



Sunway Real Estate Investment Trust

Anticipate Flattish DPU Growth in FY16

TP: RM 1.55 (+4.9%)

Last Traded: RM 1.48

Sell

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Thiam Chiann Wen

Tel: 603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

Review

- Sunway REIT's 1HFY16 realised net profit of RM134.1mn came in within expectations, accounting for 52% and 50% our and consensus full-year estimates respectively.
- A distribution per unit (DPU) of 2.57sen was declared for this quarter, bringing the YTD DPU to 4.69sen. This translates to an annualized yield of 6.3% based on yesterday's closing price.
- 1HFY16 net property income (NPI) increased 7.9% YoY to RM187.0mn, on the back of 11.1% growth in revenue. The higher NPI was underpinned by commendable growth from the retail (+10.8% YoY) and hospitality (+20.6%) segment, but partially offset by lower income contribution from the office segment (-43.6% YoY).
- In terms of segment performance, the strong growth in hospitality segment was driven by higher average daily rate and average occupancy rate as a result of the year-end holiday season. Meanwhile, the retail segment charted healthy growth, underpinned by higher average rental for Sunway Pyramid and Sunway Carnival as well as new income contribution arising from completion of asset enhancement initiatives for Sunway Putra Mall. Meanwhile, the office segment was adversely affected by low average occupancy rates in Sunway Tower and Sunway Putra Tower following the termination of anchor tenants in the respective office towers.
- 1HFY16 NPI margin, however, fell 2.8ppt YoY to 73.9%, largely due to: 1) absence of vacancy allowance granted by DBKL for KL properties during the period under review, and 2) higher start-up expenses for Sunway Putra Mall.
- 1HFY16 realised net profit increased 6.1% YoY to RM134.1mn, boosted by recognition of non-recurring income of RM6.2mn arising from court award for the loss of income for Sunway Putra. However, DPU for the period under review, increased only 3.1% YoY, due to lower surplus cash arising from reduced manager's fee payable in units. Recall, Sunway REIT amended the payment structure of Manager's fees by reducing the form of new units from 50% to 25% and increasing cash payments in FY16.

Impact

- We cut our FY16-17 earnings forecast by 2-8% to factor in the scheduled closure of Pyramid Tower East Tower Hotel from 4QFY16 onwards for 12 months. Note that Pyramid Tower East Tower Hotel accounted for 6.4% of Sunway REIT's 1HFY16 NPI.

Conference Call Highlights

- Management guided a flattish growth in DPU for FY16 due to: i) weak consumer and business sentiment affecting all its operating segments, ii) closure of Pyramid Tower East in 4QFY16, iii) reduction of manager's fee payable in units from 50% to 25% in FY2016 that reduces the cash surplus

Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2941.2
Market Cap (RMmn)	4353.0
Par Value	1.00
52-wk Hi/Lo (RM)	1.76/1.43
12-mth Avg Daily Vol ('000 shrs)	2775.2
Estimated Free Float (%)	30.1
Beta	0.44

Major Shareholders (%)

Sunway Berhad	(37.3)
EPF	(11.5)
Skim Amanah Saham Bumiputera	(9.6)
Tan Sri Cheah Fook Ling	(5.6)

Forecast Revision

	FY16	FY17
Forecast Revision (%)	(2.1)	(7.9)
Net profit (RMmn)	254.5	265.6
Consensus	270.3	284.8
TA's / Consensus (%)	94.1	93.3
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY16	FY17
Gearing (%)	35.9	36.4
FCPS (sen)	3.2	11.3
Price / CFPS (x)	46.6	13.1
ROE (%)	6.4	6.7
ROA (%)	3.9	4.1
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.0	1.0

Scorecard

	% of FY	
vs TA	52.0	Within
vs Consensus	50.0	Within

Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	1.4	(2.3)
3 mth	(1.3)	(3.3)
6 mth	(3.9)	(4.0)
12 mth	(6.3)	(9.2)

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



Source: Bloomberg

available for distribution, and iv) lower occupancy rate for the office sector.

- In terms of capex, Sunway REIT will spend about RM100mn-120mn for the refurbishment exercise of Pyramid Tower East hotel, which is expected to commence in 2HFY16 with a progressive closure commencing in 3QFY16 and full closure of the hotel by 4QFY16 for approximately 12 months. We believe the exercise is crucial in order to ensure that the hotel remains competitive.
- As at end 2QFY16, the occupancy rate for Sunway Tower and Sunway Putra Tower stood at 20.9% and 26.7% respectively. We learn that Sunway Tower has secured replacement tenants totaling approximately 29,500 sq ft (11% of total NLA) commencing in 3QFY16 onwards. For Sunway Putra Tower, management is still on the look-out for new tenants. Nevertheless, we believe finding replacement tenants for both the remaining spaces of Sunway Tower and Sunway Putra Tower could be a difficult task, in view of ample supply of office space in KLCC CBD area.

