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COMPANY UPDATE
Monday, 13 February 2017
FBMKLCI: 1,698.94
Sector: Property

Sunway Berhad

First Land Deal in 2017

TP: RM3.27 *(+4.0%)*

Last Traded: RM3.14

Hold

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Proposed JV Development in Jalan Peel Cheras

Sunway has entered into a subscription and shareholders' agreement (SSA) with Low Peng Kiat (LPK), CRSC Property S/B (CRSC) and Austral Meridian Property S/B (AMP) with intention of establishing a joint venture via AMP to jointly undertake an integrated development project on the parcels of leasehold land owned by AMP. The land measures approximately 8.45 acres is located in Jalan Peel, Cheras.

Salient terms of the agreement

Under the SSA, Sunway shall subscribe to 500,001 ordinary shares in AMP, representing 50%+ 1 share of the equity interest in AMP for a total consideration of RM500,001. Upon the subscription, the shareholding structure of AMP shall be as follows:

Figure 1: Shareholding Structure of AMP

Shareholders	Number of Shares	Percentage of Shareholding
Sunway	500,001	50%+1 share
LPK	400,000	40%
CRSC	100,000	10%

Source: Sunway

Meanwhile, Sunway also entered into a Put Option Agreement (POA) with LPK and CRSC to outline the put option arrangements between the parties in the shares of AMP. Under the POA, LPK and CRSC have the right to require Sunway to purchase the option shares at the option price within the option period as stated below:

- 1st Put Option on 10% of enlarged and paid-up capital of AMP shares exercisable 4 years after Sunway's entry for RM91.35mn
- 2nd Put Option on 10% of enlarged and paid-up capital of AMP shares exercisable 8 years after Sunway's entry for RM91.35mn.

In addition, Sunway will also advance up to RM140mn to settle the existing liabilities of AMP.

RM2.0bn Mixed-Development

The land is located along Jalan Peel and directly opposite the group's on-going Sunway Velocity development – see **Appendix 1 & 2**. According to the announcement, the land will be developed into a mixed development, comprising serviced apartments, office towers and retail shops. To be developed over a span of approximately 10 years, the proposed development is expected to generate a potential GDV of RM2.0bn. First phase of the development is targeted for launch in 1H2018.

Implied land cost represents 16.3% of effective GDV

Assuming a discount rate of 6% and the put options will be fully exercised by the shareholders, the maximum net present value (NPV) of the purchase consideration amounts to RM228.2mn – see **Figure 2**. This implies land cost of approximately RM886psf based on a 70% effective stake in AMP. We believe

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	2024.7
Market Cap (RMmn)	6357.7
Par Value	1.00
52-wk Hi/Lo (RM)	3.24/2.87
12-mth Avg Daily Vol ('000 shrs)	1008.20
Estimated Free Float (%)	27.6
Beta	0.5
Major Shareholders (%)	
	Sungei Way Corp (50.9)

Forecast Revision

	FY16	FY17
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	499.5	510.8
Consensus (RMm)	513.7	550.7
TA's / Consensus (%)	97.2	92.8
Previous Rating	Hold (Maintained)	

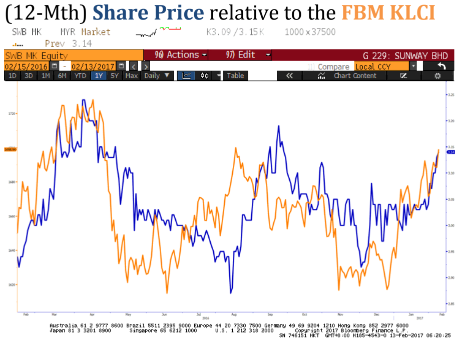
Financial Indicators

	FY16	FY17
Net Debt / Equity (%)	46.6	39.2
FCPS (sen)	22.4	32.5
Price / CFPS (x)	14.0	9.7
ROA (%)	3.1	3.1
NTA/Share (RM)	3.6	3.8
Price/NTA (x)	0.9	0.8

Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	4.0	1.6
3 mth	3.0	4.0
6 mth	9.0	0.9
12 mth	7.5	3.4

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



Source: Bloomberg

the acquisition cost is reasonable given that the land cost represents 16% of the effective GDV of RM1.4bn (70% of RM2.0bn). For comparison, we note that land parcels within Tun Razak Exchange (TRX), which is less than 5km away from Sunway Velocity or 1 MRT station away to Cochrane station, were sold for price ranging between RM2,800 and RM4,700psf. Meanwhile, if we compare Sunway's acquisition price of RM886psf to RM877psf that Ibraco paid to acquire freehold land fronting Jalan Tun Razak and Jalan Loke Yew in Mar-15, the price tag appears fair.

