

Singapore

HOLD (no change)

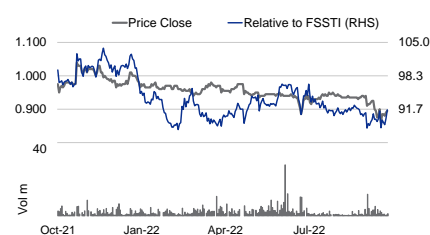
Consensus ratings*: Buy 1 Hold 3 Sell 1

Current price:	S\$0.895
Target price:	S\$0.96
Previous target:	S\$0.95
Up/downside:	7.3%
CGS-CIMB / Consensus:	-1.5%
Reuters:	SPHR.SI
Bloomberg:	SPHREIT SP
Market cap:	US\$1,751m
	S\$2,513m
Average daily turnover:	US\$1.01m
	S\$1.43m
Current shares o/s:	2,535m
Free float:	38.9%

*Source: Bloomberg

Key changes in this note

- FY22F DPU increased 33.7% (16MFY22).
- FY23F DPU increased 0.2%.
- FY24F DPU reduced 0.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.3	-3.8	-7.7
Relative (%)	0.5	-3	-7.5

Major shareholders	% held
Cuscaden Investments Ltd	61.1

Analyst(s)

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SPH REIT

Tenant sales normalizing

- Change of FYE from 31 Aug to 31 Dec. FY22 will be a 16M period ending 31 Dec 22. 12M22 DPU of 5.52 Scts (+2.2%) in line at 78.3% of our 16M22F.
- Tenant sales across portfolio recovered to 89%-99% of pre-COVID levels. Negative portfolio reversions narrowed yoy from -8.4% to -2.8% in 12MFY22.
- FY22-24F DPU tweaked -0.1%-33.7% due to change in FYE/higher rental growth assumptions. Recovery priced in. Stay Hold, higher S\$0.96 DDM TP.

12M22 DPU of 5.53 Scts (+2.2%) was in line, forming 78% of 16M22F

SPHREIT has announced a change of FYE from 31 Aug to 31 Dec to align with its sponsor, Cuscaden Peak. FY22 will be a 16M period from 1 Sep 21 to 31 Dec 22. 12MFY22 DPU of 5.53 Scts (+2.2% yoy) was in line, forming 79% of our 16MFY22F. 12MFY22 revenue grew 1.7% yoy on the back of lower rental reliefs given and step-up in rents while NPI margin grew 3.5% on NPI margin improvements due to lower property expenses. Portfolio occupancy fell 1.3ppts from 98.8% to 97.5% as occupancy gains in the SG portfolio were offset by occupancy loss in the Australian portfolio. SPHREIT's balance sheet is robust with low cost of debt of 1.77%, gearing at 30%. Additionally, 71% of debt is on fixed rates, with 25.4% of debt maturing in FY22-23F.

Improving operating metrics and tenant sentiment

Tenant sales improved across all assets, increasing 25.6%, 8.8%, 4.8% and 1.8% yoy at Paragon, Clementi Mall, Westfield Marion and Figtree, respectively. Tourist spending accounted for c.30% of Paragon's pre-COVID tenant sales. Despite Sep 21-Aug 22 international visitor arrivals coming in 83% below pre-COVID levels, 12MFY22 tenant sales at Paragon recovered to 89% of pre-COVID levels due to local spending and partial return of Indonesian tourists, while tenant sales at SPH's remaining assets trended between 93.6%-99.2% of pre-COVID levels. While portfolio reversions were negative at 2.8% for 12MFY22 (2.6%/3.9% for its SG/Australia portfolio), this was an improvement compared to FY21 reversions of -8.4%. Recovery in tenant sales has lifted tenant sentiment, however, this was not captured in 12MFY22 reversion numbers as SPHREIT typically commences renewal discussions six months prior to lease expiry. Going forward, we think the portfolio could start showing positive reversions. Aug 22 valuation for the Singapore and Australia portfolio improved S\$42.5m (1.3% yoy) and A\$6.5m (0.8% yoy), driven by higher rental income while cap rates remain stable.

