

22 September 2014

# Sunway

## Unlocking value in construction

### Buy

**Price**  
RM3.36

**Target price**  
RM4.20

#### Market data

Bloomberg code	SWB MK
No. of shares (m)	1,723.5
Market cap (RMm)	5,790.3
52-week high/low (RM)	3.36 / 2.55
Avg daily turnover (RMm)	2.4
KLCI (pts)	1,849.49

Source: Bloomberg

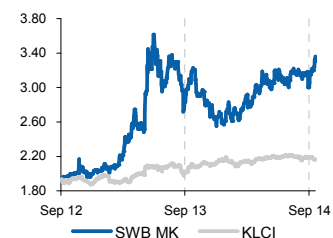
#### Valuation

Target price (RM)	4.20
Methodology	Sum-of-parts
Key assumptions	PE multiple (property) = 14x
	PE multiple (construction) = 15x
Implied FY14 PE (x)	17.8
Implied FY14 PB (x)	1.3
Implied FY14 Yield (%)	1.4

Source: KAF

#### Performance

	1M	3M	12M
Absolute (%)	7	9	7
Rel market (%)	8	11	3



Source: Bloomberg

#### Analyst

**Diana Teo**  
+60 3 2168 8092  
diana@kaf.com.my

**We do not see any major negatives with SWB's move to list its construction division under Sunway Construction Group by 2Q15. We opine this could lead to a rerating of SWB and shareholders rewarded with a distribution-in-specie and special cash dividend which we estimate to be 27 sen. SWB remains a top pick.**

#### Financial Highlights

Year to Dec (RMm)	FY11A	FY12A	FY13E	FY14F	FY15F
Revenue	3,691.7	4,128.8	4,733.7	4,038.3	5,047.7
Pre-tax profit	498.5	839.7	1,894.3	625.3	765.8
Normalised net profit	327.1	350.7	482.9	449.3	523.3
Normalised EPS (RM)	0.23	0.24	0.28	0.24	0.27
EPS growth (%)	(2.4)	7.5	17.0	(16.8)	15.8
Net DPS (RM)	-	0.06	0.06	0.06	0.07
PE (x)	13.6	13.8	11.8	14.2	12.3
ROE (%)	11.6	11.3	11.3	8.2	8.9
Net yield (%)	-	1.8	1.8	1.7	2.0
PB (x)	1.3	1.3	1.0	1.0	1.0

Source: Company, KAF

#### Proposed listing of its construction unit

Sunway has proposed the listing of its construction arm, Sunway Construction Group Bhd (SCG), a new company incorporated by subsidiary, Sunway Holdings. The offer for RM258.6m via 1,292m shares is via 1) proposed distribution-in-specie of 13.3% of SCG's issued and paid up capital to Sunway (SWB) shareholders on the basis of 1 SCG: 10 SWB shares and 2) proposed offer for sale of 31% to institutional and retail investors. Sunway's equity stake in SCG will be 55.7% after the proposed listing (from 100%). Hence, free float will be about 40%. The sales proceeds will be used partly to fund working capital with the rest being distributed as special cash dividend to SWB shareholders.

#### Impact to SWB

Overall, we estimate about 7% EPS dilution (based on FY15F earnings) from SWB's 55.7% stake in construction upon listing. We opine the impact is manageable given the bulk of earnings are from property development (45%) and property investment (29%). In addition, SWB shareholders will be rewarded upfront with the dividend-in-specie and a special cash dividend. Assuming a market cap of about RM1.3bn upon listing (assuming 15x PE consistent with the construction sector average), we estimate that a 1:10 distribution will translate to 10 sen per SWB share. Similarly, assuming that RM100m from the offer for sale is used for working capital and the remaining RM300m is paid out as a special cash dividend, this will translate to 17 sen per SWB share. Hence, we estimate the upfront payment to SWB shareholders to be 27 sen.

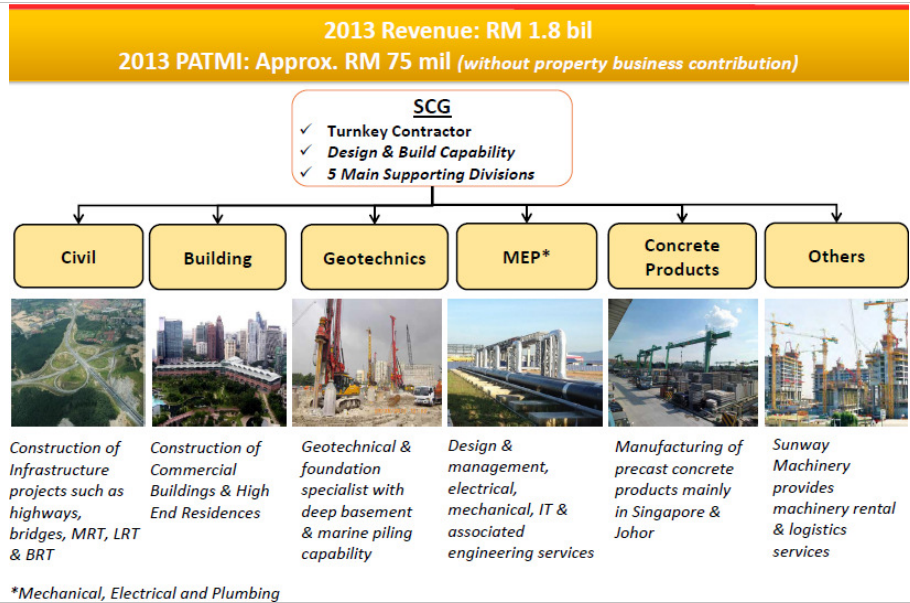
#### Yet another change in structure

As the group was just amalgamated in August 2011, with the merger of Sunway City and Sunway Holdings, the spinning off of its construction arm could be in preparation for key projects that could require better transparency and disclosure being a listed firm, in our view. The new structure would still provide SWB shareholders exposure to property development, investment, construction and the trading business as compared to the previous structure that comprised two separate listed entities. Overall, we do not see any major negatives with this move. SCG should also benefit from better profiling and value realization in the construction space.

Produced by KAF-Seagroatt & Campbell Securities Sdn Bhd  
Important disclosures can be found in the Disclosure Appendix

