

Sunway Real Estate Investment Trust

Stable Performance

TP: RM2.15 (+14.1%)

Last Traded: RM1.88

Buy

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Review

- Excluding distribution to perpetual note holders of RM10.0mn, Sunway REIT posted realised net profit attributable to unitholders of RM145.9mn in IHFY20. Results came within expectations, accounting for 46% and 47% of ours and consensus' full-year estimates respectively.
- A distribution per unit (DPU) of 2.45sen (+8.9% YoY) was declared for this quarter, bringing the total YTD FY20 DPU to 4.95sen (+4.7% YoY). This translates to an annualised distribution yield of 5.3% based on yesterday's closing price.
- YoY, Sunway REIT's IHFY20 net property income (NPI) increased 9.8% to RM235.7mn in line with a 9.9% growth in revenue. The better performance was mainly driven by contribution from newly acquired Sunway University & college campus and better overall performance for all business segments, except retail.
- Despite NPI coming in stronger, IHFY20 realised net profit attributable to unitholders grew at a slower pace of 4.6% YoY to RM145.9mn, largely impacted by distribution reserved for perpetual note holders pursuant to issuance of perpetual note of RM340mn in 4QFY19.
- In terms of segmental performance, the retail segment's IHFY20 NPI decreased by 2.8% YoY. The key contributing retail asset - Sunway Pyramid, saw a 4.3% YoY decline in NPI, as the mall incurred higher advertising and promotional expenses during the period under review.
- The hospitality segment's IHFY20 revenue and NPI increased by 15.0% and 18.1% respectively on a YoY basis, primarily attributable to normalisation of business operation of Sunway Resort Hotel & Spa. Notably, Sunway Resort Hotel & Spa's revenue and NPI surged 91.7% YoY and 121.2% YoY respectively in IHFY20, largely due to higher average occupancy rate of 78.2% vs 64.2% a year ago, following the completion of the refurbishment for the grand ballroom, meeting and function rooms.
- The office segment's performance continued to strengthen, with IHFY20 revenue and NPI increasing by 11.1% YoY and 8.5% YoY respectively. The better performance was mainly contributed by overall improved performance from all office properties.

Impact

- No change to our FY20-22 earnings forecasts.

Conference Call Highlights

- The key discussion during the conference call was largely centred on the impact of the coronavirus outbreak on its properties. We understand that the shopping malls did not experience a significant drop in visitor footfall. As such, the impact to retail segment is rather minimal if the outbreak is

Share Information

Bloomberg Code	SREIT MK
Stock Code	5176
Listing	Main Market
Share Cap (mn)	2,945.1
Market Cap (RMmn)	5,536.7
52-wk Hi/Lo (RM)	1.98/1.74
12-mth Avg Daily Vol ('000 shrs)	2,827.8
Estimated Free Float (%)	37.5
Beta	0.48
Major Shareholders (%)	

Sunway Berhad (40.9)
Employees Provident Fund (14.2)
Kumpulan Wang Persaraan Diperbadankan (6.7)

Forecast Revision

	FY20	FY21
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	314.0	331.8
Consensus	308.2	321.3
TA's / Consensus (%)	101.9	103.3
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY20	FY21
Net gearing (%)	38.4	38.6
CFPS (sen)	13.5	15.5
P/CFPS (x)	13.9	12.1
ROE (%)	6.5	6.9
ROA (%)	3.8	4.0
NTA/Share (RM)	1.8	1.8
Price/NTA (x)	1.1	1.1

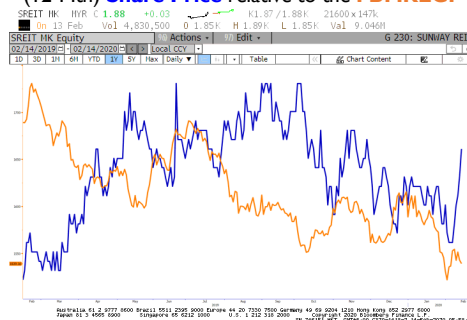
Scorecard

	% of FY	
vs. TA	46.0	Within
vs. Consensus	47.0	Within

Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	3.3	(2.6)
3 mth	(1.1)	(3.4)
6 mth	(1.6)	(3.8)
12 mth	8.0	(8.9)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

contained. However, the hospitality segment has begun to see some booking cancellations, largely due to deferment/postponement of MICE related events.

- Nonetheless, we expect FY20 DPU to be supported by: 1) full-year contribution from Sunway University & college campus, 2) stable contribution from all business segments, and 3) favourable interest rate environment. Management is committed to distribute 100% of its distributable net income for FY20.

Valuation

- We maintain our Buy recommendation with an unchanged target price of RM2.15/unit, based on targeted yield of 5.25% to our FY21 gross yield of 11.3sen. Our targeted yield is based on a +175bps spread to the 10-year MGS target of 3.5%, (3-year average yield spread between Sunway REIT and 10-year MGS is +175bps).

