

# Sunway REIT (SREIT MK)

## 6Q2021: Strong retail segment

### U/G to HOLD

18MFP21 core net profit of MYR221.9m came in above our and consensus expectations at 110%/105% respectively, mainly due to stronger-than-expected retail segment. Our FY22/23E earnings forecasts are tweaked by +2.8%/2.3% and our new rolled-forward DDM-TP is increased to MYR1.45 (from MYR1.30). We U/G our call to HOLD, with decent FY22E net DPU yield of 5.1%

### Growth led by retail segment

6Q2021 core net profit was MYR67.6m (+138% YoY), bringing 18MFP21 core net profit to MYR221.9m. Strong YoY core earnings for 6Q2021 was mainly due to: (i) retail - lower rental support and higher car park income, following encouraging recovery in retail footfall and retail sales, (ii) office - higher income from newly acquired The Pinnacle Sunway on 20 Nov 2020, and (iii) lower finance cost (-12%) - due to lower average interest rate. Notably, NPI margin for retail segment showed strongest recovery at 71%. Overall, core NPI for 6Q2021 jump 57% YoY to MYR103.5m.

### Slight adjustment to forecasts

We tweak FY22/23E earnings by 2.8%/2.3% after adjusting for full-year FY21 results. Rental reversion outlook remains muted for FY22, where most retail tenants are transitioning into a recovery stage. Our earnings growth forecasts are based on organic growth from lower rental rebates and asset enhancement initiatives at selected assets, i.e. expansion of Sunway Carnival (350k sf additional new space, scheduled to open in April 2022) and re-opening of Sunway Resort Hotel (from March 2022 onwards).

### Expect retail to recover faster than hotel segment

SunREIT's malls are expected to have a more sustainable recovery, with lower rental rebates and in the absence of Movement Control Order. Meanwhile, only gradual recovery is expected for its hotel segment, given continuing restrictions on international travel. This is, however, partially helped by improved domestic tourism and pick up from corporates events.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	557	676	637	672	716
Net property income	417	457	469	487	521
Core net profit	228	222	272	288	320
Core EPU (sen)	7.8	7.0	7.9	8.4	9.3
Core EPU growth (%)	(19.1)	(10.2)	13.9	6.1	11.0
Net DPU (sen)	6.6	5.4	7.1	7.6	8.4
Net DPU growth (%)	(23.6)	(18.5)	32.6	6.1	11.0
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
Net DPU yield (%)	4.4	3.8	5.1	5.4	6.0
ROAE (%)	4.7	4.1	5.9	6.2	6.8
ROAA (%)	2.7	2.5	3.0	3.1	3.5
Debt/Assets (x)	0.41	0.37	0.37	0.37	0.38
Consensus Net DPU	-	-	6.3	7.2	na
MKE vs. Consensus (%)	-	-	14.0	5.0	na

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# HOLD

[Prior:SELL]

Share Price MYR 1.39  
 12m Price Target MYR 1.45 (+9%)  
 Previous Price Target MYR 1.30

### Company Description

Sunway REIT primarily invests and manages a real estate portfolio which consists of retail, office and hospitality assets.

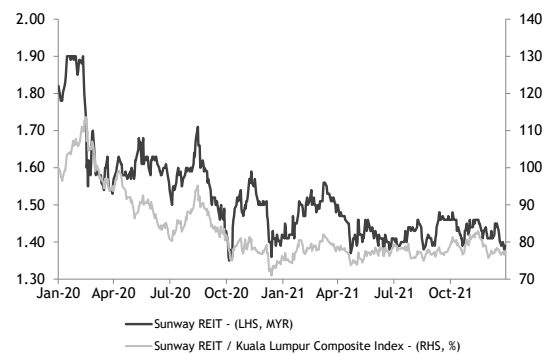
### Statistics

52w high/low (MYR)	1.56/1.37
3m avg turnover (USDm)	0.5
Free float (%)	41.2
Issued shares (m)	3,425
Market capitalisation	MYR4.8B USD1.1B

### Major shareholders:

Sunway Bhd.	40.9%
Employees Provident Fund	15.6%
Kumpulan Wang Persaraan	6.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(5)	0
Relative to index (%)	(2)	(2)	4

