

## COMPANY RESULTS

### Suntec REIT (SUN SP)

3Q22: Held Back By Higher Interest Rates And Weaker GBP

**SUN achieved stronger operational performance in occupancies and rents across its office and retail portfolios. DPU from operations declined 15.6% yoy due to higher interest rates, weakness of the GBP and a higher proportion of asset management fees paid in cash. Management intends to maintain capital distribution at S\$23m for two years. 2023F distribution yield is fair at 5.5%, although P/NAV of 0.66x is attractive. Maintain HOLD. Target price: S\$1.39.**

#### 3Q22 RESULTS

| Year to 31 Dec (\$m)         | 3Q22  | yoy % chg | Remarks  |
|------------------------------|-------|-----------|--|
| Gross Revenue                | 107.3 | +15.7     | Growth from Suntec City and Minster Building, offset by lower occupancy at 177 Pacific Highway and weak AUD. |
| Net Property Income          | 77.1  | +12.1     | Growth from ORQ and MBFC. Nova Properties affected by weak GBP.  |
| Income Contribution from JVs | 29.9  | +2.4      | Down 14.9% yoy if we exclude capital distribution of S\$5.8m.  |
| Distributable Income         | 60.0  | -5.8      | Down 15.6% yoy if we exclude DPU from capital of 0.200 S cents.  |
| DPU (S cents)                | 2.084 | -6.6      |  |

Source: SUN, UOB Kay Hian

#### RESULTS

- **Results below our expectations.** Suntec REIT (SUN) reported growth in gross revenue and NPI of 15.7% and 12.1% yoy respectively, driven by Suntec City in Singapore and The Minster Building in the UK. Distributable income dropped 5.8% yoy to S\$60.0m (distribution from operations: \$54.2m, capital distribution: \$5.8m). DPU declined 6.6% yoy to 2.084 S cents (DPU from operations: 1.884 S cents, DPU from capital: 0.200 S cents).
- **17<sup>th</sup> consecutive quarter of positive reversion for offices.** The Singapore office portfolio registered positive rental reversion of 5.9% for 3Q22. New tenants were predominantly from Technology, Media & Telecommunications (52%) and Banking, Insurance & Financial Services (31%). Tenant retention was healthy at 58%. Occupancy at Suntec City Office hit a high of 99.6%. Management expect to maintain positive rental reversion at Suntec City Office due to low expiring rents at S\$9.28psf/month in 2023. One Raffles Quay and MBFC Towers 1 & 2 maintained high occupancies of 100% and 98.5%.
- **F&B operators provide uplift to rental reversion.** Suntec City Mall registered positive rental reversion of 5.6% in 3Q22 (average vs average), the second consecutive quarter of positive reversion. Leasing demand was driven by Food & Beverage (F&B) operators. New F&B tenants include Eggslut, Grande Whisky Museum, Café Usagi and Tai Er. Management expects positive rental reversion of 3-5% in 2023.
- **Affected by adverse movement in exchange rates.** NPI from Australia office properties declined 17.2% yoy to S\$19.3m in 3Q22 due to lower occupancy of 93.8% at 177 Pacific Highway and 6.3% depreciation of AUD against SGD. In the UK, contributions from Minster Building grew 36.6% yoy (up 59.1% yoy in GBP) but declined 3.7% for Nova Properties (grew 9.1% in GBP) due to massive depreciation of GBP of 12.3% against SGD.

