

# Sunway REIT

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

## Maintain BUY

### Buying Sunway Pinnacle for RM450m

**Unchanged Target Price: RM1.88**

#### KEY INVESTMENT HIGHLIGHTS

- **Proposed to buy Sunway Pinnacle for RM450m**
- **Private placement to raise up to RM710m**
- **Earnings may be lifted by 0.3%/0.3% for FY21F/FY22F**
- **Maintain BUY with an unchanged TP of RM1.88**

**Proposed to buy Sunway Pinnacle for RM450m.** Sunway REIT announced that it is proposing to purchase Sunway Pinnacle, a leasehold office tower in Sunway City for a consideration of RM450m based on DCF valuation as well as comparison methods. Sunway Pinnacle, a 24-storey building with a net lettable area of 1.15 sq ft and 855 parking bays, is certified Green Building Index with Multimedia Super Corridor. It also comes with three-storey mezzanine floors. The building is fully tenanted with gross annual rental income of RM36.4m as of end 2019.

**Private placement to raise up to RM710.0m.** The proposed transaction is expected to be fulfilled via a private placement to the tune of RM710.0m, out of which, RM405m will be allocated for the purchase of Sunway Pinnacle and RM295.3m for the capital expenditure of Sunway Carnival Mall. The remaining will be for the expenses related to the corporate exercises announced. The private placement is expected to further improve the trading liquidity in Sunway REIT units. Gearing is expected to fall below 38% following the private placement.

**Earnings may be lifted by 0.3%/0.3% for FY21F/FY22F.** Based on our estimation, the addition of Sunway Pinnacle may lift Sunway REIT's earnings by 0.3% for FY21F/FY22F. We think that the purchase is in-line with Sunway REIT's strategy to create a more diversified portfolio from being retail-focus previously. We believe the objective of this is to have a more stable income stream in the event of a slowdown in any particular sector. That said, we leave our earnings estimates unchanged pending more details in an upcoming briefing.

**Maintain BUY with an unchanged TP of RM1.88.** We like Sunway REIT for its integrated asset cluster in a mature township as well as management's efforts in building a more balanced portfolio to create sustainable distribution growth in the medium to long-term. At current price, price to NAV of ~1.0x is deemed attractive while dividend yield is expected at 5.1%.



#### RETURN STATISTICS

Price @ 30 <sup>th</sup> June 2020 (RM)	1.58
Expected share price return (%)	19.0
Expected dividend yield (%)	5.5
<b>Expected total return (%)</b>	<b>24.5</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.3	-2.6
3 months	-0.6	-10.2
12 months	-15.5	-5.5

#### KEY STATISTICS

FBM KLCI	1,494.43
Syariah compliant	No
Issue shares (m)	2945.08
Estimated free float (%)	35.81
Market Capitalisation (RM'm)	4,653.22
52-wk price range	RM1.5 - RM1.98
Beta vs FBM KLCI (x)	0.59
Monthly velocity (%)	0.00
Monthly volatility (%)	4.66
3-mth average daily volume (m)	3.13
3-mth average daily value (RM'm)	4.98
Top Shareholders (%)	
Sunway Bhd	40.88
EPF	15.81
KWAP	6.84

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## 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

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.