

30 January 2020

Property | REITS

Starhill Global REIT (SGREIT SP)

Neutral (Maintained)

Steady Quarter But Near-Term Headwinds Ahead

Target Price (Return): SGD0.76 (+6%)
 Price: SGD0.72
 Market Cap: USD1,149m
 Avg Daily Turnover (SGD/USD) 1.24m/0.91m

- Maintain NEUTRAL with new TP of SGD 0.76 from SGD0.78, 6% upside.** Starhill Global REIT's flattish 2Q DPU came in line with our and market expectations. Revenue and NPI declined by 5% and 6% YoY respectively due to asset enhancement works but was largely offset by management fees in units as guided previously. While its Singapore retail portfolio is showing signs of a turnaround, we expect tenant sales to see a near-term hit due to the expected sharp slowdown of Chinese visitors.
- Better performance from SG retail portfolio, but tenant sales are likely to take a near-term hit.** Wisma Atria (WA) showed marked improvement in 2Q20 (Jun) with revenue and NPI up 4% YoY driven by occupancy improvements. SG retail portfolio has now achieved 100% committed occupancy on the back of management's active leasing strategy. However, we expect tenant sales to experience a short-term hit on the back of the Wuhan coronavirus outbreak, which is expected to result in a sharp slowdown in Chinese visitors due to travel restrictions. This could in turn put pressure on near-term lease renewals. In 2018, Chinese visitors were the largest contributor to tourism receipts – SGD3.9bn (c.15% of total), with Orchard Road – where Starhill malls are located – being the most popular tourist destination.
- Awaiting redevelopment plans.** Management had earlier indicated its plans to redevelop 100,000 sqf of untapped GFA in WA, and is awaiting final authority approval. Based on our back of envelope calculation, the estimated capex for redevelopment is expected to be ~SGD200m and should be highly accretive to NAV upon completion. The move is also timely with the opening of the Orchard station on the upcoming Thomson-East Coast line in 2021, is expected to bring more traffic flow from East Singapore. Separately, SGREIT has also submitted a non-binding expression of interest to Isetan (Singapore) Ltd for the acquisition of its share of strata area at WA, the outcome of which is still pending.
- Stable overseas performance barring forex impact.** Australia office portfolio saw healthy occupancy improvements during the quarter but overall contributions were impacted by the AUD weakening against the SGD. In Malaysia, asset enhancement works on Starhill Gallery have commenced and are expected to be completed by end-2021. The impact from rent rebates during the construction period should be mitigated by the payment of management fees in units as indicated previously.
- Slight decline in SG office occupancy** from 93.6% to 89.2% due to the pre-termination of a single tenant at Ngee Ann City. WA (office) occupancy however saw an improvement to 91.3% (+3.6ppts QoQ).
- DPU changes.** We lower our FY20F-22F DPU by 1-2% by tweaking our interest cost and rent growth assumptions.

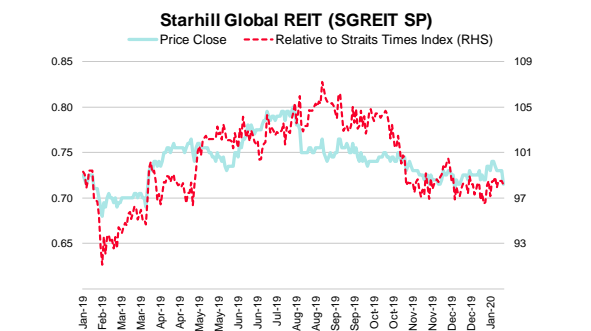
Analyst

Vijay Natarajan
 +65 6232 3872
vijay.natarajan@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.4)	(0.7)	(3.4)	(9.5)	(0.7)
Relative	(0.1)	0.7	(3.3)	(4.1)	(0.1)
52-wk Price low/high (SGD)	0.68 – 0.80				



