



## Sunway Real Estate Investment Trust

Expecting a Dip in FY17 DPU

**TP: RM 1.78** (+8.5%)

Last Traded: RM 1.68

Sell

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### Review

- Sunway REIT's FY16 realised net profit, which grew 8.4% YoY to RM262.5mn, accounted for 101% and 100% of ours and consensus' full-year estimates respectively.
- A distribution per unit (DPU) of 2.12sen (+3.4% YoY) was declared for 4QFY16, bringing the FY16 full-year DPU to 9.18 sen (+5.2% YoY), which translates to distribution yield of 5.5% based on yesterday's closing price.
- YoY, Sunway REIT's FY16 revenue and net property income (NPI) accelerated by 11.8% and 9.7% to RM507.0mn and RM373.9mn respectively. The better performance was underpinned by commendable revenue growth from the retail (+15.1% YoY) and hospitality (+18.7% YoY) segments, but partially offset by lower revenue contribution from the office segment (-22.6% YoY).
- QoQ, Sunway REIT's 4QFY16 realised net profit fell 10.5% to RM60.6mn, largely due to lower contribution from the hospitality division following the closure of Sunway Pyramid Hotel East since April 2016, for refurbishment.

### Impact

- We cut our FY17 - 18 earnings by 2-4% after incorporating: 1) the actual FY16 results, and 2) lower rental reversion assumptions for Sunway Pyramid and Sunway Carnival.

### Conference Call Highlights

- Management appeared cautious on the growth prospects of the retail segment in view of the oversupply of retail space. Sunway Pyramid and Sunway Carnival are due for a major lease renewal in FY17 involving about 54% (or ~900k sq ft) and 72% (or ~380k sq ft) of the respective malls' total net lettable area (NLA). Nevertheless, management only expects single digit rental reversion for the upcoming renewals. This is in view of the persistently challenging retail landscape that will pose pressure on the prospects of healthy rental reversion.
- In terms of capex, Sunway REIT will set aside some RM120mn for the refurbishment exercise of Sunway Pyramid Hotel East. The hotel has been closed for renovation since April-16. The hotel is targeted to re-open in 3QFY17 (1QCY17). The refurbishment will increase the hotel's room inventory to 564 rooms from the current 549, and elevate the hotel's status from 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.
- Sunway Tower and Sunway Putra Tower recorded average occupancy of 19.6% and 26.4% respectively in FY16. We learned that Sunway Tower has secured replacement tenants totaling approximately 35,000 sq ft (13% of total NLA) commencing in 3QFY16 and 4QFY16 onwards. For Sunway

### Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2942.2
Market Cap (RMmn)	4942.9
Par Value	1.00
52-wk Hi/Lo (RM)	1.74/1.43
12-mth Avg Daily Vol ('000 shrs)	2180.3
Estimated Free Float (%)	29.6
Beta	0.48

### Major Shareholders (%)

Sunway Berhad	(37.3)
EPF	(12.2)
Skim Amanah Saham Bumiputera	(9.2)
Tan Sri Cheah Fook Ling	(5.6)

### Forecast Revision

	FY17	FY18
Forecast Revision (%)	(4.4)	(1.6)
Net profit (RMmn)	261.7	305.1
Consensus	278.2	300.9
TA's / Consensus (%)	94.1	101.4
Previous Rating	Sell	(Maintained)

### Financial Indicators

	FY17	FY18
Gearing (%)	35.8	36.2
FCPS (sen)	5.7	13.2
Price / FCPS (x)	28.9	12.4
ROE (%)	6.5	7.5
ROA (%)	4.0	4.6
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.1	1.1

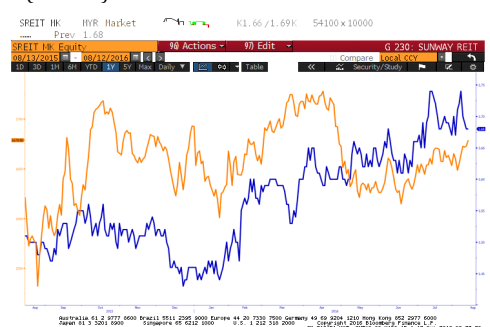
### Scorecard

	% of FY	
vs TA	101.0	Within
vs Consensus	100.0	Within

### Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	(1.2)	1.5
3 mth	1.8	1.8
6 mth	8.4	2.1
12 mth	12.0	4.3

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



Source: Bloomberg

Putra Tower, new tenants have been secured for 27,100 sq ft (9% of total NLA) to commence in FY17. As such, management believes the worst is over for its office segment given that occupancy rates has declined to the lowest levels. Management expects a marginal improvement for the office segment in FY17.

- All in, management guided a dip in DPU in FY17 compared to FY16. This is largely due to: i) closure of Pyramid Tower East Hotel, and ii) lower surplus cash as Sunway REIT will pay the entire amount of manager's fee in cash in FY17 instead of 75%:25% in the form of cash and issuance of new units in FY16. Following the revision in our rental reversion assumptions for Sunway Pyramid and Sunway Carnival, we project FY17 DPU to fall 3% YoY.

