

26 August 2024

Property | REITS

Starhill Global REIT (SGREIT SP)

Buy (Maintained)

On Firm Footing; BUY

Target Price (Return): SGD0.57 (16.6%)
 Price (Market Cap): SGD0.49 (USD848m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.55m/0.41m

- **Keep BUY, new SGD0.57 TP (from SGD0.58), 17% upside, c.8% FY25F (Jun) yield.** Starhill Global REIT has navigated the high interest rate environment well, with steady operational improvements and active debt management. The extension of two key master leases for long periods has removed a key overhang, and we expect a favourable outcome from the Myers arbitration. Operational strength should continue with positive rent growth for both retail and office, along with stable occupancy. 2HFY24/FY24 results were slightly below estimates due to higher tax expenses.
- **Mid-high single-digit rent reversion** for Singapore retail and office assets are expected to continue in FY25. Tenant sales and shopper traffic at Wisma Atria (WA) rose c.7% and 13% (better than peers), indicating an uplift from asset enhancements and the new MRT opening. New retail tenants include a mix of new-to-market fashion brands, jewellery, and F&B players, while office demand came from luxury retailers and medical tenants. Portfolio committed occupancy saw a slight QoQ dip (-0.3ppts) but remains high at 97.7%.
- **Modest gearing of 36.8%** provides room for selective accretive acquisition opportunities for the REIT. Management has indicated its preference for office assets in markets such as Japan and Australia (Brisbane) at the right price and opportunity. It also remains open to divest office strata lots at WA at a good price, in order to recycle capital. Currently, the office portfolio accounts for c.15% of SGREIT's overall revenue, and we believe this could increase to 30-50% in the medium term. Financing costs are likely to peak at c.4% (currently 3.8%) with 79% of its debt currently hedged.
- **Asset enhancements for WA** were completed in 1H24 with the modernisation of interior works and widening of the entrance portal to the MRT system, which has resulted in increased traffic flow to the mall. SGREIT is also exploring the conversion of some of the car park areas into retail spaces to unlock value.
- **Portfolio valuation remains stable (-0.2% YoY)** with a slight uplift to Ngee Ann City's valuation post the signing of the new Toshin master leases, offset by a decrease in Australian assets from the cap rate expansion as well as FX weakness. With rate cuts around the corner, we believe valuations have bottomed out.
- **We tweak FY25-26F DPU lower by 2-3%**, mainly by adjusting for higher tax rates and slightly higher operating costs. About 63% of the portfolio by NLA is green-certified, up from 40% last year and on track for the 70% target by 2030. SGREIT's ESG score of 3.2 (out of 4.0) is a notch above the country median score, resulting in a 2% ESG premium being included in our TP.

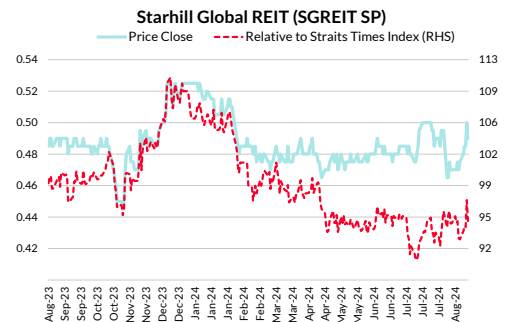
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.7)	(1.0)	3.2	3.2	2.1
Relative	(11.3)	1.1	1.2	(3.2)	(4.6)
52-wk Price low/high (SGD)				0.45	-0.53



Source: Bloomberg

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (SGDm)	188	190	195	201	206
Net property income (SGDm)	148	149	151	155	159
Reported net profit (SGDm)	34	70	102	114	115
Total distributable income (SGDm)	85.6	82.1	84.7	86.0	87.9
DPS (SGD)	0.04	0.04	0.04	0.04	0.04
DPS growth (%)	0.0	(4.1)	2.7	1.5	2.2
P/B (x)	0.67	0.68	0.68	0.67	0.65
Dividend Yield (%)	7.8	7.4	7.6	7.7	7.9
Return on average equity (%)	2.0	4.3	6.2	6.9	6.8
Return on average assets (%)	1.1	2.5	3.6	4.0	4.0

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: GOOD

Target to achieve at least 70% 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 previous year. Diversified employee profile with women accounting for 71% of employees and 70% holding managerial roles.

G: EXCELLENT

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

Financial Exhibits

Asia	Financial summary	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Singapore	Recurring EPS (SGD)	0.01	0.03	0.04	0.05	0.05
Property	EPS (SGD)	0.01	0.03	0.04	0.05	0.05
Starhill Global REIT	DPS (SGD)	0.04	0.04	0.04	0.04	0.04
SGREIT SP	BVPS (SGD)	0.73	0.72	0.72	0.73	0.75
Buy	Return on average equity (%)	2.0	4.3	6.2	6.9	6.8
	Weighted avg adjusted shares (m)	2,246.66	2,254.29	2,259.47	2,264.65	2,264.65
Valuation basis						
DDM	Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Recurring P/E (x)	32.69	15.76	10.89	9.76	9.65
	P/E (x)	32.69	15.76	10.89	9.76	9.65
	P/B (x)	0.7	0.7	0.7	0.7	0.7
	FCF Yield (%)	9.9	11.1	10.8	9.6	9.6
	Dividend Yield (%)	7.8	7.4	7.6	7.7	7.9
	EV/EBITDA (x)	16.05	15.95	15.72	15.28	14.92
	EV/EBIT (x)	16.05	15.95	15.76	15.33	14.97
Key drivers						
i.	Return of tourists and pickup in high-end retail sales;					
ii.	Uplift from variable rents in Toshin master leases;					
iii.	Good sponsor support and master leases provide base income;					
Key risks						
i.	Unexpected slowdown in retail sales from inflationary pressures and weakening economy;					
ii.	Continued rise in interest rates, and					
iii.	Structural decline in allure of Orchard Road and shorter land tenure of its Singapore assets.					
Company Profile						
	Starhill Global REIT invests in retail and office buildings in Singapore, Australia, Japan and China.					
	Income statement (SGDm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Total turnover	188	190	195	201	206
	EBITDA	129	131	133	137	139
	Depreciation and amortisation	(0)	(0)	(0)	(0)	(0)
	Operating profit	129	131	132	136	139
	Net interest	(36)	(38)	(41)	(44)	(43)
	Pre-tax profit	37	76	105	120	124
	Taxation	(4)	(6)	(4)	(7)	(9)
	Recurring net profit	34	70	102	114	115
	Cash flow (SGDm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Change in working capital	(3)	9	0	0	0
	Cash flow from operations	127	137	133	134	134
	Capex	(18)	(15)	(14)	(28)	(28)
	Cash flow from investing activities	2	(13)	(12)	(26)	(26)
	Dividends paid	(81)	(83)	(85)	(86)	(88)
	Cash flow from financing activities	(138)	(131)	(129)	(135)	(130)
	Cash at beginning of period	86	68	61	66	70
	Net change in cash	(9)	(7)	(8)	(27)	(22)
	Ending balance cash	72	61	64	68	79
	Balance sheet (SGDm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Total cash and equivalents	68	61	66	70	81
	Tangible fixed assets	0	0	0	0	0
	Total investments	2,768	2,762	2,776	2,804	2,832
	Total other assets	20	11	11	12	12
	Total assets	2,860	2,838	2,858	2,890	2,930
	Short-term debt	3	196	196	196	196
	Total long-term debt	1,042	846	851	851	856
	Total liabilities	1,111	1,119	1,125	1,126	1,132
	Shareholders' equity	1,650	1,620	1,634	1,664	1,698
	Total equity	1,749	1,719	1,733	1,764	1,798
	Net debt	977	981	980	976	970
	Total liabilities & equity	2,860	2,838	2,858	2,890	2,930
	Key metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Revenue growth (%)	0.7	1.1	2.6	3.2	2.5
	Recurrent EPS growth (%)	(33.6)	107.4	44.7	11.7	1.1
	Operating EBITDA margin (%)	68.8	68.9	68.1	67.9	67.7
	Net profit margin (%)	17.9	36.9	52.2	56.6	55.8
	Dividend payout ratio (%)	254.2	117.2	83.4	75.6	76.4
	Capex/sales (%)	9.5	7.8	7.1	13.8	13.6
	Interest cover (x)	3.41	3.31	3.07	2.99	3.09

Source: Company data, RHB

Figure 1: DDM valuation

FYE Jun	FY25F	FY26F	FY27F	FY28F	Terminal value
DPU (SGD cents)	3.74	3.80	3.88	4.02	59.19
Fair value (SGD)	0.56				
ESG premium/disc (SGD)	0.01				
TP (SGD)	0.57				
Current price (SGD)	0.49				
Price upside (%)	16.6				
Distribution yield (%)	7.6				
Total return (%)	24.2				

Assumptions	
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 (2HFY24)

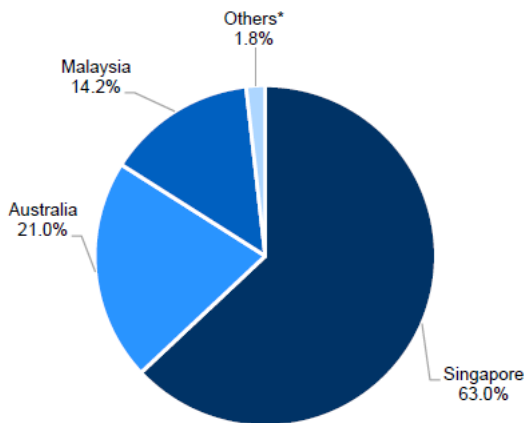
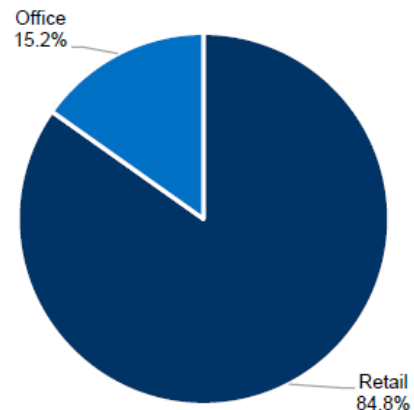


