

28 October 2024

Property | REITS

Suntec REIT (SUN SP)

Buy (Maintained)

Steadily Improving; BUY

Target Price (Return): SGD1.35 (+10%)
 Price (Market Cap): SGD1.23 (USD2,718m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (SGD/USD) 13.6m/10.4m

- **Keep BUY and SGD1.35 TP, 10% upside and c.5% yield.** Suntec REIT's 3Q financials were in line. Key positives for 3Q include continued strong double-digit rent reversion for its office and retail portfolios and higher Suntec City mall occupancy. Overseas assets operational performance has bottomed with occupancy improvements anticipated, but management expects valuation to decline from Australia due to higher cap rates. Financing costs are expected to be higher in FY25 due to the expiration of hedges. Valuation is reasonable at 0.6x P/BV, with divestments being the key catalyst.
- **Divestments mainly from Suntec City's strata office**, with a SGD100m target for FY24 – it has currently achieved 50%. Market conditions remains unfavourable for potential divestments in Australia with management citing a high bid-ask spread. Gearing is stable at 42.3% while some valuation losses are expected for its Australian assets – a higher value for its Singapore and UK assets will offset this, in our view, with gearing at manageable levels (~42%) at the end of the year.
- **Strong double-digit rent reversions from office and retail portfolios.** Rent reversion (3Q) for Singapore office portfolio stood at +12.9% (2Q: 7.9%), marking 25 consecutive quarters of positive reversion. Guidance remains positive in the mid- to high-single digit for FY25. Suntec City Mall's rent reversions remain robust at +21.2% with occupancy improving to 98.4%. Retail rent reversion guidance for FY25 also remains positive at 10-15%.
- **UK assets on track to achieve full occupancy**, with an existing insurance tenant expanding at The Minster Building, taking it to 100% occupancy from the current 91.3%. The sizeable lease breaks (c.8%) due next year have also been removed, resulting in minimal expiries for its UK assets until 2028. Committed occupancy for its Australian portfolio improved 1.5ppts QoQ to 90.6%, driven by 55 Currie Street where further improvements in occupancy are expected in the coming quarters. Rent reversions (YTD) remain healthy at +13.3% although this is offset by high prevailing tenant incentives.
- **Flat 3Q distributable income** and slight 1% YoY decline in operational DPU. NPI (3Q) rose from Singapore office and retail assets, offset by lower overseas income. Convention segment NPI declined 30% YoY due to the absence of large-scale events with management guiding for a flattish full year performance. Overall financing cost rose slightly by 4bps QoQ to 4.06%. For FY25, Suntec REIT expects financing cost to increase to 4.2-4.3% range due to the expiration of some of its fixed rate hedges.
- **No changes to estimates.** The REIT continues to make good progress on ESG metrics and goals. Its ESG score of 3.3 results in a 4% ESG premium.

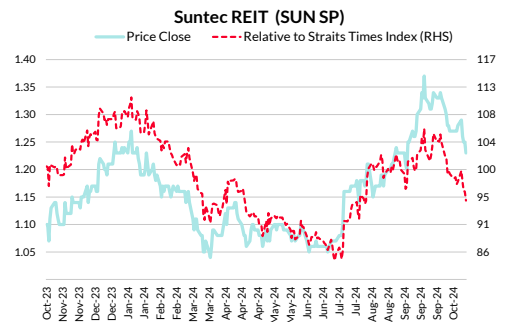
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	(6.1)	7.9	11.8	10.8
Relative	(10.9)	(6.1)	3.1	2.5	(5.9)
52-wk Price low/high (SGD)				1.04	1.37



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	427	463	469	475	485
Net property income (SGDm)	316	313	315	316	327
Reported net profit (SGDm)	498	196	194	203	214
Total distributable income (SGDm)	256	208	184	193	202
DPS (SGD)	0.09	0.07	0.06	0.07	0.07
DPS growth (%)	3.0	(19.3)	(12.2)	4.4	3.5
P/B (x)	0.58	0.58	0.58	0.59	0.59
Dividend Yield (%)	7.2	5.8	5.1	5.3	5.5
Return on average equity (%)	8.2	3.2	3.2	3.3	3.4
Return on average assets (%)	4.3	1.7	1.7	1.8	1.9

