

Out think. Out perform.

Acquisition of Winstar

Sunway has proposed to acquire 100% stake in Winstar Trading for an estimated price of RM131m. While the financial impact is minimal (2-3% EPS enhancement), importantly, it marks Sunway's commitment to continuously enhance the group's value. With effective unbilled sales of RM1.9bn, coupled with the imminent listing of Sunway construction, we maintain a BUY rating and RNAV target price of RM3.90.

Acquisition of Winstar for RM131m

Sunway has proposed to acquire a 100% stake in Winstar Trading and PND Hardware Trading for an estimated purchase consideration of RM131m and S\$2.6m (c. RM6.8m) respectively. The acquisition will be executed in three tranches. The first tranche involves an acquisition of 60% at an indicative price of RM78.5m (based on Winstar's NAV as at end-Dec 2013). This is estimated to be completed by 2Q15.

Profit guarantee through 2015-17

The vendors have jointly guaranteed a net profit (after tax) of RM15m a year for 2015 to 2017 respectively. All things equal, based on the profit guarantee, the proposed acquisition will enhance Sunways' FY15-17E EPS by 2.5% - 3.0%. While the financial impact is not significant, the proposed acquisition reaffirms Sunway's continuous effort to enhance the group's value.

Reiterate BUY with a TP of RM3.90

Supported with total effective unbilled sales of RM1.9bn and RM3.0bn worth of construction order book, we reiterate our positive stance on Sunway with a RNAV valuation of RM3.90 (still based on 30% discount to RNAV). Despite the anticipated further softening of the property market post the implementation of GST in April 2015, we continue to like Sunway for; i) its exposure to the construction sector as well as its recurring income from its investment properties, ii) the imminent listing of Sunway construction which will further unlock the value of the group – potential yield of 7.5%; and iii) attractive valuation of 0.7x P/RNAV.

Earnings & Valuation Summary

FYE 31 Dec	2013	2014	2015E	2016E	2017E
Revenue (RMm)	3,849.2	4,721.4	4,841.9	5,429.0	5,727.4
EBITDA (RMm)	469.6	608.3	735.6	737.2	769.3
Pretax profit (RMm)	722.9	1,900.4	968.8	718.3	766.5
Net profit (RMm)	530.6	1,490.4	743.2	516.9	574.6
EPS (sen)	41.1	98.8	43.0	29.9	33.2
PER (x)	9.2	3.8	8.7	12.6	11.3
Core net profit (RMm)	350.6	482.7	743.2	531.9	589.6
Core EPS (sen)	27.1	32.0	43.0	29.9	33.2
Core EPS growth (%)	7.2	18.0	34.4	(30.6)	11.2
Core PER (x)	13.9	11.7	8.7	12.6	11.3
Net DPS (sen)	6.0	10.0	11.0	9.0	10.0
Dividend Yield (%)	1.6	2.7	2.9	2.4	2.7
EV/EBITDA (x)	12.8	11.3	10.7	9.9	9.3
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang estimates

Company Update

Sunway

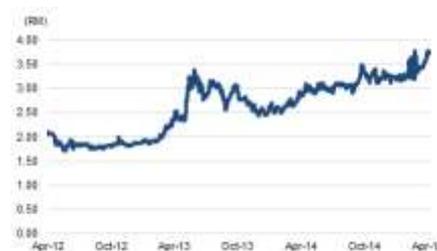
 SWB MK
 Sector: Property

RM3.76 @ 9 April 2015
BUY (maintain)

Upside 9.6%

Price Target: RM3.90

Previous Target: RM3.90



Price Performance

	1M	3M	12M
Absolute	+8.0%	+14.3%	+25.3%
Rel to KLCI	+4.6%	+7.1%	+26.0%

Stock Data

Issued shares (m)	1,731.4
Mkt cap (RMm)/(US\$m)	5,510/1,788
Avg daily vol - 6mth (m)	1.6
52-wk range (RM)	2.96-3.80
Est free float	36%
BV per share (RM)	3.45
P/BV (x)	1.09
Net cash/ (debt) (RMm) (4Q14)	(4,160)
ROE (2015F)	8.7%
Derivatives	
Warr 2016 (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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Acquisition of Winstar for RM131m

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Reaffirms group's effort to enhance value

While the acquisition is not significant compared to Sunway's size, the move reiterates the group's continuous initiative in enhancing value as well as to unlock value. With more than 30 years in the trading industry, Winstar Trading is one of the market leaders within its segment, specialising in industrial hardware, DIY hardware, safety products and lubricants, amongst others.

