

25 January 2023

Property | REITS

Suntec REIT (SUN SP)

Neutral (Maintained)

Strong Finish To FY22, Outlook Is Challenging

- **Keep NEUTRAL and SGD1.47, 6% upside.** 4Q DPU was in line, but operational performances surprised on the upside on strong rent reversions and occupancy boosts. Market concerns over asset value declines and potential gearing breaches proved unfounded, as Singaporean asset values rose – more than offsetting overseas weaknesses – but the outlook is moderated by a mix of slowing demand, cost pressures, and steep interest cost rises. While valuation remains inexpensive, Suntec REIT's relatively low hedge position and exposure to the tech sector makes it vulnerable.
- **Operational numbers surprised on the upside,** but there is a slowdown ahead. Committed occupancy rose to record levels for Suntec City Office (99.9%) and One Raffles Quay (100%) while Marina Bay Financial Towers 1 & 2 fell 4.4ppts to 94.1% as Standard Chartered gave up c.184,000sq ft of space, 80% of which are already backfilled. Australian assets saw sharp 2.4ppts QoQ improvements in occupancy while high UK occupancy was maintained. 4Q rent reversions for Singapore offices improved to 7.7% while Australia saw a strong 24% rent growth in FY22. Despite high tech tenant concentration in its office portfolio (c.26%) management expects occupancy and office rent reversions to stay positive. 4Q retail occupancy rose 1.5ppts QoQ with a healthy 10.6% rent reversion. The convention segment rebounded strongly with a 275% revenue increase in 2H.
- **Asset values held firm.** Australia and UK asset values declined 2-6% due to anticipated lines on a c.20-30bps rise in cap rates. The Singapore portfolio rose 3.3%, aided by operational improvements and a c.5bps cap rate compression based on a strong office transaction market. This, along with lower overall debt on the back of a weaker GBP and AUD, resulted in lower gearing of 42.4% (FY22: 43.7%). The interest cover ratio fell to 2.4x amid rising interest cost pressures, and is expected to remain elevated in FY23 – with the full impact of rising interest rates kicking in. Overall financing costs in FY23 are expected to climb to c.3.6% (2022: 2.94% pa). Management guided that every 100bps increase will result in c.21% DPU impact. SUN remains on the lookout for divestments in Singapore and Australia, but only at the right price, which we believe is above book value.
- **SUN guided for a no income top-up,** as the REIT plans to conserve cash and equity in the current environment. It still has SGD23m in past divestment gains that management had earlier indicated to distribute this year. Management fees in units will be 50% moving forward instead of 30% in the past – this is to limit dilutions to unitholders.
- **We fine-tune FY23F-24F DPU** by -1% to 1%. As SUN's ESG score of 3.1 out of 4.0 is a notch above the country median, we apply a 2% premium DDM-derived fair value to derive our SGD1.47 TP.

Target Price (Return): SGD1.47 (5.7%)
 Price (Market Cap): SGD1.39 (USD3,031m)
 ESG score: 3.10 (out of 4)
 Avg Daily Turnover (SGD/USD) 14.3m/10.4m

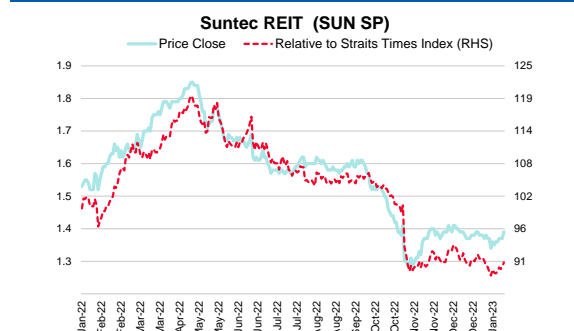
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.7	1.5	(2.1)	(12.0)	(10.3)
Relative	(0.6)	0.3	(11.1)	(15.9)	(10.3)
52-wk Price low/high (SGD)				1.28 – 1.85	



