

Sunway (SWB MK)

On buying spree

HOLD

Share Price	MYR 4.15
12m Price Target	MYR 4.04 (-3%)
Previous Price Target	MYR 4.04

Another landbanking in Klang Valley; maintain HOLD

We are positive on Sunway's latest land purchase in Wangsamaju for its strategic location. The land should start contributing to the bottom line from 2019 onwards. Management has no plan to raise fund from the equity market to fund its aggressive landbanking activities for now, we were told. We maintain our earnings forecasts, MYR4.03 RNAV-TP and HOLD rating.

Acquires land in Wangsamaju

Sunway has entered into a subscription and shareholders' agreement (SSA) with Huatland Development S/B to jointly develop a 4.34-acre freehold land in Wangsamaju via a JV company called Sunglobal Resources (SR). Sunway will own a 55% stake in SR. SR has also entered into a SPA with Setapak Heights Development S/B to buy the abovementioned land for MYR51.1m (or MYR270psf; plot ratio of 5).

More details on the new land

The land is strategically located within 850m from Sri Rampai LRT station and within 1.5km to amenities such as Wangsa Walk Mall and Aeon Big Wangsa Maju. In our view, its freehold land title should serve as an additional selling point for the project as we understand that most of the property development projects nearby are on leasehold title. The land will be developed into affordable serviced apartments (selling price from MYR552.5k/unit onwards) with some lifestyle retail units. GDV is estimated at MYR500m and it is slated to be launched by 2H 2018.

Positive on the deals

We are positive of this latest land acquisition for its strategic location. The land cost, which accounts for 10% of the estimated GDV is fair, in our view. This 55%-owned project could enhance our RNAV estimate for Sunway by +1sen/share based on a pretax margin assumption of 18% spreading over a development period of 5 years. Post the land acquisition, Sunway will have a total landbank of 3,330 acres (+0.2%) with an estimated effective GDV of MYR36.2b (+0.8%).

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	4,448	4,726	5,579	6,631	5,672
EBITDA	427	531	811	1,023	835
Core net profit	591	547	539	614	564
Core EPS (sen)	33.7	29.5	26.1	29.8	27.4
Core EPS growth (%)	(1.6)	(12.5)	(11.4)	14.0	(8.1)
Net DPS (sen)	37.0	12.1	7.8	8.9	8.2
Core P/E (x)	12.3	14.1	15.9	13.9	15.2
P/BV (x)	1.1	1.1	1.1	1.0	1.0
Net dividend yield (%)	8.9	2.9	1.9	2.2	2.0
ROAA (%)	4.1	3.1	2.9	3.2	2.9
EV/EBITDA (x)	21.7	18.3	16.7	14.2	18.8
Net gearing (%) (incl perps)	45.2	40.9	48.6	57.2	67.0
Consensus net profit	-	-	559	610	662
MKE vs. Consensus (%)	-	-	4.9	0.7	(14.8)

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Statistics

Shariah status	Yes
52w high/low (MYR)	4.37/2.89
3m avg turnover (USDm)	3.1
Free float (%)	33.4
Issued shares (m)	2,090
Market capitalisation	MYR8.7B USD2.0B

Major shareholders:

Sungei Way Corp. Sdn. Bhd.	49.8%
Permodalan Nasional Bhd.	7.2%
Employees Provident Fund	5.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	18	42
Relative to index (%)	4	18	36

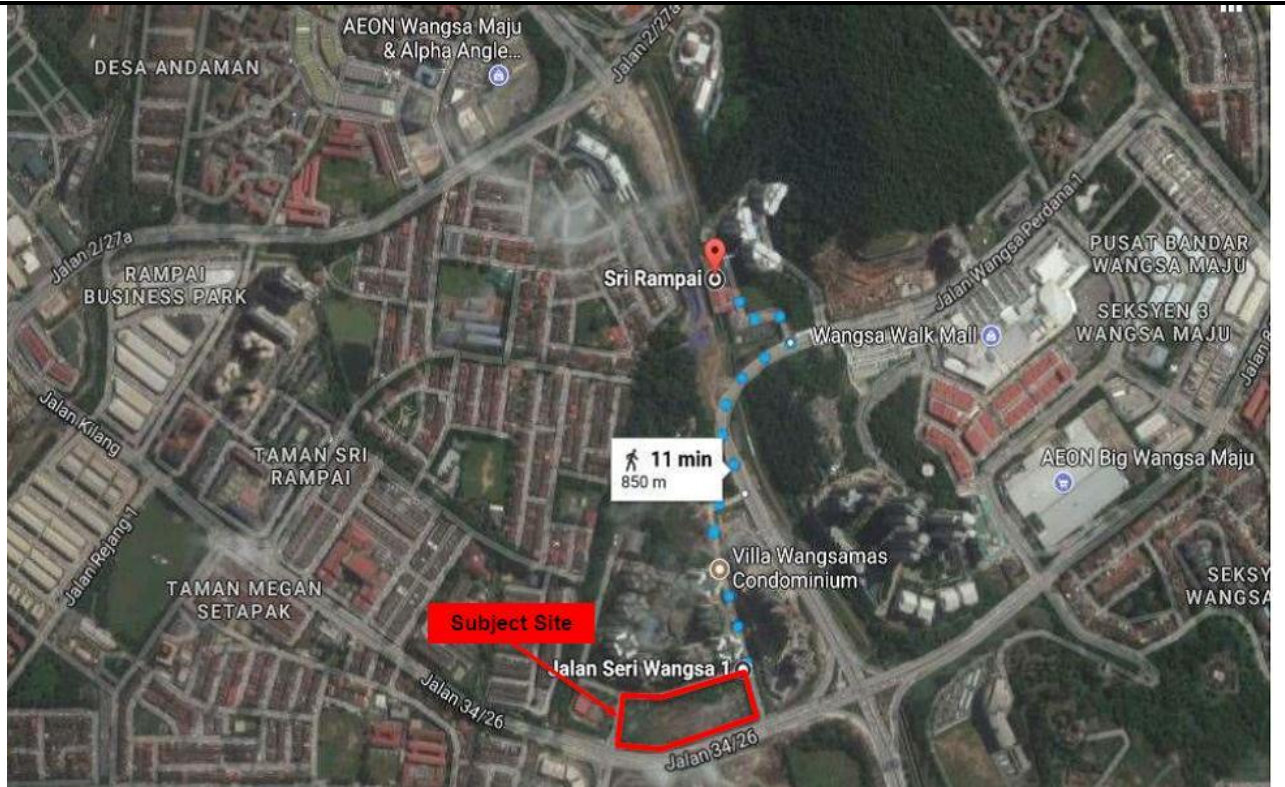
Source: FactSet

Sunway's new land acquisition in Wangsamaju



Source: Company

New land is within 850m from Sri Rampai LRT station



Source: Company

Sunway Bhd's RNAV estimates

1. Landbank - MARKET VALUE	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Semenyih	70%	398.1	260.1	128.0	92.5
Suncity Ipoh	65%	440.5	76.8	58.7	11.7
Sunway Integrated Resort	100%	14.9	9.3	8.3	1.1
Sunway Tower KL 1	100%	1.0	56.6	28.3	28.3
Sunway JB, Bukit Lenang	80%	64.8	50.8	134.5	(67.0)
Sg Long Balakong	80%	111	140.2	21.8	94.8
Mont Putra Rawang	100%	163	49.7	35.1	14.6
Sunway Iskandar - Pendas, freehold	60%	1,079	705.1	596.6	65.1
Sub-total:					241.1
2. Active developments - WACC: 10.5-13.1%	Stake				(MYR m)
South Quay	60%				98.5
Sunway Cheras	100%				1.7
Sunway Damansara	60%				20.1
Sunway D' Mont Kiara	88%				0.0
Sunway Kayangan	100%				0.5
Sunway Duta	100%				10.6
Bangi	100%				6.5
Sunway Melawati	100%				14.1
Casa Kiara III	80%				14.7
Sunway Alam Suria	50%				1.7
Sunway Velocity	85%				162.1
Penang projects	100%				49.4
Wonderland Business Park, Australia	31%				5.5
Singapore Yi Shun	30%				4.8
Singapore Tampines	30%				0.0
Singapore Sembawang	100%				4.4
Thomson/Irrawady	30%				45.5
Mount Sophia	30%				40.3
Sunway Iskandar -leasehold (Medini)	51%				443.7
Kelana Jaya	100%				119.8
Sub-total:					1,044.0
3. Investment properties - MARKET VALUE	Stake		MV	BV	Surplus
			(MYR m)	(MYR m)	(MYR m)
Monash University Campus	100%		310.0	310.0	0.0
Sunway University College	100%		480.0	480.0	0.0
Sunway Giza (shopping mall)	60%		42.4	42.4	0.0
Sunway Hotel Phnom Penh	52.5%		15.7	21.7	(3.1)
Sunway Lagoon Theme Park	100%		165.0	59.1	105.9
Lost World of Tambun	65%		38.7	36.0	1.8
Sunway Hotel Hanoi	100%		14.1	45.8	(31.8)
Sub-total:					72.8
4. Other businesses or assets					
35.7% stake in SunREIT based on Maybank IB's MYR1.85 TP					571.2
Construction (based on MYR1.90 TP)					1,467.8
Building material (10x 2017PER)					359.5
Trading (10x 2017PER)					437.5
Disposal gain					47.0
Grand total:					4,240.9
Shareholders fund (MYR m) - Dec 2016					7,455.7
RNAV (MYR m)					11,696.7
Enlarged share capital post warrant					2,025.1
RNAV/share (MYR)					5.78
Target price (MYR) - based on 0.7x RNAV					4.04
<i>Source: Maybank KE</i>					

