

COMPANY UPDATE

Paragon REIT (PGNREIT SP)

Singapore Assets Are Resilient But Valuation Looks Fair

Paragon continues to generate positive rental reversion as tenant sales for luxury goods, while in the negative territory, outperform steeper declines in other Asian markets. PGNREIT intends to elevate the positioning of Paragon towards top-tier luxury brands and set up more duplex stores. Clementi Mall generates steady growth in line with resiliency of consumer spending at suburban malls. While PGNREIT is a takeover target, 2025 distribution yield of 5.2% looks fair.

WHAT'S NEW

- Chinese have pulled back from ostentatious consumption.** Tenant sales at Paragon dropped 6.7% yoy in 1H24 and 6.6% yoy in 3Q24. Aspirational Chinese consumers have pulled back from purchasing luxury goods. Local governments were admonished to embrace austerity. The ongoing common prosperity and anti-corruption campaigns have also dissuaded ostentatious displays of wealth. Luxury goods giants LVMH and Kering recently announced disappointing results, with sales in Asia dropping 16% yoy in 3Q24.
- Paragon maintains positive reversions despite lacklustre tenant sales.** Paragon, being the premier upscale mall strategically located in the prime Orchard Road precinct, benefitted from the recovery in visitor arrivals, which increased 14% yoy and accounted for 88% of pre-pandemic levels in 3Q24. Tourism receipts on shopping increased 10.4% yoy in 2Q24. Thus, luxury brands continue to expand in Singapore due to the more resilient domestic retail scene relative to overseas markets. Medical suites at Paragon also benefitted from the ongoing upgrading at nearby Mount Elizabeth Hospital.
- Repositioning towards top-tier luxury brands.** Within the luxury spectrum, ultra-luxury brands that appeal to high-net-worth clientele is the most resilient. PGNREIT plans to elevate Paragon's positioning toward top-tier luxury brands and intends to set up more duplex stores. Saint Laurent and Burberry have recently expanded to duplex stores at Paragon. Tommy Hilfiger, Brooks Brothers and 45R have also invested in new fit-outs.
- Clementi Mall demonstrates strength of necessity spending.** PGNREIT achieved positive rental reversion of 19.1% in 1H24 (2023: 6.3%) with both Paragon and Clementi Mall registering double-digit reversions. The positive momentum was maintained in 3Q24. Tenant sales at Clementi Mall grew 8.9% yoy in 1H24 and 8.8% yoy in 3Q24, demonstrating the resiliency of necessity spending at suburban malls in the heartlands.

KEY FINANCIALS

Year to 31 Dec (\$m)	2019	2020	2021	2022	2023
Net turnover	229	241	277	376	289
EBITDA	159	158	177	244	188
Operating profit	159	158	177	244	188
Net profit (rep./act.)	150	(75)	137	226	136
Net profit (adj.)	130	112	137	188	126
EPU (\$ cent)	5.0	4.1	4.9	6.7	4.5
DPU (\$ cent)	5.6	2.7	5.4	7.2	5.0
PE (x)	17.3	21.1	17.6	13.0	19.5
P/B (x)	0.9	1.0	1.0	1.0	1.0
DPU Yld (%)	6.4	3.1	6.2	8.3	5.8
Net margin (%)	65.6	(31.0)	49.6	59.9	47.1
Net debt/(cash) to equity (%)	27.2	43.4	41.7	40.0	39.4
Interest cover (x)	5.4	5.1	7.4	7.1	3.7
ROE (%)	5.8	(2.7)	4.9	7.9	4.7
Consensus DPU (\$ cent)	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Paragon REIT, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	S\$0.87
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

PGNREIT invests in income-producing real estate primarily for retail purposes in the Asia Pacific region.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	PGNREIT SP
Shares issued (m):	2,839.0
Market cap (\$m):	2,469.9
Market cap (US\$m):	1,836.5
3-mth avg daily t'over (US\$m):	1.3

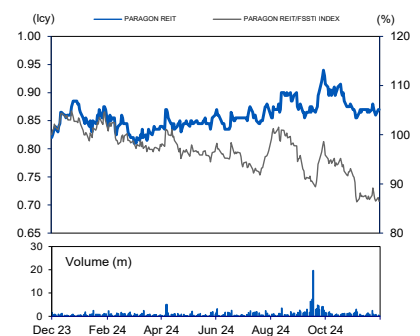
Price Performance (%)

52-week high/low	S\$0.945/S\$0.81			
1mth	3mth	6mth	1yr	YTD
(1.1)	(2.8)	1.8	6.7	(1.7)