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E: EXCELLENT

All Suntec REIT's buildings are rated highly by respective green mark standards in respective countries. It has set net-zero carbon status by 2030 for assets with full ownership control and by 2050 for all assets across portfolio. About 70% of total debt are green/sustainability-linked loans

S: EXCELLENT

Suntec REIT has been a supporting partner for Purple Parade for eighth year, which is Singapore's largest ground-up movement that supports inclusion and celebrates the abilities of persons with disabilities. 73% of the REIT's employees are female.

G: EXCELLENT

Suntec REIT has a well drawn-out whistleblowing policy for its employees. It has an experienced board with a balanced mix of independent directors. Transparent and timely disclosures of market-sensitive information and updates.

Financial Exhibits

Asia	Financial summary	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS (SGD)	0.17	0.07	0.07	0.07	0.07
Property	EPS (SGD)	0.17	0.07	0.07	0.07	0.07
Suntec REIT	DPS (SGD)	0.09	0.07	0.06	0.07	0.07
SUN SP	BVPS (SGD)	2.12	2.11	2.11	2.10	2.09
Buy	Return on average equity (%)	8.2	3.2	3.2	3.3	3.4
	Weighted avg adjusted shares (m)	2,871.80	2,904.02	2,921.73	2,946.16	2,970.78
Valuation basis						
Dividend Discount Model						
Key drivers	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Continued recovery in Singapore office and retail demand;	Recurring P/E (x)	7.10	18.19	18.57	17.85	17.10
ii. High quality office and retail assets offer resilience;	P/E (x)	7.10	18.19	18.57	17.85	17.10
iii. Attractive valuation.	P/B (x)	0.6	0.6	0.6	0.6	0.6
	FCF Yield (%)	7.6	6.8	7.3	6.4	6.5
	Dividend Yield (%)	7.2	5.8	5.1	5.3	5.5
	EV/EBITDA (x)	(12.66)	(12.75)	(12.92)	(12.87)	(12.39)
	EV/EBIT (x)	(12.68)	(12.75)	(12.92)	(12.87)	(12.39)
Key risks	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Weaker performance from overseas assets and forex impact;	Total turnover	427	463	469	475	485
ii. Low debt hedges and impact from continued increase in interest rates;	EBITDA	249	242	247	248	258
iii. Sharp reduction in demand from work-from home or WFH trends.	Depreciation and amortisation	(0)	(0)	0	0	0
	Operating profit	249	242	247	248	258
	Net interest	(112)	(154)	(160)	(152)	(150)
	Income from associates & JVs	145	36	120	117	117
	Pre-tax profit	514	204	212	222	233
	Taxation	(16)	(8)	(19)	(19)	(20)
	Recurring net profit	498	196	194	203	214
Company Profile	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Suntec REIT is a REIT established with the objective of investing in income-producing real estate properties which are used primarily for retail and office purposes. It currently has a portfolio of commercial assets in Singapore, Australia and UK.	Change in working capital	(113)	(12)	(56)	(84)	(88)
	Cash flow from operations	284	251	292	263	267
	Capex	(14)	(10)	(30)	(30)	(30)
	Cash flow from investing activities	115	698	90	88	89
	Dividends paid	(263)	(210)	(184)	(193)	(202)
	Cash flow from financing activities	(384)	(1,001)	(364)	(359)	(365)
	Cash at beginning of period	268	270	218	235	227
	Net change in cash	15	(51)	17	(8)	(9)
	Ending balance cash	269	217	235	227	218
	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	270	218	235	227	218
	Tangible fixed assets	1	2	2	2	2
	Total investments	11,413	10,819	10,829	10,827	10,825
	Total assets	11,711	11,129	11,104	11,095	11,085
	Short-term debt	646	400	500	600	600
	Total long-term debt	4,198	3,860	3,650	3,500	3,450
	Total liabilities	5,127	4,545	4,471	4,428	4,382
	Shareholders' equity	6,116	6,108	6,153	6,183	6,215
	Minority interests	120	128	132	136	140
	Total equity	6,584	6,584	6,633	6,667	6,703
	Net debt	4,574	4,042	3,915	3,873	3,832
	Total liabilities & equity	11,711	11,129	11,104	11,095	11,085
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	19.3	8.3	1.3	1.3	2.2
	Recurrent EPS growth (%)	0.5	(61.0)	(2.0)	4.0	4.4
	Operating EBITDA margin (%)	58.3	52.4	52.6	52.3	53.2
	Net profit margin (%)	116.5	42.4	41.3	42.7	44.0
	Dividend payout ratio (%)	51.5	105.7	95.0	95.3	94.5
	Capex/sales (%)	3.3	2.1	6.4	6.3	6.2
	Interest cover (x)	2.22	1.58	1.54	1.64	1.72

