



SUNWAY ISKANDAR

NATURE'S CAPITAL CITY™

Sunway-Daiwa JV makes land acquisition in Medini

► Recommendation:

Buy

TARGET Price: RM3.75
by Hong Leong Investment Bank Bhd (June 12)

News

SUNWAY'S Bhd subsidiary, Sunway Iskandar (56%-owned by Sunway) enters into 30:70 joint venture (JV) with Daiwa House Malaysia Sdn Bhd for the acquisition of 13.02 acres land in Medini for RM63m.

Sunway Iskandar is the vendor of the land. The land has lease tenure of 99 years from 2012 with 30 years extension from 2111 to 2141.

Highlights

We are positive on the pro-

	► SUNWAY BHD			
FYE DEC	2013A	2014A	2015E	2016E
REVENUE (RM mil)	4,734	4,731	4,759	4,676
CORE PATAMI (RM mil)	482	544	558	562
CORE EPS (sen)	28.0	31.6	32.4	32.6
PE (x)	12.1	10.7	10.4	10.4

posed deal as this will help to monetise and expedite development in Sunway Iskandar given concerns about slowdown in the southern region.

We understand that Sunway-Daiwa JV is proposing a landed residential consisting of a mix of bungalows, semi-detached and cluster homes. The GDV (gross development value)

for the development is estimated to be approximately RM210m. The first launch is expected to be in early FY16.

The land cost is about 30% of GDV and selling prices translate into RM111.20 psf which we think is premium as compared to recent SunSuria's transaction at circa RM74psf in Medini. Based on our estima-

tion, Sunway will pocket RM19m profit for the land sell given its 56% stake and land cost at only RM27 psf. Given the lower effective stake for the proposed GDV (from 56% to 16.8%) and net margin assumption of 20%, the potential loss of profit from the proposed development on the 13.02 acres land is about RM16.5m. On net

basis, Sunway still earn extra RM2.5m (circa 0.4% to FY15 bottom line) with faster monetisation on the land. In addition, the proposed JV will also leverage on Daiwa's expertise in prefabricated housing and attract potential Japanese buyer into Sunway Iskandar.

As at first-quarter financial year 2015 (1QFY15), effective property sales was RM186m while its effective unbilled sales stood at RM1.8b (1.5x of Sunway's FY14 property development revenue). We expect property sales for FY15 to remain modest given tough market environment.

Risks

1) Execution risk;

2) Regulatory and political risk (both domestic and overseas);
3) Rising raw material prices; and Unexpected downturn in the construction and property cycle.

Forecasts

Unchanged.

Rating 'Buy'

We remain optimistic about the group, especially with the proposed listing of Sunway Construction Sdn Bhd as it would further enhance shareholders' value.

Valuation

Maintained 'Buy' with TP remained unchanged at RM3.75 based on SOP valuations.