Sunway REIT

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

Maintain BUY

Unchanged Target Price: RM1.68

Solid earnings

KEY INVESTMENT HIGHLIGHTS

- **1HFY22 earnings within expectations**
- **Solid earnings**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM1.68**

1HFY22 earnings within expectations. Sunway REIT 1HFY22 core net earnings of RM162.6m came in within expectations, making up 52% and 54% of our and consensus full year estimates respectively. Meanwhile, distribution per unit (DPU) of 4.22 was announced for 1HFY22.

Solid earnings. Sequentially, 2QFY22 core net income eased to RM74.5m (-15.4%yoy) mainly due to lower contribution from hotel division. Net property income (NPI) of hotel division fell to RM5.05m (-71%qoq) as earnings in 1QFY22 were boosted by top up of guaranteed income for Sunway Clio and Sunway Hotel Georgetown. On yearly basis, 2QFY22 earnings were solid at RM74.5m (+122.3%yoy), bringing cumulative earnings to RM162.6m (+131.1%yoy) in 1HFY22. The earnings growth was largely driven by earnings recovery of retail division. NPI of retail division more than doubled to RM141.9m (+186%yoy) due to lower rental support to tenants and strong recovery in tenant sales. On the other hand, contribution of office and services segments were little-changed in 1HFY22.

Earnings forecast maintained. We make no changes to our earnings forecast for FY22/23F. We expect earnings in 2HFY22 to remain strong due to the recovery of retail and hotel division. Earnings contribution of retail division is underpinned by positive rental reversion. Similarly, hotel division is expected to improve due to increased domestic leisure and business travel and reopening of Sunway Resort Hotel. Note that Sunway Resort Hotel was closed for refurbishment and it has reopened progressively since May 2022.

Maintain Buy with an unchanged TP of RM1.68. We maintain our **TP** for Sunway REIT at **RM1.68**, based on Dividend Discount model. We maintain our **BUY** call on Sunway REIT as we expect earnings recovery of Sunway REIT to remain decent in 2HFY22 due to improving contribution from retail and hotel divisions. Meanwhile, distribution yield is estimated at 5.1%.

RETURN STATISTICS	
Price @ 18 Aug 2022 (RM)	1.52
Expected share price return (%)	10.5
Expected dividend yield (%)	5.1
Expected total return (%)	15.6

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	5.5	-0.8
3 months	2.7	7.9
12 months	7.0	7.4

KEY STATISTICS	
FBM KLCI	1,516.62
Syariah compliant	No
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	3424.81
Estimated free float (%)	28.68
Market Capitalisation (RM'm)	5,239
52-wk price range	RM1.32-1.58
Beta vs FBM KLCI (x)	0.56
Monthly velocity (%)	2.88
Monthly volatility (%)	4.66
3-mth average daily volume (m)	1.99
3-mth average daily value (RM'm)	3.01
Top Shareholders (%)	
Sunway Bhd	40.89
Employees Provident Fund Board	15.21
KWAP	5.79

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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	5.7%	4.3%	3.6%	5.1%	5.6%
Core PER	15.6	17.9	20.6	16.6	16.1
NAV per unit	1.51	1.62	1.39	1.40	1.40
P/NAV	1.00	0.94	1.09	1.09	1.09
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

Sunway REIT: 2QFY22 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY22	%YoY	%QoQ	FY22	%YoY
Gross Revenue	144.5	39.8%	-6.1%	298.5	43.7%
Net Rental Income (NRI)	106.9	71.4%	-10.1%	225.8	74.6%
Net Investment Income	108.0	70.4%	-22.0%	246.4	86.1%
Net Income	74.5	122.3%	-29.9%	180.8	157.1%
Core Net Income (CNI)	74.5	122.3%	-15.4%	162.6	131.1%
Realised EPU (sen)	2.2	122.3%	-29.9%	5.3	157.1%
Core EPU (sen)	2.2	122.3%	-15.4%	4.7	131.1%
Gross DPU (sen)	4.2	158.9%	N/A	4.2	158.9%

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