

10 August 2018 | 4QFY18 Results Review

Sunway REIT

Sunny outlook for FY19

INVESTMENT HIGHLIGHTS

- **FY18 earnings within expectation**
- **CNI for FY18 rose 5.2% yoy to RM284.5m**
- **4QFY18 CNI declined by 5.0% yoy to RM63.4m**
- **Maintain BUY with adjusted TP of RM1.93 (from RM1.90 previously)**

FY18 earnings within expectation. Sunway REIT (SUNREIT)'s core net income (CNI) of RM284.5m made up 100% of our FY18 forecast and 103% of consensus'. Our CNI excludes fair valuation gain of RM144.8m and a one-off deferred tax of RM1m for the cumulative fair value gain of freehold land. A DPU of 2.15 sen was announced, bringing YTD DPU to 9.57 sen, which is also within expectation.

CNI for FY18 rose 5.2% yoy to RM284.5m as revenue grew 7.2% yoy to RM560.4m. Retail segment NPI grew 2.4% to RM296.9m due to positive rental reversion from Sunway Pyramid while hotel segment jumped 28.2% to RM77.7m mainly due to the full re-opening of Sunway Pyramid Hotel. Meanwhile, the office segment NPI increased by 6.1% to RM17.5m due to higher NPI from Sunway Putra Tower. Meanwhile, the addition of the Shah Alam industrial asset helped to boost the other segment by 26.9% to RM27.8m.

4QFY18 CNI declined by 5.0% yoy to RM63.4m on the back of revenue that grew 3.0% yoy to RM136.3m. The higher income was offset by higher marketing and promotional expenses at Sunway Pyramid, Sunway Putra Mall and Sunway Carnival. On top of that, borrowing costs rose 26.4% yoy to RM29.0m due to the higher borrowings drawn down for the acquisition of Sunway Clio as well as higher borrowing costs that averaged at 3.98% versus 3.95% as at 3QFY18.

Office segment expected to improve gradually. We expect the office segment to be better going forward following the higher occupancy rate at Sunway Putra Tower which has improved to 56% from 36.6% yoy. The occupancy rate going forward is expected at 78%. Meanwhile, Wisma Sunway is expected to see 99.9% occupancy rate by 2QFY19 due to the expansion of an existing tenant from 78.3% as at end-June.

The Sunway Clio acquisition was completed in February 2018 and has contributed RM5.6m to its topline and RM1.9m to its NPI for FY18. The occupancy rate of the retail portion of Sunway Clio averaged at 58% in 3QFY18 but has since improved to 88% in March and continued to remain at the level. We expect the full year contribution from Sunway Clio to uplift SUNREIT's FY19 revenue and CNI.


Maintain BUY

Adjusted Target Price (TP): RM1.93
(previously RM1.90)

| RETURN STATS | |
|------------------------------|-----------------|
| Price (9 August 2018) | RM1.74 |
| Target Price | RM1.93 |
| Expected Share Price Return | +11.1% |
| Expected Dividend Yield | +5.1% |
| Expected Total Return | +16.2% |
| STOCK INFO | |
| KLCI | 1,804.95 |
| Bursa / Bloomberg | 5176/ SREIT MK |
| Board / Sector | Main / REITs |
| Syariah Compliant | No |
| Issued shares (mil) | 2,945.08 |
| Market cap. (RM'm) | 5,124.44 |
| Price over NA | 1.22 |
| 52-wk price Range | RM1.48 - RM1.90 |
| Beta (against KLCI) | 0.78 |
| 3-mth Avg Daily Vol | 1.11m |
| 3-mth Avg Daily Value | RM1.91m |
| Major Shareholders | |
| Sunway Berhad | 40.88% |
| EPF | 14.11% |
| Skim Amanah Saham | 7.25% |
| KWAP | 4.17% |

Development of Sunway Carnival expansion. The expansion works for Sunway Carnival, which has started during in 3QFY18 and is scheduled for completion by 3QFY21, is on track. Currently, SUNREIT has carried out promotional activities at the mall to attract shoppers and also pre-marketing to attract tenants for the future expansion. The estimated property development cost of RM353m is inclusive of land cost. Following the completion of the project, Sunway Carnival's NLA is expected to increase by 330,000 sq ft or 72% to 787,920 sq ft. The cumulative cost incurred from initiation up to end-June was RM27.2m. Property development against its enlarged total asset value was at 4.5%, which is less than the 15% requirement set by SC.

Earnings estimate for FY19 lowered. We fine-tune our FY19 estimates to include higher operating expenses from higher promotional and marketing expenses for its retail segment. As a result, our FY19F CNI is reduced to RM292m from RM303m previously. The revised CNI represents a 3.0% yoy growth, which is premised on positive single-digit rental reversion from its retail segment. We also expect the higher NPI from the office segment to be slightly offset by the weaker hotel segment mainly due to softer NPI at Sunway Resort and Spa due to the refurbishment work there.

