

# Sunway (SWB MK)

## An all rounder

# HOLD

Share Price MYR 3.73  
 12m Price Target MYR 4.03 (+8%)  
 Previous Price Target MYR 3.22

### Listing health care unit in five year times?

We are neutral on Sunway's proposed bonus issue of new shares which would improve share affordability and free warrants which would allow Sunway to expand using proceeds from the warrants exercise. But, we are positive on Sunway's long-term plans for its healthcare unit which could lead to the latter's eventual listing. We maintain our earnings forecasts but raise RNAV-TP by 58sen (+17%) to MYR4.03 on revised 0.7x P/RNAV peg (from 0.6x P/RNAV). Maintain HOLD.

### Proposes bonus issue of shares and warrants

Sunway has proposed a bonus issue of: i) up to 2.8b new shares on the basis of 4-for-3 existing Sunway shares held and ii) up to 631m free warrants on the basis of 3-for-10 Sunway shares held. The bonus shares are not entitled to the warrants. Exercise price of the warrants will be determined later but it will be based on an annual step-down mechanism. This is to encourage long-term holdings of the warrants. The corporate exercise will be completed in 2H 2017.

### Building its healthcare empire for sustainability

Sunway is aggressively expanding its healthcare business and has intention to list the unit in five years time. Construction of Sunway Medical Centre (SMC) 3 in Subang and SMC Velocity are underway and will complete by end-2017 and end-2018, while another three hospitals in Penang, Selangor and Ipoh will be completed by 2019-2020. Total beds are expected to grow to 1,708 (+358%). Total capex is about MYR1b and most likely, it will be funded via internal funds. Presently, just SMC Subang is in operation, with a projected MYR45-50m profit for FY17.

### Maintaining earnings forecasts

We now value Sunway at 0.7x P/RNAV (from 0.6x) after considering its more diversified earnings base, compared to the other pure developers. In our view, the slowdown in its property development business would be cushioned by steady dividend income from Sunway REIT (SREIT MK, BUY) and rising earnings contribution from Sunway Construction (SCGB MK, BUY) as well as other businesses (quarry, healthcare and trading).

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	544	607	557
Core EPS (sen)	33.7	29.5	26.4	29.4	27.0
Core EPS growth (%)	(1.6)	(12.5)	(10.6)	11.7	(8.3)
Net DPS (sen)	37.0	12.1	7.9	8.8	8.1
Core P/E (x)	11.1	12.7	14.1	12.7	13.8
P/BV (x)	1.0	1.0	1.0	0.9	0.9
Net dividend yield (%)	9.9	3.3	2.1	2.4	2.2
ROAA (%)	4.1	3.1	2.9	3.1	2.8
EV/EBITDA (x)	21.7	18.3	16.0	13.7	18.2
Net gearing (%) (incl perps)	45.2	40.9	52.8	61.5	71.4
Consensus net profit	-	-	559	602	655
MKE vs. Consensus (%)	-	-	(2.8)	0.9	(14.9)

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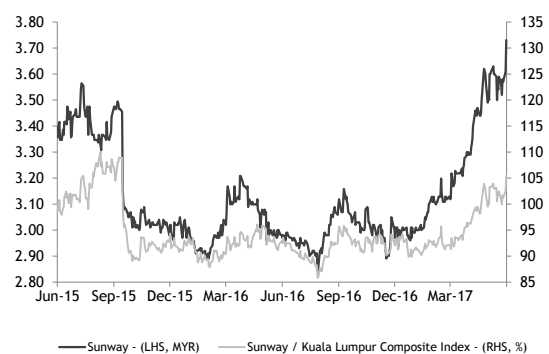
#### Statistics

Shariah status	Yes
52w high/low (MYR)	3.73/2.84
3m avg turnover (USDm)	2.2
Free float (%)	33.4
Issued shares (m)	1,732
Market capitalisation	MYR6.5B USD1.5B

#### 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	19	25
Relative to index (%)	4	15	14

Source: FactSet

## Other updates

### From property to conglomerate

Sunway has recently reclassified its sector listing on Bursa Malaysia to Trading/Services from Properties to better reflect its diverse business operations and declining contributions from its property development business. Contributions to core net profit from its property development division has declined to 35% in 2016 (from 58% in 2012) while trading & services have risen to 42% in 2016 (from 14% in 2012). Sunway intends to grow its non-property related businesses such as healthcare, trading & manufacturing, leisure, quarry and building materials to become market leaders in their respective sectors.

