

15 November 2024

Property | REITS

Sunway REIT (SREIT MK)

Buy (Maintained)

Growing With MYR10bn In Assets; Keep BUY

- **Maintain BUY, new DDM-derived MYR1.94 TP from MYR1.92, 6% upside and c.6% FY25F yield.** Sunway REIT's results were in line with expectations, with income growth driven by the retail and hospitality segments while the office segment remains stable with a flat rental reversions outlook. The REIT now has an asset under management (AUM) of MYR10bn, and we remain positive on its outlook, given its aggressive acquisition strategy and solid growth prospects from a diverse property portfolio.
- **Results in line.** 3Q24 core profit of MYR89.1m (+14% QoQ, +3% YoY) led to a 9M24 core profit of MYR249.1m (+1% YoY) – in line with expectations at 70% of our and Street's estimates. The YoY growth is led by the full-quarter contributions of the six Sunway REIT hypermarkets acquired in 30 April, which offset the loss of income from the disposal of Sunway Medical Centre. NPI margins remained stable at 74% YTD, but net margin was slightly lower at 45.6% (9M23: 46.8%) due to higher cost of borrowings (9M24: 3.88%, 9M23: 3.76%).
- **More upside for retail.** Excluding the newly acquired hypermarkets, the retail segment revenue grew 4% despite the temporary drop in occupancy levels for Sunway Carnival Mall due to ongoing refurbishments, which should be completed by June 2025. This was led by the mall itself, which recorded 25% higher revenue YoY, reflecting the results of its upgrades. Sunway Pyramid recorded flat revenue growth, but we expect to see a pickup in 4Q24 following the opening of its newly renovated Oasis wing in Nov 2024 (after being closed since 3Q23). Management shared that the space now records rental rates of MYR16psf vs MYR6psf with the previous anchor tenant. With a low-teen rental reversion for the retail segment YTD, we continue to be positive on the outlook for this segment.
- **Hotels continue to benefit from the improving tourism industry,** mainly Sunway Hotel Seberang Jaya, Sunway Hotel Georgetown, and Sunway Putra Hotel, which achieved pre-pandemic levels of foreign tourist arrivals. Revenue and NPI YTD improved 6%, with an average occupancy level of 65% (9M23: 63%), and 2% higher average daily rate (ADR). Sunway Hotel Georgetown's master lease will be renewed for a period of 10 years, with a rent formula of 90% on the hotel's gross operating profit.
- **We keep our FY24-25F earnings forecasts unchanged,** but our TP is raised to MYR1.94 after we increased our long-term rental reversion assumption for Sunway Carnival Mall. Our TP includes a 4% ESG premium based on our in-house methodology.
- **Key risks:** Lower-than-expected occupancy and rental reversions, and longer-than-expected delays in acquisitions.

Target Price (Return): MYR1.94 (6.0%)
 Price (Market Cap): MYR1.83 (USD1,397m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 3.26m/0.76m

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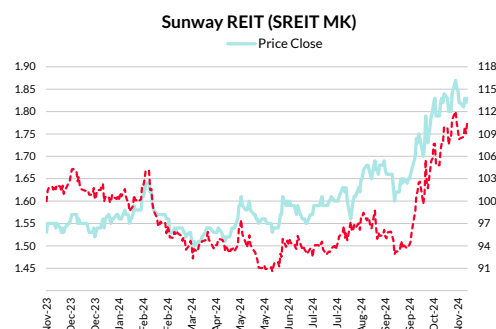


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	18.8	2.2	10.9	16.6	19.6
Relative	8.8	4.4	11.6	16.9	9.3
52-wk Price low/high (MYR)				1.49	1.87



