

Out think. Out perform.

## Acquisition of Winstar

Sunway has proposed to acquire 100% stake in Winstar Trading for an estimated price of RM131m. While the financial impact is minimal (2-3% EPS enhancement), importantly, it marks Sunway's commitment to continuously enhance the group's value. With effective unbilled sales of RM1.9bn, coupled with the imminent listing of Sunway construction, we maintain a BUY rating and RNAV target price of RM3.90.

### Acquisition of Winstar for RM131m

Sunway has proposed to acquire a 100% stake in Winstar Trading and PND Hardware Trading for an estimated purchase consideration of RM131m and S\$2.6m (c. RM6.8m) respectively. The acquisition will be executed in three tranches. The first tranche involves an acquisition of 60% at an indicative price of RM78.5m (based on Winstar's NAV as at end-Dec 2013). This is estimated to be completed by 2Q15.

### Profit guarantee through 2015-17

The vendors have jointly guaranteed a net profit (after tax) of RM15m a year for 2015 to 2017 respectively. All things equal, based on the profit guarantee, the proposed acquisition will enhance Sunways' FY15-17E EPS by 2.5% - 3.0%. While the financial impact is not significant, the proposed acquisition reaffirms Sunway's continuous effort to enhance the group's value.

### Reiterate BUY with a TP of RM3.90

Supported with total effective unbilled sales of RM1.9bn and RM3.0bn worth of construction order book, we reiterate our positive stance on Sunway with a RNAV valuation of RM3.90 (still based on 30% discount to RNAV). Despite the anticipated further softening of the property market post the implementation of GST in April 2015, we continue to like Sunway for; i) its exposure to the construction sector as well as its recurring income from its investment properties, ii) the imminent listing of Sunway construction which will further unlock the value of the group – potential yield of 7.5%; and iii) attractive valuation of 0.7x P/RNAV.

### Earnings & Valuation Summary

FYE 31 Dec	2013	2014	2015E	2016E	2017E
Revenue (RMm)	3,849.2	4,721.4	4,841.9	5,429.0	5,727.4
EBITDA (RMm)	469.6	608.3	735.6	737.2	769.3
Pretax profit (RMm)	722.9	1,900.4	968.8	718.3	766.5
Net profit (RMm)	530.6	1,490.4	743.2	516.9	574.6
EPS (sen)	41.1	98.8	43.0	29.9	33.2
PER (x)	9.2	3.8	8.7	12.6	11.3
Core net profit (RMm)	350.6	482.7	743.2	531.9	589.6
Core EPS (sen)	27.1	32.0	43.0	29.9	33.2
Core EPS growth (%)	7.2	18.0	34.4	(30.6)	11.2
Core PER (x)	13.9	11.7	8.7	12.6	11.3
Net DPS (sen)	6.0	10.0	11.0	9.0	10.0
Dividend Yield (%)	1.6	2.7	2.9	2.4	2.7
EV/EBITDA (x)	12.8	11.3	10.7	9.9	9.3
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang estimates

## Company Update

# Sunway

SWB MK  
Sector: Property

RM3.76 @ 9 April 2015

BUY (maintain)

Upside 9.6%

Price Target: RM3.90

Previous Target: RM3.90



## Price Performance

	1M	3M	12M
Absolute	+8.0%	+14.3%	+25.3%
Rel to KLCI	+4.6%	+7.1%	+26.0%

## Stock Data

Issued shares (m)	1,731.4
Mkt cap (RMm)/(US\$m)	5,510/1,788
Avg daily vol - 6mth (m)	1.6
52-wk range (RM)	2.96-3.80
Est free float	36%
BV per share (RM)	3.45
P/BV (x)	1.09
Net cash/ (debt) (RMm) (4Q14)	(4,160)
ROE (2015F)	8.7%
Derivatives	
Warr 2016 (SP:RM2.50)	
Shariah Compliant	Yes

## Key Shareholders

Tan Sri Jeffrey Cheah	55.4%
GIC	8.7%

Source: Affin Hwang, Bloomberg

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**Reaffirms group's effort to enhance value**

While the acquisition is not significant compared to Sunway's size, the move reiterates the group's continuous initiative in enhancing value as well as to unlock value. With more than 30 years in the trading industry, Winstar Trading is one of the market leaders within its segment, specialising in industrial hardware, DIY hardware, safety products and lubricants, amongst others.

**Further expand existing trading arm**

The proposed acquisition will not only expand Sunway's existing Trading business, it will also provide synergies through cross selling of products, costs savings due to economies of scale as well as improve management expertise and efficiency. In 2014, Sunway's trading arm accounts for 13% of group's total revenue and 4% of net profit.

