Issuer Profile:
Neutral (4)

Ticker:
SGREIT

Seow Zhi Qi
+65 6530 7348
zhiqiseow@ocbc.com

Starhill Global Real Estate Investment Trust ("SGREIT")

Recommendation

- **Revenue growth was flattish at 0.4% y/y over the fourth quarter of the financial year ended 30 June 2019 ("4QFY2019"), while the full year saw revenue slip by 1.3% y/y. We think SGREIT's portfolio could be inching towards stabilising as year-on-year change narrows over the quarters.**
- **Lower revenue generated at the Singapore portfolio was offset by positive growth recorded overseas despite unfavourable foreign exchange movements. Wisma Atria in particular saw revenue decline by 6.2% y/y over the full year, and by 2.1% y/y over 4QFY2019.**
- **EBITDA/Interest coverage was slightly weaker though still manageable at 3.5x while reported aggregate leverage has risen to 36.1% (31 March 2019: 35.7%). We think aggregate leverage could creep higher if management were to engage in an asset enhancement initiative at Wisma Atria to increase its gross floor area.**
- **We think the SGREIT curve is trading tight relative to its peers.**
  - **i) SGREIT 3.50% '21 is trading ~30bps tighter than FCOTSP 2.835% '21 for a 6 months shorter tenor.**
  - **ii) SGREIT 3.40% '23, which is offering a yield of 2.57% and a spread of 102bps, is ~26bps tighter than FCOTSP 3.185% '23 and ~29bps tighter than SUNSP 3.4% '23.**
  - **iii) SGREIT 3.14% '26 is ~14bps tighter than SUNSP 3.355% '25, even though SUNSP 3.355% '25 has a 20 months short tenor.**
- **We are maintaining SGREIT's Neutral (4) issuer profile on the back of its still manageable, albeit slightly weaker credit metrics. We hold Frasers Commercial Trust ("FCOT") and Suntec Real Estate Investment Trust ("SUN") at an issuer profile of Neutral (4).**

Relative Value

Bond	Maturity / Call date	Aggregate leverage	Ask YTC / YTM	Spread
SGREIT 3.50% '21	26/02/2021	36.1%	2.25%	65bps
SGREIT 3.40% '23	26/05/2023	36.1%	2.57%	102bps
SGREIT 3.14% '26	03/10/2026	36.1%	2.90%	128bps
FCOTSP 2.835% '21	11/08/2021	29.3%	2.55%	96bps
FCOTSP 3.185% '23	28/02/2023	29.3%	2.84%	128bps
SUNSP 3.4% '23	10/05/2023	38.3%	2.87%	131bps
SUNSP 3.355% '25	07/02/2025	38.3%	2.99%	142bps

Indicative prices as at 6 August 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter

Background

- Starhill Global REIT ("SGREIT") invests primarily in the real estate used for retail and office purposes in Singapore and overseas. SGREIT, listed on the SGX in September 2005, owns 10 properties valued at SGD3.1bn as at 30 June 2019. By value, 69% of its properties are in Singapore, 16% are in Australia and 12% are in Malaysia, with the remaining 3% in Japan and China.
- The key properties are Ngee Ann City (27.23% strata title interest) and Wisma Atria (74.23% strata title interest).
- SGREIT is sponsored by YTL Corporation Berhad, which has a 35.8% stake in the REIT.

Key Considerations

- **Flattish year-on-year change over the quarter:** Gross revenue was up by 0.4% y/y in 4QFY2019 to SGD51.9mn, while net property income ("NPI") was down by 0.4% y/y to SGD39.9mn. Both figures saw little change, as the lower revenue generated by the Singapore portfolio was offset by positive growth recorded overseas despite unfavourable foreign exchange movements. For the full year, revenue slipped by 1.3% y/y, with NPI lower by 1.7% y/y. As such, we think the SGREIT's portfolio could be inching towards stabilising as y/y change narrows over the quarters.

