

Singapore Company Update

Suntec REIT

Bloomberg: SUN SP | Reuters: SUNT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Jan 2024

HOLD

Last Traded Price (24 Jan 2024): S\$1.23 (STI : 3,153.33)
Price Target 12-mth: S\$1.15 (7% downside) (Prev S\$1.10)

Analysts

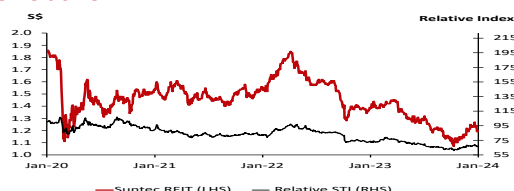
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What's New

- FY23 DPU -20% y-o-y to 7.14 Scts, slightly higher than our estimates, impacted by higher interest cost
- Key positives: i) Gearing remained stable; ii) portfolio valuation stable; iii) Suntec Convention recovering steadily; iv) continuing strata office divestments to pare down gearing
- Data to watch: i) Backfilling of vacancy; ii) a turn in interest rate cycle
- Maintain HOLD; raise TP to S\$1.15

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2022A	2023A	2024F	2025F
Gross Revenue	427	463	436	445
Net Property Inc	316	313	322	332
Total Return	477	185	142	155
Distribution Inc	256	207	183	194
EPU (S cts)	8.81	4.21	4.85	5.18
EPU Gth (%)	43	(52)	15	7
DPU (S cts)	8.88	7.14	6.23	6.50
DPU Gth (%)	3	(20)	(13)	4
NAV per shr (S cts)	214	211	211	210
PE (X)	14.0	29.2	25.4	23.7
Distribution Yield (%)	7.2	5.8	5.1	5.3
P/NAV (x)	0.6	0.6	0.6	0.6
Aggregate Leverage (%)	44.3	44.0	44.0	44.0
ROAE (%)	4.1	2.0	2.3	2.5

Distn. Inc Chng (%)			(1)	0
Consensus DPU (S cts)			6.6	7.0
Other Broker Recs:	B: 1	S: 7	H: 8	

Source of all data on this page: Company, DBS Bank Ltd, Bloomberg Finance L.P.

Asset value risks allayed

Investment Thesis:

Owner of key, quality grade A offices in Singapore. Suntec REIT (Suntec) currently owns key office assets in Singapore's CBD – Suntec Office, One Raffles Quay (ORQ, 33% stake), and MBFC Towers 1 and 2 (33%). Despite a more modest economic outlook, we believe prime grade A offices are relatively more resilient than grade B offices. Suntec City Office has the advantage of ample car parking, connectivity to two MRT stations, and a wide choice of amenities, as it is located next to Suntec City Mall.

Strong turnaround in underlying portfolio but not spared from higher interest costs. Despite the fact that Suntec's underlying portfolio, especially its Singapore assets, is seeing improved performance, the higher interest costs have been eroding its income, as its debt was only c.60% hedged previously. As management has yet to make a decision on further capital distributions, we expect FY24F DPU will likely decline without any capital distributions.

Asset divestments preferred over EFR; EFR may come with complications. Suntec's management has successfully kept gearing below the 45% limit and has negotiated with lenders for lower ICR covenants to ensure its capital management is sustainable. Management maintains its stance of preferring asset divestments over equity fundraising (EFR) should it need to take steps to recap its balance sheet, and shared that the latter is an avenue of last resort.

Maintain HOLD; raise TP to S\$1.15. We maintain our HOLD rating but raise our TP to S\$1.15 from S\$1.10 as we roll forward our DCF valuation. We believe its current FY24F yield, at <6%, is lower than that of its peers. While Suntec has allayed the biggest investor concern of asset valuation risks and kept gearing below the 45% limit, we remain cautious on more interest rate adjustments and a drop in capital distributions in FY24F. We continue to keep an eye on the re-rating catalysts, especially a turn in the interest rate cycle, as Suntec will be a key beneficiary of interest rate cuts due to its low hedging ratio.

Key Risks

Quicker-than-expected turnaround if Fed pauses/cuts interest rates. 61% of the debt in Suntec's portfolio (including its share of borrowings in JVs) is hedged, one of the lowest levels among peers. As such, Suntec will be the key beneficiary should interest rates decline at an accelerated rate.

At A Glance

Issued Capital (m shrs)	2,887
Mkt. Cap (S\$m/US\$m)	3,551 / 2,647
Major Shareholders (%)	
Raffles Investments	11.0
ARA Asset Management	9.0
Tang Gordon	8.0
Free Float (%)	57.0
3m Avg. Daily Val (US\$m)	4.2
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Watchlist the stock on Insights Direct to receive prompt updates

WHAT'S NEW

Asset value risks allayed

Gearing held stable at 42%, as portfolio valuation held up better than expected; Suntec Convention continues to recover.

- Suntec's FY23 DPU -20% y-o-y to 7.14 Scts, slightly above our estimates.
 - 4Q23 core DPU -6.2% y-o-y (+4% q-o-q) to 1.67 Scts.
 - The portfolio's performance was generally held up by Singapore assets but was impacted by higher interest costs and some higher expenses.
 - 2H23 revenue grew 7% y-o-y but EBIT fell 5% y-o-y, partially due to higher costs and some vacancies, especially within the overseas portfolio. H-o-h, EBIT has improved 4%.
 - Gearing held relatively stable at 42.4% (vs. 42.7% in 3Q23), as its portfolio valuation (+0.7% y-o-y) held up better than expected.
 - Debt ratio (D+P)/A remains relatively stable h-o-h at 41%.
 - ICR ratio held stable q-o-q at 2.0x (bank covenants were lowered to 1.75x). EBIT/EBITDA ICR has been on a downward trend to 1.3x in 2H23 (1.4x in 1H23 and 1.6x in 2H22). We believe this ratio could improve when the interest rate cycle turns.
 - The portfolio's valuation was held up by Singapore assets (+3.1% y-o-y, cap rates remain stable, except Suntec Convention -25bps). Australia saw a -4.5% decline (cap rates expanded 50-60bps) and UK a -10.2% decline (cap rates expanded c.60bps).
 - Portfolio occupancy declined marginally to 95.7%, vs. 98.1% in 3Q23, mainly from Australia (-6.8 ppt q-o-q to 88.6%, as the anchor tenant left 55 Currie St), and Singapore retail (-3ppt q-o-q to 95.6%, mainly from the departure of Pure Yoga and Pure Fitness at Suntec City Mall).
 - The office portfolio continues to deliver strong double-digit positive reversions, both in Singapore (+13% in 4Q23) and Australia (12.8% in 2H23).
 - Similarly, Suntec City Office and Suntec City Mall delivered strong positive reversions of 12% and 26% in 4Q23, respectively.
 - FY23 tenant sales are +4% y-o-y (14% above pre-COVID). 4Q23 tenant sales psf at Suntec City Mall are estimated to be flat y-o-y.
 - Suntec Convention delivered a strong recovery. 2H23 revenue and NPI grew c.40% y-o-y.
- to a high single digit in positive reversions while Singapore retail would be between 10% to 15%.
- Management believes that Singapore office will remain resilient despite some upcoming supply from the completion of IOI Central Boulevard. Tenants continue to prefer renewing their existing space over moving to new office locations due to the higher cost of moving. As such, management is confident that occupancy will remain high.
 - Suntec believes there is still upside for Singapore retail, as i) tourist spending is still below pre-COVID and ii) return-to-office at Suntec Office is at 50%, with room to increase. However, residents travelling and spending overseas following the strengthening of the SGD could offset some of the upside.
 - Gross turnover rent has increased to 7% vs. 3% during pre-COVID, and management expects this trend to continue.
 - Occupancy cost is c.21% vs. 23% pre-COVID.
 - Backfilling of vacancy: i) Suntec City Mall – looking to backfill Pure Yoga space with two F&B tenants and targets to backfill the remaining one-third of the vacancy (Pure Fitness space) with an entertainment section, so expect some downtime; ii) 55 Currie Street – there are some pending HOAs but backfilling is still slow, so expect a downtime of c.12 months; and iii) Minster building – currently in talks with two prospective tenants.
 - On the strata office sale, Suntec had divested S\$94.4m vs. its target of S\$100m at 31% above book value in FY23. In FY24, Suntec continues with its strata office sale strategy (a guide of S\$100m) to lower its gearing.
 - Management still prefers divestments over pre-emptive equity fundraising and is hopeful to divest some Australia assets should the transaction market in Australia recover.
 - Management expects FY24 financing costs could still trend up slightly to 4.2%, given the expiry of some interest rate swaps that were entered into during a very low interest rate period.
 - As a rough guidance on sensitivity, management expects a 50bps interest savings with an interest rate cut of 150bps.
 - Suntec has completed its capital distributions from previous divestments in FY2023. Following the strata office divestment, the capital gains is more than S\$20m currently. Management will likely retain capital gains in a high interest rate environment but will review and decide progressively, depending on further divestments.

