



SUNLIGHT REIT

Interim Results FY2016/17

(6 months to 31 Dec 2016)

Investor Presentation



Agenda



- A. Who We Are**
- B. FY2016/17 Interim Results**
- C. Operating Performance**
- D. Portfolio Valuation / Asset Enhancement**
- E. Capital Management**
- F. Outlook**
- G. Q & A**



A. Who We Are

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- **Sponsored by Shau Kee Financial Enterprises (“SKFE”) and Henderson Land Development (“HLD”), Sunlight REIT has been listed on the Hong Kong Stock Exchange since December 2006.**

Unitholding Structure (as at 31 Dec 2016)	
SKFE/HLD	38.2%
Silchester International Investors LLP	15.3%
Free Float	46.5% (approximately 761 M units)

- **At 31 December 2016, the unit price and market capitalisation of Sunlight REIT were HK\$4.47 and approximately HK\$7,312 M respectively.**

Stock Market Performance (as at 31 Dec 2016)					
	Total Return				Annual Return
	1-year	3-year	5-year	Since Listing	Since Listing
Sunlight REIT	23.4%	77.8%	169.6%	275.4%	14.1%
Hang Seng Index	4.3%	5.5%	43.3%	60.7%	4.8%
Hang Seng Property Index	0.6%	13.9%	50.3%	72.0%	5.6%
Hang Seng REIT Index	11.3%	39.3%	99.9%	117.9%	8.1%

Source: Bloomberg.

A. Who We Are



- ~ **Landlord of a diversified and balanced portfolio:**
 - ~ **10 office and 6 retail properties in Hong Kong;**
 - ~ **Aggregate appraised value of HK\$16,782.6 M (at 31 December 2016) and a total gross rentable area (“GRA”) of 1,206,827 sq. ft..**
- ~ **The office properties are primarily located in core business areas, including Central, Wan Chai and Sheung Wan, as well as in decentralised business areas such as Mong Kok / Yau Ma Tei and North Point.**
- ~ **The retail properties are primarily situated at regional transportation hubs and new towns such as Tseung Kwan O, Sheung Shui and Yuen Long.**
- ~ **Henderson Sunlight Asset Management Limited (the “Manager”) is an indirect wholly-owned subsidiary of HLD and is responsible for formulating and implementing asset management strategies in relation to operational, investment, financial and risk management.**
- ~ **Henderson Sunlight Property Management Limited (the “Property Manager”) has been delegated with the responsibilities of providing property management, lease management and marketing services subject to the overall supervision of the Manager.**

I. Top Three Properties

1



Sunlight Tower

Location: Wan Chai

Gross rentable area: 376,381 sq. ft.

Passing rent*: HK\$36.2 per sq. ft.

11



Sheung Shui Centre Shopping Arcade

Location: Sheung Shui

Gross rentable area: 122,339 sq. ft.

Passing rent*: HK\$120.6 per sq. ft.

12



Metro City Phase I Property

Location: Tseung Kwan O

Gross rentable area: 188,889 sq. ft.

Passing rent*: HK\$53.7 per sq. ft.

II. Sheung Wan / Central

2



Bonham Trade Centre

Location: Sheung Wan

Gross rentable area: 117,909 sq. ft.

Passing rent*: HK\$28.2 per sq. ft.

- 4 Winsome House Property
- 5 135 Bonham Strand Trade Centre Property
- 6 235 Wing Lok Street Trade Centre



III. Other Office Properties

3



Righteous Centre

Location: Mong Kok

Gross rentable area: 51,767 sq. ft.

Passing rent*: HK\$42.2 per sq. ft.

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

IV. Other Retail Properties

13



Kwong Wah Plaza Property

Location: Yuen Long

Gross rentable area: 64,842 sq. ft.

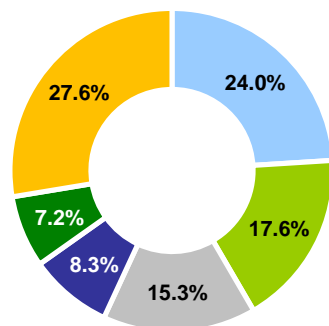
Passing rent*: HK\$49.5 per sq. ft.

