Singapore Industry Focus

Singapore REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Feb 2018

Take the leap of faith

- Correction on interest rate fears largely done; stronger property fundamentals
- Attractive valuations with yield spreads and P/Bk now close to historical averages ahead of multi-year upturn
- Office and hotels remain our preferred sectors
- Top picks – AREIT, CCT, MLT, Suntec, CDREIT, FCT and FCOT

It's different this time. The spike in the 10-year bond and fears over inflation caused the S-REIT index to drop by c.7% over the past week and we believe that the recent sell-off is largely done. While the sharp correction brings back painful memories of the close to 22% drop in S-REIT prices back in 2013, we believe that this time, it's different. This is mainly coming on the back of stronger property fundamentals for most subsectors (office, hotels, industrials) supporting higher rentals/RevPAR, driving higher distribution growth rate. The increased income visibility and upside to earnings will, in our view, translate into tighter yield spreads going forward. Moreover, the quantum of interest rate increase (c.40-bp increase in 10-year bond till 2019) is much lower than the 90-bp increase we saw from the lows back in 2013.

Buy into firmer fundamentals. Given our expectations of a return growth on the back of better economic growth and easing supply pressures, as discussed in our 2018 outlook report, we believe the normalised yield spread (yield less normalised Singapore 10-year bond yield of 2.7%) can compress from 3.3% currently to c.3%. Post the correction, spot yield spreads and P/Bk of 3.7% and 1.07x which are close to historical mean of 3.8% and 1.04x, are attractive as in a multi-year upcycle the P/Bk can increase up to +1SD of 1.24x which typically coincides with an increase in interest rates. We believe once investors refocus on the improving property fundamentals, a re-rating will occur. Thus, the current weakness is a buying opportunity.

Selected Office, hotels and industrial REITs to leverage on upswing. With the outlook for office rents and hotel room rates remaining bright as confirmed by recent guidance post the recent results season, we remain overweight on the office and hospitality REITs with our top office picks being **CCT (TP S$2.10)**, **Suntec (TP S$2.30)** and **FCOT (TP S$1.71)**. Within the hotel space, we like **CDREIT (TP S$2.00)** and **FHT (TP S$0.89)**. We also advocate investors being overweight on **AREIT (TP S$2.85)** and **MLT (TP S$1.45)** as they are consistent performers that are also leveraged to the cyclical upturn. Furthermore, we like **FCT (TP S$2.48)** for its strong DPU growth.

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STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
Ascendas REIT	2.62	5,760	2.85	(1.1)	5.7	BUY
CapitaLand Commercial Trust	1.78	4,890	2.10	(6.8)	18.3	BUY
Suntec REIT	1.97	3,991	2.30	0.0	13.9	BUY
Mapletree Logistics Trust	1.25	2,909	1.45	(2.3)	18.5	BUY
Frasers Centrepoint Trust	2.15	1,515	2.48	(2.3)	7.5	BUY
CDL Hospitality Trusts	1.68	1,533	2.00	2.4	25.6	BUY
Frasers Hospitality Trust	0.79	1,119	0.89	1.9	14.5	BUY
Frasers Commercial Trust	1.44	889	1.71	1.4	12.1	BUY

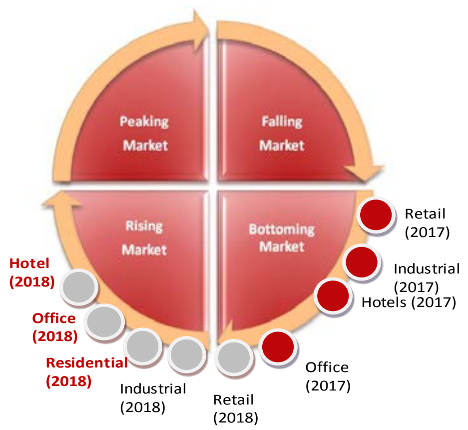
Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 19 Feb 2018

Heading into firmer fundamentals

At the end of 2017, we believed that with the return of growth led by the office and hospitality sectors due to a recovery in spot office rents and hotel room rates, yield spreads would tighten to c.3% using a normalised 10-year bond yield of 2.5-2.6%. Due to the stronger-than-expected GDP growth numbers, normalised yield spreads for the S-REITs did tighten towards 3.0-3.1% in early January (3.4% spot yield spread using spot 10-year bond of 2.1%). Following the recent spike in both the US and Singapore 10-year bond yield to c.2.9% and c.2.3% respectively on fears over the return of inflation and the US Federal Reserve increasing interests rates at a faster pace, investors took the opportunity to lock in profits with the normalised yield spread increasing to 3.3% (using our DBS economists' revised Singapore 10-year bond yield of 2.7% by year-end) and the spot yield spread (using spot Singapore 10-year bond yield of 2.3%) blowing out to 3.7% which is close to the historical average yield spread of 3.8%.

However, with no major changes in the positive outlook for various property sub-segments in Singapore due to a more buoyant economic environment and easing supply pressures, resulting in the return and acceleration of DPU growth, we believe the prospects for tightening of yield spreads towards a normalised c.3% by year-end remains intact. In addition, our DBS economists remain of the view that the US Federal Reserve should remain measured with its rate hikes and have maintained their assumption of three rate hikes which is in line with consensus expectations.

Positive outlook with Office and Hotels leading the cyclical upturn



Sector	2018 Outlook	2019 Outlook
Residential	↑	↑
Office	↑	↑
Retail	↙	→
Industrial	↖	↑
Hospitality	↑	↑
Healthcare	↑	↑

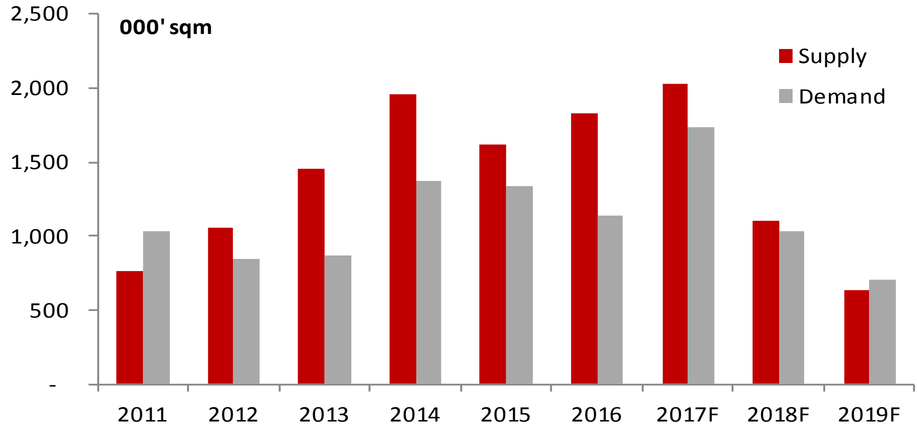
Source: JTC, URA, DBS Bank

Remarks

After a dowturn over the past 3-4 years in various property submarkets, we believe we are at the cups of multi-year upturn led by the office and hotel sectors.

Underpinning this positive outlook is a robust Singapore economy which our DBS economists are projecting to grow by 2.7-3.% p.a. over 2018-2019 and easing supply pressures. This should result in the market moving to an oversupplied situation to a landlord's market.

