Corporate Update | Tuesday, 19 July 2022

# Sunway REIT

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

**_Maintain_ BUY**

**_Revised_ Target Price: RM1.68**
*(from* RM1.70)

## Positive outlook

### KEY INVESTMENT HIGHLIGHTS

- **Virtual meeting with Sunway REIT**
- **Solid outlook for retail division**
- **Stronger recovery anticipated for hotel division in FY23**
- **Stable outlook for other divisions**
- **Mild impact from OPR hike.**
- **Maintain BUY with a revised TP of RM1.68**

**Virtual meeting with Sunway REIT.** We had a virtual meeting with Sunway REIT and came away feeling reaffirmed on its positive outlook. Key takeaways from the meeting as below:

**Solid outlook for retail division.** As Malaysia entered the transition to the endemic phase, retail division of Sunway REIT staged strong surge in earnings due to recovery in shopper footfall and tenant sales. We gathered that shopper footfall and tenant sales recovered to pre-Covid level due to revenge spending and festive season. That led to rental rebate easing significantly in 1HFY22. Meanwhile, rental reversion outlook is improving as management expects rental reversion to be flattish to mildly positive in FY22. On another note, Sunway Carnival new wing has opened on 24th June 2022 which added 350k NLA enjoyed decent occupancy rate of 90%. In short, we expect earnings of retail division to improve significantly in FY22 and FY23 due to minimal rental rebate and positive rental reversion.

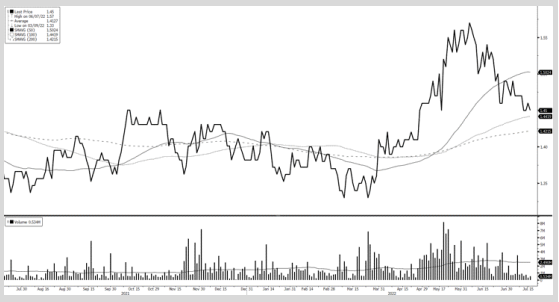
**Stronger recovery anticipated for hotel division in FY23.** Hotel division reported higher 1QFY22 net property income (+36%yoy) mainly due to increased domestic leisure and business travel. Meanwhile, management expects earnings recovery momentum of the division to be stronger in FY23 as higher tourist arrivals is anticipated in FY23. Besides, contribution from Sunway Resort Hotel is expected to support earnings of hotel division. Note that Sunway Resort Hotel was closed for refurbishment and it has reopened progressively since May 2022.

**Stable outlook for other divisions.** Office division of Sunway REIT remains stable with occupancy rate of >80% for most of its office buildings. Occupancy rate of its office buildings were holding steadily despite backdrop of high supply of office space. Meanwhile, industrial asset of Sunway REIT was performing well as it recorded encouraging rental reversion of +10%. Looking ahead, Sunway REIT is targeting to expand services and industrial and other segments to 20-30% of total asset value, in line with its strategy of becoming a diversified REIT.

**Mild impact from OPR hike.** The increase of +25bps in OPR recently is expected to raise borrowing cost of Sunway REIT as 68% of Sunway REIT's debts are floating rate borrowings. We expect mild earnings impact on Sunway REIT from OPR hike as every +25bps hike in OPR is expected to increase financing cost of Sunway REIT by ~RM8m which is around 2% of our FY22 and FY23 earnings forecast.

| RETURN STATISTICS | |
|---|---|
| Price @ 18 July 2022 (RM) | 1.45 |
| Expected share price return (%) | 15.8 |
| Expected dividend yield (%) | 5.3 |
| **Expected total return (%)** | 21.1 |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | -5.8 | -4.1 |
| 3 months | -2.7 | 13.7 |
| 12 months | 2.1 | 8.8 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,429.54 |
| Syariah compliant | No |
| F4BGM Index | Yes |
| ESG Grading Band (Star rating) | ☆☆☆ |
| Issue shares (m) | 3424.81 |
| Estimated free float (%) | 28.69 |
| Market Capitalisation (RM'm) | 4,965.97 |
| 52-wk price range | RM1.32-1.58 |
| Beta vs FBM KLCI (x) | 0.53 |
| Monthly velocity (%) | 0.00 |
| Monthly volatility (%) | 4.66 |
| 3-mth average daily volume (m) | 2.52 |
| 3-mth average daily value (RM'm) | 3.78 |
| **Top Shareholders (%)** | |
| Sunway Bhd | 40.89 |
| Employees Provident Fund Board | 15.21 |
| KWAP | 5.79 |

**Analyst(s)**
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**Maintain Buy with a revise TP of RM1.68.** Post meeting, we revise our FY22/23F earnings forecast marginally by -2.3% to factor in the higher borrowing cost. Our **target price** for Sunway REIT is revised to **RM1.68** from RM1.70, based on Dividend Discount Model. We remain positive on Sunway REIT as we see strong earnings recovery in FY22 and FY23 mainly led by retail segment. Besides, the reopening of international borders is expected to support recovery of its hotel division. In short, we maintain our **BUY** call on Sunway REIT due to improving outlook and attractive distribution yield of 5.3%.

## INVESTMENT STATISTICS

| FYE Dec (RM m) | FY19* | FY20* | FY21** | FY22F | FY23F |
|---|---|---|---|---|---|
| Gross Revenue | 580 | 557 | 676 | 656 | 695 |
| Net Rental Income | 440 | 417 | 457 | 497 | 529 |
| Net Investment Income | 553 | 364 | 391 | 502 | 534 |
| Net Income | 394 | 208 | 195 | 314 | 324 |
| Core Net Income | 287 | 249 | 253 | 314 | 324 |
| Realised EPU (sen) | 12.98 | 7.07 | 5.71 | 9.18 | 9.47 |
| Core EPU (sen) | 9.73 | 8.47 | 7.38 | 9.18 | 9.47 |
| Gross DPU (sen) | 9.59 | 7.33 | 6.10 | 8.58 | 9.47 |
| Net DPU (sen) | 8.63 | 6.60 | 5.49 | 7.72 | 8.52 |
| Net Distribution Yield | 6.0% | 4.5% | 3.8% | 5.3% | 5.9% |
| Core PER | 14.9 | 17.1 | 19.6 | 15.8 | 15.3 |
| NAV per unit | 1.51 | 1.62 | 1.39 | 1.40 | 1.40 |
| P/NAV | 0.96 | 0.90 | 1.04 | 1.04 | 1.04 |
| Core ROE | 6.5% | 5.6% | 5.7% | 7.1% | 7.3% |
| Core ROA | 3.7% | 3.0% | 2.9% | 3.4% | 3.5% |

**FYE 30 June*

*|** Consists of 18 months*

*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 *rise* 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 *fall* 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. |
| **ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell** | |
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology