

30 January 2024

## Sunway REIT

### Elite Retail Expansion

By Clement Chua | [clement.chua@kenanga.com.my](mailto:clement.chua@kenanga.com.my)

SUNREIT has proposed to acquire a retail mall in Mont Kiara, Kuala Lumpur, for RM215.0m which is situated in a highly sought-after and high-income residential area. Hence, the mall is expected to be resilient and less affected by the supply of new malls. We believe SUNREIT is paying a fair price for the asset. We maintain our forecasts, TP of RM1.63 and OUTPERFORM call.

**Acquisition of a tenanted property.** SUNREIT has proposed to acquire a freehold prime retail mall, called “163 Retail Park” located in Mont Kiara, Kuala Lumpur for RM215.0m. Positioned 11 km from Kuala Lumpur City Centre, Mont Kiara is a sought-after residential area for expatriates and affluent families in the upper-middle income group. The property features a gross floor area of 76k sq m spread across seven stories, including a net leasable area (NLA) of 23k sq m (or 255.5k sq ft). Currently, it is at a 94% occupancy rate.

**Attractive price for premium location.** The acquisition cost of RM215.0m translates to RM841/sq ft. We believe this is a fair price, as compared to past transactions of close proximity malls in the last decade at RM774/sq ft, or at an 8% premium, as the mall is located in densely populated and affluent well-established neighbourhood. Hence, we are positive in the acquisition as its suitable location should support sustainable occupancy rate as well as rental earnings. At an anticipated 6.5% yield from this acquisition, this should translate to an additional RM14m in net profit to SUNREIT, which would increase our FY24F earnings by 4%.

**Forecasts.** We maintain earnings for now, pending the release of the upcoming full year earnings.

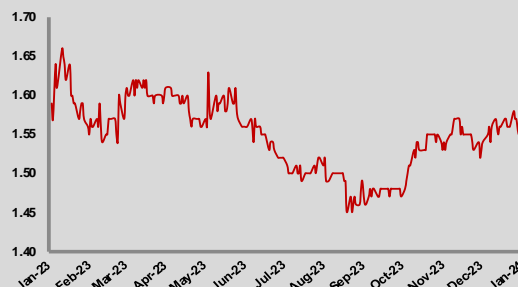
**Maintain OUTPERFORM and TP of RM1.63.** Our TP is based on our FY24F DPU of 10.6 sen against an unchanged target yield of 6.5% (derived from a 2.5% yield spread above our 10-year MGS assumption of 4.0%). The low yield spread reflects SUNWAY’s diversified asset portfolio in key urban regions. We reckon 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 : RM1.57  
Target Price : RM1.63 ↔

### Share Price Performance



KLCI 1,515.39  
YTD KLCI chg 4.2%  
YTD stock price chg 1.9%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	SREIT MK Equity
Market Cap (RM m)	5,376.9
Shares Outstanding	3,424.8
52-week range (H)	1.66
52-week range (L)	1.45
3-mth avg. daily vol:	1,326,840
Free Float	28%
Beta	0.4

### Major Shareholders

Mayang Teratai Sdn Bhd	40.9%
Amanah Saham Nasional	15.6%
Bank of Singapore Limited	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
<b>Net Profit (NP)</b>	<b>323.6</b>	<b>338.2</b>	<b>381.3</b>
<b>Core net profit</b>	<b>303.7</b>	<b>318.3</b>	<b>361.4</b>
Consensus (NP)	-	340.3	369.8
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)	17.7	16.9	14.9
Price/BV (x)	1.04	1.0	1.0
Net Gearing (x)	0.6	0.6	0.6
Net Div. Yield (%)	5.9	5.6	6.8

Location of 163 Retail Park to be acquired



Source: Company, Kenanga Research

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30 January 2024

## 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. (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.
<b>Stocks Under Coverage</b>																	
AXIS REIT	UP	1.77	1.58	-10.7%	3,093.1	Y	12/2024	9.3	10.2	16.6%	0.6%	18.2	18.1	1.2	6.7%	8.7	4.9%
CAPITALAND MALAYSIA MALL TRUST	MP	0.575	0.530	-7.8%	1,575.8	N	12/2023	3.9	4.0	11.5%	5.6%	12.4	11.7	0.6	4.1%	3.9	6.8%
IGB REIT	MP	1.75	1.66	-5.1%	6,302.9	N	12/2023	10.1	10.4	7.7%	3.7%	17.3	16.7	1.7	9.4%	10.5	6.0%
KLCCP STAPLED GROUP	OP	7.26	7.73	6.5%	13,106.7	Y	12/2023	40.2	41.6	-7.7%	11.5%	18.1	16.3	1.0	4.8%	36.3	5.0%
PAVILION REIT	OP	1.27	1.51	18.9%	4,638.5	N	12/2024	8.0	8.5	20.6%	4.3%	13.1	12.6	1.0	7.2%	8.7	6.9%
SUNWAY REIT	OP	1.57	1.63	3.8%	5,376.9	N	12/2023	10.2	10.9	4.8%	13.5%	16.9	14.9	1.0	6.1%	8.8	5.6%
<b>SECTOR AGGREGATE</b>					<b>34,093.8</b>					<b>3.9%</b>	<b>8.0%</b>	<b>16.8</b>	<b>15.6</b>	<b>1.1</b>	<b>6.4%</b>		<b>5.9%</b>

Source: Kenanga Research

**Stock ESG Ratings:**

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

☆ 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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**  
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
 Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

