

Sunway Berhad

Out with a Shopping Bag!

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Yesterday, SUNWAY entered into two land deals in i) Kajang measuring 5.3acres at RM63.0m and ii) USJ 1 measuring 14.8acres at RM167.6m with a combined estimated GDV of RM1.9b which we are positive given its strategic location. No changes to our FY17-18E earnings. Maintain MARKET PERFORM with a higher SoP-driven Cum/Ex-TP of RM4.22/RM1.81 (previously, RM3.87/RM1.66).

News. Yesterday, SUNWAY announced that they entered into two land deals of which they are acquiring freehold lands measuring 5.3acres in Kajang and 14.8acres in USJ 1 Subang Jaya for a purchase price of RM63.0m and RM167.6m, respectively. The purchase price for its Kajang and USJ 1 land translates to RM274psf and RM260psf, respectively.

Shopping mode! To date, SUNWAY has entered into four land deals bringing its year-to-date GDV replenishment up to RM5.0b with its existing GDV now stands at RM53.5b. We deem that the purchase price for both of its landbank to be fair as it represents a land cost to GDV ratio of 13% and 11% for Kajang and USJ 1, respectively. In terms of pricing per square feet, the asking price for the surrounding land around its Kajang land ranges between RM210-250psf, which is close to their purchase price given that it comes with a completed structure with car park podium that is viable to be converted into SOHOs, coupled that it is a Transit Oriented Development. That said, it allows SUNWAY to enjoy a speedier billings cycle upon launch.

As for its USJ 1 land, we believe that they secured a good bargain from JAKS as RM260psf for an industrial land, while the asking price in the surrounding area ranges between RM330-380psf for commercial land which we believe SUNWAY would be able to convert the land for commercial purposes at a lower rate as compared to the asking prices above. Furthermore, it is located just a throw stone away from local amenities and public transport like Da Men Mall, Summit USJ, and South Quay BRT station.

Outlook. While SUNWAY has already replenished GDV of RM5.0b for the year, we believe that there could be more landbanking deals in the pipeline. In terms of earnings delivery, we remain confident with SUNWAY's ability to deliver for the year premised on its strong unbilled sales of RM1.4b with 2-year visibility, a robust outstanding order book of RM4.6b that provides 2-3 year visibility and other divisions that has been generating decent growth over the years. However, we are still tracking its sales closely, as its 1Q17 sales of RM142.0m are still below our and management's target of RM1.1b. In five years' time, we expect management to consider the option of spinning off its medical division.

Earnings unchanged. No changes to our FY17-18E core earnings as we did not factor in the potential earnings contribution from these particular projects as we are expecting the earliest launches from these two landbanks to take place from 2H18 onwards.

MARKET PERFORM maintained. We reiterate our MARKET PERFORM call on SUNWAY due to its unexciting sales trajectory but with a higher SoP-driven Cum/Ex-TP of RM4.22/RM1.81 (previously, RM3.87/RM1.66) after we did some housekeeping on our model, which includes an additional RM2.0b worth of GDV replenishment assumptions coupled with a narrower discount to RNAV of 52% (previously, 55%) inline with our sector average.

Downside risks include: Weaker-than-expected property sales and construction replenishment, higher than expected admin costs, negative real estate policies, and tighter lending environment.

MARKET PERFORM ↔

Cum/Ex-Price : RM4.35/RM1.86

Cum/Ex-Target Price : RM4.22/RM1.81 ↑

Share Price Performance



KLCI	1,765.13
YTD KLCI chg	7.5%
YTD stock price chg	45.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	8,902.9
Issued shares	2,046.6
52-week range (H)	4.40
52-week range (L)	2.84
3-mth avg daily vol:	3,830,953
Free Float	34%
Beta	0.5

Major Shareholders

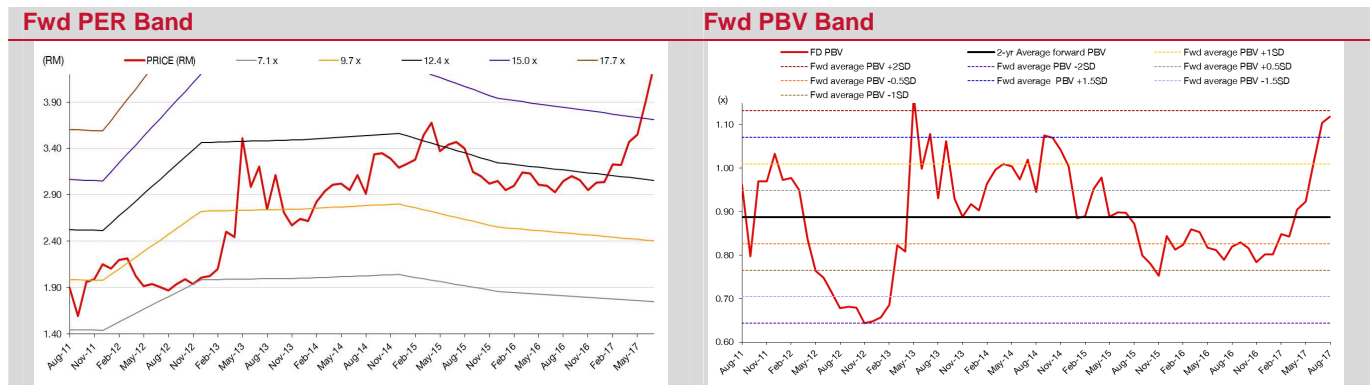
Sungei Way Corporation S/B	56.4%
Employees Provident Fund Board	5.5%
Fook Ling Cheah	4.6%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	4,726	5,262	5,584
EBIT	727	728	772
PBT	859	797	845
Net Profit (NP)	586	522	543
Core net profit	542	522	543
Consensus (NP)	n.a.	564	603
Earnings Revision	n.a.	n.a.	n.a.
Core Basic EPS	26.3	25.3	26.3
Core EPS grow. (%)	-20%	-11%	4%
DPS (sen)	12.1	8.9	9.2
Basic PER (x)	16.6	17.2	16.5
BVPS (RM)	3.61	3.78	3.95
Net Gearing (x)	0.5	0.4	0.4
Dividend Yield (%)	2.8%	2.0%	2.1%

