



Sunway Berhad

Acquires Industrial Land Parcels in Selangor

TP: RM3.27 (+10.6%)

Last Traded: RM2.96

Hold

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Sunway is buying industrial land parcels in Kelana Jaya and Kampung Baru Subang for a total purchase consideration of RM56.0mn. It will fund the acquisitions through bank borrowings and internal funds. These land deals are expected to be completed by 2H2016.

Deal 1: Acquires 4.84 acres land in Kelana Jaya for RM35.8mn

In separate statements to Bursa Malaysia, Sunway announced that it is buying 4.84 acres of freehold land (with buildings erected thereon) in the Sungei Way Free Industrial Zone, Kelana Jaya, for RM35.8mn or RM169.95psf from Tamura Electronics (M) S/B (Tamura) through a closed tender. The property is located next to Western Digital, strategically located within the prime area of Petaling Jaya, Sunway Resort City and Subang Jaya. It is also in close proximity to the 17 acres of land at Kelana Jaya, which the group acquired in mid-2015 (please refer to **Appendix 1 & 2**).

The property is currently occupied by Tamura as an industrial factory and warehouse. Subsequent to the completion of the acquisition, Tamura may continue to rent the premises for a period of up to 9 months for a total rental price of RM600k. Based on the group's feasibility study, the land is suitable for semi-detached industrial units with an estimated gross development value (GDV) of approximately RM100mn.

In terms of acquisition cost, we note there are no similar land deals for direct comparison. Although the acquisition price appears attractive if we compare it to the current asking price of RM200 – 430psf for industrial lands in Petaling Jaya, we note that the land cost to GDV ratio of 36% is on the high side that may yield low return.

Deal 2:

- i) Acquires two parcels of land from View2Pick S/B and Chen Yew Plastics S/B totaling 4.25 acres for a combined purchase consideration of RM20.2mn.
- ii) Joint Venture with View2Pick S/B for development of an industrial park

Within Kampung Baru Subang, Sunway is acquiring two parcels of land from View2Pick S/B (2.25 acres) and Chen Yew Plastics S/B (2.0 acres) for RM9.0mn (or RM91.83psf) and RM11.2mn (or RM128.85psf) respectively. Sunway also formed a 80:20 joint venture with View2Pick S/B for development of an industrial park. The new acquisitions are immediately adjacent to either side of Sunway's existing PT 7 land in Kampung Baru Subang. It is surrounded by SMEs and is of close proximity to Subang Airport (please refer to **Appendix 3 & 4**). For the purpose of the proposed joint venture, PT 7 will be injected at a valuation of RM12.5mn, translating to approximately RM136.65psf based on land area of 2.1acres.

Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	1779.8
Market Cap (RMmn)	5268.2
Par Value	1.00
52-wk Hi/Lo (RM)	3.53/2.89
12-mth Avg Daily Vol ('000 shrs)	1629.90
Estimated Free Float (%)	24.4
Beta	0.6

Major Shareholders (%)	
Sungei Way Corp	(55.1)

Forecast Revision

	FY15	FY16
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	568.6	514.9
Consensus (RMm)	573.0	536.0
TA's / Consensus (%)	99.2	96.1
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY15	FY16
Net Debt / Equity (%)	25.2	18.6
FCPS (sen)	49.3	31.1
Price / FCPS (x)	6.0	9.5
ROA (%)	4.3	3.8
NTA/Share (RM)	3.4	3.6
Price/NTA (x)	0.9	0.8

Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	(1.0)	3.1
3 mth	(3.0)	0.8
6 mth	(5.9)	6.4
12 mth	1.5	(7.4)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

The new JV co will develop the combined 6.35 acres land into an industrial development, featuring 45 units of terrace industrial units with a potential GDV of RM110mn. We deem the JV co's effective acquisition cost of RM118.31psf expensive given: 1) the land cost with GDV ratio of 30%, which is above the general rule of thumb of 20%, and 2) the current asking price of industrial lands near Subang Airport ranging between RM79-92psf, based on iProperty.com.

