

## Sunway Real Estate Investment Trust

Aiming for Stable DPU in FY19

**TP: RM1.87** (+7.5%)

Last Traded: RM1.74

**Hold**

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### Review

- Excluding fair value gains on investment properties totalling RM144.7mn, Sunway REIT posted realised net profit of RM281.9mn in FY18, representing growth of 4.2% YoY. Results were within expectations, accounting for 95% and 99% of ours and consensus' full-year estimates respectively.
- A distribution per unit (DPU) of 2.2sen (-5.3% YoY) was declared for this quarter, bringing the total FY18 DPU to 9.6sen (+4.1% YoY). This translates to a distribution yield of 5.5%, based on yesterday's closing price.
- YoY, Sunway REIT's FY18 revenue and net property income (NPI) advanced by 7.2% and 8.0% to RM560.4mn and RM419.9mn respectively. The encouraging set of results were driven by better performance across key operating segments and maiden contribution from newly acquired assets - Sunway REIT industrial – Shah Alam I (completed in Aug-17) and Sunway Clio Property (completed in Feb-18). However, realised net profit grew at a slower pace of 4.2% YoY to RM281.9mn, largely impacted by higher finance cost (+18.3%) due to drawn down of loans for new acquisitions.
- In terms of segmental performance, the retail segment posted a 2.4% YoY growth in NPI during the period under review. This was underpinned by higher average occupancy rates for all retail malls (except for Sunway Carnival) and higher rental income for both Sunway Pyramid and Sunway Carnival. Notably, the occupancy of Sunway Putra Mall has improved to 90.7% as at Jun-18 as compared with 86.3% as at June-17. However, we understand that the better occupancy was largely driven by attractive rental packages offered to new/renewed tenants.
- The hospitality segment recorded solid performance in FY18, with revenue and NPI increasing by 28.2% YoY and 28.3% YoY respectively, primarily attributable to full resumption of operations at Sunway Pyramid Hotel. Refurbishment activities for the hotel was completed in June 2017. In addition, Sunway Putra Hotel registered higher gross revenue in FY18 (+3.4% YoY) on the back of both higher average occupancy and average daily rate.
- The office segment's revenue and NPI increased by 6.3% YoY and 5.9% YoY respectively in FY18. The better performance was mainly contributed by Menara Sunway and Sunway Putra Tower with higher occupancy rates.

### Share Information

Bloomberg Code	SREIT MK
Stock Code	5176
Listing	Main Market
Share Cap (mn)	2945.1
Market Cap (RMmn)	5,124.4
52-wk Hi/Lo (RM)	1.90/1.48
12-mth Avg Daily Vol ('000 shrs)	1,642.9
Estimated Free Float (%)	27.6
Beta	0.8

### Major Shareholders (%)

Sunway Berhad	(40.9)
Employees Provident Fund	(14.1)
Skim Amanah Saham Bumiputera	(7.3)

### Forecast Revision

	FY19	FY20
Forecast Revision (%)	(3.1)	(0.7)
Net profit (RMmn)	304.7	321.7
Consensus	289.9	298.7
TA's / Consensus (%)	105.1	107.7
Previous Rating	Hold (Maintained)	

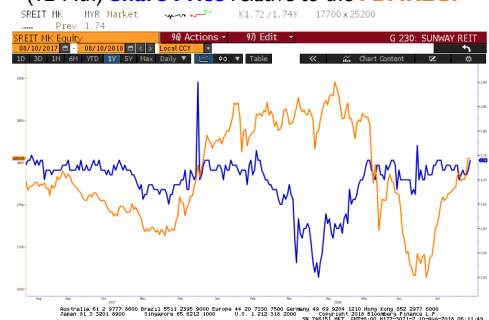
### Financial Indicators

	FY19	FY20
Net gearing (x)	39.3	39.6
CFPS (sen)	11.7	14.1
P/CFPS (x)	14.9	12.3
ROE (%)	7.0	7.4
ROA (%)	4.1	4.3
NTA/Share (RM)	1.6	1.6
Price/ NTA (x)	1.1	1.1

### Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	1.8	7.0
3 mth	4.2	(2.3)
6 mth	3.0	(0.8)
12 mth	0.6	1.5

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

### Impact

- Our FY19-20 earnings are trimmed by 3.1% and 0.7% respectively, after incorporating the actual FY18 results and post some house-keeping adjustments. We introduce our FY21 forecasts with a projected DPU growth of 6.0%, driven by new contributions from Sunway Carnival Shopping Mall Extension.

### Conference Call Highlights

- Management is committed to distribute 100% of its distributable net income for FY19 and aims to maintain the DPU performance in FY19. The retail segment is expected to register modest growth in FY19, underpinned by stable average occupancy rates across all the malls. Meanwhile, management expects the hospitality segment to grow moderately in FY19 (vs. FY18's 28% YoY growth), due to on-going refurbishment activities at Sunway Resort Hotel & Spa. On the other hand, management foresees the office segment to show gradual improvement, mainly attributable to continued improvements at Sunway Putra Tower and Wisma Sunway.
- The expansion of Sunway Carnival Shopping Mall New Wing Phase I has commenced in July. Recall, this is the first green field development by Sunway REIT, involving the development 3.3 acres of leasehold commercial land adjacent to Sunway Carnival, which is currently used as a car park. The new extension, which is expected to complete by end 2020 (or FY21), will increase the mall's NLA from around 500,000 sq. ft. to 830,000 sq. ft.

