

# Sunway REIT (SREIT MK)

## 3Q22: A good quarter

# HOLD

Share Price MYR 1.40  
 12m Price Target MYR 1.46 (+10%)  
 Previous Price Target MYR 1.38

### Maintain HOLD

3Q22 earnings were above expectations with 9M22 core net profit at 82%/78% of our/consensus' full year estimates on better-than-expected performance from the Retail and Hotel segments. We nudge up our earnings forecasts by 11%/11%/7% for FY22/23/24E, after adjusting for lower operating expenses estimates. Our DDM-TP is also raised by 8sen to MYR1.46 (Ke: 8.4%). Maintain HOLD. For retail REITs, PREIT is our preferred pick (PREIT MK, BUY, TP: MYR1.41, CP: MYR1.21).

### Growth led by Retail and Hotel segments

3Q22 core net profit was MYR86.9m (+141% YoY, +25% QoQ), bringing 9M22 core net profit to MYR239.5m (+148% YoY). YoY earnings growth was supported by: (i) Retail - sustained recovery in footfalls and retail sales, and the opening of a new wing of Sunway Carnival Mall, and (ii) Hotel - improvement in overall occupancy rates and increased demand in MICE events, alongside the arrival of domestic and international tourists; also further boosted by the progressive reopening of Sunway Resort Hotel. These however were partially offset by higher finance costs (3Q22: +22%) due to the higher OPR rate, and higher Managers fee (+19.5%) resulting from higher performance fee (i.e. 3% of NPI).

### Raising our forecasts

We nudge up earnings forecasts by 11%/11%/7% for FY22/23/24E, after adjusting for lower operating expenses estimates. For FY23, guidance is for positive mid-single digit rental reversion. Management also expects further improvement to its Hotel segment supported by higher international tourist arrivals from the ASEAN and Middle-Eastern regions.

### Some near-term growth catalysts

SREIT's earnings trajectory mainly comes from sustained recovery from its Retail and Hospitality assets, on the back of 1) a significant decline in rental support, 2) improved domestic tourism, corporate and MICE activities, and 3) pick up in international leisure traffic. We expect Sunway Resort Hotel's operations to normalise from 4Q22 onwards, after the completion of its refurbishment, coupled with new income contribution from Sunway Carnival Mall expansion.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	557	676	638	673	716
Net property income	417	457	485	502	536
Core net profit	228	222	323	332	345
Core EPU (sen)	7.8	7.0	9.4	9.7	10.1
Core EPU growth (%)	(19.1)	(10.2)	35.5	2.7	3.8
Net DPU (sen)	6.6	5.4	8.5	8.7	9.0
Net DPU growth (%)	(23.6)	(18.5)	57.8	2.7	3.8
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
Net DPU yield (%)	4.4	3.8	6.1	6.2	6.5
ROAE (%)	4.7	4.1	6.7	6.9	7.1
ROAA (%)	2.7	2.5	3.5	3.5	3.7
Debt/Assets (x)	0.41	0.37	0.39	0.39	0.39
Consensus Net DPU	-	-	7.6	8.1	8.6
MKE vs. Consensus (%)	-	-	12.2	8.2	5.8

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### Company Description

Sunway REIT primarily invests and manages a real estate portfolio which consists of retail, office and hospitality assets.

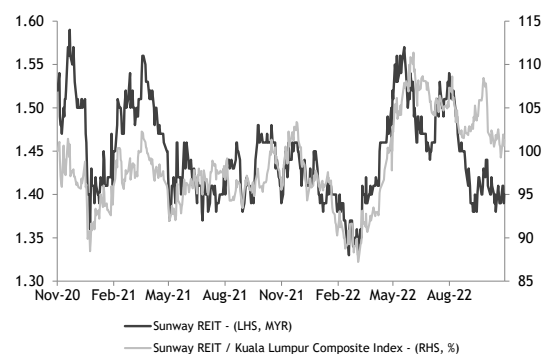
### Statistics

52w high/low (MYR)	1.57/1.33
3m avg turnover (USDm)	0.3
Free float (%)	84.8
Issued shares (m)	3,425
Market capitalisation	MYR4.8B USD1.1B

### Major shareholders:

Employees Provident Fund	15.2%
Kumpulan Wang Persaraan	5.8%
The Vanguard Group, Inc.	2.1%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(8)	(1)
Relative to index (%)	(6)	(4)	4

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	3QFY22	3Q2021 <sup>^</sup>	% YoY	2QFY22	% QoQ	9MFY22	9M2021	% YoY
Gross revenue	166.2	106.9	55.5	144.5	15.0	464.7	314.5	47.7
<b>Net property income</b>	<b>128.2</b>	<b>70.5</b>	<b>81.9</b>	<b>106.9</b>	<b>20.0</b>	<b>354.1</b>	<b>199.9</b>	<b>77.1</b>
Other income	1.2	1.9	(35.5)	1.0	19.2	3.6	6.0	(40.3)
Non-property expenses	(11.4)	(9.9)	15.3	(10.7)	7.1	(33.4)	(28.9)	15.8
Finance costs	(26.1)	(21.5)	21.8	(22.8)	14.8	(69.8)	(65.6)	6.3
Fair value gain/(loss)	-	-	NA	0.0	NM	18.3	-	NM
<b>Pretax profit</b>	<b>91.9</b>	<b>41.1</b>	<b>&gt;100</b>	<b>74.5</b>	<b>23.4</b>	<b>272.7</b>	<b>111.4</b>	<b>&gt;100</b>
Tax	-	-	NA	-	NA	-	-	NA
<b>Net profit</b>	<b>91.9</b>	<b>41.1</b>	<b>&gt;100</b>	<b>74.5</b>	<b>23.4</b>	<b>272.7</b>	<b>111.4</b>	<b>&gt;100</b>
- Perpetual note holders	5.0	5.0	0.0	5.0	1.1	14.9	14.9	0.0
- Unrealised profit/loss	0.0	0.0	38.1	0.0	20.8	18.3	0.1	>100
<b>Net profit ex-EI</b>	<b>86.9</b>	<b>36.0</b>	<b>&gt;100</b>	<b>69.5</b>	<b>24.9</b>	<b>239.5</b>	<b>96.4</b>	<b>&gt;100</b>
Distributable income	95.0	45.6	>100	83.1	14.3	261.3	147.7	76.8
EPU ex-EI (sen)	2.5	1.1	141.9	2.0	25.1	7.0	2.8	>100
<b>Gross DPU (sen)*</b>	<b>-</b>	<b>-</b>	<b>NA</b>	<b>4.2</b>	<b>(100.0)</b>	<b>4.2</b>	<b>1.6</b>	<b>&gt;100</b>
	<b>3QFY22</b>	<b>3Q2021<sup>^</sup></b>	<b>+/- ppt</b>	<b>2QFY22</b>	<b>+/- ppt</b>	<b>9MFY22</b>	<b>9M2021</b>	<b>+/- ppt</b>
<i>Net property margin (%)</i>	77.1	66.0	11.2	74.0	3.2	76.2	63.5	12.6
<i>Net income ex-EI margin (%)</i>	52.3	33.7	18.6	48.1	4.1	51.5	30.7	20.9