### Healthcare identified for LT sustainability

Sunway is expanding its healthcare business and has intention to list the unit in five years time. Currently, healthcare contributes about 7-8% of Sunway's total net profit but it should grow over time with the aggressive expansion plan.

Construction of Sunway Medical Centre (SMC) 3 in Subang and SMC Velocity are underway and will be completed by end-2017 and end-2018 while another three hospitals in Penang mainland, Damansara and Ipoh will be completed by 2019-2020. Sunway Construction should benefit as a contractor from the three upcoming new hospitals - it is the contractor for SMC Subang and SMC Velocity.

## 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
<b>Sub-total:</b>					<b>241.1</b>
<b>2. Active developments - WACC: 10.5-13.1%</b>					
	<b>Stake</b>				<b>(MYR m)</b>
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
<b>Sub-total:</b>					<b>1,044.0</b>
<b>3. Investment properties - MARKET VALUE</b>					
	<b>Stake</b>		<b>MV (MYR m)</b>	<b>BV (MYR m)</b>	<b>Surplus (MYR m)</b>
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)
<b>Sub-total:</b>					<b>72.8</b>
<b>4. Other businesses or assets</b>					
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
<b>Grand total:</b>					<b>4,193.9</b>
Shareholders fund (MYR m) - Dec 2016					7,455.7
<b>RNAV (MYR m)</b>					<b>11,649.7</b>
Enlarged share capital post warrant					2,025.1
<b>RNAV/share (MYR)</b>					<b>5.75</b>
<b>Target price (MYR) - based on 0.7x RNAV</b>					<b>4.03</b>

Source: Maybank KE

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Key Metrics</b>					
P/E (reported) (x)	8.0	9.5	14.1	12.7	13.8
Core P/E (x)	11.1	12.7	14.1	12.7	13.8
P/BV (x)	1.0	1.0	1.0	0.9	0.9
P/NTA (x)	0.9	0.9	0.9	0.9	0.8
Net dividend yield (%)	9.9	3.3	2.1	2.4	2.2
FCF yield (%)	14.4	7.8	nm	nm	nm
EV/EBITDA (x)	21.7	18.3	16.0	13.7	18.2
EV/EBIT (x)	13.5	13.3	16.8	14.3	19.3

**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)	(146.5)	(166.7)	(190.0)
Associates & JV	269.9	192.0	221.9	202.0	263.1
Exceptionals	147.4	55.4	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	930.4	859.0	847.6	1,015.7	860.6
Income tax	(130.9)	(140.4)	(211.9)	(253.9)	(215.2)
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	543.9	607.4	557.1
Core net profit	590.7	547.4	543.9	607.4	557.1

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	2,631.0	4,059.8	2,877.2	1,866.8	702.0
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	7,661.5	9,296.5	10,392.9
<b>Total assets</b>	<b>16,000.9</b>	<b>18,831.4</b>	<b>19,002.8</b>	<b>19,899.6</b>	<b>19,859.5</b>
ST interest bearing debt	3,070.9	4,830.7	4,830.7	4,830.7	4,830.7
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
<b>Total Liabilities</b>	<b>8,787.6</b>	<b>10,612.2</b>	<b>10,402.9</b>	<b>10,874.5</b>	<b>10,444.4</b>
Shareholders Equity	6,562.7	7,455.7	7,836.4	8,261.6	8,651.6
Minority Interest	650.6	763.5	763.5	763.5	763.5
<b>Total shareholder equity</b>	<b>7,213.3</b>	<b>8,219.2</b>	<b>8,599.9</b>	<b>9,025.1</b>	<b>9,415.1</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>16,000.9</b>	<b>18,831.4</b>	<b>19,002.8</b>	<b>19,899.6</b>	<b>19,859.5</b>

