

2 May 2013
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12-month upside potential

Target price	1.56
Current price (as at 30 April)	1.60
Capital upside (%)	-2.5
Net distribution (%)	5.2
Total return (%)	2.7

Key stock information

Syariah-compliant?	No
Market Cap (RM m)	4,667.8
Units outstanding (m)	2,917.4
Free float (%)	43.0
52-week high / low (RM)	1.60 / 1.17
3-mth avg volume ('000)	1,533.0
3-mth avg turnover (RM m)	2.3

Unit price performance

	1M	3M	6M
Absolute (%)	5.3	5.4	8.3
Relative (%)	2.5	-0.1	5.5

Unit price chart


Source: Bloomberg

Sunway REIT

REIT

Bloomberg Ticker: SREIT MK | Bursa Code: 5176

Neutral

3QFY13: Results inline

Sunway REIT's 3QFY13 results came within expectations, bringing its 9MFY13 realised net income to 74.3% and 77.0% of ours and consensus full year forecasts. As result came within expectation, we keep our forecasts unchanged. Hence, we remain NEUTRAL on the REIT with an unchanged DDM-based TP of RM1.56.

3QFY13 results came within expectation

- Sunway REIT's 3QFY13 realised net income (RNI) came within expectation, bringing its 9MFY13 RNI to 74.3% and 77.0% of ours and consensus full year forecasts.
- 3QFY13 revenue grew by 8.5% y-o-y, mainly driven by (1) solid performance from Sunway Pyramid Shopping Mall (+3.1% y-o-y), (2) impressive hotel revenue growth (+8.2% y-o-y), and (3) new income contribution from Sunway Medical Centre (SMC) which was acquired on 31 Dec 2012.
- However, 3QFY13 q-o-q revenue growth was muted (+0.6% q-o-q), mainly due to (1) seasonally weak sales from its hotel segment, and (2) lower income contribution from Sunway Putra Mall as it is scheduled to be closed for major refurbishment in May 2013.
- In terms of net property income (NPI), Sunway REIT achieved a growth of 7.2% y-o-y and 2.0% q-o-q, indicating a good cost control by the management.
- Apart from that, 3QFY13 financing cost increased by 11.7% q-o-q, mainly due to (1) the amortisation of loan expenses for commercial papers amounting to RM410m being expensed off, and (2) incremental interest expense for financing the acquisition of SMC amounting to RM1.4m.
- As such, 3QFY13 core EPU grew by 14.7% y-o-y but contracted by 2.4% q-o-q.
- Sunway REIT declared its third interim DPU of 2.06 sen, which is 101.5% of its RNI in 3QFY13. YTD distribution makes up 75.7% of our FY13 DPU estimate of 8.3 sen.
- To recap, Sunway REIT has paid in advance an income distribution of 0.97 sen per unit on 27 Feb 2013 in relation to income for the period from 1 Jan 2013 to 13 Feb 2013, prior to the issuance of 214.7m new units pursuant to a placement exercise. As such, unit holders would only receive a remaining third interim DPU of 1.09 sen on 16 May 2013 (ex-date: 14 May 2013).

Sunway Pyramid still remain highly sought after

- YTD, Sunway REIT's key asset, Sunway Pyramid Shopping Mall continued to enjoy strong average occupancy rate of 98.8%. The mall manager managed to renew 22% of its total NLA at an average positive rental reversion rate of 17.8% over a 3-year term.
- Going forward, the Sunway REIT would focus on asset enhancement exercises to boost the performance for some of its major assets, including Sunway Pyramid Shopping Mall which has commenced its renovation for Oasis Boulevard 5 which will see the creation of new net lettable area (NLA) of 20,362 sq. ft and reconfiguration of existing NLA of 23,432 sq. ft. Management is aiming to secure an internationally established fashion brand as a mini anchor for the newly created space.

No change to our forecasts

- As results came within expectation, we keep our forecasts unchanged.

Remain NEUTRAL with unchanged TP of RM1.56

- Hence, we keep our NEUTRAL recommendation unchanged with a DDM-based TP of RM1.56.
- Key risks include (1) rising interest rate which could result to higher cost of equity that undermine our DDM valuation model, and (2) sharp economic slowdown which affect domestic consumptions and investment activities.



