

17 November 2023

Sunway REIT

Hotels Soar, Malls Stand Steady

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SUNREIT's 9MFY23 results met expectations. Its 9MFY23 core net profit grew 4% YoY as improved rental and lease incomes were partially eroded by higher electricity and interest costs. It is positive on the outlook for its hotel and retail segments but less so for the office segment. We maintain our forecasts, TP of RM1.63 (based on a 6.5% target yield) and **OUTPERFORM** call.

9MFY23 within expectations. SUNREIT's core net profit for 9MFY23 of RM245.7m met expectations, making up 77%/73% for our full-year forecast/the consensus full-year estimate. No dividend was declared, in accordance with its semi-annual distribution policy.

YoY, its 9MFY23 revenue increased by 13% primarily driven by an uptick in the hotel segment (+49%), attributable to improved occupancy rate of 63% YTD (vs 9MFY22: 54%) with full room occupancy at Sunway Resort Hotel since July 2023. The growth was further supported by the retail segment (+13%) which benefited from consistent retail sales and foot traffic across all its retail malls. Although there was an increase in revenue, the net property income only experienced an 11% rise, mainly due to higher operating expenses resulting from increased electricity costs. Not helping bottom-line was a spike in financing cost from the full effect of a 100 bps rise in OPR. All in, its 9MFY23 core net profit grew +4%.

Outlook. As international and domestic visitors return, along with tenant sales and footfall recovering to pre-pandemic levels, it is likely that the business momentum will continue to sustain into the upcoming quarters. We opine that forward earnings will continue to be supported by its hotel segment that has improved in 3QFY23, and this positive trajectory is anticipated to persist, driven by increased interest in domestic leisure, a rise in international tourist arrivals, and higher engagement in corporate and MICE (Meetings, Incentives, Conferences, and Exhibitions) activities.

The retail segment's on-going finalisation of accounts for Sunway Carnival Mall expansion and refurbishment, scheduled for completion by end of 2025, may result in increased rental accretion. While the office segment is expected to confront challenges due to an oversupply resulting from continuous incoming supply, potential support lies in the reinvention of office buildings through Asset Enhancement Initiatives. These initiatives aim to provide improved flexibility and appeal, increasing their attractiveness to a wider tenant base.

Forecasts. Maintained.

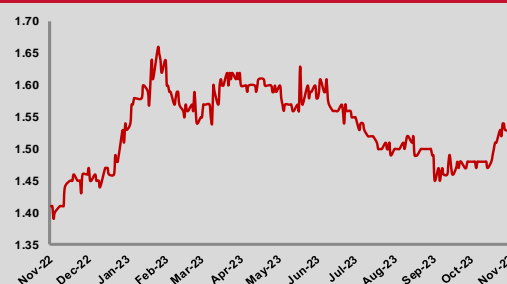
Maintain OUTPERFORM and TP of RM1.63. Our TP is based on our FY24F gross DPU of 10.6 sen against an unchanged target yield of 5.5% (derived from a 2.5% yield spread above our 10-year MGS assumption of 4.0%). The low yield spread reflects SUNWAY's diversified asset portfolio in key urban regions. We reckon that the group's brand equity also benefits greatly from its affiliation to the Sunway conglomerate. There is no adjustment to our TP based on ESG of given a 3-star rating as appraised by us (see Page 4). **SUNREIT is one of our sector Top Picks.**

Risks to our call include: (i) bond yield expansion, (ii) lower-than-expected rental reversions, and (iii) lower-than-expected occupancy rates.

OUTPERFORM ↔

Price: RM1.55
Target Price: RM1.63 ↔

Share Price Performance



KLCI	1,464.68
YTD KLCI chg	-2.1%
YTD stock price chg	6.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SREIT MK Equity
Market Cap (RM m)	5,308.5
Shares Outstanding	3,424.8
52-week range (H)	1.66
52-week range (L)	1.39
3-mth avg daily vol:	3,291,048
Free Float	28%
Beta	0.4

Major Shareholders

Sunway Bhd	40.9%
Employees Provident Fund	15.6%
Kumpulan Wang Persaraan	5.9%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	651.4	756.7	857.0
EBIT	500.2	583.4	652.2
PBT	332.9	433.6	488.9
Net Profit (NP)	323.6	338.2	381.3
Core net profit	303.7	318.3	361.4
Consensus (NP)	319.0	336.5	370.0
Earnings Revision	-	-	-
Core EPS (sen)	8.9	9.3	10.6
Core EPS growth (%)	32.3	4.8	13.5
DPU (sen)	9.2	8.8	10.6
BVPS (RM)	1.51	1.5	1.5
Core PER (x)	16.9	16.1	14.2
Price/BV (x)	0.99	1.0	1.0
Net Gearing (x)	0.6	0.6	0.6
Net Div. Yield (%)	6.1	5.9	7.1

