



Sunway Real Estate Investment Trust

Adding Industrial Asset to its Portfolio

TP: RM1.79 (+3.4%)

Last Traded: RM 1.73

Sell

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Acquires industrial properties for RM91.5mn in Shah Alam

Sunway REIT announced that it has entered into a conditional sale and purchase agreement with Champion Edge S/B to acquire an industrial property at Section 23, Shah Alam for a total purchase consideration of RM91.5mn.

Sitting on a 62,587.3 sqm leasehold land, the industrial property includes a two-storey office with an annexed one-storey factory with mezzanine floor, a three-storey office with an annex one-storey warehouse and an integral two-storey office with a two-storey factory cum warehouse with an adjoining M&E building and other ancillary buildings. The industrial property is strategically located in the prime industrial hub of Shah Alam, Selangor and is predominantly occupied by established multinationals, logistics and manufacturing companies.

18 years lease agreement

The property is sold together with an existing lease. The lessee is IDS Manufacturing S/B. The lease has a remaining duration of approximately 18 years which shall expire on 31 December 2034. The initial term will automatically be extended for one further term of 5 years on the same terms and conditions. The current annual lease rental is RM5.6mn. Note that the lease is granted on a triple net lease basis meaning that the rental payable excludes the outgoings such as the quit rent, assessment, utilities, insurance premium and maintenance cost and expenses which shall be borne by the lessee. The rent is subject to review every 3 years and the next review date shall be 1 January 2019.

Decent acquisition yield of 6.12%

Based on the acquisition cost of RM91.5mn and NPI of RM5.6mn, the yield of this property works out to 6.12%, which is decent as compared with the REIT's current distribution yield of 5.1%. Thereafter, management expect the net property yield to increase to 6.73% upon the next rent review in 2019.

We think the acquisition cost is reasonable, given that it fetches a higher yield as compared with the REIT's property portfolio yield of 5.81% in FY16. According to the 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 33.6% as at 30 Sep-16 to 35.0%. Assuming a 50% leverage ratio, we estimate the trust still has an additional debt headroom of RM900mn after this acquisition.

Neutral on the deal

Upon completion, the group's weighted average lease expiry is expected to improve from 1.98 years to 2.23 years. In addition, the acquisition will increase the group's total asset size by 1.4% to RM6.52bn from RM6.43bn currently, on track to meet its target of growing its asset value to RM7.0bn by FY17. However, we are neutral on this development as we do not see significant EPU enhancement from the acquisition.

Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2945.1
Market Cap (RMmn)	5095.0
Par Value	1.00
52-wk Hi/Lo (RM)	1.84/1.44
12-mth Avg Daily Vol ('000 shrs)	2493.0
Estimated Free Float (%)	30.8
Beta	0.53

Major Shareholders (%)

Sunway Berhad	(37.3)
EPF	(12.3)
Skim Amanah Bumiputera	(7.4)
Tan Sri Cheah Fook Ling	(5.6)

Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.0	1.9
Net profit (RMm)	261.7	297.7
Consensus	271.2	296.6
TA's / Consensus (%)	96.5	100.4
Previous Rating	Hold (Maintained)	

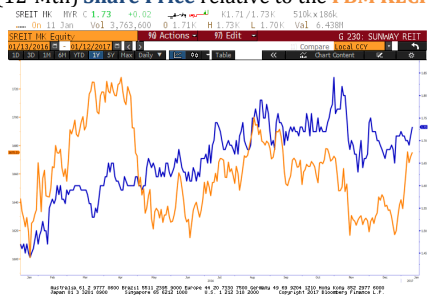
Financial Indicators

	FY17	FY18
Gearing (%)	35.8	36.2
FCPS (sen)	5.7	13.0
Price / CFPS (x)	30.5	13.3
ROE (%)	6.5	7.3
ROA (%)	4.0	4.5
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.2	1.2

Share Performance (%)

Price Change	Sunway REIT	FBM KLCI
1 mth	2.4	2.1
3 mth	0.6	0.5
6 mth	1.8	1.3
12 mth	19.3	2.1

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



Source: Bloomberg

