

## Earnings Review: Suntec REIT (“SUN”)

### Recommendation

- 4Q2018 saw broad-based improvement across Office, Retail and Convention. Though aggregate leverage of 38.1% as at 31 December 2018 looks high, we think refinancing risk is manageable and SUN **continues to fall within our Neutral (4) Issuer profile.**
- SUN issued a 6-year SGD100mn bond at 3.355% in early Feb 2019 for general corporate purposes, refinancing of existing borrowings, financing or refinancing acquisition and/or investments and financing any asset enhancement work. We note that SUN has SGD430mn worth of loan coming due in FY2019.
- Within its SUNSP curve, we **see value in SUNSP '21s** as it offers a 36bps pick-up relative to SGREIT '21s. We hold both at Neutral (4) Issuer profile.
- In general, SUNSP curve appears fairly priced and we are **neutral on SUNSP's new issue SUNSP '25s.**

### Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Price	Ask Yield	Spread
SUNSP 3.35% '20s	10/02/2020	38.1%	100.7	2.64	66bps
SUNSP 3% '21s	16/07/2021	38.1%	99.9	3.04	108bps
SUNSP 3.025% '22s	16/03/2022	38.1%	99.6	3.16%	119bps
SUNSP 3.4% '23s	10/05/2023	38.1%	100.9	3.17%	118bps
SUNSP 3.355% '25s	07/02/2025	38.1%	100.2	3.33%	125bps
SGREIT 3.5% '21s	26/02/2021	35.6%	101.6	2.68%	72bps
SGREIT 3.4% '23s	26/05/2023	35.6%	101.6	3.00%	100bps
SGREIT 3.14% '26s	03/10/2026	35.6%	98.2	3.42%	125bps

Indicative prices as at 14 February 2019

Source: Bloomberg

Aggregate leverage based on latest available quarter

### Issuer Profile: Neutral (4)

Ticker: **SUNSP**

### Background

Suntec REIT (“SUN”) owns “Suntec City” (the mall, units in Towers 1–3, and Towers 4 & 5), a 60.8%-interest in Convention & Exhibition Centre (“Suntec Singapore”), a one-third interest in both One Raffles Quay (“ORQ”), and Marina Bay Financial Centre Towers 1 & 2 and Marina Bay Link Mall (“MBFC”) and a 30.0%-interest in 9 Penang Road. For Australia, SUN holds 177 Pacific Highway, 50%-interest in both Southgate and 477 Collins Street in Melbourne.

Seow Zhi Qi  
+65 6530 7348

[zhiqiseow@ocbc.com](mailto:zhiqiseow@ocbc.com)

### Key Considerations

- Broad-based improvement:** SUN reported its fourth quarter results on 23<sup>rd</sup> January 2019. Gross revenue increased 7.0% y/y to SGD93.4mn, while NPI increased by a smaller extent of 2.3% y/y to SGD60.7mn, due to the SGD4.8mn sinking fund contribution for Suntec City Office upgrading works. Excluding the sinking fund contribution, NPI would have increased by 10.4% y/y instead. On the revenue front, Convention segment saw a 17.5% y/y growth from hosting high profile events such as ASEAN Summit. Retail grew by 5.4% y/y due to positive rental reversion at Suntec City (Retail). Meanwhile, Office grew by 4.33% y/y, largely due to 177 Pacific Highway as well as advantageous AUD movements. NPI growth excluding the one-off expense was 14.6% y/y for Convention, 22.8% y/y for Retail and 0.6% y/y for Office (one-off expense was SGD0.6mn for Convention, SGD3.5mn for Retail and SGD0.3mn for Office). This displayed a broad-based growth, across all segments of the business in 4Q2018.
- Additional 25%-interest in Southgate Complex provided support:** Contributions from joint ventures (ORQ, MBFC Properties and Southgate Complex) increased 6.6% y/y mainly due to the additional 25%-interest in Southgate Complex. It more than offset the weakness seen at ORQ (-14.9% y/y) which came about from a 3.9% dip in occupancy to 96.1% from full occupancy a year ago. Excluding the additional interest in Southgate, overall contributions from JV would have dipped 3.4% y/y. Given this year's office supply pipeline in Singapore is estimated to be only ~55% of 2018's, we believe there will be demand for the vacated space at ORQ.

