

Outthink. Outperform.

Two is greater than one

We are positive on the proposed listing of Sunway Construction Group (SCG). We foresee keen investor demand for SCG shares in view of the positive construction sector outlook and SCG's strong project track record. Also, the exercise will unlock SCG's value and offer Sunway shareholders a flexibility to optimise their resource allocation. Maintain ADD. We raised our TP by 9% to RM3.60, valuing SCG at 14x CY15 EPS and the other businesses at a 30% discount to RNAV.

Proposed listing of SCG by 2Q15

Sunway has proposed to undertake an internal restructuring exercise (Fig 1 and Fig 2) to consolidate its construction business under a new company, Sunway Construction Group Berhad (SCG). Sunway plans to list SCG on Bursa Malaysia by 2Q15.

Offer for sale of 31-36% shares, 13% distribution-in-specie

Under the listing plan, Sunway intends to retain a 51-56% stake in SCG (Sunway has an over-allotment option for 4.7% of SCG). The group will distribute 13% of the SCG shares to existing Sunway shareholders (1-for-10) and undertake an offer for sale of up to 31-36% of SCG shares to institutional and retail investors.

We foresee keen demand for SCG ...

We are positive on the proposed listing of SCG. We foresee keen investor demand for SCG shares in view of: (i) positive construction sector outlook. With over RM130bn in economic transformation programme jobs (Fig 3) still to be awarded, prospects look excellent for significant construction orderbook enhancement for key contractors; and (ii) Sunway has strong execution track record in both civil and infrastructure related works.

... with value of 14x CY15E PER or RM1.4bn

Sunway's construction division made approximately RM75m of net profit in FY13 and RM50m in 1HFY14. Backed by RM3.4bn of outstanding orderbook (Fig 4), we estimate SCG to deliver RM100m of net profit for FY15E. Pegging a 14x CY15E PER (inline with construction sector average, see Fig 5), we estimate that SCG may worth up to RM1.4bn.

Earnings & Valuation Summary

FYE 31 Dec	2012	2013	2014E	2015E	2016E
Revenue (RMm)	3,849.2	4,527.6	5,395.2	5,429.0	5,727.5
EBITDA (RMm)	469.6	608.3	643.7	645.2	672.8
Pretax profit (RMm)	722.9	1,007.8	706.8	705.1	757.9
Net profit (RMm)	530.6	839.3	498.2	509.4	569.4
EPS (sen)	41.1	55.7	28.9	29.6	33.0
PER (x)	8.2	6.0	11.6	11.4	10.2
Core net profit (RMm)	350.6	482.7	498.2	509.4	569.4
Core EPS (sen)	27.1	32.0	28.9	29.6	33.0
Core EPS growth (%)	7.2	18.0	(9.7)	2.3	11.8
Core PER (x)	12.4	10.5	11.6	11.4	10.2
Net DPS (sen)	6.0	10.0	10.0	10.0	12.0
Dividend Yield (%)	1.8	3.0	3.0	3.0	3.6
EV/EBITDA (x)	12.7	11.6	11.7	11.3	10.6

Chg in EPS (%)	-	-	-
Affin/Consensus (x)	1.0	1.0	1.0

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Company Update

Sunway Bhd

SWB MK
Sector: Property

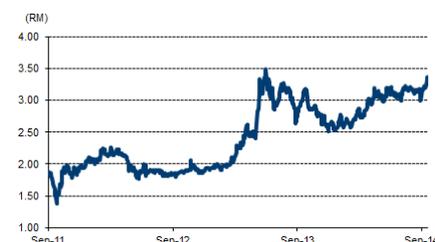
RM3.36 @ 19 Sept 2014

ADD (maintain)

Upside 6%

Price Target: RM3.60

Previous Target: RM3.30



Price Performance

	1M	3M	12M
Absolute	+7.0%	+9.1%	+6.7%
Rel to KLCI	+8.3%	+11.0%	+3.4%

Stock Data

Issued shares (m)	1,723.3
Mkt cap (RMm)/(US\$m)	5,790.3/1,790.8
Avg daily vol - 6mth (m)	0.8
52-wk range (RM)	2.54-3.38
Est free float	36%
BV per share (RM)	3.21
P/BV (x)	1.05
Net cash/ (debt) (RMm) (2Q14)	(1,732.3)
ROE (2014E)	9.1%
Derivatives	
Warr 2016 (WP:RM0.89, SP:RM2.50)	
Shariah Compliant	Yes

Key Shareholders

Tan Sri Jeffrey Cheah	55.4%
GIC	8.7%

Source: Affin Hwang, Bloomberg

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The listing unlocks value to reward shareholders...

