

19 August 2022

Sunway REIT

Retail Boost

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1HFY22 net profit of RM153m (up 153% YoY) is broadly in-line with our/consensus expectations. Post results, we have tweaked our forward earnings by +4.4% for FY22 and -0.6% for FY23. Still a MARKET PERFORM with a revised higher TP of RM1.60 based on a target yield of 5.5% (which implies a 1.0% yield spread above our 10-year MGS assumption of 4.5%).

Results' highlights. YoY, 1HFY22 revenue was up 44% while core net profit jumped 153% (accounting for 52%/50% of our/consensus full-year estimates). 1HFY22 DPU of 4.22 sen is marginally ahead of our FY22F DPU of 8.1 sen. During the first half, net property income (NPI) rose 75% as its business (particularly the retail operations) benefitted from increased footfall and tenant sales following the gradual return to normalcy post the reopening of the economy. By sector, the retail segment (lifted by marginal rental support, higher turnover rent, promotion and car park income) contributed the most to NPI (up 187% YoY to RM141.9m or 63% of overall NPI) which was followed by the hotel operations (+14% YoY to RM22.5m or 10% of total NPI). In terms of individual assets, Sunway Pyramid Mall (+227% YoY to RM122.0m or 54% of NPI) remained the top contributor to the overall performance.

Outlook. With tenant sales and footfall (which have recovered slightly above the pre-Covid thresholds) holding up so far (as has been the case in 4QFY21, 1QFY22 and 2QFY22), the business momentum will probably sustain going into the second half. This is especially so for the retail and hotel operations in view of the steady pattern of consumer spending and travelling activity (with foreign tourists yet to return to pre-pandemic level), notwithstanding possible disruptions arising from a rising inflationary environment as well as recession fears.

Adjusting our forecasts. Following the 1HFY22 results, we have revised our core net profit forecasts to RM306m (+4.4%) for FY22 and RM318m (-0.6%) for FY23 after tweaking our assumptions. Correspondingly, our FY22F and FY23F GDPU now stand at 8.5 sen (from 8.1 sen) and 8.8 sen (from 8.9 sen), respectively, which imply yields of 5.6%-5.8%.

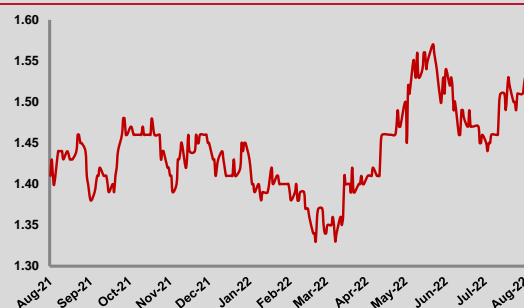
Still MARKET PERFORM. We have revised our TP to RM1.60 (from RM1.50) based on a target yield of 5.5% (which is derived from a 1.0% yield spread above our 10-year MGS assumption of 4.5%) on FY23F GDPU. This is to reflect SUNREIT's diversified portfolio (with quality assets spread across the retail, hotel, office and services industries). There is no adjustment to our TP based on ESG of which it is given a 3-star rating as appraised by us.

Risks to our call include: (i) bond yield contraction/expansion, (ii) higher/lower-than-expected rental reversions, and (iii) higher/lower-than-expected occupancy rates.

MARKET PERFORM ↔

Price : RM1.52
Target Price : RM1.60 ↑

Share Price Performance



KLCI 1,516.62
YTD KLCI chg -3.2%
YTD stock price chg 7.8%

Stock Information

Shariah Compliant No
Bloomberg Ticker SREIT MK Equity
Market Cap (RM m) 5,205.7
Shares Outstanding 3,424.8
52-week range (H) 1.57
52-week range (L) 1.33
3-mth avg daily vol: 1,992,080
Free Float 29%
Beta 0.6

Major Shareholders

Sunway Bhd 40.9%
Employees Provident Fund 15.5%
Kumpulan Wang Persaraan 5.8%

Summary Earnings Table

FY Dec (RM m)	FP2021A^	2022F	2023F
Turnover	676	614	639
EBIT	320	432	431
PBT	195	345	338
Net Profit (NP)	195	345	338
Core NP (CNP)*	223	306	318
Income			
Distribution	205	291	302
Consensus (CNP)	n.a.	303	317
Earnings Revision	n.a.	+4.4%	-0.6%
Core EPS (sen)	6.7	9.5	9.9
Core EPS grwth. (%)	-14	42	4
GDPU (sen)	6.1	8.5	8.8
BV/Share (RM)	1.50	1.48	1.48
Core PER (x)	22.7	16.0	15.4
Gearing (x)	0.4	0.4	0.4
Net Div. Yield (%)	4.0	5.6	5.8

