

# Singapore Company Update

## Paragon REIT

Bloomberg: PGNREIT SP | Reuters: PARA.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Feb 2024

### BUY

Last Traded Price (7 Feb 2024): S\$0.860 (STI : 3,156.15)  
Price Target 12-mth: S\$1.05 (22% upside)

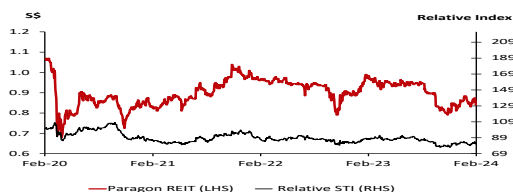
#### Analysts

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#### What's New

- DPU of 5.02 Scts - above our estimates, translates to a payout ratio of 105% due to tax-related one-offs
- Strong reversionary rents for SG assets at 12% for Paragon and 9% for Clementi Mall
- Assume the redemption of perpetuals to be refinanced with debt; Gearing to land at c.38%
- Maintain BUY, S\$1.05 TP on potential takeover

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2022A	2023A	2024F	2025F
Gross Revenue	282	289	298	304
Net Property Inc	210	215	215	220
Total Return	181	136	119	120
Distribution Inc	161	136	121	122
EPU (S cts)	6.50	4.84	4.23	4.27
EPU Gth (%)	31	(25)	(13)	1
DPU (S cts)	5.72	5.05	4.29	4.34
DPU Gth (%)	6	(12)	(15)	1
NAV per shr (S cts)	92.2	91.6	91.5	91.4
PE (X)	13.2	17.8	20.3	20.1
Distribution Yield (%)	6.7	5.9	5.0	5.0
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	30.1	29.7	37.1	37.1
ROAE (%)	7.1	5.3	4.6	4.7

Distn. Inc Chng (%): (13) (15)  
Consensus DPU (S cts): 5.90 -  
Other Broker Recs: B: 1 S: 1 H: 2

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

### Assuming the right call to redeem perpetuals

#### Investment Thesis:

**Compelling valuation.** Paragon REIT stands as one of the key beneficiaries of Singapore's tourists' normalisation with the largest exposure to Orchard retail, on the back of Paragon mall anchoring 65% of its portfolio (by asset valuation). The stock's current 0.93x price-to-book valuation is compelling for a potential takeover by its sponsor's listed vehicles, in our view.

**Paragon a prime beneficiary of border reopening.** Paragon's prime position as a luxury-positioned mall along Orchard Road continues to be one of the key beneficiaries of a return of tourist footfall and spending. Singapore Tourism Board is expecting 16.5 million tourist arrivals in 2024, c.20% y-o-y increase from 2023 levels. This bodes well for our Orchard Road malls, including Paragon REIT, which are reliant on tourist footfall to drive tenant sales based on past trends.

**A possible take-over?** With a new sponsor Cuscaden Peak Pte Ltd, whose ultimate shareholders are sponsors of other larger listed vehicles, we believe a takeover could be a possible scenario to unwind Paragon REIT into either CapitaLand Integrated Comm Trust or Mapletree Pan-Asia Comm Trust. We estimate in our scenario analysis that either of the two sponsor REITs could make an offer for Paragon REIT up to a 1.2x price-to-book to still yield accretion for unitholders from both sides ([Report: Hopping off to a great start](#)). Paragon REIT has also maintained balance sheet flexibility by giving ROFR asset Seletar mall a miss, which is a key catalyst we believe is required for the takeover to happen.

**Maintain BUY with TP of S\$1.05.** We have assumed the redemption of perpetuals (due Aug-24) to be refinanced with debt, and a shift to 100% management fees to be paid in cash as indicated by PGNREIT. Gearing is projected to increase to c.38% as a key trade-off.

#### Key Risks

Slower than expected recovery of tourist footfall to Paragon Mall, higher than expected increase in interest rate.

#### At A Glance

Issued Capital (m shrs)	2,814
Mkt. Cap (\$m/US\$m)	2,420 / 1,800
Major Shareholders (%)	
Cuscaden Investments Ltd	21.2
Cuscaden Peak Investments Pvt Ltd	20.4
SPH REIT Management Pte Ltd	5.0
Free Float (%)	53.4
3m Avg. Daily Val (US\$m)	0.45
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	

## WHAT'S NEW

### FY23 Results

FY23 revenue increased 1.8% y-o-y to S\$289 million, while NPI rose 1.7% y-o-y to S\$215m.

