

04 February 2025

# Sunway REIT

## Fresh Assets in the Retail Segment

By **Chris Tong** | [christong@kenanga.com.my](mailto:christong@kenanga.com.my)

SUNREIT's FY24 results were below expectations on Sunway Pyramid's lower-than-expected operating margins in the year, likely due to the opening of the new Oasis Wing. Its core net profit grew by 7% YoY, mainly driven by newly acquired retail assets and stronger performance from Sunway Pyramid and Sunway Carnival post refurbishments. Though we lowered our FY25F earnings by 8%, we raised our TP from RM2.01 to RM2.07 (+3%) as we rolled over our valuation base year to FY26. Reiterate our **OUTPERFORM** call.

SUNREIT's FY24 full-year core net profit came in at RM351.3m, meeting the full-year consensus estimate at 100% but missed our full-year forecast by 7%. The difference was mainly due to a slightly lower-than-expected operating margin for Sunway Pyramid mall in the year. An estimated after-tax distribution of 4.9 sen was announced in the quarter, bringing the total NDFU to 9.2 sen, within our forecast of 9.1 sen.

**YoY**, SUNREIT's FY24 revenue and net profit both increased by 7%, mainly driven by the inclusion of rental income from newly acquired assets such as six new hypermarkets in April 2024, and Sunway 163 mall in October 2024. This was further bolstered by stronger performance from Sunway Pyramid and Sunway Carnival post refurbishments.

**QoQ**, both revenue and net profit surged by 15%, largely attributable to the newly acquired Sunway 163 mall and higher rental income from Sunway Pyramid new wing – the OASIS.

**Outlook.** SUNREIT is set to fully recognise income from multiple new assets in FY25, being the six new hypermarkets, Sunway 163 mall and Sunway Kluang mall. We gathered that Sunway Pyramid's new wing – the OASIS which accounts for 11% of its NLA, has transformed into a lively and vibrant shopping space that is now attracting 40% higher footfalls. In addition, the progressive refurbishment works in Sunway Carnival that will be completed by mid FY25 will bring in even more offerings in the mall in Seberang Jaya and further boost SUNREIT's earnings. We remain confident that its hotel segment will continue to see revenue growth following government's higher budget allocation in promoting tourism. Downside risk remains to be the upcoming subsidy rationalisation in FY25.

**Forecasts.** Following latest progresses and model updates, we lowered our FY25F earnings by 8%. This is inclusive of earnings from the group's recent acquisition of the AEON mall in Manjung, Perak which is set to contribute RM9m NPI annually. We also introduced new FY26F numbers.

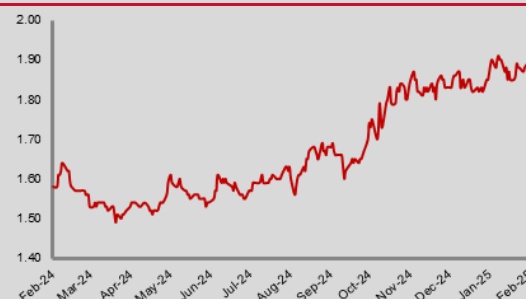
**Valuations.** Raised TP from RM2.01 to RM2.07 (+3%) as we rolled over our valuation base year to FY26F while maintaining our **OUTPERFORM** call. The basis of our TP remains unchanged at a target yield of 5.25% (derived from a 1.5% yield spread above our 10-year MGS assumption of 3.75%). The relatively lower yield spread against what we applied to its peers is to reflect SUNWAY's diversified asset portfolio in key urban regions. We reckon that the group's brand equity also benefits greatly from its affiliation to the Sunway conglomerate. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

