

Sunway REIT (SREIT MK)

3Q23: Earnings on track

Maintain HOLD

3Q23 earnings were within expectations with 9M23 core net profit at 73%/70% of our/consensus' full year estimates. Revenue was mainly lifted by stronger pickup in the hotel segment with higher tourist arrivals. Earnings YoY however was offset by higher utilities and finance costs. No change to our earnings forecasts and DDM-TP of MYR1.54 (Ke: 8.4%, LTG: 1%). Maintain HOLD. For retail REIT, we prefer PREIT MK (BUY, CP: MYR1.22, TP: MYR1.41).

Growth led by hotel segment

3Q23 core earnings were MYR86.9m (unchanged YoY, +29% QoQ), bringing 9M23 to MYR245.6m (+2.6% YoY). YoY, 3Q23 revenue increased +6%, largely encouraged by the hotel segment (+51%) due to improvement in the average occupancy rate to 63% for 9M23 (vs. 9M22: 54%). The improvement in revenue was also contributed by the full 460-room inventory at Sunway Resort Hotel & Spa in July 2023 (after phased reopening in May 2022). Retail and office segments remained largely stable. YoY, 3Q23 earnings however was largely unchanged, dragged by higher finance cost (+32%). Similarly, QoQ earnings growth was also lifted by the hotel segment.

Unchanged earnings forecasts

Our earnings forecasts have incorporated S.Pyramid Mall's (52% of FY23E revenue) one-year reconfiguration of an anchor tenant area (Aeon) (c.11% of NLA or 2% of the mall's revenue) from 4Q23. The refurbishment works at S.Pyramid Mall and S.Carnival Mall (phase 2) are expected to marginally impact earnings in 4Q23 and FY24. Meanwhile, the acquisition of 6 hypermarkets (Giant) is expected to complete by end-4Q23.

Looking ahead

SREIT's earnings trajectory mainly comes from sustained recovery from its Retail and Hospitality assets, on the back of 1) full year income contribution from S.Carnival Mall (new wing), and 2) S.Resort Hotel operating in full capacity from July 2023 onwards. Gearing level is expected to remain <45%, post-acquisition of 6 hypermarkets (Giant).

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	676	651	694	757	782
Net property income	457	500	507	557	576
Core net profit	222	329	335	370	387
Core EPU (sen)	7.0	9.6	9.8	10.8	11.3
Core EPU growth (%)	(10.2)	37.7	1.9	10.4	4.6
Net DPU (sen)	5.4	8.3	8.8	9.7	10.1
Net DPU growth (%)	(18.5)	54.3	5.9	10.4	4.6
P/NTA (x)	0.9	0.9	1.0	1.0	1.0
Net DPU yield (%)	3.8	5.7	5.7	6.3	6.5
ROAE (%)	4.1	6.3	6.6	7.5	7.8
ROAA (%)	2.5	3.5	3.5	3.9	4.0
Debt/Assets (x)	0.37	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	8.6	9.0	9.3
MIBG vs. Consensus (%)	-	-	1.7	7.8	9.0

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HOLD

Share Price	MYR 1.55
12m Price Target	MYR 1.54 (+5%)
Previous Price Target	MYR 1.54

Company Description

Sunway REIT primarily invests and manages a real estate portfolio which consists of retail, office and hospitality assets.

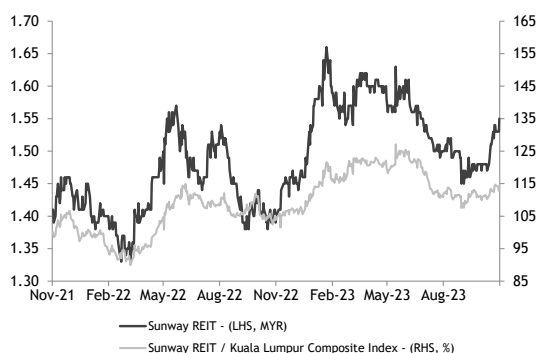
Statistics

52w high/low (MYR)	1.66/1.40
3m avg turnover (USDm)	1.0
Free float (%)	84.7
Issued shares (m)	3,425
Market capitalisation	MYR5.3B
	USD1.1B

