



AmInvestment Bank

SUNWAY REIT

(SREIT MK EQUITY, SUNW.KL)

04 Feb 2025

Higher DPU in FY24 supported by better performance of existing malls and the acquisition of new retail assets

Company Report

BUY

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(Maintained)

Rationale for report: Company Results

Price	RM1.87
Fair Value	RM2.11
52-week High/Low	RM1.92/RM1.49

Key Changes

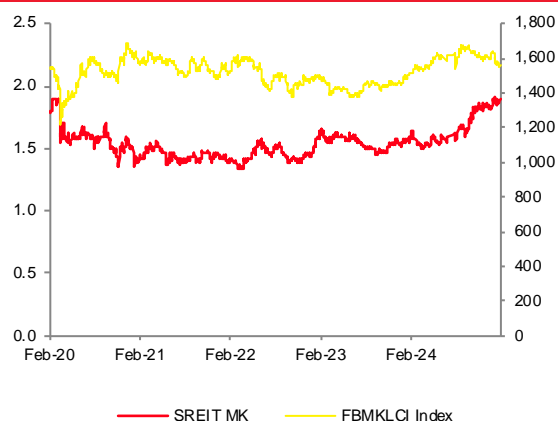
Fair value	↕
EPS	↔

YE to Dec	FY24	FY25F	FY26F	FY27F
Gross Revenue (RM mil)	767.1	865.2	891.2	905.3
Distributable Income (RM mil)	343.8	417.3	437.4	454.9
Consensus Net Income (RM mil)	350.0	394.7	408.8	-
EPU (sen)	10.0	12.2	12.8	13.3
DPU (sen)	10.0	12.2	12.8	13.3
DPU Growth (%)	7.5	21.9	4.8	4.0
Adj. Distribution Yield (%)	5.3	6.5	6.8	7.1
PE (x)	18.7	15.3	14.6	14.1
EV/EBITDA	15.5	18.4	17.7	17.2
ROE (%)	5.9	6.7	7.1	7.3
Debt-to-Asset Ratio (%)	41.3	41.3	40.7	40.1

Stock and Financial Data

Shares Outstanding (million)	3,424.8
Market Cap (RMmil)	6,404.4
Book Value (RM/Share)	1.71
P/BV (x)	1.1
ROE (%)	5.9
Debt-to-Asset Ratio (%)	41.3
Major Shareholders	Sunway (40.9%) EPF (16.2%) KWAP (5.9%)
Free Float	37.0
Avg Daily Value (RMmil)	2.6

Price performance	3mth	6mth	12mth
Absolute (%)	2.7	18.1	19.6
Relative (%)	5.8	22.2	16.5



Investment Highlights

We maintain BUY on Sunway REIT (SREIT) with revised target price (TP) of RM2.11/unit from RM2.08/unit based on our DDM after incorporating the actual FY24 numbers into our model. Earnings for FY24 were within expectations with a stronger net property income (NPI) growth. We expect a stronger distributional income in FY25F underpinned by the full year's recognition of rental from assets which were recently acquired (6 hypermarkets, industrial property in Prai, Penang, Sunway 163 Mall in Mont Kiara and Sunway Kluang Mall, Johor). Besides, the positive impact of the positive rental reversion of the Oasis, the reconfigured retail space at Sunway Pyramid Mall is expected to flow through the revenue and net property income in FY25F. FY25F distribution yield of 6.5% is attractive vs. the current 10-year MGS yield of 3.8% providing a spread of 270bps. Our FV has taken into consideration a 4-star ESG rating with a 3% premium accorded.

- Results within expectations. FY24 distributional income of RM344mil was within expectations accounting for 101% of our and 98.3% of consensus forecast.** YoY, SREIT's adjusted distributional income rose by 7.8% in FY24 contributed by 8.1% increase NPI driven largely by the improved performance of malls under retail segment and the rent contributions from 6 hypermarkets which were acquired recently. Additionally, NPI from Sunway Resort Hotel rose following the increase in the hotel's ARR. These have offset the absence of rent from Sunway Medical Center (Tower A&B) after the disposal of the asset in Aug 2023. QoQ, gross revenue climbed 14.9% while NPI rose by 14.7% supported by higher revenue from Sunway Pyramid mall after the opening of Oasis, higher rent contributions from the 6 hypermarkets and the recognition of rental from Sunway 163 Mall after the acquisition of the asset was completed in 4QFY24.
- Occupancy rates of assets under management remained steady.** Retail/hotel asset occupancy rates increased marginally by 1% to 98%/65% in FY24. In contrast, occupancy rates for office assets slipped 1% to 83% in FY24. The occupancy rate for its industrial property (PJ 1) with committed tenancies is poised to rise from 30% to 60% by end of 2025.
- Average rental reversion was 6.4% in FY24.** Management continues to guide a mid-single digit rental reversion of its retail assets in FY25F.
- Distributional income poised to rise ahead.** We remain positive on FY25F distributional income growth supported the full year rent contribution from the completed acquisition of 6 hypermarkets in Kinrara, USJ 1, Klang, Putra Heights, Ulu Kelang and Plentong in 1QFY24. Also, revenue will start to be contributed by the completed acquisitions of industrial property in Prai, Penang, Sunway 163 Mall in Mont Kiara and Sunway Kluang Mall, Johor. Besides, the full year's impact of positive impact of the positive rental reversion of the Oasis, the reconfigured retail space at Sunway Pyramid Mall is expected to contribute to an increase in distributional income by 21.4% YoY in FY25F.

