SECTOR UPDATE

REITs – Singapore

1H24: Results Of PREIT (In Line) And SUN (Below Expectations)

BUY PREIT (Target: S$4.70) for a 25.3% rent step-up for its Singapore hospitals in 2026 after it upgrades MEH to a modern and integrated multi-service medical hub. HOLD SUN (Target: S$1.13) as its 2024 distribution yield of 5.3% looks fairly valued but aggregate leverage is elevated at 42.3%. Maintain OVERWEIGHT on the sector.

RESULTS

Parkway Life REIT (PREIT SP/BUY/Target: S$4.70)

1H24 RESULTS

Year to 31 Dec (S$m)	1H24	yoy % chg	Remarks
Gross Revenue	72.4	-2.7	Positive impact from renewed lease for Singapore hospitals.
Net Property Income	68.4	-2.5	Acquired two nursing homes in Oct 23.
Distributable Income	45.6	+3.5	Includes straight-line rental adjustment.
DPU (S cents)	7.54	+3.5	

Source: PREIT, UOB Kay Hian

- Parkway Life REIT (PREIT) reported DPU of 7.54 S cents for 1H24 (+3.5% yoy), which is in line with our expectations.
- **Growth from renewed master leases.** Gross revenue and NPI declined 2.7% and 2.5% yoy respectively in 1H24 due to a depreciation of the Japanese yen, which was partially offset by: a) contribution from two nursing homes acquired in Oct 23, and b) higher rents from Singapore hospitals under the new master lease agreements. The decline in revenue was offset by forex gains from the settlement of forward contracts due to its hedging of Japanese yen-denominated income from Japan.
- **Enhancing scale of Japan portfolio.** PREIT acquired two new nursing homes in the Osaka Prefecture, namely HIBISU Shirokita Koendori and HIBISU Suita, for a total consideration of ¥1,766.4m (S$16.4m) on 27 Oct 23. The two freehold properties are well-located in residential areas near central Osaka City. They have a long average lease term of 29 years. The yield-accretive acquisitions have initiated a new strategic partnership with KK FDS, an established real estate developer in Japan. PREIT's portfolio of nursing homes in Japan has expanded to 59 properties.
- **Coping with higher cost of debt.** Finance costs increased 7.3% yoy in 1H24 due to funding of capex for Project Renaissance and new acquisitions in 2023 as well as higher interest costs from SGD-denominated debts. All-in cost of debt inched marginally higher by 0.05ppt qoq to 1.35% in 2Q24. Interest costs on loans drawn down to fund Project Renaissance have no distribution impact as they are capitalised.
- **Resilient balance sheet.** Aggregate leverage edged lower by 1.1ppt qoq to 35.3% as of end-Jun 24 due to the depreciation of JPY against the SGD, which reduced the size of its JPY-denominated debts when translated to SGD. PREIT has secured new long-term debt facilities, comprising SGD- and JPY-denominated loans, to finance the renewal capex for Mount Elizabeth Hospital and pre-emptively refinance loans maturing in 2024 and 2025. PREIT has no long-term debt refinancing needs till Mar 25.
- **Conservative risk management.** 90% of PREIT's interest rate exposure is hedged to fixed rates. PREIT has Japanese yen net income hedges in place till 1Q29 to shield against volatility in the Japanese yen exchange rate.
- **Maintain BUY** and target price of S$4.70 based on DDM (cost of equity: 6.5%, terminal growth: 3.0%). PREIT benefits from a rent step-up of 25.3% for its Singapore hospitals in 2026. Thus, distribution yield is expected to improve from 4.0% for FY25 to 4.9% for FY26.

KEY OPERATING METRICS – PREIT

	2Q23	3Q23	4Q23	1Q24	2Q24	yoy % change	qoq % change*
DPU (S cents)	3.64	3.70	3.78	3.79	3.75	3.0%	-1.1%
Occupancy	99.7%	99.7%	99.7%	99.7%	99.7%	0ppt	0ppt
Aggregate Leverage	35.3%	36.0%	35.6%	36.4%	35.3%	0ppt	-1.1ppt
Average Cost of Debt	1.19%	1.32%	1.27%	1.30%	1.35%	0.16ppt	0.05ppt
WALE by Gross Revenue (years)	16.7	16.5	16.3	16.2	16.1	-0.6yrs	-0.2yrs
Weighted Average Debt Maturity (years)	2.9	2.8	2.8	3.4	3.3	0.4yrs	-0.1yrs

