

17 November 2020

Property | REITS

IREIT Global (IREIT SP)

Buy (Maintained)

Resilience From Quality Tenants; Keep BUY

Target Price (Return): SGD0.70 (11.1%)
 Price: SGD0.63
 Market Cap: USD432m
 Avg Daily Turnover (SGD/USD) 0.48m/0.35m

- **Keep BUY with a revised TP of SGD 0.70 from SGD 0.83, 11% upside and c.7% FY21 yield.** IREIT's 3Q updates shows that its office portfolio occupancy has remained steadfast so far, with signing of a new long lease at its Spanish asset. A key strength of IREIT lies in its high quality blue chip tenant profile, long lease tenure and strong sponsor support which we believe positions it well to tide through the COVID-19 period. Valuations are attractive at a 0.8x P/BV with a FY21 yield of 7%.
- **Occupancy uptick in Spanish assets despite COVID-19.** On 22 Oct, IREIT completed the acquisition of the remaining balance of a 60% stake in the four Spanish assets from sponsor. Post-acquisition, its Spanish portfolio accounts for 19% of its total assets up from 9%, with Germany accounting for 81%. Occupancy at its assets has so far remained stable with new leases still being signed, despite a severe COVID-19 pandemic in Spain and Germany. At the end of 3Q, at Il-Lumina, Barcelona occupancy increased to 90.2% (2Q: 82.9%) with the signing of five year lease for AREAS (a global leader in food and beverage services). Since the start of the year, the Spanish portfolio occupancy has increased 6ppt to 86.8% demonstrating an active asset management and continued office demand despite COVID-19. The passing rents of Spanish portfolio are on average still 15% below market rents. Occupancy at its German portfolio remains stable at 99.6%.
- **Minimal (<2%) rental impact so far from COVID-19.** At the end 3Q, IREIT received minimal rental assistance requests and has granted rent deferrals and rebates to <2% (rental rebates of 0.8% of total) of its total income. These reliefs have been provided mainly to café operators as part of its Spanish assets, with no requests received yet from German tenants. Rent collections have been healthy at 98% since Mar 2020. Despite a second round of lockdown measures implemented in both Germany and Spain, the manager doesn't expect further rental assistance requests from tenants. IREIT noted it is still early to assess the full impact of working from home trend and potential non-renewals or downsizing of leases. Management remains fairly confident that its two key tenants are likely to stay and extend their leases as they have been long-term tenants and the buildings house key employees. Weighted average lease to expiry (WALE) stands at 3.7 years with 96% of leases due for renewal only in FY22 and beyond.
- **Gearing lowered to 35%** post recent rights issue, raising EUR88.7m (SGD 142.8m) thus presenting a good headroom for acquisitions. Management remains on the active lookout for opportunities mainly in Western Europe and is open to other asset classes too (logistics, retail etc.) depending on pricing and asset quality.
- **We lower FY20-22F DPU by 4%, 20% and 20%** after factoring in the rights issue. We have also lowered our COE by 30bps in our DDM model.

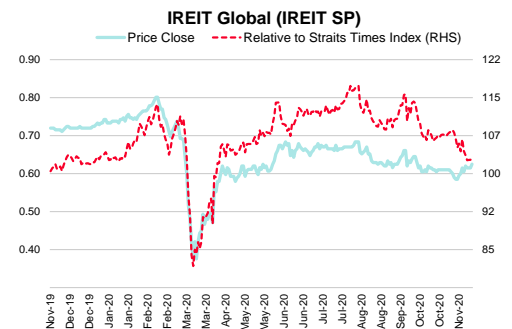
Analyst

Vijay Natarajan
 +65 6320 0825
vijay.natarajan@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.8)	2.5	(5.4)	1.5	(13.2)
Relative	(0.1)	(6.0)	(11.9)	(7.4)	2.0
52-wk Price low/high (SGD)	0.38 – 0.80				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (EURm)	34.8	35.6	36.7	43.1	43.6
Net property income (EURm)	30.6	30.4	31.4	37.2	37.8
Reported net profit (EURm)	57.0	69.8	10.2	25.7	29.0
Total distributable income (EURm)	25.1	26.2	25.2	30.2	30.7
DPS (EUR)	0.04	0.04	0.04	0.03	0.03
DPS growth (%)	(4.0)	(0.4)	(1.7)	(17.1)	1.2
P/B (x)	0.86	0.75	0.90	0.90	0.90
Dividend Yield (%)	8.6	8.6	8.4	7.0	7.1
Return on average equity (%)	19.9	21.2	2.6	6.0	6.7
Return on average assets (%)	11.2	12.0	1.5	3.4	3.9

