

SPH REIT (SPHREIT SP)

Waiting Game

HOLD

Share Price	SGD 0.99
12m Price Target	SGD 1.00 (+1%)
Previous Price Target	SGD 1.00

Company Description

SPH REIT engages in the ownership and acquisition of commercial properties. It operates through the Paragon and The Clementi Mall segments.

Statistics

52w high/low (SGD)	1.08/0.99
3m avg turnover (USDm)	0.5
Free float (%)	25.8
Issued shares (m)	2,566
Market capitalisation	SGD2.5B
	USD1.8B

Major shareholders:

Singapore Press Holdings Ltd.	68.2%
NTUC Enterprise Co-operative Ltd.	5.2%
SPH REIT Management Pte. Ltd.	1.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(2)	(3)
Relative to index (%)	(2)	2	1

Source: FactSet

Results in line, maintain HOLD, prefer FCT

4Q/FY18 results were overall in line with our estimates. SPHREIT's 4Q DPU of SGD1.43cts (+0.7% YoY) brings its full year to SGD5.54cts (+0.2% YoY). It remains a strong proxy to growth in tourism spending and recovery in prime Orchard Road rents. Its Rail Mall deal is a sound step to alleviate e-commerce risks, but unlikely to change its overall DPU growth profile. Investors will require patience, given limited visibility on its long-discussed potential Seletar Mall deal; we see these as priced in and the shares as fairly valued at this level. Reiterate HOLD with DDM-based SGD1.00 TP (WACC: 6.9%, LTG: 1.5%). We prefer FCT (BUY, TP SGD2.55) for its suburban mall footprint and 4.5% 3-year DPU CAGR.

Paragon - further moderation in -ve rental reversion

SPHREIT's 4Q18 revenue/ NPI were +0.2% YoY/ -1.9% YoY, with the lower contribution from Paragon mitigated by the Clementi Mall and the Rail Mall acquisition completed on 28 Jun. Shopper traffic and tenant sales at Paragon both rose 2.7% YoY in FY18 to 18.8m and SGD693.0m, respectively. As expected, the rental reversion of -3.7% had moderated from the weaker 1Q-3Q, with reversions of between -10.6% and -6.2%. As a result, occupancy cost improved YoY from 19.6% to 18.3%. This should support an improving rental outlook, and we forecast rents to rise 3-5% in FY18-19 on the back of a cyclical recovery. Meanwhile, a new seamless multi-tenanted 16k sf space at Level 3 will be launched at end-2018.

A small deal in the bag, another still out of reach

Management looks to strengthen F&B offerings at the Rail Mall. This segment is resilient to e-commerce threats. Also, the mall's accessibility and locality within a private residential catchment are advantageous. However, near-term organic growth is likely to be capped by high 96% occupancy and low footfall. SPHREIT's more sizeable acquisition growth opportunities have yet to be secured after two years of negotiations. Seletar Mall remains its key acquisition growth opportunity in Singapore and management continues to eye third-party Australian retail assets. We estimate a potential Seletar Mall deal could add 4-8% to FY19 DPU, assuming the purchase of a 100% stake that is fully debt-funded given its low gearing of 26.3% as at end-Aug 2018.

FYE Aug (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	213	212	223	232	239
Net property income	169	167	179	186	191
Core net profit	128	124	141	145	151
Core EPU (cts)	5.0	4.8	5.4	5.6	5.8
Core EPU growth (%)	(10.7)	(3.5)	12.6	2.7	3.1
DPU (cts)	5.5	5.5	5.5	5.6	5.8
DPU growth (%)	0.1	0.1	(0.8)	2.7	3.1
P/NTA (x)	1.1	1.1	1.0	0.9	0.9
DPU yield (%)	5.5	5.5	5.5	5.7	5.9
ROAE (%)	6.7	5.7	12.4	10.0	8.6
ROAA (%)	3.9	3.7	4.0	4.0	4.0
Debt/Assets (x)	0.25	0.26	0.25	0.24	0.23
Consensus DPU	-	-	5.7	5.8	na
MKE vs. Consensus (%)	-	-	(3.9)	(3.3)	na

