

COMPANY RESULTS

Sunway REIT (SREIT MK)

4Q23: Results In Line; Expect Better 2024 On Full Tourism Recovery

As expected, 4Q23 results were weaker (-15% qoq, -14% yoy) due to the disposal of Sunway Medical Center. Nonetheless cumulative 2023 earnings showed a decline of 2% as it was mitigated by the overall stronger hotel segment. For 2024, we see both revenue and earnings increasing 6% and 10% respectively, contributed by newly-acquired assets. Maintain BUY. Target price: RM1.71.

4Q23 RESULTS

Year to 31 Dec (RMm)	4Q23	3Q23	qoq % chg	yoy % chg	2023	yoy % chg
Gross revenue	179.4	175.8	2.0	2.7	704.5	10.2
Retail	123.9	111.8	10.9	6.2	472.9	10.8
Hotel	23.3	27.9	(16.6)	14.3	87.1	37.6
Office	21.0	20.7	1.7	4.5	82.6	4.1
Others	11.1	15.5	(28.0)	(36.5)	61.9	(11.5)
Operating expenses	(54.9)	(39.1)	40.4	35.3	(188.8)	24.9
Net Property Income	124.5	136.8	(8.9)	(7.2)	515.8	5.6
Retail	79.6	81.8	(2.8)	(6.1)	320.8	4.5
Hotel	21.4	26.9	(20.3)	10.4	82.4	38.6
Office	13.0	12.8	1.0	3.1	52.2	0.8
Others	10.6	15.2	(30.6)	(39.7)	60.4	(13.6)
Core PAT	78.4	92.0	(14.7)	(14.2)	339.1	(2.0)
EPU (sen)	2.3	2.7	(14.7)	(14.1)	9.9	(2.0)
DPU (sen)	4.7	0.0	n.m	(6.4)	9.3	0.9

Source: Sunway REIT, UOB Kay

RESULTS

- In line.** Sunway REIT (SREIT) reported 4Q23 revenue of RM179m (+2% qoq, +2.7% yoy) and core net profit of RM78m (-15% qoq, -14% yoy). Cumulative 2023 core net profit of RM339m (-2% yoy) accounted for 97-98% of our and consensus forecasts. As expected, 4Q23 earnings were affected qoq and yoy due to the disposal of Sunway Medical Center (SMC).
- Declared 4.7 sen dividend for 2H23 (2H22: 5.0 sen), which brings cumulative dividend to 9.3 sen (+0.9% yoy).** This represents dividend yield of 5.8%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	639	705	745	777	817
EBITDA	488	516	549	571	597
Operating profit	488	516	549	571	597
Net profit (rep./act.)	264	338	371	395	420
Net profit (adj.)	346	339	371	395	420
EPU (sen)	10.1	9.9	10.8	11.5	12.3
DPU (sen)	9.2	9.3	9.4	9.9	10.5
PE (x)	15.7	16.1	14.7	13.8	13.0
P/B (x)	1.0	1.1	1.1	1.1	1.1
DPU Yld (%)	5.8	5.8	5.9	6.2	6.6
Net margin (%)	41.2	48.0	49.8	50.8	51.4
Net debt/(cash) to equity (%)	37.6	33.7	36.1	36.1	36.2
Interest cover (x)	4.9	3.7	4.1	4.4	4.5
ROE (%)	4.8	6.1	6.7	7.2	7.6
Consensus DPU (sen)	.	.	9.4	9.9	-
UOBKH/Consensus (x)	-	-	1.0	1.0	-

Source: Sunway REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.59
Target Price	RM1.71
Upside	+7.8%
(Previous TP)	RM1.68)

COMPANY DESCRIPTION

Sunway Real Estate Investment Trust invests in retail, office, and hotel properties.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SREIT MK
Shares issued (m):	3,424.8
Market cap (RMm):	5,445.4
Market cap (US\$m):	1,151.9
3-mth avg daily t'over (US\$m):	0.4

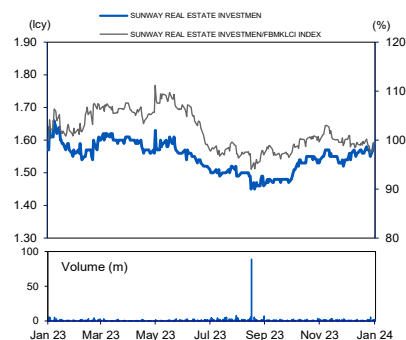
Price Performance (%)

