

Sunway (HOLD ↓; EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK

10 April 2015

Price Target: RM3.75 (↔)

Share price: RM3.76

Acquisition of Winstar and PND
News

- Sunway Holdings (SunHoldings) announced that it have entered into a share sale agreement (SSA) with Winstar Vendors for the acquisition of Winstar Trading Sdn Bhd (100% stake) for RM130.96m.
- SunHoldings also entered into a SSA with PND Vendors for the acquisition of PND Hardware & Trading Pte Ltd (100% stake) for SG\$2.57m (approximately RM6.93m).
- Payment for both acquisitions are staggered into three payments (FY15-18), of which 60% is paid by 2QFY15 and the remaining 40% is paid evenly in 2QFY17 and 2QFY18, respectively.
- Separately, the group also announced the acquisition of the land and petrol station equipment, for RM1.75m.

Highlights

- We are surprised with the announced acquisition with a neutral to slight positive view as these two vendors are profitable market leaders with more than 30 years of experience in the wholesaling of hardware market.
- These acquisitions would eventually create additional revenue stream, providing diversification of risks for the group, albeit marginally (less than 1% of group's PATAMI).
- There will be a profit (PAT) guarantee of RM15m and SG\$250k (approximately RM680k) annually for three years (FY15-17) from Winstar and PND respectively.
- Based on the profit guarantee, Winstar and PND are both valued at a P/E of 8.7x and 10.3x, respectively, which are still priced below the group's P/E which are currently trading at 11.6x FY15 EPS.
- We believe these acquisitions will allow Sunway to enjoy synergies from cross-selling across the customer base of all parties. Apart from that, there could also be potential cost-savings resulted from economies of scale.

Risks

- Execution risk;
- Regulatory and political risk (both domestic and overseas);
- Rising raw material prices; and
- Unexpected downturn in the construction and property cycle.

Forecasts

- Unchanged, pending further information on the acquisitions.

Rating
HOLD ↓

- We remain optimistic about the group, especially with the proposed listing of SunCon as it would further enhance shareholders' value.

Valuation

- TP remained unchanged at **RM3.75** based on SOP valuations. As share price have appreciated 16.4% since our last upgrade to buy in Nov 2014 and potential upside is now less than 10%, we downgrade our recommendation to **HOLD**.

Grace Chew

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KLCI	1,849.4
Expected share price return	-0.3%
Expected dividend return	2.9%
Expected total return	2.6%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,731.4
Market cap (RM m)	6,510.2
3-mth avg. volume ('000)	1,508.3
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	9.3	14.3	27.0
Relative	6.1	7.5	27.4

