



## Company report

Azman Hussin

azman-hussin@ambankgroup.com

2036 2025

# SUNWAY

(SWB MK EQUITY, SWAY.KL)

14 Jul 2017

## Acquiring prime land in Jalan Belfield

# BUY

(Maintained)

*Rationale for report: Company update*

Price	RM3.93
Fair Value	RM4.19
52-week High/Low	RM4.05/RM2.84

### Key Changes

Fair value	<a href="#">↑</a>
EPS	<a href="#">↑</a>

YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	4,725.9	5,694.3	6,346.8	6,782.7
Core net profit (RM mil)	585.9	539.2	616.3	665.3
FD Core EPS (sen)	28.8	26.7	30.2	32.5
FD Core EPS growth (%)	(14.9)	(7.5)	13.3	7.5
Consensus Net Profit (RM mil)	-	-	600.0	650.9
DPS (sen)	10.0	10.0	10.0	10.0
PE (x)	13.6	14.7	13.0	12.1
EV/EBITDA (x)	12.1	12.4	12.0	11.0
Div yield (%)	2.5	2.5	2.5	2.5
ROE (%)	8.4	7.1	7.8	8.1
Net Gearing (%)	45.1	45.0	49.2	51.8

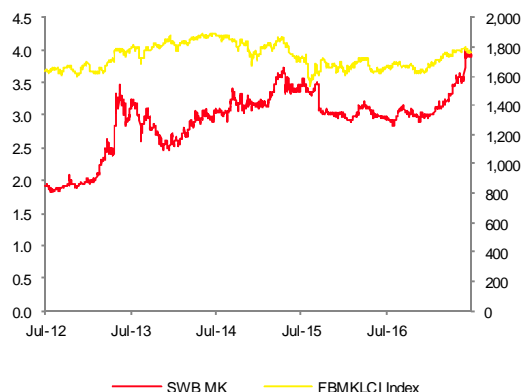
### Stock and Financial Data

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	6,773.5
Book Value (RM/share)	3.54
P/BV (x)	1.1
ROE (%)	8.4
Net Gearing (%)	45.1

Major Shareholders	Tan Sri Jeffrey Cheah (48.2%) EPF (5.7%)
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Free Float	22.4
Avg Daily Value (RMmil)	11.9

Price performance	3mth	6mth	12mth
Absolute (%)	19.1	31.4	33.6
Relative (%)	18.0	25.3	26.5



### Investment Highlights

- We maintain our BUY call on Sunway with a higher fair value of RM4.19 per share (from RM3.81), based on sum-of-parts valuation. This was derived after applying a 20% discount to its property development division's RNAV, and pegging its construction division at 15x CY18 P/E, in line with our target P/E of 14-16x for large-cap construction stocks.
- Sunway announced that it has entered into a sale and purchase agreement to acquire a piece of freehold land along Jalan Belfield, Kuala Lumpur measuring approximately 4.53 acres (197,327 sq ft) for a total purchase consideration of RM165mil. We understand that the plot ratio for the development is 8.81x, translating to a purchase price of RM836.18 psf or 94.91 psf per plot ratio, with maximum gross floor area of 1.74mil sq ft.
- Sunway proposes to undertake a mixed development on the land comprising mainly of serviced apartments with several lifestyle retail units. The estimated gross development value of the proposed development is RM1.1bil, comprising RM1.05bil of serviced apartments and RM50mil of retail units. Sunway targets to launch the project in 2H18, with the entire development expected to be take 5-7 years to be completed.
- We are positive on the acquisition. We believe the land paid for the acquisition is fair, considering the potential development value of similar land within the vicinity. The land will increase Sunway's land bank of prime land in Kuala Lumpur. It is strategically located in a leafy enclave in the Kuala Lumpur city centre, within 3km from landmarks like the Bukit Bintang shopping belt, KL Sentral transportation hub and Perdana Botanical Gardens. It is also located less than 500 metres from the Maharajalela monorail station, with good accessibility from the Federal Highway, Jalan Syed Putra, Jalan Damansara and Jalan Istana.
- Consistent with the purchase price, we understand that the development is targeted towards the higher end of the market, with an estimated selling price of RM850-RM900 psf. We expect the residential units to have built-ups between 600 and 1,200 sq ft, consistent with Sunway's past developments, with selling prices for the units from RM550K. Although the development is not targeted towards the affordable segment, which we believe is the more resilient segment in the current market condition, we expect Sunway to leverage its strong brand and the tranquil environment of the land to ensure the project is well received among urban buyers.

**EXHIBIT 1: SOP CALCULATION**

<b>Segment</b>	<b>Value (RMmil)</b>	<b>Method</b>
Property	4,131.6	20% discount to RNAV
Investment properties	1,013.3	Estimated equity value as at 31 Dec 2016
Sunway REIT	1,865.0	Market value
Construction & others	2,303.6	15x FY18F earnings, in line with our benchmark forward PE of 14-16x for large-cap construction stocks
Net cash/(debt)	(778.7)	As at 31 Dec 2016 (company level)
<b>SOP</b>	<b>8,534.7</b>	
<b>Enlarged share base (mil shares)</b>	<b>2,034.9</b>	
<b>SOP (RM/share)</b>	<b>4.19</b>	Fully-diluted

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART

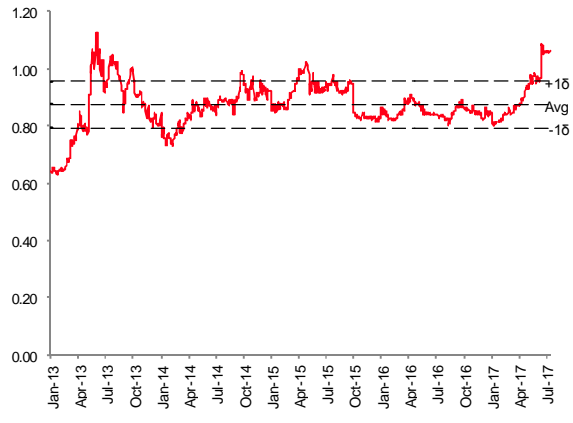
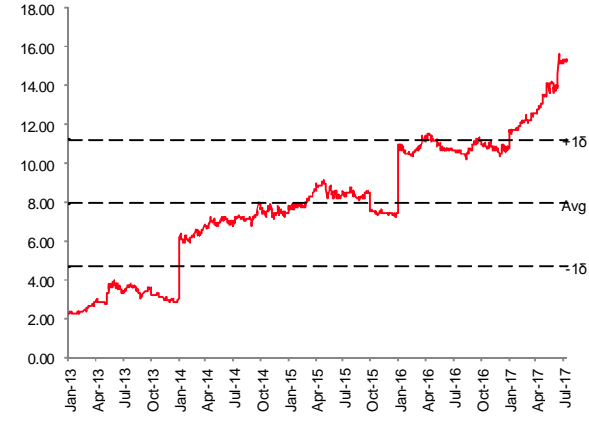