- 14 Beverley Commercial Centre Property
- 15 Supernova Stand Property
- 16 Palatial Stand Property

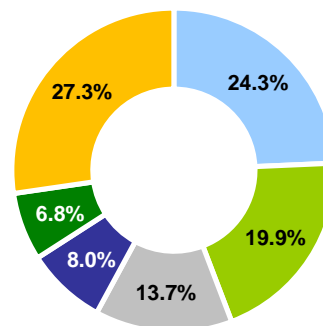


Sunlight REIT Portfolio Breakdown

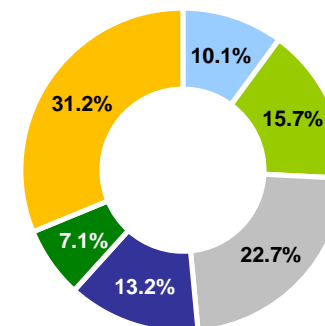
Valuation



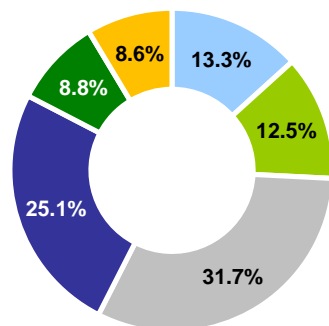
Net Property Income



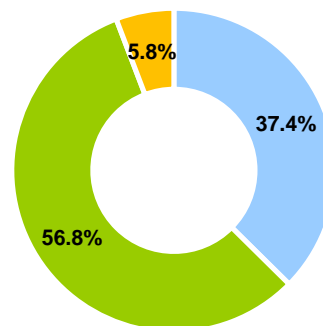
GRA



No. of Leases



No. of Car Park Spaces



- Sunlight Tower
- Sheung Shui Centre Shopping Arcade
- Metro City Phase I Property
- Sheung Wan / Central
- Other Office Properties
- Other Retail Properties

Note:
Based on information at 31 Dec 2016.



B. FY2016/17 Interim Results

Financial Highlights – Profit and Loss



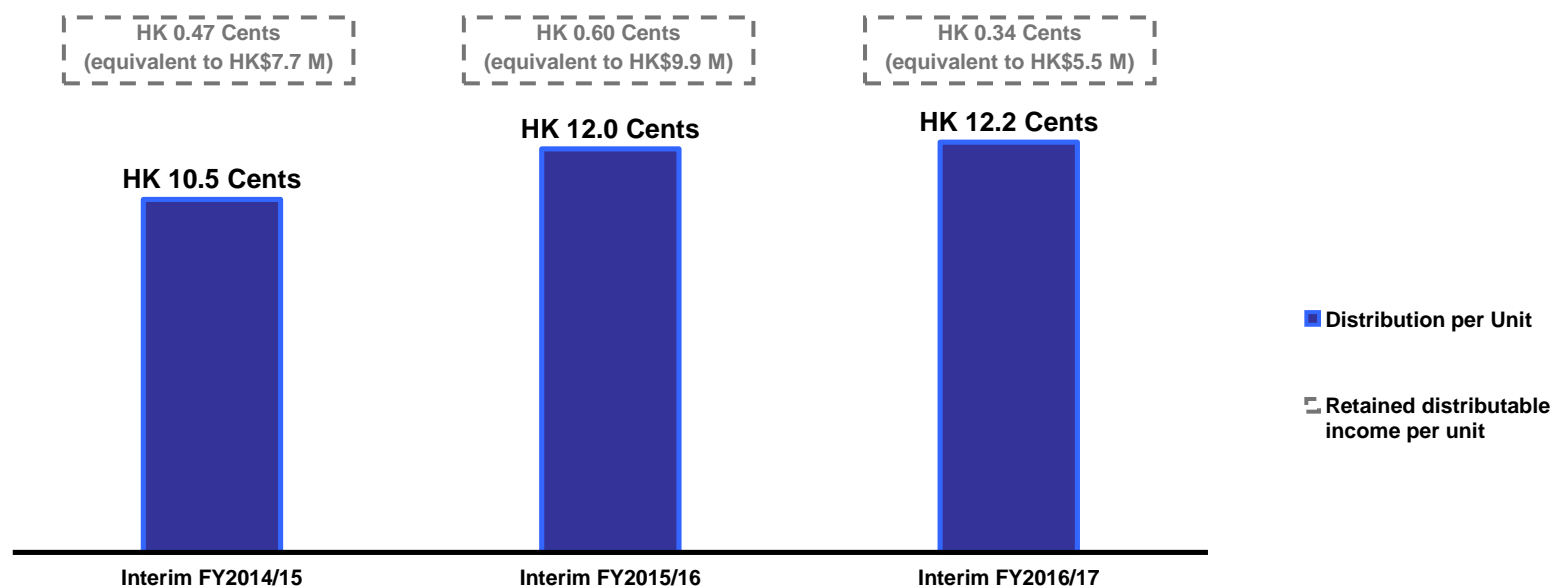
- ↗ The immaterial decline in revenue and net property income for the reporting period was mainly attributed to the rent void and the ad-hoc expenses associated with the renovation scheme at Sheung Shui Centre Shopping Arcade (“SSC”).

