

Sunway (SWB MK)

Share Price: MYR3.40

Target Price: MYR3.29 (-3%)

MCap (USD): 1.7B

ADTV (USD): 2M

Malaysia

Real Estate

HOLD

 (Unchanged)

Enhancing landbank in Klang Valley

- Positive on Sunway's latest land acquisitions in Kelana Jaya.
- The new development worth MYR1.8b could churn out an annual net profit of MYR72m (4sen EPS) from 2017 onwards.
- Fine-tune our earnings forecasts by -1% to -2%. Maintain HOLD with MYR3.29 TP (+4sen, on 0.59x P/RNAV target).

What's New

Sunway has entered into:

- A share sale and purchase agreement (SSPA) with Kelana Resorts S/B to acquire a 100% stake in Cleaver Fortune S/B (CFSB) for MYR282.6m cash. CFSB owns a 16.8-acre piece of leasehold land in Kelana Jaya, and
- An SPA with Viva Variasi S/B for a smaller 0.2-acre piece of freehold land, also in Kelana Jaya, for MYR3.4m.

Total land cost for the combined 17 acres of leasehold and freehold land is MYR286m or MYR386psf.

What's Our View

We are positive on these latest acquisitions for their: 1) fair pricing of MYR386psf, which is 14% lower than the previous transacted price of MYR449psf paid by Gamuda in 2012 (Mah Sing's Icon City land cost was at MYR104psf in 2010) and 2) strategic location with easy access from the LDP, NPE, Federal Highway and NKVE. Sunway intends to develop the land into seven residential blocks with a commercial podium. GDV is estimated at MYR1.8b (with ASP of c. MYR800psf) and the development is slated to be launched by 2H16.

Assuming a pretax margin of 20% and a five-year development period, the project is expected to churn out an annual net profit of MYR72m (+4sen EPS). We are adjusting our FY15/16/17 earnings forecasts by -0.7%/-1.4%/-2.0% to factor in the land cost and interest expenses. RNAV is slightly raised to MYR5.57/sh (+6sen). Our TP (+4sen to MYR3.29) is based on an unchanged 0.59x P/RNAV.

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	4,733.7	4,841.9	5,580.2	5,893.9	4,928.7
EBITDA	563.1	504.2	802.4	801.8	894.0
Core net profit	482.7	591.7	593.4	628.3	667.4
Core FDEPS (sen)	26.9	32.5	32.6	31.2	33.2
Core FDEPS growth(%)	(0.8)	20.7	0.3	(4.2)	6.2
Net DPS (sen)	10.0	11.0	6.9	6.9	6.6
Core FD P/E (x)	12.6	10.5	10.4	10.9	10.3
P/BV (x)	1.1	1.0	0.9	0.8	0.8
Net dividend yield (%)	2.9	3.2	2.0	2.0	2.0
ROAE (%)	10.9	10.5	9.6	8.9	8.4
ROAA (%)	4.9	4.9	4.5	4.4	4.4
EV/EBITDA (x)	10.4	15.6	10.5	10.9	11.2
Net debt/equity (%)	23.9	30.4	33.6	27.7	33.5

Key Data

52w high/low (MYR)	3.88/2.98
3m avg turnover (USDm)	2.0
Free float (%)	33.6
Issued shares (m)	1,759
Market capitalization	MYR6.0B
Major shareholders:	
-Sungei Way Corp. Sdn. Bhd.	49.9%
-Permodalan Nasional Bhd.	7.1%
-Employees Provident Fund	4.8%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(9.6)	1.5	13.3
Relative to index (%)	(7.6)	1.1	17.2

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	9	3	0
	Maybank Consensus		% +/-
Target Price (MYR)	3.29	3.93	(16.2)
'15 PATMI (MYRm)	617	570	8.3
'16 PATMI (MYRm)	628	575	9.3

Source: FactSet; Maybank

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Location of the new land



Source: Company

Location of the new land



Source: Company

Impact of the acquisitions

These latest acquisitions will raise Sunway's total landbank to 3,380 acres, total GDV to MYR50.8b (effective GDV to MYR32.1b) and sustain total development period to 15 years. Impact on gearing is small - we estimate proforma net gearing will raise to 0.34x from 0.30x as end-Dec 2014 with MYR286m of the latest land acquisition to be financed from borrowings.

