



## Sunway Berhad

Higher property development margins boost

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY\*

**TP: RM3.88 (+20.3%)**

Last Traded: RM3.23

**BUY**

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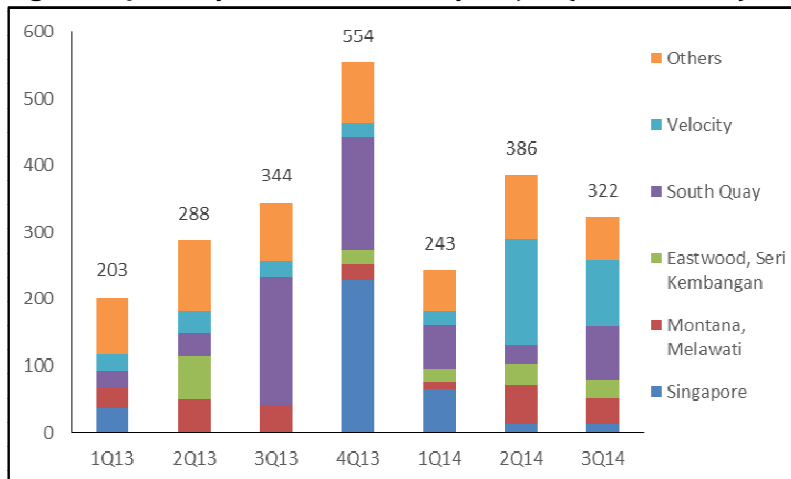
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### Review

- Sunway Berhad's 9M14 core net profit of RM385.6mn came in within our expectations but above streets' forecasts, which accounted for 74% and 80% of our and consensus full-year forecasts respectively.
- Sunway's 9M14 revenue grew 5.0% YoY to RM3.4bn. However, the group's core net profit advanced as much as 18.5% YoY to RM385.6mn, largely due to better margins at the property development (+5.8ppt YoY) and construction division (+1.2ppt YoY), and lower finance costs (-8% YoY). Sequentially, 3Q14 core net profit increased 18.5% to RM149.3mn, despite a 5.9% decline in revenue, thanks to better margins at the property development division and lower effective tax rates.
- Sunway recorded new sales of RM1.2bn (effective RM951mn) in 9M14, representing a growth of 14% YoY. This made up about 80% and 67% of our and management's sales projections of RM1.5bn and RM1.8bn respectively. Key contributors to 9MFY14 sales are Sunway Geo Serviced Residences @ Sunway South Quay, Serviced Apartments, retail shops & offices @ Sunway Velocity, and Sunway Montana @ Melawati (see **Figure 1**). Unbilled sales remained healthy at RM2.8bn (effective RM2.1bn), which will keep the group busy over the next two years.

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



Source: Sunway, TA Research

### Impact

- We maintain our FY14 new sales assumptions at RM1.5bn but trim our FY15 and FY16 new sales assumptions to RM1.6bn and RM1.8bn, from RM1.9bn and RM2.1bn respectively, in anticipation of slowing demand for property post GST implementation. We lower our FY14 - 16 construction revenue by 7-9% due to timing of recognition as a results from slower-than-expected project award. We also factor in our revised earnings projections for the group 35%-owned Sunway REIT. As such, our FY14-16 net profits are revised downwards by 2.4 - 3.5%.

### Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	1719.7
Market Cap (RMmn)	5554.7
Par Value	1.00
52-wk Hi/Lo (RM)	3.67/2.54
12-mth Avg Daily Vol ('000 shrs)	896.4
Estimated Free Float (%)	24.2
Beta	1.34
<b>Major Shareholders (%)</b>	Sungei Way Corp (46.4)

### Forecast Revision

	FY14	FY15
Forecast Revision (%)	(3.5)	(2.8)
Net profit (RMmn)	505.3	544.2
Consensus	479.8	530.2
TA's / Consensus (%)	105.3	102.6
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY14	FY15
Net Debt / Equity (%)	27.4	20.8
FCPS (sen)	(4.2)	29.6
Price / CFPS (x)	(76.9)	10.9
ROA (%)	4.5	4.7
NTA/Share (RM)	3.1	3.3
Price/NTA (x)	1.0	1.0

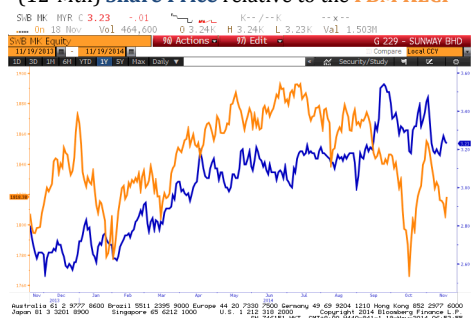
### SCORECARD

	% of FY	
vs TA	74.0	Within
vs Consensus	80.0	Above

### Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	1.6	1.7
3 mth	2.9	(2.9)
6 mth	5.9	(3.6)
12 mth	15.4	0.6

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



Source: Bloomberg

## Outlook

- 4Q14 sales are expected to be supported by booking conversions from Citrine Sunway Iskandar and Sunway Geo Residence 2, and Signature retail & office, Sunway Velocity– see **Figure 2**. We maintain our FY14 sales forecast of RM1.5bn as we believe sales contribution from upcoming launches such as Citrine Service Apartment (GDV: RM220mn, 30% booked) and Sophia Hills @ Singapore (GDV: SGD720mn, effective GDV: RM540mn) would likely be reflected in 1Q15.
- On the construction front, Sunway has secured 4 internal jobs worth RM881mn to date, but yet to secure any external jobs. Therefore, the group may miss its internal orderbook replenishment target of RM2.5bn in 2014 (including internal orders), in our opinion. Despite slower-than-expected job replenishment, we expect the group's strong outstanding orderbook of RM3.3bn (external: RM2.2bn) to support its near-term construction revenue.
- 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. In our earnings model, we have not factored in the impact of listing of construction division, pending the shareholders' approval from upcoming EGM to be convened in 1Q15.

## Valuation

- Our SOP-derived target price is revised to RM3.88/share from RM3.85/share previously, after factoring in our earnings revision and higher TP for Sunway REIT of RM1.68/share (from RM1.57/share). Maintain **Buy**. Note that we expect Sunway's target price to be re-rated to RM4.08/share, based on SCG's potential market value of RM1.6bn.

**Figure 2: YTD Property Launches**

Project	Type	Stake	Total GDV (RM mn)	Take up/Bookings
Sunway Wellesley	Townhouses & Semi-D	100%	120	59% (+8% bookings)
Sunway Eastwood	Superlink	100%	85	61% (+24% bookings)
V-Residences 2	Service Apartments	85%	271	82% (+16% bookings)
Sunway Geo Residences 2	Service Apartments	60%	210	65% (+6% bookings)
Citrine, Sunway Iskandar	Offices	51%	73	66% (+34% bookings)
Signature Retail & Offices, Sunway Velocity	Retail Shops & Offices	85%	200	78% (+19% bookings)
V-Residences Suites	Service Apartments	85%	280	43% (+5% bookings)
Sunway Gardens	Condominium	60%	90	21% (+9% bookings)
Avant Parc, Singapore	Terrace Homes	100%	100	15%
<b>Total Launches @ 31 Oct 2014</b>			<b>1,429</b>	

Source: Sunway, TA Research

**Figure 3: Outstanding Order book**

Project	RM'mn
<b>Infrastructure</b>	
MRT Package V4	594
LRT Kelana Jaya Line Extension	173
BRT Sunway Line	190
<b>Johor</b>	
Urban Wellness	204
<b>Others</b>	
KLCC NEC	233
KLCC Package 2	157
Others	250
<b>Foreign</b>	
Singapore - precast	384
<b>Total External Orderbook</b>	<b>2185</b>
<b>Other in-house jobs</b>	
Sunway Velocity Mall (Substructure)	31
Sunway Velocity Phase 2 (Substructure)	11
Sunway Velocity 2 mall	267
Sunway University New Academic Block	65
Sunway Putra Place	54
Sunway Pyramid 3	147
Sunway Medical Centre Phase 3	178
Sunway Iskandar - Citrine Svc Apt	177
<b>Total Orderbook</b>	<b>3261</b>

