

Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Apr 2018

Suntec REIT (SUN SP) : BUY

Mkt. Cap: US\$3,824m | **3m Avg. Daily Val:** US\$11.1m

Last Traded Price (24 Apr 2018): S\$1.90

Price Target 12-mth: S\$2.30 (21% upside)

Analyst

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The tide is turning

- 1Q18 DPU of 2.433 Scts (+0.3% y-o-y) in line with expectations
- Weakness in Suntec office offset by improvement at Suntec Mall
- Strong 1Q18 foot traffic (+13% y-o-y) and tenant sales (+5% y-o-y) bodes well for sustained turnaround at Suntec Mall
- Maintain BUY, TP of S\$2.30

Forecasts and Valuation

FY Dec (\$m)	2017A	2018F	2019F	2020F
Gross Revenue	354	366	380	410
Net Property Inc	244	252	264	286
Total Return	220	173	179	198
Distribution Inc	263	268	271	273
EPU (S cts)	6.36	6.48	6.63	7.23
EPU Gth (%)	(8)	2	2	9
DPU (S cts)	10.0	10.0	10.0	10.0
DPU Gth (%)	0	0	0	0
NAV per shr (S cts)	212	210	208	206
PE (X)	29.9	29.3	28.7	26.3
Distribution Yield (%)	5.3	5.3	5.3	5.3
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	36.4	37.3	37.9	38.6
ROAE (%)	3.0	3.1	3.2	3.5

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

(+/-) 1Q18 DPU up 0.3% y-o-y

- Suntec delivered 1Q18 DPU of 2.433 Scts (+0.3% y-o-y) which was in line with our expectations and represented c.24% of our FY18F DPU.
- Excluding S\$6.5m worth of capital distributions (S\$3.0m in 1Q18), underlying DPU would have come in at 2.189 Scts (-5.1% y-o-y). The decline in underlying DPU was led by 4.4% increase in units on issue (combination of management fees and conversion of convertible bonds), fall in contribution from associates due to the absence of one-off income (down 9% y-o-y) and higher borrowing costs.
- Meanwhile 1Q18 revenue and NPI rose 2.6% and 1.9% to S\$90.7m and S\$63.0m respectively. The improvement was attributed to better performance from the convention business (NPI up 69% y-o-y to S\$4.9m) as 2018 is a biannual conference year which typically coincides with larger and more MICE events.
- Furthermore, Suntec Mall continues to show a turnaround with 1Q18 revenue and NPI up 2.3% and 5.9% y-o-y respectively. Occupancy at the mall was largely stable at 98.6% with the improvement in earnings owing to management's successful tenant remixing and right sizing of retail stores to achieve a more sustainable sales efficiency for tenants.
- However, Suntec office disappointed despite committed occupancy hovering at 99.1% (99.0% in 1Q17) as it was hit by negative rental reversions in prior quarters, and some tenants who had yet to move into space that was vacated. 1Q18 revenue and NPI fell 4.4% and 6.5% y-o-y.
- Contribution from Suntec's Australian properties was also negatively impacted by the depreciation of the AUD versus SGD. 1Q18 NPI for 177 Pacific

Highway fell 2% y-o-y despite the building being fully occupied. In addition, Suntec's 25% stake in Southgate Complex, reported 6.7% y-o-y higher NPI as the property benefitted from a buoyant Melbourne office market. Committed occupancy has also risen to 92.5% from 89.7% in 1Q17 and 90.7% in 4Q17.

(+) Strong foot traffic and tenant sales growth at Suntec Mall with slightly positive rental reversions

- The strong momentum at Suntec Mall continued with 1Q18 foot traffic and tenant sales growth accelerating to 12.7% and 5.2% y-o-y respectively. This compares to 7.3% and 12.8% y-o-y jump in foot traffic achieved in 1Q17 and FY17. For 1Q17 and FY17, tenant sales grew 4.3% and 4.8% y-o-y respectively. Categories which did well include kids fashion, toys, accessories and wellness.
- These strong operation statistics gives us confidence that the turnaround at Suntec Mall remains on track and management has the right strategies to achieve higher rents at Suntec Mall. The average passing rent for Suntec Mall stands between S\$10-12 psf compared to other suburban malls of up to S\$18 psf/mth. For the quarter, we understand, Suntec was able to generate slightly positive rental reversions for its retail leases.

(+) Jump in average signing rents for Suntec

- During the quarter, Suntec Office achieved average signing rents of S\$8.95 psf/mth, up 3% from a year ago. This was also an improvement from S\$8.03 psf/mth reported for 4Q17, which was depressed by the renewal of some large tenants. We understand rental reversions during the quarter were flattish.
- Year to date, FY18 lease expires at Suntec office have been reduced to c.14% of NLA, down from

19.4% at end December 2017. Suntec also guided that it is in final negotiations for c.42% of the leases expiring in FY18.

(-) Marginal increase in gearing and borrowing costs

- Average leverage inched up marginally to 36.6% from 36.4% at end December 2017.
- All-in financing costs stood at 2.73% as compared to 2.62% in 4Q17.
- Meanwhile, the proportion of fixed rate debt fell to c.65% from c.75% in the prior quarter.
- NAV per unit (excluding distributions) dipped to S\$2.08 from S\$2.09 in 4Q17.

(+) Visible near term earnings catalysts

- Near term, we see several catalysts to drive Suntec's earnings higher. These include the completion of another 25% interest in Southgate Complex by end May 2018 and as well as higher signing rents at Suntec Mall as tenant sales at the mall have improved.
- Furthermore, while Suntec office's earnings disappointed in the 1Q18, we believe with spot office rents in Singapore rising rapidly, prospects for positive rental reversions is increasing, translating to higher earnings ahead. In addition, Suntec's earnings should benefit from actual occupancies hitting the 99.1% committed levels.

Maintain BUY with TP of S\$2.30

- With 1Q18 largely in line with expectations, we maintain our BUY call with TP of S\$2.30.
- We continue to like Suntec for the turnaround of Suntec Mall and leverage to the multi-year recovery in the Singapore office market. We believe as underlying earnings recovers and quality of its DPU improves, the market will reward Suntec with a higher share price over time.

Quarterly / Interim Income Statement (\$m)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Gross revenue	88.9	91.1	87.3	(1.8)	(4.2)
Property expenses	(28.2)	(27.3)	(28.0)	(1.0)	2.5
Net Property Income	60.7	63.9	59.4	(2.2)	(7.0)
Other Operating expenses	(12.3)	(12.8)	(12.5)	2.1	(2.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(14.2)	(16.1)	(15.8)	11.3	(1.9)
Exceptional Gain/(Loss)	2.09	3.27	(5.6)	nm	nm
Net Income	68.1	56.4	50.5	(25.9)	(10.5)
Tax	(9.8)	(1.5)	(11.8)	nm	nm
Minority Interest	(10.7)	(1.7)	(6.0)	nm	nm
Net Income after Tax	47.6	53.2	32.7	(31.4)	(38.5)
Total Return	119	53.2	87.3	(26.3)	64.2
Non-tax deductible Items	(60.5)	4.68	(28.0)	(53.7)	nm
Net Inc available for Dist.	66.1	65.9	69.3	4.9	5.2
Ratio (%)					
Net Prop Inc Margin	68.2	70.1	68.0		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Aug 17	1.90	1.95	HOLD
2:	30 Oct 17	1.95	1.95	HOLD
3:	15 Dec 17	2.12	2.30	BUY
4:	25 Jan 18	2.14	2.30	BUY
5:	20 Feb 18	1.93	2.30	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Mervin SONG, CFA

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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