

17 January 2019

Property | REITs

Starhill Global REIT (SGREIT SP)

Buy (Maintained)

The Cheapest Retail/Office REIT - BUY

Target Price (Return)	SGD 0.80 (+14%)
Price:	SGD0.70
Market Cap:	USD1,135m
Avg Daily Turnover (SGD/USD)	179m/45.7m

- **Attractive valuation, and one of our sector's Top Picks with SGD 0.80 TP**, which is at the high end of consensus, offering 14% upside and a FY19F yield of 6.9%. Its current P/B of 0.8x is lower than the average retail REITs of 1.1x P/B (see Figure 5) while the yield is 150bps higher than the average listed retail/office S-REITs. With the bottoming out of Orchard-road rents, limited micro-market supply and completion of overseas asset revamp, we believe Starhill is now in a much better position to deliver DPU growth. Our TP is DDM-derived (COE: 7.5%, TG: 1.0%). Key risks are non-renewal of master leases and unexpected slowdown in economy.

- **SG retail portfolio bottoming out.** Based on latest CBRE data (4Q18), Orchard Road rents have inched up by 1.3%YoY since bottoming out in 4Q17. Only 5% of the upcoming 2m sqft of retail supply (see Figure 2) is located along Orchard limiting competition. This, combined with positive visitor outlook and Government's efforts to promote Orchard shopping precinct should benefit Starhill, which derives c.50% income from its Orchard malls. Looking ahead, we estimate the occupancy of Wisma Atria (WA) to remain in high 90% with flattish rental reversions. For Ngee Ann City (NAC), the Toshin master leases (c.21.6% of gross rent in FY18) are due for review in Jun 2019. The review has a rental downside protection clause with scope for upward revisions based on current market rates.

- **Upside potential from Asset Enhancement Initiatives (AEIs).** Starhill is currently considering AEI for both WA and NAC, with the manager looking at tapping the unutilised GFA of c.100,000 sqft at WA. Such a move is timely as the opening of the Orchard station on Thomson-East Coast line in 2021, will enable more traffic flow from East and Thomson area. With gearing remaining modest at 34.8%, we believe Starhill has debt headroom to potentially fund the capex and may not require additional equity fund raising.

- **Better times ahead for office portfolio.** Starhill's SG office portfolio, which was hit mainly by oil & gas tenants downsizing, is showing good improvement, with committed occupancy rates rising to 95.3% as of Sep 2018, compared to 83.5% in Sep 2017. With a positive office outlook, we expect a better performance from the office assets in FY19-21.

- **Overseas portfolio turnaround on completion of AEIs.** In Australia, with the completion of Plaza Arcade redevelopment, its anchor tenant Uniqlo commenced operations in Aug 2018. In China, the sole and long-term tenant Markor International began operations in Chengdu Mall in Mar 2018, and should contribute positively in FY19. The master leases for Malaysian properties are due for renewal in Jun 2019 and we understand the tenants are keen on lease extensions, albeit with Starhill likely undertaking some additional capex for asset enhancements. Management is also open to divest its Japan and China malls at the right price levels, to recycle capital.

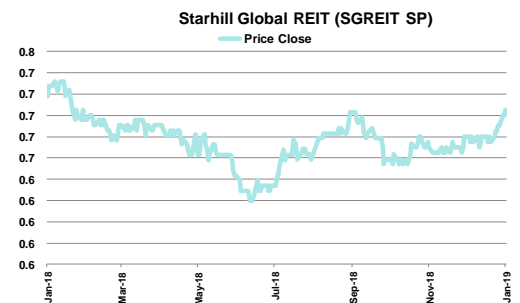
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.7	3.7	5.2	7.6	(7.8)
Relative	(1.2)	(0.9)	(0.8)	8.1	1.5
52-wk Price low/high (SGD)	0.64 - 0.78				



