



## Sunway Berhad

### Unlocking the Value of Sunway Clio Property

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TP: RM4.16, ex-bonus: RM1.78 (-3.8%),

Last Traded: RM4.32, ex-bonus: RM1.85

Sell

#### Injecting Sunway Clio Into Sunway REIT

Sunway is injecting Sunway Clio Property to Sunway REIT for RM340mn. Sunway Clio Property comprises: 1) a 19-storey, four-star hotel with 401 rooms known as Sunway Clio Hotel, 2) a 3-storey retail space with net lettable area (NLA) of 88,384 sq ft known as Sunway Pyramid West, and 3) a multi-storey car park with 732 bays – see **Appendix 1**. Sunway Clio Property is connected to Sunway Pyramid Mall through a pedestrian sky bridge and underground car park. The proposed acquisition is expected to be completed by 4QCY17.

#### Signed Hotel Lease and Car Park Tenancy Agreement with Sponsor

The Sunway Clio Property is an income-generating property with decent occupancy rates of 71.6% for hotel operations and 88.2% for the Retail Space. Post disposal, the hotel will be leased back by Sunway Bhd with an initial tenure of 10 years and a renewal option of further 10 years. Under the lease agreement, rental will be based on minimum rental of RM8mn (Year 1-2) and 11mn (Year 3- 10) or Variable Rent for that fiscal year – whichever higher. See **Appendix 2** for total rental computation.

Besides, Sunway Bhd has also entered into a car park tenancy agreement with Sunway REIT for a period of three years commencing from the date of completion of the acquisition, with the option of renewal of a further 3 years. Sunway Bhd will pay Sunway REIT rental on monthly basis, based on 20% of gross operating revenue + 95% of gross operating profit. See **Appendix 3** for rental computation.

According to the announcement, Sunway Bhd is providing Sunway REIT with a guaranteed property income of RM20.2mn per annum for a period of four years. Should there be any shortfall, Sunway Bhd will pay the amount equivalent to the difference between the actual total annual property income achieved and the guaranteed property income.

#### Unlocking asset value and freeing up cash

We view this as a positive move to unlock asset value and free up cash flow to finance the construction of new development projects and property investments in the pipeline. According to the announcement, proceeds from the asset disposal will be partly used for repayment of bank borrowings (81% of proceeds) and for working capital (19% of proceeds). Post disposal, the group's net gearing is expected to reduce to 0.41x from 0.47x previously.

#### Impact

We consider this disposal consideration of RM340mn as fair to Sunway as it is at par with the market value derived by the independent valuer. The disposal will give rise to a disposal gain of RM29.4mn. Assuming the asset injection exercise to be completed in 4QFY17 we trimmed FY18-19 core earnings estimates (excluding disposal gain) by 1-2% to account for the RM20.2mn rental expenses (based on guaranteed rent), partly offset by lower interest expenses.

#### Valuation

#### Share Information

Bloomberg Code	SWB MK
Stock Name	Sunway
Stock Code	5211
Listing	Main Market
Share Cap (mn)	2046.6
Market Cap (RMmn)	8841.5
Par Value	1.00
52-wk Hi/Lo (RM)	4.40/2.84
12-mth Avg Daily Vol ('000 shrs)	1816.30
Estimated Free Float (%)	29.5
Beta	0.5

<b>Major Shareholders (%)</b>	
Sungei Way Corp	(56.4)
EPF	(5.4)

#### Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.0	(1.3)
Net profit (RMmn)	558.5	599.7
Consensus (RMmn)	561.6	599.3
TA's / Consensus (%)	99.4	100.1
Previous Rating	Sell (Maintained)	

#### Financial Indicators

	FY17	FY18
Net Debt / Equity (%)	39.8	36.6
FCPS (sen)	20.3	14.2
Price / CFPS (x)	9.1	13.1
ROA (%)	3.0	3.2
NTA/Share (RM)	1.5	1.6
Price/NTA (x)	1.3	1.2

#### Share Performance (%)

Price Change	Sunway	FBM KLCI
1 mth	10.8	0.6
3 mth	25.2	0.8
6 mth	42.1	5.2
12 mth	47.9	7.0

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



Source: Bloomberg

With change in earnings and the increase in target price of Sunway REIT (please refer to the Sunway REIT report), we adjust our SOP-derived target price slightly to RM4.16/share (from RM4.15/share previously). Our ex-bonus target price is largely unchanged at RM1.78/share. We believe the recent sharp rally in share price has largely factored in positive newflows such as new land acquisitions, proposed 4-for-3 bonus issue and 3-for-10 bonus warrants. Maintain **Sell**.

#### SOP Valuation Table - (Ex- Bonus)

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY18 Property Earnings	213.2	14	100%	2984.8	0.62
SunCon @ RM2.26 TP	2922.2	1	54%	1589.7	0.33
SunREIT @ RM1.88 TP	5522.7	1	37%	2060.0	0.43
CY18 Healthcare Earnings	60.0	20	100%	1200.0	0.25
CY18 Other Business Earnings	61.6	12	100%	739.2	0.15
<b>SOP Value</b>				<b>8573.6</b>	<b>1.78</b>

#### Appendix 1: Sunway Clio Property Detail

 <p>The image shows a tall, modern hotel building with a podium car park at the base. Red callout boxes identify the 'Hotel' tower, 'Sunway Pyramid Mall' at the base, 'Podium Car Park', and 'Retail' area.</p>	<b>Location</b>	Bandar Sunway, Selangor
	<b>Vendor</b>	Sunway Forum Hotel Sdn Bhd
	<b>Type of Property</b>	1) 19-storey, 4-star hotel with 401 hotel rooms 2) 3-storey retail space 3) Multi-storey car park with 732 bays
	<b>Tenure</b>	Leasehold interest for a term of 99 years, expiring on 16 Nov 2108
	<b>Age of Building</b>	1.5 years
	<b>Land Area</b>	77,403 sq ft.
	<b>Gross Floor Area</b>	798,762 sq ft. (including the multi-storey car park)
	<b>Net Lettable Area</b>	88,384 sq ft (retail space)
	<b>Occupancy</b>	<ul style="list-style-type: none"> <li>Hotel: 71.6%</li> <li>Retail: 88.2%</li> </ul>
	<b>Consideration</b>	RM340.0 million
<b>NBV</b>	RM293.1 million (as at 31 Dec 2016)	

Source: Bursa Malaysia, Sunway REIT

#### Appendix 2: Hotel Lease Agreement

<b>Lessee</b>	Sunway Resort Hotel Sdn Bhd
<b>Tenure</b>	10 years with an option to renew for a further 10 years
<b>Rental</b>	Higher of the minimum rent or variable rent as follows:  i) Minimum Rent Year 1 and 2 – RM10,968,618 Year 3 to 10 – RM8,226,464  ii) Variable Rent 20% of Gross Operating Revenue (GOR) + 70% of Net Operating Profit

Source: Bursa Malaysia, Sunway REIT

**Appendix 3: Car Park Tenancy Agreement**

<b>Tenant</b>	Sunway Leisure Sdn Bhd
<b>Tenure</b>	3 years with an option to renew for a further term of 3 years
<b>Rental</b>	20% of Gross Operating Revenue (GOR) + 95% of Gross Operating Profit (Payable monthly)

*Source: Bursa Malaysia, Sunway REIT*

**Profit and Loss (RM'mn)**

FYE Dec	2015	2016	2017F	2018F	2019F
Revenue	4,448.4	4,725.9	5,252.0	5,434.0	5,735.3
EBITDA	805.3	864.9	859.2	905.1	929.1
Depreciation	(117.3)	(137.2)	(106.7)	(122.6)	(119.2)
Amortisation	(0.9)	(0.8)	(0.8)	(0.7)	(0.7)
EBIT	687.0	726.9	751.7	781.7	809.2
Finance cost	(26.6)	(59.9)	(96.5)	(95.2)	(91.5)
Associate & JV	269.9	192.0	132.1	120.9	133.3
EI	141.7	0.0	0.0	340.0	0.0
PBT	930.4	859.0	804.5	1,147.4	851.0
Tax	(130.9)	(140.4)	(144.8)	(145.3)	(153.2)
MI	(67.0)	(132.7)	(101.2)	(62.4)	(35.4)
Net profit	732.4	585.9	558.5	939.7	662.4
Core profit	590.7	547.4	558.5	599.7	662.4
Core EPS (sen)	12.3	11.4	11.6	12.5	13.8
DPS (sen)	13.8	5.2	5.0	5.0	6.0