**Risks to our call include:** (i) higher-than-expected bond yield, and (ii) lower-than-expected occupancy rates.

# OUTPERFORM ↔

**Price:** RM1.87  
**Target Price:** RM2.07 ↑

### Share Price Performance



KLCI	1,553.63
YTD KLCI chg	-5.4%
YTD stock price chg	1.1%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	SREIT MK EQUITY
Market Cap (RM m)	6,404.4
Shares Outstanding	3,424.8
52-week range (H)	1.92
52-week range (L)	1.49
3-mth avg. daily vol.	1,400,594
Free Float	50%
Beta	0.4

### Major Shareholders

Sunway Bhd	40.9%
Employees Provident Fund	16.2%
Kumpulan Wang Persaraan	5.9%

### Summary Earnings Table

FY Dec (RM m)	2024A	2025F	2026F
Turnover	767.1	877.4	914.2
EBIT	569.7	665.6	695.3
PBT	527.7	422.9	438.8
<b>Net Profit (NP)</b>	<b>524.8</b>	<b>420.6</b>	<b>436.4</b>
<b>Core Net Profit</b>	<b>351.4</b>	<b>410.6</b>	<b>426.4</b>
Consensus (NP)	350.0	394.7	416.7
Earnings Revision (%)	-	-8.3	NEW
Core EPS (sen)	10.3	12.0	12.4
Core EPS Growth (%)	6.8	16.8	3.8
GDPU (sen)	10.0	11.8	12.4
NDFU (sen)	9.2	10.8	11.4
BVPS (RM)	1.57	1.57	1.58
Core PER (x)	18.2	15.6	15.0
Price/BV (x)	1.2	1.2	1.2
Net Asset Gearing (x)	0.39	0.43	0.43
Net Div. Yield (%)	4.9	5.8	6.1

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## Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Rental and lease income	215.8	186.1	15.9%	186.6	15.6%	746.5	700.4	6.6%
Other operating income	5.1	6.0	-16.0%	3.9	30.9%	20.6	15.3	34.8%
<b>Gross Revenue</b>	<b>220.9</b>	<b>192.1</b>	<b>14.9%</b>	<b>190.5</b>	<b>15.9%</b>	<b>767.1</b>	<b>715.7</b>	<b>7.2%</b>
Property Operating Expenses	-55.3	-47.8	15.6%	-54.9	0.8%	-197.4	-188.8	4.6%
<b>Net Property Income</b>	<b>165.6</b>	<b>144.3</b>	<b>14.7%</b>	<b>135.7</b>	<b>22.0%</b>	<b>569.7</b>	<b>526.9</b>	<b>8.1%</b>
Investment Income	100.4	1.6	N.M	-5.5	N.M	176.6	-0.3	N.M
Other Non-operating Expenses	-14.0	-13.3	5.6%	-12.6	10.7%	-52.0	-48.0	8.2%
Finance Cost	-45.5	-43.5	4.4%	-38.6	17.9%	-166.6	-138.9	19.9%
<b>Profit Before Tax</b>	<b>206.5</b>	<b>89.1</b>	<b>131.6%</b>	<b>78.9</b>	<b>161.6%</b>	<b>527.7</b>	<b>339.6</b>	<b>55.4%</b>
Taxation	-2.9	0.0	N.M	-1.4	112.5%	-2.9	-1.4	112.5%
Minority Interest	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
<b>Net Profit</b>	<b>203.6</b>	<b>89.1</b>	<b>128.3%</b>	<b>77.6</b>	<b>162.4%</b>	<b>524.8</b>	<b>338.2</b>	<b>55.2%</b>
<b>Distributable Income</b>	<b>227.5</b>	<b>132.8</b>	<b>71.3%</b>	<b>203.6</b>	<b>11.8%</b>	<b>689.0</b>	<b>669.7</b>	<b>2.9%</b>
<b>Core Net Profit</b>	<b>102.1</b>	<b>89.1</b>	<b>14.6%</b>	<b>83.2</b>	<b>22.8%</b>	<b>351.4</b>	<b>328.9</b>	<b>6.8%</b>
Core Earnings Per Unit (sen)	2.76	2.61	5.7%	2.14	29.0%	10.04	9.32	7.8%
Gross Distribution Per Unit (sen)	5.34	0.00		4.68		10.00	9.30	
<b>Key Operating Metrics:</b>								
Net property income margin	75.0%	75.1%		71.2%		74.3%	73.6%	
Pretax margin	93.5%	46.4%		41.4%		68.8%	47.4%	

