


AmResearch
Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

12 May 2015

Acquires prime land in Kelana Jaya at RM386/sq ft
BUY

(Maintained)

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Rationale for report: Company update

Price	RM3.40
Fair Value	RM3.74
52-week High/Low	RM3.81/RM2.89

Key Changes

Fair value	↕
EPS	↔

YE to Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	4,558.1	5,310.3	5,496.8	5,466.8
Core net profit (RM mil)	523.9	554.1	534.7	554.4
FD Core EPS (sen)	31.5	33.1	32.1	33.2
FD Core EPS growth (%)	3.2	5.4	(3.3)	3.4
Consensus Net Profit (RM mil)	-	479.8	530.2	552.1
DPS (sen)	11.0	32.5	10.0	10.0
PE (x)	10.8	10.3	10.6	10.3
EV/EBITDA (x)	10.9	10.7	10.2	10.1
Div yield (%)	3.2	9.6	2.9	2.9
ROE (%)	13.0	9.3	8.9	9.0
Net Gearing (%)	30.4	43.9	42.2	41.6

Stock and Financial Data

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	5,860.0
Book Value (RM/share)	3.43
P/BV (x)	1.0
ROE (%)	13.0
Net Gearing (%)	30.4
Major Shareholders	Tan Sri Jeffrey Cheah (48.2%) EPF (5.7%)
Free Float	22.4
Avg Daily Value (RMmil)	6.9

Price performance	3mth	6mth	12mth
Absolute (%)	4.6	10.2	16.8
Relative (%)	4.2	11.4	20.7


Investment Highlights

- We maintain BUY on Sunway, with an ex-dividend-in-specie fair value of RM3.74/share (vs. RM3.95/share previously), based on a 20% discount to the SOP value of RM4.65/share. Our fair value also accounts for a higher net debt at the company (audited FY14 numbers).
- Sunway has acquired ~16,996 acres (740,342 sq ft) of prime land in Kelana Jaya via an open tender at a favourable rate of ~RM386.31/sq ft for a total of RM286mil cash. It targets to launch a five-year RM1.8bil mixed development there by 2H2016.
- It is acquiring 100% of Cleaver Fortune S/B (CFSB) from Kelana Resorts S/B for RM282.64mil. CFSB owns four plots of leasehold land totalling 731,634 sq ft (16.8 acres). Adjacent to that is a plot of 8,708 sq ft freehold land, of which it is acquiring from Kelana Resorts' subsidiary Variasi Sdn Bhd for RM3.36mil.
- The land is situated next to Western Digital in the Sungai Way Free Trade Zone and in close proximity to the Subang National Golf Club. Sunway expects to complete the acquisitions within six months. It is proposing to build 7 residential blocks with a commercial podium, with a total built-up of ~3mil sq ft and an ASP of RM800/sq ft. The land has a 4x plot ratio.
- The project could potentially add 6 sen/share to our SOP value and ~4% to our FY16F earnings forecast.
- The proposed development has a potential margin of 15%-20% margin. Notwithstanding the larger portion being leasehold (99 years), the acquisition price compares favourably to that paid by Gamuda Bhd about three years ago of RM95mil or ~RM450/sq ft for a 4.86-acre parcel of freehold land in the vicinity.
- Given the potential slowdown in Sunway Iskandar, this latest expansion in the Klang Valley, particularly within a prime area of Petaling Jaya, is positive for the group – in line with its current objective of replenishing landbank ready for immediate launch.
- The acquisition brings its total landbank to 3,380 acres, of which 799 acres (24%) are in the Klang Valley. About 54% (1,830 acres) of its landbank is in Johor. The total potential GDV is at RM51bil (effective: RM32bil) over 15 years.
- Sunway is in the midst of listing its construction arm, having just undertaken the distribution in-specie of Sunway Construction Group Bhd (SCG) shares with the stock going ex on 6 May. Upon SCG's listing, Sunway will also distribute cash dividends. Maintain BUY.

