

# Company Flash Note

## Sunway REIT

Bloomberg: SREIT MK | Reuters: SUNW.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

9 Dec 2014

**BUY RM1.50** KLCI : 1,740.84

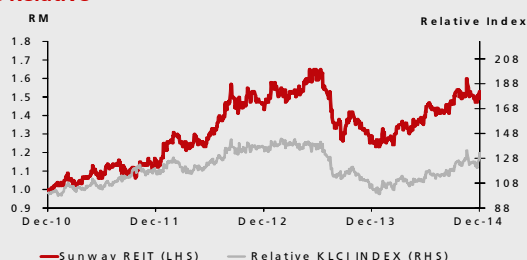
Price Target : 12-Month RM 1.60

Shariah Compliance: No

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Jun (RM m)	2014A	2015F	2016F	2017F
Gross Revenue	428	467	533	567
Net Property Inc	321	355	406	434
Total Return	411	244	276	303
Distribution Inc	245	259	292	319
EPU (sen)	14.1	8.2	9.2	10.0
EPU Gth (%)	0	(42)	11	9
DPU (sen)	8.4	8.7	9.7	10.5
DPU Gth (%)	1	4	11	9
NAV per shr (sen)	125.9	125.8	125.6	125.3
PE (X)	10.7	18.3	16.4	15.0
Distribution Yield (%)	5.6	5.8	6.4	7.0
P/NAV (x)	1.2	1.2	1.2	1.2
Aggregate Leverage (%)	31.1	37.0	37.2	37.5
ROAE (%)	11.4	6.5	7.3	8.0

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

## SPAs for two Sunway assets

- **Announced SPAs for two assets from sponsor – Sunway Hotel Georgetown (RM74m) & Wisma Sunway (RM60m)**
- **Acquisitions planned to complete by end-FY15 to early FY16, contribution to begin thereafter**
- **Earnings contribution will be minor, but one step closer to its RM7bn property value target**
- **Maintain BUY, RM1.60 TP (DDM-based)**

**Sponsor pipeline delivers.** Sunway REIT yesterday announced the signing of SPAs for two subsidiaries of its sponsor Sunway Bhd. The first is the Sunway Hotel Georgetown (SHG) in Penang, for RM74m. This asset is a 4-star, 250-room hotel in Penang, and will be leased back to Sunway Biz Hotel Sdn Bhd under a master-lease agreement. The planned completion of the acquisition is 3Q15 (end-June) with contribution commencing in 4Q15.

The second acquisition involves Wisma Sunway (WS), a 19-storey, 171.5k-sq ft NLA office in Shah Alam, which will be acquired for RM60m. It was revealed that the YTD occupancy rate was 86%, with over 90% of this coming from government agencies. Completion is targeted for 1Q16 with contribution commencing in 2Q16.

Both acquisitions will be funded via existing debt financing, and the indicative amounts will bring its gearing to 33.5%.

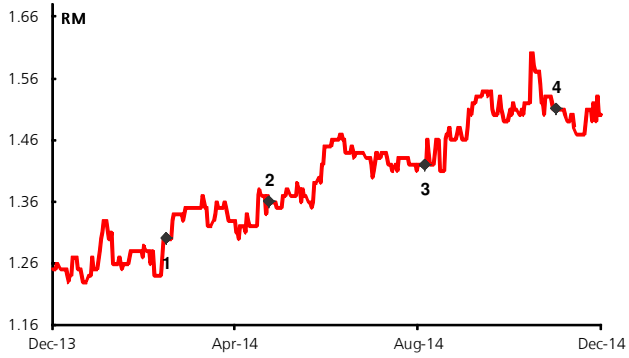
**Earnings accretive, albeit with small impact.** With some rental guidance from management, we estimate SHG to be injected at roughly 7.5% NPI yield and WS at about 6.5% which are reasonable, in our view.

Nonetheless, the overall impact (post-financing costs) amounts to only about 1% accretion to our FY16/FY17 net earnings and DPU forecast. This is reflective of the injection size of RM134m that accounts for only 2.4% of its current property value of RM5.56bn. We therefore leave our forecasts unchanged for now.

**BUY, RM1.60 TP.** We maintain our BUY call for Sunway REIT with DDM-derived TP of RM1.60. We anticipate outperformance in earnings and DPU growth in FY16 with the impending resumption of contribution from the Putra Place refurbishments; and potentially more injections from sponsor Sunway Bhd.

**Target Price & Ratings History**

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S.No.	Date	Closing Price	Target Price	Rating
1:	21 Feb 14	1.30	1.60	Buy
2:	30 Apr 14	1.36	1.55	Buy
3:	12 Aug 14	1.42	1.55	Buy
4:	07 Nov 14	1.51	1.60	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

**DISCLAIMER**

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