Potential organic growth from AElS & enhanced asset efficiency

FY22-24F DPU tweaked by -0.1%-33.7%, mainly due to change in FYE and higher rental growth assumptions. SPHREIT could potentially improve asset efficiency under the direction of its new property-led sponsor, Cuscaden Peak. SPHREIT is trading at an annualised 5.9% FY22F DPU yield, at +0.6 s.d. of historical average. Potential catalysts include AElS and accretive acquisitions, although mounting macroeconomic risk and elevated interest rates may push acquisition plans further out into FY23/24. Downside risks include weaker-than-expected rental reversion and softening in consumer spending.

Financial Summary	Aug-20A	Aug-21A	Dec-22F	Dec-23F	Dec-24F
Gross Property Revenue (S\$m)	241.5	277.2	383.1	291.1	294.6
Net Property Income (S\$m)	181.9	202.6	281.8	215.9	221.0
Net Profit (S\$m)	(65.5)	157.4	198.2	151.4	156.1
Distributable Profit (S\$m)	72.9	150.2	199.1	152.2	156.7
Core EPS (S\$)	0.042	0.056	0.071	0.053	0.055
Core EPS Growth	(16.1%)	31.3%	26.9%	(24.4%)	2.3%
FD Core P/E (x)	21.09	16.07	12.66	16.75	16.37
DPS (S\$)	0.026	0.054	0.071	0.054	0.055
Dividend Yield	2.95%	6.02%	7.88%	5.98%	6.11%
Asset Leverage	30.6%	30.4%	30.1%	30.4%	30.5%
BVPS (S\$)	0.91	0.91	0.90	0.89	0.89
P/BV (x)	0.99	0.98	0.99	1.00	1.01
Recurring ROE	4.58%	6.13%	7.81%	5.96%	6.15%
% Change In DPS Estimates					
CGS-CIMB/Consensus DPS (x)				0.96	0.93

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: SPHREIT's key earnings changes due to change in FYE from 31 Aug to 31 Dec. FY22 will be a 16M period ending 31 Dec 22

FYE Dec	Previous				New	
	FY8/22	FY8/23	FY8/24	FY12/22	FY12/23	FY12/24
Gross revenue (S\$ m)	285.5	289.8	293.6	383.1	291.1	294.6
Net property income (S\$ m)	209.6	214.1	219.6	281.8	215.9	221.0
DPS (Scts)	5.27	5.34	5.47	7.05	5.35	5.47
Target price (S\$)	0.94			0.96		

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

ESG in a nutshell



Refinitiv ESG Scores

C ESG Score	A+ ESG Controversies Score	C ESG Combined Score	C+ ESG Environment Pillar Score	C- ESG Social Pillar Score	C- ESG Government Pillar Score
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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.

Keep your eye on

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.

Implications

The delay in implementing/disclosing detailed responsible practices would pose a drag on its share price.

ESG highlights

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.

Implications

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.

Trends

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.

Implications

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.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