### Valuation

- Our DDM-derived target price is largely unchanged at RM1.87/unit (discount rate 8.1%). Our target price implies forward yields of 5.5%, in line with industry's average. Maintain **Hold**.

**Table 1: Earnings Summary (RMmn)**

FYE June	FY17	FY18	FY19f	FY20f	FY21f
Gross Rental Income	522.9	560.4	598.3	625.2	652.9
Net Property Income	388.8	419.9	452.4	472.2	492.5
NPI Margins	74.4	74.9	75.6	75.5	75.4
Adj. Pretax profit	272.4	284.0	304.7	321.7	341.2
Reported Net Profit	323.7	428.7	304.7	321.7	341.2
Realised Net Profit	270.6	281.9	304.7	321.7	341.2
EPU (Sen)	9.2	9.6	10.3	10.9	11.6
EPU Growth (%)	3.7	4.3	7.3	5.6	6.0
PER (x)	18.8	18.0	16.8	15.9	15.0
DPU (sen)	9.2	9.6	10.3	10.9	11.6
Div Yield (%)	5.3	5.5	5.9	6.3	6.7
ROE (%)	6.6	6.6	7.0	7.4	7.8

**Table 2: 4QFY18 Results Analysis (RMmn)**

FYE June	4Q17	3Q18	4Q18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)	
<b>Total revenue</b>	132.5	141.5	136.3	(3.7)	2.8	522.9	560.4	7.2	
- Retail	100.9	107.9	101.2	(6.2)	0.4	405.0	416.5	2.8	
- Hospitality	18.1	18.0	18.7	4.4	3.7	64.5	82.6	28.2	
- Office	8.0	8.5	9.1	7.6	13.3	31.5	33.5	6.3	
- Healthcare	5.6	7.2	7.2	0.0	28.7	21.9	27.8	26.9	
<b>Total Net Property Income</b>	98.5	105.3	100.3	(4.8)	1.8	388.8	419.9	8.0	
- Retail	71.7	77.0	70.7	(8.2)	(1.4)	289.9	296.9	2.4	
- Hospitality	17.0	16.7	17.0	2.1	0.0	60.6	77.7	28.3	
- Office	4.2	4.4	5.4	21.9	27.6	16.5	17.5	5.9	
- Healthcare	5.6	7.2	7.2	0.0	28.7	21.9	27.8	26.9	
Other Income	0.9	2.2	1.9	(11.0)	113.5	8.3	8.3	0.1	
Changed in fair value	152.1	0.0	144.7	>100	(4.8)	152.1	144.7	(4.8)	
Net Investment Income	251.5	107.5	246.9	129.7	(1.8)	549.2	572.9	4.3	
Manager & Trustee Fee	(8.4)	(8.9)	(8.7)	(2.8)	3.4	(32.9)	(35.5)	7.8	
Finance Costs	(23.0)	(27.4)	(29.0)	5.9	26.4	(89.3)	(105.6)	18.3	
Other expenses	(1.3)	(0.8)	(1.1)	37.7	(14.3)	(2.5)	(1.3)	(46.4)	
Income Before Taxation	218.8	70.4	208.1	195.8	(4.9)	424.5	428.7	1.0	
Net Profit	218.8	70.4	207.1	194.4	(5.4)	427.1	427.7	0.1	
<b>Realised Net Profit</b>	66.8	69.9	63.3	(9.4)	(5.2)	270.6	281.9	4.2	
Realised EPU	(sen)	2.3	2.4	2.2	(9.3)	(5.3)	9.2	9.6	4.1
DPU	(sen)	2.3	2.4	2.2	(9.3)	(5.3)	9.2	9.6	4.1
NPI Margin	(%)	74.3	74.4	73.6	(0.8)	(0.7)	74.4	74.9	0.8
Realised Net Margin	(%)	50.4	49.4	46.5	(2.9)	(3.9)	51.8	50.3	(1.4)

**Peers Comparison**

	Call	Price	Target price	Market Cap	PER (x)		Div Yield (%)		P/NAV (x)	
		(RM)	(RM)	(RM bn)	FY18	FY19	FY18	FY19	FY18	FY19
Sunway REIT	Hold	1.74	1.87	5.1	18.0	16.8	5.5	5.9	1.1	1.1
CMMT	Buy	1.18	1.48	2.4	14.9	14.1	6.9	7.3	0.9	0.9
KLCCP Stapled Group*	NR	7.78	NR	14.0	19.1	18.3	4.7	4.9	1.1	1.1
IGB REIT*	NR	1.70	NR	6.0	19.1	17.9	5.5	5.8	1.6	1.6
Pavilion REIT*	NR	1.55	NR	4.7	18.2	17.2	5.5	5.9	1.2	1.2
Axis REIT*	NR	1.55	NR	1.9	18.5	16.8	5.4	5.9	1.2	1.5
MQ REIT*	NR	1.18	NR	1.3	18.9	18.2	6.9	6.8	0.9	0.9
Al Salam*	NR	0.88	NR	0.5	15.4	14.8	5.6	5.8	0.8	0.8
<b>Average</b>					<b>17.8</b>	<b>16.8</b>	<b>5.8</b>	<b>6.0</b>	<b>1.1</b>	<b>1.1</b>

\* Based on consensus number

Source: Bloomberg, TA Research

**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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As of Friday, August 10, 2018, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

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