



Sunway Real Estate Investment Trust

Acquiring Two Assets from Sponsor

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

TP: RM1.70 (+13.2%)

Last Traded: RM 1.50

HOLD

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Acquiring Sunway Hotel Georgetown and Wisma Sunway for RM134mn

Sunway REIT has entered into the following agreements with its sponsor, Sunway Bhd;

- a conditional SPA (1st SPA) for the proposed acquisition of Sunway Hotel Georgetown for a total Cash consideration of RM74mn;
- a master lease agreement involving the lease of Sunway Hotel Georgetown to Sunway Bhd on a 10+10 year leaseback agreement; and
- a conditional SPA (2nd SPA) for the proposed acquisition of Wisma Sunway @ Shah Alam for a total cash consideration of RM60mn.

Sunway Hotel Georgetown and the leaseback agreement

Sunway Hotel Georgetown is a 4-star, 250-room hotel, which located less than 1km from Komtar Tower in Georgetown, Penang – see **Appendix 2**. The hotel had completed a refurbishment of RM18mn in Apr 2013. Currently, the hotel commands a healthy occupancy rate of 80%, with average daily room rate of RM190. Sunway REIT has also signed master lease agreement with Sunway Bhd. The lease will have an initial tenure of 10 years with a renewal option granted to Sunway for a further 10 years. The total rental is computed based on the higher of Guaranteed Rent and the Variable Rent for that fiscal year. See **Appendix 3** for total rental computation.

Wisma Sunway Shah Alam

Wisma Sunway @ Shah Alam is a stratified 19-storey office building together with elevated and basement car park and mechanical bays – see **Appendix 4**. The property recently completed a refurbishment of RM8.2mn in 2013. It enjoys a high occupancy rate of 90% with a gross monthly rental of RM3.45psf. This is within the gross asking rents for existing building in Shah Alam of RM3.00-RM4.00psf.

Yield accretive acquisition

On a nine-month pro forma basis, these assets are expected to generate rental yield of 6.3%. We believe the acquisition cost is reasonable, given these assets fetch a higher yield as compared with Sunway REIT's property portfolio yield of 5.81% in FY14. According to announcement, Sunway REIT intends to fully fund the acquisition via debt. The proposed drawdown of new borrowings will increase Sunway REIT's gearing ratio from 32% as at 30 Sep 2014 to 33.5%. Assuming a 50% leverage ratio, we estimate the trust still has an additional debt room of RM900mn after these acquisitions.

All in, we expect these acquisitions to be yield-accretive, boosting the company's earnings by 1.2-1.4% in FY16-17. The acquisition is expected to be completed by 3Q2015 or (1QFY16).

Valuation

Coupled with our earnings revision, we upgrade our DDM-derived target price to RM1.70/unit from RM1.68/unit. Our target price implies a FY15 dividend yield of 5.8%, representing a 180bps premium to our 10-year MGS yield of 4.0%. Maintain **Hold**.

Share Information

| | |
|----------------------------------|-------------|
| Bloomberg Code | SREIT MK |
| Stock Name | SUNREIT |
| Stock Code | 5176 |
| Listing | Main Market |
| Units in circulation (mn) | 2933.2 |
| Market Cap (RMmn) | 4339.9 |
| Par Value | 1.00 |
| 52-wk Hi/Lo (RM) | 1.63/1.10 |
| 12-mth Avg Daily Vol ('000 shrs) | 1109.6 |
| Estimated Free Float (%) | 33.2 |
| Beta | 0.49 |

Major Shareholders (%)

| | |
|-------------------------|--------|
| Sunway Berhad | (34.6) |
| EPF | (9.9) |
| Nomura Asset Management | (8.4) |
| Skim Amanah Bumiputera | (7.1) |

Forecast Revision

| | FY15 | FY16 |
|-----------------------|-------------------|-------|
| Forecast Revision (%) | 0.0 | 1.4 |
| Net profit (RMm) | 251.5 | 303.3 |
| Consensus | 253.5 | 288.9 |
| TA's / Consensus (%) | 99.2 | 105.0 |
| Previous Rating | Hold (Maintained) | |

Financial Indicators

| | FY15 | FY16 |
|------------------|------|------|
| Gearing (%) | 33.2 | 35.3 |
| FCPS (sen) | 8.2 | 9.7 |
| Price / CFPS (x) | 18.3 | 15.5 |
| ROE (%) | 6.8 | 8.2 |
| ROA (%) | 4.4 | 5.2 |
| NTA/Share (RM) | 1.4 | 1.3 |
| Price/NTA (x) | 1.1 | 1.1 |

Share Performance (%)

| Price Change | Sunway REIT | FBM KLCI |
|--------------|-------------|----------|
| 1 mth | (0.7) | (4.6) |
| 3 mth | 1.4 | (7.1) |
| 6 mth | 3.4 | (6.6) |
| 12 mth | 20.0 | (5.5) |

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



Source: Bloomberg

Earnings Summary (RMmn)

Profit and Loss (RM mn)

| FYE Jun 30 | FY13 | FY14 | FY15f | FY16f | FY17f |
|---------------------|-------------|-------------|--------------|--------------|--------------|
| Gross Revenue | 415.9 | 427.8 | 485.3 | 568.9 | 635.1 |
| Net Property Income | 309.2 | 321.0 | 359.5 | 422.3 | 471.4 |
| Finance Cost | (63.6) | (63.0) | (74.6) | (82.4) | (84.3) |
| Pretax profit | 218.8 | 232.0 | 251.5 | 303.3 | 348.0 |
| Net Profit | 218.8 | 231.9 | 251.5 | 303.3 | 348.0 |
| EPU (sen) | 7.9 | 7.9 | 8.5 | 10.3 | 11.7 |
| EPU growth (%) | 11.2 | 0.8 | 7.8 | 20.0 | 14.1 |
| PER (x) | 19.1 | 18.9 | 17.6 | 14.6 | 12.8 |
| GDPS (sen) | 8.3 | 8.4 | 9.0 | 10.8 | 12.2 |
| Div yield (%) | 5.5 | 5.6 | 6.0 | 7.2 | 8.2 |
| Core ROE (%) | 6.7 | 6.4 | 6.8 | 8.2 | 9.4 |
| NPI margin (%) | 74.3 | 75.0 | 74.1 | 74.2 | 74.2 |
| PBT margin (%) | 52.6 | 54.2 | 51.8 | 53.3 | 54.8 |
| Core net margin (%) | 52.6 | 54.2 | 51.8 | 53.3 | 54.8 |

Cash Flow Statement (RM mn)

| FYE Jun 30 | FY13 | FY14 | FY15f | FY16f | FY17f |
|-------------------------------|-------------|-------------|--------------|--------------|--------------|
| PBT | 218.8 | 232.0 | 251.5 | 303.3 | 348.0 |
| Op profit before change in WC | 468.1 | 487.1 | 340.1 | 400.8 | 448.3 |
| CFO | 297.5 | 314.9 | 322.4 | 415.0 | 449.6 |
| Capex | (470.0) | (118.8) | (100.0) | (150.0) | (50.0) |
| CFI | (371.6) | (118.3) | (100.0) | (150.0) | (50.0) |
| Equity Raised | 316.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net borrowings | 65.0 | 106.0 | 172.9 | 200.0 | 50.0 |
| Dividend | (222.9) | (244.1) | (265.5) | (318.4) | (364.0) |
| CFF | 106.9 | (200.4) | (167.2) | (200.8) | (398.3) |
| Change in cash | 32.7 | (3.9) | 55.2 | 64.1 | 1.3 |

Balance Sheet (RM mn)