(HK\$' M)	Interim FY2016/17	Interim FY2015/16	Change
Revenue	383.6	385.2	(0.4%)
Property Operating Expenses	84.4	80.0	5.5%
Net Property Income	299.2	305.2	(2.0%)
Cost to Income Ratio (%)	22.0	20.8	N/A
Distributable Income	205.1	206.4	(0.6%)
DPU (HK cents)	12.2	12.0	1.7%
Payout Ratio (%)	97.3	95.2	N/A
Units in Issue ('000)	1,635,707.6	1,637,702.9	

Distribution



The Board of Directors declared an interim distribution per unit of HK 12.2 cents, implying a payout ratio of 97.3%.



	Interim FY2016/17	Interim FY2015/16	Interim FY2014/15
1. Manager's Fee in Units	50.0%	50.0%	50.0%
2. Payout ratio	97.3%	95.2%	95.7%

Financial Highlights - Financial Position



HK\$' M	31 Dec 16	30 Jun 16	Change
Investment Properties	16,782.6	16,651.0	0.8%
Other Assets	109.3	77.3	41.4%
Relevant Investments	61.4	61.9	(0.7%)
Cash & Cash Equivalents	1,063.6	1,134.8	(6.3%)
Total Assets	18,016.9	17,925.0	0.5%
Interest Bearing Borrowings	3,901.8	3,895.9	0.2%
Other Liabilities	455.5	511.0	(10.9%)
Total Liabilities	4,357.3	4,406.9	(1.1%)
Net Assets	13,659.6	13,518.1	1.0%
Net Asset Value (NAV) per Unit (HK\$)	8.35	8.26	1.1%