Figure 3: Revenue mix by segment (2HFY24)



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

Source: Company data

Figure 4: Well spread debt maturity

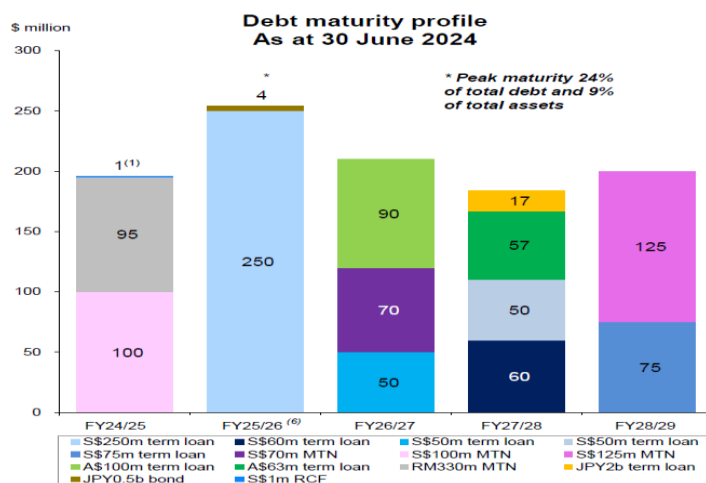


Figure 5: Top 10 tenants

Tenant Name	Property	% of Portfolio Gross Rent ⁽¹⁾⁽²⁾
Toshin Development Singapore Pte Ltd	Ngee Ann City, Singapore	23.8%
YTL Group ⁽³⁾	Ngee Ann City & Wisma Atria, Singapore The Starhill & Lot 10, Malaysia	15.2%
Myer Pty Ltd ("Myer")	Myer Centre Adelaide, Australia	7.4%
David Jones Pty Limited ("David Jones")	David Jones Building, Australia	5.1%
BreadTalk Group	Wisma Atria, Singapore	2.6%
Uniqlo Australia Pty Ltd	Plaza Arcade & Myer Centre Adelaide, Australia	1.5%
Tory Burch Singapore Pte Ltd	Wisma Atria, Singapore	1.4%
Emperor Watch & Jewellery	Wisma Atria, Singapore	1.4%
Technicolor Creative Studios Australia Pty Ltd	Myer Centre Adelaide, Australia	1.2%
Charles & Keith Group	Wisma Atria, Singapore	1.1%

Notes:
1. As at 30 June 2024.
2. The total portfolio gross rent is based on the gross rent of all the properties.
3. Consists of Kalagreen Development Sdn. Bhd., YTL Singapore Pte. Ltd., YTL Starhill Global REIT Management Limited and YTL Starhill Global Property Management Pte. Ltd.

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 kgCO₂e/m² c.18% higher than FY22's 50 kgCO₂e/m², which we believe is mainly due to increased activities post COVID-9 policy relaxations.

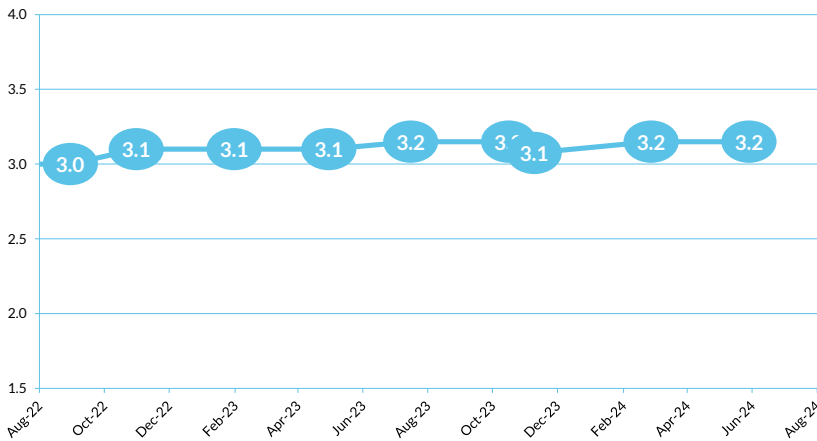
Emissions (tCO ₂ e)	Jun-22	Jun-23	Jun-24
Scope 1	-	613	na
Scope 2	3,131	3,086	na
Scope 3	-	-	na
Total emissions	3,131	3,699	na

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 its 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
2024-03-22	Buy	0.58	0.48
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

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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Analyst	Company
-	-

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