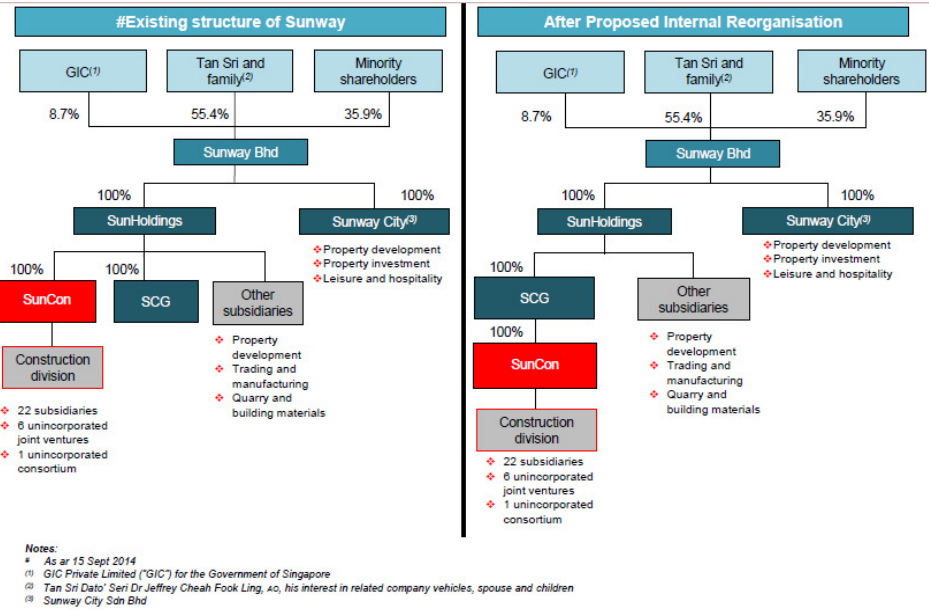
# Additional information

Chart 1 : Sunway Construction Group's key businesses



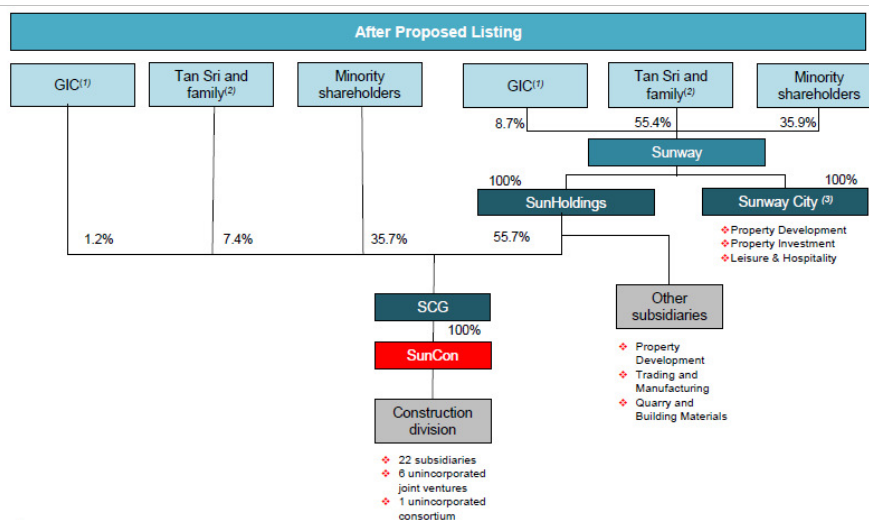
Source: Company

Chart 2 : Shareholding structure pre listing



Source: Company

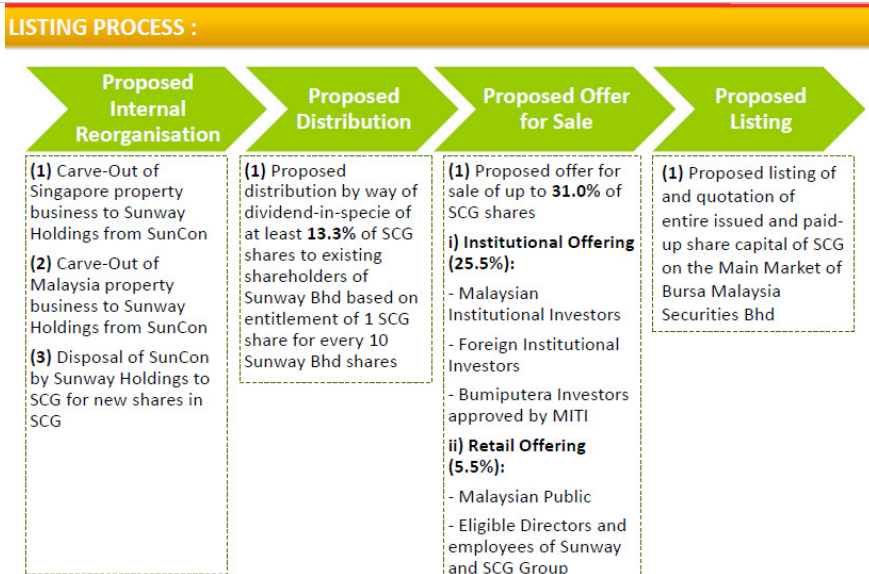
**Chart 3 : Shareholding structure post listing**



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

Source: Company

**Chart 4 : Listing process**



Source: Company

## Chart 5 : Timeline

Milestone	Date
Submission to regulatory authorities	4 <sup>th</sup> Quarter 2014
EGM	1 <sup>st</sup> Quarter 2015
Listing Date	2 <sup>nd</sup> Quarter 2015

Approvals required are from SC, Bursa Securities, MITI and shareholders of Sunway Bhd.

