



Sunway Berhad

Bagged Highway Contract in Johor

TP: RM3.85 (+16.8%)

Last Traded: RM3.30

Buy

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Secured RM169.9mn Coastal Highway Southern Link

Sunway has bagged a RM169.9mn contract from SJIC Bina S/B, a wholly owned subsidiary of Iskandar Investment Berhad. The contract, which is due for completion within 24 months from 7 Jan 2015 (date of possession of the site), involves the design, construction, testing and completion of the Coastal Highway Southern Link (CHSL).

According to media reports, this is the final stretch which will link the existing Coastal Highway to the Second Link Expressway and reduce the travelling distance from the Second Link to Medini by approximately 10km. This new 5.2km highway will traverse the Gerbang Nusajaya South development (UEM Sunrise), Kg. Tiram Duku Kiri, Kg. Bukit Kuching, Sunway Iskandar development (Sunway) and Leisure Farm (Mulpha International), providing a direct connection from the Second Link Expressway to Medini – the CBD of Nusajaya.

Our View

This is the first external job win for Sunway in 2014, increasing the group's total orderbook replenishment (external and internal jobs) to RM1.1bn – see **Table 1**. This is grossly below the group's replenishment target of RM2.5bn for 2014 (including internal orders). With this job win, we estimate the group's outstanding orderbook to stand at RM3.5bn (external: RM2.4bn), which will last the group till 2016.

Table 1: Orderbook Replenishment YTD 2014

| Project | Contract Sum (RM mn) |
|--|----------------------|
| Sunway Medical Centre Phase 3 | 178 |
| Sunway Geo Retail Shops & Flexi Suites | 153 |
| Sunway Iskandar - Citrine Service Apartments | 200 |
| Sunway Velocity 2 Mall | 350 |
| Coastal Highway Southern Link | 170 |
| YTD total Replenishment | 1,051 |

Source: Sunway, TA Research

We are positive on this highway project as Sunway Iskandar (GDV: RM30bn), a major township by Sunway, Khazanah and Iskandar Investment Bhd, will set to benefit from the improved connectivity and potentially enjoy land value appreciation further given the township will be a mere 5 minutes to Singapore upon the completion of the CHSL.

Impact

Assuming a PBT margin of 5%, the project is expected to contribute RM3.2mn of net profit p.a. for FY15 and FY16. All in, our FY14-16 earnings are revised lower by 1-5% after factoring in lower construction revenue due to timing of recognition as a result of slower-than-expected project award.

Share Information

| | |
|----------------------------------|-------------|
| Bloomberg Code | SWB MK |
| Stock Name | Sunway |
| Stock Code | 5211 |
| Listing | Main Market |
| Share Cap (mn) | 1721.6 |
| Market Cap (RMmn) | 5681.2 |
| Par Value | 1.00 |
| 52-wk Hi/Lo (RM) | 3.67/2.58 |
| 12-mth Avg Daily Vol ('000 shrs) | 1023.75 |
| Estimated Free Float (%) | 24.4 |
| Beta | 1.2 |

Major Shareholders (%)

Sungei Way Corp (50.1)

Forecast Revision

| | FY14 | FY15 |
|-----------------------|------------------|-------|
| Forecast Revision (%) | (0.6) | (2.4) |
| Net profit (RMm) | 502.5 | 529.5 |
| Consensus | 497.3 | 535.6 |
| TA's / Consensus (%) | 101.0 | 98.9 |
| Previous Rating | Buy (Maintained) | |

Financial Indicators

| | FY14 | FY15 |
|-----------------------|--------|------|
| Net Debt / Equity (%) | 27.5 | 21.0 |
| FCPS (sen) | (4.3) | 29.2 |
| Price / CFPS (x) | (77.4) | 11.3 |
| ROA (%) | 4.5 | 4.6 |
| NTA/Share (RM) | 3.1 | 3.3 |
| Price/NTA (x) | 1.1 | 1.0 |

Share Performance (%)

| Price Change | Sunway | FBM KLCI |
|--------------|--------|----------|
| 1 mth | (2.7) | (2.9) |
| 3 mth | (4.1) | (4.2) |
| 6 mth | 8.6 | (6.1) |
| 12 mth | 24.5 | (5.6) |

