

10 January 2023

Property | REITS

Suntec REIT (SUN SP)

Neutral (from Buy)

Slowing Growth And Rising Rates; D/G NEUTRAL

- **Downgrade to NEUTRAL from Buy, with new TP of SGD1.47 from SGD1.70, 7% upside.** We expect Suntec REIT's office portfolio to be impacted by the technology sector's slowdown – moderating rent growth with a slight uptick in vacancy. This, coupled with the sharp interest cost impact from a spike in rates, should weigh on its share price. Divestments are anticipated in the near term to lower gearing and manage interest cost pressures. While valuation is inexpensive (c.35% discount to book value), we see limited catalysts ahead.
- **Office demand drivers slowing down.** The technology, media and telecommunications (TMT) sector is the largest occupier of Suntec City Office Towers (c.38% of FY21 rents) and has also been the key source of new leasing demand in recent years. Suntec City Office Towers is the largest asset in its portfolio (c.30% of income) and currently has a high committed occupancy of 99.6% and rent reversion (YTD) of 3.3% as at 3Q. For FY23F, c.27% of leases are due for renewal and we expect committed occupancy could fall to c.98% levels with flattish rent reversions. Other JV Singapore office assets in its portfolio (One Raffles Quay, Marina Bay Financial Centre) are predominantly focused on the financial and insurance sectors' tenants and likely to be less impacted. Suntec City Mall's performance should remain relatively steady while the convention segment is expected to rebound strongly in FY23.
- **Divestments likely in FY23.** SUN's gearing of 43.1% is on the high side vs peers and has been one of the key investor concerns. While the cap rate expansion is expected to have a negative impact on the value of its overseas assets (UK in particular), we expect this to be partially offset by its Singapore assets, which have seen strong operational improvements. Thus we do not expect any significant reduction in portfolio value during its year-end valuation, with gearing to be maintained below the 45% level. We also see potential for it to divest assets in Australia or pare down its stake in Singapore to lower debt. SUN has one of the lowest hedged debt profile (58%), with every 50bps rise in rates impacting distributable income by c.5%
- **Overseas portfolio mitigated by long leases.** The impact of the weaker UK economic outlook on its office assets (c.12% of income) is mitigated by its long lease profile with no significant lease expiries/breaks until 2025. Similarly, for its Australian assets, the REIT has already secured lease commitments for more than half of 2023 expiring lease. On the FX front, it has hedged 61% of its overseas derived income, thereby limiting FX impact.
- **We lower FY23F-24F DPU by 12% by adjusting occupancy and rental growth, higher financing costs and assuming higher fees in cash (50% vs 30%).** ESG score of 3.1 out of 4.0 is a notch above the country's median. Thus we apply a 2% premium to our DDM-derived TP.

Target Price (Return): SGD1.47 (+7%)
 Price (Market Cap): SGD1.37 (USD2,924m)
 ESG score: 3.10 (out of 4)
 Avg Daily Turnover (SGD/USD) 14.9m/10.8m

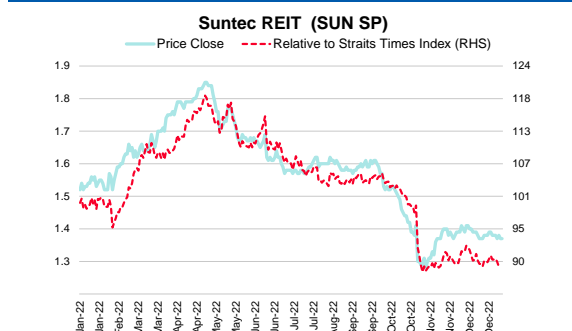
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.7)	(2.8)	(9.9)	(13.3)	(9.3)
Relative	(1.5)	(3.7)	(14.1)	(17.9)	(11.5)
52-wk Price low/high (SGD)				1.28 – 1.85	



Source: Bloomberg

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.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	315	358	403	431	445
Net property income (SGDm)	200	255	283	295	304
Reported net profit (SGDm)	(116)	491	299	243	252
Total distributable income (SGDm)	209	247	255	221	224
DPS (SGD)	0.07	0.09	0.09	0.08	0.08
DPS growth (%)	(20.9)	16.9	2.0	(14.6)	0.3
P/B (x)	0.67	0.65	0.65	0.65	0.65
Dividend Yield (%)	5.4	6.3	6.4	5.5	5.5
Return on average equity (%)	(2.0)	8.3	4.9	3.9	4.0
Return on average assets (%)	(1.1)	4.3	2.5	2.1	2.1