Source: Company

## Chart 6 : Outstanding order book as at 31 July 2014

	Contract Sum RM'mil	O/S Order Book RM'mil	
<b>Infrastructure</b>			
MRT Package V4 (Sec 17 to Semantan)	1,173	673	60%
LRT Kelana Jaya Line Extension (Package B)	569	212	
BRT Sunway Line	452	260	
<b>Johor</b>			
Urban Wellness Centre	283	223	
<b>Others</b>			
KLCC NEC	304	236	27%
KLCC Package 2 (Piling & Substructure)	222	166	
Others	772	243	
<b>Internal</b>			
Sunway Velocity Mall (Substructure)	291	38	13%
Sunway Velocity Phase 2 (Substructure)	179	19	
Sunway University New Academic Block	192	86	
Sunway Putra Place	258	81	
Sunway Pyramid 3	203	167	
Sunway Medical Centre Phase 3	178	178	
Sunway Geo Retail Shops & Flexi Suites	153	153	
Sunway Iskandar - Citrine Service Apartments	200	187	
<b>Singapore</b>			
Precast	814	446	
	<b>6,243</b>	<b>3,368</b>	

Source: Company



## Income statement

FYE December (RMm)	2011A	2012A	2013E	2014F	2015F
Turnover	3,691.7	4,128.8	4,733.7	4,038.3	5,047.7
<b>EBITDA</b>	<b>396.6</b>	<b>824.7</b>	<b>921.1</b>	<b>609.5</b>	<b>823.1</b>
Depreciation & Amortisation	(90.7)	(89.9)	(136.9)	(75.2)	(112.4)
<b>EBIT</b>	<b>305.9</b>	<b>734.8</b>	<b>784.2</b>	<b>534.3</b>	<b>710.8</b>
Net interest	(53.4)	(147.9)	(102.4)	(65.5)	(77.2)
Associates	185.6	144.6	172.5	156.5	132.2
Exceptional items	60.4	108.2	1,040.1	-	-
Pretax profit	<b>498.5</b>	<b>839.7</b>	<b>1,894.3</b>	<b>625.3</b>	<b>765.8</b>
Taxation	(69.6)	(115.4)	(120.9)	(126.6)	(166.0)
Profit after tax	<b>429.0</b>	<b>724.3</b>	<b>1,773.4</b>	<b>498.7</b>	<b>599.8</b>
Minority interest	(41.4)	(285.5)	(273.0)	(49.4)	(76.5)
<b>Net profit</b>	<b>387.6</b>	<b>438.8</b>	<b>1,500.5</b>	<b>449.3</b>	<b>523.3</b>
<b>Normalised net profit</b>	<b>327.1</b>	<b>350.7</b>	<b>482.9</b>	<b>449.3</b>	<b>523.3</b>

