

COMPANY RESULTS

Suntec REIT (SUN SP)

2H23: Resiliency From Singapore Office; Recovery From Suntec Convention

Suntec City Office generated NPI growth of 1.8% yoy and achieved positive rental reversion of 13.4% in 2H23. Revenue and NPI from Suntec Convention increased 41% and 39% yoy respectively in 2H23 due to the earlier-than-expected recovery of MICE events to pre-pandemic levels. We did not factor in any capital distribution from past divestment gains in 2024. 2024 distribution yield is fair at 5.6%, although P/NAV of 0.57x is attractive. Maintain HOLD. Target price: S\$1.28.

2H23 RESULTS

Year to 31 Dec (S\$m)	2H23	yoy % chg	Remarks
Gross Revenue	238.4	+6.6	Growth from Suntec City Office and Suntec Convention, offset by weakness from the Australian dollar.
Net Property Income	159.8	-1.8	
Income Contribution from JVs	47.8	-16.7	Growth from ORQ and MBFC negated by higher interest rates.
Distributable Income	106.3	-9.4	
- From Operations	94.8	-10.5	Affected by higher interest rates.
- From Capital	11.5	0.0	
DPU (S cents)	3.659	-10.2	Included capital distribution of 0.396 S cents.

Source: SUN, UOB Kay Hian

RESULTS

- Suntec REIT (SUN) reported 2H23 DPU of 3.659 S cents (from operations: 3.263 S cents and from capital: 0.396 S cents), down 10.2% yoy and marginally below our forecast of 3.786 S cents.
- **Singapore office: Maintaining steady growth.** SUN achieved double-digit rental reversions at 13.1% for Singapore offices in 4Q23. Suntec City Office is fully occupied while occupancies at One Raffles Quay and MBFC Tower 1 & 2 were above 99%. Suntec Office passing rent was stable at S\$9.85psf per month. SUN will enhance One Raffles Quay by refurbishing the main office lobbies and adding F&B units at the Garden Plaza and North Tower. It will benefit from 22 consecutive quarters of positive rental reversion. Management expects high single-digit rental reversion in 2024.
- **Singapore retail: Temporary dip in occupancy.** SUN achieved double-digit rental reversions at 25.7% for Suntec City Mall in 4Q23. It added 18 new-to-market and 25 new-to-Suntec brands in 2023. Unfortunately, occupancy at Suntec City Mall eased 3.1ppt qoq to 95.6% in 4Q23 due to the closure of Pure Fitness and Pure Yoga on 8 Oct 23. Management is in the process of backfilling the vacant spaces. Management expects rental reversion at 10-15% in 2024.
- **Suntec Convention: Benefitting from recovery of Mice events.** Revenue and NPI increased 41% and 39% yoy respectively in 2H23 due to the earlier-than-expected recovery of Mice events to pre-pandemic levels. The delay of Marina Bay Sands' expansion provides an opportunity for Suntec Convention to capture a bigger share of the convention uptick. Management expects higher dividend payout in 2024.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	427	463	470	486	493
EBITDA	249	242	262	272	277
Operating profit	249	242	262	272	277
Net profit (rep./fact.)	463	171	149	156	159
Net profit (adj.)	238	98	149	156	159
EPU (S\$ cent)	8.3	3.4	5.1	5.3	5.4
DPU (S\$ cent)	8.9	7.1	6.6	6.9	6.9
PE (x)	14.8	36.4	24.1	23.2	22.9
P/B (x)	0.6	0.6	0.6	0.6	0.6
DPU Yld (%)	7.2	5.8	5.4	5.6	5.6
Net margin (%)	108.3	37.0	31.7	32.1	32.2
Net debt/(cash) to equity (%)	70.8	62.6	63.4	64.7	66.0
Interest cover (x)	2.2	1.6	1.7	1.7	1.7
ROE (%)	7.2	2.7	2.3	2.4	2.5
Consensus DPU (S\$ cent)	n.a.	n.a.	6.6	7.0	7.7
UOBKH/Consensus (x)	-	-	1.01	0.98	0.90