Industrial space to see a drop in supply in 2018



Source: JTC, URA, DBS Bank

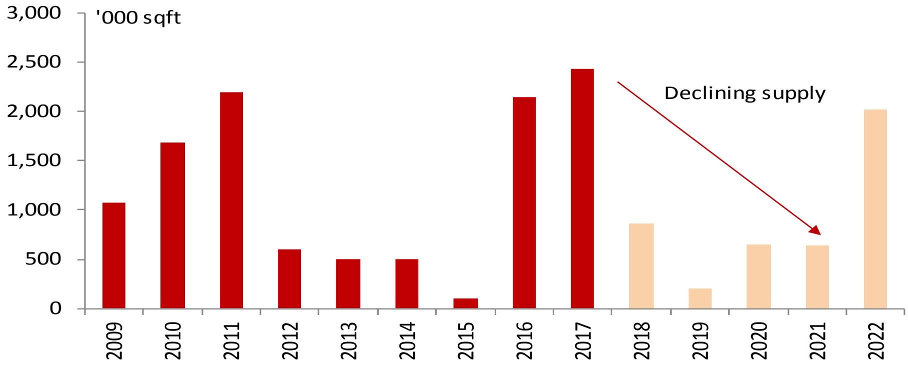
Remarks

Supply of industrial space remained elevated in 2017 but will drop close to 50% from 2018 onwards.

That said, most supply is still coming from the warehouse and factory segment and will need time to be absorbed.

The sector with the least supply pressure will be business parks, which will have minimal supply being completed in the next few years.

Moderating supply in office space from 2018 onwards

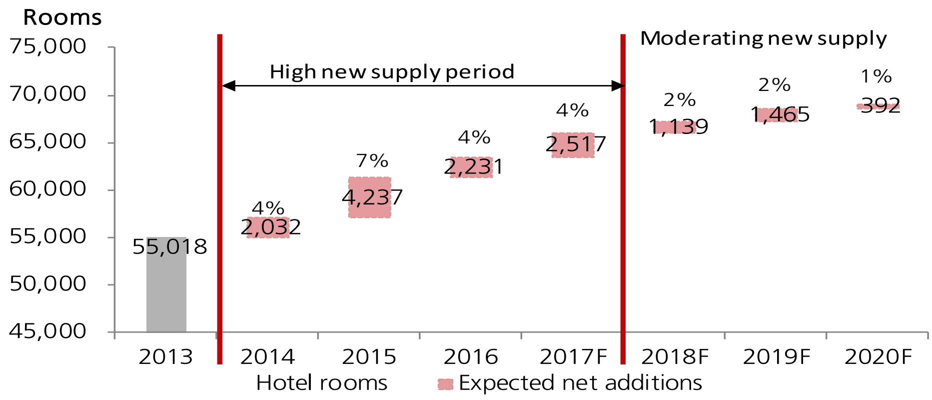


Source: URA, DBS Bank

Remarks

Supply in office space in downtown CBD will fall significantly from 2018-2021, which bodes well for rents in the medium term.

Easing supply pressures in the hospitality sector

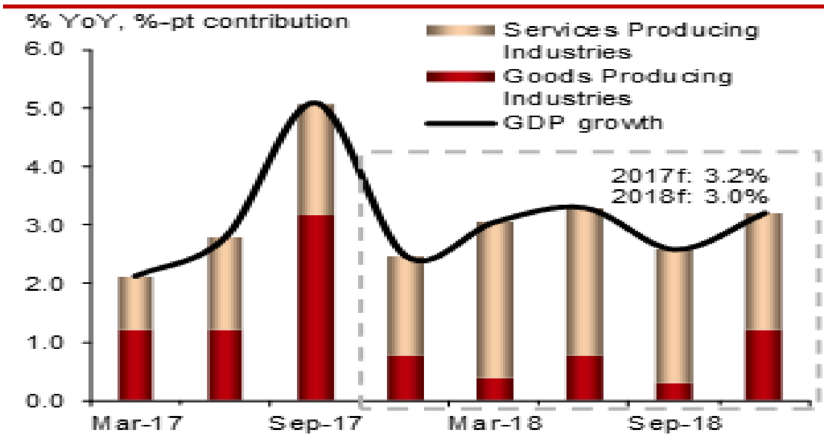


Source: STB, DBS Bank

Remarks

After a period of high supply between 2014 and 2017, we expect supply to moderate.

Services Producing Industries to become a key driver of Singapore's GDP growth

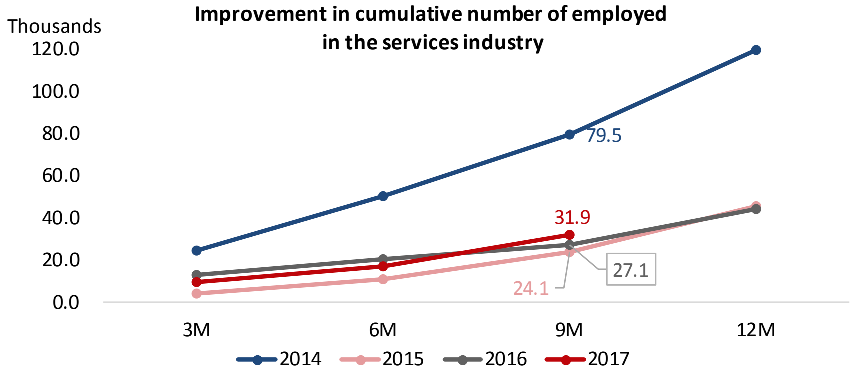


Source: CEIC, DBS Bank

Remarks

Following a pick-up in manufacturing in early 2017, DBS's economists expect the positive momentum to flow through to the services sector. In 2018, services will be the main driver of Singapore's GDP growth; this sector is, in turn, the main industry that drives demand for offices.

Green shoots with a rise in employment in the services industry

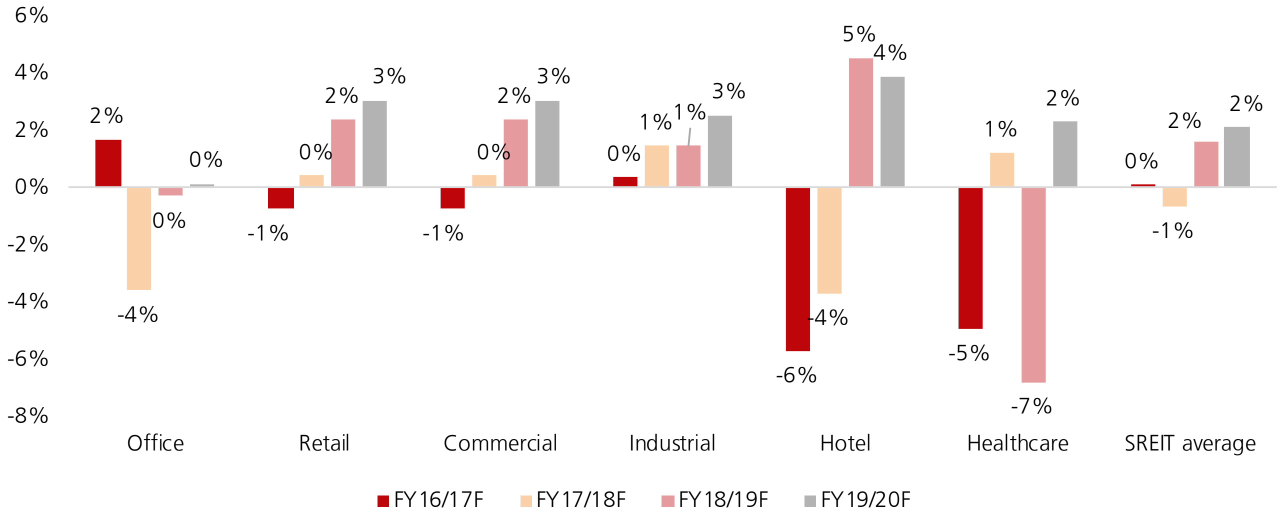


Source: CEIC, DBS Bank

Remarks

In the first nine months of 2017, we saw some evidence of green shoots, with 31,900 workers added to the workforce.

Growth to return with Hospitality REITs to deliver the strongest YoY DPU growth



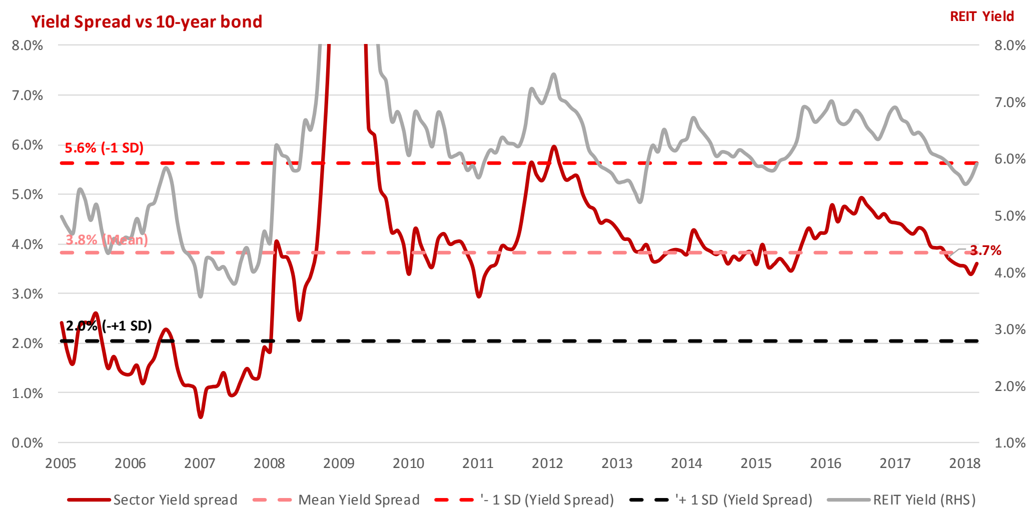
Source: Various REITs, DBS Bank estimates

Selected S-REITs with strong growth profile

REIT	Sector	Sector Growth	FY17-18F DPU growth	Growth driver
FCT	Retail	2.4%	5.1%	Completion of Northpoint AEI.
CDREIT	Hospitality	4.5%	10.3%	Boost from acquisitions in the previous year and recovery in the Singapore hospitality market.
KDCREIT	Data centre (industrial)	1.6%	7.8%	Acquisition of data centres.
MUST	Office (USA)	1.7%	14.0%	Improvement in the US office market and the previous year's acquisitions.

Source: Various REITs, DBS Bank estimates

Forward S-REIT yield spread



Source: Bloomberg Finance L.P., DBS Bank

Remarks

Following the recent correction, the spot yield spread has increased to 3.7% close to the historical mean yield spread of 3.8%.

We believe once investors refocus on the recovery in DPU and multi-year upturn in various property markets, the yield spread will compress from here.

Historical S-REIT yield and S-REIT yield spread (2005-current)

Period	Years	Average 10year bond (%)	Average S-REIT yields (%)	Average S-REIT yield spreads (%)	DPU growth (%)	Average P/Bk (x)	Comments
"Establishment of REIT market"	2003	2.9%	7.3%	4.4%	20.8%	1.07	Lack of familiarity with new asset class resulting in high yield spreads.
	2006	3.3%	6.5%	3.3%	17.6%	1.18	
"High Growth"	2005	2.9%	4.8%	2.0%	13.4%	1.18	2006-2008 was a period of high growth for S-REITs when average distribution growth was c.13%; the key catalysts were acquisitions.
	2006	3.4%	5.0%	1.6%	10.9%	1.18	
	2007	2.9%	4.1%	1.2%	14.6%	1.47	
"Aberration in valuations due to the GFC"	2008	2.8%	7.3%	4.5%	12.9%	0.84	Yield spread expanded due to the financial crisis.
	2009	2.3%	9.6%	7.3%	-9.8%	0.66	
"Liquidity-driven recovery"	2010	2.4%	6.3%	3.9%	2.1%	0.98	After the global financial crisis, the sector saw yield compression in 2012-2013 before the Fed hinted at rate hikes in mid-2013.
	2011	2.2%	6.4%	4.2%	2.6%	1.01	
	2012	1.5%	6.5%	5.0%	4.9%	0.92	
	2013	2.0%	5.8%	3.8%	4.6%	1.04	
	2014	2.4%	6.2%	3.8%	3.7%	1.01	
	2015	2.4%	6.3%	3.9%	4.5%	1.00	
	2016	2.0%	6.6%	4.6%	-0.6%	0.96	
	2017	2.1%	5.7%	3.6%	-0.7%	1.01	
	Periods						
	2005-current	2.4%	6.2%	3.8%			
	2006-2008	3.0%	5.4%	2.4%			
	2010-current	2.1%	6.3%	4.2%			
	Forward						
	Current (FY18F)	2.3%	6.0 %	3.7%	1.6%	1.05	
	Normalised (FY18F)	2.7%	6.0%	3.3%	1.6%	1.05	

Source: Bloomberg Finance L.P., DBS Bank

Share prices for S-REITs are close to near-term lows.

Based on our analysis, the current correction draws similar parallels to the taper tantrums in 2013, which resulted in the S-REIT index falling 21.5% from peak to through. In 2013, the market shifted from a view that interest rates would remain low forever to prospects of interest rates rising. However, the outlook for Singapore property was uncertain, unlike now where property fundamentals are improving. However, back in 2013, prices for S-REITs eventually rebounded as interest rates remained benign.

In contrast, today the market is jittery over faster-than-expected growth causing a return of inflation, resulting in the US Federal Reserve being more hawkish. However, we should note that if the interest rates go higher, hitting our DBS economists' projections of 3% and 2.7% for the US and Singapore 10-year bond yield by year-end, the percentage increase in interest rates and impact would be less as we are now starting at a higher base compared to the taper tantrums in 2013. In 2013, the US 10-year bond yield stood around 1.92% at the start of the S-REIT market correction before ending at 2.88% when the S-REIT index hit its lows. This is a c.50% increase in the long bond yield as compared to a potential c.20% increase from 2.56% in early January 2018 to 3% by year-end.

Looking ahead, we see upside in distributions, driven by firmer underlying property fundamentals. Unlike 2013, the forward picture in 2018-2019 for most property sectors remain positive, driven by stronger economic activity and a supply squeeze (especially in office, hotel, warehouse and business park sectors), will mean a multi-year recovery in rentals.

Therefore, based on the fact that the expected percentage increase in the 10-year bond yield is less than what occurred in 2013 and the property market is expected to improve from here, any correction in S-REITs should be less than the falls recorded during the taper tantrum in 2013. While it is difficult to judge the absolute peak-to-trough correction this time round, based on the two factors described, a peak-to-trough fall could be half that of the correction in 2013 which would translate into a 10-12% fall. Thus far, the S-REIT index has fallen 7.6% or 8.5% on the intra day low, meaning we may still see 3-5% downside from current levels. Nevertheless, we believe we may have already seen the lows for some REITs as they have fallen by more than 15% based on their recent intraday lows. In addition, during the 2013 taper tantrums, it took six to seven months for the S-REIT Index to bottom out. Given the positive property fundamentals the S-REIT index may take three to four months to form a base as investors who were shocked by the sudden spike in interest rates regain confidence over the positive property outlook in Singapore and how rising rents can help offset the impact of rising interest rates.

