

**Company update**

# Starhill Global REIT

**Research Team**
**Singapore | Real Estate**

Rating BUY (as at 4 May 2022)  
 Last Close SGD 0.595  
 Fair Value SGD 0.65

## More encouraging metrics

- **3QFY22 (3Q financial year to end-Jun 2022) net property income (NPI) grew 8.7% year-on-year (YoY) to SGD38.5m**
- **Portfolio occupancy declined slightly to 96.6%**
- **Wisma Atria Retail's tenant sales rebounded 18.2% YoY in 3QFY22**

## Investment thesis

Starhill Global REIT (SGREIT) owns interests in Wisma Atria and Ngee Ann City, two trophy assets located at the heart of Orchard Road in Singapore. It also has income streams from overseas markets such as Australia, China, Malaysia, and to a smaller extent Japan. While the Covid-19 situation remains fluid, we see firmer signs of reopening efforts in countries which SGREIT has exposure to, which we believe would support its recovery. Given that master leases and anchor leases represent more than 50% of SGREIT's gross rent, we believe this would partially mitigate the impact of rising utility costs and provide some income visibility to its unitholders.

## Investment summary

- **3QFY22 NPI rose 8.7% YoY to SGD38.5m** – SGREIT provided a business update for 3QFY22. Gross revenue rose 4.2% YoY to SGD48.4m, while NPI increased at a larger magnitude of 8.7% YoY to SGD38.5m, and thus translated to a higher NPI margin of 79.5% (+3.3 percentage points (ppt) YoY). Growth was driven largely by lower rental assistance to tenants and higher contribution from SGREIT's Malaysian properties following the completion of The Starhill's asset enhancement works in Dec 2021, but partially offset by weaker contribution from Wisma Atria Retail and depreciation of the AUD relative to the SGD. For 9MFY22, SGREIT's NPI rose 7.7% to SGD108.1m and accounted for 75.9% of our initial FY22 forecast, which we deem to be in-line with our expectations.
- **Higher tenant sales at Wisma Atria Retail, although portfolio occupancy inched down 30 basis points to 96.6%** – Operationally, SGREIT's Wisma Atria Retail property registered double-digit YoY improvements in

## Security information

Ticker	STHL.SI
Market Cap (SGD b)	1.3
Daily turnover (SGD m)	2.4
Free Float	62%
Shares Outstanding (m)	2,233
Top Shareholder	YTL Corporation Bhd 37.5%

## Price performance chart



## Financial summary

SGD m	FY21	FY22E	FY23E
Gross revenue	181.3	193.1	205.7
Net property income	134.7	142.5	153.0
Total return after tax	56.5	83.0	92.5
Distribution to unitholders	87.3	80.5	90.0
DPU (\$-cents)	3.95	3.62	4.04

## Key ratios

	FY21	FY22E	FY23E
DPU yield (%)	6.6	6.1	6.8
P/NAV (x)	0.7	0.7	0.7
ROE (%)	3.2	4.6	5.1
Gearing (%)	35.9	35.8	35.7

Source: Refinitiv, REIT Manager, Internal estimates

both shopper traffic (+11.7%) and tenant sales (+18.2%) in 3QFY22, the latter of which was an acceleration as compared to 2QFY22's 1.3% increase. However, rental reversions were negative for Wisma Atria Retail in the mid-teens range. The situation was better for SGREIT's Singapore office properties, with low single-digit positive rental reversions achieved. Overall portfolio occupancy inched down 30 basis points quarter-on-quarter (QoQ) to 96.6%. The QoQ increase in SGREIT's Singapore office portfolio (+1.1 ppt QoQ to 91.5%) was offset by lower occupancy for its Singapore retail portfolio (-0.6 ppt QoQ to 98.9%) and Australia (-1.2 ppt to 94.3%).

- **Gearing remains healthy at 36.1% with 90% of borrowings hedged** – SGREIT's gearing ratio remained healthy at 36.1% (unchanged QoQ), with 90% of its borrowings hedged. It has no further refinancing requirements until May 2023. Notwithstanding higher utility costs, SGREIT highlighted to us that if its electricity bills were to double, the negative impact to its distribution per unit (DPU) would be approximately 1-2%, with the main impact coming from its Wisma Atria property. Besides master leases, SGREIT had already locked in its electricity contract for its Myer Centre Adelaide asset until 2024. We cut our FY23 DPU forecast by 3.8% as we factor in higher utility expenses and lower rental assumptions for Wisma Atria Retail. While we are also raising our risk-free rate assumption from 1.9% to 2.5%, this is offset by a lower beta input which results in our overall cost of equity assumption declining from 7.6% to 7.2%. As we also lift our terminal growth rate from 0.5% to 1.0% to account for more concrete signs of recovery in the office sector and reopening efforts in countries which SGREIT has exposure to, our fair value estimate increases from SGD0.61 to SGD0.65.