Positive on the deal

The land will increase the group's outstanding GDV by 4.1% to RM50.5bn (effective GDV: RM32.5bn) – see **Figure 3**. We are positive on the land acquisition as it will further expand the group's land bank in the Klang Valley, which is also in line with its objective to replenish land bank in strategic locations and ready for launch over the near term.

In addition, we believe the new development will have synergies with the existing Sunway Velocity development, which comprises several investment properties such as Sunway Velocity Shopping Mall, Sunway Velocity Medical Centre and Sunway Velocity Hotel. As the new development will comprise mainly residential components, this will provide the commercial components of Sunway Velocity with a bigger catchment population. We understand that link ways will be proposed to enable residents of the development to enjoy amenities at Sunway Velocity seamlessly.

Impact

No change to our FY16-18 earnings estimates for now, assuming the official launch in 2018 with progress billing to start from 2019 onwards.

Valuation

Taking into account the new target price for SunREIT, our target price is adjusted slightly to **RM3.27/share** (from RM3.26/share previously), which is pegged to a 10% discount to its SOP value of RM3.62/share. Maintain **Hold**.

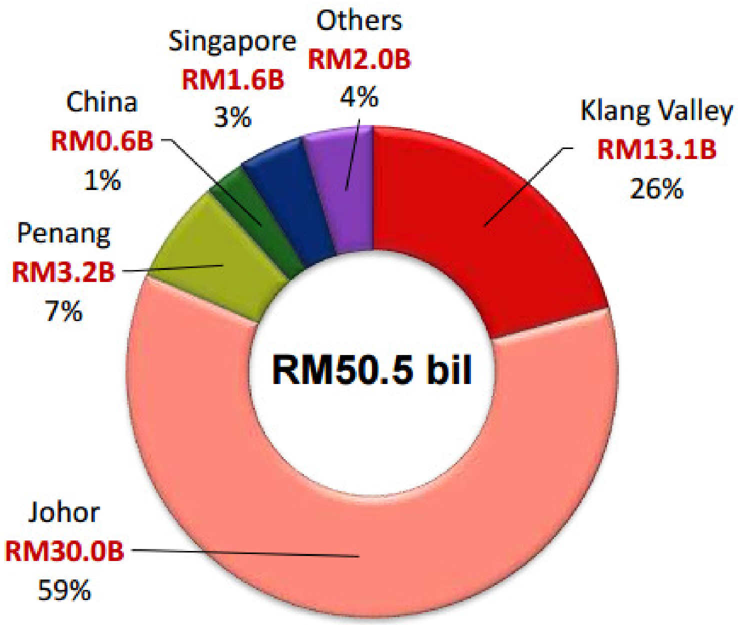
Figure 2: Implied Valuation

Discount Factor 6%

Year	0	1	2	3	4	5	6	7	8
Equity (RM'000)	500	0	0	0	0	0	0	0	0
Shareholder advances* (RM'000)	98,000	0	0	0	0	0	0	0	0
Put Option (assuming exercised) (RM'000)		0	0	0	91,350	0	0	0	91,350
Net cash flow (RM'000)	98,500	0	0	0	91,350	0	0	0	91,350
Discounting factor	1.0	0.9	0.9	0.8	0.8	0.7	0.7	0.7	0.6
NPV (RM'000)	98,500	0	0	0	72,358	0	0	0	57,314
NPV of max consideration payable ('000)	**228,172**								
Gross land area (Sq ft)	367,908								
Land area based on 70% (sq ft)	257,536								
Max implied valuation psf	**886**								

** Based on 70% of RM140mn shareholders advance.*
Source: Sunway

Figure 3: Sunway Remaining Landbank



Source: Sunway

Appendix 1: Location

Source: Sunway

Appendix 2: Location

Source: Sunway

SOP Valuation Table

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY17 Property Earnings	186.7	12	100%	2240.5	1.27
SunCon @ RM1.85 TP	2390.2	1	54%	1300.3	0.74
SunREIT @ RM1.78 TP	5258.3	1	36%	1898.2	1.08
CY17 Other Business Earnings	79.83	12	100%	958.0	0.54
SOP Value				**6397.0**	**3.63**
Discount		10%		(639.7)	(0.4)
Target Price				**5757.3**	**3.27**

