

Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Aug 2017

Sunway (SWB MK) : HOLD

Mkt. Cap: US\$2,058m | 3m Avg. Daily Val: US\$3.3m

Last Traded Price (3 Aug 2017): RM4.32

Price Target 12-mth: RM3.80 (12% downside) (Prev RM3.80)

Analyst

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Company Guide

Sunway



Summary of our point of view, and highlights the relevant data points, which are actively tracked

Proposed disposal of Sunway Clio Hotel

- Disposal of 4-star Sunway Clio Hotel for RM340m to Sunway REIT
- Proposed lease-back of hotel for 10 years + 10 years
- Minimal impact on core earnings
- Maintain Hold and RM3.80 TP

Forecasts and Valuation

FY Dec (RMm)	2016A	2017F	2018F	2019F
Revenue	4,726	4,867	5,037	5,154
EBITDA	994	964	1,017	1,008
Pre-tax Profit	859	773	798	807
Net Profit	586	544	576	618
Net Pft (Pre Ex.)	547	544	576	618
Net Pft Gth (Pre-ex) (%)	(7.3)	(0.7)	5.9	7.3
EPS (sen)	32.9	30.5	32.4	34.7
EPS Pre Ex. (sen)	30.8	30.5	32.4	34.7
EPS Gth Pre Ex (%)	(7)	(1)	6	7
Diluted EPS (sen)	28.3	26.2	27.8	29.8
Net DPS (sen)	14.1	9.16	9.71	10.4
BV Per Share (sen)	419	440	463	487
PE (X)	13.1	14.1	13.4	12.4
PE Pre Ex. (X)	14.0	14.1	13.4	12.4
P/Cash Flow (X)	14.3	34.1	12.4	11.6
EV/EBITDA (X)	11.9	12.7	12.1	12.2
Net Div Yield (%)	3.3	2.1	2.2	2.4
P/Book Value (X)	1.0	1.0	0.9	0.9
Net Debt/Equity (X)	0.4	0.4	0.4	0.4
ROAE (%)	8.4	7.1	7.2	7.3

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Sunway announced the proposed disposal of Sunway Clio Hotel for RM340m to 37.34%-owned Sunway REIT. There is also a proposal for a lease-back agreement for Sunway's hospitality arm to lease the hotel for 10 years with an extension option of a further 10 years. The transactions are expected to be completed by 4Q17.

Sunway Clio Hotel – a 19-storey 4-star hotel with 401 rooms that just opened in Feb 2016 – is conveniently linked to Sunway REIT's Sunway Pyramid Shopping Mall in Bandar Sunway. The asset also comes with 3-storey retail lots with 88,384 sf net lettable area and 732 parking bays. It is also in close proximity to Sunway Resort Hotel & Spa and Sunway Pyramid Hotel, both of which are owned by Sunway REIT as well.

Sunway will provide a net property income guarantee of RM20.23m to Sunway REIT for the first four years, translating into a decent 5.95% yield for Sunway REIT. Nevertheless, Sunway's lease rental may drop to below RM10m after the four-year term, as the rent will then be determined based on the higher of the minimum rent of RM8.2m p.a. or the variable rent based on an agreed formula.

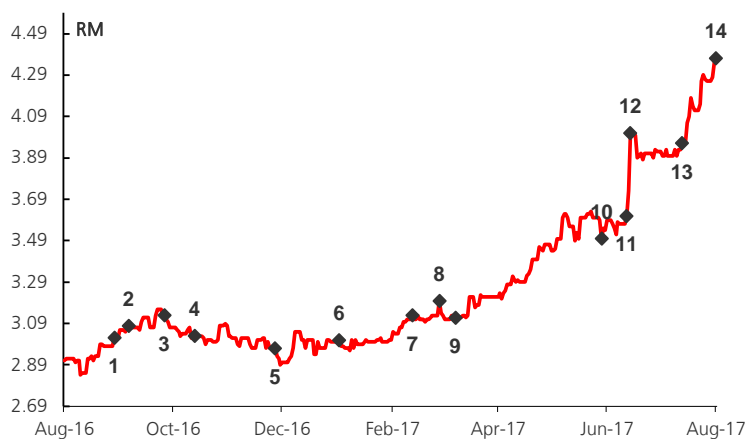
Sunway will mainly utilise the proceeds to repay borrowings which will result in finance cost savings of RM11m, helping to partially offset its rental expenses. Therefore, the impact

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on net core earnings to Sunway will be minimal though it is expected to recognise a one-off disposal gain of RM29.4m.

There is no change to our core earnings forecast at this juncture. We maintain our HOLD recommendation given the subdued earnings growth prospects though we continue to like its integrated real estate business model.

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

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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 i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 3 Aug 2017 23:26:35 (MYT)

Dissemination Date: 4 Aug 2017 08:01:09 (MYT)

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