

Sunway Real Estate Investment Trust

TP: RM1.82 (+7.7%)

Repositioned to Diversified REIT

Last Traded: RM1.69

Hold

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Review

- Sunway REIT posted realised net profit of RM73.0mn in IQFY19. Results came in within expectations, accounting for 24% and 26% of ours and consensus' full-year estimates respectively.
- A distribution per unit (DPU) of 2.48sen (-7.1% YoY) was declared for this quarter. This translates to a distribution yield of 5.8%, based on yesterday's closing price.
- YoY, Sunway REIT's IQFY19 revenue increased 1.8% to RM143.7mn but net property income (NPI) slipped 0.4% to RM110.5mn, due to higher fit-out cost and maintenance expense for the retail segment.
- IQFY19 realised net profit fell 7.3% YoY to RM73.0mn, largely impacted by higher finance cost (+22.7%) due to drawn down of loans for new acquisitions and capital expenditure, as well as higher average cost of debt following the increase in overnight policy rate by 25bps in Jan-18.
- In terms of segmental performance, the retail segment's NPI contracted by 0.7% YoY despite revenue advanced by 1.3% YoY. The lower NPI was attributable to higher fit-out cost and maintenance expenses. Benefitting from the tax holidays, Sunway Pyramid recorded revenue growth of 3.1% YoY, as the mall achieved better turnover rent in the current quarter. However, Sunway Putra Mall's revenue dipped 1.2% YoY, due to attractive rental packages offered to selected tenants as a strategy to maintain vibrancy of the mall.
- The hospitality segment revenue and NPI decreased 2.2% YoY and 7.4% respectively, primarily attributable to lower overall average occupancy rate of 75% (IQFY18: 81%) on the back of soft market condition within the hospitality industry. Notably, Sunway Resort Hotel & Spa revenue and NPI contracted by 7.5% and 7.4% respectively in IQFY19, largely due to the closure of the grand ballroom, meeting and function rooms for refurbishment.
- The office segment's revenue and NPI increased by 12.5% YoY and 27.5% YoY respectively in IQFY19. The better performance was mainly contributed by Menara Sunway and Sunway Putra Tower with higher occupancy rates.

Impact

- We lower our FY19-21 earnings by ~3%, after factoring in higher cost of debt assumption, to be in line with the IQ results. While management guided for a dip in DPU in FY19, we are forecasting a moderate DPU growth of 3.5%, premised on 1) solid performance of its prized asset, i.e. Sunway Pyramid, 2) improve performance for the office segment, and 3) completion of refurbishment exercise in Sunway Resort Hotel & Spa by 2QFY19.

Share Information

Bloomberg Code	SREIT MK
Stock Code	5176
Listing	Main Market
Share Cap (mn)	2945.1
Market Cap (RMmn)	4,977.2
52-wk Hi/Lo (RM)	1.90/1.48
12-mth Avg Daily Vol ('000 shrs)	1,683.0
Estimated Free Float (%)	30.2
Beta	0.7

Major Shareholders (%)

Sunway Berhad (40.9)
Employees Provident Fund (14.3)
Skim Amanah Saham Bumiputera (5.9)

Forecast Revision

	FY19	FY20
Forecast Revision (%)	(3.5)	(3.4)
Net profit (RMmn)	294.1	310.9
Consensus	299.7	311.7
TA's / Consensus (%)	98.1	99.8
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY19	FY20
Net gearing (x)	39.3	39.6
CFPS (sen)	11.7	14.1
P/CFPS (x)	14.5	11.9
ROE (%)	6.8	7.1
ROA (%)	3.9	4.1
NTA/Share (RM)	1.6	1.6
Price/ NTA (x)	1.1	1.1

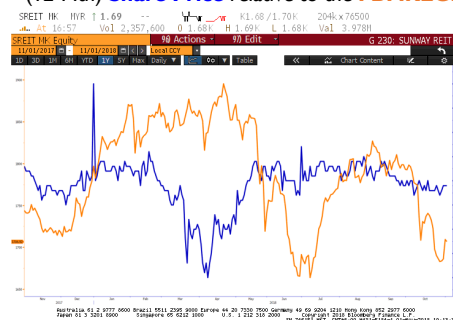
Scorecard

	% of FY	
vs. TA	24.0	Within
vs. Consensus	26.0	Within

Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	0.0	(5.1)
3 mth	(1.2)	(4.0)
6 mth	0.6	(7.8)
12 mth	(1.7)	(2.0)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Conference Call Highlights

- During the conference call, management guided a dip in DPU in FY19 compared to FY18 largely due to: i) flattish growth in the retail segment due to subdued rental outlook, particularly for Sunway Putra Mall, ii) weaker performance from the hospitality segment due to soft market environment and on-going refurbishment activities at Sunway Resort Hotel & Spa and iii) higher finance cost. Nonetheless, management is committed to distribute 100% of its distributable net income for FY19.
- Management shared that Sunway REIT sets a target to double its property value to RM15bn by FY2025, driven by active acquisition strategy. Having said that, it will continuously explore non-conventional growth drivers such as venturing into greenfield developments and redevelopment opportunities. Taking into consideration of its new strategic direction, Sunway REIT will reposition itself from retail-focused REIT to diversified REIT to capitalise investment opportunities on the broader emerging growth sub-sectors, such as data centres, education campuses/facilities, and industrial & logistic assets.
- Meanwhile, we are also encouraged to learn that management foresees the office segment to show gradual improvement in FY19, mainly attributable to continued improvements at Sunway Putra Tower and Wisma Sunway. Besides, management plans to reposition Sunway Tower, an office tower which suffered from low occupancy rate of about 20% since FY16. Currently, it is exploring potential collaboration with co-working space operators to take up the vacant spaces and/or partially redevelop some of the floors into serviced apartments.