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	639	705	765	857	899
Net property income (MYRm)	488	516	566	634	665
Reported net profit (MYRm)	324	338	355	390	414
Total distributable income (MYRm)	328	319	335	370	394
DPS (MYR)	0.10	0.09	0.10	0.11	0.11
DPS growth (%)	47.9	(2.8)	5.0	10.4	6.4
P/B (x)	1.13	1.14	1.14	1.14	1.14
Dividend Yield (%)	5.2	5.1	5.3	5.9	6.3
Return on average equity (%)	5.9	6.1	6.4	7.1	7.5
Return on average assets (%)	3.5	3.6	3.6	3.7	3.9

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

Sunway REIT's buildings strive for green certification standards through sustainable refurbishment practices, and supports clean energy use by providing charging bay facilities for electric vehicles – effectively reducing almost 50,000 tonnes of CO2 emission, with water consumption gradually decreasing over the years.

S: GOOD

In addition to the many benefits (care for nursing mothers, childcare subsidy) for employees of the Manager, training and engagement are also prioritised. Safety of employees is also ensured by the proper hazard identification, risk assessment, and incident investigation. Community enrichment is also of utmost importance.

G: GOOD

A diverse and skilled board comprising 57% independent directors – 43% of whom are female. The tenure of an Independent Director is capped at 9 years, and the details of remuneration in the Annual Report are on a named basis.

Financial Exhibits

Asia	Financial summary	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS (MYR)	0.09	0.10	0.10	0.11	0.12
Property	EPS (MYR)	0.09	0.10	0.10	0.11	0.12
Sunway REIT	DPS (MYR)	0.10	0.09	0.10	0.11	0.11
SREIT MK	BVPS (MYR)	1.61	1.61	1.61	1.61	1.61
Buy	Return on average equity (%)	5.9	6.1	6.4	7.1	7.5
	Weighted avg adjusted shares (m)	3,424.81	3,424.81	3,424.81	3,424.81	3,424.81
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Dividend discount model	Recurring P/E (x)	19.37	18.53	17.66	16.08	15.15
	P/E (x)	19.37	18.53	17.66	16.08	15.15
	P/B (x)	1.1	1.1	1.1	1.1	1.1
	FCF Yield (%)	5.5	4.8	4.9	5.2	5.5
	Dividend Yield (%)	5.2	5.1	5.3	5.9	6.3
	EV/EBITDA (x)	(0.67)	(1.57)	(1.80)	(1.65)	(1.58)
	EV/EBIT (x)	(0.67)	(1.57)	(1.80)	(1.65)	(1.58)
Key drivers	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Improvement in domestic consumer sentiment leading to strong consumer spending.	Total turnover	639	705	765	857	899
	EBITDA	441	468	505	565	593
	Operating profit	441	468	505	565	593
	Net interest	(95)	(129)	(152)	(178)	(182)
	Pre-tax profit	333	340	353	388	412
	Taxation	(9)	(1)	1	2	2
	Recurring net profit	324	338	355	390	414
Key risks	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Downside risks include prolonged weak domestic consumer sentiment while upside risks include stronger demand for its assets leading to higher occupancy rates and rental reversion rates at its assets.	Change in working capital	19	49	(80)	6	0
	Cash flow from operations	347	299	308	323	346
	Cash flow from investing activities	(383)	125	(802)	(158)	0
	Dividends paid	(348)	(339)	(355)	(390)	(414)
	Cash flow from financing activities	(109)	(268)	215	(464)	(645)
	Cash at beginning of period	291	251	425	487	599
	Net change in cash	(145)	156	(279)	(299)	(300)
	Ending balance cash	145	408	147	188	300
Company Profile	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Sunway REIT is a large-cap diversified M-REIT, with exposure in the retail, commercial, hospitality, and healthcare segments.	Total cash and equivalents	251	425	487	599	705
	Tangible fixed assets	0	0	1	2	3
	Total investments	8,688	8,990	9,792	9,950	9,950
	Total assets	9,413	9,539	10,314	10,589	10,696
	Short-term debt	1,637	1,637	1,637	1,637	1,637
	Total long-term debt	1,900	2,000	2,802	3,066	3,171
	Total liabilities	3,885	4,023	4,798	5,073	5,180
	Shareholders' equity	5,528	5,516	5,516	5,516	5,516
	Total equity	5,528	5,516	5,516	5,516	5,516
	Net debt	3,286	3,212	3,952	4,103	4,104
	Total liabilities & equity	9,413	9,539	10,314	10,589	10,696
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	(5.3)	10.2	8.5	12.0	4.9
	Recurrent EPS growth (%)	53.9	4.5	4.9	9.9	6.1
	Operating EBITDA margin (%)	69.0	66.4	66.0	66.0	66.0
	Net profit margin (%)	50.6	48.0	46.4	45.5	46.0
	Dividend payout ratio (%)	101.4	94.3	94.4	94.9	95.2
	Interest cover (x)	4.41	3.37	3.11	3.01	3.08

