



Sunway Berhad

Acquires Prime Land in Kuala Lumpur

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TP: RM4.15, ex-bonus: RM1.78 (+5.5%),

Last Traded: RM3.93, ex-bonus: RM1.68

Hold

Acquires 4.53 acres Freehold Land in Kuala Lumpur

Sunway has entered into a Sale and Purchase Agreement with LGT S/B, Tan Sri Lim Kok Thay, Puan Sri Datin Seri Lim Kim Hua, Yarraville S/B, Dandenong S/B and Ripponlea S/b (collectively Vendors) for the acquisition of a freehold land along Jalan Belfied, Kuala Lumpur, measuring approximately 4.53 acres for RM165mn (or RM836.18psf). The proposed acquisition is expected to be completed by 2H2017.

Prime Land in Kuala Lumpur

The land is located in the centre of Kuala Lumpur and is only 400 meters from Maharajalela monorail station. It is also close to the upcoming tallest building in Kuala Lumpur, Warisan Merdeka. In terms of accessibility, the land has easy access to and from Federal Highway and the North and South Bound PLUS Expressway via Jalan Syed Putra, Jalan Damansara and Jalan Istana – see Appendix 1 - 3.

Mixed Development Worth RM1.1bn GDV

According to the announcement, the land will be developed into a mixed development, comprising serviced apartments and retail units. To be developed over a span of approximately 5 - 7 years, the proposed development is expected to generate a potential GDV of RM1.1bn. First phase of the development is targeted for launch in 2H2018. We understand that the land comes with an approved plot ratio of 8.81 times. Assuming an efficiency ratio of 75%, the selling price of the service apartments would be around RM850-900psf.

Attractive Pricing

We believe the acquisition price of RM836psf is attractive compared to the implied land cost of RM886psf Sunway paid to acquire 8.45-acre of leasehold lands in Jalan Peel Cheras in Feb-17. In addition, the price tag also appears reasonable, if we compare Sunway's acquisition price of RM836psf, to the price of RM877psf Ibraco paid to acquire a freehold land fronting Jalan Tun Razak and Jalan Loke Yew in Mar-15. Based on the estimated GDV of RM1.1bn, the land cost makes up 15% of the total development value, below the general rule of thumb of 20%.

Positive on the deal

The land will increase the group's outstanding GDV by 2.2% to RM51.6bn (effective GDV: RM33.6bn). We are positive on this land acquisition as it will further expand the group's land bank in the Klang Valley - in line with management's objective to replenish land bank in strategic locations and ready for launch over the near term. We believe the indicative selling price of RM850psf onwards is competitive, given that new residential apartments in the city center are selling above RM950psf.

Impact

Our revision to FY17/18/19 earnings forecasts is in the range of +/-1% after factoring in the purchase of this new land.

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	2042.5
Market Cap (RMmn)	8027.0
Par Value	1.00
52-wk Hi/Lo (RM)	4.05/2.84
12-mth Avg Daily Vol ('000 shrs)	1647.40
Estimated Free Float (%)	28.9
Beta	0.5

Major Shareholders (%)

Sungei Way Corp	(56.6)
EPF	(5.9)

Forecast Revision

	FY17	FY18
Forecast Revision (%)	(0.7)	0.1
Net profit (RMm)	558.5	607.6
Consensus (RMm)	561.6	599.3
TA's / Consensus (%)	99.4	101.4
Previous Rating	Hold (Maintained)	

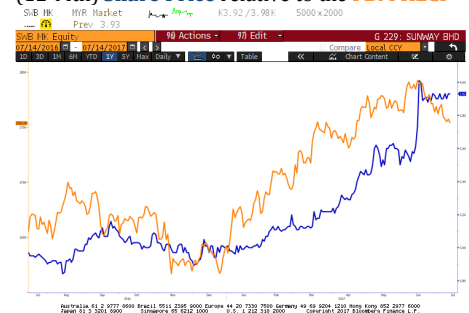
Financial Indicators

	FY17	FY18
Net Debt / Equity (%)	39.8	38.4
FCPS (sen)	20.3	13.9
Price / CFPS (x)	8.3	12.1
ROA (%)	3.0	3.3
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.1	1.1

Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	5.4	(2.2)
3 mth	19.5	1.3
6 mth	31.4	4.9
12 mth	32.3	6.0

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

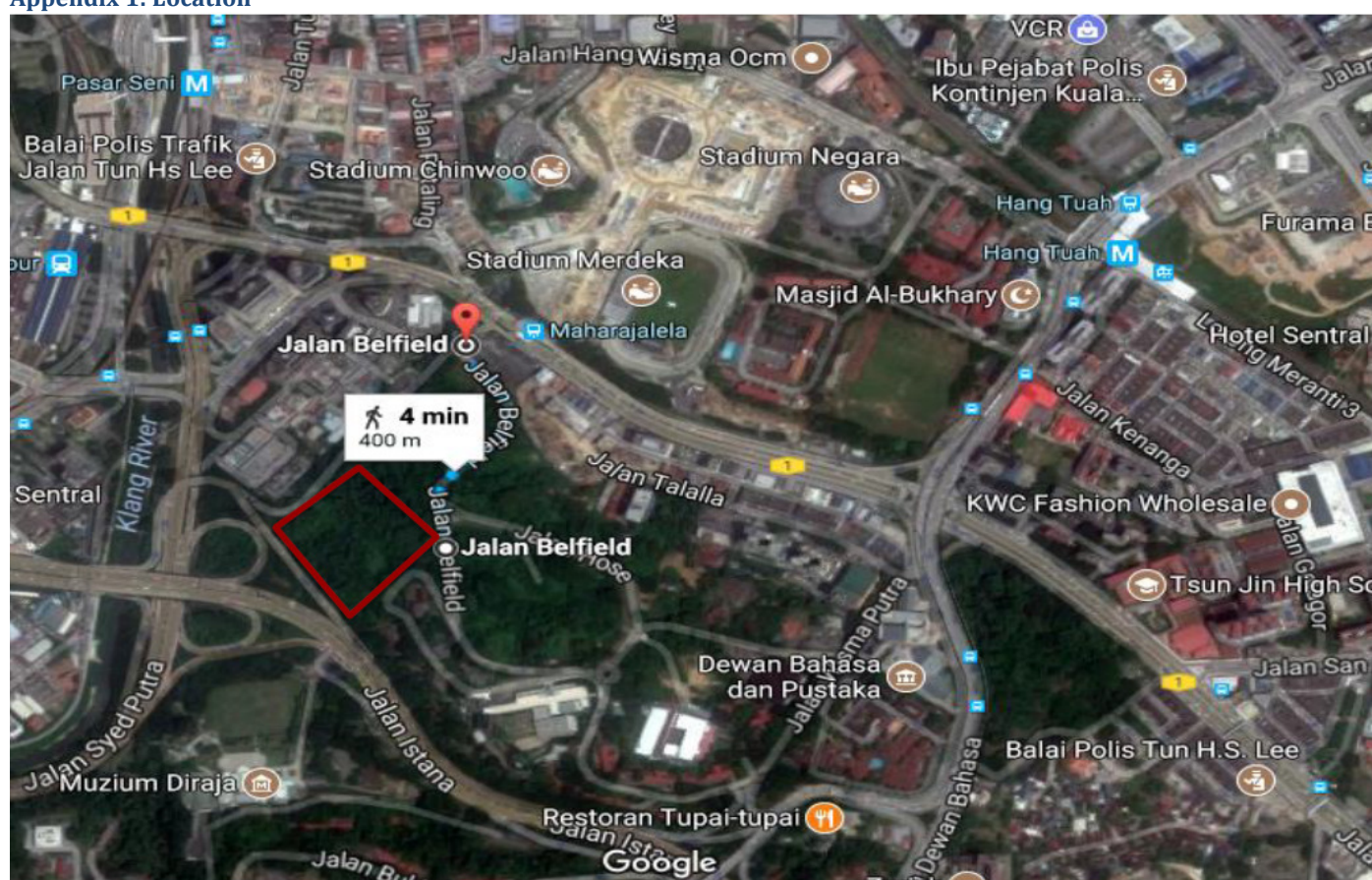
Valuation

We increase the target P/E for the property segment to 14x (from 12x), premised on brighter sales prospect following recent slew of land acquisitions. With that, we raise Sunway's SOP Value to RM4.15/share (**ex-bonus TP RM1.78/share**) from RM3.95/share previously. Maintain **Hold**. We believe near-term share price will be supported by the proposed 4-for-3 bonus issue and 3-for-10 bonus warrants, which are expected to be completed by 2HCY17.

SOP Valuation Table (ex-Bonus)

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY18 Property Earnings	213.2	14	100%	2984.8	0.62
SunCon @ RM2.26 TP	2922.2	1	54%	1589.7	0.33
SunREIT @ RM1.86 TP	5463.9	1	37%	2038.0	0.42
CY18 Healthcare Earnings	60.0	20	100%	1200.0	0.25
CY18 Other Business Earnings	61.6	12	100%	739.4	0.15
SOP Value				8552.0	1.78

Appendix 1: Location



Source: Sunway

Appendix 2: Location



Source: Sunway

Appendix 3: Location



Source: Sunway

Financial Statements

Profit and Loss (RM'mn)

FYE Dec	2015	2016	2017F	2018F	2019F
Revenue	4,448.4	4,725.9	5,252.0	5,434.0	5,735.3
