

# Sunway Berhad

## Here Comes the Double Dividends!

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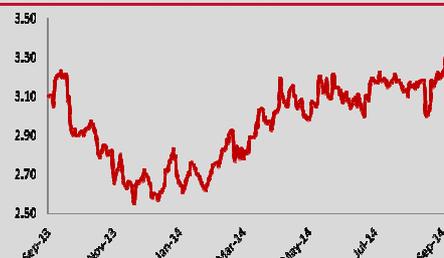
- News**
- Last Friday, Sunway Berhad (SUNWAY) proposed to list its construction division that is currently held under its indirectly wholly-owned subsidiary, Sunway Construction Sdn Bhd (SUNCON), on the Main Market of Bursa Malaysia Securities.
- Comments**
- We were surprised by the announcement, as we did not expect SUNWAY to relist its construction unit shortly within three years since the merger between Sunway Holdings and Sunway City back in 2011, which was aimed at creating synergies between the two entities and minimizing RPTs. The key difference in the new structure is that there are no overlaps in property and construction businesses between both entities, as seen in the past, which puts to rest investors' concerns of conflicts of interests.
  - Nonetheless, we are still positive with the proposed listing of SUNCON due to the following reasons; (i) synergies between SUNWAY and SUNCON would be maintained and management had reiterated that SUNWAY's property division margins would not be affected given that SUNCON are still required to go through competitive bidding process for internal building jobs, (ii) an exercise to reward SUNWAY shareholders through dividend-in-specie of SUNCON shares based on entitlement ratio of 1 SUNCON shares for every 10 SUNWAY shares held, coupled with a special cash dividend from the proceeds of the listing of SUNCON shares which is expected to be completed by 2Q15.
  - Our SoP values SUNCON's market capitalisation at RM1.2b or RM0.89 per share based on 15x FY15 PER and SUNWAY would be able to raise a proceeds ranging from RM331.1m to RM357.6m depending on the conversion of warrants and ESOS. Based on our assumptions, we expect each Sunway shareholder to get 1 share in SUNCON for every 10 SUNWAY shares held worth RM0.89/share and cash dividend ranging from of 12.75 sen to 16.60 sen. (refer overleaf for more details.) (iii) un-locking of value in its construction division whilst benefiting Sunway Bhd through less holding company discounts which would enhance its property valuations.
- Outlook**
- While the property market remains fairly quiet, we believe that SUNWAY is on track to meet its sales target of RM1.8b for FY14 given that recent launches, like Sunway Geo Residence 2 and Citrine, has received encouraging bookings rate of 70% and 100%, respectively. Based on channel checks, we gather that 40%-50% of its Sunway Geo Residence 2 bookings had been converted into sales.
  - Its property unbilled sales remains fairly strong at RM2.4b with remaining external orderbook of RM1.9b that easily provides another 1-1.5 years visibility.
- Forecast**
- No changes to our FY14-15E estimate at this juncture.
- Rating**
- Valuation**
- Maintain OUTPERFORM**
- We are raising our Target Price for SUNWAY from RM3.70 to RM3.87 as we roll forward our SoP driven valuation base to FY15E from FY14E (refer overleaf for more details.)
  - We also reiterate our OUTPERFORM call on SUNWAY for its ability to deliver healthy sales despite the multiple cooling measures undertaken to cool off the property market.
- Risks to Our Call**
- Unable to meet sales targets or replenish landbank. Sector risks, including additional negative policies.

# OUTPERFORM ↔

Price: **RM3.36**

Target Price: **RM3.87** ↑

### Share Price Performance



KLCI	1,849.49
YTD KLCI chg	-0.9%
YTD stock price chg	23.5%

### Stock Information

Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	5,790.3
Issued shares	1,723.3
52-week range (H)	3.38
52-week range (L)	2.54
3-mth avg daily vol:	629,232
Free Float	30%
Beta	1.3

