

## Sunway REIT

**First Take: Strong end to the year but gearing remains uncomfortably high**

**Our First Take:** 2H24 gross DPU rose 14.1% YoY to 5.34 Mcts on the back of prior acquisitions and completion of AEIs at Sunway Pyramid. Results were below our expectations but above consensus with FY24 DPU of 10.00 Mcts (+7.5% YoY) representing 99%/103% of our/street estimates. Miss to our numbers was attributed to a lower FY24 NPI margin of 74.3% versus our 75.5% estimate, and lower payout ratio. Gearing remains elevated and we estimate it could climb towards 45% post completion of the AEON Mall Seri Manjung ([link](#)) acquisition over the next two months, AEI at Sunway Carnival in mid 2025 (another RM100m capex) as well as the RM400m Sunway Pier development (completion in 2027). Management will consider an equity raising if there is another large acquisition (low 40's target gearing). The outlook remains bright owing to various acquisitions and mid single digit rental reversions over FY25. Overall, we see better value in other M-REITs such as KLCC which offer comparable yields but lower gearing (~33%).

### Key Positives

2H24 NPI for the core retail portfolio increased by 21.0% YoY to RM195.3m on uplift at Sunway Pyramid post completion of refurbished Oasis Wing, maiden contribution from Sunway 163 Mall and achievement of low teens rental reversions over FY24 (~10% for 9M24). Increase in occupancy (+1% over FY24) and ADR (+3% over FY24) and uplift from prior AEI's contributed to 2H24 hotel NPI rising 13.6% YoY to RM54.9m. On the back of RM163m of revaluation gains (higher income with no change in cap rates), gearing fell to 41.3% from 43.1% in 3Q24. Cost of debt was stable at 3.89%.

### Key Negatives/Question Marks

Owing to a softer Nov-25/Dec-25 (down slightly YoY), FY24 tenant sales slowed to +2% YoY from a 5% increase for 9M24. This is consistent with commentary from IGB REIT on the drag from a high base effect ([link](#)). Occupancy costs stand in the mid teens. 2H24 NPI for the office portfolio fell 2.0% YoY to RM25.3m due to a 1% YoY drop in occupancy. The main drag was at Sunway Putra Tower (69% occupancy vs. 80% a year ago) but could rise to to 80% by year-end on signing of a government tenant.

### Likely Changes to Consensus

We expect an increase in the Street's DPU estimates.

### Expected stock reaction

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**Neutral**

**SUNW.KL, SREIT MK**

Price (03 Feb 25):RM1.87

Price Target (Dec-25):RM1.70



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We expect a positive reaction.

**Table 1: Results**

RM m, year-end Dec	4Q23	3Q24	4Q24	QoQ	YoY	FY23	FY24	YoY	FY24E
				Chg	Chg			Chg	
Revenue	190.5	192.1	220.9	14.9%	15.9%	715.7	767.1	7.2%	767.4
NPI	135.7	144.3	165.6	14.7%	22.0%	526.9	569.7	8.1%	579.4
Dist. Income (Avail.)	73.4	89.1	94.7	6.3%	29.1%	319.0	343.8	7.8%	344.8
Declared gross DPU (Mcts)	4.68	-	5.34	-	14.1%	9.30	10.00	7.5%	10.07

Source: Company data, J.P. Morgan estimates.

## Investment Thesis, Valuation and Risks

### Sunway REIT *(Neutral; Price Target: RM1.70)*

#### Investment Thesis

We believe the strong positioning of Sunway Pyramid, Sunway REIT's key asset, exposure to education properties with in-built escalations, acquisition of the Giant hypermarket portfolio, completion of the ~350,000 sqf expansion of Sunway Carnival and reopening of Sunway Resort Hotel, position the REIT for steady growth ahead. Combined with continued growth in retail tenant sales, which are above pre-COVID-19 levels, resulting in positive rental reversions ahead, we project a 5% three-year DPU CAGR. However, we maintain our Neutral rating, as we believe the risk-reward is balanced with Sunway REIT's decent forward net yield of 5.1%, but gearing in the low-40% range, at the higher end of the peer range.

#### Valuation

Our Dec-25 PT of RM1.70 is based on our DDM, which uses a 7.8% discount rate, a 4% risk-free rate and 2% terminal growth. Our PT implies a forward FY25E net yield of 5.5% and yield spread of 1.5% (0.1 s.d. above mean).

#### Risks to Rating and Price Target

Key downside risks include:

- Elevated cost of living, mortgage rates and/or removal of government subsidies negatively impacting tenant sales/retail rents.
- Competition from e-commerce negatively impacting retail malls.
- A larger-than-expected impact from new retail, office and hotel supply.
- A higher-than-expected increase in bond yields.
- Revaluation losses lifting elevated gearing.