**Potential 2.5%-3.0% EPS enhancement**

The vendors have jointly guaranteed a net profit (after tax) of RM15m a year for 2015 to 2017 respectively. Based on the profit guarantee, all things equal, the proposed acquisition will enhance our FY15-17E EPS by 2.5-3.0%. We make no changes to our EPS forecast pending the completion of the acquisition. We reiterate our positive stance on Sunway Bhd with an RNAV valuation of RM3.90 (still based on 30% discount to RNAV). Sunway offers a decent yield of 2.4% (based on 30% payout) and a potential 7.5% yield from the listing of SCG. Maintain BUY.

**Reiterate BUY with RNAV TP of RM3.90**

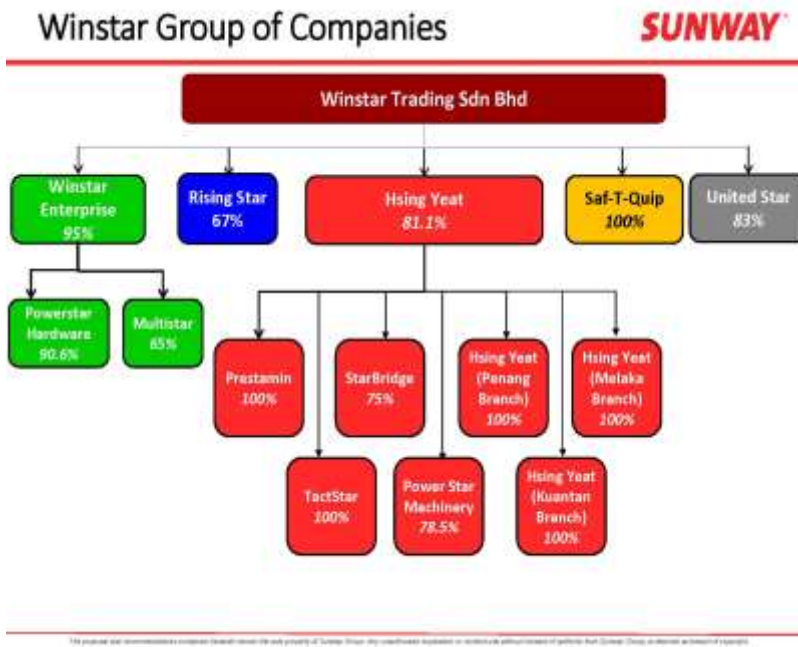
Despite the anticipated further softening of the property market post the implementation of GST in April 2015, we continue to like Sunway for; i) its exposure to the construction sector as well as its recurring income from its investment properties, ii) the imminent listing of Sunway construction which will further unlock the value of the group, and iii) attractive valuation of 0.7x P/RNAV.

**Risks to recommendation**

Risks to recommendation include; i) sharper-than-expected slowdown in the domestic property market; ii) prolonged oversupply within the Johor region, iii) lower-than-expected construction contract wins.

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Fig 1: Winstar's group of companies



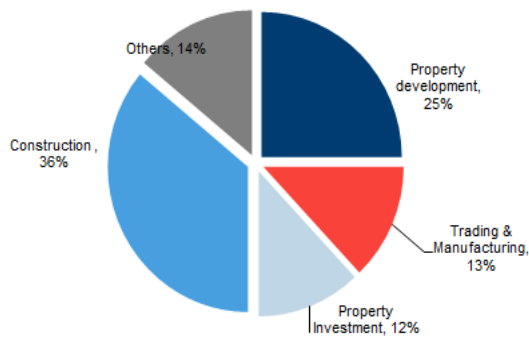
Source: Sunway

Fig 2: Acquisition timeline

Tranche	% Acquired	Indicative		Basis	Expected timeline
		Winstar	PND		
1	60	RM78.5M	S\$1.5M	Based on NAV as at 31/12/13	Q22015
2	20			Based on 5x average EBITDA for preceding 2 years	Q22017
3	20			Based on 5x average EBITDA for preceding 2 years	Q22018
<b>Estimated Total</b>		<b>RM131M</b>	<b>SGD2.6M</b>		

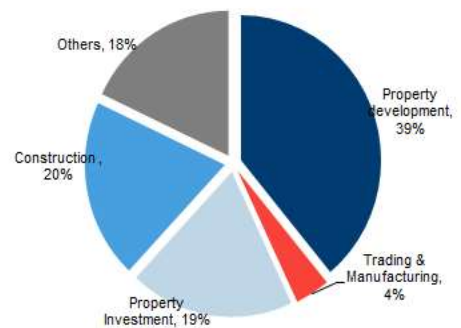
Source: Sunway

Fig 3: 2014 Segmental revenue breakdown



Source: Sunway

Fig 4: 2014 Segmental PATMI breakdown



Source: Sunway

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Fig 3: Sunway's RNAV valuation

