

Sunway REIT (SREIT MK)

4Q23: Broadly in-line

Maintain HOLD

4Q23 earnings were broadly in-line with ours but fell short of consensus' estimates with FY23 core net profit at 95%/90% of our/consensus' full year estimates. YoY, 4Q23 core earnings was dragged by higher utilities and finance costs, and in absence of contribution from Sunway Medical Centre. We cut FY24/25E earnings forecasts by -10%/-4%, but raise DDM-TP by +6sen to MYR1.60 (Ke: 8.1%) on rolling forward valuation. Maintain HOLD.

Dragged by higher opex and finance cost

Excluding net revaluation gains of MYR10.6m, 4Q23 core net profit was MYR73.4m (-17% YoY, -16% QoQ), bringing FY23 core net profit to MYR319m (-3% YoY). YoY, 4Q23 revenue grew +2% mainly due to (i) Retail - higher turnover rent from Sunway Pyramid Mall and higher revenue from Sunway Carnival Mall, and (ii) Hotel - improved occupancy at S.Resort Hotel & Spa. However, YoY bottomline was dragged by higher opex (+35%) i.e. utility cost and pre-development cost at Sunway Pier, higher finance cost (+27%) and cessation of lease income from Sunway Medical Centre (Tower A & B) following the completion of its disposal on 30 Aug 2023.

Adjusting estimates

We cut FY24/25E earnings forecasts by -10%/-4% after 1) adjusting for full-year FY23 results, 2) incorporating a longer timeline in the completion of 6 hypermarkets acquisition (now expecting completion by 1H24 vs. Jan 2024 previously) and 3) adjusting for higher finance costs. Also, we roll-forward our DDM-valuation base year to FY24 to derive a revised TP of MYR1.60. We also introduce our FY26E forecast.

Looking ahead

Near-term growth in SREIT's retail segment is expected to be marginally impacted by two on-going AEs at S.Pyramid Mall (to complete end-2024) and S.Carnival Mall (mid-2025). We however expect improved earnings from its other Retail and Hospitality assets, on the back of 1) new acquisition of 6 hypermarkets (i.e. Giant) and 163 Retail Park, and 2) full-room inventory at Sunway Resort Hotel. We estimate a proforma net gearing of 42% post completion of acquisitions vs. 38% end-FY23.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	651	716	725	776	793
Net property income	500	527	530	570	582
Core net profit	328	319	330	369	381
Core EPU (sen)	9.6	9.3	9.6	10.8	11.1
Core EPU growth (%)	37.6	(2.8)	3.6	11.7	3.1
Net DPU (sen)	8.3	8.4	8.7	9.7	10.0
Net DPU growth (%)	54.3	1.0	3.6	11.7	3.1
P/NTA (x)	0.9	1.0	1.0	1.0	1.0
Net DPU yield (%)	5.7	5.4	5.5	6.1	6.3
ROAE (%)	6.3	6.5	6.8	7.5	7.7
ROAA (%)	3.5	3.4	3.5	3.9	4.0
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38
Consensus Net DPU	-	-	9.0	9.4	na
MIBG vs. Consensus (%)	-	-	(3.5)	3.6	na

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HOLD

Share Price	MYR 1.59
12m Price Target	MYR 1.60 (+6%)
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.

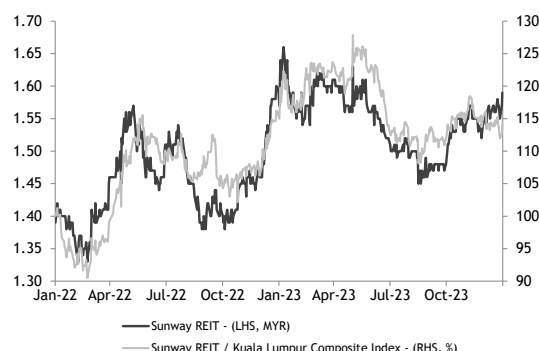
Statistics

52w high/low (MYR)	1.66/1.45
3m avg turnover (USDm)	0.4
Free float (%)	38.5
Issued shares (m)	3,425
Market capitalisation	MYR5.4B
	USD1.2B

Major shareholders:

Sunway Bhd.	40.9%
Employees Provident Fund	15.2%
Permodalan Nasional Bhd.	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	7	0
Relative to index (%)	(1)	2	(1)

