



Sunway Berhad

Proposed Listing of Sunway Construction

TP: RM3.85 (+14.7%)

Last Traded: RM3.36

Buy

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Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

Proposed Listing of Sunway's Construction Division

Sunway has proposed to list its construction division, which is currently held under Sunway Construction S/B (SunCon), on the Main Market of Bursa Malaysia. According to announcement, a New Co, Sunway Construction Group Bhd (SCG) has been incorporated by Sunway Holdings Sdn Bhd, a wholly-owned subsidiary of Sunway, to be a listing vehicle to acquire the entire shareholdings in SunCon for RM258.6mn via issuance of shares. Following an internal reorganization, SCG and its subsidiaries will be mainly involved in building and infrastructure projects and the manufacturing and sale of precast concrete products in Malaysia and Singapore.

Listing Structure

The listing process will involve:

- 1) Internal reorganisation of SCG;
- 2) Proposed 1-for-10 distribution-in-specie of free SCG shares to existing shareholders of Sunway;
- 3) Proposed offer-for-sale of 401mn SCG shares, which represents 31% of the enlarged share capital of SCG. Of the 31%, the institutional portion is 25.5%, while the retail portion is 5.5% – see **Appendix 1 & 2**.

Note that Sunway will retain 55.7% stake (before over-allotment option) in SCG – see **Appendix 3 & 4**. The issue price will be determined via a book-building process.

Background of Sunway Construction

SunCon was previously listed on KLSE in 1997 and had a seven years tenure on the stock exchange before being delisted in 2004 subsequent to a voluntary general offer by Sunway Holdings Incorporated Bhd. It has more than 30 years of experience in the construction business, and has completed major projects locally and abroad, which includes the Kuala Lumpur Convention Centre, Silk Highway, Sunway Pyramid Shopping Mall, Legoland Theme Park and Pinewood Iskandar Malaysia Studios, sections of major highways in India, and several building jobs in Trinidad and Tobago and the Middle East.

As at July 31, SunCon has an outstanding order book of RM3.4bn. Key construction projects include the MRT Package V4, Kelana Jaya LRT extension line, Sunway bus rapid transit line, Afiniti Urban Wellness Centre, KLCC North East Carpark and KLCC Package 2 – see **Appendix 5**. On a proforma basis, SCG made a net profit of RM75mn on a revenue of RM1.8bn in FY13. This represents 38% and 16% of Sunway Bhd's FY13 revenue and core net profit respectively.

SCG Potentially Worth RM1.6bn

We value SCG at RM1.6bn based on FY14 net profit forecast of RM100mn (based on annualized 1H14 figures) and target PER of 16x, which is at par with our in-house target P/E multiple for large-cap construction stocks. This translates to an issue price of RM1.24/share and Sunway could potentially raise RM497.2mn from the exercise. We understand that it is the group's intention to reward shareholders with a special cash dividend from substantially the entire proceeds. Assuming Sunway to distribute 75% of the proceeds from offer for

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	1723.9
Market Cap (RMmn)	5464.8
Par Value	1.00
52-wk Hi/Lo (RM)	3.38/2.54
12-mth Avg Daily Vol ('000 shrs)	1205.50
Estimated Free Float (%)	24.2
Beta	1.3

Major Shareholders (%)

Sungei Way Corp (48.2)

Forecast Revision

	FY14	FY15
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	523.4	559.7
Consensus	495.6	539.7
TA's / Consensus (%)	105.6	103.7
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY14	FY15
Net Debt / Equity (%)	27.2	20.2
FCPS (sen)	(3.6)	30.7
Price / CFPS (x)	(92.1)	10.9
ROA (%)	4.6	4.8
NTA/Share (RM)	3.1	3.3
Price/NTA (x)	1.1	1.0

Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	6.0	(1.1)
3 mth	10.5	1.6
6 mth	16.3	2.6
12 mth	5.3	8.6

(12-Mth) Share Price relative to the FBM KLCI



sales, this could potentially translate into a special dividend of 22sen/share.

