

# Suntec REIT

## Overseas performance subdued


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### Singapore | REIT | 3Q24 UPDATE

29 October 2024

- Gross revenue for 3Q24 is in line with expectations, sliding by 4.6%YoY to S\$117.7mn. 9M24 revenue forms 74% of our FY24e estimates, and the decline was due to lower contributions from the Suntec Convention and overseas properties.
- NPI slipped by 5.7% YoY to S\$79.8mn which 9M24 constituting 73% of our FY24e estimates and was within expectation. DPU plummeted by 11.9% YoY as the S\$5.8mn capital distribution has been exhausted. 3Q24 DPU stands at 1.58 cents, which is within our expectation, and 9M24 DPU forms 75% of our full-year forecast.
- Rental reversion in Singapore was healthy, with office achieved at 10.8% and retail at 20.9%. Overseas assets were the main drag to the portfolio, with a 20.5%YoY drop in NPI for the UK and a 10.9% YoY decrease for Australia in 3Q24 due to increasing vacancy. While SUN is committed to its S\$100mn strata units divestment with 50% completion YTD, we do expect year-end valuation from the overseas assets to place pressure on gearing. There is no change in FY24e forecast, but we lowered our FY25e DPU estimates by 7% after factoring in the lacklustre overseas performance. We downgrade SUN to accumulate with a lower DDM-TP of S\$1.36 (prev: S\$1.41) and FY24e/25e DPU of 6.2/6.96 cents in the face of the deteriorating NPI margin, lacklustre overseas performance and slowing down in large-scale events in Singapore.

### ACCUMULATE (Downgraded)

LAST CLOSE PRICE	SGD 1.23
FORECAST DIV	SGD 0.06
TARGET PRICE	SGD 1.36
<b>TOTAL RETURN</b>	<b>15.8%</b>

#### COMPANY DATA

BLOOMBERG CODE:	SUN SP Equity
O/S SHARES (MN) :	2,918
MARKET CAP (USD mn / SGD mn) :	3087 / 4076
52 - WK HI/LO (SGD) :	2.42 / 2.01
3M Average Daily T/O (mn) :	10.82

#### MAJOR SHAREHOLDERS

Raffles Investments Ltd	11%
ARA Asset Management Ltd	9%
Tang Gordon	8%

#### TOTAL RETURN

	1MTH	3MTH	YTD
COMPANY	(4.58)	9.12	6.02
STTF RETURN	(0.86)	6.61	16.34

#### Result at a glance

(\$ Mn)	3Q24	3Q23	YoY	Comments
Gross Revenue	117.7	123.4	-4.6%	Lower contribution from Suntec Convention and overseas assets
Net Property Income	79.8	84.6	-5.7%	
JV Income	25.0	23.8	5.0%	Stronger operating performance at MBFC and PRQ
Cost of debt	4.06%	3.78%	0.28ppt	
Adjusted ICR	42.30%	42.70%	(0.4ppt)	Divestment of Suntec office
DPU	1.58	1.60	-0.9%	Completion of capital distribution (\$5.8m)
NAV	2.07	2.09	-1.0%	

Source: Company, PSR

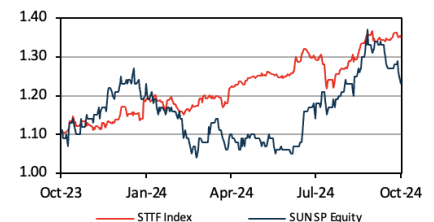
#### The Positives

**+ Singapore rental reversion holds well.** Rental reversion in Singapore remains robust, achieving 20.9% for retail and 10.8% for office. SUN benefits from a balanced mix of renewals and new leases. Although tenant sales decreased by 1% YoY in 3Q24, occupancy costs in Suntec City remain stable. Rental reversion at mid-teens in FY25e through trade mix rebalancing to attract higher-yielding tenants from the F&B and entertainment sectors. Despite the upcoming supply influx for CBD offices in 2024-25, such as IOI Phase 2 and Keppel South Central, SUN is well-positioned to capture market demand by leveraging its convenient location and competitive pricing. We expect rental reversion in FY25e to maintain the high single digits for the office segment.

