

Sunway REIT (HOLD ↔, EPS ↔)

28 April 2016

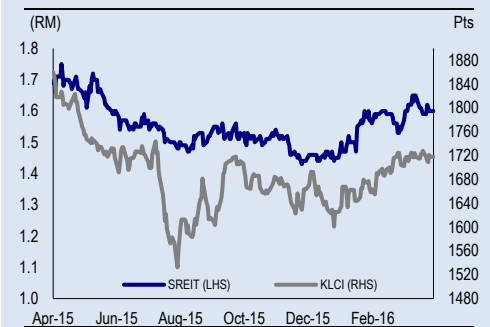
INDUSTRY: NEUTRAL
Price Target: RM1.58 (↔)
EARNINGS EVALUATION / BRIEFING
Share Price: RM1.60

9MFY16 Results

Results	Deviations	Dividends	Highlights
<ul style="list-style-type: none"> 9MFY16 gross revenue of RM383.43m (+13.3% yoy) was translated into normalised net profit of RM200.8m (+9.4% yoy), accounting for 77.8% and 76.8% of HLIB and consensus forecasts, respectively. 	<ul style="list-style-type: none"> None. 	<ul style="list-style-type: none"> Proposed 3rd interim dividend of 2.37 sen (3Q15: 2.13 sen); YTD dividend at 7.06 sen vs our full year DPU at 9 sen. 	<ul style="list-style-type: none"> Strong performance from retail (+15.7% yoy), particularly SP (+6.6% yoy) and Sunway Carnival (SC) (+9.4%) due to higher variable rent given the festive seasons but was partially offset by reconfiguration works into F&B area, which affected 4% of NLA at SC. Higher revenue (+34.7% yoy) from all hotels (except Hotel Seberang Jaya) with higher leisure visitors and aggressive marketing strategy with online travel agency; partially offset by loss of income on the RM123m refurbishment exercise of Pyramid Hotel East (PHE), which is fully closed now. It is worth noting that the newly opened Pyramid Hotel West by its sponsor is likely to cannibalize sales from the Sunway Resorts Hotel going forward. Office segment (-18.8% yoy) remains challenging for both lowly occupied Sunway and Sunway Putra towers. Besides, a non-renewal (16% of NLA) of a tenant at Menara Sunway reduced the revenue by RM0.9m while new tenants secured to assume 11% of the NLA was at a slightly lower market rate. Overall office portfolio was partially mitigated by contribution of newly-acquired Wisma Sunway. Lower rental renewals is expected for upcoming major renewals in FY17 (57% & 51% of NLA for SP & CM) as it involves anchor tenants with capped reversion rate and given overall cautious operating environment. Management guided modest DPU growth for FY16 given the better than expected performance from its hotel operation and new income from the refurbishment and newly acquired properties despite a loss of income from PHE.
Risks	<ul style="list-style-type: none"> Income reliant on a one single asset in Sunway Pyramid. Prolonged dampening of office market. Intensifying competition for assets and tenants. 		
Forecasts	<ul style="list-style-type: none"> We factor in one-off court award from last quarter into other income resulting marginally higher DPU for FY16. 		
Rating	HOLD ↔, TP: RM1.58 ↔		
Valuation	<ul style="list-style-type: none"> Positives: Has the largest acquisition pipeline amongst M-REITs; strong backing from Sponsor; well-diversified across various segments with low tenant concentration; and synergy with sponsor's townships. Negatives: Still heavily reliant on Bandar Sunway, which will take time to change; persistent weakness in the office segment due to oversupply of new office space. 		
	<ul style="list-style-type: none"> Maintain HOLD recommendation with unchanged TP of RM1.58 based on FY17 forecasted DPU. Targeted yield at 6.0% based on historical average yield spread of Sunway REIT and 10-year MGS. 		

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KLCI	1692.3
Expected share price return	-1.3%
Expected dividend return	5.9%
Expected total return	4.6%

Share price

Information

Bloomberg Ticker	SREIT MK
Bursa Code	5176
Issued Shares (m)	2,941
Market cap (RM m)	4,706
3-mth avg. volume ('000)	1,781
SC Shariah-compliant	No

Price Performance	1M	3M	12M
Absolute	3.9	8.1	-5.3
Relative	4.6	4.2	4.0

Major Shareholders

Sunway Bhd	37.3%
EPF	12.1%
Skim ASB	9.9%

Summary Earnings Table

FYE Jun (RMm)	2015A	2016E	2017E	2018E
Revenue	453.5	496.5	536.5	564.6
NPI	340.8	371.3	399.8	422.7
Net invest income	651.0	382.7	405.0	427.9
Net profit	541.4	258.0	276.9	296.9
EPU (sen)	8.2	8.8	9.4	10.1
EPU growth (%)	5.7	4.0	6.3	7.3
Norm. PER (x)	19.4	18.3	17.0	15.9
FD PER (x)	19.4	18.3	17.0	15.9
EV/ EBITDA (x)	11.0	19.9	18.9	18.0
DPU (sen)	8.7	9.0	9.4	10.1
Distb. yield (%)	5.4	5.6	5.9	6.3
BVPS (RM)	1.4	1.3	1.3	1.3
P/B (x)	1.2	1.2	1.2	1.2

HLIB

Figure #1 Quarterly Results Comparison

FYE Dec (RMm)	3Q15	2Q16	3Q16	YoY (%)	QoQ (%)	Comments
Rental Income	110.71	131.87	130.35	17.74	(1.15)	
Retail Segment	84.92	97.45	101.75	19.82	4.41	Resilient performance from all malls with higher variable rent from festive seasons at Sunway Pyramid and improved performance from Putra Mall.
Hotel Segment	12.11	21.73	16.34	34.90	(24.82)	Improved performance from all hotels (Sunway Resort Hotel & Spa +46%, Pyramid Tower East -19.4%, Sunway Putra Hotel +171.4% & Sunway Georgetown Hotel – newly acquired), except for Sunway Hotel Seberang Jaya (-25.7%)
Office Segment	8.48	7.49	6.88	(18.88)	(8.15)	Due to anchor tenants moving out from Sunway Tower and Sunway Putra Tower since 2QFY15 and non-renewal of a tenant at Menara Sunway (16% of NLA), mitigated by Wisma Sunway contribution.
Sunway Medical	5.20	5.19	5.38	3.50	3.52	Higher rental reversion in accordance with Master Lease Agreement.
Quit rent and insurance	(3.62)	(3.47)	(2.38)	(34.28)	(31.48)	
Property operating exp.	(27.53)	(34.81)	(33.66)	22.26	(3.31)	Higher expenses and lower base from Sunway Putra, which re-opened in 4Q2015.
Net property Income	83.18	97.05	96.69	16.24	(0.38)	
Other income	0.71	4.79	1.01	41.29	(79.01)	Higher interest income from short term money market deposits with financial institution.
Net investment income	83.89	101.85	97.69	16.45	(4.08)	
Finance costs	(17.56)	(21.62)	(21.60)	22.95	(0.11)	Higher loan drawdown to fund capex as well as the cessation of interest capitalisation on completion of refurbishment on Putra Mall.
Normalised PBT	56.82	71.52	64.77	13.99	(9.44)	
Normalised PAT	56.82	71.52	64.77	13.99	(9.44)	
EPU (sen)	1.93	2.48	2.33	20.73	(6.05)	
DPU (sen)	2.13	2.57	2.37	11.27	(7.78)	

Company Data, HLIB

Figure #2 Cumulative Results Comparison

FYE Dec (RMm)	9MFY15	9MFY16	YoY (%)	Comments
Rental Income:	338.54	383.43	13.26	
Retail Segment	247.44	286.28	15.70	Increased mainly due to (1) rental reversion for major renewal in FY16; (2) additional income derived from opening of new retail space in Sunway Putra
Hotel Segment	46.52	58.67	26.12	Higher contribution from all hotels plus full contribution from Sunway Georgetown Hotel, offsetting decrease in Sunway Hotel Seberang Jaya due to competition and lower corporate client.
Office Segment	29.37	22.71	(22.68)	Loss of anchor tenants from Sunway Tower and Sunway Putra Tower since 2QFY15 and non-renewal of a tenant at Menara Sunway, mitigated by Wisma Sunway contribution.
Sunway Medical	15.21	15.77	3.65	Higher rental due to rental reversion in accordance with Master Lease Agreement.
Quit rent and insurance	(7.53)	(9.43)	25.18	
Property operating exp.	(82.11)	(99.75)	21.48	Higher expenses from Sunway Putra and lower base in FY15 due to lower assessment fee (allowance granted by DBKL).
Net property Income	256.43	283.68	10.63	
Other income	2.61	10.74	311.34	
Net investment income	259.04	294.42	13.66	
Finance costs	(50.72)	(64.70)	27.57	Increase in drawdown of credit facilities for the capex on acquisition of Sunway Hotel Georgetown & Wisma Sunway and refurbishment on Putra Mall.
Normalised PBT	183.56	200.80	9.39	
Normalised PAT	183.56	200.80	9.39	
EPU (sen)	6.25	6.87	9.92	
DPU (sen)	6.68	7.06	5.69	

Company Data

Figure #3 1HFY16 Results vs. HLIB's Estimates and Consensus

	Actual 9MFY16	HLIB FY16	Actual vs. HLIB (%)	Consensus FY16	Actual vs. Consensus (%)	Comments
Revenue	383.4	496.5	77.2	507.4	75.6	In-line
PAT	200.8	258.0	77.8	261.5	76.8	In-line
EPU (sen)	6.9	8.8	78.4	8.9	77.2	In-line
DPU (sen)	7.1	9.0	78.2	8.8	80.2	In-line

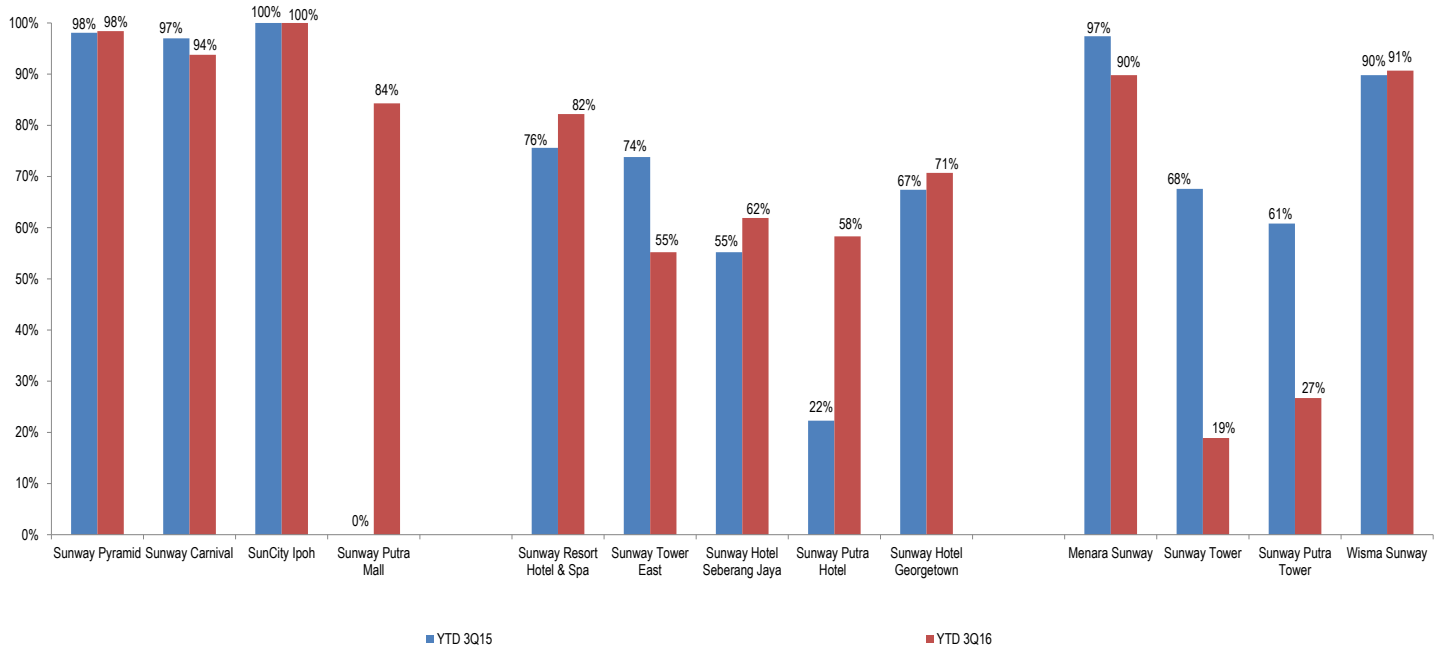
Company Data, HLIB, Bloomberg

Figure #4 HLIB Forecasts vs. Consensus

RMm	FY17E			FY18E		
	HLIB	Consensus	%	HLIB	Consensus	%
PAT	277.0	278.2	(0.4)	296.9	300.9	(1.3)
DPU (sen)	9.4	9.4	0.2	10.1	9.8	2.8

