

Sunway REIT

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

Maintain BUY

Looking beyond the near-term headwinds

Adjusted Target Price: RM1.88
(previously RM2.02)

KEY INVESTMENT HIGHLIGHTS

- **9MFY20 earnings fell short of expectation**
- **3QFY20 earnings dropped by -13% yoy and -15% qoq to RM65.7m**
- **Earnings forecast for FY20E/FY21F cut by -9% and -11% respectively**
- **BUY with an adjusted TP of RM1.88 (previously RM2.02)**

9MFY20 earnings fell short of expectation. Sunway REIT 9MFY20 core net income of RM211.5m was below our expectations at 71% of our full year forecast but within consensus' full year estimates at 77%. The negative deviation can be attributed to lower than expected rental income from its retail and hotel segments that are hit by the Covid-19 pandemic. No dividend was announced this quarter as the REIT manager changes its payout frequency to semi-annual instead of quarterly as a pre-emptive measure to preserve liquidity.

3QFY20 earnings dropped by -13%yoy and -15%qoq to RM65.7m. Sunway REIT's core net income (CNI) was hit by the Covid-19. The hotel segment was the most impacted with revenue falling by -35% to RM15.3m in 3QFY20 while net property income (NPI) declining -37% to RM13.5m. This was followed by the retail segment, which saw revenue dropped by -11% to RM98.3m and NPI decreasing by -16% to RM67.1m. The lower retail revenue and NPI can be attributed to RM13.8m of rental support granted to non-essential retail tenants during the MCO period. While it is possible that the REIT manager may extend some sort of support to its tenants beyond the March period, we opine that the amount is likely to be lower as aid would be given on a case by case basis. Management may also offer slight deferment of rental payment instead of rental rebates for tenants who face cash flow issues during the period. On a positive note, management shared that footfall at its malls has recovered to 40%-50% since the CMCO as ~90% of the tenants have started to operate again. As for the hotel segment, we anticipate a slower recovery as Covid-19 is expected to change global travelling. As social gatherings are prohibited during the MCO, functions and corporate events have been cancelled, resulting in loss of income. As of 3QFY20, Hotel NPI makes up 13% of the total NPI while retail makes up 64.8% of Sunway REITs total NPI. On the other hand, its office, services and industrial segment are holding up well. NPI for the office segment increased by 22% to RM6.4m due to improved performance from all its office properties while services segment jumped 150% to RM14.9m due to the addition of Sunway university and college campus. Meanwhile, Sunway Medical Center NPI increased by +3.5% to RM6.2m due to positive rental reversion.

RETURN STATISTICS

Price @ 19 th May 2020 (RM)	1.59
Expected share price return (%)	18.2
Expected dividend yield (%)	5.5
Expected total return (%)	12.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.5	-3.2
3 months	0.0	-9.3
12 months	-15.9	-5.2


KEY STATISTICS

FBM KLCI	1423.97
Syariah compliant	No
Issue shares (m)	2945.08
Estimated free float (%)	35.93
Market Capitalisation (RM'm)	4682.67
52-wk price range	RM1.5 - RM1.98
Beta vs FBM KLCI (x)	0.60
Monthly velocity (%)	0.00
Monthly volatility (%)	4.66
3-mth average daily volume (m)	3.62
3-mth average daily value (RM'm)	5.99
Top Shareholders (%)	
Sunway Bhd	40.88
EPF	15.69
KWAP	6.84

Analyst(s)
Ng **BEI SHAN**
ng.bs@midf.com.my
03 -2173 8461

Cumulative CNI improved by 3%yoy to RM221.7m as revenue climbed 4%yoy to RM451.9m. Growth is mainly supported by the addition of the education asset as well as the better performance of its office segment.

Earnings forecast for FY20E/FY21F cut by 9% and 11% respectively. In view of the adverse impact Covid-19 has on Sunway REIT's retail and hotel segment, we are revising our rental income assumption for the retail segment as well as occupancy rate and average daily rate for the hotel segment. While we are cautious of the performance of the retail segment in the near-term, we believe that footfall may recover over time as going to shopping malls is one of the leisure enjoyed by Malaysians. While consumers have evidently shop more online, we think that the experience at the shopping malls cannot be fully replicated online and that retailers will be more creative in attracting consumers to visit physical stores or strengthen their omni-channel strategies. While we expect the upcoming quarter to be subdued, we do expect recovery in the following quarters. On top of that, we believe that the REIT manager will continue to diversify its portfolio so that earnings will remain robust.

Maintain BUY with an adjusted TP of RM1.88 (previously RM2.02). The adjustment is made following the changes in our FY20E and FY21F earnings assumption as well as our second stage growth assumption from 4% to 3%. We have also tweaked our required rate of return to 6.9% from 7.4% previously in tandem with the central bank's decision to trim key rates by 100bps this year. Our valuation method using the Dividend Discount Model, with a terminal growth rate of 2.0%, is otherwise unchanged. Looking beyond the current headwinds, we view that Sunway REIT's portfolio may stand the test of time in the longer term due to its integrated asset cluster in a mature township as well as management's efforts in building a more balanced portfolio. At current price, price to NAV of 1.0x is deemed attractive while dividend yield is expected at 5.1%. 

INVESTMENT STATISTICS

FYE Dec (RM m)	FY18	FY19F	FY20E	FY21F	FY22F
Gross Revenue	560	580	583	598	627
Net Rental Income	420	440	437	448	470
Net Investment Income	573	553	550	561	583
Net Income	428	394	392	395	407
Core Net Income	284	287	284	287	299
Realised EPU (sen)	14.52	12.98	13.31	13.42	13.82
Core EPU (sen)	9.64	9.73	9.65	9.76	10.17
Gross DPU (sen)	9.57	9.59	9.65	9.76	10.17
Net DPU (sen)	8.61	8.63	8.68	8.78	9.15
Net Distribution Yield	5.4%	5.4%	5.5%	5.5%	5.8%
Core PER	16.5	16.3	16.5	16.3	15.6
NAV per unit	1.48	1.51	1.60	1.60	1.60
P/NAV	1.28	1.05	1.00	1.00	1.00
Core ROE	7.1%	6.5%	6.4%	6.6%	6.9%
Core ROA	4.0%	3.7%	3.5%	3.5%	3.5%

Source: Company, MIDFR

Sunway REIT: 3QFY20 RESULTS SUMMARY

FYE June (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY20	YoY	QoQ	9MFY20	YoY
Gross Revenue	140.8	-7.1%	-10%	451.9	4.0%
Net Rental Income (NRI)	103.5	-9.0%	-11%	339.2	3.3%
Net Investment Income	104.6	-8.7%	-12%	343.2	3.1%
Net Income	65.7	-4.7%	-15%	221.7	6.4%
Core Net Income (CNI)	65.7	-13.4%	-15%	221.7	3.0%
Realised EPU (sen)	2.2	-4.7%	-15%	7.5	6.4%
Core EPU (sen)	2.2	-13.4%	-15%	7.5	3.0%
Gross DPU (sen)	0.0	NM	NM	5.0	NM

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.
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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.