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Affin Hwang maintains 'Buy' on Sunway REIT, TP at RM2

ANALYST REPORTS

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KUALA LUMPUR: Affin Hwang Capital research maintained its buy rating and kept its target price of RM2 on Sunway REIT following a solid set of results in its first financial quarter.

"We favour its diversified asset portfolio, defensive revenue stream, proactive management and strong injection pipeline from its parent company, Sunway Bhd. "At 5.4% FY20E yield, valuation remains attractive," said Affin Hwang.

In 1QFY20, the REIT's net profit grew 1% year-on-year (y-o-y) to RM73.7mil on the back of the maiden contribution from Sunway Campus and higher contribution from Sunway Resort Hotel and Spa, more than offsetting weaker earnings from Sunway Clio.

"Overall, the results were within market and our expectations. SREIT's 1QFY20 realised net profit made up 23% of the street's and 25% of our full-year earnings estimates," said Affin Hwang.

Revenue for the quarter grew 6.7% quarter-on-quarter (q-o-q) to RM155.4mil on higher contributions from the hotel, office and industrial segments.

The retail segment recorded a marginal decline due to lower occupancy in Sunway Pyramid during the fit-out period for new tenants.

"The higher 1QFY20 revenue translated to a 9.8% q-o-q growth in realised net profit and similarly, DPU," said Affin Hwang.

Moving forward, Sunway REIT management expects modest growth from the retail segment driven by higher contribution from Sunway Pyramid and marginal improvement in the office segment due to higher occupancy.

However, management is also cautious on the hotel segment and expects effective leasing strategies to improve the office segment's performance amid a weak office market.

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