

07 February 2018 | 2QFY18 Results Review

Sunway REIT

Boosted by retail and hotel assets

Maintain BUY

Unchanged Target Price (TP): RM1.91

INVESTMENT HIGHLIGHTS

- **1HFY18 earnings in-line**
- **CNI for the period rose 12.3% to RM149.7m**
- **2QFY18 CNI was up by 6.7%yoy to RM71.0m**
- **Maintain BUY with unchanged TP of RM1.91**

1HFY18 earnings in-line. Sunway REIT (SUNREIT)'s core net income (CNI) of RM150.2m made up 52.7% of our FY18 forecast and 53.8% of consensus'. A DPU of 2.38 sen was announced, bringing YTD DPU to 5.05 sen.


CNI for the period rose 12.3% to RM149.7m supported by revenue growth of 11% to RM282.6m. Retail segment Net Property Income (NPI) grew 4.8% to RM149.2m due to positive rental reversion while hotel segment jumped 50.2% to RM44.0m due to higher occupancy rate at Sunway Putra Hotel and the full opening of Sunway Pyramid Hotel. Meanwhile, the office segment is flat at RM7.7m and the addition of the Shah Alam industrial asset boosted the other segment by 25% to RM13.5m.

2QFY18 CNI was up by 6.7%yoy to RM71.0m on the back of revenue that grew 11%yoy to RM141.5m. CNI for the quarter didn't catch up as fast as revenue due to higher operating expenses which was partly due to the repainting of carparks at its retail mall. NPI for malls are up marginally by 0.1% to RM70.9m yoy due to growth in Sunway Pyramid, which was mitigated by NPI contraction of Sunway Carnival, Sunway Putra Mall and Sunway City Ipoh Hypermarket. Hotel segment NPI soared 57.6% to RM21.9m due to higher event revenue and lower contribution from Sunway Pyramid Hotel last year.

On track for a decent year. We expect Sunway Pyramid and Sunway Carnival to support the NPI growth for the retail segment. We foresee a slight dip from Sunway Putra Mall due to a slight negative rental reversion to uphold its occupancy rate. Sunway Carnival's NPI is expected to improve in 2HFY18 following the change in manager for its convention centre, which led to a 1.5 months of vacancy previously. We expect the office segment to remain flat while downside risk is limited. In the second half of the year, we also anticipate greater contribution from Sunway Clio as management targets to complete the acquisition in 3QFY18.

RETURN STATS	
Price (6 February 2017)	RM1.72
Target Price	RM1.91
Expected Share Price Return	10.8%
Expected Dividend Yield	5.1%
Expected Total Return	15.9%
STOCK INFO	
KLCI	1,812.45
Bursa / Bloomberg	5176/ SREIT MK
Board / Sector	Main / REITs
Syariah Compliant	No
Issued shares (mil)	2,945.08
Market cap. (RM'm)	5,065.53
Price over NA	1.20
52-wk price Range	RM1.64 - RM1.90
Beta (against KLCI)	0.90
3-mth Avg Daily Vol	1.80m
3-mth Avg Daily Value	RM3.07m
Major Shareholders	
Sunway Berhad	39.27%
EPF	14.17%
Skim Amanah Saham	5.76%
KWAP	4.17%

Earnings estimate maintained. We maintain our earnings growth of 5.2% for FY18, primarily driven by the higher contribution from 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 RM1.91. 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, which are anchored by Sunway Pyramid, Sunway Carnival and Sunway Pyramid Hotel. SUNREIT's 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	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 (%)	4.6	4.8	4.8	5.1	5.4
Core PER (x)	20.9	19.9	18.7	17.8	16.7
NAV per unit (RM)	1.26	1.38	1.43	1.43	1.24
P/NAV (x)	1.37	1.25	1.20	1.20	1.39
Core ROE	6.5%	6.6%	6.5%	6.8%	7.7%
Core ROA	4.0%	4.0%	4.0%	4.2%	4.4%

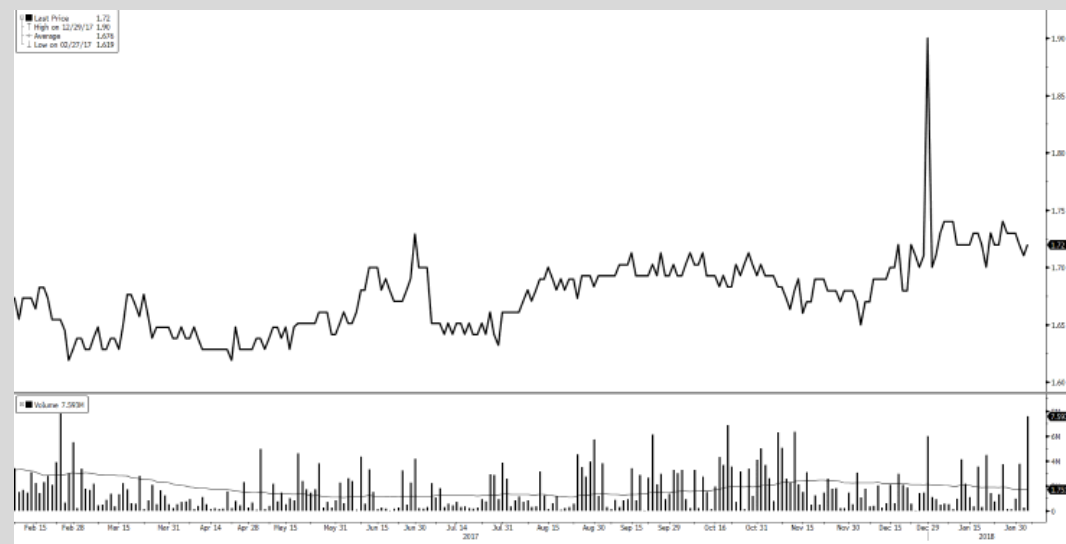
Source: MIDF Research

SUNREIT: 2QFY18 Results Summary

FYE June (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY18	%YoY	%QoQ	FY18	%YoY
Gross Revenue	141.5	11%	0%	282.64	11%
Net Rental Income (NRI)	103.7	10%	-7%	214.7	13%
Net Investment Income	105.9	7%	-6%	218.6	11%
Net Income	71.0	0%	-10%	150.2	11%
Core Net Income (CNI)	71.0	6.7%	-10%	149.7	12.3%
Realised EPU (sen)	2.4	0%	-10%	5.1	11%
Core EPU (sen)	2.4	7%	-10%	5.1	12%
Gross DPU (sen)	2.4	4%	-11%	5.1	11%

Source: MIDF Research

DAILY PRICE CHART



Ng Bei Shan
ng.bs@midf.com.my
03-2173 8461

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.