Source: Company, KAF

## Balance sheet

FYE December (RMm)	2011A	2012A	2013E	2014F	2015F
<b>Non-current assets</b>					
Property, Plant and Equipment	960.6	1,562.8	857.9	1,282.8	1,670.4
Investment properties	888.9	4,779.1	1,804.3	1,804.3	1,804.3
Land held for development	1,017.3	598.9	877.9	877.9	877.9
Investment in associates & jointly controlled entity	1,332.5	586.9	2,331.1	2,487.5	2,619.8
Goodwill	326.5	318.1	319.9	319.9	319.9
Deferred tax assets	33.3	33.7	37.7	37.7	37.7
<b>Total non-current assets</b>	<b>4,559.0</b>	<b>7,879.5</b>	<b>6,228.8</b>	<b>6,810.1</b>	<b>7,330.0</b>
<b>Current assets</b>					
Properties under development	669.3	991.5	1,276.1	1,560.6	1,845.2
Inventories	451.8	650.3	622.9	531.4	664.2
Total Receivables	1,319.1	1,584.9	1,402.6	1,196.6	1,495.7
Tax recoverable	67.6	47.8	55.3	55.3	55.3
Deposits, cash and bank balances	776.7	1,197.5	1,519.1	1,033.7	740.8
Assets held for sale	-	12.2	7.5	7.5	7.5
Total current assets	3,284.6	4,484.2	4,883.4	4,385.0	4,808.6
<b>Total assets</b>	<b>7,843.6</b>	<b>12,363.7</b>	<b>11,112.3</b>	<b>11,195.2</b>	<b>12,138.6</b>
<b>Current liabilities</b>					
Total Payables	2,005.6	1,844.8	2,154.0	1,837.6	2,296.9
Bank borrowings	319.2	2,955.0	1,804.9	1,804.9	1,804.9
Other liabilities	1.6	0.2	0.1	0.1	0.1
Taxation	27.1	21.0	24.0	24.0	24.0
Total current liabilities	<b>2,353.4</b>	<b>4,821.0</b>	<b>3,983.0</b>	<b>3,666.6</b>	<b>4,126.0</b>
<b>Financed by:</b>					
Share capital	1,292.5	1,292.5	1,723.5	1,723.5	1,723.5
Share premium & Reserves	1,724.4	1,922.3	3,611.3	3,961.3	4,368.9
Shareholders' funds	<b>3,016.9</b>	<b>3,214.8</b>	<b>5,334.9</b>	<b>5,684.8</b>	<b>6,092.4</b>
Minority interest	327.3	2,136.5	317.3	366.7	443.2
Long-term bank borrowings	1,934.5	1,688.4	990.6	990.6	990.6
Other liabilities	154.9	449.7	431.1	431.1	431.1
Deferred tax liabilities	56.6	53.2	55.3	55.3	55.3
<b>Total liabilities &amp; shareholders' funds</b>	<b>7,843.6</b>	<b>12,363.7</b>	<b>11,112.3</b>	<b>11,195.2</b>	<b>12,138.6</b>

Source: Company, KAF

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**Cash flow statement**

<b>FYE December (RMm)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014F</b>	<b>2015F</b>
<b>Cashflow from operations (CFO)</b>					
Pretax profit	498.5	839.7	1,894.3	625.3	765.8
Tax paid	(117.0)	(105.3)	(127.3)	(126.6)	(166.0)
Others	(124.9)	778.8	(943.0)	(15.8)	57.3
Net change in working capital	122.9	(947.1)	234.3	(303.4)	(257.1)
<b>CFO</b>	<b>399.0</b>	<b>591.8</b>	<b>1,093.6</b>	<b>179.4</b>	<b>400.0</b>
<b>Cashflow from investing (CFI)</b>					
Purchase of property, plant and equipment (Capex)	(337.2)	(414.3)	(612.6)	(500.0)	(500.0)
Investments	(54.2)	(227.9)	(163.3)	-	-
Others	98.5	(60.4)	(129.2)	-	-
<b>CFI</b>	<b>(293.0)</b>	<b>(702.6)</b>	<b>(905.1)</b>	<b>(500.0)</b>	<b>(500.0)</b>
<b>Cashflow from financing (CFF)</b>					
Interest paid	(66.4)	(180.4)	(117.5)	(103.8)	(103.8)
Interest received	27.5	24.2	35.6	38.3	26.6
Repayment of term loans	(44.9)	-	-	-	-
Dividends paid	(39.5)	(181.7)	(344.3)	(99.4)	(115.7)
Others	(73.0)	716.5	561.6	-	-
<b>CFF</b>	<b>(196.3)</b>	<b>378.6</b>	<b>135.4</b>	<b>(164.8)</b>	<b>(192.9)</b>
<b>Net change in cash and cash equivalents</b>	<b>(90.2)</b>	<b>267.8</b>	<b>323.9</b>	<b>(485.4)</b>	<b>(292.9)</b>

Source: Company, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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Dato' Ahmad Bin Kadis  
Managing Director  
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)