Valuation

- Following the change in our DPU assumptions, our DDM-derived target is reduced to **RM1.55** from RM1.60 previously, based on unchanged discount rate of 9.25%. Reiterate **Sell**. Our TP implies forward yield of 5.7%, in line with industry's average. Foreign shareholdings stood at 12.6% as of Dec-15, which was down from 14.3% a quarter ago. This is the lowest level since it was listed in June 2010.

Earnings Summary (RM mn)

FYE June	FY14	FY15	FY16F	FY17F	FY18F
Gross Rental Income	427.8	453.5	507.3	548.9	594.5
Net Property Income	321.0	340.8	382.5	396.4	440.0
NPI Margins	75.0	75.2	75.4	72.2	74.0
Pretax profit	232.0	240.6	254.5	265.6	305.2
Core Net Profit	231.9	242.0	254.5	265.6	305.2
Distributable income	244.8	256.1	262.3	265.6	305.2
EPU (Sen)	7.9	8.2	8.6	9.0	10.3
EPU Growth (%)	0.8	3.7	4.9	4.4	14.9
PER (x)	18.7	18.0	17.2	16.4	14.3
DPU (sen)	8.4	8.7	8.9	9.0	10.3
Div Yield (%)	5.6	5.9	6.0	6.1	7.0
ROE (%)	6.4	6.3	6.4	6.7	7.7

2Q16 Results Analysis (RM mn)

FYE June	2Q15	1Q16	2Q16	QoQ (%)	YoY (%)	1HFY15	1HFY16	YoY (%)
Total revenue	114.0	121.2	131.9	8.8	15.7	227.8	253.1	11.1
- Retail	81.3	87.1	97.5	11.9	19.8	162.5	184.5	13.5
- Hospitality	17.4	20.6	21.7	5.5	24.6	34.4	42.3	23.0
- Office	10.2	8.3	7.5	(10.2)	(26.6)	20.9	15.8	(24.2)
- Healthcare	5.0	5.2	5.2	0.0	3.5	10.0	10.4	3.9
Total Net Property Income	86.7	89.9	97.1	7.9	11.9	173.2	187.0	7.9
- Retail	58.4	61.0	67.3	10.4	15.4	115.8	128.3	10.8
- Hospitality	16.7	19.6	20.8	5.8	24.3	33.5	40.4	20.6
- Office	6.6	4.1	3.8	(8.2)	(43.4)	13.9	7.9	(43.6)
- Healthcare	5.0	5.2	5.2	0.0	3.5	10.0	10.4	3.9
Other Income	1.2	4.9	4.8	(3.0)	312.8	1.9	9.7	412.6
Changed in fair value	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
Net Investment Income	87.9	94.9	101.8	7.3	15.9	175.1	196.7	12.3
Manager & Trustee Fee	(7.3)	(7.9)	(8.1)	2.7	12.1	(14.4)	(16.1)	11.4
Finance Costs	(16.8)	(21.5)	(21.6)	0.6	28.6	(33.2)	(43.1)	30.0
Other expenses	(0.6)	(1.0)	(0.6)	(40.9)	1.6	(0.8)	(1.5)	85.2
Income Before Taxation	63.3	64.5	71.5	10.9	13.0	126.7	136.0	7.4
Net Profit	63.3	64.5	71.5	10.9	13.0	126.7	136.0	7.4
Realised Net Profit	63.0	60.6	73.6	21.5	16.8	126.4	134.1	6.1
Realised EPU (sen)	2.2	2.1	2.5	20.4	15.3	4.3	4.5	5.1
DPU (sen)	2.3	2.1	2.6	21.2	13.2	4.6	4.7	3.1
NPI Margin (%)	76.1	74.2	73.6	(0.6)	(2.5)	76.0	73.9	(2.8)
Realised Net Margin (%)	55.3	50.0	55.8	5.8	0.5	55.5	53.0	(2.5)

Peers Comparison

	Price	Recommendation	Target price	Market Cap	PER (x)		Div Yield (%)		P/NAV (x)	
	(RM)		(RM)	(RM bn)	FY16	FY17	FY16	FY17	FY16	FY17
Sunway REIT	1.48	Sell	1.55	4.4	17.2	16.4	6.0	6.1	1.0	1.0
CMMT	1.43	Hold	1.58	2.9	17.4	16.5	6.2	6.5	1.2	1.2
IGB REIT*	1.38	NR	NR	4.8	17.9	17.0	6.0	6.4	1.3	1.2
Pavilion REIT*	1.56	NR	NR	4.7	16.8	15.8	6.2	6.4	1.2	1.3
KLCCP Stapled Group*	7.00	NR	NR	12.6	17.3	16.5	5.2	5.4	1.2	1.2
Axis REIT*	1.56	NR	NR	1.7	16.4	16.1	6.0	6.2	1.2	1.2
Average					17.2	16.4	5.9	6.2	1.2	1.2

* Based on consensus

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Kaladher Govindan – Head of Research