

Suntec REIT (SUN SP)

Retail Re-jig a Theme to Watch

Maintain HOLD; Better value in developer landlords

FY17 in line. While rental reversions for its offices could remain negative in 2018, the magnitude of weakness should be less with the stronger office sentiment. Operating metrics at Suntec City Mall continue to improve and we believe its ongoing re-jig is a theme to watch in the medium term. We raise FY18/19E DPU by 1% mainly to reflect slightly better signing rents at Suntec City Offices. Consequently, our TP is lifted marginally to SGD1.91, based on unchanged target yield of 5.25%. With total return of -7%, maintain HOLD. For exposure to Singapore's recovering office market, we see better value in developer landlords with large prime office exposure (UOL and GUOL).

Stable DPU

FY17 DPU was in line at 98% of our estimate. Management reiterates its commitment to a stable DPU with capital distributions from earlier divestments. While the strong share price performance has clearly lowered its cost of equity, management does not see a need to raise equity without sizeable acquisitions.

Office reversions could improve in 2018

Signing rents at Suntec City Offices dipped to SGD8.03 psf (3Q17: SGD8.35) due to lower rents negotiated by two large anchor tenants. Excluding these, signing rents for the remaining space were above SGD9 psf. Overall, rental reversion at this property was negative 5% for FY17. With improving office sentiment, management guides for smaller negative reversion of 1% in 2018. It also announced a 3-year asset enhancement initiative costing SGD48m to improve its competitiveness.

Retail re-jig a work-in-progress

The ongoing re-jig at Suntec City Mall is a theme that has been playing out since retail veteran Mr. Chan Kong Leong joined as CEO. Operating metrics at the mall have been improving with footfall and tenant sales rising by 12.8% and 4.8% YoY in 2017. This compares favourably against the 0.3% dip in shopper traffic and flat tenant sales for its largest peer CapitaLand Mall Trust. Management sees potential to right size another 20-30% of its retail space to improve its underlying performance.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	329	354	359	369	377
Net property income	225	244	243	250	255
Core net profit	176	171	190	197	208
Core EPU (cts)	6.8	6.5	7.1	7.3	7.7
Core EPU growth (%)	(17.4)	(4.1)	8.9	3.0	4.8
DPU (cts)	10.0	10.0	10.0	10.1	10.4
DPU growth (%)	0.3	(0.2)	0.2	0.3	3.5
P/NTA (x)	1.0	1.0	1.0	1.0	1.1
DPU yield (%)	4.7	4.7	4.7	4.7	4.8
ROAE (%)	4.4	3.9	3.3	3.4	3.6
ROAA (%)	2.0	1.9	2.1	2.1	2.2
Debt/Assets (x)	0.36	0.35	0.35	0.36	0.36
Consensus DPU	-	-	10.0	10.0	na
MKE vs. Consensus (%)	-	-	0.3	0.6	na

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HOLD

Share Price	SGD 2.15
12m Price Target	SGD 1.91 (-11%)
Previous Price Target	SGD 1.89

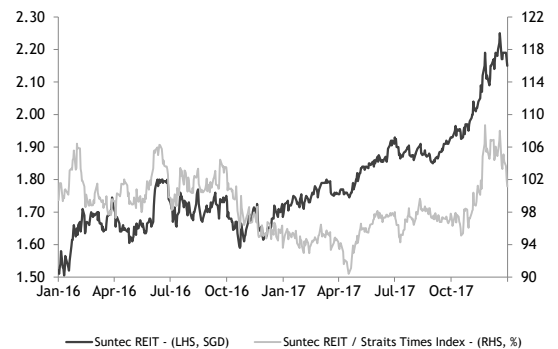
Statistics

52w high/low (SGD)	2.25/1.70
3m avg turnover (USDm)	9.3
Free float (%)	89.5
Issued shares (m)	2,511
Market capitalisation	SGD5.4B
	USD4.1B

Major shareholders:

Wealthy Fountain Holdings, Inc.	4.6%
ARA Asset Management Ltd. (Investment Ma	2.0%
Newton Investment Management Ltd.	2.0%

