

25 January 2024

Property | REITS

## Suntec REIT (SUN SP)

**Buy** (from Neutral)

### Operational Strength To Continue; U/G To BUY

Target Price (Return): SGD1.35 (+10%)  
 Price (Market Cap): SGD1.23 (USD2,662m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (SGD/USD) 5.52m/4.11m

- **Upgrade to BUY from Neutral, with new SGD1.35 TP from SGD1.20, 10% upside and c.5% yield.** Suntec REIT's 4Q23 results came in slightly better than expected, backed by strong Singapore operational performance. Growth outlook for Singapore office and retail portfolio is expected to moderate but remains positive, while the worst is likely over for its overseas portfolio. The market's main concerns over its low debt hedge position and high gearing should start to assuage with rates peaking. Attractive valuation of >40% discount to book presents a good medium-term entry level.
- **FY23 DPU declined 20% YoY** as higher income from Singapore assets was offset by higher financing and operational costs as well as weaker overseas performance. Final DPU includes a capital top-up of SGD23m from past divestment gains from Park Mall, and with the entire amount now distributed, no capital top-up is expected in FY24F. Market concerns over valuation decline were unfounded as overall portfolio value rose 0.7% YoY, aided by Singapore assets which saw 3% valuation uplift mainly from income growth that more than offset the declines in Australia (-5%) and the UK (-10%). Financing costs rose 90bps YoY to 3.84% in FY23 and we expect this to peak this year at c.4.1% in FY24F and fall slightly in FY25F.
- **Singapore office portfolio continued to shine**, with healthy 99.7% occupancy (+0.2ppt QoQ) and strong positive rent reversions of 12.3% for FY23. While office rents are expected to moderate, overall rent reversions are expected to be in the positive mid to high-single digits for FY24. With regards to WeWork, it currently occupies three floors of office space at Suntec City office and has been current in payments so far while its space is seeing healthy utilisation levels (~90%). Australia office occupancy has been impacted by a key tenant exiting 55 Currie Street, but is expected to improve this year while UK assets are mainly on long-term leases.
- **Suntec City Mall saw strong rent reversion of +21.8%** (FY23), indicating healthy recovery post COVID-19 and good leasing efforts by better repositioning the mall to various trade categories. Rent reversion (FY24) is expected to remain strong at 10-15%, based on management guidance. However, occupancy fell 3.1ppts QoQ to 95.6% mainly due to the exit of Pure Fitness and Pure Yoga. Management expects to reposition the space for the F&B and entertainment sectors and targets to achieve healthy positive rent reversions on it. Convention segment revenue (FY23) too has exceeded pre COVID-19 levels, with a stronger FY24 on cards.
- **We have revised up our FY24F-26F DPU by 3-4%** by fine tuning our interest costs lower and adjusting rent growth. Our cost of equity is also adjusted lower by 20bps with concerns on gearing now mitigated. The REIT's ESG score of 3.3 (out of 4.0) is two notches above our country median, so we apply a 4% ESG premium to our DDM-derived TP.

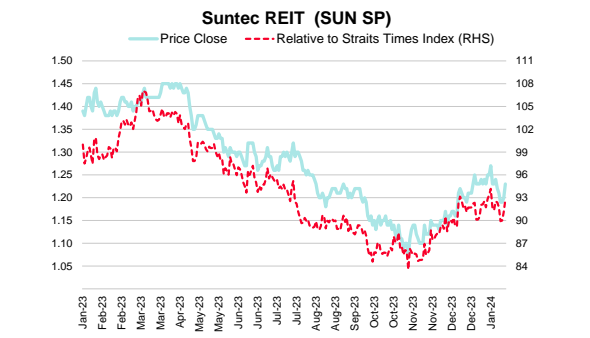
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	1.7	7.9	(5.4)	(11.5)
Relative	2.7	1.3	5.6	(2.0)	(7.2)
52-wk Price low/high (SGD)	1.07 – 1.45				



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	316	317	327
Reported net profit (SGDm)	498	196	197	205	215
Total distributable income (SGDm)	256	208	188	195	204
DPS (SGD)	0.09	0.07	0.06	0.07	0.07
DPS growth (%)	3.0	(19.3)	(10.4)	3.2	3.5
P/B (x)	0.58	0.58	0.58	0.59	0.59
Dividend Yield (%)	7.2	5.8	5.2	5.4	5.6
Return on average equity (%)	8.2	3.2	3.2	3.3	3.5
Return on average assets (%)	4.3	1.7	1.8	1.8	1.9

Source: Company data, RHB

#### Overall ESG Score: 3.3 (out of 4)

##### E: EXCELLENT

All SUN's buildings are rated highly by respective green mark standards in respective countries. Has set net-zero carbon status by 2030 for assets with full ownership control and by 2050 for all assets across portfolio. Achieved 19.8%, 13.6% reduction in energy and water intensity in FY22 from FY19 levels.

##### S: EXCELLENT

SUN has a well-diverse work profile with 68% of total employees being female. There were zero cases of reportable work-related injuries for employees in FY22. Average training hours was 35 hours per employee in FY22 – exceeding its target of 26 hours per employee.

##### G: EXCELLENT

SUN 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
<b>Suntec REIT</b>	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	3.5
	Weighted avg adjusted shares (m)	2,871.80	2,904.02	2,921.74	2,946.19	2,970.82
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Dividend Discount Model	Recurring P/E (x)	7.10	18.19	18.22	17.70	16.97
	P/E (x)	7.10	18.19	18.22	17.70	16.97
	P/B (x)	0.6	0.6	0.6	0.6	0.6
	FCF Yield (%)	7.6	6.8	7.3	6.5	6.5
	Dividend Yield (%)	7.2	5.8	5.2	5.4	5.6
	EV/EBITDA (x)	- 12.66	- 12.75	- 12.88	- 12.83	- 12.36
	EV/EBIT (x)	- 12.68	- 12.75	- 12.88	- 12.83	- 12.36
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Continued recovery in Singapore office/retail demand;	Total turnover	427	463	469	475	485
ii. High quality office and retail assets offer resilience;	EBITDA	249	242	248	249	259
iii. Attractive valuation.	Depreciation and amortisation	(0)	(0)	0	0	0
	Operating profit	249	242	248	249	259
	Net interest	(112)	(154)	(158)	(152)	(150)
	Income from associates & JVs	145	36	120	117	117
	Pre-tax profit	514	204	216	224	235
	Taxation	(16)	(8)	(19)	(19)	(20)
	Recurring net profit	498	196	197	205	215
<b>Key risks</b>	<b>Cash flow (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Weaker performance from overseas assets and forex impact;	Change in working capital	(113)	(12)	(57)	(84)	(88)
ii. Low debt hedges and impact from continued increase in interest rates;	Cash flow from operations	284	251	292	264	269
iii. Sharp reduction in demand from work-from home or WFH trends.	Capex	(14)	(10)	(30)	(30)	(30)
	Cash flow from investing activities	115	698	90	88	89
	Dividends paid	(263)	(210)	(188)	(195)	(204)
	Cash flow from financing activities	(384)	(1,001)	(366)	(361)	(367)
	Cash at beginning of period	268	270	218	234	226
	Net change in cash	15	(51)	16	(8)	(9)
	Ending balance cash	269	217	234	226	217
<b>Company Profile</b>	<b>Balance sheet (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
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 the UK.	Total cash and equivalents	270	218	234	226	217
	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	11,103	11,094	11,084
	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	4,470	4,428	4,381
	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	3,916	3,874	3,833
	Total liabilities & equity	11,711	11,129	11,103	11,094	11,084
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	19.3	8.3	1.3	1.3	2.2
	Recurrent EPS growth (%)	0.5	(61.0)	(0.2)	2.9	4.3
	Operating EBITDA margin (%)	58.3	52.4	52.8	52.4	53.3
	Net profit margin (%)	116.5	42.4	42.1	43.1	44.4
	Dividend payout ratio (%)	51.5	105.7	95.1	95.3	94.6
	Capex/sales (%)	3.3	2.1	6.4	6.3	6.2
	Interest cover (x)	2.22	1.58	1.57	1.64	1.73

