

14 July 2017

Sunway Berhad

Replenishes in Landbank in KL...

By **Adrian Ng** | adrian.ng@kenanga.com.my; **Sarah Lim** | sarahlim@kenanga.com.my

Yesterday, SUNWAY announced that they would be acquiring 4.53 acres of freehold land in Jalan Belfield, KL for a total consideration of RM165.0m with an estimated GDV of RM1.1b. Neutral on the acquisition as it has minimal impact to our property RNAV. No changes to our FY17-18E earnings. Maintain MARKET PERFORM with an unchanged SoP-driven Cum/Ex-TP of RM3.87/RM1.66.

News. Yesterday, SUNWAY announced that they would be acquiring a parcel of freehold land measuring 4.53 acres in Jalan Belfield, Kuala Lumpur for a total consideration of RM165.0m or RM836.2psf from LGT Sdn Bhd and its beneficial owners namely Tan Sri Lim Kok Thay, Puan Sri Datin Seri Lim (Nee Lee) Kim Hua, Yarraville Sdn Bhd, Dandenong Sdn Bhd and Ripponlea Sdn Bhd.

Second for the year. This marks the second landbank deal of the year for SUNWAY, which we are not surprised as management has been constantly on the lookout for landbanks especially in the Klang Valley region. The land is located less than 500m from Maharajalela monorail station and just 850m away from Kg. Attap's famous curry fish head restaurant, i.e. Restoran ZK. While there is not much land transaction to be compared in that area, we opine that its acquisition price of RM165.0m or RM836.2psf to be fair as it implies land cost to GDV of 15% based on management's estimated GDV of RM1.1b. We believe that management's estimated GDV of RM1.1b to be fair as it implies a selling price of RM844.6psf which is still lower than its neighboring project, i.e. Opus @ KL that is priced at RM1,500psf.

Outlook. We remain confident with SUNWAY's ability in delivering a sturdy performance 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 has been generating decent growth over the years. However, we are keeping a close track on its sales underpinned by its RM2.0b new launches in 2H17, 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. We are keeping our FY17-18E core earnings as we did not factor in the potential earnings contribution from this particular project as it is only slated to be launched from 2H18 onwards.

MARKET PERFORM. We continue to maintain our MARKET PERFORM call on SUNWAY due to its unexciting sales trajectory, and there are no changes to our SoP-driven Cum/Ex-TP of RM3.87/RM1.66 even after factoring in the above-mentioned land acquisition as it has minimal impact to its RNAV.

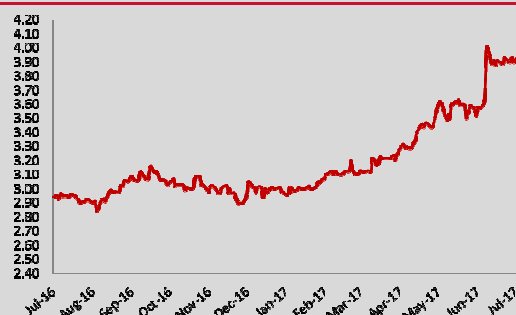
Downside risks include: Weaker-than-expected property sales and construction replenishment, higher than expected admin costs, negative real estate policies, and tighter lending environment.

MARKET PERFORM ↔

Cum/Ex-Price : RM3.93/RM1.68

Cum/Ex-Target Price : RM3.87/RM1.66 ↔

Share Price Performance



KLCI	1,753.78
YTD KLCI chg	6.8%
YTD stock price chg	31.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	8,027.0
Issued shares	2,042.5
52-week range (H)	4.05
52-week range (L)	2.84
3-mth avg daily vol:	3,234,565
Free Float	33%
Beta	0.5