Major shareholders

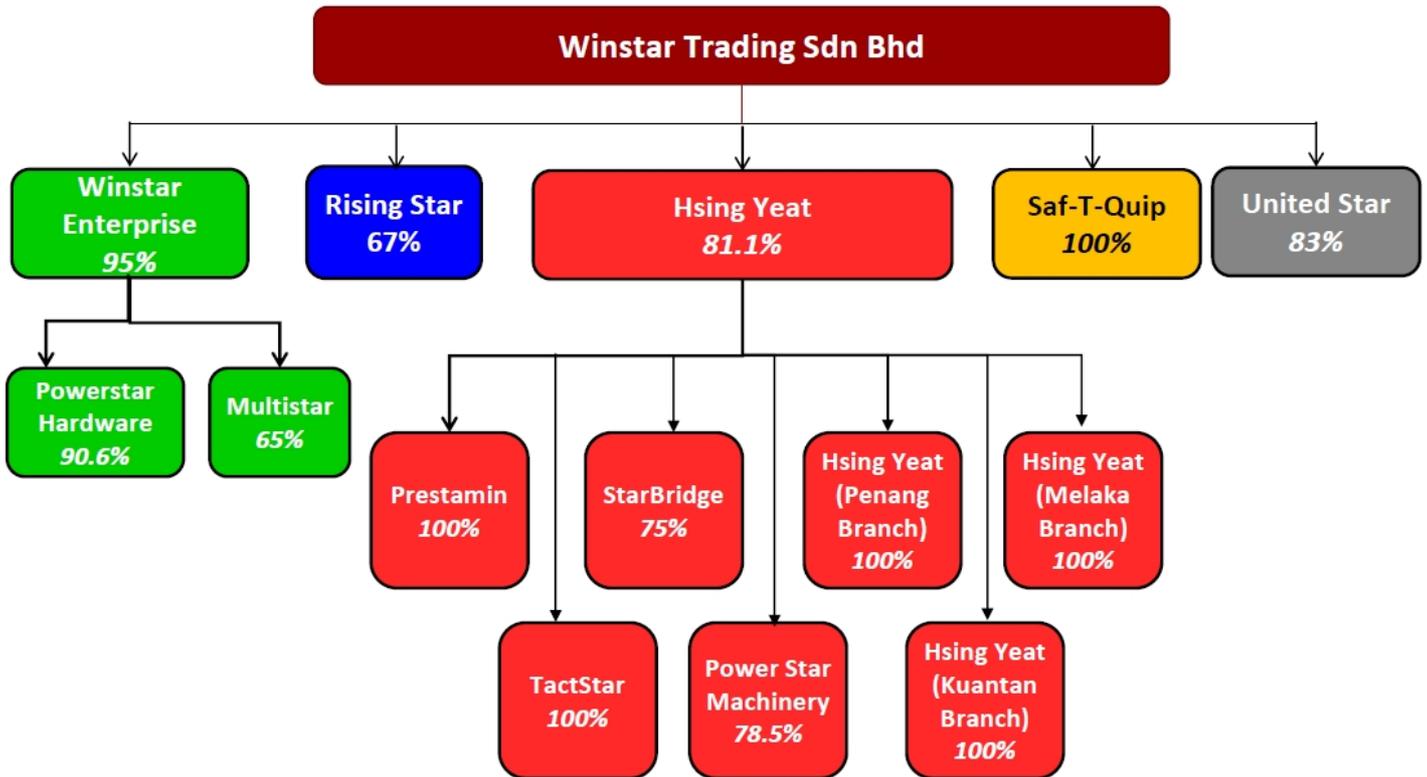
Sungei Way Corp Sdn Bhd	50.1%
Yean Tih Cheah	13.5%

Summary Earnings Table

FYE Dec (RM m)	2013A	2014A	2015E	2016E
Revenue	4,734	4,842	4,759	4,676
EBITDA	1,960	883	748	779
EBIT	1,824	769	632	647
Profit Before Tax	1,894	969	742	779
PATAMI	1,500	743	558	562
Core PATAMI	482	592	558	562
Core EPS (sen)	28.0	34.3	32.4	32.6
FD EPS (sen)	24.0	32.8	27.7	24.4
Net DPS (sen)	10.0	11.0	11.0	12.0
Net DY (%)	2.7	2.9	2.9	3.2
P/E (x)	13.4	11.0	11.6	11.5
FD P/E (x)	15.7	11.5	13.6	15.4
P/B (x)	1.2	1.1	1.1	1.0
Net Gearing (%)	28.7	30.4	24.5	21.2
ROE (%)	10.8	12.2	9.5	9.0
ROA (%)	4.9	4.6	5.3	5.2

