

## Sunway REIT

(5176 | SREIT MK) Main | REIT

### Positive Earnings Outlook

#### KEY INVESTMENT HIGHLIGHTS

- **1HFY23 earnings within expectations**
- **Solid earnings in 1HFY23**
- **Reconfiguration of Sunway Pyramid Mall**
- **Earnings forecast revised**
- **Maintain BUY with a revised TP of RM1.70**

**1HFY23 earnings within expectations.** Sunway REIT 1HFY23 core net income of RM168.6m came in within expectations, making up 48% and 49% of our and consensus full year estimates respectively. Distribution per unit (DPU) of 4.62sen was announced for 1HFY23 which is higher than DPU of 4.22sen in 1HFY22.

**Solid earnings in 1HFY23.** Sequentially, 2QFY23 core net earnings were lower at RM72.2m (-25.2%qoq) mainly due to lower contribution from retail division as earnings in previous quarter was boosted by festivity celebrations. Besides, earnings were partially dragged by higher financing cost. On yearly basis, 2QFY23 core net income was marginally lower (-3.1%yoy) despite higher topline as earnings were dragged by higher financing cost and higher expenses particularly electricity cost. That brought 1HFY23 cumulative earnings to RM168.6m (+3.7%yoy). The earnings growth was mainly supported by higher contribution from retail and hotel division. Net property income (NPI) of retail division was higher (+12.3%yoy) due to positive rental reversion and recovery in shopper footfall as well as contribution from Sunway Carnival new wing. Meanwhile, NPI of hotel division jumped by 51%yoy due to recovery in domestic and international tourism. On the other hand, NPI of office division was flattish. In the meantime, higher expenses arising mainly from higher electricity cost and higher financing cost had partially mitigated earnings growth in 1HFY23.

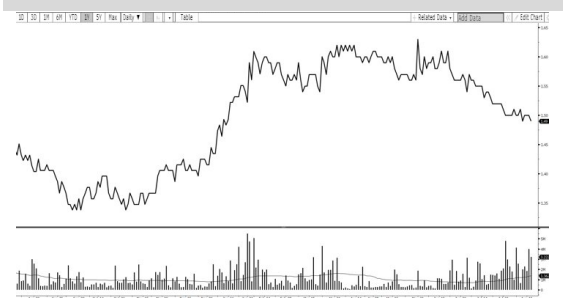
**Reconfiguration of Sunway Pyramid Mall.** Sunway Pyramid's anchor tenant, AEON has moved out from Sunway Pyramid in August 2023 following expiry of lease agreement. Note that AEON occupied approximately 11% of NLA in Sunway Pyramid. The vacant NLA will be redeveloped for smaller sized retail concept store which will be able to fetch higher rental rates. Meanwhile, a new grocery store is scheduled to open in October 2024 at LG2 level of Sunway Pyramid. In a nutshell, we see the loss of rental income from AEON to temporary affect earnings of Sunway Pyramid until reconfiguration exercise is completed which is estimated in FY24.

**Maintain BUY**
**Revised Target Price: RM1.70**  
 (Previously RM1.73)

#### RETURN STATISTICS

Price @ 17 Aug 2023 (RM)	1.50
Expected share price return (%)	+13.3
Expected dividend yield (%)	+5.9
<b>Expected total return (%)</b>	<b>+19.2</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.6	-6.0
3 months	-4.5	-7.2
12 months	-2.6	1.5

#### INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	712	748	771
Net Rental Income	545	577	594
Net Investment Income	550	582	599
Core Net Income	334	360	377
Core EPU (sen)	9.76	10.50	11.00
Net DPU (sen)	8.78	9.45	9.90
Dividend Yield	5.85%	6.30%	6.60%


#### KEY STATISTICS

FBM KLCI	1,447.98
Issue shares (m)	3,424.81
Estimated free float (%)	28.25
Market Capitalisation (RM'm)	5,137
52-wk price range	RM1.3–RM1.66
3-mth average daily volume (m)	1.30
3-mth average daily value (RM'm)	2.00
Top Shareholders (%)	
Sunway Bhd	40.89
Employees Provident Fund Board	15.33
KWAP	5.78
Amanah Saham Nasional Bhd	5.29

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**Long term earnings outlook remains positive.** We revise our FY23F/24F/25F earnings forecast by -4.3%/+0.5%/+1.6% after factoring in loss of income from Sunway Pyramid Mall reconfiguration and contribution from six hypermarkets that will be acquired soon. Recall that Sunway REIT announced acquisition of six hypermarkets from EPF for purchase consideration of RM520m in March 2023. The acquisition is expected to be completed in September 2023. Long term earnings outlook for Sunway REIT remains positive with stable income from retail assets which will be underpin by positive rental reversion. Besides, the recovery in hotel division is expected to support earnings growth going forward.