Key upside risks include:

- A faster-than-expected recovery in consumer spend and pent-up travel demand.
- A decline in rate hike expectations.

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KLCCP Stapled Group(KLCC.KL/RM8.18/OW), Sunway REIT(SUNW.KL/RM1.87/N)

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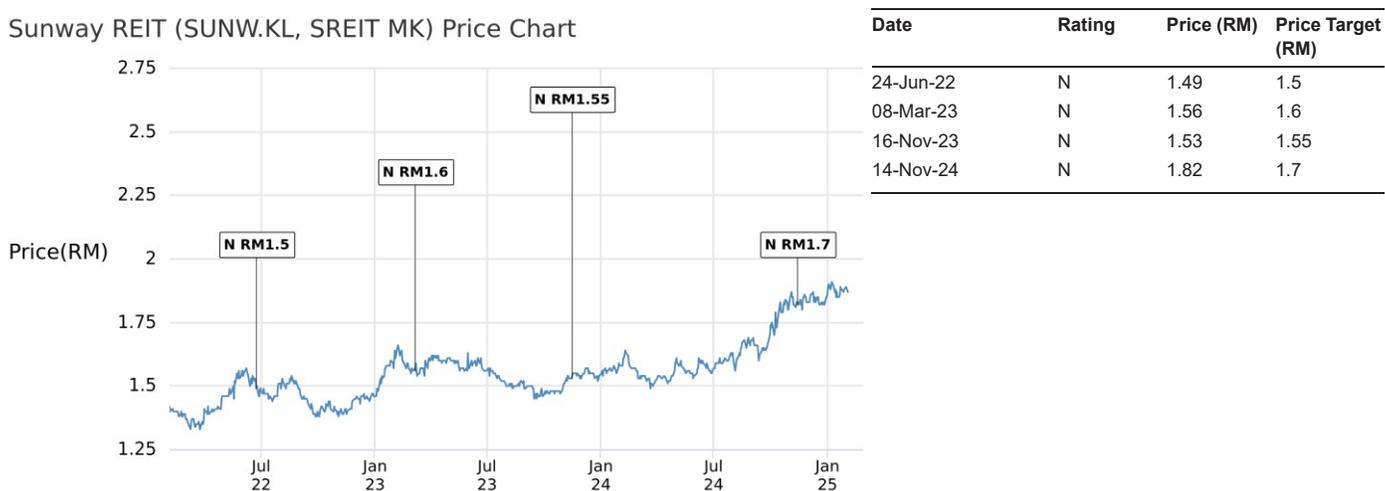
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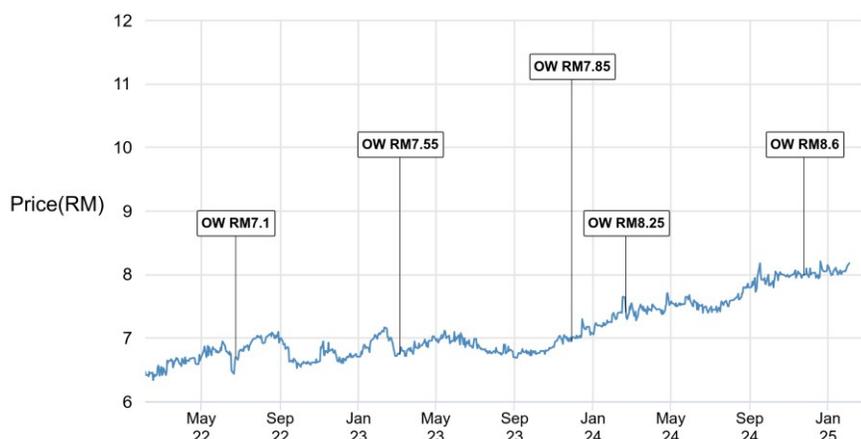
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Sunway REIT (SUNW.KL, SREIT MK) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Aug 15, 2010. All share prices are as of market close on the previous business day.

KLCCP Stapled Group (KLCC.KL, KLCCSS MK) Price Chart



Date	Rating	Price (RM)	Price Target (RM)
24-Jun-22	OW	6.70	7.1
07-Mar-23	OW	6.75	7.55
29-Nov-23	OW	6.95	7.85
22-Feb-24	OW	7.41	8.25
25-Nov-24	OW	7.99	8.6

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Nov 21, 2006. All share prices are as of market close on the previous business day.

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