Singapore Company Update

3 June 2020

Property | REITS

Starhill Global REIT (SGREIT SP)

Buy (from Neutral)

Attractive Valuation; U/G To BUY

Target Price (Return):	SGD0.63 (+17%)
Price:	SGD0.54
Market Cap:	USD832m
Avg Daily Turnover (SGD/USD)	1.98m/1.38m

- **Upgrade to BUY from Neutral with new TP of SGD0.63 from SGD0.76, 17% upside and 7% yield.** While outlook for the retail sector remains grim Starhill Global REIT's master/anchor leases, which account for nearly half of its rents, provide some stability. Its balance sheet remains relatively healthy (gearing: 36.7%) with no near-term debt refinancing concerns. With the stock trading near -2SD (0.6x P/BV) and being a laggard among retail REIT peers in terms of valuation, we see room for rebound.
- **Attractive valuation compared to retail peers.** Among retail S-REITs, Starhill trades at an attractive 0.6x P/BV compared to peer average of 1x P/BV and sector average of 1.1x P/BV (Figure 2). We believe the reason for valuation gap is due to market concerns on its exposure to high-end retail, Wisma Atria's shorter remaining land tenure (41 years), and declining average retail rents. At current levels, we believe the negatives have been fully priced in.
- **Impact of COVID-19.** On 18 May, the REIT announced that it set aside SGD18.1m for rental rebates (~2 months) including estimated property tax rebates of SGD10.8m. With the Fortitude budget announced by the Government requiring landlords to offer additional rental assistance to SME retail tenants, we expect it to provide an additional SGD5-10m in rent rebates. On its Australian portfolio, the manager is currently close to finalising the rent relief package to tenants. Our model has factored in ~AUD6m (or 1.5 months of rent rebates). Its Malaysian assets under master leases have so far been offered ~SGD0.4m in terms of rent rebates. While overall occupancy for 3QFY20 (Jun) remained high at 96.3%, we expect pressure on occupancy and rents in the coming years. Our numbers have factored in c.5% decline in retail occupancy over the next two years.
- **Master leases and office portfolio mitigate overall impact.** Starhill has two master leases –Toshin master leases in SG (expiring in 2025) and long-term master leases for Malaysian portfolio – which together account for 33% of 3QFY20 revenue. Despite COVID-19, we do not expect any defaults or delays in master lease rental payments as the lessees are still in good financial shape. Additionally, office portfolio, which accounted ~15% of 3QFY20 revenue is fairly less impacted from COVID-19, in our view.
- **Gearing stands at 36.7%** well below the revised 50% threshold, and even after including the planned asset enhancement capex for Malaysian malls it is expected to remain <40%. About 87% of its debt is hedged and FX risk is mitigated by natural hedge and FX forward contracts.
- **Earnings and assumption changes.** We lower our FY20F-22F DPU by 8-19%, factoring in rent rebates, lower occupancy levels and rent. Our COE assumption is also raised by 70bps to 7.9%.

Analyst

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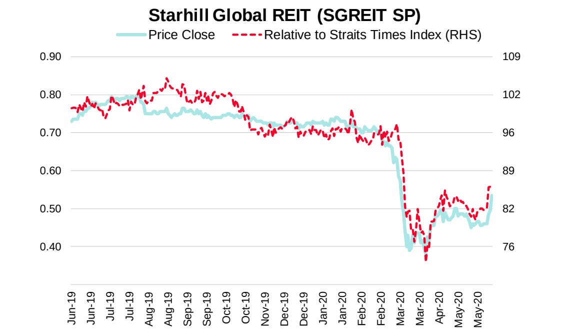
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.2)	7.0	(19.6)	(25.7)	(27.2)
Relative	(5.3)	9.8	(4.4)	(5.7)	(9.0)
52-wk Price low/high (SGD)					0.38 – 0.80



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (SGDm)	209	206	168	194	204
Net property income (SGDm)	162	159	133	149	157
Reported net profit (SGDm)	84	66	14	116	122
Total distributable income (SGDm)	103	101	85	95	98
DPS (SGD)	0.05	0.04	0.04	0.04	0.04
DPS growth (%)	(7.5)	(1.5)	(16.6)	13.4	2.8
P/B (x)	0.59	0.60	0.63	0.62	0.61
Dividend Yield (%)	8.5	8.4	7.0	7.9	8.1
Return on average equity (%)	4.2	3.4	0.7	6.2	6.4
Return on average assets (%)	2.6	2.1	0.4	3.7	3.9

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Property
Starhill Global REIT
SGREIT SP
Buy

Valuation basis

DDM

Key drivers

i. Sharp pickup in retail sales post COVID-19,
ii. Increased government support measures;
iii. Strong sponsor and master leases.

