Sunway REIT (SREIT MK)

BUY (maintain)
Up/Downside: +10.9%

Price Target: RM2.14
Previous Target (Rating): RM2.06 (BUY)

A strong start to the year - within estimates

- **SREIT's 1Q25 realised net profit grew a robust 20% yoy to RM99m on higher rental income from its active asset acquisitions and developments**
- **Looking ahead, we expect SREIT to deliver DPU growth of 4-9% yoy over 2025E-27E, driven by the full-year NPI gains from the Sunway Pyramid redevelopment and 9 completed asset acquisitions in 2024**
- **Maintain BUY on SREIT with a higher DDM-derived TP of RM2.14. SREIT offers an attractive 2025E-27E DPU yield of 6%**

1Q25 realised net profit grew a robust 20% yoy to RM99m – within estimates

1Q25 realised net profit grew by a robust 20.2% yoy to RM98.6m on the back of higher rental income from the reconfiguration of core retail assets and strategic acquisitions. This growth effectively offset the 13% yoy increase in borrowing costs, which rose to RM42.5m. On a sequential basis, excluding a one-off RM10.3m lease income recognition in 4Q24, revenue and NPI would still have grown by 1.2-3.9% qoq, supported by a 13% qoq rise in retail rental income. The full-quarter contribution from Sunway Pyramid's Oasis reconfiguration —which boosted mall revenue by 9.9% qoq — was a key driver, lifting realized net profit by 4.1% qoq.

SREIT's 2025E-27E DPU is expected to grow by 4-9% yoy

SREIT's 1Q25 results met estimates with realised net profit accounting for 25-26% of our and consensus full-year estimates. Looking ahead, DPU growth is expected to be driven by full-year rental contributions from the (i) Oasis precinct reconfiguration which is expected to boost Sunway Pyramid's rental income, (ii) completion of Sunway Carnival's Old Wing reconfiguration on 8 May 2025 and (iii) accretive impact of 9 acquisitions made in 2024. We expect these positive developments to deliver 4-9% yoy DPU growth in 2025E-27E. While the proposed disposal of Sunway University and College (KL) may create an annual NPI void of RM38.4m, the RM613m disposal proceeds could be redeployed into (i) new acquisitions – backed by Sunway Berhad's strong asset pipeline or (ii) debt repayment, which saves RM24m in annual borrowing costs and lowering its debt-to-asset ratio to 38% (from 41%). This flexibility would still result in a positive realised EPU/DPU growth of 5.5% in 2025E (from 9.2%) despite the disposal's near-term impact.

Maintain BUY with a higher 12-month TP of RM2.14

We maintain our earnings forecasts and BUY rating on SREIT with a higher DDM-derived 12-month price target of RM2.14 (from RM2.06) after rolling forward our valuation horizon to 2026. We like SREIT for its (i) diversified asset portfolio, (ii) strong branding and (iii) attractive 2025E-27E distribution yield of 6%, bolstered by its solid acquisition pipeline. Downside risks to our view are (i) weaker-than-expected economic growth, (ii) earnings disappointment, (iii) delay in acquisition plans and (iv) steeper-than-expected hike in OPR and global bond yields.

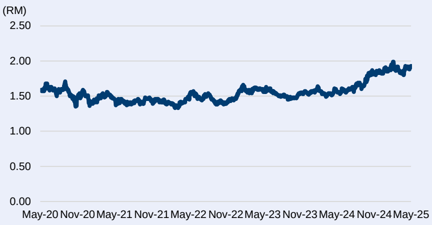
Earnings & Valuation Summary

FYE 31 Dec (RMm)	2023	2024	2025E	2026E	2027E
Revenue	715.7	767.1	845.7	881.2	904.9
Net property income	526.9	569.7	640.4	666.6	683.9
Reported net profit	318.3	514.5	375.4	390.0	406.3
EPU (sen)	9.3	15.0	11.0	11.4	11.9
Distributable profit	319.0	343.8	375.4	390.0	406.3
Realised net profit	319.0	343.8	375.4	390.0	406.3
Realised EPU (sen)	9.3	10.0	11.0	11.4	11.9
Realised EPU chg (%)	-2.8	7.7	9.2	3.9	4.2
Realised PER (x)	20.1	18.6	17.6	16.9	16.3
DPU (sen)	9.3	10.0	10.9	11.3	11.8
Distribution Yield (%)	5.0	5.3	5.7	5.9	6.1
P/RNAV (x)	1.2	1.2	1.2	1.2	1.2
Chg in distr. EPU (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

