

Sunway (HOLD ↓; EPS ↔)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

30 May 2014

Price Target: RM3.38 (↔)

Share price: RM3.19

1Q Results: Good start

Results	<ul style="list-style-type: none"> 1QFY14 core PATAMI (after adjusting for EI of RM6.3m) jumped by 22% to RM110.3m (6.40 sen/share), making up 23% of ours and consensus' full year forecasts.
Deviations	<ul style="list-style-type: none"> Largely in line.
Dividends	<ul style="list-style-type: none"> None. Dividends usually declared in 2Q and 4Q.
Highlights	<ul style="list-style-type: none"> Results... 1Q revenue was flat YoY at RM1.03bn, largely due to the decline in construction billings, while all other major divisions posted healthy YoY revenue growth. Despite flattish revenue, earnings were still up by 22% YoY to RM110.3m, mainly due to better margins achieved by the construction and property development divisions. However, due to the enlarged share base from rights issue exercise, core EPS was down by 8% to 6.40 sen/share. Property... Achieved decent effective new property sales of RM243m in 1Q, with the bulk of it coming from Novena Singapore and Geo Residences while the remainder are equally spread out amongst various launches in Penang, Klang Valley, and Johor. For FY14, Sunway is targeting to achieve effective new property sales of RM1.3bn mainly from sales in Mount Sophia Singapore and the balance revolving around public transportation theme i.e. BRT in South Quay and MRT railway for Velocity, and Iskandar. Although we are cautious of the property market in Singapore and Johor, we draw comfort from Sunway's sizable effective unbilled property sales of RM1.79bn, translating to 1.54x FY13's property revenue. Construction... YTD, Sunway has yet to secure external construction project despite its optimism earlier of the year to replenish its order backlog by another RM2bn. While waiting for these orders to materialise, the division has an outstanding external order book of RM2.86bn, translating to 1.8x FY13's construction revenue.
Risks	<ul style="list-style-type: none"> Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.
Forecasts	<ul style="list-style-type: none"> Unchanged.
Rating	HOLD (↓) <ul style="list-style-type: none"> Despite headwinds from property tightening measures and slower contract flows, its recapitalised balance sheet and strong backlog orders will be able to sustain earnings growth for the Group. Moreover, Sunway's integrated construction-property business model should give them an edge in terms of execution. However, in view of less than 10% upside from the current share price (which has appreciated by 16% since we last upgraded to a Buy on 30 August 2013), we downgrade Sunway to a HOLD. A key upside risk to our call will be faster than anticipated take-up for its new property launches.
Valuation	<ul style="list-style-type: none"> TP maintained at RM3.38 based on SOP valuation (see Figure #2).

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KLCI	1,876.6
Expected share price return	6.0%
Expected dividend return	3.1%
Expected total return	9.1%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,724
Market cap (RM m)	5,499
3-mth avg. volume ('000)	1,107

Price Performance	1M	3M	12M
Absolute	2.9	9.6	-5.4
Relative	2.6	7.2	-10.5

Major shareholders

Sungei Way Corp Sdn Bhd	48.2%
Yean Tih Cheah	13.5%
GIC	8.7%

Summary Earnings Table

FYE Dec (RM m)	2012A	2013A	2014E	2015E
Revenue	3,877	4,734	4,731	4,759
EBITDA	594	1,960	661	687
EBIT	505	1,824	561	571
Profit Before Tax	728	1,894	635	655
PATAMI	532	1,500	487	500
Core PATAMI	351	482	487	500
Core EPS (sen)	27.1	28.0	28.3	29.0
FD EPS (sen)	22.6	24.0	24.2	24.8
Net DPS (sen)	6.0	10.0	11.0	11.0
Net DY (%)	1.9	3.1	3.4	3.4
P/E (x)	11.8	11.4	11.3	11.0
FD P/E (x)	14.1	13.3	13.2	12.9
P/B (x)	1.2	1.0	1.0	0.9
Net Gearing (%)	49.1	28.7	29.5	26.5
ROE (%)	10.7	10.8	8.9	8.6
ROA (%)	4.2	4.9	4.6	4.8