SNAPSHOT OF FINANCIAL RESULTS

Figure 1 : Results commentaries

	3QFY13	3QFY12	% y-o-y change	% q-o-q change	9MFY13	9MFY12	% y-o-y change	Comments
Key financial highlights								
Gross rental income (RM m)	106.4	98.1	8.5	0.6	312.0	303.9	2.7	3QFY13 revenue grew by 8.5% y-o-y and 0.6% q-o-q, mainly driven by (1) solid performance from Sunway Pyramid Shopping Mall (+3.1% y-o-y), (2) impressive hotel revenue growth (+8.2% y-o-y), and (3) new income contribution from Sunway Medical Centre (SMC) which was acquired on 31 Dec 2012. The flattish q-o-q growth was mainly due to (1) seasonally weak demand for its hotel segment, and (2) gradual loss of income from Sunway Putra Mall as it is scheduled to be closed down for major refurbishment in May 2013.
Operating costs (RM m)	-26.7	-23.7	12.7	-3.3	-81.3	-80.5	1.0	
Net rental income (RM m)	79.7	74.4	7.2	2.0	230.8	223.4	3.3	
Others (RM m)	0.4	0.5			1.0	0.9		
Total trust income (RM m)	80.1	74.9	6.9	2.1	231.7	224.3	3.3	Financing cost increased by 11.7% q-o-q, mainly due to (1) amortisation of loan expenses for commercial papers amounting to RM410m being expensed off, and (2) incremental interest expense for financing the acquisition of SMC amounting to RM1.4m.
Financing cost (RM m)	-17.5	-20.6	-15.2	11.7	-47.9	-62.0	-22.7	
Other trust expenditure (RM m)	-7.4	-6.7	9.5	10.2	-20.5	-20.1	1.6	9MFY13 core net income came within expectations, making up 74.3% and 77.0% of ours and consensus full year forecasts.
Net income (RM m)	55.2	47.6	16.1	-1.6	163.4	142.2	14.9	
Core net income (RM m)	55.2	47.6	16.1	-1.6	163.4	142.2	14.9	
Realised net income (RM m)	55.2	47.5	16.1	-1.6	163.3	142.5	14.6	
Per share data								
EPS (sen)	2.03	1.77	14.7	-2.4	6.04	5.30	14.0	Declared 2.06 sen DPU, YTD distribution represents 75.7% of our full year forecast.
Core EPS (sen)	2.03	1.77	14.7	-2.4	6.04	5.30	14.0	
Net DPU (sen)	2.06	2.11			6.38	5.85		
NAV/share (RM)	1.13	1.03			1.13	1.03		
Other key indicators								
Gearing (x)	0.32	0.36			0.32	0.36		
Net rental margin (%)	74.9	75.8			75.7	75.2		
Core net margin (%)	51.9	48.5			53.6	47.8		
Payout ratio (%)	101.5	119.2			105.6	110.4		
Revenue by segment (RM m)								
Retail	76.3	73.5	3.9	1.0	225.2	220.0	2.3	
Hotel	15.1	14.0	8.2	-24.5	51.4	51.7	-0.6	
Office	10.3	10.7	-3.4	0.7	30.7	32.2	-4.6	
Hospital	4.8	0.0			4.8	0.0		

Source: Company, Alliance Research

**Figure 2 : 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 (%)			103.6	100.6	93.5
Core EPU growth (%)	N/A	12.8	10.7	0.4	6.1
P/E (x)	25.5	22.6	20.4	20.4	19.2
EV/EBITDA (x)	26.2	21.7	22.4	21.9	20.8
ROE (%)	6.0	6.3	6.6	6.9	7.3
Gearing (%)	35.1	33.4	32.0	33.8	34.3
Net DPU (sen)	6.6	7.5	8.3	8.3	8.8
Net distribution yield (%)	4.1	4.7	5.2	5.2	5.5
NAV/share (RM)	1.03	1.12	1.14	1.15	1.15
P/NAV (x)	1.6	1.4	1.4	1.4	1.4

Source: Alliance Research, Bloomberg

Figure 3 : 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%

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

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

$$\begin{aligned}
 &= D_0 + \frac{D_1}{(1+r)^1} + \frac{D_2}{(1+r)^2} + \left[\frac{D_3 \times (1+g)}{(r-g)} \times \frac{1}{(1+r)^3} \right] \\
 &= 0.031 + \frac{0.083}{(1.071)^1} + \frac{0.088}{(1.071)^2} + \left[\frac{0.088 \times (1.02)}{(0.071 - 0.02)} \times \frac{1}{(1.071)^3} \right] \\
 &= 0.031 + 0.078 + 0.077 + 1.551 \\
 &= 1.74
 \end{aligned}$$

$$\text{Target Price = DDM-derived fair value} - 10\% \text{ discounting factor due to its flattish EPU growth for FY14}$$

$$\begin{aligned}
 &= 1.74 - 10\% \\
 &= 1.56
 \end{aligned}$$

* n = period

Source: Alliance Research, Bloomberg



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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