

Sunway (SWB MK)

Property- Real Estate
Market Cap: USD1,793m

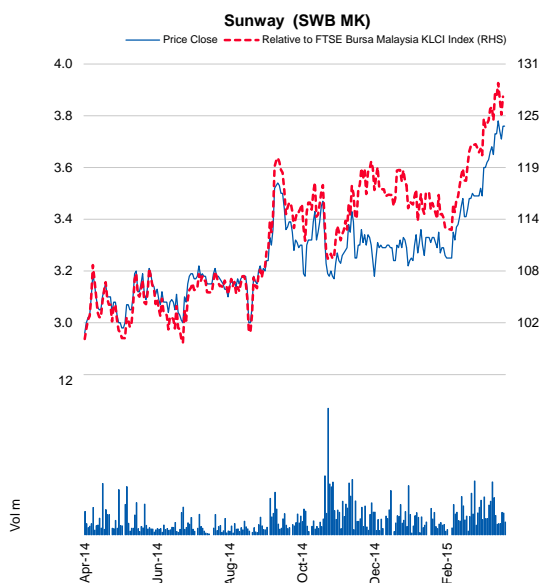
Buy (Maintained)

Target Price: MYR4.18

Price: MYR3.76

Beefing Up The Trading Division

Macro
Risks
Growth
Value



Source: Bloomberg

Avg Turnover (MYR/USD)	4.83m/1.33m
Cons. Upside (%)	0.8
Upside (%)	11.2
52-wk Price low/high (MYR)	2.98 - 3.78
Free float (%)	39
Share outstanding (m)	1,731
Shareholders (%)	
Tan Sri Dato' Jeffrey Cheah	55.4
EPF	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.3	9.3	14.3	13.3	27.0
Relative	9.2	6.0	7.5	12.2	27.3

Shariah compliant

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We are neutral on Sunway's proposed acquisition of two hardware trading companies. Maintain BUY, with an unchanged MYR4.18 TP (11% upside). The acquisition values the companies at implied 8.8x FY18F P/E. We view the move as an effort to strengthen the trading division so that it can be disposed of at a better value in future. Nevertheless, the listing of Sunway Construction remains the near-term focus.

- ◆ **MYR138m acquisition.** Sunway announced its proposed acquisition of two hardware trading companies – Winstar Trading SB (Winstar) and PNB Hardware & Trading Pte Ltd (PND) for an estimated total consideration of MYR138m (MYR131m + SGD2.6m). The amount is payable in three tranches: i) MYR82m for a 60% stake in 2Q15; ii) a 20% stake in 2Q17 based on a 5x average EBITDA for the preceding two years; and iii) a remaining 20% stake in 2Q18 based on 5x average EBITDA for the preceding two years. These will be funded internally.
- ◆ **Reasonable valuations.** The acquisition is packaged with a net profit guarantee of MYR15.7m (MYR15m + SGD250k) per year for 2015, 2016 and 2017, proportionate to the effective stake for the respective year. This implies an acquisition P/E multiple of 8.8x FY18F (with 100% stake), which is deemed reasonable. The transaction also values the companies at 1x P/BV, as we note that Winstar owns some warehouses in the Klang Valley at low costs.
- ◆ **Strengthening trading division.** While the market may not like the acquisition as it is not related to its core divisions (ie property and construction), we think the move is to strengthen the trading division, and to beef up its value so that Sunway could spin off the division at a better value in future. The existing trading division already contributed about MYR35m in profit last year. In addition, it is also strategic to acquire profitable market leaders with more than 30 years of experience in the wholesaling of hardware market. The companies currently distribute many hardware brands. The net margin is quite commendable at about 7-9%.
- ◆ **Forecast.** We keep our earnings forecasts unchanged as the impact on earnings is rather minimal.
- ◆ **BUY, TP stays at MYR4.18.** The listing angle of Sunway Construction (SCG) remains as the focus for the stock. We maintain our valuation assumption for SCG. Maintain BUY on Sunway with a SOP-based TP of MYR4.18.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	4,734	4,842	4,982	5,071	5,569
Reported net profit (MYRm)	1,500	743	589	590	634
Recurring net profit (MYRm)	483	592	589	590	634
Recurring net profit growth (%)	37.7	22.6	(0.5)	0.2	7.5
Recurring EPS (MYR)	0.32	0.34	0.34	0.34	0.36
DPS (MYR)	0.10	0.11	0.11	0.11	0.12
Recurring P/E (x)	11.7	11.0	11.1	11.2	10.5
P/B (x)	1.06	1.09	1.03	0.98	0.93
Dividend Yield (%)	2.7	2.9	2.9	2.9	3.2
Return on average equity (%)	33.7	13.2	9.6	9.0	9.1
Return on average assets (%)	15.1	6.2	4.4	4.2	4.3
Net debt to equity (%)	22.6	28.5	29.9	24.3	26.5
Our vs consensus EPS (adjusted) (%)			7.6	6.1	5.0

