

# AmInvestment Bank maintains 'buy' on Sunway REIT as reopening of borders expected to boost its retail, hotel segments

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KUALA LUMPUR (March 14): AmInvestment Bank Research (AmResearch) on Monday maintained its "buy" call on Sunway Real Estate Investment Trust (Sunway REIT) as the local research house foresees the reopening of borders on April 1 will boost the group's retail and hotel segments as international trade and travel resume.

“Sunway REIT is our top pick for the REIT sector underpinned by: (i) its diversified investment portfolio which encompasses retail malls, hotels, offices, a university, and hospitals that spread across Malaysia; (ii) strong occupancy rates which have exceeded 90% in retail assets; and (iii) stable rental income generated from the services and industrial segments,” the research house said while maintaining its fair value for the stock at RM1.66.

AmResearch also noted that it recently held a virtual meeting with Sunway REIT's management, and they said the group is “actively scouting for quality assets in both the services and industrial segments”.

“We expect that any potential acquisitions over the next 12 to 18 months will be accretive to its distributable income. This is in view of the anticipated higher rental yields from the strong demand [for] properties for healthcare, education, logistics, data centres, and high-value manufacturing.

“Also, we like these segments for their long-term master lease arrangements which will contribute to more stable rental income to the group,” it said.

The research house also highlighted Sunway REIT is targeting to expand its properties under the services and industrial segments to 20% to 30% (versus 12% in FY21 [ended Dec 31, 2021]) of the group’s total property value by the next five years.

In FY21, the segments contributed 23% of the total net property income.

“However, we expect the acquisition activities to take place only from FY23 onwards. This is due to: (i) the ongoing asset enhancement activities in Sunway Carnival Shopping Mall and Sunway Resort Hotel, which are scheduled to be completed by 2022; and (ii) the focus on post-pandemic recovery with the reopening of international borders,” it said.

According to the research house, the management is also looking forward to expanding into foreign markets via joint ventures or partnerships with reputable players in the next five years. This is envisaged to diversify its portfolio of a locally-focused REIT. The REIT aims to have 10% to 20% foreign properties in its total property value.

In the medium-to-long term, it said Sunway REIT is looking at potential asset enhancement initiatives in Sunway Pyramid Shopping Mall.

“We gather that the potential expansion will increase the total net lettable area (NLA) to 1,874,359 square feet (sq ft) from 1,774,359 sq ft. This is expected to enhance the rental revenue by approximately 3%,” it said.

It also noted the debt-to-asset ratio of Sunway REIT has improved 3.5 percentage points year on year to 37.2%, below the regulatory threshold of 60%, hence it believes that there is sufficient capacity to fund any future acquisitions with additional borrowings.

At Monday's lunch break, Sunway REIT slipped one sen or 0.73% to RM1.36, valuing the group at RM4.69 billion.

Over the past one year, the counter has fallen 9.93%.