

Sunway (BUY ↔; EPS ↔)

INDUSTRY: NEUTRAL
NEWSBREAK
4 August 2017
Price Target: RM5.14 (↑)
Share price: RM4.32

Asset unlocking via disposal of property

News	Financial Impact	Pros/Cons	Risks	Forecasts Rating	Valuation
<ul style="list-style-type: none"> Sunway has proposed to dispose Sunway Clio Property, which includes a 19-storey, 4-star hotel with 401 rooms, 3-storey retail space of 88k sqft and a multi-storey car park with 732 bays for a total of RM340m. Proposed to lease back the hotel for 10+10 years at the higher of minimum rent of RM11m for the first 2 years and RM8.2m for remaining 8 years thereafter or variable rent. Proposed to lease the carpark for 3+3 years at variable rent. The disposal is expected to be completed towards the end of FY17 pending relevant approvals. 	<ul style="list-style-type: none"> Understand that RM275.3m of the proceeds of RM340m will be used to pare down borrowings and the remaining will be retained as working capital. Sunway is expected to incur minimum rental expenses of RM20.2m pa (guaranteed rent) for the first 4 years and variable rents thereafter, which is expected to be more than offset by potential interest savings, return from working capital as well as additional income from SREIT. 	<ul style="list-style-type: none"> The current net gearing would improve to 0.38 from 0.43. Besides, there is an estimated disposal gain of RM29.4m from this proposal which will be deemed as a non-core profit. We are positive on the disposal as it instantly unlocks the value of the property at 1.16x book value and increases our SOP by 1.3% after eliminating the usual discount on RNAV. Besides, the property would also generate rental income to Sunway via the 37.3%-owned SREIT. It is also more efficient to operate under SREIT which commands a better valuation at ~1.4x book value. We opine that property would complement the existing assets of SREIT and at the selling price of RM340m vs book value of RM293.1m. The property's implied gross yield of 6% is considered fair given the current yield environment. Notably, there is more than RM1bn worth of mature properties (Figure #2) sitting in the book that can be further unlocked in future. 	<ul style="list-style-type: none"> Prolonged downturn in Johor's property market; Execution risk. 	<p>BUY ↔, TP: RM5.14 ↑</p>	<ul style="list-style-type: none"> Sunway is our Top Pick within the sector as we believe it should be re-rated and trade closer to its peers such as IJM and Gamuda (refer to Figure #1) given its diversified income stream and declassification from property sector. At a P/E of 14x as compared to peers, we opine that it represents a deep value stock with potential assets unlocking and growing healthcare business which are underappreciated. We factor in the disposal and remove the 35% discount pegged on RNAV of the investment property, resulting in a higher TP of RM5.14 (from RM5.07) based on SOP derived valuation with a 10% holding discount.

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KLCI	1771.9
Expected share price return	19.0%
Expected dividend return	2.3%
Expected total return	21.3%

Share price



Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	2,047
Market cap (RM m)	8,842
3-mth avg. volume ('000)	3,793
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	10.8	25.6	47.9
Relative	10.6	25.6	37.6

Major shareholders

Sungei Way Corp Sdn Bhd	56.4%
Skim Amanah Saham Bumiputera	6.6%
EPF	5.4%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018F	2019F
Revenue	4,656	4,799	5,175	5,458
EBITDA	852	965	1,058	1,129
EBIT	715	719	788	836
PATAMI	586	585	630	669
Core PATAMI	547	585	630	669
Core EPS (sen)	26.5	28.4	30.6	32.4
DPS (sen)	12.1	9.9	10.7	11.3
DY (%)	2.8	2.3	2.5	2.6
P/E (x)	16.3	15.2	14.1	13.3
BV / share	3.6	3.8	4.0	4.2
P/BV (x)	1.2	1.1	1.1	1.0
Net Gearing	43.2	36.2	32.2	28.8
ROA (%)	2.9	3.0	3.1	3.2
ROE (%)	6.6	6.7	6.8	6.8

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Figure #1 Peers Comparison

Company	Segmental Profit Contribution (%)				FYE	Forward PE (x)	Net Gearing (x)	Div Yield (%)
	Property Development	Recurring Income	Construction	Others				
Sunway (RM4.32)	38%	23% (Property Investment)	17%	Trading & Services - 22% (~9% from Healthcare)	Dec	14.1	0.36	2.8
IJM Corp (RM3.43)	14%	48% (Infrastructure)	15%	Manufacturing & Quarrying - 11% Plantation - 4%; Others - 8%	Mar	19.2	0.40	2.2
Gamuda (RM5.38)	22%	53% (Water & expressway concessions)	25%		Jul	16.4	0.54	2.2

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Figure #2 Book Value for Selected Investment Properties

Selected Investment Properties	Book Value as at 31 Dec 2016
The Pinnacle	RM 340m
Sunway University	RM 480m
Monash University	RM 310m
Total	RM 1.13bn

