

2 August 2019

Property | REITS

Starhill Global REIT (SGREIT SP)

Neutral (from Buy)

Fair Value Reached; Cut To NEUTRAL

Target Price (Return)	SGD0.78 (0%)
Price:	SGD0.78
Market Cap:	USD1,237m
Avg Daily Turnover (SGD/USD)	2.1m/1.5m

- **Downgrade to NEUTRAL from Buy, TP stays at SGD0.78 for 6% total return** as we believe the positives are priced in post Starhill Global REIT's 15% share price rally YTD. Key upside catalysts are a potential sharp turnaround in WA retail rental rates and the redevelopment of underutilised mall GFA. That said, unchanged rental rates for Toshin master leases were slightly below our estimate – and there has been a slight delay in obtaining approvals for its Singapore asset redevelopment.
- **Wisma Atria (WA) bottoming out; potential upside from redevelopment.** The occupancy rate at WA's retail area increased sharply by ~8ppt in 4QFY19 to 99.6%. Tenant sales also grew 8.1% YoY, indicating that management's efforts to reposition the tenant and trade mix are starting to bear fruit. While the mall's effective rental rate has declined by ~15% over the last two years to ~SGD33 psf, we believe current levels are more sustainable – and expect a slight uptick in rental ahead. Management also emphasised that the focus will be on increasing effective rental rates with occupancy stabilisation. It is also in the advanced stages of finalising plans to tap into an additional ~100,000 sqf of GFA for the mall – which we believe will be DPU- and NAV-accretive.
- **Toshin master lease rental rate adjustments are below expectations.** In June, the REIT announced that the Toshin master lease base rental rates will remain unchanged for the next three years post-rent review. This was slightly below our estimate of a low single-digit increase, and underscores the challenging retail climate. Toshin is the master tenant occupying all the retail areas except Level Five of Ngee Ann City (NAC) for a 12-year period (since Jun 2013) with rental rate review provisions every three years. Toshin is also the largest contributor in terms of gross rental, at c.22.9% of FY19F's total.
- **Slight delay in Singapore building plan approvals.** Its new Malaysian master tenancy agreements (see our 21 Mar report titled [Long Leases Mitigate AEI Impact](#)) has been approved by unitholders in an EGM. For Starhill Gallery's (SG) redevelopment, management has the development order but has yet to obtain approvals for building plans and erection of the building. It hopes to obtain the approval by the end of the year, and is currently receiving interim rent amounting to MYR21m. The asset enhancements are expected to be completed in two years. Gearing including capex (SGD58.1m) for asset enhancement initiatives remains healthy, at 36.7%, and we do not see any need for equity fundraising in the near term.
- **DP and TP adjustments.** Our FY19F-21F DPU is lowered by 2% to 4% on the back of lower rental growth assumptions for its Singapore retail assets. We also cut COE by 30bps (in line with sector adjustments).

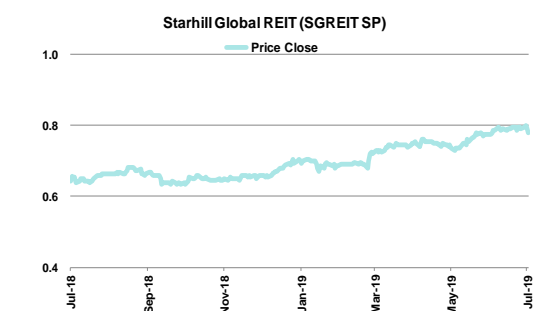
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.7	0.6	2.6	8.3	12.2
Relative	7.4	3.0	5.8	5.1	13.3
52-wk Price low/high (SGD)	0.80 - 0.66				



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (SGDm)	208.8	206.2	201.8	204.5	214.7
Net property income (SGDm)	162.2	159.4	155.0	158.0	167.2
Reported net profit (SGDm)	84.2	65.6	140.3	125.9	135.1
Distributable income (SGDm)	103	101	105	107	108
DPS (SGD - cents)	4.5	4.5	4.7	4.8	4.8
DPS growth (%)	(7.5)	(1.5)	4.0	2.4	1.3
P/BV (x)	0.9	0.9	0.9	0.8	0.8
Dividend Yield (%)	5.8	5.7	6.0	6.1	6.2
Return on average equity (%)	4.2	3.4	7.1	6.3	6.6
Return on average assets (%)	2.6	2.1	4.4	3.9	4.1
Interest coverage (x)	3.7	3.6	3.4	3.4	3.5

