REITS

SUNWAY REIT

(SREIT MK EQUITY, SUNW.KL) **13 Aug 2025**

Share price upside constrained by yield compression

AmInvestment Bank

Company Report

HOLD

(Downgraded)

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Rationale for report: Company Results

Price	**RM2.15**
Fair Value	**RM2.32**
52-week High/Low	RM2.32/RM1.59

Key Changes

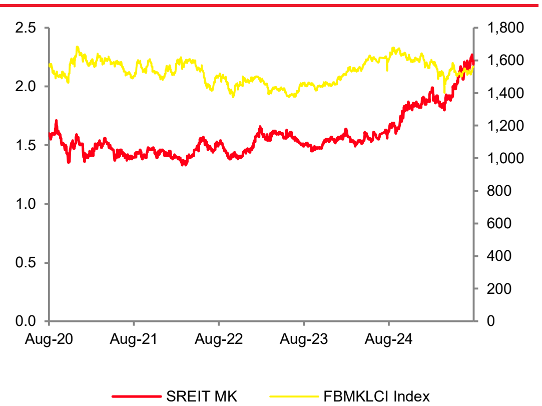
Fair value	⇧
EPS	⇔

YE to Dec	FY24	FY25F	FY26F	FY27F
Gross Revenue (RM mil)	767.1	836.0	831.5	844.1
Distributable Income (RM mil)	343.8	402.5	406.5	422.6
Consensus Net Income (RM mil)		395.1	410.0	423.1
EPU (sen)	10.0	11.8	11.9	12.3
DPU (sen)	10.0	11.8	11.9	12.3
DPU Growth (%)	7.5	17.5	1.0	4.0
Adj. Distribution Yield (%)	4.7	5.5	5.5	5.7
PE (x)	21.5	18.3	18.1	17.4
EV/EBITDA	16.9	19.9	20.4	19.8
ROE (%)	5.9	6.4	6.6	6.7
Debt-to-Asset Ratio (%)	41.3	37.2	37.9	37.4

Stock and Financial Data

Shares Outstanding (million)	3,424.8
Market Cap (RMmil)	7,363.3
Book Value (RM/Share)	1.71
P/BV (x)	1.3
ROE (%)	5.9
Debt-to-Asset Ratio (%)	41.3
Major Shareholders	Sunway (40.9%)
	EPF (15.6%)
	KWAP (6.0%)
Free Float	37.5
Avg Daily Value (RMmil)	8.8

Price performance	3mth	6mth	12mth
Absolute (%)	14.1	12.3	36.0
Relative (%)	12.8	14.2	38.9



Investment Highlights

FY26F yield has compressed to 5.5%, narrowing the spread to 211bps versus the 10-year MGS, following a strong share price rally since April 2025. This limits further upside. 6M25 earnings rose 22% YoY, driven by robust retail performance and contributions from newly acquired assets. NPI grew 20.1% YoY, though hotel and office segments softened due to lower occupancy. Rental reversion is expected to ease in 2H25 amid cautious consumer sentiment and potential SST-related rent pressures.

- **We downgrade SREIT from BUY to HOLD with a revised target price of RM2.32 (from RM2.09/unit), based on an updated DDM valuation rolled forward to FY26.** Our DDM model reflects a 7.5% WACC, 3.9% debt cost, 0.9 beta, and 2.0% long-term growth. Our earnings forecast and 4-star ESG rating remain unchanged. Following a strong share price rally since April 2025, FY26F yield has compressed to 5.5%, narrowing the spread to 211bps vs the 10-year MGS yield of 3.39%. The current yield spread of 211bps is below the historical average of nearly 300bps (since Jan 2023). With less than 15% upside to the share price, a HOLD call is warranted.

- **6M25 earnings rose 22% YoY to RM195mil, driven by strong retail performance which aligned with expectations.** Adjusted distributable income for the first half of FY25 reached 48.5% of our full-year forecast and 49.4% of the consensus estimate. Gross revenue grew 21.5% year-over-year, supported by contributions from assets acquired in 2024—including six hypermarkets, Sunway 163, Kluang mall, and an industrial property in Prai—as well as stronger performance from Sunway Pyramid and Carnival Mall. NPI grew 20.1% YoY, supported by retail asset strength but moderated by softer hotel and office segments' performance due to lower occupancy and travel disruptions, with foreign hotel guests down 4% YoY to 53% YTD. Net interest expense increased 12.8% YoY to RM78.2mil on higher borrowings and average cost of debt to 3.88% (+2bps). QoQ, distributable income declined 2.1% to RM96.5mil due to softer retail NPI.

- **Retail and industrial assets saw higher occupancy, while hotel and office properties experienced declines.** Retail and industrial occupancy rose 2% and 16% YoY, while hotel and office declined 2%. YoY, average retail rents edged up 1%, hotel room rates dipped 1%, average office rents fell 1%, and industrial rents surged 16% on stronger occupancy at Sunway REIT Industrial – PJ1.

- **Softer rental reversion for retail assets in 2H25 amid cautious consumer spending and the likely impact of SST.** 2Q25 rental reversion was in the low teens vs. high single digits in 1Q25. However, management guides for mid-single digit reversion in 2H25, reflecting cautious consumer sentiment and potential SST-related rent pressure. Sunway Carnival Mall's Phase 2 reopened in late 2Q25, with higher rental expected in 3Q25 from a full quarter's rent contributions. Meanwhile, hotel bookings improved in July–August, likely boosting occupancy and rental contributions from the hospitality segment in 3Q25.

EXHIBIT 1: RESULTS SUMMARY

FY 31 Dec (RMmil)	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	6MFY24	6MFY25	YoY (%)
Gross Revenue	**175.6**	**218.9**	**211.4**	**(3.4)**	**20.4**	**354.2**	**430.3**	**21.5**
Property Operating Expenses	(46.3)	(61.7)	(56.5)	**(8.4)**	**22.1**	(94.3)	(118.2)	**25.3**
Net Property Income	**129.3**	**157.2**	**154.9**	**(1.5)**	**19.8**	**259.8**	**312.1**	**20.1**
Net investment income	**195.5**	**157.3**	**182.0**	**15.7**	**(6.9)**	**326.1**	**339.2**	**4.0**
Manager's fee	(11.3)	(12.7)	(13.0)	**2.2**	**15.1**	(22.5)	(25.7)	**14.1**
Trustee's fee	(0.2)	(0.3)	(0.2)	**(22.2)**	**2.0**	(0.4)	(0.5)	**17.2**
Other trust expenses	(1.0)	(0.5)	(0.7)	**46.5**	**(26.5)**	(1.8)	(1.2)	**(32.7)**
EBIT	**183.0**	**143.8**	**168.0**	**16.9**	**(8.2)**	**301.3**	**311.9**	**3.5**
Net interest income/expenses	(37.9)	(39.5)	(38.7)	**(2.0)**	**2.0**	(69.3)	(78.2)	**12.8**
Profit before EI	145.1	104.3	129.4	**24.0**	**(10.8)**	0.0	0.0	**n.a.**
Exceptional item (EI)	0.0	0.0	0.0	**n.a.**	**n.a.**	0.0	0.0	**n.a.**
Associates/JV contribution	0.0	0.0	0.0	**n.a.**	**n.a.**	0.0	0.0	**n.a.**
Profit Before Taxation	**145.1**	**104.3**	**129.4**	**24.0**	**(10.8)**	**232.0**	**233.7**	**0.7**
Taxation	0.0	0.0	0.0	**n.a.**	**n.a.**	0.0	0.0	**n.a.**
Minority Interest (MI)	0.0	0.0	0.0	**n.a.**	**n.a.**	0.0	0.0	**n.a.**
Net Income	**145.1**	**104.3**	**129.4**	**24.0**	**(10.8)**	**232.0**	**233.7**	**0.7**
Adjustment	(67.0)	(5.7)	(32.8)	**475.1**	**(51.0)**	(72.0)	(38.5)	**(46.5)**
Adjusted Distributable Income	**78.0**	**98.6**	**96.5**	**(2.1)**	**23.7**	**160.1**	**195.1**	**21.9**
Distribution:								
EPU (sen)	2.3	2.9	2.8	**(2.1)**	**23.7**	6.6	5.7	**(13.7)**
Declared DPU (sen)	4.7	0.0	5.7	**n.a.**	**21.9**	4.7	5.7	**21.9**
NAV/unit	1.5	1.5	1.5	**0.5**	**2.6**	1.5	1.5	**2.6**
Weighted average units in issue ('Mil)	3,424.8	3,424.8	3,424.8	**(0.0)**	**0.0**	3,424.8	3,424.8	**0.0**
Margin:								
Net Property Income Margin (%)	73.6	71.8	73.3	**2.0**	**(0.5)**	73.4	72.5	**(0.8)**
EBIT margin (%)	82.6	47.7	61.2	**28.4**	**(25.9)**	65.5	54.3	**(11.2)**
Net Interest Coverage (x)	4.8	3.6	4.3	**19.3**	**(10.0)**	4.3	4.0	**(0.4)**
Debt/Asset Ratio (%)	43.7	41.8	41.2	**(1.5)**	**(5.8)**	43.7	41.2	**(2.5)**

Source: Company, AmInvestment Bank

EXHIBIT 2: VALUATION: SREIT

WACC	7.5% (from 7.7%)
Weighted Cost of Equity	6.2%
Average Cost of Debt	3.9% (from 4.0%)
Market risk premium	7.0% (from 7.1%)
Beta	0.9
Long term growth rate	2.0%
ESG Premium	3% premium
12-month target price	RM2.32 (from RM2.09)

Source: AmInvestment Bank

EXHIBIT 3: DIVIDEND DISCOUNT MODEL (DDM)

Discount Dividend Model						
Assumption for Weighted Average Cost of Capital (WACC)						
Risk Free Rate	3.5%					
Beta	0.9					
Market Return	11%					
Cost of Equity (Ke)	**9.5%**					
Average Cost of Debt	**3.9%**					
-						
Capital Structure: (RM Mil)						
Market Cap	7,363.3	65.2%				
Total Borrowing	3,934.5	34.8%				
Total	11,297.8	100.0%				
Weighted Average Cost of Capital (WACC):	**Weight**	**Cost**	**W X C**			
Cost of Equity (Ke)	65.2%	9.5%	6.2%			
Average Cost of Debt	34.8%	3.9%	1.4%			
WACC			**7.5%**			
Multi-Stage DDM	**2026**	**2027**	**2028**	**2029**	**2030**	**Terminal Value**
Period	**1**	**2**	**3**	**4**	**5**	
Dividends (RM)	0.12	0.12	0.13	0.13	0.14	2.50
Present Value (RM)	0.11	0.11	0.10	0.10	0.09	1.74
Valuation	**2.26**					
(+3%) adjustment for 4-star ESG rating	**0.06**					
Fair Value/unit (RM)+ESG	**2.32**					
WACC (%)	7.5%					
Growth Rate (%)	2%					

Source: Company, AmInvestment Bank

Company profile

SREIT is a diversified REIT. Retail assets make up 63% of its total assets under management followed by hotels (19%), offices (10%), services (6%) and industrial and others (2%). Average occupancy rate for its retail properties stood at a high 97%.

Investment thesis and catalysts

After a strong share price rally since April, FY26F yield has compressed to 5.5%, reducing the yield spread to 211bps versus the 10-year MGS yield of 3.39%. This is below the historical average of nearly 300bps since January 2023. With limited share price upside of under 15%, we see a HOLD recommendation as appropriate.

Valuation methodology

We are valuing the stock based on DDM with a WACC of 7.5% (beta: 0.9, market risk premium: 7.0%, pre-tax cos of debt: 3.9%, long term growth rate: 2%)

Risk factors

Risk to our call includes higher than expected 10-year MGS yield following the elevated interest rates in US post elections which could lower distribution yield spread and attraction for the REIT. Also, any slowdown in consumption spending from a slower economic growth and subsidy rationalizations could impact the malls' rental reversion rates and occupancy rates.

EXHIBIT 4: ESG MATRIX

	Environmental assessment	Parameters	Weightage	Rating					Rationale
1	Scope 1 GHG Emissions	Revenue/Co2e	20%	*	*	*	*		14.3% YoY decrease in FY24
2	Scope 2 GHG Emissions	Revenue/Co2e	20%	*	*	*			31.8% YoY increase in FY24
3	Scope 3 GHG Emissions	Revenue/Co2e	20%	*	*	*			3.4% YoY increased in FY24
4	Water usage	Revenue/water consumption	20%	*	*	*			4.4% decreased compared to FY23 on managed assets
5	Energy usage	Revenue/energy consumption	10%	*	*	*			1.9% decreased YoY in FY24
6	Waste management	Amount of waste diverted away from the landfill	10%	*	*	*	*		Increased by 22.7% YoY in FY24 on diverted waste
	Weighted score for environmental assessment		**100%**	*	*	*			
	Social assessment								
1	Health, safety & well-being	Recorded injuries	25%	*	*	*	*		Number of fatalities zero
2	Women in workforce	% of total workforce in management	25%	*	*	*	*		82% in management
3	Investment in employee training	Average number of hours of training per year per employee trained	25%	*	*	*	*		Increased 6.1%YoY in FY24
4	Procurement sourcing from local vendors	% of total procurement	25%	*	*	*	*	*	100%
	Weighted score for social assessment		**100%**	*	*	*	*		
	Governance assessment								
1	Board age diversity	% under 60 years old	20%	*	*				29% in FY24 similar to FY23
2	Board women representation	% of total board directors	20%	*	*	*			43% representation in FY24
3	Directors with tenure below 6 years	% below 6 years category	20%	*	*	*	*		57%
4	Independent board directors	% of total board directors	20%	*	*	*	*		57% - independent non-exec
5	Remuneration to directors	% of total staff costs	20%	*	*	*	*		
	Weighted score for governance assessment		**100%**	*	*	*			
	Environmental score		40%	*	*	*			
	Social score		30%	*	*	*	*		
	Governance score		30%	*	*	*			
	Overall ESG Score		**100%**	*	*	*	*		

Source: Company, AmInvestment Bank

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Gross Revenue	715.7	767.1	836.0	831.5	844.1
Property Operating Expenses	(188.8)	(197.4)	(229.1)	(234.8)	(237.7)
Net property income (NPI)	526.9	569.7	606.9	596.6	606.4
Net Investment Income	516.7	733.2	607.6	597.4	607.2
Net interest	(129.1)	(153.5)	(152.1)	(138.2)	(132.8)
Exceptional items	0.0	0.0	21.0	0.0	0.0
Pretax profit	**339.6**	**527.6**	**412.5**	**395.4**	**411.1**
Taxation	(1.4)	(2.9)	11.0	11.1	11.5
Minorities	0.0	0.0	0.0	0.0	0.0
Net income	338.2	524.7	402.5	406.5	422.6
Adjusted Distributable Income	**319.0**	**343.8**	**402.5**	**406.5**	**422.6**

Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Plant and Equipment	17.4	16.6	17.8	19.2	20.5
Investment Properties	8,972.0	10,454.8	10,006.8	10,006.8	10,006.8
Total non-current assets	**8,990.1**	**10,472.1**	**10,025.3**	**10,026.7**	**10,028.0**
Cash & equivalent	425.3	289.8	483.4	515.4	549.5
Trade receivables	19.4	23.8	47.6	45.9	44.3
Other current assets	103.8	16.9	16.9	16.9	16.9
Total current assets	**548.5**	**330.5**	**547.9**	**578.2**	**610.7**
Trade payables	1.5	5.6	4.1	4.2	4.4
Short-term borrowings	1,637.0	1,736.7	971.8	1,302.5	1,551.3
Other current liabilities	268.6	336.1	264.7	263.3	267.1
Total current liabilities	**1,907.1**	**2,078.5**	**1,240.6**	**1,570.1**	**1,822.8**
Long-term borrowings	2,000.0	2,730.0	2,962.7	2,721.5	2,424.7
Other long-term liabilities	115.5	122.1	120.7	120.1	121.7
Total long-term liabilities	**2,115.5**	**2,852.1**	**3,083.4**	**2,841.6**	**2,546.4**
Total Unitholders' funds	**5,516.1**	**5,872.0**	**6,249.3**	**6,193.3**	**6,269.5**
Minority interests	—	—	—	—	—
NAV per unit (RM)	1.5	1.6	1.7	1.7	1.7

Cash Flow (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	339.6	527.6	412.5	395.4	411.1
Depreciation/Amortisation	0.0	0.0	0.0	0.0	0.0
Net change in working capital	(28.3)	124.7	(96.7)	0.4	5.6
Others	134.4	(2,437.8)	1,252.2	94.6	224.1
Cash flow from operations	**445.6**	**(1,785.5)**	**1,568.1**	**490.4**	**640.7**
Capital expenditure	(5.6)	(3.6)	(3.9)	(3.9)	(3.9)
Net investments & sale of fixed assets	130.4	1,482.8	(448.0)	0.0	0.0
Others	10.5	13.1	39.7	42.3	27.6
Cash Flow (used in) / from Investing	**135.4**	**1,492.4**	**(412.2)**	**38.4**	**23.7**
Debt raised/(repaid)	79.0	829.8	(532.3)	89.5	(48.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Distribution paid to unitholders	(329.5)	(341.9)	(401.9)	(405.8)	(421.9)
Others	(156.4)	(166.6)	(191.7)	(180.5)	(160.4)
Cash flow (used in) / from Financing	**(406.9)**	**321.2**	**(1,125.9)**	**(496.8)**	**(630.3)**
Net cash flow	**174.1**	**28.1**	**30.0**	**32.0**	**34.1**
Net cash/(debt) b/f	**251.3**	**425.3**	**453.4**	**483.4**	**515.4**
Net cash/(debt) c/f	**425.3**	**453.4**	**483.4**	**515.4**	**549.5**

Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	9.9	7.2	9.0	-0.5	1.5
NPI margin (%)	73.6	74.3	72.6	71.8	71.8
Pretax margin (%)	47.4	68.8	49.3	47.6	48.7
Net income margin (%)	47.3	68.4	48.1	48.9	50.1
Interest cover (x)	3.6	4.4	3.6	3.9	4.1
DPU payout (%)	99.8	99.8	99.8	99.8	99.8
Receivable turnover (days)	18.3	19.4	20.8	20.2	19.2
Payable turnover (days)	6.6	6.5	6.5	6.5	6.7

SOURCE: COMPANY, AMINVESTMENT BANK ESTIMMATES

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