

# Passive Incomes *for* Workforce & Retirees



Contents developed by Yaw Hon Sing (Steven)

- Investment philosophy must be adopted by world renown successful investor, Warren Buffett
- Decide which path can lead you to effortless investment when you are lacking in terms of time, technical skills and/or huge amount of capital to plan for your financial goal achievement.

# Property Investment

Properties investment provides choices of:

- a) Physical Properties
- b) Real Estate Investment Trusts (REITs)



**THE PERFECT  
PASSIVE INCOME  
REAL ESTATE  
INVESTMENT**



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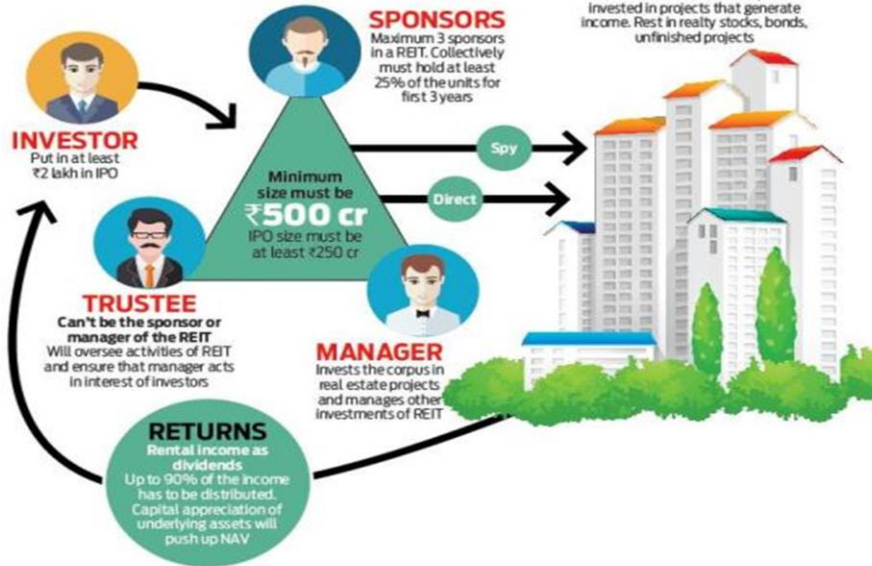
# Real Estate Investment Trust (REITs)



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## How REITs work

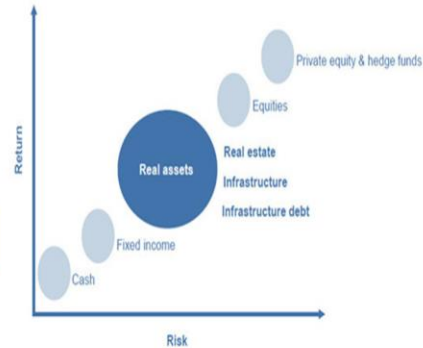
Here's what will happen to your money after you put it in a REIT



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# Why REITs ?

## Benefits of Investing in REITs



REITs are the closest proxy to physical property investment with good flexibility and liquidity with moderate risk/return reward.

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**Higher dividend** – relatively earning higher cash dividend compared to most equities and physical properties when property price already appreciated

**Portfolio diversification** – REITs serve as an alternative instrument for investment portfolio diversification in addition to gold, equities and bonds

**Income security** – professionally managed REITs are free from rental collection issues, prolonged vacancy of tenants, relatively steady rental incomes

**Liquidity** – REITs are easier to be disposed for cash when needs required, no stuck to difficulty in asset disposal risks, etc

**Professional Management** – real estates are professionally managed by a group of property management teams who run the REIT companies. Hence, the hassle of rental issue, property maintenance and rental collection are out of the investors' mind.

**Transparency** – the REIT managers which are public listed property estate investment companies providing annual reporting for the operations of the properties under their belts and at least 90% of the rental incomes are distributed to REIT investors via dividend distribution

Real Estate Investment Trusts, or REITs, allow you to invest in real estate without owning the actual property. REITs provide attractive dividends regularly plus the potential for medium, long-term capital appreciation to investors.

