

SPH REIT

Into the tailwind of Phase 2



StocksBnB.com

30 June 2020

SINGAPORE | REIT - RETAIL | CREDIT VIEW

- Issuer profile:** We are neutral on SPH REIT. As one of the lowest geared REITs in Singapore, SPH REIT is well poised to push through the subdued retail climate, while gradual phases reopening will be a tailwind for retail REITs.
- Bond recommendation:** On a yield to worst basis, we are OVERWEIGHT the **SPHRSP 4.1% perp** (YTW 3.94%, 348bps spread) as it looks interesting not only compared to comparable SPHSP perps, offering a 29bps spread pick-up over the SPHSP 4% Perp (319bps spread, callable 255 days later) and a 20bps spread pick-up over the SPHSP 4.5% Perp (328bps spread, callable 84 days earlier), but also compared to the senior SPHSP 3.2% '30s, offering an attractive senior-sub spread pick-up of 112bps while callable 1971 days earlier.

CREDIT VIEW (BONDS)

ISSUER PROFILE

Neutral

BOND RECOMMENDATIONS

	Size (mn)	Mid Px	YTW%	REC
Ticker: SPHRSP Corp (SGD)				
SPHRSP 4.1% Perp	300	100.60	3.94%	OW

Indicative prices, Source: Bloomberg

(OW: Overweight, N: Neutral, UW: Underweight)

COMPANY DATA

BLOOMBERG CODE	SPHR SP
MARKET CAP (SGD mn)	2,387.2
EXCHANGE	SGX

MAJOR SHAREHOLDERS

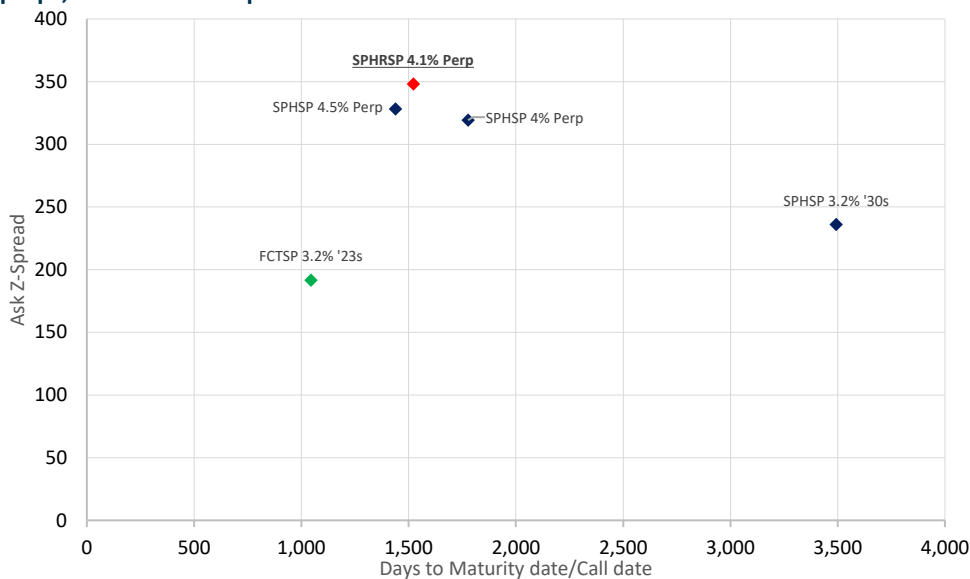
Singapore Press Holdings Ltd	69.8%
NTUC	5.3%

KEY FINANCIALS

Y/E Aug, SGD mn	FY17	FY18	FY19	1H20
Revenue	212.8	211.8	228.6	73.3
EBITDA	165.5	165.0	176.1	55.0
Net Profit	157.2	137.9	148.8	38.7
EBITDA Margin (%)	77.79	77.88	77.04	75.02
EBITDA Int. Cover (X)	6.91	6.73	5.78	6.17
Debt/EBITDA (X)	5.12	5.41	6.19	23.09
Debt/Assets (X)	0.25	0.26	0.28	0.30
Net Debt/Assets (X)	0.23	0.25	0.19	0.28
Cash/ST borrowings (X)	0.20	0.17	1.23	0.29

Source: Company, Bloomberg, PSR

Figure 1: The SPHRSP 4.1% perp YTW spread is attractive not only to comparable SPHSP perps, but also to comparable seniors



