

# Sunway REIT (SREIT MK)

## 1Q22: A good start

### Maintain HOLD

1QFY22 results were above expectations at 31% of our and consensus' full year forecasts. YoY earnings growth was attributed to improvement across most assets, particularly retail and hospitality. Our FY22/23E earnings forecasts are tweaked by +7%/3% and our DDM-TP is marginally increased to MYR1.46 (from MYR1.45). Maintain HOLD.

### Improvements at key assets

Excluding unrealised fair value gain of investment properties of MYR18.3m, 1QFY22 core earnings was MYR83.1m (+161% YoY, +23% QoQ), 31% of our/consensus' full-year estimates. 1QFY22's YoY net profit growth was driven by (i) improvement in Sunway Pyramid's net property income from sustained occupancy rate and positive rental reversion, and marginal rental support, (ii) improved overall occupancy at hotel properties with the increased domestic leisure and business travels, (iii) positive rental reversion at Sunway Medical Centre, Sunway University & College campus and Sunway REIT Industrial - Shah Alam 1, and (iv) lower interest costs due to lower average interest rate. Similarly, QoQ core net profit growth was due to improvement at key retail and hospitality assets.

### Adjust higher FY22/23E earnings

We tweak FY22/23E earnings by 7%/3% after adjusting for operating expenses estimates. Near-term growth is largely attributed to sustained occupancy and rental rates, as well as positive rental reversions.

### Sustainable recovery at retail and hospitality assets

SunREIT's malls and its' wider retail and hospitality assets are expected to deliver a sustained recovery, underpinned by lower rental rebates, improvements in domestic tourism, and pick up in international leisure and business travel. Meanwhile, new income contribution from Sunway Carnival Mall (new wing) which is expected to complete in 2QFY22 and the phased re-opening of Sunway Resort Hotel from May 2022, will also contribute positively to the performance of the retail and hotel segment.

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	292	298	320
Core EPU (sen)	7.8	7.0	8.5	8.7	9.3
Core EPU growth (%)	(19.1)	(10.2)	22.3	2.2	7.3
Net DPU (sen)	6.6	5.4	7.7	7.8	8.4
Net DPU growth (%)	(23.6)	(18.5)	42.4	2.2	7.3
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
Net DPU yield (%)	4.4	3.8	5.3	5.4	5.8
ROAE (%)	4.7	4.1	6.3	6.4	6.8
ROAA (%)	2.7	2.5	3.2	3.2	3.5
Debt/Assets (x)	0.41	0.37	0.37	0.37	0.38
Consensus Net DPU	-	-	5.5	6.9	na
MKE vs. Consensus (%)	-	-	39.4	12.9	na

# HOLD

Share Price	MYR 1.45
12m Price Target	MYR 1.46 (+6%)
Previous Price Target	MYR 1.45

### Company Description

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

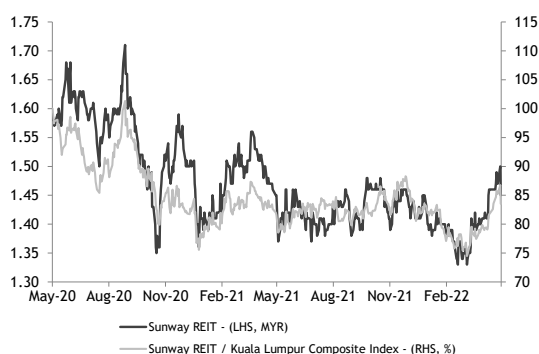
### Statistics

52w high/low (MYR)	1.50/1.33
3m avg turnover (USDm)	0.6
Free float (%)	43.6
Issued shares (m)	3,425
Market capitalisation	MYR5.0B
	USD1.1B

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	3	5	0
Relative to index (%)	5	9	3

