

Sunway Group, Malaysia

Sunway REIT acquires assets from sponsor, Sunway Bhd for M\$340MM

Sunway REIT (SREIT)'s proposed acquisition of Sunway Clio Property for M\$340MM from sponsor Sunway Bhd (SWB) translates to an acquisition yield of 6% (based on annual income guarantee of M\$20.2MM for first four years) vs SREIT's average cost of debt of 4%. The acquisition to be fully debt-funded will raise SREIT's DPU by an estimated 2% pa, and keep gearing at just below 40% (within its internal threshold). For the sponsor, SWB in turn, proceeds raised from here will help fund its recent land acquisition commitments totaling M\$719MM YTD keeping its own FY17E net gearing comfortable at 43%. On valuations, we prefer Developers to MREITs, but we are **Neutral on SWB on valuations** (trading at 20% RNAV discount or at +1SD to sector historical mean). Within the MREIT space however, we like **SREIT (Neutral)** and IGB REIT (Neutral) to peers. SREIT trades at 5.0/5.3% net yield for CY17E/18E, or a yield spread of 110/130ps (vs historical mean of 130bps). **Overall in the property space, our top picks/OWs are developers, Eco World and SP Setia.**

- **SREIT to acquire Sunway Clio Property for M\$340MM from sponsor, SWB.** Sunway Clio is located adjacent to Sunway Pyramid Mall (already in the REIT) and comprise of: **1)** a 19-storey 4-star hotel (401 rooms), **2)** a 3-storey retail space (NLA: 88,384 sqft). **3)** 6-storey podium car park (See details in Fig 1).
- **Proposed lease of hotel and tenancy of car-park.** SWB has entered into a proposed lease of the hotel for a period of 10 years with an option to renew for a further 10 years, as well as a 3+3 year tenancy of the carpark.
- **Pricing.** Sunway Clio is a relatively new property completed and in operation for the past 1.5 years. The average hotel occupancy is at 71.6% while the retail occupancy stood at 88.2% as at Jun-17. On an annualized basis for the last 12 months to Jun-17, the hotel and retail assets generated estimated rental income of M\$10MM (still not at its full potential in the first year of operations). However, under the disposal agreement, SWB will guarantee SREIT a net income less outgoing cost of M\$20.3MM pa for the first 4 years. Hence, based on the rental guarantee, the acquisition cost of M\$340MM translates to an estimated yield of 6%.
- **Impact on SREIT.** The acquisition will be fully debt funded by SREIT (average cost of debt of 4%). This translates to accretion in DPU of 2% pa, and translates to a rise in gearing from 33% to 38.5%.
- **Impact on SWB.** Proceeds raised from here will help SWB fund its recent land acquisition commitments totaling M\$719MM YTD (of which about M\$500MM is more immediate with the rest on deferred terms), keeping its FY17E net gearing comfortable at 43% post the land acquisitions and disposal of Sunway Clio.
- **Recent publications.** Our 2 Aug-17 Malaysia Developers note titled "*More news-flow on land-banking; Good news from here priced-in for SWB, we prefer ECW and SPSB at current levels*" [here](#).

Figure 1: Sunway Clio transaction



Location	Bandar Sunway, Selangor
Vendor	Sunway Forum Hotel Sdn Bhd
Type of Property	1) 19-storey, 4-star hotel with 401 hotel rooms 2) 3-storey retail space 3) Multi-storey car park with 732 bays
Tenure	Leasehold interest for a term of 99 years, expiring on 16 Nov 2108
Age of Building	1.5 years
Land Area	77,403 sq ft.
Gross Floor Area	798,762 sq ft. (including the multi-storey car park)
Net Lettable Area	88,384 sq ft (retail space)
Occupancy	<ul style="list-style-type: none"> Hotel: 71.6% Retail: 88.2%
Consideration	RM340.0 million
NBV	RM293.1 million (as at 31 Dec 2016)

Source: Company.