Source: Company data, RHB

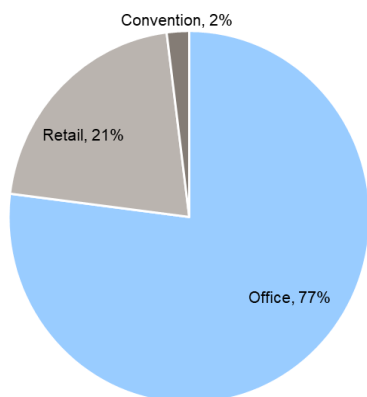
**Divestment of SGD94.4m of strata units at Suntec City office at a 31% premium** over its carrying value in order to lower gearing levels which is expected to fall slightly below 42% upon entire sale completion. With gearing pressure alleviated management noted that it is in no hurry to divest more and will wait for pricing conditions to be met before considering further divestments for Suntec City strata office as well as for its some of its Australian assets (likely Southgate Complex and 177 Pacific Highway). Acquisitions are not a key focus with the current high cost of capital.

**Figure 1: Suntec REIT – fair value based on Dividend Discount Model**

<b>DDM</b>	<b>FY24F</b>	<b>FY25F</b>	<b>FY26F</b>	<b>FY27F</b>	<b>Terminal Value</b>
DPU (SG cents)	6.42	6.62	6.85	7.13	141.19
Intrinsic Value (SGD)	1.30				
ESG Premium/discount	0.05				
<b>Target Price (SGD)</b>	<b>1.35</b>				
Current price (SGD)	1.23				
Price upside (%)	9.9				
Distribution yield (FY24F%)	5.2				
<b>Total return (%)</b>	<b>15.1</b>				
<b>Assumptions</b>					
Risk-free rate (%)	2.8				
Beta	0.8				
Cost of equity (%)	7.2				
Terminal growth (%)	2.0				

