

# Analysts upbeat on Sunway REIT's earnings outlook after 9M results met expectations

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KUALA LUMPUR (Nov 17): Analysts are upbeat on Sunway Real Estate Investment Trust's (Sunway REIT) earnings outlook, after its quarterly results came in within expectations.

Core net profit reached RM86.9 million for the third quarter ended Sept 30, 2023 (3QFY2023), marking a quarter-on-quarter increase of 29.4%. This performance contributed to total core earnings of RM245.6 million for the cumulative nine months (9MFY2023), reflecting a year-on-year (y-o-y) increase of 2.6%.

This is in line with the expectations of RHB Research at 74% of its full-year estimate, and 73% of the street's.

In a note on Friday, the research house noted that Sunway REIT experienced a notable 13% y-o-y revenue growth in 9MFY2023, which was primarily attributed to a recovery in the hotel segment, and favourable rental reversions in the retail segment.

“However, this was mostly offset by 21% higher operating expenses (mainly utility costs), and 43.9% higher interest expenses (the average borrowing cost was 3.76%),” said RHB Research.

Sunway REIT’s hotel-segment revenue recorded a 51% y-o-y increase in 3QFY2023, which was boosted by a full inventory of 460 rooms at Sunway Resort Hotel from July, following the hotel’s phased reopening.

The segment’s year-to-date average occupancy rate also improved 9% to 63%, compared with the 54% in 9MFY2022, which in tandem resulted in an increase in the average room rate.

The research house expects occupancy rates to further improve in the coming years, as the tourism sector recovers, and the already elevated room rates should be maintained at current levels.

Moving on to the retail segment, revenue improved 1% y-o-y in 3QFY2023, which was propelled by the robust performance of Sunway Carnival Mall's new wing, and favourable rental reversion for the anchor tenant at SunCity Ipoh Hypermarket.

However, "the REIT has secured tenants for about 68% of the space previously occupied by AEON, as it continues the reconfiguration exercise, which is expected to be completed in 4QFY2024", said RHB Research.

Nevertheless, the lower earnings from Sunway Pyramid are cushioned by a higher contribution from the Sunway Carnival Mall's new wing, and a higher contribution from the hotel division, it added.

With a better earnings outlook, RHB Research maintained its “buy” call on Sunway REIT, with a target price (TP) of RM1.74, while MIDF Research maintained its “buy” call, with an unchanged TP of RM1.70.

Besides, Hong Leong Investment Bank Research stated that Sunway REIT is anticipated to maintain a strong performance in the next quarter. This positive outlook is attributed to the approaching Christmas holiday season, with expectations of increased tourist arrivals boosting hotel occupancy.

The research house reiterated its favourable view of Sunway REIT, due to its diversified portfolio of properties across the retail, hospitality, office, education, and industrial segments.

The house maintained its “buy” call, with a TP of RM1.89, based on FY2024 distribution per unit on a targeted yield of 5.3%.

Kenanga Research holds the same view, and maintained its forecasts, with an “outperform” call and a TP of RM1.63, while mentioning the risks to its call, including bond yield expansion, lower-than-expected rental reversions, and lower-than-expected occupancy rates.

At the time of writing on Friday, Sunway REIT units traded down one sen, or 0.65%, at RM1.54 each, giving the REIT a market capitalisation of RM5.27 billion.

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