

Sunway REIT in good position to attract investors

Sunway Real Estate Investment Trust
(Oct 19, RM1.73)

Initiate buy with a target price of RM1.92: Our investment thesis is premised on the steady growth from lease renewals (crown jewel — Sunway Pyramid shopping mall), moderate balance sheet for further potential asset injections, proactive capital management creating immediate value to unitholders and retail being a resilient sector. We estimate a 3.7% distribution per unit (DPU) contraction in Sunway Real Estate Investment Trust's (REIT) financial year ending June 30, 2017 (FY17) before increasing by 9.6% in FY18 due to the closure of Sunway Pyramid Hotel East for asset enhancement works, cessation of manager fees payable in units with effect from FY17 and higher operating cost assumptions before this normalises in FY18.

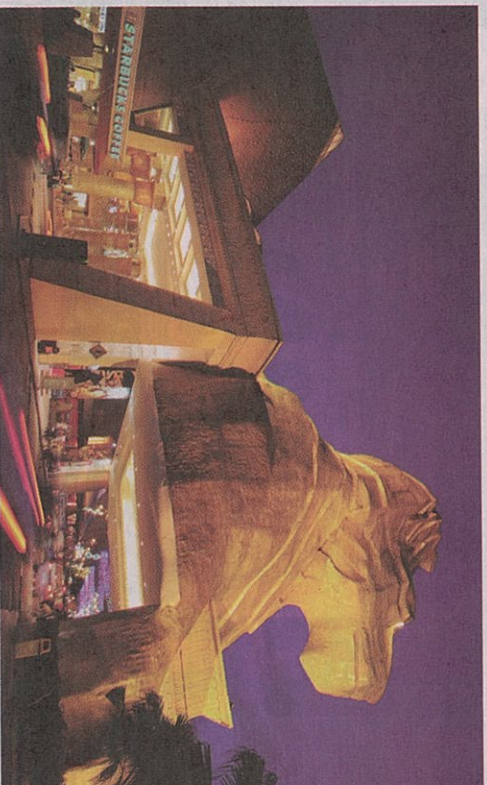
In FY18, we forecast 9.5% DPU growth to be driven by normalisation of Sunway Pyramid Hotel East post asset enhancement initiatives and higher contribution from Sunway Putra Mall. Its low gearing offers room for acquisitions. Sunway REIT's debt-to-asset ratio is at 33.2%, significantly below the 50% statutory limit. Assuming an optimum level of 40%, Sunway REIT has a debt headroom of RM800 million to gear up for acquisitions without the need to engage in equity fundraising.

We like Sunway REIT's proactive capital management, which allows it to enjoy lower borrowing costs than its peers and create immediate value for unitholders via lower discounting factor. Should

Sunway Real Estate Investment Trust

FYE JUNE (RM MIL)	2016	2017F	2018F	2019F
Revenue	507.0	533.9	568.1	580.6
Core net profit	267.9	263.6	288.7	297.6
FD Core EPS (sen)	9.1	9.0	9.8	10.1
FD Core EPS growth (%)	5.0	(1.6)	9.5	3.1
Consensus net profit	-	-	296.7	302.0
DPS (sen)	9.3	9.0	9.8	10.1
PER (x)	18.9	19.2	17.5	17.0
EV/Ebitda (x)	17.1	18.9	17.8	17.4
Dividend yield (%)	5.5	5.1	5.7	5.9
ROE (%)	8.1	6.5	7.1	7.3
Net gearing (%)	32.9	55.0	55.1	55.4

Source: AmInvestment Bank



Fleeting of the Sunway Pyramid shopping mall. Sunway REIT's debt-to-asset ratio is at 33.2%, significantly below the 50% statutory limit.

there be another round of policy rate cut by Bank Negara Malaysia, there could be further compression on Sunway REIT's FY17 to FY18 yields. This would make REITs more attractive. In particular, we believe

Sunway REIT could be in a good position to attract investor interest, given its stable earnings growth. Yields are decent at 5.3% to 5.7% for FY17 to FY18. — *AmInvestment Bank, Oct 19*

Pantech Group Holdings Bhd

FYE FEB (RM MIL)	2016A	2017E	2018E
Turnover	513.3	477.5	516.6
Ebit	61.6	46.5	52.0
PBT	53.1	40.5	46.4
Net profit (NP)	37.9	30.4	33.1
Core net profit	37.9	30.4	33.1
Consensus (NP)	-	41.3	46.3
Earnings revision (%)	-	-28.4	-29.8
Core EPS (sen)	5.0	4.0	4.4
Core EPS growth (%)	-12.1	-19.9	9.2
GDPs (sen)	2.1	1.5	1.6
BV/Share (RM)	0.7	0.7	0.7
Core PER	11.6	14.5	13.3
P/BV (x)	0.9	0.8	0.8
Gearing (x)	0.1	0.0	0.0
Dividend yield (%)	3.6	2.5	2.8

Source: Kenanga Research

Pantech Group Holdings Bhd
(Oct 19, 56.5 sen)

Downgrade to underperform with a lower target price of 50 sen: The results for the first half ended Aug 31, 2016 came in below expectations with core net earnings of RM13.2 million, accounting for only 31% and 32% of our and market consensus full-year estimates, respectively. The deviation was mainly due to lower-than-expected sales of pipes, valves and fittings (PVP) and weaker trading margins. A second interim net dividend per share of 0.5 sen was declared in the first quarter ended May 31, 2016 (1QFY17), which was also below our expectations due to the weaker earnings.