Major shareholders:

Employees Provident Fund	15.3%
Kumpulan Wang Persaraan	5.8%
The Vanguard Group, Inc.	2.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	3	12
Relative to index (%)	3	3	10

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	3Q23	3Q22	% YoY	2Q23	% QoQ	9M23	9M22	% YoY
Gross revenue	175.8	166.2	5.8	166.5	5.6	525.2	464.7	13.0
Net property income	136.8	128.2	6.6	116.2	17.7	391.2	354.1	10.5
Other income	1.6	1.2	27.2	1.5	5.5	5.2	3.6	44.9
Non-property expenses	(11.9)	(11.4)	3.6	(11.5)	3.2	(35.4)	(33.4)	6.0
Finance costs	(34.5)	(26.1)	32.0	(34.0)	1.5	(100.4)	(69.8)	43.9
Fair value gain/(loss)	-	-	NA	-	NA	-	18.3	(100.0)
Pretax profit	92.0	91.9	0.1	72.2	27.4	260.6	272.7	(4.4)
Tax	-	-	NA	-	NA	-	-	NA
Net profit	92.0	91.9	0.1	72.2	27.4	260.6	272.7	(4.4)
- Perpetual note holders	5.0	5.0	0.0	5.0	1.1	14.9	14.9	0.0
- Unrealised profit/loss	0.0	0.0	24.1	0.0	2.9	0.1	18.3	(99.4)
Net profit ex-EI	86.9	86.9	0.1	67.2	29.4	245.6	239.5	2.6
Distributable income	86.9	95.0	(8.5)	67.2	29.4	245.6	247.6	(0.8)
EPU ex-EI (sen)	2.5	2.5	0.0	2.0	29.6	7.2	7.0	2.4
Gross DPU (sen)*	-	-	NA	4.6	(100.0)	4.6	4.2	9.5
	3Q23	3Q22	+/- ppt	2Q23	+/- ppt	9M23	9M22	+/- ppt
<i>Net property margin (%)</i>	77.8	77.1	0.6	69.8	8.0	74.5	76.2	(1.7)
<i>Net income ex-EI margin (%)</i>	49.4	52.3	(2.8)	40.4	9.1	46.8	51.5	(4.8)
<u>SEGMENTAL</u>	3Q23	3Q22	% YoY	2Q23	% QoQ	9M23	9M22	2QFY23
<u>Revenue</u>								
Sunway Pyramid	82.5	81.8	0.8	83.9	(1.7)	260.8	237.9	9.6
Sunway Carnival	16.6	15.0	10.5	13.2	25.8	48.1	33.7	42.7
SunCity Ipoh Hypermarket	0.9	0.8	14.1	0.8	12.7	2.4	2.5	(1.7)
Sunway Putra Mall	11.8	12.7	(7.2)	13.0	(9.0)	37.5	36.0	4.2
Sunway Pier	0.1	0.0	28.6	0.1	10.5	0.2	0.1	86.7
Revenue - Retail	111.8	110.3	1.3	110.9	0.8	349.0	310.1	12.5
Sunway Resort	10.4	3.7	>100	3.7	>100	16.6	4.3	>100
Sunway Pyramid Hotel	8.2	7.7	6.1	6.7	22.4	23.3	8.4	>100
Sunway Hotel Seberang Jaya	0.8	0.4	>100	0.6	44.3	2.0	0.9	>100
Sunway Putra Hotel	3.1	1.8	73.0	1.8	71.4	8.0	4.5	77.1
Sunway Hotel Georgetown	1.7	1.2	46.1	1.7	1.8	5.0	5.1	(2.6)
Sunway Lagoon Hotel	3.6	3.7	(2.5)	3.0	21.8	9.0	19.8	(54.6)
Revenue - Hotel	27.9	18.4	51.3	17.5	59.8	63.8	42.9	48.6
Menara Sunway	4.2	4.2	0.2	4.3	(1.1)	12.9	13.0	(0.8)
Sunway Tower	1.2	1.0	28.1	1.1	11.5	3.4	2.6	31.4
Sunway Putra Tower	3.1	3.3	(5.0)	3.1	0.2	9.2	9.7	(5.0)
Wisma Sunway	1.7	1.7	0.1	1.7	0.4	5.2	5.2	0.4
The Pinnacle Sunway	10.4	9.8	5.8	10.3	0.9	30.9	28.7	7.4
Revenue - Office	20.7	20.0	3.4	20.5	0.9	61.6	59.2	4.0
Sunway Medical Centre	4.4	6.6	(33.3)	6.6	(33.3)	17.6	19.8	(11.1)
Sunway REIT Industrial - Shah Alam 1	1.7	1.7	(0.1)	1.7	(0.1)	5.1	5.1	0.0
Sunway REIT Industrial - Petaling Jaya 1	-	-	NA	0	NA	-	-	NA
Sunway University & College Campus	9.4	9.2	2.3	9.4	0.0	28.1	27.5	2.1
Revenue - Others	15.5	17.5	(11.4)	17.7	(12.5)	50.8	52.4	(3.1)
Total revenue	175.8	166.2	5.8	166.5	5.6	525.2	464.7	13.0

