



Sunway Berhad

Earnings boosted by higher-than-expected margin

TP: RM3.97 (+19.5%)

Last Traded: RM3.32

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BUY

Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

Review

- Sunway Berhad's FY14 core net profit of RM591.7mn beat expectations. The outperformance was attributed to higher-than-expected progress billings and EBIT margin at both property and construction divisions.
- A second interim dividend of 6.0sen/share was declared, which brought the full year dividend per share (DPS) to 11sen. This was 10% higher than FY13's DPS of 10sen but below our FY14 dividend forecasts of 11.5sen.
- Sunway's FY14 revenue grew 2.6% YoY to RM4.8bn. However, the group's core net profit advanced 22.3% YoY to RM591.7mn, largely due to better margins at the property development (+5.8ppt YoY) and construction division (+1.2ppt YoY), and lower finance costs (-12% YoY).
- QoQ, 4Q14 core net profit surged 38.0% to RM206.1mn, in tandem with a 30% growth in revenue. Specifically, property development division grew significantly (+179% QoQ) mainly due to higher progress billings from Sunway Velocity, Sunway Damansara and Sunway South Quay.
- Sunway reported new sales of RM1.7bn (effective RM1.3bn, - 7.4% YoY) in FY14. This was above our sales projections of RM1.5bn but slightly below management's sales target of RM1.8bn. Key contributors to FY14 sales are Sunway Geo Serviced Residences 2 @ Sunway South Quay, Serviced Apartments, retail shops & offices @ Sunway Velocity, and Sunway Montana @ Melawati (see **Figure 1**). Unbilled sales remained healthy at RM2.5bn (effective RM1.9bn), which will keep the group busy over the next two years.

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	1723.1
Market Cap (RMmn)	5720.7
Par Value	1.00
52-wk Hi/Lo (RM)	3.67/2.76
12-mth Avg Daily Vol ('000 shrs)	1123.0
Estimated Free Float (%)	24.2
Beta	1.20
Major Shareholders (%)	Sungei Way Corp (50.1)

Forecast Revision

	FY15	FY16
Forecast Revision (%)	13.5	15.4
Net profit (RMmn)	600.8	604.4
Consensus	540.9	554.1
TA's / Consensus (%)	111.1	109.1
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY15	FY16
Net Debt / Equity (%)	22.6	14.9
FCPS (sen)	33.6	37.3
Price / CFPS (x)	9.9	8.9
ROA (%)	4.6	4.4
NTA/Share (RM)	3.5	3.7
Price/NTA (x)	1.0	0.9

SCORECARD

	% of FY	
vs TA	118.0	Above
vs Consensus	118.0	Above

Share Performance (%)

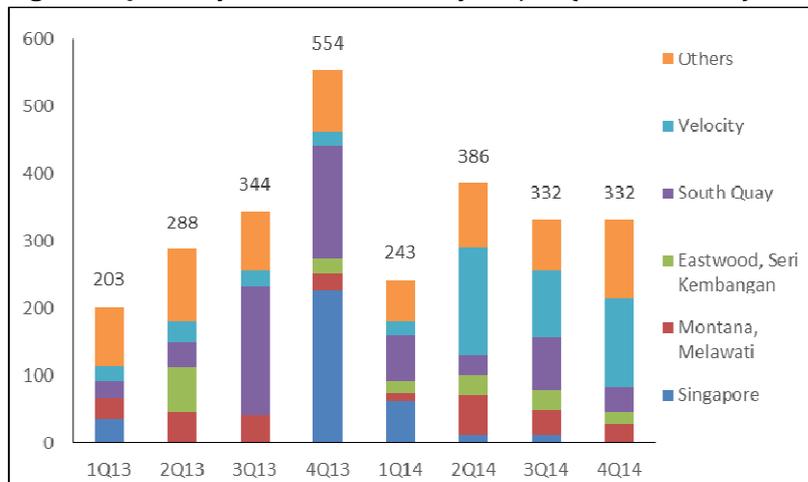
Price Change	Sunway	FBM KLCI
1 mth	0.3	1.1
3 mth	(0.9)	(1.4)
6 mth	4.4	(2.5)
12 mth	15.3	(0.4)

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



Source: Bloomberg

Figure 1: Quarterly Sales Breakdown by Project (effective sales)



Source: Sunway, TA Research

Impact

- We raise our FY15 and FY16 earnings by 14% and 15% respectively after adjusting progress billings assumptions higher and blended EBIT margin to 14.0 – 14.5% from 13.3 - 13.4% previously. We continue to project the group to secure RM1.5bn and RM1.8bn new property sales for FY15 and FY16 respectively, and new construction jobs of RM1.5bn p.a. for FY15 and FY16. Note that we have not factored in the potential dilution and special dividend from the proposed listing of Sunway Construction, pending the completion of the exercise, expected by 2Q15.