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Valuation

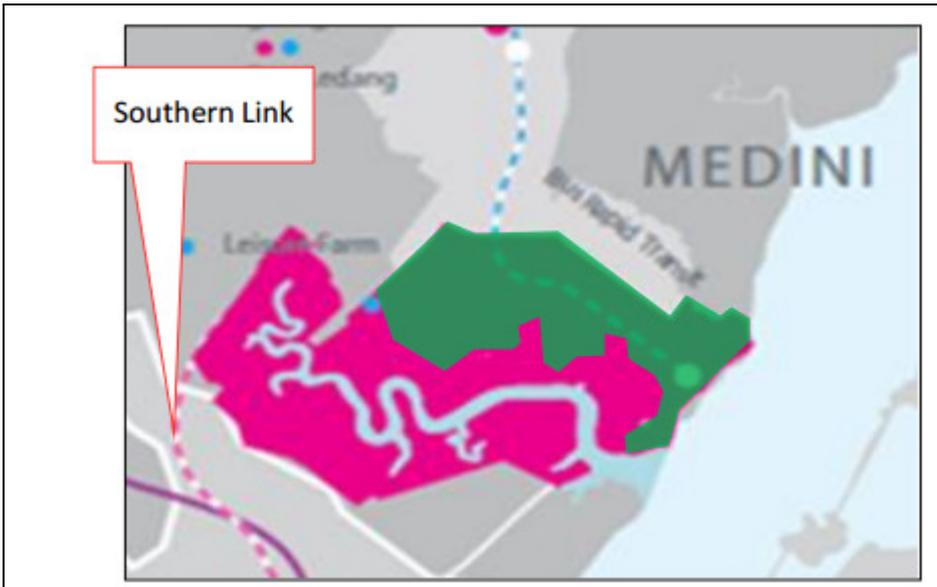
With change in earnings, we adjust our SOP-derived target price slightly to RM3.85/share from RM3.89/share previously. Maintain **Buy**.

