



Sunway Berhad

Aiming Big in Other Business Segments

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TP: RM3.95, ex-bonus: RM1.69 (+5.9%)

Last Traded: RM3.73, ex-bonus: RM1.60

Hold

Yesterday, Sunway hosted a briefing to provide an update on the group's sector reclassification and its strategic direction moving forward. We are upbeat on the group's ambition to grow its non-property related business particularly healthcare services. We like the group's on-going efforts to add value to its township development. The group also announced a 4-for-3 bonus issue and 3-for-10 bonus warrants, which we think will help improve trading liquidity. Assigning a higher P/E to the group's healthcare earnings and removing the 10% holding company discount, our SOP-derived target price is now revised to RM1.69/share (ex-bonus). Maintain Hold as we believe the recent run up in share price has already factored in the positives.

A Trading and Services Counter Now

Sunway Bhd has been re-classified to Trading/services sector from Properties sector recently. Management believe it is timely and appropriate for Sunway to be re-classified under the Trading / Services sector to better reflect the group's strategic business direction and ambitions. Going forward, the group intends to grow its non-property related businesses such as Healthcare, Trading & Manufacturing, Leisure, Quarry and Building Materials to become market leaders in their respective sectors. Specifically, the healthcare division is the key division as Sunway is targeting to spend about RM1bn to set up 5 new hospitals in the Klang Valley, Penang and Ipoh – see Figure 1. This could potentially increase the group's total beds from 618 beds (includes 245 beds in Sunway Medical Centre to be completed by end this year) to >1,700 beds by 2020. We gather that the 2017 projected net profit from the healthcare division to range between RM45 and RM50mn. Potential listing of its healthcare division is a re-rating catalyst.

Focusing on creating value to its township development

Citing the outlook of the property market, particularly in the Iskandar region, management acknowledged that the market environment remains challenging at this juncture. Sentiment is affected by oversupply fears with huge influx of high-end high rise developments being undertaken by Mainland Chinese Developers. However, Sunway is committed to turn its 1,800 acres Sunway Iskandar township into a world-class city in harmony with nature, making it "Nature's Capital City". Replicating the success of Bandar Sunway, the RM30bn Sunway Iskandar will see full integration of a healthy and versatile environment, world-class education, excellent infrastructure and progressive healthcare services within the township development.

4-for-3 bonus issue and 3-for-10 bonus warrants

Rewarding shareholders, the group has proposed a bonus issue of: i) up to 2.8bn new ordinary shares on the basis of 4 bonus share for every 3 existing Sunway shares, and ii) 631mn free warrants on the basis of 3 warrants for every 10 Sunway shares held on the same entitlement date. The warrant will be issued at no cost to the entitled shareholders of Sunway and the exercise price of the warrant will be determined at a later date. The proposals are expected to be completed by the 2HCY17.

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	2037.4
Market Cap (RMmn)	7599.6
Par Value	1.00
52-wk Hi/Lo (RM)	3.73/2.84
12-mth Avg Daily Vol ('000 shrs)	1484.40
Estimated Free Float (%)	29.0
Beta	0.5

Major Shareholders (%)

Sungei Way Corp	(56.6)
EPF	(4.61)

Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.1	1.3
Net profit (RMm)	562.3	607.2
Consensus (RMm)	561.6	599.3
TA's / Consensus (%)	100.1	101.3
Previous Rating	Hold (Maintained)	

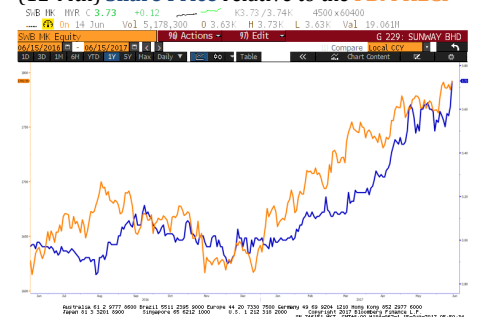
Financial Indicators

	FY17	FY18
Net Debt / Equity (%)	36.2	34.9
FCPS (sen)	25.8	13.8
Price / FCPS (x)	6.2	11.6
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	6.9	0.8
3 mth	19.6	4.4
6 mth	25.6	9.5
12 mth	25.6	10.1

