



Sunway Real Estate Investment Trust

Stronger Performance from Retail and Hotel Assets

TP: RM 1.65 (+3.1%)

Last Traded: RM 1.60

Sell

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Review

- Sunway REIT's 9MFY16 realised net profit, which grew 8.9% YoY to RM201.9mn, was broadly in line with expectations. This accounted for 79% and 77% ours and consensus full-year estimates respectively.
- A distribution per unit (DPU) of 2.37sen (+11.3% YoY) was declared for this quarter, bringing the YTD DPU to 7.06sen (+5.7% YoY). This translates to an annualized yield of 5.9% based on yesterday's closing price.
- YoY, Sunway REIT's 9MFY16 revenue and net property income (NPI) grew 13.3% and 10.6% to RM383.4mn and RM283.7mn respectively. The better performance was underpinned by commendable revenue growth from the retail (+15.7% YoY) and hospitality (+26.1% YoY) segment, but partially offset by lower revenue contribution from the office segment (-22.7% YoY).
- In terms of segment performance, the strong growth in hospitality segment was driven by higher average daily room rate and average occupancy rate, mainly contributed by strong leisure demand particularly from the Middle Eastern market.
- Meanwhile, the retail segment registered healthy growth, underpinned by higher average rental for Sunway Pyramid and Sunway Carnival as well as new income contribution from Sunway Putra Mall post the completion of refurbishment.
- On the other hand, the office segment was adversely affected by low average occupancy rate in Sunway Tower and Sunway Putra Tower following the termination of anchor tenants in the respective office towers.
- 9MFY16 NPI margin fell 2.3ppt YoY to 74.0%, 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.

Impact

- Our FY16-18 earnings are revised higher by 1.6-3.0% after fine-tuning our portfolio lease expiry and rental rates assumptions.

Conference Call Highlights

- Management revised its FY16 DPU expectation from flattish to modest growth in view of i) new income contribution from completion of refurbishment and acquisitions, ii) strong performance by hospitality segment in 3QFY16, and iii) one-off court award amounting to RM6.2mn which was recognised in 2QFY16. We are forecasting a 4.5% YoY growth in FY16 DPU.
- In terms of capex, Sunway REIT will spend about RM120mn for the refurbishment exercise of Pyramid Tower East hotel. According to management, the hotel will close for renovation for 12 months, with

Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2941.2
Market Cap (RMmn)	5705.9
Par Value	1.00
52-wk Hi/Lo (RM)	1.76/1.43
12-mth Avg Daily Vol ('000 shrs)	2635.5
Estimated Free Float (%)	29.2
Beta	0.44

Major Shareholders (%)

Sunway Berhad	(37.3)
EPF	(12.1)
Skim Amanah Saham Bumiputera	(9.9)
Tan Sri Cheah Fook Ling	(5.6)

Forecast Revision

	FY16	FY17
Forecast Revision (%)	2.4	3.0
Net profit (RMm)	260.6	273.7
Consensus	261.5	278.2
TA's / Consensus (%)	99.7	98.4
Previous Rating	Sell	(Maintained)

Financial Indicators

	FY16	FY17
Gearing (%)	36.4	37.3
FCPS (sen)	5.7	9.9
Price / CFPS (x)	27.8	16.1
ROE (%)	6.5	6.9
ROA (%)	4.0	4.1
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.1	1.1

Scorecard

	% of FY	
vs TA	79.0	Within
vs Consensus	77.0	Within

Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	1.9	(0.6)
3 mth	6.7	3.5
6 mth	6.7	0.3
12 mth	(5.9)	(8.8)

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



targeted re-opening date in 1QCY17. The refurbishment will increase the hotel's room inventory to 564 rooms from the current 549 and elevate the hotel from a superior to a deluxe category 4-star international hotel. We believe the refurbishment exercise is crucial in order to ensure that this hotel remains competitive.

- The YTD average occupancy rate for Sunway Tower and Sunway Putra Tower stood at 18.9% and 26.6% 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 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

- Based on unchanged discount rate of 9.25%, our DDM-derived target price is increased to RM1.65 from RM1.55 previously, after taking into account the change in base year and DPU assumptions. Reiterate **Sell**. Our TP implies forward yield of 5.6%, in line with industry's average.