Financial Statements

Profit and Loss (RM'mn)					
FYE Dec	*2014*	*2015*	*2016F*	*2017F*	*2018F*
Revenue	4,558.1	4,451.3	5,220.3	5,688.2	5,928.5
EBITDA	652.1	823.7	823.8	807.3	874.3
Depreciation	(56.5)	(78.7)	(77.7)	(76.8)	(75.8)
Amortisation	(0.9)	(0.9)	(0.8)	(0.8)	(0.7)
EBIT	594.7	744.1	745.2	729.8	797.8
Finance cost	(30.4)	(49.2)	(78.4)	(77.1)	(75.8)
Associate & JV	233.4	269.9	112.6	116.9	126.6
EI	150.1	141.7	0.0	0.0	0.0
PBT	960.2	929.2	793.2	787.2	848.5
Tax	(148.6)	(129.8)	(160.6)	(159.4)	(171.8)
MI	(77.6)	(67.0)	(133.1)	(117.1)	(64.5)
Net profit	734.0	732.4	499.5	510.8	612.2
Core profit	591.7	590.7	499.5	510.8	612.2
Core EPS (sen)	34.2	34.1	28.9	29.5	35.4
DPS (sen)	11.0	38.5	11.0	11.0	11.0

Cash Flow (RM'mn)	*2014*	*2015*	*2016F*	*2017F*	*2018F*
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		456.8			
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)	*2014*	*2015*	*2016F*	*2017F*	*2018F*
New Property Sales	1,700.0	1,209.0	1,052.5	1,731.4	1,982.0
Property Margins (%)	23.5	23.4	24.7	24.0	22.0
Orderbook Replenishment	800.0	2,800.0	2,600.0	2,000.0	2,000.0
Construction margins (%)	8.6	9.2	10.1	9.9	9.9

Balance Sheet (RM'mn)					
FYE Dec	*2014*	*2015*	*2016F*	*2017F*	*2018F*
PPE	985.2	1,372.0	1,354.3	1,337.5	1,321.6
Land held for dev	535.5	1,194.1	1,467.0	1,467.0	1,467.0
Associate & JV	2,521.4	3,181.2	3,204.7	3,225.2	3,245.1
Investment Properties	2,370.4	2,722.3	2,746.3	2,770.3	2,794.3
Goodwill	319.4	320.1	320.1	320.1	320.1
Others	142.9	471.6	470.8	470.0	469.3
LT Assets	6,874.9	9,261.3	9,563.1	9,590.1	9,617.4
Property dev. Cost	1,518.3	978.0	978.0	978.0	978.0
Inventories	580.0	693.1	672.2	732.5	763.4
Trade & other receivables	1,664.2	1,823.3	1,830.7	1,994.8	2,079.0
Cash & Cash equivalent	1,978.2	2,631.0	2,735.8	3,022.0	3,364.9
Others	143.5	614.2	614.2	614.2	614.2
ST Assets	5,884.3	6,739.6	6,830.9	7,341.4	7,799.5
Assets Held for Sale	98.0	0.0	0.0	0.0	0.0
Total Assets	**12,857.1**	**16,000.9**	**16,394.0**	**16,931.5**	**17,417.0**
Trade and other payables	2,118.0	2,258.5	2,317.0	2,524.6	2,631.3
ST Borrowings	2,132.9	3,217.6	3,167.6	3,117.6	3,067.6
Others	24.9	88.1	88.1	88.1	88.1
ST Liabilities	4,275.8	5,564.2	5,572.6	5,730.3	5,787.0
LT Borrowings	1,651.5	2,815.2	2,765.2	2,715.2	2,665.2
Others	605.9	408.2	408.2	408.2	408.2
LT Liabilities	2,257.5	3,223.4	3,173.4	3,123.4	3,073.4
Share Cap	1,730.6	1,799.8	1,799.8	1,799.8	1,799.8
Reserves	4,205.8	4,763.0	5,064.5	5,377.4	5,791.6
Shareholder's Funds	5,936.4	6,562.7	6,864.3	7,177.1	7,591.3
MI	387.5	650.6	783.6	900.7	965.2
Liabilities + Equities	**12,857.1**	**16,000.9**	**16,394.0**	**16,931.5**	**17,417.0**

Ratios					
EPS Growth (%)	21.8	(0.2)	(15.4)	2.3	19.9
PER (x)	9.2	9.2	10.9	10.6	8.9
GDPS (sen)	11.0	38.5	11.0	11.0	11.0
Div Yield (%)	3.5	12.3	3.5	3.5	3.5
Net Debt (RMm)	1,806.2	3,401.9	3,197.0	2,810.8	2,367.9
Net gearing (x)	0.3	0.5	0.5	0.4	0.3
ROE (%)	10.5	9.5	7.4	7.3	8.3
ROA (%)	4.9	4.1	3.1	3.1	3.6
NTA/share (RM)	3.2	3.5	3.6	3.8	4.0
P/NTA (x)	1.0	0.9	0.9	0.8	0.8

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.
Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

for TA SECURITIES HOLDINGS BERHAD(14948-M)
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