

27 March 2023

Property | REITS

Starhill Global REIT (SGREIT SP)

Neutral (from Buy)

Weighed Down By Myer's Arbitration; D/G To NEUTRAL

Target Price (Return): SGD0.55 (8.0%)
Price (Market Cap): SGD0.51 (USD861m)
ESG score: 3.10 (out of 4)
Avg Daily Turnover (SGD/USD) 0.80m/0.60m

- **Downgrade to NEUTRAL, revised SGD0.55 TP from SGD0.60, 8% upside.** We believe Starhill Global REIT has a good chance to successfully defend Myer's arbitration claim. Yet, this case will act as an overhang and cap share price amid a sluggish overall interest towards REITs. Operationally, SGREIT has been resilient and is expected to benefit from the boost in Singapore visitor arrivals. The modest gearing of c.36% and c.84% debt hedge puts it in a good position amidst rising interest rates.
- **We see limited impact from Myer's arbitration claim,** which alleges breach of the master lease terms (that runs until Jun 2032), claims unspecified damages, and seeks a declaration that it is entitled to terminate the lease. Myer alleges that the landlord breached its lease terms by maintaining the mall in a condition where it was "substantially empty of suitably-presented retail stores". Myer is the anchor tenant at SGREIT's Myer Centre Adelaide, occupying 52% of NLA, accounting for 7.4% and 9% of FY22 (Jun) revenue and NPI, and is currently paying rent. From management, we understand that the mall performance is broadly improving, with occupancy at 93%, coupled with an increase in foot fall and tenant sales, with the newly opened Uniqlo outlet – in particular – attracting good crowds. Overall, we see limited downside risks from this claim. Assuming the worst case of Myer's exit, it would result in a temporary drop of c.15% in DPU. However, we believe SGREIT will be able to backfill the space at similar rent rates, as the rent paid by Mayer is close to market levels, although the process could take some time.
- **Toshin's master leases (c.24% of income) are likely to be extended** beyond the current term of Jun 2025 with discussions currently in advanced stages. The underlying performance of Taksahimaya speciality stores operated by Toshin has rebounded strongly post COVID-19. We believe new master leases will be at similar base rents (c.SGD13psf) with a potential upside component from percentage of turnover rents, which – in our view – is a win-win for both parties.
- **Divestment of Daikanyama** for JPY1.9bn (SGD18.9m) is a timely move at a 39% premium over valuation and an exit yield of 2.77%. The proceeds will be used to pare-down debt and bring gearing slightly below 36%, which we believe is a comfortable level and gives headroom for good opportunities.
- **We adjust FY24F-25F DPU lower by 2-3%,** factoring in divestment and tweaking interest costs. Our COE has also been revised up by 50bps resulting in a lower TP. ESG score of 3.1 (out of 4.0), one notch above country median score. Hence, we apply a 2% premium to our DDM-derived TP.

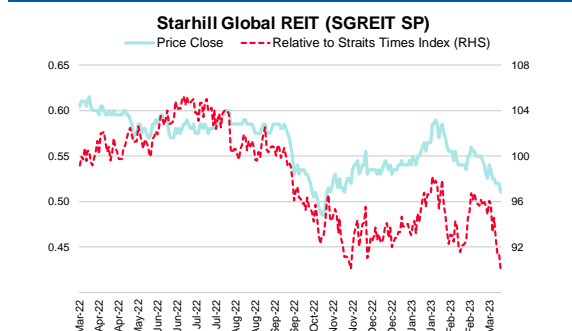
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.6)	(7.3)	(4.7)	(10.5)	(15.0)
Relative	(4.4)	(5.2)	(3.3)	(10.0)	(9.5)
52-wk Price low/high (SGD)	0.49 – 0.62				



Source: Bloomberg

Overall ESG Score: 3.10 (out of 4)

E: EXCELLENT

Active ongoing greening efforts with target to achieve at least 50% of portfolio NLA by 2030. For SGREIT's Singapore assets, the REIT manager has a 10-year target to reduce energy consumption by 15% from the FY16/FY17 base year and is on track to achieve its goal. Efforts has been done on this goal through modernisation of cargo lifts, overhaul of less-efficient chiller systems, and switching to more energy-efficient LED lights.

