

Sunway (BUY↑; EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK

12 May 2015

Price Target: RM3.75 (↔)

Share price: RM3.40

Kelana Jaya Land Acquisition

News

- Sunway entered into a share sale and purchase agreement with Kelana Resort Sdn Bhd to acquire 100% of Cleaver Fortune Sdn Bhd, the beneficial owner of 731,634 sf leasehold land for RM282.64m.
- The group also entered in a sale and purchase agreement with Viva Variasi Sdn Bhd for the acquisition of 8,708 sq of freehold land for RM3.36m.
- The acquired lands are strategically located in Petaling Jaya. The proposed acquisitions are expected to be completed by Q1 FY16.

Highlights

- We are positively surprised by the proposed acquisitions. Although they are in tandem with the group's objective to replenish its landbank, we were surprised by the land status which is ready for immediate launch.
- We understand that Sunway is proposing a mixed development comprising 7 residential blocks with a commercial podium. The GDV for the development is estimated to be approximately RM1.8bn (estimated average selling price of RM800 psf). The first launch is expected to be in FY16 over a development period of approximately 5 years.
- With the average price/sf of RM386.31, we believe the acquisition price is fair as transactions done surrounding the acquired lands are priced between RM300-500 psf. Furthermore, the location of the land is very strategic as it is easily accessible from major highways, close proximity to public transport as well as airport.
- The proposed acquisition will be funded through bank borrowings and internally generated funds. Based on its latest balance sheet figures, the acquisition would increase Sunway's net gearing marginally by 0.30x to 0.35x. The group would still be able to carry out more landbanking exercises before it reaches a net gearing level of 0.5x (or additional RM880m).
- Post-acquisition, Sunway would have a total landbank of 3,380 acres with total effective GDV of RM50.8bn.

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.

Rating

BUY ↑

- We remain optimistic about the group, especially with the proposed listing of SunCon as it would further enhance shareholders' value.
- Given that target price have now provided more than 10% upside from share price, we now upgrade the stock from HOLD to **BUY**.

Valuation

- TP remained unchanged at **RM3.75** based on SOP valuations. Upgrade to **BUY**.

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KLCI	1,805.5
Expected share price return	10.3%
Expected dividend return	3.2%
Expected total return	13.5%

Share price



Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,747.7
Market cap (RM m)	5,942.0
3-mth avg. volume ('000)	1,924.8
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-6.8	4.6	16.8
Relative	-4.7	4.2	20.0

Major shareholders

Sungei Way Corp Sdn Bhd	50.1%
Yean Tih Cheah	13.5%
EPF	5.5%
Skim Amanah Saham Bumiputera	5.0%

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 (%)	2.9	3.2	3.2	3.5
P/E (x)	12.1	9.9	10.5	10.4
FD P/E (x)	14.2	10.4	12.3	13.9
P/B (x)	1.1	1.0	1.0	0.9
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

HLIB

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)	12.5	12.1	9.9	10.5	10.4
FD Core PER (x)	15.0	14.2	10.4	12.3	13.9
Net DPS (sen)	6.0	10.0	11.0	11.0	12.0
Net DY (%)	1.8	2.9	3.2	3.2	3.5
BVPS (RM)	2.8	3.1	3.4	3.5	3.7
P/B (x)	1.2	1.1	1.0	1.0	0.9
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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