

Sunway Real Estate Investment Trust

TP: RM1.87 (+8.9%)

No Surprises

Last Traded: RM1.72

Hold

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Review

- Sunway REIT posted realised net profit of RM148.8mn in IHFY18, translating to a growth of 11% YoY. Results were within expectations, accounting for 50% and 53% of ours and consensus' full-year estimates respectively.
- A distribution per unit (DPU) of 2.38sen (+4.4% YoY) was declared for this quarter, bringing the YTD IHFY18 DPU to 5.05sen (+11.0% YoY). This translates to an annualised distribution yield of 5.9%, based on yesterday's closing price.
- YoY, Sunway REIT's IHFY18 revenue and net property income (NPI) advanced by 10.5% and 12.7% to RM282.6mn and RM214.4mn respectively. The encouraging set of result was driven by better performance across the key operating segments and maiden contribution from newly acquired asset - Sunway REIT industrial - Shah Alam 1 (completed in Aug-17).
- In terms of segmental performance, the retail segment posted a 4.9% YoY growth in NPI during the period under review. This was underpinned by higher average occupancy rates for all retail malls (except for Sunway Carnival) and higher rental income for both Sunway Pyramid and Sunway Carnival. Notably, the occupancy of Sunway Putra Mall has improved to 93.4% as at Dec-17 as compared with 86.3% as at June-17. However, we understand that the better occupancy was at the expense of lower rental rate offered to new/renewed leases.
- The hospitality segment also recorded a stronger performance in IHFY18, with revenue and NPI rising by 47.4% YoY and 50.1% YoY respectively, primarily attributable to full resumption of operation at Sunway Pyramid Hotel following the completion of its refurbishment in June 2017. In addition, Sunway Putra Hotel registered higher gross revenue in IHFY18 (+69% YoY) on the back of both higher average occupancy and average daily rate.
- The office segment reported a revenue growth of 4.4% YoY in IHFY18, mainly contributed by Menara Sunway and Sunway Putra Tower with higher occupancy rates. Nevertheless, NPI declined marginally by 1.2%, largely due to higher maintenance expenses for the two office buildings mentioned above.

Impact

- Maintained.

Share Information

Bloomberg Code	SREIT MK
Stock Code	5176
Listing	Main Market
Share Cap (mn)	2945.1
Market Cap (RMmn)	5,065.5
52-wk Hi/Lo (RM)	1.90/1.64
12-mth Avg Daily Vol ('000 shrs)	1,670.9
Estimated Free Float (%)	29.6
Beta	0.9

Major Shareholders (%)

Sunway Berhad	(39.3)
Employees Provident Fund	(14.2)
Skim Amanah Saham Bumiputera	(5.8)

Forecast Revision

	FY18	FY19
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	295.4	314.5
Consensus	278.4	289.9
TA's / Consensus (%)	106.1	108.5
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY18	FY19
Net gearing (x)	37.8	38.2
CFPS (sen)	(2.4)	13.7
P/CFPS (x)	(72.7)	12.6
ROE (%)	7.0	7.5
ROA (%)	4.2	4.4
NTA/Share (RM)	1.5	1.5
Price/ NTA (x)	1.1	1.1

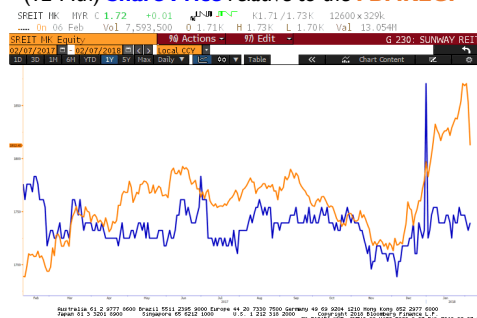
Scorecard

	% of FY	
vs. TA	50.0	Within
vs. Consensus	53.0	Within

Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	(1.1)	(0.3)
3 mth	0.6	3.5
6 mth	0.0	1.9
12 mth	(2.8)	7.3

(12-Mth) Share Price relative to the FBMKLCI



Outlook

- Management expects a moderate growth in DPU for FY18. This is largely underpinned by: i) full contribution from Sunway Pyramid Hotel following the completion of refurbishment in Jun-17, ii) new income contribution from the acquisition of Sunway REIT industrial – Shah Alam I (completed in Aug-17) and Sunway Clio Property (expected completion in 3QFY18), and iii) better performance across its retail and office segment amidst gradual recovery in consumer and business sentiment.
- Elsewhere, the expansion of Sunway Carnival Shopping Mall New Wing is scheduled to commence in 3QFY18. Recall, this is the first green field development by Sunway REIT, involving the development 3.3 acres of leasehold commercial land adjacent to Sunway Carnival, which is currently being used as a car park. We have yet to factor in this new contribution, as the expansion is expected to complete by end 2020 or (FY21).

Valuation

- We maintain our **Hold** recommendation with an unchanged target price of RM1.87/unit, based on DDM valuation (discount rate 7.9%). Our target price implies forward yields of 5.4-5.7%, in line with industry's average.

