

# Singapore Company Update

## IREIT Global

Bloomberg: IREIT SP | Reuters: IREI.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Mar 2022

### BUY

Last Traded Price (28 Feb 2022): S\$0.645 (STI : 3,242.24)  
Price Target 12-mth: S\$0.70 (8% upside) (Prev S\$0.75)

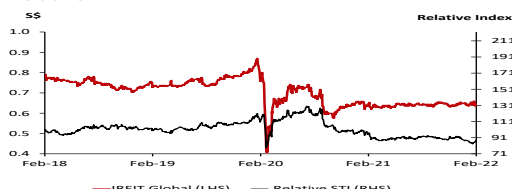
#### Analyst

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### What's New

- FY21 DPU of 2.93 Ects is a 11% increase y-o-y, mainly due to a recently enlarged portfolio
- Organic growth backed by stable portfolio occupancy and higher rental rates that are pegged to CPI
- Upcoming lease expiries have been renewed and replaced; bulk of remaining expiries only at the end of FY22
- Maintain BUY with a revised TP of S\$0.70

#### Price Relative



#### Forecasts and Valuation

FY Dec (EURm)	2020A	2021A	2022F	2023F
Gross Revenue	37.8	52.2	57.6	57.8
Net Property Inc	32.9	42.5	49.8	50.0
Total Return	19.7	128	32.1	32.1
Distribution Inc	27.4	34.4	38.9	39.0
EPU (S cts)	3.20	17.0	4.22	4.20
EPU Gth (%)	(81)	429	(75)	0
DPU (S cts)	4.90	4.47	4.61	4.60
DPU Gth (%)	(10)	(9)	3	0
NAV per shr (S cts)	71.8	81.8	81.0	80.3
PE (X)	20.1	3.8	15.3	15.3
Distribution Yield (%)	7.6	6.9	7.2	7.1
P/NAV (X)	0.9	0.8	0.8	0.8
Aggregate Leverage (%)	34.4	31.8	32.0	32.3
ROAE (%)	0.8	0.7	(0.6)	1.1

Distn. Inc Chng (%): 6 3  
Consensus DPU (S cts): 3.0 3.0  
Other Broker Recs: B: 3 S: 0 H: 0

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

### Further tenant diversity expected

#### Investment Thesis

**Enlarged and more diversified portfolio.** IREIT's acquisition of the Spanish portfolio and the recent acquisition of 27 retail properties in France reduces its key tenant, geographical, and sector concentration risks. It currently has an enlarged portfolio of office and retail properties valued at c.EUR975 spanning across the three European markets of Germany, Spain, and France.

**Stable and gradual increase in distributions.** IREIT's leases are stable and expected to rise gradually, as they are mostly pegged to CPIs. Based on our estimates, we believe IREIT is positioned to benefit from rental escalations that are well spread out over the next few years and has the potential to optimise occupancy rates at several properties.

**Room for larger acquisitions.** Following its successful integration of the 27 retail properties into its portfolio, IREIT currently has exposure in both the office and retail segments. Its investment mandate also allows for investments into logistics properties, which IREIT could explore, given its enlarged debt headroom of more than EUR371. Its Sponsor has also demonstrated its willingness to incubate portfolios while the REIT grows, and this gives IREIT the flexibility to pursue larger acquisitions despite its relatively small size.

#### Valuation:

Our DCF-based TP is revised to S\$0.70 based on a WACC of c.6.0%. Our TP is based on a risk-free rate of 2.5% and beta of 0.9x.

#### Where we differ:

Adopting a more conservative approach in our DCF-based valuation by assuming a higher risk-free rate and higher beta.

#### Key Risks to Our View:

Tenant and geographical concentration risks, protraction of COVID-19, and substantial lease expiries in the next four years – which is partially mitigated by low rental rates and long-term relationships with key tenants.

#### At A Glance

Issued Capital (m shrs)	1,155
Mkt. Cap (S\$m/US\$m)	745 / 550
Major Shareholders (%)	
Tikehau Capital SCA	23.7
City Strategic Equity Pte	17.2
Jinquan Tong	4.9
Free Float (%)	54.2
3m Avg. Daily Val (US\$m)	0.20
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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## WHAT'S NEW

### Further tenant diversity expected

**Revenues and NPI increased y-o-y, mainly due to acquisitions.** FY21 revenues of EUR52.2m and NPI of EUR42.5m were 37.9% and 29.1% higher y-o-y, respectively. This was mainly due to the consolidation of the Spanish portfolio, as well as the acquisition of the French portfolio and Parc Cugat.

