

Sunway (SWB MK)

Share Price: MYR3.19

MCap (USD): 1.7B

Malaysia

Target Price: MYR2.79 (-13%)

ADTV (USD): 1.0M

Property

HOLD

 (unchanged)

Within expectations

- 1Q14 core net profit of MYR110m (+22% YoY) was in line.
- Locked-in property sales were MYR242m, or 19% of its FY14 target while unbilled sales stood at MYR1.8b as at Mar 2014.
- Maintain earnings forecasts, HOLD rating and MYR2.79 TP (on 0.58x P/RNAV).

What's New

Excluding the MYR6.3m one-off fair value adjustment for ESOS, Sunway reported 1Q14 core net profit of MYR110m (+22% YoY, -30% QoQ), accounting for 22%-23% of our and consensus full-year estimates. The YoY growth in earnings was due to improved performance across all business divisions and lower interest costs as well as better operating margin (+2.3ppt YoY) while the QoQ decline was due to seasonal factors.

What's Our View

1Q14 locked-in property sales of MYR242m (just Sunway's effective stake in some JVs) accounts for 19% of its internal target of MYR1.3b. Of this, 23% and 26% are derived from its Geo Residences and Singapore projects. Unbilled sales were MYR1.8b at Mar 2014, 1.1x of our FY14 revenue forecast. Sunway intends to launch its Sunway Iskandar project (Phase 1) by June 2014. Phase one will comprise service apartments and retail units with an ASP of MYR550-600psf, we understand.

Sunway's construction division has thus far secured MYR178m works from Sunway Medical Centre. This has lifted its outstanding order book to MYR3.7b at end-Mar 2014 (63% external).

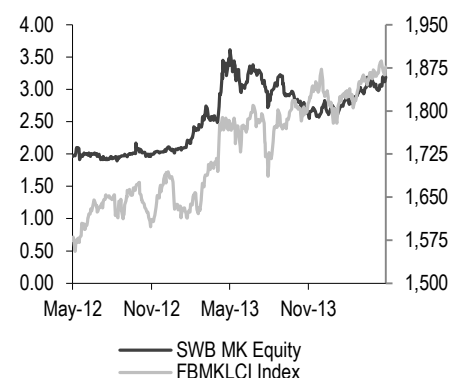
Our concerns remain on Sunway's Iskandar Malaysia property projects given increasing competition from the Chinese developers which could suppress the property value over the medium-term due to huge supply especially on high-rise integrated projects.

FYE Dec (MYR m)	2012A	2013A	2014F	2015F	2016F
Revenue	3,876.8	4,733.7	5,542.6	6,010.2	6,064.7
EBITDA	535.1	563.1	666.7	727.3	677.7
Core net profit	350.6	482.7	500.5	516.3	504.2
Core EPS (sen)	27.1	30.6	29.0	30.0	27.7
Core EPS growth (%)	7.2	12.8	(5.1)	3.2	(7.5)
Net DPS (sen)	6.0	10.0	5.8	6.0	5.5
BVPS (MYR)	2.75	3.38	3.33	3.57	3.84
Core P/E (x)	11.8	10.4	11.0	10.6	11.5
EV/EBITDA (x)	8.1	8.7	8.3	7.9	8.0
Net dividend yield (%)	1.9	3.1	1.8	1.9	1.7
P/BV (x)	1.2	0.9	1.0	0.9	0.8
Net debt/equity (%)	45.2	23.9	25.5	26.2	14.5
ROAE (%)	15.0	28.1	8.7	8.4	7.2
ROAA (%)	6.1	13.5	4.2	4.1	3.8
Chg in net profit (%)	-	-	0.0	0.0	0.0

Key Data

Shariah status	YES
52w high/low (MYR)	3.614/2.54
Free float (%)	22.4
Issued shares (m)	1,724
Market capitalization	MYR5.5B
Major shareholders:	
SUNGEI WAY CORP SDN	48.2%
YEAN TIH CHEAH	13.5%
GIC PRIVATE LIMITED	8.7%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute (%)	2.9	10.8	(8.2)
Relative to country (%)	2.0	7.8	(13.4)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	10	2	1
	Maybank	Consensus	% +/-
Target Price (MYR)	2.79	3.41	(18.3)
2014 Net Profit (MYR m)	501	487	2.7
2015 Net Profit (MYR m)	516	528	(2.2)

Source: Bloomberg; Maybank

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Table 1: Quarterly summary table - Sunway

