

Sunway-REIT likely to see strong earnings

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Higher shopper footfall, tenant sales lead the way

PETALING JAYA: Sunway Real Estate Investment Trust  (Sunway-REIT) is expected to stage a strong recovery in earnings on the back of higher shopper footfall and tenant sales.

Following a virtual meeting with the company, MIDF Research said it gathered that shopper footfall and tenant sales have recovered to pre-Covid levels due to revenge spending and festive seasons.

“That led to rental rebate easing significantly in the first half of financial year 2022 (1H22). Rental reversion outlook is improving as management expects it to be flattish to mildly positive in FY22,” said the research firm in a report. Rental reversion is the change in rents upon lease renewal.

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Additionally, the recent opening of Sunway Carnival’s new wing registered an occupancy rate of 90%. All these bode well for the retail division where MIDF anticipates earnings to improve significantly in FY22 and FY23.

Other key takeaways from the meeting is expectation for its hotel division to stage a stronger recovery in FY23.

“The hotel division reported higher 1Q22 net property income of 36% year-on-year, mainly due to increased domestic leisure and business travel. Management expects earnings recovery momentum of the division to be stronger in FY23, as higher tourist arrivals are anticipated in FY23,” it added.

MIDF Research sees a stable outlook for the Sunway-REIT’s other divisions.

“The office division of Sunway-REIT remains stable with an occupancy rate of more than 80% for most of its office buildings. The occupancy rate of its office buildings were holding steadily despite the backdrop of a high supply of office space,” the report said.

As for the industrial segment, it has also been performing well, recording encouraging rental reversion of 10%.

MIDF Research added that Sunway-REIT has expansion targets for its services and industrial and other segments of between 20% and 30% of total asset value, in line with its strategy of becoming a diversified REIT.

On the increase in interest rates, the research firm said the impact is mild.

“We expect mild earnings impact from the overnight policy rate (OPR) hike as every 25 basis points hike in OPR is expected to increase financing costs of Sunway REIT by about RM8mil, which is around 2% of our FY22 and FY23 earnings forecast,” added MIDF Research.

Taking this into account, the research firm is revising its FY22/23 earnings forecast marginally by minus 2.3% to factor in the higher borrowing costs. The stock’s target price, meanwhile, was revised to RM1.68 from RM1.70 before.

It maintained a “buy” call due to its improving outlook and attractive distribution yield of 5.3%.