

COMPANY RESULTS

Suntec REIT (SUN SP)

1H22: Held Back By Higher Interest Rates

Operationally, management has done a superb job by generating positive rental reversion of 5.7% for the Singapore office portfolio and 3.2% for Suntec City Mall. Income from its JVs (MBFC, ORQ and Nova Properties) grew 5.5% yoy. Management intends to maintain capital distribution at S\$23m per year for two years. Although 2022 distribution yield of 6.3% and P/NAV of 0.75x are attractive, we await a more opportune time to re-enter the stock. Maintain HOLD. Target price: S\$1.72.

1H22 RESULTS

Year to 31 Dec (S\$m)	1H22	yoy % chg	Remarks
Gross Revenue	203.5	+22.0	Growth from Suntec City, 477 Collins Street, 21 Harris Street and newly acquired Minster Building.
Net Property Income	152.9	+35.8	
Income Contribution from JVs	61.3	+5.5	Growth from ORQ and newly acquired Nova Properties.
Distributable Income	138.1	+16.9	Capital distribution from past divestment gains of S\$11.5m, which is equivalent to additional DPU of 0.4 S cents.
DPU (S cents)	4.81	+15.8	

Source: SUN, UOB Kay Hian

RESULTS

- Suntec REIT (SUN) reported DPU of 4.81 S cents for 1H22 (+15.8% yoy)**, which is below our expectations due to higher interest expense. The results included capital distribution from past divestment gains of S\$11.5m.
- Singapore office: Benefitting from office upcycle.** NPI increased 9.5% yoy in 1H22. The Singapore office portfolio maintained positive rental reversion at 5.7% in 2Q22, its 16th consecutive quarter of positive reversion. It completed 316,100sf of new leases and renewals. New tenants were mainly from banking & financial services (27%), technology, media & telecommunications (19%) and manufacturing & distribution (16%). Occupancy for the Singapore office portfolio was stable at 97.8%. Occupancy for Suntec City Office improved 0.8ppt qoq to 99.4%, while occupancy for One Raffles Quay (ORQ) eased 2.0ppt qoq to 93.8%. Positive rental reversion could moderate in 2H22 due to higher expiry rents of S\$9.59psf/month.
- Suntec City Mall: Traffic begets sales.** Gross revenue increased 21% yoy in 1H22. Shopper traffic and tenant sales have recovered since the easing of COVID-19-related restrictions in Apr 22. Tenant sales were 15% above pre-pandemic levels in Jun 22. Rental reversion turned around to a positive 3.2% in 2Q22. Occupancy inched marginally higher by 0.1ppt qoq to 96.1%. Management focuses on activity-based concepts and dining offerings and has introduced seven new brands in 2Q22. Management expects footfall to improve with atrium events, workers returning to their offices and the return of convention and tourist crowds. Occupancy is expected to maintain at above 95%.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	315	358	409	414	422
EBITDA	144	191	240	237	242
Operating profit	144	191	240	237	242
Net profit (rep./act.)	(73)	465	379	217	220
Net profit (adj.)	158	164	270	217	220
EPU (S\$ cent)	5.6	5.7	9.4	7.5	7.5
DPU (S\$ cent)	7.4	8.7	10.1	10.0	9.2
PE (x)	28.5	27.7	16.9	21.3	21.2
P/B (x)	0.8	0.8	0.8	0.8	0.8
DPU Yld (%)	4.7	5.5	6.3	6.3	5.8
Net margin (%)	(23.1)	130.0	92.8	52.4	52.2
Net debt/(cash) to equity (%)	76.3	72.7	70.8	72.7	74.0
Interest cover (x)	1.6	2.0	2.3	2.1	2.1
ROE (%)	n.a.	7.5	5.9	3.4	3.5

Source: Suntec REIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$1.59
Target Price	S\$1.72
Upside	+8.2%
(Previous TP)	S\$1.73