Distribution frequency has been changed to semi-annually from quarterly

Source: Sunway REIT, Maybank IBG Research

Fig 1: Results summary (continued)

FY Dec (MYR m)	Quarterly					Cumulative		
	3Q23	3Q22	% YoY	2Q23	% QoQ	9M23	9M22	% YoY
SEGMENTAL								
Net property income								
Sunway Pyramid	64.9	65.1	(0.4)	57.6	12.7	196.1	187.1	4.8
Sunway Carnival	9.7	7.6	27.0	5.7	69.6	25.5	15.0	70.3
SunCity Ipoh Hypermarket	0.9	0.8	15.4	0.8	13.8	2.4	2.4	(0.2)
Sunway Putra Mall	6.5	7.0	(7.7)	5.6	16.7	17.6	18.2	(3.7)
Sunway Pier	(0.1)	(0.1)	56.0	(0.2)	(23.5)	17.6	18.2	(3.7)
NPI - Retail	81.8	80.5	1.7	69.5	17.8	241.2	222.4	8.5
Sunway Resort	10.1	3.4	>100	3.5	>100	15.8	3.7	>100
Sunway Pyramid Hotel	8.1	7.6	6.8	6.5	24.5	22.7	7.9	>100
Sunway Hotel Seberang Jaya	0.8	0.3	>100	0.5	50.8	1.9	0.8	>100
Sunway Putra Hotel	2.8	1.6	75.3	1.5	87.7	7.0	3.6	92.9
Sunway Hotel Georgetown	1.7	1.1	47.8	1.6	1.9	4.8	4.9	(3.0)
Sunway Lagoon Hotel	3.5	3.5	(0.1)	2.9	22.1	8.8	19.1	(54.2)
NPI - Hotel	26.9	17.5	53.4	16.5	62.9	60.9	40.0	52.2
Menara Sunway	2.5	2.7	(5.4)	2.5	2.8	7.8	8.2	(5.0)
Sunway Tower	(0.3)	(0.2)	55.8	(0.2)	42.2	(0.4)	0.4	<-100
Sunway Putra Tower	1.8	2.0	(8.9)	1.8	(1.4)	5.5	6.2	(10.3)
Wisma Sunway	1.0	1.0	(0.8)	1.0	(0.1)	3.0	2.9	4.0
The Pinnacle Sunway	7.8	7.3	6.8	7.8	(0.2)	23.3	21.5	8.3
NPI - Office	12.8	12.8	0.4	12.9	(0.5)	39.2	39.2	0.0
Sunway Medical Centre	4.4	6.6	(33.3)	6.6	(33.3)	17.6	19.8	(11.1)
Sunway REIT Industrial - Shah Alam 1	1.7	1.7	(0.1)	1.7	(0.1)	5.0	5.1	(1.0)
Sunway REIT Industrial - Petaling Jaya 1	(0.3)	-	NM	(0.3)	(24.6)	-0.9	-	NM
Sunway University & College Campus	9.4	9.2	2.3	9.4	0.0	28.1	27.5	2.1
NPI - Others	15.2	17.5	(12.9)	17.3	(12.2)	49.9	52.4	(4.9)
Total	136.8	128.2	6.6	116.2	17.7	391.2	354.0	10.5

