

# Sunway (SWB MK)

## Landbanking in Singapore

# HOLD

Share Price MYR 3.10  
 12m Price Target MYR 3.37 (+9%)  
 Previous Price Target MYR 3.37

### Neutral on the deal; maintain HOLD

We are neutral on Sunway's latest acquisition in Sengkang, Singapore. While land cost seems reasonable at 46% of total GDV, we are concerned on the relatively high competition there. Total units completing between 2016-2017 in the Central-North area of Districts 19 and 20 (including Sengkang) are estimated at 8,199 units or 18% of existing stocks (*source: Savills Singapore, URA*). We maintain our earnings forecasts and RNAV-TP of MYR3.37 (on an unchanged 40% discount to RNAV). Maintain HOLD.

### Wins a land tender in Sengkang, Singapore

Together with its JV partners, Sunway has won a tender to acquire a 5.19 acre 99-year leasehold land located at Anchorvale Lane, Sengkang from the Housing and Development Board (HDB) of Singapore for SGD241m (or SGD335psf of allowable GFA). The winning price was 2.5% higher than the second highest bid price. Sunway will own 30% stake in the JV company, while the remaining stake will be split between Hoi Hup Realty (62%), Oriental Worldwide Investments (5%) and Azuki Investments (3%). Development type is residential; project GDV is estimated at SGD520m.

### Earnings to come in from 2019 onwards

The land cost seems reasonable as land cost typically makes up 40-60% of total GDV in Singapore, we understand. The land, which is 400m away from Tongkang LRT station, will be developed into approximately 640 units of executive condominium (EC) via 10 blocks of 17-storey buildings. The project is slated to be launched by end-2017/2018. Earnings contributions should come in from 2019 onwards.

### Marginal impact to RNAV estimate

This new landbank has lifted Sunway's total landbank to 3,303 acres with total/effective GDVs of MYR49b/MYR31.8b (KV 23%, Johor 61%, Penang 7%, Singapore 3%, China 2%, Others 4%). Pretax margin, would be low at c.10% based on our assumptions of SGD300-350 psf construction cost (including overheads, marketing, etc) and selling price of SGD750psf, as guided by the management. The project is expected to enhance our RNAV/share estimate for Sunway marginally by 1-2sen to MYR5.82.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	4,842	4,451	5,187	5,393	6,697
EBITDA	504	428	778	863	1,159
Core net profit	592	591	531	605	777
Core FDEPS (sen)	32.5	31.6	26.4	30.0	38.6
Core FDEPS growth(%)	20.7	(2.8)	(16.5)	13.9	28.5
Net DPS (sen)	11.0	37.0	8.7	9.0	11.6
Core FD P/E (x)	9.5	9.8	11.8	10.3	8.0
P/BV (x)	0.9	0.9	0.7	0.8	0.7
Net dividend yield (%)	3.5	11.9	2.8	2.9	3.7
ROAA (%)	4.9	4.1	3.2	3.5	4.3
EV/EBITDA (x)	15.6	21.8	12.8	13.2	10.5
Net gearing (GAAP)	28.5	45.3	43.1	51.9	56.9
Consensus net profit	-	-	507	552	574
MKE vs. Consensus (%)	-	-	4.7	9.6	35.5

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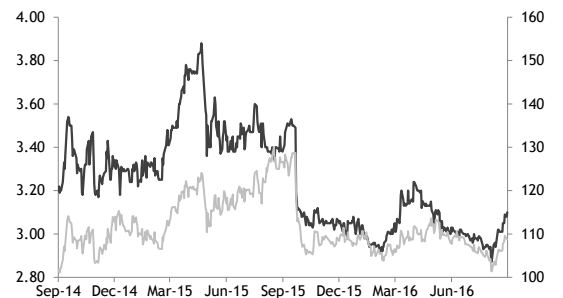
### Statistics

Shariah status	Yes
52w high/low (MYR)	3.53/2.87
3m avg turnover (USDm)	0.8
Free float (%)	37.5
Issued shares (m)	2,058
Market capitalisation	MYR6.4B USD1.6B

### Major shareholders:

Sungei Way Corp. Sdn. Bhd.	56.0%
Permodalan Nasional Bhd.	10.5%
Employees Provident Fund	5.0%

