

Sunway REIT (SREIT MK)

Property - REITS

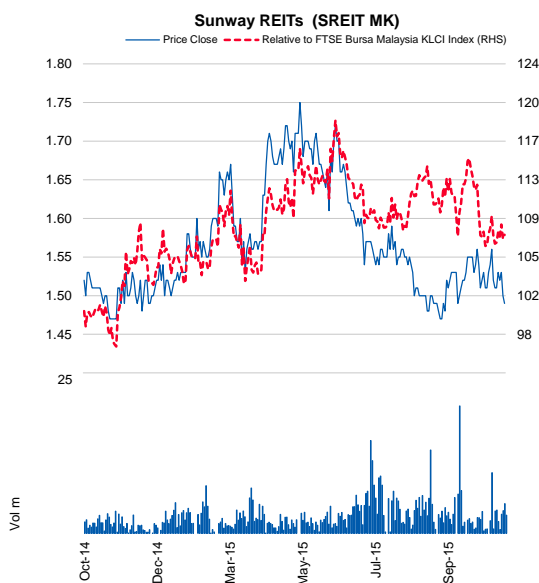
Market Cap: USD1,019m

Neutral (Maintained)

Target Price: MYR1.64

Price: MYR1.50

Decent Start To FY16

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	4.91m/1.17m
Cons. Upside (%)	8.7
Upside (%)	9.4
52-wk Price low/high (MYR)	1.47 - 1.75
Free float (%)	43
Share outstanding (m)	2,940
Shareholders (%)	
Sunway	34.4
Employees Provident Fund	10.9
Skim Amanah Saham Bumiputera	6.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.0)	(3.9)	(3.9)	(10.3)	(2.0)
Relative	3.4	(7.9)	(2.0)	(0.7)	7.4

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1QFY16 earnings met expectations. Maintain NEUTRAL and DDM-based TP of MYR1.64 (9% upside). SunREIT remains cautious on the short-term prospects of its hospitality and office segments due to softer demand and lower occupancy rates. That said, we expect this to be offset by strong growth in the retail segment, underpinned by the recently-opened Sunway Putra Mall as well as Sunway Pyramid.

- ◆ **Within expectations.** Sunway REIT's (SunREIT) reported 1QFY16 (Jun) core profit of MYR64.5m (+13.8% QoQ, +1.7% YoY). This came in line at 24%/23% of our/consensus full-year forecasts respectively. 1Q earnings were mainly underpinned by healthy rental revenue from both retail and hospitality segments. However, this was offset by lower contributions from the office segment, which was hit by low occupancy. A DPU of 2.12 sen was declared, down 7% YoY, due to lower realised profit and a reduction of manager fees in units to 25% (from 50%).
- ◆ **Briefing highlights.** Management shared that the committed occupancy rate for Sunway Putra Mall has increased slightly to 83.9% (from 82%) as of end-September. During the quarter, a large mini-anchor, Tanjung Golden Village Cinemas (TGV), has finally commenced operations. As mentioned in our 17 Aug report [Sunway REIT: Unveiling Sunway Putra Mall](#), the cinema is a revolutionary beanieplex and is expected to drive more shopper traffic to the mall. Additionally, two more mini-anchors ie H&M and Monki started operations at the mall on 29 Oct. With these new openings, the REIT is confident that the physical occupancy would be close to the committed occupancy level by end-2015. However, management reiterated its short-term cautious view as it expects consumer sentiment to remain weak, while its office and hospitality segments to continue facing headwinds due to low occupancy rates.
- ◆ **Forecasts and risks unchanged.** Key risks to our earnings forecasts include: i) low occupancy rates, and ii) delay in the remaining refurbishment of Sunway Putra Hotel.
- ◆ **Maintain NEUTRAL.** We retain our NEUTRAL call and DDM-based TP of MYR1.64. Despite current headwinds facing both office and hospitality segments, we think that the REIT's retail assets should help mitigate lower contributions from both segments. Furthermore, with FY16F-17F dividend yields of 6.5-6.8%, we think that investors should maintain their exposure to the REIT.

Forecasts and Valuations	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total turnover (MYRm)	428	453	528	547	567
Net property income (MYRm)	321	341	387	401	418
Reported net profit (MYRm)	232	241	269	282	298
Total distributable income (MYRm)	245	255	282	296	312
DPS (MYR)	0.08	0.09	0.10	0.10	0.11
DPS growth (%)	0.7	4.6	10.3	4.8	5.5
Recurring P/E (x)	18.3	18.1	16.2	15.5	14.6
P/B (x)	1.18	1.10	1.10	1.10	1.10
Dividend Yield (%)	5.6	5.9	6.5	6.8	7.2
Return on average equity (%)	6.4	6.3	6.7	7.1	7.5
Return on average assets (%)	4.3	4.0	4.2	4.3	4.5
Interest coverage ratio (x)	4.64	4.35	4.09	4.24	4.42
Our vs consensus EPS (adjusted) (%)			(5.4)	(6.6)	(7.5)

Source: Company data, RHB

Figure 1: SunREIT's earnings review

FYE Jun (MYRm)	1QFY15	4QFY15	1QFY16	QoQ (%)	YoY (%)	Comments
Revenue	113.8	114.9	121.2	5.5	6.5	Revenue growth was primarily driven by its retail and hospitality segments through higher average net rent and higher occupancy
Net Property Income	86.5	84.4	89.9	6.5	4.0	
Interest expense	(16.3)	(20.0)	(21.5)	7.2	31.5	Higher due to additional loan drawn down to fund the ongoing capital expenditure plans and the acquisition of Sunway Georgetown and Wisma Sunway
Interest income	0.7	0.8	4.9	>100	>100	
Associates	0.0	0.0	0.0	nm	nm	
El/Others	0.0	306.8	0.0	nm	nm	
Pretax profit	63.5	363.8	64.5	(82.3)	1.7	
Tax	0.0	0.0	0.0	nm	nm	
Minority Interest	0.0	0.0	0.0	nm	nm	
Net Profit	63.5	363.8	64.5	(82.3)	1.7	
Core Profit	63.4	56.7	64.5	13.8	1.7	Within expectations
Core Earnings Per Unit (sen)	2.16	1.93	2.20	13.8	1.5	
Dividends Per Unit (sen)	2.28	2.05	2.12	3.4	(7.0)	
EBIT Margin (%)	76.0	73.4	74.2			
Pretax Margin (%)	55.8	316.5	53.2			
Effective tax rate (%)	0.0	0.0	0.0			
Net Margin (%)	55.7	49.3	53.2			

Source: RHB

Figure 2: SunREIT's revenue and net property income (NPI) breakdown (by segment)

Revenue						
FYE Jun (MYRm)	1QFY15	4QFY15	1QFY16	QoQ (%)	YoY (%)	% of total revenue contribution (%)
Retail	81.2	85.2	87.1	2.2	7.3	71.8
Hospitality	17.0	14.8	20.6	39.3	21.4	17.0
Office	10.7	9.7	8.3	(14.2)	(22.0)	6.9
Others	5.0	5.2	5.2	0.0	4.4	4.3
Total revenue	113.8	114.9	121.2	5.5	6.5	100.0
NPI						
FYE Jun (MYRm)	1QFY15	4QFY15	1QFY16	QoQ (%)	YoY (%)	% of total NPI contribution (%)
Retail	57.4	59.0	61.0	3.4	6.2	73.5
Hospitality	16.8	14.1	18.9	33.6	12.3	22.8
Office	7.3	6.1	3.1	(49.5)	(57.7)	3.7
Others	5.0	5.2	5.2	0.0	4.4	6.3
Total NPI	81.5	84.4	82.9	-1.7	1.7	100.0

