

# Sunway (SWB MK)

Share Price: MYR3.36

MCap (USD): 1.8B

Malaysia

Target Price: MYR3.05 (-+9%)

ADTV (USD): 0.5M

Property

**HOLD**

(unchanged)

## Construction arm returns to Bursa

- Positive on the latest corporate exercise involving the listing of its construction arm, unlocking values.
- Shareholders will be rewarded in the form of a distribution-in-specie and special cash dividend.
- Maintain earnings forecasts, HOLD rating and MYR3.05 TP (on 0.59x P/RNAV) for now; stock could re-rate by up to 30sen.

### What's New

Sunway has proposed to list its construction arm on the Main Market by 2Q15. To facilitate the listing, it will undertake:

- an internal reorganisation, which will involve the disposal of its entire equity interest in Sunway Construction into Sunway Construction Group (SCG, the soon-to be-listed vehicle) for MYR258.6m or 1,292.9m new SCG shares;
- Distribution-in-specie (13.3% of SCG paid-up share capital) at 1 SCG share for every 10 shares in Sunway Bhd;
- Offer for sale of up to 31% of SCG shares (25.5% to institutional investors). Post-listing, Sunway will own a 55.7% stake in SCG.

### What's Our View

We are positive on this development, as it would add breath to listed construction offerings on Bursa Malaysia. Also, the listing will unlock values and provide investors the flexibility to invest in either the property business (via Sunway shares) or construction business (via SCG) of the Sunway Group. Sunway intends to reward its shareholders via a distribution-in-specie and cash dividend.

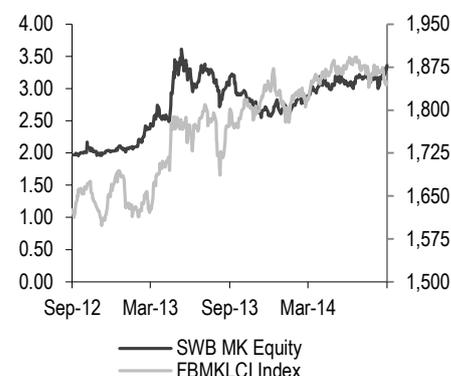
Based on our back-of-the-envelope calculation, a lower 55.7% stake in the construction business (from 100%) post-listing would see 3.8%/5% lower earnings in our FY15/16 forecasts for Sunway. No change to our RNVA estimate for now pending further details.

FYE Dec (MYR m)	FY12A	FY13A	FY14F	FY15F	FY16F
Revenue	3,876.8	4,733.7	5,542.6	6,010.2	6,064.7
EBITDA	535.1	563.1	666.7	753.7	717.3
Core net profit	350.6	482.7	500.5	556.9	565.5
Core EPS (sen)	27.1	30.6	29.0	32.3	31.1
Core EPS growth (%)	7.2	12.8	(5.1)	11.3	(3.8)
Net DPS (sen)	6.0	10.0	5.8	6.5	6.2
BVPS (MYR)	2.75	3.38	3.33	3.58	3.89
Core P/E (x)	12.4	11.0	11.6	10.4	10.8
EV/EBITDA (x)	8.6	9.2	8.8	7.9	7.8
Net dividend yield (%)	1.8	3.0	1.7	1.9	1.8
P/BV (x)	1.2	1.0	1.0	0.9	0.9
Net debt/equity (%)	45.2	23.9	25.5	25.0	12.5
ROAE (%)	15.0	28.1	8.7	9.0	8.0
ROAA (%)	6.1	13.5	4.2	4.4	4.2
Chg in net profit (%)	-	-	0.0	0.0	0.0

### Key Data

Shariah status	YES
52w high/low (MYR)	3.38/2.54
Free float (%)	3.9
Issued shares (m)	1,723
Market capitalization	MYR5.8B
Major shareholders:	
SUNGEI WAY CORP SDN	48.2%
YEAN TIH CHEAH	13.5%
GIC PRIVATE LIMITED	8.7%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute (%)	6.0	9.1	6.7
Relative to country (%)	7.6	10.8	3.5

