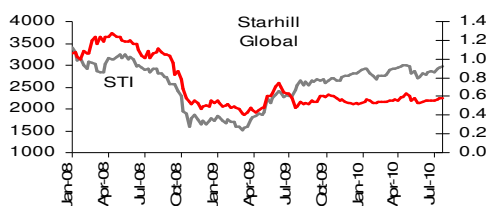


27 July 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S\$0.59
Fair Value: S\$0.65


Starhill Global REIT

2Q10 in line; valuations still compelling

2Q10 in line. Starhill Global REIT reported 2Q10 revenue of S\$37.2m, up 11.4% YoY but down a marginal 1.1% QoQ. Revenue was boosted by the acquisition of *David Jones Building* in Perth, Australia on 20 Jan 2010. This was partially offset by lower revenue from the office component of Starhill's Singapore assets. Net property income of S\$28.8m was up 6.9% YoY but down 1% QoQ. Starhill declared a 2Q10 DPU of 0.91 S cents, down 52.1% YoY (because of an enlarged unit base post-rights issue) and down 4.2% QoQ. Starhill acquired Malaysian assets *Starhill Gallery* and *Lot 10*, on 28 Jun, and made its first distribution payment on the convertible preferred units issued in relation to the acquisitions. The results were in line, with revenue and NPI within 3% of our estimates. DPU was just 3% higher than our 0.88 S cents estimate.

Reuters Code	STHL.SI
ISIN Code	P4OU
Bloomberg Code	SGREIT.SP
Issued Capital (m)	1,943
Mkt Cap (S\$m / US\$m)	1,146 / 843
Major Shareholders	
YTL Corp	29.4%
Free Float (%)	70.6%
Daily Vol 3-mth ('000)	1,920
52 Wk Range	0.490 - 0.645

Portfolio performance steady. Office and retail occupancy at *Ngee Ann City* (NAC) was steady at 95.6% and 100% respectively, flat compared to 31 Mar. *Wisma Atria* (WA)'s retail occupancy declined 80 basis points from 31 Mar and 150 bps from 31 Dec to 98.5%. WA's office occupancy also declined to 81.4%, down 60 bps from three months ago but up 390 bps compared to six months ago. Elsewhere, occupancies were stable at 100% for Starhill's China and Australia assets. The Japan assets, meanwhile, achieved an impressive 700 bps increase in occupancy from 31 Mar to 95.6%; this as Starhill brought in three new tenants over 2Q10. Starhill is leveraged at 30.8% debt-to-assets as of 30 Jun; it has already secured sufficient financing to address the S\$570m in debt maturing later this year.

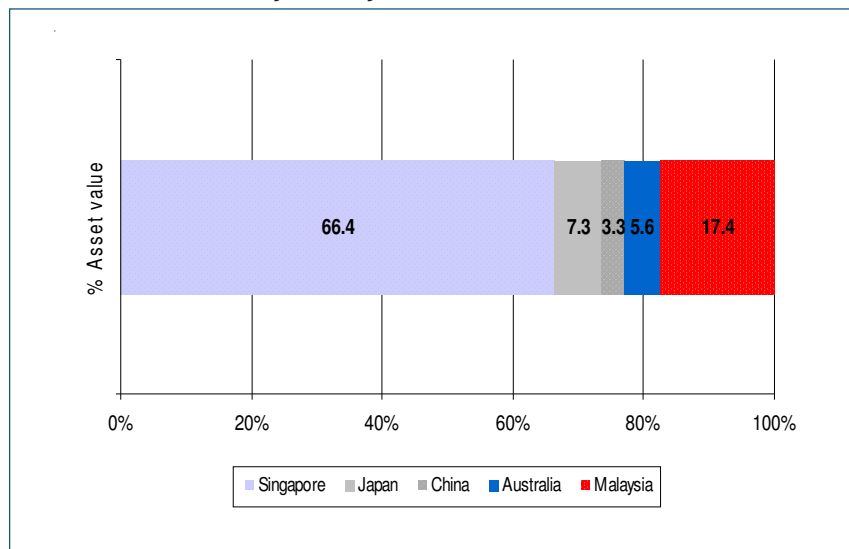
(S\$ m)	FY08	FY09	FY10F	FY11F
Revenue	127.0	134.6	163.0	178.9
NPI	95.9	106.9	128.3	142.6
Distr amount	69.4	75.5	81.0	88.3
DPU yield (%)	12.2	9.6	6.5	6.7
P/NAV (x)	0.4	0.7	0.7	0.7

Valuation. We have adjusted our expense assumptions marginally with FY10-11 DPU up 0.5% and 1.1% respectively to 3.84 S cents and 3.96 S cents. Starhill is up 8.3% since our initiation on 02 Jul. Nevertheless, we continue to find valuations compelling at a significant 35% discount to book value. We believe this discount is unjustified when considering Starhill's high-quality assets, healthy balance sheet and its strong sponsor. Our DDM-derived fair value estimate of S\$0.65 (6.7% discount rate, 0.5% terminal growth rate) is intact; this is equivalent to a fairly reasonable (in our opinion) 0.72x price-to-book. With an estimated total return of 16.7%, we maintain our **BUY** rating on Starhill. Key risks to our view include macro-economic headwinds, increasing competition in the retail space, foreign exchange risk and changing regulatory and taxation regimes.