S-REITs' performance during corrections over the past few years

Year	Event	Peak to trough correction for the S-REIT index	US/SG 10-yr bond yield at the start period (%)	US/SG 10 year bond yield at the end of period (%)	Singapore GDP growth	Property market situation	Concerns
25-Jul-2011 to 4-Oct-2011	European debt crisis	-16.1%	3.00/2.11	1.82/1.55	3.6% in 2011 heading to 1.3% in 2012	Rents on an upturn post lows during the GFC.	The potential breakup of the Eurozone resulting in downturn in the global economy.
21-May-2013 to 11-Dec-2013	Taper tantrums	-21.5%	1.92/1.52	2.88/2.46	3.9% in 2013 heading to 2.9% in 2014	Stabilising rents after recovery but supply coming on stream from 2014 onwards.	First mention by Ben Bernanke on 21 May 2013 about the US Federal Reserve gradually reducing its monetary expansion.
6-Aug-2015 to 21-Jan-2016	RMB de-valuation	-11.2%	2.22/2.61	2.03/2.34	2.0% in 2015 heading to 2.0% in 2016	Rents on a downtrend.	Devaluation a sign that China's economy was in trouble with contagion spreading to the global economy.
10-Jan-2018 to current	Inflation fears	-7.5% (8.5% intraday low)	2.56/2.14	2.79/2.32	3.5% in 2017 heading to 3.0%	Market bottoming ahead of expected upturn.	Global synchronised growth and strong US economy post tax cuts to result in inflation returning, causing a more hawkish response from the US Federal Reserve.

Source: Bloomberg Finance L.P., DBS Bank

Share price performance from recent peaks

REIT	Price @ 10-Jan-18 (S$)	Price @ 13-Feb-18 (S$)	Decline from 10-Jan-18	Recent Intraday Low (S$)	Decline from 10Jan18 to recent Intraday Low	Recent Intraday High (S$)	Decline from recent Intraday High to 13-Feb-18	Decline from recent Intraday High to recent Intraday Low
Office								
CCT	2.00	1.72	-14.0%	1.69	-15.5%	2.05	-16.1%	-17.6%
FCOT	1.50	1.39	-7.3%	1.34	-10.7%	1.55	-10.3%	-13.5%
KREIT	1.28	1.18	-7.8%	1.16	-9.4%	1.33	-11.3%	-12.8%
OUECT	0.75	0.71	-4.7%	0.70	-6.7%	0.76	-6.6%	-8.6%
Suntec	2.21	1.90	-14.0%	1.89	-14.5%	2.25	-15.6%	-16.0%
Retail								
CRCT	1.66	1.54	-7.2%	1.52	-8.4%	1.69	-8.9%	-10.1%
CMT	2.10	1.97	-6.2%	1.95	-7.1%	2.16	-8.8%	-9.7%
FCT	2.27	2.15	-5.3%	2.11	-7.0%	2.36	-8.9%	-10.6%
SPH REIT	1.08	0.99	-8.3%	0.99	-8.3%	1.09	-9.2%	-9.2%
Commercial								
MCT	1.67	1.55	-7.2%	1.53	-8.4%	1.70	-8.8%	-10.0%
MAGIC	1.28	1.19	-7.0%	1.16	-9.4%	1.28	-7.0%	-9.4%
SGREIT	0.76	0.74	-2.6%	0.72	-5.3%	0.79	-5.7%	-8.3%
Industrial								
a-itrust	1.13	1.04	-8.0%	1.00	-11.5%	1.16	-10.3%	-13.8%
A-REIT	2.78	2.59	-6.8%	2.54	-8.6%	2.86	-9.4%	-11.2%
Cache	0.87	0.84	-3.4%	0.83	-5.2%	0.89	-5.1%	-6.8%
EREIT	0.58	0.57	-0.9%	0.56	-3.5%	0.60	-4.2%	-6.7%
FLT	1.18	1.08	-8.5%	1.07	-9.3%	1.19	-9.2%	-10.1%
MINT	2.10	1.95	-7.1%	1.91	-9.0%	2.13	-8.5%	-10.3%
MLT	1.35	1.23	-8.9%	1.21	-10.4%	1.38	-10.9%	-12.3%
SBREIT	0.71	0.65	-8.5%	0.65	-8.5%	0.72	-9.7%	-9.7%
Hospitality								
ASCHT	0.89	0.85	-4.5%	0.84	-5.1%	0.91	-6.6%	-7.2%
ART	1.24	1.17	-5.6%	1.13	-8.9%	1.27	-7.9%	-11.0%
CDREIT	1.79	1.66	-7.3%	1.58	-11.7%	1.85	-10.3%	-14.6%
FHT	0.79	0.78	-0.6%	0.76	-3.8%	0.83	-5.5%	-8.5%
OUEHT	0.88	0.84	-5.1%	0.83	-5.7%	0.93	-9.7%	-10.3%
Healthcare								
P-Life	2.95	2.80	-5.1%	2.72	-7.8%	3.06	-8.5%	-11.1%
RHT	0.83	0.83	0.0%	0.75	-9.6%	0.87	-4.0%	-13.3%
US Office								
KORE	0.91	0.89	-2.2%	0.86	-5.0%	0.92	-3.8%	-6.5%
MUST	0.96	0.92	-4.7%	0.88	-8.3%	0.99	-7.1%	-10.7%
Others								
KDCREIT	1.46	1.35	-7.5%	1.31	-10.3%	1.48	-8.8%	-11.5%
IREIT	0.79	0.78	-0.6%	0.77	-2.5%	0.83	-5.5%	-7.3%

Source: Bloomberg Finance L.P., DBS Bank

Share price performance during 2013 taper tantrums

REIT	Price @ 21-May-13 (S$)	Price @ 12-Dec-13 (S$)	Decline from 21-May-13	Intraday Low (S$)	Decline from 21-May-13 to Intraday Low	Intraday High (S$)	Decline from Intraday High to 12-Dec-13	Decline from Intraday High to Intraday Low
Office								
CCT	1.65	1.36	-17.4%	1.19	-27.9%	1.69	-19.5%	-29.8%
FCOT	1.58	1.24	-21.8%	1.17	-25.9%	1.60	-22.6%	-26.6%
KREIT	1.57	1.16	-26.2%	1.15	-26.8%	1.63	-29.1%	-29.8%
OUECT				Not listed in 2013				
Suntec	1.88	1.49	-20.7%	1.47	-22.1%	2.00	-25.5%	-26.8%
Retail								
CRCT	1.69	1.33	-21.4%	1.31	-22.6%	1.87	-28.7%	-29.8%
CMT	2.34	1.85	-20.9%	1.81	-22.6%	2.45	-24.5%	-26.1%
FCT	2.20	1.74	-21.1%	1.73	-21.6%	2.34	-25.9%	-26.3%
SPH REIT				Not listed in 2013				
Commercial								
MCT	1.42	1.13	-20.2%	1.09	-23.0%	1.52	-25.7%	-28.3%
MAGIC	1.10	0.83	-24.7%	0.80	-26.9%	1.15	-28.3%	-30.4%
SGREIT	0.94	0.76	-19.7%	0.75	-20.2%	0.99	-23.7%	-24.2%
Industrial								
a-itrust	0.78	0.70	-10.3%	0.59	-24.4%	0.86	-18.6%	-31.4%
A-REIT	2.71	2.11	-22.1%	2.07	-23.6%	2.86	-26.2%	-27.6%
Cache	1.34	1.02	-24.0%	1.02	-24.4%	1.39	-26.6%	-27.0%
EREIT	0.85	0.68	-19.5%	0.64	-24.3%	0.86	-20.9%	-25.6%
FLT				Not listed in 2013				
MINT	1.56	1.27	-18.6%	1.26	-19.6%	1.61	-21.1%	-22.0%
MLT	1.33	1.02	-23.2%	0.99	-25.5%	1.34	-24.1%	-26.3%
SBREIT				Not listed in 2013				
Hospitality								
ASCHT	0.95	0.74	-22.3%	0.72	-24.4%	1.03	-28.0%	-29.9%
ART	1.39	1.13	-18.6%	1.09	-21.3%	1.39	-18.9%	-21.6%
CDREIT	1.91	1.50	-21.4%	1.44	-24.4%	2.05	-26.8%	-29.6%
FHT				Not listed in 2013				
OUEHT				Not listed in 2013				
Healthcare								
P-Life	2.77	2.14	-22.7%	2.12	-23.5%	2.82	-24.1%	-24.8%
RHT	0.75	0.60	-20.3%	0.55	-26.9%	0.76	-21.5%	-28.0%
US Office								
KORE				Not listed in 2013				
MUST				Not listed in 2013				
Others								
KDCREIT				Not listed in 2013				
IREIT				Not listed in 2013				

