

Sunway Bhd

SWB MK / SWAY.KL

FLASH NOTE

➤ **Market Cap**
US\$1,790m
 RM5,790m

➤ **Avg Daily Turnover**
US\$0.60m
 RM1.91m

➤ **Free Float**
35.9%
 1,723 m shares

Current **RM3.36**
 Target **RM3.85** 
 Prev. Target **RM3.63**
 Up/Downside **14.6%**

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	8.2	10.8	3.5
Absolute	7	9.1	6.7

Major shareholders	% held
Tan Sri Jeffrey Cheah & family	55.4
Government of Singapore Investment Corp	8.7

Special DPS spin-off from IPO

Sunway's proposal to relist its construction arm was a positive surprise. While the listing exercise would further unlock value, the main appeal is the potential special cash dividend distributable to existing Sunway shareholders. We estimate a base-case of 20-30 sen/share, which translates to an attractive yield of 6-9% excluding normal dividends. This will materialise in FY15 given the IPO timing of 2Q15. We estimate a 5-6% dilution to FY15-16 EPS arising from the almost halved stake in the list-co, but dilution to RNAV is largely offset by the proceeds raised. We raise our RNAV-based target price as we update for SunReit's market cap and land values (still based on a 20% discount). Maintain Add. The special cash dividend is the key catalyst.

What Happened

Sunway Bhd has announced plans to re-list Sunway Construction. The deal structure comprises a dividend-in-specie of the listco's shares to Sunway shareholders and an offer-for-sale (OFS). Post IPO, Sunway Bhd's stake in the list-co Sunway Construction Group (SCG) will decline from 100% to a minimum of 51%. IPO details should be available in 1Q15 and listing is targeted for 2Q15. A "substantial portion" of the listing proceeds will be "rewarded" to Sunway's existing shareholders as special cash dividends, Sunway Bhd said.

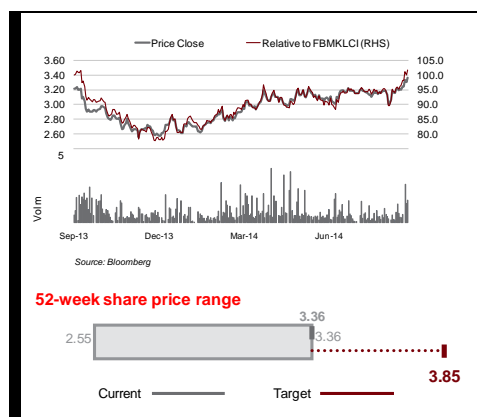
What We Think

While the IPO plans for SCG was a surprise, we are overall positive about this move as it would enable Sunway to unlock the value of its construction arm. However, we expect the main appeal arising from the listing plans of SCG to be the potential cash dividends for Sunway Bhd's shareholders. Based on our sensitivity analysis, Sunway Bhd should be able to pay out a minimum of 20-30 sen/share in special dividends, on top of the normal dividends of 10 sen p.a. For the listco SCG, it will be profiled as a pure contractor with an outstanding order book of RM3.4bn, with growth driven mainly by domestic jobs. Construction constitutes 60% of SCG's net profit while precast concrete products make up the balance.

What You Should Do

Accumulate ahead of the IPO exercise. Our estimate of the potential DPS translates to a dividend yield of 6-9% for FY15, excluding normal DPS. This immediately puts Sunway ahead of other contractors under our coverage that currently offer between 3 and 6%. The dividend angle adds on to the likely strong job flows over the next few months. The group's aggressive target of at least RM1bn worth of contracts by year-end is still within reach.

The CIMB Stock Selection Tools (SST) are designed to complement and enhance the investment decision making process. The SST incorporate a range of analytical tools, providing ready access to key company and market data, valuation tools and charts. If you are interested in subscribing to the 'Stock Selection Tools', please contact your CIMB account manager.



