

9M22 realised net profit rebounded by 148% yoy to RM239.5m – a healthy set of results

Share price performance



	1M	3M	12M
Absolute (%)	-1.4	-8.5	-0.7
Rel KLCI (%)	-5.7	-4.2	4.5

	BUY	HOLD	SELL
Consensus	8	7	-

Stock Data

Sector	REIT
Issued shares (m)	3,424.8
Mkt cap (RMm)/(US\$m)	4794.7/1052.1
Avg daily vol - 6mth (m)	1.5
52-wk range (RM)	1.32-1.58
Est free float	28.6%
Stock Beta	0.52
Net cash/(debt) (RMm)	(3,293.7)
ROE (CY23E)	6.6%
Derivatives	No
Shariah Compliant	No
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 25%
ESG Rank	
ESG Risk Rating	15.0 (n.a yoy)

Key Shareholders

Sunway Berhad	40.9%
EPF	15.2%
KWAP	5.8%
PNB	5.0%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

Isaac Chow

T (603) 2146 7536

E isaac.chow@affingroup.com

Afifah Ishak

T (603) 2146 7579

E Afifah.ishak@affingroup.com

Sunway REIT (SREIT MK)

BUY (maintain)

Up/Downside: 30.0%

Price Target: RM1.82

Previous Target (Rating): RM1.81 (BUY)

Higher retail and hotel revenue lift earnings

- SREIT reported a good set of results – 9M22 realised net profit rebounded by 148% yoy to RM239.5m on higher revenue across all asset classes and lower operating expenses. The results were above consensus and our expectations
- Sequentially, SREIT's 3Q22 realised net profit saw a rise of 24.9% qoq driven by higher contributions from Sunway Pyramid Mall, new wing at Sunway Carnival Mall, Sunway Pyramid Hotel and Sunway Resort Hotel
- We raise our 2022-24E EPU forecasts by 1.4%-7.4%, maintain BUY with a higher DDM-derived price target of RM1.82 (from RM1.81)

9M22 realised net profit grew by 148% yoy to RM239.5m, above expectations

SREIT reported a good set of results – 9M22 realised net profit rebounded by 148% yoy to RM239.5m on higher revenue across all asset classes and lower operating expenses. In particular, the 9M22 revenue from its retail assets rebounded by 75% yoy to RM310m while the hotels also clocked in higher revenue at RM42.9m (+47% yoy). Meanwhile, the revenue from its office and services portfolio was relatively stable at +2.9% yoy. Overall, the results were above the street's and our expectations, coming in at 78% and 79% of street and our full-year estimates respectively. The earnings beat was due to higher-than-expected revenue from Sunway Pyramid Mall and lower-than-expected finance cost.

Sequentially, higher retail and hotel revenue drove earnings growth

SREIT's 3Q22 realised net profit saw a rise of 24.9% qoq to RM86.9m due to higher contribution from the retail and hotel segment. The retail revenue increased by 8.9% qoq, largely due to the opening of a new wing in Sunway Carnival Mall in Jun22 (+60.8% qoq) and higher revenue from Sunway Pyramid Mall (+4.2% qoq). Besides, the hotel segment has tripled its 3Q22 revenue by 308% qoq to RM18.4 due to improved occupancy rates, in line with the transition to endemicity. To note, Sunway Resort has re-opened its refurbished rooms progressively since May 2022 (close to 50% of the rooms have reopened) and this has contributed positively to the hotel segment.

Maintain BUY with a higher 12-month PT of RM1.82

We raise our 2022/23/24E earnings by 7.4%/4.5%/1.4% to reflect the strong results, faster-than-expected recovery in retail segments and low finance cost (for 2022). In tandem, we raise our DDM-derived 12-month price target to RM1.82 (from RM1.81). Maintain BUY. We continue to like SREIT for its diversified asset base and strong recovery in the retail and hotel segments. At 7.5% 2023E distribution yield, SREIT looks attractive to us. Downside risks to our view are weaker-than-expected economic growth, deterioration in retail sales and footfalls, earnings disappointment, and steeper-than-expected hike in OPR and global bond yields. *This report marks a transfer of coverage.*

