14 October 2024

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Company Update | **RM1.73 @ 11 October 2024**

"SREIT's earnings to improve as benefits from acquisitions and AEIs begin to materialize"

Share price performance

	1M	3M	12M
Absolute (%)	6.1	7.5	16.9
Rel KLCI (%)	6.5	6.8	2.8

	BUY	HOLD	SELL
Consensus	12	3	-

Source: Bloomberg

Stock Data

Sector	MREIT
Issued shares (m)	3,424.8
Mkt cap (RMm)/(US$m)	5924.9/1381.6
Avg daily vol - 6mth (m)	1.9
52-wk range (RM)	1.46-1.79
Est free float	50.2%
Stock Beta	0.39
Net cash/(debt) (RMm)	(4,202.38)
ROE (CY25E)	6.6%
Derivatives	No
Shariah Compliant	No
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	
ESG Risk Rating*	8.3 (-4.4 yoy)

Key Shareholders

Sunway Berhad	40.9%
EPF	15.3%
KWAP	5.8%
PNB	5.3%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics
** Full ESG commentary inside*

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Sunway REIT (SREIT MK)

BUY (upgrade)
Up/Downside: +18.5%

Price Target: RM2.05
Previous Target (Rating): RM1.70 (Hold)

Upgrade to BUY - a promising earnings outlook

- **We anticipate SREIT's earnings growth to gain momentum, driven by active AEIs / acquisitions and robust organic revenue growth. We anticipate its new acquisitions in 2024 to add about 12-13% to SREIT's 2025E NPI**
- **We forecast SREIT to deliver commendable FY25-26 EPU growth of 5-10% per annum, backed by positive impact from its acquisitions and AEIs**
- **Upgrade to BUY (from Hold) with a higher DDM-derived 12-month TP of RM2.05 (from RM1.70) as we incorporate our revised earnings forecasts and a lower cost of equity of 7.9%**

SREIT's phase of lacklustre earnings has come to an end

We believe SREIT's phase of lacklustre earnings has come to an end, anticipating the REIT to see positive earnings momentum, driven by its active AEIs and acquisitions, which are slated for completion over 2024-27 at a total investment cost of RM1.9bn. We anticipate these initiatives to start bearing fruit in 3Q24, leading to a rebound in SREIT's earnings. Notably, SREIT's acquisition of six Giant hypermarkets for RM550m will deliver a full quarterly contribution in 3Q24. We project the hypermarkets to generate a stable NPI of RM44.3m per annum, which should more than offset the annual NPI loss of RM26.4m from the disposal of Sunway Medical Centre.

We raise our 2024E-26E realized EPU forecasts by 3-8%

We raise our 2024/25/26E realized EPU forecasts by +3.4%/+8.4%/+8.3% after incorporating (i) SREIT's recent acquisition of Kluang Mall in Aug-24, (ii) improved revenue and NPI assumptions from the AEIs; (iii) higher occupancy rates and rental across its retail and hotel assets, in view of the positive, sustained growth momentum and (iv) a lower financing rate assumption, reflecting stable rates as guided by management. Overall, we now project SREIT to deliver a commendable 5%-10% annual realized EPU growth over 2024E-26E, driven by these positive developments.

Upgrade to BUY with a higher target price of RM2.05

We are upgrading SREIT to **BUY** (from Hold) with a higher DDM-derived 12-month target price of RM2.05 (from RM1.70) after incorporating our revised earnings forecasts and a reduced cost of equity of 7.9%. We have lowered SREIT's cost of equity to reflect the moderating global bond yields, SREIT's solid AEI and acquisition pipeline, and its strategic plans to diversify its retail asset base by expanding into underserved suburban retail markets, where supply has lagged behind the rising demand. Downside risks to our view are (i) weaker-than-expected economic growth, (ii) earnings disappointment, (iii) delay in acquisition plans and (iv) steeper-than-expected hike in OPR and global bond yields.

Earnings & Valuation Summary

FYE 31 Dec	2022	2023	2024E	2025E	2026E
Revenue	639.5	704.5	760.9	848.3	887.8
Net property income	488.3	515.8	567.7	633.9	662.5
Reported net profit	303.7	318.3	339.5	374.4	392.1
EPU (sen)	8.9	9.3	9.9	10.9	11.4
Distributable profit	328.2	319.0	339.6	374.5	392.1
Realised net profit	328.2	319.0	339.5	374.4	392.1
Realised EPU (sen)	9.6	9.3	9.9	10.9	11.4
Realised EPU chg (%)	44.5	-2.8	6.4	10.3	4.7
Realised PER (x)	18.1	18.6	17.5	15.8	15.1
DPU (sen)	9.2	9.3	9.9	10.9	11.4
Distribution Yield (%)	5.3	5.4	5.7	6.3	6.6
P/RNAV (x)	1.1	1.1	1.1	1.1	1.1
Chg in EPU (%)			+3.4	+8.4	+8.3
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

A promising earnings outlook

SREIT's acquisitions and AEI projects slated for completion in 2024-27 amount to a total of RM2bn

SREIT's phase of lacklustre earnings has come to an end

We believe SREIT's phase of lacklustre earnings has come to an end, anticipating the REIT to see positive earnings momentum, driven by its active AEIs and acquisitions. We anticipate these initiatives will begin to bear fruit from 3Q24 onwards, positioning SREIT for a rebound in growth. As outlined in Fig 1, SREIT's acquisitions and AEI projects slated for completion in 2024-27 amount to a total of RM1.9bn, underscoring its robust growth trajectory. Collectively, its acquisitions are expected to contribute c.13% to SREIT's FY25E NPI.

