

COMPANY RESULTS

Sunway Bhd (SWB MK)

3Q13: Within Expectations

Sunway's 3Q13 and 9M13 net profits came in at RM93.1m and RM354m respectively. Excluding one-off gains in 2Q13 of RM59.7m, 9M13 earnings represent about 74% of our full-year forecast. Outstanding construction orderbook stands at RM3b with RM1.5b worth of wins ytd. The property division would also ensure steady earnings delivery with its unbilled sales of RM1.8b (1.85x of 2013F property division revenue). Maintain BUY. Target price: RM3.39.

3Q13 Results

Year to 31 Dec (RMm)	3Q13	2Q13	qoq % chg	yoy % chg	9M13	yoy % chg
Revenue	1,066.1	1,118.0	(4.6)	23.0	3,205.2	(16.5)
EBIT	74.9	116.6	(35.7)	(47.4)	314.0	33.9
Pre-tax Profit	118.2	212.5	(44.4)	(17.0)	453.2	(7.2)
Property Development	90.1	70.5	27.9	1.0	216.8	(22.3)
Construction	15.6	18.2	(14.6)	(18.1)	61.7	(22.3)
Core Net Profit	93.1	170.4	(45.3)	(1.2)	354.0	(33.2)
Pre-tax construction margin (%)	5.4	4.0			4.9	
Pre-tax prop margin (%)	34.6	24.6			23.7	

Source: Sunway Bhd, UOB Kay Hian

RESULTS

- **Within expectations.** Sunway reported 3Q13 revenue of RM1,066m (9.5% qoq, +23.0% yoy) and core net profit of RM93.1m (-45.3 qoq, -1.2% yoy). Excluding 2Q13's fair value gain of RM59.7m, 9M13 core net profit of RM294.3m accounted for 74% of our and street forecasts.
- **ESOS dragged earnings marginally.** During the quarter, the group made one-off adjustments for its employee share option scheme (ESOS) of about RM39.7m.
- **Margins improved this quarter.** This quarter, construction and property development PBT margins improved to 5.4% and 34.6% respectively. The property development saw a huge improvement due to higher contributions from commercial property projects, which typically carry higher margins.

KEY FINANCIALS

Year to 31 Dec (RMm)	2011	2012	2013F	2014F	2015F
Net turnover	3,739	3,877	4,286	4,769	5,640
EBITDA	456	594	555	636	793
Operating profit	366	504	458	523	665
Net profit (rep./act.)	328	351	397	444	548
Net profit (adj.)	372	351	397	444	547
EPS (sen)	23.2	27.1	20.5	22.8	28.0
PE (x)	11.4	9.8	12.9	11.6	9.5
P/B (x)	1.4	1.0	1.4	1.3	1.1
EV/EBITDA (x)	14.5	11.1	11.9	10.4	8.3
Dividend yield (%)	0.0	2.5	2.3	2.3	2.6
Net margin (%)	8.8	9.0	9.3	9.3	9.7
Net debt/(cash) to equity (%)	55.7	57.6	45.3	40.8	32.9
Interest cover (x)	8.5	7.7	6.8	8.4	11.1
ROE (%)	11.8	10.7	10.7	11.0	12.3
Consensus net profit	-	-	398	457	512
UOBKH/Consensus (x)	-	-	1.00	0.97	1.07

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.65
Target Price	RM3.39
Upside	+27.9%

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):	4,567.3
Market cap (US\$m):	1,416.7
3-mth avg daily t'over (US\$m):	1.0

Price Performance (%)

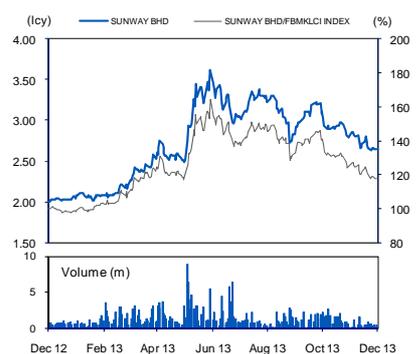
52-week high/low RM3.61/RM2.00

1mth	3mth	6mth	1yr	YTD
(6.0)	(3.6)	(23.7)	32.6	28.2

Major Shareholders

	%
Tan Sri Jeffrey Cheah	47.7
GIC	8.7
-	-
FY13 NAV/Share (RM)	1.94
FY13 Net Debt/Share (RM)	0.88

