


AmResearch
Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

22 Sep 2014

Listing construction division
HOLD

(Maintained)

Thomas Soon

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03-2036 2300

Rationale for report: Company update

Price	RM3.36
Fair Value	RM3.42
52-week High/Low	RM3.38/RM2.54

Key Changes

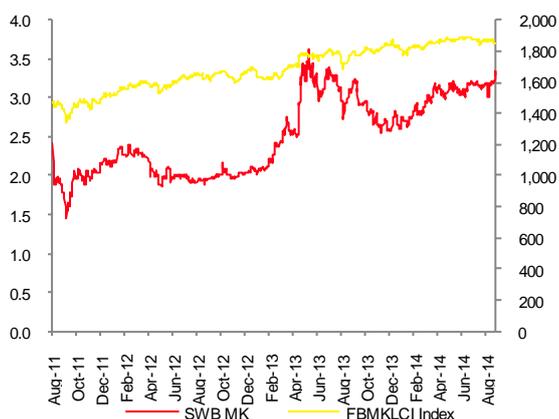
Fair value	↕
EPS	↔

YE to Dec	FY13	FY14F	FY15F	FY16F
Revenue (RM mil)	4,721.4	4,458.0	4,961.6	4,551.9
Core net profit (RM mil)	484.0	452.2	511.0	566.5
FD Core EPS (sen)	30.5	19.5	21.9	24.2
FD Core EPS growth (%)	27.5	(36.0)	12.3	10.4
Consensus Net Profit (RM mil)	-	495.6	-	-
DPS (sen)	10.0	10.0	10.0	10.0
PE (x)	11.0	17.2	15.3	13.9
EV/EBITDA (x)	12.1	12.9	12.1	12.0
Div yield (%)	3.1	3.1	3.1	3.1
ROE (%)	34.9	8.3	8.9	9.3
Net Gearing (%)	25.3	45.3	43.9	48.9

Stock and Financial Data

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	5,791.0
Book Value (RM/share)	3.09
P/BV (x)	1.1
ROE (%)	34.9
Net Gearing (%)	25.3
Major Shareholders	Tan Sri Jeffrey Cheah (48.2%) GIC (8.7%)
Free Float	22.4
Avg Daily Value (RMmil)	2.1

Price performance	3mth	6mth	12mth
Absolute (%)	10.5	16.3	5.3
Relative (%)	12.7	14.4	2.6


Investment Highlights

- We maintain HOLD on Sunway with a raised SOP fair value of RM3.42/share (vs. RM3.08/share previously on 5% discount to SOP), to account for a higher valuation for its construction division from 10x previously to 12x.
- Sunway has proposed to list its construction division and with it, a share dividend-in-specie and special cash dividend, which combined translates to a yield of 7%-10% per share.
- We expect construction to contribute 20%-25% of the group's FY14F-FY16F earnings. With an effective disposal of a ~44% stake, the group's earnings could be reduced by 8%-11%. The division now accounts for 21% or 71 sen of our SOP value vs.16% previously.
- We remain neutral, but apart from realising returns from the cash dividend, the proposals offer shareholders the option of staying invested in SCG for potential capital gain or exit upon the listing. Post-listing, SCG could account for ~13% of our SOP value for Sunway.
- Sunway will retain control with a 55.62% stake; 13.3% will be distributed 1-for-10 as dividend-in-specie to Sunway shareholders, 25.5% offered to local and foreign institutional investors, and 5.5% to retail investors, including directors and employees.
- The proceeds from the institutional and retail offerings will be distributed to Sunway shareholders via a special cash dividend, minus working capital and expenses. It expects to submit the proposals to the authorities by 4Q14, call for the EGM by 1Q15, and complete the proposals by 2Q15.
- The new holding company Sunway Construction Group Bhd (SCG) will have a paid-up capital of RM258.6mil comprising 1,292.9mil shares of 20 sen each. At RM1.00/share, SCG would be priced at 13.5x and 10.2x PE of our FY14F and FY15F construction earnings. We expect the IPO valuation to be within that range. Assuming a PE of 11x, SCG would be priced at RM1.07/share based on our FY15F EPS of 9.8 sen, with a market cap of RM1.38bil.
- At RM1.07/share, the share dividend is worth 10.7 sen/share and the offer for sale could raise between RM396mil and RM429mil. Assuming between 75% and 95% of the proceeds are distributed, the total payout along with the share dividend could be at 25 sen-34sen/share or a yield of 7%-10% at the current price.
- Also proposed is an over-allotment option and claw-back and reallocation provisions. Management says it will ensure that the listed construction group is Syariah-compliant from the outset.