Key risks

i. A prolonged recession impacting retail sales,
ii. Fast changing consume dynamics;
iii. Declining allure of Orchard Road.

Company Profile

Starhill Global REIT invests in retail and office buildings in Singapore and overseas.

Financial summary	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Recurring EPS (SGD)	0.04	0.03	0.01	0.05	0.06
EPS (SGD)	0.04	0.03	0.01	0.05	0.06
DPS (SGD)	0.05	0.04	0.04	0.04	0.04
BVPS (SGD)	0.91	0.88	0.86	0.87	0.88
Return on average equity (%)	4.2	3.4	0.7	6.2	6.4
Weighted avg adjusted shares (m)	2,181.20	2,181.20	2,181.20	2,181.21	2,181.22

Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Recurring P/E (x)	13.96	17.67	85.84	10.08	9.53
P/E (x)	13.96	17.67	85.84	10.08	9.53
P/B (x)	0.6	0.6	0.6	0.6	0.6
FCF Yield (%)	10.6	10.8	23.8	9.1	9.2
Dividend Yield (%)	8.5	8.4	7.0	7.9	8.1
EV/EBITDA (x)	15.67	16.03	19.37	17.34	16.36
EV/EBIT (x)	15.67	16.03	19.42	17.39	16.41

Income statement (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover	209	206	168	194	204
EBITDA	142	139	117	130	138
Depreciation and amortisation	(0)	(0)	(0)	(0)	(0)
Operating profit	142	139	116	130	137
Net interest	(38)	(37)	(38)	(41)	(42)
Pre-tax profit	87	70	14	119	126
Taxation	(3)	(3)	(0)	(3)	(3)
Recurring net profit	84	66	14	116	122

Cash flow (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Change in working capital	(2)	(3)	0	0	0
Cash flow from operations	137	134	124	136	138
Capex	(14)	(8)	154	(30)	(30)
Cash flow from investing activities	(7)	(7)	155	(29)	(29)
Dividends paid	(101)	(98)	(82)	(92)	(95)
Cash flow from financing activities	(139)	(120)	(154)	(161)	(153)
Cash at beginning of period	77	67	73	70	96
Net change in cash	(8)	8	125	(54)	(44)
Ending balance cash	68	73	74	96	112

Balance sheet (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total cash and equivalents	67	73	70	96	112
Tangible fixed assets	0	0	0	0	0
Total investments	3,118	3,065	3,004	3,034	3,064
Total other assets	2	(0)	0	(0)	(0)
Total assets	3,192	3,142	3,078	3,134	3,180
Short-term debt	63	128	63	63	63
Total long-term debt	1,067	1,004	1,097	1,122	1,137
Total liabilities	1,201	1,212	1,212	1,237	1,253
Shareholders' equity	1,990	1,930	1,866	1,897	1,927
Total equity	1,990	1,930	1,866	1,897	1,927
Net debt	1,064	1,059	1,090	1,090	1,089
Total liabilities & equity	3,192	3,142	3,078	3,134	3,180

Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Revenue growth (%)	(3.5)	(1.3)	(18.4)	15.4	4.9
Recurrent EPS growth (%)	(16.8)	(21.0)	(79.4)	751.4	5.7
Operating EBITDA margin (%)	68.2	67.4	69.3	67.0	67.7
Net profit margin (%)	40.0	32.0	8.1	59.6	60.1
Dividend payout ratio (%)	123.4	153.5	0.0	0.0	0.0
Capex/sales (%)	6.6	3.7	(91.6)	15.5	14.9
Interest cover (x)	3.66	3.63	3.00	3.08	3.18

Source: Company data, RHB

Figure 1: Starhill – fair value based on dividend discount model

	FY20F	FY21F	FY22F	FY23F	FY24F	Terminal value
DPU (SG cts)	3.74	4.24	4.35	4.41	4.52	66.62
Fair value (SGD)	**0.63**					
Current price (SGD)	0.535					
Price upside (%)	17.8					
Distribution yield (%)	7.0					
Total return (%)	24.7					
Assumptions						
Risk-free rate (%)	2.8					
Beta	0.8					
Cost of equity (%)	7.8					
Terminal growth (%)	1.0					

