

COMPANY RESULTS

Suntec REIT (SUN SP)

2H22: Strong Recovery At Suntec City Mall And Suntec Convention

SUN reported a strong operational performance in Singapore and resilient contributions from the UK. Suntec Convention turned around to provide NPI of S\$8.4m in 2H22. DPU from operations declined 18.6% yoy due to higher interest rates, weakness of the AUD, and a higher proportion of management fees paid in cash. Management has decided not to proceed with capital distribution in 2023. Distribution yield for 2023 is fair at 5.3%, although P/NAV of 0.65x is attractive. Maintain HOLD. Target price: S\$1.40.

2H22 RESULTS

Year to 31 Dec (\$m)	2H22	yoy % chg	Remarks
Gross Revenue	223.7	+16.9	Growth from Suntec City and Minster Building, offset by
Net Property Income	162.8	+14.6	transitory vacancy at 177 Pacific Highway and weak AUD.
Income Contribution from JVs	57.4	+0.9	Growth from ORQ.
Distributable Income	117.4	-9.0	Down 17.9% yoy if we exclude capital distribution of S\$11.5m.
DPU (S cents)	4.074	-9.7	Down 18.6% yoy if we exclude capital distribution of 0.4 S cents.

Source: SUN, UOB Kay Hian

RESULTS

- Results below our expectations.** Suntec REIT (SUN) reported DPU of 4.074 S cents for 2H22 (-9.7% yoy), which is below our expectations. The results included capital distribution of S\$11.5m or 0.4 S cents per unit.
- Singapore portfolio remained resilient.** Suntec City Office's occupancy inched higher by 0.3ppt qoq to 99.9% and achieved positive rental reversion of 7.7% in 4Q22. New tenants were mostly from the technology, media & telecommunications, and financial services sectors. One Raffles Quay (ORQ) maintained full occupancy at 100%. The Singapore office portfolio has registered 18 consecutive quarters of positive rental reversion. NPI from Suntec City Office increased 7.0% yoy while JV income from ORQ and Marina Bay Financial Centre (MBFC) properties grew 1.4% yoy.
- Third consecutive quarter of positive reversion at Suntec City Mall.** Occupancy at Suntec City Mall improved 1.6ppt qoq to 98.3% in 4Q22. Rental reversion has picked up to 9.9%, driven by new and renewal leases. SUN introduced 57 new-to-market/new-to-Suntec brands. Tenant sales surpassed pre-pandemic levels by 17% in Dec 22. NPI from Suntec City Mall increased 38.8% yoy.
- Suntec Convention: Recovery gaining momentum.** Revenue increased three folds yoy, driven by corporate events and conferences. NPI surged to S\$8.4m for 2H22. Notable MICE events included Comex, Anime Festival Asia and Bookfest@Singapore. Recovery will be further supported by a strong pipeline of international MICE events in 2023. Management expects positive impact from easing of travel restrictions and the return of Chinese tourists in 2H23.
- United Kingdom: Resilient performance despite weaker GBP.** NPI from Minster Building increased 3.5% due to full contribution after the acquisition was completed on 28 Jul 21. NPI from Nova Properties dropped 5.8% yoy due to the weaker GBP.

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	358	427	472	489	500
EBITDA	191	249	246	254	271
Operating profit	191	249	246	254	271
Net profit (rep./act.)	465	463	166	172	187
Net profit (adj.)	164	238	166	172	187
EPU (S\$ cent)	5.7	8.3	5.7	5.9	6.4
DPU (S\$ cent)	8.7	8.9	7.4	7.5	8.0
PE (x)	24.2	16.8	24.2	23.5	21.8
P/B (x)	0.7	0.7	0.7	0.7	0.7
DPU Yld (%)	6.2	6.4	5.3	5.4	5.7
Net margin (%)	130.0	108.3	35.2	35.2	37.4
Net debt/(cash) to equity (%)	72.7	70.8	70.5	71.7	72.9
Interest cover (x)	2.0	2.2	1.8	1.8	1.9
ROE (%)	7.5	7.2	2.6	2.7	2.9
Consensus DPU (S\$ cent)	n.a.	n.a.	8.2	8.2	8.0
UOBKH/Consensus (x)	-	-	0.90	0.92	1.00