LISTING SUNCON

Sunway's wholly-owned subsidiary Sunway Construction Sdn Bhd (SunCon) has over 30 years' experience construction, with comprehensive expertise in building and civil works, geotechnical and foundation services (including deep basement and marine piling), mechanical, electrical and plumbing, manufacturing of precast concrete, and machinery rental.

SunCon is registered with the Construction Industry Development Board with a Grade 7 status, the highest classification accorded by CIDB which allows it to tender for contracts of unlimited value.

Some of its notable projects included the Kuala Lumpur Convention Centre, SILK Highway, Sunway Pyramid Shopping Mall, Sunway Medical Centre, Legoland Theme Park, and Pinewood Iskandar Malaysia Studios.

It has also achieved limited successes overseas since 2005, with the completion of some parts of major highways in India, the Al Reem Island Development and Rihan Heights in Abu Dhabi, and the Ministry of Legal Affairs Tower building in Trinidad and Tobago.

SunCon claims to be the first in the field of building designs using the Virtual Design and Construction System (VDC), which offers it a unique competitive advantage in the industry.

Sunway foresees SunCon gaining greater visibility as a top pure-play construction player in the country, while investors so-inclined could invest in the construction-focused com, any with a formidable track record.

As at 31 July 2014, SunCon held an outstanding order book of RM3.4bil. As at end-FY13, the construction division's net worth totalled RM377.5mil, inclusive of minority interest.

As far as the construction division's prospects are concerned, we foresee the construction division's performance to peak within the next three years. Its current outstanding order book is ~RM3.4bil and an additional RM2.5bil worth of jobs (the target for FY14F) will bring it to full capacity.

Sunway itself may also benefit from the accelerated conversion of warrants and ESOS, the proceeds of which could be used for much-needed working capital as order book increases further, without the need to gear up further.

EXHIBIT 1: ALLOCATION OF SCG SHARES

Assuming no more conversion of warrants/ESOS

Allocation of SCG shares	# of shares interest (%)	
Sunway Bhd	719.5	55.65%
Dividend-in-specie	172.4	13.33%
Local institutions	135.8	10.50%
Foreign institutions	194.1	15.01%
Malaysian public	51.7	4.00%
Directors/employees (pink form)	19.4	1.50%
Total paid-up share capital	1,292.9	100.00%

Assuming full conversion of warrants/ESOS

Allocation of SCG shares	# of shares interest (%)	
Sunway Bhd	715.0	55.3%
Dividend-in-specie	207.4	16.0%
Local institutions	135.7	10.5%
Foreign institutions	163.7	12.7%
Malaysian public	51.7	4.0%
Directors/employees (pink form)	19.4	1.5%
Total paid-up share capital	1,292.9	100.0%

Source: Company, AmResearch

EXHIBIT 2: VALUATION FOR SCG

Valuation for SCG	FY13	FY14F	FY15F	FY16F
Construction earnings	59.5	95.9	126.2	112.4
Construction EPS based on 1,292.9mil shares (sen)	4.6	7.4	9.8	8.7
SCG value assuming 10x PE (RM/share)	0.46	0.74	0.98	0.87
SCG value assuming 11x PE (RM/share)	0.51	0.82	1.07	0.96
SCG value assuming 12x PE (RM/share)	0.55	0.89	1.17	1.04
Dividend.share (sen) @ 20% payout	0.9	1.5	2.0	1.7
Yield (%) @ RM1.07/SCG share	0.9	1.4	1.8	1.6