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	9	4	0
	Maybank	Consensus	% +/-
Target Price (MYR)	3.05	3.59	(15.1)
2014 Net Profit (MYR m)	501	496	1.0
2015 Net Profit (MYR m)	557	540	3.2

Source: Bloomberg; Maybank

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## Corporate exercise

### Construction arm to list by 2Q15

Sunway has proposed to list its construction division which is currently held under its wholly-owned subsidiary, Sunway Construction S/B (SunCon), on the Main Market of Bursa Malaysia. A new company called Sunway Construction Group (SCG) will be the listing vehicle to acquire the entire stake in SunCon. The listing of SCG is slated to be completed by 2Q15. To facilitate the listing of SCG, Sunway will undertake the following:

- 1) Proposed disposal of the entire issued and paid-up share capital of SunCon to SCG for MYR258.6m, satisfied entirely via the issuance of 1,292.9m new SCG shares of 20sen each,
- 2) Distribution-in-specie to Sunway shareholders on the basis of 1 SCG share for every 10 shares in Sunway (172.4m SCG shares, representing 13.3% of SCG's issued and paid-up share capital),
- 3) Proposed offer for sale of up to 401m SCG shares (31% of SCG's total number of shares) to institutional (329.9m shares or 25.5% of SCG's shares; price to be determined via book building exercise) and retail (71.1m shares or 5.5% of SCG's shares) investors.
- 4) There will be an over-allotment option of 4.7% of SCG. Post-over-allotment, Sunway will own 51% stake in SCG (from 55.7% post-listing, pre-over-allotment option).

The total proceeds to be raised from the proposed offer for sale will be used for working capital purposes, expenses relating to the proposed offering and a special cash dividend to Sunway shareholders.

#### Shareholding structure of Sunway Construction

	Before exercise of over-allotment option (%)	After exercise of over-allotment option (%)
Sunway Bhd	55.7	51.0
Shareholders of Sunway Bhd	13.3	13.3
Institutional investors	25.5	30.2
Retail investors	5.5	5.5

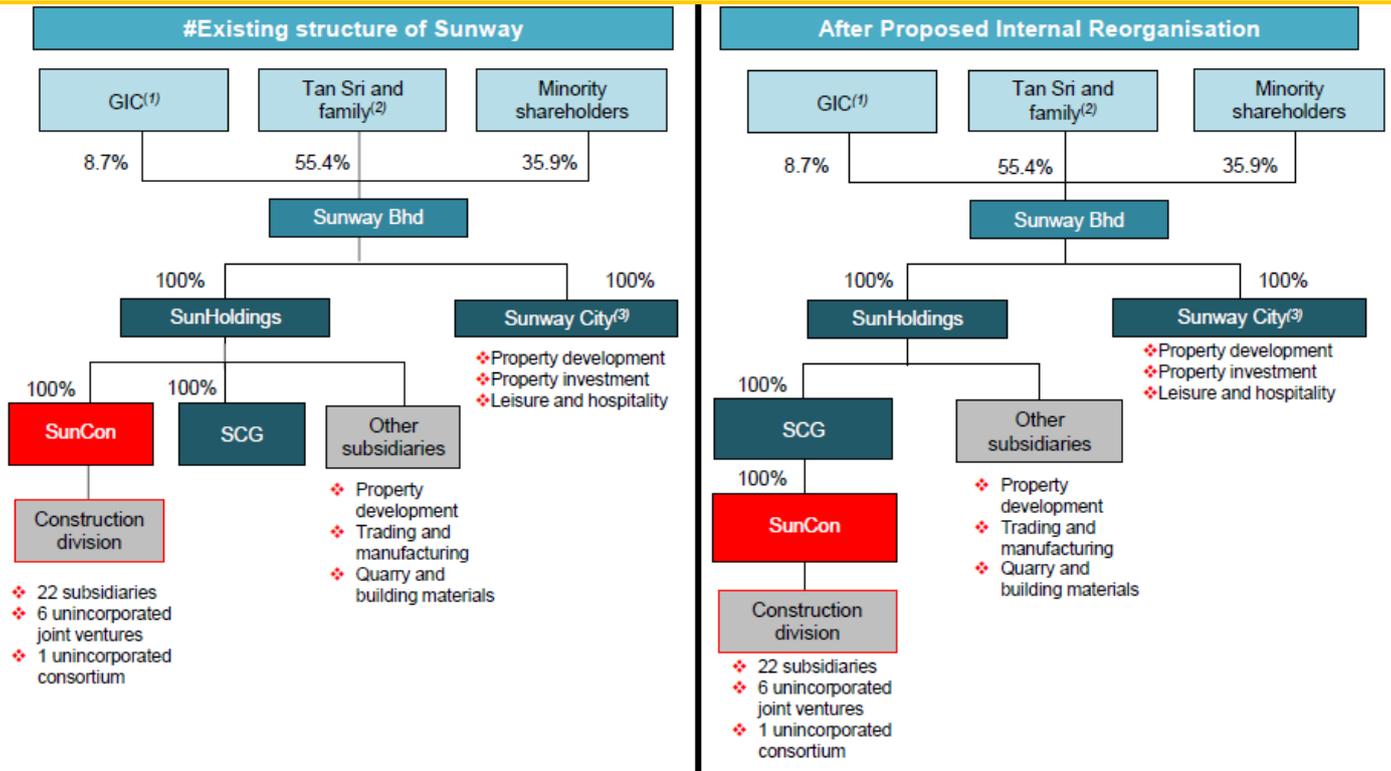
Source: Company

#### Proposed timeline for the listing of SCG

	Timeline
Submission to regulatory authorities	4Q14
EGM	1Q15
Listing date	2Q15

Source: Company

Group structure pre-listing



Notes:

\* As at 15 Sept 2014

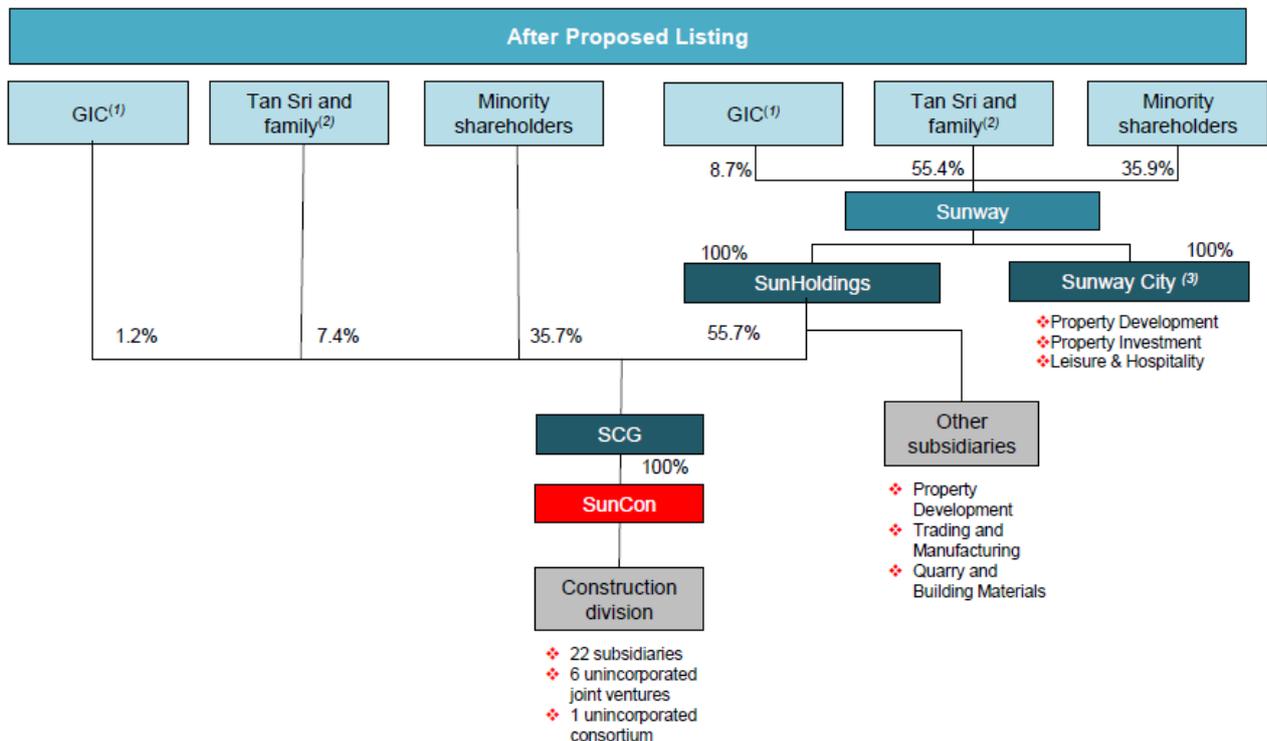
<sup>(1)</sup> GIC Private Limited ("GIC") for the Government of Singapore

