

## Issuer Profile:

# Starhill Global REIT (“SGREIT”)

Neutral (4)

## Ticker:

SGREIT

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### New Issue

- SGREIT is looking to price a **SGD 7Y senior unsecured bond with IPG at the 2.35% area.**
- SGREIT is a known issuer in the SGD-space. Similar to other senior unsecured bonds issued by SGREIT, the new senior unsecured bond is proposed to be issued by Starhill Global REIT MTN Pte Ltd with HSBC Institutional Trust Services (Singapore) Limited (in its capacity as trustee of SGREIT) as the Guarantor.
- The use of proceeds for the bond is for refinancing of existing debt, capital expenditures and working capital. There is a make-whole call on the proposed bond until 13 September 2028.
- SGREIT is externally rated by an international rating agency at investment grade.

### Recommendation

- We are Overweight the SGREIT proposed 7Y bond at IPG of 2.35%, we expect the proposed new bond to tighten from IPG, and see **fair value at 2.10%-2.20% YTM.**
- We take reference to SGREIT’s own curve and also refer to SGREIT’s closest comparables whose bonds are more liquid. The comparable issuers we have picked are commercial REITs whose income and assets are also driven by retail malls and offices, though all three are larger than SGREIT by asset size. We look to the average YTM and spreads given the divergent credit profile of these REITs.
- We hold Suntec REIT at Neutral (4), although see its credit profile as a tad weaker than SGREIT given its higher reported aggregate leverage. We hold both CapitalLand Integrated Commercial Trust and Mapletree Commercial Trust at Neutral (3) with bond prices from these issuers serving as a ceiling to the new proposed SGREIT bond.

### Relative Value:

Bond	Maturity / Call date	Reported aggregate leverage	Ask YTM/YTC	Spread	Recommendation
<b>New SGREIT 7Y bond</b>	<b>2028</b>	<b>36.1%</b>	<b>2.35% (IPG)</b>	<b>108bps</b>	<b>OW</b>
SGREIT 3.15% '25s	05/06/2025	36.1%	1.58%	71bps	N*
SGREIT 3.85%-PERP	15/12/2025	36.1%	3.93%	297bps	OW*
SUNSP 2.95% '27s	05/02/2027	43.1%	2.69%	158bps	N*
CAPITA 2.1% '28s	08/03/2028	40.5%	1.86%	64bps	UW*
MCTSP 3.05% '29s	22/11/2029	34.2%	2.17%	80bps	N*

*Indicative prices as at 06 September 2021 Source: Bloomberg*

*Note: (1) Reported aggregate leverage based on latest available financials and business updates*

*\*Based on monthly credit view (02 September 2021)*

### Background

- SGREIT is listed on the Singapore Stock Exchange with a market cap of SGD1.4bn as at 6 September 2021. Along with ten other mid-sized REITs listed on the SGX, SGREIT will be included in the FTSE EPRA NAREIT Global Real Estate Index Series (Global Developed Index) with effect from 20 September 2021.
- SGREIT is a commercial REIT which mid-to-high end retail malls and some offices. SGREIT’s properties include Wisma Atria (74.23% of strata lots) and Ngee Ann City (27.23% of strata lots on Orchard Road, Singapore, in Australia – Myer Centre Adelaide, David Jones Building and Plaza Arcade in Adelaide and Perth respectively, The Starhill and Lot 10 in Kuala Lumpur, Malaysia, one mall in Chengdu, China and two malls in Tokyo, Japan.
- Bursa Malaysia listed YTL Corp Bhd is SGREIT’s Sponsor and largest unitholder with a ~37%-stake (including deemed interest).
- SGREIT is established in Singapore, SGREIT bonds are issued by Starhill Global REIT MTN Pte Ltd, unconditionally and irrevocably guaranteed by HSBC Institutional Trust Services (Singapore) Limited (in its capacity as trustee of SGREIT) (the "Guarantor") though the sole perpetual is issued

by HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of SGREIT.

- In the second half of financial year ended 30 June 2021 (“2HFY2021”), revenue rose 10.5% y/y to SGD92.9mn while net property income (“NPI”) was up 20.2% y/y to SGD69.8mn. This was due to lower rental assistance to tenants, and the appreciation of AUD against SGD, but was partially offset by lower occupancy and rent at Wisma Atria Property (Retail) coupled with higher allowance for rental arrears and other operating expenses. Contributions to revenue is ~85.8% retail and ~14.2% office in 2HFY2021. Master/anchor leases with periodic rental reviews make up ~51.5% of gross rents as at 30 June 2021.
- Tenants’ sales and shopper traffic of Wisma Atria Property have improved in 2HFY2021 y/y due to the initial ease of restrictions but much of the improvement was reversed by the implementation of the Phase 2 (Heightened Alert). Tenants’ sales continue to be impacted by lack of tourists due to international border restrictions.
- For the overall portfolio, occupancy rate based on committed leases was 96.7% as at 30 June 2021. As at 30 June 2021, weighted average lease term by gross rent stands at 5.3 years. Expiry leases by gross rent in FY2022 is very manageable, at 15.1% as at 30 June 2021.
- Reported aggregate leverage was 36.1% as at 30 June 2021, higher at 37.7% (including 50% of perpetual securities debt).

#### Recent Write-ups on SGREIT and comparable issuers from OCBC Credit Research

- [Asian Credit Daily \(02 August 2021\)](#)
- [Asian Credit Daily \(30 July 2021\)](#)
- [Asian Credit Daily \(28 July 2021\)](#)
- [Asian Credit Daily \(22 July 2021\)](#)

**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 bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Neutral (“N”)** – The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Underweight (“UW”)** – The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**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.

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#### Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report. The analyst(s) who wrote this report and/or her or his respective connected persons hold financial interests in Suntec REIT and Mapletree Commercial Trust at the time of the publication of this report.

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