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



Source: Bloomberg

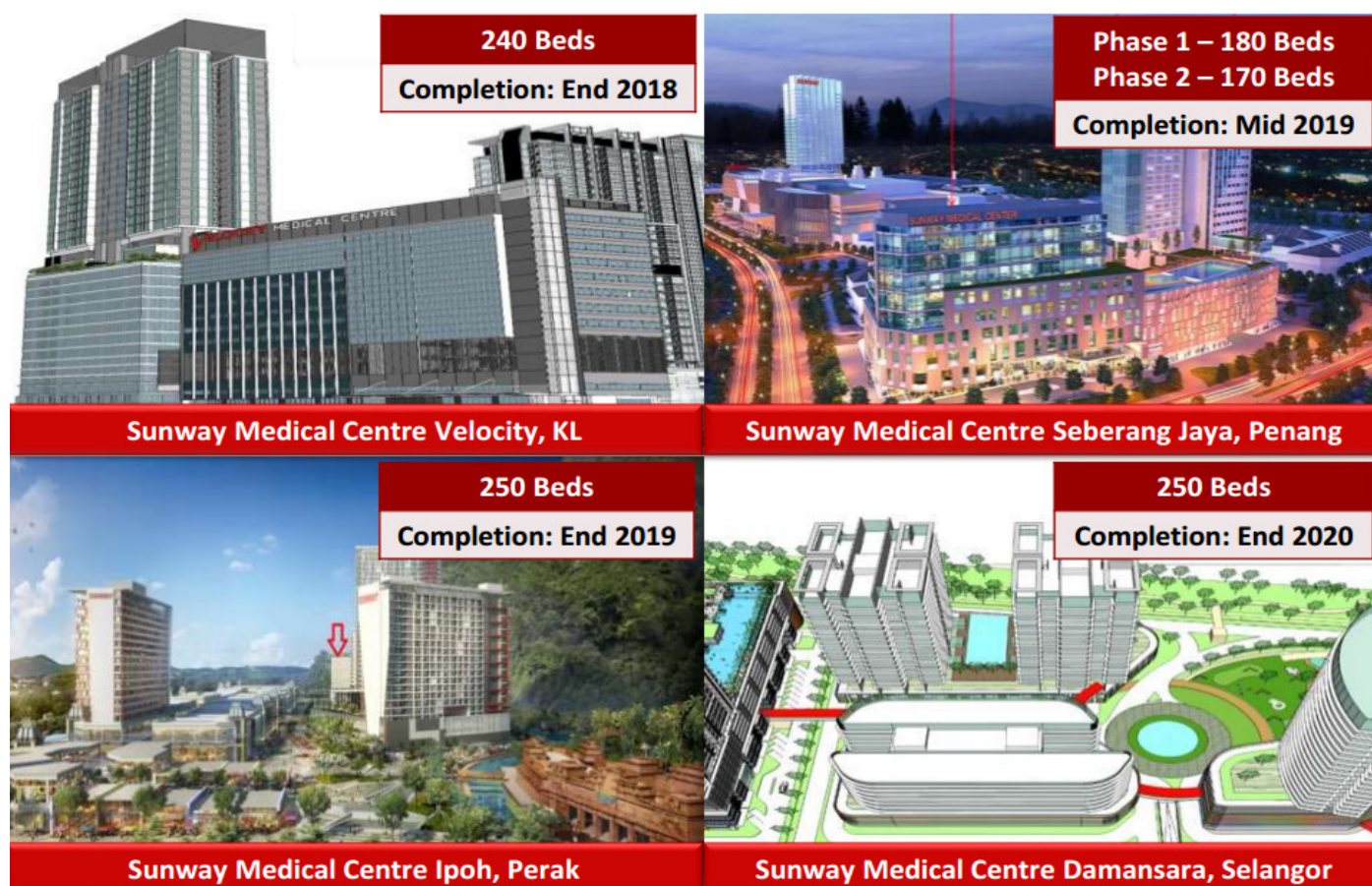
The 4-for-3 bonus issue comes as a positive surprise and could potentially help further improve trading liquidity. Meanwhile, the free warrants would allow shareholders to further increase their equity participation in Sunway and benefit from any potential capital appreciation arising from the exercise of the Warrants. For illustration purposes and based on an indicative strike price of RM1.53 per warrant, the group could potentially raise RM965.4mn, which can be utilized for future working capital. Note that at RM1.53, it is at a discount of approximately 4% to the theoretical ex-bonus price of Sunway shares of RM1.60.

Valuation

Incorporating the bonus issue exercise and contribution from Sunway's non-property related businesses, we adjust our FY17-19 earnings higher by 0.1-2.0%. Given the exercise price of the warrants will follow an annual step-down mechanism, implying lower exercise price in future years, we expect shareholders to hold the warrant until maturity (tenure 7 years). Hence, we do not factor in warrant conversion in our forecasts horizon.

For our SOP valuation, we now value the group's healthcare division at 20x CY18 earnings, though at a steep discount our house's implied CY18 target P/E of 30x for the hospital operators. The steep discount reflects the group's relatively small earnings base. We also remove our 10% holding company discount on Sunway due to its ability to generate healthy, consistent returns to shareholders. Taken together, we now value Sunway at RM3.95/share (ex-bonus TP RM1.69/share) – see **SOP valuation table**. Maintain **Hold** as we believe the recent run up in share price has already factored in the P/E expansions arising from greater earnings contribution from other business division going forward. Total potential return is 9.0%.

