Sunway REIT

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

***Maintain* BUY**

***Unchanged* Target Price: RM1.73**

Stellar earnings in FY22

KEY INVESTMENT HIGHLIGHTS

- **FY22 earnings within our expectation**
- **Stellar earnings**
- **Earnings forecast fine-tuned**
- **Maintain BUY with an unchanged TP of RM1.73**

FY22 earnings within our expectation. Sunway REIT FY22 core net income of RM336.6m came in within our expectation but slightly above consensus expectation, making up 98% and 106% of our and consensus full year estimates respectively. Distribution per unit (DPU) of 5sen was announced, bringing total DPU to 9.22sen in FY22 which translates into gross yield of 5.8%.

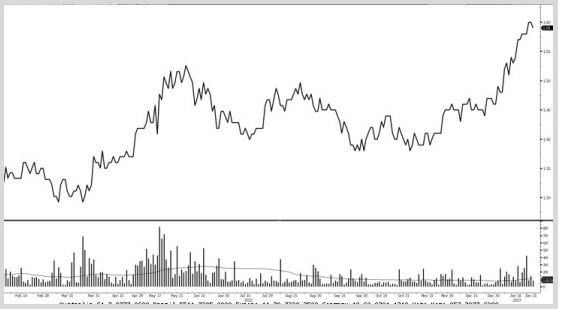
Stellar earnings. Sequentially, 4QFY22 core net income was lower at RM82.1m (-10.7%qoq) despite higher topline (+12.3%qoq) as earnings were dragged by higher property operating expenses and higher finance cost. On yearly basis, 4QFY22 core net income was higher at RM82.1m (+11.6%yoy), bringing cumulative earnings in FY22 to RM336.6m (+82%yoy). The stellar earnings in FY22 were mainly underpinned by higher contribution from retail and hotel divisions. Net property income (NPI) of retail division more than doubled in FY22 due to lower rental support to tenants and contribution from Sunway Carnival new wing. Similarly, NPI of hotel division was higher (+82.8%yoy) due to reopening of Sunway Resort Hotel and higher hotel room occupancy following reopening of economy and country border. Meanwhile, contributions from office and other segments remained stable.

Earnings forecast fine-tuned. We fine-tuned our FY23 earnings forecast by -1.3% to reflect loss of income from Sunway Medical Centre. Note that Sunway REIT announced disposal of Sunway Medical Centre (Tower A & B) in December 2022 and the disposal is expected to complete in 1HFY23. Looking forward, we remain positive on earnings outlook for Sunway REIT due to positive rental reversion outlook for retail segment. Besides, the reopening of Sunway Resort Hotel and higher tourist arrival should support earnings growth of hotel division.

Maintain Buy with an unchanged TP of RM1.73. We make no changes to our TP for Sunway REIT at RM1.73, based on Dividend Discount model. We maintain our **BUY** call on Sunway REIT as we expect earnings from retail and hotel divisions to remain solid in FY23 which will support earnings growth of Sunway REIT. Meanwhile, distribution yield is estimated at 5.8%.

RETURN STATISTICS	
Price @ 30 Jan 2023 (RM)	1.59
Expected share price return (%)	8.8
Expected dividend yield (%)	5.8
Expected total return (%)	14.6

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	8.9	8.9
3 months	8.9	9.1
12 months	14.4	16.2

KEY STATISTICS	
FBM KLCI	1,499.39
Syariah compliant	No
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	3424.81
Estimated free float (%)	28.62
Market Capitalisation (RM'm)	5,445.44
52-wk price range	RM1.32-1.6
Beta vs FBM KLCI (x)	0.54
3-mth average daily volume (m)	1.09
3-mth average daily value (RM'm)	1.60
Top Shareholders (%)	
Sunway Bhd	40.89
Employees Provident Fund Board	15.28
KWAP	5.79

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Sunway REIT: 4QFY22 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	4QFY22	%YoY	%QoQ	FY22	%YoY
Gross Revenue	186.7	18.3%	12.3%	651.4	37.9%
Net Rental Income (NRI)	146.2	18.8%	14.0%	500.2	54.9%
Net Investment Income	104.2	117.2%	-19.5%	480.1	89.9%
Net Income	50.8	213.9%	-44.7%	323.6	153.6%
Core Net Income (CNI)	82.1	11.6%	-10.7%	336.6	82.0%
Realised EPU (sen)	1.5	213.8%	-44.7%	9.4	153.6%
Core EPU (sen)	2.4	11.6%	-10.7%	9.8	82.0%
Gross DPU (sen)	5.0	78.6%	N/A	9.2	108.1%

Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec (RM m)	FY21**	FY22A	FY23F	FY24F	FY25F
Gross Revenue	676	651	717	729	752
Net Rental Income	457	500	550	560	577
Net Investment Income	391	480	556	565	582
Net Income	195	324	349	358	371
Core Net Income	253	337	349	358	371
Realised EPU (sen)	5.71	9.44	10.19	10.44	10.83
Core EPU (sen)	7.38	9.82	10.19	10.44	10.83
Gross DPU (sen)	6.10	9.19	10.19	10.44	10.83
Net DPU (sen)	5.49	8.27	9.17	9.40	9.74
Net Distribution Yield	3.5%	5.2%	5.8%	5.9%	6.1%
Core PER	21.5	16.2	15.6	15.2	14.7
NAV per unit	1.60	1.61	1.61	1.61	1.61
P/NAV	1.00	0.99	0.99	0.99	0.99
Core ROE	5.7%	7.0%	6.8%	6.9%	7.2%
Core ROA	2.9%	3.6%	3.8%	3.9%	3.9%

**FYE 30 June*

*|** Consists of 18 months*

Source: Company, MIDFR

Sunway REIT: Balance Sheet

FY Dec (RM m)	2021	2022	2023F	2024F	2025F
Investment Properties	8702	8623	8643	8653	8663
Total non-current assets	8751	8688	8656	8666	8676
Cash	291	251	431	548	672
Other Assets	109	475	112	123	122
Total Assets	**9150**	**9413**	**9198**	**9337**	**9471**
LT Borrowings	1810	1900	1600	1680	1750
ST Borrowings	1595	1637	1817	1871	1927
Other Liability	280	349	279	282	288
Total Liability	**3685**	**3885**	**3696**	**3833**	**3966**
Unitholders' capital	2728	3434	3434	3434	3434
Other Equity	2737	2094	2069	2070	2071
Total Equity	**5465**	**5528**	**5503**	**5504**	**5505**
Equity + Liability	**9150**	**9413**	**9198**	**9337**	**9471**

Source: Company, MIDFR

Sunway REIT: Cash Flow Statement

FY Dec (RM m)	2021	2022	2023F	2024F	2025F
Cash flows from operating activities					
Cash Receipt from Customers	688	671	738	743	759
Net cash from operating activities	433	488	555	561	578
Cash flows from investing activities					
Subsequent Expenditure of Inv Properties	-300	-30	-20	-10	-10
Net cash used in investing activities	-575	-30	402	-8	-4
Cash flows from financing activities					
Net cash from/(used in) financing activities	331	-461	-815	-436	-450
Net increase/(decrease) in cash and cash equivalents	189	-2	142	118	124
Cash and cash equivalent at 1 January	102	291	288	431	548
Cash and cash equivalent at 1 December	291	288	431	548	672

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