

11 July 2024

Property | REITS

## IREIT Global (IREIT SP)

**Buy** (Maintained)

### Near-Term Challenges, But Largely Priced In; BUY

Target Price (Return):	SGD0.40 (39.8%)
Price (Market Cap):	SGD0.29 (USD284m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (SGD/USD)	0.10m/0.08m

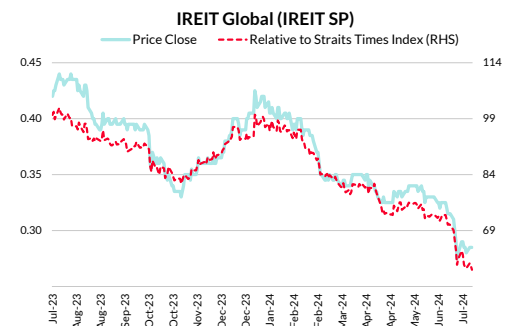
- **Maintain BUY, new SGD0.40 TP from SGD0.47, 40% upside and c.11% yield.** IREIT Global's recent announcement of a key tenant vacating does not come as a surprise – this risk was well highlighted earlier. The exit timing does coincide with a challenging macro and funding environment, which has resulted in share price pressure. Nonetheless, we see redevelopment of the Berlin Campus as a medium-term positive move that unlocks the asset's undervalued potential and, with IREIT providing greater clarity on capex needs, returns potential will likely act as a share price catalyst, in our view.
- **Berlin Campus to be repositioned as mixed-use urban precinct** post exit of the property's main tenant – Deutsche Rentenversicherung Bund (DRV) – upon its lease expiry at end Dec 2024. Note: The tenant earlier extended its lease on a short-term basis (six months) at a c.45% higher rent, highlighting the significant under-rented nature of the building (c.50-100% below market). DRV will also pay a lump-sum of EUR15.5m in dilapidation costs, equivalent to 16 months of current rent, part of which IREIT plans to use for income top-up. Considering the asset's prime location, the current plan is to convert it into a mixed-use facility comprising office (c.65-70% of the total or c.50,000sq m), two hotels (c.25% of the total), and retail spaces (Figure 2). IREIT is in active talks with leading hotel and long-stay hospitality operators to potentially master lease this space and de-risk income volatility.
- **Sponsor/co-investor partnership funding likely.** We expect potential capex for upgradation could be around EUR150-200m, which would be spread across the likely upgradation timeframe of 12-24 months. Based on its current gearing of 37%, IREIT has a debt headroom of EUR80-100m before factoring in the likelihood of an increase in asset value from capex deployment. We see a highly likelihood of the REIT bringing over its two capable sponsors or outside investors to jointly develop the project, thereby monetising a portion of the asset, and reducing capex outlay and risks.
- **New CEO to take the helm.** Peter Veins, who is currently a fund manager at European real estate asset manager Sofidy – which is part of IREIT's sponsor Tikehau Capital (Tikehau) – is set to take over as new CEO. This comes as current CEO Louis d'Estienne d'Orves will be moving internally to assume a senior role at Tikehau. In addition, Tikehau Head of Real Estate (Spain & Portugal) Emilio Velasco will assume the CIO role on a part-time basis.
- **FY25F-26F DPU is lowered by 5-6%,** factoring in the tenant exit and assuming c.SGD5m in rental top-up. We also raise our COE assumption by 100bps on development risks, resulting in a lower SGD0.40 TP. The unchanged ESG score of 3.2 (out of 4.0), after imputing FY23 sustainability data, results in a 2% ESG premium.

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(29.6)	(12.3)	(18.6)	(32.2)	(31.3)
Relative	(36.4)	(16.4)	(25.5)	(41.0)	(41.2)
52-wk Price low/high (SGD)				0.28	-0.44



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (EURm)	61.7	65.0	82.7	62.2	68.7
Net property income (EURm)	48.8	48.9	63.7	47.9	52.9
Reported net profit (EURm)	36	(105)	18	42	44
Total distributable income (EURm)	34.6	28.0	32.9	31.0	31.7
DPS (EUR)	0.03	0.02	0.02	0.02	0.02
DPS growth (%)	(6.5)	(25.3)	9.1	(5.8)	2.4
P/B (x)	0.36	0.45	0.49	0.48	0.47
Dividend Yield (%)	13.8	10.3	11.3	10.6	10.9
Return on average equity (%)	5.9	(18.0)	3.4	7.7	8.0
Return on average assets (%)	3.5	(10.4)	1.9	4.3	4.4

Source: Company data, RHB

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

##### E: EXCELLENT

All its assets are green certified except Berlin Campus, which is expected to undergo redevelopment, and the newly acquired B&M retail portfolio. Starting from 2020, every new tenant lease agreement now includes an ESG clause, aiming at reinforcing IREIT's ESG engagement strategy.

