

### COMPANY RESULTS

#### Sunway REIT (SREIT MK)

3QFY16: Results In Line

The retail segment continued to be the main growth driver for Sunway REIT, while the hotel segment saw a slight revenue improvement. However, the office segment remained challenging as occupancy dropped across all buildings, save for Menara Sunway. A 2.37 sen dividend was declared during the quarter, bringing 9MFY16 dividend to 7.10 sen, accounting for 74.0% of our full-year dividend forecasts. **Maintain HOLD. Target price: RM1.65. Entry price: RM1.49.**

#### 3QFY16 RESULTS

Year to 30 Jun (RMm)	2Q16	3Q16	qoq % chg	yoy % chg	9M16	yoy % chg
Gross revenue	131.9	130.3	(1.2)	17.7	383.4	13.3
Retail	97.5	101.8	4.4	19.8	286.3	15.7
Hotel	21.7	16.3	(24.8)	34.9	58.7	26.1
Office	7.5	6.9	(8.1)	(18.9)	22.7	(22.7)
Sunway Medical	5.2	5.4	3.5	3.5	15.8	3.6
Net Property Income	97.1	96.7	(0.4)	16.2	283.7	10.6
Retail	67.3	73.3	8.9	18.0	201.6	13.3
Hotel	20.8	15.3	(26.2)	38.3	55.8	25.0
Office	3.8	2.7	(28.9)	(43.9)	10.5	(43.7)
Sunway Medical	5.2	5.4	3.5	3.5	15.8	3.8
Core PAT	65.3	64.8	(0.9)	14.0	194.6	6.0
Core EPU (sen)	2.4	2.2	(9.4)	14.0	6.9	8.9
Core DPU (sen)	2.6	2.4	(7.8)	11.3	7.1	5.7

Source: Sunway REIT, UOB Kay Hian

#### RESULTS

• **Results in line.** Sunway REIT's 3QFY16 revenue of RM130.3m (-1.2% qoq, +17.7% yoy) translates into a core net profit of RM64.8m (-9.4% qoq, +14.0% yoy). This brings its 9MFY15 net profit to RM200.8m, which accounts for 78.9% and 73.5% of our and consensus full-year forecasts respectively. However, if we exclude the one-off gain from the court case dispute with Metroplex, 9MFY16 core earnings would have accounted for 76.5% and 74.4% of our and consensus full-year forecasts respectively.

#### KEY FINANCIALS

Year to 30 Jun (RMm)	2014	2015	2016F	2017F	2018F
Net turnover	428	453	502	523	555
EBITDA	230	237	251	274	281
Operating profit	230	237	251	274	281
Net profit (rep./act.)	346	467	166	182	179
Net profit (adj.)	232	235	255	278	283
EPU (sen)	7.9	8.0	9.3	9.9	10.1
DPU (sen)	7.9	8.7	9.3	9.9	10.1
PE (x)	20.3	20.0	18.4	16.9	16.6
P/B (x)	1.3	1.2	1.2	1.2	1.2
DPU Yld (%)	5.0	5.5	5.8	6.2	6.3
Net margin (%)	80.8	103.0	33.1	34.8	32.3
Net debt/(cash) to equity (%)	47.4	54.0	56.8	67.6	70.4
Interest cover (x)	3.6	3.4	3.0	3.0	2.8
ROE (%)	9.6	12.2	4.2	4.6	4.5
Consensus DPU (sen)	n.a.	n.a.	8.8	9.4	9.8
UOBKH/Consensus (x)	-	-	1.00	1.00	0.98

Source: Sunway REIT, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	RM1.60
Target Price	RM1.65
Upside	+2.8%

#### COMPANY DESCRIPTION

Sunway Real Estate Investment Trust invests in retail, office, and hotel properties.

#### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	SREIT MK
Shares issued (m):	2,941.2
Market cap (RMm):	4,705.9
Market cap (US\$m):	1,197.7
3-mth avg daily t'over (US\$m):	0.7

#### Price Performance (%)

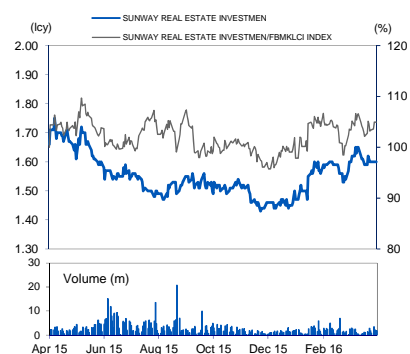
52-week high/low	RM1.75/RM1.43			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
3.9	9.6	5.3	(5.9)	9.6

