

Sunway REIT to buy Sunway Clio for MYR340mn

Quick Note

Sunway REIT to buy Sunway Clio for MYR340mn from Sunway Berhad

On 3 August 2017 after the market close, **Sunway REIT** (SREIT MK, Buy) announced the proposed acquisition of Sunway Clio from **Sunway Berhad** (SWB MK, Neutral) for MYR340mn. The Sunway Clio Property comprises of:

- Sunway Clio Hotel – 4-star hotel with 410 rooms over 19 storeys;
- Sunway Pyramid West – 88,384sq ft of retail NLA over 3 storeys; and
- Multi-storey car park with 732 lots.

Along with the proposed transaction, the two parties also announced conditional hotel lease and car park tenancy agreements:

- **Proposed hotel lease agreement** – 10-year tenure period with an option to renew for a further 10 years. Rents paid to SREIT (from SWB) will be the higher of the minimum rent (MYR11.0mn for Year 1-2 and MYR8.0mn for the remaining 8 years) or variable rent (20% of gross operating revenue + 70% of net operating profit).
- **Proposed car park tenancy agreement** – 3-year tenure period with an option to renew for a further 3 years. Rents paid to SREIT (from SWB) will be based on 20% of gross operating revenue + 95% of gross operating profit).
- **Top up undertaking** – SWB undertakes to guarantee a minimum NPI of MYR20.2mn in relation to the NPI generated by the hotel and retail component (excluding the car park income) for a period of 4 years.

Sunway Berhad: Timely capital recycling exercise

After acquiring a land parcel along Jalan Belfield, KL, on 13 Jul 2017 and two plots of land in Kajang and Subang Jaya (Selangor) on 1 Aug 2017 for a total consideration of ~MYR396mn, we believe the divestment of Sunway Clio is a timely capital recycling exercise for SWB. Moreover, the divestment price is 16% above the book value of MYR293.1mn on SWB's books.

Sunway REIT: Minimum annual 0.17Scts/unit DPU accretion; potential fund raising in the near term?

If we assume a minimum guaranteed NPI of MYR20.2m from the hotel and retail components and zero car park income, the proposed acquisition price of MYR340mn implies a minimum NPI yield of 6.0% for the first year. Based on a fully debt funded acquisition at a 4.0% cost of debt, our numbers suggest that this is DPU accretive and will add 0.17Scts/unit to DPU on an annual basis.

Post-acquisition gearing is estimated to be 38.9%. Considering that SREIT could start the development project of Sunway Carnival extension soon, we believe the REIT could potentially be raising some funds in the near term.

We reiterate our Buy call for Sunway REIT with a TP of MYR1.88, implying a total potential upside of 15.4% (including CY17F yield of 5.5%).

