

7 September 2016

Property | Real Estate

Sunway

Buy (Maintained)

Replenishes Landbank In Singapore

We are positive on Sunway's new land acquisition in Singapore, as the new land is located in a more viable area with a lower ASP (ie more affordable). The land cost, which makes up 46% of estimated GDV, and the implied ASP of SGD780 psf is reasonable. We make no changes to our earnings forecast as the development will start in two years. Maintain BUY and an unchanged TP of MYR3.40 (10% upside).

New landbank in Singapore. A consortium comprising Hoi Hup Realty Pte Ltd, Sunway, Oriental Worldwide Investment Inc and Azuki investments Pte Ltd has won a tender to acquire 5.19 acres of 99-year leasehold land for a purchase consideration of SGD240.95m (or MYR724.14m). The equity interest of the consortium is 62:30:5:3. The land has a plot ratio of 3x, and an allowable gross floor area (GFA) of 678,600-610,738 sq ft, which translates to a land cost of SGD355 psf.

Landbank replenishment. Although the property sector is slowing down in the region, we believe Sunway's move to buy new land in Singapore is to replenish its landbank portfolio there – since its ongoing projects in Novena and Mount Sophia will be completed in about two years' time. It also signals that Sunway would like to focus on more viable areas with lower ASPs, as the implied ASP according to the estimated GDV of SGD530m is around SGD780 psf, in line with the current market price in that area. The purchase price also seems reasonable given that land cost makes up about 46% of the GDV, and in line with Sunway's previous land transactions in Singapore.

Location of the land. The land will be developed into 10 blocks of 17-storey executive condominiums, featuring 640 units. It is located 400m from the Tongkang LRT station and two stops away from Sengkang Central. Surrounding amenities include eight schools and two malls, and the Sengkang Hospital will be completed in 2018.

Valuations. We make no changes to our earnings forecast as the project will only be launched in two years. The impact to our RNAV estimate is minimal, after factoring in the contribution from this new land. We maintain our BUY rating and TP of MYR3.40, based on an unchanged 35% discount to RNAV.

Target Price:	MYR3.40
Price:	MYR3.10
Market Cap:	USD1,547m
Bloomberg Ticker:	SWB MK

Share Data

Avg Daily Turnover (MYR/USD)	3.22m/0.79m
52-wk Price low/high (MYR)	2.87 - 3.53
Free Float (%)	39
Shares outstanding (m)	2,033
Estimated Return	10%

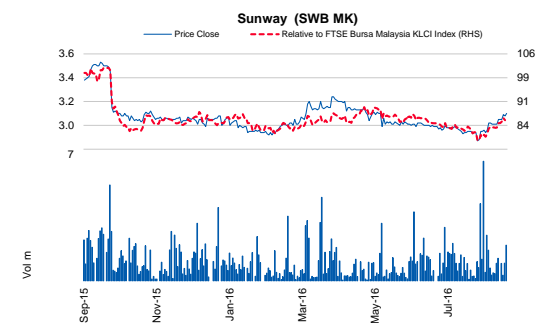
Shareholders (%)

Tan Sri Dato' Jeffrey Cheah	55.4
Employees Provident Fund	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.6	5.1	3.3	3.3	(8.6)
Relative	1.5	4.3	1.5	4.2	(14.2)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (MYRm)	4,842	4,451	4,626	4,965	5,201
Reported net profit (MYRm)	743	620	524	558	578
Recurring net profit (MYRm)	592	597	524	558	578
Recurring net profit growth (%)	22.6	0.9	(12.3)	6.6	3.6
Recurring EPS (MYR)	0.34	0.33	0.29	0.30	0.31
DPS (MYR)	0.11	0.49	0.11	0.12	0.12
Recurring P/E (x)	9.0	9.3	10.8	10.2	9.9
P/B (x)	0.90	0.85	0.82	0.79	0.76
Dividend Yield (%)	3.5	15.8	3.5	3.9	3.9
Return on average equity (%)	13.2	9.9	7.8	7.9	7.8
Return on average assets (%)	6.2	4.3	3.2	3.3	3.3
Net debt to equity (%)	28.5	45.3	38.4	34.5	34.9
Our vs consensus EPS (adjusted) (%)			1.1	(2.9)	(2.5)