Earnings Summary (RM mn)

FYE June	FY14	FY15	FY16F	FY17F	FY18F
Gross Rental Income	427.8	453.5	518.4	568.8	607.1
Net Property Income	321.0	340.8	390.9	408.9	449.3
NPI Margins	75.0	75.2	75.4	71.9	74.0
Pretax profit	232.0	240.6	260.6	273.7	310.2
Core Net Profit	231.9	242.0	260.6	273.7	310.2
Distributable income	244.8	256.1	268.4	273.7	310.2
EPU (Sen)	7.9	8.2	8.8	9.3	10.5
EPU Growth (%)	0.8	3.7	7.4	5.0	13.3
PER (x)	20.2	19.5	18.1	17.2	15.2
DPU (sen)	8.4	8.7	9.1	9.3	10.5
Div Yield (%)	5.2	5.4	5.7	5.8	6.6
ROE (%)	6.4	6.3	6.5	6.9	7.8

3Q16 Results Analysis (RM mn)

FYE June	3Q15	2Q16	3Q16	QoQ (%)	YoY (%)	9MFY15	9MFY16	YoY (%)	
Total revenue	110.7	131.9	130.3	(1.2)	17.7	338.5	383.4	13.3	
- Retail	84.9	97.5	101.8	4.4	19.8	247.4	286.3	15.7	
- Hospitality	12.1	21.7	16.3	(24.8)	34.9	46.5	58.7	26.1	
- Office	8.5	7.5	6.9	(8.1)	(18.9)	29.4	22.7	(22.7)	
- Healthcare	5.2	5.2	5.4	3.5	3.5	15.2	15.8	3.8	
Total Net Property Income	83.2	97.1	96.7	(0.4)	16.2	256.4	283.7	10.6	
- Retail	62.1	67.3	73.3	8.9	18.0	177.9	201.6	13.3	
- Hospitality	11.1	20.8	15.3	(26.2)	38.3	44.6	55.8	25.0	
- Office	4.8	3.8	2.7	(28.9)	(43.9)	18.7	10.5	(43.7)	
- Healthcare	5.2	5.2	5.4	3.5	3.5	15.2	15.8	3.8	
Other Income	0.7	4.8	1.0	(79.0)	41.3	2.6	10.7	>100	
Changed in fair value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Investment Income	83.9	101.8	97.7	(4.1)	16.5	259.0	294.4	13.7	
Manager & Trustee Fee	(7.2)	(8.1)	(8.0)	(1.2)	12.2	(21.6)	(24.1)	11.6	
Finance Costs	(17.6)	(21.6)	(21.6)	(0.1)	23.0	(50.7)	(64.7)	27.6	
Other expenses	(2.3)	(0.6)	(3.3)	>100	40.7	(3.2)	(4.8)	52.2	
Income Before Taxation	56.8	71.5	64.8	(9.4)	14.0	183.5	200.8	9.4	
Net Profit	56.8	71.5	64.8	(9.4)	14.0	183.5	200.8	9.4	
Realised Net Profit	58.9	73.6	67.7	(8.0)	14.9	185.4	201.9	8.9	
Realised EPU	(sen)	2.0	2.5	2.3	(6.0)	16.5	6.3	6.9	8.7
DPU	(sen)	2.1	2.6	2.4	(7.8)	11.3	6.7	7.1	5.7
				<i>ppt</i>	<i>ppt</i>			<i>ppt</i>	
NPI Margin	(%)	75.1	73.6	74.2	0.6	(1.0)	75.7	74.0	(2.3)
Realised Net Margin	(%)	53.2	55.8	51.9	(3.8)	(1.3)	54.8	52.6	(2.1)

Peers Comparison

	Price (RM)	Recommendation	Target price (RM)	Market Cap (RM bn)	PER (x)		Div Yield (%)		P/NAV (x)	
					FY16	FY17	FY16	FY17	FY16	FY17
Sunway REIT	1.60	Sell	1.65	4.7	18.1	17.2	5.7	5.8	1.1	1.1
CMMT	1.44	Hold	1.64	2.9	17.5	16.6	6.1	6.4	1.2	1.2
IGB REIT*	1.51	NR	NR	5.3	19.1	17.0	5.7	6.0	1.4	1.4
Pavilion REIT*	1.68	NR	NR	5.1	18.1	17.0	5.6	6.0	1.3	1.3
KLCCP Stapled Group*	7.19	NR	NR	13.0	17.1	16.2	5.0	5.2	1.1	1.1
Axis REIT*	1.65	NR	NR	1.8	17.7	16.8	5.3	5.6	1.3	1.3
Average					17.9	16.8	5.6	5.8	1.2	1.2

* Based on consensus

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