



## Sunway Real Estate Investment Trust

### Earnings Per Unit Flat in FY14

**TP: RM 1.57 (+10.6%)**

Last Traded: RM 1.42

Hold

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#### Review

- Sunway REIT's FY14 realised net profit of RM231.9mn came in within expectations, accounting for 103% and 101% of ours and consensus full-year estimates respectively.
- A distribution per unit (DPU) of 2.0sen was declared for this quarter, bringing FY14 total DPU to 8.4sen. This was 2 sen higher than our DPU projections of 8.2sen for FY14. Based on yesterday's closing price, this translates to a dividend yield of 5.9%.
- Sunway REIT's FY14 gross revenue and net property income grew 2.8% and 3.8% YoY to RM427.8mn and RM321.0mn respectively, driven by: 1) higher average rental rates resulting from renewal/new tenancies for Sunway Pyramid Shopping Mall with 1,033,523 sq ft or 59% of Sunway Pyramid's Total NLA renewed at a double digit rental reversion over a period of three years, 2) contribution from additional NLA of 20,362 sq. ft. and reconfigured NLA of 23,432 sq. ft. created at Sunway Pyramid Shopping Mall's Oasis Boulevard 5 (opened in 2Q2014 ), and 3) better performance of Sunway Resort Hotel & Spa and Sunway Pyramid hotel with the occupancy rates in FY14 improving to 78.8%-82.4% as compared to 71.3%-78.7% in FY13.

#### Impact

- We tweak FY15-16 earnings slightly by 0.2-0.4% after incorporating the actual FY14 results.

#### Conference Call Highlights

- During the briefing, management did not share any updates on potential asset injections from its parent company or asset acquisitions from third party. For FY15, Sunway REITs will focus on the execution of the AEIs for its assets, particularly Sunway Putra Place (SPP). According to management, Sunway Putra Mall is on track to commence operation in early-15 (3QFY15) with target occupancy of more than 70%. We gather that management has locked-in 60% of the tenancy with an average rental rate of RM6-7psf. We expect Sunway Putra Mall to contribute RM14.7mn to Sunway REIT FY15 revenue, assuming rental rates of RM6psf and occupancy rates of 70%. We also expect Sunway Putra Tower and Sunway Putra Hotel to chart better performance in FY15 once Sunway Putra Mall commences operations.
- The recent interest rate hike should have a minimal impact to Sunway REIT's earnings given its debt profile consists of 76% fixed-rate borrowings. Our back on the envelope calculation suggests that a 25bps increase in Sunway REIT's cost of debt (for floating borrowings only) will increase its total finance costs by 1.5%. The overall net impact to bottom-line is expected to be minimal at 0.5%.

#### Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	292.7
Market Cap (RMmn)	4158.8
Par Value	1.00
52-wk Hi/Lo (RM)	1.47/1.22
12-mth Avg Daily Vol ('000 shrs)	1175.8
Estimated Free Float (%)	41.5
Beta	0.7

#### Major Shareholders (%)

Sunway Berhad	(34.6)
Capital Income Builder	(11.1)
EPF	(10.0)
Nomura	(8.4)
Skim Amanah Saham Bumiputera	(8.3)

#### Forecast Revision

	FY15	FY16
Forecast Revision (%)	0.4	0.2
Net profit (RMmn)	259.1	295.0
Consensus	253.5	288.9
TA's / Consensus (%)	102.2	102.1
Previous Rating	Hold (Maintained)	

#### Financial Indicators

	FY14	FY15
Gearing (%)	33.4	33.3
FCPS (sen)	4.9	10.7
Price / CFPS (x)	28.8	13.2
ROE (%)	7.0	8.0
ROA (%)	4.5	5.1
NTA/Share (RM)	1.4	1.4
Price/NTA (x)	1.0	1.1

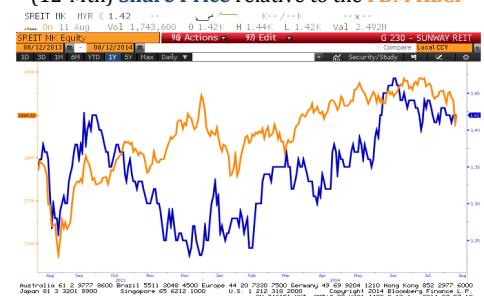
#### Scorecard

	% of FY	
vs TA	103.0	Within
vs Consensus	101.0	Within

#### Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	(3.4)	(1.8)
3 mth	(5.3)	(0.9)
6 mth	2.2	1.3
12 mth	(8.4)	3.6

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



Source: Bloomberg

### Valuation

- Our DDM-derived target price is maintained at **RM1.57/share**, based on unchanged discount rate of 9.25%. Reiterate **Hold**.