FY Dec (MYRm)	1Q14	1Q13	Quarterly % YoY	4Q13	% QoQ	Comments
Revenue	1,025.7	1,021.0	0.5	1,342.2	(23.6)	YoY growth was due to improvement in all businesses except for construction. QoQ decline was due to seasonal factors.
- Property development	222.3	202.7	9.7	417.2	(46.7)	YoY growth was due to stronger progress billings and better operating margin (+11ppt). Sunway has locked in MYR242m in effective property sales in 1Q14 or 19% of its effective sales target of MYR1.3b for 2014. Unbilled sales were MYR1.8b or 1.1x of our 2014 property revenue forecast.
- Property investment	136.2	133.5	2.0	403.4	(66.2)	YoY growth was due to better results from the hospitality and leisure divisions. QoQ decline was due to seasonality factors.
- Construction	358.7	429.4	(16.5)	412.2	(13.0)	YoY decline was due to slower work progress, which is seasonal. Outstanding orderbook stood at MYR3.7b as at Mar 2014.
- Trading	149.0	129.6	15.0	133.7	11.4	
- Quarry	48.3	44.3	8.9	50.5	(4.4)	
- Investment Holdings	0.0	3.0	NA	0.3	NA	
- Others	111.2	78.5	41.6	111.2	(0.0)	
EBIT	109.6	86.1	27.4	1,188.8	(90.8)	
- Property development	52.1	25.5	>+100	93.4	(44.3)	YoY growth due to higher revenue and better profit margin.
- Property investment	20.1	22.1	(9.4)	1,286.4	(98.4)	YoY decline was due to higher operating costs arising from the commencement of leasing operation of Sunway Pinnacle, a newly completed office building.
- Construction	31.0	27.3	13.4	(15.7)	>-100	Despite YoY decline in revenue, operating profit was up by 13.4% YoY due to better operating margin (+2.3ppt).
- Trading	9.1	9.0	0.7	8.2	11.0	
- Quarry	4.4	4.8	(7.2)	3.0	45.3	
- Investment Holdings	(10.4)	(5.0)	>+100	170.0	>-100	
- Others	3.3	2.3	43.7	0.6	>+100	
Finance costs	(7.8)	(7.8)	0.0	(24.5)	(68.0)	Net gearing was 0.29x as at Mar 2014, from 0.24x in end-4Q13.
Other income	40.4	47.9	(15.5)	83.4	(51.5)	
Profit before tax	142.2	122.5	16.1	1,248.1	(88.6)	
Profit before tax-EI	148.5	122.2	21.5	226.7	(34.5)	
Taxation	(30.4)	(26.3)	15.6	(45.5)	(33.0)	
Minority interest	(7.8)	(5.6)	38.1	(63.9)	(87.9)	
Net profit	104.0	90.6	14.8	1,138.8	(90.9)	
Net profit ex-EI	110.3	90.3	22.1	157.5	(30.0)	Within expectations, accounts for 22-23% of our and consensus full-year estimates. Earnings performance was usually stronger in 2H.
Exceptional item (pretax)	(6.3)	0.3	>-100	1,021.4	>-100	
	1Q14	1Q13	+/- ppt	4Q13	+/- ppt	
EBIT margin (%)	10.7	8.4	2.3	88.6	(77.9)	
- Property development	23.4	12.6	10.8	22.4	1.0	
- Property investment	14.7	16.6	(1.9)	318.9	>-100	
- Construction	8.6	6.4	2.3	(3.8)	12.4	
- Trading	6.1	7.0	(0.9)	6.1	(0.0)	
- Quarry	9.2	10.8	(1.6)	6.0	3.1	
- Investment Holdings	-	-	-	-	-	
- Others	3.0	3.0	0.0	0.5	2.5	
PBT margin (%) - ex EI	14.5	12.0	2.5	16.9	(2.4)	
Tax rate (%)	21.4	21.5	(0.1)	3.6	17.8	

Sources: Company, Maybank KE

INCOME STATEMENT (MYR)

