

COMPANY UPDATE

Sunway (SWB MK)

Unlocking Value Of Construction Business

During its analyst briefing, Sunway announced its plan to float its construction division on Bursa Malaysia. We are positive on this new development as it allows shareholders to reap value from the construction arm. We believe this exercise would allow shareholders to further enjoy share and cash dividends as a result of the listing with an implied yield of 6.4-6.9%. Maintain BUY with a higher target price of RM3.51.

WHAT'S NEW

- **Spinning off its construction business.** Sunway is proposing to list its construction division on Bursa Malaysia. The division is currently held under indirect wholly-owned Sunway Construction Sdn Bhd (SunCon). A new company, Sunway Construction Group Bhd (SCG), has been incorporated and would be the listing vehicle to acquire the entire SunCon. The listing of 1.29b shares would involve Sunway holding at least 51%, the distribution of 13.3% dividend-in-specie and a proposed offer for sale of 31-35.7% of SCG shares. The listing of SCG is expected to be completed in 2Q15.

STOCK IMPACT

- **Rewarding Sunway's shareholders.** In conjunction with the proposed listing of SCG, Sunway also proposed a 1-for-10 distribution-in-specie of free SCG shares to existing shareholders of Sunway. Based on our ballpark calculations (see table below), this share dividend would translate to about 10 sen/share, implying a yield of about 3.2%, based on the last traded share price.
- **Special dividend also on the cards.** During the analyst briefing, there were discussions of a potential special dividend for Sunway's shareholders after the listing is completed. The special dividend would be based on part of the cash receipts due to Sunway. Assuming 40% of the cash proceeds are distributed as special dividends, we estimate the dividend could be worth 10-11 sen/share, which implies a yield of 3.0-3.5%.

REWARDING SHAREHOLDER

	(RMm)		Per Share (sen)		Implied Yield	
Dividend-In-Specie	223.9	223.9 ^A	0.11	0.11 ^A	3.2%	3.2% ^A
Special Cash Dividend (assuming 40% of proceeds distributed)	208.7	240.3 ^A	0.10	0.12 ^A	3.0%	3.5% ^A
Total	432.6	464.2 ^A	0.21	0.22 ^A	6.2%	6.7%

^AScenario if Sunway exercises its over allotment option.
Source: UOB Kay Hian

KEY FINANCIALS

Year to 31 Dec (RMm)	2012	2013	2014F	2015F	2016F
Net turnover	3,877	4,734	5,569	6,323	6,463
EBITDA	594	608	624	674	717
Operating profit	504	471	538	579	608
Net profit (rep./act.)	351	1,501	514	545	575
Net profit (adj.)	351	483	514	545	575
EPS (sen)	27.1	31.7	25.3	26.8	28.2
PE (x)	12.4	10.6	13.3	12.5	11.9
P/B (x)	1.2	1.0	1.1	1.0	0.9
EV/EBITDA (x)	12.3	12.1	11.8	10.9	10.2
Dividend yield (%)	1.9	3.0	3.0	3.0	3.0
Net margin (%)	9.0	31.7	9.2	8.6	8.9
Net debt/(cash) to equity (%)	57.6	32.0	21.9	18.1	15.0
Interest cover (x)	7.7	5.9	10.1	12.8	14.8
ROE (%)	10.7	33.7	9.3	9.1	8.7
Consensus net profit	-	-	496	540	553
UOBKH/Consensus (x)	-	-	1.04	1.01	1.04

Source: Sunway Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.36
Target Price	RM3.51
Upside	+4.5%
(Previous TP)	RM3.39

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	SWB MK
Shares issued (m):	1,723.3
Market cap (RMm):	5,790.3
Market cap (US\$m):	1,790.4
3-mth avg daily t'over (US\$m):	0.6

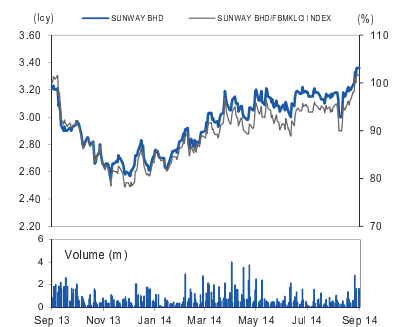
Price Performance (%)

52-week high/low	RM3.36/RM2.55				
1mth	3mth	6mth	1yr	YTD	
7.0	9.1	16.3	6.7	23.5	

Major Shareholders

	%
Tan Sri Jeffrey Cheah	47.7
GIC	8.7
FY14 NAV/Share (RM)	3.17
FY14 Net Debt/Share (RM)	0.70

