



SUNLIGHT REIT

Interim Results FY2018/19

Six months ended 31 Dec 2018



Agenda



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Results Highlights

Results Highlights



Six months ended 31 Dec 2018

Revenue	HK\$399.3M
HK\$424.9M	+6.4% YoY

Net Property Income	HK\$310.2M
HK\$338.7M	+9.2% YoY

Distribution Per Unit	HK 12.6 cents
HK 13.2 cents	+4.8% YoY

31 Dec 2018

Property Valuation	HK\$18,755M
HK\$19,452M	+3.7% 30 Jun 2018

Net Asset Value / Unit	HK\$9.03
HK\$9.40	+4.1% 30 Jun 2018

Gearing	21.8%
21.0%	30 Jun 2018

Results Highlights (cont'd)



1. Office Rents Supported by Accelerated Office Decentralization

- ◆ Strong demand from co-working operators, Chinese and multinational corporations bolstered passing rents of decentralized office spaces.



2. Continued Recovery of Retail Sector

- ◆ Decent rebound in Chinese visitor arrivals.
- ◆ A mild 4.3% year-on-year growth of Hong Kong's retail sales.



3. Disciplined Cost Control & Maiden Contribution from The Harvest¹

- ◆ Lower cost-to-income ratio thanks to cost savings in rental commissions and utility expenses.
- ◆ Initial rental income from The Harvest.



4. Proactive Capital Management

- ◆ Enlarged bond investment portfolio as an alternative to interest rate hedging.
- ◆ Unit buy-back continued.



Note:

1. The property was previously known as Fung Shun Commercial Building.

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Financial Review

Financial Review



Statement of Profit or Loss (HK\$'M)	Interim		Change
	FY2018/19	FY2017/18	
Revenue	424.9	399.3	+6.4%
Property Operating Expenses	86.2	89.1	-3.3%
Net Property Income ("NPI")	338.7	310.2	+9.2%
Distributable Income	231.6	214.1	+8.2%
Distribution Per Unit ("DPU") (HK cents)	13.2	12.6	+4.8%

- ◆ Satisfactory occupancy rates for top 3 properties and good cost control were the key drivers behind NPI growth.
- ◆ Increase in cash finance costs caused by interest rates hikes was partly offset by a substantial rise in interest income.

Financial Position (HK\$'M)	31 Dec 2018	30 Jun 2018	Change
Investment Properties	19,452.5	18,754.8	+3.7%
Bank Borrowings	4,234.4	4,251.5	-0.4%
Net Asset Value ("NAV")	15,476.3	14,857.0	+4.2%
NAV / Unit (HK\$)	9.40	9.03	+4.1%

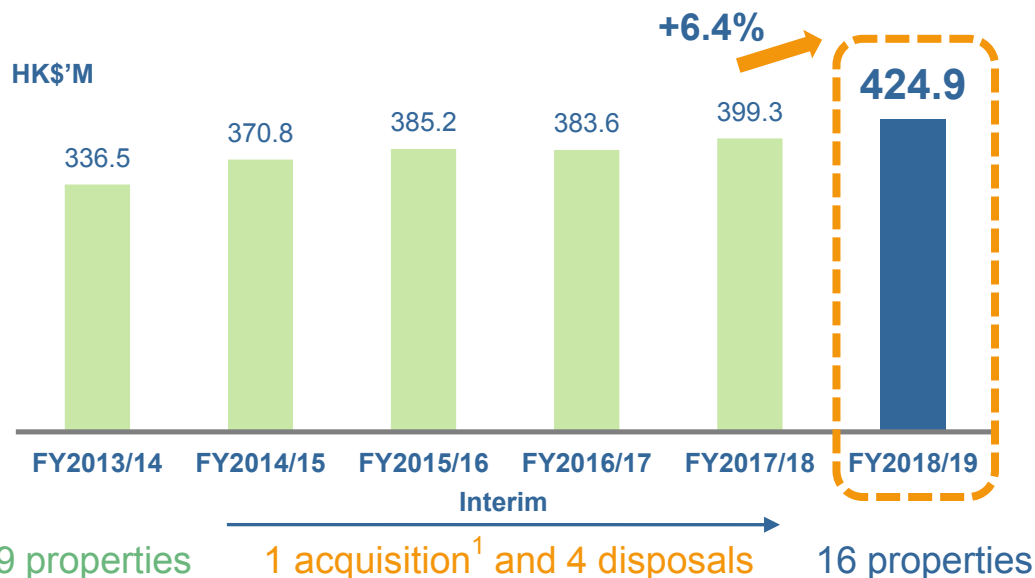
- ◆ Increase in the appraised value of investment properties was in line with the growth in passing rent.

Financial Review (cont'd)