Description	Stake	Acres	GDV (RMm)	NPV (RMm)	Eff. Surplus (RMm)
<b>Property Development</b>					
Sunway South Quay	60%	42.2	3,086.7	266.1	159.6
Sunway Velocity	85%	17.9	2,108.0	130.9	111.3
Damansara	60%	15.4	1,691.0	183.2	109.9
Melawati	100%	2.0	43.0	2.7	2.7
Sunway Towers KL	100%	1.0	240.0	17.0	17.0
Taman Duta	60%	3.0	120.0	11.6	7.0
Casa Kiara	80%	3.0	210.0	18.8	15.0
Sunway Monterez	60%	5.4	43.7	3.9	2.3
Sunway Resort City	100%	14.9	660.0	53.0	53.0
Klang Valley (Others)	100%	220.0	240.3	40.0	40.0
Bkt Lenang, Johor	80%	64.0	698.4	60.5	48.4
Penang Grp	100%	193.0	3,318.0	214.5	214.5
Semenyih	70%	398.0	729.0	43.2	30.2
Ipoh	65%	441.0	1,048.0	65.1	42.3
Bangi	100%	3.0	59.0	3.7	3.7
Sg Long	80%	111.0	277.0	17.9	14.3
Medini	46%	691.0	11,727.0	500.6	230.3
Pedas	60%	1,079.0	18,000.0	643.7	386.2
Novena, Singapore	30%	1.7	2,137.0	199.1	59.7
Guanghao, China	65%	3.7	66.8	1.5	1.0
Tianjin, China	60%	24.0	1,210.0	51.8	31.1
Opus, India	50%	23.8	702.0	53.0	26.5
MAK, India	60%	14.0	181.0	15.7	9.4
Australia	45%	48.4	378.1	23.5	10.6
<b>Subtotal:</b>		<b>3,420</b>	<b>48,974</b>	<b>2,621</b>	<b>1,626.1</b>
Other business @ 10x FY16 PER					690.7
<b>Subtotal:</b>					<b>690.7</b>
<b>Total ex-construction (RMm)</b>					<b>2,316.8</b>
Shareholders' fund @ Dec 2014 (RMm)					5,945.2
Add: Warrants conversion (RMm)					724.0
<b>Ex-construction RNAV (RMm)</b>					<b>8,986.0</b>
<b>30% discount to ex-construction RNAV (RMm)</b>					<b>6,290.2</b>
<b>Construction @ 14x FY16 PER</b>					<b>1,541.4</b>
Enlarged shares base (m)					2013.1
<b>Fair value per share</b>					<b>3.89</b>