S: EXCELLENT

Based on internal tenant satisfaction survey, 95% and 97% of retail and office tenants were satisfied with safety and building maintenance an improvement from previous years. In support of work-life balance, family friendly initiatives, such as staggered work hours and a monthly "Bright Sky Day" are implemented at the workplace. Employees are encouraged to maintain a healthy lifestyle and look after their well-being through the "Perfect Attendance Award" issued quarterly, where they are rewarded with vouchers for staying healthy.

G: GOOD

SGREIT has a diverse board with three independent and three non-independent directors. There is also a good level of earnings transparency and information disclosure.

Note:

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

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (SGDm)	181	186	198	199	200
Net property income (SGDm)	135	145	149	151	151
Reported net profit (SGDm)	58	50	61	115	114
Total distributable income (SGDm)	87.3	85.0	84.3	81.7	83.3
DPS (SGD)	0.04	0.04	0.04	0.04	0.04
DPS growth (%)	12.2	(3.5)	(2.0)	(3.1)	2.0
P/B (x)	0.63	0.65	0.67	0.65	0.64
Dividend Yield (%)	7.8	7.5	7.4	7.2	7.3
Return on average equity (%)	3.3	2.8	3.5	6.6	6.5
Return on average assets (%)	1.9	1.7	2.0	3.9	3.8

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Singapore	Recurring EPS (SGD)	0.03	0.02	0.03	0.05	0.05
Property	EPS (SGD)	0.03	0.02	0.03	0.05	0.05
Starhill Global REIT	DPS (SGD)	0.04	0.04	0.04	0.04	0.04
SGREIT SP	BVPS (SGD)	0.82	0.79	0.77	0.78	0.79
Neutral	Return on average equity (%)	3.3	2.8	3.5	6.6	6.5
	Weighted avg adjusted shares (m)	2,187.93	2,204.43	2,226.62	2,239.03	2,239.04
Valuation basis	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
DDM	Recurring P/E (x)	19.22	22.38	18.73	9.93	10.05
	P/E (x)	19.22	22.38	18.73	9.93	10.05
Key drivers	P/B (x)	0.6	0.6	0.7	0.7	0.6
i. Return of tourists and pickup in high end retail sales;	FCF Yield (%)	9.5	9.1	14.2	9.0	9.1
ii. Extension of Toshin master leases;	Dividend Yield (%)	7.8	7.5	7.4	7.2	7.3
iii. Good sponsor support and master leases provide base income.	EV/EBITDA (x)	18.29	16.85	16.48	16.37	16.30
	EV/EBIT (x)	18.30	16.85	16.53	16.42	16.35
Key risks	Income statement (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
i. Slowdown in retail sales from inflationary pressures and weakening economy;	Total turnover	181	186	198	199	200
ii. Continued increase rise in interest rates;	EBITDA	115	126	129	131	131
iii. Structural decline in allure of Orchard Road and shorter leases.	Depreciation and amortisation	(0)	(0)	(0)	(0)	(0)
	Operating profit	115	126	129	130	131
	Net interest	(39)	(41)	(37)	(41)	(43)
	Pre-tax profit	60	52	62	118	117
	Taxation	(1)	(2)	(1)	(3)	(3)
	Recurring net profit	58	50	61	115	114
Company Profile	Cash flow (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Starhill Global REIT invests in retail and office buildings in Singapore and overseas.	Change in working capital	20	(4)	0	0	0
	Cash flow from operations	141	122	131	131	133
	Capex	(35)	(20)	30	(29)	(29)
	Cash flow from investing activities	(34)	(20)	31	(27)	(27)
	Dividends paid	(53)	(77)	(84)	(82)	(83)
	Cash flow from financing activities	(118)	(123)	(133)	(131)	(128)
	Cash at beginning of period	117	108	86	83	85
	Net change in cash	(11)	(21)	29	(26)	(22)
	Ending balance cash	107	83	82	85	89
	Balance sheet (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Total cash and equivalents	108	86	83	85	90
	Tangible fixed assets	0	0	0	0	0
	Total investments	2,965	2,893	2,863	2,892	2,921
	Total other assets	1	15	15	16	16
	Total assets	3,080	2,997	2,965	2,996	3,031
	Short-term debt	0	125	120	150	150
	Total long-term debt	1,105	956	959	929	934
	Total liabilities	1,189	1,150	1,149	1,150	1,156
	Shareholders' equity	1,790	1,747	1,716	1,746	1,775
	Total equity	1,890	1,847	1,816	1,846	1,875
	Net debt	997	995	996	994	994
	Total liabilities & equity	3,080	2,997	2,965	2,996	3,031
	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Revenue growth (%)	0.3	2.8	6.4	0.3	0.5
	Recurrent EPS growth (%)	0.0	(14.1)	19.5	88.7	(1.2)
	Operating EBITDA margin (%)	63.6	67.3	65.0	65.6	65.5
	Net profit margin (%)	32.0	26.9	30.6	57.8	56.8
	Dividend payout ratio (%)	150.4	169.2	139.0	71.0	73.3
	Capex/sales (%)	19.3	10.8	(15.1)	14.4	14.5
	Interest cover (x)	2.89	3.03	3.40	3.02	2.88