- Revenue and NPI Trends



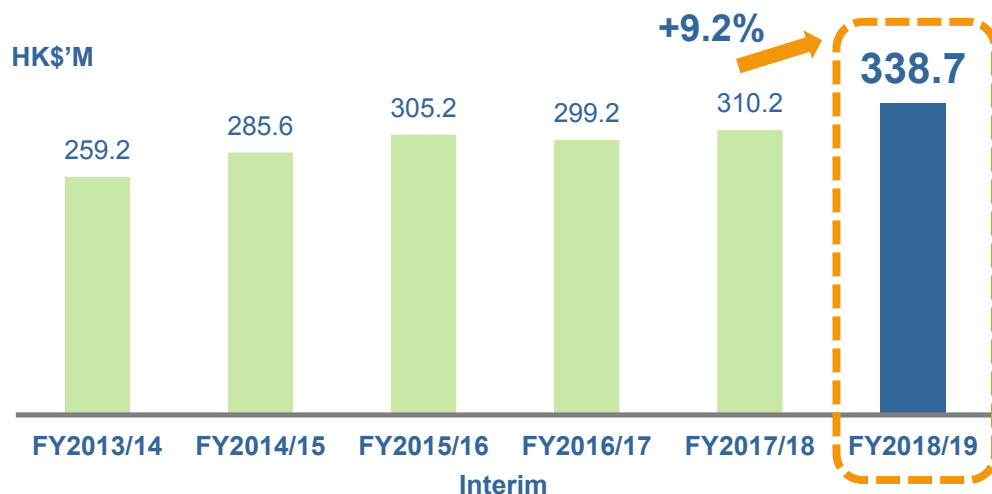
5-YR CAGR
4.8%



Revenue

- ◆ Creating value by asset recycling and organic growth through asset enhancement initiatives (“AEI”) and trade mix rebalancing.
- ◆ Overall passing rent increased by 26% in 5 years.

5-YR CAGR
5.5%



NPI

- ◆ Disciplined cost control and cost-driven AEIs contributed to faster 5-year NPI growth relative to revenue.

Note:

1. Excluding the unification of On Long Commercial Building in FY2015/16.

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Operating Performance

Operating Performance

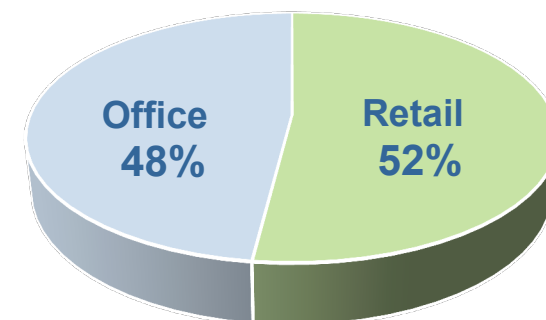


	Office	Retail	Overall
Occupancy 31 Dec 2018	95.7%	98.9%	96.7%
	97.8%	99.2%	98.2%
30 Jun 2018			
Passing Rent¹ (HK\$ / sq. ft.) 31 Dec 2018	34.7	75.4	47.8
	33.8	73.9	46.5
30 Jun 2018			
Rental Reversion² Six months ended 31 Dec 2018	10.1%	11.1%	10.6%
	7.6%	5.6%	6.6%
Six months ended 30 Jun 2018			

Office occupancy is transiently affected by:

- ◆ Preparation for upcoming AEI at the low zone of Bonham Trade Centre;
- ◆ Higher vacancies recorded at The Harvest was mainly due to certain office floors were vacated by the previous owner.

NPI by type

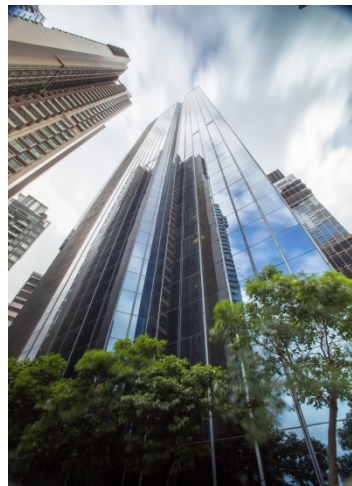


Notes:

1. Passing rent is calculated on occupied gross rentable area ("GRA").
2. Rental reversion is calculated on change in effective rent of the leases renewed and commenced during the reporting period.

Operating Performance (cont'd)

