

COMPANY RESULTS

Sunway Berhad (SWB MK)

3Q14: Within Expectations

Sunway's 3Q14 net profit came in at RM143.7m, bringing 9M14 earnings to RM385.6m (about 75% of our full-year estimate). Outstanding construction orderbook stands at RM2.2b while the property division would ensure steady earnings delivery with unbilled sales of RM2.1b. Key catalysts for the company in the near term include the listing of its construction division, which would come with special dividend payments. Maintain BUY. Target price: RM3.51.

3Q14 RESULTS

Year to 31 Dec	3Q14 (RMm)	qoq % chg	yoy % chg	9M14 (RMm)	yoy % chg
Revenue	1,134.0	(5.9)	6.4	3,364.4	5.0
Construction	488.2	14.6	29.7	1,273.0	0.5
Property Development	178.0	(41.0)	(31.6)	702.0	(6.4)
Property Investment	151.8	4.0	10.7	434.0	0.2
EBIT	151.9	13.4	105.1	395.6	(3.3)
Construction	14.4	(56.1)	(7.5)	78.5	27.1
Property Development	44.6	(41.1)	(50.5)	189.2	(12.7)
Property Investment	31.2	(64.3)	43.1	143.2	2.4
PBT	185.2	(20.7)	56.7	561.0	23.8
Core PATMI	149.3	(18.2)	60.4	385.6	18.5
Pretax construction margin	3.0%			6.2%	
Pretax prop margin	25.1%			27.0%	

Source: Sunway, UOB Kay Hian

RESULTS

- **Within expectations.** Sunway Berhad (Sunway) reported 3Q14 revenue of RM1,134m (-5.9% qoq, +6.4% yoy) and net profit of RM149.3m (-18.2% qoq, +60.4% yoy). Included in the net profit were one-off expenses for ESOS amounting to about RM5.6m. Excluding these one-off items, 9M14 core earnings would be RM385.6m, or 75% of our full-year estimate.
- **Profits led by the property and construction divisions.** For the quarter, the property division recorded revenue of RM178m (-31.6% yoy) and EBIT of RM96.1m (+4% yoy) with healthy operating profit margins of 44.5%. The improvement this quarter was due to the lower common infrastructure works that were required as well as higher profit recognition from the Sunway Damansara development.

KEY FINANCIALS

Year to 31 Dec (RMm)	2012	2013	2014F	2015F	2016F
Net turnover	3,877	4,734	5,569	6,323	6,463
EBITDA	594	608	624	674	717
Operating profit	504	471	538	579	608
Net profit (rep./act.)	351	1,501	514	545	575
Net profit (adj.)	351	483	514	545	575
EPS (sen)	27.1	31.7	25.3	26.8	28.2
PE (x)	11.9	10.2	12.8	12.1	11.4
P/B (x)	1.2	0.9	1.0	0.9	0.9
EV/EBITDA (x)	12.0	11.7	11.4	10.5	9.9
Dividend yield (%)	2.0	3.1	3.1	3.1	3.1
Net margin (%)	9.0	31.7	9.2	8.6	8.9
Net debt/(cash) to equity (%)	57.6	32.0	21.9	18.1	15.0
Interest cover (x)	7.7	5.9	10.1	12.8	14.8
ROE (%)	10.7	33.7	9.3	9.1	8.7
Consensus net profit	-	-	480	530	552
UOBKH/Consensus (x)	-	-	1.07	1.03	1.04

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

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

BUY

(Maintained)

Share Price	RM3.23
Target Price	RM3.51
Upside	+8.7%

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	SWB MK
Shares issued (m):	1,719.7
Market cap (RMm):	5,554.7
Market cap (US\$m):	1,654.9
3-mth avg daily t'over (US\$m):	1.3

Price Performance (%)

52-week high/low RM3.54/RM2.55

1mth	3mth	6mth	1yr	YTD
1.6	2.2	5.2	17.9	18.8

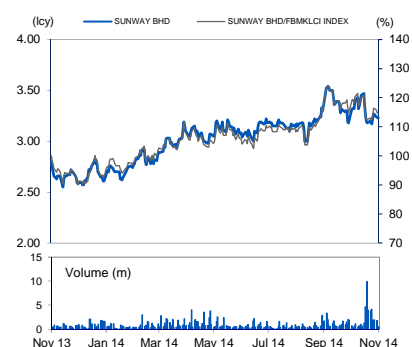
Major Shareholders

	%
Tan Sri Jeffrey Cheah	55.4
Employees Provident Fund	5.7

FY14 NAV/Share (RM) 3.17

FY14 Net Debt/Share (RM) 0.70

PRICE CHART



Source: Bloomberg

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- **Construction division reaching higher profit-recognition stages.** This quarter, construction revenue stood at RM488.2m (+29.7% yoy) while EBIT was RM14.4m (-7.5% yoy) with a decent pre-tax margin of 3.0%. Margins were depressed this quarter mainly due to: a) the provision for compensation for works at the Silk Highway totalling RM3.5m, and b) the accounting entry for an intracompany fixed asset construction where profits totalling RM10m had to be excluded.

STOCK IMPACT

- **External construction orderbook remained healthy at RM2.2b.** Sunway's outstanding construction orderbook currently stands at RM2.2b, mainly from government infrastructure jobs. While there have been no external jobs wins to-date, we are not too concerned as its internal jobs would be able to support earnings visibility for this division. The group to-date has replenished its internal construction orderbook by RM881m. Currently, we are expecting the construction business to contribute 5-7% EBIT margin for 2014-16.
- **Achieved sales of RM951m ytd**, representing 73% of its full-year target of RM1.3b. To-date, the group has launched about RM1.4b in developments. Among the notable sales were office suites at its Sunway Iskandar development (GDV: RM73m, 100% take-up), Retail and Offices at Sunway Velocity (GDV: RM200m, 99% take-up) and V-Residences 2 (GDV: RM271m, 87% take-up).
- **Strong unbilled sales of RM2.1b**, representing 1.8x of its 2013 property revenue. We expect property EBIT margin to hover at a healthy 26-28% on higher progress billings from projects in Singapore (RM407m) and Malaysia, including Sunway South Quay (RM409m), Sunway Velocity (RM505m) and Sunway Montana (RM222m).
- **Look out for the listing of its construction arm.** Together with the proposed listing of Sunway Construction Group, Sunway also proposed a 1-for-10 distribution-in-specie of free SCG shares to existing shareholders of Sunway as well as a potential special dividend. The special dividend would be based on part of the cash receipts due to Sunway. Assuming that 40% of the cash proceeds are distributed as special dividends, we estimate the dividend could be worth 10-11 sen/share.
- **Share overhang issue lifted.** Recall that earlier this month, a major shareholder, GIC disposed its 8.7% stake in Sunway Bhd. Based on the company's announcements, we understand that major takers of the block include government-linked funds.

EARNINGS REVISION/RISK

- We maintain our earnings forecasts.
- Key risks include: a) rising interest rates, b) tighter lending policies by banks, and c) rising costs of raw materials leading to margin erosion.

VALUATION/RECOMMENDATION

- **Maintain BUY with SOTP-based target price of RM3.51**, or 13x 2015F PE. Sunway would be able to offer good earnings visibility, and the expected decent take-up at 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 Line 2 construction.
- Also, the stock would be supported by an expected dividend-in-specie and cash dividend that could imply yields of 6.4-6.7% as a result of the floatation.

SHARE PRICE CATALYST

- Finalisation of its construction division listing.
- Good take-up rates at property launches.