Global Markets Research

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Research analysts

Malaysia Property

Royston Tan - NSL

royston.tan@nomura.com
+65 6433 6981

Min Chow Sai - NSL

minchow.sai@nomura.com
+65 6433 6959

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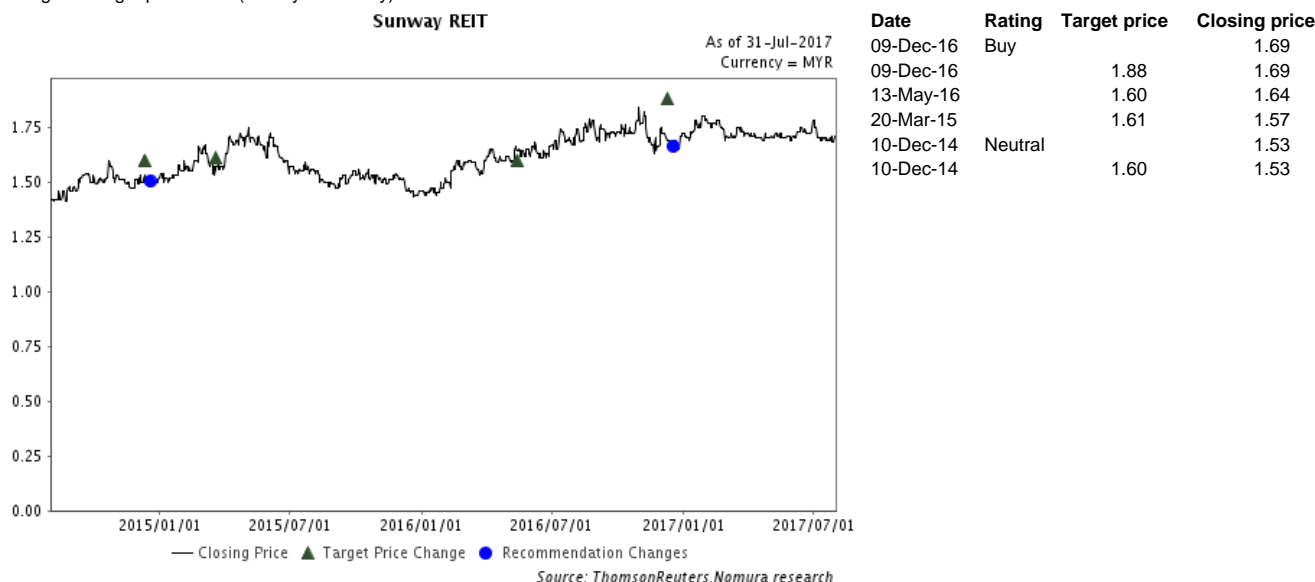
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway REIT	SREIT MK	MYR 1.71	03-Aug-2017	Buy	N/A	
Sunway Bhd	SWB MK	MYR 4.32	03-Aug-2017	Neutral	N/A	

Sunway REIT (SREIT MK)

MYR 1.71 (03-Aug-2017) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

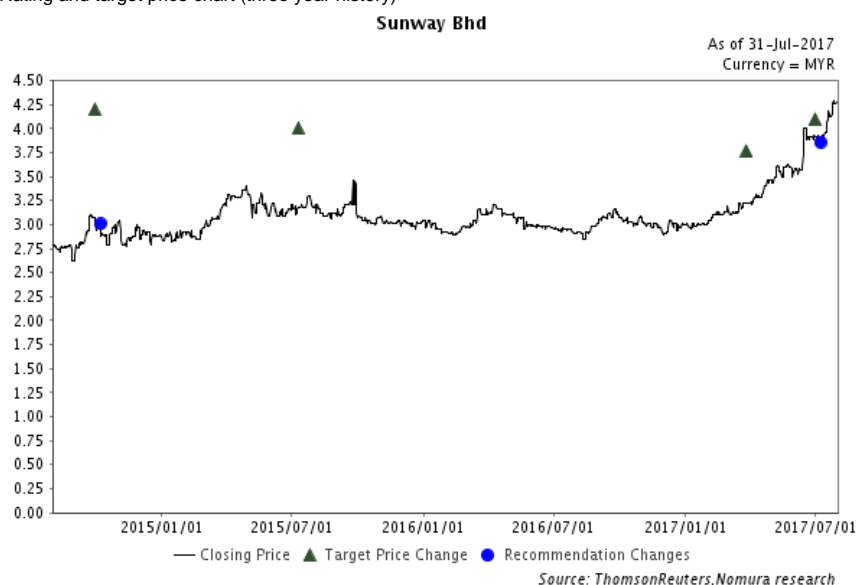
Valuation Methodology Our target price of MYR1.88 is derived using the Dividend Discount Model, based on our forward 5-year DPU forecast, cost of equity of 6.7% and long-term DPU growth of 2.0%. The benchmark index for this stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Risks include: 1) rising bond yields; 2) higher-than-expected financing costs; 3) regulatory risks such as changes in the tax regime for REITs in Malaysia; 4) lower-than-expected portfolio occupancy; and 5) communicable diseases such as SARS.

Sunway Bhd (SWB MK)

MYR 4.32 (03-Aug-2017) Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of MYR4.10 is based on a 25.7% effective discount on our FD FY17F RNAV estimate of MYR5.51/share. The benchmark index for the stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Downside risks: 1) any project delays could dent earnings forecasts; 2) failure to meet its presales targets; 3) further weakening of Iskandar sentiment; 4) any unexpected deterioration of GDP growth; and 5) unexpected further property cooling measures on the property sector. Upside risks: 1) better-than-expected macro environment; 2) better-than-expected pre-sales; and 3) unexpected relaxation of property cooling measures.

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