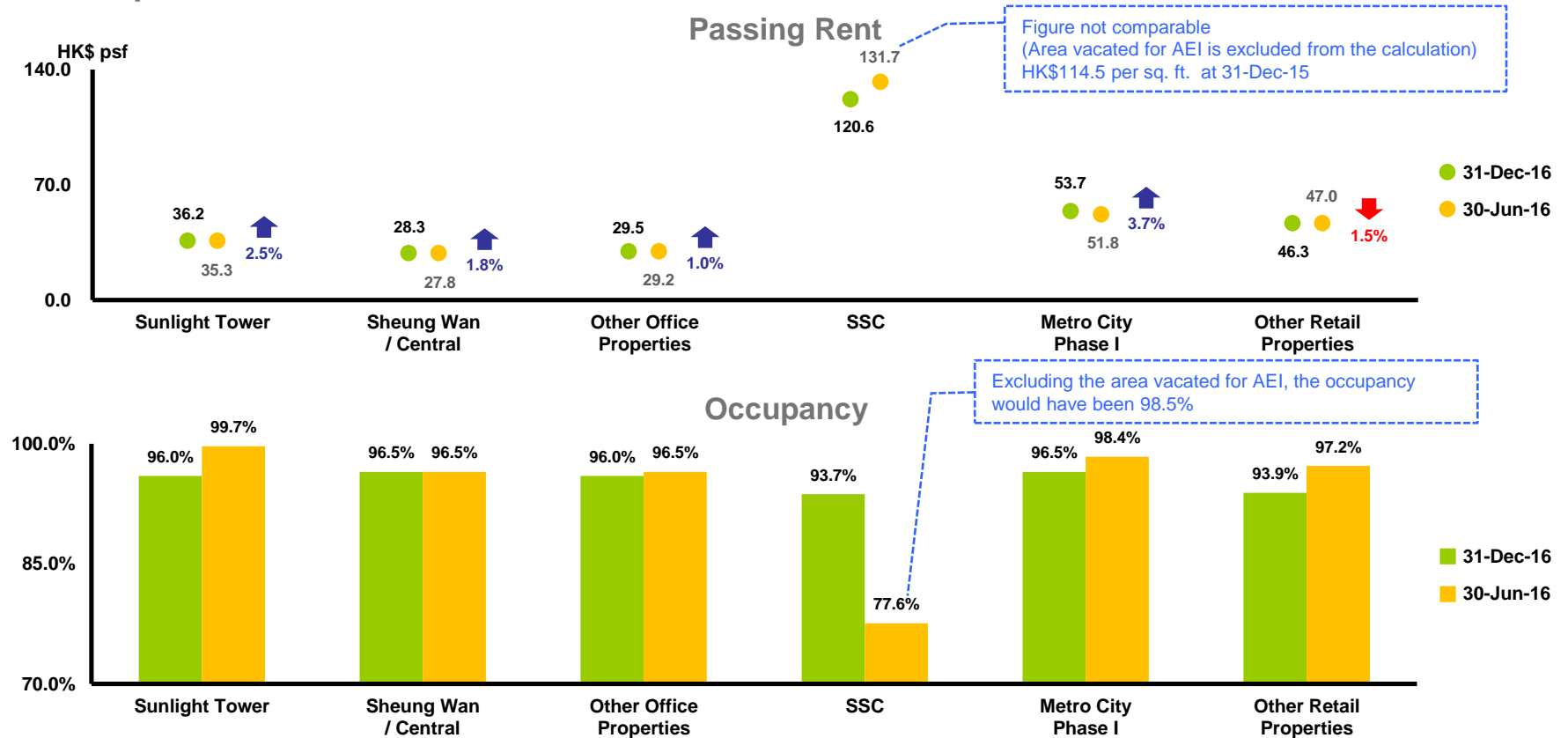


c. Operating Performance

Passing Rent and Occupancy



- Supported by the rental reversion of 10.5% and 5.0% for the respective office and retail portfolio during the reporting period, passing rent rose 1.9% and 1.1% to HK\$32.2 per sq. ft. and HK\$72.4 per sq. ft. respectively at 31 December 2016.
- Occupancy of the office portfolio experienced a slight decrease to 96.2% while occupancy of the retail portfolio rebounded to 95.0%.



Rental Reversion



- ↗ Rental reversion at Sunlight Tower stayed at a decent 11.7% during the reporting period, with an occupancy rate of 96.0%.
- ↗ The Sheung Wan/Central portfolio continued to show decent performance, supported by solid demand from domestic small and medium-sized enterprises.
- ↗ The performance of SSC took a breather, reflecting a gentle decline in footfall resulting from both the slowdown in tourist arrivals and partial closure of the shopping mall for refurbishment.
- ↗ The performance of Metro City Phase I continued to be satisfactory given its predominant emphasis on necessity shopping.

Rental Reversion ¹			
	Interim FY2016/17	FY2015/16	Interim FY2015/16
Sunlight Tower	11.7%	11.7%	13.0%
Sheung Wan / Central	11.0%	15.5%	15.9%
Other Office Properties	6.2%	11.1%	12.5%
SSC	6.1%	17.7%	24.9%
Metro City Phase I	16.0%	17.4%	18.7%
Other Retail Properties	(9.1%)	20.8%	24.7%
Overall	7.4%	15.3%	18.5%

Note:

1. For renewal of leases with turnover and base rent component, rental reversion refers to the changes in base rent component only.

Property Operating Expenses



- ↗ The increase in operating costs was mainly attributable to a rise in rental commission (being part of “Property Manager’s Fees” and “Other Direct Costs”) as well as in promotion expenses, both of which being associated with the leasing activities for the renovated area at SSC.

