



A CONVERSATION WITH THE CEO

Q: HOW WAS THE FINANCIAL PERFORMANCE OF SUNWAY REIT IN FY2019?

A: Sunway REIT ended the financial year with a glimpse of optimism. As opposed to an earlier expectation of a marginal dip in DPU, we managed to end the year on a positive note. In our humble opinion, the set of financial performance was better than our initial expectation in spite of the increasingly challenging environment. Revenue increased by 3.5% y-o-y to RM580.3 million, primarily attributable to a modest growth in retail segment and new income contribution from the newly-acquired Sunway university & college campus. Net property income increased correspondingly by 4.7% y-o-y to RM439.7 million. In FY2019, Sunway REIT delivered a DPU of 9.59 sen, a marginal increase of 0.2% from the previous year.



Please refer to Key Reflections from the CFO section for detailed analysis of the financial performance

Q: PLEASE SHARE SUNWAY REIT'S TOP 3 ACHIEVEMENTS IN FY2019.

A: It has been an active year for us. We completed several key initiatives to strengthen the building blocks of Sunway REIT. We embarked on a strategic planning roadmap and are pleased to share TRANSCEND25 (TC25), a programme that maps the strategic direction of Sunway REIT up to FY2025. The essence of TC25 will be elaborated in the subsequent section in my conversation below.

On the acquisition front, Sunway REIT acquired Sunway university & college campus for a total purchase consideration of RM550 million which was completed on 15 April 2019. The acquisition was timely to boost the income for Sunway REIT in this financial year. This acquisition was funded through a combination of debt and the newly established perpetual note programme.

This year, Sunway REIT, through its capital management programme, expanded its financing option via the establishment a RM10 billion Perpetual Note Programme. Sunway REIT is the first Malaysian Real Estate Investment Trust (M-REIT) to establish hybrid securities as an alternative equity financing option. We believe that this is a right move for the M-REITs industry as it offers an investment opportunity to investors and ultimately expands the depth and breadth of the perpetual securities offerings in Malaysia. The diversity of financing options provides Sunway REIT the flexibility to optimise its funding mix and cost levels.

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Q: WHAT IS TRANSCEND25? PLEASE ELABORATE.

A: TRANSCEND25 (TC25) is essentially an extension to Sunway REIT's Strategic Direction 2020 (SD2020) which is approaching its final year in FY2020. I am excited to share the details of TC25, a mid-term strategic roadmap to guide Sunway REIT to achieve its goals by FY2025.

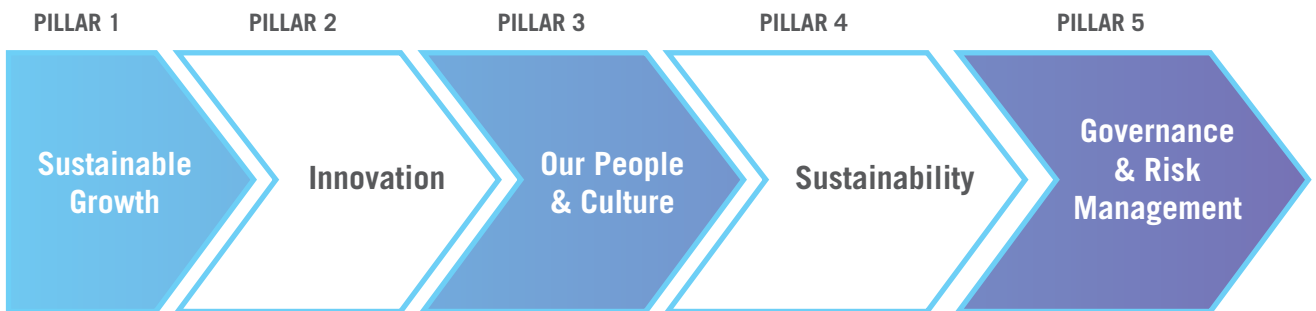
The Chairman, in his earlier section, has shared that this project involved multifaceted groups, including the Board of Directors, the Manager and Business Unit Management Teams in collaboration with Monash University Malaysia.