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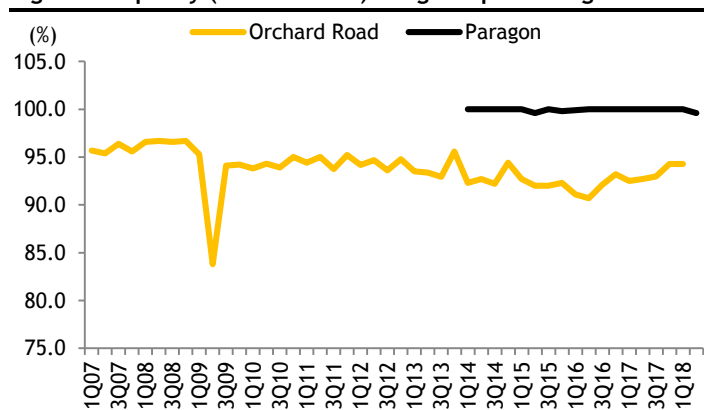
Fig 1: Summary financials 4Q18A comparison

FYE 31 Mar	4Q17 (SGD m)	3Q18 (SGD m)	4Q18 (SGD m)	Change (% YoY)	Change (% QoQ)	YTD18 (SGD m)	% of FYE	FY18E (SGD m)
Gross revenue	52.9	51.8	53.0	0.2	2.3	211.8	97.0	218.4
Property expenses	(11.1)	-11.21	-11.983	8.0	6.9	(45.8)	102.5	(44.7)
Net property income	41.8	40.6	41.0	(1.9)	1.0	166.0	95.0	174.7
Borrowing costs	(6.1)	(6.1)	(6.5)	6.5	6.4	(24.5)	110.2	(22.2)
Distributable income to unitholders	36.3	35.1	36.8	1.3	4.8	142.3	99.0	143.7
Distribution per unit (SGD cts)	1.42	1.37	1.43	0.7	4.4	5.5	99.0	5.6
NAV per unit (SGD)	0.95	0.94	0.95	0	1			
Aggregate leverage (%)^	25.4	25.4	26.3	90	90			
All-in financing cost (%)^	2.82	2.84	2.85	3	1			
Occupancy (%)^	100.0	99.6	99.4	(60)	(20)			
Rental reversion (%)	1.2	(6.0)	(3.5)					
NPI margin (%)^	79.0	78.3	77.4	(164)	(97)			

^Change in basis points

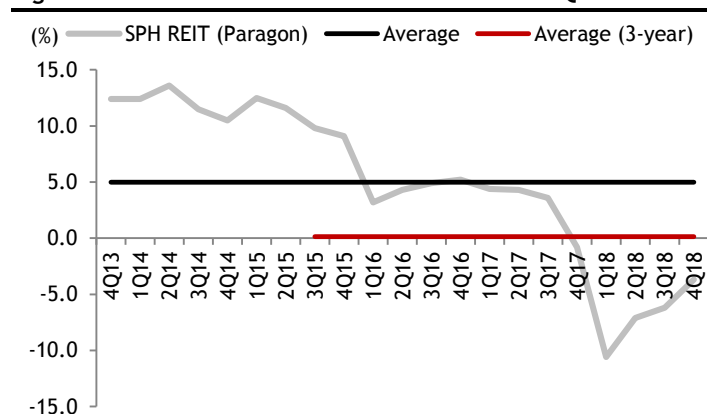
Source: Company data, Maybank Kim Eng

Fig 2: Occupancy (calendarised) - slight dip at Paragon



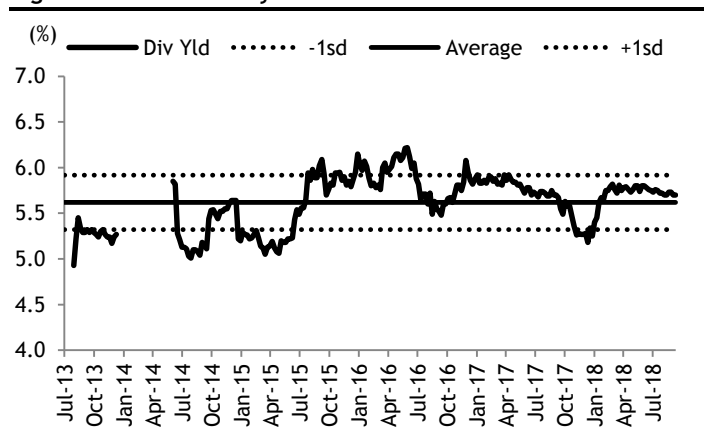
Source: Company data. *Paragon through Aug 2018