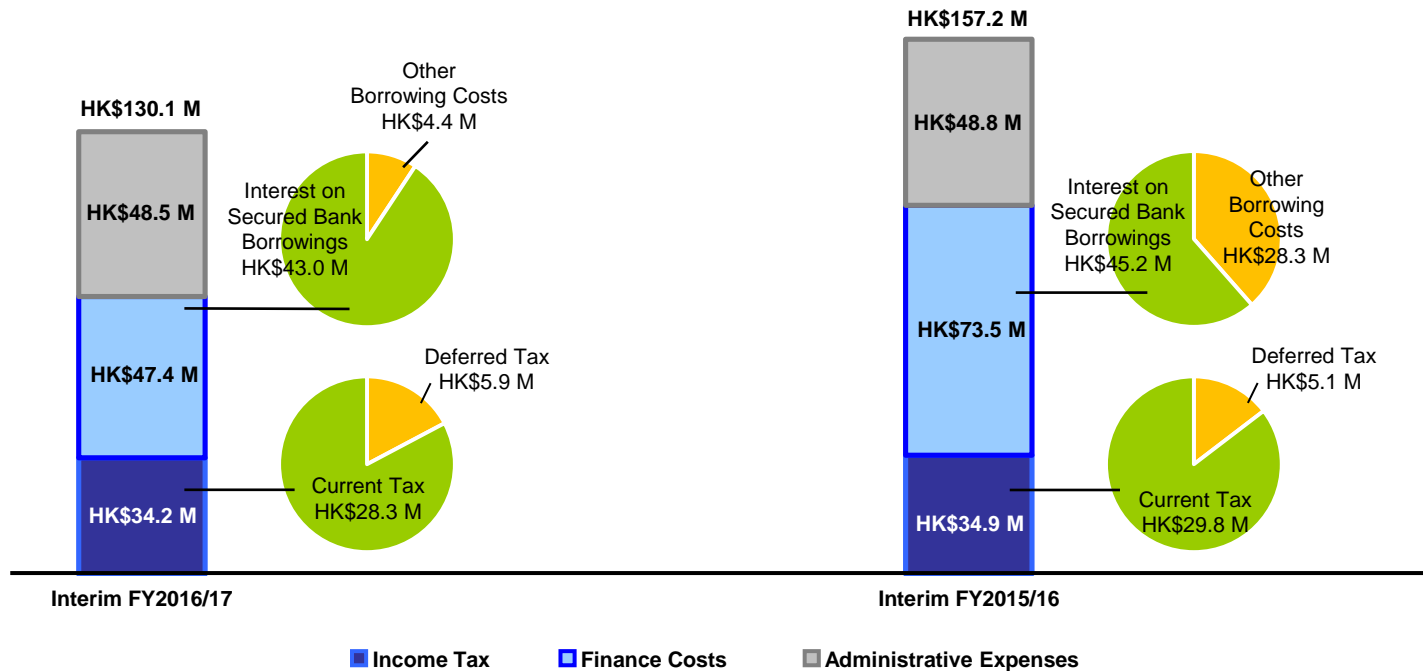
	Property Operating Expenses		
(HK\$' M)	Interim 2016/17	Interim 2015/16	Variance
Building Management Fee	29.0	28.7	1.1%
Property Manager's Fees	25.8	24.2	6.6%
Government Rent and Rates	17.3	16.8	3.3%
Marketing and Promotion Expenses	3.1	2.3	34.9%
Car Park Operating Costs	2.9	3.1	(6.3%)
Other Direct Costs	6.3	5.0	26.5%
Total	84.4	80.0	5.5%

Other Expenses



- Finance costs decreased 35.5% year-on-year, mainly attributable to the absence of unwinding cost (\$22.2 M) of certain IRSs recorded in the previous corresponding period. Cash interest expenses dropped 5.0%, benefiting from a series of interest rate basis swaps which took effect during the reporting period.