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Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Rental and lease income	172.2	162.6	5.9%	162.7	5.8%	513.7	448.4	19.6%
Other operating income	3.6	3.9	-7.0%	3.5	3.7%	11.4	16.4	-39.3%
Gross Revenue	175.8	166.5	5.6%	166.2	5.8%	525.2	464.7	17.0%
Property Operating Expenses	-39.1	-50.3	-22.4%	-38.0	2.9%	-133.9	-110.7	30.5%
Net Property Income	136.8	116.2	17.7%	128.2	6.6%	391.2	354.1	12.7%
Investment Income	1.6	1.5	5.5%	1.2	27.2%	5.2	21.9	-82.6%
Other Non-operating Expenses	-11.9	-11.5	3.2%	-11.4	3.6%	-35.4	-33.4	7.2%
Finance Cost	-34.5	-34.0	1.5%	-26.1	32.0%	-100.4	-69.8	51.0%
Profit Before Tax	92.0	72.2	27.4%	91.9	0.1%	260.6	272.7	-6.7%
Taxation	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Minority Interest	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Net Profit	92.0	72.2	27.4%	91.9	0.1%	260.6	272.7	-6.7%
Distributable Income	130.2	201.5	-35.4%	95.0	37.1%	130.2	95.0	32.0%
Core Net Profit	87.0	67.2	29.3%	86.9	0.1%	245.7	239.5	4.1%
Core Earnings Per Unit (sen)	2.54	1.96	29.4%	2.54	0.1%	7.18	6.99	4.1%
Distribution Per Unit (sen)	0.00	4.62		0.00		4.62	4.22	
Key Operating Metrics:								
Net property income margin	77.8%	69.8%		77.1%		74.5%	76.2%	
Pretax margin	52.3%	43.4%		55.3%		49.6%	58.7%	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Retail	111.8	110.9	0.8%	110.3	1.3%	349.0	310.1	12.5%
Hotel	27.9	17.5	59.8%	18.4	51.3%	63.8	42.9	48.6%
Office	20.7	20.5	0.9%	20.0	3.4%	61.6	59.2	4.0%
Services	13.8	16.0	-13.8%	15.8	-12.6%	45.7	47.4	-3.5%
Industrial & Others	1.7	1.7	-0.1%	1.7	-0.1%	5.1	5.1	0.0%
Total Revenue	175.8	166.5	5.6%	166.2	5.8%	525.2	464.7	13.0%
Retail	81.8	69.5	17.8%	80.5	1.7%	241.2	222.4	8.5%
Hotel	26.9	16.5	62.9%	17.5	53.3%	60.9	40.0	52.2%
Office	12.8	12.9	-0.5%	12.8	0.4%	39.2	39.2	0.0%
Services	13.8	16.0	-13.8%	15.8	-12.6%	45.7	47.4	-3.5%
Industrial & Others	1.4	1.3	6.2%	1.7	-15.4%	4.1	5.1	-18.5%
Net property income	136.8	116.2	17.7%	128.2	6.6%	391.2	354.1	10.5%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIS REIT	UP	1.83	1.58	-13.7%	3,186.1	Y	12/2023	9.3	10.2	-3.1%	9.7%	19.7	17.9	1.3	5.4%	7.8	4.3%
CAPITALAND MALAYSIA MALL TRUST	MP	0.555	0.530	-4.5%	1,517.1	N	12/2023	3.9	4.0	-4.9%	2.6%	14.2	13.9	0.5	4.5%	3.9	7.0%
IGB REIT	MP	1.72	1.66	-3.5%	6,194.8	N	12/2023	10.1	10.4	7.4%	3.0%	17.0	16.5	1.2	9.5%	10.5	6.1%
KLCCP STAPLED GROUP	OP	7.02	7.18	2.3%	12,673.4	Y	12/2023	40.2	41.6	5.0%	3.5%	17.5	16.9	0.8	5.2%	36.3	5.2%
PAVILION REIT	OP	1.22	1.47	20.5%	4,455.9	N	12/2023	8.0	8.5	1.2%	6.0%	15.3	14.4	1.0	7.3%	8.2	6.7%
SUNWAY REIT	OP	1.55	1.63	5.2%	5,308.5	N	12/2023	10.2	10.9	6.5%	6.9%	15.2	14.2	1.0	5.4%	8.8	5.7%
SECTOR AGGREGATE					33,335.7					0.4%	9.5%	17.3	15.8	1.0	6.2%		5.8%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
SPECIFIC	Effluent/Waste Management	★	★	★		
	Water Management	★	★	★		
	Energy Efficiency	★	★	★		
	Green Buildings	★	★	★		
	Tenant Management	★	★	★		
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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