

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

10 Aug 2018

Sunway REIT (SREIT MK) : BUY

Mkt. Cap: US\$1,258m | 3m Avg. Daily Val: US\$0.46m

Last Traded Price (9 Aug 2018): RM1.74

Price Target 12-mth: RM1.85 (7% upside) (Prev RM1.85)

Analyst

Siti Ruzanna Mohd Faruk +603 2604 3965; sruzannamf@alliancedbs.com

FY18 performance hits the mark

- FY18 earnings came within expectations
- 4QFY18 income slid 5.1% y-o-y from higher borrowing costs
- Office segment NPI grew 27.6% y-o-y from higher occupancy
- Maintain BUY with unchanged TP of RM1.85

Forecasts and Valuation

FY Jun (RMm)	2018A	2019F	2020F	2021F
Gross Revenue	560	602	619	643
Net Property Inc	420	447	456	469
Total Return	428	303	310	322
Distribution Inc	282	303	310	322
EPU (sen)	14.5	10.3	10.5	10.9
EPU Gth (%)	1	(29)	2	4
DPU (sen)	9.57	10.3	10.5	10.9
DPU Gth (%)	4	8	2	4
NAV per shr (sen)	143	143	143	143
PE (X)	12.0	16.9	16.5	15.9
Distribution Yield (%)	5.5	5.9	6.0	6.3
P/NAV (x)	1.2	1.2	1.2	1.2
Aggregate Leverage (%)	38.4	38.6	38.9	39.1
ROAE (%)	10.2	7.2	7.3	7.6

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

What's New

- 4QFY18 net distributable income came in at RM63.3m (-5.1% y-o-y, -9.2% q-o-q). This brings FY18 net distributable income to RM282m (+4.2% y-o-y), meeting our and consensus expectations.
- 4QFY18 earnings were lower mainly due to higher borrowing cost of RM29.0m (+26.4% y-o-y) in the wake of the acquisition of Sunway Clio Property as well as higher average cost of debt from the increase in the Overnight Policy Rate on 25 January 2018. This resulted in NPI margins dropping by 0.7ppt y-o-y to 73.6%.
- There was also a revaluation gain of RM144.7m mainly from Sunway Pyramid Shopping Mall.
- A DPU of 2.15 sen was declared, implying a full payout. This brings full-year DPU of 9.57 sen (+4.1% y-o-y).

Resilient performance from retail segment

- The highest contributing retail segment recorded a 4QFY18 NPI of RM70.7m (-1.4% y-o-y). This is due to higher expenses in Sunway Pyramid Mall and Sunway Carnival Mall.
- Sunway Pyramid registered an NPI of RM57.6m (+0.3% y-o-y), in line with the higher revenue, but this was partially offset by higher fit-out expenses. Occupancy rate improved to 98.9% in 4QFY18 (4QFY17: 98.0%).
- For FY18, 98.2% of leases that expired for Sunway Pyramid were renewed or replaced at a single-digit rental reversion rate. The percentage of lease expiring in Sunway Pyramid for FY19 is 17.3% of the total NLA.



Flash Note

- It was disclosed that Sunway Putra Mall's (SPM) occupancy reached 90.7% (from 86.3% in 4QFY17). However, NPI contribution from SPM decreased by 5.9% y-o-y to RM5.5m, in line with lower revenue (-7.2% y-o-y) from lower rental rates. As for leases expiring in FY18, 96.5% of space due for renewal was renewed or replaced with an attractive rental package as a strategy to maintain high occupancy rates. The percentage of lease expiring in Sunway Putra for FY19 is 25.5% of the total NLA.
- We expect SunREIT's retail assets to register moderate growth for FY19.

Hotel segment sees improvement

- The hospitality segment registered flat growth in NPI at RM17.0m. Higher contribution from newly acquired Sunway Clio and newly refurbished Sunway Pyramid Hotel (+50.5% y-o-y) mitigated the lower income from Sunway Resort Hotel & Spa (-45.7% y-o-y). The lower income was mainly due to the lower occupancy rate of 60.2% (4QFY17: 71.7%) from softer leisure demand.
- The average occupancy rate for Sunway Putra Hotel increased to 65.7% in 4QFY18 (4QFY17: 64.5%). This contributed to higher revenue of RM2.6m (+30.1% y-o-y) and higher NPI of RM2.3m (+37.9% y-o-y).

Office segment sees improvement

- 4QFY18 NPI increased by 27.6% y-o-y to RM5.4m, attributable to higher contribution from Sunway Putra Tower due to commencement of new tenants. Sunway Putra Tower occupancy was up to 56.0% from 36.6% in 4QFY17.
- However, Sunway Tower's occupancy is still low at 21%. For Menara Sunway, the average occupancy is steady at 93.8%, and Wisma Sunway average occupancy was at 78.3% from 86.9% in 4QFY17.

Outlook

The expansion of Sunway Carnival Shopping Mall is well underway with completion expected in three years' time. The estimated total property development cost, including land, is RM353m. The total NLA for the expansion is approximately 330,000 sq ft.

Valuation

Our DDM-derived TP remains at RM1.85, with 7.7% cost of equity and 1.5% terminal growth. In light of the REIT's total potential returns of c.12.9%, we maintain our BUY call.

