



## Sunway Real Estate Investment Trust

Results Buoyed By Retail Assets

**TP: RM 1.78 (+0.0%)**

Last Traded: RM 1.77

Sell

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### Review

- Sunway REIT posted realised net profit of RM66.7mn in 1QFY17, translating to a growth of 10.2% YoY. Results were within expectations, accounting for 26% and 25% ours and consensus' full-year estimates respectively.
- A distribution per unit (DPU) of 2.27sen (+7.1% YoY) was declared for this quarter. This translates to an annualised distribution yield of 5.1%, based on yesterday's closing price.
- YoY, Sunway REIT's 1QFY17 revenue and net property income (NPI) advanced by 6.3% and 6.8% to RM128.9mn and RM96.1mn respectively. The solid growth was driven by commendable performance from the retail (NPI +17.3% YoY) segment, but partially offset by lower contribution from the hospitality (NPI -21.5% YoY) and office segment (NPI -8.9% YoY).
- In terms of segment performance, the strong NPI growth in the retail segment was underpinned by: 1) higher average rental for Sunway Pyramid and Sunway Carnival, and 2) improved rental income for Sunway Putra Mall in 1QFY17, as some of its tenants were given 2.5 months rent-free period in the corresponding period of last year.
- The hospitality segment performance was lower largely due to the closure of Sunway Pyramid Hotel (formerly known as Sunway Pyramid Hotel East) for refurbishment since Apr-16. Meanwhile, the office segment was adversely affected by lower occupancy of all office properties.

### Impact

- Maintained.

### Outlook

- Management appeared cautious on the growth prospects of the retail segment in view of the oversupply of retail space. In 1QFY17, retail spaces which were due for renewal in both Sunway Pyramid and Sunway Carnival, were renewed at a single digit rental reversion. This is in line with management's expectations, given the persistently challenging retail landscape that will pose pressure on prospects of healthy rental reversions.
- In terms of capex, Sunway REIT will spend about RM120mn for the refurbishment exercise of Pyramid Tower East Hotel. The hotel has been closed for renovation since April-16. It is on track for re-opening in 3QFY17 (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.

### Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2945.1
Market Cap (RMmn)	5212.8
Par Value	1.00
52-wk Hi/Lo (RM)	1.79/1.43
12-mth Avg Daily Vol ('000 shrs)	2152.1
Estimated Free Float (%)	31.0
Beta	0.5

### Major Shareholders (%)

Sunway Berhad (37.3)
EPF (12.3)
Skim Amanah Saham Bumiputera (7.2)
Tan Sri Cheah Fook Ling (5.6)

### Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	261.7	292.2
Consensus	271.2	296.6
TA's / Consensus (%)	96.5	98.5
Previous Rating	Sell (Maintained)	

### Financial Indicators

	FY17	FY18
Gearing (%)	35.8	36.2
FCPS (sen)	5.7	12.7
Price / FCPS (x)	30.3	13.5
ROE (%)	6.5	7.2
ROA (%)	4.0	4.4
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.2	1.2

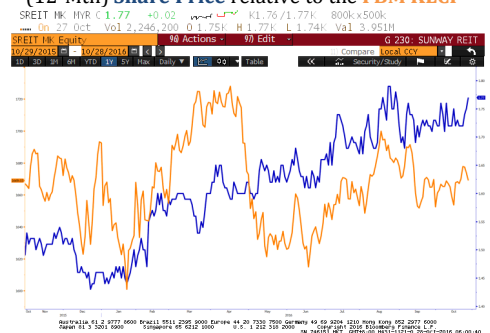
### Scorecard

	% of FY	
vs TA	26.0	Within
vs Consensus	25.0	Within

### Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	3.5	0.2
3 mth	5.4	0.6
6 mth	9.3	(0.3)
12 mth	18.0	(1.0)

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



- 1QFY17 average occupancy rate for Sunway Tower and Sunway Putra Tower stood at 20.7% (FY16: 19.6%) and 25.7% (FY16: 26.4%) respectively. We learn that replacement tenants totaling ~35,000 sq ft (13% of total NLA) commenced operation in Sunway Tower in 3QFY16. For Sunway Putra Tower, new tenants have been secured for 27,100 sq ft (20% of total NLA). These tenants will commence their occupancy progressively in 2QFY17 and 3QFY17.
- All in, management guided a dip in DPU in FY17 compared to FY16 largely due to: i) closure of Pyramid Tower East Hotel, and ii) lower surplus cash as Sunway REIT to 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. In our earnings model, we expect FY17 DPU to fall by 3.4% YoY.

### Valuation

- We maintain our **Sell** recommendation with an unchanged target price of RM1.78/unit, based on DDM valuation. Our target price implies forward yields of 5.0%, which is lower than the sector peers' average forward yields of 5.4%. We believe the premium valuation priced in the waiver secured from Securities Commission for land acquisition in Penang, which will pave way for expansion of Sunway Carnival.

### Earnings Summary (RM mn)

FYE June	FY15	FY16	FY17f	FY18f	FY19f
Gross Rental Income	453.5	507.0	548.2	595.9	611.2
Net Property Income	340.8	373.9	393.3	427.5	440.1
NPI Margins	75.2	73.7	71.7	71.7	72.0
Pretax profit	240.6	260.2	261.7	292.2	304.2
Core Net Profit	242.0	262.5	261.7	292.2	304.2
Distributable income	256.1	270.6	261.7	292.2	304.2
EPU (Sen)	8.2	8.9	8.9	9.9	10.3
EPU Growth (%)	3.7	8.2	(0.3)	11.7	4.1
PER (x)	21.5	19.9	20.0	17.9	17.2
DPU (sen)	8.7	9.2	8.9	9.9	10.3
Div Yield (%)	4.9	5.2	5.0	5.6	5.8
ROE (%)	6.3	6.5	6.5	7.2	7.5

### 1Q17 Results Analysis (RM mn)

FYE June	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)	
<b>Total revenue</b>	<b>121.2</b>	<b>123.6</b>	<b>128.9</b>	<b>4.3</b>	<b>6.3</b>	
- Retail	87.1	96.5	99.7	3.3	14.5	
- Hospitality	20.6	14.1	16.4	16.0	(20.5)	
- Office	8.3	7.5	7.4	(1.6)	(11.0)	
- Healthcare	5.2	5.4	5.4	0.0	3.5	
<b>Total Net Property Income</b>	<b>89.9</b>	<b>90.2</b>	<b>96.1</b>	<b>6.5</b>	<b>6.8</b>	
- Retail	61.0	67.8	71.5	5.5	17.3	
- Hospitality	19.6	13.0	15.4	18.3	(21.5)	
- Office	4.1	3.9	3.7	(5.3)	(8.9)	
- Healthcare	5.2	5.4	5.4	0.0	3.5	
Other Income	4.9	(0.7)	0.9	(237.9)	(81.4)	
Changed in fair value	0.0	63.5	0.0	0.0	nm	
Net Investment Income	94.9	153.0	97.0	(36.6)	2.2	
Manager & Trustee Fee	(7.9)	(7.9)	(8.2)	2.9	2.8	
Finance Costs	(21.5)	(21.5)	(21.8)	1.0	1.3	
Other expenses	(1.0)	(0.6)	(2.9)	374.0	208.2	
Income Before Taxation	64.5	122.9	64.1	(47.8)	(0.6)	
Net Profit	64.5	122.9	66.7	(45.7)	3.4	
<b>Realised Net Profit</b>	<b>60.6</b>	<b>60.6</b>	<b>66.7</b>	<b>10.1</b>	<b>10.2</b>	
Realised EPU	(sen)	2.1	2.1	2.2	9.3	8.7
DPU	(sen)	2.1	2.1	2.3	7.1	7.1
NPI Margin	(%)	74.2	73.0	74.5	1.6	0.3
Realised Net Margin	(%)	50.0	49.0	51.8	2.7	1.8

### Peers Comparison

	Recommendation	Price (RM)	Target price (RM)	Market Cap (RM bn)	PER (x)		Div Yield (%)		P/NAV (x)	
					FY16	FY17	FY16	FY17	FY16	FY17
Sunway REIT	Sell	1.77	1.78	5.2	19.9	20.0	5.2	5.0	1.2	1.2
CMMT	Buy	1.58	1.81	3.2	19.2	18.2	5.6	5.9	1.3	1.3
IGB REIT*	NR	1.62	NR	5.7	20.0	17.1	5.3	5.6	1.5	1.6
Pavilion REIT*	NR	1.74	NR	5.3	18.7	17.8	5.4	5.7	1.4	1.4
KLCCP Stapled Group*	NR	7.75	NR	14.0	18.9	18.3	4.6	4.8	1.1	1.1
Axis REIT*	NR	1.73	NR	1.9	21.4	19.0	5.0	5.3	1.4	1.4
<b>Average</b>					<b>19.7</b>	<b>18.4</b>	<b>5.2</b>	<b>5.4</b>	<b>1.3</b>	<b>1.3</b>

\* Based on consensus

### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated**: The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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