## ESG Updates

- SGREIT's ESG rating was downgraded by ESG Research in Jan 2021. According to research, SGREIT's overall corporate governance practices trail those of its global and home market peers, particularly in board structure. However, it scores better in the category of 'Opportunities in Green Building', with SGREIT engaging with its tenants to improve on the operational efficiencies of its properties. ~30% of SGREIT's overall portfolio is certified by recognised green building standards, which is higher than the industry average of 25% as of FY19.

## Potential catalysts

- Stronger-than-expected ramp up in occupancy for its Singapore office portfolio.
- Inclusion into FTSE EPRA Nareit Index.
- Better-than-expected momentum in footfall and tenants' sales for Wisma Atria.

## Investment risks

- A slowdown in macroeconomic conditions may stifle consumer and business sentiment.
- A rising interest rate environment could raise the borrowing costs for Starhill REIT.
- Depreciation of foreign currencies against the SGD may impact distributions to unitholders.

## Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
<b>STARHILL GLOBAL REAL ESTATE INVESTMENT TRUST (STHL.SI)</b>	13.5	14.2	0.7	0.7	18.1	17.4	6.9	7.2	5.4	5.0
<b>FRASERS CENTREPOINT TRUST (FCRT.SI)</b>	19.8	19.2	1.1	1.1	25.4	24.8	5.2	5.2	5.2	5.3
<b>MAPLE TREE COMMERCIAL TRUST (MACT.SI)</b>	19.0	18.8	1.1	1.1	21.0	19.1	5.2	5.3	5.7	5.9
<b>CAPITALAND INTEGRATED COMMERCIAL TRUST (CMLT.SI)</b>	20.4	18.8	1.1	1.1	24.5	23.5	4.9	5.2	5.5	5.9
<b>SPH REIT (SPHR.SI)</b>	18.3	18.1	1.0	1.1	21.1	20.9	5.6	5.8	5.8	6.4

