

## Sunway Real Estate Investment Trust

**TP: RM1.93 (+20%)**
*Acquiring Kluang Mall*
*Last Traded: RM1.61*
**BUY (ESG: ★★★★★)**

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### Acquiring Kluang Mall for RM158mn

Sunway REIT has entered into a conditional sale and purchase agreement with Tenaga Nusantara Sdn Bhd to acquire a shopping complex known as Kluang Mall located in Johor for RM158mn. The deal is expected to be completed by 4Q24.

Located in Kluang town centre, this four-storey shopping complex serves over 320,000 residents in the Kluang district and up to 1 million people in central Johor, including Batu Pahat, Ayer Hitam, Kulai, and Mersing. This four-storey shopping complex spans approximately 808,000 sq. ft. of gross floor area and 360,000 sq. ft. of net lettable space, with 920 car park bays. Currently 99% occupied by over 130 tenants, it is anchored by Pacific Hypermarket & Department Store and features a diverse mix of F&B outlets, lifestyle, and entertainment options, including GSC Cinema, Ampang Superbowl, Popular, H&M, Starbucks, Skechers, Coffee Bean, KFC, Body Shop, Face Shop, and Machines. This variety caters to families, students, and working professionals in central Johor.

See **Appendix I & 2** for more property information.

### A Decent Yield of 6.8%

Management expects the proposed acquisition to generate an indicative net property income (NPI) yield of approximately 6.8% based on the purchase consideration. This stands favourably against Sunway REIT's property portfolio yield of 5.7% in FY23. In addition, an independent market valuer appointed by Sunway REIT appraised the property's market value at RM165mn, and the purchase consideration represents a discount of approximately 4.2% to this value.

The proposed acquisition will be fully financed through bank borrowings. It is expected to slightly increase Sunway REIT's gearing ratio from 40.1% as at 31 Mar-24 to 41.1%.

### Our View

Upon successful completion of the proposed acquisition, Sunway REIT's assets under management will increase to RM9.8bn. This aligns with Sunway REIT's TRANSCEND 2027 target of growing the total property value to RM14-15bn by FY27.

The acquisition of Kluang Mall allows Sunway REIT to expand into central Johor, a region set to benefit from upcoming infrastructure projects like the Gemas-JB Electrified Double Tracking rail project and various road improvements along the Batu Pahat- Ayer Hitam – Kluang federal route. While the mall has already experienced strong occupancy and footfall growth in

#### Share Information

Bloomberg Code	SREIT MK
Stock Code	5176
Listing	Main Market
Share Cap (mn)	3,424.8
Market Cap (RMmn)	5,513.9
52-wk Hi/Lo (RM)	1.64/1.44
12-mth Avg Daily Vol ('000 shrs)	2,157.3
Estimated Free Float (%)	28.4
Beta	0.1

#### Major Shareholders (%)

Sunway Berhad	(40.9)
Employees Provident Fund	(15.9)
Kumpulan Wang Persaraan	(5.9)

#### Forecast Revision

	FY24	FY25
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	338.3	353.3
Consensus	354.7	374.3
TA's / Consensus (%)	95.4	94.4
Previous Rating	Buy (Maintained)	
Consensus TP (RM)	1.75	

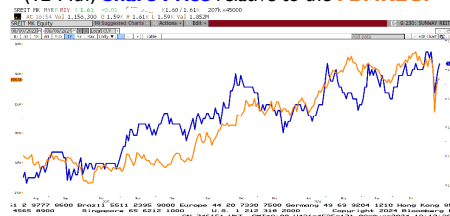
#### Financial Indicators

	FY24	FY25
Net gearing (%)	39.2	39.7
CFPS (sen)	8.7	10.6
P/CFPS (x)	18.5	15.1
ROE (%)	6.1	6.4
ROA (%)	3.5	3.7
NTA/Share (RM)	1.5	1.5
Price/ NTA (x)	1.1	1.1

#### Share Performance (%)

Price Change	SunREIT	FBM KLCI
1 mth	1.3	(1.3)
3 mth	1.3	0.9
6 mth	(0.6)	5.2
12 mth	7.3	9.6

#### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

recent years, Sunway Group's renowned branding and expertise in retail management is expected to further enhance Kluang Mall through tenancy optimisation and asset improvements.

Overall, we view the proposed acquisition positively due to the asset's strategic location, attractive pricing, and the potential for increased NPI through optimising the tenant mix and implementing asset enhancement initiatives.

