*Expect cooler sentiment to affect valuation*

### INVESTMENT HIGHLIGHTS

- Property and construction segment are key drivers of earnings growth
- RM495m property sales in 3QFY13 and RM2.2b unbilled sales as at end 2QFY13
- Strong orderbook of RM3.7b for construction segment
- Downgrade to NEUTRAL with a revised TP of RM2.95

**Earnings within expectation:** Sunway Berhad (Sunway)'s core profit increased by 31.5%yoy to RM325.4m in 9MFY13 which accounted for 73% of ours and 82% of consensus forecast.

**Property segment main contributor:** Property segment's 9MFY13 revenue grew 43%yoy to RM749.9m mainly attributable to strong sales recorded from on-going projects such as commercial development in Sunway South Quay, Sunway Velocity and Sunway Nexis, which are beneficiaries to the improvements brought by public infrastructure projects in its vicinities. The property developments in Singapore also continue to contribute to earnings growth. EBIT of property segment grew slower at 29.6%yoy, resulting from lower EBIT margin of 29.3% (32.2% in 9MFY12). Higher EBIT margin in 9MFY12 was mainly due to completion of projects.

**On-track to meet sales target:** Sales growth momentum persisted, increased from RM366m in 2QFY13 to RM495m in 3QFY13. Unbilled sales remain unchanged at RM2.2b as compared to 2QFY13 suggesting constructions of the projects are progressing well.

**Consistent earnings from property investment segment:** Revenue from property investment declined slightly by 8.4%yoy to RM412.4m in 9MFY13. Lower revenue was mainly due to the fasting month which affected hotel occupancy rates and theme park visitorship. Sunway Putra Hotel was also partially closed for refurbishments. EBIT declined by 2%yoy to RM129.7 mainly due to slight improvement in EBIT margin from 31.3% in 9MFY12 to 31.4%.

**Downgrade to NEUTRAL**

**Revised Target Price (TP): RM2.95**  
(previously RM3.57)

RETURN STATS	
Price (29 Nov 13)	2.75
Target Price	2.95
Expected Share Price Return	+11.32%
Expected Dividend Yield	1.96%
<b>Expected Total Return</b>	<b>+13.28%</b>

STOCK INFO	
KLCI	1,812.72
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)	4767.3
Price over NA	0.98x
52-wk price Range	RM2.00 – 3.61
Beta (against KLCI)	1.35
3-mth Avg Daily Vol	1.01 m
3-mth Avg Daily Value	RM 2.94m
Major Shareholders	
Sungei Way Corp SB	44.4%
Cheah Yean Tih	13.5%
GIC Private Limited	8.7%

## INVESTMENT STATISTICS

FY Dec	FY11	FY12E	FY13F	FY14F
Revenue (RM'm)	3,691.7	3,876.8	4,384.8	4,623.6
EBITDA (RM'm)	366.2	504.2	480.5	504.9
Pretax Profit (RM'm)	498.5	729.1	586.9	649.8
Net Profit (RM'm)	372.1	350.6	446.2	485.9
Net Profit Margin (%)	10.1	9.0	10.2	10.5
EPS (sen)	28.8	27.1	30.9	28.2
EPS Growth (%)	(45.7)	(5.8)	13.9	(8.8)
DPS(sen)	-	4.1	5.2	5.6
Dividend Yield (%)	-	1.5	2.0	2.1

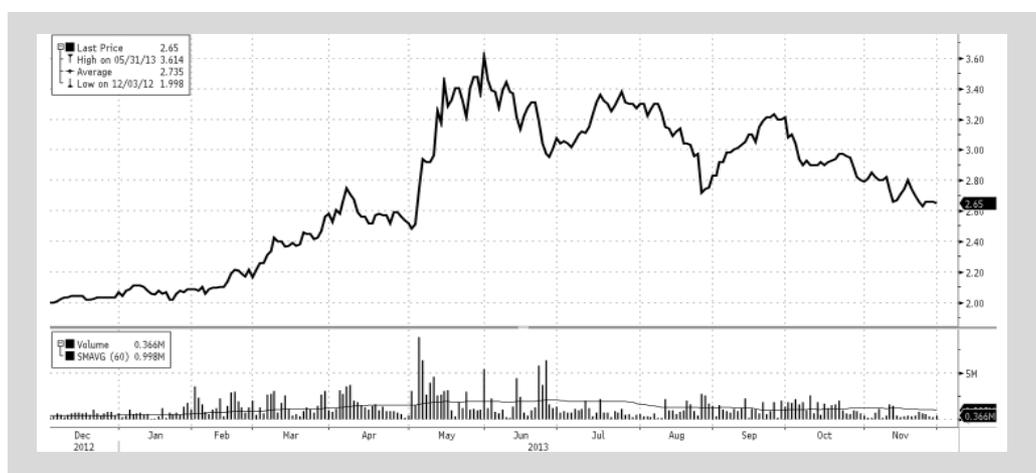
Source: Company, Forecasts by MIDFR

**Construction segment continued to improve:** Revenue of the construction segment increased 29%yoy to RM802.2m in 9MFY13. EBIT growth outpaced revenue growth, increased by 35%yoy to RM59.8m. Stronger growth of EBIT was mainly due to better construction margin of 5.1% (4.9% in 9MFY12). Revenue growth was mainly attributable to the increase in revenue was due to stronger progress billings of the local infrastructure and building projects and precast concrete products.

