



Fitch Assigns First-Time 'BBB' IDR to Starhill Global REIT

Fitch Ratings - Singapore - 09 March 2020:

Fitch Ratings has assigned a Long-term Issuer Default Rating of 'BBB' to Starhill Global Real Estate Investment Trust (SGREIT), with a Stable Outlook.

The agency has also assigned a 'BBB' long-term rating to the SGD2 billion multi-currency medium-term notes programme and the SGD295 million outstanding notes issued off the programme to date, issued by SGREIT's wholly owned subsidiary Starhill Global REIT MTN Pte. Ltd. Fitch has also assigned a 'BBB' long-term rating to SGREIT's SGD2 billion multi-currency debt issuance programme.

Fitch emphasises that the ratings assigned to the debt programmes are for the programmes in general, and there is no assurance that any subsequent issues under the programmes will be assigned a rating or that the rating assigned to a specific issue will be the same as the rating assigned to the programme.

The programmes and the outstanding notes are guaranteed by HSBC Institutional Trust Services (Singapore) Limited in its capacity as trustee of SGREIT. The outstanding medium-term notes are rated at the same level as the trust's IDR to reflect that they constitute direct, unsecured, and unsubordinated obligations of the trust, and because SGREIT's unsecured creditor interests are not materially subordinated to interests of prior ranking - and secured creditors. This is reflected in the REIT's high unencumbered asset to unsecured net debt ratio of 3.0x as of the fiscal year ending 30 June 2019 (FY19).

Key Rating Drivers

Master / Anchor Leases Provide Cash Flow Visibility: The ratings are underpinned by cash flow visibility driven by around 50% of gross rent derived from long-term master leases or anchor leases with built-in periodic rent escalations which provide downside protection. As of FY19, the trust had a long weighted-lease expiry of 9.4 years based on net lettable area and 5.4 years based on revenue. Lease expiries are consequently manageable, with no more than 13%-15% of revenue coming up for renewal each year through FY23, which limits exposure to a moderating retail rent outlook in several of its markets.

Singapore, Malaysian Properties Underpin Portfolio: SGREIT's properties in Singapore and Malaysia, which account for 80% of net property income (NPI), are located in the prime retail precincts of Orchard Road, Singapore and Bukit Bintang, Kuala Lumpur, and consequently command a premium among retail properties in each market. However, the portfolio's asset quality is moderated somewhat by the lower quality of its Australian assets which are located in Perth and Adelaide. The Australian assets account for around 18% of NPI, and are located in the central business districts in their respective cities.

Challenges in Australian Assets: Occupancy has been improving over the last few years, but the two largest are anchored by department stores David Jones Pty Limited and Myer Holdings Ltd, which are battling falling sales with store closures. The anchor leases are long-term and include periodic rent reversions, while Fitch believes the trust may face challenges in improving occupancy quickly if these tenants are unable to continue to service these leases or exit these locations, which we see as a key risk to credit quality.

The risk of SGREIT's Myers and David Jones stores being closed due to underperformance is mitigated by the fact that both malls are located in city centres, and are therefore likely to attract higher traffic than regional and suburban stores.

Asset and Tenant Concentration: We view high asset- and tenant concentration as key rating constraints. The 10 largest tenants account for 55% of rental income, with the largest contributing 23%. This could expose cash flows to the risk of a sharp fall in occupancy over a 12-18-month period. However, this risk is counterbalanced by the demonstrated long-term cash flow stability from SGREIT's master leases with Toshin Development Singapore Pte Ltd and the YTL Group, respectively in its Ngee Ann City mall in Singapore (excluding level five) and Starhill Gallery and Lot 10 malls in Malaysia.

COVID-19 Impact Manageable: We have factored in a gradual moderation of the COVID-19 crisis over the next few quarters, especially in Singapore. We forecast annual EBITDA of around SGD140 million in FY20-FY21, with EBITDA margins at 70%. These factor in continued negative rent reversions in Singapore retail amid the weak near-term sentiment. The trust has announced rent rebates to tenants in its key Wisma Atria mall in Singapore to offset likely weak tenant sales in 1Q20, over and above tax rebates offered by the government.

In Fitch's view, SGREIT may need to consider further concessions if the situation does not improve over the next one to two quarters, in line with market norms. However, the trust's credit metrics should be able to withstand even a prolonged moderation in tenant sales well into FY21. We expect SGREIT's occupancy to hover around 97%-98% (FY19: 97.5%) in the next two years despite muted retail sales - particularly in Singapore amid the COVID-19 outbreak.

Financing Flexibility Supports Higher Capex: We expect EBITDA interest cover at around 3.5x and net debt/investment property value below 40% over the next two years, supported by stable EBITDA margins and moderating interest rates. This is despite asset enhancement works (AEW) at Starhill Gallery for two years from October 2019. The trust will receive lower income during this period, but EBITDA is mitigated by the REIT manager opting for an equivalent value of management fees in units. We expect SGD36 million capex in FY20, SGD34 million in FY21, mainly on the AEW, before tapering off.

