

4 March 2013
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12-month upside potential

Target price	1.56
Current price (as at 1 March)	1.53
Capital upside (%)	2.0
Net distribution (%)	5.4
Total return (%)	7.4

Key stock information

Syariah-compliant?	No
Market Cap (RM m)	4,463.6
Units outstanding (m)	2,917.4
Free float (%)	43.9%
52-week high / low (RM)	1.55 / 1.14
3-mth avg volume ('000)	1,470.7
3-mth avg turnover (RM m)	2.2

Unit price performance

	1M	3M	6M
Absolute (%)	1.5	7.0	6.3
Relative (%)	0.9	5.0	7.3

Unit price chart

Major unitholders

	%
Sunway	37.0
Employees Provident Fund	10.2
Capital Group	6.5
Skim Amanah Saham Bumiputra	6.5

Sunway REIT

REIT

Neutral

Bloomberg Ticker: SREIT MK | Bursa Code: 5176

FY14 growth deterred by Sunway Putra Mall's closure

We initiate coverage on Sunway REIT with a **NEUTRAL** recommendation and TP of RM1.56, based on 5% discount to its DDM-derived fair value of RM1.74, to take into the consideration limited EPU growth in FY06/14 (+0.4% y-o-y) due to the full closure of Sunway Putra Mall for a 20/22-month refurbishment, starting from May 2013. Although EPU growth is expected to be strong post refurbishment, we believe unit price would only be re-rated in 2014 as the mall only reopens in early 2015. As such, we see limited upside in 2013 with a net distribution yield of 5.4%.

A diversified REIT with significant presence in 3 strategic locations

- Sunway REIT (SREIT) is a diversified REIT that owns a portfolio of 12 properties in retail (4), hospitality (4), commercial (3) and healthcare sectors (1), which contribute 71.9%, 10.5%, 17.6% and 0% of its FY12 revenue respectively.
- The REIT has recently completed the acquisition of Sunway Medical Centre, which is located close to 4 of its existing investment properties (Sunway Pyramid Shopping Mall (SPSM), Sunway Resort Hotel & Spa (SRHS), Pyramid Tower Hotel (PTH), and Menara Sunway (MS)) in Bandar Sunway, one of the largest and well-developed townships in Klang Valley. Post-acquisition, 77% of SREIT investment properties are located in Bandar Sunway.
- SPSM, one of the largest mid-market megamall in Malaysia (NLA: 1.7m sq ft), is the largest asset (54.8% of its portfolio value) and major income contributor to SREIT (56% of its FY12 revenue), followed by SRHS and PTH which are inter-linked with SPSM and represent 11% and 6.4% of its portfolio value respectively.
- In addition, SREIT owns an integrated-commercial asset (Sunway Putra Mall (SPM), Sunway Putra Hotel and Sunway Putra Tower) in KL, which it acquired cheaply (cap rate was 7.4%) via a public auction on 30 March 2011. Management has budgeted RM200m for the refurbishment of SPM, starting from May 2013 to 1Q2015. We see huge potential in both rental and capital appreciation post refurbishment.
- Apart from that, SREIT also has a retail mall (Sunway Carnival Shopping Mall (SCSM)) and a hotel (Sunway Hotel Seberang Jaya) in Seberang Jaya, Penang which is a township located close to industrial hubs and commercial zones on mainland Penang. We view these assets as a direct beneficiary to the fast-growing industrial sector in Penang.
- Last but not least, SREIT owns a hypermarket (Suncity Ipoh Hypermarket- master leased to Giant) in Ipoh and a 33-storey prime office building (Sunway Tower) in KL.
- SREIT has the Right of First Refusal on all investment properties that are owned and to be developed by its promoter, Sunway Bhd, such as SPSM Phase 3, Sunway Giza Shopping Mall, Sunway Lagoon and so on.