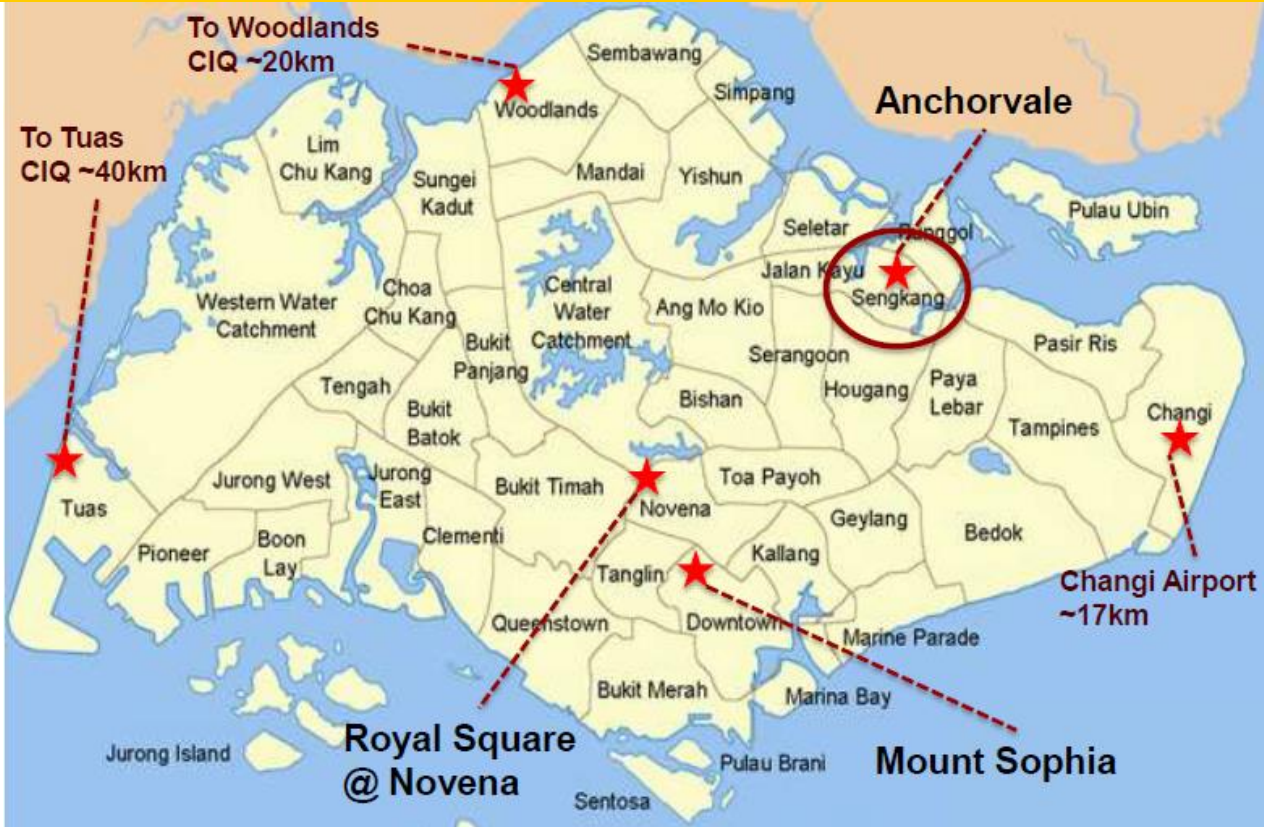
### Price Performance



	-1M	-3M	-12M
Absolute (%)	5	3	(9)
Relative to index (%)	3	1	(14)