Source: Company, AmResearch

EXHIBIT 3: CONSTRUCTION CONTRIBUTION

Net profit	FY13	FY14F	FY15F	FY16F
Property Dev	243.5	192.0	222.7	263.5
Property Inv	98.7	85.5	80.8	94.9
Construction	59.5	95.9	126.2	112.4
Trading and Manufacturing	32.5	33.4	31.7	33
Quarry	15.7	8.4	8.7	13.9
Investment Holdings	7.3	17.9	18.2	21.4
Others	26.8	19.1	22.8	27.0
Non-core item	1,006.4	0.0	0.0	0.0
Total	1,490.4	452.2	511.0	566.5
Core net profit	484.0	452.2	511.0	566.5
Core net profit margin	10.7	10.1	10.3	12.4
Construction contribution (%)	12%	21%	25%	20%
Sale of interest in construction group (%)	44.4	44.4	44.4	44.4
Reduction in group earnings (%)	5.5	9.4	11.0	8.8

Source: Company, AmResearch

EXHIBIT 4: CURRENT SOP

NPV of development profits@ 8% **4,587.6**

Investment Properties	Stake (%)	Method	Mkt value (RM'mil)
Sunway Giza	60	Cap Rate	44.2
Monash Uni Campus	100		220.0
Sunway Uni College	100		219.0
Sunway Hotel Georgetown	100	RM300k/room @240	72.0
Sunway Hotel Phnom Penh	53	RM200k/room @138	14.6
Sunway Hotel Hanoi	100	RM200k/room @142	28.4
Subtotal			598.2
Other divisions			
	FY15F EPS	PE (x)	
Construction	126.2	12	1,513.9
Trading	31.7	8	253.5
Building material	8.7	8	69.4
	Stake (%)	Mkt cap (RM'mil)	
Sunway REIT	37.0	4,853.3	1,797.7

8,820.3

Warrants proceeds (exercise price of RM2.50/share) 724.0
 ESOS proceeds (exercise price of RM2.50/share) 333.9

less: Net debt FY14F **(2,531.2)**

SOP **7,347.1**

Outstanding shares (million) 1,723.5
 Outstanding warrants (million) 289.6
 Outstanding ESOS (million) 133.6
 Enlarged share base (million) 2,146.7

SOP/share (RM) **3.42**

Source: Company, AmResearch

EXHIBIT 5: SOP POST-SCG LISTING

NPV of development profits@ 8% **4,587.6**

Investment Properties	Stake (%)	Method	Mkt value (RM'mil)
Sunway Giza	60	Cap Rate	44.2
Monash Uni Campus	100		220.0
Sunway Uni College	100		219.0
Sunway Hotel Georgetown	100	RM300k/room@240	72.0
Sunway Hotel Phnom Penh	53	RM200k/room@138	14.6
Sunway Hotel Hanoi	100	RM200k/room@142	28.4
Subtotal			598.2
Other divisions			
	FY15F EPS	PE (x)	
Construction	n/a	55.65% of SCG @12xPE FY15F	842.5
Trading	31.7	8.0	253.5
Building material	8.7	8.0	69.4
	Stake (%)	Mkt cap (RM'mil)	
Sunway REIT	37.0	4,853.3	1,797.7

8,148.9

Warrants proceeds (exercise price of RM2.50/share) 724.0
 ESOS proceeds (exercise price of RM2.50/share) 333.9

