Singapore Company Update

Starhill Global REIT

Bloomberg: SGREIT SP | Reuters: STHL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Jul 2021

BUY (Upgrade from HOLD)

Last Traded Price (12 Jul 2021): S$0.595 (STI : 3,147.14)
Price Target 12-mth: S$0.75 (26% upside) (Prev S$0.55)

Analyst
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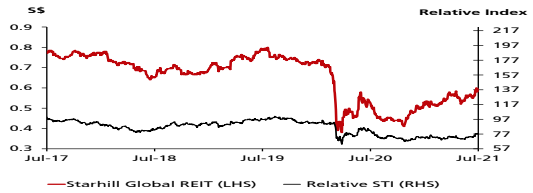
What's New

- Operational metrics at Wisma Atria to improve as dine-in limits ease; new anchors to attract crowds
- Strategic repositioning and cosmetic uplift at Wisma Atria to drive tenant sales higher
- Possible inclusion in EPRA NAREIT Developed Asia Index come Sept 2021 is another re-rating catalyst
- Upgrade to BUY, TP raised to S$0.75

Price Relative



Forecasts and Valuation

FY Jun (S$m)	2020A	2021F	2022F	2023F
Gross Revenue	181	188	209	215
Net Property Inc	132	134	152	156
Total Return	70.6	78.2	90.2	94.1
Distribution Inc	77.4	84.2	96.2	100
EPU (S cts)	3.23	3.48	4.28	4.45
EPU Gth (%)	(18)	8	23	4
DPU (S cts)	2.96	3.64	4.08	4.14
DPU Gth (%)	(34)	23	12	2
NAV per shr (S cts)	80.9	80.5	80.3	80.2
PE (X)	18.4	17.1	13.9	13.4
Distribution Yield (%)	5.0	6.1	6.9	7.0
P/NAV (x)	0.7	0.7	0.7	0.7
Aggregate Leverage (%)	39.7	35.4	35.3	35.2
ROAE (%)	3.8	4.3	5.3	5.5
Distn. Inc Chng (%):		20	3	3
Consensus DPU (S cts):		3.90	4.20	4.20
Other Broker Recs:		B: 4	S: 0	H: 2

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

Brightening outlook heralds new cheer

Investment Thesis

Upgrade to BUY on higher TP of S$0.75. Starhill Global REIT's (SGREIT) portfolio operational metrics should improve as the economy re-opens. With the worst potentially behind us, we see DPUs hitting close to pre-pandemic levels earlier than anticipated. We upgrade our call on SGREIT to BUY, with the return of tourist-led spending as a catalyst for the REIT. The stock offers an attractive c.7.0% yield and trades at 0.7x P/NAV.

Central Orchard malls to enjoy upside when borders re-open. Tenant sales at SGREIT's Wisma Atria increased to c.84% of pre-COVID levels in 3QFY21, a positive surprise, even when the borders have yet to open. We believe the mall will continue to grow from strength to strength on the back of relaxation of dine-in limits bringing back crowds and a possible re-opening of borders at the end of the year. In addition, the re-positioning of Wisma Atria into a lifestyle mall coupled with the introduction of new anchor tenants like Haidilao is positive to capturing crowds come FY22F.

Possible index inclusion a catalyst in Sept 2021. The recent changes in indexation rules for the EPRA NAREIT Developed Asia Index puts SGREIT in the front seat for possible inclusion in the upcoming Sep 2021 review. We believe this will lead to an inflow of funds, driving a re-rating, leading to the REIT trading at a premium to historical valuations.

Valuation:

Higher target price of S$0.75. Our DCF-derived target price has increased to S$0.75 (S$0.55 previously) as we roll forward valuations into the next financial year and raise our NPI margins from the current c.71% to the historical average of c.77%..

Where we differ:

Bright spots in Australia. Retail data in Australia exceeded pre-COVID levels in the previous quarter (up c.4.8-7.5% y-o-y), which came as a positive surprise. This coincides with the conclusion of most relief negotiations with Australian tenants as retail headwinds dissipate in the market.

Key Risks to Our View:

Slower-than-expected return of tourists. A return of tourist traffic will depend on factors such as the availability of vaccines and travel bubble arrangements, which may be subject to delays.