REITs are an affordable investment instrument:

- All walks of investors can invest regardless of the amount of capital

#### AFFORDABILITY

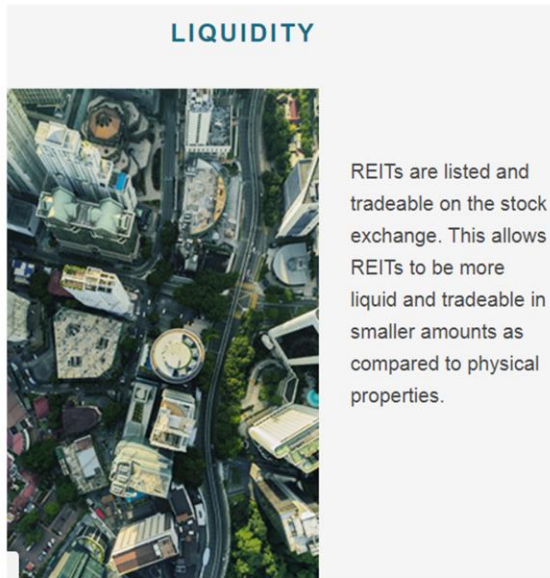
Investments in REITs cost a fraction of the cost of direct investment in real estate.



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REITs provide the benefits of liquidity and free cash flow:

- No large capital outlay to invest
- No fixed monthly financial obligations (monthly instalments, interest charges, etc.)
- No quit rent, excise duties, maintenance fees, etc.



## LIQUIDITY

REITs are listed and tradeable on the stock exchange. This allows REITs to be more liquid and tradeable in smaller amounts as compared to physical properties.

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## STABLE INCOME STREAM

REITs often pay out steady incomes to its unitholders which come from existing rental paid by tenants who occupy the properties.

REITs provide stable income streams annually and paid out quarterly or biyearly to investors in the form of cash dividend.



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## EXPOSURE TO LARGE-SCALE REAL ESTATE



Gain the benefits of investment in real estate on a pro-rated basis through REITs.

You can slowly build up your property portfolio mix with the lowest capital outlay and cost.

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# Financial Performance Indicators

## REITS

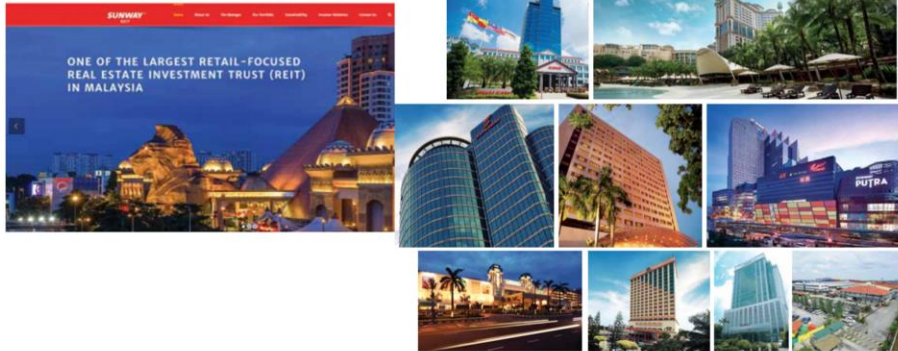
- P/E ratio (Price Earnings ratio)
- NAV (Net Asset Value)
- DPS (Dividend per share) or DPU (Distribution per unit)
- DY (Dividend Yield or Distribution Yield)
- MER (Management Expense ratio)
- Premium to NAV
- Gearing ratio
- Interest service cover ratio

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## Practical Review of REIT:

Select one or two public listed REITs of your preferred choice to analyse their financial performance using the reviewed indicators learnt.

SUNWAY REIT



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- Facilitator sets up an example of KLSE or SGX-listed REIT to analyse their main key financial performance indicators prior to choosing the REIT to be invested.
- Compare the financial indicators' results among few players to get a better valuation review.

