

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

23 Feb 2024

HOLD

Last Traded Price (22 Feb 2024): S\$0.385 (STI: 3,222.94)

Price Target 12-mth: S\$0.44 (15% upside) (Prev S\$0.45)

Analyst

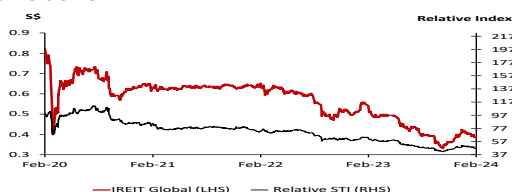
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What's New

- FY23 DPU of 1.87scts c.30.5% lower y-o-y; slightly below projections
- Portfolio valuations declined by c.13.5%, largely offset by the addition of B&M portfolio
- Leasing shows some progress; c.27% of lease expiries in FY24 continues to pose a near-term risk
- Maintain HOLD with a slightly revised TP of S\$0.44

Price Relative



Forecasts and Valuation

FY Dec (EURm)	2022A	2023A	2024F	2025F
Gross Revenue	61.7	65.0	62.5	55.2
Net Property Inc	48.8	49.9	50.0	44.2
Total Return	36.4	(105)	32.2	27.2
Distribution Inc	34.6	28.0	31.2	27.4
EPU (S cts)	4.58	(11.4)	3.49	2.94
EPU Gth (%)	(72)	nm	nm	(16)
DPU (S cts)	3.91	2.72	3.03	2.67
DPU Gth (%)	(8)	(30)	12	(12)
NAV per shr (S cts)	78.6	59.0	59.4	59.7
PE (X)	8.4	nm	11.0	13.1
Distribution Yield (%)	10.2	7.1	7.9	6.9
P/NAV (x)	0.5	0.7	0.6	0.6
Aggregate Leverage (%)	31.7	38.1	41.3	41.4
ROAE (%)	(0.6)	1.2	1.1	2.3

Distn. Inc Chng (%): 2 2
 Consensus DPU (S cts): 2.1 2.4
 Other Broker Recs: B: 1 S: 0 H: 1

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

French acquisition at an opportune time

Investment Thesis:

Well-diversified portfolio across Western Europe. IREIT's AUM has been maintained at c.EUR900m with the acquisition of the portfolio of 17 retail assets in France in September 2023. With that, IREIT's portfolio will consist of 54 assets located across Germany, France, and Spain. It consists of office and retail assets with a relatively long WALE of c.5 years. As most of the leases are pegged to annual CPI indexation, this will help drive some organic income growth.

Enlarged and more diversified portfolio. IREIT's recent acquisition of the 17 retail assets in France has further diversified its key tenant, geographical, lease expiry, and sector concentration risks. Following the acquisition in France, IREIT's exposure to office will be lowered and its exposure to retail assets will be increased to c.20%.

Near-term uncertainties caused by non-renewals. With the non-renewal at the Darmstadt, there will be a near-to-medium-term impact to earnings. Moreover, the slowdown in the office leasing market may lead to prolonged vacancies at some of these assets. Another potential risk with the slowdown in the European market is further cap rate expansion. So far, we estimate that IREIT's portfolio has experienced a c.100bps expansion in cap rates, and further expansion could be expected in the coming quarters.

Maintain HOLD with a revised TP of S\$0.44 (vs. S\$0.45 previously). Our DCF-based TP of S\$0.44 is based on a WACC of c.6.1%. Our TP is based on a risk-free rate of 3.5% and beta of 0.9x.

Key Risks

Any more significant cap rate expansion could put pressure on gearing, and a prolonged slowdown in the European office leasing market could lead to slower backfilling and downside to earnings.

At A Glance

Issued Capital (m shrs)	1,156
Mkt. Cap (S\$m/US\$m)	445 / 331
Major Shareholders (%)	
Tikehau Capital SCA	24.7
CITY STRATEGIC EQUIT	17.8
Free Float (%)	59.2
3m Avg. Daily Val (US\$m)	0.10

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

WHAT'S NEW

French acquisition at an opportune time

FY23 NPI of EUR49.9m 2.3% higher y-o-y. In FY23, IREIT's NPI experienced a 2.3% increase, primarily attributed to the acquisition of the B&M portfolio on 5 September 2023. The B&M portfolio, acquired at a total cost of EUR76.8m, comprises 17 fully leased retail assets to B&M, a prominent discount retailer in Europe. The acquisition boasted an appealing yield of approximately 7.9%, and is estimated to contribute to a DPU accretion of slightly over 1%. The funding for this strategic acquisition was facilitated through a preferential offering.

