

COMPANY RESULTS

Suntec REIT (SUN SP)

1Q22: Yield Augmented By Capital Distributions In 2022 And 2023

Occupancy for the Singapore office portfolio is on an uptrend and improved 0.3ppt qoq to 97.8% in 1Q22. Rent reversion at Suntec City Mall was flat, a reversal from a negative reversion of 11.8% in 4Q21. Outlook for the office market has brightened in Singapore and London and stabilised in Australia. Management intends to maintain capital distribution at S\$5.8m for eight consecutive quarters. Downgrade to HOLD as share price has already rallied 22% over the past six months. Target price: S\$1.90.

1Q22 RESULTS

Year to 31 Dec (S\$m)	1Q22	yoy % chg	Remarks
Gross Revenue	99.2	+13.9	Growth from Suntec City Office, Suntec City Mall and newly acquired
Net Property Income	74.3	+24.9	Minster Building.
Income Contribution from JVs	30.9	+10.0	Absence of performance fee paid to fund manager for 9 Penang Road in 1Q21.
Distributable Income	68.7	+18.2	Capital distribution from past divestment gains of S\$5.8m, which is
DPU (S cents)	2.391	+16.9	equivalent to additional DPU of 0.2 S cents.

Source: SUN, UOB Kay Hian

RESULTS

- Suntec REIT (SUN) reported DPU of 2.391 S cents for 1Q22 (+16.9% yoy), which is within our expectations. The results included capital distribution from past divestment gains of S\$5.8m. Management intends to have a similar level of capital distribution for eight consecutive quarters over two financial years (2022 and 2023).
- **Singapore office: Growth from technology tenants.** Net property income (NPI) increased 4.4% yoy in 1Q22 due to lower sinking fund incurred at Suntec City Office. Singapore office portfolio saw a pick-up in rent reversion at 5.3% in 1Q22, its 15th consecutive quarter of positive reversion. Occupancy for Singapore office portfolio edged higher by 0.3ppt qoq to 97.8% driven by Suntec City Office (+1.4ppt qoq to 98.6%) and Marina Bay Financial Centre (MBFC) (+0.3ppt qoq to 97.6%). Occupancy for One Raffles Quay (ORQ) eased 2.7ppt qoq to 95.8% as an existing tenant relocated to another building within SUN's Singapore office portfolio. Management is confident of backfilling the vacant space soon. Occupancy is expected to remain high with moderately positive rent reversion due to high expiry rents.
- **Suntec City Mall: Turned the corner.** Occupancy improved 1.3ppt qoq to 96% in 1Q22. Rent reversion was flat, a substantial improvement from a negative reversion of 11.8% in 4Q21. Leasing activities has gained traction. Management focuses on activity-based concepts and dining offerings and has introduced eight new brands in 1Q22. Occupancy is expected to be stable at above 95%, while rent reversion should be between -5% to 0% in 2022. Revenue from Suntec City Mall increased 12.9% yoy. NPI increased by a higher 33.1% due to an absence of sinking fund contribution at Suntec City Mall.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	315	358	369	395	436
EBITDA	144	191	210	212	231
Operating profit	144	191	210	212	231
Net profit (rep./fact.)	(73)	465	202	198	212
Net profit (adj.)	158	164	202	198	212
EPU (S\$ cent)	5.6	5.7	7.0	6.8	7.2
DPU (S\$ cent)	7.4	8.7	10.3	10.0	9.6
PE (x)	33.0	32.0	26.2	27.0	25.5
P/B (x)	0.9	0.9	0.9	0.9	0.9
DPU Yld (%)	4.0	4.7	5.6	5.5	5.2
Net margin (%)	(23.1)	130.0	54.8	50.3	48.5
Net debt/(cash) to equity (%)	76.3	72.7	74.8	77.3	79.1
Interest cover (x)	1.6	2.0	2.3	2.2	2.3
ROE (%)	n.a.	7.5	3.2	3.2	3.4
Consensus DPU (S\$ cent)	n.a.	n.a.	9.1	9.4	9.5
UOBKH/Consensus (x)	-	-	1.13	1.07	1.01

Source: Suntec REIT, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	S\$1.84
Target Price	S\$1.90
Upside	+3.3%
(Previous TP)	S\$1.88

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):	5,276.5
Market cap (US\$m):	3,842.7
3-mth avg daily t'over (US\$m):	16.2

Price Performance (%)

