Malaysia Results Review

31 January 2022

Property | REITS

Sunway REIT (SREIT MK)

Neutral (Maintained)

Expecting Flattish Reversions In FY22

Target Price (Return):	MYR1.45 (4.3%)
Price (Market Cap):	MYR1.39 (USD1,136m)
ESG score:	3.40 (out of 4)
Avg Daily Turnover (MYR/USD)	2.19m/0.52m

- **Stay NEUTRAL with new MYR1.45 TP from MYR1.54, 4% upside and c.6% FY22F yield.** 18MFY21 results exceeded our expectations on the back of the strong 6Q performance. This was largely underpinned by pent-up demand that benefitted the retail segment, leading to lower rental support. While we like Sunway Pyramid, we remain cautious of the recovery prospects of the other segments, as reversion rates are expected to continue being flattish in FY22 against the backdrop of an oversupply glut and still-closed international borders.
- **In line with market expectations.** Changing the FYE from June to December, earnings for 6QFY21 (October-December) of MYR67.6m brought the 18MFY21 figure to MYR226.9m. The results exceeded our expectations at 120% of our 18-month FY21 projection, but came in line with consensus' at 96%. On a YoY basis vs 2QFY21, 6QFY21 revenue grew 64.8% from lower rental support granted to tenants in the quarter and a full quarter's contributions from The Pinnacle Sunway, which was acquired on 20 Nov 2020. In tandem with the growth in revenue, earnings grew 137.7% YoY. On a QoQ basis, 6QFY21 revenue and earnings were up 47.6% and 87.8% on the full resumption in business activities beginning from Phase 3 of the National Recovery Plan or NRP. A dividend of 2.80 sen was declared for the quarter vs 0.77 sen in 2QFY21, bringing the DPU for the 18-month period to 6.10 sen.
- **Outlook for retail and office segments.** Retail and office occupancy has been relatively robust, largely unchanged from last quarter's numbers at 97% and 84%. However, we believe this will continue to come at the expense of reversion rates, which are likely to remain flattish going into FY22. This is in addition to rental assistance that is likely to remain in place, albeit at a lower quantum. The office segment (6QFY21 revenue: +31% YoY) was supported by The Pinnacle Sunway, but we continue to be cautious of non-renewal risks due to the work-from-home or WFH trend and lofty expiring tenancies in FY22.
- **Cautious of hotel occupancy rates.** We are also wary of the hotel segment despite the guaranteed rent, as we expect the subdued hotel occupancy rate to persist, considering the tourist volume shortfall (YTD 6QFY21 occupancy: 32% vs FY20: 53%). Note: Sunway Resort Hotel & Spa is slated to reopen in 2H22, but we believe the pick-up in occupancy will take time to materialise, especially considering the still-closed international borders.
- **Maintain NEUTRAL.** Post housekeeping, our FY22F-23F earnings are revised upwards marginally by 3%. Updating our cost of equity assumption in expectation of a rate hike in 2H22, our TP drops to MYR1.45. We ascribe an 8% ESG premium to our TP, taking into consideration Sunway REIT's score of 3.4, which is well above the country median.

Forecasts and Valuation	Jun-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	557	676	615	645	661
Net property income (MYRm)	417	457	474	497	509
Reported net profit (MYRm)	228	223	284	306	318
Total distributable income (MYRm)	228	223	284	306	318
DPS (MYR)	0.08	0.06	0.08	0.09	0.09
DPS growth (%)	(19.1)	(19.1)	28.1	7.7	3.9
P/B (x)	0.86	0.90	0.90	0.90	0.90
Dividend Yield (%)	5.6	4.5	5.8	6.2	6.5
Return on average equity (%)	4.8	4.4	5.2	5.6	5.8
Return on average assets (%)	2.7	2.5	3.1	3.3	3.4

Source: Company data, RHB

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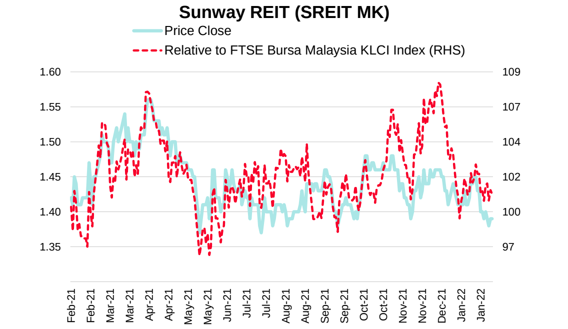
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.4)	(2.8)	(4.8)	(1.4)	0.0
Relative	1.6	(1.5)	(1.8)	(1.7)	3.8
52-wk Price low/high (MYR)					1.37 – 1.56



Source: Bloomberg

Overall ESG Score: 3.40 (out of 4)

E: EXCELLENT
Sunway REIT's buildings strive for green certification standards through sustainable refurbishment practices, and supports clean energy use by providing charging bay facilities for electric vehicles – effectively reducing almost 50,000 tonnes of CO2 emission, with water consumption gradually decreasing over the years.

