

02 August 2017 | Corporate Update

## Sunway Berhad

### Acquires land in Kajang and USJ 1

#### INVESTMENT HIGHLIGHTS

- Acquires land in Kajang and USJ 1
- Redevelopment potential of industrial lots in USJ 1
- Transit-oriented development on Kajang land
- Marginal impact on net gearing
- Maintain Neutral with a revised TP of RM4.25

**Acquires land in Kajang and USJ 1.** Sunway Berhad (SUNWAY) announced the acquisition of 4 parcels of freehold land totalling approximately 14.8 acres in USJ 1 for a total purchase consideration of RM168m. Moreover, SUNWAY also announced the acquisition of approximately 5.3 acres of freehold land in Kajang for RM63m. The acquisitions are estimated to complete by February 2018.

**Redevelopment potential of industrial lots in USJ 1.** In the interim, SUNWAY intends to use the 4 parcels of industrial lots in USJ 1 as warehouses and storage facilities for its trading and manufacturing business. Nevertheless, SUNWAY sees future redevelopment opportunity on the land as the land is strategically located only 500 meters from Da Men Mall and Summit USJ. Besides, the land is also located only 600 meters from South Quay BRT station. The land is ideal for redevelopment into mixed-use development with estimated GDV of RM1.4b. We are positive on the land acquisition as it is expected to serve as an extension to its Sunway City township given the close proximity of the land to Sunway City.

**Transit-oriented development on Kajang land.** On its land acquisition in Kajang, it comprises a semi-completed commercial development that was discontinued by the previous developer. We are positive on the land acquisition as SUNWAY intends to complete the semi-completed structure but will replace the original development plan with a proposed transit-oriented development due to its immediate proximity to Sg Jernih MRT Station. The proposed mixed-development comprises a retail podium/commercial lots, and serviced apartments/SOHO with indicative GDV of RM460m.


**Marginal impact on net gearing.** SUNWAY intends to fund the acquisitions via internally generated funds and borrowings. We estimate the net gearing of SUNWAY to be lifted marginally to 0.5x post acquisitions from a net gearing of 0.47x as of 1QFY17. Meanwhile, we expect no immediate earnings impact from the land acquisitions as we estimate launches for transit-oriented development in Kajang to take place soonest in FY18.

**Maintain NEUTRAL**

**Revised Target Price (TP): RM4.25**  
**(Previously: RM3.82)**

RETURN STATS	
Price (1 Aug 2017)	RM4.35
Target Price	RM4.25
Expected Share Price Return	-2.3%
Expected Dividend Yield	2.9%
<b>Expected Total Return</b>	<b>0.6%</b>

STOCK INFO	
KLCI	1,765.13
Bursa / Bloomberg	5211 / SWB MK
Board / Sector	Main / Trading & Services
Syariah Compliant	Yes
Issued shares (mil)	2,046.65
Market cap. (RM'm)	8,902.9
Price over NA	1.18
52-wk price Range	RM2.84 – RM4.40
Beta (against KLCI)	0.48
3-mth Avg Daily Vol	3.83m
3-mth Avg Daily Value	RM14.5m
Major Shareholders	
Sungei Way Corp	56.44%
EPF	5.45%
Cheah Fook Ling	4.59%

**Maintain Neutral with a revised TP of RM4.25.** We left our earnings forecasts for FY17-18 unchanged as we expect earnings contribution from the proposed development to kick in from FY19 onwards. Meanwhile, we revised our SOP-based TP for SUNWAY upward to RM4.25 from RM3.82 after taking into account the NPV from the proposed development and update the valuation of other divisions to reflect latest sector PER. 

## Location of land in Kajang:



Source: Company

## INVESTMENT STATISTICS

FYE Dec (RM m)	FY14A	FY15A	FY16A	FY17F	FY18F
Revenue	4558.1	4448.4	4725.9	4907.4	5379.6
Core EBIT	609.8	546.6	726.9	653.7	717.1
Core PBT	810.1	788.7	820.5	821.0	901.3
Net Income	734.0	732.4	585.9	555.6	603.6
Core Net Income	583.9	590.7	547.4	555.6	603.6
EPS (sen)	42.6	41.8	28.4	27.0	29.3
Core EPS (sen)	33.9	33.7	26.6	27.0	29.3
Net DPS (sen)	11.00	38.00	12.14	12.40	13.47
Net Dvd Yield	2.5%	8.7%	2.8%	2.9%	3.1%
Core PER	12.85	12.91	16.38	16.14	14.85
NTA/share (RM)	3.44	3.74	3.62	3.76	3.92
P/NTA	1.26	1.16	1.20	1.16	1.11
Core ROE	9.8%	9.0%	7.3%	7.2%	7.5%
Core ROA	4.5%	3.7%	2.9%	2.9%	3.1%
Net Gearing (x)	0.30	0.50	0.45	0.44	0.46

