



## Sunway Real Estate Investment Trust

Decent Performance Anchored by Retail Assets

TP: RM 1.86 (+12.0%)

Last Traded: RM 1.66

Hold

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### Review

- Sunway REIT's 9MFY15 realised net profit of RM185.4mn (+5.4% YoY) came in within expectations, which accounted for 73% of both ours and consensus full-year estimates respectively.
- A distribution per unit (DPU) of 2.13sen was declared for this quarter, bringing the YTD DPU to 6.68sen, which is also on track to meet our DPU forecast of 9.0sen for FY15. This translates to an annualized yield of 5.4% based on last closing price.
- 9MFY15 net property income (NPI) increased 5.9% YoY to RM256.4mn, on the back of 6.3% growth in revenue and steady NPI margin of ~76%. The retail segment continued demonstrating strong growth, with revenue and NPI increased by 11.1% and 11.4% YoY respectively. However, the robust growth was partially offset by weaker performance in both the office and hospitality segments, which saw a decline of 13.6% YoY and 3.9% YoY respectively, at NPI level.
- In terms of segment performance, the strong growth in retail segment was driven by 1) positive rental reversion at Sunway Pyramid and Sunway Carnival; and 2) additional NLA created at Sunway Pyramid's Oasis Boulevard 5 (opened in 2QFY14). However, non-renewal of leases by anchor tenant has resulted in revenue from Sunway Tower and Sunway Putra Tower to drop by 25.6% and 56.5% respectively in 3QFY15. The average occupancy of Sunway Tower and Sunway Putra Tower declined to 67.6% and 60.8% respectively in 3QFY15 (vs 85.0% and 73.9% respectively in 3QFY14). Meanwhile, the hospitality segment was affected by softer business and consumer sentiment ahead of GST implementation.

### Impact

- No change to our FY15-17 earnings forecasts.

### Outlook

- Management guided a moderate growth in DPU for FY15. It expects the REIT's retail assets to continue register healthy growth in FY15, driven by improving occupancy and rental rates. The reopening of Sunway Putra Mall in May 2015 and new income stream following the completion of acquisition of Sunway Hotel Georgetown on 28 Jan 2015 and Wisma Sunway on 23 March 2015 will cushion the lower performance of the office segment.
- Although management is actively looking for replacement tenant for both Sunway Tower and Sunway Putra Tower, we believe this would be a difficult task, in view of ample supply of office space in KLCC CBD area. Nevertheless, we do not expect a material adverse impact on Sunway REIT's FY15's earnings as office segment contributes less than 10% to the trust's total revenue and NPI.

### Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2935.6
Market Cap (RMmn)	4873.1
Par Value	0.10
52-wk Hi/Lo (RM)	1.73/1.34
12-mth Avg Daily Vol ('000 shrs)	1761.1
Estimated Free Float (%)	35.6
Beta	0.47

### Major Shareholders (%)

Sunway	- 36.1
EPF	- 10.3
PNB	- 6.8
JP Morgan	- 5.6
Tan Sri Cheah Fook Ling	- 5.6

### Forecast Revision

	FY15	FY16
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	251.5	303.3
Consensus	248.0	288.1
TA's / Consensus (%)	101.4	105.3
Previous Rating	Hold	(Maintained)

### Financial Indicators

	FY15	FY16
Gearing (%)	33.2	35.3
FCPS (sen)	8.2	9.7
Price / FCPS (x)	20.3	17.1
ROE (%)	6.8	8.2
ROA (%)	4.4	5.2
NTA/Share (RM)	1.4	1.3
Price/NTA (x)	1.2	1.2

### Scorecard

	% of FY	
vs TA	73.0	Within
vs Consensus	73.0	Within

### Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	5.7	0.7
3 mth	7.1	3.5
6 mth	8.5	(0.7)
12 mth	22.1	(1.5)

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



Source: Bloomberg

- Future earnings growth is expected to be anchored by yield-accretive asset injections by sponsor and the successful completion of Sunway Putra's refurbishment. We reckon Pinnacle Office Tower (completed), and Sunway Pyramid 3 & Sunway Velocity Mall (under construction), are some of the potential assets for future acquisitions.

#### Valuation

- After adjusting the time period, we raise our DDM-derived target price to RM1.86/share (from RM1.75/share previously), based on unchanged discount rate of 9.0%. Maintained **Hold**. Our TP implies forward yield of 5.8%, in line with industry's average.