Source: FactSet

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Fig 1: Results summary

FY Dec (MYR m)	1QFY22	3Q FP2021	Quarterly		
			% YoY	6Q FP2021	% QoQ
Gross revenue	154.0	104.3	47.7	157.8	(2.4)
<b>Net property income</b>	<b>118.9</b>	<b>67.0</b>	<b>77.4</b>	<b>123.1</b>	<b>(3.4)</b>
Other income	1.3	2.0	(36.7)	1.8	(28.8)
Non-property expenses	(11.3)	(9.4)	20.2	(11.2)	0.5
Finance costs	(20.9)	(22.8)	(8.6)	(21.4)	(2.5)
Fair value gain/(loss)	18.3	-	NM	(76.9)	<-100
<b>Pretax profit</b>	<b>106.3</b>	<b>36.8</b>	<b>&gt;100</b>	<b>15.3</b>	<b>&gt;100</b>
Tax	-	-	NM	0.9	NM
<b>Net profit</b>	<b>106.3</b>	<b>36.8</b>	<b>&gt;100</b>	<b>16.2</b>	<b>&gt;100</b>
- Perpetual note holders	4.9	4.9	0.0	5.0	(2.2)
- Unrealised profit/loss	18.3	0.0	>100	(56.5)	<-100
<b>Net profit ex-EI</b>	<b>83.1</b>	<b>31.9</b>	<b>&gt;100</b>	<b>67.6</b>	<b>22.9</b>
Distributable income	83.1	36.8	>100	113.2	(26.6)
EPU ex-EI (sen)	2.4	0.9	>100	2.0	20.9
<b>Gross DPU (sen)*</b>	<b>-</b>	<b>-</b>	<b>NM</b>	<b>2.8</b>	<b>NM</b>
	1QFY22	3Q FP2021	+/- ppt	6Q FP2021	+/- ppt
Net property margin (%)	77.2	64.3	13.0	78.0	(0.8)
Net income ex-EI margin (%)	54.0	30.6	23.4	42.9	11.1
<b>SEGMENTAL</b>	1QFY22	3Q FP2021	% YoY	6Q FP2021	% QoQ
<b>Revenue</b>					
Sunway Pyramid	77.6	38.6	>100	71.5	8.5
Sunway Carnival	9.4	6.7	40.2	8.7	8.3
SunCity Ipoh Hypermarket	0.9	0.8	21.2	0.8	19.3
Sunway Putra Mall	10.5	7.6	38.4	11.4	(8.0)
<b>Revenue - Retail</b>	<b>98.4</b>	<b>53.7</b>	<b>83.5</b>	<b>92.4</b>	<b>6.5</b>
Sunway Resort	0.5	0.2	>100	0.1	>100
Sunway Pyramid Hotel	0.3	0.2	48.7	0.3	(12.0)
Sunway Hotel Seberang Jaya	0.1	0.0	>100	0.4	(70.3)
Sunway Putra Hotel	1.1	0.6	85.5	1.8	(36.4)
Sunway Hotel Georgetown	2.7	1.9	40.4	0.7	>100
Sunway Clio Property	13.7	11.5	20.0	6.5	>100
<b>Revenue - Hotel</b>	<b>18.5</b>	<b>14.4</b>	<b>28.6</b>	<b>9.8</b>	<b>88.4</b>
Menara Sunway	4.4	4.3	3.0	4.4	1.1
Sunway Tower	0.8	1.2	(31.8)	0.8	(2.2)
Sunway Putra Tower	3.2	3.0	4.2	3.0	4.5
Wisma Sunway	1.7	1.8	(1.5)	1.7	0.6
The Pinnacle Sunway	9.3	9.1	3.2	9.1	2.2
<b>Revenue - Office</b>	<b>19.5</b>	<b>19.3</b>	<b>0.7</b>	<b>19.1</b>	<b>2.0</b>
Sunway Medical Centre	6.6	6.4	3.5	6.4	3.5
Sunway REIT Industrial - Shah Alam 1	1.7	1.5	10.0	1.5	10.1
Sunway University & College Campus	9.2	8.9	3.1	8.9	3.1
<b>Revenue - Others</b>	<b>17.5</b>	<b>16.9</b>	<b>3.9</b>	<b>16.9</b>	<b>3.9</b>
<b>Total revenue</b>	<b>154.0</b>	<b>104.3</b>	<b>47.7</b>	<b>138.2</b>	<b>11.4</b>

