

SECTOR UPDATE

REITs – Singapore

3Q24: CLAR's Results In Line; SUN's Results Below Expectations

BUY CLAR (Target: S\$3.74) for consistency in generating positive rental reversion and value creation through redevelopment projects. HOLD SUN (Target: S\$1.13) as valuation is fair with 2025 distribution yield at 5.3% but aggregate leverage is elevated at 42.3%. Maintain OVERWEIGHT on the sector.

RESULTS

CapitaLand Ascendas REIT (CLAR SP/BUY/Target: S\$3.74)

- CapitaLand Ascendas REIT (CLAR) announced its 3Q24 business update:
- Clocked double-digit positive reversion.** CLAR achieved positive rental reversion of 14.4% for leases that were renewed in multi-tenant buildings in 3Q24 (Singapore: +12.2%, Australia: +14.9% and US: +22.9%). Rental reversion was particularly robust for logistics properties at 31.7% for Singapore and 52.3% for Australia. Management expects rental reversion at positive high single-digit in 2024.
- Portfolio occupancy eased 1.0ppt qoq to 92.1% in 3Q24.** Occupancy for Australia slipped 5.1ppt qoq to 91.7% due to non-renewal at 6-20 Clunies Ross Street in Sydney. CLAR had previously cautioned that demand for logistics properties in Australia has normalised and leasing downtime has reverted to the usual 6-12 months. Management is in discussions with prospective tenants to backfill the vacant space. Occupancy for the US eased 0.6ppt qoq to 87.1% due to lower occupancy at Perimeter Two in Raleigh. Occupancy for Singapore was stable at 92.0%.
- Prudent capital management.** Aggregate leverage was stable at 38.9% as of Sep 24. 80% of CLAR's borrowings are on fixed interest rates or hedged to fixed rates. CLAR's weighted average all-in cost of debt was stable at 3.7% in 3Q24. Cost of debt should maintain at current levels till end-24.
- Generating steady growth from diversified portfolio.** Management plans to recycle assets in Singapore and reposition toward the technology, life science and logistics sectors. CLAR has three ongoing redevelopment projects in Singapore, comprising life science and innovation campus Geneo at 1 Science Park Drive, business park property 27 IBP at International Business Park and six-storey ramp-up logistics property at 5 Toh Guan Road East. Properties in UK/Europe can provide stable contributions due to long WALE of 5.8 years. Occupancy for business parks in the US could slip lower as the work-from-home arrangement is quite entrenched.
- Attracting new tenants to Changi Business Park.** Julius Baer has relocated its finance, audit and human resource functions to One@Changi City and will occupy 75,000sf across two levels. Singapore Airlines will also be relocating its corporate hub to One@Changi City. Occupancy for its properties at Changi Business Park should improve over the next 12 months.
- Maintain BUY** and target price of S\$3.74, based on DDM (cost of equity: 6.75%, terminal growth: 2.5%).

KEY OPERATING METRICS – CLAR

Year to 31 Dec	3Q23	4Q23	1Q24	2Q24	3Q24	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	7.44	n.a.	7.52	n.a.	n.a.	n.a.
Occupancy	94.5%	94.2%	93.3%	93.1%	92.1%	-2.4ppt	-1ppt
Aggregate Leverage	37.2%	37.9%	38.3%	37.8%	38.9%	1.7ppt	1.1ppt
Average Cost of Debt	3.3%	3.5%	3.8%	3.7%	3.7%	0.4ppt	0ppt
% Borrowing in Fixed Rates	80.6%	79.1%	82.6%	83.0%	80.2%	-0.4ppt	-2.8ppt
WALE by NLA (years)	3.9	3.9	3.9	3.8	3.7	-0.2yrs	-0.1yrs
Weighted Debt Maturity (years)	3.3	3.4	3.4	3.7	3.3	0yrs	-0.4yrs
Rental Reversion	10.2%	13.4%	16.9%	13.4%	14.4%	4.2ppt	1ppt

Source: CLAR, UOB Kay Hian

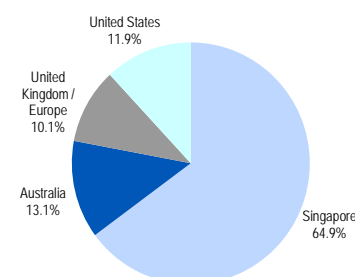
OVERWEIGHT (Maintained)

KEY PICKS

Company	Rec	Share Price (\$)	Target Price (\$)
CLAR	BUY	2.72	3.74
SUN	HOLD	1.21	1.18