Source: Bloomberg Finance L.P., DBS Bank

Downside scenario analysis

While we are confident that we already approaching the lows, we have also conducted a bear case scenario analysis to gauge which stock have already been oversold. Our analysis involves applying the average yield spread during the 2013 taper tantrum to our economist's forecast Singapore 10-year bond yield of 2.7% to derive a target implied yield and target price. Under this analysis, FCOT, CRCT, CMT and Cache and SBREIT, have largely priced in the current "tantrums" with the implied target prices at or above the current shares price. Our analysis also shows there remains downside risk to other S-REITs. However, we do note in a multi-year upturn which we expect over the coming few years, yield spreads typically contract while the benchmark 10-year bond yield increases, with the net impact, a lower headline yield and higher share price. Thus, while there is a potential decline in share prices for several S-REITs based on our bear case analysis, in our view using the average yield spread during the 2013 taper tantrum's does not reflect the different economic environment nor the stage of the property cycle we are currently in. The more accurate yield spread we believe investors should use is closer to what was achieved during the up-cycle in 2006-2007, which provies for upside potential to the current share prices of various S-REITs.

Potential bear and up-cycle scenario target prices using average yield spread analysis

				Bear case scenario				Up-cycle scenario (2006 -2007)			
REIT	Price @ 13-Feb-18 (S$)	Target Price (S$)	FY18/19F DPU	Avg. Spread During 2013 taper tantrum	Implied Yield*	Implied target price	Upside/ Downside	Ave. Spread during up-cycle	Implied Yield	Implied target price	Upside/ Downside
Office											
CCT	1.72	2.10	8.70	3.2%	5.9%	1.48	-14%	1.3%	4.0%	2.20	28%
FCOT	1.39	1.71	9.95	4.0%	6.7%	1.48	7%	3.6%	6.3%	1.58	12%
KREIT	1.18	1.41	5.59	3.5%	6.2%	0.90	-24%	1.5%	4.2%	1.33	13%
OUECT	0.71	0.73	4.67	n.a.	n.a.	n.a.	n.a.	3.9%	6.6%	0.71	0%
Suntec	1.90	2.30	10.00	3.5%	6.2%	1.61	-15%	1.8%	4.5%	2.22	17%
								Avg: 2.4%			
Retail											
CRCT	1.54	1.80	10.70	4.4%	7.1%	1.51	-2%	2.9%	5.6%	1.92	24%
CMT	1.97	2.19	11.34	3.0%	5.7%	1.99	1%	1.2%	3.9%	2.94	48%
FCT	2.15	2.48	12.51	4.0%	6.7%	1.87	-13%	1.5%	4.2%	2.98	37%
SPH REIT	0.99	1.07	5.55	3.3%	6.0%	0.92	-7%	2.0%*	4.7%	1.18	19%
MCT	1.55	1.75	8.90	3.6%	6.3%	1.41	-9%	1.8%	4.5%	1.98	28%
MAGIC	1.19	1.40	7.56	4.7%	7.4%	1.02	-14%	2.9%*	5.6%	1.36	13%
SGREIT	0.74	0.82	4.92	3.7%	6.4%	0.77	4%	2.0%*	4.7%	1.04	42%
								Avg: 2.0%			
Industrial			-								
a-itrust	1.04	1.25	6.66	4.5%	7.2%	0.93	-11%	2.0%	4.7%	1.42	35%
A-REIT	2.59	2.85	16.33	4.0%	6.7%	2.44	-6%	2.5%	5.2%	3.14	20%
Cache	0.84	0.90	6.34	5.0%	7.7%	0.82	-2%	4.0%*	6.7%	0.95	12%
EREIT	0.57	0.63	3.98	5.0%	7.7%	0.52	-9%	4.0%	6.7%	0.59	5%
FLT	1.08	1.24	7.11	n.a.	n.a.	n.a.	n.a.	3.0%*	5.7%	1.25	17%
MINT	1.95	2.15	12.27	4.4%	7.1%	1.73	-11%	2.5%	5.2%	2.36	21%
MLT	1.23	1.45	7.72	4.3%	7.0%	1.10	-10%	2.5%	5.2%	1.48	21%
SBREIT	0.65	0.62	4.88	5.0%	7.7%	0.63	-3%	4.0%*	6.7%	0.73	12%
								Avg: 3.1%			

**As the REIT was not listed during 2006-07 we have pegged the average yield spread to its closest peer or sector average. For FLT we have applied a tighter yield spread compared to the other mid-cap industrial REITs given is large proportion of freehold properties.*

Source: Bloomberg Finance L.P., DBS Bank

Potential bear and up-cycle scenario target prices using average yield spread analysis (con'td)

REIT	Price @ 13-Feb-18 (S$)	Target Price (S$)	FY18/19F DPU	Bear case scenario: Avg. Spread During 2013 taper tantrum	Bear case scenario: Implied Yield*	Bear case scenario: Implied target price	Bear case scenario: Upside/ Downside	Up-cycle scenario (2006 -2007): Ave. Spread during up-cycle	Up-cycle scenario (2006 -2007): Implied Yield	Up-cycle scenario (2006 -2007): Implied target price	Up-cycle scenario (2006 -2007): Upside/ Downside
Hospitality			-								
ASCHT	0.845	0.97	5.77	5.5%	8.2%	0.70	-17%	2.3%*	5.0%	1.15	33%
ART	1.17	1.34	7.25	4.5%	7.2%	1.01	-14%	1.3%	4.0%	1.83	58%
CDREIT	1.66	2.00	10.17	4.4%	7.1%	1.43	-14%	1.8%	4.5%	2.24	36%
FHT	0.78	0.89	5.34	n.a.	n.a.	n.a.	n.a.	1.8%*	4.5%	1.19	37%
OUEHT	0.835	0.93	5.10	n.a.	n.a.	n.a.	n.a.	1.8%*	4.5%	1.13	34%
								Avg: 1.8%			
Healthcare			-								
P-Life	2.80	3.15	12.77	3.0%	5.7%	2.24	-20%	n.a.	n.a.	n.a.	n.a.
RHT	0.83	1.04	5.15	5.0%	7.7%	0.67	-19%	n.a.	n.a.	n.a.	n.a.
US Office											
KORE	0.885	0.95	5.77	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MUST	0.915	0.99	7.68	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Others											
KDCREIT	1.35	1.48	5.94	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

**As the REIT was not listed during 2006-07 we have pegged the average yield spread to its closest peer or sector average. ASCHT we have applied a 0.5% premium to the yield spread to account for a liquidity premium. For FLT we have applied a tighter yield spread compared to the other mid-cap industrial REITs given is large proportion of freehold properties.*

Source: Bloomberg Finance L.P., DBS Bank

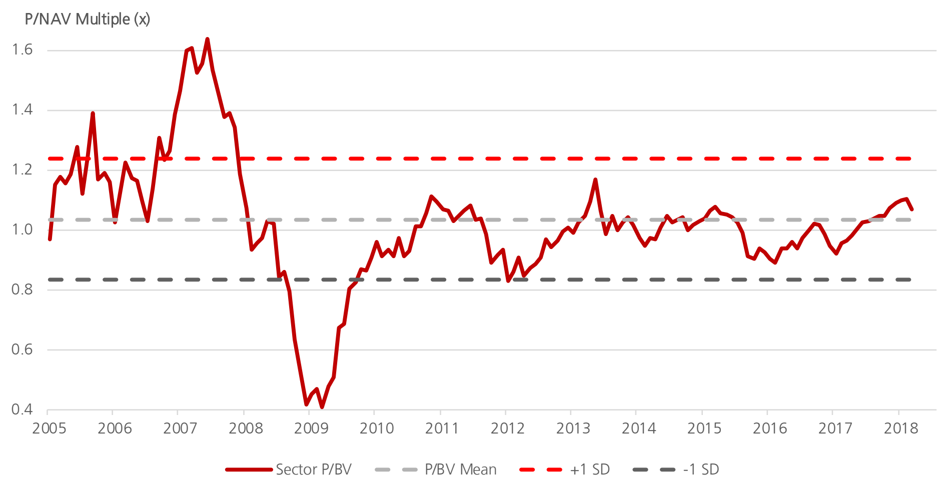
BUY on weakness

Given our house view that the increase in interest rates will be measured and inflation will remain under control, we believe the current share price weakness is an opportunity for investors to accumulate as the return of growth and investors refocusing on property fundamentals rather than macro should result in a compression of yields by year-end.

