Headline	Sunway REIT stands out on portfolio diversification		
MediaTitle	The Malaysian Reserve		
Date	03 Jan 2018	Language	English
Circulation	12,000	Readership	36,000
Section	Money	Page No	11
ArticleSize	289 cm²	Journalist	N/A
PR Value	RM 8,021		

Sunway REIT stands out on portfolio diversification

▶ **Recommendation: Buy**
TARGET Price: RM1.90
by Affin Hwang Investment Bank Bhd (Jan 2)

▶ SUNWAY REAL ESTATE INVESTMENT TRUST				
FYE JUNE 30	2017A	2018E	2019E	2020E
REVENUE (RM mil)	522.9	554.4	564.2	583.3
REALISED NET PROFIT (RM mil)	270.6	275.2	274.5	285.2
REALISED EPU (sen)	9.2	9.3	9.3	9.7
REALISED PER (x)	18.6	18.3	18.3	17.7

Highlights

WE REITERATE our 'Buy' rating on Sunway Real Estate Investment Trust (REIT) with a lower DDM-derived target price (TP) of RM1.90, after lowering our retail growth forecasts and raising the cost of equity.

Despite the cut, Sunway REIT remains our preferred pick among Mortgage REITs (MREITs) for its diversified asset portfolio and defensive earnings are a virtue in the current asset cycle. Its retail-centric peers are facing a tough time, which could lead to a switch into Sunway REIT and compress its yields (5.4%-5.6% on our forecasts).

Sunway REIT has a quality, mixed-asset portfolio. Sunway REIT has a good mix of quality assets including: i) retail assets (70% of net property income) that enjoy consistent, high occupancy rates; ii) hotels (20%) that are seeing better demand; iii) a medical centre (5%) where rental is covered by a triple net lease agreement; and iv) offices (5%).

Its diversified rental stream is a virtue. Sunway REIT's diversified, defensive rental stream is a virtue in prevailing property market conditions, where offices are facing a supply glut and retail malls are seeing lower occupancy/weaker rental revisions.

The retail-centric MREITs have seen rising equity beta in recent years, partly due to the weak retail mall market. In contrast, diversified MREITs (eg KLCC Property Holdings Bhd) and manufacturing/logistic peers (eg Axis REIT) have seen lower equity beta.

Headline	Sunway REIT stands out on portfolio diversification		
MediaTitle	The Malaysian Reserve		
Date	03 Jan 2018	Language	English
Circulation	12,000	Readership	36,000
Section	Money	Page No	11
ArticleSize	289 cm²	Journalist	N/A
PR Value	RM 8,021		

Tweaking FY18-FY20E EPU by -3% to 0.5%. We tweaked our FY18/FY19/FY20 EPU forecasts by -3%/+0.3%/+0.5%, imputing: 1) 3% annual rental revisions for Sunway Pyramid (from 5%), in view of the weak prevailing retail market condition; and 2) lower interest costs of 4.1%-4.2% for FY18-FY20E (from 4.1%-4.3%), given Sunway REIT's proactive hedging strategy (82% of current borrowings are at a fixed rate).

Maintain 'Buy' with a lower TP of RM1.90. We reiterate our 'Buy' rating on Sunway REIT with a lower DDM-derived TP of RM1.90 (from RM2.05) after lowering our retail growth forecasts and raising our cost of equity to 7.9% (from 7.6%).

Sunway REIT is our preferred pick among MREITs for its diversified asset portfolio. At a 5.4% distribution yield for 2018E, its valuation looks attractive, considering its lower earnings risk (vis-à-vis other MREITs) and attractive asset injection pipeline from its sponsor (Sunway Bhd).

Key downside risks, sensitivity analysis. The downside risks to our positive view on Sunway REIT include: a) rapid, successive interest-rate hikes (we pencil in an Overnight Policy Rate hike for 2018); b) further deterioration in the retail mall market, leading to weaker than expected earnings; and c) lower than expected occupancy rates at its hotels.