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia	Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS (EUR)	0.09	0.11	0.01	0.03	0.03
Property	EPS (EUR)	0.09	0.11	0.01	0.03	0.03
IREIT Global	DPS (EUR)	0.04	0.04	0.04	0.03	0.03
IREIT SP	BVPS (EUR)	0.48	0.56	0.46	0.46	0.46
Buy	Return on average equity (%)	19.9	21.2	2.6	6.0	6.7
	Weighted avg adjusted shares (m)	629.21	634.45	688.86	932.80	936.29
Valuation basis						
DDM						
Key drivers	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Income stability from its top 2 tenants,	Recurring P/E (x)	4.59	3.78	28.22	15.13	13.45
ii. Relative resilience of German Economy	P/E (x)	4.59	3.78	28.22	15.13	13.45
iii. A strong sponsor cum strategic investor,	P/B (x)	0.9	0.7	0.9	0.9	0.9
iv. Improvement in trading liquidity	FCF Yield (%)	11.0	10.8	10.4	9.2	9.1
	Dividend Yield (%)	8.6	8.6	8.4	7.0	7.1
Key risks	EV/EBITDA (x)	- 2.51 -	- 4.96 -	- 2.43 -	- 2.63 -	- 2.80
i. Sharp reduction/downsizing by its key tenants.	EV/EBIT (x)	- 2.51 -	- 5.06 -	- 2.29 -	- 2.63 -	- 2.80
ii. Prolonged decline in office demand post COVID-19						
iii. Depreciation of Euro vs SGD	Income statement (EURm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	34.8	35.6	36.7	43.1	43.6
	EBITDA	27.2	27.2	25.9	33.3	33.5
	Depreciation and amortisation	0.0	(0.5)	1.7	0.0	0.0
	Operating profit	27.2	26.7	27.5	33.3	33.5
	Net interest	(3.9)	(6.1)	(4.6)	(4.8)	(4.8)
	Pre-tax profit	65.4	83.1	11.5	28.5	32.2
	Taxation	(8.3)	(13.3)	(1.3)	(2.9)	(3.2)
	Recurring net profit	57.0	69.8	10.2	25.7	29.0
	Cash flow (EURm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Cash flow from operations	29.2	29.2	30.9	36.6	36.3
	Capex	(0.5)	(0.7)	(1.0)	(1.0)	(1.0)
	Cash flow from investing activities	(0.5)	(31.6)	(121.0)	(1.0)	(1.0)
	Dividends paid	(23.2)	(22.8)	(24.2)	(27.2)	(27.6)
	Cash flow from financing activities	(29.4)	9.3	99.6	(32.0)	(31.9)
	Cash at beginning of period	19.1	18.4	25.3	34.9	38.5
	Net change in cash	(0.7)	6.9	9.5	3.6	3.4
	Ending balance cash	18.4	25.3	34.9	38.5	41.9
	Balance sheet (EURm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	18	25	35	38	42
	Total investments	506	607	702	703	708
	Total other assets	2	2	2	2	2
	Total assets	529	636	742	747	755
	Short-term debt	96	0	0	0	0
	Total long-term debt	97	231	264	265	266
	Total liabilities	223	282	312	315	319
	Shareholders' equity	306	354	430	431	436
	Total equity	306	354	430	431	436
	Net debt	175	206	230	227	224
	Total liabilities & equity	529	636	742	747	755
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(0.4)	2.3	3.0	17.3	1.4
	Recurrent EPS growth (%)	90.9	21.4	(86.6)	86.6	12.5
	Operating EBITDA margin (%)	78.0	76.4	70.5	77.3	76.7
	Net profit margin (%)	163.8	195.9	27.7	59.6	66.4
	Dividend payout ratio (%)	39.7	32.6	237.9	106.0	95.3
	Capex/sales (%)	1.4	1.8	2.7	2.3	2.3
	Interest cover (x)	6.88	4.37	6.02	6.97	6.98

Source: Company data, RHB

Figure 1: IREIT – fair value based on the Dividend Discount Model

	FY21F	FY22F	FY23F	FY24F	Terminal Value
DPU (SGD cents)	4.57	4.62	4.67	4.72	72.7
Target price (SGD)	0.70				
Current Price (SGD)	0.63				
Price Upside (%)	11.0				
Distribution Yield FY21F (%)	7.0				
Total Return (%)	18.0				
Assumptions					
Risk-free rate (%)	2.0%				
Beta	0.88				
Cost of equity (%)	7.6%				
Terminal growth (%)	1.0%				
Equity Risk Premium	6.3%				
Market risk return	9.3%				

