

# Sunway (HOLD ↔; EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK/ BRIEFING

22 September 2014

Price Target: RM3.55 (↑)

Share price: RM3.36

## Listing of Sunway Construction

News	<ul style="list-style-type: none"> <li>Sunway Bhd (Sunway) is seeking to list Sunway Construction Sdn Bhd (SunCon) in 2QFY15. The entire construction division will be injected into a newly formed holding company, Sunway Construction Group Bhd (SCG).</li> <li>Post-listing of SCG, Sunway will be holding an effective stake of 55.65% in SCG while the remaining 13.3% and 31.01% will be in the form of dividend-in-specie (1 for every 10 Sunway shares) and offer for sale (OFS), respectively.</li> </ul>
Highlights	<ul style="list-style-type: none"> <li>This is a positive surprise as we believe the exercise will unlock Sunway's value of investment in SCG as well as enhancing SCG's visibility as a pure construction company.</li> <li>Existing shareholders of Sunway will also be rewarded in form of dividend-in-specie and special cash dividend.</li> <li>Based on our calculation, imputing an assumption of 15x P/E multiple to SunCon's annualised PATMI of RM100m, SunCon's potential market cap would reach RM1.5bn, or RM1.16/share. Assuming 70% of OFS' proceeds are declared as special cash dividend, existing shareholders of Sunway could potentially receive RM326m (or 19 sen/share; FD: 16 sen/share). Hence in total, total capital repayment worth RM526m (or 31 sen/share; FD: 26 sen/share).</li> <li>Post-listing, Sunway will continue to operate as usual and we do not foresee any margin compression given that all property construction jobs are bid on a competitive basis.</li> <li>However, SunCon could stand a higher chance as it operates as an integrated construction company who also does in-house piling works as well as M&amp;E. We believe SunCon's cost structure is more competitive as it has the ability to source its raw materials in-house.</li> <li>With Sunway's total GDV of RM50bn and assuming a conservative 50% GDC ex-land and net margin of 5%, SunCon would have lock-in earnings of at least RM1.25bn over 15-20 years (or RM62.5m-RM83.3m annually). Apart from this, SunCon would also seek for more external projects as well as in overseas markets, further enhancing its profitability going forward.</li> <li>To date, the construction arm has an order book of RM3.4bn (2.1x FY13 construction revenue) and aims to maintain order book replenishment of circa RM2.5bn for 2014 (inclusive of RM700-800m internal orders).</li> <li>We also do not dismiss the possibility of Sunway injecting its other subsidiaries (trading &amp; manufacturing and quarry &amp; building materials) in the future, as it would further enhance SunCon's integrated approach and competitiveness.</li> </ul>
Risks	<ul style="list-style-type: none"> <li>Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; and Unexpected downturn in the construction and property cycle.</li> </ul>
Forecasts Rating	<ul style="list-style-type: none"> <li>Unchanged, pending conclusion of the deal.</li> </ul> <p><b>HOLD ↔</b></p> <ul style="list-style-type: none"> <li>We are positive as it would result in SunCon being a pure construction play while enhancing Sunway's shareholders' value. However, we are maintaining our <b>HOLD</b> recommendation as total potential return is less than 10%.</li> </ul>
Valuation	<ul style="list-style-type: none"> <li>TP upgraded to <b>RM3.55</b> based on SOP valuation, as we now impute a higher value to SunCon as per latest guidance from management.</li> </ul>

Grace Chew

[PSChew@hlib.hongleong.com.my](mailto:PSChew@hlib.hongleong.com.my)

(603) 2168 1165

KLCI	1,849.5
Expected share price return	5.7%
Expected dividend return	3.3%
Expected total return	9.0%

### Share price



### Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	1,723.3
Market cap (RM m)	5,790.3
3-mth avg. volume ('000)	649.8
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	6.0	10.5	5.3
Relative	7.2	12.2	2.2