Table 1: Earnings Summary (RMmn)

FYE June	FY18	FY19	FY20f	FY21f	FY22f
Gross Rental Income	560.4	580.3	637.5	665.4	693.1
Net Property Income	419.9	439.7	492.2	512.7	533.4
NPI Margins	74.9	75.8	77.2	77.1	76.9
Adj. Pretax profit	284.0	286.6	333.9	351.7	371.4
Reported Net Profit	427.7	386.4	314.0	331.8	351.5
Realised Net Profit	281.9	282.3	314.0	331.8	351.5
EPU (Sen)	9.6	9.6	10.7	11.3	11.9
EPU Growth (%)	3.9	(0.1)	11.0	5.7	5.9
PER (x)	19.6	19.6	17.6	16.7	15.8
DPU (sen)	9.6	9.6	10.7	11.3	11.9
Div Yield (%)	5.1	5.1	5.7	6.0	6.3
ROE (%)	6.6	6.2	6.5	6.9	7.3

Table 2: IHFY20 Results Analysis (RM mn)

FYE June	2Q19	1Q20	2Q20	QoQ (%)	YoY (%)	IH19	IH20	YoY (%)	
Total revenue	139.5	155.4	155.8	0.3	11.7	283.2	311.2	9.9	
- Retail	105.3	105.5	106.7	1.1	1.3	210.3	212.3	0.9	
- Hospitality	17.6	23.7	22.6	(4.6)	28.0	40.2	46.2	15.0	
- Office	9.4	10.1	10.4	2.6	10.7	18.5	20.5	11.1	
- Others	7.2	16.1	16.1	0.4	125.1	14.3	32.2	124.6	
Total Net Property Income	104.2	119.1	116.6	(2.1)	11.9	214.7	235.7	9.8	
- Retail	76.0	75.3	74.0	(1.7)	(2.6)	153.7	149.3	(2.8)	
- Hospitality	15.9	22.0	21.0	(4.5)	32.0	36.5	43.1	18.1	
- Office	5.1	5.7	5.5	(3.9)	6.1	10.3	11.1	8.5	
- Others	7.2	16.1	16.1	0.4	125.1	14.3	32.2	124.6	
Other Income	1.5	1.1	1.8	56.8	18.8	3.7	2.9	(22.1)	
Change in fair value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Investment Income	105.7	120.2	118.4	(1.5)	12.0	218.4	238.6	9.2	
Manager & Trustee Fee	(9.0)	(10.0)	(10.0)	(0.3)	10.7	(18.2)	(20.0)	9.7	
Finance Costs	(29.3)	(30.3)	(30.5)	0.5	4.0	(58.9)	(60.8)	3.2	
Other expenses	(1.0)	(1.0)	(0.7)	(28.6)	(23.1)	(1.9)	(1.8)	(5.5)	
Income Before Taxation	66.4	78.8	77.2	(2.1)	16.2	139.5	156.0	11.9	
Net Profit	66.4	78.8	77.2	(2.1)	16.2	139.4	156.0	11.9	
Realised Net Profit – Unitholders	66.4	73.7	72.1	(2.1)	8.6	139.4	145.9	4.6	
Realised Net Profit – Perps Holders	0.0	5.0	5.0	0.0	>100	0.0	10.0	>100	
Realised EPU	(sen)	2.3	2.5	(2.0)	8.9	4.7	5.0	4.7	
DPU	(sen)	2.3	2.5	(2.0)	8.9	4.7	5.0	4.7	
NPI Margin	(%)	74.7	76.6	74.9	(1.8)	0.1	75.8	75.7	(0.1)
Realised Net Margin	(%)	47.6	47.5	46.3	(1.2)	(1.3)	49.2	46.9	(2.3)

Peers Comparison

	Call	Price	Target price (RM)	Market Cap (RM bn)	PER (x)		Div Yield (%)		P/NAV (x)	
					FY20	FY21	FY20	FY21	FY20	FY21
Sunway REIT	Buy	1.88	2.15	5.5	17.6	16.7	5.7	6.0	1.1	1.1
CMMT	Buy	0.98	1.19	2.0	14.5	13.9	7.3	7.6	0.8	0.8
KLCCP Stapled Group*	NR	8.05	NR	14.5	18.9	18.4	4.9	5.1	1.1	1.1
IGB REIT*	NR	1.98	NR	7.0	21.1	20.4	4.8	5.1	1.8	1.8
Pavilion REIT*	NR	1.73	NR	5.3	19.0	18.2	5.3	5.6	1.3	1.3
Axis REIT*	NR	1.92	NR	2.7	19.8	18.8	4.9	5.3	1.4	1.4
MQ REIT*	NR	0.91	NR	1.0	30.5	30.0	7.3	7.4	0.7	0.7
Al Salam*	NR	0.86	NR	0.5	16.2	15.9	5.8	5.8	0.8	0.8
Simple Average					19.7	19.1	5.7	6.0	1.1	1.1

Source: Bloomberg, TA Research

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Friday, February 14, 2020, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

Kaladher Govindan – Head of Research

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