

# Sunway REIT (SREIT MK)

## 2Q24: New hypermarkets on board

### Upgrade BUY; TP raised to MYR1.77

2Q24 earnings and an interim gross DPU of 4.66sen were in line. 2Q24's YoY earnings growth was mainly due to its stronger retail segment. We expect higher earnings in 2H24, supported by new assets contribution - 163 Retail Park, a new industrial property in Penang, and Kluang Mall. We raise FY25/26E earnings forecasts by +8% p.a., which increase our DDM-TP to MYR1.77 (+17sen, Ke: 8.1%). Upgrade BUY.

### Stronger YoY Retail segment

Excluding MYR66.2m fair value gain on six hypermarkets following the completion of their acquisition on 30 Apr 2024, 2Q24 core net profit was MYR78m (+16% YoY, -5% QoQ), taking 1H24 core net profit to MYR160m (+1% YoY). The latter accounts for 48%/45% of our/consensus FY24E. 2Q24's YoY earnings growth was largely driven by (1) the addition of six new hypermarkets (i.e. Giant), (2) better performance from S. Carnival Mall (+94% NPI), and (3) higher rental from S. Resort Hotel due to full room inventory since Jul 2023 (+74% NPI). Overall NPI margin improved +3.9ppts YoY to 73.6% in 2Q24. Notably, the distribution to perpetual note holders was lower 84% YoY in 2Q24 as the outstanding perpetual notes has been fully redeemed on 15 April 2024.

### Expanding target market of Retail assets

S. Pyramid Mall is undergoing extended renovation, expected to be completed in Oct 2024. S. Carnival Mall is also undergoing renovation phase 2, to be completed in Jun 2025. The on-going AElS are expected to marginally impact its Retail segment in the interim, partially cushioned by new rental contribution from the six new hypermarkets, and new retail assets in 2H24 i.e. 163 Retail Park and Kluang Mall. These new Retail assets will expand SREIT's market catchment into 4 categories: super-regional malls, regional malls, neighbourhood malls and big-box retail.

### Raise FY25/26E earnings forecasts

We revise higher our FY25/26E earnings forecasts by +8% p.a. as we impute new assets into our forecasts and remove the distribution to perpetual note holders as it was fully redeemed. We estimate a net gearing (debt-to-asset) of 46% post completion of acquisitions vs. 44% end-Jun 2024.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	651	716	735	856	878
Net property income	500	527	538	619	636
Core net profit	328	319	331	397	413
Core EPU (sen)	9.6	9.3	9.7	11.6	12.1
Core EPU growth (%)	37.6	(2.8)	3.8	19.9	4.0
Net DPU (sen)	8.3	8.4	8.7	10.4	10.9
Net DPU growth (%)	54.3	1.0	3.8	19.9	4.0
P/NTA (x)	0.9	1.0	1.0	1.0	1.0
Net DPU yield (%)	5.7	5.4	5.3	6.3	6.6
ROAE (%)	6.3	6.5	6.5	7.7	7.9
ROAA (%)	3.5	3.4	3.3	3.8	3.9
Debt/Assets (x)	0.38	0.38	0.44	0.44	0.43
Consensus Net DPU	-	-	8.6	9.0	9.5
MIBG vs. Consensus (%)	-	-	1.3	16.0	14.8

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# BUY

[Prior:HOLD]

Share Price	MYR 1.65
12m Price Target	MYR 1.77 (+13%)
Previous Price Target	MYR 1.60

### Company Description

Sunway REIT primarily invests and manages a real estate portfolio which consists of retail, office and hospitality assets.

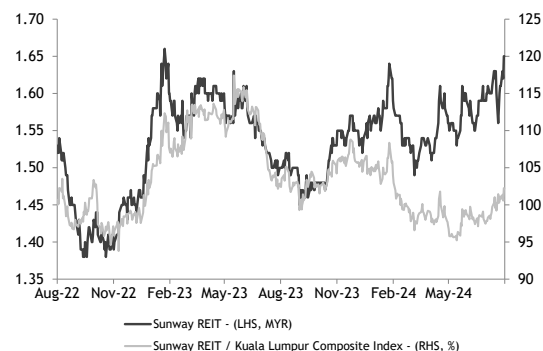
### Statistics

52w high/low (MYR)	1.65/1.45
3m avg turnover (USDm)	0.7
Free float (%)	38.2
Issued shares (m)	3,425
Market capitalisation	MYR5.7B
	USD1.3B

### Major shareholders:

Sunway Bhd.	40.9%
Employees Provident Fund	15.8%
Permodalan Nasional Bhd.	6.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	4	6	10
Relative to index (%)	5	5	(0)

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	2Q24	2Q23	% YoY	1Q24	% QoQ	1HFY24	1HFY23	% YoY
Gross revenue	175.6	166.5	5.4	178.6	(1.7)	354.2	349.3	1.4
<b>Net property income</b>	<b>129.3</b>	<b>116.2</b>	<b>11.3</b>	<b>130.5</b>	<b>(1.0)</b>	<b>259.8</b>	<b>254.5</b>	<b>2.1</b>
Other income	2.1	1.5	40.7	6.3	(66.7)	8.4	3.6	>100
Non-property expenses	(12.5)	(11.5)	8.7	(12.3)	1.7	(24.7)	(23.6)	5.0
Finance costs	(40.0)	(34.0)	17.7	(37.6)	6.3	(77.6)	(65.9)	17.9
Fair value gain/(loss)	66.2	-	NA	-	NA	66.2	-	NA
<b>Pretax profit</b>	<b>145.1</b>	<b>72.2</b>	<b>&gt;100</b>	<b>87.0</b>	<b>66.8</b>	<b>232.0</b>	<b>168.6</b>	<b>37.6</b>
Tax	-	-	NA	-	NA	-	-	NA
<b>Net profit</b>	<b>145.1</b>	<b>72.2</b>	<b>&gt;100</b>	<b>87.0</b>	<b>66.8</b>	<b>232.0</b>	<b>168.6</b>	<b>37.6</b>
- Perpetual note holders	0.8	5.0	(83.5)	5.0	(83.5)	5.8	9.9	(41.4)
- Unrealised profit/loss	66.2	0.0	>100	0.0	>100	66.3	0.1	>100
<b>Net profit ex-EI</b>	<b>78.0</b>	<b>67.2</b>	<b>16.1</b>	<b>82.0</b>	<b>(4.8)</b>	<b>160.0</b>	<b>158.7</b>	<b>0.8</b>
Distributable income	78.0	67.2	16.1	82.0	(4.8)	160.0	158.7	0.8
EPU ex-EI (sen)	2.3	2.0	16.3	2.4	(4.6)	4.7	4.6	0.9
<b>Gross DPU (sen)</b>	<b>4.7</b>	<b>4.6</b>	<b>0.9</b>	<b>-</b>	<b>NA</b>	<b>4.7</b>	<b>4.6</b>	<b>0.9</b>
	<b>2Q24</b>	<b>2Q23</b>	<b>+/- ppt</b>	<b>1Q24</b>	<b>+/- ppt</b>	<b>1HFY24</b>	<b>1HFY23</b>	<b>+/- ppt</b>
<i>Net property margin (%)</i>	73.6	69.8	3.9	73.1	0.5	73.4	72.9	0.5
<i>Net income ex-EI margin (%)</i>	44.5	40.4	4.1	45.9	(1.5)	45.2	45.4	(0.3)
<b>SEGMENTAL</b>	<b>2Q24</b>	<b>2Q23</b>	<b>% YoY</b>	<b>1Q24</b>	<b>% QoQ</b>	<b>1HFY24</b>	<b>1HFY23</b>	<b>% YoY</b>
<b>Revenue</b>								
Sunway Pyramid	82.9	83.9	(1.2)	93.0	(10.8)	175.9	178.3	(1.4)
Sunway Carnival	19.5	13.2	47.9	20.1	(3.2)	39.6	31.6	25.3