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	358	427	446	455	460
Net property income (SGDm)	255	316	327	331	333
Reported net profit (SGDm)	491	498	202	242	256
Total distributable income (SGDm)	247	256	218	222	229
DPS (SGD)	0.09	0.09	0.07	0.08	0.08
DPS growth (%)	16.9	2.7	(15.4)	1.0	2.6
P/B (x)	0.66	0.66	0.66	0.66	0.66
Dividend Yield (%)	6.2	6.4	5.4	5.4	5.6
Return on average equity (%)	8.3	8.2	3.3	3.9	4.1
Return on average assets (%)	4.3	4.3	1.7	2.0	2.2

Source: Company data, RHB

Overall ESG Score: 3.10 (out of 4)

E: EXCELLENT

All SUN's buildings are rated highly by respective green mark standards in respective countries. For FY21, its carbon emission, water, and non-recyclable waste reduced by 11% (vs FY20), 32%, and 40% vs 2019's levels. SUN is committed to reducing its intensity further by setting a 2024 target.

S: GOOD

SUN has a well-diverse work profile with 65% of total employees being female. There were zero cases of reportable work-related injuries for employees. Its CSR initiatives include supporting partners The Purple Parade, SME Help Fund, and Children's Wishing Well. Average training hours was 32 hours per employee in FY21 – exceeding its target of 26 hours per employee.

G: GOOD

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

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Financial Exhibits

Asia	Financial summary	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS (SGD)	0.17	0.17	0.07	0.08	0.09
Property	EPS (SGD)	0.17	0.17	0.07	0.08	0.09
Suntec REIT	DPS (SGD)	0.09	0.09	0.07	0.08	0.08
SUN SP	BVPS (SGD)	2.11	2.12	2.11	2.12	2.12
Neutral	Return on average equity (%)	8.3	8.2	3.3	3.9	4.1
	Weighted avg adjusted shares (m)	2,845.34	2,871.80	2,908.98	2,931.51	2,954.14
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
DDM	Recurring P/E (x)	8.06	8.02	20.03	16.83	16.01
	P/E (x)	8.06	8.02	20.03	16.83	16.01
	P/B (x)	0.7	0.7	0.7	0.7	0.7
	FCF Yield (%)	5.9	6.5	5.5	6.2	6.2
	Dividend Yield (%)	6.2	6.4	5.4	5.4	5.6
	EV/EBITDA (x)	- 13.81	- 10.81	- 10.37	- 10.36	- 10.44
	EV/EBIT (x)	- 13.79	- 10.83	- 10.37	- 10.36	- 10.44
Key drivers	Income statement (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Recovery in office/retail demand and contributions from acquisitions;	Total turnover	358	427	446	455	460
ii. High quality office and retail assets offer resilience;	EBITDA	190	249	259	263	264
iii. Attractive valuation.	Depreciation and amortisation	0	(0)	(0)	0	0
	Operating profit	191	249	259	263	264
	Net interest	(94)	(112)	(148)	(153)	(148)
	Income from associates & JVs	103	145	144	146	147
	Pre-tax profit	516	514	220	260	275
	Taxation	(25)	(16)	(18)	(18)	(18)
	Recurring net profit	491	498	202	242	256
Key risks	Cash flow (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Re-imposition of COVID-19 restrictions;	Change in working capital	(61)	(123)	(137)	(111)	(113)
ii. Continued increase in interest rates;	Cash flow from operations	243	273	252	283	284
iii. Sharp reduction in demand from work-from home or WFH trends.	Capex	(8)	(14)	(30)	(30)	(30)
	Cash flow from investing activities	(83)	126	114	116	118
	Dividends paid	(246)	(263)	(218)	(222)	(229)
	Cash flow from financing activities	(120)	(398)	(378)	(374)	(358)
	Cash at beginning of period	227	268	270	259	284
	Net change in cash	40	1	(11)	25	44
	Ending balance cash	267	269	259	284	329
Company Profile	Balance sheet (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
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	268	270	259	284	329
	Tangible fixed assets	1	1	1	1	1
	Total investments	11,384	11,413	11,520	11,548	11,549
	Total assets	11,689	11,710	11,816	11,870	11,916
	Short-term debt	500	646	650	580	600
	Total long-term debt	4,419	4,198	4,274	4,324	4,284
	Total liabilities	5,190	5,126	5,200	5,187	5,173
	Shareholders' equity	6,052	6,116	6,144	6,207	6,263
	Minority interests	99	120	123	127	131
	Total equity	6,499	6,584	6,616	6,683	6,743
	Net debt	4,651	4,574	4,665	4,620	4,555
	Total liabilities & equity	11,689	11,710	11,816	11,870	11,916
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	13.5	19.3	4.4	2.0	1.1
	Recurrent EPS growth (%)	0.0	0.5	(60.0)	19.0	5.1
	Operating EBITDA margin (%)	53.1	58.3	58.1	57.9	57.4
	Net profit margin (%)	137.0	116.5	45.2	53.2	55.8
	Dividend payout ratio (%)	50.4	51.3	107.9	91.5	89.4
	Capex/sales (%)	2.2	3.3	6.7	6.6	6.5
	Interest cover (x)	2.02	2.22	1.76	1.72	1.78

