



SUNLIGHT REIT

# Interim Results FY2017/18

Six months to 31 Dec 2017

Investor Presentation

# Agenda



- A. Performance Highlights**
- B. Review of Operations**
- C. Acquisition and Disposal**
- D. Financial Review**
- E. Capital Management Update**
- F. Outlook and Strategy**
- G. Q & A**



## A. Performance Highlights

- ~ Net Property Income and Distributable Income were up 3.7% and 4.4% YoY respectively. NAV / unit improved 4.2% from six months ago to HK\$8.85.
- ~ Interim Distribution: HK 12.6 cents / unit; implied payout ratio: 96.6%.
- ~ Refinancing exercise brought meaningful interest cost savings.
- ~ Proactive Asset Management:
  - Asset recycling: Accretive acquisition and successful disposal.
  - Asset enhancement: Revamping and cost saving initiatives.
    - ~ Sheung Shui Centre: Better shopping ambience brought by the HK\$25 million renovation, with a pop-up zone established recently.
    - ~ MCPI's new chiller system installation in good progress.

# Performance Highlights (continued)



## Operational

### Occupancy

**97.6%**

(30 June 2017: 96.9%)

### Passing Rent

**HK\$46.0 / sq. ft.**

(↑2.4 % vs 30 June 17)

### Rental Reversion

**7.9%**

(six months ended 30 June 2017: 6.7%)

## Revenue & Distributions

### Revenue

**HK\$399.3 M**

(↑4.1% YoY)

### Distributable Income

**HK\$214.1 M**

(↑4.4% YoY)<sup>1</sup>

### DPU

**HK 12.6 cents / unit**

(↑3.3% YoY)

## Financial Position

### Property Valuation

**HK\$18,535.1 M**

(↑8.6% vs 30 June 17)

### NAV / unit

**HK\$8.85**

(↑4.2 % vs 30 June 17)

### Gearing

**22.1%**

(30 June 2017: 21.5%)

Notes:

1. The growth rate would have been 6.3% if the one-time costs relating to the acquisition had been excluded.



# **B. Review of Operations**

# Occupancy, Passing Rent and Rental Reversion



	Occupancy		Passing Rent (HK\$ / sq. ft.)	
	At 31 Dec 2017	At 30 Jun 2017	At 31 Dec 2017	At 30 Jun 2017
Office Portfolio <sup>1</sup>	97.3%	97.3%	33.4	32.0
Retail Portfolio	98.2%	96.2%	72.8	71.3
Overall Portfolio <sup>1</sup>	97.6%	96.9%	46.0	44.9
Rental Reversion <sup>2</sup>				
			Six months ended 31 Dec 2017	Six months ended 30 Jun 2017
Sunlight Tower			12.0%	13.4%
Sheung Wan / Central			7.0%	8.8%
Other Office Properties	Adversely affected by the lease renewal of a street shop at Righteous Centre. Other properties recorded positive rental reversion.		-12.0%	6.4%
<b>Office</b>			6.5%	9.3%
Sheung Shui Centre Shopping Arcade			5.4%	1.0%
Metro City Phase I Property			12.5%	13.5%
Other Retail Properties	Mainly due to positive rental reversion of a retail lease renewal at Kwong Wah Plaza Property.		21.8%	2.5%
<b>Retail</b>			9.8%	5.6%
<b>Overall</b>			7.9%	6.7%

