

Sunway REIT

(5176 | SREIT MK) Main | REIT

Maintain BUY

Retail Asset Acquisition in Mont Kiara

Unchanged Target Price: RM1.70


KEY INVESTMENT HIGHLIGHTS

- **Retail asset acquisition in Mont Kiara**
- **Yield accretive acquisition**
- **Marginal impact on earnings and balance sheet**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM1.70**

Retail asset acquisition in Mont Kiara. Sunway REIT announced that it has entered into a conditional sale and purchase agreement with D’Kiara Place Sdn Bhd., a wholly owned subsidiary of YNH Property Berhad to acquire a retail asset known as “163 Retail Park” located at Mont Kiara, KL for a purchase consideration of RM215m. 163 Retail Park is a stratified seven-storey retail mall which was completed in 2018.

Yield accretive acquisition. The acquisition is expected to be yield accretive as initial net property yield is at 6.5%, which is higher than average cost of debt of 3.8%. The purchase price of RM215m is slightly below property value of RM225m. The acquisition allows Sunway REIT to expand its exposure in retail segment. Note that retail division is the largest earnings contributor to Sunway REIT by contributing 62% to net property income in 9MFY23. Meanwhile, 163 Retail Park has net lettable area of 23,740sq. m. and decent occupancy rate of 94%.

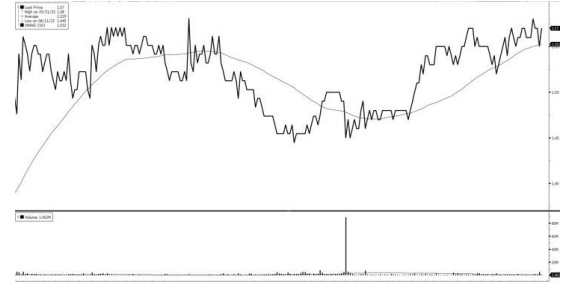
Marginal impact on earnings and balance sheet. Gearing of Sunway REIT is expected to increase marginally to 0.39x from 0.37x post the asset acquisition. Meanwhile, earnings impact from the acquisition is expected to be minimal. We estimate the earnings contribution from 163 Retail Park to increase FY25 earnings by 1.3%. Nevertheless, we maintain our earnings forecast for FY23F/24F/25F pending completion of the acquisition.

Maintain BUY with an unchanged TP of RM1.70. We maintain our TP at **RM1.70**, based on Dividend Discount Model. We remain positive on Sunway REIT as we see sanguine outlook for its retail division which will underpin by positive rental reversion. Besides, the expected higher tourist arrival will benefit its hotel division and support earnings growth of the division. Meanwhile, distribution yield is attractive, estimated at 5.6%. Hence, we maintain our **BUY** call on Sunway REIT. 

RETURN STATISTICS

Price @ 29 Jan 2024 (RM)	1.57
Expected share price return (%)	+8.3
Expected dividend yield (%)	+5.6
Expected total return (%)	+13.9

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	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%	5.9%	6.2%

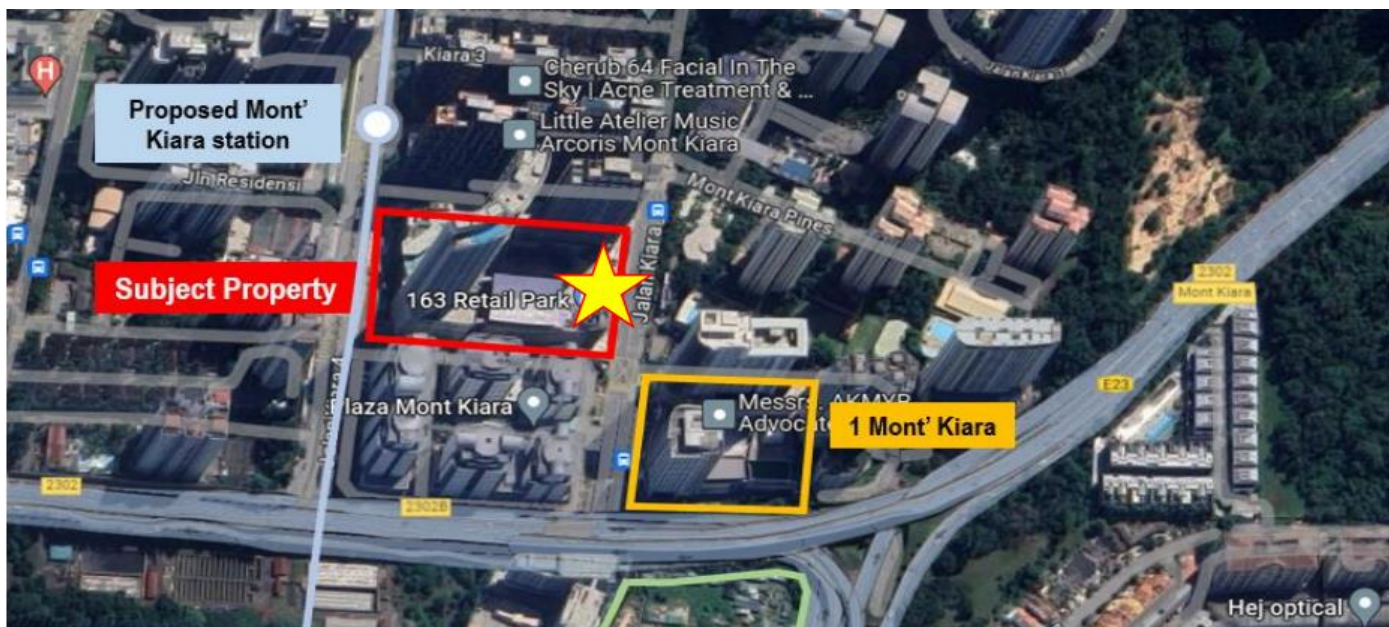
KEY STATISTICS

FBM KLCI	1,515.39
Issue shares (m)	3,424.81
Estimated free float (%)	27.82
Market Capitalisation (RM'm)	5,377
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	15.54
KWAP	5.90
Amanah Saham Nasional Bhd	5.29

Analyst

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Location of 163 Retail Park



Source: Company

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)	21.3	16.0	16.1	15.2	14.5
NAV/unit (RM)	1.60	1.61	1.61	1.61	1.61
P/NAV (x)	0.98	0.97	0.98	0.98	0.98
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	2021A	2022A	2023E	2024F	2025F
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