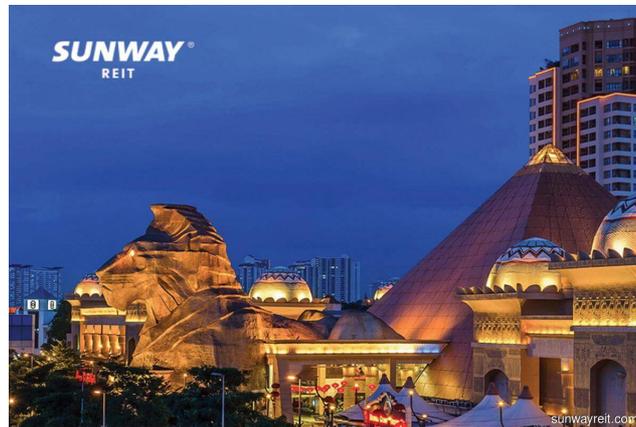


# Analysts revise up Sunway REIT earnings forecasts and target prices on improved income outlook

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KUALA LUMPUR (May 19): Analysts revised up Sunway Real Estate Investment Trust's (REIT) earnings forecasts and target prices (TPs) for the stock on improved income outlook.

Hong Leong Investment Bank (HLIB) Research on Thursday increased its earnings forecast for Sunway REIT's FY22-23 by 10% to 13% "on expectations of higher income moving forward" with the reopening of Sunway Resort Hotel as well as expectation of lower rental support to be provided.

"We expect continued recovery in retail and hotel segments being backed by economic recovery and reopening of international borders. We are looking forward to resumption of income from Sunway Resort Hotel (was closed for refurbishment since July 2020) since its commencement of operations in May. Whereas office, services, industrial and other segments are expected to continue its stability," HLIB Research noted as it upped its TP for the stock to RM1.67 (from RM1.54) as it kept its "buy" call.

Meanwhile, CGS-CIMB Research on Thursday raised its FY22F EPS/DPU forecast for Sunway REIT by 7.7% as it imputed "stronger revenue for the retail segment".

"The increases in our FY23-24F EPS/DPU are marginal due to housekeeping. We retain our 'hold' rating, supported by FY22-24F dividend yields of 4.4%-5.1%. Due to the higher DPU in FY22F and a lower adjusted beta, our DDM-based TP rises to RM1.53 (from RM1.43)," it said.

It added that retail malls are back to pre-Covid-19 levels and the hotels sector is recovering gradually.

"The key outperformer in 1QFY22 was the retail segment, underpinned by recovery momentum carried through from the Oct-Dec 2021 period. SunREIT indicated during the results conference call that both retail footfall and tenants were back to pre-pandemic levels — particularly for Sunway Pyramid Mall (positive rental reversion in 1QFY22). In 1QFY22, the retail segment's revenue surged 84% year-on-year (y-o-y) with minimal rental assistance provided."

Overall rental reversion in 1QFY22 was marginally positive. The group remains cautiously optimistic on the continued recovery of the hotel segment and expects the resumption of Sunway Resort Hotel's first phase of operations in May to be supportive of this, CGS-CIMB research noted.

It added that hotel occupancy rates stood at 42%-45% in 1QFY22 and are expected to gradually increase with the reopening of international borders.

Separately, it noted that the RM436 million extension of Sunway Carnival Mall in Seberang Jaya is on track for completion and opening by 2QFY22.

AmResearch also raised its TP for Sunway REIT, revising it to RM1.76/unit (from RM1.66/unit).

"We increase our distributable income estimates by 33% for FY22F and 8% for FY23F. This is after factoring in: (i) lower Covid-19 rental rebates for retail malls; (ii) higher borrowing costs amid rising interest rates; and (iii) improved occupancy rates for hotel properties due to the expectation of a steady pickup in the hospitality industry after the reopening of international borders. We also raise our estimate of average daily rates for Sunway Resort Hotel & Spa," it said in a Thursday report as it maintained its "buy" call.

"Moving forward, we foresee the discontinuation of Covid-19-related rental rebates offered to tenants as all businesses are allowed to fully operate after the reopening of the economy and borders. This will lead to a normalisation of rental income in the retail, hotel and office segment," it added.

Sunway REIT is AmREsearch's "top buy for the REIT sector" underpinned by its well-diversified income base, which the local research house believed could cushion the REIT against potential downside risks.

"Its portfolio encompasses retail malls, offices, hotels, universities, hospitals and industrial property across Malaysia. We remain bullish about the outlook of Sunway eMall, which offers delivery and in-store collection for online shopping across its physical malls. Also, the group is recognised for its environmental, social and governance practices. Specifically, Sunway REIT is the first amongst its local peers to incorporate sustainability financial consideration into its capital management strategy," it added.

On Wednesday, Sunway REIT announced that its net property income for the first quarter ended March 31, 2022 jumped 77.4% y-o-y to RM118.9 million from RM67.02 million. The improved performance was driven by strong pickup in business activities for the retail and hotel segments due to the relaxation in movement restrictions.

At the time of writing, Sunway REIT's stock was up four sen or 2.76% at RM1.49.