### Earnings Summary (RM mn)

FYE June	FY12	FY13	FY14	FY15F	FY16F
Gross Rental Income	406.4	415.9	427.8	505.1	554.9
Net Property Income	299.2	309.2	321.0	368.2	405.9
NPI Margins	73.6	74.3	75.0	72.9	73.1
Pretax profit	190.3	218.8	232.0	259.1	295.0
Core Net Profit	190.6	218.8	231.9	259.1	295.0
Distributable income	202.1	231.1	244.8	273.3	309.8
EPU (Sen)	7.1	7.9	7.9	8.8	10.0
EPU Growth (%)	13.7	11.2	0.8	11.0	13.3
PER (x)	20.1	18.0	17.9	16.1	14.2
DPU (sen)	7.5	8.3	8.4	9.3	10.5
Div Yield (%)	5.3	5.8	5.9	6.5	7.4
ROE (%)	6.6	6.7	6.4	7.0	8.0

**4QFY14 Results Analysis (RM mn)**

FYE June	4Q13	3Q14	4Q14	QoQ (%)	YoY (%)	FY13	FY14	YoY (%)
<b>Total revenue</b>	<b>103.9</b>	<b>108.1</b>	<b>109.2</b>	<b>1.1</b>	<b>5.1</b>	<b>415.9</b>	<b>427.8</b>	<b>2.8</b>
- Retail	71.0	77.6	78.1	0.6	10.0	296.1	300.7	1.5
- Hospitality	17.6	14.9	15.5	3.7	(11.9)	69.0	64.6	(6.3)
- Office	10.6	10.7	10.7	0.7	1.4	41.3	43.1	4.5
- Healthcare	4.8	4.9	4.9	0.0	3.5	9.6	19.3	>100
<b>Total Net Property Income</b>	<b>78.5</b>	<b>80.6</b>	<b>78.8</b>	<b>(2.2)</b>	<b>0.4</b>	<b>309.2</b>	<b>321.0</b>	<b>3.8</b>
- Retail	49.6	54.9	53.0	(3.5)	6.9	205.4	212.7	3.5
- Hospitality	16.8	13.8	14.4	4.4	(14.2)	65.7	60.8	(7.4)
- Office	7.4	7.0	6.5	(7.1)	(12.2)	28.5	28.2	(1.4)
- Healthcare	4.8	4.9	4.9	0.0	3.5	9.6	19.3	>100
Other Income	0.5	0.5	0.6	38.9	40.8	1.4	2.3	62.5
Changed in fair value	173.5	0.0	179.1	nm	3.2	173.5	179.1	3.2
Net Investment Income	252.5	81.1	258.6	218.9	2.4	484.1	502.4	3.8
Manager & Trustee Fee	(6.6)	(6.6)	(6.9)	3.3	4.8	(25.3)	(26.9)	6.6
Finance Costs	(15.7)	(15.7)	(15.8)	1.1	0.9	(63.6)	(63.0)	(0.9)
Other expenses	(1.2)	(0.3)	(0.7)	139.9	(46.8)	(2.9)	(1.3)	(55.6)
Income Before Taxation	229.0	58.5	235.2	302.2	2.7	392.3	411.1	4.8
Net Profit	229.0	58.5	235.2	302.2	2.7	392.3	411.1	4.8
<b>Realised Net Profit</b>	<b>55.5</b>	<b>58.5</b>	<b>56.1</b>	<b>(4.1)</b>	<b>1.1</b>	<b>218.8</b>	<b>231.9</b>	<b>6.0</b>
Realised EPU (sen)	1.8	2.0	1.9	(4.5)	4.4	7.9	7.9	0.8
DPU (sen)	2.0	2.1	2.0	(3.3)	0.5	8.3	8.4	0.7
				<i>ppt</i>	<i>ppt</i>			<i>ppt</i>
NPI Margin (%)	75.6	74.6	72.2	(2.4)	(3.4)	74.3	75.0	0.7
Realised Net Margin (%)	53.4	54.1	51.3	(2.8)	(2.0)	52.6	54.2	1.6

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