

25 November 2013
Analyst
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12-month upside potential

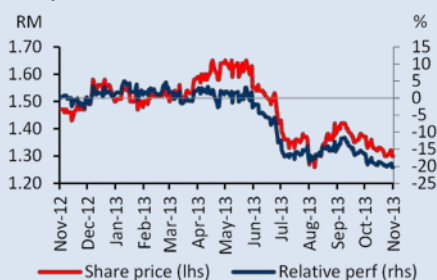
Previous target price	1.34
Revised target price	1.38
Current price (as at 22 Nov)	1.30
Capital upside (%)	5.8
Net distribution (%)	6.2
Total return (%)	12.0

Key stock information

Syariah-compliant?	No
Market Cap (RM m)	3,797.9
Units outstanding (m)	2,921.4
Free float (%)	42.6%
52-week high / low (RM)	1.65 / 1.26
3-mth avg volume ('000)	1,100.1
3-mth avg turnover (RM m)	1.5

Unit price performance

	1M	3M	6M
Absolute (%)	-5.1	1.6	-19.8
Relative (%)	-4.1	-3.7	-21.0

Unit price chart


Source: Bloomberg

Major shareholders

Sunway	33.8
Employees Provident Fund	10.0
Skim Amanah Saham Bumiputra	7.5
Capital Group	5.6

Sunway REIT

REIT

Neutral

Bloomberg Ticker: SREIT MK | Bursa Code: 5176

Short term pain, long term gain

We are pleased by Sunway REIT's decision to accelerate its refurbishment plan for Sunway Putra Place (SPP), which we believe short term earnings drag is inevitable but justified by long term gain. With new guidance on SPP, we foresee EPU to grow by -3.6%, +8.8%, and +15.4% for FY14, FY15 and FY16 respectively. While higher long term DPU (+4% due to higher FY16 DPU projection) leads to higher DDM-based TP of RM1.38 (+2.6%), we maintain our NEUTRAL call on SREIT now as we believe investors' interest on the REIT will only gradually pick up in mid-2014 once SPP refurbishment works show good progress. Our revised TP now implies a yield of 6.2% for FY14.

Accelerated refurbishment plan for Sunway Putra Place

- Sunway REIT (SREIT) hosted an analyst briefing on 22 Nov 2013, to brief investors of its accelerated refurbishment plan for Sunway Putra Place (SPP). The briefing was well attended by about 30 analysts and fund managers.
- In the briefing, SREIT's CEO, Dato' Jeffrey Ng explained that the team has been working hard on its major refurbishment plan for Sunway Putra Mall (mall) over the past few months, and decided to take a short term pain by accelerating the refurbishment of SPP which include the mall, Sunway Putra Hotel (hotel) and Sunway Putra Tower (office).
- While this could result in more earnings loss (hotel business will be badly affected even though it is not closing down completely) in 2014 due to the heavy construction works in SPP, management believes it is a better strategy as it could have a complete repositioning and rebranding exercise on its brand new 3-in-1 mixed use asset, once the SPP is re-launched in 1Q2015.
- In terms of cost, management guided that total refurbishment cost is estimated at RM459.2m, of which RM307.2m is for the mall while RM123m and RM29m are allocated for the hotel and office respectively.
- Post refurbishment, management targets to achieve net property income (NPI) of RM70-80m p.a., once the mall and office enter the 2nd year while hotel enters the 3rd year. This implies ROI and NPI yield of 7.5-8.5% and 6.4-7.0% respectively.
- We believe this is achievable as the estimate is based on reasonable assumptions of (1) retail mall average net rental of RM6-7 per square feet (psf), (2) office average net rental of RM2.90-3.10 psf, and (3) hotel average room rate of RM350-370 per night (to note, it would be qualified as a 5-star hotel). In terms of occupancy rate, management targets 95%, 90% and 73% for mall, office and hotel respectively.
- As far as financing risk is concern, the REIT has debt headroom of up to RM1bn under its commercial paper and revolving credit facilities. As at 1QFY14, gearing stood at 0.31x.

