

10 April 2015

Sunway Berhad

Beefing Up Hardware Trading!

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OUTPERFORM ↔

Price: **RM3.76**

Target Price: **RM3.76** ↑

News

- SUNWAY announced: (i) acquisition of two hardware companies namely Winstar Trading S/B (WINSTAR for RM131.0m) and PND Hardware & Trading Pte. Ltd (PND, for SGD2.6m or c.RM6.8m) for a total consideration of RM138.0m, and (ii) acquisition of 100% equity interest in Pasir Mas Holdings Sdn Bhd (Pasir Mas) for a total cash consideration of RM1.75m.

Comments

- We are neutral in the near term but positive in the longer run on the proposed acquisitions which will further enhance SUNWAY's trading and manufacturing reach in both Malaysia and Singapore given these companies' long standing track record and network in the market of more than 30 years. The acquisitions will have minimal impact on net gearing as it will be paid in 3 tranches over 4 years. (Kindly refer overleaf for more details).
- We deem that the purchase consideration of RM138.0m to be fair considering the annual profit guarantees of some RM15.7m (RM15.0m and SGD0.25m (c.RM0.7m) annually from both WINSTAR and PND, respectively). This would imply a PER of 8.7x which is pretty inline with ours applied PER of 8x for its trading division.
- We are also positive with the acquisition of Pasir Mas, which operates a petrol station and motor vehicle workshop for the 0.8ac site which is strategically located right opposite Sunway Pyramid in Bandar Sunway. The land is likely to be earmarked for redevelopment. Assuming 4x plot ratio, 70% utilisation rate and ASP of RM1,000psf (i.e. Sunway Geo 2), the land has a potential GDV of RM97.6m. However, impact to RNAV is minimal.

Outlook

- As for the listing of its construction arm SUNCON, we believe that it is right on track to be listed by the end/beginning of 1H15/2H15. To recap, SUNWAY's shareholders could stand to gain 33.3 sen – 38.9 sen special dividends (inclusive of SUNCON shares) from the listing of SUNCON.

Forecast

- We tweaked our FY15-16E core net profit marginally higher by 1% - 2%, after factoring in the potential contribution from acquisition of the two hardware companies. We have not imputed any earnings impact from Pasir Mas yet.

Rating

Maintain OUTPERFORM

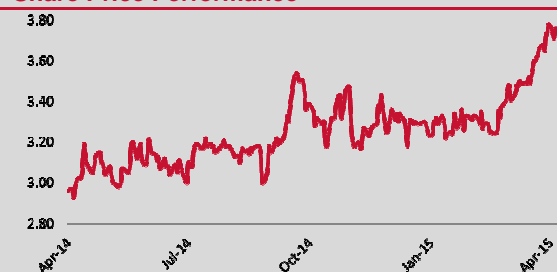
Valuation

- We reiterate our OUTPERFORM call on SUNWAY with a higher SoP-driven TP of RM3.76 (previously, RM3.74), as we believe that there would be more excitement closer to the listing of its construction arm (SUNCON). Our Target Price is slightly higher (+2.0 sen) after factoring in the potential earnings contribution from these hardware companies and also the potential GDV of RM97.6m from the Pasir Mas land.

Risks to Our Call

- Weaker-than-expected property sales and construction orderbook replenishment.
- Higher-than-expected sales and administrative costs.
- Negative real estate policies.
- Tighter lending environments.

Share Price Performance



KLCI	1,849.39
YTD KLCI chg	5.0%
YTD stock price chg	14.3%

Stock Information

Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	6,510.2
Issued shares	1,731.4
52-week range (H)	3.80
52-week range (L)	2.92
3-mth avg daily vol:	1,508,308
Free Float	31%
Beta	1.1