S: EXCELLENT
In addition to the many benefits (care for nursing mothers, childcare subsidy) for employees of the manager, training and engagement are also prioritised. Safety of employees is also ensured by the proper hazard identification, risk assessment and incident investigation. Community enrichment is also of utmost importance.

G: EXCELLENT
A diverse and skilled board comprising 57% independent directors - 43% of whom are female. The tenure of an independent director is capped at nine years, and the details of remuneration in the annual report are on a named basis.

Financial Exhibits

Asia
Malaysia
Property
Sunway REIT
SREIT MK
Neutral

Valuation basis

DDM

Key drivers

Improvement in domestic consumer sentiment leading to strong consumer spending.

Key risks

Downside risks include prolonged weak domestic consumer sentiment while upside risks include stronger demand for its assets leading to higher occupancy rates and rental reversion rates at its assets.

Company Profile

Sunway REIT is a large-cap diversified M-REIT, with exposure in the retail, commercial, hospitality and healthcare segments.

Financial summary	**Jun-20**	**Dec-21**	**Dec-22F**	**Dec-23F**	**Dec-24F**
Recurring EPS (MYR)	0.08	0.07	0.08	0.09	0.09
EPS (MYR)	0.08	0.07	0.08	0.09	0.09
DPS (MYR)	0.08	0.06	0.08	0.09	0.09
BVPS (MYR)	1.62	1.55	1.55	1.55	1.55
Return on average equity (%)	4.8	4.4	5.2	5.6	5.8
Weighted avg adjusted shares (m)	2,945.08	3,239.59	3,534.09	3,534.09	3,534.09

Valuation metrics	**Jun-20**	**Dec-21**	**Dec-22F**	**Dec-23F**	**Dec-24F**
Recurring P/E (x)	17.92	20.21	17.30	16.06	15.46
P/E (x)	17.92	20.21	17.30	16.06	15.46
P/B (x)	0.9	0.9	0.9	0.9	0.9
FCF Yield (%)	2.3	6.3	6.0	5.2	5.2
Dividend Yield (%)	5.6	4.5	5.8	6.2	6.5
EV/EBITDA (x)	0.93	0.27	(0.04)	(0.11)	(0.15)
EV/EBIT (x)	0.93	0.27	(0.04)	(0.11)	(0.15)

Income statement (MYRm)	**Jun-20**	**Dec-21**	**Dec-22F**	**Dec-23F**	**Dec-24F**
Total turnover	557	676	615	645	661
EBITDA	376	377	437	458	469
Operating profit	376	377	437	458	469
Net interest	(111)	(126)	(153)	(152)	(152)
Pre-tax profit	228	222	284	306	318
Taxation	1	1	0	0	0
Recurring net profit	228	223	284	306	318

Cash flow (MYRm)	**Jun-20**	**Dec-21**	**Dec-22F**	**Dec-23F**	**Dec-24F**
Change in working capital	(53)	(25)	85	50	34
Cash flow from operations	93	283	294	256	256
Cash flow from investing activities	10	(701)	0	0	0
Dividends paid	(248)	(252)	(284)	(306)	(318)
Cash flow from financing activities	(91)	(1,201)	(284)	(306)	(318)
Cash at beginning of period	67	106	291	422	454
Net change in cash	12	(1,619)	10	(50)	(62)
Ending balance cash	79	(1,513)	300	372	393

Balance sheet (MYRm)	**Jun-20**	**Dec-21**	**Dec-22F**	**Dec-23F**	**Dec-24F**
Total cash and equivalents	285	341	472	504	522
Total investments	8,050	8,751	8,751	8,751	8,751
Total assets	8,464	9,150	9,251	9,284	9,302
Short-term debt	3,245	1,595	1,595	1,595	1,595
Total long-term debt	200	1,810	1,810	1,810	1,810
Total liabilities	3,691	3,685	3,785	3,819	3,837
Shareholders' equity	4,774	5,465	5,465	5,465	5,465
Total equity	4,774	5,465	5,465	5,465	5,465
Net debt	3,160	3,065	2,934	2,901	2,883
Total liabilities & equity	8,464	9,150	9,251	9,284	9,302