Trim FY14 & FY15 earnings but raise FY16 earnings on SPP's contribution

- With the anticipation of higher earnings loss from SPP due to the massive refurbishment work in 2014, we trim our FY14 and FY15 earnings by 3.5% and 1.0% respectively. On the positive side, we raise our FY16 earnings by 4.7% to take into account stronger contribution from SPP once the heavy investment leads to a successful transformation for the mixed-used asset.
- Post adjustment, we foresee -3.6%, +8.8% and +15.4% EPU growth for FY14, FY15 and FY16 respectively.

Maintain NEUTRAL with higher TP of RM1.38 (+2.6%)

- While higher long term DPU (+4% due to higher FY16 DPU projection) leads to higher DDM-based TP of RM1.38 (+2.6%), we maintain our NEUTRAL call on SREIT now as we believe investors' interest on the REIT will only gradually pick up in mid-2014 once SPP refurbishment works show good progress.
- Our revised DDM-based TP implies a net yield of 6.2% and 6.7% for FY14 and FY15 respectively.



SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 1 : Key financial data

FYE 30 June	FY12	FY13	FY14F	FY15F	FY16F
Revenue (RM m)	406.4	415.9	421.1	458.4	512.6
EBITDA (RM m)	270.2	281.2	289.0	319.1	360.2
EBIT (RM m)	270.2	281.0	288.8	319.0	360.1
Pretax profit (RM m)	420.5	392.3	221.9	242.2	280.5
Reported net profit (RM m)	420.5	392.3	221.9	242.2	281.5
Core net profit (RM m)	190.3	218.8	221.9	242.2	280.5
EPU (sen)	15.6	14.1	7.6	8.3	9.5
Core EPU (sen)	7.1	7.9	7.6	8.3	9.5
Alliance / Consensus (%)			97.7	95.0	98.3
Core EPU growth (%)	12.8	11.3	-3.6	8.8	15.4
P/E (x)	18.4	16.5	17.1	15.7	13.6
EV/EBITDA (x)	18.7	19.1	19.8	18.5	16.4
ROE (%)	6.3	6.2	6.3	6.9	7.9
Gearing (%)	33.4	31.0	35.2	37.0	36.7
Net DPU (sen)	7.5	8.3	8.0	8.7	10.0
Net distribution yield (%)	5.8	6.4	6.2	6.7	7.7
NAV/share (RM)	1.12	1.20	1.20	1.20	1.20
P/NAV (x)	1.2	1.1	1.1	1.1	1.1

Source: Alliance Research, Bloomberg

Figure 2 : Earnings revision

	Previous EPU Sen	Revised EPU Sen	Change %
2014F	7.9	7.6	-3.5
2015F	8.3	8.3	-1.0
2016F	9.1	9.5	+4.7

Source: Alliance Research

Figure 3 : Peer comparison

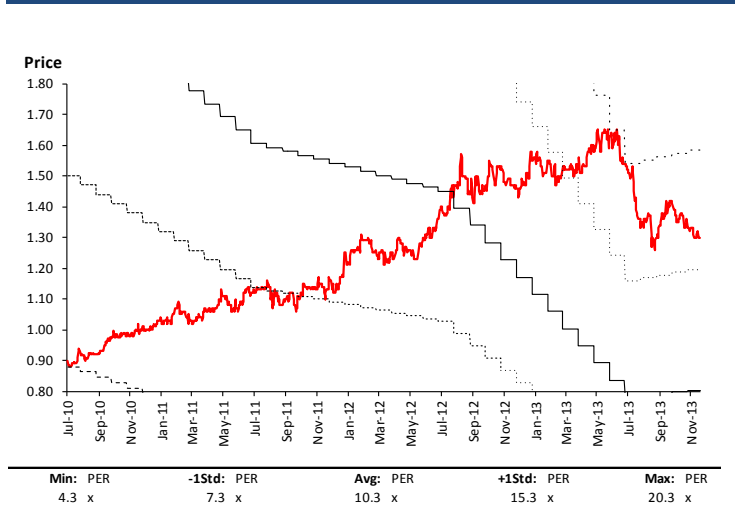
Company	Call	Target price (RM)	Share price (RM)	Mkt Cap (RM m)	EPS Growth (%)		P/E (x)		P/BV (x)		ROE (%)		Net Dividend Yield (%)	
					CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14
IGB REIT	Neutral	1.27	1.26	4,312.5	9.9	2.3	20.6	20.2	1.2	1.2	6.0	6.2	5.6	5.6
Pavillion REIT	Neutral	1.46	1.33	4,002.9	11.8	9.0	18.3	16.8	1.2	1.2	6.6	7.2	5.8	6.3
Sunway REIT	Neutral	1.38	1.30	3,797.9	3.5	2.5	16.8	16.4	1.1	1.1	8.7	6.6	6.3	6.4
Axis REIT	Buy	3.77	3.34	1,532.9	10.3	9.5	17.5	16.0	1.5	1.5	8.8	9.6	5.7	6.2
Average					13.1	6.4	18.6	17.5	1.2	1.2	7.2	7.0	5.9	6.1