Source: Bloomberg

Forecasts and Valuation	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
Total turnover (SGDm)	216.4	208.8	215.2	221.6	232.5
Net property income (SGDm)	166.9	162.2	167.4	172.7	181.3
Reported net profit (SGDm)	100.3	84.2	145.1	156.7	179.7
Distributable income (SGDm)	110	103	108	113	119
DPS (SGD - cents)	4.9	4.5	4.8	5.0	5.3
DPS growth (%)	(5.0)	(7.5)	6.2	3.9	6.1
P/BV (x)	0.8	0.8	0.8	0.7	0.7
Dividend Yield (%)	7.0	6.5	6.9	7.2	7.6
Return on average equity (%)	5.0	4.2	7.1	7.5	8.4
Return on average assets (%)	3.1	2.6	4.5	4.8	5.4
Interest coverage (x)	3.8	3.7	3.7	3.8	3.9

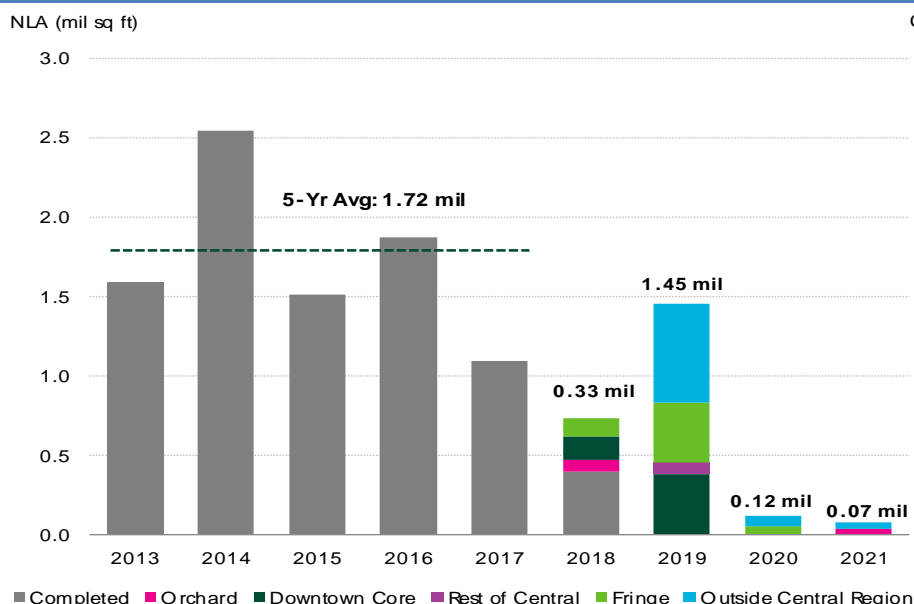
Source: Company data, RHB

Figure 1: Starhill DDM valuation

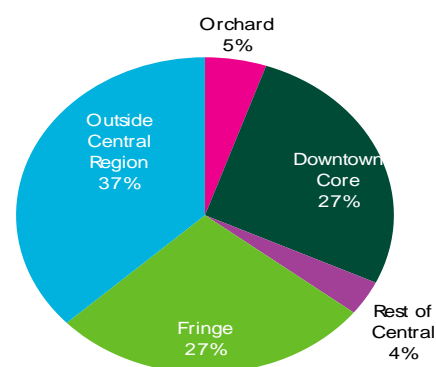
	FY19F	FY20F	FY21F	FY22F	Terminal value
DPU (SGD cts)	4.83	5.02	5.33	5.49	84.35
Fair value (SGD)	0.80				
Current price (SGD)	0.70				
Price upside (%)	14.3				
Distribution yield (%)	6.9				
Assumptions					
Risk-free rate (%)	3.0				
Beta	0.7				
Cost of equity (%)	7.5				
Terminal growth (%)	1.0				

Source: RHB

Figure 2: Retail supply pipeline (4Q18 – 2021)



Composition of supply from Q4 2018 to 2021:



Source: CBRE

Figure 3: Singapore retail rents (Orchard vs Suburban)