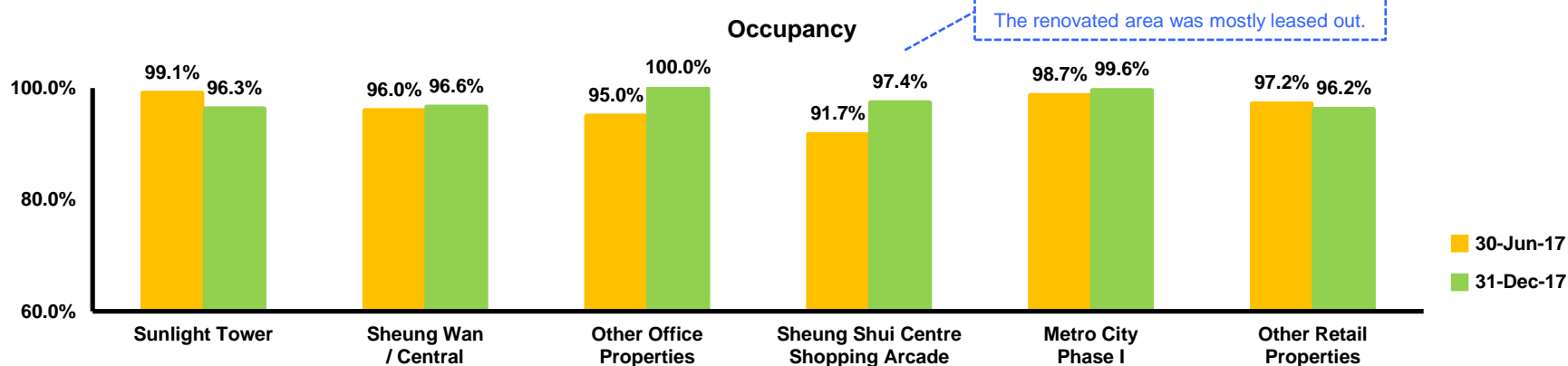
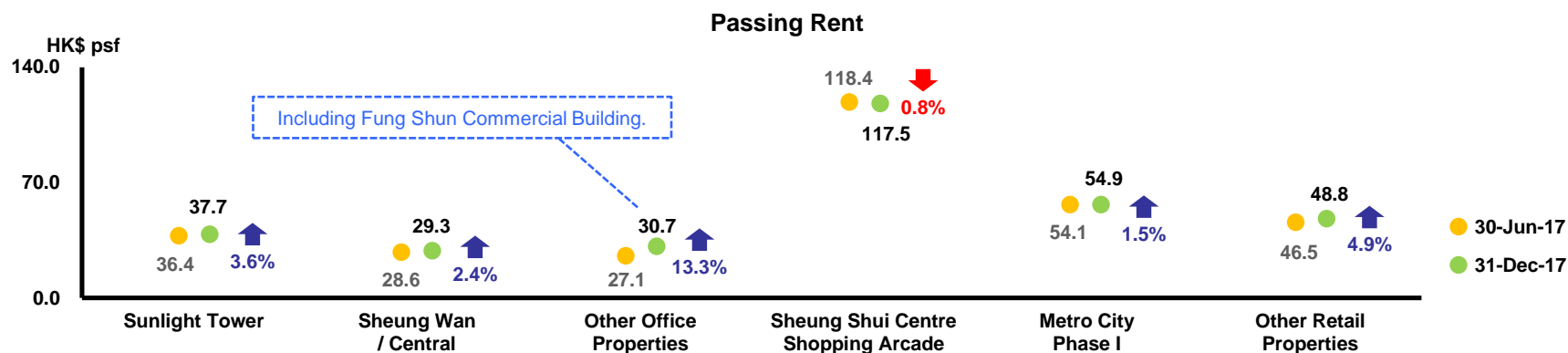
Notes:

- For comparison purpose, if Fung Shun Commercial Building had been excluded, the occupancy and passing rent would have been 97.1% and HK\$32.7 sq. ft. respectively for the office portfolio, and 97.5% and HK\$46.0 sq. ft. respectively for the overall portfolio.
- For renewal of leases with turnover and base rent component, rental reversion refers to the changes in base rent component only.



# Passing Rent and Occupancy

- Portfolio passing rent increased slightly amid higher rental reversion and occupancy rate.
- Resilient demand for both Grade A and decentralized office spaces underpinned the office portfolio's performance.
- Performance of the retail portfolio was supported by recovering retail sales due to a vibrant job market, the positive wealth effect and a rebound in tourist arrivals.



# Property Operating Expenses



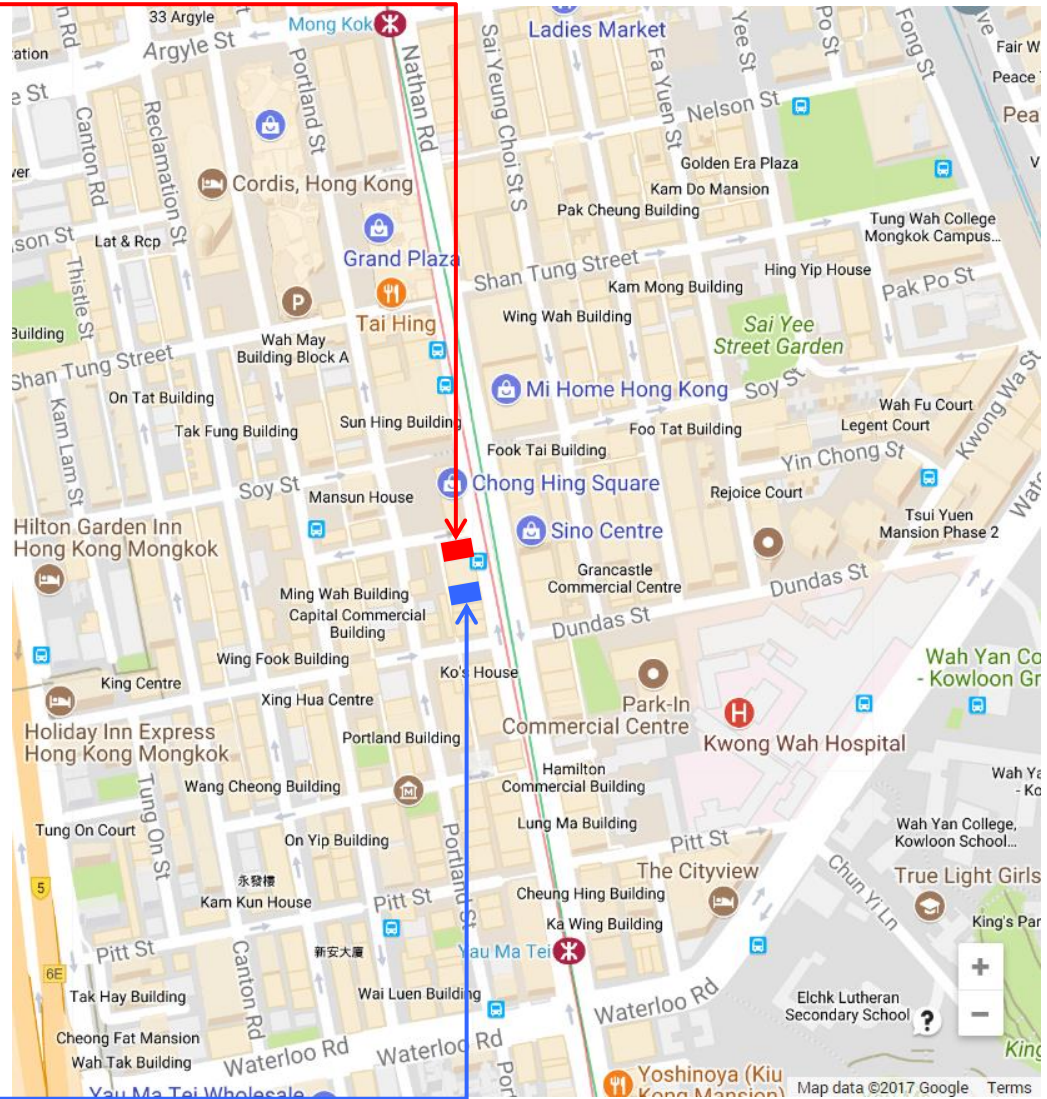
- ↗ The rise in operating expenses was mainly due to higher rental commission associated with increased leasing activities during the period.

