

Company Focus

Sunway REIT

Bloomberg: SREIT MK | Reuters: SUNW.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

30 Oct 2015

BUY

Last Traded Price: RM1.49 (KLCI : 1,666.98)

Price Target: RM1.70 (14% upside) (Prev RM1.75)

Shariah Compliant: No

Reason for Report: 1QFY16 results

Potential Catalyst: Yield-accretive acquisitions

Where we differ: Largely in line with consensus

Analyst

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Result Summary

FY Jun (RM m)	1Q 2016	1Q 2015	4Q 2015	% chg yoy	% chg qoq
P&L Items					
Sales	121.2	113.8	114.9	6.5	5.5
Net Property Inc	89.9	86.5	84.4	4.0	6.5
Net Income Aft Tax	60.6	63.4	57.1	(4.5)	6.2
Net Inc avail. for Dist.	62.3	66.8	60.2	(6.7)	3.5
Other Data (%)					
Net Prop Inc Margin	74.2	76.0	73.4		
Dist. Payout Ratio	99.1	99.2	98.7		
DPU (sen)	0.0	0.0	0.0	(7.0)	3.4

Financial Summary

FY Jun (RM m)	2015A	2016F	2017F	2018F
Gross Revenue	453	508	573	612
Net Property Inc	341	385	439	473
Total Return	541	269	317	349
Distribution Inc	256	278	317	349
EPU (sen)	18.5	9.1	10.5	11.6
EPU Gth (%)	31	(51)	16	10
DPU (sen)	8.7	9.3	10.5	11.6
DPU Gth (%)	4	7	13	10
NAV per shr (sen)	135.6	135.8	136.1	136.4
PE (X)	8.1	16.5	14.2	12.8
Distribution Yield (%)	5.9	6.3	7.1	7.8
P/NAV (x)	1.1	1.1	1.1	1.1
Agg. Leverage (%)	33.3	35.5	35.7	35.9
ROAE (%)	14.1	6.7	7.7	8.5

At A Glance

Issued Capital (m shrs)	2,938
Mkt. Cap (RMm/US\$m)	4,377 / 1,019
3m Avg. Daily Val (US\$m)	1.2

ICB Industry : Real Estate

ICB Sector: Real Estate Investment Trusts

Principal Business: Sunway REIT is a real estate investment trust with key assets in Bandar Sunway, Selangor, primarily the Sunway Pyramid mall. It also has hospitality and office assets, and is geographically diversified to the Penang and Perak states.

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

Cautiously optimistic

- 1QFY16 earnings in line; declared DPU of 2.13 sen for the quarter with 12 Nov ex-date
- Office replenishment and reversions guided to be slower than expected, trim DPU by 2.8%/1.0%/1.3% for FY16/17/18F
- Retaining our positive outlook from rising Sunway Putra contributions and injection opportunities
- Maintain BUY with lower TP of RM1.70

Highlights

A soft start as expected

- 1QFY16 net distributable income of RM62.3m came largely in line at 23% of our/consensus forecasts, as persisting office vacancies and the initial rent-free period at the re-opened Sunway Putra Mall (SPM) was expected to weigh down on earnings in the near term. Group NPI saw a modest 4% y-o-y growth to RM89.9m, and subdued NPI margins of 74.2% (FY15: 75%).
- The highest contributing retail segment posted a 6.2% NPI growth, as Sunway Pyramid kept occupancy steady at 98.6% (4QFY15: 98.1%). Decent renewals were also secured, as remaining lease expiries are about 15% from 23% previously, at reversion rates averaging at high single digit.
- SPM's occupancy was guided to have reached 83.9% (from 82.4%), and tenants such as TGV Cinema and H&M have opened to help draw footfall. We look forward to higher contribution as the rent-free period (set from SPM's opening to mid-Sep) has ended. That had been the reason behind its negative NPI of RM1.4m in 1Q.
- The hospitality segment surprised on the upside, with revenue and NPI growing 21% and 17% respectively, due to strong showings at the Sunway Resort Hotel & Spa and Pyramid Tower East. Management explained this was due to strong tourist visits amid the weak Ringgit.
- The office segment was a major drag due to significant vacancies at Sunway Tower and Sunway Putra Tower, leading to revenue and NPI falling 22% and 44% y-o-y respectively.

Outlook

Bringing some caution to light

- Management adopted a cautious tone in the results con-call, highlighting challenges in the retail spending and office space outlooks. With regards to retail, negative spending growth was recorded in the past two quarters – and the high single-digit reversions reflect a slowdown for Sunway

Sunway REIT

Pyramid which consistently secured 11-12% previously. Additionally, little headway was made in replenishing occupancies at Sunway Tower and Sunway Putra Tower after the departure of their anchor tenants.

- Taking these into account, we further push back replenishment assumptions at the two office towers, and reduce reversions at Sunway Pyramid to 9%/10% in FY16/17F from 12% before. Overall, DPU is trimmed 2.8%/1.0%/1.3% for FY16/17/18F.

We remain positive on prospects

- All said, we remain positive on SunREIT. DPU growth prospects in the near-to-mid-term remain relatively strong, as full contribution of the Sunway Putra assets (mall, office and hotel) have yet to be reflected in its current earnings. Additionally, we are optimistic on the potential injections by its sponsor Sunway Bhd to meet the REIT's RM7bn asset target by 2017.

Valuation:

After our earnings adjustments, our TP is revised to RM1.70 (DDM, 8% cost of equity, 1.5% terminal growth).

Key Risks:

Weak general sentiment. Dampened consumer sentiment may have negative effects on the retail and hospitality sectors, in the form of lowered retail spending, rental reversions and local tourist visits.

Office space oversupply. As the supply overhang of office spaces persist, vacancies will be challenging to refill and rental rates may see negative growth.

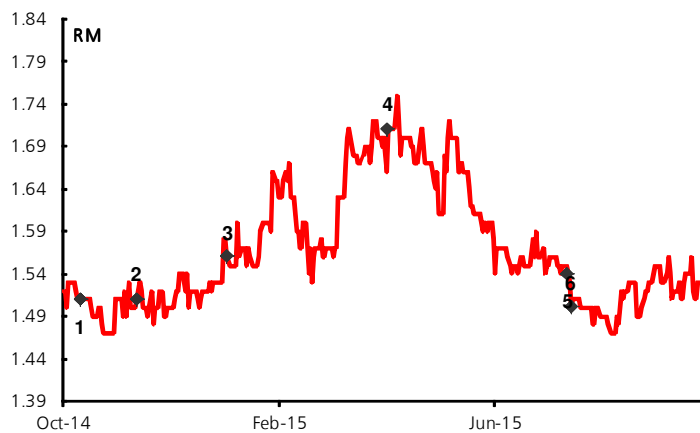
DDM valuation

Period	1Q16	9M16	FY17	FY18	
	0	1	2	3	Terminal
Payout (RM)	0.021	0.072	0.105	0.116	1.823
Discounted Dividend	0.021	0.067	0.090	0.092	1.449
Fair Value (RM)					1.70

Beta	0.61	Cost of Equity (RF + β*MRP)	8.0%
Risk free rate	4.3%		
Market risk premium	6.0%	Terminal growth	1.50%

Source: AllianceDBS

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	07 Nov 14	1.51	1.60	BUY
2:	09 Dec 14	1.51	1.60	BUY
3:	29 Jan 15	1.56	1.75	BUY
4:	30 Apr 15	1.71	1.75	BUY
5:	10 Aug 15	1.54	1.75	BUY
6:	12 Aug 15	1.50	1.75	BUY

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

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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