- Top 3 Office Properties¹



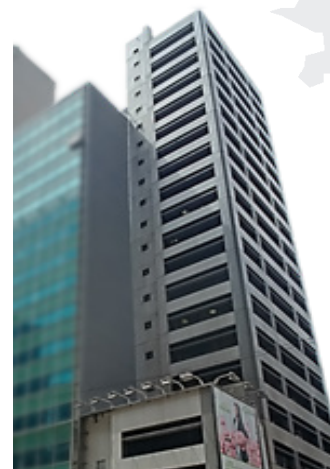
1. Sunlight Tower

	31 Dec 2018	30 Jun 2018
Occupancy	100.0%	98.5%
Passing Rent HK\$ / sq. ft.	38.9	38.2
Rental Reversion ²	12.8%	7.7%



2. Bonham Trade Centre

	31 Dec 2018	30 Jun 2018
Occupancy	84.9%	93.0%
Passing Rent HK\$ / sq. ft.	30.4	29.8
Rental Reversion ²	7.1%	8.1%

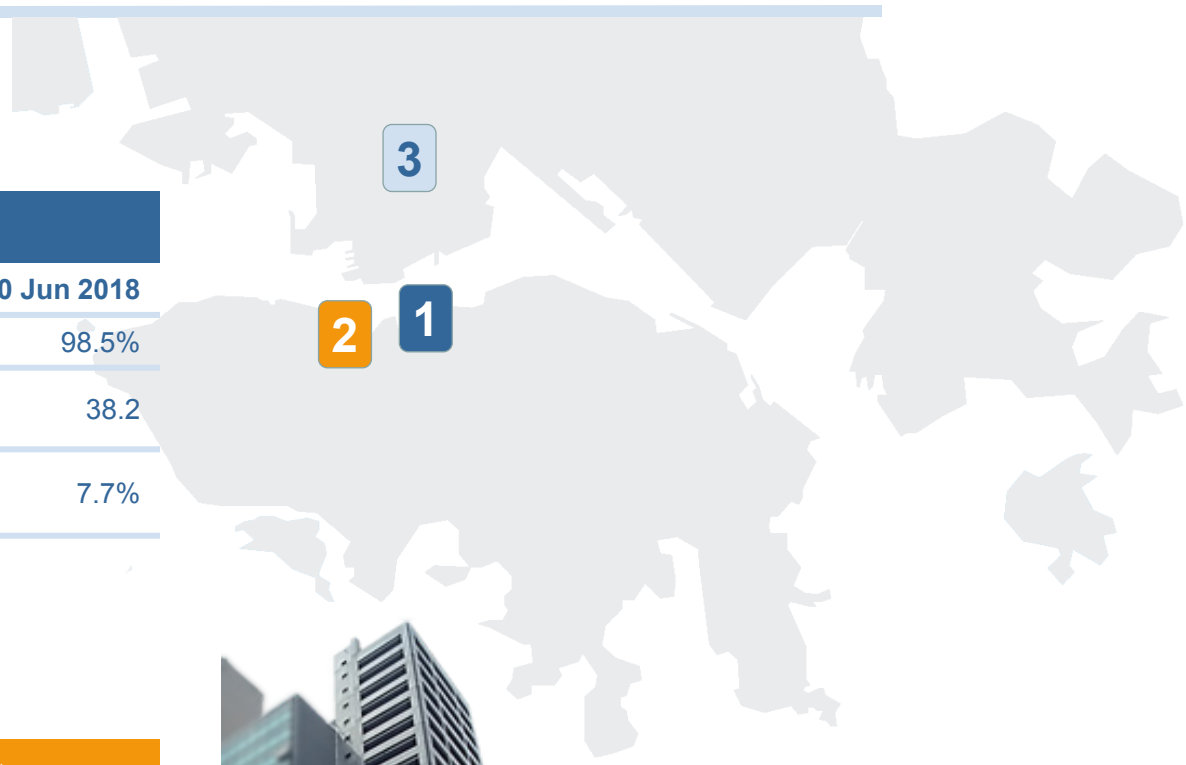


3. The Harvest

	31 Dec 2018	30 Jun 2018
Occupancy	63.9%	100.0%
Passing Rent HK\$ / sq. ft.	58.6 ³	47.3

Notes:

- Top 3 office properties are ranked by valuation at 31 Dec 2018.
- For rental reversion which are for the respective period ended at the specified date.
- The office area vacated at The Harvest is excluded from the calculation.



Operating Performance (cont'd)

- Top 3 Retail Properties¹



3

2. Metro City Phase I (“MCPI”)

	31 Dec 2018	30 Jun 2018
Occupancy	99.0%	99.8%
Passing Rent HK\$ / sq. ft.	57.5	55.8
Rental Reversion ²	13.0%	9.6%



1

1. Sheung Shui Centre (“SSC”)

	31 Dec 2018	30 Jun 2018
Occupancy	99.3%	98.9%
Passing Rent HK\$ / sq. ft.	117.4	115.9
Rental Reversion ²	10.1%	0.8%



2

3. Kwong Wah Plaza

	31 Dec 2018	30 Jun 2018
Occupancy	100.0%	100.0%
Passing Rent HK\$ / sq. ft.	53.2	52.1
Rental Reversion ²	8.8%	5.0%

Notes:

- Top 3 retail properties are ranked by valuation at 31 Dec 2018.
- For rental reversion which are for the respective period ended at the specified date.

Attracting Footfall through Promotion Events

- SSC and MCPI



Sheung Shui Centre



Summer Event



X'mas Event

Boost up Footfall & Retail Sales

- ◆ Launched various promotion and festive events to attract footfall and stimulate sales.

Metro City Phase I



F&B Promotion Campaign

Operating Performance (cont'd)

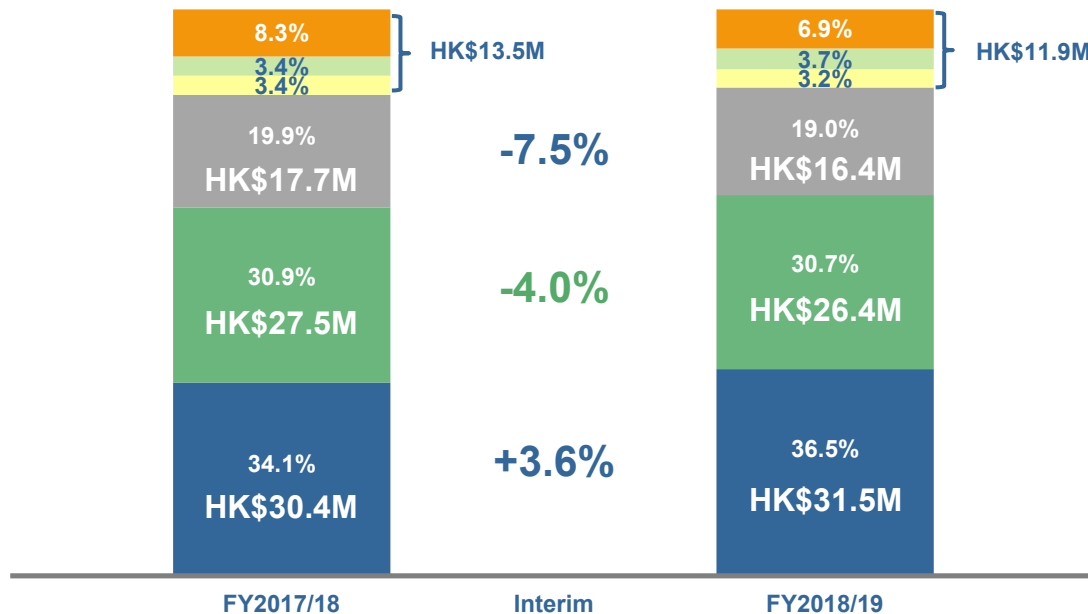
- Improved Cost-to-Income Ratio of 20.3%