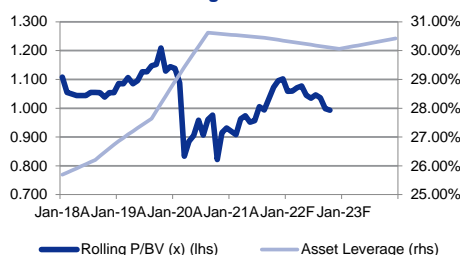
Figure 2: Sector comparison

SREIT	Bloomberg Ticker	Rec.	Price (LC)	Target	Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	FY22F Yield	FY23F Yield	FY24F Yield
			as at 09 Oct 22	Price (LC) (DDM-based)							
Hospitality											
CapitalLand Ascott Trust	CLAS SP	Add	0.96	1.25	\$2,302	37.5%	1.16	0.83	5.9%	6.8%	7.5%
CDL Hospitality Trust	CDREIT SP	Add	1.12	1.38	\$964	39.5%	1.31	0.85	5.2%	6.7%	7.5%
Far East Hospitality Trust	FEHT SP	Add	0.58	0.80	\$802	33.3%	0.85	0.68	5.3%	7.8%	8.6%
Frasers Hospitality Trust	FHT SP	NR	0.48	NA	\$967	39.3%	0.65	0.74	5.0%	5.2%	5.3%
Simple Average						37.4%		0.78	5.3%	6.6%	7.2%
Industrial											
AIMS AMP	AAREIT SP	NR	1.25	NA	\$698	33.6%	1.34	0.93	6.9%	7.2%	7.3%
CapitalLand Ascendas REIT	CAREIT SP	Add	2.63	3.21	\$7,697	36.7%	2.31	1.14	6.3%	6.6%	6.8%
ESR-LOGOS REIT	EREIT SP	Add	0.36	0.51	\$1,657	40.6%	0.37	0.97	8.5%	8.5%	8.6%
Frasers Logistics & Commercial Trus	FLT SP	Add	1.20	1.53	\$3,090	29.2%	1.32	0.91	6.5%	6.4%	6.6%
Keppel DC REIT	KDCREIT SP	Add	1.67	2.63	\$1,999	36.1%	1.33	1.26	6.1%	6.5%	6.8%
Mapletree Industrial Trust	MINT SP	Add	2.34	2.97	\$4,408	38.4%	1.88	1.24	5.6%	5.9%	6.1%
Mapletree Logistics Trust	MLT SP	Add	1.54	2.05	\$5,153	37.2%	1.47	1.05	5.7%	5.7%	5.7%
Sabana Shariah	SSREIT SP	NR	0.42	NA	\$352	33.4%	0.51	0.82	na	na	na
Simple Average						35.7%		1.14	6.5%	6.7%	6.8%
Office											
Keppel REIT	KREIT SP	Add	0.97	1.29	\$2,509	37.9%	1.33	0.73	6.0%	6.2%	6.2%
OUE Commercial REIT	OUECT SP	Hold	0.34	0.39	\$1,274	39.4%	0.57	0.59	7.3%	7.4%	7.2%
Suntec REIT	SUN SP	Add	1.51	1.79	\$3,022	43.1%	2.13	0.71	6.6%	6.6%	6.7%
Simple Average						40.1%		0.67	6.6%	6.7%	6.7%
Retail											
CapitalLand Integrated Commercial	CICT SP	Add	1.91	2.57	\$8,824	40.6%	2.07	0.92	5.8%	5.9%	6.1%
Frasers Centrepoint Trust	FCT SP	Add	2.13	2.75	\$2,526	33.3%	2.31	0.92	5.9%	6.0%	6.1%
Lendlease Global Commercial REIT	LREIT SP	Add	0.76	1.02	\$1,206	40.0%	0.78	0.97	4.1%	6.6%	6.7%
Mapletree Pan Asia Commercial Trus	MPACT SP	Add	1.73	2.11	\$6,307	33.8%	1.74	0.99	5.5%	5.8%	5.8%
SPH REIT	SPHREIT SP	Hold	0.90	0.96	\$1,751	30.3%	0.91	0.98	7.9%	6.0%	6.1%
Starhill Global REIT	SGREIT SP	Add	0.53	0.66	\$829	36.1%	0.80	0.66	7.2%	7.5%	8.0%
Simple Average						35.7%		0.91	6.1%	6.3%	6.5%
Overseas-centric											
CapitalLand China Trust	CLCT SP	NR	1.00	NA	\$1,388	34.7%	1.55	0.65	7.9%	8.5%	8.7%
Elite Commercial REIT	ELITE SP	Add	0.51	0.76	\$272	41.9%	0.62	0.82	9.8%	10.6%	10.7%
Manulife US REIT	MUST SP	Add	0.40	0.78	\$711	42.8%	0.67	0.60	12.9%	13.3%	13.5%
Sasseur REIT	SASSR SP	Add	0.70	1.06	\$594	26.5%	0.96	0.72	10.6%	11.0%	11.4%
Simple Average						38.3%		0.70	10.3%	10.9%	11.1%
Healthcare											
Parkway Life REIT	PREIT SP	Hold	4.14	5.06	\$1,745	32.5%	2.41	1.72	3.4%	3.5%	3.5%
Simple Average						33.7%		1.72	3.4%	3.5%	3.5%
Simple average for SIN						36.8%		0.90	6.7%	7.1%	7.3%