PRICE CHART



Source: Bloomberg

ANALYST

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- **Fair value at 10-15x PE with prospects to win MRT Line 2 jobs.** We value the construction division at 15x PE, in line with valuations of standalone mid-sized construction companies such as Mubibbah Engineering, Gabungan AQRS and Benalec Holdings which trade at 14x-15x PE. Also, the group would most likely be one of the winners for the construction of MRT Line 2 which contracts are expected to roll out next year.
- **External construction orderbook remained healthy at RM2.5b.** As of Jul 14, Sunway's outstanding construction orderbook stood at RM2.5b, mainly from government infrastructure jobs. Ytd, the group's construction arm had secured about RM581m in new orders and is still targeting to replenish its orderbook by an additional RM2.0b (including internal orders). The construction division has a tender book of over RM3b as of recently. Currently, we are expecting the construction division to contribute 5-7% EBIT margin for 2014-16.

- The company proposed to be listed is expected to be syariah-compliant.

EARNINGS REVISION/RISK

- We maintain our earnings forecasts.
- Key risks include: a) rising interest rates, b) tighter lending policies by banks, and c) rising costs of raw materials leading to margin erosion.

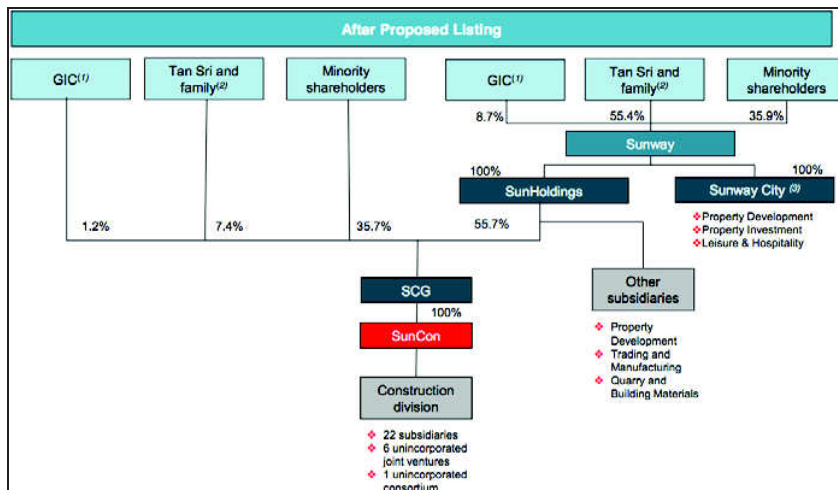
VALUATION/RECOMMENDATION

- **Maintain BUY with a higher SOTP-based target price of RM3.51 (from RM3.39),** or 13x 2015F PE. We increase our SOTP valuations after rolling valuation of the construction business to 2016 in light of the proposed listing of its construction arm next year and increasing Sunway REIT's stake value. Sunway would be able to offer good earnings visibility, and the expected decent take-up at Sunway Iskandar also makes it an attractive Medini, Iskandar Malaysia, proxy. Sunway is also expected to be one of the key contractors for the MRT Line 2 construction.
- Also, the stock would be supported by an expected dividend-in-specie and cash dividend that could imply yields of 6.4-6.9% as a result of the floatation.

SHARE PRICE CATALYST

- Finalisation of its construction division listing.
- Good take-up rates at property launches.
- Winning more construction jobs.

SHAREHOLDING STRUCTURE POST-LISTING



Source: Sunway

VALUATION

(RMm)	
Property development	3,850.0
REIT	1,573.5
Construction*	2,244.2
Quarry & building materials	49.8
Trading	517.5
Warrants conversion proceeds	723.8
Less: Net debt @FY13	(1,707.4)
Total SOP value (a)	7,251.3
Outstanding shares (m)	1,809.5
Warrants	258.5
Enlarged share base (m)	2,068.0
SOTP value/share (RM) (a,b)	3.51

pegged to 2016F

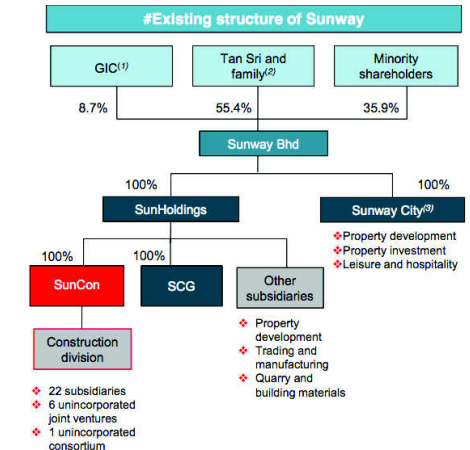
Source: UOB Kay Hian

HEADLINE NUMBERS FOR SUNWAY CONSTRUCTION

- a) 1H14 pre-tax profit of RM50m.
- b) Outstanding construction orderbook at RM3.4b (RM2.5b internal jobs)
- c) Maintaining order win of RM2.5b (vs ytd wins of RM581m)
- d) Tender book at RM3b