Source: Company data, RHB

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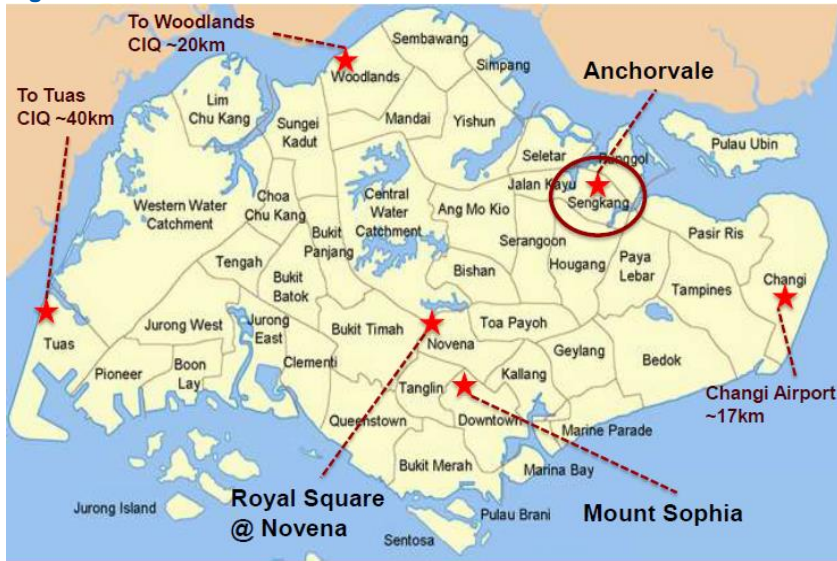
Financial Exhibits

Financial model updated on : 2016-08-29.

Asia		Financial summary	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Malaysia		Recurring EPS (MYR)	0.34	0.33	0.29	0.30	0.31
Property		EPS (MYR)	0.43	0.34	0.29	0.30	0.31
Sunway		DPS (MYR)	0.11	0.49	0.11	0.12	0.12
Bloomberg	SWB MK	BVPS (MYR)	3.45	3.64	3.78	3.93	4.08
Buy		Weighted avg adjusted shares (m)	1,725	1,800	1,818	1,836	1,854
Valuation basis		Valuation metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
35% discount to RNAV		Recurring P/E (x)	9.0	9.3	10.8	10.2	9.9
Key drivers		P/E (x)	7.2	9.0	10.8	10.2	9.9
i. New property sales;		P/B (x)	0.90	0.85	0.82	0.79	0.76
ii. Disposal of investment properties		FCF Yield (%)	(11.1)	(1.8)	13.0	10.5	7.8
Key risks		Dividend Yield (%)	3.5	15.8	3.5	3.9	3.9
Weaker-than-expected market conditions		EV/EBITDA (x)	8.5	13.7	10.7	10.8	11.3
		EV/EBIT (x)	9.8	16.5	12.8	12.7	13.3
Company Profile		Income statement (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Sunway is a well-known developer in the Klang Valley. Its flagship project, Bandar Sunway, is a well-established integrated township. The company has successfully transformed mining land to a matured residential and commercial cluster		Total turnover	4,842	4,451	4,626	4,965	5,201
		Gross profit	1,337	1,187	1,313	1,395	1,440
		EBITDA	885	693	891	897	906
		Depreciation and amortisation	(116)	(119)	(149)	(134)	(136)
		Operating profit	769	574	742	763	770
		Net interest	(30)	(27)	(26)	(19)	(13)
		Income from associates & JVs	233	270	298	326	368
		Pre-tax profit	969	816	1,013	1,069	1,123
		Taxation	(148)	(130)	(253)	(267)	(281)
		Minority interests	(78)	(67)	(236)	(244)	(264)
		Recurring net profit	592	597	524	558	578
		Cash flow (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
		Change in working capital	(822)	60	(148)	(285)	(110)
		Cash flow from operations	97	864	732	596	772
		Capex	(691)	(963)	0	0	(324)
		Cash flow from investing activities	(573)	(2,109)	18	(4)	(524)
		Proceeds from issue of shares	105	1,067	0	0	0
		Dividends paid	(238)	(1,082)	(200)	(220)	(223)
		Cash flow from financing activities	748	1,987	(302)	(321)	(323)
		Balance sheet (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
		Total cash and equivalents	1,978	2,627	2,846	2,902	2,759
		Tangible fixed assets	6,257	8,146	7,779	7,449	7,637
		Intangible assets	319	320	320	320	320
		Total other assets	161	463	962	1,488	2,055
		Total assets	12,916	15,994	16,581	17,303	18,154
		Short-term debt	2,283	3,304	3,304	3,304	3,304
		Other liabilities	605	416	416	416	416
		Total liabilities	6,583	8,794	8,821	8,961	9,193
		Shareholders' equity	5,945	6,550	6,873	7,211	7,567
		Minority interests	389	651	887	1,130	1,394
		Total equity	6,334	7,200	7,760	8,342	8,962
		Net debt	1,806	3,262	2,981	2,880	3,125
		Total liabilities & equity	12,916	15,994	16,581	17,303	18,154
		Key metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
		Revenue growth (%)	2.3	(8.1)	3.9	7.3	4.8
		Recurrent EPS growth (%)	7.2	(3.3)	(13.1)	5.5	2.6
		Gross margin (%)	27.6	26.7	28.4	28.1	27.7
		Operating EBITDA margin (%)	18.3	15.6	19.3	18.1	17.4
		Net profit margin (%)	15.4	13.9	11.3	11.2	11.1
		Dividend payout ratio (%)	32.1	174.7	174.7	174.7	174.7
		Capex/sales (%)	14.3	21.6	0.0	0.0	6.2
		Interest cover (x)	9.75	4.61	5.76	5.98	6.00

