

Out think. Out perform.

## Bonus rewards

Sunway has proposed a 4-for-3 bonus issue of shares and issuance of 3 free warrants for every 10 existing shares held. The exercise will improve the share trading liquidity and allow Sunway to raise cash of about RM1bn if all the warrants are exercised in the future. We raise our RNAV-based TP to RM4.22 from RM3.90. We see the core 2017E PER of 12x as attractive and reaffirm our BUY call.

### Bonus issue to increase liquidity

Sunway proposed the 4-for-3 bonus issue to use up most of its share premium reserve of RM3.12bn at end-2016, ahead of the implementation of the new Company Act 2016 that requires share premium reserve to be amalgamated into share capital with the dissolution of par value for shares. This should increase the liquidity of the shares post-exercise.

### Attractive free warrants

The proposed issuance of 3 free warrants for every 10 existing shares held (bonus issue shares are not entitled to free warrants) is to reward shareholders. The exercise price has not been determined will be based on 5-day volume-weighted average price (VWAP) prior to price-fixing date adjusted for the bonus issue. The exercise price will be reduced based on an annual step-down mechanism to encourage the conversion of the warrants over the 7-year exercise period. Sunway will raise cash of up to RM965m from the exercise of warrants based on assumed exercised price of RM1.53. Sunway plans to invest RM1bn to expand its hospitals and build new ones.

### Change in listing sector classification

Sunway has changed the listing classification of its shares from Property sector to Trading/Services sector. This is to reflect management's strategic business direction and ambition to grow its trading/services businesses to become leaders in the respective industries. Its construction, healthcare, trading and manufacturing, leisure, quarry and building material businesses have seen stronger growth. Contribution from these businesses have grown from 26% of group net profit in 2012 to 53% of group net profit in 2016, overtaking the contribution from property development/investment segment.

### Raise target price to RM4.22

We raise our TP to RM4.22 from RM3.90 to reflect the higher PER valuation for its construction (raise to PER to 16x from 14x), trading and services businesses (raise PER to 14x from 12x). We like Sunway for its integrated business model with healthcare and education segments complimenting its property business. Maintain BUY.

### Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	4,451.3	4,725.9	4,831.6	5,336.0	4,984.2
EBITDA (RMm)	831.6	840.7	747.7	790.8	809.9
Pretax profit (RMm)	930.4	859.0	826.2	881.6	890.5
Net profit (RMm)	732.4	585.9	609.2	644.9	651.0
EPS (sen)	23.3	28.8	30.0	31.8	32.1
PER (x)	15.4	12.4	12.0	11.3	11.2
Core net profit (RMm)	585.0	527.0	609.2	644.9	651.0
Core EPS (sen)	18.6	25.9	30.0	31.8	32.1
Core EPS growth (%)	(45.0)	39.5	15.6	5.9	0.9
Core PER (x)	19.3	13.8	12.0	11.3	11.2
Net DPS (sen)	37.0	12.1	11.0	11.0	11.0
Dividend Yield (%)	10.3	3.4	3.1	3.1	3.1
EV/EBITDA (x)	23.6	12.7	13.6	13.1	13.1
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.1	1.1	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

## Company Note

# Sunway

SWB MK  
Sector: Property

RM3.73 @ 14 June 2017

## BUY (maintain)

Upside 13%

Price Target: RM4.22

Previous Target: RM3.90



## Price Performance

	1M	3M	12M
Absolute	+4.8%	+19.2%	+25.2%
Rel to KLCI	+3.8%	+14.6%	+13.6%

## Stock Data

Issued shares (m)	2,037.4
Mkt cap (RMm)/(US\$m)	7599.6/1784.4
Avg daily vol - 6mth (m)	1.7
52-wk range (RM)	2.84-3.73
Est free float	29.0%
BV per share (RM)	3.70
P/BV (x)	1.01
Net cash/ (debt) (RMm)	(3,570.41)
ROE (2017E)	8.1%
Derivatives	Nil
Shariah Compliant	Yes

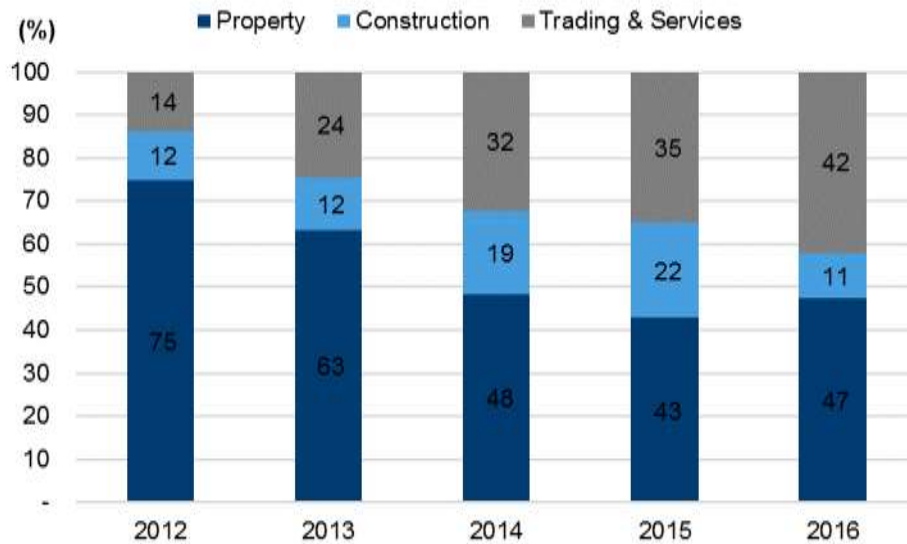
## Key Shareholders

Sungei Way Corp Sdn Bhd	56.7%
EPF	5.7%
Amanah Saham	3.8%

Source: Affin Hwang, Bloomberg

Loong Chee Wei, CFA  
(603) 2146 7548  
cheewei.loong@affinhwang.com

Cassandra Ooi  
(603) 2146 7481  
cassandra.ooi@affinhwang.com

**Fig 1: Segmental net profit breakdown**

Source: Company

**Fig 2: Target price calculation**

Property @ NPV	1,673
Other business @ 14x FY17E PER	1,190
<b>Total ex-construction (RMm)</b>	<b>2,863</b>
Shareholders' fund @ Dec 2016 ex-other business BV (RMm)	7,286
<b>Ex-construction RNAV (RMm)</b>	<b>10,148</b>
<b>30% discount to ex-construction RNAV (RMm)</b>	<b>7,104</b>
Sunway Construction (54.4% stake) @ TP of RM2.13	1,499
<b>Total fair value</b>	<b>8,602</b>
Shares base (m)	2,037
<b>Target price</b>	<b>4.22</b>

Source: Affin Hwang estimates

**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	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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Affin Hwang Investment Bank Berhad (14389-U)  
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,  
69, Jalan Raja Chulan,  
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700  
F : + 603 2146 7630  
research@affinhwang.com

www.affinhwang.com