

Sunway REIT

(5176 | SREIT MK) Real Estate | Real Estate Investment Trust

Maintain BUY

Decent earnings

Unchanged Target Price: RM2.02

KEY INVESTMENT HIGHLIGHTS

- **1HFY20 earnings in line**
- **Higher earnings in 1HFY20**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM2.02**

1HFY20 earnings in line. Sunway REIT 1HFY20 core net income of RM145.9m came in within expectations, making up 47% of our and consensus full year estimates. A DPU of 2.45sen was announced, bringing cumulative DPU to 4.95sen in 1HFY20.

Higher earnings in 1HFY20. Sunway REIT recorded higher core net income of RM72.1m (+8.6%yoy) in 2QFY20, bringing cumulative core net income to RM145.9m (+4.6%yoy) in 1HFY20. The higher earnings in 1HFY20 were mainly attributed to higher earnings from hotel division, office division, services as well as industrial and others. Higher earnings from hotel division were driven by reopening of ballroom and function rooms at Sunway Resort Hotel and Spa while office division was buoyed by higher occupancy rates. Meanwhile, contribution from Sunway University and College and higher rental from Sunway Medical Centre supported earnings growth of services segment. On the other hand, retail division recorded 2.8%yoy decline in net property income due to higher advertising and promotional expenses at Sunway Pyramid.

Earnings forecast maintained. We make no changes to our earnings forecast. We expect earnings outlook for Sunway REIT to remain positive, driven mainly by services and industrial divisions. We expect rental reversion of Sunway Pyramid to remain positive, however this maybe slightly offset by the negative rental reversion at Sunway Clio retail and Sunway Carnival as the latter is undergoing reconfiguration.

Maintain BUY with unchanged TP of RM2.02. We maintain our TP for Sunway REIT at RM2.02, based on Dividend Discount Model (required rate of return of 7.4%; terminal growth rate of 2.0%). We maintain our BUY call on Sunway REIT as we like its integrated asset cluster in a mature township and stable prospects for Sunway Pyramid mall. Meanwhile, dividend yield is estimated at 5.1%.



RETURN STATISTICS

| | |
|---|-------------|
| Price @ 13 th February 2020 (RM) | 1.88 |
| Expected share price return (%) | 7.4 |
| Expected dividend yield (%) | 5.1 |
| Expected total return (%) | 12.5 |

SHARE PRICE CHART



| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month | 3.3 | 6.1 |
| 3 months | 3.3 | 2.4 |
| 12 months | 8.0 | 18.6 |

KEY STATISTICS

| | |
|----------------------------------|-------------|
| FBM KLCI | 1,539.16 |
| Syariah compliant | No |
| Issue shares (m) | 2,945.08 |
| Estimated free float (%) | 37.53 |
| Market Capitalisation (RM'm) | 5,536.75 |
| 52-wk price range | RM1.74-1.98 |
| Beta vs FBM KLCI (x) | 0.48 |
| Monthly velocity (%) | 11.02 |
| Monthly volatility (%) | 4.66 |
| 3-mth average daily volume (m) | 2.76 |
| 3-mth average daily value (RM'm) | 5.29 |
| Top Shareholders (%) | |
| Sunway Bhd | 40.88 |
| EPF | 14.22 |
| KWAP | 6.70 |

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INVESTMENT STATISTICS

| FYE Dec (RM m) | FY18 | FY19F | FY20E | FY21F | FY22F |
|------------------------|-------|-------|-------|-------|-------|
| Gross Revenue | 560 | 580 | 654 | 680 | 703 |
| Net Rental Income | 420 | 440 | 503 | 522 | 539 |
| Net Investment Income | 573 | 553 | 616 | 635 | 652 |
| Net Income | 428 | 394 | 420 | 430 | 435 |
| Core Net Income | 284 | 287 | 313 | 322 | 327 |
| Realised EPU (sen) | 14.52 | 12.98 | 14.27 | 14.59 | 14.77 |
| Core EPU (sen) | 9.64 | 9.73 | 10.62 | 10.93 | 11.11 |
| Gross DPU (sen) | 9.57 | 9.59 | 10.62 | 10.93 | 11.11 |
| Net DPU (sen) | 8.61 | 8.63 | 9.55 | 9.84 | 10.00 |
| Net Distribution Yield | 4.6% | 4.6% | 5.1% | 5.2% | 5.3% |
| Core PER | 19.5 | 19.3 | 17.7 | 17.2 | 16.9 |
| NAV per unit | 1.48 | 1.51 | 1.60 | 1.60 | 1.60 |
| P/NAV | 1.28 | 1.24 | 1.18 | 1.18 | 1.18 |
| Core ROE | 7.1% | 6.5% | 7.1% | 7.4% | 7.5% |
| Core ROA | 4.0% | 3.7% | 3.8% | 3.9% | 3.8% |

Source: Company, MIDFR

Sunway REIT: 2QFY20 RESULTS SUMMARY

| FYE June (RM'm, unless otherwise stated) | Quarterly Results | | | Cumulative | |
|--|-------------------|-------|------|------------|------|
| | 2QFY20 | %YoY | %QoQ | 6MFY20 | %YoY |
| Gross Revenue | 155.8 | 11.7% | 0% | 311.1 | 9.9% |
| Net Rental Income (NRI) | 116.6 | 11.9% | -2% | 235.7 | 9.8% |
| Net Investment Income | 118.4 | 12.0% | -2% | 238.6 | 9.2% |
| Net Income | 72.1 | 8.6% | -2% | 145.9 | 4.6% |
| Core Net Income (CNI) | 72.1 | 8.6% | -2% | 145.9 | 4.6% |
| Realised EPU (sen) | 2.4 | 8.6% | -2% | 5.0 | 4.6% |
| Core EPU (sen) | 2.4 | 8.6% | -2% | 5.0 | 4.6% |
| Gross DPU (sen) | 2.5 | 8.9% | -2% | 5.0 | 4.7% |

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

| | |
|---------------------|--|
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <10% over the next 12 months. |
| TRADING SELL | Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

SECTOR RECOMMENDATIONS

| | |
|-----------------|--|
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |