



## Sunway Real Estate Investment Trust

### FY15 Results Driven by Retail Assets

**TP: RM 1.69 (+10.1%)**

Last Traded: RM 1.53

Hold

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#### Review

- Sunway REIT's FY15 realised net profit of RM242.0mn (+4.4% YoY) came in within expectations, which accounted for 97% of both our and consensus full-year estimates respectively.
- A distribution per unit (DPU) of 2.05sen was declared for this quarter, bringing the YTD DPU to 8.73sen, which translates to a yield of 5.7% based on last closing price.
- FY15 net property income (NPI) increased 6.2% YoY to RM340.8mn, on the back of 6.0% growth in revenue and steady NPI margin of ~75%. The retail segment continued demonstrating strong growth, with revenue and NPI increased by 10.6% and 11.4% YoY respectively. However, the robust growth was partially offset by weaker performance in the both hospitality and office segments, which saw decline of 3.4% YoY and 11.9% YoY respectively, at NPI level.
- In terms of segment performance, the strong growth in retail segment was driven by 1) positive rental reversion and improved occupancy rate 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 21% and 27% YoY respectively in FY15. Average occupancy rate of Sunway Tower and Sunway Putra Tower declined to 67% and 53% respectively in FY15 as compared to 84% and 74% respectively a year ago. Meanwhile, the hospitality segment affected by softer sentiment due to jittery macroeconomic outlook.

#### Impact

- Our FY16-17 earnings are trimmed by ~6% after incorporating 1) the actual FY15 results, 2) reduction in occupancy rates and NPI margin assumptions for Sunway REIT's office assets and 3) increase in the start-up costs at Sunway Putra Place.
- The manager of Sunway REIT will amend the payment structure of Manager's fees by reducing the form of new units from 50% to 25% and increasing cash payments in FY16. For FY17, the REIT will cease payment of Manager's fees in the form of new units, largely due to GST implication. Our FY16-17 DPU assumptions are reduced correspondingly to 9.7 - 10.4sen from 10.1 - 11.2sen previously, due to lower surplus cash arising from manager's fee payable in units.

#### Conference Call Highlights

- While most of the Q&As were centered on the updates on Sunway Putra Place, the responses from the management were in line with our recent site visit report (refer our report dated 27-July). Committed tenancy of Sunway Putra Mall remains at 82% and management foresees this shopping mall to mature in 2-years' time. In addition, the refurbishment works at Sunway Putra Hotel are on track for completion in end 2015.

#### Share Information

|                                  |             |
|----------------------------------|-------------|
| Bloomberg Code                   | SREIT MK    |
| Stock Name                       | SUNREIT     |
| Stock Code                       | 5176        |
| Listing                          | Main Market |
| Units in circulation (mn)        | 2937.6      |
| Market Cap (RMmn)                | 4494.6      |
| Par Value                        | 1.00        |
| 52-wk Hi/Lo (RM)                 | 1.76/1.41   |
| 12-mth Avg Daily Vol ('000 shrs) | 2431.1      |
| Estimated Free Float (%)         | 30.8        |
| Beta                             | 0.52        |

#### Major Shareholders (%)

|                              |        |
|------------------------------|--------|
| Sunway Berhad                | (36.1) |
| EPF                          | (10.7) |
| Skim Amanah Saham Bumiputera | (8.3)  |
| JP Morgan Chase & Co         | (5.7)  |
| Tan Sri Cheah Fook Ling      | (5.6)  |

#### Forecast Revision

|                       | FY16              | FY17  |
|-----------------------|-------------------|-------|
| Forecast Revision (%) | (5.6)             | (6.4) |
| Net profit (RMm)      | 277.9             | 305.4 |
| Consensus             | 288.1             | 308.0 |
| TA's / Consensus (%)  | 96.5              | 99.2  |
| Previous Rating       | Hold (Maintained) |       |

#### Financial Indicators

|                  | FY16 | FY17 |
|------------------|------|------|
| Gearing (%)      | 35.9 | 36.3 |
| FCPS (sen)       | 4.3  | 12.8 |
| Price / CFPS (x) | 36.0 | 11.9 |
| ROE (%)          | 7.0  | 7.7  |
| ROA (%)          | 4.3  | 4.7  |
| NTA/Share (RM)   | 1.5  | 1.5  |
| Price/NTA (x)    | 1.0  | 1.0  |