Source: Alliance Research, Bloomberg

Share price date: 22 Nov 2013

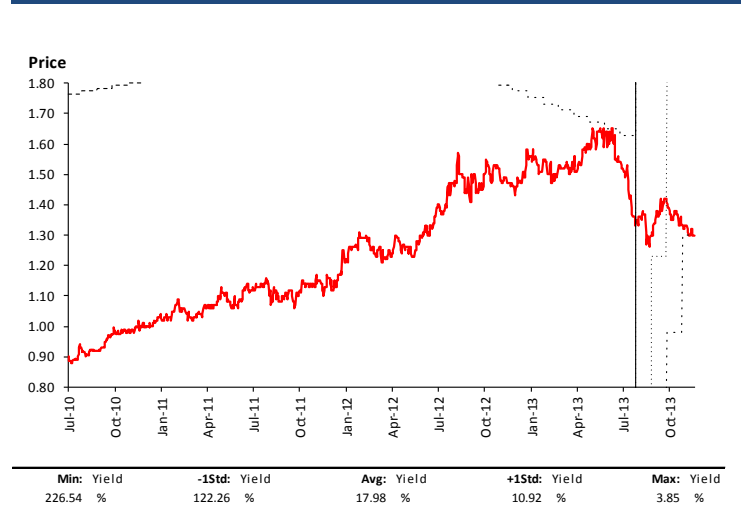
KEY CHARTS AND TABLES

Figure 4 : Rolling 12-month forward P/E trend



Source: Alliance Research, Bloomberg

Figure 5 : Rolling 12-month forward yield trend



Source: Alliance Research, Bloomberg

Figure 6 : Previous-DDM valuation model

DDM Valuation Model

Key Assumptions:

Market Risk Premium (MRP)	5.5%
Beta (B)	0.87
Risk free rate (Rf)	4.0%
Constant DPU growth rate (g)	2.0%
Cost of equity (r) = Rf + (B x MRP)	8.8%

$$\begin{aligned}
 \text{Equity value per share (RM)} &= \text{Present value of future dividend} + \text{Terminal value} \\
 &= D_0 + \frac{D_1}{(1+r)^1} + \frac{D_2}{(1+r)^2} + \frac{D_3}{(1+r)^3} + \left[\frac{D_3 \times (1+g)}{(r-g)} \times \frac{1}{(1+r)^3} \right] \\
 &= 0.020 + \frac{0.063}{(1.088)^1} + \frac{0.088}{(1.088)^2} + \frac{0.096}{(1.088)^3} + \left[\frac{0.096 \times (1.02)}{(0.088 - 0.02)} \times \frac{1}{(1.088)^3} \right] \\
 &= 0.020 + 0.058 + 0.074 + 0.074 + 1.118 \\
 &= 1.34
 \end{aligned}$$

* n = period

Source: Alliance Research, Bloomberg

Figure 7 : Revised-DDM valuation model

DDM Valuation Model

Key Assumptions:

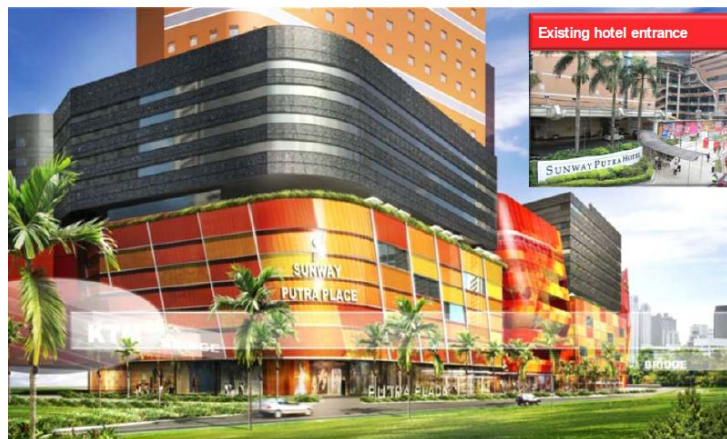
Market Risk Premium (MRP)	5.5%
Beta (B)	0.87
Risk free rate (Rf)	4.0%
Constant DPU growth rate (g)	2.0%
Cost of equity (r) = Rf + (B x MRP)	8.8%

$$\begin{aligned}
 \text{Equity value per share (RM)} &= \text{Present value of future dividend} + \text{Terminal value} \\
 &= \frac{D_1}{(1+r)^1} + \frac{D_2}{(1+r)^2} + \frac{D_3}{(1+r)^3} + \left[\frac{D_3 \times (1+g)}{(r-g)} \times \frac{1}{(1+r)^3} \right] \\
 &= \frac{0.060}{(1.088)^1} + \frac{0.087}{(1.088)^2} + \frac{0.100}{(1.088)^3} + \left[\frac{0.100 \times (1.02)}{(0.088 - 0.02)} \times \frac{1}{(1.088)^3} \right] \\
 &= 0.055 + 0.074 + 0.078 + 1.168 \\
 &= 1.38
 \end{aligned}$$