**CASH FLOW (MYR m)**

Pretax profit	930.4	859.0	847.6	1,015.7	860.6
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	235.8	165.6	(146.5)	(166.7)	(190.0)
Change in working capital	152.9	(328.7)	(900.0)	(900.0)	(900.0)
Cash taxes paid	(143.7)	(111.7)	(211.9)	(253.9)	(215.2)
Other operating cash flow	(235.8)	(46.5)	0.0	0.0	0.0
Cash flow from operations	939.6	537.7	(372.6)	(262.6)	(398.0)
Free cash flow	939.6	537.7	(372.6)	(262.6)	(398.0)
Dividends paid	(673.2)	(260.8)	(225.4)	(163.2)	(182.2)
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)	(584.6)	(584.6)	(584.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(32.0)</b>	<b>516.7</b>	<b>(1,182.6)</b>	<b>(1,010.4)</b>	<b>(1,164.8)</b>

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
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)	(1.3)	19.8	(15.3)
Reported net profit growth	(1.5)	(20.0)	(7.2)	11.7	(8.3)
Core net profit growth	(0.2)	(7.3)	(0.6)	11.7	(8.3)
<b>Profitability ratios (%)</b>					
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	15.2	15.3	15.2
Payout ratio	88.6	38.5	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	16.5	12.4	9.7	9.2	9.8
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	3.1	2.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	1.8	1.8	1.8	1.9
Net gearing (%) (incl perps)	45.2	40.9	52.8	61.5	71.4
Net gearing (%) (excl. perps)	45.2	40.9	52.8	61.5	71.4
Net interest cover (x)	25.8	12.1	5.3	5.9	4.1
Debt/EBITDA (x)	13.8	14.0	9.2	7.3	8.9
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	3,258.2	3,361.4	4,544.0	5,554.4	6,719.2

Source: Company; Maybank

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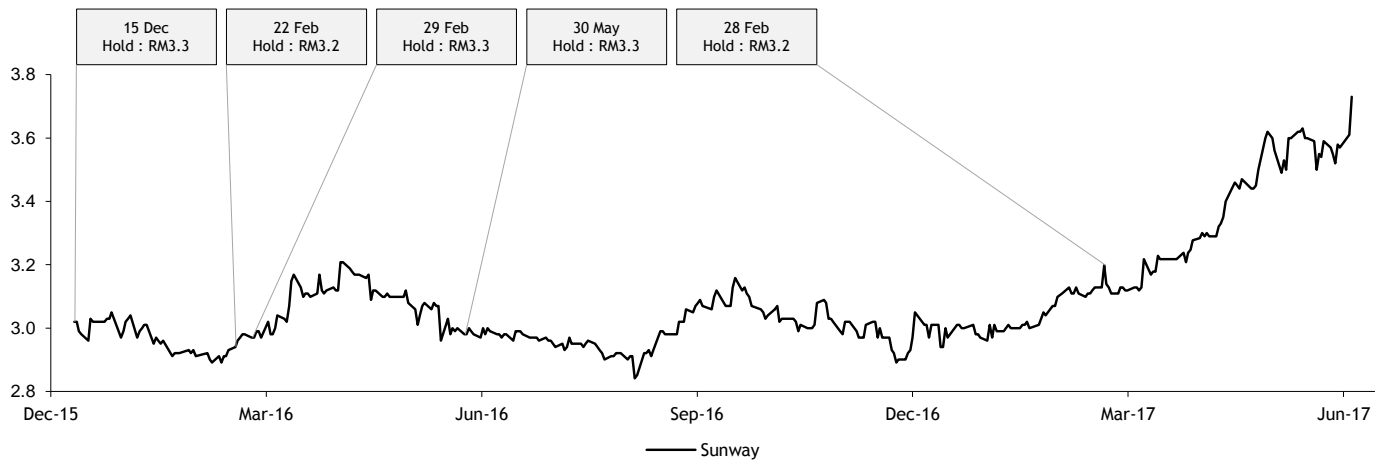
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