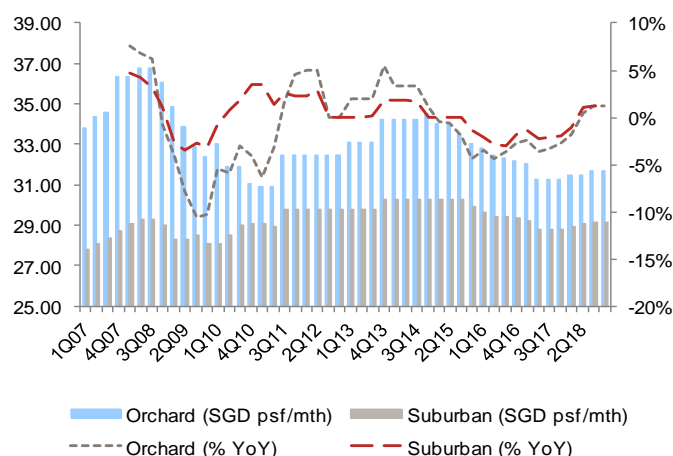
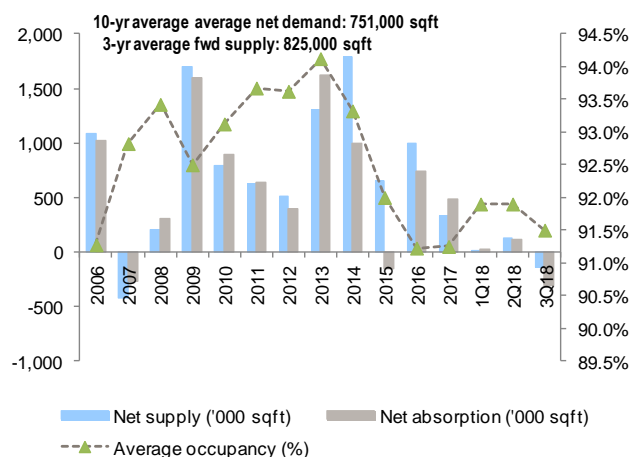


Figure 4: Retail net supply vs absorption



Source: URA, CBRE, RHB

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Figure 5: Peer comparison table