\* Distribution frequency has been changed to semi-annually from quarterly

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)	1QFY22	Quarterly		6Q	% QoQ
		3Q	% YoY		
		FP2021		FP2021	
<b>SEGMENTAL</b>					
<b>Net property income</b>					
Sunway Pyramid	60.1	19.1	>100	53.7	11.9
Sunway Carnival	4.7	2.7	74.4	4.5	4.1
SunCity Ipoh Hypermarket	0.9	0.7	21.0	0.9	5.3
Sunway Putra Mall	4.7	1.5	>100	6.8	(31.2)
<b>NPI - Retail</b>	<b>70.3</b>	<b>23.9</b>	<b>&gt;100</b>	<b>65.8</b>	<b>6.9</b>
Sunway Resort	0.5	(0.2)	<-100	(0.2)	<-100
Sunway Pyramid Hotel	0.1	0.0	>100	0.2	(9.3)
Sunway Hotel Seberang Jaya	0.1	(0.0)	<-100	0.3	(81.0)
Sunway Putra Hotel	0.8	0.2	>100	1.5	(47.4)
Sunway Hotel Georgetown	2.7	1.9	41.4	0.6	>100
Sunway Clio Property	13.3	10.9	21.6	6.1	>100
<b>NPI - Hotel</b>	<b>17.4</b>	<b>12.8</b>	<b>36.1</b>	<b>8.5</b>	<b>&gt;100</b>
Menara Sunway	2.7	2.9	(7.5)	3.1	(13.2)
Sunway Tower	0.8	0.4	>100	(0.1)	<-100
Sunway Putra Tower	2.1	2.0	6.6	1.6	27.1
Wisma Sunway	1.0	1.0	0.3	1.0	(0.6)
The Pinnacle Sunway	7.1	7.2	(1.3)	6.8	5.0
<b>NPI - Office</b>	<b>13.7</b>	<b>13.4</b>	<b>2.2</b>	<b>12.4</b>	<b>10.2</b>
Sunway Medical Centre	6.6	6.4	3.5	6.4	3.5
Sunway REIT Industrial - Shah Alam 1	1.7	1.5	10.0	1.5	10.1
Sunway University & College Campus	9.2	8.9	3.1	8.9	3.1
<b>NPI - Others</b>	<b>17.5</b>	<b>16.9</b>	<b>3.9</b>	<b>16.9</b>	<b>3.9</b>
<b>Total</b>	<b>118.9</b>	<b>67.0</b>	<b>77.4</b>	<b>103.5</b>	<b>14.9</b>

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

Source: Sunway REIT, Maybank IBG Research

## 1QFY22 highlights

### Retail segment:

- Sunway Pyramid Shopping Mall's 1Q22 NPI improved by 215% YoY to MYR60.1m. 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% (1Q21: 97%). The mall remained as the key contributor to SunREIT, at 51% of NPI for 1Q22.
- Meanwhile, Sunway Putra Mall's NPI also improved 217% YoY to MYR4.7m, 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). It is scheduled to open in 2Q22.
- Overall, NPI of retail segment for 1Q22 increased 193% YoY to MYR70.3m from lower rental supports, mainly at Sunway Pyramid and Sunway Putra Mall. Occupancy rates was stable at 97%.

