

Starhill Global REIT (SGREIT SP)

Share Price: SGD0.80

Target Price: SGD0.74 (-8%)

MCap (USD): 1.2B

ADTV (USD): 1M

Singapore
REITs

HOLD

 (Unchanged)

Aussie Rules

- 3Q15 in line. Strong showings in Australia and Singapore offset weakness in Malaysia and China.
- Still cautious on Singapore retail as reversions, shopper traffic & tenant sales are expected to fall this year.
- Maintain HOLD with TP bumped from SGD0.71 to SGD0.74 on 2-4% higher DPU, still at 7.5% yield target. Still our preferred retail REIT on recent acquisitions & master lease renewals.

What's New

3Q was a strong quarter as expected. Myer Centre Adelaide had its first full quarter and Wisma Atria topped our expectations. Revenue and NPI grew 16.8% YoY (9.6% QoQ) and 10.2% YoY (5.6% QoQ), while DPU improved 3.1% YoY (1.6% QoQ). Australia NPI surged 113% YoY to SGD8.6m due to Myer. In Singapore, Wisma's retail NPI rose 5.6% YoY to SGD11.5m as occupancy ramped up from 98.1% to 100%. Committed rent reversions of c.8.6% in 1H also kicked in. However, management guided that committed reversions signed in 3Q fell 7.7%, as it tried out new fashion/F&B concepts. It continues to see a difficult retail environment, especially for the fashion industry. Shopper traffic and tenant sales fell c.6.1% and c.4.9% for the year. Malaysia and China NPI declined 16% YoY and 27.5% YoY respectively, due to MYR depreciation and severe competition in Chengdu.

Top retail REIT pick

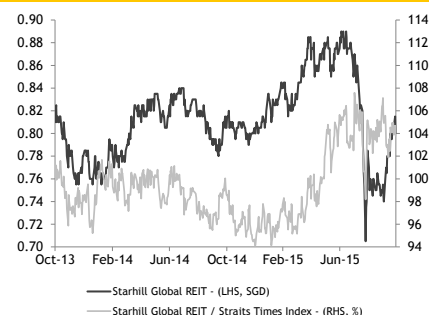
Starhill remains our preferred exposure to retail REITs owing to its clear DPU growth path from: 1) Myer (11% NPI), plus a potential 23% increase in NLA from AEI; and 2) three master leases - Ngee Ann, Lot 10, Starhill Gallery at 38% NPI - up for renewal in Jun 2016. We raise DPU by 2-4% to accommodate Wisma's strong showing. Applying our unchanged 7.5% yield target to FY16 DPU, our TP climbs from SGD0.71 to SGD0.74. Maintain HOLD in view of a generally difficult retail environment.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	200.6	195.1	210.1	221.6	226.0
Net property income	157.9	157.4	167.5	175.9	179.4
Distributable income	104.8	108.7	116.1	121.2	124.7
DPU (cts)	5.0	5.1	5.3	5.6	5.7
DPU growth (%)	13.9	1.0	5.4	4.4	2.9
Price/DPU(x)	16.0	15.8	15.0	14.4	14.0
P/BV (x)	0.9	0.9	0.9	0.9	0.9
DPU yield (%)	6.3	6.3	6.7	6.9	7.1
ROAE (%)	4.2	4.1	4.1	4.1	4.1
ROAA (%)	2.9	2.8	2.7	2.5	2.5
Debt/Assets (x)	0.3	0.3	0.3	0.3	0.3

Key Data

52w high/low (SGD)	0.89/0.71
3m avg turnover (USDm)	1.2
Free float (%)	62.7
Issued shares (m)	2,153
Market capitalization	SGD1.7B
Major shareholders:	
-YTL Corp Bhd.	36.3%
-AIA Singapore Pte Ltd.	8.0%
-SSgA Funds Management, Inc.	0.9%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	7.4	(7.5)	(1.8)
Relative to index (%)	(0.4)	0.4	3.7

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	6	2	0
	Maybank Consensus		% +/-
Target Price (SGD)	0.74	0.91	(18.2)
2015 DPU (cts)	5.3	5.1	4.3
2016 DPU (cts)	5.6	5.4	3.8

Source: FactSet; Maybank

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Figure 1: NPI contributions

Revenue				Net Property Income			
\$'000	1Q FY15/16	3Q FY14/15	% Change	\$'000	1Q FY15/16	3Q FY14/15	% Change
Wisma Atria				Wisma Atria			
Retail ⁽¹⁾	15,117	14,041	7.7%	Retail ⁽¹⁾	11,521	10,905	5.6%
Office ⁽¹⁾	2,990	2,785	7.4%	Office ⁽¹⁾	2,229	2,053	8.6%
Ngee Ann City				Ngee Ann City			
Retail	12,082	11,976	0.9%	Retail	9,949	9,855	1.0%
Office	3,931	3,850	2.1%	Office	3,181	3,142	1.2%
Singapore	34,120	32,652	4.5%	Singapore	26,880	25,955	3.6%
Australia ⁽²⁾	13,054	5,035	159.3%	Australia ⁽²⁾	8,606	4,036	113.2%
Malaysia ⁽³⁾	6,510	7,498	(13.2%)	Malaysia ⁽³⁾	6,277	7,473	(16.0%)
Chengdu ⁽⁴⁾	1,945	2,309	(15.8%)	Chengdu ⁽⁴⁾	926	1,277	(27.5%)
Japan ⁽⁵⁾	1,145	1,111	3.1%	Japan ⁽⁵⁾	931	835	11.5%
Total	56,774	48,605	16.8%	Total	43,620	39,576	10.2%

Notes:
 1. Mainly due to positive rental reversions achieved in previous quarters, partially offset by higher operating expenses.
 2. Mainly due to full quarter contribution from the recently-acquired Myer Centre Adelaide, partially offset by depreciation of AUD and lower occupancies.
 3. Mainly due to depreciation of RM and reversal of excess provision of property tax in 3Q FY14/15 following the revision in property tax assessment.
 4. Mainly due to lower revenue amidst softening of retail market resulting from government austerity drive and increased competition.
 5. Mainly due to higher occupancies and lower operating expenses, partially offset by depreciation of JPY.

Source: Company

Figure 2: SGREIT's quarterly results vs. previous FY15 estimates

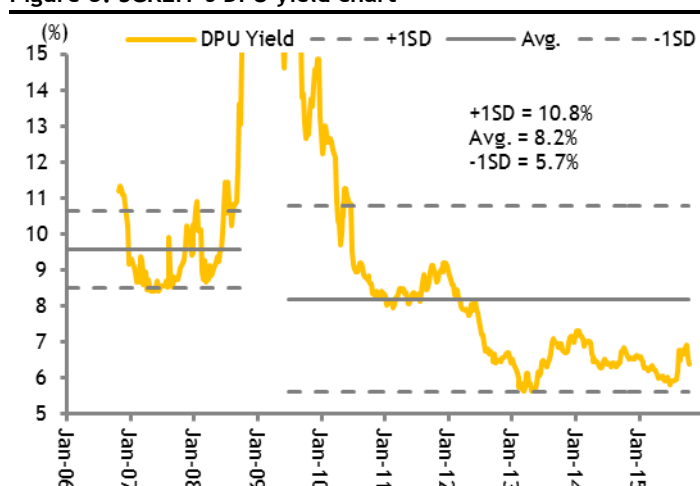
FYE 31 Dec *	3Q14 (SGD m)	2Q15* (SGD m)	3Q15* (SGD m)	(QoQ %)	Change (YoY %)	YTD15 (SGD m)	% of FY	FY15F (SGD m)
Property income	48.6	51.8	56.8	9.6	16.8	156.4	77.4	202.2
Property expenses	(9.0)	(10.5)	(13.2)	25.6	45.7	(32.6)	79.9	(40.8)
Net property income	39.6	41.3	43.6	5.6	10.2	123.8	76.7	161.4
Share of results of associates & JVs	-	-	-	na	na	-	na	-
Income available for distribution	28.6	29.5	30.0	2.0	5.2	87.9	78.2	112.4
Distribution per unit	1.27	1.29	1.31	1.6	3.1	3.86	76.3	5.06
NAV per unit (SGD)	0.93	0.91	0.90	-1.1	-3.2			
Aggregate leverage (%) [^]	29.1	35.5	35.7	20.0	660.0		^	
All-in Financing Cost (%) [^]	3.15	3.19	3.13	(6.0)	(2.0)		^	