Breakdown of Other Expenses





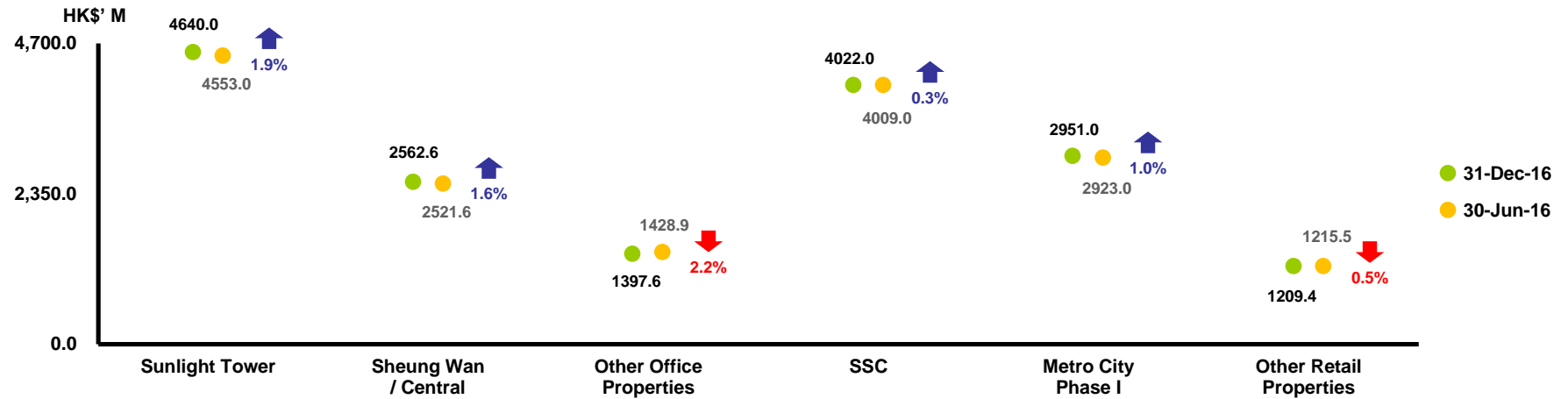
D. Portfolio Valuation / Asset Enhancement

Portfolio Valuation



Rental growth remained the driver behind the increase in appraised value.