Limited EPU growth in FY14 due to the closure of SPM

- SREIT is expected to renew 21.1%, 44.1% and 16.2% of its NLA (excluding hotels' GFA) in FY13, FY14 and FY15 respectively. This would drive its EPU to grow by 10.7%, 0.4% and 6.1% in FY13, FY14 and FY15 respectively. The muted EPU growth in FY14 is mainly due to the income loss from the closure of SPM for refurbishment. We anticipate the mall will only start its full year contribution in FY16.
- As a result of that, we estimate SREIT to offers net distribution yield of 5.4%, 5.4% and 5.8% for FY13, FY14 and FY15 respectively.

Initiate coverage with a NEUTRAL call and TP of RM1.56

- As such, we initiate coverage on SREIT with a **NEUTRAL** recommendation and TP of RM1.56, based on 10% discount to its DDM-derived fair value of RM1.74, to take into the consideration limited EPU growth in FY06/14 (+0.4% y-o-y) due to the full closure of Sunway Putra Mall for a 20/22-month refurbishment, starting from May 2013.
- Key risks include (1) rising interest rate which will result in higher cost of equity that undermine our DDM valuation model, and (2) sharp economic slowdown.



SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 1 : Key financial data

FYE 30 June	FY11	FY12	FY13F	FY14F	FY15F
Revenue (RM m)	327.4	406.4	419.4	427.0	453.5
EBITDA (RM m)	221.3	270.2	279.5	293.2	311.5
EBIT (RM m)	221.2	270.2	279.4	293.2	311.4
Pretax profit (RM m)	553.7	420.5	219.8	229.9	244.6
Reported net profit (RM m)	553.7	420.5	219.8	229.9	244.6
Core net profit (RM m)	168.1	190.3	219.8	229.9	244.6
EPU (sen)	20.6	15.6	7.8	7.9	8.3
Core EPU (sen)	6.3	7.1	7.8	7.9	8.3
Alliance / Consensus (%)			104.8	101.5	92.0
Core EPU growth (%)	N/A	12.8	10.7	0.4	6.1
P/E (x)	24.4	21.6	19.5	19.5	18.3
EV/EBITDA (x)	25.4	21.0	21.7	21.2	20.1
ROE (%)	6.0	6.3	6.6	6.9	7.3
Net DPU (sen)	6.6	7.5	7.8	7.9	8.8
Net distribution yield (%)	4.3	4.9	5.4	5.4	5.8
NAV/share (RM)	1.03	1.12	1.14	1.15	1.15
P/NAV (x)	1.5	1.4	1.3	1.3	1.3

Source: Alliance Research, Bloomberg

Figure 2 : DDM Valuation Model

Key Assumptions:

Market Risk Premium (MRP)	7.1%
Beta (B)	0.50
Risk free rate (Rf)	3.5%
Constant DPU growth rate (g)	2.0%

$$\text{Cost of equity (r)} = R_f + (B \times \text{MRP}) = 7.1\%$$

$$\text{Equity value per share (RM)} = \text{Present value of future dividend} + \text{Terminal value}$$

$$= \frac{D_1}{(1+r)^1} + \frac{D_2}{(1+r)^2} + \frac{D_3}{(1+r)^3} + \left[\frac{D_3 \times (1+g)}{(r-g)} \times \frac{1}{(1+r)^3} \right]$$

$$= \frac{0.081}{(1.072)^1} + \frac{0.086}{(1.072)^2} + \frac{0.092}{(1.072)^3} + \left[\frac{0.093 \times (1.01)}{(0.072 - 0.01)} \times \frac{1}{(1.072)^3} \right]$$

$$= 0.076 + 0.075 + 0.075 + 1.513$$

$$= 1.74$$

$$\text{Target Price} = \text{DDM-derived fair value} - 5\% \text{ discounting factor due to its flattish EPU growth for FY14}$$