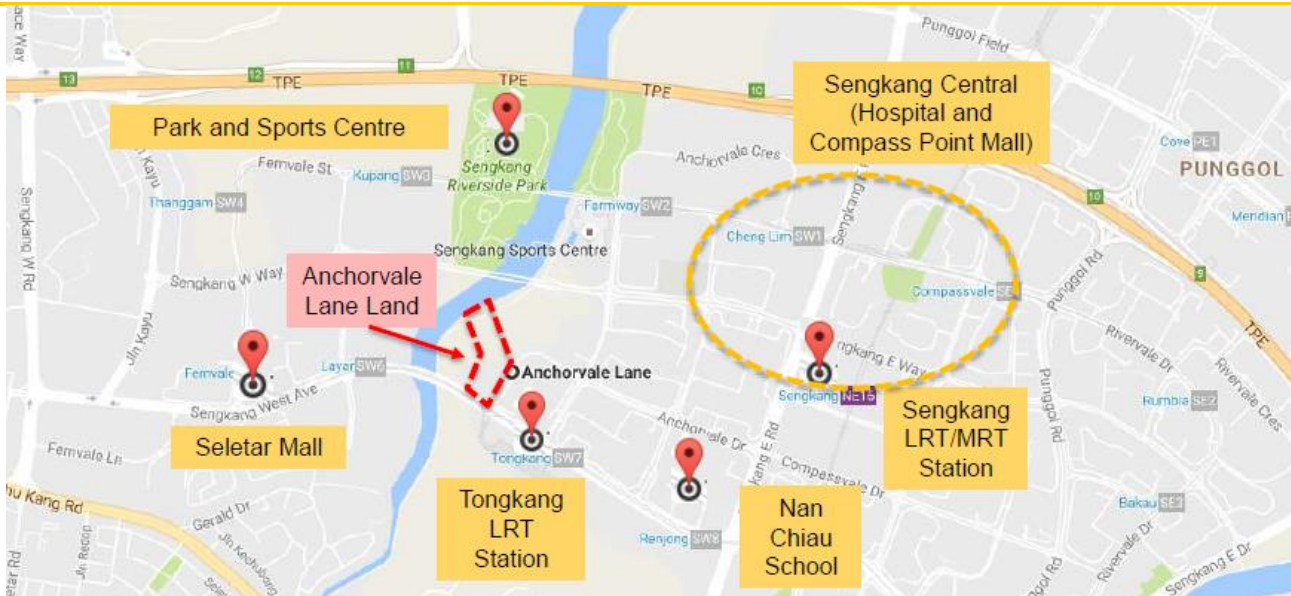
Source: FactSet

Location of the new land in Sengkang, Singapore



Source: Company

Surrounding amenities of the new land in Sengkang, Singapore



- 400m from Tongkang LRT station
- 2 stops away from Sengkang Central
- 6 Primary and 2 High/Secondary Schools within 1km radius.
- 2 malls (Seletar Mall and Compass Point Mall) and Sengkang Hospital (completing 2018) within 1km radius
- Sengkang Sports Centre

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%	1079	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%				98.9
Sunway Cheras	100%				1.7
Sunway Damansara	60%				32.9
Sunway D' Mont Kiara	88%				0.0
Sunway Kayangan	100%				1.0
Sunway Duta	100%				13.3
Bangi	100%				5.7
Sunway Melawati	100%				20.0
Casa Kiara III	80%				13.1
Sunway Alam Suria	50%				2.4
Sunway Velocity	85%				154.4
Penang projects	100%				56.8
Wonderland Business Park, Australia	31%				7.0
Singapore Yi Shun	30%				5.5
Singapore Tampines	30%				0.0
Singapore Sembawang	100%				4.6
Thomson/Irrawady	30%				46.6
Mount Sophia	30%				40.1
Sunway Iskandar -leasehold (Medini)	51%				439.6
Kelana Jaya	100%				135.4
<b>Sub-total:</b>					<b>1,079.0</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%		158.0	158.0	0.0
Sunway University College	100%		150.0	150.0	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 MYR1.50 TP					178.0
Construction (based on MYR1.80 TP)					2,177.4
Building material (10x 2016PER)					325.2
Trading (10x 2016PER)					341.3
<b>Grand total:</b>					<b>4,414.9</b>
Shareholders fund (MYR m) - Dec 2015					6,549.8
Warrants conversion (MYR2.50 exercise price; expiring Aug 2016)					724.0
<b>RNAV (MYR m)</b>					<b>11,688.7</b>
Number of shares (m shares) - post rights issue					1,723.5
Enlarged share capital post warrant					2,013.1
<b>FD RNAV/share (MYR) - post warrant</b>					<b>5.81</b>
<b>Target price (MYR) - based on 40% discount to RNAV</b>					<b>3.37</b>
<i>Source: Company, Maybank KE</i>					