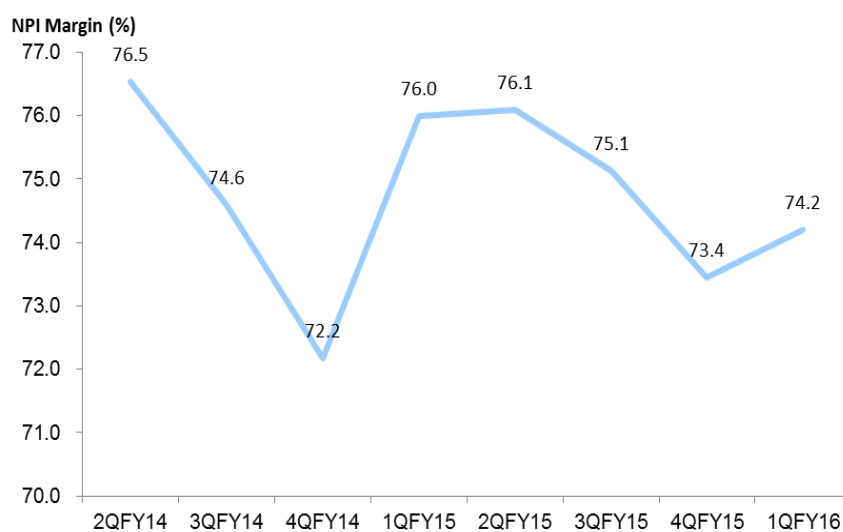
Source: RHB

Figure 3: SunREIT's financial results for the past eight quarters

FYE Jun (MYRm)	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16
Revenue	110.3	108.1	109.2	113.8	114.0	110.7	114.9	121.2
<i>QoQ Growth</i>		(2.0)	1.1	4.2	0.2	(2.9)	3.8	5.5
<i>YoY Growth</i>					3.3	2.4	5.2	6.5
Net Property Income	84.4	80.6	78.8	86.5	86.7	83.2	84.4	89.9
Interest expense	(16.0)	(15.7)	(15.8)	(16.3)	(16.8)	(17.6)	(20.0)	(21.5)
Interest income	0.6	0.5	0.6	0.7	1.2	0.7	0.8	4.9
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EI/Others	0.0	0.0	179.1	0.0	0.0	0.0	306.8	0.0
Pretax profit	62.0	58.5	235.2	63.5	63.3	56.8	363.8	64.5
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	62.0	58.5	235.2	63.5	63.3	56.8	363.8	64.5
Core Net Profit	62.0	58.5	56.1	63.4	63.0	58.9	56.7	64.5
<i>QoQ Growth</i>		(5.7)	(4.1)	13.1	(0.7)	(6.5)	(3.8)	13.8
<i>YoY Growth</i>					1.6	0.8	1.1	1.7
Core Earnings Per Unit (sen)	2.12	2.00	1.91	2.16	2.15	2.00	1.93	2.20
Dividends Per Unit (sen)	2.23	2.10	2.03	2.28	2.27	2.13	2.05	2.12
<i>NPI Margin (%)</i>	76.5	74.6	72.2	76.0	76.1	75.1	73.4	74.2
<i>Pretax Margin (%)</i>	56.2	54.1	215.4	55.8	55.5	51.3	316.5	53.2
<i>Net Margin (%)</i>	56.2	54.1	51.3	55.7	55.3	53.2	49.3	53.2

Source: RHB

Figure 4: SunREIT's historical NPI margins (%)



Source: Company data

Figure 5: SunREIT's forecast assumptions

	NLA / GFA (sqf)	Average monthly rental (MYR/psf)			Occupancy rate		
		FY16	FY17	FY18	FY16	FY17	FY18
Retail							
Sunway Pyramid Shopping Mall	1,699,552	14.00	14.56	15.14	98.6%	98.6%	98.6%
Sunway Carnival Shopping Mall	487,178	7.37	7.59	7.82	91.2%	91.2%	91.2%
SunCity Ipoh Hypermarket	181,216	2.17	2.19	2.21	100.0%	100.0%	100.0%
Sunway Putra Mall	583,046	6.30	6.62	6.95	85.0%	85.0%	85.0%
Office							
Menara Sunway	276,142	5.77	5.94	6.12	98.5%	98.5%	98.5%
Sunway Tower	268,412	6.11	6.26	6.42	50.0%	60.0%	75.0%
Sunway Putra Tower	317,051	3.54	3.57	3.61	85.0%	85.0%	85.0%
Wisma Sunway Property	171,544	3.60	3.64	3.67	86.0%	86.0%	86.0%
Others							
Sunway Medical Centre	755,940	2.28	2.36	2.45	100.0%	100.0%	100.0%
<hr/>							
	Total rooms	Average daily rate (MYR)			Occupancy rate		
		FY16	FY17	FY18	FY16	FY17	FY18
Hospitality							
Sunway Resort Hotel & Spa	439	420.00	420.00	420.00	50.0%	50.0%	50.0%
Pyramid Tower Hotel	549	180.00	180.00	180.00	70.0%	70.0%	70.0%
Sunway Hotel Seberang Jaya	202	120.00	120.00	120.00	70.0%	70.0%	70.0%
Sunway Putra Hotel	631	200.00	210.00	230.00	60.0%	60.0%	60.0%
Sunway Hotel Georgetown	250	190.00	190.00	190.00	75.0%	75.0%	75.0%

