

Malaysia Company Focus

Sunway Berhad

Bloomberg: SWB MK | Reuters: SWAY.KL

Refer to important disclosures at the end of this report

DBS Group Research. Equity

30 Aug 2013

BUY RM2.75 KLCI : 1,703.78

(Upgrade from Hold)

Price Target : 12-Month RM 3.50 (Prev RM 3.40)

Reason for Report : Recommendation upgrade, raised earnings

Potential Catalyst: New order wins, stronger property sales

DBSV vs Consensus: In line

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RM m)	2012A	2013F	2014F	2015F
Revenue	3,849	4,728	5,157	5,898
EBITDA	800	773	843	946
Pre-tax Profit	723	610	663	716
Net Profit	531	395	433	471
Net Pft (Pre Ex.)	531	395	433	471
EPS (sen)	41.1	22.9	25.1	27.3
EPS Pre Ex. (sen)	41.1	22.9	25.1	27.3
EPS Gth (%)	37	(44)	10	9
EPS Gth Pre Ex (%)	37	(44)	10	9
Diluted EPS (sen)	34.2	17.4	19.0	20.7
Net DPS (sen)	0.0	4.6	5.0	32.8
BV Per Share (sen)	275.3	267.3	287.4	281.9
PE (X)	6.7	12.0	11.0	10.1
PE Pre Ex. (X)	6.7	12.0	11.0	10.1
P/Cash Flow (X)	9.2	3.5	10.2	8.7
EV/EBITDA (X)	6.8	7.7	7.3	6.6
Net Div Yield (%)	0.0	1.7	1.8	11.9
P/Book Value (X)	1.0	1.0	1.0	1.0
Net Debt/Equity (X)	0.4	0.2	0.2	0.2
ROAE (%)	16.1	9.7	9.1	9.6

Earnings Rev (%) :	4	6	10
Consensus EPS (sen) :	22.3	24.6	28.4
Other Broker Recs :	B: 9	S: 0	H: 4

ICB Industry : Financials

ICB Sector: Real Estate Investment & Services

Principal Business: Property and construction group with interests in quarrying, building materials manufacturing and trading.

Source of all data: Company, DBS Vickers, Bloomberg Finance L.

Attractive entry point

- **2Q13 earnings beat expectations**
- **Record orderbook and strong unbilled sales**
- **Next catalyst is launch of Medini, Iskandar**
- **Upgrade to BUY, nudged up TP to RM3.50**

Renewed optimism. We upgrade Sunway to BUY and nudged up TP to RM3.50 (10% discount to SOP), premised on the following: i) strong 2-3 years earnings visibility underpinned by its record construction orderbook (RM1.8bn contract wins YTD, taking outstanding orderbook to RM4.2bn) and RM2.2bn unbilled sales anchoring our 3-year net profit CAGR of 11%; ii) credible Iskandar proxy with 1,858 acres of land (41% of SOP) and maiden launch by end-2013/early 2014; and iii) strong pricing power for key projects such as Sunway Velocity (GDV RM3.6bn) and Sunway Nexis (GDV RM1.5bn) which is able to capitalise on the current SBK MRT line.

2Q/1H13 results beat expectations. Sunway booked RM11m core net profit (+43% y-o-y, +22% q-o-q; excludes RM60m fair value gain from Sunway REIT), taking 1H13 core profit to RM201m (+42% y-o-y). This was driven by better performance from property development and construction divisions, with 1H13 EBIT jumping 61% and 71% to RM127m and RM44m, respectively. 1H13 property sales reached RM606m driven by new launches at Sunway Geo (GDV RM373m), Sunway Cassia (GDV RM106m) and Sunway Lenang Heights (GDV RM201m) which should meet its target of RM1.5bn assuming a stronger 2H. We expect construction earnings to pick up in 2H13 as 2Q13 was affected by delays in the LRT and MRT projects.

Raising earnings. We raised FY13/14/15F profits by 4%/6%/10% after adjusting for better-than-expected contract wins YTD. The stock has fallen 24% from its high and offers an attractive entry point currently. Valuations are inexpensive at 11x FY14F PE and 1.0x P/NTA, given decent earnings CAGR and assured earnings growth.

At A Glance

Issued Capital (m shrs)	1,723
Mkt. Cap (RMm/US\$m)	4,740 / 1,431
Major Shareholders	
Sunway Way Corp (%)	38.5
Free Float (%)	51.7
Avg. Daily Vol. ('000)	1,161

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Figure 1: 2Q13 Result Summary

FYE Dec (RMm)	2Q13	2Q12	1Q13	% chg y-o-y	% chg q-o-q	Comments
Income statement						
Turnover	1,118.0	996.1	1,021.0	12	10	Higher property sales and construction revenue
Cost of sales	(1,024.4)	(917.8)	(946.8)	12	8	
Gross profit	93.7	78.3	74.3	20	26	
Operating expenses	0.0	0.0	0.0	n.m.	n.m.	
Other income	22.9	(50.8)	11.8	-145	94	
EBIT	116.6	27.5	86.1	324	35	
Interest expense	(21.0)	(29.7)	(22.2)	-30	-5	
Associates & JVs	108.6	111.6	47.9	-29	65	
Pretax profit	212.5	193.1	122.5	10	73	Better performance from property development and trading & manufacturing
Taxation	(32.5)	(30.3)	(26.3)	7	23	
Minority interest	(9.7)	(8.5)	(5.6)	14	73	
Net profit	170.3	77.6	90.6	119	88	2Q13 includes one-off fair value gain of RM60m
EBIT margin (%)	10.4	2.8	8.4			
Effective tax rate (%)	15.3	15.7	21.5			
Segmentals						
Turnover						
Property development	286.9	188.6	202.7	52	42	Strong sales and progress of projects in Sunway South Quay, Sunway Damansara, Sunway Velocity and Sunway Eastwood
Property investment	157.5	162.9	138.8	-3	13	In line
Construction	461.4	388.3	429.4	19	7	
Trading & manufacturing	171.6	174.8	162.9	-2	5	
Quarry	55.8	49.9	45.3	12	23	
Investment holding	39.0	57.4	87.1	-32	-55	
Others	94.6	97.9	85.8	-3	10	
Elimination	(148.7)	(123.9)	(130.8)	20	14	
Total	1,118.0	996.1	1,021.0	12	10	
PBT						
Property development	70.5	37.9	56.3	86	25	Due to higher progress billings for Sunway South Quay, Sunway Damansara, Sunway Velocity and Sunway Eastwood
Property investment	92.0	35.4	26.1	160	253	
Construction	18.2	20.4	27.9	-10	-35	Slight delay in LRT and MRT projects
Trading & manufacturing	14.7	11.9	8.3	24	79	Better sales volume at heavy equipment division
Quarry	7.0	2.7	4.8	159	44	Stronger sales volume and higher ASP
Investment holding	0.1	(6.6)	(3.4)	-102	-104	Higher maintenance expenditure and purchase of hotel operating equipment
Others	10.0	6.1	2.6	63	278	
Elimination	0.0	0.0	0.0	n.m.	n.m.	
Total	212.5	107.7	122.5	97	73	

Source: Company, DBS Vickers

Figure 2: RM4.2bn construction order book

	Construct Sum RMm	O/S Orderbook RMm
Infrastructure		
MRT Package V4 (Sec 17 to Semantan)	1,173	1,074
LRT Kelana Jaya Line Extension (Package B)	569	305
BRT Sunway Line	452	415
Johor		
Urban Wellness	283	283
Pinewood Iskandar Malaysia Studios Sdn Bhd	309	37
BioXcell – Central Facilities Utility	109	12
Legoland Water Park	45	28
Others		
KLCC NEC	304	304
KLCC Package 2 (Piling & Substructure)	222	222
Others	643	251
Internal		
Sunway Velocity Mall (Substructure)	291	184
Sunway Velocity Phase 2 (Substructure)	179	74
Sunway Velocity (Shop Offices & Apartment)	230	77
The Pinnacle (Substructure)	175	70
Sunway University New Academic Block	192	192
Sunway Putra Place	258	250
Singapore		
Precast	709	393
Total	6,143	4,171

