



### Sunway REIT Berhad

Main Market/ Syariah Compliant

#### Recommendation : -

Expected Price = RM0.90 per unit.

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IPO Retail Price (revised):	RM0.88 per unit.
# IPO Offered Units	1,654,969,300
# Units for Institutional Investors	1,520,963,700
# New Units for Public	134,005,600
IPO Closing Date:	22 <sup>nd</sup> June 2010
Listing Date:	8 <sup>th</sup> July 2010
Market Capitalization (estimate) (2,680,112,300 units x RM0.88)	RM2,358,409,882.00

Proceeds Utilization		Amount (million)	Time Frame (month)
1.	Part funding for the acquisitions	RM1,585	1 month
2.	Estimated listing expenses	RM69.8	1 month
Total		RM1,654.9	

Sunway REIT, like other REITs that are listed on Bursa Malaysia, they must pay out at least 90% of their taxable income in order to enjoy the special status under Malaysia taxation system.

Sunway REIT is going to be the 13<sup>th</sup> REIT to be listed on Bursa Malaysia, what can be expected from Sunway REIT ?

It is the REIT size. Sunway REIT will be the largest REIT in Malaysia upon listing with an appraised value of RM3,729,000,000.00. This should thus provide higher level of trading liquidity for investor.

#### 1. HISTORY & BACKGROUND

Sunway REIT is a newly established fund, save for the properties to be acquired, it does not have any portfolio of real estate and real estate-related assets, and no historical financial information has been prepared since its establishment.

#### 2. PRINCIPAL ACTIVITIES

REIT is a real estate investment trust formed to own and invest in a diverse portfolio of income generating real estate in Malaysia. The properties to acquire by Sunway REIT are Sunway Pyramid Mall, Sunway Carnival Shopping Mall, SunCity Ipoh Hypermarket, Sunway Resort Hotel & Spa, Pyramid Tower Hotel,

Sunway Hotel Seberang Jaya, Menara Sunway, and Sunway Tower.

Its principal investment policy is to invest in commercial, office, industrial and other real estate assets. However, at least 50% of total asset value of Sunway REIT must be invested in real estate assets, and not more than 25% of the total asset value is invested in non-real estate related assets, cash, deposits and/or money market instruments.

#### 3. KEY PERSONNEL

Sunway REIT Management Sdn Bhd (a subsidiary of Sunway City Berhad) will serve as the Manager of Sunway REIT.

The Manager is responsible for Sunway REIT's investment and financing strategies, asset acquisition and disposition policies, and overall management of real estate and real estate related assets in accordance with the Deed in the sole interest of unit holders.

#### 4. SUBSTANTIAL SHAREHOLDERS

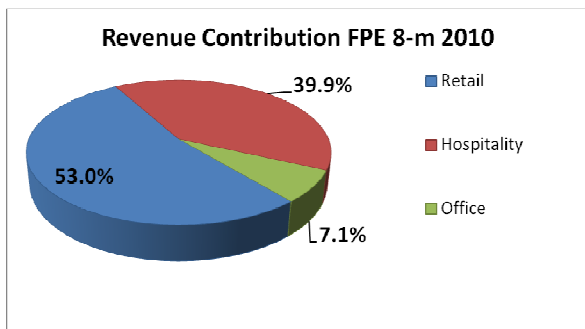
Name	Direct shareholding after IPO
Sunway Pyramid Shopping Mall	31.5%
Sunway Carnival Shopping Mall	4.7%
Sunway Tower	2.1%
Government of S'pore Investment Corp. P/L	5.0%

The purchase consideration for Sunway Pyramid Mall, Sunway Carnival Shopping Mall, SunCity Ipoh Hypermarket, Sunway Resort Hotel & Spa, Pyramid Tower Hotel, Sunway Hotel Seberang Jaya, Menara Sunway, and Sunway Tower is RM3,729,000,000.00.

Out of this RM3,729,000,000.00, RM1,585,157,000.00 is to be financed thru IPO proceeds, and RM1,118,700.00 (30% of RM3,729,000,000.00) from loan facility.

#### 5. REVENUE SEGMENTATION BY PROPERTIES

FYE (RM'000)	8-m 28/2/10	30/6/09	30/6/08	30/6/07
<b>Retail Properties</b>				
Revenue	1,49,377	211,696	160,893	83,093
<b>Hospitality Properties</b>				
Revenue	112,342	160,647	153,105	137,980
<b>Office Properties</b>				
Revenue	20,071	20,152	17,296	10,409



#### AVERAGE PROPERTIES RENTAL & OCCUPANCY RATES AS OF 28<sup>TH</sup> FEBRUARY 2010

Property Type	RM/sq ft	Occupancy rate
<b>Retail Properties</b>		
Sunway Pyramid Shopping Mall	RM8.99	99.3%
Sunway Carnival Shopping Mall	RM3.82	93.6%
SunCity Ipoh Hypermarket	RM1.87	100%
<b>Hospitality Properties</b>	RM/night	Occupancy rate

Sunway Resort Hotel & Spa	397	66.1%
Pyramid Tower Hotel	254	79.2%
Sunway Hotel Seberang Jaya	158	76.7%
<b>Office Properties</b>	RM/sq ft	Occupancy rate
Menara Sunway	RM3.29	97.7%
Sunway Tower	RM4.27	95.9%

The keys to good performing REIT lie in quality and consistent rental incomes. Of course, the locations of retail, hospitality and office properties must also be right along with the right facilities to attract the right crowd.

In the past 3 years (from 2007 to 2009), the above-mentioned properties had been registering increase in rentals with Sunway Pyramid Shopping Mall saw its rate from RM7.93 psf in 2007 to RM8.79 psf in 2009; room rate charges for Sunway Resort Hotel & Spa rose from RM302 per night in 2007 to RM409 per night in 2009; office space rental rate for Menara Sunway also up from RM2.46 psf in 2007 to RM3.22 psf in 2009.

On occupancy rate, Sunway REIT's retail and office spaces with an almost full take up.

What's interesting to mention here is the ability on the part of Sunway REIT to command an increasing rental rate with a relative stable occupancy rate despite the challenging operating environment during global financial crisis in 2008 to 2009.

Why? Bandar Sunway is an integrated and master-planned township with a mix of residential, commercial, hospitality, leisure, medical (Sunway Medical Centre), convention, and educational (Sunway University College, Monash University, Sunway Campus, Sunway International School) properties. This good mix features have helped to pull in crowd, which in turn induced demand for retail/office spaces.

#### 6. BUSINESS MODEL

Sunway REIT derives its incomes mainly from properties rental. This REIT focuses on shopping malls, hotels and office buildings with *85.5% of the properties by appraised value located in Bandar Sunway.*

Bandar Sunway is located at an area of high population growth in Petaling Jaya, Selangor. This REIT is believed to be offering a dividend income with good potential of capital gains when properties are sold.

## 7. FUTURE PLAN

In the prospectus, the Manager would adopt active asset management strategy thru boosting earnings from existing properties, and acquisition growth strategy externally for Sunway REIT. Both strategies sound good as it would help to improve net asset value per unit.

## 8. SELECTED FINANCIAL STATE ANALYSIS

Selected Bal Sheet (RM 000)	FPE 8-m 28 Feb 2010 (after acquisition, IPO and loan facility)		
Current Assets	51,731		
Cash in Hand	49,592		
Inventory	-		
Trade Receivables	2,139		
LT Assets	3,729,000		
Total Assets	3,780,731		
Current Liabilities	159,912		
ST Debts	118,013		
Trade Payable	41,899		
LT Liabilities	1,010,519		
LT Debts	988,962		
Total Liabilities	1,170,431		
S/holders Equity	2,610,300		
Selected Income State(RM 000)	FYE2011 Forecast	FPE 8-m 2010	FYE2009
Revenue	329,481	281,790	392,495
Finance costs	54,287	17,660	29,720
NPI (excl. other income)	170,315	241,423	333,222
Distributable income	180,193		
# units (million)	2,680		
NAV per share	RM0.97		
Distribution per unit	RM0.067		
Ratio Analysis	FYE 2011 (forecast)		
Table 1.1	Leverage Ratio		
1. Debt / Capital	43.7%		

**(Note :** The selected historical audited combined financial information for years ended FPE 8-m 28 Feb 2010, and 30 June 2009 derived from the combined financial statements of Predecessor Group (also Vendors - Sunway Pyramid Shopping Mall, Sunway Carnival Shopping Mall, SunCity Ipoh Hypermarket, Sunway Resort Hotel & Spa and Pyramid Tower Hotel, Sunway Hotel Seberang Jaya, Menara Sunway, and Sunway Tower).

## Leverage Ratio (Table 1.1)

Like other REITs, Sunway REIT also carries debts in its balance sheet. In the forecasted FYE 2011, it is expected to carry **43.7% debt**, meaning that every Ringgit Malaysia of asset would be financed with 43.7 Sen of debt.

## 9. MARGIN ANALYSIS

FYE 30/6	2011 (f)	FPE 8-m 2010	2009	2008
RM'000				
Revenue	329,481	281,790	392,495	331,294
NPI	246,394	241,423	333,222	276,482
NPI/Rev	74.8%	85.6%	84.8%	83.4%

NPI = Net Property Income      Rev = Revenue

The table above showed that Sunway REIT is ***in an industry of high gross profit margin***. Although Sunway REIT could face ***risks*** such as lease defaults or non-renewal in shopping malls, low occupancy rate in hospitality industry should a tough economic environment fall in; but, we do not see this to pose a big problem especially in its well located retail properties.

***On this note, Sunway REIT must strive to look for tenants with high profitable margin business to ensure a continuing high rental income.***

## 10. DIVIDEND POLICY

Dividend is to be made by the Manager on quarterly basis. In the first 2 years, the Manager intends to pay out at least 100% of its distributable income; but, in years thereafter, the Manager intends to distribute at least 90% of its distributable income per year.

***A note on this point, the Manager is thus likely looking at using this small portion of this undistributed income (10%) to invest in properties that can add more value to its unit holders. However, the Manager must always be cognizant of the risk involved in taking up much debt to invest in new properties.***

According to the prospectus, an estimate of 6.7 sen dividend income per unit to be payable to unit holders based on the forecasted income statement for FYE 30 June 2011. This is equivalent to a ***dividend yield of 6.9%***.

## **11. VALUATION**

FYE	31/12/09	31/3/10	31/12/09	30/6/11(f)
23/6/10	Atrium	AmFirst	Hektar	Sunway
Price	0.95	1.18	1.26	0.97
NAV	1.03	1.40	1.27	0.97
P/NAV	0.92	0.84	1.01	1.00
Dividend	6.95sen	9.75sen	10.3sen	6.7sen
Div Yield	7.3%	8.2%	8.1%	6.9%

NAV = Net Asset Value. Sunway = Sunway REIT

Based on the information provided in the prospectus, Sunway RET is considered a real estate trust with *low risk rating* in terms of financial and operational.

Financial – Sunway REIT saw rise in revenue income from all of its 3 investment properties from FYE 2007 to FYE 2009.

Operational – Sunway REIT has a relatively stable cost structure with quite a well balanced business model in a real estate industry.

A valuation analysis in determining expected unit price of Sunway REIT indicated a level of *RM0.90*.