Source: Sunway, TA Research

**Earnings Summary**

YE Dec 31 (RM'mn)	2012	2013	2014F	2015F	2016F
Revenue	4128.8	4733.7	4686.0	5084.3	5510.4
EBITDA	850.7	521.6	677.6	712.9	763.1
EBITDA margin (%)	20.6	11.0	14.5	14.0	13.8
Pretax profit	524.4	661.1	682.4	726.6	800.1
Net profit	438.8	1500.5	505.3	544.2	554.0
Net profit -adj	350.7	482.7	505.3	544.2	554.0
EPS (sen)	23.9	30.6	29.3	31.6	32.1
EPS - adj (sen)	17.9	28.0	29.3	31.6	32.1
EPS Growth (Core) (%)	(5.1)	56.3	4.7	7.7	1.8
PER (x)	18.0	11.5	11.0	10.2	10.0
GDPS (sen)	4.5	10.0	11.5	12.0	12.5
Div Yield (%)	1.9	3.1	3.6	3.7	3.9
ROE (%)	11.3	11.3	9.2	9.4	9.0

### 3Q14 Results analysis

YE 31 Dec (RM'mn)		3Q13	2Q14	3Q14	QoQ (%)	YoY (%)	9MFY13	9MFY14	YoY(%)
<b>Revenue</b>		<b>1066.1</b>	<b>1204.6</b>	<b>1134.0</b>	<b>(5.9)</b>	<b>6.4</b>	<b>3205.2</b>	<b>3364.4</b>	<b>5.0</b>
<i>Property Development</i>		260.3	301.7	178.0	(41.0)	(31.6)	749.9	702.0	(6.4)
<i>Property Investment</i>		137.1	146.0	151.8	4.0	10.7	412.4	434.0	5.2
<i>Construction</i>		376.5	426.1	488.2	14.6	29.7	1178.7	1273.0	8.0
<i>Trading &amp; Manufacturing</i>		151.9	162.1	159.4	(1.7)	4.9	453.1	470.5	3.8
<i>Quarry</i>		47.1	57.7	56.3	(2.5)	19.5	147.2	162.2	10.2
<i>Others</i>		93.2	111.1	100.4	(9.6)	7.7	263.9	322.6	22.2
EBIT		74.9	134.0	151.9	13.4	102.9	277.5	395.6	42.5
Gain on derivative		0.1	0.2	(0.1)	(138.5)	(154.1)	0.3	0.1	(77.1)
Finance income		12.3	12.3	11.2	(8.4)	(8.5)	31.2	33.7	8.1
Finance costs		(18.6)	(22.5)	(16.4)	(27.1)	(11.7)	(61.7)	(56.9)	(7.8)
Associates		19.1	81.5	22.8	(72.0)	19.3	116.6	124.3	6.6
JV		30.3	28.1	15.7	(44.1)	(48.2)	89.3	64.2	(28.1)
Gain on disposal		(41.4)	56.5	(5.6)	(109.9)	(86.5)	18.7	44.6	>100
PBT		118.2	233.6	185.2	(20.7)	56.7	453.2	561.0	23.8
<b>Core PBT</b>		<b>159.4</b>	<b>177.1</b>	<b>190.8</b>	<b>7.8</b>	<b>19.7</b>	<b>434.5</b>	<b>516.4</b>	<b>18.9</b>
<i>Property Development</i>		90.1	75.7	99.2	31.0	10.1	216.8	243.8	31.0
<i>Property Investment</i>		24.8	30.9	31.7	2.5	28.0	83.2	78.6	(5.5)
<i>Construction</i>		15.5	32.9	17.6	(46.4)	13.9	61.7	81.7	32.3
<i>Trading &amp; Manufacturing</i>		10.8	9.8	10.4	5.6	(3.8)	33.8	28.6	(15.5)
<i>Quarry</i>		5.3	9.5	6.8	(27.9)	28.0	17.1	21.0	22.6
<i>Others</i>		12.9	18.2	25.1	37.9	94.9	21.8	62.7	187.3
Tax		(16.6)	(44.9)	(21.8)	(51.3)	31.5	(75.4)	(97.1)	28.8
MI		(8.5)	(6.2)	(19.7)	218.7	132.0	(23.8)	(33.7)	41.3
Net profit		93.1	182.5	143.7	(21.3)	54.3	354.0	430.2	21.5
Core net profit		124.4	126.0	149.3	18.5	20.0	325.4	385.6	18.5
Reported EPS	(sen)	5.8	10.6	8.3	(21.2)	43.5	26.0	25.0	(4.0)
Adj EPS	(sen)	7.8	7.3	8.7	18.5	11.6	23.3	22.4	(4.1)
DPS	(sen)	0.0	5.0	0.0	nm	0.0	5.0	5.0	0.0
EBIT margin	(%)	7.0	11.1	13.4	2.3	6.4	8.7	11.8	3.1
<b>PBT margin</b>	<b>(%)</b>	<b>15.0</b>	<b>14.7</b>	<b>16.8</b>	<b>2.1</b>	<b>1.9</b>	13.6	15.3	1.8
<i>Property Development</i>	(%)	34.6	25.1	55.7	30.6	21.1	28.9	34.7	5.8
<i>Property Investment</i>	(%)	18.1	21.2	20.9	(0.3)	2.8	20.2	18.1	(2.1)
<i>Construction</i>	(%)	4.1	7.7	3.6	(4.1)	(0.5)	5.2	6.4	1.2
<i>Trading &amp; Manufacturing</i>	(%)	7.1	6.1	6.5	0.4	(0.6)	7.5	6.1	(1.4)
<i>Quarry</i>	(%)	11.4	16.5	12.2	(4.3)	0.8	11.7	13.0	1.3
<i>Others</i>	(%)	13.8	16.4	25.0	8.6	11.2	8.3	19.4	11.2
Net margin	(%)	11.7	10.5	13.2	2.7	1.5	10.2	11.5	1.3
Effective tax rate	(%)	10.4	25.3	11.4	(13.9)	1.0	17.4	18.8	1.5

