

# Sunway REIT

## Acquisition of Vacant Land in Penang

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**SUNREIT has announced the acquisition of a 3.3ac (143.2k sf) vacant land adjacent to Sunway Carnival at Seberang Perai for RM17.2m. We are neutral to mildly positive as the near-term impact to earnings and balance sheet is minimal and the acquisition is still subject to SC's approval as MREIT guidelines do not permit such greenfield asset injection. We maintain earnings forecasts and OUTPERFORM call with TP of RM1.74 on FY17E GDPS of 10.2 sen and +2.1ppt spread to the 10-year MGS of 3.80%.**

**Acquisition of vacant land for RM17.2m by 2HCY16.** SUNREIT announced that it has entered into a sale and purchase agreement with Commercial Parade Sdn Bhd, an indirect wholly-owned subsidiary of Sunway Berhad, for the acquisition of a piece of 3.3ac (143.2k sf) vacant land for RM17.2m. The acquisition will be funded by cash and the land is located at Seberang Perai, Penang, adjacent to Sunway Carnival Shopping Mall (*refer overleaf*). This is to facilitate plans to increase net lettable area of Sunway Carnival with the construction of an extension of the existing mall comprising a 9-storey shopping mall on Lot 5493 inclusive of 6-storey parking bays above the retail space, and single-story parking bay at the basement. The acquisition is expected to be completed by 2HCY16 pending regulatory approvals.

**We are neutral to mildly positive on this news.** According to Clause 8.44(b) and Clause 8.44(c) of the REIT Guidelines, a fund is not permitted to conduct property development activities and the acquisition of a vacant land. As such, SUNREIT needs to obtain SC's approval to conduct property development activities as it is an acquisition of a vacant land (a.k.a greenfield asset), and it is likely that SUNREIT will not proceed with this acquisition without SC's approval. Additionally, as the project is still at planning stages, details are scarce, with the size of the mall and pricing not finalised. However, assuming the acquisition materialises, we do not expect any material impact to earnings in the near term as construction will likely commence as early as 2HCY17 and may take up to 3-4 years to complete, likely by CY20.

**Estimating development cost of RM138m and slight increase in FY16E gearing to 0.35x (from 0.34x).** Based on most developers under our coverage, assuming land cost makes up c.10-15% of total asset value (TAV), we believe the asset value for the extension could be up to RM172m (10% land cost assumptions), which only makes up to 2.6% of SUNREITs current TAV of RM6.5b. As for funding the project, assuming development cost makes up an additional 70%, we reckon that development and land cost combined is RM138m, which is also minimal and would only increase FY16E gearing ratio slightly to 0.35x (from 0.34x), assuming the full development cost will be funded by debt. Hence, we believe this will not prompt a cash call for funding purposes.

**No changes to earnings for now, as there is no near term impact to earnings. Maintain FY16E-17E earnings of RM254-271m.** We are estimating gross yields of 5.7-6.2% (net: 5.1-5.6%).

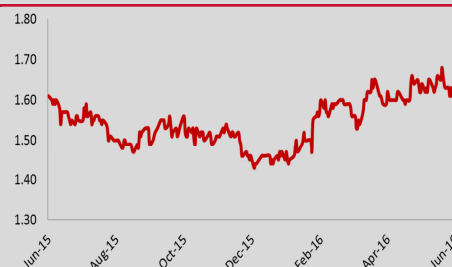
**Maintain OUTPERFORM call with TP of RM1.74,** based on FY17E target gross yield of 5.9% (net: 5.3%), on unchanged +2.1ppt spread to the 10-year MGS of 3.80% on FY17E GDPS of 10.2 sen (NDPS: 9.2 sen). We maintain OUTPERFORM call for its income contribution from SPP and visible acquisition pipeline. SUNREIT is commanding potential 11.4% total returns at current level.

# OUTPERFORM ↔

Price: **RM1.64**

Target Price: **RM1.74** ↔

### Share Price Performance



KLCI	1,634.23
YTD KLCI chg	-3.4%
YTD stock price chg	12.3%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	SREIT MK Equity
Market Cap (RM m)	4,825.6
Issued shares	2,942.4
52-week range (H)	1.69
52-week range (L)	1.43
3-mth avg daily vol:	1,475,049
Free Float	41%
Beta	0.4

### Major Shareholders

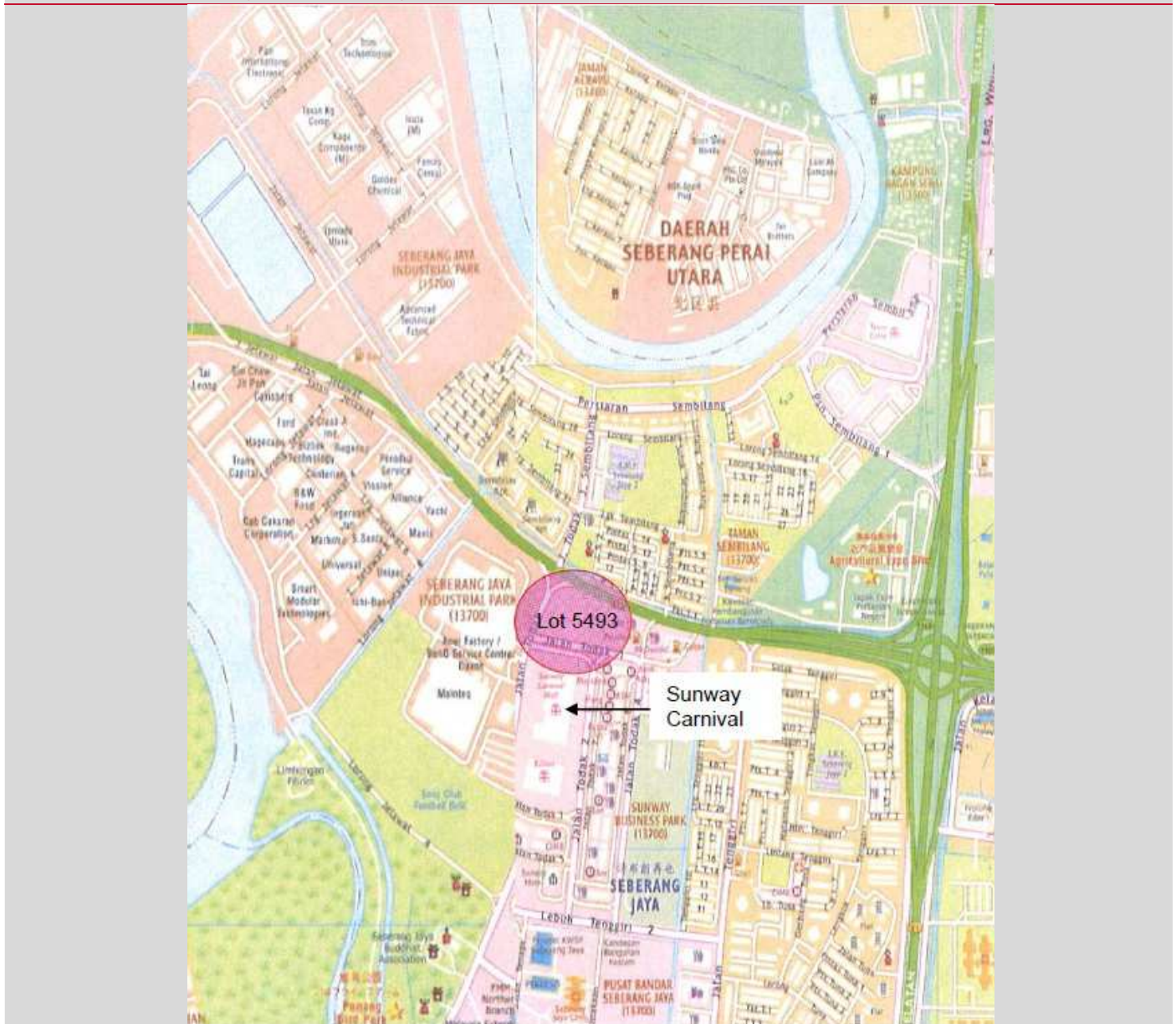
Sunway Bhd	37.3%
Employees Provident	12.0%
Skim Amanah Saha	9.9%

### Summary Earnings Table

FYE June (RM m)	2015A	2016E	2017E
Turnover	453	500	537
EBIT	311	338	357
PBT	547	254	271
<b>Net Profit</b>	<b>541</b>	<b>254</b>	<b>271</b>
<b>Core NP (RNI)</b>	<b>242</b>	<b>254</b>	<b>271</b>
Consensus (CNP)	n.a.	263	277
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	8.3	8.7	9.2
Core EPS growth (%)	4%	5%	7%
GDPS (sen)	8.7	9.3	10.2
BV/Share (RM)	1.48	1.48	1.48
Core PER (x)	19.8	18.9	17.7
ROE (%)	13.6%	6.4%	6.8%
G.Dividend Yield (%)	5.3%	5.7%	6.2%

