



Sunway Real Estate Investment Trust

Cautious Outlook

TP: RM 1.60 (+7.3%)

Last Traded: RM 1.49

Sell

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Review

- Sunway REIT's 1QFY16 realised net profit of RM60.6mn came in within expectations, which accounted for 22% of both our and consensus full-year estimates respectively. A distribution per unit (DPU) of 2.12sen was declared for this quarter, which translates to an annualized yield of 5.7% based on last closing price.
- 1QFY16 net property income (NPI) increased 4.0% YoY to RM89.9mn, on the back of 6.5% growth in revenue. The higher NPI was underpinned by commendable growth in the retail (+6.2% YoY) and hotel segment (+16.9%), but partially offset by lower income contribution from the office segment (-43.8% YoY). Overall, Sunway REIT's 1QFY16 results were largely driven by new income contribution from completion of asset enhancement initiatives for Sunway Putra Mall, as well as new acquisitions namely, Sunway Hotel Georgetown and Wisma Sunway, which both acquisitions completed in 1QCY15 (or 3QFY15).
- Realised net profit decreased 4.5% YoY in the quarter under review due to higher finance costs arising from higher borrowings drawn down for capex. DPU, however, declined 7.0% YoY, due to lower surplus cash as 75% of the manager's fees are now paid in cash as compared to 50% previously.

Impact

- We trim our FY16 & 17 earnings forecast by 6.5% & 5.6% respectively after lowering contribution from Sunway Putra Mall due to longer rent-free period. We also take this opportunity to reduce our rental and occupancy rates assumptions for Sunway REIT's office assets.

Conference Call Highlights

- As expected, most of the Q&As were centered on Sunway Putra Place. Committed tenancy of Sunway Putra Mall inched up slightly to 83.9% from 82.4% a quarter ago. Management reckons that Sunway Putra Mall's shopper traffic in the first four month of operation was disappointed. In addition, the on-going refurbishment of Sunway Putra Hotel and low occupancy at Sunway Putra Tower also contributed to the below-expectations footfalls. While the 2 and half months rent-free period offered to the tenants have ended, we understand that management is extending the rent-free period for some of its tenants, on a case-by-case basis. Nevertheless, the situation is expected to improve in the coming quarters, as the crowd puller, i.e. TGV Cinema has opened its door in Sept-15. On the other hand, the refurbishment works at Sunway Putra Hotel, which is on track for completion in end 2015 could also complement Sunway Putra Mall.
- Management has turned more cautious on FY16 DPU outlook due to i) weak consumer and business sentiment affecting all its operating segments; ii) rental rebates provided to Sunway Putra Mall with some tenants were given extended rent-free period; iii) reduction in manager's fee payable in units from 50% to 25% in FY16 that reduces the cash

Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2939.9
Market Cap (RMmn)	4380.5
Par Value	1.00
52-wk Hi/Lo (RM)	1.76/1.46
12-mth Avg Daily Vol ('000 shrs)	2793.4
Estimated Free Float (%)	31.2
Beta	0.4

Major Shareholders (%)

Sunway Berhad	(37.3)
EPF	(10.9)
Skim Amanah Saham Bumiputera	(9.1)
Tan Sri Cheah Fook Ling	(5.6)

Forecast Revision

	FY16	FY17
Forecast Revision (%)	(6.5)	(5.6)
Net profit (RMmn)	259.8	288.3
Consensus	275.9	292.6
TA's / Consensus (%)	94.2	98.5
Previous Rating	Hold (Downgraded)	

Financial Indicators

	FY16	FY17
Gearing (%)	35.9	36.4
FCPS (sen)	3.4	12.2
Price / CFPS (x)	43.6	12.2
ROE (%)	6.5	7.2
ROA (%)	4.0	4.4
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.0	1.0

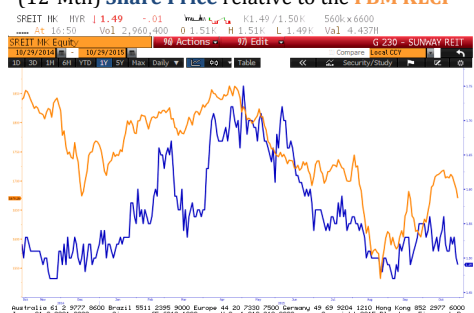
Scorecard

	% of FY	
vs TA	22.0	Within
vs Consensus	22.0	Within

Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	(3.9)	2.8
3 mth	(3.9)	(1.9)
6 mth	(12.9)	(8.3)
12 mth	(0.7)	(9.5)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

surplus available for distribution; and iv) lower occupancy rate for the office sector. Recall, management was guiding for a stable growth in DPU during the previous briefing. We believe the deteriorating market condition has prompted management to act conservatively. All in, while we expect the trust's FY16 income to be largely supported by locked in rental, we are cautious on the future rental outlook due to increasing supply of retail and office spaces.