At A Glance

Issued Capital (m shrs)	2,214
Mkt. Cap (Sm/USm)	1,317 / 975
Major Shareholders (%)	
Starhil Global REIT Invt	24.4
YTL Corp Bhd	9.5
AIA Group Ltd	7.0
Free Float (%)	59.1
3m Avg. Daily Val (US$m)	0.97

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

ed: JS/ sa: SS, PY, CS

WHAT'S NEW

Brighter skies in the days ahead

Operational metrics to improve in FY22.

Worst is likely over; outlook has brightened considerably. Starhill Global REIT's (SGREIT) operational results are starting to show promising improvements, ahead of our expectations. For 3QFY21 (quarter ended Mar 2021), SGREIT reported gross revenue of S$46.4m (-0.6% y-o-y) and NPI of S$35.4m (+0.6% y-o-y) and its 9MFY21 results are tracking marginally ahead of expectations. The key strength lies in the REIT's Singapore assets, namely Wisma Atria, which recently reported a surprise rebound in tenant sales and traffic in 3QFY21.

While phase 2 (heighted alert) saw traffic in malls plummet as workers stayed home to combat against the new variant, further relaxation in dine-in limits from 12 July 2021 and vaccination progress in Singapore give us confidence that Singapore will unlikely face another "semi-lockdown" situation. We expect consumers will continue to open their wallets and spend locally prior to borders re-opening towards the end of 2021. In addition, the return of tourists sometime closer to the end of 2021, which historically accounts for c.20-30% of Wisma Atria's traffic and sales, will support the positive momentum heading into the new financial year (FYE June). Wisma Atria's operating metrics should head back towards pre-COVID-19 levels in time to come.

Refinancing risk is cleared. Debt due this calendar year has been refinanced ahead of their maturity. This includes the rolling over of a S$100m MTN and S$150m term loan, and a new 5.5-year A$100m loan agreement SGREIT entered in Feb 2021 to refinance its previous A$80m term loan. No additional debt is due for refinancing until Sep 2022.

Rejuvenating "ageing" Wisma Atria

Tenant sales recovered to 83% of normalised levels at Wisma Atria and should rebound from July 2021 onwards. Tenant sales and shopper traffic at Wisma Atria improved to 83.4% and 74.3% of normalised levels this quarter, boosted by phase 3 re-opening and the gradual return of office workers at the office towers adjoining the mall. Overall occupancy remains high at 97% on a committed basis, with master lease and anchor tenant rents sheltering c.52% of gross rents as at 31 Mar 2021 – thus boosting the resilience of the REIT.

Occupancy of the Singapore retail and office portfolios stood at 98.3% and 90.2%, respectively, on a committed basis. We understand that a couple of tenants are still undergoing fit-out works, including hotpot giant HaiDiLao has opened its doors. Only 5.1% of retail leases were due to expire in 4QFY21 (quarter ending June 2021) and we anticipate a high retention rate for the mall.

Strengthening Wisma Atria's edge with new entrants. SGREIT has recently unveiled plans to reposition Wisma Atria as a premier lifestyle mall, with a focus to strengthen food & beverage offerings within the mall, which we believe will be well received. The manager has clinched popular hotpot chain HaiDiLao to replace an existing F&B tenant which did not perform to expectations. We expect the manager to continue to take steps to optimise its tenant mix.

