



## Sunway Real Estate Investment Trust

### Acquiring Two Assets from Sponsor

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Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

### Acquiring Sunway Hotel Georgetown and Wisma Sunway for RM134mn

Sunway REIT has entered into the following agreements with its sponsor, Sunway Bhd;

- a conditional SPA (1<sup>st</sup> SPA) for the proposed acquisition of Sunway Hotel Georgetown for a total Cash consideration of RM74mn;
- a master lease agreement involving the lease of Sunway Hotel Georgetown to Sunway Bhd on a 10+10 year leaseback agreement; and
- a conditional SPA (2<sup>nd</sup> SPA) for the proposed acquisition of Wisma Sunway @ Shah Alam for a total cash consideration of RM60mn.

### Sunway Hotel Georgetown and the leaseback agreement

Sunway Hotel Georgetown is a 4-star, 250-room hotel, which located less than 1km from Komtar Tower in Georgetown, Penang – see **Appendix 2**. The hotel had completed a refurbishment of RM18mn in Apr 2013. Currently, the hotel commands a healthy occupancy rate of 80%, with average daily room rate of RM190. Sunway REIT has also signed master lease agreement with Sunway Bhd. The lease will have an initial tenure of 10 years with a renewal option granted to Sunway for a further 10 years. The total rental is computed based on the higher of Guaranteed Rent and the Variable Rent for that fiscal year. See **Appendix 3** for total rental computation.

### Wisma Sunway Shah Alam

Wisma Sunway @ Shah Alam is a stratified 19-storey office building together with elevated and basement car park and mechanical bays – see **Appendix 4**. The property recently completed a refurbishment of RM8.2mn in 2013. It enjoys a high occupancy rate of 90% with a gross monthly rental of RM3.45psf. This is within the gross asking rents for existing building in Shah Alam of RM3.00-RM4.00psf.

### Yield accretive acquisition

On a nine-month pro forma basis, these assets are expected to generate rental yield of 6.3%. We believe the acquisition cost is reasonable, given these assets fetch a higher yield as compared with Sunway REIT's property portfolio yield of 5.81% in FY14. According to announcement, Sunway REIT intends to fully fund the acquisition via debt. The proposed drawdown of new borrowings will increase Sunway REIT's gearing ratio from 32% as at 30 Sep 2014 to 33.5%. Assuming a 50% leverage ratio, we estimate the trust still has an additional debt room of RM900mn after these acquisitions.

All in, we expect these acquisitions to be yield-accretive, boosting the company's earnings by 1.2-1.4% in FY16-17. The acquisition is expected to be completed by 3Q2015 or (1QFY16).

### Valuation

Coupled with our earnings revision, we upgrade our DDM-derived target price to RM1.70/unit from RM1.68/unit. Our target price implies a FY15 dividend yield of 5.8%, representing a 180bps premium to our 10-year MGS yield of 4.0%. Maintain **Hold**.

**TP: RM1.70 (+13.2%)**

**Last Traded: RM 1.50**

**HOLD**

#### Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2933.2
Market Cap (RMmn)	4339.9
Par Value	1.00
52-wk Hi/Lo (RM)	1.63/1.10
12-mth Avg Daily Vol ('000 shrs)	1109.6
Estimated Free Float (%)	33.2
Beta	0.49

#### Major Shareholders (%)

Sunway Berhad	(34.6)
EPF	(9.9)
Nomura Asset Management	(8.4)
Skim Amanah Bumiputera	(7.1)

#### Forecast Revision

	FY15	FY16
Forecast Revision (%)	0.0	1.4
Net profit (RMm)	251.5	303.3
Consensus	253.5	288.9
TA's / Consensus (%)	99.2	105.0
Previous Rating	Hold (Maintained)	

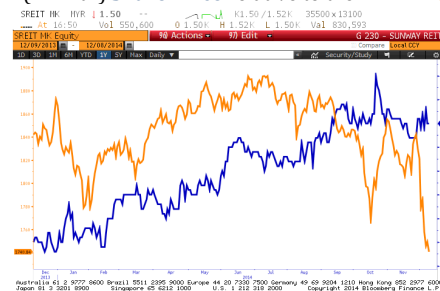
#### Financial Indicators

	FY15	FY16
Gearing (%)	33.2	35.3
FCPS (sen)	8.2	9.7
Price / CFPS (x)	18.3	15.5
ROE (%)	6.8	8.2
ROA (%)	4.4	5.2
NTA/Share (RM)	1.4	1.3
Price/NTA (x)	1.1	1.1

#### Share Performance (%)

Price Change	Sunway REIT	FBM KLCI
1 mth	(0.7)	(4.6)
3 mth	1.4	(7.1)
6 mth	3.4	(6.6)
12 mth	20.0	(5.5)

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



Source: Bloomberg

## Earnings Summary (RMmn)

### Profit and Loss (RM mn)

FYE Jun 30	FY13	FY14	FY15f	FY16f	FY17f
Gross Revenue	415.9	427.8	485.3	568.9	635.1
Net Property Income	309.2	321.0	359.5	422.3	471.4
Finance Cost	(63.6)	(63.0)	(74.6)	(82.4)	(84.3)
Pretax profit	218.8	232.0	251.5	303.3	348.0
Net Profit	218.8	231.9	251.5	303.3	348.0
EPU (sen)	7.9	7.9	8.5	10.3	11.7
EPU growth (%)	11.2	0.8	7.8	20.0	14.1
PER (x)	19.1	18.9	17.6	14.6	12.8
GDPS (sen)	8.3	8.4	9.0	10.8	12.2
Div yield (%)	5.5	5.6	6.0	7.2	8.2
Core ROE (%)	6.7	6.4	6.8	8.2	9.4
NPI margin (%)	74.3	75.0	74.1	74.2	74.2
PBT margin (%)	52.6	54.2	51.8	53.3	54.8
Core net margin (%)	52.6	54.2	51.8	53.3	54.8

