

04 August 2017 | Corporate Update

## Sunway Berhad

### Disposing Sunway Clio to Sunway REIT

#### INVESTMENT HIGHLIGHTS


- **Disposing Sunway Clio to Sunway REIT**
- **Disposal gain of RM29.4m**
- **Proceed of disposal to reduce net gearing**
- **Marginal impact on earnings**
- **Maintain Neutral with an unchanged TP of RM4.25**

**Disposing Sunway Clio to Sunway REIT.** Sunway Berhad (Sunway) announced that it has entered into a sale and purchase agreement to dispose Sunway Clio to Sunway REIT for RM340m. Sunway has also entered into hotel lease agreement with Sunway REIT to lease back Sunway Clio for an initial term of 10 years. The asset disposal is expected to complete in 4QFY17.

**Disposal gain of RM29.4m.** Sunway Clio is located within the township of Sunway City, in close proximity to Sunway Resort Hotel & Spa. Sunway Resort City. Sunway Clio is a 19-storey 4-star rated hotel with 401 rooms. Besides, Sunway Clio is also having 88,384 sq ft of retail space. Construction of Sunway Clio was completed on 12 February 2016 with estimated total development cost at RM303.2m. Sunway is expected to recognize disposal gain of RM29.4m from the disposal.

**Proceed of disposal to reduce net gearing.** We are positive on the disposal as we think that the disposal is timely to help bringing down net gearing of Sunway. Net gearing of Sunway is expected to climb above 0.54x from 0.47x in 2QFY17 following a slew of land acquisitions earlier this year with total purchase consideration of >RM500m. Sunway intends to utilise RM275m or 81% of proceed from disposal for repayment of borrowings. We estimate net gearing of Sunway to be contained at around 0.5x post disposal of Sunway Clio.

**Minimal impact on earnings.** Core earnings impact from the disposal is minimal. We estimate interest cost saving of around RM13m to be largely offset by lease payment for Sunway Clio. Overall, we raised our net income forecast for FY18 by 4.9% after taking into account disposal gain of RM29.4m. Nevertheless, our core net income estimates remained unchanged as we treat fair value gain as one-off item.

**Maintain Neutral with an unchanged TP of RM4.25.** We maintain our target price for Sunway at RM4.25, based on sum-of-parts valuation. 

**Maintain NEUTRAL**

**Unchanged Target Price (TP): RM4.25**

RETURN STATS	
Price (3 Aug 2017)	RM4.32
Target Price	RM4.25
Expected Share Price Return	-1.6%
Expected Dividend Yield	2.9%
<b>Expected Total Return</b>	<b>1.3%</b>

STOCK INFO	
KLCI	1,771.90
Bursa / Bloomberg	5211 / SWB MK
Board / Sector	Main / Trading & Services
Syariah Compliant	Yes
Issued shares (mil)	2,061.7
Market cap. (RM'm)	8,841.51
Price over NA	1.17
52-wk price Range	RM2.84 – RM4.4
Beta (against KLCI)	0.48
3-mth Avg Daily Vol	3.80m
3-mth Avg Daily Value	RM14.5m
Major Shareholders	
Sungei Way Corp	56.44%
EPF	5.42%
Cheah Fook Ling	4.59%

**Figure 1: Sunway Clio**



Source: Company

## INVESTMENT STATISTICS

FYE Dec (RM m)	FY14A	FY15A	FY16A	FY17F	FY18F
Revenue	4558.1	4448.4	4725.9	4907.4	5379.6
Core EBIT	609.8	546.6	726.9	653.7	687.7
Core PBT	810.1	788.7	820.5	821.0	871.9
Net Income	734.0	732.4	585.9	555.6	633.0
Core Net Income	583.9	590.7	547.4	555.6	603.6
EPS (sen)	42.6	41.8	28.4	27.0	30.7
Core EPS (sen)	33.9	33.7	26.6	27.0	29.3
Net DPS (sen)	11.00	38.00	12.14	12.40	13.47
Net Dvd Yield	2.5%	8.8%	2.8%	2.9%	3.1%
Core PER	12.76	12.82	16.27	16.03	14.75
NTA/share (RM)	3.44	3.74	3.62	3.76	3.93
P/NTA	1.26	1.15	1.19	1.15	1.10
Core ROE	9.8%	9.0%	7.3%	7.2%	7.5%
Core ROA	4.5%	3.7%	2.9%	2.9%	3.1%
Net Gearing (x)	0.30	0.50	0.45	0.44	0.46