Key metrics	**Jun-20**	**Dec-21**	**Dec-22F**	**Dec-23F**	**Dec-24F**
Revenue growth (%)	(4.0)	21.3	(8.9)	4.9	2.5
Recurrent EPS growth (%)	(18.0)	(11.3)	16.8	7.7	3.9
Operating EBITDA margin (%)	67.6	55.9	71.0	71.0	71.0
Net profit margin (%)	41.0	33.0	46.2	47.4	48.1
Dividend payout ratio (%)	100.0	99.6	100.1	100.1	100.1
Interest cover (x)	3.23	2.76	2.65	2.78	2.85

Source: Company data, RHB

Results at a Glance

Figure 1: Sunway REIT's results summary

FYE Dec (MYRm)	2QFY21	5QFY21	6QFY21	QoQ (%)	YoY (%)	Comments
Revenue	**95.8**	**106.9**	**157.8**	**47.6**	**64.8**	Growth driven by better-than-expected retail performance and contributions from The Pinnacle Sunway.
Net property income	**66.0**	**70.5**	**123.1**	**74.6**	**86.5**	Better performance from lower operating expenses.
Interest expense	(24.2)	(21.5)	(21.4)	(0.2)	(11.5)	
Interest income	2.2	1.9	1.8	(6.3)	>100	
Pre-tax profit	**33.5**	**41.1**	**34.9**	**(14.9)**	**4.3**	
Tax	0.0	0.0	0.0	nm	nm	
Reported net profit	**33.5**	**41.1**	**34.9**	**(14.9)**	**4.3**	
Core net profit	**28.5**	**36.0**	**67.6**	**87.8**	**137.7**	Above our expectations.
Core earnings per unit (sen)	**0.91**	**1.05**	**2.01**	**91.4**	**120.9**	
Dividends per unit (sen)	**0.77**	**0.00**	**2.80**	**nm**	**263.6**	Dividend paid semi-annually, 2.80 sen declared for the quarter.
EBIT margin (%)	*68.9*	*66.0*	*78.0*			
Pre-tax margin (%)	*35.0*	*38.4*	*22.1*			
Net margin (%)	*29.7*	*33.7*	*42.9*			

Source: Company data, RHB

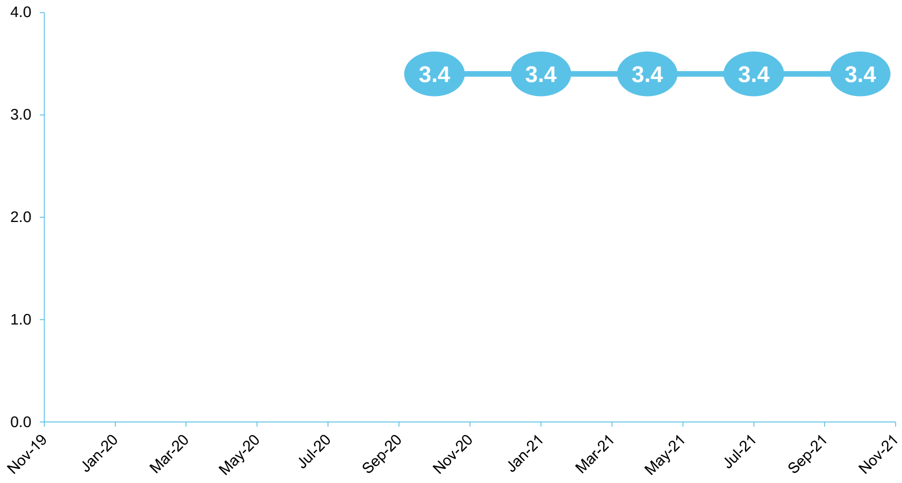
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-10-20	Neutral	1.54	1.46
2021-09-01	Neutral	1.48	1.43
2021-05-20	Neutral	1.44	1.40
2021-02-10	Neutral	1.52	1.42
2020-12-31	Neutral	1.59	1.50
2020-04-06	Buy	1.81	1.58
2019-07-31	Buy	2.00	1.91
2018-08-10	Buy	1.92	1.74
2018-05-04	Sell	1.47	1.66
2018-03-26	Sell	1.41	1.58

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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