EXHIBIT 1: SOP DERIVATION OF FAIR VALUE

Divisions			SOP value (RM mil)	% of SOP
NPV of development profits@ 10%			4,279.0	42.7
Investment Properties	Stake (%)	Method		
Sunway Giza	60	Market value	46.4	
Monash U Campus	100	Market value	310.0	
Monash U Residence	60	Market value	156.0	
Sun U Campus	100	Market value	407.0	
Sunway Pinnacle	100	Market value	340.0	
Sun U Residence Condo (168 units)	100	Market value	104.8	
Open Car Park, SLRH	100	Market value	77.4	
Carpark land, Jalan Ampang (Sw Tower 1)	100	Market value	74.0	
Sunway Villa	100	Market value	32.6	
Lagoon View Condo (20 units)	100	Market value	14.1	
Sunway Hotel Phnom Penh	53	NBV	20.0	
Sunway Hotel Hanoi	100	NBV	10.0	
Lost World Hotel	78	NBV	25.0	
Banjaran Hotsprings Retreat	78	NBV	65.0	
			1,682.4	16.8
Other divisions	FY15F earnings	PE (x)	Value (RM mil)	
Construction	116.8	14	1,634.7	16.3
Trading	38.4	10	384.2	3.8
Building material	24.7	10	247.2	2.5
	Stake (%)	Mkt cap (RM'mil)		
Sunway REIT@RM1.70/unit	36.1	4,990.5	1,800.8	18.0
Subtotal			10,028.3	
Warrants proceeds (@ RM2.50/share)			715.8	7.1
ESOS proceeds (@ RM2.792/share)			409.3	4.1
less: Net debt FY13 @company level			(942.7)	(9.4)
Ex- 1-for-10 dividend-in-specie			(189.6)	(1.9)
SOP			10,021.0	100.0
Outstanding shares (million)			1,723.5	
Outstanding warrants (million)			286.3	
Outstanding ESOS (million)			146.6	
Enlarged share base (million)			2,156.4	
SOP/share (RM)			4.65	
Discount (%)			(20)	
Fair Value (RM/share)			3.74	
Capital gain (%)			10.0	
Normal dividend yield (FY15F)			2.9	
Est. special cash dividend yield range from SunCon (%)	6.4%-7.2%		6.8	
Total upside potential (%)			19.7	