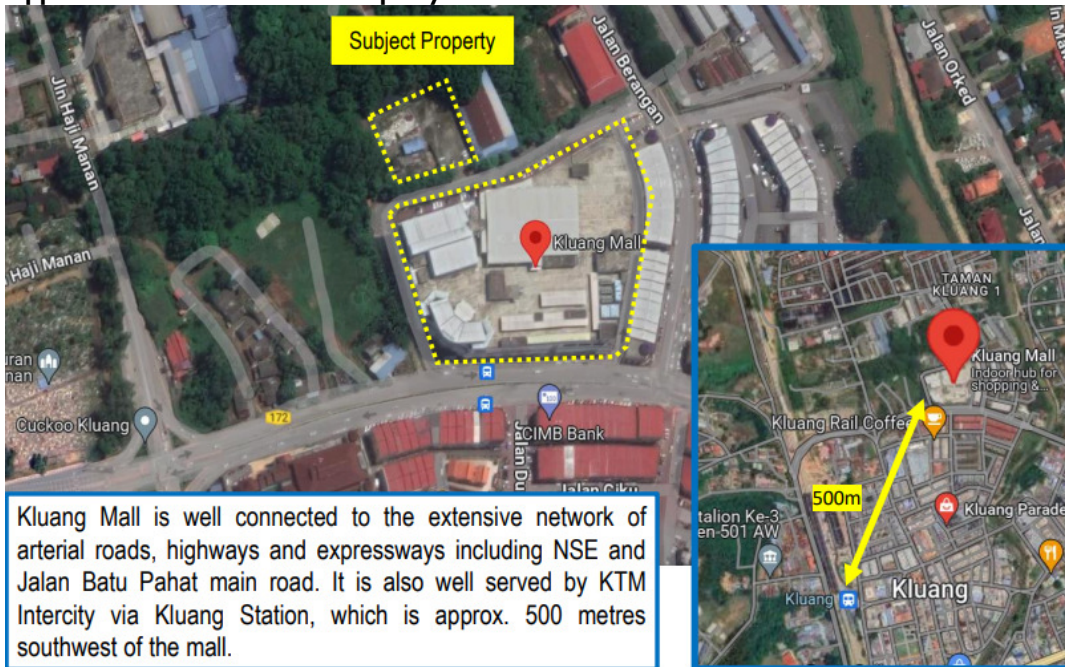
**Impact**

Assuming the property starts contributing to Sunway REIT's earnings in 1Q25, the proposed acquisition is expected to boost our FY25 and FY26 earnings forecasts by approximately 2%. However, we will maintain our current earnings forecasts until the acquisition is finalised.

**Recommendation and Valuation**

Incorporating a 3% ESG premium, we adjust our TP to RM1.93/unit from RM1.88/unit previously. Our TP is based on an unchanged target yield of 6.0%. Maintain **Buy**.

**Appendix I: Location of the Property**



Kluang Mall is well connected to the extensive network of arterial roads, highways and expressways including NSE and Jalan Batu Pahat main road. It is also well served by KTM Intercity via Kluang Station, which is approx. 500 metres southwest of the mall.

Source: Sunway REIT

## Appendix 2: Properties Information

Description	A free-standing four-storey shopping centre with a lower ground floor together with 920 car parking bays located at the lower ground, second, third floors and a private open-air parking area.
Address	Kluang Mall, Jalan Rambutan, Bandar Kluang, 86000 Kluang, Johor
Land tenure	99-year leasehold, expiring 7 February 2116 (approx. 92 years remaining)
Land area	Approx. 6 acres
Gross floor area	808,240 sq.ft. including 920 car park bays
Net lettable area	360,989 sq.ft.
Average occupancy rate	99% (as at July 2024)
Age of building	15+ years
Market Value	RM165.0 million
Purchase Consideration	RM158.0 million
Net property income yield (FY2023)	6.8% based on the Purchase Consideration

Source: Sunway REIT

### Earnings Summary

#### Profit and loss (RM mn)

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Gross Revenue	651.4	715.7	720.8	745.5	765.4
Net Property Income	500.2	526.9	538.0	557.5	573.7
Finance Cost	(100.1)	(138.9)	(133.4)	(137.0)	(140.6)
Adjusted Pretax profit	357.8	350.2	358.2	373.2	385.4
Reported Net Profit	323.6	338.2	358.2	373.2	385.4
Realised Net Profit	328.2	319.0	338.3	353.3	365.5
EPU (sen)	9.6	9.3	9.9	10.3	10.7
EPU growth (%)	43.4	(2.8)	6.0	4.4	3.5
PER (x)#	16.8	17.3	16.3	15.6	15.1
GDPS (sen)	9.2	9.3	9.9	10.3	10.7
Div yield (%)#	5.7	5.8	6.1	6.4	6.6
Core ROE (%)	6.0	5.8	6.1	6.4	6.6
NPI margin (%)	76.8	73.6	74.6	74.8	75.0
PBT margin (%)	54.9	48.9	49.7	50.1	50.4
Core net margin (%)	50.4	44.6	46.9	47.4	47.8

