Singapore Company Guide

Starhill Global REIT

Version 9 | Bloomberg: SGREIT SP | Reuters: STHL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Dec 2018

BUY

Last Traded Price (7 Dec 2018): S$0.67 (STI : 3,111.12)
Price Target 12-mth: S$0.75 (12% upside)

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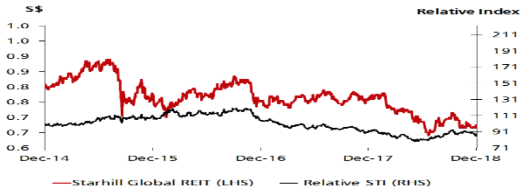
What's New

- Earnings bottoming out on the back of improving portfolio occupancies
- Tenancy remixing ongoing to reposition assets in Singapore to changing consumer metrics
- Potential development at Wisma Atria a catalyst
- TP reflects conservative discount rate assumptions

Price Relative



Forecasts and Valuation

FY Jun (S$m)	2018A	2019F	2020F	2021F
Gross Revenue	209	216	223	224
Net Property Inc	162	165	167	168
Total Return	84.2	104	105	105
Distribution Inc	103	104	105	105
EPU (S cts)	4.90	4.77	4.84	4.80
EPU Gth (%)	(8)	(3)	1	(1)
DPU (S cts)	4.55	4.61	4.67	4.71
DPU Gth (%)	(8)	1	1	1
NAV per shr (S cts)	91.2	91.4	91.6	91.7
PE (X)	13.7	14.0	13.9	13.9
Distribution Yield (%)	6.8	6.9	7.0	7.0
P/NAV (x)	0.7	0.7	0.7	0.7
Aggregate Leverage (%)	36.4	36.4	36.4	36.4
ROAE (%)	5.3	5.2	5.3	5.2
Distn. Inc Chng (%):		-	(2)	(2)
Consensus DPU (S cts):		4.80	4.90	4.90
Other Broker Recs:		B: 5	S: 0	H: 3

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Nearing bottom

Attractive proxy to tourist arrivals, BUY, TP S$0.75. We like Starhill Global REIT (SGREIT) for its diversified portfolio of prime retail and office assets in the Asia Pacific region anchored by two visible Orchard Road Malls – Wisma Atria and Ngee Ann City. With tourist arrivals and spending on an uptrend, we believe SGREIT is poised to benefit from this and we forecast the REIT to deliver steady dividends over FY19-20F. Attractive yield of 7.0% limits downside to share price.

Where we differ: More conservative estimates than consensus. Our TP of S$0.75 and DPU projections for the next two years are 7-8% lower compared to consensus mean. We are less optimistic on the outlook of SGREIT's retail portfolio in Singapore, in particular Wisma Atria, where operating metrics have been soft but believe the bottom could be near. Wisma Atria has made material changes to the trade mix on the ground floor which we believe will augur well for the mall.

Potential catalyst: Development opportunities. Executing on the proposed development at Wisma Atria (unutilised GFA of up to 100,000 sqft) will be a value-enhancing strategy in our view, pending approvals from the relevant authorities and partners. We understand that the manager is in regular discussions and the execution of this development could yield upside to both NAV and DPUs in the medium term, which is not priced in at current levels.

Valuation:

Our DCF TP is maintained at 0.75 Scts. Our DCF assumes a 10-year risk-free rate of 3.0% and a 50-bp higher cost of debt. Maintain BUY.

Key Risks to Our View:

Slow retail recovery in Singapore. A prolonged slow retail recovery in Singapore dragged by a fall in tourist arrivals could be detrimental to SGREIT's distribution prospects.

At A Glance

Issued Capital (m shrs)	2,181
Mkt. Cap (Sm/USm)	1,461 / 1,067
Major Shareholders (%)	
YTL Corp Bhd	33.4
AIA Group Ltd	7.6
Free Float (%)	59.0
3m Avg. Daily Val (US$m)	0.83
ICB Industry : Financials / Real Estate Investment Trust	

WHAT'S NEW

Earnings bottoming out

(-) 4Q18 DPU of 1.09 is down 7.5% y-o-y: Starhill Global REIT (SGREIT) reported a 3.9% and 3.3% drop in 4Q18 gross revenues and net property income (NPI) to S$51.6m and S$40.1m respectively. This was largely due to weaker contribution from its Singapore office portfolio, lower revenues from Myer Center Adelaide (retail) and its China property. As such, distributable income fell by 3.9% to S$25.3m. Income to be distributed totaled S$23.8m (94% payout ratio), translating into a DPU of 1.09 Scts (-7.6% y-o-y, flat q-o-q).

Slight write-down in valuations but NAV remained stable. SGREIT reported a net devaluation of S$17.8m (after capex, currency adjustments and valuers' fair valuation adjustment), mainly due to its Malaysian (expansion of cap rates) and Australian properties.

Operations remained stable. Income from master leases and long-term leases comprise 49% of revenues, implying good income visibility. Operationally, SGREIT saw a slight dip in portfolio occupancies to 94.2% (vs 95.5% a year ago) in 4Q18. This was mainly due to a drop in occupancies for its office properties in Singapore, mainly Ngee Ann City offices, with occupancy falling to 88.9% but commitments will bring occupancy rates back to c.95%. The retail portfolio in Singapore maintained a high occupancy rate of close to 100% despite the soft retail operating climate.

Overseas properties deliver steady returns. SGREIT's Australian properties saw a 13.4% drop in NPI largely due to vacancies at the offices at Myer Center Adelaide, allowance for rental rebates as well as the weaker AUD-SGD exchange rate. However, with long leases to anchors David Jones and Myers, accounting for more than 50% of its gross recent from Australia, income is fairly secured. In addition, the opening of UNIQLO in 3Q18 at Plaza Arcade will underpin a growth in revenues from Australia.

The drop in contribution from Malaysia (-4.6% y-o-y) was mainly due to currency weakness while China and Japan properties reported an 8.0% drop in NPI due to tenant lease reconfiguration and income vacuum from divestments respectively.

Trimmed estimates. With weaker-than-expected rental reversions, occupancy rates and currency volatility, we relooked at our assumptions and thus moderated our rental and occupancy rate assumptions for Singapore and Australian properties and reviewed our currency assumptions with current spot rates. This resulted in a c.7.0% drop in our DPU forecasts for FY19F-20F.

Quarterly / Interim Income Statement (S$m)

FY Jun	1Q2018	4Q2018	1Q2019	% chg yoy	% chg qoq
Gross revenue	53.0	51.6	52.0	(1.8)	0.7
Property expenses	(11.6)	(11.6)	(11.6)	(0.2)	0.0
Net Property Income	41.4	40.1	40.4	(2.3)	1.0
Other Operating expenses	(5.0)	(5.0)	(5.0)	0.2	0.2
Other Non Opg (Exp)/Inc	0.97	1.68	(0.6)	nm	nm
Net Interest (Exp)/Inc	(10.3)	(9.1)	(9.3)	10.0	(2.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	**27.1**	**27.7**	**25.6**	**(5.5)**	**(7.6)**
Tax	(0.9)	(0.2)	(0.9)	(4.2)	328.1
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	**26.2**	**27.5**	**24.7**	**(5.5)**	**(10.1)**
Total Return	0.0	0.0	0.0	-	-
Non-tax deductible Items	0.56	20.5	1.49	167.7	(92.7)
Net Inc available for Dist.	26.2	23.8	25.1	(4.2)	5.5
Ratio (%)					
Net Prop Inc Margin	78.1	77.6	77.7		
Dist. Payout Ratio	97.9	93.8	95.7		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

A proxy to Singapore tourism growth. The most distinctive feature for SGREIT is its exposure to Orchard Road, Singapore's prime shopping district. Historical operational performance has shown that performance for malls along Orchard road have more volatility and are more sensitive to non-discretionary spending which can be boosted by higher tourist arrivals and spending. This is in contrast to suburban malls which cater largely to locals and less non-discretionary shopping.

