

# Sunway (BUY ↔; EPS ↔)

**INDUSTRY: NEUTRAL**
**NEWSBREAK**
**17 August 2017**
**Price Target: RM5.14 (↔)**
**Share price: RM4.15**

## Landbanking: One after Another

**News**

- Sunway has entered into a JV agreement with Huatland Development Sdn Bhd with a 55% stake to form a JVCo.
- The JVCo will acquire a parcel of 4.34 acres freehold land in Wangsa Maju, Kuala Lumpur from Setapak Heights Development Sdn Bhd (which has the common shareholders with Huatland) for RM51.1m.
- The proposed mixed development (target launch in 2H18) comprises of serviced apartments and lifestyle retail units with a combined GDV of RM500m to be developed over a 5 years period.

**Financial Impact**

- The purchase is expected to be funded via debt and internal generated funds with target completion by 4Q17.
- The implied land cost is circa RM270 psf or RM54 psf of allowable GFA at the plot ratio of 5x. The cost of land is deemed competitive at circa 10.2% of the estimated GDV.
- Based on the 55% stake, the estimated effective GDV is circa RM275m. It will increase the group's effective GDV by 0.8% to RM36.2bn and total GDV will grow by 0.9% to RM54.0bn.

**Pros/Cons**

- Assuming PBT margin of 22%, the estimated NPV will mildly increase our estimated RNAV for property segment by 0.1%.
- We are mildly positive on the above RNAV accretive acquisition given the continued expansion in the group's landbank at a competitive land cost. The proposed development allows Sunway to venture into more affordable segment with average selling pricing of RM550k.
- Besides, Sunway will leverage on the experience and know-how of the JV partner in the development within the vicinity and yield better return.
- The proposed development is also strategically located in less than 8km from KLCC and within 1.5km of amenities like Wangsa Walk Mall and Aeon Big Wangsa Maju with easy access via major highways like DUKE, AKLEH and MRR2. Meanwhile, Sri Rampai LRT station is only 850m away.

**Risks**

- Prolonged downturn in property market.
- Execution risk.

**Forecasts**

- We tweaked our FY19 earnings upward marginally by 3%.

**Rating**
**BUY ↔, TP: RM5.14 ↔**

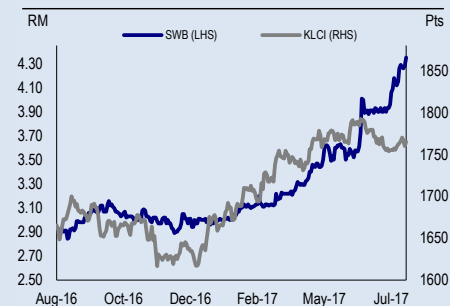
- Sunway is our **Top Pick** within the sector as we believe it should be rerated and trade closer to its peers such as IJM and Gamuda (Figure #2) given its diversified income stream and declassification from property sector. At a P/E of 13.6x as compared to peers, we opine that it represents a deep value stock with mature investment properties and the underappreciated trading and healthcare segment.

**Valuation**

- Our TP is unchanged at **RM5.14** based on a 10% holding discount from SOP derived valuation of RM5.71 (Figure #3).

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KLCI	1773.8
Expected share price return	23.0%
Expected dividend return	2.4%
Expected total return	25.3%

**Share price**

**Information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	2,051
Market cap (RM m)	8,512
3-mth avg. volume ('000)	3,409
SC Shariah compliant	Yes

**Price Performance**

	1M	3M	12M
Absolute	5.6	18.4	43.1
Relative	3.7	17.9	36.2

**Major shareholders**

Sungei Way Corp Sdn Bhd	56.3%
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	688
Core PATAMI	547	585	630	688
Core EPS (sen)	26.5	28.4	30.6	33.4
DPS (sen)	12.1	9.9	10.7	11.7
DY (%)	2.9	2.4	2.6	2.8
P/E (x)	15.6	14.6	13.6	12.4
BV / share	3.6	3.8	4.0	4.2
P/BV (x)	1.1	1.1	1.0	1.0
Net Gearing	43.2	36.2	32.2	28.7
ROA (%)	2.9	3.0	3.1	3.2
ROE (%)	6.6	6.7	6.8	7.0

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**Figure #1 Location of 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 (RM4.15)	38%	23% (Property Investment)	17%	Trading & Services - 22% (~9% from Healthcare)	Dec	13.6	0.36	2.9
IJM Corp (RM3.33)	14%	48% (Infrastructure)	15%	Manufacturing & Quarrying - 11% Plantation - 4%; Others - 8%	Mar	18.6	0.40	2.3
Gamuda (RM5.42)	22%	53% (Water & expressway concessions)	25%		Jul	16.5	0.54	2.2

