

Singapore

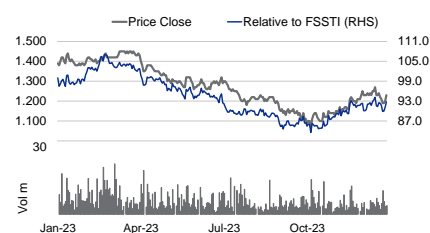
**HOLD** (no change)

Consensus ratings*:	Buy 1	Hold 8	Sell 7
Current price:	S\$1.23		
Target price:	S\$1.29		
Previous target:	S\$1.25		
Up/downside:	4.5%		
CGS-CIMB / Consensus:	9.5%		
Reuters:	SUNT.SI		
Bloomberg:	SUN SP		
Market cap:	US\$2,663m		
	S\$3,564m		
Average daily turnover:	US\$4.11m		
	S\$5.52m		
Current shares o/s:	2,893m		
Free float:	92.0%		

\*Source: Bloomberg

Key changes in this note

- FY24F DPU reduced by 4.59%
- FY25F DPU reduced by 5.77%



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	1.7	7.9	-11.5
Relative (%)	1.3	5.6	-7.2

Major shareholders

	% held
The Straits Trading Company	8.0
Blackrock	5.0

Analyst(s)



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# Suntec REIT

## Continue to focus on capital management

- FY23 DPU of 7.135 Scts was in line, at 100.7% of our FY23F forecast.
- Strong Singapore portfolio performance was partly offset by lower overseas contributions.
- Reiterate Hold rating, with a slightly higher TP of S\$1.29.

### FY23 results highlights

Suntec REIT's (SUN) FY23 gross revenue grew 8.3% yoy to S\$462.7m but distribution income came in at S\$206.8m (-19.1% yoy), inclusive of capital distribution of S\$23m. FY23 DPU of 7.135 Scts (-19.7% yoy) was broadly within our expectations. While Singapore office portfolio performance improved, higher financing costs, greater vacancies at its Australia and UK properties and weaker A\$ impacted its bottomline. Overall portfolio valuation rose 0.7% yoy to S\$11.9bn at end-FY23; Singapore portfolio value rose 2.9-3.7% while Australia and UK saw a 4.5-10.2% yoy decline due to a 50-60bp cap rate expansion.

### Strong Singapore office portfolio offset lower overseas earnings

Singapore office assets benefited from a +12.3% rental reversion for FY23 (+13.1% in 4Q23). SUN renewed/leased 729k sq ft of space in FY23. Management guided that it expects rent reversions to remain positive in FY24F, although the rental growth trajectory is likely to moderate to mid-single digits. While Australia office properties enjoyed a +16.7% reversion in FY23, overall occupancy dipped to 88.6% with the departure of a major tenant at 55 Currie St. SUN indicated that there is leasing interest and could potentially backfill part of the space by 1Q24. UK contributions were dragged by lower occupancy at The Minster Building, and UK revenue in FY24F is likely to be affected by leasing downtime, according to management.

### Retail segment continued to perform well

Suntec Mall's occupancy dipped to 95.6% as of end-FY23 (from 98.7% as at 3Q23) due to the departure of two tenants, even as rent reversion averaged +21.8% in FY23. The mall enjoyed a refreshed tenant mix of 18 new-to-market brands in FY23. Tenant sales was up 4.1% yoy in FY23, while shopper traffic grew 8% yoy. Management guided that Suntec Mall should continue to benefit from positive rental reversion from rent and occupancy growth due to active leasing demand and limited supply. FY23 revenue from the convention segment exceeded pre-Covid levels by 3.4%.

### Gearing steady at 42.3%; more divestments on the cards

SUN divested S\$94.4m of Suntec strata offices in FY23, at an average 31% above book value. Proceeds were used to pare debt, keeping gearing stable at 42.3%. Average funding cost rose to 3.84% at end-FY23, and management guided it could further rise to c.4.2% in FY24F. Management indicated that it hopes to further divest more strata office spaces at Suntec Office and mature assets in Australia to enable it to keep gearing at c.40%.

### Reiterate Hold

We lower our FY24-25F DPU by 4.59-5.77% on leasing downtime from higher vacancies. However, our DDM-based TP is raised slightly to S\$1.29 as we roll forward our assumptions to FY24F. We keep our Hold rating on limited near-term DPU growth prospects. Upside risks: faster-than-expected strengthening of its balance sheet. Downside risks: more-than-expected interest rate hikes and a protracted weaker macro outlook that could dampen demand for its office space.