Source: Company data, RHB

Results At a Glance

Figure 1: Sunway REIT's results summary

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	Comments
Revenue	175.8	175.6	192.1	9.4	9.3	525.2	546.3	4.0	Acquisition of the six hypermarkets in April offset the cessation of revenue from Sunway Medical Centre after its disposal in Aug 2023
Net property income	136.8	129.3	144.3	11.6	5.5	391.2	404.2	3.3	
Interest expense	(34.5)	(40.0)	(43.5)	8.8	26.1	(100.4)	(121.2)	20.7	Cost of debt is at 3.88% vs 3.76% in 9M23
Interest income	1.6	2.1	1.6	(24.2)	>100	5.2	10.0	>100	
Pretax profit	92.0	145.1	89.1	(38.6)	(3.1)	260.6	321.2	23.2	2Q24 PBT includes MYR66.2m revaluation gain following the acquisitions
Tax	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Reported net profit	92.0	145.1	89.1	(38.6)	(3.1)	260.6	321.2	23.2	3Q23 reported net profit included MYR5m reserved for perpetual note holders which has been fully redeemed in Apr 2024
Core net profit	86.9	78.0	89.1	14.2	2.5	245.6	249.1	1.4	In line with expectations
Core earnings per unit (sen)	2.5	2.3	2.6	14.2	2.5	7.2	7.3	1.4	
Dividends per unit (sen)	0.0	4.7	0.0	nm	nm	4.6	4.7	0.9	
NPI margin (%)	77.8	73.6	75.1			74.5	74.0		
Pretax margin (%)	52.3	82.6	46.4			49.6	58.8		

Source: Company data

Figure 2: Sunway REIT's segmental revenue

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	% of total revenue contribution (%)
Retail	111.8	123.7	130.6	5.5	16.8	349.0	380.6	9.1	69.7
Hospitality	27.9	19.2	29.2	52.2	4.8	63.8	67.6	5.9	12.4
Office	20.7	20.8	20.5	(1.6)	(1.0)	61.6	62.6	1.6	11.5
Services	13.8	9.6	9.6	0.0	(30.4)	45.7	28.7	(37.1)	5.3
Industrial	1.7	2.2	2.3	0.8	33.5	5.1	6.8	33.5	1.2
Total revenue	175.8	175.6	192.1	9.4	9.3	525.2	546.3	4.0	100.0

Source: Company data

Figure 3: Sunway REIT's segmental NPI

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	% of total NPI contribution (%)
Retail	81.8	86.2	91.8	6.5	12.2	241.2	264.9	9.8	65.5
Hospitality	26.9	18.5	28.1	51.9	4.5	60.9	64.7	6.2	16.0
Office	12.8	13.0	12.9	(0.7)	0.7	39.2	39.8	1.5	9.9
Services	13.8	9.6	9.6	0.0	(30.4)	45.7	28.7	(37.1)	7.1
Industrial	1.4	2.0	1.9	(5.1)	34.1	4.1	6.0	43.9	1.5
Total NPI	136.8	129.3	144.3	11.6	5.5	391.2	404.2	3.3	100.0

Source: Company data

Emissions And ESG

Trend analysis

Sunway REIT targets to reduce emissions by 45% (2010 baseline) by 2030, and net zero by 2050. YoY emissions increased 3% due to increased footfall as tenants resumed operations following the upliftment of movement control order. This also led to higher emissions intensity.

