

HLIB Research

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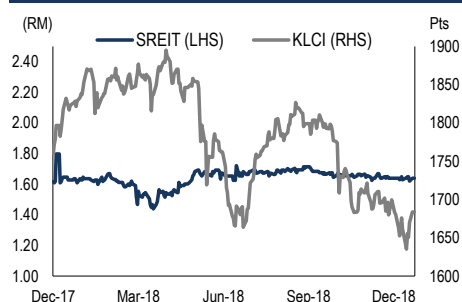
HOLD (Maintain)

Target Price: RM1.70
Previously: RM1.70
Current Price: RM1.64

Capital upside	3.7%
Dividend yield	5.9%
Expected total return	9.5%

Sector coverage: REIT

Company description: Sunway REIT is one of the largest retail focused REIT that is strategically located across award-winning integrated townships in key locations within Klang Valley, Penang and Perak.

Share price


Historical return (%)	1M	3M	12M
Absolute	-0.6	-3.5	-4.1
Relative	0.1	2.8	0.3

Stock information

Bloomberg ticker	SREIT MK
Bursa code	5176
Issued shares (m)	2,945
Market capitalisation (RM m)	4,830
3-mth average volume ('000)	1,425
SC Shariah compliant	No

Major shareholders

Sunway Bhd	40.9%
Employees Provident Fund	14.7%
Skim Amanah Saham	5.3%

Earnings summary

FYE (Dec)	FY18	FY19e	FY20f
PAT – core (RM m)	282.1	281.1	280.9
EPU – core (sen)	9.6	9.6	9.5
P/E (x)	17.1	17.1	17.2

Sunway REIT

Acquisition of Sunway University Property

Sunway REIT has proposed to acquire 3 parcels of land of Sunway University Property for a total sum of RM550.0m. Upon completion in 1H19, it shall be leased to Sunway Education Group Sdn Bhd for 30 years. We are positive on the news as we opine that the acquisition price is fair and yield accretive. We maintain forecast pending completion of the acquisition. We maintain HOLD with unchanged TP of RM1.70 based on unchanged targeted yield of 5.9%.

NEWSBREAK

Sunway has proposed to dispose its Sunway University Property (733k sqft of land and 1.88m sqft GFA of buildings) to Sunway REIT for a consideration of RM550m. The disposal includes the South Building, North Building, New University Block, and Hostel and Sports Facilities but excludes the South Annex Building, Graduate Centre, East Building and International School. The disposal is expected to be completed by 1H19 pending relevant approvals.

HLIB's VIEW

Positive on the acquisition. We are positive on the proposed acquisition as it is yield accretive, with our FY20-21 earnings increasing by 14% and 15% respectively. The property will be leased to Sunway Education Group Sdn Bhd for 30 years with an option to renew for a second term of 30 years and third term of 18 years and 4 months up to 31st March 2097. The buildings and land, will be leased at an agreed monthly rental of approximately RM1.50 per sq ft and RM0.50 per sq ft respectively, with step up rental reversions. This long lease term will provide Sunway REIT with stable and sustainable income stream hence further minimise the risk to Sunway REIT. Also, the acquisition represents an opportunity for Sunway REIT to further diversify its current property portfolio by acquiring properties in the new industry which may not be exposed with the same economic cycle. The acquisition price of RM550.0m is marginally above its net book value of RM486.0m. However this is deemed fair as it is at par with the market value based on valuations by the independent valuer.

Gearing. Sunway REIT intends to utilise debt facility of approximately RM550.0m from its existing credit lines and/or future financing facilities. As at 1QFY19, Sunway REIT's gearing ratio stands at 38.6% and if it will be fully funded by debt, the gearing ratio is expected to increase to 42.8% (REITs has a gearing limit of 50%).

Forecast. We maintain our forecast pending completion of the acquisition.

Maintain HOLD, TP: RM1.70. We maintain our HOLD rating at TP RM1.70 based on targeted yield of 5.9% which is derived from 2 years historical average yield spread of Sunway REIT and 10-year MGS.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Jun	FY17	FY18	FY19f	FY20f	FY21f
Cash	100.5	57.6	115.0	114.1	113.5
Receivables	33.0	32.1	32.6	32.7	32.8
Investment properties	6,689.2	7,280.2	7,330.2	7,380.2	7,430.2
PPE	9.1	13.6	12.1	10.8	9.6
Others	8.1	140.4	140.4	140.4	140.4
Total Assets	6,839.9	7,523.9	7,630.3	7,678.1	7,726.5
Payables	210.8	183.7	242.1	241.4	241.1
Debt	2,343.8	2,902.5	2,952.5	3,002.5	3,052.5
Others	73.6	84.4	84.4	84.4	84.4
Liabilities	2,628.2	3,170.6	3,279.0	3,328.3	3,378.0
Unitholders' capital	2,727.8	2,727.8	2,727.8	2,727.8	2,727.8
Undistributed profit	1,483.9	1,625.4	1,623.5	1,622.0	1,620.7
Equity	4,211.7	4,353.2	4,351.3	4,349.8	4,348.5
Total Liab & Equity	6,839.9	7,523.9	7,630.3	7,678.1	7,726.5

