Sunway REIT

Resilient 1H Retail Performance Despite Geopolitical Worries

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OUTPERFORM ↔

Price:	**RM2.15**
Target Price:	**RM2.45 ↔**

SUNREIT's 1HFY26 results were within expectation. The full reopening of the old wing of Sunway Carnival Mall in May 2025, mid-single-digit rental reversion in its retail segment and additional rental contribution from AEON Mall Seri Manjung following its acquisition in July 2025 more than offset the loss of income from the disposal of Sunway University and college campus on Sep 2025. Its net profit grew by 11% as it was further contributed by lower utility costs arising from a more favourable electricity tariff structure. We remain optimistic on the group's outlook supported by ongoing AEIs in Sunway 163 mall and improving performance from the hotel segment following the easing of the Middle East geopolitical tensions. We keep our TP of RM2.45 and an OUTPERFORM call.

Within expectations. SUNREIT's 1HFY26 net profit of RM215.6m made up 50% of our full-year forecast and 48% of consensus full-year estimate. The group also declared a gross dividend of 6.3 sen, on track to meet our FY26 dividend forecast of 12.5 sen.

YoY, SUNREIT's 1HFY26 revenue grew by 3% primarily driven by the full reopening of the old wing of Sunway Carnival Mall in May 2025, mid-single digit rental reversion in its retail segment and additional rental contribution from AEON Mall Seri Manjung following its acquisition in July 2025. On that note, both its footfall and tenant sales continued to deliver positive growth. Its net profit rose by a sharper 11%, thanks to a more favourable electricity tariff structure. While other segment remained largely stable, we believe with the gradual easing of the geopolitical tension in the Middle East, the group's hotel segment should see further improvement moving forward.

QoQ, its revenue and net profit dipped by 1% and 2%, respectively, as the growth in the hotel segment was weighed down by the seasonally softer retail segment performance in 2QFY26.

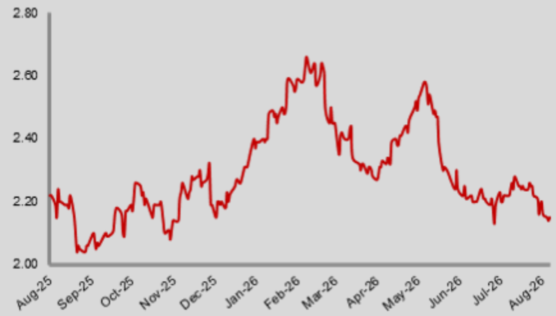
Outlook. While SUNREIT scouts for a replacement asset post disposal of Sunway University and college campus, we expect the loss of income contribution to be partially cushioned by its growing retail segment.

The group had 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 have been positive on this deal as the Sunway Hotel Seberang Perai is the lowest income contributor among its six hotels and was 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 spillover from Sunway Carnival Mall, which has evolved into a regional hub for its vibrant retail offerings.

Meanwhile, Sunway 163 mall is planned to undergo three phases of asset enhancement initiatives with the first phase slated to complete by end-2026. Post-completion of the entire exercise, we expect a brighter rental reversion prospect for the mall. On the other hand, the anticipated future asset injection pipeline from its sponsor (SUNWAY), namely, Sunway Velocity Mall, of which we believe will likely crystallize from CY27 onwards upon the maturity of the assets. On that note, we have ascribed potential benefits to this asset injection pipeline in our previous report.

Forecasts. Unchanged.

Share Price Performance



KLCI	1,741.61
YTD KLCI chg	3.7%
YTD stock price chg	-6.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SREIT MK Equity
Market Cap (RM m)	7,363.3
Shares Outstanding	3,424.8
52-week range (H)	2.66
52-week range (L)	2.04
3-mth avg. daily vol.	4,155,050
Free Float	52%
Beta	0.70

Major Shareholders

Sunway Bhd	40.9%
Employees Provident Fund	14.6%
Kumpulan Wang Persaraan	4.5%

Summary Earnings Table

FY Dec (RM m)	2025A	2026F	2027F
Turnover	894.3	905.0	945.2
EBIT	658.0	668.2	693.7
PBT	547.7	460.1	483.0
Net Profit (NP)	**539.4**	**456.9**	**479.7**
Core Net Profit	**426.6**	**433.9**	**456.7**
Consensus (NP)	-	452.5	474.8
Earnings Revision (%)	-	-	-
Core EPS (sen)	12.5	12.7	13.3
Core EPS Growth (%)	21.4	1.7	5.3
GDPU (sen)	14.5	12.5	13.6
BVPS (RM)	1.57	1.58	1.58
Core PER (x)	17.3	17.0	16.1
Price/BV (x)	1.4	1.4	1.4
Net Asset Gearing (x)	0.36	0.36	0.35
Net Div. Yield (%)	6.7	5.8	6.3

