SunREIT shows resilience

Office segment stable enough to weather oversupply

REITS

PETALING JAYA: Sunway Real Estate Investment Trust (SunREIT) will be able to weather the current office oversupply situation, given the resilience of the group's office segment.

UOB Kay Hian in a report yesterday said the net property income (NPI) margin for the office segment remained stable at 62% during the second quarter of its current financial year.

"Furthermore, Sunway Pinnacle has started contributing to the office segment as the acquisition was completed in November last year. Amid the challenging outlook, SunREIT is still able to weather the current office oversupply situation."

PublicInvest Research also said SunREIT's office segment is still steady, with a year-to-date gross revenue of RM25mil.

"This is an increase of 22% year-on-year (y-o-y), largely contributed by the new income of RM4.1mil from The Pinnacle Sunway acquired on Nov 20, 2020. The NPI correspondingly recorded an increase of 37% y-o-y to RM15.2mil."

The research house, however, cautioned that the group's retail segment remained challenging. "The group retail segment recorded a gross revenue of RM56.8mil during the second quarter or a decrease of 47% y-o-y, mainly due to rental support for affected tenants and a lower carpark income amidst the implementation of the conditional movement control order (MCO) in Kuala Lumpur and Selangor since Oct 14, 2020.

Standing tall: Artist impression of The Pinnacle. It has started contributing to the office segment post-acquisition in November last year.

"The NPI correspondingly recorded a reduction of 54% or RM40.1mil y-o-y. With the current MCO in place until Feb 18 and the worrying high level of daily cases, we believe consumer sentiment could remain weak in the near term, which could further dent retail earnings."

MIDF Research, meanwhile, said SunREIT's six-month earnings came in below expectations.

"SunREIT's six-month core net income of RM67.9mil came in below expectations, making up 17% and 23% of our and consensus full-year estimates, respectively. Note that SunREIT has changed its financial year from June 30 to Dec 31. Hence, financial year 2021 shall consist of an 18-month period from July 1, 2020 to Dec 31, 2021.

"The negative deviation could be attributed to weaker-than-expected earnings from the retail division. Meanwhile, distribution per unit of 0.77 sen was announced."

Sequentially, MIDF Research said the second-quarter core net income was flattish at RM33.5mil, which was down 2.6% quarter-on-quarter.

"The marginally lower earnings were mainly due to weaker earnings from the retail division, which offset the higher earnings from the office and hotel divisions.

"The retail division recorded a lower NPI of RM33.9mil as rental income was dragged down by the imposition of the conditional MCO.

"Meanwhile, the hotel division recorded a higher NPI, mainly due to the recognition of a guaranteed income from Sunway Clio.

"On the other hand, the office division recorded an increase in NPI mainly due to the contribution from Sunway Pinnacle, which was acquired in November 2020."

MIDF Research said it is revising downwards its 2021 and 2022 earnings forecast by 20.6% and 4.8%, respectively, after factoring in lower contribution from the retail division.

"Our target price for SunREIT is revised to RM1.50 from RM1.61 previously, based on the dividend discount model.

"We maintain our 'neutral' call on SunREIT, due to its limited price upside and subdued earnings outlook in the near term."