



AmInvestment Bank

SUNWAY REIT

(SREIT MK EQUITY, SUNW.KL)

31 Jan 2024

Company Report

Khoo Zing Sheng

khoo.zing-sheng@ambankgroup.com

+03-2036 2299

Rationale for report: Company Results

BUY

(Maintained)

Hotel segment to improve further this year

Price	RM1.59
Fair Value	RM1.87
52-week High/Low	RM1.66/RM1.44

Key Changes

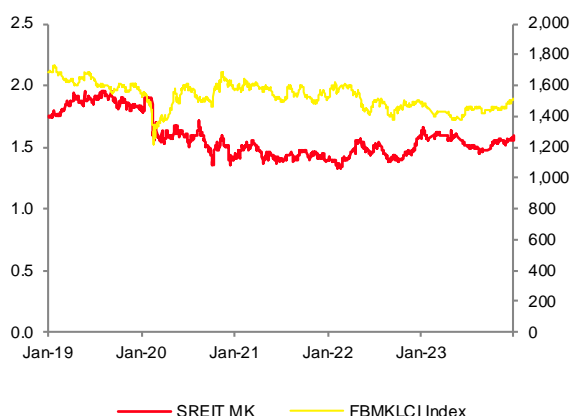
Fair value	↔
EPS	↔

YE to Dec	FY23	FY24F	FY25F	FY26F
Gross Revenue (RM mil)	715.7	749.7	772.2	791.0
Distributable Income (RM mil)	319.0	340.2	364.6	380.6
Consensus Net Income (RM mil)	0.0	365.3	378.6	0.0
EPU (sen)	9.3	9.9	10.6	11.1
DPU (sen)	9.3	9.9	10.6	11.1
DPU Growth (%)	0.9	6.8	7.2	4.4
Adj. Distribution Yield (%)	5.8	6.2	6.7	7.0
PE (x)	17.1	16.0	14.9	14.3
EV/EBITDA	18.5	18.1	17.1	16.6
ROE (%)	5.8	6.1	6.5	6.7
Debt-to-Asset Ratio (%)	38.1	39.7	39.6	39.4

Stock and Financial Data

Shares Outstanding (million)	3,424.8
Market Cap (RMmil)	5,445.4
Book Value (RM/Share)	1.67
P/BV (x)	1.0
ROE (%)	5.8
Debt-to-Asset Ratio (%)	38.1
Major Shareholders	Sunway (40.9%) EPF (15.5%) KWAP (5.8%)
Free Float	37.8
Avg Daily Value (RMmil)	2.1

Price performance	3mth	6mth	12mth
Absolute (%)	7.4	4.6	-
Relative (%)	2.2	0.3	(0.9)



Investment Highlights

- We maintain **BUY** on Sunway REIT (SREIT) with an unchanged fair value (FV) of RM1.87/unit based on our dividend discount model (DDM), which incorporates a 4-star ESG rating (Exhibits 10 & 11). The FV implies a FY25F distribution yield of 6%, at parity to its 5-year median.
- We make no changes to earnings forecasts as SREIT's FY23 distributable income of RM319mil came in within expectations, 2% above our FY23F earnings and 4% below street's.
- In FY23, SREIT's gross revenue grew 10% YoY while net property income (NPI) improved 5% YoY. This was mainly driven by the improved performance of its retail and hotel segments, particularly Sunway Carnival Mall, Sunway Pyramid Hotel and Sunway Resort Hotel.
- On QoQ comparison, SREIT's 4QFY23 gross revenue rose 8% while NPI slid 1%. This was mainly attributed to higher hotel occupancy in Sunway City cluster hotels in 3QFY23, boosted by summer holidays in the Middle East. Meanwhile, its NPI was dragged by the absence of lease income from Sunway Medical Centre (Tower A & B) following their disposal at the end of August 2023, coupled with elevated marketing expenses for its retail segment.
- QoQ, average occupancy rate for overall segments rose slightly to 82% in 4QFY23 from 81% in 3QFY23 (Exhibits 4, 5 & 7).
- SREIT declared its gross distribution per unit (DPU) of 4.68 sen in 4QFY23, bringing FY23 DPU to 9.3 sen, which represents a distribution yield of 5.8%.
- For its retail malls, we foresee a positive rental reversion of 5% in FY24F. SREIT's tenant sales in FY23 exceeded pre-pandemic level (2019) on the back of sustained growth momentum in retail sales. Stronger tenant sales are anticipated to provide the group with the opportunity to negotiate for higher rentals in subsequent years.
- With the gradual recovery in Malaysia's domestic travelling and influx of foreign tourists, we expect the average occupancy rate of the group's hotel properties to further improve in FY24F and fully recover to pre-Covid levels in FY25F (Exhibit 6).