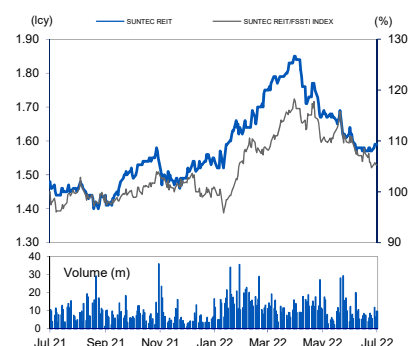
COMPANY DESCRIPTION

SUN owns Suntec City, comprising Suntec City Office and Suntec City Mall, and a 60.8% stake in Suntec Convention & Exhibition Centre. It has one-third stake in Marina Bay Financial Centre Tower 1 & 2, Marina Bay Link Mall and One Raffles Quay. It has expanded overseas to Australia and the UK.

STOCK DATA

GICS sector	Real Estate			
Bloomberg ticker:	SUN SP			
Shares issued (m):	2,870.3			
Market cap (S\$m):	4,563.7			
Market cap (US\$m):	3,289.2			
3-mth avg daily t'over (US\$m):	13.2			
Price Performance (%)				
52-week high/low	S\$1.85/S\$1.40			
1mth	3mth	6mth	1yr	YTD
(1.9)	(14.1)	2.6	8.2	5.3
Major Shareholders				
Tang Gordon	8.2			
Tang Jialin	8.9			
ESR Cayman	9.1			
FY22 NAV/Share (S\$)	2.10			
FY22 Net Debt/Share (S\$)	1.57			

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Suntec Convention: Long-awaited recovery has arrived.** Revenue more than tripled yoy to S\$12.4m. NPI turned positive in 2Q22 and was S\$2.9m in 1H22. There were 300 events in 1H22 and management expects a similar volume of activities in 2H22. International MICE events are returning but on a smaller scale.
- Australia: Resiliency from long WALE of 5.2 years.** Occupancy at 21 Harris Street and 477 Collins Street improved 1.7ppt and 0.4ppt yoy respectively to 92.7% and 98.7%. Effective rents for prime office space in Sydney and Melbourne are expected to improve due to flight to quality. SUN will create fully-fitted office suites to attract new tenants.
- UK: Resiliency from long WALE of 10.1 years.** Occupancy at Minster Building is stable at 96.7%. Nova Properties remains fully occupied. Occupancy for the office market at Central London is expected to maintain stable occupancy at 92.2% due to limited supply. Management plans to enhance the patio and lobby area by adding a cafe.
- Mid-year revaluation.** Valuation for the Singapore office portfolio increased S\$119.1m or 2% to S\$5,944.1m. Valuation for the UK portfolio increased £1.2m or 0.2% to £799.4m. SUN recognised revaluation gains of S\$54.2m. NAV per unit has increased 1% to S\$2.13.

STOCK IMPACT

- Office recovery has strengthened and broadened in Singapore.** According to CBRE, rents for Grade A core CBD offices increased 7.6% yoy and 3.2% qoq to S\$11.30psf/month in 2Q22. Strength in the office market was driven by the reopening with all employees allowed back to their workplaces since 26 Apr 22. AXA Tower commenced demolition. Vacancy for Grade A office space within core CBD tightened 0.1ppt qoq to 4.4%. Thus, office landlords have raised their rental expectations. Leasing activities are dominated by renewals. There were also new setups from the legal sector and non-bank financial institutions.
- Enhancing Suntec City Mall.** SUN plans to enhance East Wing Level 2 of Suntec City Mall to improve tenant mix and traffic flow. The asset enhancement initiative will add NLA of 7,000sf and is expected to be completed by Nov 22. Capex is estimated at S\$2m.
- Completed refinancing.** Aggregate leverage eased slightly by 0.6ppt qoq to 43.1% in 2Q22 due to the revaluation gains. SUN secured new sustainability-linked loans of S\$500m maturing in 2027/29 at interest rate of 3.5% in Apr 22. It does not have any borrowings maturing in 2H22. SUN has a healthy average term to maturity of three years.
- Sensitivity to higher interest rates.** All-in financing cost rose 16bp qoq to 2.51% in 2Q22. Interest expenses increased by 8.4% yoy in 1H22. SUN has increased the proportion of borrowings hedged to fixed interest rates from 53% to 56%. Management expects financing cost to reach near 3% by end-22. Every 50bp increase in base rates is expected to reduce distributable income by 4.7%.

EARNINGS REVISION/RISK

- We have trimmed our 2022 DPU forecasts by 1.2% due to higher financing cost.

VALUATION/RECOMMENDATION

- Maintain HOLD.** Our target price of S\$1.72 is based on DDM (cost of equity: 7.0%, terminal growth: 1.8%). SUN trades at a discount of 25% to NAV per unit of S\$2.13.

SHARE PRICE CATALYST

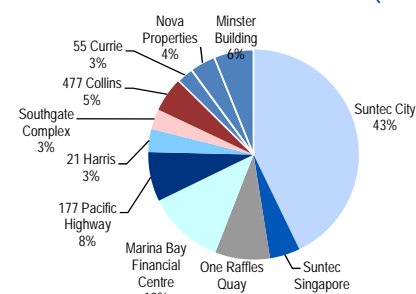
- Positive rent reversion at Suntec City Office in 2022.
- Employees returning to work at Suntec City Office and resumption of events at Suntec Convention to trigger recovery in shopper traffic and tenant sales at Suntec City Mall.
- Full-year contributions from Minster Building in London, UK in 2022.

KEY OPERATING METRICS – SUN

Key Metrics	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	yoy % Chg	qoq % Chg
DPU (S cents)	2.045	2.109	2.232	2.28	2.391	2.419	14.7%	1.2%
Office Occupancy	96.1%	95.0%	96.1%	97.5%	96.7%	97.8%	2.8ppt	1.1ppt
Retail Occupancy	91.5%	93.8%	94.9%	94.6%	95.2%	95.7%	1.9ppt	0.5ppt
Aggregate Leverage	44.4%	43.1%	44.3%	43.7%	43.3%	43.1%	0ppt	-0.2ppt
All-in-Financing Cost	2.40%	2.41%	2.32%	2.35%	2.31%	2.51%	0.1ppt	0.2ppt
Debt Maturity (years)	2.94	2.99	3.07	2.92	2.67	2.99	0yrs	0.3yrs
Suntec Office Passing Rent (S\$ psf pm)	8.91	9.09	9.08	9.25	9.26	9.28	2.1%	0.2%

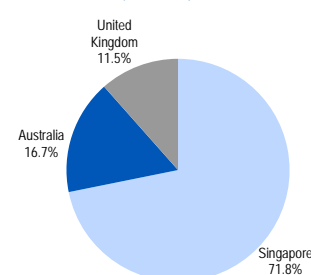
Source: SUN

NPI & INCOME FROM JV BY PROPERTY (1H22)



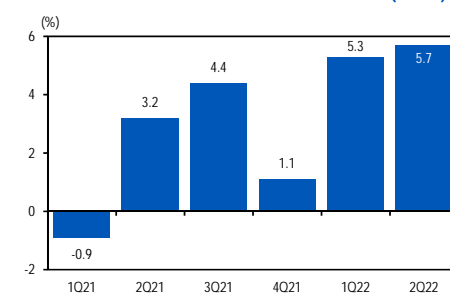
Source: SUN

AUM BY COUNTRY (JUN 22)



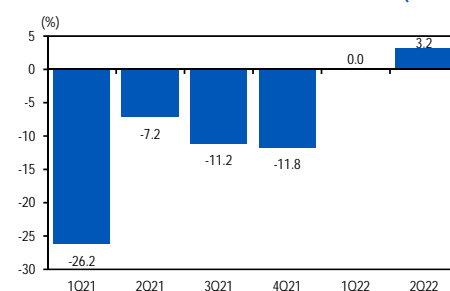
Source: SUN

RENT REVERSION – SINGAPORE OFFICE (2Q22)



Source: SUN

RENT REVERSION – SUNTEC CITY OFFICE (2Q22)



Source: SUN

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	358.1	408.5	414.3	422.0
EBITDA	190.6	239.8	237.1	242.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	190.6	239.8	237.1	242.3
Total other non-operating income	14.9	6.1	4.0	4.0
Associate contributions	102.9	165.1	121.9	121.9
Net interest income/(expense)	(94.4)	(103.9)	(112.3)	(114.3)
Pre-tax profit	515.5	415.6	250.7	254.0
Tax	(25.0)	(15.1)	(12.5)	(12.7)
Minorities	(14.1)	(8.0)	(8.0)	(8.0)
Preferred dividends	(11.1)	(13.5)	(13.2)	(13.2)
Net profit	465.3	378.9	217.0	220.1
Net profit (adj.)	163.7	270.5	217.0	220.1

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	7,914.4	7,900.5	7,900.5	7,900.5
Other LT assets	3,471.2	3,436.7	3,436.7	3,436.7
Cash/ST investment	268.3	281.8	280.6	282.8
Other current assets	34.7	54.0	54.7	55.7
Total assets	11,688.7	11,673.1	11,672.6	11,675.8
ST debt	499.8	552.6	552.6	552.6
Other current liabilities	148.2	182.7	185.3	188.7
LT debt	4,419.2	4,280.0	4,350.0	4,400.0
Other LT liabilities	122.7	124.0	124.0	124.0
Shareholders' equity	6,399.9	6,430.8	6,357.7	6,307.5
Minority interest	98.9	102.9	102.9	102.9
Total liabilities & equity	11,688.7	11,673.1	11,672.6	11,675.8

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	243.7	399.7	275.8	281.4
Pre-tax profit	191.6	270.5	217.0	220.1
Associates	(102.9)	(165.1)	(121.9)	(121.9)
Working capital changes	3.3	10.3	1.3	1.7
Non-cash items	43.0	35.9	43.5	43.7
Other operating cashflows	108.8	248.2	136.0	138.0
Investing	(82.7)	141.0	101.7	101.7
Capex (growth)	(651.6)	0.0	0.0	0.0
Capex (maintenance)	(8.3)	(8.0)	(8.0)	(8.0)
Investments	164.0	149.0	109.7	109.7
Proceeds from sale of assets	282.4	0.0	0.0	0.0
Others	130.9	0.0	0.0	0.0
Financing	(116.9)	(527.2)	(378.8)	(381.0)
Distribution to unitholders	(211.0)	(290.1)	(290.1)	(270.3)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	92.5	(86.4)	70.0	50.0
Others/interest paid	1.5	(150.8)	(158.7)	(160.7)
Net cash inflow (outflow)	44.1	13.5	(1.2)	2.2
Beginning cash & cash equivalent	227.5	268.3	281.8	280.6
Changes due to forex impact	(3.3)	0.0	0.0	0.0
Ending cash & cash equivalent	268.3	281.8	280.6	282.8

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	53.2	58.7	57.2	57.4
Pre-tax margin	144.0	101.7	60.5	60.2
Net margin	130.0	92.8	52.4	52.2
ROA	4.1	3.2	1.9	1.9
ROE	7.5	5.9	3.4	3.5
Growth				
Turnover	13.5	14.1	1.4	1.8
EBITDA	32.3	25.9	(1.1)	2.2
Pre-tax profit	n.a.	(19.4)	(39.7)	1.3
Net profit	n.a.	(18.6)	(42.7)	1.4
Net profit (adj.)	3.9	65.2	(19.8)	1.4
EPU	2.9	63.6	(20.5)	0.4
Leverage				
Debt to total capital	43.1	42.5	43.1	43.6
Debt to equity	76.9	75.1	77.1	78.5
Net debt/(cash) to equity	72.7	70.8	72.7	74.0
Interest cover (x)	2.0	2.3	2.1	2.1

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