

SUNWAY

Rationale for report: Company update

(SWB MK EQUITY, SWAY.KL)

12 May 2015

Company report

Acquires prime land in Kelana Jaya at RM386/sq ft BUY

(Maintained)

Thomas Soon

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03-2036 2300

03-2030 2300				
Price Fair Value 52-week High/Low	RM3.4 RM3.7 RM3.8			
Key Changes Fair value EPS	0 \$			
YE to Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM mil) Core net profit (RM mil) FD Core EPS (sen) FD Core EPS growth (%) Consensus Net Profit (RM mil) DPS (sen) PE (x) EV/EBITDA (x) Div yield (%) ROE (%) Net Gearing (%)	4,558.1 523.9 31.5 3.2 11.0 10.8 10.9 3.2 13.0 30.4	5,310.3 554.1 33.1 5.4 479.8 32.5 10.3 10.7 9.6 9.3 43.9	5,496.8 534.7 32.1 (3.3) 530.2 10.0 10.6 10.2 2.9 8.9 42.2	5,466.8 554.4 33.2 3.4 552.1 10.0 10.3 10.1 2.9 9.0 41.6
Stock and Financial Data				
Shares Outstanding (million) Market Cap (RMmil) Book Value (RM/share) P/BV (x) ROE (%) Net Gearing (%)	1,723 5,860 3.43 1.0 13.0 30.4			
Major Shareholders		Sri Jeffrey C (5.7%)	cheah (48.2	2%)
Free Float Avg Daily Value (RMmil)	22.4 6.9			
Price performance		3mth	6mth	12mth
Absolute (%) Relative (%)		4.6 4.2	10.2 11.4	16.8 20.7



Investment Highlights

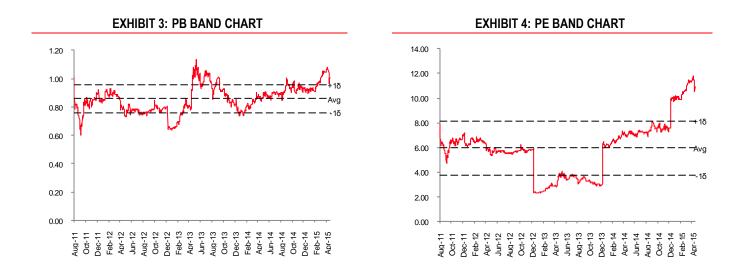
- We maintain BUY on Sunway, with an ex-dividend-inspecie fair value of RM3.74/share (vs. RM3.95/share previously), based on a 20% discount to the SOP value of RM4.65/share. Our fair value also accounts for a higher net debt at the company (audited FY14 numbers).
- Sunway has acquired ~16.996 acres (740,342 sq ft) of prime land in Kelana Jaya via an open tender at a favourable rate of ~RM386.31/sq ft for a total of RM286mil cash. It targets to launch a five-year RM1.8bil mixed development there by 2H2016.
- It is acquiring 100% of Cleaver Fortune S/B (CFSB) from Kelana Resorts S/B for RM282.64mil. CFSB owns four plots of leasehold land totalling 731,634 sq ft (16.8 acres). Adjacent to that is a plot of 8,708 sq ft freehold land, of which it is acquiring from Kelana Resorts' subsidiary Variasi Sdn Bhd for RM3.36mil.
- The land is situated next to Western Digital in the Sungai Way Free Trade Zone and in close proximity to the Subang National Golf Club. Sunway expects to complete the acquisitions within six months. It is proposing to build 7 residential blocks with a commercial podium, with a total built-up of ~3mil sq ft and an ASP of RM800/sq ft. The land has a 4x plot ratio.
- The project could potentially add 6 sen/share to our SOP value and ~4% to our FY16F earnings forecast.
- The proposed development has a potential margin of 15%-20% margin. Notwithstanding the larger portion being leasehold (99 years), the acquisition price compares favourably to that paid by Gamuda Bhd about three years ago of RM95mil or ~RM450/sq ft for a 4.86-acre parcel of freehold land in the vicinity.
- Given the potential slowdown in Sunway Iskandar, this latest expansion in the Klang Valley, particularly within a prime area of Petaling Jaya, is positive for the group – in line with its current objective of replenishing landbank ready for immediate launch.
- The acquisition brings its total landbank to 3,380 acres, of which 799 acres (24%) are in the Klang Valley. About 54% (1,830 acres) of its landbank is in Johor. The total potential GDV is at RM51bil (effective: RM32bil) over 15 years.
- Sunway is in the midst of listing its construction arm, having just undertaken the distribution in-specie of Sunway Construction Group Bhd (SCG) shares with the stock going ex on 6 May. Upon SCG's listing, Sunway will also distribute cash dividends. Maintain BUY.