Source: Company, DBS Vickers

Figure 3: Sunway's SOP Valuation

Segment	RMm	RM / share	Method
Property Development	3,416.70	1.50	DCF and MV
Property Investment	524.39	0.23	Market Value
REIT	1,654.73	0.73	DBSV TP
Construction	1,917.67	0.84	PE
Quarry	112.49	0.05	PE
Building Materials	189.23	0.08	PE
Trading	334.12	0.15	PE
Net cash / (debt)	(925.02)	(0.41)	
Cash conversion from warrants issue	1,543.70	0.68	
Total SOP	8,797.44		
No. of shares outstanding	1,723.49		
Warrants	551.32		
Diluted no. of shares	2,274.81		
SOP / share (RM)	3.85		
Target price	3.47		

Source: Company, DBS Vickers

Key Assumptions

FY Dec	2013F	2014F	2015F
New order win (RM m)	200.0	1,400.0	1,500.0
New property sales launch (RM m)	950.0	950.0	950.0
Annual quarry production (m)	9.0	9.0	9.0

Sensitivity Analysis

	2011
+ RM500m new order wins	Net Profit +RM10m
+ RM500m new property launches	Net Profit +RM5m

Segmental Breakdown

FY Dec	2011A	2012A	2013F	2014F	2015F
Revenues (RM m)					
Property Development	916	910	1,118	931	976
Property Investment	518	585	511	532	555
Construction	1,221	1,275	1,875	2,421	3,041
Trading &	553	559	686	719	754
Others	184	197	201	201	201
Total	3,692	3,849	4,728	5,157	5,898

New order wins so far of RM1.76b has surpassed expectations

Driven by RM4.2b orderbook

EBIT (RM m)

Property Development	131	144	172	190	206
Property Investment	108	116	99	103	121
Construction	58	97	131	171	225
Trading &	50	59	62	72	76
Others	8	12	12	12	14
Total	345	423	476	551	649

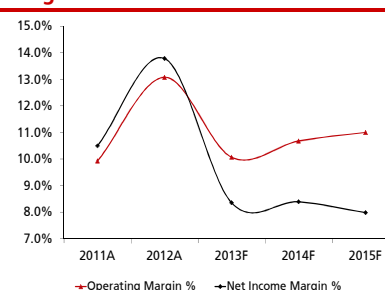
EBIT Margins (%)

Property Development	14.3	15.9	15.4	20.4	21.1
Property Investment	20.9	19.9	19.4	19.3	21.9
Construction	4.8	7.6	7.0	7.1	7.4
Trading &	9.0	10.5	9.1	10.0	10.1
Others	N/A	N/A	N/A	N/A	N/A
Total	9.4	11.0	10.1	10.7	11.0

Income Statement (RM m)

FY Dec	2011A	2012A	2013F	2014F	2015F
Revenue	3,692	3,849	4,728	5,157	5,898
Cost of Goods Sold	(2,630)	(2,581)	(3,585)	(3,879)	(4,417)
Gross Profit	1,062	1,268	1,143	1,278	1,481
Other Opng (Exp)/Inc	(695)	(765)	(667)	(727)	(832)
Operating Profit	366	503	476	551	649
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	186	296	195	182	186
Net Interest (Exp)/Inc	(53)	(77)	(61)	(70)	(120)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	499	723	610	663	716
Tax	(70)	(125)	(146)	(159)	(172)
Minority Interest	(41)	(67)	(69)	(71)	(73)
Preference Dividend	0	0	0	0	0
Net Profit	388	531	395	433	471
Net Profit before Except.	388	531	395	433	471
EBITDA	552	800	773	843	946

Margins Trend



Driven by property development segment

Growth

Revenue Gth (%)	19.0	4.3	22.8	9.1	14.4
EBITDA Gth (%)	(35.8)	44.9	(3.4)	9.1	12.2
Opg Profit Gth (%)	(36.9)	37.4	(5.5)	15.7	17.8
Net Profit Gth (%)	24.4	36.9	(25.6)	9.6	8.8