Company, HLIB

Figure #3 SOP valuation

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.4%	1,582	0.77	Based on TP of RM 2.25
Sunway REIT	37.3%	1,869	0.91	Based on TP of RM 1.70
Property Development & Investment	100%	6,482	3.14	35% discount on estimated RNAV
Healthcare	100%	1,840	0.89	25X forward P/E
Trading/Manufacturing	100%	250	0.12	10X trailing P/E
Quarry	100%	191	0.09	10X trailing P/E
		12,215	5.92	
Holding Company Net Debt		(439)	(0.21)	
		11,776	5.71	
10% Holding Company Discount		(1,178)	(0.57)	
Equity Value (RM)		10,598	5.14	

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Financial Projections for Sunway (BUY, TP: RM5.14)

Income statement

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
Revenue	4,448	4,656	4,799	5,175	5,458
Operating cost	(3,644)	(3,803)	(3,834)	(4,117)	(4,329)
EBITDA	804	852	965	1,058	1,129
D&A	(117)	(137)	(245)	(270)	(293)
Net Interest	(27)	(48)	(46)	(46)	(39)
Associates	202	125	127	133	140
Jointly controlled entities	68	67	67	67	67
Exceptionals	142	39	-	-	-
Pretax profit	930	859	867	942	1,004
Taxation	(131)	(140)	(161)	(178)	(191)
Minority Interest	(67)	(133)	(120)	(133)	(144)
PATAMI	732	586	585	630	669
Core Earning	591	547	585	630	669
Basic shares (m)	1,800	2,063	2,063	2,063	2,063
Core EPS (sen)	32.8	26.5	28.4	30.6	32.4

Balance sheet

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
Fixed assets	5,296	5,910	6,164	6,394	6,602
Other long-term assets	3,966	3,827	3,845	3,912	3,979
Other short-term assets	2,740	4,503	4,322	4,449	4,623
Working capital	4,775	5,000	5,977	6,333	6,602
Receivables	1,823	1,892	1,971	2,099	2,195
Payables	2,258	2,438	3,018	3,169	3,282
Inventory	693	670	988	1,066	1,124
Net cash / (debt)	(4,404)	(5,461)	(4,917)	(4,836)	(4,734)
Cash	1,483	1,950	2,496	2,577	2,680
ST debt	3,069	4,858	7,413	7,413	7,413
LT debt	2,818	2,553	0	0	0
Shareholders' funds	7,213	8,233	8,688	9,247	9,839
Share capital	1,800	2,063	2,063	2,063	2,063
Reserves	3,195	3,549	3,884	4,309	4,757
Minorities	651	764	883	1,016	1,161
Other liabilities	5,159	5,545	6,703	7,005	7,232

Summary Earnings Table

Revenue	4,448	4,656	4,799	5,175	5,458
EBITDA	804	852	965	1,058	1,129
Core PATAMI	591	547	585	630	669
P/E (x)	13.2	16.3	15.2	14.1	13.3
BV / share	3.6	3.6	3.8	4.0	4.2
P/BV (x)	1.2	1.2	1.1	1.1	1.0
ROA (%)	3.7	2.9	3.0	3.1	3.2
ROE (%)	8.2	6.6	6.7	6.8	6.8

Cashflow

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
EBIT	687	715	719	788	836
D&A	117	137	245	270	293
Working capital changes	78	(143)	413	(181)	(215)
Taxation	(144)	(109)	(161)	(178)	(191)
Others	(166)	(240)	(67)	(67)	(67)
Operating cashflow	940	668	1,483	973	1,010
Capex & acquisitions	(1,396)	(737)	(500)	(500)	(500)
Free cashflow	(456)	(69)	983	473	510
Others	(692)	(898)	-	-	-
Investing cashflow	(2,088)	(1,635)	(500)	(500)	(500)
Equity Raised	180	595	-	-	-
Others	(30)	(57)	-	-	-
Net Borrowing	1,764	1,427	-	-	-
Financing cashflow	1,116	1,537	(438)	(392)	(408)
Net cashflow	(32)	570	546	81	103

Valuation ratios

Net DPS (sen)	37.0	12.1	9.9	10.7	11.3
FCF/ share (sen)	(25)	(3)	48	23	25
FCF yield (%)	(5.9)	(0.8)	11.0	5.3	5.7
Market capitalization (m)	7,775	8,912	8,912	8,912	8,912
Net cash (m)	(4,404)	(5,461)	(4,917)	(4,836)	(4,734)
Enterprise value	12,179	14,374	13,830	13,749	13,646
EV/ EBITDA (x)	15.1	16.9	14.3	13.0	12.1

Growth margins ratios

Growth (%)					
Sales Growth	(2.4)	4.7	3.1	7.8	5.5
Operating expenses	(1.1)	4.4	0.8	7.4	5.2
EBITDA Growth	(8.1)	5.9	13.2	9.7	6.7
PBT Growth	(3.1)	(7.7)	0.9	8.7	6.7
PATMI	1.4	(7.3)	7.0	7.7	6.1
Basic EPS Growth	(2.5)	(19.2)	7.0	7.7	6.1

Assumption Metrics

Revenue	4448	4656	4799	5175	5458
Property	1196	1203	1109	1251	1446
Property Investment	639	692	758	777	788
Construction	1222	1137	1271	1405	1405
Trading/Manufacture	650	833	858	901	946
Quarry	242	207	207	218	218
Others	495	577	595	624	656
EBIT margin	15%	15%	15%	15%	15%

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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