

Sunway REIT

(5176 | SREIT MK) Main | REIT

Looking Forward to A Better FY24

KEY INVESTMENT HIGHLIGHTS

- **9MFY23 earnings within expectations**
- **Stable earnings**
- **Looking forward to a better FY24**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM1.70**

9MFY23 earnings within expectations. Sunway REIT 9MFY23 core net income of RM260.6m came in within expectations, making up 78% and 76% of our and consensus full year estimates respectively. No distribution per unit (DPU) was announced in 3QFY23 due to its bi-annual distribution policy.

Stable earnings. Sequentially, 3QFY23 core net income was higher at RM92m (+27.4%qoq) primarily due to higher contribution from retail and hotel divisions. Besides, earnings were helped by lower property operating expenses (-22%qoq). On yearly basis, 3QFY23 was flattish (+0.1%yoy) due to slightly lower contribution of Sunway Pyramid Mall and loss of income from Sunway Medical Centre following disposal of the asset. Net property income (NPI) of Sunway Pyramid Mall is marginally lower which could be due to its anchor tenant, AEON has moved out from Sunway Pyramid in August 2023. Nevertheless, the lower earnings from Sunway Pyramid is cushioned by higher contribution from Sunway Carnival new wing and higher contribution from hotel division. Cumulatively, 9MFY23 core net income of RM260.6m was higher (+2.4%yoy) as both retail and hotel division recorded encouraging earnings. NPI of hotel division was higher (+52%yoy) as Sunway Resort Hotel was fully reopened in July 2023. Meanwhile, retail division was supported by recovery in shopper footfall and positive rental reversion.

Looking forward to a better FY24. We maintain our earnings forecast for FY23F/24F/25F. We see better earnings outlook for Sunway REIT from FY24 onwards as reconfiguration exercise of Sunway Pyramid should complete in FY24. We remain positive on outlook for its retail division which should support by positive rental reversion. Besides, hotel division should also benefit from higher tourist arrival and recovery in domestic tourism.

Maintain BUY with an unchanged TP of RM1.70. We maintain our **TP at RM1.70**, based on Dividend Discount Model. We maintain our **BUY** call on Sunway REIT as we favour Sunway REIT for its good quality retail assets which support long-term earnings growth. Besides, the earnings recovery of hotel division provides further upside to earnings. Moreover, distribution yield is attractive, estimated at 5.6%.

Maintain BUY
Unchanged Target Price: RM1.70

RETURN STATISTICS

| | |
|----------------------------------|--------------|
| Price @ 16 Nov 2023 (RM) | 1.55 |
| Expected share price return (%) | +9.7 |
| Expected dividend yield (%) | +5.6 |
| Expected total return (%) | +15.3 |

SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month | 4.7 | 3.3 |
| 3 months | 6.2 | 2.2 |
| 12 months | 11.5 | 10.3 |

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 | 5.6% | 6.01% | 6.30% |

KEY STATISTICS

| | |
|----------------------------------|--------------|
| FBM KLCI | 1,464.68 |
| Issue shares (m) | 3,424.81 |
| Estimated free float (%) | 27.89 |
| Market Capitalisation (RM'm) | 5,308 |
| 52-wk price range | RM1.3–RM1.66 |
| 3-mth average daily volume (m) | 3.29 |
| 3-mth average daily value (RM'm) | 4.85 |
| Top Shareholders (%) | |
| Sunway Bhd | 40.89 |
| Employees Provident Fund Board | 15.57 |
| KWAP | 5.90 |
| Amanah Saham Nasional Bhd | 5.29 |

Analyst

 Jessica Low Jze Tieng
 jessica.low@midf.com.my

Sunway REIT: 3QFY23 RESULTS SUMMARY

| FYE Dec (RM'm, unless otherwise stated) | Quarterly Results | | | FY23 | %YoY |
|---|-------------------|------|---------|-------|-------|
| | 3QFY23 | %YoY | %QoQ | | |
| Gross Revenue | 175.8 | 5.8% | 5.6% | 525.2 | 13.0% |
| Net Rental Income (NRI) | 136.8 | 6.6% | 17.7% | 391.2 | 10.5% |
| Net Investment Income | 138.3 | 6.8% | 17.5% | 396.4 | 5.5% |
| Net Income | 92.0 | 0.1% | 27.4% | 260.6 | -4.4% |
| Core Net Income (CNI) | 92.0 | 0.1% | 27.4% | 260.6 | 2.4% |
| Realised EPU (sen) | 2.7 | 0.1% | 27.4% | 7.6 | -4.4% |
| Core EPU (sen) | 2.7 | 0.1% | 27.4% | 7.6 | 2.4% |
| Gross DPU (sen) | 0.0 | N/A | -100.0% | 4.6 | 9.5% |

Source: Company, MIDFR

FINANCIAL SUMMARY

| Income Statement (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|-------------------------|-------|-------|-------|-------|-------|
| 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) | 21.0 | 15.8 | 15.9 | 15.0 | 14.3 |
| NAV/unit (RM) | 1.60 | 1.61 | 1.61 | 1.61 | 1.61 |
| P/NAV (x) | 0.97 | 0.96 | 0.96 | 0.96 | 0.96 |

| Balance Sheet (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| 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 |
| Total Assets | 9,150 | 9,413 | 9,407 | 9,663 | 9,796 |
| 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 |
| Total Liability | 3,685 | 3,885 | 3,904 | 4,159 | 4,291 |
| Unitholders' capital | 2,728 | 3,434 | 3,434 | 3,434 | 3,434 |
| Other Equity | 2,737 | 2,094 | 2,069 | 2,070 | 2,071 |
| Total Equity | 5,465 | 5,528 | 5,503 | 5,504 | 5,505 |
| Equity + Liability | 9,150 | 9,413 | 9,407 | 9,663 | 9,796 |

| Cash Flow (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|-------|-------|-------|-------|-------|
| Cash flows from operating activities | | | | | |
| Cash Receipt from Customers | 688 | 671 | 734 | 762 | 778 |
| Net cash from operating activities | 433 | 488 | 550 | 580 | 597 |
| Cash flows from investing activities | | | | | |
| Subsequent Expenditure of Inv Properties | -300 | -30 | -20 | -10 | -10 |
| Net cash used in investing activities | -575 | -30 | 402 | -8 | -4 |

| Cash flows from financing activities | | | | | |
|--|-------|-------|-------|-------|-------|
| 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 |
| Profitability Margins | | | | | |
| 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