

## Sunway REIT

(5176 | SREIT MK) Main | REIT

### Positive Earnings Outlook

#### KEY INVESTMENT HIGHLIGHTS

- **FY23 earnings within expectations**
- **Lower sequential earnings due to loss of rental income from AEON**
- **Flattish earnings in FY23**
- **Positive earnings outlook**
- **Maintain BUY with an unchanged TP of RM1.70**

**FY23 earnings within expectations.** Sunway REIT FY23 core net income of RM338.2m came in within expectations, making up 101% and 100% of our and consensus full year estimates respectively. Distribution for unit (DPU) of 4.68sen was announced for 4QFY23, bringing total DPU to 9.3sen in FY23 which translates into gross yield of 5.8%.

**Lower sequential earnings due to higher expenses.** Sequentially, 4QFY23 core net income was lower at RM77.6m (-15.7%qoq) despite higher topline (+8.4%qoq). The lower earnings were mainly due to higher property operating expenses (+40%qoq). Retail division saw marginally lower net property income (NPI) of RM79.6m (-2.8%qoq) as Sunway Pyramid recorded lower contribution following AEON moving out in August 2023. Nevertheless, contribution from Sunway Carnival was encouraging following opening of new wing.

**Flattish earnings in FY23.** On yearly basis, 4QFY23 earnings was lower at RM77.6m (-5.5%yoy), bringing full year earnings in FY23 to RM338.2m (+0.5%yoy). The earnings growth in FY23 was marginal despite higher topline growth of 9.9%yoy as earnings were dragged by higher property operating expenses which partly contributed by higher utilities cost. Most of the segments (retail, hotel and office) recorded higher NPI in FY23, which offset the loss of income from Sunway Medical Centre following disposal of Sunway Medical Centre. Retail division was spurred by contribution from Sunway Carnival new wing while hotel division recorded higher earnings due to reopening of Sunway Resort Hotel.

**Positive earnings outlook.** We maintain our earnings forecast for FY24F/25F. We also introduce our earnings forecast for FY26F. We see earnings outlook for Sunway REIT to be positive as earnings from Sunway Pyramid should normalise from FY25 onwards post reconfiguration exercise. Besides, earnings of retail segment should support by positive rental reversion as shopper footfall and tenants' sales improved.

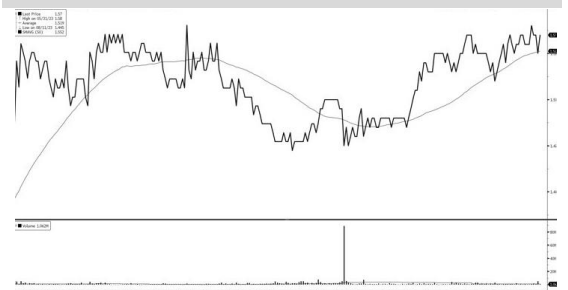
**Maintain BUY with an unchanged TP of RM1.70.** We maintain our **TP at RM1.70**, based on Dividend Discount Model. We maintain our **BUY** call on Sunway REIT as long-term earnings outlook for its retail division remains positive, driven by good quality assets. Besides, hotel division should continue to record better earnings amid higher tourist arrivals. Meanwhile, distribution yield is attractive, estimated at 5.6%.

**Maintain BUY**
**Unchanged Target Price: RM1.70**

#### RETURN STATISTICS

Price @ 30 Jan 2024 (RM)	1.59
Expected share price return (%)	+6.9
Expected dividend yield (%)	+5.6
<b>Expected total return (%)</b>	<b>+12.5</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.9	-2.0
3 months	1.9	1.8
12 months	-1.9	-2.9

#### INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	748	771	790
Net Rental Income	577	594	608
Net Investment Income	582	599	613
Core Net Income	360	377	396
Core EPU (sen)	10.50	11.00	11.57
Net DPU (sen)	8.91	9.18	9.45
Dividend Yield	5.60%	5.77%	5.94%