#### Cash Flows (RM mn)

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
PBT	332.9	339.6	358.2	373.2	385.4
Op profit before change in WC	432.9	478.5	491.6	510.2	526.0
CFO	435.0	445.6	448.2	514.2	529.2
Capex	(200.0)	(256.6)	(150.0)	(150.0)	(150.0)
CFI	(265.5)	135.4	(150.0)	(150.0)	(150.0)
Net proceed from share issuance	0.0	0.0	0.0	0.0	0.0
Net borrowings	147.7	79.0	100.0	100.0	100.0
Dividend	(315.8)	(318.5)	(338.3)	(353.3)	(365.5)
CFF	(208.8)	(406.9)	(371.7)	(390.3)	(406.1)
Changes in Cash	(39.3)	174.1	(73.5)	(26.1)	(26.8)

#### Balance Sheet (RM mn)

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Non current assets	8687.6	8990.1	9140.1	9290.1	9440.1
Receivables, deposits	44.6	108.2	31.6	32.7	33.6
Cash	251.2	425.3	351.8	325.7	298.9
Others	0.0	15.0	15.0	15.0	15.0
Total CA	725.8	548.5	398.4	373.4	347.4
Total Asset	9413.4	9538.6	9538.5	9663.5	9787.6
Trade and other payables	240.4	270.1	150.1	155.2	159.4
Borrowings	1636.8	1637.0	1657.0	1677.0	1697.0
Total CL	1888.0	1907.1	1807.1	1832.2	1856.3
Unitholders' Capital	3433.9	3433.9	3433.9	3433.9	3433.9
Perpetual Notes	339.7	339.7	339.7	339.7	339.7
Distributable income	1754.4	1742.5	1762.4	1782.3	1802.2
Total Unitholders' funds	5528.0	5516.1	5536.0	5555.9	5575.7
Borrowings	1900.0	2000.0	2080.0	2160.0	2240.0
Long term liabilities	97.4	115.5	115.5	115.5	115.5
Total Non Current Liabilities	1997.4	2115.5	2195.5	2275.5	2355.5
Total Liabilities + Equity	9413.4	9538.6	9538.5	9663.5	9787.6

#### Ratios#

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Gearing (%)	37.6	38.1	39.2	39.7	40.2
NTA/unit (RM)	1.5	1.5	1.5	1.5	1.5
P/NTA (x)	1.1	1.1	1.1	1.1	1.1
ROE (%)	6.0	5.8	6.1	6.4	6.6
ROA (%)	3.5	3.4	3.5	3.7	3.8

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### Sector Recommendation Guideline

**OVERWEIGHT:** The total return of the sector, as per our coverage universe, exceeds 12%.

**NEUTRAL:** The total return of the sector, as per our coverage universe, is within the range of 7% to 12%.

**UNDERWEIGHT:** The total return of the sector, as per our coverage universe, is lower than 7%.

### Stock Recommendation Guideline

**BUY :** Total return of the stock exceeds 12%.

**HOLD :** Total return of the stock is within the range of 7% to 12%.

**SELL :** Total return of the stock is lower than 7%.

**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return of the stock** includes expected share price appreciation, adjustment for ESG rating and gross dividend. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Total Return of the sector** is market capitalisation weighted average of total return of the stocks in the sector.

### ESG Scoring & Guideline

	Environmental	Social	Governance	Average
<b>Scoring</b>	★★★★	★★★★	★★★★	★★★★
<b>Remark</b>	In line with its sponsor, the REIT implements a comprehensive programme aiming to reduce to GHG emission, water & waste with relevant targets and deadlines.	As a real estate operator, Sunway REIT has a low exposure to social risks given that the sector is not labour-intensive. It maintains good community relations, and faces no material safety issues.	60% of its board members are independent, and 40% are female, exceeding the MCCG's requirement of 30%. The REIT holds investor briefings regularly, demonstrating good transparency and disclosure practices.	

★★★★★ (≥80%)	: Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.	+5% premium to target price
★★★★ (60-79%)	: Above adequate integration of ESG factors into most aspects of operations, management and future directions.	+3% premium to target price
★★★ (40-59%)	: Adequate integration of ESG factors into operations, management and future directions.	No changes to target price
★★ (20-39%)	: Have some integration of ESG factors in operations and management but are insufficient.	-3% discount to target price
★ (<20%)	: Minimal or no integration of ESG factors in operations and management.	-5% discount to target price

#### Disclaimer

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As of Friday, August 09, 2024, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

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