#### The Negative

**- Overseas assets continue to lag.** While backfilling of overseas properties is on track, the occupancy rate for 55 Currie Street is subdued at 61.4% and is expected to improve to c.64% by year-end. SUN believes the leasing momentum in overseas markets has yet to regain full strength due to high incentives in Melbourne and Sydney and weak physical occupancy rates, as employees are reluctant to return to the office. Melbourne's office market is particularly challenging, with a CBD vacancy rate reaching 19.6% in 1H24, comparable to the high vacancy rates in Shanghai (21.7%) and major U.S. gateway cities (16.5%). We expect additional pressure from the year-end valuation due to potential cap rate expansion in Australia. We anticipate an asset devaluation of c. S\$400mn, which could raise gearing to around 45% by year-end, assuming a portfolio-level expansion of c.70bps.

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev (\$mn)	427.3	462.7	501.8	516.1
Dist. Inc. (\$mn)	255.5	206.8	181.6	205.1
P/NAV (x)	0.58	0.59	0.58	0.57
DPU (cents)	8.88	7.11	6.20	6.96
Dist. Yield (%)	7.22	5.78	5.04	5.66

Source: Company, PSR

#### VALUATION METHOD

DDM (Cost of Equity: 7.6%; Terminal g: 1%)

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- **Lower contribution from Suntec Convention.** Revenue from Suntec Convention decreased by 24.2% YoY to S\$16.9mn due to fewer large-scale events than last year. However, SUN expects MICE events to remain strong, with a projected 9% YoY CAGR till 2030. Corporates are becoming more cautious about securing locations for MICE events, tending to book closer to the actual date. With a capacity for 500 to 1,000 people, SUN plans to attract more small-scale corporate and entertainment events to offset the revenue shortfall.

### Outlook

We expect year-end valuations for the UK assets to hold up well, with potential upside from the Singapore market due to resilient rental reversion and strong operational performance, which is expected to partially offset asset devaluation in Australia. Leasing demand remains robust in Singapore, with the 30,000 sqft previously occupied by Pure Fitness fully backfilled at a positive rental reversion. Although the low-rent cycle has passed as leases signed during COVID have largely expired, we still anticipate that revenue from the retail segment will support DPU in FY25e, as 5-7% of revenue derives from gross turnover (GTO) and is not reflected in rental reversion figures.

SUN also increased its proportion of fixed-rate debt from 55% last quarter to 61% in 3Q24, given the attractive rates relative to what rates may be when existing swaps gradually expire. Approximately S\$627mn in loans is due for refinancing in FY25e, accounting for roughly 15% of the total loan portfolio. We expect the all-in cost of borrowing to edge up to around 4.3% in FY25e, assuming these loans, originally taken at pre-Fed-hike rates, will be renewed at prevailing market rates next year.

### Downgrade to ACCUMULATE with a lower TP of S\$1.36 (prev: \$1.41)

SUN is currently trading at an FY24e dividend yield of 5.0%, with an attractive valuation of 0.60x P/NAV. We downgrade SUN to ACCUMULATE with a lower DDM-based TP of S\$1.36 (prev: \$1.41) and an FY24e-25e DPU of 6.2 to 6.96 cents due to the deteriorating NPI margin, lackluster overseas performance and a slowdown in large-scale events in Singapore. There is no change in FY24e forecast, but we lowered our FY25e DPU estimates by 7%. A re-rating catalyst would include better-than-expected overseas performance and a recovery in the Suntec Convention.

## 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>501.76</b>	<b>516.13</b>
Expenses	(103.44)	(111.52)	(149.59)	(193.18)	(198.71)
<b>Net property income</b>	<b>254.63</b>	<b>315.75</b>	<b>313.15</b>	<b>308.58</b>	<b>317.42</b>
Share of profit of jointly controlled entities	102.91	144.86	36.00	86.00	80.59
Asset Management fees	(57.87)	(61.17)	(61.43)	(47.64)	(48.37)
<b>EBIT</b>	<b>308.32</b>	<b>401.58</b>	<b>284.43</b>	<b>343.57</b>	<b>346.23</b>
Net financing costs	(94.38)	(112.24)	(153.58)	(165.29)	(143.99)
<b>NPAT</b>	<b>490.51</b>	<b>497.63</b>	<b>196.32</b>	<b>172.65</b>	<b>195.85</b>
<b>PATMI</b>	<b>465.35</b>	<b>462.84</b>	<b>171.41</b>	<b>146.92</b>	<b>170.12</b>
<b>Distributable income</b>	<b>247.20</b>	<b>255.51</b>	<b>206.79</b>	<b>181.59</b>	<b>205.10</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	6.20	6.96

