

Company Focus

Sunway REIT

Bloomberg: SREIT MK | Reuters: SUNW.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

30 Apr 2015

BUY RM1.66 KLCI : 1,842.93

Price Target : 12-Month RM 1.75

Shariah Compliance : No

Reason for Report : 3Q15

Potential Catalyst: Yield-accretive asset injections

Where we differ: Largely in line with consensus

Analyst

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Result Summary

FY Jun (RM m)	3Q 2015	3Q 2014	2Q 2015	% chg yoy	% chg qoq
P&L Items					
Sales	110.7	108.1	114.0	2.4	(2.9)
Net Property Inc	83.2	80.6	86.7	3.2	(4.1)
Realised Net Income	58.9	58.5	63.0	0.8	(6.5)
Net Inc avail. for Dist.	62.5	61.5	66.6	1.7	(6.1)

Other Data (%)

Net Prop Inc Margin	75.1	74.6	76.1		
Dist. Payout Ratio	99.5	99.1	99.3		
DPU (sen)	0.0	0.0	0.0	1.4	(6.2)

Financial Summary

FY Jun (RM m)	2014A	2015F	2016F	2017F
Gross Revenue	428	470	544	580
Net Property Inc	321	357	414	444
Total Return	411	245	278	306
Distribution Inc	245	260	294	322
EPU (sen)	14.1	8.3	9.2	10.1
EPU Gth (%)	0	(41)	12	9
DPU (sen)	8.4	8.8	9.8	10.6
DPU Gth (%)	1	5	11	9
NAV per shr (sen)	125.9	125.8	125.6	125.3
PE (X)	11.8	20.1	18.0	16.5
Distribution Yield (%)	5.0	5.3	5.9	6.4
P/NAV (x)	1.3	1.3	1.3	1.3
Agg. Leverage (%)	31.1	37.7	38.5	38.7
ROAE (%)	11.4	6.6	7.3	8.0

At A Glance

Issued Capital (m shrs)	2,936
Mkt. Cap (RMm/US\$m)	4,873 / 1,371
Avg. Daily Vol.('000)	2,283

ICB Industry : Real Estate

ICB Sector: Real Estate Investment Trusts

Principal Business: Sunway REIT is a real estate investment trust with exposure to the retail, hospitality and office segments. Its earnings are primarily focused on retail assets, driven by its crown jewel Sunway Pyramid, a 1.6m-sq ft NLA mall centred in the integrated Bandar Sunway township. Outside of Selangor, it also has presence in Penang and Kuala Lumpur.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Softer results, as expected

- 3QFY15 earnings in line
- Announced 2.13 sen DPU, ex-date 14 May
- Sunway Putra Mall refurbishment completed, re-opening set to be FY16 DPU kicker
- Maintain BUY, RM1.75 TP

Highlights

No surprises: 3QFY15 profit grew y-o-y but softer than 2QFY15

- 3QFY15 distributable income of RM62.5m was within our/consensus expectations, growing 1.7% y-o-y but dipping 6.1% q-o-q. 9MFY15 distributable income of RM197.2m is 76% of our full year forecast.

Strong retail held up weak office and hospitality performance

- Sunway Pyramid Mall and Sunway Carnival Mall saw 9% and 11% y-o-y revenue growth, respectively, on strong reversions and higher occupancies. Overall, retail NPI of RM62.1m grew 13% y-o-y and 6.5% q-o-q.
- As expected, the office segment was hit by the gradual moving out of anchor tenants from Sunway Tower and Putra Tower. Office NPI fell c.20% y-o-y in 3QFY15 as the respective occupancies fell to 68% and 61% from 85% and 74% the year before.
- The hotels also underperformed as occupancies fell across the board, because sentiment issues discouraged leisure visitations as well as corporate events. Hospitality NPI fell 32% to RM4.8m y-o-y, though its small contribution (<10% of total NPI) limited the impact on the group; also performance has historically been relatively volatile.

