

22 March 2024

Property | REITS

## Starhill Global REIT (SGREIT SP)

**Buy** (Maintained)

### Orchard Road Regaining Its Sheen Again; BUY

Target Price (Return): SGD0.58 (19.9%)  
 Price (Market Cap): SGD0.49 (USD814m)  
 ESG score: 3.2 (out of 4)  
 Avg Daily Turnover (SGD/USD) 0.65m/0.52m

- **Keep BUY, with SGD0.58 TP, 20% upside and c.8% yield.** Starhill Global REIT's operational performance has been on a steady uptrend, backed by healthy uplift at Singapore assets which achieved full occupancy as well as occupancy improvements across its overseas portfolios. With high occupancy, we expect rental reversions to remain positive in the mid- to high-single digits. The recent renewal of Toshin Development Singapore's master leases has removed a key overhang and its balance sheet is in good shape.
- **Healthy recovery at Singapore assets,** with both retail and office portfolios achieving full committed occupancies (since Jun 2023) despite ongoing renovation works. Rent reversion for office leases is in double digits, with demand stemming from family offices, fashion brands, overseas F&B players, and the medical sector. Retail reversion has been on mid-single digits, with new tenants coming from the F&B and fashion sectors and is backed by steady increase in tenant sales. Ongoing asset enhancements at Wisma Atria are expected to be completed by this month, with the renovations of lobby, escalator, and portal entrances should further enhance the mall's appeal.
- **Long Toshin master leases with room for upside.** The newly-renewed master leases will commence in Jun 2025 for an initial period of 12 years. Annual base rent for the first three years will be higher at: a) 1% above existing base rents, and ii) prevailing annual rental value at the start of lease as agreed by both parties, or failing which shall be based on average market rental values determined by three valuers but not exceeding 125% of option a. The annual fixed rent will be subject to rent review every three years during the lease-term. In addition, there will be a profit-sharing agreement if revenue and profit margin thresholds are met – providing additional upside. Toshin is the largest tenant for Starhill, accounting for c.23% of income in 1HFY24.
- **Occupancy across Australian assets increased 2.4ppt HoH to 96.9%** as at end-Dec 2023, with both Perth assets and Myer Centre Adelaide showing improvements. No further updates were provided on the Myer arbitration announcement (Mar 2023), but we see minimal downside risks from it.
- **Gearing remains modest at 36.8%,** providing c.SGD100m debt headroom for potential acquisitions. Management had earlier guided that it will selectively look at good quality office assets and is also open to divesting some of its overseas assets at the right opportunity. About 78% of its debts are hedged, and financing costs are likely to peak around 4% levels.
- **We have adjusted our FY24F DPU by -2%** after tweaking finance costs. ESG score was raised to 3.2 on the back of improved board governance. We applied a 2% ESG premium to our DDM-derived TP.

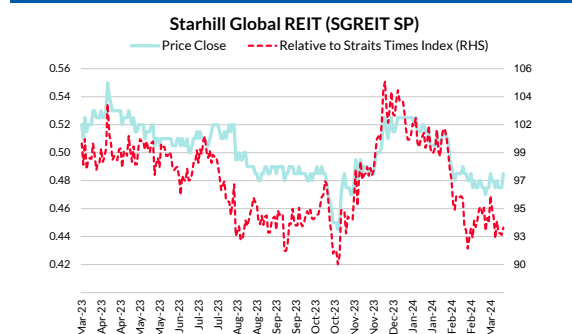
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.6)	1.0	(7.6)	(1.0)	(6.7)
Relative	(7.0)	0.9	(11.1)	(1.5)	(8.2)
52-wk Price low/high (SGD)				0.45	-0.55



Source: Bloomberg

#### Overall ESG Score: 3.2 (out of 4)

##### E: GOOD

Target to achieve at least 60% of portfolio NLA by 2030 (currently 50%). Starhill has set new target to reduce energy consumption for assets with operational control by 10% by FY31 (from base year FY22), superseding its earlier 10-year target set in FY17 to achieve a 15% reduction in energy consumption over 10 years for the Wisma Atria Property. This in our view is more conservative compared to peers.