Source: Suntec REIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$1.20
Target Price	S\$1.28
Upside	+6.7%
(Previous TP)	S\$1.23

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):	2,897.3
Market cap (S\$m):	3,476.7
Market cap (US\$m):	2,594.8
3-mth avg daily t'over (US\$m):	4.4

Price Performance (%)

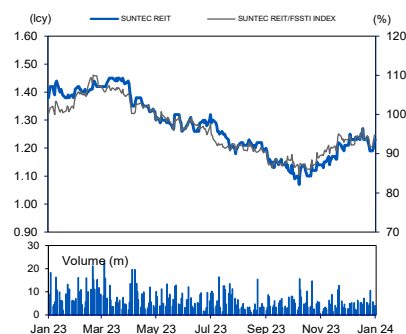
52-week high/low S\$1.45/S\$1.07

1mth	3mth	6mth	1yr	YTD
(0.8)	8.1	(6.2)	(13.7)	(2.4)

Major Shareholders

	%
Tang Gordon & family	23.7
ESR Group	9.0
FY24 NAV/Share (S\$)	2.07
FY24 Net Debt/Share (S\$)	1.39

PRICE CHART



Source: Bloomberg

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- Contributions from Australia hit by weak Australian dollar.** Overseas properties were affected by leasing downtime for the vacancies at 55 Currie Street (Adelaide), Southgate Complex (Melbourne) and The Minster Building (London). SUN also incurred leasing incentives for 177 Pacific Highway (Sydney). The Australian dollar has weakened by 6.6% against the Singapore dollar.
- Cost of debt rises as existing hedges are replaced.** Aggregate leverage remains elevated at 42.4% as of Dec 23. All-in financing costs increased 44bp yoy to 4.04% in 4Q23. Borrowing costs are expected to continue rising as expiring swaps are replaced at higher interest rates. Management expects cost of debt to reach 4.2% in 2024.
- Deleveraging through divestments.** SUN focuses on deleveraging through divestment of mature assets and strata units at Suntec City Office. It has divested S\$94m of strata units at Suntec City Office at an average price of 31% above book value in 2023.
- NAV per unit decreased 1% yoy to S\$2.10.** Portfolio valuation increased S\$85m to S\$11,893m. The bulk of the increase came from Singapore. Valuations for properties in Australia and the UK declined A\$91m and £76m respectively due to cap rate expansion.

STOCK IMPACT

- Shadow office space significantly absorbed.** According to CBRE, rents for Grade A offices in Core CBD increased 1.7% yoy and 0.4% qoq to S\$11.90psf in 4Q23 due to limited supply, back-to-office momentum and absorption of shadow space. Leasing demand is coming primarily from financial services (fund management, asset management and family offices), consumer goods and pharmaceutical companies. Vacancy for Grade A offices in Core CBD has tightened by 0.7ppt yoy to 3.5% due to flight to quality. CBRE expects rents for Grade A offices in Core CBD to increase at a moderate pace of 2-3% in 2024.
- Leasing demand for retail space was strong in 4Q23,** driven by F&B operators, fashion brands and the proliferation of pop-up stores. According to CBRE, vacancy for Downtown Core has tightened by 2.7ppt qoq to 7.9% due to return-to-office mandates. Thus, rents for City Hall/Marina Centre have increased by 4.9% yoy in 3Q23. The supply of new retail space totalled 1.34m sf from 4Q23 to 2026, equivalent to 0.48m sf per year (23% below historical average). CBRE expects retail rents to increase in 2024.
- Headwinds Down Under.** Office vacancy in Sydney and Melbourne CBD is expected to increase due to negative net absorption and new supply. Melbourne and Adelaide will be impacted by higher incentives. Occupancy at 55 Currie Street in Adelaide has dropped 40.2ppt qoq to 56.2% in 4Q23 due to non-renewal by an anchor government tenant. SUN is investing S\$20m on asset enhancement initiatives. The refurbishment for 177 Pacific Highway and 55 Currie Street has been completed but is still ongoing for Southgate Complex. Management plans to attract tenants by building fully fitted small office suites with flexible leasing terms.