"SREIT's 1Q25 realised net profit saw a strong growth yoy - within estimates"

Share price performance



	1M	3M	12M
Absolute (%)	1.6	-3.0	22.9
Rel KLCI (%)	-5.0	-2.5	24.7

	BUY	HOLD	SELL
Consensus	13	2	-

Stock Data

Sector	REIT
Issued shares (m)	3,424.8
Mkt cap (RMm)/(US$m)	6609.9/1537.5
Avg daily vol - 6mth (m)	2.2
52-wk range (RM)	1.52-2.01
Est free float	50.2%
Stock Beta	0.49
Net cash/(debt) (RMm)	(4,303.4)
ROE (CY25E)	6.6%
Derivatives	No
Shariah Compliant	No
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 26-50%
ESG Rank	
ESG Risk Rating	8.3 (0.0 yoy)

Key Shareholders

Sunway Berhad	40.9%
EPF	15.8%
KWAP	6.0%
PNB	4.4%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

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Fig 1: Results Comparison

FYE Dec (RMm)	1Q24	4Q24	1Q25	QoQ % chg	YoY % chg	Comments
Revenue	**178.6**	**220.9**	**218.9**	**-0.9**	**22.6**	A marginal dip qoq due to one-off recognition of incremental lease income in 4Q24 amounting RM10.3m on straight-line basis under MFRS 16 Leases
Op expenses	-48.0	-55.3	-61.7	11.5	28.4	
Net Property Income	**130.5**	**165.6**	**157.2**	**-5.1**	**20.4**	Stronger 1Q25 NPI yoy on contributions from improved rental income of recently refurbished Sunway Pyramid and 2024 acquisitions – (i) six Giant hypermarkets, (ii) Sunway 163 Mall, (iii) Industrial – Prai, and (iv) Sunway Kluang
NPI margin (%)	*73.1*	*75.0*	*71.8*	*-3.1*	*-1.3*	
Revaluation surplus / others	6.3	100.4	3.1	-96.9	-50.8	
Net Invest. Income	**136.9**	**265.9**	**160.3**	**-39.7**	**17.1**	
Int expense	-37.6	-45.5	-42.5	-6.5	13.0	Higher interest expense yoy due to increased borrowings arising from debt-funded acquisitions/refurbishments and higher average interest rate of 3.92% in 1Q25 (1Q24: 3.85%)
REIT's expenses	-12.3	-14.0	-13.5	-3.8	9.8	
Pretax Profit	**87.0**	**206.5**	**104.3**	**-49.5**	**19.9**	
Net profit	**82.0**	**199.1**	**98.6**	**-50.5**	**20.2**	
Realised net profit	**82.0**	**94.7**	**98.6**	**4.1**	**20.2**	Within our expectations and consensus
Distributable income	**82.0**	**94.7**	**98.6**	**4.1**	**20.2**	
EPU (sen)	2.39	5.81	2.88	-50.5	20.2	
Realised EPU (sen)	2.39	2.76	2.88	4.3	20.2	
DPU (sen)	0.00	5.34	0.00	n.m.	n.m.	

Source: Affin Hwang, Company

Fig 2: Segmental breakdown

FYE 31 Dec (RMm)	3Q CY23	4Q CY23	1Q CY24	2Q CY24	3Q CY24	4Q CY24	1Q CY25	QoQ % chg	YoY % chg
Revenue*									
Retail	111.8	123.9	126.3	123.7	130.6	149.0	168.4	13.0%	33.3%
Hotel	27.9	23.3	19.1	19.2	29.2	27.9	16.1	-42.2%	-15.8%
Office	20.7	21.0	21.3	20.8	20.5	20.5	20.4	-0.6%	-4.1%
Industrial	1.7	1.7	2.3	2.2	2.3	3.5	4.2	20.1%	82.6%
Services	13.8	9.4	9.6	9.6	9.6	9.7	9.8	1.5%	2.3%
NPI*									
Retail	81.8	79.6	86.9	86.2	91.8	103.5	116.8	12.8%	34.4%
Hotel	28.4	21.4	18.1	18.5	28.1	26.8	15.0	-44.2%	-17.5%
Office	12.8	13.0	13.9	13.0	12.9	12.4	12.4	0.1%	-10.8%
Industrial	1.7	1.7	2.0	2.0	1.9	2.9	3.2	10.1%	61.0%
Services	13.8	9.4	9.6	9.6	9.6	9.7	9.8	1.6%	2.3%

Source: Company, Affin Hwang
**excluded unrealised rental income (in relation to unbilled lease income receivable)*

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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