Source: AmResearch, Company

EXHIBIT 2: KELANA JAYA LAND SITE



Source: Company, AmResearch

EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART

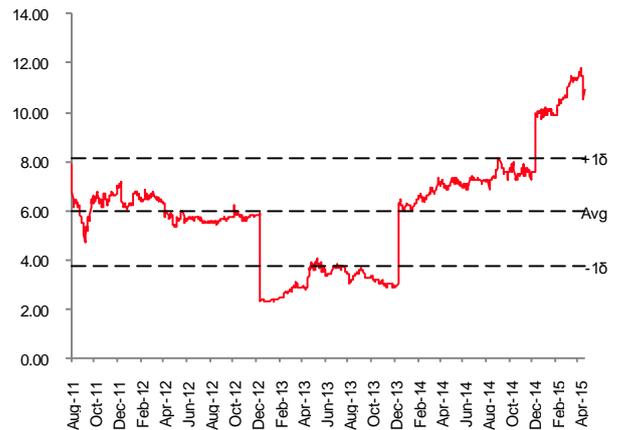


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	4,721.4	4,558.1	5,310.3	5,496.8	5,466.8
EBITDA	585.9	703.6	795.2	823.1	839.5
Depreciation/Amortisation	(133.4)	(114.1)	(120.3)	(130.3)	(140.3)
Operating income (EBIT)	452.5	589.5	674.9	692.8	699.1
Other income & associates	255.9	171.4	193.7	253.4	289.0
Net interest	(46.1)	(30.4)	(42.0)	(69.0)	(81.0)
Exceptional items	1,238.1	229.7	-	-	-
Pretax profit	1,900.4	960.2	826.6	877.2	907.1
Taxation	(137.0)	(148.6)	(165.3)	(210.5)	(217.7)
Minorities/pref dividends	(273.0)	(77.6)	(107.2)	(132.0)	(135.0)
Net profit	1,490.4	734.0	554.1	534.7	554.4
Core net profit	484.0	523.9	554.1	534.7	554.4
Balance Sheet (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Fixed assets	835.8	985.2	1,038.3	1,042.5	1,036.7
Intangible assets	319.4	319.4	319.4	319.4	318.4
Other long-term assets	5,098.1	5,570.2	6,214.7	6,410.0	6,605.5
Total non-current assets	6,253.3	6,874.9	7,572.4	7,771.9	7,960.6
Cash & equivalent	1,518.8	1,978.2	1,340.3	1,603.6	1,482.7
Stock	615.8	580.0	531.0	562.9	596.6
Trade debtors	1,114.1	1,184.7	1,272.8	1,017.4	1,310.3
Other current assets	1,599.5	2,239.4	2,091.7	2,040.5	2,088.9
Total current assets	4,848.3	5,982.3	5,235.7	5,224.5	5,478.5
Trade creditors	1,150.2	1,275.8	964.9	1,022.8	1,084.2
Short-term borrowings	2,000.7	2,132.9	1,660.8	1,510.8	1,410.8
Other current liabilities	923.1	867.1	724.9	724.9	724.9
Total current liabilities	4,074.0	4,275.8	3,350.7	3,258.6	3,220.0
Long-term borrowings	794.7	1,651.5	2,323.6	2,623.6	2,723.6
Other long-term liabilities	587.6	605.9	605.9	605.9	605.9
Total long-term liabilities	1,382.3	2,257.5	2,929.5	3,229.5	3,329.5
Shareholders' funds	5,328.3	5,936.4	6,018.6	5,990.8	6,372.2
Minority interests	316.9	387.5	517.5	517.5	517.5
BV/share (RM)	3.09	3.43	3.48	3.46	3.68
Cash Flow (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Pretax profit	1,900.4	960.2	826.6	877.2	907.1
Depreciation/Amortisation	133.4	114.1	120.3	130.3	140.3
Net change in working capital	93.0	(311.9)	(537.7)	234.4	(313.5)
Others	(1,033.4)	(54.5)	(69.1)	(58.9)	(350.9)
Cash flow from operations	1,093.4	708.0	340.2	1,183.0	383.0
Capital expenditure	(88.5)	(323.9)	(104.9)	(83.9)	(82.9)
Net investments & sale of fixed assets	11.2	65.8	65.8	65.8	65.8
Others	(1,300.1)	(627.9)	(500.0)	(300.0)	(400.0)
Cash flow from investing	(1,377.4)	(886.0)	(539.1)	(318.1)	(417.1)
Debt raised/(repaid)	498.3	298.3	249.3	249.3	249.3
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(163.7)	(172.7)	(190.4)	(562.4)	(173.1)
Others	(292.2)	475.9	(283.0)	(288.5)	(164.0)
Cash flow from financing	42.4	601.4	(224.1)	(601.7)	(87.8)
Net cash flow	(241.6)	423.4	(423.0)	263.3	(121.9)
Net cash/(debt) b/f	1,102.3	871.7	1,292.9	869.9	1,133.2
Net cash/(debt) c/f	871.7	1,292.9	869.9	1,133.2	1,011.4
Key Ratios (YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue growth (%)	14.4	(3.5)	16.5	3.5	(0.5)
EBITDA growth (%)	12.8	20.1	13.0	3.5	2.0
Pretax margin (%)	40.2	21.1	15.6	16.0	16.6
Net profit margin (%)	31.6	16.1	10.4	9.7	10.1
Interest cover (x)	9.8	19.4	16.1	10.0	8.6
Effective tax rate (%)	7.2	15.5	20.0	24.0	24.0
Dividend payout (%)	11.6	25.9	101.5	32.4	31.2
Debtors turnover (days)	87	92	84	76	78
Stock turnover (days)	56	57	45	43	46
Creditors turnover (days)	102	115	91	78	83

Source: Company, AmResearch estimates

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Printed by

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