The workshop involved a series of focus group discussions, thorough research and analysis on key market trends and active deliberations to formulate the strategies for TC25.

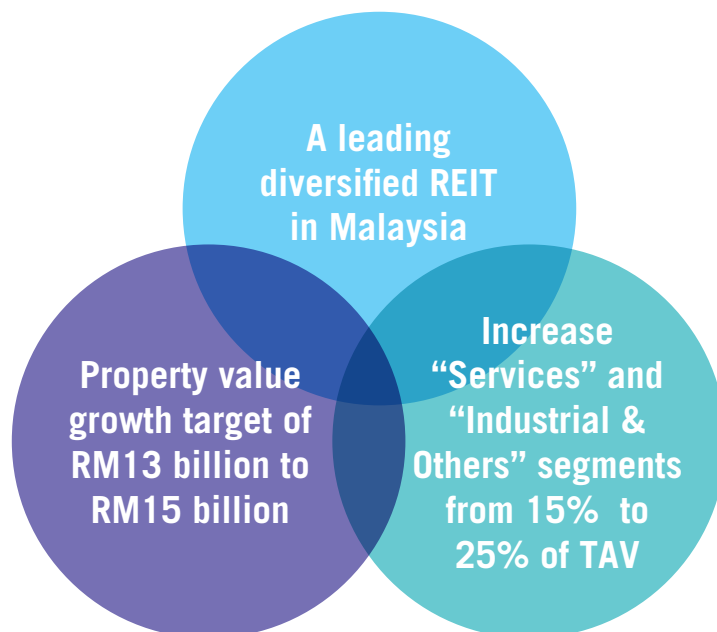
ORIGINATION OF TC25 PROCESS



STRATEGIC PILLARS



GOALS AND ASPIRATIONS



VITAL ATTRIBUTES



MESSAGE TO UNITHOLDERS



TRUST STRUCTURE & LEADERSHIP



MANAGEMENT DISCUSSION & ANALYSIS



PROPERTY DETAILS



CORPORATE GOVERNANCE & ACCOUNTABILITY



SUSTAINABILITY STATEMENT

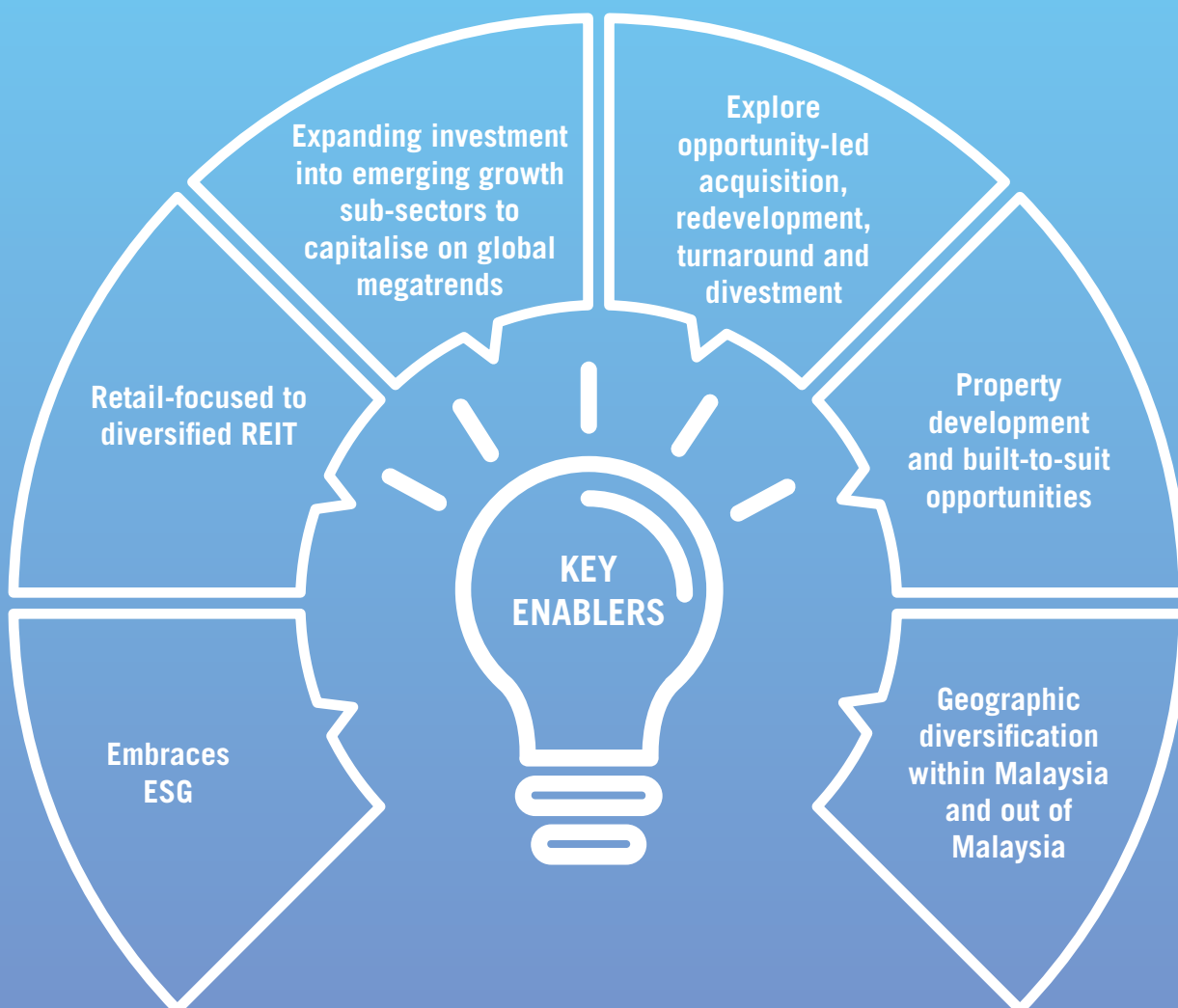


FINANCIAL INSIGHTS



UNITHOLDERS' INFORMATION

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Q: SUNWAY REIT ACQUIRED AN EDUCATION PROPERTY IN THIS FINANCIAL YEAR. WHY DID SUNWAY REIT DIVERSIFY INTO A NEW SUB-SECTOR?

A: In the formulation of TC25, the thought process placed strong emphasis on developing new strategies to reinvent Sunway REIT's future growth through innovation - in simple terms - to think out of the normal convention.

We recognised that the core segments in our assets portfolio are susceptible to various growth-impeding challenges such as an oversupply property market, softening economic climate, lackluster tourist arrivals, rapid growth in e-commerce and other forms of disruptors and more. We observed new opportunities arising from long-term global megatrends such as urbanisation, growing intellect and affluence, innovation, amongst others. These megatrends unveiled new opportunities for Sunway REIT to diversify its investment portfolio such as spillover from e-commerce leading to demand for logistics and warehouses, growth in education and healthcare demand and potential partnerships with operators of business disruptors.

Propelling Sunway REIT's future growth aside, the diversification strategy is vital in managing Sunway REIT's portfolio concentration risk and business risk. The acquisition of Sunway university & college campus is in line with Sunway REIT's diversification strategy. The subject property, which is on a long-term triple-net lease structure will further strengthen the certainty and stability of Sunway REIT's income base. In a challenging market environment, income stability is crucial for Sunway REIT to protect the stability of income distribution to unitholders. The subject property is also complementary to Sunway REIT's properties located in the strategic and vibrant Sunway City.

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Q: IS SUNWAY REIT ON TRACK TO ACHIEVE ITS RM10 BILLION TARGET IN PROPERTY VALUE BY FY2020?

A: The RM10 billion target is an aspiration which we set during IPO in 2010. The property value has more than doubled since then. We have been operating in an intensely competitive environment amidst oversupplied property sub-sector and moderating economic climate. In spite of the prevailing challenges, we registered a healthy 10.5% growth in property value in FY2019, mainly attributable to the acquisition of Sunway university & college campus and appreciation in fair value of RM108 million.

One of Sunway REIT's growth pillars was via acquisition of which Sunway REIT has acquired RM2 billion worth of assets since IPO. This strategy remains as Sunway REIT's growth driver moving forward. In our opinion, the challenging property market environment is a double-edged sword which offers more acquisition opportunities in the market. We expect more sellers to prevail in the market due to their need to restructure the balance sheet or to deleverage.

Despite more potential opportunities offered in the market, we will exercise caution and prudence in evaluating acquisition proposals to ensure sustainability in income growth and property yield in the long-term horizon. Therefore, it is crucial for us to be convinced of the long-term growth prospect of the property, its location, and opportunity to add value. In the prevailing soft property market environment, we also factor in higher risk premiums in the investment evaluation process, resulting in widening expectations of yield requirements between vendors and buyers.

We take responsibility and accountability to exercise care and diligence in our acquisition of assets that are resilient to stand the test of time rather than building the portfolio merely to meet the target. We will work diligently towards achieving the RM10 billion within the timeframe but it is not "be all end all." Long-term goal cannot be compromised to fulfill short-term target by buying just for the sake of hitting acquisition target. We need to be selective and nurture superior quality properties to maximise potential for long-term income generation.

Our commitment to stakeholders is to continue to pursue growth through acquisitions in a prudent manner and supported by long-term pipeline assets developed by the Sponsor. In addition, the extended TC25 has set a longer term target of between RM13 billion to RM15 billion of property value.

Q: PLEASE SHARE THE UPDATE FOR THE EXPANSION OF SUNWAY CARNIVAL SHOPPING MALL.

A: The expansion of Sunway Carnival Shopping Mall is Sunway REIT's maiden property development project as permitted by the Securities Commission's Guidelines on Listed REITs. The extension wing of Sunway Carnival Shopping Mall aims to increase the net lettable area (NLA) of the mall by 350,000 sq.ft. to bring the total NLA of the mall to 830,000 sq.ft.

We are optimistic that this new retail icon in the making will be catalytic in transforming the retail landscape in mainland Penang. Leasing activities have been activated and pre-committed tenants are secured progressively. We are encouraged that pre-leasing responses thus far have indicated healthy interest from both internationally renowned and local tenants. With the Sunway brand and strong relationships with esteemed tenants to introduce "winner brands", we are confident that the mall will continue to flourish as the leading retail mall in the northern state.



Please refer to Investment Review under the Management Discussion & Analysis section

Q: PLEASE SHARE THE UPDATE FOR ASSET ENHANCEMENT INITIATIVES UNDERTAKEN IN FY2019. IS THERE ANY NEW ASSET ENHANCEMENT INITIATIVES IN FY2020?

A: As REIT Manager, we need to continuously identify opportunities to upgrade, maintain and redevelop our properties in pursuit of maximising the growth of the properties. In some instances, asset enhancement initiatives (AEIs) are required purely to protect market share and as part of our commitment in offering service excellence to our customers.

During the financial year, Sunway REIT completed the refurbishment of the Grand Ballroom and Meeting Rooms in Sunway Resort Hotel & Spa on time in November 2018. The refreshed and additional new meeting rooms equipped with state-of-the-art technological features have been relaunched in the market and received positive responses in the marketplace, which ultimately would contribute revenues for the hotel.



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Sunway Tower continued to suffer from high vacancy since FY2014 following the exit of two anchor tenants due to consolidation in their business. Occupancy rate has remained low despite aggressive leasing strategies. The growing trend of co-working and shared services has created opportunities to cater to new demand for office space, especially amongst small and medium sized entrepreneurs (SMEs) and start-ups. Capitalising on this trend, 5 levels of Sunway Tower will be repositioned to cater to a flexible co-working space concept, equipped with enhanced range of trendy offerings and space flexibility. The refurbishment will be executed on a progressive basis to take into consideration absorption rate and income generation. The first phase involves configuration of existing 4 floors into flexible co-working space with upgraded facilities.

