

# Suntec REIT (SUN SP)

Property - REITS

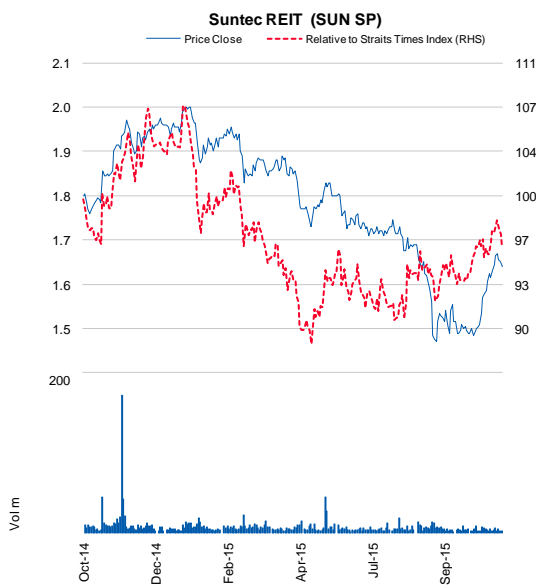
Market Cap: USD2,963m

**Sell** (Maintained)

 Target Price: **SGD1.31**

 Price: **SGD1.64**

## Declining Rents In Suntec City AEI

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	8.82m/6.35m
Cons. Upside (%)	14.0
Upside (%)	-20.1
52-wk Price low/high (SGD)	1.47 - 2.00
Free float (%)	88
Share outstanding (m)	2,516

**Shareholders (%)**

Raffles Investments Limited	7.1
ARA Asset Management Limited	5.0
Schroders PLC	4.7

**Share Performance (%)**

	YTD	1m	3m	6m	12m
Absolute	(16.3)	9.7	(4.4)	(11.8)	(8.9)
Relative	(6.6)	3.8	5.2	1.3	(3.7)

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Results were in line with our expectations as Suntec REIT announced 3Q/9M15 DPU growth of 8.3/6.3% YoY, accounting for c.74% of our full year estimates. We maintain our SELL recommendation with an unchanged target price of SGD1.31, since we remain cautious as Suntec REIT faces more than 40% of its total office space for lease renewal in the next 2 years. In addition, we note that the overall passing rent for Suntec City AEI has declined to SGD12.03psf/mth, or 4.4% below its initial target.

- ◆ **3Q15 results in line with our expectations.** Suntec REIT's 3Q/9M15 DPU grew 8.3/6.3% YoY, and accounted for c.74% of our full-year estimate. Suntec REIT has topped up c.0.040 cents, or SGD36.5m since 1Q13. Recall that Suntec REIT received cash proceeds of SGD147m and booked SGD29.7m of divestment gains from the sale of Chijmes in 1Q12. Stripping off the DPU top up, 3Q/9M15 DPU grew by only 2.3% YoY for the quarter.
- ◆ **Overall the committed passing rent for Suntec City AEI is below the initial target of SGD12.59 psf/mth.** As Suntec REIT celebrates its official opening of Suntec City, the overall committed occupancy for its AEI inched up slightly to 96.4% (previous: 93.6%). We also note that overall passing rent has declined to SGD12.03 psf/mth, which is 4.4% below its initial target of SGD12.59 psf/mth.
- ◆ **Over 40% of its total office space is up for renewal in the next two years.** Suntec REIT has little concerns over renewal for the remaining of this year, as it has a mere 1.4% and 1.6% of total office and retail net lettable area (NLA) respectively. However, given our expectation of a downturn in the office rental market, we are cautious over Suntec REIT's office leases expiring in the next two years as it constitutes a significant 40.4% of its total office NLA.
- ◆ **Maintain SELL with a DDM-derived TP of SGD1.31.** In addition to a pessimistic view of the office rental market, we are also wary of its redevelopment effort on assets such as Park Mall (target completion: 2019), which may only be beneficial to Suntec REIT in the long run. As a result, we maintain our SELL recommendation with a DDM-derived TP of SGD1.31 which represents a total negative return of approximately 14% vs the current price (Figure 4).

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	234	282	379	389	397
Net property income (SGDm)	149	192	242	248	253
Reported net profit (SGDm)	382	316	277	284	291
Total distributable income (SGDm)	221	213	211	230	248
DPS (SGD)	0.09	0.09	0.10	0.10	0.10
DPS growth (%)	(1.7)	0.8	4.7	0.3	0.4
Recurring P/E (x)	9.7	13.0	15.0	14.7	14.5
P/B (x)	0.77	0.77	0.79	0.78	0.78
Dividend Yield (%)	5.7	5.7	6.0	6.0	6.0
Return on average equity (%)	8.0	6.2	5.2	5.4	5.4
Return on average assets (%)	4.8	3.7	3.1	3.1	3.1

Figure 1: Summary of Suntec REIT's 3Q15 results

(SGD m)	3Q14	2Q15	3Q15	%QoQ	%YoY	Comments
<b>Gross revenue</b>	<b>71.5</b>	<b>81.4</b>	<b>86.1</b>	<b>5.7</b>	<b>20.4</b>	<b>The increase was mainly due to the opening of Suntec City mall (Phase 3) following the completion of the asset enhancement works and higher revenue achieved by Suntec Singapore Convention &amp; Exhibition Centre</b>
Operating expenses	(22.7)	(24.5)	(27.6)	12.6	21.4	This was mainly due to higher property tax and property management fees due to the increase in revenue for the period as well as higher other property expenses.
<b>NPI</b>	<b>48.8</b>	<b>56.9</b>	<b>58.5</b>	<b>2.7</b>	<b>19.9</b>	<b>Net property income rose SGD9.7m or 19.9% YoY to SGD58.5m due mainly to the opening of Suntec City mall (Phase 3) and improved contribution from Suntec Singapore.</b>
Other income	6.0	3.1	3.9	26.8	(34.2)	
Manager's fees	(10.9)	(11.2)	(11.4)	1.9	5.5	
Trustee fees	(16.9)	(0.9)	(1.0)	0.4	(94.4)	
Other expenses	(4.5)	(2.3)	(2.9)	26.8	(34.2)	
Net income before financing cost & tax	22.5	45.5	47.1	3.4	109.1	
Net financing costs	(9.3)	(15.3)	(14.8)	(3.0)	59.0	This was mainly due to unrealised net foreign exchange differences. Excluding the unrealised net foreign currency differences, net financing costs was SGD2.5m or 27.5% higher YoY.
EBT	13.2	30.2	32.2	6.6	144.5	
Share of profit of jointly controlled entities	14.4	14.7	13.9	(5.8)	(3.6)	
Gains from revaluation/financial derivatives	0.8	3.6	5.1	39.9	549.7	
Total return before tax	28.4	48.6	51.2	5.3	80.5	
Tax	(2.5)	(1.6)	(2.0)	21.6	(20.9)	
Total return - reported	25.9	47.0	49.2	4.7	90.3	
Attributable to unitholders	32.7	44.3	46.9	6.0	43.3	
Attributable to non-controlling interest	(6.9)	2.7	2.3	(15.4)	nm	
Total return (ex exceptionals)	25.1	43.3	44.1	1.8	75.9	
Net income before share of jointly controlled entity	13.2	30.2	32.2	6.6	144.5	
Add-back: Non tax deductibles	44.1	26.6	26.8	0.6	(39.2)	
<b>Income available for distribution</b>	<b>57.3</b>	<b>56.9</b>	<b>59.0</b>	<b>3.8</b>	<b>3.1</b>	
<b>Capital distribution (Chijmes divestment)</b>	<b>1.0</b>	<b>6.0</b>	<b>4.6</b>	<b>(23.3)</b>	<b>360.0</b>	
<b>Distributable income</b>	<b>58.3</b>	<b>62.9</b>	<b>63.6</b>	<b>1.2</b>	<b>9.2</b>	
Number of units ('m end of period)	2,502	2,516	2,521	0.2	0.8	
<b>DPU (SGD-cts)</b>	<b>2.33</b>	<b>2.50</b>	<b>2.52</b>	<b>0.9</b>	<b>8.3</b>	
<b>DPU excl. capital distrib.(SGD-cts)</b>	<b>2.29</b>	<b>2.26</b>	<b>2.34</b>	<b>3.5</b>	<b>2.3</b>	
<b>NAV</b>	<b>2.06</b>	<b>2.10</b>	<b>2.09</b>	<b>(0.5)</b>	<b>1.7</b>	
Payout ratio (%)	101.7	110.6	107.8	(2.8) ppt	6.0 ppt	
NPI margin (%)	68.2	69.9	67.9	(2.0) ppt	(0.3) ppt	