Source: Bloomberg

Figure 2: Comparable bonds - SPH, SPH REIT, and Frasers Centrepoint Trust

Bond	Maturity date/Call date	Gearing (D/A)	Ask price	Ask YTW	Z-Spread	Features
OW SPHRSP 4.1% PERP	30/08/2024	27.6%	100.60	3.94%	414	Dividend stopper
SPHSP 3.2% '30s	22/01/2030	28.9%	100.30	3.16%	218	Make whole call
SPHSP 4.5% PERP	07/06/2024	28.9%	102.80	3.73%	436	Step up 100bps 6/24 Dividend stopper & pusher
SPHSP 4% PERP	12/05/2025	28.9%	101.30	3.70%	368	Step up 100bps 6/25 Dividend stopper & pusher
FCTSP 3.2% '23s	11/05/2023	28.8%	102.55	2.27%	192	Make whole call

Indicative prices as at 30 June 2020, Source: Bloomberg

(OW: Overweight, N: Neutral, UW: Underweight)

Timothy Ang (+65 6212 1851)

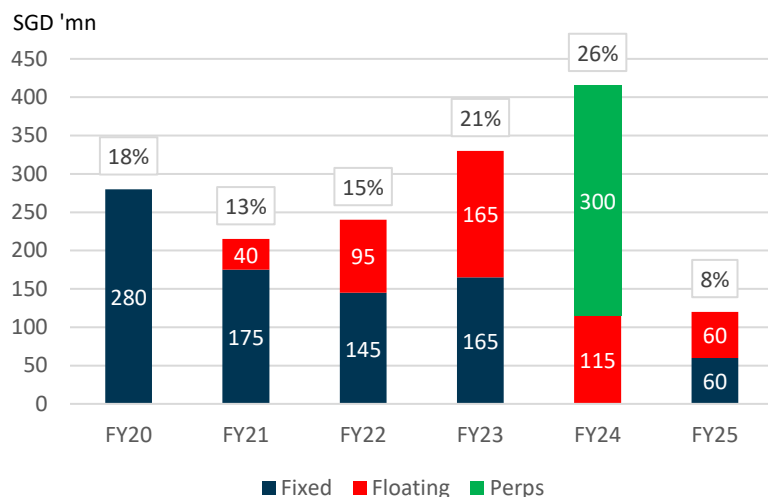
Credit Analyst

timothyang@phillip.com.sg

CREDIT VIEW

(+) Strong liquidity profile. No more than 21% of debt matures within the next 3 years, with S\$300mn perpetual bond callable in 30 Aug 2024. We foresee low short-term liquidity needs, especially with SPH REIT’s leverage ratio at 29.5%, allowing a debt headroom of S\$878mn (keeping asset values constant), while allowing asset values to fall 40% (keeping debt levels constant) before the MAS limit of 50% is breached. As a benchmark, retail asset prices fell roughly 11% in the GFC.

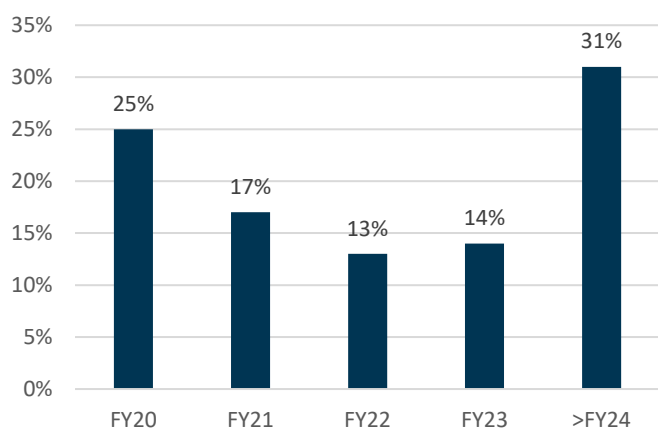
Figure 3: Well distributed debt maturity profile



Source: Company, PSR

- **Lease expiry tower in FY20 may be a concern.** With 25% of gross rental income (GRI) set to expire in FY20, SPH REIT may face challenges if tenants fail to renew during times of restriction. However, we note that the highest contributors of net property income (NPI), Paragon and The Clementi Mall, contributing 65% of NPI in 1H20, have low lease expiries of 2% and 10% respectively in FY20. The asset with the highest near-term lease expiry tower is Westfield Marion Shopping Centre in Australia, with 30% GRI expiring in FY20. We estimate Marion to contribute 15% NPI and 23% GRI in FY20.

