

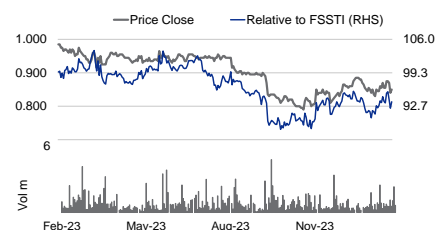
Singapore

HOLD (no change)

Consensus ratings*: Buy 1 Hold 1 Sell 0	
Current price:	S\$0.85
Target price:	S\$0.86
Previous target:	S\$0.88
Up/downside:	1.2%
CGS-CIMB / Consensus:	-18.1%
Reuters:	PARA.SI
Bloomberg:	PGNREIT SP
Market cap:	US\$1,792m S\$2,411m
Average daily turnover:	US\$0.44m S\$0.58m
Current shares o/s:	2,563m
Free float:	38.9%
*Source: Bloomberg	

Key changes in this note

- FY24F DPU lowered by 4.7%.
- FY25F DPU lowered by 3.4%.
- Introduce FY26 estimates.

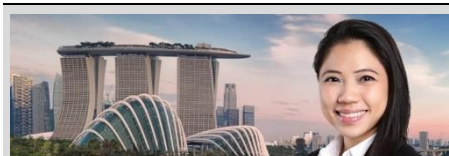


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.7	3.7	-13.7
Relative (%)	0.2	5.4	-6

Major shareholders	% held
Cuscaden Investments Ltd	61.1

Analyst(s)



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Paragon REIT

Positive reversions eroded by interest cost

- Management expects the positive reversion trend to continue in Singapore.
- FY23 Singapore tenant sales -2% yoy, obscured by 9 months of non-trading by Saint Laurent at Paragon, excluding which tenant sales would be flat.
- Reiterate Hold on limited upside. FY24F DPU yield of 5.3% lags peers.

Topline growth wiped out by higher interest cost

FY23 revenue/NPI grew 1.8%/1.7% yoy to S\$288.9m/S\$215.1m on the back of stronger performance of the Singapore portfolio, which saw 2.8%/3.2% yoy revenue/NPI growth. FY23 DPU of 5.02 Scts (-9.1% yoy due to higher interest cost) was above at 108.5% of our FY23F, but included S\$6.6m or 0.23 Scts of distributions of rollover tax adjustments and distributable income retained from prior periods, excluding which FY23 DPU would have been in line at 100.2% of our FY23F.

High occupancy in Singapore assets supporting reversions

Portfolio reversions for FY23 came in at 6.3%, with Singapore delivering strong reversions of 10.6% (16MFY22: -4.1%). Reversions at Australia dipped further by -8.2% (16MFY22: -7.0%) as management prioritised occupancy over rents against the backdrop of elevated interest rates and softening consumer sentiment. Portfolio occupancy slipped 0.4bps yoy to 98.1% due to transitional vacancies at Rail Mall and its Australian portfolio. Management has guided that FY24F reversions for the Singapore portfolio could land in the mid- to high-single digit range, backed by 100% committed occupancy at Paragon and Clementi Mall.

No decision on Seletar Mall yet

Portfolio valuations increased by 2.2% yoy in FY23, lifted by the 1.9% or S\$62.3m yoy increase in the Singapore portfolio, which offset the 5.6% or A\$47.5m yoy decline in the Australian portfolio. Gearing remains low at 30%, while cost of debt increased from 4.21% for 9M23 to 4.30% for FY23 (85% fixed). PGNREIT has S\$300m in perpetuals with a call/reset date of 30 Aug 2024. Assuming interest rates remain at current levels, the coupon rate will increase from 4.1% to c.6.2%. Our base case assumption is that PGNREIT will opt to redeem the perpetuals by drawing on bank loans. We estimate that at the current interest rate levels, interest on new loans will be c.5% and gearing will rise to c.37%, which is still healthy, in our view. On 15 Jan 24, media outlets reported that Allgreen Properties is in an exclusive due diligence process to buy Seletar Mall. Should a bid be offered, the right-of-first-refusal (ROFR) will be triggered and PGNREIT will have 30 days to exercise the ROFR.