52-week high/low	RM1.66/RM1.45			
1mth	3mth	6mth	1yr	YTD
3.2	7.4	4.6	0.0	3.2

Major Shareholders

Sunway Bhd	40.9
Employees Provident Fund	15.6
Kumpulan Wang Persaraan	5.9
FY24 NAV/Share (RM)	1.51
FY24 Net Debt/Share (RM)	1.03

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Retail: Sustained footfall and tenant sales but margin was hit.** 2023 net property income (NPI) margin for the retail segment fell to 73.2% (2022: 76.4%) due to reconfiguration of Sunway Pyramid Mall (from exit of anchor tenant). Occupancy rates for the segment held steady at 97%. Rental reversion for 2023 was positive (high-single digit) and was guided to be encouraging moving forward (2024 expectation: about mid-single digit). Refurbishment of Sunway Pyramid mall is expected to be completed in 4Q24 and will contribute positively to the retail segment with expectation of higher rental rates.
- Hotel: Gradual recovery.** 2023 hotel revenue improved 37% yoy with occupancy improving to 64% from 54% in 2022. We understand that SREIT's tourists' profile is about 50:50 with domestic and foreign tourists as the highly-anticipated influx of Chinese tourists was slower than anticipated. Nonetheless, tourists in its Penang hotel almost achieved 70% for foreign tourists (vs. pre-pandemic level of 70%). We expect a sharp recovery in tourism in 2024 especially from Chinese tourists from visa-free travel.
- Office: 2023 revenue up 4% yoy.** This was on the back of stable occupancies (84%) and positive increments in rental reversion. 2023 NPI margin for the office segment declined by 2.1ppt yoy due to higher utility costs. Amid the challenging outlook, SREIT is still able to weather the current office oversupply situation. 2024 rental reversion may still see positive increments albeit at low single digits.
- Six Giant hypermarkets acquired from EPF should start contributing in 2H24.** We estimate all six hypermarkets to contribute RM42.1m rental income annually. This should partly offset the revenue loss from the disposal of SMC (about RM26m annual rental income contribution). Furthermore, its recently-acquired 163 Retail Park in Mont Kiara should start contributing in 2H24 as well with estimated rental income of at least RM21m and NPI of RM14m.
- For 2024, we see both revenue and earnings increasing by 6% and 10%, respectively, contributed by six new Giant hypermarkets, new mall 163 Retail Park in Mont Kiara, higher retail and hotel segments, partly offset by the loss of revenue from the disposal of SMC and reconfiguration activity.

EARNINGS REVISION/RISK

- We increase our 2024-25 earnings forecasts by 1-2%** to account for recently-acquired 163 Retail Park in Mont Kiara.

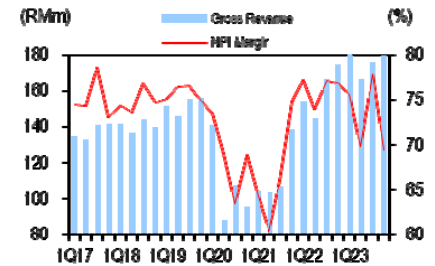
VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of RM1.71 (from RM1.68).** Our DDM-based target price is based on a required rate of return of 8.1% and implied 2024 dividend yield of 5.5%. We like SREIT for its diversified asset base and strong earnings recovery, spearheaded by the retail and hospitality segments, mainly from international patronage. We reckon its current valuation is attractive as its forward yield spread to MGS of 2.5ppt has widened to its five-year historical mean (2.1ppt).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

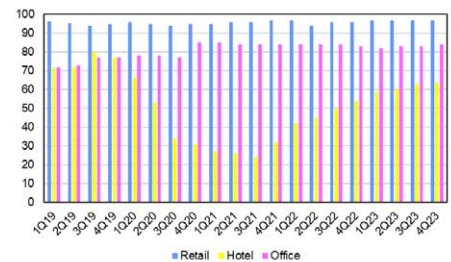
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> SREIT aims to achieve Net Zero Carbon Emissions by 2050. Established internal carbon pricing framework at RM15 per tonne of CO2e emitted. Social <ul style="list-style-type: none"> Established a Sustainability Policy and a Donations, Sponsorships and Corporate Responsibility Policy to guide the execution of sustainability as well as its commitment towards contributing to the communities. Formed an Occupational, Health, Safety and Environment Committee at the business segment level. Governance <ul style="list-style-type: none"> 43% of the Board of Directors are women. Adopted the Anti-Bribery and Corruption Policy and Procedure, and is further supported by the existing Whistleblowing Policy and Procedures.