Quarterly / Interim Income Statement (RMm)

FY Jun	4Q2017	3Q2018	4Q2018	% chg yoy	% chg qoq
Gross revenue	133	142	136	2.8	(3.7)
Property expenses	(34.0)	(36.2)	(36.0)	5.8	(0.6)
Net Property Income	98.5	105	100	1.8	(4.8)
Other Operating expenses	(8.8)	(7.6)	135	(1,635.6)	(1,887.0)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	N/A	N/A
Net Interest (Exp)/Inc	(23.0)	(27.4)	(29.0)	(26.4)	(5.9)
Exceptional Gain/(Loss)	0.05	(0.5)	(143)	N/A	N/A
Net Income	66.8	69.9	63.3	(5.2)	(9.4)
Tax	0.0	0.0	0.0	N/A	N/A
Minority Interest	0.0	0.0	0.0	N/A	N/A
Net Income after Tax	66.8	69.9	63.3	(5.2)	(9.4)
Total Return	66.8	69.9	63.3	(5.2)	(9.4)
Non-tax deductible Items	0.48	0.50	0.56	15.1	10.8
Net Inc available for Dist.	67.3	70.4	63.9	(5.1)	(9.2)
Ratio (%)					
Net Prop Inc Margin	74.3	74.4	73.6		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, AllianceDBS

Portfolio Performance

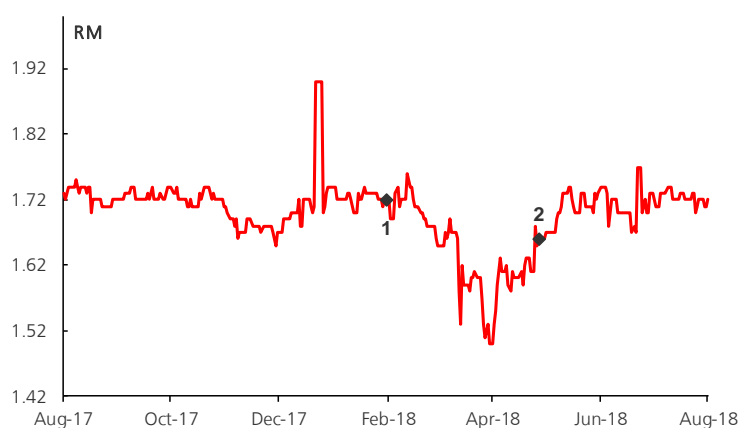
Net Property Income	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018	4Q18
Sunway Pyramid	56.6	55.2	60.3	57.5	62.1	56.7	61.5	57.6
Sunway Carnival	7.4	7.1	7.7	7.2	8.2	7.0	7.5	6.5
Suncity Ipoh Hypermarket	1.2	1.2	1.2	1.1	1.1	1.0	1.0	1.0
Sunway Putra Mall	6.3	7.3	6.7	5.9	6.9	6.4	7.0	5.5
Sunway Resort Hotel & Spa	11.5	7.7	8.7	10.4	11.1	11.5	7.3	5.7
Pyramid Tower Hotel	(0.1)	0.6	0.8	2.6	4.4	3.5	3.7	4.0
Sunway Hotel Seberang Jaya	0.8	0.9	0.7	0.9	0.7	0.7	0.6	0.9
Sunway Putra Hotel	2.1	3.4	3.0	1.7	4.5	4.9	1.9	2.3
Sunway Hotel Georgetown	1.1	1.2	1.0	1.4	1.5	1.3	1.2	1.5
Sunway Clio Property							1.9	2.8
Menara Sunway	2.7	2.6	3.0	2.8	2.8	2.5	2.7	2.7
Sunway Tower	(0.2)	(0.3)	0.1	(0.2)	(0.2)	(0.3)	0.3	(0.2)
Sunway Putra Tower	0.2	0.7	0.4	0.7	0.6	0.6	0.8	2.2
Wisma Sunway	1.0	1.0	1.0	0.9	0.9	0.7	0.7	0.7
Sunway Medical Centre	5.4	5.4	5.6	5.6	5.6	5.6	5.8	5.8
Sunway REIT Industrial					0.9	1.4	1.4	1.4

NPI Margins

Sunway Pyramid	76%	74%	76%	76.5%	80.5%	72.1%	74.4%	75.0%
Sunway Carnival	63%	65%	65%	61.1%	68.8%	60.0%	75.3%	56.3%
Suncity Ipoh Hypermarket	96%	93%	93%	92.8%	95.3%	91.4%	63.0%	92.5%
Sunway Putra Mall	51%	59%	52%	46.4%	51.8%	50.6%	92.5%	47.0%
Sunway Resort Hotel & Spa	97%	95%	96%	95.6%	96.6%	96.4%	52.7%	93.0%
Pyramid Tower Hotel	na	85%	86%	95.9%	97.5%	97.1%	94.6%	97.7%
Sunway Hotel Seberang Jaya	94%	94%	93%	94.5%	93.7%	93.5%	96.8%	95.1%
Sunway Putra Hotel	85%	93%	89%	81.7%	92.9%	93.2%	92.9%	86.5%
Sunway Hotel Georgetown	95%	96%	95%	96.6%	97.2%	96.4%	84.2%	97.0%
Sunway Clio Property							96.2%	78.4%
Menara Sunway	68%	65%	72%	68.0%	65.8%	60.6%	63.5%	65.8%
Sunway Tower	na	na	12%	na	na	na	32.8%	-23.2%
Sunway Putra Tower	22%	52%	29%	48.4%	41.6%	42.6%	39.2%	79.3%
Wisma Sunway	60%	60%	60%	56.0%	56.4%	51.9%	50.9%	49.5%
Sunway Medical Centre	100%	100%	100%	100.0%	100.0%	100.0%	100.0%	100.0%
Sunway REIT Industrial					100.0%	100.0%	100.0%	100.0%

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	07 Feb 18	1.72	1.85	HOLD
2:	04 May 18	1.66	1.85	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Siti Ruzanna Mohd Faruk

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

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

DISCLAIMER

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR"), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published by
AllianceDBS Research Sdn Bhd (128540 U)
19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com