

HLIB Research

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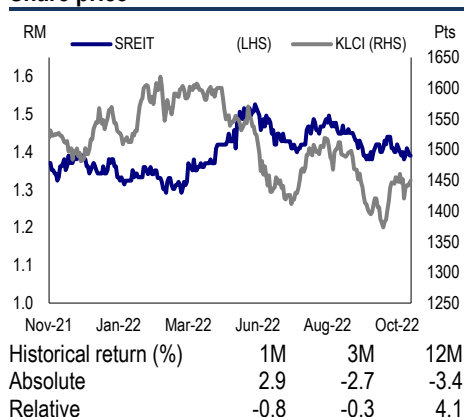
BUY (Maintain)

Target Price: RM1.68
Previously: RM1.68
Current Price: RM1.40

Capital upside	20.3%
Dividend yield	6.0%
Expected total return	26.3%

Sector coverage: REIT

Company description: Sunway REIT is one of the largest retail focused REIT that is strategically located across award-winning integrated townships in key locations within Klang Valley, Penang and Perak.

Share price

Stock information

Bloomberg ticker	SREIT MK
Bursa code	5176
Issued shares (m)	3,425
Market capitalisation (RM m)	4,863
3-mth average volume ('000)	928
SC Shariah compliant	No
F4GBM Index member	Yes
ESG rating	★ ★ ★ ★

Major shareholders

Sunway Bhd	40.9%
Employees Provident Fund	15.2%
KWAP	5.8%

Earnings summary

FYE (Dec)	FY21*	FY22f	FY23f
PAT – core (RM m)	221.9	315.4	333.5
EPU – core (sen)	6.5	9.2	9.7
P/E (x)	21.6	15.2	14.4

Sunway REIT

Good showing

Sunway REIT's 9MFY22's core net profit of RM239.6m (+148.2% YoY) were inline with ours and street expectations. The commendable YTD performance was mainly propelled by the sharp rebound in retail and hotel segments due to resumption of leisure activities and reopening of international borders. It was also boosted by the timely opening of Sunway Carnival Mall's new wing and phased reopening of Sunway Resort Hotel. Sunway REIT's performance is expected to stay buoyant in the coming quarters as festive season and holidays near. We maintain our BUY call and TP of RM1.68 based on FY23 DPU on targeted yield of 5.3%.

Within expectations. 3QFY22 core net profit of RM86.9m (+24.9% QoQ, +141.0% YoY) brought 9MFY22's sum to RM239.6m (+148.2% YoY). The results were in line with ours (76%) and street expectations (78%).

Dividend. None declared, usually in 2Q and 4Q. (YTD: 4.2 sen vs SPLY: 1.6 sen)

QoQ. Revenue rose +15.0% due to improvement in retail (+8.9%) and hotel segments (+208.3%). The increment from retail was contributed by the opening of Sunway Carnival Mall's new wing whereas hotel saw a gradual increase in rooms for sale from Sunway Resort Hotel. As property opex remained largely flattish, core net profit increased +24.9%.

YoY/YTD. Top line jumped +55.5% YoY, 47.7% YTD, fueled by robust growth in retail segment (+70.0% YoY, +75.1% YTD; supported by opening of Sunway Carnival Mall's new wing, diminishing rental assistance and rebound in tenant sales and footfall) as well as hotel segment (+198.1% YoY, +46.7% YTD; underpinned by phased reopening of Sunway Resort Hotel, arrival of domestic and foreign tourists and return of MICE and business events). Despite increase in finance costs (+21.8% YoY, +6.3% YTD), core bottom line surged (+141.0% YoY, +148.2% YTD).

Occupancy and gearing. Sunway REIT has 19 properties in its portfolio. Occupancy for the hotel segment jumped to 50% (FY21: 32%; excluding Sunway Resort Hotel due to refurbishment) thanks to relaxation of movement restrictions and transition to endemicity. Retail and office segment occupancy remained sturdy at 96% and 84% respectively. While services, industrial and others segments' occupancy remained at 100%. Gearing stood at 37.3%.

Outlook. We are delighted with the impressive performance registered by Sunway REIT thus far. On its retail segment, management guided that its rental reversion remains positive at a mid-single digit level. Footfall and tenant sales are expected to stay buoyant in the coming quarters on the back of festive seasons and holidays. We believe hotel segment will continue to register promising growth, driven by positive ADR trend and sustained improvement in occupancy rate as well as impending full reopening of Sunway Resort Hotel, although management flagged there are some deferrals in MICE and bookings in 4Q22 as polling day nears.

Forecast. We maintain our forecasts as results were broadly in line.

Maintain BUY, TP: RM1.68. Our TP is based on FY23 DPU on targeted yield of 5.3%, derived from -1SD below 5-year historical average yield spread between Sunway REIT and MAGY10YR in view of its diversified portfolio. Maintain BUY.

* FY21* is 18 months results as SunREIT has changed its financial year end to December from June

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21*	FY22f	FY23f	FY24f
Cash	101.8	290.5	403.0	548.1	678.6
Receivables	108.6	48.1	38.8	27.4	29.1
Investment properties	8,020.2	8,701.7	8,751.7	8,801.7	8,851.7
PPE	12.9	11.6	10.6	9.9	9.4
Others	216.7	98.6	98.6	98.6	98.6
Total Assets	8,460.2	9,150.5	9,302.7	9,485.7	9,667.4
Payables	152.6	208.8	297.5	328.8	348.5
Debt	3,785.1	3,745.1	3,795.1	3,845.1	3,896.1
Others	92.5	71.1	75.1	166.9	267.5
Liabilities	4,030.2	4,025.0	4,167.7	4,340.7	4,512.0
Unitholders' capital	2,727.8	3,433.9	3,433.9	3,433.9	3,433.9
Undistributed profit	1,702.2	1,691.6	1,701.1	1,711.1	1,721.6
Equity	4,430.1	5,125.5	5,135.0	5,145.0	5,155.4
Total Liab & Equity	8,460.2	9,150.5	9,302.7	9,485.7	9,667.4

Cash Flow Statement

FYE Dec	FY20	FY21*	FY22f	FY23f	FY24f
PBT	207.3	194.6	314.6	332.6	347.8
Depreciation	2.4	3.6	3.2	2.9	2.7
Finance costs	-116.4	-137.0	-96.8	-108.7	-124.5
Others	251.6	371.3	371.3	371.3	371.3
CFO	344.9	432.5	592.3	598.2	597.4
Capex	-74.6	-302.4	-50.0	-50.0	-50.0
Investment & others	-273.6	-272.6	-173.9	-129.6	-129.6
CFI	-348.3	-575.0	-223.9	-179.6	-179.6
Debt raised/ (repaid)	331.4	677.2	50.0	50.0	51.0
Distribution to unitholders	-212.9	-178.8	-306.0	-323.5	-338.2
Others	-135.2	-167.3	0.0	0.0	0.0
CFF	-16.7	331.2	-256.0	-273.5	-287.2
Net cash flow	-20.1	188.7	112.4	145.1	130.5
Beginning cash	47.3	101.8	290.5	403.0	548.1
Ending cash	101.8	290.5	403.0	548.1	678.6

Assumptions

FYE Dec	FY22f	FY23f	FY24f
Sunway Pyramid Shopping Mall	299.2	313.9	329.2
Sunway Carnival Shopping Mall	66.2	68.1	69.5
SunCity Ipoh Hypermarket	3.8	3.8	3.8
Sunway Putra Mall	43.9	44.7	45.6
Menara Sunway	18.4	19.3	19.9
Sunway Tower	7.1	8.6	23.2
Sunway Putra Tower	12.9	13.3	13.6
Wisma Sunway Shah Alam	7.2	7.5	7.6
The Pinnacle Sunway	35.7	36.1	36.4
Sunway Resort Hotel & Spa	23.5	30.2	30.8
Pyramid Tower Hotel	7.5	9.1	9.2
Sunway H Seberang Jaya	1.5	1.8	1.8
Sunway Putra Hotel	17.6	21.3	21.6
Sunway Hotel Georgetown	7.1	8.3	8.4
Clio Hotel	26.0	28.1	28.8
Sunway Medical Centre	25.9	26.6	27.4
Sunway REIT Industrial - Shah Alam1	6.3	6.3	12.6
Education	36.6	37.7	38.9
	646.4	684.8	728.3

* FY21* is 18 months forecast reporting as Sunway REIT has changed its financial year end to Dec from Jun

Income Statement

FYE Dec	FY20	FY21*	FY22f	FY23f	FY24f
Rental income	377.9	474.1	482.2	502.2	533.4
Hotel/ Hospital lease	117.4	128.0	115.3	131.7	140.5
Car park income	24.5	26.9	25.6	26.4	28.6
Other revenue	20.2	26.9	23.4	24.5	25.7
Gross revenue	539.9	656.0	646.4	684.8	728.3
Operating expenses	-140.1	-218.5	-171.0	-177.7	-188.4
Net property income	399.9	437.5	475.4	507.1	539.9
Other income and others	-35.7	-45.9	6.0	6.0	6.0
Net investment income	364.2	391.6	481.4	513.1	545.9
Non opex and trust exp	-156.9	-197.0	-166.9	-180.5	-198.1
PBT	207.3	194.6	314.6	332.6	347.8
Taxation	0.9	0.9	0.9	0.9	0.9
PAT	208.2	195.5	315.4	333.5	348.7
PAT (core)	228.4	221.9	315.4	333.5	348.7