##### S: EXCELLENT

Based on internal tenant satisfaction survey, 95% and 97% of retail and office tenants rated Starhill's services as satisfactory and above – similar to the previous year. It has a diversified employee profile, with women accounting for 71% of employees and 70% holding managerial roles.

##### G: EXCELLENT

SGREIT recently strengthened its board composition with the addition of a new independent director. The addition has now provided the board with a majority of independent directors (4), which is a positive move. There is also a good level of earnings transparency, investor engagement, and information disclosure.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (SGDm)	186	188	192	193	201
Net property income (SGDm)	145	148	149	150	155
Reported net profit (SGDm)	50	34	144	101	119
Total distributable income (SGDm)	85.0	85.6	84.0	86.6	90.0
DPS (SGD)	0.04	0.04	0.04	0.04	0.04
DPS growth (%)	(3.8)	0.0	(1.9)	3.0	4.0
P/B (x)	0.62	0.66	0.64	0.64	0.63
Dividend Yield (%)	7.8	7.8	7.7	7.9	8.2
Return on average equity (%)	2.8	2.0	8.6	5.9	6.9
Return on average assets (%)	1.7	1.1	5.0	3.5	4.0

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
Singapore	Recurring EPS (SGD)	0.02	0.01	0.06	0.04	0.05
Property	EPS (SGD)	0.02	0.01	0.06	0.04	0.05
<b>Starhill Global REIT</b>	DPS (SGD)	0.04	0.04	0.04	0.04	0.04
SGREIT SP	BVPS (SGD)	0.78	0.73	0.76	0.76	0.77
Buy	Return on average equity (%)	2.8	2.0	8.6	5.9	6.9
	Weighted avg adjusted shares (m)	2,226.62	2,246.66	2,254.29	2,254.29	2,254.30
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
DDM	Recurring P/E (x)	21.50	32.36	7.61	10.79	9.17
	P/E (x)	21.50	32.36	7.61	10.79	9.17
	P/B (x)	0.6	0.7	0.6	0.6	0.6
	FCF Yield (%)	9.4	10.0	6.8	10.8	9.9
	Dividend Yield (%)	7.8	7.8	7.7	7.9	8.2
	EV/EBITDA (x)	16.49	15.96	15.95	15.81	15.29
	EV/EBIT (x)	16.49	15.96	16.00	15.86	15.34
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
i. Return of tourists and pickup in high-end retail sales;	Total turnover	186	188	192	193	201
ii. Uplift from variable rents in Toshin master leases; and	EBITDA	126	129	130	131	136
iii. Good sponsor support and master leases provide base income.	Depreciation and amortisation	(0)	(0)	(0)	(0)	(0)
	Operating profit	126	129	129	131	135
	Net interest	(41)	(36)	(38)	(41)	(41)
	Pre-tax profit	52	37	148	104	123
	Taxation	(2)	(4)	(4)	(3)	(3)
	Recurring net profit	50	34	144	101	119
<b>Key risks</b>	<b>Cash flow (SGDm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
i. Unexpected slowdown in retail sales from inflationary pressures and weakening economy;	Change in working capital	(4)	(3)	0	0	0
ii. Continued rise in interest rates; and	Cash flow from operations	122	127	129	133	137
iii. Structural decline in allure of Orchard Road and shorter land tenure of its Singapore assets.	Capex	(20)	(18)	(55)	(14)	(28)
	Cash flow from investing activities	(20)	2	(53)	(12)	(27)
	Dividends paid	(77)	(81)	(84)	(87)	(90)
	Cash flow from financing activities	(123)	(138)	(129)	(129)	(138)
	Cash at beginning of period	108	86	68	69	73
	Net change in cash	(21)	(9)	(53)	(8)	(27)
	Ending balance cash	83	72	67	71	71
<b>Company Profile</b>	<b>Balance sheet (SGDm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
Starhill Global REIT invests in retail and office buildings in Singapore, Australia, Japan and China.	Total cash and equivalents	86	68	69	73	73
	Tangible fixed assets	0	0	0	0	0
	Total investments	2,893	2,768	2,823	2,837	2,866
	Total other assets	15	20	20	21	21
	Total assets	2,997	2,860	2,917	2,936	2,965
	Short-term debt	125	3	35	35	35
	Total long-term debt	956	1,042	1,012	1,017	1,017
	Total liabilities	1,150	1,111	1,112	1,118	1,118
	Shareholders' equity	1,747	1,650	1,705	1,719	1,747
	Total equity	1,847	1,749	1,805	1,818	1,846
	Net debt	995	977	978	979	979
	Total liabilities & equity	2,997	2,860	2,917	2,936	2,965
	<b>Key metrics</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
	Revenue growth (%)	2.8	0.7	2.0	1.0	3.7
	Recurrent EPS growth (%)	(14.3)	(33.6)	325.1	(29.5)	17.7
	Operating EBITDA margin (%)	67.3	68.8	67.8	67.8	67.6
	Net profit margin (%)	26.9	17.9	75.0	52.4	59.4
	Dividend payout ratio (%)	169.2	254.2	58.5	85.4	75.5
	Capex/sales (%)	10.8	9.5	28.9	7.3	14.1
	Interest cover (x)	3.03	3.41	3.28	3.04	3.13

