

### COMPANY UPDATE

## Suntec REIT (SUN SP)

Upside From Reopening And Redevelopment Projects

**Suntec City Office has secured tenants relocating their regional HQs from Hong Kong to Singapore. Suntec City Mall benefits from the return of office crowds in 1H22 and the return of tourists in 2H22. We have factored in capital distribution of the divestment gain from 9 Penang Road at S\$20m each in 2022 and 2023. SUN provides 2022 distribution yield of 5.5% and trades at a discount of 15% to NAV per unit of S\$2.11. ESR Cayman was installed as the new sponsor. Maintain BUY. Target price: S\$1.88.**

### WHAT'S NEW

- Consumer companies relocating regional HQs to Singapore.** Suntec City Office has received more concrete enquiries from multinational companies seeking to relocate their regional headquarters from Hong Kong to Singapore. Samsonite has expanded its footprint at Suntec City Office in 4Q21. New Balance has relocated to Singapore and became a new tenant at Suntec City Office in 1Q22. We expect occupancy at Suntec City Office to edge higher by 0.8ppt qoq to 98% in 1Q22.
- Potential tenants lined up for available space at MBFC Tower 1.** Standard Chartered Bank is expected to return 200,000sf of office space over nine floors at MBFC Tower 1 in 4Q22. We understand that a technology company has committed to take up 100,000sf of the vacant space. Other potential tenants for backfilling include companies from media and financial services industries. Management expects strong rental reversion for the vacated space as Standard Chartered Bank, being an anchor tenant, pays lower rent.
- Office properties experiencing higher physical occupancy.** Working from home is no longer the default and 50% of employees were allowed back to their offices starting Jan 22. Physical occupancy at Suntec City Office has improved by 10ppt to 25% in early-22. Likewise, physical occupancies at Marina Bay Financial Centre and One Raffles Quay have improved by 10ppt to 30%. With 75% of employees allowed back to their offices starting Apr 22, physical occupancies at SUN's office properties should further improve.
- Suntec City Mall benefitting from reopening.** Tenant sales for Suntec City Mall gathered momentum in November and surpassed pre-pandemic levels in December last year. Footfall is expected to further improve with group size for dining in increasing from five to 10 starting Apr 22. With the reopening of borders through the new Vaccinated Travel Framework implemented since Apr 22, we expect the return of tourists to lead to further recovery of shopper traffic and tenant sales in 2H22. Suntec City Mall should not incur any rental waiver in 2022 compared to S\$6m in 2021. Management currently maintains guidance on negative rental reversion at 10% in 2022.

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	315	358	365	388	428
EBITDA	144	191	202	209	227
Operating profit	144	191	202	209	227
Net profit (rep./act.)	(73)	465	195	196	209
Net profit (adj.)	158	164	195	196	209
EPU (S\$ cent)	5.6	5.7	6.8	6.7	7.1
DPU (S\$ cent)	7.4	8.7	9.9	9.8	9.5
PE (x)	32.1	31.2	26.4	26.6	25.2
P/B (x)	0.9	0.8	0.9	0.9	0.9
DPU Yld (%)	4.1	4.8	5.5	5.5	5.3
Net margin (%)	(23.1)	130.0	53.4	50.5	48.7
Net debt/(cash) to equity (%)	76.3	72.7	74.7	77.1	79.0
Interest cover (x)	1.6	2.0	2.2	2.2	2.2
ROE (%)	n.a.	7.5	3.1	3.1	3.4
Consensus DPU (S\$ cent)	n.a.	n.a.	9.1	9.3	9.5
UOBKH/Consensus (x)	-	-	1.09	1.06	1.00

Source: Suntec REIT, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.79
Target Price	S\$1.88
Upside	+5.0%
(Previous TP)	S\$1.74)

### 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):	2,867.6
Market cap (S\$m):	5,133.1
Market cap (US\$m):	3,783.2
3-mth avg daily t'over (US\$m):	15.7

