Sunway REIT

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

***Maintain* BUY**

Earnings driven by retail and hotel divisions

***Revised* Target Price: RM1.73**
(*from* RM1.68)

KEY INVESTMENT HIGHLIGHTS

- **9MFY22 earnings above expectations**
- **Earnings driven by retail and hotel divisions**
- **Earnings forecast revised upwards**
- **Positive earnings outlook**
- **Maintain BUY with a revised TP of RM1.73**

9MFY22 earnings above expectations. Sunway REIT 9MFY22 core net earnings of RM254.5m came in above expectations, making up 81% and 82% of our and consensus full year estimates respectively. The positive deviation was mainly due to higher than expected contribution from retail and hotel division in 3QFY22. Meanwhile, no distribution per unit (DPU) was announced for 3QFY22 due to its bi-annual distribution policy.

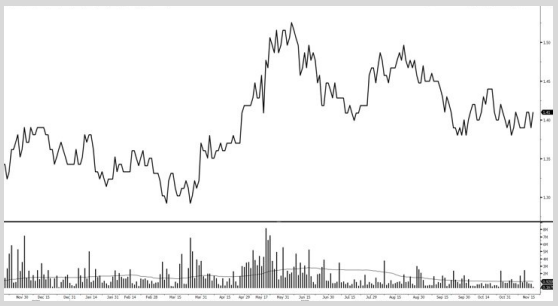
Earnings driven by retail and hotel divisions. Sequentially, 3QFY22 core net income increased to RM91.9m (+23.4%qoq), primarily driven by better performance of retail and hotel division. Net property income (NPI) of retail division improved to RM80.5m (+12.3%qoq) due to higher rental income amid recovery in shopper footfall and contribution from Sunway Carnival new wing. Similarly, NPI of hotel division increased to RM17.5m (+247%qoq) due to better occupancy rates. On yearly basis, 3QFY22 earnings were higher at RM91.9m (+123.8%yoy), bringing cumulative earnings to RM254.5m (+128.4%yoy) in 9MFY22. The recovery in earnings in 9MFY22 was mainly supported by higher contribution from retail division and hotel while contribution of office and services segments remain stable. NPI of retail division more than doubled mainly due to lower rental support to tenants as a result of recovery in shopper footfall and tenant sales.

Earnings forecast revised upwards. We revise our earnings forecast for FY22/23F by +9.6%/+9% respectively after factoring in higher contribution from retail and hotel division. We expect earnings outlook in FY23 to remain positive as earnings from retail and hotel divisions would continue to benefit from reopening of economy. We see rental reversion for retail division to return to positive territory while hotel division would support by reopening of Sunway Resort Hotel and increased domestic leisure and business travel.

Maintain Buy with a revised TP of RM1.73. Corresponding to the upward revision in earnings and DPU, our **TP** for Sunway REIT is revised to **RM1.73** from RM1.68. Our TP is based on Dividend Discount model. We maintain our **BUY** call on Sunway REIT as we remain sanguine on its earnings outlook for retail and hotel divisions which will be driven by positive rental reversion and higher tourist arrival. Meanwhile, distribution yield is estimated at 6%.

RETURN STATISTICS	
Price @ 17 Nov 2022 (RM)	1.40
Expected share price return (%)	23.6
Expected dividend yield (%)	6.0
Expected total return (%)	29.6

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.1	-6.2
3 months	0.0	-3.0
12 months	-1.4	4.1

KEY STATISTICS	
FBM KLCI	1,449.32
Syariah compliant	No
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	3424.81
Estimated free float (%)	28.65
Market Capitalisation (RM'm)	4,795
52-wk price range	RM1.32-1.58
Beta vs FBM KLCI (x)	0.52
3-mth average daily volume (m)	0.94
3-mth average daily value (RM'm)	1.36
Top Shareholders (%)	
Sunway Bhd	40.89
Employees Provident Fund Board	15.24
KWAP	5.79

Analyst(s)
Jessica Low Jze Tieng
Jessica.low @midf.com.my
03 -2173 8391

INVESTMENT STATISTICS

FYE Dec (RM m)	FY19*	FY20*	FY21**	FY22F	FY23F
Gross Revenue	580	557	676	687	726
Net Rental Income	440	417	457	528	559
Net Investment Income	553	364	391	533	565
Net Income	394	208	195	345	354
Core Net Income	287	249	253	345	354
Realised EPU (sen)	12.98	7.07	5.71	10.06	10.33
Core EPU (sen)	9.73	8.47	7.38	10.06	10.33
Gross DPU (sen)	9.59	7.33	6.10	9.41	10.33
Net DPU (sen)	8.63	6.60	5.49	8.47	9.30
Net Distribution Yield	6.2%	4.7%	3.9%	6.0%	6.6%
Core PER	14.4	16.5	19.0	13.9	13.6
NAV per unit	1.51	1.62	1.39	1.40	1.40
P/NAV	0.93	0.86	1.00	1.00	1.00
Core ROE	6.5%	5.6%	5.7%	7.7%	7.9%
Core ROA	3.7%	3.0%	2.9%	3.7%	3.8%

**FYE 30 June*

*|** Consists of 18 months*

Source: Company, MIDFR

Sunway REIT: 3QFY22 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY22	%YoY	%QoQ	FY22	%YoY
Gross Revenue	166.2	55.5%	15.0%	464.7	47.7%
Net Rental Income (NRI)	128.2	81.9%	20.0%	354.1	77.1%
Net Investment Income	129.5	78.7%	19.9%	375.9	83.5%
Net Income	91.9	123.8%	23.4%	272.7	144.8%
Core Net Income (CNI)	91.9	123.8%	23.4%	254.5	128.4%
Realised EPU (sen)	2.7	123.8%	23.4%	8.0	144.8%
Core EPU (sen)	2.7	123.8%	23.4%	7.4	128.4%
Gross DPU (sen)	0.0	N/A	-100.0%	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