SunCity Ipoh Hypermarket	0.9	0.8	12.7	0.9	0.0	1.8	1.6	13.5
Sunway Putra Mall	13.1	13.0	1.3	12.3	6.7	25.5	25.7	(0.8)
Sunway Pier	0.1	0.1	(8.8)	0.1	(10.3)	0.1	0.1	(8.3)
SunREIT Hypermarket- Kinrara	1.7	-	NA	-	NA	1.7	-	NA
SunREIT Hypermarket- Putra Heights	0.9	-	NA	-	NA	0.9	-	NA
SunREIT Hypermarket- USJ	1.5	-	NA	-	NA	1.5	-	NA
SunREIT Hypermarket- Klang	0.8	-	NA	-	NA	0.8	-	NA
SunREIT Hypermarket- Ulu Kelang	0.6	-	NA	-	NA	0.6	-	NA
SunREIT Hypermarket- Plentong	1.7	-	NA	-	NA	1.7	-	NA
<b>Revenue - Retail</b>	<b>123.7</b>	<b>110.9</b>	<b>11.5</b>	<b>126.3</b>	<b>(2.1)</b>	<b>250.0</b>	<b>237.2</b>	<b>5.4</b>
Sunway Resort	6.4	3.7	71.9	6.0	5.9	12.5	6.2	101.6
Sunway Pyramid Hotel	6.1	6.7	(9.7)	5.5	10.5	11.5	15.1	(23.4)
Sunway Hotel Seberang Jaya	0.7	0.6	30.3	0.9	(22.2)	1.7	1.2	34.1
Sunway Putra Hotel	1.7	1.8	(6.2)	2.7	(35.2)	4.4	4.8	(9.6)
Sunway Hotel Georgetown	1.3	1.7	(24.6)	1.6	(21.9)	2.9	3.2	(11.2)
Sunway Lagoon Hotel	3.0	3.0	2.8	2.4	27.3	5.4	5.4	1.2
<b>Revenue - Hotel</b>	<b>19.2</b>	<b>17.5</b>	<b>10.1</b>	<b>19.1</b>	<b>0.4</b>	<b>38.3</b>	<b>35.9</b>	<b>6.7</b>
Menara Sunway	4.8	4.3	12.4	4.7	2.8	9.5	8.6	10.2
Sunway Tower	1.2	1.1	11.4	1.3	(8.7)	2.6	2.2	17.6
Sunway Putra Tower	2.5	3.1	(17.9)	3.1	(17.2)	5.6	6.1	(7.8)
Wisma Sunway	1.8	1.7	4.1	1.7	3.6	3.6	3.5	1.9
The Pinnacle Sunway	10.4	10.3	1.4	10.4	(0.1)	20.8	20.5	1.7
<b>Revenue - Office</b>	<b>20.8</b>	<b>20.5</b>	<b>1.6</b>	<b>21.3</b>	<b>(2.2)</b>	<b>42.1</b>	<b>40.9</b>	<b>2.9</b>
SunREIT Industrial - Shah Alam 1	1.7	1.7	(0.1)	1.7	0.0	3.4	3.4	(0.1)
SunREIT Industrial - Petaling Jaya 1	0.5	-	NA	0.6	(6.9)	1.1	-	NA
<b>Revenue - Industrial</b>	<b>2.2</b>	<b>1.7</b>	<b>32.3</b>	<b>2.3</b>	<b>(1.8)</b>	<b>4.5</b>	<b>3.4</b>	<b>33.6</b>
Sunway Medical Centre	-	6.6	(100.0)	-	NA	0.0	13.2	(100.0)
Sunway University & College Campus	9.6	9.4	2.3	9.6	0.0	19.2	18.7	2.3
<b>Revenue - Services</b>	<b>9.6</b>	<b>16.0</b>	<b>(40.0)</b>	<b>9.6</b>	<b>0.0</b>	<b>19.2</b>	<b>31.9</b>	<b>(40.0)</b>
Unbilled lease income receivable	-	-	NA	-	NA	-	-	NA
<b>Total revenue</b>	<b>175.6</b>	<b>166.5</b>	<b>5.4</b>	<b>178.6</b>	<b>(1.7)</b>	<b>354.2</b>	<b>349.3</b>	<b>1.4</b>

