

02 November 2018 | 1QFY19 Results Review

Sunway REIT

Results in-line

INVESTMENT HIGHLIGHTS

- **1QFY19 earnings within expectation**
- **CNI for the quarter declined by 7.3% yoy to RM73.0m**
- **Sequentially CNI jumped by 15% compared to 4QFY18**
- **Maintain BUY with unchanged TP of RM1.93**

1QFY19 earnings within expectation. Sunway REIT (SUNREIT)'s core net income (CNI) of RM73.0m is within expectation, making up 25% of our full FY19 forecast and 24.4% of consensus'. A DPU of 2.48 sen was announced, which is also within expectation.

CNI for the quarter declined by 7.3% yoy to RM73.0m although revenue grew 1.8% yoy to RM143.7m. The lower CNI can be attributed to higher finance cost and marginally lower NPI. Retail segment NPI dipped 0.8% to RM77.7m due to higher operating expenses. Hotel segment NPI declined by 7.7% to RM20.5m due to softer occupancy rates at 67.6% (vs 90.4% in 1QFY18), Sunway Pyramid Hotel at 66.5% (vs 71.0% in 1QFY18) and Sunway Putra Hotel (66.2% vs 78.6% in 1QFY18). However, the office segment NPI increased by 27.5% to RM5.1m due to higher occupancy rate at Sunway Putra Tower while the other segment climbed 10.8% to RM7.2m.

Sequentially, CNI jumped by 15% compared to 4QFY18 CNI of RM63.4m. Qoq, revenue was up by 5%. The higher CNI can be attributed to higher interest income (+19.7%) as well as lower property operating expenses (-7.6%).

Planning a more balanced portfolio in the long run. During the conference call, management has guided that the board had a strategic review up to 2025 to allow for an allocation of the other segment properties to account for up to 25% of SUNREIT's total asset value (TAV). Currently, the permissible allocation is up to 15% of the REIT's TAV. The types of assets under this segment may include industrial asset, data centre, warehouse, and education asset.

Improving office segment expected to cushion softness in the hotel segment. The hotel segment performance is expected to dip yoy due to the weaker demand from both leisure (lower arrivals of Middle Eastern tourists) and corporate customers, refurbishment of ballroom and meeting rooms at Sunway Report and Spa as well as the absence of the SEA Game which boosted occupancy rate at Sunway Putra Mall last year. On the other hand, the office segment is expected to improve with Sunway Putra Tower anticipating occupancy rate of more than 80% in FY19 from 78% in the current quarter. Wisma Sunway is expected to achieve full occupancy in FY19 from 76.4% in quarter due to the expansion of an existing tenant. Ideas are mooted to redevelop Sunway Tower into co-working space and apartments albeit being preliminary.

Maintain BUY

Unchanged Target Price (TP): RM1.93

RETURN STATS

Price (1st November 2018)	RM1.69
Target Price	RM1.93
Expected Share Price Return	+14.2%
Expected Dividend Yield	+5.3%
Expected Total Return	+19.5%

STOCK INFO

KLCI	1,706.92
Bursa / Bloomberg	5176/ SREIT MK
Board / Sector	Main / REITs
Syariah Compliant	No
Issued shares (mil)	2,945.08
Market cap. (RM'm)	4,977.18
Price over NA	1.14
52-wk price Range	RM1.48 - RM1.90
Beta (against KLCI)	0.70
3-mth Avg Daily Vol	1.09m
3-mth Avg Daily Value	RM1.86m


Major Shareholders

Sunway Berhad	40.88%
EPF	14.31%
Skim Amanah Saham	5.94%

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Sunway Carnival mall expansion on track. The development works for Sunway Carnival mall has started in 3QFY18 and is scheduled for completion by FY21. Management updated that 90% of the piling works are completed. The cumulative cost incurred from initiation up to end-September was RM34.1m (from RM27.2m in 4QFY18). The estimated property development cost of RM353m is inclusive of land cost. Following the completion of the project, Sunway Carnival's NLA is expected to increase by 330,000 sq ft or 72% to 787,920 sq ft. Property development against its enlarged total asset value was at 4.5%, which is less than the 15% requirement set by SC.