* n = period

Source: Alliance Research, Bloomberg

Figure 8 : Artist impression of the refurbished Sunway Putra Mall



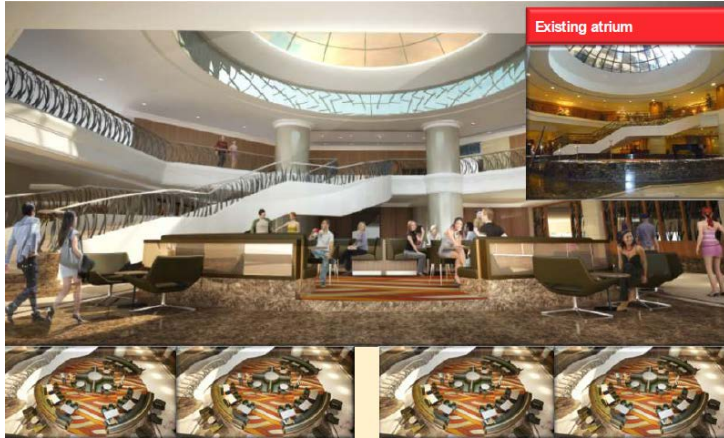
Source: Company slides

Figure 9 : Artist impression of the refurbished Sunway Putra Mall



Source: Company slides

Figure 10 : Artist impression of the refurbished atrium at SPH



Source: Company slides

Figure 11 : Artist impression of the refurbished reception area at SPH



Source: Company slides

Figure 12 : Artist impression of the refurbished ballroom at SPH



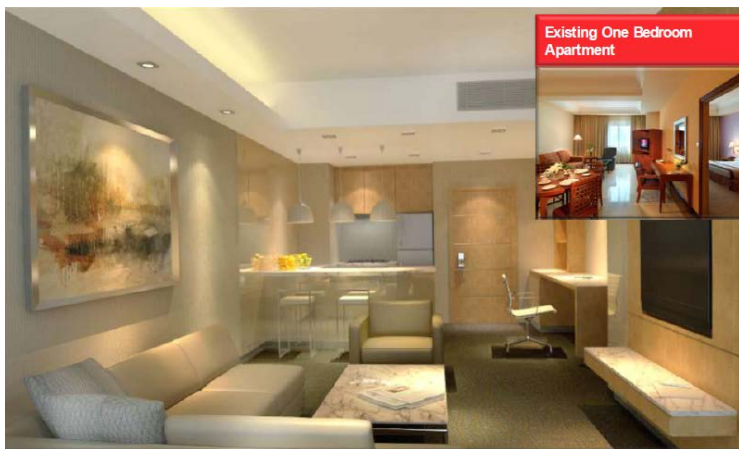
Source: Company slides

Figure 13 : Artist impression of the refurbished public rest room



Source: Company slides

Figure 14 : Artist impression of the refurbished 1-bedroom apartment



Source: Company slides

Figure 15 : Artist impression of the refurbished studio apartment



Source: Company slides

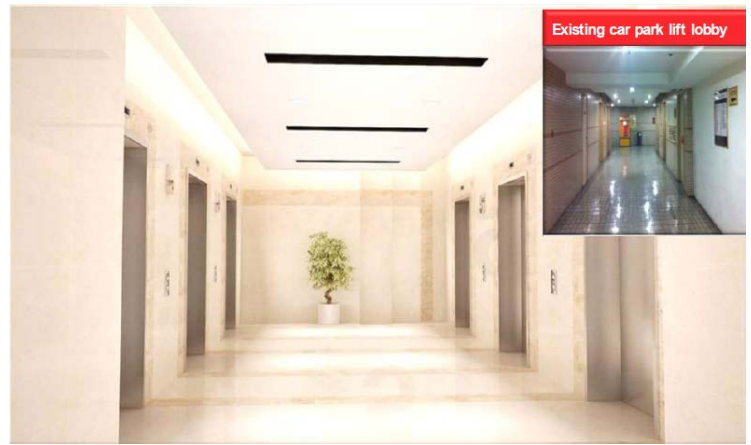


Figure 16 : Artist impression of the refurbished Sunway Putra Tower



Source: Company slides

Figure 17 : Artist impression of the refurbished car park lift lobby



Source: Company slides



Sunway REIT

FINANCIAL SUMMARY

Price Date: 22 November 2013

Balance Sheet

FYE 30 June (RM m)	2012A	2013F	2014F	2015F	2016F
PPE	0.4	1.3	1.1	1.0	0.9
Investment properties	4,630.0	5,184.0	5,534.8	5,716.1	5,716.1
Receivables	18.7	18.2	18.4	20.0	22.4
Other assets	8.5	7.5	7.5	7.5	7.5
Deposit, bank and cash ba	25.8	58.5	51.3	55.2	52.0
Total Assets	4,683.4	5,269.5	5,613.2	5,799.9	5,799.0
LT borrowings	318.1	1,317.9	1,777.9	1,897.9	1,897.9
ST borrowings	1,245.0	314.8	200.0	250.0	230.0
Payables	37.8	54.7	40.4	44.0	49.1
Other liabilities	74.2	75.8	75.8	75.8	75.8
Liabilities	1,675.0	1,763.1	2,094.0	2,267.6	2,252.8
Unitholders' capital	2,361.5	2,690.0	2,702.7	2,715.9	2,729.7
Undistributed income	646.8	816.5	816.5	816.5	816.5
Unitholders' Equity	3,008.3	3,506.5	3,519.2	3,532.3	3,546.2
Minority interest	-	-	-	-	-
Total Equity	3,008.3	3,506.5	3,519.2	3,532.3	3,546.2
Total Equity and Liabilities	4,683.4	5,269.5	5,613.2	5,799.9	5,799.0