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
<b>SEGMENTAL</b>								
<b>Net property income</b>								
Sunway Pyramid	60.4	57.6	4.9	69.1	(12.6)	129.5	131.3	(1.4)
Sunway Carnival	11.1	5.7	94.3	11.6	(3.8)	22.7	15.8	43.4
SunCity Ipoh Hypermarket	0.9	0.8	12.6	0.9	0.0	1.7	1.5	13.4
Sunway Putra Mall	6.7	5.6	20.1	5.6	20.2	12.3	11.1	10.8
Sunway Pier	(0.2)	(0.2)	11.8	(0.1)	37.9	-0.3	-0.3	6.9
SunREIT Hypermarket- Kinrara	1.7	-	NA	-	NA	1.7	-	NA
SunREIT Hypermarket- Putra Heights	0.9	-	NA	-	NA	0.9	-	NA
SunREIT Hypermarket- USJ	1.5	-	NA	-	NA	1.5	-	NA
SunREIT Hypermarket- Klang	0.8	-	NA	-	NA	0.8	-	NA
SunREIT Hypermarket- Ulu Kelang	0.6	-	NA	-	NA	0.6	-	NA
SunREIT Hypermarket- Plentong	1.7	-	NA	-	NA	1.7	-	NA
<b>NPI - Retail</b>	<b>86.2</b>	<b>69.5</b>	<b>24.1</b>	<b>86.9</b>	<b>(0.9)</b>	<b>173.1</b>	<b>159.4</b>	<b>8.6</b>
Sunway Resort	6.1	3.5	73.5	5.7	5.9	11.8	5.7	107.5
Sunway Pyramid Hotel	5.8	6.5	(10.0)	5.3	10.0	11.1	14.7	(24.1)
Sunway Hotel Seberang Jaya	0.7	0.5	35.1	0.9	(23.4)	1.6	1.1	37.2
Sunway Putra Hotel	1.4	1.5	(9.2)	2.3	(41.6)	3.7	4.2	(11.6)
Sunway Hotel Georgetown	1.2	1.6	(25.6)	1.6	(22.8)	2.8	3.1	(11.7)
Sunway Lagoon Hotel	3.3	2.9	15.3	2.3	44.3	5.7	5.2	8.1
<b>NPI - Hotel</b>	<b>18.5</b>	<b>16.5</b>	<b>12.1</b>	<b>18.1</b>	<b>2.0</b>	<b>36.6</b>	<b>34.0</b>	<b>7.6</b>
Menara Sunway	3.0	2.5	19.7	3.0	(0.5)	5.9	5.3	12.7
Sunway Tower	0.1	(0.2)	<-100	0.4	(75.5)	0.5	(0.1)	<-100
Sunway Putra Tower	1.3	1.8	(27.3)	1.8	(25.6)	3.1	3.7	(15.4)
Wisma Sunway	1.0	1.0	1.7	0.9	7.2	1.9	2.0	(7.1)
The Pinnacle Sunway	7.6	7.8	(2.5)	7.8	(2.1)	15.5	15.5	(0.0)
<b>NPI - Office</b>	<b>13.0</b>	<b>12.9</b>	<b>0.9</b>	<b>13.9</b>	<b>(6.2)</b>	<b>26.9</b>	<b>26.4</b>	<b>1.9</b>
SunREIT Industrial - Shah Alam 1	1.7	1.7	(0.1)	1.7	0.0	3.4	3.3	1.5
SunREIT Industrial - Petaling Jaya 1	0.3	(0.3)	<-100	0.3	3.8	0.7	-0.6	<-100
<b>NPI - Industrial</b>	<b>2.0</b>	<b>1.3</b>	<b>50.0</b>	<b>2.0</b>	<b>0.6</b>	<b>4.0</b>	<b>2.7</b>	<b>49.0</b>
Sunway Medical Centre	-	6.6	(100.0)	-	NA	-	13.2	(100.0)
Sunway University & College Campus	9.6	9.4	2.3	9.6	(0.0)	19.2	18.7	2.3
<b>NPI - Services</b>	<b>9.6</b>	<b>16.0</b>	<b>(40.0)</b>	<b>9.6</b>	<b>(0.0)</b>	<b>19.2</b>	<b>31.9</b>	<b>(40.0)</b>
Unbilled lease income receivable	-	-	NA	-	NA	-	-	NA
<b>Total NPI</b>	<b>129.3</b>	<b>116.2</b>	<b>11.3</b>	<b>130.5</b>	<b>(1.0)</b>	<b>259.8</b>	<b>254.5</b>	<b>2.1</b>

