



SUNLIGHT REIT

Annual Results 2018

Embedding Agility



Agenda



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Results Highlights

Results Highlights



FY17/18

Revenue	HK\$788.1M
HK\$817.4M	+3.7% YoY

Net Property Income	HK\$623.4M
HK\$646.1M	+3.6% YoY

Distribution Per Unit	HK25.5 cents ¹
HK26.5 cents	+3.9% YoY

30 Jun 2018

Property Valuation	HK\$17,062M
HK\$18,755M	+9.9% YoY

NAV Per Unit	HK\$8.49
HK\$9.03	+6.4% YoY

Gearing	21.5%
21.8%	N/A

Note:

1. Excluding a special distribution of HK7.5 cents for FY16/17.

Results Highlights (Continued)



1. Decentralization Bolstered Office Performance

- ◆ Steady economic growth supported demand for Grade A and decentralized office spaces.



2. Recovery in Retail Sector

- ◆ Improved consumer sentiment thanks to a recovery in domestic and tourists' spending.
- ◆ Full-year contribution from space revamp at Sheung Shui Centre Shopping Arcade ("SSC").



3. Timely Asset Recycling Strategy

- ◆ Maiden rental contribution from Fung Shun Commercial Building ("FSCB").
- ◆ Disposal of Palatial Stand Property at 133% premium to appraised value.



4. Proactive Capital Management Strategy

- ◆ Spot and forward-start interest rate swaps ("IRS").
- ◆ Bond investments as an alternative to interest rate hedging.



2

Financial Review

Financial Review



Income Statement (HK\$'M)	FY17/18	FY16/17	Change
Revenue	817.4	788.1	+3.7%
Property Operating Expenses	(171.3)	(164.7)	+4.0%
Net Property Income	646.1	623.4	+3.6%
Distributable Income	450.5	434.5	+3.7%
DPU (HK cents)	26.5	25.5 ¹	+3.9%

- ◆ Steady growth reflected positive rental reversion and higher occupancy rates.
- ◆ Lower interest expenses attributable to full year benefit of the loan refinancing exercise.

Financial Position (HK\$'M)	30 Jun 2018	30 Jun 2017	Change
Investment Properties	18,754.8	17,062.4	+9.9%
Bank Borrowings	4,251.5	3,901.9	+9.0%
Net Asset Value	14,857.0	13,899.5	+6.9%
NAV/unit (HK\$)	9.03	8.49	+6.4%

- ◆ Borrowings increased given the acquisition of FSCB.

Note:

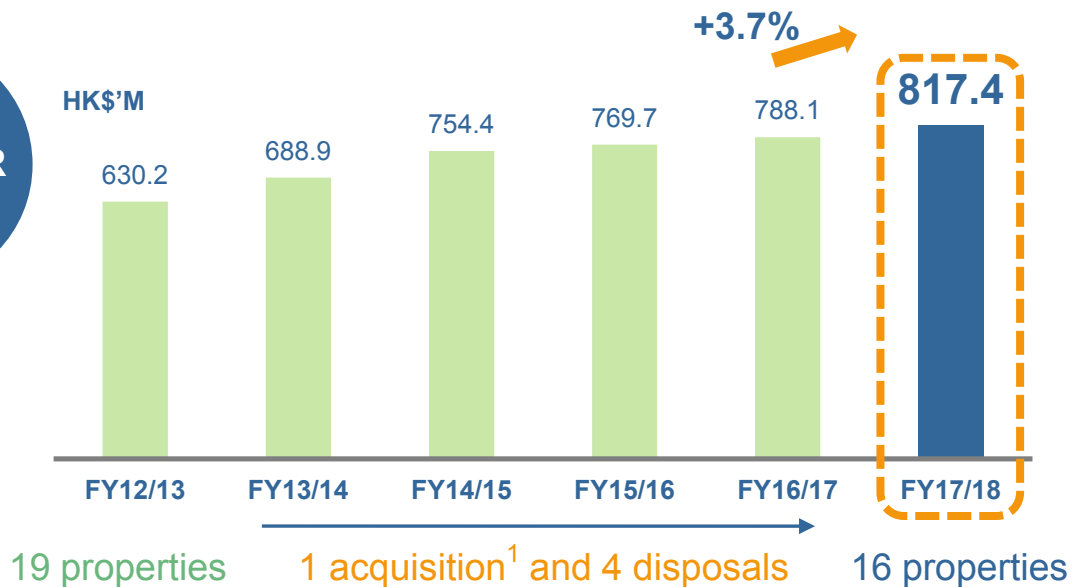
1. Excluding a special distribution of HK7.5 cents for FY16/17.

Financial Review (Continued)

- Revenue and NPI Trends



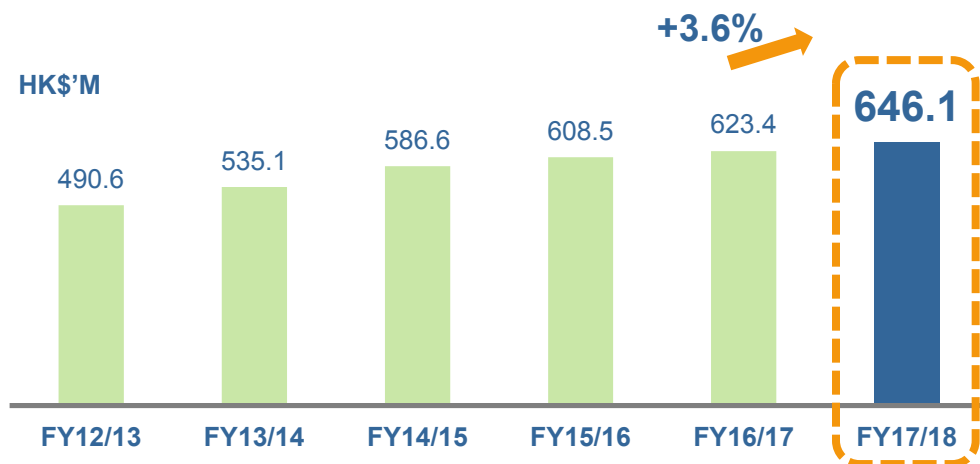
5-YR CAGR
5.3%



Revenue

- ◆ Creating value to unitholders by asset recycling and trade mix rebalancing.
- ◆ Overall passing rent increased 29% in 5 years.

5-YR CAGR
5.7%



Net Property Income

- ◆ Disciplined cost control and cost-driven asset enhancement initiatives (“AEIs”) contributed to faster 5-year NPI growth relative to revenue.

Note:

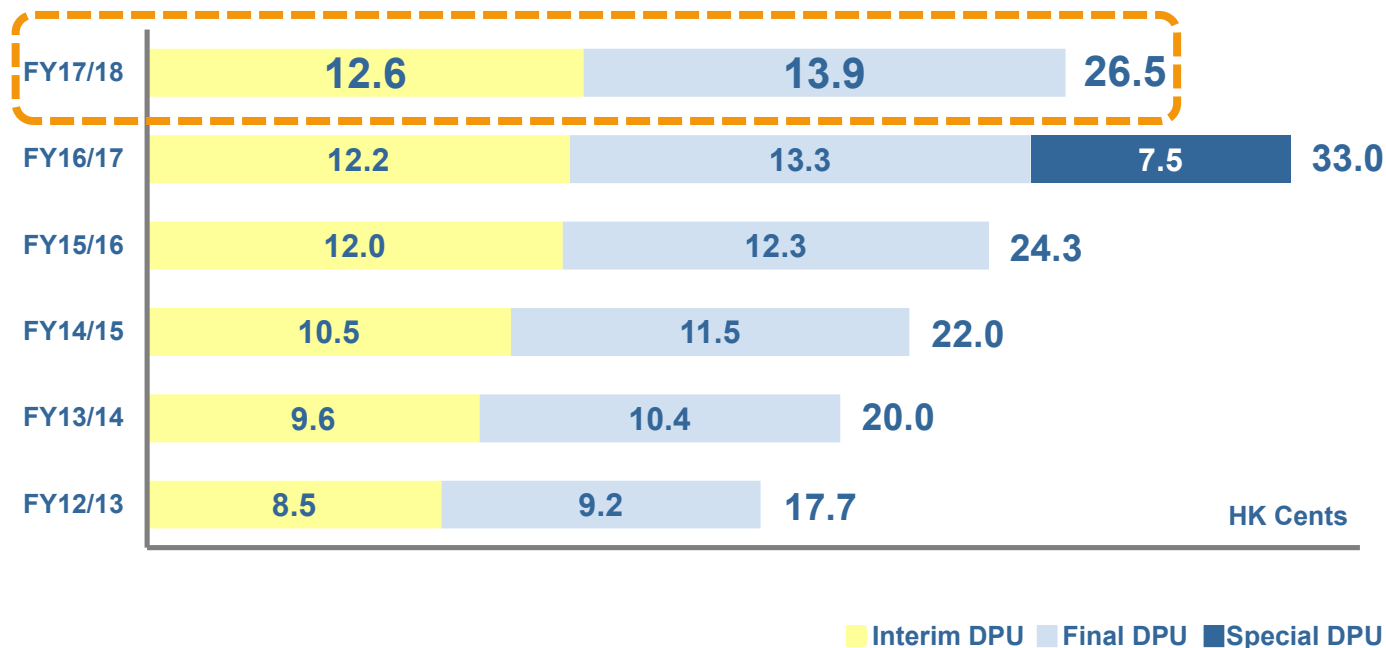
1. Excluding the unification of On Loong Commercial Building in FY15/16.

Financial Review (Continued)

- DPU Trend



5-YR
CAGR
8.4%



DPU Growth
+3.9%¹

YoY

Distribution
Yield²
4.9%

Payout Ratio³
96.7%

Notes:

1. Excluding a special distribution for FY16/17.
2. Distribution yield based on the closing unit price of HK\$5.42 on 29 Jun 2018, the last trading day of FY17/18.
3. Payout ratio for FY16/17 would have been 96.1% excluding the special distribution.