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
P/E (reported) (x)	8.0	9.5	14.6	13.9	15.2
Core P/E (x)	12.3	14.1	15.9	13.9	15.2
P/BV (x)	1.1	1.1	1.1	1.0	1.0
P/NTA (x)	1.1	1.0	1.0	1.0	0.9
Net dividend yield (%)	8.9	2.9	1.9	2.2	2.0
FCF yield (%)	12.9	7.0	nm	nm	nm
EV/EBITDA (x)	21.7	18.3	16.7	14.2	18.8
EV/EBIT (x)	13.5	13.3	17.5	14.8	19.9
INCOME STATEMENT (MYR m)					
Revenue	4,448.4	4,725.9	5,579.1	6,630.5	5,671.8
Gross profit	427.2	531.1	811.0	1,023.3	834.7
EBITDA	427.2	531.1	811.0	1,023.3	834.7
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	687.0	726.9	772.3	980.4	787.6
Net interest income / (exp)	(26.6)	(59.9)	(137.6)	(157.4)	(180.5)
Associates & JV	269.9	192.0	221.9	202.0	263.1
Exceptionals	147.4	55.4	47.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	930.4	859.0	903.6	1,025.0	870.2
Income tax	(130.9)	(140.4)	(225.9)	(256.3)	(217.6)
Minorities	(67.0)	(132.7)	(91.8)	(154.4)	(88.4)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	732.4	585.9	585.8	614.3	564.3
Core net profit	590.7	547.4	538.8	614.3	564.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	2,631.0	4,059.8	2,945.8	1,953.2	803.1
Accounts receivable	2,326.3	2,828.4	2,828.4	2,828.4	2,828.4
Inventory	693.1	661.8	688.8	818.6	700.3
Property, Plant & Equip (net)	1,333.6	1,875.8	1,411.9	1,554.2	1,700.8
Intangible assets	320.1	311.9	311.9	311.9	311.9
Investment in Associates & JVs	3,181.2	3,223.1	3,223.1	3,223.1	3,223.1
Other assets	5,515.7	5,870.5	7,361.0	8,983.1	10,069.9
Total assets	16,000.9	18,831.4	18,771.0	19,672.7	19,637.6
ST interest bearing debt	3,070.9	4,830.7	4,555.4	4,555.4	4,555.4
Accounts payable	2,450.9	2,708.3	2,502.6	2,974.2	2,544.2
LT interest bearing debt	2,818.2	2,590.5	2,590.5	2,590.5	2,590.5
Other liabilities	448.0	483.0	479.0	479.0	479.0
Total Liabilities	8,787.6	10,612.2	10,127.6	10,599.2	10,169.2
Shareholders Equity	6,562.7	7,455.7	7,879.9	8,309.9	8,704.9
Minority Interest	650.6	763.5	763.5	763.5	763.5
Total shareholder equity	7,213.3	8,219.2	8,643.4	9,073.4	9,468.4
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	16,000.9	18,831.4	18,771.0	19,672.7	19,637.6
CASH FLOW (MYR m)					
Pretax profit	930.4	859.0	903.6	1,025.0	870.2
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	235.8	165.6	(137.6)	(157.4)	(180.5)
Change in working capital	152.9	(328.7)	(900.0)	(900.0)	(900.0)
Cash taxes paid	(143.7)	(111.7)	(225.9)	(256.3)	(217.6)
Other operating cash flow	(235.8)	(46.5)	(47.0)	0.0	0.0
Cash flow from operations	939.6	537.7	(368.7)	(246.3)	(381.2)
Free cash flow	939.6	537.7	(368.7)	(246.3)	(381.2)
Dividends paid	(673.2)	(260.8)	(225.4)	(161.7)	(184.3)
Equity raised / (purchased)	145.8	538.1	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,763.8	1,457.2	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(2,207.9)	(1,755.5)	(244.6)	(584.6)	(584.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(32.0)	516.7	(838.7)	(992.6)	(1,150.1)