### Cash Flow Statement (RM mn)

FYE Jun 30	FY13	FY14	FY15f	FY16f	FY17f
PBT	218.8	232.0	251.5	303.3	348.0
Op profit before change in WC	468.1	487.1	340.1	400.8	448.3
CFO	297.5	314.9	322.4	415.0	449.6
Capex	(470.0)	(118.8)	(100.0)	(150.0)	(50.0)
CFI	(371.6)	(118.3)	(100.0)	(150.0)	(50.0)
Equity Raised	316.6	0.0	0.0	0.0	0.0
Net borrowings	65.0	106.0	172.9	200.0	50.0
Dividend	(222.9)	(244.1)	(265.5)	(318.4)	(364.0)
CFF	106.9	(200.4)	(167.2)	(200.8)	(398.3)
Change in cash	32.7	(3.9)	55.2	64.1	1.3

### Balance Sheet (RM mn)

FYE Jun 30	FY13	FY14	FY15f	FY16f	FY17f
Non current assets	5192.8	5523.0	5623.0	5773.0	5823.0
Receivables	18.2	16.4	21.2	24.9	34.8
Cash	58.5	54.6	109.8	173.9	175.2
Others	0.0	0.0	0.0	0.0	0.0
Total CA	76.7	83.5	143.5	211.3	222.5
Total Asset	5269.5	5606.5	5766.5	5984.3	6045.5
Trade and other payables	88.5	116.1	103.3	121.0	132.2
Borrowings	314.8	742.0	776.6	816.6	826.6
Total CL	403.3	858.1	879.9	937.7	958.9
Unitholders' Capital	2690.0	2702.8	2716.8	2732.0	2748.0
Distributable income	816.5	985.3	971.2	956.1	940.1
Total Unitholders' funds	3506.5	3688.1	3688.1	3688.1	3688.1
Borrowings	1317.9	1000.0	1138.3	1298.3	1338.3
Long term liabilities	42.0	60.3	60.3	60.3	60.3
Total Non Current Liabilities	1359.8	1060.3	1198.6	1358.6	1398.6
Total Liabilities + Equity	5269.5	5606.5	5766.5	5984.3	6045.5

### Ratios

FYE Jun 30	FY13	FY14	FY15f	FY16f	FY17f
Gearing (%)	31.0	31.1	33.2	35.3	35.8
NTA/unit (RM)	1.3	1.4	1.4	1.3	1.3
P/NTA (x)	1.2	1.1	1.1	1.1	1.1
ROE (%)	6.7	6.4	6.8	8.2	9.4
ROA (%)	4.4	4.3	4.4	5.2	5.8

## Appendix 1: Summary of Properties



	Sunway Hotel Georgetown	Wisma Sunway
Location	Georgetown, Penang	Shah Alam, Selangor
Type of Property	16-storey, 4 star hotel with vacant land used as car park	Stratified office building with 400 car park bays
NLA	250 rooms	171,544 sq ft.
Consideration	RM74.0 mil	RM 60 mil
Tenure	Freehold	99 years leasehold expiring 2094

## Appendix 2: Sunway Hotel George Town

### Disposal of Sunway Hotel Georgetown

Vendor	: Sunway Biz Hotel Sdn Bhd
No. of Rooms	: 250
Tenure	: Interest-in-perpetuity
Land Area	: 1) 27,480 sq ft. 2) 6,112 sq ft (adjacent land parcel)
Gross Floor Area	: 192,383 sq ft.

Financials	
EBITDA (YTD Sep 2014)	RM3.3 mil
Purchase consideration	RM74.0 mil
NBV as at 31 October 2014	RM37.6 mil



### Appendix 3: Sunway Hotel George Town

#### Proposed Hotel Master Lease

Tenure	: 10 years with an option to renew for another 10 years
Rental	: Guaranteed Rent or Variable Rent, whichever is higher
Variable Rent	: 20% of Gross Operating Revenue (GOR) + 70% of Net Operating Profit
Guaranteed Rent	: Year 1 and 2 – RM4,387,720 Year 3 to 10 – RM3,290,790
Hotel Management Fee	: Base management fee of 1.5% of GOR + Management Incentive fees of 8% of Gross Operating Profit continue to be paid by the Lessee to Sunway International Hotels and Resorts Sdn Bhd



### Appendix 4: Wisma Sunway

#### Disposal of Wisma Sunway

Vendors	: Sunway Mas Sdn Bhd Daksina Harta Sdn Bhd (Both wholly owned subsidiaries of Sunway Bhd)
Tenure	: 99 years leasehold expiring on 29 August 2094
Net Lettable Area	: 171,544 sq ft.
Gross Floor Area	: 301,723 sq ft.

Financials	
EBITDA (YTD Sep 2014)	RM3.0 mill
Purchase consideration	RM60.0 mil
NBV as at 31 October 2014	RM59.1 mil



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Kaladher Govindan – Head of Research