- **Performance of Retail is crucial:** SUN's retail portfolio NPI (including JVs) is made up of Suntec City Mall (94%), Marina Bay Link Mall (4%) and Southgate Complex (2%). In 4Q2018, committed occupancy for Retail rose to 99.6% (3Q2018: 98.1%). While the expiry of 24.7% of total retail NLA in FY2019 and 32.4% in FY2020 look manageable, we note that tenant retention ratio has fallen to 55% in FY2018 (FY2017: 64%, FY2016: 79%). Having said that, SUN appears to be able to attract new tenants. In addition, repositioning of the Suntec City Mall has yielded positive results, given that footfall and tenant's sales per sq ft grew 4.8% y/y and 5.2% y/y respectively. On the Office front, even though portfolio committed occupancy was lower at 98.7% (FY2017: 99.2%), we are less concerned and expect occupancy to rebound given the backdrop of the office market in Singapore. Balance of office leases expiring in FY2019 (8.2% of total office NLA) also seems low. Replacement leases leading to transitory downtime at Suntec City Office have also fully commenced operations in 4Q2018 and full contributions can be expected to flow through in 2019. Tenant retention ratio for Office is stable at 65%. All in all, we think Retail is a component to watch.
- **Moderate credit profile:** As at 31 December 2018, cash and cash equivalents at SUN was SGD137mn while loans coming due in 2019 was SGD430mn. Management has guided that they are proactively managing the refinancing of this loan in 4Q2018 results. Assuming the SGD100mn SUNSP'25s issued recently was used entirely for repayment, aggregate leverage is expected to remain unchanged at 38.1% (31 December 2018: 38.1%). While aggregate leverage of SUN is higher than peers (industry median: ~35%), we think refinancing risk is manageable as only Suntec Singapore (i.e. the Convention Centre which SUN has a 60.8% stake in and 141,959 sq ft of NLA of Suntec City Mall) is encumbered. Suntec Singapore is ~ 5.7% of total assets valuation. Furthermore, SUN enjoys good access to capital as demonstrated through the issuance of SGD330mn worth of bonds and a total of SGD1.2bn of financing in 2018 alone. As at 31 December 2018, all-in financing cost was 2.82% (3Q2018: 2.86%, 2Q2018: 2.74%) while EBITDA/Interest was stable q/q at 1.7x. Fixed / hedged debt has also increased q/q to 75% of total debt from ~70% in the preceding quarter. This translates to a ~SGD0.6mn lower increase in interest expense for every 50bps rise in interest rate.
- **Projects under development:** 9 Penang Road, Singapore will be a twin tower Grade A commercial building (Office NLA: 352,000 sq ft, Retail NLA: 15,000 sq ft). It is 60% constructed and scheduled to complete by end-2019. SUN has a 30%-interest in the property. Given the tightening supply in the office market in Singapore, we think 9 Penang Road has the potential to do well. Another property under development is Olderfleet, 477 Collins Street, Melbourne, Australia which SUN holds a 50%-stake in. It will be a 312,000 sq ft freehold premium grade office building in Melbourne CBD and is on schedule to complete in mid-2020 (52% completed as of 30 December 2018). Including the heads of agreement signed (non-binding document that outlines the terms of a tentative agreement), 477 Collins Street is ~82% pre-committed as at 31 December 2018.

**OCBC Global Treasury**

**Treasury Advisory**

**Corporate FX & Structured Products**

Tel: 6349-1888 / 1881

**Interest Rate Derivatives**

Tel: 6349-1899

**Investments & Structured Products**

Tel: 6349-1886

**GT Institutional Sales**

Tel: 6349-1810

**Credit Research**

**Andrew Wong**

+65 6530 4736

[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)

**Ezien Hoo, CFA**

+65 6722 2215

[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

**Wong Hong Wei, CFA**

+65 6722 2533

[wonghongwei@ocbc.com](mailto:wonghongwei@ocbc.com)

**Seow Zhi Qi**

+65 6530 7348

[ZhiQiSeow@ocbc.com](mailto:ZhiQiSeow@ocbc.com)

**Explanation of Issuer Profile Rating (“IPR”) / Issuer Profile Score (“IPS”)**

**Positive (“Pos”)** – The issuer’s credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

**Neutral (“N”)** – The issuer’s credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

**Negative (“Neg”)** – The issuer’s credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings (“IPR”) into a 7 point Issuer Profile Score (“IPS”) scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

**Explanation of Bond Recommendation**

**Overweight (“OW”)** – The performance of the issuer’s specific bond is expected to outperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

**Neutral (“N”)** – The performance of the issuer’s specific bond is expected to perform in line with the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

**Underweight (“UW”)** – The performance of the issuer’s specific bond is expected to underperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

**Other**

**Suspension** – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

**Withdrawal (“WD”)** – We may withdraw our issuer rating and bond level recommendation on specific issuers from

time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

**Analyst Declaration**

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

**Disclaimer for research report**

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its

related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W