| FYE Jun 30 | FY13 | FY14 | FY15f | FY16f | FY17f |
|-------------------------------|-------------|-------------|--------------|--------------|--------------|
| Non current assets | 5192.8 | 5523.0 | 5623.0 | 5773.0 | 5823.0 |
| Receivables | 18.2 | 16.4 | 21.2 | 24.9 | 34.8 |
| Cash | 58.5 | 54.6 | 109.8 | 173.9 | 175.2 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total CA | 76.7 | 83.5 | 143.5 | 211.3 | 222.5 |
| Total Asset | 5269.5 | 5606.5 | 5766.5 | 5984.3 | 6045.5 |
| Trade and other payables | 88.5 | 116.1 | 103.3 | 121.0 | 132.2 |
| Borrowings | 314.8 | 742.0 | 776.6 | 816.6 | 826.6 |
| Total CL | 403.3 | 858.1 | 879.9 | 937.7 | 958.9 |
| Unitholders' Capital | 2690.0 | 2702.8 | 2716.8 | 2732.0 | 2748.0 |
| Distributable income | 816.5 | 985.3 | 971.2 | 956.1 | 940.1 |
| Total Unitholders' funds | 3506.5 | 3688.1 | 3688.1 | 3688.1 | 3688.1 |
| Borrowings | 1317.9 | 1000.0 | 1138.3 | 1298.3 | 1338.3 |
| Long term liabilities | 42.0 | 60.3 | 60.3 | 60.3 | 60.3 |
| Total Non Current Liabilities | 1359.8 | 1060.3 | 1198.6 | 1358.6 | 1398.6 |
| Total Liabilities + Equity | 5269.5 | 5606.5 | 5766.5 | 5984.3 | 6045.5 |

Ratios

| FYE Jun 30 | FY13 | FY14 | FY15f | FY16f | FY17f |
|-------------------|-------------|-------------|--------------|--------------|--------------|
| Gearing (%) | 31.0 | 31.1 | 33.2 | 35.3 | 35.8 |
| NTA/unit (RM) | 1.3 | 1.4 | 1.4 | 1.3 | 1.3 |
| P/NTA (x) | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 |
| ROE (%) | 6.7 | 6.4 | 6.8 | 8.2 | 9.4 |
| ROA (%) | 4.4 | 4.3 | 4.4 | 5.2 | 5.8 |

Appendix 1: Summary of Properties



| | Sunway Hotel Georgetown | Wisma Sunway |
|------------------|---|---|
| Location | Georgetown, Penang | Shah Alam, Selangor |
| Type of Property | 16-storey, 4 star hotel with vacant land used as car park | Stratified office building with 400 car park bays |
| NLA | 250 rooms | 171,544 sq ft. |
| Consideration | RM74.0 mil | RM 60 mil |
| Tenure | Freehold | 99 years leasehold expiring 2094 |

Appendix 2: Sunway Hotel George Town

Disposal of Sunway Hotel Georgetown

Vendor : Sunway Biz Hotel Sdn Bhd
 No. of Rooms : 250
 Tenure : Interest-in-perpetuity
 Land Area : 1) 27,480 sq ft.
 2) 6,112 sq ft
 (adjacent land parcel)
 Gross Floor Area : 192,383 sq ft.



| Financials | |
|---------------------------|------------|
| EBITDA (YTD Sep 2014) | RM3.3 mil |
| Purchase consideration | RM74.0 mil |
| NBV as at 31 October 2014 | RM37.6 mil |

Appendix 3: Sunway Hotel George Town

Proposed Hotel Master Lease

| | |
|----------------------|---|
| Tenure | : 10 years with an option to renew for another 10 years |
| Rental | : Guaranteed Rent or Variable Rent, whichever is higher |
| Variable Rent | : 20% of Gross Operating Revenue (GOR) + 70% of Net Operating Profit |
| Guaranteed Rent | : Year 1 and 2 – RM4,387,720 Year 3 to 10 – RM3,290,790 |
| Hotel Management Fee | : Base management fee of 1.5% of GOR + Management Incentive fees of 8% of Gross Operating Profit continue to be paid by the Lessee to Sunway International Hotels and Resorts Sdn Bhd |



Appendix 4: Wisma Sunway

Disposal of Wisma Sunway

| | |
|-------------------|---|
| Vendors | : Sunway Mas Sdn Bhd Daksina Harta Sdn Bhd (Both wholly owned subsidiaries of Sunway Bhd) |
| Tenure | : 99 years leasehold expiring on 29 August 2094 |
| Net Lettable Area | : 171,544 sq ft. |
| Gross Floor Area | : 301,723 sq ft. |

| Financials | |
|---------------------------|------------|
| EBITDA (YTD Sep 2014) | RM3.0 mill |
| Purchase consideration | RM60.0 mil |
| NBV as at 31 October 2014 | RM59.1 mil |



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