Source: Company data, RHB

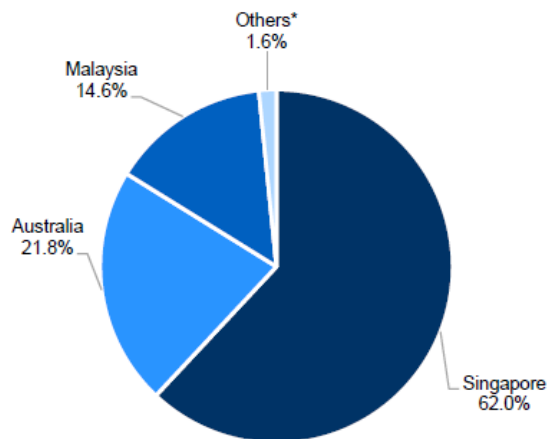
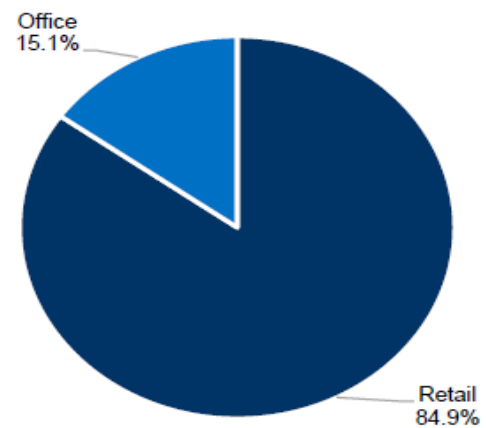
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**Figure 1: DDM Valuation**

FYE Jun	FY24F	FY25F	FY26F	FY27F	Terminal value
DPU (SGD cents)	3.73	3.84	3.99	4.13	60.58
Fair value (SGD)	0.57				
ESG premium/disc (SGD)	0.01				
<b>TP (SGD)</b>	0.58				
Current price (SGD)	0.49				
Price upside (%)	19.9				
Distribution yield (%)	7.7				
Total return (%)	27.6				
<b>Assumptions</b>					
Risk-free rate (%)	2.8				
Beta	1.0				
Cost of equity (%)	8.4				
Terminal growth (%)	1.5				

Source: RHB

**Figure 2: Revenue mix by geography (1HFY24)**

**Figure 3: Revenue mix by segment (1HFY24)**


\*Note: One property each in Japan and China  
Source: Company data

Source: Company data

## Emissions And ESG

### Trend analysis

Scope 2 emissions have been on a marginal declining trend since FY21. However, overall carbon emission intensity for FY23 was 59 kgCO<sub>2</sub>e/m<sup>2</sup> c.18% higher than FY22's 50 kgCO<sub>2</sub>e/m<sup>2</sup>, which we believe is mainly due to increased activities post Covid policy relaxations.

