

RM430mil assets disposal to net Sunway Reit RM110mil gain

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KUALA LUMPUR: Sunway Real Estate Investment Trust's (Sunway Reit) disposal of its medical properties to Sunway Bhd will result in a gross disposal gain of RM110 million and temporary earnings void for the company.

Sunway Reit entered into a conditional sale and purchase agreement with Sunway Healthcare Holdings to dispose of two parcels of leasehold lands with a seven-storey medical centre for RM430 million.

Hong Leong Investment Bank Bhd (HLIB) said with a total initial investment costs of RM320 million, the disposal of the medical properties was a value unlocking exercise as it enabled Sunway Reit to attain a gross disposal gain of RM110 million.

The firm said the RM430 million represented a 16.2 per cent premium above the market value of RM370 million as appraised by Savills Malaysia.

"While we believe the valuation of the disposal is reasonable, the divestment of Sunway's medical properties will cause temporary earnings void.

"However, the net proceeds will be redeployed for acquisitions of earnings accretive investments within 12 months following the completion of the disposal," it said.

HLIB said the disposal was expected to decrease its financial year 2023 (FY23) forecasted core net profit by 7 per cent.

The firm expects minimal impact on property operating expenses as the said assets are rented out based on a master lease arrangement.

"Post completion of the disposal, gearing is expected to fall to 34 per cent from 37 per cent as at December 2021, which is still below the gearing limit of 50 per cent.

"We keep our forecasts unchanged pending completion of the disposal," it said.

From Sunway's perspective, HLIB said the earnings impact of the acquisition would be equity accounted under the associate level through Sunway Reit and Sunway Healthcare.

"We expect minimal impact to earnings after accounting the impact from both Sunway Reit and Sunway Healthcare."

HLIB maintained its "Buy" rating on both stocks with target price of RM2.65 for Sunway and RM1.68 for Sunway Reit.