Table 1: Sunway Bhd's RNAV estimates

1. Landbank - MARKET VALUE	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Semenyih	70%	398.1	433.5	128.0	213.9
Suncity Ipoh	65%	440.5	76.8	58.7	11.7
Sunway Integrated Resort	100%	14.9	9.3	8.3	1.1
Sunway Tower KL 1	100%	1.0	57.0	28.3	28.6
Sunway JB, Bukit Lenang	80%	64.8	141.3	134.5	5.4
Tmn Equine	100%	33.0	38.7	37.8	0.9
Sg Long Balakong	80%	111	140.2	21.8	94.8
Mont Putra Rawang	100%	163	49.7	35.1	14.6
Sunway Iskandar - Pendas, freehold	60%	1079	2350.3	596.6	1052.2
Sub-total:					1423.2
2. Active development: DCF @ 10.5-13% WACC	Stake				(MYR m)
South Quay	60%				196.9
Sunway Cheras	100%				1.5
Sunway Damansara	60%				46.1
Sunway D' Mont Kiara	88%				5.4
Sunway Kayangan	100%				1.5
Sunway Duta	100%				23.7
Bangi	100%				5.9
Sunway Melawati	100%				30.7
Casa Kiara III	80%				8.8
Sunway Alam Suria	50%				3.6
Sunway Velocity	85%				187.1
Penang projects	100%				71.3
Wonderland Business Park, Australia	31%				9.0
Singapore Yi Shun	30%				6.6
Singapore Tampines	30%				11.2
Singapore Sembawang	100%				4.8
Thomson/Irrawady	30%				46.1
Mount Sophia	30%				47.0
Sunway Iskandar -leasehold (Medini)	51%				450.0
Kelana Jaya	100%				123.6
Sub-total:					1,280.7
3. Investment properties - MARKET VALUE	Stake		MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Monash University Campus	100%		158.0	158.0	0.0
Sunway University College	100%		150.0	150.0	0.0
Sunway Giza (shopping mall)	60%		42.4	42.4	0.0
Sunway Hotel Georgetown	100%		17.8	62.2	(44.4)
Sunway Hotel Phnom Penh	52.5%		15.7	21.7	(3.1)
Sunway Lagoon Theme Park	100%		165.0	59.1	105.9
Lost World of Tambun	65%		38.7	36.0	1.8
Sunway Hotel Hanoi	100%		14.1	45.8	(31.8)
Sub-total:					28.4
4. Other businesses or assets					
35.7% stake in SunREIT based on Maybank IB's MYR1.50 TP					178.0
Construction (13x 2015PER)					921.4
Building material (10x 2015PER)					294.3
Trading (10x 2015PER)					391.4
Grand total:					4,517.4
Disposal gains					24.0
Shareholders fund (MYR m) - Dec 2014					5,945.2
Warrants conversion (MYR2.50 exercise price; expiring Aug 2016)					724.0
RNAV (MYR m)					11,210.6
Number of shares (m shares) - post rights issue					1,723.5
Enlarged share capital post warrant					2,013.1
FD RNAV/share (MYR) - post warrant					5.57
Target price (MYR)					3.29

Source: Company, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	3.6	7.9	9.5	9.9	10.3
Core P/E (x)	11.1	9.9	9.9	9.9	10.3
Core FD P/E (x)	12.6	10.5	10.4	10.9	10.3
P/BV (x)	1.1	1.0	0.9	0.8	0.8
P/NTA (x)	1.0	1.0	0.9	0.8	0.8
Net dividend yield (%)	2.9	3.2	2.0	2.0	2.0
FCF yield (%)	20.4	13.1	2.2	nm	nm
EV/EBITDA (x)	10.4	15.6	10.5	10.9	11.2
EV/EBIT (x)	3.2	10.2	10.9	11.4	11.7

INCOME STATEMENT (MYR m)

Revenue	4,733.7	4,841.9	5,580.2	5,893.9	4,928.7
Gross profit	563.1	504.2	802.4	801.8	894.0
EBITDA	563.1	504.2	802.4	801.8	894.0
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,823.6	768.8	771.6	767.1	855.3
Net interest income / (exp)	(102.4)	(30.4)	(71.7)	(70.8)	(83.3)
Associates & JV	172.5	233.2	165.9	200.3	216.6
Exceptionals	0.7	0.0	24.0	0.0	0.0
Other pretax income	0.0	(2.7)	(2.7)	(2.7)	(2.7)
Pretax profit	1,894.3	968.8	887.0	893.9	985.9
Income tax	(120.9)	(148.0)	(215.8)	(223.5)	(246.5)
Minorities	(273.0)	(77.6)	(53.9)	(42.1)	(72.0)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,500.5	743.2	617.4	628.3	667.4
Core net profit	482.7	591.7	593.4	628.3	667.4

