

Sunway REIT (SREIT MK)

3QFY16: No surprises

Maintain HOLD

3QFY16 earnings and 3rd interim gross DPU of 2.37sen were in line. Bottomline growth was mainly driven by key retail assets and Sunway Resort Hotel & Spa. Our earnings forecasts and DCF-based TP of MYR1.50 (WACC: 6.6%, terminal yield: 7.0%) are intact.

Shopping mall-driven quarter

3QFY16 core net profit was MYR67.7m (+14.9% YoY, -8.0% QoQ), bringing 9MFY16 core net profit to MYR201.9m (+8.9% YoY) and accounting for 79%/77% of our/consensus' full-year estimates. We are expecting a seasonally-slower 4QFY16 which would also be affected by the full closure of Pyramid Hotel East (PHE) from end-3QFY16 to end-FY17.

YoY, 3QFY16 earnings were mainly driven by: (1) additional contributions from the newly-refurbished Sunway Putra Mall (SPM) and Sunway Putra Hotel (SPH), (2) Sunway Pyramid Shopping Mall's (SPSM) sustained occupancy rate (9MFY16: 98.4%) and higher average rental rate; and (3) Sunway Resort Hotel & Spa's (SRHS) improved average room rate and occupancy rate (82.2% vs 3QFY15: 75.6%). We also believe that the weaker MYR in early-CY16 (vs. CY15) has encouraged tourist arrivals.

Earnings forecasts unchanged

Our near-term earnings growth forecasts are primarily led by SPSM (59% of FY17E revenue) but partly offset by the temporary closure of PHE (no contribution in FY17) and continued weakness in the office segment.

Cautious outlook on office segment

We remain cautious on Sunway Tower (ST) and Sunway Putra Tower (SPT) which could face challenges in replenishing their vacancies as demand for office space in the Klang Valley has remained soft. 9MFY16 occupancy rates of ST and SPT were 18.9% and 26.6% respectively.

FYE Jun (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	428	453	504	523	564
Net property income	321	341	389	404	441
Core net profit	232	242	257	267	299
Core EPU (sen)	7.9	8.2	8.8	9.1	10.2
Core EPU growth (%)	5.6	4.0	6.2	3.7	12.0
Net DPU (sen)	7.5	7.8	7.6	7.9	8.9
Net DPU growth (%)	0.7	4.3	(2.6)	3.7	12.0
P/NAV (x)	1.3	1.2	1.1	1.1	1.1
Net DPU yield (%)	4.7	4.9	4.8	5.0	5.5
ROAE (%)	6.4	6.3	6.3	6.4	7.1
ROAA (%)	4.3	4.0	4.0	4.0	4.4
Debt/Assets (x)	0.31	0.33	0.35	0.36	0.37
Consensus Net DPU	-	-	8.0	8.5	9.0
MKE vs. Consensus (%)	-	-	(4.6)	(6.3)	(1.2)

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HOLD

Share Price MYR 1.60
 12m Price Target MYR 1.50 (-6%)
 Previous Price Target MYR 1.50

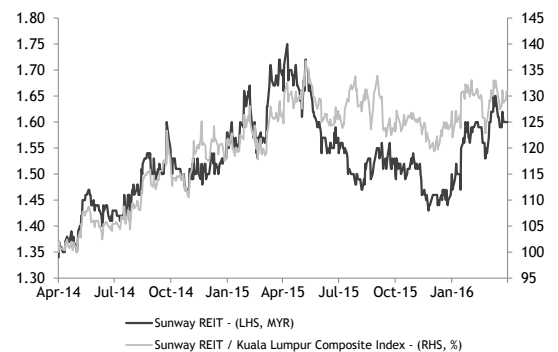
Statistics

52w high/low (MYR)	1.75/1.43
3m avg turnover (USDm)	0.7
Free float (%)	55.0
Issued shares (m)	2,943
Market capitalisation	MYR4.7B
	USD1.2B

Major shareholders:

Sunway Bhd.	37.3%
Employees Provident Fund	12.0%
CHEAH FOOK LING	5.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	8	(5)
Relative to index (%)	5	4	4

