



Sunway Real Estate Investment Trust

Acquiring Land to Expand Sunway Carnival Shopping Mall

TP: RM1.65 (+0.6%)

Last Traded: RM 1.64

Sell

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Acquiring 3.3 acres Land Adjacent to Sunway Carnival Shopping Mall

Sunway REIT has entered into a conditional sale and purchase agreement with its sponsor, Sunway Bhd, to acquire a parcel of land adjacent to Sunway Carnival Shopping Mall (Sunway Carnival) for a total purchase consideration of RM17.2mn. According to announcement, the purchase price is equivalent to the market value - as appraised by independent valuer, Messrs C H Williams Talhar and Wong.

To Construct New Wing of Sunway Carnival

The 3.3 acres of leasehold commercial land is adjacent to Sunway Carnival in Seberang Jaya, Penang, which is currently being used as a car park - see **Appendix 1**. Based on the preliminary plan, Sunway REIT intends to construct an extension of the new wing of Sunway Carnival comprising a nine-storey retail space with 6 level of parking above the retail space and another level of parking in the basement as well as a future commercial tower block.

The Acquisition Requires SC's Approval

The proposed land acquisition will increase Sunway REIT's total asset value by 0.27% to RM6.447bn. The purchase consideration is expected to be fully funded through Sunway REIT's existing debt financing. The proposed acquisition is expected to be completed by 2H2016. However, this acquisition requires approval from the Securities Commission's (SC), for the waiver to Clause 8.44(b) and Clause 8.44(c) of the REIT Guidelines. According to the guidelines, a fund is not permitted to conduct property development activities and acquisition of vacant land.

Positive on the Acquisition but SC's Waiver is the Key Hurdle

We are positive on this land acquisition as it will pave way for expansion of Sunway Carnival, which is currently 98% occupied. As the mall is near full occupancy, we understand that there is a need for Sunway Carnival to create larger retail spaces to house new and more international and regional brands to remain competitive.

As far as SC's waiver is concerned, we gather that Sunway REIT has seek advice from relevant consultants and will submit the waiver application to SC in one month's time. Meanwhile, we understand that Malaysia REITs (MREITs) have been discussing with SC to allow REITs to venture into greenfield development of properties. Note that, Singapore REITs can undertake development activities up to 25% of property value with effective from 1 Jan 2016, from 10% limit previously. Management believes there is a solid case for SC to consider following Monetary Authority of Singapore's footsteps and anticipates SC to issue a revised guideline by end this year. Should the waiver application is rejected, management indicated that the construction of new extension will be carried out by the sponsor and it will be injected into the REIT at a later stage.

Forecast

We make no change to our FY16-18 earnings pending SC's approval. Meanwhile, we believe Sunway REIT will have no problem to fund the RM17.2mn acquisition cost in view of its healthy gearing level of 33%, which implies a further RM1bn debt headroom before hitting the statutory gearing cap of 50%.

Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2942.2
Market Cap (RMmn)	4825.6
Par Value	1.00
52-wk Hi/Lo (RM)	1.69/1.43
12-mth Avg Daily Vol ('000 shrs)	2512.4
Estimated Free Float (%)	0.3
Beta	0.4

Major Shareholders (%)

Sunway Berhad	(37.3)
EPF	(12.0)
Skim Amanah Bumiputera	(9.9)

Forecast Revision

	FY16	FY17
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	260.6	273.7
Consensus	261.5	278.2
TA's / Consensus (%)	99.7	98.4
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY16	FY17
Gearing (%)	36.4	37.3
FCPS (sen)	5.7	9.9
Price / CFPS (x)	28.5	16.5
ROE (%)	6.5	6.9
ROA (%)	4.0	4.1
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.1	1.1

Share Performance (%)

Price Change	Sunway REIT	FBM KLCI
1 mth	0.0	0.3
3 mth	5.1	(4.9)
6 mth	14.7	0.3
12 mth	1.9	(10.3)

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



Source: Bloomberg

Valuation

We maintain our DDM-derived target price at RM1.65 based on an unchanged discount rate of 9.25%. Reiterate **Sell**. Our TP implies forward yield of 5.6%, in line with industry’s average. Nevertheless, we believe MREITs will deserve a re-rating should SC issue a revise guideline that permits REITs to embark on greenfield development of properties to further optimise their portfolio returns, in view of limited external acquisition opportunities due to low property yields.

Appendix 1: Location Map



Source: Bursa Malaysia, Sunway REIT

Earnings Summary (RMmn)

Profit and Loss (RM mn)

FYE Jun 30	FY14	FY15	FY16f	FY17f	FY18f
Gross Revenue	427.8	453.5	518.4	568.8	607.1
Net Property Income	321.0	340.8	390.9	408.9	449.3
Finance Cost	(63.0)	(70.8)	(93.2)	(97.1)	(99.0)
Adjusted Pretax Profit	232.0	240.6	260.6	273.7	310.2
Reported Net Profit	411.1	541.4	260.6	273.7	310.2
Realised Net Profit	231.9	242.0	260.6	273.7	310.2
Realised EPU (sen)	7.9	8.2	8.8	9.3	10.5
Realised EPU growth (%)	0.8	3.7	7.4	5.0	13.3
PER (x)	20.7	19.9	18.6	17.7	15.6
GDPS (sen)	8.4	8.7	9.1	9.3	10.5
Div yield (%)	5.1	5.3	5.5	5.7	6.4
Core ROE (%)	6.4	6.3	6.5	6.9	7.8
NPI margin (%)	75.0	75.2	75.4	71.9	74.0
PBT margin (%)	54.2	53.1	50.3	48.1	51.1
Core net margin (%)	54.2	53.4	50.3	48.1	51.1

Cash Flow Statement (RM mn)

FYE Jun 30	FY14	FY15	FY16f	FY17f	FY18f
PBT	411.1	547.3	260.6	273.7	310.2
Op profit before change in WC	487.1	632.2	361.6	370.8	409.2
CFO	314.9	347.5	246.6	370.4	411.7
Capex	(118.8)	(402.0)	(90.0)	(100.0)	(50.0)
CFI	(118.3)	(401.0)	(90.0)	(100.0)	(50.0)
Equity Raised	0.0	0.0	0.0	0.0	0.0
Net borrowings	106.0	392.5	250.0	100.0	50.0
Dividend	(244.1)	(255.4)	(268.4)	(273.7)	(310.2)
CFF	(200.4)	65.1	(111.6)	(270.8)	(359.2)
Change in cash	(3.9)	11.6	45.0	(0.3)	2.6

Balance Sheet (RM mn)

FYE Jun 30	FY14	FY15	FY16f	FY17f	FY18f
Non current assets	5523.0	6329.3	6419.3	6519.3	6569.3
Receivables	16.4	20.2	22.7	31.2	26.6
Cash	54.6	66.2	111.2	110.8	113.4
Others	0.0	0.0	0.0	0.0	0.0
Total CA	83.5	100.8	148.2	156.4	154.4
Total Asset	5606.5	6430.0	6567.5	6675.6	6723.6
Trade and other payables	116.1	222.8	110.3	118.4	116.4
Borrowings	742.0	763.4	813.4	833.4	843.4
Total CL	858.1	986.2	923.7	951.8	959.8
Unitholders' Capital	2702.8	2716.5	2724.3	2724.3	2724.3
Distributable income	985.3	1265.8	1258.0	1258.0	1258.0
Total Unitholders' funds	3688.1	3982.3	3982.3	3982.3	3982.3
Borrowings	1000.0	1378.6	1578.6	1658.6	1698.6
Long term liabilities	60.3	83.0	83.0	83.0	83.0
Total Non Current Liabilities	1060.3	1461.5	1661.5	1741.5	1781.5
Total Liabilities + Equity	5606.5	6430.0	6567.5	6675.6	6723.6

Ratios

FYE Jun 30	FY14	FY15	FY16f	FY17f	FY18f
Gearing (%)	31.1	33.3	36.4	37.3	37.8
NTA/unit (RM)	1.4	1.5	1.5	1.5	1.5
P/NTA (x)	1.2	1.1	1.1	1.1	1.1
ROE (%)	6.4	6.3	6.5	6.9	7.8
ROA (%)	4.3	4.0	4.0	4.1	4.6

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