

# Suntec REIT (SUN SP)

# Fairly valued

### Improved operations, lower financing cost

SUN reported 1Q DPU of SGD1.563c, +3.4% YoY. Growth was underpinned by broad-based operational improvement and lower financing costs. Occupancy was stable, barring minor slippages in retail and UK office. Office and retail rent reversions were positive but moderating. Debt metrics remain stable with debt cost easing on a lower refinancing rate. Retain HOLD and SGD1.15 TP on fair valuation (5.5% yield, 0.6x book).

### Strong 1Q operating performance

1Q revenue was SGD113.5m, +3.4% YoY and NPI was SGD77.1m, +5% YoY. All properties, except for 55 Currie Street, Adelaide, registered stronger operating performance. Within geographies, Singapore and UK performed well, while Australia saw better performance in local currency eroded by FX losses and absence of one-off income. Suntec Convention saw improved performance from higher yielding mid- and large- conferences and lower utility rates. Occupancy was stable QoQ for Singapore and Australia offices while retail and UK offices saw frictional vacancies. Reversion was positive (+8% for SG office, +10.3% for Suntec City mall). Tenant sales dropped 3% YoY. Guide is for Singapore office and retail rent reversion to moderate but stay positive. Global uncertainties may weigh on office demand, discretionary retail spend and MICE events. While manager has sought for exemption, it has provided for higher Australia withholding tax (c.SGD2m) for 1Q due to loss of MIT status.

### Lower financing cost

Gearing is likely to be stable at 42.6% after recent debt proceeds are used to pare down debt. Lower coupon rate of 3.4% for the issued debt and lower base rates brought down debt cost to 3.96% (4Q 4.06%). Guide is for debt cost to be stable at c.4%. Focus is on improving operations.

#### Maintain HOLD

With 1Q DPU tracking at 24.9% of our full year estimate, we leave our estimates, TP and rating unchanged. Notwithstanding lower financing cost, downside risk exists for operational performance from trade uncertainties. While 0.6x PB is appealing, yield is tight at 5.5%.

FYE Dec (SGD m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	463	464	472	477	493
Net property income	313	311	319	319	333
Core net profit	117	163	173	178	193
Core EPU (cts)	4.1	5.6	5.9	6.0	6.4
Core EPU growth (%)	(56.2)	37.7	5.4	1.7	6.7
DPU (cts)	7.1	6.2	6.3	6.2	6.7
DPU growth (%)	(19.7)	(13.6)	1.7	(1.4)	9.0
P/NTA (x)	0.6	0.6	0.6	0.6	0.6
DPU yield (%)	5.8	5.3	5.5	5.4	5.9
ROAA (%)	1.0	1.5	1.6	1.6	1.8
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38
Consensus DPU	-	-	6.4	6.7	na
MIBG vs. Consensus (%)	-	-	(2.0)	(7.0)	na

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# **HOLD**

Share Price SGD 1.14 SGD 1.15 (+7%) 12m Price Target SGD 1.15 **Previous Price Taraet** 

#### **Company Description**

SUN is a real estate investment trust that invests in income-producing properties used primarily for office and retail.

#### Statistics

52w high/low (SGD)	1.37/1.05
3m avg turnover (USDm)	6.1
Free float (%)	61.5
Issued shares (m)	2,934
( )	SGD3.3B
	USD2.5B
Major shareholders:	

Major shareholders:	
Ara Real Estate Investors 22 Pte Ltd.	10.2%
CHEN HUAI DAN	8.1%
TANG GORDON	8.0%

#### Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(4)	5
Relative to index (%)	0	(5)	(10)

- Suntec REIT / Straits Times Index - (RHS, %)

Source: FactSet

-Suntec REIT - (LHS, SGD)



