

COMPANY RESULTS

Suntec REIT (SUN SP)

1H23: Singapore Stable But Overseas Contribution Craters

Distributable income dropped 29.7% yoy in 1H23 if we exclude capital distribution of S\$11.5m. SUN achieved positive rental reversion of 10.5% for Singapore Office and 18.2% for Suntec City Mall in 2Q23. Contributions from overseas markets are affected by the depreciation of 6.1% for the Australian dollar against the Singapore dollar. 2023 distribution yield is fair at 6.0%, although P/NAV of 0.62x is attractive. Maintain HOLD. Target price: S\$1.37.

1H23 RESULTS

Year to 31 Dec (S\$m)	2H22	yoy % chg	Remarks
Gross Revenue	224.3	+10.2	Growth from Suntec City Office, Suntec City Mall and Suntec Convention, offset by weaker Australian dollar and Pound sterling.
Net Property Income	153.3	+0.3	
Income Contribution from JVs	46.2	-61.8	Growth from ORQ and MBFC Properties.
Distributable Income	100.5	-27.2	Lower occupancy and higher interest expense at Southgate Complex.
- From Operations	89.0	-29.7	
- From Capital	11.5	0.0	
DPU (S cents)	3.476	-27.7	1Q23: 1.737 S cents. 2Q23: 1.739 S cents.

Source: SUN, UOB Kay Hian

RESULTS

- Suntec REIT (SUN) reported 1H23 DPU of 3.476 cents (-27.7% yoy), which is broadly in line with our expectations.
- **Singapore Office: 20th consecutive quarter of positive reversion.** Occupancy for the Singapore Office portfolio inched higher by 0.4ppt qoq to reach 99.3% and achieved positive rental reversion of 10.5% in 2Q23 (1Q23: +11.2%). Tenant mix is skewed towards banking, insurance & financial services (31%) and technology, media & telecommunications (29%). Suntec City Office and One Raffles Quay (ORQ) were fully occupied at 100%.
- **Suntec City Mall: 5th consecutive quarter of positive reversion.** Occupancy was stable at 98.3% in 2Q23. Rental reversion has picked up to +18.2% (1Q23: +16.5%), driven by new leases (34%) and renewal leases (66%). SUN introduced four new-to-market and 10 new-to-Suntec brands in 1H23 and more exciting offerings will be added in 2H23. Tenant sales were 8% above pre-pandemic levels in 1H23.
- **Contributions from Australia hit by weak Australian dollar.** NPI from Australia dropped 6.7% yoy due to lower occupancy and higher interest expense for Southgate Complex in Melbourne. Management plans to invest S\$20m on asset enhancement initiatives to spruce up 177 Pacific Highway, Southgate Complex and 55 Currie Street. The Australian dollar depreciated by 6.1% yoy against the Singapore dollar.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	358	427	471	482	491
EBITDA	191	249	253	258	264
Operating profit	191	249	253	258	264
Net profit (rep./act.)	465	463	158	175	179
Net profit (adj.)	164	238	157	175	179
EPU (S\$ cent)	5.7	8.3	5.4	6.0	6.1
DPU (S\$ cent)	8.7	8.9	7.8	7.6	7.7
PE (x)	22.5	15.6	23.8	21.5	21.1
P/B (x)	0.6	0.6	0.6	0.6	0.6
DPU Yld (%)	6.7	6.9	6.0	5.9	6.0
Net margin (%)	130.0	108.3	33.6	36.3	36.5
Net debt/(cash) to equity (%)	72.7	70.8	70.6	71.9	73.1
Interest cover (x)	2.0	2.2	1.7	1.8	1.9
ROE (%)	7.5	7.2	2.5	2.7	2.8
Consensus DPU (S\$ cent)	n.a.	n.a.	7.1	7.2	7.5
UOBKH/Consensus (x)	-	-	1.10	1.06	1.03

Source: Suntec REIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$1.29
Target Price	S\$1.37
Upside	+6.2%
(Previous TP)	S\$1.40

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):	2,889.8
Market cap (S\$m):	3,727.9
Market cap (US\$m):	2,810.3
3-mth avg daily t'over (US\$m):	6.3

Price Performance (%)

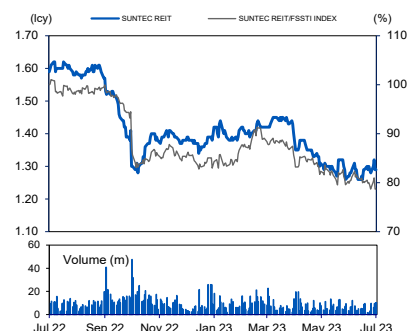
52-week high/low S\$1.62/S\$1.26

1mth	3mth	6mth	1yr	YTD
1.6	(7.9)	(7.9)	(18.9)	(6.5)