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY13	4QFY13	1QFY14	QoQ (%)	YoY (%)	Comments
Revenue	1,021.0	1,342.2	1,025.7	-24	0	Made up 22% and 20% of ours and consensus' estimates respectively. Refer to segmental.
Property Development	202.7	417.2	222.3	-47	10	YoY: Lifted by stronger property billings. QoQ: Seasonal weakness. Achieved effective new sales of RM243m in 1Q. Backed by effective unbilled sales of RM1.8bn (1.54x FY13's revenue).
Property Investment	133.5	403.4	136.2	-66	2	YoY: Due to higher contribution from hospitality and leisure divisions. QoQ: Distorted by FRS10 accounting standard.
Construction	429.4	412.2	358.7	-13	-16	YoY/QoQ: Due to timing in progress billings. Backed by external outstanding construction order book of RM2.9bn (1.8x FY13's revenue).
Trading/Manufacturing	129.6	133.7	149.0	11	15	YoY/QoQ: Lifted mainly by contribution from Malaysia operations.
Quarry	44.3	50.5	48.3	-4	9	
EBIT	86.1	1,188.8	109.6	-91	27	Refer to segmental.
Property Development	25.5	93.4	52.1	-44	>100	YoY: Due to stronger revenue and margin expansion. QoQ: Seasonal weakness.
Property Investment	22.1	1,286.4	20.1	-98	-9	YoY: Due to lower REIT management fees and expenses related to newly completed Sunway Pinnacle. QoQ: Distorted by FRS10 accounting standard and revaluation gains.
Construction	27.3	(15.7)	31.0	n/a	13	YoY: Due to margin expansion despite decline in construction revenue. QoQ: Swung back to profit after hit by RM23m provision for Al Reem project.
Trading/Manufacturing	9.0	8.2	9.1	11	1	
Quarry	4.8	3.0	4.4	45	-7	
Net Interest Expense	(11.7)	(24.5)	(7.8)	-68	-33	Net debt climbed to RM1.56bn from RM1.28bn in 4QFY13. Hence, net gearing ratio increased to 28.8% from 23.9%.
Share of Associates/JCE	47.9	83.4	40.4	-51	-16	YoY/QoQ: Due to decline in contribution from Singapore developments.
PBT	122.5	1,248.1	142.2	-89	16	
PAT	96.2	1,202.7	111.8	-91	16	
PATAMI	90.6	1,138.8	104.0	-91	15	
EI	(0.3)	(981.3)	6.3	n/a	n/a	ESOS fair value losses of RM6.3m.
Core Earnings	90.3	157.5	110.3	-30	22	Made up 23% of ours and consensus' estimates respectively.
Core EPS (sen)	6.99	9.14	6.40	-30	-8	YoY/QoQ: Lower due to dilution of rights issue.
EBIT Margin (%)	8%	89%	11%	-88	27	
Property Development	13%	22%	23%	5	86	
Property Investment	17%	319%	15%	-95	-11	
Construction	6%	-4%	9%	n/a	36	
Trading/Manufacturing	7%	6%	6%	-0	-12	
Quarry	11%	6%	9%	52	-15	
PBT Margin Ex-Assoc (%)	7%	87%	10%	-89	36	

Sunway, HLIB

Figure #2 Sunway SOP valuation

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	15X Average of FY14-15 Earnings	100%	963	0.48	14
Property	NPV of profits + Shareholders Fund	100%	5,106	2.54	75
Trading/Manufacturing	9X P/E	100%	291	0.14	4
Quarry	15X P/E	100%	187	0.09	3
		Sub-Total (RM m)	6,548		
		No. of shares (m)	1,723		
		RM per share	3.80		
		Proceeds from warrants (RM m)	724	0.36	11
		Estimated Holding Company Net Debt	(460)	(0.23)	(7)
		SOP (RM m)	6,812		100
		Total no. of diluted shares (m)	2,013		
		Target Price (RM)	3.38		

HLIB

Figure #3 HLIB vs Consensus

FYE Dec (RM m)	FY14E			FY15E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,730.7	5,145.0	-8%	4,758.7	5,446.3	-13%
PATAMI	487.2	487.4	0%	499.7	527.9	-5%

Bloomberg, HLIB

Financial Projections for Sunway (HOLD; TP: RM3.38)

Income Statement

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	3,691.7	3,876.8	4,733.7	4,730.7	4,758.7
EBITDA	457.0	594.5	1,960.5	660.8	686.9
D&A	(90.7)	(89.9)	(136.9)	(99.3)	(116.3)
EBIT	366.3	504.5	1,823.6	561.5	570.5
Interest Income	27.5	27.1	35.6	35.4	24.1
Finance Costs	(80.9)	(104.6)	(138.1)	(118.3)	(107.1)
Associates/JCE	185.6	301.2	172.5	156.4	167.3
Profit Before Tax	498.5	728.2	1,893.6	635.0	654.9
Tax	(86.1)	(128.5)	(120.9)	(118.8)	(121.4)
Net Profit	412.4	599.7	1,772.7	516.2	533.5
Minority Interests	(40.4)	(67.4)	(273.0)	(29.0)	(33.8)
PATAMI	372.1	532.3	1,499.8	487.2	499.7
Exceptionals	44.1	181.8	1,017.8	-	-
Core Earnings	328.0	350.6	482.0	487.2	499.7
Basic Shares (m)	1,292.5	1,292.5	1,723.4	1,723.4	1,723.4
Core EPS (sen)	25.4	27.1	28.0	28.3	29.0
FD Core EPS (sen)	21.1	22.6	24.0	24.2	24.8