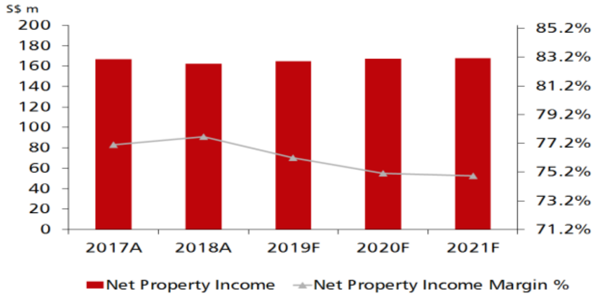
We found that tourist arrivals have a high correlation coefficient of 0.74 with SGREIT's price. In our analysis, we noted that before 2013, strong tourist arrival data moved in tandem with the growth of SGREIT's distribution and share price. This could be explained by high tourist spending translating into retail sales and in turn SGREIT's earnings and distribution, given that its Singapore assets (Wisma Atria and Ngee Ann City) contribute to more than 50% of SGREIT's NPI.

Strong earnings visibility with close to 50% of income pegged to master leases or long leases. Income from master leases and long-term leases with key anchors (Myer Pty Ltd and David Jones Limited) comprise 49% of revenues, implying good income visibility and steady revenues. A number of its master leases will be up for review in 2019-2020, which implies potential upside to earnings in the medium term. Upside in earnings might come from the (i) Toshin lease (c.22% of top line) which is due in June 2019, (ii) expiry of the master tenancy arrangements for its properties in Malaysia (c.15% of top line) with Katagreen (subsidiary of Sponsor YTL Group).

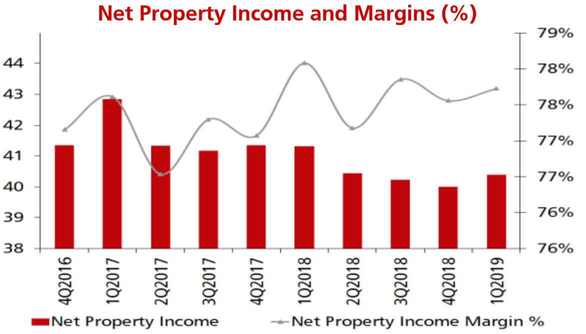
The other major anchor tenant leases at Myer Centre Adelaide and David Jones in Perth has either annual or periodic rent reviews which could form a medium-term boost to earnings.

Diversifying overseas for inorganic growth. Over the years, SGREIT has ventured overseas to Australia in pursuit of inorganic growth and has seen fairly good results. The acquisitions of Plaza Arcade and David Jones Building in Perth and Myers Center Adelaide, add to the SGREIT's income (long lease to David Jones and Myers) and inorganic growth through strategic asset enhancements undertaken over the past year. Upon completion, a new anchor, Uniqlo started operations from 3QCY18, which adds to income and potentially higher tenants' sales.

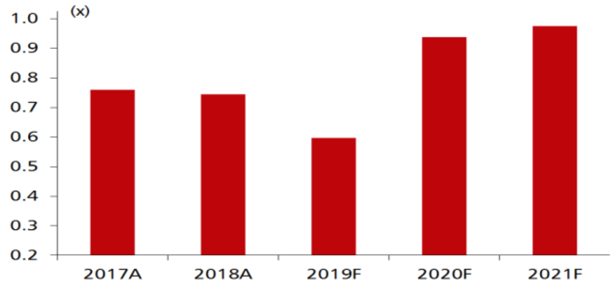
Net Property Income and Margins (%)



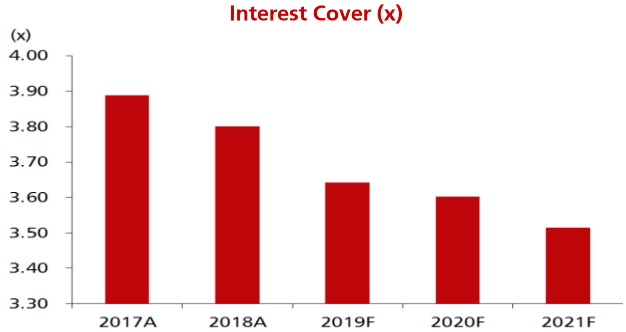
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



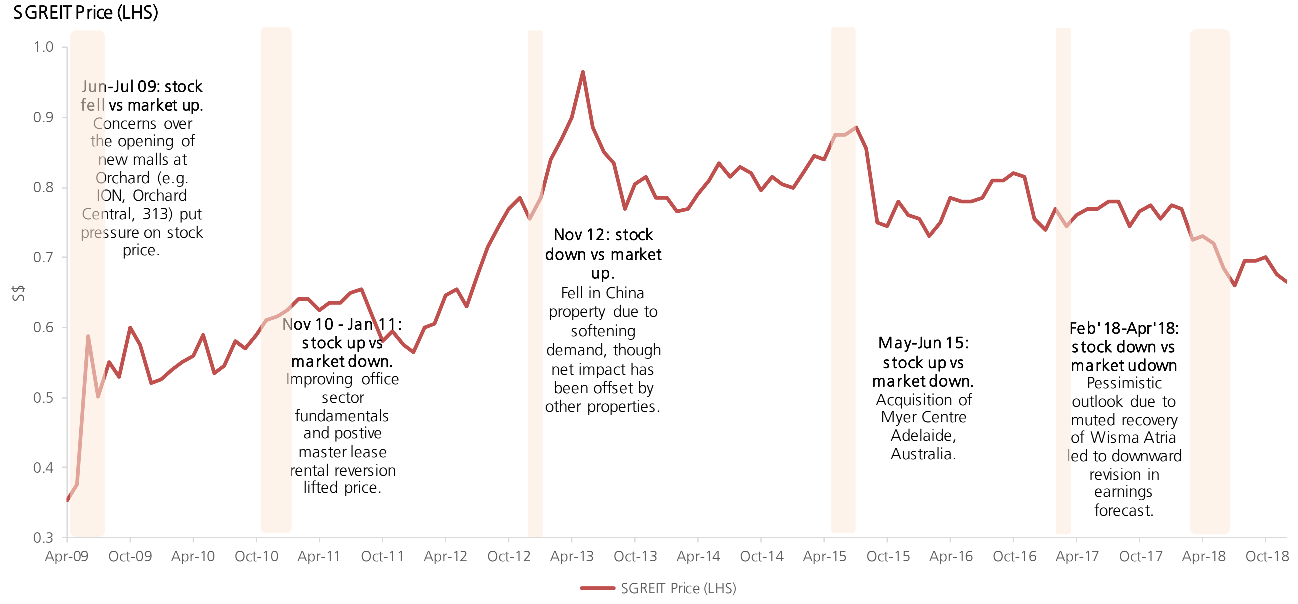
Interest Cover (x)



Source: Company, DBS Bank

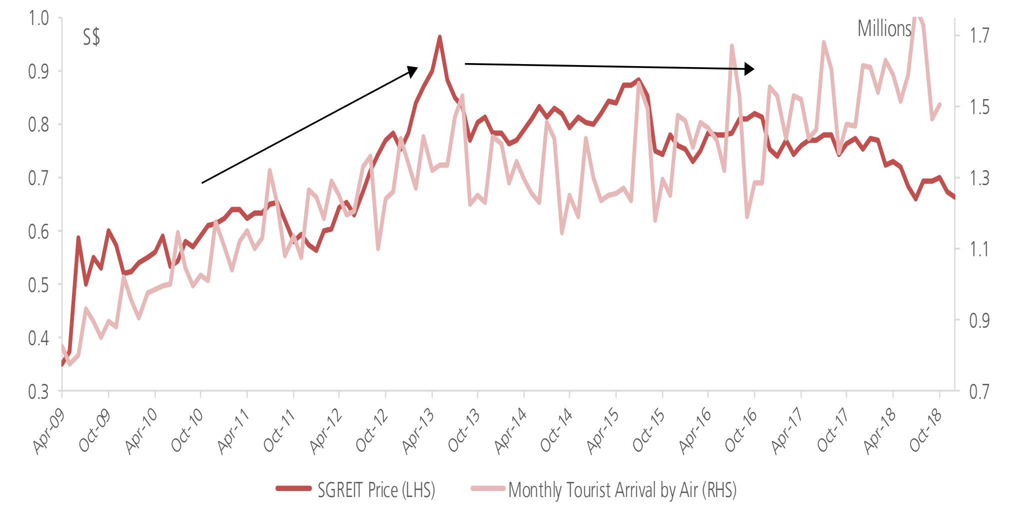
Appendix 1: A look at Company's listed history – what drives its share price?

