

13 February 2017 | Corporate Update

Sunway Berhad

First land banking exercise for 2017

INVESTMENT HIGHLIGHTS

- **First land banking exercise for 2017**
- **Synergies with Sunway Velocity**
- **GDV of RM2.0b**
- **Marginal impact on net gearing**
- **Maintain Neutral with a revised TP of RM3.27**

First land banking exercise for 2017. Sunway Berhad (SUNWAY) wholly owned subsidiary Sunway City Sdn Bhd (SunCity) has entered into a subscription and shareholders' agreement with Low Peng Kiat (LPK), CRSC Property Sdn Bhd (CRSC), and Austral Meridian Property Sdn Bhd (AMP). SunCity will subscribe for 50% + 1 share of shareholding in AMP for total consideration of RM500, 001 while LPK and CRSC will hold 40% and 10% stake in AMP respectively. SunCity has also entered into a Put Option Agreement to purchase 20% of the enlarged paid-up capital of AMP for a total option price of RM182.7m 4 years and 8 years after SunCity's entry. Implied valuation is RM886 per sq ft. A JV will be established via AMP to jointly undertake an integrated development project on 8.45 acres of leasehold land in Jalan Peel, Kuala Lumpur.

Synergies with Sunway Velocity. The proposed JV will enable SUNWAY to gain an additional 8.45 acres of land bank in Kuala Lumpur. The new 8.45 acres of prime land bank is located directly opposite Sunway Velocity development. The proposed development is expected to be synergistic with Sunway Velocity as linkways between Sunway Velocity and the proposed development will be proposed.

GDV of RM2.0b. The proposed development on the land will comprise mainly residential components in addition to office towers and retail shops with estimated GDV at approximately RM2.0b.

Marginal impact on net gearing. SunCity will provide an advance of up to RM140m to settle the liabilities of AMP. SUNWAY intends to fund the advance and acquisition via internally generated funds and/or borrowings. We estimate net gearing of SUNWAY to be lifted marginally to 0.39x post acquisition from net gearing of 0.38x as of 3QFY16. Meanwhile, immediate earnings impact from the land banking exercise is limited as target launch for the proposed development will be on 1H2018.

Maintain Neutral with a revised TP of RM3.27. We left our earnings forecast for FY16-18 unchanged as we expect earnings contribution from the proposed development to kick in from FY19 onwards. Meanwhile, we revised our TP for SUNWAY upwards marginally to RM3.27 from RM3.25, based on Sum-of-Parts valuation, after taking into account the NPV from the proposed development.

Maintain NEUTRAL

Revised Target Price (TP): RM3.27
(Previously: RM3.25)

RETURN STATS	
Price (10 Feb 2017)	RM3.14
Target Price	RM3.27
Expected Share Price Return	4.1%
Expected Dividend Yield	3.5%
Expected Total Return	7.6%

STOCK INFO	
KLCI	1,698.94
Bursa / Bloomberg	5211 / SWB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	2,061.7
Par Value (RM)	1.00
Market cap. (RM'm)	6,357.71
Price over NA	0.86
52-wk price Range	RM2.87 - RM3.24
Beta (against KLCI)	0.49
3-mth Avg Daily Vol	1.08m
3-mth Avg Daily Value	RM2.85m
Major Shareholders	
Sungei Way Corp	56.48%
EPF	6.11%
Cheah Fook Ling	4.58%
Skim Amanah Saham	2.55%

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Kindly refer to the last page of this publication for important disclosures

Location of land



Source: Company

INVESTMENT STATISTICS

FYE Dec (RM m)	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue	4558.1	4448.4	4504.0	4907.4	5379.6
Core EBIT	609.8	546.6	580.4	653.7	717.1
Core PBT	810.1	788.7	742.4	821.0	901.3
Net Income	734.0	732.4	515.6	555.6	603.6
Core Net Income	583.9	590.7	515.6	555.6	603.6
EPS (sen)	42.6	41.8	25.0	27.0	29.3
Core EPS (sen)	33.9	33.7	25.0	27.0	29.3
Net DPS (sen)	11.00	38.00	11.00	11.00	11.00
Net Dvd Yield	3.5%	12.1%	3.5%	3.5%	3.5%
Core PER	9.28	9.32	12.55	11.65	10.72
NTA/share (RM)	3.44	3.74	3.49	3.65	3.84
P/NTA	0.91	0.84	0.90	0.86	0.82
Core ROE	9.8%	9.0%	7.2%	7.4%	7.6%
Core ROA	4.5%	3.7%	3.0%	3.1%	3.2%
Net Gearing (x)	0.30	0.50	0.43	0.45	0.47

Source: Company, MIDF Research Estimates

Sum-of-Parts

Division	Methodology	PER (x)	Stake	Discount	Value (RM m)
Property Development	NPV of profits	n/a	100%	35%	1575.2
Property Investment	Net Book Value	n/a	100%	n/a	1490.0
Construction	13x FY17E PER - 10% discount to KL Construction Index PER	13	54%	n/a	1387.5
Sunway REIT	Target Price of RM1.83	n/a	35%	n/a	1869.5
Trading and manufacturing	8x FY17E PER - 20% discount to small cap PER of 10x	8	100%	n/a	125.3
Quarry	8x FY17E PER - 20% discount to small cap PER of 10x	8	100%	n/a	285.7
Total SOP					6733.3
Number of shares					2061.7
Target Price (RM)					3.27

Source: MIDF Research Estimates

DAILY PRICE CHART



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Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.