Earnings & Valuation Summary

FYE 31 Dec (RMm)	2020*	2021^	2022E	2023E	2024E
Revenue	556.9	656.0	635.7	702.3	727.8
Net property income	416.8	437.5	482.5	532.9	533.3
Reported net profit	188.3	165.6	327.5	362.0	362.5
EPU (sen)	6.4	4.9	9.6	10.6	10.6
Distributable profit	228.9	221.9	327.6	362.1	362.5
Realised net profit	228.4	221.9	327.5	362.0	362.5
Realised EPU (sen)	7.8	6.6	9.6	10.6	10.6
Realised EPU chg (%)	-19.1	-14.5	44.1	10.6	0.1
Realised PER (x)	18.0	21.1	14.6	13.2	13.2
DPU (sen)	7.3	6.1	9.0	10.5	10.5
Distribution Yield (%)	5.2	4.4	6.4	7.5	7.5
P/RNAV (x)	0.9	0.9	0.9	0.9	0.9
Chg in distr. EPU (%)			+7.4	+4.5	+1.4
Affin/Consensus (x)			1.1	1.1	1.1

* June year-end; ^ 18 months

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Dec (RMm)	3Q21	2Q22	3Q22	QoQ % chg	YoY % chg	9M21	9M22	YoY % chg	Comments
Revenue	106.9	144.5	166.2	15.0	55.5	314.5	464.7	47.7	Higher 9M22 revenue on improvements from all asset classes
Op expenses	-36.4	-37.6	-38.0	1.0	4.5	-114.7	-110.7	-3.5	
Net Property Income	70.5	106.9	128.2	20.0	81.9	199.9	354.1	77.1	Higher 9M22 NPI driven by increased revenue and lower operating expenses
<i>NPI margin (%)</i>	<i>66.0</i>	<i>74.0</i>	<i>77.1</i>	<i>+3.2 ppt</i>	<i>+11.2 ppt</i>	<i>63.5</i>	<i>76.2</i>	<i>12.6</i>	
Revaluation surplus / others	1.9	1.1	1.2	16.5	-35.5	6.0	21.9	265.6	
Net Invest. Income	72.4	108.0	129.5	19.9	78.7	205.9	375.9	82.6	
Int expense	-21.5	-22.8	-26.1	14.8	21.8	-65.6	-69.8	6.3	
REIT's expenses	-9.9	-10.7	-11.4	7.1	15.3	-28.9	-33.4	15.8	
Pretax Profit	41.1	74.5	91.9	23.4	123.8	111.4	272.7	144.8	
Net profit	36.0	69.5	86.9	24.9	141.1	96.5	257.9	167.2	
Realised net profit	36.0	69.5	86.9	24.9	141.1	96.4	239.5	148.3	Above street and our expectations
Distributable income	36.0	69.5	86.9	24.9	141.1	96.4	239.5	148.3	
EPU (sen)	1.05	2.03	2.54	24.9	141.1	2.82	7.53	167.2	
Realised EPU (sen)	1.05	2.03	2.54	24.9	141.1	2.82	6.99	148.3	
DPU (sen)	0.00	4.22	0.00	nm	nm	1.63	4.22	158.9	

Source: Affin Hwang, Company

Fig 2: Segmental breakdown

FYE 31 Dec (RMm)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	QoQ % chg	YoY % chg
Revenue									
Retail	53.7	58.6	64.9	92.4	98.4	101.4	110.3	8.9%	70.0%
Hotel	14.4	8.7	6.2	9.8	18.5	6.0	18.4	208.3%	198.1%
Office	19.3	19.3	18.9	19.1	19.5	19.7	20.0	1.5%	5.7%
Industrial	1.5	1.5	1.5	1.5	1.7	1.7	1.7	0.1%	10.0%
Services	15.3	15.3	15.3	15.3	15.8	15.8	15.8	0.0%	2.8%
NPI									
Retail	23.9	25.5	36.6	65.8	70.3	71.6	80.5	12.3%	119.9%
Hotel	12.8	7.0	4.2	8.5	17.4	5.0	17.5	247.3%	315.4%
Office	13.4	12.9	12.8	12.4	13.7	12.7	12.8	0.2%	-0.3%
Industrial	1.5	1.5	1.5	1.5	1.7	1.7	1.7	0.1%	10.0%
Services	15.3	15.3	15.3	15.3	15.8	15.8	15.8	0.0%	2.8%

Source: Company, Affin Hwang

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Copyright © 2021 Sustainalytics. All rights reserved.

This report contains information developed by Sustainalytics. Such information and data are proprietary of Sustainalytics and/or its third-party suppliers (Third-Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers>.

This report, or any portion thereof may not be reprinted, sold or redistributed without the written consent of the Company.

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com