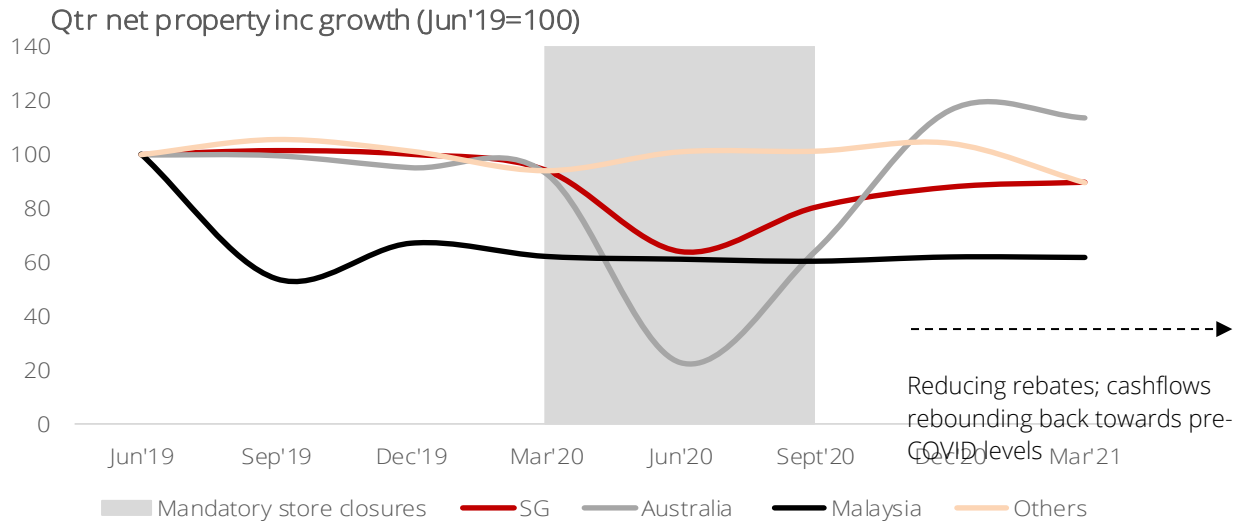
The manager plans to refresh the interior of Wisma Atria (common facilities such as the atrium space, lift lobbies and toilets) at a cost of S$15m. The asset enhancement is expected to complete by the end of 2022 and will be funded internally with debt. AEI works will be conducted in phases, mainly through the night, to minimise operational disruptions. We understand that tenants are supportive and will continue to operate with minimal rental assistance during the period of upgrade.

DPU estimates revised up by 15%, NPI margins to return to historical average. With an improving outlook, we have seen net property income (NPI) margins returning to the pre-COVID level of c.77% (from the current c.71%) in the past two quarters, according to our estimates. This has prompted us to raise our DPU estimates for SGREIT by 15% in FY21, prompted by higher topline earnings from Australia by virtue of a stronger AUD and higher rental potential at Wisma Atria post AEI completion. This implies a forward yield of c.7.0%.

In SGREIT's overseas properties in Australia, we understand that collections have remained high with anchor tenants continuing to operate their premises. The ongoing redevelopment of Starhill Gallery will complete by the end of calendar year 2021, after which the full impact of the master lease will start contributing to earnings.

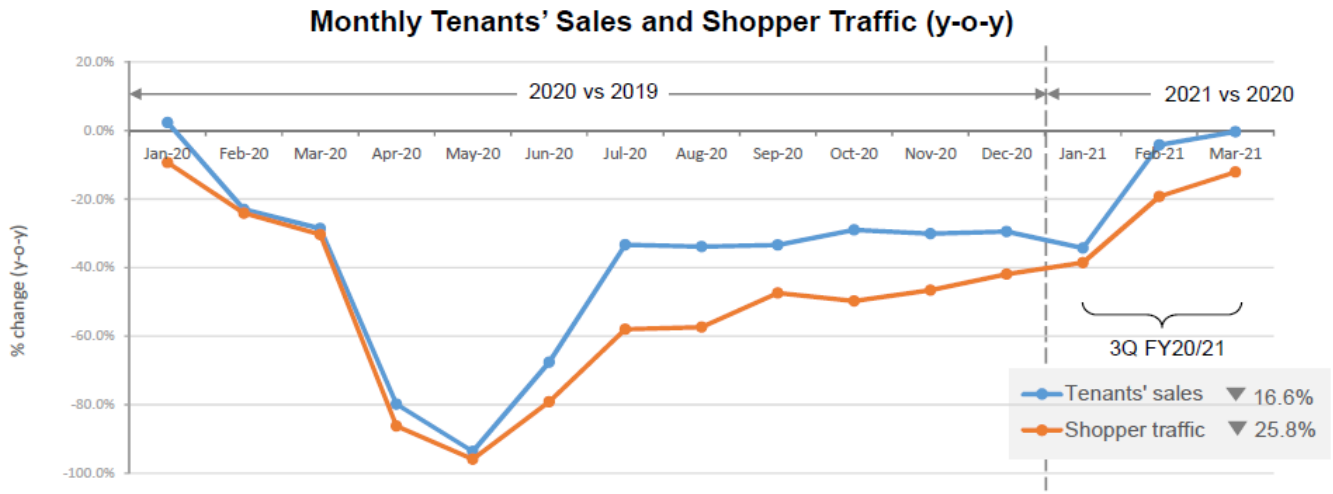
Upside from index inclusion. The recent changes in indexation rules for the EPRA NAREIT Developed Asia Index puts SGREIT in the front seat for possible inclusion in the upcoming Sep 2021 review in our view. Based on the latest market cap of the Index, we believe that SGREIT remains a prime candidate, having met the requirements (i.e. liquidity, free-float, developed market exposure). We believe this will be a catalyst for SGREIT to continue to see inflows, driving a re-rating for the stock.

