

Company Note

I Malaysia

HOLD (no change)

Current price:	RM1.48
Target price:	RM1.50
Previous target:	RM1.50
Up/downside:	1.4%
Reuters:	SUNW.KL
Bloomberg:	SREIT MK
Market cap:	US\$1,024m
	RM4,353m
Average daily turnover:	US\$0.55m
	RM2.37m
Current shares o/s	2,706m
Free float:	63.1%

Key changes in this note

- FY16-18 EPS forecasts cut by 6-8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.8	-3.3	-6.3
Relative (%)	4.7	0.6	3.2

Analyst(s)



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Sunway REIT

A holiday season boost

- Sunway REIT's 1HFY16 core net profit came in below expectations, making up 47% of our FY6/16 forecast and 49% of Bloomberg consensus.
- 2QFY16 DPU of 2.57 sen was declared, bringing 1HFY16 DPU to 4.69 sen.
- 1HFY16 revenue increased 11.1% yoy on the back of higher contributions from its retail and hotel segments.
- We trim our FY16-18 EPS forecasts by 6-8% to account for the slower office space demand outlook and the closure of one of its hotels.
- Maintain Hold with lower DDM-based target price of RM1.50.

2QFY16 net profit below expectations

Sunway REIT's 2QFY16 core net profit increased 13% yoy to RM71.5m, in line with a 15.7% yoy increase in revenue to RM131.9m. This brought 1HFY16 core net profit to RM136m (+7.4% yoy), which was below expectations, accounting for 47% of our full-year forecast and 49% of consensus estimates.

2QFY16 DPU of 2.57 sen

Sunway REIT declared a second interim DPU of 2.57 sen, which brings its cumulative 1HFY16 DPU to 4.69 sen (+3.1% yoy). This was below our expectation of 9.8 sen.

Retail revenue continues to rise

Sunway REIT's 2QFY16 revenue growth was mainly driven by higher contribution from the retail segment thanks to its newly-refurbished Sunway Putra Mall (SPM) and increased revenue (+24% yoy) from its hotel segment. This was, however, slightly offset by the weaker 2QFY16 revenue from its office segment (-26.5% yoy) due to high vacancy rates for two of its office properties. In spite of the 28% yoy increase in operating expenses, 2QFY16 net property income (NPI) rose 11.8% yoy to RM97m.

Hotel earnings improved, while office earnings were dampened

1HFY16 net profit growth of 7.4% yoy was mainly driven by: 1) revenue increase of +13.5% yoy for its retail segment; 2) improvement in revenue from the hotel division (+23% yoy) across all its hotels (except Sunway Hotel Seberang Jaya) and new contribution from Sunway Hotel Georgetown that offset the 23.9% yoy drop in revenue from the office segment. After adjusting for non-cash charges, distributable income increased 3.4% yoy to RM139m in 1HFY16.

Trim FY16-18 EPS by 6-8%

We lower our FY16-18 EPS forecasts by 6-8% as we take into account the slower office space demand outlook for the group and incorporate the loss of revenue in 3QFY16-2QFY17 from the closure of Pyramid Tower East (accounted for 4.7% of Sunway REIT's revenue in 1HFY16).

Maintain Hold

While we expect the office and hotel segment to remain soft in 2016, we believe that the full earnings contribution from SPM and positive rental reversions from its other malls will support Sunway REIT's FY16 earnings performance. Maintain Hold call, with lower DDM-based target price of RM1.50. Estimated dividend yields of 6.4-6.9% in FY16-18 remain attractive.

Financial Summary	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Gross Property Revenue (RMm)	427.8	451.9	500.9	515.5	537.9
Net Property Income (RMm)	321.0	347.5	373.7	384.3	402.4
Net Profit (RMm)	222.1	244.3	267.4	275.6	290.7
Distributable Profit (RMm)	244.8	257.6	281.2	289.6	305.1
Core EPS (RM)	0.079	0.083	0.091	0.094	0.098
Core EPS Growth	(2.58%)	5.75%	9.14%	2.75%	5.15%
FD Core P/E (x)	18.75	17.73	16.24	15.81	15.03
DPS (RM)	0.08	0.08	0.09	0.10	0.10
Dividend Yield	5.38%	5.64%	6.40%	6.57%	6.90%
Asset Leverage	35.1%	35.6%	36.1%	36.8%	37.3%
BVPS (RM)	1.14	1.14	1.14	1.14	1.13
P/BV (x)	1.29	1.30	1.30	1.30	1.31
Recurring ROE	6.99%	7.31%	7.98%	8.21%	8.67%
% Change In DPS Estimates					
CIMB/consensus DPS (x)			1.03	0.97	0.98

