

15 June 2017 | Corporate Update

Sunway Berhad

Bonus issue of shares and warrants


INVESTMENT HIGHLIGHTS

- **Bonus issue of shares and warrants**
- **We are positive on the news**
- **Reclassification of sector to Trading/Services sector**
- **Maintain Neutral with a revised TP of RM3.64**

Bonus issue of shares and warrants. Sunway Berhad (SUNWAY) proposed to undertake bonus issue of shares on the basis of four (4) bonus shares for every three (3) existing SUNWAY shares. SUNWAY has also proposed to undertake bonus issue of warrants on the basis of three (3) warrants for every then (10) existing SUNWAY shares. The proposed bonus issue of shares and warrants are expected to be completed by 2HCY2017.

We are positive on the news as the bonus issue is expected to enhance the trading liquidity of SUNWAY. Upon completion of the bonus issue of shares, enlarged issued share capital will be boosted by 135% to 4.9bil shares from 2.07bil shares. Meanwhile, exercise price for warrants will be determined at a later date while structure of warrants pricing has been determined on an annual step-down basis where exercise price will be reduced by a fixed amount per annum. The objective of incorporating the step-down pricing mechanism is to encourage long-term holding of warrant holders.

Reclassification of sector. SUNWAY will be reclassified from Properties sector to Trading/Services sector with effect from 16th June 2017. We understand that the reclassification of sector was due to SUNWAY's long term strategy in expanding its trading/services divisions namely healthcare and education businesses aside from growing its property development business. Notably, SUNWAY has four medical centres in the pipeline namely Sunway Medical Centre Velocity, Sunway Medical Centre Seberang Jaya, Sunway Medical Centre Ipoh, and Sunway Medical Centre Damansara which will add 1,090 beds by year 2020.

Maintain Neutral a revised TP of RM3.64. We maintain our earnings forecast for FY17/18 as we expect no earnings impact from the proposed bonus issue. We revise higher our TP for SUNWAY to RM3.64 (from RM3.46) after narrowing discount of property division to 20% from 35% in our Sum-of-Parts valuation in view of better trading liquidity of SUNWAY. Our ex-bonus TP is RM1.54. While we are positive on the proposed bonus issues, we opine that it's impact has been mostly priced in as share price of SUNWAY gained 19% in the past three months. Hence, we maintain our Neutral recommendation. 

Maintain NEUTRAL

Revised Target Price (TP): RM3.64
(Previously: RM3.46)

RETURN STATS	
Price (14 June 2017)	RM3.73
Target Price	RM3.64
Expected Share Price Return	-2.4%
Expected Dividend Yield	3.3%
Expected Total Return	0.9%

STOCK INFO	
KLCI	1,792.35
Bursa / Bloomberg	5211 / SWB MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	2,061.7
Market cap. (RM'm)	7,599.64
Price over NA	1.01
52-wk price Range	RM2.84 - RM3.73
Beta (against KLCI)	0.45
3-mth Avg Daily Vol	2.64m
3-mth Avg Daily Value	RM9.19m
Major Shareholders	
Sungei Way Corp	56.69%
EPF	5.66%
Cheah Fook Ling	4.61%

INVESTMENT STATISTICS

FYE Dec (RM m)	FY14A	FY15A	FY16A	FY17F	FY18F
Revenue	4558.1	4448.4	4725.9	4907.4	5379.6
Core EBIT	609.8	546.6	726.9	653.7	717.1
Core PBT	810.1	788.7	820.5	821.0	901.3
Net Income	734.0	732.4	585.9	555.6	603.6
Core Net Income	583.9	590.7	547.4	555.6	603.6
EPS (sen)	42.6	41.8	28.4	27.0	29.3
Core EPS (sen)	33.9	33.7	26.6	27.0	29.3
Net DPS (sen)	11.00	38.00	12.14	12.40	13.47
Net Dvd Yield	2.9%	10.2%	3.3%	3.3%	3.6%
Core PER	11.02	11.07	14.04	13.84	12.74
NTA/share (RM)	3.44	3.74	3.62	3.76	3.92
P/NTA	1.08	1.00	1.03	0.99	0.95
Core ROE	9.8%	9.0%	7.3%	7.2%	7.5%
Core ROA	4.5%	3.7%	2.9%	2.9%	3.1%
Net Gearing (x)	0.30	0.50	0.45	0.44	0.46

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%	20%	1938.7
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					7502.5
Number of shares					2061.7
Target Price (RM)					3.64

Source: MIDF Research Estimates

DAILY PRICE CHART



Jessica Low Jze Tieng
Jessica.low@midf.com.my
03-2173 8391

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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.