Asia Credit

Earnings Review: Starhill Global REIT (“SGREIT”)

Recommendation

- Continued weakness in SGREIT’s Singapore and Australia segments are reflected in performance, though completion of the Plaza Arcade AEI could mean future improvements for the latter. We will retain SGREIT’s Neutral (4) Issuer Profile given its stable credit profile.
- The SGREIT‘26s look to offer a ~18bps pick up versus the CAPITA’27s when adjusting for the one-year shorter duration, though CAPITA’s Issuer Profile is stronger at Neutral (3).

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
SGREIT 3.14% ‘26	03/10/2026	35.3%	3.50%	91bps
MCTSP 3.11% ‘26	24/08/2026	34.5%	3.39%	80bps
CAPITA 2.88% ‘27	10/11/2027	33.5%	3.43%	78bps

Indicative prices as at 4 May 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter

Issuer Profile: Neutral (4)

Ticker: **SGREIT**

Background

Listed on the SGX in September 2005, Starhill Global REIT (“SGREIT”) invests primarily in real estate used for retail and office purposes, both in Singapore and overseas. It owns 11 mid to high-end retail properties in 5 countries, valued at ~SGD3.1bn as at 28 July 2017. The properties include Wisma Atria (74.2% of strata lots) and Ngee Ann City (27.2% of strata lots) in Singapore, Starhill Gallery and Lot 10 in Malaysia, and 7 other malls in China, Australia and Japan. YTL Corp Bhd is SGREIT’s sponsor and largest unitholder with a 35.8% stake.

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Key Considerations

- **Prior trends persisted**: SGREIT reported 3QFY2018 results (ending March 2018). Gross revenue declined 3.0% y/y to SGD51.7mn while NPI fell 2.3% y/y to SGD40.3mn. Similar to previous periods, SGREIT’s Singapore office revenue was weak (-10.4% y/y to SGD5.9mn) due to vacancy issues. Specifically, Singapore office committed occupancy fell to 90.7% (3QFY2017: 97.3%). Performance at Ngee Ann City’s offices had weakened in the last few quarters with committed occupancy declining from 95.8% (3QFY2017) to as low as 77.9% (1QFY2018). Though Ngee Ann City’s office committed occupancy has recovered back to 90.1% as at end-3QFY2018, some tenants may be still in their fitting-out rent free period and hence rental might be lagging. Looking forward, SGREIT’s Singapore office performance could remain choppy given sizable lease expiries of 27.1% / 40.7% of gross rent for Wisma Atria / Ngee Ann City respectively for FY2019. Occupancy is also weaker than market occupancy of 94.2% (as reported by CBRE). In mitigation, Singapore office’s YTD NPI is just 10.5% of total.

- **Retail slips, Australia slumps**: On the retail front, Wisma Atria (Ngee Ann City not meaningful due to master lease structure) reported a 1.6% y/y revenue decline to SGD13.8mn and a 1.1% y/y decline in NPI to SGD10.8mn. This was driven by the 7.2% decline in shopper traffic (which management attributed to tenants’ renovation). Australia’s revenue contribution weakened as well by 10.0% y/y to SGD11.0mn, with the AEI impact at Plaza Arcade, office vacancies at Myer Centre Adelaide and the weaker AUD affecting performance. SGREIT’s smaller markets performed during the quarter, with Malaysia reporting 6.4% y/y increase in revenue to SGD7.1mn and 6.3% y/y increase in NPI to SGD6.9mn, largely driven by MYR appreciation (as the assets are held in master lease).

- **Relief possible in the near future**: Aside from the still challenging situation for its Singapore office assets, SGREIT’s other exposures look to be stabilizing. For Australia, with the Plaza Arcade AEI wrapping up, and the new anchor tenant, UNIQLO, having commenced renovation works (the fitting out period), contribution for the asset is expected to improve by 2H2018 (when the renovation is expected to end). SGREIT has also completed the conversion of its sole China departmental store (based in Chengdu) into a single tenancy model. The asset used to generate as much as SGD2.5mn in revenue per quarter (last seen in FY2015), though changes in the market and competition drove revenue sharply lower to SGD1.0mn for 4QFY2016. With the new tenant, Markor International Home Furnishings Co, having officially opened in March 2018, the asset’s performance may start to improve. Overall, committed occupancy for SGREIT had improved q/q to 94.3% (2QFY2018: 94.1%).

- **Static quarter for credit profile**: Aggregate leverage had remained stable q/q at 35.3%. Reported interest cover also remained unchanged at 4.1x q/q. Maturity profile looks manageable with no debt due in FY2018, SGD63mn due in FY2019 (AUD93mn loan) and SGD112mn due in FY2020 (MYR300mn MTN). In general, SGREIT could continue to divest assets from its smaller markets (it had divested Japanese assets in recent times). These include the 3 Japan assets still held (SGD59.6mn book value as at end-FY2017) as well as the repositioned China asset (SGD32.1mn book value as at end-FY2017) with use of proceeds a potential credit positive.

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Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration
The analyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or company as at the time of the publication of this report.

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