

**HLIB Research**

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**BUY** (Maintain)

**Target Price:** **RM2.31**
**Previously:** **RM2.31**
**Current Price:** **RM2.15**

Capital upside	7.4%
Dividend yield	5.3%
Expected total return	12.7%

**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	-15.8	-5.7	11.0
Relative	-2.0	13.0	35.4

**Stock information**

Bloomberg ticker	SREIT MK
Bursa code	5176
Issued shares (m)	3,425
Market capitalisation (RM m)	7,363
3-mth average volume ('000)	4,142
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	★ ★ ★ ★

**Major shareholders**

Sunway Bhd	40.9%
EPF	15.7%
KWAP	6.0%

**Earnings summary**

FYE (Dec)	FY24	FY25f	FY26f
PAT – core (RM m)	354.2	405.2	416.9
EPU – core (sen)	10.3	11.8	12.2
P/E (x)	20.8	18.2	17.7

# Sunway REIT

## Within expectations

Sunway REIT's 2Q25 core net profit of RM102.4m (-1.9% QoQ, +29.7% YoY) brought 1H25's total to RM206.7m (+24.6% YoY), which is within our and street estimates at 51% and 52% respectively. Looking ahead, earnings growth is expected to be supported by the full reopening of Sunway Carnival Mall, full-year income contribution from Sunway Oasis, and newly acquired assets, partially offset by the expected disposal of Sunway University in 3Q25. Meanwhile, electricity cost savings of 9% shown in July provide further upside potential, though we keep our forecast unchanged for now given the early stage of implementation under the new tariff structure. We maintain BUY with an unchanged TP of RM2.31, based on FY25 DPU and a targeted yield of 4.9%.

**Within estimates.** 2Q25 core net profit was RM102.4m (-1.9% QoQ, +29.7% YoY), lifting 1H25 earnings to RM206.7m (+24.6% YoY). This is in line at 51% and 52% of our and consensus full-year forecasts, respectively.

**Dividend.** A semi-annual DPU of 5.7 sen was declared (ex-date: 26 Aug), compared to 4.7 sen/unit SPLY.

**QoQ.** Revenue fell 3.4%, dragged by weaker retail (-5.0%) on the absence of festive season traffic, partially offset by higher hotel (+3.9%) and industrial (+7.4%) contributions. That said, NPI (-1.5%) and core profit (-1.9%) declined at a slower pace as opex fell 8.4%.

**YoY.** Turnover rose 20.4%, driven by strong retail (+29.4%) from new contributions at Sunway 163 Mall (Oct-24), Kluang Mall (Dec-24) and Sunway Oasis at Sunway Pyramid (Nov-24). Meanwhile, hotel segment declined 12.9% on lower occupancy (60% vs 62% in 2Q24). Despite that, slower growth in manager's fees (+15.1%) and financing cost (+9.5%) lifted core profit by +29.7%.

**YTD.** Top line climbed 21.5%, driven by strong retail (+31.3%) from the same factors mentioned above. Meanwhile, the hotel segment fell 14.3% on lower occupancy. Again, slower growth in manager's fees (+14.1%) and financing cost (+11.2%) lifted core profit by +24.6%.

**Occupancy and gearing.** Retail occupancy slipped to 97% (1Q25: 99%). Meanwhile, hotel and industrial improved to 60% (1Q25: 55%) and 83% (1Q25: 81%) respectively, while office remained steady at 82%. On the other hand, gearing eased to 41% (1Q25: 42%).

**Retail.** Despite headwinds from potential uncertainty from tenants' SST expansion costs being passed on to consumers, management noted that average of tenants' gross turnover (GTO) accounts for only about 10% of total revenue, implying a low variable rate and limiting such profit risks. Meanwhile, retail earnings will be supported by the full reopening of Sunway Carnival Mall (post-refurbishment) in May 2025, along with full-year contributions from Sunway Oasis, Sunway 163 Mall and Kluang Mall, as well as partial-year contribution from Aeon Mall Seri Manjung (injected in July 2025). This will be slightly offset by the expected disposal of Sunway University in 3Q25.

