

Flash Note

Sunway Bhd

SWB MK
RM2.64

BUY (maintain)

Price Target: RM3.45 (↔)

Acquiring a 24-acre land in Penang Island for RM267m

Acquiring a 24-acre piece of land in Penang Island for RM267m

Sunway announced that its wholly-owned subsidiary, Sunway City (Penang) Sdn Bhd had won the bid for 4 parcels of freehold land in Penang Island for a cash consideration of RM267.4m. The 4 parcels of land have a combined area of 24.5 acres, translating into a purchase price of RM251 psf. The vendor is Lee Rubber Company (Pte) Limited and the property agent is C.H. William Talhar & Wong.

Location of the land and the proposed development plan

The land is located along Jalan Paya Terubong in Daerah Timur Laut (please refer to figure 1 and 2 overleaf). It is located near Kek Lok Si Temple and the lower Train Station to the Penang Hill Resort. Sunway plans to develop the land into a RM1.5bn mixed development, comprising of commercial shops, SOHO and high rise residential units (70% residential, 30% commercial).

Neutral on the acquisition

We are neutral on the acquisition: (i) we opine that the acquisition price of RM251 psf is fair – the purchase consideration was arrived via an open tender where the minimum reserve price is RM200 psf; (ii) while the land cost to GDV ratio of 17.8% is higher than typical Malaysia property projects, it is, in our view, reasonable given the scarcity of premium land in Penang Island; and (iii) funding for the acquisition should not be an issue in view of Sunway's healthy balance sheet (gross cash of RM1.4bn and net gearing of 0.28x as at end-September 2013).

Maintain BUY with an unchanged TP of RM3.45

No change in our earnings forecast for now pending further details on the product offerings (ie. design, layout, selling prices and launch date). Maintain **BUY** on Sunway with an unchanged TP of RM3.45 based on 15% discount to RNAV. Key risks to our positive view on Sunway are weaker-than-expected property sales, further property cooling measures and rising development costs.

Earnings & Valuation Summary

| FYE Dec (RMm) | 2011 | 2012 | 2013E | 2014E | 2015E |
|---------------------|---------|---------|---------|---------|---------|
| Revenue | 3,691.7 | 3,849.2 | 4,238.8 | 4,986.8 | 5,036.3 |
| EBITDA | 457.0 | 469.6 | 513.3 | 563.6 | 587.3 |
| Pretax profit | 498.5 | 722.9 | 606.9 | 650.9 | 722.9 |
| Net profit | 372.1 | 530.6 | 449.1 | 443.5 | 506.6 |
| EPS (sen) | 28.8 | 41.1 | 29.8 | 25.7 | 29.4 |
| PER (x) | 9.2 | 6.4 | 8.9 | 10.3 | 9.0 |
| Core net profit | 327.1 | 350.6 | 420.5 | 443.5 | 506.6 |
| Core EPS (sen) | 25.3 | 27.1 | 27.9 | 25.7 | 29.4 |
| Core EPS chg (%) | 14.3 | 7.2 | 2.8 | (7.7) | 14.2 |
| Core PER (x) | 10.4 | 9.7 | 9.5 | 10.3 | 9.0 |
| DPS (sen) | - | 6.0 | 7.0 | 8.0 | 8.0 |
| Dividend Yield (%) | - | 2.3 | 2.7 | 3.0 | 3.0 |
| EV/EBITDA (x) | 10.6 | 10.7 | 10.7 | 10.0 | 9.4 |
| Consensus profit | - | - | 408.8 | 460.9 | 514.5 |
| Affin/Consensus (x) | - | - | 1.0 | 1.0 | 1.0 |

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Fig 1: Location map of the Penang land



Source: Company

Fig 2: Aerial view of the land



Source: Company

Equity Rating Structure and Definitions

| | |
|-------------------------------|---|
| BUY | Total return is expected to exceed +15% over a 12-month period |
| TRADING BUY (TR BUY) | Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks |
| ADD | Total return is expected to be between 0% to +15% over a 12-month period |
| REDUCE | Total return is expected to be between 0% to -15% over a 12-month period |
| TRADING SELL (TR SELL) | Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks |
| SELL | Total return is expected to be below -15% over a 12-month period |
| NOT RATED | Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |
| OVERWEIGHT | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| NEUTRAL | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| UNDERWEIGHT | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |

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