Fig 1: SREIT's material events and transactions

Significant events	Transaction value (RMm)	Announcement date	Completion date
Disposal of Sunway Medical Centre	RM430.0	Dec-22	Aug-23
Acquisition of six Giant hypermarkets	RM520.0	Apr-23	Apr-24
Refurbishment of Sunway Pyramid Mall - Oasis Wing	RM190.0	4Q23	4Q24
Refurbishment of Sunway Carnival Mall - Old Wing	RM360.0	Jul-23	3Q25
Sunway Pier redevelopment	RM370.0	2024	4Q26
Acquisition of industrial property in Prai, Penang	RM66.8	Dec-23	Oct-24
Acquisition of 163 Retail Park in Mont Kiara	RM215.0	Jan-24	Oct-24
Acquisition of Kluang Mall in Kluang, Johor	RM158.0	Aug-24	Nov-24

Source: Company

SREIT's acquisition of six Giant hypermarkets for RM550m will deliver a full quarterly contribution in 3Q24

Six Giant hypermarkets acquisition fills NPI void from disposal of Sunway Medical Centre

Notably, SREIT's acquisition of six Giant hypermarkets for RM550m will deliver a full quarterly contribution in 3Q24. The acquisition, completed in Apr-24, swiftly mitigated the RM6.6m quarterly NPI gap left by Sunway Medical Centre, with a two-month NPI contribution of RM7.3m. Overall, we project the Giant hypermarkets to account for 10% of SREIT's retail NPI in FY2025, with 3Q24 NPI from these hypermarkets expected to spike by 51.7% qoq to RM11.1m. Additionally, the assets are positioned for long-term stability, supported by rental reversion rates of 5-10% every five years. This should generate a stable NPI of RM44.3m over the next five years which is expected to more than offset the NPI loss of RM26.4m from the disposal of Sunway Medical Centre, representing 6.9% of SREIT's total NPI.

Leasing terms for Giant Kinrara and Giant Putra Height, originally set to expire on 30 November 2024, have been extended

Triple-net lease arrangement safeguards SREIT's neighbourhood malls from potential downside risk of high tenant turnover and reliance on micro tenants

Our confidence in the six Giant hypermarkets portfolio remains intact, supported by the triple-net-lease structure of the deal. While potential downside risks for neighborhood malls often arise from high tenant turnover and dependence on small-scale retailers, the hypermarkets are well-insulated from these challenges on the back of the triple-net lease agreements, which ensure income stability through fixed rental payments and a 100% secured occupancy rate for the lease term. Importantly, management recently indicated that the leasing terms for Giant Kinrara and Giant Putra Height, originally set to expire on 30 November 2024, have been extended, supported by the stable shopper footfall at both malls. Alongside Giant hypermarkets, SunCity Ipoh Hypermarket also operates under this model, but annual NPI contribution is relatively minor at RM3.5m.

Sunway Pyramid and Sunway Carnival collectively contributed 56% to SREIT's FY23 revenue

Significant AEIs totaling RM550m should result in solid NPI growth

Besides, SREIT is embarking on significant asset enhancement initiatives (AEI) with a total planned capex of RM550m. This includes the (i) refurbishment at Sunway Pyramid Mall – Oasis Precinct (AEI: RM190m, to be opened on 1 November 2024) and (ii) refurbishment of Sunway Carnival Mall (AEI: RM360m, expected completion by 3Q25). Collectively, these malls contributed rental income of RM401.3m in FY23, which accounted for 56.1% of SREIT's overall revenue. They also enjoyed high occupancy rates of 97%- 98% in 2023.

Anticipating a twofold increase in rental rates of the refurbished Sunway Pyramid's Oasis Precint

The refurbished Sunway Pyramid Oasis Precinct is set to open on 1 November 2024

The crown jewel of SREIT, Sunway Pyramid Mall is undergoing a major AEI and the refurbished Sunway Pyramid Oasis Precinct is set to open on 1 November 2024. Previously occupied by AEON for 16 years, the 320k sqft floor space (c.20% of Sunway Pyramid's NLA) has been undergoing refurbishment since 4Q23. We understand that the space will be converted into a multi-tenant configuration, which we view as a strategic move to enhance rental income and diversify the tenant base, thereby reducing reliance on a single anchor tenant.

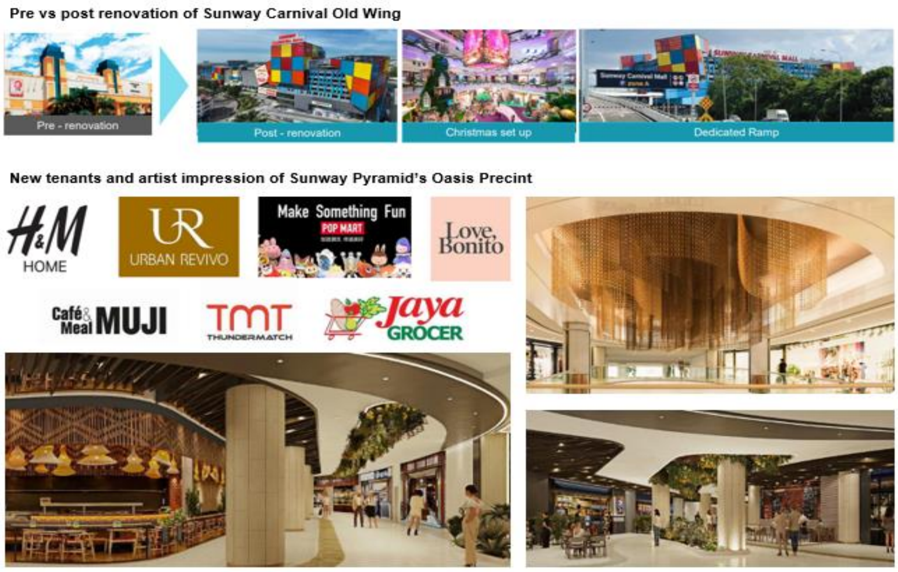
Upon the opening of the new stores, rental rates are projected to increase significantly, ranging from RM10-RM15 psf per month, vs the pre-refurbishment range of RM3-RM8 psf. As of Sep-24, SREIT has secured committed tenants for 90% of the refurbished NLA, totaling 260k sqft. Despite a minor 2% reduction in NLA post-refurbishment, we expect Sunway Pyramid Mall's FY25E rental income to grow by 9.6% yoy, underpinned by the anticipated twofold increase in rental rates for the revamped space.