### Major Shareholders

SUNGEI WAY CORP SDN	48.2%
YEAN TIH CHEAH	13.5%
GIC PRIVATE LIMITED	8.7%

### Summary Earnings Table

FYE Dec (RM m)	2013A	2014E	2015E
Turnover	4,734	5,953	6,284
EBIT	806	788	874
PBT	1,894	807	896
<b>Net Profit (NP)</b>	<b>1,500</b>	<b>540</b>	<b>572</b>
<b>Core NP</b>	<b>483</b>	<b>540</b>	<b>572</b>
Consensus (NP)	N.A.	496	540
Earnings Revision	N.A.	N.A.	N.A.
EPS (sen)	69.7	25.1	26.5
EPS growth (%)	126%	-64%	6%
NDPS (sen)	10.0	10.0	10.0
NTA/Share (RM)	2.91	3.15	3.41
PER (x)	12.0	10.7	10.1
Price/NTA (x)	1.2	1.1	1.0
Net Gearing (x)	0.2	0.3	0.3
Dividend Yield (%)	3.0%	3.0%	3.0%

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## OTHER POINTS

Figure 1: SUNCON Details

Details	
SUNCON Par Value (RM)	RM0.20
Proposed SUNCON Share Capital (RM'm)	258.6
Proposed SUNCON Share Issuance (RM'm)	1,293.0
Proposed Dividend in Specie 1 SUNCON shares for every 10 SUNWAY share held	1:10

Source: Company

**Special Dividends.** Based on SUNWAY's announcement, we derived two scenarios on the potential special cash dividend that would be distributed out to shareholders from the potential proceeds raised from the listing of SUNCON in 2015. Based on our SoP, we value SUNCON's market capitalisation at RM1.2b / RM0.89 per share based on 15x FY15 PER and assuming a payout ratio of 80% we would expect cash dividend ranging from of 12.75 sen to 16.60 sen (refer table below for more info) and 1 share in SUNCON for every 10 SUNWAY shares held.

## Scenario 1: Proposed Offer for Sale Structure Without Conversion of Warrants and ESOS (before overallotment)

Details	Millions	%	Info Source / Assumptions
Total Shares	1,293.0		Details provided by Company
Total Offer For Sale	401.0	31.0	Details provided by Company
Breakdown			
Institutional Offering	329.9	25.5	Details provided by Company
Retail Offering	71.1	5.5	Details provided by Company
Potential Listing Proceeds (RM'm)	357.7		Assumed based on 31% offer for sale on our construction valuation of RM1.2b
Potential Special Dividend Payout (RM'm)	286.2		Assumed based on 80% payout ratio on the listing proceeds as management guided to payout majority proceeds as dividends
Special Dividend Per Share (RM)	16.60		Derived based on 1,724m shares provided by the company before full exercise of warrants and ESOS
SUNCON Value Per Share (RM)	0.89		Assumed based on 1293.0m shares of SUNCON provided by company on our construction valuation of RM1.2b.

