

12 May 2015

Sunway Berhad

Replenishing Klang Valley Landbank!

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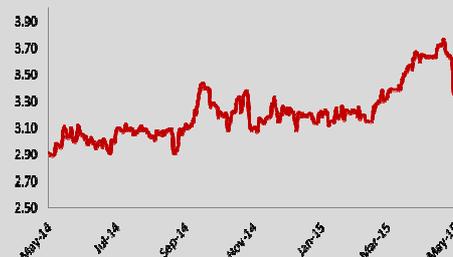
OUTPERFORM ↔

Price: **RM3.40**

Target Price: **RM3.78** ↑

- News**
- Yesterday, Sunway Bhd (SUNWAY) made an announcement that it is acquiring 5 parcels of land in Kelana Jaya measuring 17.0 acres for a total consideration of RM286.0m or RM386.3psf.
- Comments**
- We were not entirely surprised with the landbanking move by SUNWAY as we have previously highlighted in our sector report dated 6/4/15 that we were expecting developers to landbank as land owners are becoming more realistic with their selling prices.
 - These 17.0 acres of land are situated adjacent to Western Digital factory fronting the LDP highway, which is approximately 1.5km away from MAHSING's Icon City. (Kindly refer overleaf for more details.)
 - Out of these 17.0 acres, 16.8 acres are leasehold land under commercial title while the remaining 0.2 acres are freehold land with residential title with plot ratio of 4.0x. Based on 4.0x plot ratio and an assumed RM800.0psf (average asking price of Icon City) and utilisation rate of 75.0%, these 17.0 acres of land would have a potential GDV of RM1.8b.
 - We deem the purchase price of RM286.0m fair as the total land cost makes up 16.0% of potential GDV of RM1.8b and the price tag of RM386.3psf is comparable to Tropicana's land sales in Subang Jaya and Mentari that were transacted at RM350.0psf and RM440.0psf, respectively in 2H14.
 - As of 4Q14, SUNWAY's net gearing stood at only 0.29x, and we would expect it to inch up to 0.34x post acquisition of these 17.0 acres of land and WINSTAR.
- Outlook**
- As for the listing of its construction arm SUNCON, we believe that it is right on track by the end/beginning of 1H15/2H15. To recap, SUNWAY's shareholders could stand to gain 33.3-38.9 sen special dividends (inclusive of SUNCON shares) from the listing of SUNCON.
- Forecast**
- No change to our FY15-16E earnings at this juncture as SUNWAY is targeting to launch this particular project closer to the end of 2016.
- Rating** **Maintain OUTPERFORM**
- Valuation**
- We reiterate our OUTPERFORM call on SUNWAY with a higher SoP-driven TP of RM3.78 (previously, RM3.76), as we believe that there will be more excitement closer to the listing of its construction arm (SUNCON). Our Target Price is slightly higher (+2.0 sen) after factoring in the potential GDV of RM1.8b from the new landbank in Kelana Jaya.
- Risks to Our Call**
- Weaker-than-expected property sales and construction orderbook replenishment.
 - Higher-than-expected sales and administrative costs.
 - Negative real estate policies.
 - Tighter lending environments.

Share Price Performance



KLCI	1,805.49
YTD KLCI chg	2.5%
YTD stock price chg	6.5%

Stock Information

Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	5,942.0
Issued shares	1,747.7
52-week range (H)	3.81
52-week range (L)	2.89
3-mth avg daily vol:	1,924,815
Free Float	31%
Beta	0.8