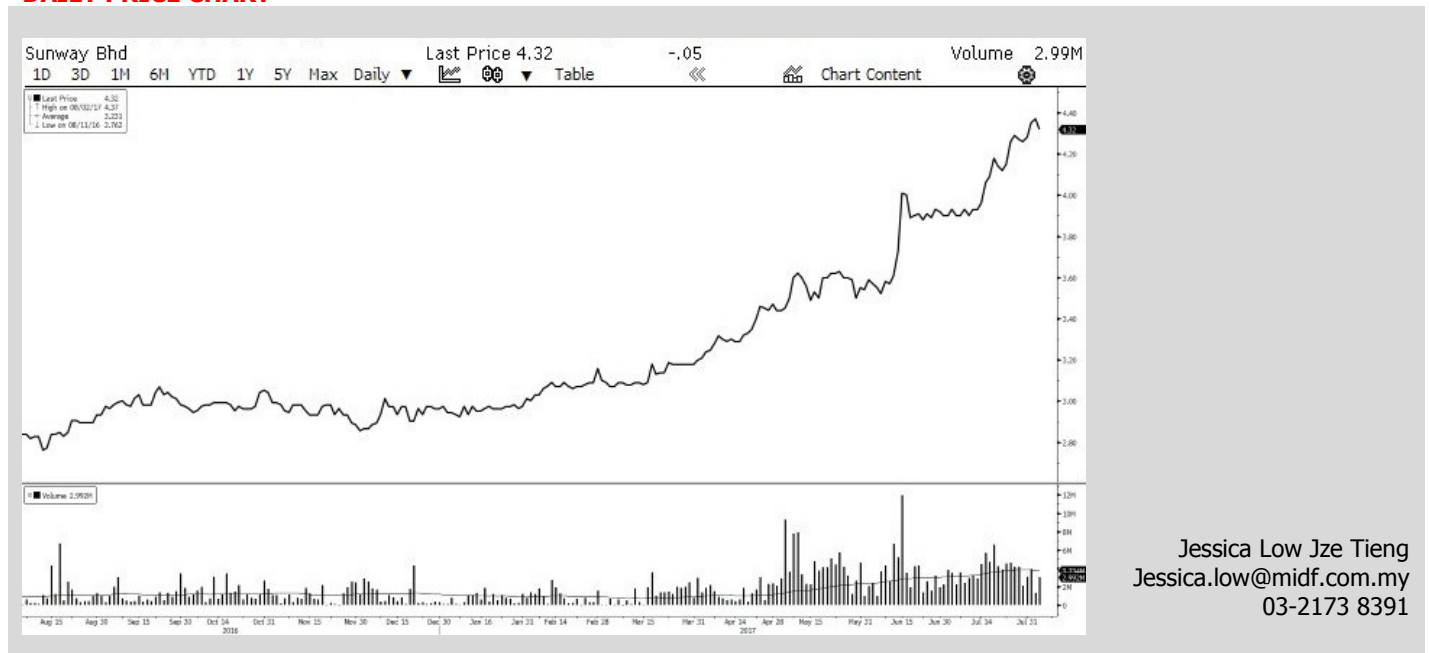
Source: Company, MIDF Research Estimates

## Sum-of-Parts

Division	Methodology	PER (x)	Stake	Discount	Value (RM m)
Property Development	NPV of profits	n/a	100%	10%	2548.1
Property Investment	Net Book Value	n/a	100%	n/a	1490.0
Construction	17x FY18E PER - KL Construction Index PER	17	54%	n/a	2279.0
Sunway REIT	Target Price of RM1.88	n/a	35%	n/a	1910.2
Trading and manufacturing	10x FY18E PER - In line with small cap PER of 10x	10	100%	n/a	149.6
Quarry	10x FY18E PER - In line with small cap PER of 10x	10	100%	n/a	376.4
<b>Total SOP</b>					<b>8753.3</b>
Number of shares					2061.7
<b>Target Price (RM)</b>					<b>4.25</b>

Source: MIDF Research Estimates

## DAILY PRICE CHART



Source: Bloomberg

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.