In addition, post the recent correction, S-REITs' valuations have now become more attractive considering we are potentially at the start of a multi-year recovery in various sub-property markets. In such an environment, yields are above and beyond the historical average, with P/Bk multiples closer to 1.15-1.24x (+0.5 to +1.0 SD). Currently, the S-REIT forward yield is at 6% which is slightly beyond the average historical mean yield of 6.2%. On a P/Bk basis, the S-REIT market is at 1.07x which is also a touch above the average historical P/Bk of 1.04x.

In terms of sector preferences, we continue to like the office and hospitality sectors. We believe the office sector will provide the best leverage to the cyclical upturn in the Singapore economy, while the hospitality sector will offer the fastest-growing DPU. Our third preference would be the industrial sector mainly due to the headwinds from negative rental reversions impacting the smaller industrial REITs. For the retail sector, there are significant concerns over supply pressures and the threat from ecommerce, but we believe a large proportion of these concerns have already been priced in. However, we believe there is limited re-rating catalysts to propel investors to actively overweight the sector especially with potential headwinds from the increase in the GST, thus capping the near-term share price performance. Furthermore, should we see a rebound in interest on S-REITs, we believe capital would likely flow first to the cyclical sectors with the retail sector being a funding source. We would advocate investors to relook the retail sector in 2H18 as a stronger Singapore economy may translate into stronger retail sales and boost sentiment in the sector.

S-REITs' P/Bk NAV during market cycles

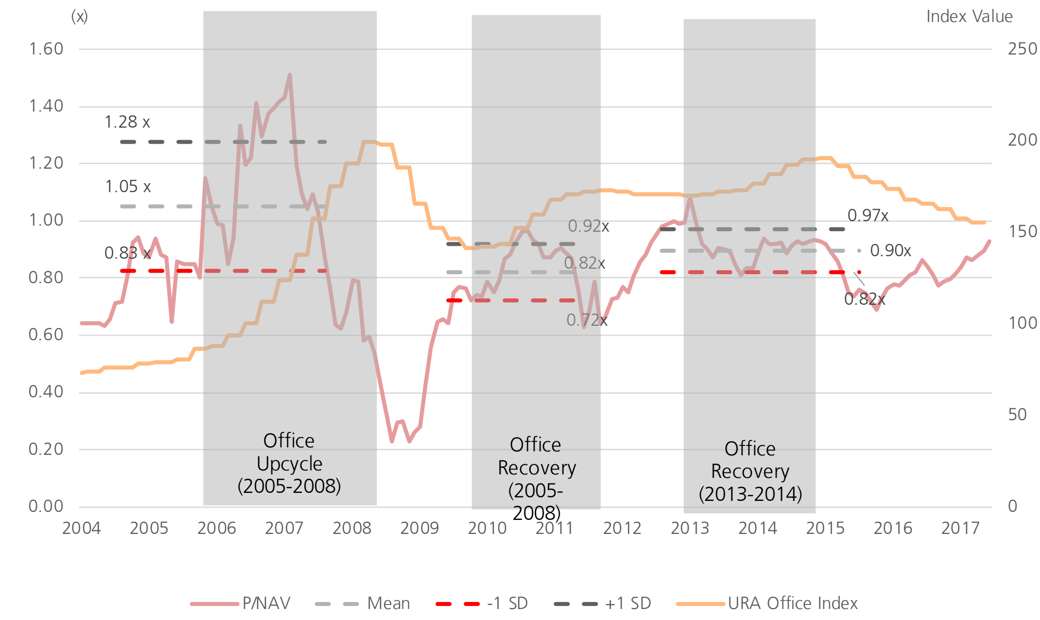


Source: Bloomberg Finance L.P., DBS Bank

Remarks

With a return of growth, we believe the P/Bk multiple can expand from current levels and approach the +0.5 to +1.0 SD level (1.14-1.24x).

Singapore Office REITs' P/Bk NAV during market cycles



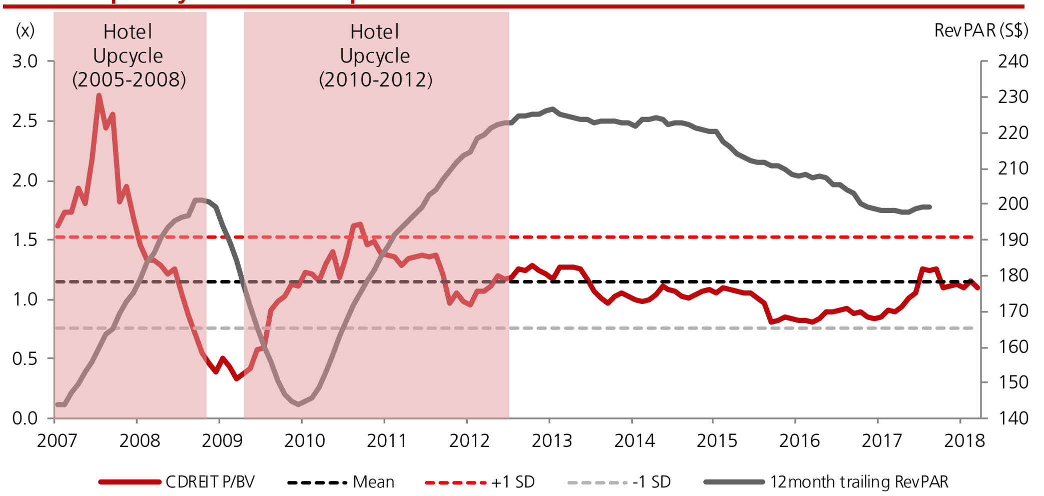
Source: Various REITs, DBS Bank

Remarks

During the last sustained upswing in the Singapore office market between 2005 and 2008, office REITs traded at up to 1.5x book or c.1.3x (+1SD).

With modest new supply over the next 3-4 years, we believe we are on the cusp of another period of sustained improvement in spot rents. Thus, we believe there is potential for S-REITs to again trade at a premium to book and, towards the end of the cycle, potentially push towards 1.2-1.3x book from the current 1.0x P/Bk.

CDL Hospitality Trusts' P/B experience



Source: Bloomberg Finance L.P., DBS Bank

Remarks

During upturns in RevPAR such as 2010-2011, CDREIT traded at a premium to book.

Should the Singapore hospitality market recover in 2018 and exhibit strong RevPAR performance over the next three years, we believe Singapore's hospitality REITs have the potential to trade up to between 1.1x (CDREIT's average P/Bk) and 1.3x (+0.5 SD above CDREIT's average P/Bk).

P/Bk typically rises ahead of an improvement in RevPAR and peaks out halfway through the upcycle.

Top picks

Given our preference for the office, industrial and hospitality sectors, in the large-cap space we prefer CCT and Suntec. For the mid-cap REITs, we like CDREIT, FCOT and FHT.

