



AmInvestment Bank

Company report

Azman Hussin

azman-hussin@ambankgroup.com

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SUNWAY

(SWB MK EQUITY, SWAY.KL)

PROPERTY

15 Jun 2017

Proposed bonus issue seen positive

BUY

(Maintained)

Rationale for report: Company update

Price	RM3.73
Fair Value	RM3.81
52-week High/Low	RM3.73/RM2.84

Key Changes

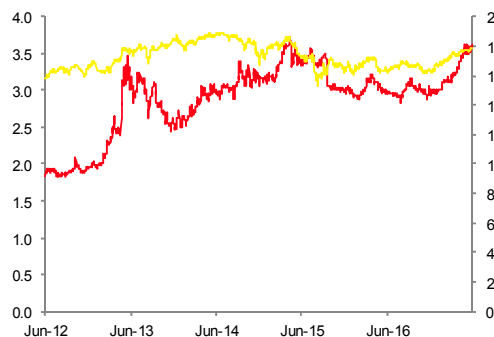
Fair value	↔
EPS	↔

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	579.0	643.7
FD Core EPS (sen)	28.8	26.7	28.5	31.5
FD Core EPS growth (%)	(14.9)	(7.5)	6.9	10.5
Consensus Net Profit (RM mil)	-	561.6	599.3	647.3
DPS (sen)	10.0	10.0	10.0	10.0
PE (x)	12.9	14.0	13.1	11.8
EV/EBITDA (x)	11.6	12.0	12.0	11.1
Div yield (%)	2.8	2.8	2.8	2.8
ROE (%)	8.4	7.1	7.3	7.9
Net Gearing (%)	45.1	45.0	49.6	52.7

Stock and Financial Data

Shares Outstanding (million)	1,723.5
Market Cap (RMmil)	6,428.7
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%)
Free Float	22.4
Avg Daily Value (RMmil)	9.0

Price performance	3mth	6mth	12mth
Absolute (%)	19.2	23.9	25.2
Relative (%)	14.6	13.6	13.6



— SWB MK — FBMKLCI Index

Investment Highlights

- We make no changes to our FY17-19F earnings forecasts, and maintain our BUY call on Sunway with an unchanged SOP-based fair value of RM3.81 per share. This was derived after applying a 20% discount to its property development division's RNAV, and pegging its construction division at 14x CY18F P/E, in line with our target P/E of 13-15x for mid-sized construction stocks.
- Sunway has proposed to undertake a bonus issue exercise of up to 2.8bil new shares on the basis of four bonus shares for every three existing shares held (4-for-3) on an entitlement date to be determined later. This is to be effected by way of capitalising the share premium of the company.
- It has also proposed a bonus issue of up to 631.0mil free warrants in Sunway on the basis of three warrants for every 10 existing shares held (3-for-10) on the same entitlement date as the proposed bonus issue. The proposals are expected to be completed by 2H17.
- The exercise price of the warrants will be determined at a later date, taking into consideration the 5-day volume weighted average market price of Sunway shares prior to price-fixing date, adjusted for the proposed bonus issue of shares, with a discount or premium to be determined later based on market-based principles. The warrants will be valid for 7 years.
- We are positive on the proposed bonus issue of shares and warrants. On the bonus issue of shares, it is a way to reward shareholders while preserving cash in the company. Additionally, we expect the marketability and trading liquidity of Sunway shares to be improved by the larger capital base and lower price per share
- On the bonus issue of warrants, assuming full exercise of the warrants at an indicative exercise price of RM1.53 per share, the company could potentially raise the maximum gross proceeds of RM965.4mil. Although in the short term the warrants might be dilutive to the EPS, we believe in the long-term, the proceeds will be utilised to grow the company further, which will be positive to its long-term EPS growth.

EXHIBIT 1: SOP CALCULATION

	Value (RMmil)	Method
Property	3,511.7	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	2,149.4	14x FY18F earnings, in line with our benchmark forward PE of 13-15x for mid-cap construction stocks
Net cash/(debt)	(778.7)	As at 31 Dec 2016 (company level)
SOP	7,760.6	
Enlarged share base (mil shares)	2,034.9	
SOP (RM/share)	3.81	Fully-diluted

