



Sunway Real Estate Investment Trust

Acquires Sunway Clio Property

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Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

Acquires Sunway Clio Property

Sunway REIT is acquiring Sunway Clio Property from its sponsor, Sunway Bhd for RM340mn. Sunway Clio Property comprises, 1) a 19-storey, four-star hotel with 401 rooms known as Sunway Clio Hotel, 2) a three storey retail space with net lettable area (NLA) of 88,384 sq ft known as Sunway Pyramid West, 3) and a multi-storey car park with 732 bays – see **Appendix 1**. Sunway Clio Property is connected to Sunway Pyramid Mall through a pedestrian sky bridge and underground car park. The proposed acquisition is expected to be completed by 4QCY17 (or 2QFY18).

Signed Hotel Lease and Car Park Tenancy Agreement with Sponsor

The Sunway Clio Property is an income-generating property with decent occupancy rates of 71.6% for hotel operations and 88.2% for the Retail Space. Sunway REIT has signed hotel 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 minimum rental of RM8mn (Year 1 - 2) and RM11mn (Year 3 - 10)) or Variable Rent for that fiscal year – whichever higher. See **Appendix 2** for total rental computation.

Besides, Sunway REIT has also entered into a car park tenancy agreement with Sunway Bhd for a period of three years commencing from the date of completion of the acquisition, with the option of renewal of a further 3 years. The rental is payable to Sunway REIT on a monthly basis, based on 20% of gross operating revenue + 95% of gross operating profit. See **Appendix 3** for rental computation.

Yield Accretive Acquisition

Sunway Bhd is providing Sunway REIT with a guaranteed property income of RM20.2mn per annum for a period of four years. The guaranteed property income would translate to a 6.0% injection yield. We believe the acquisition cost is reasonable, given that it fetches a higher yield as compared to Sunway REIT's property portfolio yield of 5.8% in FY16. According to the announcement, Sunway REIT intends to fund the purchase consideration through its existing debt programme. The proposed drawdown of new borrowings will increase Sunway REIT's gearing ratio from 34.9% as at Mar-17 to 38.1%. Assuming a 50% leverage ratio, we estimate that the trust still has an additional debt headroom of about RM1.5bn post this acquisition.

The proposed land acquisition would increase Sunway REIT's total asset value by 5.3% to RM6.9bn, on track to meet its target of growing total asset value to RM7bn by FY17. By FY20, Sunway REIT aims to raise its total asset value to more than RM10bn via a combination of organic growth of its existing property portfolio, and inorganic growth, through the acquisition of assets from sponsor and third parties.

Forecast and recommendation

We raise our FY18 & FY19 net profit forecasts by 1-4% and upgrade our DDM target price higher to RM1.88 from RM1.86 previously based on unchanged discount rate of 7.9%. Reiterate **Hold**.

TP: RM1.88 (+10.0%)

Last Traded: RM 1.71

Hold

Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2945.1
Market Cap (RMmn)	5036.1
Par Value	1.00
52-wk Hi/Lo (RM)	1.84/1.63
12-mth Avg Daily Vol ('000 shrs)	2314.1
Estimated Free Float (%)	31.7
Beta	0.5

Major Shareholders (%)

Sunway Berhad	(37.3)
EPF	(13.2)
Skim Amanah Bumiputera	(7.2)

Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.0	0.7
Net profit (RMm)	261.7	299.9
Consensus	271.2	296.6
TA's / Consensus (%)	96.5	101.1
Previous Rating	Hold (Maintained)	

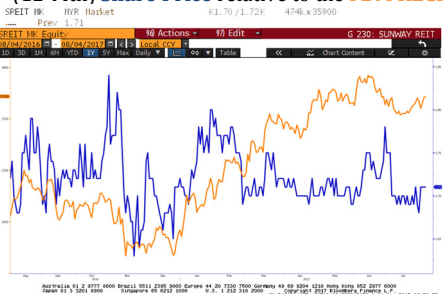
Financial Indicators

	FY17	FY18
Gearing (%)	35.8	38.9
FCPS (sen)	5.7	0.9
Price / CFPS (x)	30.1	190.1
ROE (%)	6.5	7.4
ROA (%)	4.0	4.4
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.2	1.2

Share Performance (%)


Price Change	Sunway REIT	FBM KLCI
1 mth	(2.3)	0.6
3 mth	0.0	0.8
6 mth	(3.4)	5.2
12 mth	(0.6)	7.0

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



Source: Bloomberg

Appendix 1: Sunway Clio Property Detail

 <p>The image shows a tall, modern hotel building with a podium car park at the base. Red callout boxes identify the 'Hotel' (top section), 'Sunway Pyramid Mall' (base left), 'Podium Car Park' (base right), and 'Retail' (base center).</p>	Location	Bandar Sunway, Selangor
	Vendor	Sunway Forum Hotel Sdn Bhd
	Type of Property	<ol style="list-style-type: none"> 1) 19-storey, 4-star hotel with 401 hotel rooms 2) 3-storey retail space 3) Multi-storey car park with 732 bays
	Tenure	Leasehold interest for a term of 99 years, expiring on 16 Nov 2108
	Age of Building	1.5 years
	Land Area	77,403 sq ft.
	Gross Floor Area	798,762 sq ft. (including the multi-storey car park)
	Net Lettable Area	88,384 sq ft (retail space)
	Occupancy	<ul style="list-style-type: none"> • Hotel: 71.6% • Retail: 88.2%
	Consideration	RM340.0 million
NBV	RM293.1 million (as at 31 Dec 2016)	

