

UOBKH HIGHLIGHTS

Sunway REIT (SREIT MK/HOLD/RM1.55/Target: RM1.68)

3Q23: Results Boosted by Strong Hotel Performance

3Q23 RESULTS

SUMMARY EARNINGS FORECAST

Year to 31 Dec	3Q23 (RMm)	2Q23 (RMm)	qoq % chg	yoy % chg	9M23 (RMm)	yoy % chg	Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Gross revenue	175.8	166.5	5.6	5.8	525.2	13.0	Net Turnover	639.5	719.4	763.7	779.3
Retail	111.8	110.9	0.8	1.3	349.0	12.5	Operating Profit	488.3	531.0	563.0	574.5
Hotel	27.9	17.5	59.8	51.3	63.8	48.6	Net Profit (Reported/Actual)	263.6	365.0	383.0	390.0
Office	20.7	20.5	0.9	3.4	61.6	4.0	Net Profit (Adjusted)	345.9	365.0	383.0	390.0
Others	15.5	17.7	(12.5)	(11.4)	50.8	(3.1)	EPU (sen)	10.2	10.8	11.3	11.5
Operating Expenses	(39.1)	(50.3)	(22.4)	2.9	(133.9)	21.0	DPU (sen)	9.2	10.1	10.6	10.8
Net Property Income	136.8	116.2	17.7	6.6	391.2	10.5	PE (x)	15.2	14.4	13.7	13.5
Retail	81.8	69.5	17.8	1.7	241.2	8.5	P/B (x)	1.0	1.0	1.0	1.0
Hotel	26.9	16.5	62.9	53.4	60.9	52.2	DPU Yld (%)	5.9	6.5	6.8	7.0
Office	12.8	12.9	(0.5)	0.4	39.2	0.0	Net Margin (%)	54.1	50.7	50.1	50.0
Others	15.2	17.3	(12.2)	(12.9)	49.9	(4.9)	Net Debt/(Cash) to Asset (%)	34.0	34.9	35.4	35.2
PAT	92.0	72.2	27.4	0.1	260.6	2.4	Interest Cover (x)	4.9	4.3	4.1	4.1
EPU (sen)	2.7	2.1	27.4	0.1	7.6	2.4	Consensus DPU (sen)		9.8	10.5	10.9
DPU (sen)	0.0	4.6	n.m.	n.m.	4.6	9.5	UOBKH/Consensus (x)		1.0	1.0	1.0

Source: Sunway REIT, UOB Kay Hian

RESULTS

- **Above expectations.** Sunway REIT (SREIT) reported 3Q23 revenue of RM175.8m (+6% qoq, +6% yoy) and core net profit of RM92m (+27% qoq, +0.1% yoy). Cumulative 9M23 core net profit of RM261m (+2.4% yoy) accounted for 75% and 78% of our and consensus' forecasts respectively. We deem the results above expectation on a seasonally stronger 4Q ahead, partly offset by one quarter's revenue loss from the disposal of Sunway Medical Center (net property income contribution of about RM6m per quarter).
- On a qoq basis, revenue and earnings were strong, boosted by robust hotel performance, higher Sunway Carnival Mall contribution (opening of new wing) as well as easing of electricity charges. On a yoy basis, 3Q23 and cumulative 9M23 revenue were boosted by the retail and hotel segments but margin was affected by higher utility and finance costs.

COMMENTS

- **Retail: 3Q23 tenants' sales grew by almost 10% yoy.** This was driven by sustained consumer spending, buoyed by its unique retail offerings. Occupancy rates for the segment held steady at 97%. Rental reversion for 9M23 was positive (low double-digit teens). With many individuals opting to postpone overseas travel, there has been a noticeable shift towards increased local expenditures, which we think will continue to support SREIT's retail segments.
- **Hotel: Strong recovery.** 9M23 hotel revenue improved 60% qoq and 51% yoy with occupancy improving to 63% (2Q23: 60%; 3Q22: 48%). International tourist arrivals from the Middle East, Singapore, China and Indonesia have been the biggest contributor to SREIT's hotel portfolio. We expect momentum to build up further in 4Q23 and hotel occupancy to reach closer to 70% level, in line with its pre-pandemic level. Sunway Resort (which has reopened its refurbished rooms since May 22) has seen its room rates trend higher, reaching RM600-700, compared with around RM400 before the pandemic. We believe this has contributed significantly to the overall strength of the hotel portfolio.
- **Office: 3Q23 revenue up 3% yoy.** This was on the back of stable occupancies (83%) and slight increments in rental reversion. We expect total portfolio rental reversion to be about mid-single digit as the higher reversion from retail segment expected to be offset by the office segment's rental reversion. There will be a considerable number of expiring tenancies in the office segment, with Menara Sunway expecting 66% of its tenancies to expire and Pinnacle anticipating 58% to expire in 2024. We believe this will put pressure on near-term rental reversion for the office segment.
- The completion of acquisition six Giant hypermarkets acquired from EPF still on track and should start contributing in 2024.

EARNINGS REVISION/RISK

- **We increased our net profit forecasts by 3-5% for 2023-25** to account for the stronger hotel and retail performance.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a slightly higher target price of RM1.68 (from RM1.66) as we increase our earnings base.** Our target price is based on a dividend discount model (required rate of return: 8.1%, terminal growth: 1.6%) and implied dividend yield of 5.8%. We reckon current valuation now is fair as SREIT's forward yield spread to MGS of 2.58ppt has narrowed to its five-year historical mean.

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