PRICE CHART



Source: Bloomberg

ANALYSTS

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STOCK IMPACT

- **Construction orderbook remains healthy at RM3b.** Ytd, Sunway has secured RM1.3b worth of contracts, the latest being the construction of the Urban Wellness Centre, Iskandar (RM283m), KLCC Package 2 (RM222m) and BRT Sunway Line (RM452m). Sunway's construction orderbook stands at RM3b ytd, mainly from the MRT packages (29% of construction orderbook). To date, Sunway achieved 87% of its yearly orderbook replenishment of RM1.5b. We expect Sunway's construction business to provide 5-7% EBIT margin.
- **Property sales worth RM344m in 3Q13.** This quarter, Sunway managed to clinch about RM344m (+6.7% yoy) in property sales, lifting 9M13 property sales to RM836m, which represent 56% of its full-year target of RM1.5b. The improvement in property sales was mainly due to stronger sales from recently-launched projects in Sunway South Quay that is located within Bandar Sunway. We believe Sunway would be able to achieve its target with the planned year-end launch of Sunway Iskandar.
- **Armed with strong unbilled sales of RM1.8b,** representing about 1.85x of our 2013F property division revenue. Ytd, the group has launched about RM1.7b worth of projects, surpassing its 2013 launch target of RM1.5b. We expect property EBIT margin to hover at a healthy 26-28% on higher progress billings from developments in Singapore (RM458m) and Malaysia, including Sunway South Quay (RM252m), Sunway Montana (RM209m) and Sunway Velocity (RM247m).
- **Maiden launch of Sunway Iskandar is in Medini.** The next anticipated launch for Sunway would be its Sunway Iskandar development. We understand the first phase of the development would lie on its Medini land, which would mean that it is exempted from the minimum RM1m floor purchase price. The mixed development is slated to be launched in Dec 13, which offers serviced apartments, office and retail spaces. The launch is expected to generate a total GDV of RM330m at ASP of RM650psf. Given its competitive pricing and current presence in Singapore, we believe the project would be able to attract a fair share of Singapore buyers.

EARNINGS REVISION/RISK

- We maintain our earnings forecasts.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of RM3.39,** or 13x 2014F PE, and offers over 27% price upside after the recent sell-down. 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.

SHARE PRICE CATALYST

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

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 3Q13

Area	RMm
Malaysia	737
- South Quay	252
- Montana	118
- Velocity	80
- Others - Malaysia	287
Singapore	38
Others	61

Source: Sunway

UNBILLED SALES

	RMm
Singapore	458
Sunway South Quay	410
Sunway Velocity	247
Others	37

Source: Sunway

YTD ORDERBOOK REPLENISHMENT

	RMm
Urban Wellness Centre	283
KLCC Package 2	222
Others	795

Source: Sunway

PROFIT & LOSS

Year to 31 Dec (RMm)	2012	2013F	2014F	2015F
Net turnover	3,877	4,286	4,769	5,640
EBITDA	594	555	636	793
Deprec. & amort.	90	97	113	127
EBIT	504	458	523	665
Associate contributions	301	193	184	188
Net interest income/(expense)	(78)	(82)	(76)	(71)
Pre-tax profit	910	569	632	783
Tax	(129)	(142)	(158)	(196)
Minorities	(67)	(30)	(30)	(40)
Net profit	351	397	444	548
Net profit (adj.)	351	397	444	547

BALANCE SHEET

Year to 31 Dec (RMm)	2012	2013F	2014F	2015F
Fixed assets	807	960	1,097	1,219
Other LT assets	4,124	4,192	4,127	4,221
Cash/ST investment	1,140	1,346	1,182	1,133
Other current assets	2,674	2,638	3,050	3,569
Total assets	8,745	9,136	9,456	10,142
ST debt	783	733	633	533
Other current liabilities	1,636	1,864	2,074	2,453
LT debt	2,408	2,358	2,258	2,158
Other LT liabilities	50	50	50	50
Shareholders' equity	3,558	3,852	4,193	4,739
Minority interest	310	280	250	210
Total liabilities & equity	8,745	9,136	9,456	10,142

CASH FLOW

Year to 31 Dec (RMm)	2012	2013F	2014F	2015F
Operating	386	609	288	418
Pre-tax profit	910	569	632	783
Tax	(93)	(142)	(158)	(196)
Deprec. & amort.	90	97	113	127
Associates	(200)	0	0	0
Working capital changes	(801)	435	2	3
Other operating cashflows	481	(350)	(300)	(299)
Investing	(358)	(250)	(250)	(250)
Capex (growth)	(215)	(250)	(250)	(250)
Investments	(200)	0	0	0
Proceeds from sale of assets	317	0	0	0
Others	(260)	0	0	0
Financing	247	(153)	(202)	(219)
Dividend payments	(39)	(103)	(103)	(121)
Issue of shares	0	0	0	0
Proceeds from borrowings	401	0	0	0
Loan repayment	0	(50)	(100)	(100)
Others/interest paid	(116)	0	1	2
Net cash inflow (outflow)	275	206	(164)	(50)
Beginning cash & cash equivalent	773	1,140	1,346	1,182
Changes due to forex impact	92	0	0	1
Ending cash & cash equivalent	1,140	1,346	1,182	1,133

KEY METRICS

Year to 31 Dec (%)	2012	2013F	2014F	2015F
Profitability				
EBITDA margin	15.3	13.0	13.3	14.1
Pre-tax margin	23.5	13.3	13.2	13.9
Net margin	9.0	9.3	9.3	9.7
ROA	4.2	4.4	4.8	5.6
ROE	10.7	10.7	11.0	12.3
Growth				
Turnover	3.7	10.6	11.3	18.3
EBITDA	30.3	(6.5)	14.6	24.5
Pre-tax profit	82.5	(37.4)	10.9	23.9
Net profit	6.9	13.3	11.8	23.5
Net profit (adj.)	(5.8)	13.3	11.8	23.3
EPS	16.9	(24.6)	11.5	22.8
Leverage				
Debt to total capital	45.2	42.8	39.4	35.2
Debt to equity	89.7	80.2	68.9	56.8
Net debt/(cash) to equity	57.6	45.3	40.8	32.9
Interest cover (x)	7.7	6.8	8.4	11.1

Disclosures

As of 02 December 2013, the analyst and his/her immediate family do not hold positions in the respective securities recommended in this report.

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