3

Operating Performance

Operating Performance

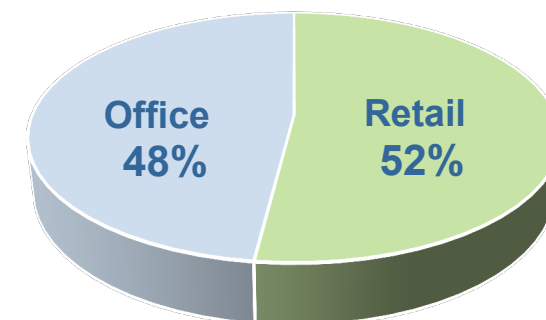


	Office	Retail	Overall
30 Jun 2018			
Occupancy	97.8%	99.2%	98.2%
30 Jun 2017	97.3%	96.7% ¹	97.1% ¹
30 Jun 2018			
Passing Rent² (HK\$ / sq. ft.)	33.8	73.9	46.5
30 Jun 2017	32.0	72.4 ¹	45.0 ¹
FY17/18			
Rental Reversion³	6.9%⁴	8.0%	7.4%
FY16/17	10.1%	5.3% ¹	7.1% ¹



- ◆ Improved occupancy, particularly for the retail portfolio
- ◆ Stable growth in passing rent
- ◆ Satisfactory rental reversion

Net Property Income by Type



Notes:

1. The figures have been adjusted to reflect the disposal of Palatial Stand Property.
2. Passing rent is calculated on occupied gross rentable area.
3. Rental reversion is calculated on change in effective rent of the leases renewed and commenced during the reporting period.
4. Stripping out the renewal of a ground floor shop at Righteous Centre, rental reversion would have been 9.0%.

Operating Performance (Continued)

- Top 3 Office Properties¹



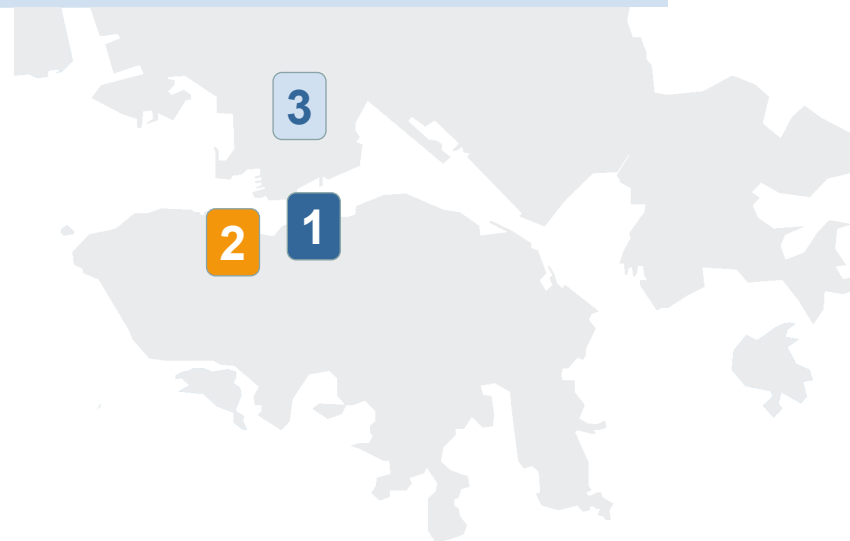
1. Sunlight Tower

	30 Jun 2018	30 Jun 2017
Occupancy	98.5%	99.1%
Passing Rent HK\$ / sq. ft.	38.2	36.4
Rental Reversion²	10.4%	11.9%
	FY18/19	FY19/20
Expiry by GRA	17.2%	17.8%



2. Bonham Trade Centre

	30 Jun 2018	30 Jun 2017
Occupancy	93.0%	96.1%
Passing Rent HK\$ / sq. ft.	29.8	28.9
Rental Reversion²	9.1%	11.5%



3. Fung Shun Commercial Building

	30 Jun 2018
Occupancy	100.0%
Passing Rent HK\$ / sq. ft.³	47.3
Rental Reversion²	N/A

Notes:

- Top 3 office properties are ranked by valuation at 30 Jun 2018.
- For rental reversion which are for the respective financial years ended 30 Jun.
- Office and retail passing rents were HK\$31.3/sq. ft. and HK\$79.1/sq. ft. respectively.

Operating Performance (Continued)

- Top 3 Retail Properties¹



3. Kwong Wah Plaza

	30 Jun 2018	30 Jun 2017
Occupancy	100.0%	100.0%
Passing Rent HK\$ / sq. ft.	52.1	49.6
Rental Reversion²	21.8%	-3.7%

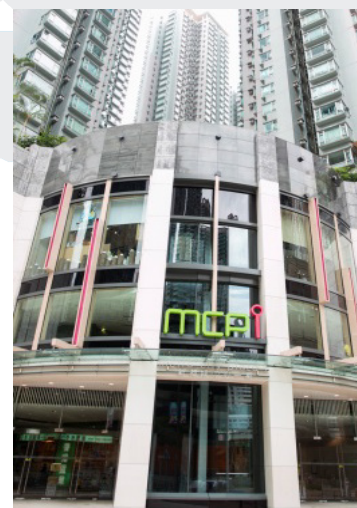
3



1. Sheung Shui Centre

	30 Jun 2018	30 Jun 2017
Occupancy	98.9%	91.7%
Passing Rent HK\$ / sq. ft.	115.9	118.4
Rental Reversion²	3.8%	3.9%
	FY18/19	FY19/20
Expiry by GRA	17.6%	47.1%

1



2. Metro City Phase I

	30 Jun 2018	30 Jun 2017
Occupancy	99.8%	98.7%
Passing Rent HK\$ / sq. ft.	55.8	54.1
Rental Reversion²	10.5%	14.5%
	FY18/19	FY19/20
Expiry by GRA	28.3%	35.0%

2

Notes:

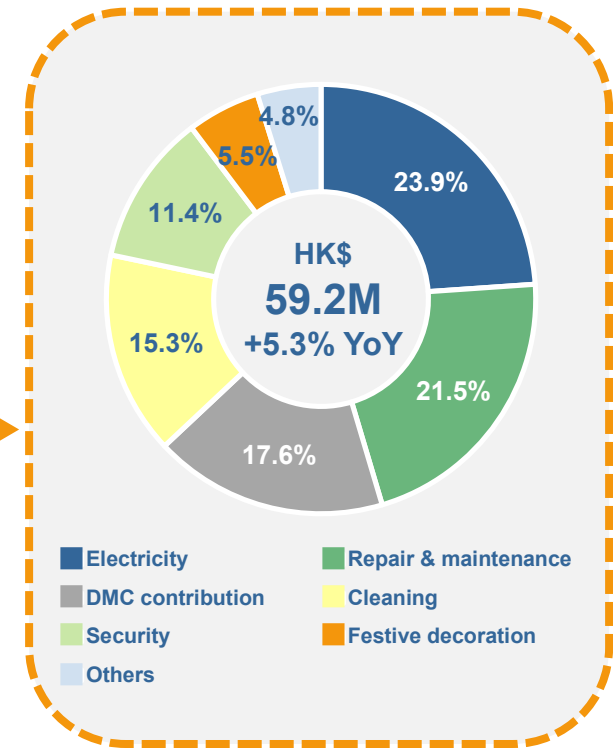
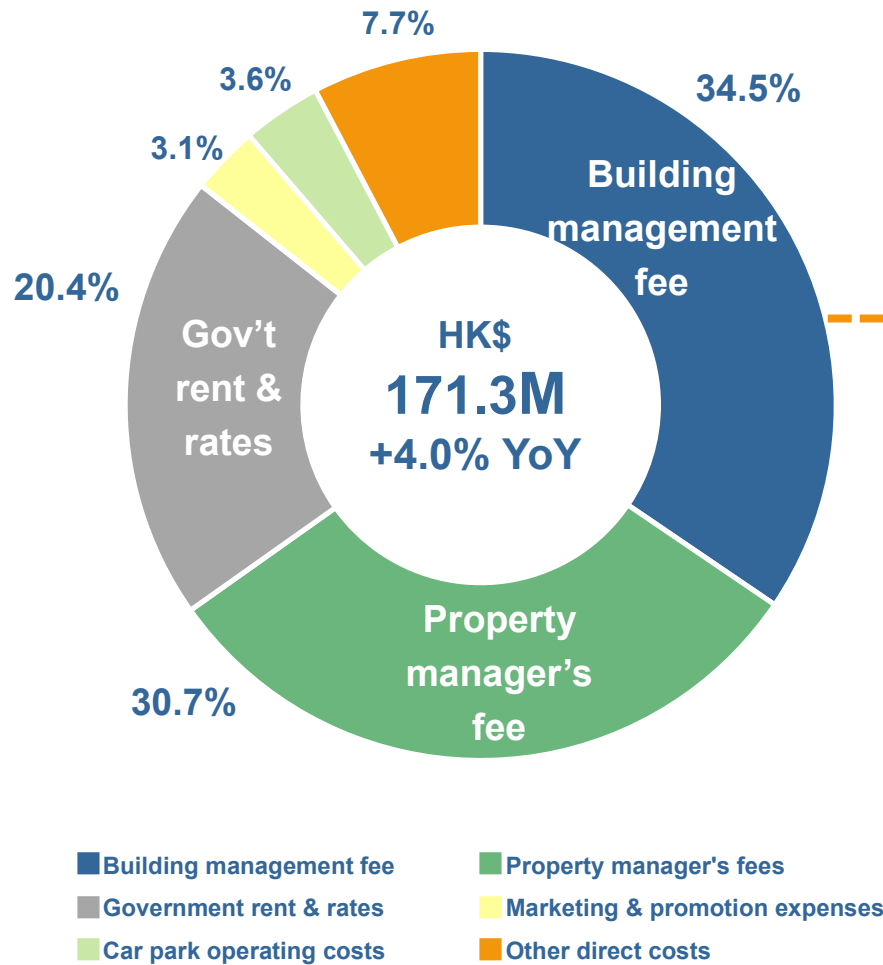
- Top 3 retail properties are ranked by valuation at 30 Jun 2018.
- For rental reversion which are for the respective financial years ended 30 Jun.

Operating Performance (Continued)

