

04 August 2017

Sunway Berhad

More Disposals at Hand?

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Yesterday, SUNWAY announced the disposal of Sunway Clio Property to SUNREIT for cash consideration of RM340.0m, and several other agreements. We are mildly positive as it gives room for SUNWAY to manage its balance sheet with a comfortable net gearing range of 0.5x. No changes to FY17-18E CNPs but raised FY17E NP after factoring in the disposal gains. Maintain MARKET PERFORM with a higher SoP-driven Cum/Ex-TP of RM4.25/RM1.82.

News. Yesterday, SUNWAY made an announcement in relation to: (i) the disposal of Sunway Clio Property to SUNREIT for a cash consideration of RM340.0m, (ii) lease back of Sunway Clio Property from SUNREIT, and (iii) proposed tenancy agreement of the multi-storey car park in Sunway Clio Property. The entire exercise is expected to complete in 4Q17.

Salient terms. Sunway to dispose of Sunway Clio Property at RM340.0m followed with a proposed lease of the hotel for the next 10 years based on the following terms; (i) minimum rent of RM10.9m for year 1 and 2, and RM8.2m for year 3 to 10, and (ii) variable rent which is 20% of Gross Operating Revenue + 70% of Net Operating Profit. That said, they also came up with a conditional car park tenancy agreement with SUNREIT with the following terms; 20% of Gross Operating Revenue (GOR) + 95% of Gross Operating Profit (Payable monthly).

More to disposal ahead? While it has always been SUNWAY's plan to dispose its investment property assets to SUNREIT, the disposal took us by surprise as we did not anticipate any disposal of assets for this year. We are rather positive with the move as it lightens its balance sheet leaving them more room for land banking activities in the medium term while we expect its net gearing to hover closer to 0.5x. With its first asset disposal of the year, we do not rule out the possibilities of more asset disposal exercise in the pipeline, i.e. Sunway Pinnacle (NBV: RM340.0m) which have reached an occupancy rate of 95% in the beginning of the year.

Outlook. This has been an interesting year for SUNWAY, full of corporate exercises which we believe will continue till year end. Hence, we believe that there could be more land banking deals in the pipeline despite having replenished GDV of RM5.0b and we also do not rule out further asset disposal. In terms of earnings delivery, we remain confident with SUNWAY's ability to deliver for the year premised on its strong unbilled sales of RM1.4b with 2-year visibility, a robust outstanding order-book of RM4.6b that provides 2-3 year visibility and other divisions that have been generating decent growth over the years. However, we are still tracking its sales closely, as its 1Q17 sales of RM142.0m are still below our and management's target of RM1.1b. In five years' time, we expect management to consider the option of spinning off its medical division.

Earnings unchanged. There are no changes to our FY17-18E Core Net Profits as the contribution from its hotel is minimal. That said, we raised our FY17E Net Profit by 6% to RM551.8m after we factor in the disposal gain of RM29.4m.

MARKET PERFORM maintained. We maintain our MARKET PERFORM call on SUNWAY due to its unexciting sales trajectory. However, we raised our SoP-driven Cum/Ex-TP of RM4.25/RM1.82 (previously, RM4.22/RM1.81) after factoring in a higher Target Price of RM1.90 for SUNREIT in accordance with the upgrade by our REIT analyst.

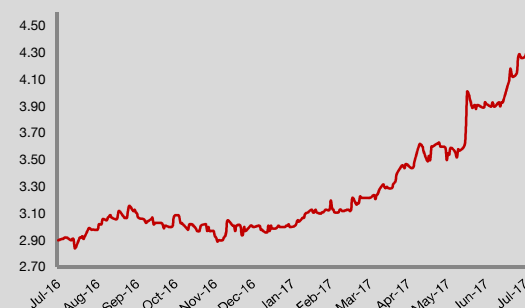
Downside risks include: Weaker-than-expected property sales and construction replenishment, higher-than-expected administrative costs, negative real estate policies, and tighter lending environment.