Quarterly Financial Summary

FYE 31 Dec (RM m)	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1
Revenue	1,021.0	1,118.0	1,066.1	1,342.2	1,025.7
Expenses	(946.8)	(1,024.4)	(1,001.2)	(1,198.4)	(932.6)
Other Income	11.8	22.9	10.0	1,045.1	16.4
EBIT	86.1	116.6	74.9	1,188.8	109.6
Derivatives	0.3	(0.1)	0.1	0.4	(0.0)
Net Interest Expense	(11.7)	(12.6)	(6.3)	(24.5)	(7.8)
Associates & JCE	47.9	108.6	49.4	83.4	40.4
Profit Before Tax	122.5	212.5	118.2	1,248.1	142.2
Tax	(26.3)	(32.5)	(16.6)	(45.5)	(30.4)
Net Profit	96.2	180.1	101.6	1,202.7	111.8
Minority Interests	(5.6)	(9.7)	(8.5)	(63.9)	(7.8)
PATAMI	90.6	170.3	93.1	1,138.8	104.0
Exceptionals	(0.3)	(59.6)	31.3	(981.3)	6.3
Core Earnings	90.3	110.7	124.4	157.5	110.3
Core EPS (sen)	6.99	8.57	7.76	9.14	6.40
FD Core EPS (sen)	6.99	8.26	7.59	8.78	6.27
W. Ave. Shares (m)	1,292.5	1,292.5	1,604.3	1,723.5	1,723.5

Balance Sheet

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Cash	869	777	1,140	1,519	843
Trade Receivables	742	789	1,404	1,405	1,166
Inventories	302	452	626	623	713
Development Costs	621	669	600	1,276	994
Associates/JCE	1,242	1,281	1,553	2,284	2,349
PPE	2,197	2,876	3,008	3,548	3,749
Goodwill	329	326	319	320	320
Others	679	673	95	137	130
Total Assets	6,981	7,844	8,745	11,112	10,263
Trade Payables	826	1,040	1,605	2,154	1,296
Total Debt	1,406	2,254	2,747	2,795	2,461
Others	850	1,239	524	511	511
Total Liabilities	3,082	4,532	4,876	5,460	4,267
Shareholders' Funds	3,518	2,985	3,558	5,335	5,650
Minority Interests	381	326	310	317	346
Total Capital	3,899	3,312	3,868	5,652	5,996

Rates and Ratios

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Core PER (x)	12.6	11.8	11.4	11.3	11.0
FD Core PER (x)	15.1	14.1	13.3	13.2	12.9
Net DPS (sen)	-	6.0	10.0	11.0	11.0
Net DY (%)	-	1.9	3.1	3.4	3.4
BVPS (RM)	2.3	2.8	3.1	3.3	3.5
P/B (x)	1.4	1.2	1.0	1.0	0.9
NTA/Share (RM)	2.1	2.5	2.9	3.1	3.3
EBITDA Margin (%)	12.4	15.3	41.4	14.0	14.4
EBIT Margin (%)	9.9	13.0	38.5	11.9	12.0
PBT Margin (%)	18.5	26.6	43.6	16.7	17.3
PATAMI Margin (%)	8.9	9.0	10.2	10.3	10.5
ROE (%)	10.1	10.7	10.8	8.9	8.6
ROA (%)	4.4	4.2	4.9	4.6	4.8
Net Gearing (%)	45.4	49.1	28.7	29.5	26.5

Cashflow Analysis

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
EBITDA	457.0	594.5	1,960.5	660.8	686.9
Working Capital	(52.9)	(154.1)	(124.7)	(427.4)	(15.0)
Interest Received	27.5	27.1	39.9	35.4	24.1
Dividends fr Assoc	153.9	151.8	83.1	91.6	104.2
Others	(186.5)	(233.2)	(865.8)	(111.4)	(121.4)
CFO	399.0	386.1	1,092.9	249.0	678.8
Capex	(142.2)	(465.5)	(657.9)	(300.0)	(300.0)
Purchase/Disposal	(71.2)	317.4	38.2	-	-
Others	(79.6)	(209.7)	(215.0)	-	-
CFI	(293.0)	(357.7)	(834.7)	(300.0)	(300.0)
Financing	847.9	493.2	48.6	(334.8)	(161.5)
Shares Issued	(42.5)	-	732.9	-	-
Dividends	(944.2)	-	(344.3)	(172.3)	(189.6)
Interest Paid	(80.9)	(104.6)	(117.5)	(118.3)	(107.1)
Others	23.5	(141.7)	(184.3)	-	-
CFF	(196.3)	246.9	135.4	(625.4)	(458.2)
Net Cashflow	(90.2)	275.2	393.5	(676.4)	(79.3)

Assumption Metrics

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	3,692	3,877	4,734	4,731	4,759
Property	916	923	1,167	1,209	1,223
Property Investment	518	591	816	840	865
Construction	1,221	1,275	1,591	1,463	1,391
Trading/Manufacture	553	559	587	616	647
Quarry	184	197	198	208	218
Others	300	332	375	394	414
EBIT Margins (%)	9.9	13.0	38.5	11.9	12.0

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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