### Valuation

- We lower our discount rate to 8.9% from 9.25% previously, after cutting our risk free rate assumption to 3.5% from 4.0% previously. Factoring in the change in discount rate and earnings forecasts, our DDM derived target price is raised to RM1.78/unit (from RM1.65/unit previously). Maintain **Sell** as we believe the current share price has largely reflected the increased appetite for yield-assets following BNM's OPR cut. In addition, our target price implies forward yield of 5.0%, which is lower than the sector peers' average forward yield of 5.4%. The premium valuation priced in the waiver secured from Securities Commission for Sunway REIT's proposed land acquisition in Penang, which will pave way for the expansion of Sunway Carnival.

### Earnings Summary (RM mn)

FYE June	FY14	FY15	FY16	FY17F	FY18F
Gross Rental Income	427.8	453.5	507.0	548.2	595.9
Net Property Income	321.0	340.8	373.9	393.3	441.0
NPI Margins	75.0	75.2	73.7	71.7	74.0
Pretax profit	232.0	240.6	260.2	261.7	305.1
Core Net Profit	231.9	242.0	262.5	261.7	305.1
Distributable income	244.8	256.1	270.6	261.7	305.1
EPU (Sen)	7.9	8.2	8.9	8.9	10.3
EPU Growth (%)	0.8	3.7	8.2	(0.3)	16.6
PER (x)	20.7	19.9	18.4	18.5	15.9
DPU (sen)	8.4	8.7	9.2	8.9	10.3
Div Yield (%)	5.1	5.3	5.6	5.4	6.3
ROE (%)	6.4	6.3	6.5	6.5	7.5

**4Q16 Results Analysis (RM mn)**

FYE June	4Q15	3Q16	4Q16	QoQ (%)	YoY (%)	FY15	FY16	YoY (%)
<b>Total revenue</b>	<b>114.9</b>	<b>130.3</b>	<b>123.6</b>	<b>(5.2)</b>	<b>7.5</b>	<b>453.5</b>	<b>507.0</b>	<b>11.8</b>
- Retail	85.2	101.8	96.5	(5.1)	13.3	332.7	382.8	15.1
- Hospitality	14.8	16.3	14.1	(13.6)	(4.5)	61.3	72.8	18.7
- Office	9.7	6.9	7.5	9.7	(22.4)	39.1	30.3	(22.6)
- Healthcare	5.2	5.4	5.4	0.0	3.5	20.4	21.1	3.7
<b>Total Net Property Income</b>	<b>84.4</b>	<b>96.7</b>	<b>90.2</b>	<b>(6.7)</b>	<b>6.8</b>	<b>340.8</b>	<b>373.9</b>	<b>9.7</b>
- Retail	59.0	73.3	67.8	(7.5)	15.0	236.9	269.4	13.7
- Hospitality	14.1	15.3	13.0	(15.0)	(7.8)	58.7	68.8	17.1
- Office	6.1	2.7	3.9	47.5	(35.3)	24.8	14.5	(41.6)
- Healthcare	5.2	5.4	5.4	0.0	3.5	20.4	21.1	3.7
Other Income	0.8	1.0	(0.7)	(166.4)	(180.2)	3.4	10.1	192.5
Changed in fair value	306.8	0.0	63.5	nm	(79.3)	306.8	63.5	(79.3)
Net Investment Income	392.0	97.7	153.0	56.6	(61.0)	651.0	447.4	(31.3)
Manager & Trustee Fee	(7.7)	(8.0)	(7.9)	(1.5)	3.3	(29.3)	(32.1)	9.5
Finance Costs	(20.0)	(21.6)	(21.5)	(0.2)	7.5	(70.8)	(86.2)	21.9
Other expenses	(0.5)	(3.3)	(0.6)	(81.1)	24.8	(3.6)	(5.4)	48.5
Income Before Taxation	363.8	64.8	122.9	89.8	(66.2)	547.3	323.7	(40.9)
Net Profit	363.8	64.8	122.9	89.7	(66.2)	547.3	323.7	(40.9)
<b>Realised Net Profit</b>	<b>56.7</b>	<b>67.7</b>	<b>60.6</b>	<b>(10.5)</b>	<b>6.9</b>	<b>242.0</b>	<b>262.5</b>	<b>8.4</b>
Realised EPU (sen)	1.9	2.3	2.1	(12.0)	6.2	8.3	8.9	8.1
DPU (sen)	2.1	2.4	2.1	(10.5)	3.4	8.7	9.2	5.2
NPI Margin (%)	73.4	74.2	73.0	(1.2)	(0.5)	75.2	73.7	(1.9)
Realised Net Margin (%)	49.3	51.9	49.0	(2.9)	(0.3)	53.4	51.8	(1.6)

**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	1.64	Sell	1.78	4.8	18.4	18.5	5.6	5.4	1.1	1.1
CMMT	1.56	Hold	1.81	3.2	19.0	18.0	5.6	5.9	1.3	1.3
IGB REIT*	1.63	NR	NR	5.7	20.6	19.6	5.3	5.5	1.5	1.6
Pavilion REIT*	1.80	NR	NR	5.4	19.4	18.4	5.2	5.6	1.4	1.4
KLCCP Stapled Group*	7.60	NR	NR	13.7	18.5	17.9	4.7	4.9	1.1	1.1
Axis REIT*	1.78	NR	NR	2.0	20.5	19.1	4.9	5.2	1.4	1.4
<b>Average</b>					<b>19.4</b>	<b>18.6</b>	<b>5.2</b>	<b>5.4</b>	<b>1.3</b>	<b>1.3</b>

\* Based on consensus

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