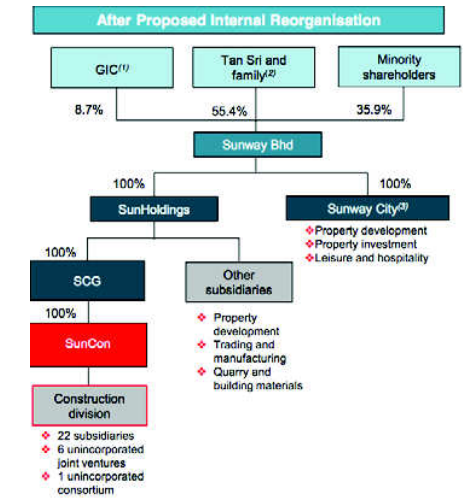
Source: Sunway

CORPORATE STRUCTURE PRE REORGANISATION



Source: Sunway Bhd

CORPORATE STRUCTURE POST REORGANISATION



Source: Sunway

PROFIT & LOSS

Year to 31 Dec (RMm)	2013	2014F	2015F	2016F
Net turnover	4,734	5,569	6,323	6,463
EBITDA	608	624	674	717
Deprec. & amort.	137	86	96	108
EBIT	471	538	579	608
Associate contributions	172	250	255	260
Net interest income/(expense)	(102)	(62)	(53)	(48)
Pre-tax profit	1,894	725	780	820
Tax	(121)	(181)	(195)	(205)
Minorities	(273)	(30)	(40)	(40)
Net profit	1,501	514	545	575
Net profit (adj.)	483	514	545	575

BALANCE SHEET

Year to 31 Dec (RMm)	2013	2014F	2015F	2016F
Fixed assets	858	1,022	1,176	1,318
Other LT assets	5,371	5,371	5,378	5,388
Cash/ST investment	1,519	1,768	1,689	1,597
Other current assets	3,364	3,862	4,473	4,822
Total assets	11,112	12,022	12,716	13,124
ST debt	1,805	1,705	1,605	1,505
Other current liabilities	2,178	2,913	3,301	3,375
LT debt	1,422	1,322	1,222	1,122
Other LT liabilities	55	55	55	55
Shareholders' equity	5,335	5,740	6,285	6,860
Minority interest	317	287	247	207
Total liabilities & equity	11,112	12,022	12,716	13,124

CASH FLOW

Year to 31 Dec (RMm)	2013	2014F	2015F	2016F
Operating	1,094	706	450	437
Pre-tax profit	0	725	780	820
Tax	(152)	(181)	(195)	(205)
Deprec. & amort.	137	86	96	108
Associates	(508)	0	0	0
Working capital changes	296	376	68	13
Other operating cashflows	1,320	(300)	(299)	(299)
Investing	(905)	(250)	(250)	(250)
Capex (growth)	(202)	(250)	(250)	(250)
Investments	(508)	0	0	0
Proceeds from sale of assets	6	0	0	0
Others	(201)	0	0	0
Financing	135	(208)	(279)	(279)
Dividend payments	(344)	(109)	(181)	(181)
Issue of shares	733	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(130)	(100)	(100)	(100)
Others/interest paid	(123)	1	2	2
Net cash inflow (outflow)	324	249	(79)	(92)
Beginning cash & cash equivalent	1,102	1,519	1,768	1,689
Changes due to forex impact	93	0	0	0
Ending cash & cash equivalent	1,519	1,768	1,689	1,597

KEY METRICS

Year to 31 Dec (%)	2013	2014F	2015F	2016F
Profitability				
EBITDA margin	12.9	11.2	10.7	11.1
Pre-tax margin	40.0	13.0	12.3	12.7
Net margin	31.7	9.2	8.6	8.9
ROA	15.1	4.4	4.4	4.4
ROE	33.7	9.3	9.1	8.7
Growth				
Turnover	22.1	17.6	13.5	2.2
EBITDA	2.4	2.5	8.1	6.4
Pre-tax profit	108.3	(61.7)	7.6	5.1
Net profit	328.0	(65.7)	6.1	5.4
Net profit (adj.)	37.7	6.5	6.1	5.4
EPS	16.8	(20.2)	6.0	5.4
Leverage				
Debt to total capital	36.3	33.4	30.2	27.1
Debt to equity	60.5	52.7	45.0	38.3
Net debt/(cash) to equity	32.0	21.9	18.1	15.0
Interest cover (x)	5.9	10.1	12.8	14.8