Figure 1: Brands distributed by Winstar and PND



Source: Company

Figure 2: Own brands



Source: Company

Figure 3: Sunway's RNAV

Developments	Remaining Landbank (acre)	Remaining GDV (MYR m)	Effective stake	NPV @ 11%	
Selangor/KL					
Sunway Damansara	15.36	1,691.28	60%	114.6	
Sunway South Quay	42.17	3,296.66	60%	213.2	
Sunway Monterez	5.36	43.67	60%	2.9	
Sunway Semenyih	398.11	728.59	70%	45.3	
Sunway Cheras	5.97	16.82	100%	1.2	
Sunway Duta	3.16	120.00	60%	5.0	
Sunway Montana	1.99	55.51	100%	5.7	
Sunway Alam Suria	0.65	12.00	100%	1.1	
Sunway Resort City	14.9	660	100%	56.3	
Casa Kiara III	2.88	210.00	80%	15.8	
Sunway Velocity	17.94	2,858.98	85%	233.7	
Sunway Tower KL 1	1.00	240.00	100%	17.5	
Bangi	3.00	59.00	100%	5.5	
Melawati	2.00	43.00	100%	3.7	
Sg Long	111.00	277.00	80%	17.6	
Mont Putra, Rawang	163.00	156.00	100%	12.4	
Perak					
Sunway City Ipoh	440.5	1,048.38	65%	65.5	
Penang					
Sunway Hills	80.70	849.00	100%	65.3	
Sunway Cassia, Batu Maung	6.62	74.00	100%	7.0	
Sunway Wellesley, Bukit Mertajam	63.00	845.00	100%	78.7	
Paya Terubong	24.46	1,500.00	100%	116.4	
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.2	
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.3	
S'pore					
Mount Sophia	5.87	2,137.20	30%	74.6	
Sembawang, Singapore	0.77	75.00	100%	9.2	
Royal Square @ Novena	1.65	2,287.50	30%	79.9	
Johor					
Bukit Lenang	64.79	698.40	80%	65.0	
Medini	691.00	12,000.00	60%	594.3	
Pendas	1,079.07	18,000.00	60%	694.2	
China					
Sunway Guanghao	3.73	66.78	65%	4.2	
Tianjin Eco City	24.00	1,300.00	60%	59.5	
India					
Sunway OPUS Grand India	23.80	702.36	50%	19.9	
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	6.5	
Australia					
Wonderland Business Park (Sydney)	48.40	378.10	45%	9.2	
Unbilled sales				336.0	
TOTAL	3,389.75	52,781.52		3,054.29	
Investment properties					
	EBITDA (MYR m)	Market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)
Monash University Campus	17	299.5	299.5	100%	0
Monash U Residence	15	226.6	226.6	100%	0
Sunway University College	10	255.0	255.0	100%	0
Sunway Hotel Georgetown	4	74.0	37.6	100%	36.4
Sunway Hotel Phnom Penh	2	17.3	17.3	53%	0
Sunway Hotel Hanoi	2	8.8	8.8	100%	0
Sunway Giza	5	55.1	55.1	60%	0
Sunway Pinnacle	N/A	280.0	280.0	100%	0
Wisma Sunway	4	60.0	59.1	100%	0.9
Other divisions					
	Market value (MYR m)	Book value (MYR m)	Est. FY15 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
34% Sunway REIT	1,663.3	1,479.0			184.32
Others			110	6.5	715.00
Total					3,990.91
Shareholders' equity (ex cons.)					5,545.20
ESOS proceeds					551.52
Warrants conversion @ MYR2.50					723.48
Total RNAV (ex cons.)					10,811.11
Discount to RNAV				30%	
Discounted RNAV					7,567.78
SCG's listing (based on 13x PE and MYR120m PATMI)					1,560.00
SOP value					9,127.78
Share base (mil)					1,723.52
No. of warrants					289.39
ESOS					172.35
Enlarged share base (mil)					2,185.27
Target price (MYR)					4.18