SOURCE: COMPANY DATA, CIMB FORECASTS

Company Note

Figure 1: Results Comparison

FYE Jun (RM m)	2Q FY16	2Q FY15	yoy % chg	qoq % chg	2QFY16 cum	2QFY15 cum	yoy % chg	Prev. FY16F	Comments
Revenue	131.9	114.0	15.7	14.7	253.1	227.8	11.1	529.2	Growth in retail and hotel segments
Operating costs	(43.5)	(35.1)	24.1	12.5	(83.7)	(69.8)	19.8	(168.9)	
EBITDA	88.3	78.9	11.9	15.9	169.4	158.0	7.2	360.3	
EBITDA margin (%)	67.0	69.2			66.9	69.3		68.1	
Deprn & amort.	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	
EBIT	88.3	78.9	11.9	15.9	169.4	158.0	7.2	360.3	
Interest expense	(21.6)	(16.8)	28.6	7.9	(43.1)	(33.2)	30.0	(72.9)	
Interest & invt inc	4.8	1.2	313	475	9.7	1.9	413	2.4	
Associates' contrib	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	None as expected
Exceptionals & revaln	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	
Pretax profit	71.5	63.3	13.0	-80.3	136.0	126.7	7.4	289.9	
Tax	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	None as REITs do not pay taxes due to more than 100%
Tax rate (%)	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	dividend payout
Minority interests	0.0	0.0	nm	nm	0.0	0.0	nm	0.0	None as expected
Net profit	71.5	63.3	13.0	-80.0	136.0	126.7	7.4	289.9	
Distr profit	76.1	67.0	13.5	25.5	139.0	134.4	3.4	304.0	Below expectations
Core net profit	71.5	63.3	13.0	39.8	136.0	126.7	7.4	289.9	
DPU (sen)	2.57	2.27	13.2	25.37	4.69	4.55	3.1	9.82	

SOURCES: CIMB, COMPANY REPORTS

Conference call highlights ►

Following the release of its 2QFY16 results, Sunway REIT hosted a conference call for a group of 10 analysts. It was chaired by Senior Manager of Investor Relations, Crystal Teh. The call yielded no surprises and focused on Sunway REIT's 2QFY16 performance for all segments and the planned asset enhancement initiative (AEI) for one of its hotels. The key takeaways are as follows:

1) The group's retail segment is expected to continue to deliver modest revenue growth in FY16, mainly driven by the positive rental reversion rates for Sunway Pyramid (SP) and new contribution from Sunway Putra Mall (SPM), following the end of its rent-free period (Jul-Sep 2015). Management shared that the occupancy rates for SPM have increased from 83.9% in 1QFY16 to 84.9% in 2QFY16. Management is optimistic that it will be able to increase occupancy rates to meet its 90% target by end-2016. As for SP, even though 56.9% of its total net lettable area (NLA) faces rental contracts expiring in FY17, management is confident that it will achieve high-single-digit rental reversion rates in FY17 for the mall. SP's occupancy rate remains high at 98.2% for 1HFY16.

2) Meanwhile, revenue growth from the hotel segment would be mainly driven by the recently-refurbished Sunway Putra Hotel (SPH, which saw renovation works completed in Dec 2015) and full-year income contribution from Sunway Hotel Georgetown. Sunway REIT is embarking on a major AEI for Pyramid Tower East (PTE) hotel, allocating total capex of RM100m-120m for refurbishment works on the hotel. We understand that the gradual closure of the hotel will take place in 3QFY16 and it will be fully closed by end-4QFY16. The planned AEI will take 12 months. Note that PTE contributed approximately 4.7% of Sunway REIT's total revenue in 1HFY16. As for its SPH, occupancy rate improved to 45% in 2QFY16 and management expects it to remain stable for FY16.