Major Shareholders

Cuscaden Peak P/L	61.4
NAV/Share (\$)	0.94
Net Debt/Share (\$)	0.41

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Muted growth in Australia.** Tenant sales at Westfield Marion in Adelaide and Figtree Grove in Wollongong in Australia saw mild increases of 0.9% and 2.0% yoy respectively in 3Q24. Australian consumers are struggling with inflationary impact on cost of living, including higher mortgage rates and rising rents. Middle income households are the main beneficiaries of tax cuts starting Jul 24. The tax rate for individuals earning A\$45,000-135,000 was reduced from 32.5% to 30.0%.
- Downsizing exposure to Australia.** PGNREIT has entered into a put and call option to divest Figtree Grove Shopping Centre at Wollongong, Australia for A\$192m (5% premium above valuation). Pro forma 2023 DPU is expected to drop 1.8% to 4.80 S cents post-divestment. Pro forma NAV per unit as of Dec 23 is expected to fall 2.2% to S\$0.90. The divestment is expected to be completed in 1Q25. Upon completion, PGNREIT will have three retail properties, namely Paragon, Clementi Mall and Westfield Marion. Singapore would account for 83% of NPI and 87% of AUM.
- Capital values increased for Singapore assets.** Valuation of Singapore assets increased 3.4% or S\$116m due to improved performance from Paragon and Clementi Mall. Valuation for Westfield Marion declined 5.3% to A\$580m as capitalisation rate expanded 25bp to 6.25%. NAV per unit increased 3.3% to S\$0.94.
- Strengthening balance sheet.** Aggregate leverage was 35.9% as of Sep 24. PGNREIT's average cost of debt was elevated at 4.5% in 9M24. Adjusted interest coverage ratio was healthy at 2.9x. PGNREIT has redeemed S\$300m of 4.1% subordinated perpetual securities in Aug 24. The perpetual securities were replaced by debt on its balance sheet.

STOCK IMPACT

- Potential takeover target.** New sponsor Cuscaden Peak is a consortium made up of Hotel Properties, Mapletree Investments and CLA Real Estate Holdings. Large cap S-REITs within the consortium, such as CapitaLand Integrated Commercial Trust (CICT) and Mapletree Pan Asia Commercial Trust (MPACT), could potentially make an offer to acquire PGNREIT.
- Improved operating performance from Paragon and Clementi Mall.** PGNREIT reported 1H24 DPU of 2.32 S cents (-4.1% yoy). Gross revenue and NPI increased 3.0% and 4.5% yoy respectively in 1H24. NPI margin has improved 1.1ppt yoy to 75.2%. NPI from Paragon and Clementi mall grew 6.3% and 11.1% yoy respectively. Management fees were fully paid in cash to reduce DPU dilution. On a like-for-like basis, DPU was higher yoy.

VALUATION/RECOMMENDATION

- Valuation appears fair.** PGNREIT is trading at distribution yields of 5.1% for 2024 and 5.2% for 2025 based on consensus DPU forecast of 4.4 S cents for 2024 and 4.5 S cents for 2025. It is trading at P/NAV of 0.93x.

SHARE PRICE CATALYST

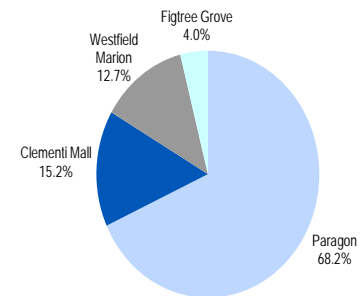
- Continued recovery in visitor arrivals and tourism receipts on shopping.
- Resilient domestic consumption and limited supply of retail space driving higher retail rents along Orchard Road and suburban locations.

KEY OPERATING METRICS

		3Q23	4Q23	1Q24	2Q24	3Q24	yoy	qoq
DPU	S cents	n.a.	2.6	n.a.	2.32	n.a.	n.a.	n.a.
Occupancy	%	98.1	98.1	98.1	98.1	97.9	-0.2ppt	-0.2ppt
Aggregate Leverage	%	30.1	30.0	29.9	29.0	35.9	5.8ppt	6.9ppt
Adjusted Interest Coverage Ratio	x	3.1	2.9	2.8	2.8	2.9	-0.2	0.1
Average Cost of Debt	%	4.2	4.3	4.6	4.6	4.5	0.3ppt	-0.1ppt
% Borrowing In Fixed Rates	%	85	85	85	85	79	-6ppt	-6ppt
Weighted Debt Maturity	year	2.4	2.1	1.9	1.6	1.9	-0.5yrs	0.3yrs
Weighted Average Lease Expiry (WALE)	year	3.1	3.0	2.9	2.9	3.1	0yrs	0.2yrs