Margins & Ratio

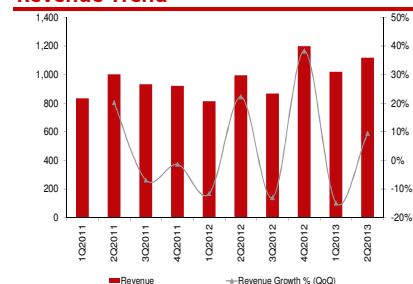
Gross Margins (%)	28.8	32.9	24.2	24.8	25.1
Opg Profit Margin (%)	9.9	13.1	10.1	10.7	11.0
Net Profit Margin (%)	10.5	13.8	8.4	8.4	8.0
ROAE (%)	13.8	16.1	9.7	9.1	9.6
ROA (%)	5.2	6.4	4.0	3.8	4.1
ROCE (%)	5.5	6.4	4.7	5.1	6.1
Div Payout Ratio (%)	0.0	0.0	20.0	20.0	120.0
Net Interest Cover (x)	6.9	6.6	7.8	7.9	5.4

Source: Company, DBS Vickers

Quarterly / Interim Income Statement (RM m)

FY Dec	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013
Revenue	996	867	1,199	1,021	1,118
Cost of Goods Sold	(918)	(786)	(1,110)	(947)	(1,024)
Gross Profit	78	81	89	74	94
Other Oper. (Exp)/Inc	(51)	0	(83)	12	23
Operating Profit	28	81	6	86	117
Other Non Opg (Exp)/Inc	0	25	144	0	0
Associates & JV Inc	112	56	78	48	109
Net Interest (Exp)/Inc	(23)	(19)	(17)	(12)	(13)
Exceptional Gain/(Loss)	77	0	105	0	0
Pre-tax Profit	193	142	316	123	213
Tax	(30)	(32)	(56)	(26)	(32)
Minority Interest	(8)	(16)	(41)	(6)	(10)
Net Profit	154	94	219	91	170
Net profit bef Except.	78	95	114	91	170
EBITDA	139	162	228	134	225

Revenue Trend



Driven by higher progress billings at property development segment

Net profit grew on the back of higher property sales and construction earnings

Growth

Revenue Gth (%)	22.3	(13.0)	38.3	(14.8)	9.5
EBITDA Gth (%)	34.8	16.5	40.5	(41.1)	67.8
Opg Profit Gth (%)	(54.3)	194.5	(93.0)	1,417.2	35.5
Net Profit Gth (%)	139.5	(38.9)	132.6	(58.7)	88.1

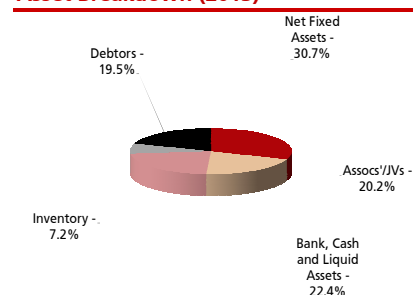
Margins

Gross Margins (%)	7.9	9.3	7.4	7.3	8.4
Opg Profit Margins (%)	2.8	9.3	0.5	8.4	10.4
Net Profit Margins (%)	15.5	10.9	18.3	8.9	15.2

Balance Sheet (RM m)

FY Dec	2011A	2012A	2013F	2014F	2015F
Net Fixed Assets	1,858	1,965	2,664	2,554	2,945
Invt in Associates & JVs	1,281	1,553	1,749	2,230	2,417
Invt & Devt Properties	34	14	14	14	14
Other LT Assets	1,386	1,399	1,799	1,999	1,548
Cash & ST Invt	777	1,140	1,942	1,522	1,001
Dev Props held for sale	669	600	600	600	600
Inventory	452	626	620	671	766
Debtors	1,319	1,400	1,689	1,843	2,107
Other Current Assets	68	48	48	48	48
Total Assets	7,844	8,745	11,124	11,480	11,445

