

Result Snapshot

Sunway REIT

Bloomberg: SREIT MK | Reuters: SUNW.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

12 Aug 2014

BUY RM1.42 KLCI : 1,839.87

Price Target : 12-Month RM 1.55

Shariah Compliant : No

Analyst

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Result Summary

FY Jun (RM m)	4Q 2014	4Q 2013	3Q 2014	% Chg v-o-v	% Chg a-o-a
P&L Items					
Revenue	109.2	103.9	108.1	5.1	1.1
Net Property Inc	78.8	78.5	80.6	0.4	(2.2)
Net Income Aft Tax	56.1	55.5	58.5	1.1	(4.1)
Net Inc avail. for Dist.	59.5	59.0	61.5	0.8	(3.3)

Other Data (%)

Net Prop Inc Margin	72.2	75.6	74.6
Dist. Payout Ratio	100.0	99.7	99.1

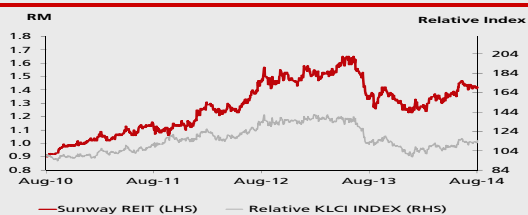
Financial Summary

FY Jun (RM m)	2013A	2014A	2015F	2016F
Gross Revenue	416	427	482	531
Net Property Inc	309	321	374	408
Total Return	392	411	249	285
Distribution Inc	231	245	264	301
EPU (sen)	7.9	7.9	8.2	9.4
EPU Gth (%)	11	0	7	14
DPU (sen)	8.3	8.3	8.7	9.9
DPU Gth (%)	11	0	7	14
NAV per shr (sen)	120.1	125.9	119.9	119.7
PE (X)	10.1	18.5	17.3	15.1
Distribution Yield (%)	5.8	5.7	6.1	7.0
P/NAV (x)	1.2	1.2	1.2	1.2
Agg. Leverage (%)	31.0	34.9	39.3	39.6
ROAE (%)	12.0	6.4	7.0	7.8

At A Glance

Issued Capital (m shrs)	2,929
Mkt. Cap (RMm/US\$m)	4,159 / 1,302
Avg. Daily Vol.('000)	1,061

Price Relative



Source: Company, AllianceDBS

Higher rents to lift 2015 earnings

- **FY14 results in line, driven by strong rental reversions**
- **Re-opening of Sunway Putra Place in 2015 will continue to lift earnings**
- **Declared 2.03 sen DPU in 4Q14, taking FY14 DPU to 8.36 sen or 100% payout; ex-date is 22 Aug**
- **Maintain BUY and RM1.55 TP**

Highlights

Results in line. 4Q14 revenue was stable q-o-q with Sunway Pyramid Shopping Mall being the REIT's key income driver. Average occupancy rate for the mall remained high at 98%. Higher operating expenses in 4Q14 was driven by electricity tariff hike, provision for higher assessment for Kuala Lumpur properties, and higher maintenance costs. Consequently, net property margin fell to 72% from 74% a quarter ago.

Our View

Contribution from Sunway Putra Place to resume in 3Q 2015. The re-opening of Sunway Putra Mall in 2015 will lift earnings via higher rental yields. We expect the refurbished retail mall with 15% additional NLA to fetch higher average rent of RM6-7 psf (vs RM4.00-4.50 psf previously). The asset enhancement at Sunway Putra Tower will also lift average office rent (up to RM3.10 psf vs RM2.40 psf previously) and Sunway Putra Hotel's room rates (up to RM370 per room vs RM190 previously).

Solid asset pipeline. The REIT is backed by a solid asset pipeline which includes completed assets such as Sunway and Monash universities, The Pinnacle (reaching 70% occupancy), Sunway Giza Shopping Mall and Sunway Georgetown Hotel. Meanwhile, Sunway Pyramid Phase 3 is expected to be completed in 2015 and Sunway VeloCity in 2016.

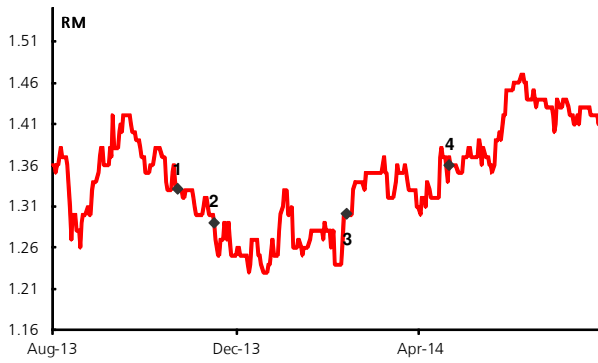
Large share of fixed rate debt (76%). The recent OPR hike (+25 bps) might bump up interest cost slightly because RM321m fixed rate loan (19% of total loans) is due for refinancing in February next year. The impact on earnings should be minimal.

Recommendation

Maintain BUY and RM1.55 TP. The stock offers robust distribution yield of 6%.

Sunway REIT

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	01 Nov 13	1.33	1.60	Buy
2:	25 Nov 13	1.29	1.60	Buy
3:	21 Feb 14	1.30	1.60	Buy
4:	30 Apr 14	1.36	1.55	Buy

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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