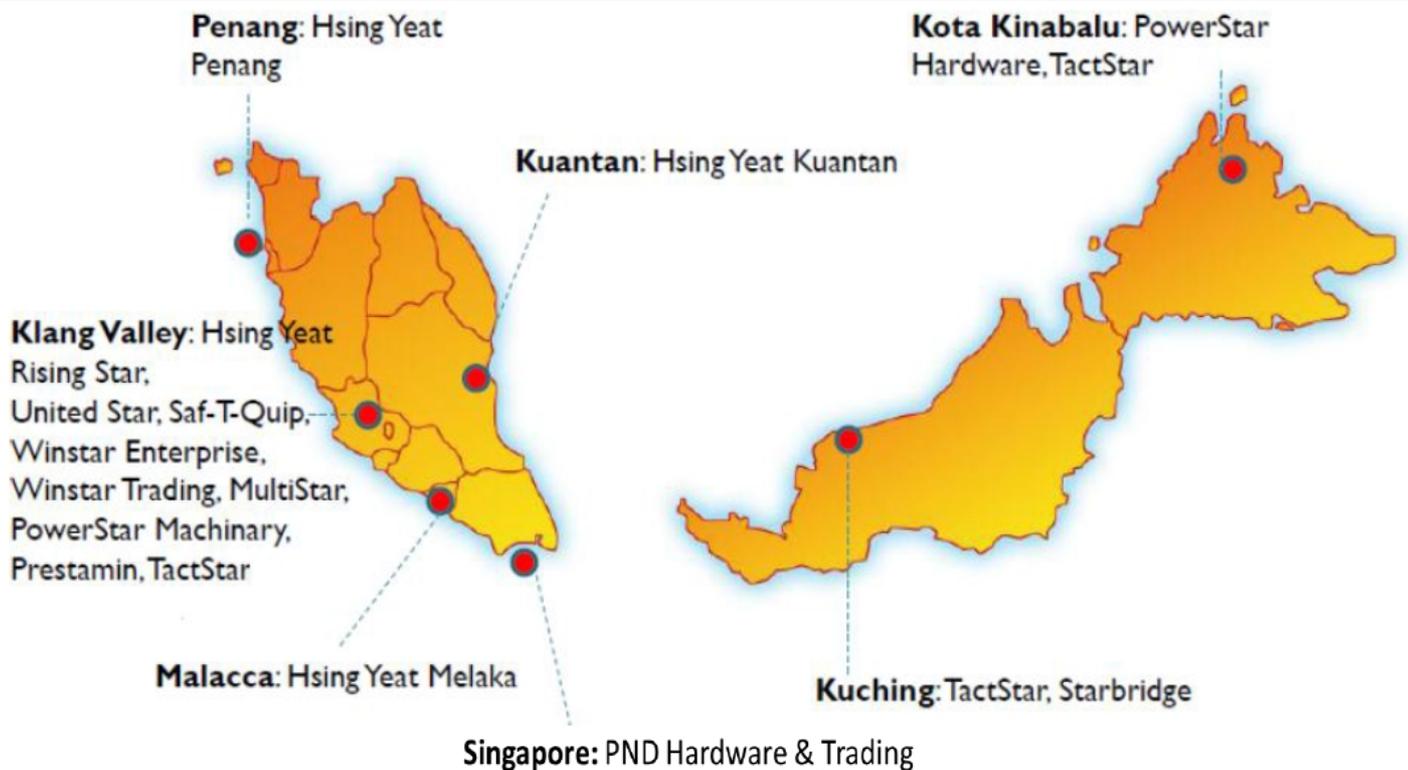
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Figure 1: Winstar Group of Companies



Company

Figure 1: Winstar & PND Network of Branches



Company

Financial Projections for Sunway (BUY; TP: RM3.75)

Income Statement

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	3,876.8	4,733.7	4,841.9	4,758.7	4,676.4
EBITDA	594.5	1,960.5	883.1	748.4	779.1
D&A	(89.9)	(136.9)	(114.3)	(116.3)	(131.9)
EBIT	504.5	1,823.6	768.8	632.0	647.2
Interest Income	27.1	35.6	48.4	26.2	26.7
Finance Costs	(104.6)	(138.1)	(78.9)	(107.1)	(102.3)
Associates/JCE	301.2	172.5	233.2	190.9	207.9
Profit Before Tax	728.2	1,893.6	968.8	742.1	779.5
Tax	(128.5)	(120.9)	(148.0)	(137.2)	(142.7)
Net Profit	599.7	1,772.7	820.9	604.8	636.8
Minority Interests	(67.4)	(273.0)	(77.6)	(46.4)	(74.9)
PATAMI	532.3	1,499.8	743.2	558.4	561.9
Exceptionals	181.8	1,017.8	(151.5)	-	-
Core Earnings	350.6	482.0	591.7	558.4	561.9
Basic Shares (m)	1,292.5	1,723.4	1,723.4	1,723.4	1,723.4
Core EPS (sen)	27.1	28.0	34.3	32.4	32.6
FD Core EPS (sen)	22.6	24.0	32.8	27.7	24.4

Quarterly Financial Summary

FYE 31 Dec (RM m)	2013Q4	2013Q1	2014Q2	2014Q3	2014Q4
Revenue	1,342.2	1,025.7	1,204.6	1,134.0	1,477.5
Expenses	(1,198.4)	(932.6)	(1,086.8)	(1,002.4)	(1,315.9)
Other Income	1,045.1	16.4	16.2	20.4	211.5
EBIT	1,188.8	109.6	134.0	151.9	373.2
Derivatives	0.4	(0.0)	0.2	(0.1)	(2.8)
Net Interest Expense	(24.5)	(7.8)	(10.2)	(5.1)	(7.2)
Associates & JCE	83.4	40.4	109.6	38.5	44.7
Profit Before Tax	1,248.1	142.2	233.6	185.2	407.8
Tax	(45.5)	(30.4)	(44.9)	(21.8)	(50.8)
Net Profit	1,202.7	111.8	188.7	163.4	357.0
Minority Interests	(981.3)	6.3	(56.6)	5.6	(106.9)
PATAMI	157.5	110.3	126.0	149.3	206.1
Exceptionals	31.3	(981.3)	6.3	(56.6)	5.6
Core Earnings	124.4	157.5	110.3	126.0	149.3
Core EPS (sen)	7.76	9.14	6.40	7.31	10.59
FD Core EPS (sen)	7.59	8.78	6.27	7.03	10.19
W. Ave. Shares (m)	1,604.3	1,723.5	1,723.5	1,723.7	1,724.0

