

Sunway (BLBG CODE)

Share Price: MYR2.86

MCap (USD): 1.5B

Malaysia

Target Price: MYR2.79 (-2.4%)

ADTV (USD): 0.5M

Property

HOLD

 (from SELL)

Beat expectations

- FY13 core net profit of MYR482.7m (+38% YoY) beat our and consensus estimates.
- FY14/15 earnings forecasts raised by +23%/+15%.
- Upgrade to HOLD with a new TP of MYR2.79 (+23sen) on an unchanged 0.58x P/RNAV target.

What's New

Excluding the MYR1b fair value gains and adjustments from the cessation of consolidation of SunREIT, Sunway's 4Q13 core net profit of MYR158m (+27% QoQ, +38% YoY) took FY13 core earnings to MYR483m (+38% YoY), 20% above our estimates. The earnings gap was due to stronger-than-expected progress billings and construction works recognition in the property development and construction divisions respectively.

What's Our View

FY13 locked-in new property sales (effective stake) of MYR1.4b were within Sunway's internal target. It has set a new sales target of MYR1.3b (-7% YoY) for FY14 supported by MYR1.7b worth of new launches (effective). Unbilled sales were MYR1.9b at Dec 2013, 1.4x of our FY14 revenue forecast.

Management is bullish on its construction division and has an order book target of MYR2.5b for FY14. Outstanding order book was MYR3.9b at end-2013(67% external).

We remain cautious on the increasingly crowded Iskandar Malaysia development and luxury property market which would be hit by the new property cooling measures amid stricter lending rules.

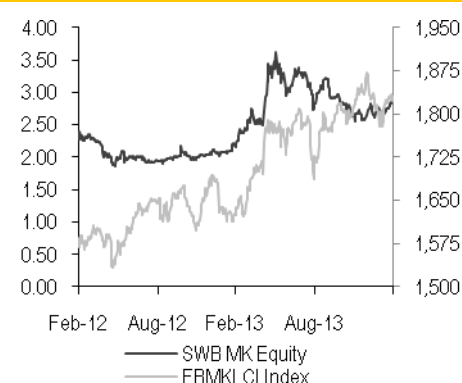
We adjust our earnings forecasts to factor in: 1) actual 2013 results, 2) stronger progress billings in Sunway Velocity and Nexis projects and 3) higher new construction win of MYR2.5b (from MYR1.5b). Our property sales forecast for 2014 is MYR1.3b.

FYE Dec (MYR m)	2012A	2013A	2014F	2015F	2016F
Revenue	4128.8	4,733.7	5,542.6	6,010.2	6,064.7
EBITDA	535.1	1,847.6	666.7	727.3	677.7
Core net profit	350.7	482.7	500.5	516.3	504.2
Core EPS (sen)	27.1	30.6	29.0	30.0	27.7
Core EPS growth (%)	7.2	12.8	(5.1)	3.2	(7.5)
Net DPS (sen)	6.0	10.0	5.8	6.0	5.5
BVPS (MYR)	2.75	3.38	3.33	3.57	3.84
Core P/E (x)	10.5	9.3	9.8	9.5	10.3
EV/EBITDA (x)	7.3	-	7.5	7.1	7.1
Net dividend yield (%)	2.1	3.5	2.0	2.1	1.9
P/BV (x)	1.0	0.8	0.9	0.8	0.7
Net debt/equity (%)	45.2	23.9	25.5	26.2	14.5
ROAE (%)	15.0	28.1	8.7	8.4	7.2
ROAA (%)	6.1	13.5	4.2	4.1	3.9
Chg in net profit (%)	-	-	23.3	15.2	New

Key Data

Shariah status	YES
52w high/low (MYR)	3.614/2.163
Free float (%)	24.2
Issued shares (m)	1,724
Market capitalization	MYR4.9B
Major shareholders:	
SUNGEI WAY CORP	46.4%
YEAN TIH CHEAH	13.5%
GIC PRIVATE LIMITED	8.7%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute (%)	5.5	7.5	29.1
Relative to country (%)	2.7	5.7	16.3

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	13	0	1
	Maybank	Consensus	% +/-
Target Price (MYR)	2.79	3.39	(17.7)
2014 Net Profit (MYR m)	501	455	10.1
2015 Net Profit (MYR m)	516	514	0.5