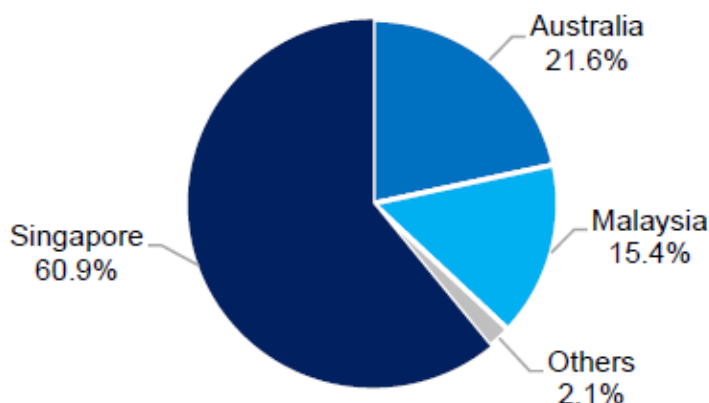
Source: Company data, RHB

Figure 1: SGREIT – FV based on DDM

	FY23F	FY24F	FY25F	FY26F	FY27F	Terminal value
DPU (SGD cents)	3.76	3.65	3.72	3.76	3.82	58.37
Fair value (SGD)	0.54					
ESG Premium/disc (SGD)	0.01					
TP (SGD)	0.55					
Current price (SGD)	0.51					
Price upside (%)	8.0					
Distribution yield (%)	7.4					
Total return (%)	15.4					
Assumptions						
Risk-free rate (%)	2.8					
Beta	0.9					
Cost of equity (%)	8.1					
Terminal growth (%)	1.5					

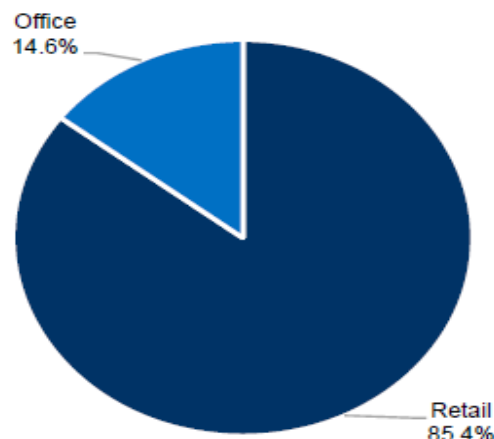
Source: RHB

Figure 2: Revenue mix by geography (1HFY23)