#### Earnings Summary (RM mn)

FYE June	FY13	FY14	FY15F	FY16F	FY17F
Gross Rental Income	415.9	427.8	485.3	568.9	635.1
Net Property Income	309.2	321.0	359.5	422.3	471.4
NPI Margins	74.3	75.0	74.1	74.2	74.2
Pretax profit	218.8	232.0	251.5	303.3	348.0
Core Net Profit	218.8	231.9	251.5	303.3	348.0
Distributable income	231.1	244.8	265.5	318.4	364.0
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)	21.1	20.9	19.4	16.2	14.2
DPU (sen)	8.3	8.4	9.0	10.8	12.2
Div Yield (%)	5.0	5.0	5.4	6.5	7.4
ROE (%)	6.7	6.4	6.8	8.2	9.4

### 3Q15 Results Analysis (RM mn)

FYE June	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9MFY14	9MFY15	YoY (%)
<b>Total revenue</b>	<b>108.1</b>	<b>114.0</b>	<b>110.7</b>	<b>(2.9)</b>	<b>2.4</b>	<b>318.6</b>	<b>338.5</b>	<b>6.3</b>
- Retail	77.6	81.3	84.9	4.4	9.5	222.6	247.4	11.1
- Hospitality	14.9	17.4	12.1	(30.5)	(18.9)	49.1	46.5	(5.3)
- Office	10.7	10.2	8.5	(16.8)	(20.4)	32.4	29.4	(9.3)
- Healthcare	4.9	5.0	5.2	3.5	5.7	14.4	15.2	5.4
<b>Total Net Property Income</b>	<b>80.6</b>	<b>86.7</b>	<b>83.2</b>	<b>(4.1)</b>	<b>3.2</b>	<b>242.2</b>	<b>256.4</b>	<b>5.9</b>
- Retail	54.9	58.4	62.1	6.5	13.1	159.7	177.9	11.4
- Hospitality	13.8	16.7	11.1	(33.7)	(19.6)	46.4	44.6	(3.9)
- Office	7.0	6.6	4.8	(28.2)	(31.8)	21.7	18.7	(13.6)
- Healthcare	4.9	5.0	5.2	3.5	5.7	14.4	15.2	5.4
Other Income	0.5	1.2	0.7	(38.7)	55.8	1.6	2.6	58.9
Changed in fair value	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
Net Investment Income	81.1	87.9	83.9	(4.6)	3.5	243.8	259.0	6.2
Manager & Trustee Fee	(6.6)	(7.3)	(7.2)	(1.3)	7.9	(20.1)	(21.6)	7.8
Finance Costs	(15.7)	(16.8)	(17.6)	4.5	12.0	(47.2)	(50.7)	7.5
Other expenses	(0.3)	(0.6)	(2.3)	>100	>100	(0.6)	(3.2)	>100
Income Before Taxation	58.5	63.3	56.8	(10.2)	(2.8)	175.9	183.5	4.3
Net Profit	58.5	63.3	56.8	(10.2)	(2.8)	175.9	183.5	4.3
<b>Realised Net Profit</b>	<b>58.5</b>	<b>63.0</b>	<b>58.9</b>	<b>(6.5)</b>	<b>0.8</b>	<b>175.9</b>	<b>185.4</b>	<b>5.4</b>
Realised EPU (sen)	2.0	2.2	2.0	(7.0)	0.0	6.0	6.3	5.0
DPU (sen)	2.1	2.3	2.1	(6.2)	1.4	6.3	6.7	5.5
NPI Margin (%)	74.6	76.1	75.1	(1.0)	0.5	76.0	75.7	(0.3)
Realised Net Margin (%)	54.1	55.3	53.2	(2.0)	(0.9)	55.2	54.8	(0.4)

### Peers Comparison

	Price	Target price	Market Cap	PER (x)		Div Yield (%)		P/NAV (x)	
	(RM)	(RM)	(RM bn)	FY15	FY16	FY15	FY16	FY15	FY16
Sunway REIT	1.66	1.85	4.9	19.4	16.2	5.4	6.5	1.2	1.2
CMMT	1.48	1.69	2.6	19.1	16.6	5.6	6.4	1.2	1.2
IGB REIT*	1.37	NR	4.7	19.3	18.5	5.5	5.8	1.3	1.3
Pavilion REIT*	1.56	NR	4.7	19.5	18.6	5.2	5.4	1.3	1.3
KLCCP Stapled Group*	7.20	NR	13.0	18.4	17.8	4.7	5.0	1.3	1.3
Axis REIT*	3.65	NR	2.0	17.8	17.2	5.3	5.5	1.6	1.6
<b>Average</b>				<b>18.9</b>	<b>17.5</b>	<b>5.3</b>	<b>5.8</b>	<b>1.3</b>	<b>1.3</b>

\* Based on consensus

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