We also like the large-cap industrial REITs, AREIT and MLT for their steady performance with upside coming from potential acquisitions.

For more details on our top picks, see the table below.

Large-cap top picks

REIT	Current Price (S$)	TP (S$)	Expected 12-month Total Return	FY18/19F yield	FY18/19F P/Bk	Rationale
AREIT	2.59	2.85	17%	6.3%	1.27	Steady consistent performer with scale. Overhang from lack of CEO now removed.
CCT	1.72	2.10	27%	5.1%	0.97	Leveraged to the multi-year recovery in the Singapore office market and trades at 1.0x P/Bk but during an upcycle CCT can trade up to 1.2x P/Bk.
MLT	1.23	1.45	24%	6.3%	1.16	Positive outlook for MLT's key markets of Singapore, Japan, HK and Singapore with near-term DPU boosted by recent acquisitions.
Suntec	1.90	2.30	26%	5.3%	0.92	Play on the turnaround of Suntec Mall and recovery on the Singapore office market, with potential upside from a takeover.

Source: Bloomberg Finance L.P., DBS Bank

Mid-cap top picks

REIT	Current Price (S$)	TP (S$)	Expected 12-month Total Return	FY18/19F yield	FY18/19F P/Bk	Rationale
CDREIT	1.66	2.00	27%	6.1%	1.09	Leveraged to the multi-year recovery in the Singapore hospitality market.
FCT	2.15	2.48	21%	5.8%	1.07	Strong DPU growth on the back of the completion of AEI at NorthPoint.
FCOT (new addition)	1.39	1.71	30%	7.2%	0.92	Recent expansion into UK to kick-start FCOT's inorganic growth strategy and allay concerns that the REIT is ex-growth. This should also reduce FCOT's yield spread to the other office REITs from c.2% closer to the average spread of c.0.8%.
FHT	0.78	0.89	21%	6.8%	0.97	Leveraged to the upturn in the Singapore, Melbourne and Sydney hospitality markets with higher-than-average yields compared to other hospitality REITs.

Source: Bloomberg Finance L.P., DBS Bank

Active start to the year

Year to date, beyond the volatility in share prices, it has been an active start to the year. Two REITs, AIT and FCOT have raised S$100m in equity each to fund acquisitions, while the long-discussed consolidation in the smaller industrial REITs has commenced with ESR and VIT planning a merger.

Recent reporting season summary

Over the recent reporting season, results were generally in line with expectations and DPU performance muted or down y-o-y as expected as the various property markets are transitioning from an oversupply situation to a bottoming or recovery phase. Detailed below are a summary of the sector.

Retail

Over the quarter, the stronger retail assets continued to perform, with MCT's key asset Vivocity maintaining its steady performance. Meanwhile, the market responded to FCT's strong DPU performance and news that rents post the AEI at NorthPoint City were 9% higher. Industry stalwart CMT was flat over the month as negative rental reversions and cautious commentary weighed on the stock. Despite the threat of e-commerce and the supply overhang in Singapore, there were signs that retail sales could be bottoming with the November 2017 retail sales index (excluding motors) jumping 4.7% y-o-y.

Industrial

The larger industrial REITs reported decent numbers with MINT and MLT benefitting from acquisitions made last year with 3QFY18 DPU up 2% y-o-y. AREIT also delivered a steady performance with DPU marginally down 1%. Meanwhile, the smaller industrial REITs continued to report weak DPU performance (down -7% to – 14%), but the proposed merger between ESR and VIT was the major news. This spurred further talk of further consolidation among the smaller REITs with AIMS, Cache, Sabana and Soilbuild being potential takeover targets.

Office

While spot rents have recovered from their lows in 1H17, hitting S$9.40 psf at end-December, office REITs reported negative rentals as expiring rents were higher than signing rents. This, combined with prior quarters of rental reversions, resulted in the office REITs reporting y-o-y falls in DPU (down 3-13% y-o-y). However, various landlords reported increased leasing enquiries and tenants being more eager to renew their leases on anticipation of spot rents climbing higher. This potentially could provide a tailwind towards the end of 2018 and early 2019, with signing/spot rents increasing to a level when negative rental reversions stop and/or even office REITs reporting positive rental reversions.

Hospitality

While 4Q17 DPU for the hospitality REITs ended on a soft note being down y-o-y, there were positive signs that a turnaround of the sector is in sight. Hoteliers showed significant pricing discipline over the quarter despite the opening of seven new hotels. Revenue per available room (RevPAR) for the December quarterly was either relatively stable or up y-o-y. In addition, the hospitality REITs generally provide a more upbeat tone for 2018, with both CDREIT and OUEHT indicating that RevPAR could increase by 2-5% y-o-y in 2018.

Quarterly performance

		< ------		Operating Statistics			------>	<-----		Financial Statistics				---->
REIT	Reporting FY	Revenues (S$mio)	% Chg (y-o-y)	% Chg (q-o-q)	NPI (S$mio)	% Chg (y-o-y)	% Chg (q-o-q)	Gearing (%)	NAV (S$)	% Chg (y-o-y)	% Chg (q-o-q)	DPU Scts	% Chg (y-o-y)	% Chg (q-o-q)
Office														
CCT	4Q17	86.3	-4%	16%	68.0	-4%	16%	37%	1.78	0%	-3%	2.08	-13%	-12%
KREIT	4Q17	44.4	11%	10%	36.2	15%	14%	39%	1.40	-2%	-1%	1.43	-3%	2%
OUECT	4Q17	44.0	-2%	2%	34.7	0%	2%	37%	0.91	-2%	7%	1.14	0%	-1%
Suntec	4Q17	87.3	-2%	-4%	59.4	-2%	-7%	36%	2.12	-1%	0%	2.60	0%	5%
Retail/Mixed														
CRCT	4Q17	54.1	-5%	-3%	33.0	-5%	-8%	28%	1.60	-3%	-2%	2.37	0%	0%
CMT	4Q17	172.4	2%	2%	119.3	3%	-2%	34%	1.95	3%	0%	2.90	1%	4%
CRT	4Q17	2,992.9	12%	-1%	1,441.2	0%	-11%	45%	82.94	8%	9%	2.01	18%	-2%
FCT	1Q18	47.9	9%	-1%	34.5	9%	0%	29%	2.02	5%	0%	3.00	4%	1%
MCT	3Q18	109.7	1%	2%	86.0	2%	2%	36%	1.37	2%	0%	2.30	1%	3%
MAGIC	3Q18	88.5	1%	0%	71.4	0%	1%	39%	1.23	1%	-1%	1.87	5%	0%
SPHREIT	1Q18	53.5	2%	1%	42.2	2%	1%	25%	0.94	0%	-1%	1.34	0%	-6%
SGREIT	2Q18	52.5	-3%	-1%	40.5	-2%	-2%	35%	0.92	0%	0%	1.17	-7%	-3%
Industrial														
AIT	3Q18	46.5	18%	1%	32.6	23%	3%	31%	0.79	11%	0%	1.64	15%	9%
AREIT	3Q18	217.3	4%	1%	157.6	2%	-2%	35%	2.07	0%	-3%	3.97	-1%	-2%
Cache	4Q17	29.6	8%	8%	23.5	10%	10%	36%	0.72	-8%	-7%	1.60	-14%	4%
CREIT	4Q17	27.2	-2%	0%	19.9	1%	2%	40%	0.59	-6%	-6%	0.93	-7%	-4%
MINT	3Q18	91.5	8%	-1%	70.9	12%	0%	34%	1.42	4%	1%	2.88	2%	-4%
MLT	3Q18	98.2	3%	5%	83.0	4%	5%	38%	1.05	2%	-44%	1.91	2%	1%
SBREIT	4Q17	20.7	-4%	1%	17.8	-6%	0%	41%	0.64	-11%	-10%	1.38	-12%	1%
Hospitality														
ASCHT	3Q18	58.1	-2%	-1%	25.2	-5%	3%	33%	0.86	1%	-3%	1.42	3%	0%
ART	4Q17	134.5	6%	6%	61.8	6%	5%	36%	1.25	-6%	1%	2.04	0%	21%
CDREIT	4Q17	55.2	14%	1%	40.6	8%	1%	33%	1.53	-1%	4%	2.83	-6%	24%
FHT	1Q18	41.5	14%	0%	31.4	1%	0%	33%	0.79	5%	-4%	1.31	-1%	3%
OUEHT	4Q17	33.8	2%	-1%	29.2	-1%	-1%	39%	0.76	-1%	0%	1.27	-7%	-7%
Healthcare														
PREIT	4Q17	27.5	-1%	-1%	25.7	1%	-1%	36%	1.76	2%	2%	3.38	10%	0%
RHT	2Q18	24.3	4%	1%	13.4	6%	-1%	23%	0.84	-10%	-1%	1.14	-37%	-7%
Others														
KDCREIT	4Q17	36.8	37%	4%	32.6	31%	1%	32%	0.97	2%	1%	1.75	34%	1%