Divisions		SOP value (RM mil)	% of SC	
NPV of development profits@ 10%			4,279.0	% of SC 42
Investment Properties	Stake (%)	Method		
Sunway Giza	60	Market value	46.4	
Monash U Campus	100	Market value	310.0	
Monash U Residence	60	Market value	156.0	
Sun U Campus	100	Market value	407.0	
Sunway Pinnacle	100	Market value	340.0	
Sun U Residence Condo (168 units)	100	Market value	104.8	
Open Car Park, SLRH	100	Market value	77.4	
Carpark land, Jalan Ampang (Sw Tower 1)	100	Market value	74.0	
Sunway Villa	100	Market value	32.6	
Lagoon View Condo (20 units)	100	Market value	14.1	
Sunway Hotel Phnom Penh	53	NBV	20.0	
Sunway Hotel Hanoi	100	NBV	10.0	
Lost World Hotel	78	NBV	25.0	
Banjaran Hotsprings Retreat	78	NBV	65.0	
			1,682.4	16
Other divisions	FY15F earnings	PE (x)	Value (RM mil)	
Construction	116.8	14	1,634.7	16
Trading	38.4	10	384.2	3.
Building material	24.7	10	247.2	2.
	Stake (%)	Mkt cap (RM'mil)		
Sunway REIT@RM1.70/unit	36.1	4,990.5	1,800.8	18
Subtotal			10,028.3	
Warrants proceeds (@ RM2.50/share)			715.8	7.
ESOS proceeds (@ RM2.792/share)			409.3	4.
less: Net debt FY13 @company level			(942.7)	(9.
Ex- 1-for-10 diviidend-in-specie			(189.6)	(1.
SOP			10,021.0	100
Outstanding shares (million)			1,723.5	
Outstanding warrants (million)			286.3	
Outstanding ESOS (million)			146.6	
Enlarged share base (million)			2,156.4	
SOP/share (RM)			4.65	
Discount (%)			(20)	
Fair Value (RM/share)			3.74	
Capital gain (%)			10.0	
Normal dividend yield (FY15F)			2.9	
Est. special cash dividend yield range from SunCon (%)	6.4%-7.2%		6.8	
Total upside potential (%)			19.7	