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**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%	6,489	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
		12,222	5.92	
Holding Company Net Debt		(439)	(0.21)	
		11,783	5.71	
10% Holding Company Discount		(1,178)	(0.57)	
<b>Equity Value (RM)</b>		<b>10,605</b>	<b>5.14</b>	

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

### Income statement

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
<b>Revenue</b>	<b>4,448</b>	<b>4,656</b>	<b>4,799</b>	<b>5,175</b>	<b>5,458</b>
Operating cost	(3,644)	(3,803)	(3,834)	(4,117)	(4,329)
<b>EBITDA</b>	<b>804</b>	<b>852</b>	<b>965</b>	<b>1,058</b>	<b>1,129</b>
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	87
Exceptionals	142	39	-	-	-
<b>Pretax profit</b>	<b>930</b>	<b>859</b>	<b>867</b>	<b>942</b>	<b>1,024</b>
Taxation	(131)	(140)	(161)	(178)	(191)
Minority Interest	(67)	(133)	(120)	(133)	(144)
PATAMI	732	586	585	630	688
<b>Core Earning</b>	<b>591</b>	<b>547</b>	<b>585</b>	<b>630</b>	<b>688</b>
Basic shares (m)	1,800	2,063	2,063	2,063	2,063
<b>Core EPS (sen)</b>	<b>32.8</b>	<b>26.5</b>	<b>28.4</b>	<b>30.6</b>	<b>33.4</b>

### 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)	(87)
<b>Operating cashflow</b>	<b>940</b>	<b>668</b>	<b>1,483</b>	<b>973</b>	<b>1,010</b>
Capex & acquisitions	(1,396)	(737)	(500)	(500)	(500)
<b>Free cashflow</b>	<b>(456)</b>	<b>(69)</b>	<b>983</b>	<b>473</b>	<b>510</b>
Others	(692)	(898)	-	-	-
<b>Investing cashflow</b>	<b>(2,088)</b>	<b>(1,635)</b>	<b>(500)</b>	<b>(500)</b>	<b>(500)</b>
Equity Raised	180	595	-	-	-
Others	(30)	(57)	-	-	-
Net Borrowing	1,764	1,427	-	-	-
<b>Financing cashflow</b>	<b>1,116</b>	<b>1,537</b>	<b>(438)</b>	<b>(392)</b>	<b>(408)</b>
<b>Net cashflow</b>	<b>(32)</b>	<b>570</b>	<b>546</b>	<b>81</b>	<b>103</b>

### 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	3,998
Other short-term assets	2,740	4,503	4,322	4,449	4,623
<b>Working capital</b>	<b>4,775</b>	<b>5,000</b>	<b>5,977</b>	<b>6,333</b>	<b>6,602</b>
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
<b>Net cash / (debt)</b>	<b>(4,404)</b>	<b>(5,461)</b>	<b>(4,917)</b>	<b>(4,836)</b>	<b>(4,734)</b>
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
<b>Shareholders' funds</b>	<b>7,213</b>	<b>8,233</b>	<b>8,688</b>	<b>9,247</b>	<b>9,859</b>
Share capital	1,800	2,063	2,063	2,063	2,063
Reserves	3,195	3,549	3,884	4,309	4,777
Minorities	651	764	883	1,016	1,161
Other liabilities	5,159	5,545	6,703	7,005	7,232

### Summary Earnings Table

<b>Revenue</b>	4,448	4,656	4,799	5,175	5,458
EBITDA	804	852	965	1,058	1,129
Core PATAMI	591	547	585	630	688
P/E (x)	12.6	15.6	14.6	13.6	12.4
BV / share	3.6	3.6	3.8	4.0	4.2
P/BV (x)	1.1	1.1	1.1	1.0	1.0
ROA (%)	3.7	2.9	3.0	3.1	3.2
ROE (%)	8.2	6.6	6.7	6.8	7.0

### Valuation ratios

Net DPS (sen)	37.0	12.1	9.9	10.7	11.7
FCF/ share (sen)	(25)	(3)	48	23	25
FCF yield (%)	(6.1)	(0.8)	11.5	5.5	6.0
Market capitalization (m)	7,469	8,562	8,562	8,562	8,562
Net cash (m)	(4,404)	(5,461)	(4,917)	(4,836)	(4,734)
Enterprise value	11,873	14,023	13,479	13,398	13,295
EV/ EBITDA (x)	14.8	16.5	14.0	12.7	11.8

### 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	8.8
PATMI	1.4	(7.3)	7.0	7.7	9.2
Basic EPS Growth	(2.5)	(19.2)	7.0	7.7	9.2

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