

30 June 2020

Sunway REIT

Acquiring Sunway Pinnacle

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SUNREIT proposed to acquire Sunway Pinnacle for RM450m, and proposed a private placement of up to 15.4% to raise RM710m to part fund the acquisition and the remainder for capex for Sunway Carnival extension. The acquisition price is fair with an NPI yield of 6.2%, but we expect dilution post placement in 1HFY21. Lower FY21E DPU by 7.9% to 8.8 sen. Maintain MARKET PERFORM but lower TP to RM1.50 (from RM1.65).

Acquiring Sunway Pinnacle. SUNREIT proposed to acquire Sunway Pinnacle for RM450m, via a proposed private placement that is expected to raise proceeds up to RM710m (est. 452.2m shares at RM1.57). The placement will be utilised for the acquisition (utilising RM405m) as well as to fund the capex for the Sunway Carnival Mall extension (RM295m) which would be completed by end CY21 (mid FY22), with the price and dilution yet to be determined pending the book building. Additionally, SUNREIT proposed to establish a distribution reinvestment scheme which we view positively as it would help retain cash within the company. The proposals are expected to be completed by 4QCY20 (by 1HFY21).

Sunway Pinnacle acquisition price is fair. Sunway Pinnacle acquisition is expected to start contributing by mid FY21 with a net yield of 6.20% which is higher than SUNREITs portfolio yield of 5.85%, while its other office assets yields are range bound between 5.2% to 6.6% (save for Sunway Tower). We like the fact that the asset is currently 100% occupied, and the acquisition will provide decent rental income c.3.2% to earnings, but we caution that the office segment is experiencing an oversupply in the Klang Valley and the impact of Covid-19 may affect certain sectors within the economy. Sunway Pinnacles' tenants that are in fairly stable sectors such as technology and telecommunication, and pharmaceutical make up 65% of the assets NLA, while 10% is from oil and gas sector and 25% from other sectors.

Earnings increased by 6.3% to RM314m for FY21 but DPU is lowered by 7.9% to 8.8 sen. All in, FY20 remains unchanged but we increase FY21 earnings by 6.3% as the Sunway Pinnacle acquisition will contribute c.3.2% to earnings, while we believe the Group will utilise some of its excess cash due to the heavy dilution to pare down borrowings in the near term, resulting in lower borrowing cost by c.3.1%. However, **FY21 DPU is expected to decline by 7.9% to 8.8 sen** (from 9.5 sen) assuming the 15% placement. FY20-21E NDPU of 7.0-7.9 sen (from 7.0-8.6 sen) provides 4.4-5.0% net yield. Gearing is expected to decline to 0.36x in FY21 from 0.40x due to the placement.

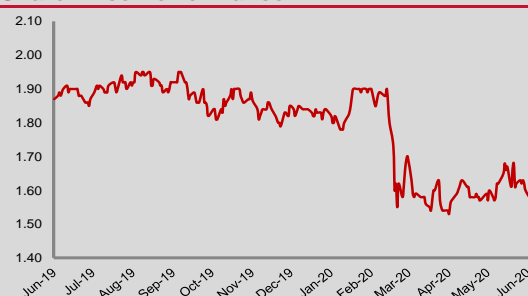
Maintain MARKET PERFORM but lower TP to RM1.50 (from RM1.65). Our TP is based on a lower FY21E GDPS/NDPS of 8.8/7.9 sen (from 9.5/8.6 sen) and a +2.5ppt spread our 10-year MGS target of 3.30%. Our applied spread is at +2.0SD, on par with other MREITs under coverage (save for AXREIT) to account for earnings risk in light of the Covid-19 pandemic considering its exposure to retail and hospitality segments. We are comfortable with our MARKET PERFORM rating as we believe most near-term downsides have been accounted for, including the dilution while SUNREIT's gross yield of 5.6% is marginally above large cap MREIT peers' average of 5.3%.

Risks to our call include: (i) bond yield expansion or compression, and (ii) stronger or weaker-than-expected earnings in retail, hospitality and office divisions.