**Hotel.** Management attributed the YoY drop in hotel occupancy to increased competition, reduced leisure demand and cautious consumer spending. Nonetheless, we expect a recovery in the coming quarters, supported by anticipated growth in tourist arrivals under the Visit Malaysia 2026 campaign and the mutual visa exemption between Malaysia and China. This recovery trend is also reflected in the

QoQ increase in occupancy. That said, the earnings impact remains limited, as the hotel segment contributed only 7.6% of 1H25 revenue.

**Others.** Sunway REIT has received its July electricity bill, showing a positive surprise with cost savings of 9%. This is encouraging, given that electricity accounts for about 22% of FY24's property operating expenses. Nevertheless, we keep our forecast unchanged for now, as it is still too early to gauge the full impact under the new electricity tariff structure. Meanwhile, management is guiding for a conservative mid-single-digit rental reversion ahead, which is in line with our expectations.

**Forecast.** Unchanged.

**Maintain BUY with unchanged TP of RM2.31**, based on FY25 DPU on targeted yield of 4.9%, derived from the 5-year mean yield spread between Sunway REIT and MAGY10YR. We continue to favour Sunway REIT for its (i) well-diversified portfolio spanning across 5 distinct asset classes, and (ii) visible pipeline of high-quality asset injections, which could enhance earnings and portfolio resilience over the near term.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY23	FY24	FY25f	FY26f	FY27f
Cash	425.3	289.4	53.7	74.2	90.6
Receivables	108.2	40.5	127.9	130.6	134.3
Investment properties	8,912.4	10,384.9	10,025.4	10,025.4	10,025.4
Property, plant & equipment	17.4	16.6	18.6	20.3	21.8
Others	75.4	70.7	70.7	70.7	70.7
<b>Assets</b>	<b>9,538.6</b>	<b>10,802.2</b>	<b>10,296.3</b>	<b>10,321.3</b>	<b>10,342.7</b>
Payables	226.1	210.8	183.7	178.8	152.6
Debt	3,637.0	4,466.7	3,883.7	3,883.7	3,883.7
Others	159.4	752.3	838.3	864.0	907.4
<b>Liabilities</b>	<b>4,022.5</b>	<b>5,429.9</b>	<b>4,905.8</b>	<b>4,926.6</b>	<b>4,943.7</b>
Unitholders' capital	3,433.9	3,433.9	3,433.9	3,433.9	3,433.9
Undistributed profit	1,742.5	1,938.4	1,956.6	1,960.8	1,965.1
Perpetual note holders' funds	339.7	-	-	-	-
<b>Equity</b>	<b>5,516.1</b>	<b>5,372.3</b>	<b>5,390.5</b>	<b>5,394.7</b>	<b>5,399.0</b>

### Income Statement

FYE Dec	FY23	FY24	FY25f	FY26f	FY27f
<b>Total revenue</b>	<b>704.5</b>	<b>756.9</b>	<b>835.6</b>	<b>851.4</b>	<b>875.0</b>
Operating expenses	(188.8)	(197.4)	(241.3)	(254.4)	(265.8)
<b>Net property income</b>	<b>515.8</b>	<b>559.4</b>	<b>594.3</b>	<b>596.9</b>	<b>609.2</b>
Other income	10.3	13.4	10.0	10.0	10.0
<b>Net investment income</b>	<b>526.0</b>	<b>572.8</b>	<b>604.4</b>	<b>607.0</b>	<b>619.2</b>
Non opex and trust exp	(187.0)	(218.6)	(199.2)	(190.1)	(191.2)
Profit before tax	339.1	354.2	405.2	416.9	428.1
Taxation	-	-	-	-	-
<b>Core profit</b>	<b>339.1</b>	<b>354.2</b>	<b>405.2</b>	<b>416.9</b>	<b>428.1</b>
Extraordinary item	1.9	170.5	-	-	-
Reported profit	340.9	524.8	405.2	416.9	428.1
Consensus			395.1	410.0	423.1
HLIB/Consensus			103%	102%	101%