Source: Bloomberg; Maybank

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Table 1: Quarterly summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative			Comments
	4Q13	4Q12	% YoY	3Q13	% QoQ	2013	2012	%YoY	
Revenue	1,342.2	1,241.8	8.1	1,066.1	25.9	4,733.7	4,128.8	14.6	2013: YoY growth due to improvement in all businesses.
Prop Dev	417.2	397.9	4.9	260.3	60.3	1,167.1	923.2	26.4	2013: YoY growth due to stronger sales and progress billings. Sunway has locked in MYR1.4b in effective property sales in 2013, within its internal target. Unbilled sales were MYR1.9b or 1.4x of our 2014 property revenue forecast.
Prop inv	403.4	168.5	>+100	137.1	>+100	815.8	590.9	38.1	2013: YoY growth was mainly due to the revaluation gains.
Construction	412.2	360.3	14.4	376.5	9.5	1,590.9	1,274.9	24.8	2013: YoY growth due to higher works recognition from the local civil and building projects coupled with stronger contribution from its precast concrete products business in Singapore. As at Dec 2013, Sunway has an outstanding orderbook of MYR3.9b.
Trading	133.7	122.7	8.9	151.9	(12.0)	586.7	558.7	5.0	2013: YoY growth was due to better sales in heavy machineries and higher profit contribution from its Singapore and China operations.
Quarry	50.5	57.2	(11.7)	47.1	7.4	197.7	196.9	0.4	2013: YoY growth was due to higher selling price and better cost management at the quarry sites.
Inv Hldgs	0.3	6.3	(95.7)	(1.1)	>-100	0.0	7.0	>-100	2013: YoY growth was due to better performance from the healthcare and building material units.
Others	111.2	86.0	29.2	94.3	17.9	375.4	325.1	15.5	
EBIT	1,188.8	171.9	591.6	74.9	1,487.2	1,823.6	842.6	116.4	
Prop dev	93.4	88.7	5.3	62.0	50.5	225.3	187.6	20.1	
Prop inv	1,286.4	59.6	>+100	21.8	>+100	1,359.0	137.6	>+100	
Construction	(15.7)	(2.4)	>+100	15.4	>-100	42.8	40.9	4.6	
Trading	8.2	10.5	(22.2)	11.7	(29.8)	44.5	47.2	(5.7)	
Quarry	3.0	5.0	(38.5)	5.2	(41.4)	19.9	12.2	63.6	
Inv Hldgs	170.0	(24.1)	>-100	(46.4)	>-100	116.1	(36.0)	>-100	
Others	0.6	96.2	(99.4)	5.1	(88.5)	16.0	114.7	(86.0)	
Finance costs	(24.5)	(19.4)	25.8	(6.3)	>+100	(102.4)	(147.9)	(30.7)	Net gearing was 0.24x as at Dec 2013, from 0.28x in end-3Q13.
Other income	83.4	99.3	(16.0)	49.4	68.7	289.3	309.7	(6.6)	
Profit before tax	1,248.1	212.1	>+100	118.2	>+100	1,894.3	839.7	>+100	
Pretax-EI	226.7	189.0	20.0	159.4	42.3	661.3	524.4	26.1	
Taxation	(45.5)	(55.8)	(18.5)	(16.6)	>+100	(120.9)	(137.0)	(11.8)	
Minority interest	(63.9)	(41.2)	55.2	(8.5)	>+100	(87.7)	(67.4)	30.2	
Net profit	1,138.8	146.6	>+100	93.1	>+100	1,500.5	438.8	>+100	
Net profit ex-EI	157.5	114.2	37.9	124.4	26.6	482.7	350.7	37.6	Above expectations
EI	1,021.4	123.8	>+100	(41.2)	>-100	1,040.1	47.2	>+100	Fair value gains and adjustments from the cessation of SunREIT.
	4Q13	4Q12	+/- ppt	3Q13	+/- ppt	2013	2012	+/- ppt	
EBIT margin (%)	88.6	19.5	69.1	7.0	81.5	38.5	20.4	18.1	
- Prop dev	22.4	22.3	0.1	23.8	(1.4)	19.3	20.3	(1.0)	
- Prop inv	318.9	35.4	NM	15.9	NM	166.6	23.3	NM	
- Construction	(3.8)	(0.7)	(3.1)	4.1	(7.9)	2.7	3.2	(0.5)	
- Trading	6.1	8.6	(2.5)	7.7	(1.6)	7.6	8.5	(0.9)	
- Quarry	6.0	8.7	(2.6)	11.1	(5.0)	10.1	6.2	3.9	
- Inv Hldgs	62,731.7	(382.0)	NM	4,341.4	NM	-	(514.8)	NM	
- Others	0.5	111.8	NM	5.4	(4.9)	4.3	35.3	(31.0)	
PBT margin (%)	16.9	16.1	0.8	15.0	1.9	14.0	12.7	1.3	
Tax rate (%)	3.6	17.6	(14.0)	14.0	(10.4)	6.4	16.3	(9.9)	