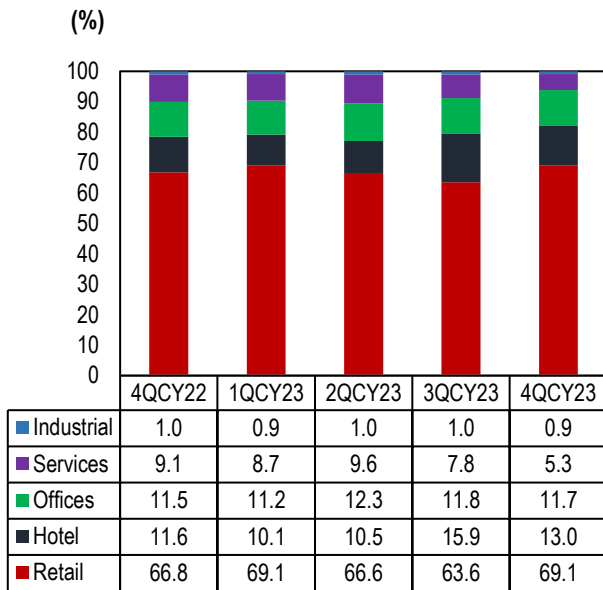
- Here are the key takeaways from the analyst briefing:
 - i. The acquisition of 6 freehold hypermarkets from Kwasa Properties has been postponed pending approval from the Economic Planning Unit. Barring any unforeseen circumstances, the approval is anticipated to be granted by 1HFY24.
 - ii. Sunway Pyramid Mall is currently undergoing a reconfiguration of the area previously occupied by AEON store, which constitutes 11% of net lettable area of the mall. The development is slated for completion in 4QFY24. As at December 2023, SREIT has secured tenants for 62% of this area with a positive rental reversion.
 - iii. Sunway Carnival Mall is undergoing refurbishment for its existing wing (Phase 2). The refurbishment is slated to be completed in phases from early FY24 to the end of FY25. We expect an uplift in NPI upon its full completion. As at 31 December 2023, SREIT has secured 75% of committed tenants for the existing wing in Sunway Carnival Mall.
 - iv. SREIT has achieved a 27% occupancy rate for its newly-acquired industrial property in Sungei Way. Additionally, SREIT anticipates that another 13% of the space will be occupied by June or July of FY24.
- Our in-house economist anticipates US Federal Reserve funds rate to peak at current levels of 5.25%-5.5%. Our economics team also expects the Federal Reserve to start cutting interest rates in mid-2024 by 75 bps to 100bps. This will eventually bring the Fed funds rate to 4.5%-4.75% by end-2024.
- As such, the 10-year MGS yield has been projected by our economic team to be lower at 3.63% in 4QCY24 from the current level of 3.78%. From FY24F onwards, we anticipate SREIT's distribution yield spread against 10-year MGS to widen to 2.4% vs. a pre-pandemic (2017-2019) median of 1%. Hence, we expect SREIT to be appealing to yield-seeking investors with its higher distribution spread against 10-year MGS (Exhibit 9).
- We like SREIT for its well-diversified income base which could cushion potential downside risks from macro headwinds. Its portfolio encompasses retail malls, offices, hotels, universities and industrial properties across Malaysia. Also, the group is recognised for its environmental, social and governance (ESG) practices. Specifically, SREIT is the first amongst its local peers to incorporate sustainability financial considerations into its capital management strategies.
- SREIT currently trades at a compelling FY25F PE of 15x vs. its 4-year average PE of 20x. Meanwhile, FY25F distribution yield of 6.7% is attractive vs. current 10-year MGS yield of 3.78%.

EXHIBIT 1: RESULT SUMMARY

FY 31 Dec (RMmil)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	CY22	CY23	YoY (%)
Gross Revenue	186.7	175.8	190.5	8.4	2.0	651.4	715.7	9.9
Property Operating Expenses	(40.5)	(39.1)	(54.9)	40.4	35.3	(151.2)	(188.8)	24.9
Net Property Income	146.2	136.8	135.7	(0.8)	(7.2)	500.2	526.9	5.3
Net investment income	103.0	136.8	125.1	(8.6)	21.5	475.4	516.7	8.7
Manager's fee	(11.1)	(11.2)	(11.1)	(0.5)	0.2	(42.4)	(43.9)	3.6
Trustee's fee	(0.2)	(0.2)	(0.2)	(7.0)	(1.6)	(0.8)	(0.8)	0.0
Other trust expenses	(2.5)	(0.5)	(1.3)	>100	(46.0)	(4.0)	(3.3)	(16.9)
EBIT	89.2	124.9	112.4	(10.0)	26.1	428.2	468.6	9.4
Net interest income/expenses	(29.0)	(33.0)	(33.5)	1.6	15.3	(95.3)	(129.1)	35.4
Profit Before Taxation	60.1	92.0	78.9	(14.2)	31.3	332.9	339.6	2.0
Taxation	(9.3)	0.0	(1.4)	n.a.	(85.3)	(9.3)	(1.4)	(85.3)
Net Income	50.8	92.0	77.6	(15.7)	52.6	323.6	338.2	4.5
Adjustment	37.9	(5.0)	(4.2)	(16.4)	(>100)	4.7	(19.1)	(>100)
Adjusted Distributable Income	88.7	87.0	73.4	(15.6)	(17.3)	328.2	319.1	(2.8)
<u>Distribution:</u>								
EPU (sen)	2.6	2.5	2.1	(15.6)	(17.3)	9.6	9.3	(2.8)
Declared DPU (sen)	5.0	0.0	4.7	n.a.	(6.4)	9.2	9.3	0.9
NAV/unit	1.5	1.5	1.5	(0.0)	(0.0)	1.5	1.5	(0.0)
<u>Margin:</u>								
NPI Margin (%)	78.3	77.8	71.2	(6.6)	(7.1)	76.8	73.6	(3.2)
EBIT margin (%)	32.2	52.3	41.4	(10.9)	9.2	65.7	65.5	(0.2)
Net Interest Coverage (x)	3.1	3.8	3.4	(0.4)	0.3	4.5	3.6	(0.9)
Debt/Asset Ratio (%)	37.6	37.4	38.1	0.8	0.6	37.6	38.1	0.6