Source: FactSet

Fig 1: Results summary table

FY Jun (MYR m)	Quarterly					Cumulative		
	3QFY16	3QFY15	%YoY	2QFY16	%QoQ	9MFY16	9MFY15	%YoY
Gross revenue	130.3	110.7	17.7	131.9	(1.2)	383.4	338.5	13.3
Net property income	96.7	83.2	16.2	97.1	(0.4)	283.7	256.4	10.6
Other income	1.0	0.7	41.3	4.8	(79.0)	10.7	2.6	311.3
Non-property expenses	(11.3)	(9.5)	19.2	(8.7)	30.1	(28.9)	(24.8)	16.8
Finance costs	(21.6)	(17.6)	23.0	(21.6)	(0.1)	(64.7)	(50.7)	27.6
Pretax profit	64.8	56.8	14.0	71.5	(9.4)	200.8	183.5	9.4
Tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Net profit	64.8	56.8	14.0	71.5	(9.4)	200.8	183.5	9.4
Net profit ex-EI	67.7	58.9	14.9	73.6	(8.0)	201.9	185.4	8.9
Distributable income	70.2	62.8	11.7	75.5	(7.1)	208.2	196.2	6.1
EPU ex-EI (sen)	2.3	2.0	16.5	2.5	(6.0)	6.9	6.3	8.7
Gross DPU (sen)	2.4	2.1	11.3	2.6	(7.8)	7.1	6.7	5.7
	3QFY16	3QFY15	+/- ppt	2QFY16	+/- ppt	9MFY16	9MFY15	+/- ppt
Net property margin (%)	74.2	75.1	(1.0)	73.6	0.6	74.0	75.7	(1.8)
Net income ex-EI margin (%)	51.9	53.2	(1.3)	55.8	(3.8)	52.6	54.8	(2.1)

Source: Trust, Maybank Kim Eng

Asset updates: Improvements across most major assets

In the retail segment, Sunway Pyramid Shopping Mall and Sunway Carnival Shopping Mall had decent 3QFY16 revenue growths of +6.6% and +9.5% YoY to MYR77.7m and MYR11.6m respectively, mainly lifted by higher average rental rates and sustained occupancy rates. SunREIT also had an additional revenue contribution of MYR11.2m from Sunway Putra Mall post its major refurbishment (re-opened in end-May 2015).

Within the hospitality segment, Sunway Resort Hotel & Spa's 3QFY16 revenue grew to MYR9.2m (+45.4% YoY) from higher average room rate and improved occupancy rate. Meanwhile, Pyramid Hotel East's revenue fell to MYR2.9m (-20.6% YoY) due to a progressive closure of the hotel in 3QFY16 as part of its major refurbishment plan.

Office segment's 3QFY16 continued to disappoint whereby: (1) Sunway Tower and Sunway Putra Tower's revenue fell -76.5% and -10.7% to MYR0.7m and MYR0.9m respectively due to non-renewals of their anchor tenants; and (2) Menara Sunway's lower revenue of MYR3.6m (-18.8% YoY) attributed to a sizeable tenant which has vacated 46k sq.ft. of NLA (16% of NLA). We, however, understand that SunREIT has secured new tenants which are expected to take up about 32.5k sq.ft. of NLA (11% of NLA) in total by 4QFY16.

FYE 30 Jun	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
Price/DPU(x)	21.3	20.4	20.9	20.2	18.0
P/BV (x)	1.3	1.2	1.1	1.1	1.1
P/NTA (x)	1.3	1.2	1.1	1.1	1.1
DPU yield (%)	5.2	5.4	5.3	5.5	6.2
FCF yield (%)	6.7	13.1	7.5	7.7	8.6

INCOME STATEMENT (MYR m)

Revenue	427.8	453.5	504.5	522.6	564.4
Net property income	321.0	340.8	388.7	403.6	441.1
Management and trustee fees	(28.2)	(32.9)	(43.7)	(44.8)	(46.7)
Net financing costs	(63.0)	(67.3)	(87.9)	(92.1)	(95.6)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	179.1	306.8	0.0	0.0	0.0
Other pretax income/expenses	2.3	0.0	0.0	0.0	0.0
Pretax profit	411.1	547.3	257.1	266.7	298.8
Income tax	0.0	(5.9)	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	411.1	541.4	257.1	266.7	298.8
Distributable inc to unitholders	231.9	242.0	257.1	266.7	298.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	54.6	66.2	85.6	118.4	175.9
Accounts receivable	16.4	20.2	19.3	20.0	21.6
Property, Plant & Equip (net)	3.0	5.3	5.3	5.3	5.3
Investment properties	5,520.0	6,324.0	6,429.3	6,534.5	6,619.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	12.5	14.4	0.0	0.0	0.0
Total assets	5,606.5	6,430.0	6,539.4	6,678.2	6,822.6
ST interest bearing debt	742.0	763.4	763.4	763.4	763.4
Accounts payable	116.1	222.8	0.0	0.0	0.0
LT interest bearing debt	1,000.0	1,378.6	1,548.6	1,668.6	1,788.6
Other liabilities	60.3	83.0	77.1	77.1	78.1
Total Liabilities	1,918.4	2,447.8	2,389.0	2,509.0	2,630.0
Shareholders Equity	3,688.1	3,982.3	4,150.4	4,169.2	4,193.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	3,688.1	3,982.3	4,150.4	4,169.2	4,193.6
Total liabilities and equity	5,606.5	6,430.0	6,539.4	6,678.2	6,823.6