Source: Company data, RHB

Figure 2: Germany assets overview

	BERLIN CAMPUS	BONN CAMPUS	DARMSTADT CAMPUS	MÜNSTER CAMPUS	CONCOR PARK	TOTAL
City	Berlin	Bonn	Darmstadt	Münster	Munich	
Completion Year	1994	2008	2007	2007	1978 and fully refurbished in 2011	
Ownership	100.0%	100.0%	100.0%	100.0%	100.0%	
Lettable Area (sqm)	79,097	32,736	30,371	27,204	31,412	200,820
Car Park Spaces	496	652	1,189	588	516	3,441
Occupancy Rate ¹	100.0%	100.0%	100.0%	100.0%	97.5%	99.6%
No. of Tenants	7	1	1	2	15	24
Key Tenant(s)	Deutsche Rentenversicherung Bund	GMG, a wholly-owned subsidiary of Deutsche Telekom	GMG, a wholly-owned subsidiary of Deutsche Telekom	GMG, a wholly-owned subsidiary of Deutsche Telekom	Allianz, ST Microelectronics, Ebase, Yamaichi	
WALE ²	3.7	2.5	2.1	2.5	6.6	3.4
Independent Appraisal ³ (€ m)	217.0	113.7	90.5	62.9	90.8	574.9

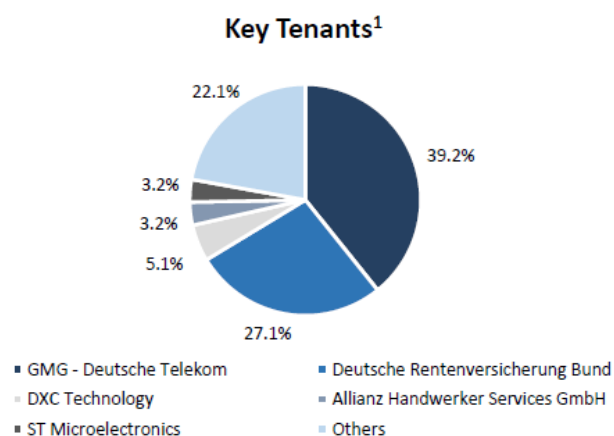
(1) Based on all current leases in respect of the properties as at 30 Sep 2020

(2) Based on gross rental income as at 30 Sep 2020

(3) Based on independent valuations as at 30 Jun 2020

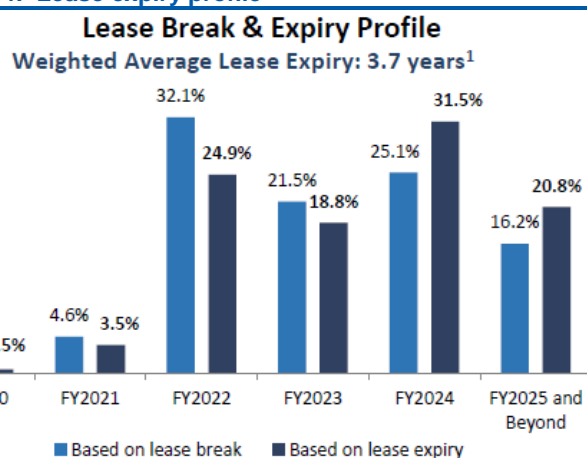
Note: *As of 30 Sep 2020; Source: Company Data

Figure 3: Key tenants – by gross rental income*



*As of end Sep; Source: Company Data

Figure 4: Lease expiry profile



Source: Company Data

Figure 5: Spanish assets overview

	DELTA NOVA IV	DELTA NOVA VI	SANT CUGAT GREEN	IL-LUMINA	TOTAL
City	Madrid	Madrid	Barcelona	Barcelona	
Completion Year	2005 and refurbished in 2015	2005 and refurbished in 2015	1993	1970s and fully redeveloped in 2004	
Ownership ¹	100.0%	100.0%	100.0%	100.0%	
Lettable Area (sqm)	10,256	14,855	26,134	20,922	72,167
Parking Spaces	249	384	580	310	1,523
Occupancy Rate ²	93.7%	94.5%	77.1%	90.2%	86.8%
No. of Tenants	11	9	4	12	36
Key Tenant(s)	Gesif, Anticipa, E-Voluciona, Aliseda	Almaraz, Clece, Digitex	DXC Technology, Roche, Sodexo	ÀREAS, Catalan Media, Digitex, Coca Cola European Partners	
WALE ³	3.2	5.4	5.1	4.3	4.6
Independent Appraisal (€ m) ⁴	29.6	39.8	40.6	26.4	136.4

- (1) Acquisition of the balance 60% interest in the Spanish portfolio was completed on 22 Oct 2020
(2) Based on all current leases in respect of the properties as at 30 Sep 2020
(3) Based on gross rental income as at 30 Sep 2020
(4) Based on the average of two independent valuations as at 31 Jul 2020

Note: *As of 30 Sep 2020
Source: Company

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-12	Buy	0.83	0.58
2020-03-02	Buy	0.92	0.71

Source: RHB, Bloomberg

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531