Maintain BUY with unchanged TP of RM1.93. We maintain our forecast as the results are in-line and hence we make no changes to our assumptions. Our Dividend Discount Model-based valuation (required rate of return of 7.4%; terminal growth rate of 2.0%) is maintained. We like SUNREIT for its integrated asset clusters and stable prospects from its crown jewel Sunway Pyramid Mall. Dividend yield is estimated at 5.3%. 

INVESTMENT STATISTICS

FYE June (RM'm, unless otherwise stated)	FY16	FY17	FY18	FY19F	FY20F
Gross Revenue	507	523	560	591	622
Net Rental Income	374	389	420	446	471
Net Investment Income	447	549	573	451	476
Net Income	324	424	428	292	309
Core Net Income	254	270	284	292	309
Realised EPU (sen)	11.00	14.42	14.52	9.93	10.48
Core EPU (sen)	8.63	9.19	9.64	9.93	10.48
Gross DPU (sen)	9.18	9.19	9.64	9.93	10.48
Net DPU (sen)	8.26	8.27	8.68	8.94	9.43
Net Distribution Yield	4.9%	4.9%	5.1%	5.3%	5.6%
Core PER (x)	19.6	18.4	17.5	17.0	16.1
NAV per unit (RM)	1.38	1.43	1.48	1.48	1.48
P/NAV (x)	1.23	1.18	1.14	1.14	1.14
Core ROE	6.6%	6.5%	6.6%	6.7%	7.1%
Core ROA	4.0%	4.0%	4.0%	3.9%	4.0%

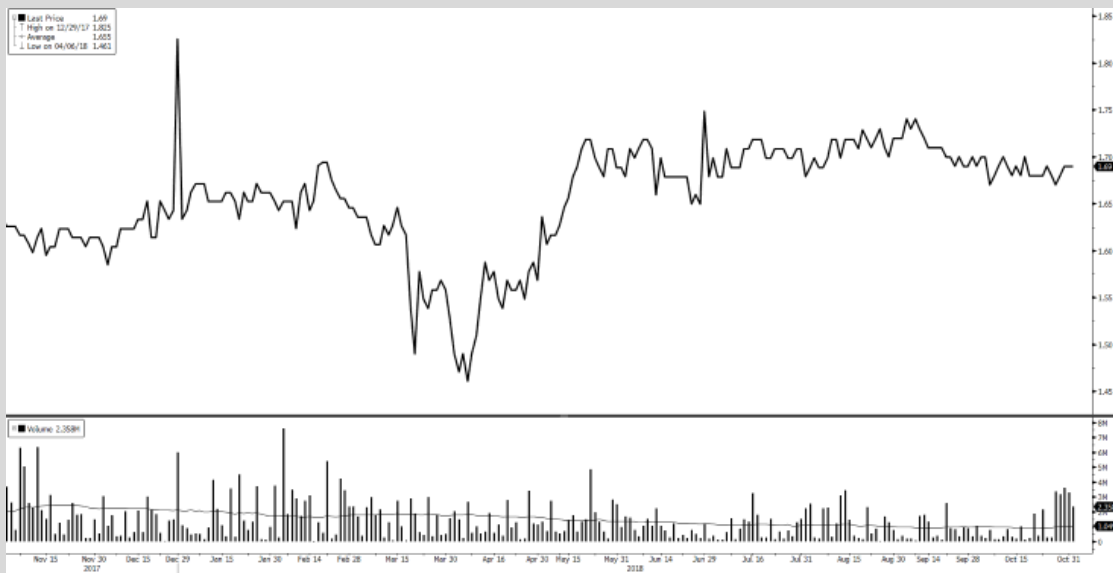
Source: Company, MIDFR

SUNREIT: 1QFY19 Results Summary

FYE June (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY19	%YoY	%QoQ	3MFY19	%YoY
Gross Revenue	143.7	1.8%	5%	143.7	1.8%
Net Rental Income (NRI)	110.5	-0.4%	10%	110.5	-0.4%
Net Investment Income	112.7	0.1%	-54%	112.7	0.1%
Net Income	73.0	-7.9%	-65%	73.0	-7.9%
Core Net Income (CNI)	73.0	-7.3%	15%	73.0	-7.3%
Realised EPU (sen)	2.48	-7.9%	-65%	2.48	-7.9%
Core EPU (sen)	2.48	-7.3%	15%	2.48	-7.3%
Gross DPU (sen)	2.48	-7.1%	15%	2.48	-7.1%

Source: Company, MIDF Research

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.