

Sunway REIT (SREIT MK)

3Q23: Earnings on track

HOLD

Share Price MYR 1.55
 12m Price Target MYR 1.54 (+5%)
 Previous Price Target MYR 1.54

Maintain HOLD

3Q23 earnings were within expectations with 9M23 core net profit at 73%/70% of our/consensus' full year estimates. Revenue was mainly lifted by stronger pickup in the hotel segment with higher tourist arrivals. Earnings YoY however was offset by higher utilities and finance costs. No change to our earnings forecasts and DDM-TP of MYR1.54 (Ke: 8.4%, LTG: 1%). Maintain HOLD. For retail REIT, we prefer PREIT MK (BUY, CP: MYR1.22, TP: MYR1.41).

Growth led by hotel segment

3Q23 core earnings were MYR86.9m (unchanged YoY, +29% QoQ), bringing 9M23 to MYR245.6m (+2.6% YoY). YoY, 3Q23 revenue increased +6%, largely encouraged by the hotel segment (+51%) due to improvement in the average occupancy rate to 63% for 9M23 (vs. 9M22: 54%). The improvement in revenue was also contributed by the full 460-room inventory at Sunway Resort Hotel & Spa in July 2023 (after phased reopening in May 2022). Retail and office segments remained largely stable. YoY, 3Q23 earnings however was largely unchanged, dragged by higher finance cost (+32%). Similarly, QoQ earnings growth was also lifted by the hotel segment.

Unchanged earnings forecasts

Our earnings forecasts have incorporated S.Pyramid Mall's (52% of FY23E revenue) one-year reconfiguration of an anchor tenant area (Aeon) (c.11% of NLA or 2% of the mall's revenue) from 4Q23. The refurbishment works at S.Pyramid Mall and S.Carnival Mall (phase 2) are expected to marginally impact earnings in 4Q23 and FY24. Meanwhile, the acquisition of 6 hypermarkets (Giant) is expected to complete by end-4Q23.

Looking ahead

SREIT's earnings trajectory mainly comes from sustained recovery from its Retail and Hospitality assets, on the back of 1) full year income contribution from S.Carnival Mall (new wing), and 2) S.Resort Hotel operating in full capacity from July 2023 onwards. Gearing level is expected to remain <45%, post-acquisition of 6 hypermarkets (Giant).

| FYE Dec (MYR m) | FY21A | FY22A | FY23E | FY24E | FY25E |
|------------------------|--------|-------|-------|-------|-------|
| Revenue | 676 | 651 | 694 | 757 | 782 |
| Net property income | 457 | 500 | 507 | 557 | 576 |
| Core net profit | 222 | 329 | 335 | 370 | 387 |
| Core EPU (sen) | 7.0 | 9.6 | 9.8 | 10.8 | 11.3 |
| Core EPU growth (%) | (10.2) | 37.7 | 1.9 | 10.4 | 4.6 |
| Net DPU (sen) | 5.4 | 8.3 | 8.8 | 9.7 | 10.1 |
| Net DPU growth (%) | (18.5) | 54.3 | 5.9 | 10.4 | 4.6 |
| P/NTA (x) | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 |
| Net DPU yield (%) | 3.8 | 5.7 | 5.7 | 6.3 | 6.5 |
| ROAE (%) | 4.1 | 6.3 | 6.6 | 7.5 | 7.8 |
| ROAA (%) | 2.5 | 3.5 | 3.5 | 3.9 | 4.0 |
| Debt/Assets (x) | 0.37 | 0.38 | 0.38 | 0.38 | 0.38 |
| Consensus Net DPU | - | - | 8.6 | 9.0 | 9.3 |
| MIBG vs. Consensus (%) | - | - | 1.7 | 7.8 | 9.0 |

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Company Description

Sunway REIT primarily invests and manages a real estate portfolio which consists of retail, office and hospitality assets.