Key takeaways from results briefing

- Despite the cautious macroeconomic outlook, Suntec expects its Singapore assets will be able to deliver positive rental reversions. Singapore office is expected to deliver 5%

Suntec REIT

Maintain HOLD rating; raise TP to S\$1.15. Watch out for a turn in interest rate cycle, as Suntec will be a key beneficiary of interest rate cuts. We maintain our HOLD rating but raise our TP to S\$1.15 from S\$1.10 previously, as we roll forward our DCF valuation. Suntec currently trades at a 5.2% FY24F yield and 0.6x P/NAV. Compared to peers, its yield is on the lower end.

Suntec has allayed one of the biggest concerns among investors by having successfully kept gearing stable at 42%. This will likely boost investor confidence. However, the interest rate adjustments in FY24 from refinancing and the expiries of hedges will likely still cause some impact, though it will be small y-o-y. On operations, Singapore assets will continue to hold up its portfolio's performance despite the cautious outlook in both office and retail.

Australia office continues to be challenging, with AELs to support tenant retention.

We continue to keep an eye on potential re-rating catalysts, especially a turn in interest rates, as Suntec will be a key beneficiary of potential interest rate cuts, as its hedging ratio remains low, at c.60%.

Company Background

Suntec REIT (Suntec) has a portfolio of office and retail properties in Singapore and Australia. Its most prominent asset is Suntec City, which comprises four office towers, a retail mall, and a convention centre, located close to the city area of Singapore.

Summary of results

Summary of results	4Q2023	3Q2023	% q-o-q	4Q2022	% y-o-y	FY2023	FY2022	% y-o-y
Revenue	115.0	123.4	-6.8%	224.2	-48.7%	462.7	427.3	8%
NPI	75.2	84.6	-11.1%	163.3	-54.0%	313.2	315.8	-1%
Income contribution from JVs	24.0	23.8	0.8%	58.0	-58.6%	94.0	118.8	-21%
DI	42.8	52.0	-17.7%	118.0	-63.7%	206.8	255.5	-19%
DPU	1.87	1.79	4.1%	1.99	-6.2%	7.14	8.88	-20%
Gearing	42.3%	42.7%	-0.4 ppt	42.4%	-0.1 ppt	42.3%	42.4%	-0.1 ppt
Average cost of debt	3.84%	3.78%	0.1 ppt	2.94%	0.9 ppt	3.84%	2.94%	0.9 ppt
DSCR	2.0	2.0	-	2.4	(2.4)	2.0	2.4	(0.4)
Hedging ratio	61%	55%	6 ppt	66%	-5 ppt	61%	66%	-5 ppt

Source: Company, DBS Bank

Summary of results

Key Operational Data	4Q2023	3Q2023	% q-o-q	4Q2022	% y-o-y
Portfolio occupancies (est)	95.7%	98.1%	-2.3 ppt	98.2%	-2.4 ppt
- SG Office	99.7%	99.5%	0.2 ppt	98.5%	1.2 ppt
- SG Retail	95.6%	98.6%	-3 ppt	98.1%	-2.5 ppt
- AU Office	88.6%	95.4%	-6.8 ppt	97.6%	-9 ppt
- UK Office	93.5%	93.5%	0 ppt	98.3%	-4.8 ppt
WALE (years)					
- SG Office	2.7	2.8	-0.1	2.7	-2.8
- SG Retail	2.1	2.2	-0.1	2.3	-2.4
- AU	5.0	4.9	0.1	5.3	-5.2
- UK	8.1	8.4	-0.3	9.5	-9.8
Rental reversions					
- Suntec City Office	12.2%	14.0%	-1.8 ppt	7.7%	4.5 ppt
- Suntec City Mall	25.7%	25.3%	0.4 ppt	9.9%	15.8 ppt
Suntec City Mall (quarterly y-o-y) – est.					
- Footfall	-2.7%	2.3%	-5 ppt	n/a	n/a
- Tenant sales (\$ psf)	-0.3%	0.7%	-1 ppt	n/a	n/a