EXHIBIT 2: KELANA JAYA LAND SITE



Source: Company, AmResearch



EBITDA 585.9 Depreciation/Amortisation (133.4) Operating income (EBIT) 452.5 Other income & associates 255.9 Net interest (46.1) Exceptional items 1,238.1 Pretax profit 1,900.4 Taxation (137.0) Minorities/pref dividends (273.0) Net profit 1,490.4 Core net profit 484.0 Balance Sheet (RMmil, YE 31 Dec) FY13 Fixed assets 835.8 Intangible assets 319.4 Other long-term assets 5,098.1 Total non-current assets 6,253.3 Total con-current assets 1,518.8 Trade debtors 1,114.1 Other current assets 1,599.5 Total current assets 1,599.5 Total current assets 1,50.2 Total current assets 1,50.2 Total current iabilities 923.1 Total current liabilities 923.1 Total current liabilities 587.6 Total current liabilities 587.6 Total long-term liabilities <th>FY14 ,558.1 703.6 114.1) 589.5 171.4 (30.4) 229.7 960.2 148.6) (77.6) 734.0 523.9 FY14 985.2 319.4 ,570.2 ,874.9 978.2 580.0 ,184.7 ,239.4 982.3</th> <th>FY15F 5,310.3 795.2 (120.3) 674.9 193.7 (42.0) - 826.6 (165.3) (107.2) 554.1 554.1 FY15F 1,038.3 319.4 6,214.7 7,572.4 1,340.3</th> <th>FY16F 5,496.8 823.1 (130.3) 692.8 253.4 (69.0) - 877.2 (210.5) (132.0) 534.7 534.7 FY16F 1,042.5 319.4 6,410.0</th> <th>FY17 5,466. 839. (140.3 699. 289. (81.0 907. (217.7 (135.0 554. 554. FY17 1,036. 318.</th>	FY14 ,558.1 703.6 114.1) 589.5 171.4 (30.4) 229.7 960.2 148.6) (77.6) 734.0 523.9 FY14 985.2 319.4 ,570.2 ,874.9 978.2 580.0 ,184.7 ,239.4 982.3	FY15F 5,310.3 795.2 (120.3) 674.9 193.7 (42.0) - 826.6 (165.3) (107.2) 554.1 554.1 FY15F 1,038.3 319.4 6,214.7 7,572.4 1,340.3	FY16F 5,496.8 823.1 (130.3) 692.8 253.4 (69.0) - 877.2 (210.5) (132.0) 534.7 534.7 FY16F 1,042.5 319.4 6,410.0	FY17 5,466. 839. (140.3 699. 289. (81.0 907. (217.7 (135.0 554. 554. FY17 1,036. 318.
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Fotal non-current assets 6,253.3 6 Cash & equivalent 1,518.8 1 Stock 615.8 1 Trade debtors 1,114.1 1 Dther current assets 1,599.5 2 Fotal current assets 1,50.2 1 Short-term borrowings 2,000.7 2 Other current liabilities 923.1 1 Fotal current liabilities 923.1 1 Fotal current liabilities 923.1 1 Fotal current liabilities 923.1 1 Total current liabilities 587.6 1 Cong-term borrowings 794.7 1 Dther long-term liabilities 1,382.3 2 Shareholders' funds 5,328.3 5 Winority interests 316.9 309 Cash Flow (RMmil, YE 31 Dec) FY13	, 874.9 ,978.2 580.0 ,184.7 ,239.4	7,572.4	,	
Fotal non-current assets 6,253.3 6 Cash & equivalent 1,518.8 1 Stock 615.8 1 Trade debtors 1,114.1 1 Dther current assets 1,599.5 2 Fotal current assets 1,50.2 1 Short-term borrowings 2,000.7 2 Other current liabilities 923.1 1 Fotal current liabilities 923.1 1 Fotal current liabilities 923.1 1 Fotal current liabilities 923.1 1 Total current liabilities 587.6 1 Cong-term borrowings 794.7 1 Dther long-term liabilities 1,382.3 2 Shareholders' funds 5,328.3 5 Winority interests 316.9 309 Cash Flow (RMmil, YE 31 Dec) FY13	,978.2 580.0 ,184.7 ,239.4		7 774 4	6,605