Fig 3: Rental reversion - further moderation in 4Q18



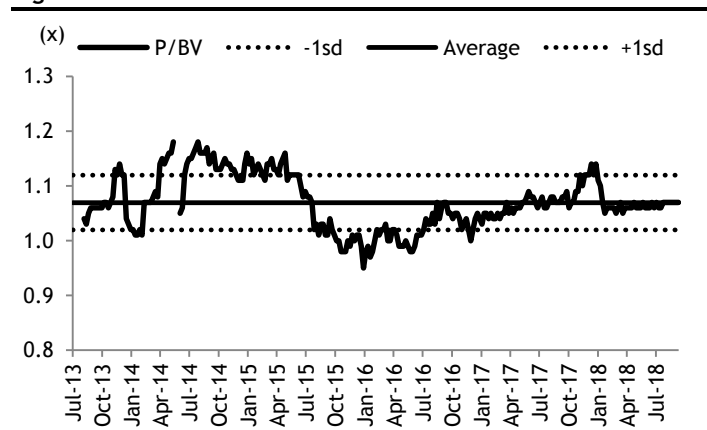
Source: Company data. *Paragon through Aug 2018

Fig 4: SPH REIT's DPU yield at 1SD above the mean



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 5: P/B is now at the historical mean



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 6: Forecast changes

	FY19E (old)	FY20E (old)	FY19E	FY20E	FY19E (% change)	FY20E (% change)
Revenue (SGDm)	221.6	224.7	223.4	232.1	0.8	3.3
NPI (SGDm)	179.6	182.3	178.6	185.7	-0.6	1.9
DPU (SGD)	5.6	5.6	5.5	5.6	-2.2	0.4

