

## Sunway REIT

(5176 | SREIT MK) Main | REIT

### Positive Outlook


#### KEY INVESTMENT HIGHLIGHTS

- **1QFY24 earnings within expectations**
- **Retail division remains solid**
- **Positive outlook**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM1.70**

**1QFY24 earnings within expectations.** Sunway REIT 1QFY24 core net earnings of RM87m came in within expectations, making up 24.2% and 24.5% of ours and consensus full year estimates respectively. As expected, no distribution per unit (DPU) was announced for 1QFY24 due to its bi-annual distribution policy.

**Retail division remains solid.** Sequentially, 1QFY24 core net income was higher at RM87m (+12.1%qoq) despite lower topline (-6.3%qoq) mainly due to absence of unbilled lease income receivable. Meanwhile, net property income (NPI) of retail division was higher mainly due to better contribution from Sunway Pyramid Mall amid festive season in the first quarter and positive rental reversion. That has offset the lower NPI of hotel division. On the other hand, office, services, and industrial divisions recorded stable earnings in 1QFY24.

**Positive outlook.** On yearly basis, 1QFY24 core net earnings were lower at RM87m (-9.8%yoy), in tandem with lower topline (-2.3%yoy). The lower earnings were mainly due to lower contribution from retail division as a result of loss of income from AEON as AEON moved out from Sunway Pyramid Mall in August 2023. Besides, earnings were also impacted by loss of income from Sunway Medical Centre which was disposed in August 2023. Meanwhile, hotel division recorded higher NPI of RM18m (+3.4%yoy) mainly due to reopening of Sunway Resort Hotel. Moving forward, earnings from Sunway Pyramid should normalise from FY25 onwards as reconfiguration exercise of Sunway Pyramid should complete in FY24. Besides, rental contribution from six hypermarkets that were acquired in April 2024 should lift earnings in 2HFY24.

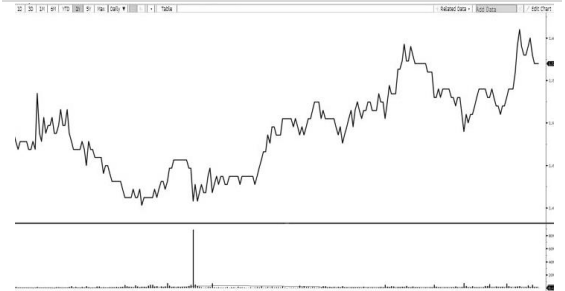
**Maintain BUY with an unchanged TP of RM1.70.** We maintain our earnings forecast for FY24F/25F/26F. We also maintain our **TP** for Sunway REIT at **RM1.70** based on dividend discount model. We remain positive on Sunway REIT as its contribution from its retail division should remain stable in the long term on the back of positive rental reversion. Besides, outlook for hotel division is also improving with expectation of higher tourist arrivals. Hence, we maintain our **BUY** call on Sunway REIT. Meanwhile, distribution yield is attractive, estimated at 5.7%. 

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

#### RETURN STATISTICS

Price @ 16 May 2024 (RM)	1.56
Expected share price return (%)	+9.0
Expected dividend yield (%)	+5.7
<b>Expected total return (%)</b>	<b>+14.7</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.3	-0.9
3 months	3.9	-5.5
12 months	-1.3	-12.9

#### 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	5.7%	5.9%	6.0%

#### KEY STATISTICS

FBM KLCI	1,611.11
Issue shares (m)	3,424.81
Estimated free float (%)	28.35
Market Capitalisation (RM'm)	5343
52-wk price range	RM1.4–RM1.64
3-mth average daily volume (m)	1.84
3-mth average daily value (RM'm)	2.84
Top Shareholders (%)	
Sunway Bhd	40.89
Employees Provident Fund Board	15.88
KWAP	5.93

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## Sunway REIT: 1QFY24 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY24	%YoY	%QoQ	FY24	%YoY
Gross Revenue	178.6	-2.3%	-6.3%	178.6	-2.3%
Net Rental Income (NRI)	130.5	-5.6%	-3.8%	130.5	-5.6%
Net Investment Income	136.9	-2.5%	5.2%	136.9	-2.5%
Net Income	87.0	-9.8%	12.1%	87.0	-9.8%
Core Net Income (CNI)	87.0	-9.8%	12.1%	87.0	-9.8%
Realised EPU (sen)	2.5	-9.8%	12.1%	2.5	-9.8%
Core EPU (sen)	2.5	-9.8%	12.1%	2.5	-9.8%
Gross DPU (sen)	0.0	0.0%	-100.0%	0.0	0.0%

Source: Company, MIDFR

## FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
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)	15.9	15.8	14.9	14.2	13.5
NAV/unit (RM)	1.61	1.61	1.61	1.62	1.63
P/NAV (x)	0.97	0.97	0.97	0.96	0.96
Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
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>
Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
<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 on 1 January	291	251	425	405	375
Cash and cash equivalent on 1 December	251	425	405	375	272
Profitability Margins	2022A	2023A	2024E	2025F	2026F
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