

Singapore

HOLD (no change)

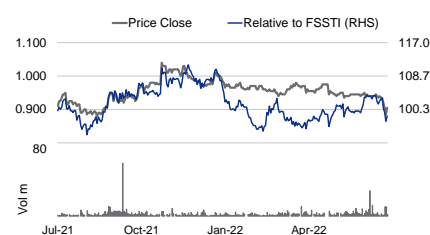
Consensus ratings*: Buy 0 Hold 3 Sell 1

Current price:	S\$0.905
Target price:	S\$0.95
Previous target:	S\$0.95
Up/downside:	5.0%
CGS-CIMB / Consensus:	1.1%
Reuters:	SPHR.SI
Bloomberg:	SPHREIT SP
Market cap:	US\$1,812m
	S\$2,539m
Average daily turnover:	US\$2.64m
	S\$3.65m
Current shares o/s:	2,535m
Free float:	38.9%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.2	-6.7	-1.6
Relative (%)	-1	1.4	-1.2

Major shareholders	% held
Cuscaden Investments Ltd	61.1

Analyst(s)

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SPH REIT

Awaiting more catalysts

- SPH REIT's 9MFY22 DPU of 4.13 Scts was in-line at 78.3% of our FY22F.
- Tenant sales recovered on further reopening and recovery, as anticipated.
- Market seems to have priced in a recovery. Reiterate Hold.

Earnings buttressed by sustained recovery in Singapore portfolio

9MFY8/22 revenue grew 1.0% yoy to S\$211.6m, driven by the Singapore portfolio (+2.1%) which offset the 2.5% yoy deterioration in Australia revenue. SPH REIT maintained high portfolio occupancy of 97.6%, while gearing was stable at 30.1%.

Tenant sales lifted by easing of restrictions and return to office

YTD 3QFY22 sales in Singapore and Australia were c.12% and c.2% higher yoy. Tenant sales at Paragon jumped 45% yoy upon the return of tourists, after the removal of isolation and COVID-testing requirements on 1 Apr 2022, with May 2022 tenant sales reaching 110% of pre-pandemic levels. Return to office and resumption of gatherings and events post lifting of group size and capacity limits have reinstated purchase triggers, buoying local discretionary and F&B spending. The return of Chinese tourists could drive luxury spending and tenant sales further. We understand from management that the sustained reopening in Singapore has returned confidence to retailers, resulting in shorter lease deliberation and narrowing negative reversions. Tenant sales in Australia recovered strongly in Apr 2022 as restrictions were gradually lifted following moderating Covid-19 caseloads. 3QFY22 tenant sales at Westfield Marion improved 9.0% yoy, lifted by travel-related consumer spending as Australia opened its borders in Feb 2022. While Singapore lease expiries have been largely de-risked (only 0.7% of GRI remain), the prolonged wave of new Covid-19 cases in Australia has resulted in a softer leasing environment, leaving us cautious about the 17.3% of GRI expiring in FY22.

Harder-hit by rising interest rates


While average cost of debt remained stable qoq at c.1.7%, SPH REIT's interest rate hedge deteriorated from 73% to 62%, one of the lower interest rate hedges among SREITs. Approximately 4.2%/25.4% of borrowings are up for refinancing in FY22/23. Assuming interest rates remain at this level, we could see interest costs increase by c.S\$5m or 20% in FY23. While it is still early days, the change of sponsor could potentially see more assets added to SPH REIT's ROFR list. However, mounting macroeconomic risk and elevated interest rates may push acquisition plans further out into FY23/24.

Reiterate Hold with unchanged DDM-based TP of S\$0.95

We think the market has priced in a recovery. While SPH REIT has one of the lowest gearing levels (30.1%) among its SREIT peers, putting it in a better position to structure accretive acquisitions by utilising a higher proportion of debt funding, geopolitical, inflationary and interest risks may put acquisitions on hold. Upside risks to our valuation include accretive acquisitions, while downside risks include weaker-than-expected rental reversion/worse-than-expected impact from higher operating and interest expense.