Meenal Kumar
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Starhill owns 13 properties across five countries. Starhill invests primarily in real estate used for retail and office purposes.

Exhibit 1: Asset value by country



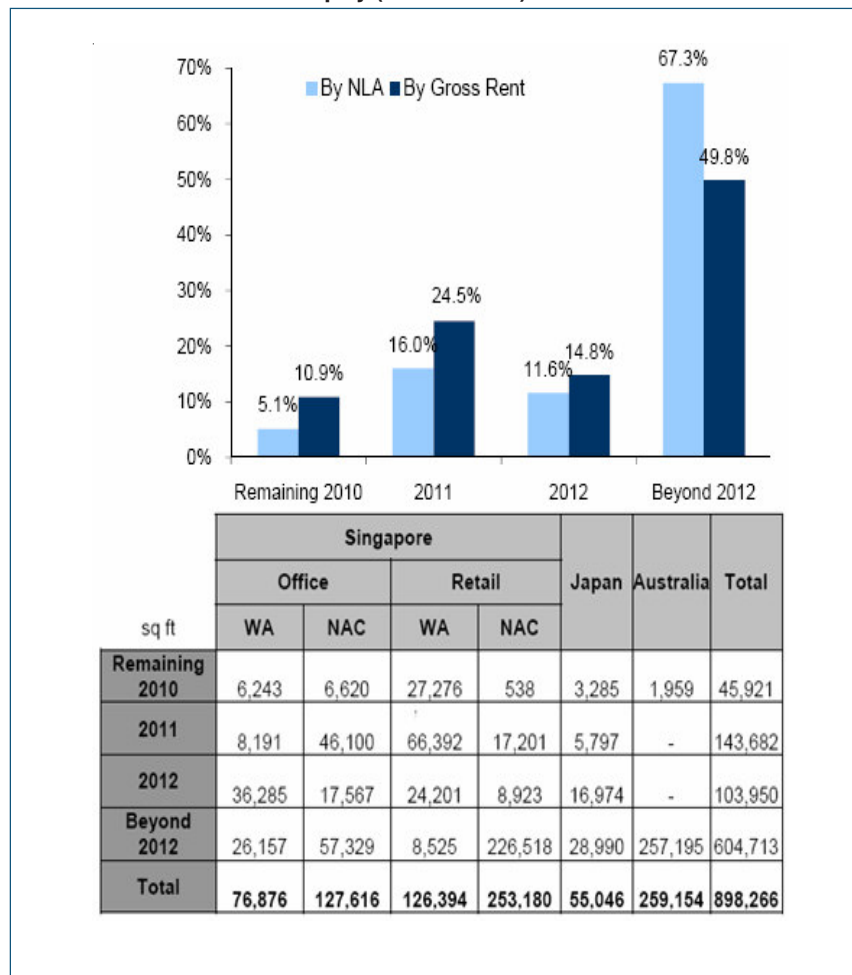
Source: Starhill 2Q10 presentation

Exhibit 2: Occupancy profile by asset

	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10	vs 31 Mar
NAC-Retail	100.0%	100.0%	100.0%	100.0%	0.0%
NAC-Office	93.6%	94.0%	95.6%	95.6%	0.0%
WA-Retail	98.4%	100.0%	99.3%	98.5%	-0.8%
WA-Office	81.8%	77.5%	82.0%	81.4%	-0.6%
Japan	92.7%	90.4%	88.6%	95.6%	7.0%
China	100.0%	100.0%	100.0%	100.0%	0.0%
Australia	-	-	100.0%	100.0%	0.0%