Source: RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	4,734	4,842	4,982	5,071	5,569
Cost of sales	(3,382)	(3,504)	(3,636)	(3,711)	(4,073)
Gross profit	1,352	1,337	1,346	1,359	1,496
Gen & admin expenses	(698)	(717)	(747)	(761)	(863)
Other operating costs	1,170	148	152	158	153
Operating profit	1,824	769	751	756	785
Operating EBITDA	1,914	885	876	891	924
Depreciation of fixed assets	(91)	(116)	(125)	(134)	(139)
Operating EBIT	1,824	769	751	756	785
Net income from investments	172	233	202	298	326
Interest income	36	48	52	54	57
Interest expense	(138)	(79)	(86)	(89)	(90)
Other non-recurring income	1	(3)	(3)	(3)	(3)
Pre-tax profit	1,894	969	916	1,017	1,075
Taxation	(121)	(148)	(229)	(254)	(269)
Minority interests	(273)	(78)	(98)	(173)	(172)
Profit after tax & minorities	1,500	743	589	590	634
Reported net profit	1,500	743	589	590	634
Recurring net profit	483	592	589	590	634

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	1,824	769	751	756	785
Depreciation & amortisation	91	116	125	134	139
Change in working capital	(148)	(822)	(197)	310	51
Other operating cash flow	(449)	212	267	268	269
Operating cash flow	1,317	275	946	1,468	1,245
Interest received	36	48	52	54	57
Interest paid	(138)	(79)	(86)	(89)	(90)
Tax paid	(121)	(148)	(229)	(254)	(269)
Cash flow from operations	1,094	97	683	1,179	943
Capex	(780)	(691)	(256)	(270)	(578)
Other investing cash flow	(502)	118	(200)	(200)	(200)
Cash flow from investing activities	(1,282)	(573)	(456)	(470)	(778)
Dividends paid	(490)	(238)	(192)	(194)	(213)
Proceeds from issue of shares	766	105	-	-	-
Increase in debt	49	989	-	-	-
Other financing cash flow	(189)	(108)	(103)	(102)	(101)
Cash flow from financing activities	135	748	(295)	(296)	(314)
Cash at beginning of period	1,140	1,519	1,978	1,962	2,257
Total cash generated	(53)	271	(68)	414	(150)
Forex effects	210				
Implied cash at end of period	1,297	1,790	1,910	2,376	2,107