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,519.1	1,978.2	1,616.6	1,661.5	1,039.5
Accounts receivable	1,402.6	1,719.9	1,719.9	1,719.9	1,719.9
Inventory	622.9	597.8	688.9	727.7	608.5
Property, Plant & Equip (net)	857.9	1,046.8	1,425.5	1,273.6	1,411.9
Intangible assets	319.9	319.4	319.4	319.4	319.4
Investment in Associates & JVs	2,284.0	2,481.0	2,619.0	2,619.0	2,619.0
Other assets	4,105.9	4,773.3	5,354.2	6,789.8	7,493.7
Total assets	11,112.3	12,916.4	13,743.6	15,111.0	15,212.0
ST interest bearing debt	1,804.9	2,282.9	2,282.9	2,282.9	2,282.9
Accounts payable	2,154.0	2,171.9	2,503.1	2,643.8	2,210.9
LT interest bearing debt	990.6	1,501.5	1,501.5	1,501.5	1,501.5
Other liabilities	511.0	626.0	623.0	623.0	623.0
Total Liabilities	5,460.1	6,582.6	6,911.0	7,051.7	6,618.7
Shareholders Equity	5,334.9	5,945.2	6,443.9	7,670.6	8,204.6
Minority Interest	317.3	388.7	388.7	388.7	388.7
Total shareholder equity	5,652.2	6,333.9	6,832.6	8,059.3	8,593.2
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	11,112.3	12,916.4	13,743.6	15,111.0	15,212.0

CASH FLOW (MYR m)

Pretax profit	1,894.3	968.8	887.0	893.9	985.9
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	198.3	273.7	(71.7)	(70.8)	(83.3)
Change in working capital	295.7	(91.4)	(500.0)	(900.0)	(900.0)
Cash taxes paid	(127.3)	(150.5)	(215.8)	(223.5)	(246.5)
Other operating cash flow	(1,167.4)	(231.3)	0.0	0.0	0.0
Cash flow from operations	1,093.6	769.4	129.8	(266.3)	(205.6)
Free cash flow	1,093.6	769.4	129.8	(266.3)	(205.6)
Dividends paid	(344.3)	(212.9)	(190.1)	(118.7)	(125.7)
Equity raised / (purchased)	727.5	41.6	0.0	724.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	872.9	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(1,022.6)	(71.9)	(301.3)	(294.2)	(290.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	454.2	1,399.1	(361.6)	44.9	(622.0)

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	22.1	2.3	15.2	5.6	(16.4)
EBITDA growth	5.2	(10.5)	59.1	(0.1)	11.5
EBIT growth	261.7	(57.8)	0.4	(0.6)	11.5
Pretax growth	160.1	(48.9)	(8.4)	0.8	10.3
Reported net profit growth	181.9	(50.5)	(16.9)	1.8	6.2
Core net profit growth	37.7	22.6	0.3	5.9	6.2
Profitability ratios (%)					
EBITDA margin	11.9	10.4	14.4	13.6	18.1
EBIT margin	38.5	15.9	13.8	13.0	17.4
Pretax profit margin	40.0	20.0	15.9	15.2	20.0
Payout ratio	10.5	25.6	19.2	20.0	20.0
DuPont analysis					
Net profit margin (%)	31.7	15.4	11.1	10.7	13.5
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.3
Assets/Equity (x)	2.1	2.2	2.1	2.0	1.9
ROAE (%)	10.9	10.5	9.6	8.9	8.4
ROAA (%)	4.9	4.9	4.5	4.4	4.4
Liquidity & Efficiency					
Cash conversion cycle	(1.8)	(12.8)	nm	nm	nm
Days receivable outstanding	106.6	116.1	111.0	105.1	125.6
Days inventory outstanding	53.9	50.7	nm	nm	nm
Days payables outstanding	162.2	179.5	nm	nm	nm
Dividend cover (x)	9.5	3.9	5.2	5.0	5.0
Current ratio (x)	1.2	1.4	1.4	1.7	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.0	2.0	2.1	2.3
Net debt/equity (%)	23.9	30.4	33.6	27.7	33.5
Net interest cover (x)	17.8	25.3	10.8	10.8	10.3
Debt/EBITDA (x)	5.0	7.5	4.7	4.7	4.2
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	1,276.4	1,806.2	2,167.8	2,122.9	2,744.9

Source: Company; Maybank

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