Singapore Industry Focus

Singapore REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Mar 2018

The bottom is near

- Fund flows expected to return to S-REITs
- Twin growth thrusts supported by improving fundamentals and potential acquisitions
- Interest cost largely hedged into fixed rates; sensitivity to interest rate hikes is mitigated

Flows expected to return to S-REITs. We recently brought a group of Singapore REIT managers to an investor conference in Korea and Japan, followed by marketing to investors around the region. With the recent correction in share prices for the S-REITs, we are sensing that investors are looking for re-entry opportunities. Despite the risk of four rate hikes over 2018 (vs consensus estimates of three) , we are sensing that investors are tempted to re-enter at lower prices, as yields have inched up by c.50bps to c.6.0% with upside surprise coming from an expected rebound in rental growth rates across most S-REITs. The strength of the SGD vs regional currencies is another key reason why investors are looking again to invest in REITs.

Growth turning up; as real estate fundamentals remain firm. General sentiment among REIT managers is turning more positive on the back of stronger macro-economic datapoints, while declining supply risk (for office, hotels and industrial sub-sectors) are setting the stage for a gradual rebound in organic growth (estimated at 1.5% in FY18; 2.0% in FY19) for the overall S-REIT sector. Outlook for the retail sector remains more modest given that retailers are still looking to consolidate operations but the worst is over as overall retail spending has been inching higher in recent months.

REITs to continue to invest overseas to grow portfolio and diversify earnings. Given supportive valuations and bountiful opportunities, S-REIT managers are ambitious to grow inorganically. We have seen a number of S-REIT managers expanding their mandates to include new geographies (e.g. MINT included data centres overseas, while MAGIC expanded its investment mandate to include Japan), which in our view, improves portfolio and earnings diversity.

Interest cost is mitigated. We believe that investors should be less worried about the impact of rising rates on distributions given that on average (i) S-REITs have hedged 80% of their interest costs into fixed rates, and (ii) diversified funding sources which results in having no concentration of debt expiry in a single year. These result in fairly modest <3% reduction in distributions if interest costs rise by 1%.

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REITsthat attended conference

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
Ascendas REIT	2.66	5,829	2.85	(0.8)	7.7	BUY
CapitaLand Retail China Trust	1.58	1,163	1.80	(1.3)	11.3	BUY
Keppel DC REIT	1.40	1,198	1.60	(2.1)	19.7	BUY
Keppel REIT	1.21	3,112	1.41	(3.2)	18.6	BUY
Mapletree Commercial Trust*	1.58	3,453	N.A	(3.1)	6.4	NR
OUE Commercial REIT	0.72	838	0.73	(1.4)	4.4	HOLD
Starhill Global REIT	0.73	1,200	0.82	(5.8)	(0.7)	BUY
First Real Estate Investment Trust	1.39	826	N.A	(1.4)	8.2	NR
Lippo Malls	0.39	837	N.A	(6.0)	0.0	NR
AIMS AMP Capital Industrial REIT	1.38	716	1.57	1.5	1.9	NR
Cromwell European REIT	0.56	-	N.A	1.8	N.A	NR

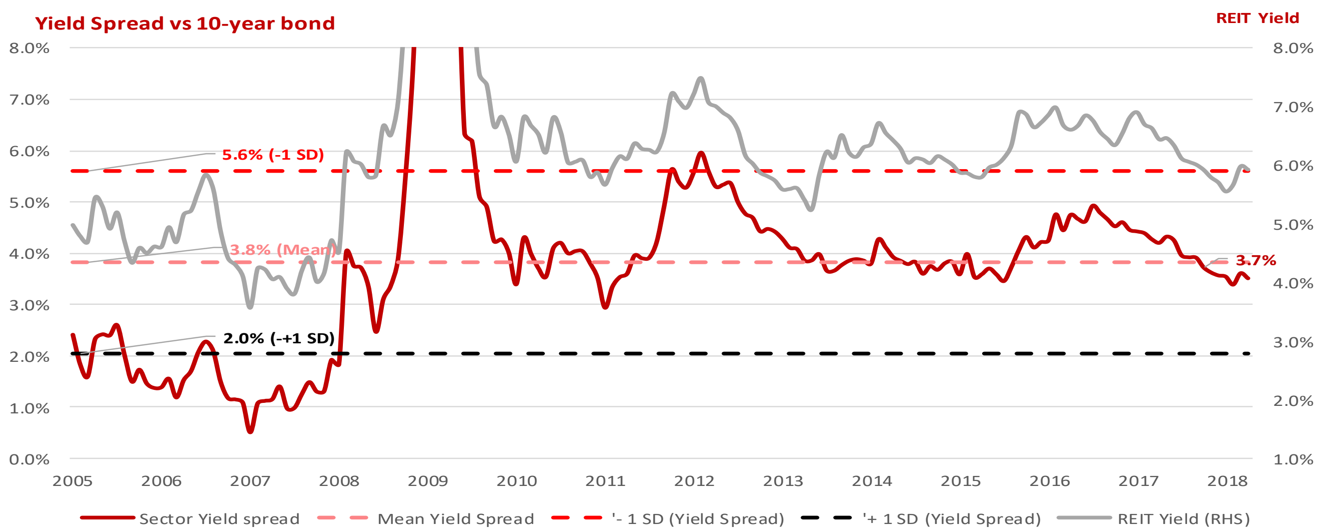
Source: DBS Bank, Bloomberg Finance L.P.
** based on consensus*
Closing price as of 16 Mar 2018