MARKET PERFORM ↔

Cum/Ex-Price : RM4.32/RM1.85

Cum/Ex-Target Price : RM4.25/RM1.82 ↑

Share Price Performance



KLCI	1,771.90
YTD KLCI chg	7.9%
YTD stock price chg	44.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	8,841.5
Issued shares	2,046.6
52-week range (H)	4.40
52-week range (L)	2.84
3-mth avg daily vol:	3,792,781
Free Float	34%
Beta	0.5

Major Shareholders

Sungei Way Corporation S/B	56.4%
Employees Provident Fund Board	5.4%
Fook Ling Cheah	4.6%

Summary Earnings Table

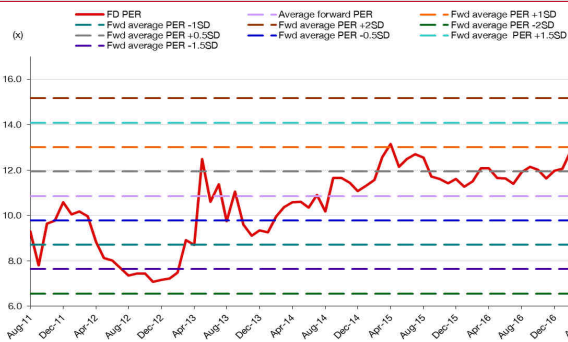
FYE Dec (RM m)	2016A	2017E	2018E
Turnover	4,726	5,262	5,584
EBIT	727	728	772
PBT	859	798	846
Net Profit (NP)	586	552	543
Core net profit	542	522	543
Consensus (NP)	n.a.	564	603
Earnings Revision	n.a.	n.a.	n.a.
Core Basic EPS	26.3	25.3	26.3
Core EPS grow. (%)	-20%	-6%	-2%
DPS (sen)	12.1	9.4	9.2
Basic PER (x)	16.5	17.1	16.4
BVPS (RM)	3.61	3.79	3.96
Net Gearing (x)	0.5	0.5	0.4
Dividend Yield (%)	2.8%	2.2%	2.1%

Sum-of-Parts

	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	7,862	n.a	52%	3,774	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin property inv discount of 52%
Sunway Reit	35%	1,936	n.a		1,936	(ii) Property Inv: Zero surplus on Book Value SUNREIT TP RM1.90
Construction	56%	1,438	16		1,438	16x FY18E PER- Inline with Big-Cap peers range of 16-18x.
Quarry & Buildings Mat	100%	158	8		158	8x FY18E PER
Trading & manufacturing	100%	288	8		288	8x FY18E PER
Healthcare	100%	1,334	27		1,334	27x FY18E PER inline with KPJ
Group Shareholders Funds						
Total SOP		13,018			8,929	
Adjustment for Dilution					1,157	
TP (RM)					1.82	
Diluted no. of shares ('m)					5,539	