Source: Affin Hwang estimate

# Sunway Berhad – FINANCIAL SUMMARY

Profit & Loss Statement						Key Financial Ratios and Margins					
FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E	FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2016E
Revenue	4,721	4,842	5,429	5,727	5,908	<b>Growth</b>					
Operating expenses	(4,113)	(4,106)	(4,692)	(4,958)	(5,112)	Revenue (%)	22.7	2.6	12.1	5.5	3.2
EBITDA	608	736	737	769	796	EBITDA (%)	29.5	20.9	0.2	4.4	3.4
Depreciation	(137)	(231)	(243)	(255)	(268)	Core net profit (%)	37.7	54.0	(30.5)	11.2	2.8
EBIT	471	504	494	514	528	<b>Profitability</b>					
Net int inc/(exp)	(100)	(30)	(30)	(33)	(28)	EBITDA margin (%)	12.9	15.2	13.6	13.4	13.5
Associates' contribution	191	233	254	285	290	PBT margin (%)	40.2	20.0	13.2	13.4	13.4
Exceptional items	287	-	-	-	-	Net profit margin (%)	31.6	15.4	9.5	10.0	10.0
Pretax profit	1,900	969	718	767	790	Effective tax rate (%)	7.2	15.3	15.8	15.4	15.5
Tax	(137)	(148)	(113)	(118)	(122)	ROA (%)	15.0	6.2	4.1	4.5	4.5
Minority interest	(273)	(78)	(88)	(74)	(77)	Core ROE (%)	10.9	13.2	8.4	8.8	8.5
<b>Net profit</b>	<b>1,490</b>	<b>743</b>	<b>517</b>	<b>575</b>	<b>590</b>	ROCE (%)	6.5	5.6	5.3	5.7	5.6
<b>Core Net Profit</b>	<b>483</b>	<b>743</b>	<b>517</b>	<b>575</b>	<b>590</b>	Dividend payout ratio (%)	10.1	25.6	30.1	30.1	32.2
<b>Balance Sheet Statement</b>						<b>Liquidity</b>					
FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E	Current ratio (x)	1.2	1.4	1.3	1.3	1.4
Fixed assets	3,540	3,766	4,373	4,468	4,550	Op. cash flow (RMm)	1,093	769	1,296	592	592
Other long term assets	2,689	2,972	3,072	3,172	3,272	Free cashflow (RMm)	435	(8)	446	242	242
<b>Total non-curr assets</b>	<b>6,229</b>	<b>6,737</b>	<b>7,445</b>	<b>7,639</b>	<b>7,822</b>	FCF/share (sen)	28.9	(0.5)	25.8	14.0	14.0
Cash and equivalents	1,519	1,978	1,235	1,389	1,630	<b>Asset management</b>					
Stocks	623	598	669	706	728	Debtors turnover (days)	108.4	129.7	110.0	110.0	110.0
Debtors	1,403	1,720	1,636	1,726	1,780	Stock turnover (days)	48.2	45.1	45.0	45.0	45.0
Other current assets	1,339	1,883	1,455	1,492	1,551	Creditors turnover (days)	185.0	182.8	180.0	180.0	180.0
<b>Total current assets</b>	<b>4,883</b>	<b>6,179</b>	<b>4,995</b>	<b>5,313</b>	<b>5,690</b>	<b>Capital structure</b>					
Creditors	2,154	2,172	2,434	2,571	2,653	Net gearing (%)	23.9	30.4	21.7	16.6	12.2
Short term borrowings	1,805	2,283	1,500	1,400	1,400	Interest cover (x)	6.1	24.2	24.3	23.4	28.6
Other current liabilities	24	21	21	21	21						
<b>Total current liab</b>	<b>3,983</b>	<b>4,476</b>	<b>3,954</b>	<b>3,992</b>	<b>4,074</b>						
Long term borrowings	991	1,502	1,100	1,100	1,100						
Other long term liabilities	486	605	605	605	605						
<b>Total long term liab</b>	<b>1,477</b>	<b>2,107</b>	<b>1,705</b>	<b>1,705</b>	<b>1,705</b>						
<b>Shareholders' Funds</b>	<b>5,335</b>	<b>5,945</b>	<b>6,306</b>	<b>6,708</b>	<b>7,108</b>						
<b>Minority Interest</b>	<b>317</b>	<b>389</b>	<b>477</b>	<b>551</b>	<b>628</b>						
<b>Cash Flow Statement</b>						<b>Quarterly Profit &amp; Loss</b>					
FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E	FYE 31 Dec (RMm)	4Q13	1Q14	2Q14	3Q14	4Q14
Profit before tax	1,900	969	718	767	790	Revenue	1,322	1,026	1,205	1,134	1,478
Depreciation & amortization	137	231	243	255	268	Operating expenses	(1,136)	(852)	(1,007)	(919)	(1,156)
Working capital changes	(148)	(822)	702	(27)	(53)	EBITDA	187	174	197	215	321
Associates' contribution	(191)	(233)	(254)	(285)	(290)	Depreciation	(34)	(58)	(58)	(58)	(58)
Others	(605)	624	(113)	(118)	(122)	EBIT	153	116	140	157	264
<b>Cash flow from operation</b>	<b>1,093</b>	<b>769</b>	<b>1,296</b>	<b>592</b>	<b>592</b>	Net int income/(expense)	(18)	(8)	(10)	(5)	(7)
Capex	(658)	(777)	(850)	(350)	(350)	Associates' contribution	92	40	110	39	45
Disposal/(purchases)	-	-	-	-	-	Exceptional items	328	(6)	(5)	(6)	107
Others	(232)	(67)	154	185	190	Pretax profit	555	142	234	185	408
<b>Cash flow from investing</b>	<b>(890)</b>	<b>(844)</b>	<b>(696)</b>	<b>(165)</b>	<b>(160)</b>	Tax	(35)	(30)	(45)	(22)	(51)
Debt raised/(repaid)	49	989	(1,184)	(100)	-	Minority interest	(34)	(8)	(6)	(20)	(44)
Equity raised/(repaid)	732	-	-	-	-	Net profit	485	104	183	144	313
Dividends paid	(344)	(213)	(156)	(173)	(190)	Core net profit	158	110	126	149	206
Others	(301)	(181)	-	-	-	<b>Margins (%)</b>					
<b>Cash flow from financing</b>	<b>135</b>	<b>595</b>	<b>(1,340)</b>	<b>(273)</b>	<b>(190)</b>	EBITDA	14.1	16.9	16.4	19.0	21.7
<b>Net change in cash flow</b>	<b>339</b>	<b>520</b>	<b>(740)</b>	<b>154</b>	<b>242</b>	PBT	41.9	13.9	19.4	16.3	27.6
<b>Free Cash Flow</b>	<b>435</b>	<b>(8)</b>	<b>446</b>	<b>242</b>	<b>242</b>	Net profit	36.7	10.1	15.2	12.7	21.2

Source: Affin Hwang estimates, Sunway Berhad



**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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