Company profile

SREIT is a diversified REIT. Retail assets make up 63% of its total assets under management followed by hotels (19%), offices (10%), services (6%) and industrial and others (2%). Average occupancy rate for its retail properties stood at a high 98%.

Investment thesis and catalysts

We have a BUY recommendation on the stock with a revised TP of RM2.11/unit. The completion of the acquisition of 2 malls (163 Retail Park at Mont Kiara, KL and Kluang Mall, Johor) and an industrial asset in Prai, Penang in 2HFY24 which would see the full year rents from these assets kicking in FY25F. Also, the completed reconfiguration works for the retail space, Oasis at Sunway Pyramid mall to 260,000 sq ft from 320,000 sq ft in Nov 2024 is envisaged to increase its rental yield going forward with a higher average rent of RM16 psf from RM6.40 psf previously.

Valuation methodology

We are valuing the stock based on DDM with a WACC of 7.7% (beta: 0.9, market risk premium: 7.1%, pre-tax cos of debt: 4%, long term growth rate: 2%)

Risk factors

Risk to our call includes higher than expected 10-year MGS yield following the elevated interest rates in US post elections which could lower distribution yield spread and attraction for the REIT. Also, any slowdown in consumption spending from a slower economic growth and subsidy rationalizations could impact the malls' rental reversion rates and occupancy rates.

EXHIBIT 1: RESULTS SUMMARY

FY 31 Dec (RMmil)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)
Gross Revenue	190.5	192.1	220.9	14.9	15.9	715.7	767.1	7.2
Property Operating Expenses	(54.9)	(47.8)	(55.3)	15.6	0.8	(188.8)	(197.4)	4.6
Net Property Income	135.7	144.3	165.6	14.7	22.0	526.9	569.7	8.1
Net investment income	125.1	144.4	262.7	82.0	110.0	516.7	733.2	41.9
Manager's fee	(0.2)	(11.9)	(12.8)	7.2	>100	(43.9)	(47.2)	7.5
Trustee's fee	(1.3)	(0.2)	(0.2)	(8.1)	(86.5)	(0.8)	(0.8)	0.0
Other trust expenses	112.4	(1.1)	(1.0)	(8.1)	(100.9)	(3.3)	(4.0)	20.0
EBIT	236.0	131.1	248.7	89.7	5.4	468.6	681.2	45.4
Net interest income/expenses	(33.5)	(42.0)	(42.3)	0.7	26.2	(129.1)	(153.5)	19.0
Profit before EI	78.9	89.1	206.5	131.6	161.6	339.6	527.7	55.4
Exceptional item (EI)	0.0	0.0	0.0	n.a.	n.a.	0.0	0.0	n.a.
Associates/JV contribution	0.0	0.0	0.0	n.a.	n.a.	0.0	0.0	n.a.
Profit Before Taxation	78.9	89.1	206.5	131.6	161.6	339.6	527.7	55.4
Taxation	(1.4)	0.0	(2.9)	n.a.	112.5	(1.4)	(2.9)	112.5
Minority Interest (MI)	0.0	0.0	0.0	n.a.	n.a.	0.0	0.0	n.a.
Net Income	77.6	89.1	203.6	128.3	162.4	338.2	524.8	55.2
Adjustment	(4.2)	(0.0)	(108.9)	>100	>100	0.8	(180.9)	>-100
Adjusted Distributable Income	73.4	89.1	94.7	6.2	29.1	319.1	343.8	7.8
<u>Distribution:</u>								
EPU (sen)	2.1	2.6	2.8	5.7	29.0	9.3	10.0	8.0
Declared DPU (sen)	4.7	0.0	5.3	n.a.	14.1	9.3	10.0	7.5
NAV/unit	1.5	1.5	1.5	2.1	3.5	1.5	1.5	3.5
Weighted average units in issue ('Mil)	3,424.8	3,424.8	3,424.8	0.0	0.0	3,424.8	3,424.8	0.0
<u>Margin:</u>								
Net Property Income Margin (%)	71.2	75.1	75.0	(0.2)	5.3	47.4	74.3	26.8
EBIT margin (%)	41.4	46.4	93.5	101.5	125.6	3.6	68.8	65.2
Net Interest Coverage (x)	3.4	3.1	5.9	88.4	75.3	33.7	4.4	(29.2)
Debt/Asset Ratio (%)	38.1	43.1	41.3	(4.0)	8.4	38.1	41.3	3.2