(HK\$' M)	Property Operating Expenses		
	Six months ended 31 Dec 2017	Six months ended 31 Dec 2016	Change
Building Management Fee	30.4	29.0	4.9%
Property Manager's Fees	27.5	25.8	6.7%
Government Rent and Rates	17.7	17.3	2.2%
Marketing and Promotion Expenses	3.0	3.1	-1.5%
Car Park Operating Costs	3.1	2.9	4.7%
Other Direct Costs	7.4	6.3	17.5%
<b>Total</b>	<b>89.1</b>	<b>84.4</b>	<b>5.6%</b>



# **c. Acquisition and Disposal**

# Acquisition: Fung Shun Commercial Building



# Acquisition: Fung Shun Commercial Building



<b>Location</b>	No. 591 Nathan Road & No. 13 Changsha Street, Mong Kok, Kowloon
<b>Gross Rentable Area</b>	Total of 34,651 sq.ft. comprising: <ul style="list-style-type: none"> <li>~ Retail Portion: 11,627 sq.ft.</li> <li>~ Office Portion: 23,024 sq.ft.</li> </ul>
<b>Property Description</b>	A 22-storey commercial building comprising: <ul style="list-style-type: none"> <li>~ Retail: Basement to 4th floor</li> <li>~ Office: 5th to 20th floor</li> </ul>
<b>Consideration</b>	HK\$658 million, a slight discount to appraised value
<b>Date of Completion</b>	15 December 2017
<b>Leaseback Arrangement with the Vendor</b>	Retail: <ul style="list-style-type: none"> <li>~ Fixed term of 4 years with rent for the first three years at HK\$920,000/month, final year at HK\$996,500/month</li> </ul> Office: <ul style="list-style-type: none"> <li>~ Fixed term of 1 year at HK\$720,000/month with an option to renew for a further year at the same rent</li> </ul>
<b>Financing</b>	<ul style="list-style-type: none"> <li>~ 3-year loan facility of HK\$325 million</li> <li>~ Balance: cash resources</li> </ul>

# Acquisition: Reasons for and Benefits of the Transaction



- ↗ **Strategic location with enhanced economies of scale:**
  - **Mong Kok: popular shopping destination and competitive office hub.**
  - **In close proximity to Righteous Centre.**
  
- ↗ **Scarce opportunity to acquire en bloc building in Mong Kok:**
  - **Leaseback arrangement provides an initial yield of 3.0%.**
  
- ↗ **Enhanced portfolio diversification:**
  - **Strengthen Sunlight REIT's presence in decentralized office market and reduce its income reliance on any single property.**

## Disposal: Palatial Stand Property



- ↗ Sold for HK\$101 million, representing a premium of 133% over its appraised value and an annualized net exit yield of 0.6%.
- ↗ Completed on 25 January 2018.
- ↗ Demonstrates the Manger's capability to unlock the intrinsic value of Sunlight REIT while streamlining its operations by allocating resources more efficiently.