Summary of REITs attending

REIT	Sector	Operational: Asset Size (S$'m)	Gearing (%)	Outlook	WALE (yrs)	Financial: Debt Maturity (yrs)	Interest Cost (%)	% Hedge (%)
Ascendas REIT	Industrial	10,369	35.2	Positive	4.2	2.8	2.9	70.5
AIMSAMP Industrial Trust	Industrial	1,477	33.8	Positive	2.5	2.1	3.6	88.7
Ascendas Hospitality Trust	Hotel	1,646	33.2	Positive	NA	2.8	2.7	77.2
Cromwell European REIT	Commercial	EUR 3,400m	36.8	Positive	4.9	4.0	2.1	86.0
CapitaLand Retail China Trust	Retail Mall	2,668	28.4	Positive	3.0	3.4	2.5	80.0
First REIT	Healthcare	1,378	33.6	Positive	10.2	NA	3.7	91.7
Keppel REIT	Commercial	7,604	38.7	Positive	5.5	3.4	2.6	77.0
Keppel Datacenter REIT	Data-Center	1,763	32.1	Positive	9.1	3.8	2.2	86.0
Mapletree Commercial Trust	Commercial	6,407	36.3	Positive	2.7	3.6	2.7	78.0
Lippo Malls Indonesia Trust	Retail Mall	2,064	33.7	Stable	4.1	2.1	5.8	47.0
OUE Commercial Trust	Commercial	3,574	37.3	Positive	2.6	2.7	3.5	84.3
Starhill Global REIT	Retail Mall	3,220	35.3	Positive	4.8	4.0	3.1	99.0

Source: DBS Bank, Bloomberg Finance L.P.

Average Yield Spread vs 10-year bond



Source: DBS Bank, Bloomberg Finance L.P.

Ascendas REIT

Industrial sector is bottoming out. The industrial sector has seen worse times. With supply for industrial space tapering off in 2018, management is seeing an easing of downside risk to rental reversions as leasing spreads (between passing rents and market levels) compress. The number of enquiries have been improving on the back of strong macroeconomic data, implying that firms are looking to expand and take up more space. This sets the tone for a gradual recovery in portfolio performance on a same-store basis while portfolio rental rates remain firm.

Among the industrial sub-segments, we remain most optimistic on the business park sub-segment where a combination of increasing tenant relocation amid limited supply situation is expected to drive rentals higher in 2018-2019. The warehouse sub-segment, which has been the main drag to rental reversions due to any oversupply situation is also past its worst as new competitive supply has been absorbed. Rental reversions are projected to remain stable at 3-5% in FY18-19.

Acquisitions to surprise. The Manager is looking to complement DPU growth with acquisitions and is keen to execute on opportunities in Singapore and Australia. Supporting the Manager's inorganic growth ambitions is a conservatively geared balance sheet of 35.2%, which empowers the REIT with financial flexibility to debt-fund these opportunities. The REIT's sponsor, Ascendas-Singbridge has a pipeline of properties, worth close to S$1bn which could be injected into the REIT when ready.

Stable financial metrics. Financial metrics remain strong with the Manager taking on a conservative approach towards keeping gearing low and actively manage the REIT's debt maturity profile. As of 3QFY18, A-REIT's average debt maturity profile stood at 2.8 years with minimal refinancing risk every year. Average interest cost remained stable at 2.9% with c.70% of interest cost hedged into fixed rates, thereby minimising the impact of a rise in rates.

