

16 August 2024

Sunway REIT

Eyes on Sunway Carnival Mall

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SUNREIT's 1HFY24 results met expectations. Its core net profit grew by a marginal 1% YoY as new income streams were largely offset by earnings gap arising from the disposal of Sunway Medical Centre. 2Q rental reversion for Sunway Carnival Mall was impressive coming in at above 10%. We keep our forecasts, TP of RM1.69 and maintain our MARKET PERFORM call.

Within expectations. SUNREIT's 1HFY24 core net profit came in at RM160m, making up 45% of both our full-year forecast and the full-year consensus estimate with a stronger 2H period ahead. The group also declares a net income distribution of 4.25 sen which is on track to meet our full-year net dividend forecast of 8.8 sen.

YoY, its 1HFY24 revenue recorded only a marginal 1% growth. Property income contribution from newly acquired hypermarkets (which was completed in April 2024) and much stronger performance from Sunway Carnival Mall were largely offset by the absence of contribution from the disposal of Sunway Medical Centre. We note that Sunway Pyramid Mall was flattish due to its ongoing reconfiguration from ex-anchor tenant space. Coupled with higher borrowing expenses, net profits were also relatively stagnant.

QoQ, its revenue was lower by 2% due to a seasonally weaker 2Q period due to higher festive spendings in 1Q, while core net profit fell by 5% mainly attributable to the higher borrowing cost mentioned above.

We are Positive on the Outlook. We gathered that Sunway Pyramid has filled up most of the spaces from the exit of Aeon which appears to be on track to be completed by end-FY24. Being the landlord of multiple retail and hospitality assets in prime location, SUNREIT is expected to see a boost in performance from the boom in tourism. While we are positive on SUNREIT's outlook, we will continue to closely monitor the retail sector given the sustained elevated inflation that eats into consumer spending power, and anxiety ahead of the implementation of the fuel subsidy rationalisation.

Forecasts. Maintained

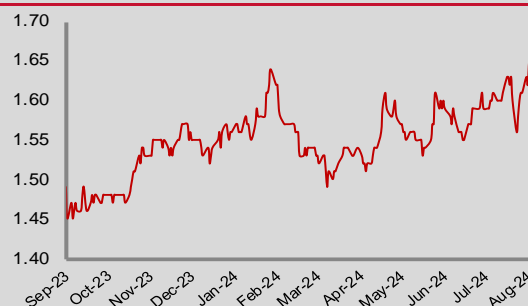
Valuations. We keep our forecasts, TP of RM1.69 and maintain MARKET PERFORM call. The basis of our TP remains unchanged at a target yield of 5.5% (derived from a 1.5% yield spread above our 10-year MGS assumption of 4.0%), The relatively lower yield spread against what we applied to its peers is to reflect SUNWAY's diversified asset portfolio in key urban regions. We reckon that the group's brand equity also benefits greatly from its affiliation to the Sunway conglomerate. There is no adjustment to our TP based on ESG of given a 3-star rating as appraised by us (see Page 4).

Risks to our call include: (i) higher/lower-than expected bond yield and (ii) higher/lower-than-expected occupancy rates.

MARKET PERFORM ↔

Price: RM1.65
Target Price: RM1.69 ↔

Share Price Performance



KLCI 1,612.94
YTD KLCI chg 10.9%
YTD stock price chg 7.1%

Stock Information

Shariah Compliant No
Bloomberg Ticker SREIT MK EQUITY
Market Cap (RM m) 5,650.9
Shares Outstanding 3,424.8
52-week range (H) 1.66
52-week range (L) 1.44
3-mth avg. daily vol. 1,870,108
Free Float 44%
Beta 0.4

Major Shareholders

Sunway Bhd 40.9%
Employees Provident Fund 15.9%
Kumpulan Wang Persaraan 5.9%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	715.7	732.0	784.7
EBIT	526.9	562.2	598.2
PBT	339.6	361.4	394.1
Net Profit (NP)	338.2	358.1	390.5
Core net profit	348.8	358.1	390.5
Consensus (NP)	-	359.3	379.5
Earnings Revision (%)	-	-	-
Core EPS (sen)	10.2	10.5	11.4
Core EPS Growth (%)	0.1	2.6	9.0
GDPU (sen)	9.3	9.5	10.1
NDPU (sen)	8.5	8.8	9.3
BVPS (RM)	1.51	1.52	1.53
Core PER (x)	16.2	15.8	14.5
Price/BV (x)	1.1	1.1	1.1
Net Asset Gearing (x)	0.34	0.34	0.32
Net Div. Yield (%)	5.1	5.3	5.6

