

Stronger rentals to spur Sunway-REIT earnings

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Popular choice: A file picture of shoppers at Sunway Pyramid undergoing temperature checks.

PETALING JAYA: Sunway Real Estate Investment Trust  (Sunway-REIT) is set to see a pick-up in earnings going forward, on the back of stronger rental contributions from its retail and hotel assets.

Hong Leong Investment Bank (HLIB) Research in a report said it is “nudging up” its net profit forecasts for Sunway-REIT for 2022 to 2024 by 5.3% to 5%.

Having conducted a conference call with Sunway-REIT recently, HLIB Research said the company’s retail sales are still strong.

“First half 2022 tenancy sales of its retail malls have exceeded pre-pandemic levels, though footfall still hovered slightly below 2019 levels.”

HLIB Research said the trust’s overall retail performance remained stable in the third quarter of 2022 versus the first half of 2022.

“This was when a slew of festive holidays took place, contesting the notion that the retail boom in the first six months of this year was primarily attributed to revenge spending and festive seasons.

“Separately, Covid-19-related rental assistance has come to an end while rental reversions for those that renewed their tenancy in the first half of 2022 stood at a healthy positive mid-single digit growth.”

Additionally, HLIB Research said rental contributions from the new wing of the company’s Sunway Carnival Mall came on stream from the end of July.

“This translates to two months’ rental contribution for a net lettable area of nearly an additional 350,000 sq ft to its retail segment for the rest of the third quarter of 2022 and onwards.

“From our ground checks, the committed occupancy rate was above 90%, with physical tenancy of 85% as at the end of September. More stores are expected to open in the next few months, as we get closer to the committed occupancy rate.”

On Sunway-REIT’s hotel segment, HLIB Research said the return of foreign tourists has been gradual due to prolonged border closures in some countries.

“As such, hotels situated in Sunway City did not enjoy the influx of tourists from the Middle East region as they used to during this summer season.”

HLIB Research said Sunway-REIT has been proactive in tapping into the healthy recovery of the domestic leisure market.

“Notably, the phased reopening of Sunway Resort hotel is progressing well, with 238 out of 460 rooms open as at the end of September.

“Based on those available rooms, the occupancy is picking up at a higher average daily rate compared to the pre-refurbishment rate.”

HLIB Research noted that Sunway Putra Hotel’s master lease was renewed in September 2021 for a period of 10 years. It no longer has a minimum guaranteed rent.

The research house said rent is computed based on 90% of gross operating profit.

“Based on our estimates, the hotel requires an average occupancy rate of 55% to 60% to achieve the previous minimum guaranteed rent.”

Separately, HLIB Research said Sunway-REIT’s gearing level stood healthily at 36.8% as at the first half of 2022.

It added that the company also has one of the lowest average costs of debt at 2.7% among Malaysian REITs.

“In view of the prevailing interest rate upcycle, we expect sequentially higher financing costs as 68% of debt is on a floating rate basis.

“Notwithstanding, management maintains its stance of adopting active capital management, employing shorter-term financing with a floating rate. This translates to lower coupon rates and cost of debt, as well as greater flexibility in managing their capital structure.”