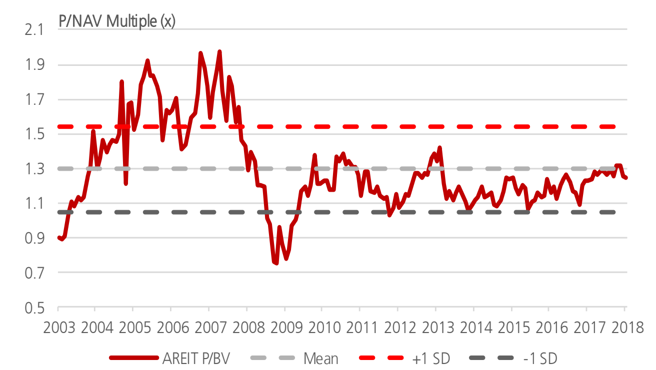
Weighted Average Lease Expiry (WALE)

Source: DBS Bank

Debt Expiry Profile

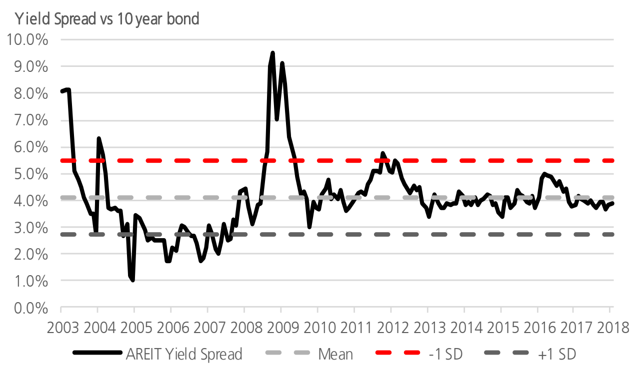
Source: DBS Bank

P/NAV



Source: DBS Bank

Yield Spread Chart



Source: DBS Bank

Ascendas Hospitality Trust

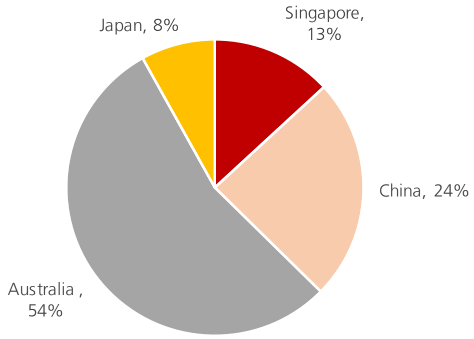
Major markets turning around. Ascendas Hospitality Trust (ASCHT) owns a diversified portfolio of 11 hotels located in key gateway cities in the Asia Pacific region. The portfolio is valued at close to S$1.6bn. The portfolio's diversity in terms of city and hotel segments allows the portfolio of hotels to target a wide range of travellers (from corporates to leisure) which allows the REIT to continue enjoying steady returns across the year.

Australia hotels a key driver to earnings. ASCHT's Australian portfolio contributed c.52% of 9M18 NPI, a key driver to forward distribution. With continued growth in tourist arrivals and modest new hotel supply in the business districts of Sydney and Melbourne in the near term, we expect ASCHT's properties in these two locations to drive the REIT's performance going forward. Moving into 2019, the Australian portfolio should also receive a boost as ASCHT has inked an agreement to acquire the serviced apartment component at Aurora Melbourne Central for A$120m, on an NPI yield of 7.6%, which we have yet to price into our estimates.

Redeployment of sales proceeds. With its gearing expected to drop to c.28% post the sale of its Beijing hotels, we believe that ASCHT is in a strong position to pursue DPU-accretive acquisitions. While the manager has alluded to paying out part of the gains from the sale to unitholders, we believe that the bulk should go into acquisitions to grow DPUs. With a global investment mandate, there are vast opportunities for the Manager to tap, especially from Europe.

Interest cost. Financial metrics remain strong with the Manager taking on a conservative approach towards keeping gearing low and actively managing the REIT's debt maturity profile. As of 3QFY18, ASCHT's average debt maturity profile stood at 2.8 years with minimal refinancing risk every year. Average interest cost remained stable at 2.7% with c.78% of interest cost hedged into fixed rates, thereby minimising the impact of a rise in rates.