EXHIBIT 3: PE BAND CHART



## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	4,448.4	4,725.9	5,694.3	6,346.8	6,782.7
EBITDA	804.4	840.7	827.6	894.5	1,006.2
Depreciation/Amortisation	(117.3)	(113.9)	(136.0)	(144.0)	(150.0)
Operating income (EBIT)	687.1	726.9	691.6	750.5	856.2
Other income & associates	269.9	192.0	167.0	200.0	180.0
Net interest	(26.6)	(59.9)	(44.1)	(19.4)	(31.1)
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>930.4</b>	<b>859.0</b>	<b>814.5</b>	<b>931.0</b>	<b>1,005.0</b>
Taxation	(130.9)	(140.4)	(125.4)	(143.4)	(154.8)
Minorities/pref dividends	(67.0)	(132.7)	(149.9)	(171.3)	(184.9)
<b>Net profit</b>	<b>732.4</b>	<b>585.9</b>	<b>539.2</b>	<b>616.3</b>	<b>665.3</b>
Core net profit	590.7	585.9	539.2	616.3	665.3
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17F</b>	<b>FY18F</b>	<b>FY19F</b>
Fixed assets	1,333.6	1,875.8	1,770.6	1,976.6	2,176.6
Intangible assets	358.5	342.6	358.5	358.5	358.5
Other long-term assets	7,569.3	7,461.6	8,892.3	9,592.3	10,272.3
<b>Total non-current assets</b>	<b>1) 9,261.3</b>	<b>9,679.9</b>	<b>11,021.3</b>	<b>11,927.3</b>	<b>12,807.3</b>
Cash & equivalent	2,631.0	4,059.8	2,377.6	1,918.4	1,542.8
Stock	693.1	661.8	693.1	693.1	693.1
Trade debtors	1,541.1	2,828.4	1,541.1	1,541.1	1,541.1
Other current assets	1,874.4	1,601.5	1,874.4	1,874.4	1,874.4
<b>Total current assets</b>	<b>6,739.6</b>	<b>9,151.5</b>	<b>6,486.2</b>	<b>6,027.0</b>	<b>5,651.4</b>
Trade creditors	1,287.0	2,708.3	1,287.0	1,287.0	1,287.0
Short-term borrowings	3,068.6	4,830.7	3,068.6	3,068.6	3,068.6
Other current liabilities	1,208.5	44.4	1,208.5	1,208.5	1,208.5
<b>Total current liabilities</b>	<b>5,564.2</b>	<b>7,583.3</b>	<b>5,564.2</b>	<b>5,564.2</b>	<b>5,564.2</b>
Long-term borrowings	2,815.2	2,590.5	2,815.2	2,815.2	2,815.2
Other long-term liabilities	408.2	438.4	408.2	408.2	408.2
<b>Total long-term liabilities</b>	<b>3,223.4</b>	<b>3,028.9</b>	<b>3,223.4</b>	<b>3,223.4</b>	<b>3,223.4</b>
<b>Shareholders' funds</b>	<b>6,562.7</b>	<b>7,455.7</b>	<b>7,784.8</b>	<b>8,060.2</b>	<b>8,379.7</b>
Minority interests	650.6	763.5	935.2	1,106.5	1,291.4
BV/share (RM)	3.65	3.54	3.69	3.82	3.97
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17F</b>	<b>FY18F</b>	<b>FY19F</b>
Pretax profit	930.4	859.0	814.5	931.0	1,005.0
Depreciation/Amortisation	117.3	113.9	136.0	144.0	150.0
Net change in working capital	152.9	(328.7)	-	-	-
Others	(261.0)	(106.5)	(248.4)	(323.9)	(303.6)
<b>Cash flow from operations</b>	<b>939.6</b>	<b>537.7</b>	<b>702.1</b>	<b>751.1</b>	<b>851.4</b>
Capital expenditure	(412.9)	(288.2)	(350.0)	(350.0)	(350.0)
Net investments & sale of fixed assets	18.7	(193.4)	-	-	-
Others	(1,693.4)	(1,071.7)	(500.0)	(500.0)	(500.0)
<b>Cash flow from investing</b>	<b>(2,087.6)</b>	<b>(1,592.4)</b>	<b>(850.0)</b>	<b>(850.0)</b>	<b>(850.0)</b>
Debt raised/(repaid)	1,763.8	1,457.2	-	-	-
Equity raised/(repaid)	180.1	595.0	-	-	-
Dividends paid	(656.7)	(260.8)	(210.9)	(210.9)	(210.9)
Others	(171.1)	(163.2)	(124.1)	(149.4)	(166.1)
<b>Cash flow from financing</b>	<b>1,116.0</b>	<b>1,571.3</b>	<b>(334.9)</b>	<b>(360.3)</b>	<b>(377.0)</b>
<b>Net cash flow</b>	<b>(32.0)</b>	<b>516.6</b>	<b>(482.8)</b>	<b>(459.2)</b>	<b>(375.6)</b>
<b>Net cash/(debt) b/f</b>	<b>1,292.9</b>	<b>1,247.9</b>	<b>1,514.5</b>	<b>1,031.7</b>	<b>572.5</b>
<b>Net cash/(debt) c/f</b>	<b>1,285.0</b>	<b>1,787.0</b>	<b>1,031.7</b>	<b>572.5</b>	<b>196.9</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17F</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue growth (%)	(2.4)	6.2	20.5	11.5	6.9
EBITDA growth (%)	(7.7)	4.5	(1.6)	8.1	12.5
Pretax margin (%)	20.9	18.2	14.3	14.7	14.8
Net profit margin (%)	16.5	12.4	9.5	9.7	9.8
Interest cover (x)	25.8	12.1	15.7	38.6	27.5
Effective tax rate (%)	14.1	16.3	15.4	15.4	15.4
Dividend payout (%)	90.9	36.0	39.1	34.2	31.7
Debtors turnover (days)	112	169	140	89	83
Stock turnover (days)	64	64	51	46	37
Creditors turnover (days)	128	188	150	86	69

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