- Distributable income of S\$142.2m represents a distribution payout ratio of 105%, as PGNREIT reverses a rollover tax adjustment from Australia to unitholders
- Full year DPU of 5.02 Scts was 9% y-o-y lower on higher interest cost and foreign translation losses, but came in above our full year estimates
- Operationally, reversions were strong, in our view, and reflective of peers; Paragon delivered double digit reversions at +11.6%, while Clementi mall clocked healthy reversions of +8.7%
- Overall portfolio reversions were dragged down by negative reversionary leases in Australia; Westfield Marion at -5.8% and Figtree grove at -11.6%
- Portfolio occupancy stable at 98.1%, dragged down by relatively lower occupancies within Australia malls at c.97% - 98%
- In terms of **valuation**, Singapore retail malls Paragon and Clementi saw a 2% y-o-y uplift in valuation on stronger cash flow recovery
- Australia assets saw a decline of 5% for Westfield Marion and 7.4% for Figtree Grove on a 50bps cap rate expansion for both properties; Cap rate landed at the 6.0 – 6.5% handle as at 31<sup>st</sup> Dec 2023.
- **Capital management** remains stable with Paragon REIT having one of the lowest gearing in the sector at 30%
- ICR ratio and adjusted ICR ratio ended the year at 3.5x and 2.9x respectively on a higher average cost of debt of 4.3%
- Paragon REIT's S\$300m perpetual securities will see a coupon reset come August-24, with management previously discussing the option of redeeming the perpetuals through debt refinancing.

**Paragon mall's passing rents have recovered past 2019 average levels.** On a full year basis, Paragon REIT's gross revenue at S\$172.3m rose 3% y-o-y on the back of healthy reversionary rents of 11.6% for the period. This finally represented a recovery back to and above pre-COVID levels in 2019 for the Orchard positioned asset, where the asset brought in S\$170.4m in gross revenue. On the other hand, we note that Clementi mall delivered a stronger performance in line with suburban peers, with passing rents recovering to c.6% above pre-COVID levels for this financial year, boosted by generally stronger and more stable underlying tenant sales.

### Outbound travel amongst locals affecting prime retail sales.

Industry retail data suggests that domestic spend per pax saw a dip in 2H23, potentially prompted by the normalisation of outbound travel amongst Singaporeans. We suspect that the trade categories taking a toll would be items within the high-end luxury segment, which could be purchased cheaper overseas due to currency exchange.

Paragon's sales for the period also reflects a similar trend with a 3% y-o-y decline in tenant sales to S\$691.9m, partly due to the non-trading of a key tenant within the luxury segment, which underwent an 8-months period of renovation works. Tourism recovery for 2024 is on the cards, but the uncertainty on China outbound travel recovery continues to see headwinds from a strong SGDRMB foreign exchange rate, alongside international flight capacities that are still below pre-COVID levels. We will need further affirmation on the return of tourist footfall to more than compensate for the loss in local footfall and spend amongst Singaporeans to Orchard.

**Maintain BUY with unchanged TP of S\$1.05.** We roll forward our valuations to FY24, while assuming that the upcoming perpetual coupons (S\$300m to see reset on Aug-24) will be redeemed and refinanced with debt at a cost of 4.5%. Our revised DPU of 4.29 scts / 4.34 scts in FY24F / FY25F implies a forward yield of 5%. Gearing is projected to land at c.38% post the perpetual redemption.

In the scenario that PGNREIT choose to reset the existing perpetuals at a marked-to-market rate of c.6.25%, our FY24F DPU (prorated from reset month of Aug-24 to year end) and FY25F DPU could drop to 4.20 scts for both years.

### Company Background

Paragon REIT is a real estate investment trust that invests in income-producing retail malls in Singapore and Australia. It owns three retail assets in Singapore, with Paragon Mall within the Orchard Road district as its anchor asset in Singapore and two retail malls in Australia.