### Cash Flow Statement

FYE Dec	FY23	FY24	FY25f	FY26f	FY27f
Profit before taxation	339.1	354.2	405.2	416.9	428.1
Depreciation	3.9	3.9	3.8	4.3	4.7
Taxation	-	-	-	-	-
Others	102.7	185.7	107.8	144.1	139.6
<b>CFO</b>	<b>445.6</b>	<b>543.8</b>	<b>516.8</b>	<b>565.3</b>	<b>572.3</b>
Capex	(205.6)	(1,212.9)	(229.4)	(6.0)	(6.1)
Others	341.0	3.1	592.9	9.9	9.9
<b>CFI</b>	<b>135.4</b>	<b>(1,209.8)</b>	<b>363.5</b>	<b>3.9</b>	<b>3.8</b>
Debt raised/ (repaid)	79.0	79.0	(583.0)	-	-
Distribution to unitholders	(329.5)	(319.9)	(387.0)	(412.7)	(423.8)
Others	(156.4)	771.4	(146.1)	(135.9)	(135.9)
<b>CFF</b>	<b>(406.9)</b>	<b>530.5</b>	<b>(1,116.1)</b>	<b>(548.7)</b>	<b>(559.7)</b>
<b>Net cash flow</b>	<b>174.1</b>	<b>(135.5)</b>	<b>(235.7)</b>	<b>20.5</b>	<b>16.4</b>
Beginning cash	251.2	425.3	289.4	53.7	74.2
Ending cash	425.3	289.4	53.7	74.2	90.6

### Valuation & Ratios

FYE Dec	FY23	FY24	FY25f	FY26f	FY27f
Core EPU (sen)	9.9	10.3	11.8	12.2	12.5
P/E (x)	21.7	20.8	18.2	17.7	17.2
DPU (sen)	9.6	9.3	11.3	12.1	12.4
Dividend yield	4.5%	4.3%	5.3%	5.6%	5.8%
BVPU (RM)	1.5	1.6	1.6	1.6	1.6
P/B (x)	1.4	1.4	1.4	1.4	1.4
NPI margin	73.2%	73.9%	71.1%	70.1%	69.6%
NII margin	74.7%	75.7%	72.3%	71.3%	70.8%
PBT margin	48.1%	46.8%	48.5%	49.0%	48.9%
Net margin	48.1%	46.8%	48.5%	49.0%	48.9%
Return on equity	6.5%	6.6%	7.5%	7.7%	7.9%
Return on assets	3.6%	3.3%	3.9%	4.0%	4.1%
Gearing ratio	38%	41%	38%	38%	38%
Net gearing ratio	34%	39%	37%	37%	37%
Gross yield	7.9%	7.3%	8.3%	8.5%	8.7%
NPI yield	5.8%	5.4%	5.9%	6.0%	6.1%
NII yield	5.9%	5.5%	6.0%	6.1%	6.2%
Net yield	3.8%	3.4%	4.0%	4.2%	4.3%