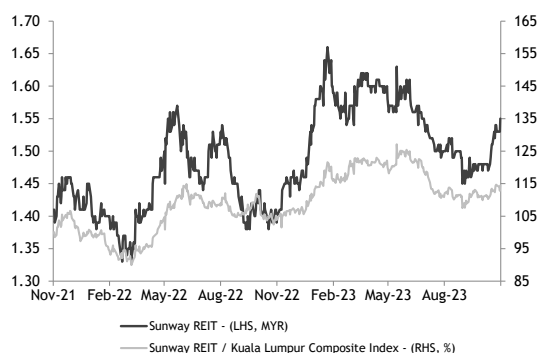
Statistics

| | |
|------------------------|-----------|
| 52w high/low (MYR) | 1.66/1.40 |
| 3m avg turnover (USDm) | 1.0 |
| Free float (%) | 84.7 |
| Issued shares (m) | 3,425 |
| Market capitalisation | MYR5.3B |
| | USD1.1B |

Major shareholders:

| | |
|--------------------------|-------|
| Employees Provident Fund | 15.3% |
| Kumpulan Wang Persaraan | 5.8% |
| The Vanguard Group, Inc. | 2.1% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 5 | 3 | 12 |
| Relative to index (%) | 3 | 3 | 10 |

Source: FactSet

Fig 1: Results summary

| FY Dec (MYR m) | Quarterly | | | | | Cumulative | | |
|--|--------------|--------------|----------------|--------------|----------------|--------------|--------------|----------------|
| | 3Q23 | 3Q22 | % YoY | 2Q23 | % QoQ | 9M23 | 9M22 | % YoY |
| Gross revenue | 175.8 | 166.2 | 5.8 | 166.5 | 5.6 | 525.2 | 464.7 | 13.0 |
| Net property income | 136.8 | 128.2 | 6.6 | 116.2 | 17.7 | 391.2 | 354.1 | 10.5 |
| Other income | 1.6 | 1.2 | 27.2 | 1.5 | 5.5 | 5.2 | 3.6 | 44.9 |
| Non-property expenses | (11.9) | (11.4) | 3.6 | (11.5) | 3.2 | (35.4) | (33.4) | 6.0 |
| Finance costs | (34.5) | (26.1) | 32.0 | (34.0) | 1.5 | (100.4) | (69.8) | 43.9 |
| Fair value gain/(loss) | - | - | NA | - | NA | - | 18.3 | (100.0) |
| Pretax profit | 92.0 | 91.9 | 0.1 | 72.2 | 27.4 | 260.6 | 272.7 | (4.4) |
| Tax | - | - | NA | - | NA | - | - | NA |
| Net profit | 92.0 | 91.9 | 0.1 | 72.2 | 27.4 | 260.6 | 272.7 | (4.4) |
| - Perpetual note holders | 5.0 | 5.0 | 0.0 | 5.0 | 1.1 | 14.9 | 14.9 | 0.0 |
| - Unrealised profit/loss | 0.0 | 0.0 | 24.1 | 0.0 | 2.9 | 0.1 | 18.3 | (99.4) |
| Net profit ex-EI | 86.9 | 86.9 | 0.1 | 67.2 | 29.4 | 245.6 | 239.5 | 2.6 |
| Distributable income | 86.9 | 95.0 | (8.5) | 67.2 | 29.4 | 245.6 | 247.6 | (0.8) |
| EPU ex-EI (sen) | 2.5 | 2.5 | 0.0 | 2.0 | 29.6 | 7.2 | 7.0 | 2.4 |
| Gross DPU (sen)* | - | - | NA | 4.6 | (100.0) | 4.6 | 4.2 | 9.5 |
| | 3Q23 | 3Q22 | +/- ppt | 2Q23 | +/- ppt | 9M23 | 9M22 | +/- ppt |
| <i>Net property margin (%)</i> | 77.8 | 77.1 | 0.6 | 69.8 | 8.0 | 74.5 | 76.2 | (1.7) |
| <i>Net income ex-EI margin (%)</i> | 49.4 | 52.3 | (2.8) | 40.4 | 9.1 | 46.8 | 51.5 | (4.8) |