Still a good showing

- Overall, 3QFY15 NPI margin was decent at 75%, similar to FY14. 9MFY15 margins clocked 75.7% with a strong 1H.
- There were partial contribution from newly-acquired Sunway Georgetown Hotel (since 28 Jan) and Wisma Sunway (since 23 Mar). They should continue to have a positive impact on NPI going forward.
- Declared 2.13 sen DPU for the quarter (+1.4% y-o-y, -6.2% q-o-q).

Outlook

Sunway Putra Mall ready to go

- We were informed that refurbishment works at the 578k sq ft NLA Sunway Putra Mall have been completed, and re-opening is scheduled for end-May. Secured tenancies have crossed 75%, in line with our expectations.

Sunway REIT

- Management also disclosed that the mall’s concept does not include anchor tenants, and would have a ‘lifestyle’-focused trade mix (i.e. heavier F&B and entertainment weightage).
- Full contribution from this asset in FY16 will be a key driver of the double-digit growth we anticipate for SunREIT, as it will make up c.5% of our FY16F NPI.
- Refurbishment works at Putra Hotel is on track for completion by end-CY15.

Soft 2H15, keep an eye on office assets

- Due to the mentioned office occupancy issues, we expect 4QFY15 results to be mild as well.
- Sunway Tower is expected to reach c.50% occupancy after anchor tenant Ranhill Worley Parsons moves out, and Putra Tower is expecting c.30% occupancy after Suruhanjaya Koperasi Malaysia does the same.
- Management revealed that it is discussing to secure replacement tenants for Putra Tower. We consider the extended period of high vacancy to be a risk due to the generally challenging office space sector.

Valuation

We have a BUY recommendation for Sunway Real Estate Investment Trust (REIT) with a RM1.75 price target, based on the two-stage DDM model which assumes 7.7% cost of equity and 1.75% terminal growth rate.

Risks

Soft macro outlook for Malaysian retail scene

- The weak consumer sentiment and implementation of GST effective 1 Apr will dampen retail spending in the near term. This could impact tenant sales performance and their capacity to stomach higher reversions.
- Weak sentiment could also potentially affect hospitality assets, as tourism and visitations slow down.

Oversupply in office space segment

- SunREIT saw anchor tenants move out of two of its office towers (Sunway Tower and Sunway Putra Tower). Due to ongoing oversupply situation for office space, the re-leasing of the space vacated may be challenging.

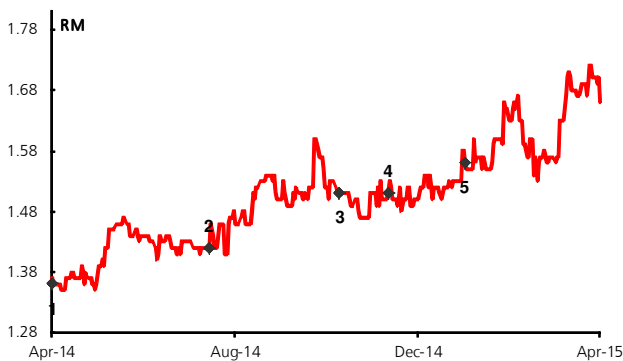
DDM Valuation

Period	3Q15	4Q15	FY16	FY17	Terminal
Payout (RM)	0.021	0.021	0.098	0.106	1.830
Discounted Dividend	0.021	0.021	0.089	0.090	1.550
Fair Value (RM)					1.75

Beta	0.61	Cost of Equity (RF + β*MRP)	7.7%
Risk free rate	4%		
Market risk premium	6%	Terminal growth	1.75%

Source: AllianceDBS

Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	30 Apr 14	1.36	1.55	Buy
2:	12 Aug 14	1.42	1.55	Buy
3:	07 Nov 14	1.51	1.60	Buy
4:	09 Dec 14	1.51	1.60	Buy
5:	29 Jan 15	1.56	1.75	Buy

Source: AllianceDBS

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

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