

MITA No. 010/06/2008

29 April 2009

Suntec REIT

Maintain

BUY

Previous Rating: BUY

S\$0.66

Fair Value: S\$0.80

Stock Code:

Reuters: SUNT.SI

ISIN Code T82U

Bloomberg: SUN SP

Event:

Results

General Data

Issued Capital (m) 1,579

Mkt Cap (S\$m/US\$m) 1,042 / 696

Major Shareholder

Perennial Invt Partners 6.1%

Asean Invt Corp 5.5%

Free Float (%) 88.4%

NAV per share (S\$) 2.001

Daily Vol 3-mth ('000) 7,816

52Wk High (S\$) 1.680

52Wk Low (S\$) 0.485

FY09 refinancing clouds clear

DPU up 2% QoQ. Suntec REIT recorded a 2.3% QoQ and 16% YoY increase in 1Q09 revenue to S\$64.9m. Unitholders get 2.918 S cents for the quarter (up 2% QoQ and 15.9% YoY). Results were better than expected, with Suntec's gross revenue and distributable income outperforming our 1Q estimates by about 4-7%.

Rents down but still incremental. An overhang of supply and uncertainty of demand are key concerns for the office sector. 3.7% of Suntec City office lies vacant, up from 1.8% a quarter ago. We understand that a couple of tenants are only renewing part of previously occupied space. The manager said maintaining occupancy above the 90% level is a key priority. Some 527k sf of office leases are up for renewal in FY09, with an average rent of S\$5.33 psf pm. The manager has already renewed more than half of these, at around S\$9.96 psf pm on average. The remaining 237.6k sf of office space expiring this year is currently earning an average rent of S\$6.64 psf pm - we note the margin of safety between achieved rents (down 11% QoQ) and average rents on expiring leases (up 25%) has narrowed quite dramatically - but is still adequate, in our opinion.

S\$825m facility in place. Suntec has secured a S\$825m term loan facility to refinance the S\$125m in MTN and S\$700 in CMBS loans maturing this year. The deal, a seven-bank club loan facility, is structured as a S\$725m 3-year loan and a S\$100m 7-year fixed rate loan. The manager said the facility costs a blended all-in interest margin of less than 375 bps over the base rate (versus an all-in financing cost of 3.02% in 1Q09). The cost of debt is significantly higher, but a fair reflection of the current lending environment, in our view. This announcement clears one "elephant in the room" but it does not change our view on Suntec's potential need for an equity issue to address falling capital values.

We still see some value. Our SOTP value for Suntec is S\$0.91, down 4% from S\$0.95 due to minor adjustments. Our fair value estimate is unchanged at S\$0.80, a 12% discount to our SOTP value. This incorporates our assumption of a S\$500m equity issue at the S\$0.60 level. Suntec is up 31% since our last report in March. We still see some room on the upside, with current price levels 21% below our fair value, along with a 14% FY09F yield (35% total return). Maintain **BUY**.

Meenal Kumar

(65) 6531 9112

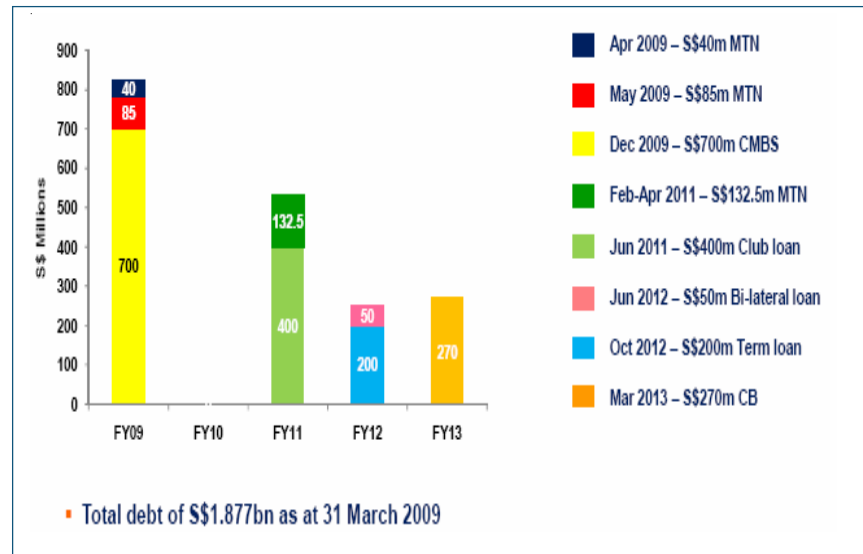
e-mail: Meenalk@ocbc-research.com

Year to 31 Dec	Revenue (S\$m)	Net Prop Income (S\$m)	Distr Profit (S\$m)	DPU (cents)	DPU Growth (%)	PER (x)	Div Yield (%)
FY 07*	190.3	140.6	115.4	8.1	10.7	10.8	12.2
FY 08*	294.5	219.5	201.2	12.8	26.7	9.5	15.5
FY 09F	232.2	171.8	154.5	9.3	-9.0	8.4	14.1
FY 10F	225.7	167.0	138.9	8.0	-13.7	9.9	12.2

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

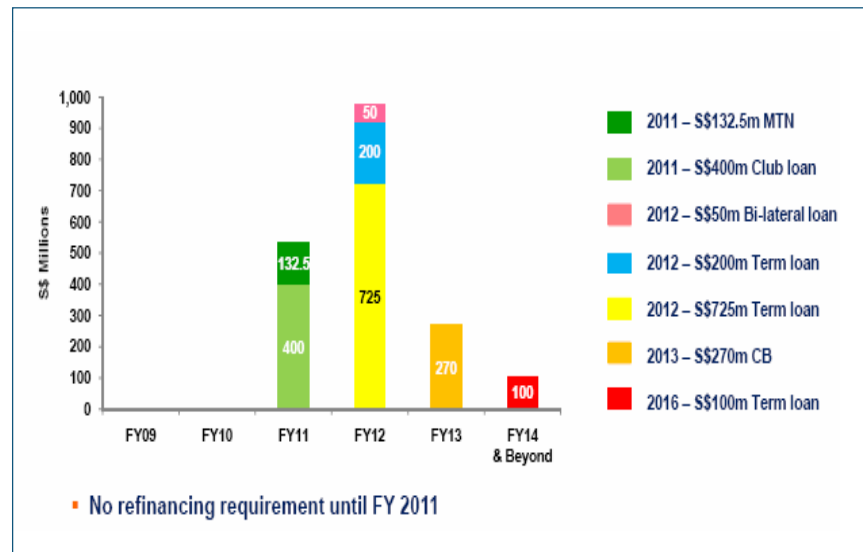
Please refer to the important disclosures at the back of this document.

Exhibit 1: Debt expiry profile today



Source: Suntec

Exhibit 2: Debt expiry profile after S\$825m facility is utilized



Source: Suntec

Exhibit 3: Occupancy data

	4Q CY07	1Q CY08	2Q CY08	3Q CY08	4Q CY08	1Q09
OFFICE						
Suntec	99.9%	100.0%	99.5%	99.3%	98.2%	96.3%
Park Mall	97.4%	97.1%	96.1%	96.6%	99.2%	99.2%
ORQ	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
RETAIL						
Suntec	99.6%	99.5%	98.9%	99.5%	98.9%	98.6%
Park Mall	99.9%	100.0%	100.0%	100.0%	100.0%	99.9%
Chjimes	97.0%	97.0%	97.0%	100.0%	99.3%	98.7%

Source: Suntec, OIR

Exhibit 4: Achieved rents at Suntec City Office, as guided

<i>Manager's guidance on achieved rents</i>						
(S\$ psf pm)	4Q CY07	1Q CY08	2Q CY08	3Q CY08	4Q CY08	1Q09
Suntec office	11 to 14	11-13.50	12 to 15	12.57	11.20	9.96
% Chg		-2%	10%	-7%	-11%	-11%

Source: Suntec, OIR

Suntec REIT's Key Financial Data

Suntec REIT Results Year Ended 31 Dec (S\$ m)	1Q09 (S\$m)	1Q08 (S\$m)	% Chg (YoY)	4Q CY08 (S\$m)	% Chg (QoQ)
Gross revenue	64.9	56.0	16.0%	63.5	2.3%
Total property expenses	-15.8	-13.4	18.0%	-15.6	1.2%
Net property income	49.2	42.6	15.4%	47.9	2.6%
Other income	6.7	6.4	5.9%	6.9	-2.2%
Net financing costs	-9.3	-22.4	-58.5%	-13.8	-32.7%
Asset management fees	-6.9	-6.7	1.6%	-6.9	-0.8%
Trust expenses	-0.6	-0.8	-32.2%	-2.2	-74.0%
Amortisation costs	-6.4	-6.5	-2.2%	-6.5	-2.2%
Net income before share of jointly controlled entity	32.8	12.5	162.0%	25.4	29.1%
Share of profit of jointly controlled entity	3.1	2.1	51.8%	-65.0	n.m.
Net income	36.0	14.6	146.5%	-39.6	n.m.
Net surplus on revaluation of invt ppty	0.0	0.0	-	-328.7	n.m.
Total return before taxation	36.0	14.6	146.5%	-368.3	n.m.
Income tax expense	-0.7	-1.1	-38.6%	-0.8	-6.1%
Total return after tax	35.3	13.4	162.3%	-369.0	n.m.
Net Profit (distributable)	46.4	37.6	23.2%	44.1	5.0%
DPU (S cents)	2.9180	2.5185	15.9%	2.8580	2.1%

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	1,657.1	1,726.1
DPU (cents)	8.1	12.8	9.3	8.0
EPU (cents)	6.1	8.7	7.9	6.7
PER (x)	10.8	9.5	8.4	9.9
Div yield (%)	12.2%	15.5%	14.1%	12.2%
Net profit (distr) growth	21.6%	39.5%	-4.0%	-10.1%
DPU growth	10.7%	26.7%	-9.0%	-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.

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Carmen Lee
Head of Research

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