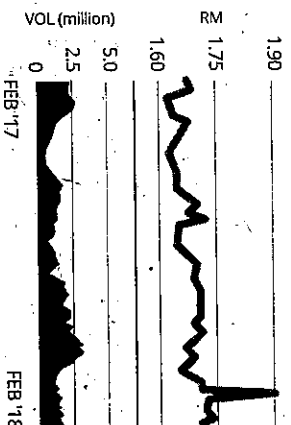


Sunway REIT

FEB 7
RM 1.72



SUNWAY REAL ESTATE INVESTMENT TRUST

By Kenanga Research
Outperform
Target price: RM1.90

REALISED net income (RNI) of RM148.8mil for the first half of financial year 2018 (H1FY18) came in within expectations, making up 53% and 51% of consensus and Kenanga Research's estimates, respectively.

Second quarter 2018 gross distribution per unit (GDPU) of 2.38 sen includes a non-taxable portion of 0.38 sen, bringing H1FY18 GDPU to 5.05 sen which is also within the research houses' expectation at 51% of FY18 GDPU of 10 sen.

On a year-on-year basis, year-to-date gross rental income (GRI) was up by 11%, driven by all segments; retail (4.4%) on all assets from stable occupancy and positive reversions, save for SunChy Ipoh Hypermarket, hotel segment (47.2%) mostly from Sunway Pyramid Hotel post the completion of the refurbishment in June 2017, and Sunway Putra Hotel from higher occupancy and average room rates (ARR), and contributions from, the SEA and PARA games in the first quarter, office segment (4.1%), save for Wisma Sunway on a slight tenant downsizing and marginal decline at Sunway Tower, and others segment (25.1%) from the completion of the acquisition of the industrial asset in Shah Alam in August 2017.

Net property income (NPI) margins improved slightly by 1.5 percentage points on lower maintenance cost at Sunway Pyramid, allowing RNI to increase by 1.4%.

This is after stripping off the RM3.2mil court award for Sunway Putra in 2Q17 as it is non-recurring.

FY18 capex expenses will mostly be for Sunway Carnival Extension in H2FY18.

As such, we are expecting RM60mil to RM100mil in FY18 to FY19.

FY18 to FY19 has minimal leases up for expiry at 9.5% to 11.8% of net lettable area