^ - 18-month financial period

* - After adjusting for distribution due to perpetual note holders and changes in FV of investment properties

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Results Highlights

FYE 31 Dec (RM m)	2Q22	2Q21	YoY	1Q22	QoQ	1H22	1H21	YoY
Gross revenue	144.5	103.4	40%	154.0	-6%	298.5	207.7	44%
Property operating expenses	-37.6	-41.0	-8%	-35.1	7%	-72.7	-78.3	-7%
Net property income	106.9	62.3	71%	118.9	-10%	225.8	129.4	75%
Interest & other income	1.1	2.0	-47%	1.3	-17%	2.4	4.0	-42%
Finance costs	-22.8	-21.3	7%	-20.9	9%	-43.6	-44.1	-1%
Chges in FV of invmt properties	0.0	0.0	-	18.3	-100%	18.3	0.0	-
Other non-operating expenses	-10.7	-9.5	12%	-11.3	-5%	-22.0	-18.9	16%
Pretax profit	74.5	33.5	122%	106.3	-30%	180.8	70.3	157%
Taxation	0.0	0.0	-	0.0	-	0.0	0.0	-
Net profit (NP)	74.5	33.5	122%	106.3	-30%	180.8	70.3	157%
Realised NP attributable to unitholders#	69.5	28.5	144%	83.1	-16%	152.7	60.4	153%
Income Distribution	144.5	55.8	159%	0.0	-	144.5	55.8	159%
EPU (sen)	2.03	0.77	164%	2.43	-16%	4.46	1.71	161%
DPU (sen)	4.22	1.63	159%	0.00	-	4.22	1.63	159%
# - After adjusting for distribution due to perpetual note holders and in changes in FV of investment properties								
Segmental breakdown:								
Retail	101.4	58.6	73%	98.4	3%	199.8	112.2	78%
Hotel	6.0	8.7	-31%	18.5	-68%	24.5	23.1	6%
Office	19.7	19.3	2%	19.5	1%	39.2	38.6	2%
Services	15.8	15.3	3%	15.8	0%	31.6	30.7	3%
Industrial & Others	1.7	1.5	10%	1.7	0%	3.4	3.1	10%
Gross revenue	144.5	103.4	40%	154.0	-6%	298.5	207.7	44%
Retail	71.6	25.5	181%	70.3	2%	141.9	49.5	187%
Hotel	5.0	7.0	-28%	17.4	-71%	22.5	19.8	14%
Office	12.7	12.9	-1%	13.7	-7%	26.4	26.3	0%
Services	15.8	15.3	3%	15.8	0%	31.6	30.7	3%
Industrial & Others	1.7	1.5	10%	1.7	-	3.4	3.1	10%
Net property income	106.9	62.3	71%	118.9	-10%	225.8	129.4	75%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIS REIT	MP	1.93	1.95	1.04%	3,167.2	Y	12/2022	9.3	10.2	10.4%	9.9%	21.4	19.3	1.2	6.2%	8.3	4.3%
CAPITALAND MALAYSIA MALL TRUST	MP	0.55	0.51	-7.27%	1,185.4	N	12/2022	4.1	4.1	176.0%	-1.7%	0.1	0.1	0.5	-3.3%	3.5	7.1%
IGB REIT	MP	1.65	1.65	0.00%	5,912.3	N	12/2022	9.7	9.9	58.1%	2.5%	0.2	0.2	1.6	8.8%	8.8	5.3%
KLCCP STAPLED GROUP	MP	7.03	6.60	-6.12%	12,691.5	Y	12/2022	30.2	36.4	6.0%	7.0%	18.4	17.2	1.0	5.2%	26.8	4.6%
SENTRAL REIT	MP	1.01	0.89	-11.88%	1,082.5	N	12/2022	7.6	7.6	-2.5%	0.7%	13.4	13.3	0.8	5.3%	6.5	6.4%
PAVILION REIT	MP	1.31	1.42	8.40%	4,003.0	N	12/2022	7.6	8.1	85.9%	6.8%	0.2	0.2	1.0	6.0%	7.1	5.4%
SUNWAY REIT	MP	1.52	1.60	5.26%	5,205.7	N	12/2022	9.5	9.9	-41.8%	4.21%	16.0	15.4	1.0	5.8%	8.8	5.8%
Simple Average								10.7	12.0	44.7%	6.7%	10.2	9.5	1.0	4.8%		5.4%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	☆		
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
SPECIFIC	Waste Management	★	★	★		
	Energy Efficiency	★	★	☆		
	Digital Transformation	★	★	★		
	Customer Safety / Protection	★	★	★		
	OVERALL	★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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