Source: RHB, Company

Figure 2: Summary of Suntec REIT's 9M14 results

	9M14	9M15	%Change	RHB FY15F	% of FY15F	Comments
<b>Gross revenue</b>	<b>205.6</b>	<b>242.0</b>	<b>17.7</b>	<b>379.0</b>	<b>63.8</b>	<b>The increase was mainly due to the opening of Suntec City mall (Phases 2 &amp; 3) and higher revenue achieved by Suntec Singapore.</b>
Operating expenses	(66.9)	(75.2)	12.4	(137.3)	54.8	Property expenses incurred for the period was SGD75.2m, which was SGD8.3m or 12.4% higher than the corresponding period last year due mainly to higher property tax, property management fees and other property expenses.
<b>NPI</b>	<b>138.6</b>	<b>166.7</b>	<b>20.3</b>	<b>241.7</b>	<b>69.0</b>	<b>The net property income for 9M15 of SGD166.7m was an increase of SGD28.1m or 20.3% YoY. This was due mainly to the opening of Suntec City mall (Phases 2 &amp; 3) and improved contribution from Suntec Singapore.</b>
Other income	14.4	9.9	(31.1)	9.2	108.1	
Manager's fees	(32.1)	(33.6)	4.5	(37.8)	88.7	
Trustee fees	(18.5)	(2.8)	(84.7)	(3.8)	74.7	
Other expenses	(10.7)	(7.4)	(31.1)	(5.8)	128.6	
Net income before financing cost & tax	91.7	132.9	44.9	203.5	65.3	
Net financing costs	(33.7)	(43.2)	28.2	(49.7)	86.9	
EBT	58.0	89.7	54.6	153.8	58.3	
Share of profit of jointly controlled entities	17.5	15.6	(11.0)	63.0	24.7	
Gains from revaluation/financial derivatives	27.1	44.7	65.2	60.9	73.4	
Total return before tax	102.6	150.0	46.2	277.8	54.0	
Tax	(4.8)	(5.1)	7.5	(1.0)	505.3	
Total return - reported	97.8	144.9	48.1	276.8	52.4	
Attributable to unitholders	101.7	138.3	36.0	260.2	53.1	
Attributable to non-controlling interest	(3.9)	6.6	nm	16.6	39.9	
Total return (ex exceptionals)	70.8	100.2	41.6	215.9	46.4	
Net income before share of jointly controlled entities	58.0	89.7	54.6	153.8	58.3	
Add-back: Non tax deductibles	101.7	82.2	(19.2)	94.6	86.8	
<b>Income available for distribution</b>	<b>159.7</b>	<b>171.9</b>	<b>7.6</b>	<b>248.5</b>	<b>69.2</b>	
<b>Distributable income</b>	<b>165.7</b>	<b>182.5</b>	<b>10.1</b>	<b>248.5</b>	<b>73.4</b>	
Number of units ('m end of period)	2,502	2,521	0.8	2,521	100.0	
<b>DPU (SGD-cts)</b>	<b>6.82</b>	<b>7.25</b>	<b>6.3</b>	<b>9.86</b>	<b>73.6</b>	
<b>DPU excl. capital distrib.(SGD-cts)</b>	<b>6.58</b>	<b>6.83</b>	<b>3.8</b>			
<b>NAV</b>	<b>2.06</b>	<b>2.09</b>	<b>1.7</b>	<b>2.09</b>	<b>100.0</b>	
Payout ratio (%)	103.8	106.2	2.4 ppt	100.0		
NPI margin (%)	67.4	68.9	1.5 ppt	63.8		

Source: RHB, Company

**Figure 3: Key Metrics Performance**

<b><u>Operating Performance:</u></b>	<b><u>3Q14</u></b>	<b><u>4Q14</u></b>	<b><u>1Q15</u></b>	<b><u>2Q15</u></b>	<b><u>3Q15</u></b>
Office Portfolio Occupancy: (%)	100.0	100.0	99.6	99.0	98.9
Retail Portfolio Occupancy: (%)	98.4	99.7	93.5	95.1	96.5
Suntec City Office (Leases secured for the quarter at an average rent of)	0.00	8.92	NR	9.14	9.21
Suntec City Retail Passing Rent DPU (SG cts)	0.00	12.27	12.15	12.12	12.03
	2.33	2.58	2.23	2.50	2.52
	<b><u>FY-1</u></b>	<b><u>FY-2</u></b>	<b><u>FY-3</u></b>	<b><u>FY-4</u></b>	<b><u>&gt;=FY-5</u></b>
Office Lease Expiry Profile: (NLA %)	1.4	21.4	19.0	19.7	37.4
Retail Lease Expiry Profile: (NLA %)	1.6	27.7	26.6	19.6	21.0
<b><u>Capital Management:</u></b>	<b><u>3Q14</u></b>	<b><u>4Q14</u></b>	<b><u>1Q15</u></b>	<b><u>2Q15</u></b>	<b><u>3Q15</u></b>
All-in cost of borrowing: (%)	2.42	2.44	2.53	2.70	2.74
Aggreg. Leverage: (%)	35.5	35.5	35.7	36.2	36.7
Term of Debt: (yrs)	3.88	3.63	3.39	3.08	2.82

Source: Company

**Figure 4: Suntec's Dividend Discount Model (DDM) valuation**

<b><u>DDM</u></b>	<b><u>FY15F</u></b>	<b><u>FY16F</u></b>	<b><u>FY17F</u></b>	<b><u>FY18F</u></b>	<b><u>FY19F</u></b>	<b><u>FY20F</u></b>	<b><u>Terminal Value</u></b>
DPU (SGD cts)	9.86	9.89	9.94	9.98	10.03	10.09	141.55
<b>Fair value (SGD)</b>	<b>1.31</b>						
Current price (SGD)	1.64						
Price upside (%)	(20.1)						
Distribution yield (%)	6.0						
<b>Total return (%)</b>	<b>(14.1)</b>						
<b><u>Assumptions</u></b>							
Risk-free rate (%)	3.9						
Beta	0.8						
Cost of equity (%)	8.8						
Terminal growth (%)	2						

Source: RHB

## Financial Exhibits

<b>Profit &amp; Loss (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total turnover	234	282	379	389	397
Property operating expenses	(85)	(91)	(137)	(141)	(144)
<b>Net property income</b>	<b>149</b>	<b>192</b>	<b>242</b>	<b>248</b>	<b>253</b>
Management fees	(40)	(43)	(38)	(39)	(39)
Trust expenses	(3)	(20)	(4)	(4)	(4)
<b>Operating EBIT</b>	<b>106</b>	<b>129</b>	<b>200</b>	<b>205</b>	<b>210</b>
Depreciation of fixed assets	(0)	(1)	-	-	-
Operating EBITDA	106	130	200	205	210
Net income from investments	310	237	124	122	126
Other recurring income	16	2	3	16	18
Interest income	(55)	(45)	(50)	(58)	(60)
<b>Pre-tax profit</b>	<b>377</b>	<b>323</b>	<b>278</b>	<b>286</b>	<b>293</b>
Taxation	5	(7)	(1)	(2)	(2)
<b>Profit after tax &amp; minorities</b>	<b>382</b>	<b>316</b>	<b>277</b>	<b>284</b>	<b>291</b>
<b>Reported net profit</b>	<b>382</b>	<b>316</b>	<b>277</b>	<b>284</b>	<b>291</b>
Adjustment for distributable income	(161)	(103)	(66)	(53)	(42)
<b>Total distributable income</b>	<b>221</b>	<b>213</b>	<b>211</b>	<b>230</b>	<b>248</b>

Source: Company data, RHB

<b>Cash flow (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
<b>Operating profit</b>	<b>106</b>	<b>129</b>	<b>200</b>	<b>205</b>	<b>210</b>
<b>Depreciation &amp; amortisation</b>	<b>0</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in working capital</b>	<b>(127)</b>	<b>(78)</b>	<b>(13)</b>	<b>(21)</b>	<b>(23)</b>
Other operating cash flow	120	99	17	16	16
<b>Operating cash flow</b>	<b>100</b>	<b>151</b>	<b>204</b>	<b>200</b>	<b>202</b>
Interest received	57	45	50	58	60
Tax paid	(4)	(0)	(1)	(2)	(2)
<b>Cash flow from operations</b>	<b>153</b>	<b>196</b>	<b>252</b>	<b>255</b>	<b>260</b>
Capex	(189)	(96)	(33)	(230)	-
Other new investments	(117)	-	(275)	-	-
Other investing cash flow	84	31	63	58	58
<b>Cash flow from investing activities</b>	<b>(222)</b>	<b>(66)</b>	<b>(245)</b>	<b>(172)</b>	<b>58</b>
Dividends paid	(208)	(224)	(248)	(251)	(254)
Proceeds from issue of shares	(5)	316	(10)	(10)	(10)
Increase in debt	338	(186)	308	230	-
Other financing cash flow	(74)	(66)	(63)	(72)	(74)
<b>Cash flow from financing activities</b>	<b>51</b>	<b>(160)</b>	<b>(14)</b>	<b>(103)</b>	<b>(339)</b>
Cash at beginning of period	200	181	150	155	136
<b>Total cash generated</b>	<b>(19)</b>	<b>(30)</b>	<b>(6)</b>	<b>(19)</b>	<b>(20)</b>
Forex effects	19	(2)	-	-	-
<b>Implied cash at end of period</b>	<b>200</b>	<b>150</b>	<b>143</b>	<b>136</b>	<b>116</b>