# 1. 1Q business update

Fig 1: 1QFY25 highlights

SGDm.	1Q24	4Q24	1Q25	1Q25, %QoQ	1Q25, %YoY	1Q %FY25e
Gross revenue	109.8	119.0	113.5	-4.6	3.4	24.0
Property expenses	(36.4)	-39.5	(36.4)			23.7
NPI	73.4	80.0	77.1	-3.6	5.0	24.2
JV income	24.8	25.3	25.5	0.8	2.8	24.4
Distributable income from ops	44.0	47.5	45.9	-3.4	4.3	
Distributable income from capital	0.0	0.0	0.0			
Total distributable income	44.0	47.5	45.9	-3.4	4.3	24.7
DPU (SGD cts)	1.511	1.570	1.563	-0.4	3.4	24.9
NAV per unit (SGD)	2.09	2.05	2.01	-2.0	-3.8	
Aggregate leverage (%)	42.2	42.4	43.4	1.0	1.2	
All-in financing cost (%)	4.03	4.06	3.96	-0.10	-0.07	
SG Office occupancy (%)	99.4	98.7	98.7	0.00	-0.70	
AU Office occupancy (%)	88.9	90.9	90.9	0.00	2.00	
SG Retail occupancy (%)	95.8	98.3	98.2	-0.10	2.40	
NPI margin (%)	66.8	67.2	67.9	0.70	1.08	
SG Office rent reversion (%)	11.4	9.0	8.0			
Suntec City rent reversion (%)	21.7	31.9	10.3			
	1Q24	4Q24	1Q25	1Q25, %QoQ	1Q25, %YoY	1Q %FY25e
Gross revenue		ĺ				
Singapore office	36.4	36.3	36.6	0.8	0.5	
Australia Portfolio	21.6	22.3	21.4	-4.0	-0.9	
JK Portfolio	5.8	5.4	5.8	7.4	0.0	
Singapore retail	34.3	36.4	35.7	-1.9	4.1	
Suntec Convention	11.6	18.6	13.9	-25.3	19.8	
NPI						
Singapore office	27.3	27.4	27.9	1.8	2.2	
Australia Portfolio	16.1	16.2	15.4	-4.9	-4.3	
JK Portfolio	5.1	4.9	5.4	10.2	5.9	
Singapore retail	23.6	24.0	24.8	3.3	5.1	
Suntec Convention	1.3	7.5	3.6	-52.0	176.9	
IV Income						
Singapore office	16.8	16.5	17.8	7.9	6.0	
Australia Portfolio	0.8	1.1	0.3	-72.7	-62.5	
UK Portfolio	6.7	7.2	6.9	-4.2	3.0	
Singapore retail	0.5	0.5	0.6	20.0	20.0	
NPI margins, %						
Singapore office	75.0	75.5	76.2	0.7	1.2	
Australia Portfolio	74.5	72.6	72.0	-0.7	-2.6	
UK Portfolio	87.9	90.7	93.1	2.4	5.2	
Singapore retail	68.8	65.9	69.5	3.5	0.7	
Suntec Convention	11.2	40.3	25.9	-14.4	14.7	

Source: Maybank IBG Research

## 2. Valuation

We value SUN using a 3-stage dividend discount model with a risk-free rate of 3.0% and discount rate of 7.5%. With DPU tracking our full year estimate, we leave our estimates unchanged. Maintain HOLD. While discount to book is attractive at 0.6x, yields are tight at 5.5%. Downside risk to distribution and NAV persists from macro uncertainties and large office lease renewals. However, proactive debt mgmt. and capital recycling may offset these.

### 3. Risks

Non-renewal of office leases, slowdown in retail sales, lower asset values and higher interest rates.

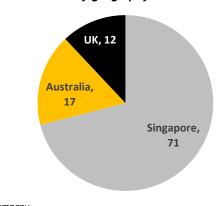
**Suntec REIT** 

### Maybank

## **Value Proposition**

- Owns a portfolio of office and retail properties in Singapore and Australia valued at SGD12.1b, with its most prominent asset being Suntec City, comprising four office towers, a mall and a convention centre.
- Sponsor ESR has SGD140b of AUM across 14 REITs, private funds and logistics assets, and it's the largest REIT manager in APAC with USD45b in total AUM.
- Gearing at c.43% is high relative to peers, with acquisitions likely to be timed with divestments and/or a placement, given strong share price appreciation.