MARKET PERFORM ↔

Price : RM1.58
Target Price : RM1.50 ↓

Share Price Performance



KLCI 1,494.43
YTD KLCI chg -5.9%
YTD stock price chg -13.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SREIT MK EQUITY
Market Cap (RM m)	4,653.2
Shares Outstanding	2,945.1
52-week range (H)	1.98
52-week range (L)	1.50
3-mth avg daily vol:	3,176,594
Free Float	36%
Beta	0.6

Major Shareholders

Sunway Bhd	40.9%
Employees Provident	15.8%
Kumpulan Wang Persar	6.8%

Summary Earnings Table

FY Jun (RM m)	2019A	2020E	2021E
Turnover	580	589	660
EBIT	404	384	439
PBT	394	253	314
Net Profit	386	253	314
Core NP (RNI)	282	253	314
Consensus (CNP)	n.a.	262	287
Earnings Revision	n.a.	n.a.	+6.3%
Core EPS (sen)	9.6	8.6	9.3
Core EPS growth (%)	0%	8%	8%
NDPS (sen)	8.6	7.0	7.9
BV/Share (RM)	1.63	1.79	2.06
Core PER (x)	16.5	18.4	17.1
Gearing (x)	0.38	0.39	0.36
N. Div Yield (%)	5.5%	4.4%	5.0%



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OTHER POINTS

Outlook. FY20-21 will see 21-11% of NLA up for renewal on the back of expectations of flattish to mildly positive reversions for offices and prime retail assets, and potential rental rebates or deferments for some retail tenants on a case-to-case basis and the severity of the Covid-19 situation on tenant's sales. The group remains cautious on the potential impact of the coronavirus outbreak on the performance of the hotel and retail segments which have taken the hardest hit, while the office and services segment are expected to remain stable in the near term.

Asset Details	
Property description	24-storey office building with three-storey mezzanine floors and six levels of basement car park, is a Grade A, GBI-certified and MSC-status office building, located strategically within Sunway City, Malaysia, next to Menara Sunway and Sunway Resort Hotel & Spa.
Tenure	Leasehold interest for a term of 99 years, expiring on 1 April 2097, with remaining terms of 77 years
Building age	6.5 years
Gross floor area	1,145,554 sq.ft. (with 444,752 sq.ft. of car park space – 855 bays)
Net lettable area ("NLA")	576,864 sq.ft.
Occupancy rate	100%
Purchase Price	RM450.0m

Source: Company, Kenanga Research

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Income Statement

FY June (RM m)	2017A	2018A	2019A	2020F	2021F
Revenue	523	560	580	589	660
EBITDA	359	422	407	386	440
Depreciation	-1	-2	-2	-2	-2
EBIT	389	420	404	384	439
Interest Income	2	2	5	5	5
Interest Expense	-87	-106	-118	-131	-124
Others	0	0	0	0	0
Exceptionals/FV	152	145	108	0	0
PBT	424	429	394	253	314
Taxation	0	0	-8	0	0
Minority Interest	0	0	0	0	0
Net Profit	424	428	386	253	314
RNI	267	282	282	253	314
RDI		282	282	227	299
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Balance Sheet

FY June (RM m)	2017A	2018A	2019A	2020F	2021F
Fixed Assets	6698	7294	8060	8311	8862
Intangibles	0	0	0	0	0
Other FA	0	0	0	0	0
Inventories	0	0	0	0	0
Receivables	37	32	19	26	37
Other CA	8	140	11	12	13
Cash	101	58	67	87	194
Total Assets	6843	7524	8158	8436	9106
Payables	214	184	178	211	227
ST Borrowings	2435	2603	3091	3306	3156
Other ST Liability	1	0	1	1	1
LT Borrowings	0	300	0	0	80
Other LT Liability	72	84	92	96	94
Minority Int.	0	0	0	0	0
Net Assets	4121	4353	4797	4822	5547
Share Capital	2728	2728	2728	2728	3438
Reserves	1484	1625	2069	2094	2110
S.Equity	4212	4353	4797	4822	5547

