J.P.Morgan

Asia Pacific Equity Research
26 July 2013

Sunway Bhd

Here comes 'The Sun': initiating with Overweight

Initiation
Overweight

SWAY.KL, SWB MK
Price: M$3.30

Price Target: M$4.00

We initiate coverage on Sunway Berhad (SWB) with an OW rating and a Jun-14E PT of M$4.00. Following an aggressive land-banking exercise over the last 12 months, SWB has emerged as the second-largest property play and the best proxy to Iskandar, Johor, in our view, with less demanding valuations than UEM Sunrise. It also owns Malaysia's largest listed REIT by asset size (i.e. 34%-owned Sunway REIT) with a construction arm to benefit from rising infrastructure spending. Our top property pick remains IJM Land.

- **Key strengths and catalysts:** 1) Its strong branding and track record, integrated product concept, low density landed projects (versus high rise where competition is keener), prime location, tax free status, and low entry cost in Iskandar. 2) Rising property sales with the Iskandar projects to be launched by late-2013/early-2014 estimated to account for 36-38% of sales by FY14-15E, with the rest from Klang Valley and Singapore. 3) Prospects for further value realization of its prime investment properties with the next phase of injection of assets into its REIT vehicle likely by FY15/16. 4) Multi-year up-cycle for the construction sector, which it has exposure to.
- **Stronger growth from FY14; improved finances post rights issue**. We forecast 2-year EPS CAGR of 16% over FY14-15E, after a 14% drop in FY13E due to dilution from a rights issue raising an estimated M$730MM in proceeds by Jul-13. We expect growth to be driven by: 1) Higher property sales of M$1.8-2.3B for FY14-15E (M$1.38B in FY13). 2) Unbilled sales of M$2.3B or 2.5x historical revenue. 3) Secured/locked-in rental income for the property investment unit. 4) Stronger order-book and a recovery in margins for construction. Net gearing is healthy at 29-38% over FY13-15E.
- **Our Jun-14 PT of M$4.00** is based on a 30% RNAV discount, in line with the sector's historical mean. SWB trades on 13.6x FY14E PE vs 13-19x for its peers (UEM at 19x). Key risks: 1) Potential speculative curbs on the property sector but we do not expect any measures to hurt real demand and remain positive on the sector's mid-to-long term outlook. 2) Keen competition in Iskandar – if we strip out the value accretion from Iskandar and value the assets at book or land cost of M$20psf (recent transactions at M$35-147psf), our PT on 30% RNAV discount would drop to M$3.00.

Malaysia
Real Estate

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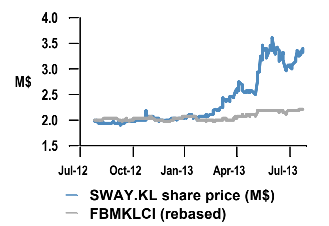
Price Performance



	YTD	1m	3m	12m
Abs	60.1%	11.4%	27.8%	64.9%
Rel	53.0%	6.8%	21.8%	54.3%

Sunway Bhd (Reuters: SWAY.KL, Bloomberg: SWB MK)

M$ in mn, year-end Dec	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (M$ mn)	3,692	3,849	4,590	4,804	4,820
Core Net Profit (M$ mn)	327	349	385	468	520
Core FD EPS (M$)	0.22	0.23	0.20	0.24	0.27
Net DPS (M$)	0.00	0.05	0.04	0.05	0.06
Revenue growth (%)	19.0%	4.3%	19.2%	4.7%	0.3%
Core FD EPS growth (%)	(0.5%)	6.4%	(14.0%)	20.8%	10.9%
ROE (%)	10.0%	10.6%	9.4%	9.9%	10.2%
ROCE (%)	17.5%	16.8%	12.2%	14.7%	15.7%
P/E (x)	15.0	14.1	16.4	13.6	12.2
P/BV (x)	1.6	1.3	1.3	1.2	1.1
EV/EBITDA (x)	15.3	11.9	13.2	12.0	12.0
Net Div yield (%)	0.0%	1.5%	1.3%	1.6%	1.8%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	1,861
Market Cap (M$ mn)	6,142
Market Cap ($ mn)	1,920
Price (M$)	3.30
Date Of Price	25 Jul 13
Free Float(%)	53.5%
3mth Avg daily volume (mn)	1.84
3M - Avg daily value (M$ mn)	5.72
Average 3m Daily Turnover ($ mn)	1.8
FBMKLCI	1,808
Exchange Rate	3.20
Fiscal Year End	Dec

See page 33 for analyst certification and important disclosures, including non-US analyst disclosures.

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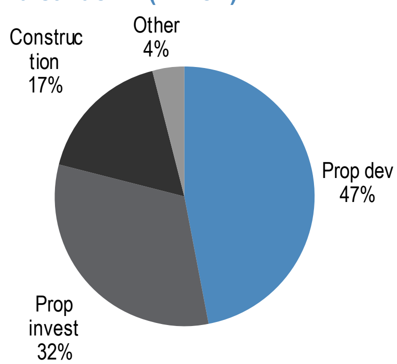
Company Description

Sunway Bhd is a property developer and investor formed from the August 2011 merger between Sunway City and Sunway Holdings. GIC holds a 12% stake in Sunway Bhd.

SWB has a total property development land-bank of 3,861 acres with a total project GDV of M$54B (effective GDV: M$31B) sufficient to sustain it for at least the next 15 years. The group also has an in-house construction arm, as well as trading, manufacturing and quarrying businesses domestically and overseas.

EBIT breakdown (FY13E)



Source: J.P. Morgan estimates

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus*
FY13E	0.201	0.252
FY14E	0.243	0.262
FY15E	0.270	0.299

Source: Bloomberg, J.P. Morgan estimates. *Consensus numbers we believe have not fully adjusted for full dilution from the recent rights issue and also warrants. Based on reported net profit numbers which is therefore a fairer basis of comparison, our forecast is 3% below and 1% ahead of consensus for FY14E and FY15E respectively.

P&L sensitivity metrics (FY13E)

	EBITDA impact (%)	EPS impact (%)
Sales value (M$MM)	1,383	
Impact of each 5%	0.6%	0.9%
Property operating margin assumption	21.2%	
Impact of each 5ppt	15.5%	15.8%
Associate & JV contribution (M$MM)	149.6	
Impact of each 5%	0.0%	1.4%
Debt/equity assumption	29%	
Impact of each 5ppt	0.0%	0.5%

Source: J.P. Morgan estimates

Price target and valuation analysis

Our Jun-14E PT of M$4.00 is based on a 30% discount to our RNAV of M$5.50/share, in line with the sector's historical mean.

For detailed RNAV breakdown see Table 4 and 5	M$/share
Revaluation surplus from property development projects.	2.65
Book value as at Dec-13E	2.15
Revaluation gain from investment properties	0.15
Revaluation gain from construction division	0.50
Outstanding cash obligations for land	(0.29)
Proceeds from outstanding warrants	0.33
Total issued shares (MM)	1,981
RNAV/share	**5.50**
Price target	**4.00**

Key downside risks to PT include: 1) Potential curbs on the property sector by the government. However, any measures we believe will be aimed at curbing speculation rather than hurting real property demand, and we remain positive on the mid-to-long term growth drivers for the sector despite any potential near-term impact from here. 2) Rising competition in Iskandar which could translate to slower than expected sales (The accretion in value from the Iskandar projects account for an estimated 25% of our base case RNAV. In terms of earnings, the Iskandar projects account for 4% and 11% respectively of our FD EPS for FY13E and FY14E respectively).

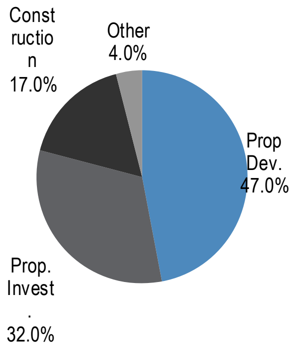
Table 1: Property sector peer comparison

As at: 26 Jul-13	FYE	Mkt cap (M$mn)	Price (M$)	Rating	Target (M$)	P/E CY13E	P/E CY14E	EPS growth (%) CY13E	EPS growth (%) CY14E	Net div yield FY13E	Net div yield FY14E	P/B FY13E	ROE FY13E	RNAV (M$)	Prem/disc to RNAV
IGB Corporation	Dec	3,560	2.55	UW	2.10	17.5	16.3	14.8%	7.3%	2.2%	2.2%	0.9	5.5	4.58	-44.3%
IJM Land*	Mar	4,222	2.91	OW	3.70	16.2	12.8	27.6%	26.1%	2.0%	2.5%	1.5	10.0	4.50	-35.3%
SP Setia	Oct	8,286	3.37	OW	4.60	16.7	12.9	7.2%	29.5%	3.4%	4.5%	1.5	9.8	5.53	-39.1%
Sunway	Dec	6,142	3.30	OW	4.00	16.4	13.6	-14.0%	20.8%	1.3%	1.6%	1.3	9.4	5.50	-40.0%
UEM Sunrise	Dec	12,569	2.89	OW	3.60	24.5	19.4	13.6%	42.5%	1.2%	1.4%	2.5	7.3	4.20	-31.2%
CapitaMalls Malaysia	Dec	2,886	1.63	N	1.70	18.7	18.8	5.9%	-0.6%	4.8%	5.0%	1.4	6.9	1.19	37.5%
IGB REIT	Dec	4,298	1.26	N	1.40	21.5	20.5	5.6%	5.2%	4.7%	5.0%	1.2	5.4	1.09	15.9%
KLCC Property Hldgs	Dec	11,843	6.56	N	7.30	20.5	16.7	15.5%	22.6%	4.0%	5.0%	1.1	5.9	6.13	7.0%
Sunway REIT	Jun	3,970	1.36	N	1.60	17.6	16.6	5.4%	6.3%	5.3%	5.5%	1.2	6.7	1.13	20.6%
Sector weighted average**		**34,779**				**19.5**	**15.7**	**9.0%**	**30.0%**	**2.0%**	**2.4%**	**1.8**	**8.4**		**-36.3%**

Source: Bloomberg, J.P. Morgan estimates. **Sector weighted average excluding REITs. *2014/15E for IJMLD.

Investment Summary

Figure 1: FY13E EBIT breakdown



Source: J.P. Morgan estimates. Others comprise trading, manufacturing, quarrying and investment holding.

Initiate on SWB with an OW rating and a PT of M$4.00/share

Sunway Berhad (SWB) has emerged as the third largest property developer in terms of market cap after UEM Sunrise and SP Setia, the second largest property play in Iskandar, Johor after UEM and it also owns the largest listed REIT in Malaysia in terms of assets via 34%-owned Sunway REIT (SREIT MK, Neutral). Despite its strong outperformance, we continue to like the stock at these levels given: 1) Its strong asset backing (15-year land-bank and prime investment properties), 2) Positive mid-to-long term property sector outlook driven by low interest rates, high saving levels, improved connectivity or transportation links, and the promising longer term prospects of Iskandar, Johor. 3) Its low base with a property sales forecast at M$1.3B for FY13E (vs over M$2-3B for its peers), providing ample room for upside or growth and less vulnerability to downside risk. 4) Further prospects for value realization and cash raising potential with the next phase of injection of its new property investment assets into its REIT vehicle likely from FY15/16. 5) Multi-year up-cycle for the construction sector which it has exposure to.

We value SWB at a 30% discount to its RNAV of M$5.50/share in line with the sector's historical mean, translating to a Jun-14E PT of M$4.00/share. Our PT implies a FY14E FD core PE of 16x versus a target PE of 16-24x for its peers (24x for its closest Iskandar peer, UEM Sunrise).

SWB benefits from an integrated real estate business model with an in-house construction and property investment arm, offering opportunities to unlock value and further improve finances via injection of stable assets into its REIT vehicle longer term.

Established property developer with rising presence in Iskandar, Johor

SWB's total property land-bank of 3,861 acres will sustain it for at least the next 15 years. Sunway's maiden launch in the Medini area of Iskandar is slated for sometime from late-2013/early-2014 starting with commercial components, followed by landed residential homes. In our view, in terms of land-bank location and product offerings/concept, SWB's stand out as one of the most attractive in Iskandar, Johor among existing players and newcomers, with a low entry or land cost of M$20psf (5% of GDV) versus M$35-147psf for recent land transactions in Medini, Iskandar. We forecast new property sales to rise from M$1.38B in FY13E to M$1.8-2.3B with the new Johor projects estimated to account for 36-38% for FY14-15E.

Following an aggressive land-banking exercise over the last 12 months, SWB's total effective land-bank and project GDV has risen by 40% and 50% respectively.

Of total effective GDV of M$31B for property development, Johor accounts for 51%, Klang Valley at 26%, Perak and Penang at 8%, and Singapore at 15%.

Steady income from property investment & strong construction order-book

The property investment division derives 76% of its income from secured rental income streams with the bulk of the assets located within its integrated resort in Bandar Sunway, Klang Valley or a self-contained city with strong visitor-ship and connectivity to sustain earnings. Construction earnings in turn are expected to recover strongly from FY13E on the back of a 25% Y/Y rise in order-book, robust infrastructure spending by the government and stronger contribution from domestic projects where margins are higher relative to completed overseas projects.