**Cash Flow (RM'mn)**

FYE Dec	2015	2016	2017F	2018F	2019F
PBT	930.4	859.0	804.5	1,147.4	851.0
Depr & Amort	117.3	137.2	106.7	123.4	119.9
Change in working assets	(131.8)	(524.0)	594.9	(6.5)	(10.7)
Tax	(130.9)	(140.4)	(144.8)	(145.3)	(153.2)
Others	154.6	336.3	(35.7)	(353.8)	(19.0)
CFO	939.6	668.1	1,325.6	765.2	788.0
Capex	(698.9)	(637.0)	(323.5)	(60.0)	(60.0)
Property Inv	(563.3)	(156.2)	(24.0)	(24.0)	(24.0)
Disposal	456.8				
CFI	(805.4)	(793.2)	(347.5)	(84.0)	(84.0)
Net Addition/Rpmt	1,763.8	1,259.5	(100.0)	(280.0)	(100.0)
Dividend Paid	(665.9)	(250.5)	(577.7)	(577.7)	(625.8)
Others	0.0	0.0	0.0	0.0	0.0
CFF	1,097.9	1,009.1	(677.7)	(857.7)	(725.8)
Change in cash	1,232.0	883.9	300.5	(176.5)	(21.8)
FCF/share	7.5	(6.1)	20.3	14.2	14.6

**Assumptions (RM mn)**

FYE Dec	2015	2016	2017F	2018F	2019F
New Property Sales	1,209.0	1,052.5	1,191.7	1,571.4	1,994.7
Property Margins (%)	23.4	24.7	24.1	23.4	22.7
Orderbook Replenishment	2,800.0	2,600.0	2,000.0	2,000.0	2,000.0
Construction margins (%)	9.2	10.1	9.9	9.9	9.9

Note: EPS, DPS and NTA/share adjusted for 4 for 3 bonus issue proposed in FY17

**Balance Sheet (RM'mn)**

FYE Dec	2015	2016	2017F	2018F	2019F
PPE	1,372.0	1,906.4	1,859.7	2,137.0	2,077.8
Land held for dev	1,194.1	1,191.5	1,455.0	1,455.0	1,455.0
Associate & JV	3,181.2	3,223.1	3,258.9	3,272.7	3,291.6
Investment Properties	2,722.3	2,752.9	2,776.9	2,800.9	2,824.9
Goodwill	320.1	311.9	311.9	311.9	311.9
Others	471.6	294.0	294.0	293.2	292.5
LT Assets	9,261.3	9,679.9	9,956.4	10,270.8	10,253.8
Property dev. Cost	978.0	1,209.4	1,209.4	1,209.4	1,209.4
Inventories	693.1	661.8	676.3	699.7	738.5
Trade & other receivables	1,823.3	2,828.4	1,841.8	1,905.6	2,011.3
Cash & Cash equivalent	2,631.0	4,059.8	4,360.3	4,183.8	4,162.0
Others	614.2	392.1	392.1	392.1	392.1
ST Assets	6,739.6	9,151.5	8,479.8	8,390.6	8,513.3
Assets Held for Sale	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>16,000.9</b>	<b>18,831.4</b>	<b>18,436.2</b>	<b>18,661.4</b>	<b>18,767.1</b>
Trade and other payables	2,258.5	2,708.3	2,331.0	2,411.8	2,545.5
ST Borrowings	3,217.6	4,830.7	4,780.7	4,640.7	4,590.7
Others	88.1	44.4	44.4	44.4	44.4
ST Liabilities	5,564.2	7,583.3	7,156.0	7,096.8	7,180.5
LT Borrowings	2,815.2	2,590.5	2,540.5	2,400.5	2,350.5
Others	408.2	438.4	438.4	438.4	438.4
LT Liabilities	3,223.4	3,028.9	2,978.9	2,838.9	2,788.9
Share Cap	1,799.8	2,063.1	4,813.8	4,813.8	4,813.8
Reserves	4,763.0	5,392.7	2,622.7	2,984.8	3,021.3
Shareholder's Funds	6,562.7	7,455.7	7,436.6	7,798.6	7,835.1
MI	650.6	763.5	864.7	927.1	962.5
<b>Liabilities + Equities</b>	<b>16,000.9</b>	<b>18,831.4</b>	<b>18,436.2</b>	<b>18,661.4</b>	<b>18,767.1</b>
<b>Ratios</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
EPS Growth (%)	(0.2)	(7.3)	2.0	7.4	10.5
PER (x)	15.1	16.3	16.0	14.9	13.5
GDPS (sen)	13.8	5.2	5.0	5.0	6.0
Div Yield (%)	7.5	2.8	2.7	2.7	3.2
Net Debt (RMm)	3,401.9	3,361.4	2,960.9	2,857.4	2,779.2
Net gearing (x)	0.5	0.5	0.4	0.4	0.4
ROE (%)	9.5	7.8	7.5	7.9	8.5
ROA (%)	4.1	3.1	3.0	3.2	3.5
NTA/share (RM)	1.3	1.5	1.5	1.6	1.6
P/NTA (x)	1.4	1.2	1.3	1.2	1.2

**Stock Recommendation Guideline**

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated**: The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate** of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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