FY23 DPU of 1.87Ects, slightly below our estimates. FY23 DPU of 1.87Ects was c.1.6% below projections and marked a y-o-y decrease c.30.5%. This decline was mainly attributed to an enlarged unit base resulting from preferential offering, along with vacancies at the Darmstadt Campus and rent-free periods granted for GMG's lease extension at the Bonn Campus. Rent-free periods amounted to EUR0.4m and EUR2.5m for tenants at Bonn Campus and Darmstadt Campus, respectively.

The dilution in DPU was exacerbated by the timing difference between the issuance of units from the preferential offering in July 2023 and the B&M acquisition in September 2023.

Portfolio occupancy remained stable at 94.0%. In 4Q23, IREIT Global reported a stable occupancy rate, with the French portfolio fully occupied, and the German and Spanish portfolios at 87.7% and 79.7%, respectively. Approximately 26.8% of leases are set to expire in FY24, primarily driven by the DRV's lease at the Berlin Campus, scheduled to end in December 2024. IREIT intends to reposition the asset if DRV vacates the property.

The signing of a 10-year lease with a major mobile roof antenna provider for two office floors at Munster North Building is notable,

replacing Deutsche Telekom. Moreover, lease extensions at B&M properties and the commencement of rent payments from the data centre tenant at Sant Cugat Green are expected to contribute positively to income. B&M's lease has been extended by an average of 3.8 years, leading to the portfolio's WALE being lengthened to c.7.7 years. The entire France portfolio also underwent CPI indexation on 1 January 2024, resulting in c.EUR0.7m in additional income.

Overall, FY23 recorded an average of 0.5% positive rental reversions, and the overall portfolio enjoyed an average 4.6% in rental escalation during the year.

Gearing inched up to 37.9%, mainly due to valuation decline. IREIT's portfolio reported a decline of c.5.4% in valuations during the year, primarily attributed to lower valuations for the Germany portfolio (-18.2%) and Spain portfolio (-4.7%). As a result, gearing increased 3.5 ppt q-o-q to 37.9%. Excluding the acquisition of the B&M portfolio, IREIT's French portfolio would have also reported a valuation decline of c.0.3% y-o-y, and overall portfolio valuations would have declined by a much larger c.13.5%.

IREIT's all-in borrowing costs remained relatively stable at 1.9%, reflecting a 10 bps improvement q-o-q, likely influenced by the peaking of interest rates in Europe and the repayment of c.EUR14.9m of loans from the successful divestment of II.Lumina on 31 January 2024. The divestment of EUR24.5m was a 6.1% premium to valuation, and proceeds were utilised to repay loans due in FY26. Currently, no loans are due for refinancing until January 2026, and c.96.5% of all loans remain hedged to fixed rates and interest rate caps.

Portfolio valuations would have declined by c.13.5% without the acquisition of the B&M portfolio in France

Portfolio Location	Independent Valuation (€ m)		Purchase Consideration (€ m)	12-month Change (%)	Change vs Purchase (%)	Net Initial Yield ⁽³⁾ (%)
	As at 31 Dec 2023	As at 31 Dec 2022				
Germany	539.50	659.70	427.30	-18.2%	+26.3%	4.5% ⁽⁴⁾
Spain	156.54 ⁽¹⁾	164.30	161.00	-4.7%	-2.8%	6.1%
France	202.95 ⁽²⁾	126.50	187.33	+60.4%	+8.3%	6.5%
Total	898.99	950.50	775.63	-5.4%	+15.9%	5.2%

Source: IREIT Global

IREIT Global

Our views

The addition of the B&M portfolio has significantly enhanced IREIT's operational and financial standing. Moreover, the extension of leases with B&M – averaging an additional 3.8 years – reflects proactive portfolio management and acquisition capabilities.

While backfilling has mitigated some upcoming vacancies, risks persist, especially with major lease expiries such as DRV's in December 2024. Although our projections anticipate a c.12% improvement in FY24 DPU – mainly due to the B&M portfolio's full-year contribution, positive rental reversions, and escalations – we remain cautious. Economic uncertainties in Europe continue to cast concerns on office leases and risk of further cap rate expansion.

Consequently, we maintain a **HOLD** recommendation with a slightly adjusted TP of **S\$0.44** (compared to the previous S\$0.45).