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS (SGD)	-	0.04	0.17	0.10	0.08
Property	EPS (SGD)	-	0.04	0.17	0.10	0.08
Suntec REIT	DPS (SGD)		0.07	0.09	0.09	0.08
SUN SP	BVPS (SGD)		2.05	2.11	2.11	2.12
Neutral	Return on average equity (%)		(2.0)	8.3	4.9	3.9
	Weighted avg adjusted shares (m)		2,818.49	2,845.34	2,902.14	2,937.16
						2,972.67
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Dividend Discount Model	Recurring P/E (x)		na	7.95	13.30	16.55
	P/E (x)		na	7.95	13.30	16.55
	P/B (x)		0.7	0.6	0.6	0.6
	FCF Yield (%)		9.2	6.0	6.1	6.0
	Dividend Yield (%)		5.4	6.3	6.4	5.5
	EV/EBITDA (x)	-	7.97	14.11	12.56	12.03
	EV/EBIT (x)	-	16.52	14.09	12.59	12.03
Key drivers						
i. Recovery in office/retail demand and contributions from acquisitions;						
ii. High quality office and retail assets offer resilience;						
iii. Attractive valuation.						
Key risks						
i. Sharp reduction in office demand from recession and work-from home trends;						
ii. Continued increase in interest rates;						
iii. Re-imposition of COVID-19 restrictions;						
Company Profile						
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.						
	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	315	358	403	431	445
	EBITDA	298	190	220	230	238
	Depreciation and amortisation	(154)	0	(0)	(0)	0
	Operating profit	144	191	220	230	238
	Net interest	(93)	(94)	(117)	(149)	(154)
	Income from associates & JVs	56	103	117	123	128
	Pre-tax profit	(115)	516	299	243	252
	Taxation	(0)	(25)	0	0	0
	Recurring net profit	(116)	491	299	243	252
	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	3	(61)	(65)	(78)	(94)
	Cash flow from operations	366	243	272	275	272
	Capex	(10)	(8)	(30)	(30)	(30)
	Cash flow from investing activities	(1,149)	(83)	88	93	98
	Dividends paid	(211)	(246)	(255)	(221)	(224)
	Cash flow from financing activities	1,007	(120)	(357)	(324)	(334)
	Cash at beginning of period	157	227	268	271	315
	Net change in cash	224	40	4	43	36
	Ending balance cash	381	267	272	315	351
	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	227	268	271	315	351
	Tangible fixed assets	2	1	1	1	1
	Total investments	10,966	11,384	11,483	11,543	11,604
	Total assets	11,227	11,689	11,789	11,895	11,993
	Short-term debt	678	500	650	650	650
	Total long-term debt	4,148	4,419	4,264	4,264	4,264
	Total liabilities	5,114	5,190	5,206	5,229	5,237
	Shareholders' equity	5,830	6,052	6,135	6,219	6,308
	Minority interests	85	99	99	99	99
	Total equity	6,113	6,499	6,583	6,666	6,756
	Net debt	4,599	4,651	4,643	4,599	4,563
	Total liabilities & equity	11,227	11,689	11,789	11,895	11,993
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(14.0)	13.5	12.6	7.0	3.3
	Recurrent EPS growth (%)	(128.8)	0.0	(40.3)	(19.6)	2.4
	Operating EBITDA margin (%)	94.6	53.1	54.6	53.3	53.5
	Net profit margin (%)	(36.7)	137.0	74.2	56.4	56.5
	Dividend payout ratio (%)	(180.9)	50.4	85.4	90.7	88.9
	Capex/sales (%)	3.0	2.2	7.4	7.0	6.7
	Interest cover (x)	1.55	2.02	1.88	1.54	1.55

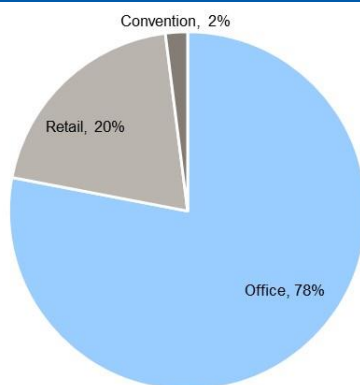
Source: Company data, RHB

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

DDM	FY22F	FY23F	FY24F	FY25F	Terminal Value
DPU (SG cents)	8.8	7.5	7.5	7.8	153.98
Intrinsic Value (SGD)	1.44				
ESG Premium/discount	0.03				
Target Price (SGD)	1.47				
Current price (SGD)	1.37				
Price upside (%)	7.3				
Distribution yield (FY23F %)	5.6				
Total return (%)	12.9				
Assumptions					
Risk-free rate (%)	2.8				
Beta	0.8				
Cost of equity (%)	7.2				
Terminal growth (%)	2.0				

