AmInvestment Bank

Company Report

REITS

SUNWAY REIT

(SREIT MK EQUITY, SUNW.KL) **05 May 2025**

Improved gearing enhances financial flexibility and capital efficiency

BUY

(Maintained)

Kelvin Ong, CFA
kelvin-ong@ambankgroup.com
DL: 2036 2294

Rationale for report: Company Update

Price	**RM1.92**
Fair Value	**RM2.09**
52-week High/Low	RM1.92/RM1.49

Key Changes

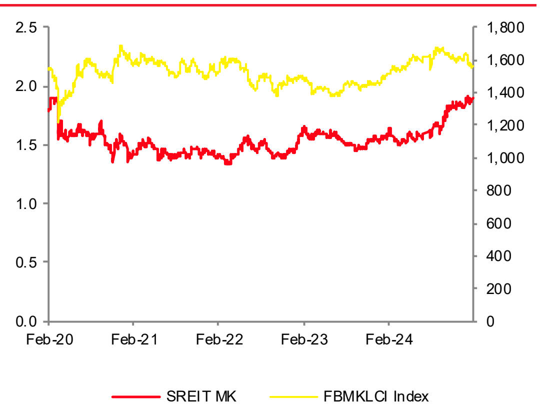
Fair value	↓
EPS	↓

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)	-	389.6	408.0	424.6
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 (%)	5.2	6.1	6.2	6.4
PE (x)	19.2	16.3	16.2	15.6
EV/EBITDA	15.8	18.4	18.9	18.4
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)	6,575.6
Book Value (RM/Share)	1.71
P/BV (x)	1.1
ROE (%)	5.9
Debt-to-Asset Ratio (%)	41.3
Major Shareholders	Sunway (40.9%)
	EPF (16.2%)
	KWAP (5.9%)
Free Float	37.0
Avg Daily Value (RMmil)	2.6

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	2.7	18.1	19.6
Relative (%)	5.8	22.2	16.5



Investment Highlights

We maintain BUY on Sunway REIT (SREIT) with a revised TP of RM2.09/unit, down from RM2.11/unit, factoring in the Sunway University and College disposal. While FY25/26 core distributional income is expected to decline by 3.6%/7.1%, the asset sale will reduce gearing to 37.2% in FY25 from 41.3% in FY24. We remain positive on FY25F core distributional income, driven by full-year rental recognition of completed asset acquisitions. The 6.1% distribution yield is attractive versus the 10-year MGS yield of 3.67%, offering a 245bps spread.

- **BUY maintained on SREIT; target price lowered to RM2.09/unit from RM2.11/unit.** This reflects a reduced DDM-derived value, following distributional income cuts of 3.6%, 7.1%, and 7.1% for FY25, FY26, and FY27. The adjustments account for decline in revenue from the Sunway University and College disposal and lower interest expenses from debt settlement using sale proceeds.

- **The disposal of Sunway University and College will lower FY25/26 distributional income.** SREIT is set to dispose of Sunway University and College to Sunway College KL for RM613mil, with the transaction expected to complete in 2Q25. The sale will generate a net gain of RM41mil, considering the investment cost of RM564mil and disposal expenses of RM8mil. In FY24, the property was valued at RM586mil and contributed RM38.4mil in net property income.

- **A key positive is that SREIT's gearing ratio is set to decline, improving its financial flexibility.** The asset sale will reduce SREIT's gearing ratio from 41.3% in FY24 to 37.2% in FY25, likely easing investor concerns about its high leverage and improving sentiment.

- **Sale of the asset unlocks capital for future asset acquisitions.** SREIT management views the asset disposal as an opportunity to unlock capital for reinvestment into higher-yield assets. The sale, completed at an attractive 6.3% cap rate, opens room for acquisitions with yields above 6.5%, supporting stronger distributional income growth. Meanwhile, rental reversion for Sunway University and College remained low at 2-3%.

EXHIBIT 1: DETAILS OF PROPERTIES TO BE DISPOSED

Description	A higher education institution comprising of the 13-storey new university block including the basement car park, the 5-storey South Building, the 6-storey North Building, the 4 blocks of 5-storey Hostel buildings and the sports facilities
Tenant	Sunway Education Group Sdn. Bhd. and its relevant subsidiaries
Land tenure	99-years Leasehold (HSD 118332, HSD 118325, HSD 118326: 01/04/2097 expiry) – 72 years remaining
Land size	16.8 acres / 733,246 sq. ft
Gross floor area	1,880,245 sq. ft. Campus GFA – 1,459,134 sq. ft. Car Park GFA – 421,111 sq. ft.
Lease tenure	1 Dec 2018 – 30 Nov 2048
Valuation (2024)	RM586 million
Net Property Income (2024)	RM38.4 million

Source: Company

EXHIBIT 2: CHANGE IN EARNINGS

	FY25F			FY26F			FY27F		
RMmil	**Previous**	**Revised**	**Chg**	**Previous**	**Revised**	**Chg**	**Previous**	**Revised**	Chg
Earnings	417.3	402.5	-3.6%	437.4	406.5	-7.1%	454.9	422.6	-7.1%
Gross Revenue	865.2	836.0	-3.4%	891.2	831.5	-6.7%	905.3	844.1	-6.8%
Net interest expense	164.7	152.1	-7.7%	163.5	138.2	-15.4%	158.0	132.8	-16.0%

Source: Company, AmInvestment Bank

EXHIBIT 3: VALUATION: SREIT

WACC	7.7% (from 7.6%)
Weighted Cost of Equity	6.2% (from 5.9%)
Average Cost of Debt	4.0%
Market risk premium	7.1%
Beta	0.9
Long term growth rate	2.0%
ESG Premium	3% premium
12-month target price	RM2.09 (from RM2.11)

Source: 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 98%.

Investment thesis and catalysts

We maintain BUY with a revised TP of RM2.09/unit. The completion of the acquisition of 2 malls (163 Retail Park at Mont Kiara, KL and Kluang Mall, Johor) and an industrial asset in Prai, Penang in 2HFY24 which would see the full year rents from these assets kicking in FY25F. Also, the completed reconfiguration works for the retail space, Oasis at Sunway Pyramid mall to 260,000 sq ft from 320,000 sq ft in Nov 2024 is envisaged to increase its rental yield going forward with a higher average rent of RM16 psf from RM6.40 psf previously.

Valuation methodology

We are valuing the stock based on DDM with a WACC of 7.7% (beta: 0.9, market risk premium: 7.1%, pre-tax cos of debt: 4%, 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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