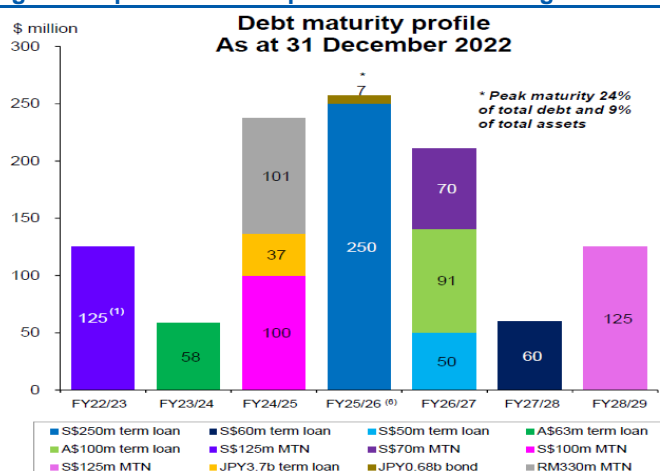
Source: Company data

Figure 3: Revenue mix by segment (1HFY23)



Source: Company data

Figure 4: Spread out debt profile with c.84% hedged



Source: Company data

Figure 5: Top 10 tenants by rental income

Tenant Name	Property	% of Portfolio Gross Rent ⁽¹⁾⁽²⁾
Toshin Development Singapore Pte Ltd	Ngee Ann City, Singapore	23.7%
YTL Group ⁽³⁾	Ngee Ann City & Wisma Atria, Singapore The Starhill & Lot 10, Malaysia	15.8%
Myer Pty Ltd	Myer Centre Adelaide, Australia	7.3%
David Jones Limited	David Jones Building, Australia	4.9%
BreadTalk Group	Wisma Atria, Singapore	2.5%
Coach Singapore Pte Ltd	Wisma Atria, Singapore	1.7%
Uniqlo Co., Ltd	Plaza Arcade & Myer Centre Adelaide, Australia	1.4%
Tory Burch Singapore Pte Ltd	Wisma Atria, Singapore	1.4%
Emperor Watch & Jewellery	Wisma Atria, Singapore	1.3%
Technicolor Creative Studios Australia Pty Ltd	Myer Centre Adelaide, Australia	1.1%

Notes:

- As at 31 December 2022.
- The total portfolio gross rent is based on the gross rent of all the properties.
- Consists of Katagreen Development Sdn. Bhd., YTL Singapore Pte. Ltd., YTL Starhill Global REIT Management Limited and YTL Starhill Global Property Management Pte. Ltd.

Source: Company data

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Recommendation Chart

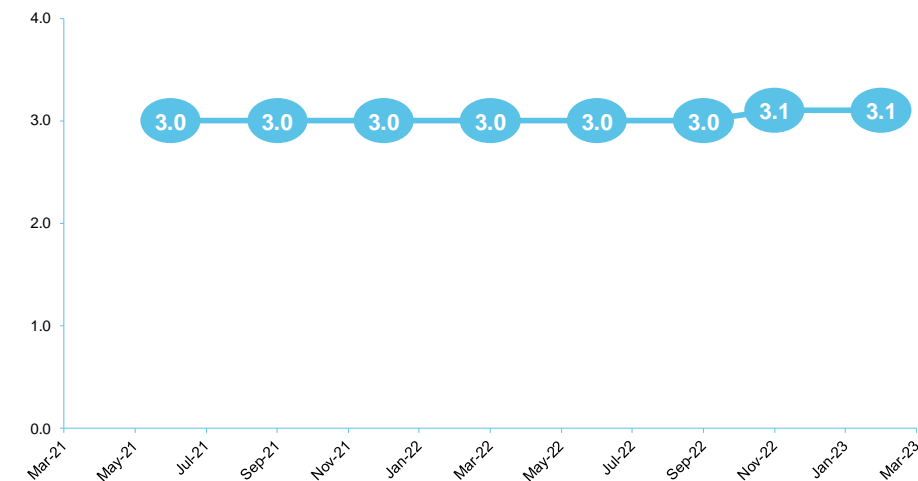


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2018-10-16	Buy	0.80	0.67
2018-01-30	Neutral	na	0.77
2017-07-31	Neutral	0.81	0.78

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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