Major Shareholders

SUNGEI WAY CORP SDN	50.1%
YEAN TIH CHEAH	13.5%
EMPLOYEES PROVIDENT	5.4%

Summary Earnings Table

FYE Dec (RM m)	2014A	2015E	2016E
Turnover	4,842	5,159	5,378
EBIT	615	671	696
PBT	969	875	900
Net Profit (NP)	744	606	620
Core NP	592	606	620
Consensus (NP)	n.a.	572	583
Earnings Revision	n.a.	n.a.	n.a.
EPS (sen)	43.2	35.2	36.0
Core EPS (sen)	34.4	35.2	36.0
EPS growth (%)	-50%	-18%	2%
NDPS (sen)	13.8	10.3	10.6
NTA/Share (RM)	2.91	3.26	3.54
Core PER	7.9	9.7	9.4
Price/NTA (x)	1.2	1.0	1.0
Net Gearing (x)	0.3	0.2	0.2
Dividend Yield (%)	4.1%	3.0%	3.1%

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Location Map



Source: Company, Kenanga Research

Kelana Jaya Land Aerial View



Source: Company, Kenanga Research

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Sum-of-Parts						
	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	6,460	n.a		6,460	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,782	n.a		1,782	SUNREIT TP RM1.76
Construction	100%	1,911	15		1,911	15x FY15E PER- pegged with the mid end of mid cap construction Fwd PERs of 12x-15x.
Quarry & Buildings Mat	100%	32	8		32	8x FY15E PER
Trading & manufacturing	100%	357	8		357	8x FY15E PER
Group Shareholders Funds					0	
Total SOP		10,542			10,542	
Discount Rate to Property Division RNAV				50%	-3,230	
Discounted SOP					7,312	
Dilution impact					879	
FD SOP (RM)					5.27	
Implied SOP Discount Rate					-28%	
TP (RM)					3.78	
Diluted no. of shares ('m)					2,168	

Source: Kenanga Research

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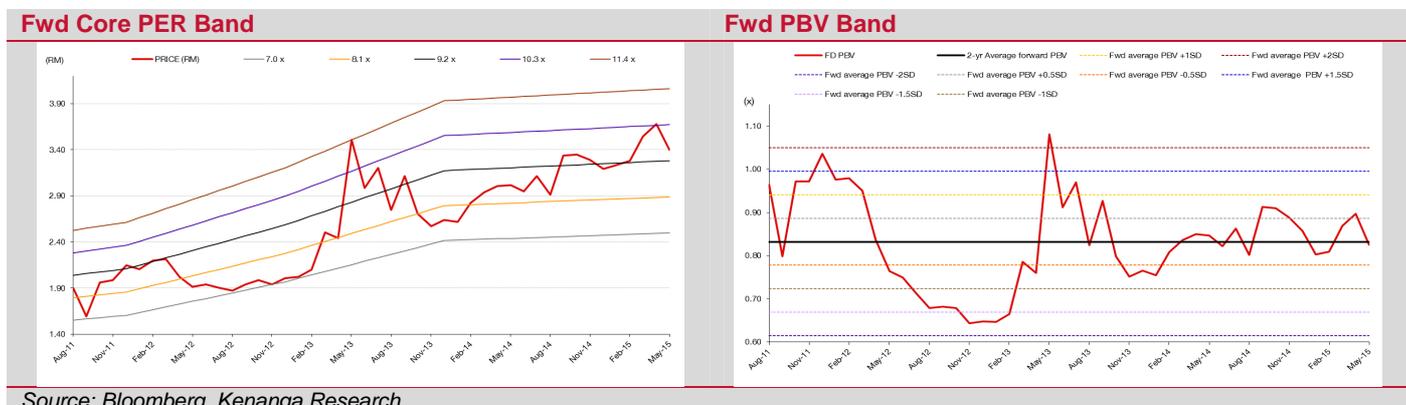
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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E	FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	3849	4734	4842	5159	5378	Growth (%)					