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Jun 18	Jun 19	Jun 20F	Jun 21F	Jun 22F
Singapore	Recurring EPS (SGD)	0.04	0.03	0.06	0.06	0.06
Property	EPS (SGD)	0.04	0.03	0.06	0.06	0.06
Starhill Global REIT	DPS (SGD)	0.05	0.04	0.05	0.05	0.05
Bloomberg SGREIT SP	BVPS (SGD)	0.91	0.93	0.91	0.92	0.94
	Weighted avg adjusted shares (m)	2181.20	2181.20	2181.22	2181.22	2181.22
Valuation basis	Valuation metrics	Jun 18	Jun 19	Jun 20F	Jun 21F	Jun 22F
In our DDM valuation, we use the following assumptions	Recurring P/E (x)	20.2	25.9	12.1	13.5	12.6
i. COE of 7.1%;	P/E (x)	20.2	25.9	12.1	13.5	12.6
ii. Risk-free rate of 2.75%; and	P/B (x)	0.9	0.8	0.9	0.8	0.8
iii. 1% terminal growth.	FCF Yield (%)	7.2	7.4	11.1	6.7	6.8
	Dividend Yield (%)	5.8	5.6	6.0	6.1	6.2
Key drivers	EV/EBITDA (x)	19.6	20.0	20.5	20.1	19.0
i. Turnaround in its Singapore retail portfolio;	EV/EBIT (x)	19.6	20.0	20.5	20.1	19.0
ii. Diversified asset portfolio mitigating risks;						
iii. Potential yield-accretive acquisitions.						
Key risks	Income statement (SGDm)	Jun 18	Jun 19	Jun 20F	Jun 21F	Jun 22F
i. Economic slowdown impacting retail demand; and	Total turnover	209	206	202	204	215
ii. Forex fluctuations.	Gross profit	162	159	155	158	167
	EBITDA	144	141	137	140	149
	Depreciation and amortisation	0	0	0	0	1
	Operating profit	144	141	137	140	149
	Net interest	(37)	(38)	(39)	(40)	(40)
	Income from associates & JVs	0	0	0	0	0
	Exceptional income - net	0	0	0	0	0
	Pre-tax profit	88	69	144	129	139
	Taxation	(3)	(3)	(4)	(3)	(3)
	Minority interests	0	0	0	0	1
	Recurring net profit (adj)	84	66	140	126	135
Company Profile	Cash flow (SGDm)	Jun 18	Jun 19	Jun 20F	Jun 21F	Jun 22F
Starhill Global REIT focuses primarily in real estate used for retail and office purposes, both in Singapore and overseas. The REIT has grown its initial portfolio from interests in two landmark properties on Orchard Road in Singapore to 10 properties in Singapore, Australia, Malaysia, China and Japan. Its portfolio is valued at about SGD3.1bn as at FY19.	Change in working capital	(2)	(3)	0	0	0
	Cash flow from operations	136	134	142	145	147
	Capex	(14)	(8)	47	(31)	(31)
	Cash flow from investing activities	(7)	(7)	48	(30)	(30)
	Dividends paid	(101)	(98)	(102)	(104)	(105)
	Cash flow from financing activities	(139)	(120)	(142)	(170)	(162)
	Cash at beginning of period	77	67	68	68	94
	Net change in cash	(10)	8	48	(55)	(45)
	Ending balance cash	67	73	68	94	112
	Balance sheet (SGDm)	Jun 18	Jun 19	Jun 20F	Jun 21F	Jun 22F
	Total cash and equivalents	67	73	68	94	112
	Tangible fixed assets	3118	3065	3111	3142	3173
	Intangible assets	0	0	0	0	1
	Total investments	3118	3065	3111	3142	3174
	Total other assets	6	4	5	5	5
	Total assets	3192	3142	3184	3241	3290
	Short-term debt	63	128	63	63	63
	Total long-term debt	1067	1004	1067	1092	1107
	Other liabilities	71	80	76	77	79
	Total liabilities	1201	1212	1206	1232	1249
	Shareholders' equity	1990	1930	1977	2009	2041
	Minority interests	0	0	0	0	1
	Total equity	1990	1930	1977	2009	2041
	Net debt	1064	1059	1062	1061	1058
	Total liabilities & equity	3192	3142	3184	3241	3290
	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 (%)	(16.0)	(22.1)	114.0	(10.3)	7.3
	Gross margin (%)	77.7	77.3	76.8	77.3	77.9
	Operating EBITDA margin (%)	68.9	68.3	68.1	68.6	69.2
	Net profit margin (%)	40.3	31.8	69.5	61.6	62.9
	Dividend payout ratio (%)	96.2	95.5	97.1	97.2	97.2
	Capex/sales (%)	6.6	3.7	(23.1)	15.2	14.6
	Interest cover (x)	3.7	3.7	3.6	3.5	3.6

Source: Company data, RHB

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Figure 1: DDM valuation

-	FY20F	FY21F	FY22F	FY23F	FY24F	Terminal value
DPU (SG cents)	4.66	4.77	4.83	4.95	4.98	82.48
Fair value (SGD)	0.78					
Current price (SGD)	0.78					
Price upside (%)	0.0					
Distribution yield (%)	6.0					
Total return (%)	6.0					
Assumptions						
Risk-free rate (%)	2.8					
Beta	0.6					
Cost of equity (%)	7.1					
Terminal growth (%)	1.0					

Source: Company data, RHB

Figure 2: Historical occupancy rates of its assets

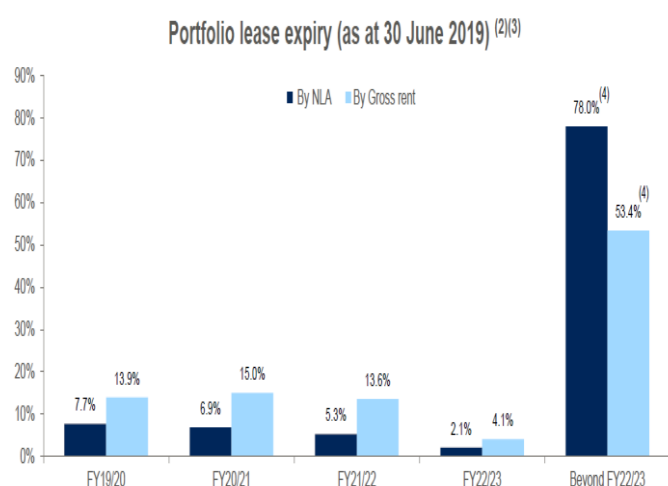
As at	31 Dec 06	31 Dec 07	31 Dec 08	31 Dec 09	31 Dec 10	31 Dec 11	31 Dec 12	31 Dec 13	30 Jun 15	30 Jun 16	30 Jun 17	30 Jun 18 ⁽¹⁾	30 Jun 19 ⁽¹⁾
SG Retail	100.0%	100.0%	98.3%	100.0%	99.1%	98.3%	99.8%	99.9%	99.4%	99.2%	99.2%	98.7% (99.1%) ⁽²⁾	99.4% (99.4%) ⁽²⁾
SG Office	97.8%	98.7%	92.4%	87.2%	92.5%	95.3%	98.3%	99.0%	99.3%	95.6%	92.9%	90.3% (95.0%) ⁽²⁾	93.2% (93.9%) ⁽²⁾
Singapore	99.2%	99.5%	96.0%	95.1%	96.5%	97.1%	99.2%	99.5%	99.3%	97.9%	96.8%	95.5%	97.0%
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%
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%
Australia	-	-	-	-	100.0%	100.0%	100.0%	99.3%	96.2%	89.7%	91.1%	88.8%	92.8%
Malaysia	-	-	-	-	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SG REIT portfolio	99.2%	99.6%	96.6%	95.4%	98.2%	98.7%	99.4%	99.4%	98.2%	95.1%	95.5%	94.2%	96.3%

Source: Company data

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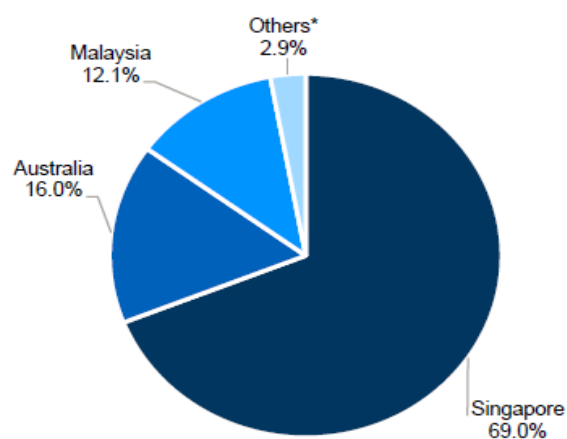
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Figure 3: Lease expiry profile



Source: Company data

Figure 4: Asset value by geography



Source: Company data

Figure 5: Top 10 tenants as of FY19

Tenant Name	Property	% of Portfolio Gross Rent ^{(1) (2)}
Toshin Development Singapore Pte Ltd	Ngee Ann City, Singapore	22.9%
YTL Group ⁽³⁾	Ngee Ann City & Wisma Atria, Singapore Starhill Gallery & Lot 10, Malaysia	10.5%
Myer Pty Ltd	Myer Centre Adelaide, Australia	7.0%
David Jones Limited	David Jones Building, Australia	4.7%
BreadTalk Group	Wisma Atria, Singapore	2.0%
Emperor Watch & Jewellery	Wisma Atria, Singapore	1.8%
Coach Singapore Pte Ltd	Wisma Atria, Singapore	1.6%
LVMH Group	Wisma Atria, Singapore	1.6%
Charles & Keith Group	Wisma Atria, Singapore	1.4%
Cotton On Group	Wisma Atria, Singapore, Myer Centre Adelaide, Australia	1.1%

Source: Company data

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