Source: Company, AmlInvestment Bank

EXHIBIT 2: DIVIDEND DISCOUNT MODEL (DDM)

Discount Dividend Model

Assumption for Weighted Average Cost of Capital (WACC)

Risk Free Rate	3.9%
Beta	0.9
Market Return	11.0%

Cost of Equity (Ke)	10.3%
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Average Cost of Debt	4.0%
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Capital Structure: (RM Mil)

Market Cap	6,404.4	58.2%
Total Borrowing	4,604.7	41.8%
Total	11,009.1	100.0%

<u>Weighted Average Cost of Capital (WACC):</u>	Weight	Cost	W X C
Cost of Equity (Ke)	58.2%	10.3%	6.0%
Average Cost of Debt	41.8%	4.0%	1.7%
WACC			7.7%

Multi-Stage DDM	2024	2025	2026	2027	2028	Terminal Value
Period	1	2	3	4	5	
Dividends (RM)	0.10	0.12	0.13	0.13	0.14	2.26
Present Value (RM)	0.09	0.11	0.10	0.10	0.09	1.56
Valuation	2.06					
(+3%) adjustment for 4-star ESG rating	0.06					
Fair Value/unit (RM)+ESG	2.11					
WACC (%)	7.7%					
Growth Rate (%)	2%					

Source: Company, AmInvestment Bank

EXHIBIT 3: ESG MATRIX

	Environmental assessment	Parameters	Weightage	Rating					Rationale
1	Scope 1 GHG Emissions	Revenue/Co2e	20%	*	*	*	*		80% YoY decrease in FY23
2	Scope 2 GHG Emissions	Revenue/Co2e	20%	*	*	*	*		10% YoY decrease in FY23
3	Scope 3 GHG Emissions	Revenue/Co2e	20%	*	*	*			11% YoY increased in FY23
4	Water usage	Revenue/water consumption	20%	*	*	*			4% decreased compared to FY22
5	Energy usage	Revenue/energy consumption	10%	*	*	*			10% increase compared to FY22 due to full operations and normalization of economic activities in FY23
6	Waste management	Amount of waste diverted away from the landfill	10%	*	*	*	*		Increased by 4% compared to FY22
	Weighted score for environmental assessment		100%	*	*	*	*		
	Social assessment								
1	Health, safety & well-being	Recorded injuries	25%	*	*				Increased to 9 in FY23 from 6 in FY22
2	Women in workforce	% of total workforce in management	25%	*	*	*	*		78% in executive & 9% in non-executive
3	Investment in employee training	Average number of hours of training per year per employee trained	25%	*	*	*	*		Increased to 35 hours in FY23 from 30 hours in FY22
4	Procurement sourcing from local vendors	% of total procurement	25%	*	*	*	*	*	100%
	Weighted score for social assessment		100%	*	*	*	*		
	Governance assessment								
1	Board age diversity	% under 60 years old	20%	*	*				29%
2	Board women representation	% of total board directors	20%	*	*	*			43% representation
3	Directors with tenure below 6 years	% below 6 years category	20%	*	*	*	*		57%
4	Independent board directors	% of total board directors	20%	*	*	*	*		57% - independent non-exec
5	Remuneration to directors	% of total staff costs	20%	*	*	*	*		RM2mil - 5% of 2023 staff costs
	Weighted score for governance assessment		100%	*	*	*	*		
	Environmental score		40%	*	*	*	*		
	Social score		30%	*	*	*	*		
	Governance score		30%	*	*	*	*		
	Overall ESG Score		100%	*	*	*	*		