Table 1: Completed property transactions

DATE	TYPE	REGION	SUBJECT PROPERTY	VENDOR	PURCHASER	NLA '000 SQFT	PRICE (M\$MN)	PRICE (M\$psf)	REMARKS
Aug-17	Hotel	KLV	Pyramid West Mall and Sunway Clio Hotel	Sunway	Sunway REIT	88.4 NLA 401 rooms	340.0	NA	
Jul-17	Retail	KLV	Pavilion Elite	Urusharta Cemerlang (KL) Sdn Bhd- Urusharta Cemerlang Sdn Bhd	Pavilion REIT	241.9	580.0	2,397	Includes two underground links with retail space to Pavilion Mall and Fahrenheit 88 Mall
Jun-17	Office	KLV	Wisma Selangor Dredging	Selangor Dredging	2x individuals	362.8	480.0	1,323	
Jun-17	Hotel	Penang	Lone Pine Hotel	Eastern & Oriental	Langkawi Saga Shopping Centre Sdn Bhd-Lubritrade Trade Trading Pte Ltd	90 rooms	85.0	944	
Apr-17	Industrial	KLV	Lion Metal Industries factory	Lion Industries Corporation	Yinson Corporation		45.0	NA	3 storey office building with 3 factory blocks
Jan-17	Industrial	KLV	IDS Manufacturing factory	Champion Edge Sdn Bhd	Sunway REIT	360.0 GFA	91.5	254	

Source: Companies.

Table 2: Developer peer comparison

As at: 3 Aug-17	FYE	Mkt cap (US\$m)	Price (M\$)	Rating	Target (M\$)	P/E		EPS growth		Net div yield		P/B	ROE	RNAV (M\$)	Prem/disc to RNAV
						CY17E	CY18E	CY17E	CY18E	FY17E	FY18E				
Eco World Develop	Oct	1,054	1.53	OW	1.90	26.5	15.7	21.2%	68.1%	0.0%	0.0%	1.1	4.4	2.90	-47%
Mah Sing Group	Dec	885	1.57	N	1.65	12.0	12.9	-6.6%	-7.1%	3.3%	3.1%	1.1	11.3	2.15	-27%
SP Setia	Dec	2,277	3.26	OW	4.40	13.0	14.9	-4.4%	-12.8%	5.5%	4.0%	1.0	7.8	6.10	-47%
Sunway Bhd	Dec	2,068	4.32	N	3.90	15.4	14.4	1.6%	6.7%	2.9%	3.1%	1.2	7.5	5.45	-21%
UEM Sunrise	Dec	1,231	1.16	OW	1.60	28.8	26.2	41.1%	10.1%	0.0%	1.1%	0.8	2.8	2.90	-60%
Weighted average		7,514				18.0	16.5	0.0%	0.3%	2.8%	2.6%	1.0	6.8		-39%

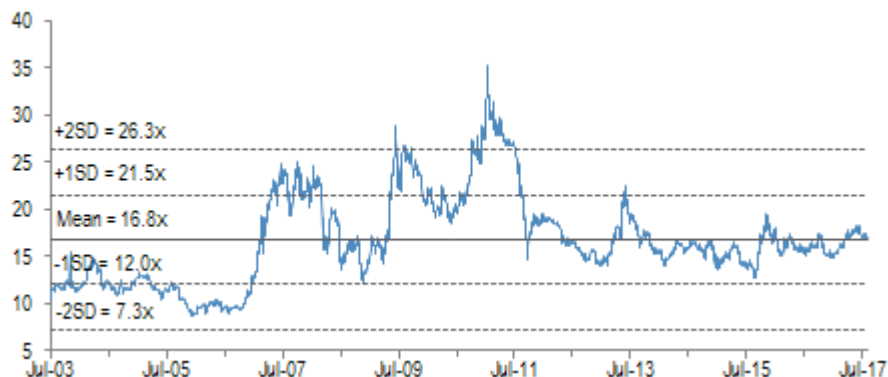
Source: Bloomberg, J.P. Morgan estimates.

Table 3: REIT peer comparison

As at: 3 Aug-17	Ticker	FYE	Mkt cap (US\$mn)	Price (LC)	Rating	Target (LC)	Net div yield		Net DPU growth		Net yield spread		P/B	
							CY17E	CY18E	CY17E	CY18E	CY17E	CY18E	FY17E	FY18E
CapitalLand Malaysia	CMMT MK	Dec	699	1.47	UW	1.35	5.2%	5.2%	-0.1%	1.7%	1.2%	1.2%	1.18	1.18
IGB REIT	IGBREIT MK	Dec	1,434	1.75	N	1.67	4.7%	4.8%	3.9%	3.7%	0.7%	0.8%	1.66	1.65
KLCC Property Hldgs	KLCCSS MK	Dec	3,285	7.78	UW	7.00	4.3%	4.5%	0.6%	3.2%	0.3%	0.5%	1.08	1.06
Pavilion REIT	PREIT MK	Dec	1,232	1.74	NC	-	4.3%	4.6%	1.9%	4.8%	0.4%	0.6%	1.35	1.34
Sunway REIT	SREIT MK	Jun	1,178	1.71	N	1.70	5.0%	5.3%	3.2%	6.5%	1.0%	1.3%	1.20	1.19
Weighted average*			6,596				4.6%	4.8%	1.0%	3.5%	0.6%	0.8%	1.24	1.23
Weighted average* (ex-KLCC)			3,311				4.9%	5.1%	2.8%	4.4%	0.9%	1.1%	1.40	1.39

Source: Bloomberg, J.P. Morgan estimates.