Source: Bursa Malaysia, Sunway REIT

Appendix 2: Hotel Lease Agreement

Lessee	Sunway Resort Hotel Sdn Bhd
Tenure	10 years with an option to renew for a further 10 years
Rental	<p>Higher of the minimum rent or variable rent as follows:</p> <ol style="list-style-type: none"> i) Minimum Rent <ul style="list-style-type: none"> Year 1 and 2 – RM10,968,618 Year 3 to 10 – RM8,226,464 ii) Variable Rent <ul style="list-style-type: none"> 20% of Gross Operating Revenue (GOR) + 70% of Net Operating Profit

Source: Bursa Malaysia, Sunway REIT

Appendix 3: Car Park Tenancy Agreement

Tenant	Sunway Leisure Sdn Bhd
Tenure	3 years with an option to renew for a further term of 3 years
Rental	20% of Gross Operating Revenue (GOR) + 95% of Gross Operating Profit (Payable monthly)

Source: Bursa Malaysia, Sunway REIT

Earnings Summary (RMmn)

Profit and Loss (RM mn)

FYE Jun 30	FY15	FY16	FY17f	FY18f	FY19f
Gross Revenue	453.5	507.0	548.2	611.6	638.4
Net Property Income	340.8	373.9	393.3	442.8	465.2
Finance Cost	(70.8)	(86.2)	(94.2)	(103.2)	(105.1)
Adjusted Pretax Profit	240.6	260.2	261.7	299.9	319.3
Reported Net Profit	541.4	323.7	261.7	299.9	319.3
Realised Net Profit	242.0	262.5	261.7	299.9	319.3
Realised EPU (sen)	8.2	8.9	8.9	10.2	10.8
Realised EPU growth (%)	3.7	8.2	(0.3)	14.6	6.5
PER (x)	20.8	19.2	19.3	16.8	15.8
GDPS (sen)	8.7	9.2	8.9	10.2	10.8
Div yield (%)	5.1	5.4	5.2	5.9	6.3
Core ROE (%)	6.3	6.5	6.5	7.4	7.9
NPI margin (%)	75.2	73.7	71.7	72.4	72.9
PBT margin (%)	53.1	51.3	47.7	49.0	50.0
Core net margin (%)	53.4	51.8	47.7	49.0	50.0

Cash Flow Statement (RM mn)

FYE Jun 30	FY15	FY16	FY17f	FY18f	FY19f
PBT	547.3	323.7	261.7	299.9	319.3
Op profit before change in WC	632.2	417.6	355.8	403.1	424.3
CFO	347.5	415.3	254.7	414.5	429.2
Capex	(402.0)	(90.0)	(100.0)	(390.0)	(50.0)
CFI	(401.0)	(90.0)	(100.0)	(390.0)	(50.0)
Equity Raised	0.0	0.0	0.0	0.0	0.0
Net borrowings	392.5	250.0	200.0	340.0	50.0
Dividend	(255.4)	(270.9)	(261.7)	(299.9)	(319.3)
CFE	65.1	(107.1)	(155.8)	(63.1)	(374.3)
Change in cash	11.6	218.2	(1.2)	(38.5)	4.8

Balance Sheet (RM mn)

FYE Jun 30	FY15	FY16	FY17f	FY18f	FY19f
Non current assets	6329.3	6441.7	6541.7	6931.7	6981.7
Receivables	20.2	25.8	21.0	23.5	24.5
Cash	66.2	69.7	68.6	30.0	34.9
Others	0.0	0.0	0.0	0.0	0.0
Total CA	100.8	95.6	89.6	53.5	59.3
Total Asset	6430.0	6537.3	6631.3	6985.2	7041.0
Trade and other payables	222.8	226.1	120.2	134.1	139.9
Borrowings	763.4	772.4	812.4	880.4	890.4
Total CL	986.2	998.5	932.6	1014.5	1030.3
Unitholders' Capital	2716.5	2725.9	2725.9	2725.9	2725.9
Distributable income	1265.8	1325.3	1325.3	1325.3	1325.3
Total Unitholders' funds	3982.3	4051.2	4051.2	4051.2	4051.2
Borrowings	1378.6	1403.2	1563.2	1835.2	1875.2
Long term liabilities	83.0	84.3	84.3	84.3	84.3
Total Non Current Liabilities	1461.5	1487.5	1647.5	1919.5	1959.5
Total Liabilities + Equity	6430.0	6537.3	6631.3	6985.2	7041.0

Ratios

FYE Jun 30	FY15	FY16	FY17f	FY18f	FY19f
Gearing (%)	33.3	33.3	35.8	38.9	39.3
NTA/unit (RM)	1.5	1.5	1.5	1.5	1.5
P/NTA (x)	1.2	1.2	1.2	1.2	1.2
ROE (%)	6.3	6.5	6.5	7.4	7.9
ROA (%)	4.0	4.0	4.0	4.4	4.6

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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Kaladher Govindan – Head of Research