Outlook

- Management targets new sales of RM1.7bn in 2015 (effective: RM1.2bn), underpinned by new launches worth RM2.0bn for 2015 (see **Figure 3**). Key new launches in the Klang Valley include Sunway Velocity, Sunway Damansara and Sunway South Quay. Down south, Sunway is expected to roll out landed properties at Sunway Iskandar in 3Q15 with an estimated GDV of RM300mn. Over to Singapore, the group plans to launch condominiums @ Sophia Hills in 1H15 (effective GDV: RM600mn). Nevertheless, we conservatively project the group to secure RM1.5bn sales in FY15, as we expect the group to only commence the sale of commercial projects (Velocity & Nexis Retail) in end-15, as commercial properties are subject to GST, which the market may take 6 to 9 months to adapt to the new market conditions.
- On the construction front, Sunway has secured new jobs worth RM1.1bn in FY14 (see **Figure 4**). These jobs have boosted its order book to RM3.0bn, providing more than a year's earnings visibility for the group's construction division (external orderbook at 1.1x our projected FY15 construction revenue). Riding on various infrastructure projects under the Economic Transformation Programme and the upcoming 11th Malaysia Plan projects, management aims to sustain its orderbook replenishment momentum and is confident to secure job worth RM2.0bn in 2015.
- Meanwhile, we are positive on the proposed listing of construction division, scheduled in 2Q15, as investors will be able to continue ride on buoyant construction business via the share distribution in new listed co and unlock investment value from special cash dividends. Ascribing a P/E of 15x against SunCon's estimated FY14 net profit of RM110mn, we derive an issue price of RM1.28/share and Sunway could potentially raise RM512mn from the exercise. We understand that it is the group's intention to reward shareholders with a special cash dividend from substantially the entire proceeds. Assuming Sunway to distribute 75% of the proceeds from offer for sales, this could potentially translate into a special dividend of 22sen/share.

Valuation

- Our SOP-derived target price is revised to RM3.97/share from RM3.85/share previously, after factoring in our earnings revision and increase in Sunway REIT's TP to RM1.75/share (from RM1.70/share post results). Maintain **Buy**.

Figure 2: YTD Property Launches

Project	Type	Stake	Total GDV (RM mn)	Take up/Bookings
Sunway Wellesley	Townhouses & Semi-D	100%	120	60% (+7% bookings)
Sunway Eastwood	Superlink	100%	85	71% (+14% bookings)
V-Residences 2	Service Apartments	85%	271	88% (+2% bookings)
Sunway Geo Residences 2	Service Apartments	60%	210	75% (+1% bookings)
Citrine, Sunway Iskandar	Offices	51%	73	81% (+19% bookings)
Signature Retail & Offices, Sunway Velocity	Retail Shops & Offices	85%	200	99%
V-Residences Suites	Service Apartments	85%	280	47% (+2% bookings)
Sunway Gardens	Condominium	60%	90	40%
Avant Parc, Singapore	Terrace Homes	100%	100	15%
Citrine, Sunway Iskandar	Condominium	51%	220	33% (6% bookings)
Total Launches @ 31 Dec 2014			1,649	

Source: Sunway, TA Research

Figure 3: Planned launches for FY15

Project	GDV (RM mn)
Serene Villas, Sunway City Ipoh	50
Condo & Townhouses, Sunway Wellesley Penang	100
Nexis Retail, Sunway Damansara	250
Sunway Velocity Shops & Offices	150
Sunway South Quay Condominium	300
Sunway Iskandar Landed	300
Sophia Hills, Singapore (effective GDV)	600
Others	200
Total	1950

Source: Sunway, TA Research

Figure 4: Construction orderbook replenishment FY14

Project	Contract Sum (RM mn)
Sunway Medical Centre Phase 3	178
Sunway Geo Retail Shops & Flexi Suites	153
Sunway Iskandar Citrine Service Apt	200
Sunway Velocity 2 Mall	350
Coastal Highway Southern Link	170
Others	61
Total	1112

Source: Sunway, TA Research

Figure 5: Outstanding Order book

Project	RM'mn
Infrastructre	
MRT Package V4	557
LRT Kelana Jaya Line Extension	165
BRT Sunway Line	125
Johor	
Urban Wellness	164
Coastal Highway Southern Link	170
Others	
KLCC NEC	224
KLCC Package 2	143
Others	61
Foreign	
Singapore - precast	317
Total External Orderbook	1926
Other in-house jobs	
Sunway Velocity 2 mall	262
Sunway University New Academic Block	28
Sunway Putra Place	16
Sunway Pyramid 3	125
Sunway Geo Retail Shops & Flexi Suites	143
Sunway Medical Centre Phase 3	163
Sunway Iskandar - Citrine Svc Apt	180
Others	218
Total Orderbook	3059