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART

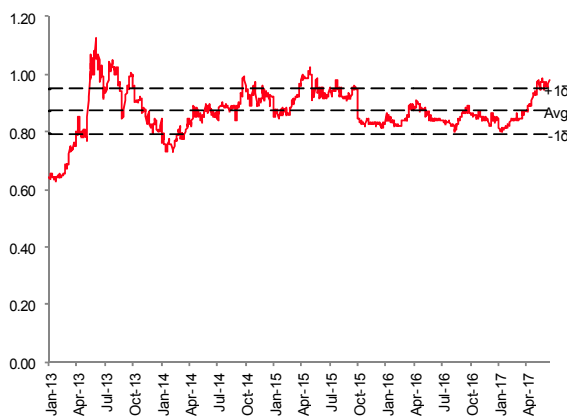


EXHIBIT 3: PE BAND CHART

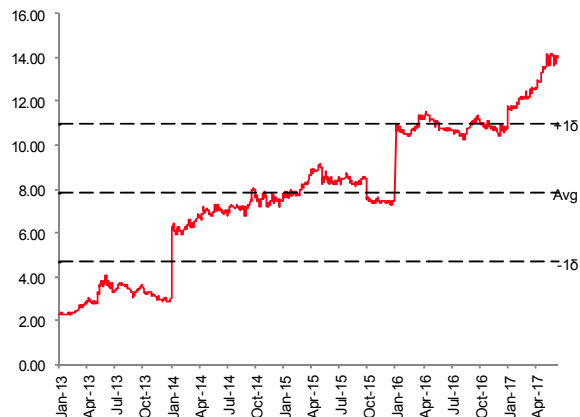


EXHIBIT 4: FINANCIAL DATA

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	868.3	974.8
Depreciation/Amortisation	(117.3)	(113.9)	(136.0)	(144.0)	(150.0)
Operating income (EBIT)	687.1	726.9	691.6	724.3	824.8
Other income & associates	269.9	192.0	167.0	170.0	180.0
Net interest	(26.6)	(59.9)	(44.1)	(19.8)	(32.4)
Exceptional items	-	-	-	-	-
Pretax profit	930.4	859.0	814.5	874.5	972.4
Taxation	(130.9)	(140.4)	(125.4)	(134.7)	(149.7)
Minorities/pref dividends	(67.0)	(132.7)	(149.9)	(160.9)	(178.9)
Net profit	732.4	585.9	539.2	579.0	643.7
Core net profit	590.7	585.9	539.2	579.0	643.7
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
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	9,562.3	10,242.3
Total non-current assets	9,261.3	9,679.9	11,021.3	11,897.3	12,777.3
Cash & equivalent	2,631.0	4,059.8	2,377.6	1,900.6	1,497.4
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
Total current assets	6,739.6	9,151.5	6,486.2	6,009.2	5,606.0
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
Total current liabilities	5,564.2	7,583.3	5,564.2	5,564.2	5,564.2
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
Total long-term liabilities	3,223.4	3,028.9	3,223.4	3,223.4	3,223.4
Shareholders' funds	6,562.7	7,455.7	7,784.8	8,022.9	8,320.7
Minority interests	650.6	763.5	935.2	1,096.1	1,275.0
BV/share (RM)	3.65	3.54	3.69	3.80	3.95
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	930.4	859.0	814.5	874.5	972.4
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)	(284.9)	(297.4)
Cash flow from operations	939.6	537.7	702.1	733.7	825.0
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)
Cash flow from investing	(2,087.6)	(1,592.4)	(850.0)	(850.0)	(850.0)
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)	(149.8)	(167.4)
Cash flow from financing	1,116.0	1,571.3	(334.9)	(360.7)	(378.3)
Net cash flow	(32.0)	516.6	(482.8)	(477.0)	(403.3)
Net cash/(debt) b/f	1,292.9	1,247.9	1,514.5	1,031.7	554.7
Net cash/(debt) c/f	1,285.0	1,787.0	1,031.7	554.7	151.4
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	(2.4)	6.2	20.5	11.5	6.9
EBITDA growth (%)	(7.7)	4.5	(1.6)	4.9	12.3
Pretax margin (%)	20.9	18.2	14.3	13.8	14.3
Net profit margin (%)	16.5	12.4	9.5	9.1	9.5
Interest cover (x)	25.8	12.1	15.7	36.6	25.5
Effective tax rate (%)	14.1	16.3	15.4	15.4	15.4
Dividend payout (%)	90.9	36.0	39.1	36.4	32.8
Debtors turnover (days)	112	169	140	89	83
Stock turnover (days)	64	64	51	46	37
Creditors turnover (days)	128	188	150	86	69

Source: Company, AmlInvestment Bank Bhd estimates

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