OTHER POINTS

Location of Lot 5493, adjacent to Sunway Carnival

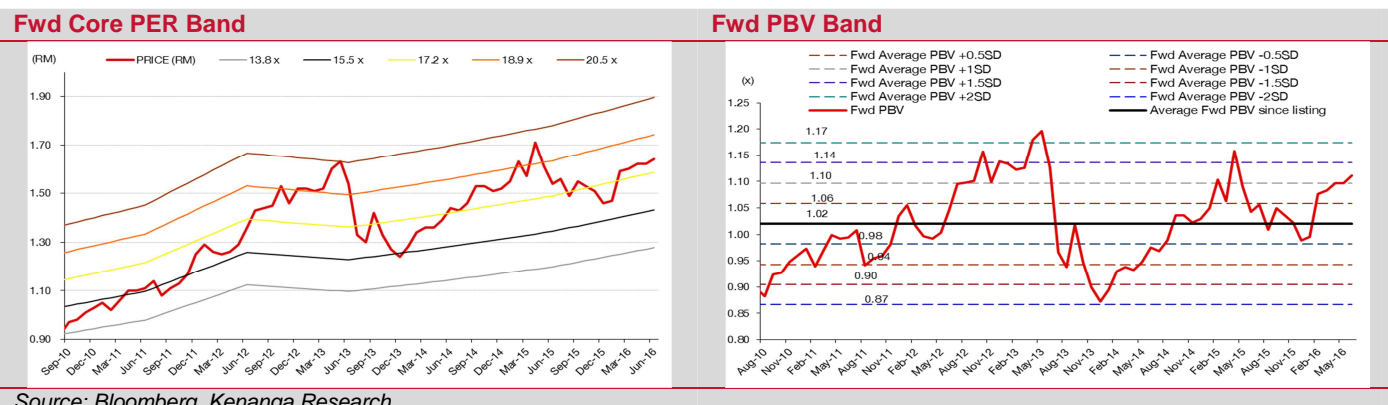


Source: Company

21 June 2016

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E	FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	416	428	453	500	537	<b>Growth (%)</b>					
EBITDA	283	295	312	338	357	Revenue	2.3	2.8	6.0	10.3	7.4
Depreciation	0	0	0	0	0	EBITDA	4.1	4.5	5.6	8.5	5.5
EBIT	282	295	311	338	357	EBIT	4.0	4.5	5.5	8.5	5.5
Interest Income	1	2	3	2	1	PBT	(6.7)	4.8	33.1	(53.6)	6.7
Interest Expense	-64	-63	-71	-84	-86	Net Income	(6.7)	4.8	31.7	(53.1)	6.7
Others	0	0	0	0	0	Core Net Income	14.8	6.0	4.4	4.8	6.7
Exceptionals/FV	173	179	307	0	0	<b>Profitability (%)</b>					
PBT	392	411	547	254	271	EBITDA Margin	67.9	69.0	68.8	67.7	66.5
Taxation	0	0	-6	0	0	Operating Margin	67.9	69.0	68.7	67.6	66.4
Minority Interest	0	0	0	0	0	PBT Margin	94.3	96.1	120.7	50.7	50.4
Net Profit	392	411	541	254	271	Core Net Margin	94.3	96.1	119.4	50.7	50.4
RNI	219	232	242	254	271	Eff. Tax Rate	0.0	0.0	(1.1)	0.0	0.0
RDI	231	245	257	273	301	ROE	11.2	11.1	13.6	6.4	6.8
<b>Balance Sheet</b>						ROA	7.4	7.3	8.4	3.9	4.1
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E	<b>DuPont Analysis</b>					
Fixed Assets	5185	5523	6329	6459	6565	Net margin (%)	94.3	96.1	119.4	50.7	50.4
Intangibles	0	0	0	0	0	Assets T/over (x)	0.1	0.1	0.1	0.1	0.1
Other FA	8	0	0	0	0	Leverage Fact (x)	1.5	1.5	1.6	1.6	1.6
Inventories	0	0	0	0	0	ROE (%)	11.2	11.1	13.6	6.4	6.8
Receivables	18	16	20	22	24	<b>Leverage</b>					
Other CA	0	0	0	0	0	Debt/Asset (x)	0.31	0.31	0.33	0.34	0.34
Cash	59	67	73	36	12	Debt/Equity (x)	0.47	0.47	0.54	0.55	0.57
Total Assets	5270	5606	6423	6517	6601	Net Debt/(Cash)	-1574	-1675	-2069	-2166	-2240
						Net Debt/Equity (x)	0.45	0.45	0.52	0.54	0.56
Payables	88	116	223	257	291	<b>Valuations</b>					
ST Borrowings	315	742	763	763	763	Core EPS (sen)	8.1	7.9	8.3	8.7	9.2
Other ST Liability	0	0	0	0	0	GDPS (sen)	8.3	8.4	8.7	9.3	10.2
LT Borrowings	1318	1000	1379	1439	1489	NAV/share (RM)	1.30	1.37	1.48	1.48	1.48
Other LT Liability	42	60	76	76	76	Core PER (x)	20.2	20.7	19.8	18.9	17.7
Minority Int.	0	0	0	0	0	G. Div. Yield (%)	5.1	5.1	5.3	5.7	6.2
<b>Net Assets</b>	<b>3506</b>	<b>3688</b>	<b>3982</b>	<b>3982</b>	<b>3982</b>	P/NAV (x)	1.3	1.2	1.1	1.1	1.1
Share Capital	2690	2703	2716	2716	2716	EV/EBITDA (x)	13.1	12.9	10.5	19.5	18.7
Reserves	816	985	1266	1266	1266						
<b>Shareholders Equity</b>	<b>3506</b>	<b>3688</b>	<b>3982</b>	<b>3982</b>	<b>3982</b>						
<b>Cashflow Statement</b>											
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E						
Operating CF	326	338	423	390	420						
Investing CF	-566	-312	-791	-130	-107						
Financing CF	273	-17	367	-297	-337						
Net Change in Cash	33	9	-1	-37	-24						
Free Cash Flow	881	676	1230	520	527						