Source: Sunway REIT, Maybank IBG Research

Risk statement

There are several risk factors to our earnings estimates, target price and rating for SREIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for SREIT. About 19% of Sunway Pyramid's NLA is due for lease renewal in FY24, while 62% of SREIT's borrowings are on floating rates. Another earnings risk would be if another pandemic occurs. There are also potential DPU impact due to changes in master leases.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Price/DPU(x)	26.2	17.6	17.6	16.0	15.3
P/BV (x)	0.9	1.0	1.0	1.0	1.0
P/NTA (x)	0.9	0.9	1.0	1.0	1.0
DPU yield (%)	4.2	6.3	6.3	7.0	7.3
FCF yield (%)	nm	1.7	6.9	9.3	9.4

INCOME STATEMENT (MYR m)

Revenue	675.6	651.4	693.9	756.9	782.0
Net property income	457.1	500.2	506.8	557.1	575.8
Management and trustee fees	(60.0)	(47.2)	(49.0)	(50.8)	(51.6)
Net financing costs	(125.5)	(95.2)	(113.9)	(116.7)	(117.4)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(76.9)	(25.0)	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
Pretax profit	194.6	332.9	343.9	389.6	406.7
Income tax	0.9	(9.3)	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	195.5	323.6	343.9	389.6	406.7
Core net profit	221.9	328.7	334.9	369.7	386.8
Distributable inc to unitholders	221.9	328.7	334.9	369.7	386.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	290.5	251.2	287.0	310.9	323.7
Accounts receivable	48.1	44.6	47.5	51.8	53.5
Property, Plant & Equip (net)	11.6	15.8	15.8	15.8	15.8
Investment properties	8,738.3	8,671.0	8,771.0	8,789.0	8,807.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	62.1	430.8	433.7	436.5	439.4
Total assets	9,150.5	9,413.4	9,554.9	9,604.0	9,639.4
ST interest bearing debt	1,595.4	1,636.8	1,636.8	1,636.8	1,636.8
Accounts payable	208.8	234.8	250.1	272.8	281.8
LT interest bearing debt	1,810.0	1,900.0	2,020.0	2,040.0	2,060.0
Other liabilities	71.1	113.8	113.8	113.8	113.8
Total Liabilities	3,685.3	3,885.4	4,020.7	4,063.4	4,092.5
Shareholders Equity	5,125.5	5,188.3	5,194.5	5,200.8	5,207.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	5,125.5	5,188.3	5,194.5	5,200.8	5,207.2
Total liabilities and equity	9,150.5	9,413.4	9,554.9	9,604.0	9,639.4

CASH FLOW (MYR m)

Cash flow from operations	432.5	435.0	468.9	512.6	519.4
Capex	(715.6)	(350.2)	(100.0)	(18.0)	(18.0)
Acquisitions & investments	0.0	0.0	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	140.6	84.7	0.0	0.0	0.0
CF from investing activities	(575.0)	(265.5)	(100.0)	(18.0)	(18.0)
Dividends paid	(178.8)	(240.4)	(334.3)	(369.1)	(386.2)
Interest expense	0.0	0.0	0.0	0.0	0.0
Change in debt	(40.1)	131.4	120.0	20.0	20.0
Equity raised / (purchased)	706.0	0.0	0.0	0.0	0.0
Other financial activities	(137.4)	(96.0)	(118.8)	(121.6)	(122.4)
CF from financing activities	349.8	(205.0)	(333.1)	(470.7)	(488.6)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	207.3	(35.6)	35.8	23.9	12.8