#### Major Shareholders

	%
Sunway Bhd	36.1
EPF	10.7
Skim Amanah Saham Bumiputera	8.3

FY16 NAV/Share (RM)	1.36
FY16 Net Debt/Share (RM)	0.77

#### PRICE CHART



Source: Bloomberg

#### ANALYST

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### STOCK IMPACT

- Retail remained resilient.** Retail continued to be the main earnings growth driver for Sunway REIT as 3QFY16 revenue improved 19.8% yoy (9MFY16: up 15.7% yoy), mainly thanks to contribution from Sunway Putra Mall which was reopened in May 15. Ytd occupancy however, dropped marginally due to the remodeling of 21,000 sf of NLA at the second floor of Sunway Carnival Shopping Mall into an F&B area which will commence operations in 4QFY16.
- Hotel segment improved.** On a yoy basis, revenue from the hotel segment increased by 34.9% in 3QFY16 vs -18.9% in 3QFY15, attributable to higher leisure demand from the Middle Eastern market and full quarter contribution from Sunway Hotel Georgetown in 3QFY16 as compared with only two months of contribution in 3QFY15 (upon Sunway REIT's completion of the acquisition in Jan 15). We note that the major refurbishment at Pyramid Tower East is currently ongoing and it has been fully closed for almost one year. Overall occupancy rate in the hotel segment was boosted by growth across all hotels (save for Sunway Hotel Seberang Jaya) as well as full contribution for the quarter from Sunway Hotel Georgetown.
- Office segment still struggling,** due to lower occupancy rates across all office buildings, except for Wisma Sunway. However we think that the worst is over for the office segment as the decline in revenue contribution for 3QFY16 has narrowed sequentially from -18.9% yoy in 3QFY16 vs -26.6% yoy in 2QFY16. This was primarily due to tenants, who were earlier scheduled to move out in stages, completely moving out of the office building. Management is now actively looking for replacement tenants. All in, the office segment only contributes to about 5% to Sunway REIT's total revenue.

### EARNINGS REVISION/RISK

- None.

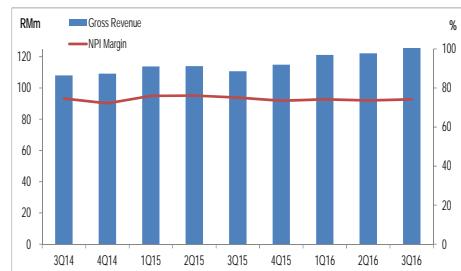
### VALUATION/RECOMMENDATION

- Maintain HOLD with a target price of RM1.65.** Our target price is based on dividend discount model (required rate of return: 7.6%, terminal growth: 1.2%) and supported by an implied dividend yield of 5.3%. Entry price is RM1.49.

### SHARE PRICE CATALYST

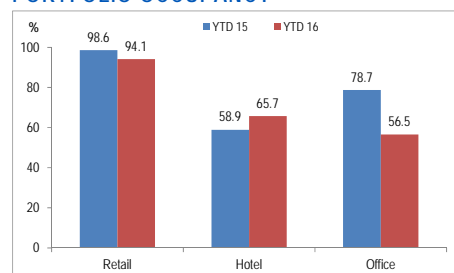
- Organic growth** to come from Pyramid Tower East hotel after its refurbishment and improved occupancy at Sunway Tower.
- Inorganic growth** to come from the acquisition of sponsor assets – Sunway Giza, Sunway University, Monash University, Sunway Campus, Sunway Pyramid Phase 3 and Sunway Pinnacle.