Cashflow Statement

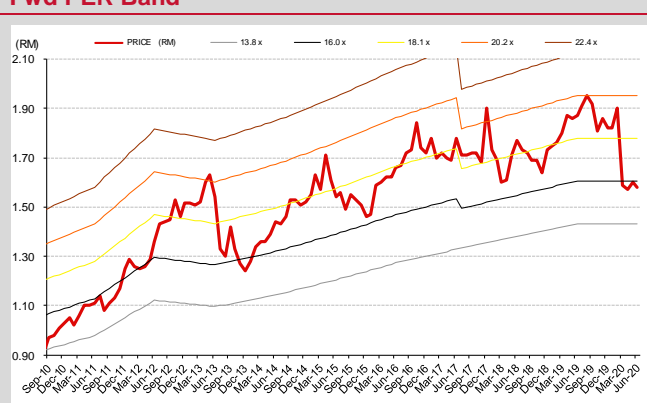
FY June (RM m)	2017A	2018A	2019A	2020F	2021F
Operating CF	382	410	314	392	425
Investing CF	-199	-797	-626	-253	-2
Financing CF	-217	448	278	-118	224

Source: Kenanga Research

Financial Data & Ratios

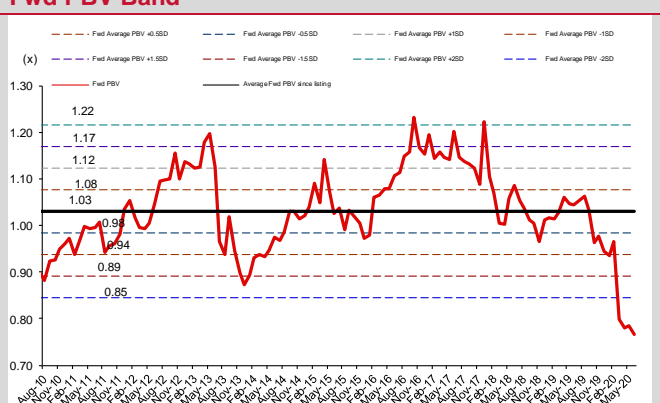
FY June (%)	2017A	2018A	2019A	2020F	2021F
Growth					
Revenue	3.1	7.2	3.5	1.5	12.2
EBITDA	3.3	17.5	(3.6)	(5.1)	14.1
Operating Income	12.2	8.0	(3.7)	(5.0)	14.2
Pre-tax Income	31.1	1.0	(8.0)	(35.9)	24.4
RNI	31.1	0.8	(9.7)	(34.6)	24.4
Profitability (%)					
EBITDA Margin	68.6	75.3	70.1	65.5	66.7
Operating Margin	74.4	74.9	69.7	65.2	66.4
PBT Margin	81.2	76.5	68.0	42.9	47.6
Core Net Margin	51.1	50.3	66.6	42.9	47.6
Effective Tax Rate	0.0	0.0	(2.0)	0.0	0.0
ROE	11.1	6.5	6.6	8.1	5.2
ROA	4.0	3.9	4.7	3.0	3.5
DuPont Analysis					
Net Margin (%)	51%	50%	49%	43%	48%
Assets T/over (x)	0.1	0.1	0.1	0.1	0.1
Leverage	1.6	1.7	1.7	1.7	1.7
Factor(x)					
ROE (%)	6.5	6.6	8.1	5.2	5.7
Leverage					
Debt/Asset (x)	0.36	0.39	0.38	0.39	0.36
Debt/Equity (x)	0.58	0.67	0.64	0.69	0.58
Net Cash/(Debt)	-2334	-2845	-3024	-3219	-3042
Net Debt/Equity (x)	0.56	0.63	0.63	0.67	0.55
Valuations					
Core EPS (sen)	9.2	9.6	9.6	8.6	9.3
GDPS (sen)	9.2	9.6	9.6	7.7	8.8
NDPS (sen)	8.3	8.6	8.6	7.0	7.9
BV/share (RM)	1.50	1.48	1.63	1.79	2.06
Core PER (x)	17.1	16.5	16.5	18.4	17.1
G.Div. Yield (%)	5.8	6.1	6.1	4.9	5.6
N.Div. Yield (%)	5.2	5.5	5.5	4.4	5.0
PBV (x)	1.1	1.1	1.0	0.9	0.8

