

Sunway (SWB MK)

Buys land in Kajang and Subang

HOLD

Share Price MYR 4.35
 12m Price Target MYR 4.03 (-7%)
 Previous Price Target MYR 4.03

More landbanking in Klang Valley; maintain HOLD

We are positive on Sunway's latest land purchases in Kajang and Subang for their strategic locations. While the 4 parcels of industrial land in Subang will only be developed in the later years, the Kajang project should start contributing to earnings from 2019 onwards. The two land purchases could potentially enhance our RNAV by +4sen (+2sen to TP). We maintain our earnings forecasts, MYR4.03 RNAV-TP and HOLD rating.

New TOD project in Kajang

Sunway has entered into a SPA with Concept Housing Development S/B for the acquisition of 5.3 acres of freehold land together with a semi-completed building structure erected next to the Sg Jernih MRT station in Kajang for MYR63m (MYR274psf; 14% of the GDV of MYR460m). Sunway will resubmit the development plan for approvals and it plans to re-launch the project by 2019. Since 20-30% of the project's structure and piling works have already been completed, earnings can be recognised immediately after sales.

Buys industrial land in Subang

Sunway has entered into an agreement with JAKS Resources Bhd to acquire 14.8 acres of freehold land in USJ1, Subang Jaya for MYR167.6m (MYR260psf). The land will provide Sunway with immediate access to four industrial lots which its trading and manufacturing businesses can use as warehouses and storage facilities in the immediate term. Sunway plans to redevelop the land into a mixed development with an estimated GDV of MYR1.4b after five years.

Positive on the deals

We are positive of the latest land acquisitions for their strategic locations. The land costs, which account for 12-14% of the GDVs, are fair. The two projects are expected to enhance our RNAV by +4sen. Post the land acquisition, Sunway will have a total landbank of 3,325 acres (+0.6%) with an estimated effective GDV of MYR35.9b (+6.8%).

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	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)	12.9	14.8	16.5	14.8	16.1
P/BV (x)	1.2	1.2	1.1	1.1	1.0
Net dividend yield (%)	8.5	2.8	1.8	2.0	1.9
ROAA (%)	4.1	3.1	2.9	3.1	2.8
EV/EBITDA (x)	21.7	18.3	17.6	14.9	19.7
Net gearing (%) (incl perps)	45.2	40.9	52.8	61.5	71.4
Consensus net profit	-	-	557	606	659
MKE vs. Consensus (%)	-	-	(2.4)	0.2	(15.5)

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Statistics

Shariah status	Yes
52w high/low (MYR)	4.35/2.84
3m avg turnover (USDm)	3.4
Free float (%)	33.4
Issued shares (m)	2,085
Market capitalisation	MYR9.1B USD2.1B

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 (%)	11	25	49
Relative to index (%)	11	26	41

Source: FactSet

Strengthening foothold in Klang Valley

More details on Kajang land

A commercial development comprising a 3-storey retail podium, 10-storey car park podium, a 20-storey commercial tower and a 12-storey commercial tower had previously been approved for development on the Kajang land. Construction had started but it was discontinued by the previous developer when the structure of the car park podium and both commercial blocks reached the roof top.

We are positive on the latest land purchase in Kajang for its strategic location. The land is just next to the Sg Jernih MRT station. Sunway intends to continue building the semi-completed structure but will replace the original development with a Transit Oriented Development (TOD) where retail podium/commercial lots and serviced apartments/SOHO will be built. Total GDV is estimated at MYR460m and the project is slated to be re-launched by 2019. Assuming a pretax margin of 15% and 5-year development period, this project will likely enhance our RNAV by +2sen. The land acquisition is expected to be completed by Feb 2018.

Sunway's new land acquisition in Kajang



Source: Company

Sunway's new land acquisition in Kajang



Source: Company

More details on the Subang land parcels

The four parcels of industrial land are strategically located in Subang with redevelopment potential, as they can be an extension of the existing Bandar Sunway township, given their close proximity. The land parcels are within 500m of landmark buildings such as Da Men Mall, Summit USJ, Giant Hypermarket and Mydin Hypermarket. On top of that, the land parcels are also located near public transportation with the South Quay BRT station about 600 meters away and the USJ7 LRT station less than 1km away. The land is also easily accessible via major highways like KESAS, NPE and NKVE. Total GDV is estimated at MYR1.4b, we understand. Assuming a pretax margin of 15% and 10-year development period, the project will likely enhance our RNAV by +2sen.