Source: Suntec REIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$1.39
Target Price	S\$1.40
Upside	+0.7%
(Previous TP)	S\$1.37

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

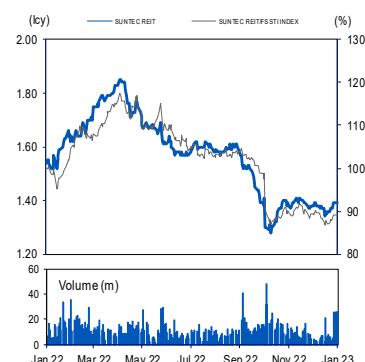
GICS sector	Real Estate
Bloomberg ticker:	SUN SP
Shares issued (m):	2,875.9
Market cap (\$m):	3,997.6
Market cap (US\$m):	3,037.4
3-mth avg daily t'over (US\$m):	11.4
Price Performance (%)	

52-week high/low S\$1.85/S\$1.28

1mth	3mth	6mth	1yr	YTD
0.7	0.0	(11.5)	(10.9)	0.7

Major Shareholders	%
Tang Gordon	9.0
Tang Jialin	8.9
ESR Cayman	9.1
FY23 NAV/Share (S\$)	2.09
FY23 Net Debt/Share (S\$)	1.56

PRICE CHART



Source: Bloomberg

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- **Contributions from Australia hit by weak AUD.** NPI from Australia dropped 12.1% yoy due to leasing downtime (transitory vacancy at 177 Pacific Highway) and an absence of the surrender fee that was received in 2H21. The Australian dollar depreciated 7% yoy as of Dec 22. Management plans to invest S\$20m on asset enhancement initiatives to spruce up 177 Pacific Highway, Southgate Complex and 55 Currie Street.
- **Hurt by higher interest rates.** Interest expense increased 43% yoy in 2H22. We estimated that all-in financing cost increased 0.3ppt qoq to 3.6% in 4Q22. SUN has increased the proportion of borrowings on fixed rates from 58% to 66%.
- **Working on divestments.** Aggregate leverage remains elevated at 42.4%. Management is looking at the potential divestment of its mature properties to strengthen its balance sheet. SUN could deleverage by divesting strata titles in Suntec City Office.
- The REIT manager has elected to receive 50% of asset management fees in units in 2022, compared with 80% previously in 2021. The change reduces distributable income.

STOCK IMPACT

- **Office market has decelerated.** Gross effective rents for Grade A core CBD increased 8.3% yoy and 0.9% qoq to S\$11.70psf in 4Q22. Demand for office space from large occupiers has slowed. Some technology companies have retrenched workers and have offered their space on an early surrender basis. On a more positive note, newly completed Guoco Midtown has achieved high commitment rate. CBRE expects Grade A core CBD rents to increase marginally by 1% in 2023. Management expects positive rental reversion of 4-5% for its Singapore office portfolio in 2023. The majority of technology tenants indicated willingness to renew their leases.
- **Retail market has picked up.** Leasing activities continued to pick up in 4Q22 with demand driven by food & beverage operators, supermarkets and jewellery & watches stores. Island-wide prime retail rents increased for the second consecutive quarter by 1.6% yoy and 0.8% qoq to S\$25.15psf. Landlords are raising rents due to improved shopper traffic and tenant sales. CBRE expects retail rents to continue recovery in 2023. Management expects positive rental reversion of 5-10% for Suntec City Mall in 2023 as tenant sales have improved. SUN will add drop-off points for coaches to direct tourists into Suntec City Mall in preparation for the return of Chinese tourists in 2H23.
- **Muted outlook for overseas markets.** Office properties in Sydney and Melbourne will continue to benefit from flight to quality. Management expects a small increase in CBD office vacancy as new supply hits the market. The Australia portfolio is expected to register positive rental reversion but revenue would be affected by leasing downtime and incentives. The office market in the UK is affected by the recessionary outlook for the economy. Management expects revenue from the UK to remain resilient due to high occupancies and long WALE of 9.5 years.

EARNINGS REVISION/RISK

- **We trim our 2023 DPU forecast by 2.4%.** Management had previously guided capital distribution at S\$23m for two years in 2022 and 2023, but has decided not to proceed with capital distribution in 2023. This was offset by a stronger turnaround at Suntec Convention and improved cost efficiency at Suntec City Office and Suntec City Mall.

VALUATION/RECOMMENDATION

- **Maintain HOLD.** Our target price of S\$1.40 is based on DDM (cost of equity: 7.0%, terminal growth: 1.5%). SUN trades at a discount of 35% to NAV per unit of S\$2.12.

SHARE PRICE CATALYST

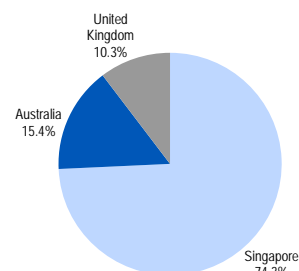
- Positive rent reversion at Suntec City Office and Suntec City Mall in 2023.
- Employees returning to work at Suntec City Office and resumption of events at Suntec Convention could trigger recovery in shopper traffic and tenant sales at Suntec City Mall.

KEY OPERATING METRICS – SUN

Key Metrics	1Q22	2Q22	3Q22	4Q22	yoy % chg	qoq % chg
DPU (S cents)	2.391	2.419	2.084	1.99	-12.7%	-4.5%
Office Occupancy	96.7%	97.8%	97.9%	98.3%	0.8ppt	0.4ppt
Retail Occupancy	95.2%	95.7%	95.9%	97.5%	2.9ppt	1.6ppt
Aggregate Leverage	43.3%	43.1%	43.1%	42.4%	-1.3ppt	-0.7ppt
All-in-Financing Cost	2.31%	2.51%	2.76%	2.94%	0.59ppt	0.18ppt
% Borrowing in Fixed Rates	51.0%	56.0%	58.0%	66.0%	13ppt	8ppt
Debt Maturity (years)	2.67	2.99	2.73	2.85	-0.1yrs	0.1yrs
Suntec Office Passing Rent (S\$ psf pm)	9.26	9.28	9.28	9.35	1.1%	0.8%

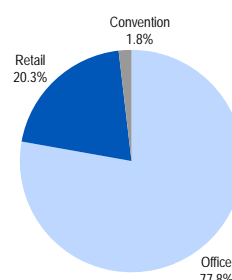
Source: SUN

PORTFOLIO VALUATION BY COUNTRY (DEC 22)



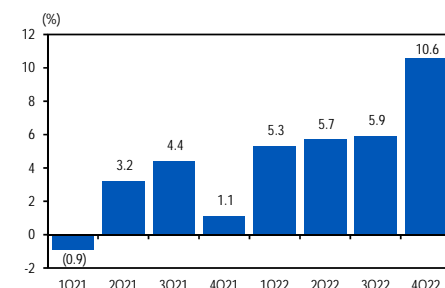
Source: SUN

PORTFOLIO VALUATION BY ASSET TYPE (DEC 22)