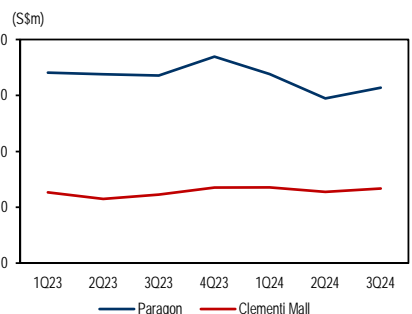
Source: PGNREIT

PORTFOLIO VALUATION BY ASSET



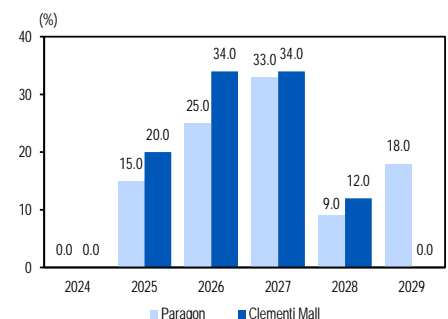
Source: PGNREIT

TENANT SALES



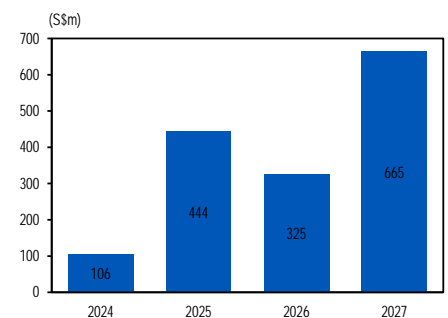
Source: PGNREIT

LEASE EXPIRY PROFILE BY GRI



Source: PGNREIT

DEBT MATURITY PROFILE



Source: PGNREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2020	2021	2022	2023
Net turnover	241.5	277.2	376.4	288.9
EBITDA	158.3	177.2	243.7	188.2
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	158.3	177.2	243.7	188.2
Total other non-operating income	(187.1)	0.0	37.9	9.6
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(31.1)	(23.8)	(34.4)	(50.6)
Pre-tax profit	(60.0)	153.5	247.2	147.2
Tax	(4.0)	(1.4)	(3.7)	(0.4)
Minorities	1.5	(2.4)	(1.5)	1.5
Perpetual Securities	(12.3)	(12.3)	(16.4)	(12.3)
Net profit	(74.9)	137.3	225.6	136.0
Net profit (adj.)	112.2	137.3	187.7	126.4

CASH FLOW

Year to 31 Dec (\$m)	2020	2021	2022	2023
Operating	166.3	202.5	276.0	192.2
Pre-tax profit	119.0	150.6	209.3	137.6
Tax	0.0	0.0	0.0	0.0
Deprec. & amort.	0.2	0.3	0.4	0.2
Associates	0.0	0.0	0.0	0.0
Working capital changes	(10.3)	11.6	4.6	(4.1)
Non-cash items	19.2	20.4	26.6	10.2
Other operating cashflows	38.1	19.6	35.1	48.2
Investing	(635.0)	(13.1)	(13.4)	(2.9)
Capex (growth)	(627.6)	0.0	0.0	0.0
Capex (maintenance)	(9.2)	(13.3)	(14.6)	(6.8)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	1.8	0.2	1.2	4.0
Financing	206.0	(158.3)	(246.4)	(180.8)
Distribution to unitholders	(95.7)	(121.1)	(198.8)	(116.8)
Issue of shares	164.5	0.0	0.0	0.0
Proceeds from borrowings	184.5	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(47.2)	(37.2)	(47.6)	(64.0)
Net cash inflow (outflow)	(262.7)	31.2	16.1	8.5
Beginning cash & cash equivalent	342.7	82.0	111.7	125.6
Changes due to forex impact	2.0	(1.5)	(2.2)	0.4
Ending cash & cash equivalent	82.0	111.7	125.6	134.5

BALANCE SHEET

Year to 31 Dec (\$m)	2020	2021	2022	2023
Fixed assets	4,126.0	4,123.6	4,112.5	4,121.9
Other LT assets	0.0	0.0	9.6	3.7
Cash/ST investment	82.0	111.7	125.6	134.5
Other current assets	32.7	11.3	9.2	8.6
Total assets	4,240.7	4,246.6	4,256.9	4,268.7
ST debt	1,083.7	1,138.1	1,176.7	1,045.6
Other current liabilities	43.6	41.4	41.6	44.2
LT debt	214.9	154.9	95.0	223.0
Other LT liabilities	83.8	64.2	64.6	64.6
Shareholders' equity	2,801.2	2,833.2	2,865.1	2,879.6
Minority interest	13.5	14.7	14.0	11.6
Total liabilities & equity	4,240.7	4,246.6	4,256.9	4,268.7

KEY METRICS

Year to 31 Dec (%)	2020	2021	2022	2023
Profitability				
EBITDA margin	65.5	63.9	64.7	65.1
Pre-tax margin	(24.8)	55.4	65.7	50.9
Net margin	(31.0)	49.6	59.9	47.1
ROA	(1.8)	3.2	5.3	3.2
ROE	(2.7)	4.9	7.9	4.7
Growth				
Turnover	5.6	14.8	35.8	(23.2)
EBITDA	(0.7)	12.0	37.5	(22.8)
Pre-tax profit	n.a.	n.a.	61.0	(40.4)
Net profit	n.a.	n.a.	64.3	(39.7)
Net profit (adj.)	(14.0)	22.4	36.7	(32.7)
EPU	(18.2)	19.6	35.2	(33.1)
Leverage				
Debt to total capital	31.6	31.2	30.6	30.5
Debt to equity	46.4	45.6	44.4	44.1
Net debt/(cash) to equity	43.4	41.7	40.0	39.4
Interest cover (x)	5.1	7.4	7.1	3.7

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