| Headline | Strong growth with sponsor`s asset pipeline for Sunway REIT | | |
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| ▶ SUNWAY REAL ESTATE INVESTMENT TRUST | | | | |
|---|---|---|---|---|
| FORECAST AND VALUATIONS | 2018A | 2019F | 2020F | 2021F |
| **GROSS REVENUE** (RM mil) | 560 | 603 | 648 | 667 |
| **NET PROPERTY INCOME** (RM mil) | 420 | 452 | 490 | 502 |
| **EPU** (sen) | 14.5 | 10.1 | 10.7 | 11.1 |
| **PE** (x) | 12.4 | 17.8 | 16.8 | 16.2 |

# Strong growth with sponsor's asset pipeline for Sunway REIT

**▶ Recommendation: Buy**

TARGET Price: **RM1.90**

by AllianceDBS Research Sdn Bhd (Jan 29)

**WE REITERATE** our 'Buy' call on Sunway Real Estate Investment Trust (SREIT) with a higher TP of RM1.90, as we increase our earnings to factor in the acquisition of Sunway University's assets.

We like SREIT for its prime assets and acquisition pipeline from its sponsor.

Key driver for the stock will be its retail assets, especially Sunway Pyramid Mall, as it contributes >50% of total net property income (NPI).

Management has plans to increase contribution from other segments to diversify its earnings base. Based on our TP of RM1.90, total returns come up to more than 10%. Current yields of 5.6% are highest in our Malaysian REIT universe after CapitaLand Malaysia Mall Trust and MRCB REIT. We reiterate our 'Buy' call.

**Where we differ: Including Sunway University.** Our numbers are higher than consensus with the inclusion of Sunway University contributions. The acquisition is scheduled for completion by 2HCY19.

**Potential catalysts: Visible sponsor asset pipeline.** SREIT's sponsor and major shareholder (37% stake) Sunway Bhd has a large pipeline of potential assets for injection under its "build-own-operate" model.

Future injections could include Monash University campuses, The Pinnacle office tower, Sunway Giza Mall and Sunway Velocity Mall. These underpin an attractive growth pipeline for SREIT. We are optimistic about potential injections from sponsor Sunway to meet SREIT's RM10b asset target.

## Valuation

Our DDM-derived TP is increased at RM1.90, with a 7.7% cost of equity and 1.5% terminal growth.

## Key Risks

Weak consumer sentiment in the retail sector could result in soft rental reversions.

We have factored in rental reversions of 2% for FY19F-20F for the overall portfolio.