### Financial Summary

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Gross Property Revenue (S\$m)	427.3	462.7	462.5	476.1	498.4
Net Property Income (S\$m)	315.8	313.2	313.6	319.3	333.4
Net Profit (S\$m)	411.4	231.6	175.8	184.3	202.6
Distributable Profit (S\$m)	255.5	206.8	193.1	200.1	217.7
Core EPS (S\$)	0.090	0.043	0.060	0.063	0.068
Core EPS Growth	19.2%	(51.8%)	39.3%	4.2%	9.2%
FD Core P/E (x)	13.71	28.46	20.43	19.61	17.96
DPS (S\$)	0.089	0.071	0.066	0.068	0.073
Dividend Yield	7.22%	5.80%	5.36%	5.52%	5.96%
Asset Leverage	41.9%	38.9%	39.0%	38.8%	38.7%
BVPS (S\$)	2.12	2.10	2.08	2.08	2.07
P/BV (x)	0.58	0.59	0.59	0.59	0.59
Recurring ROE	4.24%	2.05%	2.88%	3.02%	3.30%
% Change In DPS Estimates			(4.59%)	(5.77%)	
DPS/Consensus DPS (x)			1.00	0.97	0.95

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: Results comparison**

FYE Dec (\$\$ m)	2H		yoy % chg	hoh % chg	FY23 Cum	FY22 Cum	yoy % chg	Prev FY23F	Comments
	FY23	FY22							
Revenue	238.4	223.7	6.6	6.3	462.7	427.3	8.3	451.9	Slightly above. 2HFY23: 52.8%/102.4% of our FY23F forecast
Property operating expenses	(78.6)	(60.9)	29.1	10.7	(149.6)	(111.5)	34.1	(135.8)	
NPI	159.8	162.8	(1.8)	4.3	313.2	315.8	(0.8)	316.1	
NPI margin (%)	67.0	72.8			67.7	73.9		69.9	
Interest expense	(89.8)	(86.9)	3.2	5.7	(174.7)	(151.4)	15.4	(166.2)	
Interest & invt inc	9.6	22.5	(57.1)	(15.9)	21.1	39.2	(46.1)	39.6	
Manager's & trustee's fees	(36.7)	(33.6)	9.3	8.1	(70.7)	(67.1)	5.3	(67.9)	
Associates' contrib	(1.3)	40.7	(103.2)	(103.5)	36.0	144.9	(75.1)	91.2	
Other trust expenses	(35.3)	15.1	(334.3)	620	(40.3)	73.5	(154.8)	(6.7)	
Exceptionals & revaln	119.1	105.0	-	-	119.7	159.1	-	-	
Pretax profit	125.5	225.6	(44.4)	59.1	204.3	513.9	(60.2)	206.1	
Tax	(0.4)	(7.5)	(94.2)	(94.2)	(8.0)	(16.2)	(50.9)	(14.4)	
Tax rate (%)	0.3	3.3			3.9	3.2		7.0	
Minority interests	(11.8)	(16.8)	n.m.	(1,543.6)	(10.9)	(20.8)	(47.5)	(5.7)	
Net profit	113.3	201.3	(43.7)	57	185.4	476.8	(61.1)	185.9	
Distr profit	106.3	117.4	(9.4)	5.8	206.8	255.5	(19.1)	206.0	In line. 2HFY23: 51.6%/100.4% of our FY23F forecast
Core net profit	(5.8)	96.3	(106.0)	(108.1)	65.7	317.7	(79.3)	185.9	
DPU (cts)	3.659	4.074	(10.2)	5.3	7.135	8.884	(19.7)	7.09	In line. 2HFY23: 51.6%/100.7% of our FY23F forecast

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Key earnings revisions**



FYE Dec (\$\$m)	Previous		New		% chg	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Gross revenue	455.5	470.5	462.5	476.1	1.55%	1.18%
Distribution income	202.2	212.1	193.1	200.1	-4.48%	-5.66%
DPU (Scts)	6.91	7.20	6.59	6.79	-4.59%	-5.77%

