

14 November 2014 | Visit Note

Sunway Berhad

Next stage of growth

Upgrade to BUY

Increased Target Price (TP): RM3.72

(previously RM2.93)

INVESTMENT HIGHLIGHTS

- We are upbeat on the proposed relisting of its construction arm on the account of potential special cash dividend of 22sen.
- Construction segment remains buoyant on the back of current outstanding orderbook and job replenishment of RM2b a year.
- Property unit will continue to do well due to the strategic location of its projects.
- Premised on the above, we upgrade Sunway Bhd to BUY recommendation with an increased TP of RM3.72.

We recently met with the Sunway Bhd's Management for updates on the progress of the proposed listing of its construction division.

Unlocking value. Management reaffirmed plans to list Sunway Construction Group (SCG), the construction and precast unit of Sunway Bhd. We were made to understand that the listing could be delayed from May to June 2015. The bulk of proceeds from the listing would be returned to shareholders of Sunway Bhd via: (a) 1-for-10 dividend-in-specie of SCG shares; and (b) special cash dividend which we estimate would amount to between 19-22sen per share. The remaining proceeds would be utilised for working capital and listing expense.

A hidden gem. We opine that the contribution of Sunway's construction unit have not been fully appreciated due to Sunway Bhd being largely seen as a property play. This is understandable as the property and REIT units explain 70% of its earnings. Evidently, Sunway's share price had hardly reacted to positive newsflows of its construction unit securing various mega infrastructure projects. With the proposed SCG listing, we expect the market to ascribe better value to Sunway's construction assets as investors gain better insight to its capabilities, job secured and orderbook size.

Attractive prospects for SCG. Management indicated that SCG ranks third within the construction sector after IJM Corporation and Gamuda Bhd in order book terms. Its order book currently stands at RM3.2b (1.7x of FY13 construction revenue) of which only 15% are jobs from Sunway Group. Management expects to secure another RM1.5b of external projects by end 2014 which could easily provide another 1-2 years of earnings visibility. We expect earnings for the construction division to grow by 11.4% in FY15 to RM110.2m. Ascribing a low-end PER multiple of 15x for large cap construction companies, we estimate SCG could potentially be worth RM1.28 per share.

RETURN STATS	
Price (13 Nov' 2014)	RM3.23
Target Price	RM3.72
Expected Share Price Return	+15.0%
Expected Dividend Yield	+2.0%
Expected Total Return	+17.0%

STOCK INFO	
KLCI	1,815.81
Bursa / Bloomberg	5211 / SWB MK
Board / Sector	Main / Property
Syariah Compliant	Yes
Issued shares (mil)	1,719.4
Par Value (RM)	1.00
Market cap. (RM'm)	5,553.8
Price over NTA	1.07x
52-wk price Range	RM3.67–RM2.54
Beta (against KLCI)	1.35x
3-mth Avg Daily Vol	1.24m
3-mth Avg Daily Value	RM4.06m
Major Shareholders:	
Sungei Wey Corp S/B	48.28%
Yean Tih Cheah	13.53%
JP Morgan Chase & Co	5.70%
EPF	5.62%
ASB	5.03%

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY12	FY13	FY14F	FY15F
Revenue (RM'm)	3,876.8	4,733.7	4,833.3	5,194.2
EBITDA (RM'm)	504.2	1,823.6	552.4	614.0
Pre-tax profit (RM'm)	729.1	1,894.3	677.3	725.3
Net profit (RM'm)	350.6	1,498.5	509.0	539.2
Net profit margin (%)	9.0	31.7	10.5	10.4
EPS (sen)	27.1	95.2	29.5	31.3
EPS growth (%)	(5.7)	250.8	(69.0)	5.9
PER(x)	8.0	2.9	11.0	10.3
DPS (sen)	4.1	17.4	5.9	6.3
Dividend yield (%)	1.4	6.1	1.8	2.0

Source: Company data, forecasts by MIDFR

Property projects benefiting from its strategic location. Property sales have been encouraging so far with the company already locking in 48% of its FY14 sales target of RM1.3b. We believe the strength of the property division is attributed to its strong track record which is underpinned by attractive projects that are benefiting from existing as well as future public transport connectivity nodes. While the property division's considerable exposure to Iskandar might pose a concern, we believe Sunway's sound development plans and the strategic location of its projects could weather the softening property market. Some notable features of its Iskandar project are: (a) ease of access to the proposed Coastal Highway Southern Link (CHSL); (b) close proximity to two International airports in Senai, Johor and Changi, Singapore; and (c) close proximity to two major international ports – Port Tanjung Pelepas and Jurong Port. Despite the potential overhang in the property sector after the removal of developer interest bearing scheme (DIBS), the impact to property sales have been minimal thus far and this, according to management, is due to the property products being positioned at a premium to the market price which attracts serious buyers and/or property investors with a long-term horizon.


Leveraging on Iskandar infra projects. SCG could also benefit from the proposed CHSL. It had participated in the tendering process and the management is confident of securing the job for the construction of the stretch that links to the Second Link Expressway. Apart from Sunway Iskandar's strategic location which provides a good selling point, the property unit could also benefit from revaluation gains of its assets.

Lower net gearing. Management views Sunway's current net gearing of 0.3x as healthy and the ratio is expected to remain unchanged after the relisting of SCG. While the property investment unit would continue to require capital injection to expand its portfolio, management intends to keep its net gearing at no more than 0.5x. We believe the completion of Sunway Pyramid 3, Sunway University New Academic Block and Sunway Velocity Shopping Mall in 2015 could further strengthen the recurring income base for the property investment unit while retaining the group's net gearing at a comfortable level.

VALUATION AND RECOMMENDATION

Upgrade to BUY. We make no changes to our FY14/15 estimates as we reckon the company's earnings prospect is still on track to achieve our earnings forecasts. In our view, the stock currently trades at undemanding multiples of 10.7x FY14 PER and 10.1x FY15 PER. Furthermore, the potential special dividend payout post SCG listing would further enhance returns on the stock. We upgrade our recommendation on Sunway Bhd to BUY with a revised TP of RM3.72 (from RM2.93). We apply a 40% discount to the property unit RNAV to account for the risks from various property cooling measures in Malaysia.

Investment thesis. Our Buy recommendation on the stock is premised on the following:

- i. Contender to construction of the LRT line 3 package.
- ii. Strong outstanding orderbook of RM3.2b and property unbilled sales of RM2.4b.
- iii. Multiple strategic landbank of 3,376 acres with an effective GDV of RM31b spread over 15 years.
- iv. Based on our assumption of total proceeds of between RM474.2m to RM532.4m from the proposed relisting, we expect 70% will be earmarked for a special cash dividend of between 19-22sen, which translate into 6-7% dividend yield. 

REVISION IN NUMBER OF SCG SHARES

	Initial	(%)	Minimum Scenario	(%)	Maximum Scenario	(%)
Sunway Bhd	719.5	55.7%	721.8	55.8%	715.0	55.3%
Proposed distribution	172.4	13.3%	155.2	12.0%	207.4	16.0%
Proposed offer for sale	401.0	31.0%	415.9	32.2%	370.5	28.7%
Total number of shares	1,292.9	100.0%	1,292.9	100.0%	1,292.9	100.0%

Source: Company data, MIDFR

CONSTRUCTION ORDERBOOK

Projects	Outstanding (RM'm)
Infrastructure	
MRT Package V4	649
LRT Kelana Jaya	198
BRT Sunway Line	243
Johor	
Urban Wellness Centre	215
Others	
KLCC NEC	236
KLCC Package 2 (Piling & Substructure)	163
Others	589
Internal	
Sunway Velocity Mall (Substructure)	37
Sunway Velocity Phase 2 (Substructure)	15
Sunway University New Academic Block	75
Sunway Putra Place	67
Sunway Pyramid 3	150
Sunway Geo Retail Shop & Flexi Suites	148
Singapore	
Precast	411
TOTAL	3,196