Source: PREIT, UOB Kay Hian

OVERWEIGHT

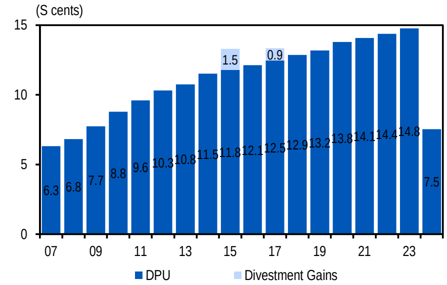
(Maintained)

KEY PICKS

Company	Rec	Share Price (S$)	Target Price (S$)
PREIT	BUY	3.62	4.70
SUN	HOLD	1.18	1.13

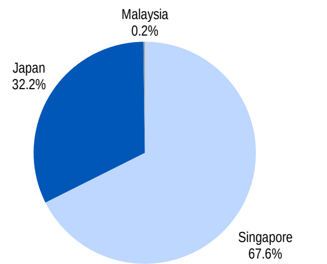
Source: UOB Kay Hian

UNINTERRUPTED DPU GROWTH SINCE IPO



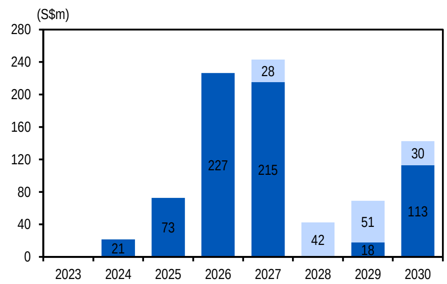
Source: PREIT

ASSET MIX BY ASSET VALUE



Source: PREIT

DEBT MATURITY PROFILE



Source: PREIT

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Suntec REIT (SUN SP/HOLD/Target: S$1.13)

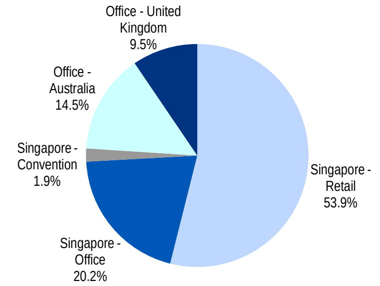
1H24 RESULTS

Year to 31 Dec (S$m)	1H24	yoy % chg	Remarks
Gross Revenue	226.9	+1.2	Growth from Suntec City Office, Mall and Convention.
Net Property Income	151.0	-1.5	Decline from 55 Currie Street and 177 Pacific Highway.
Income Contribution from JVs	49.7	+7.6	Growth from ORQ, MBFC and Nova Properties.
Distributable Income	88.7	-11.7	Financing costs increased by S$2.4m yoy.
- From Operations	88.7	-0.3	
- From Capital	0.0	-100.0	1H23 included capital distribution of S$11.5m.
DPU (S cents)	3.042	-12.5	1H23 included capital distribution of 0.398 S cents.

