

18 December 2013

## Sunway Berhad Penang Expansion

# OUTPERFORM ↔

**Price:** **RM2.64**

**Target Price:** **RM3.08** ↔

**News**

- SUNWAY's wholly-owned subsidiary, Sunway City (Penang), has proposed to acquire 24.5ac, comprising of 4 pieces of freehold land in Paya Terubong, Pulau Penang, for a total consideration of RM267m or RM251 psf. The purchase consideration is derived from a successful bidding in an open tender, which the minimum reserve price was fixed at RM200 psf (which is 20% lower than the purchase price). The project has a potential GDV of c. RM1.5b.

**Comments**

- Land cost is considered fair being 18% of the GDV as it is within the industry average range of 15%-20%. The acquisition will be financed by internally generated funds and bank borrowings and we estimate its net gearing to increase from 0.25x to 0.31x in FY14. The acquisition will likely be completed within three months from the SPA and construction works starting in early FY15.

- The project's GDV of RM1.5b consists of commercial shops (30%), SOHO and high-rise residential units (70%). We reckon the GDV is reasonable based on an ASP of RM803psf given the plot ratio of 2.5x and assumed 70% utilisation rate. This is in-line with the company's estimated selling price of RM650psf for residential and RM1000psf for commercial retail lots.

- The land is strategically located between Penang city centre and the Penang airport. It is also surrounded by tourist attractions (i.e. Kek Lok Si Temple and Train Station to Penang Hill Resort) and matured residential townships, which would likely cater for upgraders in the area. The project is 400m from the main road, which is connected to Jalan Air Itam to Georgetown and also to the Bayan Lepas Free Trade Zone and Penang Bridge through Jalan Relau.

- We are long-term positive on the project. The residential component of the project is likely to target locals in the affordable range. While the acquisition price is reasonable, earnings accretion will likely take place from FY15 onwards.

**Outlook**

- Meanwhile, we are looking forward to more new launches, including Medini, Mount Sophia and on-going projects that include Bukit Mertajam, Sunway Velocity, Sunway South Quay and etc. Management guided that FY13 sales are expected to beat the internal and our estimates of RM1.3b at RM1.8b, respectively. However, management is cautiously guiding FY14E sales target of RM1.8b until they ascertain the impact of the recent tightening measures put in place, particularly as SUNWAY has full exposure to DIBS. Nonetheless, the target is still better than our initial FY14E estimates of RM1.5b.

**Forecast**

- Revising up FY13E and FY14E earnings by 3.6% and 9.0%. This is due to us revising higher our FY13 and FY14E sales targets by 37% and 15% to RM1.76b and RM1.80b.

**Rating** **Maintain OUTPERFORM**

**Valuation**

- The project increases our SoP by 6 sen. However, we prefer to maintain our SoP driven TP of RM3.08 as we are widening our property division discount rate (refer overleaf for details).

**Risks to Our Call**

Unable to meet sales targets or replenish landbank. Sector risks, including more negative policies.

### Share Price Performance



KLCI	1,850.90
YTD KLCI chg	9.6%
YTD stock price chg	27.7%

### Stock Information

Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	4,550.1
Issued shares	1,723.5
52-week range (H)	3.61
52-week range (L)	1.96
3-mth avg daily vol:	932,953
Free Float	31%
Beta	1.4