Post refurbishment, we expect rental rates at Sunway Carnival's Old Wing to catch up with that of the New Wing

Sunway Carnival – a local favorite in an underserved market

Sunway Carnival's Old Wing is undergoing refurbishment works for an NLA of 402k sqf (c. 53% of overall NLA of 752k sqf). This renovation, taking place over a 24-month period in four stages, positions Sunway Carnival as a key branding presence in the underserved Seberang Perai market. Following the completion of the Old Wing refurbishment, we anticipate rental rates will align with those of the New Wing, thereby enhancing Sunway Carnival's FY25E-26E rental revenue and net property income (NPI). Although the asset enhancement initiatives (AEIs) may not yield the same significant earnings boost seen during FY23 from the New Wing expansion, which commenced operations in June 2022, we expect the AEIs to facilitate positive rental reversions for the Old Wing. To recap, the expansion of Carnival Mall New Wing has translated into an improved 5-year average rental rate by c.30% and improved tenant sales psf by c.50%.

Fig 2: SREIT's ongoing asset enhancement initiatives (AEI)



Source: Company

Sunway Pier – a modern seafront destination for retail, leisure, and dining experiences

Sunway Pier – first of its kind retail REIT venture

Sunway Pier is set to undergo a transformative RM370m redevelopment, positioning it as a key tourist destination and landmark in Port Klang, Selangor. Slated for completion by 2027, the project will replace the existing 132.6k sqf terminal buildings with a modern seafront offering retail, leisure, and dining experiences. Its strategic location, connected by ferry and KTM Komuter links, enhances its appeal and accessibility. Inspired by the local charm of Pulau Ketam, a traditional fishermen's village that attracts tourists, SREIT has opted for a more commercialized approach to attract a broader visitor base and drive footfall. Currently, Sunway Pier, a non-core asset acquired in Jan-22 for RM37m, contributed RM235k to SREIT's total retail revenue of RM472.9m in FY23.

Fig 3: Sunway Pier in Port Klang

Source: Sunway REIT 2023 Annual Report

Fig 4: Artist impression for Sunway Pier redevelopment

Source: Sunway REIT 2023 Annual Report

The refurbishment of Sunway Resort Hotel (completed in Jul-23) has helped drive ARR growth

Sunway Resort Hotel's ARR per night doubled to RM600 post-refurbishment

To recap, Sunway Resort Hotel reopened in phases starting May-22, following a RM265.5m refurbishment. This AEI included room and facility upgrades, along with premium food and beverage offerings. With the full inventory of 460 guest rooms (from 200 rooms in May-22) and 3 villas now available, the post-refurbishment average room rate (ARR) has spiked to RM600 per night (from RM300). Although FY23 occupancy of 64% improved by 10ppts yoy, this remains below the pre-pandemic occupancy level of 69% in FY19. Nevertheless, we foresee the full reopening of the hotel in Jul-23 alongside an improving travelling sentiment could position the hotel for further growth driven by its full-room inventory and doubled ARR, with our anticipation of an FY24E-25E NPI growth of 10-14% yoy. To note, Sunway Resort Hotel operates under a hotel master lease agreement, where lease income is derived from leasing the hotel to its lessee, Sunway Resort Hotel Sdn Bhd for a 10-year term (expiring in July-30).

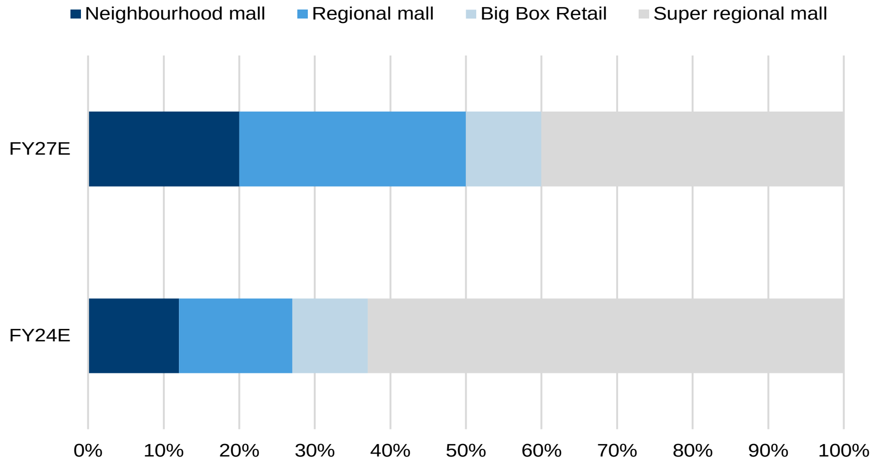
Seizing opportunities in the underserved retail market

While SREIT is a diversified REIT player, the retail portfolio will continue to anchor its growth