Valuation

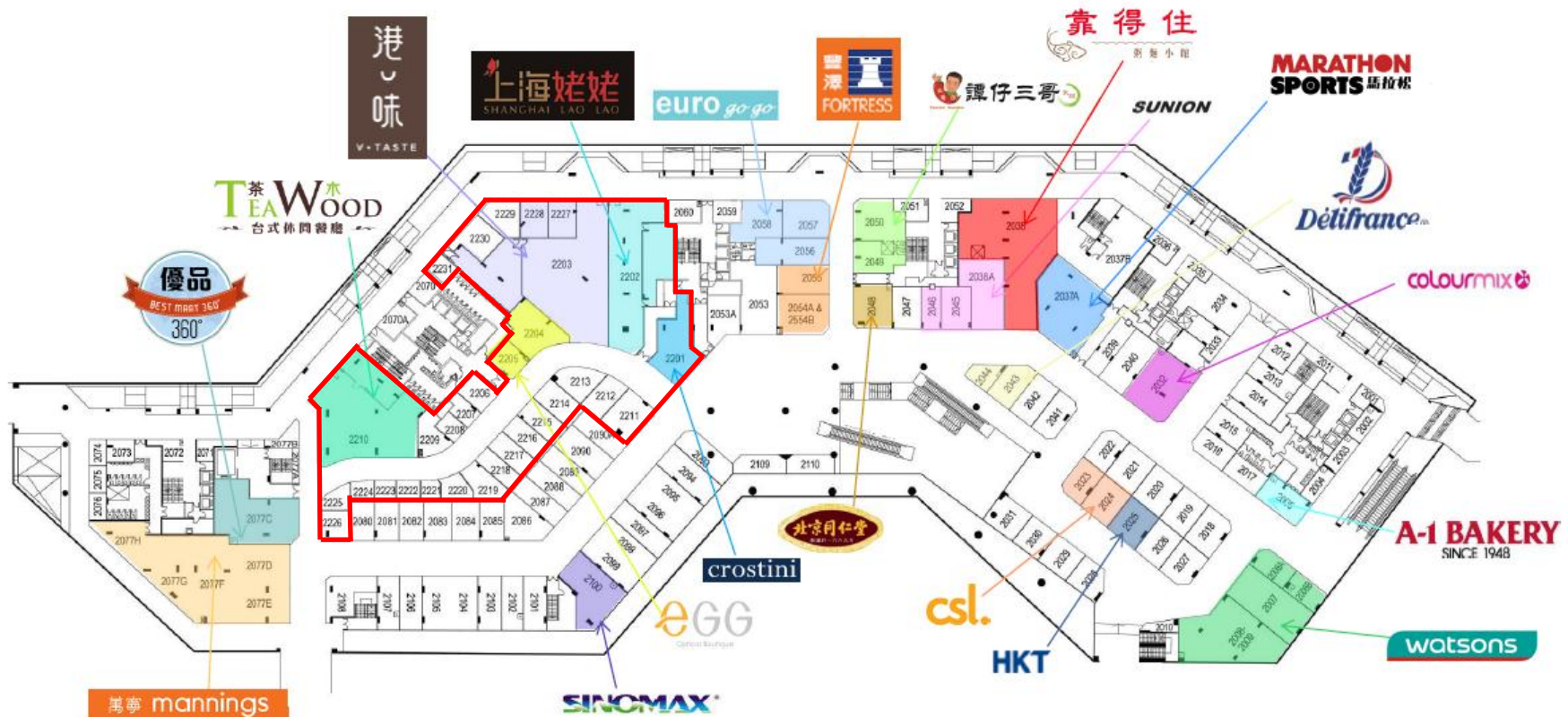


Cap Rate	At 31 Dec 16		At 30 Jun 16		At 31 Dec 15	
	Office	Retail	Office	Retail	Office	Retail
Sunlight Tower	3.85%	3.75%	3.85%	3.75%	3.85%	3.75%
Bonham Trade Centre	3.65%	4.00%	3.65%	4.00%	3.65%	4.00%
Righteous Centre	3.95%	3.60%	3.95%	3.60%	3.95%	3.60%
SSC	N/A	4.40%	N/A	4.40%	N/A	4.40%
Metro City Phase I	N/A	4.50%	N/A	4.50%	N/A	4.50%
Kwong Wah Plaza	3.85%	3.80%	3.85%	3.80%	3.85%	3.80%

Asset Enhancement - Shopping Mall Reconfiguration



- ↗ The reconfiguration works involving approximately 20% of the GRA (close to 26,000 sq. ft.) in SSC which commenced in April 2016 was completed in late October 2016. The cost of the project is approximately HK\$25 M.
- ↗ At 31 December 2016, almost 80% of the area was already leased, with the average achieved unit rent registering an approximately 17% premium to the level attained prior to renovation.



Asset Enhancement - Shopping Mall Reconfiguration



Before



Before



After



After





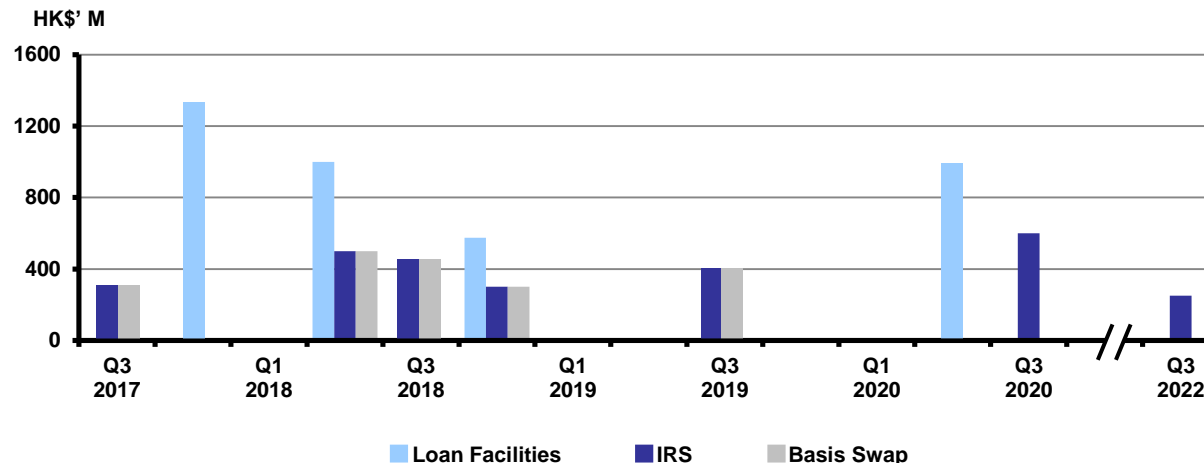
E. Capital Management

Debt Management



- During the reporting period, a HK\$300 M bilateral term loan facility agreement was entered into with an international bank.
- At 31 December 2016, Sunlight REIT had in place total loan facilities of HK\$4,525 M, comprising term loan facilities of HK\$4,225 M (of which HK\$300 M remained undrawn) and an unsecured revolving credit facility of HK\$300 M which has not been drawn down.
- The term loan facilities carry a blended interest margin of 1.24% per annum over HIBOR (before interest rate swap arrangements) and a weighted loan maturity period of 1.8 years.
- Approximately 71.3% (or HK\$2,800 M) of Sunlight REIT's borrowings was hedged to fixed rates with a weighted average interest rate of 2.41% (including loan interest margin) and weighted tenure of 2.5 years.

