

Malaysia Company Focus

Sunway

Bloomberg: SWB MK | Reuters: SWAY.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Nov 2014

BUY RM3.24 KLCI : 1,818.38

Price Target : 12-Month RM 3.90

Reason for Report : Result announcement

Potential Catalyst: Strong order book replenishment and property sales

Where we differ: In line with consensus

Analyst

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Result Summary

FY Dec (RM m)	2Q 2014	2Q 2013	1Q 2014	yoy % chg	qoq % chg
P&L Items					
Turnover	1,204.6	1,118.0	1,025.7	7.7	17.4
Gross Profit	117.8	93.7	93.2	25.8	26.5
Opg Profit	139.6	116.7	115.9	19.6	20.5
EBITDA	215.5	165.5	156.3	30.2	37.9
Net Profit	182.5	170.3	104.0	7.2	75.5

Other Data

Gross Margin (%)	9.8	8.4	9.1
Opg Margin (%)	11.6	10.4	11.3
Net Margin (%)	15.2	15.2	10.1

Financial Summary

FY Dec (RM m)	2013A	2014F	2015F	2016F
Turnover	4,721	4,693	5,713	6,220
Operating Profit	804	566	705	740
EBITDA	1,132	834	953	993
Net Pft (Pre Ex.)	484	493	589	625
EPS (sen)	86.5	28.6	34.2	36.3
EPS Pre Ex. (sen)	28.1	28.6	34.2	36.3
EPS Gth (%)	155	(67)	19	6
EPS Gth Pre Ex (%)	4	2	19	6
Net DPS (sen)	10.0	8.6	10.2	10.9
BV Per Share (sen)	309.2	329.2	353.1	378.5
PE (X)	3.7	11.3	9.5	8.9
PE Pre Ex. (X)	11.5	11.3	9.5	8.9
EV/EBITDA (X)	6.3	8.8	7.6	7.2
Net Div Yield (%)	3.1	2.6	3.2	3.4
P/Book Value (X)	1.0	1.0	0.9	0.9
Net Debt/Equity (X)	0.2	0.2	0.2	0.2
ROAE (%)	34.9	9.0	10.0	9.9

At A Glance

Issued Capital (m shrs)	1,722
Mkt. Cap (RMm/US\$m)	5,580 / 1,663
Avg. Daily Vol. ('000)	1,335

ICB Industry : Real Estate

ICB Sector: Real Estate Investment & Services

Principal Business: Sunway Bhd is a property development and construction company. The Company's other business segments include quarrying and building materials trading and manufacturing, hospitality, leisure, and healthcare.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Strong quarter

- **3Q14 results within expectations**
- **Clear earnings visibility anchored by strong unbilled sales and construction order book**
- **Maintain Buy with RM3.90 TP**

Highlights

In line

- Sunway's 3Q14 core earnings came in at RM149.3m (+18% q-o-q, +20% y-o-y), taking 9M14 core profit to RM386m (+18% y-o-y). This is 78% of our FY14F earnings.

Led by strong property earnings

- Property EBIT grew 36% q-o-q to RM79.1m, largely due to lower infrastructure costs and higher profit recognition for Sunway Damansara, driving segmental EBIT margin to 45% (vs 19% in 2Q14). Meanwhile, Property Investment EBIT also grew 17% q-o-q, thanks to stronger contribution from the leisure and hospitality business. All in, these two divisions accounted for 70% of 3Q14 EBIT.

Outlook

Listing of Sunway Construction Group on track

- The IPO is expected to be completed by 2Q15 which will result in special cash dividends of RM460m (~27sen/share) for Sunway's existing shareholders, assuming that SCG is valued at RM1.65bn.

Strong earnings visibility

- Sunway's construction order book remains strong at RM3.3bn (1.7x of FY14F construction revenue), while property unbilled sales stand at RM2.8bn (2.9x of FY14 property revenue). It will be launching RM830m worth of projects soon, including Citrine Service Apt@Sunway Iskandar (RM220m GDV), Semi-D & townhouses @Sunway Cassia (RM70m), and Sophia Hills condo@Singapore (RM540m).

Huge land bank for planning flexibility

- Its vast land bank - 3,300 acres worth RM50bn in GDV - across Klang Valley, Iskandar Malaysia and Penang will ensure sustainable growth going forward.

Valuation

- Our TP of RM3.90 is based on 10% discount to our SOP valuation of RM4.30.

Sunway

Risks

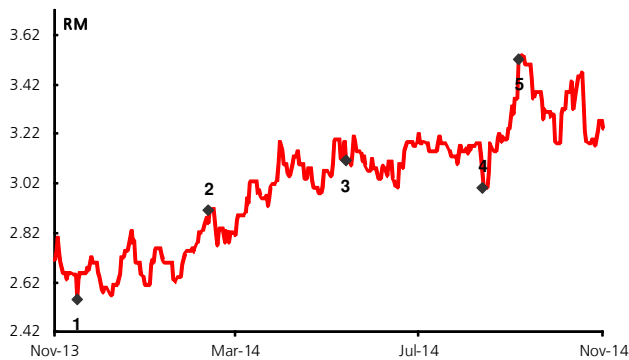
Delay in contract awards

- YTD construction job wins have been slow and Sunway could be affected by slowing tenders for new contracts.

Slowdown in property

- Given various tightening property policies in Malaysia, demand for property (residential and commercial) could be lower in the near-future.

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	02 Dec 13	2.55	3.50	Buy
2:	28 Feb 14	2.91	3.50	Buy
3:	30 May 14	3.11	3.50	Buy
4:	29 Aug 14	3.00	3.90	Buy
5:	22 Sep 14	3.52	3.90	Buy

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

AllianceDBS Research recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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