Sources: Company, Maybank KE

Table 1: Sunway Bhd's RNAV estimates

1. Landbank - MARKET VALUE	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Semenyih	70%	398.1	234.1	128.0	74.3
Suncity Ipoh	65%	440.5	76.8	58.7	11.7
Sunway Integrated Resort	100%	14.9	9.3	8.3	1.1
Sunway Tower KL 1	100%	1.0	57.0	28.3	28.6
Sunway JB, Bukit Lenang	80%	64.8	141.3	134.5	5.4
Tmn Equine	100%	33.0	38.7	37.8	0.9
Sg Long Balakong	80%	111	28.3	21.8	5.2
Mont Putra Rawang	100%	163	37.5	35.1	2.4
Sunway Iskandar -leasehold	45%	691	1204.0	745.3	206.4
Sunway Iskandar - Pendas, freehold	60%	1079	1880.2	596.6	770.2
Sub-total:					1106.2
2. Development projects - DCF (WACC: 10.5-11.5%)	Stake				(MYR m)
South Quay	60%				196.0
Sunway Cheras	100%				1.7
Sunway Damansara	60%				53.8
Sunway D' Mont Kiara	88%				15.0
Sunway Kayangan	100%				1.7
Sunway Duta	100%				29.5
Bangi	100%				4.8
Sunway Melawati	100%				47.1
Casa Kiara III	80%				11.4
Sunway Alam Suria	50%				4.5
Sunway Velocity	85%				169.7
Penang projects	100%				90.1
Wonderland Business Park, Australia	31%				10.3
Singapore Yi Shun	30%				15.5
Singapore Tampines	30%				22.6
Singapore Yuan Ching Road	30%				14.5
Singapore Sembawang	100%				4.8
Vacanza @ East, Singapore	30%				6.3
Singapore Pasir Ris	30%				18.2
Thomson/Irrawady	30%				38.5
Mount Sophia	30%				43.7
Sub-total:					799.5
3. Investment properties - MARKET VALUE	Stake		MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Monash University Campus	100%		300	300	0.0
Sunway University College	100%		172	172	0.0
Sunway Giza (shopping mall)	60%		42.4	42.4	0.0
Sunway Hotel Georgetown	100%		17.8	62.2	(44.4)
Sunway Hotel Phnom Penh	52.5%		15.7	21.7	(3.1)
Sunway Lagoon Theme Park	100%		165.0	59.1	105.9
Lost World of Tambun	65%		38.7	36.0	1.8
Sunway Hotel Hanoi	100%		14.1	45.8	(31.8)
Sub-total:					28.4
4. Other businesses or assets					
34.3% stake in SunREIT based on Maybank IB's MYR1.24 TP					251.3
Construction (10x 2014PER)					852.8
Building material (10x 2014PER)					266.4
Trading (10x 2014PER)					322.7
Grand total:					3,627.3
Shareholders fund (MYR m) - Dec 2013					5,334.9
Warrants conversion (MYR2.50 exercise price; expiring Aug 2016)					724.0
RNAV (MYR m)					9,686.2
Number of shares (m shares) - post rights issue					1,723.5
Enlarged share capital post warrant					2,013.1
FD RNAV/share (MYR) - post warrant					4.81
Target price (MYR)					2.79

Source: Company, Maybank KE

INCOME STATEMENT (MYR)

