

Sunway (BUY ↔; EPS ↔)

INDUSTRY: NEUTRAL
NEWSBREAK
2 August 2017
Price Target: RM5.07 (↑)
Share price: RM4.35

Gaining pace in expanding landbank

News

- Sunway has proposed to acquire:
 - 1) A parcel of 5.3 acres freehold land in Kajang, Selangor with semi-completed buildings structure erected via a related party transaction for RM63.0m.
 - 2) 4 parcels of freehold land totalling 14.8 acres in USJ1, Subang Jaya for RM167.6m.
- The proposed mixed development (target launch in FY19) on the Kajang Land comprises of serviced apartments/SOHO and commercial lots with a combined GDV of RM460m to be developed within 5 years.
- Sunway will utilize the 4 industrial lots in USJ1 as warehouses and storage facilities for its trading and manufacturing businesses with a redevelopment plan (estimated GDV of RM1.4bn) in the medium term.
- The purchases are expected to be funded via debt and internal generated funds. Target completion by 1Q18.

Financial Impact

- The implied land costs for Kajang land and USJ1 land are circa RM274 psf and RM260 psf, respectively.
- The respective land cost to total GDV ratios are deemed competitive at 13.7% and 12.0%, respectively. Also there is substantial saving on construction costs with the existing ready concrete structure framework at Kajang land.
- The projects' NPVs are estimated at RM105m, which increase our estimated RNAV for property segment by 1.0% and raise our target price by 0.6%.

Pros/Cons

- We are neutral with positive bias on the RNAV accretive acquisitions as they will expand the group's landbank to 3.3k acres and effective GDV by 3.6% to RM53.5bn despite no contribution to immediate earnings.
- We believe that the proposed TOD development at Kajang should gain good interest with seamless integration with existing MRT station and it is 2km away from Kajang town.
- Although there is no immediate intention to redevelop the USJ1 lands, it will help to minimize logistic costs for trading and machinery businesses given its strategic location.

Risks

- Prolonged downturn in property market;
- Execution risk.

Forecasts

- Unchanged as the estimated earning contributions are beyond our forecast horizon.

Rating
BUY ↔, TP: RM5.07 ↑

- Sunway remains our **Top Pick** within the sector as we believe it should be rerated and trade closer to its peers such as IJM and Gamuda (see Figure 2) given its diversified income stream and declassification from property sector. At a P/E of 14.2x as compared to peers, we opine that it is in deep value with potential assets unlocking and growing healthcare business which are underappreciated.

Valuation

- Our TP is raised to **RM5.07** (from RM5.04) based on SOP derived valuation with a 10% holding discount (see Figure 3)

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KLCI	1765.1
Expected share price return	16.6%
Expected dividend return	2.3%
Expected total return	18.8%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	2,047
Market cap (RM m)	8,903
3-mth avg. volume ('000)	3,831
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	11.0	25.4	49.4
Relative	10.9	25.6	41.0

Major shareholders

Sungei Way Corp Sdn Bhd	56.4%
Skim Amanah Saham Bumiputera	6.6%
EPF	5.5%

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)	16.4	15.3	14.2	13.4
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

HLIB

Figure #1 Site Picture for Kajang Land**Figure #2 Peers Comparison**

Company	Segmental Profit Contribution (%)				FYE	Forward PE (x)	Net Gearing (x)	Div Yield (%)
	Property Development	Recurring Income	Construction	Others				
Sunway (RM4.35)	38%	23% (Property Investment)	17%	Trading & Services - 22% (~9% from Healthcare)	Dec	14.2	0.35	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	16.6	0.54	2.2

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%	6,672	3.23	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
		12,405	6.01	
Holding Company Net Debt		(779)	(0.38)	
		11,626	5.63	
10% Holding Company Discount		(1,163)	(0.56)	
Equity Value (RM)		11,626	5.07	

HLIB

Financial Projections for Sunway (BUY, TP: RM5.07)

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

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

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)	13.3	16.4	15.3	14.2	13.4
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

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 (%)	(5.8)	(0.8)	11.0	5.3	5.7
Market capitalization (m)	7,829	8,974	8,974	8,974	8,974
Net cash (m)	(4,404)	(5,461)	(4,917)	(4,836)	(4,734)
Enterprise value	12,233	14,435	13,891	13,811	13,708
EV/ EBITDA (x)	15.2	16.9	14.4	13.1	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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Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
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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.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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