Asset Breakdown (2013)



Pared down with proceeds from rights issue

ST Debt	319	783	783	783	783
Creditor	2,006	1,605	2,751	2,977	3,401
Other Current Liab	29	31	146	159	172
LT Debt	1,934	1,964	1,964	1,664	1,214
Other LT Liabilities	211	493	493	493	493
Shareholder's Equity	3,017	3,558	4,607	4,953	4,859
Minority Interests	327	310	379	450	523
Total Cap. & Liab.	7,844	8,745	11,124	11,480	11,445

Non-Cash Wkg. Capital	474	1,038	59	26	(51)
Net Cash/(Debt)	(1,477)	(1,607)	(804)	(925)	(995)
Debtors Turn (avg days)	121.7	128.9	119.3	125.0	122.2
Creditors Turn (avg days)	234.9	255.3	228.2	277.4	270.2
Inventory Turn (avg days)	52.3	76.2	65.3	62.5	60.9
Asset Turnover (x)	0.5	0.5	0.5	0.5	0.5
Current Ratio (x)	1.4	1.6	1.3	1.2	1.0
Quick Ratio (x)	0.9	1.1	1.0	0.9	0.7
Net Debt/Equity (X)	0.4	0.4	0.2	0.2	0.2
Net Debt/Equity ex MI (X)	0.5	0.5	0.2	0.2	0.2
Capex to Debt (%)	9.5	(3.7)	10.9	12.3	15.0
Z-Score (X)	1.2	1.3	1.3	1.4	1.4

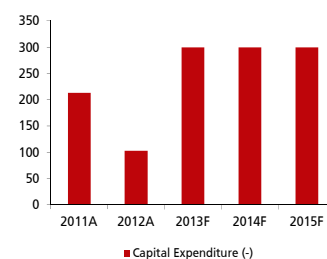
Source: Company, DBS Vickers

Cash Flow Statement (RM m)

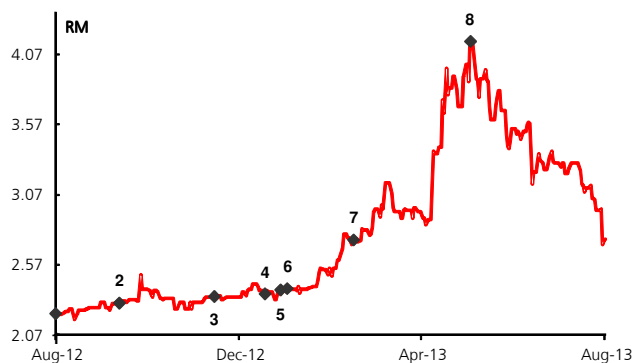
FY Dec	2011A	2012A	2013F	2014F	2015F
Pre-Tax Profit	499	723	610	663	716
Dep. & Amort.	0	0	101	110	110
Tax Paid	(68)	(27)	(31)	(146)	(159)
Assoc. & JV Inc/(loss)	(186)	(296)	(195)	(182)	(186)
Chg in Wkg.Cap.	288	(637)	863	21	64
Other Operating CF	(134)	624	0	0	0
Net Operating CF	399	386	1,348	466	545
Capital Exp.(net)	(213)	103	(300)	(300)	(300)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	31	(210)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(111)	(251)	0	0	0
Net Investing CF	(293)	(358)	(300)	(300)	(300)
Div Paid	(944)	(39)	(79)	(87)	(565)
Chg in Gross Debt	857	401	(900)	(500)	(200)
Capital Issues	(43)	0	431	0	0
Other Financing CF	(66)	(116)	302	0	0
Net Financing CF	(196)	247	(246)	(587)	(765)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(90)	275	802	(421)	(520)
Opg CFPS (sen)	8.6	79.2	28.2	25.8	27.9
Free CFPS (sen)	14.4	37.8	60.8	9.6	14.2

Source: Company, DBS Vickers

Capital Expenditure



Target Price & Ratings History



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

Source: DBS Vickers

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

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

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

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

Share price appreciation + dividends

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