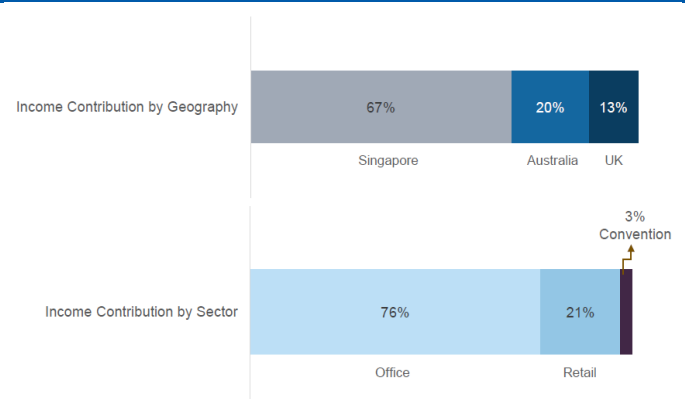
Source: RHB

Figure 2: Portfolio's AUM breakdown by sector



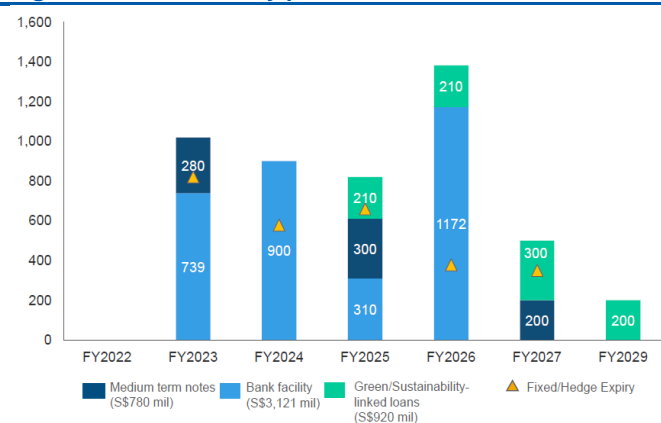
Source: Company data, RHB

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



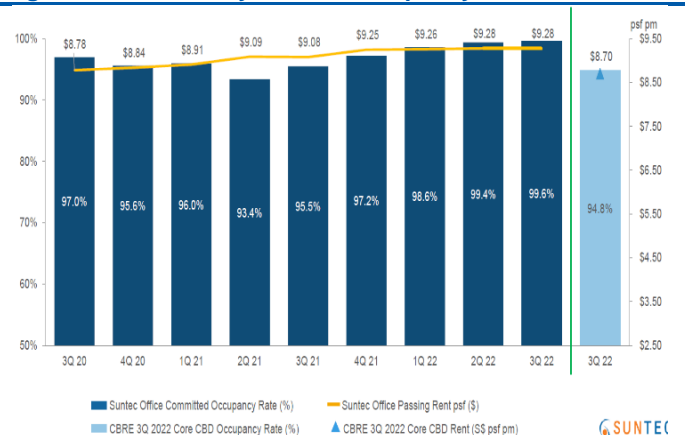
Source: Company data, RHB

Figure 4: Debt maturity profile



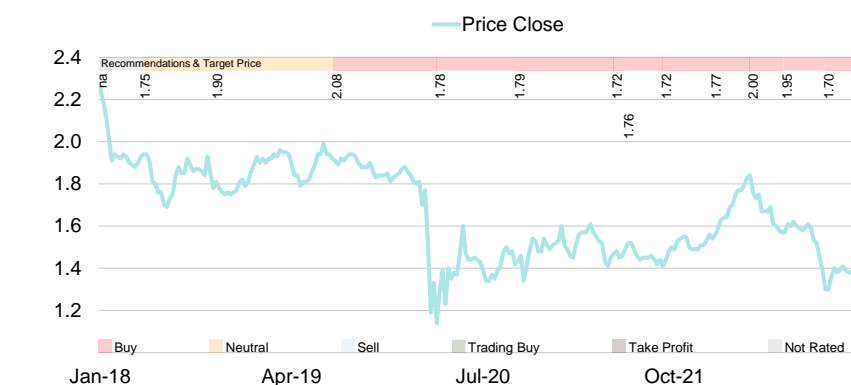
Source: Company data, RHB

Figure 5: Suntec City's office occupancy and rental trend



Source: Company data, RHB

Recommendation Chart

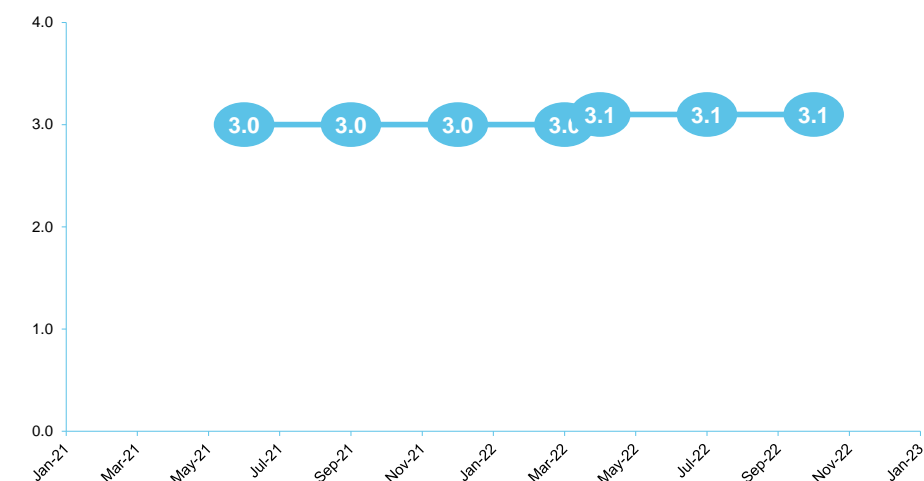


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-06-19	Neutral	1.90	1.92

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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