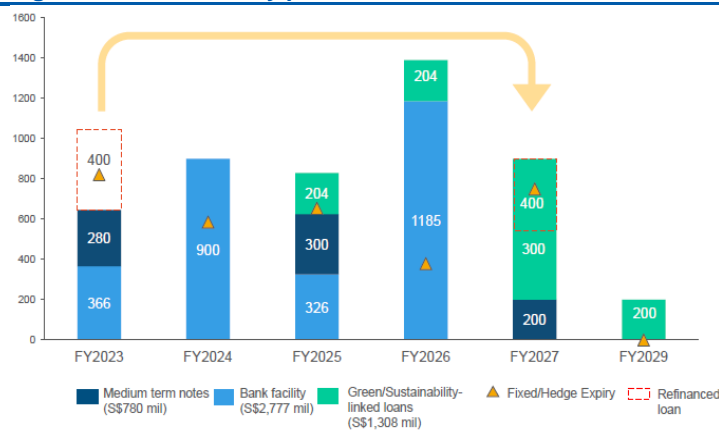
Source: Company data, RHB

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

DDM	FY23F	FY24F	FY25F	FY26F	Terminal value
DPU (SGD cents)	7.5	7.5	7.6	7.8	155.51
Intrinsic value (SGD)	1.44				
ESG premium/discount	0.03				
TP (SGD)	1.47				
Current price (SGD)	1.380				
Price upside (%)	5.7				
Distribution yield (FY23F %)	5.4				
Total return (%)	11.1				
Assumptions					
Risk-free rate (%)	2.8				
Beta	0.8				
Cost of equity (%)	7.2				
Terminal growth (%)	2.0				

Source: RHB

Figure 2: Debt maturity profile



Source: Company

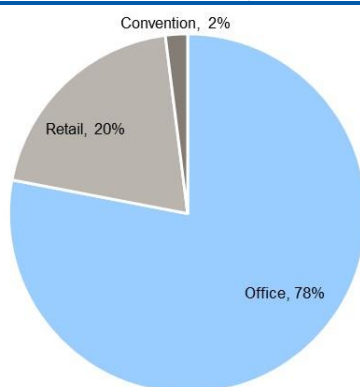
Figure 3: Valuation and cap rate changes by market