#### KEY FINANCIALS

| Year to 31 Dec (\$m)          | 2020   | 2021  | 2022F | 2023F | 2024F |
|-------------------------------|--------|-------|-------|-------|-------|
| Net turnover                  | 315    | 358   | 408   | 415   | 424   |
| EBITDA                        | 144    | 191   | 239   | 237   | 244   |
| Operating profit              | 144    | 191   | 239   | 237   | 244   |
| Net profit (rep./act.)        | (73)   | 465   | 350   | 151   | 155   |
| Net profit (adj.)             | 158    | 164   | 242   | 151   | 155   |
| EPU (S\$ cent)                | 5.6    | 5.7   | 8.4   | 5.2   | 5.3   |
| DPU (S\$ cent)                | 7.4    | 8.7   | 9.0   | 7.6   | 7.8   |
| PE (x)                        | 24.7   | 24.0  | 16.4  | 26.4  | 25.9  |
| P/B (x)                       | 0.7    | 0.7   | 0.7   | 0.7   | 0.7   |
| DPU Yld (%)                   | 5.4    | 6.3   | 6.5   | 5.5   | 5.6   |
| Net margin (%)                | (23.1) | 130.0 | 85.9  | 36.5  | 36.6  |
| Net debt/(cash) to equity (%) | 76.3   | 72.7  | 70.7  | 72.6  | 74.5  |
| Interest cover (x)            | 1.6    | 2.0   | 2.2   | 1.8   | 1.8   |
| ROE (%)                       | n.a.   | 7.5   | 5.5   | 2.4   | 2.5   |
| Consensus DPU (S\$ cent)      | n.a.   | n.a.  | 9.4   | 9.4   | 9.3   |
| UOBKH/Consensus (x)           | -      | -     | 0.96  | 0.81  | 0.83  |

Source: Suntec REIT, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

|               |         |
|---------------|---------|
| Share Price   | S\$1.38 |
| Target Price  | S\$1.39 |
| Upside        | +0.7%   |
| (Previous TP) | S\$1.57 |

#### COMPANY DESCRIPTION

SUN owns Suntec City, comprising Suntec City Office and Suntec City Mall, and a 60.8% stake in Suntec Convention & Exhibition Centre. It has one-third stake in Marina Bay Financial Centre Tower 1 & 2, Marina Bay Link Mall and One Raffles Quay. It has expanded overseas to Australia and the UK.

#### STOCK DATA

|                                 |             |
|---------------------------------|-------------|
| GICS sector                     | Real Estate |
| Bloomberg ticker:               | SUN SP      |
| Shares issued (m):              | 2,873.0     |
| Market cap (S\$m):              | 3,964.8     |
| Market cap (US\$m):             | 2,782.5     |
| 3-mth avg daily t'over (US\$m): | 11.3        |

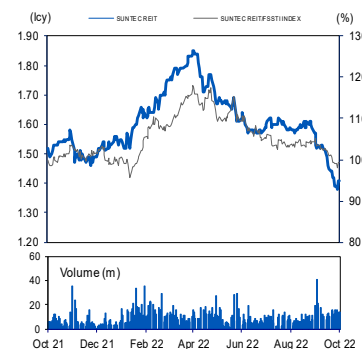
#### Price Performance (%)

|                  |        |        |       |       |                 |
|------------------|--------|--------|-------|-------|-----------------|
| 52-week high/low |        |        |       |       | S\$1.85/S\$1.38 |
| 1mth             | 3mth   | 6mth   | 1yr   | YTD   |                 |
| (13.2)           | (12.7) | (24.6) | (8.6) | (8.6) |                 |

#### Major Shareholders

|                           | %    |
|---------------------------|------|
| Tang Gordon               | 9.0  |
| Tang Jialin               | 8.9  |
| ESR Cayman                | 9.1  |
| FY22 NAV/Share (S\$)      | 2.11 |
| FY22 Net Debt/Share (S\$) | 1.58 |

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- **Suntec Convention: nascent recovery gaining momentum.** Revenue increased four-fold yoy. NPI turned positive for the second consecutive quarter at S\$2.8m in 3Q22. SUN generated revenue from corporate events and conferences. International MICE events are returning although on a smaller scale.
- **Aggregate leverage remains elevated at 43.1%.** Cost of debts has increased 0.9ppt yoy to 3.2% in 3Q22. Cost of debts is expected to reach about 3.5% in 4Q22. SUN has hedged 58% of its borrowings to fixed rates. Management estimated that every 50bp increase in interest rates will reduce distributable income by 5.1%.
- The REIT manager has elected to receive 50% of asset management fees in units, compared to previous 80% last year. The change reduces distributable income.