[^] change in basis points

Source: Company, Maybank KE

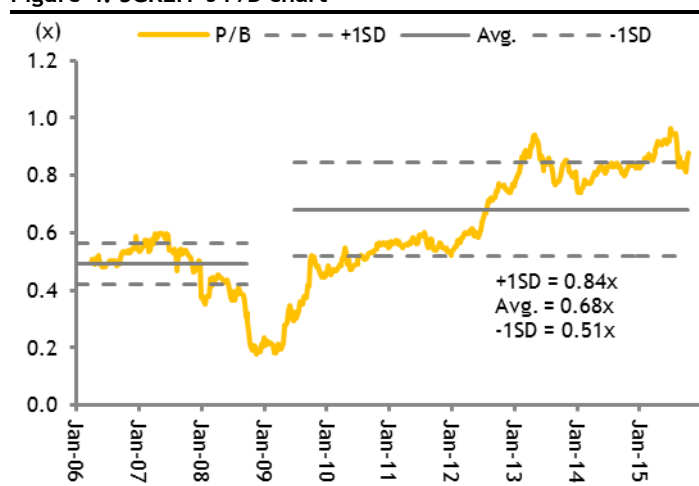
* Pro-forma, SGREIT has changed its YE to June from December

Figure 3: SGREIT's DPU yield chart



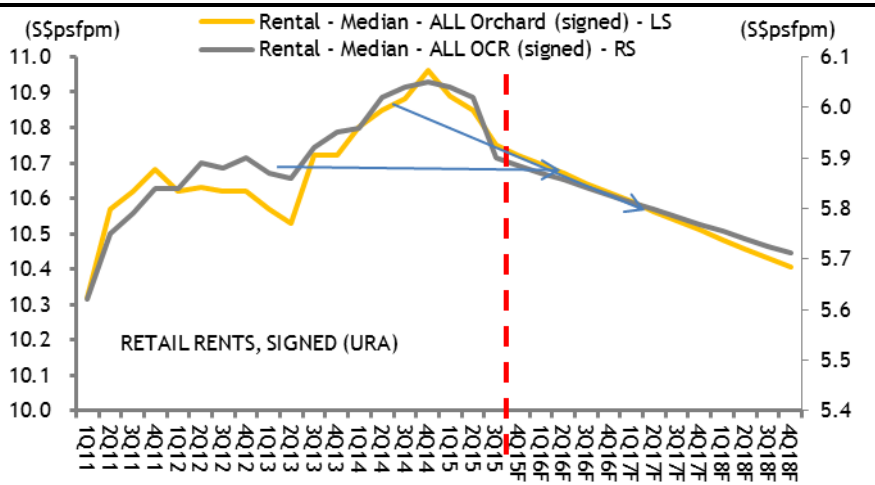
Source: Bloomberg, Maybank KE

Figure 4: SGREIT's P/B chart



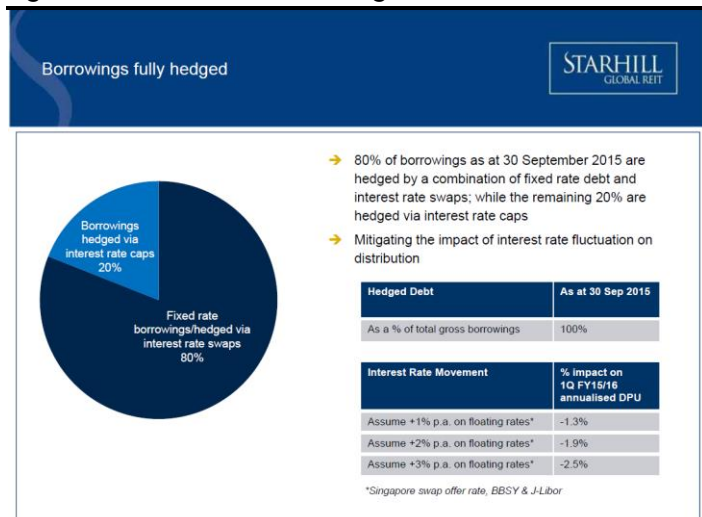
Source: Bloomberg, Maybank KE

Figure 5: Retail rents for Orchard and Outside Central Region declined 1.9% and 2.5% YTD. At 1-2% annual declines in 2016-18, 2016 rents will fall to 2013 levels, while 2017 rents will fall 3-4% below 2014. This implies islandwide reversions could be flat to negative till 2018. Our forecasts bake in flat reversions for SGREIT.



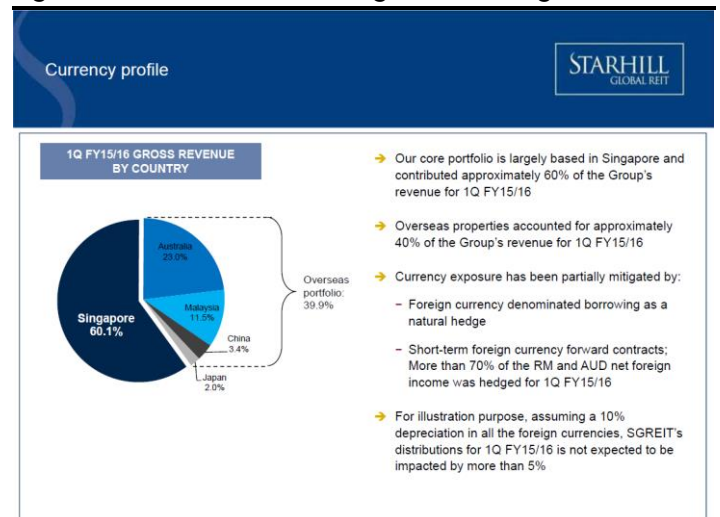
Source: Realis, Maybank KE

Figure 6: Interest Cost 100% hedged



Source: Company

Figure 7: About 70% of net foreign income hedged



Source: Company

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
Price/DPU(x)	16.0	15.8	15.0	14.4	14.0
P/BV (x)	0.9	0.9	0.9	0.9	0.9
P/NTA (x)	0.9	0.9	0.9	0.9	0.9
DPU yield (%)	6.3	6.3	6.7	6.9	7.1
FCF yield (%)	8.4	8.1	8.9	9.0	9.1
INCOME STATEMENT (SGD m)					
Gross revenue	200.6	195.1	210.1	221.6	226.0
Net property income	157.9	157.4	167.5	175.9	179.4
Net financing costs	(29.6)	(29.6)	(31.3)	(34.5)	(34.4)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	142.2	34.2	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Total return before tax	252.8	144.6	117.1	122.2	125.8
Income tax	(2.9)	(1.4)	(1.4)	(1.5)	(1.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	250.0	143.2	115.7	120.8	124.3
Distributable inc to unitholders	104.8	108.7	116.1	121.2	124.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	58.0	81.6	88.4	90.7	90.9
Accounts receivable	10.2	7.5	7.7	9.0	9.7
Property, Plant & Equip (net)	1.2	1.4	1.4	1.2	1.1
Investment properties	2,854.4	2,854.8	3,138.5	3,138.5	3,138.5
Intangible assets	10.7	10.7	10.7	10.7	10.7
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	8.7	7.0	8.4	9.1	9.1
Total assets	2,943.3	2,963.1	3,255.1	3,259.1	3,259.9
ST interest bearing debt	53.6	123.9	14.0	0.1	395.1
Accounts payable	43.0	41.0	48.1	51.2	51.8
LT interest bearing debt	792.3	719.5	1,113.0	1,127.0	732.0
Other liabilities	44.1	45.8	47.4	48.7	49.3
Total Liabilities	933.0	930.2	1,222.5	1,227.0	1,228.2
Shareholders Equity	2,010.3	2,032.9	2,032.6	2,032.1	2,031.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	2,010.3	2,032.9	2,032.6	2,032.1	2,031.7
Total liabilities and equity	2,943.3	2,963.1	3,255.1	3,259.1	3,259.9

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Gross revenue growth	7.9	(2.7)	7.7	5.5	2.0
Total return before tax growth	86.5	(42.8)	(19.0)	4.4	3.0
Total return growth	89.9	(42.7)	(19.2)	4.4	3.0
Distributable income growth	0.0	0.0	0.0	0.0	0.0
Profitability ratios (%)					
Total return before tax margin	nm	74.1	55.8	55.2	55.7
Payout ratio	43.1	75.9	nm	nm	nm
DuPont analysis					
Total return margin (%)	nm	73.4	55.1	54.5	55.0
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.5	1.5	1.6	1.6	1.6
ROAE (%)	4.2	4.1	4.1	4.1	4.1
ROAA (%)	2.9	2.8	2.7	2.5	2.5
Liquidity & Efficiency					
Days receivable outstanding	17.5	16.4	13.0	13.6	14.9
Days payables outstanding	364.7	401.1	376.4	391.0	397.9
Dividend cover (x)	2.3	1.3	1.0	1.0	1.0
Current ratio (x)	0.7	0.5	1.5	1.9	0.2
Leverage & Expense Analysis					
Asset/Liability (x)	3.2	3.2	2.7	2.7	2.7
Net debt/equity (%)	39.2	37.5	51.1	51.0	51.0
Net interest cover (x)	4.7	4.7	4.7	4.5	4.7
Debt/EBITDA (x)	6.0	6.0	7.6	7.2	7.0
Capex/revenue (%)	1.6	0.9	0.4	0.2	0.2
Net debt/ (net cash)	787.9	761.7	1,038.6	1,036.4	1,036.2

Source: Company; Maybank

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