- October 2020: Consolidation of the Spanish portfolio following the completion of the acquisition of the remaining 60% interest
- July 2021: Completion of the acquisition of 27 retail properties in France
- September 2021: Completion of acquisition of Parc Cugat in Barcelona, Spain

**Positive portfolio revaluation and acquisitions led to the 35.5% increase y-o-y.** On a like-for-like basis, IREIT's portfolio valuations increased 14.4% y-o-y. This was mainly driven by higher valuations across its assets in Germany and Spain, especially for the Berlin Campus, where a recent transaction in the neighbourhood was done at a significantly higher rental rate. The only property which saw a dip in valuation was Darmstadt Campus, where the multi-storey car park was divested in November 2021.

**Stable occupancy rate of 95.7% and a lengthened WALE of 3.8 years.** Portfolio occupancy continues to remain resilient, and we understand that there have been some positive rental reversions during the year. Despite some tenant movements, IREIT continues to see healthy demand and enquiries from new tenants as the European office markets remain robust, and also due to its well-located properties.

In Germany, DRV has let its break option at the Berlin Campus lapse and will now remain at the property until its lease expires in June 2024. Deutsche Telekom, which occupies space at three of IREIT's properties, has expressed their interest to extend its lease at the Bonn Campus when it expires in April 2023. However, Deutsche Telekom, which is currently consolidating its office footprint, will be vacating its space at Darmstadt Campus and Munster Campus. The five floors at the Munster Campus that will be returned in March 2022 have been re-let to the German Federal Government. The German Federal Government will take up the five floors at the Munster Campus in two phases in April 2022 and September 2022. Although rental reversions will be flat for the new lease, the five-year lease will provide income

certainty for the property and the German Federal Government will have an option to extend it for a further five years in 2027. Deutsche Telekom has also informed IREIT of its intention to vacate the Darmstadt Campus when its lease expires in November 2022, and IREIT is currently marketing the space. We understand that given the prime office location, IREIT is confident that they will be able to quickly fill up the vacant space. IREIT will be open to re-let the space on a master lease to a single tenant, or let it out as a multi-tenanted property. Due to the relatively low passing rents at the property currently, there is potential for some positive rental reversions for the Darmstadt Campus.

In Spain, several leases will be due to expire in the latter part of FY22 in August and December. We understand that IREIT has begun discussions with some of these tenants to renew their leases and are also actively marketing the vacant spaces in the portfolio currently. As guided previously, the data centre operator at Sant Cugat Green will be returning its space in December 2022, and IREIT is already in advanced negotiations with another data centre operator to take up the bulk of the space that is to be vacated. Parc Cugat, which was acquired in September 2021 with an occupancy rate of only 64%, has seen higher occupancy rates over the last quarter. The property currently has a committed occupancy of c.75% and IREIT is confident in further improving the asset's occupancy. Moreover, the property still has a rental guarantee in place until the end of FY22.

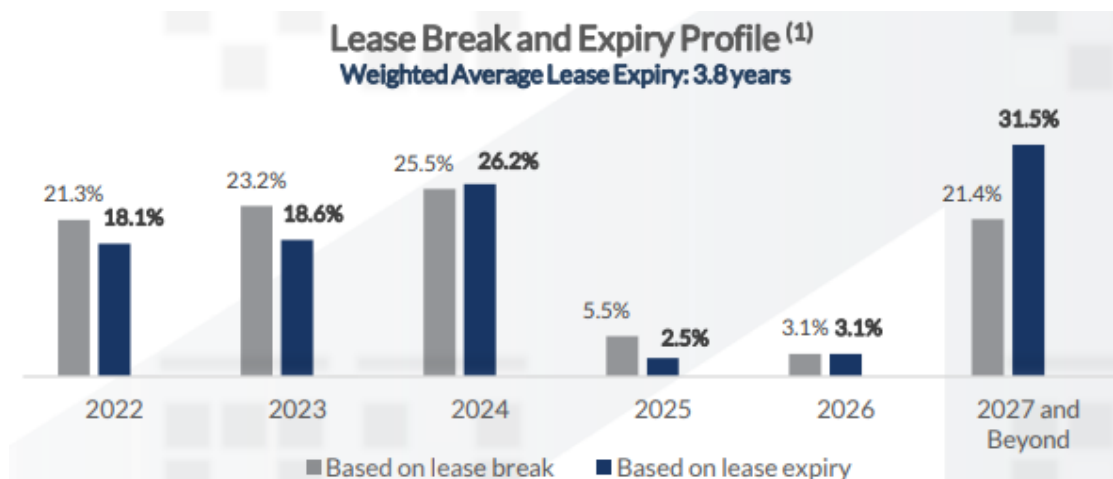
The 27 retail properties in France that were recently acquired remain resilient and growing retail sales in France will further underpin market rents.

**Improved gearing of only 32.1% mainly attributed to higher portfolio valuations.** With the improved gearing, IREIT currently has a debt headroom of slightly above EUR371m. Although IREIT does not have any pipeline assets from its joint Sponsors, they have demonstrated their willingness to support the REIT in its growth ambitions. For example, the Sponsor jointly acquired the Spanish portfolio with IREIT in FY19 and incubated a 60% stake in the portfolio while also providing the REIT with a bridging loan for the acquisition. Once IREIT had raised the necessary funds, the Sponsors divested this remaining 60% stake to the REIT in October 2020.

**Borrowing costs to remain stable despite rising interest rate environment.** Although the market expects interest rates to rise, it will have minimal impact on IREIT's borrowing costs. Its entire EUR332.7m has been hedged to fixed rates, and it

will not have any debt maturing until after FY26. Although rising interest rates will translate to more expensive hedging costs, we believe that it would have minimal impact on IREIT's cost of financing.

### Bulk of leases expiring in FY22 coming from Deutsche Telekom



Source: IREIT Global

### Our thoughts

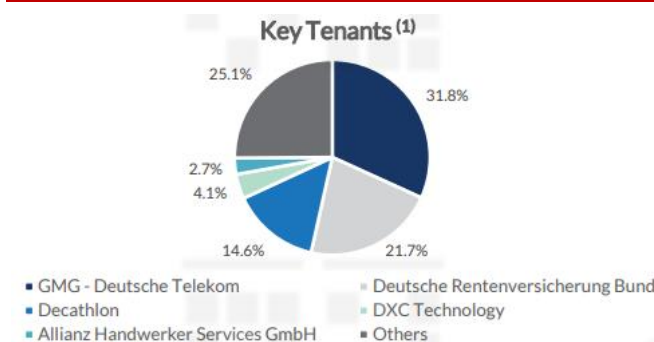
IREIT will have approximately 18.1% of its leases due to expire in FY22 and we believe that its portfolio performance should remain robust. Despite the ongoing crisis surrounding Russia and Ukraine, we believe that IREIT's portfolio in western Europe would experience minimal impact. Moreover, the office occupancy rates in the European markets where IREIT operates in remain healthy, and rental rates are expected to improve further.

As the bulk of these expiries will only happen towards the end of FY22, IREIT will benefit from full-year income contributions from its recent acquisitions, and any pressure on earnings will likely only come in FY23. As Deutsche Telekom's return of space at Darmstadt Campus is still some time away, there have been no updates yet on the potential refiling of the space to be vacated. As such, we have taken a conservative approach to assume that the occupancy rate for the property declines in FY23. However, healthy office market dynamics within Europe will likely support IREIT's earnings in FY23 and we are projecting that overall portfolio earnings will be maintained.

On the valuation front, we have revised our projections of IREIT's WACC to take into account the rising interest rate environment and other assumptions as IREIT diversifies its portfolio with the addition of the retail portfolio in France.

With a more conservative risk-free rate assumption of 2.5% and a beta of 0.9x, IREIT will have a WACC of c.6.0% as compared to its previous c.5.6%. We understand that IREIT continues to be on the lookout to diversify its portfolio in Europe, across asset classes. Its tenant diversification would also improve as it diversifies and lowers its exposure to any single tenant (i.e., GRI contribution from Deutsche Telekom has been lowered from c.50% to c.32% and will drop further as some of its leases are replaced in FY22).