We are positive on the proposed listing exercise. It unlocks the value of SCG and it gives investors greater flexibility to allocate their financial resources between the construction and property sectors. Assuming SCG is valued at RM1.4bn and Sunway pays out 80-90% of the gross proceeds, Sunway's shareholders may receive 0.1 share of SCG and a special cash dividend of 23 sen - 26 sen for every share owned.

... and streamline operations and maximise potential

Operationally, we opine that the listing of SCG will streamline the operations and maximise potential of both property and construction business units. It encourages both management of Sunway and SCG to be more efficient in resource allocation and have better focus on growing their respective businesses. The listing will also provide better access for SCG to tap into the equity and debt capital markets for fund raising, should the need arises.

Maintain earnings forecast but raise TP by 9% to RM3.60

No change to our earnings forecast for now. The proposed listing will unlock the value of SCG and hence, we raised our TP by 9% to RM3.60 (from RM3.50). We now value the group's construction business at 14x CY15E PER (vs 12x previously) while maintain a 30% discount to RNAV for its other businesses.

Maintain ADD

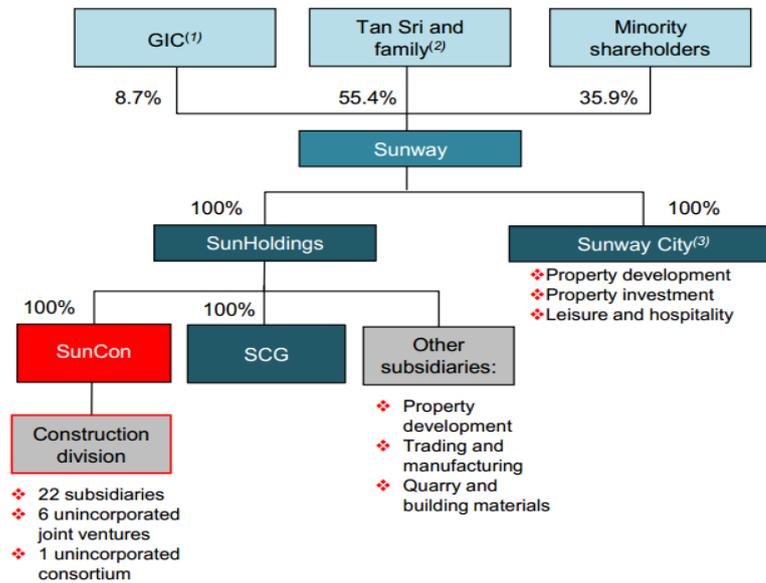
We continue to like Sunway for its strategic property land bank, extensive experience in the construction sector, established footprint in Singapore and inexpensive valuation of 0.7x P/RNAV and 11.4x CY15E EPS. Key re-rating catalysts include better-than-expected investor demand for SCG shares, stronger-than-expected take-up of its upcoming property launches and/or winning of major construction contracts.

Key risks

Key risks to our positive view are sharper-than-expected slowdown in the domestic property market and lower-than-expected construction contract wins.