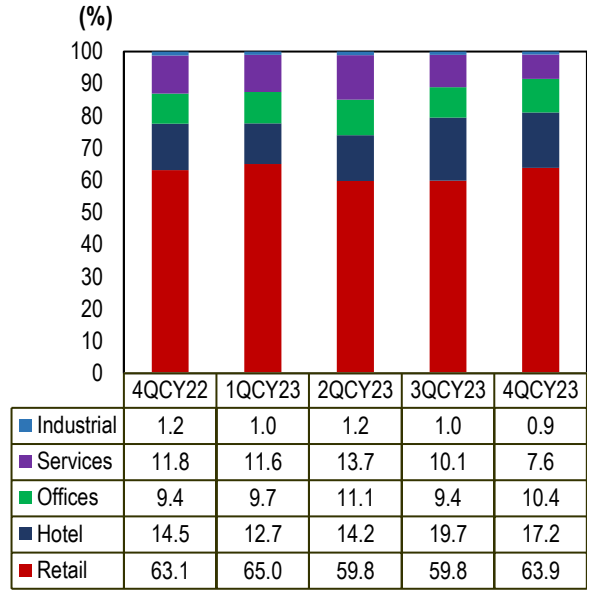
Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: REVENUE BREAKDOWN



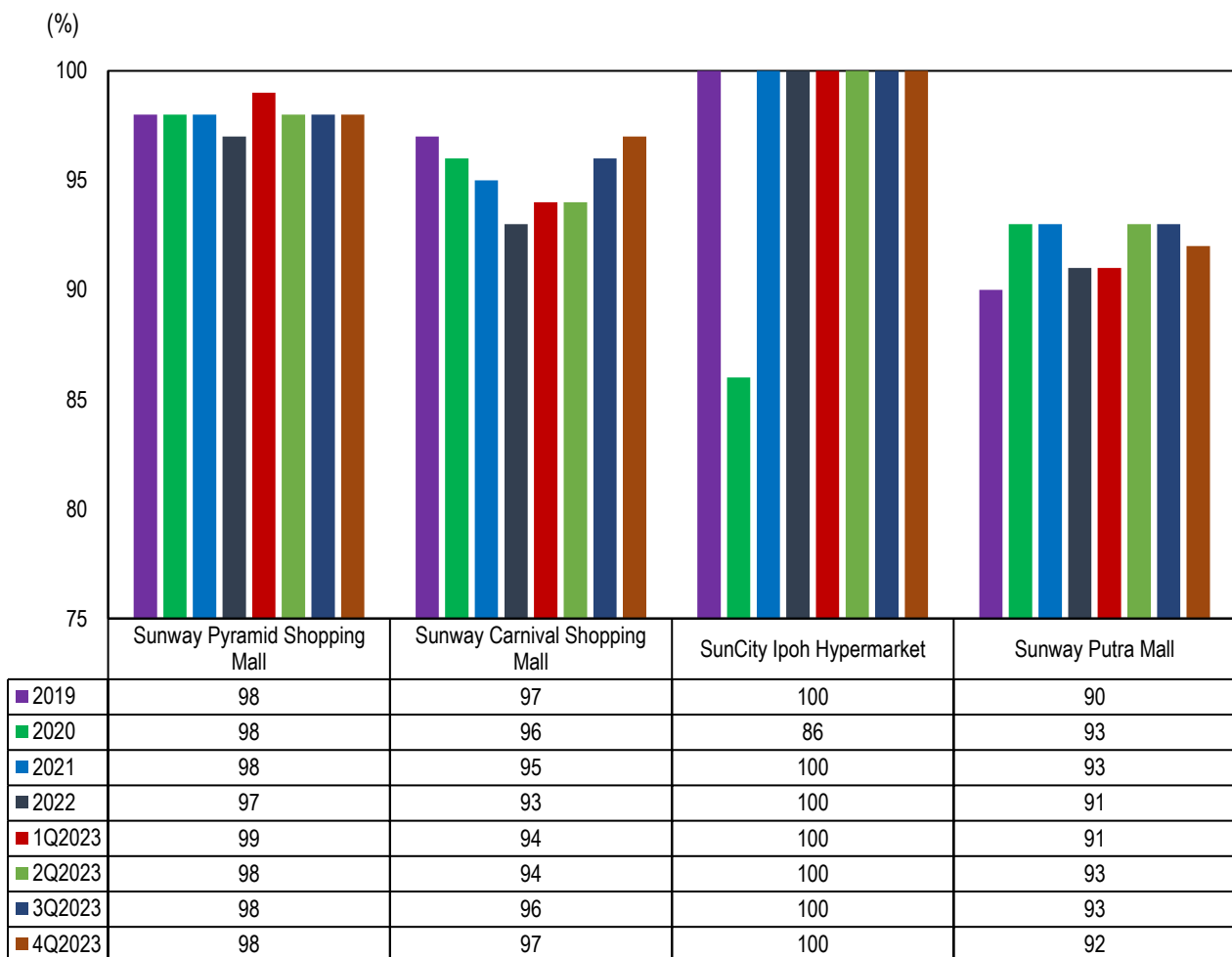
Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: NET PROPERTY INCOME BREAKDOWN