	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 (40)	67,146	104,289		0.2	1.4	3.2	5.7	1.5	(4.4)	4.8	11.6	(8.7)	1.0	5.9	6.1	3.8	34.6%			
Office (5)	13,686	27,182		0.3	1.4	2.8	6.3	2.4	(9.6)	4.6	12.2	(11.7)	0.91	5.4	5.4	3.2	36.5%			
CapitaLand Commercial Trust	5,060	14,250	1.83	0.0	1.7	2.8	8.3	5.8	(5.7)	4.6	13.7	(6.6)	1.01	4.9	4.9	2.7	35.3%	6	18%	27%
Suntec REIT	3,708	7,883	1.88	0.0	1.6	3.9	6.2	3.9	(13.4)	5.6	15.3	(15.3)	0.90	5.3	5.3	3.1	38.2%	3.92	11%	18%
Keppel REIT	2,957	3,649	1.18	0.9	0.9	0.9	5.4	3.5	(7.8)	3.5	9.3	(11.3)	0.85	5.1	5.1	2.9	39.1%	5.7	6%	9%
OUE Commercial Trust	1,022	492	0.49	1.0	2.1	4.3	4.3	(20.7)	(25.5)	5.4	7.8	(27.5)	0.62	7.0	7.0	4.8	41.4%	2.3	24%	25%
Frasers Commercial Trust	940	908	1.42	0.0	0.7	3.6	0.7	0.0	(4.1)	3.6	6.0	(8.4)	0.89	7.0	7.0	4.9	28.3%	4.7	13%	11%
Retail (5)	14,614	26,412		0.1	(0.7)	2.7	7.2	6.5	6.3	3.2	13.7	(2.9)	1.10	5.3	5.5	3.1	31.4%			
CapitaLand Mall Trust	6,316	17,572	2.32	(0.4)	(2.1)	2.7	10.0	7.9	13.7	2.7	19.0	(2.5)	1.14	4.7	5.2	2.6	31.7%	1.9	32%	26%
MapleTree Commercial Trust	3,669	5,942	1.72	0.6	0.0	2.4	8.9	7.5	5.5	4.2	13.2	0.0	1.16	5.3	5.3	3.1	34.8%	2.8	13%	10%
SPH REIT	1,945	711	1.02	0.0	(1.0)	2.0	1.0	3.0	(2.9)	2.0	4.1	(4.7)	1.08	5.6	5.7	3.4	26.3%	2	14%	42%
Frasers Centrepoint Trust	1,548	1,402	2.26	0.9	1.3	3.7	1.3	2.3	0.0	4.1	7.1	(4.2)	1.08	5.8	5.8	3.6	28.6%	1.7	28%	37%
Starhill Global REIT	1,136	786	0.71	0.7	2.9	3.7	5.2	7.6	(7.8)	3.7	11.0	(9.6)	0.78	6.8	7.1	4.6	35.4%	4.3	11%	14%
Industrial (10)	18,963	37,745		0.1	2.4	4.0	6.9	1.8	(2.7)	5.4	10.7	(5.8)	1.21	6.2	6.4	4.1	35.0%			
Ascendas REIT	6,294	20,943	2.74	0.4	3.4	5.4	9.6	1.5	(0.4)	6.6	11.8	(4.2)	1.29	6.2	6.2	4.0	33.2%	4.3	19%	21%
MapleTree Industrial Trust	2,791	3,530	1.99	1.0	2.1	4.2	2.6	0.5	(4.3)	4.2	8.2	(6.6)	1.36	6.1	6.4	3.9	35.0%	3.7	21%	26%
MapleTree Logistics Trust	3,552	8,281	1.34	(1.5)	1.5	3.9	10.7	6.3	0.0	6.3	13.6	(2.9)	1.19	5.9	6.0	3.7	38.1%	4.1	21%	19%
Frasers Logistics Trust	1,598	N.M	1.07	0.9	2.9	0.9	3.9	0.9	(5.4)	3.9	5.9	(7.8)	1.14	6.5	6.6	4.4	34.6%	6.87	3%	6%
Keppel DC REIT	1,407	2,049	1.41	0.0	2.2	2.2	5.2	5.2	(3.4)	4.4	10.2	(4.7)	1.40	5.3	5.6	3.1	32.0%	8.5	3%	5%
Aims AMP Capital Industrial REIT	695	586	1.37	0.0	0.0	1.5	0.7	(2.1)	1.5	3.0	6.2	(5.5)	1.00	7.7	8.0	5.5	30.3%	4.4	20%	24%
Cache Logistic Trust	582	810	0.74	0.7	4.3	3.5	2.8	(5.2)	(16.0)	5.8	12.2	(16.9)	1.05	8.2	8.2	6.0	33.6%	5.2	8%	23%
ESR REIT	1,264	1,049	0.54	(0.9)	0.9	7.0	7.0	2.9	(6.0)	4.9	13.8	(9.2)	0.79	7.3	7.5	5.1	35.3%	3.3	28%	16%
Soilbuild Business Space REIT	465	333	0.60	0.8	1.7	0.8	4.4	(9.8)	(16.8)	2.6	6.3	(17.4)	0.94	8.7	8.7	6.6	39.2%	4	14%	23%
Sabana Industrial REIT	315	164	0.41	0.0	1.3	1.2	(3.6)	(8.0)	0.0	3.8	6.6	(10.0)	0.77	N.M	N.M	N.M	38.6%	2.4	18%	21%