| FYE Dec | 2012 | 2013 | 2014F | 2015F | 2016F | FYE Dec | 2012 | 2013 | 2014F | 2015F | 2016F |
|--------------------------------|---------|-----------|---------|---------|---------|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Profit and Loss (RM'mn) | | | | | | Balance Sheet (RM'mn) | | | | | |
| Revenue | 4,128.8 | 4,733.7 | 4,626.0 | 4,832.0 | 5,028.8 | PPE | 1,562.8 | 857.9 | 868.1 | 877.7 | 886.8 |
| EBITDA | 850.7 | 521.6 | 674.0 | 693.8 | 723.7 | Land held for dev | 598.9 | 877.9 | 877.9 | 877.9 | 877.9 |
| Depreciation | (95.2) | (49.2) | (49.8) | (50.4) | (50.9) | Associate & JV | 571.1 | 2,284.0 | 2,299.2 | 2,310.9 | 2,329.2 |
| Amortisation | (1.0) | (1.0) | (0.9) | (0.9) | (0.8) | Investment Properties | 4,779.1 | 1,804.3 | 2,128.3 | 2,152.3 | 2,176.3 |
| EBIT | 754.5 | 471.4 | 623.3 | 642.6 | 672.0 | Goodwill | 318.1 | 319.9 | 319.9 | 319.9 | 319.9 |
| Finance cost | (147.9) | (102.4) | (41.9) | (40.4) | (38.9) | Others | 49.5 | 84.8 | 83.9 | 83.1 | 82.2 |
| Associate & JV | 144.6 | 172.5 | 97.4 | 106.0 | 129.0 | LT Assets | 7,879.5 | 6,228.8 | 6,577.4 | 6,621.8 | 6,672.4 |
| EI | 88.1 | 1,017.8 | 0.0 | 0.0 | 0.0 | Property dev. Cost | 991.5 | 1,276.1 | 1,276.1 | 1,276.1 | 1,276.1 |
| PBT | 839.7 | 1,894.3 | 678.8 | 708.2 | 762.1 | Inventories | 650.3 | 622.9 | 570.3 | 609.0 | 647.5 |
| Tax | (115.4) | (120.9) | (135.8) | (141.6) | (152.4) | Trade & other receivables | 1,584.9 | 1,402.6 | 1,596.9 | 1,681.3 | 1,763.5 |
| MI | (285.5) | (273.0) | (40.5) | (37.1) | (86.1) | Cash & Cash equivalent | 1,197.5 | 1,519.1 | 1,147.4 | 1,343.2 | 1,566.6 |
| Net profit | 438.8 | 1,500.5 | 502.5 | 529.5 | 523.6 | Others | 60.0 | 62.7 | 62.7 | 62.7 | 62.7 |
| Core profit | 350.7 | 482.7 | 502.5 | 529.5 | 523.6 | ST Assets | 4,484.2 | 4,883.4 | 4,653.5 | 4,972.3 | 5,316.5 |
| Core EPS (sen) | 17.9 | 28.0 | 29.2 | 30.7 | 30.4 | Total Assets | 12,363.7 | 11,112.3 | 11,230.9 | 11,594.1 | 11,988.9 |
| DPS (sen) | 4.5 | 10.0 | 11.5 | 12.0 | 12.5 | Trade and other payables | 1,844.8 | 2,154.0 | 2,027.8 | 2,131.4 | 2,231.9 |
| Cash Flow (RM'mn) | | | | | | ST Borrowings | 2,955.0 | 1,804.9 | 1,754.9 | 1,704.9 | 1,654.9 |
| PBT | 839.7 | 1,894.3 | 678.8 | 708.2 | 762.1 | Others | 21.2 | 24.1 | 24.1 | 24.1 | 24.1 |
| Depr & Amort | 96.2 | 50.2 | 50.7 | 51.2 | 51.7 | ST Liabilities | 4,821.0 | 3,983.0 | 3,806.9 | 3,860.4 | 3,911.0 |
| Change in working assets | (624.9) | 518.9 | (267.9) | (19.4) | (20.2) | LT Borrowings | 1,688.4 | 990.6 | 940.6 | 890.6 | 840.6 |
| Tax | (115.4) | (120.9) | (135.8) | (141.6) | (152.4) | Others | 503.0 | 486.5 | 486.5 | 486.5 | 486.5 |
| Others | (75.0) | (244.7) | (15.2) | (11.7) | (18.3) | LT Liabilities | 2,191.4 | 1,477.0 | 1,427.0 | 1,377.0 | 1,327.0 |
| CFO | 120.6 | 2,097.8 | 310.5 | 586.6 | 622.9 | Share Cap | 1,292.5 | 1,723.5 | 1,723.5 | 1,723.5 | 1,723.5 |
| Capex | (197.0) | (707.0) | (60.0) | (60.0) | (60.0) | Reserves | 1,922.3 | 3,611.3 | 3,915.6 | 4,238.2 | 4,546.4 |
| Property Inv | (300.0) | (329.0) | (324.0) | (24.0) | (24.0) | Shareholder's Funds | 3,214.8 | 5,334.9 | 5,639.1 | 5,961.8 | 6,269.9 |
| CFI | (497.0) | (1,036.0) | (384.0) | (84.0) | (84.0) | MI | 2,136.5 | 317.3 | 357.9 | 394.9 | 481.0 |
| Net Addition/Rpmt | 50.0 | 70.0 | (100.0) | (100.0) | (100.0) | Liabilities + Equities | 12,363.7 | 11,112.3 | 11,230.9 | 11,594.1 | 11,988.9 |
| Dividend Paid | (77.6) | (172.4) | (198.2) | (206.8) | (215.4) | Ratios | | | | | |
| Others | 0.0 | 732.9 | 0.0 | 0.0 | 0.0 | EPS Growth (%) | (5.1) | 56.3 | 4.1 | 5.4 | (1.1) |
| CFF | (27.6) | 630.6 | (298.2) | (306.8) | (315.4) | PER (x) | 18.4 | 11.8 | 11.3 | 10.7 | 10.9 |
| Change in cash | (404.0) | 1,692.3 | (371.7) | 195.8 | 223.4 | GDPS (sen) | 4.5 | 10.0 | 11.5 | 12.0 | 12.5 |
| FCF/share | (29.1) | 61.6 | (4.3) | 29.2 | 31.3 | Div Yield (%) | 1.4 | 3.0 | 3.5 | 3.6 | 3.8 |
| Assumptions (RM mn) | | | | | | Net cash (RMm) | (3,445.9) | (1,276.4) | (1,548.0) | (1,252.2) | (928.8) |
| New Property Sales | 1,600.0 | 1,400.0 | 1,486.1 | 1,530.6 | 1,847.5 | Net gearing (x) | 1.1 | 0.2 | 0.3 | 0.2 | 0.1 |
| Property Margins (%) | 17.7 | 18.3 | 18.4 | 18.0 | 17.7 | ROE (%) | 11.3 | 11.3 | 9.2 | 9.1 | 8.6 |
| Ext Orderbook Replenishment | 1,170.0 | 2,200.0 | 170.0 | 1,500.0 | 1,500.0 | ROA (%) | 3.5 | 4.1 | 4.5 | 4.6 | 4.4 |
| Construction margins (%) | 5.4 | 7.9 | 7.5 | 7.3 | 7.1 | NTA/share (RM) | 2.2 | 2.9 | 3.1 | 3.3 | 3.5 |
| | | | | | | P/NTA (x) | 1.5 | 1.1 | 1.1 | 1.0 | 1.0 |

