

Sunway Berhad

Shaping a Sustainable Future

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We came back from SUNWAY's briefing yesterday feeling positive with its long-term plan in expanding its medical division coupled with its move to reward shareholders with the announcement of a bonus issue (4 for 3) and free warrants (3 for 10) exercise. While we maintain MARKET PERFORM due to its unexciting sales trajectory, we raised on our SoP-driven Cum/Ex-TP to RM3.87/RM1.66 after factoring in the medical division.

Reward time! Yesterday, we attended an analysts' briefing chaired by Tan Sri Dato' Seri Dr. Jeffrey Cheah in relation to its proposed bonus issue (4 bonus for every 3 shares) and free warrants (3 warrants for every 10 shares) to reward shareholders, and also the objective behind their reclassification move into trading/services from its previous classification as a property company.

Growing its medical team. The main highlight of the briefing is SUNWAY's aspiration to be one of the top leading medical service providers in the region which justifies their reclassification move into trading/service sector. In order to grow its medical division, they budgeted for a 5-year CAPEX plan of RM1.0b for the expansion of its hospitals across the country. In the immediate term, we would be expecting SunMed Phase 3 with a capacity of 250 beds to be operational by year-end, while its medical building in Sunway Velocity with a capacity of 240 beds to be ready by end of 2018.

Sustainable development. We laud management's move in the reclassification which shows their determination and focus in the trading/service sector, especially in the healthcare business where management are already promoting medical tourism aggressively as a cheaper alternative to our neighbouring country i.e. Singapore but at the similar medical care standards. We believe that growing their medical division would provide them a sustainable income stream in the future, which would further mitigate their risk in the property and construction business which are highly cyclical. Furthermore, it is a business less prone to disruption as patients still required to seek medical treatment in hospital, especially chronic diseases unlike shopping malls, which runs the risk of declining footfalls due to online disruption.

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. Post briefing, there are no changes to our FY17-18E core earnings.

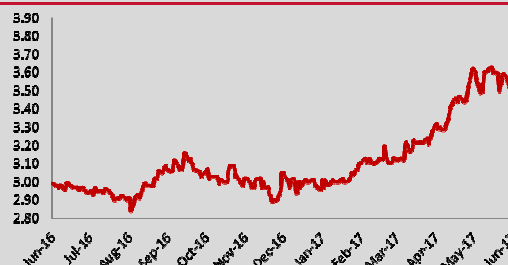
MARKET PERFORM. While we are maintaining our MARKET PERFORM call on SUNWAY due to its unexciting sales trajectory, we raised our SoP-driven Cum/Ex-TP to RM3.87/RM1.66 (previously, Cum/Ex-TP: RM3.50/RM1.50) after factoring in its medical division after obtaining better clarity from management on its medical business direction and contribution.

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

MARKET PERFORM ↔

Cum/Ex-Price: **RM3.73/RM1.60**
Cum/Ex-Target Price: **RM3.87/RM1.66** ↑

Share Price Performance



KLCI	1,792.35
YTD KLCI chg	9.2%
YTD stock price chg	24.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	7,599.6
Issued shares	2,037.4
52-week range (H)	3.73
52-week range (L)	2.84
3-mth avg daily vol:	2,589,686
Free Float	33%
Beta	0.5

Major Shareholders

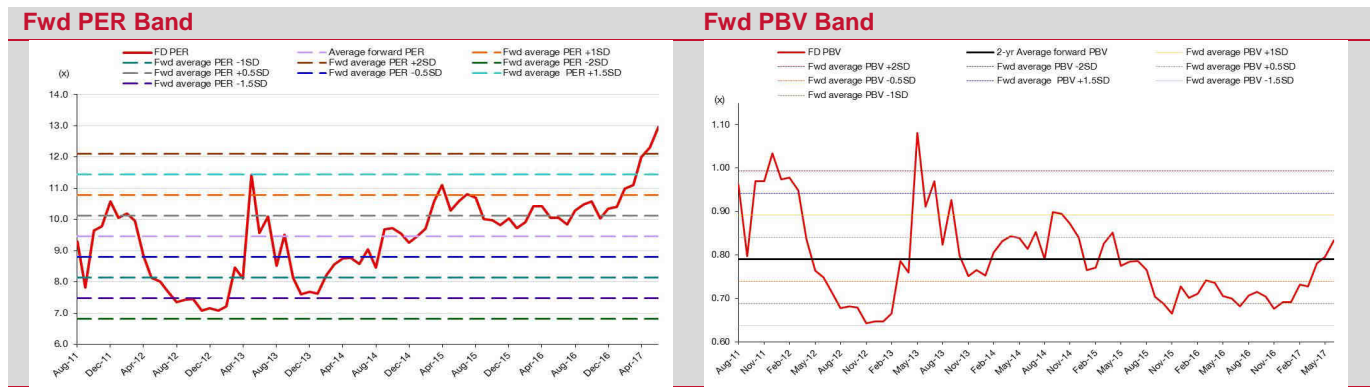
Sungei Way Corporation S/B	56.7%
Employees Provident Fund Board	5.7%
Fook Ling Cheah	4.6%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	4,725.9	5,262.3	5,583.7
EBIT	726.9	728.4	771.9
PBT	859.0	796.8	845.3
Net Profit (NP)	585.9	521.7	542.6
Core net profit	541.6	521.7	542.6
Consensus (NP)	n.a.	561.6	599.3
Earnings Revision	n.a.	n.a.	n.a.
Core Basic EPS	26.3	25.3	26.3
Core EPS growth (%)	-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 SUNREIT TP RM1.80
Construction	56%	1438.5	16.0	0%	1,438	16x FY18E PER- Inline with Big-Cap peers range of 16-18x.
Quarry & Buildings Mat	100%	158.4	8.0	0%	158	8x FY18E PER
Trading & manufacturing	100%	288.4	8.0	0%	288	8x FY18E PER
Healthcare	100%	1334.3	27.0	0%	1,334	27x FY18E PER inline with KPJ
Group Shareholders Funds						
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