<b><u>SEGMENTAL</u></b>	<b>3QFY22</b>	<b>3Q2021<sup>^</sup></b>	<b>% YoY</b>	<b>2QFY22</b>	<b>% QoQ</b>	<b>9MFY22</b>	<b>9M2021</b>	<b>% YoY</b>
<b><u>Revenue</u></b>								
Sunway Pyramid	81.8	52.4	56.0	78.5	4.2	237.9	131.3	81.2
Sunway Carnival	15.0	4.8	>100	9.3	60.8	33.7	18.9	78.7
SunCity Ipoh Hypermarket	0.8	0.8	0.1	0.8	0.1	2.5	2.3	7.1
Sunway Putra Mall	12.7	6.9	85.3	12.7	0.2	36.0	24.7	45.7
Sunway Pier	0.0	-	NM	0.0	0.0	0.0	-	NM
<b>Revenue - Retail</b>	<b>110.3</b>	<b>64.9</b>	<b>70.0</b>	<b>101.4</b>	<b>8.9</b>	<b>310.1</b>	<b>177.1</b>	<b>75.1</b>
Sunway Resort	3.7	0.1	>100	0.1	>100	4.3	0.3	>100
Sunway Pyramid Hotel	7.7	0.0	<-100	0.3	>100	8.4	0.3	>100
Sunway Hotel Seberang Jaya	0.4	-	NM	0.5	(23.4)	0.9	0.0	<-100
Sunway Putra Hotel	1.8	3.8	(51.7)	1.6	15.3	4.5	11.5	(60.8)
Sunway Hotel Georgetown	1.2	0.1	>100	1.2	(2.7)	5.1	2.1	>100
Sunway Clio Property	3.7	2.3	61.1	2.3	58.9	19.8	15.1	30.5
<b>Revenue - Hotel</b>	<b>18.4</b>	<b>6.2</b>	<b>&gt;100</b>	<b>6.0</b>	<b>&gt;100</b>	<b>42.9</b>	<b>29.3</b>	<b>46.7</b>
Menara Sunway	4.2	4.2	0.2	4.3	(1.9)	13.0	12.8	1.2
Sunway Tower	1.0	1.1	(13.1)	0.8	14.7	2.6	3.4	(23.6)
Sunway Putra Tower	3.3	3.0	7.9	3.3	0.6	9.7	9.1	6.4
Wisma Sunway	1.7	1.7	1.3	1.7	0.5	5.2	5.2	0.3
The Pinnacle Sunway	9.8	8.8	10.8	9.6	2.2	28.7	27.0	6.4
<b>Revenue - Office</b>	<b>20.0</b>	<b>18.9</b>	<b>5.7</b>	<b>19.7</b>	<b>1.5</b>	<b>59.2</b>	<b>57.5</b>	<b>2.9</b>
Sunway Medical Centre	6.6	6.4	3.5	6.6	(0.0)	19.8	19.2	3.5
Sunway REIT Industrial - Shah Alam 1	1.7	1.5	10.0	1.7	0.1	5.1	4.6	10.0
Sunway University & College Campus	9.2	8.9	2.3	9.2	(0.0)	27.5	26.8	2.5
<b>Revenue - Others</b>	<b>17.5</b>	<b>16.9</b>	<b>3.4</b>	<b>17.5</b>	<b>(0.0)</b>	<b>52.4</b>	<b>50.6</b>	<b>3.6</b>
<b>Total revenue</b>	<b>166.2</b>	<b>106.9</b>	<b>55.5</b>	<b>144.5</b>	<b>15.0</b>	<b>464.7</b>	<b>314.5</b>	<b>47.7</b>