Source: RHB

Figure 2: Retail S-REITs peer comparison*

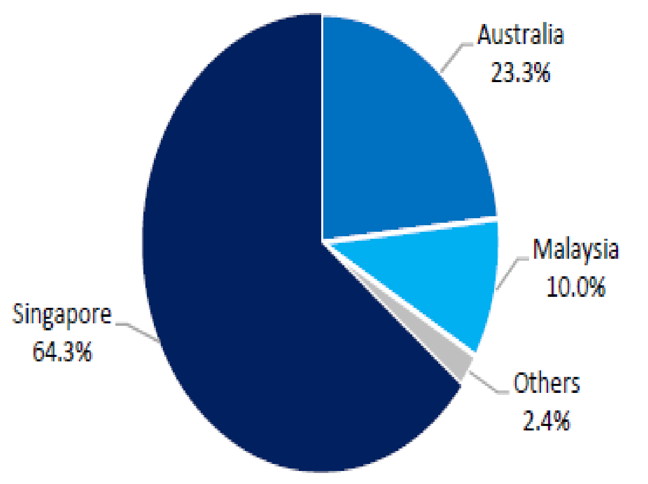
	Mkt cap (USDm)	3M-ADVT (USD '000)	Last price (LCY)	1D (%)	5D (%)	1M (%)	3M (%)	6M (%)	12M (%)	YTD (%)	vs 52W-low (%)	vs 52W-high (%)	P/B (x)	Div yield (FY-1)	Div yield (FY-2)	Yield Spread (%)	Gearing/simple ave	WALE (years)	% FY-1	% FY-2
REITs (41)	**70,675**	**313,023**		**2.0**	**8.5**	**8.7**	**(5.2)**	**(6.8)**	**2.3**	**(7.4)**	**51.2**	**(17.6)**	**1.1**	**5.4**	**5.9**	**4.6**	**35.8%**	**5.5**		
Retail (6)	**15,693**	**83,471**		**2.8**	**11.1**	**11.0**	**(8.1)**	**(14.3)**	**(4.0)**	**(14.5)**	**44.7**	**(20.8)**	**1.00**	**4.7**	**5.4**	**3.8**	**33.3%**			
CapitaLand Mall Trust	5,607	39,726	2.13	3.4	13.3	12.7	(7.8)	(14.8)	(11.6)	(13.4)	43.0	(22.5)	1.01	4.7	5.6	3.9	32.9%	2.1	21%	28%
Mapletree Commercial Trust	4,892	28,316	2.07	1.0	6.2	5.6	(3.3)	(12.7)	8.7	(13.4)	41.8	(16.5)	1.18	4.1	4.5	3.2	33.4%	2.6	22%	29%
SPH REIT	1,732	2,377	0.88	4.1	9.3	8.0	(12.0)	(17.0)	(15.4)	(17.8)	31.3	(24.1)	0.79	4.9	6.0	4.1	29.3%	2.7	25%	17%
Frasers Centrepoint Trust	2,021	7,988	2.53	1.6	12.4	18.8	(10.9)	(7.7)	4.5	(10.0)	63.2	(17.6)	1.14	4.0	4.7	3.1	33.2%	1.7	27%	27%
Starhill Global REIT	**836**	**1,486**	**0.54**	**8.1**	**16.3**	**7.0**	**(19.5)**	**(25.7)**	**(27.2)**	**(26.2)**	**42.7**	**(33.1)**	**0.62**	**8.6**	**8.8**	**7.8**	**36.3%**	**5.9**	**6%**	**15%**
Lendlease Global Commercial REIT	605	3,578	0.73	4.3	22.9	26.1	(13.2)	(22.5)	N.M	(22.0)	64.8	(24.5)	N.M	5.5	6.9	4.7	34.9%	4.9	11%	19%

*Note: *Closing price as at 2 Jun 2020; Gearing, WALE and lease expiry as at end-2019*
Source: Bloomberg, RHB

