

Suntec REIT


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Resilient performance hampered by rising interest rates

24 October 2023

Singapore | REIT | 3Q23 UPDATE

- 3Q23 results were within expectations. Gross revenue grew 15% YoY to S\$123.4m and NPI increased by 9.7% YoY to S\$84.6m. Over the past three quarters, results have been 79.7%/77.9% of our FY23e forecast, respectively.
- 3Q23 DPU declined by 14% YoY to 1.793 Singapore cents, and when considering 1H DPU, it was 76.3% of the FY23e forecast. Strong operating performance was offset by higher financing cost, FX fluctuation, and higher maintenance fund contribution.
- We maintain BUY with an unchanged DDM-TP of S\$ 1.47. No change to our forecasts. We expect Singapore market to be the key revenue driver with double-digit rental reversion for the retail side to continue and high single-digit for office sector in FY24e. The current share price implies FY23e/24e DPU yields of 6.08%/7.16%.

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.10
FORECAST DIV	SGD 0.07
TARGET PRICE	SGD 1.47
TOTAL RETURN	39.5%

COMPANY DATA

BLOOMBERG CODE:	SUN SP Equity
O/S SHARES (MN):	2,893
MARKET CAP (USD mn / SGD mn):	2319 / 3183
52 - WK HI/LO (SGD):	1.46 / 1.1
3M Average Daily T/O (mn):	5.25

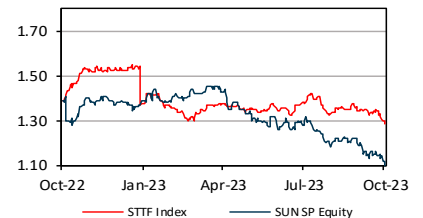
MAJOR SHAREHOLDERS

Raffles Investments Ltd	11.0%
ARA Asset Management Ltd	9.0%
Tang Gordon	8.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(8.2)	(12.0)	(15.5)
STTF RETURN	(4.8)	(3.8)	(1.3)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY21	FY22	FY23e	FY24e
Gross Rev (\$mn)	358.1	427.3	429.2	439.9
Dist. Inc. (\$mn)	247.2	255.5	194.1	230.2
P/NAV (x)	0.76	0.60	0.51	0.51
DPU (cents)	8.67	8.88	6.68	7.87
Dist. Yield (%)	5.38	6.94	6.08	7.16

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 10.5%; Terminal g: 1%)

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Operating metrics at glance

(\$ Mn)	3Q23	3Q22	YoY (%)	Comments
Gross Revenue	123.4	107.3	15.0%	Higher contribution from Suntec City Office, Suntec City Mall and Suntec Convention and The Minster Building
Net Property Income	84.6	77.1	9.7%	
JV Income	23.8	29.9	-20.4%	Higher interest expense, rent-free incentives for Southgate Complex and weaker AUD against SGD
Cost of debt	3.78%	2.76%	37.0%	
Adjusted ICR	2.0x	2.5x	-20.0%	
DPU	1.79	1.88	-4.8%	Higher financing cost, weaker AUD against SGD and higher maintenance fund contribution
NAV	2.09	2.10	-0.3%	Divestment of 3 strata units, exchange rate

Source: SUN, PSR

The Positive

+ Positive Rental reversion. Office occupancy rates remain resilient at 97.4% (-1.2% QoQ), and the retail portfolio stands at 97.9% (+0.4% QoQ). Suntec City Mall achieved a rental reversion of 20.2% in 3Q23, with a 2% YoY increase in foot traffic and a 0.4% YoY rise in sales. Suntec convention revenue surged by 87.3% YoY to S\$123.4m, driven by a strong recovery from MICE (Meetings, Incentives, Conferences, and Exhibitions) and advertising. We expect rental reversion to continue trending upwards for the retail sector in FY24e (c.10-15%), and Suntec convention is expected to make a full contribution of c.S\$10 million in 1Q24e.

+ Divestment on track. SUN is committed to its current divestment plan, aiming to sell strata units at Suntec Office Tower 1-3 worth S\$100 million by the end of FY23. Selling prices are supported by strong demand from end-users and limited supply due to URA's restrictions on new developments. By 3Q23, approximately 40% of the divestment plan was completed, with prices 20% above book value. This is likely to reduce gearing by 100bps, providing a buffer against potential year-end valuation declines. The management expresses confidence in the Singapore market and foresees no change in cap rates. While gearing improvement from divestment may be offset by overseas asset devaluation, it is expected to remain below the 45% threshold.

The Negative

- The cost of debt has increased to 3.78% (+0.14% QoQ, +37% YoY). Adjusted ICR deteriorated to 2.0x (2Q23: 2.1x), capping the regulatory gearing limit at 45%. We expect the all-in interest cost in FY24e to creep up to 4.25%. There is no commitment to top-up the distributional income using excess cash yet in FY24.

- **Weakened overseas markets.** UK overall occupancy rate dropped to 93.5% (-6.5% QoQ) and Australia slid 1.2% QoQ to 95.54%. Leasing movement in UK and Australia markets were crippled by the cautious economic outlook with hampered expansionary drivers. 55 Currie Street is expected to have reduction in occupancy rate of 40%. Managements allocated 12 months to backfill the space and anticipate rental reversion to be flattish but in line with market rate.

Outlook

For Singapore, we expect that the retail and convention components will serve as the primary revenue drivers for FY24e. We have also observed a decreasing trend in occupancy costs, which supports the potential for higher rental reversion. In the UK office market, it seems to have reached its bottom, and we do not foresee any further drops in occupancy rates in FY23e. However, the transaction market in Australia remains subdued, characterized by a widened price gap between buyers and sellers, which is currently hindering the divestment of 177 Pacific Highway in the near term.

Maintain BUY with unchanged DDM target price of S\$1.47

SUN is currently trading at FY23e yields of 6.08% and 0.52x P/NAV. We believe much of the downside risk including larger-than-expected expansion in cap rate and slower-than-expected divestment have been factored into the current share price. As such, our DDM-TP remains at S\$1.47 with FY23-24e DPUs of \$6.68- 7.87 cents.

Financials

Income Statement

Y/E Dec, (\$Mn)	FY20	FY21	FY22	FY23e	FY24e
Gross Revenue	315.39	358.07	427.27	429.23	439.88
Expenses	(115.51)	(103.44)	(111.52)	(128.77)	(131.97)
Net property income	199.88	254.63	315.75	300.46	307.92
Share of profit of jointly controlled entities	56.39	102.91	144.86	87.08	88.96
Asset Management fees	(51.43)	(57.87)	(61.17)	(48.93)	(49.57)
EBIT	207.92	308.32	401.58	335.07	343.73
Net financing costs	(92.84)	(94.38)	(112.24)	(193.28)	(166.64)
NPAT	(115.66)	490.51	497.63	137.30	171.49
PATMI	(72.74)	465.35	462.84	112.31	146.50
Distributable income	209.21	247.20	255.51	194.14	230.18

Per unit data

Y/E Dec, (\$Mn)	FY20	FY21	FY22	FY23e	FY24e
NAV (\$)	2.05	2.11	2.12	2.14	2.16
DPU (S cents)	7.40	8.67	8.88	6.68	7.87

Cash Flow

Y/E Dec, (\$Mn)	FY20	FY21	FY22	FY23e	FY24e
CFO					
Total Return	115.08	260.55	289.34	141.78	177.09
Adjustments	(39.52)	79.59	(13.74)	(3.74)	0.68
Operating income before working capital Δ:	194.67	246.81	285.60	142.46	177.77
Cash generated from operations	212.08	247.62	279.21	144.56	180.43
Cash flow from operating activities	212.08	243.73	272.97	140.07	174.84

CFI

CAPEX	72.32	80.59	66.67	142.00	145.46
Interest received	18.17	24.69	48.55	39.20	39.20
Dividend received	72.32	80.59	66.67	142.00	145.46
Cash flows from investing activities	(1,148.78)	(82.68)	125.99	118.21	121.66

CFF

Financing costs paid	(128.36)	(127.01)	(133.06)	(232.49)	(205.85)
Distributions to unitholders	(211.00)	(246.02)	(263.44)	(194.14)	(230.18)
Cash flows from financing activities	991.44	(116.94)	(383.59)	(426.63)	(436.02)
Net change in cash	54.74	44.11	15.36	(168.35)	(139.53)
Cash at the start of the period	157.21	227.47	268.31	269.61	251.98
Others	15.53	(3.27)	(14.07)	-	-
Ending cash	227.47	268.31	269.61	251.98	240.41

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (\$Mn)	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Cash and cash equivalents	227.47	268.31	269.61	251.98	240.41
Trade and other receivables	32.11	29.96	23.48	21.46	21.99
Current assets	259.59	303.05	296.76	277.11	266.08
Investment properties	7,263	7,913	7,907	8,020	8,133
Interest in jointly controlled er	3,686	3,445	3,424	3,424	3,424
Non-current assets	10,968	11,386	11,414	11,526	11,639
Total Assets	11,227	11,689	11,710	11,804	11,905
LIABILITIES					
Trade and other payables	112.87	105.10	128.70	128.77	131.97
Interest bearing borrowings	678.20	499.75	645.58	645.58	645.58
Current liabilities	837.48	639.72	806.72	806.79	809.99
Interest bearing borrowings	4,148	4,419	4,198	4,198	4,198
Deferred tax liabilities	50.42	67.16	61.97	61.97	61.97
Non-current liabilities	4,277	4,550	4,320	4,320	4,320
Total Liabilities	5,114	5,190	5,126	5,126	5,130
Net assets	6,113	6,499	6,584	6,677	6,776
Represented by:					
Unitholders' funds	5,830	6,053	6,116	6,209	6,308
NIC	84.84	98.07	119.73	119.73	119.73
Perps	198.68	348.01	348.04	348.01	348.01
Total Equity	6,113	6,499	6,584	6,677	6,776

Valuation Ratios

Y/E Dec, (\$Mn)	FY20	FY21	FY22	FY23e	FY24e
P/NAV (x)	0.72	0.76	0.60	0.51	0.51
Distribution Yield (%)	5.04	5.38	6.94	6.08	7.16

Growth & Margins

Growth					
Revenue		13.5%	19.3%	0.5%	2.5%
Distributable income		18.2%	3.4%	-24.0%	18.6%
DPU		17.1%	2.5%	-24.8%	17.8%
Key Ratios					
Net Debt or (Net Cash)	(6,401)	(6,770)	(6,867)	(6,960)	(7,062)
Gearing	44.0%	43.2%	42.4%	42.0%	41.6%



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