##### S: GOOD

The manager has developed human resource strategies and policies that are premised upon equal opportunities and fair employment practices. There are plans to increase female representation in the board, which only has one female director at present. In 2020 the insurance and healthcare benefits were upgraded to provide better coverage for employees and/or their spouses and children.

##### G: GOOD

IREIT has a majority independent board that is reviewed periodically to ensure it comprises directors with an appropriate mix of expertise, skills, experience, and diversity. There is good transparency and data disclosure, and improving engagement with all stakeholders.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

## Financial Exhibits

Asia	Financial summary	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS (EUR)	0.03	(0.08)	0.01	0.03	0.03
Property	EPS (EUR)	0.03	(0.08)	0.01	0.03	0.03
IREIT Global	DPS (EUR)	0.03	0.02	0.02	0.02	0.02
IREIT SP	BVPS (EUR)	0.54	0.44	0.40	0.41	0.42
Buy	Return on average equity (%)	5.9	(18.0)	3.4	7.7	8.0
	Weighted avg adjusted shares (m)	1,155.55	1,249.81	1,344.84	1,344.84	1,344.84
<b>Valuation basis</b>						
DDM	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Recurring P/E (x)	6.19	na	14.21	6.30	5.92
	P/E (x)	6.19	na	14.21	6.30	5.92
	P/B (x)	0.4	0.4	0.5	0.5	0.5
	FCF Yield (%)	16.1	10.6	7.7	10.0	14.1
	Dividend Yield (%)	13.8	10.3	11.3	10.6	10.9
	EV/EBITDA (x)	(10.85)	(7.41)	(5.60)	(8.10)	(7.55)
	EV/EBIT (x)	(10.85)	(7.41)	(5.60)	(8.10)	(7.55)
<b>Key drivers</b>						
i. Modest gearing and fully hedged debt profile until end 2026;						
ii. Under rented portfolio with room for upside;						
iii. Strong support from two well-renowned sponsors.						
<b>Key risks</b>						
i. Slow leasing momentum and key tenants vacating its premises;						
ii. Prolonged slowdown in Germany and decline in office demand post COVID-19;						
iii. Continued spike in interest rates and spill over from the Russia-Ukraine war.						
<b>Company Profile</b>						
IREIT is the first Singapore REIT established with the investment strategy of principally investing, directly or indirectly, in a portfolio of income-producing real estate in Europe that are primarily used for office, retail, and industrial (including logistics) purposes. It also invests in real estate-related assets.						
	<b>Income statement (EURm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total turnover	61.7	65.0	82.7	62.2	68.7
	EBITDA	41.1	41.4	55.9	40.0	45.1
	Operating profit	41.1	41.4	55.9	40.0	45.1
	Net interest	(6.0)	(6.6)	(8.0)	(8.8)	(11.7)
	Pre-tax profit	40.6	(123.0)	21.5	48.4	51.5
	Taxation	(4.2)	17.6	(3.0)	(6.8)	(7.2)
	Recurring net profit	36.4	(105.3)	18.5	41.6	44.3
	<b>Cash flow (EURm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Cash flow from operations	39.9	34.2	23.2	29.3	40.0
	Capex	(3.5)	(8.3)	(3.0)	(3.0)	(3.0)
	Cash flow from investing activities	(3.5)	(90.5)	(3.0)	(3.0)	(3.0)
	Dividends paid	(33.7)	(27.3)	(29.6)	(27.9)	(28.6)
	Cash flow from financing activities	(38.9)	53.2	(11.2)	(37.6)	(39.0)
	Cash at beginning of period	51.7	49.2	46.1	55.1	43.8
	Net change in cash	(2.5)	(3.1)	9.0	(11.3)	(2.1)
	Ending balance cash	49.2	46.1	55.1	43.8	41.7
	<b>Balance sheet (EURm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	49	46	55	44	42
	Total investments	952	882	859	906	954
	Total other assets	25	16	14	15	15
	Total assets	1,039	992	945	980	1,027
	Short-term debt	0	15	0	0	0
	Total long-term debt	330	363	339	363	393
	Total liabilities	414	446	411	432	463
	Shareholders' equity	625	546	534	548	564
	Total equity	625	546	534	548	564
	Net debt	281	331	283	319	351
	Total liabilities & equity	1,039	992	945	980	1,027
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	18.2	5.4	27.3	(24.8)	10.3
	Recurring net profit growth (%)	(71.6)	(389.0)	0.0	125.5	6.4
	Recurrent EPS growth (%)	(73.7)	(367.2)	0.0	125.5	6.4
	Recurring net profit margin (%)	59.1	(162.1)	22.3	66.9	64.5
	Dividend payout ratio (%)	85.6	(23.9)	160.3	67.0	64.4

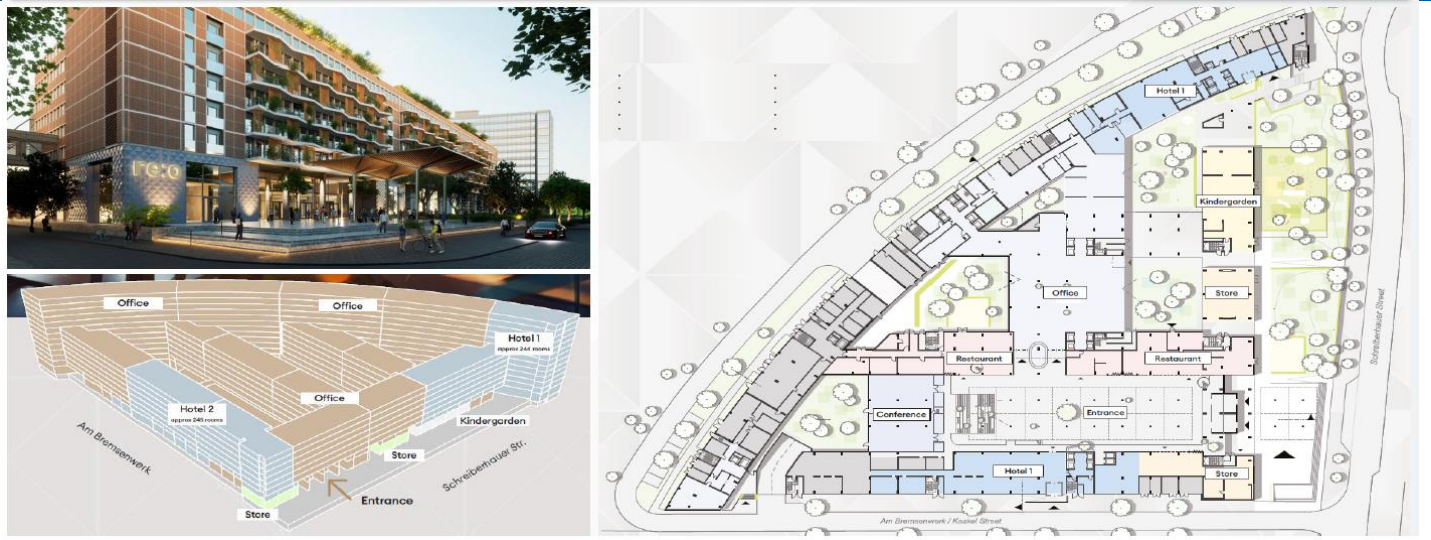
Source: Company data, RHB

Figure 1: IREIT's DDM Valuation

	FY24F	FY25F	FY26F	FY27F	FY28F	Terminal Value
DPU (SG cents)	3.19	3.01	3.08	3.39	3.57	42.12
Intrinsic value (SGD)	0.39					
ESG premium/discount (SGD)	0.01					
<b>TP (SGD)</b>	<b>0.40</b>					
Current price (SGD)	0.29					
Price upside (%)	36.8					
Distribution yield FY23F (%)	10.8					
Total return (%)	47.6					
Assumptions						
Risk-free rate (%)	2.5%					
Beta	1.0					
Cost of equity (%)	9.6%					
Terminal growth (%)	1.0%					
Equity risk premium	7.3%					
Market risk return	10.0%					

Source: RHB

Figure 2: Proposed repositioning concept on Berlin Campus\*



Note: \*Subject to changes and regulatory and internal approvals and final plan may be different from that as set out above

Source: Company data

## Emissions And ESG

### Trend analysis

IREIT has rectified its methodology in its energy consumption estimations in 2023. There is a restatement in past years' energy consumption figures, as the REIT believes the new estimations are more representative of its overall energy consumption. As IREIT has not disclosed past years' intensity based on various emission scopes, we estimated it using similar proportions as 2023. Based on the revised methodology, overall greenhouse (GHG) emissions and emissions intensity fell c.2% and c.20%. The higher fall in intensity is due to overall emissions, which includes newly acquired assets in 2023.