Source: Starhill, OIR

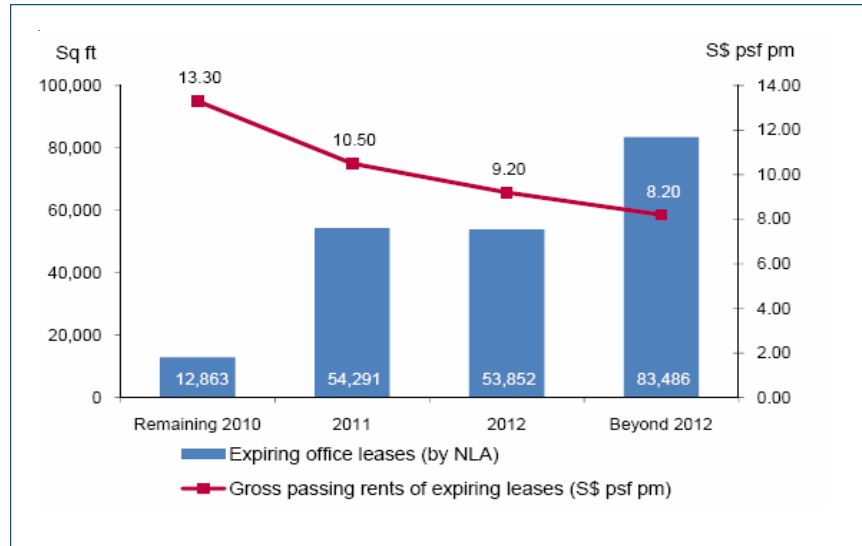
Exhibit 3: Portfolio lease expiry (as at 30 Jun)



Source: Starhill 2Q10 presentation

In 2Q 2010, Singapore office leases committed averaged S\$7.10 per square foot per month. Negative rent reversions have started to kick in for the office portfolio (which we have accounted for in our earnings estimates); this is likely to be offset by contributions from the new assets and an improving retail environment. We estimate Singapore office contributes roughly 14.8% of FY10F gross revenue and 13.2% of FY11F gross revenue.

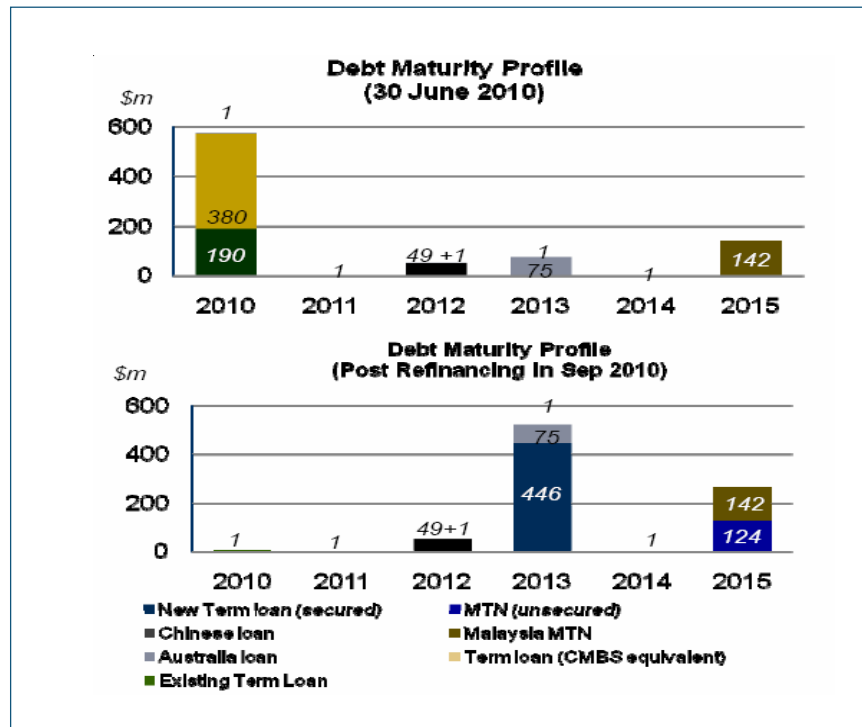
Exhibit 4: Office portfolio lease expiry profile and passing rents



Source: Starhill 2Q10 presentation

Starhill issued S\$124m unsecured 5-year notes and entered into a facility agreement for 3-year secured facilities of S\$496m in Jul 2010 to address the S\$570m secured debt maturing in Sep 2010. Post refinancing, Starhill's weighted average debt maturity profile will be extended from 1.3 years to approximately 3.7 years.

Exhibit 5: Debt maturity profile



Source: Starhill 2Q10 presentation

Exhibit 6: Valuation details

DDM Valuation		2010F	2011F	2012F	2013F	2014F	2015F	Terminal
DPU (S cents)		3.84	3.96	4.09	4.05	4.05	4.14	67.27
DDM-derived FV	0.65							
Current Price	0.590							
Upside	10.2%							
Total return	16.7%							
Risk-free rate	3.0%							
Equity risk premium	4.0%							
Beta	0.92							
CAPM disc rate	6.7%							
Terminal growth rate	0.5%							
SOTP Valuation		S\$m						
Gross asset value		2229.8						
Less FY10 debt		-838.3						
Less CPUs		-173.4						
Net cash		72.1						
SOTP value		1290.2						
Units outstanding		1943.0						
Core SOTP value per unit		0.66						
Current price		0.590						
Upside		11.9%						
Total return		18.4%						