Retail segment continues to anchor Sunway REIT's growth

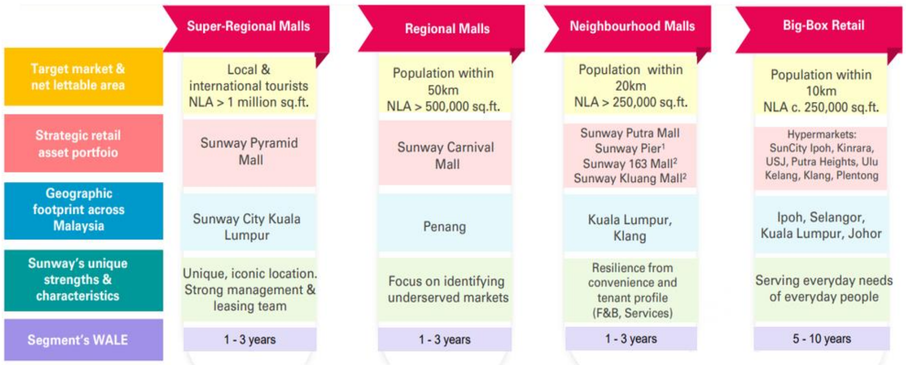
We are positive on SREIT's Transcend 2027 strategy, which aims to elevate asset value to RM14-15bn by FY27E, from RM9.6bn as of 6M24. Originally set forth in 2018, the previous Transcend 2025 roadmap established ambitious targets; however, the disruptions caused by the COVID-19 pandemic necessitate a timely reassessment of Transcend 2025 considering the ongoing impacts and evolving trend in the REIT market. To adapt, SREIT plans to realign its asset class mix and focus strategically on high-growth opportunities, particularly in underserved retail markets. While SREIT remains a diversified REIT player, its retail portfolio continues to anchor growth, contributing approximately 53% to total asset value of c.RM10bn in FY24. This includes 2024 retail acquisitions such as six Giant Hypermarkets, 163 Retail Park, and Kluang Mall, representing a combined investment of RM893m and completion of Sunway Pyramid's AEI of RM190m.

Fig 5: SREIT's shift in retail portfolio based on Transcend 2027



Source: Company

Fig 6: SREIT's classification of its retail portfolio



	Super-Regional Malls	Regional Malls	Neighbourhood Malls	Big-Box Retail
Target market & net lettable area	Local & international tourists NLA > 1 million sq.ft.	Population within 50km NLA > 500,000 sq.ft.	Population within 20km NLA > 250,000 sq.ft.	Population within 10km NLA c. 250,000 sq.ft.
Strategic retail asset portfoio	Sunway Pyramid Mall	Sunway Carnival Mall	Sunway Putra Mall Sunway Pier[1] Sunway 163 Mall[2] Sunway Kluang Mall[2]	Hypermarkets: SunCity Ipoh, Kinrara, USJ, Putra Heights, Ulu Kelang, Klang, Plentong
Geographic footprint across Malaysia	Sunway City Kuala Lumpur	Penang	Kuala Lumpur, Klang	Ipoh, Selangor, Kuala Lumpur, Johor
Sunway's unique strengths & characteristics	Unique, iconic location. Strong management & leasing team	Focus on identifying underserved markets	Resilience from convenience and tenant profile (F&B, Services)	Serving everyday needs of everyday people
Segment's WALE	1 - 3 years	1 - 3 years	1 - 3 years	5 - 10 years

Source: Company

Underserved market represents high-growth opportunities for retail REIT

We see untapped opportunities in underserved markets

While concerns about retail oversupply in the Klang Valley persist, we see untapped opportunities in underserved markets, particularly in suburban areas where retail supply has not kept pace with growing demand. Such areas present a re-rating catalyst for retail REIT, offering strong growth potential with less competitive pressure. What sets SREIT apart is its calculated acquisition strategy, which considers the unique challenges of the consumers market, including infrastructure constraints alongside adequate population density. We believe this thoughtful approach allows SREIT to strategically expand its retail footprint into promising locations such as Seberang Jaya, Ipoh, and Kluang which are highly favourable for capturing new market share and driving sustained growth over the near term.

Leveraging on community-centric malls to enhance resilience

Acquisitions of six Giant hypermarkets and Retail 163 Park to serve the immediate neighbourhoods

SREIT also leverages the resilience of community-centric malls strategically located in urban and suburban areas through its acquisitions of six Giant hypermarkets and Retail 163 Park, which serve the immediate neighbourhoods. These locations are ideally positioned within major residential catchments, encompassing a diverse range of income levels from low to high. The business model of neighbourhood malls under SREIT is particularly advantageous, as many tenants focus on meeting the daily needs and necessities of shoppers. We foresee this positioning not only fosters customer loyalty but also provides a competitive edge during economic downturns as consumers tend to prioritize value-for-money products and services, which are readily available in neighbourhood malls. As such, this approach enhances SREIT's ability to maintain stability and performance in its retail segment, even amidst adverse economic conditions.

SREIT continues to benefit from its sponsor, Sunway Berhad, which maintains an active presence in retail development

Sunway Berhad's active expansion in retail space positions SREIT for growth

SREIT continues to benefit from its sponsor, Sunway Berhad, which maintains an active presence in retail development, reinforcing our view that the recalibration of the Transcend 2027 strategy with a focus on retail acquisitions remains actionable. Sunway Berhad's retail assets include key properties such as Sunway Velocity Mall, Cheras, Sunway Giza, Kota Damansara and Sunway Big Box Retail Park, Johor Bahru. A major pipeline project in Klang Valley is Sunway Square, an RM1.8bn integrated development in Sunway City KL, offering a GFA of 2.3m sqf that includes retail, office towers, educational facilities, and a performing arts center. Additionally, Sunway Berhad is also expanding its footprint beyond the Central region with projects like Sunway Citrine Hub in Iskandar Puteri, Johor, and Sunway Ipoh Mall in Ipoh, Perak.