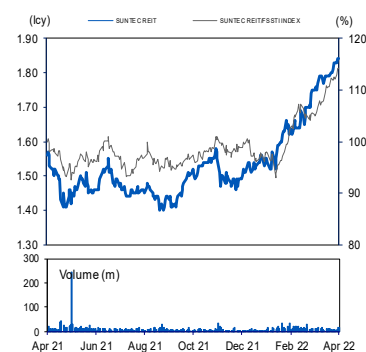
52-week high/low S\$1.84/S\$1.40

1mth	3mth	6mth	1yr	YTD
5.1	18.7	21.9	17.2	21.9

Major Shareholders

Shareholder	%
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

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- Australia: Resiliency from long WALE of 5.4 years.** Occupancy at 21 Harris Street and 477 Collins Street improved 21.1ppt and 1.1ppt yoy respectively to 91% and 98.3%. Nationwide central business district (CBD) office vacancy has declined from 14.1% to 13.7%. Effective rents for prime office space in Sydney and Melbourne are expected to improve in 2022.
- UK: Resiliency from long WALE of 10.4 years.** Occupancy at Minster Building is stable at 96.7%. Nova Properties remains fully occupied. Leasing demand at West End and City of London markets have recovered to pre-pandemic levels.
- Coping with higher cost of electricity.** Contributions to the Management Corporation Strata Title (MCST) for Suntec City Complex will increase from S\$21.80 to S\$32.00 per share value, translating to an increase of S\$7m-8m in operating expenses. The increase in revenue from the car park will also help to defray the higher cost of electricity. ORQ and MBFC are not affected as the cost of electricity is fixed for two years in 2022 and 2023.

STOCK IMPACT

- 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. Management is reviewing the planning parameters and will decide on the optimum mix between office and retail space.
- SUN could consider:**
 - Divesting Southgate Complex with the approved redevelopment plan.
 - Selling Southgate Complex to a JV company to redevelop Southgate Complex.
- Other options for divestment include 177 Pacific Highway in Sydney (valuation: A\$720m) and 55 Currie Street in Adelaide (valuation: A\$152m).

EARNINGS REVISION/RISK

- We raised our 2022 and 2023 DPU forecasts by 3% and 2% respectively as the quantum of capital distribution was higher than anticipated, which was partially offset by the increase in MCST contributions for Suntec City Complex in 2023.

VALUATION/RECOMMENDATION

- Downgrade to HOLD** after share price rallied 22% over the past six months. Our target price of S\$1.90 is based on DDM (cost of equity: 6.5%, terminal growth: 1.2%). SUN trades at a discount of 14% to NAV per unit of S\$2.13.

SHARE PRICE CATALYST

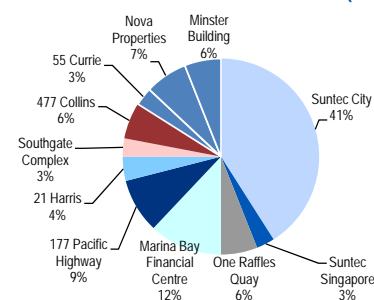
- Employees returning to work at Suntec City Office and resumption of events at Suntec Convention to trigger a recovery in shopper traffic and tenant sales at Suntec City Mall.
- Full-year contributions from Minster Building in London, UK in 2022.

KEY OPERATING METRICS – SUN

Key Metrics	1Q21	2Q21	3Q21	4Q21	1Q22	yoy % Chg	qoq % Chg
DPU (S cents)	2.045	2.109	2.232	2.28	2.391	16.9%	4.9%
Office Occupancy	96.1%	95.0%	96.1%	97.5%	96.7%	0.6ppt	-0.8ppt
Retail Occupancy	91.5%	93.8%	94.9%	94.6%	95.2%	3.7ppt	0.6ppt
Aggregate Leverage	44.4%	43.1%	44.3%	43.7%	43.3%	-1.1ppt	-0.4ppt
All-in-Financing Cost	2.40%	2.41%	2.32%	2.35%	2.31%	-0.09ppt	-0.04ppt
Debt Maturity (years)	2.94	2.99	3.07	2.92	2.67	-0.3yrs	-0.3yrs
Suntec Office Passing Rent (S\$ psf pm)	8.91	9.09	9.08	9.25	9.26	3.9%	0.1%

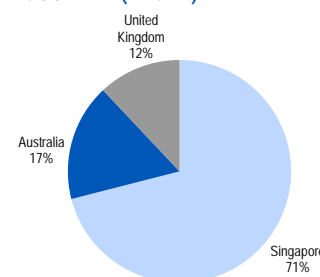
Source: SUN

NPI & INCOME FROM JV BY PROPERTY (4Q21)