Net property income by country (3Q18)

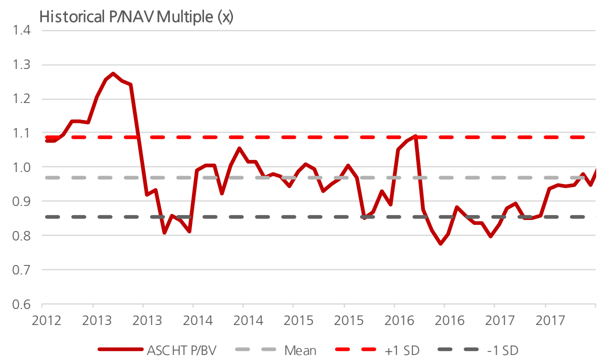


Source: DBS Bank

Debt Expiry Profile

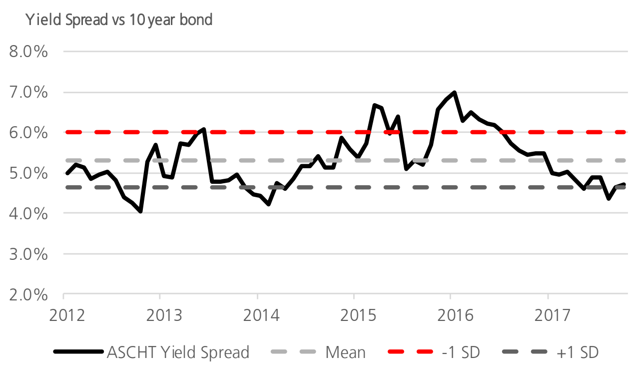
Source: DBS Bank

P/NAV



Source: DBS Bank

Yield Spread Chart



Source: DBS Bank

AIMSAMP Industrial Trust

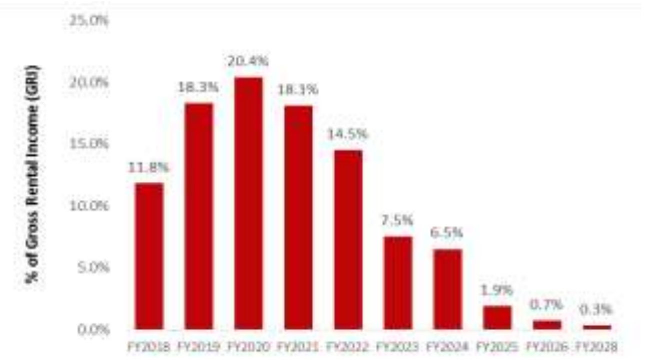
Industrial sector is turning around. The industrial sector has seen worse times. With supply for industrial space tapering off in 2018, management is seeing an easing of downside risk to rental reversions as leasing spreads (between passing rents and market levels) compress. The REIT is seeing more enquiries across the portfolio on the back of strong macroeconomic data, implying that firms are looking to expand and take up more space. This sets the tone for a gradual recovery in portfolio performance on a same-store basis while portfolio occupancy ramains stable.

Strategy to deliver value. Apart from pursuing third-party acquisitions, the Manager is focusing on delivering growth in distributions and net asset value (NAV) for unitholders by undertaking strategic developments and repositioning its properties for higher valued-added use (i.e. conversion of older factory property into modern warehouses, etc), crystallising value in the process. AIMSAMP have added more than 1.8m sqft of industrial space and S$28.6m in rental income (c.30% of FY17F top line). The portfolio continues to be underutilised with selected opportunities to extract a further c.600,000 sqft of space, representing a further c.9% increase in leasable area for the portfolio.

Master-lease expiry in 2018. The portfolio continues to deliver stable occupancies of close to 98% with c.18.3% of the income up for renewal in FY19. Master leases rolling off the leases contribute to only 3.3% of income expiring which is manageable, assuming non-renewal of the master tenancies. While leasing spreads are still negative, the downside risk is abating as the year progresses.