Source: Company, AmlInvestment Bank

EXHIBIT 4: PB BAND CHART

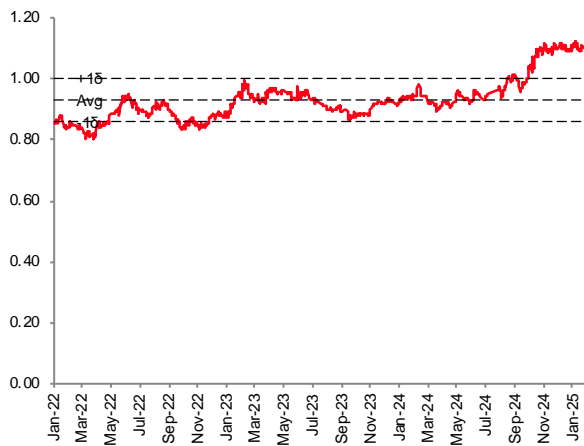


EXHIBIT 5: PE BAND CHART



EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Gross Revenue	715.7	767.1	865.2	891.2	905.3
Property Operating Expenses	(188.8)	(197.4)	(229.1)	(234.8)	(237.7)
Net property income (NPI)	526.9	569.7	636.2	656.4	667.6
Net Investment Income	516.7	733.2	636.9	657.2	668.4
Net interest	(129.1)	(153.5)	(164.7)	(163.5)	(158.0)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	339.6	527.6	406.0	425.5	442.5
Taxation	(1.4)	(2.9)	11.4	11.9	12.4
Minorities	0.0	0.0	0.0	0.0	0.0
Net income	338.2	524.7	417.3	437.4	454.9
Adjusted Distributable Income	319.0	343.8	417.3	437.4	454.9
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Plant and Equipment	17.4	16.6	17.9	19.6	21.1
Investment Properties	8,972.0	10,454.8	10,592.8	10,592.8	10,592.8
Total non-current assets	8,990.1	10,472.1	10,611.4	10,613.1	10,614.6
Cash & equivalent	425.3	289.8	483.4	515.4	549.5
Trade receivables	19.4	23.8	49.2	49.2	47.6
Other current assets	103.8	16.9	16.9	16.9	16.9
Total current assets	548.5	330.5	549.6	581.5	613.9
Trade payables	1.5	5.6	4.1	4.2	4.4
Short-term borrowings	1,637.0	1,736.7	971.8	1,302.5	1,551.3
Other current liabilities	268.6	336.1	273.5	281.2	285.4
Total current liabilities	1,907.1	2,078.5	1,249.3	1,588.0	1,841.1
Long-term borrowings	2,000.0	2,730.0	3,575.7	3,334.5	3,037.7
Other long-term liabilities	115.5	122.1	124.3	127.5	129.3
Total long-term liabilities	2,115.5	2,852.1	3,700.0	3,462.0	3,167.0
Total Unitholders' funds	5,516.1	5,872.0	6,211.7	6,144.7	6,220.5
Minority interests	—	—	—	—	—
NAV per unit (RM)	1.5	1.6	1.7	1.6	1.7
Cash Flow (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	339.6	527.6	406.0	425.5	442.5
Depreciation/Amortisation	0.0	0.0	0.0	0.0	0.0
Net change in working capital	(28.3)	124.7	(89.6)	7.9	6.1
Others	134.4	(2,437.8)	80.3	113.4	249.9
Cash flow from operations	445.6	(1,785.5)	396.6	546.8	698.5
Capital expenditure	(5.6)	(3.6)	(4.0)	(4.2)	(4.2)
Net investments & sale of fixed assets	130.4	1,482.8	138.0	0.0	0.0
Others	10.5	13.1	39.7	42.3	27.6
Cash Flow (used in) / from Investing	135.4	1,492.4	173.6	38.1	23.4
Debt raised/(repaid)	79.0	829.8	80.7	89.5	(48.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Distribution paid to unitholders	(329.5)	(341.9)	(416.7)	(436.7)	(454.2)
Others	(156.4)	(166.6)	(204.3)	(205.8)	(185.7)
Cash flow (used in) / from Financing	(406.9)	321.2	(540.3)	(553.0)	(687.8)
Net cash flow	174.1	28.1	30.0	32.0	34.1
Net cash/(debt) b/f	251.3	425.3	453.4	483.4	515.4
Net cash/(debt) c/f	425.3	453.4	483.4	515.4	549.5
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	9.9	7.2	12.8	3.0	1.6
NPI margin (%)	73.6	74.3	73.5	73.7	73.7
Pretax margin (%)	47.4	68.8	46.9	47.7	48.9
Net income margin (%)	47.3	68.4	48.2	49.1	50.2
Interest cover (x)	3.6	4.4	3.5	3.6	3.8
DPU payout (%)	99.8	99.8	99.8	99.8	99.8
Receivable turnover (days)	18.3	19.4	20.8	20.2	19.2
Payable turnover (days)	6.6	6.5	6.5	6.5	6.7

SOURCE: COMPANY, AMINVESTMENT BANK ESTIMATES

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