Source: Company, Kenanga Research

## Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Retail	149.0	130.6	14.1%	123.9	20.2%	529.6	472.9	12.0%
Hotel	27.9	29.2	-4.7%	23.3	19.8%	95.5	87.1	9.6%
Office	20.5	20.5	0.2%	21.0	-2.3%	83.1	82.6	0.6%
Services	19.9	9.6	108.1%	20.6	-3.1%	48.7	66.3	-26.6%
Industrial & Others	3.5	2.3	53.6%	1.7	104.9%	10.3	6.8	51.4%
<b>Total Revenue</b>	<b>220.9</b>	<b>192.1</b>	<b>14.9%</b>	<b>190.5</b>	<b>15.9%</b>	<b>767.1</b>	<b>715.7</b>	<b>7.2%</b>
Retail	103.5	91.8	12.8%	79.6	30.1%	368.4	320.8	14.8%
Hotel	26.8	28.1	-4.7%	21.4	25.0%	91.5	82.4	11.1%
Office	12.4	12.9	-4.4%	13.0	-4.7%	52.2	52.2	0.0%
Services	19.9	9.6	108.0%	20.6	-3.2%	48.7	66.3	-26.6%
Industrial & Others	2.9	1.9	53.3%	1.1	164.0%	8.9	5.3	69.3%
<b>Net property income</b>	<b>165.6</b>	<b>144.3</b>	<b>14.7%</b>	<b>135.7</b>	<b>22.0%</b>	<b>569.7</b>	<b>526.9</b>	<b>8.1%</b>

Source: Company, Kenanga Research

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
AXIS REIT	MP	1.80	1.86	3.3%	3,618.9	Y	12/2025	10.4	10.6	28.1%	2.0%	17.3	17.0	1.1	6.3%	9.6	5.3%
CAPITALAND MALAYSIA TRUST	OP	0.680	0.770	13.2%	1,958.4	N	12/2025	5.1	5.5	13.1%	6.9%	13.3	12.5	0.7	5.1%	4.7	6.9%
IGB REIT	MP	2.16	2.20	1.9%	7,815.8	N	12/2025	11.7	12.3	14.6%	4.7%	18.4	17.6	2.0	10.0%	11.0	5.1%
KLCCP STAPLED GROUP	MP	8.18	8.33	1.8%	14,767.6	Y	12/2024	44.7	46.3	13.6%	3.7%	18.3	17.7	1.1	5.2%	42.5	5.2%
PAVILION REIT	OP	1.51	1.63	7.9%	5,527.6	N	12/2024	9.3	9.8	19.6%	16.5%	16.2	15.3	1.2	6.9%	8.7	5.8%
SUNWAY REIT	OP	1.87	2.01	7.5%	6,404.4	N	12/2024	12.0	12.5	16.8%	3.8%	17.0	14.3	1.2	7.2%	10.8	5.8%
<b>SECTOR AGGREGATE</b>					<b>40,092.7</b>					<b>16.4%</b>	<b>5.8%</b>	<b>17.4</b>	<b>16.1</b>	<b>1.2</b>	<b>6.8%</b>		<b>5.7%</b>

Source: Kenanga Research

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### Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
SPECIFIC	Effluent/Waste Management	★	★	★		
	Water Management	★	★	★		
	Energy Efficiency	★	★	★		
	Green Buildings	★	★	★		
	Tenant Management	★	★	★		
	Supply Chain Management	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

### Stock Ratings are defined as follows:

#### Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

#### Sector Recommendations\*\*\*

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.

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#### KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
 Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)