Cash Flow Statement

FYE 30 June (RM m)	2012A	2013F	2014F	2015F	2016F
Pretax profit	420.5	392.3	221.9	242.2	280.5
Depreciation and amortisa	0.1	0.2	0.1	0.1	0.1
Other non-cash Coreustme	(129.1)	(120.2)	79.6	90.0	93.5
Change in working capital	(7.5)	25.2	(14.5)	1.9	2.8
Net interest paid	(71.4)	(50.6)	(67.0)	(76.8)	(79.6)
Tax paid	-	-	-	-	-
Operating Cash Flow	212.5	246.9	220.2	257.5	297.3
Capex	(0.4)	(0.8)	-	-	-
Investments	-	(310.0)	-	-	-
Others	(27.3)	(62.1)	(350.8)	(181.3)	-
Investing Cash Flow	(27.7)	(372.9)	(350.8)	(181.3)	-
Issuance of shares	-	320.0	12.7	13.2	13.9
Net change in borrowings	(19.0)	65.0	345.2	170.0	(20.0)
distributions paid	(194.5)	(222.9)	(234.6)	(255.4)	(294.3)
Others	(4.0)	(3.4)	-	-	-
Financing Cash Flow	(217.6)	158.7	123.4	(72.2)	(300.5)
Net cash flow	(32.8)	32.7	(7.2)	3.9	(3.2)
Effects of exchange rate ch	-	-	-	-	-
Beginning cash	58.6	25.8	58.5	51.3	55.2
Ending cash	25.8	58.5	51.3	55.2	52.0

Income Statement

FYE 30 June (RM m)	2012A	2013F	2014F	2015F	2016F
Revenue	406.4	415.9	421.1	458.4	512.6
EBITDA	270.2	281.2	289.0	319.1	360.2
Depreciation	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
EBIT	270.2	281.0	288.8	319.0	360.1
Net interest expense	(79.9)	(62.2)	(67.0)	(76.8)	(79.6)
Revaluation surplus	230.2	173.5	-	-	-
Pretax profit	420.5	392.3	221.9	242.2	280.5
Taxation	-	-	-	-	-
Minority interests	-	-	-	-	1.0
Net profit	420.5	392.3	221.9	242.2	281.5
Core EBIT	270.2	281.0	288.8	319.0	360.1
Core net profit	190.3	218.8	221.9	242.2	280.5

Key Statistics & Ratios

FYE 30 June	2012A	2013F	2014F	2015F	2016F
Growth					
Revenue	24.1%	2.3%	1.2%	8.9%	11.8%
Core EBIT	22.1%	4.0%	2.8%	10.4%	12.9%
Pretax profit	-24.1%	-6.7%	-43.4%	9.2%	15.8%
Core net profit	13.9%	15.0%	1.4%	9.2%	15.8%
Core EPU	12.8%	11.3%	-3.6%	8.8%	15.4%

Profitability

Core EBIT margin	66.5%	67.6%	68.6%	69.6%	70.3%
Pretax profit margin	103.5%	94.3%	52.7%	52.8%	54.7%
Core net profit margin	46.9%	52.6%	52.7%	52.8%	54.7%
Effective tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Return on assets	4.1%	4.2%	4.0%	4.2%	4.8%
Return on equity	6.3%	6.2%	6.3%	6.9%	7.9%

Leverage

Total debt / total asset	33.4%	31.0%	35.2%	37.0%	36.7%
Total debt / equity	52.0%	46.6%	56.2%	60.8%	60.0%
Net debt / equity	51.1%	44.9%	54.7%	59.2%	58.5%

Key Drivers

FYE 30 June	2012A	2013F	2014F	2015F	2016F
Average NLA (m sq ft)*	3.7	3.8	3.8	3.9	3.9
Occupancy rate	93.6%	93.0%	82.1%	93.8%	93.9%

Valuation

FYE 30 June	2012A	2013F	2014F	2015F	2016F
EPU (sen)	15.6	14.1	7.6	8.3	9.5
Core EPU (sen)	7.1	7.9	7.6	8.3	9.5
Core PE (x)	18.4	16.5	17.1	15.7	13.6
EV/EBITDA (x)	18.7	19.1	19.8	18.5	16.4
Net DPU (sen)	7.5	8.3	8.0	8.7	10.0
Net distribution yield (%)	5.8%	6.4%	6.2%	6.7%	7.7%
NAV/ share (RM)	1.12	1.20	1.20	1.20	1.20
P/NAV (x)	1.2	1.1	1.1	1.1	1.1



DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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