Suntec REIT (SUN SP)

1H26: Divestment Gains Importance With Uptick In Leverage

Highlights

- NPI from Suntec City Mall increased 13.6% yoy in 1H26, supported by higher occupancy and completion of AEI. Tenant sales psf rose 5% yoy
- Aggregate leverage rose 1.4ppt qoq to 43.0% following the redemption of S$150m perpetual securities. SUN's one-third stake of ORQ has become a potential candidate for divestment.
- SUN is a beneficiary of tight vacancy in core CDB with the divestment of ORQ on the cards. Maintain BUY with target price at S$1.75.

1H26 Results

Year to 31 Dec (S$m)	1H26	yoy % Chg	Remarks
Gross Revenue	238.9	+1.9	Suntec City Mall clocked rental reversion of 8.5% and tenant sales growth of 5%.
Net Property Income	159.0	+0.3	Decline in NPI from overseas moderated (Australia: -16.2% yoy, UK: -10.7% yoy).
JV Income	54.8	+7.0	NPI from Australia increased 7.9% yoy if we exclude the one-off compensation.
Finance Costs	(72.5)	-11.6	Growth in JV income was driven by ORQ and MBFC Tower 1 & 2.
Distributable Income	116.5	+25.5	All-in financing cost decreased 27bp yoy to 3.56% in 1H26.
DPU (S cents)	3.936	+24.8	

Source: SUN, UOB Kay Hian

Analysis

- Suntec REIT (SUN) reported DPU of 3.936 S cents (24.8% yoy), which is ahead of our expectation. The improvement was driven by stronger operating performance across the Singapore office and retail portfolios, lower financing costs, and the absence of additional Australian withholding tax provisions following confirmation of its Managed Investment Trust (MIT) status.
- **Singapore Office: Benefitting from limited CBD supply.** Committed occupancy at Suntec City Office improved 0.9ppt qoq to 100%. Occupancies at One Raffles Quay (ORQ) and Marina Bay Financial Centre (MBFC) Towers 1 & 2 also edged slightly higher to 99.1% and 98.7% respectively. Rental reversion picked up to 11% at Suntec City Office in 2Q26. NPI and JV income from Singapore office portfolio increased 2.3% and 9.3% yoy respectively. Management expects occupancy to remain high and rental reversion is likely to remain around 5% for 2026.
- **Suntec City Mall: Boost from AEI.** Occupancy improved 0.6ppt qoq to 99.6% while rental reversion remained healthy at 8.5% in 1H26. NPI increased 13.6% yoy respectively, supported by higher occupancy and rents, as well as incremental income from the completed AEI. Tenant sales psf rose 5% yoy in 1H26 with growth from F&B, supermarkets and leisure & entertainment. Resilient consumer spending is supported by rising visitor arrivals and major events, including the F1 Singapore Grand Prix and BTS concert. Rental reversion should be close to 10%.

Key Financials

Year to 31 Dec (S$m)	2024	2025	2026F	2027F	2028F
Net turnover	464	472	489	506	512
EBITDA	242	248	256	265	269
Operating profit	242	248	256	265	269
Net profit (rep./act.)	113	159	201	206	207
Net profit (adj.)	140	214	196	206	207
EPU (S$ cent)	4.8	7.3	6.6	6.9	6.9
DPU (S$ cent)	6.2	7.0	8.0	8.1	8.1
PE (x)	31.5	20.8	23.0	22.1	22.1
P/B (x)	0.7	0.7	0.8	0.8	0.8
DPU yld (%)	4.1	4.6	5.2	5.3	5.3
Net margin (%)	24.3	33.8	41.0	40.6	40.4
Net debt/(cash) to equity (%)	62.7	60.3	64.8	65.9	67.1
Interest cover (x)	1.5	1.8	1.9	2.0	1.9
ROE (%)	1.8	2.5	3.2	3.3	3.3
Consensus DPU (S$ cent)	-	-	7.5	7.8	8.2
UOBKH/Consensus (x)	-	-	1.06	1.04	0.98

Source: Suntec REIT, Bloomberg, UOB Kay Hian

BUY (Maintained)	
Share Price	S$1.52
Target Price	S$1.75
Upside	+15.1%
Previous TP	S$1.71

Analyst(s)
Jonathan Koh, CFA, MSc Econ
jonathankoh@uobkh.com
+65 6590 6620

Stock Data

GICS Sector	Real Estate
Bloomberg ticker	SUN SP
Shares issued (m)	2,958.6
Market cap (S$m)	4,497.1
Market cap (US$m)	3,482.8
3-mth avg daily t'over (US$m)	8.0

Price Performance (%)

52-week high/low S$1.55/S$1.14

1mth	3mth	6mth	1yr	YTD
5.6	1.3	4.1	28.8	5.6

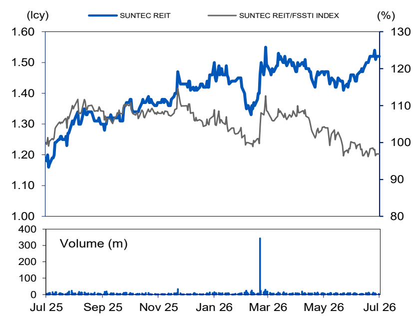
Major Shareholders

	%
Tang Gordon & Family	27.7
Hongkong Land International	10.8

Balance Sheet Metrics

FY26 NAV/Share (S$)	2.02
FY26 Net Debt/Share (S$)	1.36

Price Chart



Source: Bloomberg

Company Description

SUN owns Suntec City, comprising Suntec City Office and Suntec City Mall, and a 61% stake in Suntec Convention & Exhibition Centre. It has one-third stakes in Marina Bay Financial Centre Tower 1 & 2, Marina Bay Link Mall and One Raffles Quay. It has expanded overseas to Australia (Sydney, Melbourne and Adelaide) and the UK (London).

- **Australia portfolio: Resilient despite challenging leasing conditions.** Portfolio occupancy improved to 90.1% from 88.6% a year ago, supported by full occupancy at 177 Pacific Highway and 21 Harris Street in Sydney and 477 Collins Street in Melbourne. NPI declined 16.2% yoy due to the absence of a A$10m one-off compensation received in 1H25 from the surrender of three floors at 177 Pacific Highway. Leasing markets in Melbourne and Adelaide remain tenant-led with elevated incentives, prompting SUN to maintain a flexible leasing strategy through fitted suites and sub-divided spaces. Management expects portfolio performance to remain stable, supported by strong occupancies across the Sydney assets and 477 Collins Street.
- **UK: Good progress on lease-up at The Minster Building.** Occupancy at The Minster Building remained at 85.4% following a tenant lease expiry in Jun 25, while Nova Properties stayed fully occupied. NPI declined 10.7% yoy in 1H26 due to lower occupancy at The Minster Building, although JV income from Nova Properties remained stable. SUN is finalising lease documentation for level six and is in advance negotiations for another floor at The Minster Building. Occupancy should improve substantially in 2H26.
- **Gearing increased following the redemption of perpetual securities.** Aggregate leverage rose 1.4ppt qoq to 43.0% as of Jun 26 following the redemption of S$150m perpetual securities (market for perpetual securities was weak). All-in financing cost was stable at 3.55%, while interest coverage was 2.2x. 57% of borrowings are fixed or hedged. Management expects all-in financing cost for 2026 to remain in line with 2025 levels at 3.6%.

Valuation/Recommendation

- **Embarking on strategic review.** Tang Organisation will work closely with SUN's management to conduct a strategic review to strengthen its portfolio performance through asset optimisation and recycling initiatives. Its real estate execution capabilities are highlighted by the redevelopment of 9 Penang Road in the Dhoby Ghaut precinct, which has secured UBS Singapore as the sole anchor office tenant. In our opinion, strategies to unlock value include an AEI for Suntec City Mall and a potential acquisition of 9 Penang Road.
- **SUN focuses on deleveraging through divestments** of mature assets and strata units at Suntec City Office. On a ytd basis, SUN has divested 10,000sf of strata units at Suntec City Office at S$3,300-3,400psf. The transaction market in Australia has become more active as bid-ask spread has narrowed. Asking prices have become more realistic. Cap rates have stabilised. Buyers focus on acquiring existing prime assets as construction and financing costs are prohibitive for new development projects.
- **One-third stake of ORQ is a potential candidate for divestment** as the property has the lowest yield within its portfolio. It was valued at S$1,387m as of Dec 25. ORQ does not enjoy tax transparency as it is held by a private limited company. SUN could recycle the capital to reinvest in 9 Penang Road, which is part of its sponsor pipeline.
- **Maintain BUY.** Our target price of S$1.75 is based on DDM (cost of equity: 6.25%, terminal growth: 1.8%). SUN currently trades at P/NAV of 0.75x (discount of 25% to NAV per unit of S$2.03).

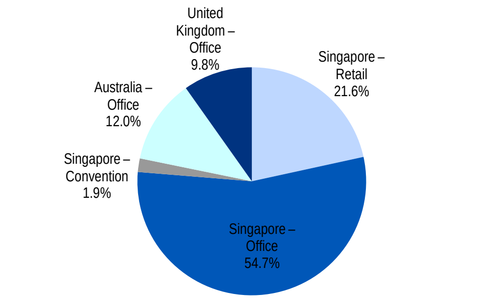
Earnings Revision/Risk

- We raise our DPU forecast by 5% for 2026 and 3% for 2027 due to stronger-than-anticipated performance for 1H26 and from Suntec City Mall.

Share Price Catalyst

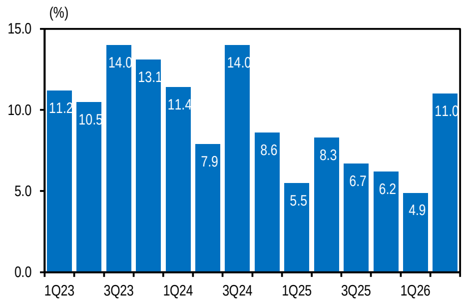
- HKL continuing to acquire units to enlarge its holding in SUN.
- Positive rental reversion for Suntec City Mall in Singapore.
- Asset recycling to optimise portfolio performance and to deleverage.