Further expand existing trading arm

The proposed acquisition will not only expand Sunway's existing Trading business, it will also provide synergies through cross selling of products, costs savings due to economies of scale as well as improve management expertise and efficiency. In 2014, Sunway's trading arm accounts for 13% of group's total revenue and 4% of net profit.

Potential 2.5%-3.0% EPS enhancement

The vendors have jointly guaranteed a net profit (after tax) of RM15m a year for 2015 to 2017 respectively. Based on the profit guarantee, all things equal, the proposed acquisition will enhance our FY15-17E EPS by 2.5-3.0%. We make no changes to our EPS forecast pending the completion of the acquisition. We reiterate our positive stance on Sunway Bhd with an RNAV valuation of RM3.90 (still based on 30% discount to RNAV). Sunway offers a decent yield of 2.4% (based on 30% payout) and a potential 7.5% yield from the listing of SCG. Maintain BUY.

Reiterate BUY with RNAV TP of RM3.90

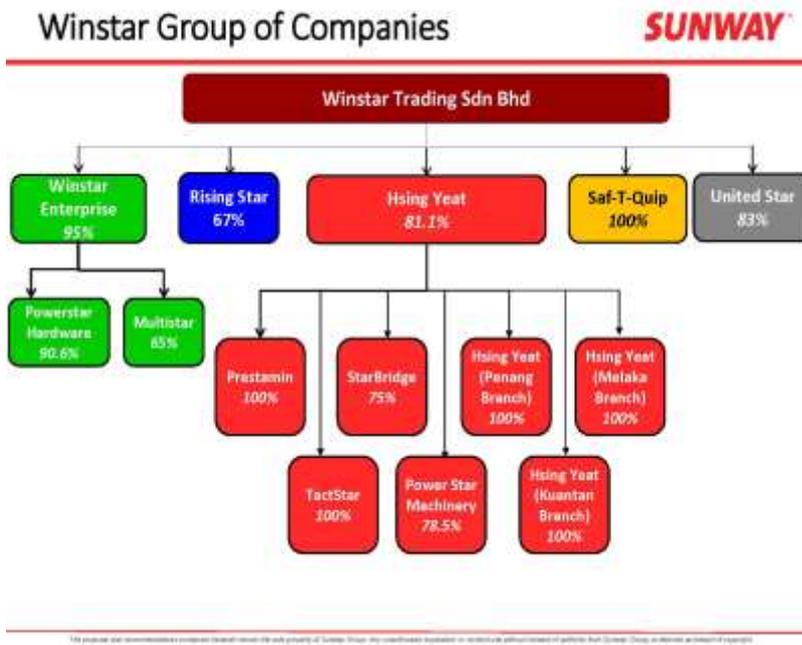
Despite the anticipated further softening of the property market post the implementation of GST in April 2015, we continue to like Sunway for; i) its exposure to the construction sector as well as its recurring income from its investment properties, ii) the imminent listing of Sunway construction which will further unlock the value of the group, and iii) attractive valuation of 0.7x P/RNAV.

Risks to recommendation

Risks to recommendation include; i) sharper-than-expected slowdown in the domestic property market; ii) prolonged oversupply within the Johor region, iii) lower-than-expected construction contract wins.

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Fig 1: Winstar's group of companies



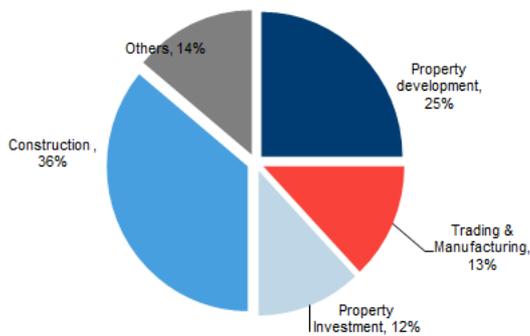
Source: Sunway

Fig 2: Acquisition timeline

Tranche	% Acquired	Indicative		Basis	Expected timeline
		Winstar	PND		
1	60	RM78.5M	S\$1.5M	Based on NAV as at 31/12/13	Q22015
2	20			Based on 5x average EBITDA for preceding 2 years	Q22017
3	20			Based on 5x average EBITDA for preceding 2 years	Q22018
Estimated Total		RM131M	SGD2.6M		

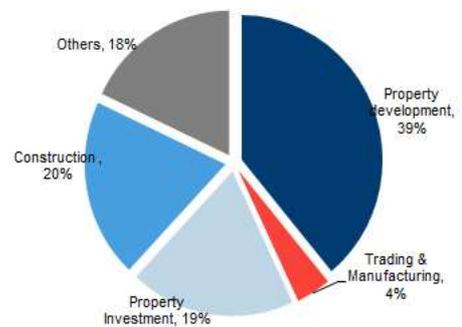
Source: Sunway

Fig 3: 2014 Segmental revenue breakdown



Source: Sunway

Fig 4: 2014 Segmental PATMI breakdown



Source: Sunway



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Fig 3: Sunway's RNAV valuation

Description	Stake	Acres	GDV (RMm)	NPV (RMm)	Eff. Surplus (RMm)
Property Development					
Sunway South Quay	60%	42.2	3,086.7	266.1	159.6
Sunway Velocity	85%	17.9	2,108.0	130.9	111.3
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 Monterez	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	240.3	40.0	40.0
Bkt Lenang, Johor	80%	64.0	698.4	60.5	48.4
Penang Grp	100%	193.0	3,318.0	214.5	214.5
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	11,727.0	500.6	230.3
Pedas	60%	1,079.0	18,000.0	643.7	386.2
Novena, Singapore	30%	1.7	2,137.0	199.1	59.7
Guanghao, China	65%	3.7	66.8	1.5	1.0
Tianjin, China	60%	24.0	1,210.0	51.8	31.1
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:		3,420	48,974	2,621	1,626.1
Other business @ 10x FY16 PER					690.7
Subtotal:					690.7
Total ex-construction (RMm)					2,316.8
Shareholders' fund @ Dec 2014 (RMm)					5,945.2
Add: Warrants conversion (RMm)					724.0
Ex-construction RNAV (RMm)					8,986.0
30% discount to ex-construction RNAV (RMm)					6,290.2
Construction @ 14x FY16 PER					1,541.4
Enlarged shares base (m)					2013.1
Fair value per share					3.89

Source: Affin Hwang estimate



Sunway Berhad – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E
Revenue	4,721	4,842	5,429	5,727	5,908
Operating expenses	(4,113)	(4,106)	(4,692)	(4,958)	(5,112)
EBITDA	608	736	737	769	796
Depreciation	(137)	(231)	(243)	(255)	(268)
EBIT	471	504	494	514	528
Net int inc/(exp)	(100)	(30)	(30)	(33)	(28)
Associates' contribution	191	233	254	285	290
Exceptional items	287	-	-	-	-
Pretax profit	1,900	969	718	767	790
Tax	(137)	(148)	(113)	(118)	(122)
Minority interest	(273)	(78)	(88)	(74)	(77)
Net profit	1,490	743	517	575	590
Core Net Profit	483	743	517	575	590

Balance Sheet Statement

FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E
Fixed assets	3,540	3,766	4,373	4,468	4,550
Other long term assets	2,689	2,972	3,072	3,172	3,272
Total non-curr assets	6,229	6,737	7,445	7,639	7,822
Cash and equivalents	1,519	1,978	1,235	1,389	1,630
Stocks	623	598	669	706	728
Debtors	1,403	1,720	1,636	1,726	1,780
Other current assets	1,339	1,883	1,455	1,492	1,551
Total current assets	4,883	6,179	4,995	5,313	5,690
Creditors	2,154	2,172	2,434	2,571	2,653
Short term borrowings	1,805	2,283	1,500	1,400	1,400
Other current liabilities	24	21	21	21	21
Total current liab	3,983	4,476	3,954	3,992	4,074
Long term borrowings	991	1,502	1,100	1,100	1,100
Other long term liabilities	486	605	605	605	605
Total long term liab	1,477	2,107	1,705	1,705	1,705
Shareholders' Funds	5,335	5,945	6,306	6,708	7,108
Minority Interest	317	389	477	551	628