Price Performance



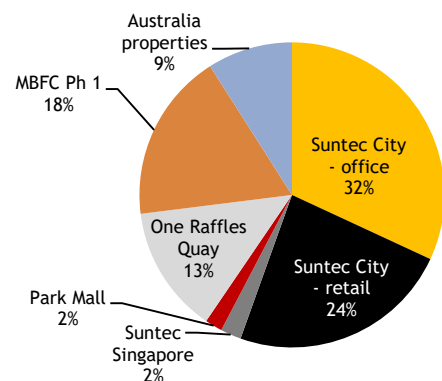
	-1M	-3M	-12M
Absolute (%)	1	11	28
Relative to index (%)	(4)	3	8

Source: FactSet

Companies mentioned

UOL (UOL SP, CP SGD9.29, BUY, TP SGD9.85)
GUOL (GUOL SP, CP SGD2.33, BUY, TP SGD2.95)
CapitaLand Mall Trust (CT SP, CP SGD2.07, HOLD, TP SGD2.15)

Exposure summary



Source: Maybank Kim Eng, Company

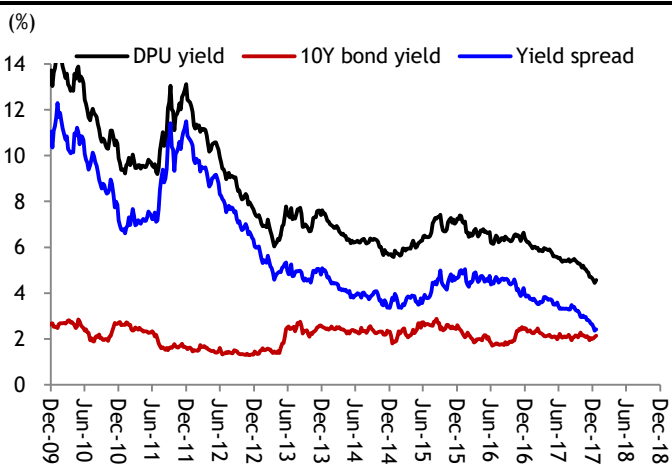
Fig 1: Quarterly profit and loss

FYE 31 Dec	4Q16 (SGD m)	3Q17 (SGD m)	4Q17 (SGD m)	Change		YTD17 (SGD m)	% of FY	FY17E (SGD m)
				QoQ %	YoY %			
Property income	88.9	91.1	87.3	(4.2)	(1.8)	354.2	100.7	351.7
Property expenses	(28.2)	(27.3)	(28.0)	2.5	(1.0)	(109.7)	96.4	(113.9)
Net property income	60.7	63.9	59.4	(7.0)	(2.2)	244.5	102.8	237.8
Share of results of associates & JVs	31.8	18.1	25.0	38.0	(21.4)	80.3	122.0	65.8
Distributable income to unitholders	58.1	57.9	59.3	2.5	2.1	234.0	97.3	240.5
Capital distributions	8.0	8.0	10.0	25	25	29.0	116.0	25.0
Total distributions to unitholders	66.1	65.9	69.3	5.2	4.9	263.0	99.1	265.5
Distribution per unit	2.60	2.48	2.60	4.9	0.3	10.01	97.7	10.24
NAV per unit (SGD)	2.15	2.12	2.13	0.5	(1.0)			
Aggregate leverage (%)^	37.7	36.8	36.4	(40)	(130)			
All-in financing cost (%)^	2.28	2.55	2.62	7	34			

^Change in basis points

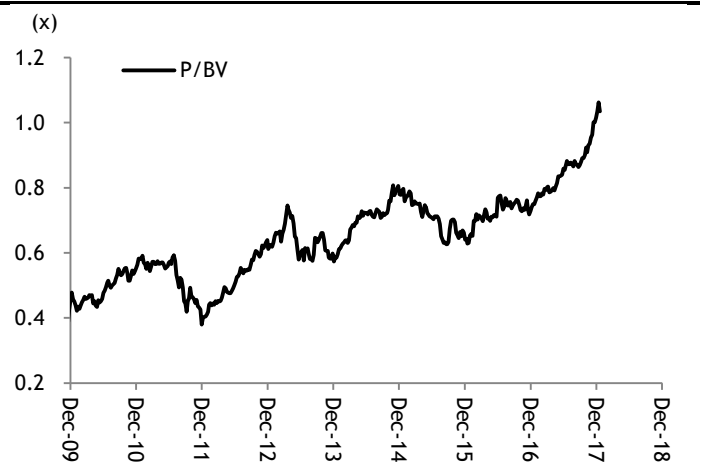
Source: Company, Maybank Kim Eng

Fig 2: Positives appear to be priced in with trading yield of 4.6% at historical low...