3) Sunway REIT remains cautious on the demand outlook for its office segment, as occupancy rates for both its office assets- Sunway Tower (ST) and Sunway Putra Tower (SPT) - were still dampened 1HFY16 at 20.9% and 26.7%, respectively, following the termination of anchor tenant contracts in 2014 and 2015. On the flip side, management managed to secure tenants for around 29,500 sq ft of ST (11% of total net lettable area), which are expected to contribute revenue from 3QFY16 onwards. As for Menara Sunway, we

Company Note

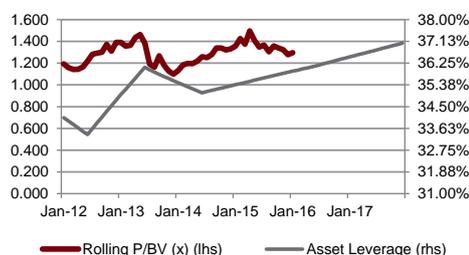
understand that the group managed to secure a new tenant for approximately 8,000 sq ft (3% of NLA), which will start contributing revenue by Mar 2016. Management is still actively looking for prospective tenants for its office assets and emphasised that 2016 is likely to be a challenging year for the office space, given the oversupply and weak market environment.

BY THE NUMBERS

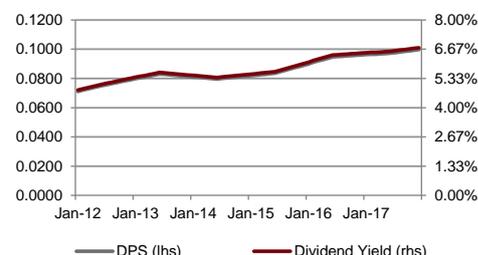
Share price info

Share px perf. (%)	1M	3M	12M
Relative	4.7	0.6	3.2
Absolute	2.8	-3.3	-6.3
Major shareholders			% held
Sunway Bhd			36.9
EPF			9.7
Capital Income Builder			6.5

P/BV vs Asset Leverage



Dividend Yield vs Net DPS - (RM)



Profit & Loss

(RMm)	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Rental Revenues	427.8	451.9	500.9	515.5	537.9
Other Revenues	0.0	0.0	0.0	0.0	0.0
Gross Property Revenue	427.8	451.9	500.9	515.5	537.9
Total Property Expenses	(106.8)	(104.4)	(127.2)	(131.2)	(135.5)
Net Property Income	321.0	347.5	373.7	384.3	402.4
General And Admin. Expenses	0.0	0.0	0.0	0.0	0.0
Management Fees	(25.6)	(26.5)	(27.5)	(28.0)	(28.7)
Trustee's Fees	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Other Operating Expenses	(4.8)	(5.2)	(5.6)	(5.8)	(6.0)
EBITDA	289.6	314.8	339.6	349.6	366.7
Depreciation And Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	289.6	314.8	339.6	349.6	366.7
Net Interest Income	(67.5)	(70.5)	(72.2)	(74.0)	(76.0)
Associates' Profit					
Other Income/(Expenses)	0.0	0.0	0.0	0.0	0.0
Exceptional Items					
Pre-tax Profit	222.1	244.3	267.4	275.6	290.7
Taxation					
Minority Interests					
Preferred Dividends					
Net Profit	222.1	244.3	267.4	275.6	290.7
Distributable Profit	244.8	257.6	281.2	289.6	305.1

Cash Flow

(RMm)	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Pre-tax Profit	222.1	244.3	267.4	275.6	290.7
Depreciation And Non-cash Adj.	67.5	70.5	72.2	74.0	76.0
Change In Working Capital					
Tax Paid					
Others	18.2	7.7	8.3	9.4	(366.7)
Cashflow From Operations	307.8	322.4	347.9	359.0	0.0
Capex	(440.5)	(50.0)	(50.0)	(50.0)	(50.0)
Net Investments And Sale Of FA	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0	0.0
Cash Flow From Investing	(440.5)	(50.0)	(50.0)	(50.0)	(50.0)
Debt Raised/(repaid)	100.0	50.0	50.0	51.0	51.0
Equity Raised/(Repaid)	320.0	0.0	0.0	0.0	0.0
Dividends Paid	(232.5)	(244.7)	(278.4)	(286.7)	(302.0)
Cash Interest And Others	(67.5)	(70.5)	(72.2)	(74.0)	(76.0)
Cash Flow From Financing	119.9	(265.2)	(300.5)	(309.7)	(327.0)
Total Cash Generated	(12.8)	7.3	(2.7)	(0.6)	(377.0)
Free Cashflow To Firm	(130.3)	274.8	300.5	311.8	(47.3)
Free Cashflow To Equity	(100.2)	252.0	275.7	286.1	(75.0)