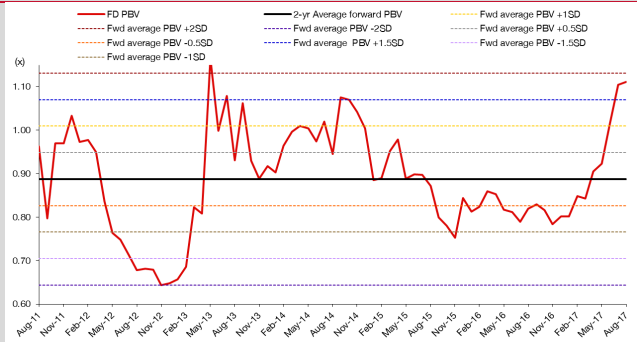
Source: Kenanga Research

Fwd PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



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Peer Comparison

NAME	Price (3/8/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	Fwd P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	2.13	11,728	18.1	14.7	14.6	3.4%	4.1%	4.2%	0.62	648.5	800.2	803.6	23.4%	0.4%	2.30	OUTPERFORM
S P SETIA BHD*#	3.21	9,735	12.0	12.8	14.9	4.1%	9.7%	8.0%	1.31	808.0	761.3	653.4	-5.8%	-14.2%	4.08	OUTPERFORM
UEM SUNRISE BHD*	1.16	5,263	35.7	22.5	32.6	0.0%	2.2%	3.4%	0.82	147.3	233.5	161.3	58.5%	-30.9%	1.45	OUTPERFORM
SUNWAY BHD*	1.85	8,842	16.3	16.9	16.3	4.8%	7.3%	6.7%	0.49	541.6	521.7	542.6	-3.7%	4.0%	1.82	MARKET PERFORM
MAH SING GROUP BHD^	1.57	3,783	10.9	11.2	11.6	4.1%	10.1%	10.0%	1.09	346.8	338.9	327.5	-2.3%	-3.4%	1.67	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.53	4,505	34.8	39.9	18.1	0.0%	3.7%	4.4%	1.19	129.3	112.9	248.8	-12.7%	120.4%	1.72	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.59	4,489	12.0	11.8	11.5	5.8%	19.4%	9.8%	1.07	373.9	379.2	391.4	1.4%	3.2%	2.63	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	1.11	2,653	10.9	34.9	27.3	0.2%	8.6%	2.4%	0.90	244.1	76.0	97.2	-69%	27.9%	1.32	MARKET PERFORM
KSL HOLDINGS BHD	1.22	1,256	6.1	6.1	6.1	0.0%	8.8%	6.9%	0.46	204.6	206.0	205.0	0.7%	-0.5%	1.30	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.74	1,596	8.5	7.1	6.7	5.4%	31.8%	22.7%	1.44	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFORM
SUNSURIA BERHAD	1.44	1,150	31.4	11.7	7.3	2.1%	6.9%	13.3%	1.46	36.7	98.0	157.0	167.2%	60.1%	1.61	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.56	355	12.3	11.6	11.2	2.8%	2.2%	8.0%	0.46	28.9	30.6	31.6	6.0%	3.3%	1.70	MARKET PERFORM
HUA YANG BHD	0.84	296	4.8	6.9	5.9	1.4%	21.9%	12.2%	0.46	61.0	43.0	50.0	-29.5%	16.3%	0.95	UNDERPERFORM
A&M REALTY BHD	1.42	518	25.8	19.4	15.0	0.0%	3.3%	4.2%	0.81	20.1	26.7	34.6	33.2%	29.5%	3.00	OUTPERFORM
MAGNA PRIMA BHD	1.50	499	63.2	76.8	45.4	0.4%	7.4%	1.1%	1.23	7.9	6.5	11.0	-17.7%	69.2%	1.60	MARKET PERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.82	3,764	12.6	15.7	15.7	3.5%	6.7%	6.4%	0.76	298.0	240.3	240.3	-19.4%	0.0%	3.00	NEUTRAL
GLOMAC BHD	0.67	484	4.4	8.3	6.6	4.6%	10.7%	5.3%	0.43	110.4	58.6	73.0	-47.0%	24.7%	0.70	NEUTRAL
PARAMOUNT CORP BHD	1.83	776	10.4	9.6	9.2	9.3%	8.0%	16.1%	0.82	75.0	80.6	84.9	7.5%	5.3%	2.37	BUY
TAMBUN INDAH LAND BHD	1.32	572	5.1	6.3	6.6	6.5%	21.5%	15.3%	0.95	112.2	91.0	86.7	-18.9%	-4.8%	1.58	NEUTRAL
LBS BINA GROUP BHD	1.97	1,334	15.6	11.2	9.3	4.9%	8.4%	9.1%	1.05	85.3	119.2	143.5	39.7%	20.5%	2.30	BUY

* Core NP and Core PER

^ Last price and TP is Ex-rights and Ex-Bonus.

MRCB's prices are of ex-rights

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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