



Sunway Real Estate Investment Trust

1HFY14 Results Tracking Expectations

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TP: RM 1.50 (+19.0%)

Last Traded: RM 1.26

BUY

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Review

- Sunway REIT's 1HFY14 realised net profit of RM117.4mn came in within expectations, which accounted for 52% and 54% of ours' and consensus's full-year estimates.
- A distribution per unit (DPU) of 2.23sen was declared for this quarter, bringing YTD DPU to 4.23sen. This was also in line with our full-year DPU projections of 8.2sen for FY14. Based on yesterday's closing price, this translates to an annualized yield of 6.7%. Note that Sunway REIT is committed to distribute 100% of its distributable income for FY14.
- Despite the loss of income from Sunway Putra Mall, which is closed for refurbishment, 1HFY14 gross revenue increased marginally by 2.4% YoY to RM210.5mn. This was mainly due to 1) contribution from Sunway Medical Centre (SMC), which was acquired in Dec-12 and 2) better performance at Sunway Pyramid Shopping Mall, Sunway Carnival Shopping Mall and Sunway Resort Hotel & Spa.
- 1HFY14 net property income (NPI) rose 7.0% YoY to RM161.5mn, mainly attributable to 1) contribution from SMC and 2) lower utilities expenses arising from energy savings upon completion of chiller retrofit exercise at Sunway Pyramid Shopping Mall in 3QFY13. This could be evidenced from NPI margin expansion of 3.3ppt YoY to 76.7%.
- The retail segment posted lower revenue in 1HFY14 as a result of loss of income contribution from Sunway Putra Mall. Stripping out Sunway Putra Mall, the other retail assets recorded commendable growth in revenue and NPI, which grew 6.4% YoY and 12.1% YoY respectively.
- Revenue and NPI for the hotel segment decreased 5.8% YoY and 6.0% YoY respectively in 1HFY14. Sunway Resort Hotel & Spa and Pyramid Tower Hotel were negatively affected by lesser corporate travelers (accounted for 70-80% of hotel customers) due to lack of corporate events. Nevertheless, the hotel segment improved significantly on a QoQ basis, due to aggressive tactical promotional activities and lower operating expenses. This has resulted in significant improvement in the average occupancy rate to 67-89% in 2QFY14 compared to 58-76% in 1QFY14
- The office segment reported a 6.5% and 4.5% YoY growth in revenue and NPI respectively in 1HFY14. The improvement was mainly due to 1) completion of AEI at Menara Sunway, which resulted in an increase of 14,193 sq. ft. in NLA, 2) higher occupancy rate achieved at Sunway Tower following additional spaces taken up by an existing anchor tenant and 3) higher rental rate from tenancy renewal at Sunway Putra Tower.
- Sunway REIT renewed 318 leases with a positive rental reversion of 14.0% in 1HFY14. Sunway Carnival Shopping Mall and Sunway Putra Tower posted stronger rental reversion rate as compared to other assets in the portfolio, achieving a positive average rental reversion of 17.7% and 20.0% over 3-year tenure. The significant increase was largely due to low monthly rental rate in the previous rental term.

Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2923.7
Market Cap (RMmn)	3683.8
Par Value	1.00
52-wk Hi/Lo (RM)	1.70/1.22
12-mth Avg Daily Vol ('000 shrs)	1720.9
Estimated Free Float (%)	42.6
Beta	0.71

Major Shareholders (%)

Sunway Berhad	(34.5)
Capital Income Builder	(11.1)
EPF	(9.9)
Skim Amanah Saham Bumiputera	(7.5)

Forecast Revision

	FY14	FY15
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	226.6	258.1
Consensus	228.6	257.8
TA's / Consensus (%)	99.1	100.1
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY14	FY15
Gearing (%)	33.9	36.1
FCPS (sen)	1.9	5.2
Price / CFPS (x)	64.8	24.4
ROE (%)	6.5	7.4
ROA (%)	4.2	4.6
NTA/Share (RM)	1.3	1.3
Price/NTA (x)	1.0	1.0

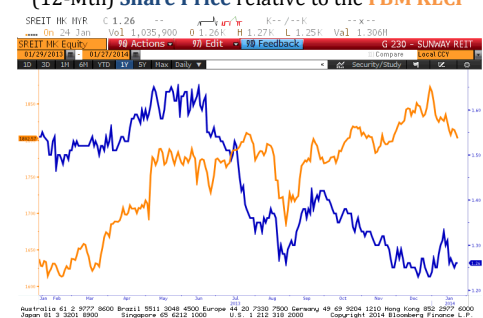
Scorecard

	% of FY	
vs TA	52.0	Within
vs Consensus	54.0	Within

Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	2.4	(3.1)
3 mth	(5.3)	(0.8)
6 mth	(7.4)	(0.3)
12 mth	(16.6)	10.1

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



Source: Bloomberg

Impact

- No change to our FY14-16 earnings forecasts.

Outlook

- In Nov-13, the group unveiled the accelerated refurbishment plan for Sunway Putra Place (SPP), which will see the refurbishment works for the entire 3 components (shopping mall, office and hotel) within SPP to be carried out concurrently and completed in early CY15. The massive RM460mn refurbishment cost is expected to yield an average return of investment of 8-9%. We are positive on the decision as this would allow the management to market the wholesome “3-in-1” mixed-use assets more efficiently to prospective tenants.
- Although the management’s KPI is to acquire at least one property every year from its sponsor or third party, management believes that it is not under pressure to conclude asset acquisitions for the year as it aims to focus on the execution of the AEIs for its assets, particularly SPP. As such, we believe FY14 earnings to be driven by organic growth from rental reversion and AEIs execution. Specifically, we expect higher revenue from Sunway Pyramid to offset the loss of income from the closure of Sunway Putra Mall.

Valuation

- We raise our discount rate assumptions higher by 25bps to reflect the rising bond yields recently (cost of equity: 9.25%). We maintain our Buy recommendation on Sunway REIT with a revised target price of RM1.50 from RM1.55 previously. We like Sunway REIT for its 1) attractive dividend yields of 6.5-8.3% for FY14-16; and 2) strong pipeline of assets from sponsor worth about RM2bn to fuel future earnings growth.

Earnings Summary (RM'mn)

FYE June	FY12	FY13	FY14F	FY15F	FY16F
Gross Rental Income	406.4	415.9	444.8	505.1	554.9
Net Property Income	299.2	309.2	327.4	368.2	405.9
NPI Margins	73.6	74.3	73.6	72.9	73.1
Pretax profit	190.3	218.8	226.6	258.1	294.5
Core Net Profit	190.6	218.8	226.6	258.1	294.5
Distributable income	202.1	231.1	239.9	272.3	309.2
EPU (Sen)	7.1	7.9	7.7	8.8	9.9
EPU Growth (%)	13.7	11.2	(1.8)	13.4	13.5
PER (x)	17.8	16.0	16.3	14.4	12.7
DPU (sen)	7.5	8.3	8.2	9.2	10.4
Div Yield (%)	5.9	6.6	6.5	7.3	8.3
ROE (%)	6.6	6.7	6.5	7.4	8.4

2Q14 Results Analysis (RM mn)

FYE June	2Q13	1Q13	2Q14	QoQ (%)	YoY (%)	1HFY13	1HFY14	YoY (%)
Total revenue	105.8	100.2	110.3	10.1	4.2	205.6	210.5	2.4
- Retail	75.5	70.2	74.9	6.6	(0.9)	148.8	145.1	(2.5)
- Hospitality	20.0	14.3	19.9	39.6	(0.4)	36.3	34.2	(5.8)
- Office	10.2	10.9	10.8	(1.6)	5.4	20.4	21.7	6.5
- Healthcare	0.1	4.8	4.8	0.0	>100	0.1	9.5	>100
Total Net Property Income	78.1	77.1	84.4	9.5	8.1	151.0	161.5	7.0
- Retail	51.9	51.4	53.3	3.7	2.6	102.2	104.7	2.5
- Hospitality	19.1	13.5	19.2	42.1	0.2	34.7	32.6	(6.0)
- Office	7.0	7.4	7.2	(3.2)	2.8	14.0	14.7	4.5
- Healthcare	0.1	4.8	4.8	0.0	>100	0.1	9.5	>100
Other Income	0.3	0.5	0.6	20.4	>100	0.6	1.2	>100
Changed in fair value	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
Net Investment Income	78.4	77.6	85.1	9.6	8.5	151.6	162.7	7.4
Manager & Trustee Fee	(6.2)	(6.6)	(6.8)	3.2	9.3	(12.2)	(13.4)	10.0
Finance Costs	(15.7)	(15.5)	(16.0)	2.6	1.8	(30.4)	(31.5)	3.6
Other expenses	(0.4)	(0.1)	(0.3)	>100	(38.5)	(0.9)	(0.4)	(58.1)
Income Before Taxation	56.1	55.4	62.1	12.0	10.6	108.1	117.4	8.6
Net Profit	56.1	55.4	62.1	12.0	10.6	108.1	117.4	8.6
Realised Net Profit	56.1	55.4	62.0	12.0	10.5	108.1	117.4	8.6
Realised EPU (sen)	2.1	1.9	2.1	11.6	1.9	4.0	4.0	0.2
DPU (sen)	2.2	2.0	2.2	11.5	1.8	4.2	4.2	0.2
				<i>ppt</i>	<i>ppt</i>			
NPI Margin (%)	73.8	77.0	76.5	(0.4)	2.7	73.4	76.7	3.3
Realised Net Margin (%)	53.0	55.3	56.2	0.9	3.2	52.6	55.8	3.2

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