RNAV Table

| SOP Valuation | % Shareholdings | Effective land size (acres) | Effective GDV (RM'mn) | NPV (RM'mn) | |
|---|-----------------|-----------------------------|--------------------------|-------------------------|--------------------|
| Project | | | | | |
| Selangor/KL | | | | | |
| Sunway Damansara | 60% | 9 | 1015 | 70 | |
| Sunway South Quay | 60% | 31 | 2394 | 101 | |
| Sunway Monterez | 60% | 3 | 26 | 2 | |
| Sunway Semenyih | 70% | 279 | 510 | 29 | |
| Sunway Cheras | 100% | 6 | 17 | 1 | |
| Sunway Duta | 60% | 2 | 72 | 5 | |
| Sunway Montana | 100% | 2 | 56 | 4 | |
| Sunway Alam Suria | 100% | 1 | 12 | 1 | |
| Sunway Resort City | 100% | 15 | 660 | 37 | |
| Casa Kiara III | 80% | 2 | 168 | 15 | |
| Sunway Velocity | 85% | 15 | 2430 | 97 | |
| Sunway Tower KL 1 | 100% | 1 | 240 | 21 | |
| Bangi | 100% | 3 | 59 | 5 | |
| Melawati | 100% | 2 | 43 | 4 | |
| Sg Long | 80% | 89 | 222 | 20 | |
| Mont Putra, Rawang | 100% | 163 | 156 | 14 | |
| Perak | | | | | |
| Sunway City Ipoh | 65% | 582 | 681 | 36 | |
| Penang | | | | | |
| Sunway City Penang | 100% | 16 | 172 | 15 | |
| Sunway Grand | 100% | 12 | 186 | 17 | |
| Sungai Ara | 100% | 56 | 849 | 76 | |
| Bukit Mertajam | 100% | 42 | 694 | 62 | |
| Paya Terubong Land | 100% | 24 | 1500 | 76 | |
| Singapore | | | | | |
| Novena | 30% | 0 | 673 | 58 | |
| Sembawang | 100% | 1 | 75 | 6 | |
| Mount Sophia | 30% | 2 | 617 | 40 | |
| Johor | | | | | |
| Bukit Lenang | 80% | 70 | 746 | 51 | |
| Medini | 38% | 263 | 4560 | 206 | |
| Pendas | 60% | 647 | 10800 | 337 | |
| China | | | | | |
| Sunway Guanghao | 65% | 2 | 43 | 3 | |
| Tianjin Eco City | 60% | 55 | 3206 | 71 | |
| India | | | | | |
| Sunway OPUS Grand India | 50% | 12 | 351 | 18 | |
| Sunway MAK Signature Residence | 60% | 8 | 109 | 6 | |
| Australia | | | | | |
| Wonderland Business Park (Sydney) | 45% | 22 | 170 | 9 | |
| TOTAL | | 2412 | 31394 | 1510 | |
| Current unbilled sales | | | 2100 | 191 | |
| Sub-total | | | | 1701 | |
| Construction | | | | | |
| | | Effective stake (%) | Balance of works (RM'mn) | NPV | |
| Kelana Line - Package B | | 100.0 | 173 | 9 | |
| Singapore - Precast | | 100.0 | 384 | 10 | |
| KVMRT - V4 Section 17 | | 100.0 | 594 | 21 | |
| BRT Sunway Line | | 100.0 | 190 | -22 | |
| KLCC NEC | | 100.0 | 233 | 7 | |
| KLCC Package 2 | | 100.0 | 157 | 5 | |
| Urban Wellness | | 100.0 | 204 | 6 | |
| Coastal Highway Southern Link | | 100.0 | 170 | 5 | |
| Other | | 100.0 | 250 | 3 | |
| Sub-total | | | | 42 | |
| | | Effective stake (%) | Book value (RM'mn) | Est. fair value (RM'mn) | Difference (RM'mn) |
| Investment in Sunway REIT (less 20% holding company discount) | | 34.60 | 1365.65 | 1708.90 | 274.6 |
| Total surplus | | | | 2017.8 | |
| Total NTA | | | | 5015.0 | |
| Total revised enterprised value | | | | 7032.8 | |
| Conversion of warrants @ RM2.50 | | | | 724.3 | |
| SOP valuation (RM mn) | | | | 7757.2 | |
| Fully Diluted Share Base (mn shares) | | | | 2013.2 | |
| Fair Value (RM/Share) | | | | 3.85 | |

Appendix 1: Coastal Highway Southern Link



Source: Sunway, TA Research

Appendix 2: Sunway Iskandar Master Plan



Source: Sunway, TA Research

Disclaimer

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