Improved financials and earnings growth post rights issue

We estimate proceeds of M$730MM accruing to SWB by end-July-13 from a rights issue exercise which will help contain net gearing at a comfortable 29-38% over FY13-15E after accounting for capex commitments. Total unbilled property sales of M$2.3B at end-1Q13 represents 2.5x historical property revenue or about 2 years of earnings visibility. We estimate a 2-year core fully diluted EPS CAGR of 16% over FY14-15E (after a 14% drop in FY13E due to impact of dilution from the rights issue).

Positive price drivers

Property development estimated to contribute 47% to core EBIT for FY13E.

Established property developer with rising presence in Iskandar, Johor

Sunway Berhad (SWB) is an established property developer with a strong 27-year track record and brand name. SWB's property projects span over 3,861 acres of land with total GDV of M$54B, sufficient to sustain the division for up to the next 15 years. Following its active land acquisitions in the southern region (Johor) since 2012, the Iskandar, Johor region now accounts for 51% of its total effective project GDV, followed by the Klang Valley region at 26%, the northern region (Penang and Perak) at 8%, with overseas projects at 15%.

SWB has emerged as the second largest property player with a property GDV of M$31B (effective: M$16B) in Iskandar, Johor after UEM Sunrise in turn with a property GDV of M$61B (effective: M$51B) in the said region. The Iskandar, Johor region is benefiting from increased economic activities and improved ties between Malaysia and Singapore (details below).

Table 2: SWB – Geographical breakdown in terms of property development land-bank & GDV

Region	Total land-bank (acres)	Total GDV (M$MM)	Effective land-bank (acres)	% of effective land-bank	Effective GDV (M$MM)	% of effective GDV
Klang Valley	798	11,162	623	26%	8,079	26%
Johor	1,858	30,932	980	41%	16,106	51%
Perak/Penang	1,021	2,949	708	29%	2,582	8%
Overseas*	183	8,989	100	4%	4,627	15%
Total	**3,861**	**54,032**	**2,412**	**100%**	**31,394**	**100%**

Source: Company. *Of total overseas effective GDV, 70% is in China, 16% in Singapore, 4% in Australia and 10% in India.

Low entry cost in Iskandar with one of the most attractive product offerings

Sunway's maiden launch in the Medini area, Iskandar is slated for sometime from late-2013/early-2014 starting with commercial components, followed by landed residential homes in 2014. **In our view, in terms of land-bank location and product offerings/concept, SWB's stand out as one of the most attractive in Iskandar, Johor among existing players and newcomers**

SWB also benefits from a low entry or land cost in Iskandar, Johor which would help provide it with strong pricing power for its properties in the area. The group's land-bank in and nearby the Medini area of Iskandar was acquired at a price range of M$12-25psf over the course of 2012 and early-2013 (or an overall average of M$20psf) based on staggered payment terms over a period of up to 10 years. This compares to recent land transactions in the Medini area of M$35-147psf, as well as sea-fronting land-transactions in Iskandar of M$210-376psf in the Puteri Harbor and Danga Bay areas as shown in the table below though these are for smaller land parcels which usually fetch some premium over larger land purchases (SWB's land-bank near Medini also has a sea-fronting view overlooking Singapore).

About 40% of the land-bank in Medini is already developed which will require minimal infrastructure cost. While 60% of the remaining land-bank in the Pendas area (next to Medini) is less developed and comprises swampy land which will require higher development cost to compensate for the lower land cost, SWB's overall land cost at just 5% of its GDV for the Iskandar projects still provides it much pricing flexibility in our view (land cost are traditionally at 10-20% of GDV for Malaysian developers). The group's projects in Medini will also enjoy tax free status until 2020 as part of the government's incentives to promote development in the area, thus contributing to cost savings for the group (versus corporate tax rates of 25%).

Table 3: Recent land transactions in Iskandar

	Location	Vendor	Purchaser	Acres	Total Price (M$MN)	Unit Rate (M$psf)	GDV (M$MN)	REMARKS
May-13	Plentong	Kim San Investments Sdn. Bhd.	Mah Sing Group	35.0	365.6	239.80	4,350	Mixed
Apr-13	Puteri Harbour	UEM Land	Kuok Brothers Group-Khazanah Nasional	12.5	182.0	334.30	1,000	Residential, Retail
Feb-13	Danga Bay	Iskandar Waterfront Holdings	CapitaLand Malaysia-Iskandar Waterfront Sdn Bhd-Temasek	71.4	811.0	260.80	8,100	Marina, Mixed; Includes potential ferry link to Singapore
Feb-13	Medini	Iskandar Investment	Link (THM) Holdings Pte Ltd	14.6	73.3	115.50	2,500	Medini Media Village (Residential, Retail) supporting Pinewood Studios Iskandar
Jan-13	Puteri Harbour	UEM Land	Liberty Bridge Sdn Bhd	43.6	400.8	210.80		M$297.00psf for waterfront and M$167.30psf for non-waterfront
Jan-13	**Pendas**	**Iskandar Investment**	**Sunway-Iskandar JV**	**300.0**	**183.9**	**14.10**	**6,000**	**Mixed**
Dec-12	Medini North	Iskandar Investment	B&G Capital Resources	8.4	73.3	200.40	1,000	Mixed Commercial
Dec-12	**Pendas**	**Iskandar Investment**	**Sunway-Iskandar JV**	**779.1**	**412.7**	**12.20**	**12,000**	**Mixed**
Dec-12	Danga Bay	Iskandar Waterfront Holdings	Country Garden Holdings	55.0	900.0	375.70	10,000	Marina, Mixed; GDV up to M$18bn
Dec-12	Gerbang	UEM Land	Fastrack Autosports Pte Ltd	270.0	223.5	19.00	3,500	Motorsports, Commercial
Nov-12	Medini North	Iskandar Investment	Distinctive Ace Sdn. Bhd.	18.1	99.5	36.00	1,500	Approved GFA 2.76mn sqft mixed development
Nov-12	Medini	Iskandar Investment	UM Land	12.8	82.5	147.40	1,400	Residential, Commercial
Oct-12	Gerbang	UEM Land	Ascendas Group	519.0	293-416	13.00-18.40	3,700	Industrial Tech
Oct-12	Medini North	Iskandar Investment	Mah Sing Group	8.2	8.19	34.90	1,100	Approved GFA 2.14mn sqft integrated development
Jun-12	Pulai	Individual seller	Dijaya Corp	55.1	105.1	43.80		
Apr-12	Pulai	Khazanah Nasional	UEM Land	122.3	93.2	17.50		Residential
Feb-12	Danga Bay	Iskandar Waterfront Holdings	Brunsfield Group	25.0			3000	Residential
Dec-11	**Medini South**	**Iskandar Investment**	**Sunway-Khazanah JV**	**691.0**	**745.3**	**24.80**	**12,000**	**Mixed; Integrated resort**
Aug-11	Plentong	Trident World Sdn Bhd	Dijaya-Iskandar Waterfront Holdings	227.3	220.0	22.20	2,800	Township
Jun-11	Medini Central	Iskandar Investment	Eastern & Oriental-Khazanah-Temasek	210.0	350.0	38.30	3,000	Wellness, Residential
Jun-11	Medini North	Iskandar Investment	UEM Land-Iskandar Investment	35.0	100.0	65.60	850	Mixed Retail
Aug-10	Danga Bay	Iskandar Investment	Dijaya Corp	37.3	308.0	189.60	3,800	Mixed

Source: Company announcements, Press reports.

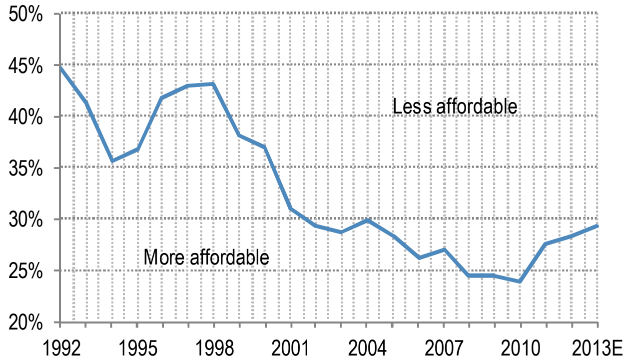
50% of Malaysia's population is below the age of 25 years, while 40% of the population is between the 'house-buying' age of 25-54 years

Positive macro drivers for the sector overall, and also impacting Iskandar

We foresee positive mid-to-long term macro drivers for the property development sector overall which include infrastructure projects or improved linkages in Klang Valley via the new $60B MRT project since 3Q12 and the planned High Speed Rail (HSR) between KL and Singapore by 2020, high saving levels, young demographics and urbanization. J.P Morgan also expects interest rates to remain on hold in 2013.

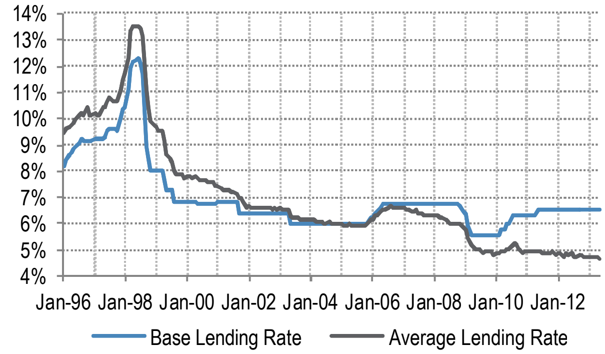
New positive drivers impacting the Iskandar development region in Johor since late-2012 include: 1) The entry of foreign developers and investors from China and Singapore (i.e. Ascendas, CapitaLand) into the region, 2) Further collaborative efforts between Malaysia and Singapore with confirmation of transport links connecting KL, Johor and Singapore via the HSR and Rail Transit System (RTS) by 2018/2020. At the same time, the recent rise in policy tightening and curbs on Singapore property where prices are still 6-19x that in Johor, could also translate to increased spill over demand for properties in Iskandar from the island (foreign and Singapore buyers already account for at least 40-50% of recent key launches in Iskandar). According to Business Times, the feasibility report on the HSR is in its final stage of preparation, with an international open tender for construction of the rail likely to be called by end-2013

Figure 2: Malaysia - Affordability Index (urban centers)



Source: J.P. Morgan estimates, Bank Negara Malaysia, CEIC. * Urban centers comprise KL, Selangor, Penang and Johor.

Figure 3: Malaysia - Base lending rates versus Average lending rates



Source: Bank Negara, CEIC.

Property investment estimated to contribute 32% to FY13E core group EBIT...

…with construction, trading, manufacturing, quarrying and others estimated to contribute 21% (with 17% from construction)

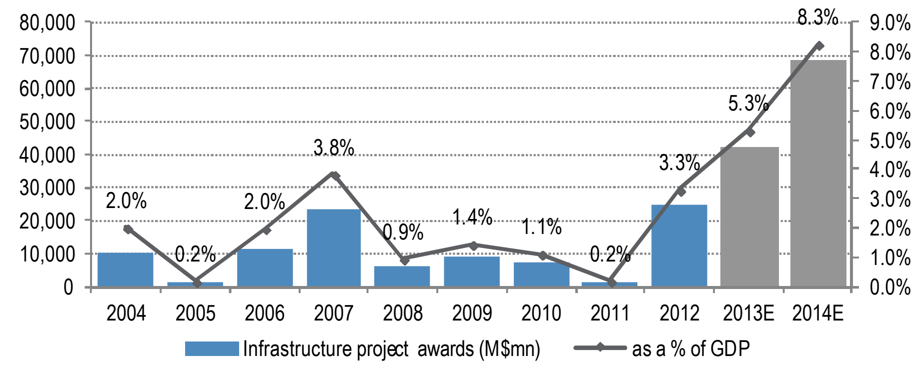
Steady income from property investment & strong construction order-book

The assets which offer steady or secured/locked in rental income streams which are much more resilient account for a dominant 76% of FY13E profits for the property investment division. These comprise income streams from its education and retail assets at the group level (total NLA: 2.01MM sqft), its 34%-owned REIT arm Sunway REIT (total NLA: 3.7MM sqft), as well as includes REIT management fees. The remaining 24% of profits is derived from the group level hotels and theme park operations (i.e. Sunway Lagoon in Klang Valley, and Lost World of Tambun in the state of Perak), where earnings are much more leveraged to economic growth.

Overall, the bulk of the group's property investment assets are located within its integrated resort in Bandar Sunway, Klang Valley with easy connectivity between the assets and proximity to established sub-urban residential areas which attracts a visitor-ship of about 30MM pa. The said integration/synergies that exist here is the key strength which we believe will continue to help drive income growth for the property investment assets.

The construction division in turn is expected to benefit from: 1) The industry's multi-year growth cycle currently from robust public/government infrastructure spending through to at least 2019/2020. 2) A strong total outstanding order-book of M$4.4B (as at end Apr-13) or a rise of 25% Y/Y, which translates to 3.5x historical construction revenue. 3) Improved or normalization in operating margins estimated at 5-7% over FY13-15E from 2.9% in FY12 due to one-off provisions for its completed overseas project in India.

