MITA No. 010/06/2008

16 March 2009

Suntec REIT

Maintain
BUY
Previous Rating: BUY

S$0.505

Fair Value: S$0.80

Stock Code:	
Reuters:	SUNT.SI
ISIN Code	T82U
Bloomberg:	SUN SP
Event:	Update

General Data

Issued Capital (m)	1,579
Mkt Cap (Sm/USm)	797 / 517
Major Shareholder	
Perennial Invt Partners	5.8%
Schroders Invt Mgmt	4.8%
Asean Invt Corp	4.8%
Free Float (%)	84.6%
NAV per share (S$)	2.013
Daily Vol 3-mth ('000)	6,758
52Wk High (S$)	1.680
52Wk Low (S$)	0.495

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Focus on cash calls and cash flows.

New office asset value reality is already priced in. The Business Times reported on Friday that the entire 32nd floor of Suntec City Tower 1 has been sold for about S$1300 per square foot of strata area. This is about 40% lower than previous strata floor transactions completed about seven months ago (above the S$2000 psf level). We believe this new deal is important as it gives an indication of the current market value for office space. However, Suntec REIT's current market value already reflects an implied asset value of S$885 psf for Suntec City Office (our estimate) - or a 32% discount to this latest transaction. Our valuation prices Suntec City Office at about S$1106 psf.

Potential risk of cash call. In our opinion, the refinancing of the S$825m in debt due this year is less of a problem than the potential need for an equity issue. In 4Q CY08, Suntec REIT saw property values fall 7% against its 3Q CY08 revaluation. We believe cap rates used by independent valuers still do not fully reflect downward trends in S-REIT capital values. For example, we understand that Suntec City Office was valued at S$1900 psf, or 46% higher than this latest transaction. This scepticism towards the accuracy of these valuations is creating downward pressure on share prices - Suntec's current share price of S$0.505 is at a 75% discount to reported NAV. As capital values fall, we estimate that Suntec could eventually need up to S$480m in fresh equity to maintain gearing at 40% levels. In the current environment, rights issues may need to be underwritten in order to succeed. As a non-sponsored REIT, any rights issue by Suntec could require the backing of investment banks or sub-underwriting arrangements with substantial shareholders.

Focus on cash flows. There are inherent strengths in Suntec's portfolio and we continue to believe in the merit of our **BUY** call on Suntec. The biggest concern today is how deeply earnings - and consequently distributions - will be affected by deteriorating economic conditions. We have adjusted our earnings and valuation assumptions, with a fairly conservative assessment of rents and occupancy levels. Our new DPU estimates for FY09-10 are 6-10% below consensus. This still translates to reasonable distribution yields of 18.6% and 16.1% in FY09F and FY10F respectively. Our SOTP value for Suntec falls 10% to S$0.95. Maintaining the 15% discount to SOTP, our fair value estimate falls from S$0.90 to S$0.80.

Year to 31 Dec	Revenue (S$m)	Net Prop Income (S$m)	Dist. Profit (S$m)	DPU (cents)	DPU Growth (%)	PER (x)	Div Yield (%)
FY 07*	190.3	140.6	115.4	8.1	10.7	8.2	16.0
FY 08*	294.5	219.5	201.2	12.8	26.7	7.3	20.3
FY 09F	232.2	171.8	154.5	9.4	-8.1	6.3	18.6
FY 10F	225.7	167.0	138.9	8.1	-13.7	7.5	16.1

Note: FY07 year end is 30-Sep. FY08 is 15 months long due to a change of year end from 30-Sep to 31-Dec

Exhibit 1: S-REITs comparison

	Share price (S$)	Market Cap (S$m)	Price/NAV (x)	Curr yr DPU Yield (%)	Borrowings in S$m (as of 31-Dec)			Total assets in S$m	Gearing (%)
					Repayable in 1 yr	*% of total borrowings*	Total borrowings	(at 31-Dec)	
Office									
Frasers Commercial Trust	0.140	103.0	0.14	29.3	616.4	*65.1*	946.4	1,757.9	53.8
CapitaCommercial Trust	0.720	1,008.3	0.24	15.6	696.0	*27.2*	2,561.6	6,871.4	37.3
K-REIT Asia	0.505	332.1	0.22	17.0	0.0	*0.0*	577.1	2,092.3	27.6
Suntec REIT^	0.505	797.3	0.25	18.6	823.7	*44.3*	1,860.8	5,431.6	34.3
Office Total			0.21	20.1	2,136.1	*35.9*	5,945.9	16,153.2	36.8
Retail									
CapitaMall Trust^	1.010	3,203.4	0.79	9.0	652.9	*20.7*	3,156.9	7,509.0	42.0
Frasers Centerpoint Trust^	0.595	370.6	0.49	11.4	62.0	*19.3*	322.0	1,129.4	28.5
Starhill Global REIT	0.405	389.1	0.28	17.0	17.0	*2.6*	666.0	2,163.4	30.8
Retail Total			0.52	12.5	731.9	*17.7*	4,144.9	10,801.7	38.4
Healthcare									
Parkway Life REIT	0.725	437.0	0.54	10.6	34.0	*13.6*	250.8	1,080.6	23.2
Healthcare Total			0.54	10.6	34.0	*13.6*	250.8	1,080.6	23.2
Hospitality									
Ascott Residence Trust	0.360	220.9	0.24	24.7	117.5	*18.8*	624.4	1,687.6	37.0
CDL Hospitality Trusts	0.425	352.9	0.30	18.1	273.0	*100.0*	273.0	1,501.6	18.2
Hospitality Total			0.27	21.4	390.5	*43.5*	897.4	3,189.2	28.1
Industrial									
Ascendas REIT	1.170	1,963.9	0.64	12.8	738.1	*38.5*	1,915.4	4,610.3	41.5
Cambridge Industrial Trust	0.215	171.2	0.29	20.9	369.1	*100.0*	369.1	977.9	37.7
Macarthurcook Industrial REIT	0.215	56.3	0.17	43.3	224.4	*100.0*	224.4	566.2	39.6
Mapletree Logistics Trust^	0.340	659.4	0.38	13.7	217.7	*18.8*	1,159.4	3,046.3	38.1
Industrial Total			0.37	22.7	1,549.4	*42.2*	3,668.4	9,200.6	39.9
Overseas									
Ascendas India Trust	0.545	412.4	0.51	12.7	31.5	*51.1*	61.6	1,038.8	5.9
CapitaRetail China Trust	0.600	371.4	0.48	13.3	61.0	*14.7*	414.7	1,325.7	31.3
First REIT	0.485	133.0	0.52	14.6	50.8	*100.0*	50.8	339.5	15.0
Fortune REIT*#	2.240	1,838.6	0.30	16.4	0.0	*0.0*	432.2	1,638.8	26.4
Lippo-Mapletree Indonesia^	0.180	192.6	0.25	26.4	0.0	*0.0*	118.9	1,006.1	11.8
Saizen REIT#	0.105	47.5	0.10	38.6	293.0	*69.8*	420.0	914.4	45.9
Overseas Total			0.36	20.3	436.3	*29.1*	1,498.1	6,263.4	23.9
S-REITs Total			0.36	19.2	5,278.2	*32.2*	16,405.6	46,688.7	35.1