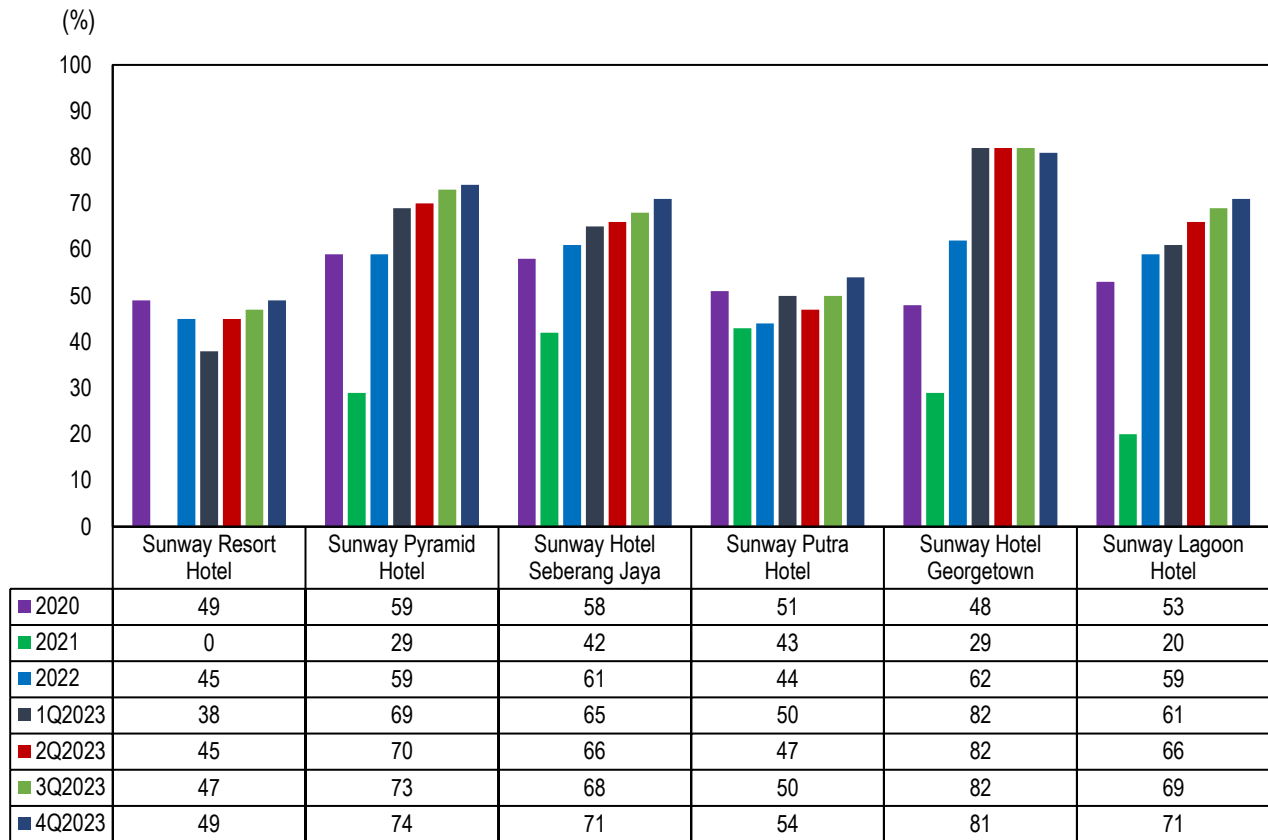
Source: Company, AmlInvestment Bank Bhd

EXHIBIT 4: OCCUPANCY RATE (RETAIL)