Deals to augur well for the group

Overall, we believe the deals will augur well for the group as it expands its expertise into developing industrial properties. Additionally, we see Sunway's recent land acquisition in the Klang Valley as a strategic move to diversify from its concentration risk in Johor. This is given lingering concerns about the property oversupply situation in Iskandar Malaysia.

Impact

No change to our FY15-17 earnings estimates. We assume official launch in 2017 with progress billing to start from 2018 onwards.

Valuation

Factoring in the revised target price for SunCon and SunREIT, our target price is adjusted to RM3.27/share (from RM3.26/share previously), which is pegged to a 10% discount to its SOP value of RM3.64/share. Our target price implies CY16 P/E of 11x, which is 1x lower than the sector's target P/E multiple of 12x (big cap only). With a potential total return of 14.3%, we maintain our **Hold** recommendation on Sunway

SOP Valuation Table

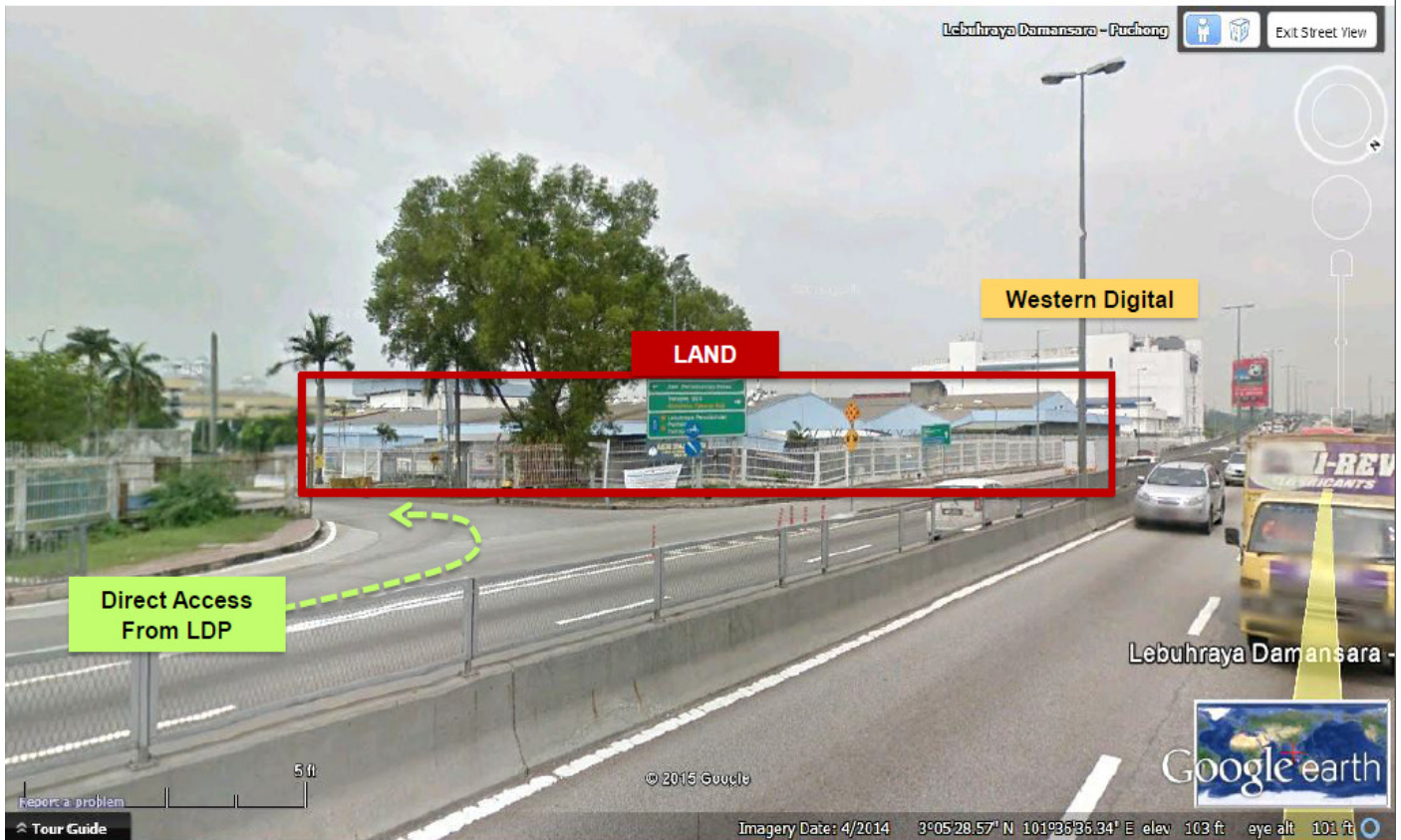
	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY16 Property Earnings	222.8	12	100%	2673.8	1.52
SunCon @ RM1.70 TP	2196.4	1	54%	1194.8	0.68
SunREIT @ RM1.55 TP	4553.3	1	36%	1643.7	0.93
CY16 Other Business Earnings	75.05	12	100%	900.6	0.51
SOP Value				6413.0	3.64
Discount		10%		(641.3)	(0.4)
Target Price				5771.7	3.27