Share price history



Source: Company, DBS Bank

Visitor Arrivals vs stock price (correlation of 0.74x)



Source: URA, media, DBS Bank

Remarks

There is a strong correlation between SGREIT's share price and visitor arrivals on expectations that higher visitor volumes could translate into higher earnings.

However, that relationship was less evident in recent years given the weak operating stats and ongoing tenancy changes at Wisma Atria.

With most of the renewals done, we believe that SGREIT may trade higher in the medium term.

Balance Sheet:

Future acquisitions to be partly funded via equity. Gearing remained stable at 35% within the manager's comfortable gearing level. This presents the REIT with acquisition capacity to acquire opportunistically when the right opportunity comes along.

Low debt renewal in FY19. Weighted debt tenure is c.3.5 years (as at September 2018) at an average all-in interest cost of 3.3%. With 92% of debt hedged into fixed rates and minimal debt expiring in FY19, we see limited impact of interest rates on the REIT.

Share Price Drivers:

Turnaround signs from Wisma Atria. Operational metrics have been soft at Wisma Atria, a reflection of an overall weak retail environment in Singapore. Any signs of recovery will boost investor confidence.

Extracting value from development in Singapore and Australia. The manager has several AEI opportunities to reposition their assets in Singapore and Australia. SGREIT has undertaken AEI works in Central Plaza, Perth, renovating the shop façade to incorporate anchor tenants, as well as converting some of the upper floors from office and storage to retail use. Other potential development/AEI opportunities include activating 116,000 sqft of vacant retail space on the fourth and fifth floors of Myer Centre, Adelaide, as well as developing the area between Wisma Atria and Ngee Ann City, where the REIT has unutilised gross floor area of c.100,000 sqft.

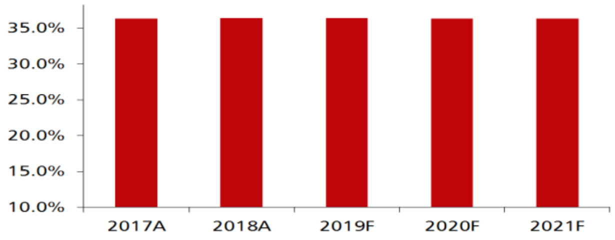
Key Risks:

Slow retail recovery in Singapore. Prolonged retail recovery in Singapore dragged by flat consumption growth and slow improvement in tourist arrivals could leave the earnings from Singapore retail (c.50% of total) range bound.

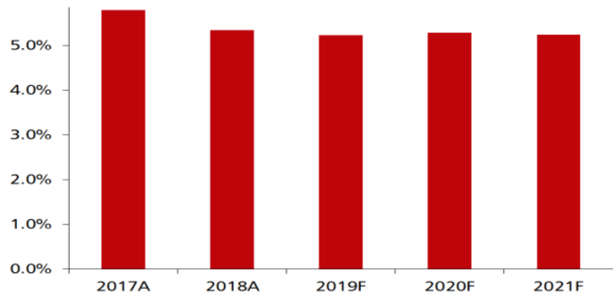
Company Background

Starhill Global REIT (SGREIT) is a real estate investment trust that invests in income-producing upscale retail and/or office assets in the Asia Pacific region. In Singapore, it owns portions of Ngee Ann City and Wisma Atria. It also owns assets in China, Japan, Malaysia and Australia.

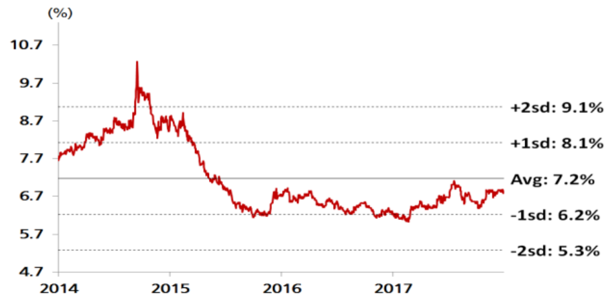
Aggregate Leverage (%)



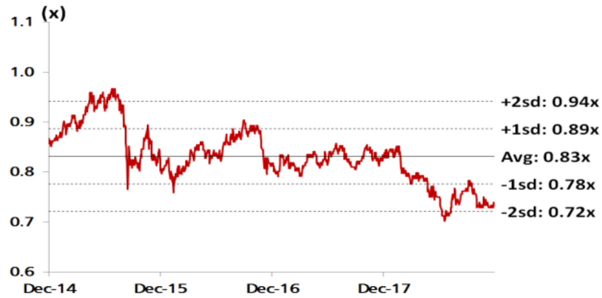
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Jun	2017A	2018A	2019F	2020F	2021F
Gross revenue	216	209	216	223	224
Property expenses	(49.5)	(46.6)	(51.4)	(55.3)	(56.0)
Net Property Income	167	162	165	167	168
Other Operating expenses	(19.8)	(20.2)	(21.6)	(21.7)	(21.7)
Other Non Opg (Exp)/Inc	6.01	5.75	0.0	0.0	0.0
Net Interest (Exp)/Inc	(37.8)	(37.4)	(39.3)	(40.4)	(41.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	115	110	104	105	104
Tax	1.27	(3.5)	0.35	0.36	0.35
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	117	107	104	105	105
Total Return	100	84.2	104	105	105
Non-tax deductible Items	10.2	18.9	0.0	0.0	0.0
Net Inc available for Dist.	110	103	104	105	105
Growth & Ratio					
Revenue Gth (%)	(1.5)	(3.5)	3.5	3.0	0.5
N Property Inc Gth (%)	(2.0)	(2.8)	1.5	1.5	0.3
Net Inc Gth (%)	35.7	(8.3)	(2.6)	1.3	(0.7)
Dist. Payout Ratio (%)	97.2	96.2	96.5	96.5	98.0
Net Prop Inc Margins (%)	77.1	77.7	76.2	75.1	75.0
Net Income Margins (%)	53.9	51.2	48.2	47.4	46.9
Dist to revenue (%)	51.0	49.4	48.2	47.4	46.9
Managers & Trustee's fees	9.1	9.7	10.0	9.7	9.7
ROAE (%)	5.8	5.3	5.2	5.3	5.2
ROA (%)	3.6	3.3	3.2	3.2	3.2
ROCE (%)	4.6	4.3	4.5	4.6	4.6
Int. Cover (x)	3.9	3.8	3.6	3.6	3.5

Source: Company, DBS Bank

Stable returns pegged by a portfolio with mainly master leases

Quarterly / Interim Income Statement (S$m)