Figure 1: New Medical Centers in the Pipeline



Source: Sunway

SOP Valuation Table

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY18 Property Earnings	218.7	12	100%	2624.6	0.55
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	55.0	20	100%	1100.0	0.23
CY18 Other Business Earnings	65.9	12	100%	790.9	0.16
SOP Value				8143.2	1.69

Financial Statements

Profit and Loss (RM'mn)

FYE Dec	2015	2016	2017F	2018F	2019F
Revenue	4,448.4	4,725.9	5,262.0	5,468.5	5,763.9
EBITDA	805.3	864.9	861.0	890.8	921.0
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	753.5	785.9	818.5
Finance cost	(26.6)	(59.9)	(96.5)	(95.2)	(93.9)
Associate & JV	269.9	192.0	135.9	126.3	142.4
EI	141.7	0.0	0.0	0.0	0.0
PBT	930.4	859.0	810.1	816.9	867.0
Tax	(130.9)	(140.4)	(145.8)	(147.0)	(156.1)
MI	(67.0)	(132.7)	(102.0)	(62.7)	(42.9)
Net profit	732.4	585.9	562.3	607.2	668.1
Core profit	590.7	547.4	562.3	607.2	668.1
Core EPS (sen)	12.3	11.4	11.7	12.6	13.9
DPS (sen)	13.8	5.2	5.0	5.0	6.0

Cash Flow (RM'mn)

FYE Dec	2015	2016	2017F	2018F	2019F
PBT	960.2	929.2	793.2	787.2	848.5
Depr & Amort	117.8	117.3	78.5	77.5	76.6
Change in working assets	(36.6)	(131.8)	72.0	(16.7)	(8.6)
Tax	(148.6)	(129.8)	(160.6)	(159.4)	(171.8)
Others	(152.8)	(536.3)	(23.5)	(20.5)	(19.9)
CFO	740.0	248.7	759.7	668.2	724.9
Capex	(60.0)	(346.0)	(332.9)	(60.0)	(60.0)
Property Inv	(324.0)	(24.0)	(24.0)	(24.0)	(24.0)
Disposal	0.0	456.8	0.0	0.0	0.0
CFI	(384.0)	86.8	(356.9)	(84.0)	(84.0)
Net Addition/Rpmt	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Dividend Paid	(190.4)	(665.9)	(198.0)	(198.0)	(198.0)
Others	20.9	0.0	0.0	0.0	0.0
CFF	(269.5)	(765.9)	(298.0)	(298.0)	(298.0)
Change in cash	86.5	(430.4)	104.8	286.2	342.9
FCF/share	20.6	18.6	22.4	32.5	35.6

Assumptions (RM mn)

FYE Dec	2015	2016	2017F	2018F	2019F
New Property Sales	1,209.0	1,052.5	1,321.7	1,671.4	2,044.7
Property Margins (%)	23.4	24.7	24.0	21.9	21.2
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	1,191.5	1,191.5	1,191.5
Associate & JV	3,181.2	3,223.1	3,262.7	3,282.2	3,312.8
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	9,696.7	9,695.3	9,707.4
Property dev. Cost	978.0	1,209.4	1,209.4	1,209.4	1,209.4
Inventories	693.1	661.8	677.6	704.2	742.2
Trade & other receivables	1,823.3	2,828.4	1,845.3	1,917.7	2,021.3
Cash & Cash equivalent	2,631.0	4,059.8	4,624.2	4,610.4	4,573.0
Others	614.2	392.1	392.1	392.1	392.1
ST Assets	6,739.6	9,151.5	8,748.6	8,833.8	8,938.0
Assets Held for Sale	0.0	0.0	0.0	0.0	0.0
Total Assets	16,000.9	18,831.4	18,445.2	18,529.1	18,645.4
Trade and other payables	2,258.5	2,708.3	2,335.5	2,427.1	2,558.2
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	7,160.5	7,202.1	7,283.2
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	2,626.5	2,656.1	2,698.4
Shareholder's Funds	6,562.7	7,455.7	7,440.4	7,469.9	7,512.2
MI	650.6	763.5	865.5	928.2	971.1
Liabilities + Equities	16,000.9	18,831.4	18,445.2	18,529.1	18,645.4
Ratios	2015	2016	2017F	2018F	2019F
EPS Growth (%)	(0.2)	(7.3)	2.7	8.0	10.0
PER (x)	13.0	14.1	13.7	12.7	11.5
GDPS (sen)	13.8	5.2	5.0	5.0	6.0
Div Yield (%)	8.7	3.3	3.1	3.1	3.8
Net Debt (RMm)	3,401.9	3,361.4	2,697.0	2,610.7	2,548.2
Net gearing (x)	0.5	0.5	0.4	0.3	0.3
ROE (%)	9.5	7.8	7.5	8.1	8.9
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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