Perpetual securities allow SREIT to deploy proceeds towards investing activities, offering a buffer against its high gearing ratio

RM10bn Perpetual Note Programme could facilitate SREIT's capex

To recap, SREIT initiated its RM10bn Perpetual Note Programme in Apr-19 with the first issuance of RM340m in unrated perpetual securities at a rate of 5.85%, which were just redeemed in 3Q24. Recently, in Oct-24, SREIT has issued a new series of Sustainability-Linked Perpetual securities, comprising RM150m at a 4.51% rate over five years and RM350m at a 4.68% rate over seven years, resulting in a blended rate of 4.63%. Overall, we believe that this funding structure allows SREIT to deploy proceeds towards acquisitions and AEI initiatives, while the flexibility of perpetual securities enhances its equity base. By improving its capital structure, SREIT gains capacity for future borrowings and investments, offering a buffer against its high gearing ratio of 43% in FY24E-FY25E. This strategic move strengthens SREIT's financial resilience and positions it to capitalize on growth opportunities.

Earnings, valuation and recommendation

SREIT's recent acquisitions are expected to collectively contribute RM79m - RM82m to SREIT's FY25E-26E NPI

Expecting robust revenue and NPI growth post refurbishment and acquisitions

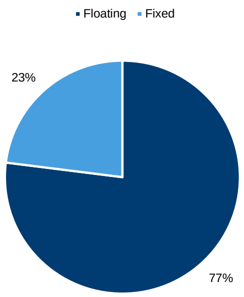
We project that SREIT's recent acquisitions (Giant hypermarkets, Kluang Mall, 163 Retail Park at Mont Kiara) will account for 12-13% of SREIT's 2025-26E NPI. Fueled by AEI and organic rental growth, we forecast Sunway Pyramid and Sunway Carnival to generate RM337m-RM360m of NPI in 2025-26E, (from RM296m in 2023). Overall, we anticipate SREIT's 2025E-26E revenue and NPI to grow by 5-12% yoy, driven by positive rental reversion, higher occupancy rates and improving NPI margins coming from positive impact of SREIT's substantial refurbishments.

Solid FY25E-26E EPU growth of 5-10%

Improved NPI contributions to offset higher borrowing costs, driving solid EPU growth

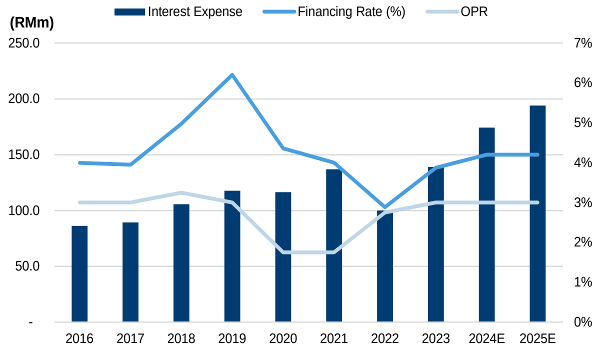
We project SREIT's borrowing costs to rise by 11.3% yoy in FY25E to RM194m due to increased borrowings to fund the acquisitions / refurbishments. Nonetheless, we expect revenue contribution from these initiatives and organic rental growth / improved occupancies to more than offset the higher borrowing costs. This should translate into a decent FY25E-26E realised EPU growth of 5-10%. However, we have not yet factored in the redevelopment of Sunway Pier into our earnings forecasts, pending further clarity on key details such as NLA, target rental rates, and design concept.

