

# Sunway Berhad

(5211 | SWB MK) Industrial Products & Services | Diversified Industrials

## Disposal of the Pinnacle Sunway to Sunway REIT


### KEY INVESTMENT HIGHLIGHTS

- **Disposing the Pinnacle Sunway to Sunway REIT**
- **Proceeds from disposal earmarked for repayment of borrowings**
- **Expect net gain of RM40m from the disposal**
- **Earnings forecast maintained**
- **Upgrade to BUY with an unchanged TP of RM1.59**

**Disposing The Pinnacle Sunway to Sunway REIT.** Sunway Berhad (SUNWAY) announced that Sunway Integrated Properties Sdn Bhd and Sunway Pinnacle Sdn Bhd, both of which are wholly-owned indirect subsidiaries of SUNWAY have entered into a conditional Sales and Purchase Agreement (SPA) for the disposal of The Pinnacle Sunway to Sunway REIT for a disposal consideration of RM450m. The Pinnacle Sunway is a 34-storey office building with occupancy rate of 100%. The proposed disposal is expected to be completed in 4Q2020.

**Disposal to reduce net gearing.** We are neutral on the proposed disposal as close to 100% of the proceeds from the proposed disposal will be utilized for repayment of borrowings. Hence, we do not expect any distribution for shareholders from the disposal. Earnings impact from the disposal is minimal as estimated interest savings of RM16.8m per annum only accounts for less than 3% of FY20 earnings forecast. Meanwhile, we estimate net gearing of SUNWAY to reduce to 0.46x from 0.51x post the disposal.

**Earnings forecast maintained.** SUNWAY is expected to record net gain of RM40m from the disposal as the disposal consideration of RM450m is higher than net book value of RM410m (as at 31 December 2019). Meanwhile, we make no changes to our earnings forecast for FY20/21F pending completion of the disposal.

**Upgrade to BUY with an unchanged TP of RM1.59.** We maintain our TP for SUNWAY at RM1.59, based on sum-of-parts valuation. Nevertheless, we upgrade SUNWAY to Buy from Neutral due to the attractive upside. Share price of SUNWAY declined by 10% in the past one month following the announcement of subdued earnings and rights issue. We think that the negatives were largely priced in and the share price weakness presents opportunity for investors to accumulate. 

## Upgrade to BUY

(Previously NEUTRAL)

**Unchanged Target Price: RM1.59**

### RETURN STATISTICS

Price @ 29 June 2020 (RM)	1.36
Expected share price return (%)	16.9
Expected dividend yield (%)	5.1
<b>Expected total return (%)</b>	<b>22.0</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.2	0.56
3 months	-11.6	-20.3
12 months	-17.6	-8.1

### KEY STATISTICS

FBM KLCI	1,494.43
Syariah compliant	Yes
Issue shares (m)	4933.9
Estimated free float (%)	31.3
Market Capitalisation (RM'm)	6714.9
52-wk price range (RM)	RM1.25-RM1.87
Beta vs FBM KLCI (x)	0.91
Monthly velocity (%)	0.001
Monthly volatility (%)	12.15
3-mth average daily volume (m)	5.3
3-mth average daily value (RM'm)	7.8
Top Shareholders (%)	
Sungei Way Corp Sdn Bhd	51.23
Employees Provident Fund Board	9.41

### Analyst(s)

Jessica Low Jze Tieng  
 Jessica.low @midf.com.my  
 03-21738391

## INVESTMENT STATISTICS

FYE Dec	FY17A	FY18A	FY19A	FY20F	FY21F
Revenue	5239.3	5410.3	4780.4	4357.6	5482.9
Core EBIT	653.0	559.9	565.2	597.4	756.8
Core PBT	799.0	782.8	802.6	811.6	982.1
Net Income	620.6	659.0	766.6	560.7	664.5
Core Net Income	563.8	591.2	655.0	560.7	664.5
EPS (sen)	12.6	13.4	15.7	11.6	13.7
Core EPS (sen)	11.5	12.0	13.4	11.6	13.7
Net DPS (sen)	6.00	7.12	9.10	6.93	8.22
Net Dvd Yield	4.4%	5.2%	6.7%	5.1%	6.0%
Core PER	11.86	11.33	10.12	11.77	9.93
NTA/share (RM)	1.54	1.66	1.66	1.78	1.83
P/NTA	0.88	0.82	0.82	0.77	0.74
Core ROE	7.1%	7.0%	7.8%	6.5%	7.5%
Core ROA	2.9%	2.8%	3.1%	2.6%	2.9%

Source: MIDF Research

## Sum-of-Parts

Division	Methodology	PER (x)	Stake	Discount	Value (RM m)
Property Development	NPV of profits	n/a	100%	20%	2653.1
Property Investment	Net Book Value	n/a	100%	n/a	1490.0
Construction	18x FY21E PER - KL Construction Index PER	18	54%	n/a	1233.9
Sunway REIT	Target Price of RM2.02	n/a	35%	n/a	1910.2
Trading and manufacturing	10x FY21E PER - In line with small cap PER of 10x	10	100%	n/a	120.6
Quarry	10x FY21E PER - In line with small cap PER of 10x	10	100%	n/a	434.9
<b>Total SOP</b>					<b>7842.7</b>
Number of shares					4918.0
<b>Target Price (RM)</b>					<b>1.59</b>

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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