- Stable Cost-to-Income Ratio of 21.0%



Components of Property Operating Expenses



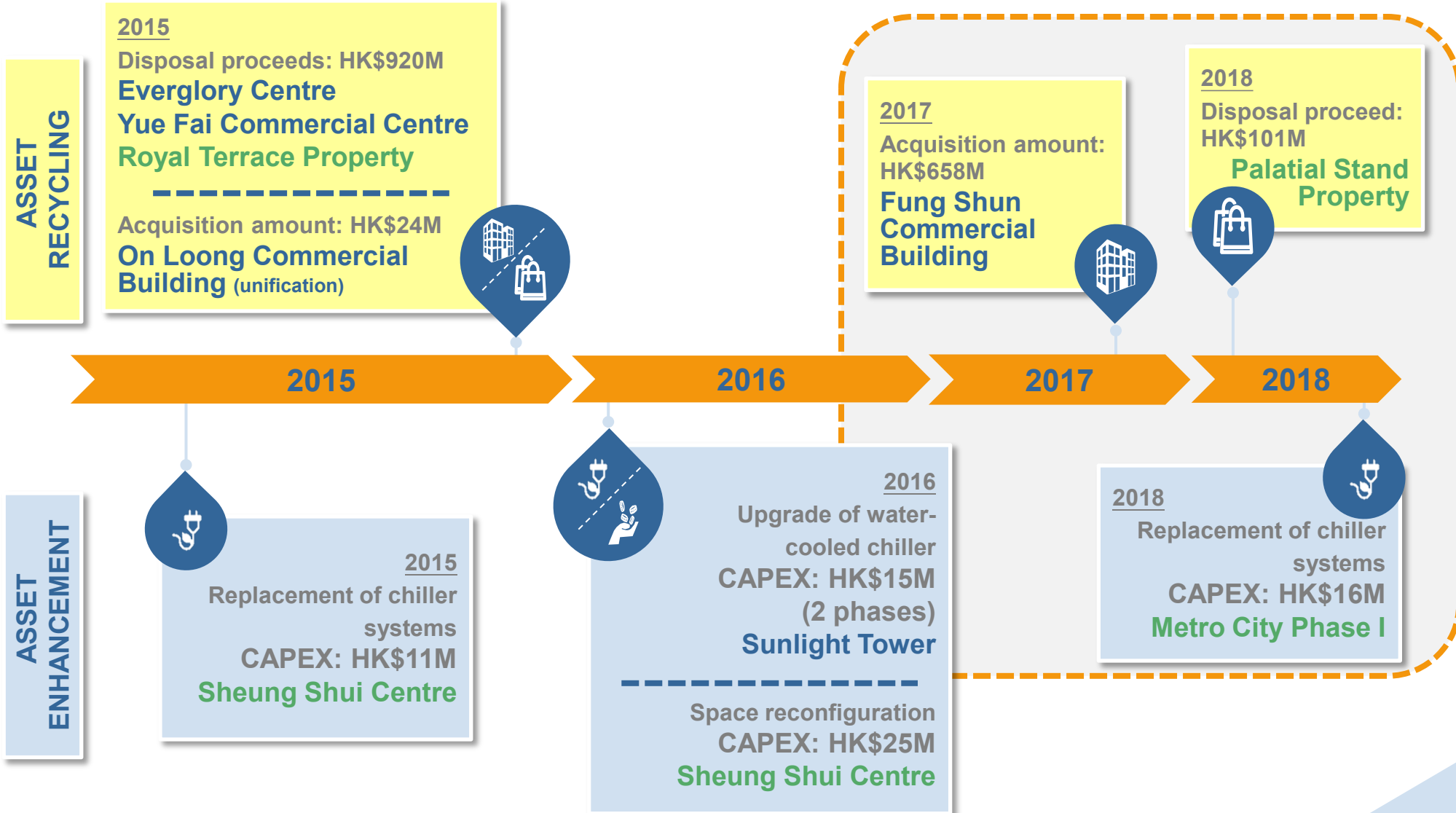
- Higher expenses were attributable to increased repair and maintenance expenses as well as rental commission.

4

Asset Management

Asset Recycling and Enhancement

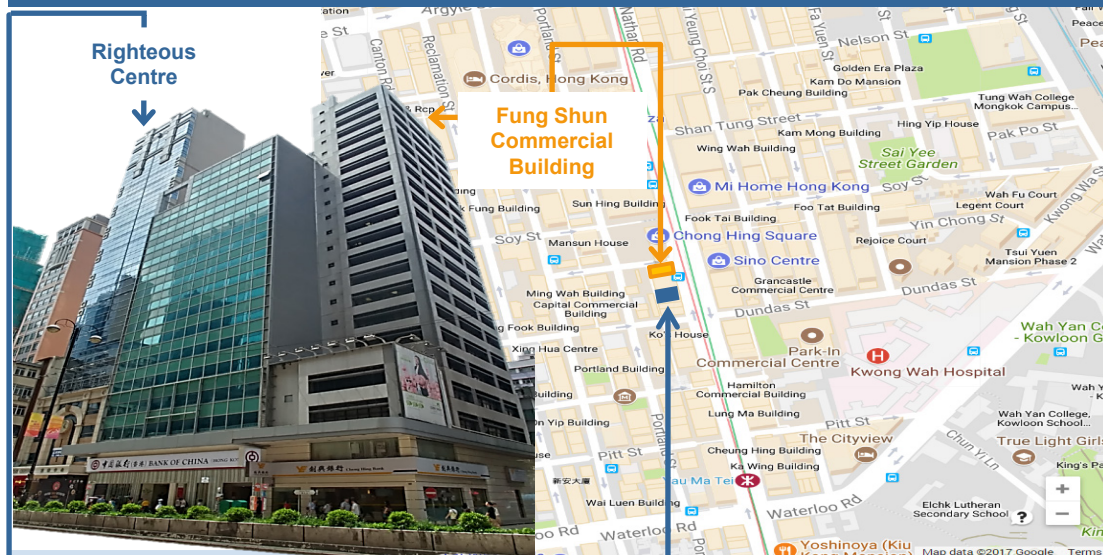
- Timeline of Major Activities



Asset Recycling and Enhancement (Continued)



Acquisition of Fung Shun Commercial Building



Location	No. 591 Nathan Road, Mong Kok, Kowloon
Consideration	HK\$658M
GRA	34,651 sq. ft. (22-storey office building)
Leaseback arrangement	More cost efficient without rent-related expenses
Initial monthly rent	HK\$1.64M

Gross Yield 3.0%

“Twin-Tower” Synergy

- ◆ Better economies of scale for both leasing and property management.
- ◆ Fortifying trade sectors and quality of tenants.