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (SGDm)	209	206	202	204	215
Net property income (SGDm)	162	159	155	158	167
Reported net profit (SGDm)	84	66	142	126	134
Total distributable income (SGDm)	103	101	103	105	108
DPS (SGD)	0.05	0.04	0.05	0.05	0.05
DPS growth (%)	(7.5)	(1.5)	2.4	2.1	2.7
P/B (x)	0.78	0.81	0.79	0.78	0.76
Dividend Yield (%)	6.4	6.3	6.4	6.6	6.7
Return on average equity (%)	4.2	3.4	7.3	6.3	6.6
Return on average assets (%)	2.6	2.1	4.5	3.9	4.1
Interest cover (x)	3.66	3.63	3.50	3.37	3.47

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Singapore	Recurring EPS (SGD)	0.04	0.03	0.07	0.06	0.06
Property	EPS (SGD)	0.04	0.03	0.07	0.06	0.06
Starhill Global REIT	DPS (SGD)	0.05	0.04	0.05	0.05	0.05
SGREIT SP	BVPS (SGD)	0.91	0.88	0.91	0.92	0.94
Buy	Weighted avg adjusted shares (m)	2,181	2,181	2,181	2,181	2,181
Valuation basis	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
DDM	P/B (x)	0.78	0.81	0.79	0.78	0.76
	FCF Yield (%)	7.9	8.1	12.0	7.3	7.4
Key drivers	EV/EBIT (x)	18.4	18.9	19.4	19.0	17.9
i. Asset enhancement and redevelopments enhancing value;	Income statement	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
ii. Increase in tourist arrivals and tourist spending;	Total turnover (SGDm)	209	206	202	204	215
iii. Accretive acquisitions and divestments.	EBITDA (SGDm)	142	139	136	139	147
	Depreciation and amortisation (SGDm)	(0)	(0)	(0)	(0)	(0)
	Operating profit (SGDm)	142	139	135	138	146
	Net interest (SGDm)	(38)	(37)	(38)	(40)	(41)
	Pre-tax profit (SGDm)	87	70	145	129	138
	Taxation (SGDm)	(3)	(3)	(4)	(3)	(3)
	Recurring net profit (SGDm)	84	66	142	126	134
Key risks	Cash flow (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
i. Prolonged slowdown in visitor arrivals on the back of Wuhan virus;	Change in working capital	(2)	(3)	0	0	0
ii. Exit and consolidation of popular fashion brands; and	Cash flow from operations	137	134	141	144	147
iii. Changing consumer trends.	Capex	(14)	(8)	47	(31)	(31)
	Cash flow from investing activities	(7)	(7)	48	(30)	(30)
	Dividends paid	(101)	(98)	(100)	(102)	(105)
	Cash flow from financing activities	(139)	(120)	(141)	(169)	(162)
	Cash at beginning of period	77	67	73	68	94
	Net change in cash	(8)	8	48	(55)	(45)
	Ending balance cash	68	73	73	94	112
Company Profile	Balance sheet (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Starhill Global REIT invests in retail and office buildings in Singapore and overseas.	Total cash and equivalents	67	73	68	94	112
	Tangible fixed assets	0	0	0	0	0
	Total investments	3,118	3,065	3,111	3,142	3,173
	Total other assets	2	(0)	0	(0)	(0)
	Total assets	3,192	3,142	3,183	3,241	3,290
	Short-term debt	63	128	63	63	63
	Total long-term debt	1,067	1,004	1,067	1,092	1,107
	Other liabilities	30	44	35	35	36
	Total liabilities	1,201	1,212	1,206	1,232	1,249
	Shareholders' equity	1,990	1,930	1,977	2,009	2,041
	Total equity	1,990	1,930	1,977	2,009	2,041
	Net debt	1,064	1,059	1,062	1,061	1,058
	Total liabilities & equity	3,192	3,142	3,183	3,241	3,290
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	(3.5)	(1.3)	(2.1)	1.3	5.0
	Recurrent EPS growth (%)	(16.8)	(21.0)	114.8	(11.2)	6.8
	Operating EBITDA margin (%)	68.2	67.4	67.3	67.8	68.4
	Net profit margin (%)	40.0	32.0	70.3	61.6	62.6
	Dividend payout ratio (%)	123.4	153.5	0.0	0.0	0.0
	Capex/sales (%)	6.6	3.7	(23.1)	15.2	14.6
	Interest cover (x)	3.66	3.63	3.50	3.37	3.47