Major Shareholders

	%
Tang Gordon & family	23.7
ESR Group	9.0
FY23 NAV/Share (S\$)	2.08
FY23 Net Debt/Share (S\$)	1.56

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- United Kingdom: Resilient performance despite weaker Pound sterling.** NPI from Minster Building increased 7.8% due to break penalty of £1m received from one tenant. NPI from Nova Properties dropped 8.9% yoy due to the weaker Pound sterling. Management plans to enhance the outdoor retail area at Nova Properties. The UK portfolio has long WALE weighted by NLA of 9.3 years.
- Hurt by higher interest rates.** Financing costs increased S\$25.7m or 54% yoy in 1H23. All-in financing cost was stable at 3.64% in 2Q23. Aggregate leverage is elevated at 42.6%. The proportion of borrowings on hedged to fixed rates is 58%.

STOCK IMPACT

- Competition from new office supply.** According to CBRE, rents for Grade A office space in core CBD has increased 4.4% yoy and 0.4% qoq to S\$11.80psf/month in 2Q23 as vacancy tightened 0.2ppt yoy to 4.0%. Most tenants prefer to renew existing leases at higher rents to avoid incurring additional expenses for relocating. There was healthy demand from private wealth and asset management companies, legal firms, professional services, government agencies and flexible workspace providers. Going forward, rents could come under pressure due to the completion of IOI Central Boulevard Towers. CBRE expects rents for Grade A office space in core CBD to be flat for 2H23.
- Retail market has picked up.** Leasing activities were boosted by new mall openings, such as Woodleigh Mall and Komo Shoppes. Demand was driven by F&B operators, especially cafes, fashion and beauty & health. Retailers have gained confidence due to tourism recovery and the return of office crowds. Rents at Orchard Road increased by 2.9% yoy, while rents at Suburban malls jumped by 3.1% yoy. CBRE expects a recovery of retail rents in 2023 due to continued tourism recovery and below-average new retail supply. Retailers are willing to pay higher rents to secure prime retail spaces.
- Mixed outlook.** Management expects office demand to be muted with rents likely to plateau. Rental reversion for Singapore Office portfolio is expected to remain positive at high single digits. Revenue contribution is enhanced by the past 20 consecutive quarters of positive rent reversions. MICE events and the return of tourists would boost shopper traffic and tenant sales at Suntec City Mall. Tenant sales are expected to maintain above pre-pandemic levels. Suntec Convention benefits from the return of international events but full recovery is expected in 2024.
- Occupancy Down Under to slip slightly.** Office vacancy in Sydney and Melbourne CBD is expected to increase from slowing demand and new supply hitting the market. In particular, Adelaide will be impacted by significant new supply in 2H23. Occupancy at 55 Currie Street in Adelaide is expected to drop from 100% to 59% in 4Q23 due to non-renewal for a government tenant. Contribution will be affected by leasing downtime and higher incentives. Management intends to build fully fitted office suites to attract prospective tenants who are cost-conscious.
- Working on divestments.** SUN has divested three units with total NLA of 10,000sf at Suntec City Office at above S\$3,000psf. Management will continue to explore potential divestment of mature assets and strata units at Suntec City Office to deleverage.

EARNINGS REVISION/RISK

- We trimmed our 2024 DPU forecasts by 3% due to higher vacancies at 55 Currie Street in Australia and Minster Building in the UK.

VALUATION/RECOMMENDATION

- Maintain HOLD.** Our target price of S\$1.37 is based on DDM (cost of equity: 7.0%, terminal growth: 1.5%). SUN trades at a discount of 38% to NAV per unit of S\$2.08.

SHARE PRICE CATALYST

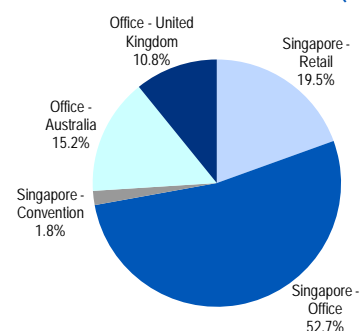
- Positive rent reversion at Suntec City Office and Suntec City Mall in 2023.
- Employees returning to work at Suntec City Office and resumption of events at Suntec Convention could trigger recovery in shopper traffic and tenant sales at Suntec City Mall.