less: Net debt FY14F **(2,531.2)**

SOP **6,675.6**

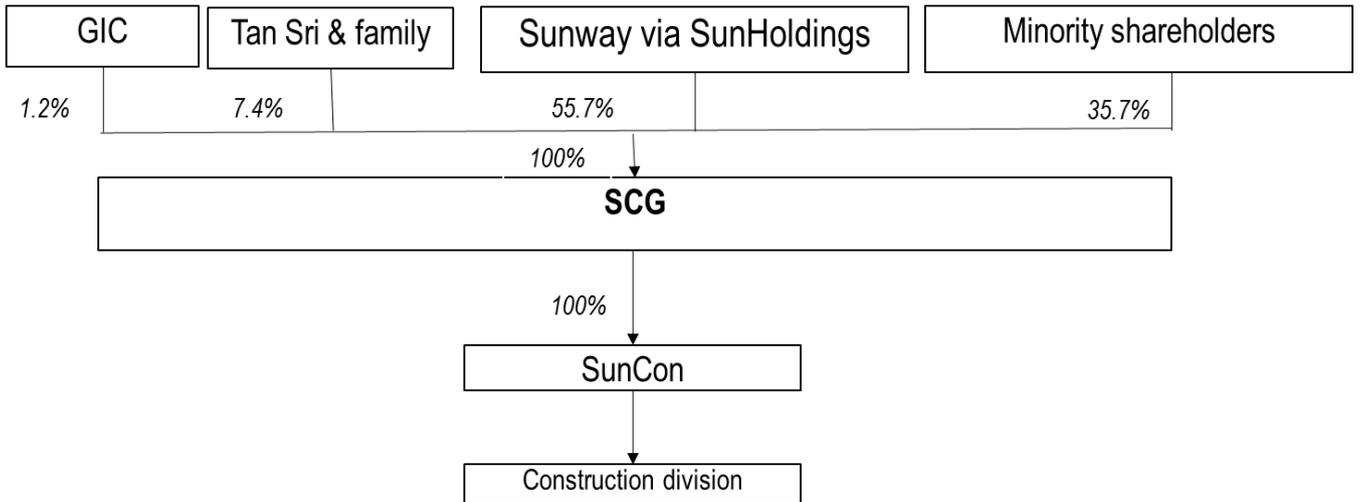
Outstanding shares (million) 1,723.5
 Outstanding warrants (million) 289.6
 Outstanding ESOS (million) 133.6
Enlarged share base (million) **2,146.7**