### Major shareholders

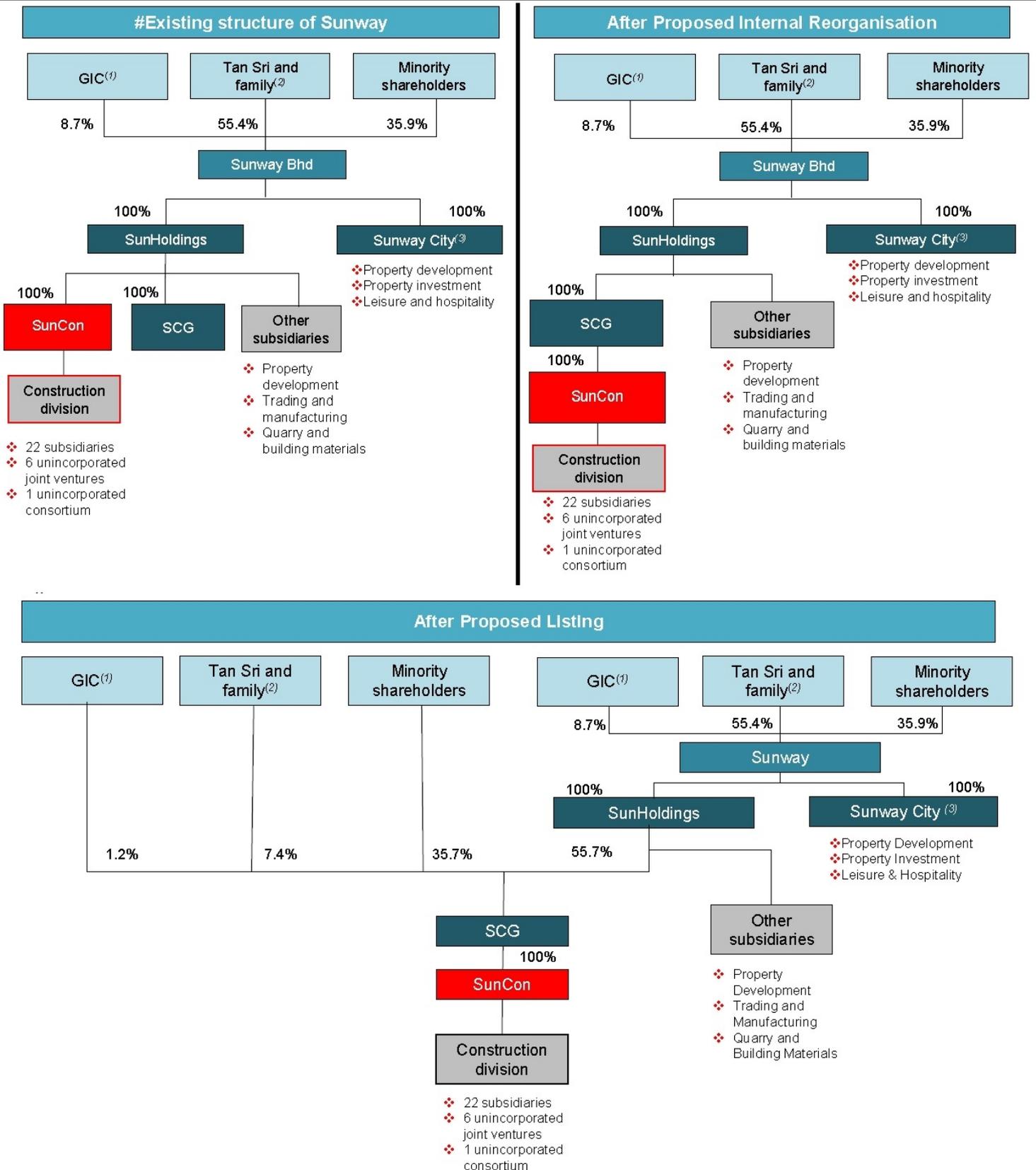
Sungei Way Corp Sdn Bhd	48.2%
Yean Tih Cheah	13.5%
GIC	8.7%

### Summary Earnings Table

FYE Dec (RM m)	2012A	2013A	2014E	2015E
Revenue	3,877	4,734	4,731	4,759
EBITDA	594	1,960	661	687
EBIT	505	1,824	561	571
Profit Before Tax	728	1,894	635	655
PATAMI	532	1,500	487	500
Core PATAMI	351	482	487	500
Core EPS (sen)	27.1	28.0	28.3	29.0
FD EPS (sen)	22.6	24.0	24.2	24.8
Net DPS (sen)	6.0	10.0	11.0	11.0
Net DY (%)	1.8	3.0	3.3	3.3
P/E (x)	12.4	12.0	11.2	11.2
FD P/E (x)	14.9	14.0	12.9	12.6
P/B (x)	1.2	1.1	1.0	0.9
Net Gearing (%)	49.1	28.7	29.5	26.5
ROE (%)	10.7	10.8	8.9	8.6
ROA (%)	4.2	4.9	4.6	4.8