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	2Q24	1Q25	2Q25	QoQ (%)	YoY (%)	1H24	1H25	YoY(%)
Realised gross revenue	170.8	213.0	205.1	-3.7%	20.1%	344.6	418.2	21.3%
Other operating income	4.7	5.8	6.3	7.5%	32.1%	9.5	12.1	27.0%
<b>Gross revenue</b>	<b>175.6</b>	<b>218.9</b>	<b>211.4</b>	<b>-3.4%</b>	<b>20.4%</b>	<b>354.2</b>	<b>430.3</b>	<b>21.5%</b>
Quit rent, assessment and insurance	-4.1	-5.4	-5.4	1.2%	32.4%	-8.0	-10.8	34.8%
Other property operating expenses	-42.2	-56.3	-51.1	-9.3%	21.1%	-86.3	-107.4	24.4%
<b>Property operating expenses</b>	<b>-46.3</b>	<b>-61.7</b>	<b>-56.5</b>	<b>-8.4%</b>	<b>22.1%</b>	<b>-94.3</b>	<b>-118.2</b>	<b>25.3%</b>
<b>Net property income</b>	<b>129.3</b>	<b>157.2</b>	<b>154.9</b>	<b>-1.5%</b>	<b>19.8%</b>	<b>259.8</b>	<b>312.1</b>	<b>20.1%</b>
Finance income	2.1	3.0	5.1	69.4%	146.8%	8.4	8.2	-2.4%
Other income	0.0	0.1	0.1	N.M	N.M	0.1	0.1	N.M
<b>Net investment income</b>	<b>131.4</b>	<b>160.3</b>	<b>160.1</b>	<b>-0.1%</b>	<b>21.8%</b>	<b>268.3</b>	<b>320.4</b>	<b>19.4%</b>
Manager's fee	-11.3	-12.7	-13.0	2.2%	15.1%	-22.5	-25.7	14.1%
Trustee's fee	-0.2	-0.3	-0.2	-22.2%	2.0%	-0.4	-0.5	17.2%
Other trust expenses	-1.0	-0.5	-0.7	N.M	N.M	-1.8	-1.2	-32.7%
Finance cost	-40.0	-42.5	-43.8	3.1%	9.5%	-77.6	-86.3	11.2%
<b>Non operating expenses</b>	<b>-52.5</b>	<b>-56.0</b>	<b>-57.7</b>	<b>3.2%</b>	<b>10.0%</b>	<b>-102.4</b>	<b>-113.7</b>	<b>11.1%</b>
Profit before tax	78.9	104.3	102.4	-1.9%	29.7%	165.9	206.7	24.6%
Taxation	0.0	0.0	0.0	N.M	N.M	0.0	0.0	N.M
<b>Core profit</b>	<b>78.9</b>	<b>104.3</b>	<b>102.4</b>	<b>-1.9%</b>	<b>29.7%</b>	<b>165.9</b>	<b>206.7</b>	<b>24.6%</b>
Extraordinary items	66.2	0.0	27.0	N.M	-59.2%	66.2	27.0	-59.2%
Reported profit	145.1	104.3	129.4	<b>24.0%</b>	<b>-10.8%</b>	232.0	233.7	0.7%
<b>Core EPU (sen)</b>	<b>2.3</b>	<b>3.0</b>	<b>3.0</b>	<b>-1.9%</b>	<b>29.7%</b>	<b>4.8</b>	<b>6.0</b>	<b>24.6%</b>
<b>Core DPU (sen)</b>	<b>4.7</b>	<b>0.0</b>	<b>5.7</b>	<b>N.M</b>	<b>21.9%</b>	<b>4.7</b>	<b>5.7</b>	<b>21.9%</b>

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**Figure #2** Quarterly segmental revenue and NPI comparison

FYE Dec (RM m)	2Q24	1Q25	2Q25	QoQ (%)	YoY (%)	1H24	1H25	YoY(%)
<b>Gross revenue</b>	<b>175.6</b>	<b>218.9</b>	<b>211.4</b>	<b>-3.4%</b>	<b>20.4%</b>	<b>354.2</b>	<b>430.3</b>	<b>21.5%</b>
Retail Segment	123.7	168.4	160.0	-5.0%	29.4%	250.0	328.4	31.3%
Hotel Segment	19.2	16.1	16.7	3.9%	-12.9%	38.3	32.9	-14.3%
Office Segment	20.8	20.4	20.4	-0.3%	-2.2%	42.1	40.8	-3.1%
Services Segment	9.6	9.8	9.8	0.0%	2.3%	19.2	19.6	2.3%
Industrial and Others Segment	2.2	4.2	4.5	7.4%	99.7%	4.5	8.6	91.1%
<b>Net property income</b>	<b>129.3</b>	<b>157.2</b>	<b>154.9</b>	<b>-1.5%</b>	<b>19.8%</b>	<b>259.8</b>	<b>312.1</b>	<b>20.1%</b>
Retail Segment	86.2	116.8	114.1	-2.3%	32.4%	173.1	230.9	33.4%
Hotel Segment	18.5	15.0	15.6	4.1%	-15.8%	36.6	30.5	-16.6%
Office Segment	13.0	12.4	12.2	-1.2%	-6.1%	26.9	24.6	-8.5%
Services Segment	9.6	9.8	9.8	0.0%	2.3%	19.2	19.6	2.3%
Industrial and Others Segment	2.0	3.2	3.2	-1.7%	57.4%	4.0	6.4	59.2%

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## Stock rating guide

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

## Sector rating guide

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

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