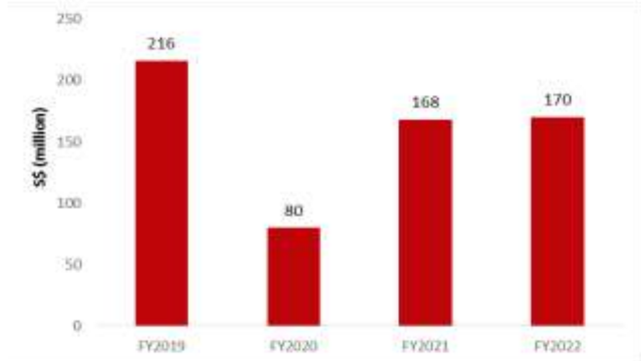
Stable financial metrics. Financial metrics have been improving with recent equity fund raising, and gearing has dipped from 37.3% to 33.8%, at the lower end of its historical range. Weighted average debt maturity stands at 2.1 years with interest cost at 3.6%, and 88.7% of the interest cost hedged into fixed rates.

Weighted Average Lease Expiry (WALE)



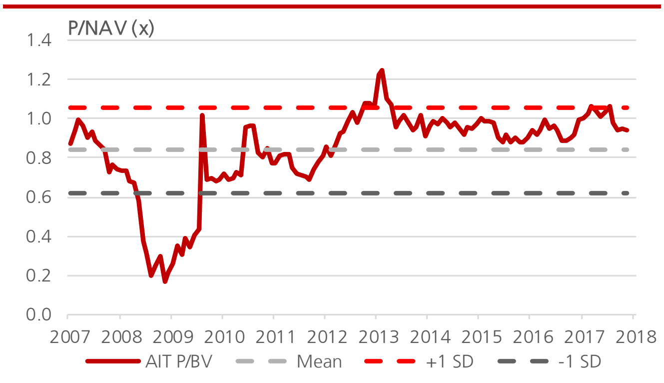
Source: DBS Bank

Debt Expiry Profile



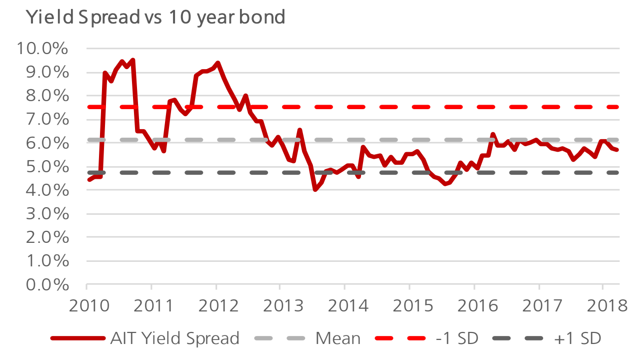
Source: DBS Bank

P/NAV



Source: DBS Bank

Yield Spread Chart



Source: DBS Bank

CapitaLand Retail China Trust

Portfolio with strong property attributes. CapitaLand Retail China Trust (CRCT) owns a diversified portfolio of 11 retail malls across key Tier 1 and Tier 2 cities in China, where operational outlook remain bright supported by strong economic fundamentals. Most of its malls are located at key transport nodes with a large population catchment, allowing the malls to enjoy strong pedestrian traffic and sales.

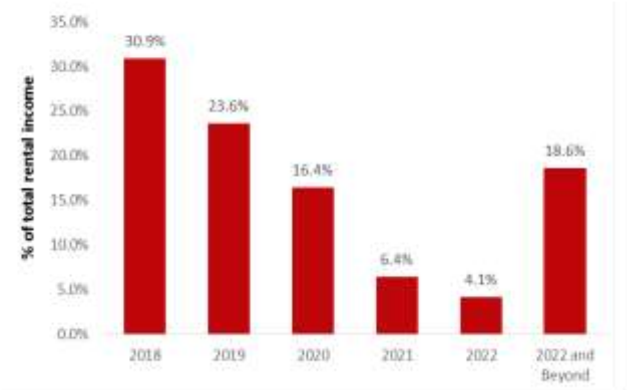
Nine out of the 11 malls are multi-tenanted which offer strong organic growth (88% of FY18F net property income (NPI)) with the remaining two master-leased malls providing the portfolio with income stability.

Healthy portfolio tenant sales. Over FY17, the portfolio achieved positive rental reversion of 5.6%, led by Xizhimen (7.7%), Wangjing (6.5%) and Saihan (10.2%). MZLY saw a positive reversion rate of 22.5% for 14% of its mall space renewed over the year. Growth in shopper traffic and tenant sales were 4.7% and 0.8% respectively, a sign that potential upside in rentals is justifiable.