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q23	4Q22	% YoY	3Q23	% QoQ	FY23	FY22	% YoY
Gross revenue	190.5	186.7	2.0	175.8	8.4	715.7	651.4	9.9
Net property income	135.7	146.2	(7.2)	136.8	(0.8)	526.9	500.2	5.3
Other income	5.1	1.3	>100	1.6	>100	10.3	4.8	>100
Non-property expenses	(12.6)	(13.8)	(8.2)	(11.9)	6.7	(48.0)	(47.2)	1.8
Finance costs	(38.6)	(30.3)	27.3	(34.5)	11.7	(138.9)	(100.1)	38.9
Fair value gain/(loss)	(10.6)	(43.3)	(75.4)	-	NM	(10.6)	(25.0)	(57.4)
Pretax profit	78.9	60.1	31.3	92.0	(14.2)	339.6	332.9	2.0
Tax	(1.4)	(9.3)	(85.3)	-	NM	(1.4)	(9.3)	(85.3)
Net profit	77.6	50.8	52.6	92.0	(15.7)	338.2	323.6	4.5
- Perpetual note holders	5.0	5.0	(0.0)	5.0	0.0	19.9	19.9	(0.0)
- Unrealised profit/loss	(0.8)	(42.9)	(98.1)	0.0	<-100	(0.7)	(24.6)	(97.1)
Net profit ex-EI	73.4	88.7	(17.3)	86.9	(15.6)	319.0	328.2	(2.8)
Distributable income	73.4	88.7	(17.3)	86.9	(15.6)	319.0	336.4	(5.2)
EPU ex-EI (sen)	2.1	2.6	(17.1)	2.5	(15.7)	9.3	9.6	(2.8)
Gross DPU (sen)*	4.7	5.0	(6.4)	-	NM	9.3	9.2	0.9
	4Q23	4Q22	+/- ppt	3Q23	+/- ppt	FY23	FY22	+/- ppt
<i>Net property margin (%)</i>	71.2	78.3	(7.1)	77.8	(6.6)	73.6	76.8	(3.2)
<i>Net income ex-EI margin (%)</i>	38.5	47.5	(9.0)	49.4	(10.9)	44.6	50.4	(5.8)
<u>SEGMENTAL</u>	4Q23	4Q22	% YoY	3Q23	% QoQ	FY23	FY22	% YoY
<u>Revenue</u>								
Sunway Pyramid	90.6	86.2	5.2	82.5	9.9	351.4	324.0	8.4
Sunway Carnival	19.9	17.0	17.4	16.6	20.2	68.0	50.7	34.3
SunCity Ipoh Hypermarket	0.9	0.9	2.7	0.9	3.4	3.3	3.4	(0.6)
Sunway Putra Mall	12.4	12.6	(1.6)	11.8	5.2	49.9	48.6	2.7
Sunway Pier	0.1	0.1	(39.5)	0.1	(17.5)	0.2	0.2	27.7
Revenue - Retail	123.9	116.7	6.2	111.8	10.9	472.9	426.9	10.8
Sunway Resort	8.7	5.8	49.8	10.4	(16.7)	25.3	10.1	151.5
Sunway Pyramid Hotel	5.6	5.8	(2.5)	8.2	(31.2)	28.9	14.2	104.3
Sunway Hotel Seberang Jaya	1.0	0.7	32.8	0.8	23.4	3.0	1.7	78.9
Sunway Putra Hotel	3.1	3.1	(0.4)	3.1	(0.9)	11.1	7.6	45.3
Sunway Hotel Georgetown	1.7	1.7	0.1	1.7	(2.5)	6.6	6.8	(2.0)
Sunway Lagoon Hotel	3.2	3.2	(1.7)	3.6	(12.0)	12.1	23.0	(47.2)
Revenue - Hotel	23.3	20.4	14.3	27.9	(16.6)	87.1	63.3	37.6
Menara Sunway	4.3	4.2	2.0	4.2	1.1	17.2	17.2	(0.2)
Sunway Tower	1.3	1.0	26.3	1.2	2.8	4.7	3.6	30.0
Sunway Putra Tower	3.1	3.1	0.1	3.1	0.7	12.3	12.8	(3.7)
Wisma Sunway	1.7	1.7	0.0	1.7	(0.3)	7.0	7.0	0.3
The Pinnacle Sunway	10.6	10.1	5.5	10.4	2.3	41.5	38.8	6.9
Revenue - Office	21.0	20.1	4.5	20.7	1.7	82.6	79.3	4.1
Sunway Medical Centre	-	6.6	NM	4.4	NM	17.6	26.4	(33.3)
Sunway REIT Industrial - Shah Alam 1	1.7	1.7	0.1	1.7	0.1	6.8	6.8	0.0
Sunway REIT Industrial - Petaling Jaya 1	-	-	NA	-	NA	-	-	NA
Sunway University & College Campus	9.4	9.2	2.3	9.4	0.8	37.5	36.8	2.1
Revenue - Others	11.1	17.5	(36.5)	15.5	(28.0)	61.9	70.0	(11.5)
Unbilled lease income receivable	11.1	12.0	-7.0	-	NM	11.1	12.0	-7.0
Total revenue	190.5	186.7	2.0	175.8	8.4	715.7	651.4	9.9