Pantech's 2QFY17 core net profit fell 37% quarter-on-quarter to

Top Glove's expansion plans under way

Top Glove Corp Bhd
(Oct 19, RM5.00)

Downgrade to hold with a lower target price of RM4.30: Top Glove Corp Bhd is trading at 18.9 times financial year ending Aug 31, 2017 (FY17) earnings per share, which is unjustified as upside in foreign exchange gains is diminishing, competition among glove players is intensifying especially in the nitrile segment, and operating costs are rising from natural gas hike and higher raw material prices.

Top Glove is planning to be a market leader in the nitrile glove segment. It is increasing capacity in the nitrile glove segment. The expansion plans are underway such as Factory 6 in Thailand (commencing in November 2016), Factory 30 in Klang (April 2017) and Factory 31 in Klang (Phase 1 in August 2017, Phase 2 in May 2018), and will raise total production capacity to 58.6 billion gloves per annum (+26% from current capacity of 46.6 billion per annum).

We forecast earnings before interest and tax (Ebit)/1,000



Top Glove is planning to be a market leader in the nitrile glove segment. The Edge file photo

gloves to decrease by 20% year-on-year to RM9.14 in FY17, as we factor in higher operating costs and diminishing US dollar gains. Our Ebit/1,000 gloves assumptions are conservative vis-à-vis the record-breaking level in FY16, as we expect Ebit/1,000 gloves to normalise in FY17 to FY19.

Competition is heating up in the glove sector with several glove makers expanding aggressively. This could result in higher pressure on margins. — *AllianceDBS Research, Oct 19*

Top Glove Corp Bhd

FYE AUG (RM MIL)	2016A	2017F	2018F	2019F
Revenue	2,889	3,102	3,372	3,652
Ebitda	525	489	539	590
Pre-tax profit	443	399	441	497
Net profit	361	325	360	406
Net pft (Pre-ex)	361	325	360	406
Net pft gth (Pre-ex) (%)	29.0	(9.9)	10.6	12.9
EPS (sen)	28.8	25.9	28.7	32.4
EPS pre ex (sen)	28.8	25.9	28.7	32.4
EPS gth pre ex (%)	28	(10)	11	13
Diluted EPS (sen)	28.8	25.9	28.7	32.4
Net DPS (sen)	14.5	13.1	14.4	16.3
BV per share (sen)	145	155	171	189
PER (x)	17.3	19.2	17.3	15.4
PER pre ex (x)	17.3	19.2	17.3	15.4
P/CF (x)	14.2	14.4	13.2	11.8
EV/Ebitda (x)	11.3	12.1	10.8	9.6
Net dividend yield (%)	2.9	2.6	2.9	3.3
P/BV (x)	3.4	3.2	2.9	2.6
Net debt/equity (x)	Cash	Cash	Cash	Cash
ROAE (%)	21.1	17.3	17.6	18.0

Sources: Company, AllianceDBS, Bloomberg Finance LP

Pantech on track to meet target orders from Pengerang job

RM5.1 million, no thanks to a 16% drop in revenue from both the trading and manufacturing segments as well as weaker margins. Year-on-year, 2QFY17 core earnings plunged 51% largely attributable to lower manufacturing output as a result of weaker global demand. Overall, earnings before interest and tax (Ebit) margin weakened to 7.5% from 13.2% in 2QFY16 arising from weaker operating margins from both segments. Cumulatively, its earnings for the first half ended Aug 31, 2016 tanked 32% as a result of the above-mentioned reasons.

Despite weaker earnings, Pantech is on track to meet its target of RM100 million worth of orders from Pengerang site development with the year-to-date orders of about RM80 million. We expect the PVP demand from the refinery and petrochemical integrated development project to anchor the company's earnings despite weakening margins amid slower global demand. Meanwhile, its UK manufacturing division (Nautic Steels) is still staying at break-even level this year as offshore activities remain muted.

We cut our FY17 to FY18 earnings forecasts by 28% to 30% after adjusting for lower sales from both trading and manufacturing by 10% and 9%. Post-earnings adjustment, we decided to switch our valuation model to price-to-book value from price-earnings ratio due to the significant deterioration in near-term earnings prospect. This is also consistent with our sector valuation metric during challenging times. — *Kenanga Research, Oct 19*