

## Sunway REIT

(5176 | SREIT MK) Main | REIT

### Acquisition of Six Hypermarkets

#### KEY INVESTMENT HIGHLIGHTS

- **Acquisition of six hypermarkets**
- **Expanding retail portfolio**
- **Higher net gearing**
- **Earning forecast maintained**
- **Maintain BUY with an unchanged TP of RM1.73**

**Acquisition of six hypermarkets.** Sunway REIT announced that it had on 16<sup>th</sup> March 2023 entered into a conditional sale and purchase agreement (SPA) with Kwasa Properties Sdn Bhd, a wholly-owned subsidiary of the Employees Provident Fund (EPF) for the proposed acquisition of six hypermarkets for a total cash consideration of RM520m. The proposed acquisition is expected to complete in 4QCY23.

**Details of the hypermarkets.** The six hypermarkets are Giant Hypermarket Bandar Kinrara, Giant Hypermarket Putra Heights, Giant Hypermarket USJ, Giant Hypermarket Klang, Giant Superstore Ulu Kelang and Giant Hypermarket Plentong. The six properties have occupancy rate of 100% with total gross floor area of 2,351,636 sq.ft. The lessee for the properties is GCH Retail (Malaysia) Sdn Bhd on a triple-net master lease agreement.

**Expanding retail portfolio.** We view the acquisition positively as it allows Sunway REIT to expand its retail portfolio particularly hypermarket segment which is in essential services that demonstrated resilience during Covid-19 pandemic. The purchase consideration of RM520m is below market value of RM593m which will give net unrealised fair value gain of RM66m upon completion of acquisition. The acquisition is earnings and DPU accretive as total net property income (NPI) of the properties stood at RM42m in 2022 which translates into attractive NPI yield of 8.1%. The acquisition is expected to increase DPU by 0.53sen.

**Higher net gearing.** Sunway REIT intends to fund the acquisition mainly via bank borrowings. Gearing of Sunway REIT is expected to increase to 0.41x from 0.38x in FY22. Nevertheless, we think that gearing to normalise as proceed from disposal of Sunway Medical Centre is expected to be used to pare down borrowings. Recall that Sunway REIT proposed to dispose Sunway Medical Centre for RM430m in December 2022.

**Maintain BUY with unchanged TP of RM1.73.** We make no changes to our earnings forecast pending completion of the acquisition. We maintain our **TP** for Sunway REIT at **RM1.73**, based on Dividend Discount model. We maintain our **BUY** call on Sunway REIT as we expect better earnings outlook for FY23, driven by higher contribution from retail and hotel divisions. Meanwhile, distribution yield is estimated at 5.8%.

**Maintain BUY**
**Unchanged Target Price: RM1.73**

#### RETURN STATISTICS

Price @ 16 <sup>th</sup> March 2023 (RM)	1.57
Expected share price return (%)	+10.2
Expected dividend yield (%)	+5.8
<b>Expected total return (%)</b>	<b>+16.0</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.3	5.3
3 months	7.5	15.0
12 months	17.2	32.3

#### INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	717	729	752
Net Rental Income	550	560	577
Net Investment Income	556	565	582
Core Net Income	349	358	371
Core EPU (sen)	10.19	10.44	10.83
Net DPU (sen)	9.17	9.40	9.74
Dividend Yield	5.84%	5.99%	6.21%

#### KEY STATISTICS

FBM KLCI	1,391.60
Issue shares (m)	3,424.81
Estimated free float (%)	28.94
Market Capitalisation (RM'm)	5,376.95
52-wk price range	RM1.3 – RM1.6
3-mth average daily volume (m)	1.37
3-mth average daily value (RM'm)	2.15
Top Shareholders (%)	
Sunway Bhd	40.89
Employees Provident Fund Board	15.27
Amanah Saham Nasional Bhd	5.29

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**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Gross Revenue	676	651	717	729	752
Net Rental Income	457	500	550	560	577
Net Investment Income	391	480	556	565	582
Net Income	195	324	349	358	371
Core Net Income	253	337	349	358	371
Core EPU (sen)	7.4	9.8	10.2	10.4	10.8
Core PER (x)	21.3	16.0	15.4	15.0	14.5
NAV/unit (RM)	1.60	1.61	1.61	1.61	1.61
P/NAV (x)	0.98	0.97	0.98	0.98	0.98
<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Investment Properties	8,702	8,623	8,643	8,653	8,663
Total non-current assets	8,751	8,688	8,656	8,666	8,676
Cash	291	251	431	548	672
Other Assets	109	475	112	123	122
<b>Total Assets</b>	<b>9,150</b>	<b>9,413</b>	<b>9,198</b>	<b>9,337</b>	<b>9,471</b>
LT Borrowings	1,810	1,900	1,600	1,680	1,750
ST Borrowings	1,595	1,637	1,817	1,871	1,927
Other Liability	280	349	279	282	288
<b>Total Liability</b>	<b>3,685</b>	<b>3,885</b>	<b>3,696</b>	<b>3,833</b>	<b>3,966</b>
Unitholders' capital	2,728	3,434	3,434	3,434	3,434
Other Equity	2,737	2,094	2,069	2,070	2,071
<b>Total Equity</b>	<b>5,465</b>	<b>5,528</b>	<b>5,503</b>	<b>5,504</b>	<b>5,505</b>
<b>Equity + Liability</b>	<b>9,150</b>	<b>9,413</b>	<b>9,198</b>	<b>9,337</b>	<b>9,471</b>
<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
<b>Cash flows from operating activities</b>					
Cash Receipt from Customers	688	671	738	743	759
Net cash from operating activities	433	488	555	561	578
<b>Cash flows from investing activities</b>					
Subsequent Expenditure of Inv Properties	-300	-30	-20	-10	-10
Net cash used in investing activities	-575	-30	402	-8	-4
<b>Cash flows from financing activities</b>					
Net cash from/(used in) financing activities	331	-461	-815	-436	-450
Net increase/(decrease) in cash and cash equivalents	189	-2	142	118	124
Cash and cash equivalent at 1 January	102	291	288	431	548
Cash and cash equivalent at 1 December	291	288	431	548	672
<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Net Investment Income margin	57.8%	73.7%	77.5%	77.6%	77.5%
Core net income margin	37.4%	51.7%	48.7%	49.1%	49.3%
ROE	5.7%	7.0%	6.8%	6.9%	7.2%
ROA	2.9%	3.6%	3.8%	3.9%	3.9%

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology