

30 October 2017 | 1QFY18 Results Preview

## Sunway REIT

*Steady growth anticipated*

**Maintain BUY**

**Revised Target Price (TP): RM1.91**  
(Previously RM1.93)

### INVESTMENT HIGHLIGHTS

- **1QFY18 earnings likely to be in line**
- **Retail division is still the shining star**
- **Hotel division to see growth**
- **Earnings estimate fine-tuned**
- **Maintain BUY with a revised TP of RM1.91**


**1QFY18 earnings likely to be in line.** Sunway REIT (SUNREIT) is scheduled to release its 1QFY18 earnings on 31 October 2017. We estimate core net earnings of SUNREIT in 1QFY18 to be in the range of RM65m-RM70m, which should come in broadly within consensus expectations.

**Retail division is still the shining star.** We are forecasting higher earnings in 1QFY18 mainly driven by retail division. We expect its crown jewel, Sunway Pyramid, to deliver positive rental reversion estimated in mid-single digit due to high occupancy rate of 98%. Similarly, we expect Sunway Carnival to remain resilient and expect the mall to register a positive single-digit rental reversion. Meanwhile, performance of Sunway Putra Mall is expected to remain subdued due to flattish to negative rental reversion outlook. Overall, retail division is still the key earnings contributor to SUNREIT where net property income (NPI) contribution from the retail segment is expected to remain above 70%.

**Hotel division to see growth.** We expect earnings growth from the hotel division mainly due to earnings contribution from Sunway Pyramid Hotel, which was reopened in June this year after some refurbishment works. Its average occupancy rate was at 62% in 4QFY17 but we expect occupancy rate to improve going forward. The others segment, which includes Sunway Medical Centre, is estimated to record stable growth. Meanwhile, we expect the office segment to remain flat. We see limited downside risk from its office segment at this point and any successes in securing sizeable tenants for the office assets will be a bonus.

**Earnings estimate fine-tuned.** We revise downwards our earnings forecast for FY18/19 by 5.9%/6.9% for housekeeping reason and input the flattish performance of Sunway Putra Mall. Nevertheless, we are still forecasting decent earnings growth of 5.9% for FY18, mainly driven by higher contribution from retail and hotel divisions. Besides, maiden earnings contribution from industrial asset in Shah Alam and Sunway Clio will lift earnings of SUNREIT in FY18.

RETURN STATS	
Price (27 Oct 2017)	RM1.74
Target Price	RM1.91
Expected Share Price Return	10.0%
Expected Dividend Yield	5.0%
<b>Expected Total Return</b>	<b>15.0%</b>
STOCK INFO	
KLCI	1,746.13
Bursa / Bloomberg	5176/ SREIT MK
Board / Sector	Main / REITs
Syariah Compliant	No
Issued shares (mil)	2,945
Market cap. (RM'm)	5,124.44
Price over NA	1.22
52-wk price Range	RM1.63 - RM1.84
Beta (against KLCI)	0.72
3-mth Avg Daily Vol	1.94m
3-mth Avg Daily Value	RM3.34m
Major Shareholders	
Sunway Berhad	37.34%
EPF	13.63%
Skim Amanah Saham	6.26%
KWAP	4.17%

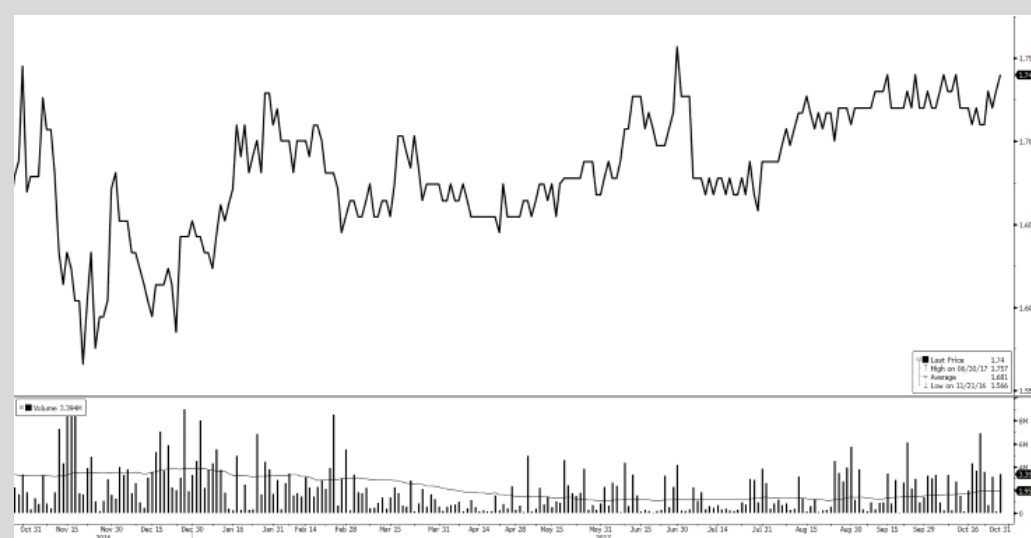
**Maintain BUY with a revised TP of RM1.91.** Post downward revision in earnings and DPU forecast, our Dividend Discount Model-based TP has revised to RM1.91 (from RM1.93). Maintain BUY on SUNREIT due to positive outlook for its retail division which underpinned by Sunway Pyramid and Sunway Carnival. Organic growth and assets acquisitions will spur earnings growth of SUNREIT. Meanwhile, dividend yield is estimated at 5.1%. 

## INVESTMENT STATISTICS

FYE June (RM'm, unless otherwise stated)	FY15	FY16	FY17	FY18F	FY19F
Gross Revenue	453	507	523	553	591
Net Rental Income	341	374	389	420	451
Net Investment Income	651	447	549	420	451
Net Income	541	324	424	286	304
Core Net Income	241	254	270	286	304
Realised EPU (sen)	18.52	11.00	14.42	9.70	10.33
Core EPU (sen)	8.23	8.63	9.19	9.70	10.33
Gross DPU (sen)	8.73	9.18	9.19	9.70	10.33
Net DPU (sen)	7.85	8.26	8.27	8.73	9.30
Net Distribution Yield (%)	4.5%	4.7%	4.8%	5.0%	5.3%
Core PER (x)	21.1	20.2	18.9	17.9	16.8
NAV per unit (RM)	1.26	1.38	1.43	1.43	1.24
P/NAV (x)	1.38	1.26	1.22	1.22	1.40
Core ROE	6.5%	6.6%	6.5%	6.8%	7.7%
Core ROA	4.0%	4.0%	4.0%	4.2%	4.4%

Source: MIDF Research

## DAILY PRICE CHART



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Source: Bloomberg

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.