

COMPANY UPDATE

Sunway Bhd (SWB MK)

Rise Of The Mini Conglomerate

Sunway announced its plans to undertake a bonus issue of ordinary shares and a bonus issue of free warrants, which is expected to be completed in 2H17. During the briefing, the company also shared that the reason for its recent sector classification on Bursa was because of the growing earnings prominence of its remaining divisions, including the robust healthcare division. Maintain BUY with a higher target price of RM4.18, implying a modest 14x 2018F PE.

WHAT'S NEW

- Proposes a bonus issue and free warrants.** Sunway announced that it plans to undertake the following:
 - 3-for-4 bonus issue of new ordinary Sunway shares.** The issuance would involve the issuance of up to 2.8b new bonus shares.
 - Bonus issue of free warrants on the basis of 3 new warrants for every 10 existing Sunway ordinary shares.** The issuance would involve the issuance of up to 631m new warrants with a tenure of 7 years. The exercise price of the warrants will be determined and announced at a later date. Exercise price of the warrants would be on an annual step-down basis, and details will be set out in the Deed Poll.
- A rising mini conglomerate.** The group recently changed its Bursa classification from Property to Trading/Services, reflecting its growing prominence in its other businesses besides property development, which include: a) healthcare, b) manufacturing, and c) trading. As a comparison, earnings from its real estate related business (including property development and investment properties) was as high as 75% in 2012, but has since shrunk to 48% of total earnings in 2016.
- Value of healthcare division is gaining prominence.** As highlighted in our previous reports, we continue to be positive on the prospects of Sunway's healthcare division. It currently operates 600 hospital beds, mainly at its flagship hospital, Sunway Medical Centre. While earnings for this division is gaining its prominence (PAT of RM40m in 2016), the group sees it as being at an infancy stage and would most likely explore a potential value unlocking exercise in the medium term.

KEY FINANCIALS

Year to 31 Dec (RMm)	2015	2016	2017F	2018F	2019F
Net turnover	4,451	4,726	4,997	5,232	5,782
EBITDA	788	748	837	868	932
Operating profit	687	608	670	695	752
Net profit (rep./act.)	732	586	599	617	662
Net profit (adj.)	591	547	599	617	662
EPS (sen)	28.8	26.7	26.0	26.7	28.7
PE (x)	12.9	14.0	14.4	13.9	13.0
P/B (x)	1.0	1.0	1.0	0.9	0.8
EV/EBITDA (x)	14.1	14.8	13.2	12.8	11.9
Dividend yield (%)	2.7	3.2	3.1	3.2	3.4
Net margin (%)	16.5	12.4	12.0	11.8	11.5
Net debt/(cash) to equity (%)	54.3	49.6	35.6	31.4	27.3
Interest cover (x)	29.6	12.5	43.3	63.7	104.4
ROE (%)	11.7	8.4	7.7	7.4	7.4
Consensus net profit	-	-	562	599	647
UOBKH/Consensus (x)	-	-	1.07	1.03	1.02

Source: Sunway Bhd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.73
Target Price	RM4.18
Upside	+12.1%
(Previous TP)	RM3.93

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SWB MK
Shares issued (m):	2,037.4
Market cap (RMm):	7,599.6
Market cap (US\$m):	1,784.8
3-mth avg daily t'over (US\$m):	2.1

Price Performance (%)

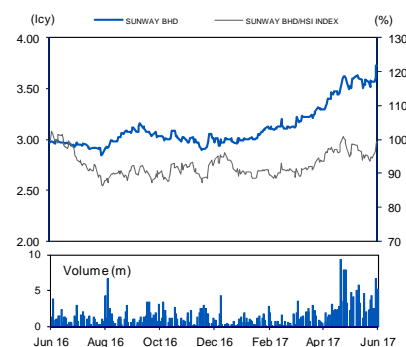
52-week high/low	RM3.73/RM2.84			
1mth	3mth	6mth	1yr	YTD
4.8	19.2	23.9	25.2	24.3

Major Shareholders

Sungei Way Corp Sdn Bhd	51.6
Skim Amanah Saham Bumiputera	5.7
Sharp Ventures Sdn Bhd	4.0

FY17 NAV/Share (RM)	3.89
FY17 Net Debt/Share (RM)	1.38

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Rising prominence of healthcare division should not be ignored.** The group operates close to 600 hospital beds, mainly at the Sunway Medical Centre (Bandar Sunway) and the recently-opened cancer centre. In 2-3 years, the group targets to add 250 new beds at the Sunway Velocity hospital. In 2016, the healthcare division contributed about RM40m to the group's net profit (about 7% of core net profit). However, we expect earnings in the next two years to dip, mainly due to the additional start-up costs for the recently opened cancer centre. By pegging the healthcare division at a modest 25x PE, the division could be worth over RM1b, or about 15% of Sunway's current market capitalisation. In the medium term, we do not discount the possibility of the group unlocking the value of this division.
- To explore concept of assisted living.** The group is on the lookout to form a JV with a partner to potentially explore the concept of assisted living development. It plans to leverage on its existing portfolio of hospitals to offer buyers/lessee an option to own/lease a property within close proximity of its hospitals.
- Lining up RM2b worth of property launches in 2017.** Sunway has set a RM2b sales target for the year. To achieve this, it has earmarked about RM2b worth of new launches, with the two largest launches being condominiums in Sunway South Quay and Kelana Jaya with GDV of RM400m each. The bulk of the launches earmarked for the year were earlier planned for launch in 2016, but were deferred to this year as the group moves to further enhance the amenities surrounding the developments before launch.
- Foreign shareholding continues to grow.** As at end-May 17, Sunway's foreign shareholding stood at 8.4% (from 7.8% in Jan 17). Excluding GIC's holdings, Sunway's peak foreign shareholding stood at 9.9% which was recorded back in Feb 12 and Apr 13.

