

UOBKH HIGHLIGHTS

Sunway Bhd (SWB MK/BUY/RM3.14/Target: RM3.60)

ENTERS INTO A SUBSCRIPTION AND SHAREHOLDERS' AGREEMENT

WHAT'S NEW

Sunway Bhd (Sunway) announced that its wholly-owned subsidiary, Sunway City Sdn Bhd (SunCity), entered into a Subscription and Shareholders' Agreement (SSA) with Low Peng Kiat, CRSC Property Sdn Bhd and Austral Meridian Property Sdn Bhd (AMP) with the intention of establishing a JV via AMP to jointly undertake an integrated development project on the parcels of leasehold land owned by AMP. The land which is located along Jalan Peel (opposite Sunway Velocity) spans about 8.44 acres.

Under the Proposed JV, SunCity shall subscribe 500,001 ordinary shares in AMP, representing 50%+1 share of the equity interest in AMP for a total consideration of RM500,001. Upon the subscription, the shareholding structure of AMP shall be as follows:

SHAREHOLDING STRUCTURE

Shareholders	No. of Shares	Percentage of Shareholding
Sunway City Sdn Bhd	500,001	50%+1 share
Low Peng Kiat	400,000	40%
CRSC Property Sdn Bhd	100,000	10%

Source: UOB Kay Hian

Also, SunCity would advance up to RM140m (based on 100% stake) to repay existing shareholders and other remaining liabilities of AMP. Based on a maximum 70% stake, the maximum consideration would be RM281.2m, implying a RM1,024 psf land price.

COMMENT

- **Positive development potential.** The land is located opposite Sunway's existing development, Sunway Velocity. Sunway Velocity is a mixed development which comprises components including Sunway Velocity Shopping Mall, residential towers, offices and the upcoming Sunway Velocity Medical Centre and Sunway Velocity Hotel. Based on initial plans, the newly-acquired land would comprise mainly of residential components with retail and office components that could ride on the success of the Sunway Velocity development.
- **Expected to generate RM2b worth of GDV and add 9 sen to RNAV/share.** Based on preliminary feasibility studies, the mixed development could comprise apartments and office towers with an estimated GDV of RM2b. Assuming a 20% PAT margin with a 70% take-up rate, the development could add about 9 sen to its RNAV/share.
- **Minimal impact on gearing.** Presently, Sunway's net gearing stands about 0.52x, with a cash pile of RM2.6b. Post the acquisition, its gearing would only inch up to about 0.53x, which is still healthy.
- **Maintain BUY and target price of RM3.60.** We like Sunway for its diversified business exposure which includes a strong construction and REIT divisions. Also, better capital management as a result of the amendment of REIT guidelines could translate into higher dividends. Our target price implies a modest 14x 2017F PE.

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