### Deutsche Telekom exposure will be further reduced in FY22



Source: IREIT Global

Based on the revised WACC, we derive a target price of S\$0.70. On a valuation basis, IREIT is expected to generate a very attractive forward yield in excess of 7.3%. We have assumed a conservative exchange rate of EUR1:SGD\$1.55 in deriving our DPU projections, and an appreciation in the EUR will provide an upside to our estimates.

We will be maintaining our BUY recommendation with a revised TP of S\$0.70, implying a potential total return of c.17%.

### Company Background

IREIT Global ("IREIT") is the first Singapore-listed real estate investment trust with the investment strategy of principally investing, directly or indirectly, in a portfolio of income-producing real estate in Europe which is used primarily for office, retail, and industrial (including logistics) purposes, as well as real estate-related assets.

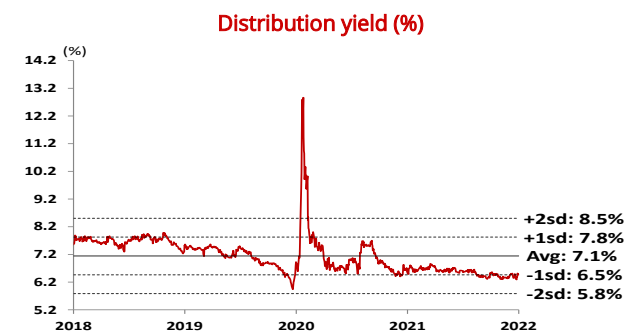
IREIT's portfolio comprises five freehold office properties in Germany, five freehold office properties in Spain, and 27 freehold retail properties in France, with a total lettable area of approximately 384,000sqm. The portfolio has an occupancy rate of approximately 96% and a valuation of EUR975 million.

### Interim Income Statement (EURm)

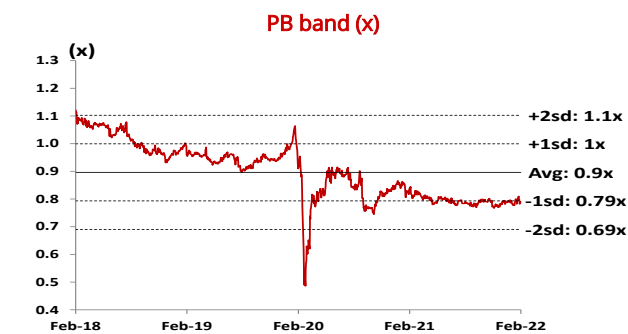
FY Dec	2H2020	1H2021	2H2021	% chg y-o-y	% chg h-o-h
Gross revenue	19.9	23.6	28.5	43.6	20.6
Property expenses	(2.6)	(4.3)	(5.4)	104.3	24.2
Net Property Income	17.2	19.3	23.2	34.4	19.8
Other Operating expenses	(2.9)	(2.8)	(3.5)	21.0	25.6
Other Non Opg (Exp)/Inc	(0.6)	2.95	3.84	nm	30.3
Associates & JV Inc	0.07	0.0	0.0	nm	-
Net Interest (Exp)/Inc	(2.3)	(2.2)	(2.8)	(24.5)	(26.3)
Exceptional Gain/(Loss)	6.31	27.6	85.9	-	-
<b>Net Income</b>	<b>17.9</b>	<b>44.9</b>	<b>107</b>	<b>496.4</b>	<b>137.5</b>
Tax	(4.1)	(6.0)	(17.0)	312.7	184.0
Minority Interest	0.0	0.0	0.0	-	-
<b>Net Income after Tax</b>	<b>13.8</b>	<b>38.9</b>	<b>89.6</b>	<b>551.3</b>	<b>130.4</b>
Total Return	1.03	0.0	(1.5)	nm	nm
Non-tax deductible Items	0.0	0.0	0.0	-	-
Net Inc available for Dist.	13.8	38.9	89.6	551.3	130.4
<b>Ratio (%)</b>					
Net Prop Inc Margin	86.8	81.7	81.2		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