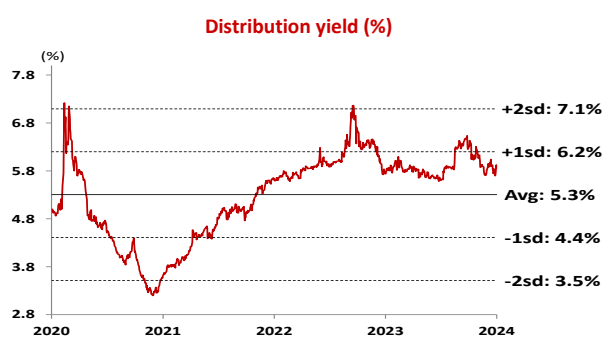
## Paragon REIT

## Interim Income Statement (\$m)

FY Dec	2H2022	1H2023	2H2023	% chg yoy	% chg hoh
Gross revenue	140	143	146	4.0	1.9
Property expenses	(35.8)	(37.0)	(36.8)	2.9	(0.5)
Net Property Income	104	106	109	4.4	2.8
Other Operating expenses	(13.3)	(13.5)	(13.4)	0.5	(1.1)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(12.1)	(23.9)	(26.8)	(121.5)	(12.1)
Exceptional Gain/(Loss)	6.80	(29.3)	39.7	583	nm
<b>Net Income</b>	<b>87.9</b>	<b>41.4</b>	<b>111</b>	<b>25.9</b>	<b>167.1</b>
Tax	(1.8)	1.18	(1.5)	(13.0)	nm
Minority Interest	2.00	2.00	2.00	0.0	0.0
<b>Net Income after Tax</b>	<b>81.9</b>	<b>38.5</b>	<b>105</b>	<b>28.0</b>	<b>172.4</b>
Total Return	(135)	69.2	80.4	nm	16.2
Non-tax deductible Items	0.76	36.1	(36.5)	nm	nm
Net Inc available for Dist.	78.1	70.6	65.0	(16.8)	(8.0)
<b>Ratio (%)</b>					
Net Prop Inc Margin	74.5	74.1	74.7		
Dist. Payout Ratio	103.8	97.0	113.4		

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

## Paragon REIT

**Income Statement (\$m)**

<b>FY Dec</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>
Gross revenue	277	282	289	298	304
Property expenses	(74.6)	(72.2)	(73.9)	(82.5)	(84.0)
<b>Net Property Income</b>	<b>203</b>	<b>210</b>	<b>215</b>	<b>215</b>	<b>220</b>
Other Operating expenses	(28.2)	(26.5)	(26.9)	(24.9)	(25.1)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(23.8)	(22.6)	(50.6)	(58.8)	(69.6)
Exceptional Gain/(Loss)	2.85	36.2	9.62	0.0	0.0
<b>Net Income</b>	<b>153</b>	<b>197</b>	<b>147</b>	<b>131</b>	<b>125</b>
Tax	(1.4)	(2.6)	(0.4)	(4.5)	(4.6)
Minority Interest	(2.4)	(0.6)	1.46	(0.7)	(0.7)
Preference Dividend	(12.3)	(12.2)	(12.3)	(7.2)	0.0
<b>Net Income After Tax</b>	<b>137</b>	<b>181</b>	<b>136</b>	<b>119</b>	<b>120</b>
Total Return	137	181	136	119	120
Non-tax deductible Items	8.16	(22.2)	(0.4)	1.89	1.89
Net Inc available for Dist.	158	161	136	121	122
Adj EBIT (ex associates /	174	183	188	190	195
Adj EBITDA (add DA)	174	183	188	190	195
Adj. Interest expense	(11.7)	(10.8)	(42.3)	(52.1)	(69.9)
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	14.8	1.7	2.5	3.0	2.2
N Property Inc Gth (%)	11.4	3.5	2.6	0.0	2.4
EBIT Gth (%)	16.1	5.03	2.75	1.05	2.54
Net Inc Gth (%)	nm	32.1	(25.0)	(12.5)	1.0
Dist. Payout Ratio (%)	95.2	96.4	104.8	100.0	100.0
Net Prop Inc Margins (%)	73.1	74.4	74.4	72.3	72.4
Adj EBIT Margin (%)	62.9	65.0	65.1	63.9	64.1
Net Income Margins (%)	49.6	64.4	47.1	40.0	39.5
Dist to revenue (%)	56.9	57.0	46.9	40.6	40.1
Managers & Trustee's fees	10.2	9.4	9.3	8.4	8.3
ROAE (%)	5.5	7.1	5.3	4.6	4.7
ROA (%)	3.2	4.3	3.2	2.8	2.8
ROCE (%)	4.1	4.3	4.5	4.4	4.5
Int. Cover (x)	7.3	8.1	3.7	3.2	2.8
Adj EBITDA ICR (x)	14.9	16.9	4.45	3.65	2.79