Source: OIR estimates

Starhill's Key Financial Data

Starhill Results Year Ended 31 Dec (S\$ m)	2Q10 (S\$m)	2Q09 (S\$m)	% Chg (YoY)	1Q10 (S\$m)	% Chg (QoQ)
Gross revenue	37.2	33.4	11.4%	37.6	-1.1%
Property operating expenses	-8.3	-6.4	30.5%	-8.5	-1.7%
Net property income	28.8	27.0	6.9%	29.1	-1.0%
Finance income	0.2	0.0	n.m.	0.3	-23.6%
FV adj security deposits	0.0	-0.2	n.m.	0.0	n.m.
Management fees	-3.1	-2.6	19.2%	-3.0	5.5%
Performance fees	0.0	0.0	-	0.0	-
Trust expenses	-0.8	-0.9	-7.3%	-0.9	-8.6%
Finance expense	-7.2	-5.9	22.4%	-6.8	5.4%
FV chg derivative instruments	-11.0	4.7	n.m.	2.3	n.m.
Unrealized forex (loss)/gain	0.0	0.0	-	0.0	-
FV chg investment properties	0.0	-134.0	-	0.0	-
Income tax expense	-0.7	-2.3	-70.8%	-0.8	-13.2%
Total return after tax	6.2	-114.2	n.m.	20.2	-69.1%
Non-tax deductible/(chargeable) items	11.8	133.0	-91.1%	-1.5	n.m.
Income available for distribution	18.0	18.8	-4.1%	18.7	-3.8%
Amount distributed to CPU holders	0.1	0.0	-	0.0	-
Amount distributed to unitholders	17.7	18.4	-3.6%	18.4	-3.8%
Units outstanding	1,935.1	963.7		1,935.1	
DPU (S cents)	0.91	1.90	-52.1%	0.95	-4.2%

Starhill Global REIT's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (\$m)	FY08	FY09	FY10F	FY11F	As at 31 Dec (\$m)	FY08	FY09	FY10F	FY11F
Revenue	127.0	134.6	163.0	178.9	Investment properties	2103.3	1981.8	2583.3	2583.9
Property expenses	-31.2	-27.7	-34.7	-36.3	Cash	32.7	297.9	72.1	76.4
Net property income	95.9	106.9	128.3	142.6	Other current assets	3.8	3.4	4.1	4.5
Finance expenses	-22.1	-23.7	-30.0	-34.4	Total assets	2163.4	2312.3	2692.4	2699.7
Net profit bef. unrealized gains	59.0	67.2	77.8	90.3	Current liabilities ex debt	51.0	29.7	36.6	40.1
Change in property values	-160.9	-108.8	0.0	0.0	Debt	666.0	619.5	838.3	838.3
Total return after tax	-137.3	-46.2	65.5	86.8	Total liabilities	779.8	725.8	963.5	968.9
Non-tax deductible items	206.7	121.7	15.4	1.4	Convertible pref units	0.0	0.0	173.4	173.4
Total distributable amount	69.4	75.5	81.0	88.3	Unitholders' funds	1383.5	1586.5	1555.4	1557.3
Distr to unitholders	69.4	73.5	74.6	76.9	Total equity and liabilities	2163.4	2312.3	2692.4	2699.7

CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (\$m)	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Operating cash flows	93.0	93.0	102.3	124.1	Units outstanding	957.9	1932.4	1943.0	1943.0
Acquisitions	0.0	-14.8	-410.1	0.0	DPU (S cents)	7.2	5.7	3.8	4.0
Investing cash flows	-15.6	-15.2	-410.2	-0.5	CFPU (S cents)	9.7	4.8	5.3	6.4
Distributions to unitholders	-66.8	-72.5	-105.9	-84.9	NAV (S\$)	1.4	0.8	0.9	0.9
Borrowing costs paid	-18.2	-20.2	-34.6	-34.4	DPU yield (%)	12.2	9.6	6.5	6.7
Financing cash flows	-89.8	188.1	82.1	-119.3	P/CF (x)	6.1	12.3	11.2	9.2
Net change in cash	-12.4	265.9	-225.9	4.3	P/NAV (x)	0.4	0.7	0.7	0.7
Cash at beg of period	42.7	32.7	297.9	72.1	NPI margin (%)	75.5	79.4	78.7	79.7
Translation effects	2.4	-0.6	0.0	0.0	Distr to revenue (%)	54.6	54.6	45.8	43.0
Cash at end of period	32.7	297.9	72.1	76.4	Total debt/Total assets (x)	0.3	0.3	0.3	0.3

Source: Company data, OIR estimates

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Carmen Lee
Head of Research

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