Figure 4: 25% gross rental income lease expiry tower in FY20 could be a concern



Source: Company, PSR

(+) Up to 6 months of zero rental income before interest coverage falls below 1. Based on FY19 GRI, SPH REIT can forego 6 months of rental income before the year’s EBIT is unable to cover interest expenses and perpetual distributions. We note that this buffer is adequate as Singapore enters Phase 2 of reopening just 3 months after the start of circuit breaker measures on 7 April.

Financials

Financial Statements

Y/E Aug, SGD mn	FY17	FY18	FY19	1H20
Income Statement				
Revenue	212.8	211.8	228.6	73.3
EBITDA	165.5	165.0	176.1	55.0
EBIT	164.1	164.1	175.9	54.9
Gross interest expense	23.9	24.5	30.5	8.9
Profit before tax	157.2	137.9	149.2	39.8
Net income	157.2	137.9	148.8	38.7
Balance Sheet				
Cash balance	63.0	36.0	342.7	80.4
Total assets	3,346.7	3,408.0	3,948.4	4,296.4
Short-term debt	319.4	209.8	279.6	279.8
Total liabilities	847.4	893.1	1,091.1	1,269.3
Net debt	784.4	857.1	748.5	1,189.0
Shareholder Equity	2,556.1	2,438.9	2,771.4	2,924.0
Cash Flow Statement				
Cashflow from ops	165.2	164.8	180.5	58.4
CAPEX	0.0	0.0	0.1	0.0
Acquisitions	-7.0	-72.0	-215.5	-612.2
Disposals	0.0	0.0	0.0	0.0
Dividends (inc. perps)	-140.8	-141.8	-144.2	-34.6
Interest paid	-22.5	-22.9	-28.9	-7.2
Free cashflow (FCF)	165.2	164.8	180.4	58.3

Credit Ratios

Y/E Aug	FY17	FY18	FY19	1H20
EBITDA margin (%)	77.79	77.88	77.04	75.02
EBIT margin (%)	77.13	77.49	76.96	74.94
Net margin (%)	73.87	65.09	65.09	52.83
Gross debt/EBITDA (X)	5.12	5.41	6.19	23.09
Net debt/EBITDA (X)	4.74	5.20	4.25	21.63
Gross debt/Equity (X)	0.33	0.37	0.39	0.43
Net debt/Equity (X)	0.31	0.35	0.27	0.41
Gross debt/Total assets (:)	0.25	0.26	0.28	0.30
Net debt/Total assets (X)	0.23	0.25	0.19	0.28
Cash/ST borrowings (X)	0.20	0.17	1.23	0.29
EBITDA/Total interest (X)	6.91	6.73	5.78	6.17

Source: Company, PSR

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Siti Nursyazwina - syazwina@phillip.com.sg

Property | REITs

Natalie Ong - natalieongpf@phillip.com.sg

Small-Mid Cap

Tan Jie Hui - tanjhf@phillip.com.sg

Technical Analyst

Chua Wei Ren – chuawr@phillip.com.sg

Credit Analyst (Bonds)

Timothy Ang - timothyang@phillip.com.sg

Banking & Financials | Healthcare

Tay Wee Kuang - taywk@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited
No. 60, 5th Lane,
Colombo 3, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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Overweight ("OW") – We expect the issuer's specific bond to outperform the issuer's other bonds, bonds of issuers operating within the same sector, or bonds with similar tenors but from different sectors over the next six months.

Neutral ("N") – We expect the issuer's specific bond to perform in line with the issuer's other bonds, bonds of issuers operating within the same sector, or bonds with similar tenors but from different sectors over the next six months.

Underweight ("UW") – We expect the issuer's specific bond to underperform the issuer's other bonds, bonds of issuers operating within the same sector, or bonds with similar tenors but from different sectors over the next six months.

Issuer profile rating:

Positive ("Pos") – We view the issuer's credit profile as strong or expected to become strong over the next six months.

Neutral ("N") – We view the issuer's credit profile as fair or expected to become fair over the next six months.

Negative ("Neg") – We view the issuer's credit profile as weak or expected to become weak over the next six months.

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