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	7.2	7.4	10.7	10.3	8.0
Core P/E (x)	9.1	9.2	10.7	10.3	8.0
Core FD P/E (x)	9.5	9.8	11.8	10.3	8.0
P/BV (x)	0.9	0.9	0.7	0.8	0.7
P/NTA (x)	0.9	0.8	0.7	0.7	0.7
Net dividend yield (%)	3.5	11.9	2.8	2.9	3.7
FCF yield (%)	14.4	15.9	nm	nm	nm
EV/EBITDA (x)	15.6	21.8	12.8	13.2	10.5
EV/EBIT (x)	10.2	13.6	13.4	13.9	10.9

**INCOME STATEMENT (MYR m)**

Revenue	4,841.9	4,451.3	5,187.5	5,393.1	6,696.8
Gross profit	504.2	427.8	777.6	862.6	1,159.5
EBITDA	504.2	427.8	777.6	862.6	1,159.5
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	768.8	686.9	742.9	823.9	1,116.6
Net interest income / (exp)	(30.4)	(26.6)	(115.7)	(134.7)	(149.6)
Associates & JV	233.2	269.9	199.2	248.2	292.2
Exceptionals	0.0	147.4	0.0	0.0	0.0
Other pretax income	(2.7)	0.0	0.0	0.0	0.0
Pretax profit	968.8	929.2	826.4	937.4	1,259.2
Income tax	(148.0)	(129.8)	(206.6)	(234.3)	(314.8)
Minorities	(77.6)	(67.0)	(88.9)	(98.4)	(167.1)
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	743.2	732.4	530.9	604.6	777.2
Core net profit	591.7	590.7	530.9	604.6	777.2

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,978.2	2,627.3	2,314.5	1,361.7	617.4
Accounts receivable	1,719.9	2,639.6	2,639.6	2,639.6	2,639.6
Inventory	597.8	693.1	640.5	665.8	826.8
Property, Plant & Equip (net)	1,046.8	1,364.3	1,273.6	1,411.9	1,554.2
Intangible assets	319.4	320.1	320.1	320.1	320.1
Investment in Associates & JVs	2,481.0	2,890.3	2,890.3	2,890.3	2,890.3
Other assets	4,773.3	5,459.7	6,884.5	8,189.2	9,759.0
<b>Total assets</b>	<b>12,916.4</b>	<b>15,994.4</b>	<b>16,963.1</b>	<b>17,478.5</b>	<b>18,607.4</b>
ST interest bearing debt	2,282.9	3,303.8	3,303.8	3,303.8	3,303.8
Accounts payable	2,171.9	2,446.3	2,326.9	2,419.1	3,004.0
LT interest bearing debt	1,501.5	2,585.5	2,585.5	2,585.5	2,585.5
Other liabilities	626.0	459.0	451.0	451.0	451.0
<b>Total Liabilities</b>	<b>6,582.6</b>	<b>8,794.1</b>	<b>8,667.0</b>	<b>8,759.2</b>	<b>9,344.0</b>
Shareholders Equity	5,945.2	6,549.8	7,645.5	8,068.8	8,612.8
Minority Interest	388.7	650.6	650.6	650.6	650.6
<b>Total shareholder equity</b>	<b>6,333.9</b>	<b>7,200.4</b>	<b>8,296.1</b>	<b>8,719.3</b>	<b>9,263.4</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>12,916.4</b>	<b>15,994.4</b>	<b>16,963.1</b>	<b>17,478.5</b>	<b>18,607.4</b>