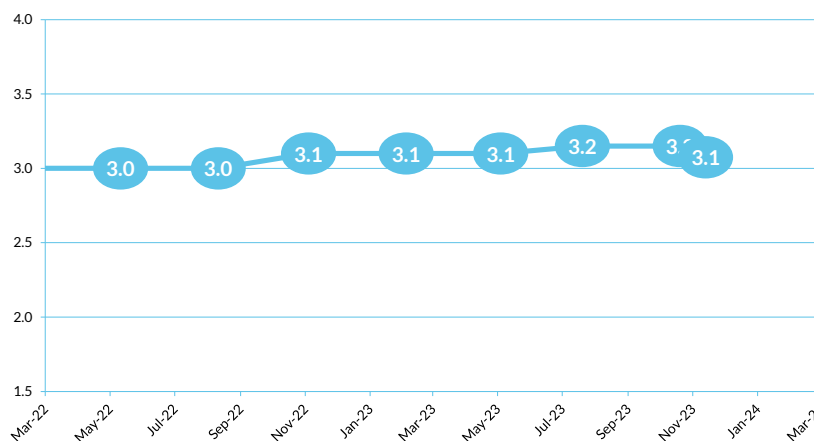
Emissions (tCO <sub>2</sub> e)	Jun-21	Jun-22	Jun-23
Scope 1	309	-	613
Scope 2	3,153	3,131	3,086
Scope 3	-	-	-
Total emissions	3,462	3,131	3,699

Source: Company data, RHB

## Latest ESG-Related Developments

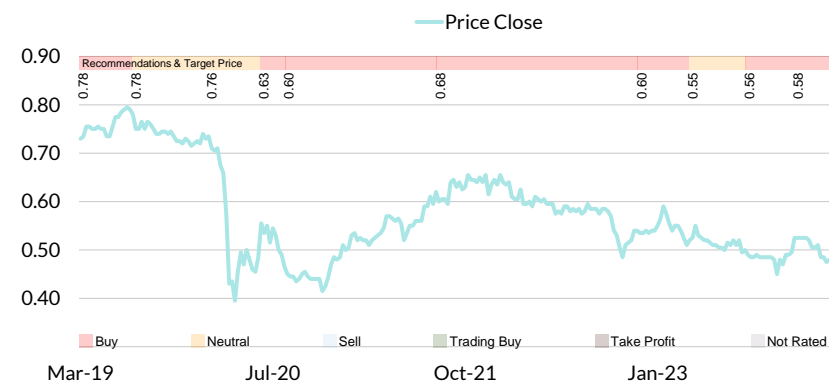
- 50% of the portfolio by NLA attained green certifications.
- Attained Leadership in Energy and Environmental Design (LEED) Gold certification for property in Chengdu, China.
- Myer Centre Adelaide (Office) attained 5 stars National Australian Built Environment Rating System (NABERS) Energy rating during recertification and Myer Centre Adelaide (Retail) attained 3.5 stars NABERS Energy rating.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-12-03	Buy	0.58	0.50
2023-08-09	Buy	0.56	0.50
2023-03-27	Neutral	0.55	0.53
2022-11-25	Buy	0.60	0.54
2022-09-08	Buy	0.68	0.58
2022-03-23	Buy	0.68	0.59
2021-08-01	Buy	0.68	0.62
2021-02-14	Buy	0.60	0.52
2020-08-02	Buy	0.60	0.47
2020-06-02	Buy	0.63	0.54
2020-01-30	Neutral	0.76	0.72
2019-08-02	Neutral	0.78	0.78
2019-04-29	Buy	0.78	0.76
2019-03-21	Buy	0.78	0.70
2019-01-17	Buy	0.80	0.71

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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Analyst	Company
-	-

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