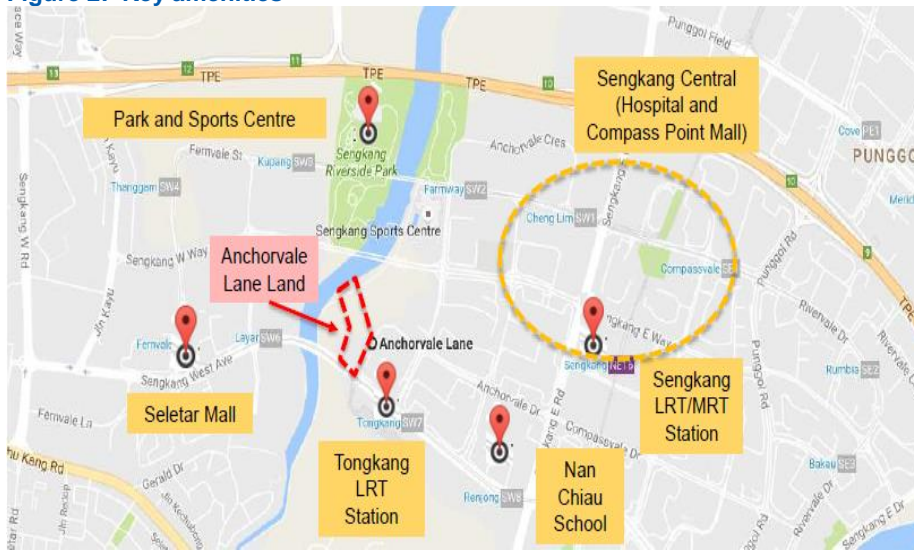
Source: Company data, RHB

Figure 1: Location of the land



Source: Company

Figure 2: Key amenities



Source: Company

Figure 3: RNAV estimate

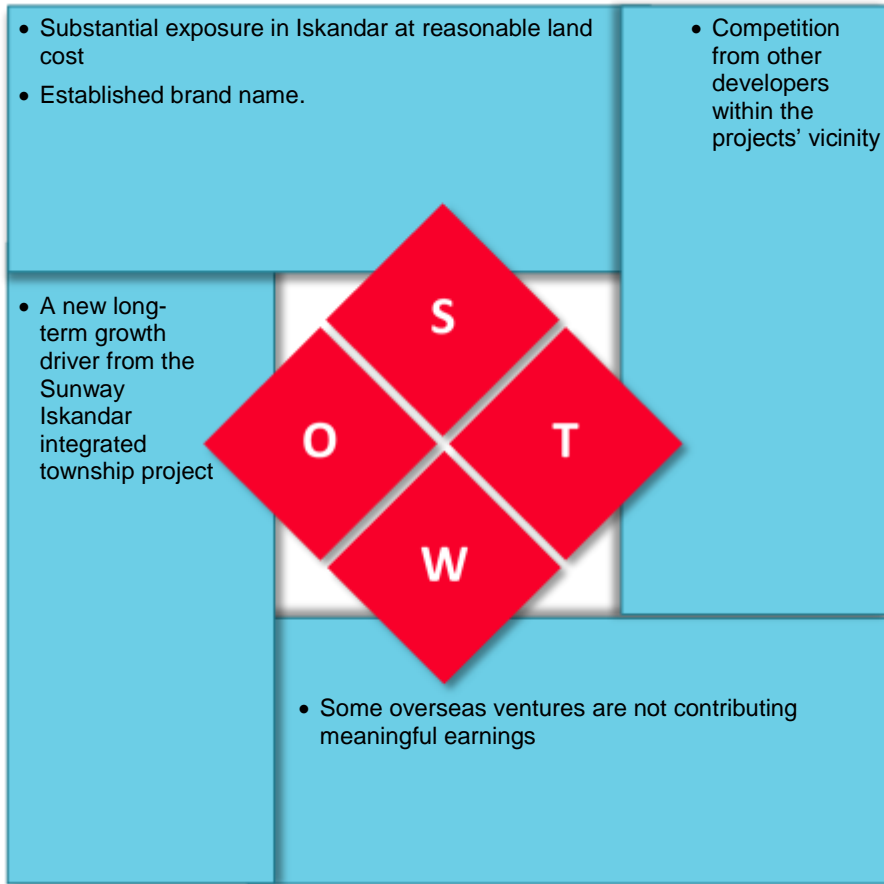
Developments	Remaining Landbank (acre)	Remaining GDV (MYR m)	Effective stake	NPV @ 11%
Selangor/KL				
Sunway Damansara	15.36	1,691.28	60%	116.7
Sunway South Quay	42.17	3,296.66	60%	217.8
Sunway Montezeh	5.36	43.67	60%	2.9
Sunway Semenyih	398.11	728.59	70%	46.0
Sunway Cheras	5.97	16.82	100%	1.4
Sunway Duta	3.16	120.00	60%	6.1
Sunway Montana	1.99	55.51	100%	5.8
Sunway Alam Suria	0.65	12.00	100%	1.2
Sunway Resort City	14.9	660	100%	62.3
Casa Kiara III	2.88	210.00	80%	17.4
Sunway Velocity	17.94	2,858.98	85%	237.5
Sunway Tower KL 1	1.00	240.00	100%	19.5
Bangi	3.00	59.00	100%	5.5
Melawati	2.00	43.00	100%	4.0
Sg Long	111.00	277.00	80%	18.0
Mont Putra, Rawang	163.00	156.00	100%	12.7
Kelana Jaya	17.00	1,800.00	100%	117.0
Subang industrial	6.35	110.00	80%	6.0
Perak				
Sunway City Ipoh	440.5	1,048.38	65%	66.6
Penang				
Sunway Hills	80.70	849.00	100%	66.6
Sunway Cassia, Batu Maung	6.62	74.00	100%	7.0
Sunway Wellesley, Bukit Mertajam	63.00	845.00	100%	79.8
Paya Terubong	24.46	1,500.00	100%	118.0
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.2
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.4
S'pore				
Mount Sophia	5.87	2,137.20	30%	75.7
Sembawang, Singapore	0.77	75.00	100%	9.3
Royal Square @ Novena	1.65	2,287.50	30%	81.0
