Sunway REIT

Sharp Rebound for Hotels

MARKET PERFORM ↔

Price:	RM2.14
Target Price:	RM2.22 ↔

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SUNREIT's 9MFY25 results were within expectations with both revenue and net profit surging, by 22% and 28%, respectively. This was mainly driven by newly acquired retail assets and stronger performance from Sunway Pyramid and Sunway Carnival post refurbishments alongside positive retail rental reversions. The hotel sector is expected to see sustained growth supported by the government's greater marketing efforts in promoting tourism to welcome Malaysia's Visit Year 2026. Meanwhile, we see positive synergies from the proposed new hotel with Sunway Carnival Mall, thanks to the mall's regional presence for its considerable size of ~1m sq ft and a vibrant retail mix. We keep our earnings forecasts, TP of RM2.22 and MARKET PERFORM call.

Within expectations. SUNREIT's 9MFY25 net profit made up 77% and 79% of our full-year forecast and full-year consensus estimate, respectively. No dividend was declared as the group typically declare dividends biannually.

YoY, SUNREIT's 9MFY25 revenue and net profit both increased by 22% and 28%, respectively. This was mainly driven by the following:

(i) six new hypermarkets and Sunway 163 Mall acquired in Apr 2024 leading to an increase in the asset's revenue by c.6%, and newly acquired industrial asset in Prai on Oct 2024.

(ii) Sunway Pyramid newly opened Oasis Wing in Nov 2024, leading to a rise in the asset's revenue by c.10%; and

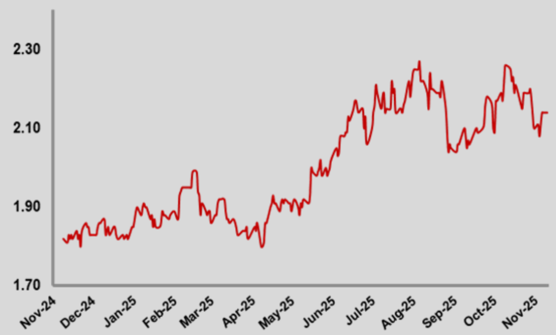
(iii) progressive openings in Sunway Carnival which have been completed in 2QFY25.

QoQ, both its revenue and net profit were higher, by 12% and 27%, respectively. We believe this was mainly due to a strong rebound in the hotel segment with its NPI more than doubling compared to 2QFY25 partially boosted by increased MICE activities, higher bookings as local guests spend on staycation after seeing reliefs from the finalisation of RON95 subsidy rationalisation, altogether lifting its hotel segment's occupancy from 64% to 76% (+12% QoQ). Meanwhile, double-digit positive rental reversions were achieved in its retail portfolio during the quarter.

Outlook. SUNREIT will fully recognise income from multiple new assets in FY25, namely the six new hypermarkets, Sunway 163 Mall, and Sunway Kluang Mall (completed in April, October and December 2024, respectively). We gather 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 considerably higher footfalls.

The group has on Oct 2025, announced the disposal of Sunway Hotel Seberang Perai for RM60m with the proceeds earmarked to be used for the planned development of a new hotel atop Sunway Carnival Mall. We are positive on this deal as the Sunway Hotel Seberang Perai is the lowest income contributor among its six hotels and is now sold at low cap rate of 5.3%, reflecting an above-market price. On that note, we believe the new hotel stands to benefit from strong synergistic linkages with Sunway Carnival Mall, which has evolved into a regional hub for its vibrant retail offerings. We remain confident that SUNREIT's hotel segment will continue to see revenue growth amid the government's higher budget allocation in promoting tourism. That said, the hotel segment is expected to make up only <15% of the group's NPI, with the lion's share still being retail operations (c.70%).

Share Price Performance



KLCI	1,627.38
YTD KLCI chg	-0.9%
YTD stock price chg	15.7%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SREIT MK EQUITY
Market Cap (RM m)	7,329.1
Shares Outstanding	3424.8077
52-week range (H)	2.32
52-week range (L)	1.65
3-mth avg. daily vol.	7,431,649
Free Float	50%
Beta	0.6

Major Shareholders

Sunway Bhd	40.9%
Employees Provident Fund	13.5%
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)	-	400.7	412.0
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)	20.9	17.8	17.8
Price/BV (x)	1.4	1.4	1.4
Net Asset Gearing (x)	0.39	0.43	0.32
Net Div. Yield (%)	4.3	5.1	5.2

Apart from that, the group's portfolio growth prospect continues to be underpinned by a healthy pipeline of asset injections from its sponsor (SUNWAY) such as Sunway Velocity Mall and other assets in the surroundings, of which we believe will likely crystallize from CY27 onwards upon the maturity of the assets.

Forecasts. Maintained. The recent disposal of Sunway Hotel Seberang Perai only amounts to c.RM3m rental loss (less than 1% of its FY26F net profit), hence we leave our numbers unchanged for now.