Figure 2: Developers sector PE band



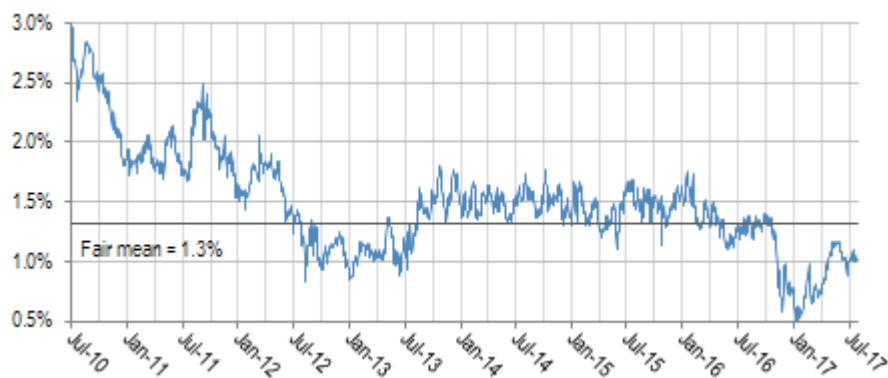
Source: Bloomberg, J.P. Morgan estimates.

Figure 3: SWB PE band



Source: Bloomberg, J.P. Morgan estimates.

Figure 4: M-REITs net dividend yield spread



Source: Bloomberg, J.P. Morgan estimates.

Real Estate

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Companies Discussed in This Report (all prices in this report as of market close on 03 August 2017)

Eco World Development (ECOW.KL/M\$1.53/Overweight), IGB REIT (IGRE.KL/M\$1.75/Neutral), SP Setia (SETI.KL/M\$3.26/Overweight), Sunway Bhd (SWAY.KL/M\$4.32/Neutral), Sunway REIT (SUNW.KL/M\$1.71/Neutral)

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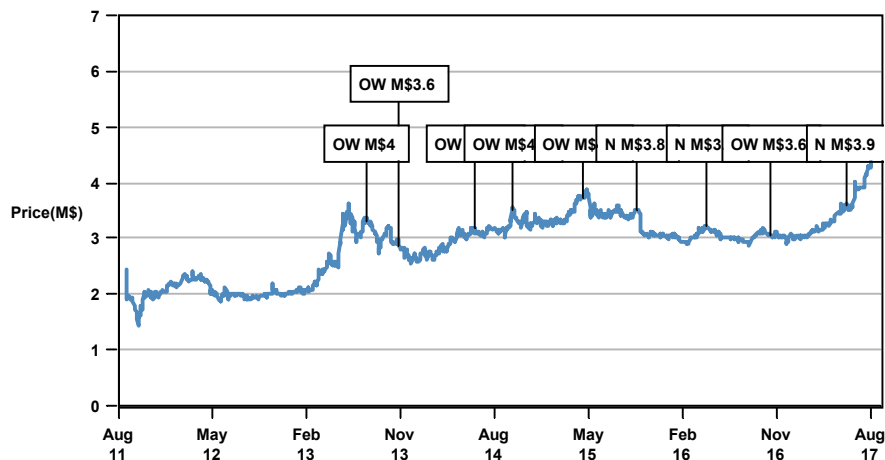
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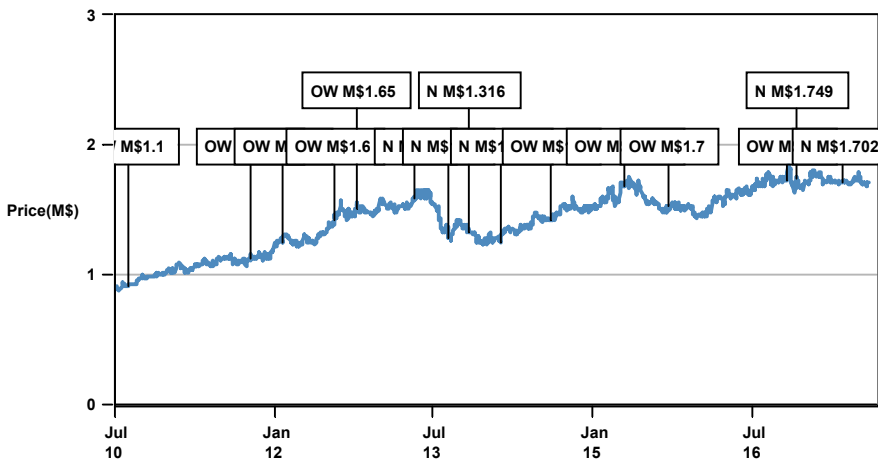
Sunway Bhd (SWAY.KL, SWB MK) Price Chart