$$= 1.74 - 5\%$$

$$= 1.56$$

* n = period

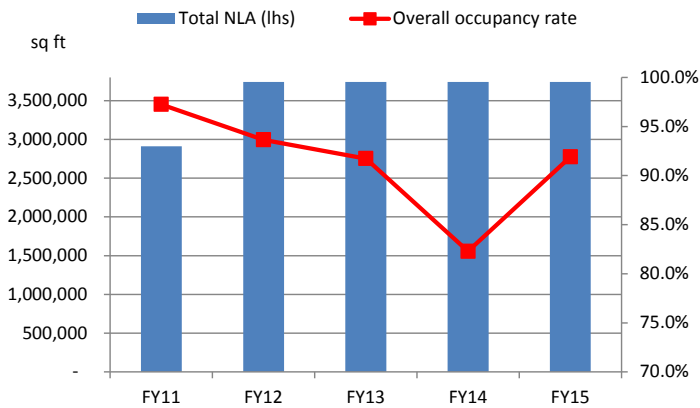
Note: Dividend is based on CY basis.

Source: Alliance Research, Bloomberg



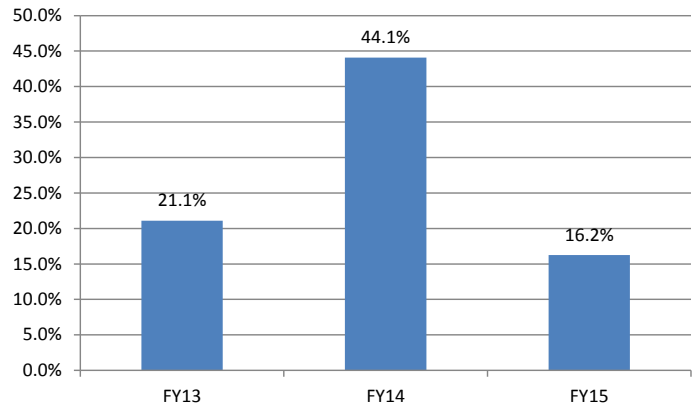
FOCUS CHARTS

Figure 3 : NLA and occupancy rate



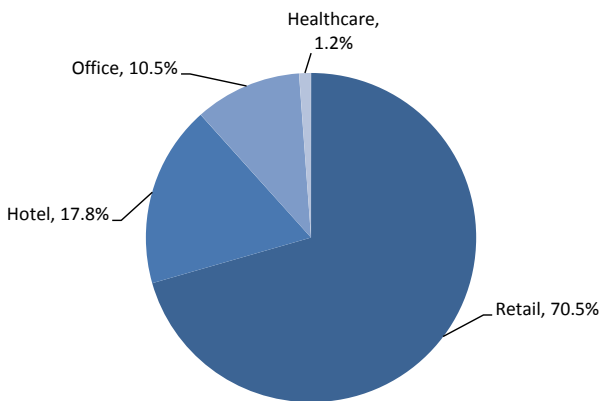
Source: Company data

Figure 4 : Tenancy expiry profile in NLA



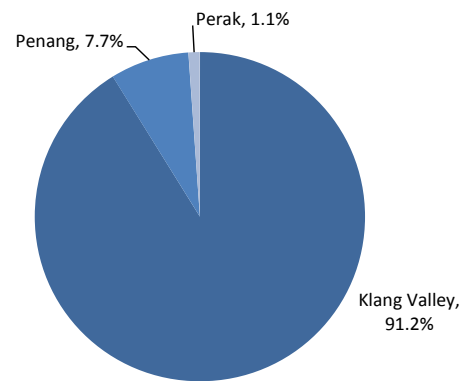
Source: Company data

Figure 5 : FY13 gross rental breakdown by asset



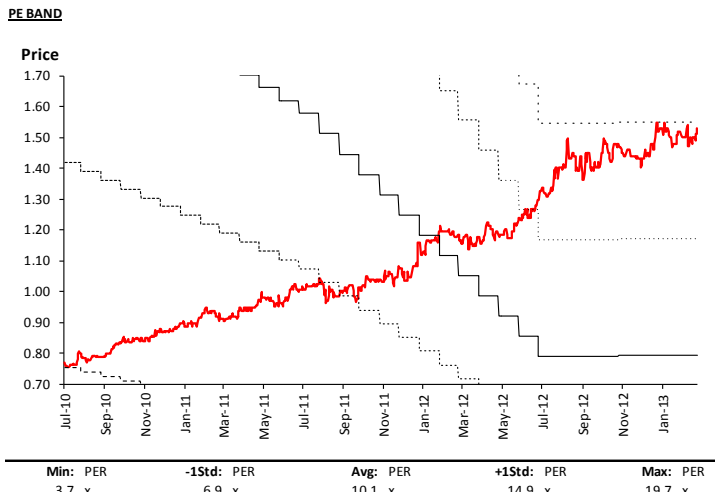
Source: Alliance Research estimates

Figure 6 : FY13 revenue breakdown by geographical area



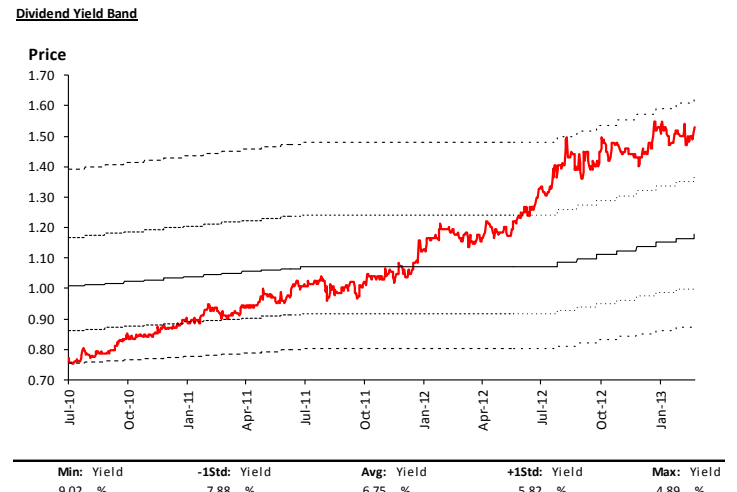
Source: Alliance Research estimates

Figure 7 : Rolling 12-month forward P/E trend



Source: Alliance Research, Bloomberg

Figure 8 : Rolling 12-month forward P/B trend



Source: Alliance Research, Bloomberg




Figure 9 : Summary of SREIT's investment properties


Name of Properties	Location	Type	Tenure of land	Acquisition date	Acquisition Cost + Enhancement	Fair Value Adjustments	Fair Value as at 30 Sept 2012	NLA as at 30 Sept 2012	Occupancy rate as at 30 Sept 2012	FY13 gross rental (F)	%
REIT Assets by type											
1 Sunway Pyramid Shopping Mall	Selangor	Retail	Leasehold	8-Jul-10	2,133.0	407.0	2,540.0	1,701,798	99.2%	231.0	56.4%