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

<sup>(3)</sup> Sunway City Sdn Bhd

Source: Company

Group structure post-listing



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Source: Company

## Construction back in the spotlight

We are not surprised by the proposed corporate exercise/listing especially when the construction sector is now in the spotlight due to increasing infrastructure works in the Klang Valley and as the property sector takes a breather post government measures to cool the sector. The listing of SCG will provide investors a direct exposure into Sunway's construction business and the flexibility to invest in either the property business (via Sunway shares) or construction business (via SCG) of the Sunway Group depending on market condition and investors' risk appetite.

## About SCB

SCB is a turnkey contractor with design and build capability, with five main supporting divisions in multiple areas of construction: i) civil (construction of highways, bridges, MRT, LRT and BRT), ii) building (construction of commercial and high-end residences), iii) geotechnics (geotechnical and foundation specialist with deep basement and marine piling capability), iv) mechanical, electrical and plumbing (design and management, electrical, mechanical, IT and associated engineering services), v) concrete products (manufacturing of precast concrete products mainly in Singapore and Johor). Also, it provides machinery rental and logistics services.

In 2013, revenue was MYR1.8b, while net profit was approximately MYR75m excluding the property business contribution. The outstanding construction orderbook was MYR3.36b as at 31 July 2014, out of total contract values of MYR6.24b. Of this, MYR581m was new jobs secured this year. The MYR3.36b in turn comprises 73%/27% external/internal jobs.

Sunway aims to maintain its order book with a replenishment of c.MYR2.5b for 2015 (including internal orders). As one of the largest piling contractors in Malaysia, we think SCG stands a good chance in winning construction contracts from the soon-to-be-approved KVMRT2 (likely to open for tender in 2H15). It had bagged MYR1.17b worth of construction contracts (MRT Package V4 for Sec 17 to Semantan) from KVMRT1.

## Re-rating impact

Based on 2013 net profit of MYR75m, and a target PER of 12x, we estimate a potential market capitalisation of MYR900m for the new listed arm, SCB, but this has yet to take into consideration an internal reorganisation to carve out the Singapore/Malaysia property businesses to Sunway from SunCon. Our own RNAV estimate for Sunway presently derives an MYR853m value for SunCon based on 10x PER on 2014 earnings (see table overleaf).

