

COMPANY RESULTS

Sunway (SWB MK)

2013: Wrapping Up The Year With Style

Sunway's 4Q13 and 2013 net profits came in at RM129m and RM483m respectively. Excluding one-off gains in 2013 of RM1b, full-year results represent about 120% of our and 118% of consensus full-year forecasts. Outstanding net construction orderbook stands at RM4b with RM1.5b worth of wins ytd. The property division would also ensure steady earnings delivery with its unbilled sales of RM2.4b (2.1x of 2013 property division revenue). Maintain BUY. Target price: RM3.39.

4Q13 RESULTS

Year to 31 Dec (RMm)	3Q13	2Q13	qoq % chg	yoy % chg	2013	yoy % chg
Revenue	1342.2	1,118.0	25.9	11.9	4,128.8	22.0
EBIT	189.0	74.1	155.1	(38.6)	471.4	-6.5
Pre-tax Profit	207.8	118.2	75.8	119.6	661.1	26.1
Property Development	129.0	90.1	43.2	(10.3)	347.5	11.3
Construction	18.3	15.6	17.5	(14.6)	80.1	15.3
Core PATMI	128.7	93.1	38.2	12.6	482.7	37.6
Pretax construction margin	4.1%	4.1%			5.0%	
Pretax prop margin	30.9%	34.6%			29.8%	

Source: Sunway Bhd, UOB Kay Hian

RESULTS

- Above expectations.** Sunway reported 4Q13 revenue of RM1,342m (25.9% qoq, +11.9% yoy) and core net profit of RM128.7m (-38.6% qoq, 12.6% yoy). Excluding fair value gains for the year of about RM1b, the cumulative 2013 core net profit came at RM482.7m, accounting for 120% of our forecasts and 118% of street's forecasts.
- Profits led by the property and construction division.** During the quarter, the group property division recorded a revenue of RM417m (+8% qoq) and a EBIT of RM134m (-3% qoq while the construction division recorded revenue of RM417m and EBIT of RM20m (+18% qoq).
- Steady margins this quarter.** This quarter, construction and property development PBT margins stood at 4.1% and 30.9% respectively. The property development margins dipped marginally due to higher contributions from commercial property projects last quarter, which typically carry higher margins.

KEY FINANCIALS

Year to 31 Dec (RMm)	2012	2013	2014F	2015F	2016F
Net turnover	3,877	4,734	5,363	5,814	5,564
EBITDA	594	608	624	668	682
Operating profit	504	471	537	573	573
Net profit (rep./act.)	351	803	514	542	549
Net profit (adj.)	351	803	514	541	548
EPS (sen)	27.1	52.3	30.3	31.9	32.3
PE (x)	10.5	5.5	9.4	9.0	8.9
P/B (x)	1.0	0.8	0.9	0.8	0.7
EV/EBITDA (x)	10.9	10.7	10.4	9.7	9.5
Dividend yield (%)	2.3	3.5	3.5	3.5	3.5
Net margin (%)	9.0	17.0	9.6	9.3	9.9
Net debt/(cash) to equity (%)	57.6	32.0	22.1	18.7	16.4
Interest cover (x)	7.7	5.9	10.0	12.5	13.6
ROE (%)	10.7	18.1	9.3	9.0	8.4
Consensus net profit	-	-	455	514	-
UOBKH/Consensus (x)	-	-	1.13	1.05	-

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY (Maintained)

Share Price	RM2.86
Target Price	RM3.39
Upside	+18.5%

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):	4,929.3
Market cap (US\$m):	1,502.8
3-mth avg daily t'over (US\$m):	0.5

Price Performance (%)

