

4 August 2017

Property | Real Estate

Sunway

Neutral (from Buy)

Unlocking Asset Values Again

Target Price: MYR4.33
 Price: MYR4.32
 Market Cap: USD2,063m
 Bloomberg Ticker: SWB MK

While we are positive on Sunway's asset recycling efforts and still like the company's diversified business exposure, we think the share price has largely factored in the positive catalysts including the recent bonus issue and the free warrants exercise. Therefore we downgrade Sunway to NEUTRAL with a revised TP of MYR4.33 (from MYR4.28, 0% return). The disposal of Sunway CLIO property is not expected to have a substantial impact on earnings as the loss of income would be offset by interest cost savings.

Share Data

Avg Daily Turnover (MYR/USD) 13.7m/3.19m
 52-wk Price low/high (MYR) 2.87 - 4.37
 Free Float (%) 39
 Shares outstanding (m) 1,724
 Estimated Return 0%

Shareholders (%)

Tan Sri Dato' Jeffrey Cheah 55.4
 Employees Provident Fund 5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	42.6	10.8	25.6	40.7	46.4
Relative	34.7	10.6	25.6	35.5	38.9

Source: Bloomberg

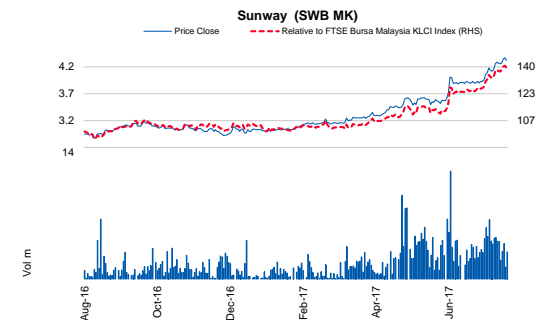
Injecting Sunway CLIO into Sunway REIT. Sunway announced its disposal of Sunway CLIO property into Sunway REIT (SREIT MK, NEUTRAL, TP: MYR1.86) for a cash consideration of MYR340m. Sunway CLIO property comprises a 4-star hotel with 401 rooms, a 3-storey retail space with an NLA of 88,384 sqf, as well as a multi-storey carpark with 732 bays. Meanwhile, the proposed lease of the hotel is for the initial 10+10 years, with a minimum rent of about MYR11m (or more, if variable rent is higher).

Minimal disposal gain. The disposal would result in a gain of MYR29.4m; the disposal is within our expectation as Sunway CLIO was completed less than two years ago, and given that the REIT currently owns all the Sunway hotels in the Sunway City township (Sunway Resort Hotel & Spa and Sunway Pyramid Hotel), this newly completed hotel should also be injected into the REIT to avoid any perceived conflicts of interest. Upon the completion of the disposal in 4Q17F, about MYR275m would be utilised for debt repayment, while the balance would be mainly used for working capital.

Other pipeline assets. After Sunway CLIO property, Sunway still has other investment properties that can be injected into the REIT. These include Sunway Velocity Mall and Sunway Pinnacle that are worth about MYR1.5-1.8bn. We understand that both properties have been doing well since their commencement of operations, and we believe that they could be monetised over the next two years. Valuations for these properties can be rather attractive, given their locations and occupancies and hence the potential injection could provide an angle for special dividends.

Forecasts. We largely maintain our FY17-18F earnings, as the loss of income is quite minimal, and would also be offset by a potential interest cost savings of about MYR11m. Meanwhile, our FY19 earnings forecast is raised slightly by 2% to reflect the income contribution from the company's new projects at Jalan Belfield and Kajang.

Downgrade to NEUTRAL. After we impute the net surplus from the disposal as well as the impact of the new land acquisitions at Jalan Belfield and Kajang, our TP is revised up to MYR4.33 (from MYR4.28), based on an unchanged 30% discount to property RNAV, and a 10% holding company discount. Although we are positive on the company's long-term outlook, we downgrade Sunway to NEUTRAL (from Buy) as the share price has appreciated sharply after the recent announcement of its bonus issue and free warrants.



Source: Bloomberg

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	4,451	4,726	5,068	5,528	6,078
Reported net profit (MYRm)	620	586	562	606	669
Recurring net profit (MYRm)	597	547	562	606	669
Recurring net profit growth (%)	0.9	(8.3)	2.6	7.8	10.5
Recurring EPS (MYR)	0.33	0.27	0.27	0.29	0.31
DPS (MYR)	0.49	0.12	0.13	0.14	0.15
Recurring P/E (x)	13.0	16.3	16.0	15.0	13.7
P/B (x)	1.19	1.20	1.16	1.13	1.09
Dividend Yield (%)	11.3	2.8	3.0	3.2	3.5
Return on average equity (%)	9.9	8.4	7.4	7.7	8.1
Return on average assets (%)	4.3	3.4	2.9	3.0	3.2
Net debt to equity (%)	45.3	40.9	39.1	39.0	41.2
Our vs consensus EPS (adjusted) (%)			(1.6)	(1.8)	1.5

Source: Company data, RHB

Analyst

Loong Kok Wen, CFA
 +603 9280 8861

loong.kok.wen@rhbgroup.com



Financial Exhibits

Financial model updated on : 2017-08-03.

Asia	Financial summary	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Malaysia	Recurring EPS (MYR)	0.33	0.27	0.27	0.29	0.31
Property	EPS (MYR)	0.34	0.28	0.27	0.29	0.31
Sunway	DPS (MYR)	0.49	0.12	0.13	0.14	0.15
Bloomberg	BVPS (MYR)	3.64	3.61	3.72	3.83	3.96
SWB MK	Weighted avg adjusted shares (m)	1,800	2,063	2,084	2,105	2,126
Neutral						
Valuation basis	Valuation metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
30% discount to RNAV	Recurring P/E (x)	13.0	16.3	16.0	15.0	13.7
	P/E (x)	12.5	15.2	16.0	15.0	13.7
Key drivers	P/B (x)	1.19	1.20	1.16	1.13	1.09
New property sales, disposal of investment properties	FCF Yield (%)	(1.3)	(1.6)	7.5	6.0	3.5
	Dividend Yield (%)	11.3	2.8	3.0	3.2	3.5
Key risks	EV/EBITDA (x)	16.9	14.6	14.1	13.7	13.5
Weaker-than-expected market conditions	EV/EBIT (x)	20.4	17.9	17.1	16.5	16.3
Company Profile	Income statement (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
A well-known developer in the Klang Valley. Its flagship project - Bandar Sunway is a well-established integrated township. The company has successfully transformed a mining land to a matured residential and commercial cluster	Total turnover	4,451	4,726	5,068	5,528	6,078
	Gross profit	1,187	1,355	1,540	1,689	1,844
	EBITDA	693	892	950	1,023	1,097
	Depreciation and amortisation	(119)	(165)	(167)	(171)	(188)
	Operating profit	574	727	783	851	910
	Net interest	(27)	(60)	(49)	(43)	(30)
	Income from associates & JVs	270	192	326	368	383
	Pre-tax profit	816	859	1,060	1,176	1,262
	Taxation	(130)	(140)	(257)	(294)	(316)
	Minority interests	(67)	(133)	(242)	(276)	(278)
	Recurring net profit	597	547	562	606	669
	Cash flow (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Change in working capital	60	(391)	(161)	(195)	(233)
	Cash flow from operations	864	569	753	760	789
	Capex	(963)	(713)	(75)	(211)	(465)
	Cash flow from investing activities	(2,109)	(971)	(275)	(411)	(665)
	Proceeds from issue of shares	1,067	588	0	0	0
	Dividends paid	(1,082)	(268)	(271)	(295)	(319)
	Cash flow from financing activities	1,987	1,750	(372)	(395)	(418)
	Cash at beginning of period	1,978	2,627	4,060	4,014	3,855
	Net change in cash	741	1,347	106	(45)	(294)
	Ending balance cash	2,719	3,974	4,165	3,968	3,561
	Balance sheet (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Total cash and equivalents	2,627	4,060	4,014	3,855	3,503
	Tangible fixed assets	8,146	9,051	8,959	8,999	9,276
	Intangible assets	320	343	343	343	343
	Total other assets	463	286	812	1,380	1,962
	Total assets	15,994	18,831	19,588	20,496	21,554
	Short-term debt	3,304	4,831	4,831	4,831	4,831
	Total long-term debt	2,585	2,591	2,607	2,663	2,777
	Other liabilities	416	438	438	438	438
	Total liabilities	8,794	10,612	10,836	11,157	11,587
	Shareholders' equity	6,550	7,456	7,747	8,058	8,408
	Minority interests	651	764	1,005	1,281	1,559
	Total equity	7,200	8,219	8,752	9,339	9,967
	Net debt	3,262	3,361	3,424	3,639	4,104
	Total liabilities & equity	15,994	18,831	19,588	20,496	21,554
	Key metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Revenue growth (%)	(8.1)	6.2	7.2	9.1	9.9
	Recurrent EPS growth (%)	(3.3)	(20.0)	1.6	6.7	9.4
	Gross margin (%)	26.7	28.7	30.4	30.6	30.3
	Operating EBITDA margin (%)	15.6	18.9	18.7	18.5	18.1
	Net profit margin (%)	13.9	12.4	11.1	11.0	11.0
	Dividend payout ratio (%)	174.7	45.8	45.8	45.8	45.8
	Capex/sales (%)	21.6	15.1	1.5	3.8	7.6
	Interest cover (x)	4.61	4.33	4.79	5.18	5.74