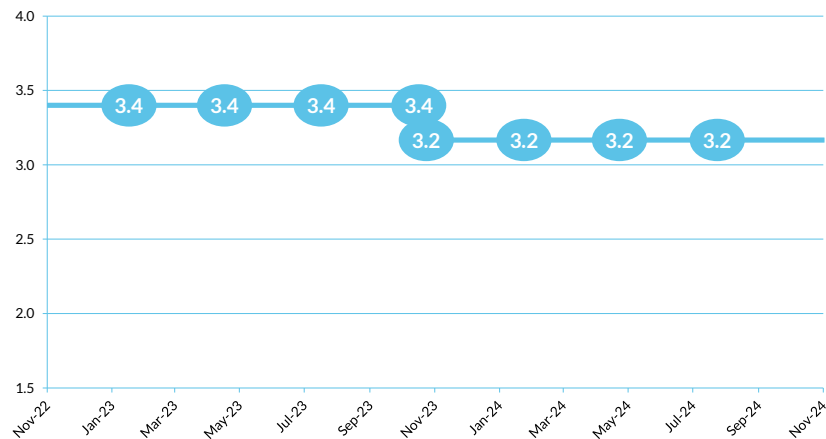
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	57	74	14
Scope 2	42,195	56,827	51,264
Scope 3	445,983	652,730	722,814
Total emissions	488,235	709,631	774,092

Source: Company data, RHB

Latest ESG-Related Developments

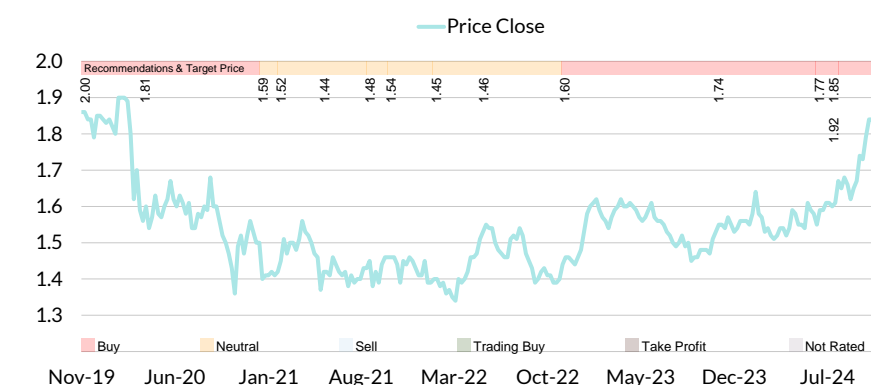
- Has an internal carbon pricing framework at MYR15 per tonne of CO₂ emitted.
- The first M-REIT to implement a Green Lease Partnership programme.
- Was excluded from FTSE Indexes, including FTSE4Good because of low liquidity trading volume.
- On Oct 2024, Sunway REIT completed its maiden issuance of MYR500m sustainability-linked rated perpetual securities

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-26	Buy	1.92	1.69
2024-08-16	Buy	1.85	1.67
2024-06-23	Buy	1.77	1.58
2023-11-17	Buy	1.74	1.55
2023-11-06	Buy	1.74	1.53
2022-11-20	Buy	1.60	1.40
2022-08-19	Neutral	1.46	1.54
2022-05-19	Neutral	1.46	1.52
2022-01-31	Neutral	1.45	1.39
2021-10-20	Neutral	1.54	1.46
2021-09-01	Neutral	1.48	1.43
2021-05-20	Neutral	1.44	1.40
2021-02-10	Neutral	1.52	1.42
2020-12-31	Neutral	1.59	1.50
2020-04-06	Buy	1.81	1.58

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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