Figure 4: Malaysia – Infrastructure project awards



Source: CEIC, Bursa Malaysia, Press reports (The Edge, Star, NST), J.P. Morgan

Improved financials and earnings growth post rights issue

SWB had proposed a 1-for-3 rights issue of up to a maximum of 568.7MM new shares in Mar-13. The rights issue will eventually involve the issue of 430MM new shares at M$1.70/share, which we estimate will raise proceeds of M$730MM by end Jul-13. The exercise will strengthen finances and help contain net gearing at an estimated range of 29-38% over FY13-15E (from 40% in FY12). This is after accounting for: 1) Outstanding cash obligations of M$310MM spread over the next 10 years for the group's purchase of the Iskandar, Johor land. 2) Capex obligations of M$1.3-1.5B in total over the next three years for expansion of the group's property investment portfolio (with prospects for further injection into the REIT arm in the longer term).

Unbilled sales of M$2.3B for the property development division as at end-1Q13 comprise M$1.5B from its Malaysian projects, and M$0.8B from its Singapore projects via a 30%-owned associate. Hence, total unbilled sales represents 2.5x historical property revenue (or at 1.6x based on domestic sales alone stripping out the Singapore associate), which provides about 2 years of earnings visibility. With this, stable contributions from property investment, and rising income from construction, we estimate a 2-year core fully diluted EPS CAGR of 16% over FY14-15E (after a 14% drop in FY13E due to impact of dilution from the rights issue).

Negative price drivers & risks to thesis

High household debt, risk of interest rate hikes or policy curbs

Recent measures to stem rising household debt we believe have a bigger impact mainly on personal loans (not mortgages), and on the lower-income group

Household debt has crept up further to 83% of GDP (from 80% in Dec-2012). Note however that this represents a **gross household debt** number. Household assets in turn which is not captured in this ratio is a multiple of household debt in Malaysia or at over 2.2x of which liquid assets are at over 100% of household debt (see chart below) while growth in income, the economy and asset prices are positive. There is also a high level of savings in the EPF (Account 2) which remains untapped for the purchase of property, which denotes ample liquidity in the system (In 2011, total EPF withdrawals for house purchases and also for monthly housing installments or reduction in housing loans, totaled M$4.35B or 4% of total EPF savings in Account 2 or 7% of total residential transactions in 2011).

Bank Negara's recent move effective July-2013 to stem household debt involved the reduction of the maximum loan tenure for mortgages from 45 years to 35 years

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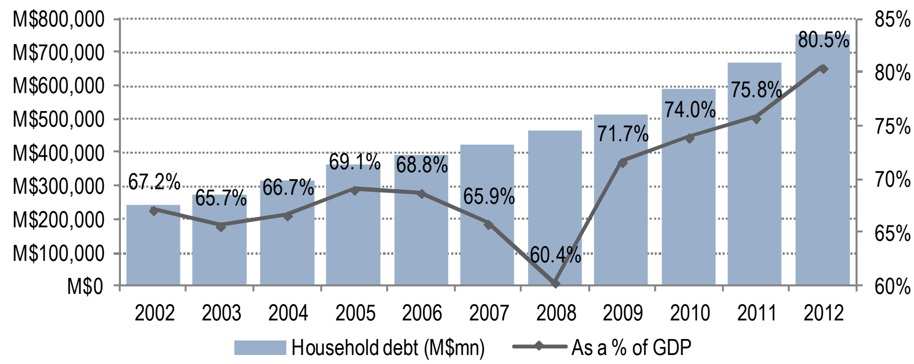
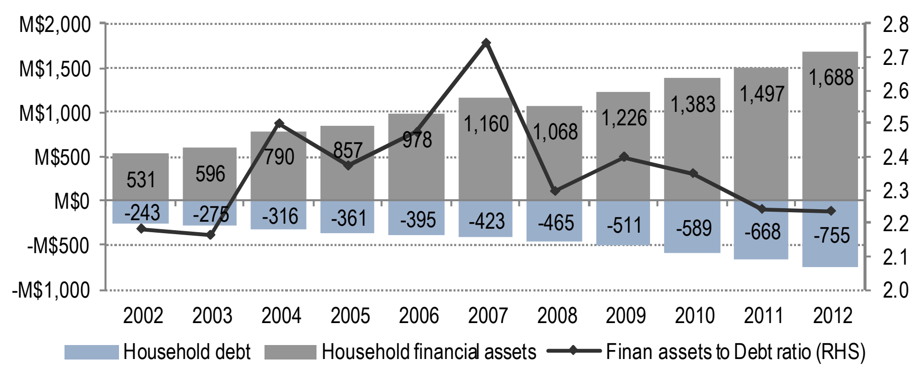
which has minimal impact, in our view. Mortgage loan tenures of over 35 years currently account for no more than 5% of loans for the larger banks, as well as no more than 10-15% of sales for the property companies. **The recent Bank Negara measures aimed at addressing high household debt have a bigger impact mainly on personal loans (not mortgages),** in our view, where the loan tenure has been cut from 25 years to 10 years, and where loan growth here has been strong recently mainly among the non-banking financial institutions – 80% of which is taken-up by civil servants or the lower income segment, the likely group that these measures are mainly targeted at, in our view.

Figure 5: Household debt to GDP



Source: CEIC, Bank Negara

Figure 6: Malaysia household debt and financial assets (M$B)



Source: Bank Negara, CEIC.

The Edge Daily reported that Bank Negara could also be looking at curtailing the developer interest bearing scheme (DIBS) and/or possibly hiking interest rates or the overnight policy rate (OPR). J.P. Morgan's in-house view however is that the interest rates or the OPR are unlikely to be raised in 2013, although it is possible that the discounts on mortgage rates which banks offer currently may gradually reduce by 3Q13 given the 30-50bps rise in bond yields from recent normalized level which raises banks' cost of funds (mortgage rates are currently pegged at BLR of 6.5% less discounts of up to 2.0-2.5%). Nevertheless, mortgage rates are at an all time low currently, and any gradual rises in rates from this low base against the backdrop of strong economic growth we believe is unlikely to materially hurt demand. It is interesting to note that during the previous OPR hike of 80bps from Feb-Jul 2010,

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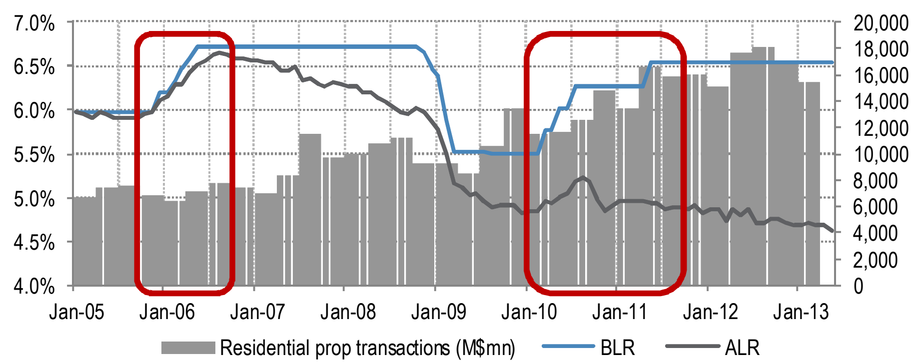
The DIBS is currently being offered much more widely mainly for condo projects rather than landed developments.

property transactions still rose by 11% in volume terms and 29% in value terms due to the strong economic growth and property cycle then as shown in the chart below. **If any, specific property measures in turn we believe will be aimed towards curbing speculation without hurting real demand (this is also proven from the various property measures by Bank Negara since 2010).** Under the DIBS, the developers bear the interest obligation of a mortgage during the construction period of 2-3 years. All of SWB's existing launches or projects are being offered on the DIBS scheme, although the take-up rate is 60-70% among customers, with the remaining 30-40% opting for discounts in lieu of DIBS. The removal of DIBS hence may result in more of SWB's customers opting for the product discounts instead. Alternatively, as the cost from DIBS is usually priced-in by developers via higher selling prices, the removal of DIBS may translate to improved margins for developers like SWB assuming no extension of product discounts.

Overall, the above move would help curb speculation with some near term impact on demand potentially. However, underlying demand for the sector remains strong especially with improved consumer confidence with the election uncertainty now over, and with clear mid-to-long term macro and sector drivers as already discussed above and in the industry section of this note. Hence, we do not expect the removal of the DIBS, if at all, to have a prolonged adverse impact mid-to-long term and the move would also help ensure a more sustainable, healthy uptrend in demand and property prices, in our view.

During the previous OPR hike of 80bps from Feb-Jul 2010, property transactions still rose by 11% in volume terms and 29% in value terms due to the strong economic growth and property cycle then

Figure 7: Malaysia - Residential property transactions (value terms) to bank lending rates



Source: Bank Negara, CEIC.

Rising competition and higher property taxes in Iskandar, Johor?

SWB's competitive edge in Iskandar lies in its branding, prime location, attractive integrated product concept with a proven track record, and low density developments

Maiden launches by a larger number of well-reputed local developers in Iskandar from 2Q13 on (i.e. E&O, Mah Sing) and the recent entry of large foreign developers (i.e. CapitaLand of Singapore, Country Garden of China) would likely pose increased competition. However, SWB's competitive edge in Iskandar, Johor in our view lies in the following: 1) Its strong branding, attractive and integrated product concept which incorporates lifestyle and quality living (i.e. commercial developments, theme-parks, education and medical parks). 2) Proven track record of this concept for its Bandar Sunway projects in Klang Valley. 3) Low density developments comprising landed homes (which are popular among domestic purchasers) rather than high-rise where competition is keener. 4) Prime location of the land-bank within close proximity to the second bridge connecting to Singapore. 5) Incentives and **tax free status for the Medini area in Iskandar** where its projects are located.

The Chief Minister of Johor has stated that the Johor government will impose: 1) Higher property tax on foreigners who own properties in the state. 2) The higher taxes will be imposed on higher-end properties (no indication of the property price range of threshold, with the ruling to be effective by end-2013.

No further details are available but checks with developers suggest that the taxes referred to here are likely the annual Quit Rent and Assessment Fees that property owners pay for facilities such as infrastructure and services that are provided by state governments. **Decisions on policies such as property gains tax or other direct taxes to curb speculative activity, for which market is much more fearful of, do not fall under the jurisdiction of the state governments or Chief Ministers but under the federal government instead.** Quit Rent and Assessment Fees in Johor currently amount to M$1,359-1,957 pa for properties priced at M$1.0MM with land area of 3,000 sq ft per unit. Assuming a 50% rise, the fees will increase to M$2,038-2,936 pa. The amount increases as size and value of a property increase but generally does not seem substantial for a purchaser who can afford a property in excess of M$1.0MM per unit, in our view, and hence overall we believe the move is unlikely to significantly deter property purchasers in Johor by foreigners.

Large unsold stock/inventory & overseas project risk

Unsold stock of SWB's property development projects currently amounts to M$400-500MM (or at up to M$0.25/share on a fully diluted basis). These comprise older properties which have been launched since 2006/07. The removal of the uncertainties or overhang related to the general elections since May-13 which impacted consumer sentiment, as well as positive mid-to-long term sector and macro drivers we believe could potentially translate to a faster draw down of the inventories going forward.

Overseas projects account for 15% of property development effective GDV, which exposes the group to external and execution risk. Of this, 70% is from the group's China projects, 10% from India, 4% from Australia and 16% from Singapore. So far, the Singapore projects have contributed materially accounting for 17-19% of core group EBIT over FY11-12. This we forecast to fall to 11-12% of group core EBIT from recognition of large unbilled sales from Singapore, and as domestic projects start to contribute more materially, while we have conservatively not factored in any contributions from China, India or Australia.

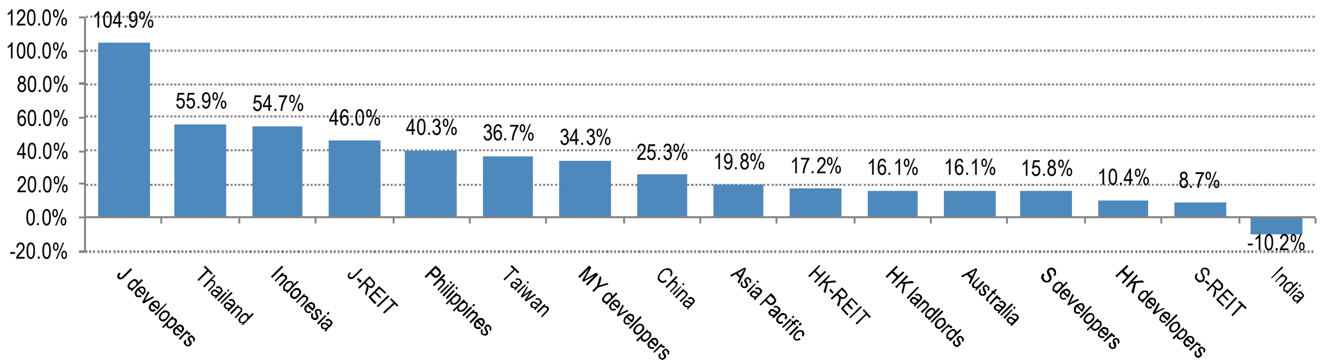
Management indicated that there are no further funding requirements for Singapore, Australia (both fully paid-for) and India, and that all the necessary funds to carry out Phase 1 of the Tianjin EcoCity project in China has also already been paid for.