We are positive on the proposed listing as the earnings dilution is expected to be compensated by 1) free shares in SCG; and 2) special cash dividends. Benefiting from the country's upcoming large-scale infrastructure projects, construction business typically fetches higher valuation (target P/E 16x) compared with the group's property business. For instance, our property sector target P/E for large-cap property stock is 13x. As such, we believe the listing of SCG is value accretive to the group.

Forecast

As far as earnings dilution is concerned, our back-of-the-envelope calculation suggests a potential reduction of 3-6% in FY15-16 earnings projections post listing of SCG. We are not factoring the potential earnings dilution and special dividend, pending the completion of the exercise, expected by 2Q15.

Valuation

We maintain our **Buy** recommendation on Sunway with an unchanged target price of RM3.85/share, based on SOP valuation – see **SOP Table**. Note that we expect Sunway's target price to be re-rated to RM4.05/share, based on SCG's potential market value of RM1.6bn – see **Table 1**.

Table 1: Possible change in TP based on SCG's RM1.6bn market cap

Projects	Effective GDV (RM'mn)	NPV of Development Profits (RM'mn)
Development Projects	31394.3	1789.4

	Effective stake (%)	Book value (RM'mn)	Est. fair value (RM'mn)	Difference (RM'mn)
Investment in Sunway REIT (less 20% holding company discount)	34.30	1353.8	1564.5	168.6
Investment in SCG (less 20% holding company discount)	55.7	144.0	891.2	597.7
Total surplus				2555.7
Adjusted NTA				4870.9
Total revised enterprised value				7426.6
Conversion of warrants				724.3
SOP valuation (RM mn)				8151.0
Fully Diluted Share Base (mn shares)				2013.2
Fair Value (RM/Share)				4.05

SOP Table

SOP Valuation	% Shareholdings	Effective land size (acres)	Effective GDV (RM'mn)	NPV (RM'mn)
Project				
Selangor/KL				
Sunway Damansara	60%	9.2	1014.8	73.7
Sunway South Quay	60%	31.2	2393.8	107.6
Sunway Monterez	60%	3.2	26.2	2.3
Sunway Semenyih	70%	278.7	510.0	28.6
Sunway Cheras	100%	6.0	16.8	1.5
Sunway Duta	60%	1.9	72.0	4.6
Sunway Montana	100%	2.0	55.5	3.5
Sunway Alam Suria	100%	0.7	12.0	0.8
Sunway Resort City	100%	14.9	660.1	37.0
Casa Kiara III	80%	2.3	168.0	14.5
Sunway Velocity	85%	15.2	2430.1	104.9
Sunway Tower KL 1	100%	1.0	240.0	20.7
Bangi	100%	3.0	59.0	5.3
Melawati	100%	2.0	43.0	3.8
Sg Long	80%	88.8	221.6	19.8
Mont Putra, Rawang	100%	163.0	156.0	13.9
Perak				
Sunway City Ipoh	65%	581.6	681.4	35.8
Penang				
Sunway City Penang	100%	15.9	171.7	15.3
Sunway Grand	100%	11.9	186.0	16.6
Sungai Ara	100%	56.1	849.2	75.7
Bukit Mertajam	100%	42.3	694.1	61.9
Paya Terubong Land	100%	24.5	1500.0	86.9
Singapore				
Novena	30%	0.5	672.5	58.3
Sembawang	100%	0.8	75.0	6.2
Mount Sophia	30%	1.8	616.8	39.9
Johor				
Bukit Lenang	80%	70.4	745.6	50.8
Medini	38%	262.6	4560.0	223.9
Pendas	60%	647.4	10800.0	374.2
China				
Sunway Guanghao	65%	2.4	43.4	2.8
Tianjin Eco City	60%	54.5	3206.3	76.4
India				
Sunway OPUS Grand India	50%	11.9	351.2	18.2
Sunway MAK Signature Residence	60%	8.4	108.7	6.0
Australia				
Wonderland Business Park (Sydney)	45%	21.8	170.1	9.4
TOTAL		2411.5	31394.3	1600.4
Current unbilled sales			1800	189.0
Sub-total				1789.39