SOTP VALUATION

Property development	3,850.0
REIT	1,573.5
Construction*	2,244.2
Quarry & building materials	49.8
Trading	517.5
Warrants conversion proceeds	723.8
Less: Net debt @FY13	(1,707.4)
Total SOP value (a)	7,251.3
Outstanding shares (m)	1,809.5
Warrants	258.5
Enlarged share base (m)	2,068.0
SOTP value/share (RM) (a/b)	3.51

*pegged to 2016F

Source: UOB Kay Hian

REVENUE ASSUMPTIONS

	2014F	2015F	2016F
Construction	2,089.5	2,436.0	2,021.4
Property Development	1,234.8	1,274.0	1,370.6
Property Investment	832.1	848.7	865.7

Source: UOB Kay Hian

PROPERTY SALES IN 2Q14

Area	(RMm)
Malaysia	1,125
- Sunway Wellesley, Townhouses & Semi-D	120
- Sunway Eastwood Park Villa, Superlinks	85
- Avant Parc, Singapore	100

Source: Sunway

EXTERNAL CONSTRUCTION ORDERBOOK

	(RMm)
MRT Line 1	594
BRT Sunway Line	190
Urban Wellness Centre	204
Others	1,197

Source: Sunway

PROFIT & LOSS

Year to 31 Dec (RMm)	2013	2014F	2015F	2016F
Net turnover	4,734	5,569	6,323	6,463
EBITDA	608	624	674	717
Deprec. & amort.	137	86	96	108
EBIT	471	538	579	608
Associate contributions	172	250	255	260
Net interest income/(expense)	(102)	(62)	(53)	(48)
Pre-tax profit	1,894	725	780	820
Tax	(121)	(181)	(195)	(205)
Minorities	(273)	(30)	(40)	(40)
Net profit	1,501	514	545	575
Net profit (adj.)	483	514	545	575

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	5,371	5,378	5,388
Cash/ST investment	1,519	1,768	1,689	1,597
Other current assets	3,364	3,862	4,473	4,822
Total assets	11,112	12,022	12,716	13,124
ST debt	1,805	1,705	1,605	1,505
Other current liabilities	2,178	2,913	3,301	3,375
LT debt	1,422	1,322	1,222	1,122
Other LT liabilities	55	55	55	55
Shareholders' equity	5,335	5,740	6,285	6,860
Minority interest	317	287	247	207
Total liabilities & equity	11,112	12,022	12,716	13,124

CASH FLOW

Year to 31 Dec (RMm)	2013	2014F	2015F	2016F
Operating	1,094	706	450	437
Pre-tax profit	0	725	780	820
Tax	(152)	(181)	(195)	(205)
Deprec. & amort.	137	86	96	108
Associates	(508)	0	0	0
Working capital changes	296	376	68	13
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	(208)	(279)	(279)
Dividend payments	(344)	(109)	(181)	(181)
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	249	(79)	(92)
Beginning cash & cash equivalent	1,102	1,519	1,768	1,689
Changes due to forex impact	93	0	0	0
Ending cash & cash equivalent	1,519	1,768	1,689	1,597

KEY METRICS

Year to 31 Dec (%)	2013	2014F	2015F	2016F
Profitability				
EBITDA margin	12.9	11.2	10.7	11.1
Pre-tax margin	40.0	13.0	12.3	12.7
Net margin	31.7	9.2	8.6	8.9
ROA	15.1	4.4	4.4	4.4
ROE	33.7	9.3	9.1	8.7
Growth				
Turnover	22.1	17.6	13.5	2.2
EBITDA	2.4	2.5	8.1	6.4
Pre-tax profit	108.3	(61.7)	7.6	5.1
Net profit	328.0	(65.7)	6.1	5.4
Net profit (adj.)	37.7	6.5	6.1	5.4
EPS	16.8	(20.2)	6.0	5.4
Leverage				
Debt to total capital	36.3	33.4	30.2	27.1
Debt to equity	60.5	52.7	45.0	38.3
Net debt/(cash) to equity	32.0	21.9	18.1	15.0
Interest cover (x)	5.9	10.1	12.8	14.8

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