Figure 4: SOP Valuation

SOP Valuation	% Shareholdings	Effective land size (acres)	Effective GDV (RM'mn)	NPV (RM'mn)
<b>Project</b>				
<b>Selangor/KL</b>				
Sunway Damansara	60%	9.2	1014.8	69.6
Sunway South Quay	60%	31.2	2393.8	100.5
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	97.2
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
<b>Perak</b>				
Sunway City Ipoh	65%	581.6	681.4	35.8
<b>Penang</b>				
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	84.2
<b>Singapore</b>				
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
<b>Johor</b>				
Bukit Lenang	80%	70.4	745.6	50.8
Medini	38%	262.6	4560.0	211.9
Pendas	60%	647.4	10800.0	347.5
<b>China</b>				
Sunway Guanghao	65%	2.4	43.4	2.8
Tianjin Eco City	60%	54.5	3206.3	71.3
<b>India</b>				
Sunway OPUS Grand India	50%	11.9	351.2	18.2
Sunway MAK Signature Residence	60%	8.4	108.7	6.0
<b>Australia</b>				
Wonderland Business Park (Sydney)	45%	21.8	170.1	9.4
TOTAL		2411.5	31394.3	1535.1
Current unbilled sales			2100	220.5
<b>Sub-total</b>				<b>1755.6</b>
<b>Construction</b>				
		Effective stake (%)	Balance of works (RM'mn)	NPV
Kelana Line - Package B		100.0	173.0	8.7
Singapore - Precast		100.0	384.0	11.1
KVMRT - V4 Section 17		100.0	594.0	20.8
BRT Sunway Line		100.0	190.0	-22.3
KLCC NEC		100.0	233.0	11.7
KLCC Package 2		100.0	157.0	7.9
Urban Wellness		100.0	204.0	10.2
Other		100.0	250.0	7.8
<b>Sub-total</b>				<b>55.73</b>
<b>Investment in Sunway REIT (less 20% holding company discount)</b>				
	Effective stake (%)	Book value (RM'mn)	Est. fair value (RM'mn)	Difference (RM'mn)
	34.60	1365.65	1688.79	258.5
Total surplus				2069.8
Total NTA				5015.0
Total revised enterprised value				7084.8
Conversion of warrants @ RM2.50				724.3
SOP valuation (RM mn)				7809.1
Fully Diluted Share Base (mn shares)				2013.2
<b>Fair Value (RM/Share)</b>				<b>3.88</b>

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