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	21.3	(3.6)	6.5	9.1	3.3
Net property income growth	9.7	9.4	1.3	9.9	3.3
Core net profit growth	(2.9)	48.1	1.9	10.4	4.6
Distributable income growth	(3.1)	48.1	1.9	10.4	4.6
Profitability ratios (%)					
Net property income margin	67.7	76.8	73.0	73.6	73.6
Core net profit margin	32.8	50.4	48.3	48.8	49.5
Payout ratio	87.6	87.8	87.5	85.3	85.5
DuPont analysis					
Total return margin (%)	28.9	49.7	49.6	51.5	52.0
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.8	1.8	1.8	1.9
ROAE (%)	4.1	6.3	6.6	7.5	7.8
ROAA (%)	2.5	3.5	3.5	3.9	4.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.4	2.4	2.4	2.4
Net gearing (%) (excl. perps)	60.8	63.3	64.9	64.7	64.8
Net interest cover (x)	3.2	4.8	4.0	4.3	4.5
Debt/EBITDA (x)	8.5	7.8	7.9	7.2	7.0
Capex/revenue (%)	105.9	53.8	14.4	2.4	2.3
Net debt/ (net cash)	3,114.8	3,285.5	3,369.8	3,365.9	3,373.1
Debt/Assets (x)	0.37	0.38	0.38	0.38	0.38

Source: Company; Maybank IBG Research

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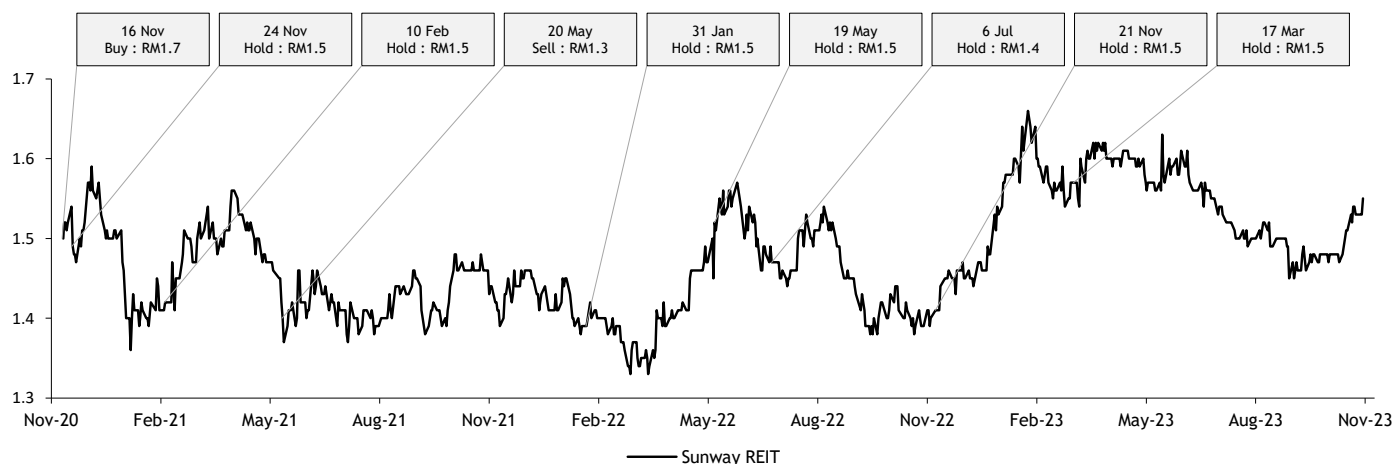
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