Source: Sunway, TA Research

Earnings Summary

YE Dec 31 (RM'mn)	2012	2013	2014	2015F	2016F
Revenue	4128.8	4721.4	4841.9	5368.0	5516.0
EBITDA	623.9	642.8	655.8	812.5	861.9
EBITDA margin (%)	15.1	13.6	13.5	15.1	15.6
Pretax profit - adj	524.4	662.2	797.6	809.8	884.4
Reported Net profit	438.8	1490.4	743.2	600.8	604.4
Net profit -adj	350.7	483.9	591.7	600.8	604.4
EPS (sen)	23.9	30.6	34.2	34.7	34.9
EPS - adj (sen)	17.9	28.1	34.2	34.7	34.9
EPS Growth (Core) (%)	(5.1)	57.3	21.8	1.5	0.6
PER (x)	18.5	11.8	9.7	9.5	9.4
GDPS (sen)	4.5	10.0	11.0	12.0	12.5
Div Yield (%)	1.8	3.0	3.3	3.6	3.8
ROE (%)	11.3	11.3	10.5	9.8	9.3

4Q14 Results analysis

YE 31 Dec (RM'mn)	4Q13	3Q14	4Q14	QoQ (%)	YoY (%)	FY13	FY14	YoY(%)	
Revenue	1310.2	1134.0	1477.5	30.3	12.8	4721.4	4841.9	2.6	
<i>Property Development</i>	417.2	178.0	496.3	178.8	19.0	749.9	702.0	(6.4)	
<i>Property Investment</i>	165.8	151.8	160.4	5.7	(3.3)	412.4	434.0	5.2	
<i>Construction</i>	443.0	488.2	478.0	(2.1)	7.9	1178.7	1273.0	8.0	
<i>Trading & Manufacturing</i>	133.7	159.4	168.9	6.0	26.3	453.1	470.5	3.8	
<i>Quarry</i>	50.5	56.3	74.5	32.4	47.4	147.2	162.2	10.2	
<i>Others</i>	100.0	100.4	99.4	(1.0)	(0.6)	263.9	322.6	22.2	
EBIT	218.7	151.9	216.3	42.3	(1.1)	496.2	611.9	23.3	
Gain on derivative	0.4	(0.1)	(2.8)	>-100	>-100	0.7	(2.7)	>-100	
Finance income	3.2	11.2	14.7	31.2	364.7	34.3	48.4	41.1	
Finance costs	(27.6)	(16.4)	(22.0)	34.2	(20.4)	(89.3)	(78.9)	(11.7)	
Associates	13.4	22.8	22.9	0.3	69.9	130.0	147.2	13.2	
JV	69.9	15.7	21.8	38.7	(68.8)	159.3	86.0	(46.0)	
EI	977.8	(5.6)	106.9	>100	>100	18.7	>100	>100	
PBT	1447.1	185.2	407.8	120.2	(71.8)	1900.4	968.8	(49.0)	
Core PBT	227.8	190.8	281.2	47.3	23.4	662.2	516.4	(22.0)	
<i>Property Development</i>	130.7	99.2	118.3	19.3	(9.5)	216.8	243.8	12.4	
<i>Property Investment</i>	44.2	31.7	51.0	60.7	15.4	83.2	82.3	(1.0)	
<i>Construction</i>	18.4	17.7	61.2	245.9	233.3	61.7	81.7	32.3	
<i>Trading & Manufacturing</i>	9.4	10.4	8.2	(21.1)	(13.1)	33.8	28.6	(15.5)	
<i>Quarry</i>	4.8	6.8	16.8	145.3	250.4	17.1	21.0	22.6	
<i>Others</i>	20.3	25.0	25.8	2.9	26.7	21.8	59.0	170.3	
Tax	(45.5)	(21.8)	(50.8)	132.8	11.8	(120.9)	(148.0)	22.4	
MI	(63.9)	(19.7)	(44.0)	123.1	(31.2)	(87.8)	(77.6)	(11.5)	
Net profit	1136.3	143.7	313.0	117.8	(72.5)	1490.4	743.2	(50.1)	
Core net profit	158.6	149.3	206.1	38.0	29.9	483.9	591.7	22.3	
Reported EPS	(sen)	65.5	8.3	18.1	117.3	(72.3)	94.5	43.1	(54.4)
Adj EPS	(sen)	9.2	8.7	11.9	37.7	29.7	28.1	34.3	22.1
DPS	(sen)	5.0	0.0	6.0	nm	20.0	10.0	11.0	10.0
EBIT margin	(%)	16.4	13.4	14.6	1.2	(1.8)	10.5	12.6	2.1
PBT margin	(%)	17.1	16.8	19.0	2.2	1.9	14.0	10.7	(3.4)
<i>Property Development</i>	(%)	31.3	55.7	23.8	(31.9)	(7.5)	28.9	34.7	5.8
<i>Property Investment</i>	(%)	26.6	20.9	31.8	10.9	5.1	20.2	19.0	(1.2)
<i>Construction</i>	(%)	4.1	3.6	12.8	9.2	8.7	5.2	6.4	1.2
<i>Trading & Manufacturing</i>	(%)	7.1	6.5	4.9	(1.7)	(2.2)	7.5	6.1	(1.4)
<i>Quarry</i>	(%)	9.5	12.2	22.6	10.4	13.1	11.7	13.0	1.3
<i>Others</i>	(%)	20.3	24.9	25.9	1.0	5.6	8.3	18.3	10.0
Net margin	(%)	11.9	13.2	13.9	0.8	2.0	10.2	12.2	2.0
Effective tax rate	(%)	20.0	11.4	18.1	6.6	(1.9)	18.3	28.7	10.4