Source: Company, DBS Bank

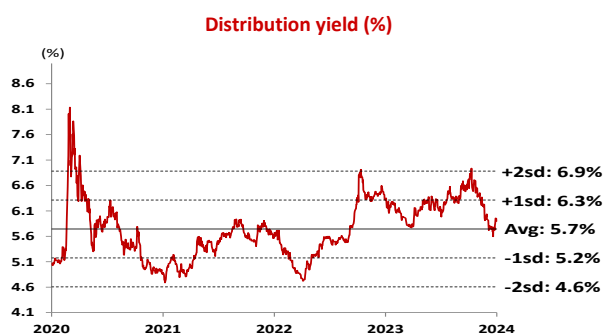
Suntec REIT

Interim Income Statement (S\$m)

FY Dec	2H2022	1H2023	2H2023	% chg yoy	% chg hoh
Gross revenue	224	224	238	6.6	6.3
Property expenses	(60.9)	(71.0)	(78.6)	29.1	10.7
Net Property Income	163	153	160	(1.8)	4.3
Other Operating expenses	(29.6)	(31.6)	(33.1)	11.9	4.9
Other Non Opg (Exp)/Inc	(3.9)	0.0	(1.6)	58.4	nm
Associates & JV Inc	40.7	37.3	(1.3)	nm	(103.5)
Net Interest (Exp)/Inc	(60.6)	(73.4)	(78.5)	(29.6)	(6.9)
Exceptional Gain/(Loss)	11.1	(7.3)	(29.1)	nm	nm
Net Income	121	78.3	16.2	(86.6)	(79.3)
Tax	(7.5)	(7.5)	(0.4)	(94.2)	(94.2)
Minority Interest	(16.8)	0.81	(11.8)	30.0	(1,543.6)
Net Income after Tax	96.3	71.5	3.99	(95.9)	(94.4)
Total Return	201	72.1	113	(43.7)	57.1
Non-tax deductible Items	(88.4)	23.8	(11.4)	(87.1)	(148.0)
Net Inc available for Dist.	117	101	106	(9.4)	5.8
Ratio (%)					
Net Prop Inc Margin	72.8	68.3	67.0		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank Ltd

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank Ltd estimates



Source: Bloomberg Finance L.P., DBS Bank Ltd estimates

Income Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Gross revenue	358	427	463	436	445
Property expenses	(103)	(112)	(150)	(114)	(112)
Net Property Income	255	316	313	322	332
Other Operating expenses	(49.2)	(59.0)	(64.7)	(67.5)	(68.1)
Other Non Opg (Exp)/Inc	(10.0)	(7.2)	(1.6)	0.0	0.0
Associates & JV Inc	103	145	36.0	92.0	96.7
Net Interest (Exp)/Inc	(84.3)	(105)	(152)	(188)	(189)
Exceptional Gain/(Loss)	0.0	0.0	9.80	0.0	0.0
Net Income	214	289	141	159	172
Tax	(25.0)	(16.2)	(8.0)	(15.5)	(16.1)
Minority Interest	(14.1)	(20.8)	(10.9)	(1.3)	(1.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	175	252	122	142	155
Total Return	476	477	185	142	155
Non-tax deductible Items	(382)	(393)	(139)	41.0	41.3
Net Inc available for Dist.	258	256	207	183	194
Growth & Ratio					
Revenue Gth (%)	13.5	19.3	8.3	(5.7)	1.9
N Property Inc Gth (%)	27.4	24.0	(0.8)	2.9	3.1
Net Inc Gth (%)	9.9	44.3	(51.7)	16.9	8.7
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	71.1	73.9	67.7	73.9	74.7
Net Income Margins (%)	48.8	59.0	26.3	32.6	34.8
Dist to revenue (%)	72.1	59.8	44.7	41.9	43.6
Managers & Trustee's fees	13.7	13.8	14.0	15.5	15.3
ROAE (%)	2.9	4.1	2.0	2.3	2.5
ROA (%)	1.5	2.2	1.1	1.3	1.4
ROCE (%)	1.6	2.1	2.1	2.1	2.2
Int. Cover (x)	2.4	2.4	1.6	1.4	1.4

Source: Company, DBS Bank Ltd

Interim Income Statement (\$m)

