

# Sunway (BUY ↔; EPS ↔)

**INDUSTRY: NEUTRAL**
**NEWSBREAK**
**13 February 2017**
**Price Target: RM3.75 (↔)**
**Share price: RM3.14**

## First land acquisition in 2017

**News**

- Sunway entered into a JV agreement to acquire Austral Meridian Property Sdn Bhd which will enable Sunway to gain additional 8.45 acres of leasehold land along Jalan Peel.
- Sunway will hold 50+1% stake in JV with the remaining from LPK (40%) and CRSC (10%).
- The estimated GDV is approximately RM2bn to be developed over a 10 years period (comprising serviced apartments, office tower and retail shops) with target launch by 1H2018.
- Sunway has the option to increase the stake from 50+1% to 70+1% within 8 years period.

**Financial Impact**

- After factoring in the subscription of equity stake of 50+1% for RM500k, shareholder advance of RM98m (based on effective stake of 70%) and additional funding of RM183m for additional 20% stake, the NPV to pay for the land cost is RM228m (for 70% stake), our calculation points to an implied land cost of RM886 per sf.
- With the plot ratio of 7x and estimated GDV of RM2bn, cost of land accounts for about 16% of total GDV, which is within the 20% benchmark.

**Pros/Cons**

- We are positive on the land acquisition given its strategic location directly opposite the RM4bn Sunway Velocity development. We expect the proposed development to have synergies with existing Sunway Velocity which comprises of Sunway Velocity Shopping mall, medical centre and hotel.
- The proposed land acquisition will increase group effective total GDV by 5% to RM32.5bn, which will sustain development period over 15 year.
- The NPV for project is estimated at RM83m or 4 sen per share.

**Risks**

- Prolonged downturn in Johor's property market,
- Slowdown in property demand due to tightening of loan approval.

**Forecasts**

- Unchanged pending more detail from management.

**Rating**
**BUY ↔**

- We like the company given its unique integrated real estate business model which provides competitive edge against its competitor. Active capital management will continue to reward shareholders.

**Valuation**

- Maintain **BUY** with unchanged TP of **RM3.75** based on SOP valuation.

**Jason Tan, CFA**
[yttan@hlib.hongleong.com.my](mailto:yttan@hlib.hongleong.com.my)
**(603) 2168 1168**

KLCI	1,698.9
Expected share price return	19.4%
Expected dividend return	3.8%
Expected total return	23.2%

**Share price**

**Information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	2,025
Market cap (RM m)	6,358
3-mth avg. volume ('000)	951
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	4.0	3.0	7.5
Relative	2.4	-1.0	4.0

**Major shareholders**

Sungei Way Corp Sdn Bhd	50.1%
Yean Tih Cheah	13.5%
EPF	5.3%
Skim Amanah Saham Bumiputera	5.0%

**Summary Earnings Table**

FYE Dec (RM m)	2015A	2016E	2017F	2018F
Revenue	4,451	4,576	4,773	5,045
EBITDA	803	809	891	966
EBIT	687	678	744	807
Profit Before Tax	930	805	873	929
PATAMI	733	531	582	628
Core PATAMI	592	531	582	628
Core EPS (sen)	29.3	26.4	28.9	31.2
FD EPS (sen)	29.3	26.4	28.9	31.2
Net DPS (sen)	48.0	12.0	12.0	12.0
Net DY (%)	15.3	3.8	3.8	3.8
P/E (x)	10.7	11.9	10.9	10.1
FD P/E (x)	10.7	11.9	10.9	10.1
P/B (x)	1.0	1.1	1.0	1.0
Net Gearing (%)	20.5	30.1	27.1	22.4
ROE (%)	9.7	8.7	9.6	9.8
ROA (%)	5.6	5.0	5.4	5.6

HLIB

**Figure #1 Sunway SOP valuation**

Division	Methodology	Stake	Value (RM m)	RM/share	%
Construction	Target price of RM1.93	54%	1,358	0.67	18.0
Property	NPV of profits + Shareholders Fund	100%	5,517	2.74	73.1
Trading/Manufacturing	9X P/E	100%	291	0.14	3.9
Quarry	15X P/E	100%	187	0.09	2.5
Sub-Total (RM m)			7,353		
Estimated Holding Company			190		
Net Debt					
Total			7,543		
No. of shares (m)			2,013		
Target Price (RM)			3.75		

HLIB

**Figure #2 HLIB vs Consensus**

FYE Dec (RM m)	FY16E			FY17F		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,576.4	4,853.0	-6%	4,773.0	5,111.0	-7%
PATAMI	531.2	512.4	4%	582.0	544.2	7%