Valuations, share price & rating analysis

The big picture

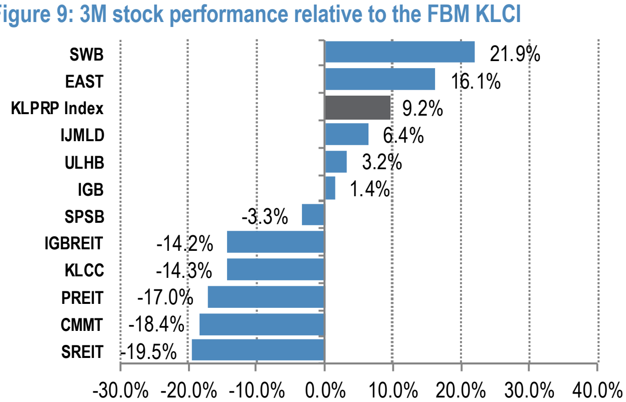
The Malaysian property sector has played catch-up with the region with removal of election related uncertainties and overhang since May-13, although in absolute terms it has still lagged its ASEAN peers (with the exception of Singapore) over the last 12 months. Within Malaysia, SWB has been the best performing stocks over the last 3-12 months given largely its emergence as one of the largest Iskandar plays. Outperformance here however we believe is fundamentally backed by the positive multi-year sector and company drivers as discussed in this note which we believe will continue to lend support to share price and valuations at these levels.

Figure 8: APxJ real estate sector 12 month absolute price performance



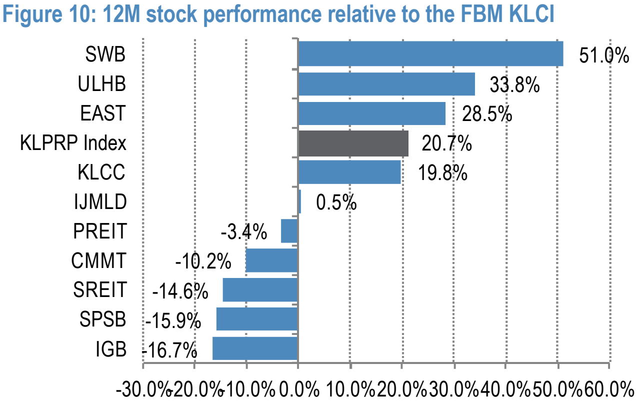
Source: Bloomberg.

Figure 9: 3M stock performance relative to the FBM KLCI



Source: Bloomberg.

Figure 10: 12M stock performance relative to the FBM KLCI



Source: Bloomberg.

Sunway Bhd's valuations and price target

We initiate with a OW rating and a Jun-14E PT of M$4.00

Our RNAV for SWB works out to M$5.50/share derived based on discounted cash flow (10% WACC or discount rate) over the development period for the group's various projects. In our RNAV, we have assumed an average rise in selling prices of 5% pa (within the historical price increases of 4-6% pa in Klang Valley and Johor). We have also assumed property development operating margins will gradually and consistently rise from the 21-23% levels for FY13-15E over the development period given the rise in selling prices as well as stable or sunken land costs.

SWB is currently trading at 40% discount to its estimated RNAV of M$5.50/share (close to the sector's -1SD to historical mean discount of 37%). Our Jun-14E PT of M$4.00 for SWB is based on a fair 30% discount to its RNAV in line with the sector's historical mean.

In terms of PE valuations, SWB's CY14E PE of 13.6x is at the lower end of the 13-19x range for its peers under our coverage (i.e. SP Setia, IJM Land, UEM Land) at current share price levels. At our PT of M$4.00/share, the implied FY14E PE works out to 16x for SWB versus our target PE of 16-24x for its peers at their respective fair values (24x for its closest Iskandar peer, UEM Land).

Key risks

Keen competition & green-field project status in Iskandar

Competition in Iskandar, Johor is expected to intensify with the entry of new local and foreign developers into the region. The growth prospect of SWB's property development division is heavily reliant on the success of its green-field developments in Iskandar, Johor to be launched by late-2013/early-2014. The green-field Iskandar projects account for an estimated 4% and 11% respectively of our FY13E and FY14E core FD EPS for SWB.

The accretion in value from the Iskandar projects in turn account for an estimated 25% of our base case RNAV of M$5.50/share for SWB. In other words, on a worst case if we were to strip out this value accretion and peg the Iskandar projects solely at book value based on land cost of M$20psf, our RNAV would drop to M$4.12/share. Here, assigning a fair 30% RNAV discount would translate to a fair value of M$3.00/share (from our base case of M$4.00/share), which is the level we see strong downside support. Nevertheless, we reiterate that in terms of land-bank location and product offerings/concept, SWB's stand out as one of the most attractive in Iskandar, Johor among the players and newcomers.

A reversal in policies (i.e. includes the improved Singapore-Malaysia ties)

The improved connectivity from the transportation links (i.e. the proposed High Speed Rail between KL and Singapore, and the Rail Transit System between Johor and Singapore), and increased investments into Iskandar, Johor from Singapore are key drivers to asset prices and the property market. Any change in policies here or a reversal in the stronger relationship between Singapore and Malaysia would hence be a key risk to the sector.

Stronger than expected sales or take-ups for SWB's Iskandar projects

On the upside, better than expected sales from SWB's new Iskandar, Johor projects would translate to stronger earnings and growth, and we believe could potentially also translate to a further narrowing in the RNAV discount.

Table 4: Sunway Berhad's RNAV

Projects	% stake	Description	Undeveloped land (acres)	Remaining GDV (M$MM)	Years to develop	Revaluation surplus (M$MM)	Comments
Selangor/KL							
Sunway Damansara	60%	Residential/commercial township	15	1,691	5	148	Discounted at WACC of 10%
Sunway South Quay	60%	Lakeside mixed development (93-year leasehold land)	52	3,990	7	373	Discounted at WACC of 10%
Sunway Monterez	60%	Residential	5	44	3	3	Discounted at WACC of 10%
Sunway Semenyih	70%	Residential	398	729	10	74	Discounted at WACC of 10%
Sunway Cheras	100%	Residential	6	17	3	2	Discounted at WACC of 10%
Sunway Duta	60%	Residential	3	120	3	2	Discounted at WACC of 10%
Sunway Montana	100%	Residential	2	56	3	8	Discounted at WACC of 10%
Sunway Alam Suria	100%	Residential	1	12	2	8	Discounted at WACC of 10%
Sunway Resort City	100%	Commercial	15	660	6	80	Discounted at WACC of 10%
Casa Kiara III	80%	Residential	3	210	3	30	Discounted at WACC of 10%
Sunway Velocity	85%	Mixed development	18	2,859	6	365	Discounted at WACC of 10%
Sunway Tower KL 1	100%	Office	1	240	3	25	Discounted at WACC of 10%
Bangi	100%	Residential	3	59	2	6	Discounted at WACC of 10%
Melawati	100%	Residential	2	43	2	21	Discounted at WACC of 10%
Sg Long	80%	Residential	111	277	4	28	Discounted at WACC of 10%
Mont Putra, Rawang	100%		163	156	6	17	Discounted at WACC of 10%
Perak							
Sunway City Ipoh	65%	Residential	895	1,048	10	93	Discounted at WACC of 10%
Penang							
Sunway City Penang	100%	Residential	16	172	2	20	Discounted at WACC of 10%
Sunway Grand	100%	Residential	12	186	2	21	Discounted at WACC of 10%
Sungai Ara	100%	Residential	56	849	3	97	Discounted at WACC of 10%
Bukit Mertajam	100%	Residential	42	694	2	80	Discounted at WACC of 10%
S'pore							
Novena	30%	Medical suites, retail, hotel	2	2,242	3	172	Discounted at WACC of 10%
Sembawang, Singapore	100%		1	75	2	8	Discounted at WACC of 10%
Johor							
Bukit Lenang	80%	Residential	88	932	5	109	Discounted at WACC of 10%
Medini	38%	Mixed development	691	12,000	10	1,229	Discounted at WACC of 10%
Pendas	60%	Mixed development	1,079	18,000	15	1,764	Discounted at WACC of 10%
China							
Sunway Guanghao	65%	Mixed development	4	67	2	6	Discounted at WACC of 10%
Tianjin Eco City	60%	Mixed development	91	5,344	6	389	Discounted at WACC of 10%
India							
Sunway OPUS Grand India	50%	Condos	24	702	5	35	Discounted at WACC of 10%
Sunway MAK Signature Residence	60%		14	181	5	13	Discounted at WACC of 10%
(JV with M.A.K Builders)							Discounted at WACC of 10%
Australia							
Wonderland Business Park (Sydney)	45%		48	378	6	15	Discounted at WACC of 10%
Total			**3,861**	**54,032**		**5,246.8**	

Source: Company, J.P. Morgan estimates.

Table 5: Sunway Berhad's RNAV

	Value	Comments
Revaluation surplus	5,246.8	
Book value as at Dec-13	4,255.7	
Revaluation gain from investment properties	294.8	Valuing 34% owned Sunway REIT at market value less book value
Revaluation gain from construction division	993.7	Valued at 15x PE on FY14E less book value (versus 15-18x target PE for listed construction peers).
Outstanding cash obligation for land	(582.5)	Discounted value for Iskandar land purchase (based on staggered payment terms of up to 10 years and taking into account also the off-balance sheet debt portion for SWB).
Total RNAV	**10,208.5**	
No. of shares (m)	1,722.5	
RNAV per share	5.93	
FD RNAV		
Warrants		
Add proceeds from warrants	646.3	258.5MM outstanding warrants at M$2.50/share
Adjusted RNAV	**10,854.8**	
Adjusted no. of shares	1,981.0	
FD RNAV per share	**5.50**	
Price Target (30% discount to RNAV)	**4.00**	

Source: Company, J.P. Morgan estimates.

Historical PE and PB valuations for SWB provide a guide but are not truly reflective in our view given the short trading history since Aug-11 upon completion of the merger between the holding company and property arm to create the current entity. Prospects for SWB have also improved compared to last few years given an expanded property development land-bank and the construction up-cycle. **The group's effective land-bank (acres) and GDV value (M$MM) for its property development business has increased by 40% and 50% respectively over the last 12 months mainly due to its expansion into Johor.**

Figure 11: Sunway Berhad's PE band

Source: Bloomberg, J.P. Morgan estimates.

Figure 12: Sunway Berhad's PB band

Source: Bloomberg, J.P. Morgan estimates.

Peer valuation comparisons

Table 6: Property sector peer comparison

As at: 26 Jul-13	FYE	Mkt cap	Price	Rating	Target	P/E		EPS growth (%)		Net div yield		P/B	ROE	RNAV	Prem/disc
		(M$mn)	(M$)		(M$)	CY13E	CY14E	CY13E	CY14E	FY13E	FY14E	FY13E	FY13E	(M$)	to RNAV
IGB Corporation	Dec	3,560	2.55	UW	2.10	17.5	16.3	14.8%	7.3%	2.2%	2.2%	0.9	5.5	4.58	-44.3%
IJM Land*	Mar	4,222	2.91	OW	3.70	16.2	12.8	27.6%	26.1%	2.0%	2.5%	1.5	10.0	4.50	-35.3%
SP Setia	Oct	8,286	3.37	OW	4.60	16.7	12.9	7.2%	29.5%	3.4%	4.5%	1.5	9.8	5.53	-39.1%
Sunway	Dec	6,142	3.30	OW	4.00	16.4	13.6	-14.0%	20.8%	1.3%	1.6%	1.3	9.4	5.50	-40.0%
UEM Sunrise	Dec	12,569	2.89	OW	3.60	24.5	19.4	13.6%	42.5%	1.2%	1.4%	2.5	7.3	4.20	-31.2%
CapitaMalls Malaysia	Dec	2,886	1.63	N	1.70	18.7	18.8	5.9%	-0.6%	4.8%	5.0%	1.4	6.9	1.19	37.5%
IGB REIT	Dec	4,298	1.26	N	1.40	21.5	20.5	5.6%	5.2%	4.7%	5.0%	1.2	5.4	1.09	15.9%
KLCC Property Hldgs	Dec	11,843	6.56	N	7.30	20.5	16.7	15.5%	22.6%	4.0%	5.0%	1.1	5.9	6.13	7.0%
Sunway REIT	Jun	3,970	1.36	N	1.60	17.6	16.6	5.4%	6.3%	5.3%	5.5%	1.2	6.7	1.13	20.6%
Sector weighted average**		**34,779**				**19.5**	**15.7**	**9.0%**	**30.0%**	**2.0%**	**2.4%**	**1.8**	**8.4**		**-36.3%**

Source: Bloomberg, J.P. Morgan estimates. **Sector weighted average excluding REITs. *2014/15E for IJMLD.