Source: RHB, Company data

Financial Exhibits

Profit & Loss (MYRm)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total turnover	428	453	528	547	567
Property operating expenses	(107)	(113)	(142)	(147)	(149)
Net property income	321	341	387	401	418
Management fees	(26)	(28)	(30)	(31)	(33)
Trust expenses	(2)	(5)	(5)	(5)	(6)
Operating EBIT	293	308	351	364	380
Operating EBITDA	293	308	351	364	380
Other recurring income	2	3	4	4	4
Interest expense	(63)	(71)	(86)	(86)	(86)
Pre-tax profit	232	241	269	282	298
Profit after tax & minorities	232	241	269	282	298
Reported net profit	232	241	269	282	298
Adjustment for distributable income	13	14	13	14	14
Total distributable income	245	255	282	296	312

Source: Company data, RHB

Cash flow (MYRm)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Operating profit	293	308	351	364	380
Change in working capital	14	30	22	30	31
Other operating cash flow	8	9	28	27	30
Operating cash flow	315	348	401	420	441
Interest received	2	3	3	3	3
Interest paid	(62)	(72)	(86)	(86)	(86)
Cash flow from operations	255	279	318	338	359
Capex	(119)	(266)	(150)	(20)	(20)
Other new investments	(2)	(136)	(60)	-	-
Other investing cash flow	0	-	5	-	-
Cash flow from investing activities	(121)	(402)	(205)	(20)	(20)
Dividends paid	(244)	(255)	(269)	(282)	(298)
Proceeds from issue of shares	-	14	-	-	-
Increase in debt	106	378	150	20	20
Cash flow from financing activities	(138)	136	(119)	(262)	(278)
Cash at beginning of period	59	55	66	61	117
Total cash generated	(4)	12	(6)	56	60
Implied cash at end of period	55	67	61	117	177

Source: Company data, RHB

Financial Exhibits

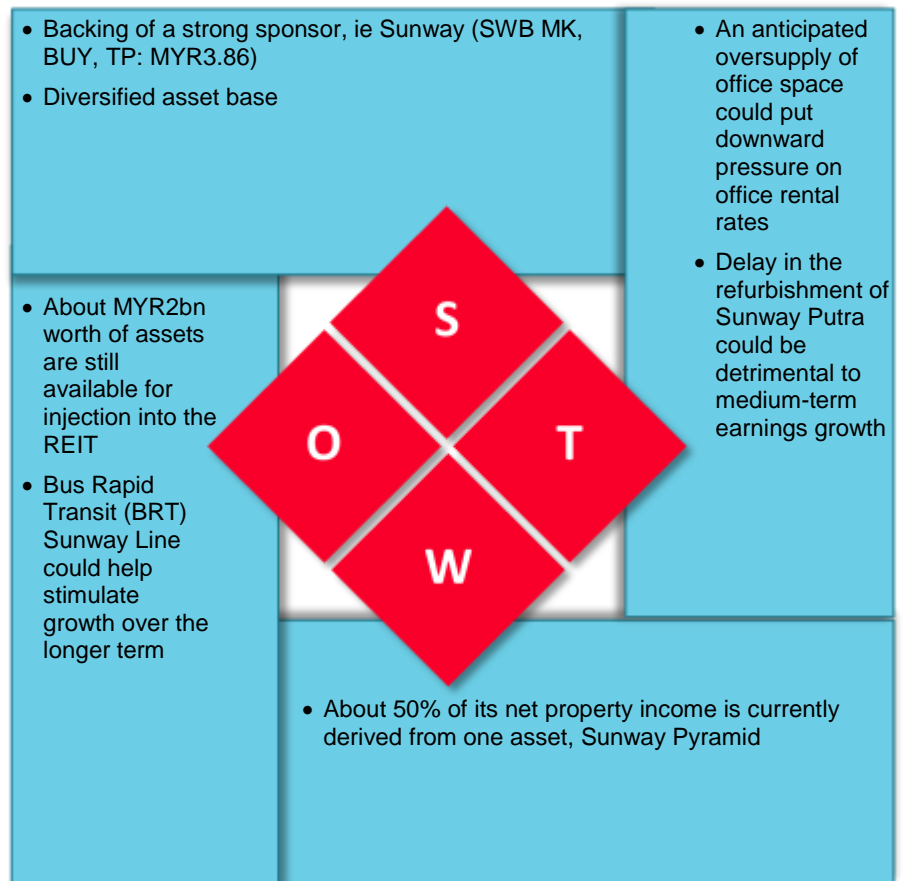
Balance Sheet (MYRm)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Total cash and equivalents	55	66	61	117	177
Accounts receivable	16	20	14	15	16
Other current assets	12	14	57	30	0
Total current assets	83	101	132	161	193
Total investments	5,520	6,324	6,384	6,384	6,384
Tangible fixed assets	3	5	-	-	-
Total non-current assets	5,523	6,329	6,384	6,384	6,384
Total assets	5,606	6,430	6,516	6,545	6,577
Short-term debt	742	763	763	763	763
Accounts payable	116	223	245	270	297
Total current liabilities	858	986	1,008	1,033	1,060
Total long-term debt	1,000	1,379	1,439	1,439	1,439
Other liabilities	60	83	87	92	96
Total non-current liabilities	1,060	1,462	1,526	1,530	1,535
Total liabilities	1,918	2,448	2,534	2,563	2,595
Retained earnings reserve	985	1,266	1,266	1,266	1,266
Other reserves	2,703	2,716	2,716	2,716	2,716
Shareholders' equity	3,688	3,982	3,982	3,982	3,982
Total equity	3,688	3,982	3,982	3,982	3,982
Total liabilities & equity	5,606	6,430	6,516	6,545	6,577