Fig 1: Existing corporate structure of Sunway and SCG

Existing structure#



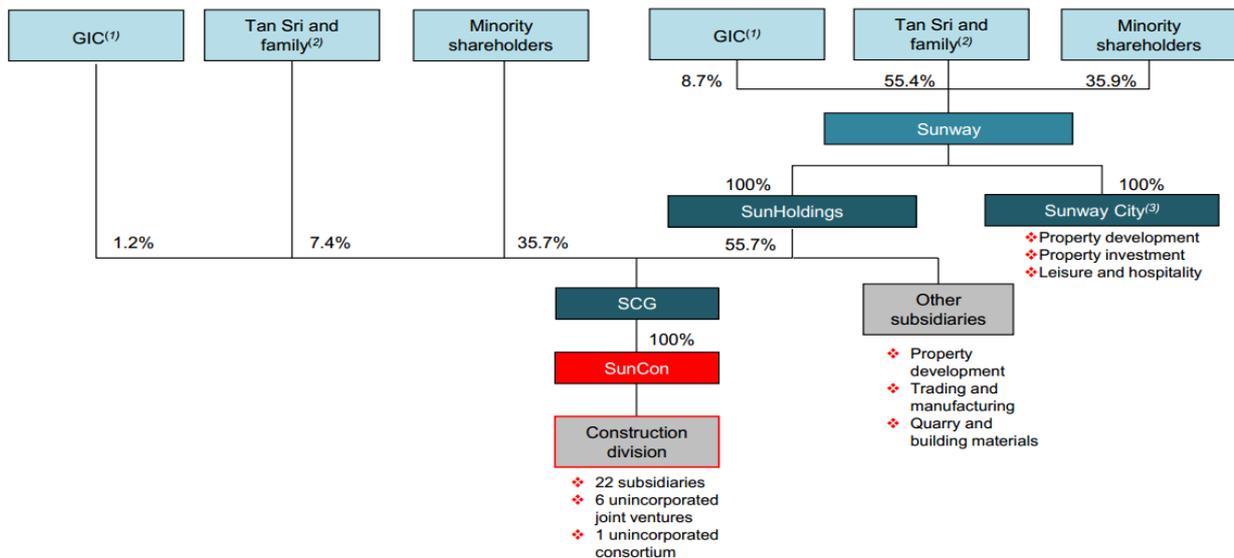
Notes:

- # As at 15 September 2014
- (1) GIC Private Limited ("GIC") for the Government of Singapore
- (2) Tan Sri Dato' Seri Dr. Jeffrey Cheah Fook Ling AO, his interest in related company vehicles, spouse and children
- (3) Sunway City Sdn Bhd

Source: Company, Bursa Malaysia

Fig 2: Corporate structure after the proposed listing

After the Proposed Listing



Notes:

- (1) GIC for the Government of Singapore
- (2) Tan Sri Dato' Seri Dr. Jeffrey Cheah Fook Ling AO, his interest in related company vehicles, spouse and children
- (3) Sunway City Sdn Bhd

Source: Company, Bursa Malaysia

Fig 3: Outstanding economic transformation programme projects

Projects	Value (RMbn)
Klang Valley MRT - Line 2 and Line 3	50
KL-Singapore High Speed Rail	20
7 highway projects	20
Development of Sungai Buloh land	10
South Johor Economic Region	10
Gemas-JB Electrified Double Tracking	8
Sarawak infrastructure jobs	5
Flood mitigation programmes	5
Kuantan Port New Deep Water Terminal	3
Kota Kinabalu Water Supply Scheme	3
Selangor water treatment and distribution (Phase 1)	1
Total	135

Source: MOF, Companies, Affin Hwang estimates

Fig 4: Sunway's outstanding construction outstanding

Projects	Outstanding orderbook (RMm)
External	
MRT Package V4 (Sec 17 to Semantan)	673
LRT Kelana Jaya Line Extension (Package B)	212
BRT Sunway Line	260
Urban Wellness Centre	223
KLCC NEC	236
KLCC Package 2 (Piling & Substructure)	166
Others	243
Singapore Precast	446
Internal	
Sunway Velocity Mall (Substructure)	38
Sunway Velocity Phase 2 (Substructure)	19
Sunway University New Academic Block	86
Sunway Putra Place	81
Sunway Pyramid 3	167
Sunway Medical Centre Phase 3	178
Sunway Geo Retail Shops & Flexi Suites	153
Sunway Iskandar - Citrine Service Apartments	187
Total	3,368

Source: Company

Fig 5: Construction companies valuation summary

Stock	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Year end	Core PE(x) CY14E	Core PE(x) CY15E	EPS Growth (%) CY14E	EPS Growth (%) CY15E	EV/EBITDA (x)	P/BV (x)	ROE (%) CY14E	ROE (%) CY15E	DY (%) CY14E	DY (%) CY15E
Gamuda	BUY	4.81	5.60	10,998	July	14.2	13.7	13.1	3.3	17.1	2.2	15.6	15.6	2.5	2.5
IJM Corp	Not Rated	6.45	NA	9,207	March	13.1	12.1	21.5	8.5	7.1	1.4	10.4	10.3	2.0	2.0
MRCB	BUY	1.67	2.26	2,758	Dec	36.3	27.4	483.3	32.6	37.1	1.6	4.5	5.7	0.9	0.9
WCT Hldgs	BUY	2.12	2.97	2,316	Dec	10.5	10.0	11.6	5.0	9.2	1.0	9.7	9.6	3.5	3.5
Eversendai	BUY	0.96	1.72	739	Dec	9.2	6.7	60.0	37.5	5.5	0.9	13.5	12.6	4.2	4.2
Benalec	TR BUY	0.93	1.98	747	June	19.5	12.3	(2.1)	57.9	8.8	1.3	7.9	13.5	3.2	3.2
Gabungan AQRS	ADD	1.80	1.87	702	Dec	13.2	9.6	76.6	37.5	5.5	2.4	17.8	15.8	1.9	2.6
Mkt Cap weighted average						15.7	13.9	65.5	11.4	14.3	1.7	12.0	12.2	2.3	2.3