Company Background

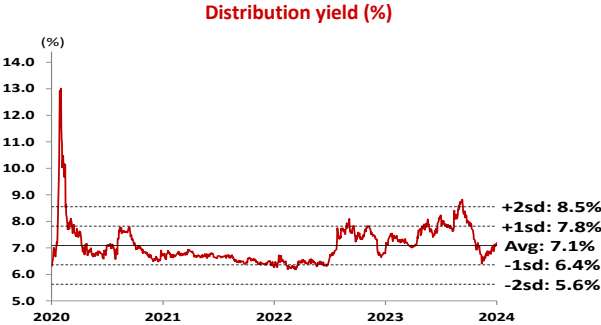
IREIT Global (IREIT) is the first Singapore-listed real estate investment trust with the investment strategy of principally investing, directly or indirectly, in a portfolio of income-producing real estate in Europe which is used primarily for office, retail, and industrial (including logistics) purposes,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

Interim Income Statement (EURm)

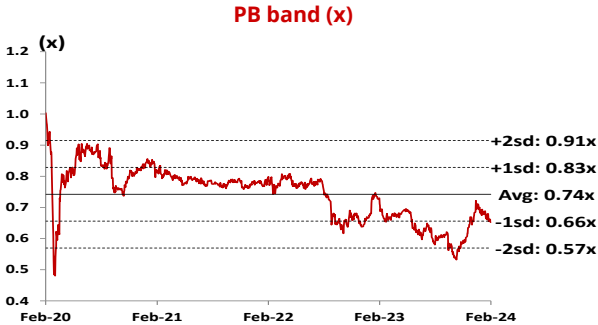
FY Dec	2H2022	1H2023	2H2023	% chg yoy	% chg hoh
Gross revenue	31.6	28.4	36.5	15.7	28.6
Property expenses	(7.2)	(6.5)	(8.6)	19.4	33.3
Net Property Income	24.4	22.0	27.9	14.6	27.2
Other Operating expenses	(3.9)	(3.8)	(4.5)	13.5	18.8
Other Non Opg (Exp)/Inc	13.6	(0.6)	(12.5)	nm	nm
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(3.0)	(3.1)	(3.7)	(21.0)	(17.5)
Exceptional Gain/(Loss)	(55.2)	(34.1)	(111)	nm	nm
Net Income	(24.2)	(19.7)	(103)	(327.2)	(424.7)
Tax	4.58	2.16	15.5	238.1	616.1
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	(19.6)	(17.5)	(87.8)	(348.0)	401.1
Total Return	0.0	0.0	0.0	-	-
Non-tax deductible Items	0.0	0.0	0.0	-	-
Net Inc available for Dist.	(19.6)	(17.5)	(87.8)	348.0	401.1
Ratio (%)					
Net Prop Inc Margin	77.1	77.3	76.4		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank Ltd

Historical Distribution yield and PB band



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



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

Income Statement (EURm)

FY Dec	2021A	2022A	2023A	2024F	2025F
Gross revenue	52.2	61.7	65.0	62.5	55.2
Property expenses	(9.7)	(12.9)	(15.1)	(12.5)	(11.0)
Net Property Income	42.5	48.8	49.9	50.0	44.2
Other Operating expenses	(6.3)	(7.7)	(8.2)	(4.8)	(4.9)
Other Non Opg (Exp)/Inc	6.79	33.1	(13.1)	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(5.0)	(6.0)	(6.8)	(8.3)	(8.3)
Exceptional Gain/(Loss)	113	(27.6)	(145)	0.0	0.0
Net Income	151	40.6	(123)	36.9	31.0
Tax	(23.0)	(4.2)	17.6	(4.7)	(3.8)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	128	36.4	(105)	32.2	27.2
Total Return	128	36.4	(105)	32.2	27.2
Non-tax deductible Items	(23.0)	(4.2)	17.6	(4.7)	(3.8)
Net Inc available for Dist.	34.4	34.6	28.0	31.2	27.4
Growth & Ratio					
Revenue Gth (%)	37.9	18.2	5.4	(3.9)	(11.6)
N Property Inc Gth (%)	29.1	14.9	2.3	0.1	(11.6)
Net Inc Gth (%)	551.5	(71.6)	nm	nm	(15.7)
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0
Net Prop Inc Margins (%)	81.4	79.2	76.8	80.0	80.0
Net Income Margins (%)	246.3	59.1	(162.1)	51.6	49.3
Dist to revenue (%)	65.9	56.2	43.1	49.9	49.7
Managers & Trustee's fees	N/A	N/A	N/A	N/A	N/A
ROAE (%)	0.7	(0.6)	1.2	1.1	2.3
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)	7.2	6.9	6.1	5.5	4.7

The losses arose from the revaluation of interest rate swaps and interest rate caps, but does not have any impact to distributable income.