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative 18M FP2021
	6Q FP2021	2QFY21	% YoY	5Q FP2021	% QoQ	
Gross revenue**	157.8	95.8	64.8	106.9	47.6	675.6
<b>Net property income**</b>	<b>123.1</b>	<b>66.0</b>	<b>86.5</b>	<b>70.5</b>	<b>74.6</b>	<b>457.1</b>
Other income	1.8	2.2	(16.9)	1.9	(6.3)	11.5
Non-property expenses	(11.2)	(10.5)	7.0	(9.9)	13.1	(60.0)
Finance costs	(21.4)	(24.2)	(11.5)	(21.5)	(0.2)	(137.0)
Fair value gain/(loss)	(76.9)	0.0	NM	0.0	NM	(76.9)
<b>Pretax profit</b>	<b>15.3</b>	<b>33.5</b>	<b>(54.2)</b>	<b>41.1</b>	<b>(62.6)</b>	<b>194.6</b>
Tax	0.9	0.0	NM	0.0	NM	0.9
<b>Net profit</b>	<b>16.2</b>	<b>33.5</b>	<b>(51.7)</b>	<b>41.1</b>	<b>(60.6)</b>	<b>195.5</b>
- Perpetual note holders	5.0	5.0	0.0	5.0	0.0	29.9
- Unrealised profit/loss	(56.5)	0.0	<-100	0.0	<-100	(56.3)
<b>Net profit ex-EI</b>	<b>67.6</b>	<b>28.5</b>	<b>&gt;100</b>	<b>36.0</b>	<b>87.8</b>	<b>221.9</b>
Distributable income	113.2	28.5	>100	45.6	>100	318.7
EPU ex-EI (sen)	2.0	0.9	>100	1.1	91.4	6.7
<b>Gross DPU (sen)*</b>	<b>2.8</b>	<b>0.8</b>	<b>&gt;100</b>	<b>0.0</b>	<b>NM</b>	<b>6.1</b>
	<b>6Q FP2021</b>	<b>2QFY21</b>	<b>+/- ppt</b>	<b>5Q FP2021</b>	<b>+/- ppt</b>	<b>18M FP2021</b>
<i>Net property margin (%)</i>	78.0	68.9	9.1	66.0	12.0	67.7
<i>Net income ex-EI margin (%)</i>	42.9	29.7	13.2	33.7	9.2	32.8
<b>SEGMENTAL</b>	<b>6Q FP2021</b>	<b>2QFY21</b>	<b>% YoY</b>	<b>5Q FP2021</b>	<b>% QoQ</b>	<b>18M FP2021</b>
<b>Revenue</b>						
Sunway Pyramid	71.5	38.7	84.9	52.4	36.3	302.1
Sunway Carnival	8.7	9.7	(10.4)	4.8	80.5	45.1
SunCity Ipoh Hypermarket	0.8	0.8	1.7	0.8	1.6	4.5
Sunway Putra Mall	11.4	7.6	49.6	6.9	66.4	52.3
<b>Revenue - Retail</b>	<b>92.4</b>	<b>56.8</b>	<b>62.7</b>	<b>64.9</b>	<b>42.4</b>	<b>404.0</b>
Sunway Resort	0.1	0.1	31.3	0.1	>100	0.7
Sunway Pyramid Hotel	0.3	0.2	83.1	0.0	<-100	1.1
Sunway Hotel Seberang Jaya	0.4	0.0	>100	0.0	NM	0.4
Sunway Putra Hotel	1.8	0.5	>100	3.8	(53.5)	14.5
Sunway Hotel Georgetown	0.7	0.1	>100	0.1	>100	3.1
Sunway Clio Property	6.5	7.0	(6.1)	2.3	>100	29.9
<b>Revenue - Hotel</b>	<b>9.8</b>	<b>7.9</b>	<b>24.0</b>	<b>6.2</b>	<b>59.0</b>	<b>49.8</b>
Menara Sunway	4.4	4.5	(3.1)	4.2	3.9	26.2
Sunway Tower	0.8	1.2	(28.3)	1.1	(25.4)	6.6
Sunway Putra Tower	3.0	3.0	0.2	3.0	(0.2)	18.2
Wisma Sunway	1.7	1.7	(1.4)	1.7	0.0	10.4
The Pinnacle Sunway	9.1	4.1	>100	8.8	3.3	40.2
<b>Revenue - Office</b>	<b>19.1</b>	<b>14.5</b>	<b>31.4</b>	<b>18.9</b>	<b>0.9</b>	<b>101.6</b>
Sunway Medical Centre	6.4	6.2	3.5	6.4	0.0	37.9
Sunway REIT Industrial - Shah Alam 1	1.5	1.5	0.0	1.5	(0.1)	9.2
Sunway University & College Campus	8.9	8.8	1.5	8.9	(0.0)	53.4
<b>Revenue - Others</b>	<b>16.9</b>	<b>16.5</b>	<b>2.1</b>	<b>16.9</b>	<b>(0.0)</b>	<b>100.5</b>
<b>Total revenue</b>	<b>138.2</b>	<b>95.8</b>	<b>44.3</b>	<b>106.9</b>	<b>29.3</b>	<b>656.0</b>