REVENUE AND NPI MARGIN



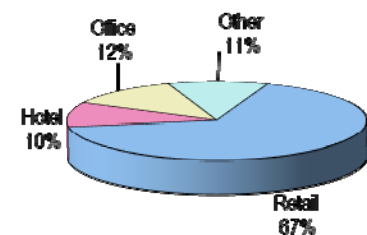
Source: SREIT, UOB Kay Hian

OCCUPANCY



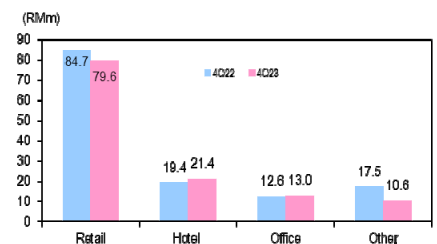
Source: SREIT, UOB Kay Hian

REVENUE BREAKDOWN



Source: SREIT, UOB Kay Hian

NPI CONTRIBUTION BY SEGMENT



Source: SREIT, UOB Kay Hian

ASSUMPTIONS

	2024F	2025F	2026F
Average hotel occupancy rate (%)	66	73	73
Average mall rental rates (RM psf)	7.7	7.9	8.1
Average blended office rental rates (RM psf)	4.13	4.19	4.24

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	705	745	777	817
EBITDA	516	549	571	597
Deprec. & amort.	0	0	0	0
EBIT	516	549	571	597
Total other non-operating income	(38)	(43)	(45)	(46)
Net interest income/(expense)	(139)	(135)	(131)	(131)
Pre-tax profit	340	371	395	420
Tax	(1)	0	0	0
Net profit	338	371	395	420
Net profit (adj.)	339	371	395	420

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	446	549	571	597
Pre-tax profit	727	745	777	817
Deprec. & amort.	0	0	0	0
Working capital changes	(284)	(196)	(206)	(220)
Other operating cashflows	2	0	0	0
Investing	135	(271)	(60)	(60)
Capex (maintenance)	(6)	(221)	(10)	(10)
Investments	(144)	0	0	0
Proceeds from sale of assets	(70)	(50)	(50)	(50)
Others	355	0	0	0
Financing	(407)	(606)	(526)	(551)
Distribution to unitholders	(329)	(371)	(395)	(420)
Issue of shares	0	0	0	0
Proceeds from borrowings	3,832	0	0	0
Loan repayment	(3,753)	(100)	0	0
Others/interest paid	(156)	(135)	(131)	(131)
Net cash inflow (outflow)	174	(327)	(15)	(14)
Beginning cash & cash equivalent	251	425	98	83
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	425	98	83	69

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	8,930	9,200	9,260	9,320
Other LT assets	60	60	60	60
Cash/ST investment	425	98	83	69
Other current assets	123	173	197	173
Total assets	9,539	9,531	9,601	9,623
ST debt	1,637	1,537	1,547	1,557
Other current liabilities	270	226	235	247
LT debt	2,102	2,102	2,102	2,102
Other LT liabilities	14	151	200	200
Shareholders' equity	5,516	5,516	5,516	5,516
Total liabilities & equity	9,539	9,531	9,601	9,623

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	73.2	73.7	73.5	73.1
Pre-tax margin	48.2	49.8	50.8	51.4
Net margin	48.0	49.8	50.8	51.4
ROA	3.6	3.9	4.1	4.4
ROE	6.1	6.7	7.2	7.6
Growth				
Turnover	10.2	5.7	4.3	5.1
EBITDA	5.6	6.5	4.0	4.6
Pre-tax profit	24.4	9.4	6.3	6.3
Net profit	28.3	9.8	6.3	6.3
Net profit (adj.)	(2.0)	9.5	6.3	6.3
EPU	(2.0)	9.5	6.3	6.3
Leverage				
Debt to total capital	40.4	39.7	39.8	39.9
Debt to equity	67.8	66.0	66.1	66.3
Net debt/(cash) to equity	33.7	36.1	36.1	36.2
Interest cover (x)	3.7	4.1	4.4	4.5

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