

# SUNWAY REAL ESTATE INVESTMENT TRUST

Unitholders' meeting for the proposed acquisition of six hypermarkets / retail complexes

15 June 2023

# Introduction

**To seek approval of the unitholders of Sunway REIT for the proposed acquisition**

**Proposed Acquisition**

Proposed acquisition of six hypermarkets / retail complexes in Klang Valley and Johor (“**Hypermarkets / Retail Complexes**”) for a total cash consideration of RM520.0 million (“**Purchase Consideration**”).

The acquisition of each of the Hypermarkets / Retail Complexes is inter-conditional with each other

**Vendor**

Kwasa Properties Sdn Bhd, a wholly-owned subsidiary of Employees Provident Fund (“**EPF**”) (“**Vendor**”)

**Details of the Hypermarkets / Retail Complexes**

	<b>2022 Net Property Income</b>	<b>Market Value</b>	<b>Purchase Consideration</b>
	<b><u>RM ‘mil</u></b>	<b><u>RM ‘mil</u></b>	<b><u>RM ‘mil</u></b>
<b>Kinrara Property</b>	9.9	138.0	130.0
<b>Putra Heights Property</b>	5.4	66.0	60.0
<b>USJ Property</b>	8.2	103.0	80.0
<b>Klang Property</b>	4.6	74.0	65.0
<b>Ulu Kelang Property</b>	3.8	53.0	45.0
<b>Plentong Property</b>	10.3	159.0	140.0
<b>Total</b>	<b>42.1</b>	<b>593.0</b>	<b>520.0</b>

# Details of the Proposed Acquisition

## Basis of the Purchase Consideration



Market value as ascribed by Knight Frank Malaysia Sdn Bhd, an independent registered valuer appointed for the Proposed Acquisition (“**Valuer**”)

## Justification for the Purchase Consideration



The Hypermarket / Retail Complexes are **individually and collectively acquired below its market value**

	Kinrara Property	Putra Heights Property	USJ Property	Klang Property	Ulu Kelang Property	Plentong Property	Collectively
<b>Discount to market value</b>	5.8%	9.1%	22.3%	12.2%	15.1%	11.9%	<b>12.3%</b>



Immediate net unrealised **fair value gain** of c. RM66.2 million



Rationale and benefits of the Proposed Acquisition - **accretion to earnings and distribution per unit (“DPU”)** of Sunway REIT



Prospects of the Hypermarkets / Retail Complexes - **strategic location** benefiting from good accessibility and surrounding residential areas

# Details of the Proposed Acquisition

## Method of financing the Purchase Consideration



### **RM52.0 million (10% of Purchase Consideration)**

- Satisfied via internally generated funds

### **RM468.0 million (90% of Purchase Consideration)**

- To be satisfied via:

- Net cash proceeds from the disposal of Sunway Medical Centre (Tower A & B) ("**SMC Disposal**") of RM416.0 million; and/or
- Sunway REIT's existing debt facilities

Sunway REIT Management Sdn Bhd ("**Manager**") will decide on the amount of the net cash proceeds from the SMC Disposal (if any) and the type of debt facilities to be used to fund the balance Purchase Consideration at a later date

## Risk Factors



### **Inability of the lessee for the Hypermarkets / Retail Complexes ("Lessee") to make timely lease payments**

- **Mitigating factor:** Entitled to charge late payment interest of 10% per annum for any late payments by the Lessee pursuant to the lease agreements for the Hypermarkets / Retail Complexes ("**Lease Agreements**")



### **Risk of non-renewal and termination of Lease Agreements**

- **Mitigating factors:** (i) Work closely with Lessee to build strong relationship and leverage on positive attributes of the Hypermarkets / Retail Complexes to secure new tenants if required

# Details of the Proposed Acquisition

## Risk Factors



### **Risk of early termination of the lease agreement for USJ Property (“USJ Property Lease Agreement”)**

- Vendor received an early termination notice from the Lessee
- Notwithstanding the early termination notice:
  - i. Vendor has warranted that the Lease Agreements will be valid and subsisting up to completion of the Proposed Acquisition;
  - ii. the USJ Property Lease Agreement remains subsisting as at 15 May 2023;
  - iii. the Lessee is still obligated to continue to pay rent under the USJ Property Lease Agreement and the Lessee has been paying rent for the past 12 months preceding 15 May 2023; and
  - iv. the Vendor has received no indication from the Lessee if it will to continue to pursue the termination of the USJ Property Lease Agreement
- The Lessee and its sub-tenants are occupying portions of the USJ Property to undertake retail operations as at 26 April 2023

### **Financing risks and limitation on borrowings**



- Purchase Consideration is partially funded via debt financing and any increase in interest rates adversely affects ability to pay distributions
- Limitation on borrowings affects ability to fund future capital expenditure requirements
- **Mitigating factor:** Closely monitors cash flows and gearing level. Debt headroom as at 31 March 2023 is RM1.1 billion

# Details of the Proposed Acquisition

## Risk Factors



### Delay or non-completion of the Proposed Acquisition

- **Mitigating factor:** Take reasonable steps to ensure the conditions precedent are met and necessary approvals are obtained