SOURCES: CGS-CIMB RESEARCH ESTIMATES

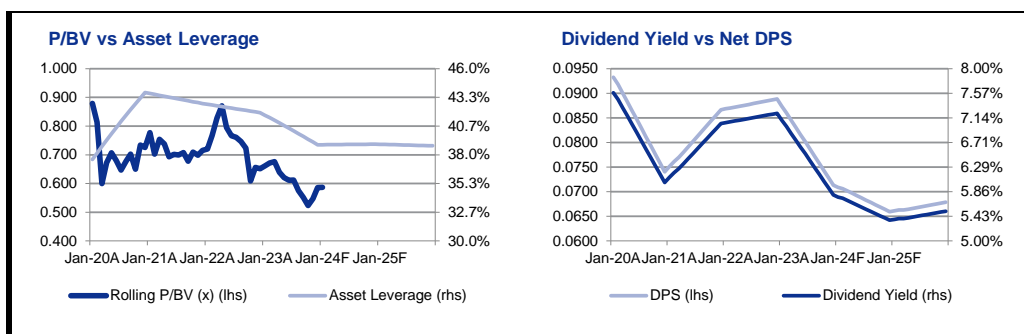
**Figure 3: SREIT peer comparison table**

SREIT	Bloomberg Ticker	Rec.	Price (LC)		Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	Dividend Yield (%)		
			as at 24 Jan 24	Target Price (LC) (DDM- based)					FY23F	FY24F	FY25F
<b>Hospitality</b>											
CapitaLand Ascott Trust	CLAS SP	Add	0.95	1.32	\$2,658	38.6%	1.16	0.81	6.4%	7.3%	7.6%
CDL Hospitality Trust	CDREIT SP	Add	1.04	1.43	\$968	38.4%	1.31	0.79	6.0%	6.8%	7.4%
Far East Hospitality Trust	FEHT SP	Add	0.63	0.77	\$943	32.2%	0.85	0.74	6.1%	6.8%	6.9%
Frasers Hospitality Trust	FHT SP	NR	0.48	NA	\$675	39.3%	0.65	0.73	4.7%	5.0%	5.2%
<b>Simple Average</b>						<b>37.1%</b>	<b>0.77</b>	<b>0.77</b>	<b>5.8%</b>	<b>6.5%</b>	<b>6.8%</b>
<b>Industrial</b>											
AIMS AMP	AAREIT SP	NR	1.30	NA	\$758	36.4%	1.38	0.94	7.8%	7.5%	7.6%
CapitaLand Ascendas REIT	CLAR SP	Add	2.97	3.06	\$9,751	36.7%	2.31	1.29	5.4%	5.5%	5.7%
Cromwell European REIT	CERT SP	Add	1.40	2.15	\$858	37.4%	2.25	0.62	11.0%	11.1%	11.1%
ESR-LOGOS REIT	EREIT SP	Add	0.32	0.39	\$1,839	37.7%	0.33	0.97	8.3%	8.0%	8.0%
Frasers Logistics & Commercial Trust	FLT SP	Add	1.13	1.27	\$3,162	30.2%	1.17	0.97	6.2%	5.9%	6.1%
Keppel DC REIT	KDCREIT SP	Add	1.85	2.53	\$2,380	37.3%	1.37	1.35	5.5%	5.9%	6.1%
Mapletree Industrial Trust	MINT SP	Add	2.47	2.61	\$5,230	37.9%	1.88	1.31	5.5%	5.6%	5.8%
Mapletree Logistics Trust	MLT SP	Add	1.63	1.88	\$6,068	38.8%	1.40	1.16	5.5%	5.3%	5.3%
Sabana Shariah	SSREIT SP	NR	0.39	NA	\$309	34.3%	0.52	0.75	7.9%	7.9%	8.2%
<b>Simple Average</b>						<b>36.3%</b>	<b>1.04</b>	<b>1.04</b>	<b>7.0%</b>	<b>7.0%</b>	<b>7.1%</b>
<b>Office</b>											
Keppel REIT	KREIT SP	Add	0.93	1.14	\$2,615	39.5%	1.31	0.71	6.4%	6.5%	6.8%
OUE Commercial REIT	OUECT SP	Hold	0.28	0.36	\$1,127	39.4%	0.59	0.47	7.7%	7.8%	8.0%
Suntec REIT	SUN SP	Hold	1.23	1.29	\$2,663	42.3%	2.09	0.59	5.8%	5.4%	5.5%
<b>Simple Average</b>						<b>40.4%</b>	<b>0.59</b>	<b>0.59</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.8%</b>
<b>Retail</b>											
CapitaLand Integrated Commercial	CICT SP	Add	2.01	2.17	\$10,000	40.8%	2.12	0.95	5.4%	5.6%	5.7%
Frasers Centrepoint Trust	FCT SP	Add	2.28	2.52	\$2,917	37.2%	2.31	0.99	5.3%	5.2%	5.3%
Lendlease Global Commercial REIT	LREIT SP	Add	0.63	0.83	\$1,099	40.6%	0.78	0.80	7.5%	6.8%	7.4%
Mapletree Pan Asia Commercial Trust	MPACT SP	Add	1.47	1.54	\$5,767	40.7%	1.81	0.81	6.5%	5.9%	5.9%
Paragon REIT	PGNREIT SP	Hold	0.86	0.88	\$1,823	29.8%	0.91	0.95	5.4%	5.4%	5.8%
Starhill Global REIT	SGREIT SP	Add	0.52	0.62	\$869	37.4%	0.80	0.64	7.4%	7.7%	7.9%
<b>Simple Average</b>						<b>37.8%</b>	<b>0.86</b>	<b>0.86</b>	<b>6.2%</b>	<b>6.1%</b>	<b>6.3%</b>
<b>Overseas-centric</b>											
CapitaLand China Trust	CLCT SP	NR	0.86	NA	\$1,139	42.4%	1.33	0.64	8.6%	9.2%	9.5%
Elite Commercial REIT	ELITE SP	Add	0.27	0.49	\$202	49.6%	0.43	0.63	13.5%	15.1%	15.2%
Manulife US REIT	MUST SP	Add	0.07	0.25	\$119	56.0%	0.40	0.17	58.0%	57.5%	56.6%
Sasseur REIT	SASSR SP	Add	0.68	0.95	\$627	25.4%	0.85	0.79	9.2%	9.3%	9.8%
<b>Simple Average</b>						<b>43.4%</b>	<b>0.56</b>	<b>0.56</b>	<b>22.3%</b>	<b>22.8%</b>	<b>22.8%</b>
<b>Healthcare</b>											
Parkway Life REIT	PREIT SP	Add	3.65	4.50	\$1,650	36.0%	2.29	1.59	4.0%	4.1%	4.2%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS  
 Note: Estimates for Not Rated (NR) companies are based on Bloomberg consensus

Refinitiv ESG Scores	
	
<b>ESG in a nutshell</b>	
<p>SUN scored C on its ESG Combined Score for FY22 by Refinitiv. Its Environmental pillar is rated B-, Social at C and Governance at D+. ESG controversies score remained strong at A+. According to its FY22 annual report, in terms of ESG commitment, SUN aims to achieve carbon neutral status for all Australia and UK assets and be net zero carbon status for assets with full ownership control by 2030F, as well as achieve net zero carbon status (including Scope 3 emissions) for all assets in the portfolio by 2050F. In terms of its near-term targets, SUN aims to reduce energy intensity by 3% in FY24F from FY19 and to maintain its water intensity over the same period. SUN achieved the highest 5-star rating in its GRESB submission in 2022 and was awarded the GRESB highest accolade of Global Sector Leader for the Office-Listed category. Within its portfolio One Raffles Quay retained its BCA Green Mark Platinum Award in FY22.</p>	
<p><b>Keep your eye on</b></p> <p>Among the three pillars, SUN's Governance pillar is ranked the lowest at D+. Its environmental innovation rating is also low at D+.</p>	<p><b>Implications</b></p> <p>Our current valuations have not ascribed a premium/discount to these pillars. An improvement in its Governance pillar would boost its overall ESG score.</p>
<p><b>ESG highlights</b></p> <p>SUN ranks 77th out of 98 Singapore companies ranked by Refinitiv and 23rd of 26 Singapore real estate peers, based on latest Refinitiv data. Some of SUN's FY22 ESG highlights include reducing energy intensity by 18.9% from its FY19 baseline and maintained water intensity over the same period. In terms of GHG intensity, its total carbon and carbon emission intensity increased by 4.2% and 0.9% respectively, in FY22 vs. FY19 due to inclusion of The Minster Building, moderated by different emission factors of the three countries it operates in. Total recycled waste showed a 8.4% increase yoy in FY22. As at end-FY22, SUN's sustainability-linked loans accounted for 27% of its total borrowings.</p>	<p><b>Implications</b></p> <p>SUN generally appears to fare well in Environmental and Social issues, and this could be valued at a premium by some investors. We have not applied any premium/discount for ESG in our fundamental valuations of SUN.</p>
<p><b>Trends</b></p> <p>Based on Refinitiv data, SUN's ESG rating of C remains unchanged from 2019-2022, while its Environmental and Governance ratings had weakened over this period.</p>	<p><b>Implications</b></p> <p>We have not applied any premium/discount for ESG in our fundamental valuations. However, as the group continues to build on its ESG efforts, we believe these could lead to improved operational efficiencies and financial performance.</p>
<small>SOURCES: CGS-CIMB RESEARCH, REFINITIV</small>	

## BY THE NUMBERS



### Profit & Loss

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Rental Revenues	427.3	462.7	462.5	476.1	498.4
Other Revenues	0.0	0.0	0.0	0.0	0.0
<b>Gross Property Revenue</b>	<b>427.3</b>	<b>462.7</b>	<b>462.5</b>	<b>476.1</b>	<b>498.4</b>
Total Property Expenses	(111.5)	(149.6)	(148.9)	(156.8)	(164.9)
<b>Net Property Income</b>	<b>315.8</b>	<b>313.2</b>	<b>313.6</b>	<b>319.3</b>	<b>333.4</b>
General And Admin. Expenses	0.0	0.0	0.0	0.0	0.0
Management Fees	(61.2)	(61.4)	(63.6)	(63.6)	(63.6)
Trustee's Fees	(6.0)	(9.3)	(4.8)	(4.8)	(4.8)
Other Operating Expenses	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>248.6</b>	<b>242.5</b>	<b>245.3</b>	<b>251.0</b>	<b>265.1</b>
Depreciation And Amortisation	(7.2)	(1.6)	(1.6)	(1.6)	(1.6)
<b>EBIT</b>	<b>241.4</b>	<b>240.8</b>	<b>243.6</b>	<b>249.3</b>	<b>263.4</b>
Net Interest Income	(105.0)	(151.9)	(154.0)	(154.0)	(150.9)
Associates' Profit	144.9	36.0	103.1	106.9	108.7
Other Income/(Expenses)	8.1	15.8	0.0	0.0	0.0
Exceptional Items	159.1	109.9	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>448.5</b>	<b>250.5</b>	<b>192.7</b>	<b>202.2</b>	<b>221.2</b>
Taxation	(16.2)	(8.0)	(11.4)	(11.8)	(12.2)
Minority Interests	(20.8)	(10.9)	(5.5)	(6.1)	(6.4)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>411.4</b>	<b>231.6</b>	<b>175.8</b>	<b>184.3</b>	<b>202.6</b>
<b>Distributable Profit</b>	<b>255.5</b>	<b>206.8</b>	<b>193.1</b>	<b>200.1</b>	<b>217.7</b>

### Cash Flow

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
<b>Pre-tax Profit</b>	<b>448.5</b>	<b>250.5</b>	<b>192.7</b>	<b>202.2</b>	<b>221.2</b>
Depreciation And Non-cash Adj.	(32.6)	107.8	52.6	48.8	43.9
Change In Working Capital	(6.4)	(4.7)	(0.1)	3.5	5.8
Tax Paid	(6.2)	(21.1)	(11.4)	(11.8)	(12.2)
Others	(130.0)	(80.8)	29.5	29.5	29.5
<b>Cashflow From Operations</b>	<b>273.2</b>	<b>251.7</b>	<b>263.3</b>	<b>272.1</b>	<b>288.1</b>
Capex	(13.9)	(9.8)	(15.0)	0.0	0.0
Net Investments And Sale Of FA	66.5	106.2	103.0	106.8	108.6
Other Investing Cashflow	24.9	580.7	7.0	7.0	7.0
<b>Cash Flow From Investing</b>	<b>77.4</b>	<b>677.0</b>	<b>95.0</b>	<b>113.8</b>	<b>115.6</b>
Debt Raised/(repaid)	26.9	(603.8)	0.0	0.0	0.0
Equity Raised/(Repaid)	(14.0)	(16.0)	0.0	0.0	0.0
Dividends Paid	(263.4)	(209.9)	(193.1)	(200.1)	(217.7)
Cash Interest And Others	(84.5)	(150.1)	(142.6)	(142.5)	(139.4)
<b>Cash Flow From Financing</b>	<b>(335.0)</b>	<b>(979.9)</b>	<b>(335.7)</b>	<b>(342.6)</b>	<b>(357.2)</b>
Total Cash Generated	15.6	(51.1)	22.7	43.3	46.5
Free Cashflow To Firm	399.2	949.9	376.4	404.0	421.9
Free Cashflow To Equity	293.0	174.8	215.8	243.4	264.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(S\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Investments	11,331	10,794	10,794	10,794	10,794
Intangible Assets	0	0	0	0	0
Other Long-term Assets	83	26	26	26	26
Total Non-current Assets	11,414	10,820	10,820	10,820	10,821
Total Cash And Equivalents	270	218	241	284	330
Inventories	0	0	0	0	0
Trade Debtors	23	40	40	40	40
Other Current Assets	4	51	11	11	11
<b>Total Current Assets</b>	<b>297</b>	<b>309</b>	<b>292</b>	<b>335</b>	<b>382</b>
Trade Creditors	129	120	120	123	129
Short-term Debt	646	400	400	400	400
Other Current Liabilities	32	33	33	33	33
<b>Total Current Liabilities</b>	<b>807</b>	<b>552</b>	<b>552</b>	<b>556</b>	<b>562</b>
Long-term Borrowings	4,263	3,933	3,933	3,933	3,933
Other Long-term Liabilities	57	60	60	60	60
Total Non-current Liabilities	4,320	3,993	3,993	3,993	3,993
Shareholders' Equity	6,116	6,108	6,085	6,119	6,154
Minority Interests	468	476	482	488	494
Preferred Shareholders Funds					
<b>Total Equity</b>	<b>6,584</b>	<b>6,584</b>	<b>6,567</b>	<b>6,607</b>	<b>6,648</b>

### Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Gross Property Revenue Growth	19.3%	8.3%	(0.0%)	2.9%	4.7%
NPI Growth	24.0%	(0.8%)	0.1%	1.8%	4.4%
Net Property Income Margin	73.9%	67.7%	67.8%	67.1%	66.9%
DPS Growth	2.5%	(19.7%)	(7.6%)	2.9%	8.1%
Gross Interest Cover	1.67	1.39	1.42	1.45	1.56
Effective Tax Rate	3.62%	3.18%	5.90%	5.86%	5.53%
Net Dividend Payout Ratio	62%	89%	110%	109%	107%
Current Ratio	0.37	0.56	0.53	0.60	0.68
Quick Ratio	0.37	0.56	0.53	0.60	0.68
Cash Ratio	0.33	0.39	0.44	0.51	0.59
Return On Average Assets	3.52%	2.03%	1.58%	1.66%	1.81%

### Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Rental rate (S\$psf)	9.6	9.7	9.9	10.3	10.6
NLA ('000sf)	3,460.5	3,337.3	3,321.3	3,321.3	3,321.3
Occupancy	1.0	1.0	1.0	1.0	1.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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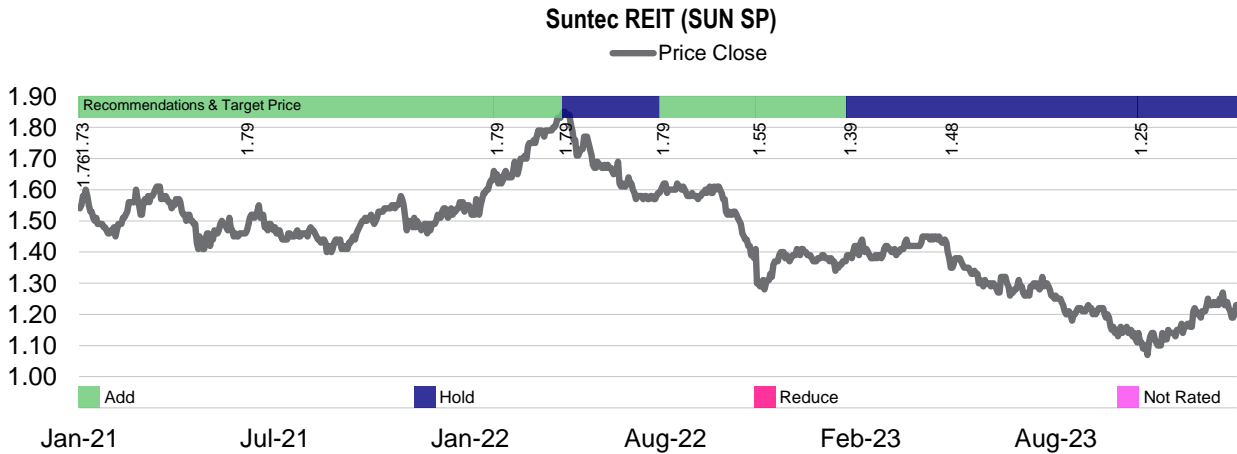
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**Spitzer Chart for stock being researched ( 2 year data )**



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