

UOBKH HIGHLIGHTS

Sunway Bhd (SWB MK/BUY/RM4.32/Target: RM4.18)**Sunway REIT (SREIT MK/HOLD/RM1.71/Target: RM1.85)**

SUNWAY BHD DISPOSES CLIO HOTEL TO SUNWAY REIT

WHAT'S NEW

Sunway Bhd proposes a sale-leaseback of Sunway Clio Hotel. Sunway Bhd announced that its wholly-owned subsidiary, Sunway Forum Hotel Sdn Bhd, had entered into a sale and purchase agreement with Sunway REIT for the latter to acquire a 401-room hotel with retail spaces and carparks for a total consideration of RM340m. Following the sale, Sunway would lease the hotel together with the retail spaces and carparks from the REIT. Clio Hotel is the latest hotel within Sunway township (1.5 years of age). The room is currently 71.6%-occupied while occupancy for the retail portion (tenants such as Starbucks, The Parenthood, Hokkaido Ramen and Sanook) stands at 88.2%. The building also comes with 732 carpark bays.

COMMENTS – SUNWAY BHD

- **Disposal price is at market valuation.** According to C H Williams Talhar & Wong Sdn Bhd (CGWTW), the value of the above-mentioned property is at RM340m, in line with the purchase price consideration to be paid by Sunway REIT. However, should the variation between CHWTW's assed value and the valuation given by authorities be above/below 5%, the disposal price would be adjusted accordingly.
- **Divestment is part of its asset monetisation strategy.** As highlighted in our earlier reports, we have been expecting Sunway to continue unlocking values of its investment properties via the REIT avenue. The disposal would see Sunway recording a one-off disposal gain of RM29.4m.
- **Proceeds from the disposal would mainly be used for debt repayment.** Out of the RM340m in proceeds from the disposal, about RM275m would be used to repay borrowings whereas about RM64m would be used for Sunway's working capital requirements. The disposal is expected to be completed by 4Q17.
- **Another RM2.5b worth of investment properties that can potentially be disposed of.** Aside from the Clio Hotel, Sunway Bhd still owns several other investment property assets that could see their values potentially unlocked via the REIT avenue. Some prominent assets that it currently carries in its books include: a) Sunway University Mall, and b) Sunway University Campus c) Sunway Pinnacle. Collectively, the book value of these assets excluding Clio Hotel is valued at about RM2.5b. Any monetisation of these assets would allow for the balance sheet to be leaner and with the potential for better capital management.

COMMENTS – SUNWAY REIT

- **Fairly priced.** We believe this acquisition comes at a fair price as the price tag of RM340m translates into an average value per room (AVPR) of RM847,880 for a 4-star rated hotel. This compares with AVPR of Sunway Resort Hotel & Spa (5 star rated hotel – RM1,199,095/room) and Sunway Pyramid Hotel (3 star rated hotel – RM537,341/room). The price for this acquisition is also on par with recently-transacted Renaissance Hotel which was sold in August last year at an AVPR of RM840,659/room.
- **Decent asset.** Although the general outlook for hotel segment remains challenging, we think that the acquisition of Clio Hotel will not pose a significant risk to Sunway REIT given its quality as a brand-new 4-star rated hotel. The occupancy rate of Clio hotel is also decent at 71.6%, not far behind Sunway Resort Hotel & Spa (5-star rated hotel – 82.2%) and slightly better than Sunway Pyramid Hotel (3-star rated hotel – 55.2%). In addition, contribution from hotel segment to Sunway REIT's net property income is still relatively small at 14.2%. Sunway REIT's net property income still largely comes from retail segment (75.7%), while Sunway Pyramid alone contributed about 60.1%.
- **Earnings-accretive acquisition.** We believe that the acquisition is an earnings-accretive acquisition as it may potentially increase Sunway REIT's bottom-line and DPU by 2% for FY18. This is premised on the assumption that the acquisition is completed by 4Q17, and will hence lead to 6 months' contribution to SREIT's FY18F bottom-line. We also conservatively assume that the occupancy rate will remain at the current level. In addition, we have also estimated that FY19 net profit could grow by 7% yoy as we factor in full-year contribution from Clio Hotel.
- **Marginal increase in gearing.** Post acquisition, gearing ratio will increase marginally from 33.3% to 34.4%.

RECOMMENDATION

- **Maintain BUY on weakness for Sunway Bhd with a target price of RM4.18.** We like Sunway for its diversified business exposure which includes its strong construction and REIT divisions. Also, better capital management as a result of the potential amendment of REIT guidelines could translate into higher dividends. Our target price still implies a modest 14x 2018F PE. Our ex-bonus target price is RM1.79.
- **Maintain HOLD for Sunway REIT and target price of RM1.85,** based on a dividend discount model (required rate of return: 6.31%, terminal growth: 1.2%) and **supported** by an implied dividend yield of 5.1%. Our target price provides a 8.2% upside from current share price level.

RECENT TRANSACTION ON HOTEL MARKET

Date	Property Name	Purchaser	Average Value per Room (RM)
Aug 2017	CLIO Hotel	Sunway REIT	847,880
May 2017	Majestic Hotel	YTL REIT	1,266,667
Aug 2016	Renaissance Hotel	Ventura International Sdn Bhd	840,659
Mar 2016	Aloft KL Sentral Hotel	Prosper Group Holdings Ltd	869,295
Mar 2015	Double Tree by Hilton	Singapore-based Royal Group	718,519

Source: Various, UOB Kay Hian

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