

HLIB Research

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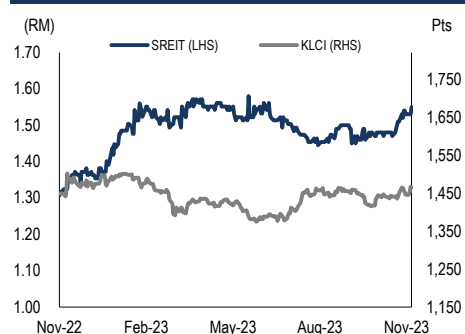
BUY (Maintain)

Target Price: **RM1.89**
Previously: **RM1.89**
Current Price: **RM1.55**

Capital upside	21.9%
Dividend yield	6.2%
Expected total return	28.1%

Sector coverage: REIT

Company description: Sunway REIT is one of the largest retail focused REIT that is strategically located across award-winning integrated townships in key locations within Klang Valley, Penang and Perak.

Share price


Historical return (%)	1M	3M	12M
Absolute	4.7	3.3	11.5
Relative	3.3	2.2	10.3

Stock information

Bloomberg ticker	SREIT MK
Bursa code	5176
Issued shares (m)	3,425
Market capitalisation (RM m)	5,308
3-mth average volume ('000)	3,291
SC Shariah compliant	No
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

Sunway Bhd	40.9%
EPF	15.6%
KWAP	5.9%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PAT – core (RM m)	328.2	341.6	364.9
EPU – core (sen)	9.6	10.0	10.7
P/E (x)	16.2	15.5	14.5

Sunway REIT

Results in line

Sunway REIT's 3Q23 core net profit of RM87m (+29.3% QoQ, +0.07% YoY) brought 9M23's sum to RM245.7m (+2.6% YoY). The results were inline with ours and street expectations at 71.9% and 73% respectively. Looking ahead, Sunway REIT's performance is expected to stay buoyant in the upcoming quarter as the Christmas holiday season nears, mainly supported by higher tourist arrivals further boosting its hotel occupancy, as well as higher retail sales and footfall among its retail properties. We maintain our BUY call and TP of RM1.89 based on FY24 DPU on targeted yield of 5.3%.

Within expectations. 3Q23 core net profit of RM87m (+29.3% QoQ, +0.1% YoY) brought 9M23's sum to RM245.7m (+2.6% YoY). The results were in line with ours (71.9%) and consensus expectations (73%).

Dividend. None declared, usually in 2Q and 4Q. (YTD: 4.62 sen vs SPLY: 4.22 sen)

QoQ. Revenue rose 5.6% mainly due to the improvement in the hotel segment (+59.8%), which was partially offset by the services segment (-13.8%). The increment from hotel segment was contributed by improvements across all hotels, especially Sunway Resort Hotel given full room inventory since Jul 2023. The decline in the services segment was due to the disposal of Sunway Medical Centre which was completed on end Aug 2023. However, core net profit increased by a larger margin of 29.3% due to lower property opex (-22.4%).

YoY. Revenue grew by 5.8%, fueled by the growth in the hotel segment (+51.3%) and retail segment (+1.3%). Growth in the hotel segment was due to higher tourist arrivals (especially from the Middle East as 3Q is their school holiday period), boosting hotel occupancy, as well as full room inventory from Sunway Resort Hotel. On the other hand, growth in retail was due to sustained retail sales and footfall for all its malls, especially Sunway Carnival Mall. However, core net profit was flat (+0.07%) due to the surge in finance costs (+32.1%; impact of OPR hikes).

YTD. Revenue increased by 13% due to the same reasons as mentioned in the YoY paragraph. However, core net profit increased by a smaller margin of 2.6% as a result of higher property opex (+21%) and finance costs (+43.9%).

Occupancy and gearing. Occupancy for the hotel segment improved to 63% for 9M23 (9M22: 54%), driven by a stronger pickup in tourist, corporate and MICE activities. Retail and office segment occupancy remained steady at 97% and 83% respectively. Gearing stood at 37.4%.

Outlook. We anticipate another comparable performance QoQ by SunREIT in 4Q23 mainly driven by (i) continued strong recovery in Malaysia's tourist arrivals, further boosting its hotel occupancy, and (ii) stronger tenant sales / footfall among its retail properties on the back of the upcoming Christmas holiday season. On another note, management has guided that Sunway REIT Industrial – PJ 1 has secured a new tenant, taking up 22% of total NLA, with potential additional tenants in the pipeline. Should additional new tenants be secured, FY24 results would be further bolstered by stronger industrial segment earnings.

