

Issuer Profile:

Neutral (4)



Neutral (4)

Ticker:

SUNSP

Seow Zhi Qi, CFA

+65 6530 7348

zhigiseow@ocbc.com

Suntec REIT (“SUN”)

New Issue

- SUN is pricing a SGD subordinated PerpNC5 issue (size: SGD benchmark), with IPG at 4.45% area.
- The perp follows the typical structure and will reset at the end of Year 5 and every 5 years thereafter based on prevailing SGD 5Y Swap Offer Rate (“SOR” or the successor rate or alternative reference rate) plus the Initial Spread (with no step-up). Distribution deferrals are non-cumulative.
- Proceeds will be used for financing or refinancing of acquisitions and/or investments and refinancing any asset enhancement works.
 - As at 31 March 2021, aggregate leverage was 44.4%, and higher at 45.3% after adjusting 50% of existing perpetuals as debt.
 - SUN has SGD527mn of debt maturing in the remaining of 2021 at end March 2021. The debt comprises SGD290mn bank debt, SGD150mn of straight bonds - SUNSP 3% ‘21s (maturity: 6 July 2021) and SGD87mn of convertible bonds - SUNSP 1.75% ‘21s (maturity: 5 September 2021).
 - We note that SUN does not have any proposed acquisitions pending completion at the moment. SUN’s latest acquisition is a 50% interest in two Grade A office buildings with ancillary retail components in London, the UK (“Nova Properties”) for ~SGD766.5mn (completed on 18 December 2020). That being said, at least one peer REIT have announced acquisitions post-issuance of new perpetuals and do not preclude this possibility for SUN. Similar to other issuers under our coverage, a major acquisition may lead to a change in issuer profile.

Recommendation

- SUN had earlier in October 2020 priced SGD200mn of perpetuals NC5, namely the SUNSP 3.8%-PERP NC5. Upon the announcement of a proposed new SUN perp, SUNSP 3.8%-PERP NC5 was repriced from an Ask YTC of ~3.9% (spread of ~305bps) to 4.25% (spread of 340bps).
- Given that the new SUN perp has a spread of ~350bps at IPG, which is just 10bps wider than where SUNSP 3.8% PerpNC5 is trading, we think this limits the room for the new SUN perp to compress from IPG. As such, we are **Neutral on the new SUN perp at IPG on the repricing of the curve.**
- Adjusting for a ~7 months later first call date vs SUNSP 3.8% PERP, we see fair value of the new SUN perp at a spread of ~345bps which translates to ~4.4%. We note that SGREIT 3.85%-PERP with first call date in December 2025 is trading at ~4.1%.
- The SUNSP 3.8% PERP resets (if not called) to SGD 5 Year swap + 3.295%. Should the new SUNSP perp price at 4.4%, we estimate the reset spread to be ~3.45%. Comparatively, the risk of non-call would be marginally higher for the SUNSP 3.8% PERP.
- Separately, comparing against its own curve, both SUNSP 3.8% PERP and the new SUN perpetual at IPG are trading wide in our view versus its credit fundamentals and compared to recently priced REIT perpetuals. Despite SUN’s higher than average aggregate leverage, we are holding SUN at Neutral (4) Issuer Profile on the back of new contributions from new additions to its portfolio and the expectations that its credit metrics will remain stable.
- While this would typically warrant an overweight recommendation outrightly, in this case, supply risk both for REIT perpetuals as well as SUN perpetual may weigh on the perpetual market technicals in the immediate term. As such, we think there may be opportunities for investors to pick up both SUNSP 3.8%-PERP and the new SUN perpetual in the secondary market at more attractive yields.

- SUN's retail and convention segments of its portfolio have been impacted by COVID-19 pandemic while its office component is comparatively more resilient. We had in April 2021 prior to the Phase 2 (Heightened Alert) published a [credit update on SUN](#).

Relative Value:

Bond	Issuer Profile	Maturity/First Call Date	Ask YTW/YTC	Spread	Recommendation
New SUNSP PERP NC5	Neutral (4)	2026	4.45% (IPG)	~350bps	N
SUNSP 3.8% PERP	Neutral (4)	27/10/2025	4.25%	340bps	N*
SUNSP 3.355% '25	Neutral (4)	07/02/2025	2.36%	161bps	N*
SUNSP 2.95% '27	Neutral (4)	05/02/2027	2.81%	175bps	N*
SGREIT 3.85% PERP	Neutral (4)	15/12/2025	4.05%	319bps	N*
LREIT 4.2% PERP	-	04/06/2026	4.14%	320bps	-

Indicative prices as at 7 June 2021 Source: Bloomberg

**Based on latest recommendations as of Monthly Credit View dated 3 June 2021*

Background

- Suntec REIT ("SUN") owns office and retail properties in Singapore and Australia. Listed on 9 December 2004 on SGX, the REIT is managed by an external manager, ARA Trust Management (Suntec) Ltd.
- SUN's portfolio value is ~SGD11.7bn as at 31 March 2021.
- The properties SUN holds in Singapore are 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 and 21 Harris Street in Sydney, 55 Currie Street in Adelaide and 50%-interest in both Southgate Complex and 477 Collins Street in Melbourne.
- SUN has completed the acquisition of 50% interest in two Grade A office buildings with ancillary retail components in London, the UK ("Nova Properties") for ~SGD766.5mn on 18 December 2020.
- SUN is managed by an external manager, ARA Trust Management (Suntec) Ltd.
- The REIT is established in Singapore and its bonds and perpetual instruments are issued by HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of SUN.

Explanation of Issuer Profile Rating/ Issuer Profile Score

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 into a 7-point Issuer Profile Score scale.

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

Please note that Bond Recommendations are dependent on a bond’s price, underlying risk-free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight (“OW”) – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Neutral (“N”) – The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Underweight (“UW”) – The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

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.

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Strategy & Research

LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China Research

XieD@ocbc.com

Wellian Wiranto

Malaysia & Indonesia

WellianWiranto@ocbc.com

Howie Lee

Thailand, Korea & Commodities

HowieLee@ocbc.com

Carie Li

Hong Kong & Macau

carierli@ocbcwh.com

Herbert Wong

Hong Kong & Macau

herberhtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung

Rates Strategist

FrancesCheung@ocbc.com

Terence Wu

FX Strategist

TerenceWu@ocbc.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst

WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst

ZhiQiSeow@ocbc.com

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. There may be conflicts of interest between Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited, OCBC Investment Research Private Limited, OCBC Securities Private Limited or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement.

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).