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		
	4Q23	4Q22	% YoY	3Q23	% QoQ	FY23	FY22	% YoY
SEGMENTAL								
Net property income								
Sunway Pyramid	62.4	69.1	(9.8)	64.9	(3.8)	258.5	256.3	0.9
Sunway Carnival	12.0	8.2	47.2	9.7	23.8	37.6	23.2	62.1
SunCity Ipoh Hypermarket	0.9	0.9	3.8	0.9	2.5	3.3	3.3	0.9
Sunway Putra Mall	6.1	6.8	(9.6)	6.5	(5.8)	23.7	25.0	(5.3)
Sunway Pier	(1.9)	(0.2)	>100	(0.1)	>100	23.7	25.0	(5.3)
NPI - Retail	79.6	84.7	(6.1)	81.8	(2.8)	320.8	307.1	4.5
Sunway Resort	8.0	5.5	46.0	10.1	(20.1)	23.8	9.2	>100
Sunway Pyramid Hotel	5.3	5.6	(4.9)	8.1	(33.8)	28.1	13.5	>100
Sunway Hotel Seberang Jaya	0.9	0.7	33.1	0.8	24.8	2.8	1.5	86.3
Sunway Putra Hotel	2.8	2.8	(0.5)	2.8	(0.9)	9.7	6.4	52.2
Sunway Hotel Georgetown	1.6	1.6	(0.4)	1.7	(2.5)	6.4	6.6	(2.3)
Sunway Lagoon Hotel	2.7	3.2	(14.1)	3.5	(22.9)	11.5	22.3	(48.4)
NPI - Hotel	21.4	19.4	10.4	26.9	(20.3)	82.4	59.4	38.6
Menara Sunway	2.7	2.6	4.1	2.5	5.0	10.5	10.8	(2.8)
Sunway Tower	(0.2)	(0.3)	(52.3)	(0.3)	(47.4)	(0.6)	0.1	<-100
Sunway Putra Tower	1.7	1.9	(12.9)	1.8	(6.7)	7.2	8.1	(10.9)
Wisma Sunway	0.9	1.0	(5.3)	1.0	(4.9)	3.9	3.9	1.7
The Pinnacle Sunway	7.9	7.4	5.4	7.8	0.3	31.1	29.0	7.6
NPI - Office	13.0	12.6	3.1	12.8	1.0	52.2	51.8	0.8
Sunway Medical Centre	-	6.6	NM	4.4	NM	17.6	26.4	(33.3)
Sunway REIT Industrial - Shah Alam 1	1.7	1.7	1.6	1.7	(0.1)	6.7	6.7	(0.4)
Sunway REIT Industrial - Petaling Jaya 1	(0.6)	-	NM	(0.3)	<-100	-1.5	-	NM
Sunway University & College Campus	9.4	9.2	2.3	9.4	0.8	37.5	36.8	2.1
NPI - Others	10.6	17.5	(39.7)	15.2	(30.6)	60.4	69.9	(13.6)
Unbilled lease income receivable	11.1	12.0	-7.0	-	NM	11.1	12.0	-7.0
Total	135.7	146.2	(7.2)	136.8	(0.8)	526.9	500.2	5.3

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 40% of Sunway Pyramid's NLA is due for lease renewal in FY24, while 66% 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	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	17.6	18.4	18.3	16.4	15.9
P/BV (x)	1.0	1.0	1.1	1.0	1.0
P/NTA (x)	0.9	1.0	1.0	1.0	1.0
DPU yield (%)	6.3	6.0	6.1	6.8	7.0
FCF yield (%)	1.7	14.9	8.4	9.3	9.4
INCOME STATEMENT (MYR m)					
Revenue	651.4	715.7	725.4	775.9	793.2
Net property income	500.2	526.9	529.7	569.6	581.6
Management and trustee fees	(47.2)	(48.0)	(48.9)	(50.3)	(50.8)
Net financing costs	(95.2)	(128.7)	(130.5)	(130.4)	(130.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(25.0)	(10.6)	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
Pretax profit	332.9	339.6	350.3	389.0	400.5
Income tax	(9.3)	(1.4)	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	323.6	338.2	350.3	389.0	400.5
Core net profit	328.2	319.0	330.4	369.1	380.7
Distributable inc to unitholders	328.2	319.0	330.4	369.1	380.7
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	251.2	425.3	413.4	410.8	400.6
Accounts receivable	44.6	108.2	109.6	117.3	119.9
Property, Plant & Equip (net)	15.8	17.4	17.4	17.4	17.4
Investment properties	8,671.0	8,972.0	8,993.9	9,015.9	9,037.8
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	430.8	15.7	15.7	15.7	15.7
Total assets	9,413.4	9,538.6	9,550.2	9,577.1	9,591.5
ST interest bearing debt	1,636.8	1,637.0	1,637.0	1,637.0	1,637.0
Accounts payable	234.8	270.1	273.7	292.8	299.3
LT interest bearing debt	1,900.0	2,000.0	2,000.0	2,000.0	2,000.0
Other liabilities	113.8	115.5	115.5	115.5	115.5
Total Liabilities	3,885.4	4,022.5	4,026.2	4,045.2	4,051.8
Shareholders Equity	5,188.3	5,176.4	5,184.2	5,192.1	5,200.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	5,188.3	5,176.4	5,184.2	5,192.1	5,200.0
Total liabilities and equity	9,413.4	9,538.6	9,550.2	9,577.1	9,591.5
CASH FLOW (MYR m)					
Cash flow from operations	435.0	445.6	477.4	525.3	529.4
Capex	(350.2)	337.8	(18.0)	(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	84.7	(202.5)	0.0	0.0	0.0
CF from investing activities	(265.5)	135.4	(18.0)	(18.0)	(18.0)
Dividends paid	(240.4)	(329.5)	(330.4)	(369.1)	(380.7)
Interest expense	0.0	0.0	0.0	0.0	0.0
Change in debt	131.4	79.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	(96.0)	(138.9)	(140.9)	(140.9)	(140.9)
CF from financing activities	(205.0)	(389.5)	(471.3)	(510.0)	(521.5)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(35.6)	191.5	(11.9)	(2.6)	(10.1)