Financial Summary

	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue (RMm)	3,877	4,106	4,479	4,514	4,558
Operating EBITDA (RMm)	295.6	580.7	651.0	612.3	626.9
Net Profit (RMm)	532.3	433.3	498.1	516.6	524.3
Core EPS (RM)	0.21	0.25	0.29	0.30	0.30
Core EPS Growth	(0.3%)	17.5%	15.0%	3.7%	1.5%
FD Core P/E (x)	16.48	13.92	12.02	11.59	11.23
DPS (RM)	0.060	0.100	0.100	0.100	0.100
Dividend Yield	1.79%	2.98%	2.98%	2.98%	2.98%
EV/EBITDA (x)	22.19	10.96	9.11	8.73	7.58
P/FCFE (x)	NA	15.82	40.41	23.64	21.81
Net Gearing	48.1%	38.4%	25.9%	13.5%	3.8%
P/BV (x)	1.69	1.46	1.27	1.11	0.98
ROE	11.8%	11.7%	11.7%	10.5%	9.4%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.05	0.99	0.93

SOURCE: CIMB, COMPANY REPORTS

Sunway Bhd to reduce its 100% stake in Sunway Construction Group to a minimum of 51% via an IPO ▶

Offer for sale (OFS) and distribution-in-specie. The offer structure for the listing of Sunway Construction Group (SCG), which is currently a 100%-subsidiary of Sunway Bhd, will result in Sunway Bhd reducing its shareholding in SCG to a minimum 51% controlling stake. The offer structure involves:

- 1) **distribution-in-specie** of 13.3% of the paid-up share capital of SCG to existing shareholders of Sunway Bhd on the basis of 1 SCG share for every 10 Sunway Bhd shares; and
- 2) **Offer for sale (OFS)** of 31% of SCG's paid-up share capital to institutional (25.5%) and retail investors (5.5%). No issuance of new shares is involved.

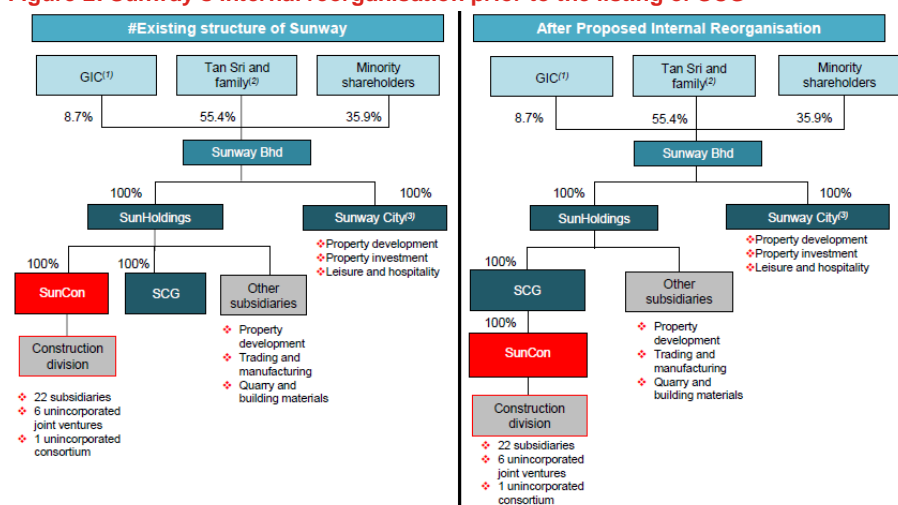
The timing of the listing has been set for 2Q15.

Figure 1: Key details of the proposed listing of Sunway Construction Group

Offer structure	<ul style="list-style-type: none"> Proposed Distribution-in-Specie of 13.3% of issued and paid up share capital of SCG to existing shareholders of Sunway Bhd. The distribution is on the basis of 1 SCG share for every 10 Sunway Bhd shares held at the entitlement date to be determined later Proposed Offer for Sale of 31.0% of issued and paid up share capital to Institutional & Retail Investors Sunway Bhd to retain control of 55.7% of SCG after proposed listing (before over-allotment option)
Over-allotment option	<ul style="list-style-type: none"> There will be an over-allotment option of 4.7% of SCG Post over-allotment, Sunway to retain at least 51.0% of SCG
Free Float	Approximately 40% of the share capital of SCG
Timing of Listing	2Q 2015

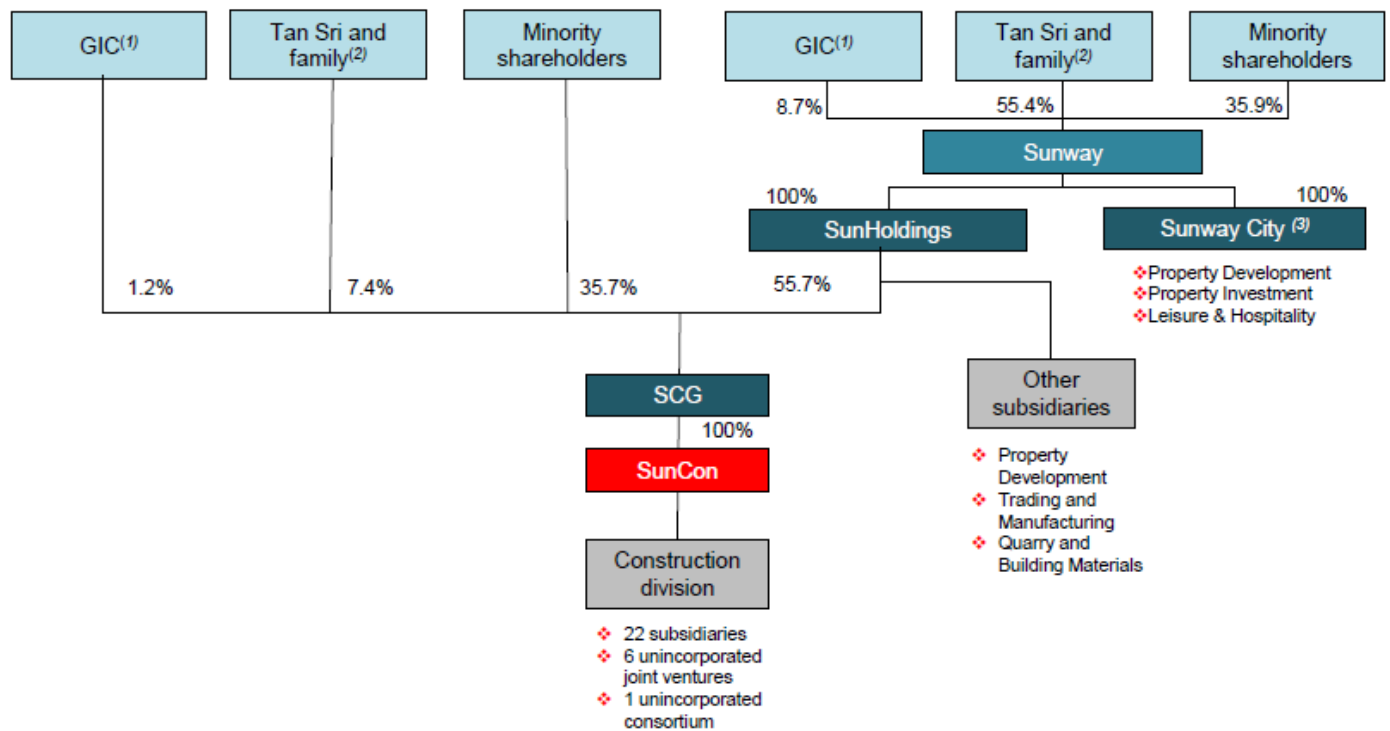
SOURCE: COMPANY

Figure 2: Sunway's internal reorganisation prior to the listing of SCG



SOURCE: COMPANY

Figure 3: Sunway Construction Group (SCG) to emerge as the listed construction subsidiary of Sunway Bhd



Notes:

- (1) GIC Private Limited for the Government of Singapore
- (2) Tan Sri Dato' Seri Dr Jeffrey Cheah Fook Ling, *ao*, his interest in related company vehicles, spouse and children
- (3) Sunway City Sdn Bhd