Source: Affin Hwang estimates, Bloomberg

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Fig 6: Sunway's RNAV

Description	Stake	Acres	GDV (RMm)	NPV (RMm)	Eff. Surplus (RMm)
Property Development					
Sunway South Quay	60%	42.2	3,297.0	284.2	170.5
Sunway Velocity	85%	17.9	2,859.0	177.6	150.9
Damansara	60%	15.4	1,691.0	183.2	109.9
Melawati	100%	2.0	43.0	2.7	2.7
Sunway Towers KL	100%	1.0	240.0	17.0	17.0
Taman Duta	60%	3.0	120.0	11.6	7.0
Casa Kiara	80%	3.0	210.0	18.8	15.0
Sunway Montez	60%	5.4	43.7	3.9	2.3
Sunway Resort City	100%	14.9	660.0	53.0	53.0
Klang Valley (Others)	100%	220.0	618.4	51.7	51.7
Bkt Lenang, Johor	80%	64.0	700.0	60.7	48.5
Penang Grp	100%	150.0	1,768.0	114.3	114.3
Semenyih	70%	398.0	729.0	43.2	30.2
Ipoh	65%	441.0	1,048.0	65.1	42.3
Bangi	100%	3.0	59.0	3.7	3.7
Sg Long	80%	111.0	277.0	17.9	14.3
Medini	46%	691.0	12,000.0	512.2	235.6
Pedas	60%	1,079.0	18,000.0	643.7	386.2
Novena, Singapore	30%	1.7	2,137.0	199.1	59.7
Sembawang, Singapore	100%	0.8	75.0	1.7	1.7
Tianjin, China	60%	24.0	1,300.0	55.6	33.4
Opus, India	50%	23.8	702.0	53.0	26.5
MAK, India	60%	14.0	181.0	15.7	9.4
Australia	45%	48.4	378.1	23.5	10.6
Subtotal:		3,374	49,136	2,613	1,596.6
Other business @ 10x FY14 PER					623.7
Subtotal:					623.7
Total ex-construction (RMm)					2,220.3
Shareholders' fund @ Mar, 2014 (RMm)					5,429.7
Add: Warrants conversion (RMm)					724.0
Ex-construction RNAV (RMm)					8,374.0
30% discount to ex-construction RNAV (RMm)					5,861.8
Construction @ 14x FY15 PER					1,404.4
Enlarged shares base (m)					2013.1
Fair value per share					3.60

Source: Company, Affin Hwang estimates

Sunway Berhad – FINANCIAL SUMMARY

Profit & Loss Statement

FYE31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Revenue	3,849	4,528	5,395	5,429	5,727
Operating expenses	(3,380)	(3,919)	(4,751)	(4,784)	(5,055)
EBITDA	470	608	644	645	673
Depreciation	(90)	(137)	(144)	(151)	(158)
EBIT	380	471	500	494	514
Net int inc/(exp)	(77)	(48)	(39)	(54)	(52)
Associates' contribution	296	297	246	265	295
Exceptional items	124	287	-	-	-
Pretax profit	723	1,008	707	705	758
Tax	(125)	(111)	(115)	(110)	(116)
Minority interest	(67)	(58)	(93)	(86)	(73)
Net profit	531	839	498	509	569
Core Net Profit	351	483	498	509	569