Construction	Effective stake (%)	Balance of works (RM'mn)	NPV
Kelana Line - Package B	100.0	251.0	12.6
Singapore - Precast	100.0	537.0	15.6
KVMRT - V4 Section 17	100.0	749.0	26.2
BRT Sunway Line	100.0	313.0	-36.7
KLCC NEC	100.0	267.0	13.4
KLCC Package 2	100.0	188.0	9.4
Urban Wellness	100.0	248.0	12.4
Other	100.0	311.0	9.6
Sub-total			62.43

	Effective stake (%)	Book value (RM'mn)	Est. fair value (RM'mn)	Difference (RM'mn)
Investment in Sunway REIT (less 20% holding company discount)	34.30	1353.81	1564.53	168.6
Total surplus				2020.4
Total NTA				5015.0
Total revised enterprised value				7035.4
Conversion of warrants @ RM2.50				724.3
SOP valuation (RM mn)				7759.7
Fully Diluted Share Base (mn shares)				2013.2
Fair Value (RM/Share)				3.85

Financial Statements

FYE Dec	2012	2013	2014F	2015F	2016F
Profit and Loss (RM' mn)					
Revenue	4,128.8	4,733.7	5,047.1	5,351.5	5,715.9
EBITDA	850.7	521.6	702.8	733.2	780.5
Depreciation	(95.2)	(49.2)	(49.8)	(50.4)	(50.9)
Amortisation	(1.0)	(1.0)	(0.9)	(0.9)	(0.8)
EBIT	754.5	471.4	652.1	682.0	728.8
Finance cost	(147.9)	(102.4)	(41.9)	(40.4)	(38.9)
Associate & JV	144.6	172.5	97.7	106.8	122.7
EI	88.1	1,017.8	0.0	0.0	0.0
PBT	839.7	1,894.3	707.8	748.4	812.6
Tax	(115.4)	(120.9)	(141.6)	(149.7)	(162.5)
MI	(285.5)	(273.0)	(42.8)	(39.1)	(82.6)
Net profit	438.8	1,500.5	523.4	559.7	567.4
Core profit	350.7	482.7	523.4	559.7	567.4
Core EPS (sen)	17.9	28.0	30.4	32.5	32.9
DPS (sen)	4.5	10.0	11.5	12.0	12.5

Cash Flow (RM' mn)					
PBT	839.7	1,894.3	707.8	748.4	812.6
Depr & Amort	96.2	50.2	50.7	51.2	51.7
Change in working assets	(624.9)	518.9	(280.6)	(23.8)	(27.6)
Tax	(115.4)	(120.9)	(141.6)	(149.7)	(162.5)
Others	(78.9)	(245.6)	(15.2)	(12.9)	(22.1)
CFO	116.6	2,096.9	321.1	613.2	652.0
Capex	(197.0)	(707.0)	(60.0)	(60.0)	(60.0)
Property Inv	(300.0)	(329.0)	(324.0)	(24.0)	(24.0)
CFI	(497.0)	(1,036.0)	(384.0)	(84.0)	(84.0)
Net Addition/Rpmt	50.0	70.0	(100.0)	(100.0)	(100.0)
Dividend Paid	(77.6)	(172.4)	(198.2)	(206.8)	(215.4)
Others	0.0	732.9	0.0	0.0	0.0
CFF	(27.6)	630.6	(298.2)	(306.8)	(315.4)
Change in cash	(407.9)	1,691.4	(361.1)	222.4	252.6
FCF/share	(29.4)	61.6	(3.6)	30.7	33.0