Table 7: Not-covered company valuations

As at: 26 Jul-13	Ticker	FYE	Mkt cap	Price	6m vol	6m val	P/E		ROE		Div Yld		P/B		1yr hist
			(M$mn)	(M$)	(mn)	(M$mn)	CY13E	CY14E	FY13E	FY14E	CY13E	CY14E	FY13E	FY14E	net gearing
Eastern & Oriental	EAST MK	Mar	2,279	2.06	3.6	6.5	16.5	14.4	9.6	9.6	2.1%	2.3%	1.7	1.6	34.3
Glomac	GLMC MK	Apr	910	1.25	2.2	2.5	7.1	5.9	13.9	15.6	4.0%	5.1%	1.2	1.1	25.0
KSL Holdings	KSL MK	Dec	827	2.14	1.1	2.2	5.9	5.7	12.8	12.2	3.3%	2.6%	NA	NA	16.7
Mah Sing Group	MSGB MK	Dec	3,407	2.51	3.3	7.5	11.7	9.7	18.1	17.9	3.4%	4.2%	1.9	1.8	25.3
Malaysian Resources	MRC MK	Dec	2,193	1.58	5.6	8.5	30.4	20.3	5.3	6.1	1.2%	1.3%	1.4	1.3	179.9
UOA Development	UOAD MK	Dec	3,202	2.52	1.7	3.9	9.7	8.3	15.3	16.3	5.2%	5.5%	1.4	1.3	Net cash
YNH Property	YNHB MK	Dec	811	1.91	0.4	0.9	11.9	11.9	6.9	7.8	2.6%	2.4%	0.9	0.9	44.9

Source: Bloomberg.

Figure 13: Malaysia property sector RNAV band

Source: Bloomberg, J.P. Morgan estimates.

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Figure 14: Malaysia property sector PE band

Source: Bloomberg, J.P. Morgan estimates.

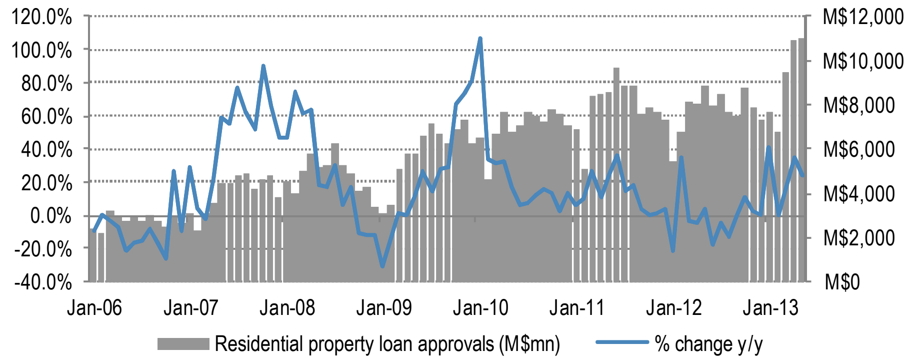
Figure 15: Malaysia property sector PB band

Source: Bloomberg, J.P. Morgan estimates.

Industry overview

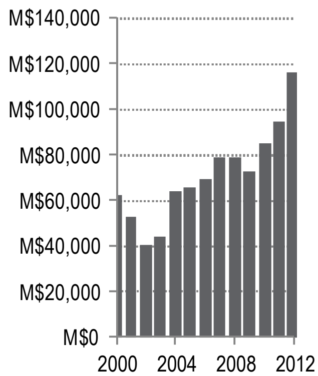
We remain positive on mid-to-long term prospects

Figure 17: Malaysia residential property loan approvals



Source: Bank Negara, CEIC.

Figure 16: Malaysia – Rising private investments (M$MM)

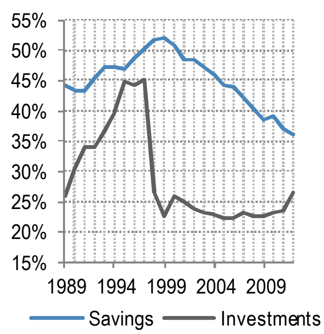


Source: Department of Statistics, CEIC.

Residential property transactions (as measured by mortgage approvals) recovered strongly by 23% Y/Y for Jan-May-13 (+35% in Apr-13, +24% in May-13) despite the government's hike in the real property gains tax (RPGT) late last year (This is after a 2% drop in the mortgage approvals in 2012 with the more stringent financing rules since Jan-12). Property demand could potentially also get stronger with removal of the election overhang risk since May-13.

Hence, recent news of curbs on the sector (via the recent reduction in maximum loan tenure from 45 years to 35 years where the impact is minimal, and possible removal of the developer interest bearing scheme/DIBS as discussed earlier), if at all, could be pre-emptive measures to ensure a more sustainable uptrend, and is positive for the long term health of the sector, in our view. **We reiterate that any specific measures will likely be aimed at curbing speculation rather than hurting real demand.**

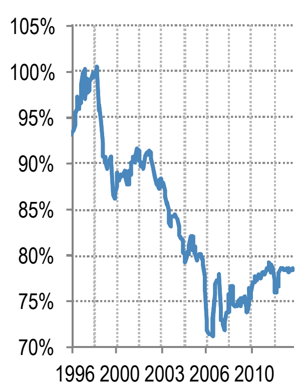
Figure 18: Malaysia- Savings and investments to GDP (high saving levels)



Source: Department of Statistics, CEIC.

Also, despite the measures last year or in 2012, 1) Demand remained strong mainly in the affordable to mid-market segments (i.e. for properties below M$1MM per unit) though it slowed in the high-end segment. 2) Property developers with more diverse product range and with good projects/land-bank continued to show growth in property sales in 2012. This includes IJM Land, SP Setia, Mah Sing, and UEM Land while domestic property sales for SWB still rose modestly by 5% Y/Y despite lack of new launches by the group then. Hence, in short, **quality developers with products in the right segment and location still performed well last year despite the curbs.**

Figure 19: Loan-deposit ratio (high saving levels)



Source: Bank Negara, Bloomberg.

Over the medium to longer term, we remain positive on the prospects of underlying real property demand due to the following factors/drivers.

- **The government's ETP (Economic Transformation Program) and infrastructure projects.** The ETP in place since 2010/11 is aimed at boosting income levels and spurring investments in the country (As it is Malaysia's private investments have been on a rising trend since 2009 and rose by a strong 20% in 2012). Improved linkages from the M$60B MRT project in the Klang Valley (as part of the ETP) is positive for property values in the longer term – construction

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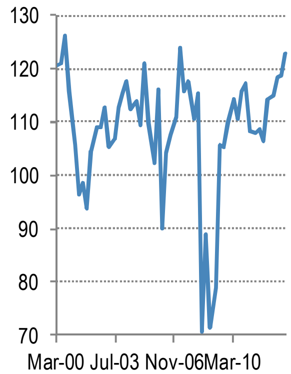
Figure 20: Consumer sentiment index



Source: MIER, CEIC.

has already commenced since 3Q12 with Phase 1 costing M$23B expected to be completed by 2016/17, followed by Phase 2 and 3 before 2020.

- **High saving levels, young demographics, urbanization.** Saving levels or liquidity in the overall financial system currently remains high (see Figure 18 and 19). This is also reflected in the largely untapped funds in the Employees Provident Fund (EPF) to purchase property. In 2011, total EPF withdrawals for house purchase and also for monthly housing installments or reduction in housing loans, totaled to M$4.35B or just 4% of total EPF savings in Account 2 or 7% of total residential transactions in 2011. In terms of demographics, about 48% of Malaysia's population of 29MM currently is below the age of 25 years, while 40% of the population is between the 'house buying age' of 25-54 years.
- **Mortgage rates remain competitive**. J.P. Morgan expects interest rates in Malaysia to remain on hold or unchanged for the next 6-12 months. The BLR is currently at 6.53% though average mortgage rates are lower or close to an all time low for the banking system or averaging at 4.65% currently (selected banks still offering loans at BLR less up to 2.5% currently).

The tipping point for Iskandar, Johor in 2012/13 is when the region has reached improved economies of scale with increased activities and investments to drive asset values.

- **The tipping point for Iskandar, Johor.** The first phase of catalytic projects in the key focus areas (i.e. leisure/tourism, healthcare, education) since 2006/07 in Iskandar, Johor has started to drive the population base or visitor-ship. This and the recent wave of new positive developments as already discussed under section Investment Summary (i.e. the planned Rail Transit System between Johor and Singapore, the entry of new foreign/local developers in Iskandar), would help drive the next phase of growth for Johor, in turn positive for property demand and values.
- **Improved connectivity via new transportation links**. Besides the MRT project in Klang Valley (Phase 1 to be completed by 2016/17), and the Rail Transit System between Johor and Singapore (2018 completion), the proposed High Speed Rail (2020 completion) between KL and Singapore would also help improve connectivity which is overall positive for asset prices mid-to-long term.

Table 8: Malaysia's economic data

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E
GDP growth %	4.4	5.4	7.3	5.0	5.9	6	4.7	(1.7)	7.2	5.1	5.6	5.1	5.4
Private consumption growth %	3.9	8.1	9.9	8.6	6.4	9.7	8.4	1.4	5.8	8.9	7.1	4.0	4.0
Inflation Y/Y %	1.8	1.1	1.4	3.0	3.6	2.0	5.4	0.6	1.7	3.2	1.2	2.5	2.5
Ringgit, MYR/US$ (average)	3.80	3.80	3.80	3.79	3.67	3.44	3.34	3.52	3.22	3.06	3.09	3.12	3.05
Interest rates (BLR) %	6.39	6.13	5.99	6.00	6.61	6.72	6.5	5.62	6.02	6.45	6.53	6.53	6.78
Retail sales (%)	3.1	3.5	8.2	6.2	8.4	12.8	6.9	1.0	8.0	8.0	6.0	6.0	6.0
GDP per capita (US$)	3,929	4,208	4,955	5,499	6,119	7,155	8,393	7,237	8,691	9,977	10,311	10,939	12,060

Source: Bloomberg, Company, J.P. Morgan estimates, Retail Group Malaysia.

Company analysis

Integrated real estate business model

Sunway derives an estimated 47% of its group earnings from property development for FY13E, 32% from property investment via 34%-owned public listed, Sunway REIT (SREIT MK, Neutral), and 21% from construction, trading, quarrying, manufacturing and others (17% from construction alone).

Table 9: Sunway Berhad's Core EBIT breakdown (including associates)

Yr to Dec-31 (M$MM)	2011	2012	2013E	2014E	2015E
Property development	211.9	306.4	294.6	400.0	461.8
Property investment	176.9	196.5	200.3	211.5	225.2
Construction	63.1	61.5	103.8	110.4	108.8
Trading & manufacturing	49.8	45.0	36.2	36.2	36.2
Quarry	8.4	12.2	19.1	19.5	19.9
Investment holding	(30.2)	(20.4)	(38.4)	(39.8)	(41.2)
Others	11.8	16.9	9.2	9.3	9.4
Core EBIT (with associates)	**491.6**	**618.0**	**624.7**	**747.0**	**820.0**
% breakdown					
Property development	43%	50%	47%	54%	56%
Property investment	36%	32%	32%	28%	27%
Construction	13%	10%	17%	15%	13%
Trading & manufacturing	10%	7%	6%	5%	4%
Quarry	2%	2%	3%	3%	2%
Investment holding	-6%	-3%	-6%	-5%	-5%
Others	2%	3%	1%	1%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company, J.P. Morgan estimates

Property development

Land-bank

For the property development division, the group has a land-bank size of 3,861 acres with total GDV of M$54B (effective GDV of M$30.9B). Of total effective GDV, Johor accounts for 51%, Klang Valley at 26%, Perak and Penang at 8%, and overseas projects (Singapore, China, India and Australia) at 15%. For a more detailed breakdown based on projects, refer to table 4.

Aggressive land-bank expansion in Johor in the past 9-15 months

The group has a total land-bank in Johor of 1,858 acres arising from 3 separate land acquisitions over the last 9-15-months as follows: 1) Bukit Lenang or nearer to the Johor Bahru area, 2) Medini in Iskandar, and 3) Pendas, which is land-bank just beside Medini. Total project GDV in Johor of M$30.9B (effective GDV of M$16.1B currently and rising to M$18.7B by 2016 given its eventual stake of 60% in the Medini and Pendas land), makes it the second largest developer in Johor. In comparison, UEM Land's total project GDV in Johor is M$61B (effective GDV of M$51B).

Table 10: SWB's total property development land-bank and GDV (geographical breakdown)

Region	Total land-bank (acres)	Total GDV (M$MM)	Effective land-bank (acres)	Effective GDV (M$MM)	% of effective GDV
Klang Valley	798	11,162	623	8,079	26%
Johor	1,858	30,932	980	16,106	51%
Perak/Penang	1,021	2,949	708	2,582	8%
Overseas	183	8,989	100	4,627	15%
Total	**3,861**	**54,032**	**2,412**	**31,394**	**100%**

Source: Company.

Table 11: SWB's land-bank in Johor

Location	Landbank (acres)	GDV (M$B)	Proposed development
Bukit Lenang, Johor Bahru (80%-owned)	88	1.0	Residential. Recent launch of semi-Ds and bungalows in July-13 (total GDV: M$200MM) or at M$1.30-1.5MM/unit. Bookings of 50% already achieved over the first weekend of launch.
Medini, Iskandar (38% owned currently, and stake to gradually rise to 60% by 2016)	691	12.0	Sunway Iskandar mixed integrated development. To launch by late-2013/early-2014 starting with commercial components (i.e. hotels, offices, service apartments) followed by landed residential homes.
Pendas (next to Medini) (60%-owned)	1,079	18.0	Mixed integrated development
Total	**1,858**	**31.0**	

Source: Company.