\* Distribution frequency has been changed to semi-annually from quarterly, from 3QFY20 onwards

\*\* Include unrealised (in relation to unbilled lease income receivable of MYR19.6m)

Note: FYE change to Dec from Jun, from FY21 onwards (18 months in FP 2021)

Source: Sunway REIT, Maybank IBG Research

Fig 2: Results summary (continued)

FY Dec (MYR m)	6Q FP2021	2QFY21	Quarterly		Cumulative 18M FP2021
			% YoY	5Q FP2021	
<b>SEGMENTAL</b>					
<b>Net property income</b>					
Sunway Pyramid	53.7	24.1	>100	33.0	184.7
Sunway Carnival	4.5	6.0	(25.1)	1.5	21.8
SunCity Ipoh Hypermarket	0.9	0.7	17.8	0.7	4.4
Sunway Putra Mall	6.8	3.1	>100	1.4	18.9
<b>NPI - Retail</b>	<b>65.8</b>	<b>33.9</b>	<b>94.0</b>	<b>36.6</b>	<b>229.9</b>
Sunway Resort	(0.2)	(0.3)	(16.1)	(0.7)	(2.0)
Sunway Pyramid Hotel	0.2	0.0	>100	(0.2)	0.1
Sunway Hotel Seberang Jaya	0.3	(0.0)	<-100	(0.0)	0.2
Sunway Putra Hotel	1.5	0.2	>100	3.4	12.5
Sunway Hotel Georgetown	0.6	0.1	>100	0.0	2.8
Sunway Clio Property	6.1	6.6	(7.8)	1.7	26.7
<b>NPI - Hotel</b>	<b>8.5</b>	<b>6.6</b>	<b>28.3</b>	<b>4.2</b>	<b>40.3</b>
Menara Sunway	3.1	3.1	2.6	3.0	18.2
Sunway Tower	(0.1)	0.1	<-100	0.2	0.9
Sunway Putra Tower	1.6	1.8	(10.8)	1.9	11.2
Wisma Sunway	1.0	0.9	1.7	1.0	5.7
The Pinnacle Sunway	6.8	3.1	>100	6.8	30.7
<b>NPI - Office</b>	<b>12.4</b>	<b>9.0</b>	<b>38.2</b>	<b>12.8</b>	<b>66.8</b>
Sunway Medical Centre	6.4	6.2	3.5	6.4	37.9
Sunway REIT Industrial - Shah Alam 1	1.5	1.5	0.0	1.5	9.2
Sunway University & College Campus	8.9	8.8	1.5	8.9	53.4
<b>NPI - Others</b>	<b>16.9</b>	<b>16.5</b>	<b>2.1</b>	<b>16.9</b>	<b>100.5</b>
<b>Total</b>	<b>103.5</b>	<b>66.0</b>	<b>56.8</b>	<b>70.5</b>	<b>437.5</b>

Note: FYE change to Dec from Jun, from FY21 onwards (18 months in FP 2021)

Source: Sunway REIT, Maybank IBG Research

## 6Q/18M FP2021 highlights

### Retail segment:

- Sunway Pyramid Shopping Mall's 6Q2021 NPI improved by 123% YoY to MYR54m. This was mainly due to lower rental support and higher carpark income, attributed to encouraging recovery in retail footfall and retail sales pursuant to the easing of movement restrictions. Occupancy has remained stable at 98% for 18MFP21 (FY20: 98%). The mall remained as the key contributor to SunREIT, at 52% of NPI for 6Q2021.
- Meanwhile, Sunway Putra Mall's 6Q2021 NPI also improved 116% YoY to MYR6.8m, from higher rental income.
- Moving forward, we expect higher income from Sunway Carnival from 2QFY22 onwards, with new income contribution upon its completion of expansion (by 350k sf). The mall is scheduled to open in April 2022.
- Overall, NPI of retail segment for 6Q2021 increased 94% YoY to MYR65.8m from lower rental supports, mainly at Sunway Pyramid and Sunway Putra Mall. Occupancy rates for 18MFP21 was at 97%, compared to 93% in FY20.