Property Operating Expenses	HK\$89.1M
HK\$86.2M	-3.3% YoY

Cost-to-Income-Ratio	20.3%
	Interim FY2017/18

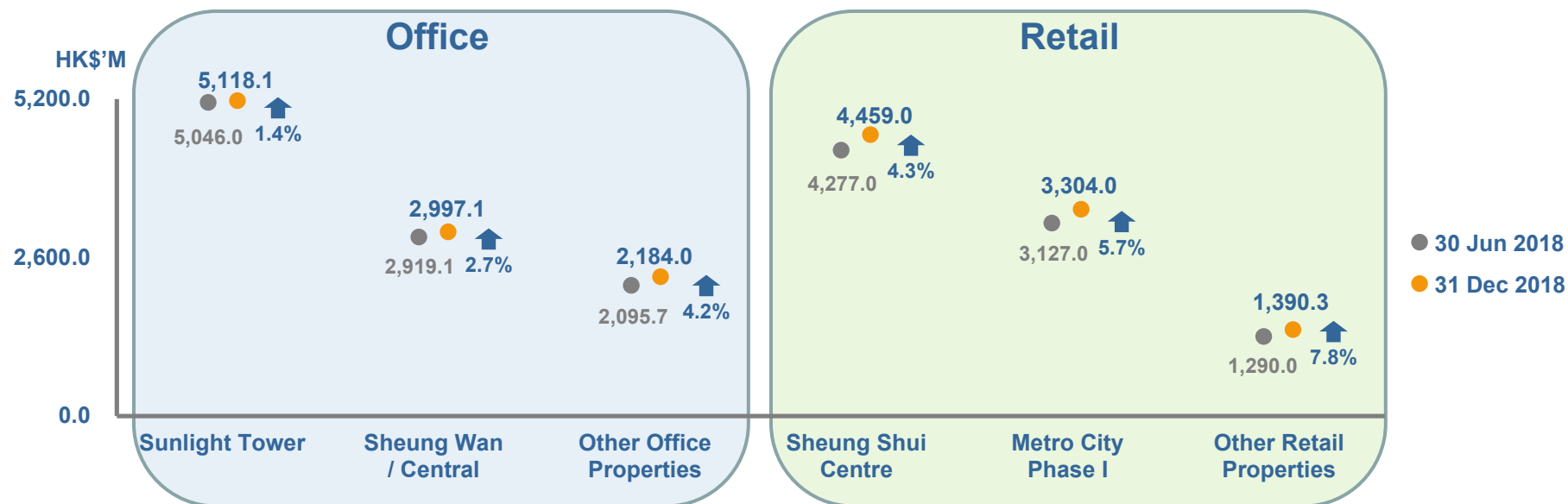
Breakdown of Property Operating Expenses



- Building Management Fee
- Property Manager's Fees
- Government Rent & Rates
- Marketing & Promotion Expenses
- Car Park Operating Costs
- Other Direct Costs

- ◆ Higher rates concession during the current period.
- ◆ Decrease in rental commission expenses due to lower lease renewal and new letting activities.
- ◆ Saving in electricity expenses after replacement of chiller plants in MCPI.