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 34% of Sunway Pyramid Mall's NLA is due for lease renewal in FY24, while 77% of SREIT's borrowings are on floating rates. Another earnings risk would be another pandemic occurring. There is also a potential for DPU to be impacted due to changes in master leases.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
Price/DPU(x)	17.6	18.4	19.0	15.8	15.2
P/BV (x)	1.0	1.0	1.1	1.1	1.1
P/NTA (x)	0.9	1.0	1.0	1.0	1.0
DPU yield (%)	6.3	6.0	5.9	7.0	7.3
FCF yield (%)	1.7	14.9	nm	10.4	10.3
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	651.4	715.7	735.4	855.7	878.3
<b>Net property income</b>	<b>500.2</b>	<b>526.9</b>	<b>538.1</b>	<b>619.5</b>	<b>635.9</b>
Management and trustee fees	(47.2)	(48.0)	(52.1)	(54.8)	(55.4)
Net financing costs	(95.2)	(128.7)	(149.1)	(167.6)	(167.5)
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
<b>Pretax profit</b>	<b>332.9</b>	<b>339.6</b>	<b>337.0</b>	<b>397.1</b>	<b>413.0</b>
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
<b>Net profit</b>	<b>323.6</b>	<b>338.2</b>	<b>337.0</b>	<b>397.1</b>	<b>413.0</b>
Core net profit	328.2	319.0	331.2	397.1	413.0
Distributable inc to unitholders	328.2	319.0	331.2	397.1	413.0
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	251.2	425.3	433.7	446.8	437.9
Accounts receivable	44.6	108.2	111.2	129.3	132.8
Property, Plant & Equip (net)	15.8	17.4	17.4	17.4	17.4
Investment properties	8,671.0	8,972.0	9,935.7	9,957.7	9,979.6
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
<b>Total assets</b>	<b>9,413.4</b>	<b>9,538.6</b>	<b>10,513.7</b>	<b>10,567.0</b>	<b>10,583.4</b>
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	277.5	322.9	331.4
LT interest bearing debt	1,900.0	2,000.0	2,959.8	2,959.8	2,959.8
Other liabilities	113.8	115.5	115.5	115.5	115.5
<b>Total Liabilities</b>	<b>3,885.4</b>	<b>4,022.5</b>	<b>4,989.8</b>	<b>5,035.2</b>	<b>5,043.7</b>
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
<b>Total shareholder equity</b>	<b>5,188.3</b>	<b>5,176.4</b>	<b>5,184.2</b>	<b>5,192.1</b>	<b>5,200.0</b>
<b>Total liabilities and equity</b>	<b>9,413.4</b>	<b>9,538.6</b>	<b>10,513.7</b>	<b>10,567.0</b>	<b>10,583.4</b>
<b>CASH FLOW (MYR m)</b>					
<b>Cash flow from operations</b>	<b>435.0</b>	<b>445.6</b>	<b>499.1</b>	<b>606.3</b>	<b>600.1</b>
Capex	(350.2)	337.8	(959.8)	(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
<b>CF from investing activities</b>	<b>(265.5)</b>	<b>135.4</b>	<b>(959.8)</b>	<b>(18.0)</b>	<b>(18.0)</b>
Dividends paid	(240.4)	(329.5)	(331.2)	(397.1)	(413.0)
Interest expense	0.0	0.0	0.0	0.0	0.0
Change in debt	131.4	79.0	959.8	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	(96.0)	(138.9)	(159.5)	(178.1)	(178.1)
<b>CF from financing activities</b>	<b>(205.0)</b>	<b>(389.5)</b>	<b>469.1</b>	<b>(575.2)</b>	<b>(591.1)</b>
<b>Effect of exchange rate changes</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>(35.6)</b>	<b>191.5</b>	<b>8.4</b>	<b>13.1</b>	<b>(9.0)</b>

