

Sunway looking to scale down targets

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Sunway Bhd
(May 2, RM2.36)

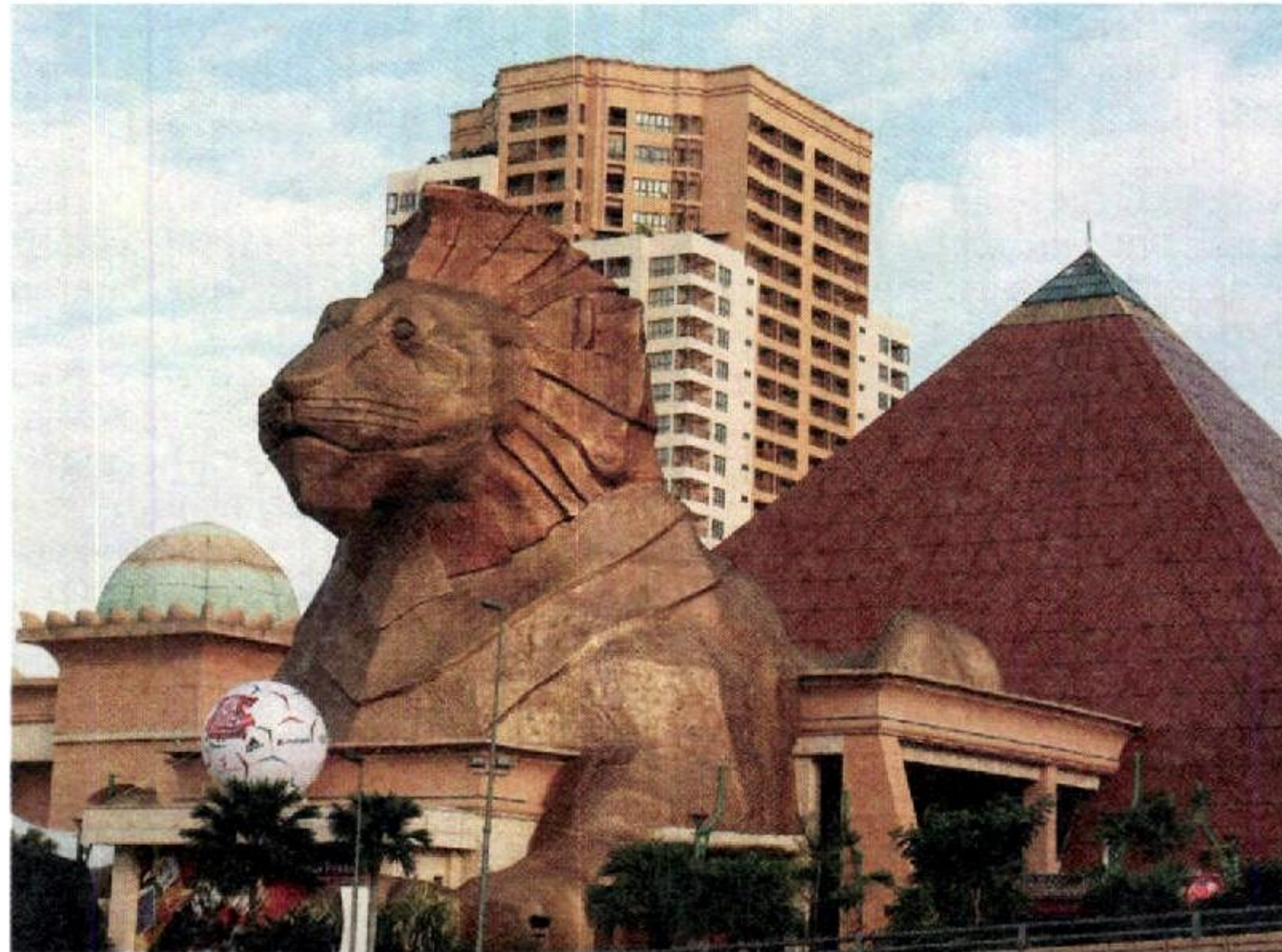
Initiating coverage at RM2.40 with a target price of RM2.65: Sunway Bhd was formed following the merger of construction company Sunway Holdings Bhd and property developer Sunway City Bhd.

The group is principally involved in property development and investment, construction and investment holdings. Other business activities include quarry, and trading and manufacturing of building materials.

Sunway's shares are certified syariah-compliant by the Securities Commission Malaysia.

Its property development has a remaining landbank of 1,132ha with a total gross development value (GDV) of RM33 billion, which should last Sunway for at least 10 years. For FY12, the group has targeted new launches worth RM2 billion, and property sales of RM1.9 billion.

However, due to sluggish property sales (January/February sales of only RM100 million), management is looking to scale down the targets as it closely monitors the market. We have assumed a lower sales target of RM936 million due to a cautious outlook on the local property market.



Sunway's management is looking to scale down the targets as it closely monitors the market.

Nevertheless, we feel that Sunway's entry into Medini will enable the group to extend its expertise in integrated developments/townships to Iskandar Malaysia, Johor. The group has formed a joint venture with Khazanah Nasional Bhd for a mixed integrated development in Zon F in Medini. The develop-

ment has a potential GDV of RM12 billion over 10 years. We reckon Sunway's proposed plan in Medini will garner healthy demand, especially from Singaporeans, due to its proximity to the Johor CIQ and Second Link Expressway.

Sunway is also a beneficiary of heightened construction activities

spurred by the rolling out of the Economic Transformation Programme (ETP) projects, and awards of the LRT and MRT projects. YTD, the group has a total order book of RM3 billion, out of which 80% of the jobs are local — mainly from the Kelana Jaya LRT line extension (worth RM566 million).

The property investments and real estate investment trusts (through its 36.7% stake in Sunway REIT) provide the group with steady recurring income from rentals, dividends and management fees.

Key risks include: (i) delays in the completion of property and construction projects; (ii) exposure to property overhang due to oversupply and poor sales; (iii) volatility in the prices of building materials like cement, clay, bitumen and natural gas; (iv) negative outlook on the property and construction sector; and (v) declining consumer sentiment.

We initiate coverage on Sunway Bhd with a "hold" recommendation. Our target price of RM2.65 is based on the sum-of-parts valuation method.

Management is looking at a dividend payout of 20% (of net profit) for FY12 onwards. — *ECM Libra Research, May 2*