Valuation

- Following the change in our DPU assumptions, our DDM-derived target is reduced to RM1.60/share from RM1.69/share previously, based on unchanged discount rate of 9.25%. Our target price implies a forward yield of 5.9%, which is largely in line with sector's average. We downgrade Sunway REIT to **Sell** from Hold due to unexciting outlook (upside 7.3%). Foreign shareholdings stood at 14.3% as of Sep-15, which was down from 19.6% a quarter ago. This is the lowest level since it was listed in July 2010.

Earnings Summary (RM mn)

FYE June	FY14	FY15	FY16F	FY17F	FY18F
Gross Rental Income	427.8	453.5	513.9	575.3	592.6
Net Property Income	321.0	340.8	388.1	420.2	438.5
NPI Margins	75.0	75.2	75.5	73.0	74.0
Pretax profit	232.0	240.6	259.8	288.3	303.8
Core Net Profit	231.9	242.0	259.8	288.3	303.8
Distributable income	244.8	256.1	267.6	288.3	303.8
EPU (Sen)	7.9	8.2	8.8	9.8	10.3
EPU Growth (%)	0.8	3.7	7.1	11.0	5.4
PER (x)	18.8	18.1	16.9	15.2	14.5
DPU (sen)	8.4	8.7	9.1	9.8	10.3
Div Yield (%)	5.6	5.8	6.1	6.6	6.9
ROE (%)	6.4	6.3	6.5	7.2	7.6

1Q16 Results Analysis (RM mn)

FYE June	1Q15	4Q15	1Q16	QoQ (%)	YoY (%)	
Total revenue	113.8	114.9	121.2	5.5	6.5	
- Retail	81.2	85.2	87.1	2.2	7.3	
- Hospitality	17.0	14.8	20.6	39.3	21.4	
- Office	10.7	9.7	8.3	(14.2)	(22.0)	
- Healthcare	5.0	5.2	5.2	0.0	4.4	
Total Net Property Income	86.5	84.4	89.9	6.5	4.0	
- Retail	57.4	59.0	61.0	3.4	6.2	
- Hospitality	16.8	14.1	19.6	39.0	16.9	
- Office	7.3	6.1	4.1	(32.9)	(43.8)	
- Healthcare	5.0	5.2	5.2	0.0	4.4	
Other Income	0.7	0.8	4.9	493.2	569.5	
Changed in fair value	0.0	306.8	0.0	<100	0.0	
Net Investment Income	87.2	392.0	94.9	(75.8)	8.8	
Manager & Trustee Fee	(7.2)	(7.7)	(7.9)	3.4	10.6	
Finance Costs	(16.3)	(20.0)	(21.5)	7.2	31.5	
Other expenses	(0.3)	(0.5)	(1.0)	91.9	>100	
Income Before Taxation	63.5	363.8	64.5	(82.3)	1.7	
Net Profit	63.5	363.8	64.5	(82.3)	1.7	
Realised Net Profit	63.4	56.7	60.6	6.9	(4.5)	
Realised EPU	(sen)	2.2	1.9	2.1	6.7	(5.1)
DPU	(sen)	2.3	2.1	2.1	3.4	(7.0)
NPI Margin	(%)	76.0	73.4	74.2	0.8	(1.8)
Realised Net Margin	(%)	55.7	49.3	50.0	0.7	(5.8)

Peers Comparison

	Price	Target price	Call	Market Cap	PER (x)		Div Yield (%)		P/NAV (x)	
	(RM)	(RM)			(RM bn)	FY15	FY16	FY15	FY16	FY15
Sunway REIT	1.49	1.65	Sell	4.4	18.1	16.9	5.8	6.1	1.0	1.0
CMMT	1.36	1.66	Hold	2.7	17.6	15.5	6.0	6.9	1.1	1.1
IGB REIT*	1.32	-	NR	4.6	17.8	17.4	5.9	6.2	1.2	1.2
Pavilion REIT*	1.51	-	NR	4.6	18.9	18.0	5.2	5.6	1.2	1.2
KLCCP Stapled Group*	7.04	-	NR	12.7	18.2	17.4	4.8	5.1	1.2	1.2
Axis REIT*	1.65	-	NR	1.8	16.5	16.5	6.0	6.4	1.4	1.4
Average					17.9	16.9	5.6	6.0	1.2	1.2

* Based on consensus

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