Hospitality (6)	6,682	4,960		0.5	2.7	2.5	4.2	(1.6)	(12.4)	4.7	8.1	(15.2)	0.91	6.4	6.7	4.3	35.7%			
Ascott Residence Trust	1,822	1,415	1.14	0.0	3.6	3.6	8.6	1.8	(8.8)	5.6	8.6	(10.2)	0.94	6.1	6.2	3.9	36.4%	N.A	N.A	N.A
CDL Hospitality Trusts	1,389	1,603	1.56	1.3	4.0	2.0	3.3	(3.1)	(12.4)	6.8	9.1	(15.7)	1.05	5.8	6.4	3.6	33.8%	N.A	N.A	N.A
Far East Hospitality Trust	871	531	0.63	0.8	3.3	3.3	4.1	(3.8)	(13.1)	4.1	6.8	(19.2)	0.73	6.5	6.8	4.3	40.4%	N.A	N.A	N.A
OUE Hospitality Trust	929	446	0.69	0.7	1.5	1.5	(0.7)	(11.5)	(22.5)	3.0	7.0	(25.4)	0.91	7.2	7.2	5.1	38.7%	N.A	N.A	N.A
Frasers Hospitality Trust	989	636	0.71	0.7	(0.7)	2.2	2.2	2.9	(12.3)	1.4	6.8	(13.9)	0.91	6.8	7.0	4.6	34.0%	N.A	N.A	N.A
Ascendas Hospitality Trust	682	330	0.82	(0.6)	3.8	1.2	3.8	1.9	(7.9)	5.8	10.1	(9.9)	0.81	7.1	7.2	4.8	30.8%	N.A	N.A	N.A
Healthcare (2)	1,812	1,835		0.2	1.2	0.5	(1.9)	(7.9)	(14.2)	3.6	8.0	(16.8)	1.37	6.0	6.0	3.8	36.5%			
Parkway Life REIT	1,206	975	2.70	0.4	0.7	(0.7)	3.1	(1.5)	(8.2)	2.7	5.5	(11.8)	1.54	4.7	4.8	2.5	38.1%	8.44	N.A	N.A
First REIT	606	860	1.04	0.0	2.0	3.0	(11.9)	(20.6)	(26.2)	5.6	13.0	(26.8)	1.03	8.5	8.3	0.4	34.9%	8.8	N.A	N.A
Overseas - commercial (12)	11,389	6,154		0.0	1.4	4.0	3.0	(3.5)	(8.6)	6.2	12.4	(12.2)	0.82	6.8	6.9	4.47	33.9%			
Dasin Retail Trust	356	199	0.87	(0.6)	(0.6)	0.0	1.2	(1.1)	2.4	0.0	4.8	(5.5)	0.56	8.7	8.9	5.6	32.5%	3.9	20%	10%
EC World REIT	421	139	0.72	0.0	2.9	4.3	3.6	1.4	(7.1)	4.3	6.7	(8.9)	0.75	8.6	8.9	5.5	30.7%	4.3	14%	16%
Fortune REIT	2,359	63	9.60	0.5	2.8	2.1	9.1	2.7	(1.0)	7.7	12.1	(3.0)	0.60	5.4	5.6	3.4	22.3%	N.A	44%	30%
MapleTree Greater China Commercial Trust	2,759	3,958	1.18	0.0	0.9	1.7	7.3	0.9	(5.6)	3.5	10.3	(7.8)	0.89	6.4	6.5	4.3	39.0%	3	24%	21%
CapitaLand Retail China Trust	1,043	1,040	1.44	0.7	2.1	5.1	2.9	(3.4)	(12.2)	5.9	8.3	(14.8)	0.92	7.2	7.1	4.1	35.9%	2.9	25%	21%
Lippo Malls Indonesia Retail Trust	443	535	0.21	0.0	5.0	6.1	(17.6)	(34.4)	(48.1)	15.4	16.7	(50.6)	0.76	11.9	11.9	3.8	37.1%	3.81	12%	19%
Manulife US REIT	1,041	500	0.82	(0.6)	(1.8)	5.8	5.8	(5.2)	(14.3)	5.8	17.3	(16.4)	1.00	7.4	7.4	4.7	37.4%	6	10%	8%
BHG Retail REIT	257	12	0.69	0.0	(6.8)	(6.1)	(1.4)	(2.8)	(11.0)	(3.5)	7.8	(16.9)	0.88	N.M	N.M	N.M	32.7%	4	30%	14%
Keppel-KBS US REIT	532	670	0.65	0.0	(2.3)	14.0	(7.0)	(20.5)	(24.4)	6.6	22.6	(25.2)	0.77	16.3	9.2	13.6	33.3%	3.8	14%	16%
Sasseur REIT	597	626	0.69	0.7	0.0	3.8	0.0	(2.8)	N.M	5.4	7.0	(15.4)	0.82	0.0	7.2	-3.1	33.2%	1.3	39%	10%
Cromwell European REIT	1,233	809	0.50	(1.0)	5.3	8.8	(5.4)	(7.8)	(9.4)	12.5	20.7	(15.8)	0.93	8.7	8.9	8.5	33.0%	5	12%	12%
IREIT Global	348	46	0.75	0.0	0.7	1.4	1.4	(3.9)	(5.7)	2.8	4.9	(9.7)	1.08	N.M	N.M	N.M	39.1%	5.9	1%	4%

Price Close as at 16th Jan 2019

Source: Bloomberg, RHB

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