

Sunway REIT

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

Maintain BUY

Revised Target Price: RM1.70

Previously RM1.82

Gradual recovery in retail division


KEY INVESTMENT HIGHLIGHTS

- **FY20 earnings below our expectation**
- **Lower contribution from retail and hotel divisions**
- **Gradual recovery for retail division**
- **Earnings estimates revised downwards**
- **Maintain BUY with an adjusted TP of RM1.70**

FY20 earnings below our expectation. Sunway REIT FY20 core net income of RM249.5m came in within consensus expectation but below ours, making up only 91% of our estimate. The negative deviation could be attributed to the weaker than expected earnings from retail and hotel divisions. Meanwhile, distribution per unit (DPU) of 2.38sen was announced for 2HFY20, bringing cumulative DPU to 7.33sen which translates into 4.9% yield.

Lower contribution from retail and hotel divisions. Sunway REIT's FY20 core net income was lower at RM249.5m (-12.9%yoy), mainly due to weaker contribution from retail and hotel divisions which were both adversely affected by Movement Control Order (MCO). Net property income (NPI) of retail division fell by 20%yoy, dragged by rental support to assist tenants and lower carpark income. Similarly, NPI of hotel division eased by 13%yoy as Covid-19 pandemic has impacted tourism industry. Nevertheless, performance of office division was stable by registering 12%yoy growth in NPI due to improved performance from its office properties. Likewise, NPI of services division jumped by 92%yoy mainly due to income contribution of Sunway University and College campus as well as higher rental income from Sunway Medical Centre.

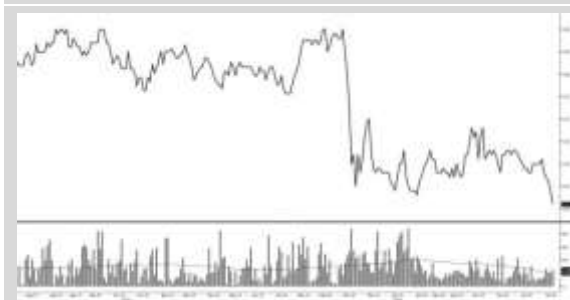
Gradual recovery in retail division. We expect better outlook for retail division in FY21 as we gather that footfall at Sunway Pyramid shopping mall has recovered to 60%-70% of pre-Covid19 levels. We also reckon the quantum of rental support to be smaller in FY21 as tenant sales recover. Meanwhile, outlook for hotel division is expected to be challenging as restrictions on domestic and inbound travel will continue to hit the hotel industry. Hence, Sunway REIT plans to capitalize on the window of opportunity to undertake phased refurbishment of Sunway Resort Hotel in FY21.

Maintain BUY with a revised TP of RM1.70. We revise FY21/22F earnings by -7.1%/-4.1% as we expect closure of Sunway Resort Hotel for refurbishment to drag earnings of hotel division. Our TP for Sunway REIT is revised to RM1.70 from RM1.82 post earnings revision, based on DDM valuation. We maintain BUY call on Sunway REIT as we expect earnings to recover in the coming quarters. Besides, we like Sunway REIT's diversify portfolio with recurring income from different segments. Meanwhile, distribution yield is estimated at 4.9%. 

RETURN STATISTICS

Price @ 3 Aug 2020 (RM)	1.50
Expected share price return (%)	13.3
Expected dividend yield (%)	4.9
Expected total return (%)	18.2

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-8.0	-13.1
3 months	-7.4	-15.4
12 months	-21.5	-19.2

KEY STATISTICS

FBM KLCI	1,572.61
Syariah compliant	No
Issue shares (m)	2,945.08
Estimated free float (%)	35.83
Market Capitalisation (RM'm)	4,418
52-wk price range	RM1.5-1.98
Beta vs FBM KLCI (x)	0.58
Monthly velocity (%)	0.01
Monthly volatility (%)	4.66
3-mth average daily volume (m)	2.05
3-mth average daily value (RM'm)	3.32
Top Shareholders (%)	
Sunway Bhd	40.88
EPF	15.76
KWAP	6.87

Analyst(s)

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INVESTMENT STATISTICS

FYE June (RM m)	FY18	FY19	FY20	FY21F	FY22F
Gross Revenue	560	580	557	569	606
Net Rental Income	420	440	417	418	448
Net Investment Income	573	553	364	531	561
Net Income	428	394	208	367	386
Core Net Income	284	287	249	259	278
Realised EPU (sen)	14.52	12.98	7.07	12.45	13.11
Core EPU (sen)	9.64	9.73	8.47	8.79	9.46
Gross DPU (sen)	9.57	9.59	7.33	8.18	8.84
Net DPU (sen)	8.61	8.63	6.60	7.36	7.96
Net Distribution Yield	5.7%	5.8%	4.4%	4.9%	5.3%
Core PER	15.6	15.4	17.7	17.1	15.9
NAV per unit	1.48	1.51	1.62	1.61	1.62
P/NAV	1.28	0.99	0.93	0.93	0.93
Core ROE	7.1%	6.5%	5.6%	5.9%	6.3%
Core ROA	4.0%	3.7%	3.0%	3.1%	3.3%

Source: Company, MIDFR

Sunway REIT: 4QFY20 RESULTS SUMMARY

FYE June (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	4QFY20	%YoY	%QoQ	FY20	%YoY
Gross Revenue	104.9	-27.9%	-25%	556.9	-4.0%
Net Rental Income (NRI)	77.6	-30.2%	-25%	416.8	-5.2%
Net Investment Income	21.1	-90.4%	-80%	364.2	-34.1%
Net Income	-13.5	NM	NM	208.2	-46.1%
Core Net Income (CNI)	27.8	-61.0%	-58%	249.5	-12.9%
Realised EPU (sen)	-0.5	NM	NM	7.1	-46.1%
Core EPU (sen)	0.9	-61.0%	-58%	8.5	-12.9%
Gross DPU (sen)	2.4	4.4%	NM	7.3	-23.6%

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.