Historical Dividend yield and PB band



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



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

## Income Statement (EURm)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross revenue	35.3	37.8	52.2	57.6	57.8
Property expenses	(4.6)	(4.9)	(9.7)	(7.8)	(7.8)
<b>Net Property Income</b>	<b>30.7</b>	<b>32.9</b>	<b>42.5</b>	<b>49.8</b>	<b>50.0</b>
Other Operating expenses	(3.7)	(5.2)	(6.3)	(6.0)	(6.0)
Other Non Opg (Exp)/Inc	(6.8)	(3.9)	6.79	0.0	0.0
Associates & JV Inc	(0.5)	1.15	0.0	0.0	0.0
Net Interest (Exp)/Inc	(6.1)	(4.4)	(5.0)	(6.0)	(6.1)
Exceptional Gain/(Loss)	68.7	5.06	113	0.0	0.0
<b>Net Income</b>	<b>82.2</b>	<b>25.7</b>	<b>151</b>	<b>37.8</b>	<b>37.9</b>
Tax	(13.3)	(5.9)	(23.0)	(5.8)	(5.8)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Income after Tax</b>	<b>68.9</b>	<b>19.7</b>	<b>128</b>	<b>32.1</b>	<b>32.1</b>
Total Return	68.9	19.7	128	32.1	32.1
Non-tax deductible Items	(13.3)	(5.9)	(23.0)	(5.8)	(5.8)
Net Inc available for Dist.	25.3	27.4	34.4	38.9	39.0
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	1.3	7.2	37.9	10.4	0.4
N Property Inc Gth (%)	0.1	7.3	29.1	17.2	0.4
Net Inc Gth (%)	20.8	(71.4)	551.5	(75.0)	0.1
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0
Net Prop Inc Margins (%)	86.9	87.0	81.4	86.5	86.5
Net Income Margins (%)	195.4	52.1	246.3	55.7	55.5
Dist to revenue (%)	71.6	72.5	65.9	67.6	67.5
Managers & Trustee's fees	N/A	N/A	N/A	N/A	N/A
ROAE (%)	N/A	N/A	N/A	N/A	N/A
ROA (%)	N/A	N/A	N/A	N/A	N/A
ROCE (%)	N/A	N/A	N/A	N/A	N/A
Int. Cover (x)	4.4	6.3	7.2	7.3	7.3

Full-year contribution from acquisition of French retail portfolio and Parc Cugat in Spain to contribute to higher revenues.

## Interim Income Statement (EURm)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Gross revenue	17.8	18.0	19.9	23.6	28.5
Property expenses	(2.5)	(2.3)	(2.6)	(4.3)	(5.4)
<b>Net Property Income</b>	<b>15.2</b>	<b>15.7</b>	<b>17.2</b>	<b>19.3</b>	<b>23.2</b>
Other Operating	(1.8)	(2.3)	(2.9)	(2.8)	(3.5)
Other Non Opg (Exp)/Inc	1.36	(3.3)	(0.6)	2.95	3.84
Associates & JV Inc	(0.5)	1.08	0.07	0.0	0.0
Net Interest (Exp)/Inc	(1.6)	(2.2)	(2.3)	(2.2)	(2.8)
Exceptional Gain/(Loss)	47.5	(1.2)	6.31	27.6	85.9
<b>Net Income</b>	<b>60.2</b>	<b>7.78</b>	<b>17.9</b>	<b>44.9</b>	<b>107</b>
Tax	(9.3)	(1.8)	(4.1)	(6.0)	(17.0)
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Income after Tax</b>	<b>50.9</b>	<b>(1.7)</b>	<b>13.8</b>	<b>38.9</b>	<b>89.6</b>
Total Return	(0.6)	0.0	1.03	0.0	(1.5)
Non-tax deductible Items	0.0	0.0	0.0	0.0	0.0
Net Inc available for Dist.	50.9	5.97	13.8	38.9	89.6
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	1	1	11	19	21
N Property Inc Gth (%)	(1)	3	10	12	20
Net Inc Gth (%)	182	(88)	131	183	130
Net Prop Inc Margin (%)	85.7	87.2	86.8	81.7	81.2
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Source: Company, DBS Bank