Source: Bloomberg, Maybank Kim Eng

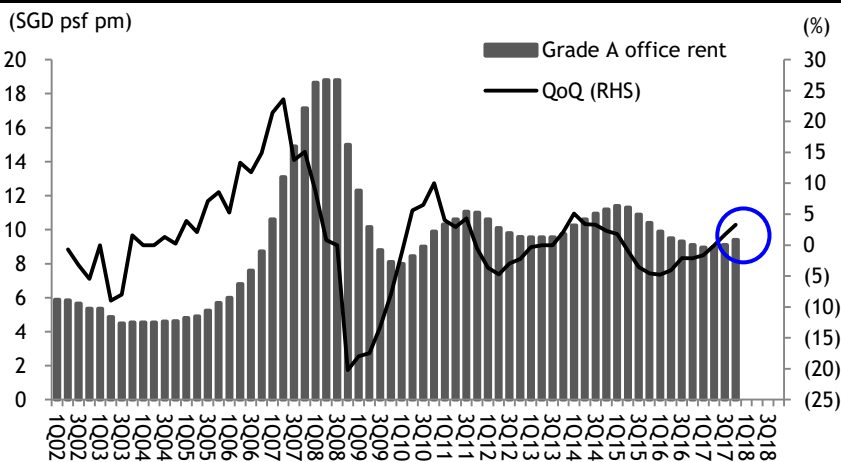
Fig 3: ...and relatively high P/BV of 1.0x



Source: Bloomberg, Maybank Kim Eng

Fig 4: Grade A office rents

Preliminary data from CBRE showed a marginal uptick in rents to SGD9.40 psf pm in 4Q17.

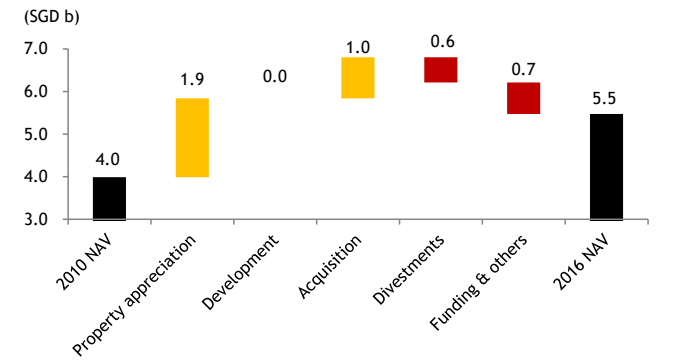


Source: CBRE, Maybank Kim Eng

Value Proposition

- Suntec REIT is a commercial REIT with SGD9.6b of assets under management.
- Offices and retail malls in Singapore account for 91% of its assets. Australian assets account for the balance of 9%.
- Major three-year asset enhancement of Suntec City Mall was completed in Jun 2015, which increased its leasable retail space from 855k sf to 960k sf.
- The impending redevelopment of Park Mall is a future source of value creation.
- Singapore’s office market has turned around.

NAV changes

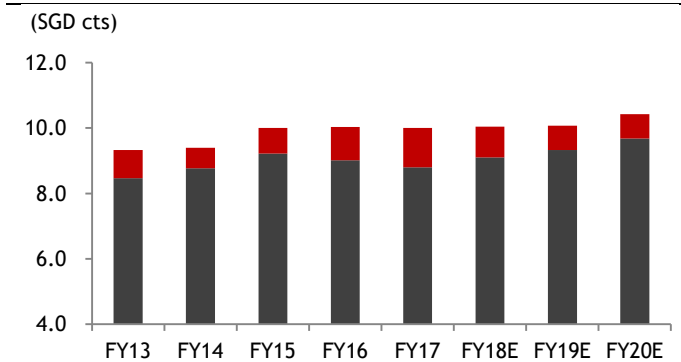


Source: Company

Financial Metrics

- Negative rental reversions at Suntec City offices could moderate with the potential rebound in the office sector in 2018.
- Committed retail rents were down recently. However, we see upside in the medium term with active asset management.
- Falling property income likely to be cushioned with capital distributions from sale of Park Mall.
- Capital value of its properties in the Marina Bay area and Suntec City could benefit from aggressive bids for prime commercial land.