More importantly, we think the listing will help to unlock values in Sunway Berhad. At the current share price of MYR3.36, the group trades at a 36% discount to our RNAV estimate of MYR5.18 per Sunway share. The current share price thus implies a deep discount for the construction business as well. A rough calculation on the difference between our MYR853m fair value for the construction business and the MYR258m proposed disposal value of SunCon for the listing, derives 30sen per Sunway share in terms of potential re-rating, based on the enlarged paid-up capital of 2.01b Sunway shares, after considering full warrants conversion.

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	346.8	128.0	153.2
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
<b>Sub-total:</b>					<b>1362.5</b>
2. Development projects - DCF (WACC: 10.5-13.1%)					
	Stake				(MYR m)
South Quay	60%				217.5
Sunway Cheras	100%				1.8
Sunway Damansara	60%				58.5
Sunway D' Mont Kiara	88%				15.5
Sunway Kayangan	100%				1.9
Sunway Duta	100%				31.3
Bangi	100%				5.4
Sunway Melawati	100%				49.8
Casa Kiara III	80%				12.1
Sunway Alam Suria	50%				4.7
Sunway Velocity	85%				190.8
Penang projects	100%				96.7
Wonderland Business Park, Australia	31%				11.1
Singapore Yi Shun	30%				16.1
Singapore Tampines	30%				23.5
Singapore Yuan Ching Road	30%				14.8
Singapore Sembawang	100%				5.1
Vacanza @ East, Singapore	30%				6.4
Singapore Pasir Ris	30%				18.7
Thomson/Irrawady	30%				43.1
Mount Sophia	30%				47.2
Sunway Iskandar -leasehold (Medini)	51%				402.8
<b>Sub-total:</b>					<b>1,275.0</b>
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)
<b>Sub-total:</b>					<b>28.4</b>
4. Other businesses or assets					
34.3% stake in SunREIT based on Maybank IB's MYR1.24 TP					251.3
Construction (10x 2014PER)					852.8
Building material (10x 2014PER)					266.4
Trading (10x 2014PER)					322.7
<b>Grand total:</b>					<b>4,359.1</b>
Shareholders fund (MYR m) - Dec 2013					5,334.9
Warrants conversion (MYR2.50 exercise price; expiring Aug 2016)					724.0
<b>RNAV (MYR m)</b>					<b>10,418.0</b>
Number of shares (m shares) - post rights issue					1,723.5
Enlarged share capital post warrant					2,013.1
<b>FD RNAV/share (MYR) - post warrant</b>					<b>5.18</b>
<b>Target price (MYR)</b>					<b>3.05</b>

Source: Company, Maybank KE

## INCOME STATEMENT (MYR)

FY Dec	2013A	2014F	2015F	2016F
Revenue	4,733.7	5,542.6	6,010.2	6,064.7
EBITDA	563.1	666.7	753.7	717.3
Depreciation & Amortisation	(24.7)	(27.0)	(30.8)	(34.7)
<b>Operating Profit</b>	<b>1,823.6</b>	<b>639.7</b>	<b>722.9</b>	<b>682.6</b>
Associate	13.2	80.5	87.1	90.0
JV companies	159.3	103.7	75.5	99.7
Interest (Exp)/Inc	(102.4)	(50.3)	(51.8)	(38.7)
Exceptional Items	0.7	0.0	0.0	0.0
Pre-Tax Profit	1,894.3	773.6	833.7	833.5
Tax	(120.9)	(193.4)	(208.4)	(208.4)
Minority Interest	(273.0)	(79.7)	(68.3)	(59.6)
<b>Net Profit</b>	<b>1,500.5</b>	<b>500.5</b>	<b>556.9</b>	<b>565.5</b>
<b>Net Profit Ex. EI</b>	<b>482.7</b>	<b>500.5</b>	<b>556.9</b>	<b>565.5</b>
Revenue Growth %	22.1	17.1	8.4	0.9
EBITDA Growth (%)	5.2	18.4	13.0	(4.8)
EBIT Growth (%)	261.7	(64.9)	13.0	(5.6)
Net Profit ex-EI Growth (%)	37.7	3.7	11.3	1.5
Tax Rate %	6.4	25.0	25.0	25.0

