



## Sunway Berhad

### Acquires Land in Wangsa Maju

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TP: RM4.15, ex-bonus: RM1.78 (0.0%),

Last Traded: RM4.15, ex-bonus: RM1.78

Sell

### Proposed JV Development in Wangsa Maju

Sunway has entered into a subscription and shareholders' agreement (SSA) with Huatland Development S/B (HDSB) and Sunglobal Resources S/B (Sunglobal) to establish a joint venture via Sunglobal.

Sunglobal has on even date entered into a sales and purchase agreement (SPA) with Setapak Heights Development S/B (vendor) for the acquisition of a freehold land in Wangsa Maju, Kuala Lumpur, measuring 4.34 acres, for a total purchase consideration of RM51.1mn (or RM270psf).

### Salient terms of the agreements

Under the SSA, Sunway and HDSB shall subscribe for the following shares for cash in the share capital of Sunglobal – see **Figure 1**.

Figure 1: Shareholding Structure of Sunglobal

Shareholders	Number of Ordinary Shares	Number of Redeemable Preference Shares	Shareholding Ratio
Sunway	275,000*	8,151,550	55%*
HDSB	225,000	6,669,450	45%
<b>Total</b>	<b>500,000</b>	<b>14,821,000</b>	<b>100%</b>

Note: \*- include 1 ordinary share currently held by Sunway in JV Co

Source: Sunway

Meanwhile, the completion of the SPA of the land shall be conditional upon the following conditions precedent being fulfilled or obtained or waived by mutual agreement of the parties by 3 months from the date of the SPA or such extended date as the parties may mutually agree:

- (a) The vendor having obtained a revised development order with an **approved plot ratio of not less than 5.0 times**; and
- (b) The vendor and Sunglobal having successfully registered with the Royal Malaysian Customs Department as a Goods and Services Tax registrant.

### RM500mn mixed-development

Located in Wangsa Maju, the land is less than 8km from Kuala Lumpur City Centre – see **Appendix 1 - 3**. In addition, the land is only 850m away from Sri Rampai LRT Station. Other amenities within 1.5km of the land include, Wangsa Walk Mall and Aeon Big Wangsa Maju. In terms of accessibility, the land also has easy access to and from the DUKE, AKLEH and MRR2 highways. According to the announcement, the land will be developed into a mixed development, comprising serviced apartments and lifestyle retail units. To be developed over a span of approximately 5 years, the proposed development is expected to generate a potential GDV of RM500mn. First phase of the development is targeted for launch by end 2018.

### Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	2051.0
Market Cap (RMmn)	8511.8
Par Value	1.00
52-wk Hi/Low (RM)	4.40/2.89
12-mth Avg Daily Vol ('000 shrs)	1848.40
Estimated Free Float (%)	29.7
Beta	0.5

### Major Shareholders (%)

Sungei Way Corp (50.9)
EPF (5.4)

### Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	558.5	599.7
Consensus (RMm)	561.6	599.3
TA's / Consensus (%)	99.4	100.1
Previous Rating	Sell (Maintained)	

### Financial Indicators

	FY17	FY18
Net Debt / Equity (%)	39.8	36.6
FCPS (sen)	20.3	14.2
Price / CFPS (x)	8.8	12.6
ROA (%)	3.0	3.2
NTA/Share (RM)	1.5	1.6
Price/NTA (x)	1.2	1.1

### Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	2.2	1.1
3 mth	15.6	(0.1)
6 mth	33.5	3.9
12 mth	41.6	4.7

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



Source: Bloomberg

### Reasonable Land Cost

In terms of acquisition cost, we believe it is reasonable as the land cost-to-GDV ratio for the land works out to 10%, below the industry's rule of thumb of 20%. This land marks Sunway's fifth land acquisition in 2017 and increases the group's outstanding GDV by 1% to RM54bn (effective GDV: RM36.2bn). The land acquisition is 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.

We understand that the proposed development will comprise products with average pricing of approximately RM550k/unit (or RM650-700psf) which would cater to the needs of affordable housing customers. This will complement Sunway's range of offerings which currently lack products in this price segment.

### Impact

We leave our FY17-19 estimates unchanged for now, pending the completion of the acquisition. Assuming the official launch of Wangsa Maju land in 2019, we expect meaningful progress billing to start from 2020 onwards, which is beyond our forecast horizon.