Recovery of net property income as stores re-open



Source of all data: Company, DBS Bank

NPI margins return to pre-COVID levels

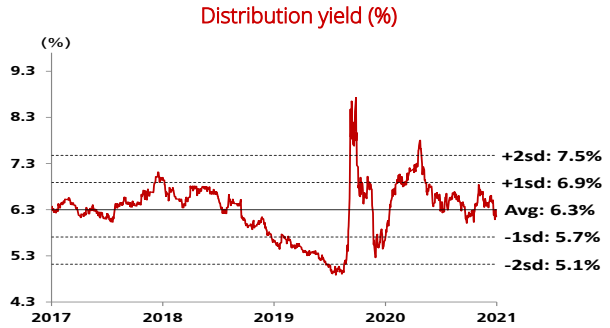


Source of all data: Company, DBS Bank

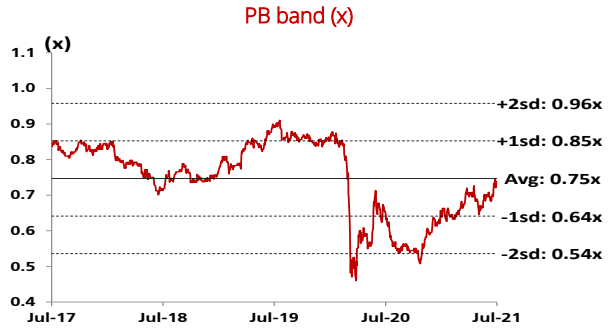
Company Background

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, SGREIT owns portions of Ngee Ann City and Wisma Atria. It also owns assets in China, Japan, Malaysia, and Australia.

Historical Dividend yield and PB band [Pls always check if Dividend yield / PB band is correctly represented]



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Income Statement (**S$m**)

FY Jun	2019A	2020A	2021F	2022F	2023F
Gross revenue	206	181	188	209	215
Property expenses	(46.8)	(48.7)	(54.6)	(57.2)	(58.7)
Net Property Income	159	132	134	152	156
Other Operating expenses	(20.5)	(20.5)	(20.6)	(20.7)	(20.7)
Other Non Opg (Exp)/Inc	(11.8)	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(37.7)	(39.6)	(35.3)	(35.3)	(35.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	89.4	72.0	77.9	96.0	99.9
Tax	(3.5)	(1.4)	(1.6)	(1.9)	(2.0)
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	85.9	70.6	76.3	94.1	97.9
Total Return	65.6	70.6	78.2	90.2	94.1
Non-tax deductible Items	35.7	6.68	5.93	5.95	5.96
Net Inc available for Dist.	101	77.4	84.2	96.2	100
Growth & Ratio					
Revenue Gth (%)	(1.3)	(12.3)	4.2	11.1	2.6
N Property Inc Gth (%)	(1.7)	(17.1)	1.2	13.6	2.6
Net Inc Gth (%)	(19.7)	(17.8)	8.1	23.3	4.1
Dist. Payout Ratio (%)	96.4	83.7	90.0	95.0	95.0
Net Prop Inc Margins (%)	77.3	73.1	71.0	72.6	72.7
Net Income Margins (%)	41.7	39.1	40.5	45.0	45.6
Dist to revenue (%)	49.1	42.8	44.7	46.0	46.6
Managers & Trustee's fees	10.0	11.3	10.9	9.9	9.7
ROAE (%)	4.4	3.8	4.3	5.3	5.5
ROA (%)	2.7	2.3	2.5	3.0	3.1
ROCE (%)	4.3	3.6	3.7	4.3	4.4
Int. Cover (x)	3.7	2.8	3.2	3.7	3.8

Source: Company, DBS Bank

Earnings to rebound from lower rebates, higher occupancies.

