

Sunway REIT's distributable income within expectations

Sunway Real Estate Investment Trust

(May 3, RM1.87)

Maintain hold with an unchanged fair value (FV) of RM1.75: Sunway Real Estate Investment Trust's (REIT) nine-month financial year 2019 (9MFY19) distributable income of RM215.7million (-1.3% year-on-year [y-o-y]) came in within expectations at 76% and 74% of our and consensus full-year estimates. 9MFY19 revenue grew by 2.5% y-o-y to RM434.7 million mainly contributed by a stronger performance in the: i) retail segment (+1.8%); ii) office segment (+16.5%); and iii) contribution from the Sunway Clio property (+RM18.8 million).

Year-to-date net property income (NPI) increased 2.8% to RM328.5 million, in line with revenue growth. Nonetheless, distributable income fell by 1.3% due to the provision of deferred taxation at 10% on unrealised FV gain of freehold land amounting to RM6.9 million.

Sunway REIT's recommended distribution of 2.58 sen per unit in third quarter of financial year 2019 (3QFY19) as compared with 2.37 sen y-o-y (quarter-on-quarter: 2.25 sen).

The retail segment reported a 9MFY19 revenue of RM320.9 million (+1.8% y-o-y), supported by Sunway Pyramid Shopping Mall but partially offset by Sunway Putra Mall. Meanwhile, its NPI grew by 3.1% y-o-y to RM233.2 million due to lower property operating expenses. Year-to-date occupancy rates at Sunway Pyramid, Carnival and Putra Mall remained stable at 98.5%, 97.9% and 90.8%

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FYE JUNE (RM MIL)	2018	2019F	2020F	2021F
Revenue	560.4	577.9	623.4	650.2
Distributable income	281.9	281.3	308.3	326.7
Distributable income PU (sen)	9.6	9.6	10.5	11.1
Distributable income PU growth (%)	4.2	-0.2	9.6	6.0
Consensus net profit	-	294.5	309.5	322.3
DPS (sen)	9.2	9.6	10.5	11.1
PER (x)	19.5	19.6	17.9	16.9
EV/Ebitda (x)	21.9	21.6	21.5	20.8
Dividend yield (%)	4.9	5.1	5.6	5.9
ROE (%)	6.6	6.5	7.1	7.5
Net gearing (%)	37.8	38.7	42.9	43.5

Source: AmlInvestment Bank

respectively (versus 99.1%, 97.0% and 90.5% y-o-y).

The hotel sector's 9MFY19 revenue and NPI slid by 0.5% and 4.5% to RM60.6 million and RM57.9 million respectively, mainly due to lower income in Sunway Resort Hotel and Spa (SRHS) and Sunway Putra Hotel but mitigated by contribution of income guarantee from Sunway Clio Property. The refurbishment of the grand ballroom and meeting rooms at SRHS has been completed in 2QFY19 and these have resumed operation.

The office sector's 9MFY19 revenue and NPI expanded by 16.5% and 28.5% to RM28.4 million and 15.5 million respectively on the back of improved performance from Sunway Putra Tower and Wisma Sunway, with commencement

of new tenants and expansion from existing tenant, respectively.

Management has guided flat-ish growth for FY19, hence we are keeping our numbers unchanged. Debt-to-total assets ratio climbed to 38% versus 37% y-o-y mainly due to higher investing activities. Nevertheless, it is still below the regulatory threshold of 50%.

We like Sunway REIT for its strong brand name in the shopping complex segment which posted an average occupancy rate of more than 90% over the past three years. However, Sunway REIT's share price has gone beyond its fundamentals and does not provide much potential upside, hence we maintain our "hold" recommendation. — AmlInvestment Bank, May 3