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	(3.6)	9.9	1.4	7.0	2.2
Net property income growth	9.4	5.3	0.5	7.5	2.1
Core net profit growth	47.9	(2.8)	3.6	11.7	3.1
Distributable income growth	47.9	(2.8)	3.6	11.7	3.1
Profitability ratios (%)					
Net property income margin	76.8	73.6	73.0	73.4	73.3
Core net profit margin	50.4	44.6	45.5	47.6	48.0
Payout ratio	87.8	84.9	84.9	85.4	85.5
DuPont analysis					
Total return margin (%)	49.7	47.3	48.3	50.1	50.5
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	1.8
ROAE (%)	6.3	6.5	6.8	7.5	7.7
ROAA (%)	3.5	3.4	3.5	3.9	4.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.4	2.4	2.4	2.4
Net gearing (%) (excl. perps)	63.3	62.0	62.2	62.1	62.2
Net interest cover (x)	4.8	3.7	3.7	4.0	4.1
Debt/EBITDA (x)	7.8	7.5	7.5	7.0	6.8
Capex/revenue (%)	53.8	nm	2.5	2.3	2.3
Net debt/ (net cash)	3,285.5	3,211.7	3,223.6	3,226.2	3,236.3
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38

Source: Company; Maybank IBG Research

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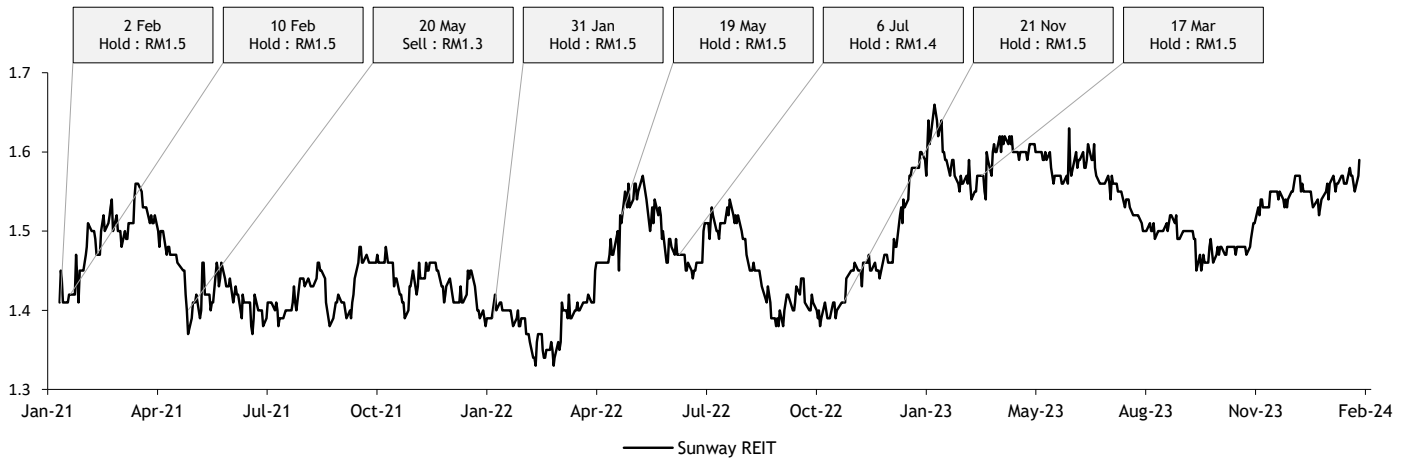
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