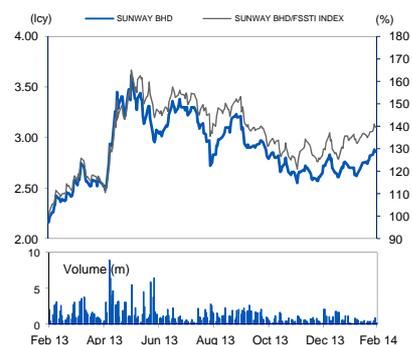
52-week high/low RM3.61/RM2.16

1mth	3mth	6mth	1yr	YTD
4.8	7.5	5.1	29.1	5.1

Major Shareholders

	%
Tan Sri Jeffrey Cheah	47.7
GIC	8.7
FY14 NAV/Share (RM)	3.33
FY14 Net Debt/Share (RM)	0.74

PRICE CHART



Source: Bloomberg

ANALYSTS

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STOCK IMPACT

- Construction orderbook remains healthy at RM3.1b.** In 2013, Sunway has secured RM1.5b worth of contracts, which includes the KLCC parking construction (total: RM526m), the construction of the Urban Wellness Centre, Iskandar (RM283m), and the BRT Sunway Line (RM452m). Sunway's net construction orderbook stands at RM3.9b ytd, mainly from the MRT packages (21% of construction orderbook). Management guided that it is aiming for a construction orderbook replenishment of RM2.5b in 2014 and would aim mainly for government jobs. Currently we are expecting Sunway's construction business to contribute between 5-7% in EBIT margin.
- Achieved sales totalling RM964m in 4Q13.** This quarter, Sunway managed to clinch about RM964m in property sales, bringing its total 2013 property sales to RM1.8b, exceeding its 2013 sales target by 20%. The improvement in property sales is mainly due to stronger sales achieved from recently-launched projects in Sunway South Quay that is located within Bandar Sunway as well as its projects in Singapore.
- Armed with strong unbilled sales of RM2.4b,** representing about 2.1x of its 2013 property division revenue. We expect property EBIT margin to hover at a healthy 26-28% on higher progress billings for developments in Singapore (RM544m) and Malaysia, including Sunway South Quay (RM793m), Sunway Velocity (RM271m) and Sunway Damansara (RM210m). Going forward, the company expects to launch about RM1.7b in projects with a sales target of RM1.3b. We believe the launches are achievable as about 70% of its products that will be launched are priced at ranges of below RM1m.
- Maiden launch of Sunway Iskandar in Medini in 1H14.** The next anticipated launch for Sunway would be their Sunway Iskandar development. We understand that the first phase of the development would be on its Medini land, which would mean that it is exempted from the minimum RM1m floor purchase price. The first launch would consist of 167 office units as well as 328 units of service apartments with an estimated GDV of about RM300m. The development would also include a retail area of 51 units that would not be sold by Sunway in order to control the tenancy of the initial stage of the development.

EARNINGS REVISION/RISK

- We raise our 2015 forecast by 1% after increasing our construction orderbook replenishment for Sunway. We also introduce our 2016 earnings forecast of RM548m.

VALUATION/RECOMMENDATION

- Maintain BUY with a SOTP-based target price of RM3.39.** Sunway would be able to offer good earnings visibility, and expected strong take-up of Sunway Iskandar also makes it an attractive Medini, Iskandar Malaysia proxy. Sunway is also expected to be one of the key contractors for the MRT 2 construction. Our target price implies 10x 2015F PE.

SHARE PRICE CATALYST

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

SUNWAY'S SOTP VALUATION

	RMm
Property development	4,125
REIT	1,602
Construction	992
Quary & building materials	42
Trading	414
Warrants conversion proceeds	724
Less: Net debt @FY13	-1,766
Proceeds from rights	879
Total SOP value	7,011
Outstanding shares	1,293
Warrants	259
Rights (1-for-3)	517
Enlarged sharebase	2,068
Target price (RM)	3.39

Source: UOB Kay Hian

PROPERTY SALES 2013

Area	RMm
Malaysia	1,414
- South Quay	701
- Montana	141
- Velocity	119
- Others - Malaysia	304
Singapore	266
Others	120