Reiterate Hold on limited upside potential

We cut FY24F-25F DPU by 3.4-4.7% as we raise our reversion assumptions, tweak down our tax assumption and factor in management's guidance that 100% of manager's fees will be paid in cash (previous assumption was 95% of fees paid in units). Reiterate Hold. Our DDM-based TP is reduced from S\$0.88 to S\$0.86 on lower DPU forecasts. Potential upside risks: stronger rental reversions and accretive acquisitions. Downside risks: weak reversions/leasing and a slowdown in consumer spending, leading to lower turnover rent and softer tenant sentiment, hurting PGNREIT's ability to command positive reversions.

Financial Summary	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Gross Property Revenue (S\$m)	376.4	288.9	304.4	314.1	321.9
Net Property Income (S\$m)	279.9	215.1	226.7	235.9	243.7
Net Profit (S\$m)	256.6	156.1	144.0	146.1	153.5
Distributable Profit (S\$m)	203.2	142.2	126.2	135.7	142.3
Core EPS (S\$)	0.078	0.052	0.051	0.052	0.054
Core EPS Growth	45.2%	(33.7%)	(2.1%)	1.5%	5.0%
FD Core P/E (x)	10.85	16.37	16.73	16.48	15.69
DPS (S\$)	0.072	0.050	0.045	0.048	0.050
Dividend Yield	8.50%	5.90%	5.24%	5.63%	5.91%
Asset Leverage	29.9%	29.7%	36.7%	36.8%	36.9%
BVPS (S\$)	0.91	0.91	0.91	0.91	0.91
P/BV (x)	0.93	0.93	0.94	0.94	0.94
Recurring ROE	8.60%	5.70%	5.59%	5.67%	5.96%
% Change In DPS Estimates			(4.65%)	(3.44%)	
DPS/Consensus DPS (x)			0.87	0.89	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (S\$m)	2H FY23	2H FY22	yoy % chg	1H FY23	hoh % chg	12M ended-Dec 23	12M ended-Dec 22	yoy % chg	Prev FY23F	Comments
Revenue	145.8	140.2	4.0%	143.1	1.9%	288.9	283.8	1.8%	299.0	In line. FY23 formed 96.6% of our FY23F.
Property operating expenses	(36.8)	(35.8)	2.9%	(37.0)	-0.5%	(73.9)	(72.3)	2.1%	(77.8)	
Net property income	109.0	104.4	4.4%	106.1	2.8%	215.1	211.5	1.7%	221.2	In line. FY23 formed 97.2% of our FY23F.
<i>NPI margin (%)</i>	74.7%	74.5%		74.1%		74.4%	74.5%		74.0%	
Manager's mgt fees	(10.7)	(10.5)	2.3%	(10.5)	2.8%	(21.2)	(21.1)	0.6%	(20.4)	
Trust expenses	(1.3)	(1.3)		(1.6)		(2.9)	(2.9)		(4.0)	
Interest expense	(29.1)	(12.4)	135.3%	(25.5)	13.8%	(54.6)	(28.3)	93.0%	(56.8)	
Interest & invt inc	2.3	0.1	nm	1.7	nm	4.0	1.8	nm	0.3	
Others	-	-	-	-	-	-	-	-	-	
Net income before FV changes	68.9	78.9	-12.7%	68.7	0.3%	137.6	158.1	-13.0%	159.7	
Exceptionals & revaln	39.4	7.1	nm	(29.8)	nm	9.6	6.6	nm	-	
Net income before tax	108.3	86.1	25.9%	38.9	178.7%	147.2	164.7	-10.6%	137.4	
Tax	(1.5)	(1.8)	-13.0%	1.2	-230.2%	(0.4)	(3.1)	-88.5%	(9.3)	
<i>Tax rate (%)</i>	1.4%	2.1%		-3.0%		0.2%	1.9%		6.8%	
Net income after tax	106.8	84.3	26.7%	40.1	166.6%	146.8	161.6	-9.1%	125.5	
Unitholders	101.5	77.3	31.3%	34.5	194.3%	136.0	147.9	-8.0%	118.2	
Perpetual securities	6.2	6.2	0.0%	6.1	1.6%	12.3	12.3	0.0%	12.3	
Non-controlling interest	(0.9)	0.8	-214.7%	(0.5)	70.4%	(1.5)	1.4	-204.4%	(2.5)	
Net income after tax	106.8	84.3	26.7%	40.1	166.6%	146.8	161.6	-9.1%	125.5	
Distributable income	65.0	78.1	-16.8%	70.6	-8.0%	135.6	-	nm	131.0	
Core net profit	67.4	77.1	-12.7%	69.9	-3.6%	137.2	155.0	-11.5%	125.5	
DPU (cts)	3.10	2.84	9.2%	2.42	28.1%	5.02	5.52	nm	4.63	In line. FY23 formed 108.5% of our FY23F.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: PGN REIT's key earnings changes