Outlook

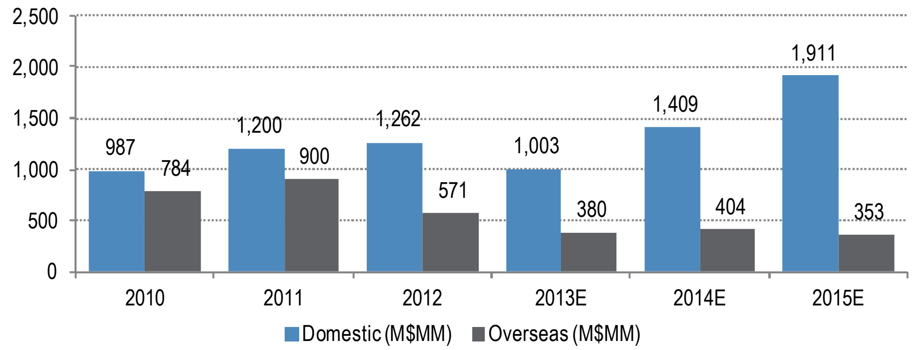
New property development sales fell by 14% Y/Y to M$1.8B in FY12 (from M$2.1B). This was due mainly to lower property sales from its overseas projects (down 34% Y/Y), while domestic sales rose by 5% Y/Y. Malaysia accounted for 65% of its total property sales in FY12, while overseas accounted for 35%.

Table 12: Sunway planned property launches in 2013 (excludes Johor launches in Medini and Pendas)

Project	GDV (M$MM)	Type
Sunway South Quay, Klang Valley	400	Commercial, Residential high-rise
Sunway Velocity, KL	200	Serviced apartments
Sunway Eastwood, Seri Kembangan, Klang Valley	100	Residential landed
Sunway Bukit Lenang, Johor	200	Residential landed
Penang	100	Residential landed
Novena, Singapore	450*	Medical suites, Retail, Hotel
Total	**1,500**	

Source: Company. * Excludes hotel component.

Figure 21: Sunway Berhad's property development sales



Source: Company. J.P. Morgan estimates

For FY13E, we forecast new property sales at M$1.38B (against planned new launches of M$1.5B and existing inventory of M$500-700MM). This represents a 25% Y/Y drop from M$1.8B sales achieved in FY12. The drop is mainly due to expected tail-end sales contributions from its property projects in Singapore and also lack of fresh or new launches domestically especially in 1H13. For 1H13, SWB achieved sales of M$550MM (40% of our full year forecast) during a quiet period where there were no new launches. With new launches stepped up from July-13 onwards, we expect prospects for stronger sales in 2H13. New launches since July-13 include the Bukit Lenang residential development in Johor (details below), and the Sunway Geo Phase 2 commercial developments (part of the South Quay project in Klang Valley) with a GDV of M$452B, where bookings and take-up rates have already reached 70%. The Sunway Geo project has a remaining GDV of over M$700MM not yet launched comprising largely of residential units.

The key projects expected to be major contributors to FY13E property sales are Sunway South Quay and Sunway Velocity (both mixed developments in Klang Valley), Bukit Lenang residential project in Johor and the Novena mixed development in Singapore. The FY13E sales projections also do not yet reflect material contributions from the group's larger new projects in Johor (Sunway Iskandar, and Pendas) which will be launched by late-2013/early-2014. We estimate property sales to improve to M$1.8-2.3B over FY14-15E, of which we estimate the said new Johor projects will contribute about 36-38%.

For its new Johor projects, SWB has just launched its Bukit Lenang residential development near Johor Bahru in July-13 (total project GDV: M$1B), where the initial phase will involve Semi-Ds and bungalows at M$1.3-1.5MM per unit with initial GDV of M$200MM. This will be followed by its planned launch of Sunway Iskandar in Medini by late-2013/early-2014 comprising commercial components (i.e. hotels, retail, service apartments), followed by landed residential homes.

Table 13: Sunway Berhad property sales by project (M$MM)

M$MM	Status	2010	2011	2012	2013E	2014E	2015E
Klang Valley							
Sunway South Quay	Ongoing			350	302	278	255
Sunway Damansara	Ongoing			79	75	75	75
Sunway Alam Suria	Ongoing			91	12	-	-
Melawati	Ongoing			116	44	-	-
Sunway Velocity	Ongoing			258	259	292	324
Others*	Ongoing			261	56	-	282
				1,155	**748**	**645**	**936**
Ipoh/Penang							
Sunway City Ipoh	Ongoing			29	26	26	26
Penang	Ongoing			78	79	79	79
				107	**105**	**105**	**105**
Johor							
Bukit Lenang	New			0	150	206	206
Medini	New			0	0	453	664
Pendas	New			0	0	0	0
				-	**150**	**659**	**870**
Singapore							
Novena	Ongoing			571	342	365	353
Sembawang, Singapore	Ongoing			-	38	38	-
				571	**380**	**404**	**353**
Overall total (including Singapore)		**1,771**	**2,100**	**1,833**	**1,383**	**1,812**	**2,265**
Growth %			19%	-13%	-25%	31%	25%
Domestic sales		987	1,200	1,262	1,003	1,409	1,911
Overseas (largely Singapore)		784	900	571	380	404	353
Total		**1,771**	**2,100**	**1,833**	**1,383**	**1,812**	**2,265**
Domestic sales growth			22%	5%	-21%	40%	36%
% of property sales							
Domestic - Klang Valley				63%	54%	36%	41%
Domestic - Johor				0%	11%	36%	38%
Domestic - Ipoh/Penang				6%	8%	6%	5%
Overseas - Singapore				31%	27%	22%	16%
Overseas - Others				0%	0%	0%	0%
				100%	**100%**	**100%**	**100%**

Source: Company, J.P. Morgan estimates. *Others include other 10 ongoing projects in Klang Valley i.e. Sunway Semenyih, Sunway Cheras, Sunway Duta, Sunway Montana, Sunway Resort City, Casa Kiara 111, Sunway Tower KL 1, Bangi, Sg Long, and Mont Putra in Rawang

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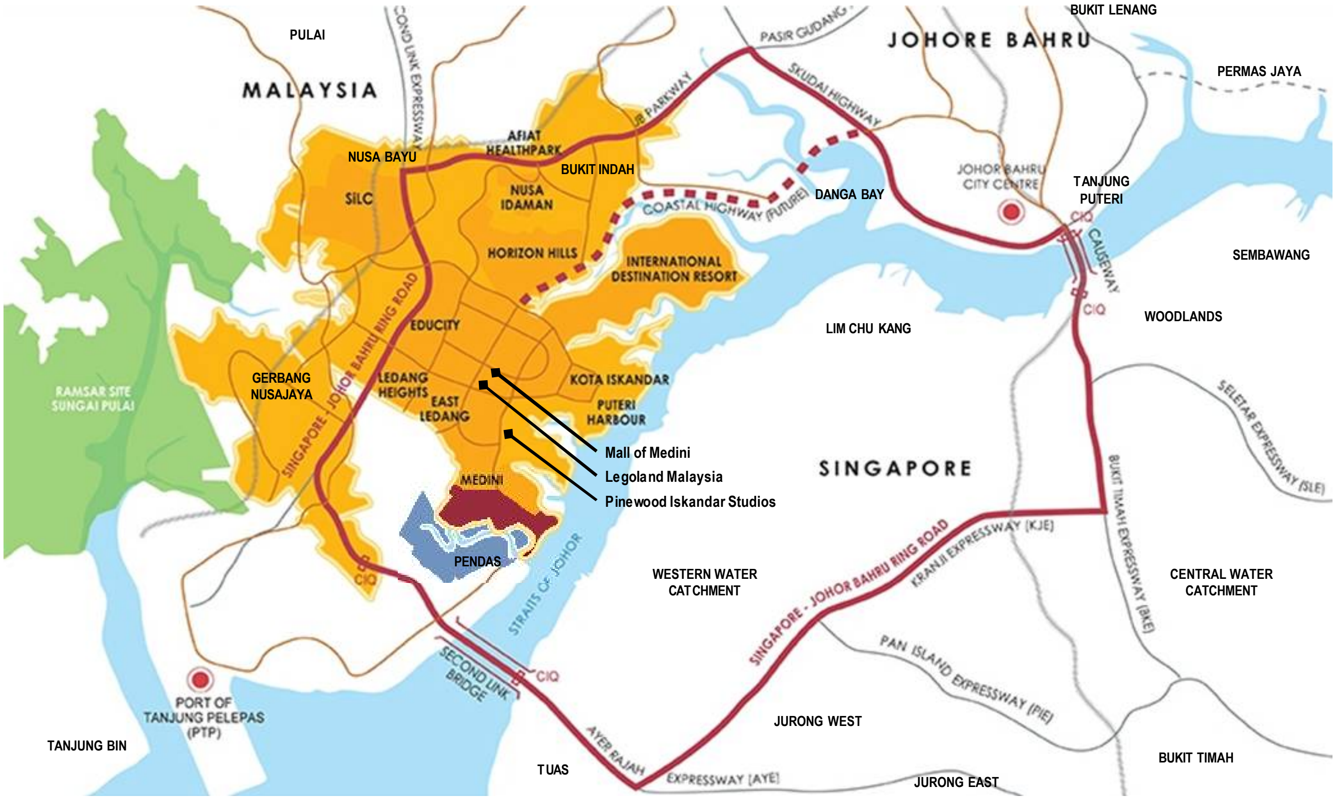
Sunway's Johor/Iskandar projects – Location, masterplan & competitive edge

The group's key large Johor projects are located in **Medini, Iskandar**, and **Pendas** (next to Medini), the location of which in Nusajaya, Iskandar is shown below.

Figure 22: Sunway Medini-Pendas landbank in Johor



Source: IRDA, UEM Land, Sunway, J.P. Morgan.

SWB's competitive edge in Iskandar, Johor in our view lies in: 1) Its strong branding, attractive and integrated product concept and location which incorporates lifestyle and quality living (i.e. commercial developments, theme-parks, education and medical parks), 2) Proven track record of this concept for its Bandar Sunway projects in Klang Valley. 3) Low density developments comprising landed homes rather than high-rise where competition is keener. 4) Attractive location of its land-bank which is partly sea-fronting and close to the second link bridge connecting to Singapore.

The Medini area where part of SWB's land-bank is located in Johor is lease-hold land (99-years) as opposed to free-hold land in the other key parts of Iskandar. However, **there are key attractions/incentives in Medini which include: 1) Corporate tax exemption from property development activities up to 2020, and 2) No price restrictions or volume limits in property sales to foreigners** (as opposed to the rest of Malaysia where foreigners are not allowed to purchase properties below M$0.5MM per unit, and the rest of Johor/Iskandar where there is some practice of up to 30-50% volume limit for sales to foreigners). For more details on the incentives in Medini and Iskandar, refer to Appendix section.

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Figure 23: Master-plan for Sunway Iskandar in Medini

Source: Company.

Table 14: Core EBIT breakdown: Property investment

Core EBIT from prop investment	2013E
34%-owned Sunway REIT	38%
Education & retail assets	23%
Theme parks & hotel	23%
REIT management fees	13%
Car park fees & others	4%
Total	**100%**

Source: J.P. Morgan estimates.

Property investment

The group's REIT arm, 34%-owned Sunway REIT (SREIT MK, Neutral) is the largest contributor at 51% of total property investment profits (including REIT management fees accruing to SWB which is the sponsor). Sunway REIT owns 3.7MM sqft of retail and office space as well as 1,821 hotel rooms (see table below). We are forecasting an operating income and divided income growth of 8% and 6% pa respectively over the next two years over FY13-15E for Sunway REIT.

Together with Sunway REIT, the assets which offer steady or secured/locked in rental income streams which are much more resilient account for a dominant 76% of FY13E profits for the property investment division. This include income streams from its education and retail assets at the group level (total NLA: 2.01MM sqft) as well as car park income. The remaining 24% of profits is derived from the group level hotels and theme park operations (i.e. Sunway Lagoon in Klang Valley, and Lost World of Tambun in the state of Perak), where earnings are much more leveraged to economic growth.

Overall, the bulk of the group's property investment assets are located within its integrated resort in Bandar Sunway, Klang Valley with easy connectivity between the assets and proximity to established sub-urban residential areas which attracts a visitor-ship of about 30MM pa. The said integration/synergies that exist here is the key strength which we believe will continue to help drive income growth for the property investment assets. Connectivity is expected to improve further with the construction of the elevated Bus-Rapid-Transit (BRT)-Sunway Line with 7 station halts (3 of which is in Bandar Sunway). The BRT will connect Bandar Sunway to other key transport hubs i.e. the KTM Komuter Station in Setia Jaya (along the Federal Highway) and an upcoming LRT station in nearby residential area USJ, Subang Jaya. 7. The BRT project is a Private-Public-Partnership (PPB) between the Government (via Prasarana) & SWB's construction arm with estimated completion by end-2014.