Balance Sheet Statement

FYE31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Fixed assets	3,000	3,540	3,746	3,945	4,137
Other long term assets	1,931	2,689	2,789	2,889	2,989
Total non-curr assets	4,931	6,229	6,535	6,834	7,126
Cash and equivalents	1,140	1,519	974	1,130	1,182
Stocks	626	623	857	863	910
Debtors	1,400	1,403	1,671	1,682	1,774
Other current assets	648	1,339	1,849	1,722	1,722
Total current assets	3,814	4,883	5,352	5,397	5,588
Creditors	1,605	2,154	2,600	2,621	2,768
Short term borrowings	783	1,805	1,500	1,500	1,400
Other current liabilities	31	24	24	24	24
Total current liab	2,419	3,983	4,124	4,145	4,193
Long term borrowings	1,964	991	1,200	1,100	1,100
Other long term liabilities	493	486	486	486	486
Total long term liab	2,458	1,477	1,686	1,586	1,586
Shareholders' Funds	3,558	5,335	5,666	6,003	6,366
Minority Interest	310	317	411	496	569

Cash Flow Statement

FYE31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Profit before tax	723	1,008	707	705	758
Depreciation & amortization	90	137	144	151	158
Working capital changes	(573)	(148)	(568)	133	8
Associates' contribution	(296)	(297)	(246)	(265)	(295)
Others	443	395	(115)	(110)	(116)
Cash flow from operation	386	1,094	(79)	614	513
Capex	(465)	(658)	(350)	(350)	(350)
Disposal/(purchases)	317	-	-	-	-
Others	(210)	(247)	146	165	195
Cash flow from investing	(358)	(905)	(204)	(185)	(155)
Debt raised/(repaid)	401	49	(95)	(100)	(100)
Equity raised/(repaid)	-	732	-	-	-
Dividends paid	(39)	(344)	(172)	(172)	(207)
Others	(116)	(301)	-	-	-
Cash flow from financing	247	135	(268)	(272)	(307)
Net change in cash flow	275	324	(551)	156	52
Free Cash Flow	(79)	436	(429)	264	163

Source: Affin Hwang estimates, Company

Key Financial Ratios and Margins

FYE31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Growth					
Revenue (%)	4.3	17.6	19.2	0.6	5.5
EBITDA (%)	2.8	29.5	5.8	0.2	4.3
Core net profit (%)	7.2	37.7	3.2	2.3	11.8
Profitability					
EBITDA margin (%)	12.2	13.4	11.9	11.9	11.7
PBT margin (%)	18.8	22.3	13.1	13.0	13.2
Net profit margin (%)	13.8	18.5	9.2	9.4	9.9
Effective tax rate (%)	17.3	11.0	16.3	15.6	15.3
ROA (%)	6.4	8.5	4.3	4.2	4.6
Core ROE (%)	10.7	10.9	9.1	8.7	9.2
ROCE (%)	6.6	6.5	6.1	5.8	5.9
Dividend payout ratio (%)	14.6	18.0	34.6	33.8	36.3
Liquidity					
Current ratio (x)	1.6	1.2	1.3	1.3	1.3
Op. cash flow (RMm)	386	1,094	(79)	614	513
Free cashflow (RMm)	(79)	436	(429)	264	163
FCF/share (sen)	(6.1)	28.9	(24.9)	15.3	9.5
Asset management					
Debtors turnover (days)	132.8	113.1	113.1	113.1	113.1
Stock turnover (days)	59.4	50.2	58.0	58.0	58.0
Creditors turnover (days)	168.9	193.8	193.8	193.8	193.8
Capital structure					
Net gearing (%)	45.2	23.9	30.5	24.5	20.7
Interest cover (x)	6.1	12.6	16.5	11.9	13.0

Quarterly Profit & Loss

FYE 31 Dec (RMm)	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue	1,118	1,066	1,322	1,026	1,205
Operating expenses	(979)	(927)	(1,147)	(887)	(1,043)
EBITDA	139	139	175	138	162
Depreciation	(22)	(22)	(22)	(22)	(22)
EBIT	117	116	153	116	140
Net int income/(expense)	(13)	(6)	(18)	(8)	(10)
Associates' contribution	49	49	92	40	110
Exceptional items	60	(41)	328	(6)	(5)
Pretax profit	213	118	555	142	234
Tax	(32)	(17)	(35)	(30)	(45)
Minority interest	(10)	(8)	(34)	(8)	(6)
Net profit	170	93	485	104	183
Core net profit	111	124	158	110	126
Margins (%)					
EBITDA	12.4	13.0	13.2	13.5	13.5
PBT	19.0	11.1	41.9	13.9	19.4
Net profit	15.2	8.7	36.7	10.1	15.2

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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