SUNSURIA
Building Today Creating Tomorrow

Kenanga: Management team, healthy margins set to take Sunsuria higher

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PETALING JAYA : Sunsuria Bhd stands a good chance of achieving strong growth in the years ahead as it is set to leverage on its management team, healthy margins and light balance sheet as well as positive long term catalysts.

According to Kenanga Research in a note yesterday, the Kuala Lumpur-based developer's flagship development, Sunsuria City, enjoys such catalysts as the upcoming Express Rail Line (ERL) station and Xiamen University.

"The project has a direct link to the Salak Tinggi ERL station with plans for a lifestyle hub transit oriented development (TOD). The ERL (KL Sentral to KLIA) has plans to increase capacity by 50%, indicating strong usage. Meanwhile, Xiamen University is at the heart of Sunsuria City and has enrolled 1,450 students with a target of 10,000 in 5-6 years' time," the research house explained.

Accordingly, Kenanga has initiated coverage on the group with an 'outperform' recommendation and a RM1.50 target price. Sunsuria's shares rallied strongly on Wednesday to close at RM1.26, or an eight sen increase from the previous day's close.

Aside from these key drivers, Sunsuria also has a solid launch pipeline and is supported by its remaining total gross development value (GDV) of RM10.6bil which provides at least six years' worth of earnings visibility.

"Their landbanks are all in freehold status within the Klang Valley. Sunsuria City @ Salak Tinggi is the main growth driver as it contributes 91% of the remaining total GDV. They enjoy attractive land cost which allows for strong gross project margins of 40-45% due to its relatively low land cost-to-GDV ratio of 8%," said Kenanga.

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At the same time, the group also plans to ramp up new launches, having secured approvals for projects within Sunsuria City.

Notably, the launches are are marked for the affordable or mid-market residential segments.

Sunsuria's product mix comprises units below RM500,000 each and between RM500,000 to RM700,000 per unit while its commercial offerings are mainly shop offices and integrated commercial retail spaces.

From an earnings standpoint, Kenanga believes that Sunsuria can achieve the highest growth rate among similar stocks under its coverage given its starting low base.

Additionally, its return on equity (ROE) is expanding and will likely exceed 20% by its 2019 financial year, it noted.

"Given the earnings leap, we expect Sunsuria to commence dividend payouts.

"The expected FY17 net gearing is low at 0.14 times with expectations of aggressive landbanking while we expect more partnerships to materialize," Kenanga explained.