#### STOCK IMPACT

- **Reopening positive for office and retail portfolios.** Management expects continued office rent growth underpinned by tight office supply and flight to quality in Singapore. Suntec City Office should maintain high occupancy and achieve positive rental reversion in 2023. Suntec City Mall will benefit from the recovery in Mice activities and tourist arrivals in 2023. Management expects China to reopen its borders in 2Q23, which will provide a shot in the arm for MICE activities and tourist arrivals in Singapore.
- **Office recovery has strengthened and broadened.** According to CBRE, office rents for Grade A core CBD increased 8.9% yoy and 2.7% qoq to S\$11.60psf/month in 3Q22. This is the sixth consecutive quarter of sequential growth and has surpassed the pre-pandemic peak of S\$11.55psf/month set in 4Q19. Strength in the office market was driven by the reopening with all employees allowed back to their workplaces since 26 Apr 22. Net absorption was strong at 0.56m sf. Leasing activities were driven by technology companies, flexible workspace operators and non-bank financial institutions. New projects Guoco Midtown and Central Boulevard Towers attracted fresh pre-commitments.
- **Enhancing Suntec City Mall.** SUN plans to enhance East Wing Level 2 of Suntec City Mall to improve tenant mix and traffic flow. The asset enhancement initiative will add NLA of 7,000sf and is expected to be completed by Nov 22. Capex is estimated at S\$2m.
- **Australia: Resiliency from long WALE of 5.0 years.** Occupancy for Australia office portfolio improved slightly by 0.2% qoq to 95.2%. Effective rents for prime office space in Sydney and Melbourne are expected to improve due to flight to quality but small increase in CBD office vacancy is expected. SUN will create fully-fitted office suites to attract new tenants.
- **UK: Resiliency from long WALE of 9.9 years.** Occupancy at Minster Building is stable at 96.7%. Nova Properties remains fully occupied. There is minimum lease expiry until 2027. Occupancy for the office market at Central London is expected to maintain stable occupancy at 92.2% due to limited supply. However, concerns over recession and higher interest rates could have a negative impact on capital values.

#### EARNINGS REVISION/RISK

- We cut our 2023 DPU forecasts by 13% due to higher cost of debts, steep depreciation of GBP against the SGD and paying 50% of asset management fees in units (previous: 80%). We expect cost of debt to hit 3.7% by 2H23.

#### VALUATION/RECOMMENDATION

- **Maintain HOLD.** Our target price of S\$1.39 is based on DDM (cost of equity: 7.25%, terminal growth: 1.8%). SUN trades at a discount of 34% to NAV per unit of S\$2.10.

#### SHARE PRICE CATALYST

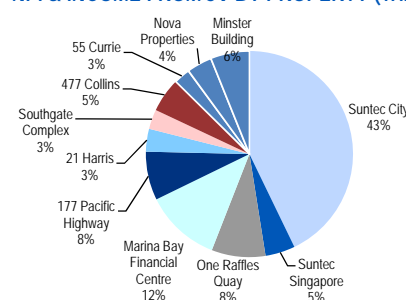
- Positive rent reversion at Suntec City Office in 2023.
- Employees returning to work at Suntec City Office and resumption of events at Suntec Convention could trigger recovery in shopper traffic and tenant sales at Suntec City Mall.

#### KEY OPERATING METRICS – SUN

| Key Metrics                             | 1Q22  | 2Q22  | 3Q22  | yoy % Chg | qoq % Chg |
|---|-------|-------|-------|-----------|-----------|
| DPU (S cents)                           | 2.391 | 2.419 | 2.084 | -6.6%     | -13.8%    |
| Office Occupancy                        | 96.7% | 97.8% | 97.9% | 1.8ppt    | 0.1ppt    |
| Retail Occupancy                        | 95.2% | 95.7% | 95.9% | 1ppt      | 0.2ppt    |
| Aggregate Leverage                      | 43.3% | 43.1% | 43.1% | -1.2ppt   | 0ppt      |
| All-in-Financing Cost                   | 2.31% | 2.51% | 2.76% | 0.44ppt   | 0.25ppt   |
| % Borrowing in Fixed Rates              | 51.0% | 56.0% | 58.0% | n.a.      | 2ppt      |
| Debt Maturity (years)                   | 2.67  | 2.99  | 2.73  | -0.3yrs   | -0.3yrs   |
| Suntec Office Passing Rent (S\$ psf pm) | 9.26  | 9.28  | 9.28  | 2.2%      | 0.0%      |

