

Sunway Real Estate Investment Trust

TP: RM1.53 (+9.3%)

Benefits from Post-Pandemic Recovery

Last Traded: RM1.40

HOLD (ESG: ★★★★★)

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Review

- Excluding the distribution to perpetual note holders of RM14.9mn and the fair value gain on investment properties of RM18.3mn, Sunway REIT reported a realised net profit attributable to unitholders of RM239.5mn in 9M22. Results came within expectations, accounting for 74% and 78% of ours and consensus' full-year estimates, respectively.
- 9M22 distribution per unit (DPU) stood at 7.0sen. Based on the last closing price, this works out to a 6.7% annualised distribution yield.
- Sunway REIT's 9M22 net property income (NPI) surged 77% YoY to RM354.1mn, driven by a 48% growth in revenue. The improved performance was boosted by better performance across all business sectors. Notably, the relaxation of movement restrictions has led to a significant increase in both retail and hospitality business activities.
- NPI for the retail segment soared 158% YoY to RM222.4mn, owing to robust performance from all retail malls, which benefited from pent-up demand, festive spending, the easing of COVID-19 safety measures and minimal rental support. Similarly, higher domestic leisure and business travel, as well as a gradual increase in Meetings, Incentives, Conventions, and Exhibitions (MICE) activities, helped the hotel segment's NPI grow by 67% YoY. Meanwhile, the performance of the office, services and industrial & other segments was steady in 9M22.
- Realised net profit to unitholders increased by 148% YoY to RM239.5mn in 9M22 in tandem with the strong growth in NPI.

Impact

- Maintain earnings forecasts.

Outlook

- Retail consumer traffic and tenant sales have improved since 4Q21, with tenants' retail sales sustained above the pre-pandemic level. As a result, the retail segment is expected to perform stronger in FY22, thanks to 1) reduced rental rebates, 2) the completion of Sunway Carnival Mall Extension in 2Q22, and 3) the addition of new retail space as a result of ongoing asset enhancement initiatives.
- It is anticipated that the performance of the office, industrial and other segments will remain stable. Meanwhile, management expects that the hotel segment will progressively benefit from the relaxation in travel activities as well as pockets of MICE activities. Besides, management anticipates that the phased re-opening of Sunway Resort Hotel on May 22 will contribute to the hotel segment's performance.

Share Information

Bloomberg Code	SREIT MK
Stock Code	5176
Listing	Main Market
Share Cap (mn)	3,424.8
Market Cap (RMmn)	4,794.7
52-wk Hi/Lo (RM)	1.58/1.32
12-mth Avg Daily Vol ('000 shrs)	1,659.9
Estimated Free Float (%)	28.6
Beta	0.3
Major Shareholders (%)	
	Sunway Berhad (40.9)
	Employees Provident Fund (15.2)
	Kumpulan Wang Persaraan (Diperbadankan) (5.8)
	Amanah Saham Nasional (5.0)

Forecast Revision

	FY22	FY23
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	324.9	339.1
Consensus	308.1	325.5
TA's / Consensus (%)	105.5	104.2
Previous Rating	Hold (Maintained)	
Consensus TP	1.6	

Financial Indicators

	FY22	FY23
Net gearing (%)	38.7	39.4
CFPS (sen)	5.6	9.8
P/CFPS (x)	25.2	14.3
ROE (%)	5.9	6.1
ROA (%)	3.5	3.6
NTA/Share (RM)	1.5	1.5
Price/ NTA (x)	0.9	0.9

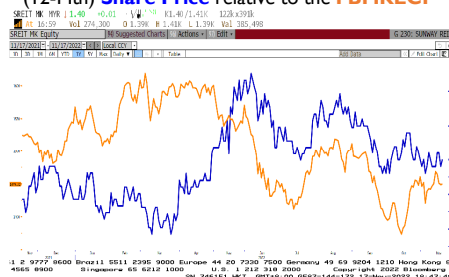
Scorecard

	% of FY	
vs. TA	74.0	Within
vs. Consensus	78.0	Within

Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	(1.4)	4.5
3 mth	(8.5)	(4.5)
6 mth	(6.7)	(6.4)
12 mth	(0.7)	(0.6)

(12-Mth) Share Price relative to the FBMKLCI



Valuation

- We maintain our TP of RMI.53, based on a target yield of 6.0% to our CY23 DPU projection of 9.2sen/unit. Our target yield is based on a +150bps spread to our 10-year MGS yield target of 4.5%. Maintain **Hold**.