Disposal of Patial Stand Property



Location	No. 118 Wuhu Street, Hung Hom, Kowloon
Consideration	HK\$101M
GRA	8,625 sq. ft.
Occupancy	75.2% (at 31 Dec 2017)

Annualized Net Exit Yield 0.6%

Pruning for better yields

- ◆ Non-core asset disposal generated one-off gain of HK\$56.4 million.
- ◆ Exit price represents 133% premium over (then) appraised value.

5

Capital Management

Capital Management

- Healthy Bank Borrowings Profile



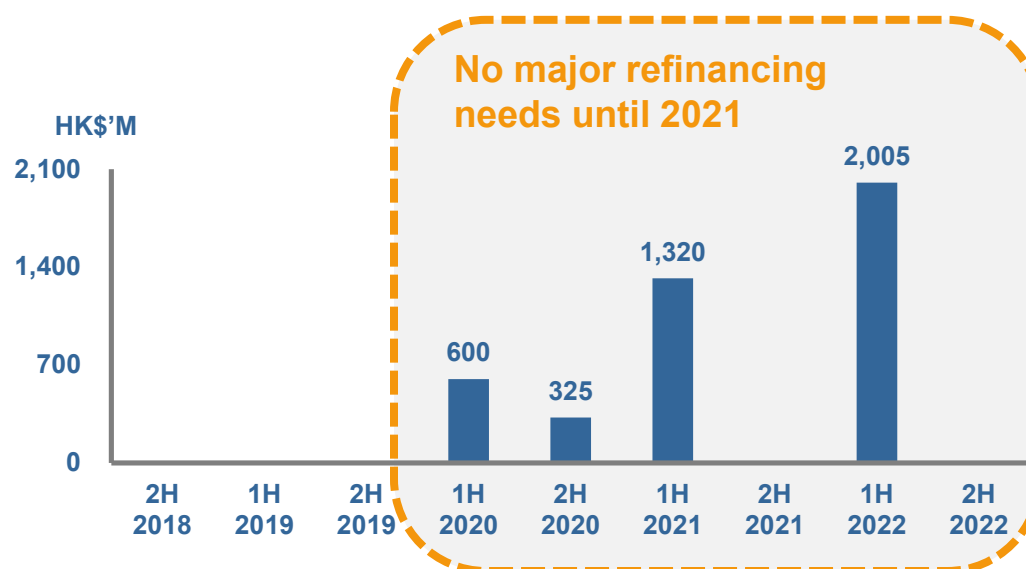
Weighted Maturity	3.3 Yrs ¹
	4.3 Yrs ²

Unsecured Debt	31.4%
	33.6% ²

Undrawn Facility (HK\$)	280M
	300M ²

HK\$'M	30 Jun 2018	30 Jun 2017	Change
Bank Borrowings	4,270.0	3,925.0	+8.8%
- Secured	2,930.0	2,605.0	+12.5%
- Unsecured	1,340.0	1,320.0	+1.5%

Maturity Profile of Bank Borrowings¹



Notes:

1. Excluded the revolving credit facility amounted to HK\$20 million.
2. At 30 Jun 2017.

Capital Management (continued)

- Interest Rate Management



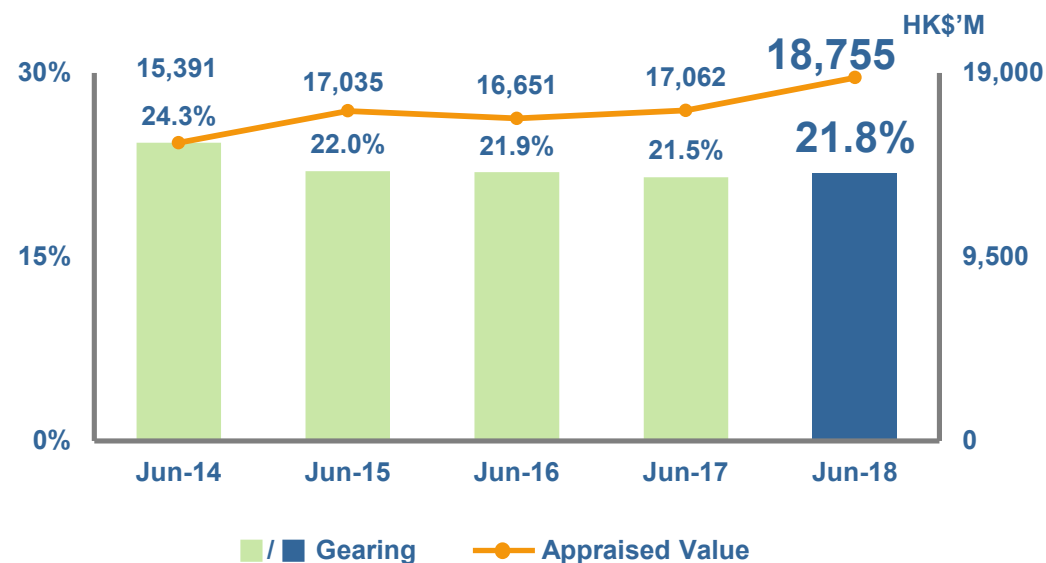
Gearing	21.8%
	21.5% ²

Fixed Rate Borrowings / Total Borrowings	61% ¹
	79% ²

Interest Coverage (times)	7.4
	6.3 ²

HK\$'M		30 Jun 2018	30 Jun 2017	Change
Bank Borrowings		4,270.0	3,925.0	+8.8%
- Fixed	1.38% + 0.69% p.a. ¹	2,600.0	3,100.0	-16.1%
- Floating	HIBOR + 0.69% p.a. ¹	1,670.0	825.0	+102.4%