**Valuation:** We are maintaining our earnings forecasts as the results are within our expectation. Nonetheless, we are downgrading our recommendation for Sunway to NEUTRAL with a revised TP of RM2.95 (previously RM3.57) as we had ascribed a higher discount of 30% (previously 15%) on our fully diluted SOP valuation. We are downgrading our recommendation due to the expectation of weaker sentiments towards property developers going forward. We like Sunway due to its diversified earnings while balance sheet was strengthened with the recent right issue (net gearing reduced from 0.54 as at end 2QFY13 to 0.28 as at end 3QFY13). Nonetheless, in the near-term, we believe concerns over the impact of anti-speculative measures announced by the authorities will outweigh the aforementioned qualities of Sunway.



## DAILY PRICE CHART



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Sunway Berhad: 9MFY13						
	Quarterly Results					Comments
FYE Dec (RM m)	3Q13	YoY (%)	QoQ (%)	9M13	YoY (%)	
Revenue	1,066.1	23.0	(4.6)	3,205.2	19.7	The increase in the current quarter revenue was mainly due to higher revenue recorded in the property development and construction segments.
Gross profit	74.9	(29.4)	(35.8)	277.5	2.5	
Gross margin	7.0	(42.6)	(32.6)	8.7	(14.3)	
EBIT	37.9	(17.5)	(49.2)	154.4	49.6	
Pre-tax profit	118.2	(17.0)	(44.4)	453.2	7.8	The higher profit before tax was due to improved performance across most of the business segments.
Tax	(16.6)	(48.7)	(48.9)	(75.4)	(7.2)	
Net Profit	93.1	(1.2)	(45.3)	354.0	13.1	
Core Profit	124.4	31.5	12.4	325.4	37.6	
EPS (sen)	5.8	(20.3)	(55.9)	354.0	13.1	
<u>Segmental Breakdown</u>						
Revenue						
Property development	749.9	42.7	260.4	47.4	(9.3)	
Property investment	439.9	(8.4)	143.7	(14.1)	(8.8)	
Construction	1,330.8	30.1	440.1	25.9	(4.6)	
Trading & manufacturing	567.4	8.7	233.0	36.3	35.8	
Quarry	150.4	4.8	49.4	(9.3)	(11.5)	
Investment holdings	253.4	>100	127.3	>100	>100	
Others	288.3	2.7	107.8	16.2	13.9	
Eliminations	-575.0	58.9	(295.5)	79.0	98.7	
<u>Net Profit</u>						
Property development	121.7	86.1	72.4	43.0	49.1	Stronger profit margin and this was mainly due to the additional profit realised following the handing over of two completed projects.
Property investment	42.9	20.2	78.3	>100	>100	Despite the lower revenue, the profit before tax for the current quarter was higher due to provision for doubtful debts made in the corresponding quarter in the previous financial year which did not recur in the current quarter
Construction	25.3	(7.7)	9.5	(33.9)	(24.2)	
Trading & manufacturing	12.1	>100	8.4	(3.1)	(22.1)	
Quarry	(39.9)	>100	3.9	>100	(16.6)	
Investment holdings	26.3	>100	(35.4)	>100	>100	
Others	0.0	0.0	15.9	>100	83.4	
Eliminations	121.7	86.1	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	868
LRT Kelana Jaya Line Extension (Package B)	569	268
BRT Sunway Line	452	402
<b>Johor</b>		
Urban Wellness	283	283
Pinewood Iskandar Malaysia Studios Sdn Bhd	309	24
BioXcell – Central Facilities Utility	109	10
Legoland Water Park	45	3
<b>Others</b>		
UITM Campus extension	200	21
KLCC NEC	304	296
KLCC Package 2 (Piling & Substructure)	222	222
Others	560	274
<b>Internal</b>		
Sunway Velocity Mall (Substructure)	291	159
Sunway Velocity Phase 2 (Substructure)	179	65
Sunway Velocity (Shop Offices & Apartment)	230	60
The Pinnacle (Superstructure)	175	50
Sunway University New Academic Block	192	186
Sunway Putra Place	258	205
<b>Singapore</b>		
Precast	674	351
<b>Total</b>	<b>6225</b>	<b>3747</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%	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
<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 30% Discount)				2.95

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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.