SOURCE: COMPANY

SCG to be a pure contractor with domestic focus

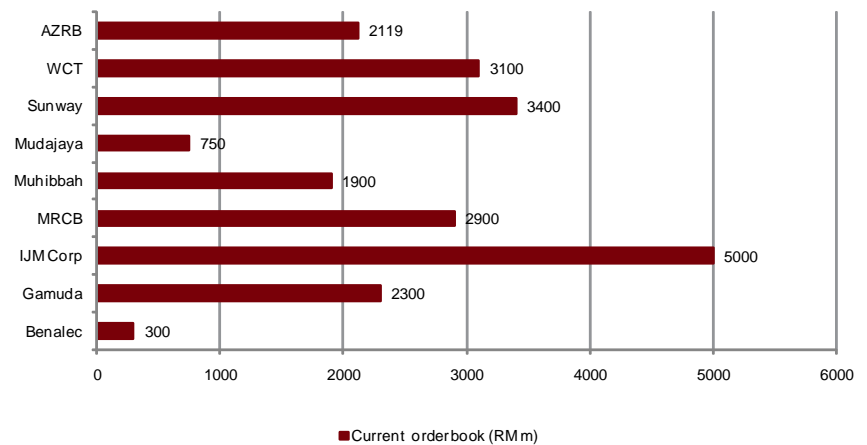
RM3.4bn order book and rising. Post IPO, Sunway Construction Group (SCG) would be profiled as a pure contractor (at least RM1bn market cap), with two main earnings generators: construction (60% of profit) and precast concrete (40% of profit). While we acknowledge that it has competed several jobs overseas in the past, we believe the growth driver will mainly come from the domestic scene. SCG reported an adjusted net profit of RM75m in FY13, and 1H14 net profit of RM50m. Working on an FY14 annualised net profit of RM100m, 1.3bn shares post IPO, and sector average P/E of 15-16x, SCG could arguably be worth between RM1.5bn and RM1.6bn. Comparatively, other smaller cap pure contractors with a market cap of below RM1bn are trading at 8-9x P/E.

Figure 4: Details of Sunway Construction

De-listed (VGO by Sunway Holdings)	: 2004
Industry classification	: Grade 7 (highest to be accorded by CIDB)
Geographical track record	: Domestic and overseas (India, Trinidad & Tobago, Middle East)
Outstanding order book	: RM3.4bn
Specialisation	: MRT, LRT, BRT, highways, residential & commercial buildings
Awards	: Malaysian Construction Industry Excellence Awards (MCIEA) 2009-2014
2013 adjusted net profit	: RM75m
1H14 adjusted net profit	: RM50m
Business segments post-IPO	: Construction - 60% of net profit, precast concrete - 40% of net profit
No. of SCG shares to be listed (m)	: 1,292.9

SOURCES: CIMB, COMPANY REPORTS

Figure 5: Order book comparisons



SOURCES: CIMB, COMPANY REPORTS

Key attraction of proposed SCG listing is potential special dividend to Sunway Bhd’s shareholders

The main attraction is the special dividends. While the IPO plans for SCG are rather unexpected, we are also overall positive about this move as it would enable Sunway to unlock the value of its construction arm. However, we believe the main appeal arising from this listing plans of SCG is the potential cash dividend for Sunway Bhd’s shareholders. Based on the planned utilisation of proceeds, a "substantial" portion of the cash raised by Sunway Bhd will be paid out as special dividends.

Special cash dividend of c.20-30 sen/share (base-case, 6-9% yield). Based on our sensitivity analysis, Sunway Bhd should be able to pay out a minimum of 20-30 sen/share in special dividends, on top of the normal dividends of 10 sen p.a. This assumes 1) c.RM700m total proceeds from SCG's OFS portion, and 2) 50-70% of those proceeds earmarked for special dividends. Based on these assumptions, potential dividend yield could be between 6-9%, or higher. The special dividends should materialise in FY15.

Figure 6: Special dividend scenarios for Sunway Bhd shareholders

Sunway Bhd's existing no. of shares (m)	:	1,723.2
Last closing price (RM/share)	:	3.36
Assumed proceeds from offer for sale (OFS) of SCG shares (RM m)	:	700.0
Assumed 50% carved out for special dividends (RM m)	:	350.0
Expected special DPS (RM/share)	:	0.20
Dividend yield (%)	:	6.0%
Assumed 60% carved out for special dividends (RM m)	:	420.0
Expected special DPS (RM/share)	:	0.24
Dividend yield (%)	:	7.3%
Assumed 70% carved out for special dividends (RM m)	:	490.0
Expected special DPS (RM/share)	:	0.28
Dividend yield (%)	:	8.5%