FY Jun	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019
Gross revenue	53.0	52.5	51.7	51.6	52.0
Property expenses	(11.6)	(12.0)	(11.5)	(11.6)	(11.6)
Net Property Income	41.4	40.5	40.3	40.1	40.4
Other Operating expenses	(5.0)	(4.9)	(5.1)	(5.0)	(5.0)
Other Non Opg (Exp)/Inc	0.97	0.86	1.91	1.68	(0.6)
Net Interest (Exp)/Inc	(10.3)	(9.1)	(8.9)	(9.1)	(9.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**27.1**	**27.4**	**28.2**	**27.7**	**25.6**
Tax	(0.9)	(0.8)	(1.5)	(0.2)	(0.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**26.2**	**26.6**	**26.7**	**27.5**	**24.7**
Total Return	0.0	0.0	0.0	0.0	0.0
Non-tax deductible Items	0.56	(0.9)	(1.3)	20.5	1.49
Net Inc available for Dist.	26.2	25.5	23.8	23.8	25.1
Growth & Ratio					
Revenue Gth (%)	(1)	(1)	(1)	0	1
N Property Inc Gth (%)	0	(2)	0	(1)	1
Net Inc Gth (%)	(6)	2	0	3	(10)
Net Prop Inc Margin (%)	78.1	77.2	77.9	77.6	77.7
Dist. Payout Ratio (%)	97.9	99.4	93.7	93.8	95.7

Balance Sheet (S$m)

FY Jun	2017A	2018A	2019F	2020F	2021F
Investment Properties	3,136	3,118	3,121	3,123	3,125
Other LT Assets	0.10	2.01	2.01	2.01	2.01
Cash & ST Invts	76.6	66.7	133	137	137
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	6.34	4.19	9.17	9.44	9.49
Other Current Assets	0.09	0.24	0.24	0.24	0.24
Total Assets	**3,219**	**3,192**	**3,265**	**3,271**	**3,274**
ST Debt	406	63.4	63.4	63.4	63.4
Creditor	38.8	38.6	108	111	112
Other Current Liab	4.12	2.21	2.21	2.21	2.21
LT Debt	728	1,067	1,067	1,067	1,067
Other LT Liabilities	32.9	30.0	30.0	30.0	30.0
Unit holders' funds	2,009	1,990	1,994	1,998	2,000
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**3,219**	**3,192**	**3,265**	**3,271**	**3,274**
Non-Cash Wkg. Capital	(36.5)	(36.4)	(101)	(104)	(104)
Net Cash/(Debt)	(1,058)	(1,064)	(998)	(993)	(993)
Ratio					
Current Ratio (x)	0.2	0.7	0.8	0.8	0.8
Quick Ratio (x)	0.2	0.7	0.8	0.8	0.8
Aggregate Leverage (%)	36.4	36.4	36.4	36.4	36.4
Z-Score (X)	0.8	0.8	0.8	0.8	NA

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Jun	2017A	2018A	2019F	2020F	2021F
Pre-Tax Income	115	110	104	105	104
Dep. & Amort.	0.36	0.0	0.0	0.0	0.0
Tax Paid	(2.4)	(3.5)	0.35	0.36	0.35
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	27.9	29.0	64.4	2.96	0.49
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	**141**	**136**	**169**	**108**	**105**
Net Invt in Properties	(4.1)	(6.6)	(2.2)	(2.2)	(2.2)
Other Invts (net)	(0.1)	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.09	0.0	0.0	0.0	0.0
Net Investing CF	**(3.1)**	**(6.6)**	**(2.2)**	**(2.2)**	**(2.2)**
Distribution Paid	(107)	(101)	(100)	(102)	(103)
Chg in Gross Debt	7.89	1.21	0.0	0.0	0.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(38.5)	(39.1)	0.0	0.0	0.0
Net Financing CF	**(138)**	**(139)**	**(100)**	**(102)**	**(103)**
Currency Adjustments	(0.5)	(0.1)	0.0	0.0	0.0
Chg in Cash	(0.4)	(9.9)	65.9	4.43	0.35
Operating CFPS (S cts)	5.19	4.90	4.77	4.84	4.80
Free CFPS (S cts)	6.28	5.93	7.63	4.87	4.72

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	19 Mar 18	0.72	0.82	BUY
2:	30 Jul 18	0.69	0.75	BUY

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Carmen Tay
Derek TAN
Mervin SONG, CFA

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 10 Dec 2018 16:48:18 (SGT)
Dissemination Date: 10 Dec 2018 17:04:51 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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