Valuation



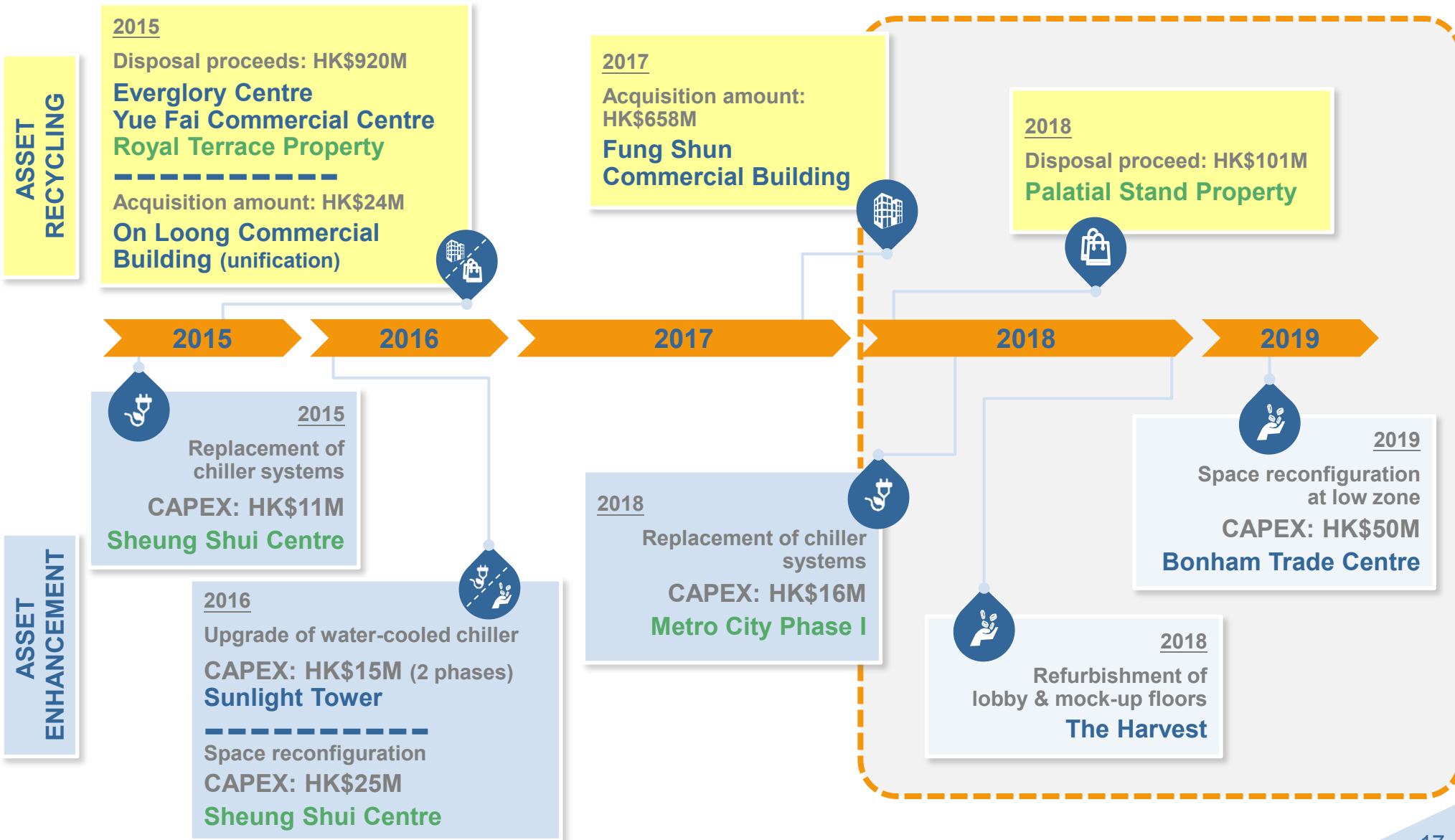
Capitalization Rate	31 Dec 2018		30 Jun 2018	
	Office	Retail	Office	Retail
Sunlight Tower	3.75%	3.65%	3.75%	3.65%
Bonham Trade Centre	3.45%	3.80%	3.45%	3.80%
The Harvest	3.00%	2.75%	3.00%	2.75%
Sheung Shui Centre	N/A	4.30%	N/A	4.30%
Metro City Phase I	N/A	4.40%	N/A	4.40%
Kwong Wah Plaza	3.65%	3.60%	3.65%	3.60%

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Asset Management

Asset Recycling and Enhancement

- Timeline of Major Activities

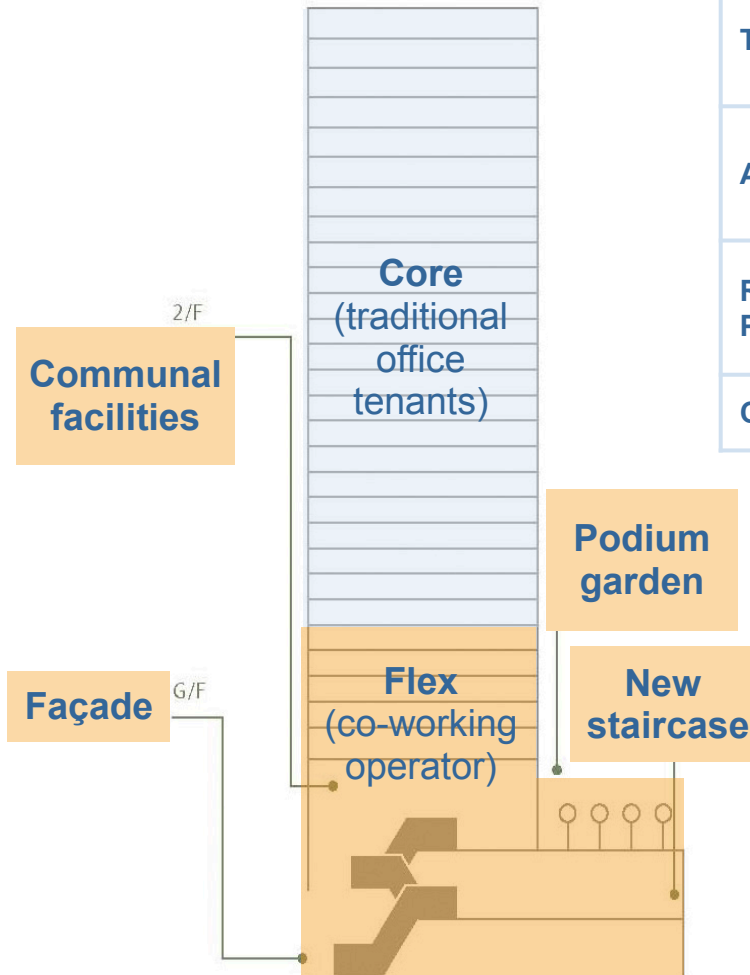


Asset Enhancement Initiatives

- Revitalization of Bonham Trade Centre



- ◆ Second largest office property
- ◆ Completed at 1998
- ◆ NPI: HK\$17.4M (Interim FY2018/19)



	Flex	Core
Tenant	Co-working operator with long term lease	Office
Area	~33,000 sq. ft. 1/F – 7/F	~85,000 sq. ft. 8/F – 27/F
Renovation Period	Start: Q219 Complete: Q419	Unaffected
CAPEX	HK\$50M	

Reposition with a Stronger Presence in Bonham Strand

- ◆ Modernizing the entrance and upgrading facilities to achieve higher rents for the entire property.
- ◆ Providing new eateries and co-working experiences to tenants.