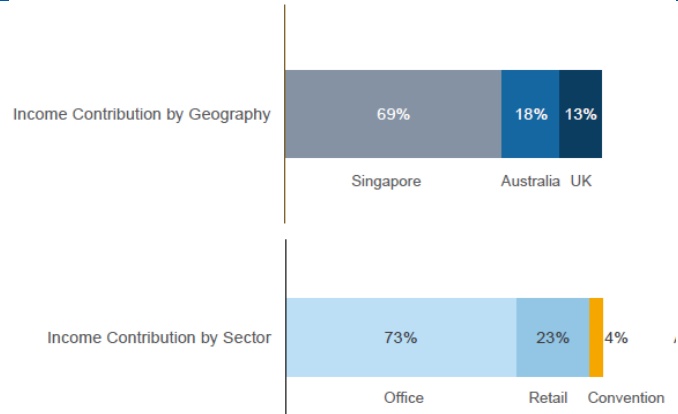
Source: RHB

**Figure 2: AUM breakdown by sector – SGD 12.2bn (FY23)**



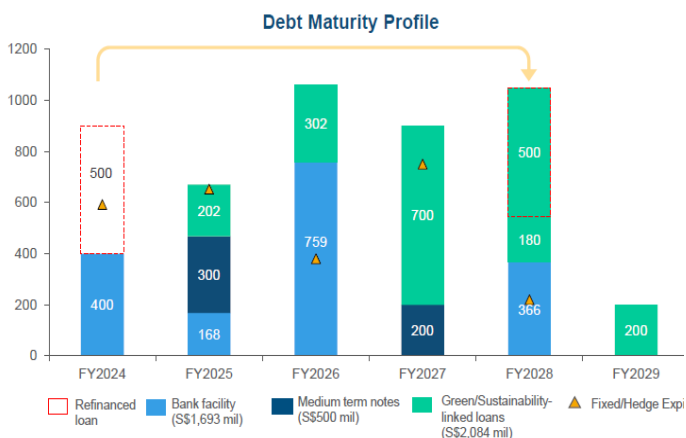
Source: Company data

**Figure 3: Income by sector and geography (FY23)**



Source: Company data

**Figure 4: Debt maturity profile**



Source: Company data

**Figure 5: Valuation changes by markets**

Investment Properties	31 Dec 22	31 Dec 23	Against 31 Dec 22		Range of Cap Rates as at 31 Dec 22	Range of Cap Rates as at 31 Dec 23
			Variance (\$)	Variance (%)		
Singapore <sup>1</sup>	S\$8,769.7M	S\$9,041.1M	S\$271.4M	3.1%		
Office	S\$6,150.0M	S\$6,325.7M	S\$175.7M	2.9%	3.40% - 3.50%	3.40% - 3.50%
Retail <sup>2</sup>	S\$2,401.3M	S\$2,490.0M	S\$88.7M	3.7%	4.25% - 4.50%	4.25% - 4.50%
Convention	S\$218.4M	S\$225.4M	S\$7.0M	3.2%	5.75%	5.50%
Australia	A\$2,006.5M	A\$1,915.7M	A\$90.8M	-4.5%	4.50% - 6.75%	5.13% - 7.25%
UK	£748.3M	£671.9M	£76.4M	-10.2%	4.43% - 4.66%	4.96% - 5.25%
<b>Total</b>	<b>S\$11,808.4M<sup>3,4</sup></b>	<b>S\$11,893.5M<sup>3,4</sup></b>	<b>S\$85.1M</b>	<b>0.7%</b>		

Notes:  
 1. Singapore Portfolio increased by S\$304.1M or 3.5% year-on-year on a same store basis.  
 2. Includes Suntec REIT's share of retail space under Suntec Singapore and MBFC Properties (i.e. Marina Bay Link Mall).  
 3. Exchange rate for AUD to SGD was 0.9065 in December 2022 and 0.8991 in December 2023.  
 4. Exchange rate for GBP to SGD was 1.6301 in December 2022 and 1.6817 in December 2023.

Source: Company data

## Emissions And ESG

### Trend analysis

In FY22, Suntec REIT's total energy consumption was 157,376 MWh and the average energy intensity was 220.0 kWh/sqm. Comparing the energy consumption with FY21, its energy consumption increased by 9.8%, which was due to the inclusion of The Minster Building in the United Kingdom, and increasing activities for offices, retail and meetings, incentives, conferences and exhibitions (MICE) events. However, when comparing the FY22 energy intensity with Suntec REIT's baseline FY19, Suntec REIT's intensity has decreased by 19.8%, above its target of achieving 3% improvement on energy intensity values from FY19 levels.

### Emissions (tCO2e)

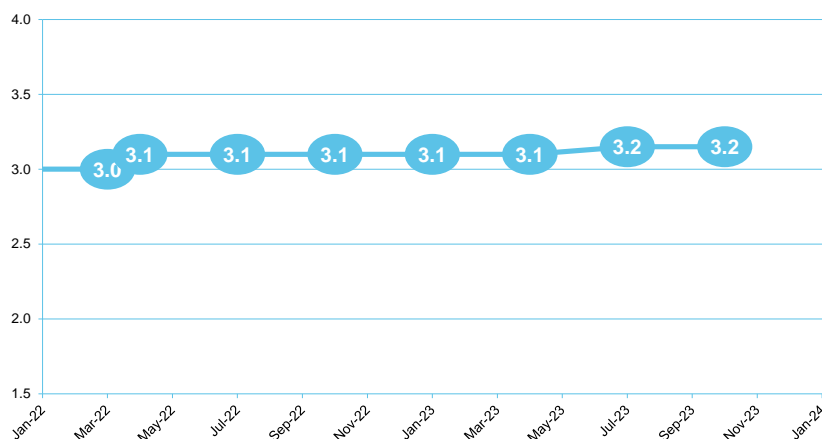
	Dec-21	Dec-22	Dec-23
Scope 1	1,250	1,671	na
Scope 2	57,632	59,673	na
Scope 3	na	na	na
Total emissions	58,882	61,344	na

Source: Company data, RHB

## Latest ESG-Related Developments

- In FY 2022, Suntec City launched a new campaign to educate both office and retail tenants on initiatives to reduce electricity consumption and cost: Some initiatives include configuring equipment such as computers and photocopiers to energy saving mode when not in use, replacing existing light fittings with LED energy efficient light bulbs and using air-conditioning systems at optimal settings to reduce over cooling of the spaces.
- Suntec REIT continued to roll out automated electricity meters and energy efficient LED lighting fixtures across its portfolio.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-01-27	Buy	1.79	1.58
2020-10-11	Buy	1.79	1.42
2020-06-30	Buy	1.78	1.41

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

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

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