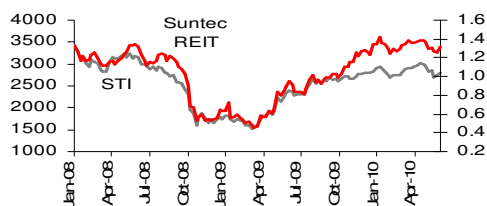


14 June 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S\$ 1.30
Fair Value: S\$1.44


Reuters Code	SUNT.SI
ISIN Code	T82U
Bloomberg Code	SUN SP
Issued Capital (m)	1,805
Mkt Cap (S\$m / US\$m)	2,347 / 1,692
Major Shareholders	
Asean Invt Corp	5.7%
Free Float (%)	94.3%
Daily Vol 3-mth ('000)	5,462
52 Wk Range	0.642 - 1.440

(\$ m)	FY08*	FY09	FY10F	FY11F
Revenue	294.5	253.1	245.9	247.4
NPI	219.5	192.2	183.2	184.3
Distri profit	201.2	189.6	174.6	173.3
Distri yield (%)	7.9	9.0	7.3	7.1
P/NAV (x)	0.6	0.7	0.7	0.7

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

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Suntec REIT

Positive retail developments and opportunities

New MRT stations a traffic opportunity. Esplanade and Promenade, the two Circle Line stations connected to Suntec REIT's *Suntec City*, opened on Apr 17. The new Bras Basah station is also in the vicinity of *Chijmes*. The eleven new stations that opened two months ago are projected to increase ridership on the Circle Line to 200k commuters per day from 40k per day previously (Land Transport Authority). The retail malls' increased connectivity could boost pedestrian traffic, in our view.

Great Singapore Sale going great guns. According to the *Business Times*¹, both Singapore-based and visiting MasterCard cardholders spent a total of US\$44.3m over the first weekend of the Great Singapore Sale (GSS), up 18% YoY. The purchases were primarily made at eating places and department stores. Meanwhile, a survey released by the MasterCard Worldwide Index of Consumer Confidence last month² shows that consumer confidence in Singapore more than doubled to 86.6 points compared to a year ago. Confidence, according to the poll, is back to levels recorded in 1H08.

Time to re-launch *Park Mall AEI*? We expect the S-REIT sector to employ asset enhancement initiatives as a key strategy to grow portfolio income this year. Suntec has long had asset enhancement plans to overhaul *Park Mall* (PM). The REIT had first acquired 13,572 square feet of land along Penang Road in Jul 2007, and subsequently purchased another strip of land of roughly 1,105 sf in Mar 2008, for a total acquisition cost of S\$15.6m. The land was intended for amalgamation with PM to create additional floor area - Suntec had said in 2008 that the total permissible gross floor area for PM would increase by roughly 67,810 sf to 451,727 sf. These plans were put on the backburner during the financial crisis. This could be an opportune year to re-launch this initiative.

Valuation. These positive retail trends, coupled with the opening of the new MRT stations, bode well for pedestrian traffic and consumer spending at the REIT's retail portfolio. Asset enhancements are another growth driver. This is, of course, offset by the challenges faced by Suntec's office portfolio, with prime office rents down 58.4% from peak 2008 levels according to CB Richard Ellis. Still, there has been a 5.8% decline in Suntec's unit price since our last report in April and valuations are attractive from a price-to-book perspective. Maintain **BUY** and S\$1.44 fair value (17.7% estimated total return).

¹ "GSS spending is up: MasterCard", *Business Times*, 11 Jun 2010

² "Consumer confidence index up", *Today*, 20 May 2010

Suntec REIT's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (\$m)	FY08*	FY09	FY10F	FY11F	As at 31 Dec (\$m)	FY08*	FY09	FY10F	FY11F
Gross revenue	294.5	253.1	245.9	247.4	Inv't properties	4352.0	4202.0	4204.5	4207.0
Maintenance	-20.5	-16.5	-23.4	-23.5	Jointly-controlled entities	952.1	881.0	881.0	881.0
Prop manager's fees	-8.3	-7.1	-7.4	-7.4	Cash and cash equivalents	54.1	31.2	33.0	30.7
Net property income	219.5	192.2	183.2	184.3	Total current assets	64.3	49.0	52.9	50.7
Fees	-34.3	-27.3	-25.8	-26.0	Total assets	5431.6	5169.9	5176.3	5176.6
Net interest expenses	-84.0	-80.8	-56.3	-57.5	Current liabilities ex debt	65.9	66.5	73.0	73.2
Dividend and income support from C	44.1	37.4	33.6	32.5	Debt	1860.8	1721.7	1721.7	1721.7
Net effect of non-tax items	64.5	73.2	40.0	40.0	Total liabilities	1975.6	1842.0	1848.5	1848.7
Other adj	-3.5	-2.7	0.0	0.0	Unitholders' funds	3456.0	3327.9	3327.9	3327.9
Net profit (distributable)	201.2	189.6	174.6	173.3	Total equity and liabilities	5431.6	5169.9	5176.3	5176.6
CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (\$m)	FY08*	FY09	FY10F	FY11F		FY08*	FY09	FY10F	FY11F
Net cash from operations	264.7	228.6	235.2	231.0	Units outstanding	1571.2	1801.4	1870.4	1870.4
Purchase of inv't properties	-941.7	-21.2	0.0	0.0	DPU (S cents)	12.8	11.7	9.5	9.3
Net cash from investing	-924.1	3.3	-2.5	-2.5	CFPS (S cents)	16.8	12.7	12.6	12.3
Proceeds frm banks/unitholders	1734.0	1063.4	0.0	0.0	NAV (S\$)	2.2	1.8	1.8	1.8
Debt repayment	-779.0	-1039.0	0.0	0.0	Distr yield (%)	7.9	9.0	7.3	7.1
Interest paid	-71.5	-77.8	-56.3	-57.5	P/CF (x)	9.6	10.2	10.3	10.5
Net cash from financing	696.2	-239.5	-231.0	-230.8	P/NAV (x)	0.6	0.7	0.7	0.7
Net cash flow	36.8	-7.6	1.8	-2.3	NPI margin (%)	74.5	75.9	74.5	74.5
Beg. cash & cash equivalents	17.3	54.1	31.2	33.0	Distr to revenue (%)	68.3	74.9	71.0	70.1
Ending cash & cash equivalents	54.1	31.2	33.0	30.7	Total debt/Total assets (x)	0.3	0.3	0.3	0.3

Note: 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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- 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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For OCBC Investment Research Pte Ltd



Carmen Lee
Head of Research

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