

Company Flash Note

Malaysia

June 14, 2017 - 8:29 AM

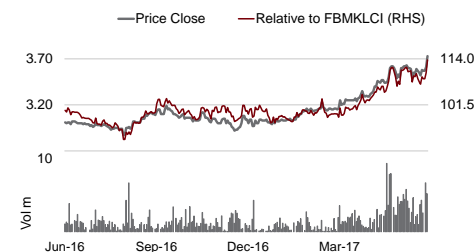
ADD (no change)

Consensus ratings*:	Buy 7	Hold 6	Sell 0
Current price:		RM3.73	
Target price:		RM3.91	
Previous target:		RM3.91	
Up/downside:		4.8%	
CIMB / Consensus:		5.2%	
Reuters:		SWAY.KL	
Bloomberg:		SWB MK	
Market cap:		US\$1,785m	
		RM7,600m	
Average daily turnover:		US\$2.00m	
		RM8.66m	
Current shares o/s		2,031m	
Free float:		36.5%	

*Source: Bloomberg

Key financial forecasts

	Dec-17F	Dec-18F	Dec-19F
Net Profit (RMm)	570.6	605.0	659.3
Core EPS (RM)	0.28	0.30	0.32
Core EPS Growth	(2.63%)	6.03%	8.96%
FD Core P/E (x)	13.28	12.52	11.49
Recurring ROE	8.5%	9.9%	10.2%
P/BV (x)	1.27	1.20	1.14
DPS (RM)	0.13	0.13	0.13
Dividend Yield	3.49%	3.49%	3.49%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.8	18	23.9
Relative (%)	3.9	13.9	13.7

Major shareholders	% held
Tan Sri Dato' Seri Dr. Jeffrey Cheah & family	58.3
EPF	5.2

Analyst(s)

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Sunway Bhd

Bonus issue of shares and warrants

- Sunway proposes a 4-for-3 bonus issue of shares and 3-for-10 free warrants.
- Positive on the bonus shares as it will boost liquidity, but this is mitigated by the 4-5% estimated dilution to FY18F EPS from the free warrants.
- Sunway has been reclassified from property development to trading/services to better reflect its diversified conglomerate structure.

4-for-3 bonus issue with 3-for-10 free warrants

- Sunway has proposed a 4-for-3 bonus issue together with free warrants on the basis of three free warrants for every 10 existing shares held (3-for-10). While we view the bonus issue of shares positively as it will enhance the liquidity of the stock, the free warrants (RM1.53 illustrative strike price), assuming full conversion, would dilute our FY18F EPS by 4-5%.
- The warrants would generate gross proceeds of RM944m-965m, to be utilised for future working capital needs, for which no details have been given at this juncture.
- We gather that the free warrants are likely to carry a 7-year tenure with a step-down feature where the exercise price reduces over time.
- Post-bonus issue and full conversion of the free warrants, net gearing is expected to fall from 0.45x as at end-FY16 to as low as 0.27x based on the maximum scenario.

Reclassification of sector

- Sunway also recently announced that it has made the application to Bursa Malaysia to reclassify the group from property sector to trading and services sector. Bursa had approved the application on 5 Jun.
- According to management, the rationale of this move is to better categorise Sunway Group and reflect its conglomerate-type structure, which also includes its healthcare and trading/manufacturing segments that are often overlooked.
- Reclassification also takes into account the property development/investments division's current combined 48% share of net profit; the contribution had gradually declined from 75% in 2012.
- Over the longer run, the group plans to enhance its presence in the healthcare space through the building of five more Sunway Medical Centres nationwide, which could incur c.RM1bn in capex over time (c.RM200m per hospital).
- We also understand that contribution from the healthcare segment (Sunway Medical Centre in Bandar Sunway) currently accounts for only 6% of total group net profit and is targeted to increase to 10-15% as the hospital operations expand.
- Sunway Medical Centre in Sunway Velocity is currently under construction, while future medical centres will be located in Penang, Ipoh, Sunway Damansara and Sunway Iskandar.
- The group plans to list its healthcare division within the next 2-3 years.

Maintain Add and target price for now; construction as key catalyst

- We retain our FY17-19 EPS forecasts pending the completion of the bonus issue in 2H17. Our target price remains pegged to a 20% RNAV discount.
- Key potential re-rating catalysts include job wins and new land bank acquisitions. Downside risks to our Add call are delays in job wins and weaker property sales.
- We continue to expect the group's construction outlook to mitigate the weak property market sentiment over the medium term.