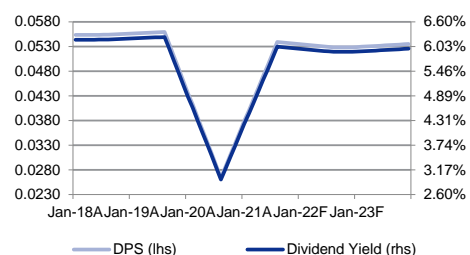
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs Asset Leverage



Dividend Yield vs Net DPS



Profit & Loss

(\$m)	Aug-20A	Aug-21A	Dec-22F	Dec-23F	Dec-24F
Rental Revenues	241.5	277.2	383.1	291.1	294.6
Other Revenues					
Gross Property Revenue	241.5	277.2	383.1	291.1	294.6
Total Property Expenses	(59.5)	(74.6)	(101.3)	(75.2)	(73.7)
Net Property Income	181.9	202.6	281.8	215.9	221.0
General And Admin. Expenses					
Management Fees	(21.4)	(23.4)	(31.3)	(23.5)	(23.5)
Trustee's Fees	(0.6)	0.0	(0.8)	(2.0)	(2.0)
Other Operating Expenses	(9.8)	(2.0)	(2.7)	(2.0)	(2.0)
EBITDA	150.2	177.2	247.1	188.4	193.4
Depreciation And Amortisation					
EBIT	150.2	177.2	247.1	188.4	193.4
Net Interest Income	(31.1)	(23.8)	(31.9)	(24.2)	(24.4)
Associates' Profit					
Other Income/(Expenses)					
Exceptional Items	(179.0)	2.9	0.0	0.0	0.0
Pre-tax Profit	(60.0)	156.3	215.2	164.3	169.0
Taxation	(4.0)	(1.4)	(13.6)	(10.3)	(10.5)
Minority Interests	(1.5)	2.4	(3.3)	(2.5)	(2.5)
Preferred Dividends					
Net Profit	(65.5)	157.4	198.2	151.4	156.1
Distributable Profit	72.9	150.2	199.1	152.2	156.7

Cash Flow

(\$m)	Aug-20A	Aug-21A	Dec-22F	Dec-23F	Dec-24F
Pre-tax Profit	(60.0)	156.3	215.2	164.3	169.0
Depreciation And Non-cash Adj.	31.1	23.8	31.9	24.2	24.4
Change In Working Capital	(10.3)	11.6	63.8	(36.4)	1.4
Tax Paid	3.1	(0.9)	(13.6)	(10.3)	(10.5)
Others	205.4	10.9	12.6	9.4	9.4
Cashflow From Operations	169.4	201.6	309.8	151.1	193.7
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	0.4	0.3	0.3
Cash Flow From Investing	(634.8)	(12.8)	(8.7)	(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)	(199.1)	(152.2)	(156.7)
Cash Interest And Others	(47.2)	(37.2)	(44.6)	(36.8)	(37.0)
Cash Flow From Financing	206.0	(158.3)	(234.6)	(179.0)	(183.7)
Total Cash Generated	(259.4)	30.5	66.5	(37.6)	0.4
Free Cashflow To Firm	(463.6)	189.0	301.5	141.7	184.4
Free Cashflow To Equity	(312.1)	165.0	278.3	127.2	169.7