Fig 7: SREIT's 6M24 debt composition



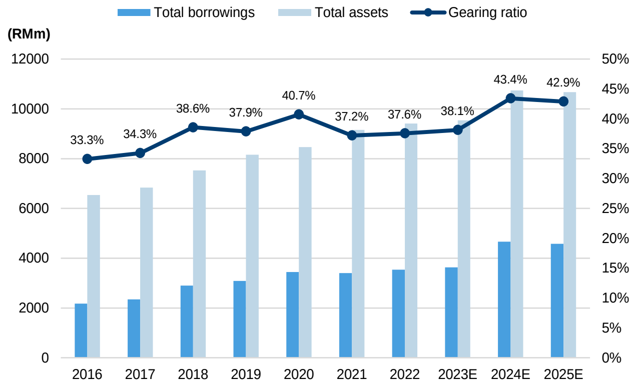
Source: Affin Hwang, Company

Fig 8: Higher borrowing cost in FY25E by 11% yoy



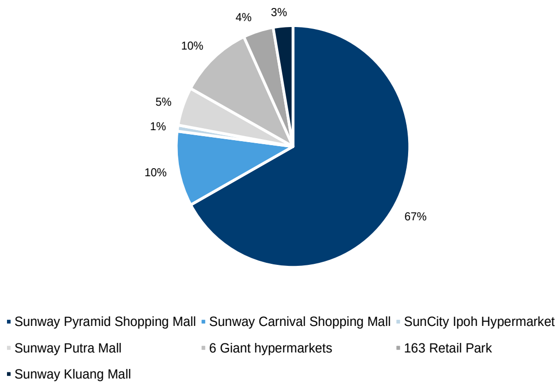
Source: Affin Hwang, Company

Fig 9: SREIT's gearing level to reach 43% in FY25E



Source: Affin Hwang, Company

Fig 10: SREIT's FY25E retail NPI breakdown by asset



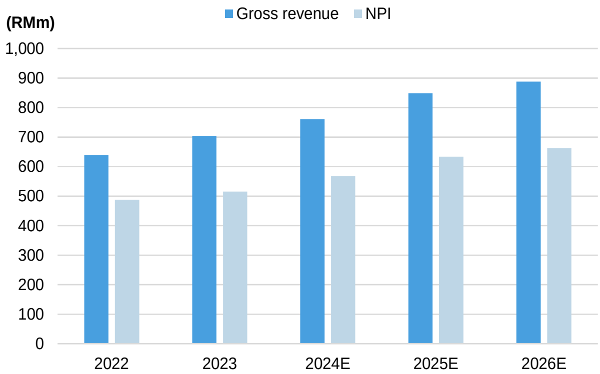
Source: Affin Hwang, Company

We raise our 2024-26E EPU forecasts by 3-8%

We raise our 2024E-26E EPU forecasts by 3-8%

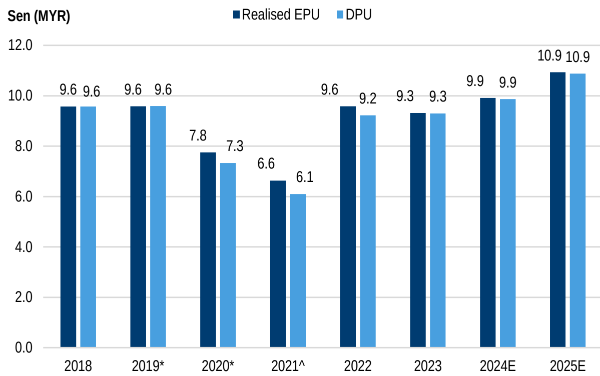
We are raising our 2024/25/26E EPU forecasts by +3.4%/+8.4%/+8.3% to incorporate: (i) SREIT's recent acquisition of Kluang Mall in Aug-24, (ii) higher revenue and NPI margin assumptions for Sunway Pyramid and Sunway Carnival post AEIs, (iii) higher rental growth and occupancy rates across its retail and hotel assets, in view of improved rental reversion of 8.5% in FY23 (+4.4ppts yoy), and the positive asset performance and revenue growth momentum (Fig 11) and (iv) a lower financing rate assumption, reflecting stable rates as guided by management. Overall, we now anticipate SREIT to deliver a steady 5%-9% realized EPU growth over 2024E-26E, driven by these strategic developments.

Fig 11: Solid revenue and NPI growth in FY24E-26E



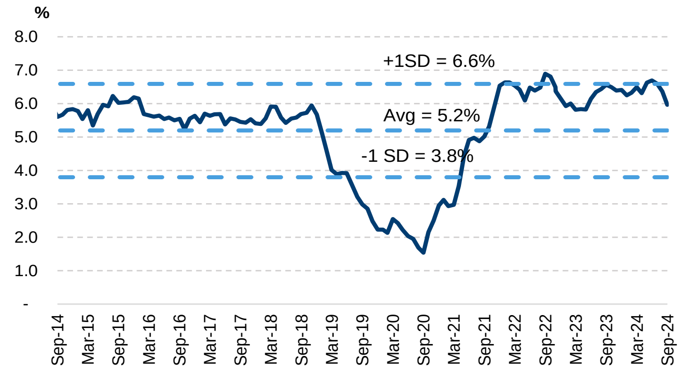
Source: Affin Hwang, Bloomberg

Fig 12: SREIT's realised EPU and DPU



Source: Affin Hwang, Company
^FY21 is based on 18 months

Fig 13: SREIT's 1-year forward distribution yield



Source: Affin Hwang, Bloomberg

Our higher TP reflects our revised earnings forecasts and reduced cost of equity to 7.9%

Upgrade to BUY with a higher DDM-derived 12-month target price of RM2.05

We upgrade SREIT to **BUY** (from Hold) with an increased DDM-derived 12-month target price of RM2.05 (from RM1.70) following our revised earnings forecasts and after incorporating a lower cost of equity to 7.9% (from 8.2%). We have lowered SREIT's cost of equity to reflect the moderating global bond yields, SREIT's solid AEI and acquisition pipeline, and its strategic plans to diversify its retail asset base by expanding into underserved suburban retail markets, where supply has lagged behind the rising demand. We like SREIT for its (i) diversified asset portfolio, (ii) strong branding and (iii) attractive FY25E-26E distribution yield of 6.3-6.6% which stands out among its MREIT peers, bolstered by its solid acquisition pipeline.

Downside risks to our view are (i) weaker-than-expected economic growth, (ii) earnings disappointment, (iii) delay in acquisition plans and (iv) steeper-than-expected hike in OPR and global bond yields.

Fig 14: DDM-derived target price

Year end 31 Dec	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY34E
Distributable EPU (sen)	9.92	10.93	11.45	11.91	12.56	13.12	13.49	14.09	14.57	14.92	15.49	16.06
Gross DPU (sen)	9.87	10.88	11.39	11.85	12.50	13.05	13.42	14.02	14.50	14.85	15.42	15.98
Dividend payout ratio (%)	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Net DPU (sen)*	**8.88**	**9.79**	**10.25**	**10.67**	**11.25**	**11.74**	**12.08**	**12.61**	**13.05**	**13.36**	**13.87**	**14.38**
Discount factor	1.00	1.00	0.93	0.86	0.80	0.74	0.68	0.63	0.59	0.54	0.50	0.47
PV of DPU (sen)	8.88	9.79	9.50	9.16	8.95	8.66	8.26	7.99	7.66	7.27	7.00	6.72
** Less withholding tax of 10%*												

	RM	Assumptions:-	
		Ke	7.9%
Total PV of DPU (RM)	0.84	Beta	0.7
PV of terminal value	1.21	Risk free rate	4.0%
RNAV per share	**2.05**	Market risk	6.0%
		Terminal growth	2.00%

Source: Affin Hwang

ESG Analysis

Analyst summary

With a total unmanaged ESG risk rating of 8.3, SREIT is placed in the 1st quartile of Sustainalytics' ESG Risk Rating global universe ranking. In view of SREIT's busy pipelines of new and ongoing ESG initiatives, the group may see an improvement in management score in the future review, which may lower its ESG Risk Rating and improve its global ranking.