Positioning portfolio towards growth. The Manager regularly reviews the portfolio and re-cycles capital through strategic divestments. Part of the recent sales proceeds from CapitaMall Anzhen (a master-leased property with limited rental upside), were re-deployed to the purchase of Rock Square (a property within the first-tier city of Guangzhou). With adequate debt headroom and the signal of a shift in focus to more actively managed assets, we believe more acquisitions are on the Manager's radar in the near term.

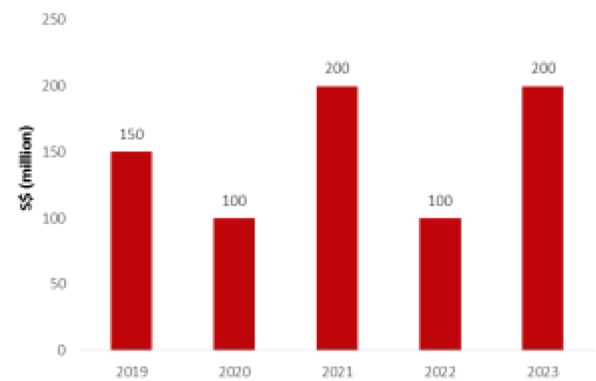
Stable financial metrics. Financial metrics have been improving with recent equity fund raising, and gearing is expected to remain at a conservative 34% post acquisition of Rock Square. With the Manager continuing to look to bulk up the portfolio, we have priced in an acquisition of S$250m in our estimates. Cost of funds remain stable at c.2.48%. While refinancing costs may increase over time, we believe that the strong top-line growth can compensate for the risk of rising interest rates.

Weighted Average Lease Expiry (WALE)



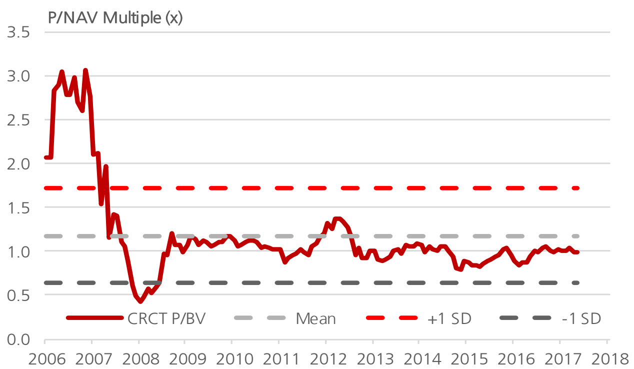
Source: DBS Bank

Debt Expiry Profile



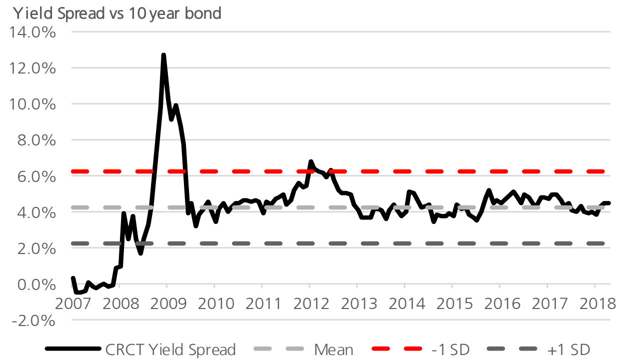
Source: DBS Bank

P/NAV



Source: DBS Bank

Yield Spread Chart



Source: DBS Bank

Cromwell European REIT

Leveraged to improving European economy. Cromwell European Real Estate Investment Trust (CERT) is a Singapore REIT with a diversified Pan-European portfolio that offers investors a unique opportunity to invest in office, light industrial/logistics and retail assets located in Denmark, Germany, France, Italy and Netherlands. It provides investors exposure to the continued economic recovery in Europe. In addition, unemployment rates are expected to fall further with household consumption, while investment and industrial production activities are expected to increase going forward. Against this favourable macro backdrop, Cushman & Wakefield forecasts a steady increase in rents over the next three years.

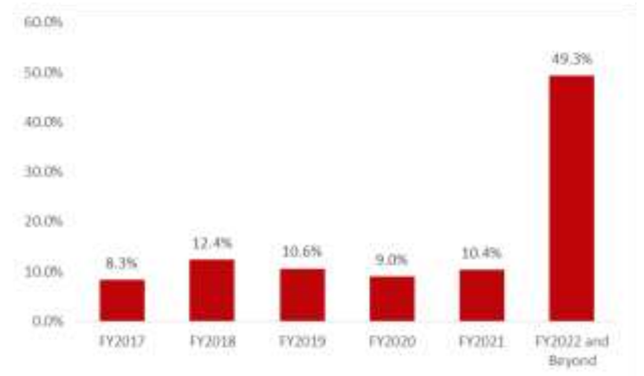
Predominantly freehold or ongoing leasehold properties. Approximately 88.0% of the initial portfolio by appraised value comprises either freehold land or ongoing leasehold land which are classified as continuing leasehold or perpetual leasehold. We find that this compares favourably with other Singapore REITs which predominantly hold properties with up to 99-year leaseholds.