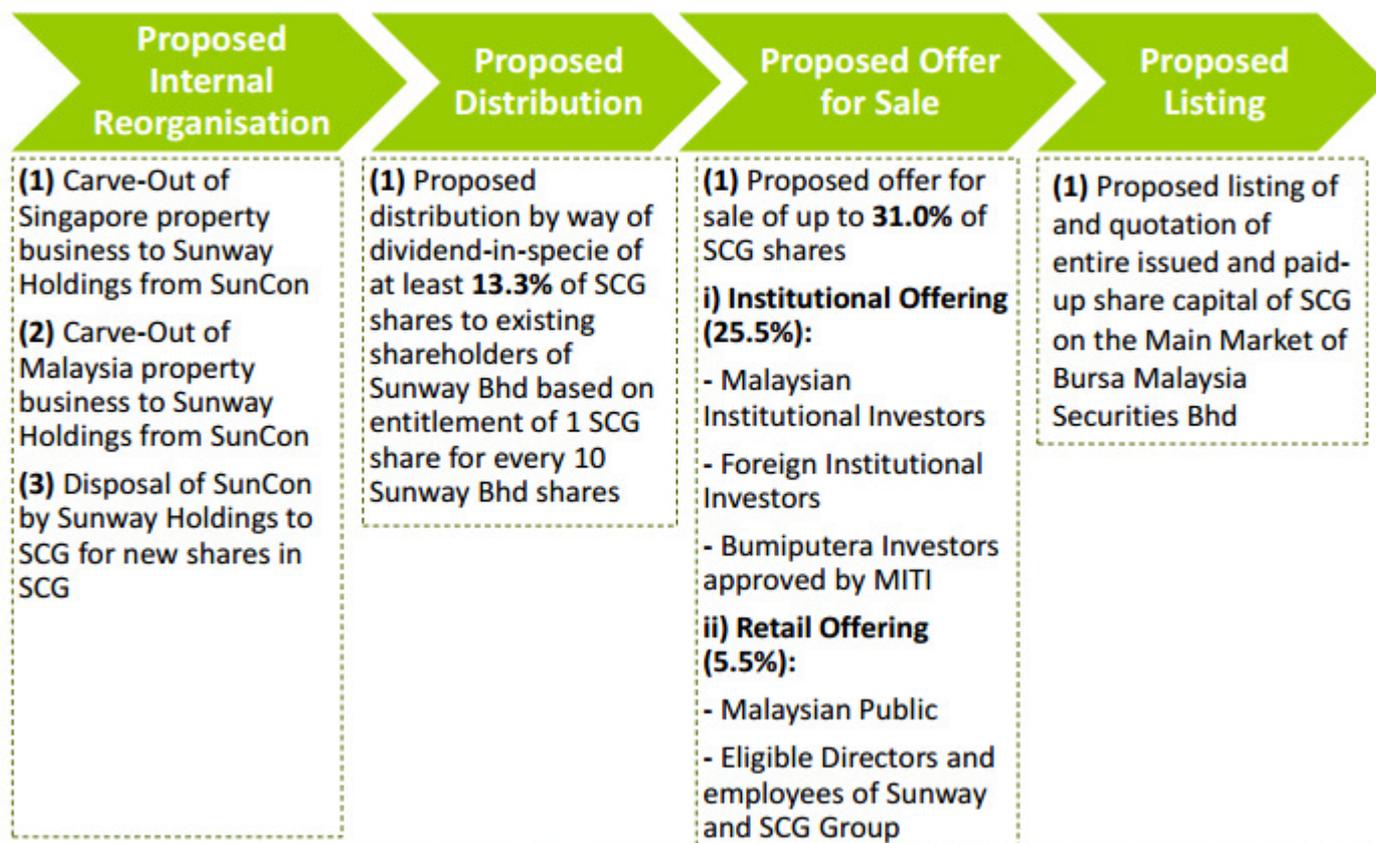
Assumptions (RM mn)					
New Property Sales	1,600.0	1,400.0	1,486.1	1,884.9	2,099.6
Property Margins (%)	17.7	18.3	18.2	18.0	17.6
Orderbook Replenishment	1,170.0	2,200.0	1,500.0	1,500.0	1,500.0
Construction margins (%)	5.4	7.9	7.0	6.8	7.1