Separately, under expansion plans for the property investment division, SWB is currently constructing an additional 0.56MMM sqft of office space and 0.06MM sqft of retail space at Bandar Sunway (which is expected to bring in additional office population of 5,000), as well as a 0.8MM sqft retail mall in KL city centre (i.e. the Sunway Velocity project). This will involve a total capex of M$1.3-1.5B over the next three years, and will form potential pipeline for the REIT, as well as value unlocking for SWB when this takes place likely we believe from 2015/16 onwards when the assets are completed and stable.

Table 15: Rental assets at holding company (excluding 34%-owned Sunway REIT)

Asset	NLA '000 sqft
Monash University, Bandar Sunway	760
Sunway University, Bandar Sunway	700
Monash U Residence, Bandar Sunway	500
Sunway Giza Mall, Klang Valley	50
Total	**2,010**

Source: Company.

Table 16: Sunway REIT: portfolio properties (largest listed REIT in Malaysia in terms of asset size)

Property	Type	NLA (sqft) / Rooms for hospitality properties	Location	Valuation by independent valuer (M$MM)
Sunway Pyramid Shopping Mall	Retail	1,688,929	Bandar Sunway, Klang Valley	2,540
Sunway Resort Hotel & Spa	Hospitality	439	Bandar Sunway, Klang Valley	508
Pyramid Tower Hotel	Hospitality	549	Bandar Sunway, Klang Valley	295
Sunway Carnival Shopping Mall	Retail	484,364	Perai, Pulau Pinang	257
Sunway Tower	Office	268,412	Kuala Lumpur	190
Menara Sunway	Office	268,978	Bandar Sunway, Klang Valley	150
Sunway Hotel Seberang Jaya	Hospitality	202	Perai, Pulau Pinang	57
SunCity Ipoh Hypermarket	Retail	181,216	Ipoh, Perak	55
Sunway Putra Mall	Retail	505,448	KL city centre	248
Sunway Putra Hotel	Hospitality	631	KL city centre	240
Sunway Putra Tower	Office	317,051	KL city centre	90
Sunway Medical Centre	Medical		Bandar Sunway, Klang Valley	310
Total		**3.7MM sqft of retail and office NLA, 1821 hotel rooms**		**4,940**

Source: Company. J.P. Morgan estimates

Table 17: Investment properties in the pipeline or under construction at the SWB level (potential for future injection into the REIT vehicle)

	% stake	NLA (MM sqft)	Comments
Retail			
Sunway Velocity	85%	0.8	Part of an integrated mixed commercial/residential project in KL city to be completed by 2014/15.
Sunway Pyramid Phase 3	100%	0.06	Extension to the existing Sunway Pyramid Mall. Will also involve development of 435 hotel rooms, and additional 0.05MM sqft of retail space via asset enhancement which will be fronting Sunway Pyramid Phase 3.
Office			
The Pinnacle	100%	0.56	25-storey office building between Menara Sunway and Sunway Resort Hotel (i.e. adjoining to Menara Sunway). Expected completion by 2H13/2014. Will house a working population of 5,000
Total		**1.42**	

Source: Company, Company announcements

Construction

The construction sector in Malaysia is expected to benefit from the industry's multi-year growth cycle currently from robust public/government infrastructure spending through to at least 2019/2020. SWB's construction division has a total outstanding order-book of M$4.4B as at Apr-13 (a +25% Y/Y rise), of which 25% or M$1.12B comprise the MRT Package 4 infrastructure works in Klang Valley. The outstanding order-book translates to 3.5x historical construction revenue. The group aims to maintain order-book with replenishment of about M$1.5-2.0B pa (including internal orders). So far, YTD replenishment has already totaled to M$1.47B.

The construction division of SWB suffered from one-off provisions for its overseas project in India which translated to a 37% Y/Y drop in profits in FY12 on the back of operating margin of 2.9%. With the completion or absence of the low margin overseas contracts going forward, operating margin is estimated to normalize to 5-7% over FY13-15E with increased profit bookings from domestic projects. Overall, we are forecasting a 69% jump in construction EBIT (including associates) for FY13E and to sustain thereafter on the back of the recovery in margins and revenue recognition largely from the current order-book.

Table 18: Sunway Construction division order-book as at April 2013

Project	Outstanding order book (RMm)	Estimated completion	Awarded date	% Completion
MRT Package V4 (Sec 17 to Semantan)	1,117	4Q16	May-12	5%
LRT Kelana Jaya Line Extension (Package B)	336	2Q14	Aug-11	30%
BRT Sunway Line	452	2Q14	Mar-13	0%
Pinewood Iskandar Malaysia Studios Sdn Bhd	122	3Q13	Oct-11	61%
BioXcell - Central Facilities Utility	24	3Q13	Mar-11	78%
Legoland water park	41	4Q13	Jan-13	10%
UiTM campus expansion	57	3Q13	Jan-11	70%
KLCC NEC	304	4Q16	Mar-13	0%
KLCC Package 2 Substructure	222	2Q15	Apr-13	0%
Others	274			
Sunway Velocity Mall (substructure)	208	3Q14	Feb-12	35%
Sunway Velocity Phase 2 (Substructure)	93	1Q14	Jan-12	50%
Sunway Velocity (Shop Offices & Apartment)	113	3Q13	May-10	51%
The Pinnacle (Superstructure)	123	1Q14	Nov-11	35%
Sunway University New Academic Block	192	2Q15	Jan-13	0%
Sunway Putra Place	258	2Q15	Jan-13	0%
Foreign				
Singapore - Precast	466			
	4,402			

Source: Company.

Others

Challenges for trading & manufacturing overseas, good growth for quarrying

The group's trading and manufacturing division (accounts for an estimated 6% of FY13E EBIT) is involved mainly in the following product lines i.e. hoses and fittings, heavy equipment and parts, and building materials. The division operates in 7 countries in Asia (Malaysia, Singapore, Thailand, Indonesia, China, Australia and India) and from 45 locations. The division recorded a 10% drop in FY12 EBIT arising mainly from the overseas operations mainly in China where the de-stocking exercise caused a slowdown in demand, though profits in Malaysia has continued to grow. We have conservatively factored in a further 20% drop in EBIT for FY13E, and with no growth thereafter for FY14-15E.

The outlook for the quarrying division (accounts for an estimated 3% of FY13E EBIT) in turn is closely tied to the construction sector domestically where outlook as highlighted above remains positive given rising public/infrastructure spending. We are forecasting profit growth for the division for FY13E (+57% Y/Y) followed by stable profits thereafter for FY14-15E (profits from the division rose five-fold in 1Q13).

Financials

Profit & loss

Table 19: Sunway Berhad Profit & Loss Statement

Yr to Dec-31 (M$MM)	2011	2012	2013E	2014E	2015E
Revenue	**3,691.7**	**3,849.2**	**4,589.9**	**4,804.5**	**4,819.5**
Property development	915.8	910.2	1,033.7	1,323.9	1,333.8
Property investment	517.6	585.2	594.3	616.7	640.3
Construction	1,221.0	1,274.9	1,887.4	1,781.0	1,754.2
Trading & manufacturing	553.2	558.7	518.3	523.5	528.8
Quarry	184.5	196.9	233.7	233.7	233.7
Investment holding	3.4	7.0	12.2	12.2	12.2
Others	296.3	316.4	310.3	313.4	316.6
Cost of sales	(2,630.0)	(2,581.1)	(3,011.6)	(3,086.1)	(3,067.4)
Gross profit	**1,061.7**	**1,268.1**	**1,578.2**	**1,718.4**	**1,752.2**
Operating profit	**366.3**	**503.5**	**433.8**	**519.0**	**549.0**
Property development	130.6	187.0	220.3	295.1	308.9
Property investment	108.4	120.7	125.0	129.7	134.7
Construction	58.4	36.8	103.8	110.4	108.8
Trading & manufacturing	49.8	45.0	36.2	36.2	36.2
Quarry	8.4	12.2	19.1	19.5	19.9
Investment holding	(22.7)	(37.1)	(38.4)	(39.8)	(41.2)
Others	11.8	16.9	9.2	9.3	9.4
Unusual items	21.7	121.6	(41.3)	(41.3)	(27.6)
Finance income	27.5	22.7	28.8	25.5	16.3
Finance costs	(80.9)	(99.6)	(109.8)	(109.8)	(109.8)
Associates	**99.7**	**152.3**	**75.3**	**81.8**	**90.5**
Core associates	68.5	75.8	75.3	81.8	90.5
Unusual items	31.2	76.5	0.0	0.0	0.0
JVs	**85.9**	**144.0**	**74.3**	**104.9**	**152.9**
Property development	81.3	119.3	74.3	104.9	152.9
Construction	4.7	24.6	0.0	0.0	0.0
Pre-tax	**498.5**	**722.9**	**502.4**	**621.4**	**698.9**
Taxation	(69.6)	(125.4)	(116.4)	(140.2)	(151.1)
PAT	428.9	597.6	386.0	481.2	547.8
MI	(41.4)	(66.9)	(42.7)	(55.0)	(55.2)
Reported net profit	**387.5**	**530.6**	**343.3**	**426.2**	**492.7**
Exceptional items	60.4	181.8	(41.3)	(41.3)	(27.6)
Core net profit	**327.1**	**348.8**	**384.6**	**467.5**	**520.2**
% growth		7%	10%	22%	11%
Share base	1,292.5	1,292.5	1,722.5	1,722.5	1,722.5
FD share base	1,551.0	1,551.0	1,981.0	1,981.0	1,981.0
Reported EPS (sen)	29.98	41.05	19.93	24.74	28.60
FD Core/adjusted EPS (sen)	**22.03**	**23.43**	**20.15**	**24.33**	**27.00**
% growth		6%	-14%	21%	11%
Margins					
Gross margin	*28.8%*	*32.9%*	*34.4%*	*35.8%*	*36.4%*
Op margin	*9.9%*	*13.1%*	*9.5%*	*10.8%*	*11.4%*
PBT margin	*13.5%*	*18.8%*	*10.9%*	*12.9%*	*14.5%*
Operating margin by segment					
Property development	*14.3%*	*20.5%*	*21.3%*	*22.3%*	*23.2%*
Property investment	*20.9%*	*20.6%*	*21.0%*	*21.0%*	*21.0%*
Construction	*4.8%*	*2.9%*	*5.5%*	*6.2%*	*6.2%*
Trading & manufacturing	*9.0%*	*8.1%*	*7.0%*	*6.9%*	*6.8%*
Quarry	*4.5%*	*6.2%*	*8.2%*	*8.3%*	*8.5%*

Source: Company, J.P. Morgan estimates.

Dilution from rights issue in FY13E, but EPS CAGR of 16% over FY14-15E

Unbilled sales of M$2.3B for the property development division as at end-1Q13 comprise M$1.5B from its Malaysian projects, and M$0.8B from its Singapore projects via a 30%-owned associate. Hence, total unbilled sales represent 2.5x historical property revenue (or at 1.6x based on domestic sales alone stripping out the Singapore associate), which provides about 2 years of earnings visibility. With this, stable contributions from property investment, and rising income from construction, we estimate a 2-year core fully diluted EPS CAGR of 16% over FY14-15E (after a 14% drop in FY13E due to impact of dilution from the rights issue).

SWB's proposed new ESOS scheme of up to 172.3MM new shares (or up to 10% of existing paid-up), will translate to additional expense in the P&L as the option value of the ESOS estimated at M$140MM is expected to be amortized over the vesting period of 4 years from FY13. This has been factored into our earnings and is reflected in the headline reported net profit estimates. But, we have stripped this expense out in arriving at our core FD EPS estimates as this is a non cash-flow as well as non-operational item. Also, unlike other expenses which reduce net assets, the ESOS option/expense is a reclassification from retained earnings to a share option reserve, and hence does not have any impact on the NTA and balance sheet strength. The ESOS expense accounts for an estimated 8-10% of our core FD EPS over FY13-14E.