Sunway REIT ESG Risk Rating									
8.3	(out of 100)	Rating Date	Momentum (yoy)						
		23-Apr-24	**-4.4**			(RISK) EXPOSURE	**23.8**	out of	100
Negl.	Low	Med.	High	Severe		Low	Med.	High	
0-10	10-20	20-30	30-40	40+		0-35	35-55	55+	
INDUSTRY		Real Estate				(RISK) MANAGEMENT	**65.6**	out of	100
UNIVERSE RANKING (1st = least risky)		**172**	out of	16,215		Strong	Average	Weak	
						100-50	50-25	25-0	

Source: Affin Hwang, Powered by Sustainalytics

Sustainalytics ESG Risk Rating summary

According to Sustainalytics, SREIT has a total unmanaged ESG risk rating of 8.3 (-4.4 yoy). It has a low exposure score of 23.8 and strong management score of 65.6.

ESG opportunities

Pillar	Opportunities	Analyst comments
E	Established the Green Lease Partnership Programme - SREIT has achieved significant success in their green lease program, with 21% of office and retail tenants, as well as 100% of hotel master lessees, signing up. This program focuses on enhancing building energy efficiency, implementing water-saving measures, and promoting waste diversion from landfills. SREIT aims to expand the program further, targeting over 1300 tenants by 2030E to adopt sustainable practices within their respective leased spaces.	We believe this to be an added value to SREIT's environmental responsibility. The green lease program implemented by SREIT has resulted in tangible outcomes such as significant reductions in electricity consumption through energy-efficient lighting systems, decreased water consumption through water-saving measures, and increased waste diversion from landfills through recycling programs and waste segregation.
S	Engage with shoppers via SDG-related activities - SREIT organized a series of engaging SDG-related activities to promote sustainability. These activities included a sustainability-related quiz, an upcycling contest, and interactive weekend workshops. Participants had the opportunity to learn and apply sustainable practices such as building eco-farms and ecobricks using recyclable items, upcycling crushed glass, and creating aromatherapy bath salts.	We believe that SREIT's initiatives not only raised awareness about environmental conservation but also empowered participants with practical skills to embrace sustainability in their daily lives. By fostering a culture of sustainability and encouraging active participation in SDG-related efforts, SREIT successfully promoted a long-term commitment to sustainable practices among participants.

ESG risks

Pillar	Risks	Analyst comments
E	Risk of water shortage - Insufficient water supply can disrupt operations of shopping malls, impacting critical functions like sanitation and cleaning. This would lead to compromised hygiene standards, discomfort for customers and tenants.	This would be a low risk to SREIT as they have a water treatment plant in Sunway South Quay which is capable of supplying up to 8.5m litres of water to 51.5k people per day by recycling water from the city's lake. This innovative approach ensures a sustainable and reliable water supply for the properties within SREIT's portfolio.
S	Transition to online shopping - As more consumers shift to online shopping, foot traffic in physical malls may decrease, leading to lower sales for retailers and potential vacancies within the mall. Besides, the convenience and variety offered by online shopping can alter consumer preferences, leading to a decrease in brick-and-mortar retail visits. This shift in behavior poses a risk to the viability of physical malls.	We view this as a medium risk due to the SREIT's malls heavy composition in the F&B segment, catering to the mass market. Customer footfall remains relatively high as consumers continue to have the option to go out, especially with the easing of COVID-19 restrictions. However, we recognize the importance for retailers to integrate technology into their shopping experience and provide unique offerings that set them apart from online alternatives.

Financial Summary – Sunway REIT

Profit & Loss Statement

FYE Dec (RMm)	2022	2023	2024E	2025E	2026E
Revenue	**639.5**	**704.5**	**760.9**	**848.3**	**887.8**
Net property income	**488.3**	**515.8**	**567.7**	**633.9**	**662.5**
Finance cost	*(100.1)*	*(138.9)*	*(174.3)*	*(194.0)*	*(192.2)*
Other expenses	*(47.2)*	*(48.0)*	*(48.7)*	*(52.7)*	*(53.8)*
Revaluation gains / others	*(68.1)*	*10.8*	*9.7*	*10.3*	*4.9*
Reported net profit	303.7	318.3	339.5	374.4	392.1
Realised net profit	**328.2**	**319.0**	**339.5**	**374.4**	**392.1**
Distributable net profit	**328.2**	**319.0**	**339.6**	**374.5**	**392.1**

