

Sunway (SWB MK)

Share Price: MYR3.76

MCap (USD): 1.8B

Malaysia

Target Price: MYR3.25 (-14%)

ADTV (USD): 1M

Real Estate

HOLD

 (Unchanged)

Expanding trading divisions

- Neutral on the latest acquisitions of two trading companies.
- Deals backed by profit guarantees of MYR15.7m p.a..
- Fine-tune earnings by +0.5-1.7%. Maintain HOLD with a marginally raised MYR3.25 TP (+2sen, on 0.59x P/RNAV).

What's New

Sunway has entered into share sale agreements (SSAs) with several individuals to buy two trading companies, Winstar Trading S/B (MYR131m cost; 1.05x 2014 P/BV) and PND Hardware & Trading Pte Ltd (SGD2.6m; 1.08x) for a total MYR138m cash. The companies, which have more than 30 years of history in the trading of hardware in Malaysia specialise in supplying industrial hardware, DIY hardware, safety products, lubricants, epoxy adhesive, etc.

Under the SSAs, the vendors have provided an annual profit after tax guarantee of MYR15m and SGD250k, respectively, until 2017. The vendors are Peng Gai Hock, Khoo Chai Pek, Khoo Chai Heng, Khoo Chai Ee, Toh Soon Seng, Lee Bang Sing, Khoo Chai Kiat, Khoo Chai Thiam, Soh Tian Song for Winstar and Lim Poh Lo, Lau Chor Geok, Lim Hwee Guan, Khoo Chai Pek, Khoo Chai Ee, Peng Gai Hock for PND Hardware.

What's Our View

We are Neutral on these acquisitions. While Sunway is paying a slight premium to the companies' net asset values, the acquisitions will allow Sunway to expand its revenue sources and cross sell its existing products and services to Winstar's and PND's customer base. Moreover, the acquisitions come with a 3-year profit guarantee, proving a stable income over the medium term. Post-acquisitions, Sunway's net gearing is expected to increase to 0.33x, from 0.30x as at end-Dec 2014.

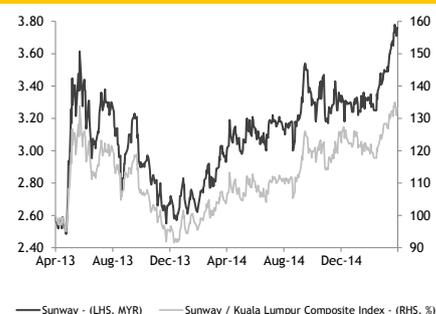
We are adjusting our FY15/16/17 earnings forecasts by +0.5%/+1.4%/+1.7% to factor in the acquisitions. RNAV estimate is largely unchanged at MYR5.51/sh (+3sen).

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	597.9	637.3	681.2
Core FDEPS (sen)	26.9	32.5	32.8	31.7	33.8
Core FDEPS growth(%)	(0.8)	20.7	1.0	(3.5)	6.9
Net DPS (sen)	10.0	11.0	6.9	7.0	6.8
Core FD P/E (x)	14.0	11.6	11.5	11.9	11.1
P/BV (x)	1.2	1.1	1.0	0.8	0.9
Net dividend yield (%)	2.7	2.9	1.8	1.9	1.8
ROAE (%)	10.9	10.5	9.6	9.0	8.6
ROAA (%)	4.9	4.9	4.5	4.4	4.5
EV/EBITDA (x)	10.4	15.6	10.9	10.9	10.9
Net debt/equity (%)	23.9	30.4	29.0	19.8	22.2

Key Data

52w high/low (MYR)	3.78/2.98
3m avg turnover (USDm)	1.4
Free float (%)	33.2
Issued shares (m)	1,741
Market capitalization	MYR6.5B
Major shareholders:	
-Sungei Way Corp. Sdn. Bhd.	50.1%
-Permodalan Nasional Bhd.	7.2%
-Employees Provident Fund	4.9%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	9.3	14.3	27.0
Relative to index (%)	5.9	7.1	27.5

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	11	1	0
	Maybank Consensus		% +/-
Target Price (MYR)	3.25	3.93	(17.2)
'15 PATMI (MYRm)	622	558	11.4
'16 PATMI (MYRm)	637	594	7.3