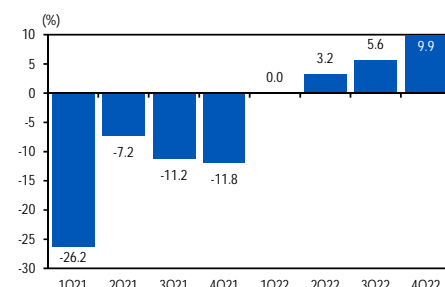
Source: SUN

RENT REVERSION – SINGAPORE OFFICE



Source: SUN

RENT REVERSION – SUNTEC CITY MALL



Source: SUN

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	427.3	472.5	489.3	499.8
EBITDA	248.6	246.1	253.8	270.7
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	248.6	246.1	253.8	270.7
Total other non-operating income	8.1	4.0	4.0	4.0
Associate contributions	144.9	84.8	84.1	84.1
Net interest income/(expense)	(112.2)	(137.5)	(138.0)	(139.9)
Pre-tax profit	513.9	197.4	203.9	218.8
Tax	(16.2)	(9.9)	(10.2)	(10.9)
Minorities	(20.8)	(8.0)	(8.0)	(8.0)
Preferred dividends	(14.0)	(13.2)	(13.2)	(13.2)
Net profit	462.8	166.3	172.5	186.7
Net profit (adj.)	238.3	166.3	172.5	186.7

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	7,907.7	7,907.7	7,907.7	7,907.7
Other LT assets	3,505.7	3,424.1	3,424.1	3,424.1
Cash/ST investment	269.6	274.5	280.5	285.4
Other current assets	27.5	62.9	64.4	65.6
Total assets	11,710.5	11,669.2	11,676.6	11,682.7
ST debt	645.6	645.6	645.6	645.6
Other current liabilities	161.1	215.2	220.3	224.5
LT debt	4,197.9	4,150.0	4,200.0	4,250.0
Other LT liabilities	121.7	121.7	121.7	121.7
Shareholders' equity	6,464.4	6,416.9	6,369.2	6,321.2
Minority interest	119.7	119.7	119.7	119.7
Total liabilities & equity	11,710.5	11,669.2	11,676.6	11,682.7

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	273.0	391.5	303.2	317.7
Pre-tax profit	238.3	166.3	172.5	186.7
Associates	(144.9)	(84.8)	(84.1)	(84.1)
Working capital changes	30.1	(5.1)	2.5	2.0
Non-cash items	28.4	28.7	28.9	29.3
Other operating cashflows	121.0	286.3	183.4	183.8
Investing	126.0	76.8	76.1	77.1
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(13.9)	(8.0)	(8.0)	(8.0)
Investments	162.4	84.8	84.1	84.1
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(22.5)	0.0	0.0	1.0
Financing	(383.6)	(463.3)	(373.3)	(389.9)
Distribution to unitholders	(263.4)	(213.8)	(220.1)	(234.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(75.5)	(47.9)	50.0	50.0
Others/interest paid	(44.6)	(201.6)	(203.1)	(205.1)
Net cash inflow (outflow)	15.4	4.9	5.9	4.9
Beginning cash & cash equivalent	268.3	269.6	274.5	280.5
Changes due to forex impact	(14.1)	0.0	0.0	1.0
Ending cash & cash equivalent	269.6	274.5	280.5	286.4

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	58.2	52.1	51.9	54.2
Pre-tax margin	120.3	41.8	41.7	43.8
Net margin	108.3	35.2	35.2	37.4
ROA	4.0	1.4	1.5	1.6
ROE	7.2	2.6	2.7	2.9
Growth				
Turnover	19.3	10.6	3.6	2.1
EBITDA	30.5	(1.0)	3.1	6.7
Pre-tax profit	(0.3)	(61.6)	3.3	7.3
Net profit	(0.5)	(64.1)	3.7	8.2
Net profit (adj.)	45.5	(30.2)	3.7	8.2
EPU	44.3	(30.7)	3.0	7.5
Leverage				
Debt to total capital	42.4	42.3	42.8	43.2
Debt to equity	74.9	74.7	76.1	77.4
Net debt/(cash) to equity	70.8	70.5	71.7	72.9
Interest cover (x)	2.2	1.8	1.8	1.9

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