



## Sunway Real Estate Investment Trust

Earnings Lifted by Lower Interest Cost

TP: RM 1.52 (+14.4%)

Last Traded: RM 1.33

HOLD

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Thiam Chiann Wen

+603-2072-1277 ext:1664

cwthiam@ta.com.my

www.taonline.com.my

### Review

- Sunway REIT's FY13 realised net profit of RM218.8mn came in within expectations. A distribution per unit (DPU) of 2.02sen was declared for this quarter, bringing FY13 full-year DPU to 8.3sen. This was higher than our projection of 8.0sen. At yesterday's close, this will translate to a dividend yield of 6.2%.
- YoY, FY13 gross revenue grew 2.3% to RM415.9mn, mainly due to additional income from Sunway Medical Centre (SMC), which was acquired in Dec-12. Net property income (NPI) rose 3.3% YoY to RM309.2mn due to improved margins (+0.7 ppt YoY).
- The retail segment registered a modest 2.9% YoY growth in NPI but this was dragged down by the weaker performance recorded at the hotel and office segment – see **result analysis table**. On a positive note, realised net profit grew 14.8% YoY, benefitting from significant interest savings resulted from the trust's proactive capital management. For FY13, the trust's average cost of debt has declined to 3.77% from 4.45% a year earlier.
- Sunway REIT renewed 284 leases with a positive rental reversion of 18.7% in FY13. Sunway Carnival Shopping Mall and Sunway Putra Tower posted the stronger rental reversion rate as compared to other assets in the portfolio, achieving a positive average rental reversion of 21.0% and 26.4% over 3-year tenure. The significant increase was largely due to low monthly rental rate in the previous rental term.

### Impact

- We cut our FY14-15 earnings forecast by 3-4% after 1) increasing our the interest cost for FY14-15 due to increase in borrowing, and 2) lowering Sunway Putra Hotel's occupancy assumption from 65% to 60%.

### Conference Call Highlights

- Over the next two to three years, management targets to spend RM500mn for Asset Enhancement Initiatives (AEIs), with majority of the allocation will be spent on the refurbishment of Sunway Putra Place (SPP). On the other hand, the renovation of Sunway Pyramid Shopping Mall's Oasis Boulevard 5, which will see the creation of new net lettable area (NLA) of about 20k sq. ft. and reconfiguration of existing NLA of 23k sq. ft. is expected to be completed by end-2013.
- Although the management's KPI is to acquire at least one property every year from its sponsor or third party, management believes that it is not under pressure to conclude asset acquisitions for the year as it aims to focus on the execution of the AEIs for its assets, particularly SPP.

### Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2919.4
Market Cap (RMmn)	3882.8
Par Value	1.00
52-wk Hi/Low (RM)	1.70/1.31
12-mth Avg Daily Vol ('000 shrs)	1666.3
Estimated Free Float (%)	42.4
Beta	0.83

### Major Shareholders (%)

Sunway Berhad	(34.4)
EPF	(10.3)
Skim Amanah Saham Bumiputera	(7.4)
Capital Income Builder	(6.5)

### Forecast Revision

	FY14	FY15
Forecast Revision (%)	(2.6)	(4.0)
Net profit (RMmn)	231.2	264.2
Consensus	228.3	258.0
TA's / Consensus (%)	101.3	102.4
Previous Rating	Hold (Maintained)	

### Financial Indicators

	FY14	FY15
Gearing (%)	33.9	36.1
FCPS (sen)	2.1	5.3
Price / FCPS (x)	64.1	24.9
ROE (%)	6.6	7.5
ROA (%)	4.3	4.7
NTA/Share (RM)	1.3	1.3
Price/NTA (x)	1.0	1.0

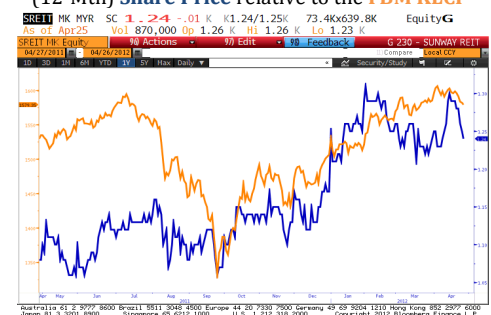
### Scorecard

	% of FY	
vs TA	100.0	Within
vs Consensus	102.0	Within

### Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	(12.5)	0.7
3 mth	(18.9)	0.4
6 mth	(11.3)	10.2
12 mth	(8.9)	9.4

### (12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

- As such, we believe FY14 earnings to be driven by organic growth from rental reversion and AEIs execution. Specifically, we expect higher revenue from Sunway Pyramid to offset the loss of income from the closure of Sunway Putra Mall.
- Sunway REIT continues with its proactive capital management and this can be evidenced from the decrease in average cost of debt to 3.77% from 4.45% a year earlier. For this quarter, Sunway REIT has converted a significant portion of the floating rate borrowings to fixed rate borrowings, in anticipation of possible reversal in interest rate trend. This has changed its debt profile to 81% fixed rate loans as compared to 56% 3 months ago.
- We believe Sunway REIT's healthy financial position with a gearing ratio of 31% will provide financial flexibility for asset acquisition. Based on Sunway REIT's internal gearing threshold of c.40%, we estimate that the trust has further debt headroom of about RM1bn in FY14, which is sufficient to fund the RM500mn capex and future acquisition.