BY THE NUMBERS

Balance Sheet

(RMm)	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Total Investments	5,211	5,261	5,311	5,361	5,411
Intangible Assets	0	0	0	0	0
Other Long-term Assets	9	9	9	9	9
Total Non-current Assets	5,220	5,270	5,320	5,370	5,420
Total Cash And Equivalents	76	84	93	92	91
Inventories					
Trade Debtors	19	19	19	19	19
Other Current Assets	0	0	0	0	0
Total Current Assets	95	103	111	111	110
Trade Creditors	58	58	58	58	58
Short-term Debt	1,245	1,245	1,245	1,245	1,245
Other Current Liabilities	0	0	0	0	0
Total Current Liabilities	1,303	1,303	1,303	1,303	1,303
Long-term Borrowings	618	668	718	769	820
Other Long-term Liabilities	54	54	54	54	54
Total Non-current Liabilities	672	722	772	823	874
Shareholders' Equity	3,339	3,348	3,356	3,354	3,353
Minority Interests	0	0	0	0	0
Preferred Shareholders Funds					
Total Equity	3,339	3,348	3,356	3,354	3,353

Key Ratios

	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Gross Property Revenue Growth	2.8%	5.6%	10.8%	2.9%	4.4%
NPI Growth	3.81%	8.27%	7.53%	2.85%	4.70%
Net Property Income Margin	75.0%	76.9%	74.6%	74.6%	74.8%
DPS Growth	(4.1%)	4.9%	13.4%	2.7%	5.0%
Gross Interest Cover	4.14	4.32	4.54	4.55	4.66
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	105%	100%	104%	104%	104%
Current Ratio	0.073	0.079	0.086	0.085	0.084
Quick Ratio	0.073	0.079	0.086	0.085	0.084
Cash Ratio	0.058	0.065	0.071	0.071	0.070
Return On Average Assets	4.35%	4.57%	4.95%	5.05%	5.28%

Key Drivers

	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Rental Rate Psf Pm (RM)	N/A	N/A	N/A	N/A	N/A
Acq. (less development) (US\$m)	N/A	N/A	N/A	N/A	N/A
RevPAR (RM)	N/A	N/A	N/A	N/A	N/A
Net Lettable Area (NLA) ('000 Sf)	6,135	6,249	6,249	6,249	6,249
Occupancy (%)	77.5%	86.9%	74.0%	74.0%	74.0%
Assets Under Management (m) (RM)	N/A	N/A	N/A	N/A	N/A
Funds Under Management (m) (RM)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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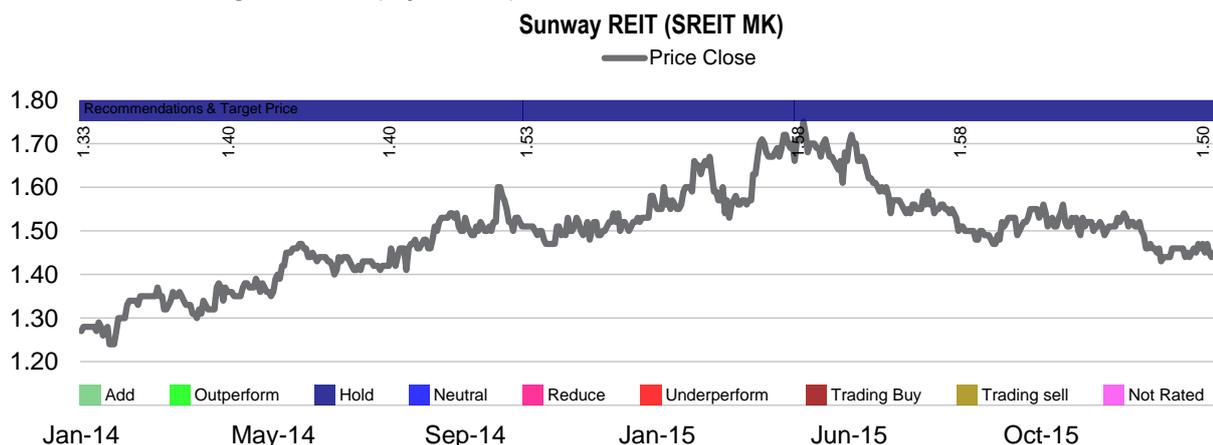
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2015		
1536 companies under coverage for quarter ended on 31 December 2015		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.8%	9.3%
Hold	31.5%	4.0%
Reduce	8.5%	0.7%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2015, Anti-Corruption Progress Indicator 2015.

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Level 2: Declared

Level 3: Established (3A: Established by Declaration of Intent, 3B: Established by Internal Commitment and Policy)

Level 4: Certified

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Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

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The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

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Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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