Source: Company data, MIDFR

PROPERTY LAUNCHES IN 2014

Key Property Launches	GDV (RM'm)
Sunway Velocity Residences	250
Sunway Velocity Residences Suites	300
Sunway South Quay Service Apartment	200
Citrine, Sunway Iskandar	300
Sunway Wellesley, Penang	100
Mount Sophia, Singapore (Effective)	600
Tianjin	200
Total	1,950

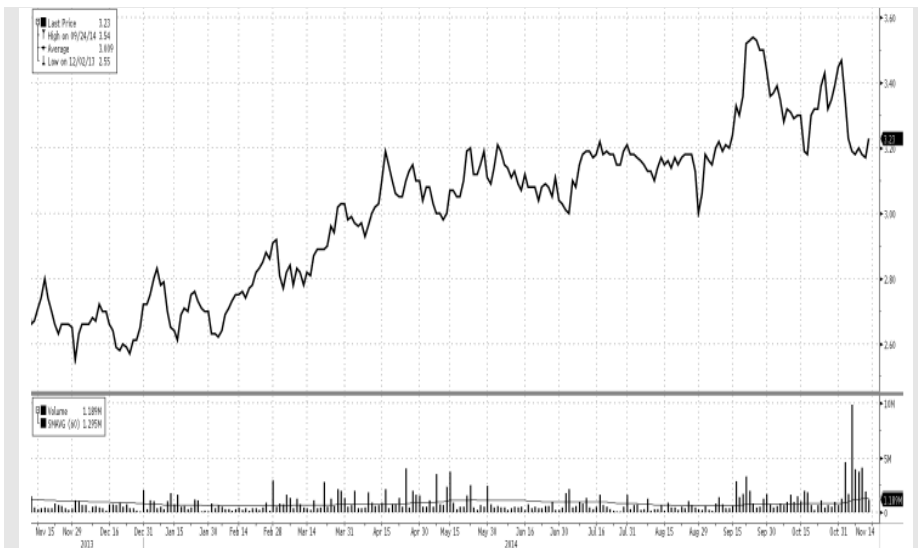
Source: Company data, MIDFR

REVISED NET ASSET VALUE

Property developments	Stake (%)	Effective GDV (RM'm)	NPV (RM'm)
Selangor/KL			
Sunway Damansara	60%	1,014.8	87.6
Sunway South Quay	60%	1,978.0	136.7
Sunway Monterez	60%	26.2	2.3
Sunway Semenyih	70%	510.0	35.2
Sunway Cheras	100%	16.8	1.5
Sunway Duta	60%	72.0	5.0
Sunway Montana	100%	55.5	3.8
Sunway Alam Suria	100%	12.0	1.0
Sunway integrated resort	100%	660.0	45.6
Casa Kiara III	80%	168.0	14.5
Sunway Velocity	85%	2,430.1	125.9
Sunway Tower KL 1	100%	240.0	20.7
Bangi	100%	59.0	5.1
Melawati 2	100%	43.0	3.7
Sg Long, Balakong	80%	221.6	19.1
Mont Putra	100%	156.0	13.5
Ipoh			
Sunway City Ipoh	65%	704.8	36.5
Penang			
Sunway City Penang	100%	171.7	14.8
Sunway Grand	100%	186.0	16.1
Sungai Ara	100%	849.2	73.3
Bukit Mertajam	100%	845.0	73.0
Paya Terubong Land	100%	1,500.0	103.6
Johor			
Bukit Lenang, New Land	80%	558.7	48.3
Medini Iskandar	60%	7,200.0	497.5
Pendas North	60%	10,800.0	746.2
Singapore			
Sembawang, Singapore	100%	75.0	6.5
Novena	30%	686.3	59.3
Mount Sophia	30%	641.2	44.3
China			
Sunway Guanghao	65%	43.4	3.7
Tianjin Eco City	60%	780.0	80.8
India			
Sunway OPUS Grand India	50%	351.2	18.2
Sunway MAK Signature Residence	60%	108.7	7.5
Australia			
Wonderland Business Park (Sydney)	45%	170.1	11.8
Unbilled sales (Malaysia)		2,020.0	174.5
Unbilled sales (Singapore)		422.0	21.9
TOTAL		35,776.4	2,559.0
Shareholders' funds			5,530.9
TOTAL RNAV			8,089.9
Discount			40.0%
Discounted RNAV			4,853.9
Segments			
Sunway REITS	34.5%	Fair value gain	254.5
Construction (SCG relisting)		FY15 PER of 15x	1,653.0
Warrant proceeds at RM2.80 per share			723.8
Total SOP			7,485.2
Enlarged shares with full warrant conversion			2,010.6
FD SOP (RM per share)			3.72