Gearing (total borrowings / total assets)



Notes:

1. Excluded the revolving credit facility amounted to HK\$20 million.
2. At 30 Jun 2017.

Capital Management (continued)



Key criteria of Bond Investments

Credit Rating	Investment Grade
Maturity period	Not more than 5 years
Holding period	Held-to-maturity
Currency	USD and/or HKD denominated

Expanding Portfolio

- ◆ Alternative hedging instrument against rising interest rates.
- ◆ Approximately HK\$109 million worth of bond investments at 30 Jun 2018.

Unit Buy-back

Financial year	No. of units repurchased	Average price (HK\$)	Total (HK\$'M)
FY15/16	13,948,000	3.92	54.7
FY16/17	7,547,000	4.77	36.0
FY17/18	1,300,000	5.29	6.9

Slower Pace in Unit Buy-back

- ◆ Less units repurchased due to acquisition and special distribution.
- ◆ Approximately 31 million units repurchased since FY11/12.

6

Outlook & Strategy



Office

- ◆ Resilient demand for Grade A and affordable decentralized office spaces despite the steady increase in new supply.

Retail

- ◆ Recovery trend appears sustainable amidst changing retail landscape.

Asset and capital management

- ◆ Interest expenses on the rise due to uptick of interest rates and expiring fixed rate swaps.
- ◆ Escalating investment risk premium due to the ongoing trade tension and higher funding costs.

Outlook and Strategy (Continued)

- Strategy



Asset Management

- ◆ Pursue opportunities for acquisition / asset recycling with prudence.
- ◆ Proactive leasing and/or asset revitalization:
 - 1) **Bonham Trade Centre**
 - ◆ Upgrading and rebranding plan in place.
 - ◆ Satisfy the needs of both co-working and institutional tenants.
 - ◆ Vacancy may rise in FY18/19 to accommodate construction works.
 - 2) **Fung Shun Commercial Building**
 - ◆ Sole office tenant did not exercise renewal option.
 - ◆ Opportunity to enhance facilities and diversify trade profile.

Capital Management

- ◆ Proactive and flexible IRS strategy.
- ◆ Bond investments as alternative hedging.

Steady and Superior Performance



Sunlight REIT's unit price performance (at 30 Jun 2018)

	Total return ¹			
	1-year	3-year	5-year	Since listing
Sunlight REIT	12.7%	63.3%	129.7%	397.3%
Hang Seng Index	16.3%	22.5%	65.9%	123.3%
Hang Seng Index – Properties	15.1%	22.5%	62.8%	142.5%
Hang Seng REIT Index	11.6%	42.8%	74.3%	182.1%

Source: Bloomberg

Notes:

1. Total return is the holding period return with distributions reinvested in the relevant security.
2. Distribution yield based on the closing unit price of HK\$5.42 on 29 Jun 2018, the last trading day of FY17/18.



Annualized
Total
Return
since Listing¹
14.9%

Balanced and diversified
portfolio delivered steady
and superior returns



Distribution
Yield²
4.9%

Discount to
NAV²
40.0%

A defensive yield play and
strong asset backing



Gearing
21.8%

Strong financial position
with headroom for further
acquisition

Appendix

A. Top Three Properties

1



Sunlight Tower

Location: Wan Chai

Gross rentable area: 376,381 sq. ft.

Passing rent*: HK\$38.2 per sq. ft.

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Sheung Shui Centre Shopping Arcade

Location: Sheung Shui

Gross rentable area: 122,339 sq. ft.

Passing rent*: HK\$115.9 per sq. ft.

13



Metro City Phase I Property

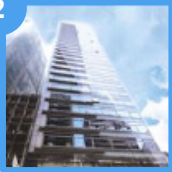
Location: Tseung Kwan O

Gross rentable area: 188,889 sq. ft.

Passing rent*: HK\$55.8 per sq. ft.

B. Sheung Wan / Central

2



Bonham Trade Centre

Location: Sheung Wan

Gross rentable area: 117,909 sq. ft.

Passing rent*: HK\$29.8 per sq. ft.

- 3 Winsome House Property
- 4 135 Bonham Strand Trade Centre Property
- 5 235 Wing Lok Street Trade Centre



C. Other Office Properties

6



Fung Shun Commercial Building

Location: Mong Kok

Gross rentable area: 34,651 sq. ft.

Passing rent*: HK\$47.3 per sq. ft.

- 7 Righteous Centre
- 8 Java Road 108 Commercial Centre
- 9 On Loong Commercial Building
- 10 Sun Fai Commercial Centre Property
- 11 Wai Ching Commercial Building Property

D. Other Retail Properties

14



Kwong Wah Plaza Property

Location: Yuen Long

Gross rentable area: 64,842 sq. ft.

Passing rent*: HK\$52.1 per sq. ft.

- 15 Beverley Commercial Centre Property
- 16 Supernova Stand Property

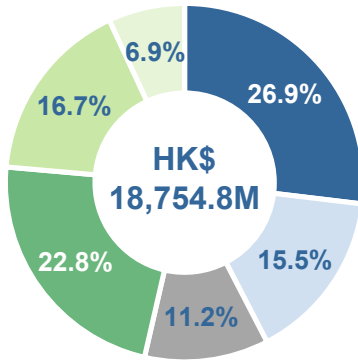
Note:

* Figures are at 30 Jun 2018.