Appendix 1: Location for Land 1



Source: Sunway, TA Research

Appendix 2: Land 1 Site Photo



Source: Sunway, TA Research

Appendix 3: Location for Land 2



Source: Sunway, TA Research

Appendix 4: Location for Land 2



Source: Sunway, TA Research

Financial Statements

Profit and Loss (RM'mn)

FYE Dec	2013	2014	2015F	2016F	2017F
Revenue	4,721.4	4,841.9	5,046.3	5,030.1	5,045.5
EBITDA	642.8	655.8	786.1	775.1	731.9
Depreciation	(49.7)	(60.1)	(69.9)	(69.4)	(68.9)
Amortisation	(1.0)	(0.9)	(0.9)	(0.8)	(0.8)
EBIT	592.1	594.8	715.3	704.9	662.3
Finance cost	(102.4)	(30.4)	(49.2)	(47.9)	(46.6)
Associate & JV	172.5	233.2	107.4	131.3	131.7
EI	1,006.5	171.2	456.8	0.0	0.0
PBT	1,900.4	968.8	1,236.2	801.9	765.0
Tax	(120.9)	(148.0)	(155.2)	(159.7)	(152.3)
MI	(273.0)	(77.6)	(144.7)	(127.4)	(102.2)
Net profit	1,490.4	743.2	936.4	514.9	510.5
Core profit	483.9	591.7	568.6	514.9	510.5
Core EPS (sen)	28.1	34.2	32.9	29.8	29.5
DPS (sen)	10.0	11.0	36.0	11.0	11.0

Cash Flow (RM'mn)

FYE Dec	2013	2014	2015F	2016F	2017F
PBT	1,900.4	968.8	1,236.2	801.9	765.0
Depr & Amort	50.7	61.0	70.8	73.2	72.5
Change in working assets	300.8	(56.2)	(20.1)	(13.2)	(0.5)
Tax	(120.9)	(148.0)	(155.2)	(159.7)	(152.3)
Others	(244.7)	(151.0)	(365.2)	(20.5)	(15.9)
CFO	1,886.2	674.5	766.5	681.7	668.8
Capex	(707.0)	(60.0)	(346.0)	(116.0)	(60.0)
Property Inv	(329.0)	(324.0)	(24.0)	(24.0)	(24.0)
Disposal			456.8		
CFI	(1,036.0)	(384.0)	86.8	(140.0)	(84.0)
Net Addition/Rpmt	70.0	(100.0)	(100.0)	(100.0)	(100.0)
Dividend Paid	(172.4)	(190.4)	(623.0)	(190.4)	(190.4)
Others	732.9	20.8	0.0	0.0	0.0
CFF	630.6	(269.5)	(723.0)	(290.4)	(290.4)
Change in cash	1,480.8	21.0	130.3	251.4	294.4
FCF/share	49.3	16.8	49.3	31.3	33.8