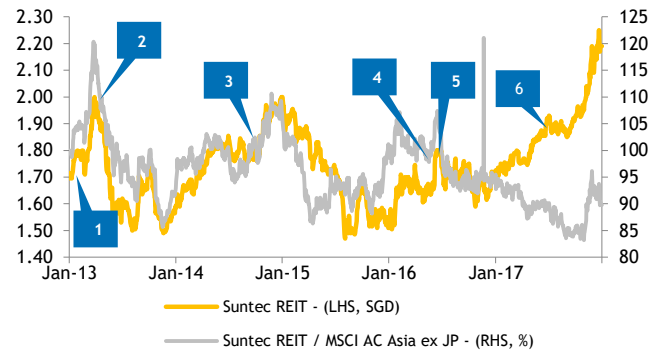
DPU trajectory



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Factset, Company, Maybank Kim Eng

1. Falling vacancies and low interest rates.
2. Fed raised interest rates. Global yield assets sold off.
3. Office rents peaked in Singapore on concerns about oversupply.
4. Sharp fall in bond yields on heightened risk aversion after Brexit. Rotation to stable income-producing properties.
5. Declines in committed rents for Suntec City Mall.
6. Change of control at ARA led to a change in CB conversion price. Overhang lifted in May.

Swing Factors

Upside

- Appreciation in the capital value of its properties.
- Stabilisation of the retail market.
- Earlier-than-expected rebound in office rents.

Downside

- Sharper-than-expected declines in office rents or occupancy.
- Overpaying for acquisitions.
- Cost overruns in Park Mall redevelopment.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
Price/DPU(x)	21.4	21.5	21.4	21.4	20.6
P/BV (x)	1.0	1.0	1.0	1.0	1.1
P/NTA (x)	1.0	1.0	1.0	1.0	1.1
DPU yield (%)	4.7	4.7	4.7	4.7	4.8
FCF yield (%)	2.5	2.5	3.8	4.5	4.6
INCOME STATEMENT (SGD m)					
Revenue	328.6	354.2	359.0	368.6	376.6
Net property income	224.6	244.5	243.5	249.9	255.4
Management and trustee fees	(49.8)	(51.0)	(51.3)	(51.7)	(52.0)
Net financing costs	(54.7)	(75.6)	(59.7)	(62.4)	(66.0)
Associates & JV	84.9	80.3	67.6	71.3	80.3
Exceptionals	(0.4)	(5.5)	0.0	0.0	0.0
Other pretax income/expenses	70.9	54.6	0.0	0.0	0.0
Pretax profit	275.5	247.3	200.1	207.0	217.7
Income tax	(14.2)	(18.3)	0.0	0.0	0.0
Minorities	(14.7)	(8.7)	(10.0)	(10.0)	(10.0)
Total return avail to unitholders	246.5	220.3	190.1	197.0	207.7
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Distributable inc to unitholders	253.7	263.0	266.8	269.5	280.8
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	182.5	172.7	148.3	159.6	170.6
Accounts receivable	14.8	18.2	18.6	19.0	19.3
Property, Plant & Equip (net)	2.3	2.1	2.2	2.2	2.2
Investment properties	6,247.8	6,387.3	6,403.3	6,419.3	6,435.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	2,642.9	2,660.2	2,660.2	2,660.2	2,660.2
Other assets	3.2	1.0	1.1	1.1	1.1
Total assets	9,093.4	9,241.6	9,233.7	9,261.4	9,288.8
ST interest bearing debt	99.8	237.0	0.0	0.0	0.0
Accounts payable	93.5	108.9	111.1	113.3	115.6
LT interest bearing debt	3,206.0	2,993.9	3,250.0	3,300.0	3,350.0
Other liabilities	100.8	134.9	137.6	140.3	143.1
Total Liabilities	3,500.1	3,474.6	3,498.6	3,553.6	3,608.7
Shareholders Equity	5,468.9	5,639.1	5,598.2	5,561.9	5,525.2
Minority Interest	124.3	127.9	136.9	145.9	154.9
Total shareholder equity	5,593.3	5,767.0	5,735.1	5,707.8	5,680.1
Total liabilities and equity	9,093.4	9,241.6	9,233.7	9,261.4	9,288.8
CASH FLOW (SGD m)					
Cash flow from operations	197.7	226.6	233.6	240.0	245.6
Capex	(130.1)	(17.4)	(1.2)	(1.1)	(1.1)
Acquisitions & investments	(178.0)	(5.1)	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	64.7	71.8	67.6	71.3	80.3
Other investing cash flow	31.8	(43.5)	23.9	23.7	23.8
CF from investing activities	(211.6)	5.8	90.3	93.9	103.0
Dividends paid	(257.1)	(257.2)	(266.8)	(269.5)	(280.8)
Interest expense	(83.5)	(82.3)	(99.5)	(102.2)	(105.8)
Change in debt	99.3	103.3	19.1	50.0	50.0
Equity raised / (purchased)	0.0	(0.0)	0.0	0.0	0.0
Other financial activities	(7.8)	(5.9)	(1.0)	(1.0)	(1.0)
CF from financing activities	(249.3)	(242.1)	(348.3)	(322.6)	(337.6)
Effect of exchange rate changes	0.4	0.0	0.0	0.0	0.0
Net cash flow	(263.2)	(9.8)	(24.4)	11.3	11.0

