

COMPANY RESULTS

Suntec REIT (SUN SP)

2H21: Recovery In Singapore Augmented By Acquisitions In London

SUN achieved a recovery at Suntec City Mall and newly with newly-acquired Minster Building and Nova Properties in London contributing significantly. 2H21 DPU growth would be higher at 20.3% yoy if we adjust for income of S\$10.3m released in 2H20. The outlook for the office markets in Singapore and London has brightened. 2022 distribution yield of 5.9% and P/NAV of 0.73x is attractive. Maintain BUY. Target price: S\$1.74.

2H21 RESULTS

Year to 31 Dec (S\$m)	2H21	yoy % chg	Remarks
Gross Revenue	191.3	+15.3	Growth from Suntec City Mall and newly acquired Minster Building.
Net Property Income	142.0	+30.3	Contributions to sinking fund for Suntec City Office already completed.
Income Contribution from JVs	75.4	+167.0	Growth from newly acquired Nova Properties.
Distributable Income	129.0	+10.8	S\$10.3m retained in 1H20 was released in 2H20.
DPU (S cents)	4.512	+9.8	

Source: SUN, UOB Kay Hian

RESULTS

- Suntec REIT (SUN) reported DPU of 4.512 S cents for 2H21 (+9.8% yoy), which is within our expectations. The good results were driven by:
 - Contribution from two newly-acquired office buildings.** Minster Building in London (completed in 28 Jul 21) contributed NPI of S\$12.5m. Nova Properties (completed in 18 Dec 20) contributed JV income of S\$13.9m.
 - Recovery at Suntec City Mall.** NPI from Suntec City Mall grew 54% yoy due to lower rental waivers, recovery of doubtful debts of S\$1.2m and lower sinking fund. Occupancy was stable at 94.7%. Shopper traffic has recovered since dining in at F&B establishments were allowed for groups of up to five persons on 10 Oct 21. Tenant sales were strong in October and November and surpassed pre-pandemic levels in December. The mall was rejuvenated with 32 new-to-market and new-to-Suntec brands. The focus on dining offerings and activity-based concepts improved shopper traffic. Nevertheless, rental reversion remains negative at 11.8%.
 - Contribution from development project.** NPI from newly completed 477 Collins Street in Melbourne increased 44% yoy to S\$14.3m (contributions kicked in starting 1 Aug 20) and maintained high occupancy of 98.3%.
- **Occupancy for Singapore on a rising trend.** Occupancy at Suntec City Office and One Raffles Quay (ORQ) improved 1.7ppt and 1.3ppt qoq respectively to 97.2% and 98.5% in 4Q21 due to backfilling of space vacated by UBS. SUN signed new and renewed leases for 719,600sf of office space with positive rental reversion at 3.2% in 2021. Retention rate was 61%. New tenants were mainly from the Technology, Media & Telecommunications and Banking, Insurance & Financial Services sectors.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	315	358	364	387	426
EBITDA	144	191	201	209	225
Operating profit	144	191	201	209	225
Net profit (rep./act.)	(73)	465	194	196	207
Net profit (adj.)	158	164	194	196	207
EPU (S\$ cent)	5.6	5.7	6.7	6.7	7.0
DPU (S\$ cent)	7.4	8.7	9.2	9.1	9.5
PE (x)	27.8	27.0	23.0	23.1	22.0
P/B (x)	0.8	0.7	0.8	0.8	0.8
DPU Yld (%)	4.8	5.6	5.9	5.9	6.1
Net margin (%)	(23.1)	130.0	53.4	50.5	48.6
Net debt/(cash) to equity (%)	76.3	72.7	74.1	76.0	77.8
Interest cover (x)	1.6	2.0	2.2	2.2	2.2
ROE (%)	n.a.	7.5	3.1	3.1	3.3
Consensus DPU (S\$ cent)	n.a.	n.a.	9.1	9.4	9.1
UOBKH/Consensus (x)	-	-	1.01	0.97	1.04

Source: Suntec REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.55
Target Price	S\$1.74
Upside	+12.3%
(Previous TP)	S\$1.78)

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):	2,853.0
Market cap (S\$m):	4,422.1
Market cap (US\$m):	3,288.6
3-mth avg daily t'over (US\$m):	7.6

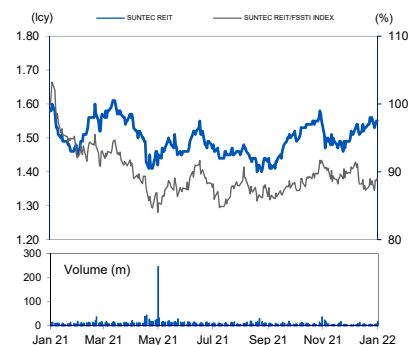
Price Performance (%)