Date	Rating	Share Price (M\$)	Price Target (M\$)
26-Jul-13	OW	3.31	4.00
28-Oct-13	OW	2.88	3.60
05-Jun-14	OW	3.19	3.80
22-Sep-14	OW	3.52	4.10
17-Apr-15	OW	3.74	4.30
19-Sep-15	N	3.50	3.80
08-Apr-16	N	3.24	3.30
14-Oct-16	OW	3.06	3.60
26-May-17	N	3.60	3.90

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Jul 26, 2013.

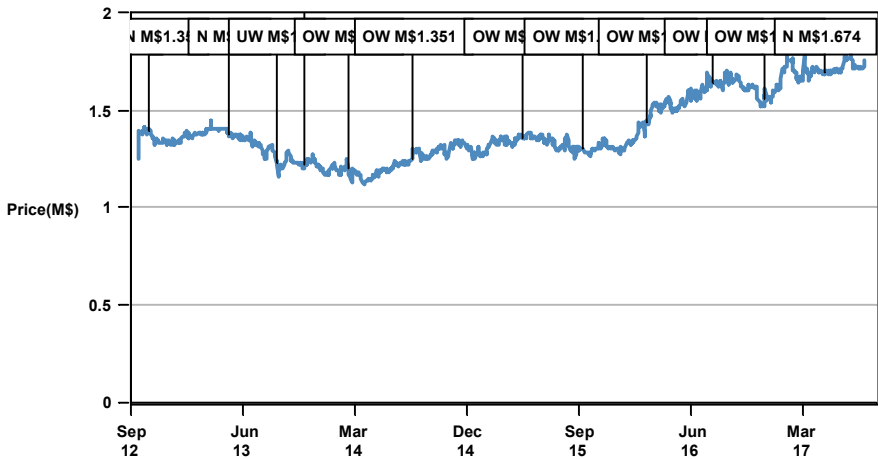
Sunway REIT (SUNW.KL, SREIT MK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Aug 16, 2010.

Date	Rating	Share Price (M\$)	Price Target (M\$)
16-Aug-10	OW	0.90	1.10
10-Oct-11	OW	1.12	1.25
30-Jan-12	OW	1.25	1.40
24-Jul-12	OW	1.41	1.60
09-Oct-12	OW	1.51	1.65
28-Apr-13	N	1.58	1.60
22-Aug-13	N	1.27	1.36
01-Nov-13	N	1.33	1.32
17-Feb-14	N	1.24	1.25
05-Aug-14	OW	1.42	1.60
17-Apr-15	OW	1.68	1.82
14-Sep-15	OW	1.52	1.70
24-Oct-16	OW	1.72	1.80
01-Dec-16	N	1.74	1.75
04-May-17	N	1.71	1.70

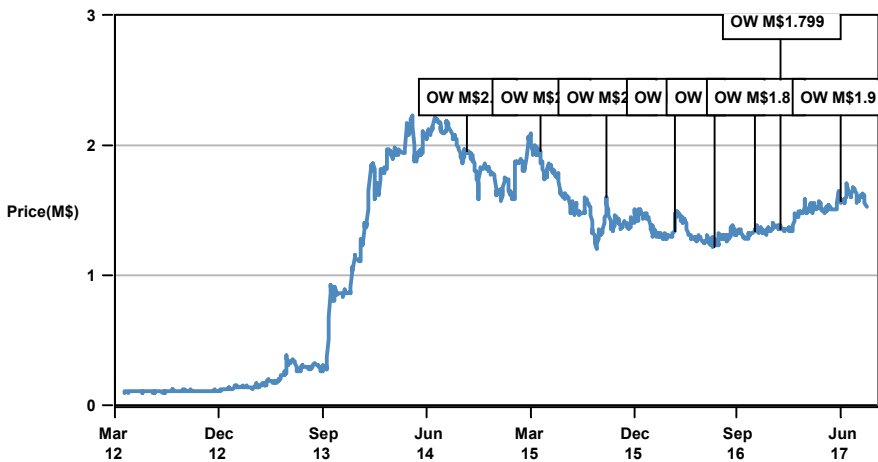
IGB REIT (IGRE.KL, IGBREIT MK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Oct 17, 2012.