Major Shareholders

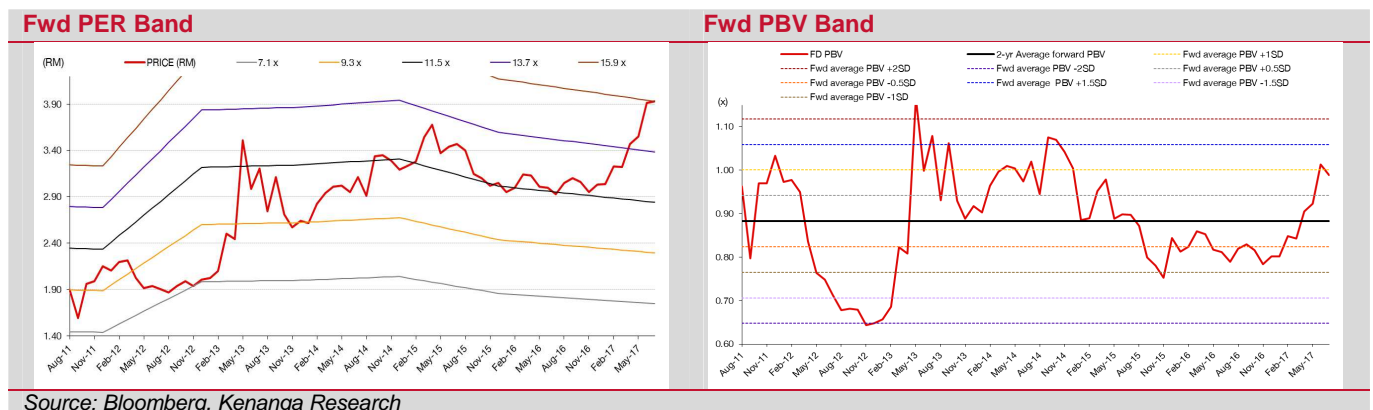
Sungei Way Corporation S/B	56.6%
Employees Provident Fund Board	5.9%
Fook Ling Cheah	4.6%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	4,726	5,262	5,584
EBIT	727	728	772
PBT	859	797	845
Net Profit (NP)	586	522	543
Core net profit	542	522	543
Consensus (NP)	n.a.	564	600
Earnings Revision	n.a.	n.a.	n.a.
Core Basic EPS	26.3	25.3	26.3
Core EPS grow. (%)	-20%	-11%	4%
DPS (sen)	12.1	8.9	9.2
Basic PER (x)	14.2	14.8	14.2
BVPS (RM)	3.61	3.78	3.95
Net Gearing (x)	0.5	0.4	0.4
Dividend Yield (%)	3.3%	2.4%	2.5%

Sum-of-Parts						
	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	6623.0	n.a	0%	6,623	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin with an applied property RNAV discount of 55%
Sunway Reit	35%	1834.2	n.a	0%	1,834	(ii) Property Inv: Zero surplus on Book Value
Construction	56%	1438.5	16.0	0%	1,438	SUNREIT TP RM1.80
Quarry & Buildings Mat	100%	158.4	8.0	0%	158	16x FY18E PER- In line with Big-Cap peers range of 16-18x.
Trading & manufacturing	100%	288.4	8.0	0%	288	8x FY18E PER
Healthcare	100%	1334.3	27.0	0%	1,334	8x FY18E PER
Group Shareholders Funds						27x FY18E PER inline with KPJ
Total SOP		11,677			8,034	
Adjustment for Dilution					1156	
FD SOP					2.32	
Implied SOP discount					28%	
Ex-all TP (RM)					1.66	
FD no. of shares ('m)					5539	

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

14 July 2017

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2014A	2015A	2016E	2017E	2018E	FY Dec (RM m)	2014A	2015A	2016E	2017E	2018E
Revenue	4,558	4,448	4,726	5,262	5,584	Growth (%)					
EBITDA	989	1,022	841	880	934	Revenue	-	-2%	6%	11%	6%
Depreciation	-118	-117	-114	-151	-162	EBITDA	-	3%	-18%	5%	6%
EBIT	872	904	727	728	772	EBIT	-	4%	-20%	0%	6%
Interest Expense	273	54	196	0	0	Pre-tax Income	-	-3%	-8%	-7%	6%
Investing	-30	-38	-60	-30	-31	Net Income	-	0%	-20%	-11%	4%
Associate/JCE	0	0	192	98	105	Core Net Profit	-	2%	-9%	-4%	4%
Exceptionals/FV	152	138	44	0	0	Profitability (%)					
PBT	960	930	859	797	845	EBITDA Margin	22%	23%	18%	17%	17%
Taxation	-149	-131	-140	-199	-211	Operating Margin	19%	20%	15%	14%	14%
Minority Interest	-78	-67	-133	-76	-91	PBT Margin	21%	21%	18%	15%	15%
Net Profit	734	732	586	522	543	Core Net Margin	13%	13%	11%	10%	10%
Core Net Profit	583	594	542	522	543	Effective Tax Rate	15%	14%	16%	25%	25%
Balance Sheet						ROA	5%	4%	3%	3%	3%
FY Dec (RM m)	2014A	2015A	2016E	2017E	2018E	ROE	10%	9%	7%	7%	7%
PPE	3,892	5,262	5,858	6,085	6,424	DuPont Analysis					
Intangible Assets	0	0	312	312	312	Net margin (%)	13%	13%	11%	10%	10%
Other FA	2,983	3,999	3,510	3,510	3,510	Assets T/O (x)	0.4	0.3	0.3	0.3	0.3
Inventories	2,098	1,671	662	863	984	Leverage fac. (x)	2.2	2.4	2.5	2.5	2.4
Receivables	1,185	1,541	2,828	3,014	3,125	ROE (%)	10%	9%	7%	7%	7%
Other CA	1,052	2,044	1,601	1,601	1,601	Leverage					
Cash	1,648	1,483	4,060	4,017	3,984	Debt/Asset (x)	0.4	0.5	0.4	0.4	0.4
Total Assets	12,857	16,001	18,831	19,402	19,940	Debt/Equity (x)	0.9	1.1	1.1	1.0	1.0
Payables	1,276	1,287	2,708	2,864	2,957	Net Debt/(Cash)	-2,137	-4,406	-3,361	-3,404	-3,437
ST Borrowings	2,133	3,071	4,831	4,831	4,831	Net Debt/Eq. (x)	0.4	0.7	0.5	0.4	0.4
Other ST Liability	867	1,206	44	44	44	Valuations					
LT Borrowings	1,652	2,818	2,591	2,591	2,591	Core EPS (sen)	28.2	28.8	26.3	25.3	26.3
Other LT Liability	606	405	438	438	438	DPS (sen)	9.2	32.0	12.1	8.9	9.2
Minorities Int.	387	651	764	839	931	Core PER (x)	13.2	12.9	14.2	14.8	14.2
Net Assets	5,936	6,563	7,456	7,795	8,148	Net Div. Yield (%)	2.5%	8.6%	3.3%	2.4%	2.5%
Share Capital	4,373	4,572	5,182	5,182	5,182	BVPS	2.9	3.2	3.6	3.8	3.9
Reserves	1,564	1,991	2,274	2,613	2,966	P/B (x)	1.3	1.2	1.0	1.0	0.9
Total Equity	5,936	6,563	7,456	7,795	8,148	Cashflow Statement					
FY Dec (RM m)	2014A	2015A	2016E	2017E	2018E	Operating CF	-1,047	1,036	1,297	548	689
Operating CF	-1,047	1,036	1,297	548	689	Investing CF	-886	-2,088	-532	-379	-500
Investing CF	-886	-2,088	-532	-379	-500	Financing CF	669	1,228	2,602	-213	-221
Financing CF	669	1,228	2,602	-213	-221	Net Chg in Cash	-1,264	176	3,367	-43	-32
Net Chg in Cash	-1,264	176	3,367	-43	-32	Free Cash Flow	-1,615	-103	716	369	400
Free Cash Flow	-1,615	-103	716	369	400						

Source: Kenanga Research

14 July 2017

Peer Comparison

NAME	Price (13/7/17)	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*	2.16	11,893	18.3	14.9	14.8	3.4%	4.1%	4.2%	0.63	648.5	800.2	803.6	23.4%	0.4%	2.30	OUTPERFORM
S P SETIA BHD*#	3.20	9,304	11.5	12.2	14.2	4.1%	9.7%	8.0%	1.31	808.0	761.3	653.4	-5.8%	-14.2%	4.08	OUTPERFORM
UEM SUNRISE BHD*	1.22	5,536	37.6	23.7	34.3	0.0%	2.2%	3.4%	0.86	147.3	233.5	161.3	58.5%	-30.9%	1.33	MARKET PERFORM
SUNWAY BHD*	1.68	8,027	14.8	15.4	14.8	5.3%	7.3%	6.7%	0.45	541.6	521.7	542.6	-3.7%	4.0%	1.66	MARKET PERFORM
MAH SING GROUP BHD^	1.59	3,831	11.0	11.3	11.7	4.1%	10.1%	10.0%	1.10	346.8	338.9	327.5	-2.3%	-3.4%	1.67	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.58	4,652	36.0	41.2	18.7	0.0%	3.7%	4.4%	1.23	129.3	112.9	248.8	-12.7%	120.4%	1.72	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.55	4,160	11.1	11.0	10.6	5.9%	19.4%	9.8%	1.05	373.9	379.2	391.4	1.4%	3.2%	2.63	MARKET PERFORM
MALYSIAN RESOURCES CORP BHD#	1.19	3,026	12.4	39.8	31.1	0.2%	8.6%	2.4%	0.97	244.1	76.0	97.2	-69%	27.9%	1.32	MARKET PERFORM
KSL HOLDINGS BHD	1.24	1,277	6.2	7.4	7.2	0.0%	8.8%	6.9%	0.47	204.6	173.7	177.1	-15.1%	2.0%	1.30	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.69	1,566	8.3	7.0	6.6	5.5%	31.8%	22.7%	1.42	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFORM
SUNSURIA BERHAD	1.43	1,142	31.1	11.7	7.3	2.1%	6.9%	13.3%	1.45	36.7	98.0	157.0	167.2%	60.1%	1.61	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.64	373	12.9	12.2	11.8	2.7%	2.2%	8.0%	0.49	28.9	30.6	31.6	6.0%	3.3%	1.70	MARKET PERFORM
HUA YANG BHD	1.02	359	5.9	8.3	7.2	1.8%	21.9%	12.2%	0.54	61.0	43.0	50.0	-29.5%	16.3%	0.95	UNDERPERFORM
A&M REALTY BHD	1.59	580	28.9	21.7	16.8	0.0%	3.3%	4.2%	0.90	20.1	26.7	34.6	33.2%	29.5%	3.00	OUTPERFORM
MAGNA PRIMA BHD	1.46	485	61.4	74.7	44.1	0.4%	7.4%	1.1%	1.20	7.9	6.5	11.0	-17.7%	69.2%	1.60	MARKET PERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.83	3,778	12.7	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	0.64	459	4.2	7.9	7.1	5.2%	10.7%	4.7%	0.41	110.4	57.8	64.3	-47.6%	11.3%	0.70	NEUTRAL
PARAMOUNT CORP BHD	1.82	772	10.3	9.6	9.1	4.9%	8.0%	8.3%	0.79	75.0	80.6	84.9	7.5%	5.3%	2.24	BUY
TAMBUN INDAH LAND BHD	1.46	632	5.6	6.9	7.3	6.0%	21.5%	14.0%	1.05	112.2	92.3	86.6	-17.8%	-6.1%	1.58	NEUTRAL
LBS BINA GROUP BHD	2.00	1,652	19.4	11.4	9.4	4.8%	8.4%	9.1%	1.07	85.3	145.4	175.1	70.4%	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

14 July 2017

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research