Table I: Earnings Summary (RMmn)

FYE Dec	FY20*	FP2I**	FY22f	FY23f	FY23f
Gross Rental Income	556.9	675.6	668.4	712.2	733.8
Net Property Income	416.8	457.1	483.1	515.4	531.5
NPI Margins	74.8	67.7	72.3	72.4	72.4
Adj. Pretax profit	248.6	271.6	344.8	358.9	371.4
Reported Net Profit	208.2	195.5	344.8	358.9	371.4
Realised Net Profit	228.9	221.9	324.9	339.1	351.5
EPU (Sen)	7.8	6.7	9.5	9.9	10.3
EPU Growth (%)	(18.0)	(13.9)	42.0	4.4	3.7
PER (x) #	18.0	31.4	14.8	14.1	13.6
DPU (sen)	7.3	6.1	8.8	9.2	9.5
Div Yield (%) #	5.2	2.9	6.3	6.5	6.8
ROE (%) #	4.8	2.9	5.9	6.1	6.3

Notes:

* FYE June

** comprising 18-month earnings from Jul-20 to Dec-21

Ratio analysis for FP2I are based on annualised figures

Table 2: 3Q22 Results Analysis (RM mn)

	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)
Total Revenue	106.9	144.5	166.2	15.0	55.5	314.5	464.7	47.7
- Retail	64.9	101.4	110.3	8.9	70.0	177.1	310.1	75.1
- Hospitality	6.2	6.0	18.4	208.3	198.1	29.3	42.9	46.7
- Office	18.9	19.8	20.0	1.2	5.7	57.5	59.3	3.0
- Others	16.9	17.5	17.5	(0.0)	3.4	50.6	52.4	3.6
Core Revenue	106.9	144.5	166.2	15.0	55.5	314.5	464.7	47.7
Total Net Property Income	70.5	106.9	128.2	20.0	81.9	199.9	354.1	77.1
- Retail	36.6	71.6	80.5	12.3	119.9	86.1	222.4	158.4
- Hospitality	4.2	5.0	17.5	247.3	315.4	24.0	40.0	66.5
- Office	12.8	12.7	12.8	0.3	(0.3)	39.1	39.2	0.1
- Others	16.9	17.5	17.5	(0.0)	3.4	50.6	52.4	3.6
Core Net Property Income	70.5	106.9	128.2	20.0	81.9	199.9	354.1	77.1
Change in fair value	0.0	0.0	0.0	0.0	0.0	0.0	18.3	>100
Net Investment Income	72.4	108.0	129.5	19.9	78.7	205.9	375.9	82.6
Manager & Trustee Fee	(10.0)	(10.3)	(11.0)	7.4	10.4	(27.9)	(31.9)	14.3
Finance Costs	(21.5)	(22.8)	(26.1)	14.8	21.8	(65.6)	(69.8)	6.3
Other expenses	(0.6)	(0.4)	(0.4)	(1.7)	(35.7)	(1.6)	(1.5)	(7.3)
Income Before Taxation	41.1	74.5	91.9	23.4	123.8	111.4	272.7	144.8
Net Profit	41.1	74.5	91.9	23.4	123.8	111.4	272.7	144.8
Realised Net Profit – Unitholders	36.0	69.5	86.9	24.9	141.1	96.4	239.5	148.3
Realised Net Profit – Perps Holders	5.0	5.0	5.0	1.1	0.0	14.9	14.9	0.0
Realised EPU (sen)	1.1	2.0	2.5	25.1	141.9	2.8	7.0	153.6
DPU (sen)	1.1	2.0	2.5	25.1	141.9	2.8	7.0	149.1
DPU Declared (sen)	0.0	4.2	0.0	nm	0.0	1.6	4.2	158.9
Core NPI Margin (%)	66.0	74.0	77.1	3.2	11.2	63.5	76.2	19.9
Realised Net Margin (%)	33.7	48.1	52.3	4.1	18.6	30.7	51.5	20.9

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.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★	★★★★	★★★★
Remark	In line with its sponsor, the REIT implements a comprehensive programme aiming to reduce to GHG emission, water & waste with relevant targets and deadlines.	As a real estate operator, Sunway REIT has a low exposure to social risks given that the sector is not labour-intensive. It maintains good community relations, and faces no material safety issues.	60% of its board members are independent, and 40% are female, exceeding the MCCG's requirement of 30%. The REIT holds investor briefings regularly, demonstrating good transparency and disclosure practices.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Monday, November 21, 2022, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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