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Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Rental and lease income	170.8	173.8	-1.7%	162.6	5.0%	344.6	341.5	0.9%
Other operating income	4.7	4.8	-0.7%	3.9	21.7%	9.5	7.8	21.9%
Gross Revenue	175.6	178.6	-1.7%	166.5	5.4%	354.2	349.3	1.4%
Property Operating Expenses	-46.3	-48.0	-3.7%	-50.3	-8.1%	-94.3	-94.8	-0.5%
Net Property Income	129.3	130.5	-1.0%	116.2	11.3%	259.8	254.5	2.1%
Investment Income	68.3	6.3	978.2%	1.5	4457.5%	74.6	3.6	1975.8%
Other Non-operating Expenses	-12.5	-12.3	1.7%	-11.5	8.7%	-24.7	-23.6	5.0%
Finance Cost	-40.0	-37.6	6.3%	-34.0	17.7%	-77.6	-65.9	17.9%
Profit Before Tax	145.1	87.0	66.8%	72.2	100.9%	232.0	168.6	37.6%
Taxation	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Minority Interest	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Net Profit	145.1	87.0	66.8%	72.2	100.9%	232.0	168.6	37.6%
Distributable Income	203.3	125.3	62.3%	201.5	0.9%	328.6	335.8	-2.1%
Core Net Profit	78.1	82.1	-4.9%	67.2	16.1%	160.1	158.8	0.9%
Core Earnings Per Unit (sen)	2.28	2.39	-4.6%	1.96	16.1%	4.67	4.64	0.7%
Gross Distribution Per Unit (sen)	4.66	0.00		4.62		4.66	4.62	
Key Operating Metrics:								
Net property income margin	73.6%	73.1%		69.8%		73.4%	72.9%	
Pretax margin	82.6%	48.7%		43.4%		65.5%	48.3%	

Source: Company, Kenanga Research

Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Retail	123.7	126.3	-2.1%	110.9	11.5%	250.0	237.2	5.4%
Hotel	19.2	19.1	0.4%	17.5	10.1%	38.3	35.9	6.7%
Office	20.8	21.3	-2.2%	20.5	1.6%	42.1	40.9	2.9%
Services	9.6	9.6	0.0%	16.0	-40.0%	19.2	31.9	-40.0%
Industrial & Others	2.2	2.3	-1.8%	1.7	32.3%	4.5	3.4	33.6%
Total Revenue	175.6	178.6	-1.7%	166.5	5.4%	354.2	349.3	1.4%
Retail	86.2	86.9	-0.9%	69.5	24.1%	173.1	159.4	8.6%
Hotel	18.5	18.1	2.0%	16.5	12.1%	36.6	34.0	7.6%
Office	13.0	13.9	-6.2%	12.9	0.9%	26.9	26.4	1.9%
Services	9.6	9.6	0.0%	16.0	-40.0%	19.2	31.9	-40.0%
Industrial & Others	2.0	2.0	0.6%	1.3	50.0%	4.0	2.7	49.0%
Net property income	129.3	130.5	-1.0%	116.2	11.3%	259.8	254.5	2.1%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIS REIT	MP	1.79	1.82	1.7%	3,128.0	Y	12/2024	9.4	10.8	10.1%	14.9%	19.0	16.6	1.1	5.8%	8.7	4.9%
CAPITALAND MALAYSIA TRUST	UP	0.65	0.580	-10.8%	1,842.3	N	12/2024	4.4	4.7	8.7%	5.5%	14.7	13.9	0.7	5.0%	4.3	6.6%
IGB REIT	MP	1.99	1.77	-11.1%	7,188.7	N	12/2024	10.8	12.2	8.2%	13.4%	18.4	16.3	1.9	9.7%	10.1	5.1%
KLCCP STAPLED GROUP	OP	7.61	8.00	5.1%	13,738.6	Y	12/2024	44.7	46.3	13.6%	3.7%	17.0	16.4	1.0	5.2%	42.5	5.6%
PAVILION REIT	OP	1.38	1.59	15.2%	5,051.8	N	12/2024	9.7	10.4	23.7%	7.4%	14.3	13.3	1.1	7.2%	9.0	6.5%
SUNWAY REIT	MP	1.65	1.69	2.4%	5,650.9	N	12/2024	10.5	11.4	2.7%	9.0%	15.8	14.5	1.1	6.5%	8.8	5.3%
SECTOR AGGREGATE					36,600.3					11.6%	7.8%	16.7	15.5	1.2	6.6%		5.7%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
SPECIFIC	Effluent/Waste Management	★	★	★		
	Water Management	★	★	★		
	Energy Efficiency	★	★	★		
	Green Buildings	★	★	★		
	Tenant Management	★	★	★		
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

***Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.

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