FYE Dec	2012	2013	2014F	2015F	2016F
Balance Sheet RM' mn)					
PPE	1,562.8	857.9	868.1	877.7	886.8
Land held for dev	598.9	877.9	877.9	877.9	877.9
Associate & JV	571.1	2,284.0	2,299.2	2,312.1	2,334.2
Investment Properties	4,779.1	1,804.3	2,128.3	2,152.3	2,176.3
Goodwill	318.1	319.9	319.9	319.9	319.9
Others	49.5	84.8	83.9	83.1	82.2
LT Assets	7,879.5	6,228.8	6,577.4	6,623.0	6,677.4
Property dev. Cost	991.5	1,276.1	1,276.1	1,276.1	1,276.1
Inventories	650.3	622.9	622.2	674.4	736.0
Trade & other receivables	1,584.9	1,402.6	1,742.3	1,862.0	2,004.5
Cash & Cash equivalent	1,197.5	1,519.1	1,158.0	1,380.4	1,633.0
Others	60.0	62.7	62.7	62.7	62.7
ST Assets	4,484.2	4,883.4	4,861.3	5,255.7	5,712.3
Total Assets	12,363.7	11,112.3	11,438.7	11,878.7	12,389.7

Trade and other payables	1,844.8	2,154.0	2,212.4	2,360.5	2,536.9
ST Borrowings	2,955.0	1,804.9	1,754.9	1,704.9	1,654.9
Others	21.2	24.1	24.1	24.1	24.1
ST Liabilities	4,821.0	3,983.0	3,991.5	4,089.6	4,216.0
LT Borrowings	1,688.4	990.6	940.6	890.6	840.6
Others	503.0	486.5	486.5	486.5	486.5
LT Liabilities	2,191.4	1,477.0	1,427.0	1,377.0	1,327.0
Share Cap	1,292.5	1,723.5	1,723.5	1,723.5	1,723.5
Reserves	1,922.3	3,611.3	3,936.5	4,289.4	4,641.3
Shareholder's Funds	3,214.8	5,334.9	5,660.1	6,012.9	6,364.9
MI	2,136.5	317.3	360.2	399.2	481.9
Liabilities + Equities	12,363.7	11,112.3	11,438.7	11,878.7	12,389.7

Ratios					
EPS Growth (%)	(5.1)	56.3	8.4	6.9	1.4
PER (x)	18.7	12.0	11.1	10.3	10.2
GDPS (sen)	4.5	10.0	11.5	12.0	12.5
Div Yield (%)	1.3	3.0	3.4	3.6	3.7
Net cash (RMm)	(3,445.9)	(1,276.4)	(1,537.5)	(1,215.1)	(862.5)
Net gearing (x)	1.1	0.2	0.3	0.2	0.1
ROE (%)	11.3	11.3	9.5	9.6	9.2
ROA (%)	3.5	4.1	4.6	4.8	4.7
NTA/share (RM)	2.2	2.9	3.1	3.3	3.5
P/NTA (x)	1.5	1.2	1.1	1.0	1.0