Source: Forecasts by MIDFR

DAILY PRICE CHART

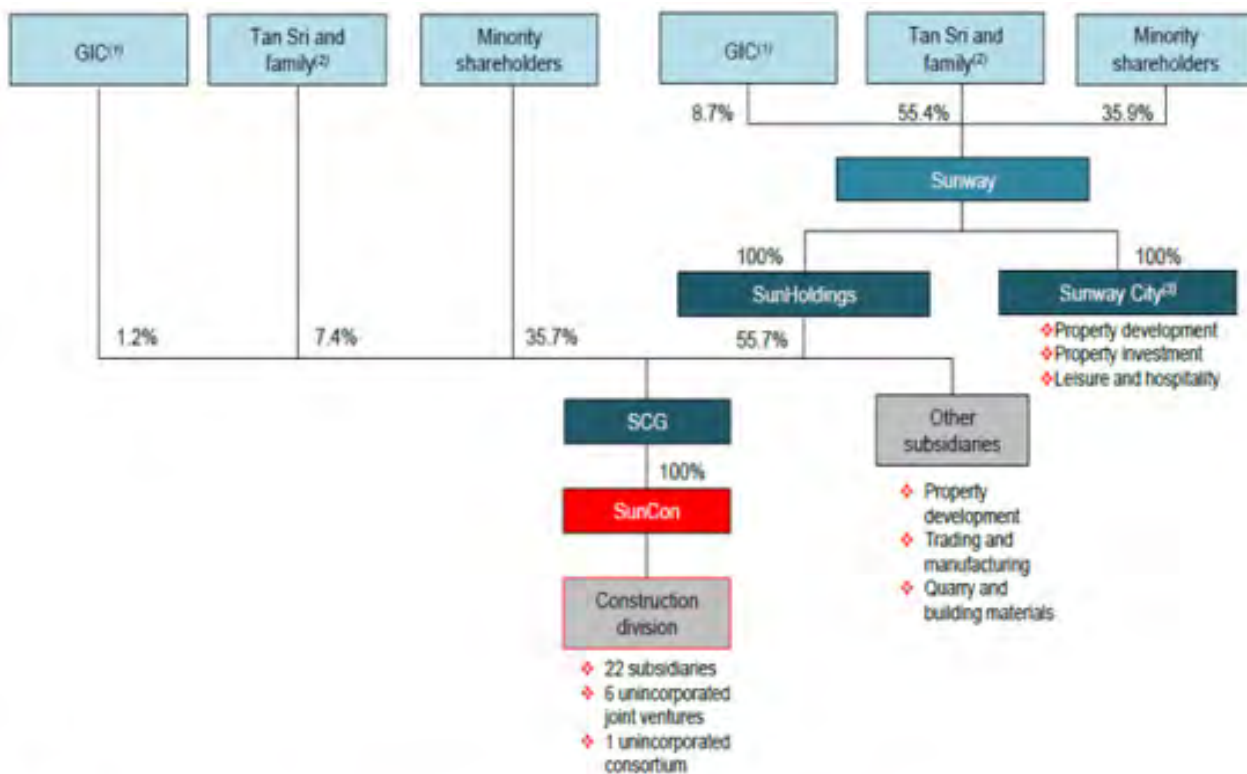


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Source: Bloomberg, MIDFR

APPENDIX

After the Proposed Relisting



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

*As at 15 September 2014

Source: Company data, MIDFR

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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	Total return is expected, by -15% or more, 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.