FYE Dec	Previous		New		Change	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Gross revenue (S\$ m)	306.1	310.3	304.4	314.1	-0.5%	1.2%
Net property income (S\$ m)	229.2	233.6	226.7	235.9	-1.1%	1.0%
DPS (Scts)	4.67	4.96	4.46	4.79	-4.7%	-3.4%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Peer comparison table

SREIT	Bloomberg Ticker	Rec.	Price (LC)	Target	Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	Dividend Yield (%)		
			as at 06 Feb 24	Price (LC) (DDM-based)					FY23F	FY24F	FY25F
Hospitality											
CapitaLand Ascott Trust	CLAS SP	Add	0.93	1.29	\$2,588	37.9%	1.16	0.80	7.1%	7.2%	7.4%
CDL Hospitality Trust	CDREIT SP	Add	1.00	1.25	\$927	38.4%	1.31	0.76	5.7%	5.9%	6.5%
Far East Hospitality Trust	FEHT SP	Add	0.65	0.77	\$961	32.2%	0.85	0.76	5.9%	6.6%	6.8%
Frasers Hospitality Trust	FHT SP	NR	0.48	NA	\$675	39.3%	0.65	0.73	4.7%	5.0%	5.2%
Simple Average						37.0%		0.76	5.9%	6.2%	6.4%
Industrial											
AIMS AMP	AAREIT SP	NR	1.30	NA	\$758	36.4%	1.38	0.94	7.8%	7.5%	7.6%
CapitaLand Ascendas REIT	CLAR SP	Add	2.78	3.06	\$9,080	36.7%	2.31	1.20	5.5%	5.6%	5.6%
Cromwell European REIT	CERT SP	Add	1.36	2.15	\$821	37.4%	2.25	0.60	11.3%	11.4%	11.5%
ESR-LOGOS REIT	EREIT SP	Add	0.32	0.39	\$1,801	37.7%	0.33	0.95	8.1%	8.1%	8.1%
Frasers Logistics & Commercial Trus	FLT SP	Add	1.09	1.27	\$3,034	30.2%	1.17	0.93	6.5%	6.1%	6.3%
Keppel DC REIT	KDCREIT SP	Hold	1.63	1.88	\$2,086	37.3%	1.37	1.19	5.8%	5.2%	5.5%
Mapletree Industrial Trust	MINT SP	Add	2.42	2.61	\$5,098	37.9%	1.88	1.29	5.6%	5.7%	5.9%
Mapletree Logistics Trust	MLT SP	Add	1.50	1.88	\$5,555	38.9%	1.42	1.06	6.0%	5.7%	5.8%
Sabana Shariah	SSREIT SP	NR	0.38	NA	\$309	33.8%	0.53	0.72	7.9%	7.9%	8.2%
Simple Average						36.3%		0.99	7.2%	7.0%	7.2%
Office											
Keppel REIT	KREIT SP	Add	0.89	1.14	\$2,489	39.5%	1.31	0.68	6.6%	6.7%	6.9%
OUE REIT	OUEREIT SP	Hold	0.27	0.36	\$1,082	39.4%	0.59	0.45	8.0%	8.1%	8.3%
Suntec REIT	SUN SP	Hold	1.15	1.29	\$2,487	42.7%	2.09	0.55	6.2%	5.7%	5.9%
Simple Average						40.5%		0.56	6.9%	6.8%	7.0%
Retail											
CapitaLand Integrated Commercial	CICT SP	Add	1.98	2.18	\$9,800	40.8%	2.12	0.93	5.4%	5.4%	5.8%
Frasers Centrepoint Trust	FCT SP	Add	2.27	2.54	\$3,047	37.2%	2.31	0.98	5.4%	5.2%	5.3%
Lendlease Global Commercial REIT	LREIT SP	Add	0.61	0.83	\$1,067	40.6%	0.77	0.79	7.6%	7.0%	7.5%
Mapletree Pan Asia Commercial Trus	MPACT SP	Add	1.38	1.54	\$5,386	40.8%	1.81	0.76	7.0%	6.2%	6.3%
Paragon REIT	PGNREIT SP	Hold	0.85	0.86	\$1,792	30.0%	0.91	0.93	5.9%	5.2%	5.6%
Starhill Global REIT	SGREIT SP	Add	0.49	0.62	\$823	36.8%	0.80	0.61	7.8%	8.0%	8.3%
Simple Average						37.7%		0.84	6.5%	6.2%	6.5%
Overseas-centric											
CapitaLand China Trust	CLCT SP	NR	0.82	NA	\$1,139	42.4%	1.33	0.62	8.6%	9.2%	9.5%
Elite Commercial REIT	ELITE SP	Add	0.27	0.49	\$199	49.6%	0.43	0.63	13.5%	15.1%	15.2%
Manulife US REIT	MUST SP	Add	0.06	0.25	\$99	56.0%	0.40	0.14	69.4%	68.8%	67.7%
Sasseur REIT	SASSR SP	Add	0.68	0.95	\$624	25.4%	0.85	0.79	9.2%	9.3%	9.8%
Simple Average						43.4%		0.54	25.2%	25.6%	25.6%
Healthcare											
Parkway Life REIT	PREIT SP	Add	3.61	4.50	\$1,624	36.0%	2.29	1.58	4.1%	4.1%	4.3%
Simple Average						35.5%		1.58	4.1%	4.1%	4.3%
Simple average for SIN						38.2%		0.83	9.3%	9.3%	9.5%

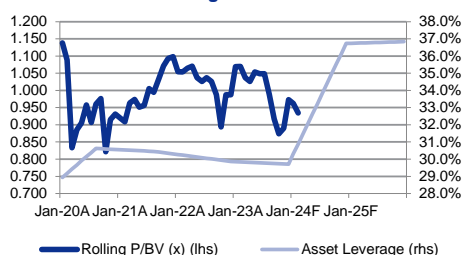
SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS
NR estimates are based on Bloomberg consensus forecasts

Refinitiv ESG Scores							
	<table border="1"> <tr> <td style="background-color: #f9c94d; color: white; text-align: center;">C- <small>ESG Score</small></td> <td style="background-color: #2e8b57; color: white; text-align: center;">A+ <small>ESG Controversies Score</small></td> <td style="background-color: #f9c94d; color: white; text-align: center;">C- <small>ESG Combined Score</small></td> <td style="background-color: #c9e04d; color: white; text-align: center;">C <small>ESG Environment Pillar Score</small></td> <td style="background-color: #f9c94d; color: white; text-align: center;">D+ <small>ESG Social Pillar Score</small></td> <td style="background-color: #f9c94d; color: white; text-align: center;">D+ <small>ESG Government Pillar Score</small></td> </tr> </table>	C- <small>ESG Score</small>	A+ <small>ESG Controversies Score</small>	C- <small>ESG Combined Score</small>	C <small>ESG Environment Pillar Score</small>	D+ <small>ESG Social Pillar Score</small>	D+ <small>ESG Government Pillar Score</small>
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<p>ESG in a nutshell</p> <p>PGNREIT was rated C- for its combined ESG score by Refinitiv in FY22, with the score split into Environment: C, Social: D+ and Governance: D+. It scored A+ for Controversies. Despite its weaker Environmental score, we note that PGN REIT stepped up its sustainability efforts by reporting its sustainability report in accordance with Global Reporting Initiative Standards since FY20.</p>							
<p>Keep your eye on</p> <p>PGN REIT's Governance score is weaker than its peers, weighed down by lack of detailed disclosures/implementation, such as board individual re-election, executive individual compensation, and board specific skills.</p>	<p>Implications</p> <p>While we have not assigned any discounts to our valuation due to the delays in implementing/disclosing detailed responsible practices, the lack thereof could pose a drag on its share price.</p>						
<p>ESG highlights</p> <p>Based on Refinitiv's ranking, PGNREIT ranked 26 out of 27 REITs in Singapore and 88 out of 101 companies in Singapore. While PGNREIT's Environment Pillar ratings are comparable to its peers, its Social and Governance Pillars lag peers due to lower human rights and community scores.</p> <p>PGNREIT is committed to achieving net-zero emissions at its Singapore and Australia assets by 2050. It aims to reduce like-for-like GHG emissions, water and electricity intensities by 30%, 18% and 18%, compared to their 2015 baselines, by 2025.</p>	<p>Implications</p> <p>We believe that PGNREIT 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>The Clementi Mall and Paragon obtained recertification for the BCA Green Mark (Gold) and Green Mark (Certified), respectively, in FY21. Westfield Marion achieved 4 Stars for Water and 4 Stars for Energy in the National Australian Built Environment Rating System (NABERS) rating in FY21 while Figtree Grove is currently in the midst of obtaining a NABERS rating.</p>	<p>Implications</p> <p>We believe that PGNREIT's continuous efforts to improve ESG will have a positive effect on its operations and financials in the longer term.</p>						

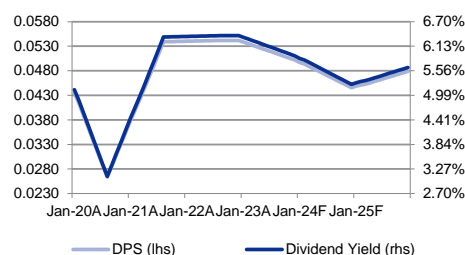
SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

P/BV vs Asset Leverage



Dividend Yield vs Net DPS



Profit & Loss

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Rental Revenues	376.4	288.9	304.4	314.1	321.9
Other Revenues					
Gross Property Revenue	376.4	288.9	304.4	314.1	321.9
Total Property Expenses	(96.5)	(73.9)	(77.7)	(78.2)	(78.1)
Net Property Income	279.9	215.1	226.7	235.9	243.7
General And Admin. Expenses					
Management Fees	(18.0)	(13.3)	(13.7)	(13.7)	(13.8)
Trustee's Fees	(0.8)	(0.6)	(2.0)	(2.0)	(2.0)
Other Operating Expenses	(2.9)	(2.3)	(2.0)	(2.0)	(2.0)
EBITDA	258.2	198.9	209.0	218.2	225.9
Depreciation And Amortisation					
EBIT	258.2	198.9	209.0	218.2	225.9
Net Interest Income	(34.4)	(50.6)	(62.1)	(69.1)	(69.6)
Associates' Profit					
Other Income/(Expenses)					
Exceptional Items	37.9	9.6	0.0	0.0	0.0
Pre-tax Profit	261.7	157.9	146.9	149.0	156.4
Taxation	(3.7)	(0.4)	(0.4)	(0.4)	(0.4)
Minority Interests	(1.5)	(1.5)	(2.5)	(2.5)	(2.5)
Preferred Dividends					
Net Profit	256.6	156.1	144.0	146.1	153.5
Distributable Profit	203.2	142.2	126.2	135.7	142.3

Cash Flow

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Pre-tax Profit	261.7	157.9	146.9	149.0	156.4
Depreciation And Non-cash Adj.	34.4	50.6	62.1	69.1	69.6
Change In Working Capital	4.6	(4.1)	23.3	3.8	3.1
Tax Paid	(3.7)	(2.6)	(0.4)	(0.4)	(0.4)
Others	(24.8)	(12.3)	(11.6)	(12.0)	(12.4)
Cashflow From Operations	272.3	189.6	220.4	209.6	216.2
Capex	(14.5)	(6.8)	(10.0)	(10.0)	(10.0)
Net Investments And Sale Of FA	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	1.2	4.0	0.3	0.4	0.4
Cash Flow From Investing	(13.4)	(2.8)	(9.7)	(9.6)	(9.6)
Debt Raised/(repaid)	0.0	0.0	312.0	10.0	10.0
Equity Raised/(Repaid)	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(198.8)	(116.8)	(126.2)	(135.7)	(142.3)
Cash Interest And Others	(47.6)	(64.0)	(372.7)	(69.5)	(69.9)
Cash Flow From Financing	(246.4)	(180.8)	(187.0)	(195.2)	(202.3)
Total Cash Generated	12.5	6.0	23.7	4.8	4.3
Free Cashflow To Firm	260.1	190.8	211.0	200.3	206.9
Free Cashflow To Equity	224.6	136.2	460.5	140.8	147.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(S\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Investments	4,112	4,122	4,132	4,142	4,152
Intangible Assets	0	0	0	0	0
Other Long-term Assets	10	4	4	4	4
Total Non-current Assets	4,123	4,126	4,136	4,146	4,156
Total Cash And Equivalents	126	134	158	163	168
Inventories					
Trade Debtors					
Other Current Assets	9	9	8	9	9
Total Current Assets	135	143	167	172	177
Trade Creditors	62	64	81	83	85
Short-term Debt	95	223	447	350	250
Other Current Liabilities	0	1	1	1	1
Total Current Liabilities	157	288	528	434	336
Long-term Borrowings	1,177	1,046	1,134	1,241	1,351
Other Long-term Liabilities	44	44	51	52	53
Total Non-current Liabilities	1,220	1,090	1,184	1,293	1,404
Shareholders' Equity	2,563	2,578	2,576	2,574	2,573
Minority Interests	14	12	14	17	19
Preferred Shareholders Funds	302	302	0	0	0
Total Equity	2,879	2,891	2,590	2,591	2,592