Appendix 1: Listing Process



Source: Sunway Bhd

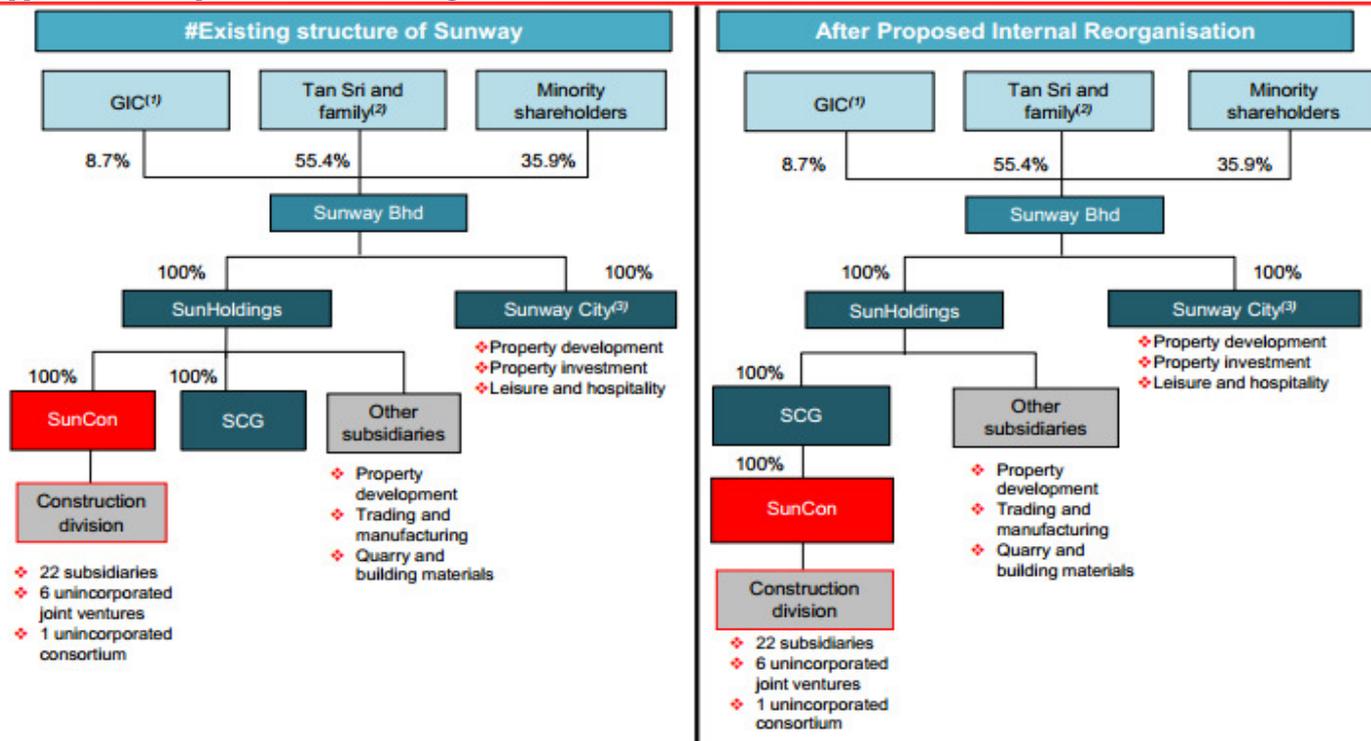
Appendix 2: Shareholding Structure of SCG

Shareholding Structure of SCG	(mn Shares)	(%)
Sunway Bhd	719.5	55.7
Dividend-in-specie	172.4	13.3
Available for Offer for sale	401.0	31.0
	1292.9	100.0

Offer for Sale Breakdown	(mn Shares)	(%)
MITI	135.8	10.5
Institutional	194.1	15.0
Retail-non bumi	25.9	2.0
Retail-bumi	25.9	2.0
Pink Form	19.4	1.5
	401.0	31.0

