

UOBKH HIGHLIGHTS

Sunway REIT (SREIT MK/BUY/RM1.40/Target: RM1.61)

3Q22: Results Within Expectations

Year to 31 Dec	3Q22 (RMm)	qoq % chg	yoy % chg	9M22 (RMm)	yoy % chg	Year	Net Profit (RMm)	EPU (sen)	PE (x)	DPU (sen)	Div Yield (%)
Gross Revenue	166.2	15.0	55.5	464.7	47.7	2022F	336.8	9.9	14.1	9.3	6.7
Retail	110.3	8.9	70.0	310.1	75.1	2023F	358.2	10.6	13.3	9.9	7.1
Hotel	18.4	208.3	198.1	42.9	46.7	2024F	271.9	11.0	12.8	10.3	7.4
Office	20.0	1.5	5.7	59.2	2.9						
Others	17.5	(0.0)	3.4	52.4	3.6						
Operating Expenses	(38.0)	1.0	4.5	(110.7)	(3.5)						
Net Property Income	128.2	20.0	81.9	354.0	77.1						
Retail	80.5	12.3	119.9	222.4	158.4						
Hotel	17.5	247.3	315.4	40.0	66.5						
Office	12.8	0.2	(0.3)	39.2	0.1						
Others	17.5	(0.0)	3.4	52.4	3.6						
Core PAT	91.9	23.4	123.8	254.5	128.4						
Core EPU (sen)	2.7	23.3	123.6	7.4	128.3						
Core DPU (sen)	0.0	n.m.	n.m.	4.2	158.9						

Source: Sunway REIT, UOB Kay Hian

RESULTS

- **Within expectations.** Sunway REIT (SREIT) reported 3Q22 revenue of RM166m (+15% qoq, +55.5% yoy) and core net profit of RM92m (+23.4% qoq, +123.8% yoy). Cumulative 9M22 core net profit of RM254.5m (+128.4% yoy) accounted for 76% and 83% of our and consensus forecasts respectively. The stronger qoq results were mainly due to the retail and hotel segments.
- No dividends declared as SREIT's income distribution frequency is semi-annual.

COMMENTS

- **Retail: Sustained footfall and tenant sales.** Overall, net property income (NPI) margin for the retail segment remained stable at 73%. Occupancy rates for the segment improved slightly to 96% from 94%. Rental reversion was slightly positive (low-to-mid single digits) and was guided to be encouraging moving forward. Additionally, footfall and tenant sales have sustained their slightly-above pre-pandemic levels since 4Q21, mainly due to the strong consumer demand.
- **Hotel: Improved as Sunway Resort Hotel reopens.** Hotel revenue improved qoq as Sunway Resort Hotel reopens. Operational wise, the hotel segment improved with occupancy inching upwards to 52% from 47%. The hotel segment's performance should see further recovery from international patronage as international borders have reopened with relaxed SOPs. Sunway Resort has progressively reopened its refurbished rooms since May and should continue to contribute meaningfully moving forward.
- **Office: Showed resilience.** NPI margin for the office segment was resilient at 64%. Amid the challenging outlook, Sunway REIT is still able to weather the current office oversupply situation. All in all, the office segment contributes 12% to Sunway REIT's top-line.
- **No changes to forecasts.** 2022/23 earnings growth of 34% yoy (+18% vs 2019) and 6% respectively is on the back of the reduction in rental assistance and the recovery in the retail and hotel segments. Moreover, both the completion of the expansion of Carnival Mall and the refurbishment of Sunway Resort would further boost earnings.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM 1.61.** Our target price is based on a dividend discount model (required rate of return: 8.1%, terminal growth: 1.6%) and supported by an implied dividend yield of 6.2% for 2023. SREIT currently offers attractive yields of close to 7% for 2022 and beyond, backed by the recovery of the retail and hotel segments.

SHARE PRICE CATALYST

- a) Faster-than-expected recovery in the hotel segment, b) higher-than-expected rental reversions, and c) inorganic growth from the acquisition of sponsor assets – Sunway Giza, Sunway Pyramid Phase 3.
- Risks: Surge in COVID-19 cases in Malaysia.

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