Source: Company data, RHB

## Financial Exhibits

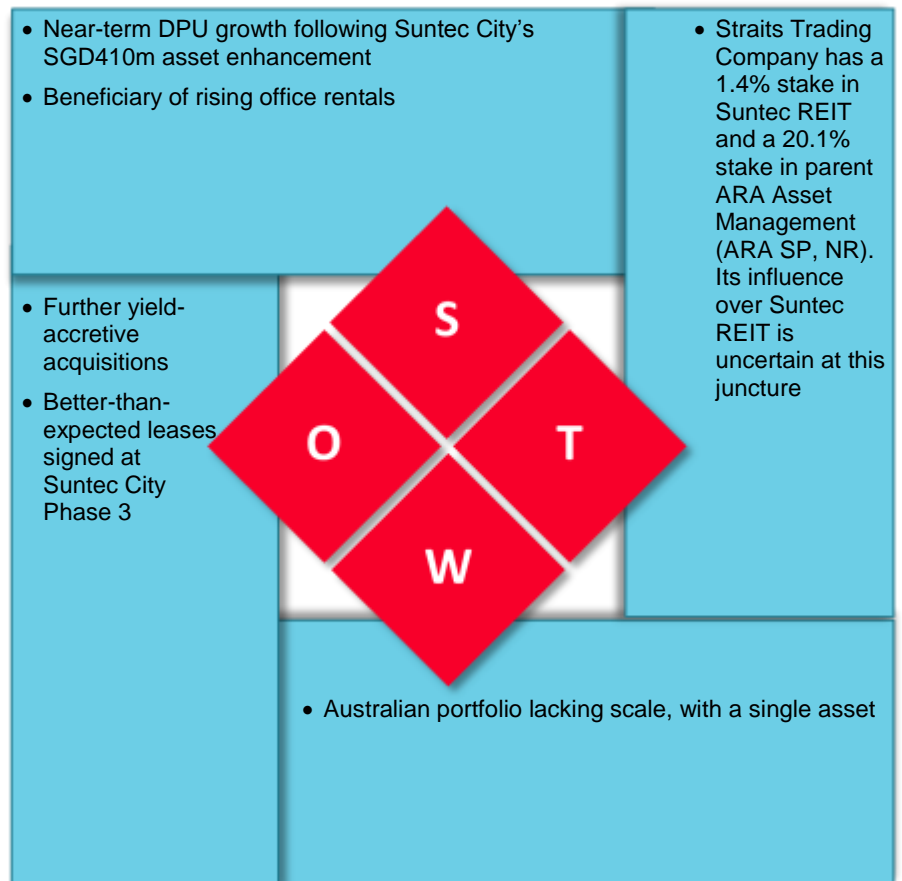
<b>Balance Sheet (SGDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	181	150	155	136	116
Accounts receivable	0	0	8	8	8
Other current assets	29	17	(0)	0	-
<b>Total current assets</b>	<b>210</b>	<b>166</b>	<b>163</b>	<b>144</b>	<b>124</b>
Total investments	8,109	8,433	8,819	9,134	9,223
Tangible fixed assets	3	3	3	3	3
Total non-current assets	8,112	8,436	8,822	9,137	9,226
<b>Total assets</b>	<b>8,322</b>	<b>8,602</b>	<b>8,985</b>	<b>9,281</b>	<b>9,350</b>
Short-term debt	772	-	682	682	682
Accounts payable	91	107	69	71	73
Other current liabilities	21	23	20	20	20
<b>Total current liabilities</b>	<b>884</b>	<b>130</b>	<b>771</b>	<b>773</b>	<b>775</b>
Total long-term debt	2,389	2,981	2,738	2,968	2,968
Other liabilities	64	73	65	65	65
<b>Total non-current liabilities</b>	<b>2,453</b>	<b>3,054</b>	<b>2,803</b>	<b>3,033</b>	<b>3,033</b>
<b>Total liabilities</b>	<b>3,337</b>	<b>3,184</b>	<b>3,574</b>	<b>3,806</b>	<b>3,807</b>
Share capital	4,844	5,305	5,271	5,335	5,402
<b>Shareholders' equity</b>	<b>4,844</b>	<b>5,305</b>	<b>5,271</b>	<b>5,335</b>	<b>5,402</b>
Minority interests	141	113	141	141	141
Other equity	0	(0)	0	0	0
<b>Total equity</b>	<b>4,985</b>	<b>5,418</b>	<b>5,412</b>	<b>5,475</b>	<b>5,543</b>
<b>Total liabilities &amp; equity</b>	<b>8,322</b>	<b>8,602</b>	<b>8,985</b>	<b>9,281</b>	<b>9,350</b>