## Hospitality segment:

- The segment's 6Q2021 NPI grew 28% YoY to MYR8.5m, largely driven by new tenant at Sunway Clio Retail. Nevertheless, the rest of SunREIT's hotels continued to underperform due to weak occupancy rates. Excluding Sunway Resort Hotel & Spa which was closed for refurbishment, SunREIT's hotel occupancies averaged 32% for 18MFP21.
- Sunway Resort Hotel has been closed for phased refurbishment works since Jul 2020. SunREIT expects a re-opening of the hotel by phases from March 2022.
- To recap, 3 hotels have renewed their 10-year master lease agreements in July 2020 - Sunway Resort Hotel, Sunway Pyramid Hotel and Sunway Hotel Seberang Jaya. However, these renewed master leases do not carry guaranteed rent components, and rental income to SunREIT is based on 90% of gross operating profit. For the other 3 hotels, their master leases are due for renewal between 2025-2031.

## Office segment:

- The segment has remained stable - attributed to stable average occupancy rates. Notwithstanding Sunway Tower with 32% occupancy rate, the remaining office towers' occupancies were ranging 83%-100%.
- The segment's 6Q2021 NPI grew 38% YoY to MYR12.4m, due to the new income contribution from The Pinnacle Sunway, acquired on 20 Nov 2020.

## Risk statement

There are several risks to our earnings estimates, target price and rating for SunREIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for SunREIT. About 68% of Sunway Pyramid's NLA is due for lease renewal in FY22, while 62% of SunREIT's borrowings are on floating rates. Another earnings risk would be if the impact from Covid-19 becomes prolonged. There are also potential DPU impact due to changes in master leases.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
Price/DPU(x)	22.7	26.2	19.5	18.4	16.6
P/BV (x)	1.0	0.9	0.9	0.9	0.9
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
DPU yield (%)	4.9	4.2	5.7	6.0	6.7
FCF yield (%)	5.1	nm	7.8	8.5	9.2

**INCOME STATEMENT (MYR m)**

Revenue	556.9	675.6	637.5	672.5	716.0
<b>Net property income</b>	<b>416.8</b>	<b>457.1</b>	<b>469.3</b>	<b>487.3</b>	<b>521.0</b>
Management and trustee fees	(57.4)	(60.0)	(46.4)	(47.2)	(48.6)
Net financing costs	(110.8)	(125.5)	(121.2)	(122.0)	(122.7)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(41.3)	(76.9)	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>207.3</b>	<b>194.6</b>	<b>301.6</b>	<b>318.1</b>	<b>349.8</b>
Income tax	0.9	0.9	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>208.2</b>	<b>195.5</b>	<b>301.6</b>	<b>318.1</b>	<b>349.8</b>
Core net profit	228.4	221.9	271.7	288.2	319.9
Distributable inc to unitholders	228.9	221.9	271.7	288.2	319.9

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	101.8	290.5	289.1	305.1	320.2
Accounts receivable	108.6	48.1	45.4	47.8	50.9
Property, Plant & Equip (net)	12.9	11.6	11.6	11.6	11.6
Investment properties	8,037.2	8,738.3	8,753.3	8,768.3	8,786.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	199.7	62.1	64.2	66.4	68.6
<b>Total assets</b>	<b>8,460.2</b>	<b>9,150.5</b>	<b>9,163.5</b>	<b>9,199.2</b>	<b>9,237.6</b>
ST interest bearing debt	1,645.4	1,595.4	1,595.4	1,595.4	1,595.4
Accounts payable	152.6	208.8	197.1	207.9	221.3
LT interest bearing debt	1,800.0	1,810.0	1,830.0	1,850.0	1,870.0
Other liabilities	92.5	71.1	71.1	71.1	71.1
<b>Total Liabilities</b>	<b>3,690.5</b>	<b>3,685.3</b>	<b>3,693.5</b>	<b>3,724.3</b>	<b>3,757.8</b>
Shareholders Equity	4,430.1	5,125.5	5,130.3	5,135.2	5,140.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>4,430.1</b>	<b>5,125.5</b>	<b>5,130.3</b>	<b>5,135.2</b>	<b>5,140.1</b>
<b>Total liabilities and equity</b>	<b>8,460.2</b>	<b>9,150.5</b>	<b>9,163.5</b>	<b>9,199.2</b>	<b>9,237.6</b>