Source: FactSet; Maybank

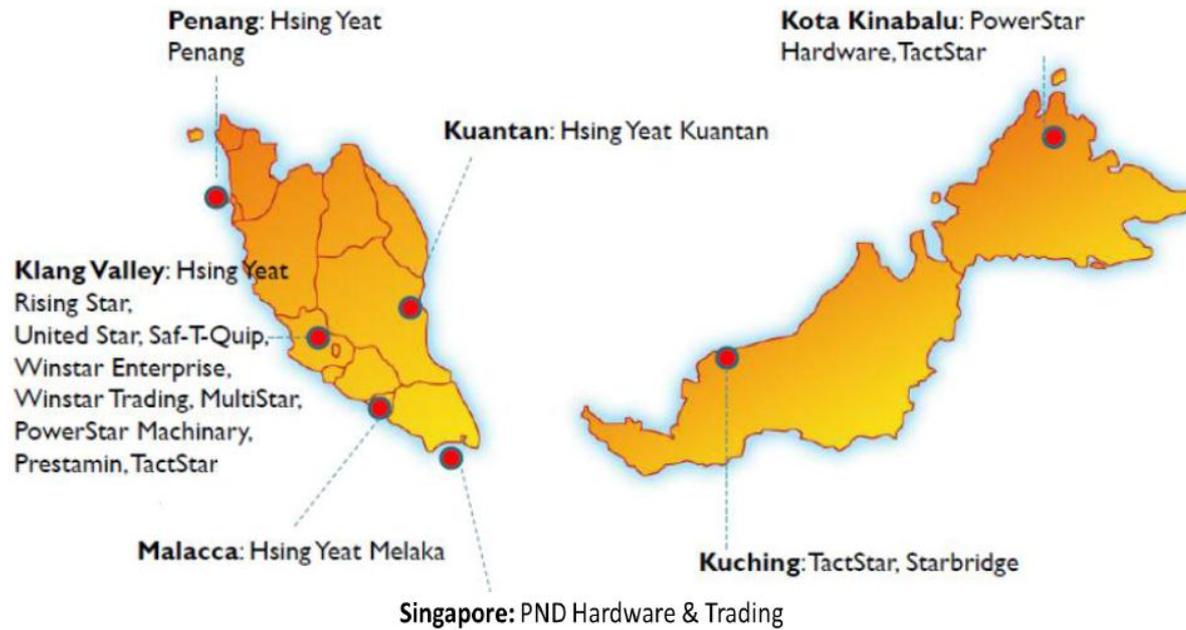
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Vendors of Winstar and PND's acquisitions

	Winstar	PND
Vendors	Peng Gai Hock, Khoo Chai Pek, Khoo Chai Heng, Khoo Chai Ee, Toh Soon Seng, Lee Bang Sing, Khoo Chai Kiat, Khoo Chai Thiam, Soh Tian Song	Lim Poh Lo, Lau Chor Geok, Lim Hwee Guan, Khoo Chai Pek, Khoo Chai Ee, Peng Gai Hock

Source: Company

Winstar & PND network of branches



Source: Company

Brands distributed



Source: Company

Sunway's own brands



Source: Company

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	4.0	8.7	10.4	10.8	11.1
Core P/E (x)	12.3	11.0	10.9	10.8	11.1
Core FD P/E (x)	14.0	11.6	11.5	11.9	11.1
P/BV (x)	1.2	1.1	1.0	0.8	0.9
P/NTA (x)	1.1	1.1	1.0	0.9	0.9
Net dividend yield (%)	2.7	2.9	1.8	1.9	1.8
FCF yield (%)	18.4	11.8	2.2	nm	nm
EV/EBITDA (x)	10.4	15.6	10.9	10.9	10.9
EV/EBIT (x)	3.2	10.2	11.3	11.4	11.4

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)	(65.8)	(58.8)	(64.9)
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	893.0	905.9	1,004.3
Income tax	(120.9)	(148.0)	(217.2)	(226.5)	(251.1)
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	621.9	637.3	681.2
Core net profit	482.7	591.7	597.9	637.3	681.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,519.1	1,978.2	1,913.0	2,264.1	1,958.4
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	1,139.5	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	5,347.4	6,198.0	6,596.7
Total assets	11,112.3	12,916.4	13,747.1	15,121.8	15,233.8
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	6,447.5	7,681.4	8,226.4
Minority Interest	317.3	388.7	388.7	388.7	388.7
Total shareholder equity	5,652.2	6,333.9	6,836.2	8,070.1	8,615.1
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	11,112.3	12,916.4	13,747.1	15,121.8	15,233.8

CASH FLOW (MYR m)

Pretax profit	1,894.3	968.8	893.0	905.9	1,004.3
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	198.3	273.7	(65.8)	(58.8)	(64.9)
Change in working capital	295.7	(91.4)	(500.0)	(900.0)	(900.0)
Cash taxes paid	(127.3)	(150.5)	(217.2)	(226.5)	(251.1)
Other operating cash flow	(1,167.4)	(231.3)	0.0	0.0	0.0
Cash flow from operations	1,093.6	769.4	140.2	(245.2)	(173.5)
Free cash flow	1,093.6	769.4	140.2	(245.2)	(173.5)
Dividends paid	(344.3)	(212.9)	(190.1)	(119.6)	(127.5)
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)	(15.3)	(8.2)	(4.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	454.2	1,399.1	(65.2)	351.1	(305.7)

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)	(7.8)	1.4	10.9
Reported net profit growth	181.9	(50.5)	(16.3)	2.5	6.9
Core net profit growth	37.7	22.6	1.0	6.6	6.9
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	16.0	15.4	20.4
Payout ratio	10.5	25.6	19.2	20.0	20.0
DuPont analysis					
Net profit margin (%)	31.7	15.4	11.1	10.8	13.8
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	9.0	8.6
ROAA (%)	4.9	4.9	4.5	4.4	4.5
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	1.5	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	29.0	19.8	22.2
Net interest cover (x)	17.8	25.3	11.7	13.0	13.2
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	1,871.5	1,520.4	1,826.0

Source: Company; Maybank

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