15 June 2017

Peer Comparison

NAME	Price (14/6/17)	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*	2.12	11,673	18.0	14.6	14.5	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*	3.82	10,906	13.5	14.3	17.6	4.9%	9.7%	8.0%	1.31	808.0	761.3	620.6	-5.8%	-18.5%	3.86	OUTPERFORM
UEM SUNRISE BHD*	1.27	5,763	39.1	24.7	35.7	0.0%	2.2%	3.4%	0.90	147.3	233.5	161.3	58.5%	-30.9%	1.45	OUTPERFORM
SUNWAY BHD^A	1.60	7,600	14.0	14.6	14.0	2.7%	7.3%	6.7%	0.85	541.6	521.7	542.6	-3.7%	4.0%	1.66	MARKET PERFORM
MAH SING GROUP BHD^A	1.58	3,807	11.0	11.2	11.6	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	1.62	4,770	36.9	42.3	19.2	0.0%	3.7%	4.4%	1.26	129.3	112.9	248.8	-12.7%	120.4%	1.72	OUTPERFORM
UOA DEVELOPMENT BHD*	2.53	4,127	11.0	10.9	10.5	5.9%	19.4%	9.8%	1.05	373.9	379.2	391.4	1.4%	3.2%	2.63	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	1.22	3,135	12.8	41.2	32.3	0.2%	8.6%	2.4%	2.76	244.1	76.0	97.2	-69%	27.9%	1.32	MARKET PERFORM
KSL HOLDINGS BHD	1.26	1,297	6.3	7.5	7.3	0.0%	8.8%	6.9%	0.48	204.6	173.7	177.1	-15.1%	2.0%	1.30	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.78	1,616	8.6	7.2	6.8	5.3%	31.8%	22.7%	1.46	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFORM
SUNSURIA BERHAD	1.36	1,086	29.6	11.1	6.9	2.3%	6.9%	13.3%	1.37	36.7	98.0	157.0	167.2%	60.1%	1.61	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.69	384	13.3	11.4	11.1	2.8%	2.2%	8.0%	0.50	28.9	33.6	34.6	16.4%	3.0%	1.70	MARKET PERFORM
HUA YANG BHD	1.07	377	6.2	6.1	5.2	1.7%	21.9%	12.2%	0.58	61.0	62.0	72.0	1.6%	16.1%	1.24	MARKET PERFORM
A&M REALTY BHD	1.58	577	28.7	21.6	16.7	0.0%	3.3%	4.2%	0.88	20.1	26.7	34.6	33.2%	29.5%	3.00	OUTPERFORM
MAGNA PRIMA BHD	1.52	505	64.0	77.7	45.9	0.4%	7.4%	1.1%	1.25	7.9	6.5	11.0	-17.7%	69.2%	1.60	MARKET PERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.90	3,871	13.0	12.6	16.1	3.1%	6.7%	6.4%	0.78	298.0	307.0	240.3	3.0%	-21.7%	3.00	NEUTRAL
GLOMAC BHD	0.69	495	6.1	11.0	5.9	5.4%	12.7%	7.8%	0.50	80.9	44.8	84.6	-44.6%	88.7%	0.74	SELL
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	1.45	628	5.6	6.8	7.3	6.1%	21.5%	14.0%	1.05	112.2	92.3	86.6	-17.8%	-6.1%	1.58	NEUTRAL
LBS BINA GROUP BHD	2.04	1,366	16.0	12.3	9.6	4.7%	8.4%	9.1%	1.09	85.3	111.2	142.0	30.4%	27.7%	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: Kenanga Research

15 June 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.**

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