#### KEY STATISTICS

FBM KLCI	1,512.75
Issue shares (m)	3,424.81
Estimated free float (%)	27.82
Market Capitalisation (RM'm)	5,445
52-wk price range	RM1.4–RM1.66
3-mth average daily volume (m)	1.33
3-mth average daily value (RM'm)	2.04
Top Shareholders (%)	
Sunway Bhd	40.89
Employees Provident Fund Board	15.64
KWAP	5.90
Amanah Saham Nasional Bhd	5.29

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**Sunway REIT: 4QFY23 RESULTS SUMMARY**

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	4QFY23	%YoY	%QoQ	FY23	%YoY
Gross Revenue	190.5	2.0%	8.4%	715.7	9.9%
Net Rental Income (NRI)	135.7	-7.2%	-0.8%	526.9	5.3%
Net Investment Income	130.1	24.9%	-5.9%	526.6	9.7%
Net Income	77.6	52.6%	-15.7%	338.2	4.5%
Core Net Income (CNI)	77.6	-5.5%	-15.7%	338.2	0.5%
Realised EPU (sen)	2.3	52.7%	-15.7%	9.9	4.5%
Core EPU (sen)	2.3	-5.5%	-15.7%	9.9	0.5%
Gross DPU (sen)	4.7	-6.4%	N/A	9.3	0.9%

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Gross Revenue	651	716	748	771	790
Net Rental Income	500	527	577	594	608
Net Investment Income	480	527	582	599	613
Net Income	324	338	355	372	396
Core Net Income	337	338	360	377	396
Core EPU (sen)	9.8	9.9	10.5	11.0	11.6
Core PER (x)	16.2	16.1	15.1	14.4	13.7
NAV/unit (RM)	1.61	1.61	1.61	1.62	1.63
P/NAV (x)	0.99	0.99	0.99	0.98	0.97
<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Investment Properties	8,623	8,912	9,042	9,052	9,062
Total non-current assets	8,688	8,990	9,056	9,066	9,076
Cash	251	425	405	375	272
Other Assets	475	123	225	401	551
<b>Total Assets</b>	<b>9,413</b>	<b>9,539</b>	<b>9,686</b>	<b>9,841</b>	<b>9,898</b>
LT Borrowings	1,900	2,000	2,191	2,261	2,223
ST Borrowings	1,637	1,637	1,686	1,737	1,789
Other Liability	349	386	287	293	299
<b>Total Liability</b>	<b>3,885</b>	<b>4,023</b>	<b>4,164</b>	<b>4,291</b>	<b>4,310</b>
Unitholders' capital	3,434	3,434	3,434	3,434	3,434
Other Equity	2,094	2,082	2,088	2,117	2,154
<b>Total Equity</b>	<b>5,528</b>	<b>5,516</b>	<b>5,522</b>	<b>5,550</b>	<b>5,588</b>
<b>Equity + Liability</b>	<b>9,413</b>	<b>9,539</b>	<b>9,686</b>	<b>9,841</b>	<b>9,898</b>
<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
<b>Cash flows from operating activities</b>					
Cash Receipt from Customers	648	727	762	778	798
Net cash from operating activities	435	446	580	597	618
<b>Cash flows from investing activities</b>					
Subsequent Expenditure of Inv Properties	-239	-200	-150	-170	-157
Net cash used in investing activities	-265	135	-148	-164	-148
<b>Cash flows from financing activities</b>					
Net cash from/(used in) financing activities	-209	-407	-453	-463	-573
Net increase/(decrease) in cash and cash equivalents	-39	174	-21	-30	-103
Cash and cash equivalent at 1 January	291	251	425	405	375
Cash and cash equivalent at 1 December	251	425	405	375	272
<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Net Investment Income margin	73.7%	73.6%	77.9%	77.8%	77.6%
Core net income margin	51.7%	47.3%	48.1%	48.9%	50.1%
ROE	7.0%	6.6%	7.0%	7.3%	7.6%
ROA	3.6%	3.6%	3.7%	3.9%	4.0%

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