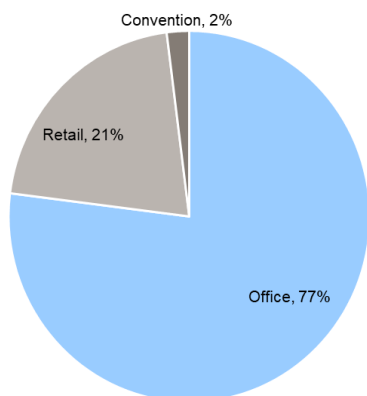
Source: Company data, RHB

Figure 1: Suntec REIT – fair value based on DDM

DDM	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal Value
DPU (SG cents)	6.29	6.57	6.80	7.07	7.28	144.18
Intrinsic Value (SGD)	1.30					
ESG Premium/(discount) (SGD)	0.05					
Target Price (SGD)	1.35					
Current price (SGD)	1.23					
Price upside (%)	9.9					
Distribution yield (FY23F%)	5.1					
Total return (%)	15.0					
Assumptions						
Risk-free rate (%)	2.8					
Beta	0.8					
Cost of equity (%)	7.2					
Terminal growth (%)	2.0					

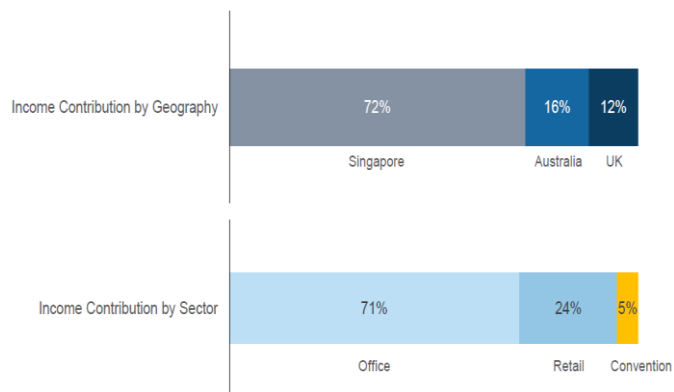
Source: RHB

Figure 2: AUM breakdown by sector – SGD 12.2bn



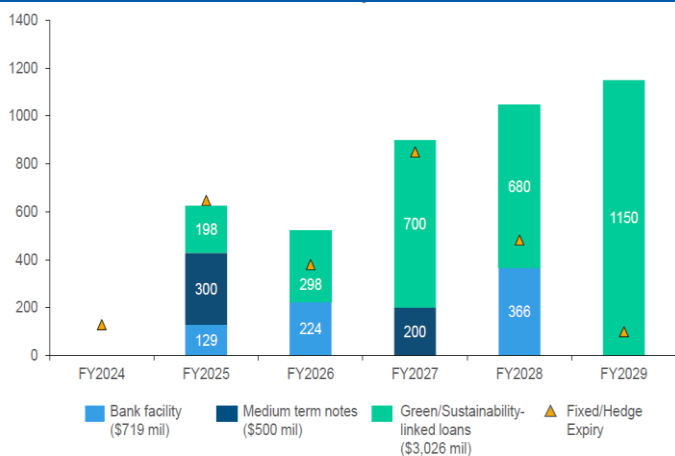
Source: Company data

Figure 3: Income by sector and geography (3Q)