| <u>SEGMENTAL</u> | 3Q23 | 3Q22 | % YoY | 2Q23 | % QoQ | 9M23 | 9M22 | 2QFY23 |
| <u>Revenue</u> | | | | | | | | |
| Sunway Pyramid | 82.5 | 81.8 | 0.8 | 83.9 | (1.7) | 260.8 | 237.9 | 9.6 |
| Sunway Carnival | 16.6 | 15.0 | 10.5 | 13.2 | 25.8 | 48.1 | 33.7 | 42.7 |
| SunCity Ipoh Hypermarket | 0.9 | 0.8 | 14.1 | 0.8 | 12.7 | 2.4 | 2.5 | (1.7) |
| Sunway Putra Mall | 11.8 | 12.7 | (7.2) | 13.0 | (9.0) | 37.5 | 36.0 | 4.2 |
| Sunway Pier | 0.1 | 0.0 | 28.6 | 0.1 | 10.5 | 0.2 | 0.1 | 86.7 |
| Revenue - Retail | 111.8 | 110.3 | 1.3 | 110.9 | 0.8 | 349.0 | 310.1 | 12.5 |
| Sunway Resort | 10.4 | 3.7 | >100 | 3.7 | >100 | 16.6 | 4.3 | >100 |
| Sunway Pyramid Hotel | 8.2 | 7.7 | 6.1 | 6.7 | 22.4 | 23.3 | 8.4 | >100 |
| Sunway Hotel Seberang Jaya | 0.8 | 0.4 | >100 | 0.6 | 44.3 | 2.0 | 0.9 | >100 |
| Sunway Putra Hotel | 3.1 | 1.8 | 73.0 | 1.8 | 71.4 | 8.0 | 4.5 | 77.1 |
| Sunway Hotel Georgetown | 1.7 | 1.2 | 46.1 | 1.7 | 1.8 | 5.0 | 5.1 | (2.6) |
| Sunway Lagoon Hotel | 3.6 | 3.7 | (2.5) | 3.0 | 21.8 | 9.0 | 19.8 | (54.6) |
| Revenue - Hotel | 27.9 | 18.4 | 51.3 | 17.5 | 59.8 | 63.8 | 42.9 | 48.6 |
| Menara Sunway | 4.2 | 4.2 | 0.2 | 4.3 | (1.1) | 12.9 | 13.0 | (0.8) |
| Sunway Tower | 1.2 | 1.0 | 28.1 | 1.1 | 11.5 | 3.4 | 2.6 | 31.4 |
| Sunway Putra Tower | 3.1 | 3.3 | (5.0) | 3.1 | 0.2 | 9.2 | 9.7 | (5.0) |
| Wisma Sunway | 1.7 | 1.7 | 0.1 | 1.7 | 0.4 | 5.2 | 5.2 | 0.4 |
| The Pinnacle Sunway | 10.4 | 9.8 | 5.8 | 10.3 | 0.9 | 30.9 | 28.7 | 7.4 |
| Revenue - Office | 20.7 | 20.0 | 3.4 | 20.5 | 0.9 | 61.6 | 59.2 | 4.0 |
| Sunway Medical Centre | 4.4 | 6.6 | (33.3) | 6.6 | (33.3) | 17.6 | 19.8 | (11.1) |
| Sunway REIT Industrial - Shah Alam 1 | 1.7 | 1.7 | (0.1) | 1.7 | (0.1) | 5.1 | 5.1 | 0.0 |
| Sunway REIT Industrial - Petaling Jaya 1 | - | - | NA | 0 | NA | - | - | NA |
| Sunway University & College Campus | 9.4 | 9.2 | 2.3 | 9.4 | 0.0 | 28.1 | 27.5 | 2.1 |
| Revenue - Others | 15.5 | 17.5 | (11.4) | 17.7 | (12.5) | 50.8 | 52.4 | (3.1) |
| Total revenue | 175.8 | 166.2 | 5.8 | 166.5 | 5.6 | 525.2 | 464.7 | 13.0 |

Distribution frequency has been changed to semi-annually from quarterly

Source: Sunway REIT, Maybank IBG Research

Fig 1: Results summary (continued)