Derivation Summary

SGREIT compares well against Singapore-listed peers such as Ascott Real Estate Investment Trust (Ascott REIT, BBB/Stable) and Mapletree Industrial Trust (MIT, BBB+/Stable), and with EMEA-based peers such as Atrium European Real Estate (BBB/Stable) and NewRiver REIT Plc (BBB/Stable).

Ascott REIT and SGREIT are rated at the same level. Ascott REIT has a larger and more granular property portfolio and one that is also more geographically diversified, which mitigates the cyclicalities associated with Ascott REIT's earnings from its serviced residences. SGREIT has a smaller and more concentrated portfolio than Ascott REIT, while this is counterbalanced by SGREIT's higher cash flow visibility from its long-lease maturity profile with mostly-fixed or inflation-adjusted rental income, and the prime asset quality of a majority of its portfolio in terms of value. Both REITs have similar financial profiles as well.

MIT is rated one-notch higher than SGREIT to reflect its more granular asset portfolio and limited tenant concentration, as well as its stronger financial profile. Although a majority of MIT's properties are not in prime locations as is the case with SGREIT, this risk is mitigated by MIT's greater segment-wise and asset-wise diversification.

Atrium's larger and more granular property portfolio offsets risks arising from its exposure to less developed markets than SGREIT such as Poland and the Czech Republic. Atrium also has a 10% exposure to the volatile

Russian retail market, which is a key risk. Both REITs have a similar financial profile, with EBITDA interest coverage around 3.5x and net debt / EBITDA of around 8.0x-8.5x. Consequently, both REITs are rated at the same level.

NewRiver REIT has a slightly smaller operating scale than SGREIT and its portfolio consists of exclusively non-prime shopping centres, retail parks and convenience stores. NewRiver's portfolio has higher cap rates to reflect its non-prime locations, smaller lot sizes, shorter leases and overall lower tenant quality. These risks are counterbalanced by the less discretionary nature of tenants' sales. By comparison, SGREIT's portfolio consists mainly of prime retail properties in strong markets with longer leases and better cash flow stability - as reflected in more stable EBITDA margins. Both trusts have similar financial profiles, and for these reasons are rated at the same level

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Revenue growth of -5.3% in FY20 and 0.3% in FY21
- Annual EBITDA of around SGD140 million in FY20-FY21
- EBITDA margins to remain around 70%, supported by the REIT manager opting to receive part of the management fees in the form of units
- Capex of SGD38 million and SGD34 million, respectively, in FY20 and FY21
- Dividend payout of around 100% of taxable distributable profit, in line with recent trends

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- SGREIT's rating is constrained over the medium term by its limited investment granularity and high tenant concentration compared with rated peers

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- EBITDA / interest paid sustained below 3.0x
- LTV sustained above 40% and net debt / EBITDA sustained above 9.0x
- A weakening in asset quality such that the portfolio's occupancy is sustained below 90%

Liquidity and Debt Structure

Strong Liquidity: Liquidity is supported by committed undrawn revolving credit facilities (RCF) of SGD240 million as of 31 December 2019 available until September 2022 and SGD80 million available until March 2022. These,

together with its cash balance of SGD63.9 million, can comfortably cover the SGD28 million of loans maturing in 2HFY20, the SGD100 million medium-term note due in FY21, and our projections of a free cash flow deficit in the range of SGD36 million and SGD33 million, respectively, in FY20 and FY21.

The REIT has demonstrated a policy of maintaining sufficient liquidity via undrawn committed lines to cover near-term debt maturities, and net operating cash outflows such as capital expenditure and dividends. This counterbalances SGREIT's somewhat less-laddered debt maturity profile compared with rated peers, with a peak maturity of around 30%-35% of debt due in a single year. The REIT's healthy ratio of unencumbered assets to unsecured net debt of 3.0x, as of end-2019, should provide it with ample access to contingent liquidity even in a stressed scenario, which further mitigates refinancing risk.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

Date of Relevant Committee

06 March 2020

RATING ACTIONS

ENTITY/DEBT		RATING	
Starhill Global REIT MTN Pte. Ltd.			
senior unsecured	LT BBB New Rating		
Starhill Global Real Estate Investment Trust	LT IDR BBB ● New Rating		

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
 Hasira De Silva, CFA
 Senior Director
 +65 6796 7240
 Fitch Ratings Singapore Pte Ltd.
 One Raffles Quay #22-11, South Tower
 Singapore 048583

Secondary Rating Analyst
 Erlin Salim
 Director
 +65 6796 7259

Committee Chairperson
Vicky Melbourne
Senior Director
+61 2 8256 0325

MEDIA CONTACTS

Leslie Tan
Singapore
+65 6796 7234
leslie.tan@thefitchgroup.com

Peter Hoflich
Singapore
+65 6796 7229
peter.hoflich@thefitchgroup.com

Applicable Criteria

Corporate Rating Criteria (pub. 19 Feb 2019)
Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019)
Exposure Draft: Lease Rating Criteria (pub. 30 Jan 2020)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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