



Sunway Real Estate Investment Trust

Retail Assets Anchoring Performance

TP: RM 1.79 (+1.1%)

Last Traded: RM 1.77

Sell

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Review

- Sunway REIT posted realised net profit of RM133.9mn in 1HFY17, registering a marginal contraction of 0.2% YoY. Results were within expectations, accounting for 51% and 49% ours and consensus' full-year estimates respectively.
- A distribution per unit (DPU) of 2.28sen was declared for this quarter, bringing the YTD 1HFY17 DPU to 4.55sen (-3.0% YoY). This translates to an annualised distribution yield of 5.1%, based on yesterday's closing price.
- YoY, Sunway REIT's 1HFY17 revenue and net property income (NPI) inched up 1.1% and 1.7% to RM255.8 and RM190.1mn respectively. NPI growth was largely driven by commendable performance from the retail segment (+10.9% YoY), but partially offset by lower contribution from the hospitality segment (-27.5% YoY).
- In terms of segmental performance, the retail segment recorded strong NPI growth due to: 1) higher average rental for Sunway Pyramid and 2) additional rental income from Sunway Carnival following the completion of the new food and beverage area with NLA of approximately, 16,000 sq ft (3% of total NLA).
- The hospitality segment performance was lower largely due to the closure of Sunway Pyramid Hotel (formerly known as Sunway Pyramid Hotel East) for refurbishment since Apr-16. Meanwhile, the office segment performance is stabilising, with 2QFY17 NPI increasing by 7% QoQ and 6.2% YoY, largely due to improvement in occupancy rates.

Impact

- Maintained.

Conference Call Highlights

- Management believes that the outlook of the retail segment to remain challenging, in view of the oversupply of retail space and weak consumer sentiment. For 1HFY17, retail spaces which were due for renewal in both Sunway Pyramid and Sunway Carnival, were renewed at a single digit rental reversion. This is in line with management's expectations, given the persistently challenging retail landscape that will pose pressure on prospects of healthy rental reversions.
- Recall, Pyramid Tower East Hotel has been closed for renovation since April-16. A total of 316 rooms were fully refurbished and has progressively re-opened for business as at 31 December 2016. It is targeted for re-opening in 4QFY17 (2QCY17). The refurbishment will increase the hotel's room inventory to 564 rooms from the current 549 and elevate the hotel from a superior to a deluxe category 4-star international hotel. We believe the refurbishment exercise is crucial in order to ensure that this hotel remains competitive.

Share Information

Bloomberg Code	SREIT MK
Stock Name	SUNREIT
Stock Code	5176
Listing	Main Market
Units in circulation (mn)	2945.1
Market Cap (RMmn)	5212.8
Par Value	1.00
52-wk Hi/Lo (RM)	1.84/1.51
12-mth Avg Daily Vol ('000 shrs)	2566.1
Estimated Free Float (%)	30.9
Beta	0.5

Major Shareholders (%)

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

Forecast Revision

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

Financial Indicators

	FY17	FY18
Gearing (%)	35.8	36.2
FCPS (sen)	5.7	13.0
Price / CFPS (x)	31.2	13.6
ROE (%)	6.5	7.3
ROA (%)	4.0	4.5
NTA/Share (RM)	1.5	1.5
Price/NTA (x)	1.2	1.2

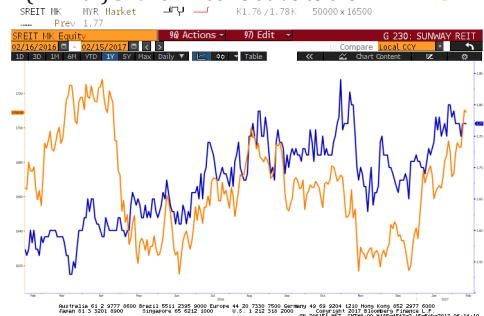
Scorecard

	% of FY	
vs TA	51.0	Within
vs Consensus	49.0	Within

Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	2.3	2.2
3 mth	4.1	4.8
6 mth	1.1	1.1
12 mth	13.5	3.6

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



Source: Bloomberg

- Office segment showed gradual improvement. Notably, Sunway Putra Tower's occupancy rate improved from 25.7% in 1QFY17 to 31.2% for YTD 2Q FY2017. The improvement was attributable to commencement of a new tenant occupying 51,500 sq.ft. (16% of total NLA) in 2Q2017. In addition, it has secured another 12,000 sq.ft. (4% of total NLA) which will commence its tenancy in 3QFY17. This is expected to will improve the occupancy rate to approximately 42%.
- All in, management maintains its FY17 DPU guidance and expect a dip in DPU in FY17 compared to FY16. This is largely due to: i) closure of Pyramid Tower East Hotel, and ii) lower surplus cash as Sunway REIT will pay the entire amount of manager's fee in cash in FY17, instead of 75%:25% in the form of cash and issuance of new units in FY16. In our earnings model, we expect FY17 DPU to fall by 3.4% YoY.

Valuation

- No change to our target price of RM1.79/unit, based on DDM valuation. Our target price implies forward yields of 5.0%, which is lower than the sector peers' average forward yields of 5.5%. Maintain **Sell**.

Earnings Summary (RM mn)

FYE June	FY15	FY16	FY17f	FY18f	FY19f
Gross Rental Income	453.5	507.0	548.2	601.5	618.2
Net Property Income	340.8	373.9	393.3	433.2	446.0
NPI Margins	75.2	73.7	71.7	72.0	72.1
Pretax profit	240.6	260.2	261.7	297.7	307.9
Core Net Profit	242.0	262.5	261.7	297.7	307.9
Distributable income	256.1	270.6	261.7	297.7	307.9
EPU (Sen)	8.2	8.9	8.9	10.1	10.4
EPU Growth (%)	3.7	8.2	(0.3)	13.8	3.4
PER (x)	21.5	19.9	20.0	17.5	17.0
DPU (sen)	8.7	9.2	8.9	10.1	10.4
Div Yield (%)	4.9	5.2	5.0	5.7	5.9
ROE (%)	6.3	6.5	6.5	7.3	7.6

2Q17 Results Analysis (RM mn)

FYE June	2Q16	1Q17	2Q17	QoQ (%)	YoY (%)	1HFY16	1HFY17	YoY (%)
Total revenue	131.9	128.9	126.9	(1.6)	(3.8)	253.1	255.8	1.1
- Retail	97.5	99.7	98.8	(0.9)	1.4	184.5	198.5	7.6
- Hospitality	21.7	16.4	14.8	(9.7)	(31.9)	42.3	31.2	(26.4)
- Office	7.5	7.4	7.9	6.1	5.2	15.8	15.3	(3.3)
- Healthcare	5.2	5.4	5.4	0.0	3.5	10.4	10.8	3.5
Total Net Property Income	97.1	96.1	94.1	(2.1)	(3.1)	187.0	190.1	1.7
- Retail	67.3	71.5	70.8	(1.1)	5.1	128.3	142.3	10.9
- Hospitality	20.8	15.4	13.9	(9.8)	(33.1)	40.4	29.3	(27.5)
- Office	3.8	3.7	4.0	7.0	6.2	7.9	7.7	(1.7)
- Healthcare	5.2	5.4	5.4	0.0	3.5	10.4	10.8	3.5
Other Income	4.8	0.9	5.2	463.6	8.3	9.7	6.1	(37.2)
Changed in fair value	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
Net Investment Income	101.8	97.0	99.2	2.3	(2.6)	196.7	196.2	(0.3)
Manager & Trustee Fee	(8.1)	(8.2)	(8.1)	(0.5)	(0.4)	(16.1)	(16.3)	1.2
Finance Costs	(21.6)	(21.8)	(22.1)	1.5	2.1	(43.1)	(43.8)	1.7
Other expenses	(0.6)	(2.9)	2.1	(171.1)	(470.5)	(1.5)	(0.8)	(44.0)
Income Before Taxation	71.5	64.1	71.1	10.9	(0.5)	136.0	135.3	(0.5)
Net Profit	71.5	66.7	71.1	6.6	(0.5)	136.0	137.9	1.4
Realised Net Profit	73.6	66.7	67.1	0.6	(8.8)	134.1	133.9	(0.2)
Realised EPU (sen)	2.5	2.2	2.3	3.1	(6.9)	4.5	4.6	0.2
DPU (sen)	2.6	2.3	2.3	0.4	(11.3)	4.7	4.6	(3.0)
NPI Margin (%)	73.6	74.5	75.9	1.4	2.3	73.9	75.2	1.8
Realised Net Margin (%)	55.8	51.8	54.2	2.4	(1.6)	53.0	53.0	(0.1)

Peers Comparison

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	Recommendation	Price (RM)	Target price (RM)	Market Cap (RM bn)	PER (x)		Div Yield (%)		P/NAV (x)	
					FY17	FY18	FY17	FY18	FY17	FY18
Sunway REIT	Sell	1.77	1.79	5.2	20.0	17.5	5.0	5.7	1.2	1.2
CMMT	Hold	1.62	1.78	3.3	19.4	18.4	5.5	5.8	1.3	1.3
KLCCP Stapled Group*	NR	7.84	NR	14.2	18.5	17.9	4.7	4.9	1.1	1.1
IGB REIT*	NR	1.69	NR	5.9	20.4	19.2	5.3	5.6	1.6	1.6
Pavilion REIT*	NR	1.79	NR	5.4	19.9	19.0	5.0	5.3	1.4	1.4
Axis REIT*	NR	1.66	NR	1.8	18.4	17.7	5.4	5.6	1.3	1.4
Al Salam*	NR	1.03	NR	0.6	16.1	15.8	5.7	5.8	1.0	1.0
Average					18.9	17.9	5.2	5.5	1.3	1.3

*Based on consensus

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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