Financial Summary	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
Gross Property Revenue (S\$m)	241.5	277.2	285.5	285.4	289.2
Net Property Income (S\$m)	181.9	202.6	209.6	210.8	216.3
Net Profit (S\$m)	(65.5)	157.4	147.1	147.8	152.9
Distributable Profit (S\$m)	72.9	150.2	148.0	148.8	153.7
Core EPS (S\$)	0.042	0.056	0.053	0.052	0.054
Core EPS Growth	(16.1%)	31.3%	(5.6%)	(0.2%)	2.7%
FD Core P/E (x)	21.33	16.25	17.20	17.24	16.80
DPS (S\$)	0.026	0.054	0.053	0.053	0.054
Dividend Yield	2.91%	5.96%	5.83%	5.82%	5.96%
Asset Leverage	30.6%	30.4%	30.4%	30.5%	30.6%
BVPS (S\$)	0.91	0.91	0.90	0.90	0.89
P/BV (x)	1.00	0.99	1.00	1.01	1.02
Recurring ROE	4.58%	6.13%	5.80%	5.84%	6.04%
% Change In DPS Estimates			0.039%	0.078%	0.117%
CGS-CIMB/Consensus DPS (x)			0.93	0.91	0.88

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

		Refinitiv ESG Scores					
		C ESG Score	A+ ESG Controversies Score	C ESG Combined Score	C+ ESG Environment Pillar Score	C- ESG Social Pillar Score	D+ ESG Government Pillar Score
<p>ESG in a nutshell</p> <p>SPH REIT scored C- for its combined ESG score by Refinitiv in FY20, with the score split into Environment: B- (weightage 37.57%); Social: C- (weightage 30.23%); and Governance: D+ (weightage 32.20%). It scored A+ for Controversies. Despite its weaker Governance score, we note that SPH REIT has stepped up its sustainability efforts by reporting its sustainability report in accordance with Global Reporting Initiative Standards in FY20. Among the sustainability targets that it hopes to achieve in FY21 are: (i) zero cases of non-compliance of laws and regulations; (ii) maintain zero incidences resulting in stakeholders' permanent disability or fatality; (iii) maintain at least 18% reduction in like-for-like electricity intensity, and 30% reduction in greenhouse gas and water intensity by 2025; and (iv) have at least two CSR events held at the malls. The Clementi Mall and Paragon have also achieved the Building and Construction Authority's Green Mark Certification since FY18.</p>							
<p>Keep your eye on</p> <p>SPH REIT's Governance score is weaker than its peers, weighed down by lack of detailed disclosures/implementation such as board individual reelection, executive individual compensation, board specific skills.</p>	<p>Implications</p> <p>The delay in implementing/disclosing detailed responsible practices would pose a drag on its share price.</p>						
<p>ESG highlights</p> <p>Based on Refinitiv's ranking, SPH REIT ranked 77 out of 96 companies in Singapore, and 25 out of 27 REITs in Singapore. SPH REIT's ESG performance is comparable to its peers, with an average performance for its Environmental and Social pillars. Its Governance pillar lags behind peers.</p>	<p>Implications</p> <p>We believe that SPH REIT has demonstrated its commitment towards ESG. Stronger focus, faster implementation and better disclosures would help in improving its ESG scores.</p>						
<p>Trends</p> <p>Refinitiv ranked SPH REIT's Resource Use as one of the REIT's top 3 best performing categories, with the other two being Workforce and Product Responsibility. This is exhibited in the REIT's reduced electricity consumption and intensity by 26%, greenhouse gas emissions and intensity by 34%, and water consumption and intensity by 31% vs. FY15. Furthermore, The Clementi Mall and Paragon have also achieved the Building and Construction Authority's Green Mark Certification since FY18.</p>	<p>Implications</p> <p>We believe that SPH REIT's continuous efforts in improving ESG will have a positive effect on its operations and financials in the longer term.</p>						