Cash Flow Statement

FYE Jun	FY17	FY18	FY19f	FY20f	FY21f
PBT	424.5	428.7	282.1	281.1	280.9
Depreciation	1.6	1.9	1.5	1.3	1.2
Finance costs	-89.3	-105.6	-119.0	-121.0	-123.0
Others	22.2	54.9	0.0	0.0	0.0
CFO	359.0	379.9	164.6	161.4	159.0
Capex	-95.9	-36.8	-50.0	-50.0	-50.0
Investment & others	-23.5	-550.1	0.0	0.0	0.0
CFI	-119.4	-586.9	-50.0	-50.0	-50.0
Debt raised/ (repaid)	142.0	555.5	50.0	50.0	50.0
Distribution to unitholders	-265.2	-285.4	-284.0	-282.6	-282.2
Others	-85.5	-106.1	0.0	0.0	0.0
CFF	-208.8	164.0	-234.0	-232.6	-232.2
Net cash flow	30.8	-43.0	-119.4	-121.2	-123.2

Assumptions

FYE Jun	FY17	FY18	FY19f	FY20f	FY21f
Rental income					
Sunway Pyramid Shopping Mall	308.9	315.0	310.1	310.4	310.7
Sunway Carnival Shopping Mall	47.7	47.0	46.4	46.5	46.5
SunCity Ipoh Hypermarket	5.3	4.8	4.5	4.5	4.5
Sunway Putra Mall	51.8	51.6	49.2	48.7	48.8
Menara Sunway	18.2	16.8	15.6	15.6	15.6
Sunway Tower	3.8	3.5	3.0	2.9	2.8
Sunway Putra Tower	5.5	7.9	6.1	6.1	6.1
Wisma Sunway Shah Alam	5.8	5.3	5.2	5.2	5.1
Hotel/ Hospital master lease income					
Sunway Resort Hotel & Spa	42.0	39.0	38.2	38.2	39.0
Pyramid Tower Hotel	3.2	16.2	16.0	16.0	16.0
Sunway H Seberang Jaya	4.0	3.1	3.0	2.9	2.9
Sunway Putra Hotel	18.6	14.9	13.4	13.3	13.1
Sunway Hotel Georgetown	5.6	5.9	4.5	4.5	4.6

Income Statement

FYE Jun	FY17	FY18	FY19f	FY20f	FY21f
Rental income	403.7	418.0	421.2	420.4	420.3
Hotel/ Hospital lease	82.7	104.2	129.0	130.3	131.8
Car park income	23.1	26.1	19.6	20.0	20.4
Other revenue	13.5	12.1	0.0	0.0	0.0
Gross revenue	522.9	560.4	569.8	570.7	572.6
Operating expenses	-134.1	-140.5	-140.7	-140.3	-140.2
Net property income	388.8	419.9	429.0	430.4	432.4
Net investment income	549.2	572.9	437.3	438.7	440.7
PBT	424.5	428.7	282.1	281.1	280.9
Taxation	-	-1.0	0.0	0.0	0.0
PAT (reported)	424.5	427.7	282.1	281.1	280.9
PAT (core)	270.6	281.9	282.1	281.1	280.9
No. of units (units)('000)	2,945.1	2,945.1	2,945.1	2,945.1	2,945.1
Consensus core PAT			299.3	311.7	327.1
HLIB/ Consensus			94%	90%	86%

Valuation & Ratios

FYE Jun	FY17	FY18	FY19f	FY20f	FY21f
Core EPU (sen)	9.2	9.6	9.6	9.5	9.5
P/E (x)	17.8	17.1	17.1	17.2	17.2
EBITDA	363.3	391.5	402.6	403.4	405.1
EBIT	361.7	389.6	401.1	402.1	403.9
EV	7,073.1	7,674.9	7,667.5	7,718.4	7,768.9
EV/EBITDA (x)	19.5	19.6	19.0	19.1	19.2
DPU (sen)	9.2	9.6	9.6	9.6	9.6
Dividend yield	5.6	5.9	5.9	5.9	5.8
NTA/ share (sen)	143.0	147.8	147.7	147.7	147.7
P/ NTA	1.1	1.1	1.1	1.1	1.1
BVPS (RM)	1.4	1.5	1.5	1.5	1.5
P/B (x)	1.1	1.1	1.1	1.1	1.1
EBITDA margin	69.5%	69.9%	70.7%	70.7%	70.7%
EBIT margin	69.2%	69.5%	70.4%	70.5%	70.5%
PBT margin	81.2%	76.5%	49.5%	49.2%	49.1%
Net margin	81.2%	76.3%	49.5%	49.2%	49.1%
ROE	10.1%	9.8%	6.5%	6.5%	6.5%
ROA	6.2%	5.7%	3.7%	3.7%	3.6%
Net gearing	32.8%	37.8%	37.2%	37.6%	38.0%

Quarterly Financial Summary

FYE Jun	4QFY18	1QFY19	QoQ (%)	YoY (%)
Rental income	136.3	143.7	5.5	1.8
Retail	101.2	104.9	3.6	1.3
Hotel	18.7	22.6	20.4	-2.2
Office	9.1	9.1	-0.3	13.0
Sunway	7.2	7.2	0.0	10.3
Assessment	-3.7	-3.4	9.3	9.0
Operating expenses	-36.0	-33.2	7.6	-10.1
Net property income	100.3	110.5	10.2	-0.4
Other income	1.9	2.2	14.7	36.5
Net investment income	246.9	112.7	-54.3	0.1
Finance cost	-29.0	-29.6	-2.2	-22.7
Normalised PBT	61.5	70.8	15.1	-8.8
Normalised PAT	61.5	70.8	15.1	-8.8
EPU (sen)	2.2	2.5	15.3	-7.1
DPU (sen)	2.2	2.5	15.3	-7.1

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HOLD	Expected absolute return of -10% to +15% over the next 12-months.
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