Sum-of-Parts						
	Stake	Value @ Stake RM'm	PER (x)	Discount (%)	Value RM'm	Assumptions
Property Development & Investment	100%	7,939	n.a	52%	3,811	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin property inv discount of 55%
Sunway Reit	35%	1,834	n.a		1,834	(ii) Property Inv: Zero surplus on Book Value SUNREIT TP RM1.80
Construction	56%	1,438	16		1,438	16x FY18E PER- Inline with Big-Cap peers range of 16-18x.
Quarry & Buildings Mat	100%	158	8		158	8x FY18E PER
Trading & manufacturing	100%	288	8		288	8x FY18E PER
Healthcare	100%	1,334	27		1,334	27x FY18E PER inline with KPJ
Group Shareholders Funds						
Total SOP		12,993			8,865	
Adjustment for Dilution					1,157	
TP (RM)					1.81	
Diluted no. of shares ('m)					5,539	

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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02 August 2017

Peer Comparison

NAME	Price (1/8/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	Fwd P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)		(RMm)	FY16/17	FY17/18					FY18/19	(%)	(%)				
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	2.15	11,838	18.3	14.8	14.7	3.4%	4.1%	4.2%	0.63	648.5	800.2	803.6	23.4%	0.4%	2.30	OUTPERFORM
S P SETIA BHD*#	3.28	9,974	12.3	13.1	15.3	4.0%	9.7%	8.0%	1.34	808.0	761.3	653.4	-5.8%	-14.2%	4.08	OUTPERFORM
UEM SUNRISE BHD*	1.15	5,218	35.4	22.3	32.4	0.0%	2.2%	3.4%	0.81	147.3	233.5	161.3	58.5%	-30.9%	1.33	MARKET PERFORM
SUNWAY BHD*	1.86	8,903	16.4	17.1	16.4	4.8%	7.3%	6.7%	0.49	541.6	521.7	542.6	-3.7%	4.0%	1.66	MARKET PERFORM
MAH SING GROUP BHD^	1.57	3,783	10.9	11.2	11.6	4.1%	10.1%	10.0%	1.09	346.8	338.9	327.5	-2.3%	-3.4%	1.67	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.56	4,593	35.5	40.7	18.5	0.0%	3.7%	4.4%	1.22	129.3	112.9	248.8	-12.7%	120.4%	1.72	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.60	4,506	12.1	11.9	11.5	5.8%	19.4%	9.8%	1.07	373.9	379.2	391.4	1.4%	3.2%	2.63	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	1.09	2,565	10.5	33.8	26.4	0.2%	8.6%	2.4%	0.89	244.1	76.0	97.2	-69%	27.9%	1.32	MARKET PERFORM
KSL HOLDINGS BHD	1.23	1,266	6.2	7.3	7.2	0.0%	8.8%	6.9%	0.47	204.6	173.7	177.1	-15.1%	2.0%	1.30	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.72	1,584	8.4	7.1	6.7	5.4%	31.8%	22.7%	1.43	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFORM
SUNSURIA BERHAD	1.45	1,158	31.6	11.8	7.4	2.1%	6.9%	13.3%	1.47	36.7	98.0	157.0	167.2%	60.1%	1.61	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.56	355	12.3	11.6	11.2	2.8%	2.2%	8.0%	0.46	28.9	30.6	31.6	6.0%	3.3%	1.70	MARKET PERFORM
HUA YANG BHD	0.84	294	4.8	6.8	5.9	1.4%	21.9%	12.2%	0.46	61.0	43.0	50.0	-29.5%	16.3%	0.95	UNDERPERFORM
A&M REALTY BHD	1.45	529	26.4	19.8	15.3	0.0%	3.3%	4.2%	0.82	20.1	26.7	34.6	33.2%	29.5%	3.00	OUTPERFORM
MAGNA PRIMA BHD	1.48	492	62.3	75.7	44.7	0.4%	7.4%	1.1%	1.21	7.9	6.5	11.0	-17.7%	69.2%	1.60	MARKET PERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.81	3,751	12.6	15.6	15.6	3.6%	6.7%	6.4%	0.76	298.0	240.3	240.3	-19.4%	0.0%	3.00	NEUTRAL
GLOMAC BHD	0.65	470	4.3	8.9	7.3	4.8%	10.7%	4.7%	0.42	110.4	52.8	64.3	-52.2%	21.9%	0.70	NEUTRAL
PARAMOUNT CORP BHD	1.87	793	10.6	9.8	9.4	4.8%	8.0%	8.3%	0.81	75.0	80.6	84.9	7.5%	5.3%	2.24	BUY
TAMBUN INDAH LAND BHD	1.32	572	5.1	6.3	6.6	6.5%	21.5%	15.3%	0.95	112.2	91.0	86.7	-18.9%	-4.8%	1.58	NEUTRAL
LBS BINA GROUP BHD	1.98	1,339	15.7	11.3	9.3	4.8%	8.4%	9.1%	1.06	85.3	119.0	143.4	39.5%	20.5%	2.30	BUY

* Core NP and Core PER

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

MRCB's prices are of ex-rights

Source: Bloomberg, Kenanga Research

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

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

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

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