

# SPH REIT

## FY15 Results: Analyst Briefing Key Takeaways

### SINGAPORE | REAL ESTATE (REIT) | NON-RATED NOTE

14 October 2015

SPH REIT announced their FY15 results on Monday 12 October evening. We attended the analyst briefing and below are the key takeaways.

#### Results at a glance

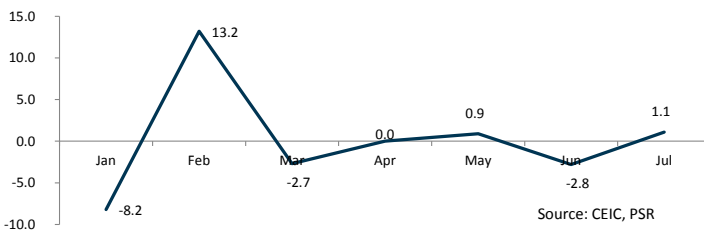
(SGD mn)	FY15	FY14	y-y (%)	Comments
Gross Revenue	205.1	202.2	1.4	Driven by higher renewed leases. Portfolio average rental reversion at 8.6%.
Property Op. Expenses	49.5	51.6	(4.1)	Lower maintenance, utilities and marketing costs.
Net property income	155.6	150.7	3.3	
Distribution to Unitholders	138.0	136.2	1.4	
<b>DPU (Cents)</b>	<b>5.47</b>	<b>5.43</b>	<b>0.7</b>	

Source: Company, Phillip Securities Research (Singapore)

#### Analyst Briefing Key Takeaways

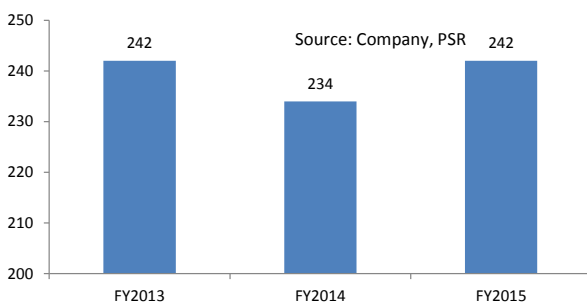
- Clementi Mall Updates: Healthy tenant sales in FY15.** Tenant sales rose 3.6% to S\$242m in FY15. This contrasts with Singapore's generally flat retail sales year-to-date. Rental reversion at Clementi Mall came in at -5.6% for FY15 on the renewed leases. We think investors should not be over-concerned with this as these new leases account for only 5% of NLA. Opened in 2011, Clementi Mall had a first major tenant renewal cycle in 2014 (typical retail lease is 3-year). Retention rate of tenants was more than 90% and rental reversions then stood at 5.5% in 2014. This is despite a huge increase in supply of suburban malls in the nearby Jurong East area in 2013/2014. We think the healthy retention rate and rental reversion is more indicative of tenants' optimism on the prospects of the mall, as well as the appeal of suburban malls to international retailers.

Singapore Retail Sales Index y/y % Change (exc Motor Veh)



Generally flat retail sales in Singapore this year

Clementi Mall Tenant Sales (S\$m)



2014 tenant sales partially affected by the temporary redirection of crowds towards the new Jurong East malls. Jem (opened June 2013), Westgate (Dec 2013), Big Box (Dec 2014). Singapore general retail sales (exc Motor veh) likewise contracted 0.7% in 2014.

**Lower occupancy cost ratio.** At 14.6%, Clementi Mall's occupancy cost is slightly less the general average suburban retail occupancy cost of ~17%. (CapitaLand Mall Trust FY14: 17.6%, Frasers Centrepoint Trust FY14: 16.4%)

- Paragon updates: Healthy rental reversions for FY15 at 9.1%, continuing the pace from FY2014 (up 10.5%).** Tenant Sales was down 3.2% yoy to S\$657m, primarily impacted by the fitting out period for the tenant revitalisation program. Chiller decanting project was

#### NON-RATED

CLOSING PRICE (S\$, 13 Oct 15)	0.98
DIV YIELD, CONSENSUS (%)	5.74
TARGET PRICE (S\$)	n.a.
TOTAL RETURN (S\$)	n.a.

#### SHARE DATA

OUTSTANDING SHARES (MN)	2,529
MARKET CAP (S\$   US\$)	2,466 / 1,761
52 WEEK RANGE (S\$)	0.90 / 1.09
Volume (3m avg, mn shares)	1.18

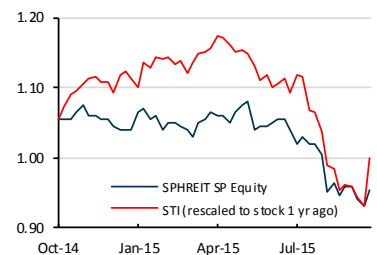
#### TOP THREE SHAREHOLDERS (%)

SINGAPORE PRESS HOLD	69.2
NORGES BANK INVESTME	3.2
NTUC FAIRPRICE CO-OP	2.7

#### PRICE PERFORMANCE (%)

	1 mo	3 mo	1 yr
SPH REIT	1.6	(5.3)	(8.0)
Straits Times Index	3.4	(9.9)	(6.8)

#### PRICE VS. STI



Source: Bloomberg, PSR

#### Key financials (S\$ mn)

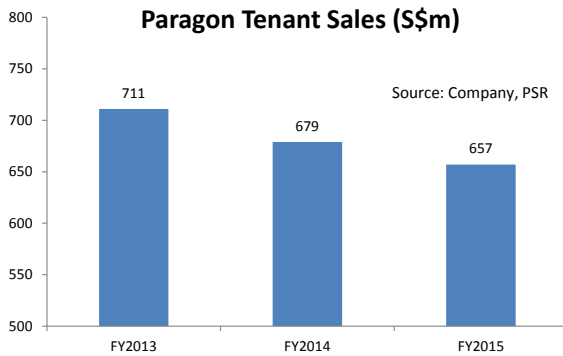
FYE Aug	FY14	FY15
Gross Revenue	202.2	205.1
Property Expenses	-51.6	-49.5
Net Property Income	150.7	155.6
Income av. For distribution	136.4	138.5
Distributions to unitholders	136.2	138.0
DPU (SGD cents)	5.43	5.47

Source: Bloomberg

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completed and all tenants for the newly created space have started trading by August this year.



FY14 tenant sales affected by decline in tourist arrivals following the MH17 and MH370 plane incidents. FY15 sales impacted by fitting out period for tenant re-adjusting.

We note that Paragon’s tenant sales have been dropping since IPO in FY13. FY2014 was a terrible year for Singapore tourism with the mishaps surrounding Malaysia Airlines and AirAsia dampening tourist interest in the region, especially amongst Chinese tourists. Nonetheless, we observe a steady rebound in tourist arrivals for July and August this year (possibly due to SG50 festivities). July marked the highest total monthly tourist arrivals Singapore ever saw at 1.5m and in August we welcomed 267,085 Chinese tourists (second largest tourist group by nationality), the highest number of Chinese tourists in a month historically. Stabilizing tourist numbers could provide a floor for Paragon’s tenant sales.

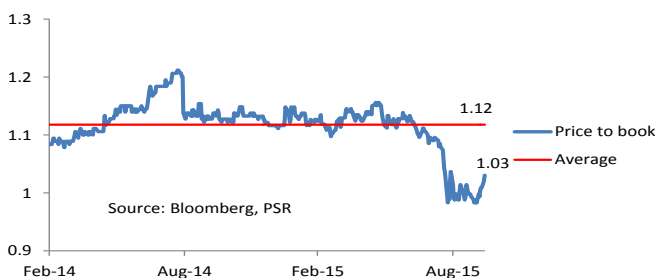
- **Acquisition Pipeline Update: Seletar Mall.** SPHREIT has currently one Right-of-First-Refusal (ROFR) property, the Seletar Mall. The mall achieved 100% committed occupancy since opening in December 2014. Management expressed optimism in the prospects of the mall as the surrounding estate is growing at a fast pace. Nonetheless, management also noted that an 8-month operating timeframe is too short to observe any stable shopping patterns in the area and more time is required for the mall to stabilize.
- **Lease expiries well spread out for Paragon.** Paragon will see only 10.5% of leases expiring in 2016 by Gross Rental Income (GRI), and Clementi Mall, 6.6%. Clementi Mall will see the next major tenant renewal in 2017 (85.5% by GRI).

### Peer comparison/Historical Valuation

Name	Mkt Cap (SGD mn)	Last Close (\$)	Dvd Yld:D-1	P/B	Latest Gearing (%)	Average Cost of debt
SPH REIT	2,466	0.98	5.61	1.03	25.7	2.55%
FRASERS CENTREPOINT TRUST	1,815	1.98	5.83	1.07	29.3	2.66%
CAPITAMALL TRUST	7,073	2.00	5.49	1.09	32.1	3.30%
STARHILL GLOBAL REIT	1,701	0.78	6.55	0.86	35.4	3.19%
CAPITARETAIL CHINA TRUST	1,225	1.46	7.01	0.85	28.5	2.98%
SUNTEC REIT	4,063	1.62	5.97	0.77	34.7	2.70%

Source: Bloomberg, PSR

### SPHREIT P/Book



SPH REIT trading at close to trough PB valuations since IPO in late 2013.

### Investment Actions

No stock rating or target price provided. We do not have any coverage on SPHREIT at the moment.

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