Source: Company data, RHB

Figure 1: RNAV estimate

Developments	Remaining	Remaining	Effective stake	NPV @ 10%
	Landbank (acre)	GDV (MYR m)		
Selangor/KL				
Sunway Damansara	15.36	1,691.28	60%	172.9
Sunway South Quay	40.16	3,086.66	60%	263.7
Sunway Monterez	4.40	38.00	60%	3.0
Sunway Semenyih	398.11	728.59	70%	59.1
Sunway Cheras	5.97	16.82	100%	1.7
Sunway Duta	3.16	120.00	60%	7.4
Sunway Montana	1.99	55.51	100%	6.8
Sunway Resort City	14.9	660	100%	116.8
Sunway Velocity	10.00	1,983.98	85%	221.3
Sunway Velocity 2	8.45	2,000.00	50%	77.6
Sunway Tower KL 1	1.00	240.00	100%	21.9
Melawati	2.00	43.00	100%	4.5
Sg Long	111.00	277.00	80%	21.8
Mont Putra, Rawang	163.00	156.00	100%	14.2
Kelana Jaya	21.84	1,900.00	100%	153.2
Subang industrial	6.35	110.00	80%	9.3
Jalan Belfield	4.53	1,100.00	100%	88.7
Kajang TOD	5.28	460.00	100%	42.2
Perak				
Sunway City Ipoh	440.5	1,048.38	65%	94.7
Penang				
Sunway Hills	80.70	849.00	100%	75.0
Sunway Wellesley, Bukit Mertajam	52.80	725.47	100%	75.9
Paya Terubong	24.46	1,500.00	100%	132.8
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.3
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.6
S'pore				
Anchorvale Lane, Sengkang	5.19	1,560.00	30%	44.1
Johor				
Bukit Lenang	64.79	698.40	80%	67.4
Medini	655.73	11,293.00	56%	600.8
Pendas	1,079.07	18,000.00	60%	772.5
China				
Sunway Guanghao	3.73	66.78	65%	4.4
Tianjin Eco City	6.23	575.02	60%	28.1
India				
Sunway OPUS Grand India	23.80	702.36	50%	21.3
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	6.9
Australia				
Wonderland Business Park (Sydney)	12.99	43.80	45%	1.1
Unbilled sales				270.0
TOTAL	3,331.82	56,935.03		3,499.02

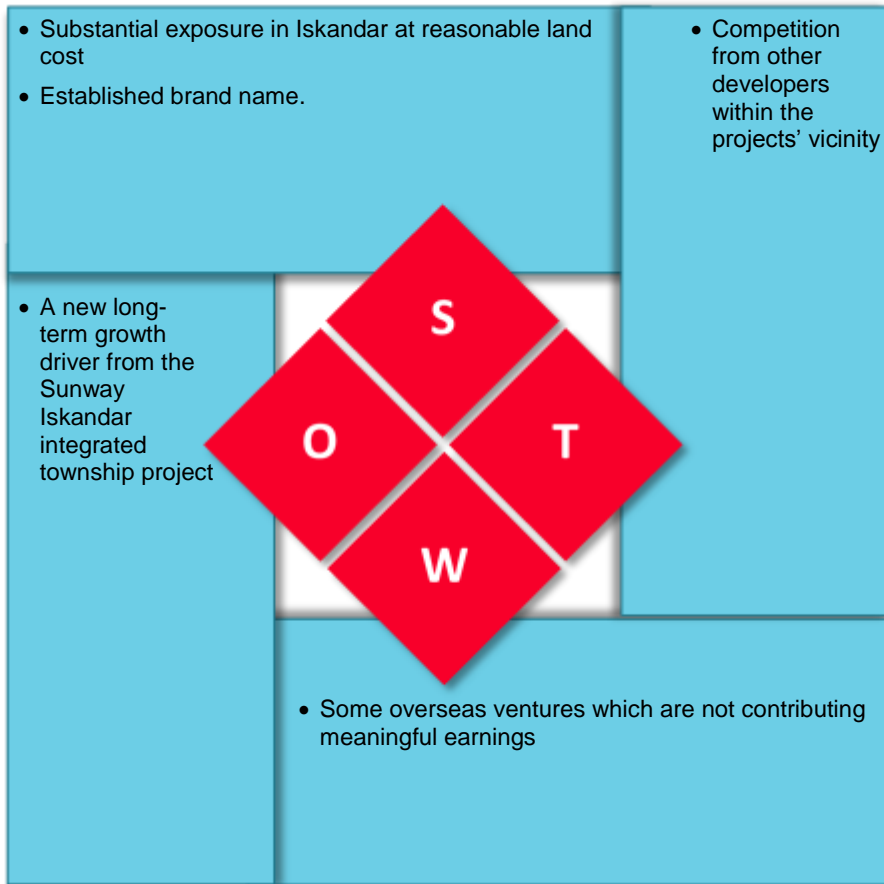
Investment properties	EBITDA (MYR m)	Est. market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)
Monash University Campus	17	299.5	299.5	100%	0
Monash U Residence	15	226.6	226.6	100%	0
Sunway University College	10	255.0	255.0	100%	0
Sunway Hotel Georgetown	4	74.0	37.6	100%	36.4
Sunway Hotel Phnom Penh	2	17.3	17.3	53%	0
Sunway Hotel Hanoi	2	8.8	8.8	100%	0
Sunway Giza	5	55.1	55.1	60%	0
Sunway Pinnacle	N/A	522.0	350.7	100%	162.8
Sunway Velocity Mall	N/A	1,980.0	1,172.3	59%	452.7