Source: Sunway

UNBILLED SALES

	RMm
Sunway South Quay	793
Singapore	544
Sunway Velocity	271
Others	792

Source: Sunway

YTD ORDERBOOK REPLENISHMENT

	RMm
BRT - Sunway Line	452
Urban Wellness Centre	283
KLCC Package 2	222
Others	795

Source: Sunway

PROFIT & LOSS

Year to 31 Dec (RMm)	2013	2014F	2015F	2016F
Net turnover	4,734	5,363	5,814	5,564
EBITDA	608	624	668	682
Deprec. & amort.	137	86	96	108
EBIT	471	537	573	573
Associate contributions	172	250	255	260
Net interest income/(expense)	(102)	(62)	(53)	(50)
Pre-tax profit	1,559	725	775	784
Tax	(121)	(181)	(194)	(196)
Minorities	(273)	(30)	(40)	(40)
Net profit	803	514	542	549
Net profit (adj.)	803	514	541	548

BALANCE SHEET

Year to 31 Dec (RMm)	2013	2014F	2015F	2016F
Fixed assets	858	1,022	1,176	1,318
Other LT assets	5,371	5,325	5,333	5,343
Cash/ST investment	1,519	1,754	1,653	1,509
Other current assets	3,364	3,814	4,289	4,459
Total assets	11,112	11,915	12,451	12,628
ST debt	1,805	1,705	1,605	1,505
Other current liabilities	2,178	2,800	3,037	2,906
LT debt	1,422	1,322	1,222	1,122
Other LT liabilities	55	55	55	55
Shareholders' equity	5,335	5,745	6,285	6,832
Minority interest	317	287	247	207
Total liabilities & equity	11,112	11,915	12,451	12,628

CASH FLOW

Year to 31 Dec (RMm)	2013	2014F	2015F	2016F
Operating	1,094	687	418	375
Pre-tax profit	0	725	775	784
Tax	(152)	(181)	(194)	(196)
Deprec. & amort.	137	86	96	108
Associates	(508)	0	0	0
Working capital changes	296	357	41	(23)
Other operating cashflows	1,320	(300)	(299)	(299)
Investing	(905)	(250)	(250)	(250)
Capex (growth)	(202)	(250)	(250)	(250)
Investments	(508)	0	0	0
Proceeds from sale of assets	6	0	0	0
Others	(201)	0	0	0
Financing	135	(202)	(270)	(270)
Dividend payments	(344)	(103)	(172)	(172)
Issue of shares	733	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(130)	(100)	(100)	(100)
Others/interest paid	(123)	1	2	2
Net cash inflow (outflow)	324	235	(102)	(145)
Beginning cash & cash equivalent	1,102	1,519	1,754	1,653
Changes due to forex impact	93	0	1	1
Ending cash & cash equivalent	1,519	1,754	1,653	1,509

KEY METRICS

Year to 31 Dec (%)	2013	2014F	2015F	2016F
Profitability				
EBITDA margin	12.9	11.6	11.5	12.3
Pre-tax margin	32.9	13.5	13.3	14.1
Net margin	17.0	9.6	9.3	9.9
ROA	8.1	4.5	4.4	4.4
ROE	18.1	9.3	9.0	8.4
Growth				
Turnover	22.1	13.3	8.4	(4.3)
EBITDA	2.4	2.5	7.1	2.1
Pre-tax profit	71.4	(53.5)	6.9	1.2
Net profit	129.1	(36.1)	5.5	1.3
Net profit (adj.)	129.1	(36.1)	5.3	1.3
EPS	93.0	(42.1)	5.2	1.3
Leverage				
Debt to total capital	36.3	33.4	30.2	27.2
Debt to equity	60.5	52.7	45.0	38.4
Net debt/(cash) to equity	32.0	22.1	18.7	16.4
Interest cover (x)	5.9	10.0	12.5	13.6

Disclosures

As of 28 February 2014, the analyst and his/her immediate family do not hold positions in the respective securities recommended in this report.

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