Source: Company data, RHB

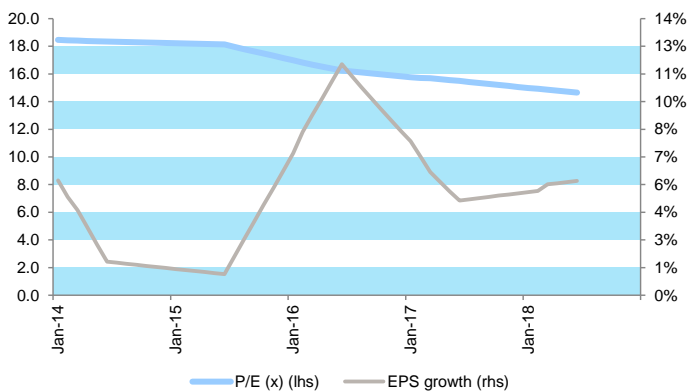
Key Ratios (MYR)	Jun-14	Jun-15	Jun-16F	Jun-17F	Jun-18F
Revenue growth (%)	2.8	6.0	16.5	3.6	3.6
Net profit growth (%)	6.0	3.7	11.7	4.8	5.8
EPS growth (%)	1.7	1.1	11.7	4.8	5.8
BVPS growth (%)	(0.2)	8.0	0.0	0.0	0.0
Net profit margin (%)	54.2	53.1	50.9	51.5	52.5
Return on average assets (%)	4.3	4.0	4.2	4.3	4.5
Return on average equity (%)	6.4	6.3	6.7	7.1	7.5
Net debt to equity (%)	45.8	52.1	53.8	52.4	50.9
DPS	0.08	0.09	0.10	0.10	0.11
Recurrent cash flow per share	0.09	0.10	0.11	0.12	0.12

Source: Company data, RHB

SWOT Analysis

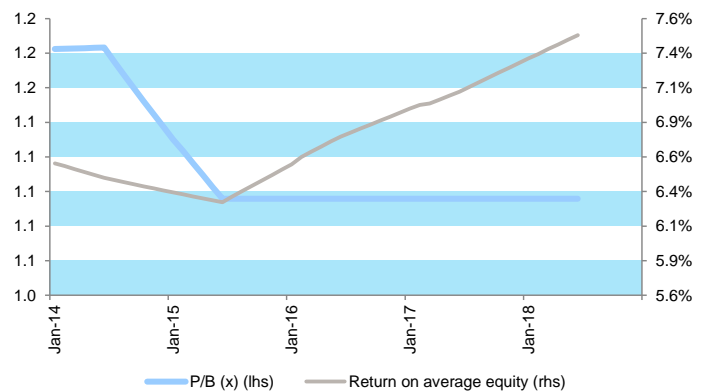


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Sunway REIT (SunREIT) is a large-cap diversified MREIT, with exposure to the retail, commercial, hospitality and healthcare segments.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-17	Neutral	1.64	1.50
2015-08-12	Neutral	1.64	1.50
2015-01-29	Neutral	1.55	1.56
2014-12-09	Neutral	1.55	1.51
2014-11-07	Neutral	1.42	1.51
2014-08-12	Neutral	1.42	1.42
2014-04-30	Neutral	1.39	1.36
2014-01-27	Neutral	1.39	1.27
2013-11-25	Neutral	1.47	1.29
2013-10-30	Neutral	1.49	1.34

Source: RHB, Bloomberg

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