### Valuation

- We raise our discount rate assumption higher by 50bps (cost of equity: 9%) to reflect the rising bond yields recently. Taking into account the change in earnings and dividends projections, our DDM-derived target price is lowered RM1.52/share from RM1.80/share previously. Maintain Hold on Sunway REIT with a potential capital upside of 14.4%.

### Earnings Summary (RM mn)

FYE June	FY11	FY12	FY13	FY14F	FY15F
Gross Rental Income	327.4	406.4	415.9	443.9	503.4
Net Property Income	244.0	299.2	309.2	330.3	372.1
NPI Margins	74.5	73.6	74.3	74.4	73.9
Pretax profit	168.1	190.3	218.8	231.2	264.2
Core Net Profit	167.3	190.6	218.8	231.2	264.2
Distributable income	176.8	202.1	231.1	243.6	277.2
EPU (Sen)	6.2	7.1	7.9	7.9	9.0
EPU Growth (%)	n.a	13.7	11.2	0.2	13.8
PER (x)	21.4	18.8	16.9	16.9	14.8
DPU (sen)	6.6	7.5	8.3	8.3	8.9
Div Yield (%)	4.9	5.6	6.2	6.2	6.7
ROE (%)	6.6	6.6	6.7	6.6	7.5

**4Q13 Results Analysis (RM mn)**

FYE June	4Q12	3Q13	4Q13	QoQ (%)	YoY (%)	FY12	FY13	YoY (%)	
Total revenue	102.6	106.4	103.9	(2.4)	1.3	406.4	415.9	2.3	
- Retail	72.3	76.3	71.0	(7.0)	(1.8)	292.3	296.1	1.3	
- Hospitality	19.8	15.1	17.6	16.4	(11.4)	71.6	69.0	(3.6)	
- Office	10.4	10.3	10.6	2.8	1.3	42.6	41.3	(3.2)	
- Healthcare	0.0	4.8	4.8	0.0	nm	0.0	9.6	nm	
Total Net Property Income	75.9	79.7	78.5	(1.4)	3.5	299.2	309.2	3.3	
- Retail	49.5	53.6	49.6	(7.5)	0.2	199.7	205.4	2.9	
- Hospitality	18.9	14.2	16.8	18.2	(11.3)	69.0	65.7	(4.8)	
- Office	7.5	7.1	7.4	3.8	(0.9)	30.5	28.5	(6.5)	
- Healthcare	0.0	4.8	4.8	0.0	nm	0.0	9.6	nm	
Other Income	0.4	0.4	0.5	17.1	9.7	1.3	1.4	6.2	
Changed in fair value	230.2	0.0	173.5	nm	(24.6)	230.2	173.5	nm	
Net Investment Income	306.4	80.1	252.5	215.4	(17.6)	530.7	484.1	(8.8)	
Manager & Trustee Fee	(6.0)	(6.5)	(6.6)	0.5	8.9	(23.4)	(25.3)	7.7	
Finance Costs	(19.2)	(17.5)	(15.7)	(10.3)	(18.4)	(81.2)	(63.6)	(21.7)	
Other expenses	(2.9)	(0.8)	(1.2)	51.5	(57.3)	(5.6)	(2.9)	(47.9)	
Income Before Taxation	278.3	55.2	229.0	314.7	(17.7)	420.5	392.3	(6.7)	
Net Profit	278.3	55.2	229.0	314.7	(17.7)	420.5	392.3	(6.7)	
Realised Net Profit	48.1	55.2	55.5	0.4	15.4	190.6	218.8	14.8	
Realised EPU	(sen)	1.8	2.0	1.8	(9.9)	2.2	7.1	7.9	11.0
DPU	(sen)	1.9	2.1	2.0	(1.9)	6.9	7.5	8.3	10.7
				<i>ppt</i>	<i>ppt</i>			<i>ppt</i>	
NPI Margin	(%)	74.0	74.8	75.6	0.7	1.6	73.6	74.3	0.7
Realised Net Margin	(%)	46.9	51.9	53.4	1.5	6.5	46.9	52.6	5.7

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Kaladher Govindan – Head of Research