SOURCES: CIMB, COMPANY REPORTS

Figure 7: RNAV

Type	Location	Size/units	Area (sq ft)	Price	Stake	Value
Completed buildings						RM m
Sunway Lagoon Theme Park	Petaling, Selangor	59.9 ac	728,326	200.0	100%	145.7
Sunway Hotel Georgetown	Penang	240.0 units	0	150,000.0	100%	36.0
Monash University Sunway Campus	Petaling, Selangor	12.0 ac	754,000	220.0	100%	165.9
Sunway University College	Petaling, Selangor	12.4 ac	615,983	220.0	100%	135.5
Sunway Giza	Sunway Damansara, Selangor	1.4 ac	98,000	500.0	60%	29.4
Lost World of Tambun	Tambun, Perak	39.8 ac	728,326	80.0	65%	37.9
Sunway Hotel Phnom Penh	Phnom Penh, Cambodia	138.0 units	125,313	300,000.0	53%	21.7
Sunway Hotel Hanoi	Hanoi, Vietnam	142.0 units	9,365	300,000.0	100%	42.6
On going developments						
Sunway City Penang	Seberang Perai, Penang	15.8 ac	210,394.8	100.0	100%	21.0
Sunway Grand	Penang	3.8 ac	768,767.9	100.0	100%	76.9
Sg. Ara - new land	Penang	68.3 ac	3,484,800.0	13.0	100%	45.3
Bukit Mertajam - new land	Penang	17.8 ac	7,729,724.0	12.0	100%	92.8
Sunway Damansara	Petaling, Selangor	18.2 ac	1,048,489.2	120.0	60%	75.5
Sunway City Ipoh	Ipoh, Perak	899.2 ac	32,666,515.2	3.0	65%	63.7
Sunway Velocity	Kuala Lumpur	19.5 ac	984,456.0	150.0	50%	73.8
Sunway Tower KL 1	Kuala Lumpur	1.0 ac	43,560.0	1,000.0	100%	43.6
Sunway Kayangan	Bukit Raja, Selangor	5.4 ac	367,646.4	40.0	100%	14.7
Sunway Integrated Resort	Petaling, Selangor	18.5 ac	845,064.0	100.0	100%	84.5
Sunway Semenyih	Ulu Langat, Selangor	398.1 ac	17,341,671.6	5.0	100%	86.7
Sunway Cheras	Selangor	6.9 ac	301,870.8	25.0	100%	7.5
Sunway South Quay	Bandar Sunway, Selangor	52.4 ac	2,517,768.0	350.0	60%	528.7
Casa Kiara III	Sri Hartamas, KL	2.8 ac	130,680.0	180.0	80%	18.8
Sunway Duta	Kuala Lumpur	3.2 ac	136,342.8	350.0	60%	28.6
Sunway Melawati	Setapak, KL	30.6 ac	1,427,896.8	35.0	100%	50.0
Sunway Alam Suria	Shah Alam, Selangor	14.1 ac	1,045,440.0	40.0	50%	20.9
Sunway OPUS Grand India	Hyderabad, India	23.8 ac	1,524,600.0	20.0	50%	15.2
Sunway MAK Signature Residence	Hyderabad, India	14.0 ac	609,840.0	20.0	60%	7.3
Sunway Guanghao	Jiayin, China	3.7 ac	740,520.0	80.0	39%	23.1
Tianjin Eco City	Tianjin, China	90.9 ac	3,789,720.0	95.0	65%	234.0
Wonderland Business Park	Sydney, Australia	65.5 ac	3,971,800.8	95.0	31%	117.0
Bukit Lenang - new land	Johor	64.0 ac	2,787,840.0	40.0	80%	89.2
Taman Equine	Selangor	33.0 ac	1,437,480.0	20.0	100%	28.7
Bangi	Selangor	3.0 ac	130,680.0	10.0	100%	1.3
Sg. Long	Balakong	111.0 ac	4,835,160.0	30.0	80%	116.0
Mont Putra	Selangor	163.0 ac	7,100,280.0	40.0	100%	284.0
Melawati 2	Selangor	2.0 ac	87,120.0	20.0	100%	1.7
Tampines	Singapore	5.0 ac	217,800.0	750.0	30%	49.0
Sembawang	Singapore	0.8 ac	34,848.0	975.0	100%	34.0
Yuan Ching Road	Singapore	5.0 ac	217,800.0	750.0	30%	49.0
Pasir Ris Rise	Singapore	4.3 ac	187,308.0	780.0	30%	43.8
Medini land	Iskandar	691.0 ac	30,099,960.0	45.0	38%	514.7
Pendas land	Iskandar	1,079.2 ac	47,009,952.0	45.0	60%	1269.3
New Land Novena	Singapore	1.7 ac	71,874.0	500.0	30%	10.8
Penang Land (4 plots)	Penang	989.9 ac	43,118,737.2	35.0	100%	1509.2
Total value of properties						6,345.2
		Market cap	Stake			
		Rm m				
Sunway REIT		4,515.0	37%			1,657.0
		FY15 Net profit	Stake	P/E		
		RM m				
Construction		95.0	100%	15.9		1,511.0
Quarry & Trading		56.6	100%	12.7		720.2
Property investments (2Q14)						1,945.9
Total borrowings (2Q14)						(3,211.8)
Total RNAV						8,967.5
FD RNAV (RM)						9,687.52
RNAV/share (RM)						4.82
Discount to RNAV						20%
Target price (RM)						3.85