Asset Enhancement Initiatives (cont'd)

- Refurbishment of The Harvest

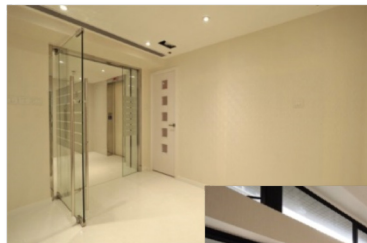


Lobby

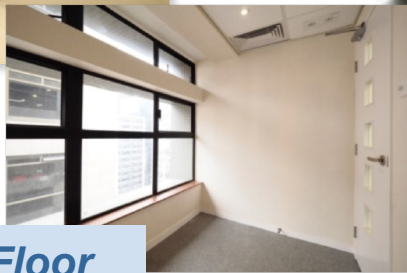
Before



After



After



Office Floor



Before



	After	Before
Name	The Harvest 豐怡中心	Fung Shun Commercial Building
Target Tenant Mix		
Retail Basement to 4/F	Bank branch until Dec 2021 (First 3 years: HK\$920k per month 4 th year: HK\$996.5k per month)	
Office 5/F -20/F	<ul style="list-style-type: none"> ◆ Service Trades <ul style="list-style-type: none"> - Beauty - Medical - Education ◆ Office ◆ Bank office (6 floors) 	Bank office

Diversified Tenant Mix with Satisfactory Rental Growth

- ◆ Target to realize not less than 15% average rental growth.
- ◆ Tailored renovation for certain service trade tenants with higher monthly rental income.

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Capital Management

Capital Management

- Stable Bank Borrowings Profile



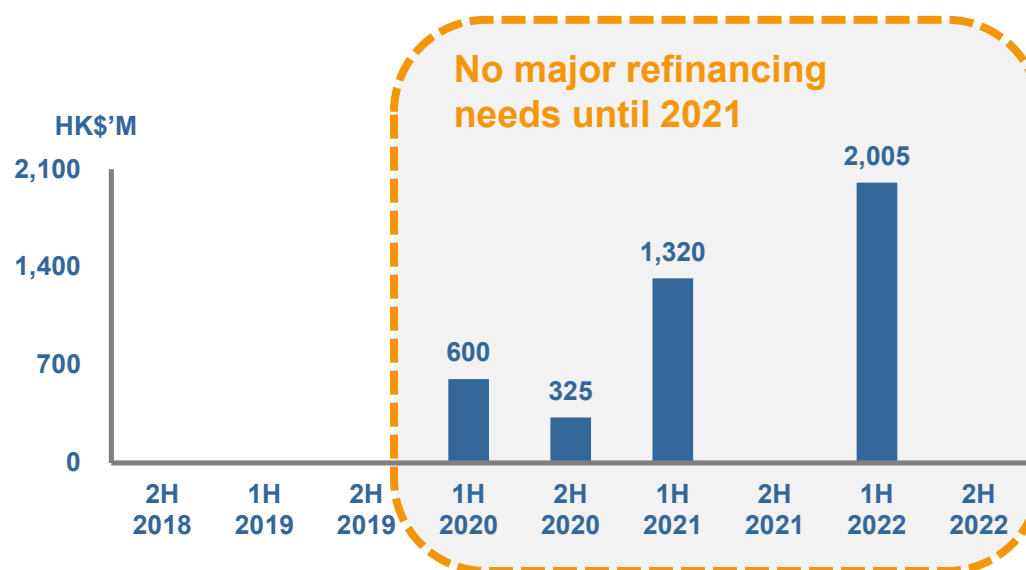
Weighted Maturity	2.8 Yrs
	3.3 Yrs ¹ 30 Jun 2018

Unsecured Debt	31.1%
	31.4% 30 Jun 2018

Undrawn Facility (HK\$)	600M
	280M 30 Jun 2018

HK\$'M	31 Dec 2018	30 Jun 2018	Change
Bank Borrowings	4,250.0	4,270.0	-0.5%
- Secured	2,930.0	2,930.0	0%
- Unsecured	1,320.0	1,340.0	-1.5%

Maturity Profile of Bank Borrowings



Note:

1. Excluded the revolving credit facility amounted to HK\$20 million.

Capital Management (cont'd)

