

# Sunway (BUY ↔; EPS ↑)

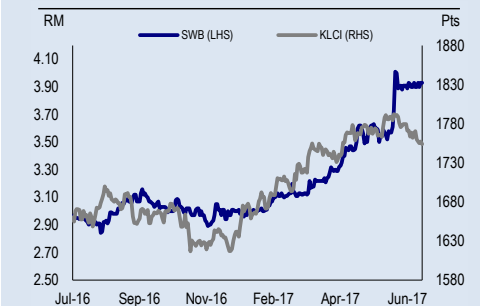
**INDUSTRY: NEUTRAL**
**NEWSBREAK**
**14 July 2017**
**Price Target: RM5.04 (↑)**
**Share price: RM3.93**

## Land acquisition at Jalan Belfield

<b>News</b>	<ul style="list-style-type: none"> <li>Sunway has proposed to acquire a freehold land of 4.53 acres along Jalan Belfield, Kuala Lumpur for RM165m.</li> <li>The proposed mixed development that is targeted to launch in 2H18 comprises of serviced apartments (RM1.05bn) and retail units (RM50m) with a combined GDV of RM1.1bn to be developed over a 5-7 years.</li> <li>The purchase is expected to be funded via debt and internal generated funds and to complete in 2H17.</li> </ul>
<b>Financial Impact</b>	<ul style="list-style-type: none"> <li>The implied land cost is circa. RM836 psf, translating to RM95 psf of GFA at a plot ratio of 8.8x. The cost of land is deemed competitive at circa. 15% of total GDV, which is within 20% benchmark.</li> <li>The group's effective GDV is expected to increase by 2.2% to RM51.6bn with the proposed development.</li> <li>Assuming EBIT margin of 22%, the project's NPV is estimated at RM110m (circa 1.1% of RNAV for property segment) and increase our target price by 0.6%.</li> </ul>
<b>Pros/Cons</b>	<ul style="list-style-type: none"> <li>We are mildly positive as the acquisition is RNAV accretive to Sunway. This is coupled with competitive land cost given its proximity to city centre with approximately 3km away from Bukit Bintang and KL Sentral.</li> <li>Besides, it is easily accessible via major roads such as Jalan Syed Putra, Jalan Damansara and Jalan Istana. Maharajalela monorail station is less than 500 meters away.</li> <li>While the indicative selling price is not determined at current juncture, nearby project such as Opus @ KL by Bina Puri is selling at about RM1500 psf.</li> <li>For FY17, Sunway is targeting effective sales of RM900m underpinned by indicative launches of approximate RM2bn.</li> </ul>
<b>Risks</b>	<ul style="list-style-type: none"> <li>Prolonged downturn in Johor's property market;</li> <li>Execution risk.</li> </ul>
<b>Forecasts</b>	<ul style="list-style-type: none"> <li>We incorporate the proposed development into our model, resulting in incremental earnings of 1.2% for FY19.</li> </ul>
<b>Rating</b>	<p><b>BUY ↔, TP: RM5.04 ↑</b></p> <ul style="list-style-type: none"> <li>We believe Sunway should be rerated 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 13x as compared to peers, we opine that it represents a deep value stock with potential assets unlocking and growing healthcare business which are underappreciated.</li> </ul>
<b>Valuation</b>	<ul style="list-style-type: none"> <li>Sunway is our <b>Top Pick</b> within the sector with a higher TP of <b>RM5.04</b> (from RM5.01) based on SOP derived valuation with a 10% holding discount.</li> </ul>

**Lee Meng Horng**
[leemh@hlib.hongleong.com.my](mailto:leemh@hlib.hongleong.com.my)
**(603) 2168 1121**

KLCI	1792.4
Expected share price return	33.2%
Expected dividend return	2.7%
Expected total return	35.9%

**Share price**

**Information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	2,042
Market cap (RM m)	8,027
3-mth avg. volume ('000)	3,235
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	8.9	19.1	33.6
Relative	10.8	18.0	26.5

**Major shareholders**

Sungei Way Corp Sdn Bhd	56.6%
Skim Amanah Saham Bumiputera	6.6%
EPF	5.9%

**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	586	631	670
Core PATAMI	547	586	631	670
Core EPS (sen)	26.5	28.4	30.6	32.5
DPS (sen)	9.0	9.9	10.7	11.4
DY (%)	2.3	2.5	2.7	2.9
P/E (x)	14.8	13.8	12.9	12.1
BV / share	3.6	3.8	4.0	4.2
P/BV (x)	1.1	1.0	1.0	0.9
Net Gearing	43.2	35.6	31.4	28.0
ROA (%)	2.9	3.0	3.1	3.1
ROE (%)	6.6	6.7	6.8	6.8

HLIB

**Figure #1 Peers Comparison**

Company	Segmental Profit Contribution (%)				FYE	Forward PE (x)	Net Gearing (x)
	Property Development	Recurring Income	Construction	Others			
<b>Sunway</b> (RM3.93)	38%	23% (Property Investment)	17%	Trading & Services - 22% (~9% from Healthcare)	December	12.9	0.35
<b>IJM Corp</b> (RM3.48)	14%	48% (Infrastructure)	15%	Manufacturing & Quarrying - 11% Plantation - 4%; Others - 8%	March	19.4	0.40
<b>Gamuda</b> (RM5.40)	22%	53% (Water & expressway concessions)	25%		July	16.7	0.54