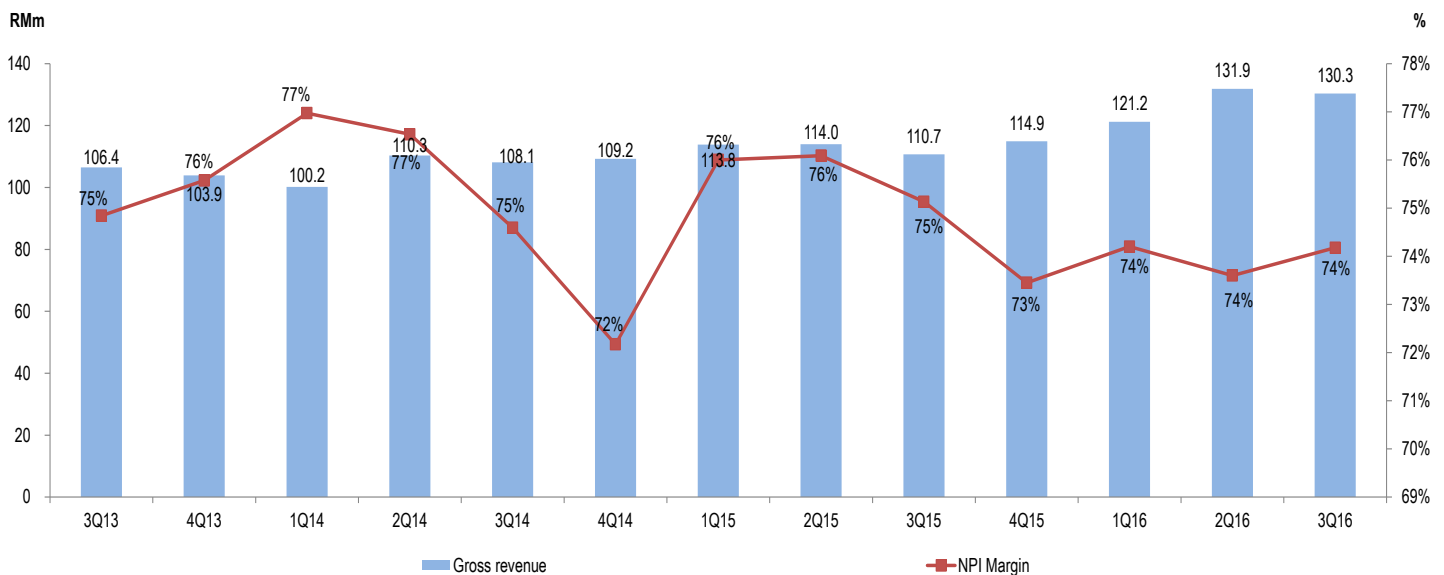
HLIB, Bloomberg

Figure #5 Occupancy Rate



Company Data, HLIB

Figure #6 Gross Revenue & NPI Margin



Company Data, HLIB

Figure #7 Peers Comparison

Company	FYE	Price	Market Cap (m)	P/E (x)		P/B (x)		Gross DY (%)
				2015	2016	2015	2016	2015
Amanah Harta Tanah PNB	Dec	MYR 1.03	103.0	NA	NA	NA	NA	NA
Al-'Aqar Healthcare REIT	Dec	MYR 1.52	1,106.9	16.9	16.9	1.3	1.3	5.9
AmFIRST Real Estate Investment Trust	Mar	MYR 0.77	525.1	19.1	19.1	0.6	0.6	5.2
Amanahraya Real Estate Investment Trust	Dec	MYR 0.90	515.9	12.9	12.9	0.8	0.8	7.8
Atrium Real Estate Investment Trust	Dec	MYR 1.08	131.5	10.8	9.8	0.8	0.8	9.3
Axis Real Estate Investment Trust	Dec	MYR 1.65	1,814.7	17.9	17.9	1.3	1.3	5.3
CapitaMalls Malaysia Trust	Dec	MYR 1.44	2,920.8	16.2	15.5	1.0	1.0	6.1
Hektar Real Estate Investment Trust	Dec	MYR 1.51	605.0	13.1	12.6	1.0	1.0	7.3
IGB Real Estate Investment Trust	Dec	MYR 1.51	5,251.3	19.1	18.6	1.4	1.4	5.6
KLCCP Stapled Group	Dec	MYR 7.19	12,980.3	18.7	18.0	2.5	2.3	4.8
MRCB-Quill Real Estate Investment Trust	Dec	MYR 1.15	760.6	13.1	12.6	0.8	0.8	7.3
Pavilion Real Estate Investment Trust	Dec	MYR 1.68	5,073.3	19.5	17.9	1.3	1.3	5.2
Al-Salam Real Estate Investment Trust	Mar	MYR 0.98	565.5	16.5	15.0	NA	NA	5.4
Sunway Real Estate Investment Trust	Jun	MYR 1.60	4,705.9	18.4	17.0	1.2	1.2	5.6
Tower Real Estate Investment Trust	Dec	MYR 1.21	339.4	10.1	10.1	0.7	0.7	9.9
UOA Real Estate Investment Trust	Dec	MYR 1.62	685.1	14.7	14.7	1.0	1.0	6.8
YTL Hospitality REIT	Jun	MYR 1.06	1,403.9	13.3	15.1	0.7	0.9	5.7