## Fundamental Analysis Review: SUNWAY REIT

Getting to know some key information pertaining to the real estate listing:

- Types of REIT
- Distribution policy
- Management & trustee fees
- Gearing policy
- Investment objectives
- Key acquisition criteria

Name of Fund	Sunway REIT
Type of Fund	Income and Growth
Category of Fund	Real Estate Investment Trust
Duration of Fund / Termination Date	The earlier of: - 999 years falling on 19 May 2009 - the date on which Sunway REIT is terminated by the Trustee or the Manager, in such circumstances as set out under the provisions of the Deed
Approved Fund Size	3,650,888,858 units
Investment Objective	To provide Unitholders with an exposure to a diverse portfolio of authorised investments that will provide stable cash distributions with the potential for sustainable growth in net asset value per unit
Investment Policy	- To invest in retail, hospitality, office and other real estate assets, subject to the Securities Commission's Guidelines on Real Estate Investment Trust - At least 95% of Sunway REIT's total asset value must be invested in real estate and/or single purpose companies at all times with the remainder 5% invested in cash deposit and money market instruments
Key Acquisition Criteria	- Retail and mixed-use assets - High growth cities and townships in Malaysia - Compatibility and synergistic to asset portfolio
Distribution Policy	- 100% distributable income since FY2011 to FY2017 and at least 90% for each subsequent financial year - Quarterly distribution
Revaluation Policy	Annually by an independent registered valuer
Gearing Policy	Up to 50% of total asset value of the Fund
Performance Benchmark	- FTSE Bursa Malaysia Mid 70 Index - FTSE4Good Bursa Malaysia Index - GPR APREA Composite REIT Index - Malaysia - FTSE EPRA/NAREIT Global REIT Index - FTSE EPRA/NAREIT Global Index - FTSE EPRA/NAREIT Asia ex Japan Index - FTSE EPRA/NAREIT Asia Pacific Index - FTSE EPRA/NAREIT Emerging REIT Index - MSCI Malaysia Small Cap Index
Manager's Fees	- Base Fee : 0.3% per annum of total asset value - Performance Fee : 3% per annum of net property income, but before deduction of fees payable to the Property Manager pursuant to the Property Management Agreement - Acquisition Fee : 1% of acquisition price - Divestment Fee : 0.5% of sale price
Trustee's Fee	0.02% per annum of the net asset value of Sunway REIT
Financial Year End	30 June
Board Lot	100 units per board lot
Listing	Main Market of Bursa Malaysia Securities Berhad
Stock Name	SUNREIT

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## Financial Highlights: SUNWAY REIT

Dig out the key  
financial

performance  
indicators:

- Distribution/unit
- Management  
expense ratio
- NAV/unit
- Premium to NAV
- NAV growth