Subtotal					4,150.90
Shareholders' equity (ex cons. & healthcare)					6,905.72
Total					11,056.62
Discount to Property RNAV					30%
Discounted Property RNAV					7,739.63

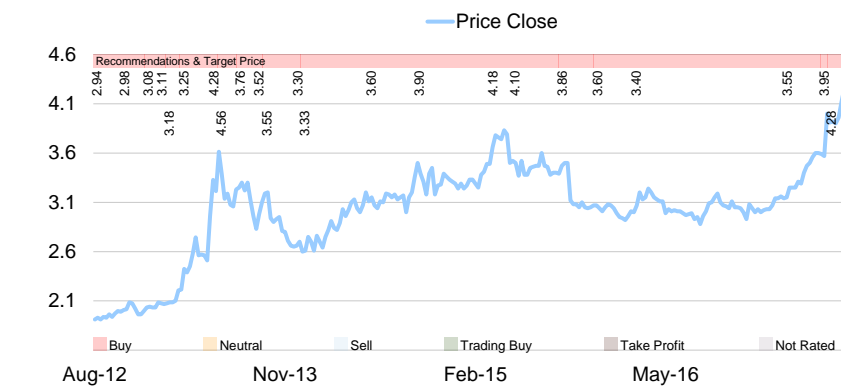
Other divisions	Market value (MYR m)	Book value (MYR m)	Est. FY17 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
34% Sunway REIT	1,654.2	1,479.0			175.16
54.4% Sunway Construction	1,442.0	844.1			597.88
Healthcare			48	25	1,200.00
Others			68	12	816.00
Gain on disposal of Sunway CLIO					29.40
Total					10,558.08
ESOS proceeds					151.21
Total RNAV					10,709.29
Holding company discount					10%
Discounted RNAV					9,638.36
Share base (mil)					2,225.76
TP (MYR)					4.33

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-06-15	Buy	4.28	4.01
2017-05-29	Buy	3.95	3.59
2017-02-28	Buy	3.55	3.23
2016-11-27	Buy	3.40	3.00
2016-08-29	Buy	3.40	3.01
2016-05-29	Buy	3.40	3.03
2016-02-29	Buy	3.40	3.00
2016-02-22	Buy	3.60	2.97
2015-11-27	Buy	3.60	3.07
2015-09-03	Buy	3.86	3.45

Source: RHB, Bloomberg

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Kuala Lumpur	Hong Kong	Singapore
RHB Research Institute Sdn Bhd Level 3A, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur 50400 Malaysia Tel : +(60) 3 9280 8888 Fax : +(60) 3 9200 2216	RHB Securities Hong Kong Ltd. 12 th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	RHB Research Institute Singapore Pte Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Bangkok
PT RHB Sekuritas Indonesia Wisma Mulia, 20th Floor Jl. Jenderal Gatot Subroto No. 42 Jakarta 12710, Indonesia Tel : +(6221) 2783 0888 Fax : +(6221) 2783 0777	RHB (China) Investment Advisory Co. Ltd. Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	RHB Securities (Thailand) PCL 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 088 9999 Fax : +(66) 2 088 9799