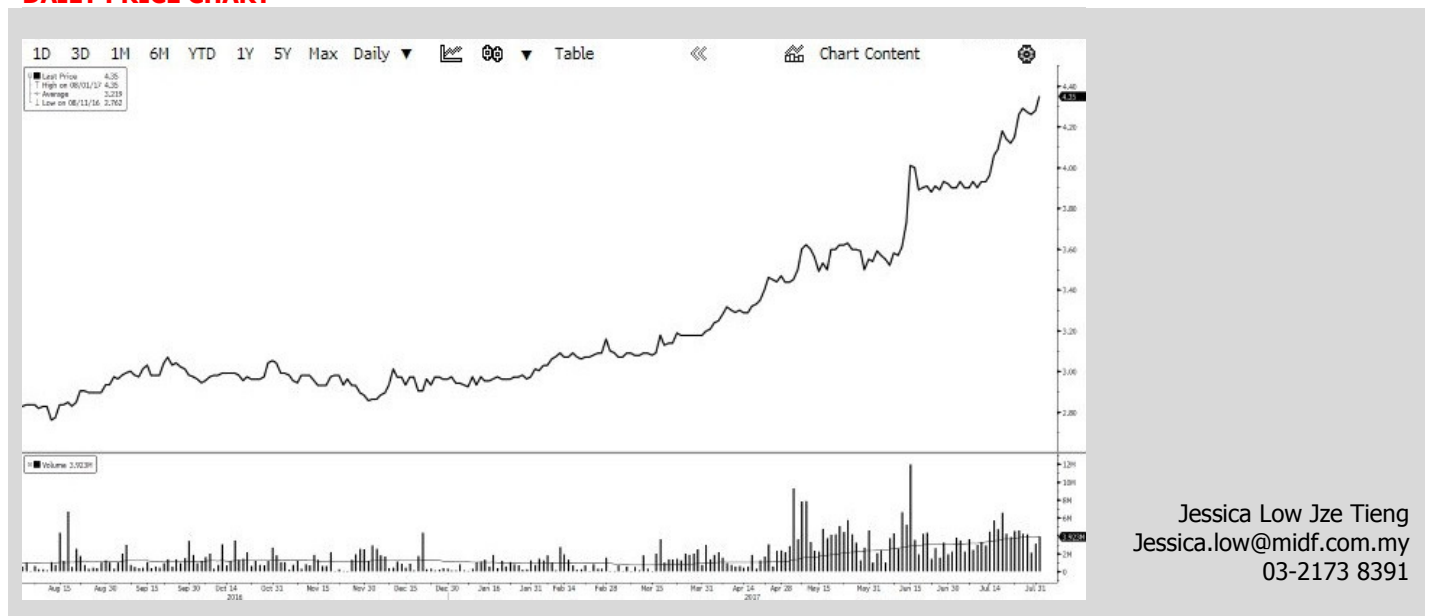
Source: Company, MIDF Research Estimates

## Sum-of-Parts

Division	Methodology	PER (x)	Stake	Discount	Value (RM m)
Property Development	NPV of profits	n/a	100%	10%	2548.1
Property Investment	Net Book Value	n/a	100%	n/a	1490.0
Construction	17x FY18E PER - KL Construction Index PER	17	54%	n/a	2279.0
Sunway REIT	Target Price of RM1.88	n/a	35%	n/a	1910.2
Trading and manufacturing	10x FY18E PER - In line with small cap PER of 10x	10	100%	n/a	149.6
Quarry	10x FY18E PER - In line with small cap PER of 10x	10	100%	n/a	376.4
<b>Total SOP</b>					<b>8753.3</b>
Number of shares					2061.7
<b>Target Price (RM)</b>					<b>4.25</b>

Source: MIDF Research Estimates

## DAILY PRICE CHART



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Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.