

# Suntec REIT

Deeply discounted assets



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## Singapore | REIT | FY23 RESULT

- Gross revenue for FY23 surged by 8.3% to S\$462.7mn, surpassing our expectations by 7.8%. NPI slid 0.8% YoY to S\$313.2mn and was in line with expectation at 104.2% of our forecast. Revenue were supported by a rental reversion of 12.3% for Singapore office spaces and a 21.8% rental reversion for Suntec City Mall. Suntec Convention has fully resumed its operations, with revenue surpassing pre-COVID levels by 3.9%.
- DPU decreased by 19.7% YoY but exceeded our estimates (S\$307.9mn) by 6.7%, primarily due to higher maintenance fund contribution and weaker Australia performance, ending the full year at 7.135 cents. Another S\$100mn divestment plan has been set, following the S\$94.4mn of strata offices sold in FY23.
- We reiterate our BUY recommendation with an unchanged DDM-TP of S\$1.47 and FY24e-25e DPU forecasts of S\$7.30 to S\$7.89 cents. We have factored in the effects of leasing downtime and a better-than-expected recovery of the Suntec Convention Center in FY24e. Rental reversions for retail spaces will continue to trend strong in the mid-teens, while office spaces are expected to be in the mid-single digits. The stock is trading at 42% discount to book value of S\$2.1.

### Result at a glance

(\$ Mn)	FY23	FY22	YoY (%)	Comments
Gross Revenue	462.7	427.3	8.3%	Higher contribution from Suntec City Office, Suntec City Mall and Suntec Convention and The Minster Building
Net Property Income	313.2	315.8	-0.8%	Higher maintenance fund contribution and likely to stay high
JV Income	94.0	118.8	-20.9%	Higher interest expense at MBFC and ORQ, Lower contribution from Southgate Complex, Weaker AUD against SGD
Cost of debt	3.84%	2.94%	30.6ppt	Looking to maintain current level
Interest expense	153.5	112.2	36.8%	Higher financing cost
Leverage Ratio	42.3%	42.4%	0.24ppt	Committed to another S\$100mn divestment
Adjusted ICR	2.0x	2.4x	-16.7%	
DPU	7.14	8.88	-19.7%	Higher financing cost, weaker AUD against SGD and higher maintenance fund contribution
NAV	2.10	2.12	-0.9%	Divested S\$94.4mn of strata units at Suntec City Office
Portfolio Valuation	11893.5	11808	0.7%	Singapore(+ 2.9% to 3.7%), UK and Australia (-10.2% and -4.5%)

Source: Company, PSR

### The Positives

**+ Resilient balance sheet upon completion of divestment goal.** SUN divested S\$94.4mn at Suntec City Office Towers in FY23 at 31% above the book value. Post-divestment, gearing stood at 42.3% (-0.24ppt YoY). SUN is committed to another S\$100mn disposal plan, with a priority on strata units in Suntec Office due to better visibility of end-user demand. The proceeds generated will be used for debt repayment, aiming to lower gearing to 40%. The S\$200mn strata units contribute to c.5% of the total revenue, thus compressing DPU by 3% after factoring in interest savings from debt repayment.

**+ Singapore valuation rose.** Tenant sales surpassed the pre-COVID level by 14%, while shopper traffic lagged behind by c.10%. Singapore retail achieved a rental reversion of 21.8% in FY23 despite cautious domestic consumption. Meanwhile, rental reversion for offices remains resilient at 12.3%, with high tenant retention of 71% in Suntec. Occupancy costs continue to trend down to 21%, compared to the pre-COVID level of 23%, leaving room for further rental reversion. Singapore assets valuation rose by 3.1% in FY23. The overseas portfolio fell due to cap rate expansion, ranging from 25 bps to 63 bps, resulting in a total portfolio valuation uplift of 0.7%.

25 January 2024

### BUY (Maintained)

LAST CLOSE PRICE	SGD 1.23
FORECAST DIV	SGD 0.07
TARGET PRICE	SGD 1.47
TOTAL RETURN	25.3%

#### COMPANY DATA

BLOOMBERG CODE:	SUN SP Equity
O/S SHARES (MN) :	2,897
MARKET CAP (USD mn / SGD mn) :	2662 / 3564
52 - WK HI/LO (SGD) :	1.46 / 1.07
3M Average Daily T/O (mn) :	5.01

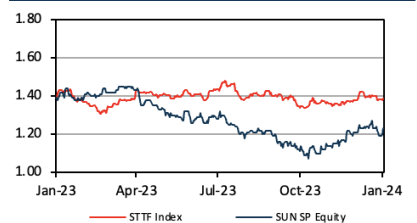
#### MAJOR SHAREHOLDERS

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

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(0.8)	9.9	(2.4)
STTF RETURN	(0.2)	3.0	(3.0)