Average				15.6	15.3	1.1	1.1	6.5

HLIB, Bloomberg

Sunway REIT (HOLD, TP: RM1.58, CP: RM1.60)**Income Statement**

FYE Jun (RM m)	2014A	2015A	2016E	2017E	2018E
Rental Income	318.6	345.2	371.6	406.0	421.8
Hotel/Hospital Master Lease	82.6	79.7	95.1	93.0	104.6
Car Park Income	15.9	17.7	19.0	26.2	26.8
Other Revenue	10.6	10.8	10.8	11.2	11.5
Gross Revenue	427.8	453.5	496.5	536.5	564.6
Operating Expenses	-106.8	-112.6	-125.2	-136.7	-141.9
Net Property Income	321.0	340.8	371.3	399.8	422.7
Net Investment Income	502.4	651.0	382.7	405.0	427.9
PBT	411.1	547.3	258.0	276.9	296.9
Taxation	0.0	-5.9	0.0	0.0	0.0
PAT	411.1	541.4	258.0	276.9	296.9
Number of Units	2,928.7	2,937.8	2,945.0	2,945.0	2,945.0
Realised EPU	7.9	8.2	8.8	9.4	10.1
Realised EPU Growth	5.7	4.0	6.3	7.3	7.2
Gross Revenue Growth (%)	2.8	6.0	9.5	8.0	5.2
NPI Growth (%)	3.8	6.2	8.9	7.7	5.7

Cashflow

FYE Jun (RM m)	2014A	2015A	2016E	2017E	2018E
PBT	411.1	547.3	258.0	276.9	296.9
Mgr fee payable in units	0.0	1.0	2.0	3.0	4.0
Depreciation	0.4	0.7	0.6	0.5	0.5
Fair value gain of assets	179.1	306.8	0.0	0.0	0.0
Finance costs	-63.0	-70.8	-93.7	-95.7	-97.7
Operating cashflow	314.9	347.5	177.7	288.9	302.1
Capex	-120.6	-268.4	-150.0	-50.0	-50.0
Investment & others	2.3	-132.6	0.0	0.0	0.0
Investing Cashflow	-118.3	-401.0	-150.0	-50.0	-50.0
Debt raised / (repaid)	106.0	392.5	200.0	50.0	50.0
Distribution to unitholders	-244.1	-255.4	-265.9	-277.5	-297.4
Others	-62.4	-72.0	0.0	0.0	0.0
Financing cashflow	-200.4	65.1	-65.9	-227.5	-247.4
Net cash flow	54.6	66.2	28.0	39.3	44.0