Source: Company, DBS Bank Ltd

Interim Income Statement (EURm)

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Gross revenue	28.5	30.1	31.6	28.4	36.5
Property expenses	(5.4)	(5.6)	(7.2)	(6.5)	(8.6)
Net Property Income	23.2	24.4	24.4	22.0	27.9
Other Operating	(3.5)	(3.7)	(3.9)	(3.8)	(4.5)
Other Non Opg (Exp)/Inc	3.84	19.5	13.6	(0.6)	(12.5)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(2.8)	(2.9)	(3.0)	(3.1)	(3.7)
Exceptional Gain/(Loss)	85.9	27.5	(55.2)	(34.1)	(111)
Net Income	107	64.8	(24.2)	(19.7)	(103)
Tax	(17.0)	(8.8)	4.58	2.16	15.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	89.6	56.0	(19.6)	(17.5)	(87.8)
Total Return	(1.5)	0.0	0.0	0.0	0.0
Non-tax deductible Items	0.0	0.0	0.0	0.0	0.0
Net Inc available for Dist.	89.6	56.0	(19.6)	(17.5)	(87.8)
Growth & Ratio					
Revenue Gth (%)	21	5	5	(10)	29
N Property Inc Gth (%)	20	6	0	(10)	27
Net Inc Gth (%)	130	(37)	(135)	(11)	401
Net Prop Inc Margin (%)	81.2	81.3	77.1	77.3	76.4
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Source: Company, DBS Bank Ltd

Balance Sheet (EURm)

FY Dec	2021A	2022A	2023A	2024F	2025F
Investment Properties	975	951	881	885	890
Other LT Assets	4.96	26.4	17.4	17.4	17.4
Cash	51.7	49.2	46.1	116	120
ST Investment	0.0	0.0	0.0	0.0	0.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	3.99	5.04	11.7	3.76	3.32
Net Intangibles Assets	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.01	8.02	36.0	36.0	36.0
Total Assets	1,035	1,039	992	1,059	1,066
ST Debt	0.0	0.0	14.9	82.7	87.1
Creditor	7.51	8.08	13.3	10.7	9.42
Other Current Liab	20.4	16.9	14.7	15.3	14.9
LT Debt	329	330	363	355	355
Other LT Liabilities	59.3	59.8	40.7	45.7	47.8
Unit holders' funds	619	625	546	550	552
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,035	1,039	992	1,059	1,066
Non-Cash Wkg. Capital	(23.9)	(11.9)	19.8	13.9	15.0
Net Cash/(Debt)	(277)	(281)	(332)	(321)	(322)
Ratio					
Current Ratio (x)	2.0	2.5	2.2	1.4	1.4
Quick Ratio (x)	2.0	2.2	1.3	1.1	1.1
Aggregate Leverage (%)	31.8	31.7	38.1	41.3	41.4

Source: Company, DBS Bank Ltd

Cash Flow Statement (EURm)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Income	151	40.6	(123)	36.9	31.0
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(0.6)	(0.4)	(2.5)	(1.5)	(2.0)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	1.47	(1.5)	(5.5)	5.33	(0.8)
Other Operating CF	(113)	1.14	165	0.0	0.0
Net Operating CF	39.0	39.9	34.2	40.8	28.1
Net Invnt in Properties	(3.3)	(3.5)	(8.3)	(4.4)	(4.4)
Other Invnts (net)	(138)	0.0	(82.4)	0.0	0.0
Invnts 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	0.0	0.21	0.0	0.0
Net Investing CF	(141)	(3.5)	(90.5)	(4.4)	(4.4)
Distribution Paid	(26.4)	(33.7)	(27.3)	(28.1)	(24.7)
Chg in Gross Debt	65.0	0.0	41.4	(3.8)	4.43
New units issued	78.4	0.0	50.7	0.0	0.0
Other Financing CF	(6.3)	(5.1)	(11.6)	0.0	0.0
Net Financing CF	111	(38.9)	53.2	(31.8)	(20.3)
Currency Adjustments	8.56	(2.5)	(3.1)	4.53	3.44
Chg in Cash	17.1	(5.0)	(6.1)	9.05	6.88
Operating CFPS (S cts)	4.72	5.21	4.29	3.83	3.13
Free CFPS (S cts)	4.48	4.57	2.81	3.93	2.56

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth 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:	24 Feb 23	0.51	0.59	BUY
2:	07 Aug 23	0.42	0.45	HOLD

Source: DBS Bank Ltd

Analyst: Dale LAI

Derek TAN

DBS Bank Ltd 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: 23 Feb 2024 07:20:24 (SGT)

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