

15 May 2025

Sunway REIT

163 Mall Outperforms with 9% Yield

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SUNREIT's 1QFY25 results were within expectations with net profit surging by 20% YoY mainly driven by newly acquired retail assets and stronger performance from Sunway Pyramid and Sunway Carnival post refurbishments. We were also impressed by the increasing rental income from the newly acquired 163 Mall that lifted its NPI yield to ~9% on an annualised basis. We maintain our earnings forecasts and **OUTPERFORM** call. We upgrade our TP from RM2.07 to RM2.11 (+2%) as we rolled over our valuation base year to FY26F. SUNREIT is our 2QCY25 sector Top Pick.

Within expectations. SUNREIT's 1QFY25 net profit makes up 24% and 25% of our full-year forecasts and full-year consensus estimates, respectively. No dividend was declared for the quarter as the group typically makes semi-annual dividend payments.

YoY, SUNREIT's 1QFY25 revenue and net profit both increased by 23% and 20%, respectively. This was mainly driven by the inclusion of rental income from:

- (i) six new hypermarkets and Sunway 163 mall acquired in Apr 2024 leading to an increase in the asset's revenue by ~6%,
- (ii) Sunway Pyramid newly opened Oasis Wing in Nov 2024, leading to an increase in the asset's revenue by ~10%; and
- (iii) progressive refurbishments in Sunway Carnival with phased completion until May 2025.

On the flip side, its hotel segment saw a decline of 18% in profit due to lower MICE activities during Chinese New Year and Ramadan season in 1QCY25, but this should likely recover in the coming quarters.

QoQ, revenue remained flattish while net profit was higher by 7%, thanks to lower financing costs and the absence of taxation.

Highlights. After acquiring 163 Mall at Mont Kiara in Oct 2024, the group has worked on replacing non-performing tenants and improving tenant mix, bringing the NPI yield of the asset to an impressive ~9% (annualised), outperforming other assets in the portfolio.

Outlook. SUNREIT will fully recognise income from multiple new assets in FY25, namely 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.

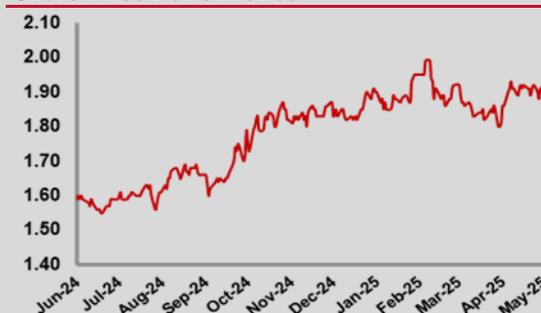
Forecasts. Maintained.

Valuations. Upgrade TP from RM2.07 to RM2.11 (+2%) as we rolled over our valuation base year to FY26F on an NDPU of 11.1 sen. 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). **We maintain our OUTPERFORM call.** SUNREIT is our sector's 2QCY25 Top Pick.

OUTPERFORM ↔

Price: RM1.93
Target Price: RM2.11 ↑

Share Price Performance



KLCI	1,583.51
YTD KLCI chg	-3.6%
YTD stock price chg	4.3%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SREIT MK EQUITY
Market Cap (RM m)	6,609.9
Shares Outstanding	3,424.8
52-week range (H)	2.01
52-week range (L)	1.52
3-mth avg. daily vol.	3,007,562
Free Float	50%
Beta	0.5

Major Shareholders

Sunway Bhd	40.9%
Employees Provident Fund	15.8%
Kumpulan Wang Persaraan	6.0%

Summary Earnings Table

FY Dec (RM m)	2024A	2025F	2026F
Turnover	767.1	877.4	874.2
EBIT	569.7	665.6	653.3
PBT	527.7	422.9	424.4
Net Profit (NP)	524.8	420.6	422.0
Core Net Profit	351.4	410.6	412.0
Consensus (NP)	-	391.5	406.5
Earnings Revision (%)	-	-	-
Core EPS (sen)	10.3	12.0	12.0
Core EPS Growth (%)	6.8	16.8	0.3
GDPU (sen)	10.0	11.8	12.0
NDPU (sen)	9.2	10.8	11.1
BVPS (RM)	1.57	1.57	1.58
Core PER (x)	18.8	16.1	16.0
Price/BV (x)	1.2	1.2	1.2
Net Asset Gearing (x)	0.39	0.43	0.32
Net Div. Yield (%)	4.8	5.6	5.7

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

Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY25	FY24	Chg	FY24	Chg	FY25	FY24	Chg
Rental and lease income	213.0	215.8	-1.3%	173.8	22.6%	213.0	173.8	22.6%
Other operating income	5.8	5.1	14.9%	4.8	22.0%	5.8	4.8	22.0%
Gross Revenue	218.9	220.9	-0.9%	178.6	22.6%	218.9	178.6	22.6%
Property Operating Expenses	-61.7	-55.3	11.5%	-48.0	28.4%	-61.7	-48.0	28.4%
Net Property Income	157.2	165.6	-5.1%	130.5	20.4%	157.2	130.5	20.4%
Investment Income	3.1	100.4	-96.9%	6.3	-50.8%	3.1	6.3	-50.8%
Other Non-operating Expenses	-13.5	-14.0	-3.8%	-12.3	9.8%	-13.5	-12.3	9.8%
Finance Cost	-42.5	-45.5	-6.5%	-37.6	13.0%	-42.5	-37.6	13.0%
Profit Before Tax	104.3	206.5	-49.5%	87.0	19.9%	104.3	87.0	19.9%
Taxation	0.0	-2.9	-100.0%	0.0	N.M.	0.0	0.0	N.M.
Minority Interest	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Net Profit	104.3	203.6	-48.8%	87.0	19.9%	104.3	87.0	19.9%
Distributable Income	143.2	227.5	-37.1%	125.3	14.3%	143.2	125.3	14.3%
Core Net Profit	98.6	91.9	7.4%	82.1	20.2%	98.6	82.1	20.2%
Core Earnings Per Unit (sen)	2.88	2.76	4.3%	2.39	20.5%	2.88	2.39	20.5%
Gross Distribution Per Unit (sen)	0.00	5.34		0.00		0.00	0.00	
Key Operating Metrics:								
Net property income margin	71.8%	75.0%		73.1%		71.8%	73.1%	
Pretax margin	47.7%	93.5%		48.7%		47.7%	48.7%	

Source: Company, Kenanga Research

Segmental Breakdown

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY25	FY24	Chg	FY24	Chg	FY25	FY24	Chg
Retail	168.4	149.0	13.0%	126.3	33.3%	168.4	126.3	33.3%
Hotel	16.1	27.9	-42.2%	19.1	-15.8%	16.1	19.1	-15.8%
Office	20.4	20.5	-0.6%	21.3	-4.1%	20.4	21.3	-4.1%
Services	9.8	19.9	-50.8%	9.6	2.3%	9.8	9.6	2.3%
Industrial & Others	4.2	3.5	20.1%	2.3	82.6%	4.2	2.3	82.6%
Total Revenue	218.9	220.9	-0.9%	178.6	22.6%	218.9	178.6	22.6%
Retail	116.8	103.5	12.8%	86.9	34.4%	116.8	86.9	34.4%
Hotel	15.0	26.8	-44.2%	18.1	-17.5%	15.0	18.1	-17.5%
Office	12.4	12.4	0.1%	13.9	-10.8%	12.4	13.9	-10.8%
Services	9.8	19.9	-50.8%	9.6	2.3%	9.8	9.6	2.3%
Industrial & Others	3.2	2.9	10.1%	2.0	61.0%	3.2	2.0	61.0%
Net property income	157.2	165.6	-5.1%	130.5	20.4%	157.2	130.5	20.4%

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.
Stocks Under Coverage																	
AXIS REIT	MP	1.91	1.86	-2.6%	3,859.7	Y	12/2025	10.4	10.6	28.1%	2.0%	18.4	18.0	1.2	6.3%	9.6	5.0%
CAPITALAND MALAYSIA TRUST	OP	0.635	0.75	18.1%	1,855.1	N	12/2025	5.1	5.5	13.1%	6.9%	12.4	11.6	0.6	5.1%	4.7	7.4%
IGB REIT	MP	2.27	2.20	-3.1%	8,221.0	N	12/2025	11.7	12.3	14.6%	4.7%	19.3	18.5	2.1	10.0%	11.0	4.8%
KLCCP STAPLED GROUP	MP	8.90	8.33	-6.4%	16,067.5	Y	12/2025	47.6	48.8	9.8%	2.5%	18.7	18.3	1.2	6.3%	45.7	5.1%
PAVILION REIT	OP	1.47	1.63	10.9%	5,386.7	N	12/2025	9.3	9.7	21.0%	5.0%	15.9	15.1	1.1	7.5%	8.9	6.1%
SUNWAY REIT	OP	1.93	2.11	9.3%	6,609.9	N	12/2025	12.0	12.5	16.8%	3.8%	16.1	15.5	1.3	7.2%	10.8	5.6%
SECTOR AGGREGATE					41,999.8					15.1%	3.7%	17.3	16.7	1.3	7.1%		5.7%

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	★	★	★		
OVERALL		★	★	★		

☆ 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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