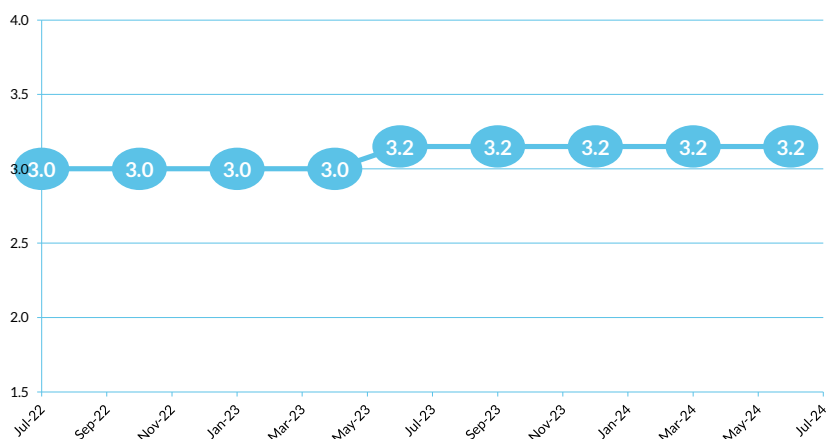
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	4,324	4,935	4,827
Scope 2	1,311	1,497	1,464
Scope 3	9,559	10,910	10,672
Total emissions	15,194	17,342	16,963

Source: Company data, RHB

## Latest ESG-Related Developments

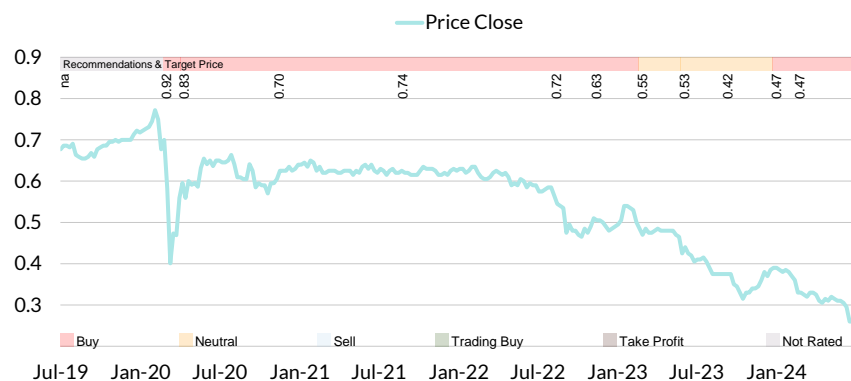
- Achieved green certification for 100% of IREIT's portfolio assets in 2023 (excluding Berlin Campus and B&M retail portfolio, which was acquired in Sep 2023).
- IREIT's joint sponsor, Tikehau Capital, developed a Biodiversity Charter for its real estate activities. IREIT defined its decarbonisation trajectory, in accordance with the Net Zero Asset Manager Initiative, validated at Tikehau Capital level.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-26	Buy	0.47	0.37
2024-01-02	Buy	0.47	0.41
2023-09-12	Neutral	0.42	0.40
2023-06-04	Neutral	0.53	0.49
2023-02-27	Neutral	0.55	0.52
2022-11-14	Buy	0.63	0.53
2022-08-14	Buy	0.72	0.61
2022-02-28	Buy	0.74	0.65
2021-11-14	Buy	0.74	0.65
2021-08-26	Buy	0.74	0.64
2020-11-16	Buy	0.70	0.63
2020-05-21	Buy	0.83	0.62
2020-04-12	Buy	0.83	0.58
2020-03-02	Buy	0.92	0.71

Source: RHB, Bloomberg

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<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
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<b>Not Rated:</b>	Stock is not within regular research coverage

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