

10 April 2015 | Corporate Update

Sunway Berhad

Paving The Way For Another IPO?

INVESTMENT HIGHLIGHTS

- **Multiple acquisitions with total investment of RM139.8m.**
- **Mainly to expand its Trading and Manufacturing Division which contributed 3.6% contribution to the Group's PBT in FY14.**
- **Acquisition comes with a total profit guarantee of RM15.7m annually for the next 3 years.**
- **Positive on the deal but impact on Group earnings will be minimal with accretion of 0.5% for FY15 and 1.0% for FY16.**
- **Market sentiment on the stock expected to be strong due to the upcoming SCG IPO.**
- **Maintain TRADING BUY with unchanged Target Price of RM3.97.**

Multiple acquisitions with total investment of RM139.8m: Sunway Berhad (SUNWAY) has entered into a Share Sale Agreement for the acquisition of 100% stake in: i) Winstar Trading Sdn Bhd (WINSTAR) for RM131.0m, ii) PND Hardware & Trading Pte Ltd (PND) for SGD2.6m (or RM7.0m) and iii) Pasir Mas Holdings Sdn Bhd (Pasir Mas) for RM1.8m. Both WINSTAR and PND have more than 30 years of history in trading of hardware in Malaysia specialising in supplying of industrial hardware, DIY hardware, safety products, lubricants and epoxy adhesive. As for Pasir Mas, it operates a petrol station and a motor vehicle workshop in Bandar Sunway (opposite Sunway Pyramid).

Mainly to expand its Trading and Manufacturing Division which contributed 3.6% contribution to Group PBT in FY14: The decision to acquire WINSTAR and PND acquisitions was on grounds that it presented a unique opportunity for Sunway's Trading and Manufacturing Division (T&M) to acquire profitable market leaders with over 30 years of experience in the wholesaling of hardware market. For FY14, T&M contributed RM35.3m or 3.6% to SUNWAY Group. The Group anticipates synergies from cross-selling across the customer base of SUNWAY, WTSB and PND and potential cost savings from warehousing facilities due to economies of scale. There is also potential for WTSB and PND to supply to Sunway's property and construction projects in the future. As for Pasir Mas, its land opposite Sunway Pyramid which the petrol station and motor vehicle workshop business in currently in operation has the potential for re-development in the future.

Acquisition comes with a total profit guarantee of RM15.7m annually for the next 3 years. WINSTAR and PND guarantee annual PAT of RM15.0m and SGD0.25m respectively for 2015, 2016 and 2017. In total, this works out to be RM15.7m per annum of guaranteed profit. Out of the total payment of RM138.0m, SUNWAY will pay 60% of the RM138.0m in 2Q15 followed by another 20% each in 2Q17 and 2Q18.

Maintain TRADING BUY

Unchanged Target Price: RM3.97

RETURN STATS	
Price (9 Apr 2015)	3.76
Target Price	3.97
Expected Share Price Return	5.6%
Expected Dividend Yield	+3.0%
Expected Total Return	+8.6%

STOCK INFO	
KLCI	1,849.39
Bursa / Bloomberg	5211 / SWB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	1,731.44
Par Value (RM)	1.00
Market cap. (RM'm)	6,510.21
Price over NA	1.09
52-wk price Range	RM2.96 - RM3.80
Beta (against KLCI)	1.09
3-mth Avg Daily Vol	1.48m
3-mth Avg Daily Value	RM5.14m
Major Shareholders	
SUNGEI WAY CORP	50.1%
YEAN TIH CHEAH	13.4%

INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY12	FY13	FY14	FY15F	FY16F
Revenue	4129	4721	4842	5278	5700
Core EBIT	719	824	567	544	587
Core PBT	716	915	767	744	787
Net Income	439	1490	743	558	590
Core Net Income	315	505	541	558	590
EPS (sen)	33.95	94.51	43.09	32.28	34.17
Core EPS (sen)	24.40	32.03	31.38	32.28	34.17
Net DPS (sen)	6.00	10.00	11.00	11.30	11.96
Net Dvd Yield	1.6%	2.7%	2.9%	3.0%	3.2%
Core PER	15.4	11.7	12.0	11.6	11.0
NTA/share (RM)	2.51	2.91	3.26	3.47	3.69
P/NTA	1.50	1.29	1.15	1.08	1.02
Core ROE	8.9%	10.1%	9.1%	8.8%	8.8%
Core ROA	12.2%	4.6%	4.2%	4.2%	4.3%

Source: Company, MIDF Research Forecast

Positive on the deal but earnings impact is minimal at 0.5% for FY15 and 1.0% for FY16. We are positive on the deal as it is expected to expand T&M earnings significantly by 30% to ~RM46.0m in FY16. However, we expect earnings accretion at SUNWAY Group level to be small at 0.5% for FY15 and 1.0% for FY16. Historically, earnings contribution from T&M division has been small and is expected to remain so even after factoring in the earnings accretion from the acquisitions. In the long term, we do not discount the future possibility of T&M division IPO (perhaps three to five years later once the division achieves the PAT of RM100m). The acquisition will be funded by internally generated funds. Balance sheet impact is minimal as we expect its net gearing to increase slightly to 0.32x (from 0.30x currently) due to a reduction of RM84.6m in cash to be used to fund the acquisition this year.

Market sentiment on the stock expected to be strong due to the upcoming SCG IPO. Recall that together with Sunway Construction Group (SCG) IPO, there will be minimum dividend of RM0.22 and 1-for-10 distribution-in-specie (worth RM0.11 assuming an illustrative IPO Price of RM1.10). All these should be realized in the next 3 months and we expect it to keep investors interest on SUNWAY intact.

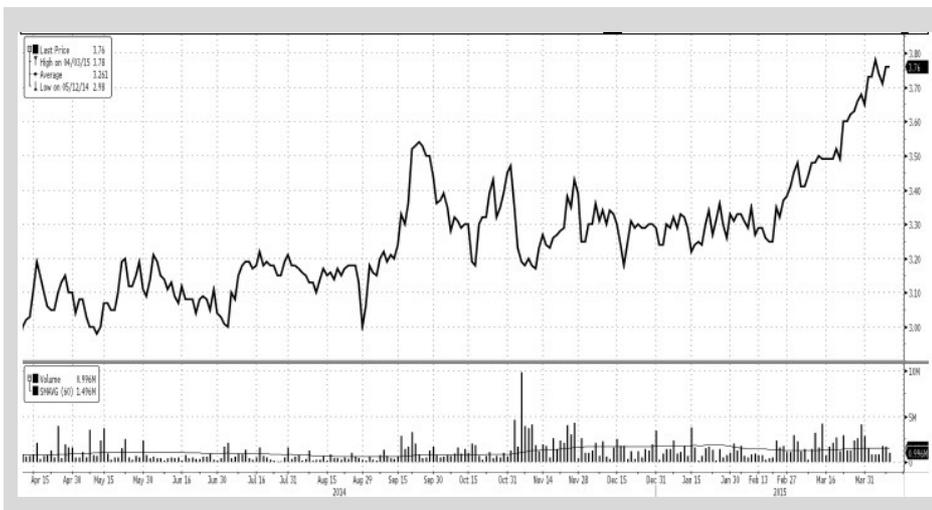
Maintain TRADING BUY with Target Price of RM3.97. Due to the small earnings impact, we leave our FY15 and FY16 earnings estimate unchanged. Our recommendation of TRADING BUY is also intact due to positive newsflow expected in the next 3 months (as explained above). The Target Price of RM3.97 is based on 10% discount to RNAV.

SUNWAY RNAV

Landbank	Location	Size (Ac)	Size (Sq ft)	Price (RM/sqft)	Stake	Value (RM m)
Property Development - Malaysia						
Sunway South Quay	Bandar Sunway, Selangor	49	2,134,440	466.2	60%	597.0
Sunway Velocity	Kuala Lumpur	19	827,640	200	85%	140.7
Sunway Damansara	Petaling Jaya, Selangor	15	653,400	256	60%	100.4
Medini Iskandar	Iskandar, Johor	691	30,099,960	114	46%	1561.3
Pendas	Iskandar, Johor	1079	47,001,240	108	60%	3045.7
Sunway Lenang	Johor Bahru, Johor	71	3,091,453	88	80%	217.6
Sunway Wellesley	Penang	60	2,613,600	50	100%	130.7
Paya Terubong	Penang	24	1,045,440	45	100%	47.0
Sunway Hillds	Penang	81	3,528,360	30	100%	107.3
Balik Pulau	Penang	29	1,263,240	23	100%	29.1
Sunway Cassia	Penang	7	304,920	25	100%	7.7
Sunway Semenyih	Ulu Langat, Selangor	508	22,141,548	25	100%	544.7
Property Development - Singapore						
Miltonia Residences	Yishun, Singapore	NA	DCF @ WACC 10%		30%	37.4
Arc	Tampines, Singapore	NA	DCF @ WACC 10%		30%	45.8
Lake Vista	Yuan Ching Road, Singapore	NA	DCF @ WACC 10%		30%	36.0
Sea Esta	Pasir Ris, Singapore	NA	DCF @ WACC 10%		30%	35.3
Royale Square	Novena MRT, Singapore	NA	DCF @ WACC 10%		30%	48.6
Mount Sophia	Dhoby Ghaut MRT, Singapore	NA	DCF @ WACC 10%		30%	92.9
Avant Parc	Sembawang	NA	DCF @ WACC 10%		100%	19.9
Property Development - Other Countries						
Tianjin Eco City	Tianjin, China	91	DCF @ WACC 10%		60%	221.1
Sunway Guanghai	Jianyin, China	4	DCF @ WACC 10%		65%	2.2
Sunway OPUS Grand India	Hyderabad, India	24	DCF @ WACC 10%		50%	23.5
Sunway MAK Signature Residence	Hyderabad, India	14	DCF @ WACC 10%		60%	9.1
Wonderland Business Park	Sydney, Australia	66	DCF @ WACC 10%		45%	10.6
Investment Property						
Monash University	Bandar Sunway, Selangor	12.0	916,640	NA	100%	300.0
Sunway Pinnacle	Bandar Sunway, Selangor	1.8	1,141,499	NA	100%	280.0
Sunway Velocity Shopping Mall	Kuala Lumpur	21.4	259,497	NA	100%	259.5
Sunway University Campus	Bandar Sunway, Selangor	12.4	704,577	NA	100%	255.0
Monash Residence Hostel	Bandar Sunway, Selangor	2.5	623,010	NA	100%	226.6
Total Value Of Properties						8432.7

	Stake	
Sunway REIT	34.5%	1721.7
Construction Division Asset	1297.8	51% 661.9
Trading & Manufacturing Asset		415.1
Quarry Division Asset		165.9
Other Division Asset		1116.5
Total Liabilities (excl. deferred tax liabilities)		- 4931.3
Total RNAV		7582.5
No of shares (m)		1722.9
RNAV per share		4.40
Warrants, Exercise Price RM2.50		289.6
ESOS, Exercise Price RM2.80		132.8
Fully Diluted No Of Shares		2145.3
FD RNAV Per Share		4.05
Discount		10%
Target Price for SUNWAY Post SCG IPO		3.64
Minimum dividend		0.22
0.1 Shares in SCG		0.11
Current Target Price		3.97

DAILY PRICE CHART



Kelvin Ong, CFA
 Alan Lim, CFA
 alan.lim@midf.com.my
 03-2173 8464

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.