Fwd PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
STOCKS UNDER COVERAGE																	
AXIS REIT	2.07	2,985.6	Y	12/2020	1.3%	3.9%	11.8%	7.0%	25.8	23.2	21.7	1.4	1.4	6.2%	3.9%	1.90	MP
CAPITALAND MALAYSIA MALL TRUST	0.805	1,654.6	N	12/2020	-17.7%	15.2%	-45.4%	49.4%	13.0	23.7	15.9	0.6	0.6	2.6%	3.9%	0.650	UP
IGB REIT	1.78	6,327.9	N	12/2020	-20.0%	22.1%	-14.4%	24.2%	20.0	27.0	21.3	1.7	1.7	6.2%	3.7%	1.65	MP
KLCCP STAPLED GROUP	7.97	14,388.5	Y	12/2020	-3.7%	8.4%	-7.8%	9.1%	19.7	21.4	19.6	1.1	1.1	5.5%	4.5%	8.10	MP
MRCB-QUILL REIT	0.740	793.1	N	12/2020	-14.4%	12.6%	-27.6%	23.6%	9.6	13.4	10.8	0.6	0.6	4.3%	6.6%	0.700	OP
PAVILION REIT	1.62	4,930.2	N	12/2020	-12.0%	15.9%	-38.8%	59.6%	19.9	32.5	20.4	1.2	1.2	3.8%	3.0%	1.50	MP
SUNWAY REIT	1.58	4,653.2	N	06/2020	1.5%	12.2%	-10.5%	24.4%	16.5	18.4	17.1	1.0	0.9	5.7%	4.4%	1.50	MP
Simple Average					-9.3%	12.9%	-19.0%	28.2%	17.8	22.8	18.1	1.1	1.1	4.9%	4.3%		
* Core NP and Core PER																	
CONSENSUS NUMBERS																	
YTL HOSPITALITY REIT	1.05	1,789.6	N	06/2020	-23.1%	7.4%	3.9%	6.7%	17.1	16.5	15.4	0.7	0.7	0.0	5.5%	1.19	N.A.
AL-'AQAR HEALTHCARE REIT	1.38	1,015.7	Y	12/2020	0.5%	4.6%	-17.1%	6.8%	13.3	16.1	15.1	1.1	n.a.	0.1	5.8%	1.55	BUY
AMANAHRAYA REIT	0.675	386.9	N	12/2020	-3.5%	2.6%	-8.4%	5.2%	10.9	11.9	11.3	0.5	n.a.	0.0	8.1%	0.680	N.A.
AMFIRST REIT	0.420	288.3	N	03/2021	n.a.	n.a.	n.a.	n.a.	12.2	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	n.a.	N.A.
HEKTAR REIT	0.655	302.6	N	12/2020	n.a.	n.a.	n.a.	n.a.	26.4	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	N.A.
TOWER REIT	0.750	210.4	N	06/2020	n.a.	n.a.	n.a.	n.a.	29.3	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	N.A.
UOA REIT	1.22	515.9	N	12/2020	n.a.	n.a.	n.a.	n.a.	26.0	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	N.A.
ATRIUM REIT	1.03	210.8	N	12/2020	n.a.	n.a.	n.a.	n.a.	60.4	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	N.A.
AL-SALAM REIT	0.690	400.2	Y	12/2020	-9.0%	2.0%	-34.9%	18.9%	11.1	17.0	14.3	0.6	0.6	0.0	5.5%	0.700	N.A.
KIP REIT	0.800	404.2	N	06/2020	n.a.	n.a.	n.a.	n.a.	11.9	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	N.A.

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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Published and printed by:

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