SOP/share (RM) **3.11**

Source: Company, AmResearch

EXHIBIT 6: SOP POST-SCG LISTING

SCG shareholding structure

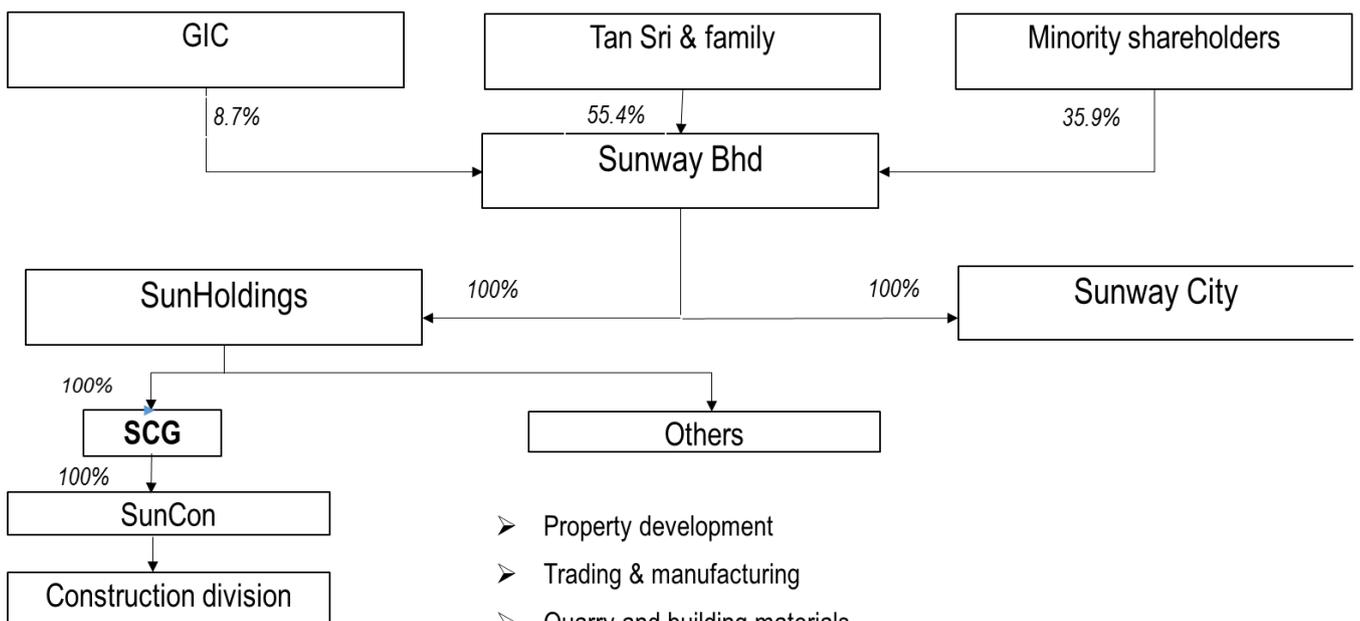


- 22 subsidiaries
- 6 un-incorporated Jvs
- 1 un-incorporated consortium

Source: Company, AmResearch

EXHIBIT 7: SUNWAY STRUCTURE AFTER INTERNAL REORGANISATION

After internal reorganisation



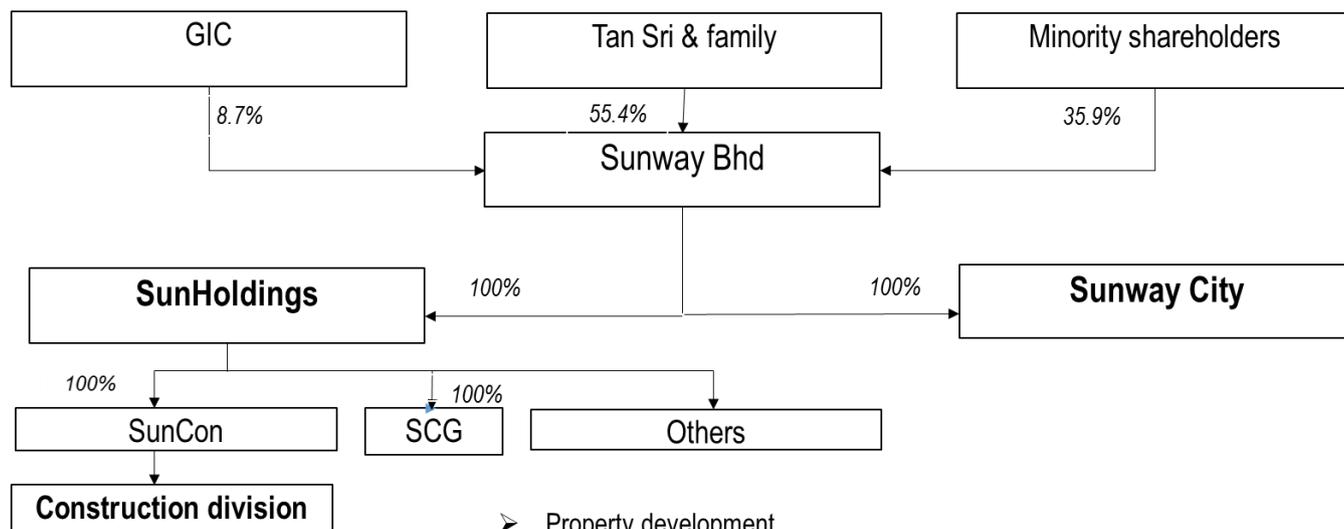
- Property development
- Trading & manufacturing
- Quarry and building materials

- 22 subsidiaries
- 6 un-incorporated Jvs
- 1 un-incorporated consortium

Source: Company, AmResearch

EXHIBIT 8: SUNWAY EXISTING STRUCTURE

Existing structure



- 22 subsidiaries
- 6 un-incorporated Jvs
- 1 un-incorporated consortium

- Property development
- Trading & manufacturing
- Quarry and building materials

Source: Company, AmResearch

EXHIBIT 9: TIMELINE FOR SCG LISTING

	Period
Submission to regulators	4Q14
EGM	1Q15
Listing	2Q15

Source: Company, AmResearch

EXHIBIT 10: ASSUMING 95% OF OFS PROCEEDS PAID OUT**Assuming 95% of min proceeds for cash dividend**

Outstanding Sunway shares (current and fully diluted)	1,724	2,074
OFS min proceeds @ RM1.07/SCG share (RM mil)	396.4	396.4
95% OFS @ RM396.4mil: Cash dividend/Sunway share (sen)	21.8	18.2
Dividend-in-specie/Sunway share (sen)	10.7	10.7
Total dividend (sen)	32.5	28.9
Yield @RM3.36/Sunway share (%)	9.7	8.6

Assuming 95% of max proceeds for cash dividend

Outstanding Sunway shares (current and fully diluted)	1,724	2,074
OFS max @ RM1.07/share (RM mil)	429.1	429
95% OFS @ RM429.1mil: Cash dividend/Sunway share (sen)	23.6	19.7
Distribution of dividend-in-specie	10.7	10.7
Total dividend (sen)	34.3	30.4
Yield @RM3.36/Sunway share (%)	10.2	9.0

Source: Company, AmResearch

EXHIBIT 12: ASSUMING 75% OF OFS PROCEEDS PAID OUT**Assuming 75% of min proceeds for cash dividend**

Outstanding Sunway shares	1,724.0	2,074.0
OFS min proceeds @ RM1.07/SCG share (RM mil)	396.4	396.4
75% OFS @ RM396.4mil: Cash dividend/Sunway share (sen)	17.2	14.3
Dividend-in-specie/Sunway share (sen)	10.7	10.7
Total dividend (sen)	27.9	25.0
Yield @RM3.36/Sunway share (%)	8.3	7.5

Assuming 75% of max proceeds for cash dividend

Outstanding Sunway shares	1,724.0	2,074.0
OFS max @ RM1.07/share (RM mil)	429.1	429.070
75% OFS @ RM429.1mil: Cash dividend/Sunway share (sen)	18.7	15.5
Distribution of dividend-in-specie	10.7	10.7
Total dividend (sen)	29.4	26.2
Yield @RM3.36/Sunway share (%)	8.7	7.8

Source: Company, AmResearch

EXHIBIT 11: ASSUMING 85% OF OFS PAID OUT**Assuming 85% of min proceeds for cash dividend**

Outstanding Sunway shares (current and fully diluted)	1,724	2,074
OFS min proceeds @ RM1.07/SCG share (RM mil)	396.4	396.4
85% OFS @ RM396.4mil: Cash dividend/Sunway share (sen)	19.5	16.2
Dividend-in-specie/Sunway share (sen)	10.7	10.7
Total dividend (sen)	30.2	26.9
Yield @RM3.36/Sunway share (%)	9.0	8.0

Assuming 85% of max proceeds for cash dividend

Outstanding Sunway shares (current and fully diluted)	1,724	2,074
OFS max @ RM1.07/share (RM mil)	429.1	429.1
85% OFS @ RM429.1mil: Cash dividend/Sunway share (sen)	21.2	17.6
Distribution of dividend-in-specie	10.7	10.7
Total dividend (sen)	31.9	28.3
Yield @RM3.36/Sunway share (%)	9.5	8.4