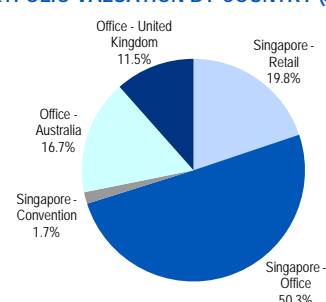
Source: SUN

#### NPI & INCOME FROM JV BY PROPERTY (1H22)



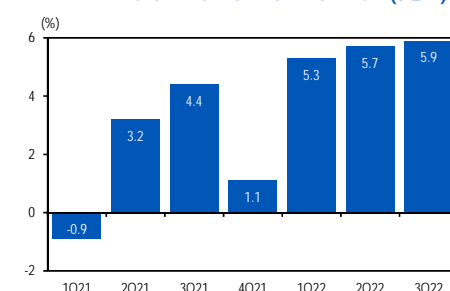
Source: SUN

#### PORTFOLIO VALUATION BY COUNTRY (JUN 22)



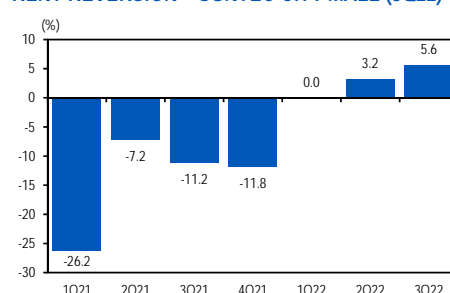
Source: SUN

#### RENT REVERSION – SINGAPORE OFFICE (3Q22)



Source: SUN

#### RENT REVERSION – SUNTEC CITY MALL (3Q22)



Source: SUN

### PROFIT & LOSS

| Year to 31 Dec (\$m)             | 2021         | 2022F        | 2023F        | 2024F        |
|----------------------------------|--------------|--------------|--------------|--------------|
| <b>Net turnover</b>              | <b>358.1</b> | <b>408.1</b> | <b>414.6</b> | <b>424.4</b> |
| EBITDA                           | 190.6        | 239.3        | 237.0        | 243.6        |
| Deprec. & amort.                 | 0.0          | 0.0          | 0.0          | 0.0          |
| EBIT                             | 190.6        | 239.3        | 237.0        | 243.6        |
| Total other non-operating income | 14.9         | 6.1          | 4.0          | 4.0          |
| Associate contributions          | 102.9        | 142.7        | 72.8         | 72.7         |
| Net interest income/(expense)    | (94.4)       | (111.1)      | (132.3)      | (134.6)      |
| <b>Pre-tax profit</b>            | <b>515.5</b> | <b>385.5</b> | <b>181.5</b> | <b>185.7</b> |
| Tax                              | (25.0)       | (13.6)       | (9.1)        | (9.3)        |
| Minorities                       | (14.1)       | (8.0)        | (8.0)        | (8.0)        |
| Preferred dividends              | (11.1)       | (13.5)       | (13.2)       | (13.2)       |
| <b>Net profit</b>                | <b>465.3</b> | <b>350.4</b> | <b>151.2</b> | <b>155.2</b> |
| Net profit (adj.)                | 163.7        | 241.9        | 151.2        | 155.2        |

### BALANCE SHEET

| Year to 31 Dec (\$m)                  | 2021            | 2022F           | 2023F           | 2024F           |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Fixed assets                          | 7,914.4         | 7,900.5         | 7,900.5         | 7,900.5         |
| Other LT assets                       | 3,471.2         | 3,436.7         | 3,436.7         | 3,436.7         |
| Cash/ST investment                    | 268.3           | 283.1           | 285.5           | 267.4           |
| Other current assets                  | 34.7            | 53.9            | 54.8            | 56.1            |
| <b>Total assets</b>                   | <b>11,688.7</b> | <b>11,674.2</b> | <b>11,677.5</b> | <b>11,660.7</b> |
| ST debt                               | 499.8           | 552.6           | 552.6           | 552.6           |
| Other current liabilities             | 148.2           | 182.3           | 185.6           | 190.0           |
| LT debt                               | 4,419.2         | 4,280.0         | 4,350.0         | 4,400.0         |
| Other LT liabilities                  | 122.7           | 124.0           | 124.0           | 124.0           |
| Shareholders' equity                  | 6,399.9         | 6,432.3         | 6,362.3         | 6,291.1         |
| Minority interest                     | 98.9            | 102.9           | 102.9           | 102.9           |
| <b>Total liabilities &amp; equity</b> | <b>11,688.7</b> | <b>11,674.2</b> | <b>11,677.5</b> | <b>11,660.7</b> |