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Gross Property Revenue Growth	35.8%	(23.2%)	5.4%	3.2%	2.5%
NPI Growth	38.1%	(23.2%)	5.4%	4.1%	3.3%
Net Property Income Margin	74.4%	74.4%	74.5%	75.1%	75.7%
DPS Growth	34.1%	(30.6%)	(11.2%)	7.5%	4.9%
Gross Interest Cover	7.26	3.64	3.35	3.14	3.23
Effective Tax Rate	1.41%	0.23%	0.28%	0.28%	0.28%
Net Dividend Payout Ratio	79.2%	91.1%	87.7%	92.9%	92.7%
Current Ratio	0.86	0.50	0.32	0.40	0.53
Quick Ratio	0.86	0.50	0.32	0.40	0.53
Cash Ratio	0.80	0.47	0.30	0.38	0.50
Return On Average Assets	6.03%	3.66%	3.36%	3.39%	3.55%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Rental reversion	(4.1)	(0.2)	1.6	3.0	1.1
Occupancy rate	98.5	97.0	98.0	98.8	98.8

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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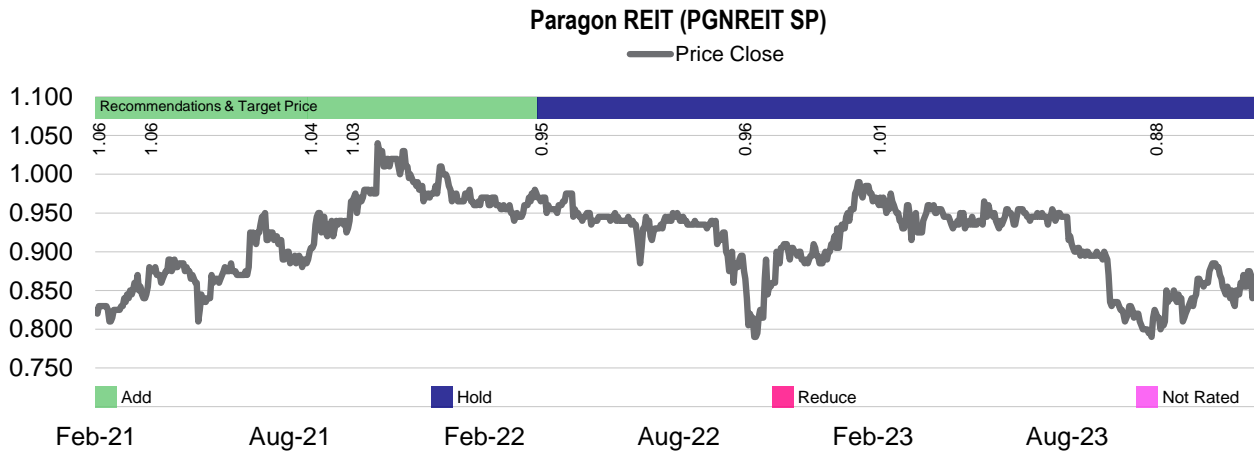
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Add	67.5%	1.3%
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Spitzer Chart for stock being researched (2 year data)



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