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.1)	6.2	18.1	18.8	(14.5)
EBITDA growth	(15.3)	24.3	52.7	26.2	(18.4)
EBIT growth	(10.6)	5.8	6.2	26.9	(19.7)
Pretax growth	(4.0)	(7.7)	5.2	13.4	(15.1)
Reported net profit growth	(1.5)	(20.0)	(0.0)	4.9	(8.1)
Core net profit growth	(0.2)	(7.3)	(1.6)	14.0	(8.1)
Profitability ratios (%)					
EBITDA margin	9.6	11.2	14.5	15.4	14.7
EBIT margin	15.4	15.4	13.8	14.8	13.9
Pretax profit margin	20.9	18.2	16.2	15.5	15.3
Payout ratio	88.6	38.5	27.6	30.0	30.0
DuPont analysis					
Net profit margin (%)	16.5	12.4	10.5	9.3	9.9
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	2.4	2.5	2.4	2.4	2.3
ROAE (%)	na	na	na	na	na
ROAA (%)	4.1	3.1	2.9	3.2	2.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.8	1.9	1.9	1.9
Net gearing (%) (incl perps)	45.2	40.9	48.6	57.2	67.0
Net gearing (%) (excl. perps)	45.2	40.9	48.6	57.2	67.0
Net interest cover (x)	25.8	12.1	5.6	6.2	4.4
Debt/EBITDA (x)	13.8	14.0	8.8	7.0	8.6
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	3,258.2	3,361.4	4,200.1	5,192.7	6,342.8

Source: Company; Maybank

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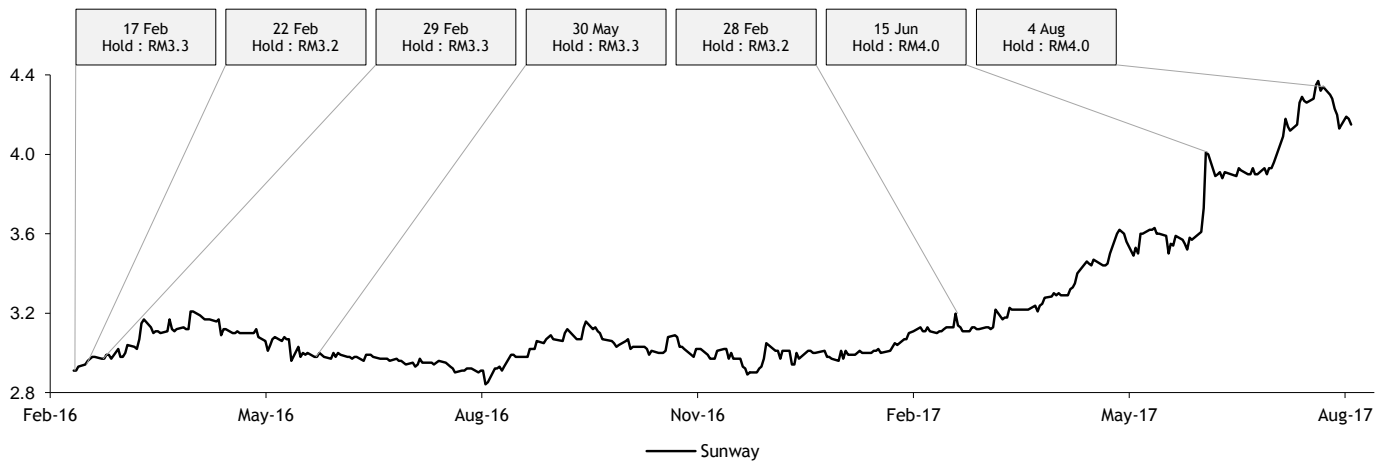
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