Figure 1: Impact of bonus issue of shares and free warrants

Current no. of shares (m)	:	2,074.4	
Less treasury shares (m)	:	(18.3)	
Outstanding ESOS (m)	:	47.3	
Illustrative warrants strike price (RM/share)	:	1.53	
Net gearing as at end-FY16 (x)	:	0.45	
Deal completion	:	2H17	
Utilisation of warrants proceeds	:	Future working capital	
Warrants tenure	:	Unspecified	
		Minimum scenario	Maximum scenario
4-for-3 bonus shares (m)	:	2,741.5	2,804.5
3-for-10 free warrants (m)	:	616.8	631.0
Enlarged no. of shares from bonus shares and warrants (m)	:	5,414.4	5,538.8
Warrants proceeds (RM m)	:	943.7	965.4
Net gearing ex-all (x)	:	0.29	0.27

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	4,726	5,103	5,299	5,508
Gross Profit	4,726	5,103	5,299	5,508
Operating EBITDA	531	567	614	684
Depreciation And Amortisation	(114)	(118)	(123)	(130)
Operating EBIT	417	450	490	554
Financial Income/(Expense)	(60)	(59)	(43)	(32)
Pretax Income/(Loss) from Assoc.	192	284	290	296
Non-Operating Income/(Expense)	310	193	174	156
Profit Before Tax (pre-EI)	859	868	911	974
Exceptional Items	0	0	0	0
Pre-tax Profit	859	868	911	974
Taxation	(140)	(164)	(166)	(168)
Exceptional Income - post-tax				
Profit After Tax	719	704	745	806
Minority Interests	(133)	(133)	(140)	(147)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	586	571	605	659
Recurring Net Profit	586	571	605	659
Fully Diluted Recurring Net Profit	586	571	605	659

Balance Sheet

(RMm)	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	4,402	4,361	4,321	4,281
Total Debtors	2,879	2,822	2,767	2,713
Inventories	662	736	765	795
Total Other Current Assets	1,209	1,221	1,234	1,246
Total Current Assets	9,152	9,141	9,086	9,034
Fixed Assets	1,876	1,036	1,060	1,083
Total Investments	5,976	5,116	5,333	5,555
Intangible Assets	312	312	312	312
Total Other Non-Current Assets	1,516	1,546	1,577	1,609
Total Non-current Assets	9,680	8,011	8,283	8,559
Short-term Debt	4,831	4,734	4,639	4,547
Current Portion of Long-Term Debt				
Total Creditors	2,708	2,654	2,601	2,549
Other Current Liabilities	44	44	44	44
Total Current Liabilities	7,583	7,432	7,285	7,140
Total Long-term Debt	2,591	2,539	2,488	2,438
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	344	344	344	344
Total Non-current Liabilities	2,934	2,883	2,832	2,782
Total Provisions	95	81	81	81
Total Liabilities	10,612	10,396	10,198	10,003
Shareholders' Equity	7,456	5,969	6,302	6,635
Minority Interests	764	786	869	955
Total Equity	8,219	6,756	7,171	7,590