## IREIT Global

**Balance Sheet (EURm)**

<b>FY Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>
Investment Properties	0.0	0.0	0.0	0.0	0.0
Other LT Assets	3.46	3.20	4.96	4.96	4.96
Cash & ST Invt	25.3	43.1	51.7	53.4	54.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	1.72	2.83	3.99	3.46	3.47
Other Current Assets	0.57	0.31	0.31	0.31	0.31
<b>Total Assets</b>	<b>636</b>	<b>769</b>	<b>1,035</b>	<b>1,042</b>	<b>1,047</b>
ST Debt	0.0	0.0	0.0	4.90	9.82
Creditor	3.72	4.69	7.51	6.63	6.66
Other Current Liab	13.8	16.5	20.4	21.8	21.8
LT Debt	231	265	329	329	329
Other LT Liabilities	33.1	41.4	59.3	63.2	66.8
Unit holders' funds	354	442	619	616	613
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Funds &amp; Liabilities</b>	<b>636</b>	<b>769</b>	<b>1,035</b>	<b>1,042</b>	<b>1,047</b>
Non-Cash Wkg. Capital	(15.2)	(18.1)	(23.6)	(24.6)	(24.7)
Net Cash/(Debt)	(206)	(222)	(277)	(280)	(285)
<b>Ratio</b>					
Current Ratio (x)	1.6	2.2	2.0	1.7	1.5
Quick Ratio (x)	1.5	2.2	2.0	1.7	1.5
Aggregate Leverage (%)	36.4	34.4	31.8	32.0	32.3
Z-Score (X)	1.0	1.0	1.0	1.0	1.0

Healthy leverage ratio  
attributed to portfolio  
valuation uplift.

Source: Company, DBS Bank

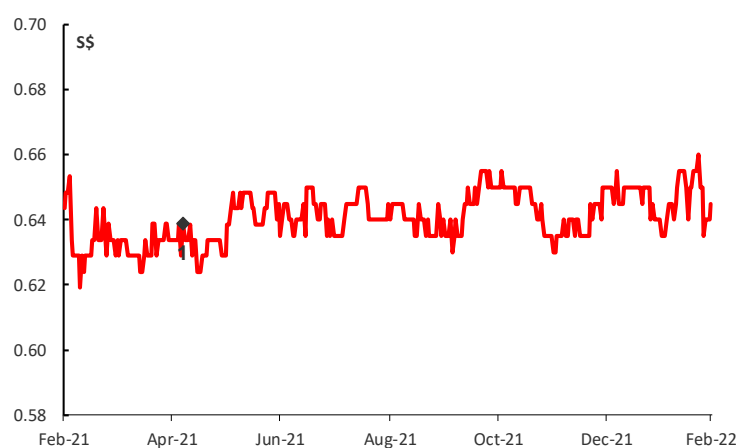
## IREIT Global

## Cash Flow Statement (EURm)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Income	82.2	25.7	151	37.8	37.9
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(0.2)	(1.3)	(0.6)	(0.8)	(2.2)
Associates & JV Inc/(Loss)	0.54	(1.2)	0.0	0.0	0.0
Chg in Wkg. Cap.	0.32	(3.5)	1.47	(0.3)	0.01
Other Operating CF	(53.7)	6.75	(113)	0.0	0.0
<b>Net Operating CF</b>	<b>29.2</b>	<b>26.5</b>	<b>39.0</b>	<b>36.7</b>	<b>35.7</b>
Net Invnt in Properties	(0.7)	(38.9)	(3.3)	(4.9)	(4.9)
Other Invnts (net)	0.0	0.0	(138)	0.0	0.0
Invnts in Assoc. & JV	(30.9)	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	0.0	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(31.6)</b>	<b>(38.9)</b>	<b>(141)</b>	<b>(4.9)</b>	<b>(4.9)</b>
Distribution Paid	(22.8)	(22.7)	(26.4)	(35.0)	(35.1)
Chg in Gross Debt	35.1	(32.0)	65.0	4.90	4.92
New units issued	0.0	88.9	78.4	0.0	0.0
Other Financing CF	(2.9)	(4.0)	(6.3)	0.0	0.0
<b>Net Financing CF</b>	<b>9.34</b>	<b>30.2</b>	<b>111</b>	<b>(30.1)</b>	<b>(30.2)</b>
Currency Adjustments	6.95	17.8	8.56	1.70	0.64
Chg in Cash	13.9	35.5	17.1	3.40	1.27
Operating CFPS (S cts)	6.89	4.87	4.95	4.87	4.68
Free CFPS (S cts)	6.82	(2.0)	4.71	4.18	4.03

Source: Company, DBS Bank

## Target Price &amp; Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	06 May 21	0.64	0.75	BUY

Source: DBS Bank

Analyst: Dale LAI

Derek TAN



DBS Bank recommendations are based on 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 share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 1 Mar 2022 06:30:20 (SGT)

Dissemination Date: 1 Mar 2022 07:51:30 (SGT)

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

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