### FINANCIAL HIGHLIGHTS

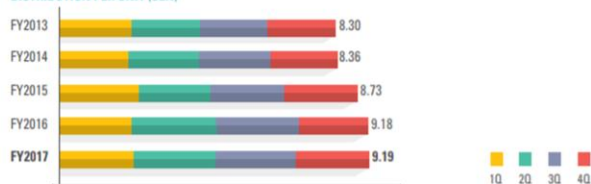
	Ringgit Malaysia (RM)					
Statement of Comprehensive Income - Key Data & Financial Ratios	FY2017 RM'000	FY2016 RM'000	FY2015 RM'000	FY2014 RM'000	FY2013 RM'000	
Gross revenue	522,868	507,013	453,454	427,788	415,945	
Net property income	388,817	373,851	340,826	320,977	309,196	
Income available for distribution (realised)	271,099	270,588	256,577	245,017	231,062	
Earnings per unit (realised) (sen)	9.19	8.92	8.25	7.93	7.87	
Distribution per unit (DPU) (sen)	9.19 <sup>1</sup>	9.18	8.73	8.36	8.30	
Distribution yield (%)	5.2	5.5	5.7	5.8	5.4	
Management expense ratio (%)	0.85	0.88	0.80	0.78	0.82	
Statement of Financial Position - Key Data & Financial Ratios	As at 30 June 2017 RM'000	As at 30 June 2016 RM'000	As at 30 June 2015 RM'000	As at 30 June 2014 RM'000	As at 30 June 2013 RM'000	
Investment properties	6,689,200	6,433,000	6,324,000	5,520,000	5,184,000	
Other non-current assets	9,063	8,698	5,268	3,039	8,823	
Current assets	141,630	95,561	100,750	83,452	76,709	
<b>Total asset value</b>	<b>6,839,893</b>	<b>6,537,259</b>	<b>6,430,018</b>	<b>5,606,491</b>	<b>5,269,532</b>	
Current liabilities	(2,556,824)	(998,538)	(986,214)	(856,141)	(403,257)	
Non-current liabilities	(72,149)	(1,487,491)	(1,461,544)	(1,060,279)	(1,359,806)	
<b>Total liabilities</b>	<b>(2,628,973)</b>	<b>(2,486,029)</b>	<b>(2,447,758)</b>	<b>(1,916,420)</b>	<b>(1,763,063)</b>	
<b>Net Asset Value (NAV)</b>	<b>4,211,720</b>	<b>4,051,230</b>	<b>3,982,260</b>	<b>3,690,071</b>	<b>3,506,469</b>	
<b>Total Unitholders' Funds</b>	<b>4,211,720</b>	<b>4,051,230</b>	<b>3,982,260</b>	<b>3,690,071</b>	<b>3,506,469</b>	
NAV per unit (before income distribution) (RM)	1.4301	1.3761	1.3555	1.2593	1.2011	
NAV per unit (after income distribution) (RM)	1.4074	1.3549	1.3350	1.2390	1.1809	
Lowest NAV during the period (RM)	1.3547	1.3349	1.2337	1.1787	1.0964	
Highest NAV during the period (RM)	1.4074	1.3549	1.3350	1.2390	1.1809	
Unit Price as at 30 June (RM)	1.78	1.66	1.54	1.44	1.54	
Premium to NAV (%)	26.5	22.5	15.4	16.2	30.4	

<sup>1</sup> Comprising income distributed for the period from 1 July 2016 to 31 March 2017 of 6.92 sen and proposed final income distribution of 2.27 sen

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## FINANCIAL HIGHLIGHTS (CONT'D)

### DISTRIBUTION PER UNIT (SEN)



DPU value over years  
and DPU Growth rate

	Since IPO				5-year
DPU CAGR	5.7%				2.6%
Total DPU (sen)	57.84				43.76
	FY2013	FY2014	FY2015	FY2016	FY2017
1Q	2.03	2.00	2.28	2.12	2.27
2Q	2.19	2.23	2.27	2.57	2.28
3Q	2.06	2.10	2.13	2.37	2.37
4Q	2.02	2.03	2.05	2.12	2.27
Total DPU	8.30	8.36	8.73	9.18	9.19
Annual DPU Growth	10.7%	0.7% <sup>1</sup>	4.4%	5.2%	0.1% <sup>2</sup>

<sup>1</sup> DPU grew marginally for FY2014 at 0.7% due to the loss of income contribution from Sunway Putra Mall which was closed for a major refurbishment from May 2013 to February 2015 and the adverse impact the refurbishment had on the performance of the adjoining Sunway Putra Hotel

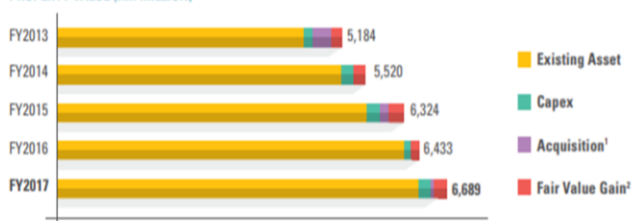
<sup>2</sup> DPU was flatish for FY2017

Please refer to Financial Review for the reasons behind the flatish DPU

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Real property value  
gain and growth over  
years

PROPERTY VALUE (RM MILLION)



	Since IPO				5-year
Property value growth, contributed by				93%	44%
- Acquisition growth				29%	10%
- Capex				21%	15%
- Fair value gain				43%	19%
	FY2013	FY2014	FY2015	FY2016	FY2017
Existing Asset	4,630	5,184	5,520	6,324	6,433
Capex	67	157	361	46	87
Acquisition¹	313	-	136	-	17
Fair Value Gain²	174	179	307	63	152
Property Value	5,184	5,520	6,324	6,433	6,689

