

Headline	Steady profit growth seen for Sunway REIT		
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Steady profit growth seen for Sunway REIT

Sunway Real Estate Investment Trust
(Feb 14, RM1.90)

Maintain neutral with an unchanged target price (TP) of RM1.93 per share: Sunway Real Estate Investment Trust's (Sunway REIT) realised net profit for the second quarter of financial year 2020 (2QFY20) came in at RM72.1 million (+8.6% year-on-year [y-o-y], -2.1% quarter-on-quarter), which was within our and consensus estimates. For the first half of FY20 (1HFY20), the group realised a net profit of RM145.9 million (+4.6% y-o-y) which constituted about 48% and 47% of our and consensus full-year estimates. Group revenue rose by 11.7% y-o-y to RM155.8 million, boosted by new income contribution from the newly-acquired Sunway University and College campus, and improved performance across all business segments. Correspondingly, group net property income (NPI) increased by 11.9% y-o-y to RM116.6 million. Earnings estimates are kept unchanged. The proposed distribution per unit rose by 8.9% to 2.45 sen for 2QFY20. Potential key catalysts for our "neutral" call and unchanged TP are higher occupancy at the group's hotels and new accretive acquisitions.

Revenue from retail assets rose by 1.3% y-o-y to RM106.7 million, largely contributed by Sunway Pyramid Shopping Mall and Sunway Putra Mall. Despite the revenue growth, NPI contracted by 2.6% y-o-y to RM74 million, on the back of lower advertising and promotion, as well as maintenance expenses

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incurred for the corresponding period in the preceding year.

The hotel segment recorded a revenue and NPI growth of 28% y-o-y and 32% y-o-y to RM22.6 million and RM21 million respectively due to the resumption of operations of the grand ballroom, as well as meeting and function rooms in Sunway Resort Hotel & Spa on the completion of refurbishment works. We believe that the upgraded and enhanced facilities are expected to attract higher demand for meetings, incentives, conferences and events at the hotel. However, this was offset by softer performance from the group's hotels in Penang due to the overall soft market sentiment for the hospitality sector and intense competition.

Despite the challenging office segment, Sunway REIT improved the overall occupancy rate of its office portfolio, resulting in office revenue rising by 10.7% y-o-y to RM10.4 million with a corresponding improvement in NPI by 6.1% y-o-y to RM5.5 million. — *PublicInvest Research, Feb 14*