# **D. Financial Review**

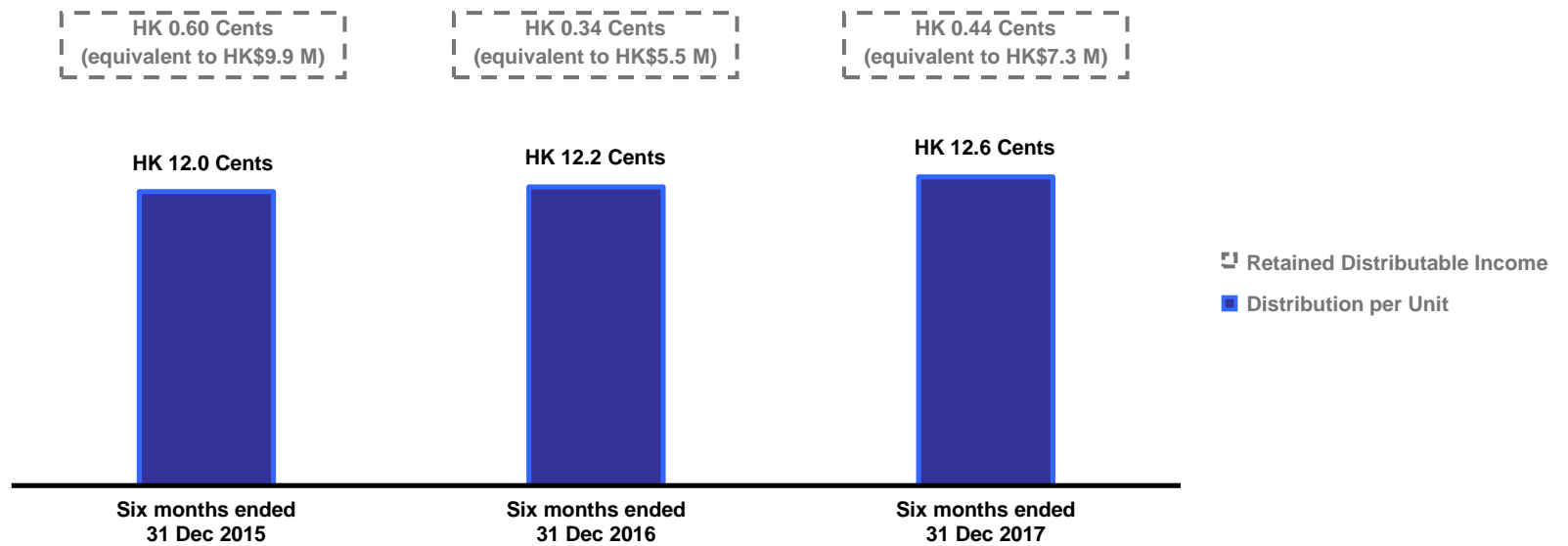
# Profit and Loss Summary



(HK\$' M)	Six months ended 31 Dec 2017	Six months ended 31 Dec 2016	Change
Revenue	399.3	383.6	4.1%
Property Operating Expenses	89.1	84.4	5.6%
Net Property Income	310.2	299.2	3.7%
Cost to Income Ratio (%)	22.3	22.0	N/A
Distributable Income	214.1	205.1	4.4%
DPU (HK Cents)	12.6	12.2	3.3%
Payout Ratio (%)	96.6	97.3%	N/A
Units in Issue ('000)	1,641,824	1,635,708	

- ↗ Net property income up 3.7% YoY while distributable income expanded at a faster rate of 4.4%, thanks to lower finance costs, which dropped 27.4% YoY.
- ↗ Distributable income would have risen 6.3% if the one-time costs of approximately HK\$4.0 million relating to the acquisition of Fung Shun Commercial Building had been excluded.

# DPU: 3-year Comparison



	Six months ended 31 Dec 2015	Six months ended 31 Dec 2016	Six months ended 31 Dec 2017
1. Manager's Fee in Units	50.0%	50.0%	50.0%
2. Payout Ratio	95.2%	97.3%	96.6%

# Financial Position



- Portfolio valuation up 8.6% from six months ago. Excluding Fung Shun Commercial Building it would have been 4.8% due to favourable rental performance and a mild compression in capitalization rates.
- Cash position remained strong despite acquisition.
- NAV / unit at 31 December 2017 was HK\$8.85 versus unit price of HK\$5.36 on 29 December 2017.

HK\$' M	31 Dec 17	30 Jun 17	Change
Investment Properties	18,535.1	17,062.4	8.6%
Other Assets	102.3	88.1	16.1%
Relevant Investments	61.0	61.4	-0.6%
Cash & Cash Equivalents	546.4	1,085.9	-49.7%
<b>Total Assets</b>	<b>19,244.8</b>	<b>18,297.8</b>	<b>5.2%</b>

HK\$' M	31 Dec 17	30 Jun 17	Change
Interest Bearing Borrowings	4,228.6	3,901.9	8.4%
Other Liabilities	489.8	496.4	-1.3%
<b>Total Liabilities</b>	<b>4,718.4</b>	<b>4,398.3</b>	<b>7.3%</b>
<b>Net Asset Value</b>	<b>14,526.4</b>	<b>13,899.5</b>	<b>4.5%</b>
<b>NAV / Unit (HK\$)</b>	<b>8.85</b>	<b>8.49</b>	<b>4.2%</b>