Balance Sheet

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Cash	1,140	1,519	1,978	858	921
Trade Receivables	1,404	1,405	1,720	1,173	1,153
Inventories	626	623	598	717	705
Development Costs	600	1,276	1,772	1,006	1,085
Associates/JCE	1,553	2,284	2,481	2,458	2,551
PPE	3,008	3,548	1,047	3,933	4,101
Goodwill	319	320	319	320	320
Others	95	137	3,001	130	130
Total Assets	8,745	11,112	12,916	10,594	10,965
Trade Payables	1,605	2,154	2,172	1,304	1,281
Total Debt	2,747	2,795	3,784	2,299	2,246
Others	524	511	626	511	511
Total Liabilities	4,876	5,460	6,583	4,114	4,038
Shareholders' Funds	3,558	5,335	5,945	6,076	6,448
Minority Interests	310	317	389	405	480
Total Capital	3,868	5,652	6,334	6,480	6,928

Rates and Ratios

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Core PER (x)	13.9	13.4	11.0	11.6	11.5
FD Core PER (x)	16.6	15.7	11.5	13.6	15.4
Net DPS (sen)	6.0	10.0	11.0	11.0	12.0
Net DY (%)	1.6	2.7	2.9	2.9	3.2
BVPS (RM)	2.8	3.1	3.4	3.5	3.7
P/B (x)	1.4	1.2	1.1	1.1	1.0
NTA/Share (RM)	2.5	2.9	3.4	3.3	3.6
EBITDA Margin (%)	15.3	41.4	18.2	15.7	16.7
EBIT Margin (%)	13.0	38.5	15.9	13.3	13.8
PBT Margin (%)	26.6	43.6	20.0	19.6	21.1
PATAMI Margin (%)	9.0	10.2	12.2	11.7	12.0
ROE (%)	10.7	10.8	10.0	9.5	9.0
ROA (%)	4.2	4.9	4.6	5.3	5.2
Net Gearing (%)	49.1	28.7	30.4	24.5	21.2

Cashflow Analysis

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
EBITDA	594.5	1,960.5	883.1	748.4	779.1
Working Capital	(154.1)	(124.7)	145.8	(15.0)	(69.5)
Interest Received	27.1	39.9	49.7	26.2	26.7
Dividends fr Assoc	151.8	83.1	193.6	104.2	114.6
Others	(233.2)	(865.8)	(502.8)	(137.2)	(142.7)
CFO	386.1	1,092.9	769.4	726.6	708.3
Capex	(465.5)	(657.9)	(205.5)	(300.0)	(300.0)
Purchase/Disposal	317.4	38.2	(675.8)	-	-
Others	(209.7)	(215.0)	36.8	-	-
CFI	(357.7)	(834.7)	(844.5)	(300.0)	(300.0)
Financing	493.2	48.6	872.9	(161.5)	(53.4)
Shares Issued	-	732.9	-	-	-
Dividends	-	(344.3)	(212.9)	(189.6)	(189.6)
Interest Paid	(104.6)	(117.5)	(77.1)	(107.1)	(102.3)
Others	(141.7)	(184.3)	12.3	-	-
CFF	246.9	135.4	595.3	(458.2)	(345.2)
Net Cashflow	275.2	393.5	520.2	(31.6)	63.0

Assumption Metrics

FYE 31 Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	3,877	4,734	4,842	4,759	4,676
Property	923	1,167	1,198	1,223	1,320
Property Investment	591	816	594	865	891
Construction	1,275	1,591	1,751	1,391	1,122
Trading/Manufacture	559	587	639	647	679
Quarry	197	198	237	218	229
Others	332	375	422	414	435
EBIT Margins (%)	13.0	38.5	15.9	13.3	13.8

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.