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 (MYR m)	BV (MYR m)	Surplus (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
Grand total:					4,193.9
Shareholders fund (MYR m) - Dec 2016					7,455.7
RNAV (MYR m)					11,649.7
Enlarged share capital post warrant					2,025.1
RNAV/share (MYR)					5.75
Target price (MYR) - based on 0.7x RNAV					4.03
<i>Source: Maybank KE</i>					

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
P/E (reported) (x)	8.0	9.5	16.5	14.8	16.1
Core P/E (x)	12.9	14.8	16.5	14.8	16.1
P/BV (x)	1.2	1.2	1.1	1.1	1.0
P/NTA (x)	1.1	1.0	1.1	1.0	1.0
Net dividend yield (%)	8.5	2.8	1.8	2.0	1.9
FCF yield (%)	12.3	6.7	nm	nm	nm
EV/EBITDA (x)	21.7	18.3	17.6	14.9	19.7
EV/EBIT (x)	13.5	13.3	18.5	15.6	20.9

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)	(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
Total assets	16,000.9	18,831.4	19,002.8	19,899.6	19,859.5
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
Total Liabilities	8,787.6	10,612.2	10,402.9	10,874.5	10,444.4
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
Total shareholder equity	7,213.3	8,219.2	8,599.9	9,025.1	9,415.1
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	16,000.9	18,831.4	19,002.8	19,899.6	19,859.5

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
Net cash flow	(32.0)	516.7	(1,182.6)	(1,010.4)	(1,164.8)

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)	(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)
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	15.2	15.3	15.2
Payout ratio	88.6	38.5	30.0	30.0	30.0
DuPont analysis					
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
Leverage & Expense Analysis					
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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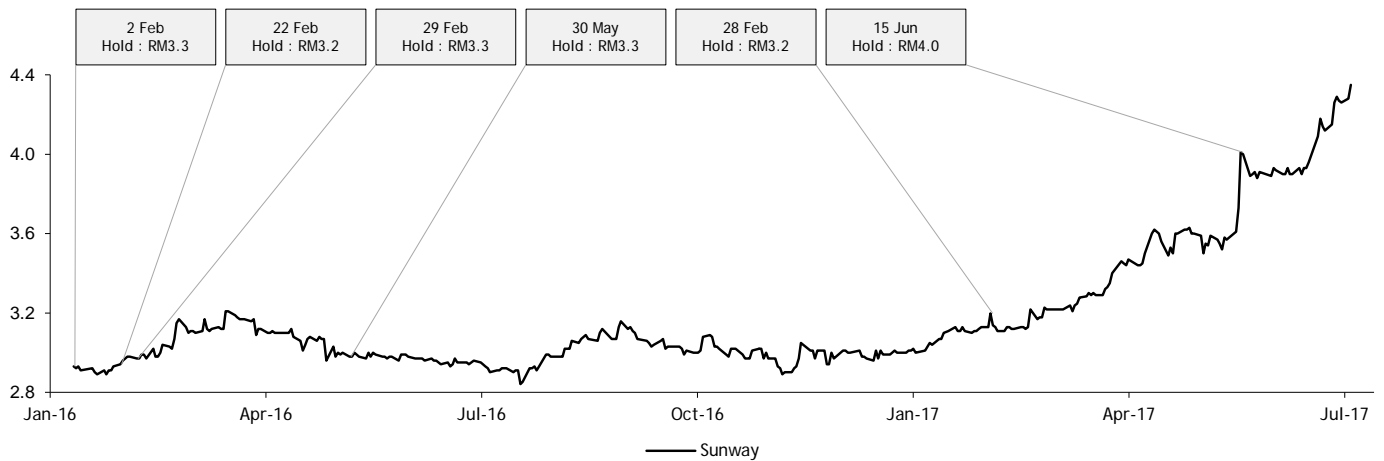
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