Valuation & Ratios

FYE Dec	FY20	FY21*	FY22f	FY23f	FY24f
Core EPU (sen)	8.4	6.5	9.2	9.7	10.2
P/E (x)	16.6	21.6	15.2	14.4	13.8
EBITDA	367.4	261.7	414.5	444.2	475.0
EBIT	365.0	259.3	411.3	441.3	472.3
EV	7,466.7	7,909.6	7,847.1	7,752.0	7,672.5
EV/EBITDA (x)	20.3	30.2	18.9	17.5	16.2
DPU (sen)	7.3	4.1	8.4	8.9	9.3
Dividend yield	5.2	4.4	6.0	6.4	6.7
NTA/ share (sen)	150.4	149.7	149.9	150.2	150.5
P/ NTA	0.9	0.9	0.9	0.9	0.9
BVPS (RM)	1.50	1.50	1.50	1.50	1.51
P/B (x)	0.9	0.9	0.9	0.9	0.9
EBITDA margin	68.0%	59.8%	64.1%	64.9%	65.2%
EBIT margin	67.6%	59.3%	63.6%	64.4%	64.8%
PBT margin	38.4%	29.7%	48.7%	48.6%	47.8%
Net margin	42.3%	33.8%	48.8%	48.7%	47.9%
ROE	4.7%	2.5%	6.1%	6.5%	6.8%
ROA	2.7%	1.6%	3.4%	3.5%	3.6%
Net gearing	39.5%	34.0%	32.8%	31.2%	29.8%

Quarterly Financial Summary

FYE Dec	5QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)
Gross Revenue	106.9	144.5	166.2	15%	56%
Retail Segment	64.9	101.4	110.3	9%	70%
Hotel Segment	6.2	6.0	18.4	208%	198%
Office Segement	18.9	19.7	20.0	1%	6%
Services	15.3	15.8	15.8	0%	3%
Industrial and Others	1.5	1.7	1.7	0%	N.M.
Property operating expense	-36.4	-37.6	-38.0	1%	4%
Quit rent, assessment and i	-4.0	-4.3	-4.1	-5%	1%
Other property operating ex	-32.4	-33.3	-33.9	2%	5%
Net property Income	70.5	106.9	128.2	20%	82%
Retail Segment1	36.6	71.6	80.5	12%	120%
Hotel Segment1	4.2	5.0	17.5	247%	315%
Office Segement1	12.8	12.7	12.8	0%	0%
Services1	15.3	15.8	15.8	0%	3%
Industrial and Others1	1.5	1.7	1.7	0%	N.M.
Other income	1.9	1.1	1.2	14%	-37%
Net investment income	72.4	108.0	129.5	20%	79%
Finance costs	-21.5	-22.8	-26.1	15%	22%
Normalised PBT	36.0	69.5	86.9	25%	141%
Normalised PAT	36.0	69.5	86.9	25%	141%
EPU (sen)	1.1	2.0	2.5	25%	142%
DPU (sen)	0.0	4.2	0.0	N.M.	NM

Figure #1 Quarterly results comparison

FYE Dec (RM m)	5QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	CY21	CY22	YoY (%)
Gross revenue	106.9	144.5	166.2	15.0%	55.5%	314.5	464.7	47.7%
<i>Retail Segment</i>	64.9	101.4	110.3	8.9%	70.0%	177.1	310.1	75.1%
<i>Hotel Segment</i>	6.2	6.0	18.4	208.3%	198.1%	29.3	42.9	46.7%
<i>Office Segment</i>	18.9	19.7	20.0	1.5%	5.7%	57.5	59.2	2.9%
<i>Services</i>	15.3	15.8	15.8	0.0%	2.8%	46.0	47.4	2.9%
<i>Industrial & Others</i>	1.5	1.7	1.7	0.1%	10.0%	4.6	5.1	10.0%
Property opex	-36.4	-37.6	-38.0	1.0%	4.5%	-114.7	-110.7	-3.5%
Quit rent and insurance	-4.0	-4.3	-4.1	-5.4%	1.2%	-11.8	-11.4	-3.3%
Other property opex	-32.4	-33.3	-33.9	1.8%	4.9%	-102.9	-99.3	-3.5%
Net property income	70.5	106.9	128.2	20.0%	81.9%	199.9	354.1	77.1%
<i>NPI Retail Segment</i>	36.6	71.6	80.5	12.3%	119.9%	86.1	222.4	158.4%
<i>NPI Hotel Segment</i>	4.2	5.0	17.5	247.3%	315.4%	24.0	40.0	66.5%
<i>NPI Office Segment</i>	12.8	12.7	12.8	0.3%	-0.3%	39.1	39.2	0.1%
<i>NPI Services</i>	15.3	15.8	15.8	0.0%	2.8%	46.0	47.4	2.9%
<i>NPI Industrial & Others</i>	1.5	1.7	1.7	0.1%	10.0%	4.6	5.1	10.0%
Other income	1.9	1.1	1.2	13.8%	-37.0%	6.0	3.6	-40.4%
Net investment income	72.4	108.0	129.5	19.9%	78.7%	205.9	357.6	73.7%
Finance costs	-21.5	-22.8	-26.1	14.8%	21.8%	-65.6	-69.8	6.3%
Core PBT	36.0	69.5	86.9	24.9%	141.0%	96.5	239.6	148.2%
Core PAT	36.0	69.5	86.9	24.9%	141.0%	96.5	239.6	148.2%
EPU (sen)	1.05	2.03	2.54	25.1%	141.9%	2.8	7.0	153.6%
DPU (sen)	0.00	4.20	0.00	-	-	1.6	4.2	157.7%

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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