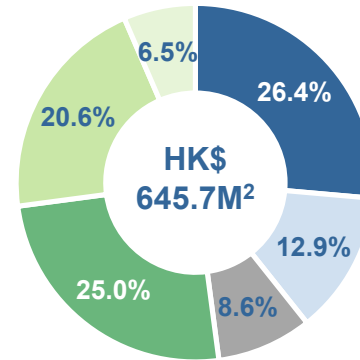


Portfolio Breakdown

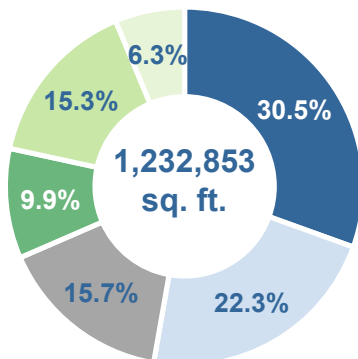
Valuation



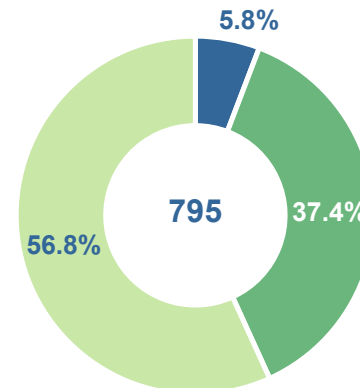
Net Property Income



Gross Rentable Area



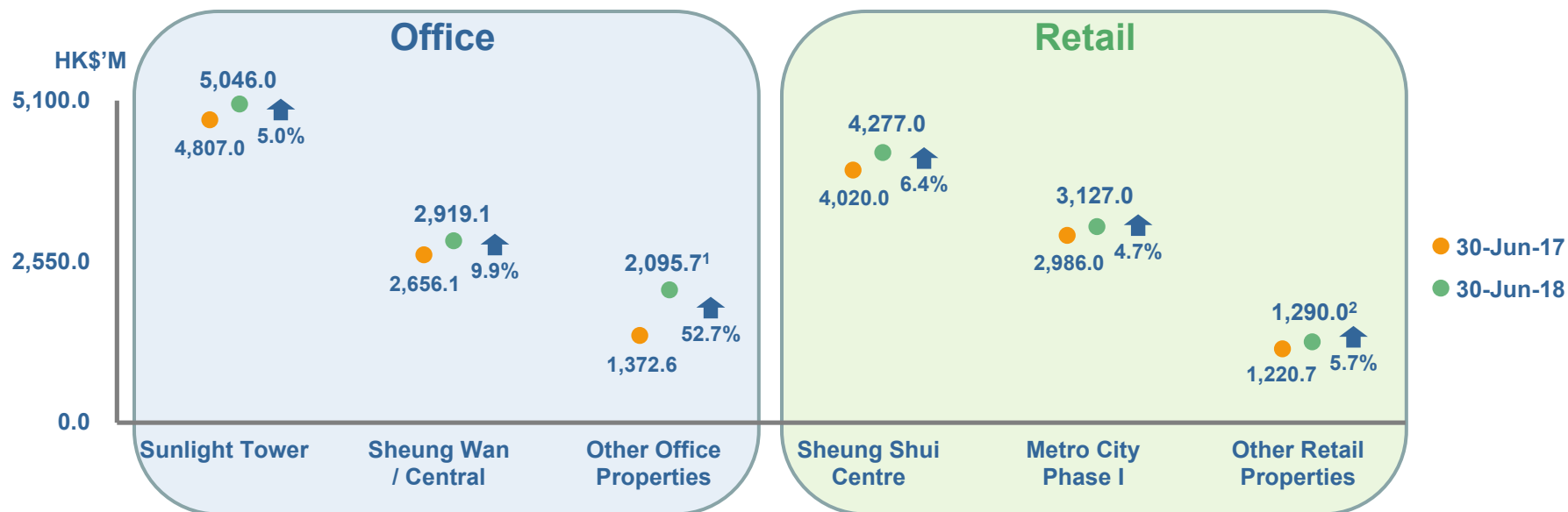
No. of Car Park Spaces



Notes:

1. Figures are at 30 Jun 2018 except for net property income which are for FY17/18.
2. Excluded Palatial Stand Property which disposal was completed in Jan 2018.

Valuation



Capitalization Rate	30 Jun 2018		30 Jun 2017		30 Jun 2016	
	Office	Retail	Office	Retail	Office	Retail
Sunlight Tower	3.75%	3.65%	3.85%	3.75%	3.85%	3.75%
Bonham Trade Centre	3.45%	3.80%	3.65%	4.00%	3.65%	4.00%
Fung Shun Commercial Building	3.00%	2.75%	N/A	N/A	N/A	N/A
Sheung Shui Centre	N/A	4.30%	N/A	4.40%	N/A	4.40%
Metro City Phase I	N/A	4.40%	N/A	4.50%	N/A	4.50%
Kwong Wah Plaza	3.65%	3.60%	3.85%	3.80%	3.85%	3.80%

Notes:

1. Included FSCB which acquisition was completed in Dec 2017.
2. Excluded Palatial Stand Property which disposal was completed in Jan 2018.

Contact Us



Thank You



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