Forecast. No change.

Maintain BUY, TP: RM1.89. Our TP is based on FY24 DPU on targeted yield of 5.3%, derived from -1SD below 5-year historical average yield spread between Sunway REIT and MAGY10YR. We continue to like Sunway REIT in view of its

diversified portfolio of properties across the retail, hospitality, office, education and industrial segments. Maintain **BUY**.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY21*	FY22	FY23f	FY24f	FY25f
Cash	290.5	251.2	134.9	108.5	81.7
Receivables	48.1	44.6	28.0	29.6	30.3
Investment properties	8,701.7	9,052.5	9,192.5	9,242.5	9,292.5
PPE	11.6	15.8	9.9	9.4	9.0
Others	98.6	49.3	49.3	49.3	49.3
Total Assets	9,150.5	9,413.4	9,414.6	9,439.3	9,462.8
Payables	208.8	251.2	335.6	361.9	371.3
Debt	3,745.1	3,876.5	3,926.5	3,977.5	4,029.5
Others	71.1	97.4	(46.0)	(109.5)	(158.7)
Liabilities	4,025.0	4,225.1	4,216.1	4,229.8	4,242.1
Unitholders' capital	3,433.9	3,433.9	3,433.9	3,433.9	3,433.9
Undistributed profit	1,691.6	1,754.4	1,764.6	1,775.6	1,786.8
Equity	5,125.5	5,188.3	5,198.5	5,209.5	5,220.7
Total Liab & Equity	9,150.5	9,413.4	9,414.6	9,439.3	9,462.8

Income Statement

FYE Dec	FY21*	FY22	FY23f	FY24f	FY25f
Rental income	474.1	467.0	512.8	554.2	569.3
Hotel/ Hospital lease	128.0	122.3	135.2	130.3	131.3
Car park income	26.9	30.2	28.7	28.7	28.8
Other revenue	26.9	19.9	23.9	27.5	28.9
Gross revenue	656.0	639.5	700.7	740.7	758.3
Operating expenses	-218.5	-151.2	-181.4	-195.6	-200.7
Net property income	437.5	488.3	519.3	545.1	557.6
Other income and others	-45.9	4.9	6.0	6.0	6.0
Net investment income	391.6	493.1	525.3	551.1	563.6
Non opex and trust exp	-197.0	-147.2	-182.7	-185.3	-187.5
PBT	194.6	345.9	342.5	365.8	376.1
Taxation	0.9	-	(0.9)	(0.9)	(0.9)
PAT	195.5	345.9	341.6	364.9	375.2
PAT (core)	221.9	328.2	341.6	364.9	375.2

Cash Flow Statement

FYE Dec	FY21*	FY22	FY23f	FY24f	FY25f
PBT	194.6	332.9	342.5	365.8	376.1
Depreciation	3.6	2.9	2.9	2.7	2.6
Finance costs	-137.0	-100.1	-110.1	-111.7	-113.3
Others	371.3	199.3	199.3	199.3	199.3
CFO	432.5	435.0	434.7	456.2	464.7
Capex	-302.4	-245.7	-50.0	-50.0	-50.0
Investment & others	-272.6	-19.8	-219.6	-129.6	-129.6
CFI	-575.0	-265.5	-269.6	-179.6	-179.6
Debt raised/ (repaid)	677.2	147.7	50.0	51.0	52.0
Distribution to unitholders	-178.8	-240.4	-331.4	-354.0	-363.9
Others	-167.3	-116.0	0.0	0.0	0.0
CFF	331.2	-208.8	-281.4	-303.0	-311.9
Net cash flow	188.7	-39.3	-116.3	-26.4	-26.8
Beginning cash	101.8	290.5	251.2	134.9	108.5
Ending cash	290.5	251.2	134.9	108.5	81.7

Valuation & Ratios

FYE Dec	FY21*	FY22	FY23f	FY24f	FY25f
Core EPU (sen)	6.5	9.6	10.0	10.7	11.0
P/E (x)	23.9	16.2	15.5	14.5	14.1
EBITDA	261.7	448.8	455.6	480.2	492.0
EBIT	259.3	445.9	452.7	477.5	489.4
EV	8,423.3	8,594.0	8,760.3	8,837.7	8,916.6
EV/EBITDA (x)	32.2	19.1	19.2	18.4	18.1
DPU (sen)	4.1	9.2	9.6	10.0	10.2
Dividend yield	3.9	5.9	6.2	6.5	6.6
NTA/ share (sen)	149.7	151.5	151.8	152.1	152.4
P/ NTA	1.0	1.0	1.0	1.0	1.0
BVPS (RM)	1.50	1.51	1.52	1.52	1.52
P/B (x)	1.0	1.0	1.0	1.0	1.0
EBITDA margin	59.8%	70.2%	65.0%	64.8%	64.9%
EBIT margin	59.3%	69.7%	64.6%	64.5%	64.5%
PBT margin	29.7%	54.1%	48.9%	49.4%	49.6%
Net margin	33.8%	51.3%	48.8%	49.3%	49.5%
ROE	2.5%	6.2%	6.6%	7.0%	7.2%
ROA	1.6%	3.5%	3.6%	3.9%	4.0%
Net gearing	34.0%	34.9%	36.7%	37.4%	38.1%