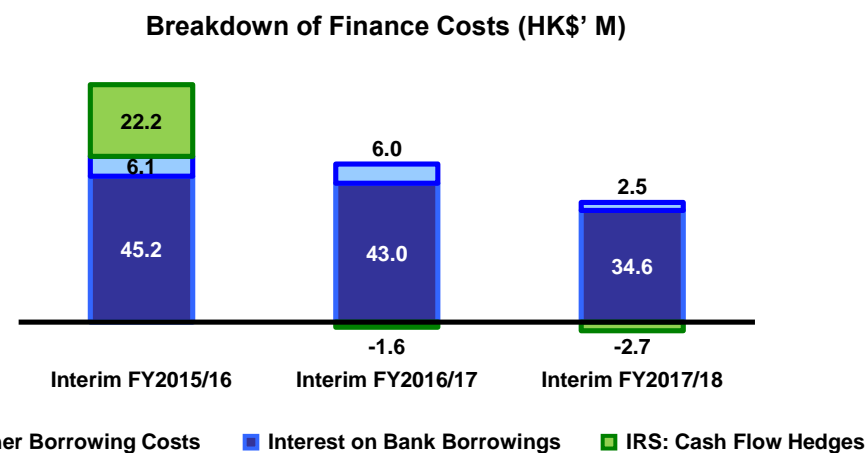
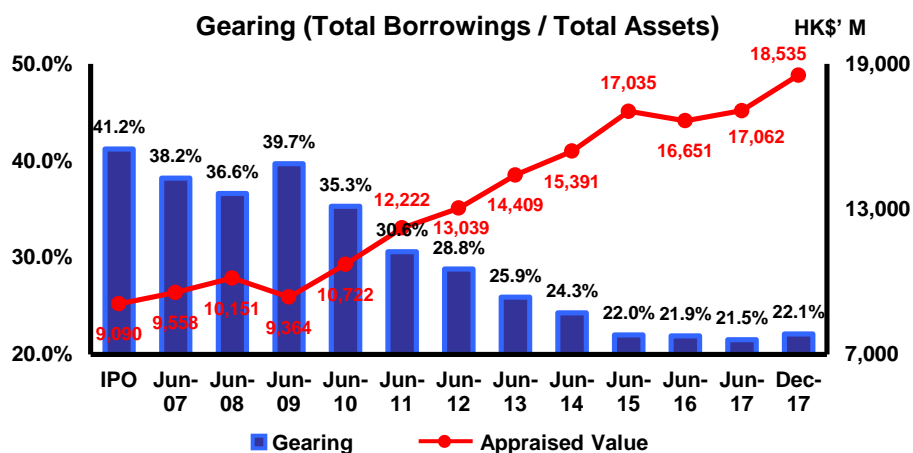
# **E. Capital Management**

# Borrowing Profile



	31 Dec 2017	30 Jun 2017		31 Dec 2017	30 Jun 2017
Average Spread (over HIBOR)	0.69% p.a.	0.7% p.a.	Fixed Rate Portion of Borrowings	66%	79%
Weighted Maturity (years)	3.8	4.3	Undrawn Facility (RCF)	HK\$ 300M	HK\$300 M
Secured Loans / Unsecured Loans	69% / 31%	66% / 34%		Six months ended 31 Dec 2017	Six months ended 31 Dec 2016
Unencumbered Properties (as a % of total)	44%	42%	Interest Coverage (times)	7.5	5.9

- ~ New three-year secured term loan of HK\$325 million drawn in December 2017.
- ~ Relatively low gearing and borrowing cost provides comfortable debt headroom for acquisition.



# 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 (HK\$)	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
2H FY2016/17	2,709,000	4.8591	13.2
<b>1H FY2017/18</b>	<b>250,000</b>	<b>5.2390</b>	<b>1.3</b>
<b>Total</b>	<b>29,945,000</b>	<b>3.8599</b>	<b>115.6</b>



# F. Outlook and Strategy

# Outlook and Strategy



## Office:

- Despite moderating rental reversions, the demand for both Grade A and affordable decentralized office spaces is expected to remain resilient; solid pre-commitments to new Grade A office supply is a welcomed evidence.
- Full six-month contribution from Fung Shun Commercial Building in 2H FY2017/18.

## Retail:

- Gradual recovery in Hong Kong retail sales.
- SSC is poised to capture the full benefit from the recent renovation and improved tourist spending, while MCPI's income prospects will be buttressed by its focus on consumer staples and proactive reconfiguration initiatives.

Asset recycling will continue to be of high priority on the agenda.

## Capital Management:

- Well positioned to withstand interest-rate hikes given hedging strategy.
- Optimize interest-rate profile before interest-rate swap expiries in 2018.



# G. Q & A



# **Appendix – Sunlight REIT’s Portfolio**

## A. Top Three Properties

1



### Sunlight Tower

Location: Wan Chai

Gross rentable area: 376,381 sq. ft.