Cash Flow Statement

FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E
Profit before tax	1,900	969	718	767	790
Depreciation & amortization	137	231	243	255	268
Working capital changes	(148)	(822)	702	(27)	(53)
Associates' contribution	(191)	(233)	(254)	(285)	(290)
Others	(605)	624	(113)	(118)	(122)
Cash flow from operation	1,093	769	1,296	592	592
Capex	(658)	(777)	(850)	(350)	(350)
Disposal/(purchases)	-	-	-	-	-
Others	(232)	(67)	154	185	190
Cash flow from investing	(890)	(844)	(696)	(165)	(160)
Debt raised/(repaid)	49	989	(1,184)	(100)	-
Equity raised/(repaid)	732	-	-	-	-
Dividends paid	(344)	(213)	(156)	(173)	(190)
Others	(301)	(181)	-	-	-
Cash flow from financing	135	595	(1,340)	(273)	(190)
Net change in cash flow	339	520	(740)	154	242
Free Cash Flow	435	(8)	446	242	242

Source: Affin Hwang estimates, Sunway Berhad

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2016E
Growth					
Revenue (%)	22.7	2.6	12.1	5.5	3.2
EBITDA (%)	29.5	20.9	0.2	4.4	3.4
Core net profit (%)	37.7	54.0	(30.5)	11.2	2.8
Profitability					
EBITDA margin (%)	12.9	15.2	13.6	13.4	13.5
PBT margin (%)	40.2	20.0	13.2	13.4	13.4
Net profit margin (%)	31.6	15.4	9.5	10.0	10.0
Effective tax rate (%)	7.2	15.3	15.8	15.4	15.5
ROA (%)	15.0	6.2	4.1	4.5	4.5
Core ROE (%)	10.9	13.2	8.4	8.8	8.5
ROCE (%)	6.5	5.6	5.3	5.7	5.6
Dividend payout ratio (%)	10.1	25.6	30.1	30.1	32.2
Liquidity					
Current ratio (x)	1.2	1.4	1.3	1.3	1.4
Op. cash flow (RMm)	1,093	769	1,296	592	592
Free cashflow (RMm)	435	(8)	446	242	242
FCF/share (sen)	28.9	(0.5)	25.8	14.0	14.0
Asset management					
Debtors turnover (days)	108.4	129.7	110.0	110.0	110.0
Stock turnover (days)	48.2	45.1	45.0	45.0	45.0
Creditors turnover (days)	185.0	182.8	180.0	180.0	180.0
Capital structure					
Net gearing (%)	23.9	30.4	21.7	16.6	12.2
Interest cover (x)	6.1	24.2	24.3	23.4	28.6

Quarterly Profit & Loss

FYE 31 Dec (RMm)	4Q13	1Q14	2Q14	3Q14	4Q14
Revenue	1,322	1,026	1,205	1,134	1,478
Operating expenses	(1,136)	(852)	(1,007)	(919)	(1,156)
EBITDA	187	174	197	215	321
Depreciation	(34)	(58)	(58)	(58)	(58)
EBIT	153	116	140	157	264
Net int income/(expense)	(18)	(8)	(10)	(5)	(7)
Associates' contribution	92	40	110	39	45
Exceptional items	328	(6)	(5)	(6)	107
Pretax profit	555	142	234	185	408
Tax	(35)	(30)	(45)	(22)	(51)
Minority interest	(34)	(8)	(6)	(20)	(44)
Net profit	485	104	183	144	313
Core net profit	158	110	126	149	206
Margins (%)					
EBITDA	14.1	16.9	16.4	19.0	21.7
PBT	41.9	13.9	19.4	16.3	27.6
Net profit	36.7	10.1	15.2	12.7	21.2

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

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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