CASH FLOW (MYR m)

Cash flow from operations	314.9	615.0	351.7	363.5	403.0
Capex	0.0	0.0	0.0	0.0	0.0
Acquisitions & investments	(120.6)	(200.0)	(100.0)	(100.0)	(80.0)
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	2.3	0.8	1.2	2.8	4.0
CF from investing activities	(118.3)	(199.2)	(98.8)	(97.2)	(76.0)
Dividends paid	(244.1)	(256.1)	(249.4)	(258.7)	(289.9)
Interest expense	0.0	0.0	0.0	0.0	0.0
Change in debt	106.0	399.9	170.0	120.0	120.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	(62.4)	(70.8)	(89.1)	(94.9)	(99.7)
CF from financing activities	(200.4)	73.1	(168.5)	(233.6)	(269.5)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(3.9)	488.8	84.4	32.8	57.5

FYE 30 Jun	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.8	6.0	11.2	3.6	8.0
Net property income growth	3.8	6.2	14.0	3.8	9.3
Core net profit growth	6.0	4.4	6.2	3.7	12.0
Distributable income growth	6.0	4.4	6.2	3.7	12.0
Profitability ratios (%)					
Net property income margin	75.0	75.2	77.1	77.2	78.2
Core net profit margin	54.2	53.4	51.0	51.0	52.9
Payout ratio	53.6	42.6	87.3	87.3	87.3
DuPont analysis					
Total return margin (%)	96.1	nm	51.0	51.0	52.9
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.5	1.6	1.6	1.6	1.6
ROAE (%)	6.4	6.3	6.3	6.4	7.1
ROAA (%)	4.3	4.0	4.0	4.0	4.4
Liquidity & Efficiency					
Days receivable outstanding	14.5	14.5	14.1	13.5	13.3
Days payables outstanding	344.8	541.7	346.5	nm	nm
Dividend cover (x)	1.9	2.3	1.1	1.1	1.1
Current ratio (x)	0.1	0.1	0.1	0.2	0.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.9	2.6	2.7	2.7	2.6
Net debt/equity (%)	45.8	52.1	53.6	55.5	56.7
Net interest cover (x)	4.6	4.6	3.9	3.9	4.1
Debt/EBITDA (x)	6.0	7.0	6.7	6.8	6.5
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	1,687.4	2,075.7	2,226.3	2,313.6	2,376.0
Debt/Assets (x)	0.31	0.33	0.35	0.36	0.37

Source: Company; Maybank

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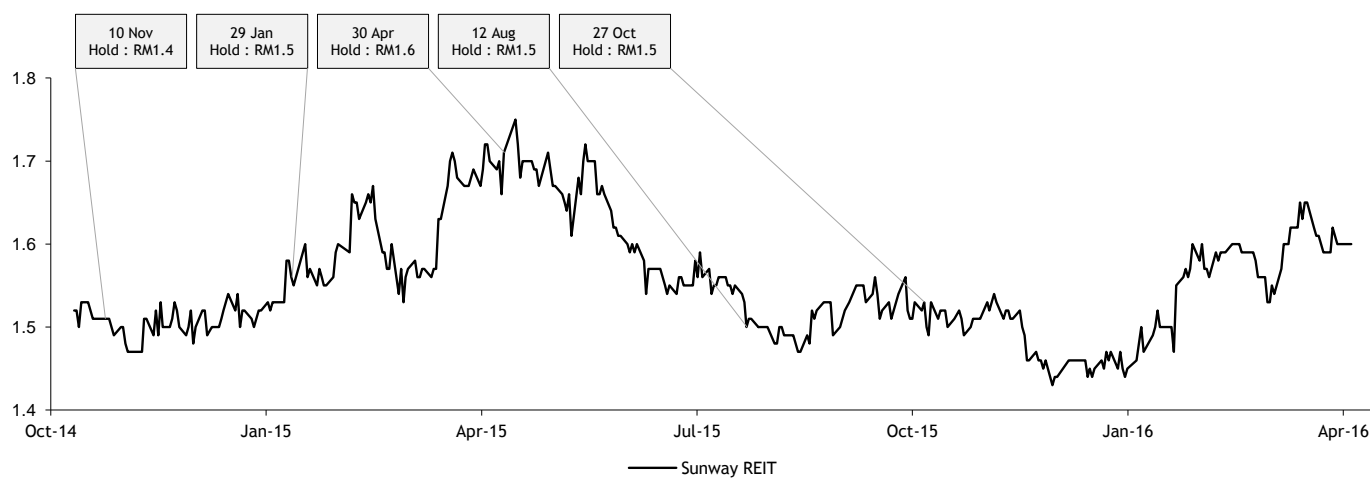
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