- Strong Financial Position



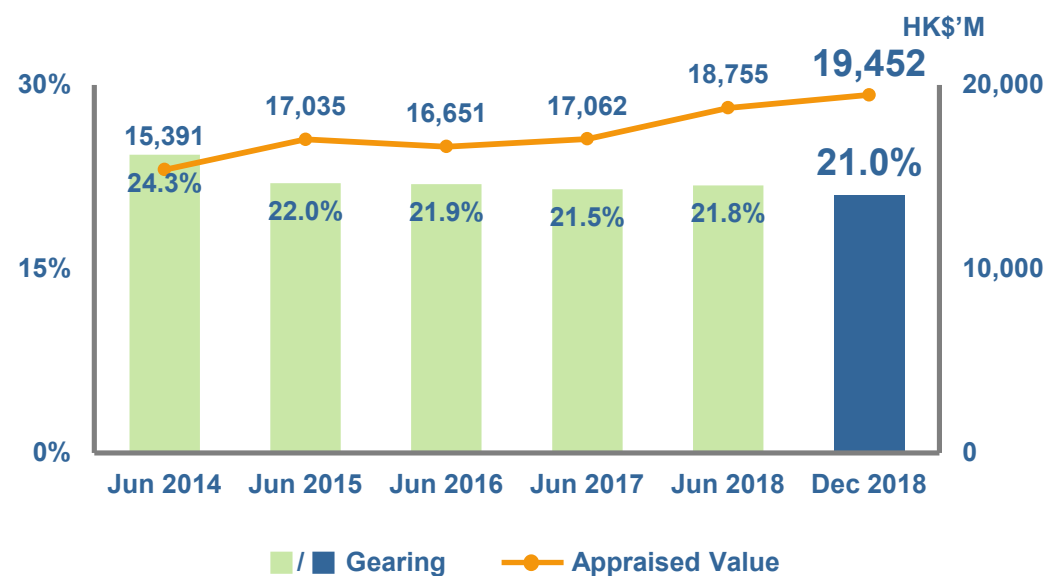
Gearing	21.0%
	21.8% 30 Jun 2018

Interest Coverage (times)	6.1
	7.5 Interim FY2017/18

Effective Interest Rate (Weighted Average)	2.20%
	1.74% Interim FY2017/18

HK\$'M		31 Dec 2018	30 Jun 2018	Change
Bank Borrowings		4,250.0	4,270.0	-0.5%
- Fixed	1.52% + 0.69% p.a. ¹	1,950.0	2,600.0	-25.0%
- Floating	HIBOR + 0.69% p.a. ¹	2,300.0	1,670.0	+37.7%

Gearing (total borrowings / total assets)



Note:

1. Excluded the revolving credit facility amounted to HK\$20 million.

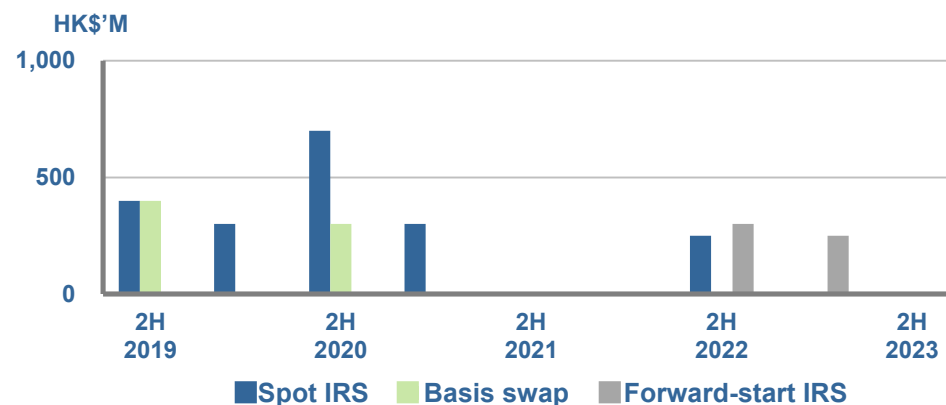
Capital Management (cont'd)

- Interest Rate Management

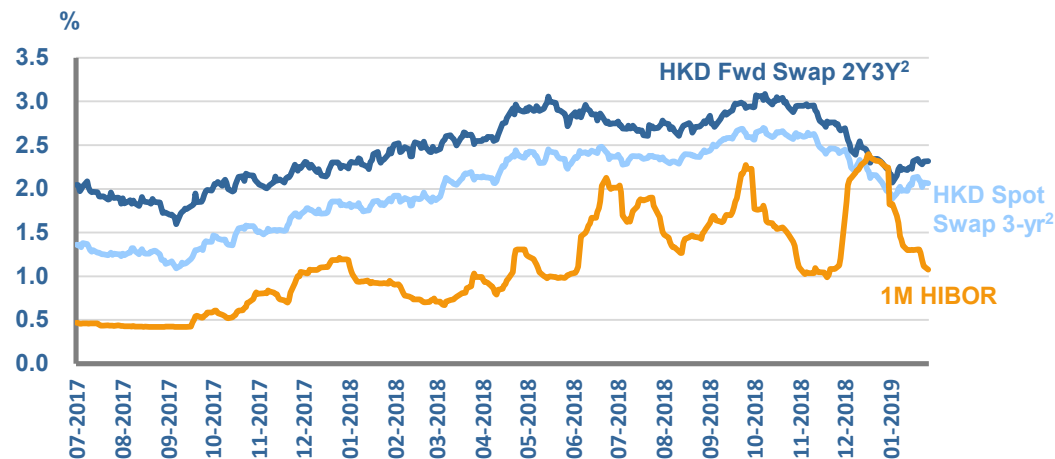


HK\$'M	Interim		
	2018	2017	Change
Cash Interest Expenses	47.2	34.6	+36.4%
Interest Income	8.5	4.8	+76.7%
Net Cash Finance Costs	38.7	29.8	+29.9%

Expiry Profile of Interest Rate Swaps (“IRs”)



Movement of HIBOR, Spot & Forward-start IRs



Weighted Average Interest Rate
(Fixed Rate Portion)

1.52% p.a.

1.38% p.a.
30 Jun 2018

Fixed Rate Borrowings / Total Borrowings

46%

61%¹
30 Jun 2018

Notes:

1. Excluded the revolving credit facility amounted to HK\$20 million.
2. The swap contracts matched the loan with interest rate at 1-month HIBOR.