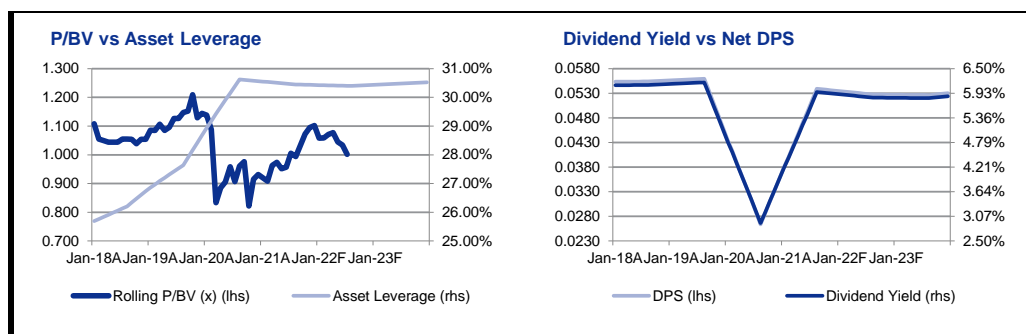
SOURCES: CGS-CIMB RESEARCH, REFINITIV

Figure 1: Sector comparison

SREIT	Bloomberg Ticker	Rec.	Price (LC)	Target	Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	FY22F Yield	FY23 Yield	FY24F Yield
			as at 06 Jul 22	Price (LC) (DDM-based)							
Hospitality											
Ascott Residence Trust	ART SP	Add	1.14	1.24	\$2,675	37.8%	1.16	0.98	4.4%	5.7%	6.4%
CDL Hospitality Trust	CDREIT SP	Add	1.23	1.38	\$1,084	39.8%	1.29	0.95	4.1%	5.6%	6.7%
Far East Hospitality Trust	FEHT SP	Add	0.63	0.78	\$892	33.4%	0.85	0.74	4.5%	5.7%	6.7%
Frasers Hospitality Trust	FHT SP	NR	0.70	NA	\$967	37.7%	0.65	1.07	5.0%	5.2%	5.3%
Simple Average						37.2%		0.94	4.5%	5.5%	6.3%
Industrial											
AIMS AMP	AAREIT SP	NR	1.37	NA	\$698	33.6%	1.34	1.02	6.9%	7.2%	7.3%
Ascendas REIT	AREIT SP	Add	2.89	3.20	\$8,666	36.8%	2.31	1.25	5.7%	5.9%	6.1%
ESR-LOGOS REIT	EREIT SP	Add	0.40	0.47	\$1,905	40.0%	0.40	1.01	7.2%	7.3%	7.7%
Frasers Logistics & Commercial Trust	FLT SP	Add	1.37	1.56	\$3,609	29.5%	1.32	1.04	5.9%	5.8%	5.9%
Keppel DC REIT	KDCREIT SP	Add	2.00	2.63	\$2,452	36.1%	1.33	1.50	5.1%	5.4%	5.7%
Mapletree Industrial Trust	MINT SP	Add	2.64	3.08	\$5,065	38.4%	1.88	1.40	5.0%	5.3%	5.4%
Mapletree Logistics Trust	MLT SP	Add	1.75	2.10	\$5,981	36.8%	1.48	1.18	5.0%	5.0%	5.0%
Sabana Shariah	SSREIT SP	NR	0.45	NA	\$352	33.4%	0.51	0.88	na	na	na
Simple Average						36.4%		1.28	5.8%	6.0%	6.2%
Office											
Keppel REIT	KREIT SP	Add	1.07	1.29	\$2,843	38.7%	1.29	0.83	5.4%	5.6%	5.6%
OUE Commercial REIT	OUECT SP	Hold	0.39	0.43	\$1,499	39.4%	0.57	0.68	7.0%	6.9%	6.9%
Suntec REIT	SUN SP	Hold	1.58	1.79	\$3,237	43.3%	2.13	0.74	6.6%	6.7%	6.6%
Simple Average						40.5%		0.75	6.3%	6.4%	6.4%
Retail											
CapitaLand Integrated Commercial	CICT SP	Add	2.08	2.57	\$9,843	39.1%	2.06	1.01	5.3%	5.4%	5.6%
Frasers Centrepoint Trust	FCT SP	Add	2.27	2.75	\$2,757	33.3%	2.31	0.98	5.5%	5.6%	5.7%
Lendlease Global Commercial REIT	LREIT SP	Add	0.79	1.05	\$1,276	40.7%	0.81	0.97	6.1%	6.7%	6.8%
Mapletree Commercial Trust	MCT SP	Add	1.81	2.18	\$4,300	33.5%	1.74	1.04	5.3%	5.4%	5.5%
SPH REIT	SPHREIT SP	Hold	0.91	0.95	\$1,812	30.3%	0.91	0.99	5.8%	5.8%	6.0%
Starhill Global REIT	SGREIT SP	Add	0.58	0.67	\$919	36.1%	0.80	0.72	6.1%	6.9%	7.4%
Simple Average						35.5%		0.95	5.7%	6.0%	6.2%
Overseas-centric											
CapitaLand China Trust	CLCT SP	NR	1.16	NA	\$1,388	34.7%	1.55	0.75	7.9%	8.5%	8.7%
Elite Commercial REIT	ELITE SP	Add	0.62	0.76	\$352	42.9%	0.59	1.04	8.2%	8.8%	8.9%
Mapletree North Asia Commercial Trust	MAGIC SP	Hold	1.20	1.13	\$3,032	41.5%	1.23	0.98	5.7%	6.5%	6.3%
Manulife US REIT	MUST SP	Add	0.58	0.86	\$1,014	42.8%	0.67	0.86	10.0%	10.6%	11.0%
Sasseur REIT	SASSR SP	Add	0.76	1.06	\$665	26.2%	0.99	0.77	9.7%	10.1%	10.5%
Simple Average						38.4%		0.88	0.08	0.09	0.09
Healthcare											
Parkway Life REIT	PREIT SP	Hold	4.89	5.05	\$2,112	34.5%	2.38	2.05	2.9%	2.9%	3.0%
Simple Average						34.7%		2.05	2.9%	2.9%	3.0%
Simple average for SIN						37.1%		1.02	6.0%	6.4%	6.6%

SOURCES: CGS-CIMB, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(\$m)	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
Rental Revenues	241.5	277.2	285.5	285.4	289.2
Other Revenues					
Gross Property Revenue	241.5	277.2	285.5	285.4	289.2
Total Property Expenses	(59.5)	(74.6)	(75.8)	(74.7)	(72.9)
Net Property Income	181.9	202.6	209.6	210.8	216.3
General And Admin. Expenses					
Management Fees	(21.4)	(23.4)	(23.4)	(23.5)	(23.5)
Trustee's Fees	(0.6)	0.0	(0.6)	(0.6)	(0.6)
Other Operating Expenses	(9.8)	(2.0)	(2.0)	(2.0)	(2.0)
EBITDA	150.2	177.2	183.6	184.7	190.1
Depreciation And Amortisation					
EBIT	150.2	177.2	183.6	184.7	190.1
Net Interest Income	(31.1)	(23.8)	(23.9)	(24.1)	(24.3)
Associates' Profit					
Other Income/(Expenses)					
Exceptional Items	(179.0)	2.9	0.0	0.0	0.0
Pre-tax Profit	(60.0)	156.3	159.7	160.6	165.8
Taxation	(4.0)	(1.4)	(10.2)	(10.3)	(10.5)
Minority Interests	(1.5)	2.4	(2.5)	(2.5)	(2.5)
Preferred Dividends					
Net Profit	(65.5)	157.4	147.1	147.8	152.9
Distributable Profit	72.9	150.2	148.0	148.8	153.7

Cash Flow

(\$m)	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
Pre-tax Profit	(60.0)	156.3	159.7	160.6	165.8
Depreciation And Non-cash Adj.	31.1	23.8	23.9	24.1	24.3
Change In Working Capital	(10.3)	11.6	25.1	(0.0)	1.5
Tax Paid	3.1	(0.9)	(10.2)	(10.3)	(10.5)
Others	205.4	10.9	9.5	9.5	9.4
Cashflow From Operations	169.4	201.6	208.1	183.8	190.5
Capex	(9.0)	(13.0)	(9.1)	(10.0)	(10.0)
Net Investments And Sale Of FA	(627.6)	0.0	0.0	0.0	0.0
Other Investing Cashflow	1.8	0.2	0.3	0.3	0.3
Cash Flow From Investing	(634.8)	(12.8)	(8.8)	(9.7)	(9.7)
Debt Raised/(repaid)	184.5	0.0	9.1	10.0	10.0
Equity Raised/(Repaid)	164.5	0.0	0.0	0.0	0.0
Dividends Paid	(95.7)	(121.1)	(148.0)	(148.8)	(153.7)
Cash Interest And Others	(47.2)	(37.2)	(36.5)	(36.7)	(36.9)
Cash Flow From Financing	206.0	(158.3)	(175.4)	(175.5)	(180.6)
Total Cash Generated	(259.4)	30.5	23.9	(1.3)	0.3
Free Cashflow To Firm	(463.6)	189.0	199.5	174.5	181.2
Free Cashflow To Equity	(312.1)	165.0	184.5	160.1	166.6