Source: SUN, UOB Kay Hian

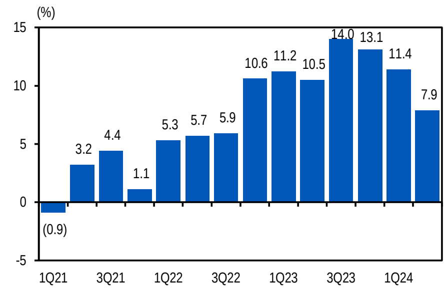
- Suntec REIT (SUN) reported DPU of 3.042 S cents for 1H24 (-12.5% yoy), which is below our expectation.
- **Singapore office: Resilient and steady growth.** SUN achieved single-digit rental reversions at 7.9% for Singapore offices in 2Q24. Suntec City Office was fully occupied. Occupancies at One Raffles Quay and MBFC Towers 1 and 2 were above 99%. Suntec City Office's passing rent increased 3.3% yoy and 0.9% qoq to S$10.11psf per month. Office demand is characterised by smaller space requirements. SUN will benefit from 24 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 20.2% for Suntec City Mall in 2Q24. It added 17 new-to-market and new-to-Suntec brands. Tenant sales grew 1% yoy in 1H24. Occupancy at Suntec City Mall was stable at 95.6% in 2Q24. Management expects the retail space vacated by Pure Fitness and Pure Yoga to be backfilled in 2H24. Suntec City Mall is expected to generate positive rental reversion at high teens in 2024.
- **Suntec Convention: Benefitting from recovery in MICE events.** Revenue and NPI increased 16.5% and 45.2% yoy respectively in 1H24 due to a recovery in MICE events and advertising. Suntec Convention benefits from large-scale international and local events, such as Singapore Garden Festival and Comex 2024. Management expects higher dividend payout from Suntec Convention in 2024.
- **Australia: Incurring leasing downtime.** The Australia portfolio endured lower occupancies at 55 Currie Street in Adelaide (56.2%) and Southgate Complex in Melbourne (87.3%). Occupancy for CBD office is expected to decline with new supply coming on-stream in 2024. Management plans to attract tenants with fully fitted office suites and flexible leasing terms. Asset enhancement is in progress at Southgate Complex. Revenue from the Australia Portfolio is expected to decline due to leasing downtime and tenant incentives for 55 Currie Street and Southgate Complex.
- **UK: Incurring leasing downtime.** Nova Properties in London is fully occupied. Occupancy for The Minster Building is stable at 91.3% with the remaining vacant office space expected to be backfilled in 2H24. Occupancy in Central London is expected to improve due to tight supply and higher office utilisation. Revenue from the UK Portfolio is affected by leasing downtime at The Minster Building.
- **Moderate increase in cost of debt.** Aggregate leverage remained elevated at 42.3% as of end-Jun 24. All-in cost of debt increased 18bp to 4.02% in 1H24, compared with 3.84% in 2023. SUN has completed refinancing for S$950m of loans due in 2024 and 2026 in Feb 24 and generated an estimated savings of 32bp or S$3.1m per year from lower credit spread. Cost of debt is expected to increase to 4.2% for 2024 and 4.3% for 2025 as expiring swaps are replaced at higher interest rates.
- **Deleveraging through divestments.** SUN focuses on deleveraging through the divestment of strata units at Suntec City Office and other mature assets. It has divested two strata units at Suntec City Office for S$31.5m, which is 27% above book value. Mature assets that could be divested include 177 Pacific Highway in Sydney and Southgate Complex in Melbourne.
- **Maintain HOLD** with lower target price of S$1.13 (previous: S$1.22) based on DDM (cost of equity: 7.0%, terminal growth: 1.5%). We trim our 2024 DPU forecast by 6% due to lower NPI margin.

PORTFOLIO VALUATION BY ASSET TYPE



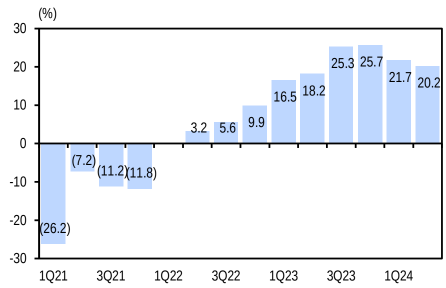
Source: SUN

RENT REVERSION – SINGAPORE OFFICE



Source: SUN

RENT REVERSION – SUNTEC CITY MALL



Source: SUN

KEY OPERATING METRICS – SUN

Key Metrics	2Q23	3Q23	4Q23	1Q24	2Q24	yoy % Chg	qoq % Chg
DPU (S cents)	1.739	1.793	1.866	1.511	1.531	-12.0%	1.3%
Office Occupancy	98.6%	97.4%	94.9%	95.1%	95.1%	-3.5ppt	0ppt
Retail Occupancy	97.5%	97.9%	95.2%	95.5%	95.4%	-2.1ppt	-0.1ppt
Aggregate Leverage	42.6%	42.7%	42.3%	42.2%	42.3%	-0.3ppt	0.1ppt
All-in-Financing Cost	3.64%	3.78%	3.84%	4.03%	4.02%	0.38ppt	-0.01ppt
% Borrowing in Fixed Rates	58%	55%	61%	57%	55%	-3ppt	-2ppt
Debt Maturity (years)	2.90	2.72	3.00	3.57	3.32	0.4yrs	-0.3yrs
Suntec Office Passing Rent (S$ psf pm)	9.79	9.84	9.85	10.02	10.11	3.3%	0.9%

Source: SUN

ACTION

- BUY PREIT (Target: S$4.70) and HOLD SUN (Target: S$1.13).

SECTOR CATALYSTS

- Hospitality, retail and office REITs benefitting from the reopening of the economy and easing of COVID-19 restrictions in Singapore and around the region.
- Limited new supply for logistics and retail segments in Singapore.

PEER COMPARISON

Name	Ticker	Rec	Price 29 Jul 24	Target Price	Mkt Cap (US$m)	Yield (%) Hist	Yield (%) Curr	Yield (%) Fwd 1Y	Yield (%) Fwd 2Y	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
PLife REIT	PREIT SP	BUY	3.62	4.70	1,630	4.1	4.0	4.0	4.9	57.4	35.3	1.54
Suntec REIT	SUN SP	BUY	1.18	1.13	2,558	6.0	5.3	5.4	5.4	69.5	42.3	0.56

Source: Bloomberg, UOB Kay Hian

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