#### Scorecard

|              | % of FY |        |
|--------------|---------|--------|
| vs TA        | 97.0    | Within |
| vs Consensus | 97.0    | Within |

#### Share Performance (%)

| Price Change | SunREIT | FBM KLCI |
|--------------|---------|----------|
| 1 mth        | (1.3)   | (4.6)    |
| 3 mth        | (10.0)  | (9.0)    |
| 6 mth        | (1.3)   | (8.5)    |
| 12 mth       | 7.7     | (11.5)   |

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



Source: Bloomberg

- The occupancy rate of Sunway Tower is expected to decline further to 12% in FY16 as the major tenant, Ranhill Worley Parsons S/B has decided not to renew the tenancy which expired in June-15. Meanwhile, Sunway Putra Tower was 30% occupied since the Suruhanjaya Koperasi Malaysia vacated the building since Dec-14. Although management is actively looking for replacement tenants for both Sunway Tower and Sunway Putra Tower, we believe it could be a difficult task, in view of ample supply of office space in KLCC CBD area.
- All in, management guided a stable growth in DPU for FY16. It expects the REIT's retail assets to continue registering healthy growth in FY16, driven by improving occupancy and rental rates. The re-opening 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 are expected to cushion the lower performance of the office segment.

### Valuation

- We raise our discount rate assumptions by 25bps given the escalating market risk. Malaysia 10-year MGS yields have also increased by almost 20bps to 4.20% from 4.01% in end-June. With that, our DDM-derived target price is revised lower to RM1.69/share from RM1.78/share previously, based on new discount rate of 9.25%. Reiterate **Hold**. Our TP implies forward yield of 5.8%, in line with industry's average.

### Earnings Summary (RM mn)

| FYE June             | FY13  | FY14  | FY15  | FY16F | FY17F |
|----------------------|-------|-------|-------|-------|-------|
| Gross Rental Income  | 415.9 | 427.8 | 453.5 | 541.5 | 600.7 |
| Net Property Income  | 309.2 | 321.0 | 340.8 | 407.0 | 438.1 |
| NPI Margins          | 74.3  | 75.0  | 75.2  | 75.2  | 72.9  |
| Pretax profit        | 218.8 | 232.0 | 240.6 | 277.9 | 305.4 |
| Core Net Profit      | 218.8 | 231.9 | 242.0 | 277.9 | 305.4 |
| Distributable income | 231.1 | 244.8 | 256.1 | 285.8 | 305.4 |
| EPU (Sen)            | 7.9   | 7.9   | 8.2   | 9.4   | 10.4  |
| EPU Growth (%)       | 11.2  | 0.8   | 3.7   | 14.5  | 9.9   |
| PER (x)              | 19.4  | 19.3  | 18.6  | 16.2  | 14.8  |
| DPU (sen)            | 8.3   | 8.4   | 8.7   | 9.7   | 10.4  |
| Div Yield (%)        | 5.4   | 5.5   | 5.7   | 6.3   | 6.8   |
| ROE (%)              | 6.7   | 6.4   | 6.3   | 7.0   | 7.7   |

**4Q15 Results Analysis (RM mn)**

| FYE June                         | 4Q14         | 3Q15         | 4Q15         | QoQ (%)      | YoY (%)    | FY14         | FY15         | YoY (%)    |       |
|----------------------------------|--------------|--------------|--------------|--------------|------------|--------------|--------------|------------|-------|
| <b>Total revenue</b>             | <b>109.2</b> | <b>110.7</b> | <b>114.9</b> | <b>3.8</b>   | <b>5.2</b> | <b>427.8</b> | <b>453.5</b> | <b>6.0</b> |       |
| - Retail                         | 78.1         | 84.9         | 85.2         | 0.4          | 9.2        | 300.7        | 332.7        | 10.6       |       |
| - Hospitality                    | 15.5         | 12.1         | 14.8         | 22.1         | (4.6)      | 64.6         | 61.3         | (5.1)      |       |
| - Office                         | 10.7         | 8.5          | 9.7          | 14.7         | (9.3)      | 43.1         | 39.1         | (9.3)      |       |
| - Healthcare                     | 4.9          | 5.2          | 5.2          | (0.0)        | 5.7        | 19.3         | 20.4         | 5.4        |       |
| <b>Total Net Property Income</b> | <b>78.8</b>  | <b>83.2</b>  | <b>84.4</b>  | <b>1.5</b>   | <b>7.1</b> | <b>321.0</b> | <b>340.8</b> | <b>6.2</b> |       |
| - Retail                         | 53.0         | 62.1         | 59.0         | (5.0)        | 11.3       | 212.7        | 236.9        | 11.4       |       |
| - Hospitality                    | 14.4         | 11.1         | 14.1         | 27.5         | (1.8)      | 60.8         | 58.7         | (3.4)      |       |
| - Office                         | 6.5          | 4.8          | 6.1          | 27.9         | (6.1)      | 28.2         | 24.8         | (11.9)     |       |
| - Healthcare                     | 4.9          | 5.2          | 5.2          | (0.0)        | 5.7        | 19.3         | 20.4         | 5.4        |       |
| Other Income                     | 0.6          | 0.7          | 0.8          | 17.0         | 31.2       | 2.3          | 3.4          | 51.2       |       |
| Changed in fair value            | 179.1        | 0.0          | 306.8        | nm           | 71.3       | 179.1        | 306.8        | 71.3       |       |
| Net Investment Income            | 258.6        | 83.9         | 392.0        | 367.3        | 51.6       | 502.4        | 651.0        | 29.6       |       |
| Manager & Trustee Fee            | (6.9)        | (7.2)        | (7.7)        | 6.9          | 11.7       | (26.9)       | (29.3)       | 8.8        |       |
| Finance Costs                    | (15.8)       | (17.6)       | (20.0)       | 14.1         | 26.4       | (63.0)       | (70.8)       | 12.2       |       |
| Other expenses                   | (0.7)        | (2.3)        | (0.5)        | >100         | (24.3)     | (1.3)        | (3.6)        | >100       |       |
| Income Before Taxation           | 235.2        | 56.8         | 363.8        | 540.3        | 54.7       | 411.1        | 547.3        | 33.1       |       |
| Net Profit                       | 235.2        | 56.8         | 363.8        | 540.3        | 54.7       | 411.1        | 547.3        | 33.1       |       |
| <b>Realised Net Profit</b>       | <b>56.1</b>  | <b>58.9</b>  | <b>56.7</b>  | <b>(3.8)</b> | <b>1.1</b> | <b>231.9</b> | <b>242.0</b> | <b>4.4</b> |       |
| Realised EPU                     | (sen)        | 1.9          | 2.0          | 1.9          | (3.5)      | 1.0          | 7.9          | 8.3        | 4.0   |
| DPU                              | (sen)        | 2.0          | 2.1          | 2.1          | (3.8)      | 1.0          | 8.4          | 8.7        | 4.4   |
| NPI Margin                       | (%)          | 72.2         | 75.1         | 73.4         | (1.7)      | 1.3          | 75.0         | 75.2       | 0.2   |
| Realised Net Margin              | (%)          | 51.3         | 53.2         | 49.3         | (3.9)      | (2.0)        | 54.2         | 53.4       | (0.8) |

**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          | 1.53  | 1.68         | 4.5        | 18.6        | 16.2        | 5.7           | 6.3        | 1.0        | 1.0        |
| CMMT                 | 1.31  | 1.67         | 2.6        | 17.0        | 14.9        | 6.3           | 7.1        | 1.0        | 1.0        |
| IGB REIT*            | 1.30  | NR           | 4.5        | 18.3        | 17.6        | 5.8           | 6.1        | 1.2        | 1.2        |
| Pavilion REIT*       | 1.48  | NR           | 4.5        | 18.5        | 17.6        | 5.5           | 5.7        | 1.2        | 1.2        |
| KLCCP Stapled Group* | 7.04  | NR           | 12.7       | 18.0        | 17.4        | 4.8           | 5.2        | 1.3        | 1.3        |
| Axis REIT*           | 3.35  | NR           | 1.8        | 16.3        | 15.8        | 5.7           | 6.0        | 1.4        | 1.4        |
| <b>Average</b>       |       |              |            | <b>17.8</b> | <b>16.6</b> | <b>5.6</b>    | <b>6.1</b> | <b>1.2</b> | <b>1.2</b> |

\* Based on consensus

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