HLIB Research
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Sunway REIT

BUY (Maintain)

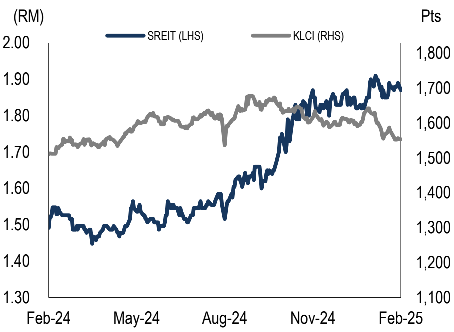
Target Price:	**RM2.04**
Previously:	**RM1.96**
Current Price:	**RM1.87**

Capital upside	9.1%
Dividend yield	5.7%
Expected total return	14.8%

Sector coverage: REIT

Company description: Sunway REIT is one of the largest retail focused REIT that is strategically located across award-winning integrated townships in key locations within Klang Valley, Penang and Perak.

Share price



Historical return (%)	1M	3M	12M
Absolute	-1.6	1.6	18.4
Relative	3.2	5.7	15.5

Stock information

Bloomberg ticker	SREIT MK
Bursa code	5176
Issued shares (m)	3,425
Market capitalisation (RM m)	6,404
3-mth average volume ('000)	1,401
SC Shariah compliant	No
F4GBM Index member	Yes
ESG rating	★★★★

Major shareholders

Sunway Bhd	40.9%
EPF	16.2%
KWAP	5.9%

Earnings summary

FYE (Dec)	FY24	FY25f	FY26f
PAT – core (RM m)	354.2	401.1	416.3
EPU – core (sen)	10.3	11.7	12.2
P/E (x)	18.2	16.0	15.4

Finishing in line

Sunway REIT's 4Q24 core net profit of RM99.2m (+11.3% QoQ, +26.5% YoY) brought FY24 sum to RM354.2m (+4.5% YoY), which came in line with both our and consensus estimates at 100-101% of forecast. Nevertheless, we raise our FY25/26 forecasts by +4.6%/4.3% to reflect the injection of Kluang Mall into its portfolio in late Dec-24. Looking ahead, we expect Sunway REIT's FY25 performance to remain strong, driven by: (i) more tourist arrivals, (ii) income booster policies, and (iii) full-year contribution from Sunway Oasis and Kluang Mall, alongside the potential mid-year injection of Aeon Mall Seri Manjung. We maintain our BUY rating with a revised target price of RM2.04, based on a FY25 DPU and a targeted yield of 5.2%.

Within expectation. 4Q24 core net profit of RM99.2m (+11.3% QoQ, +26.5% YoY) brought FY24'a sum to RM354.2m (+4.5% YoY). The results were within our and consensus expectation at 100% and 101% of forecast.

Dividend. 4Q24: 5.34 sen (4.02 sen is taxable, 1.18 is non-taxable and 0.14 sen is tax exempt; ex-date: 18 Feb 2025) vs 4Q23: 4.68 sen (FY24: DPU of 10.00 sen vs 9.3 sen SPLY.)

QoQ. Revenue increased 9.6%, driven by stronger performance at its retail segment (+14.1%), although partially offset by a decline in the hotel division (-4.7%). The retail growth was primarily attributed to higher revenue from Sunway Pyramid Mall, lifted by the opening of its Oasis wing in Nov-24. However, core net profit saw a quicker expansion (+11.3%) due to a smaller uptick in non-operating expenses (+4.7%).

YoY. Revenue grew 17.4%, supported by stronger performance at both the retail (+20.2%) and hotel (+19.8%) segments. The retail increase was primarily driven by new rental contributions from the six Sunway REIT Hypermarkets, Sunway 163 Mall, and the opening of Sunway Oasis at Sunway Pyramid. Meanwhile, the hotel segment benefited from a general recovery in tourism activity and more foreign tourist arrivals. Property operating expenses rose at a slower pace (+0.8%), resulting in a significant increase in NPI (+24.7%) and core profit (+26.5%).

YTD. Revenue grew 7.4%, with improvements across all segments except for services (-30.4%). The retail growth was driven by the same factors mentioned in the YoY paragraph. However, core net profit saw a smaller increase (+4.5%) due to higher finance costs (+19.9%), which stemmed from increased borrowings to fund new properties and higher average interest rates (FY24: 3.89% vs. FY23: 3.80%).

Occupancy and gearing. Occupancy rates across retail, hotel, and office segments remained steady at 98%, 65% and 83% respectively. Gearing stood at 41.4% (3Q24: 43.1%).

Outlook. We are optimistic on the REIT's performance in FY25, as we expect strong growth driven by an increase in tourist arrivals, bolstered by initiatives such as the ASEAN Chairmanship 2025 and promotional activities ahead of Visit Malaysia 2026. These factors are likely to benefit its hotel assets, which currently have an average occupancy rate of only 65%. In addition, its retail performance is expected to benefit from income boosting policies like the minimum wage increase from RM1,500 to RM1,700, pay hikes for civil servants, and the EPF Account 3 withdrawal. Furthermore, the full-year contributions from Sunway Oasis and Kluang Mall, along with the potential mid-year injection of Aeon Mall Seri Manjung, will further boost earnings.