EARNINGS REVISION/RISK

- We raised our 2024 DPU forecasts by 4% due to faster-than-anticipated recovery for Suntec Convention. We did not factor in any capital distribution from past divestment gains in FY24 compared to S\$23m for FY23.

VALUATION/RECOMMENDATION

- Maintain HOLD.** Our target price of S\$1.28 is based on DDM (cost of equity: 6.75%, terminal growth: 1.5%). SUN trades at a discount of 43% to NAV per unit of S\$2.10.

SHARE PRICE CATALYST

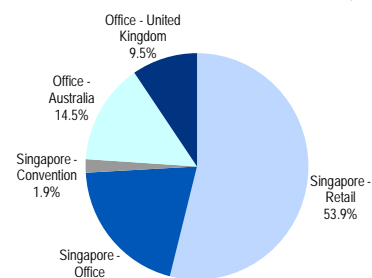
- Positive rent reversion at Suntec City Office and Suntec City Mall in Singapore.
- Employees returning to work at Suntec City Office and resumption of events at Suntec Convention stimulate recovery in shopper traffic and tenant sales at Suntec City Mall.

KEY OPERATING METRICS

Key Metrics	4Q22	1Q23	2Q23	3Q23	4Q23	yoy % Chg	qoq % Chg
DPU (S cents)	1.99	1.737	1.739	1.793	1.866	-6.2%	4.1%
Office Occupancy	98.3%	98.6%	98.6%	97.4%	94.9%	-3.4ppt	-2.5ppt
Retail Occupancy	97.5%	97.6%	97.5%	97.9%	95.2%	-2.3ppt	-2.7ppt
Aggregate Leverage	42.4%	42.8%	42.6%	42.7%	42.3%	-0.1ppt	-0.4ppt
All-in-Financing Cost	2.94%	3.68%	3.64%	3.78%	3.84%	0.9ppt	0.06ppt
% Borrowing in Fixed Rates	66.0%	72.0%	58.0%	55.0%	61.0%	-5ppt	6ppt
Debt Maturity (years)	2.85	2.55	2.90	2.72	3.00	0.2yrs	0.3yrs
Suntec Office Passing Rent (S\$ psf pm)	9.35	9.71	9.79	9.84	9.85	5.3%	0.1%

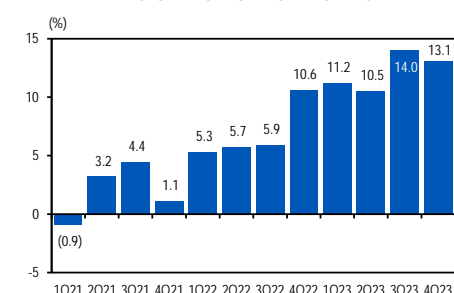
Source: SUN

PORTFOLIO VALUATION BY ASSET TYPE (DEC 23)