Cash & equivalent 1,518.8 1 Stock 615.8 1 Trade debtors 1,114.1 1 Dther current assets 1,599.5 2 Fotal current assets 1,50.2 1 Short-term borrowings 2,000.7 2 Other current liabilities 923.1 1 Fotal current liabilities 923.1 1 Fotal current liabilities 923.1 1 Total current liabilities 5 1 Dong-term borrowings 794.7 1 Dother long-term liabilities 1,382.3 2 Shareholders' funds 5,328.3 5 Winority interests 316.9 309 Cash Flow (RMmil, YE 31 Dec) FY13	,978.2 580.0 ,184.7 ,239.4		7,771.9	7,960
Stock 615.8 Trade debtors 1,114.1 1 Dther current assets 1,599.5 2 Fotal current assets 1,599.5 2 Fotal current assets 1,599.5 2 Fotal current assets 1,50.2 1 Short-term borrowings 2,000.7 2 Other current liabilities 923.1 1 Fotal current liabilities 923.1 1 Fotal current liabilities 923.1 1 Fotal current liabilities 923.1 1 Total current liabilities 923.1 1 Total current liabilities 5,74.7 4 Long-term borrowings 794.7 1 Other long-term liabilities 1,382.3 2 Shareholders' funds 5,328.3 5 Winority interests 316.9 30.9 SV/share (RM) 3.09 1	580.0 ,184.7 ,239.4		1,603.6	1,482
Trade debtors 1,114.1 1 Other current assets 1,599.5 2 Total current assets 4,848.3 5 Trade creditors 1,150.2 1 Short-term borrowings 2,000.7 2 Other current liabilities 923.1 1 Total current liabilities 923.1 1 Other long-term borrowings 794.7 1 Other long-term liabilities 587.6 1 Total long-term liabilities 1,382.3 2 Shareholders' funds 5,328.3 5 BV/share (RM) 3.09 3.09 Cash Flow (RMmil, YE 31 Dec) FY13	,184.7 ,239.4	531.0	562.9	596
Dther current assets 1,599.5 2 Fotal current assets 4,848.3 5 Trade creditors 1,150.2 1 Short-term borrowings 2,000.7 2 Other current liabilities 923.1 1 Fotal current liabilities 923.1 1 Total current liabilities 923.1 1 Order current liabilities 923.1 1 Other long-term borrowings 794.7 1 Dther long-term liabilities 587.6 1 Fotal long-term liabilities 1,382.3 2 Shareholders' funds 5,328.3 5 Winority interests 316.9 30.9 SV/share (RM) 3.09 1 Cash Flow (RMmil, YE 31 Dec) FY13	,239.4	1,272.8	1,017.4	1,310
Fotal current assets 4,848.3 5 Trade creditors 1,150.2 1 Short-term borrowings 2,000.7 2 Dther current liabilities 923.1 1 Fotal current liabilities 923.1 1 Total current liabilities 923.1 1 Total current liabilities 923.1 1 Total current liabilities 923.1 1 Dther long-term borrowings 794.7 1 Dther long-term liabilities 587.6 1 Fotal long-term liabilities 1,382.3 2 Shareholders' funds 5,328.3 5 Winority interests 316.9 309 AV/share (RM) 3.09 2 Cash Flow (RMmil, YE 31 Dec) FY13		2,091.7	2,040.5	2,088
Trade creditors 1,150.2 1 Short-term borrowings 2,000.7 2 Dther current liabilities 923.1 1 Fotal current liabilities 923.1 1 Total current liabilities 923.1 1 Other current liabilities 923.1 1 Total current liabilities 923.1 1 Other long-term borrowings 794.7 1 Dther long-term liabilities 587.6 1 Fotal long-term liabilities 1,382.3 2 Shareholders' funds 5,328.3 5 Winority interests 316.9 3.09 Cash Flow (RMmil, YE 31 Dec) FY13		5,235.7	5,224.5	5,478
Short-term borrowings 2,000.7 2 Other current liabilities 923.1 923.1 Total current liabilities 923.1 923.1 Ong-term borrowings 794.7 1 Other long-term liabilities 587.6 932.3 Fotal long-term liabilities 1,382.3 2 Shareholders' funds 5,328.3 5 Winority interests 316.9 BV/share (RM) 3.09 Cash Flow (RMmil, YE 31 Dec) FY13	,275.8	964.9	1,022.8	1,084