#### Income contribution by geography

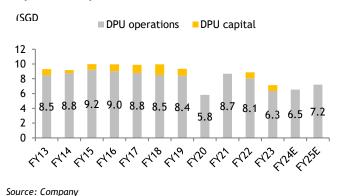


### Source: Company

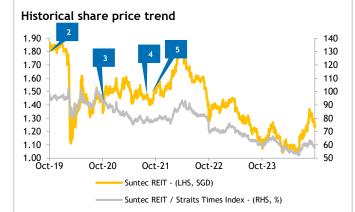
### **Financial Metrics**

- DPUs rebounding from FY21 with the completions and contributions from acquisitions and reopening.
- Suntec City mall occupancy to trend towards 95%, with +15% rent reversion for the retail business in FY24.
- Office vacancies may rise and rent reversion moderate on back of tech rightsizing and ample shadow space.
- DPU may be impacted by higher borrowing cost and lease renewals in overseas offices.

### Projected and past DPU



### **Price Drivers**



Source: Company, Maybank IBG Research

- 1. Apr-19: Raises SGD200m in gross proceeds from private placement for potential Australian acquisition.
- 2. Jul-19: Acquires two Australian properties 21 Harris in Sydney for AUD297m at 5.5% NPI yield, and 55 Currie in Adelaide for AUD148.3m at 8.0% NPI yield.
- 3. Oct-20: Acquires first London property a 50% interest in Nova development for GBP430.6m at 4.6% NPI yield at a +4.6% DPU accretion (fully debt-funded).
- 4. Jun-21: Divests 9 Penang Road for SGD295.5m achieving 305% ROI.
- 5. Jun-21: Divests Suntec office strata units at 3.1% yield and acquires Minster Building in London for GBP353.0m at 4.5% yield.

### **Swing Factors**

## Upside

- Earlier-than-expected pick-up in leasing demand for office or retail space driving improvement in occupancy.
- Better-than-anticipated rental reversions.
- Accretive acquisitions or redevelopment projects.

### Downside

- Prolonged slowdown in economic activity could reduce demand for office and retail space, resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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Risk Rating & Score <sup>1</sup>	13 (Low)
Score Momentum <sup>2</sup>	+1.0
Last Updated	02 Dec 2022
Controversy Score <sup>3</sup> (Updated: 02 Dec 2022)	0

## **Business Model & Industry Issues**

- SUN draws on its available pool of funds to invest in commercial real estate, undertake asset enhancements, and redevelop properties to optimise value for its unit holders. It is susceptible to sustainability-focused investors with strong preference for investing in companies that meet specific ESG criteria, given its incessant need for additional capital.
- Its activities relating to permissible investments, leverage limits and annual reporting requirements are closely regulated by the MAS under Singapore's code on collective investment schemes. Independence, real estate and capital markets experience on its board is high, with strong representation by members with international experience, essential in our view, as its overseas portfolio is increasingly a growth platform.
- Has made efforts to improve the scope of reporting and formalisation of targets since its inaugural sustainability report in FY17, including engaging an independent external consultant in FY19 to help determine and finalise material ESG matters presented to and then approved by the board.
- Achieved the Global Real Estate Sustainability Benchmark's highest 5-star rating in its inaugural participation in FY20.

### Material E issues

- Four Singapore properties maintained their BCA Green Mark certifications in FY21; Suntec City Mall and Suntec Singapore both rated Gold, and ORQ and MBFC Platinum. Its Australian assets improved/maintained their environmental and energy ratings certifications.
- In FY21 adopted the market-based approach to account for Scope 2 emissions, to better articulate the impact of renewable energy consumption on its carbon emissions.
- The use of carbon credits to offset emissions due to energy consumption at the common areas was implemented at 177 Pacific Highway and 477 Collins in FY21.
- Maintained an explicit 2024 target to reduce energy intensity by 3.0% and to maintain water intensity, both from a 2019 baseline.
- Secured maiden AUD450m green loan facility in FY20 to finance or refinance eligible assets based on a green finance framework.