Investment Properties	31 Dec 21	30 Jun 22	31 Dec 22	Against 30 Jun 22		Range of Cap Rates as at 31 Dec 22
				Variance (\$)	Variance (%)	
Singapore	\$S8,369.2M	\$S8,488.3M	\$S8,769.7M	\$S281.4M	3.3%	
Office	\$S5,825.0M	\$S5,944.1M	\$S6,150.0M	\$S205.9M	3.5%	3.40% - 3.50%
Retail ¹	\$S2,345.3M	\$S2,345.3M	\$S2,401.3M	\$S56.0M	2.4%	4.25% - 4.50%
Convention	\$S198.9M	\$S198.9M	\$S218.4M	\$S19.5M	9.8%	5.75%
Australia	A\$2,049.7M	A\$2,050.0M	A\$2,006.5M	-A\$43.5M	-2.1%	4.50% - 6.75%
UK	£\$798.2M	£\$799.4M	£\$748.3M	-£\$51.1M	-6.4%	4.43% - 4.66%
Total	\$S11,836.5M ^{2,3}	\$S11,819.1M ^{2,3}	\$S11,808.4M ^{2,3}	-\$S10.7M	-0.1%	

Notes:
1. Includes Suntec REIT's share of retail space under Suntec Singapore and MBFC Properties (i.e. Marina Bay Link Mall).
2. Exchange rate for AUD to SGD was 0.9632 in December 2021, 0.9655 in June 2022 and 0.9095 in December 2022.
3. Exchange rate for GBP to SGD was 1.8193 in December 2021, 1.7036 in June 2022 and 1.8301 in December 2022.

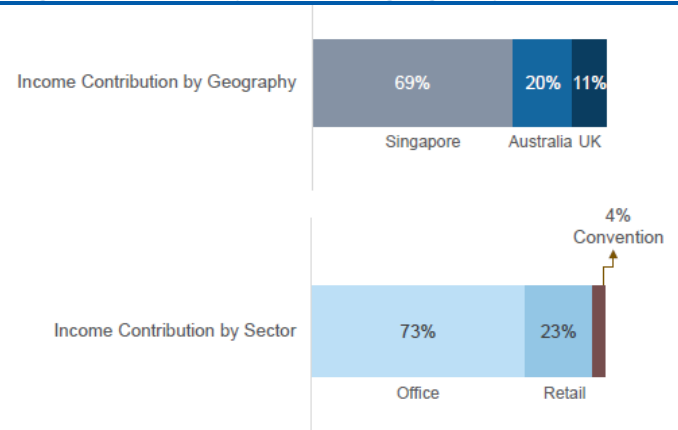
Source: Company

Figure 4: Portfolio AUM breakdown by sector



Source: Company

Figure 5: Income by sector and geography



Source: Company

Recommendation Chart

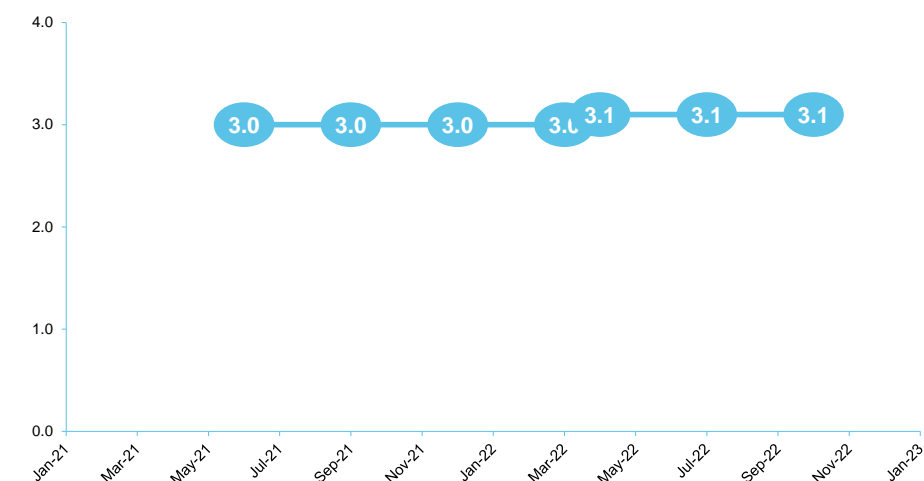


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-04-02	Buy	1.78	1.20
2020-01-03	Buy	2.08	1.85
2019-07-29	Buy	2.08	1.93

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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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
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