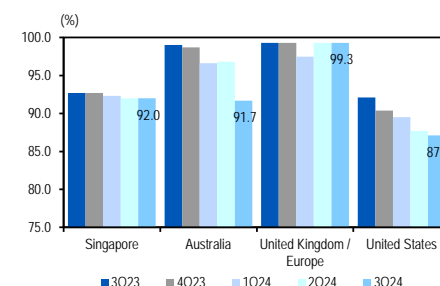
Source: UOB Kay Hian

PORTFOLIO VALUATION BY GEOGRAPHICAL REGION



Source: CLAR

PORTFOLIO OCCUPANCY



Source: CLAR

POSITIVE RENTAL REVERSIONS

% Change in Renewal Rates	3Q23	4Q23	1Q24	2Q24	3Q24
SINGAPORE	9.8%	16.9%	16.0%	11.9%	12.2%
- Business Space & Life Science	6.4%	13.1%	5.8%	8.3%	0.7%
- Logistics	25.5%	53.6%	62.0%	24.9%	31.7%
- Industrial & Data Centres	8.6%	9.4%	11.4%	13.9%	9.6%
AUSTRALIA	n.a.	21.8%	n.a.	7.7%	14.9%
- Business Space	n.a.	22.3%	n.a.	n.a.	9.5%
- Logistics	n.a.	9.1%	n.a.	7.7%	52.3%
UNITED STATES	8.5%	11.0%	28.7%	11.9%	22.9%
- Business Space	8.5%	11.0%	n.a.	9.6%	22.9%
- Logistics	n.a.	n.a.	28.7%	13.5%	n.a.
UNITED KINGDOWN / EUROPE	28.8%	-6.6%	n.a.	10.1%	n.a.
- Data Centres	n.a.	-6.6%	n.a.	10.1%	n.a.
- Logistics	28.8%	n.a.	n.a.	n.a.	n.a.
Total Portfolio	10.2%	15.2%	16.9%	11.7%	14.4%

Source: CLAR

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Suntec REIT (SUN SP/HOLD/Target: S\$1.18)

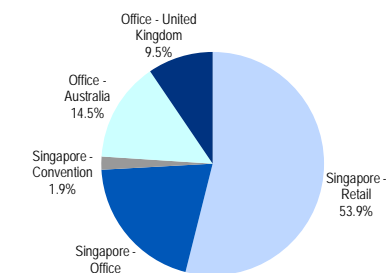
3Q24 RESULTS

Year to 31 Dec (S\$m)	3Q24	yoy % chg	Remarks
Gross Revenue	117.7	-4.6	Growth from Suntec City Office and Suntec City Mall.
Net Property Income	79.8	-5.7	Decline from 55 Currie Street and The Minster Building.
Income Contribution from JVs	25.0	+5.0	Growth from ORQ and MBFC.
Distributable Income	46.2	-11.2	3Q23 included capital distribution of S\$5.8m.
DPU (S cents)	1.580	-11.9	

Source: SUN, UOB Kay Hian

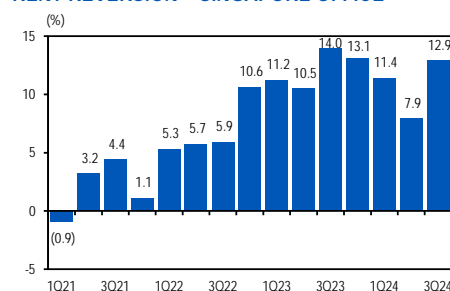
- Suntec REIT (SUN)** reported DPU of 1.58 S cents for 3Q24 (-11.9% yoy), which is in line with our expectation. Gross revenue and NPI declined 4.6% and 5.7% yoy respectively due to lower contributions from Suntec Convention (fewer large scale events), 55 Currie Street in Adelaide and The Minster Building in London. JV income increased 5% yoy due to growth from MBFC and ORQ.
- Singapore office: Resilient and steady growth.** SUN achieved double-digit rental reversions at 12.9% for Singapore offices in 3Q24. Suntec City Office was fully occupied. Suntec City Office's passing rent increased 3.2% yoy and 0.4% qoq to S\$10.15psf per month. SUN will benefit from past quarters of positive rental reversion. Management expects mid to high single-digit rental reversion in 2025.
- Singapore retail: Successfully backfilled vacant space.** SUN achieved positive rental reversions at 21.2% for Suntec City Mall in 3Q24. Occupancy improved 2.8ppt qoq to 98.4% in 3Q24 after it backfilled retail space vacated by Pure Fitness and Pure Yoga in 2Q24 and 3Q24. It added eight new-to-market and new-to-Suntec brands in 3Q24. Management guided positive rental reversion of 10-15% for 2025.
- Australia: Cautioned against potential decline in capital values.** Occupancy at 55 Currie Street in Adelaide improved 5.2ppt qoq to 61.4% in 3Q24. SUN has signed a head of agreement for another 5% of office space, which would bring occupancy above 65% by end-24. Occupancy at Southgate Complex in Melbourne also improved 1.9ppt qoq to 89.2%. According to JLL, office vacancies in Melbourne and Adelaide remain elevated at 19.8% and 15.8% respectively. Melbourne faces an onslaught from large upcoming new supply. Incentives are expected to remain high for both Melbourne and Adelaide. As such, management has cautioned that SUN could experience revaluation losses due to cap rate expansion of 50-100bp.
- UK: Expansion by existing insurance tenant.** Nova Properties in London is fully occupied. Occupancy for The Minster Building was stable at 91.3% in 3Q24 with the remaining vacant office space to be taken up by an existing insurance tenant, who needs more office space for expansion, by end-24. Occupancy in Central London is expected to improve due to tight supply and higher office utilisation. Revenue from the UK portfolio is affected by leasing downtime at The Minster Building.
- Moderate increase in cost of debt.** Aggregate leverage remained elevated at 42.3% as of end-Sep 24. All-in cost of debt was stable at 4.06% in 9M24. SUN has completed refinancing for S\$950m of loans due in 2024 and 2026 in Feb 24 and generated an estimated savings of 32bp or S\$3.1m per year from lower credit spread. Cost of debt is expected to increase to 4.15% for 2024 and 4.2-4.3% for 2025 as expiring swaps are replaced at higher interest rates.
- Deleveraging through divestments.** SUN focuses on deleveraging through the divestment of strata units at Suntec City Office and other mature assets. It has divested two strata units at Suntec City Office for S\$31.5m, which is 27% above book value. Mature assets that could be divested include 177 Pacific Highway in Sydney and Southgate Complex in Melbourne.
- Maintain HOLD** with lower target price of S\$1.18 based on DDM (cost of equity: 6.75%, terminal growth: 1.5%).

PORTFOLIO VALUATION BY ASSET TYPE



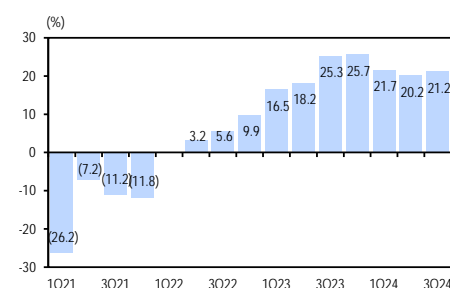
Source: SUN

RENT REVERSION - SINGAPORE OFFICE



Source: SUN

RENT REVERSION - SUNTEC CITY MALL



Source: SUN

KEY OPERATING METRICS – SUN

Key Metrics	3Q23	4Q23	1Q24	2Q24	3Q24	yoy % Chg	qoq % Chg
DPU (S cents)	1.793	1.866	1.511	1.531	1.580	-11.9%	3.2%
Office Occupancy	97.4%	94.9%	95.1%	95.1%	95.6%	-1.8ppt	0.5ppt
Retail Occupancy	97.9%	95.2%	95.5%	95.4%	97.7%	-0.2ppt	2.3ppt
Aggregate Leverage	42.7%	42.3%	42.2%	42.3%	42.3%	-0.4ppt	0ppt
All-in-Financing Cost	3.78%	3.84%	4.03%	4.02%	4.06%	0.28ppt	0.04ppt
% Borrowing in Fixed Rates	55%	61%	57%	55%	61.0%	6ppt	6ppt
Debt Maturity (years)	2.72	3.00	3.57	3.32	3.07	0.4yrs	-0.3yrs
Suntec Office Passing Rent (S\$ psf pm)	9.84	9.85	10.02	10.11	10.15	3.2%	0.4%

Source: SUN

ACTION

- BUY CLAR (Target: S\$3.74) and HOLD SUN (Target: S\$1.18).

PEER COMPARISON

Name	Ticker	Rec	Price	Target	Mkt Cap (US\$m)	Yield (%)				Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
			29 Oct 24	Price		Hist	Curr	Fwd 1Y	Fwd 2Y			
CapLand Ascendas	CLAR SP	BUY	2.72	3.74	9,033	5.6	5.6	6.0	6.1	67.5	38.9	1.20
Suntec REIT	SUN SP	HOLD	1.21	1.18	2,667	5.9	5.1	5.3	5.3	69.5	42.3	0.58

Source: Bloomberg, UOB Kay Hian

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