### Valuation

Taking into account the new target price for SunREIT (revised TP of RM1.87 from RM1.88 previously), our target price is adjusted slightly to RM4.15/share (from RM4.16/share), based on SOP valuation. Our ex-bonus target price is largely unchanged at RM1.78/share. We believe the recent sharp rally in share price has largely factored in positive news flow such as new land acquisitions, proposed 4-for-3 bonus issue and 3-for-10 bonus warrants. Maintain **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 @ RM1.87 TP	5493.3	1	37%	2049.0	0.43
CY18 Healthcare Earnings	60.0	20	100%	1200.0	0.25
CY18 Other Business Earnings	61.6	12	100%	739.2	0.15
<b>SOP Value</b>				<b>8562.6</b>	<b>1.78</b>

**Appendix 1: Location of Land**



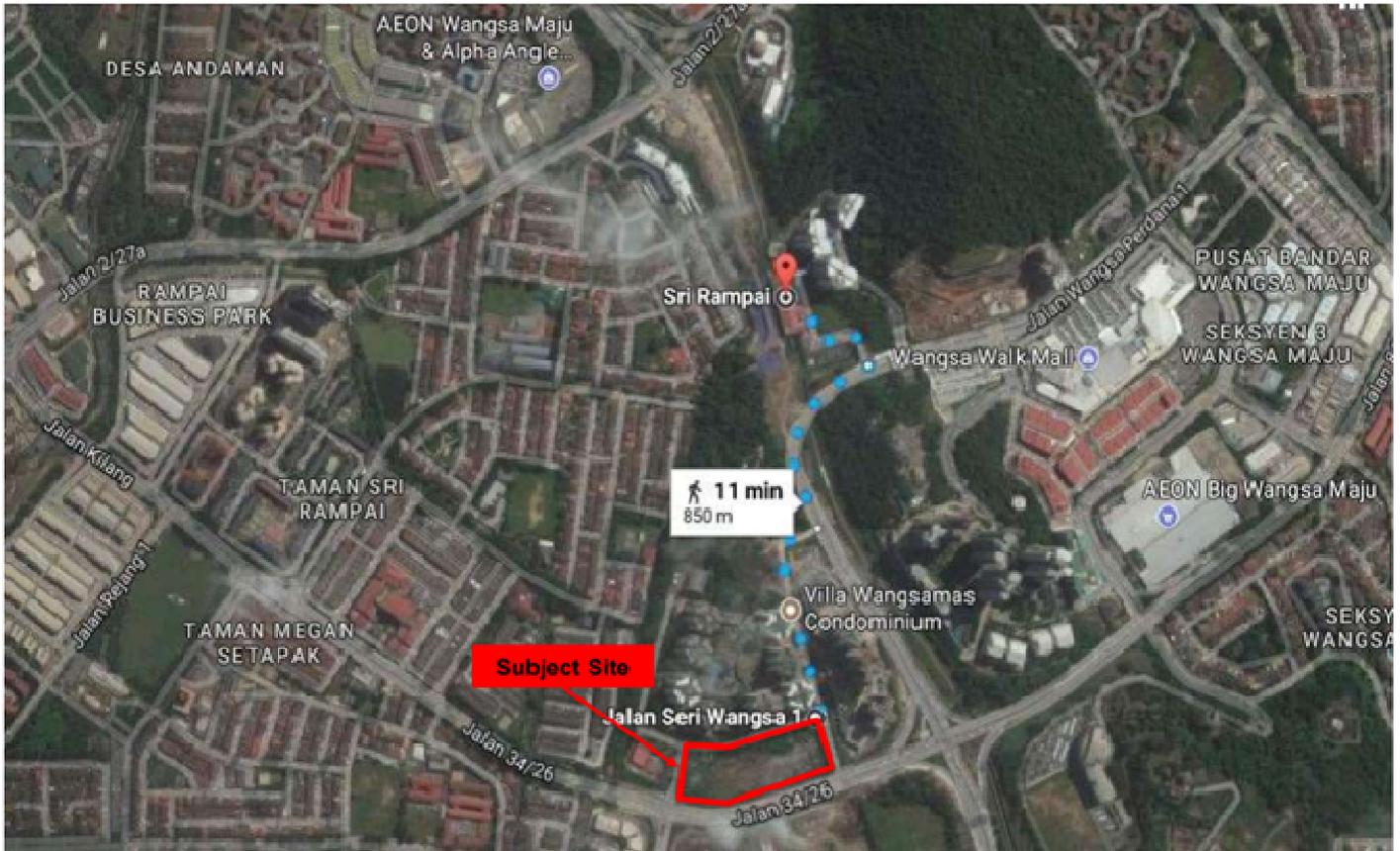
Source: Bursa Malaysia, Sunway

**Appendix 2: Hotel Lease Agreement**



Source: Bursa Malaysia,

Appendix 3: Car Park Tenancy Agreement



Source: Bursa Malaysia, 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	905.1	929.1
Depreciation	(117.3)	(137.2)	(106.7)	(122.6)	(119.2)
Amortisation	(0.9)	(0.8)	(0.8)	(0.7)	(0.7)
EBIT	687.0	726.9	751.7	781.7	809.2
Finance cost	(26.6)	(59.9)	(96.5)	(95.2)	(91.5)
Associate & JV	269.9	192.0	132.1	120.9	133.3
EI	141.7	0.0	0.0	340.0	0.0
PBT	930.4	859.0	804.5	1,147.4	851.0
Tax	(130.9)	(140.4)	(144.8)	(145.3)	(153.2)
MI	(67.0)	(132.7)	(101.2)	(62.4)	(35.4)
Net profit	732.4	585.9	558.5	939.7	662.4
Core profit	590.7	547.4	558.5	599.7	662.4

Core EPS (sen)	12.3	11.4	11.6	12.5	13.8
DPS (sen)	13.8	5.2	5.0	5.0	6.0

### Cash Flow (RM'mn)

	2015	2016	2017F	2018F	2019F
PBT	930.4	859.0	804.5	1,147.4	851.0
Depr & Amort	117.3	137.2	106.7	123.4	119.9
Change in working assets	(131.8)	(524.0)	594.9	(6.5)	(10.7)