Source: Maybank Kim Eng

Fig 7: S-REITs' valuation comparison

Company	Rating	Price (SGD)	TP (SGD)	Upside (%)	Yield (%)	Total return (%)	MC (SGD b)	ADTV (SGD m)	Free Float (%)	BVPS (SGD)	P/BV (x)	Dividend yield (%)				Gearing (D/A) (%)
												17	18E	19E	20E	
Retail							13.4	26.3			0.97	5.9	5.9	6.0	6.2	31
CapitaLand Mall (CMT)	Hold	2.08	2.15	3.4	5.5	8.9	7.4	22.2	66	2.01	1.03	5.4	5.5	5.5	5.8	34
Frasers Ctr Trust (FCT)	Buy	2.20	2.55	15.9	5.5	21.4	2.0	2.1	58	2.02	1.09	5.4	5.5	5.7	6.0	29
Starhill Global REIT	Sell	0.67	0.65	(2.3)	6.8	4.6	1.5	1.3	65	0.91	0.73	7.4	6.8	7.2	7.1	35
SPH REIT	Hold	0.99	1.00	1.5	5.6	7.1	2.5	0.7	25	0.94	1.05	5.6	5.6	5.7	5.9	25
Retail & Office							9.3	21.0			0.95	5.6	5.7	5.7	5.9	36
Suntec REIT	Hold	1.79	1.94	8.4	5.7	14.1	4.8	11.8	72	2.10	0.85	5.6	5.7	5.7	5.9	38
Mapletree Comm. (MCT)	Hold	1.57	1.50	(4.5)	5.7	1.3	4.5	9.1	66	1.49	1.06	5.7	5.7	5.7	6.0	35
Office							12.2	25.2			0.79	6.7	6.7	6.7	6.6	38
CapitaLand Comm. (CCT)	Hold	1.68	1.80	7.1	5.3	12.5	6.3	17.0	70	1.84	0.91	5.2	5.3	5.3	5.4	38
Keppel REIT	Hold	1.14	1.19	4.4	5.5	9.9	3.9	5.9	54	1.41	0.81	5.0	5.5	5.6	5.8	39
Frasers Comm. (FCOT)	NR	1.38					1.2	2.0	75	1.53	0.90	7.1	7.0	7.0	7.0	35
OUE Comm. (OUECT)	NR	0.49					0.8	0.3	17	0.92	0.53	9.7	9.0	8.7	8.2	40
Industrial							21.7	52.8			1.04	7.5	7.5	7.7	7.8	36
Ascendas REIT	Buy	2.48	3.05	23.0	6.9	29.9	7.7	26.7	81	2.07	1.20	6.4	6.9	7.1	7.0	36
Mapletree Ind. (MIT)	Buy	1.91	2.25	17.8	6.8	24.6	3.6	5.6	68	1.48	1.29	6.2	6.8	7.1	7.3	36
Mapletree Log. (MLT)	Hold	1.20	1.30	8.3	6.6	14.9	4.3	9.4	69	1.12	1.07	6.4	6.6	6.7	6.8	36
Cache Logistics Trust	Buy	0.71	0.95	34.8	9.0	43.7	0.8	1.8	90	0.70	1.00	9.4	9.0	9.2	9.6	36
Viva Industrial Trust	Hold	0.91	0.96	6.1	7.7	13.8	0.9	0.9	43	0.76	1.19	8.3	7.7	7.9	8.3	41
AIMS AMP	Buy	1.36	1.50	10.3	7.7	18.0	0.9	1.4	87	1.37	0.99	7.2	7.7	7.8	7.8	34
Keppel DC REIT	NR	1.30					1.8	5.3	75	1.01	1.29	5.5	5.9	6.2	6.5	32
ESR REIT	NR	0.48					0.8	0.8	72	0.68	0.71	8.0	8.3	8.5	9.0	30
Soilbuild BS REIT	NR	0.58					0.6	0.7	64	0.63	0.91	9.9	8.7	8.8	n.a.	38
Sabana SC Ind. REIT	NR	0.42					0.4	0.3	72	0.54	0.77	n.a.	n.a.	n.a.	n.a.	38
Hospitality & Residential							8.7	8.1			0.85	6.8	7.0	7.2	7.5	34
Ascott Residence Trust	NR	1.06	1.15	8.5	6.7	15.2	2.3	1.9	55	1.23	0.86	7.0	6.7	6.9	7.0	36
CDL HT (CDLHT)	NR	1.52	1.80	18.4	6.4	24.8	1.8	3.1	63	1.52	1.00	6.1	6.4	6.6	6.8	33
OUE HT (OUEHT)	NR	0.68					1.2	1.0	52	0.76	0.90	7.5	7.4	7.9	8.5	39
Far East HT (FEHT)	NR	0.60	0.75	25.0	7.1	32.1	1.1	1.1	41	0.87	0.69	6.6	7.1	7.4	7.8	40
Frasers HT	NR	0.69	0.80	15.9	7.1	23.1	1.3	0.5	39	0.78	0.89	7.0	7.1	7.4	7.4	34
Ascendas HT	NR	0.79					0.9	0.4	64	1.01	0.78	n.a.	n.a.	n.a.	n.a.	24
Offshore REITs							15.3	15.9			0.87	8.2	7.6	7.9	8.0	34
Sasseur REIT	Buy	0.69	0.90	30.4	8.7	39.1	0.8	0.2	22	0.91	0.76	n.a.	8.7	9.0	9.3	33
Mapletree Greater China	NR	1.10					3.5	7.3	69	1.32	0.83	6.7	7.0	7.0	7.1	39
CapitaLand Retail China	NR	1.37					1.3	1.7	62	1.71	0.80	7.4	7.7	7.8	8.1	32
Fortune REIT (HKD)	NR	8.78					3.0	0.6	72	16.09	0.55	5.8	5.9	6.1	6.5	27
Lippo Malls Ind. RT	NR	0.25					0.7	1.1	63	0.30	0.84	13.6	10.4	10.4	10.8	35
Manulife REIT (USD)	NR	0.77					1.4	1.1	93	0.83	0.93	7.7	7.4	8.0	8.2	34
Keppel_KBS US REIT	NR	0.74					0.6	0.3	86	0.89	0.83	n.a.	8.1	8.5	8.6	34
IREIT Global	NR	0.74					0.5	0.1	31	0.69	1.07	n.a.	n.a.	n.a.	n.a.	41
BHG Retail REIT	NR	0.69					0.3	0.0	35	0.83	0.83	n.a.	n.a.	n.a.	n.a.	34
Frasers Log. & Ind. (FLT)	NR	1.02					2.0	3.2	79	0.92	1.10	7.5	6.7	6.8	6.9	31
EC World REIT	NR	0.69					0.5	0.3	42	0.91	0.75	8.6	n.a.	n.a.	n.a.	29
Cromwell REIT (EUR)	NR	0.56					1.4	0.1	28	0.53	1.05	n.a.	7.6	8.3	8.2	35
Healthcare							2.5	2.6			1.31	6.3	6.2	6.4	6.4	36
Parkway Life REIT	NR	2.59					1.6	1.5	54	1.75	1.48	5.2	4.8	5.0	5.1	38
First REIT	NR	1.16					0.9	1.1	67	1.01	1.15	7.4	7.6	7.8	7.8	34
Total REITs							83	152			0.94	7.1	7.0	7.1	7.3	35
S-REIT yield spread																2.9
FSTREI Index																5.5
SGS 10Y bond yield																2.6

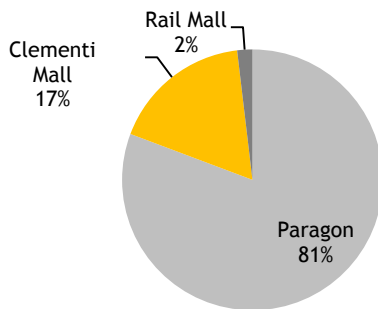
Prices as of 11 Oct 2018. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

Value Proposition

- Owns three assets - two well-located malls - Paragon (82% of its AUM) in Orchard Road's shopping belt and Clementi Mall (18% of AUM) in the west linked directly to the Clementi MRT, and the Rail Mall along Upper Bukit Timah Road which was acquired in Jun 2018.
- Sponsor SPH is S'pore's oldest and most prominent media company, as well as active real estate developer. SPH REIT has a right of first refusal to Seletar Mall, which opened in Nov 2014, with book value of SGD488m at end-May 2018.
- Strongest balance sheet amongst peers following its Jul 2013 IPO, with leverage at 26.3% at end-May 2018 and about SGD820m in debt headroom at 40% gearing.

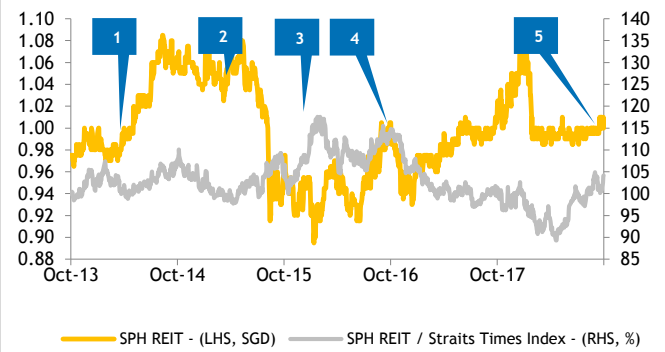
AUM breakdown (as of end-Aug 2018)



Source: Company

Price Drivers

Historical share price trend



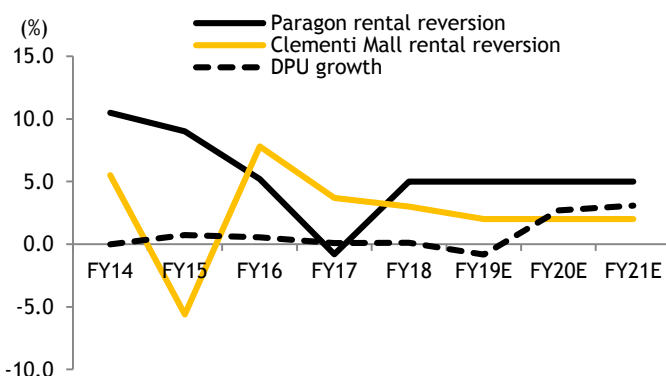
Source: Company, FactSet, Maybank Kim Eng

- Jan-14: Reports maiden DPU 2.2% ahead of forecast with 100% occupancies at its two malls and +12.4% rental reversions at Paragon for the Jul-Nov-13 period.
- Apr-15: Reports Feb-15 quarter results with -8.8% in rental reversions at Clementi Mall (which opened in May-11) during its first renewal cycle.
- Apr-16: Rental reversions at Clementi Mall returned to a positive at +5.4% in Feb-16 following three consecutive quarters in negative territory.
- Dec-16: Chairman affirms SPHREIT's interest in acquiring Seletar Mall from its sponsor subject to price and timing, during the AGM.
- Jun-18: Acquires Rail Mall at 50k sf NLA for SGD63.2m. The property has a remaining 28-year leasehold.

Financial Metrics

- DPU growth at 0-3% over FY18-20E, as the five-year rental support from Clementi Mall expires in Jul 2018, offset by contribution Rail Mall.
- Paragon gains from an earlier recovery from Orchard Road rents, and Clementi Mall should stay at a single-digit growth trajectory over FY18-20E.

Rental reversion and DPU growth



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Earlier-than-expected pick-up in leasing demand for retail; office space driving improvement in occupancy.
- Better-than-anticipated rental reversions.
- Accretive acquisitions or redevelopment projects.

Downside

- Prolonged slowdown in economic activity could reduce demand for retail and office space, resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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FYE 31 Aug	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Price/DPU(x)	18.2	18.1	18.0	17.5	17.0
P/BV (x)	1.1	1.1	1.0	0.9	0.9
P/NTA (x)	1.1	1.1	1.0	0.9	0.9
DPU yield (%)	5.5	5.5	5.5	5.7	5.9
FCF yield (%)	6.5	6.4	6.6	6.8	7.0
INCOME STATEMENT (SGD m)					
Revenue	212.8	211.8	223.4	232.1	238.9
Net property income	169.3	166.6	178.6	185.7	191.2
Management and trustee fees	(16.7)	(16.7)	(17.9)	(18.6)	(19.1)
Net financing costs	(23.9)	(24.5)	(27.1)	(29.3)	(29.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	34.9	14.8	181.8	134.9	103.2
Other pretax income/expenses	1.2	0.6	0.0	0.0	0.0
Pretax profit	161.9	138.5	313.8	270.9	244.2
Income tax	0.0	0.0	0.0	0.0	0.0
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	161.9	138.5	313.8	270.9	244.2
Distributable inc to unitholders	141.2	142.3	141.7	146.2	151.4
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	63.0	36.0	41.7	45.9	50.5
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.8	0.7	0.7	0.7	0.7
Investment properties	3,278.0	3,368.3	3,557.1	3,699.0	3,809.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	4.9	3.1	3.1	3.1	3.1
Total assets	3,346.7	3,408.0	3,602.6	3,748.7	3,863.5
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	40.1	40.6	40.6	40.6	40.6
LT interest bearing debt	847.4	893.1	895.0	895.0	895.0
Other liabilities	38.1	35.4	35.4	35.4	35.4
Total Liabilities	925.6	969.1	971.0	971.0	971.0
Shareholders Equity	2,421.1	2,438.9	2,631.6	2,777.7	2,892.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	2,421.1	2,438.9	2,631.6	2,777.7	2,892.5
Total liabilities and equity	3,346.7	3,408.0	3,602.6	3,748.7	3,863.5
CASH FLOW (SGD m)					
Cash flow from operations	165.2	164.8	168.0	174.7	179.9
Capex	(0.0)	(0.0)	0.0	0.0	0.0
Acquisitions & investments	(7.0)	(72.0)	(7.0)	(7.0)	(7.0)
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.8	0.8	0.8	0.8	0.8
CF from investing activities	(6.3)	(71.2)	(6.2)	(6.2)	(6.2)
Dividends paid	(140.8)	(141.8)	(141.7)	(146.2)	(151.4)
Interest expense	(22.5)	(22.9)	(27.1)	(29.3)	(29.3)
Change in debt	0.0	44.1	1.9	0.0	0.0
Equity raised / (purchased)	0.0	0.0	10.8	11.2	11.6
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	(163.3)	(120.7)	(156.1)	(164.2)	(169.1)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(4.4)	(27.0)	5.7	4.2	4.6