Valuations. Maintain our TP of RM2.22 based on FY26F NDPU of 11.1 sen. The basis of our TP remains unchanged at a target yield of 5% (derived from a 1.50% yield spread above our 10-year MGS assumption of 3.50%), The relatively lower yield spread against what we had applied to its peers reflects 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. **We maintain our MARKET PERFORM call.**

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

Results Highlights

FYE Dec (RM m)	3Q FY25	2Q FY25	QoQ Chg	3Q FY24	YoY Chg	9M FY25	9M FY24	YoY Chg
Rental and lease income	233.0	205.1	13.6%	186.1	25.2%	651.1	530.7	22.7%
Other operating income	3.5	6.3	-44.7%	6.0	-42.6%	15.6	15.6	0.0%
Gross Revenue	**236.4**	**211.4**	**11.8%**	**192.1**	**23.1%**	**666.7**	**546.3**	**22.0%**
Property Operating Expenses	-55.5	-56.5	-1.7%	-47.8	16.1%	-173.7	-142.1	22.2%
Net Property Income	**180.9**	**154.9**	**16.8%**	**144.3**	**25.3%**	**493.0**	**404.2**	**22.0%**
Investment Income	4.0	32.2	-87.7%	1.6	148.2%	39.3	76.2	-48.5%
Other Non-operating Expenses	-14.9	-13.9	7.0%	-13.3	12.4%	-42.3	-38.0	11.3%
Finance Cost	-42.3	-43.8	-3.5%	-43.5	-2.8%	-128.6	-121.2	6.2%
Profit Before Tax	**127.7**	**129.4**	**-1.3%**	**89.1**	**43.2%**	**361.4**	**321.2**	**12.5%**
Taxation	0.0	0.0	N.M	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	**127.7**	**129.4**	**-1.3%**	**89.1**	**43.2%**	**361.4**	**321.2**	**12.5%**
Distributable Income	**208.8**	**239.7**	**-12.9%**	**132.8**	**57.2%**	**403.3**	**292.4**	**37.9%**
Core Net Profit	**122.6**	**96.6**	**26.9%**	**89.1**	**37.5%**	**317.8**	**249.3**	**27.5%**
Core Earnings Per Unit (sen)	3.56	2.82	26.2%	2.61	36.4%	9.26	7.28	27.2%
Gross Distribution Per Unit (sen)	0.00	5.68		0.00		5.68	4.66	
Key Operating Metrics:								
Net property income margin	76.5%	73.3%		75.1%		73.9%	74.0%	
Pretax margin	54.0%	61.2%		46.4%		54.2%	58.8%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	3Q FY25	2Q FY25	QoQ Chg	3Q FY24	YoY Chg	9M FY25	9M FY24	YoY Chg
Retail	167.2	160.0	4.5%	130.6	28.1%	495.6	380.6	30.2%
Hotel	35.0	16.7	109.1%	29.2	19.7%	67.9	67.6	0.4%
Office	20.1	20.4	-1.2%	20.5	-1.9%	60.9	62.6	-2.7%
Services	9.7	9.8	-1.1%	9.6	1.2%	29.3	28.7	1.9%
Industrial & Others	4.4	4.5	-2.4%	2.3	93.4%	13.0	6.8	91.8%
Total Revenue	**236.4**	**211.4**	**11.8%**	**192.1**	**23.1%**	**666.7**	**546.3**	22.0%
Retail	121.9	114.1	6.8%	91.8	32.8%	352.8	264.9	33.2%
Hotel	33.9	15.6	117.5%	28.1	20.6%	64.4	64.7	-0.5%
Office	11.8	12.2	-3.2%	12.9	-8.5%	36.4	39.8	-8.5%
Services	9.7	9.8	-1.1%	9.6	1.2%	29.3	28.7	1.9%
Industrial & Others	3.6	3.2	12.3%	1.9	86.3%	10.0	6.0	67.9%
Net property income	**180.9**	**154.9**	**16.8%**	**144.3**	**25.3%**	**493.0**	**404.2**	**22.0%**

Source: Company, Kenanga Research

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	2.14	1.96	-8.4%	4,324.5	Y	12/2025	10.4	10.6	28.1%	2.0%	20.6	20.2	1.3	6.3%	9.6	4.5%
CAPITALAND MALAYSIA TRUST	OP	0.620	0.650	4.8%	2,065.4	N	12/2025	5.1	5.0	13.1%	13.7%	12.1	12.3	0.6	5.1%	4.7	7.6%
IGB REIT	MP	2.67	2.52	-5.6%	9,676.0	N	12/2025	11.7	13.7	14.6%	39.8%	22.9	19.5	2.5	10.0%	11.0	4.1%
KLCCP STAPLED GROUP	MP	8.70	8.93	2.6%	15,706.4	Y	12/2025	47.6	48.8	9.8%	2.5%	18.3	17.8	1.2	6.3%	45.7	5.3%
SUNWAY REIT	MP	2.14	2.22	3.7%	7,329.1	N	12/2025	12.0	12.5	16.8%	3.8%	17.8	17.2	1.4	7.2%	10.8	5.0%
SECTOR AGGREGATE					**39,101.3**					**14.1%**	**11.2%**	**19.1**	**17.2**	**1.4**	**7.0%**		**5.3%**

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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