Source: Company

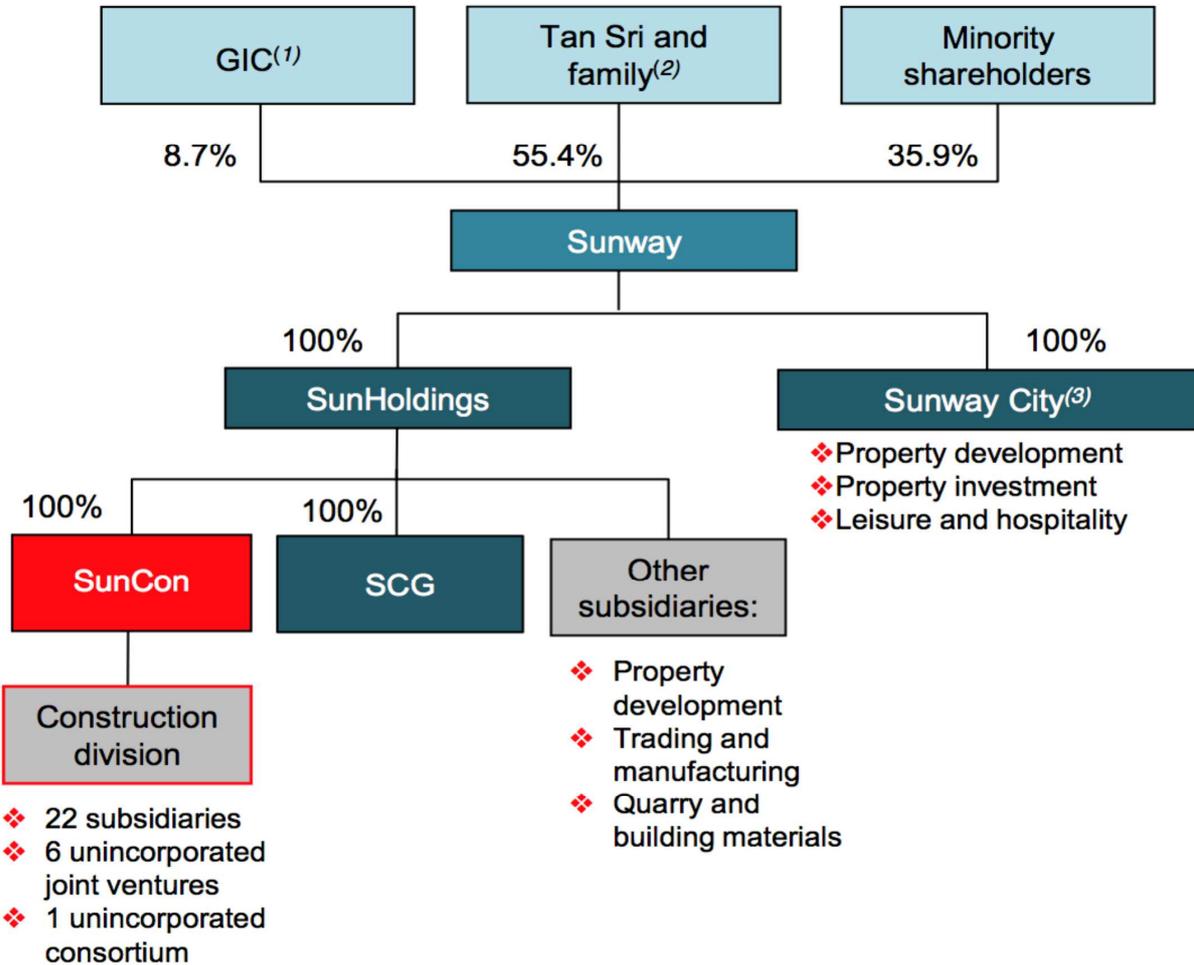
## Scenario 2: Proposed Offer for Sale Structure With Full-Conversion of Warrants and ESOS prior listing (before overallotment)

Details	Millions	%	Info Source / Assumptions
Total Shares	1,293.0		Details provided by Company
Total Offer For Sale	370.5	28.7	Details provided by Company
Breakdown			
Institutional Offering	299.4	23.2	Details provided by Company
Retail Offering	71.1	5.5	Details provided by Company
Potential Listing Proceeds	330.5		Assumed based on 31% offer for sale on our construction valuation of RM1.2b
Potential Special Dividend Payout	264.4		Assumed based on 80% payout ratio on the listing proceeds as management guided to payout majority proceeds as dividends
Special Dividend Per Share	12.75		Derived based on 2,074m shares provided by the company before full exercise of warrants and ESOS
SUNCON Value Per Share (RM)	0.89		Assumed based on 1293.0m shares of SUNCON provided by company on our construction valuation of RM1.2b.

Source: Company

Figure 1: Existing Corporate Structure

Existing structure<sup>#</sup>



**Notes:**

# As at 15 September 2014

(1) GIC Private Limited ("GIC") for the Government of Singapore

(2) Tan Sri Dato' Seri Dr. Jeffrey Cheah Fook Ling AO, his interest in related company vehicles, spouse and children

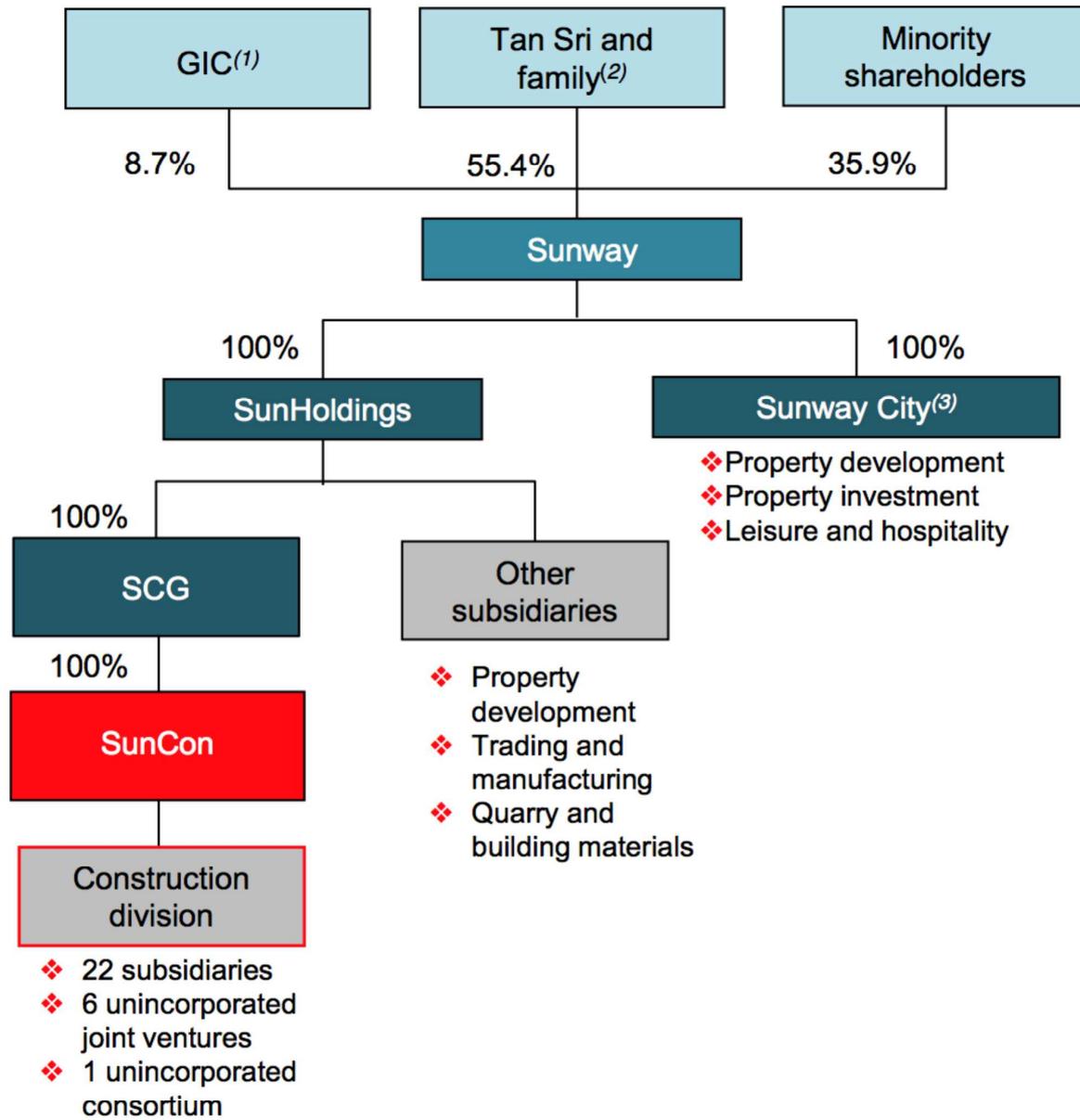
(3) Sunway City Sdn Bhd

Source: Company

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Figure 2: Corporate Structure After Proposed Transfer of SUNCON