### Major Shareholders

SUNGEI WAY CORP SDN	46.4%
YEAN TIH CHEAH	13.5%
GIC PRIVATE LIMITED	8.7%

### Summary Earnings Table

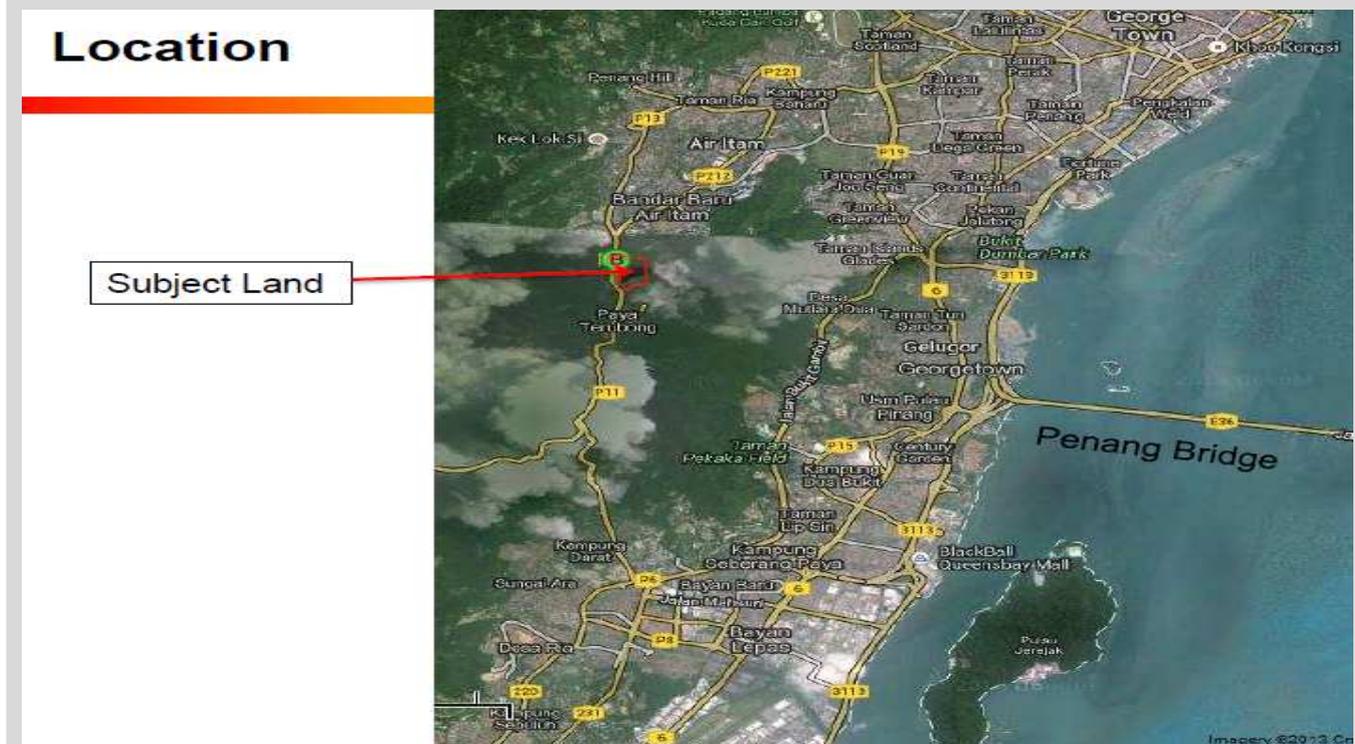
FYE Dec (RM m)	2012A	2013E	2014E
Turnover	3849	4384	5953
EBIT	322	569	786
PBT	723	690	804
<b>Net Profit (NP)</b>	530	503	540
<b>Core NP</b>	394	456	540
Consensus (CNP)	n.a.	409	461
Earnings Revision		+3.6	+9.0
Core EPS (sen)	22.9	26.5	31.3
Core EPS growth (%)	11.1	15.8	18.4
NDPS (sen)	6.0	9.4	7.8
BV/Share (RM)	2.08	2.72	2.98
Core PER (x)	11.6	10.0	8.4
Price/BV (x)	1.3	1.0	0.9
Net Gearing (x)	0.39	0.18	0.31
Dividend Yield (%)	2.3%	3.6%	3.0%

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## OTHER POINTS

**Maintain TP of RM3.08.** The project increases our SoP by 6 sen while we have also included Sunway's portion of SUNREIT's book value, which was excluded previously. Although its SOP has technically increased, we have also opted to widen our property developers' RNAV discount to 35% (from 25%) as we look to widen our sector discount factor in our upcoming property sector update, in addition to the flattish FY14E sales target guidance. The wider sector discount factor is to reflect the negative sentiment in the property industry. While we laud the company for outperforming and guiding higher our FY13E and FY14E initial sales estimates of RM1.3b and RM1.5b, respectively, resulting in positive earnings accretion; the flattish FY14 sales target is unexciting relative to FY13. Thus, we prefer to maintain our SOP driven TP of RM3.08.

## Location map



Source: Company

## SOP Table

Segments	Value RM'm	Stake (%)	FY14E PER (x)	Discount (%)	Discounted Value RM'm
Property Development	5,299	100%	n.a	35%	3,460
Construction	650	100%	12	0%	650
Sunway Reit	1,365	34%	n.a	0%	1,365
Quarry & Buildings Mat	30	100%	8	0%	30
Trading & manufacturing	295	100%	7.9	0%	295
Reitable assets	0	0%	0	0%	0
Total RNAV					5,801
RNAV per share (RM)					3.37
Dilution impact					1,723
<b>FD RNAV per share (RM)</b>					<b>3.08</b>
Diluted no. of shares ('m)					2,168

Source: Kenanga Research

## FD RNAV

Projects	Stake	Duration (assumed) Years	Effective Remaining GDV (RM'm)	Effective Remaining Net Profit (RM'm)	WACC (%)	DCF Value (RM m)
<b>Penang</b>						
Sunway City Penang	100%	3	172	30	11%	20
Sunway Grand	100%	3	80	14	11%	9
Sungai Ara, Bayan Lepas	100%	4	849	146	11%	83
Bukit Mertajam	100%	3	694	120	11%	98
Paya Terubong	100%	5	1500	259	11%	155
<b>Johor</b>						
Bukit Lenang	80%	6	559	96	11%	68
Sunway Iskandar	46%	10	5,520	952	11%	505
Pendas	60%	15	10,800	1,863	11%	653
<b>Perak</b>						
Sunway City Ipoh	65%	8	681	118	11%	61
<b>Klang Valley</b>						
Sunway Damansara	60%	6	1,015	175	11%	123
Sunway South Quay	60%	8	2,170	374	11%	241
Sunway Montereiz	60%	4	26	5	11%	3
Sunway Semenyih	70%	8	510	88	11%	57
Sunway Cheras	100%	4	17	3	11%	2
Sunway Duta	60%	4	72	12	11%	7
Sunway Montana	100%	4	56	10	11%	7
Sunway Alam Suria	100%	3	12	2	11%	2
Sunway Resort City	100%	7	660	114	11%	69
Casa Kiara III	80%	4	168	29	11%	16
Sunway Velocity	85%	7	2,430	419	11%	282
Sunway Tower KL 1	100%	4	240	41	11%	29
Bangi	100%	3	59	10	11%	7
Melawati 2	100%	3	43	7	11%	5
Sg Long, Balakong	80%	5	222	38	11%	19
Mont Putra	100%	7	156	27	11%	16
<b>Singapore</b>						
Novena	30%	3	714	123	11%	100
Sembawang, Singapore	100%	2	75	13	11%	11
Mount Sophia	30%	5	641	111	11%	74
<b>China</b>						
Sunway Guanghao	65%	2	43	7	11%	5
Tianjin Eco City	60%	7	3,206	553	11%	372
<b>India</b>						
Sunway OPUS Grand India	50%	5	351	61	11%	29
Sunway MAK Signature Residence	60%	5	109	19	11%	9
<b>Australia</b>						
Wonderland Business Park (Sydney)	45%	7	170	29	11%	13
<b>Total Unbilled Sales</b>	various	various	2,200	380	11%	306
<b>Revised Asset Value</b>						<b>3,457</b>
NTA (at 31/Dec/12)						1842
<b>RNAV</b>						<b>5299</b>