Valuation

- Following the change in earnings, our DDM-derived target price is revised lower to RM1.82/share from RM1.87/share previously. Maintain Hold.

Table 1: Earnings Summary (RMmn)

FYE June	FY17	FY18	FY19f	FY20f	FY21f
Gross Rental Income	522.9	560.4	598.3	625.2	652.9
Net Property Income	388.8	419.9	452.4	472.2	492.5
NPI Margins	74.4	74.9	75.6	75.5	75.4
Adj. Pretax profit	272.4	284.0	294.1	310.9	330.4
Reported Net Profit	272.4	284.0	294.1	310.9	330.4
Realised Net Profit	270.6	281.9	294.1	310.9	330.4
EPU (Sen)	9.2	9.6	10.0	10.6	11.2
EPU Growth (%)	3.7	4.3	3.5	5.7	6.3
PER (x)	18.3	17.5	16.9	16.0	15.1
DPU (sen)	9.2	9.6	10.0	10.6	11.2
Div Yield (%)	5.4	5.7	5.9	6.2	6.6
ROE (%)	6.6	6.6	6.8	7.1	7.6

Table 2: IQFY19 Results Analysis (RMmn)

FYE June	1Q18	4Q18	1Q19	QoQ (%)	YoY (%)	
Total revenue	141.2	136.3	143.7	5.5	1.8	
- Retail	103.6	101.2	104.9	3.6	1.3	
- Hospitality	23.1	18.7	22.6	20.4	(2.2)	
- Office	8.0	9.1	9.1	(0.3)	13.0	
- Others	6.5	7.2	7.2	0.0	10.3	
Total Net Property Income	111.0	100.3	110.5	10.2	(0.4)	
- Retail	78.3	70.7	77.7	9.9	(0.7)	
- Hospitality	22.2	17.0	20.5	20.5	(7.4)	
- Office	4.1	5.4	5.1	(5.3)	26.5	
- Others	6.5	7.2	7.2	0.0	10.3	
Other Income	1.6	1.9	2.2	14.7	36.5	
Changed in fair value	0.0	144.7	0.0	nm	nm	
Net Investment Income	112.6	246.9	112.7	(54.3)	0.1	
Manager & Trustee Fee	(9.0)	(8.7)	(9.2)	6.1	2.5	
Finance Costs	(24.2)	(29.0)	(29.6)	2.2	22.7	
Other expenses	(0.3)	(1.1)	(0.9)	(20.1)	>100	
Income Before Taxation	79.2	208.1	73.0	(64.9)	(7.9)	
Net Profit	79.2	207.1	73.0	(64.8)	(7.9)	
Realised Net Profit	78.7	63.3	73.0	15.3	(7.3)	
Realised EPU	(sen)	2.7	2.2	2.5	15.3	(7.1)
DPU	(sen)	2.7	2.2	2.5	15.3	(7.1)
NPI Margin	(%)	78.6	73.6	76.9	3.3	(1.7)
Realised Net Margin	(%)	55.8	46.5	50.8	4.3	(5.0)

Peers Comparison

	Call	Price (RM)	Target price (RM)	Market Cap (RM bn)	PER (x)		Div Yield (%)		P/NAV (x)	
					FY18	FY19	FY18	FY19	FY18	FY19
Sunway REIT	Hold	1.69	1.82	5.0	17.5	16.9	5.7	5.9	1.1	1.1
CMMT	Buy	1.04	1.29	2.1	15.4	14.3	6.8	7.2	0.8	0.8
KLCCP Stapled Group*	NR	7.65	NR	13.8	18.9	18.3	4.7	4.9	1.1	1.1
IGB REIT*	NR	1.66	NR	5.9	18.9	18.2	5.5	5.8	1.6	1.6
Pavilion REIT*	NR	1.60	NR	4.9	18.6	17.4	5.4	5.8	1.2	1.2
Axis REIT*	NR	1.51	NR	1.9	17.6	16.1	5.4	6.1	1.2	1.2
MQ REIT*	NR	1.07	NR	1.1	18.4	17.8	7.8	7.7	0.8	0.8
Al Salam*	NR	0.80	NR	0.5	14.0	12.7	5.9	6.3	0.8	0.8
Average					17.4	16.5	5.9	6.2	1.1	1.1

* Based on consensus number

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, November 02, 2018, 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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