

14 July 2017 | Corporate Update

Sunway Berhad

Acquires land in Jalan Belfield


INVESTMENT HIGHLIGHTS

- **Acquires land in Jalan Belfield**
- **Positive on the land acquisition**
- **Marginal impact on net gearing**
- **Maintain Neutral with a revised TP of RM3.82**

Acquires land in Jalan Belfield. Sunway Berhad (SUNWAY) announced that it has entered into a Sale and Purchase Agreement to acquire a 4.53 acres of freehold land along Jalan Belfield, Kuala Lumpur for RM165m. Expected completion date is 2H2017.

Positive on the land acquisition. We view the land acquisition positively as it improves the sales outlook for FY18. The land will be acquired with approvals obtained for a mixed-use development with plot ratio of 8.81 times, indicating projects on the land is readily launched. Proposed development on the land will be primarily service apartments with some lifestyle retail units. The estimated GDV for the proposed development is at approximately RM1.1b, translating into land cost to GDV ratio of 15% which is within the industry average. Meanwhile, acquisition price of RM836psf is higher than price of RM485psf Tradewinds Corp paid for Jalan Belfield land back in 2015 which could be due to the strategic location of the land that SUNWAY is acquiring. The land is located less than 500 meters from Maharajalela monorail station hence we expect the good connectivity to underpin good take-up rate of the project.

Marginal impact on net gearing. SUNWAY intends to fund the acquisition via internally generated funds and borrowings. We estimate net gearing of SUNWAY to be lifted marginally to 0.49x post acquisition from net gearing of 0.47x as of 1QFY17. Meanwhile, immediate earnings impact from the land acquisition is limited as target launch for the proposed development will be in 2H2018.

Maintain Neutral with a revised TP of RM3.82. We left our earnings forecast for FY17-18 unchanged as we expect earnings contribution from the proposed development to kick in from FY19 onwards. Meanwhile, we revised our TP for SUNWAY upwards to RM3.82 from RM3.64 after taking into account the NPV from the proposed development; and also lowering our discount for property division to 10% from 20% in view of improved property market outlook for Johor and Klang Valley. Our TP is based on Sum-of-Parts valuation. 

Maintain NEUTRAL

Revised Target Price (TP): RM3.82
(Previously: RM3.64)

| RETURN STATS | |
|------------------------------|-------------|
| Price (13 July 2017) | RM3.93 |
| Target Price | RM3.82 |
| Expected Share Price Return | -2.8% |
| Expected Dividend Yield | 3.2% |
| Expected Total Return | 0.4% |

| STOCK INFO | |
|-----------------------|-------------------------|
| KLCI | 1,753.78 |
| Bursa / Bloomberg | 5211 / SWB MK |
| Board / Sector | Main / Trading&Services |
| Syariah Compliant | Yes |
| Issued shares (mil) | 2,042.49 |
| Market cap. (RM'm) | 8,027 |
| Price over NA | 1.06 |
| 52-wk price Range | RM2.84 – RM4.05 |
| Beta (against KLCI) | 0.47 |
| 3-mth Avg Daily Vol | 3.27m |
| 3-mth Avg Daily Value | RM12.0m |
| Major Shareholders | |
| Sungei Way Corp | 56.55% |
| EPF | 5.89% |
| Cheah Fook Ling | 4.60% |
| Skim Saham Bumiputera | 3.76% |

Sum-of-Parts

| Division | Methodology | PER (x) | Stake | Discount | Value (RM m) |
|---------------------------|---|---------|-------|----------|---------------|
| Property Development | NPV of profits | n/a | 100% | 10% | 2312.2 |
| Property Investment | Net Book Value | n/a | 100% | n/a | 1490.0 |
| Construction | 13x FY18E PER - 10% discount to KL Construction Index PER | 13 | 54% | n/a | 1742.8 |
| Sunway REIT | Target Price of RM1.88 | n/a | 35% | n/a | 1910.2 |
| Trading and manufacturing | 8x FY18E PER - 20% discount to small cap PER of 10x | 8 | 100% | n/a | 119.7 |
| Quarry | 8x FY18E PER - 20% discount to small cap PER of 10x | 8 | 100% | n/a | 301.1 |
| Total SOP | | | | | 7876.0 |
| Number of shares | | | | | 2061.7 |
| Target Price (RM) | | | | | 3.82 |

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. |