Source: Company data, RHB

Financial Exhibits

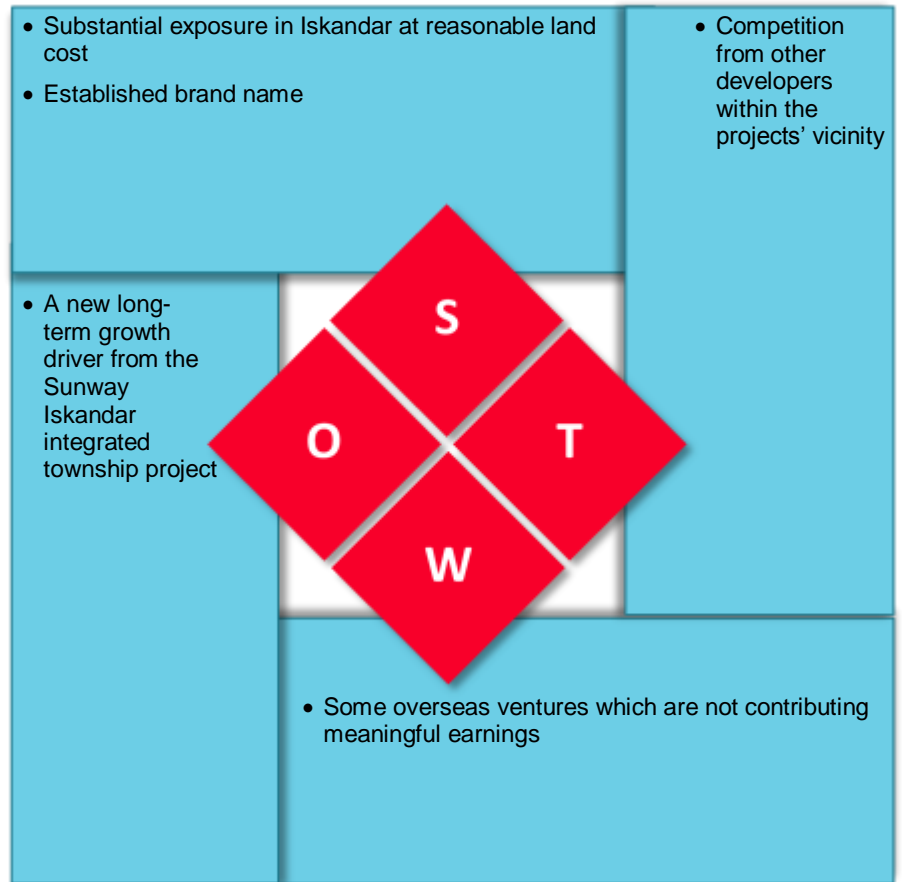
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	1,519	1,978	1,962	2,257	2,053
Inventories	1,899	2,370	2,525	2,362	2,441
Accounts receivable	1,403	1,720	1,843	1,736	1,831
Other current assets	63	111	111	111	111
Total current assets	4,883	6,179	6,440	6,466	6,436
Tangible fixed assets	5,834	6,257	6,387	6,523	6,963
Intangible assets	320	319	319	319	319
Total other assets	75	161	563	1,061	1,587
Total non-current assets	6,229	6,737	7,270	7,904	8,869
Total assets	11,112	12,916	13,710	14,370	15,305
Short-term debt	1,805	2,283	2,283	2,283	2,283
Accounts payable	2,154	2,172	2,252	2,292	2,517
Other current liabilities	24	21	21	21	21
Total current liabilities	3,983	4,476	4,556	4,596	4,821
Total long-term debt	991	1,502	1,720	1,770	1,886
Other liabilities	486	605	605	605	605
Total non-current liabilities	1,477	2,107	2,326	2,376	2,492
Total liabilities	5,460	6,583	6,881	6,972	7,313
Share capital	1,724	1,731	1,731	1,731	1,731
Retained earnings reserve	1,896	2,457	2,855	3,251	3,672
Other reserves	1,716	1,757	1,757	1,757	1,757
Shareholders' equity	5,335	5,945	6,342	6,739	7,160
Minority interests	317	389	487	660	832
Other equity	-	0	-	-	-
Total equity	5,652	6,334	6,829	7,399	7,992
Total liabilities & equity	11,112	12,916	13,710	14,370	15,305

