

Sunway REIT

(5176 | SREIT MK) Main | REIT

Acquisition of Kluang Mall

KEY INVESTMENT HIGHLIGHTS

- **Acquisition of Kluang Mall**
- **Expanding retail footprint to central Johor**
- **Earnings forecast revised upwards**
- **Maintain BUY with a revised TP of RM1.81**

Acquisition of Kluang Mall. Sunway REIT announced that it has entered into a conditional sale and purchase agreement with Tenaga Nusantara Sdn Bhd to acquire Kluang Mall located in Kluang, Johor for a purchase consideration of RM158m. Kluang Mall is a four-storey shopping complex with net lettable area (NLA) of 360k sq. ft. Occupancy rate of the mall is close to 100%. The proposed acquisition is expected to be completed by 4QCY24.

Expanding footprint to central Johor. We view the asset acquisition positively as it will allow Sunway REIT to expand its retail asset footprint to central of Johor which is a state with improving property outlook. With strong track record in retail management, Sunway REIT is optimistic to enhance the performance of the mall through tenancy optimisation, proactive mall management and asset enhancement initiatives. Meanwhile, acquisition yield is attractive with net property yield of 6.8%. Hence, the acquisition is expected to be earnings accretive to Sunway REIT. Besides, the purchase consideration of RM158m is lower than market value of RM165m.

Earnings forecast revised upwards. We expect marginal impact on Sunway REIT balance sheet from the acquisition. We estimate gearing to climb marginally to 0.42x from 0.41x in 1QFY24. Meanwhile, we make to changes to our earnings forecast for FY24 but revise FY25F/26F earnings forecast by +1% after factoring in earnings contribution from Kluang Mall.

Maintain BUY with a revised TP of RM1.81. Corresponding to the earnings revision, our **TP** for Sunway REIT is revised to **RM1.81** from RM1.80, based on dividend discount model. We remain positive on Sunway REIT as we see stable contribution from its retail division on the back of positive rental reversion and high shopper footfall. Besides, outlook for its 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 5.5%.

Maintain BUY

Revised Target Price: RM1.81
(Previously RM1.80)

RETURN STATISTICS

Price @ 8 Aug 2024 (RM)	1.61
Expected share price return (%)	+12.4
Expected dividend yield (%)	+5.5
Expected total return (%)	+17.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.3	2.8
3 months	3.9	1.3
12 months	7.3	-1.3

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	748	792	812
Net Rental Income	577	605	619
Net Investment Income	582	610	624
Core Net Income	360	381	400
Core EPU (sen)	10.50	11.12	11.69
Net DPU (sen)	8.91	9.18	9.45
Dividend Yield	5.5%	5.7%	5.8%

KEY STATISTICS

FBM KLCI	1,590.38
Issue shares (m)	3,424.81
Estimated free float (%)	28.35
Market Capitalisation (RM'm)	5514
52-wk price range	RM1.44–
3-mth average daily volume (m)	2.00
3-mth average daily value (RM'm)	3.15
Top Shareholders (%)	
Sunway Bhd	40.89
Employees Provident Fund Board	15.89
KWAP	5.88

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FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Gross Revenue	651	716	748	792	812
Net Rental Income	500	527	577	605	619
Net Investment Income	480	527	582	610	624
Net Income	324	338	355	376	400
Core Net Income	337	338	360	381	400
Core EPU (sen)	9.8	9.9	10.5	11.1	11.7
Core PER (x)	16.4	16.3	15.3	14.5	13.8
NAV/unit (RM)	1.61	1.61	1.61	1.62	1.63
P/NAV (x)	1.00	1.00	1.00	0.99	0.99
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	390	302
Other Assets	475	123	225	395	534
Total Assets	9,413	9,539	9,686	9,851	9,912
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	299	305
Total Liability	3,885	4,023	4,164	4,296	4,316
Unitholders' capital	3,434	3,434	3,434	3,434	3,434
Other Equity	2,094	2,082	2,088	2,121	2,162
Total Equity	5,528	5,516	5,522	5,554	5,596
Equity + Liability	9,413	9,539	9,686	9,851	9,912
Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
Cash flows from operating activities					
Cash Receipt from Customers	648	727	762	800	820
Net cash from operating activities	435	446	580	619	640
Cash flows from investing activities					
Subsequent Expenditure of Inv Properties	-239	-200	-150	-170	-157
Net cash used in investing activities	-265	135	-148	-164	-148
Cash flows from financing activities					
Net cash from/(used in) financing activities	-209	-407	-453	-470	-580
Net increase/(decrease) in cash and cash equivalents	-39	174	-21	-15	-87
Cash and cash equivalent at 1 January	291	251	425	405	390
Cash and cash equivalent at 1 December	251	425	405	390	302
Profitability Margins	2022A	2023A	2024E	2025F	2026F
Net Investment Income margin	73.7%	73.6%	77.9%	77.0%	76.8%
Core net income margin	51.7%	47.3%	48.1%	48.1%	49.3%
ROE	7.0%	6.6%	7.0%	7.3%	7.7%
ROA	3.6%	3.6%	3.7%	3.9%	4.1%

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