

COMPANY RESULTS

Sunway Bhd (SWB MK)

2014: Solid Wrap For The Year

Sunway's 4Q14 core net profit came in at RM206.1m, bringing its 2014 earnings to RM591.7m and exceeding our expectations of RM514m by 15%. Outstanding construction orderbook stands at RM1.9b while the property division will ensure steady earnings delivery with unbilled sales of RM1.9b. Key catalysts for the company in the near term include the listing of its construction division, which would come with special dividend payments. Maintain BUY. Target price: RM3.63.

2014 RESULTS

Year to 31 Dec (RMm)	4Q14	3Q14	qoq % chg	yoy % chg	2014	yoy % chg
Revenue	1,477.5	1,134.0	30.3	10.1	4,841.9	2.6
Construction	478.0	488.2	(2.1)	7.9	1,751.0	2.4
Property Development	496.4	178.0	178.9	19.0	1,198.4	2.7
EBIT	373.2	151.9	145.6	97.5	768.8	28.5
Pre-tax Profit	968.8	185.2	423.0	366.3	1,529.9	131.4
Property Development	171.3	44.6	284.1	32.8	360.6	4.3
Construction	59.0	14.4	308.8	221.6	137.4	71.6
PBT	968.8	185.2	423.0	325.3	1,529.9	124.6
Core PATMI	206.1	149.3	38.0	60.2	591.7	22.3
Pretax construction margin	12.3%	3.0%			7.8%	
Pretax prop margin	34.5%	25.1%			30.1%	

Source: Sunway Berhad, UOB Kay Hian

RESULTS

- Above expectations.** Sunway reported 4Q14 revenue of RM1,478m (+30.3% qoq, +10.1% yoy) and a net profit of RM313m (+38.0% qoq, ->100% yoy). The net profit includes exceptional items comprising fair value gains (RM182.3m), fair value of ESOS options (RM28.1m) and loss on derivatives (RM2.7m). Excluding these one-off items, 2014 core earnings would be RM591.7m, or account for 115% of our full-year estimate of RM514m and 119% of consensus estimate of RM497m.

KEY FINANCIALS

Year to 31 Dec (RMm)	2013	2014	2015F	2016F	2017F
Net turnover	4,734	4,842	6,409	6,395	6,639
EBITDA	608	596	778	794	880
Operating profit	471	509	680	684	758
Net profit (rep./act.)	1,501	789	600	610	623
Net profit (adj.)	483	592	600	610	623
EPS (sen)	31.7	31.1	29.3	29.7	30.4
PE (x)	10.5	10.7	11.3	11.2	10.9
P/B (x)	1.0	1.0	0.9	0.8	0.8
EV/EBITDA (x)	14.3	14.6	11.2	11.0	9.9
Dividend yield (%)	3.0	3.0	3.0	3.0	3.0
Net margin (%)	31.7	16.3	9.4	9.5	9.4
Net debt/(cash) to equity (%)	32.0	39.1	40.7	36.2	32.2
Interest cover (x)	5.9	19.6	18.6	17.5	20.4
ROE (%)	33.7	14.0	9.6	8.9	8.3
Consensus net profit	-	-	501	541	554
UOBKH/Consensus (x)	-	-	1.20	1.13	1.12

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.32
Target Price	RM3.63
Upside	+9.3%
(Previous TP)	RM3.51

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	SWB MK
Shares issued (m):	1,723.1
Market cap (RMm):	5,720.7
Market cap (US\$m):	1,586.7
3-mth avg daily t'over (US\$m):	1.3

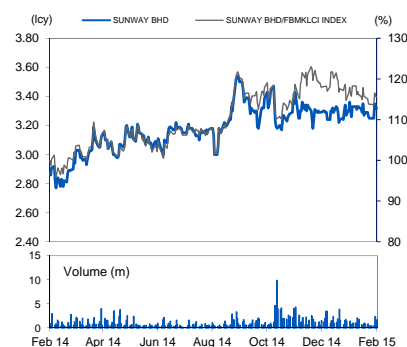
Price Performance (%)