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
Total Investments	4,125	4,123	4,132	4,142	4,152
Intangible Assets	0	0	0	0	0
Other Long-term Assets	1	1	1	1	0
Total Non-current Assets	4,126	4,124	4,133	4,143	4,153
Total Cash And Equivalents	82	112	146	154	165
Inventories					
Trade Debtors					
Other Current Assets	33	11	6	6	6
Total Current Assets	115	123	151	160	171
Trade Creditors	80	61	76	76	77
Short-term Debt	215	155	155	155	155
Other Current Liabilities	1	1	1	1	1
Total Current Liabilities	296	217	232	232	233
Long-term Borrowings	1,084	1,138	1,147	1,157	1,167
Other Long-term Liabilities	47	44	56	64	73
Total Non-current Liabilities	1,130	1,182	1,203	1,221	1,240
Shareholders' Equity	2,503	2,535	2,534	2,532	2,530
Minority Interests	13	15	17	20	22
Preferred Shareholders Funds	298	298	298	298	298
Total Equity	2,815	2,848	2,849	2,850	2,851

Key Ratios

	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
Gross Property Revenue Growth	5.6%	14.8%	3.0%	(0.0%)	1.3%
NPI Growth	1.2%	11.4%	3.5%	0.5%	2.6%
Net Property Income Margin	75.4%	73.1%	73.4%	73.8%	74.8%
DPS Growth	(53%)	104%	(2%)	(0%)	3%
Gross Interest Cover	4.56	7.39	7.59	7.57	7.72
Effective Tax Rate	0.00%	0.89%	6.36%	6.40%	6.30%
Net Dividend Payout Ratio	NA	95%	101%	101%	101%
Current Ratio	0.39	0.57	0.65	0.69	0.73
Quick Ratio	0.39	0.57	0.65	0.69	0.73
Cash Ratio	0.28	0.51	0.63	0.67	0.71
Return On Average Assets	(1.60%)	3.71%	3.45%	3.44%	3.54%

Key Drivers

	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
Rental reversion	1.1	(9.6)	(4.2)	(2.7)	1.1
Occupancy rate	97.8	98.9	99.1	99.1	99.1

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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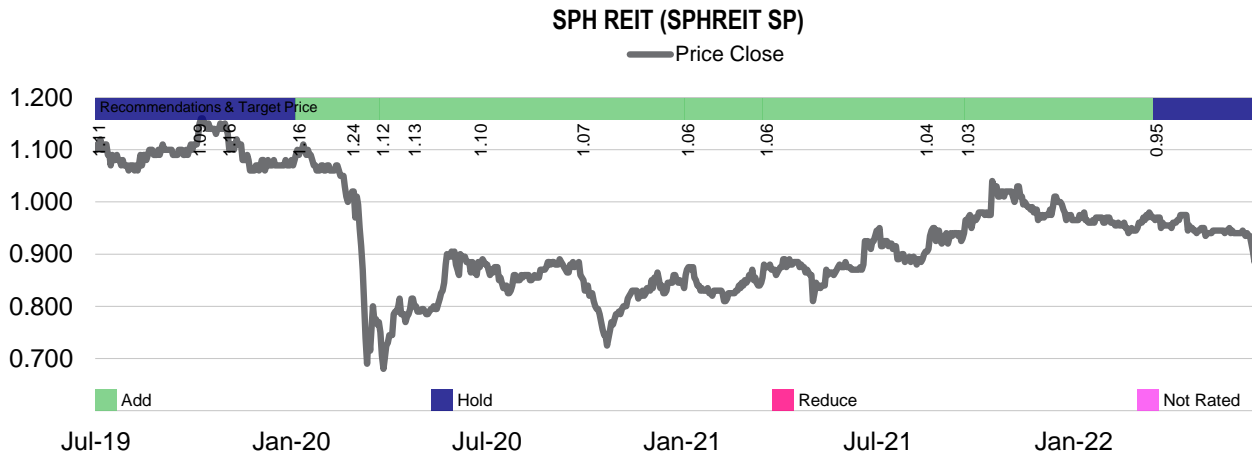
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632 companies under coverage for quarter ended on 31 March 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

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Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

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