

Sunway REIT, Higher Electricity And Financial Costs Mitigated Earnings For 1H

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Editor

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Sunway REIT 1HFY23 core net income of RM168.6m came in within expectations, making up 48% and 49% of consensus full-year estimates. Distribution per unit (DPU) of 4.62sen was announced for 1HFY23 which is higher than DPU of 4.22sen in 1HFY22.

Sequentially, 2QFY23 core net earnings were lower at RM72.2m (-25.2%qoq) mainly due to lower contribution from the retail division as earnings in the previous quarter were boosted by festivity celebrations. Besides, earnings were partially dragged by higher financing costs. On a yearly basis, 2QFY23 core net income was marginally lower (-3.1%yoy) despite a higher topline as earnings were dragged by higher financing costs and higher expenses, particularly electricity costs.

That brought 1HFY23 cumulative earnings to RM168.6m (+3.7%yoy). The earnings growth was mainly supported by higher contributions from the retail and hotel divisions. Net property income (NPI) of the retail division was higher (+12.3%yoy) due to positive rental reversion and recovery in shopper footfall as well as a contribution from Sunway Carnival's new wing. Meanwhile, NPI of the hotel division jumped by 51%yoy due to a recovery in domestic and international tourism. On the other hand, NPI of the office

division was flattish. In the meantime, higher expenses arising mainly from higher electricity costs and higher financing costs had partially mitigated earnings growth in 1HFY23.

Sunway Pyramid's anchor tenant, AEON moved out from Sunway Pyramid in August 2023 following the expiry of the lease agreement. Note that AEON occupied approximately 11% of NLA in Sunway Pyramid. The vacant NLA will be redeveloped for smaller-sized retail concept stores which will be able to fetch higher rental rates. Meanwhile, a new grocery store is scheduled to open in October 2024 at LG2 level of Sunway Pyramid. According to MIDF, it sees the loss of rental income from AEON temporarily affect the earnings of Sunway Pyramid until the reconfiguration exercise is completed which is estimated in FY24.