 # Converted to S$, based on respective exchange rates at the end of last reported financial period

****Share price and market cap in HK$***

For CMT, ex-Rights gearing level will fall to 29.1%

^OIR estimates used for DPU yield. Rest are consensus estimates

Source: Companies, OIR estimates, Bloomberg consensus estimates

Suntec REIT's Key Financial Data

EARNINGS FORECAST Year Ended 31 Dec (S$ m)	FY07*	FY08*	FY09F	FY10F
Gross revenue	190.3	294.5	232.2	225.7
Maintenance	-15.8	-20.5	-23.2	-22.6
Prop manager's fees	-5.2	-8.3	-7.0	-6.8
Prop tax	-17.6	-25.4	-23.2	-22.6
Other prop expenses	-11.0	-20.8	-7.0	-6.8
Net property income	140.6	219.5	171.8	167.0
Fees	-19.5	-34.3	-24.4	-23.7
Net interest expenses	-33.5	-84.0	-53.0	-60.0
Dividend and income support from ORQ	0.0	44.1	36.0	31.6
Net effect of non-tax items	27.8	64.5	24.0	24.0
Other adj	0.0	-3.5	0.0	0.0
Net profit (distributable)	115.4	201.2	154.5	138.9
Units outstanding, year end	1,429.8	1,571.2	1,640.2	1,709.2
DPU (cents)	8.1	12.8	9.4	8.1
EPU (cents)	6.1	8.7	8.0	6.7
PER (x)	8.2	7.3	6.3	7.5
Div yield (%)	16.0%	20.3%	18.6%	16.1%
Net profit (distr) growth	21.6%	39.5%	-4.0%	-10.1%
DPU growth	10.7%	26.7%	-8.1%	-13.7%

Note: FY07 year end is 30-Sep. FY08 is 15 months long due to a change of year end from 30-Sep to 31-Dec

BALANCE SHEET As at 31 Dec (S$ m)	FY07*	FY08*	FY09F	FY10F
Total fixed assets	4,569.6	5,304.1	5,306.6	5,309.1
Cash and cash equivalents	17.3	54.1	43.0	39.6
Total current assets	29.8	66.5	53.4	49.8
Total assets	4,599.6	5,431.6	5,421.0	5,419.9
Current liabilities ex debt	38.0	70.8	60.2	59.1
Debt	919.1	1,860.8	1,860.8	1,860.8
Total liabilities	991.3	1,975.6	1,965.0	1,963.9
Unitholders' funds	3,608.3	3,456.0	3,456.0	3,456.0
Total equity and liabilities	4,599.6	5,431.6	5,421.0	5,419.9

Note: FY07 year end is 30-Sep. FY08 is 15 months long due to a change of year end from 30-Sep to 31-Dec

CASH FLOW Year Ended 31 Dec (S$ m)	FY07*	FY08*	FY09F	FY10F
Net investment income	87.6	140.2	130.5	114.9
Add: net interest expense	33.5	53.4	53.0	60.0
Changes in working cap	14.5	22.9	-8.6	-0.9
Other adjustments	15.1	48.2	24.0	24.0
Net cash from operations	150.8	264.7	198.9	198.0
Cash flows from investing activities:				
Purchase of investment properties	-55.7	-941.7	0.0	0.0
Others	-10.1	17.7	-2.5	-2.5
Net cash from investing	-65.8	-924.1	-2.5	-2.5
Cash flows from financing activities:				
Proceeds from banks/unitholders	258.8	1,734.0	0.0	0.0
Debt repayment	-196.7	-779.0	0.0	0.0
Interest paid	-25.2	-71.5	-53.0	-60.0
Distributions to unitholders	-109.9	-187.4	-154.5	-138.9
Net cash from financing	-72.9	696.2	-207.4	-198.9
Net cash flow	12.0	36.8	-11.1	-3.4
Beg. cash & cash equivalents	5.2	17.3	54.1	43.0
Ending cash & cash equivalents	17.3	54.1	43.0	39.6

Note: FY07 year end is 30-Sep. FY08 is 15 months long due to a change of year end from 30-Sep to 31-Dec

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:
The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:
OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.
- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/-10% from the current price; Sell = More than 10% downside from the current price.
- For companies with less than S$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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