

Company Flash Note

Sunway REIT

Bloomberg: SREIT MK | Reuters: SUNW.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

29 Oct 2015

BUY RM1.50 KLCI : 1,686.51

Price Target: 12-Month RM 1.75 (17% upside)

Shariah Compliant: No

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Price Relative



Forecasts and Valuation

FY Jun (RM m)	2015A	2016F	2017F	2018F
Gross Revenue	453	518	576	618
Net Property Inc	341	393	443	478
Total Return	541	277	320	354
Distribution Inc	256	286	320	354
EPU (sen)	18.5	9.3	10.6	11.8
EPU Gth (%)	31	(50)	14	11
DPU (sen)	8.7	9.6	10.6	11.8
DPU Gth (%)	4	10	11	11
NAV per shr (sen)	135.6	135.9	136.2	136.5
PE (X)	8.1	16.1	14.1	12.8
Distribution Yield (%)	5.8	6.4	7.1	7.8
P/NAV (x)	1.1	1.1	1.1	1.1
Aggregate Leverage (%)	33.3	35.5	35.7	35.9
ROAE (%)	14.1	6.9	7.8	8.6

Source of all data: Company, AllianceDBS, Bloomberg Finance L.P

Non-taxable DPU boost from IBA

- **IBA entitlement allowed on SunREIT's hotel assets**
- **Distributions made since 1 Jan'13 to 30 Jun'15 eligible for refunds for higher withholding tax applied**
- **Higher non-taxable distributions from 1QFY16 onwards, as IBA claims will be made**
- **Maintain BUY and RM1.75 TP**

IBA entitlements allowed. Sunway REIT (SunREIT) announced yesterday that as of 28 Aug, the Inland Revenue Board (IRB) had withdrawn its appeal against a High Court decision made on 8 May – which ruled that the REIT was entitled to the Industrial Building Allowance (IBA) on its hotel properties. The details are set out on the next page.

Impact on previous distributions. Prior to the High Court decision, SunREIT had computed its taxable distributions assuming no IBA claims – resulting in lower non-taxable portions of DPU. The REIT manager is currently liaising with the IRB on the manner of the refund relating to the higher withholding tax that unitholders were subjected to, and will issue revised tax vouchers upon IRB's reply. Corporate unitholders which applied the corporate tax rate may consider revising their tax returns to the IRB. Note that total distributable income will remain the same. A total of eleven distributions that were paid between 1 Jan'13 and 30 Jun'15 are affected, which we have listed on the next page.

Impact on distributions going forward. From 1QFY16 onwards, the REIT manager will claim the IBA for the hotel assets. Thus, the non-taxable income distribution to unitholders will be higher than before.

Maintain BUY, RM1.75 TP. At this juncture, the exact quantum of IBA claimable for FY16 onwards, and the percentage of distributions that will be non-taxable is uncertain. SunREIT is due to announce its 1QFY16 results later today. No changes to our forecast for now, though there is impending upside to net DPU. Reiterate BUY on SunREIT, premised on its strong DPU growth prospects and asset growth potential.

Industrial Building Allowance

According to the Malaysian Ministry of Finance, the Industrial Building Allowance (IBA) is granted to companies incurring qualifying capital expenditure on the construction or purchase of a building which is used for certain specific purposes. Depending on the purpose of the building, the entitlement may be up to an initial allowance of 10%, and annual allowance of 3% so that the IBA on the qualifying expenditure can be claimed over 30 years.

From the announcement, a public ruling in Nov-12 indicated that a REIT must operate a hotel on its own to be entitled to the IBA. SunREIT's manager lodged an appeal as its hotels are leased out on a master lease basis. After this was rejected by the Inland Revenue Board (IRB), the manager filed for a High Court judicial review on 24 Mar'14, and received a ruling in its favour on 8 May of this year. Following that, the IRB appealed the ruling to the Court of Appeal, but subsequently withdrew it on 28 Aug.

SunREIT's current hotel portfolio comprises of 3) Sunway Resort Hotel & Spa, 2) Pyramid Tower East, 3) Sunway Hotel Seberang Jaya, 4) Sunway Putra Hotel, and 5) Sunway Hotel Georgetown. They are collectively valued at RM1.3bn, and contribute c.17% to group NPI.

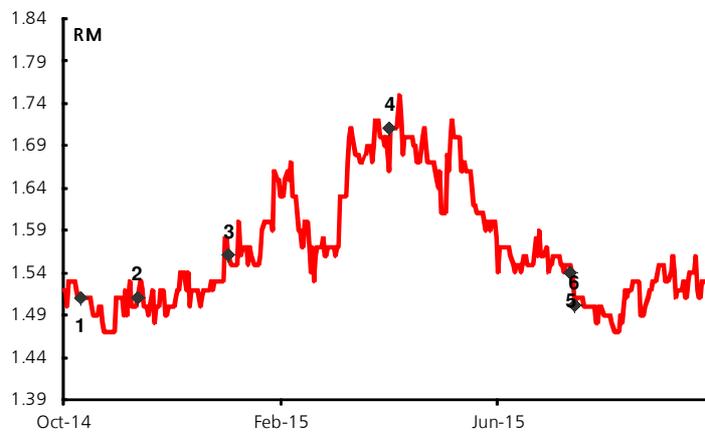
Past affected distributions with taxable proportions

For period	Ex-date	Payment date	DPU (sen)	Taxable (sen)	%	Non-taxable (sen)	%
Subject to revision							
2QFY13	07/02/13	27/02/13	2.19	1.83	84%	0.36	16%
3QFY13 [^]	07/02/13	27/02/13	0.97	0.83	86%	0.14	14%
3QFY13	14/05/13	30/05/13	1.09	1.02	94%	0.07	6%
4QFY13	21/08/13	05/09/13	2.02	0.68	34%	1.34	66%
1QFY14	12/11/13	28/11/13	2.00	1.65	83%	0.35	18%
2QFY14	10/02/14	27/02/14	2.23	1.89	85%	0.34	15%
3QFY14	14/05/14	29/05/14	2.10	1.71	81%	0.39	19%
4QFY14	22/08/14	10/09/14	2.03	1.58	78%	0.45	22%
1QFY15	19/11/14	04/12/14	2.28	1.96	86%	0.32	14%
2QFY15	12/02/15	03/03/15	2.27	1.90	84%	0.37	16%
3QFY15	14/05/15	02/06/15	2.13	1.79	84%	0.34	16%
Amended							
4QFY15*	24/08/15	10/09/15	2.05	0.79	39%	1.26	61%
- previously	24/08/15	10/09/15	2.05	0.96	47%	1.09	53%

[^]partial advance distribution

*revised in 17 Aug announcement

Source: Company announcements, AllianceDBS

Target Price & Ratings History

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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