Assumptions

FYE Dec	FY23f	FY24f	FY25f
Sunway Pyramid Shopping Mall	314.8	323.8	333.2
Sunway Carnival Shopping Mall	69.5	70.7	72.6
SunCity Ipoh Hypermarket	3.8	3.8	3.9
Sunway Putra Mall	44.8	45.6	46.4
Menara Sunway	18.8	19.2	19.6
Sunway Tower	8.6	8.7	8.8
Sunway Putra Tower	13.3	13.6	13.9
Wisma Sunway Shah Alam	7.5	7.6	7.6
The Pinnacle Sunway	36.1	36.4	36.8
Sunway Resort Hotel & Spa	48.4	58.1	58.2
Pyramid Tower Hotel	8.4	8.5	8.7
Sunway H Seberang Jaya	1.5	1.6	1.6
Sunway Putra Hotel	21.3	21.6	21.8
Sunway Hotel Georgetown	7.1	7.2	7.3
Sunway Lagoon Hotel (Clio Hotel)	26.6	27.1	27.5
Sunway Medical Centre	15.5	-	-
Sunway REIT Industrial - Shah Alam1	6.3	6.3	6.3
Education	37.7	38.9	40.0
	690.1	698.6	714.1

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)
Gross revenue	166.2	166.5	175.8	5.6%	5.8%	464.7	525.2	13.0%
<i>Retail Segment</i>	110.3	110.9	111.8	0.8%	1.3%	310.1	349.0	12.5%
<i>Hotel Segment</i>	18.4	17.5	27.9	59.8%	51.3%	42.9	63.8	48.6%
<i>Office Segment</i>	20.0	20.5	20.7	0.9%	3.4%	59.2	61.6	4.0%
<i>Services</i>	15.8	16.0	13.8	-13.8%	-12.6%	47.4	45.7	-3.5%
<i>Industrial & Others</i>	1.7	1.7	1.7	-0.1%	-0.1%	5.1	5.1	0.0%
Property opex	-38.0	-50.3	-39.1	-22.4%	2.9%	-110.7	-133.9	21.0%
Quit rent and insurance	-4.1	-4.4	-4.4	0.5%	8.3%	-11.4	-13.1	14.9%
Other property opex	-33.9	-46.0	-34.7	-24.5%	2.2%	-99.3	-120.9	21.7%
Net property income	128.2	116.2	136.8	17.7%	6.6%	354.1	391.2	10.5%
<i>NPI Retail Segment</i>	80.5	69.5	81.8	17.8%	1.7%	222.4	241.2	8.5%
<i>NPI Hotel Segment</i>	17.5	16.5	26.9	62.9%	53.3%	40.0	60.9	52.2%
<i>NPI Office Segment</i>	12.8	12.9	12.8	-0.5%	0.4%	39.2	39.2	0.0%
<i>NPI Services</i>	15.8	16.0	13.8	-13.8%	-12.6%	47.4	45.7	-3.5%
<i>NPI Industrial & Others</i>	1.7	1.3	1.4	6.2%	-15.4%	5.1	4.1	-18.5%
Other income	1.2	1.5	1.6	5.5%	27.2%	3.6	5.2	44.0%
Net investment income	129.5	117.7	138.3	17.5%	6.8%	357.6	396.4	10.8%
Finance costs	-26.1	-34.0	-34.5	1.5%	32.0%	-69.8	-100.4	43.9%
Core PBT	86.9	67.2	87.0	29.3%	0.1%	239.6	245.7	2.6%
Core PAT	86.9	67.2	87.0	29.3%	0.1%	239.6	245.7	2.6%
EPU (sen)	2.54	1.96	2.54	29.6%	0.0%	7.0	7.2	2.4%
DPU (sen)	0.00	4.62	0.00	-100.0%	N.M.	4.2	4.6	9.5%

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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