FY Dec	2013A	2014F	2015F	2016F
Revenue	4,733.7	5,542.6	6,010.2	6,064.7
EBITDA	1,847.6	666.7	727.3	677.7
Depreciation & Amortisation	(24.0)	(27.0)	(30.8)	(34.7)
Operating Profit	1,823.6	639.7	696.5	643.0
Associate	13.2	80.5	87.1	90.0
JV companies	159.3	103.7	49.1	60.1
Interest (Exp)/Inc	(102.4)	(50.3)	(53.2)	(41.3)
Exceptional Items	0.7	0.0	0.0	0.0
Pre-Tax Profit	1,894.3	773.6	779.5	751.7
Tax	(120.9)	(193.4)	(194.9)	(187.9)
Minority Interest	(273.0)	(79.7)	(68.3)	(59.6)
Net Profit	1,500.5	500.5	516.3	504.2
Net Profit Ex. EI	482.7	500.5	516.3	504.2
Revenue Growth %	22.1	17.1	8.4	0.9
EBITDA Growth (%)	5.2	18.4	9.1	(6.8)
EBIT Growth (%)	261.7	(64.9)	8.9	(7.7)
Net Profit ex-EI Growth (%)	37.7	3.7	3.2	(2.3)
Tax Rate %	6.4	25.0	25.0	25.0

BALANCE SHEET (MYR m)

FY Dec	2013A	2014F	2015F	2016F
Fixed Assets	2,670.4	2,821.7	2,951.9	3,086.1
Other LT Assets	3,558.5	3,499.8	3,338.7	3,219.1
Cash/ST Investments	1,519.1	1,330.8	1,183.7	1,780.8
Other Current Assets	3,364.3	4,228.5	5,032.3	5,293.6
Total Assets	11,112.3	11,880.7	12,506.6	13,379.6
ST Debt	1,804.9	1,804.9	1,804.9	1,804.9
Other Current Liabilities	2,178.1	2,546.2	2,759.0	2,783.8
LT Debt	990.6	990.6	990.6	990.6
Other LT Liabilities	486.5	486.5	486.5	486.5
Minority Interest	317.3	317.3	317.3	317.3
Shareholders' Equity	5,334.9	5,735.3	6,148.3	6,996.5
Total Capital	11,112.3	11,880.7	12,506.6	13,379.6
Share Capital (RM 'm)	1,723.5	1,723.5	1,723.5	2,013.1
Net Debt/ (Cash)	1,276.4	1,464.7	1,611.8	1,014.7
Working Capital	900.4	1,208.2	1,652.0	2,485.7
Gross Gearing %	52.4	48.7	45.5	40.0
Net Gearing %	23.9	25.5	26.2	14.5

CASH FLOW (MYR m)

FY Dec	2013A	2014F	2015F	2016F
Profit before taxation	1,894.3	773.6	779.5	751.7
Depreciation	0.0	26.5	30.3	34.2
Net interest	198.3	(50.3)	(53.2)	(41.3)
Working capital change	295.7	0.0	0.0	0.0
Cash tax paid	(127.3)	(193.4)	(194.9)	(187.9)
Others	(1,167.4)	0.0	0.0	0.0
Cash flow from operations	1,093.6	556.4	561.7	556.7
Capex	(670.2)	(670.2)	(670.2)	(670.2)
Disposal/(purchase)	38.2	0.0	0.0	0.0
Others	(273.0)	83.2	88.7	91.8
Cash flow from investing	(905.1)	(587.1)	(581.5)	(578.5)
Debt raised/(repaid)	(130.3)	0.0	0.0	0.0
Equity raised/(repaid)	727.5	0.0	0.0	724.0
Dividends (paid)	(344.3)	(157.7)	(100.1)	(103.3)
Others	(117.5)	0.0	0.0	0.0
Cash flow from financing	135.4	(157.7)	(100.1)	620.8
Change in cash	323.9	(188.3)	(120.0)	599.1

RATES & RATIOS

FY Dec	2013A	2014F	2015F	2016F
EBITDA Margin %	11.9	12.0	12.1	11.2
Op. Profit Margin %	38.5	11.5	11.6	10.6
Net Profit Margin %	31.7	9.0	8.6	8.3
ROE %	28.1	8.7	8.4	7.2
ROA %	13.5	4.2	4.1	3.8
Net Margin Ex. EI %	10.2	9.0	8.6	8.3
Dividend Cover (x)	3.1	5.0	5.0	5.0
Interest Cover (x)	17.8	12.7	13.1	15.6
Asset Turnover (x)	2.3	2.1	2.1	2.2
Asset/Debt (x)	4.0	4.3	4.5	4.8
Debt/ EBITDA (x)	5.0	4.2	3.8	4.1
Debt/ Market Cap (x)	0.6	0.6	0.6	0.5
EV/EBITDA (x)	7.8	7.5	7.1	7.1

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