## Hospitality segment:

- The segment's 1Q22 NPI grew 36% YoY to MYR17.4m, largely driven by new tenant at Sunway Clio Retail. The rest of SunREIT's hotels also showed earnings improvement from higher occupancy rates. Excluding Sunway Resort Hotel & Spa which was closed for refurbishment, SunREIT's hotel occupancies average jumped to 42%, from 19% in 1Q21.
- Sunway Resort Hotel has been closed for phased refurbishment works since Jul 2020. The re-opening of the hotel is by phases from May 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 27% occupancy rate, the remaining office towers' occupancies were in the range of 84%-100%.
- The segment's 1Q22 NPI grew 2.2% YoY to MYR13.7m.

## 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 68% 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	18.9	18.5	17.3
P/BV (x)	1.0	0.9	1.0	1.0	1.0
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
DPU yield (%)	4.9	4.2	5.9	6.0	6.4
FCF yield (%)	5.1	nm	7.5	8.2	8.8

**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)	(101.2)	(112.0)	(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>321.6</b>	<b>328.1</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>321.6</b>	<b>328.1</b>	<b>349.8</b>
Core net profit	228.4	221.9	291.7	298.2	319.9
Distributable inc to unitholders	228.9	221.9	291.7	298.2	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>9,163.6</b>	<b>9,199.3</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	5,130.4	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>5,130.4</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>9,163.6</b>	<b>9,199.3</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)	(291.3)	(297.7)	(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)	(101.2)	(112.0)	(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)	31.5	2.2	7.3
Distributable income growth	(19.1)	(3.1)	31.5	2.2	7.3
<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	45.8	44.3	44.7
Payout ratio	93.3	87.6	81.5	81.7	82.2
<b>DuPont analysis</b>					
Total return margin (%)	37.4	28.9	50.5	48.8	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	6.3	6.4	6.8
ROAA (%)	2.7	2.5	3.2	3.2	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	4.2	3.9	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	3,136.2	3,140.2	3,145.2
Debt/Assets (x)	0.41	0.37	0.37	0.37	0.38

Source: Company; Maybank IBG Research

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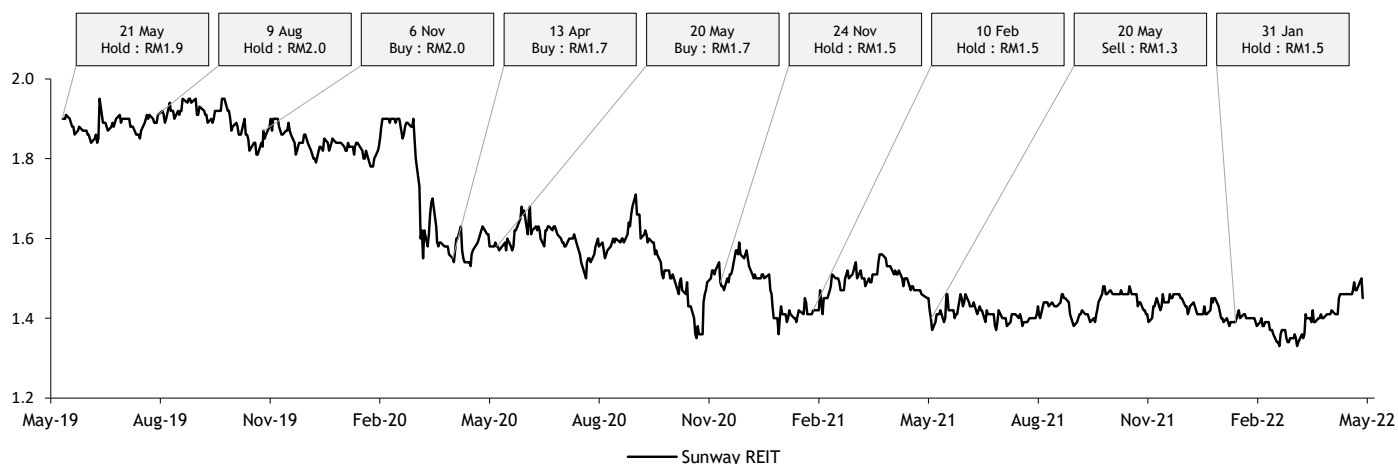
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