



## Sunway Real Estate Investment Trust

DPU Guided to Ease in FY17

**TP: RM 1.86 (+8.8%)**

Last Traded: RM 1.71

**HOLD**

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### Review

- Sunway REIT reported realised net profit of RM203.8mn in 9MFY17, registering a marginal growth of 0.9% YoY. Results were within expectations, accounting for 78% and 75% ours and consensus' full-year estimates.
- A distribution per unit (DPU) of 2.37sen was declared for this quarter, bringing the YTD 9MFY17 DPU to 6.92sen (-2.0% YoY). This translates to an annualised distribution yield of 5.4%, based on yesterday's closing price.
- YoY, Sunway REIT's 9MFY17 revenue and net property income (NPI) grew 1.8% and 2.3% to RM390.3mn and RM290.3mmn respectively. NPI growth was largely driven by commendable performance from the retail segment (+8.2% YoY) and office segment (+16.4% YoY), but partially offset by lower contribution from the hospitality segment (-21.9% YoY).
- In terms of segmental performance, the retail segment recorded strong NPI growth due to: 1) higher average rental for Sunway Pyramid, 2) additional rental income from Sunway Carnival following the completion of the new food and beverage area with NLA of approximately, 16,000 sq ft (3% of total NLA) and 3) better performance from Sunway Putra Mall given that the mall's 9MFY16 results were affected by a 2.5 months of rent-free period.
- The hospitality segment performance was lower largely due to the closure of Sunway Pyramid Hotel for refurbishment since Apr-16. Meanwhile, the office segment showed gradual improvement, with 3QFY17 NPI increasing by 13.5% QoQ and 69.4% YoY, largely due to improvement in occupancy rates.

### Impact

- No change to our FY17-19 earnings forecasts.

### Conference Call Highlights

- Management expects the outlook for the retail segment to remain challenging, in view of the oversupply of retail spaces and weak consumer sentiment. For 9MFY17, retail spaces which were due for renewal in Sunway Pyramid, 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.
- Recall, Sunway Pyramid Hotel has been closed for renovation since April-16. Nevertheless, the hotel has progressively re-opened for business as at 31 Mar 2017. The entire refurbishment exercise is expected to complete in 4QFY17 (2QCY17), increasing the hotel's room inventory to 564 rooms from the current 549 rooms and elevate the hotel from a superior to a deluxe category 4-star international hotel. We believe the refurbishment

### Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2945.1
Market Cap (RMmn)	5036.1
Par Value	1.00
52-wk Hi/Lo (RM)	1.84/1.59
12-mth Avg Daily Vol ('000 shrs)	2454.8
Estimated Free Float (%)	30.8
Beta	0.5

### Major Shareholders (%)

Sunway Berhad (37.3)
EPF (12.3)
Skim Amanah Saham Bumiputera (7.4)
Tan Sri Cheah Fook Ling (5.6)

### Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	261.7	297.7
Consensus	271.2	296.6
TA's / Consensus (%)	96.5	100.4
Previous Rating	Sell (Upgraded)	

### Financial Indicators

	FY17	FY18
Gearing (%)	35.8	36.2
FCPS (sen)	5.7	13.0
Price / CFPS (x)	30.1	13.2
ROE (%)	6.5	7.3
ROA (%)	4.0	4.5
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.2	1.2

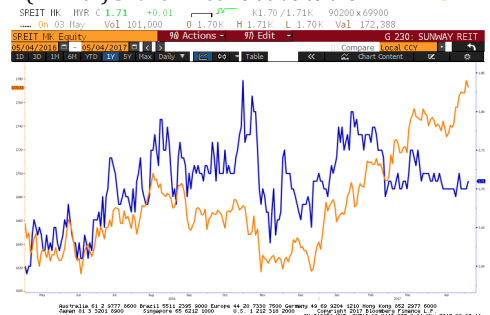
### Scorecard

	% of FY	
vs TA	78.0	Within
vs Consensus	75.0	Within

### Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	0.0	1.4
3 mth	(3.4)	5.2
6 mth	(3.4)	7.5
12 mth	6.9	6.9

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



Source: Bloomberg

exercise is crucial in order to ensure that this hotel remains competitive. As for the newly introduced tourism tax, management believes that it will likely to be passed on to consumers. However, margin could be affected as the hotel operator may require to provide more offers/discounts to attract customers.

- Office segment showed gradual improvement. Notably, Sunway Putra Tower's average occupancy rate improved from 31.2% in 2QFY17 to 34.8% for YTD 3Q FY17. The improvement was attributable to commencement of new tenants occupying 51,500 sq.ft. (16% of total NLA) and 12,000 sq.ft. (4% of total NLA) which commenced operations in 2Q FY17 and 3QFY17 respectively. Note that Sunway Putra Tower's occupancy rate stood at 42% as at 31 Mar 2017.
- All in, management maintains its FY17 DPU guidance - expecting a dip in DPU in FY17 compared to FY16. This is largely due to: i) closure of Sunway Pyramid 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. In our earnings model, we expect FY17 DPU to decrease by 3.4% YoY.