Balance Sheet

FYE Jun (RM m)	2014A	2015A	2016E	2017E	2018E
Plant & Equipment	3.0	5.3	4.7	4.2	3.7
Investment Properties	5,520.0	6,324.0	6,474.0	6,524.0	6,574.0
Derivative	0.0	0.0	0.0	0.0	0.0
Non-current assets	5,523.0	6,329.3	6,478.7	6,528.2	6,577.7
Trade & other receivables	16.4	20.2	21.4	23.1	24.3
Cash	54.6	66.2	28.0	39.3	44.0
Derivatives	12.5	14.4	14.4	14.4	14.4
Total assets	5,606.5	6,430.0	6,542.4	6,605.0	6,660.5
Unitholders' capital	2,702.8	2,716.5	2,716.5	2,716.5	2,716.5
Undistributed profit	985.3	1,265.8	1,257.9	1,257.3	1,256.8
Total Equity	3,688.1	3,982.3	3,974.3	3,973.7	3,973.2
Long term liabilities	60.3	75.6	75.6	75.6	75.6
Long term borrowings	1,000.0	1,378.6	1,578.6	1,628.6	1,678.6
Short term borrowings	742.0	763.4	763.4	763.4	763.4
Trade & other payables	116.1	222.8	143.2	156.3	162.3
Total liabilities	1,918.4	2,440.3	2,560.7	2,623.8	2,679.8
Total Liabilities & Equities	5,606.5	6,422.6	6,535.0	6,597.6	6,653.1

Valuation Ratios

FYE Jun (RM m)	2014A	2015A	2016E	2017E	2018E
EPU before mgr's fee	7.9	8.2	8.8	9.4	10.1
EPU after mgr's fee	6.1	8.2	8.8	9.4	10.1
PER (x)	26.2	19.4	18.3	17.0	15.9
No of units	2,928.7	2,937.8	2,945.0	2,945.0	2,945.0
Net DPU	8.4	8.7	9.0	9.4	10.1
Net DY (%)	5.2	5.4	5.6	5.9	6.3
NTA/ share (sen)	125.9	135.6	134.9	134.9	134.9
P/NTA (x)	1.3	1.2	1.2	1.2	1.2
FCF/ share (sen)	21.6	23.3	13.4	19.2	20.4
FCF yield (%)	13.5	14.5	8.4	12.0	12.7
Enterprise value	6,373.4	6,776.2	7,026.0	7,064.7	7,109.9
EV/ EBITDA (x)	13.4	11.0	19.9	18.9	18.0
ROE (%)	11.1	13.6	6.5	7.0	7.5
Net gearing (x)	0.3	0.3	0.4	0.4	0.4
BVPS (RM)	1.3	1.4	1.3	1.3	1.3
P/B (x)	1.3	1.2	1.2	1.2	1.2

Assumption metrics

	2016E	2017E	2018E
Rental income			
Sunway Pyramid Shopping Mall	274.4	294.5	305.8
Sunway Carnival Shopping Mall	43.8	45.9	48.2
SunCity Ipoh Hypermarket	5.0	5.2	5.5
Sunway Putra Mall	37.9	50.5	52.0
Menara Sunway	16.7	17.2	17.7
Sunway Tower	4.1	7.1	7.1
Sunway Putra Tower	3.8	5.2	5.3
Wisma Sunway Shah Alam	4.9	6.7	6.9
Hotel master lease income			
Sunway Resort Hotel & Spa	39.6	38.2	36.8
Pyramid Tower Hotel	15.4	5.7	17.2
Sunway Hotel Seberang Jaya	4.1	4.5	4.7
Sunway Putra Hotel	8.5	16.2	16.7
Sunway Hotel Georgetown	6.5	6.7	6.9

FYE Jun (RM m)	3Q15	2Q16	3Q16	YoY (%)	QoQ (%)
Rental Income	110.7	131.9	130.3	17.7	-1.2
Retail Segment	84.9	97.5	101.8	19.8	4.4
Hotel Segment	12.1	21.7	16.3	34.9	-24.8
Office Segment	8.5	7.5	6.9	-18.9	-8.1
Sunway Medical	5.2	5.2	5.4	3.5	3.5
Assessment	-3.6	-3.5	-2.4	-34.3	-31.5
Operating expenses	-27.5	-34.8	-33.7	22.3	-3.3
Net property Income	83.2	97.1	96.7	16.2	-0.4
Other income	0.7	4.8	1.0	41.3	-79.0
Net invest income	83.9	101.8	97.7	16.5	-4.1
Finance costs	-17.6	-21.6	-21.6	23.0	-0.1
Normalised PBT	56.8	71.5	64.8	14.0	-9.4
Normalised PAT	56.8	71.5	64.8	14.0	-9.4
EPU (sen)	1.9	2.5	2.3	20.7	-6.0
DPU (sen)	2.1	2.6	2.4	11.3	-7.8

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TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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