<sup>^</sup> 3Q2021 represents the period from July 2021 to September 2021

\* Distribution frequency has been changed to semi-annually from quarterly

Note: FYE change to Dec from Jun, from FY21 onwards (18 months in FP 2021)

Source: Sunway REIT, Maybank IBG Research

Fig 1: Results summary (continued)

FY Dec (MYR m)	Quarterly					Cumulative		
	3QFY22	3Q2021 <sup>^</sup>	% YoY	2QFY22	% QoQ	9MFY22	9M2021	% YoY
<b>SEGMENTAL</b>								
<b>Net property income</b>								
Sunway Pyramid	65.1	33.0	97.4	62.0	5.0	187.1	70.3	>100
Sunway Carnival	7.6	1.5	>100	2.7	>100	15.0	7.6	97.0
SunCity Ipoh Hypermarket	0.8	0.7	2.0	0.8	1.1	2.4	2.2	8.0
Sunway Putra Mall	7.0	1.4	>100	6.5	7.7	18.2	5.9	>100
Sunway Pier	(0.1)	-	NM	(0.3)	(75.3)	18.2	-	NM
<b>NPI - Retail</b>	<b>80.5</b>	<b>36.6</b>	<b>&gt;100</b>	<b>71.6</b>	<b>12.3</b>	<b>222.4</b>	<b>86.1</b>	<b>&gt;100</b>
Sunway Resort	3.4	(0.7)	<-100	(0.2)	<-100	3.7	-1.3	<-100
Sunway Pyramid Hotel	7.6	(0.2)	<-100	0.2	>100	7.9	-0.2	<-100
Sunway Hotel Seberang Jaya	0.3	(0.0)	<-100	0.4	(24.3)	0.8	-0.2	<-100
Sunway Putra Hotel	1.6	3.4	(53.0)	1.2	29.5	3.6	10.4	(65.3)
Sunway Hotel Georgetown	1.1	0.0	>100	1.1	(2.7)	4.9	1.9	>100
Sunway Clio Property	3.5	1.7	>100	2.3	53.6	19.1	13.3	43.4
<b>NPI - Hotel</b>	<b>17.5</b>	<b>4.2</b>	<b>&gt;100</b>	<b>5.0</b>	<b>&gt;100</b>	<b>40.0</b>	<b>24.0</b>	<b>66.5</b>
Menara Sunway	2.7	3.0	(9.9)	2.8	(4.4)	8.2	8.9	(7.6)
Sunway Tower	(0.2)	0.2	<-100	(0.2)	7.0	0.4	0.7	(34.1)
Sunway Putra Tower	2.0	1.9	5.3	2.1	(4.1)	6.2	5.8	6.1
Wisma Sunway	1.0	1.0	0.7	1.0	1.0	2.9	2.9	0.5
The Pinnacle Sunway	7.3	6.8	7.6	7.1	3.4	21.5	20.9	2.8
<b>NPI - Office</b>	<b>12.8</b>	<b>12.8</b>	<b>(0.3)</b>	<b>12.7</b>	<b>0.2</b>	<b>39.2</b>	<b>39.1</b>	<b>0.1</b>
Sunway Medical Centre	6.6	6.4	3.5	6.6	(0.0)	19.8	19.2	3.5
Sunway REIT Industrial - Shah Alam 1	1.7	1.5	10.0	1.7	0.1	5.1	4.6	10.0
Sunway University & College Campus	9.2	8.9	2.3	9.2	(0.0)	27.5	26.8	2.5
<b>NPI - Others</b>	<b>17.5</b>	<b>16.9</b>	<b>3.4</b>	<b>17.5</b>	<b>(0.0)</b>	<b>52.4</b>	<b>50.6</b>	<b>3.6</b>
<b>Total</b>	<b>128.2</b>	<b>70.5</b>	<b>81.9</b>	<b>106.9</b>	<b>20.0</b>	<b>354.0</b>	<b>199.9</b>	<b>77.1</b>

<sup>^</sup> 3Q2021 represents the period from July 2021 to September 2021

Note: FYE change to Dec from Jun, from FY21 onwards (18 months in FP 2021)

Source: Sunway REIT, Maybank IBG Research

## 3QFY22 highlights

### Retail segment:

- Sunway Pyramid Shopping Mall's 3Q22 NPI jump 97% YoY to MYR65m mainly due to higher sustained retail footfall and encouraging tenant sales, which led to marginal rental support and higher turnover rent, promotion and carpark income. Occupancy has remained stable at 97% (3Q21: 97%). The mall remained as the key contributor to SREIT, at 51% of NPI for 3Q22.
- Meanwhile, Sunway Carnival Mall recorded higher NPI of MYR7.6m (3Q21: MYR1.5m), mainly from the new wing which opened on 24 June 2022 that added another 350k sf (+42%) to its net lettable area (NLA).
- Overall, NPI of Retail segment for 3Q22 increased 120% YoY to MYR80.5m, due to the improvement across all retail properties, mainly at Sunway Pyramid Shopping Mall. In addition, there was a recovery in doubtful debts following continued improvement in rental collection. Occupancy rate for the Retail segment was stable at 96% (3Q21: 96%).

## Hospitality segment:

- The segment's 3Q22 NPI jump 315% YoY to MYR17.5m, largely due to improvements in average occupancy rates, attributed to the relaxation of domestic travel restrictions and gradual re-opening of international borders. In addition, the phased re-opening of Sunway Resort Hotel also contributed to better segment's NPI although partly offset by the ceasing of minimum guaranteed rent from Sunway Putra Hotel. SREIT's average hotel occupancy jumped to 50%, from 24% in 3Q21.
- Sunway Resort Hotel has re-opened progressively since May 2022. The number of rooms gradually increased to 238 as at end-3Q22 (2Q22: 138 rooms). Total rooms upon full completion of its refurbishment in 4Q22 will be 460.
- To recap, 3 hotels have renewed their 10-year master lease agreements in July 2020 - Sunway Resort Hotel, Sunway Pyramid Hotel and Sunway Hotel Seberang Jaya. However, these renewed master leases do not carry guaranteed rent components; rental income to SREIT is based on 90% of gross operating profit. For the other 3 hotels - Sunway Putra, Sunway Hotel Georgetown, Sunway Clio Property - their master leases are due for renewal between 2025-2031.