SOP Valuation

SOP Valuation	% Shareholdings	Effective land size (acres)	Effective GDV (RM'mn)	NPV (RM'mn)
Project				
Selangor/KL				
Sunway Damansara	60%	9.2	1014.8	85.9
Sunway South Quay	60%	31.2	2393.8	124.9
Sunway Monterez	60%	3.2	26.2	2.3
Sunway Semenyih	70%	278.7	510.0	28.6
Sunway Cheras	100%	6.0	16.8	1.5
Sunway Duta	60%	1.9	72.0	4.6
Sunway Montana	100%	2.0	55.5	3.5
Sunway Alam Suria	100%	0.7	12.0	0.8
Sunway Resort City	100%	14.9	660.1	37.0
Casa Kiara III	80%	2.3	168.0	14.5
Sunway Velocity	85%	15.2	2430.1	125.2
Sunway Tower KL 1	100%	1.0	240.0	20.7
Bangi	100%	3.0	59.0	5.3
Melawati	100%	2.0	43.0	3.8
Sg Long	80%	88.8	221.6	19.8
Mont Putra, Rawang	100%	163.0	156.0	13.9
Perak				
Sunway City Ipoh	65%	581.6	681.4	49.8
Penang				
Sunway City Penang	100%	15.9	171.7	15.3
Sunway Grand	100%	11.9	186.0	16.6
Sungai Ara	100%	56.1	849.2	75.7
Bukit Mertajam	100%	42.3	694.1	61.9
Paya Terubong Land	100%	24.5	1500.0	82.2
Singapore				
Novena	30%	0.5	672.5	58.3
Sembawang	100%	0.8	75.0	6.2
Mount Sophia	30%	1.8	616.8	39.9
Johor				
Bukit Lenang	80%	70.4	745.6	63.5
Medini	38%	262.6	4560.0	223.9
Pendas	60%	647.4	10800.0	400.9
China				
Sunway Guanghao	65%	2.4	43.4	2.8
Tianjin Eco City	60%	54.5	3206.3	98.0
India				
Sunway OPUS Grand India	50%	11.9	351.2	18.2
Sunway MAK Signature Residence	60%	8.4	108.7	6.0
Australia				
Wonderland Business Park (Sydney)	45%	21.8	170.1	9.4
TOTAL		2411.5	31394.3	1720.6
Current unbilled sales			1900	172.9
Sub-total				1893.5

Construction	Effective stake (%)	Balance of works (RM'mn)	NPV
Kelana Line - Package B	100.0	165.0	8.3
Singapore - Precast	100.0	317.0	7.9
KVMRT - V4 Section 17	100.0	557.0	19.5
BRT Sunway Line	100.0	125.0	-10.0
KLCC NEC	100.0	224.0	6.7
KLCC Package 2	100.0	143.0	4.3
Urban Wellness	100.0	164.0	4.9
Coastal Highway Southern Link	100.0	170.0	5.1
Other	100.0	61.0	0.6
Sub-total			47.31

	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	1759.16	314.8
Total surplus				2255.6
Total NTA				5008.9
Total revised enterprised value				7264.5
Conversion of warrants @ RM2.50				724.3
SOP valuation (RM mn)				7988.8
Fully Diluted Share Base (mn shares)				2013.2
Fair Value (RM/Share)				3.97

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Kaladher Govindan – Head of Research