## BALANCE SHEET (MYR m)

FY Dec	2013A	2014F	2015F	2016F
Fixed Assets	2,670.4	2,821.7	2,951.9	3,086.1
Other LT Assets	3,558.5	3,499.8	3,341.4	3,225.7
Cash/ST Investments	1,519.1	1,330.8	1,252.9	1,907.6
Other Current Assets	3,364.3	4,228.5	4,993.0	5,241.8
<b>Total Assets</b>	<b>11,112.3</b>	<b>11,880.7</b>	<b>12,539.1</b>	<b>13,461.2</b>
ST Debt	1,804.9	1,804.9	1,804.9	1,804.9
Other Current Liabilities	2,178.1	2,546.2	2,759.0	2,783.8
LT Debt	990.6	990.6	990.6	990.6
Other LT Liabilities	486.5	486.5	486.5	486.5
Minority Interest	317.3	317.3	317.3	317.3
Shareholders' Equity	5,334.9	5,735.3	6,180.8	7,078.1
<b>Total Capital</b>	<b>11,112.3</b>	<b>11,880.7</b>	<b>12,539.1</b>	<b>13,461.2</b>
Share Capital (RM 'm)	1,723.5	1,723.5	1,723.5	2,013.1
Net Debt/ (Cash)	1,276.4	1,464.7	1,542.6	887.9
Working Capital	900.4	1,208.2	1,681.9	2,560.6
Gross Gearing %	52.4	48.7	45.2	39.5
Net Gearing %	23.9	25.5	25.0	12.5

## CASH FLOW (MYR m)

FY Dec	2013A	2014F	2015F	2016F
Profit before taxation	1,894.3	773.6	833.7	833.5
Depreciation	0.0	26.5	30.3	34.2
Net interest receipts/(payments)	198.3	(50.3)	(51.8)	(38.7)
Working capital change	295.7	0.0	0.0	0.0
Cash tax paid	(127.3)	(193.4)	(208.4)	(208.4)
Others	(1,167.4)	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>1,093.6</b>	<b>556.4</b>	<b>603.7</b>	<b>620.6</b>
Capex	(670.2)	(670.2)	(670.2)	(670.2)
Disposal/(purchase)	38.2	0.0	0.0	0.0
Others	(273.0)	83.2	88.7	91.8
<b>Cash flow from investing</b>	<b>(905.1)</b>	<b>(587.1)</b>	<b>(581.5)</b>	<b>(578.5)</b>
Debt raised/(repaid)	(130.3)	0.0	0.0	0.0
Equity raised/(repaid)	727.5	0.0	0.0	724.0
Dividends (paid)	(344.3)	(157.7)	(100.1)	(111.4)
Others	(117.5)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>135.4</b>	<b>(157.7)</b>	<b>(100.1)</b>	<b>612.7</b>
Change in cash	323.9	(188.3)	(77.9)	654.8

## RATES &amp; RATIOS

FY Dec	2013A	2014F	2015F	2016F
EBITDA Margin %	11.9	12.0	12.5	11.8
Op. Profit Margin %	38.5	11.5	12.0	11.3
Net Profit Margin %	31.7	9.0	9.3	9.3
ROE %	28.1	8.7	9.0	8.0
ROA %	13.5	4.2	4.4	4.2
Net Margin Ex. EI %	10.2	9.0	9.3	9.3
Dividend Cover (x)	3.1	5.0	5.0	5.0
Interest Cover (x)	17.8	12.7	13.9	17.6
Asset Turnover (x)	2.3	2.1	2.1	2.2
Asset/Debt (x)	4.0	4.3	4.5	4.8
Debt/ EBITDA (x)	5.0	4.2	3.7	3.9
Debt/ Market Cap (x)	0.5	0.5	0.5	0.5
EV/EBITDA (x)	9.2	8.8	7.9	7.8

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