SOURCES: CIMB, COMPANY REPORTS

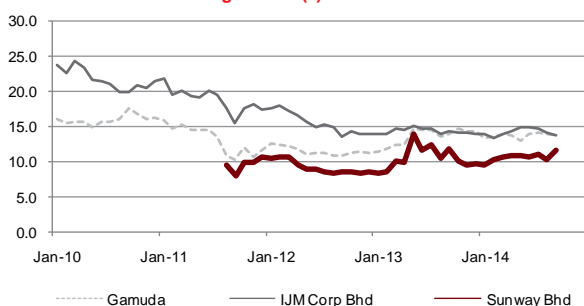
Profit & Loss

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Total Net Revenues	4,106	4,479	4,514	4,558
Gross Profit	4,106	4,479	4,514	4,558
Operating EBITDA	581	651	612	627
Depreciation And Amortisation	(20)	(21)	(21)	(21)
Operating EBIT	561	630	591	606
Financial Income/(Expense)	(97)	(85)	(66)	(47)
Pretax Income/(Loss) from Assoc.	117	120	123	128
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	580	666	648	687
Exceptional Items	0	0	0	0
Pre-tax Profit	580	666	648	687
Taxation	(101)	(122)	(87)	(120)
Exceptional Income - post-tax				
Profit After Tax	480	544	561	567
Minority Interests	(46)	(46)	(45)	(43)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	433	498	517	524
Recurring Net Profit	433	498	517	524
Fully Diluted Recurring Net Profit	433	498	517	524

Cash Flow

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
EBITDA	580.7	651.0	612.3	626.9
Cash Flow from Inv. & Assoc.				
Change in Working Capital	(77.8)	(93.6)	(43.7)	(47.0)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	0.0	0.0	0.0	0.0
Net Interest (Paid)/Received	(125.8)	(113.3)	(100.8)	(90.7)
Tax Paid	(100.9)	(121.7)	(86.9)	(120.2)
Cash Flow From Operations	276.3	322.4	380.9	369.0
Capex	(20.0)	(20.0)	(20.0)	(20.0)
Disposals Of FAs/subsidiaries	355.2	160.9	124.9	130.3
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Investing	335.2	140.9	104.9	110.3
Debt Raised/(repaid)	(230.2)	(315.0)	(232.4)	(209.2)
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(125.6)	(125.6)	(125.6)	(125.6)
Preferred Dividends				
Other Financing Cashflow	(237.6)	(4.1)	(108.9)	(125.2)
Cash Flow From Financing	(593.4)	(444.8)	(467.0)	(460.1)
Total Cash Generated	18.1	18.4	18.8	19.2
Free Cashflow To Equity	381.3	148.2	253.4	270.1
Free Cashflow To Firm	737.3	576.5	586.6	570.0

12-month Forward Rolling FD P/E (x)