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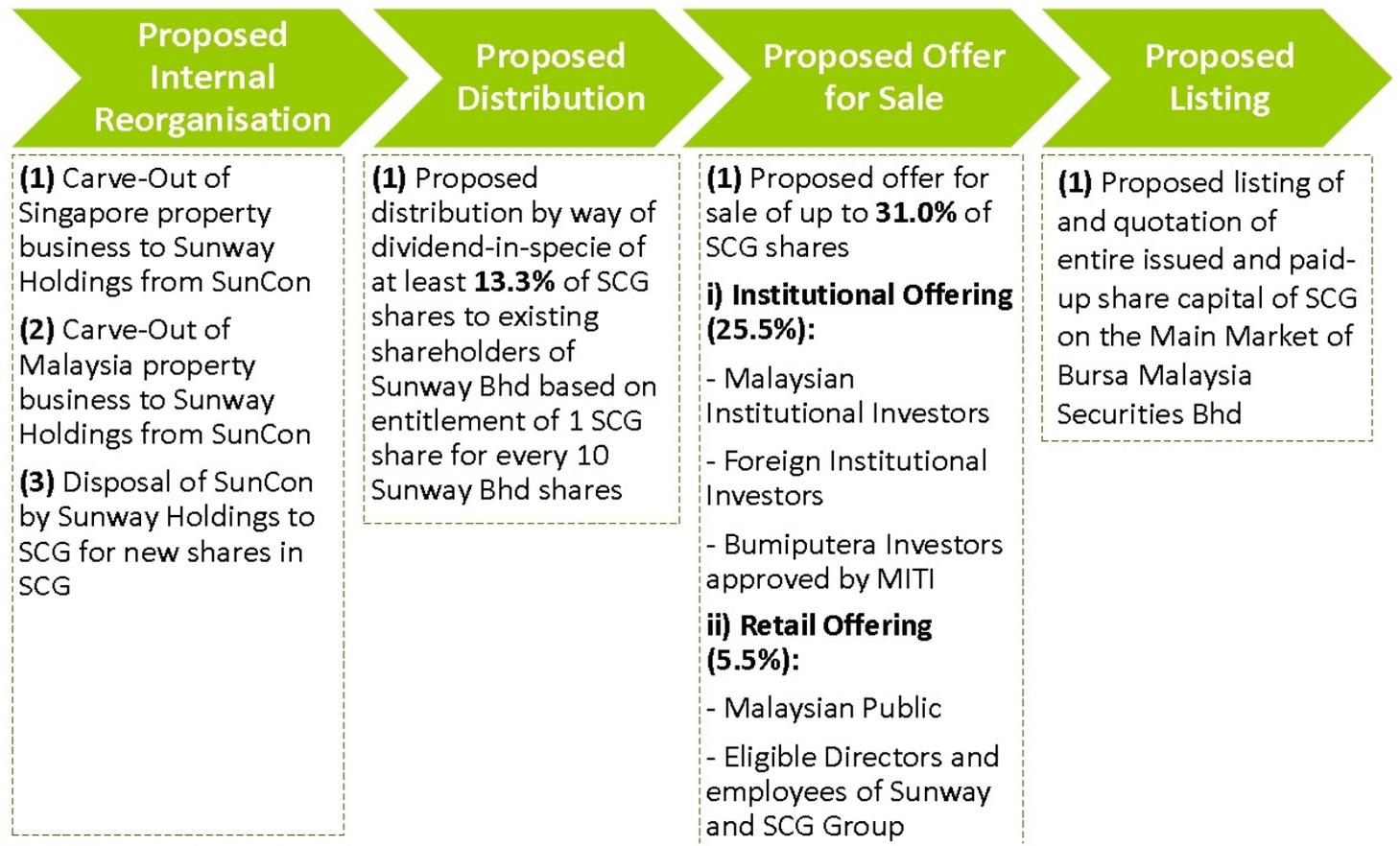
Figure #1 Group Structure Pre- and Post-Listing of SunCon



**Notes:**  
<sup>(1)</sup> GIC Private Limited for the Government of Singapore  
<sup>(2)</sup> Tan Sri Dato' Seri Dr Jeffrey Cheah Fook Ling, A.O., his interest in related company vehicles, spouse and children  
<sup>(3)</sup> Sunway City Sdn Bhd

Company

Figure #2 Listing Process



Company

Figure #3 Sunway SOP valuation – Post-Listing of SunCon

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	15X Average of FY14-15 Earnings	56%	836	0.42	11.7
Property	NPV of profits + Shareholders Fund	100%	5,106	2.54	71.5
Trading/Manufacturing	9X P/E	100%	291	0.14	4.1
Quarry	15X P/E	100%	187	0.09	2.6
Dividend in-specie			200	0.10	2.8
Special cash dividend			326	0.16	4.6
		Sub-Total (RM m)	6,946		
		No. of shares (m)	1,723		
		RM per share	4.03		
		Proceeds from warrants (RM m)	657	0.33	9.2
		Estimated Holding Company Net Debt	(460)	(460)	(0.23)
		SOP (RM m)	7,143		
		Total no. of diluted shares (m)	2,013		
		<b>Target Price (RM)</b>	<b>3.55</b>		

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## Financial Projections for Sunway (HOLD; TP: RM3.55)

### Income Statement

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
<b>Revenue</b>	<b>3,691.7</b>	<b>3,876.8</b>	<b>4,733.7</b>	<b>4,730.7</b>	<b>4,758.7</b>
EBITDA	457.0	594.5	1,960.5	660.8	686.9
D&A	(90.7)	(89.9)	(136.9)	(99.3)	(116.3)
<b>EBIT</b>	<b>366.3</b>	<b>504.5</b>	<b>1,823.6</b>	<b>561.5</b>	<b>570.5</b>
Interest Income	27.5	27.1	35.6	35.4	24.1
Finance Costs	(80.9)	(104.6)	(138.1)	(118.3)	(107.1)
Associates/JCE	185.6	301.2	172.5	156.4	167.3
<b>Profit Before Tax</b>	<b>498.5</b>	<b>728.2</b>	<b>1,893.6</b>	<b>635.0</b>	<b>654.9</b>
Tax	(86.1)	(128.5)	(120.9)	(118.8)	(121.4)
<b>Net Profit</b>	<b>412.4</b>	<b>599.7</b>	<b>1,772.7</b>	<b>516.2</b>	<b>533.5</b>
Minority Interests	(40.4)	(67.4)	(273.0)	(29.0)	(33.8)
<b>PATAMI</b>	<b>372.1</b>	<b>532.3</b>	<b>1,499.8</b>	<b>487.2</b>	<b>499.7</b>
Exceptionals	44.1	181.8	1,017.8	-	-
<b>Core Earnings</b>	<b>328.0</b>	<b>350.6</b>	<b>482.0</b>	<b>487.2</b>	<b>499.7</b>
Basic Shares (m)	1,292.5	1,292.5	1,723.4	1,723.4	1,723.4
Core EPS (sen)	25.4	27.1	28.0	28.3	29.0
FD Core EPS (sen)	21.1	22.6	24.0	24.2	24.8

### Quarterly Financial Summary

FYE 31 Dec (RM m)	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2
Revenue	1,118.0	1,066.1	1,342.2	1,025.7	1,204.6
Expenses	(1,024.4)	(1,001.2)	(1,198.4)	(932.6)	(1,086.8)
Other Income	22.9	10.0	1,045.1	16.4	16.2
EBIT	116.6	74.9	1,188.8	109.6	134.0
Derivatives	(0.1)	0.1	0.4	(0.0)	0.2
Net Interest Expense	(12.6)	(6.3)	(24.5)	(7.8)	(10.2)
Associates & JCE	108.6	49.4	83.4	40.4	109.6
Profit Before Tax	212.5	118.2	1,248.1	142.2	233.6
Tax	(32.5)	(16.6)	(45.5)	(30.4)	(44.9)
Net Profit	180.1	101.6	1,202.7	111.8	188.7
Minority Interests	(9.7)	(8.5)	(63.9)	(7.8)	(6.2)
PATAMI	170.3	93.1	1,138.8	104.0	182.5
Exceptionals	(59.6)	31.3	(981.3)	6.3	(56.6)
Core Earnings	110.7	124.4	157.5	110.3	126.0
Core EPS (sen)	8.57	7.76	9.14	6.40	7.31
FD Core EPS (sen)	8.26	7.59	8.78	6.27	7.03
W. Ave. Shares (m)	1,292.5	1,604.3	1,723.5	1,723.5	1,723.7

### Balance Sheet

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Cash	869	777	1,140	1,519	843
Trade Receivables	742	789	1,404	1,405	1,166
Inventories	302	452	626	623	713
Development Costs	621	669	600	1,276	994
Associates/JCE	1,242	1,281	1,553	2,284	2,349
PPE	2,197	2,876	3,008	3,548	3,749
Goodwill	329	326	319	320	320
Others	679	673	95	137	130
<b>Total Assets</b>	<b>6,981</b>	<b>7,844</b>	<b>8,745</b>	<b>11,112</b>	<b>10,263</b>
Trade Payables	826	1,040	1,605	2,154	1,296
Total Debt	1,406	2,254	2,747	2,795	2,461
Others	850	1,239	524	511	511
<b>Total Liabilities</b>	<b>3,082</b>	<b>4,532</b>	<b>4,876</b>	<b>5,460</b>	<b>4,267</b>
Shareholders' Funds	3,518	2,985	3,558	5,335	5,650
Minority Interests	381	326	310	317	346
<b>Total Capital</b>	<b>3,899</b>	<b>3,312</b>	<b>3,868</b>	<b>5,652</b>	<b>5,996</b>

### Rates and Ratios

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Core PER (x)	13.2	12.4	12.0	11.1	10.8
FD Core PER (x)	15.9	14.9	14.0	12.9	12.6
Net DPS (sen)	-	6.0	10.0	11.0	11.0
Net DY (%)	-	1.8	3.0	3.3	3.3
BVPS (RM)	2.3	2.8	3.1	3.3	3.5
P/B (x)	1.5	1.2	1.1	1.0	0.9
NTA/Share (RM)	2.1	2.5	2.9	3.1	3.3
EBITDA Margin (%)	12.4	15.3	41.4	14.0	14.4
EBIT Margin (%)	9.9	13.0	38.5	11.9	12.0
PBT Margin (%)	18.5	26.6	43.6	16.7	17.3
PATAMI Margin (%)	8.9	9.0	10.2	10.3	10.5
ROE (%)	10.1	10.7	10.8	8.9	8.6
ROA (%)	4.4	4.2	4.9	4.6	4.8
Net Gearing (%)	45.4	49.1	28.7	29.5	26.5

### Cashflow Analysis

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
EBITDA	457.0	594.5	1,960.5	660.8	686.9
Working Capital	(52.9)	(154.1)	(124.7)	(427.4)	(15.0)
Interest Received	27.5	27.1	39.9	35.4	24.1
Dividends fr Assoc	153.9	151.8	83.1	91.6	104.2
Others	(186.5)	(233.2)	(865.8)	(111.4)	(121.4)
<b>CFO</b>	<b>399.0</b>	<b>386.1</b>	<b>1,092.9</b>	<b>249.0</b>	<b>678.8</b>
Capex	(142.2)	(465.5)	(657.9)	(300.0)	(300.0)
Purchase/Disposal	(71.2)	317.4	38.2	-	-
Others	(79.6)	(209.7)	(215.0)	-	-
<b>CFI</b>	<b>(293.0)</b>	<b>(357.7)</b>	<b>(834.7)</b>	<b>(300.0)</b>	<b>(300.0)</b>
Financing	847.9	493.2	48.6	(334.8)	(161.5)
Shares Issued	(42.5)	-	732.9	-	-
Dividends	(944.2)	-	(344.3)	(172.3)	(189.6)
Interest Paid	(80.9)	(104.6)	(117.5)	(118.3)	(107.1)
Others	23.5	(141.7)	(184.3)	-	-
<b>CFF</b>	<b>(196.3)</b>	<b>246.9</b>	<b>135.4</b>	<b>(625.4)</b>	<b>(458.2)</b>
<b>Net Cashflow</b>	<b>(90.2)</b>	<b>275.2</b>	<b>393.5</b>	<b>(676.4)</b>	<b>(79.3)</b>

### Assumption Metrics

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
<b>Revenue</b>	<b>3,692</b>	<b>3,877</b>	<b>4,734</b>	<b>4,731</b>	<b>4,759</b>
Property	916	923	1,167	1,209	1,223
Property Investment	518	591	816	840	865
Construction	1,221	1,275	1,591	1,463	1,391
Trading/Manufacture	553	559	587	616	647
Quarry	184	197	198	208	218
Others	300	332	375	394	414
EBIT Margins (%)	9.9	13.0	38.5	11.9	12.0

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 Level 23, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
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## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.