### REVENUE & OPERATING MARGIN



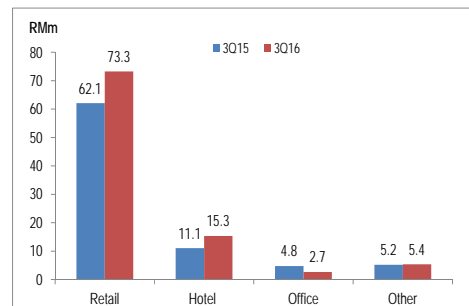
Source: Sunway REIT, UOB Kay Hian

### PORTFOLIO OCCUPANCY



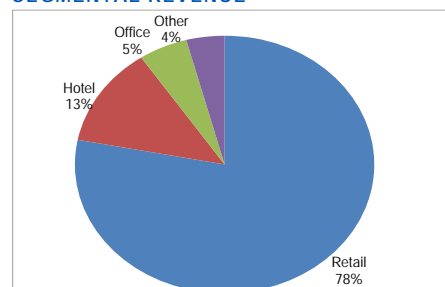
Source: Sunway REIT, UOB Kay Hian

### NPI CONTRIBUTION BY SEGMENT



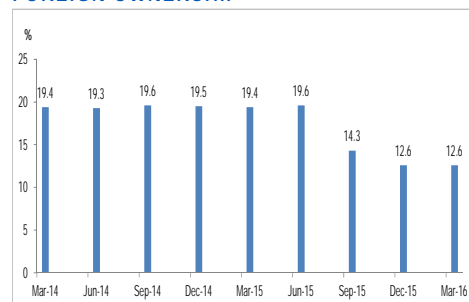
Source: Sunway REIT, UOB Kay Hian

### SEGMENTAL REVENUE



Source: Sunway REIT, UOB Kay Hian

### FOREIGN OWNERSHIP



Source: Sunway REIT, UOB Kay Hian

### PROFIT & LOSS

Year to 30 Jun (RMm)	2015	2016F	2017F	2018F
Net turnover	453	502	523	555
EBITDA	237	251	274	281
Deprec. & amort.	0	0	0	0
EBIT	237	251	274	281
Net interest income/(expense)	(71)	(85)	(92)	(102)
Pre-tax profit	473	166	182	179
Tax	(6)	0	0	0
Net profit	467	166	182	179
Net profit (adj.)	235	255	278	283

### BALANCE SHEET

Year to 30 Jun (RMm)	2015	2016F	2017F	2018F
Fixed assets	6,329	6,329	6,348	6,380
Other LT assets	0	0	0	0
Cash/ST investment	66	95	66	92
Other current assets	35	124	542	637
<b>Total assets</b>	<b>6,430</b>	<b>6,548</b>	<b>6,956</b>	<b>7,109</b>
ST debt	763	853	1,133	1,223
Other current liabilities	223	201	209	222
LT debt	1,454	1,504	1,624	1,674
Other LT liabilities	7	7	7	7
Shareholders' equity	3,982	3,982	3,982	3,982
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>6,430</b>	<b>6,548</b>	<b>6,956</b>	<b>7,109</b>

### CASH FLOW

Year to 30 Jun (RMm)	2015	2016F	2017F	2018F
<b>Operating</b>	<b>348</b>	<b>374</b>	<b>395</b>	<b>414</b>
Pre-tax profit	485	502	523	555
Tax	0	0	0	0
Deprec. & amort.	0	0	0	0
Working capital changes	(164)	(128)	(128)	(141)
Other operating cashflows	26	0	0	0
<b>Investing</b>	<b>(401)</b>	<b>(40)</b>	<b>(160)</b>	<b>(40)</b>
Capex (maintenance)	(2)	(40)	(160)	(40)
Investments	(134)	0	0	0
Proceeds from sale of assets	(266)	0	0	0
Others	1	0	0	0
<b>Financing</b>	<b>65</b>	<b>(306)</b>	<b>(263)</b>	<b>(348)</b>
Distribution to unitholders	(255)	(271)	(291)	(297)
Issue of shares	0	0	0	0
Proceeds from borrowings	7,281	50	120	50
Loan repayment	(6,888)	0	0	0
Others/interest paid	(72)	(85)	(92)	(102)
<b>Net cash inflow (outflow)</b>	<b>12</b>	<b>28</b>	<b>(28)</b>	<b>26</b>
Beginning cash & cash equivalent	55	66	95	66
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	66	95	66	92

### KEY METRICS

Year to 30 Jun (%)	2015	2016F	2017F	2018F
<b>Profitability</b>				
EBITDA margin	52.3	50.0	52.4	50.6
Pre-tax margin	104.3	33.1	34.8	32.3
Net margin	103.0	33.1	34.8	32.3
ROA	7.8	2.6	2.7	2.5
ROE	12.2	4.2	4.6	4.5
<b>Growth</b>				
Turnover	6.0	10.7	4.2	6.1
EBITDA	3.2	5.9	9.1	2.6
Pre-tax profit	36.8	(64.8)	9.3	(1.5)
Net profit	35.1	(64.4)	9.3	(1.5)
Net profit (adj.)	1.2	8.4	9.2	1.8
EPU	1.3	8.4	9.2	1.8
<b>Leverage</b>				
Debt to total capital	35.8	37.2	40.9	42.1
Debt to equity	55.7	59.2	69.2	72.8
Net debt/(cash) to equity	54.0	56.8	67.6	70.4
Interest cover (x)	3.4	3.0	3.0	2.8

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