### Price Performance (%)

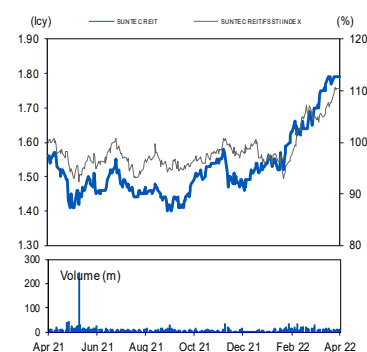
52-week high/low S\$1.79/S\$1.40

1mth	3mth	6mth	1yr	YTD
8.5	17.0	20.9	13.3	18.5

### Major Shareholders

	%
Tang Gordon	8.2
Tang Jialin	8.9
ESR Cayman	8.5
FY22 NAV/Share (S\$)	2.06
FY22 Net Debt/Share (S\$)	1.63

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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• **Deleveraging through portfolio reconstitution.** 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 Complex with the approved redevelopment plan.
- Selling Southgate Complex to a joint venture company. SUN could partner Haiyi Holdings for the redevelopment of Southgate Complex.

Other options for divestment include 177 Pacific Highway in Sydney (valuation: A\$720m) and 55 Currie Street in Adelaide (valuation: A\$152m).

• **Sharing the spoils from redevelopment.** SUN divested its 30.0% stake in 9 Penang Road (previously known as Park Mall before redevelopment) to Haiyi Holdings at an agreed property value of S\$295.5m or S\$2,468psf in Jun 21. The agreed property value was 5.7% premium above the latest valuation of S\$931.8m and 30.3% above total development cost of S\$756.0m. Management would consider distributing divestment gain from 9 Penang Road of S\$66.5m to unitholders, potentially over two years in 2022 and 2023. We have factored in capital distribution of S\$20m each in 2022 and 2023.

### STOCK IMPACT

• **ESR Cayman took over as new sponsor.** ESR Cayman has completed the acquisition of ARA Asset Management, including subsidiary LOGOS, for US\$5.2b in Jan 22. Its AUM has expanded more than three-fold to US\$140b. The acquisition has propelled the enlarged group to the largest real asset manager in the Asia Pacific region and third largest listed real estate investment manager globally. Founders and senior management continue to be the largest shareholder with a combined 23% stake in ESR Cayman. Warburg Pincus is the largest institutional shareholder with a 13.2% stake.

• **Riding on a larger platform.** With ESR Cayman as the new sponsor, SUN would be able to tap on a larger platform and network to support its future growth.

• **Singapore a thriving hub for technology and financial services.** According to CBRE, office rents for Grade A core CBD increased 3.8% to S\$10.80psf/month in 2021. Net absorption has reversed from negative 0.07m sf in 1H21 to positive at 0.59m sf in 2H21. Demand was driven by technology companies and non-bank financial institutions, such as private wealth and asset managers despite companies adopting hybrid working arrangements. The two sectors accounted for 52% of leasing volume. Occupancy for Grade A core CBD inched higher by 1.2ppt to 93.3% in 2H21 due to the flight to quality.

• **Grade A offices within core CBD benefitting from lack of supply.** According to CBRE, total supply of office space is estimated at 3.76m sf over the next three years (2022-24), equivalent to 1.25m sf per year and 13.4% below the 10-year historical average new supply of 1.45m sf. New supply is expected to pick up in 2023 assuming IOI Central Boulevard Towers is completed on schedule in 4Q23. CBRE expects office rents for Grade A core CBD to increase 6.9% to S\$11.55psf/month.

• Office properties accounted for 82% of SUN's NPI in 4Q22.

### EARNINGS REVISION/RISK

• We raised our 2022 and 2023 DPU forecasts by 8% primarily due to capital distribution of divestment gains from 9 Penang Road.

### VALUATION/RECOMMENDATION

• **Maintain BUY.** Our target price of S\$1.88 is based on DDM (cost of equity: 6.0% (previous: 6.5%), terminal growth: 1.2%).

### SHARE PRICE CATALYST

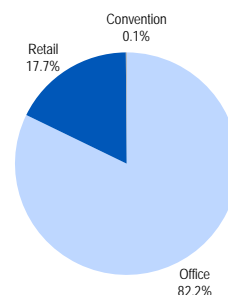
- Employees returning to work at Suntec City Office and resumption of events at Suntec Convention to trigger recovery in shopper traffic and tenant sales at Suntec City Mall.
- Full-year contributions from Minster Building in London, UK in 2022.