Source: Sunway Bhd

Appendix 3: Group Structure Pre Listing

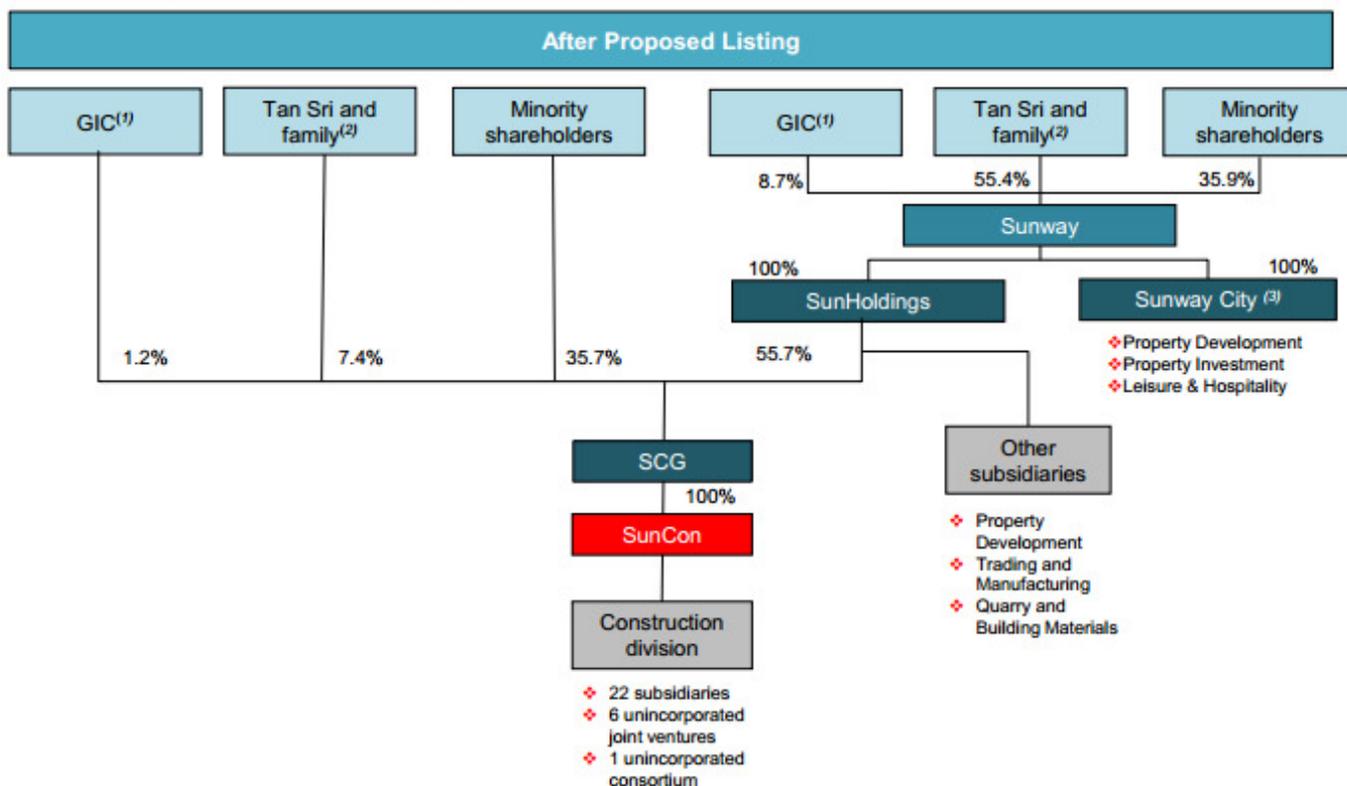


Notes:

- * As at 15 Sept 2014
- ⁽¹⁾ GIC Private Limited ("GIC") for the Government of Singapore
- ⁽²⁾ Tan Sri Dato' Seri Dr Jeffrey Cheah Fook Ling, AO, his interest in related company vehicles, spouse and children
- ⁽³⁾ Sunway City Sdn Bhd

Source: Sunway Bhd

Appendix 4: Group Structure Post Listing (Before Over-allotment)



Notes:

- ⁽¹⁾ GIC Private Limited for the Government of Singapore
- ⁽²⁾ Tan Sri Dato' Seri Dr Jeffrey Cheah Fook Ling, AO, his interest in related company vehicles, spouse and children
- ⁽³⁾ Sunway City Sdn Bhd

Source: Sunway Bhd

Appendix 5: Construction Orderbook

	Contract Sum RM'mil	O/S Order Book RM'mil
Infrastructure		
MRT Package V4 (Sec 17 to Semantan)	1,173	673
LRT Kelana Jaya Line Extension (Package B)	569	212
BRT Sunway Line	452	260
Johor		
Urban Wellness Centre	283	223
Others		
KLCC NEC	304	236
KLCC Package 2 (Piling & Substructure)	222	166
Others	772	243
Internal		
Sunway Velocity Mall (Substructure)	291	38
Sunway Velocity Phase 2 (Substructure)	179	19
Sunway University New Academic Block	192	86
Sunway Putra Place	258	81
Sunway Pyramid 3	203	167
Sunway Medical Centre Phase 3	178	178
Sunway Geo Retail Shops & Flexi Suites	153	153
Sunway Iskandar - Citrine Service Apartments	200	187
Singapore		
Precast	814	446
	6,243	3,368



Source: Sunway Bhd

Disclaimer

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Kaladher Govindan – Head of Research