¹ Including incidental costs on acquisition i.e. acquisition fee, legal fee and valuation fee

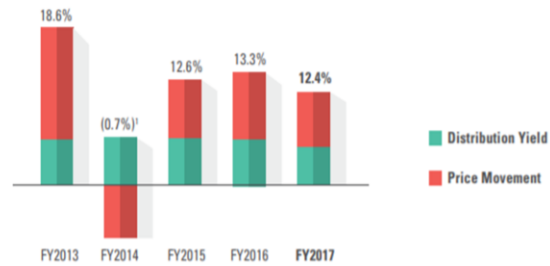
² Fair Value Gain - net of capex incurred

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## FINANCIAL HIGHLIGHTS (CONT'D)

### DISTRIBUTION YIELD & ANNUAL TOTAL RETURN (%)



Comparing DY and Annual total return rate

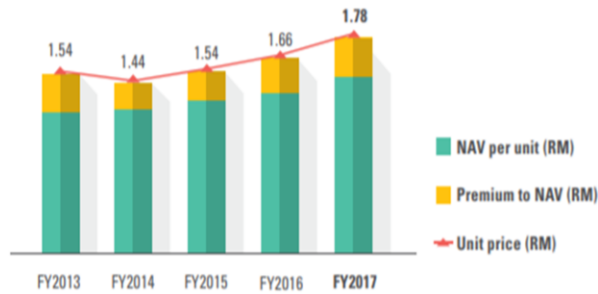
	Since IPO				5-year
Price Movement	97.8%				30.9%
Average Annual Total Return	16.2%				11.3%
	FY2013	FY2014	FY2015	FY2016	FY2017
Distribution Yield	5.4%	5.8%	5.7%	5.5%	5.2%
Price Movement	13.2%	(6.5%) <sup>1</sup>	6.9%	7.8%	7.2%
Annual Total Return	18.6%	(0.7%)	12.6%	13.3%	12.4%

<sup>1</sup> The unit price dropped 6.5% from RM1.54 (as at 30 June 2013) to RM1.44 (as at 30 June 2014) pursuant to the announcement on quantitative easing by the Federal Reserve of the United States in May 2013 which triggered a sell down on M-REITs

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Review its CAGR for NAV, NAV premium and its NAV values.

UNIT PRICE (RM) / NAV PER UNIT (RM) / PREMIUM TO NAV (RM/%)



	Since IPO				5-year
CAGR for NAV per unit	6%				4%
	FY2013	FY2014	FY2015	FY2016	FY2017
NAV per unit (RM)	1.1809	1.2390	1.3350	1.3549	1.4074
Premium to NAV (%)	30.4%	16.2%	15.4%	22.5%	26.5%
Premium to NAV (RM)	0.3591	0.2010	0.2050	0.3051	0.3726
Unit price as at 30 June (RM)	1.54	1.44	1.54	1.66	1.78

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## Comparing Returns of Different Investment Instruments

COMPARATIVE YIELDS AS AT 30 JUNE 2017

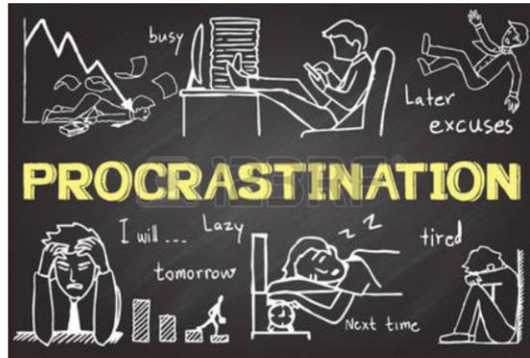
REITs with distribution yield higher than EPF/CPF and Government bond return yield are definitely a great choice of investment.



Source: Sunway REIT, Bloomberg, Bank Negara Malaysia, Employees Provident Fund

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## Final Decision: Invest, Divest or Add up



**Procrastination is an opportunity cost !!!**

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- Better to delay an investment when investment value is not there
- Better to invest now despite a small amount when investment value arises; a procrastination is an opportunity cost because of the Time Money Value compounding effect.
- Rather missing an opportunity than losing a trade in the long run