

Flash Note

Refer to important disclosures at the end of this report

Malaysia Equity Research

22 Feb 2016

Sunway (SWB MK) : HOLD

Mkt. Cap: US\$1,249m | **3m Avg. Daily Val:** US\$0.75m

Last Traded Price : RM2.96

Price Target : RM3.20 (8% upside) (Prev RM3.20)

Shariah Compliant: Yes

Analyst

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Venturing into industrial development

- **Proposed land acquisition of 4.84 acres in Kelana Jaya and 4.25 acres in Kampung Baru Subang**
- **Maiden venture to develop industrial park in Kampung Baru Subang**
- **Maintain HOLD and RM3.20 TP**

News

Sunway announced a series of land bank acquisitions in Kelana Jaya and Kampung Baru Subang for a total purchase consideration of RM56m:

- 4.84 acres in Sungei Way Free Industrial Zone, Kelana Jaya for RM35.82m (RM169.90 psf) from Tamura Electronics (M) Sdn Bhd
- 2.25 acres in Kampung Baru Subang for RM9m (RM91.83 psf) from View2Pick Sdn Bhd
- 2 acres in Kampung Baru Subang for RM11.225m (RM128.85 psf) from Chen Yew Plastics Sdn Bhd

Sunway plans to amalgamate the Kampung Baru Subang lands with its 2.1 acres of existing industrial land (valued at RM12.5m or RM136.65 psf) located right next to the site.

There is also a proposed JV with View2Pick on a 80:20 basis with Sunway holding the majority stake to undertake an industrial development.

The proposed transactions are expected to be completed by 2H16.

Comments

We are encouraged by its diversification into industrial developments which remain well-received despite the weak sentiment for the property market. Nevertheless, both sites in Kelana Jaya (RM100m GDV) and Kampung Baru Subang (RM110m GDV) may only see developments by 4Q17 at the earliest given the existing tenancy on some of the land plots.

While the estimated GDV for both sites appear to be relatively small for Sunway, it could be the first step before it embarks on major industrial developments in the future.

Valuation

Our TP of RM3.20 is based on 10% discount to our SOP valuation of RM3.55. While we continue to like Sunway for its superior and unrivalled 'build-own-operate' model, there is no re-rating catalyst in the near term given the challenging market outlook.

DISCLOSURE

Stock rating definitions

| | | |
|--------------|---|------------------------------------------------------------------------------------------------------------|
| STRONG BUY | - | > 20% total return over the next 3 months, with identifiable share price catalysts within this time frame |
| BUY | - | > 15% total return over the next 12 months for small caps, >10% for large caps |
| HOLD | - | -10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps |
| FULLY VALUED | - | negative total return > -10% over the next 12 months |
| SELL | - | negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame |

Commonly used abbreviations

| | | |
|----------------------------------------------------|---------------------------|-----------------------------------------|
| Adex = advertising expenditure | EPS = earnings per share | PBT = profit before tax |
| bn = billion | EV = enterprise value | P/B = price / book ratio |
| BV = book value | FCF = free cash flow | P/E = price / earnings ratio |
| CF = cash flow | FV = fair value | PEG = P/E ratio to growth ratio |
| CAGR = compounded annual growth rate | FY = financial year | q-o-q = quarter-on-quarter |
| Capex = capital expenditure | m = million | RM = Ringgit |
| CY = calendar year | M-o-m = month-on-month | ROA = return on assets |
| Div yld = dividend yield | NAV = net assets value | ROE = return on equity |
| DCF = discounted cash flow | NM = not meaningful | TP = target price |
| DDM = dividend discount model | NTA = net tangible assets | trn = trillion |
| DPS = dividend per share | NR = not rated | WACC = weighted average cost of capital |
| EBIT = earnings before interest & tax | p.a. = per annum | y-o-y = year-on-year |
| EBITDA = EBIT before depreciation and amortisation | PAT = profit after tax | YTD = year-to-date |

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