Portfolio Valuation By Asset Type



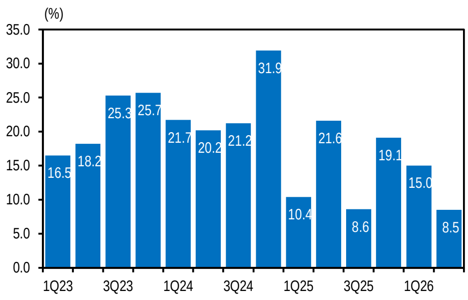
Source: SUN

Rent Reversion – Singapore Office



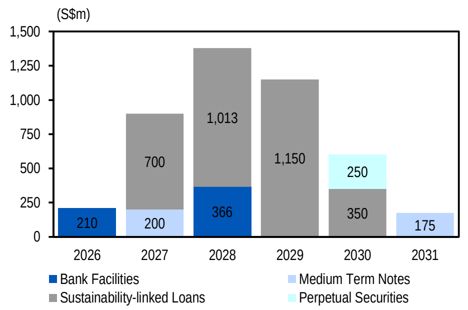
Source: SUN

Rent Reversion – Suntec City Mall



Source: SUN

Debt Maturity Profile



Source: SUN

Profit & Loss

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Net turnover	471.6	489.4	506.5	511.6
EBITDA	248.2	256.0	265.4	268.7
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	248.2	256.0	265.4	268.7
Total other non-operating income	(54.4)	5.0	0.0	0.0
Associate contributions	128.3	99.3	99.9	99.9
Net interest income/(expense)	(137.1)	(132.1)	(136.0)	(138.0)
Pre-tax profit	185.0	228.3	229.3	230.6
Tax	(4.7)	(11.4)	(11.5)	(11.5)
Minorities	(2.3)	(2.3)	(1.0)	(1.0)
Perpetual Securities	(18.7)	(14.0)	(11.2)	(11.2)
Net profit	159.3	200.6	205.6	206.9
Net profit (adj.)	214.1	195.5	205.6	206.9

Balance Sheet

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Fixed assets	7,850.2	7,889.4	7,899.4	7,909.4
Other LT assets	2,799.7	2,792.8	2,792.8	2,792.8
Cash/ST investment	195.8	213.5	223.1	237.2
Other current assets	33.7	42.0	42.6	43.0
Total assets	10,879.4	10,937.7	10,957.9	10,982.4
ST debt	99.9	809.6	809.6	809.6
Other current liabilities	138.4	147.8	149.8	151.2
LT debt	3,957.2	3,455.0	3,510.0	3,570.0
Other LT liabilities	147.2	144.7	144.7	144.7
Shareholders' equity	6,406.8	6,251.2	6,214.4	6,177.5
Minority interest	130.0	129.4	129.4	129.4
Total liabilities & equity	10,879.4	10,937.7	10,957.9	10,982.4

Cash Flow

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Operating	267.6	87.4	272.4	275.2
Pre-tax profit	214.1	197.3	205.6	206.9
Tax	0.0	0.0	0.0	0.0
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	(128.3)	(99.3)	(99.9)	(99.9)
Working capital changes	(0.9)	0.5	1.0	0.7
Non-cash items	28.2	28.3	28.4	28.5
Other operating cashflows	154.4	(39.4)	137.2	139.0
Investing	179.0	122.3	89.9	89.9
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(21.0)	(10.0)	(10.0)	(10.0)
Proceeds from sale of assets	88.8	0.0	0.0	0.0
Others	111.2	132.3	99.9	99.9
Financing	(483.5)	(191.9)	(352.6)	(351.0)
Distribution to unitholders	(191.2)	(236.3)	(242.4)	(243.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(169.2)	207.5	55.0	60.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(123.1)	(163.2)	(165.2)	(167.2)
Net cash inflow (outflow)	(36.8)	17.7	9.7	14.1
Beginning cash & cash equivalent	231.3	195.8	213.5	223.1
Changes due to forex impact	1.2	0.0	0.0	0.0
Ending cash & cash equivalent	195.8	213.5	223.1	237.2

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	52.6	52.3	52.4	52.5
Pre-tax margin	39.2	46.6	45.3	45.1
Net margin	33.8	41.0	40.6	40.4
ROA	1.5	1.8	1.9	1.9
ROE	2.5	3.2	3.3	3.3
Growth				
Turnover	1.7	3.8	3.5	1.0
EBITDA	2.7	3.2	3.7	1.3
Pre-tax profit	34.2	23.4	0.4	0.6
Net profit	41.2	25.9	2.5	0.6
Net profit (adj.)	52.5	(8.7)	5.2	0.6
EPU	51.2	(9.4)	4.2	(0.3)
Leverage				
Debt to total capital	38.3	40.1	40.5	41.0
Debt to equity	63.3	68.2	69.5	70.9
Net debt/(cash) to equity	60.3	64.8	65.9	67.1
Interest cover (x)	1.8	1.9	2.0	1.9