### 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%

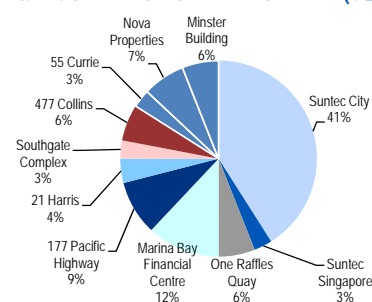
Source: SUN

### NPI & INCOME FROM JV BY SEGMENT (4Q21)



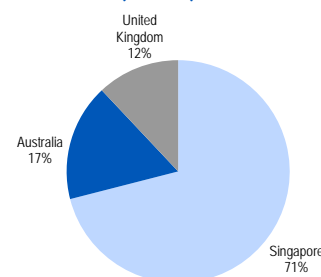
Source: SUN

### 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
<b>Net turnover</b>	<b>358.1</b>	<b>364.9</b>	<b>387.5</b>	<b>428.2</b>
EBITDA	190.6	201.7	209.1	226.9
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	190.6	201.7	209.1	226.9
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)
<b>Pre-tax profit</b>	<b>515.5</b>	<b>230.1</b>	<b>230.8</b>	<b>244.4</b>
Tax	(25.0)	(13.8)	(13.8)	(14.7)
Minorities	(14.1)	(8.0)	(8.0)	(8.0)
Preferred dividends	(11.1)	(13.2)	(13.2)	(13.2)
<b>Net profit</b>	<b>465.3</b>	<b>195.0</b>	<b>195.7</b>	<b>208.5</b>
Net profit (adj.)	163.7	195.0	195.7	208.5

### 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	238.4	224.2	227.0
Other current assets	34.7	46.7	49.6	55.6
<b>Total assets</b>	<b>11,688.7</b>	<b>11,644.5</b>	<b>11,633.0</b>	<b>11,641.8</b>
ST debt	499.8	499.8	499.8	499.8
Other current liabilities	148.2	164.2	174.0	194.6
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	6,308.9	6,217.6	6,145.8
Minority interest	98.9	98.9	98.9	98.9
<b>Total liabilities &amp; equity</b>	<b>11,688.7</b>	<b>11,644.5</b>	<b>11,633.0</b>	<b>11,641.8</b>

### CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>243.7</b>	<b>263.0</b>	<b>244.9</b>	<b>269.6</b>
Pre-tax profit	191.6	195.0	195.7	208.5
Associates	(102.9)	(114.6)	(114.7)	(114.7)
Working capital changes	3.3	1.9	4.7	10.0
Non-cash items	43.0	42.0	42.3	42.9
Other operating cashflows	108.8	138.6	116.8	122.8
<b>Investing</b>	<b>(82.7)</b>	<b>95.1</b>	<b>95.2</b>	<b>95.2</b>
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
<b>Financing</b>	<b>(116.9)</b>	<b>(387.9)</b>	<b>(354.4)</b>	<b>(362.0)</b>
Distribution to unitholders	(211.0)	(286.0)	(286.9)	(280.4)
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)
<b>Net cash inflow (outflow)</b>	<b>44.1</b>	<b>(29.9)</b>	<b>(14.3)</b>	<b>2.8</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>227.5</b>	<b>268.3</b>	<b>238.4</b>	<b>224.2</b>
Changes due to forex impact	(3.3)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>268.3</b>	<b>238.4</b>	<b>224.2</b>	<b>227.0</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	53.2	55.3	54.0	53.0
Pre-tax margin	144.0	63.0	59.6	57.1
Net margin	130.0	53.4	50.5	48.7
ROA	4.1	1.7	1.7	1.8
ROE	7.5	3.1	3.1	3.4
<b>Growth</b>				
Turnover	13.5	1.9	6.2	10.5
EBITDA	32.3	5.9	3.6	8.5
Pre-tax profit	n.a.	(55.4)	0.3	5.9
Net profit	n.a.	(58.1)	0.4	6.6
Net profit (adj.)	3.9	19.1	0.4	6.6
EPU	2.9	17.9	(0.6)	5.5
<b>Leverage</b>				
Debt to total capital	43.1	43.6	44.3	44.9
Debt to equity	76.9	78.5	80.7	82.7
Net debt/(cash) to equity	72.7	74.7	77.1	79.0
Interest cover (x)	2.0	2.2	2.2	2.2

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