**CASH FLOW (MYR m)**

Pretax profit	968.8	929.2	826.4	937.4	1,259.2
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	273.7	236.0	(115.7)	(134.7)	(149.6)
Change in working capital	(91.4)	87.6	(900.0)	(900.0)	(900.0)
Cash taxes paid	(150.5)	(140.6)	(206.6)	(234.3)	(314.8)
Other operating cash flow	(231.3)	(250.3)	0.0	0.0	0.0
Cash flow from operations	769.4	861.9	(361.7)	(293.5)	(62.9)
Free cash flow	769.4	861.9	(361.7)	(293.5)	(62.9)
Dividends paid	(212.9)	(673.2)	(175.2)	(159.3)	(181.4)
Equity raised / (purchased)	41.6	145.7	724.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	872.9	1,752.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(71.9)	(2,392.0)	(500.0)	(500.0)	(500.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>1,399.1</b>	<b>(305.6)</b>	<b>(312.8)</b>	<b>(952.8)</b>	<b>(744.3)</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	2.3	(8.1)	16.5	4.0	24.2
EBITDA growth	(10.5)	(15.2)	81.8	10.9	34.4
EBIT growth	(57.8)	(10.6)	8.1	10.9	35.5
Pretax growth	(48.9)	(4.1)	(11.1)	13.4	34.3
Reported net profit growth	(50.5)	(1.5)	(27.5)	13.9	28.5
Core net profit growth	22.6	(0.2)	(10.1)	13.9	28.5
<b>Profitability ratios (%)</b>					
EBITDA margin	10.4	9.6	15.0	16.0	17.3
EBIT margin	15.9	15.4	14.3	15.3	16.7
Pretax profit margin	20.0	20.9	15.9	17.4	18.8
Payout ratio	25.6	88.6	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	15.4	16.5	10.2	11.2	11.6
Revenue/Assets (x)	0.4	0.3	0.3	0.3	0.4
Assets/Equity (x)	2.2	2.4	2.2	2.2	2.2
ROAE (%)	na	na	na	na	na
ROAA (%)	4.9	4.1	3.2	3.5	4.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	1.8	2.0	2.0	2.0
Net gearing %(GAAP)	28.5	45.3	43.1	51.9	56.9
Net gearing %(Non GAAP)	28.5	45.3	43.1	51.9	56.9
Net interest cover (x)	25.3	25.8	6.4	6.1	7.5
Debt/EBITDA (x)	7.5	13.8	7.6	6.8	5.1
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	1,806.2	3,262.0	3,574.8	4,527.6	5,271.9

Source: Company; Maybank

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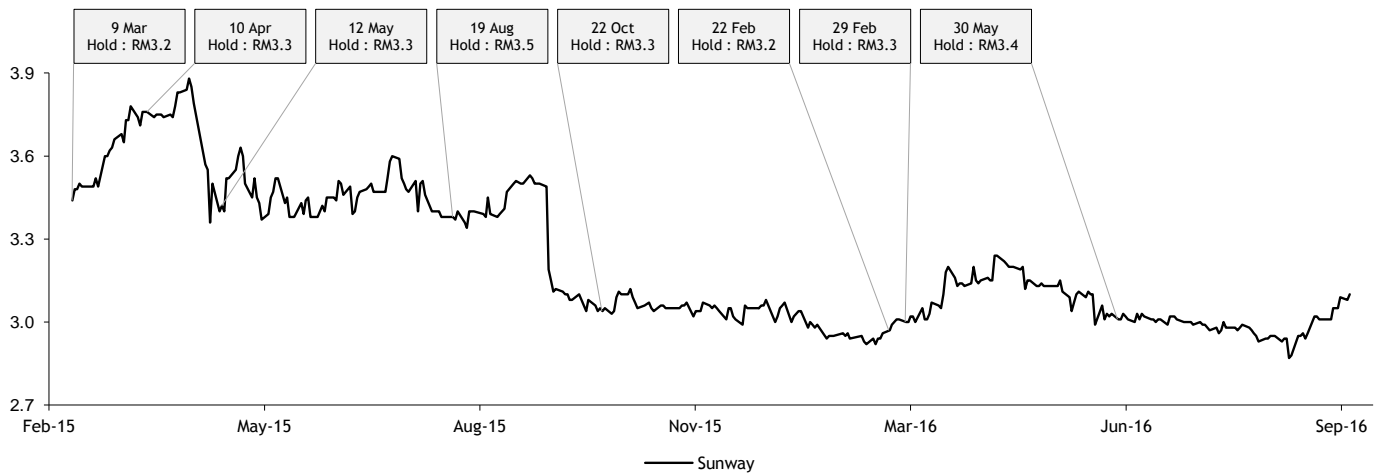
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