



Sunway Real Estate Investment Trust

Anticipating Stronger DPU Growth in FY18

TP: RM 1.87 (+8.1%)

Last Traded: RM 1.73

Hold

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Review

- Excluding the fair value gain on investment properties totaling RM152.1mn, Sunway REIT posted realised net profit of RM270.6mn in FY17, registering a growth of 3.1% YoY. Results were within expectations, accounting for 103% and 100% of ours and consensus's full-year estimates respectively.
- A distribution per unit (DPU) of 2.27sen was declared for this quarter, bringing the total FY17 DPU to 9.19sen (+0.1%YoY). This translates to a distribution yield of 5.3%, based on yesterday's closing price. The marginal growth in DPU was a pleasant surprise as management had guided a dip in DPU in FY17 compared to FY16. We attribute the better DPU to stronger performance achieved in 4QFY17, which saw revenue and net property income (NPI) broaden by 7.2% and 9.3% YoY respectively.
- On a full-year basis, Sunway REIT's FY17 revenue and NPI climbed 3.1% and 1.0% to RM522.9mn and RM388.8mn respectively. NPI growth was largely driven by commendable performance from the retail segment (+7.6% YoY) and office segment (+14.0% YoY), but partially offset by lower contribution from the hospitality segment (-11.9% YoY).
- In terms of segmental performance, the retail segment recorded strong NPI growth due to: 1) higher average gross rent psf achieved for all shopping malls under its portfolio, 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 (SPM). To recap, SPM's FY16 results were affected by a 2.5 months of rent-free period.
- The hospitality segment performance was lower, largely attributed to the closure of Sunway Pyramid Hotel (formerly known as Sunway Pyramid Hotel East) for refurbishment since Apr-16. Meanwhile, the office segment recorded better performance underpinned by improved occupancy rates for Menara Sunway and Sunway Putra Tower.

Impact

- Our FY18-19 earnings are trimmed by ~1.5% after incorporating the actual FY17 results and post some house-keeping adjustments.

Conference Call Highlights

- Management believes that the retail assets are well positioned to capitalise on the gradual recovery in consumer sentiment. For FY17, retail spaces which were due for renewal in Sunway Pyramid and Sunway Carnival, were renewed at a single digit rental reversion with >98% retention rate. Meanwhile, SPM saw lower rental reversion for its 2.4% NLA renewed in FY17, despite occupancy rate improving to 86% from 75% a year ago. In an effort to retain and attract quality tenants, management will keep SPM's rent at a competitive level and hence, does not expect a positive reversion for spaces due for renewal in FY18.

Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2945.1
Market Cap (RMmn)	5095.0
Par Value	1.00
52-wk Hi/Lo (RM)	1.84/1.63
12-mth Avg Daily Vol ('000 shrs)	2293.6
Estimated Free Float (%)	31.6
Beta	0.5
Major Shareholders (%)	
	Sunway Berhad (37.3)
	EPF (12.3)
	Skim Amanah Saham Bumiputera (7.4)

Forecast Revision

	FY18	FY19
Forecast Revision (%)	(1.5)	(1.5)
Net profit (RMmn)	295.4	314.5
Consensus	292.2	303.4
TA's / Consensus (%)	101.1	103.7
Previous Rating	Hold	(Maintained)

Financial Indicators

	FY18	FY19
Gearing (%)	37.8	38.2
FCPS (sen)	(2.4)	13.7
Price / CFPS (x)	(73.2)	12.6
ROE (%)	7.0	7.5
ROA (%)	4.2	4.4
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.1	1.1

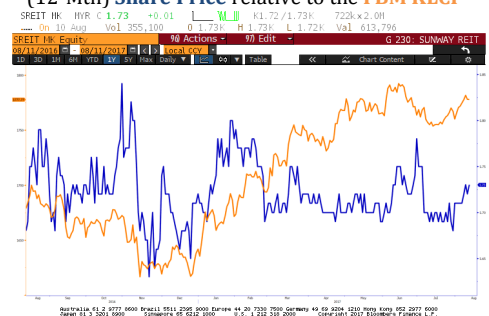
Scorecard

	% of FY	
vs TA	103.0	Within
vs Consensus	100.0	Within

Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	2.4	1.3
3 mth	0.6	0.1
6 mth	(2.3)	4.6
12 mth	3.0	5.9

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



Source: Bloomberg

- Management expects a modest growth from the hotel segment, largely contributed by higher room inventory at Sunway Pyramid Hotel following the completion of refurbishment in June 2017 – within the scheduled time. The refurbishment increased the hotel’s room inventory to 564 rooms from the current 549 rooms and elevated the hotel from a superior to a deluxe category 4-star international hotel. We believe the refurbishment exercise was 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 to 36.6% in FY17 from 26.4% a year ago. 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 2QFY17 and 3QFY17 respectively. Note that Sunway Putra Tower’s occupancy rate stood at 42% as at 30 June 2017.
- All in, management expects a moderate growth in DPU for FY18. This is largely underpinned by : i) full contribution from Sunway Pyramid Hotel following the completion of refurbishment in Jun-17, ii) new income contribution from the acquisition of Sunway REIT industrial – Shah Alam 1, and iii) better performance across its retail and office segment amidst gradual recovery in consumer and business sentiment.

Valuation

- Factoring in the change in earnings, we arrive at a new target price of RM1.87/unit from RM1.88/unit previously, based on DDM valuation. Our target price implies forward yields of 5.4%, which is in line the sector peers’ average. Maintain **Hold**.

Earnings Summary (RM mn)

FYE June	FY15	FY16	FY17	FY18f	FY19f
Gross Rental Income	453.5	507.0	522.9	585.8	612.0
Net Property Income	340.8	373.9	388.8	436.9	459.0
NPI Margins	75.2	73.7	74.4	74.6	75.0
Pretax profit	240.6	260.2	272.4	295.4	314.5
Core Net Profit	242.0	262.5	272.4	295.4	314.5
Distributable income	256.1	270.6	272.4	295.4	314.5
EPU (Sen)	8.2	8.9	9.2	10.0	10.7
EPU Growth (%)	3.7	8.4	3.7	8.4	6.5
PER (x)	21.0	19.4	18.7	17.2	16.2
DPU (sen)	8.7	9.2	9.2	10.0	10.7
Div Yield (%)	5.0	5.3	5.3	5.8	6.2
ROE (%)	6.3	6.5	6.6	7.0	7.5

4Q17 Results Analysis (RM mn)

FYE June	4Q16	3Q17	4Q17	QoQ (%)	YoY (%)	FY16	FY17	YoY (%)
Total revenue	123.6	134.6	132.5	(1.5)	7.2	507.0	522.9	3.1
- Retail	96.5	105.7	100.9	(4.5)	4.5	382.8	405.0	5.8
- Hospitality	14.1	15.2	18.1	18.9	28.0	72.8	64.5	(11.4)
- Office	7.5	8.1	8.0	(1.3)	6.4	30.3	31.5	4.0
- Healthcare	5.4	5.6	5.6	0.0	3.5	21.1	21.9	3.5
Total Net Property Income	90.2	100.2	98.5	(1.7)	9.3	373.9	388.8	4.0
- Retail	67.8	75.9	71.7	(5.5)	5.7	269.4	289.9	7.6
- Hospitality	13.0	14.2	17.0	19.6	30.6	68.8	60.6	(11.9)
- Office	3.9	4.5	4.2	(6.4)	7.5	14.5	16.5	14.0
- Healthcare	5.4	5.6	5.6	0.0	3.5	21.1	21.9	3.5
Other Income	-0.7	1.3	0.9	(29.1)	(235.6)	10.1	8.3	(17.6)
Changed in fair value	63.5	0.0	152.1	>100	139.6	63.5	152.1	>100
Net Investment Income	153.0	101.5	251.5	147.9	64.4	447.4	549.2	22.7
Manager & Trustee Fee	(7.9)	(8.3)	(8.4)	1.1	5.6	(32.1)	(32.9)	2.7
Finance Costs	(21.5)	(22.5)	(23.0)	2.0	6.5	(86.2)	(89.3)	3.5
Other expenses	(0.6)	(0.3)	(1.3)	319.9	114.4	(5.4)	(2.5)	(54.0)
Income Before Taxation	122.9	70.4	218.8	211.0	78.1	323.7	424.5	31.1
Net Profit	122.9	70.4	218.8	211.0	78.1	323.7	427.1	31.9
Realised Net Profit	60.6	69.9	66.8	(4.4)	10.2	262.5	270.6	3.1
Realised EPU (sen)	2.1	2.4	2.3	(4.2)	10.7	8.9	9.2	3.0
DPU (sen)	2.1	2.4	2.3	(4.2)	7.1	9.2	9.2	0.1
NPI Margin (%)	73.0	74.4	74.3	(0.1)	1.4	73.7	74.4	0.8
Realised Net Margin (%)	49.0	51.9	50.4	(1.5)	1.4	51.8	51.8	(0.0)

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	1.73	1.87	5.1	18.7	17.2	5.3	5.8	1.1	1.1
CMMT	Hold	1.48	1.72	3.0	18.3	17.2	6.0	6.1	1.2	1.2
KLCCP Stapled Group*	NR	7.80	NR	14.1	18.4	17.8	4.8	4.9	1.1	1.1
IGB REIT*	NR	1.73	NR	6.0	20.8	19.7	5.1	5.4	1.6	1.7
Pavilion REIT*	NR	1.70	NR	5.1	18.9	18.1	5.3	5.5	1.3	1.3
Axis REIT*	NR	1.63	NR	1.8	18.1	17.3	5.5	5.7	1.3	1.3
Al Salam*	NR	1.00	NR	0.6	15.6	15.4	5.9	6.0	1.0	1.0
Average					18.4	17.5	5.4	5.6	1.2	1.2

* 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. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

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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