Source: DBS Bank, Bloomberg Finance L.P.

Interest rate movements

	31-Dec-17 (%)	31-Jan-18 (%)	13-Feb-18 (%)
1-mth SOR	0.99	0.89	0.92
3-mth SOR	1.11	1.01	1.02
6 mth SOR	1.25	1.16	1.19
SG 10 year bond	2.00	2.20	2.25
US 10 year bond	2.41	2.71	2.80

Source: DBS Bank, Bloomberg Finance L.P.

Major new announcements year to date

REIT	Summary
AREIT	Appointment of new CEO Mr William Tay following the resignation of Mr Chia Nam Toon in November 2017.
ASCHT	Disposal of Beijing Novotel Sanyuan and Ibis Beijing Sanyuan for RMB1,156.4m (c.S$235.9m) which is at a 101.5% premium to the properties' latest valuation.
Cache	Issues S$100m worth of 5.5% perpetual securities.
ESR-VIT	ESR REIT and Viva Industrial Trust in discussions about a potential merger to create the fourth largest industrial REIT.
FCOT	Completes S$100m equity raising to fund the REIT's expansion to the UK and acquisition of Farnborough Business Park.
MAGIC	Expands investment mandate to include commercial properties in Japan.
MLT	Acquires remaining 38% interest in Shatin No. 3, Hong Kong.

Source: DBS Bank, Various REITs, Bloomberg Finance L.P.

S-REIT peer comparison as at 13 February 2018

REIT	FYE	Price (S$)	Rec	Target Price (S$)	Total Return (%)	Mkt Cap S$'m	Yield @ Current Price FY17/18F	FY18/19F	FY19/20F	P/Bk (x) FY17/18F	FY18/19F	FY19/20F
Office												
CCT	Dec	1.72	BUY	2.10	27%	6,386	5.0%	5.1%	5.1%	0.97	0.97	0.97
FCOT	Sep	1.39	BUY	1.71	30%	1,266	7.1%	7.2%	7.2%	0.87	0.90	0.92
KREIT	Dec	1.18	BUY	1.41	24%	4,098	4.8%	4.7%	4.8%	0.84	0.85	0.86
OUECT	Dec	0.71	HOLD	0.73	9%	1,096	6.6%	6.4%	6.3%	0.78	0.79	0.79
Suntec	Dec	1.90	BUY	2.30	26%	5,162	5.3%	5.3%	5.3%	0.90	0.90	0.92
							5.3%	**5.3%**	**5.3%**	**0.90**	**0.91**	**0.91**
Retail												
CRCT	Dec	1.54	BUY	1.80	24%	1,488	6.6%	7.0%	7.0%	0.96	0.95	0.98
CMT	Dec	1.97	BUY	2.19	17%	6,986	5.7%	5.8%	5.9%	1.01	1.01	1.01
FCT	Sep	2.15	BUY	2.48	21%	1,990	5.5%	5.8%	6.0%	1.06	1.07	1.07
SPH REIT	Aug	0.99	HOLD	1.07	14%	2,542	5.6%	5.6%	5.9%	1.05	1.05	1.05
							5.7%	**5.9%**	**6.0%**	**1.02**	**1.02**	**1.02**
Commercial												
MCT	Mar	1.55	BUY	1.75	18%	4,464	5.7%	5.7%	5.8%	1.12	1.12	1.13
MAGIC	Mar	1.19	BUY	1.40	24%	3,355	6.2%	6.4%	6.4%	0.92	0.94	0.95
SGREIT	Jun	0.74	BUY	0.82	17%	1,614	6.6%	6.7%	6.8%	0.80	0.80	0.80
							6.0%	**6.1%**	**6.2%**	**1.26**	**1.26**	**1.27**
Industrial												
a-itrust	Mar	1.04	BUY	1.25	27%	973	6.0%	6.4%	7.0%	1.28	1.26	1.25
A-REIT	Mar	2.59	BUY	2.85	17%	7,479	6.2%	6.3%	6.3%	1.26	1.27	1.27
Cache	Dec	0.84	HOLD	0.90	15%	899	7.8%	7.5%	7.9%	1.17	1.17	1.18
EREIT	Dec	0.57	BUY	0.63	17%	749	6.8%	7.0%	7.2%	0.96	1.00	1.01
FLT	Sep	1.08	BUY	1.24	21%	1,642	6.5%	6.6%	6.9%	1.16	1.16	1.16
MINT	Mar	1.95	BUY	2.15	16%	3,676	6.1%	6.3%	6.4%	1.33	1.37	1.38
MLT	Mar	1.23	BUY	1.45	24%	3,762	6.1%	6.3%	6.6%	1.06	1.16	1.16
SBREIT	Dec	0.65	HOLD	0.62	2%	684	8.8%	7.5%	7.6%	1.02	1.02	1.02
							6.4%	**6.4%**	**6.6%**	**1.20**	**1.23**	**1.24**
Hospitality												
ASCHT	Mar	0.85	BUY	0.97	22%	955	6.5%	6.8%	6.9%	0.91	0.82	0.83
ART	Dec	1.17	BUY	1.34	21%	2,524	6.1%	6.2%	6.3%	0.94	0.95	0.96
CDREIT	Dec	1.66	BUY	2.00	27%	1,991	5.6%	6.1%	6.4%	1.09	1.09	1.09
FHT	Sep	0.78	BUY	0.89	21%	1,452	6.5%	6.8%	7.1%	0.95	0.96	0.97
OUEHT	Dec	0.84	BUY	0.93	17%	1,517	6.2%	6.1%	6.5%	1.10	1.11	1.11
							6.0%	**6.3%**	**6.5%**	**0.97**	**0.97**	**0.98**
Healthcare												
P-Life	Dec	2.80	BUY	3.15	17%	1,694	4.8%	4.6%	4.6%	1.59	1.59	1.58
RHT	Mar	0.83	HOLD	0.85	9%	671	7.2%	6.2%	6.5%	0.98	0.99	1.01
US Office												
KORE	Dec	0.89	BUY	0.95	14%	736	-	6.7%	7.1%	1.06	1.07	1.08
MUST	Dec	0.94	BUY	1.00	16%	1,251	6.0%	6.9%	6.9%	1.11	1.11	1.13
Others												
KDCREIT	Dec	1.35	BUY	1.60	24%	1,522	5.3%	5.7%	6.0%	1.39	1.39	1.34
Sector Average							5.7%	6.0%	6.1%	1.03	1.05	1.05

Source: Bloomberg Finance L.P., DBS Bank

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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