Date	Rating	Share Price (M\$)	Price Target (M\$)
17-Oct-12	N	1.39	1.35
28-Apr-13	N	1.37	1.40
22-Aug-13	UW	1.23	1.20
01-Nov-13	OW	1.22	1.37
17-Feb-14	OW	1.20	1.29
24-Jul-14	OW	1.25	1.35
17-Apr-15	OW	1.35	1.46
14-Sep-15	OW	1.30	1.50
16-Feb-16	OW	1.44	1.50
26-Jul-16	OW	1.64	1.70
01-Dec-16	OW	1.56	1.65
25-Apr-17	N	1.69	1.67

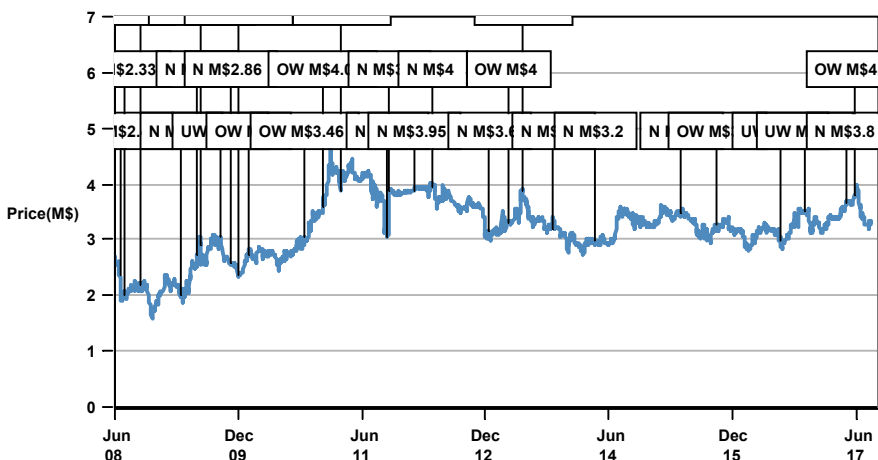
Eco World Development (ECOW.KL, ECW MK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Sep 16, 2014.

Date	Rating	Share Price (M\$)	Price Target (M\$)
16-Sep-14	OW	1.96	2.40
27-Mar-15	OW	1.95	2.60
19-Sep-15	OW	1.60	2.10
14-Mar-16	OW	1.34	1.90
28-Jun-16	OW	1.22	1.70
14-Oct-16	OW	1.34	1.80
20-Dec-16	OW	1.36	1.80
26-May-17	OW	1.57	1.90

SP Setia (SETI.KL, SPSB MK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Jun 24, 2008.

Date	Rating	Share Price (M\$)	Price Target (M\$)
24-Jun-08	N	2.36	2.46
16-Jul-08	N	2.01	2.33
25-Sep-08	N	2.20	2.00
19-Mar-09	N	2.01	1.80
02-Jun-09	N	2.72	2.40
18-Jun-09	UW	2.92	2.53
17-Sep-09	UW	3.07	2.60
30-Oct-09	N	2.58	2.86
04-Dec-09	OW	2.39	2.86
14-Jan-10	OW	2.73	3.00
23-Sep-10	OW	3.04	3.46
10-Dec-10	OW	3.57	4.06
28-Feb-11	OW	3.89	4.50
22-Sep-11	N	3.06	3.50
28-Sep-11	N	3.87	3.90
20-Jan-12	N	3.88	3.95
10-Apr-12	N	3.96	4.00
13-Dec-12	N	3.15	3.60
14-Mar-13	OW	3.29	4.00
15-May-13	OW	3.87	4.60
23-Sep-13	N	3.20	3.50
26-Mar-14	N	2.98	3.20
17-Apr-15	N	3.47	3.50
19-Sep-15	OW	3.28	3.80
27-Jun-16	UW	2.98	2.80
14-Oct-16	UW	3.50	3.10
17-Apr-17	N	3.67	3.80
26-May-17	OW	3.79	4.40

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