Company, HLIB

**Figure #2 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 & Property Investment	100%	6,604	3.20	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
		12,337	5.98	
Holding Company Net Debt		(779)	(0.38)	
		11,558	5.60	
10% Holding Company Discount		(1,156)	(0.56)	
<b>Equity Value (RM)</b>		<b>11,558</b>	<b>5.04</b>	

HLIB

**Figure #3 Property Sector Peer Comparison**

Company	Current Px	Recomm	TP	Upside	Mkt Cap (m)	Discount to RNAV	P/E (x)		P/B (x)		Dividend Yield	
							CY17	CY18	CY17	CY18	CY17	CY18
IOI PROPERTIES	2.16	Buy	2.54	17%	11,893.3	(44.6)	13.4	13.1	0.7	0.7	1.9	1.9
SP SETIABHD	3.25	Buy	4.00	23%	9,303.7	(43.1)	12.2	9.0	1.0	1.0	5.3	5.6
SUNWAY BHD	3.93	Buy	5.04	28%	8,027.0		13.8	12.8	1.0	1.0	2.5	2.7
UEM SUNRISE BHD	1.22	Hold	1.18	-3%	5,535.7	(58.5)	24.9	22.6	0.8	0.8	0.8	0.8
MAH SING GROUP	1.58	Hold	1.56	-1%	3,831.0	(34.4)	10.3	8.7	1.1	1.0	3.9	4.9
MATRIX CONCEPTS	2.69	Buy	2.98	11%	1,565.6	(27.7)	6.1	5.1	1.3	1.1	5.7	6.9
TAMBUN	1.46	Hold	1.40	-4%	632.5	(37.3)	7.8	6.9	1.4	1.5	4.8	4.8
IBRACO BHD	0.80	Buy	0.97	21%	392.2	(46.3)	11.4	8.1	1.4	1.5	4.4	4.4
ECO WORLD DEVELO	1.58	NR			4,652.1	(31.3)	35.6	18.5	1.1	1.0	-	-
<b>Average</b>						<b>(40.4)</b>	<b>15.1</b>	<b>11.6</b>	<b>1.1</b>	<b>1.1</b>	<b>3.3</b>	<b>3.6</b>

Bloomberg, HLIB

## Financial Projections for Sunway (BUY, TP: RM5.04)

### 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)	(37)
Associates	202	125	127	133	140
Jointly controlled entities	68	67	67	67	67
Exceptionals	142	39	-	-	-
<b>Pretax profit</b>	<b>930</b>	<b>859</b>	<b>867</b>	<b>942</b>	<b>1,006</b>
Taxation	(131)	(140)	(162)	(178)	(192)
Minority Interest	(67)	(133)	(120)	(133)	(144)
PATAMI	732	586	586	631	670
<b>Core Earning</b>	<b>591</b>	<b>547</b>	<b>586</b>	<b>631</b>	<b>670</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>32.5</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	3,979
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>-4,852</b>	<b>-4,771</b>	<b>-4,667</b>
Cash	1,483	1,950	2,561	2,642	2,746
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>8,753</b>	<b>9,312</b>	<b>9,905</b>
Share capital	1,800	2,063	2,063	2,063	2,063
Reserves	3,195	3,549	3,949	4,375	4,824
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	586	631	670
P/E (x)	12.0	14.8	13.8	12.9	12.1
BV / share	3.6	3.6	3.8	4.0	4.2
P/BV (x)	1.1	1.1	1.0	1.0	0.9
ROA (%)	3.7	2.9	3.0	3.1	3.1
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)	(162)	(178)	(192)
Others	(166)	(240)	(67)	(67)	(67)
<b>Operating cashflow</b>	<b>940</b>	<b>668</b>	<b>1,484</b>	<b>973</b>	<b>1,011</b>
Capex & acquisitions	(1,396)	(737)	(500)	(500)	(500)
<b>Free cashflow</b>	<b>(456)</b>	<b>(69)</b>	<b>984</b>	<b>473</b>	<b>511</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>(373)</b>	<b>(392)</b>	<b>(408)</b>
<b>Net cashflow</b>	<b>(32)</b>	<b>570</b>	<b>611</b>	<b>81</b>	<b>103</b>

### Valuation ratios

Net DPS (sen)	37.0	9.0	9.9	10.7	11.4
FCF/ share (sen)	-25.3	-3.3	47.7	22.9	24.8
FCF yield (%)	-6.4%	-0.9%	12.1%	5.8%	6.3%
Market capitalization (m)	7,073	8,108	8,108	8,108	8,108
Net cash (m)	-4,404	-5,461	-4,852	-4,771	-4,667
Enterprise value	11,477	13,569	12,960	12,879	12,775
EV/ EBITDA (x)	14.3	15.9	13.4	12.2	11.3

### 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%

## Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 14 July 2017, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 14 July 2017, the analyst, Lee Meng Horng, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & Printed by  
**Hong Leong Investment Bank Berhad (10209-W)**  
 Level 23, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

## Equity rating definitions

<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.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage and report is intended purely for informational purposes.

## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.