Anchorvale Lane, Sengkang	5.19	1,560.00	30%	39.3
Johor				
Bukit Lenang	64.79	698.40	80%	66.0
Medini	691.00	12,000.00	60%	610.8
Pendas	1,079.07	18,000.00	60%	723.0
China				
Sunway Guanghao	3.73	66.78	65%	4.3
Tianjin Eco City	24.00	1,300.00	60%	61.0
India				
Sunway OPUS Grand India	23.80	702.36	50%	20.4
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	6.6
Australia				
Wonderland Business Park (Sydney)	48.40	378.10	45%	9.5
Unbilled sales				362.5
TOTAL	3,418.29	56,251.52		3,323.12

Investment properties	EBITDA (MYR m)	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	280.0	280.0	100%	0
Wisma Sunway	4	60.0	59.1	100%	0.9

Other divisions	Market value (MYR m)	Book value (MYR m)	Est. FY16 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
34% Sunway REIT	1,447.4	1,479.0		-	31.61
54.4% Sunway Construction	1,111.4	844.1			267.29
Others			115	7	805.00
Total					4,401.10
Shareholders' equity (ex cons.)					6,149.82
ESOS proceeds					551.52
Warrants conversion @ MYR2.25					651.13
Total RNAV					11,753.56
Discount to RNAV					35%
Discounted RNAV					7,639.82
Share base (mil)					1,780.00
No. of warrants					289.39
ESOS					172.35
Enlarged share base (mil)					2,241.74
TP (MYR)					3.41

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2015-08-27	Buy	4.10	3.40
2015-05-26	Buy	4.10	3.52
2015-05-11	Buy	4.10	3.40
2015-03-19	Buy	4.18	3.52

Source: RHB, Bloomberg

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