Long dated lease expiry profile with diversified and high-quality tenant base. CERT's initial portfolio has a long weighted average lease expiry by headline rent based on the next permissible break date at the tenant's election (WALE) and weighted average lease expiry by headline rent based on the final termination date of the lease agreement (WALT) of 4.9 and 5.8 years respectively. In our opinion, the long WALE and WALT provide strong medium-term income visibility and stability for the REIT.

Embedded rental escalations. The majority of CERT's leases are linked to inflation or similar indices which not only provide a built-in rental growth mechanism but also act as a natural hedge against potential rate hikes driven by rising inflation.

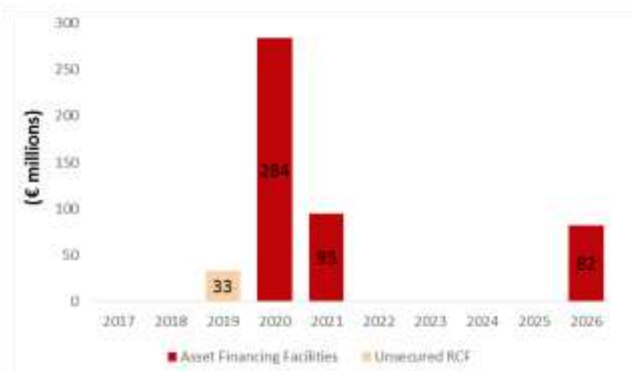
Prudent financial metrics. Financial metrics remain strong with the Manager taking on a conservative approach towards keeping gearing low and actively managing the REIT's debt maturity profile. As of 4Q17, CERT's average debt maturity profile stood at 4.0 years with minimal refinancing risk every year. Average interest cost stood at 2.1% with c.86% of interest cost hedged into fixed rates, thereby minimising the impact of a rise in rates.

Weighted Average Lease Expiry (WALE)



Source: DBS Bank

Debt Expiry Profile



Source: DBS Bank

First REIT

Resilient healthcare exposure. First REIT invests in a diversified portfolio of income-producing properties that cover the full scale of healthcare real estate, including hospitals, nursing homes, rehabilitation centres and other healthcare-related facilities. As of 4Q17, the portfolio comprised 20 properties valued at over S$1bn located in Indonesia (16 properties), Singapore (three properties) and South Korea (one property). The Sponsor of the REIT is PT Lippo Karawaci Tbk, one of Indonesia's largest property companies which operates Siloam Hospitals Group.

Acquisitions to drive earnings. First REIT completed the acquisitions of a numbre of properties in 4Q17 (Siloam Hospitals Yogyakarta and Siloam Hospitals Buton and Lippo Plaza Buton) for S$27.0m and S$28.5m respectively. Earnings growth will be driven largely by the full-year contribution from these two properties.

Rental income is stable and mainly backed by triple-net leases with fixed escalations offering strong income visibility. The REIT has minimal exchange rate risk with most of its income pegged to SGD.

Stable financial metrics. Financial metrics remain strong with a low gearing at 33.6%, despite drastic growth in portfolio value, distributable amount and DPU. As of 4Q2017, average interest cost stood at 3.7% with c.92% of interest cost hedged into fixed rates, thereby minimising the impact of rising interest rates.