Source: Company, AmlInvestment Bank Bhd

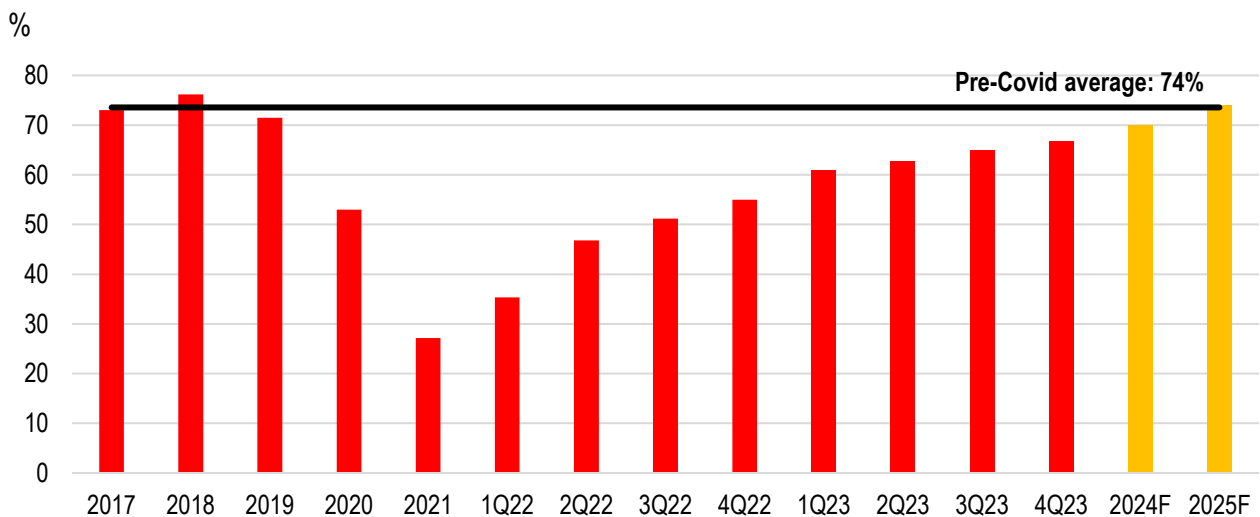
EXHIBIT 5: OCCUPANCY RATE (HOTEL)



*Sunway Resort Hotel is closed for refurbishment commencing July 2020 with phased reopening in May 2022.

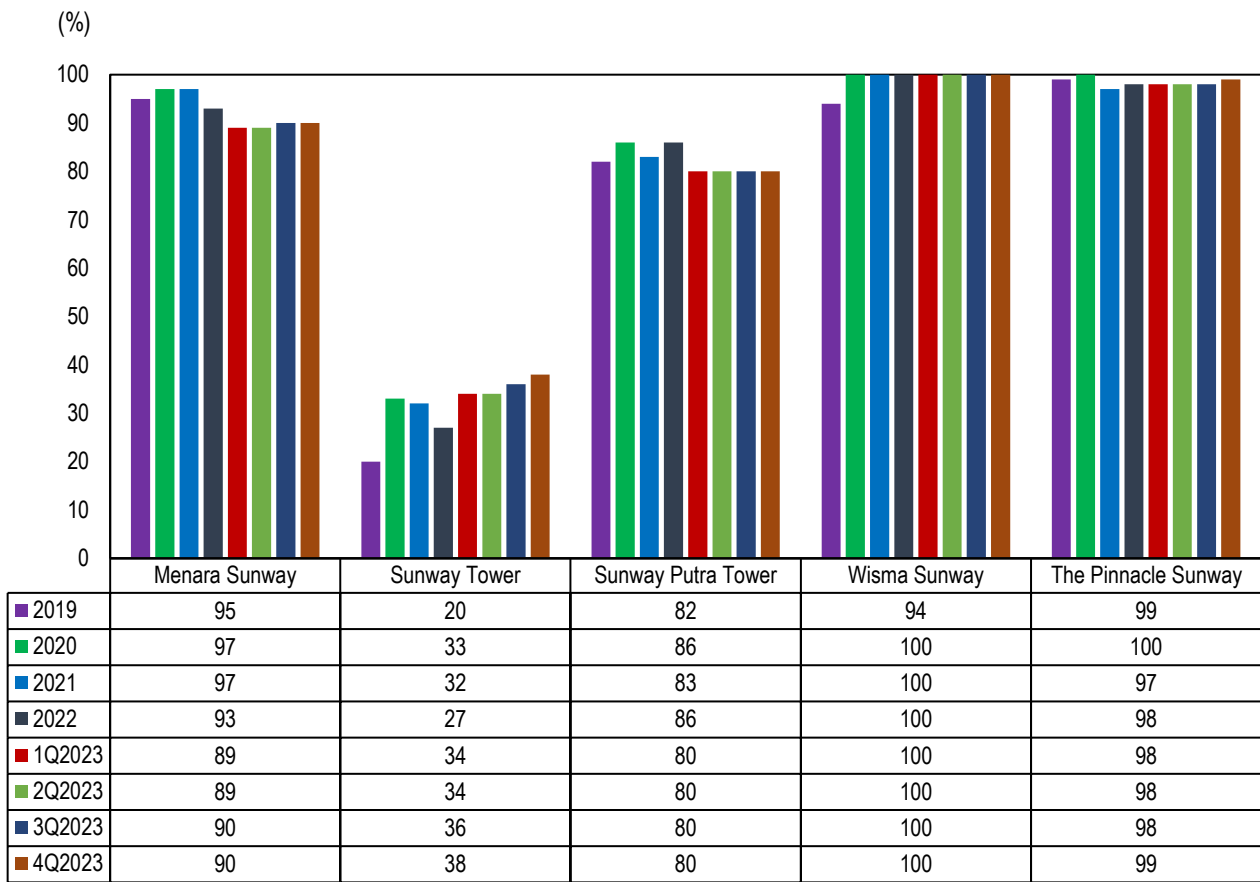
Source: Company, AmlInvestment Bank Bhd

EXHIBIT 6: AVERAGE OCCUPANCY RATE OF SUNWAY REIT'S HOTEL



Source: Sunway REIT, AmlInvestment Bank Berhad

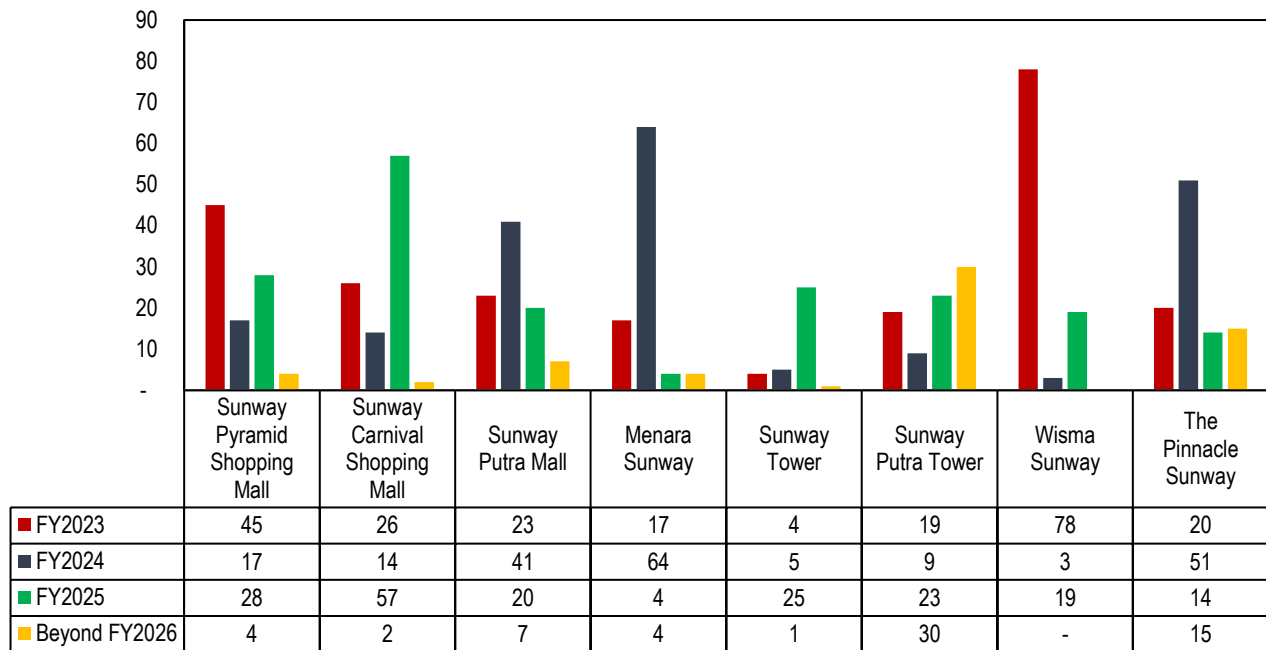
EXHIBIT 7: OCCUPANCY RATE (OFFICE)



Source: Company, AmlInvestment Bank Bhd

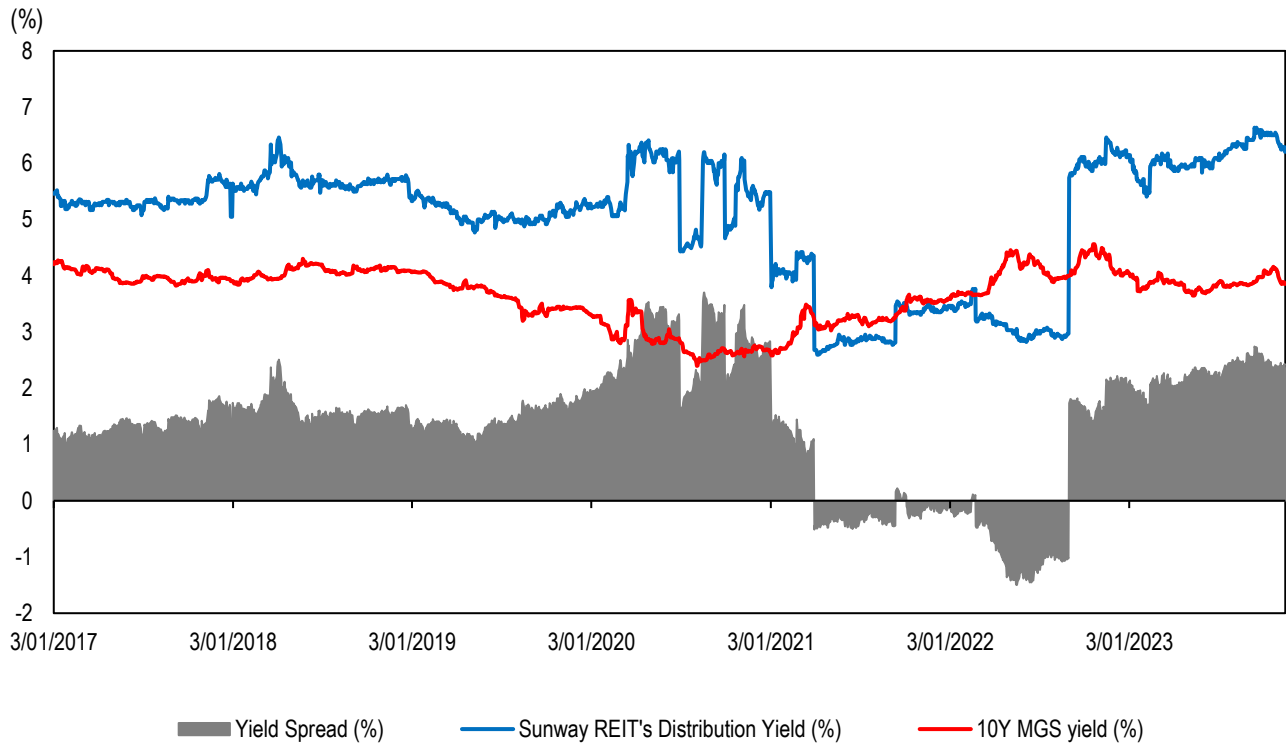
EXHIBIT 8: PROJECTED LEASE EXPIRY SCHEDULE

% Based on total NLA



Source: Company, AmlInvestment Bank Bhd

EXHIBIT 9: YIELD SPREAD AGAINST 10-YEAR MALAYSIAN GOVERNMENT SECURITIES (MGS)



Source: Company, AmInvestment Bank Bhd

EXHIBIT 10: DIVIDEND DISCOUNT MODEL

Assumption for Weighted Average Cost of Capital (WACC)

Risk Free Rate	3.8%
Beta	0.7
Market Return	13.9%
Cost of Equity (Ke)	10.4%

Average Cost of Debt **5.0%**

Capital Structure: (RM Mil)

Market Cap	5,445.4	60.0%
Total Borrowing	3,637.0	40.0%
Total	9,082.4	100.0%

Weighted Average Cost of Capital (WACC):

	Weight	Cost	W X C
Cost of Equity (Ke)	60.0%	10.4%	6.2%
Average Cost of Debt	40.0%	5.0%	2.0%
WACC			8.2%

Multi-Stage DDM	2024	2025	2026	2027	2028	Terminal Value
Period	1	2	3	4	5	
Dividends (RM)	0.10	0.11	0.11	0.12	0.12	2.06
Present Value (RM)	0.09	0.09	0.09	0.08	0.08	1.39
Valuation	1.82					
(+3%) adjustment for 4-star ESG rating	0.05					
Fair Value/unit (RM)+ESG	1.87					
WACC (%)	8.2%					
Growth Rate (%)	2.5%					

Source: AmlInvestment Bank Bhd

EXHIBIT 11: ESG RATING

Overall	★	★	★	★	★
Zero-carbon initiatives	★	★	★	★	★
Waste management	★	★	★	★	★
Pollution control	★	★	★	★	
Sustainable industrialization	★	★	★	★	
Diversity and inclusion	★	★	★	★	
Employees' welfare	★	★	★	★	
Corporate social responsibilities	★	★	★	★	
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank

EXHIBIT 12: PB BAND CHART

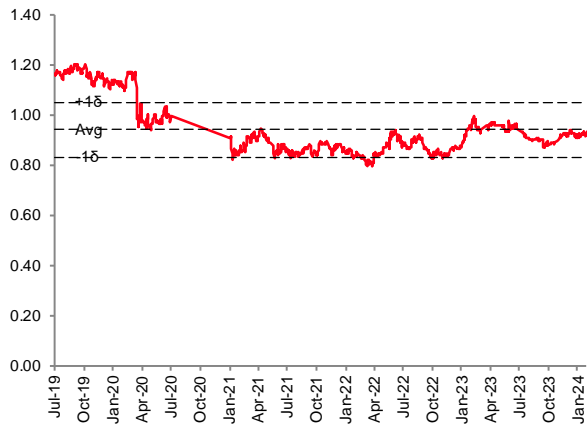


EXHIBIT 13: PE BAND CHART

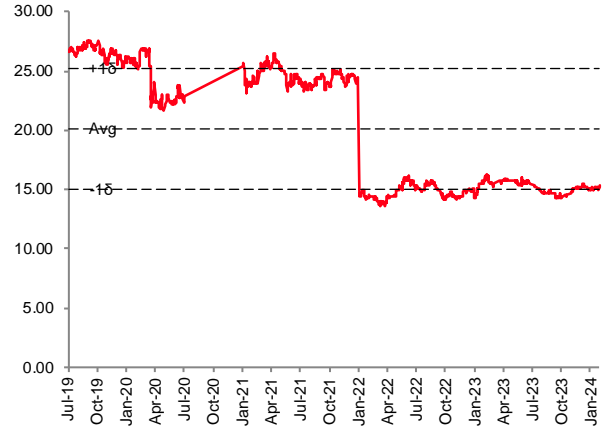


EXHIBIT 14: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Gross Revenue	651.4	715.7	749.7	772.2	791.0
Property Operating Expenses	(151.2)	(188.8)	(197.7)	(194.2)	(197.3)
Net property income (NPI)	500.2	526.9	552.0	578.0	593.7
Net Investment Income	475.4	516.7	552.7	578.6	594.4
Net interest	(95.3)	(129.1)	(161.6)	(164.7)	(163.5)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	332.9	339.6	330.9	354.7	370.3
Taxation	(9.3)	(1.4)	9.3	9.9	10.4
Minorities	0.0	0.0	0.0	0.0	0.0
Net income	323.6	338.2	340.2	364.6	380.6
Distributable Income	328.2	319.0	340.2	364.6	380.6
Balance Sheet (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Plant and Equipment	15.8	17.4	16.0	17.4	18.7
Investment Properties	8,671.0	8,972.0	9,253.8	9,253.8	9,253.8
Total non-current assets	8,687.6	8,990.1	9,270.6	9,272.0	9,273.2
Cash & equivalent	251.2	425.3	453.4	483.4	515.4
Trade receivables	25.2	19.4	40.0	43.9	43.7
Other current assets	19.4	103.8	103.8	103.8	103.8
Total current assets	295.8	548.5	597.2	631.2	662.9
Trade payables	2.3	1.5	3.5	3.5	3.5
Short-term borrowings	1,636.8	1,637.0	2,499.7	3,177.8	2,996.4
Other current liabilities	248.9	268.6	224.5	231.2	236.8
Total current liabilities	1,888.0	1,907.1	2,727.7	3,412.5	3,236.7
Long-term borrowings	1,900.0	2,000.0	1,419.1	741.0	922.4
Other long-term liabilities	97.4	115.5	107.1	109.9	112.2
Total long-term liabilities	1,997.4	2,115.5	1,526.2	850.9	1,034.6
Total Unitholders' funds	5,528.0	5,516.1	5,613.9	5,639.8	5,664.8
Minority interests	—	—	—	—	—
NAV per unit (RM)	1.6	1.6	1.6	1.6	1.7
Cash Flow (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	332.9	339.6	330.9	354.7	370.3
Depreciation/Amortisation	0.0	0.0	0.0	0.0	0.0
Net change in working capital	29.4	(28.3)	(62.6)	2.6	6.0
Others	72.7	134.4	(301.6)	203.3	203.3
Cash flow from operations	435.0	445.6	(30.1)	563.0	563.0
Capital expenditure	(6.9)	(5.6)	(3.5)	(3.6)	(3.7)
Net investments & sale of fixed assets	(313.1)	130.4	281.8	0.0	0.0
Others	54.6	10.5	37.2	39.7	42.3
Cash Flow (used in) / from Investing	(265.5)	135.4	315.5	36.1	38.6
Debt raised/(repaid)	147.7	79.0	281.8	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Distribution paid to unitholders	(240.4)	(329.5)	(343.5)	(367.0)	(367.0)
Others	(116.0)	(156.4)	(198.8)	(204.3)	(205.8)
Cash flow (used in) / from Financing	(208.8)	(406.9)	(242.9)	(553.7)	(553.7)
Net cash flow	(39.3)	174.1	28.1	30.0	32.0
Net cash/(debt) b/f	290.6	251.3	425.3	453.4	483.4
Net cash/(debt) c/f	251.3	425.3	453.4	483.4	515.4
Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	-3.6	9.9	4.8	3.0	2.4
NPI margin (%)	76.8	73.6	73.6	74.9	75.1
Pretax margin (%)	51.1	47.4	44.1	45.9	46.8
Net income margin (%)	49.7	47.3	45.4	47.2	48.1
Interest cover (x)	4.5	3.6	3.0	3.2	3.3
DPU payout (%)	96.2	100.0	100.0	100.0	100.0
Receivable turnover (days)	17.2	18.3	19.4	20.8	20.2
Payable turnover (days)	7.4	6.6	6.5	6.5	6.5

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.