

04 May 2018 | 3QFY18 Results Review

Sunway REIT

Maiden contribution from Sunway Clio

Maintain BUY

Unchanged Target Price (TP): RM1.90

INVESTMENT HIGHLIGHTS

- **9MFY18 earnings within expectation**
- **CNI for the period rose 6.8% yoy to RM217.5m**
- **3QFY18 CNI was flat yoy at RM70.4m**
- **Maintain BUY with unchanged TP of RM1.90**

9MFY18 earnings within expectation. Sunway REIT (SUNREIT)'s core net income (CNI) of RM217.5m made up 76.6% of our FY18 forecast and 75.2% of consensus'. A DPU of 2.37 sen was announced, bringing YTD DPU to 7.42 sen, also within expectation.

CNI for the period rose 6.8% yoy to RM217.5m as revenue grew 9% yoy to RM424.2m. Retail segment NPI grew 3.7% to RM226.3m due to positive rental reversion from Sunway Pyramid and Sunway Carnival while hotel segment jumped 39.5% to RM60.7m, mainly due to the full re-opening of Sunway Pyramid Hotel. Meanwhile, the office segment NPI is down slightly by 1.6% to RM12.1m due to maintenance costs at Menara Sunway. The addition of the Shah Alam industrial asset helped to boost the other segment by 26.4% to RM20.6m.


3QFY18 CNI was flat yoy at RM70.4m. While revenue grew 5%yoy to RM141.5m, it was offset by borrowing costs that rose 21.7%yoy to RM27.4m due to the higher borrowings drawn down for the acquisition of Sunway Clio as well as higher borrowing costs that averaged at 3.95% during the quarter versus 3.93% in 2QFY18.

The Sunway Clio acquisition was completed in February 2018 and has started contributing RM2.1m to its topline and RM1.9m to its bottomline during the quarter. The occupancy rate of the retail portion of Sunway Clio averaged at 58% in 3QFY18 but has since improved to 88% as at end March due to the progressive opening of tenants.

Development of Sunway Carnival expansion. The expansion works for Sunway Carnival started in 3QFY18 and is scheduled for completion by 3QFY21. The estimated property development cost of RM339m is inclusive of land cost, which is RM17.2m. 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. The cumulative cost incurred from initiation up to end-March was RM26.1m. Property development against its enlarged total asset value was at 4.5%, which is less than the 15% requirement set by SC.

RETURN STATS	
Price (3 May 2018)	RM1.65
Target Price	RM1.90
Expected Share Price Return	+15.0%
Expected Dividend Yield	+5.3%
Expected Total Return	+20.3%
STOCK INFO	
KLCI	1,851.80
Bursa / Bloomberg	5176/ SREIT MK
Board / Sector	Main / REITs
Syariah Compliant	No
Issued shares (mil)	2,945.08
Market cap. (RM'm)	4,859.38
Price over NA	1.15
52-wk price Range	RM1.48 - RM1.90
Beta (against KLCI)	1.01
3-mth Avg Daily Vol	1.62m
3-mth Avg Daily Value	RM2.68m
Major Shareholders	
Sunway Berhad	39.27%
EPF	14.10%
Skim Amanah Saham	7.42%
KWAP	4.17%

Earnings estimate maintained. We maintain our earnings growth of 5.2% for FY18, primarily driven by the higher contribution from the retail and hotel divisions. Besides, earnings contribution from SUNREIT's industrial asset in Shah Alam and Sunway Clio should also support the growth.

Maintain BUY with unchanged TP of RM1.90. We make no changes to our TP as we maintain our earnings assumption and Dividend Discount Model-based valuation. We reaffirm our BUY call on SUNREIT due to the positive outlook for its retail and hotel divisions that are anchored by Sunway Pyramid, Sunway Carnival and Sunway Pyramid Hotel as well as new contribution from Sunway Clio. SUNREIT's dividend yield is estimated at 5.3%. 

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	284	303
Core Net Income	241	254	270	284	303
Realised EPU (sen)	18.52	11.00	14.42	9.66	10.29
Core EPU (sen)	8.23	8.63	9.19	9.66	10.29
Gross DPU (sen)	8.73	9.18	9.19	9.66	10.29
Net DPU (sen)	7.85	8.26	8.27	8.69	9.26
Net Distribution Yield	4.8%	5.0%	5.0%	5.3%	5.6%
Core PER (x)	20.0	19.1	18.0	17.1	16.0
NAV per unit (RM)	1.26	1.38	1.43	1.43	1.24
P/NAV (x)	1.31	1.20	1.15	1.15	1.33
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

SUNREIT: 3QFY18 Results Summary

FYE June (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY18	%YoY	%QoQ	FY18	%YoY
Gross Revenue	141.5	5%	0%	424.2	9%
Net Rental Income (NRI)	105.3	5%	2%	320.0	10%
Net Investment Income	107.5	6%	1%	326.0	10%
Net Income	70.4	0%	-1%	220.6	7%
Core Net Income (CNI)	70.4	0%	3%	217.5	7%
Realised EPU (sen)	2.4	0%	-1%	7.5	7%
Core EPU (sen)	2.4	0%	3%	7.4	7%
Gross DPU (sen)	2.4	0%	0%	7.4	7%

Source: MIDF Research

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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.