Assumptions (RM mn)

FYE Dec	2013	2014	2015F	2016F	2017F
New Property Sales	1,800.0	1,700.0	1,030.6	1,172.5	1,722.3
Property Margins (%)	18.3	23.5	23.6	24.7	24.5
Orderbook Replenishment	2,900.0	800.0	2,800.0	2,000.0	2,000.0
Construction margins (%)	4.6	8.6	9.2	10.1	9.9

Balance Sheet (RM'mn)

FYE Dec	2013	2014	2015F	2016F	2017F
PPE	866.2	1,046.8	1,218.2	1,261.8	1,250.0
Land held for dev	886.8	529.2	529.2	529.2	529.2
Associate & JV	2,304.9	2,481.0	2,494.1	2,514.7	2,530.6
Investment Properties	1,803.0	2,189.6	2,213.6	2,237.6	2,261.6
Goodwill	319.4	319.4	319.4	319.4	319.4
Others	73.0	171.4	170.6	169.8	169.0
LT Assets	6,253.3	6,737.4	6,945.1	7,032.4	7,059.8
Property dev. Cost	1,175.0	1,772.5	1,772.5	1,772.5	1,772.5
Inventories	615.8	597.8	636.0	647.7	649.7
Trade & other receivables	1,525.5	1,719.9	1,755.8	1,764.0	1,769.4
Cash & Cash equivalent	1,448.8	1,978.2	2,108.5	2,359.9	2,654.3
Others	83.1	110.6	110.6	110.6	110.6
ST Assets	4,848.3	6,179.0	6,383.4	6,654.7	6,956.5
Total Assets	11,101.6	12,916.4	13,328.5	13,687.1	14,016.3
Trade and other payables	2,051.8	2,171.9	2,225.9	2,232.5	2,239.4
ST Borrowings	2,000.7	2,282.9	2,232.9	2,182.9	2,132.9
Others	21.5	20.8	20.8	20.8	20.8
ST Liabilities	4,074.0	4,475.6	4,479.6	4,436.2	4,393.0
LT Borrowings	859.6	1,501.5	1,451.5	1,401.5	1,351.5
Others	522.8	605.5	605.5	605.5	605.5
LT Liabilities	1,382.3	2,107.0	2,057.0	2,007.0	1,957.0
Share Cap	1,723.5	1,730.6	1,730.6	1,730.6	1,730.6
Reserves	3,604.8	4,214.6	4,528.0	4,852.5	5,172.7
Shareholder's Funds	5,328.3	5,945.2	6,258.6	6,583.1	6,903.3
MI	316.9	388.7	533.3	660.7	762.9
Liabilities + Equities	11,101.6	12,916.4	13,328.5	13,687.1	14,016.3
Ratios	2013	2014	2015F	2016F	2017F
EPS Growth (%)	57.3	21.8	(3.9)	(9.4)	(0.8)
PER (x)	10.5	8.7	9.0	9.9	10.0
GDPS (sen)	10.0	11.0	36.0	11.0	11.0
Div Yield (%)	3.4	3.7	12.2	3.7	3.7
Net cash/(debt) (RMm)	(1,411.5)	(1,806.2)	(1,575.9)	(1,224.6)	(830.1)
Net gearing (x)	0.3	0.3	0.3	0.2	0.1
ROE (%)	11.3	10.5	9.3	8.0	7.6
ROA (%)	4.1	4.9	4.3	3.8	3.7
NTA/share (RM)	2.9	3.3	3.4	3.6	3.8
P/NTA (x)	1.0	0.9	0.9	0.8	0.8

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