**CASH FLOW (MYR m)**

<b>Cash flow from operations</b>	<b>344.9</b>	<b>432.5</b>	<b>386.1</b>	<b>420.7</b>	<b>455.1</b>
Capex	(119.6)	(715.6)	(15.0)	(15.0)	(18.0)
Acquisitions & investments	0.0	0.0	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	(154.0)	140.6	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>(273.6)</b>	<b>(575.0)</b>	<b>(15.0)</b>	<b>(15.0)</b>	<b>(18.0)</b>
Dividends paid	(212.9)	(178.8)	(271.3)	(287.7)	(319.4)
Interest expense	(115.2)	0.0	0.0	0.0	0.0
Change in debt	354.6	(40.1)	20.0	20.0	20.0
Equity raised / (purchased)	0.0	706.0	0.0	0.0	0.0
Other financial activities	(43.2)	(137.4)	(121.2)	(122.0)	(122.7)
<b>CF from financing activities</b>	<b>(16.7)</b>	<b>349.8</b>	<b>(372.5)</b>	<b>(389.7)</b>	<b>(422.1)</b>
<b>Effect of exchange rate changes</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>54.6</b>	<b>207.3</b>	<b>(1.4)</b>	<b>16.0</b>	<b>15.1</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(4.0)	21.3	(5.6)	5.5	6.5
Net property income growth	(5.2)	9.7	2.7	3.8	6.9
Core net profit growth	(19.1)	(2.9)	22.4	6.1	11.0
Distributable income growth	(19.1)	(3.1)	22.4	6.1	11.0
<b>Profitability ratios (%)</b>					
Net property income margin	74.8	67.7	73.6	72.5	72.8
Core net profit margin	41.0	32.8	42.6	42.9	44.7
Payout ratio	93.3	87.6	80.9	81.4	82.2
<b>DuPont analysis</b>					
Total return margin (%)	37.4	28.9	47.3	47.3	48.9
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.9	1.8	1.8	1.8	1.8
ROAE (%)	4.7	4.1	5.9	6.2	6.8
ROAA (%)	2.7	2.5	3.0	3.1	3.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.3	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	75.5	60.8	61.1	61.2	61.2
Net interest cover (x)	3.2	3.2	3.5	3.6	3.9
Debt/EBITDA (x)	9.5	8.5	8.1	7.8	7.3
Capex/revenue (%)	21.5	105.9	2.4	2.2	2.5
Net debt/ (net cash)	3,343.6	3,114.8	3,136.3	3,140.3	3,145.2
Debt/Assets (x)	0.41	0.37	0.37	0.37	0.38

Source: Company; Maybank

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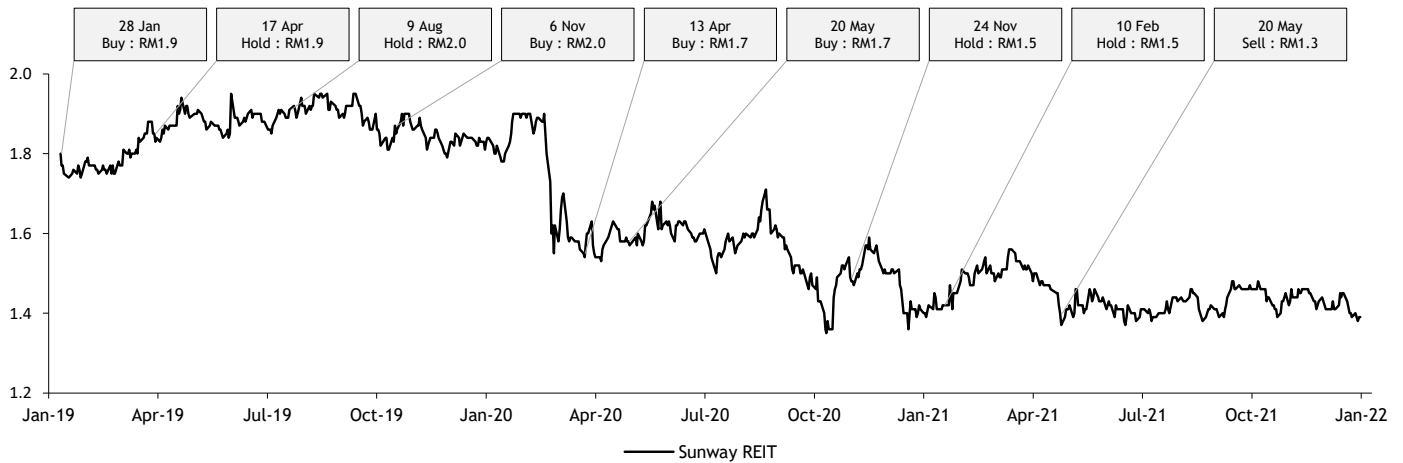
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