Balance sheet & cash flow

Table 20: Sunway Berhad – Balance Sheet

Yr to Dec-31 (M$MM)	2011	2012	2013E	2014E	2015E
Fixed assets	960.6	804.7	809.3	813.4	817.1
Associates	1015.3	1023.8	1080.2	1141.5	1209.4
Real property assets	1906.2	1841.4	2441.4	3016.4	3566.4
Intangibles	326.5	318.1	309.7	301.2	292.8
Other LT assets	350.5	566.0	682.3	817.6	989.1
	4,559.0	4,554.0	5,322.8	6,090.2	6,874.8
Current Assets					
Cash	776.7	1158.9	1298.6	872.8	517.5
Property development costs	669.3	991.5	991.5	991.5	991.5
Trade receivables	782.4	1136.0	1354.6	1417.9	1422.3
Other receivables	325.8	181.2	181.2	181.2	181.2
Inventories	451.8	650.3	775.4	811.7	814.2
Other current assets	278.5	311.6	311.6	311.6	311.6
	3,284.5	4,429.5	4,913.0	4,586.7	4,238.4
Total Assets	**7,843.5**	**8,983.5**	**10,235.8**	**10,677.0**	**11,113.2**
Current Liabilities					
Trade and other payables	1647.1	1771.8	1992.8	2056.8	2061.3
Taxation	27.1	31.0	31.0	31.0	31.0
ST debt	311.0	1764.8	1764.8	1764.8	1764.8
Other current liabilities	32.4	39.0	39.0	39.0	39.0
	2,010.9	3,576.2	3,797.2	3,861.3	3,865.8
Long Term Debt	1914.8	972.2	972.2	972.2	972.2
Minority interests	327.3	380.9	423.6	478.5	533.6
Other LT liabilities	573.6	477.6	477.6	477.6	477.6
Shareholders funds	3016.9	3576.6	4565.3	4887.4	5264.1
Total S Funds & Liabilities	**7843.6**	**8983.5**	**10235.8**	**10677.0**	**11113.2**
Net gearing (%)	**43%**	**40%**	**29%**	**35%**	**38%**

Source: Company. J.P. Morgan estimates

Table 21: Sunway Berhad – Cash Flow Statement

Yr to Dec-31 (M$MM)	2011	2012	2013E	2014E	2015E
Operating Profit	366.3	503.5	433.6	518.8	548.4
Depreciation	89.7	95.2	95.4	95.9	96.3
Working capital change	60.0	(305.4)	(122.7)	(35.6)	(2.5)
Cash tax paid	(69.6)	(125.4)	(116.3)	(140.1)	(150.9)
Others	(60.4)	(181.8)	41.3	41.3	27.6
Cash flow from operations	**386.0**	**(13.9)**	**331.2**	**480.4**	**518.8**
Capex	(284.7)	(292.9)	(600.0)	(600.0)	(600.0)
Disposal/(purchase)	(372.7)	536.9	(230.4)	(222.9)	(217.9)
Net interest	(53.4)	(76.8)	(81.0)	(84.3)	(93.5)
Cash flow from investing	**(710.9)**	**167.2**	**(911.4)**	**(907.2)**	**(911.4)**
Debt raised/(repaid)	857.6	511.1	-	-	-
Equity raised/(repaid)	(888.5)	106.6	731.0	-	0.0
Dividends (paid)	-	(77.6)	(85.5)	(103.9)	(115.6)
Other	263.5	(311.7)	74.3	104.9	152.9
Cash flow from financing	**232.6**	**228.5**	**719.8**	**1.0**	**37.4**
Free cash flow	**(225)**	**294**	**(437)**	**(277)**	**(225)**

Source: Company, J.P. Morgan estimates

Staggered payment terms (equity portion) for recent large land purchase

The total purchase of the group’s 1,858 acre new land-bank in Iskandar, Johor over the last 9-15 months involved a total consideration of about M$1.54B to be paid via a combination of equity (M$744MM) and bank borrowings (M$796MM). The Johor projects are being undertaken on a JV basis with partner, Khazanah Nasional. The JVs here are treated as jointly controlled entities which are equity accounted instead of consolidated as the agreement provides for more equal share in power of management. Hence, the borrowings here are also treated as off-balance sheet for the group. SWB’s outstanding cash obligation for the Johor land hence represents mainly its stake in the equity portion of the funding for these projects, which works out to a remaining amount of M$310MM to be paid over a staggered period of 10 years up to 2022 (Excluding M$136.8MM already settled in FY12).

Comfortable gearing despite heavy capex commitments helped by rights issue

Cash flow from operations is positive and on a rising trend in tandem with profit growth. However, given the group's current expansion phase for both the property investment and property development divisions, free cash flow (FCF) is anticipated to be in deficit over the next three years (albeit at a declining trend) after accounting for the following capex or capital commitments: 1) Outstanding cash obligations of M$310MM spread over the next 10 years for the group’s purchase of the Iskandar, Johor land (of which M$174MM is expected to be paid over the next 3 years). 2) Capex obligations of M$1.3-1.5B in total over the next three years for expansion of the group's property investment portfolio. 3) Opportunistic land-bank acquisitions and other maintenance capex which we have aggressively assumed at close to M$200MM pa over the next three years.

Despite the negative FCF, overall ability to service interest obligations and to secure funding we believe remains strong in view of the following: 1) Net gearing remains comfortable at 29-38% over FY13-15E (from 40% in FY12) helped by the group's proposed 1-for-3 rights issue of 430MM new shares which we estimate will raise gross proceeds of M$730MM by end July-13 and raise gross cash position to M$1.3B by end-FY13. 2) Interest cover remains healthy at an estimated 6.5-7.3x over FY13-15E. 3) Additional proceeds of M$646MM will accrue to the group upon full conversion of existing 258.5MM warrants at M$2.50/share which will expire by Aug-2016. 4) The group has the option to unlock value of its investment properties and pare down debt via injection into its REIT vehicle once the new assets under construction reach stable state likely from FY15/16 on.

Sunway Bhd: Summary of Financials

Profit and Loss Statement					
M$ in millions, year end Dec	FY11	FY12	FY13E	FY14E	FY15E
Revenues	3,692	3,849	4,590	4,804	4,820
% change Y/Y	19.0%	4.3%	19.2%	4.7%	0.3%
EBIT	366	503	434	519	549
% change Y/Y	(38.0%)	37.5%	(13.8%)	19.7%	5.8%
EBIT margin (%)	9.9%	13.1%	9.5%	10.8%	11.4%
Net Interest	(53)	(77)	(81)	(84)	(93)
Earnings before tax	499	723	502	621	699
% change Y/Y	(30.4%)	45.0%	(30.5%)	23.7%	12.5%
Tax	(70)	(125)	(116)	(140)	(151)
as % of EBT	14.0%	17.3%	23.2%	22.6%	21.6%
Net income (reported)	388	531	343	426	493
% change Y/Y	(43.4%)	36.9%	(35.3%)	24.2%	15.6%
Shares outstanding	1,551	1,551	1,981	1,981	1,981
EPS (reported)	0.30	0.41	0.20	0.25	0.29
% change Y/Y	(43.4%)	36.9%	(51.5%)	24.2%	15.6%
Core FD EPS	0.22	0.23	0.20	0.24	0.27
% change Y/Y	(0.5%)	6.4%	(14.0%)	20.8%	10.9%

Cash flow statement					
M$ in millions, year end Dec	FY11	FY12	FY13E	FY14E	FY15E
EBIT	366	503	434	519	549
Depr. & amortization	90	95	95	96	96
Change in working capital	60	(305)	(123)	(36)	(2)
Taxes paid	(70)	(125)	(116)	(140)	(151)
Others	(60)	(182)	41	41	28
Cash flow from operations	386	(14)	331	481	519
Capex	(285)	(293)	(600)	(600)	(600)
Disposals/(Purchases)	(373)	537	(230)	(223)	(218)
Net Interest	(53)	(77)	(81)	(84)	(93)
Free cash flow	(225)	294	(437)	(277)	(225)
Equity raised/(repaid)	(889)	107	731	0	0
Debt raised/(repaid)	858	511	0	0	0
Other	263	(312)	74	105	153
Dividends paid	0	(78)	(86)	(104)	(116)
Beginning cash	869	777	1,159	1,299	873
Ending cash	777	1,159	1,299	873	518
DPS	0.00	0.05	0.04	0.05	0.06

Balance sheet					
M$ in millions, year end Dec	FY11	FY12	FY13E	FY14E	FY15E
Cash and cash equivalents	777	1,159	1,299	873	518
Accounts receivable	782	1,136	1,355	1,418	1,422
Inventories	452	650	775	812	814
Others	1,063	1,233	1,233	1,233	1,233
Current assets	3,285	4,430	4,913	4,587	4,239
LT investments	1,018	600	700	775	825
Net fixed assets	961	805	809	813	817
Total Assets	7,844	8,983	10,236	10,677	11,114
Liabilities					
ST Loans	311	1,765	1,765	1,765	1,765
Payables	1,054	1,148	1,369	1,434	1,438
Others	646	663	663	663	663
Total current liabilities	2,011	3,576	3,797	3,861	3,866
Long-term debt	1,915	972	972	972	972
Other liabilities	574	478	478	478	478
Total Liabilities	4,499	5,026	5,247	5,311	5,316
Minorities	327	381	424	479	534
Shareholders' equity	3,017	3,577	4,565	4,888	5,265
BVPS	2.08	2.52	2.47	2.66	2.89

Ratio Analysis					
M$ in millions, year end Dec	FY11	FY12	FY13E	FY14E	FY15E
EBIT Margin	9.9%	13.1%	9.5%	10.8%	11.4%
Net margin	8.9%	9.1%	8.4%	9.7%	10.8%
SG&A/Sales	15.8%	15.4%	15.4%	15.4%	15.4%
Sales per share growth	19.0%	4.3%	(10.5%)	4.7%	0.3%
Sales growth	19.0%	4.3%	19.2%	4.7%	0.3%
Net profit growth	(43.4%)	36.9%	(35.3%)	24.2%	15.6%
EPS growth	(43.4%)	36.9%	(51.5%)	24.2%	15.6%
Interest coverage (x)	8.5	7.8	6.5	7.3	6.9
Net debt to total capital	30.2%	28.5%	22.4%	25.8%	27.7%
Net debt to equity	43.3%	39.9%	28.8%	34.7%	38.3%
Sales/assets	0.5	0.5	0.5	0.5	0.4
Assets/equity	2.3	2.6	2.4	2.2	2.1
ROE	10.0%	10.6%	9.4%	9.9%	10.2%
ROCE	17.5%	16.8%	12.2%	14.7%	15.7%

Source: Company reports and J.P. Morgan estimates.

Other Companies Recommended in This Report (all prices in this report as of market close on 26 July 2013)
IJM Land (IJML.KL/M$2.91/Overweight), UEM Sunrise Bhd (UMSB.KL/M$2.90/Overweight)

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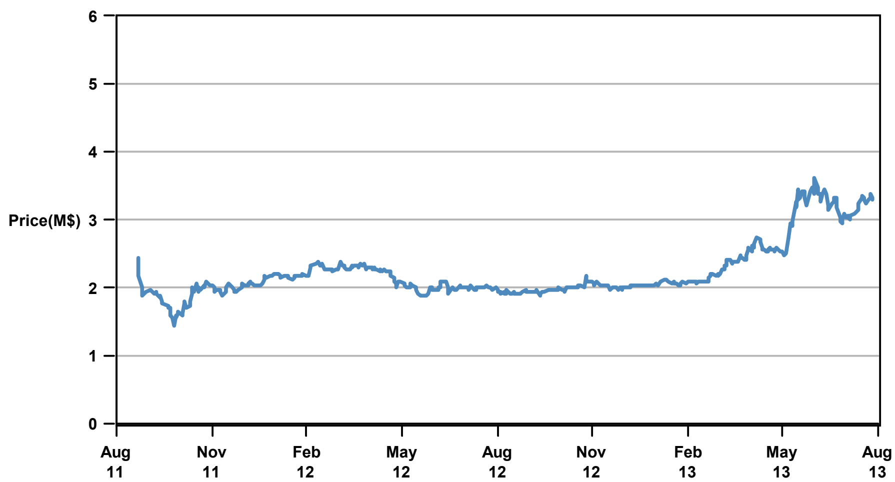
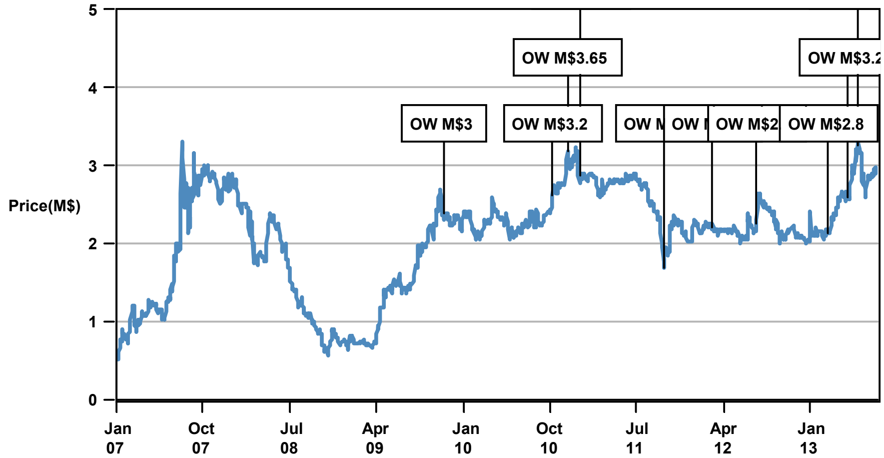
Sunway Bhd (SWAY.KL, SWB MK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.

IJM Land (IJML.KL, IJMLD MK) Price Chart



Date	Rating	Share Price (M$)	Price Target (M$)
29-Oct-09	OW	2.39	3.00
08-Oct-10	OW	2.62	3.20
24-Nov-10	OW	3.19	3.65
03-Jan-11	OW	2.86	3.40
26-Sep-11	OW	1.70	2.40
22-Feb-12	OW	2.20	2.60
12-Jul-12	OW	2.26	2.90
26-Feb-13	OW	2.13	2.80
28-Apr-13	OW	2.59	3.20
28-May-13	OW	3.25	3.70

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Oct 29, 2009.

UEM Sunrise Bhd (UMSB.KL, UEMS MK) Price Chart

Date	Rating	Share Price (M$)	Price Target (M$)
21-Mar-13	N	2.64	2.80
16-May-13	OW	3.15	3.60

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Mar 21, 2013.

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IB clients*	76%	66%	55%

*Percentage of investment banking clients in each rating category.
For purposes only of FINRA/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above.

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