Passing rent\*: HK\$37.7 per sq. ft.

12



### Sheung Shui Centre Shopping Arcade

Location: Sheung Shui

Gross rentable area: 122,339 sq. ft.

Passing rent\*: HK\$117.5 per sq. ft.

13



### Metro City Phase I Property

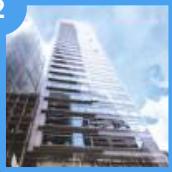
Location: Tseung Kwan O

Gross rentable area: 188,889 sq. ft.

Passing rent\*: HK\$54.9 per sq. ft.

## B. Sheung Wan / Central

2



### Bonham Trade Centre

Location: Sheung Wan

Gross rentable area: 117,909 sq. ft.

Passing rent\*: HK\$29.5 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\$52.6 per sq. ft.

- 15 Beverley Commercial Centre Property
- 16 Supernova Stand Property

\* As at 31 Dec 2017.

# Sunlight Tower



## Key Statistics <sup>1</sup>

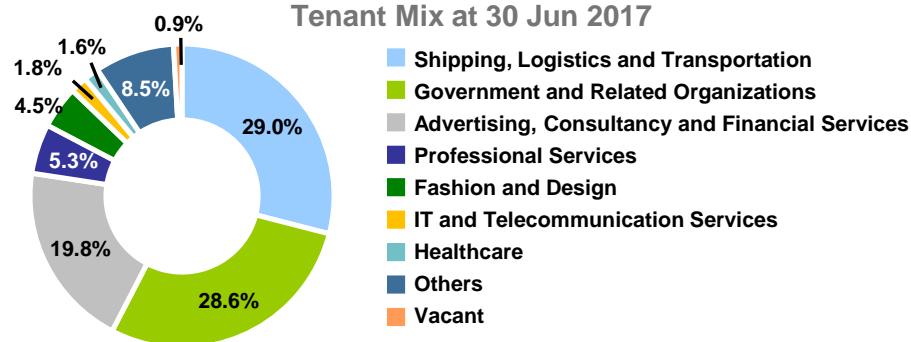
Occupancy (%)	96.3
Passing Rent (HK\$/sq. ft.)	37.7
Rental Reversion (%) <sup>2</sup>	12.0
Net Property Income (HK\$' M) <sup>2</sup>	83.9
Appraised Value (HK\$' M)	4,924

## Expiry Profile (at 30 June 2017)

FY2017/18

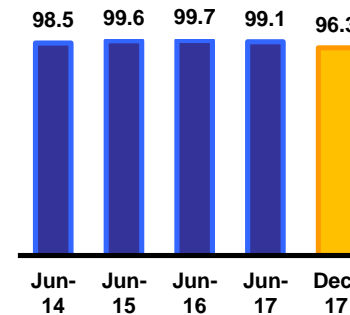
FY2018/19

By GRA (%)	59.3	16.4
By Average Rent (HK\$/sq. ft.)	34.8	38.8

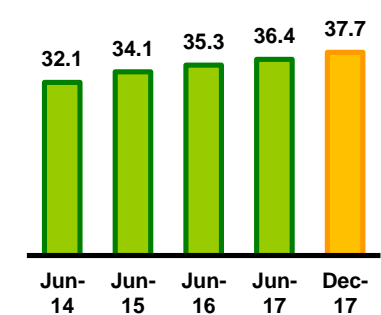


Location	Wan Chai
GRA	Office: 369,891 sq. ft. Retail: 6,490 sq. ft. Total: 376,381 sq. ft.

## Occupancy (%)



## Passing Rent (HK\$/sq. ft.)

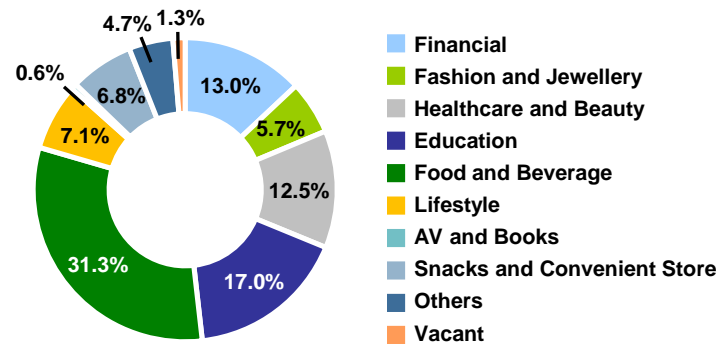


Notes: 1. At 31 Dec 2017 unless otherwise stated.  
2. For six months ended 31 Dec 2017.

# Metro City Phase I Property



Tenant Mix at 30 Jun 2017



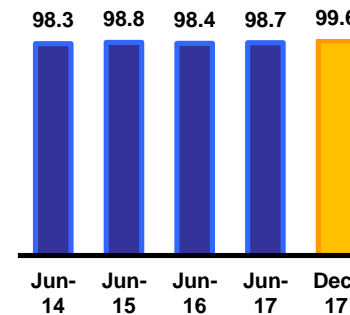
Location	Tseung Kwan O
GRA	188,889 sq. ft.

