Sunway REIT

(5176 | SREIT MK) Main | REIT

Started FY23 on A Strong Note

***Maintain* BUY**

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

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 earnings within expectations**
- **Started FY23 on a strong note**
- **Positive earnings outlook**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM1.73**

RETURN STATISTICS	
Price @ 3 May 2023 (RM)	1.60
Expected share price return (%)	+8.1
Expected dividend yield (%)	+5.7
Expected total return (%)	**+13.8**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.2	-1.0
3 months	0.0	3.9
12 months	9.6	23.0

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	717	729	752
Net Rental Income	550	560	577
Net Investment Income	556	565	582
Core Net Income	349	358	371
Core EPU (sen)	10.19	10.44	10.83
Net DPU (sen)	9.17	9.40	9.74
Dividend Yield	5.73%	5.87	6.09

KEY STATISTICS	
FBM KLCI	1,425.99
Issue shares (m)	3,424.81
Estimated free float (%)	28.36
Market Capitalisation (RM'm)	5,479.69
52-wk price range	RM1.3–RM1.66
3-mth average daily volume (m)	1.21
3-mth average daily value (RM'm)	1.94
Top Shareholders (%)	
Sunway Bhd	40.89
Employees Provident Fund Board	15.22
KWAP	5.78
Amanah Saham Nasional Bhd	5.29

1QFY23 earnings within expectations. Sunway REIT 1QFY23 core net income of RM96.5m came in within expectations, making up 27.6% and 26.8% of our and consensus full year estimates respectively. As expected, no distribution per unit (DPU) was announced for 1QFY23 due to its bi-annual distribution policy.

Started FY23 on a strong note. Sequentially, 1QFY23 core net income grew to RM96.5m (+17.5%qoq). The sequential earnings growth was mainly driven by higher contribution from retail division. Net property income (NPI) of retail division was higher at RM89.9m (+6.2%qoq) mainly due to positive rental reversion and higher tenant sales. On yearly basis, 1QFY23 core net income was steady at RM96.5m (+9.5%yoy), in line with higher topline (+18.7%yoy). The solid earnings in 1QFY23 was mainly underpinned by recovery of retail division. Retail division recorded encouraging growth in NPI (+28%yoy) due to positive rental reversion and absence of rental support to tenants. Besides, contribution from Sunway Carnival new wing lifted earnings of retail division. Meanwhile, NPI of hotel division was flattish as higher contribution from most of its hotels were offset by absence of top-up of guaranteed NPI from Sunway Lagoon Hotel. Meanwhile, property expenses and financing cost were higher in 1QFY23 which had partly negated earnings growth in the quarter.

Positive earnings outlook. We make no changes to our earnings forecast for FY23F/24F/25F. We remain positive on earnings outlook for Sunway REIT as rental reversion of its retail malls particularly Sunway Pyramid Mall is expected to be positive on the back of recovery in shopper footfall and tenant sales. Besides, earnings outlook is also supported by acquisition of assets. Recall that Sunway REIT announced the acquisition of six hypermarkets from EPF for purchase consideration of RM520m which is expected to be DPU accretive.

Maintain BUY with unchanged TP of RM1.73. We maintain our **TP** for Sunway REIT at **RM1.73**, based on Dividend Discount model. We maintain our **BUY** call on Sunway REIT as we continue to see bright earnings outlook for Sunway REIT which will be mainly driven by recovery in retail and hotel industries. Meanwhile, distribution yield is estimated at 5.7%.

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Sunway REIT: 1QFY23 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results				
	1QFY23	%YoY	%QoQ	FY23	%YoY
Gross Revenue	182.8	18.7%	-2.1%	182.8	18.7%
Net Rental Income (NRI)	138.3	16.3%	-5.4%	138.3	16.3%
Net Investment Income	140.4	1.4%	34.7%	140.4	1.4%
Net Income	96.5	-9.3%	89.8%	96.5	-9.3%
Core Net Income (CNI)	96.5	9.5%	17.5%	96.5	9.5%
Realised EPU (sen)	2.8	-9.3%	89.8%	2.8	-9.3%
Core EPU (sen)	2.8	9.5%	17.5%	2.8	9.5%
Gross DPU (sen)	0.0	N/A	20.0%	0.0	N/A

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
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
Core EPU (sen)	7.4	9.8	10.2	10.4	10.8
Core PER (x)	21.7	16.3	15.7	15.3	14.8
NAV/unit (RM)	1.60	1.61	1.61	1.61	1.61
P/NAV (x)	1.00	0.99	1.00	1.00	1.00

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Investment Properties	8,702	8,623	8,643	8,653	8,663
Total non-current assets	8,751	8,688	8,656	8,666	8,676
Cash	291	251	431	548	672
Other Assets	109	475	112	123	122
Total Assets	**9,150**	**9,413**	**9,198**	**9,337**	**9,471**
LT Borrowings	1,810	1,900	1,600	1,680	1,750
ST Borrowings	1,595	1,637	1,817	1,871	1,927
Other Liability	280	349	279	282	288
Total Liability	**3,685**	**3,885**	**3,696**	**3,833**	**3,966**
Unitholders' capital	2,728	3,434	3,434	3,434	3,434
Other Equity	2,737	2,094	2,069	2,070	2,071
Total Equity	**5,465**	**5,528**	**5,503**	**5,504**	**5,505**
Equity + Liability	**9,150**	**9,413**	**9,198**	**9,337**	**9,471**

Cash Flow (RM'm)	2021A	2022A	2023E	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

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Net Investment Income margin	57.8%	73.7%	77.5%	77.6%	77.5%
Core net income margin	37.4%	51.7%	48.7%	49.1%	49.3%
ROE	5.7%	7.0%	6.8%	6.9%	7.2%
ROA	2.9%	3.6%	3.8%	3.9%	3.9%

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