EBITDA	805.3	864.9	859.2	896.7	931.9
Depreciation	(117.3)	(137.2)	(106.7)	(104.2)	(101.8)
Amortisation	(0.9)	(0.8)	(0.8)	(0.7)	(0.7)
EBIT	687.0	726.9	751.7	791.8	829.4
Finance cost	(26.6)	(59.9)	(96.5)	(95.2)	(93.9)
Associate & JV	269.9	192.0	132.1	120.5	130.8
EI	141.7	0.0	0.0	0.0	0.0
PBT	930.4	859.0	804.5	817.1	866.3
Tax	(130.9)	(140.4)	(144.8)	(147.1)	(155.9)
MI	(67.0)	(132.7)	(101.2)	(62.4)	(35.4)
Net profit	732.4	585.9	558.5	607.6	675.0
Core profit	590.7	547.4	558.5	607.6	675.0
Core EPS (sen)	12.3	11.4	11.6	12.6	14.0
DPS (sen)	13.8	5.2	5.0	5.0	6.0

Cash Flow (RM'mn)

FYE Dec	2015	2016	2017F	2018F	2019F
PBT	930.4	859.0	804.5	817.1	866.3
Depr & Amort	117.3	137.2	106.7	104.9	102.5
Change in working assets	(131.8)	(524.0)	594.9	(6.5)	(10.7)
Tax	(130.9)	(140.4)	(144.8)	(147.1)	(155.9)
Others	154.6	336.3	(35.7)	(13.8)	(19.0)
CFO	939.6	668.1	1,325.6	754.7	783.2
Capex	(698.9)	(637.0)	(323.5)	(60.0)	(60.0)
Property Inv	(563.3)	(156.2)	(24.0)	(24.0)	(24.0)
Disposal	456.8				
CFI	(805.4)	(793.2)	(347.5)	(84.0)	(84.0)
Net Addition/Rpmt	1,763.8	1,259.5	(100.0)	(100.0)	(100.0)
Dividend Paid	(665.9)	(250.5)	(577.7)	(577.7)	(625.8)
Others	0.0	0.0	0.0	0.0	0.0
CFF	1,097.9	1,009.1	(677.7)	(677.7)	(725.8)
Change in cash	1,232.0	883.9	300.5	(7.0)	(26.6)
FCF/share	7.5	(6.1)	20.3	13.9	14.5

Assumptions (RM mn)

FYE Dec	2015	2016	2017F	2018F	2019F
New Property Sales	1,209.0	1,052.5	1,191.7	1,571.4	1,994.7
Property Margins (%)	23.4	24.7	24.1	23.4	22.7
Orderbook Replenishment	2,800.0	2,600.0	2,000.0	2,000.0	2,000.0
Construction margins (%)	9.2	10.1	9.9	9.9	9.9

Note: EPS and DPS adjusted for 4 for 3 bonus issue proposed in FY17

Balance Sheet (RM'mn)

FYE Dec	2015	2016	2017F	2018F	2019F
PPE	1,372.0	1,906.4	1,859.7	1,815.5	1,773.7
Land held for dev	1,194.1	1,191.5	1,455.0	1,455.0	1,455.0
Associate & JV	3,181.2	3,223.1	3,258.9	3,272.7	3,291.6
Investment Properties	2,722.3	2,752.9	2,776.9	2,800.9	2,824.9
Goodwill	320.1	311.9	311.9	311.9	311.9
Others	471.6	294.0	294.0	293.2	292.5
LT Assets	9,261.3	9,679.9	9,956.4	9,949.2	9,949.7
Property dev. Cost	978.0	1,209.4	1,209.4	1,209.4	1,209.4
Inventories	693.1	661.8	676.3	699.7	738.5
Trade & other receivables	1,823.3	2,828.4	1,841.8	1,905.6	2,011.3
Cash & Cash equivalent	2,631.0	4,059.8	4,360.3	4,353.3	4,326.7
Others	614.2	392.1	392.1	392.1	392.1
ST Assets	6,739.6	9,151.5	8,479.8	8,560.1	8,677.9
Assets Held for Sale	0.0	0.0	0.0	0.0	0.0
Total Assets	16,000.9	18,831.4	18,436.2	18,509.4	18,627.7
Trade and other payables	2,258.5	2,708.3	2,331.0	2,411.8	2,545.5
ST Borrowings	3,217.6	4,830.7	4,780.7	4,730.7	4,680.7
Others	88.1	44.4	44.4	44.4	44.4
ST Liabilities	5,564.2	7,583.3	7,156.0	7,186.8	7,270.5
LT Borrowings	2,815.2	2,590.5	2,540.5	2,490.5	2,440.5
Others	408.2	438.4	438.4	438.4	438.4
LT Liabilities	3,223.4	3,028.9	2,978.9	2,928.9	2,878.9
Share Cap	1,799.8	2,063.1	4,813.8	4,813.8	4,813.8
Reserves	4,763.0	5,392.7	2,622.7	2,652.7	2,701.9
Shareholder's Funds	6,562.7	7,455.7	7,436.6	7,466.5	7,515.7
MI	650.6	763.5	864.7	927.1	962.5
Liabilities + Equities	16,000.9	18,831.4	18,436.2	18,509.4	18,627.7

Ratios

FYE Dec	2015	2016	2017F	2018F	2019F
EPS Growth (%)	(0.2)	(7.3)	2.0	8.8	11.1
PER (x)	13.7	14.8	14.5	13.3	12.0
GDPS (sen)	13.8	5.2	5.0	5.0	6.0
Div Yield (%)	8.2	3.1	3.0	3.0	3.6
Net Debt (RMm)	3,401.9	3,361.4	2,960.9	2,867.9	2,794.5
Net gearing (x)	0.5	0.5	0.4	0.4	0.4
ROE (%)	9.5	7.8	7.5	8.2	9.0
ROA (%)	4.1	3.1	3.0	3.3	3.6
NTA/share (RM)	3.5	3.5	1.5	1.5	1.5
P/NTA (x)	0.5	0.5	1.1	1.1	1.1

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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