## Key Statistics <sup>1</sup>

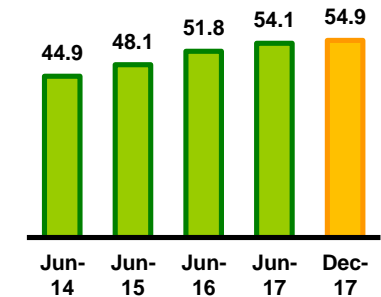
Occupancy (%)	99.6
Passing Rent (HK\$/sq. ft.)	54.9
Rental Reversion (%) <sup>2</sup>	12.5
Net Property Income (HK\$' M) <sup>2</sup>	65.3
Appraised Value (HK\$' M)	3,101

Expiry Profile (at 30 June 2017)	FY2017/18	FY2018/19
By GRA (%)	26.6	26.9
By Average Rent (HK\$/sq. ft.)	62.7	58.1

## Occupancy (%)



## Passing Rent (HK\$/sq. ft.)

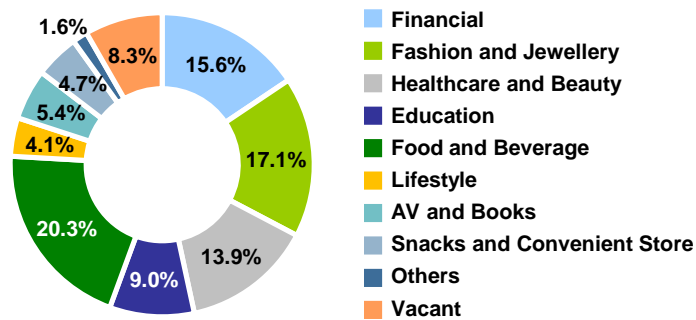


Notes: 1. At 31 Dec 2017 unless otherwise stated.  
2. For six months ended 31 Dec 2017.

# Sheung Shui Centre Shopping Arcade



Tenant Mix at 30 Jun 2017



Location	Sheung Shui
GRA	122,339 sq. ft.

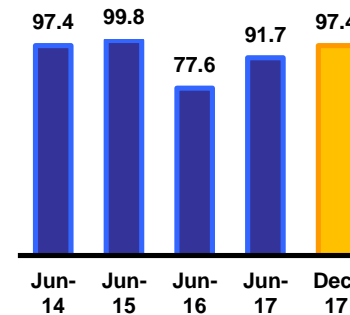
## Key Statistics <sup>1</sup>

Occupancy (%)	97.4
Passing Rent (HK\$/sq. ft.)	117.5
Rental Reversion (%) <sup>2</sup>	5.4
Net Property Income (HK\$' M) <sup>2</sup>	77.1
Appraised Value (HK\$' M)	4,267

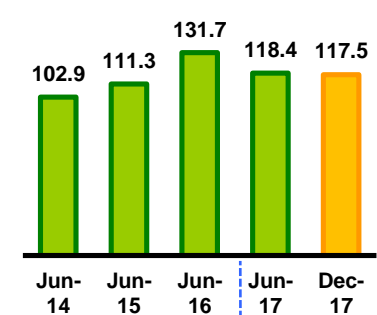
## Expiry Profile (at 30 June 2017)

	FY2017/18	FY2018/19
By GRA (%)	39.6	16.1
By Average Rent (HK\$/sq. ft.)	122.7	144.2

## Occupancy (%)



## Passing Rent (HK\$/sq. ft.)



Notes: 1. At 31 Dec 2017 unless otherwise stated.  
2. For six months ended 31 Dec 2017.

Figure not comparable as area vacated for AEI was excluded from the calculation. The current passing rent represents a return to the "normalized" level

# Bonham Trade Centre / Kwong Wah Plaza Property



## Bonham Trade Centre

Location	Sheung Wan
GRA	Office: 108,506 sq. ft. Retail: 9,403 sq. ft. Total: 117,909 sq. ft.

### Key Statistics <sup>1</sup>

Occupancy (%)	95.6
Passing rent (HK\$/sq. ft.)	29.5
Rental reversion (%) <sup>2</sup>	9.9
Net Property Income (HK\$' M) <sup>2</sup>	17.4
Appraised value (HK\$' M)	1,214

## Kwong Wah Plaza Property

Location	Yuen Long
GRA	Office: 39,101 sq. ft. Retail: 25,741 sq. ft. Total: 64,842 sq. ft.