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(3.6)	9.9	2.8	16.4	2.6
Net property income growth	9.4	5.3	2.1	15.1	2.6
Core net profit growth	47.9	(2.8)	3.8	19.9	4.0
Distributable income growth	47.9	(2.8)	3.8	19.9	4.0
<b>Profitability ratios (%)</b>					
Net property income margin	76.8	73.6	73.2	72.4	72.4
Core net profit margin	50.4	44.6	45.0	46.4	47.0
Payout ratio	87.8	84.9	88.5	90.0	90.0
<b>DuPont analysis</b>					
Total return margin (%)	49.7	47.3	45.8	46.4	47.0
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.8	2.0	2.0	2.0
ROAE (%)	6.3	6.5	6.5	7.7	7.9
ROAA (%)	3.5	3.4	3.3	3.8	3.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.4	2.4	2.1	2.1	2.1
Net gearing (%) (excl. perps)	63.3	62.0	80.3	79.9	80.0
Net interest cover (x)	4.8	3.7	3.3	3.4	3.5
Debt/EBITDA (x)	7.8	7.5	9.4	8.1	7.9
Capex/revenue (%)	53.8	nm	130.5	2.1	2.0
Net debt/ (net cash)	3,285.5	3,211.7	4,163.1	4,149.9	4,158.9
Debt/Assets (x)	0.38	0.38	0.44	0.44	0.43

Source: Company; Maybank IBG Research

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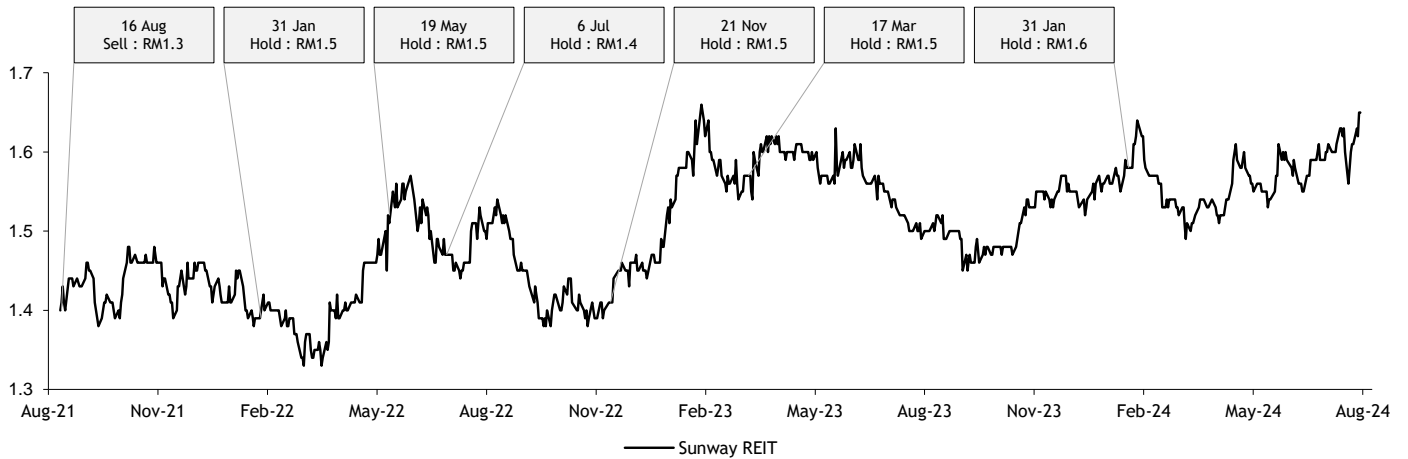
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