Source: Refinitiv

## Price/Book chart

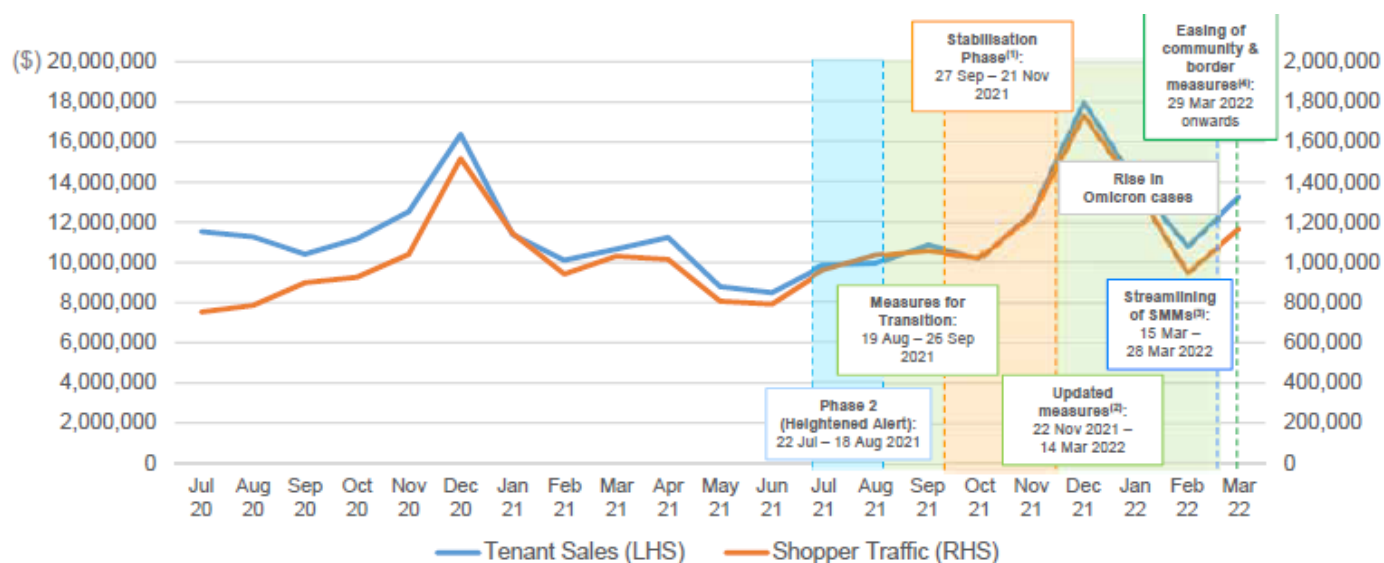


Source: Refinitiv

## Dividend Yield chart



Source: Refinitiv

**Exhibit 1: SGREIT's monthly shopper traffic and tenants' sales trend**


Source: REIT Manager

## Company overview (as of 30 June 2021)

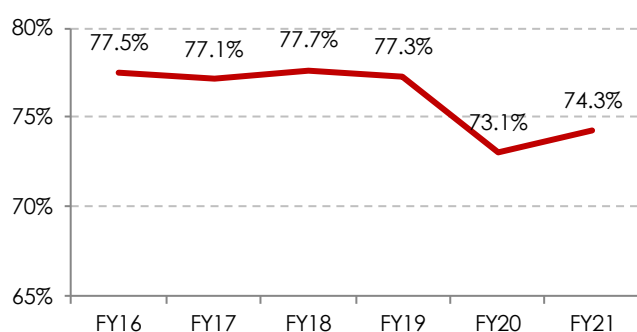
### Company description

SGREIT is a Singapore-based real estate investment trust investing primarily in real estate used for retail and office purposes, both in Singapore and overseas. Since its listing on the Mainboard of the Singapore Exchange Securities Trading Limited (SGX-ST) on 20 Sep 2005, SGREIT has grown its initial portfolio from interests in two landmark properties on Orchard Road in Singapore to 10 properties in Singapore, Australia, Malaysia, China, and Japan, valued at about SGD3.0b.

These comprise interests in Wisma Atria and Ngee Ann City on Orchard Road in Singapore, Myer Centre Adelaide, David Jones Building and Plaza Arcade in Adelaide and Perth, Australia, The Starhill and Lot 10 in Kuala Lumpur, Malaysia, a retail property in Chengdu, China, and two properties in Tokyo, Japan. SGREIT remains focused on sourcing attractive property assets in Singapore and overseas, while driving organic growth from its existing portfolio, through proactive leasing efforts and creative asset enhancements.

SGREIT is managed by an external manager, YTL Starhill Global REIT Management Limited, of which all of its shares are indirectly held by YTL Corporation Berhad.

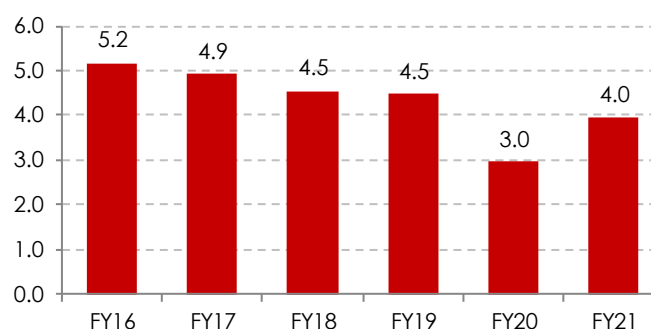
### NPI Margin Trend



Source: REIT Manager

### Distribution per unit (\$ cents)

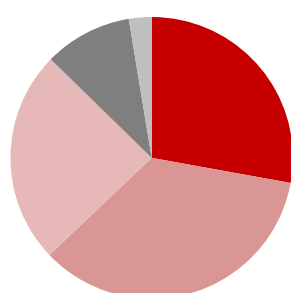
DPU (\$-cents)



Source: REIT Manager

### FY21 Revenue Breakdown

By segment

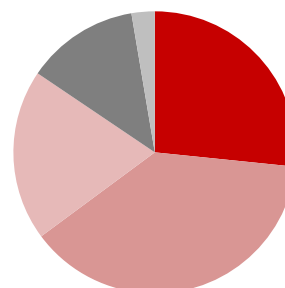


- Wisma Atria Property (Singapore) (27.9%)
- Ngee Ann City Property (Singapore) (35.0%)
- Australia Properties (24.4%)
- Malaysia Properties (10.1%)
- Other properties (China/Japan) (2.6%)

