

## Sunway REIT

First Take: 1Q25 results in line with expectations

**Neutral**

**SUNW.KL, SREIT MK**

Price (14 May 25): RM1.93

Price Target (Jun-26): RM1.85

**Our First Take:** 1Q25 DPU rose 20.5% YoY to 2.88 Mcts, in line with our own/consensus expectations and representing 26% of our own/street FY25E DPU, in line with typical 1Q seasonality. The strong start to the year was due to the acquisitions made over the prior year and low base effect, with 1Q24 DPU down 10.5% YoY on the back of sale of the medical portfolio and ongoing AEIs ([link](#)). Sunway REIT should benefit from completion of Sunway Carnival Mall Phase 2 refurbishment on 8 May, two months ahead of schedule (50% occupied to full opening in Jun-25), increasing occupancy at Sunway REIT Industrial - PJ1 to over 75% in 2H25 from 37% currently and completion of AEON Mall Seri Manjung acquisition by end Aug-25, partially offset by disposal of Sunway campus by the year-end ([link](#)).

### Key Positives

Retail segment saw a 34.4% YoY increase in 1Q25 NPI to RM116.8m on the back of full-quarter rental contribution from the six Giant hypermarkets, Sunway 163 Mall and Sunway Kluang Mall acquired in 2024. Furthermore, the retail portfolio benefited from reopening of the Oasis precinct in Nov-24 with almost full occupancy (260,000 sq. ft. of NLA). Oasis's rents more than doubled compared to pre-refurbishment level. This was despite average 1Q25 gross rents falling 1% YoY on the back of a 0.4% dip in sales psf. Guidance is for high single digit to teens retail positive reversion achieved in 1Q25 to continue.

### Key Negatives/Question Marks

1Q25 hotel NPI fell 17.5% YoY to RM15.0m due to lower occupancy (55% vs 60% in 1Q24) as Sunway REIT faced new competition and impact from an earlier Ramadan this year. Based on forward bookings, 2Q25 should see a recovery. Office NPI also fell 11% YoY to RM12.4m largely on the back of lower occupancy at Sunway Putra Tower (66% vs 79% in 1Q24) which saw the exit of tenants to their own buildings and 1% YoY fall in average gross rent. Performance of Sunway Putra Tower should improve as the REIT is in discussions with prospective tenants resulting in occupancy rising to over 80% by next year. Gearing rose to 41.8% from 40.1% owing to ongoing capex but is expected to stabilize around 40% post upcoming asset purchase and disposals. Cost of debt dipped QoQ to 3.92%.

### Likely Changes to Consensus

We expect consensus to remain unchanged.

### Expected stock reaction

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Share price should be flat to slightly firmer.

Table 1: Results

RM m, year-end Dec	1Q24	4Q24	1Q25	QoQ Chg	YoY Chg	FY24	FY25E	YoY Chg
Revenue	178.6	220.9	218.9	-0.9%	22.6%	767.1	864.7	12.7%
NPI	130.5	165.6	157.2	-5.1%	20.4%	569.7	640.1	12.3%
Dist. Income (Avail.)	82.0	94.7	98.6	4.1%	20.2%	342.5	379.5	10.8%
Declared gross DPU (Mcts)	0.00	5.34	0.00	-	-	10.00	11.08	10.8%

Source: Company reports and J.P. Morgan estimates.

## Investment Thesis, Valuation and Risks

### Sunway REIT *(Neutral; Price Target: RM1.85)*

#### Investment Thesis

We believe the strong positioning of Sunway Pyramid, Sunway REIT's key asset, exposure to education properties with in-built escalations, ~RM1bn worth acquisitions, completion Sunway Pyramid and Sunway Carnival AEI and continued growth of its hotel portfolio, positions the REIT for steady growth ahead. Combined with continued growth in retail tenant sales resulting in positive rental reversions ahead, we project a 8% two-year DPU CAGR. However, we maintain our Neutral rating, as we believe Sunway REIT's mid 5% net yield and healthy growth is balanced against elevated gearing (42-43%). We see better risk reward in our M-REITs.

#### Valuation

Our Jun-26 PT of RM1.85 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 5.4% and yield spread of 1.4% (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.
- Addressing gearing concerns.

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Sunway REIT(SUNW.KL/RM1.93/N)

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



Date	Rating	Price (RM)	Price Target (RM)
24-Jun-22	N	1.49	1.5
08-Mar-23	N	1.56	1.6
16-Nov-23	N	1.53	1.55
14-Nov-24	N	1.82	1.7
20-Mar-25	N	1.85	1.85

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.  
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