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Aug-20A	Aug-21A	Dec-22F	Dec-23F	Dec-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	192	164	175
Inventories					
Trade Debtors					
Other Current Assets	33	11	8	6	6
Total Current Assets	115	123	199	170	181
Trade Creditors	80	61	102	77	78
Short-term Debt	215	155	155	155	155
Other Current Liabilities	1	1	1	1	1
Total Current Liabilities	296	217	258	233	234
Long-term Borrowings	1,084	1,138	1,147	1,157	1,167
Other Long-term Liabilities	47	44	71	65	74
Total Non-current Liabilities	1,130	1,182	1,218	1,222	1,241
Shareholders' Equity	2,503	2,535	2,540	2,539	2,537
Minority Interests	13	15	18	21	23
Preferred Shareholders Funds	298	298	298	298	298
Total Equity	2,815	2,848	2,856	2,857	2,858

Key Ratios

	Aug-20A	Aug-21A	Dec-22F	Dec-23F	Dec-24F
Gross Property Revenue Growth	5.6%	14.8%	38.2%	(24.0%)	1.2%
NPI Growth	1.2%	11.4%	39.1%	(23.4%)	2.3%
Net Property Income Margin	75.4%	73.1%	73.5%	74.2%	75.0%
DPS Growth	(53%)	104%	31%	(24%)	2%
Gross Interest Cover	4.56	7.39	7.64	7.70	7.83
Effective Tax Rate	0.00%	0.89%	6.32%	6.30%	6.19%
Net Dividend Payout Ratio	NA	95%	100%	101%	100%
Current Ratio	0.39	0.57	0.77	0.73	0.77
Quick Ratio	0.39	0.57	0.77	0.73	0.77
Cash Ratio	0.28	0.51	0.74	0.70	0.75
Return On Average Assets	(1.60%)	3.71%	4.62%	3.50%	3.61%

Key Drivers

	Aug-20A	Aug-21A	Dec-22F	Dec-23F	Dec-24F
Rental reversion	1.1	(9.6)	(3.7)	(0.8)	1.1
Occupancy rate	97.8	98.9	99.3	99.3	99.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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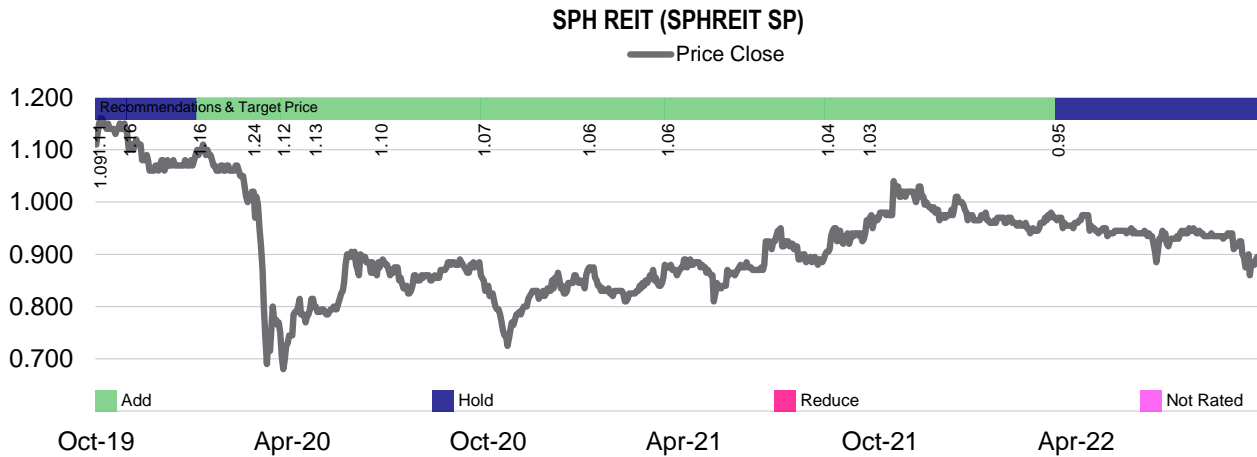
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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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