Maturity Profile of Loan Facilities, Interest Rate Swap and Basis Swap

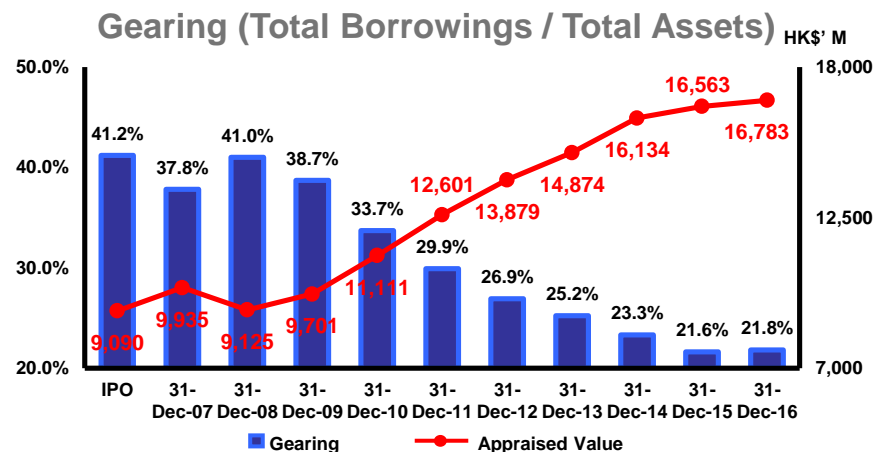


Debt Management - Key Financial Data



- Interest coverage ratio improved to 5.94 times, thanks to the decent savings in cash interest expenses that was benefited from the interest rate basis swaps which took effect in the current period.

	Interim FY2016/17	Interim FY2015/16
Net Debt / EBITDA (Times)	5.61	5.31
Interest Coverage (Times)	5.94	5.76
Average Cost of Debt	2.19%	2.30%



	31 Dec 2016	30 Jun 2016
Gearing	21.8%	21.9%
Unencumbered Properties (as a % of total)	13.9%	14.2%
Average Term to Maturity (Years)	1.8	2.3
Average Spread	1.24%	1.24%
Undrawn Facilities	HK\$300 M (term loan) + HK\$300 M (RCF)	HK\$300 M (RCF)

Unit Repurchase



- ↗ The Manager has commenced on-market repurchase of units on behalf of Sunlight REIT since June 2012.

Period	No. of Unit Repurchase	Average Price	Total Cost (HK\$' M)
2H FY2011/12	3,600,000	2.4648	8.9
1H FY2012/13	1,500,000	3.1550	4.7
2H FY2012/13	600,000	3.4281	2.1
1H FY2013/14	1,500,000	3.0564	4.6
1H FY2014/15	1,000,000	3.3966	3.4
1H FY2015/16	6,663,000	3.8573	25.7
2H FY2015/16	7,285,000	3.9755	29.0
1H FY2016/17	4,838,000	4.7136	22.8
Total	26,986,000	3.7468	101.1

- ↗ This strategy is expected to continue, subject to funding and as long as there is value to be created for the benefit of unitholders.



F. Outlook

Outlook



Facing the dual challenge of rising interest rates and a continued slowdown in rental reversion, our operating (and mitigation) strategies are:

• **Interest rates:**

1. Cushioned by Sunlight REIT's borrowings which are predominately anchored to fixed rates with expiries ranging from 2017 through 2022
2. Negotiation on (partial or full) loan refinancing to reduce interest expenses

• **Rental growth:**

Moderating rental reversion tempered by an active AEI strategy to enhance cost-to-income benefit, with SSC's renovation being a case in point

• **Cost control:**

Further utility-saving AEI will be conducted, while slower operating cost increase is a welcome development

• **Acquisition:**

Highly conducive given strong cash position and favourable funding environment, but yield compression means patience will be required

• **Unit buy-back:**

A proven strategy which will continue as long as value can be derived



G. Q & A