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(0.3)	7.8	1.3	2.7	2.2
Net property income growth	(2.0)	8.9	(0.4)	2.6	2.2
Core net profit growth	(19.2)	(2.8)	11.1	3.6	5.4
Distributable income growth	0.7	3.7	1.5	1.0	4.2
Profitability ratios (%)					
Net property income margin	68.3	69.0	67.8	67.8	67.8
Core net profit margin	53.6	48.3	53.0	53.4	55.2
Payout ratio	103.0	118.5	140.4	136.8	135.2
DuPont analysis					
Total return margin (%)	75.0	62.2	53.0	53.4	55.2
Gross revenue/Assets (x)	0.0	0.0	0.0	0.0	0.0
Assets/Equity (x)	1.7	1.6	1.6	1.7	1.7
ROAE (%)	4.4	3.9	3.3	3.4	3.6
ROAA (%)	2.0	1.9	2.1	2.1	2.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	2.7	2.6	2.6	2.6
Net gearing (%) (excl. perps)	55.8	53.0	54.1	55.0	56.0
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	na	na	na	na	na
Capex/revenue (%)	39.6	4.9	0.3	0.3	0.3
Net debt/ (net cash)	3,123.3	3,058.2	3,101.7	3,140.4	3,179.4
Debt/Assets (x)	0.36	0.35	0.35	0.36	0.36

Source: Company; Maybank

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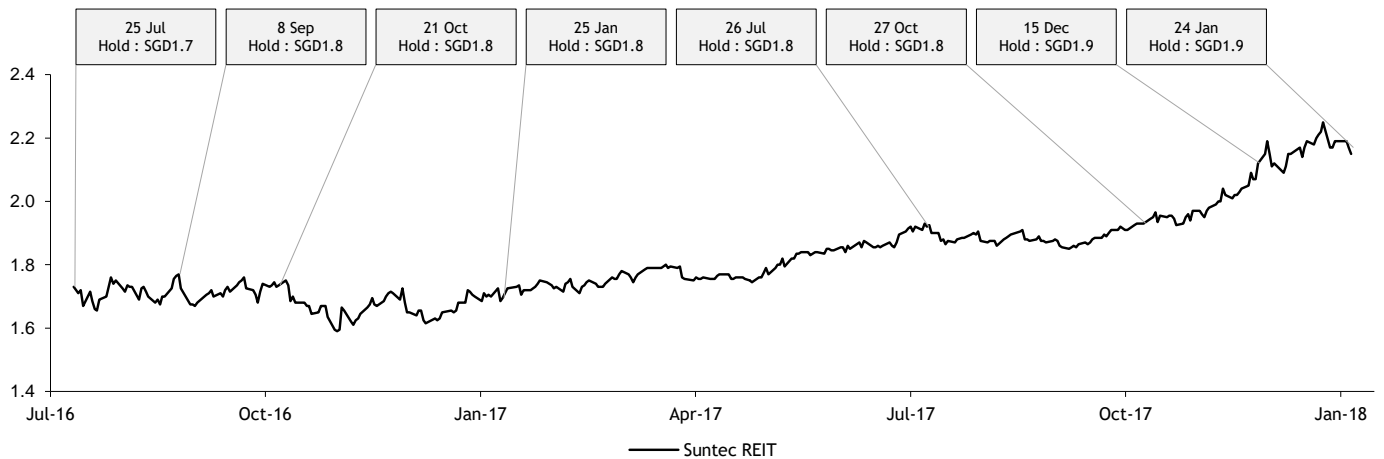
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Historical recommendations and target price: Suntec REIT (SUN SP)



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