52-week high/low	RM3.54/RM2.77			
1mth	3mth	6mth	1yr	YTD
1.5	(1.8)	4.4	16.5	0.9

Major Shareholders

Tan Sri Jeffrey Cheah	55.4
JP Morgan	5.8
Employees Provident Fund	5.7
FY15 NAV/Share (RM)	3.62
FY15 Net Debt/Share (RM)	1.47

PRICE CHART



Source: Bloomberg

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- **Profits boosted by the property division.** For the quarter, the property division recorded revenue of RM496.4m (+179% yoy) and EBIT of RM171.3m (+284% yoy) with healthy operating profit margins of 34.5%. The higher-than-expected property division earnings were mainly due to the accelerated billings and delivery of some of its property development projects, namely Sunway Velocity, Sunway Damansara and Sunway South Quay.

STOCK IMPACT

- **External construction orderbook remained healthy at RM1.9b.** Sunway's outstanding construction orderbook currently stands at RM1.9b, mainly from government infrastructure jobs which includes the recently announced Coastal Highway Southern Link in Iskandar Malaysia (RM170m). Other than that, the group's construction division also added about RM942m in internal order wins. Currently, we are expecting the company's construction business to contribute 8.3-9.0% in EBIT margin from 2015 to 2017.
- **Achieved sales of RM1.3b in 2014,** a spot on hit of its 2014 property sales target of RM1.3b. Last year, the group launched about RM1.65b worth of properties with an average take-up rate of about 66%. Among the notable sales were office suites at its Sunway Iskandar development (GDV: RM73m, 100% take-up), Retail and Offices at Sunway Velocity (GDV: RM200m, 99% take-up) and V-Residences 2 (GDV: RM271m, 87% take-up).
- **Strong unbilled sales of RM1.9b,** representing 1.6x of its 2014 property revenue. We expect property EBIT margin to hover at a healthy 26-28% on higher progress of billings from projects which include Sunway Velocity (RM472m), Sunway South Quay (RM396m), projects in Singapore (RM352m) and Sunway Montana (RM207m). For 2015, the group is targeting to launch about RM2b worth of properties, mainly located in Singapore (RM600m), Sunway South Quay (RM300m) and landed developments in Sunway Iskandar (RM300m).
- **Lookout for the listing of its construction arm in 1H15.** Together with the proposed listing of Sunway Construction Group, Sunway also proposed a 1-for-10 distribution-in-specie of free SCG shares to existing shareholders of Sunway as well as a potential special dividend. The special dividend would be based on part of the cash receipts due to Sunway. Assuming 40% of the cash proceeds are distributed as special dividends, we estimate the dividend could be worth 10-11 sen/share.

EARNINGS REVISION/RISK

- We raise our earnings forecasts by about 8.2% and 6.1% for 2015 and 2016 respectively and introduce our 2017 net profit forecast of RM622m.
- Key risks include: a) rising interest rates, b) tighter lending policies by banks, and c) rising cost of raw materials leading to margin erosion.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher SOTP-based target price of RM3.63** (from RM3.51) after rolling forward our valuations to 2016. Our target price represents about 11x 2016F PE as Sunway would be able to offer good earnings visibility, and the expected decent take-up at Sunway Iskandar also makes it an attractive Medini, Iskandar Malaysia proxy. Sunway is also expected to be one of the key contractors for the MRT Line 2 construction.
- Also, the stock would be supported by an expected dividend-in-specie and cash dividend that could imply yields of 6.4-6.7% as a result of the floatation.

SHARE PRICE CATALYST

- Finalisation of its construction division listing.

SOTP

	RMm
Property development	4,184.8
REIT	1,777.4
Construction	1,941.8
Quary & building materials	503.0
Trading	698.9
Warrants conversion proceeds	723.8
Less: Net debt @FY13	(2,325.0)
Total SOP value	7,504.8
Outstanding shares	1,809.5
Warrants	258.5
Enlarged sharebase	2,068.0
Target price (RM)	3.63

Source: UOB Kay Hian

PROPERTY SALES IN 2014

	RMm
Sunway Velocity	410
Sunway Montana	138
Sunway South Quay	132
Eastwood	97
Others	523

Source: Sunway Berhad, UOB Kay Hian

EXTERNAL CONSTRUCTION ORDERBOOK

	RMm
MRT Line 1	557
LRT Kelana Jaya	165
BRT Sunway Line	125
Urban Wellness Centre	164
Coastal Highway Southern Link	170
KLCC	367
Others	378

Source: Sunway Berhad, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Net turnover	4,842	6,409	6,395	6,639
EBITDA	596	778	794	880
Deprec. & amort.	87	98	110	122
EBIT	509	680	684	758
Associate contributions	233	251	272	228
Net interest income/(expense)	(30)	(42)	(45)	(43)
Pre-tax profit	863	890	910	943
Tax	(148)	(214)	(218)	(226)
Minorities	(78)	(76)	(82)	(94)
Net profit	789	600	610	623
Net profit (adj.)	637	600	610	623

CASH FLOW

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Operating	769	90	504	519
Pre-tax profit	863	890	910	943
Tax	(167)	(214)	(218)	(226)
Deprec. & amort.	87	98	110	122
Associates	(169)	0	0	0
Working capital changes	(91)	(385)	1	(20)
Other operating cashflows	246	(299)	(299)	(299)
Investing	(844)	(250)	(250)	(250)
Capex (growth)	(205)	(250)	(250)	(250)
Investments	(169)	0	0	0
Proceeds from sale of assets	102	0	0	0
Others	(572)	0	0	0
Financing	595	(181)	(181)	(181)
Dividend payments	(172)	(181)	(181)	(181)
Issue of shares	20	0	0	0
Proceeds from borrowings	873	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(126)	0	0	0
Net cash inflow (outflow)	520	(341)	73	88
Beginning cash & cash equivalent	1,359	1,978	1,638	1,711
Changes due to forex impact	99	0	0	0
Ending cash & cash equivalent	1,978	1,638	1,711	1,799

BALANCE SHEET

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Fixed assets	1,047	1,199	1,339	1,467
Other LT assets	5,691	5,942	6,214	6,442
Cash/ST investment	1,978	1,638	1,711	1,799
Other current assets	4,201	4,606	4,677	4,974
Total assets	12,916	13,384	13,941	14,682
ST debt	2,283	2,283	2,283	2,283
Other current liabilities	2,193	2,136	2,165	2,377
LT debt	2,021	2,021	2,021	2,021
Other LT liabilities	86	86	86	86
Shareholders' equity	5,945	6,545	7,155	7,778
Minority interest	389	313	231	137
Total liabilities & equity	12,916	13,384	13,941	14,682

KEY METRICS

Year to 31 Dec (%)	2014	2015F	2016F	2017F
Profitability				
EBITDA margin	12.3	12.1	12.4	13.3
Pre-tax margin	17.8	13.9	14.2	14.2
Net margin	16.3	9.4	9.5	9.4
ROA	6.6	4.6	4.5	4.4
ROE	14.0	9.6	8.9	8.3
Growth				
Turnover	2.3	32.4	(0.2)	3.8
EBITDA	(2.1)	30.6	2.0	10.9
Pre-tax profit	(54.4)	3.1	2.3	3.6
Net profit	(47.4)	(23.9)	1.6	2.1
Net profit (adj.)	32.0	(5.8)	1.6	2.1
EPS	(1.9)	(5.8)	1.6	2.1
Leverage				
Debt to total capital	40.5	38.6	36.8	35.2
Debt to equity	72.4	65.8	60.1	55.3
Net debt/(cash) to equity	39.1	40.7	36.2	32.2
Interest cover (x)	19.6	18.6	17.5	20.4

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