Major Shareholders

SUNGEI WAY CORP SDN	50.1%
YEAN TIH CHEAH	13.5%
EMPLOYEES PROVIDENT	5.3%

Summary Earnings Table

FYE Dec (RM m)	2014A	2015E	2016E
Turnover	4,842	5,159	5,378
EBIT	615	671	696
PBT	969	875	900
Net Profit (NP)	744	606	620
Core NP	592	606	620
Consensus (NP)		569	583
Earnings Revision		1%	2%
EPS (sen)	43.2	35.2	36.0
Core EPS (sen)	34.4	35.2	36.0
EPS growth (%)	-50%	-18%	2%
NDPS (sen)	13.8	10.3	10.6
NTA/Share (RM)	2.91	3.26	3.54
Core PER	8.7	10.7	10.4
Price/NTA (x)	1.3	1.2	1.1
Net Gearing (x)	0.3	0.2	0.2
Dividend Yield (%)	3.7%	2.8%	2.8%



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Other Points

Payment terms for the hardware companies. The acquisition for both of these companies will take place in 3 tranches over 4 years. For the 1st tranche, SUNWAY needs to fork out c.RM82.7m to acquire 60% stake in both companies, which would have a minimal impact to its balance sheet. As of 4Q14, SUNWAY's net gearing stood at 0.29x and post acquisition of 60% stakes in both companies, we expect its net gearing to inch up to only 0.30x.

Purchase Price and Payment Structure

Tranche	% Acquired	Winstar (RM'm)	(SGD'm)	Expected Timeline
1	60%	78.6	1.6	2Q15
2	20%	26.2	0.5	2Q17
3	20%	26.2	0.5	2Q18
	Total	131.0	2.6	

Source: Kenanga Research

Sum-of-Parts

	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	
Property Development & Investment	100%	6364.1	n.a	0%	6,364	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1782.0	n.a	0%	1,782	SUNREIT TP RM1.76
Construction	100%	1910.9	15.0	0%	1,911	15x FY15E PER- pegged with the mid end of mid cap construction Fwd PERs of 12x-15x.
Quarry & Buildings Mat	100%	32.2	8.0	0%	32	8x FY15E PER (previously, 8x FY14E PER)
Trading & manufacturing Group Shareholders Funds	100%	356.6	8.0	0%	357	8x FY15E PER (previously, 8x FY14E PER)
Total SOP		10445.7			10,446	
Discount Rate to Property Division RNAV				50%	-3182	Inline with sector average of 50%
Discounted SOP					7,264	
RNAV per share (RM)					6.06	
No of paid-up shares ('m)					1723.5	
Dilution impact					878.9	
FD SOP (RM)					5.22	
					-28%	
TP (RM)					3.76	
Diluted no. of shares ('m)					2168.2	

Source: Kenanga Research

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Income Statement

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	3849	4734	4842	5159	5378
EBITDA	417	915	729	793	828
Depreciation	-95	-109	-114	-122	-131
EBIT	322	806	615	671	696
Interest Expense	-100	-138	-79	-85	-96
Investing	23	36	48	49	56
Associate/JCE	296	172	233	240	244
Exceptionals/FV	182	1018	152	0	0
PBT	723	1894	969	875	900
Taxation	-125	-121	-148	-195	-201
Minority Interest	-67	-273	-78	-74	-79
Net Profit	530	1500	744	606	620
Core Net Profit	350	483	592	606	620

Balance Sheet

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Fixed Assets	2646	3540	3766	4305	5086
Intangibles	318	320	319	319	319
Other FA	1590	2369	2652	2652	2652
Inventories	650	623	598	729	711
Receivables	2128	2679	3492	3162	3296
Other CA	493	63	111	111	111
Cash	1159	1527	1978	2777	3089
Total Assets	8983	11120	12917	14056	15264

Payables	1772	2154	2172	2306	2403
ST Borrowings	1765	1805	2283	2283	2283
Other ST Liability	31	24	21	21	21
LT Borrowings	972	991	1502	1961	2498
Other LT Liability	478	486	605	605	617
Minority Int.	381	317	389	462	541
Net Assets	3585	5343	5945	6418	6901

Share Capital	1293	1723	1731	1731	1731
Reserves	2293	3620	4215	4687	5171
Shareholders Equity	3585	5343	5945	6418	6901