### Key Statistics <sup>1</sup>

Occupancy (%)	100.0
Passing rent (HK\$/sq. ft.)	52.6
Rental reversion (%) <sup>2</sup>	23.8
Net Property Income (HK\$' M) <sup>2</sup>	17.4
Appraised value (HK\$' M)	1,101

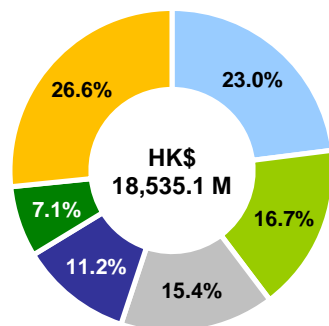
#### Notes:

1. At 31 Dec 2017 unless otherwise stated.
2. For six months ended 31 Dec 2017.

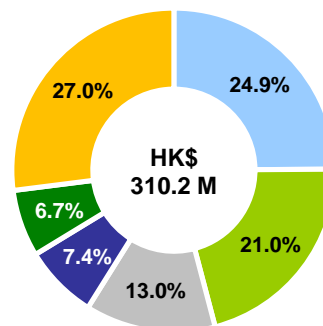


# Sunlight REIT Portfolio Breakdown

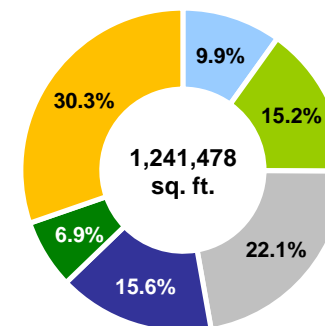
## Valuation



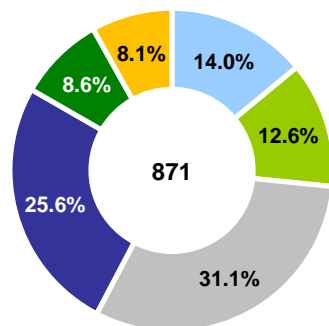
## Net Property Income



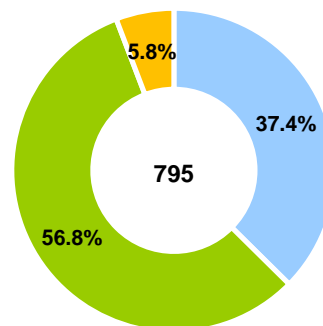
## GRA



## No. of Leases



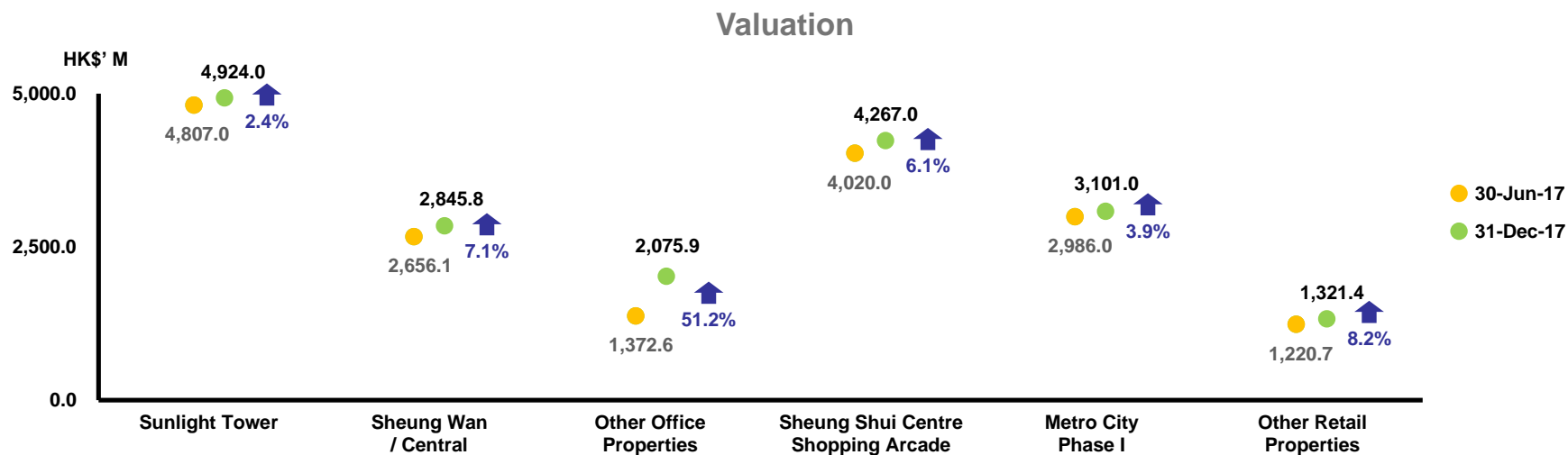
## No. of Car Park Spaces



- 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 2017.

# Valuation



Capitalization Rate	At 31 Dec 17		At 30 Jun 17		At 30 Jun 16	
	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 Shopping Arcade	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%

# Disclaimer



**This presentation contains certain statements and terminologies that are forward-looking. These statements are made on the basis of the current beliefs, assumptions, expectations and projections of the board of directors and senior management of the Manager regarding the industry and sectors in which Sunlight REIT operates. They are subject to risks, uncertainties and other factors beyond the Manager's control, the emergence of which may cause actual results or performance to differ materially from those expressed or implied in such statements.**