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12-month upside potential

Target price	1.44
Current price (as at 29 Apr)	1.37
Capital upside (%)	5.1
Net distribution (%)	5.9
Total return (%)	11.0

Key stock information

Syariah-compliant?	No
Market Cap (RM m)	4,009.1
Units outstanding (m)	2,926.3
Free float (%)	41.9%
52-week high / low (RM)	1.65 / 1.23
3-mth avg volume ('000)	1,253.5
3-mth avg turnover (RM m)	1.7

Unit price performance

	1M	3M	6M
Absolute (%)	1.5	7.0	2.2
Relative (%)	1.0	3.8	-0.1

Unit price chart


Source: Bloomberg

Sunway REIT

REIT

Bloomberg Ticker: SREIT MK | Bursa Code: 5176

Buy

Resilient retail is the key

- **9MFY14 realised income in line; higher revenue at Sunway Pyramid and Sunway Carnival offset by Putra Mall closure**
- **Resilient retail asset performance to mitigate near-term cost pressures and tough office market**
- **Sunway Putra Mall's re-opening could re-rate earnings**
- **Maintain BUY with unchanged RM1.44 TP**

9MFY14 in line

3QFY14 realised income of RM59m was 6% higher y-o-y (-6% q-o-q), on the back of lower finance costs (-10% y-o-y) and higher revenue (+2% y-o-y). Quit rent and assessment charges were higher at 28% y-o-y due to provisions made on Sunway Putra Place and Sunway Tower, which are located in Kuala Lumpur. 9MFY14 realised income amounted to 79% of our FY14F estimates.

Retail assets continue to shine

Revenue gains were driven mainly by Sunway Pyramid (+10% y-o-y) and Sunway Carnival (+13% y-o-y), but marred by a dramatic decline (-98% y-o-y) in Sunway Putra Mall's revenue (closed in May 2013 for refurbishment). Net property income margin was flat y-o-y, with improvement at Sunway Pyramid and the hotels (excl. Sunway Putra Hotel) offset by Sunway Tower and Sunway Putra Place.

Unexciting near-term outlook but look further ahead

Sunway REIT's retail assets will support near-term weakness in the hospitality and office segments, particularly through the resilience of Sunway Pyramid, which saw double digit rental reversions and re-opening of Oasis Boulevard to improved rental yields. We look forward to the re-opening of Sunway Putra Mall in 2015, which would see strong earnings upside on the back of higher rental yields. The REIT is backed by a solid asset pipeline, particularly that of Sunway Pyramid Phase 3, Sunway VeloCity and The Pinnacle.

Maintain BUY

We keep our forecasts unchanged and believe the impact of higher assessment tax is limited as the REIT is relatively shielded compared to pure KL-based REITs, and Sunway Pyramid still generates the bulk of its revenue.

Maintain BUY recommendation with unchanged TP of RM1.44, based on DDM valuation model. This implies total return of 11.0% over the next 12 months.

To note, our key assumptions include (1) beta of 0.71, (2) risk free rate of 4.5%, (3) market risk premium of 5.0%, and (4) long term growth rate of 2.0%.



SNAPSHOT OF FINANCIAL RESULTS

Figure 1 : Results commentaries

	3QFY14	3QFY13	% y-o-y change	% q-o-q change	9MFY14	9MFY13	% y-o-y change	Comments
Key financial highlights								
Gross rental income (RM m)	108.1	106.4	1.5	-2.0	318.6	312.0	2.1	Revenue gains were driven mainly by Sunway Pyramid (+10% y-o-y) and Sunway Carnival (+13% y-o-y).
Operating costs (RM m)	-27.3	-26.7	2.3	5.8	-76.2	-81.3	-6.2	
Net rental income (RM m)	80.7	79.7	1.3	-4.4	242.4	230.8	5.0	
Others (RM m)	0.5	0.4			1.6	1.0		
Total trust income (RM m)	81.2	80.1	1.4	-4.6	244.0	231.7	5.3	
Financing cost (RM m)	-15.7	-17.5	-10.4	-1.7	-47.2	-47.9	-1.5	
Other trust expenditure (RM m)	-6.9	-7.4	-6.2	-3.1	-20.7	-20.5	1.1	
Net income (RM m)	58.6	55.2	6.1	-5.5	176.1	163.4	7.8	
Core net income (RM m)	58.6	55.2	6.1	-5.5	176.1	163.4	7.8	
Realised net income (RM m)	58.6	55.2	6.2	-5.5	176.1	163.3	7.9	9MFY14 realised net income made up 78-79% of ours and consensus full year forecasts.
Per share data								
EPS (sen)	2.00	2.03	-1.5	-5.7	6.02	6.04	-0.3	
Core EPS (sen)	2.00	2.03	-1.5	-5.7	6.02	6.04	-0.4	
Net DPU (sen)	1.93	1.88			5.81	5.75		
NAV/share (RM)	1.20	1.13			1.20	1.13		
Other key indicators								
Gearing (x)	0.32	0.32			0.32	0.32		
Net rental margin (%)	74.7	74.9			76.1	74.0		
Core net margin (%)	54.2	51.9			55.3	52.3		
Payout ratio (%)	105.0	101.5			105.2	104.0		
Revenue by segment (RM m)								
Retail	77.6	76.3	1.7	3.6	222.6	225.2	-1.1	
Hotel	14.9	15.1	-1.1	-25.0	49.1	51.4	-4.4	
Office	10.7	10.3	3.5	-1.1	32.4	30.7	5.5	
Hospital	4.9	4.8			14.4	4.8		

Source: Company, Alliance Research

Figure 2 : Key financial data

FYE 31 Dec	FY12	FY13	FY14F	FY15F	FY16F
Revenue (RM m)	406.4	415.9	421.1	458.4	512.6
EBITDA (RM m)	270.2	281.2	289.0	319.1	360.2
EBIT (RM m)	270.2	281.0	288.8	319.0	360.1
Pretax profit (RM m)	420.5	392.3	221.9	242.2	280.5
Reported net profit (RM m)	420.5	392.3	221.9	242.2	281.5
Core net profit (RM m)	190.3	218.8	221.9	242.2	280.5
EPS (sen)	15.6	14.1	7.6	8.3	9.5
Core EPS (sen)	7.1	7.9	7.6	8.3	9.5
Alliance / Consensus (%)			97.8	96.7	98.4
Core EPS growth (%)	12.8	11.3	-3.6	8.8	15.4
P/E (x)	19.4	17.4	18.1	16.6	14.4
EV/EBITDA (x)	19.4	19.8	20.5	19.2	17.0
ROE (%)	14.0	11.2	6.3	6.9	7.9
Net gearing (%)	33.4	31.0	35.2	37.0	36.7
Net DPS (sen)	6.9	7.7	7.4	8.1	9.3
Net dividend yield (%)	5.0	5.6	5.4	5.9	6.8
BV/share (RM)	1.12	1.20	1.20	1.20	1.20
P/B (x)	1.2	1.1	1.1	1.1	1.1

Source: Alliance Research, Bloomberg



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

Sector rating definitions

OVERWEIGHT	- Industry expected to outperform the market over the next 12 months
NEUTRAL	- Industry expected to perform in-line with the market over the next 12 months
UNDERWEIGHT	- Industry expected to underperform the market over the next 12 months

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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