| FY Dec (MYR m) | Quarterly | | | | | Cumulative | | |
|--|--------------|--------------|---------------|--------------|---------------|--------------|--------------|--------------|
| | 3Q23 | 3Q22 | % YoY | 2Q23 | % QoQ | 9M23 | 9M22 | % YoY |
| SEGMENTAL | | | | | | | | |
| Net property income | | | | | | | | |
| Sunway Pyramid | 64.9 | 65.1 | (0.4) | 57.6 | 12.7 | 196.1 | 187.1 | 4.8 |
| Sunway Carnival | 9.7 | 7.6 | 27.0 | 5.7 | 69.6 | 25.5 | 15.0 | 70.3 |
| SunCity Ipoh Hypermarket | 0.9 | 0.8 | 15.4 | 0.8 | 13.8 | 2.4 | 2.4 | (0.2) |
| Sunway Putra Mall | 6.5 | 7.0 | (7.7) | 5.6 | 16.7 | 17.6 | 18.2 | (3.7) |
| Sunway Pier | (0.1) | (0.1) | 56.0 | (0.2) | (23.5) | 17.6 | 18.2 | (3.7) |
| NPI - Retail | 81.8 | 80.5 | 1.7 | 69.5 | 17.8 | 241.2 | 222.4 | 8.5 |
| Sunway Resort | 10.1 | 3.4 | >100 | 3.5 | >100 | 15.8 | 3.7 | >100 |
| Sunway Pyramid Hotel | 8.1 | 7.6 | 6.8 | 6.5 | 24.5 | 22.7 | 7.9 | >100 |
| Sunway Hotel Seberang Jaya | 0.8 | 0.3 | >100 | 0.5 | 50.8 | 1.9 | 0.8 | >100 |
| Sunway Putra Hotel | 2.8 | 1.6 | 75.3 | 1.5 | 87.7 | 7.0 | 3.6 | 92.9 |
| Sunway Hotel Georgetown | 1.7 | 1.1 | 47.8 | 1.6 | 1.9 | 4.8 | 4.9 | (3.0) |
| Sunway Lagoon Hotel | 3.5 | 3.5 | (0.1) | 2.9 | 22.1 | 8.8 | 19.1 | (54.2) |
| NPI - Hotel | 26.9 | 17.5 | 53.4 | 16.5 | 62.9 | 60.9 | 40.0 | 52.2 |
| Menara Sunway | 2.5 | 2.7 | (5.4) | 2.5 | 2.8 | 7.8 | 8.2 | (5.0) |
| Sunway Tower | (0.3) | (0.2) | 55.8 | (0.2) | 42.2 | (0.4) | 0.4 | <-100 |
| Sunway Putra Tower | 1.8 | 2.0 | (8.9) | 1.8 | (1.4) | 5.5 | 6.2 | (10.3) |
| Wisma Sunway | 1.0 | 1.0 | (0.8) | 1.0 | (0.1) | 3.0 | 2.9 | 4.0 |
| The Pinnacle Sunway | 7.8 | 7.3 | 6.8 | 7.8 | (0.2) | 23.3 | 21.5 | 8.3 |
| NPI - Office | 12.8 | 12.8 | 0.4 | 12.9 | (0.5) | 39.2 | 39.2 | 0.0 |
| Sunway Medical Centre | 4.4 | 6.6 | (33.3) | 6.6 | (33.3) | 17.6 | 19.8 | (11.1) |
| Sunway REIT Industrial - Shah Alam 1 | 1.7 | 1.7 | (0.1) | 1.7 | (0.1) | 5.0 | 5.1 | (1.0) |
| Sunway REIT Industrial - Petaling Jaya 1 | (0.3) | - | NM | (0.3) | (24.6) | -0.9 | - | NM |
| Sunway University & College Campus | 9.4 | 9.2 | 2.3 | 9.4 | 0.0 | 28.1 | 27.5 | 2.1 |
| NPI - Others | 15.2 | 17.5 | (12.9) | 17.3 | (12.2) | 49.9 | 52.4 | (4.9) |
| Total | 136.8 | 128.2 | 6.6 | 116.2 | 17.7 | 391.2 | 354.0 | 10.5 |

Source: Sunway REIT, Maybank IBG Research

Risk statement

There are several risk factors to our earnings estimates, target price and rating for SREIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for SREIT. About 19% of Sunway Pyramid's NLA is due for lease renewal in FY24, while 62% of SREIT's borrowings are on floating rates. Another earnings risk would be if another pandemic occurs. There are also potential DPU impact due to changes in master leases.