Cashflow Statement

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Operating CF	390	755	271	1,325	1,006
Investing CF	-370	-1,131	-20	-298	-526
Financing CF	274	744	761	246	315
Net Change in Cash	294	368	1,013	1,272	795
Free Cash Flow	-43	532	545	1,522	1,100

Source: Kenanga Research

Financial Data & Ratios

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Growth (%)					
Revenue	4.3	23.0	2.3	6.6	4.2
EBITDA	-2.4	119.5	-20.3	8.7	4.4
EBIT	-0.2	150.5	-23.7	9.1	3.8
Pre-tax Income	45.0	162.0	-48.8	-9.7	2.8
Net Income	36.8	183.0	-50.4	-18.5	2.3
Core Net Profit	-1.1	37.7	22.7	2.4	2.3
Profitability (%)					
EBITDA Margin	10.8	19.3	15.1	15.4	15.4
EBIT Margin	8.4	17.0	12.7	13.0	13.0
PBT Margin	18.8	40.0	20.0	17.0	16.7
Net Margin	13.8	31.7	15.4	11.8	11.5
Core Net Margin	9.1	10.2	12.2	11.8	11.5
Effective Tax Rate	-17.3	-22.6	-22.3	-22.3	-22.3
ROE	16.1	33.6	13.2	9.8	9.3
ROA	6.3	14.9	6.2	4.5	4.2

DuPont Analysis

Net margin (%)	13.8	31.7	15.4	11.8	11.5
Assets Turnover (x)	0.5	0.5	0.4	0.4	0.4
Leverage Factor (x)	2.5	2.3	2.1	2.2	2.2
ROE (%)	16.1	33.6	13.2	9.8	9.3

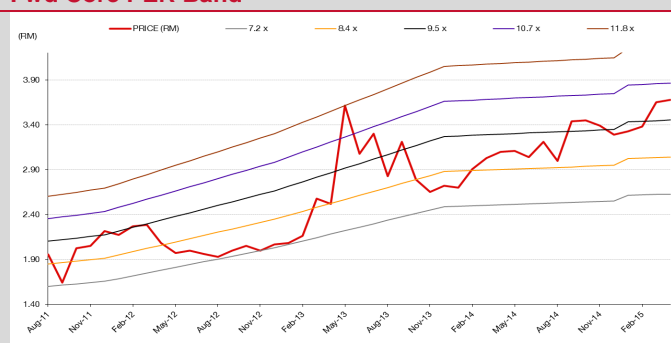
Leverage

Debt/Asset (x)	0.30	0.25	0.29	0.30	0.31
Debt/Equity (x)	0.76	0.52	0.64	0.66	0.69
Net Debt/(Cash)	1.6	1.3	1.8	1.5	1.7
Net Debt/Equity (x)	0.39	0.24	0.30	0.23	0.25

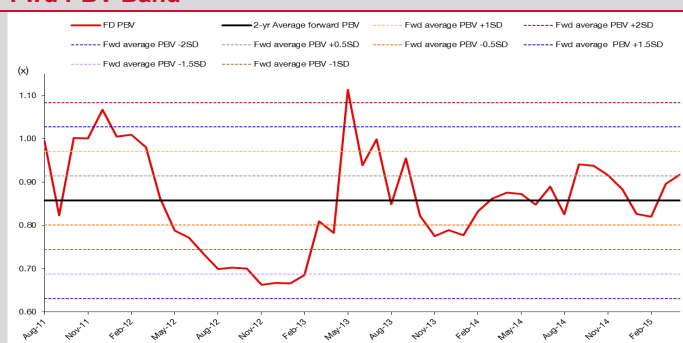
Valuations

EPS (sen)	30.8	87.1	43.2	35.2	36.0
Core EPS	20.3	28.0	34.4	35.2	36.0
NDPS (sen)	6.0	10.0	13.8	10.3	10.6
BV/share (RM)	2.08	3.10	3.45	3.72	4.00
Core PER (x)	12.2	4.3	8.7	10.7	10.4
Net Div. Yield (%)	1.6%	2.7%	3.7%	2.8%	2.8%
PBV (x)	1.8	1.2	1.1	1.0	0.9
EV/EBITDA (x)	19.3	8.5	11.4	10.0	9.9