### 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>178.28</b>	<b>202.24</b>
Adjustments	(39.52)	79.59	(13.74)	(3.74)	0.62
Operating income before working capital Δ:	246.81	285.60	277.82	178.90	202.86
Cash generated from operations	247.62	279.21	273.13	224.28	206.46
<b>Cash flow from operating activities</b>	<b>243.73</b>	<b>272.97</b>	<b>252.02</b>	<b>218.64</b>	<b>200.06</b>
<b>CFI</b>					
CAPEX	72.32	80.59	66.67	65.05	147.80
Interest received	18.17	24.69	48.55	21.12	39.20
Dividend received	72.32	80.59	66.67	65.05	147.80
<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>124.00</b>
<b>CFF</b>					
Financing costs paid	(127.01)	(133.06)	(171.23)	(204.50)	(183.20)
Distributions to unitholders	(246.02)	(263.44)	(209.91)	(181.59)	(205.10)
<b>Cash flows from financing activities</b>	<b>(116.94)</b>	<b>(383.59)</b>	<b>(1,000.99)</b>	<b>(386.09)</b>	<b>(388.30)</b>
<b>Net change in cash</b>	<b>(1,021.99)</b>	<b>(193.30)</b>	<b>(622.98)</b>	<b>530.70</b>	<b>(64.24)</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

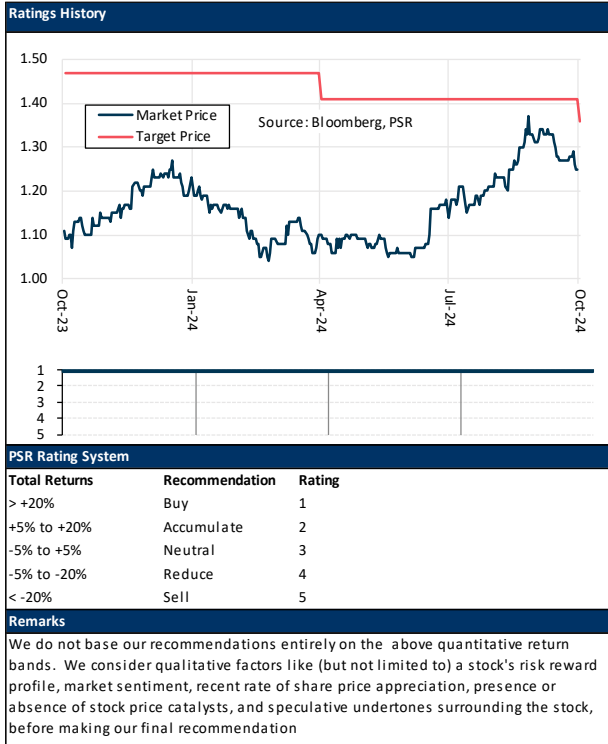
Y/E Dec, (\$Mn)	FY21	FY22	FY23	FY24e	FY25e
<b>ASSETS</b>					
Cash and cash equivalents	268.31	269.61	217.93	240.41	239.00
Trade and other receivables	29.96	23.48	39.93	25.09	25.81
<b>Current assets</b>	<b>303.05</b>	<b>296.76</b>	<b>308.86</b>	<b>316.50</b>	<b>315.80</b>
Investment properties	7,913	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>11,250</b>	<b>11,362</b>
<b>LIABILITIES</b>					
Trade and other payables	105.10	128.70	120.00	150.53	154.84
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>582.90</b>	<b>587.21</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>4,576</b>	<b>4,580</b>
<b>Net assets</b>	<b>6,499</b>	<b>6,584</b>	<b>6,584</b>	<b>6,674</b>	<b>6,782</b>
<b>Represented by:</b>					
Unitholders' funds	5,830	6,053	6,116	6,108	6,198
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>6,674</b>

### Valuation Ratios

Y/E Dec, (\$Mn)	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.58	0.58	0.59	0.58	0.57
Distribution Yield (%)	7.05	7.22	5.78	5.04	5.66

### Growth & Margins

	FY21	FY22	FY23	FY24e	FY25e
<b>Growth</b>					
Revenue		19.3%	8.3%	8.4%	2.9%
Distributable income		3.4%	-19.1%	-12.2%	12.9%
DPU		2.5%	2.5%	-20.0%	-12.7%
<b>Key Ratios</b>					
Net Debt or (Net Cash)	(6,770)	(6,867)	(6,869)	(6,990)	(7,102)
Gearing	43.2%	42.4%	39.4%	39.0%	38.6%
ROE	1.6%	3.9%	3.1%	2.7%	3.0%



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