Tax	(130.9)	(140.4)	(144.8)	(145.3)	(153.2)
Others	154.6	336.3	(35.7)	(353.8)	(19.0)
CFO	939.6	668.1	1,325.6	765.2	788.0
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)	(280.0)	(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)	(857.7)	(725.8)
Change in cash	1,232.0	883.9	300.5	(176.5)	(21.8)
FCF/share	7.5	(6.1)	20.3	14.2	14.6

### Assumptions (RM mn)

	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	2,137.0	2,077.8
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	10,270.8	10,253.8
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	4,183.8	4,162.0
Others	614.2	392.1	392.1	392.1	392.1
ST Assets	6,739.6	9,151.5	8,479.8	8,390.6	8,513.3
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>18,661.4</b>	<b>18,767.1</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	4,640.7	4,590.7
Others	88.1	44.4	44.4	44.4	44.4
ST Liabilities	5,564.2	7,583.3	7,156.0	7,096.8	7,180.5
LT Borrowings	2,815.2	2,590.5	2,540.5	2,400.5	2,350.5
Others	408.2	438.4	438.4	438.4	438.4
LT Liabilities	3,223.4	3,028.9	2,978.9	2,838.9	2,788.9
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	2,984.8	3,021.3
Shareholder's Funds	6,562.7	7,455.7	7,436.6	7,798.6	7,835.1
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>18,661.4</b>	<b>18,767.1</b>

### Ratios

	2015	2016	2017F	2018F	2019F
EPS Growth (%)	(0.2)	(7.3)	2.0	7.4	10.5
PER (x)	14.5	15.6	15.3	14.3	12.9
GDPS (sen)	13.8	5.2	5.0	5.0	6.0
Div Yield (%)	7.8	2.9	2.8	2.8	3.4
Net Debt (RMm)	3,401.9	3,361.4	2,960.9	2,857.4	2,779.2
Net gearing (x)	0.5	0.5	0.4	0.4	0.4
ROE (%)	9.5	7.8	7.5	7.9	8.5
ROA (%)	4.1	3.1	3.0	3.2	3.5
NTA/share (RM)	1.3	1.5	1.5	1.6	1.6
P/NTA (x)	1.4	1.2	1.2	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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