Source: Company, AmResearch

EXHIBIT 13: PB BAND CHART

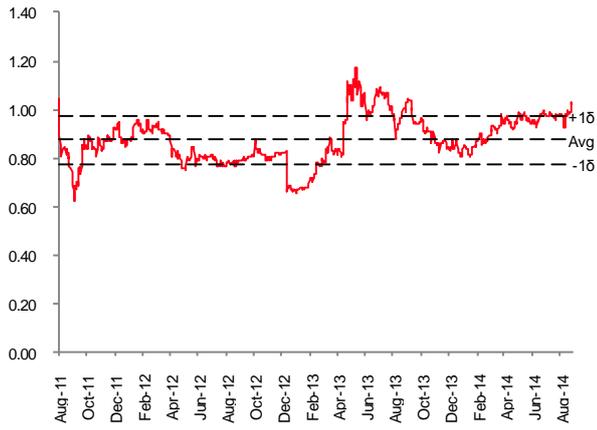


EXHIBIT 14: PE BAND CHART



EXHIBIT 15: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Revenue	4,128.8	4,721.4	4,458.0	4,961.6	4,551.9
EBITDA	519.5	589.5	646.2	694.5	737.3
Depreciation/Amortisation	(138.0)	(137.0)	(139.0)	(141.0)	(159.0)
Operating income (EBIT)	381.5	452.5	507.2	553.5	578.3
Other income & associates	219.8	255.9	286.9	322.2	358.6
Net interest	(76.8)	(46.1)	(60.0)	(75.0)	(75.0)
Exceptional items	315.2	1,238.1	-	-	-
Pretax profit	839.6	1,900.4	734.1	800.7	862.0
Taxation	(115.4)	(137.0)	(183.5)	(200.2)	(215.5)
Minorities/pref dividends	(285.5)	(273.0)	(98.4)	(89.6)	(80.0)
Net profit	438.8	1,490.4	452.2	511.0	566.5
Core net profit	351.0	484.0	452.2	511.0	566.5
Balance Sheet (RMmil, YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Fixed assets	1,562.8	866.2	1,066.8	1,117.5	1,858.2
Intangible assets	318.1	319.4	319.4	319.4	319.4
Other long-term assets	5,998.6	5,067.7	5,431.9	5,656.6	5,888.8
Total non-current assets	7,879.5	6,253.3	6,818.2	7,093.5	8,066.4
Cash & equivalent	1,197.5	1,448.8	464.2	945.1	1,553.1
Stock	650.3	615.8	500.8	530.8	562.7
Trade debtors	1,149.1	1,114.1	1,068.5	1,189.2	1,091.0
Other current assets	1,487.3	1,678.2	1,500.6	1,536.9	1,574.3
Total current assets	4,484.2	4,856.9	3,534.1	4,202.1	4,781.1
Trade creditors	1,150.7	1,150.2	910.1	964.7	1,022.5
Short-term borrowings	2,955.0	2,000.7	935.9	1,285.9	1,585.9
Other current liabilities	715.3	988.0	21.5	21.5	21.5
Total current liabilities	4,821.0	4,138.9	1,867.4	2,272.0	2,629.9
Long-term borrowings	1,688.4	794.7	2,059.6	2,259.6	3,059.6
Other long-term liabilities	503.0	522.8	522.8	522.8	522.8
Total long-term liabilities	2,191.4	1,317.5	2,582.3	2,782.3	3,582.3
Shareholders' funds	3,214.8	5,328.3	5,585.6	5,924.2	6,318.3
Minority interests	2,136.5	316.9	316.9	316.9	316.9
BV/share (RM)	2.49	3.09	3.24	3.44	3.67
Cash Flow (RMmil, YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Pretax profit	839.6	1,900.4	734.1	800.7	862.0
Depreciation/Amortisation	138.0	137.0	139.0	141.0	159.0
Net change in working capital	(379.0)	93.0	(1,016.3)	(132.5)	86.8
Others	(31.6)	(1,037.1)	(381.7)	(204.8)	(480.1)
Cash flow from operations	567.0	1,093.4	(524.9)	604.5	627.7
Capital expenditure	(399.4)	(85.4)	(332.9)	(83.0)	(133.9)
Net investments & sale of fixed assets	55.6	11.3	11.2	11.2	11.2
Others	(334.0)	(815.9)	(467.4)	(260.0)	(47.9)
Cash flow from investing	(677.8)	(889.9)	(789.1)	(331.7)	(170.5)
Debt raised/(repaid)	434.5	498.3	298.3	249.3	249.3
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	(163.7)	(172.4)	(172.4)	(172.4)
Others	(56.0)	(292.2)	203.5	131.2	74.0
Cash flow from financing	378.6	42.4	329.4	208.1	150.9
Net cash flow	267.8	245.8	(984.6)	480.9	608.0
Net cash/(debt) b/f	838.0	1,102.3	1,359.1	374.5	855.4
Net cash/(debt) c/f	1,102.3	1,359.1	374.5	855.4	1,463.4
Key Ratios (YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Revenue growth (%)	11.8	14.4	(5.6)	11.3	(8.3)
EBITDA growth (%)	19.3	13.5	9.6	7.5	6.2
Pretax margin (%)	20.3	40.2	16.5	16.1	18.9
Net profit margin (%)	10.6	31.6	10.1	10.3	12.4
Interest cover (x)	5.0	9.8	8.5	7.4	7.7
Effective tax rate (%)	13.7	7.2	25.0	25.0	25.0
Dividend payout (%)	17.7	11.6	38.1	33.7	30.4
Debtors turnover (days)	100	87	89	83	91
Stock turnover (days)	56	56	53	44	52
Creditors turnover (days)	111	102	99	80	95

Source: Company, AmResearch estimates

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