Source: Company data

Figure 4: Debt maturity profile



Source: Company data

Figure 5: Suntec City's office expiring rents for FY25F – c.10% below signing rents



Source: Company data

Emissions And ESG

Trend analysis

In FY23, the total carbon emissions and carbon emission intensity decreased by 2.1, driven by initiatives in promoting greater usage of renewable energy in its Australia and the United Kingdom properties. FY23's total water consumption and water intensity were 10.4% and 10.5% higher YoY on the back of higher usage and recovery post-COVID-19. For FY23, Suntec REIT waste recycling rate stood at 14.1% slightly below 15.0% in FY22, due to an increase in the total amount of waste disposed from higher footfall and activities.

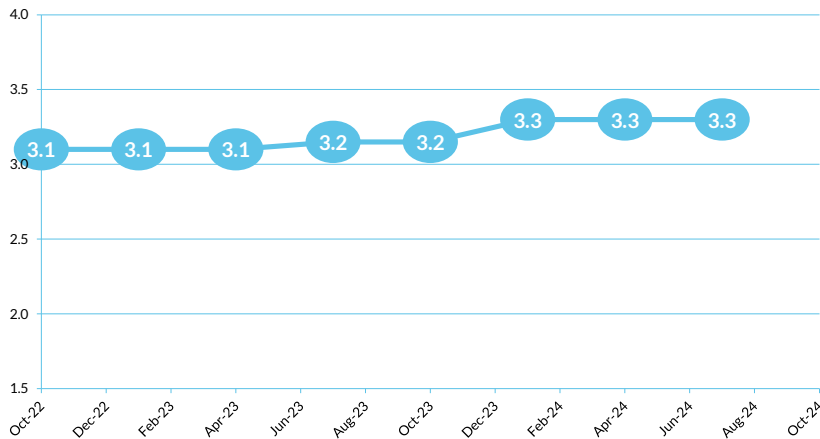
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,250	1,671	1,637
Scope 2	57,632	59,673	58,403
Scope 3	na	na	na
Total emissions	58,882	61,344	60,040

Source: Company data, RHB

Latest ESG-Related Developments

- In the 2023 Global Real Estate Sustainability Benchmark (GRESB) Assessment, Suntec REIT was awarded GRESB's 5-Star rating for the fourth consecutive year and achieved an "A" rating under the GRESB Public Disclosure.
- 177 Pacific Highway and 55 Currie Street are Certified Carbon Neutral. Obtained "B" EPC Energy Rating for The Minster Building. 21 Harris Street, 477 Collins Street, Nova Properties and The Minster Building using 100% Renewable Energy.
- About 70% of total debt are green/sustainability-linked loans.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-07-28	Buy	1.35	1.18
2024-03-31	Buy	1.35	1.08
2024-01-24	Buy	1.35	1.23
2023-10-23	Neutral	1.20	1.11
2023-07-26	Neutral	1.40	1.29
2023-01-24	Neutral	1.47	1.39
2023-01-09	Neutral	1.47	1.37
2022-10-26	Buy	1.70	1.41
2022-07-17	Buy	1.95	1.57
2022-04-26	Buy	2.00	1.84
2022-01-27	Buy	1.77	1.55
2021-09-29	Buy	1.72	1.41
2021-07-01	Buy	1.76	1.47
2021-06-17	Buy	1.72	1.47
2021-06-02	Buy	1.72	1.46

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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