Figure 3: Starhill's 10-year forward P/BV

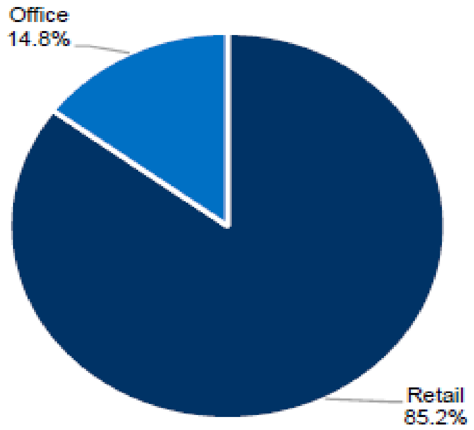
Source: Bloomberg, RHB

Figure 4: 3QFY20 revenue breakdown by geography



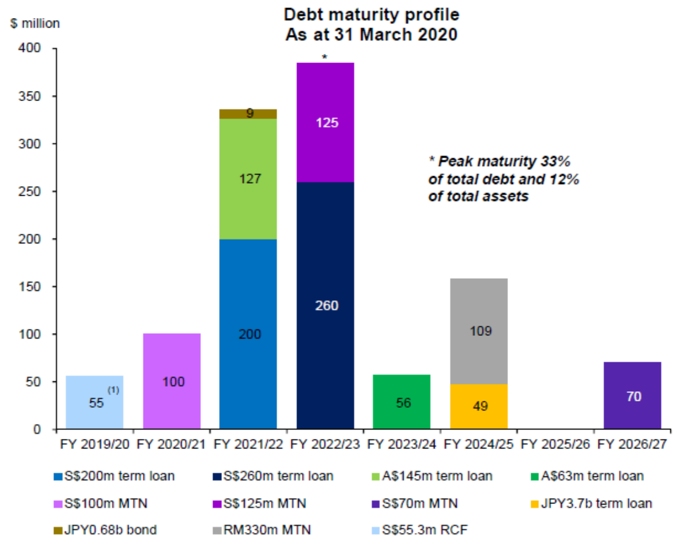
Source: Company data

Figure 5: 3QFY20 revenue breakdown by asset class



Source: Company data

Figure 6: Debt maturity profile



Source: Company data

Figure 7: Portfolio historical trend

As at	31 Dec 07	31 Dec 08	31 Dec 09	31 Dec 10	31 Dec 11	31 Dec 12	31 Dec 13	30 Jun 15	30 Jun 16	30 Jun 17	30 Jun 18[(1)]	30 Jun 19[(1)]	31 Mar 20[(1)]
SG Retail	*100.0%*	*98.3%*	*100.0%*	*99.1%*	*98.3%*	*99.8%*	*99.9%*	*99.4%*	*99.2%*	*99.2%*	*98.7% (99.1%)*[(2)]	*99.4% (99.4%)*[(2)]	*99.5% (99.5%)*[(2)]
SG Office	*98.7%*	*92.4%*	*87.2%*	*92.5%*	*95.3%*	*98.3%*	*99.0%*	*99.3%*	*95.6%*	*92.9%*	*90.3% (95.0%)*[(2)]	*93.2% (93.9%)*[(2)]	*87.4% (91.4%)*[(2)]
Singapore	99.5%	96.0%	95.1%	96.5%	97.1%	99.2%	99.5%	99.3%	97.9%	96.8%	95.5%	97.0%	94.8%
Japan	100.0%	97.1%	90.4%	86.7%	96.3%	92.7%	89.8%	96.1%	100.0%	100.0%	100.0%	100.0%	100.0%
China	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	96.4%	100.0%	100.0%	100.0%	100.0%
Australia	-	-	-	100.0%	100.0%	100.0%	99.3%	96.2%	89.7%	91.1%	88.8%	92.8%	94.3%
Malaysia	-	-	-	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SG REIT portfolio	99.6%	96.6%	95.4%	98.2%	98.7%	99.4%	99.4%	98.2%	95.1%	95.5%	94.2%[(1)]	96.3%[(1)]	96.3%[(1)]

Notes:
1. Based on commenced leases as at reporting date. For prior years, the reported occupancy rates were based on committed leases, which include leases that have been contracted but have not commenced as at the reporting date.
2. Based on committed leases as at reporting date.

Source: Company data

Figure 8: Top 10 tenants

Tenant Name	Property	% of Portfolio Gross Rent [(1) (2)]
Toshin Development Singapore Pte Ltd	Ngee Ann City, Singapore	22.2%
YTL Group [(3)]	Ngee Ann City & Wisma Atria, Singapore Starhill Gallery & Lot 10, Malaysia	15.5%
Myer Pty Ltd	Myer Centre Adelaide, Australia	6.4%
David Jones Limited	David Jones Building, Australia	4.2%
BreadTalk Group	Wisma Atria, Singapore	2.2%
Coach Singapore Pte Ltd	Wisma Atria, Singapore	1.6%
LVMH Group	Wisma Atria, Singapore	1.5%
Charles & Keith Group	Wisma Atria, Singapore	1.3%
Tory Burch Singapore Pte Ltd	Wisma Atria, Singapore	1.3%
Emperor Watch & Jewellery	Wisma Atria, Singapore	1.1%

Source: Company data

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-01-30	Neutral	0.76	0.72
2019-08-02	Neutral	0.78	0.78
2019-04-29	Buy	0.78	0.76
2019-01-17	Buy	0.80	0.71
2018-01-30	Neutral	na	0.77
2017-07-31	Neutral	0.81	0.78

Source: RHB, Bloomberg

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