Balance Sheet (S$m)

FY Jun	2019A	2020A	2021F	2022F	2023F
Investment Properties	3,065	2,941	2,963	2,975	2,977
Other LT Assets	0.03	0.05	0.05	0.05	0.05
Cash & ST Invts	72.9	117	135	133	136
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	3.85	22.3	7.99	8.88	9.11
Other Current Assets	0.30	0.30	0.30	0.30	0.30
Total Assets	3,142	3,081	3,107	3,118	3,123
ST Debt	128	162	188	188	188
Creditor	32.5	39.3	94.2	105	107
Other Current Liab	3.18	3.11	3.11	3.11	3.11
LT Debt	1,004	1,056	906	906	906
Other LT Liabilities	44.1	51.1	51.1	51.1	51.1
Unit holders' funds	1,930	1,770	1,864	1,865	1,868
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	3,142	3,081	3,107	3,118	3,123
Non-Cash Wkg. Capital	(31.5)	(19.9)	(89.0)	(98.5)	(101)
Net Cash/(Debt)	(1,059)	(1,101)	(959)	(961)	(957)
Ratio					
Current Ratio (x)	0.5	0.7	0.5	0.5	0.5
Quick Ratio (x)	0.5	0.7	0.5	0.5	0.5
Aggregate Leverage (%)	36.2	39.7	35.4	35.3	35.2
Z-Score (X)	0.6	0.5	0.5	0.5	0.5

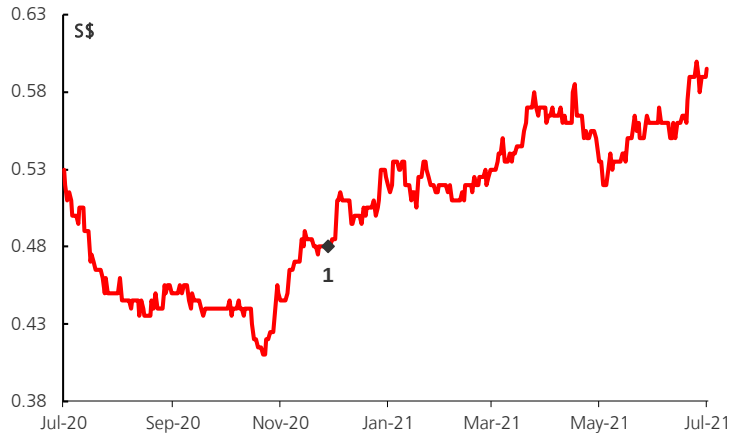
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Jun	2019A	2020A	2021F	2022F	2023F
Pre-Tax Income	89.4	(96.0)	77.9	96.0	99.9
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(3.5)	(2.0)	(1.6)	(1.9)	(2.0)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	48.1	40.2	69.1	9.54	2.48
Other Operating CF	0.0	161	0.0	0.0	0.0
Net Operating CF	134	103	145	104	100
Net Invt in Properties	(6.7)	(29.8)	(21.9)	(12.1)	(2.1)
Other Invts (net)	0.0	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	0.0	0.93	0.0	0.0	0.0
Net Investing CF	(6.7)	(28.8)	(21.9)	(12.1)	(2.1)
Distribution Paid	(97.5)	(73.4)	(81.7)	(93.4)	(95.0)
Chg in Gross Debt	(22.0)	43.3	(124)	0.0	0.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	(0.4)	0.0	0.0	0.0
Net Financing CF	(120)	(30.5)	(206)	(93.4)	(95.0)
Currency Adjustments	(1.5)	0.98	0.0	0.0	0.0
Chg in Cash	6.22	44.5	(82.3)	(1.8)	3.23
Operating CFPS (S cts)	3.94	2.87	3.48	4.28	4.45
Free CFPS (S cts)	5.83	3.35	5.64	4.17	4.46

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	09 Dec 20	0.48	0.55	HOLD

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

Source: DBS Bank

Analyst: Derek TAN

Geraldine WONG

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
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FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
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**Share price appreciation + dividends*

Completed Date: 13 Jul 2021 06:51:03 (SGT)
Dissemination Date: 13 Jul 2021 06:52:21 (SGT)

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