

## Sunway Real Estate Investment Trust

A Strong 1Q18

**TP: RM1.87** (+8.9%)

Last Traded: RM1.72

**Hold**

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### Review

- Sunway REIT posted realised net profit of RM78.7mn in 1QFY18, translating to a growth of 18.0% YoY. Results were within expectations, accounting for 27% of both ours and consensus' full-year estimates respectively.
- A distribution per unit (DPU) of 2.67sen (+17.6% YoY) was declared for this quarter. This translates to an annualised distribution yield of 6.2%, based on yesterday's closing price.
- YoY, Sunway REIT's 1QFY18 revenue and net property income (NPI) advanced 9.5% and 15.5% to RM141.2mn and RM111.0mn respectively. The encouraging set of result was driven by higher revenue across all segments and lower property operating expenses (-8.0% YoY).
- In terms of segmental performance, the retail segment posted a 9.4% YoY growth in NPI during the quarter under review. This was underpinned by higher average occupancy rates for all retail malls (except for Sunway Carnival) and higher rental income for Sunway Pyramid. Specifically, the occupancy of Sunway Putra Mall has improved to 93.6% as at Sep-17 compared with 86.2% as at June-17.
- The hospitality segment also recorded a stronger performance in 1QFY18, with revenue and NPI increased 40.9% YoY and 43.7% 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 the current quarter by RM2.3mn, underpinned by both higher average occupancy and average daily rate. We attribute the higher occupancy rate to the surge in tourist arrivals in conjunction with 2017 SEA Games and 2017 ASEAN Para Games held in August 2017 and September 2017 respectively.
- The office segment reported a revenue and NPI growth of 8.1% YoY and 8.5% YoY respectively, driven by higher average occupancy rates at Menara Sunway and Sunway Putra Tower.

### Impact

- Maintained earnings forecasts.

### 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

### 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)	1.82/1.63
12-mth Avg Daily Vol ('000 shrs)	1,996.5
Estimated Free Float (%)	31.5
Beta	0.7

### Major Shareholders (%)

Sunway Berhad (37.5)
Employees Provident Fund (12.7)
Skim Amanah Saham Bumiputera (6.1)

### Forecast Revision

	FY18	FY19
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	295.4	314.5
Consensus	292.1	287.2
TA's / Consensus (%)	101.1	109.5
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

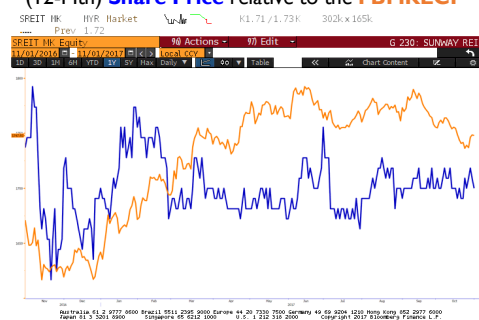
### Scorecard

	% of FY	
vs. TA	27.0	Within
vs. Consensus	27.0	Within

### Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	0.0	(0.4)
3 mth	0.6	(1.0)
6 mth	1.2	(1.1)
12 mth	(2.3)	4.6

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

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, Sunway REIT will embark on the expansion of Sunway Carnival Shopping Mall New Wing Phase I in 3QFY18. Recall, this is the first green field development by Sunway REIT, which involves the development 3.3 acres of leasehold commercial land adjacent to Sunway Carnival. It plans to spend RM339mn for the expansion, which will see the creation of new retail spaces with net lettable area of ~337,000 sq ft. We have yet to factor in this new contribution, as the expansion is expected to take three years to complete.

### Valuation

- We maintain our **Hold** recommendation with an unchanged target price of RM1.87/unit, based on DDM valuation. Our target price implies forward yields of 5.4%, 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: IQFY18 Results Analysis (RMmn)**

FYE June	IQ17	4Q17	IQ18	QoQ (%)	YoY (%)	
<b>Total revenue</b>	<b>128.9</b>	<b>132.5</b>	<b>141.2</b>	<b>6.5</b>	<b>9.5</b>	
- Retail	99.7	100.9	103.6	2.7	3.9	
- Hospitality	16.4	18.1	23.1	27.7	40.9	
- Office	7.4	8.0	8.0	(0.0)	8.1	
- Healthcare	5.4	5.6	6.5	16.7	20.8	
<b>Total Net Property Income</b>	<b>96.1</b>	<b>98.5</b>	<b>111.0</b>	<b>12.7</b>	<b>15.5</b>	
- Retail	71.5	71.7	78.3	9.2	9.4	
- Hospitality	15.4	17.0	22.2	30.2	43.7	
- Office	3.7	4.2	4.1	(4.5)	8.5	
- Healthcare	5.4	5.6	6.5	16.7	20.8	
Other Income	0.9	0.9	1.6	79.5	76.5	
Changed in fair value	0.0	152.1	0.0	nm	nm	
Net Investment Income	97.0	251.5	112.6	(55.2)	16.1	
Manager & Trustee Fee	(8.2)	(8.4)	(9.0)	7.1	10.0	
Finance Costs	(21.8)	(23.0)	(24.2)	5.2	11.0	
Other expenses	(2.9)	(1.3)	(0.3)	(80.0)	(91.0)	
Income Before Taxation	64.1	218.8	79.2	(63.8)	23.5	
Net Profit	66.7	218.8	79.2	(63.8)	18.7	
<b>Realised Net Profit</b>	<b>66.7</b>	<b>66.8</b>	<b>78.7</b>	<b>17.8</b>	<b>18.0</b>	
Realised EPU	(sen)	2.2	2.3	2.7	17.6	19.2
DPU	(sen)	2.3	2.3	2.7	17.6	17.6
NPI Margin	(%)	74.5	74.3	78.6	4.3	4.1
Realised Net Margin	(%)	51.8	50.4	55.8	5.4	4.0

**Table 3: Peers Comparison**

	Recommendation	Price	Target price	Market Cap	PER (x)		Div Yield (%)		P/NAV	
		(RM)	(RM)	(RM bn)	FY17	FY18	FY17	FY18	FY17	FY18
Sunway REIT	Hold	1.72	1.87	5.1	18.6	17.1	5.3	5.8	1.1	1.1
CMMT	Buy	1.48	1.72	3.0	18.3	17.2	5.7	6.0	1.2	1.2
KLCCP Stapled Group*	NR	8.00	NR	14.4	19.5	18.9	4.5	4.7	1.1	1.1
IGB REIT*	NR	1.65	NR	5.8	19.5	18.5	5.5	5.7	1.6	1.6
Pavilion REIT*	NR	1.71	NR	5.2	20.6	18.8	4.9	5.1	1.3	1.3
Axis REIT*	NR	1.54	NR	1.7	18.0	16.3	5.4	5.6	1.2	1.2
Al Salam*	NR	1.04	NR	0.6	15.8	15.3	5.8	5.8	1.0	1.0
<b>Average</b>					<b>18.6</b>	<b>17.4</b>	<b>5.3</b>	<b>5.5</b>	<b>1.2</b>	<b>1.2</b>

\* 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, November 01, 2017, 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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