Source: Company data, RHB

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

	FY20F	FY21F	FY22F	FY23F	FY24F	Terminal value
DPU (SGD cts)	4.59	4.68	4.81	4.87	4.98	80.30
Fair value (SGD)	0.76					
Current price (SGD)	0.72					
Price upside (%)	5.6					
Distribution yield (%)	6.4					
Total return (%)	11.9					
Assumptions						
Risk-free rate (%)	2.8					
Beta	0.7					
Cost of equity (%)	7.3					
Terminal growth (%)	1.0					

Source: Company data, RHB

Figure 2: Asset value by geography (as at Dec 2019)

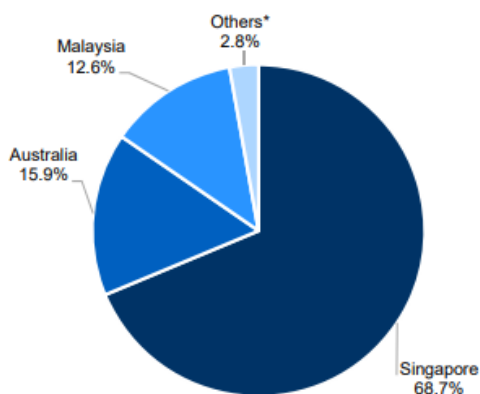
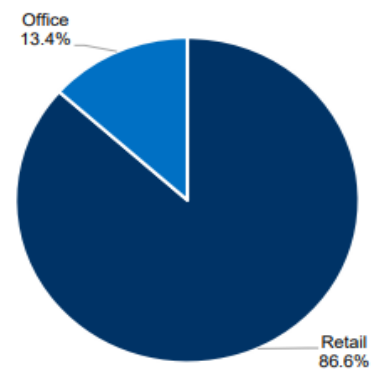


Figure 3: 2Q revenue breakdown by asset class



Source: Company data

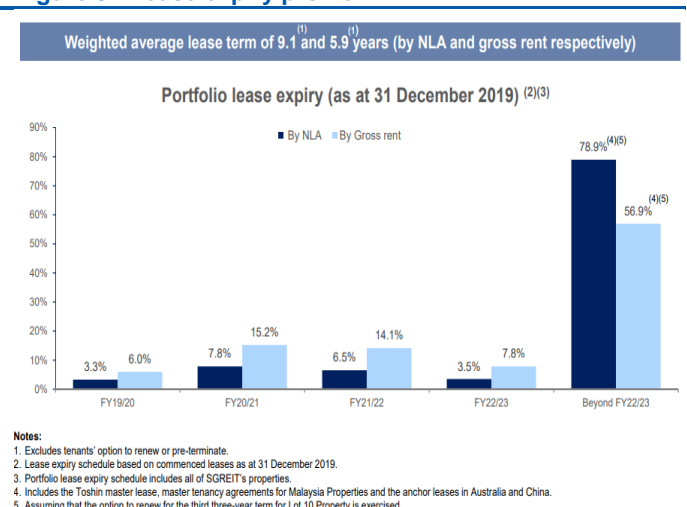
Source: Company data

Figure 4: 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 Dec 19 ⁽¹⁾
SG Retail	100.0%	98.3%	100.0%	99.1%	98.3%	99.6%	99.9%	99.4%	99.2%	99.2%	98.7% (99.1%) ⁽²⁾	99.4% (99.4%) ⁽²⁾	99.6% (100.0%) ⁽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⁾	89.2% (89.9%) ⁽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%	95.6%
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%	94.4%
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%	95.6%	95.4%	98.2%	98.7%	99.4%	99.4%	98.2%	95.1%	95.5%	94.2% ⁽¹⁾	96.3% ⁽¹⁾	95.5% ⁽¹⁾

Source: Company data

Figure 5: Lease expiry profile



Source: Company data

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KUALA LUMPUR

RHB Investment Bank Bhd

Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia

Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

HONG KONG

RHB Securities Hong Kong Ltd.

12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL

10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Securities Singapore Pte Ltd.

10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211