

Sunway (SWB MK)

2Q13: Time To Add

Sunway's 2Q13 and 1H13 net profits came in at RM170.4m and RM260.9m respectively. Excluding one-off gains, 1H13 results represent about 50% of our 2013 forecast. Outstanding construction orderbook stands at RM3.7b with RM1.2b wins ytd. Upgrade to BUY following a 17% fall from its recent peak. Target price: RM3.39.

2Q13 Results

Year to 31 Dec	2Q13 (RMm)	1Q13 (RMm)	qoq % chg	yoy % chg	1H13 (RMm)	yoy % chg
Revenue	1118.0	1021.0	9.5	12.2	2,139.1	(15.3)
EBIT	212.5	122.5	73.5	10.0	335.0	(17.0)
Pre-tax Profit	212.5	122.5	73.5	10.0	335.0	(17.0)
Property Development	70.5	56.3	25.3	26.0	126.7	(37.4)
Construction	18.2	27.9	(34.7)	(11.2)	46.1	(37.3)
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PBT	212.5	122.5	73.5	10.0	335.0	(17.0)
Core PATMI	170.4	90.6	88.1	119.4	260.9	(45.5)
Pretax construction margin	4.0%	6.5%			3.7%	
Pretax prop margin	24.6%	27.8%			13.9%	

Source: Bursa Malaysia

Results

- Sunway reported 2Q13 revenue of RM1,118m (+9.5% qoq, +12.2% yoy) and core net profit of RM170.4m (+88% qoq, +>100% yoy). Excluding 2Q13's fair value gain of RM59.7m, the cumulative 1H13 core net profit of RM201.3m accounted for 50% of our full-year forecast of RM397m and 52% of street's forecast of RM389m.
- Earnings were boosted by higher contribution from property development, reflecting higher progress billings and accelerated progress works of the respective projects.

Key Financials

Year to 31 Dec (RMm)	2011	2012	2013F	2014F	2015F
Net turnover	3,739	3,877	4,286	4,769	5,640
EBITDA	456	594	555	636	793
Operating profit	366	504	458	523	665
Net profit (rep./act.)	328	351	397	444	548
Net profit (adj.)	372	351	397	444	547
EPS (sen)	23.2	27.1	20.5	22.8	28.0
PE (x)	11.9	10.1	13.4	12.0	9.8
P/B (x)	1.5	1.0	1.4	1.3	1.2
EV/EBITDA (x)	14.8	11.4	12.2	10.6	8.5
Dividend yield (%)	0.0	2.4	2.2	2.2	2.5
Net margin (%)	8.8	9.0	9.3	9.3	9.7
Net debt/(cash) to equity (%)	55.7	57.6	45.3	40.8	32.9
Interest cover (x)	8.5	7.7	6.8	8.4	11.1
ROE (%)	11.8	10.7	10.7	11.0	12.3
Consensus net profit	-	-	389	453	502
UOBKH/Consensus (x)	-	-	1.02	0.98	1.09

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

BUY
(Upgraded)

Company Update

Share Price RM2.75
Target Price RM3.39
Upside +23.3%

Company Description

A leading construction company and property developer in Malaysia

Stock Data

GICS sector: Financials
Bloomberg ticker: SWB MK
Shares issued (m): 1,723.5
Market cap (RMm): 4,739.6
Market cap (US\$m): 1,430.5
3-mth avg daily t'over (US\$m): 1.3

Price Performance (%)

52-week high/low: RM3.61/RM1.89
1mth: (16.7)
3mth: (20.9)
6mth: 27.1
1yr: 42.6
YTD: 33.0

Major Shareholders

Tan Sri Jeffrey Cheah: 47.7%
GIC: 12.2%

FY13 NAV/Share (RM): 1.94
FY13 Net Debt/Share (RM): 0.88

Price Chart



Source: Bloomberg

Analysts

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Friday, August 30, 2013

- **Construction division's pretax decreased** due to a delay in the LRT projects arising from a stop-work order imposed on contractors following accidents at a certain work site, and to a minor extent, adverse weather which hampered construction works of the MRT.

Stock Impact

- **Construction orderbook remains healthy at RM3.7b.** Sunway has secured RM1.3b worth of contracts ytd, including the latest being the construction of the Urban Wellness Centre, Iskandar (RM283m), KLCC Package 2 (RM222m) and BRT Sunway Line (RM452m). Sunway's construction orderbook stands at RM3.7b ytd, mainly from the MRT packages (29% of construction orderbook). To date, Sunway has managed to achieve 87% of its yearly orderbook replenishment of RM1.5b. We expect Sunway's construction business to provide a 5-7% EBIT margin.
- **Property sales worth RM254m in 2Q13.** This quarter, Sunway managed to clinch about RM254m (+6.7% yoy) in property sales, lifting 1H13's total property sales to RM492m which represents 38% of its full-year sales target of RM1.5b. The improvement in property sales is mainly due to stronger sales achieved from recently-launched projects in Bandar Sunway that can potentially benefit from the Bus Rapid Transit system that is currently under construction. We believe that Sunway would be able to achieve its target with the planned year-end launch of Sunway Iskandar.
- **Armed with strong unbilled sales of RM1.8b,** representing about 1.95x of our 2013F for property division revenue. Ytd, the group has launched about RM680m worth of projects which represents about 45% of its 2013 launch target of RM1.5b. We expect property EBIT margin to hover at a healthy 26-28% on higher progress billings for developments in Singapore (RM636m) and Malaysia, including Sunway South Quay (RM454m), Sunway Velocity (RM283m) and Sunway Damansara (RM279m).
- **Sunway Iskandar to be next key catalyst.** We believe that the next key catalyst for Sunway would be the maiden launch of its Sunway Iskandar development. The mixed development is slated to launch in Dec 13, which offers service apartments together with office and retail spaces. The launch is expected to generate a total GDV of RM330m at ASPs of RM650psf. Given its competitive pricing and current presence in Singapore, we believe that the project would be able to attract a fair share of Singaporean buyers.