2 Sunway Carnival Shopping Mall	Penang	Retail	Leasehold	8-Jul-10	231.8	25.2	257.0	489,060	95.7%	30.3	7.4%
3 Suncity Ipoh Hypermarket	Perak	Retail	Leasehold	8-Jul-10	46.3	8.7	55.0	181,216	100.0%	4.6	1.1%
4 Sunway Putra Mall	Kuala Lumpur	Retail	Freehold	19-Apr-11	223.0	25.0	248.0	507,171	73.8%	23.1	5.6%
Retail					2,634.1	465.9	3,100.0	2,879,245		288.9	70.5%
								# of rooms			
5 Sunway Resort Hotel & Spa	Selangor	Hotel	Leasehold	8-Jul-10	458.4	49.6	508.0	442	70.8%	36.6	8.9%
6 Pyramid Tower Hotel	Selangor	Hotel	Leasehold	8-Jul-10	250.3	44.7	295.0	549	78.1%	24.9	6.1%
7 Sunway Hotel Seberang Jaya	Penang	Hotel	Leasehold	8-Jul-10	51.9	13.6	65.5	202	49.5%	1.3	0.3%
8 Sunway Putra Hotel	Kuala Lumpur	Hotel	Freehold	19-Apr-11	217.6	22.4	240.0	618	55.4%	10.3	2.5%
Hospitality					978.1	130.4	1,108.5	1,811		73.1	17.8%
9 Menara Sunway	Selangor	Office	Leasehold	8-Jul-10	127.9	22.1	150.0	276,612	99.4%	16.4	4.0%
10 Sunway Tower	Kuala Lumpur	Office	Freehold	8-Jul-10	171.5	18.5	190.0	268,306	81.8%	16.8	4.1%
11 Sunway Putra Tower	Kuala Lumpur	Office	Freehold	19-Apr-11	81.6	8.4	90.0	317,051	79.6%	9.7	2.4%
Commercial					381.0	49.0	430.0	861,969		42.9	10.5%
12 Sunway Medical Centre	Selangor	Healthcare	Leasehold	31-Dec-12	310.0	-	310.0			4.8	1.2%
Healthcare					310.0	-	310.0			4.8	1.2%
Total					4,303.2	645.3	4,948.5	3,741,214		409.7	100.0%

Source: Company data


Figure 10 : Rights of First Refusal granted to Sunway REIT




Sunway University
Educational institutions with more than 1,467,000 sq. ft. of combined GFA




Monash University, Sunway Campus
Educational institutions with more than 1,467,000 sq. ft. of combined GFA




Sunway Giza Shopping Mall
NLA of approximately 98,000 sq. ft.



The Pinnacle: Artist impression. Only Grade A office building in Bandar Sunway with approximately 560,000 sq. ft. of NLA



Sunway Pyramid 3: Artist impression. Retail Mall with NLA of 62,000 sq.ft. and 435 rooms 4-Star Hotel with more than 760 car parks.



Sunway Velocity: Artist impression. Shopping Mall with NLA of more than 800,000 sq. ft. and more than 2,000 car parks

Total Pipeline Assets	Size (sq. ft.)
NLA of retail assets	962,000
NLA of office assets	560,000
GFA from other assets	2,200,000

Source: Company data



Sunway REIT

FINANCIAL SUMMARY

Price Date: 04 March 2013

Balance Sheet

FYE 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
PPE	0.1	0.4	0.4	0.3	0.3
Investment properties	4,379.0	4,630.0	5,014.1	5,171.7	5,227.3
Receivables	14.5	18.7	17.2	17.5	18.6
Other assets	0.7	8.5	8.5	8.5	8.5
Deposit, bank and cash ba	58.6	25.8	42.8	38.9	48.4
Total Assets	4,452.9	4,683.4	5,083.0	5,237.0	5,303.1
LT borrowings	1,502.0	318.1	1,568.1	1,568.1	1,568.1
ST borrowings	59.4	1,245.0	60.0	200.0	250.0
Payables	51.9	37.8	40.2	40.9	43.5
Other liabilities	68.6	74.2	74.2	74.2	74.2
Liabilities	1,681.8	1,675.0	1,742.5	1,883.2	1,935.7
Unitholders' capital	2,350.4	2,361.5	2,694.5	2,707.8	2,721.4
Undistributed income	420.6	646.8	646.0	646.0	646.0
Unitholders' Equity	2,771.1	3,008.3	3,340.5	3,353.8	3,367.4
Minority interest	-	-	-	-	-
Total Equity	2,771.1	3,008.3	3,340.5	3,353.8	3,367.4
Total Equity and Liabilities	4,452.9	4,683.4	5,083.0	5,237.0	5,303.1

Cash Flow Statement

FYE 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Pretax profit	553.7	420.5	219.8	229.9	244.6
Depreciation and amortisa	0.0	0.1	0.0	0.0	0.0
Other non-cash Coreustme	(324.1)	(129.1)	71.8	76.6	80.4
Change in working capital	72.4	(7.5)	3.9	0.4	1.5
Net interest paid	(46.1)	(71.4)	(59.6)	(63.3)	(66.8)
Tax paid	-	-	-	-	-
Operating Cash Flow	255.8	212.5	236.0	243.6	259.7
Capex	(0.1)	(0.4)	-	-	-
Investments	(3,049.6)	-	(310.0)	-	-
Others	(3.0)	(27.3)	(74.1)	(157.6)	(55.6)
Investing Cash Flow	(3,052.8)	(27.7)	(384.1)	(157.6)	(55.6)
Issuance of shares	1,486.8	-	333.0	13.3	13.6
Net change in borrowings	1,579.1	(19.0)	65.0	140.0	50.0
distributions paid	(133.1)	(194.5)	(232.8)	(243.2)	(258.2)
Others	(77.3)	(4.0)	-	-	-
Financing Cash Flow	2,855.6	(217.6)	165.1	(89.9)	(194.6)
Net cash flow	58.6	(32.8)	17.0	(3.9)	9.5
Effects of exchange rate ch	-	-	-	-	-
Beginning cash	-	58.6	25.8	42.8	38.9
Ending cash	58.6	25.8	42.8	38.9	48.4

Income Statement

FYE 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	327.4	406.4	419.4	427.0	453.5
EBITDA	221.3	270.2	279.5	293.2	311.5
Depreciation	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
EBIT	221.2	270.2	279.4	293.2	311.4
Net interest expense	(53.2)	(79.9)	(59.6)	(63.3)	(66.8)
Revaluation surplus	385.6	230.2	-	-	-
Pretax profit	553.7	420.5	219.8	229.9	244.6
Taxation	-	-	-	-	-
Minority interests	-	-	-	-	-
Net profit	553.7	420.5	219.8	229.9	244.6
Core EBIT	221.2	270.2	279.4	293.2	311.4
Core net profit	168.1	190.3	219.8	229.9	244.6

Key Statistics & Ratios

FYE 31 Dec	2011A	2012A	2013F	2014F	2015F	
Growth						
Revenue		24.1%	3.2%	1.8%	6.2%	
Core EBIT		22.1%	3.4%	4.9%	6.2%	
Pretax profit		-24.1%	-47.7%	4.6%	6.4%	
Core net profit		13.2%	15.5%	4.6%	6.4%	
Core EPU		12.8%	10.7%	0.4%	6.1%	
Profitability						
Core EBIT margin		67.6%	66.5%	66.6%	68.7%	68.7%
Pretax profit margin		169.1%	103.5%	52.4%	53.8%	53.9%
Core net profit margin		51.1%	46.9%	52.4%	53.8%	53.9%
Effective tax rate		0.0%	0.0%	0.0%	0.0%	
Return on assets		3.8%	4.1%	4.3%	4.4%	4.6%
Return on equity		6.0%	6.3%	6.6%	6.9%	7.3%
Leverage						
Total debt / total asset		35.1%	33.4%	32.0%	33.8%	34.3%
Total debt / equity		56.3%	52.0%	48.7%	52.7%	54.0%
Net debt / equity		54.2%	51.1%	47.5%	51.6%	52.6%
Key Drivers						
FYE 31 Dec	2011A	2012A	2013F	2014F	2015F	
Average NLA (m sq ft)*	2.9	3.7	3.8	3.8	3.8	
Occupancy rate	97.2%	93.6%	91.2%	81.8%	92.2%	
Valuation						
FYE 31 Dec	2011A	2012A	2013F	2014F	2015F	
EPU (sen)	20.6	15.6	7.8	7.9	8.3	
Core EPU (sen)	6.3	7.1	7.8	7.9	8.3	
Core PE (x)	24.4	21.6	19.5	19.5	18.3	
EV/EBITDA (x)	25.4	21.0	21.7	21.2	20.1	
			10.6%	0.3%	5.9%	
Net DPU (sen)	6.6	7.5	8.3	8.3	8.8	
Net distribution yield (%)	4.3%	4.9%	5.4%	5.4%	5.8%	
NAV/ share (RM)	1.03	1.12	1.14	1.15	1.15	
P/NAV (x)	1.5	1.4	1.3	1.3	1.3	



DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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