| FYE 31 Dec | FY21A | FY22A | FY23E | FY24E | FY25E |
|--|----------------|----------------|----------------|----------------|----------------|
| Key Metrics | | | | | |
| Price/DPU(x) | 26.2 | 17.6 | 17.6 | 16.0 | 15.3 |
| P/BV (x) | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 |
| P/NTA (x) | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 |
| DPU yield (%) | 4.2 | 6.3 | 6.3 | 7.0 | 7.3 |
| FCF yield (%) | nm | 1.7 | 6.9 | 9.3 | 9.4 |
| INCOME STATEMENT (MYR m) | | | | | |
| Revenue | 675.6 | 651.4 | 693.9 | 756.9 | 782.0 |
| Net property income | 457.1 | 500.2 | 506.8 | 557.1 | 575.8 |
| Management and trustee fees | (60.0) | (47.2) | (49.0) | (50.8) | (51.6) |
| Net financing costs | (125.5) | (95.2) | (113.9) | (116.7) | (117.4) |
| Associates & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | (76.9) | (25.0) | 0.0 | 0.0 | 0.0 |
| Other pretax income/expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 194.6 | 332.9 | 343.9 | 389.6 | 406.7 |
| Income tax | 0.9 | (9.3) | 0.0 | 0.0 | 0.0 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 195.5 | 323.6 | 343.9 | 389.6 | 406.7 |
| Core net profit | 221.9 | 328.7 | 334.9 | 369.7 | 386.8 |
| Distributable inc to unitholders | 221.9 | 328.7 | 334.9 | 369.7 | 386.8 |
| BALANCE SHEET (MYR m) | | | | | |
| Cash & Short Term Investments | 290.5 | 251.2 | 287.0 | 310.9 | 323.7 |
| Accounts receivable | 48.1 | 44.6 | 47.5 | 51.8 | 53.5 |
| Property, Plant & Equip (net) | 11.6 | 15.8 | 15.8 | 15.8 | 15.8 |
| Investment properties | 8,738.3 | 8,671.0 | 8,771.0 | 8,789.0 | 8,807.0 |
| Intangible assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment in Associates & JVs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets | 62.1 | 430.8 | 433.7 | 436.5 | 439.4 |
| Total assets | 9,150.5 | 9,413.4 | 9,554.9 | 9,604.0 | 9,639.4 |
| ST interest bearing debt | 1,595.4 | 1,636.8 | 1,636.8 | 1,636.8 | 1,636.8 |
| Accounts payable | 208.8 | 234.8 | 250.1 | 272.8 | 281.8 |
| LT interest bearing debt | 1,810.0 | 1,900.0 | 2,020.0 | 2,040.0 | 2,060.0 |
| Other liabilities | 71.1 | 113.8 | 113.8 | 113.8 | 113.8 |
| Total Liabilities | 3,685.3 | 3,885.4 | 4,020.7 | 4,063.4 | 4,092.5 |
| Shareholders Equity | 5,125.5 | 5,188.3 | 5,194.5 | 5,200.8 | 5,207.2 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total shareholder equity | 5,125.5 | 5,188.3 | 5,194.5 | 5,200.8 | 5,207.2 |
| Total liabilities and equity | 9,150.5 | 9,413.4 | 9,554.9 | 9,604.0 | 9,639.4 |
| CASH FLOW (MYR m) | | | | | |
| Cash flow from operations | 432.5 | 435.0 | 468.9 | 512.6 | 519.4 |
| Capex | (715.6) | (350.2) | (100.0) | (18.0) | (18.0) |
| Acquisitions & investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposal of FA & investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend income from associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investing cash flow | 140.6 | 84.7 | 0.0 | 0.0 | 0.0 |
| CF from investing activities | (575.0) | (265.5) | (100.0) | (18.0) | (18.0) |
| Dividends paid | (178.8) | (240.4) | (334.3) | (369.1) | (386.2) |
| Interest expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in debt | (40.1) | 131.4 | 120.0 | 20.0 | 20.0 |
| Equity raised / (purchased) | 706.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other financial activities | (137.4) | (96.0) | (118.8) | (121.6) | (122.4) |
| CF from financing activities | 349.8 | (205.0) | (333.1) | (470.7) | (488.6) |
| Effect of exchange rate changes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash flow | 207.3 | (35.6) | 35.8 | 23.9 | 12.8 |

| FYE 31 Dec | FY21A | FY22A | FY23E | FY24E | FY25E |
|--|---------|---------|---------|---------|---------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 21.3 | (3.6) | 6.5 | 9.1 | 3.3 |
| Net property income growth | 9.7 | 9.4 | 1.3 | 9.9 | 3.3 |
| Core net profit growth | (2.9) | 48.1 | 1.9 | 10.4 | 4.6 |
| Distributable income growth | (3.1) | 48.1 | 1.9 | 10.4 | 4.6 |
| Profitability ratios (%) | | | | | |
| Net property income margin | 67.7 | 76.8 | 73.0 | 73.6 | 73.6 |
| Core net profit margin | 32.8 | 50.4 | 48.3 | 48.8 | 49.5 |
| Payout ratio | 87.6 | 87.8 | 87.5 | 85.3 | 85.5 |
| DuPont analysis | | | | | |
| Total return margin (%) | 28.9 | 49.7 | 49.6 | 51.5 | 52.0 |
| Gross revenue/Assets (x) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Assets/Equity (x) | 1.8 | 1.8 | 1.8 | 1.8 | 1.9 |
| ROAE (%) | 4.1 | 6.3 | 6.6 | 7.5 | 7.8 |
| ROAA (%) | 2.5 | 3.5 | 3.5 | 3.9 | 4.0 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 2.5 | 2.4 | 2.4 | 2.4 | 2.4 |
| Net gearing (%) (excl. perps) | 60.8 | 63.3 | 64.9 | 64.7 | 64.8 |
| Net interest cover (x) | 3.2 | 4.8 | 4.0 | 4.3 | 4.5 |
| Debt/EBITDA (x) | 8.5 | 7.8 | 7.9 | 7.2 | 7.0 |
| Capex/revenue (%) | 105.9 | 53.8 | 14.4 | 2.4 | 2.3 |
| Net debt/ (net cash) | 3,114.8 | 3,285.5 | 3,369.8 | 3,365.9 | 3,373.1 |
| Debt/Assets (x) | 0.37 | 0.38 | 0.38 | 0.38 | 0.38 |

Source: Company; Maybank IBG Research

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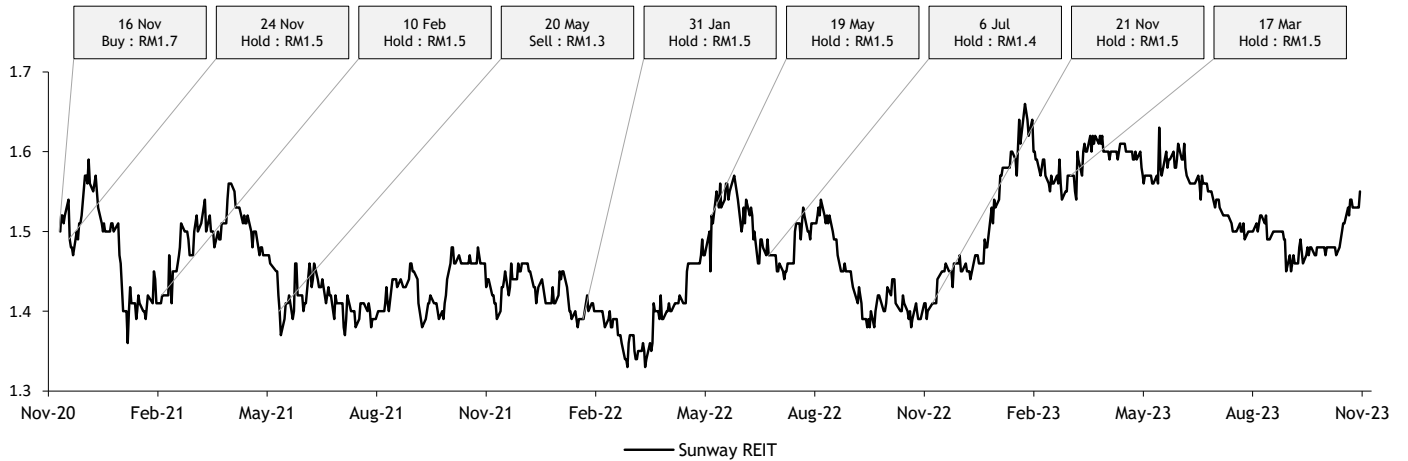
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