FYE 31 Aug	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.5	(0.4)	5.5	3.9	2.9
Net property income growth	3.7	(1.6)	7.2	4.0	3.0
Core net profit growth	(10.1)	(3.0)	13.3	3.2	3.6
Distributable income growth	1.6	0.8	(0.4)	3.1	3.5
Profitability ratios (%)					
Net property income margin	79.6	78.7	79.9	80.0	80.0
Core net profit margin	60.3	58.7	63.1	62.6	63.0
Payout ratio	109.8	113.9	100.3	100.3	100.3
DuPont analysis					
Total return margin (%)	76.1	65.4	nm	nm	nm
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.4	1.4	1.4	1.3	1.3
ROAE (%)	6.7	5.7	12.4	10.0	8.6
ROAA (%)	3.9	3.7	4.0	4.0	4.0
Leverage & Expense Analysis					
Asset/Liability (x)	3.6	3.5	3.7	3.9	4.0
Net gearing (%) (excl. perps)	32.4	35.1	32.4	30.6	29.2
Net interest cover (x)	6.3	6.0	5.9	5.6	5.8
Debt/EBITDA (x)	5.7	6.0	5.6	5.4	5.3
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	784.4	857.1	853.3	849.1	844.5
Debt/Assets (x)	0.25	0.26	0.25	0.24	0.23

Source: Company; Maybank

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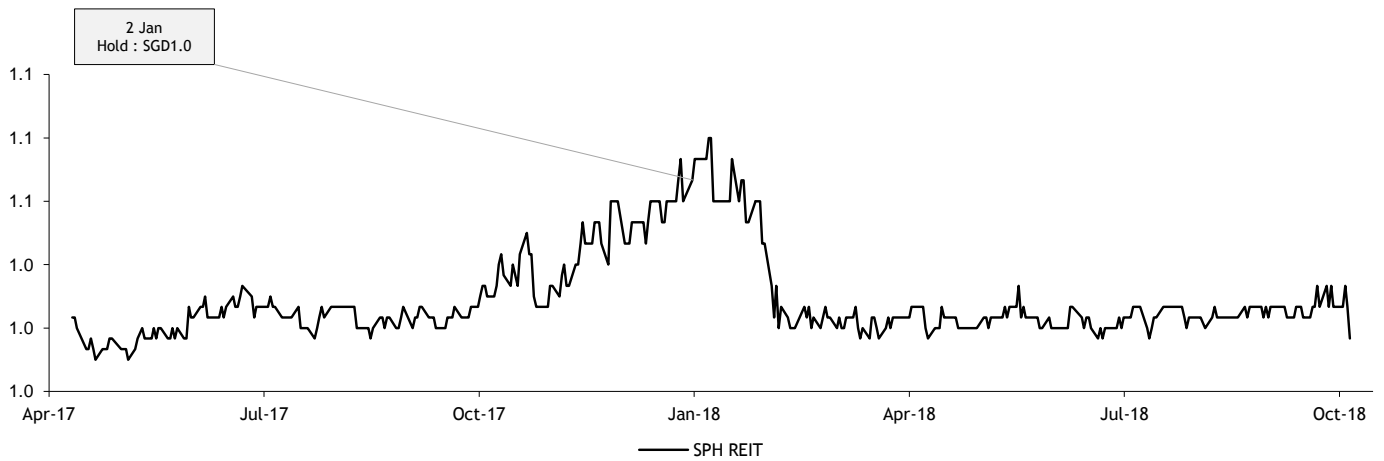
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