Valuations. We keep our TP at RM2.45 based on FY26F GDPU of 12.5 sen. The basis of our TP is on a revised target yield of 5.1% (derived from a 1.60% 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 and a visible asset injection pipeline from its sponsor. 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 OUTPERFORM 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)	2Q FY27	1Q FY26	QoQ Chg	2Q FY25	YoY Chg	6M FY27	6M FY25	YoY Chg
Rental and lease income	213.8	215.7	-0.9%	205.1	4.2%	429.5	418.2	2.7%
Other operating income	6.6	7.3	-9.4%	6.3	5.1%	13.9	12.1	14.6%
Gross Revenue	**220.3**	**223.0**	**-1.2%**	**211.4**	**4.2%**	**443.4**	**430.3**	**3.0%**
Property Operating Expenses	-57.4	-58.6	-2.1%	-56.5	1.6%	-116.0	-118.2	-1.9%
Net Property Income	**163.0**	**164.4**	**-0.9%**	**154.9**	**5.2%**	**327.4**	**312.1**	**4.9%**
Investment Income	2.4	3.5	-31.5%	32.2	-92.6%	5.9	35.3	-83.4%
Other Non-operating Expenses	-15.2	-14.8	2.6%	-13.9	9.1%	-30.0	-27.4	9.5%
Finance Cost	-37.9	-38.3	-1.1%	-43.8	-13.6%	-76.2	-86.3	-11.8%
Profit Before Tax	**112.3**	**114.8**	**-2.2%**	**129.4**	**-13.2%**	**227.1**	**233.7**	**-2.8%**
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	**112.3**	**114.8**	**-2.2%**	**129.4**	**-13.2%**	**227.1**	**233.7**	**-2.8%**
Distributable Income	**235.5**	**129.0**	**82.5%**	**239.7**	**-1.8%**	**235.5**	**239.7**	**-1.8%**
Core Net Profit	**106.5**	**109.1**	**-2.3%**	**96.6**	**10.3%**	**215.6**	**195.2**	**10.5%**
Core Earnings Per Unit (sen)	3.11	4.29	-27.5%	2.82	10.3%	7.40	5.70	29.8%
Gross Distribution Per Unit (sen)	6.28	0.00		5.68		6.28	5.68	
Key Operating Metrics:								
Net property income margin	74.0%	73.7%		73.3%		73.8%	72.5%	
Pretax margin	51.0%	51.5%		61.2%		51.2%	54.3%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	2Q FY27	1Q FY26	QoQ Chg	2Q FY25	YoY Chg	6M FY27	6M FY25	YoY Chg
Retail	177.1	185.0	-4.2%	160.0	10.7%	362.1	328.4	10.3%
Hotel	18.1	13.0	39.3%	16.7	8.0%	31.1	32.9	-5.4%
Office	20.4	20.3	0.8%	20.4	0.3%	40.7	40.8	-0.3%
Services	0.0	0.0	N.M	9.8	-100.0%	0.0	19.6	-100.0%
Industrial & Others	4.7	4.8	-1.5%	4.5	5.0%	9.5	8.6	9.6%
Total Revenue	**220.3**	**223.0**	**-1.2%**	**211.4**	**4.2%**	**443.4**	**430.3**	3.0%
Retail	130.4	136.3	-4.3%	114.1	14.2%	266.7	230.9	15.5%
Hotel	17.0	11.8	43.4%	15.6	8.9%	28.8	30.5	-5.7%
Office	12.1	12.4	-2.3%	12.2	-1.2%	24.4	24.6	-0.6%
Services	0.0	0.0	N.M	9.8	-100.0%	0.0	19.6	-100.0%
Industrial & Others	3.6	3.9	-9.3%	3.2	11.5%	7.5	6.4	16.2%
Net property income	**163.0**	**164.4**	**-0.9%**	**154.9**	**5.2%**	**327.4**	**312.1**	**4.9%**

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																	
AL-AQAR REIT	OP	1.16	1.25	7.8%	973.9	Y	12/2026	8.1	8.3	5.8%	2.4%	14.3	14.0	0.9	6.4%	8.0	6.9%
AME REIT	MP	1.53	1.58	3.3%	815.5	Y	03/2027	8.1	8.5	8.3%	5.5%	18.8	18.0	1.2	6.5%	9.0	5.9%
AXIS REIT	MP	1.81	2.02	11.6%	3,665.1	Y	12/2026	10.6	11.1	6.2%	5.1%	17.1	16.3	1.1	6.3%	10.1	5.6%
CAPITALAND MALAYSIA TRUST	MP	0.605	0.650	7.4%	2,035.9	N	12/2026	5.2	5.4	10.1%	4.2%	11.6	11.1	0.6	5.4%	4.8	8.0%
IGB REIT	MP	2.75	2.81	2.2%	11,912.5	N	12/2026	14.4	15.4	42.6%	7.0%	19.2	17.9	2.6	9.9%	15.4	5.6%
KLCCP STAPLED GROUP	MP	8.70	9.22	6.0%	15,706.4	Y	12/2026	47.8	49.2	5.8%	2.9%	18.2	17.7	1.2	6.1%	46.9	5.4%
PAVILION REIT	OP	1.65	1.95	18.2%	6,486.9	N	12/2026	10.5	11.0	15.1%	4.1%	15.7	15.0	1.3	7.6%	11.3	6.8%
SUNWAY REIT	OP	2.15	2.45	14.0%	7,363.3	N	12/2026	12.7	13.3	1.7%	5.3%	17.0	16.1	1.4	7.8%	12.5	5.8%
SECTOR AGGREGATE					**48,959.5**					**13.4%**	**4.7%**	**17.7**	**16.9**	**1.3**	**7.0%**		**6.3%**

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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