**Maintain BUY with a revised TP of RM1.70.** Corresponding to the revision in earnings and DPU, our **TP** for Sunway REIT is revised to **RM1.70** from RM1.73. Our TP is based on Dividend Discount Model. We remain sanguine on Sunway REIT due to good quality of its retail assets with high shopper footfall and positive rental reversion which bodes well for long-term growth in rental income. Besides, recovery of its hotel division which should benefit from revival of tourism industry in Malaysia provides upside to earnings. Meanwhile, distribution yield is attractive, estimated at 5.9%. Hence, we maintain our **BUY** call on Sunway REIT. 

## Sunway REIT: 2QFY23 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results				
	2QFY23	%YoY	%QoQ	FY23	%YoY
Gross Revenue	166.5	15.2%	-8.9%	349.3	17.0%
Net Rental Income (NRI)	116.2	8.7%	-16.0%	254.5	12.7%
Net Investment Income	117.7	9.0%	-16.2%	258.1	4.7%
Net Income	72.2	-3.1%	-25.2%	168.6	-6.7%
Core Net Income (CNI)	72.2	-3.1%	-25.2%	168.6	3.7%
Realised EPU (sen)	2.1	-3.1%	-25.2%	4.9	-6.7%
Core EPU (sen)	2.1	-3.1%	-25.2%	4.9	3.7%
Gross DPU (sen)	4.6	9.5%	N/A	4.6	9.5%

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Gross Revenue	676	651	712	748	771
Net Rental Income	457	500	545	577	594
Net Investment Income	391	480	550	582	599
Net Income	195	324	334	360	377
Core Net Income	253	337	334	360	377
Core EPU (sen)	7.4	9.8	9.8	10.5	11.0
Core PER (x)	20.3	15.3	15.4	14.3	13.6
NAV/unit (RM)	1.60	1.61	1.61	1.61	1.61
P/NAV (x)	0.94	0.93	0.93	0.93	0.93
<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Investment Properties	8,702	8,623	8,643	8,773	8,783
Total non-current assets	8,751	8,688	8,656	8,786	8,796
Cash	291	251	627	747	877
Other Assets	109	475	124	130	124
<b>Total Assets</b>	<b>9,150</b>	<b>9,413</b>	<b>9,407</b>	<b>9,663</b>	<b>9,796</b>
LT Borrowings	1,810	1,900	1,810	2,001	2,071
ST Borrowings	1,595	1,637	1,817	1,871	1,927
Other Liability	280	349	278	287	293
<b>Total Liability</b>	<b>3,685</b>	<b>3,885</b>	<b>3,904</b>	<b>4,159</b>	<b>4,291</b>
Unitholders' capital	2,728	3,434	3,434	3,434	3,434
Other Equity	2,737	2,094	2,069	2,070	2,071
<b>Total Equity</b>	<b>5,465</b>	<b>5,528</b>	<b>5,503</b>	<b>5,504</b>	<b>5,505</b>
<b>Equity + Liability</b>	<b>9,150</b>	<b>9,413</b>	<b>9,407</b>	<b>9,663</b>	<b>9,796</b>
<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
<b>Cash flows from operating activities</b>					
Cash Receipt from Customers	688	671	734	762	778
Net cash from operating activities	433	488	550	580	597
<b>Cash flows from investing activities</b>					
Subsequent Expenditure of Inv Properties	-300	-30	-20	-10	-10
Net cash used in investing activities	-575	-30	402	-8	-4
<b>Cash flows from financing activities</b>					
Net cash from/(used in) financing activities	331	-461	-614	-453	-463
Net increase/(decrease) in cash and cash equivalents	189	-2	339	120	130
Cash and cash equivalent at 1 January	102	291	288	627	747
Cash and cash equivalent at 1 December	291	288	627	747	877
<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Net Investment Income margin	57.8%	73.7%	77.2%	77.9%	77.8%
Core net income margin	37.4%	51.7%	46.9%	48.1%	48.9%
ROE	5.7%	7.0%	6.5%	7.0%	7.3%
ROA	2.9%	3.6%	3.6%	3.8%	3.9%

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology