



## Sunway Berhad

### Acquires Land in Kajang and Subang Jaya

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TP: RM4.15, ex-bonus: RM1.78 (-4.7%),

Last Traded: RM4.35, ex-bonus: RM1.86

Sell

#### Acquires Land in Kajang and Subang Jaya

Sunway is buying several freehold land totaling 20 acres in Kajang and USJ 1, Subang Jaya for RM231mn. It will fund the acquisitions through bank borrowings and internal funds.

#### Deal 1: Acquires 5.28 acres of freehold land in Kajang for RM63mn

Sunway announced that it has entered into a sale and purchase agreement (SPA) with Concept Housing Development (M) S/B (Vendor) for the acquisition of a freehold land in Kajang, measuring approximately 5.28 acres, together with a partially completed commercial building erected thereon, for RM63mn (or RM274 psf). According to the announcement, the director and major shareholders of the Vendor, namely Ms Cheah He Mooi and Mr Yap Chin Gum, is the sister and brother-in-law of Tan Sri Dato' Seri Dr Jeffery Cheah Fook Ling (director and major shareholder of Sunway) respectively. As such, this acquisition is deemed to be a related party transaction. The proposed acquisition is expected to be completed by Feb 2018.

#### More about the land

The land is located less than 2km from Kajang town and next to the Sg Jernih MRT Station - see **Appendix 1 - 3**. According to the announcement, 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 land. Construction had also commenced but was discontinued by the previous developer when the structure of the car park podium and both commercial blocks reached the roof top. We understand that Sunway intends to continue building on the semi-completed structure but will replace the original development with a proposed mixed-development comprising a retail podium/commercial lots, and serviced apartments/SOHO, which is expected to generate a potential GDV of RM460mn. Targeted for launch in 2019, the proposed development is expected to span a development period of 5 years.

#### Deal 2: Acquires 14.8 acres of freehold land in Subang Jaya for RM167.6mn

Sunway also announced that it has entered into a memorandum of agreement (MoA) with JAKS Resources Bhd (JAKS) for the acquisition of 4 parcels of freehold land in USJ 1, Subang Jaya, totaling approximately 14.8 acres, for RM167.6mn (or RM260 psf). Sunway and JAKS will finalise and execute a SPA within 21 days from the date of the MoA. The SPA shall be conditional upon the approval of the shareholders of JAKS for the proposed disposal.

The land is located 500 meters from landmark buildings such as Da Men Mall, USJ Summit, Giant Hypermarket and Mydin Hypermarket. In addition, the land is located near public transportation such as South Quay BRT and USJ 7 LRT station, and easily accessible via major highways such as Kesas, NPE and NKVE. Upon completion of the acquisition, Sunway will be using the land for warehousing and storage facilities for its trading manufacturing businesses. However, the group will look to subsequently redevelop the land into a mixed

#### Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	2046.6
Market Cap (RMmn)	8902.9
Par Value	1.00
52-wk Hi/Low (RM)	4.40/2.84
12-mth Avg Daily Vol ('000 shrs)	1804.9
Estimated Free Float (%)	0.3
Beta	0.5

#### Major Shareholders (%)

Sungei Way Corp (56.4)

#### Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	558.5	607.6
Consensus (RMm)	561.6	599.3
TA's / Consensus (%)	99.4	101.4
Previous Rating	Hold (Downgraded)	

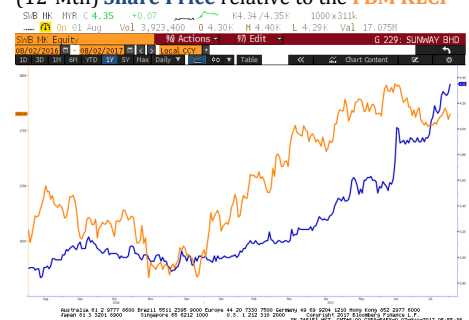
#### Financial Indicators

	FY17	FY18
Net Debt / Equity (%)	39.8	38.4
FCPS (sen)	20.3	13.9
Price / CFPS (x)	9.2	13.4
ROA (%)	3.0	3.3
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.3	1.3

#### Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	11.0	0.1
3 mth	26.5	(0.8)
6 mth	42.6	5.5
12 mth	49.4	6.3

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



Source: Bloomberg

development with a GDV of at least RM1.4bn in the next five years.

### Deals to augur well for the group over the long term

In terms of acquisition cost, we believe it is reasonable as the land cost-to-GDV ratio for Kajang and Subang land works out to 14% and 12% respectively, below the industry's rule of thumb of 20%. These 2 land marks Sunway's third and fourth acquisition in 2017. These land will collectively increase the group's outstanding GDV by 3.7% to RM53.5bn (effective GDV: RM35.9bn). The land acquisitions are expected to augur well for the group over the long term, as it will further expand the group's land bank in the Klang Valley and diversify from its concentration risk in Johor. Given the land are in close proximity to MRT, LRT and BRT stations, we expect the excellent connectivity to drive sales performance of these projects.

### Impact

No change to our FY17-19 earnings estimates. We assume official launch of Kajang Land in 2019 with progress billing to start from 2020 onwards.

### Valuation

No change to our target price of RM4.15/share (ex-bonus TP RM1.78/share) based on SOP valuation. Sunway's share price has performed well since the group proposed a 4-for-3 bonus issue and 3-for-10 bonus warrants in June (+17%). We reckon the group has replenished landbank yielding potential RM5.0bn GDV in 2017 but immediate earnings impact from these land acquisitions is limited as target launch will be in 2018/2019. We advise investors to take profit from the price rally as we believe the positives have been largely reflected in the share price and investors would likely to refocus back on the group's sales performance, particularly in Johor.

Valuation wise, the group is currently trading at CY18 P/E and P/B of 14.8x and 1.3x, which is also higher than the sector's average P/E of 13.4x and 1.0x respectively (for big caps under our coverage). Downgrade Sunway to **Sell**.

### 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
<b>SOP Value</b>				<b>8552.0</b>	<b>1.78</b>

Appendix 1: Location



Source: Sunway

Appendix 2: Location



Source: Sunway

**Appendix 3: Aerial View**



*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, DPS and NTA/share 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
<b>Total Assets</b>	<b>16,000.9</b>	<b>18,831.4</b>	<b>18,436.2</b>	<b>18,509.4</b>	<b>18,627.7</b>
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
<b>Liabilities + Equities</b>	<b>16,000.9</b>	<b>18,831.4</b>	<b>18,436.2</b>	<b>18,509.4</b>	<b>18,627.7</b>
<b>Ratios</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
EPS Growth (%)	(0.2)	(7.3)	2.0	8.8	11.1
PER (x)	15.2	16.4	16.1	14.8	13.3
GDPS (sen)	13.8	5.2	5.0	5.0	6.0
Div Yield (%)	7.4	2.8	2.7	2.7	3.2
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)	1.3	1.5	1.5	1.5	1.5
P/NTA (x)	1.4	1.3	1.3	1.3	1.2

## 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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