

Sunway REIT

(5176 | SREIT MK) Main | REIT

Robust Outlook

KEY INVESTMENT HIGHLIGHTS

- **Growing retail assets portfolio**
- **Better outlook for retail segment**
- **Hotel division benefited from higher tourist arrival**
- **Earnings forecast maintained**
- **Maintain BUY with a revised TP of RM1.90**

Growing retail assets portfolio. We remain optimistic on the outlook for Sunway REIT which will be mainly driven by the growing contribution from retail assets from organic growth and asset acquisitions. Sunway REIT is actively expanding its portfolio particularly retail assets portfolio through assets acquisition. Sunway REIT completed the acquisition of six hypermarkets which made maiden earnings contribution in 1HFY24. Besides, Sunway REIT is also acquiring 163 Retail Park in Mont' Kiara and Kluang Mall in Johor. We think that the acquisition of retail assets is timely considering the improving retail industry in Malaysia as consumers return to in-person shopping post pandemic.

Better outlook for retail segment. Retail division is the key earnings contributor to Sunway REIT with net property income (NPI) contribution of 62% in FY24. Meanwhile, retail division recorded +8.6%yoy growth in NPI in 1HFY24 mainly due to contribution from newly acquired hypermarkets which offset the slight drop in contribution from Sunway Pyramid Mall (-1.4%yoy) as the mall is undertaking reconfiguration of 11% of NLA which was previously occupied by AEON. The reconfiguration will be completed by end of FY24 and we understand that Sunway REIT has secured tenants for 90% of the space with encouraging positive rental reversion of close to double. Besides, Sunway Carnival Mall in Penang is undergoing refurbishment which will be completed by end of FY25. The refurbishment is expected to lift rental rate of Sunway Carnival Mall. Looking ahead, we expect decent growth from retail division from FY25 onwards due to higher contribution of Sunway Pyramid Mall and Sunway Carnival Mall.

Hotel division benefited from higher tourist arrival. Hotel division of Sunway REIT saw higher earnings contribution of 16% to total NPI in FY23 from 12% in FY22 following reopening of economy. Meanwhile, hotel division recorded higher NPI (+7.6%yoy) in 1HFY24 mainly due to higher average occupancy rate of hotels. Sunway Resort Hotel recorded strong growth in NPI as full room inventory available for the hotel since July 2023 post refurbishment exercise. Looking ahead, hotel division of Sunway REIT should perform better due to better outlook for tourism industry in Malaysia with Tourism Malaysia projecting 2024 tourist arrival to surpass the 2019 pre-pandemic level. Tourist arrival is expected to be higher particularly from India and China following the easing of visa restrictions.

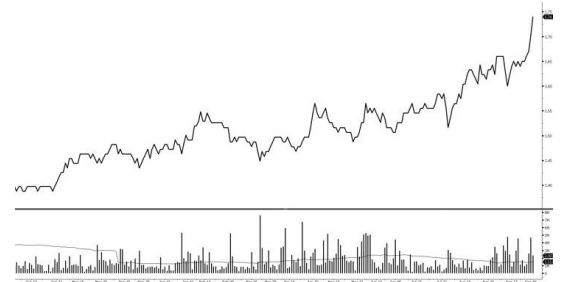
Maintain BUY

Revised Target Price: RM1.90
(Previously RM1.81)

RETURN STATISTICS

Price @ 1 Oct 2024 (RM)	1.74
Expected share price return (%)	+9.2
Expected dividend yield (%)	+5.1
Expected total return (%)	+14.3

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.6	4.9
3 months	2.4	6.9
12 months	18.4	1.4

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	5.1%	5.3%	5.4%

KEY STATISTICS

FBM KLCI	1,656.39
Issue shares (m)	3,424.81
Estimated free float (%)	50.15
Market Capitalisation (RM'm)	5,959.17
52-wk price range	RM1.4–RM1.74
3-mth average daily volume (m)	1.53
3-mth average daily value (RM'm)	2.50
Top Shareholders (%)	
Sunway Bhd	40.89
Employees Provident Fund Board	15.93
KWAP	5.92

Analyst

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Maintain BUY with a revised of RM1.90. We make no changes to our earnings forecast for FY24F/25F/26F. We revise our **TP** for Sunway REIT to **RM1.90** from RM1.81 as we roll over our valuation. Our TP is based on dividend discount model. We like Sunway REIT for its diversified earnings contribution from retail, hotel, office and other divisions. Earnings prospect for retail division remains promising with strong earnings contribution expected from Sunway Pyramid Mall and Sunway Carnival Mall. Besides, earnings outlook for its hotel division is also supported by higher room rate and occupancy rate due to higher tourist arrivals. Hence, we maintain our **BUY** call on Sunway REIT. Meanwhile, distribution yield is attractive, estimated at 5.1%. 

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)	17.7	17.6	16.6	15.6	14.9
NAV/unit (RM)	1.61	1.61	1.61	1.62	1.63
P/NAV (x)	1.08	1.08	1.08	1.07	1.06
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