Balance Sheet Statement

FYE Dec (RMm)	2022	2023	2024E	2025E	2026E
Investment Properties	8,622.5	8,912.4	10,080.7	10,260.7	10,286.3
Fixed assets	16.6	18.1	18.1	18.1	18.1
Accrued lease income	48.5	59.6	59.6	59.6	59.6
Total non-current assets	**8,687.6**	**8,990.1**	**10,158.4**	**10,338.4**	**10,364.0**
Cash and equivalents	251.2	425.3	454.0	208.2	193.2
Debtors	44.6	108.2	108.2	108.2	108.2
Other current assets	430.0	15.0	15.0	15.0	15.0
Total current assets	**725.8**	**548.5**	**577.2**	**331.4**	**316.4**
TOTAL ASSETS	**9,413.4**	**9,538.6**	**10,735.5**	**10,669.7**	**10,680.4**
Creditors	16.7	1.5	1.5	1.5	1.5
Short term borrowings	1,636.8	1,637.0	1,637.0	1,637.0	1,637.0
Other current liabilities	248.9	268.6	268.6	268.6	268.6
Total current liabilities	**1,902.4**	**1,907.0**	**1,907.0**	**1,907.0**	**1,907.0**
Long term borrowings	1,900.0	2,000.0	3,024.8	2,939.8	2,939.8
Other long term liabilities	97.4	115.5	115.5	115.5	115.5
Total long term liabilities	**1,997.4**	**2,115.5**	**3,140.3**	**3,055.3**	**3,055.3**
Unitholders' Funds	**5,528.0**	**5,516.1**	**5,688.2**	**5,707.4**	**5,718.1**
TOTAL EQUITY & LIABILITIES	**9,427.8**	**9,538.6**	**10,735.5**	**10,669.7**	**10,680.4**

Cash Flow Statement

FYE Dec (RMm)	2022	2023	2024E	2025E	2026E
EBIT	**441.1**	**467.8**	**519.0**	**581.3**	**608.6**
Working capital changes	-	-	-	1.0	1.0
Cash tax paid	-	-	-	1.0	1.0
Others	(6.1)	(22.1)	9.7	10.3	4.9
Cashflow from operation	**435.0**	**445.6**	**528.7**	**593.6**	**615.5**
Capex / Acquisitions	(350.2)	(205.6)	(1,168.3)	(180.0)	(25.7)
Others	84.7	341.0	-	-	-
Cash flow from investing	**(265.5)**	**135.4**	**(1,168.3)**	**(180.0)**	**(25.7)**
Debt raised/(repaid)	147.7	79.0	1,024.8	(85.0)	-
Equity raised/(repaid)	-	-	-	-	-
Net int income/(expense)	(96.0)	(136.6)	(174.3)	(194.0)	(192.2)
Distribution to unit holders	(240.4)	(329.5)	(327.6)	(355.2)	(381.4)
Others	(20.0)	(19.8)	145.4	(23.2)	(29.3)
Cash flow from financing	**(208.8)**	**(406.9)**	**668.3**	**(657.4)**	**(602.8)**
Net cash generated	**(39.3)**	**174.1**	**28.7**	**(243.8)**	**(13.0)**
Free cashflow	**84.8**	**240.0**	**(639.6)**	**413.6**	**589.9**

Key Financial Ratios and Margins

FYE Dec (RMm)	2022	2023	2024E	2025E	2026E
Growth					
Revenue (%)	(2.5)	10.2	8.0	11.5	4.7
Realised net profit (%)	47.9	(2.8)	6.4	10.3	4.7
Distributable net profit (%)	47.9	(2.8)	6.5	10.3	4.7
Profitability					
Net property income margin (%)	76.4	73.2	74.6	74.7	74.6
Realised net profit margin (%)	51.3	45.3	44.6	44.1	44.2
ROA (%)	3.5	3.4	3.3	3.5	3.7
Core ROE (%)	6.0	5.8	6.1	6.6	6.9
Distribution payout ratio (%)	96.2	99.5	99.5	99.5	99.5
Liquidity					
Current ratio (x)	0.4	0.3	0.3	0.2	0.2
Op. cash flow (RMm)	435.0	445.6	528.7	593.6	615.5
Free cashflow (RMm)	84.8	240.0	(639.6)	413.6	589.9
FCF/share (sen)	2.5	7.0	(18.7)	12.1	17.2
Capital structure					
Gearing (%)	37.6	38.1	43.4	42.9	42.9
Interest cover (x)	4.4	3.4	3.0	3.0	3.2
Per Unit					
Reported EPU (sen)	8.87	9.29	9.91	10.93	11.45
Realized EPU (sen)	9.58	9.32	9.91	10.93	11.45
DPU (sen)	9.2	9.3	9.9	10.9	11.4
DPU yield (%)	5.3	5.4	5.7	6.3	6.6
NAV (RM)	1.51	1.51	1.51	1.52	1.52
P/NAV (x)	1.14	1.14	1.14	1.14	1.14

Quarterly Profit & Loss

FYE Dec (RMm)	2Q23	3Q23	4Q23	1Q24	2Q24
Revenue	**166.5**	**175.8**	**179.4**	**178.6**	**175.6**
Net Property Income	**116.2**	**136.8**	**124.5**	**130.5**	**129.3**
Revaluation surplus/Others	*1.5*	*1.6*	*5.6*	*6.3*	*68.3*
Net investment income	**117.7**	**138.3**	**130.1**	**136.9**	**197.6**
Interest expense	*(34.0)*	*(34.5)*	*(38.6)*	*(37.6)*	*(40.0)*
REIT's expenses	(11.5)	(11.9)	(12.6)	(12.3)	(12.5)
Comprehensive Income	**67.2**	**87.0**	**72.6**	**82.0**	**144.3**
Realised net profit	**67.2**	**86.9**	**73.4**	**82.0**	**78.0**
EPU (sen)	1.96	2.54	2.12	2.39	4.21
Realised EPU (sen)	1.96	2.54	2.14	2.39	2.28
DPU (sen)	4.62	-	4.68	-	4.66
Margins (%)					
NPI	69.8	77.8	69.4	73.1	73.6
Realised net profit	40.4	49.4	40.9	45.9	44.5

Source: Company, Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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