52-week high/low	S\$1.61/S\$1.40			
1mth	3mth	6mth	1yr	YTD
4.0	2.6	4.7	0.0	2.6

Major Shareholders

Tang Gordon	8.2
Tang Jialin	9.0
ARA Asset Mgmt	8.0
FY22 NAV/Share (S\$)	2.07
FY22 Net Debt/Share (S\$)	1.62

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jonathan Koh, CFA
 +65 6590 6620
 jonathankoh@uobkayhian.com

- **Australia office portfolio remains resilient.** The two new Grade A properties 21 Harris Street in Sydney and 477 Collins Street in Melbourne benefitted from the “flight to quality” trend. Occupancy at 21 Harris Street improved 10.3ppt qoq to 91%, while occupancy at 477 Collins Street maintained at a healthy 98.3% in 4Q21.
- **Benefitting from lower financing cost.** Aggregate leverage remains elevated at 43.7%. Management plans to deleverage through divestments. SUN’s all-in cost of debts has improved 18bp yoy to 2.35%. Its weighted average debt maturity is 2.9 years.
- **Appreciation in capital values.** SUN recognised gains in fair value of investment properties at S\$224m. The gains were mainly contributed by Suntec City Mall in Singapore (S\$36.6m), 177 Pacific Highway in Sydney (A\$75m) and 477 Collins Street in Melbourne (A\$29.5m). NAV per unit increased 2.7% yoy to S\$2.11.

STOCK IMPACT

- **Uptick in leasing momentum.** Leasing demand has strengthened due to improvement in business sentiment, Singapore’s attractiveness as a financial and technology hub and companies relocating from Hong Kong to Singapore. Management expects gradual increase in office rents in 2022 due to limited supply. Rental reversion is expected to be marginally positive due to high expiring rents.
- **Potential tenants lined up for available space at MBFC Tower 1.** Standard Chartered Bank is expected to return 200,000sf of office space at MBFC Tower 1 in 4Q22. Potential tenants for backfilling include a technology company. Management expects strong rental reversion for the vacated space.
- **Continued recovery at Suntec City Mall.** Suntec City Mall benefits from employees returning to work from their offices. Shopper traffic is also expected to improve with the return of larger events and church services to Suntec City Convention. Management do not expect to grant rental waivers in 2022 (2021: S\$6m). Rental reversion is expected to be negative at 10% in 2022 as retailers remain cautious.
- **Resiliency from Australia due to rent guarantees.** Sydney and Melbourne have emerged from lockdowns and lifted COVID-19 restrictions in October but leasing demand remains subdued. Nation-wide CBD vacancy rate of 14.1% is expected to ease as net absorption turn positive. The vacant spaces at 21 Harris Street (till Apr 23) and 477 Collins Street (till Jul 25) are covered by rent guarantees. The Australia office portfolio should remain resilient due to annual rental escalation of about 3%, long WALE of 5.8 years and minimal lease expiry in 2022.
- **Potential divestment of Southgate.** The authorities have approved the planning control amendments to enhance the retail podium and develop a new office tower at Southgate Complex. SUN could consider divesting Southgate together with the development rights.
- **Resiliency from UK due to long WALE.** In the UK, leasing activities have improved driven by technology, media & telecommunication, professional services and banking & finance sectors. Demand for office space at West End and City of London has recovered to pre-pandemic levels. Resiliency is underpinned by high occupancy, long WALE of 10.4 years, minimal lease expiry until 2027 and limited supply.

EARNINGS REVISION/RISK

- We trimmed our 2022 and 2023 DPU forecasts by 5% as we factor in slight increase in cost of debts.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$1.74 is based on DDM (cost of equity: 6.5%, terminal growth: 1.2%). SUN trades at an attractive discount of 27% to NAV per unit.

SHARE PRICE CATALYST

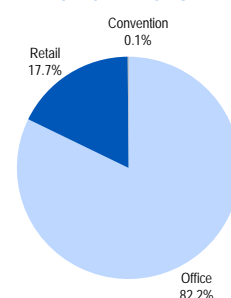
- Positive rent reversion at Suntec City Office in 2021.
- Employees returning to work at Suntec City Office and resumption of events at Suntec Convention to trigger recovery in shopper traffic and tenant sales at Suntec City Mall.
- Full-year contributions from Minster Building in London, UK in 2022.

KEY OPERATING METRICS – SUN

Key Metrics	1Q21	2Q21	3Q21	4Q21	yoy % Chg	qoq % Chg
DPU (S cents)	2.045	2.109	2.232	2.28	0.8%	2.2%
Office Occupancy	96.1%	95.0%	96.1%	97.5%	0.8ppt	1.4ppt
Retail Occupancy	91.5%	93.8%	94.9%	94.6%	4.4ppt	-0.3ppt
Aggregate Leverage	44.4%	43.1%	44.3%	43.7%	-0.6ppt	-0.6ppt
All-in-Financing Cost	2.40%	2.41%	2.32%	2.35%	-0.18ppt	0.03ppt
Debt Maturity (years)	2.94	2.99	3.07	2.92	-0.1yrs	-0.2yrs
Suntec Office Passing Rent (S\$ psf pm)	8.91	9.09	9.08	9.25	4.6%	1.9%

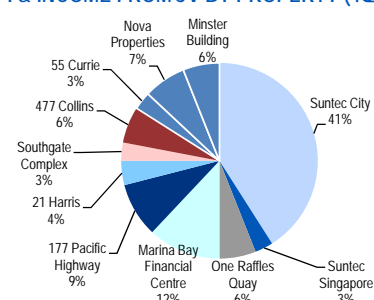
Source: SUN

NPI & INCOME FROM JV BY SEGMENT (4Q21)



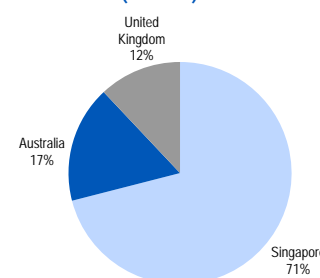
Source: SUN

NPI & INCOME FROM JV BY PROPERTY (4Q21)



Source: SUN

AUM BY COUNTRY (DEC 21)



Source: SUN

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	358.1	364.0	387.3	425.6
EBITDA	190.6	201.1	208.9	225.2
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	190.6	201.1	208.9	225.2
Total other non-operating income	14.9	6.0	4.0	4.0
Associate contributions	102.9	114.6	114.7	114.7
Net interest income/(expense)	(94.4)	(92.3)	(97.0)	(101.2)
Pre-tax profit	515.5	229.4	230.6	242.7
Tax	(25.0)	(13.8)	(13.8)	(14.6)
Minorities	(14.1)	(8.0)	(8.0)	(8.0)
Preferred dividends	(11.1)	(13.2)	(13.2)	(13.2)
Net profit	465.3	194.4	195.5	206.9
Net profit (adj.)	163.7	194.4	195.5	206.9

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	243.7	262.1	244.8	266.9
Pre-tax profit	191.6	194.4	195.5	206.9
Associates	(102.9)	(114.6)	(114.7)	(114.7)
Working capital changes	3.3	1.7	4.8	9.3
Non-cash items	43.0	42.0	42.3	42.9
Other operating cashflows	108.8	138.5	116.8	122.6
Investing	(82.7)	95.1	95.2	95.2
Capex (growth)	(651.6)	0.0	0.0	0.0
Capex (maintenance)	(8.3)	(8.0)	(8.0)	(8.0)
Investments	164.0	103.1	103.2	103.2
Proceeds from sale of assets	282.4	0.0	0.0	0.0
Others	130.9	0.0	0.0	0.0
Financing	(116.9)	(367.3)	(334.2)	(360.3)
Distribution to unitholders	(211.0)	(265.4)	(266.7)	(278.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	92.5	30.8	70.0	60.0
Others/interest paid	1.5	(132.7)	(137.4)	(141.6)
Net cash inflow (outflow)	44.1	(10.0)	5.9	1.8
Beginning cash & cash equivalent	227.5	268.3	258.3	264.1
Changes due to forex impact	(3.3)	0.0	0.0	0.0
Ending cash & cash equivalent	268.3	258.3	264.1	266.0

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,914.4	7,914.4	7,914.4	7,914.4
Other LT assets	3,471.2	3,444.8	3,444.8	3,444.8
Cash/ST investment	268.3	258.3	264.1	266.0
Other current assets	34.7	46.7	49.6	55.1
Total assets	11,688.7	11,664.2	11,672.9	11,680.4
ST debt	499.8	499.8	499.8	499.8
Other current liabilities	148.2	163.9	173.9	193.1
LT debt	4,419.2	4,450.0	4,520.0	4,580.0
Other LT liabilities	122.7	122.7	122.7	122.7
Shareholders' equity	6,399.9	6,328.9	6,257.7	6,185.9
Minority interest	98.9	98.9	98.9	98.9
Total liabilities & equity	11,688.7	11,664.2	11,672.9	11,680.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	53.2	55.2	53.9	52.9
Pre-tax margin	144.0	63.0	59.5	57.0
Net margin	130.0	53.4	50.5	48.6
ROA	4.1	1.7	1.7	1.8
ROE	7.5	3.1	3.1	3.3
Growth				
Turnover	13.5	1.7	6.4	9.9
EBITDA	32.3	5.5	3.9	7.8
Pre-tax profit	n.a.	(55.5)	0.5	5.2
Net profit	n.a.	(58.2)	0.6	5.8
Net profit (adj.)	3.9	18.7	0.6	5.8
EPU	2.9	17.5	(0.4)	4.8
Leverage				
Debt to total capital	43.1	43.5	44.1	44.7
Debt to equity	76.9	78.2	80.2	82.1
Net debt/(cash) to equity	72.7	74.1	76.0	77.8
Interest cover (x)	2.0	2.2	2.2	2.2

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