- **Softness at Wisma Atria (Retail):** SGREIT is most exposed to the retail segment in Singapore with Wisma atria (Retail) and Ngee Ann City (Retail) accounting for around 50% of portfolio's revenue and NPI cumulatively. Ngee Ann City (Retail) has been largely stable because Toshin, a master tenant, makes up 87% of the gross rent. Having said that, in the recent rent review that happens every 3 years, SGREIT has disappointing locked in flat rent rate for Toshin. We note that Toshin's master lease will be reviewed again on 8 June 2022, before maturing in 2025. For Wisma Atria (Retail), full year revenue was down by 6.8% y/y and NPI was down by 8.9% y/y, though the decline was more benign over the quarter with revenue falling by 1.8% y/y and NPI down by 3.8% y/y. Interestingly, a decline was observed over the quarter even though actual occupancy had improved to 99.6% as at 30 June 2019 from 97.1% a year ago. Evidently, rents at Wisma Atria (Retail) have softened. For FY2020, 23.4% of the gross retail rents at Wisma Atria (Retail) will come due. Given tenant sales grew 8.1% y/y during the quarter, we think a flat or small rental growth in FY2020 is not out of the question even though we think part of the sales growth could be attributed to a higher occupancy.

- **Ngee Ann City (Office) improved tremendously:** Revenue generated by the office component of the property grew by 3.1% y/y while NPI had grown by 5.6% y/y over the quarter. For the full year, revenue and NPI were up significantly by 12.8% y/y and 18.1% y/y respectively. This growth was largely driven by better occupancy rate which was 95.9% as at 30 June 2019, much higher than 88.9% a year ago. In FY2020, 35.2% of the leases by gross rent by Ngee Ann City (Office) will expire. While this is significant, we are not overly concern as we continue to see vacancy tighten and rental rates climb within the office space in Singapore. Having said that, we notice that Wisma Atria (Office) has been lagging in performance. Revenue recorded at Wisma Atria (Office) over the quarter was down 3.6% y/y and NPI was down by 2.3% y/y, along with lower occupancy rate at 89.3% as at 30 June 2019, versus 92.4% a year ago. This property will also see 32.7% of its leases by gross rent come due in FY2020. We think the combined expiring leases at SGREIT's Singapore office portfolio in FY2020 will be material for SGREIT. However, given the healthy outlook for office space in Singapore, we do not expect these expiring leases to drag SGREIT's overall performance.

- **Aggregate leverage crept higher:** As at 30 June 2019, aggregate leverage was 36.1%, up from 35.7% in 3QFY2019, the preceding quarter. This was due to slightly higher debt by SGD3mn (~0.3% increase) and a downward revaluation of properties, in particular those in Singapore by SGD31mn (down 1.4% y/y) though there was no disclosure on the rationale for the lower valuation. Asset valuation was also impacted by unfavourable foreign currency movements, mainly in AUD and MYR. Overall, asset valuation was down by SGD53.3mn (-1.7% y/y). While aggregate leverage remains in the manageable range, SGREIT is undeniably vulnerable to foreign currencies movement. We think aggregate leverage may creep higher should management decide to engage in an asset enhancement initiative at Wisma Atria to increase its gross floor area. Given management has yet to put out an announcement related to this, we think this remains to be seen for now.

- **Weaker interest coverage:** EBITDA (based on our calculation) fell by 1.8% y/y over the quarter, mainly due to higher trust expenses (+53.6% y/y) and property expenses (+3.2% y/y) though partially offset by higher gross revenue (+0.4% y/y). The higher trust expenses were in the relation to the renewal of Malaysia master tenancy agreements – project expenses and professional fees. Over the quarter, interest expenses rose by 5.7% y/y as average cost of borrowings rose from 3.13% a year ago to 3.28% as at 30 June 2019 (up 4.8% y/y). Resultant EBITDA/Interest coverage based on our calculation fell to 3.5x from 3.8x a year ago. While the coverage ratio is weaker, we think it is still manageable. SGREIT has SGD72.9mn cash on hand at end June, and SGD128mn short term borrowings which comprise SGD20mn short term revolving credit facilities and SGD108mn medium term notes secured by the Malaysia Properties (maturing in Sep 2019). SGREIT in the midst of refinancing these notes and has available undrawn long term committed SGD revolving credit facilities to cover these maturing notes. As such, we see refinancing risk as low.

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

Please note that Bond Recommendations are dependent on a bond's price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

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.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Emmanuel Ng
Senior FX Strategist
NgCYEmmanuel@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Alan Lau
Malaysia & Indonesia
AlanLau@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com