Other current liabilities923.1Fotal current liabilities4,074.04Long-term borrowings794.71Other long-term liabilities587.6Fotal long-term liabilities1,382.32Shareholders' funds5,328.35SV/share (RM)3.09Cash Flow (RMmil, YE 31 Dec)FY13	,132.9	1,660.8	1,510.8	1,410
Total current liabilities4,074.04Long-term borrowings794.71Dther long-term liabilities587.6Fotal long-term liabilities1,382.32Shareholders' funds5,328.35Winority interests316.9BV/share (RM)3.09Cash Flow (RMmil, YE 31 Dec)FY13	867.1	724.9	724.9	724
Long-term borrowings 794.7 1 Other long-term liabilities 587.6 5 Fotal long-term liabilities 1,382.3 2 Shareholders' funds 5,328.3 5 Winority interests 316.9 BV/share (RM) 3.09 Cash Flow (RMmil, YE 31 Dec) FY13	, 275.8	3,350.7	3,258.6	3,220
Other long-term liabilities 587.6 Fotal long-term liabilities 1,382.3 2 Shareholders' funds 5,328.3 5 Minority interests 316.9 3.09 SV/share (RM) 3.09 FY13	, 273.0 ,651.5	2,323.6	2,623.6	2,723
Fotal long-term liabilities 1,382.3 2 Shareholders' funds 5,328.3 5 Minority interests 316.9 BV/share (RM) 3.09 Cash Flow (RMmil, YE 31 Dec) FY13	605.9	605.9	605.9	605
Shareholders' funds 5,328.3 5 Minority interests 316.9 BV/share (RM) 3.09 Cash Flow (RMmil, YE 31 Dec) FY13				
Minority interests 316.9 BV/share (RM) 3.09 Cash Flow (RMmil, YE 31 Dec) FY13	,257.5	2,929.5	3,229.5	3,329
BV/share (RM)3.09Cash Flow (RMmil, YE 31 Dec)FY13	,936.4	6,018.6	5,990.8	6,372
	387.5 3.43	517.5 3.48	517.5 3.46	517 3.6
Pretax profit 1.900 4	FY14	FY15F	FY16F	FY17
	960.2	826.6	877.2	907
Depreciation/Amortisation 133.4	114.1	120.3	130.3	140
Net change in working capital 93.0 (311.9)	(537.7)	234.4	(313.
Others (1,033.4)	(54.5)	(69.1)	(58.9)	(350.
Cash flow from operations 1,093.4	708.0	340.2	1,183.0	383
	323.9)	(104.9)	(83.9)	(82.
Net investments & sale of fixed assets 11.2	65.8	65.8	65.8	65
	627.9)	(500.0)	(300.0)	(400.
	886.0)	(539.1)	(318.1)	(417.
Debt raised/(repaid) 498.3	298.3	249.3	249.3	249
Equity raised/(repaid) -	200.0	240.0	245.5	245
	- 172.7)	(190.4)	(562.4)	(173.
	,	. ,		
Others (292.2)	475.9	(283.0)	(288.5)	(164.
Cash flow from financing 42.4	601.4	(224.1)	(601.7)	(87.
Net cash flow (241.6)	423.4	(423.0)	263.3	(121.
Net cash/(debt) b/f 1,102.3 Net cash/(debt) c/f 871.7 1	871.7 ,292.9	1,292.9 869.9	869.9 1,133.2	1,133 1,011
Key Ratios (YE 31 Dec) FY13	FY14	FY15F	FY16F	FY17
Revenue growth (%) 14.4	(3.5)	16.5	3.5	(0.
EBITDA growth (%) 12.8	20.1	13.0	3.5	` 2
Pretax margin (%) 40.2		15.6	16.0	16
Net profit margin (%) 31.6	21.1	10.4	9.7	10
nterest cover (x) 9.8		16.1	10.0	.0
Effective tax rate (%) 7.2	16.1		24.0	24
Dividend payout (%) 11.6	16.1 19.4	20.0	32.4	31
Debtors turnover (days) 87	16.1 19.4 15.5	20.0 101.5	76	
Stock turnover (days) 56	16.1 19.4 15.5 25.9	101.5		
())	16.1 19.4 15.5 25.9 92	101.5 84		
Creditors turnover (days) 102	16.1 19.4 15.5 25.9	101.5	43 78	7 4 8

Source: Company, AmResearch estimates

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Benny Chew Managing Director