



Sunway Real Estate Investment Trust

Strong Start to FY15

TP: RM 1.68 (+11.2%)

Last Traded: RM 1.51

Hold

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Review

- Sunway REIT's 1QFY15 realised net profit of RM63.4mn came in within expectations, which accounted for 24% and 25% of our and consensus full-year estimates respectively.
- A distribution per unit (DPU) of 2.28sen was declared for this quarter, on track to meet our DPU forecast of 9.0sen for FY15. This translates to an annualized yield of 6.0% based on yesterday's closing price.
- Sunway REIT's 1QFY15 gross revenue grew 13.6% YoY and 4.2% QoQ to RM113.8mn. The retail (+15.6% YoY, +4.0% QoQ) and hospitality (+18.9% YoY, +9.6% QoQ) segment showed strong revenue growth which was driven by higher rental rates/average daily room rates as well as improved occupancy. The robust growth however was partially offset by weaker performance at the office segment (-2.3% YoY, -0.3% QoQ), due to a downsizing exercise of Sunway Tower's anchor tenant.
- Meanwhile, net property income (NPI) increased 12.2% YoY and 9.7% QoQ to RM86.5mn, in tandem with the strong growth in revenue in 1QFY15. NPI margin stood at 76%, down 1.0ppt YoY mainly due to higher utility expenses following the electricity tariff hike in Jan-14 (3QFY14). On a positive note, NPI margin recovered significantly on QoQ basis (+3.8ppt), thanks to upward revision in service and promotional charges imposed on tenants effective in June-14, as well as reversal of over-provision for assessment for Kuala Lumpur properties pursuant to confirmation of final increase.

Impact

- FY15 forecast is reduced by 2.9% due to the delay in opening of Sunway Putra Mall and lower occupancy rates at Sunway Tower and Sunway Putra Office, but is partially cushioned by higher margin assumptions given it has successfully passed on the higher utilities charges to tenants. NPI margin were revised to 74.1-74.2% from 72.9-73.1% previously for FY15-16. Net impact to FY16 earnings is +1.4%.
- We introduce our FY17 forecast with a projected earnings growth of 14%, premised on 1) sustained rental reversion of 5%, led by Sunway Pyramid Mall, where 52% of NLA is due for renewal in FY17; and 2) better performance at Sunway Putra Mall, Offices and Hotel, following the completion of refurbishment exercise.

Conference Call Highlights

- The opening of the refurbished Sunway Putra Mall has been delayed to 4QFY15 (or 2QCY14) from 3QFY15 previously. Management attributed the 3-month delay to tenants require longer time to perform fit-outs, despite the refurbishment is at 88% completion (as at 30 Sept 2014). Target occupancy of >70% upon opening is maintained as it has locked-in 70% of the tenancy with an average rental rate of RM6-7psf.

Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2931.0
Market Cap (RMmn)	4425.8
Par Value	1.00
52-wk Hi/Lo (RM)	1.60/1.22
12-mth Avg Daily Vol ('000 shrs)	1330.1
Estimated Free Float (%)	33.3
Beta	0.5

Major Shareholders (%)

Sunway Berhad	(34.6)
EPF	(10.3)
Skim Amanah Saham Bumiputera	(7.7)
Tan Sri Cheah Fook Ling	(5.6)
Capital Research Global Investor	(5.6)

Forecast Revision

	FY15	FY16
Forecast Revision (%)	(2.9)	1.4
Net profit (RMmn)	251.5	299.2
Consensus	253.5	288.9
TA's / Consensus (%)	99.2	103.6
Previous Rating	Hold	(Maintained)

Financial Indicators

	FY15	FY16
Gearing (%)	33.2	34.3
FCPS (sen)	4.5	11.2
Price / CFPS (x)	33.5	13.5
ROE (%)	6.8	8.1
ROA (%)	4.4	5.1
NTA/Share (RM)	1.4	1.4
Price/NTA (x)	1.1	1.1

Scorecard

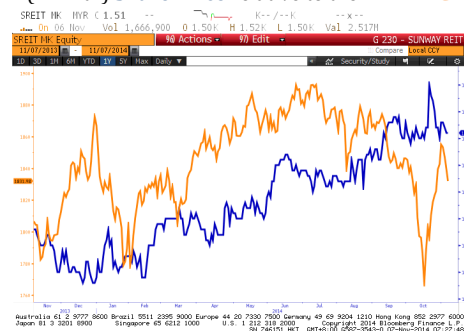
	% of FY	
vs TA	24.0	Within
vs Consensus	25.0	Within

Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	0.0	(0.1)
3 mth	6.3	(1.9)
6 mth	11.9	(1.5)
12 mth	13.5	1.4

- Management guided a moderate growth in DPU for FY15. It expects the REIT's retail assets to continue register healthy growth in FY15, driven by improving occupancy and rental rates, as well as income contribution from Sunway Putra Mall beginning in 4QFY15. Meanwhile, the hospitality segment is projected to register stable growth in FY15, with potential upside from Sunway Putra Hotel due to reduce disruption from the refurbishment works at Sunway Putra Mall and progressive completion of its own upgrading works.
- On the other hand, the office segment would likely be the main drag to FY15 results, as Sunway Tower's occupancy is expected to drop to 50% by end Dec 2014 (from 76.1% in 1QFY15), due to downsizing exercise by its anchor tenant, which is progressively surrendering 72k sq ft of NLA (or 27% of NLA) since 2QCY14. Finding replacement tenant for Sunway Tower could be a difficult, in view of ample supply of office space in KLCC CBD area.

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



Source: Bloomberg

Valuation

- Following our earnings adjustments, DDM-derived target price is revised upwards to RM1.68/share from RM1.57/share previously, based on unchanged discount rate of 9.25%. Reiterate **Hold**.

Earnings Summary (RM mn)

FYE June	FY13	FY14	FY15F	FY16F	FY17F
Gross Rental Income	415.9	427.8	485.3	558.1	624.2
Net Property Income	309.2	321.0	359.5	414.0	462.9
NPI Margins	74.3	75.0	74.1	74.2	74.2
Pretax profit	218.8	232.0	251.5	299.2	343.8
Core Net Profit	218.8	231.9	251.5	299.2	343.8
Distributable income	231.1	244.8	265.5	314.3	359.7
EPU (Sen)	7.9	7.9	8.5	10.1	11.6
EPU Growth (%)	11.2	0.8	7.8	18.4	14.3
PER (x)	19.2	19.0	17.7	14.9	13.1
DPU (sen)	8.3	8.4	9.0	10.6	12.1
Div Yield (%)	5.5	5.5	6.0	7.0	8.0
ROE (%)	6.7	6.4	6.8	8.1	9.3

1Q15 Results Analysis (RM mn)

- Hospitality		13.5	14.4	16.8	16.8	24.6
- Office		7.4	6.5	7.3	12.1	(2.1)
- Healthcare		4.8	4.9	5.0	1.2	4.8
Other Income		0.5	0.6	0.7	16.2	37.2
Changed in fair value		0.0	179.1	0.0	(100.0)	nm
Net Investment Income		77.6	258.6	87.2	(66.3)	12.3
Manager & Trustee Fee		(6.6)	(6.9)	(7.2)	4.5	8.7
Finance Costs		(15.5)	(15.8)	(16.3)	3.1	5.1
Other expenses		(0.1)	(0.7)	(0.3)	(59.7)	164.0
Income Before Taxation		55.4	235.2	63.5	(73.0)	14.5
Net Profit		55.4	235.2	63.5	(73.0)	14.5
Realised Net Profit		55.4	56.1	63.4	13.1	14.5
Realised EPU	(sen)	1.9	1.9	2.2	13.6	14.2
DPU	(sen)	2.0	2.0	2.3	12.3	14.0
NPI Margin	(%)	77.0	72.2	76.0	3.8	(1.0)
Realised Net Margin	(%)	55.3	51.3	55.7	4.4	0.4

Peers Comparison

	Price	Target price	Market Cap	PER (x)		Div Yield (%)		P/NAV (x)	
	(RM)	(RM)	(RM bn)	FY14	FY15	FY14	FY15	CY14	CY15
Sunway REIT	1.51	1.68	4.4	19.0	17.7	5.5	6.0	1.1	1.1
CMMT	1.45	1.65	2.6	16.8	15.4	6.3	6.9	1.2	1.2
IGB REIT*	1.34	NR	4.6	20.6	19.4	5.3	5.4	1.3	1.3
Pavilion REIT*	1.50	NR	4.5	20.0	19.2	5.1	5.3	1.3	1.3
KLCCP Stapled Group*	6.76	NR	12.2	18.2	17.5	4.9	5.1	1.3	1.3
Axis REIT*	3.69	NR	1.7	18.5	18.1	5.5	5.5	1.8	1.7
Average				18.9	17.9	5.4	5.7	1.4	1.3

* Based on consensus

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