Source: Kenanga Research



21 June 2016

## Peer Comparison

NAME	Price (20/6/16)	Mkt Cap	PER (x)			Est. NDiv. Yld. **	Historical ROE	P/BV	Net Profit (RMm)			FY16/17 NP Growth	FY17/18 NP Growth	Target Price	Rating
	(RM)		(RMm)	FY15/16	FY16/17				FY17/18	(%)	(%)	(x)	FY15/16		
<b>M-REIT &amp; PROPERTY INVESTMENT UNDER COVERAGE</b>															
KLCCSS *	7.59	13,702	21.4	19.4	18.2	4.6%	9.2%	1.1	641.3	704.9	752.2	9.9%	6.7%	7.42	MARKET PERFORM
Pavilion REIT	1.66	5,013	20.8	20.5	18.2	4.5%	13.9%	1.3	232.4	230.7	244.7	-0.7%	6.1%	1.83	OUTPERFORM
IGB REIT*	1.57	5,469	21.5	21.0	20.7	4.9%	6.9%	1.5	254.0	261.3	266.3	2.9%	1.9%	1.53	MARKET PERFORM
Sunway REIT*	1.64	4,826	19.8	18.9	17.8	5.1%	13.6%	1.1	242.0	253.7	270.4	4.8%	6.6%	1.74	OUTPERFORM
CapitaMalls (M) Trust*	1.51	3,063	18.5	17.7	16.9	5.1%	10.5%	1.2	155.1	173.1	181.3	11.6%	4.8%	1.45	MARKET PERFORM
Axis REIT*	1.73	1,912	20.8	18.6	17.8	4.8%	7.6%	1.4	91.5	102.3	106.8	11.8%	4.4%	1.67	MARKET PERFORM
* Core NP and Core PER															
** KLCCSS, CMMT, AXREIT, PAVREIT and IGBREIT based on FYDec16E and SUNREIT on FYJun16E/FY17E															
<b>CONSENSUS NUMBERS</b>															
YTL Hospitality REIT	1.07	1,417	1.0	13.4	15.3	5.6%	1.0%	0.8	56.4	106.0	92.7	88%	-13%	n.a.	BUY
Al-Aqar Healthcare REIT	1.53	1,114	15.9	17.6	17.4	5.6%	7.9%	1.3	70.1	63.4	64.1	-10%	1%	1.80	BUY
AmanahRaya REIT	0.90	516	8.5	13.2	13.0	7.6%	8.9%	0.8	60.8	39.0	39.6	-36%	1%	n.a.	BUY
AmFIRST REIT	0.75	511	7.5	18.6	18.6	5.4%	7.9%	0.6	68.4	27.5	27.5	-60%	0%	n.a.	SELL
Hektar REIT	1.51	605	138.5	13.1	12.6	7.3%	0.7%	1.0	4.4	46.1	48.1	955%	4%	1.62	BUY
MRCB-Quill REIT	1.15	761	12.3	13.4	12.8	7.1%	7.7%	0.9	61.9	56.9	59.5	-8%	5%	1.26	BUY
Tower REIT	1.23	345	12.3	10.3	10.3	9.8%	4.8%	0.6	28.2	33.7	33.7	20%	0%	n.a.	BUY
UOA REIT	1.66	702	6.4	15.1	15.1	6.6%	16.5%	1.0	110.4	46.5	46.5	-58%	0%	n.a.	BUY
Atrium REIT	1.07	130	8.7	10.7	9.7	9.3%	8.8%	0.8	15.0	12.2	13.4	-19%	10%	n.a.	BUY
Al-Salam REIT	1.01	586	n.a.	18.4	15.5	4.9%	n.a.	n.a.	n.a.	11.9	12.2	n.a.	18%	n.a.	BUY

Source: Kenanga Research



**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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