Source: Kenanga Research



NAME	Price (17/12/13)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY12/13 NP Growth (%)	FY13/14 NP Growth (%)	Target Price (RM)	Rating
	(RM)		FY12/13	FY13/14	FY14/15				FY12/13	FY13/14	FY14/15				
<b>DEVELOPERS UNDER COVERAGE</b>															
UEM Sunrise	2.32	10,091	22.4	15.6	17.4	0.9%	8.8%	1.7	448.4	644.4	577.8	43.7%	-10.3%	2.76	OUTPERFORM
SP Setia	3.00	7,376	17.7	16.5	11.7	3.7%	8.7%	1.2	400.2	446.7	633.0	11.6%	41.7%	3.35	MARKET PERFORM
Sunway Berhad	2.64	4550	11.6	10.0	8.4	3.6%	16.1%	1.0	393.9	456.0	539.9	15.8%	18.4%	3.08	OUTPERFORM
IJM Land*	2.63	4,100	20.9	14.0	11.1	1.9%	8.5%	1.2	196.1	292.6	368.8	49.3%	26.0%	3.15	OUTPERFORM
Mah Sing Group	2.23	3,096	10.9	9.2	7.5	4.2%	19.9%	1.6	230.6	275.5	335.5	19.5%	21.8%	2.56	OUTPERFORM
UOA Development*	1.99	2,666	8.4	8.2	7.3	6.5%	15.4%	1.0	301.3	306.9	346.0	1.9%	12.7%	2.10	MARKET PERFORM
Scientex Berhad	5.61	1,241	11.7	8.3	7.1	4.2%	17.5%	1.8	110.3	155.0	182.8	40.5%	17.9%	6.28	OUTPERFORM
Matrix Concepts	3.63	1,093	10.5	7.5	6.5	8.4%	29.1%	2.1	103.5	146.0	167.2	41.1%	14.6%	4.80	OUTPERFORM
Crescendo	2.99	681	14.4	10.1	8.2	5.0%	9.7%	1.3	55.7	80.2	100.0	43.9%	24.7%	4.00	OUTPERFORM
Hua Yang	1.92	507	7.2	6.5	4.5	4.6%	23.5%	1.3	70.5	77.5	112.0	10.0%	44.5%	2.91	OUTPERFORM
Hunza Properties*	2.16	453	21.9	27.9	21.1	1.4%	26.7%	0.5	19.8	15.6	20.6	-21.5%	32.3%	2.15	UNDERPERFORM
* Core NP and Core PER															
<b>CONSENSUS NUMBERS</b>															
BERJAYA LAND BHD	0.82	4,081	31.8	82.0	51.3	n.a.	2.4%	0.8	128.4	49.8	79.6	-61.2%	60.0%	0.93	BUY
IGB CORPORATION BHD	2.70	4,018	19.5	17.6	16.6	2.7%	4.7%	0.9	206.0	227.7	242.6	10.5%	6.5%	3.47	BUY
YNH PROPERTY BHD	1.66	699	14.8	11.9	10.4	2.4%	5.6%	0.8	47.3	59.0	67.4	24.7%	14.3%	1.78	NEUTRAL
YTL LAND & DEVELOPMENT BHD	0.93	771	32.1	48.9	42.3	n.a.	2.7%	0.8	24.0	15.8	18.2	-34.5%	15.8%	1.40	BUY
GLOMAC BHD	1.12	814	6.8	6.6	5.8	5.0%	14.8%	0.9	119.0	123.6	140.3	3.8%	13.5%	1.23	NEUTRAL
KSL HOLDINGS BHD	2.11	815	3.7	3.5	4.5	1.4%	19.1%	0.6	221.9	235.7	179.7	6.2%	-23.8%	2.38	BUY
PARAMOUNT CORP BHD	1.48	500	9.5	8.7	7.8	6.1%	7.5%	0.7	52.6	57.4	64.2	9.2%	11.8%	1.71	BUY
IVORY PROPERTIES GROUP BHD	0.59	263	46.5	n.a.	8.4	n.a.	10.5%	0.7	5.7	n.a.	31.2	n.a.	n.a.	n.a.	BUY
TAMBUN INDAH LAND BHD	1.43	562	8.4	8.8	6.2	5.5%	22.0%	1.8	67.1	64.1	90.4	-4.5%	41.1%	1.80	BUY

Source: Kenanga Research

**Stock Ratings are defined as follows:**

**Stock Recommendations**

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

OVERWEIGHT	:	A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:	A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:	A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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