### CASH FLOW

| Year to 31 Dec (\$m)                        | 2021           | 2022F          | 2023F          | 2024F          |
|---|----------------|----------------|----------------|----------------|
| <b>Operating</b>                            | <b>243.7</b>   | <b>399.3</b>   | <b>281.5</b>   | <b>288.6</b>   |
| Pre-tax profit                              | 191.6          | 241.9          | 151.2          | 155.2          |
| Associates                                  | (102.9)        | (142.7)        | (72.8)         | (72.7)         |
| Working capital changes                     | 3.3            | 10.1           | 1.6            | 2.1            |
| Non-cash items                              | 43.0           | 28.3           | 28.2           | 28.4           |
| Other operating cashflows                   | 108.8          | 261.7          | 173.2          | 175.7          |
| <b>Investing</b>                            | <b>(82.7)</b>  | <b>124.8</b>   | <b>64.8</b>    | <b>64.7</b>    |
| Capex (growth)                              | (651.6)        | 0.0            | 0.0            | 0.0            |
| Capex (maintenance)                         | (8.3)          | (8.0)          | (8.0)          | (8.0)          |
| Investments                                 | 164.0          | 132.8          | 72.8           | 72.7           |
| Proceeds from sale of assets                | 282.4          | 0.0            | 0.0            | 0.0            |
| Others                                      | 130.9          | 0.0            | 0.0            | 0.0            |
| <b>Financing</b>                            | <b>(116.9)</b> | <b>(509.3)</b> | <b>(343.9)</b> | <b>(371.5)</b> |
| Distribution to unitholders                 | (211.0)        | (260.0)        | (221.2)        | (226.4)        |
| Issue of shares                             | 0.0            | 0.0            | 0.0            | 0.0            |
| Proceeds from borrowings                    | 92.5           | (86.4)         | 70.0           | 50.0           |
| Others/interest paid                        | 1.5            | (162.9)        | (192.7)        | (195.1)        |
| <b>Net cash inflow (outflow)</b>            | <b>44.1</b>    | <b>14.8</b>    | <b>2.4</b>     | <b>(18.1)</b>  |
| <b>Beginning cash &amp; cash equivalent</b> | <b>227.5</b>   | <b>268.3</b>   | <b>283.1</b>   | <b>285.5</b>   |
| Changes due to forex impact                 | (3.3)          | 0.0            | 0.0            | 0.0            |
| <b>Ending cash &amp; cash equivalent</b>    | <b>268.3</b>   | <b>283.1</b>   | <b>285.5</b>   | <b>267.4</b>   |

### KEY METRICS

| Year to 31 Dec (%)        | 2021  | 2022F  | 2023F  | 2024F |
|---------------------------|-------|--------|--------|-------|
| <b>Profitability</b>      |       |        |        |       |
| EBITDA margin             | 53.2  | 58.6   | 57.2   | 57.4  |
| Pre-tax margin            | 144.0 | 94.5   | 43.8   | 43.8  |
| Net margin                | 130.0 | 85.9   | 36.5   | 36.6  |
| ROA                       | 4.1   | 3.0    | 1.3    | 1.3   |
| ROE                       | 7.5   | 5.5    | 2.4    | 2.5   |
| <b>Growth</b>             |       |        |        |       |
| Turnover                  | 13.5  | 14.0   | 1.6    | 2.3   |
| EBITDA                    | 32.3  | 25.6   | (1.0)  | 2.8   |
| Pre-tax profit            | n.a.  | (25.2) | (52.9) | 2.3   |
| Net profit                | n.a.  | (24.7) | (56.8) | 2.6   |
| Net profit (adj.)         | 3.9   | 47.7   | (37.5) | 2.6   |
| EPU                       | 2.9   | 46.5   | (37.9) | 2.0   |
| <b>Leverage</b>           |       |        |        |       |
| Debt to total capital     | 43.1  | 42.5   | 43.1   | 43.6  |
| Debt to equity            | 76.9  | 75.1   | 77.1   | 78.7  |
| Net debt/(cash) to equity | 72.7  | 70.7   | 72.6   | 74.5  |
| Interest cover (x)        | 2.0   | 2.2    | 1.8    | 1.8   |

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