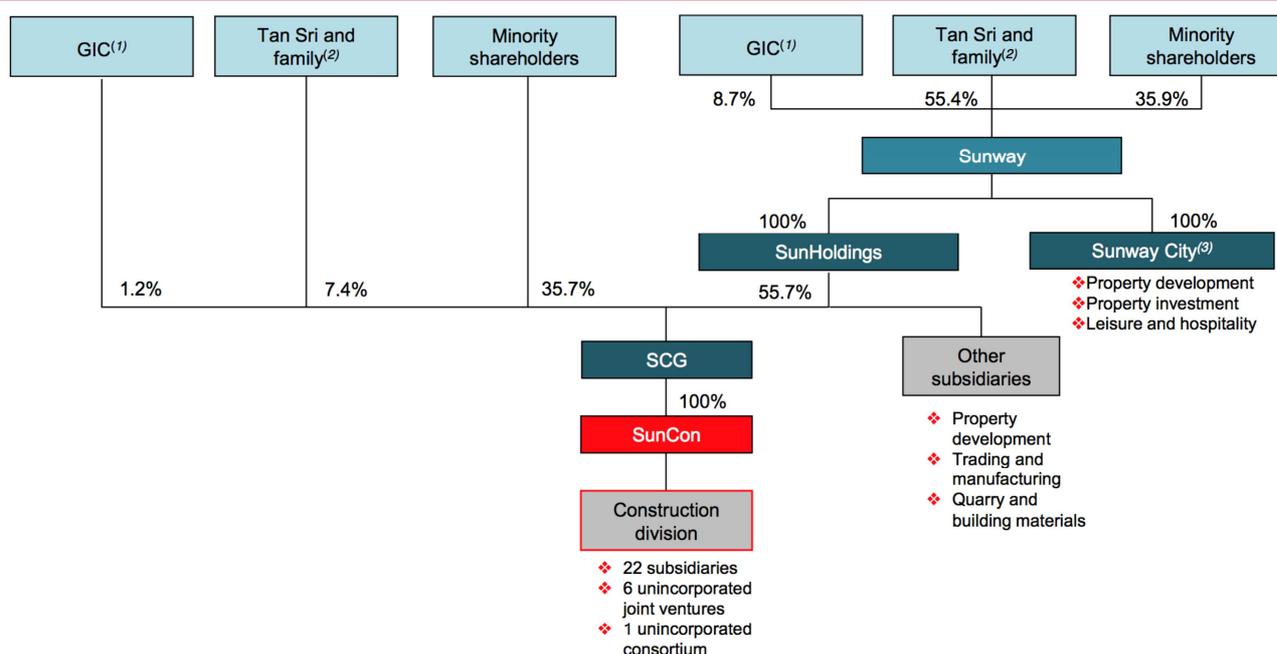
After completion of the Proposed Transfer of SunCon



Source: Company

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Figure 3: Corporate Structure after the Proposed Listing of SUNCON (before overallotment)



**Notes:**

(1) GIC for the Government of Singapore

(2) Tan Sri Dato' Seri Dr. Jeffrey Cheah Fook Ling AO, his interest in related company vehicles, spouse and children

(3) Sunway City Sdn Bhd

Source: Company

	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	6,335	n.a		6,335	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	34%	1,569	n.a		1,569	SUNREIT TP of RM1.39
Construction	100%	1,154	15		1,154	15x FY15E PER (previously, 15x FY14E PER) - pegged with big cap construction of 15x-16x
Quarry & Buildings Mat	100%	32	8		32	8x FY15E PER (previously, 8x FY14E PER)
Trading & manufacturing	100%	319	8		319	8x FY15E PER (previously, 8x FY14E PER)
Group Shareholders Funds					0	
<b>Total SOP</b>		<b>9,408</b>			<b>9,408</b>	
Discount Rate to Property Division RNAV				30%	(1,901)	
<b>Discounted SOP</b>					<b>7,508</b>	
Dilution impact					879	
<b>FD SOP (RM)</b>					<b>4.74</b>	
SOP Discount Rate					-18%	
<b>TP (RM)</b>					<b>3.87</b>	
Diluted no. of shares ('m)					2,168	

Source: Company



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## Peer Comparison

NAME	Price (19/9/14)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY13/14 NP Growth	FY14/15 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY13/14	FY14/15	FY15/16	(%)	(%)	(x)	FY13/14	FY14/15	FY15/16	(%)	(%)	(RM)	
<b>DEVELOPERS UNDER COVERAGE</b>															
UEM Sunrise*	1.87	8,485	18.5	16.0	21.8	2.1%	10.2%	1.3	459.1	528.8	389.9	15.2%	-26.3%	2.05	MARKET PERFORM
IOI Properties*	2.73	8843	18.5	15.4	14.5	2.9%	4.3%	0.8	479.2	573.0	611.0	19.6%	6.6%	2.80	OUTPERFORM
SP Setia*	3.27	8,300	19.2	24.7	15.9	3.1%	8.7%	1.3	417.9	325.3	504.6	-22.2%	55.1%	3.30	MARKET PERFORM
Sunway Berhad	3.36	5790	12.0	10.7	10.1	2.3%	33.6%	1.0	482.7	540.0	572.2	11.9%	6.0%	3.87	OUTPERFORM
IJM Land*	3.23	5,035	15.0	13.7	12.6	1.9%	17.7%	1.4	335.2	368.0	400.2	9.8%	8.7%	3.55	ACCEPT OFFER
Mah Sing Group	2.42	3,571	12.2	10.2	8.9	3.9%	17.6%	1.6	280.6	334.6	385.5	19.2%	15.2%	3.05	OUTPERFORM
UOA Development*	2.09	2,991	8.1	10.0	8.3	6.7%	16.0%	1.1	344.6	280.8	336.2	-18.5%	19.7%	2.00	MARKET PERFORM
Tropicana	1.36	1,863	10.4	6.5	7.3	3.1%	15.3%	0.5	145.3	233.1	207.3	60.4%	-11.1%	1.40	MARKET PERFORM
Matrix Concepts	3.25	1,484	9.6	8.8	7.7	5.1%	29.8%	2.3	152.9	167.2	190.2	9.4%	13.8%	3.48	OUTPERFORM
Crescendo*	2.81	639	7.6	7.6	6.9	5.4%	18.4%	0.8	84.2	84.4	93.2	0.3%	10.5%	3.15	OUTPERFORM
Hua Yang	2.40	634	7.7	6.2	5.6	5.5%	22.8%	1.4	82.2	102.9	113.7	25.2%	10.5%	2.60	OUTPERFORM
* Core NP and Core PER															
** Crescendo per share data is based on non-Fully Diluted															
<b>CONSENSUS NUMBERS</b>															
BERJAYA LAND BHD	0.85	4,230	41.9	N.A.	N.A.	N.A.	1.9%	0.8	101.0	N.A.	N.A.	N.A.	N.A.	0.93	NEUTRAL
IGB CORPORATION BHD	2.88	3,845	17.5	16.9	16.0	2.3%	5.3%	0.9	220.3	226.9	240.3	3.0%	5.9%	3.14	NEUTRAL
YNH PROPERTY BHD	2.08	851	18.1	12.6	11.6	2.3%	5.7%	1.0	47.1	67.5	73.7	43.5%	9.1%	2.22	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.96	792	36.3	N.A.	39.8	N.A.	3.2%	0.8	21.8	N.A.	19.9	N.A.	N.A.	N.A.	BUY
GLOMAC BHD	1.15	836	7.7	7.1	6.3	4.4%	12.9%	0.9	108.4	117.7	133.0	8.7%	13.0%	1.23	BUY
KSL HOLDINGS BHD	4.67	1,805	9.1	6.0	7.0	3.4%	14.9%	1.3	198.1	301.4	258.9	52.1%	-14.1%	N.A.	BUY
PARAMOUNT CORP BHD	1.57	663	8.6	9.2	9.2	5.7%	9.1%	0.8	77.0	71.8	71.8	-6.8%	0.0%	1.76	BUY
IVORY PROPERTIES GROUP BHD	0.59	263	11.0	N.A.	N.A.	N.A.	1.5%	0.7	23.9	N.A.	N.A.	N.A.	N.A.	N.A.	BUY
TAMBUN INDAH LAND BHD	2.46	1,012	10.2	10.3	8.5	3.9%	30.3%	2.9	99.2	97.9	118.4	-1.3%	21.0%	2.78	BUY

Source: Kenanga Research

22 September 2014

**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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