

Sunway REIT affected by drop in office rental

Sunway Real Estate Investment Trust (Jan 29, RM1.56)

Maintain neutral with unchanged target price (TP) of RM1.70: Sunway Real Estate Investment Trust (SunREIT)'s first half ended Dec 31, 2014 (1HFY15), core net income (CNI) of RM126.7million was within expectations, accounting for 50% of consensus estimate (RM251.6 million) and 52% of ours (RM244.3million). SunREIT proposed an interim distribution per unit (DPU) of 2.27 sen which covers the distribution for its second quarter ended Dec 31, 2014 (2QFY15) (SunREIT historically pays its DPU on a quarterly basis).

SunREIT's six months ended Dec 31, 2014 (6MFY15) revenue grew by 8% year-on-year (y-o-y) to RM227.8 million. This was mainly due to higher rental income from Sunway Pyramid Shopping Mall (SPSM) and Sunway Carnival Shopping Mall (SCSM). SPSM benefited from additional net lettable area (NLA) of 20,362 sq ft after the completion of Oasis Boulevard 5 in 2QFY14. Meanwhile, the rise in rental revenue of SCSM was due to a higher occupancy rate of 98.4% versus 92.8% in 2QFY14 as the group secured a tenant for 44,000 sq ft of space which was vacant previously. Despite this, overall revenue growth was only 8% as the aforementioned

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FYE JUNE (RM MIL)	2013	2014	2015F	2016F
Gross revenue	415.9	427.8	468.9	517.3
Net rental income (NRI)	309.2	321.0	350.7	381.0
Net investment income	484.1	502.4	352.0	382.3
Net income	392.3	411.1	244.3	273.3
Core net income (CNI)	218.8	232.0	244.3	273.3
Basic EPU (sen)	14.11	14.06	8.33	9.32
Core EPU (sen)	7.87	7.94	8.33	9.32
Net DPU (sen)	7.47	7.52	7.87	8.81
Net distribution yield	4.7	4.8	5.0	5.6
Core PER	20.1	19.9	19.0	17.0
P/NAV	1.34	1.28	1.28	1.28
Core ROE (%)	6.7	6.4	6.6	7.4
Core ROA (%)	4.4	4.3	4.4	4.9

Source: SunREIT, Forecast by MIDF Research

rental increases were partially offset by a 4% y-o-y decline in its office segment's rental revenue. Lower occupancy rate at Sunway Tower of 69.8% in 2QFY15 contributed to the drop in rental revenue from office space.

With revenue growth of 8% y-o-y and operating expenses managed prudently, CNI grew 8% y-o-y.

The reopening of Sunway Putra Mall (SPM) is on track for 4QFY15.

We gather that the SPM refurbishment has achieved 95% completion status as of end December 2014. Thus far, SunREIT has secured more than 70% of NLA for SPM. We are positive on this development

and have incorporated the potential increase in rental contributions from SPM into our earnings forecast for FY16. FY16 CNI growth will be stronger at 12% against FY15's 5%.

In view of its 1HFY15 numbers which came in within expectation, we leave our forecasts for both FY15 and FY16 unchanged. Our TP is based on the dividend discount model (required rate of return: 7.2%; perpetual growth: 1%). We remain "neutral" on the stock as we expect challenges to its rental reversion rate due to the implementation of the goods and services tax as well as the occupancy rate of its office spaces. — MIDF Research, Jan 29