

Sunway Real Estate Investment Trust

Robust Hotel Segment Performance

TP: RM1.75 (+12.9%)

Last Traded: RM1.55

BUY (ESG: ★★★★★)

Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

Review

- Sunway REIT's 9M23 realised net profit attributable to unitholders of RM245.6mn (+3% YoY) came within expectations, accounting for 70% and 73% of ours and consensus' full-year estimates, respectively.
- 9M23 distributable income per unit stood at 7.2 sen, this works out to a 6.2% annualised dividend yield.
- Sunway REIT's 9M23 net property income (NPI) increased by 11% YoY to RM391.2mn, driven by a 13% growth in revenue. The improved performance was largely attributable to the strong upsurge in hotel segment performance as well as resilient growth in the retail segment.
- The retail segment's NPI grew 9% YoY to RM241.2mn in 9M23. This growth stemmed from improved retail sales and footfall, amplified by the stronger performance of Sunway Carnival Mall compared to the same period last year, largely attributed to the opening of a new wing in June 2022.
- The hotel segment's NPI surged by 52% YoY to RM60.9mn in 9M23, driven by an increase in the average occupancy rate from 54% to 63%. This growth was fuelled by a robust uptick in domestic travellers during festive seasons and school holidays, a recovery in international travel, and increased demand for MICE activities.
- The office segment sustained stable performance in 9M23, while the service segment saw a slight 3.5% YoY decline in NPI, primarily attributable to the discontinuation of rental income from Sunway Medical Centre (Tower A & B) following the completion of its disposal on 30 August 2023.
- The NPI of the industrial and other segments witnessed a 19% YoY decline, mainly attributed to operating expenses associated with the currently vacant Sunway REIT Industrial – Petaling Jaya I. Management anticipates an improvement in the segment's performance next year, as a tenant, set to occupy 22% of the spaces, is confirmed to commence operation in December. Simultaneously, negotiations with two potential tenants are actively underway to fill the remaining areas.
- 3Q23's realised profit attributable to unitholders jumped 29% QoQ to RM86.9mn, primarily propelled by enhanced performance in the retail segment. Furthermore, the hotel segment, especially Sunway Resort Hotel, significantly contributed to the revenue increase following refurbishments and the full room inventory available since July 2023.

Impact

- Maintain earnings forecasts.

Conference Call Highlights

- The management is cautiously optimistic about the retail segment,

Share Information

Bloomberg Code	SREIT MK
Stock Code	5176
Listing	Main Market
Share Cap (mn)	3,424.8
Market Cap (RMmn)	5,308.5
52-wk Hi/Lo (RM)	1.66/1.36
12-mth Avg Daily Vol ('000 shrs)	1,746.8
Estimated Free Float (%)	27.9
Beta	0.2

Major Shareholders (%)

Sunway Berhad (40.9)
Employees Provident Fund (15.2)
Kumpulan Wang Persaraan (Diperbadankan) (5.8)
Amanah Saham Nasional (5.0)

Forecast Revision

	FY23	FY24
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	353.1	358.9
Consensus	336.5	370.0
TA's / Consensus (%)	104.9	97.0
Previous Rating	Buy (Maintained)	
Consensus TP	1.69	

Financial Indicators

	FY23	FY24
Net gearing (%)	36.0	36.6
CFPS (sen)	19.8	10.0
P/CFPS (x)	7.8	15.5
ROE (%)	6.4	6.5
ROA (%)	3.8	3.9
NTA/Share (RM)	1.5	1.5
Price/ NTA (x)	1.0	1.0

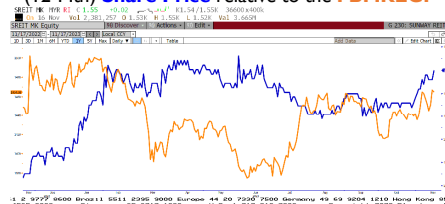
Scorecard

	% of FY	
vs. TA	70.0	Within
vs. Consensus	73.0	Within

Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	4.7	1.4
3 mth	3.3	1.2
6 mth	(1.3)	2.8
12 mth	10.7	1.1

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

highlighting consistent improvements in footfall and tenant sales. YTD rental reversion has touched double digits, largely attributed to the low base effect of lease adjustments during the pandemic, indicating a return to pre-pandemic rental rates. Management anticipates a mid-single digit rental reversion in the retail segment for FY24.

- The office, industrial, and other segments are expected to maintain a stable performance. Management holds a positive outlook for the hotel segment, anticipating ongoing occupancy growth in 2023 driven by domestic leisure, corporate, and MICE activities. Management envisions momentum gaining traction in the 4Q23 and 2024.

Valuation

- No change to our TP of RM1.75/unit, which is based on a target yield of 6.0% to our CY24 DPU projection of 10.5sen/unit. Maintain Buy.