Earnings Revision/Risk

- We maintain our earnings forecasts.

Valuation/Recommendation

- **Upgrade to BUY with a target price of RM3.39,** as the share price now offers over 22% upside to our TP after the recent market sell-down. Sunway's reasonably cheap valuation (10x 2014F fully diluted earnings), good earnings visibility and expected strong take-up of Sunway Iskandar make it an attractive Iskandar proxy. Sunway is also expected to be one of the key contractors for the MRT 2 construction. Our target price implies 13x 2014F PE.

Share Price Catalyst

- Good take-up rates in the property division.
- Winning more construction jobs.

SOTP Valuation

	RMm
Property development	4,125.0
REIT	1,602.0
Construction	991.5
Quary & building materials	41.7
Trading	413.9
Warrants conversion proceeds	723.8
Less: Net debt @FY13	(1,765.5)
Proceeds from rights	878.9
Total SOP value	7,011.4
Outstanding shares	1,292.5
Warrants	258.5
Rights (1-for-3)	517.0
Enlarged sharebase	2,068.0
Target price (RM)	3.39

Source: UOB Kay Hian

Sales At 2Q13

	RMm
Malaysia	427
Singapore	37
Others	27
Total	492

Source: Sunway

Unbilled Sales

	RMm
Malaysia	1,157
Singapore	636
Others	163
Total	1,817

Source: Sunway

Ytd Orderbook Replenishment

Project	Value (RMm)
KLCC Package 2	222
KLCC NEC	304
BRT Sunway Line	452
Legoland	45
Medini Wellness Construction	283
Total	1,306

Source: Sunway

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Profit & Loss

Year to 31 Dec (RMm)	2012	2013F	2014F	2015F
Net turnover	3,877	4,286	4,769	5,640
EBITDA	594	555	636	793
Deprec. & amort.	90	97	113	127
EBIT	504	458	523	665
Associate contributions	301	193	184	188
Net interest income/(expense)	(78)	(82)	(76)	(71)
Pre-tax profit	910	569	632	783
Tax	(129)	(142)	(158)	(196)
Minorities	(67)	(30)	(30)	(40)
Net profit	351	397	444	548
Net profit (adj.)	351	397	444	547

Balance Sheet

Year to 31 Dec (RMm)	2012	2013F	2014F	2015F
Fixed assets	807	960	1,097	1,219
Other LT assets	4,124	4,192	4,127	4,221
Cash/ST investment	1,140	1,346	1,182	1,133
Other current assets	2,674	2,638	3,050	3,569
Total assets	8,745	9,136	9,456	10,142
ST debt	783	733	633	533
Other current liabilities	1,636	1,864	2,074	2,453
LT debt	2,408	2,358	2,258	2,158
Other LT liabilities	50	50	50	50
Shareholders' equity	3,558	3,852	4,193	4,739
Minority interest	310	280	250	210
Total liabilities & equity	8,745	9,136	9,456	10,142

Cash Flow

Year to 31 Dec (RMm)	2012	2013F	2014F	2015F
Operating	386	609	288	418
Pre-tax profit	910	569	632	783
Tax	(93)	(142)	(158)	(196)
Deprec. & amort.	90	97	113	127
Associates	(200)	0	0	0
Working capital changes	(801)	435	2	3
Other operating cashflows	481	(350)	(300)	(299)
Investing	(358)	(250)	(250)	(250)
Capex (growth)	(215)	(250)	(250)	(250)
Investments	(200)	0	0	0
Proceeds from sale of assets	317	0	0	0
Others	(260)	0	0	0
Financing	247	(153)	(202)	(219)
Dividend payments	(39)	(103)	(103)	(121)
Issue of shares	0	0	0	0
Proceeds from borrowings	401	0	0	0
Loan repayment	0	(50)	(100)	(100)
Others/interest paid	(116)	0	1	2
Net cash inflow (outflow)	275	206	(164)	(50)
Beginning cash & cash equivalent	773	1,140	1,346	1,182
Changes due to forex impact	92	0	0	1
Ending cash & cash equivalent	1,140	1,346	1,182	1,133

Key Metrics

Year to 31 Dec (%)	2012	2013F	2014F	2015F
Profitability				
EBITDA margin	15.3	13.0	13.3	14.1
Pre-tax margin	23.5	13.3	13.2	13.9
Net margin	9.0	9.3	9.3	9.7
ROA	4.2	4.4	4.8	5.6
ROE	10.7	10.7	11.0	12.3
Growth				
Turnover	3.7	10.6	11.3	18.3
EBITDA	30.3	(6.5)	14.6	24.5
Pre-tax profit	82.5	(37.4)	10.9	23.9
Net profit	6.9	13.3	11.8	23.5
Net profit (adj.)	(5.8)	13.3	11.8	23.3
EPS	16.9	(24.6)	11.5	22.8
Leverage				
Debt to total capital	45.2	42.8	39.4	35.2
Debt to equity	89.7	80.2	68.9	56.8
Net debt/(cash) to equity	57.6	45.3	40.8	32.9
Interest cover (x)	7.7	6.8	8.4	11.1

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