### Delay in the transfer of the Hypermarkets / Retail Complexes in the name of RHB Trustees Berhad (“Trustee”)

- The date of presentation of instruments relating to dealing in a land transaction and the registration of the same could typically take several months
- Accordingly, there could be a potential delay and therefore uncertainty in the registration of the Trustee as the registered owner of the Hypermarkets / Retail Complexes
- **Mitigating factor:** Closely follow up with land offices on the transfer of titles of the Hypermarkets / Retail Complexes



### Valuation assumptions

- Market value appraised by the Valuer does not guarantee current and future sale price of the Hypermarkets / Retail Complexes
- **Mitigating factor:** The Manager will endeavour to obtain highest possible sale price taking into account, market conditions, cost of investment and expenses incurred



### Sunway REIT’s proforma income distribution and DPU are not a guarantee of the actual financial results

# Rationale for the Proposed Acquisition

**The Proposed Acquisition is in line with Sunway REIT's key investment objective of investing in yield accretive properties that contribute to long-term growth**



## Opportunistic Investment

- Acquisition of six strategically located hypermarkets / retail complexes in Klang Valley and Johor on a bundled basis below their respective market values
- The Purchase Consideration represents a discount of approximately 12.3% to the aggregate market value of the Hypermarkets / Retail Complexes



**Accretion to earnings by RM10.4 million <sup>(1)</sup> and DPU by 0.30 sen <sup>(1)</sup> (financial year ended 31 December 2022)**



## Increase income stability and weighted average lease expiry (“WALE”) of Sunway REIT’s portfolio

- Sunway REIT will receive fixed rental payments pursuant to the lease agreements which are on triple-net lease arrangements
- Increase in WALE to 4.50 years <sup>(1)</sup> from 4.43 years (as at 31 December 2022)



## Increase strength and geographical diversification of Sunway REIT’s portfolio

- Strengthen Sunway REIT’s position as the 2nd largest listed REIT with an increase in property value by RM593.0 million
- Geographical diversification to Johor

**Note:**

<sup>(1)</sup> After taking into consideration the effects of the SMC Disposal

# Financial effects of the Proposed Acquisition

**Increase in DPU by 0.30 sen and net asset value (“NAV”) per unit by 1.93 sen**

	As at 31 December 2022	After the SMC Disposal and the Proposed Acquisition
Income distribution	RM315.8 mil	RM326.2 mil <sup>(1)</sup> ▲ 3.3%
DPU	9.22 sen	9.52 sen ▲ 0.30 sen
NAV per unit	RM1.5149	RM1.5342 <sup>(2)</sup> ▲ 1.93 sen
Total Asset Value	RM9.4 bil	RM9.6 bil ▲ 2.1 %
Total Gross Borrowings	RM3.5 bil	RM3.6 bil <sup>(3)</sup> ▲ 2.9%
Gearing	37.6%	38.0% <sup>(3)</sup> ▲ 0.4%

**Notes:**

- (1) After including reduction of annual net distributable income from the SMC Disposal and annual incremental net distributable income from the Proposed Acquisition
- (2) After considering the unrealised fair value gain of RM66.2 million for the Hypermarkets / Retail Complexes
- (3) After considering, amongst others, the repayment of borrowings from the net proceeds from the SMC Disposal and increase in gross borrowings to fund the Purchase Consideration



# Interested party

**The Proposed Acquisition is deemed a related party transaction due to the interest of EPF**



## EPF

- EPF has 15.2% direct interest in Sunway REIT <sup>(1)</sup>
- EPF is a major unitholder of Sunway REIT and is the sole shareholder of the Vendor and therefore deemed interested in the Proposed Acquisition
- EPF undertakes that they will abstain from voting and ensure that persons connected with them will abstain from voting on the resolution pertaining to the Proposed Acquisition

**Note:**

(1) As at 15 May 2023

# Approvals required

## Unitholders of Sunway REIT



## Economic Planning Unit (“EPU”)



- The approval or no objection from the EPU of the Prime Minister’s Office for the Proposed Acquisition

## Approvals Required for the Proposed Acquisition

## State Authority

- Approval for amendment of restriction in interest for the land in Plentong (obtained on 23 May 2023)



## Other parties

- Any other relevant authority and/ or party, if required



An aerial photograph of a modern, multi-story office building with a glass facade. The building is illuminated by the warm, golden light of a setting sun, creating a lens flare effect on the right side. A large, semi-transparent cyan rectangle is overlaid on the center of the image, containing the text 'THANK YOU' in white, bold, sans-serif capital letters. The RHB logo is visible on the top of the building and in the bottom left corner.

THANK YOU



# Appendix I - Details of the Lease Agreements

	Kinrara Property	Putra Heights Property	USJ Property	Klang Property	Ulu Kelang Property	Plentong Property	Total
Commencement date	1 Dec 2009	1 Dec 2009	22 Aug 2013	17 Dec 2020	17 Dec 2020	17 Dec 2020	-
Expiry date	30 Nov 2024	30 Nov 2024	21 Aug 2028	16 Dec 2030	16 Dec 2030	16 Dec 2030	-
Total lease term	15 years	15 years	15 years	10 years	10 years	10 years	-
Years remaining	1 year	1 year	5 years	7 years	7 years	7 years	-
Annual gross rental income	RM9.9 mil	RM5.4 mil	RM8.2 mil	RM4.6 mil	RM3.8 mil	RM10.3 mil	<b>RM42.1 mil</b>
Renewal option	Y	Y	Y	-	-	-	-
Break option	-	-	-	Y	Y	Y	-