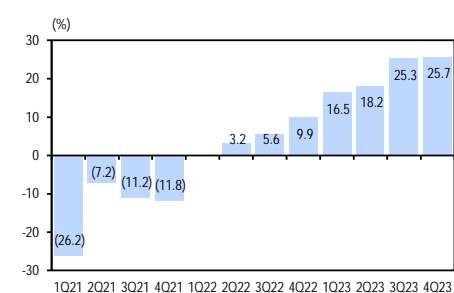
Source: SUN

RENT REVERSION - SINGAPORE OFFICE



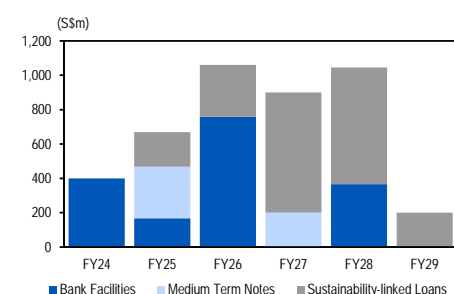
Source: SUN

RENT REVERSION - SUNTEC CITY MALL



Source: SUN

DEBT MATURITY PROFILE



Source: SUN

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	462.7	469.8	485.7	493.1
EBITDA	242.5	262.5	271.8	277.0
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	242.5	262.5	271.8	277.0
Total other non-operating income	6.0	5.0	5.0	5.0
Associate contributions	36.0	69.1	69.1	69.1
Net interest income/(expense)	(153.6)	(157.5)	(159.3)	(161.6)
Pre-tax profit	204.3	179.1	186.6	189.5
Tax	(8.0)	(9.0)	(9.3)	(9.5)
Minorities	(10.9)	(8.0)	(8.0)	(8.0)
Preferred dividends	(14.0)	(13.2)	(13.2)	(13.2)
Net profit	171.4	148.9	156.1	158.8
Net profit (adj.)	98.0	148.9	156.1	158.8

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	7,966.5	7,976.5	7,986.5	7,996.5
Other LT assets	2,853.9	2,853.9	2,853.9	2,853.9
Cash/ST investment	217.9	237.9	233.7	249.3
Other current assets	90.9	71.2	72.2	73.1
Total assets	11,129.2	11,139.5	11,146.3	11,172.8
ST debt	399.9	399.9	399.9	399.9
Other current liabilities	152.5	168.8	171.4	173.9
LT debt	3,860.5	3,900.0	3,950.0	4,020.0
Other LT liabilities	132.5	132.5	132.5	132.5
Shareholders' equity	6,455.8	6,410.3	6,364.5	6,318.6
Minority interest	128.1	128.1	128.1	128.1
Total liabilities & equity	11,129.2	11,139.5	11,146.3	11,172.8

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	252.0	258.8	285.1	290.1
Pre-tax profit	107.8	148.9	156.1	158.8
Associates	(36.0)	(69.1)	(69.1)	(69.1)
Working capital changes	(25.1)	(6.8)	1.2	1.1
Non-cash items	28.5	27.7	28.0	28.1
Other operating cashflows	176.9	158.0	168.9	171.1
Investing	698.2	110.9	59.1	59.1
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(9.8)	(10.0)	(10.0)	(10.0)
Investments	151.0	69.1	69.1	69.1
Proceeds from sale of assets	42.6	51.8	0.0	0.0
Others	514.4	0.0	0.0	0.0
Financing	(1,001.0)	(349.6)	(348.4)	(333.6)
Distribution to unitholders	(209.9)	(194.4)	(201.9)	(204.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(603.8)	39.5	50.0	70.0
Others/interest paid	(187.2)	(194.7)	(196.5)	(198.8)
Net cash inflow (outflow)	(50.8)	20.0	(4.2)	15.6
Beginning cash & cash equivalent	269.6	217.9	237.9	233.7
Changes due to forex impact	(0.9)	0.0	0.0	0.0
Ending cash & cash equivalent	217.9	237.9	233.7	249.3

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	52.4	55.9	56.0	56.2
Pre-tax margin	44.1	38.1	38.4	38.4
Net margin	37.0	31.7	32.1	32.2
ROA	1.5	1.3	1.4	1.4
ROE	2.7	2.3	2.4	2.5
Growth				
Turnover	8.3	1.5	3.4	1.5
EBITDA	(2.5)	8.2	3.6	1.9
Pre-tax profit	(60.2)	(12.3)	4.2	1.6
Net profit	(63.0)	(13.1)	4.8	1.8
Net profit (adj.)	(58.9)	52.0	4.8	1.8
EPU	(59.2)	50.8	4.1	1.0
Leverage				
Debt to total capital	39.3	39.7	40.1	40.7
Debt to equity	66.0	67.1	68.3	70.0
Net debt/(cash) to equity	62.6	63.4	64.7	66.0
Interest cover (x)	1.6	1.7	1.7	1.7

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