Source: Company data, RHB

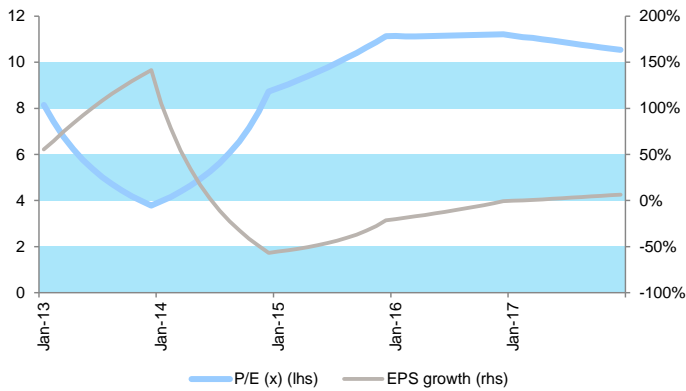
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	22.1	2.3	2.9	1.8	9.8
Operating profit growth (%)	261.7	(57.8)	(2.4)	0.8	3.8
Net profit growth (%)	181.9	(50.5)	(20.8)	0.2	7.5
EPS growth (%)	141.6	(56.7)	(21.6)	(0.8)	6.4
Bv per share growth (%)	28.5	(2.6)	5.6	5.2	5.2
Operating margin (%)	38.5	15.9	15.1	14.9	14.1
Net profit margin (%)	31.7	15.4	11.8	11.6	11.4
Return on average assets (%)	15.1	6.2	4.4	4.2	4.3
Return on average equity (%)	33.7	13.2	9.6	9.0	9.1
Net debt to equity (%)	22.6	28.5	29.9	24.3	26.5
DPS	0.10	0.11	0.11	0.11	0.12
Recurrent cash flow per share	0.73	0.06	0.39	0.67	0.53

Source: Company data, RHB

SWOT Analysis

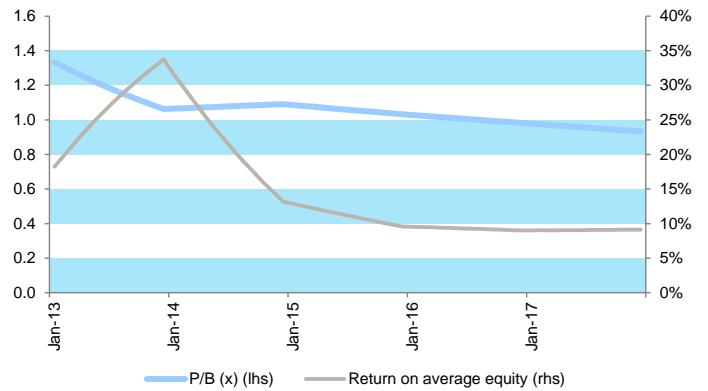


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

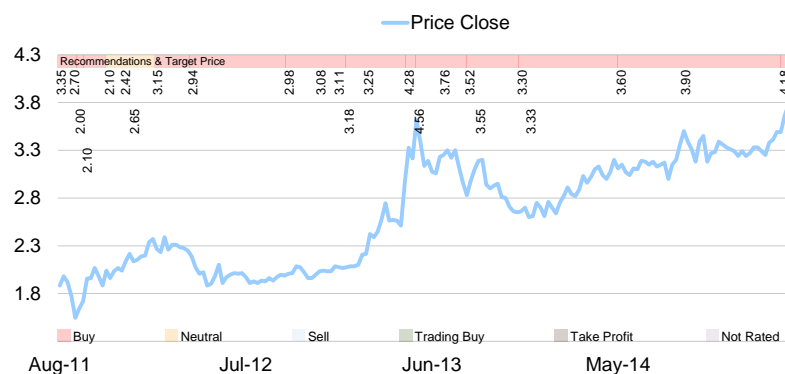


Source: Company data, RHB

Company Profile

A well-known developer in the Klang Valley. Its flagship project - Bandar Sunway is a well-established integrated township. The company has successfully transformed a mining land into a mature residential and commercial cluster.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-03-19	Buy	4.18	3.52
2015-02-25	Buy	3.90	3.32
2014-11-19	Buy	3.90	3.26
2014-09-22	Buy	3.90	3.52
2014-08-29	Buy	3.60	3.00
2014-05-29	Buy	3.60	3.19
2014-02-28	Buy	3.33	2.91
2013-12-18	Buy	3.33	2.59
2013-12-02	Buy	3.30	2.55
2013-09-18	Buy	3.55	3.05

Source : RHB, Bloomberg

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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