Source: Company, DBS Bank Ltd

## Paragon REIT

**Balance Sheet (\$m)**

<b>FY Dec</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>
Investment Properties	4,124	4,149	4,122	4,128	4,135
Other LT Assets	0.0	5.12	3.85	3.85	3.85
Cash	112	107	134	97.0	89.9
ST Investment	0.0	0.0	0.0	0.0	0.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	11.3	6.64	6.27	6.27	6.27
Net Intangibles Assets	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.0	7.17	2.31	2.31	2.31
<b>Total Assets</b>	<b>4,247</b>	<b>4,275</b>	<b>4,269</b>	<b>4,238</b>	<b>4,237</b>
ST Debt	155	322	223	223	223
Creditor	61.0	58.7	64.1	29.8	30.4
Other Current Liab	1.05	0.0	0.52	5.02	5.10
LT Debt	1,138	963	1,046	1,348	1,348
Other LT Liabilities	43.6	37.9	44.2	44.2	44.2
Unit holders' funds	2,833	2,878	2,880	2,576	2,574
Minority Interests	14.7	14.6	11.6	12.3	13.0
<b>Total Funds &amp; Liabilities</b>	<b>4,247</b>	<b>4,275</b>	<b>4,269</b>	<b>4,238</b>	<b>4,237</b>
Non-Cash Wkg. Capital	(50.7)	(44.9)	(56.0)	(26.2)	(26.9)
Net Cash/(Debt)	(1,181)	(1,178)	(1,134)	(1,474)	(1,481)
Perpetuals	298	298	302	0.0	0.0
<b>Ratio</b>					
Current Ratio (x)	0.6	0.3	0.5	0.4	0.4
Quick Ratio (x)	0.6	0.3	0.5	0.4	0.4
Aggregate Leverage (%)	30.4	30.1	29.7	37.1	37.1

Source: Company, DBS Bank Ltd

## Paragon REIT

## Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Income	152	196	147	131	125
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	(2.6)	0.0	(4.5)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	11.6	(3.6)	(4.1)	(34.3)	0.67
Other Operating CF	38.9	5.87	51.9	0.0	0.0
<b>Net Operating CF</b>	<b>203</b>	<b>199</b>	<b>192</b>	<b>97.0</b>	<b>122</b>
Net Invnt in Properties	(13.0)	(7.6)	(6.8)	(6.5)	(6.6)
Other Invnts (net)	0.0	0.0	0.0	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	0.44	3.90	0.0	0.0
<b>Net Investing CF</b>	<b>(13.1)</b>	<b>(7.2)</b>	<b>(2.9)</b>	<b>(6.5)</b>	<b>(6.6)</b>
Distribution Paid	(121)	(160)	(117)	(121)	(122)
Chg in Gross Debt	(23.4)	(21.7)	0.0	302	0.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(13.8)	(0.8)	(51.7)	(7.2)	0.0
<b>Net Financing CF</b>	<b>(158)</b>	<b>(182)</b>	<b>(169)</b>	<b>174</b>	<b>(122)</b>
Currency Adjustments	(1.5)	(1.4)	0.41	0.0	0.0
Chg in Cash	29.7	7.76	21.2	265	(7.1)
Operating CFPS (S cts)	6.88	7.24	6.99	4.67	4.30
Free CFPS (S cts)	6.83	6.84	6.60	3.22	4.09

Source: Company, DBS Bank Ltd

## Target Price &amp; 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:	10 Aug 23	0.95	1.05	BUY

Source: DBS Bank Ltd

Analysts: Geraldine WONG

Derek TAN

DBS Group Research 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

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7. Su Shan TAN, a member of DBS Group Management Committee, is a Director of Mapletree Pan Asia Commercial Trust as of 10 Jan 2024.

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