Fwd Core PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

NAME	Price (9/4/15)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY15/16 NP Growth	FY16/17 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY14/15	FY15/16	FY16/17	(%)	(%)	(x)	FY14/15	FY15/16	FY16/17	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE															
S P SETIA BHD*	3.46	8,796	24.3	14.7	11.4	3.4%	6.8%	1.3	361.0	595.5	772.8	64.9%	29.8%	3.95	OUTPERFORM
IOI PROPERTIES GROUP BHD*	2.17	8,200	17.1	19.7	18.7	3.2%	4.3%	0.7	479.2	414.0	439.0	-13.6%	6.0%	2.12	MARKET PERFORM
UEM SUNRISE BHD*	1.39	6,307	14.7	18.2	16.2	1.8%	7.8%	1.0	479.9	385.6	434.3	-19.7%	12.6%	1.47	MARKET PERFORM
SUNWAY BHD	3.76	6,510	10.9	10.7	10.4	2.8%	13.2%	1.0	592.2	606.3	620.5	2.4%	2.3%	3.76	OUTPERFORM
MAH SING GROUP BHD^	1.66	3,975	11.7	10.6	9.9	3.9%	16.1%	1.1	339.2	375.6	399.4	10.7%	6.3%	1.74	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.15	3,077	11.0	10.9	10.2	6.0%	12.2%	1.1	279.1	281.7	301.6	0.9%	7.1%	2.00	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.28	2,287	15.7	23.1	29.3	0.9%	2.6%	1.3	41.6	62.1	72.1	49.5%	16.1%	1.27	UNDERPERFORM
KSL HOLDINGS BHD	2.16	2,051	6.7	6.2	5.6	6.4%	15.3%	0.9	252.0	271.5	301.9	7.8%	11.2%	2.48	OUTPERFORM
TROPICANA CORP BHD	1.09	1,553	4.0	6.3	9.1	2.1%	11.9%	0.4	304.5	191.7	133.0	-37.0%	-30.6%	1.10	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.96	1,366	7.3	7.0	7.0	6.4%	29.5%	1.7	182.6	190.2	190.5	4.1%	0.2%	3.05	OUTPERFORM
CRESCENDO CORPORATION BHD*	2.48	564	13.1	12.7	12.4	3.1%	18.4%	0.7	43.3	44.5	45.7	2.7%	2.9%	2.46	MARKET PERFORM
HUA YANG BHD	2.16	570	6.9	5.5	5.5	6.1%	22.8%	1.2	82.2	102.9	102.8	25.2%	-0.1%	2.20	OUTPERFORM
CREST BUILDER HOLDINGS BHD	1.19	195	10.0	12.5	10.1	2.0%	8.9%	0.5	13.9	15.7	19.5	13.1%	23.8%	1.27	MARKET PERFORM
CONSENSUS NUMBERS															
IGB CORPORATION BHD	2.84	3,791	17.5	15.8	13.9	2.6%	5.0%	0.9	216.9	240.3	273.7	10.8%	13.9%	4.10	NEUTRAL
YNH PROPERTY BHD	1.97	809	17.6	12.7	9.6	2.2%	5.3%	0.9	45.9	63.7	84.2	38.6%	32.3%	1.58	SELL
GLOMAC BHD	0.95	690	8.7	9.7	7.2	4.4%	8.8%	0.7	79.5	71.2	95.9	-10.4%	34.7%	0.96	SELL
PARAMOUNT CORP BHD	1.56	659	9.5	9.8	9.2	5.1%	7.9%	0.8	69.6	67.6	71.8	-3.0%	6.3%	1.54	NEUTRAL
TAMBUN INDAH LAND BHD	1.81	763	7.2	6.5	6.0	5.4%	28.9%	1.9	106.3	118.0	127.7	11.1%	8.2%	2.15	BUY

* Core NP and Core PER

** Crescendo per share data is based on non-Fully Diluted

^ Last price and TP is Ex-rights and Ex-Bonus.

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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