Forecast. We raise FY25/FY26 earnings forecasts by +4.6%/4.3% to account for the injection of Kluang Mall, which was completed in late Dec-24.

Maintain BUY with a higher TP of RM2.04 (from RM1.96), after baking in the injection of Kluang Mall into our forecasts. Our TP is based on FY24 DPU on targeted yield of 5.2% (from 5.3%), derived from 5-year historical average yield spread between Sunway REIT and MAGY10YR. We continue to like Sunway REIT in view of its diversified portfolio of properties across the retail, hospitality, office, education and industrial segments.

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY22	FY23	FY24	FY25f	FY26f
Revenue	651.4	715.7	756.9	856.8	882.9
Core PAT	348.5	348.8	354.2	401.1	416.3
Core EPU (sen)	10.2	10.2	10.3	11.7	12.2
P/E (x)	18.4	18.4	18.2	16.0	15.4
DPU (sen)	7.0	9.6	10.0	10.7	11.1
Dividend yield (%)	3.8%	5.1%	5.3%	5.7%	5.9%
BVPS (RM/share)	1.6	1.6	1.5	1.5	1.5
P/B (x)	1.2	1.2	1.2	1.2	1.2
ROE (%)	6.2%	6.5%	6.6%	7.6%	7.9%
Net Gearing (%)	34.9%	33.7%	38.7%	42.4%	43.4%

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Figure #2 Quarterly results comparison

FYE Dec (RM m)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)
Gross revenue	**179.4**	**192.1**	**210.6**	**9.6%**	**17.4%**	**704.5**	**756.9**	**7.4%**
Retail segment	123.9	130.6	149.0	14.1%	20.2%	472.9	529.6	12.0%
Hotel segment	23.3	29.2	27.9	-4.7%	19.8%	87.1	95.5	9.6%
Office segment	21.0	20.5	20.5	0.2%	-2.3%	82.6	83.1	0.6%
Services segment	9.4	9.6	9.7	0.8%	2.3%	55.2	38.4	-30.4%
Industrial & others segment	1.7	2.3	3.5	53.6%	104.9%	6.8	10.3	51.4%
Property operating expenses	**-54.9**	**-47.8**	**-55.3**	**15.6%**	**0.8%**	**-188.8**	**-197.4**	**4.6%**
Quit rent, assessment & insurance	-4.4	-4.5	-4.7	5.8%	7.3%	-17.5	-17.2	-1.7%
Other property operating expenses	-50.5	-43.4	-50.6	16.6%	0.2%	-171.3	-180.3	5.2%
Net property income	**124.5**	**144.3**	**155.3**	**7.6%**	**24.7%**	**515.8**	**559.4**	**8.5%**
Retail segment	79.6	91.8	103.5	12.8%	30.1%	320.8	368.4	14.8%
Hotel segment	21.4	28.1	26.8	-4.7%	25.0%	82.4	91.5	11.1%
Office segment	13.0	12.9	12.4	-4.4%	-4.7%	52.2	52.2	0.0%
Services segment	20.6	9.6	9.7	0.7%	-53.1%	66.3	38.4	-42.1%
Industrial & others segment	1.1	1.9	2.9	53.3%	164.0%	5.3	8.9	69.3%
Finance income	5.1	1.6	3.2	104.8%	-37.1%	9.9	13.1	32.4%
Other income	0.1	0.0	0.2	326.7%	200.0%	0.4	0.3	-21.7%
Net investment income	**129.6**	**145.9**	**158.6**	**8.7%**	**22.4%**	**526.0**	**572.8**	**8.9%**
Manager's fee	-11.1	-11.9	-12.8	7.2%	15.0%	-43.9	-47.2	7.5%
Trustee's fee	-0.2	-0.2	-0.2	-8.1%	-2.2%	-0.8	-0.8	0.0%
Other trust expenses	-1.3	-1.1	-1.0	-8.1%	-22.8%	-3.3	-4.0	20.0%
Finance cost	-38.6	-43.5	-45.5	4.4%	17.9%	-138.9	-166.6	19.9%
Non-operating expenses	**-51.2**	**-56.8**	**-59.4**	**4.7%**	**16.1%**	**-187.0**	**-218.6**	**16.9%**
Core profit before tax	**78.4**	**89.1**	**99.2**	**11.3%**	**26.5%**	**339.1**	**354.2**	**4.5%**
Taxation	0.0	0.0	0.0	NA	NA	0.0	0.0	NA
Core profit	**78.4**	**89.1**	**99.2**	**11.3%**	**26.5%**	**339.1**	**354.2**	**4.5%**
Core EPU (sen)	**2.29**	**2.60**	**2.90**	**11.3%**	**26.5%**	**9.90**	**10.34**	**4.5%**
Core DPU (sen)	**4.68**	**0.00**	**5.34**	**N.M.**	**14.1%**	**9.30**	**10.00**	**7.5%**

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2. As of 04 February 2025, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.