Maintain BUY with adjusted TP of RM1.93 from RM1.90 previously as we rollover our base year. However, we make no changes to our Dividend Discount Model-based valuation. We reaffirm our BUY call on SUNREIT due to the positive outlook anchored by Sunway Pyramid and new contribution from Sunway Clio. We also expect improvement for its office segment in FY19. Meanwhile, SUNREIT's dividend yield is estimated at 5.1%. 

INVESTMENT STATISTICS

| FYE June (RM'm, unless otherwise stated) | FY16 | FY17 | FY18 | FY19F | FY20F |
|--|-------|-------|-------|-------|-------|
| Gross Revenue | 507 | 523 | 560 | 591 | 622 |
| Net Rental Income | 374 | 389 | 420 | 446 | 471 |
| Net Investment Income | 447 | 549 | 573 | 451 | 476 |
| Net Income | 324 | 424 | 428 | 292 | 309 |
| Core Net Income | 254 | 270 | 284 | 292 | 309 |
| Realised EPU (sen) | 11.00 | 14.42 | 14.52 | 9.93 | 10.48 |
| Core EPU (sen) | 8.63 | 9.19 | 9.64 | 9.93 | 10.48 |
| Gross DPU (sen) | 9.18 | 9.19 | 9.64 | 9.93 | 10.48 |
| Net DPU (sen) | 8.26 | 8.27 | 8.68 | 8.94 | 9.43 |
| Net Distribution Yield | 4.7% | 4.8% | 5.0% | 5.1% | 5.4% |
| Core PER (x) | 20.2 | 18.9 | 18.0 | 17.5 | 16.6 |
| NAV per unit (RM) | 1.38 | 1.43 | 1.48 | 1.48 | 1.48 |
| P/NAV (x) | 1.26 | 1.22 | 1.18 | 1.18 | 1.18 |
| Core ROE | 6.6% | 6.5% | 6.6% | 6.7% | 7.1% |
| Core ROA | 4.0% | 4.0% | 4.0% | 3.9% | 4.0% |

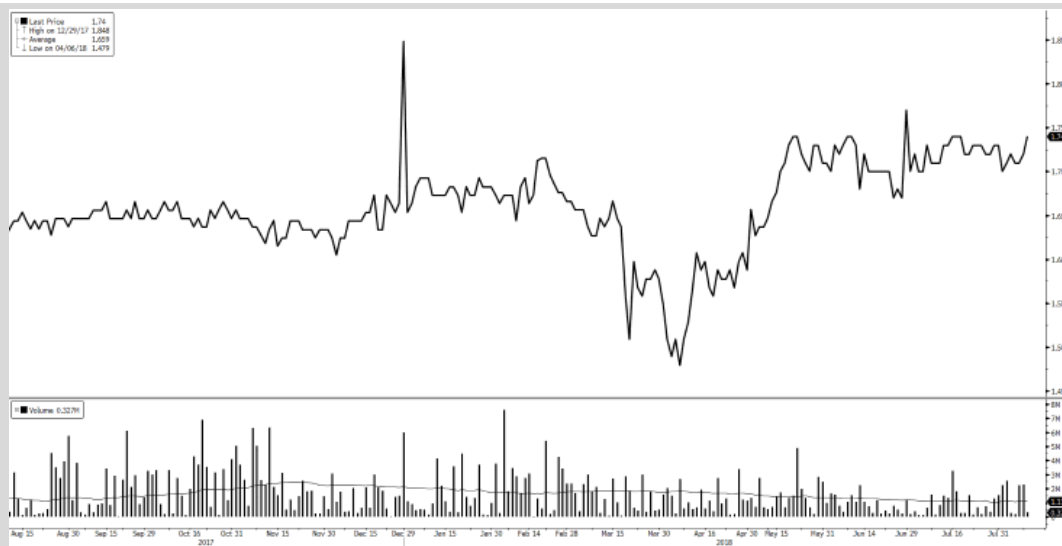
Source: MIDF Research

SUNREIT: 4QFY18 Results Summary

| FYE June (RM'm, unless otherwise stated) | Quarterly Results | | | Cumulative | |
|--|-------------------|------|------|------------|------|
| | 4QFY18 | %YoY | %QoQ | FY18 | %YoY |
| Gross Revenue | 136.3 | 3% | -4% | 560.4 | 7% |
| Net Rental Income (NRI) | 100.3 | 2% | -5% | 420.2 | 8% |
| Net Investment Income | 246.9 | -2% | 130% | 572.9 | 4% |
| Net Income | 207.1 | -5% | 194% | 427.7 | 1% |
| Core Net Income (CNI) | 63.4 | -5% | -10% | 284.5 | 5.2% |
| Realised EPU (sen) | 7.0 | -5% | 194% | 14.5 | 1% |
| Core EPU (sen) | 2.2 | -5% | -10% | 9.5 | 4% |
| Gross DPU (sen) | 2.2 | -5% | -9% | 9.6 | 4% |

Source: MIDF Research

DAILY PRICE CHART



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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. |