### Material S issues

- Achieved average training per employee of 32 hours in FY21 (vs 55/35/36 hours in FY18/FY19/FY20), and ahead of its target of 26 hours, despite unavailability of large-scale inperson trainings during the pandemic.
- Gender diversity is high, with female representation at 70% for all employees in FY21 (vs 74%/65% in FY19/FY20), 60% at the management level (in FY19-21), and the Chairman's seat on the board.
- Set up end-of-trip facilities at 177 Pacific Highway to provide amenities for cyclists travelling to work.
- Suntec City has (since FY16) supported The Purple Parade, Singapore's largest movement for inclusion and people with disabilities

## Key G metrics and issues

- Externally managed by subsidiaries of ARA, since late 2021
   a part of the ESR group, which supports its growth via a
   pipeline of property assets from its development activities,
   and access to capital markets.
- Board independence is fairly high 4 of its 8 members are independent.
- Management fee structure, with the base fee at <=0.3% of its deposited property, performance fee at 4.5% pa of NPI, as well as acquisition and disposal fee at 1.0% and 0.5% deal value, is comparable to peers.
- Does not disclose the cumulative remuneration of its key management team including the CEO.
- Payout ratio for taxable income has been consistently maintained at above the minimum 90% threshold for tax transparency.
- Has scaled up via DPU-accretive acquisitions from its sponsor's pipeline. The deal process is rigorous; involving a review by the board's audit committee, and if valued >5% of NAV, unit holders' approval at an EGM.
- The Suntec City AEI at SGD410m over four phases from 2012-15 resulted in a 14% increase in NLA and SGD848m or 18% increase in valuation at end-2016.
- Diversified into the UK, a new geography, in FY20 with the acquisition of Nova properties, a quality well-sited asset at a favourable valuation of 4.6% NPI yield versus comparable yields of 4.0-4.2%, based on recent market transactions.
- Ranked 38 out of 44 S-REITs in the independent 2021 Governance Index For Trusts Index, with lower governance and business risks scores versus peers.
- Leverage averaged c.37% from FY06-21, but has risen to c.43% after the Nova acquisition, which is the highest among peers.

<u>Risk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>2Score Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>3Controversy Score</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
Price/DPU(x)	17.2	19.0	18.2	18.4	16.9
P/BV (x)	0.6	0.5	0.5	0.5	0.5
P/NTA (x)	0.6	0.6	0.6	0.6	0.6
DPU yield (%)	5.8	5.3	5.5	5.4	5.9
FCF yield (%)	6.8	8.5	9.0	9.1	9.1
INCOME CTATEMENT (CCD)					
INCOME STATEMENT (SGD m)	4/2.7	4/2 /	472.4	477.2	403.0
Revenue	462.7	463.6	472.1	477.3	493.0
Net property income	313.2	310.8	318.8	319.2	333.4
Management and trustee fees	(70.7) (174.7)	(69.1)	(69.7) (171.7)	(69.7)	(70.7)
Net financing costs Associates & JV	36.0	(177.2) 80.5	104.3	(167.5) 104.6	(167.7) 105.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
•	0.0	0.0	0.0	0.0	0.0
Other pretax income/expenses	124.9	164.2	203.4	208.3	221.6
Pretax profit Income tax	(8.0)	(1.6)	(30.0)	(30.0)	(29.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	116.9	162.6	173.4	178.3	192.6
Core net profit	116.9	162.6	173.4	178.3	192.6
core net pront	110.7	102.0	173.4	170.5	172.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	217.9	231.3	230.2	239.0	241.3
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Inverstment properties	7,964.8	7,840.3	7,840.3	7,840.3	7,840.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	2,829.5	2,825.3	2,825.3	2,823.3	2,820.3
Other assets	117.0	54.2	77.8	66.0	71.9
Total assets	11,129.2	10,951.1	10,973.6	10,968.5	10,973.8
ST interest bearing debt	399.9	490.4	490.4	490.4	490.4
Accounts payable	120.0	103.8	111.9	107.8	109.9
LT interest bearing debt	3,860.5	3,722.6	3,722.6	3,722.6	3,722.6
Other liabilities	165.0	148.7	148.7	146.7	143.7
Total Liabilities	4,545.3	4,465.5	4,473.6	4,467.5	4,466.6
Shareholders Equity	6,455.8	6,351.3	6,365.6	6,366.7	6,372.9
Minority Interest	128.1	134.3	134.3	134.3	134.3
Total shareholder equity Total liabilities and equity	6,583.9 11,129.2	6,485.6 10,951.1	6,500.0 10,973.6	6,501.0 10,968.5	6,507.2 10,973.8
Total Hazilios alla equity	,	,,,,,,	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	,,,,,,,
CASH FLOW (SGD m)					
Cash flow from operations	244.5	292.9	302.9	310.9	313.8
Capex	(1.5)	(1.4)	(1.4)	(1.4)	(1.4)
Acquisitions & investments	561.9	85.1	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
CF from investing activities	560.4	83.7	(1.4)	(1.4)	(1.4)
Dividends paid	(209.7)	(189.1)	(183.4)	(185.7)	(195.2)
Interest expense	(171.2)	(175.2)	(171.7)	(167.5)	(167.7)
Change in debt	(603.0)	(47.3)	0.0	0.0	0.0
Equity raised / (purchased)	0.0	28.4	30.9	30.9	31.2
Other financial activities	(603.0)	19.3	21.6	21.6	21.6
CF from financing activities	(1,586.9)	(364.1)	(302.6)	(300.7)	(310.0)
Effect of exchange rate changes	(0.9)	(1.7)	0.0	0.0	0.0
Net cash flow	(782.8)	10.9	(1.1)	8.8	2.4

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.3	0.2	1.8	1.1	3.3
Net property income growth	(0.8)	(0.8)	2.6	0.1	4.4
Core net profit growth	(55.9)	39.0	6.6	2.8	8.1
Distributable income growth	na	na	na	na	na
Profitability ratios (%)					
Net property income margin	67.7	67.0	67.5	66.9	67.6
Core net profit margin	25.3	35.1	36.7	37.4	39.1
Payout ratio	176.2	110.6	106.7	103.4	105.6
DuPont analysis					
Total return margin (%)	25.3	35.1	36.7	37.4	39.1
Gross revenue/Assets (x)	0.0	0.0	0.0	0.0	0.0
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	na	na	na	na	na
ROAA (%)	1.0	1.5	1.6	1.6	1.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.5	2.5	2.5	2.5
Net gearing (%) (excl. perps)	61.4	61.4	61.3	61.1	61.0
Net interest cover (x)	1.5	1.5	1.6	1.6	1.7
Debt/EBITDA (x)	16.2	16.1	15.6	15.5	14.8
Capex/revenue (%)	0.3	0.3	0.3	0.3	0.3
Net debt/ (net cash)	4,042.4	3,981.7	3,982.8	3,974.0	3,971.7
Debt/Assets (x)	0.38	0.38	0.38	0.38	0.38

Source: Company; Maybank IBG Research

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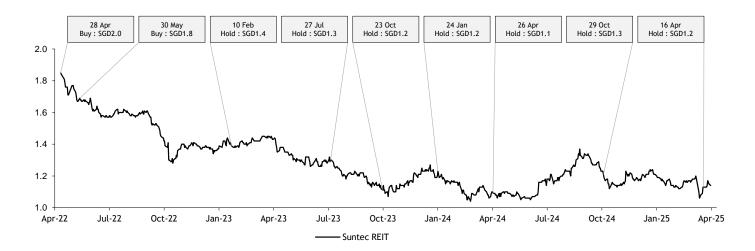
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