EARNINGS REVISION/RISK

- No change.
- Key risks include: a) rising interest rates, b) tighter lending policies by banks, and c) rising cost of raw materials leading to margin erosion.

VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of RM4.18** (from RM3.93), as we reduce our SOTP discount to 15% to reflect its healthcare division (which has underappreciated values) gaining prominence. We like Sunway for its diversified business exposure which includes its strong construction and REIT divisions. Also, better capital management as a result of the potential amendment of REIT guidelines could translate into higher dividends. Our target price still implies a modest 14x 2018F PE. Our ex-bonus target price is RM1.79.
- We think PE expansion for Sunway over the longer term is justified, as the property development related earnings is eclipsed by its other businesses, particularly the healthcare division.

SHARE PRICE CATALYST

- Better property sales.
- Securing more construction jobs.
- Unlocking the value of investment properties via a REIT.

SOTP VALUATION

	(RMm)
Property development	6,117.0
REIT	1,966.9
Construction	1,208.2
Quary & building materials	267.3
Trading	595.0
Investment Properties	788.9
Less: Holding co debt	(778.7)
Total SOP value	10,164.6
Sharebase (m)	2,069.0
SOP/share (RM)	4.91
Discount	15%
Target price (RM)	4.18

Source: UOB Kay Hian

EX-BONUS SOTP VALUATION

	(RMm)
Property development	6,117.0
REIT	1,966.9
Construction	1,208.2
Quary & building materials	267.3
Trading	595.0
Investment Properties	788.9
Less: Holding co debt	(778.7)
Total SOP value	10,164.6
Sharebase (m)	4,827.7
SOP/share (RM)	2.11
Discount	15%
Target price (RM)	1.79

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Net turnover	4,726	4,997	5,232	5,782
EBITDA	748	837	868	932
Deprec. & amort.	140	167	174	180
EBIT	608	670	695	752
Associate contributions	272	228	228	228
Net interest income/(expense)	(60)	(19)	(14)	(9)
Pre-tax profit	859	879	909	971
Tax	(140)	(141)	(145)	(155)
Minorities	(133)	(139)	(146)	(154)
Net profit	586	599	617	662
Net profit (adj.)	547	599	617	662

BALANCE SHEET

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Fixed assets	1,876	1,959	2,035	2,105
Other LT assets	7,804	7,810	8,038	8,266
Cash/ST investment	4,060	4,898	5,036	5,211
Other current assets	5,092	5,145	5,567	5,957
Total assets	18,831	19,812	20,677	21,541
ST debt	4,831	4,831	4,831	4,831
Other current liabilities	2,753	3,273	3,668	4,023
LT debt	2,931	2,931	2,931	2,931
Other LT liabilities	98	98	98	98
Shareholders' equity	7,456	8,055	8,672	9,334
Minority interest	764	624	478	324
Total liabilities & equity	18,831	19,812	20,677	21,541

CASH FLOW

Year to 31 Dec (RMm)	2016	2017F	2018F	2019F
Operating	538	1,327	635	690
Pre-tax profit	859	879	909	971
Tax	(111)	(141)	(145)	(155)
Deprec. & amort.	140	167	174	180
Associates	(248)	0	0	0
Working capital changes	(329)	721	(3)	(7)
Other operating cashflows	227	(299)	(299)	(299)
Investing	(1,592)	(250)	(250)	(250)
Capex (growth)	(288)	(250)	(250)	(250)
Investments	(248)	0	0	0
Proceeds from sale of assets	64	0	0	0
Others	(1,120)	0	0	0
Financing	1,571	(240)	(247)	(265)
Dividend payments	(219)	(240)	(247)	(265)
Issue of shares	595	0	0	0
Proceeds from borrowings	1,457	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(261)	0	0	0
Net cash inflow (outflow)	517	838	138	175
Beginning cash & cash equivalent	1,248	4,060	4,898	5,036
Changes due to forex impact	2,295	0	0	0
Ending cash & cash equivalent	4,060	4,898	5,036	5,211

KEY METRICS

Year to 31 Dec (%)	2016	2017F	2018F	2019F
Profitability				
EBITDA margin	15.8	16.8	16.6	16.1
Pre-tax margin	18.2	17.6	17.4	16.8
Net margin	12.4	12.0	11.8	11.5
ROA	3.4	3.1	3.0	3.1
ROE	8.4	7.7	7.4	7.4
Growth				
Turnover	6.2	5.7	4.7	10.5
EBITDA	(5.1)	11.9	3.7	7.3
Pre-tax profit	(7.6)	2.3	3.4	6.8
Net profit	(20.0)	2.3	3.0	7.3
Net profit (adj.)	(7.3)	9.5	3.0	7.3
EPS	(7.3)	(2.8)	3.0	7.2
Leverage				
Debt to total capital	48.6	47.2	45.9	44.6
Debt to equity	104.1	96.4	89.5	83.1
Net debt/(cash) to equity	49.6	35.6	31.4	27.3
Interest cover (x)	12.5	43.3	63.7	104.4

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