


AmResearch
Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

10 Apr 2015

Expanding hardware trading business
BUY

 Price: RM3.76
 Fair Value: RM3.95

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Rationale for report:

YE to Dec	FY14	FY15F	FY16F	FY17F
FD Core EPS (sen)	35.1	33.1	32.6	34.5
PE (x)	10.7	11.4	11.5	10.9

Source: AmResearch

- Sunway Holdings Bhd is acquiring two privately-held hardware trading companies for an estimated total of RM138mil on a staggered basis over the next three years.
- It will pay ~RM131mil for Winstar Trading group and SGD2.6mil (RM6.9mil) for PND Hardware & Trading Pte Ltd. Both are involved in the trading of hardware, engineering and industrial safety products.
- Winstar operates branches in the Klang Valley, Penang, Malacca, Kuantan, Kuching and Kota Kinabalu, while PND's activities are in Singapore. The acquisitions come with a PAT guarantee of RM15mil p.a. and SGD250,000 p.a. over the next three years, respectively. These value them at fair implied PEs of 9x-10x.
- It expects to pay an estimated RM78.6mil and SGD1.5mil for 60% each of Winstar and PND by 2Q15. Based on NAV, the prices are adjustable downwards, but not upwards. The two remaining tranches of 20% each for both acquiree companies will be staggered over the next three years, ending in 2Q18. The acquisition prices will then be based on 20% of 5x their two-year average EBITDA.
- The acquisition of the "profitable market leaders with over 30 years' experience" will provide additional revenue streams. It expects synergies from cross-selling their combined customer base (including Sunway's property and construction divisions) and potential cost savings from warehousing facilities.
- The acquiree companies' potential combined annual PAT of ~RM16mil account for more than half of Sunway's trading and manufacturing division's FY14F PAT of ~RM30mil, which was less than 5% of the group's total earnings.
- Sunway yesterday also announced the acquisition of a petrol station and auto workshop operator in Bandar Sunway for RM1.75mil. The petrol station sits on a piece of land opposite Sunway Pyramid Shopping Mall. It is eyeing the land for redevelopment potential.
- We maintain BUY on Sunway, with an unchanged fair value of RM3.95/share, based on a 20% discount to the SOP value of RM4.92/share. Apart from a 1-for-10 dividend-in-specie of SunCon shares, Sunway will also distribute cash dividends of 22-25 sen/share (based on indicative valuation of RM1.10/SunCon share). The construction division is scheduled to be spun off by mid-July.

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For AmResearch Sdn Bhd

 Benny Chew
 Managing Director

TABLE 1 : VALUATION MATRIX

YE 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	4,721.4	4,841.9	5,324.5	5,511.0	5,444.8
Core net profit (RM mil)	484.0	591.7	555.6	547.5	579.8
FD Core EPS (sen)	30.5	35.1	33.1	32.6	34.5
FD Core EPS growth (%)	27.5	15.2	(5.7)	(1.4)	5.5
Consensus Net Profit (RM mil)	-	-	479.8	530.2	552.1
DPS (sen)	10.0	11.0	10.0	10.0	10.0
PE (x)	12.3	10.7	11.4	11.5	10.9
EV/EBITDA (x)	13.3	10.7	10.9	10.1	10.2
Div yield (%)	2.8	3.0	2.8	2.8	2.8
ROE (%)	34.9	13.2	9.1	8.4	8.4
Net Gearing (%)	25.3	30.4	34.7	28.2	29.2

Source: Company, AmResearch estimates