

21 Nov 2022

**Hold**

Price  
RM1.40

Target Price  
RM1.51

Bloomberg code  
SREIT MK

Equity | Malaysia | REITs  
**Flashnote**

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# Sunway REIT

## Resilience derived from all segments

### Financial Highlights

| FYE Jun             | 2020  | 2021  | 2022F | 2023F | 2024F |
|---------------------|-------|-------|-------|-------|-------|
| Revenue             | 556.9 | 675.6 | 607.5 | 638.9 | 668.7 |
| Net property income | 416.8 | 457.1 | 470.0 | 494.3 | 517.3 |
| Core net profit     | 248.6 | 252.0 | 369.8 | 405.2 | 445.8 |
| EPS (sen)           | 7.8   | 6.5   | 10.3  | 11.3  | 12.5  |
| DPS (sen)           | 7.8   | 6.1   | 8.9   | 9.8   | 10.9  |
| Dividend yield (%)  | 5.6   | 4.4   | 6.4   | 7.0   | 7.8   |
| P/E (x)             | 18.0  | 21.6  | 13.6  | 12.4  | 11.2  |
| ROE (%)             | 4.7   | 4.1   | 7.1   | 7.8   | 8.4   |

Source: Company, KAF

- We maintain our Hold recommendation on Sunway REIT (SREIT) with an unchanged TP of RM1.51sen based on DDM valuation.
- Sunway REIT (S REIT) reported a 3Q22 core net profit of RM91.9m (+124% YoY vs. RM41m in 5Q21), due to a +82% YoY growth in net property income (NPI) from RM70.5m to RM128.2m.
- The nine-month revenue and net operating profit (NPI) increased by 48% and 77%, respectively, compared to the same period last year. This was mostly on the back of an overall improvement in performance across all segments.
- For the quarter under review, no dividend was declared as it is paid semi-annually.
- The retail segment recorded revenue of RM101.3m for 3Q22, an increase of +70% or RM36.4m YoY. This was primarily due to the overall improved performance of retail properties, with Sunway Pyramid Mall increasing its revenue to RM237.9m (+82% vs. RM131.3m in 9MFY21).
- Besides that, Sunway Carnival Shopping Mall expansion has opened since late June, with management securing close to ~90% of committed tenancy take-up.
- Despite the stellar quarter and sales performance, management continues to exercise prudence and allows tenants to recover from Covid-19 related losses. Hence, we anticipate a single-digit rental reversion moving forward.
- On a positive note, rental assistance has diminished substantially as a result of solid recovery. Therefore, it can be deemed inconsequential.
- The hotel segment recorded revenue of RM18.4m in the 3QFY22, +198% or RM12.2m as compared to last year primarily due the Sunway Resort Hotel's reopening in stages starting in May 2022, in accordance with the country's shift into the endemic phase.
- Nonetheless, the improved performance in domestic leisure and business travel and Meetings, Incentives, Conventions and Exhibitions (MICE) activities has led to an increase in hotel occupancy.
- To recap, SREIT has acquired Sunway Pier (previously known as Kompleks Dato' Shaari Jihin) located in Port Klang. We understand that the project is on cue for redevelopment into a retail-centric tourist attraction.
- Moving forward, SREIT is actively pursuing 3<sup>rd</sup> party acquisition opportunities and is confident in its strategy to grow its asset portfolio through acquisition, asset management, and asset enhancement initiatives.
- Due to the fact that ~68% of the financing cost was subject to a floating rate, we anticipate that there would be an effect on the overall financing cost. Still, management

will keep working to improve its capital management strategy and keep an eye on interest rates to minimize the impact of a potential interest rate increase.

- Additionally, the rising inflationary pressures may influence spending patterns. As a result, we continue to exercise caution as it may also impact earnings.
- Overall, we reaffirm our Hold recommendation with an unchanged TP of RM1.51. Barring any unforeseen situation, we anticipate DPU of 8.9sen for FY22F, which translates to a fairly attractive yield of 6.4%.

**Exhibit 1: Quarterly Earnings Trend**

| FYE Dec (RMm)               | 5Q21   | 6Q21   | 1Q22   | 2Q22   | 3Q22   | Change |       | Cumulative |         | KAF     |      |
|-----------------------------|--------|--------|--------|--------|--------|--------|-------|------------|---------|---------|------|
|                             | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | % qoq  | % yoy | 9M21       | 9M22    | FY22F   | 9M/F |
| Revenue                     | 106.9  | 157.8  | 154.0  | 144.5  | 166.2  | 15     | 56    | 314.6      | 464.7   | 607.5   | 76   |
| Property operating cost     | (36.4) | (34.7) | (35.1) | (37.6) | (38.0) | 1      | 4     | (114.6)    | (110.7) | (137.5) | 80   |
| Net property income         | 70.5   | 123.1  | 118.9  | 106.9  | 128.2  | 20     | 82    | 199.9      | 354.1   | 470.0   | 75   |
| Non-property operating cost | (9.9)  | (11.2) | (11.3) | (10.7) | (11.4) | 7      | 16    | (28.8)     | (33.4)  | (43.2)  | 77   |
| EBITDA                      | 60.6   | 111.9  | 107.6  | 96.2   | 116.8  | 21     | 93    | 171.1      | 320.6   | 372.4   | 86   |
| Other income                | 1.9    | 1.8    | 1.3    | 1.0    | 1.2    | 16     | (36)  | 5.9        | 3.5     | 11.6    | 30   |
| Finance cost                | (21.5) | (21.4) | (20.9) | (22.8) | (26.1) | 15     | 22    | (65.6)     | (69.8)  | (117.5) | 59   |
| Exceptionals                | -      | (57.3) | -      | -      | -      | -      | -     | -          | -       | -       | -    |
| Profit before tax           | 15.3   | 15.3   | 106.3  | 74.5   | 91.9   | 23     | 499   | 85.7       | 272.7   | 369.8   | 74   |
| Tax                         | -      | 0.9    | -      | -      | -      | -      | -     | -          | -       | (1.4)   | -    |
| Net profit                  | 41.0   | 16.2   | 106.3  | 74.5   | 91.9   | 23     | 124   | 111.4      | 272.7   | 351.8   | 78   |
| Normalized net profit       | 41.0   | 15.3   | 106.3  | 74.5   | 91.9   | 23     | 124   | 111.4      | 272.7   | 369.8   | 74   |

Source: Company, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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