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev (\$mn)	427.3	462.7	472.4	483.1
Dist. Inc. (\$mn)	255.5	206.8	213.8	232.6
P/NAV (x)	0.76	0.61	0.58	0.57
DPU (cents)	8.88	7.11	7.30	7.89
Dist. Yield (%)	6.94	5.83	5.99	6.47

Source: Company, PSR

#### VALUATION METHOD

DDM (Cost of Equity: 7.5%; Terminal g: 1%)

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**+ Better-than-expected recovery for Suntec Convention Center.** While MBS expansion faced some delays, Suntec Convention rebounded strongly in 2023 with the return of larger international events, driving revenue to grow 58%YoY to S\$63.9 (+3.9% FY19). The growth is set to continue in FY24, driven by MICE and consumer events. We expect them to contribute to c.20% of total revenue.

### The Negative

**- Fading recovery tailwind.** The retail occupancy rate saw a 2.3% YoY decline to 95.2%, mainly due to the departure of anchor tenants in both Singapore and overseas assets. The occupancy rate for 55 Currie Street was at 56.2% and is expected to improve by 1Q24. Minster Building occupancy stood at 87.3%. Portfolio occupancy for Offices segment also dropped by 3.4% YoY to 94.9%.

### Other highlights

While SUN remains committed to its divestment plan, Australia will be considered as a last resort due to the widened valuation and transaction price gap, and muted investor appetite. The capital distribution is likely to remain unchanged, as SUN will only consider topping up distribution with divestment proceeds in the case of excess sales of strata units. There are no near-term plans for equity fundraising or acquisitions. Thus, the growth in FY24 is hinged on organic means. Meanwhile, management is cautious about share buybacks due to potential tax implications.

### Outlook

With limited supply but muted macro-economic conditions, we still maintain a positive outlook for the Singapore office market. We anticipate mid-single digit rental reversion for FY24e due to improved physical occupancy. Meanwhile, the overseas market may continue to experience intense competition in terms of leasing incentives due to a supply influx and muted demand. Despite ~~potential~~ further consolidation of retail footprints due to manpower constraints, and the inclination of locals to shop overseas due to a strong SGD, we still expect mid-teens rental reversion in FY24e, driven by footfall recovery.

### Maintain BUY with an unchanged TP of S\$1.47

SUN is currently trading at FY24e yields of 6% and 0.58x P/NAV. We anticipate strong retail rental reversion to be persistent in FY24 as international visitors gradually return, and the office segment continues to achieve stable reversion in the mid-single digits. Our DDM-TP remains unchanged at S\$1.47, with projected FY24-25e DPUs of S\$7.30 to S\$7.89 cents.

## Financials

### Income Statement

Y/E Dec, (\$Mn)	FY21	FY22	FY23	FY24e	FY25e
<b>Gross Revenue</b>	<b>358.07</b>	<b>427.27</b>	<b>462.74</b>	<b>472.36</b>	<b>483.08</b>
Expenses	(103.44)	(111.52)	(149.59)	(141.71)	(144.92)
<b>Net property income</b>	<b>254.63</b>	<b>315.75</b>	<b>313.15</b>	<b>330.65</b>	<b>338.16</b>
Share of profit of jointly controlled entities	102.91	144.86	36.00	74.30	75.93
Asset Management fees	(57.87)	(61.17)	(61.43)	(48.62)	(49.30)
<b>EBIT</b>	<b>308.32</b>	<b>401.58</b>	<b>284.43</b>	<b>352.95</b>	<b>361.38</b>
Net financing costs	(94.38)	(112.24)	(153.58)	(141.86)	(131.21)
<b>NPAT</b>	<b>490.51</b>	<b>497.63</b>	<b>196.32</b>	<b>204.42</b>	<b>222.90</b>
<b>PATMI</b>	<b>465.35</b>	<b>462.84</b>	<b>171.41</b>	<b>178.69</b>	<b>197.17</b>
<b>Distributable income</b>	<b>247.20</b>	<b>255.51</b>	<b>206.79</b>	<b>213.83</b>	<b>232.59</b>

### Per unit data

Y/E Dec, (\$Mn)	FY21	FY22	FY23	FY24e	FY25e
NAV (\$)	2.11	2.12	2.10	2.12	2.14
DPU (\$ cents)	8.67	8.88	7.11	7.30	7.89