### Valuation

- Factoring a change in our valuation base year to FY18, we raise our target price to RM1.86 from RM1.79 previously, based on DDM valuation. Our target price implies forward yields of 5.5%, which is in line the sector peers' average. Upgrade to **Hold**.

### Earnings Summary (RM mn)

FYE June	FY15	FY16	FY17f	FY18f	FY19f
Gross Rental Income	453.5	507.0	548.2	601.5	618.2
Net Property Income	340.8	373.9	393.3	433.2	446.0
NPI Margins	75.2	73.7	71.7	72.0	72.1
Pretax profit	240.6	260.2	261.7	297.7	307.9
Core Net Profit	242.0	262.5	261.7	297.7	307.9
Distributable income	256.1	270.6	261.7	297.7	307.9
EPU (Sen)	8.2	8.9	8.9	10.1	10.4
EPU Growth (%)	3.7	8.2	(0.3)	13.8	3.4
PER (x)	20.8	19.2	19.3	16.9	16.4
DPU (sen)	8.7	9.2	8.9	10.1	10.4
Div Yield (%)	5.1	5.4	5.2	5.9	6.1
ROE (%)	6.3	6.5	6.5	7.3	7.6

### 3Q17 Results Analysis (RM mn)

FYE June	3Q16	2Q17	3Q17	QoQ (%)	YoY (%)	9MFY16	9MFY17	YoY (%)
<b>Total revenue</b>	<b>130.3</b>	<b>126.9</b>	<b>134.6</b>	<b>6.1</b>	<b>3.2</b>	<b>383.4</b>	<b>390.3</b>	<b>1.8</b>
- Retail	101.8	98.8	105.7	6.9	3.8	286.3	304.2	6.3
- Hospitality	16.3	14.8	15.2	2.8	(6.9)	58.7	46.4	(21.0)
- Office	6.9	7.9	8.1	3.3	18.3	22.7	23.4	3.2
- Healthcare	5.4	5.4	5.6	3.5	3.5	15.8	16.3	3.5
<b>Total Net Property Income</b>	<b>96.7</b>	<b>94.1</b>	<b>100.2</b>	<b>6.5</b>	<b>3.6</b>	<b>283.7</b>	<b>290.3</b>	<b>2.3</b>
- Retail	73.3	70.8	75.9	7.2	3.5	201.6	218.2	8.2
- Hospitality	15.3	13.9	14.2	2.3	(7.2)	55.8	43.6	(21.9)
- Office	2.7	4.0	4.5	13.5	69.4	10.5	12.3	16.4
- Healthcare	5.4	5.4	5.6	3.5	3.5	15.8	16.3	3.5
Other Income	1.0	5.2	1.3	(75.4)	27.0	10.7	7.4	(31.2)
Changed in fair value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Investment Income	97.7	99.2	101.5	2.2	3.9	294.4	297.7	1.1
Manager & Trustee Fee	(8.0)	(8.1)	(8.3)	2.1	2.9	(24.1)	(24.5)	1.7
Finance Costs	(21.6)	(22.1)	(22.5)	2.0	4.2	(64.7)	(66.3)	2.5
Other expenses	(3.3)	2.1	(0.3)	(115.1)	(90.4)	(4.8)	(1.2)	(75.7)
Income Before Taxation	64.8	71.1	70.4	(1.1)	8.6	200.8	205.6	2.4
Net Profit	64.8	71.1	70.4	(1.1)	8.6	200.8	208.2	3.7
<b>Realised Net Profit</b>	<b>67.7</b>	<b>67.1</b>	<b>69.9</b>	<b>4.1</b>	<b>3.2</b>	<b>201.9</b>	<b>203.8</b>	<b>0.9</b>
Realised EPU (sen)	2.3	2.3	2.4	2.6	1.7	6.9	6.9	0.7
DPU (sen)	2.4	2.3	2.4	3.9	0.0	7.1	6.9	(2.0)
NPI Margin (%)	74.2	74.1	74.4	0.3	0.3	74.0	74.4	0.5
Realised Net Margin (%)	51.9	52.9	51.9	(1.0)	(0.0)	52.6	52.2	(0.4)

### Peers Comparison

	Recommendation	Price (RM)	Target price (RM)	Market Cap (RM bn)	PER (x)		Div Yield (%)		P/NAV (x)	
					FY17	FY18	FY17	FY18	FY17	FY18
Sunway REIT	Hold	1.71	1.86	5.0	19.3	16.9	5.2	5.9	1.2	1.2
CMMT	Hold	1.61	1.72	3.3	19.9	18.7	5.6	5.6	1.3	1.3
KLCCP Stapled Group*	NR	7.85	NR	14.2	18.6	17.9	4.7	4.9	1.1	1.1
IGB REIT*	NR	1.69	NR	5.9	20.4	19.2	5.3	5.6	1.6	1.6
Pavilion REIT*	NR	1.72	NR	5.2	19.1	18.3	5.2	5.5	1.3	1.3
Axis REIT*	NR	1.70	NR	1.9	18.9	18.1	5.2	5.5	1.4	1.4
Al Salam*	NR	1.03	NR	0.6	16.1	15.8	5.7	5.8	1.0	1.0
<b>Average</b>					<b>18.9</b>	<b>17.8</b>	<b>5.3</b>	<b>5.5</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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