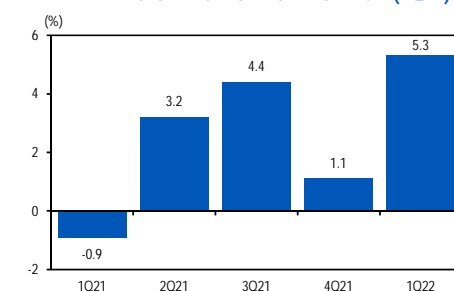
Source: SUN

AUM BY COUNTRY (DEC 21)



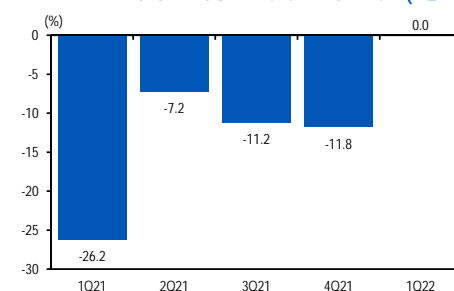
Source: SUN

RENT REVERSION – SINGAPORE OFFICE (1Q22)



Source: SUN

RENT REVERSION – SUNTEC CITY OFFICE (1Q22)



Source: SUN

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	358.1	368.8	394.7	436.3
EBITDA	190.6	209.5	212.4	230.7
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	190.6	209.5	212.4	230.7
Total other non-operating income	14.9	6.0	4.0	4.0
Associate contributions	102.9	114.0	114.1	114.1
Net interest income/(expense)	(94.4)	(92.1)	(96.8)	(101.0)
Pre-tax profit	515.5	237.4	233.7	247.8
Tax	(25.0)	(14.2)	(14.0)	(14.9)
Minorities	(14.1)	(8.0)	(8.0)	(8.0)
Preferred dividends	(11.1)	(13.2)	(13.2)	(13.2)
Net profit	465.3	201.9	198.5	211.7
Net profit (adj.)	163.7	201.9	198.5	211.7

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	236.4	219.7	222.4
Other current assets	34.7	47.3	50.6	56.6
Total assets	11,688.7	11,643.0	11,629.6	11,638.2
ST debt	499.8	499.8	499.8	499.8
Other current liabilities	148.2	166.3	177.4	198.1
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	6,305.4	6,210.8	6,138.7
Minority interest	98.9	98.9	98.9	98.9
Total liabilities & equity	11,688.7	11,643.0	11,629.6	11,638.2

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	243.7	271.9	249.1	273.3
Pre-tax profit	191.6	201.9	198.5	211.7
Associates	(102.9)	(114.0)	(114.1)	(114.1)
Working capital changes	3.3	2.9	5.4	10.0
Non-cash items	43.0	42.3	42.4	43.0
Other operating cashflows	108.8	138.7	117.0	122.6
Investing	(82.7)	94.6	94.7	94.7
Capex (growth)	(651.6)	0.0	0.0	0.0
Capex (maintenance)	(8.3)	(8.0)	(8.0)	(8.0)
Investments	164.0	102.6	102.7	102.7
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)	(398.3)	(360.5)	(365.3)
Distribution to unitholders	(211.0)	(296.4)	(293.0)	(283.7)
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	(31.9)	(16.7)	2.6
Beginning cash & cash equivalent	227.5	268.3	236.4	219.7
Changes due to forex impact	(3.3)	0.0	0.0	0.0
Ending cash & cash equivalent	268.3	236.4	219.7	222.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	53.2	56.8	53.8	52.9
Pre-tax margin	144.0	64.4	59.2	56.8
Net margin	130.0	54.8	50.3	48.5
ROA	4.1	1.7	1.7	1.8
ROE	7.5	3.2	3.2	3.4
Growth				
Turnover	13.5	3.0	7.0	10.5
EBITDA	32.3	10.0	1.4	8.6
Pre-tax profit	n.a.	(54.0)	(1.5)	6.0
Net profit	n.a.	(56.6)	(1.7)	6.7
Net profit (adj.)	3.9	23.3	(1.7)	6.7
EPU	2.9	22.1	(2.7)	5.6
Leverage				
Debt to total capital	43.1	43.6	44.3	44.9
Debt to equity	76.9	78.5	80.8	82.7
Net debt/(cash) to equity	72.7	74.8	77.3	79.1
Interest cover (x)	2.0	2.3	2.2	2.3

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