### Cash Flow

Y/E Dec, (\$Mn)	FY21	FY22	FY23	FY24e	FY25e
<b>CFO</b>					
<b>Total Return</b>	<b>260.55</b>	<b>289.34</b>	<b>130.85</b>	<b>211.09</b>	<b>230.17</b>
Adjustments	(39.52)	79.59	(13.74)	(3.74)	0.62
Operating income before working capital Δ	246.81	285.60	277.82	211.71	230.80
Cash generated from operations	247.62	279.21	273.13	249.74	233.48
<b>Cash flow from operating activities</b>	<b>243.73</b>	<b>272.97</b>	<b>252.02</b>	<b>243.07</b>	<b>226.20</b>

### CFI

CAPEX	72.32	80.59	66.67	65.05	145.94
Interest received	18.17	24.69	48.55	21.12	39.20
Dividend received	72.32	80.59	66.67	65.05	145.94
<b>Cash flows from investing activities</b>	<b>(1,148.78)</b>	<b>(82.68)</b>	<b>125.99</b>	<b>698.15</b>	<b>122.15</b>

### CFF

Financing costs paid	(127.01)	(133.06)	(171.23)	(181.06)	(170.41)
Distributions to unitholders	(246.02)	(263.44)	(209.91)	(213.83)	(232.59)
<b>Cash flows from financing activities</b>	<b>(116.94)</b>	<b>(383.59)</b>	<b>(1,000.99)</b>	<b>(394.89)</b>	<b>(403.00)</b>
<b>Net change in cash</b>	<b>(1,021.99)</b>	<b>(193.30)</b>	<b>(622.98)</b>	<b>546.33</b>	<b>(54.65)</b>
Cash at the start of the period	157.21	227.47	268.31	269.61	217.93
Others	15.53	(3.27)	(14.07)	(0.87)	-
<b>Ending cash</b>	<b>227.47</b>	<b>268.31</b>	<b>269.61</b>	<b>217.93</b>	<b>240.41</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, (\$Mn)	FY21	FY22	FY23	FY24e	FY25e
<b>ASSETS</b>					
Cash and cash equivalents	268.31	269.61	217.93	240.41	239.00
Trade and other receivables	29.96	23.48	39.93	23.62	24.15
<b>Current assets</b>	<b>303.05</b>	<b>296.76</b>	<b>308.86</b>	<b>315.03</b>	<b>314.15</b>
Investment properties	7,913	7,907	7,965	8,078	8,191
Interest in jointly controlled er	3,445	3,424	2,829	2,829	2,829
<b>Non-current assets</b>	<b>11,386</b>	<b>11,414</b>	<b>10,820</b>	<b>10,933</b>	<b>11,046</b>
<b>Total Assets</b>	<b>11,689</b>	<b>11,710</b>	<b>11,129</b>	<b>11,248</b>	<b>11,361</b>
<b>LIABILITIES</b>					
Trade and other payables	105.10	128.70	120.00	141.71	144.92
Interest bearing borrowings	499.75	645.58	399.85	399.85	399.85
<b>Current liabilities</b>	<b>639.72</b>	<b>806.72</b>	<b>552.37</b>	<b>574.08</b>	<b>577.30</b>
Interest bearing borrowings	4,419	4,198	3,860	3,860	3,860
Deferred tax liabilities	67.16	61.97	57.45	57.45	57.45
<b>Non-current liabilities</b>	<b>4,550</b>	<b>4,320</b>	<b>3,993</b>	<b>3,993</b>	<b>3,993</b>
<b>Total Liabilities</b>	<b>5,190</b>	<b>5,126</b>	<b>4,545</b>	<b>4,567</b>	<b>4,570</b>
<b>Net assets</b>	<b>6,499</b>	<b>6,584</b>	<b>6,584</b>	<b>6,681</b>	<b>6,790</b>
<b>Represented by:</b>					
Unitholders' funds	<b>5,830</b>	<b>6,053</b>	<b>6,116</b>	<b>6,108</b>	<b>6,205</b>
NIC	84.84	98.07	119.73	128.07	128.07
Perps	198.68	348.01	348.04	348.04	348.01
<b>Total Equity</b>	<b>6,113</b>	<b>6,499</b>	<b>6,584</b>	<b>6,584</b>	<b>6,681</b>

### Valuation Ratios

Y/E Dec, (\$Mn)	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.76	0.76	0.61	0.58	0.57
Distribution Yield (%)	5.38	6.94	5.83	5.99	6.47

### Growth & Margins

<b>Growth</b>					
Revenue		19.3%	8.3%	2.1%	2.3%
Distributable income		3.4%	-19.1%	3.4%	8.8%
DPU		2.5%	2.5%	-20.0%	2.8%

### Key Ratios

Net Debt or (Net Cash)	(6,770)	(6,867)	(6,869)	(6,988)	(7,100)
Gearing	43.2%	42.4%	39.4%	39.0%	38.6%

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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