

17 November 2023

Property | REITS

Sunway REIT (SREIT MK)

Buy (Maintained)

Hotels Recovery Supporting Growth; BUY

Target Price (Return): MYR1.74 (12.1%)
 Price (Market Cap): MYR1.55 (USD1,132m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 4.65m/0.99m

- **Maintain BUY, MYR1.74 TP (Ke: 7.8%), 12% upside and c.7% FY24F yield.** Sunway REIT's 9M23 results were in line with expectations, as the strong recovery in the hotel segment offset the increase in interest and utility costs. On a portfolio basis, management guided that rental reversion reached double digits, partly attributed to the lower base during the pandemic. We like Sunway REIT for its diverse property portfolio, which should drive earnings growth, and its longer-term acquisitions target.
- **Results in line.** 3Q23 core net profit of MYR86.9m (+29.4% QoQ, flat YoY) led to a 9M23 core earnings of MYR245.6m (+2.6% YoY). This is in line with expectations at 74%/73% of ours and Street's estimates. The 9M23 13% revenue growth YoY was driven by recovery in the hotel segment and positive rental reversions in the retail segment. However, this was mostly offset by 21% higher operating expense (mainly utility costs) and 43.9% higher interest expense (average borrowing cost: 3.76%). The REIT recorded a 9M23 DPU of 7.17 sen (9M22: 7 sen).
- **Hotel segment's** 3Q23 revenue (+51% YoY) was boosted by a full inventory of 460 rooms at Sunway Resort Hotel from Jul 2023 onwards following the hotel's phased reopening. The segment's YTD average occupancy rate improved to 63% (9M22: 54%), which in tandem resulted in an increase in average room rate. While we continue to expect occupancy rate to further improve in the coming years as the tourism sector recovers (2019: 69%, 2018: 74%), the already elevated room rates should be maintained at current levels.
- **Retail.** In 3Q23, retail revenue improved 1% YoY, boosted by the strong performance of Sunway Carnival Mall's new wing and positive rental reversion for SunCity Ipoh Hypermarket's anchor tenant. For Sunway Pyramid, the REIT has secured tenants for c.68% of the space previously occupied by AEON (11% of the mall's NLA) as it continues the reconfiguration exercise, which is expected to be completed in 4Q24.
- **Hypermarkets acquisition still ongoing.** Revenue and NPI for the services segment dropped 13% YoY in the quarter following the disposal of Sunway Medical Centre at end-Aug. The proceeds are reserved for the proposed acquisition of six hypermarkets – still pending regulatory approvals. Management hopes the acquisition would be finalised soon and rental contributions can begin by Jan 2024.
- **Earnings forecast.** We make minor adjustments to our earnings forecast and keep our MYR1.74 TP. Our TP incorporates a 4% ESG premium based on our in-house methodology. Key risks: Lower-than-expected occupancy and rental reversion, longer-than-expected delays in acquisitions, and higher-than-expected costs.

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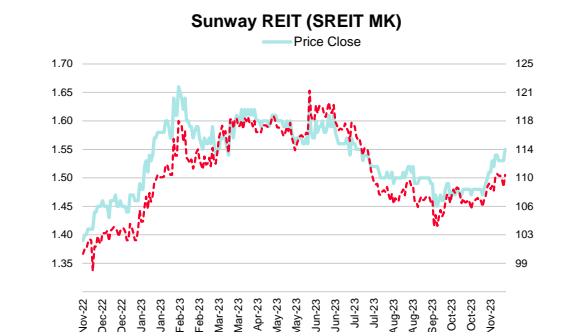


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.2	4.7	3.3	(1.9)	11.5
Relative	8.3	2.9	3.2	(4.8)	10.4
52-wk Price low/high (MYR)				1.40 – 1.66	



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	676	651	702	742	767
Net property income (MYRm)	457	500	517	549	571
Reported net profit (MYRm)	195	324	332	357	376
Total distributable income (MYRm)	222	328	332	357	376
DPS (MYR)	0.06	0.10	0.10	0.10	0.11
DPS growth (%)	(16.5)	47.9	1.2	7.5	5.2
P/B (x)	0.97	0.96	0.96	0.96	0.96
Dividend Yield (%)	4.2	6.2	6.3	6.7	7.1
Return on average equity (%)	3.8	5.9	6.0	6.5	6.8
Return on average assets (%)	2.2	3.5	3.5	3.8	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-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS (MYR)	0.06	0.09	0.10	0.10	0.11
Property	EPS (MYR)	0.06	0.09	0.10	0.10	0.11
Sunway REIT	DPS (MYR)	0.06	0.10	0.10	0.10	0.11
SREIT MK	BVPS (MYR)	1.60	1.61	1.61	1.61	1.61
Buy	Return on average equity (%)	3.8	5.9	6.0	6.5	6.8
	Weighted avg adjusted shares (m)	3,184.94	3,424.81	3,424.81	3,424.81	3,424.81
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Dividend discount model	Recurring P/E (x)	25.25	16.41	15.99	14.87	14.13
	P/E (x)	25.25	16.41	15.99	14.87	14.13
Key drivers	P/B (x)	1.0	1.0	1.0	1.0	1.0
Improvement in domestic consumer sentiment leading to strong consumer spending.	FCF Yield (%)	6.4	6.5	5.3	5.8	6.1
	Dividend Yield (%)	4.2	6.2	6.3	6.7	7.1
Key risks	EV/EBITDA (x)	- 0.30	0.55 -	0.26 -	0.28 -	0.27
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 for its assets.	EV/EBIT (x)	- 0.30	0.55 -	0.26 -	0.28 -	0.27
Company Profile	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Sunway REIT is a large-cap diversified MREIT, with exposure in the retail, commercial, hospitality, and healthcare segments.	Total turnover	676	651	702	742	767
	EBITDA	397	453	461	489	510
	Operating profit	397	453	461	489	510
	Net interest	(126)	(95)	(129)	(142)	(145)
	Pre-tax profit	195	333	332	347	365
	Taxation	1	(9)	0	10	10
	Recurring net profit	195	324	332	357	376
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(55)	19	(30)	9	10
	Cash flow from operations	317	347	281	306	323
	Cash flow from investing activities	(725)	(383)	(593)	0	0
	Dividends paid	(252)	(348)	(332)	(357)	(376)
	Cash flow from financing activities	468	(109)	522	(96)	(115)
	Cash at beginning of period	102	291	251	141	218
	Net change in cash	60	(145)	210	210	208
	Ending balance cash	162	145	461	351	426
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	341	251	141	218	281
	Tangible fixed assets	0	0	0	1	2
	Total investments	8,751	8,688	9,281	9,281	9,281
	Total assets	9,150	9,413	9,456	9,533	9,599
	Short-term debt	1,595	1,637	1,637	1,637	1,637
	Total long-term debt	1,810	1,900	1,990	2,050	2,111
	Total liabilities	3,685	3,885	3,928	4,005	4,071
	Shareholders' equity	5,465	5,528	5,528	5,528	5,528
	Total equity	5,465	5,528	5,528	5,528	5,528
	Net debt	3,065	3,286	3,486	3,468	3,467
	Total liabilities & equity	9,150	9,413	9,456	9,533	9,599
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	21.3	(3.6)	7.8	5.6	3.4
	Recurrent EPS growth (%)	(20.9)	53.9	2.6	7.5	5.2
	Operating EBITDA margin (%)	58.8	69.5	65.7	66.0	66.5
	Net profit margin (%)	28.9	49.7	47.3	48.1	49.0
	Dividend payout ratio (%)	113.5	101.4	100.0	100.0	100.0
	Interest cover (x)	2.90	4.53	3.44	3.32	3.40

Source: Company data, RHB

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 uplift of movement control order. This also led to higher emissions intensity.

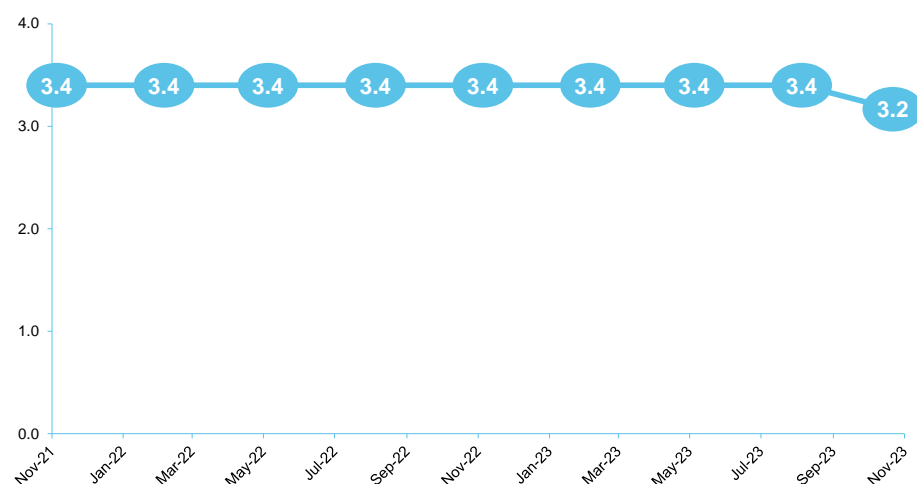
Emissions (tCO2e)	Jun-20	Dec-21	Dec-22
Scope 1	80	52	63
Scope 2	-	12,622	19,371
Scope 3	117,464	84,300	110,695
Total emissions	117,544	96,974	130,129

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.

ESG Rating History



Source: RHB

Results At a Glance

Figure 1: Sunway REIT's results summary

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
Revenue	166.2	166.5	175.8	5.6	5.8	464.7	525.2	13.0	Higher revenue mainly contributed from the hotel segment recovery
Net property income	128.2	116.2	136.8	17.7	6.6	354.1	391.2	10.5	
Interest expense	(26.1)	(34.0)	(34.5)	1.5	32.0	(69.8)	(100.4)	43.9	Full impact of 125bps interest rate hikes since 2022
Interest income	1.2	1.5	1.6	5.5	>100	3.6	5.2	>100	
Pretax profit	91.9	72.2	92.0	27.4	0.1	272.7	260.6	(4.4)	
Tax	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Reported net profit	91.9	72.2	92.0	27.4	0.1	272.7	260.6	(4.4)	
Core net profit	86.9	67.2	86.9	29.4	0.1	239.5	245.6	2.6	In line with expectations
Core earnings per unit (sen)	2.5	2.0	2.5	29.4	0.1	7.0	7.2	2.6	
Dividends per unit (sen)	0.0	4.6	0.0	nm	nm	4.2	4.6	9.5	Dividends declared semi-annually
NPI margin (%)	77.1	69.8	77.8			76.2	74.5		
Pretax margin (%)	55.3	43.4	52.3			58.7	49.6		

Source: Company data

Figure 2: Sunway REIT's segmental revenue

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	% of total revenue
Retail	110.3	110.9	111.8	0.8	1.3	310.0	349.0	12.6	66.4
Hospitality	18.4	17.5	27.9	59.8	51.3	42.9	63.8	48.6	12.2
Office	20.0	20.5	20.7	0.9	3.4	59.2	61.6	4.0	11.7
Services	15.8	16.0	13.8	(13.8)	(12.6)	47.4	45.7	(3.5)	8.7
Industrial	1.7	1.7	1.7	(0.1)	(0.1)	5.1	5.1	0.0	1.0
Total revenue	166.2	166.5	175.8	5.6	5.8	464.6	525.2	13.0	100.0

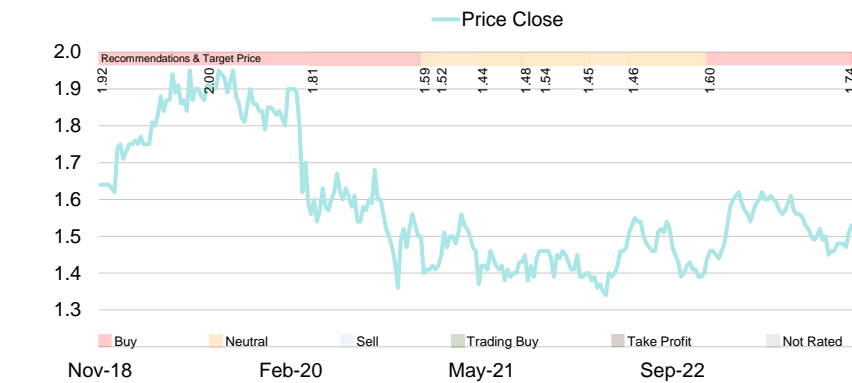
Source: Company data

Figure 3: Sunway REIT's segmental NPI

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	% of total NPI
Retail	80.5	69.5	81.8	17.8	1.7	222.8	241.2	8.3	61.7
Hospitality	17.5	16.5	26.9	62.9	53.4	40.0	60.9	52.2	15.6
Office	12.8	12.9	12.8	(0.5)	0.4	39.2	39.2	0.0	10.0
Services	15.8	16.0	13.8	(13.8)	(12.6)	47.4	45.7	(3.5)	11.7
Industrial	1.7	1.3	1.4	6.2	(15.4)	5.1	4.1	(18.5)	1.1
Total NPI	128.2	116.2	136.8	17.7	6.6	354.4	391.2	10.4	100.0

Source: Company data

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-02-14	Buy	2.00	1.90
2019-11-06	Buy	2.00	1.87
2019-08-09	Buy	2.00	1.91
2019-07-31	Buy	2.00	1.91

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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