FY Dec	2013A	2014F	2015F	2016F
Revenue	4,733.7	5,542.6	6,010.2	6,064.7
EBITDA	563.1	666.7	727.3	677.7
Depreciation & Amortisation	(24.7)	(27.0)	(30.8)	(34.7)
Operating Profit	1,823.6	639.7	696.5	643.0
Associate	13.2	80.5	87.1	90.0
JV companies	159.3	103.7	49.1	60.1
Interest (Exp)/Inc	(102.4)	(50.3)	(53.2)	(41.3)
Exceptional Items	0.7	0.0	0.0	0.0
Pre-Tax Profit	1,894.3	773.6	779.5	751.7
Tax	(120.9)	(193.4)	(194.9)	(187.9)
Minority Interest	(273.0)	(79.7)	(68.3)	(59.6)
Net Profit	1,500.5	500.5	516.3	504.2
Net Profit Ex. EI	482.7	500.5	516.3	504.2
Revenue Growth %	22.1	17.1	8.4	0.9
EBITDA Growth (%)	5.2	18.4	9.1	(6.8)
EBIT Growth (%)	261.7	(64.9)	8.9	(7.7)
Net Profit ex-EI Growth (%)	37.7	3.7	3.2	(2.3)
Tax Rate %	6.4	25.0	25.0	25.0

BALANCE SHEET (MYR m)

FY Dec	2013A	2014F	2015F	2016F
Fixed Assets	2,670.4	2,821.7	2,951.9	3,086.1
Other LT Assets	3,558.5	3,499.8	3,338.7	3,219.1
Cash/ST Investments	1,519.1	1,330.8	1,183.7	1,780.8
Other Current Assets	3,364.3	4,228.5	5,032.3	5,293.6
Total Assets	11,112.3	11,880.7	12,506.6	13,379.6
ST Debt	1,804.9	1,804.9	1,804.9	1,804.9
Other Current Liabilities	2,178.1	2,546.2	2,759.0	2,783.8
LT Debt	990.6	990.6	990.6	990.6
Other LT Liabilities	486.5	486.5	486.5	486.5
Minority Interest	317.3	317.3	317.3	317.3
Shareholders' Equity	5,334.9	5,735.3	6,148.3	6,996.5
Total Capital	11,112.3	11,880.7	12,506.6	13,379.6
Share Capital (RM 'm)	1,723.5	1,723.5	1,723.5	2,013.1
Net Debt/ (Cash)	1,276.4	1,464.7	1,611.8	1,014.7
Working Capital	900.4	1,208.2	1,652.0	2,485.7
Gross Gearing %	52.4	48.7	45.5	40.0
Net Gearing %	23.9	25.5	26.2	14.5

CASH FLOW (MYR m)

FY Dec	2013A	2014F	2015F	2016F
Profit before taxation	1,894.3	773.6	779.5	751.7
Depreciation	0.0	26.5	30.3	34.2
Net interest	198.3	(50.3)	(53.2)	(41.3)
Working capital change	295.7	0.0	0.0	0.0
Cash tax paid	(127.3)	(193.4)	(194.9)	(187.9)
Others	(1,167.4)	0.0	0.0	0.0
Cash flow from operations	1,093.6	556.4	561.7	556.7
Capex	(670.2)	(670.2)	(670.2)	(670.2)
Disposal/(purchase)	38.2	0.0	0.0	0.0
Others	(273.0)	83.2	88.7	91.8
Cash flow from investing	(905.1)	(587.1)	(581.5)	(578.5)
Debt raised/(repaid)	(130.3)	0.0	0.0	0.0
Equity raised/(repaid)	727.5	0.0	0.0	724.0
Dividends (paid)	(344.3)	(157.7)	(100.1)	(103.3)
Others	(117.5)	0.0	0.0	0.0
Cash flow from financing	135.4	(157.7)	(100.1)	620.8
Change in cash	323.9	(188.3)	(120.0)	599.1

RATES & RATIOS

FY Dec	2013A	2014F	2015F	2016F
EBITDA Margin %	11.9	12.0	12.1	11.2
Op. Profit Margin %	38.5	11.5	11.6	10.6
Net Profit Margin %	31.7	9.0	8.6	8.3
ROE %	28.1	8.7	8.4	7.2
ROA %	13.5	4.2	4.1	3.8
Net Margin Ex. EI %	10.2	9.0	8.6	8.3
Dividend Cover (x)	3.1	5.0	5.0	5.0
Interest Cover (x)	17.8	12.7	13.1	15.6
Asset Turnover (x)	2.3	2.1	2.1	2.2
Asset/Debt (x)	4.0	4.3	4.5	4.8
Debt/ EBITDA (x)	5.0	4.2	3.8	4.1
Debt/ Market Cap (x)	0.6	0.5	0.5	0.5
EV/EBITDA (x)	8.7	8.3	7.9	8.0

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