Source: Company data, RHB

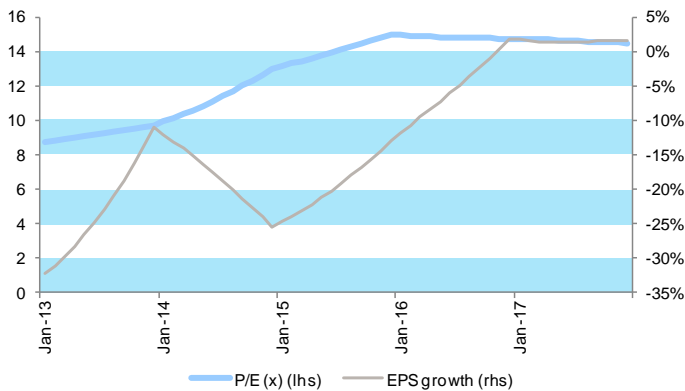
<b>Key Ratios (SGD)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	(10.6)	20.6	34.2	2.5	2.2
Net profit growth (%)	(10.2)	(17.4)	(12.3)	2.5	2.4
EPS growth (%)	(10.9)	(25.5)	(13.0)	1.7	1.6
BVPS growth (%)	3.1	(0.7)	(1.4)	0.4	0.4
Net profit margin (%)	163.2	111.8	73.0	73.0	73.2
Return on average assets (%)	4.8	3.7	3.1	3.1	3.1
Return on average equity (%)	8.0	6.2	5.2	5.4	5.4
Net debt to equity (%)	59.8	52.3	60.3	64.2	63.7
DPS	0.09	0.09	0.10	0.10	0.10
Recurrent cash flow per share	0.07	0.08	0.10	0.10	0.10

Source: Company data, RHB

## SWOT Analysis

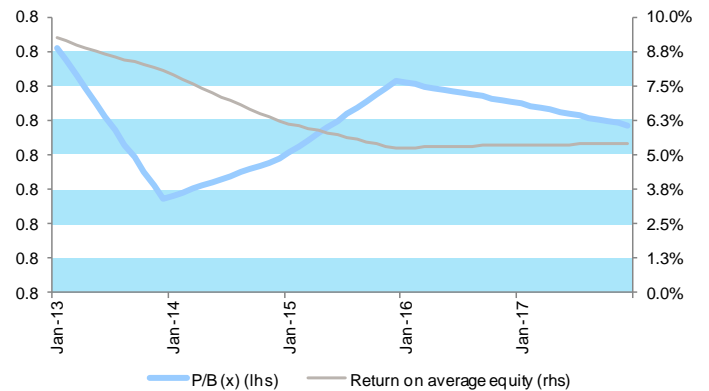


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

## Company Profile

Suntec REIT is a REIT established with the objective of investing in income-producing real estate properties which are used primarily for retail and office purposes.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-09-01	Sell	1.31	1.53
2015-07-24	Neutral	1.75	1.73
2015-06-30	Neutral	1.81	1.73
2015-04-24	Neutral	1.93	1.86
2015-01-23	Buy	2.11	2.00
2014-10-21	Buy	2.00	1.80
2013-07-22	Buy	1.78	1.57
2013-05-20	Neutral	2.10	1.90
2013-04-26	Neutral	2.10	1.97
2013-04-08	Buy	2.10	1.89

Source : RHB, Bloomberg



## RHB Guide to Investment Ratings

**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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