## Office segment:

- The segment's NPI has remained stable - flat YoY at MYR12.8m - attributed to stable average occupancy rates. Notwithstanding Sunway Tower's low 26% occupancy rate, the other office towers' occupancies ranged at 87%-100%.

## Risk statement

There are several risks to our earnings estimates, target price and rating for SREIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for SREIT. About 38% of Sunway Pyramid's NLA is due for lease renewal in FY23, while 68% of SREIT's borrowings are on floating rates. Another earnings risk would be if the impact from COVID-19 returns. There are also potential DPU impact due to changes in master leases.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
Price/DPU(x)	22.7	26.2	16.5	16.1	15.5
P/BV (x)	1.0	0.9	0.9	0.9	0.9
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
DPU yield (%)	4.9	4.2	6.7	6.9	7.2
FCF yield (%)	5.1	nm	3.1	9.0	9.8
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	556.9	675.6	637.6	672.7	716.2
<b>Net property income</b>	<b>416.8</b>	<b>457.1</b>	<b>485.2</b>	<b>501.6</b>	<b>536.0</b>
Management and trustee fees	(57.4)	(60.0)	(45.3)	(46.0)	(47.2)
Net financing costs	(110.8)	(125.5)	(96.6)	(103.5)	(124.1)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(41.3)	(76.9)	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>207.3</b>	<b>194.6</b>	<b>343.2</b>	<b>352.1</b>	<b>364.6</b>
Income tax	0.9	0.9	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>208.2</b>	<b>195.5</b>	<b>343.2</b>	<b>352.1</b>	<b>364.6</b>
Core net profit	228.4	221.9	323.4	332.2	344.7
Distributable inc to unitholders	228.9	221.9	323.4	332.2	344.7
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	101.8	290.5	214.2	227.3	242.4
Accounts receivable	108.6	48.1	45.4	47.9	51.0
Property, Plant & Equip (net)	12.9	11.6	11.6	11.6	11.6
Investment properties	8,037.2	8,738.3	9,008.3	9,026.3	9,044.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	199.7	62.1	64.2	66.4	68.6
<b>Total assets</b>	<b>8,460.2</b>	<b>9,150.5</b>	<b>9,343.7</b>	<b>9,379.4</b>	<b>9,417.8</b>
ST interest bearing debt	1,645.4	1,595.4	1,595.4	1,595.4	1,595.4
Accounts payable	152.6	208.8	197.1	208.0	221.4
LT interest bearing debt	1,800.0	1,810.0	2,010.0	2,030.0	2,050.0
Other liabilities	92.5	71.1	71.1	71.1	71.1
<b>Total Liabilities</b>	<b>3,690.5</b>	<b>3,685.3</b>	<b>3,873.5</b>	<b>3,904.4</b>	<b>3,937.8</b>
Shareholders Equity	4,430.1	5,125.5	5,130.4	5,135.3	5,140.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>4,430.1</b>	<b>5,125.5</b>	<b>5,130.4</b>	<b>5,135.3</b>	<b>5,140.3</b>
<b>Total liabilities and equity</b>	<b>8,460.2</b>	<b>9,150.5</b>	<b>9,343.7</b>	<b>9,379.4</b>	<b>9,417.8</b>
<b>CASH FLOW (MYR m)</b>					
<b>Cash flow from operations</b>	<b>344.9</b>	<b>432.5</b>	<b>418.0</b>	<b>451.1</b>	<b>486.3</b>
Capex	(119.6)	(715.6)	(270.0)	(18.0)	(18.0)
Acquisitions & investments	0.0	0.0	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	(154.0)	140.6	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>(273.6)</b>	<b>(575.0)</b>	<b>(270.0)</b>	<b>(18.0)</b>	<b>(18.0)</b>
Dividends paid	(212.9)	(178.8)	(322.8)	(331.7)	(344.2)
Interest expense	(115.2)	0.0	0.0	0.0	0.0
Change in debt	354.6	(40.1)	200.0	20.0	20.0
Equity raised / (purchased)	0.0	706.0	0.0	0.0	0.0
Other financial activities	(43.2)	(137.4)	(101.4)	(108.3)	(129.1)
<b>CF from financing activities</b>	<b>(16.7)</b>	<b>349.8</b>	<b>(224.3)</b>	<b>(420.0)</b>	<b>(453.2)</b>
<b>Effect of exchange rate changes</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>54.6</b>	<b>207.3</b>	<b>(76.3)</b>	<b>13.1</b>	<b>15.1</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(4.0)	21.3	(5.6)	5.5	6.5
Net property income growth	(5.2)	9.7	6.2	3.4	6.9
Core net profit growth	(19.1)	(2.9)	45.7	2.7	3.8
Distributable income growth	(19.1)	(3.1)	45.7	2.7	3.8
<b>Profitability ratios (%)</b>					
Net property income margin	74.8	67.7	76.1	74.6	74.8
Core net profit margin	41.0	32.8	50.7	49.4	48.1
Payout ratio	93.3	87.6	84.6	84.8	85.0
<b>DuPont analysis</b>					
Total return margin (%)	37.4	28.9	53.8	52.3	50.9
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.9	1.8	1.8	1.8	1.8
ROAE (%)	4.7	4.1	6.7	6.9	7.1
ROAA (%)	2.7	2.5	3.5	3.5	3.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.3	2.5	2.4	2.4	2.4
Net gearing (%) (excl. perps)	75.5	60.8	66.1	66.2	66.2
Net interest cover (x)	3.2	3.2	4.6	4.4	3.9
Debt/EBITDA (x)	9.5	8.5	8.2	7.9	7.4
Capex/revenue (%)	21.5	105.9	42.3	2.7	2.5
Net debt/ (net cash)	3,343.6	3,114.8	3,391.1	3,398.1	3,403.0
Debt/Assets (x)	0.41	0.37	0.39	0.39	0.39