KEY OPERATING METRICS – SUN

Key Metrics	2022	3Q22	4Q22	1Q23	2Q23	yoy % Chg	qoq % Chg
DPU (S cents)	2.419	2.084	1.99	1.737	1.739	-28.1%	0.1%
Office Occupancy	97.8%	97.9%	98.3%	98.6%	98.6%	0.8ppt	0ppt
Retail Occupancy	95.7%	95.9%	97.5%	97.6%	97.5%	1.8ppt	-0.1ppt
Aggregate Leverage	43.1%	43.1%	42.4%	42.8%	42.6%	-0.5ppt	-0.2ppt
All-in-Financing Cost	2.51%	2.76%	2.94%	3.68%	3.64%	1.13ppt	-0.04ppt
% Borrowing in Fixed Rates	56.0%	58.0%	66.0%	72.0%	58.0%	2ppt	-14ppt
Debt Maturity (years)	2.99	2.73	2.85	2.55	2.90	-0.1yrs	0.4yrs
Suntec Office Passing Rent (S\$ psf pm)	9.28	9.28	9.35	9.71	9.79	5.5%	0.8%

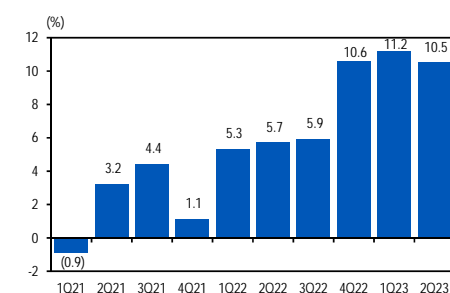
Source: SUN

PORTFOLIO VALUATION BY ASSET TYPE (DEC 22)



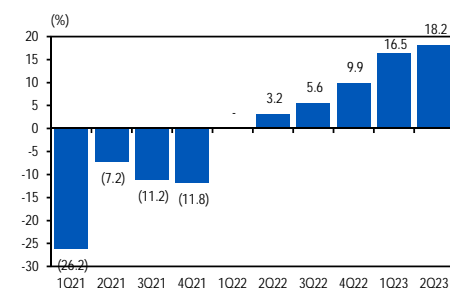
Source: SUN

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	470.8	481.7	491.1
EBITDA	248.6	252.8	257.7	264.2
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	248.6	252.8	257.7	264.2
Total other non-operating income	8.1	4.4	4.0	4.0
Associate contributions	144.9	83.0	84.1	84.1
Net interest income/(expense)	(112.2)	(151.7)	(139.4)	(141.4)
Pre-tax profit	513.9	189.8	206.4	210.8
Tax	(16.2)	(13.0)	(10.3)	(10.5)
Minorities	(20.8)	(4.8)	(8.0)	(8.0)
Preferred dividends	(14.0)	(13.5)	(13.2)	(13.2)
Net profit	462.8	158.4	174.8	179.1
Net profit (adj.)	238.3	157.1	174.8	179.1

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	273.0	341.4	305.4	311.5
Pre-tax profit	238.3	165.1	174.8	179.1
Associates	(144.9)	(83.0)	(84.1)	(84.1)
Working capital changes	30.1	(5.8)	1.4	2.0
Non-cash items	28.4	28.8	28.9	29.1
Other operating cashflows	121.0	236.3	184.3	185.4
Investing	126.0	143.9	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	118.9	84.1	84.1
Proceeds from sale of assets	0.0	33.0	0.0	0.0
Others	(22.5)	0.0	0.0	1.0
Financing	(383.6)	(476.6)	(377.1)	(383.5)
Distribution to unitholders	(263.4)	(226.0)	(222.5)	(226.9)
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)	(202.7)	(204.6)	(206.6)
Net cash inflow (outflow)	15.4	8.8	4.3	5.0
Beginning cash & cash equivalent	268.3	269.6	278.4	282.7
Changes due to forex impact	(14.1)	0.0	0.0	1.0
Ending cash & cash equivalent	269.6	278.4	282.7	288.7

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	7,907.7	7,882.7	7,882.7	7,882.7
Other LT assets	3,505.7	3,424.1	3,424.1	3,424.1
Cash/ST investment	269.6	278.4	282.7	287.7
Other current assets	27.5	62.5	63.3	64.5
Total assets	11,710.5	11,647.6	11,652.7	11,658.9
ST debt	645.6	645.6	645.6	645.6
Other current liabilities	161.1	213.8	216.6	220.7
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	6,396.8	6,349.0	6,301.2
Minority interest	119.7	119.7	119.7	119.7
Total liabilities & equity	11,710.5	11,647.6	11,652.7	11,658.9

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	58.2	53.7	53.5	53.8
Pre-tax margin	120.3	40.3	42.8	42.9
Net margin	108.3	33.6	36.3	36.5
ROA	4.0	1.4	1.5	1.5
ROE	7.2	2.5	2.7	2.8
Growth				
Turnover	19.3	10.2	2.3	1.9
EBITDA	30.5	1.7	1.9	2.5
Pre-tax profit	(0.3)	(63.1)	8.7	2.2
Net profit	(0.5)	(65.8)	10.4	2.4
Net profit (adj.)	45.5	(34.1)	11.3	2.4
EPU	44.3	(34.5)	10.5	1.7
Leverage				
Debt to total capital	42.4	42.4	42.8	43.3
Debt to equity	74.9	75.0	76.3	77.7
Net debt/(cash) to equity	70.8	70.6	71.9	73.1
Interest cover (x)	2.2	1.7	1.8	1.9

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