Source: REIT Manager

### FY21 NPI Breakdown

By segment



- Wisma Atria Property (Singapore) (26.6%)
- Ngee Ann City Property (Singapore) (38.2%)
- Australia Properties (19.6%)
- Malaysia Properties (12.9%)
- Other properties (China/Japan) (2.7%)

Source: REIT Manager

## Company financials

### Income Statement

In Millions of SGD except Per Share 12 Months Ending	FY2017 30/06/2017	FY2018 30/06/2018	FY2019 30/06/2019	FY2020 30/06/2020	FY2021 30/06/2021
<b>Revenue</b>	<b>216.4</b>	<b>208.8</b>	<b>206.2</b>	<b>180.8</b>	<b>181.3</b>
- Cost of Revenue	69.2	66.8	67.3	68.8	66.0
<b>Gross Profit</b>	<b>147.2</b>	<b>142.0</b>	<b>138.9</b>	<b>112.0</b>	<b>115.3</b>
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	-1.1	-0.9	-1.0	-0.9	-0.5
<b>Operating Income or Losses</b>	<b>148.2</b>	<b>142.9</b>	<b>139.8</b>	<b>112.9</b>	<b>115.8</b>
- Interest Expense	38.9	38.3	38.7	39.9	41.4
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	10.3	16.9	32.1	169.1	16.4
<b>Pretax Income</b>	<b>99.0</b>	<b>87.7</b>	<b>69.1</b>	<b>-96.0</b>	<b>58.0</b>
- Income Tax Expense (Benefit)	-1.3	3.4	3.5	1.4	1.5
<b>Income Before XO Items</b>	<b>100.3</b>	<b>84.2</b>	<b>65.6</b>	<b>-97.4</b>	<b>56.5</b>
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	--	--	--	--	--
<b>Net Income/Net Profit (Losses)</b>	<b>100.3</b>	<b>84.2</b>	<b>65.6</b>	<b>-97.4</b>	<b>56.5</b>
<b>Net Inc Avail to Common Shareholders</b>	<b>100.3</b>	<b>84.2</b>	<b>65.6</b>	<b>-97.4</b>	<b>54.4</b>
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
<b>Normalized Income</b>	<b>100.3</b>	<b>84.2</b>	<b>65.6</b>	<b>-97.4</b>	<b>56.5</b>
<b>Basic Earnings per Share</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Basic Weighted Avg Shares	2,181.2	2,181.2	2,181.2	2,185.0	2,202.0
<b>Diluted EPS Before Abnormal Items</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Diluted EPS Before XO Items</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Diluted EPS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Diluted Weighted Avg Shares	2,181.2	2,181.2	2,181.2	2,185.0	2,202.0

### Profitability Ratios

12 Months Ending	FY2017 30/06/2017	FY2018 30/06/2018	FY2019 30/06/2019	FY2020 30/06/2020	FY2021 30/06/2021
<b>Returns</b>					
Return on Common Equity	4.98	4.21	3.35	-5.27	2.97
Return on Assets	3.11	2.63	2.07	-3.13	1.83
Return on Capital	1.80	1.80	1.83	1.87	1.89
Return on Invested Capital	4.04	3.88	3.70	-	3.96
<b>Margins</b>					
Operating Margin	50.51	50.10	49.05	40.42	41.01
Incremental Operating Margin	1.09	0.99	0.98	0.82	1.01
Pretax Margin	45.75	41.99	33.50	-53.13	31.98
Income before XO Margin	46.34	40.34	31.81	-53.89	31.18
Net Income Margin	46.34	40.34	31.81	-53.89	30.02
Net Income to Common Margin	46.34	40.34	31.81	-53.89	30.02
<b>Additional</b>					
Effective Tax Rate	-1.28	3.93	5.04	-	2.52
Divd Payout Ratio	92.60	101.48	129.40	-56.26	134.83
Sustainable Growth Rate	4.93	4.17	3.30	-5.30	2.93

### Credit Ratios

12 Months Ending	FY2017 30/06/2017	FY2018 30/06/2018	FY2019 30/06/2019	FY2020 30/06/2020	FY2021 30/06/2021
Total Debt/EBIT	7.71	7.96	8.15	10.89	9.59
Net Debt/EBIT	7.19	7.49	7.63	9.84	8.65
EBIT to Interest Expense	3.78	3.71	3.59	2.81	2.78
Long-Term Debt/Total Assets	22.62	33.43	31.96	34.30	35.90
Net Debt/Equity	0.53	0.53	0.55	0.62	0.53

Source: Refinitiv

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