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Gross revenue	191	204	224	224	238
Property expenses	(49.3)	(50.6)	(60.9)	(71.0)	(78.6)
Net Property Income	142	153	163	153	160
Other Operating	(26.5)	(29.4)	(29.6)	(31.6)	(33.1)
Other Non Opg (Exp)/Inc	(3.9)	(3.6)	(3.9)	0.0	(1.6)
Associates & JV Inc	58.8	104	40.7	37.3	(1.3)
Net Interest (Exp)/Inc	(47.3)	(44.2)	(60.6)	(73.4)	(78.5)
Exceptional Gain/(Loss)	26.1	54.3	11.1	(7.3)	(29.1)
Net Income	149	234	121	78.3	16.2
Tax	(22.5)	(8.7)	(7.5)	(7.5)	(0.4)
Minority Interest	(14.5)	(4.0)	(16.8)	0.81	(11.8)
Net Income after Tax	112	221	96.3	71.5	3.99
Total Return	350	276	201	72.1	113
Non-tax deductible Items	(214)	(142)	(88.4)	23.8	(11.4)
Net Inc available for Dist.	129	138	117	101	106
Growth & Ratio					
Revenue Gth (%)	15	6	10	0	6
N Property Inc Gth (%)	26	8	7	(6)	4
Net Inc Gth (%)	9	98	(57)	(26)	(94)
Net Prop Inc Margin (%)	74.2	75.1	72.8	68.3	67.0
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Investment Properties	7,913	7,907	7,965	7,969	7,974
Other LT Assets	3,473	3,507	2,856	2,856	2,856
Cash & ST Invt	268	270	218	179	182
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	30.0	23.5	39.9	21.8	22.2
Other Current Assets	4.77	3.67	51.0	51.0	51.0
Total Assets	11,689	11,710	11,129	11,076	11,084
ST Debt	500	646	400	400	400
Creditor	105	129	120	54.3	53.5
Other Current Liab	43.1	32.4	32.5	39.4	39.9
LT Debt	4,419	4,198	3,860	3,790	3,719
Other LT Liabilities	123	122	132	132	132
Unit holders' funds	6,400	6,464	6,456	6,531	6,608
Minority Interests	98.9	120	128	129	131
Total Funds & Liabilities	11,689	11,710	11,129	11,076	11,084
Non-Cash Wkg. Capital	(113)	(134)	(61.6)	(20.8)	(20.2)
Net Cash/(Debt)	(4,651)	(4,574)	(4,042)	(4,011)	(3,937)
Ratio					
Current Ratio (x)	0.5	0.4	0.6	0.5	0.5
Quick Ratio (x)	0.5	0.4	0.5	0.4	0.4
Aggregate Leverage (%)	45.8	44.3	44.0	44.0	44.0

Source: Company, DBS Bank Ltd

Cash Flow Statement (S\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Income	516	514	204	159	172
Dep. & Amort.	0.79	0.68	0.62	0.0	0.0
Tax Paid	(3.9)	(6.2)	(21.1)	(8.7)	(15.5)
Associates & JV Inc/(Loss)	(117)	(145)	(36.0)	(92.0)	(96.7)
Chg in Wkg.Cap.	0.81	(6.4)	(4.7)	(47.6)	(1.2)
Other Operating CF	(153)	(83.4)	109	41.0	41.3
Net Operating CF	244	274	252	51.9	100
Net Invt in Properties	(8.3)	(0.2)	(1.5)	(4.4)	(4.4)
Other Invts (net)	193	(13.9)	32.8	0.0	0.0
Invts in Assoc. & JV	(372)	24.9	580	0.0	0.0
Div from Assoc. & JVs	80.6	66.7	65.1	92.0	96.7
Other Investing CF	24.7	48.5	21.6	0.0	0.0
Net Investing CF	(82.7)	126	698	87.7	92.3
Distribution Paid	(246)	(263)	(210)	(183)	(194)
Chg in Gross Debt	107	26.9	(604)	4.36	4.45
New units issued	149	0.0	0.0	0.0	0.0
Other Financing CF	(127)	(147)	(187)	0.0	0.0
Net Financing CF	(117)	(384)	(1,001)	(178)	(190)
Currency Adjustments	(3.3)	(14.1)	(0.9)	0.0	0.0
Chg in Cash	40.8	1.98	(51.7)	(39.0)	2.76
Operating CFPS (S cts)	8.54	9.78	8.87	3.39	3.39
Free CFPS (S cts)	8.27	9.55	8.66	1.62	3.20

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Jan 23	1.38	1.60	BUY
2:	27 Apr 23	1.38	1.48	HOLD
3:	24 Oct 23	1.14	1.10	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank Ltd

Analysts: Rachel TAN

Derek TAN

DBS Bank Ltd recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Dissemination Date: 25 Jan 2024 07:06:22 (SGT)

Sources for all charts and tables are DBS Bank Ltd unless otherwise specified.

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