Source: Bloomberg at 28 Jan 2019

Capital Management (cont'd)



Bond Investments

HK\$'M	31 Dec 2018	30 Jun 2018	Change
Relevant Investments	157.3	108.8	+44.6%

Years to Maturity	2.2 Yrs
	2.5 Yrs 30 Jun 2018
Yield to Maturity (Weighted Average)	4.2%
	3.9% 30 Jun 2018

Unit Buy-back

Financial Year	No. of Units Repurchased	Average Price (HK\$)	Total (HK\$'M)
FY2015/16	13,948,000	3.92	54.7
FY2016/17	7,547,000	4.77	36.0
FY2017/18	1,300,000	5.29	6.9
Interim FY2018/19	2,565,000	5.00	12.8
Sub-total	25,360,000		110.4

Proactive Unit Buy-back

- ◆ More units were bought-back on price weakness.

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Outlook & Strategy

Outlook and Strategy

- Outlook



Office & Retail

- ◆ The still healthy local economic environment supports office and retail leasing activities.
- ◆ Lease expiries for the top 3 properties only represent less than 11% of their combined GRA for 2H of FY2018/19.

Asset & Capital Management

- ◆ Emergence of an inverted US yield curve signify uncertainty in inflation and interest rates.

Outlook and Strategy (cont'd)

- Strategy



Asset Management

- ◆ Asset enhancement remains top priority.
 - 1) **Bonham Trade Centre**
 - ◆ Expected CAPEX: HK\$50M.
 - ◆ Signed a lease agreement with a co-working operator to design and operate the low zone office and communal facilities.
 - ◆ Vacancy rate is expected to increase transiently.
 - 2) **The Harvest**
 - ◆ Target to realize an average rental growth of not less than 15%.
 - ◆ Gradual migration of the original tenant will help create a more diverse tenant mix on higher passing rents.
 - ◆ Occupancy is expected to experience volatility in 2019.
- ◆ Stay prudent in expanding property portfolio.

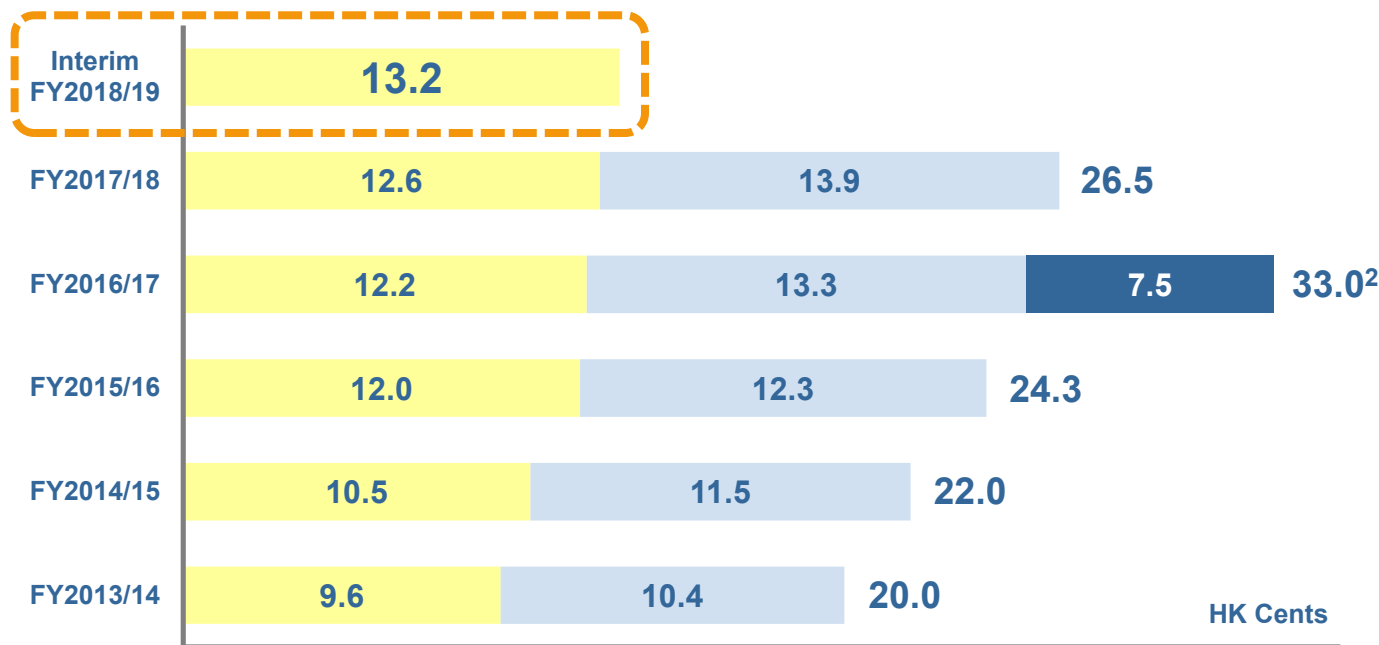
Capital Management

- ◆ The Manager is comfortable with the current hedging profile.
- ◆ Will stay prudent in entering new IRSs.
- ◆ Size of bond portfolio is expected to remain largely unchanged.

DPU Trend



5-YR CAGR Interim
6.6%



■ Interim DPU ■ Final DPU ■ Special DPU

DPU Growth
+4.8%
YoY

Distribution Yield¹
5.4%

Payout Ratio
93.9%

Notes:

- The calculation is based on FY2018/19 interim DPU and FY2017/18 final DPU, divided by the closing unit price of HK\$5.02 on 31 Dec 2018, the last trading day of the reporting period.
- Payout ratio for FY2016/17 would have been 96.1% excluding the special distribution.

Contact Us



Thank You



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