Every week, *The Edge* brings you excerpts from research reports on Bursa Malaysia-listed companies available in the public domain or received from brokers.

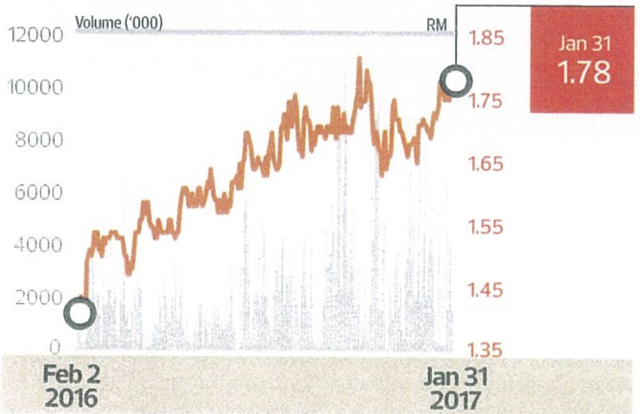
CAGR — Compound annual growth rate
Ebitda — Earnings before interest, taxes, depreciation and amortisation
EPS — Earnings per share
NTA — Net tangible assets
PBT — Profit before tax
SOP — Sum of parts
RNAV — Revised net asset value
PER — Price-earnings ratio

Local equities

COMPILED BY **CHUA SUE-ANN**

Sunway Real Estate Investment Trust

Target price: **RM1.85 BUY**



UOB KAY HIAN (JAN 31): We expect Sunway REIT to report a core net profit of RM64 million to RM67 million in 2QFY17, up a modest 3% to 4% year on year, driven by its retail operation and improved occupancy in the office segment. This will mitigate the weaker performance of the hotel segment.

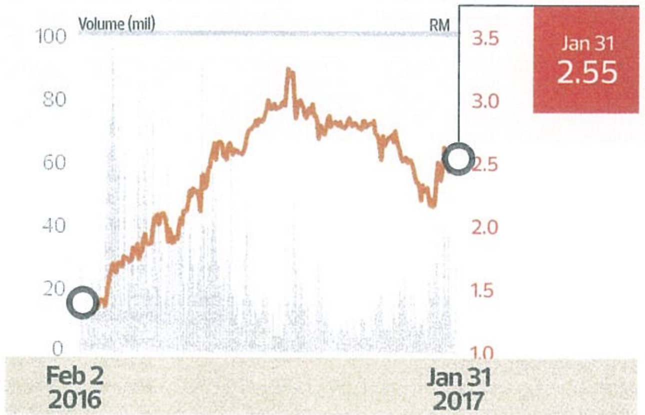
Sunway Velocity, which commenced operation in December last year, is the latest potential sponsor-related asset that could be injected into the REIT (after Sunway Pyramid Phase 3).

We estimate contribution from the retail segment to grow 3% y-o-y. 2QFY17 is the second consecutive quarter to reflect rental sales from Sunway Putra Mall following the rent-free period since the mall reopened on May 15 last year. Occupancy at Sunway Putra Mall had improved to 85.2% from 82.4% when it reopened.

Although the outlook for the office segment remains sluggish, there could be an improvement in occupancy at Sunway Putra Tower. Currently, occupancy rates at Sunway Tower (20.7%) and Sunway Putra Tower (25.7%) are below breakeven. The office segment contributes only 6% to total revenue.

AirAsia Bhd

Target price: **RM3.54 ADD**



CIMB RESEARCH (JAN 31): The ringgit weakened late last year to a high of RM4.50 to the US dollar and is now RM4.43. Some 50% of Malaysia AirAsia's operating costs are US dollar-denominated and 40% of its US dollar aircraft loans are unhedged. In mitigation, AirAsia has hedged 50% of its US dollar operating costs for 1H17F. Every 10 sen strengthening of the US dollar reduces our FY17F EPS forecast by 3%.

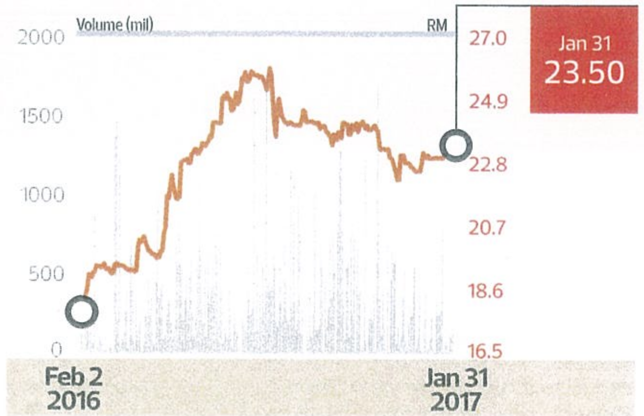
Spot jet fuel prices averaged US$49.50 per barrel in FY16F, down from US$67.60 in FY15, driving AirAsia's strong financial performance during 9M16. However, jet fuel prices have risen to US$65 per barrel since the start of 2017F. Thankfully, AirAsia has hedged 74% of its FY17F consumption at US$60 per barrel.

All these challenges mean that FY17F core earnings are expected to be more than 40% lower than the peak earnings of FY16F. Nevertheless, we retain our "add" call as we are optimistic that AirAsia will manage to sell Asia Aviation Capital and pay at least RM1.03 per share in special dividends.

Without the dividends, our underlying valuation is RM2.93 per share.

Fraser and Neave Holdings Bhd

Target price: **RM21.63 SELL**



TA SECURITIES (JAN 31): We met with F&N's management and left with the following takeaways.

F&N expects added pressure from increasing sugar prices, coupled with the possibility of a sugar "sin tax" this year. It will increase soft drink prices to pass on the cost pressure to consumers. As such, we do not expect a sharp contraction in soft drinks' profit margin in 2017.

Management guided that F&N is already compliant with the Price Control and Anti-Profiteering Act Regulations 2016, so there will be no mark-up in the margins of products sold in FY17. However, prices of selected F&N products have been adjusted higher for FY17 to protect its profit margins.

Since 2012, F&N's dairies business has been growing at an average yearly rate of 6%. We project that FY17 revenue will continue this trend.

We lower our earnings by 1.1% for FY17 but raise them 1.5% for FY18 after factoring FY16 audited profit into our forecast. We lower our target price to RM21.63 per share (from RM21.71) based on unchanged 21 times CY17 EPS.

Malaysia Airports Holdings Bhd

Target price: **RM7.46 BUY**

Malaysian Pacific Industries Bhd

Target price: **RM9.40 BUY**

Hartalega Holdings Bhd

Target price: **RM4.60 HOLD**