

### Three small acquisitions

## First Look

Sunway announced three bite-sized acquisitions yesterday:

#### Winstar and PND Hardware – hardware trading companies

- Sunway is acquiring 100% stakes in hardware distributors - **Winstar** and **PND Hardware**, with operations in Malaysia and Singapore respectively.
- Approximate total purchase price will be ~MYR138mn, payable in tranches over 2015-2017.
- As per the company, the investments guarantee a PAT of ~MYR16mn per year for the next three years which is marginally (~2-3%) accretive to our EPS forecasts for 2015-17. Based on these numbers, the acquisition P/E multiple is ~9x, which we view as reasonable.
- The *rationale* for these acquisitions are 1) diversification of Sunway's earnings from its trading operations, 2) potential to supply hardware to Sunway's construction and property projects and 3) cross-selling opportunities to Sunway's customers and cost synergies through sharing warehouses.

#### Pasir Mas Holdings – potential for property development

- Sunway is paying MYR1.75mn for a 100% stake in **Pasir Mas Holdings** which operates a petrol station opposite Sunway Pyramid shopping mall.
- The *rationale* behind this investment is the strategic location of the land on which the petrol station is built. It lies opposite the Sunway Pyramid shopping mall facing New Pantai Expressway and presents an opportunity for redevelopment in the future, as per management.

#### Maintain Buy on Sunway

We are neutral on these acquisitions given the small potential impact they will have on Sunway's earnings. We maintain our Buy on Sunway (currently trading at 13x 2015F P/E) – which is our defensive pick amongst Malaysia property developers, due to its stable REIT and construction divisions. We think that the stock can continue to re-rate in the run up to the proposed listing of SunCon (estimated by July-2015), post which the shareholders of Sunway stand to gain a special dividend of ~30sen/sh.

### Global Markets Research

10 April 2015

<b>Rating</b> Remains	<b>Buy</b>
<b>Target price</b> Remains	MYR 4.20
<b>Closing price</b> 9 April 2015	MYR 3.76

### Research analysts

#### Malaysia Property

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# Appendix A-1

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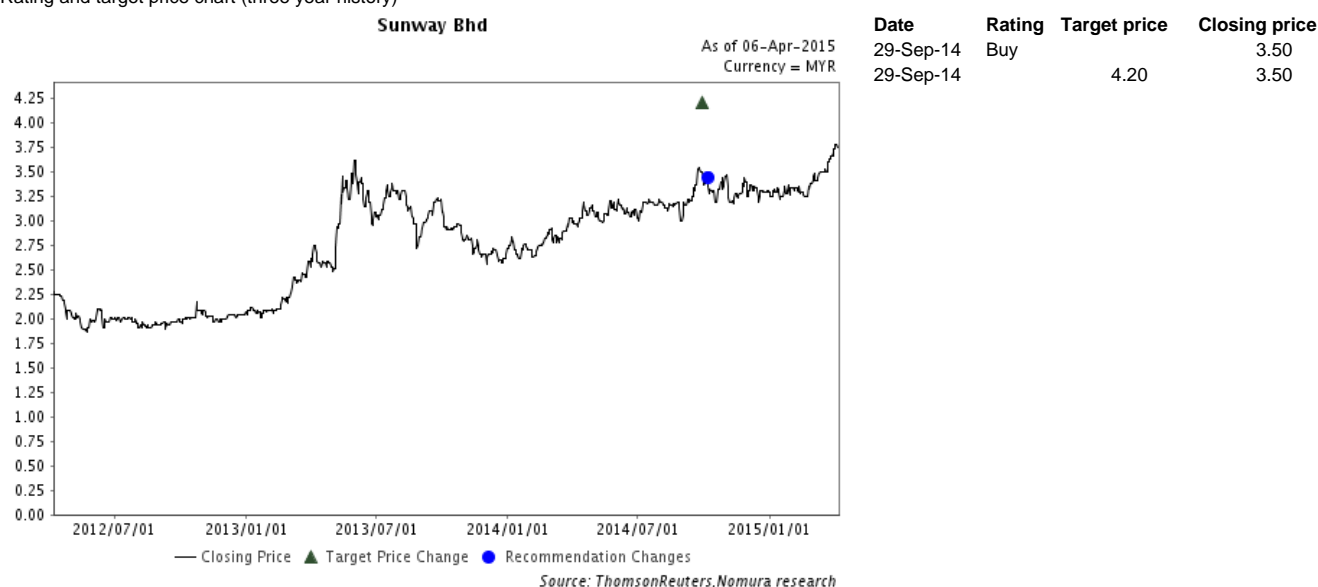
### Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Bhd	SWB MK	MYR 3.76	09-Apr-2015	Buy	N/A	

### Sunway Bhd (SWB MK)

MYR 3.76 (09-Apr-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We value the group based on SOTP-derived RNAV. We value the property development business using DCF of future profits from all the projects and unbilled sales. We use a discount rate (cost of equity) of 10.1% for Malaysia, 11.1% for Singapore, 16.4% for China, 12.9% for India and 12.1% for Australia projects. To that we add the book value of property development to get the NAV from property development business. We value construction business at 15x FY15F P/E which is Malaysia's construction sector average multiple. The REIT arm of property investment is valued at market value while the non-REIT assets are valued at carrying value. We value other businesses at 10x FY15F P/E (historical average). We sum the values from all business to get the group's RNAV and add cash from warrants and ESOS to get fully diluted RNAV of MYR11.6bn. To that we ascribe a 40% discount to the property development and non-REIT investment RNAV. Using fully diluted shares of 2bn and applying a discount of 40%, we derive our TP of MYR4.20. Our TP values the company at 13x FY15F P/E and 1.2x P/B. The benchmark index for the stock is MSCI Malaysia.

**Risks that may impede the achievement of the target price** Downside risks: 1) any project delays or disappointing take-up rates could dent our earnings forecasts; 2) a failure of the company to meet its sales targets or pass on cost increases to customers; 3) further weakening of Iskandar sentiment; 4) failure to meet construction orderbook targets or list division; 5) failure of Sunway Putra Mall to get tenancy targets; and 6) any contractions in GDP growth or unexpected government policy measures to curb sentiment in the property sector are downside risks to our call.

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