In addition, we are initiating asset management initiative (AMI) for Sunway Putra Mall to uplift its performance. The Business Enhancement Plan 2020-2022, is formulated to redefine Sunway Putra Mall's tenancy mix with reintroduction of F&B attractions to drive an increase in footfall. There is a need to proactively undertake AMI because there is an abundance of value creation opportunity to be extracted for this retail mall.



For more information, please refer to Management Discussion & Analysis – Investment Review section

Q: HOW DOES SUNWAY REIT ADDRESS THE OVERSUPPLY CONDITION AND EMERGING THREAT OF E-COMMERCE FOR THE RETAIL SEGMENT?

A: The oversupply situation in the retail sub-sector is not new and is expected to intensify in the coming years. Sunway REIT acknowledges the challenges facing the retail sub-sector and the need to proactively evolve in order to stay ahead of consumer trends and competition.

In today's context, retail malls are no longer a shopping destination. However, they are lifestyle destinations where consumers congregate for social and family purpose. We have repositioned our malls to be experiential lifestyle malls offering refreshing experiences to consumers in the marketplace where we operate. We believe that these refreshing and unique experiences will appeal to existing consumers and attract new footfalls to the malls. Some of the strategies include creative marketing activities, capitalising new marketing channels such as social media and the use of IoTs and data analytics, increasing brand building amongst tenants such as flagship brands and first in Malaysia brands. We also enhance customer care and relationship via loyalty programmes such as Sunway Pals, rewards incentives, heart-touching points, phone-charging stations and etc.

We are conscious of staying relevant and in times of tough competition, we in fact turned aggressive on marketing and promotion activities in our malls to continuously drive higher footfalls to boost tenants' sales. In reality, their business growth is our business focus.

Q: HOW DOES SUNWAY REIT BENEFIT FROM EASING OF MONETARY POLICY?

A: In line with global interest rate trend, Bank Negara Malaysia's stance in maintaining an accommodative monetary policy stance is positive to boost business and consumer sentiment and demand for REITs. With the potential of a further decline in interest rate, we have maintained an active capital management strategy with a balanced fixed to variable debt ratio to optimise cost of financing.

Accommodative monetary easing regime typically bodes well for sentiment and demand for REITs units by virtue of the anticipation of widening spread between distribution yield and risk-free rate. This enhances the attractiveness of investing in REITs.



For more details, please refer to Management Discussion & Analysis – Capital Management section

Q: UNDER YOUR LEADERSHIP AS CHAIRMAN OF MRMA, PLEASE SHARE ANY LANDMARK INITIATIVE DURING THE YEAR.

A: MRMA has recently developed an innovative social impact investment proposal to the Government. On 24 June 2019, MRMA presented the Proposed Affordable Rental Homes project to the Prime Minister of Malaysia. We hope our proposal will be considered favourably as this proposal is an innovative and sustainable solution to engage, embrace and empower society through provision of affordable rental housing for B40 households as an alternative and complementary solution to home ownership.

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Q: WHAT SHOULD UNITHOLDERS EXPECT FOR FY2020?

A: Looking ahead, the underlying fundamentals surrounding the operating landscape remain challenging on the back of global whirlwind, moderation in domestic economy and fluidity in government policies amidst the New Government reform.

We expect Sunway REIT's DPU to stay resilient in FY2020, primarily supported by full year income contribution from Sunway university & college campus and modest growth in retail segment. However, we remain cautious on the performance of the hotel segment on the back of anticipated stronger headwinds with increasing supply facing the hospitality industry coupled with soft business sentiment and low growth in tourist arrivals.

Yours sincerely,

Dato' Jeffrey Ng Tiong Lip

Chief Executive Officer
Sunway REIT Management Sdn Bhd
8 August 2019