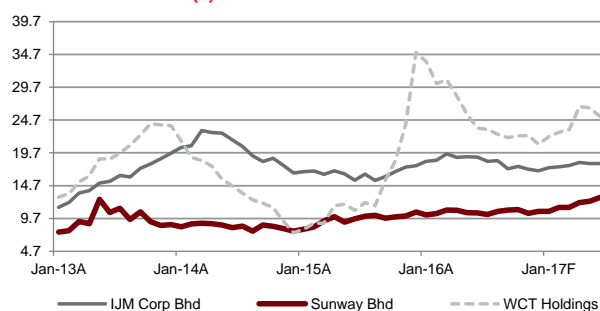
Cash Flow

(RMm)	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	531.1	567.2	613.7	683.7
Cash Flow from Inv. & Assoc.				
Change In Working Capital (Incr)/Decr in Total Provisions	(49.4)	(66.4)	(75.5)	(79.6)
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	0.0	0.0	0.0	0.0
Net Interest (Paid)/Received	(167.7)	(121.7)	(118.5)	(121.2)
Tax Paid	(174.8)	(163.7)	(165.8)	(167.7)
Cashflow From Operations	139.1	215.5	253.9	315.2
Capex	(20.0)	(20.0)	(20.0)	(20.0)
Disposals Of FAs/subsidiaries	243.0	248.9	255.0	261.2
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	1.0
Cash Flow From Investing	223.0	228.9	235.0	242.2
Debt Raised/(repaid)	(209.2)	(188.3)	(168.5)	(151.5)
Proceeds From Issue Of Shares	0.0	0.0	0.0	1.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(125.6)	(125.6)	(126.6)	(126.6)
Preferred Dividends				
Other Financing Cashflow	1,405.2	(171.1)	(233.9)	(320.0)
Cash Flow From Financing	1,070.4	(485.0)	(529.0)	(597.2)
Total Cash Generated	1,432.5	(40.6)	(40.2)	(39.8)
Free Cashflow To Equity	152.9	256.1	320.4	405.9
Free Cashflow To Firm	529.9	566.1	607.4	678.6

Key Ratios

	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	6.17%	7.97%	3.85%	3.94%
Operating EBITDA Growth	(1.9%)	6.8%	8.2%	11.4%
Operating EBITDA Margin	11.2%	11.1%	11.6%	12.4%
Net Cash Per Share (RM)	(1.65)	(1.60)	(1.55)	(1.50)
BVPS (RM)	3.67	2.94	3.10	3.27
Gross Interest Cover	2.49	3.70	4.14	4.57
Effective Tax Rate	16.3%	18.9%	18.2%	17.2%
Net Dividend Payout Ratio	21.4%	22.0%	20.8%	19.1%
Accounts Receivables Days	211.7	200.3	189.0	178.2
Inventory Days	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A
ROIC (%)	6.8%	7.9%	9.9%	10.9%
ROCE (%)	3.55%	3.36%	3.88%	4.33%
Return On Average Assets	4.47%	4.24%	4.56%	4.80%

12-mth Fwd FD P/E (x)



Key Drivers

(RMm)	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Outstanding Orderbook	2,900	3,100	3,100	3,100
Order Book Depletion	1,800	1,800	1,800	1,800
Orderbook Replenishment	2,000	1,800	1,800	1,800
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% , main prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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- (d) MAS Notice on Recommendation on Investment Products [Notice No. FAA-N16];
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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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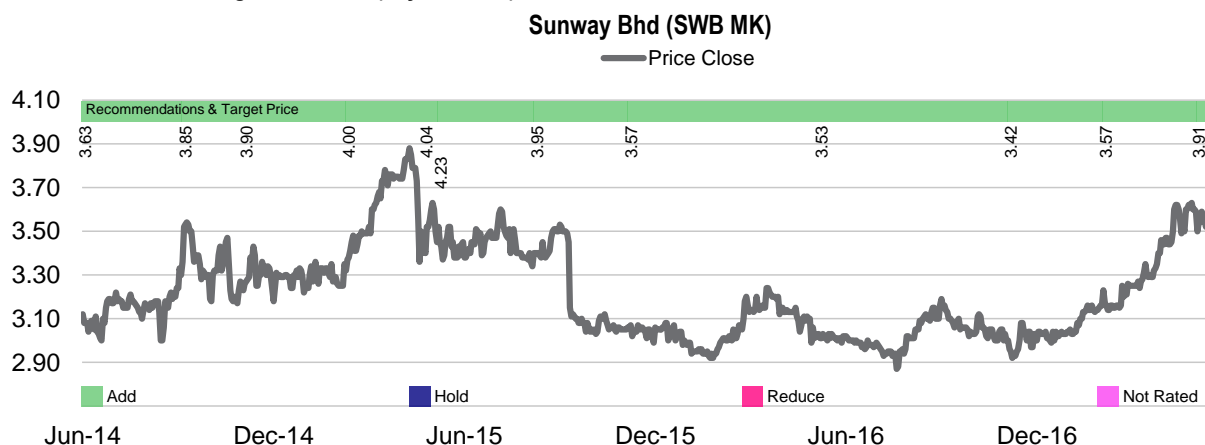
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2017		
1244 companies under coverage for quarter ended on 31 March 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	55.9%	5.2%
Hold	30.0%	1.6%
Reduce	10.4%	0.3%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BJCHI** – Good, Declared, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** – Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** - Excellent, Certified, **ITD** – Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** - Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PLAT** – Good, Declared, **PSH** – not available, n/a, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** - Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** - Excellent, Certified, **TNR** – not available, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.