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Local equities

COMPILED BY **ESTHER LEE**

Sunway Real Estate Investment Trust

Target price: **RM2.05 BUY**

Current financial facilities

Facility	Facility amount (RM bil)	Utilised amount (RM bil)	Balance facility (RM bil)	Tenure
Commercial Paper (CP) Programme	3.00	1.50	1.50	1M
Revolving Loan (RL)	1.60	-	1.60	0
MTN Programme	10.00	1.20	8.80	1Y
Revolving financing-i	0.40	0.40	-	1Y
Perpetual Note Programme	10.00	0.34	9.66	Non-call 5Y
Total	25.00	3.44	21.56	

SOURCE OF ALL DATA: COMPANY, ALLIANCEDBS

ALLIANCEDBS RESEARCH (MAY 15): SunREIT plans to expand its investment into emerging growth sub-sectors. Steady contributions from assets under its "others" segment, such as Sunway Medical Centre, have prompted SunREIT to look into other non-core sectors.

This includes exploring manufacturing facilities and built-to-suit opportunities. Backed by its solid sponsor, Sunway Group, SunREIT will be able to leverage the former's expertise in exploring or diversifying into other sectors.

SunREIT targets to reach RM10 billion in property value in FY20 and RM13 billion to RM15 billion in 2025. The "others" segment will be expanded and reclassified into "industrial and others" and "services". This will make up 25% of total asset value, in line with its new mandate, compared with 15% previously.

On achieving the RM10 billion target by FY20, management has also been looking at geographical diversification. This includes looking at assets overseas, akin to most Singapore REITs with overseas assets in their portfolios. Various methods will be considered, such as securing higher yields, to mitigate foreign exchange risks as well as taking on local debt.

Asset enhancement will also play a role in creating additional value, such as the recent refurbishment of Sunway Pyramid Hotel and Sunway Pyramid Convention Centre as well as the grand ballroom and meeting room of Sunway Resort Hotel & Spa. SunREIT's ongoing asset enhancement revolves around the Sunway Carnival Shopping Mall expansion with an estimated cost of RM353 million and an expected completion in 2021.

Despite establishing perpetual notes of RM10 billion, the group will look into all other options before opting to issue the perpetuals. We expect future acquisitions to be funded via a combination of share placements as well as perpetual notes. This is due to limited headroom for debt at RM400 million to RM500 million before it hits the 45% limit with gearing at 38.6%.

We like SunREIT for its potential acquisition pipeline from its sponsor. We also feel management's strategy in diversifying into the "others" segment will help to mitigate any shortfall in its assets from the retail and office segment given tough competition from oversupply in the market.

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