Table I: Earnings Summary (RMmn)

FYE Dec	FP2I**	FY22	FY23f	FY24f	FY25f
Gross Rental Income	675.6	651.4	682.6	698.7	722.1
Net Property Income	457.1	500.2	518.5	527.9	545.9
NPI Margins	67.7	76.8	76.0	75.6	75.6
Adj. Pretax profit	271.6	357.8	373.0	378.8	392.8
Reported Net Profit	195.5	323.6	373.0	378.8	392.8
Realised Net Profit	221.9	328.2	353.1	358.9	372.9
EPU (Sen)	6.7	9.6	10.3	10.5	10.9
EPU Growth (%)	(13.9)	43.4	7.6	1.6	3.9
PER (x) #	34.8	16.2	15.0	14.8	14.2
DPU (sen)	6.1	9.2	10.3	10.5	10.9
Div Yield (%) #	2.6	5.9	6.7	6.8	7.0
ROE (%) #	2.9	6.0	6.4	6.5	6.7

Notes:

** comprising 18-month earnings from Jul-20 to Dec-21

ratios analysis for FP2I are based on annualised figures

Table 2: 9M23 Results Analysis (RM mn)

	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)
Total Revenue	166.2	166.5	175.8	5.6	5.8	464.7	525.2	13.0
- Retail	110.3	110.9	111.8	0.8	1.3	310.1	349.0	12.5
- Hospitality	18.4	17.5	27.9	59.8	51.3	42.9	63.8	48.6
- Office	20.0	20.5	20.7	0.9	3.4	59.3	61.6	4.0
- Services	15.8	16.0	13.8	(13.8)	(12.6)	47.4	45.7	(3.5)
- Industrial & Others	1.7	1.7	1.7	(0.1)	(0.1)	5.1	5.1	0.0
Core Revenue	166.2	166.5	175.8	5.6	5.8	464.7	525.2	13.0
Total Net Property Income	128.2	116.2	136.7	17.7	6.6	354.1	391.2	10.5
- Retail	80.5	69.5	81.8	17.8	1.7	222.4	241.2	8.5
- Hospitality	17.5	16.5	26.9	62.8	53.2	40.0	60.9	52.2
- Office	12.8	12.9	12.8	(0.5)	0.4	39.2	39.2	0.0
- Services	15.8	16.0	13.8	(13.8)	(12.6)	47.4	45.7	(3.5)
- Industrial & Others	1.7	1.3	1.4	6.2	(15.4)	5.1	4.1	(18.5)
Core Net Property Income	128.2	116.2	136.8	17.7	6.6	354.1	391.2	10.5
Change in fair value	0.0	0.0	0.0	0.0	0.0	18.3	0.0	nm
Net Investment Income	129.5	117.7	138.3	17.5	6.8	375.9	396.4	5.5
Manager & Trustee Fee	(11.0)	(10.7)	(11.4)	5.9	2.9	(31.9)	(33.4)	4.8
Finance Costs	(26.1)	(34.0)	(34.5)	1.5	32.0	(69.8)	(100.4)	43.9
Other expenses	(0.4)	(0.7)	(0.5)	(34.5)	24.1	(1.5)	(2.0)	30.6
Income Before Taxation	91.9	72.2	92.0	27.4	0.1	272.7	260.6	(4.4)
Net Profit	91.9	72.2	92.0	27.4	0.1	272.7	260.6	(4.4)
Realised Net Profit – Unitholders	86.9	67.2	86.9	29.4	0.1	239.5	245.6	2.6
Realised Net Profit – Perps Holders	5.0	5.0	5.0	1.1	0.0	14.9	14.9	0.0
Realised EPU (sen)	2.5	2.0	2.5	29.6	0.0	7.0	7.2	2.4
DPU (sen)	2.5	2.0	2.5	29.6	0.0	7.0	7.2	2.4
DPU Declared (sen)	0.0	4.6	0.0	nm	0.0	4.2	4.6	9.5
Core NPI Margin (%)	77.1	69.8	77.8	8.0	0.6	76.2	74.5	(2.2)
Realised Net Margin (%)	52.3	40.4	49.4	9.1	(2.8)	51.5	46.8	(4.8)

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
- HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
- SELL** : Total return is lower than the required rate of return
- Not Rated:** The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★	★★★★	★★★★
Remark	In line with its sponsor, the REIT implements a comprehensive programme aiming to reduce to GHG emission, water & waste with relevant targets and deadlines.	As a real estate operator, Sunway REIT has a low exposure to social risks given that the sector is not labour-intensive. It maintains good community relations, and faces no material safety issues.	60% of its board members are independent, and 40% are female, exceeding the MCCG's requirement of 30%. The REIT holds investor briefings regularly, demonstrating good transparency and disclosure practices.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
- ★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
- ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
- ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
- ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Friday, November 17, 2023, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my