Source: Company; Maybank IBG Research

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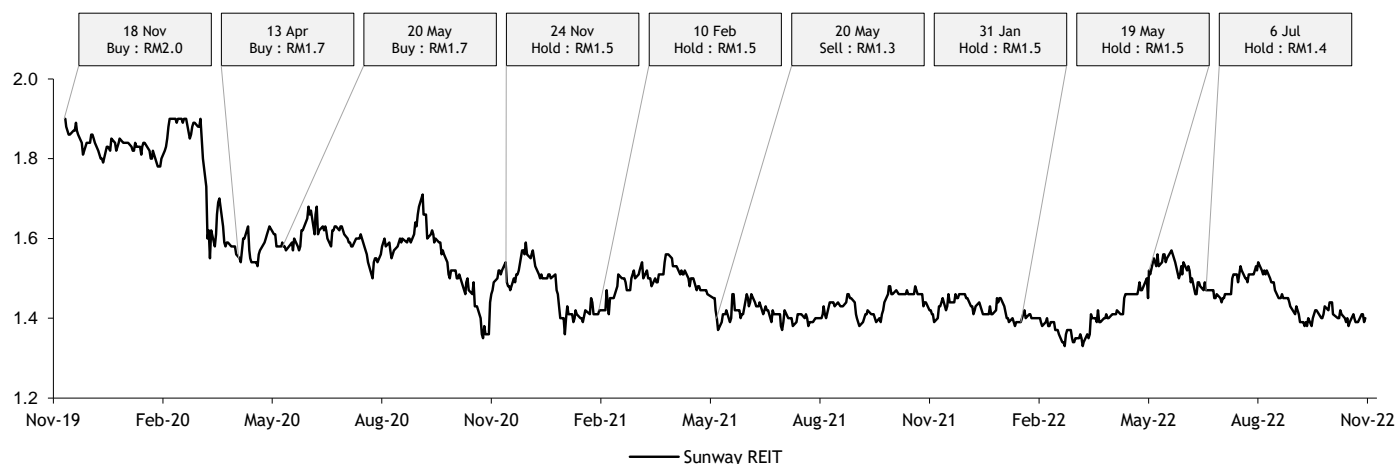
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