Balance Sheet

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Total Cash And Equivalents	922	997	1,304	1,633
Total Debtors	2,353	2,567	2,587	2,612
Inventories	593	646	651	658
Total Other Current Assets	1,125	1,198	1,239	1,284
Total Current Assets	4,993	5,408	5,782	6,186
Fixed Assets	970	969	968	966
Total Investments	3,022	3,152	3,245	3,341
Intangible Assets	330	330	330	330
Total Other Non-Current Assets	657	688	721	755
Total Non-current Assets	4,979	5,140	5,264	5,391
Short-term Debt	368	332	298	269
Current Portion of Long-Term Debt				
Total Creditors	2,711	2,957	2,980	3,009
Other Current Liabilities	68	68	68	68
Total Current Liabilities	3,147	3,357	3,347	3,346
Total Long-term Debt	2,271	1,993	1,794	1,614
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	2,271	1,993	1,794	1,614
Total Provisions	81	81	81	81
Total Liabilities	5,499	5,430	5,221	5,041
Shareholders' Equity	3,968	4,566	5,229	5,899
Minority Interests	504	550	595	638
Total Equity	4,472	5,117	5,824	6,537

Key Ratios

	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue Growth	5.92%	9.08%	0.78%	0.97%
Operating EBITDA Growth	96.5%	12.1%	(6.0%)	2.4%
Operating EBITDA Margin	14.1%	14.5%	13.6%	13.8%
Net Cash Per Share (RM)	(1.00)	(0.77)	(0.46)	(0.15)
BVPS (RM)	2.30	2.65	3.04	3.42
Gross Interest Cover	4.46	5.56	5.86	6.67
Effective Tax Rate	17.4%	18.3%	13.4%	17.5%
Net Dividend Payout Ratio	29.0%	25.2%	24.3%	24.0%
Accounts Receivables Days	192.8	191.3	198.9	199.2
Inventory Days	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A
ROIC (%)	17.8%	19.4%	17.5%	17.6%
ROCE (%)	8.40%	8.96%	8.06%	7.88%

Key Drivers

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Outstanding Orderbook	3,800	4,300	4,800	5,300
Order Book Depletion	N/A	N/A	N/A	N/A
Orderbook Replenishment	1,500	1,500	1,500	1,500
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% main prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% 2ndary prod./serv.)	N/A	N/A	N/A	N/A

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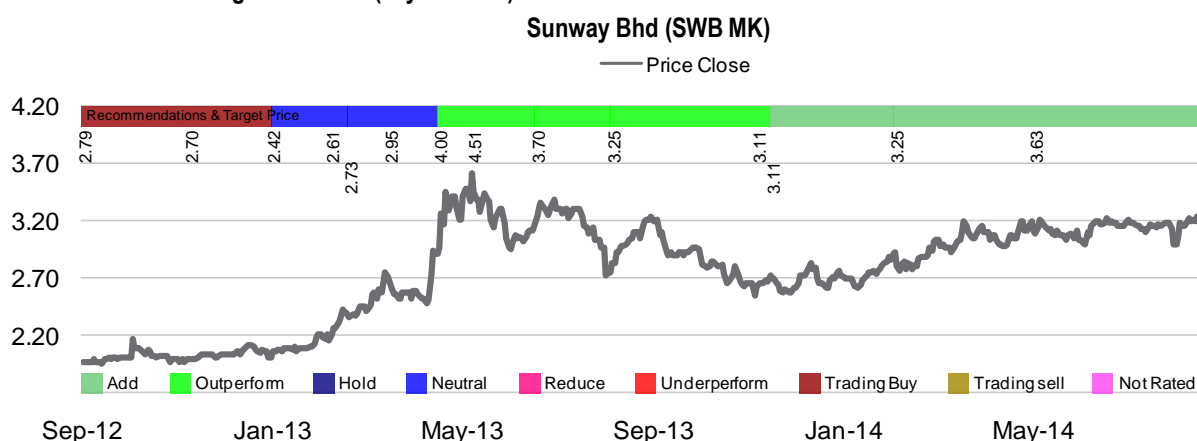
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1467 companies under coverage for quarter ended on 30 June 2014		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.9%	7.2%
Hold	27.9%	3.9%
Reduce	13.2%	1.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2013.

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- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
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