Bloomberg, HLIB

**Figure #3 Peer Comparison**

Company	Current	Recomm	TP	Upside	Mkt Cap (m)	Discount to RNAV	P/E (x)		P/B (x)		Dividend Yield	
	Px						CY16	CY17	CY16	CY17	CY16	CY17
IOI PROPERTIES	2.12	Hold	2.54	20%	9,341.8	(45.6)	15.6	15.3	0.7	0.7	2.8	1.9
UEM SUNRISE BHD	1.16	Hold	1.03	-12%	5,263.4	(60.4)	37.4	23.6	0.8	0.8	0.8	1.3
SP SETIA BHD	3.42	Hold	3.11	-9%	9,759.1	(28.5)	13.8	14.1	1.4	1.3	3.6	3.6
MAH SING GROUP	1.51	Hold	1.52	1%	3,638.2	(35.5)	9.9	9.9	1.1	1.0	4.0	4.1
SUNWAY BHD	3.14	Buy	3.75	19%	6,357.7		11.9	10.9	1.1	1.0	3.8	3.8
MATRIX CONCEPTS	2.41	Buy	2.89	20%	1,379.0	(33.2)	6.2	5.9	1.5	1.3	5.8	6.2
TAMBUN	1.39	Hold	1.39	0%	594.9	(40.1)	6.1	7.5	1.1	1.0	6.5	5.1
GLOMAC BHD	0.72	Hold	0.68	-6%	520.5	(52.3)	11.1	10.7	0.5	0.5	4.2	4.2
ECO WORLD DEVELO	1.48	NR			4,139.1	(35.7)	33.4	17.3	1.0	1.0	-	-
<b>Average</b>						(41.4)	<b>16.2</b>	<b>12.8</b>	<b>1.0</b>	<b>1.0</b>	<b>3.5</b>	<b>3.3</b>

## Financial Projections for Sunway (BUY; TP: RM3.75)

### Income Statement

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
<b>Revenue</b>	<b>4,558.1</b>	<b>4,451.3</b>	<b>4,576.4</b>	<b>4,773.0</b>	<b>5,045.2</b>
EBITDA	859.2	803.3	809.5	890.5	966.2
D&A	(99.3)	(116.3)	(131.9)	(146.2)	(159.3)
<b>EBIT</b>	<b>759.9</b>	<b>686.9</b>	<b>677.5</b>	<b>744.3</b>	<b>806.9</b>
Interest Income	48.4	97.8	22.0	14.5	18.8
Finance Costs	(78.9)	(124.5)	(102.3)	(99.9)	(97.5)
Associates/JCE	233.4	269.9	207.9	214.0	201.0
<b>Profit Before Tax</b>	<b>962.8</b>	<b>930.2</b>	<b>805.2</b>	<b>873.0</b>	<b>929.3</b>
Tax	(148.6)	(129.8)	(149.1)	(164.7)	(182.1)
<b>Net Profit</b>	<b>814.2</b>	<b>800.4</b>	<b>656.1</b>	<b>708.3</b>	<b>747.3</b>
Minority Interests	(77.6)	(67.0)	(124.9)	(126.3)	(119.6)
<b>PATAMI</b>	<b>736.6</b>	<b>733.4</b>	<b>531.2</b>	<b>582.0</b>	<b>627.6</b>
Exceptionals	151.5	141.7	-	-	-
<b>Core Earnings</b>	<b>585.1</b>	<b>591.7</b>	<b>531.2</b>	<b>582.0</b>	<b>627.6</b>
Basic Shares (m)	2,013.0	2,013.0	2,013.0	2,013.0	2,013.0
Core EPS (sen)	28.9	29.3	26.4	28.9	31.2
FD Core EPS (sen)	28.9	29.3	26.4	28.9	31.2

### Quarterly Financial Summary

FYE 31 Dec (RM m)	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3
Revenue	951.0	1,398.8	1,069.0	1,155.7	1,137.5
Expenses	(902.4)	(1,244.9)	(944.4)	(1,022.9)	(1,014.9)
Other Income	70.1	105.4	25.1	28.7	41.7
<b>EBIT</b>	<b>118.7</b>	<b>259.3</b>	<b>149.6</b>	<b>161.4</b>	<b>164.3</b>
Derivatives	4.9	(3.3)	-	-	0.1
Net Interest Expense	15.8	(21.8)	(16.1)	(15.6)	(2.6)
Associates & JCE	31.5	49.6	42.6	57.9	46.7
<b>Profit Before Tax</b>	<b>171.0</b>	<b>283.8</b>	<b>176.1</b>	<b>203.8</b>	<b>208.5</b>
Tax	(31.5)	(29.2)	(32.8)	(23.9)	(37.7)
<b>Net Profit</b>	<b>139.5</b>	<b>254.7</b>	<b>143.2</b>	<b>179.9</b>	<b>170.8</b>
Minority Interests	(6.2)	(40.0)	(41.1)	(25.5)	(27.2)
<b>PATAMI</b>	<b>133.3</b>	<b>214.7</b>	<b>102.1</b>	<b>154.4</b>	<b>143.6</b>
Exceptional	13.7	(34.7)	2.4	(21.5)	4.5
<b>Core Earnings</b>	<b>147.0</b>	<b>180.0</b>	<b>104.5</b>	<b>132.9</b>	<b>148.1</b>
Core EPS (sen)	8.31	10.10	5.85	6.73	7.24
FD Core EPS (sen)	7.83	9.69	5.59	6.61	7.17
W. Ave. Shares (m)	2046	2046	2046	2046	2046

### Balance Sheet

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
Cash	1,033	1,053	415	551	704
Trade Receivables	1,124	1,098	1,128	1,177	1,244
Inventories	687	671	690	719	760
Development Costs	994	1,006	1,003	1,014	1,077
Associates/JCE	2,426	2,591	2,685	2,773	2,835
PPE	3,749	3,933	4,101	4,255	4,395
Goodwill	320	320	320	320	320
Others	130	130	130	130	130
<b>Total Assets</b>	<b>10,462</b>	<b>10,800</b>	<b>10,471</b>	<b>10,938</b>	<b>11,465</b>
Trade Payables	1,249	1,220	1,254	1,308	1,382
Total Debt	2,461	2,299	2,246	2,192	2,139
Others	511	511	511	511	511
<b>Total Liabilities</b>	<b>4,220</b>	<b>4,029</b>	<b>4,010</b>	<b>4,011</b>	<b>4,032</b>
Shareholders' Funds	5,847	6,309	5,874	6,214	6,600
Minority Interests	395	462	587	713	833
<b>Total Capital</b>	<b>6,242</b>	<b>6,771</b>	<b>6,460</b>	<b>6,927</b>	<b>7,433</b>

### Rates and Ratios

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
Core PER (x)	10.9	10.7	11.9	10.9	10.1
FD Core PER (x)	10.9	10.7	11.9	10.9	10.1
Net DPS (sen)	11.0	48.0	12.0	12.0	12.0
Net DY (%)	3.5	15.3	3.8	3.8	3.8
BVPS (RM)	2.9	3.1	2.9	3.1	3.3
P/B (x)	1.1	1.0	1.1	1.0	1.0
NTA/Share (RM)	2.7	3.0	2.8	2.9	3.1
EBITDA Margin (%)	18.8	18.0	17.7	18.7	19.2
EBIT Margin (%)	16.7	15.4	14.8	15.6	16.0
PBT Margin (%)	26.2	27.0	22.1	22.8	22.4
PATAMI Margin (%)	12.8	13.3	11.6	12.2	12.4
ROE (%)	10.5	9.7	8.7	9.6	9.8
ROA (%)	5.4	5.6	5.0	5.4	5.6
Net Gearing (%)	25.5	20.5	30.1	27.1	22.4

### Cashflow Analysis

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
EBITDA	859.2	803.3	809.5	890.5	966.2
Working Capital	(406.1)	1.7	(12.9)	(34.9)	(97.1)
Interest Received	38.3	31.3	22.0	14.5	18.8
Dividends fr Assoc	91.6	104.2	114.6	126.1	138.7
Others	(141.1)	(129.8)	(149.1)	(164.7)	(182.1)
<b>CFO</b>	<b>441.8</b>	<b>810.6</b>	<b>784.2</b>	<b>831.5</b>	<b>844.6</b>
Capex	(300.0)	(300.0)	(300.0)	(300.0)	(300.0)
Purchase/Disposal	-	-	-	-	-
Others	-	-	-	-	-
<b>CFI</b>	<b>(300.0)</b>	<b>(300.0)</b>	<b>(300.0)</b>	<b>(300.0)</b>	<b>(300.0)</b>
Financing	(334.8)	(161.5)	(53.4)	(53.4)	(53.4)
Shares Issued	-	-	-	-	-
Dividends	(172.3)	(221.4)	(966.2)	(241.6)	(241.6)
Interest Paid	(118.3)	(107.1)	(102.3)	(99.9)	(97.5)
Others	-	-	-	-	-
<b>CFF</b>	<b>(625.4)</b>	<b>(490.0)</b>	<b>(1,121.9)</b>	<b>(394.8)</b>	<b>(392.4)</b>
<b>Net Cashflow</b>	<b>(483.6)</b>	<b>20.6</b>	<b>(637.8)</b>	<b>136.7</b>	<b>152.2</b>

### Assumption Metrics

FYE 31 Dec (RM m)	2014A	2015A	2016E	2017F	2018F
<b>Revenue</b>	<b>4,731</b>	<b>4,759</b>	<b>4,576</b>	<b>4,773</b>	<b>5,045</b>
Property	1,209	1,223	1,220	1,233	1,310
Property Investment	840	865	891	918	946
Construction	1,463	1,391	1,122	1,212	1,309
Trading/Manufacture	616	647	679	713	749
Quarry	208	218	229	240	252
Others	394	414	435	456	479
EBIT Margins (%)	16.7	15.4	14.8	15.6	16.0

## 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 13 February 2017, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 13 February 2017, the analyst, Jason Tan, 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.