Table 1: Earnings Summary (RMmn)

FYE June	FY16	FY17	FY18f	FY19f	FY20f
Gross Rental Income	507.0	522.9	585.8	612.0	627.7
Net Property Income	373.9	388.8	436.9	459.0	470.8
NPI Margins	73.7	74.4	74.6	75.0	75.0
Pretax profit	260.2	272.4	295.4	314.5	323.9
Core Net Profit	262.5	272.4	295.4	314.5	323.9
Distributable income	270.6	272.4	295.4	314.5	323.9
EPU (Sen)	8.9	9.2	10.0	10.7	11.0
EPU Growth (%)	8.4	3.7	8.4	6.5	3.0
PER (x)	19.3	18.6	17.1	16.1	15.6
DPU (sen)	9.2	9.2	10.0	10.7	11.0
Div Yield (%)	5.3	5.3	5.8	6.2	6.4
ROE (%)	6.5	6.6	7.0	7.5	7.7

Table 2: 2QFY18 Results Analysis (RMmn)

FYE June	2Q17	1Q18	2Q18	QoQ (%)	YoY (%)	1H17	1H18	YoY (%)	
Total revenue	134.6	141.2	141.5	0.2	11.5	255.8	282.6	10.5	
- Retail	105.7	103.6	103.8	0.2	5.0	198.5	207.3	4.4	
- Hospitality	15.2	23.1	22.9	(1.0)	54.5	31.2	45.9	47.4	
- Office	8.1	8.0	7.9	(1.9)	0.1	15.3	15.9	4.0	
- Others	5.6	6.5	7.0	7.3	29.5	10.8	13.5	25.1	
Total Net Property Income	100.2	111.0	103.4	(6.9)	9.9	190.1	214.4	12.7	
- Retail	75.9	78.3	70.9	(9.4)	0.2	142.3	149.2	4.9	
- Hospitality	14.2	22.2	21.9	(1.3)	57.3	29.3	44.0	50.1	
- Office	4.5	4.1	3.6	(11.5)	(10.2)	7.7	7.6	(1.2)	
- Others	5.6	6.5	7.0	7.3	29.5	10.8	13.5	25.1	
Other Income	1.3	1.6	2.6	58.0	(50.5)	6.1	4.2	(31.4)	
Changed in fair value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Investment Income	101.5	112.6	105.9	(5.9)	6.7	196.2	218.5	11.4	
Manager & Trustee Fee	(8.3)	(9.0)	(9.0)	(0.1)	10.4	(16.3)	(17.9)	10.2	
Finance Costs	(22.5)	(24.2)	(25.1)	3.9	13.7	(43.8)	(49.2)	12.3	
Other expenses	(0.3)	(0.3)	0.9	>100	>100	(0.8)	0.6	>100	
Income Before Taxation	70.4	79.2	71.0	(10.4)	(0.2)	135.3	150.2	11.0	
Net Profit	70.4	79.2	71.0	(10.4)	(0.2)	137.9	150.2	9.0	
Realised Net Profit	69.9	78.7	70.0	(11.0)	4.3	133.9	148.8	11.1	
Realised EPU	(sen)	2.4	2.7	2.4	(11.2)	2.6	4.6	5.0	10.8
DPU	(sen)	2.4	2.7	2.4	(10.9)	4.4	4.6	5.1	11.0
NPI Margin	(%)	74.4	78.6	73.1	(5.6)	(1.1)	74.3	75.8	2.0
Realised Net Margin	(%)	51.9	55.8	49.5	(6.3)	(3.4)	52.3	52.6	0.3

Peers Comparison

	Recommendation	Price (RM)	Target price (RM)	Market Cap (RM bn)	PER (x)		Div Yield (%)		P/NAV (x)	
					FY18	FY19	FY18	FY19	FY18	FY19
Sunway REIT	Hold	1.72	1.87	5.1	16.6	15.9	5.8	6.2	1.1	1.1
CMMT	Buy	1.35	1.64	2.8	17.1	15.6	6.1	6.6	1.1	1.1
KLCCP Stapled Group*	NR	7.70	NR	13.9	18.2	17.4	4.8	5.1	1.0	1.0
IGB REIT*	NR	1.56	NR	5.5	17.5	16.5	6.0	6.3	1.5	1.5
Pavilion REIT*	NR	1.50	NR	4.5	16.5	15.4	5.9	6.3	1.2	1.2
Axis REIT*	NR	1.37	NR	1.7	16.1	15.4	6.4	6.9	1.1	1.1
Al Salam*	NR	0.97	NR	0.6	14.2	13.7	6.2	6.8	0.9	0.9
Average					16.6	15.7	5.9	6.3	1.1	1.1

* Based on consensus number

Source: Bloomberg, TA Research

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
- HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
- SELL** : Total return is lower than the required rate of return.
- Not Rated:** The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Wednesday, February 07, 2018, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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