EBITDA	417	915	729	793	828	Revenue	4.3	23.0	2.3	6.6	4.2
Depreciation	-95	-109	-114	-122	-131	EBITDA	-2.4	119.5	-20.3	8.7	4.4
EBIT	322	806	615	671	696	EBIT	-0.2	150.5	-23.7	9.1	3.8
Interest Expense	-100	-138	-79	-85	-96	Pre-tax Income	45.0	162.0	-48.8	-9.7	2.8
Investing	23	36	48	49	56	Net Income	36.8	183.0	-50.4	-18.5	2.3
Associate/JCE	296	172	233	240	244	Core Net Profit	-1.1	37.7	22.7	2.4	2.3
Exceptionals/FV	182	1018	152	0	0	Profitability (%)					
PBT	723	1894	969	875	900	EBITDA Margin	10.8	19.3	15.1	15.4	15.4
Taxation	-125	-121	-148	-195	-201	EBIT Margin	8.4	17.0	12.7	13.0	13.0
Minority Interest	-67	-273	-78	-74	-79	PBT Margin	18.8	40.0	20.0	17.0	16.7
Net Profit	530	1500	744	606	620	Net Margin	13.8	31.7	15.4	11.8	11.5
Core Net Profit	350	483	592	606	620	Core Net Margin	9.1	10.2	12.2	11.8	11.5
						Effective Tax Rate	-17.3	-22.6	-22.3	-22.3	-22.3
						ROE	16.1	33.6	13.2	9.8	9.3
						ROA	6.3	14.9	6.2	4.5	4.2
						DuPont Analysis					
						Net margin (%)	13.8	31.7	15.4	11.8	11.5
						Assets Turnover (x)	0.5	0.5	0.4	0.4	0.4
						Leverage Factor (x)	2.5	2.3	2.1	2.2	2.2
						ROE (%)	16.1	33.6	13.2	9.8	9.3
						Leverage					
						Debt/Asset (x)	0.30	0.25	0.29	0.30	0.31
						Debt/Equity (x)	0.76	0.52	0.64	0.66	0.69
						Net Debt/(Cash)	1.6	1.3	1.8	1.5	1.7
						Net Debt/Equity (x)	0.39	0.24	0.30	0.23	0.25
						Valuations					
						EPS (sen)	30.8	87.1	43.2	35.2	36.0
						Core EPS	20.3	28.0	34.4	35.2	36.0
						NDPS (sen)	6.0	10.0	13.8	10.3	10.6
						BV/share (RM)	2.08	3.10	3.45	3.72	4.00
						Core PER (x)	11.1	3.9	7.9	9.7	9.4
						Net Div. Yield (%)	1.8%	2.9%	4.1%	3.0%	3.1%
						PBV (x)	1.6	1.1	1.0	0.9	0.8
						EV/EBITDA (x)	17.8	7.8	10.5	9.2	9.1

Balance Sheet					
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Fixed Assets	2646	3540	3766	4305	5086
Intangibles	318	320	319	319	319
Other FA	1590	2369	2652	2652	2652
Inventories	650	623	598	729	711
Receivables	2128	2679	3492	3162	3296
Other CA	493	63	111	111	111
Cash	1159	1527	1978	2777	3089
Total Assets	8983	11120	12917	14056	15264
Payables	1772	2154	2172	2306	2403
ST Borrowings	1765	1805	2283	2283	2283
Other ST Liability	31	24	21	21	21
LT Borrowings	972	991	1502	1961	2498
Other LT Liability	478	486	605	605	617
Minority Int.	381	317	389	462	541
Net Assets	3585	5343	5945	6418	6901
Share Capital	1293	1723	1731	1731	1731
Reserves	2293	3620	4215	4687	5171
Shareholders Equity	3585	5343	5945	6418	6901

Cashflow Statement					
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Operating CF	390	755	271	1,325	1,006
Investing CF	-370	-1,131	-20	-298	-526
Financing CF	274	744	761	246	315
Net Change in Cash	294	368	1,013	1,272	795
Free Cash Flow	-43	532	545	1,522	1,100

Source: Kenanga Research



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Peer Comparison

NAME	Price (11/5/15)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY15/16 NP Growth (%)	FY16/17 NP Growth (%)	Target Price (RM)	Rating
	(RM)		FY14/15	FY15/16	FY16/17				FY14/15	FY15/16	FY16/17				
DEVELOPERS UNDER COVERAGE															
S P SETIA BHD*	3.45	8,771	24.3	14.7	11.3	3.4%	6.8%	1.3	361.0	595.5	772.8	64.9%	29.8%	3.95	OUTPERFORM
IOI PROPERTIES GROUP BHD*	2.19	8,276	17.3	19.9	18.9	3.2%	4.3%	0.7	479.2	414.0	439.0	-13.6%	6.0%	2.12	MARKET PERFORM
UEM SUNRISE BHD*	1.31	5,944	13.8	17.2	15.3	1.9%	7.8%	0.9	479.9	385.6	434.3	-19.7%	12.6%	1.47	MARKET PERFORM
SUNWAY BHD	3.40	5,942	9.9	9.7	9.4	3.0%	13.2%	0.9	592.2	606.3	620.5	2.4%	2.3%	3.78	OUTPERFORM
MAH SING GROUP BHD^	1.72	4,129	12.2	11.0	10.3	3.7%	16.1%	1.1	339.2	375.6	399.4	10.7%	6.3%	1.74	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP	1.77	3,487	583.2	112.2	25.3	0.0%	7.9%	1.3	7.2	37.3	165.5	419.8%	343.8%	2.05	OUTPERFORM
UOA DEVELOPMENT BHD*	2.27	3,248	11.6	11.5	10.8	5.7%	12.2%	1.1	279.1	281.7	301.6	0.9%	7.1%	2.10	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.34	2,394	16.4	24.2	30.7	0.9%	2.6%	1.3	41.6	62.1	72.1	49.5%	16.1%	1.27	UNDERPERFORM
KSL HOLDINGS BHD	1.82	1,738	5.7	5.3	4.7	7.6%	15.3%	0.8	252.0	271.5	301.9	7.8%	11.2%	2.48	OUTPERFORM
TROPICANA CORP BHD	1.10	1,567	4.0	6.4	9.3	2.8%	11.9%	0.5	304.5	189.5	131.5	-37.7%	-30.6%	1.10	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD^^	2.80	1,510	8.2	7.9	7.8	5.7%	29.5%	1.9	182.6	190.2	190.5	4.1%	0.2%	2.62	MARKET PERFORM
CRESCENDO CORPORATION BHD*	2.36	537	12.5	12.1	11.8	3.3%	18.4%	0.6	43.3	44.5	45.7	2.7%	2.9%	2.46	MARKET PERFORM
HUA YANG BHD	2.09	552	6.7	5.4	5.4	6.3%	22.8%	1.2	82.2	102.9	102.8	25.2%	-0.1%	2.20	OUTPERFORM
CREST BUILDER HOLDINGS BHD	1.20	201	10.1	12.6	10.2	2.0%	8.9%	0.5	13.9	15.7	19.5	13.1%	23.8%	1.27	MARKET PERFORM
CONSENSUS NUMBERS															
IGB CORPORATION BHD	2.89	3,858	17.8	15.8	14.2	2.6%	5.0%	0.9	216.9	244.3	271.0	12.6%	10.9%	4.10	NEUTRAL
YNH PROPERTY BHD	1.91	784	17.1	12.3	9.3	2.3%	5.3%	0.9	45.9	63.6	84.2	38.6%	32.3%	1.58	SELL
GLOMAC BHD	0.95	687	8.6	9.6	7.2	4.4%	8.8%	0.7	79.5	71.2	95.9	-10.4%	34.7%	0.96	SELL
PARAMOUNT CORP BHD	1.61	680	9.8	10.1	9.5	5.0%	7.9%	0.8	69.6	67.6	71.8	-3.0%	6.3%	1.54	NEUTRAL
TAMBUN INDAH LAND BHD	1.83	772	7.1	6.5	6.0	5.3%	30.2%	2.0	109.3	118.2	127.9	8.1%	8.2%	2.16	BUY

* Core NP and Core PER

** Crescendo per share data is based on non-Fully Diluted

^ Last price and TP is Ex-rights and Ex-Bonus.

^^ Last price and TP is Ex-bonus

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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