

26 December 2018 | Corporate Update

Sunway Berhad

Disposing Education Assets

INVESTMENT HIGHLIGHTS

- Disposing education assets
- Neutral to slight positive on the disposal
- Improves balance sheet
- Earnings forecasts maintained
- Maintain Neutral with an unchanged TP of RM1.48

Disposing education assets. Sunway Berhad announced that its wholly-owned subsidiary has entered into sales and purchase agreement for the disposal of lands and education buildings in Sunway City to Sunway REIT for a total cash consideration of RM550m. The disposal is expected to be completed in the first half of 2019.

Neutral to slight positive on the disposal. We are neutral to slight positive on the proposed disposal as it will allow Sunway Berhad to unlock the value of its investment properties. The proposed disposal entails the sale of three parcels of leasehold land, together with buildings that comprise three academic blocks, four blocks of hostel apartments and sports facilities. Sunway Berhad is expected to reap a disposal gain as the original cost of investment was RM382.8m.

Improves balance sheet. Sunway intends to use RM238.57m of the gross proceeds from the proposed disposal for repayment of borrowings. Net gearing of Sunway Berhad is expected to improve to 0.43x from 0.46x as of 3QFY18. Meanwhile, earnings impact from the proposed disposal is expected to be minimal. Sunway Berhad is expected to gain finance expenses saving of RM9.9m per annum which is equivalent to 1.6% of FY19 earnings. Nevertheless, we maintain our earnings forecasts for FY18/19 pending the completion of the disposal.

Maintain Neutral with an unchanged TP of RM1.48. We maintain our TP at RM1.48 based on Sum-of-Parts valuation. We maintain our Neutral call on Sunway Berhad as we see its new sales outlook and earnings outlook to be tepid.



Maintain NEUTRAL

Unchanged Target Price (TP): RM1.48

RETURN STATS	
Price (24 Aug 2018)	RM1.40
Target Price	RM1.48
Expected Share Price Return	5.7%
Expected Dividend Yield	4.0%
Expected Total Return	9.7%

STOCK INFO	
KLCI	1,683.82
Bursa / Bloomberg	5211 / SWB MK
Board / Sector	Main / Trading & Services
Syariah Compliant	Yes
Issued shares (mil)	4918
Market cap. (RM'm)	6,794
Price over NA	0.84
52-wk price Range	RM1.35–RM1.82
Beta (against KLCI)	0.89
3-mth Avg Daily Vol	1.66m
3-mth Avg Daily Value	RM2.37m
Major Shareholders	
Sungei Way Corp	56.21%
EPF	7.15%
Cheah Fook Ling	5.13%

INVESTMENT STATISTICS

FYE Dec (RM m)	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	4448.4	4725.9	5374.8	4960.6	5579.2
Core EBIT	546.6	726.9	613.4	646.4	736.9
Core PBT	788.7	820.5	809.0	830.6	935.6
Net Income	732.4	585.9	639.5	559.4	621.4
Core Net Income	590.7	547.4	566.3	559.4	621.4
EPS (sen)	41.8	28.4	13.29	11.5	12.8
Core EPS (sen)	33.7	26.6	11.77	11.5	12.8
Net DPS (sen)	38.00	12.14	6.00	5.65	5.89
Net Dvd Yield	27.1%	8.7%	4.3%	4.0%	4.2%
Core PER	4.16	5.27	11.89	12.14	10.93
NTA/share (RM)	3.74	3.62	1.63	1.67	1.74
P/NTA	0.37	0.39	0.86	0.84	0.80
Core ROE	9.0%	7.3%	7.2%	6.9%	7.3%
Core ROA	3.7%	2.9%	2.8%	2.8%	2.9%
Net Gearing (x)	0.50	0.45	0.49	0.46	0.49

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%	28%	2140.4
Property Investment	Net Book Value	n/a	100%	n/a	1490.0
Construction	13x FY19E PER - KL Construction Index PER	13.5	54%	n/a	1187.8
Sunway REIT	Target Price of RM1.93	n/a	35%	n/a	1930.5
Trading and manufacturing	10x FY19E PER - In line with small cap PER of 10x	10	100%	n/a	138.2
Quarry	10x FY19E PER - In line with small cap PER of 10x	10	100%	n/a	394.4
Total SOP					7281.3
Number of shares					4918.0
Target Price (RM)					1.48

Source: MIDF Research Estimates

DAILY PRICE CHART



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Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.