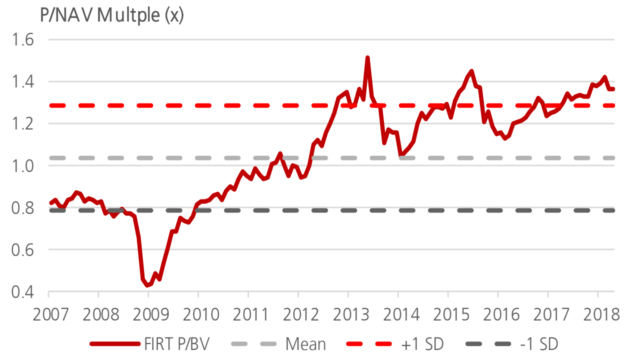
Weighted Average Lease Expiry (WALE)

Source: DBS Bank

Debt Expiry Profile

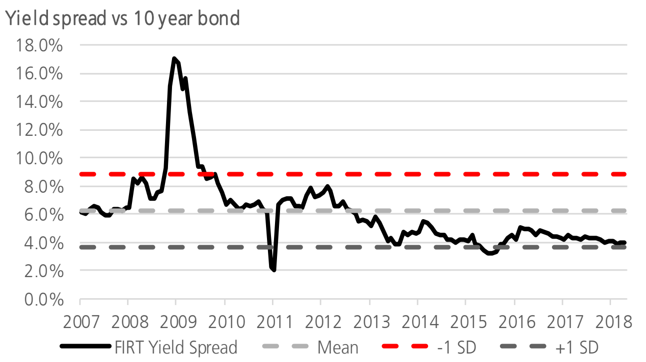
Source: DBS Bank

P/NAV



Source: DBS Bank

Yield Spread Chart



Source: DBS Bank

Keppel REIT

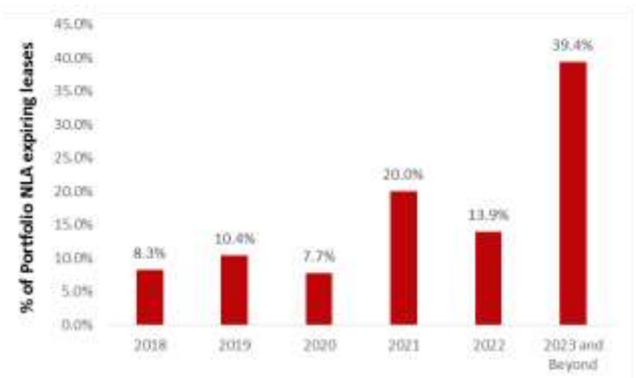
Singapore office on a multi-year recovery. We are entering a period of under-supply over 2018-2020 where annual supply of new office is <1m sqft, below annual take-up. Hence, we believe that recovery in Grade A office rents is underway. However, we see a two-tier market led by premium Grade A offices while older Grade A and potentially Grade B buildings lag behind. This is because the "flight to quality" trend remains as tenants seek buildings with more efficient floor plates and specifications. Keppel REIT (KREIT), with one of the best-in-class office buildings in Singapore, will stand to benefit from this trend.

We believe the expected recovery in office rents should act as a catalyst to close the discount to KREIT's book value of c.S$1.40. The earlier-than-expected upturn in spot rents should provide confidence that market rents should eventually recover to S$12-14 psf per month.

Long weighted average lease expiry (WALE) offers long-term visibility. Despite the cyclical nature of the office market, KREIT provides a high degree of income stability. This arises as it has a long weighted average lease expiry (WALE) of c.6 years (nine years including the 311 Spencer Street acquisition). In addition, due to the prime locations of its office buildings, including the new CBD in the Marina Bay area, we believe KREIT's offices will continue to command premium rents and remain attractive to prospective and current tenants.

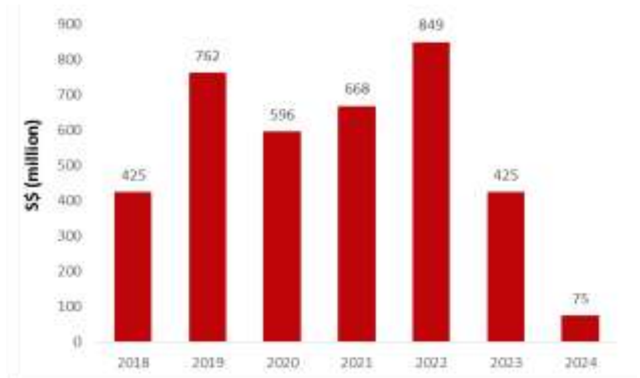
Gearing to rise back to 40% by 2019. With recent asset revaluation gains and the disposal of 77 King Street in Sydney, KREIT's gearing is now at c.39%. Going forward, we expect gearing to inch back up to 40% by 2019 when its 311 Spencer Street project is completed. KREIT has a weighted average debt-to-expiry of around three years, with c.77% of debt on fixed rates.

Weighted Average Lease Expiry (WALE)



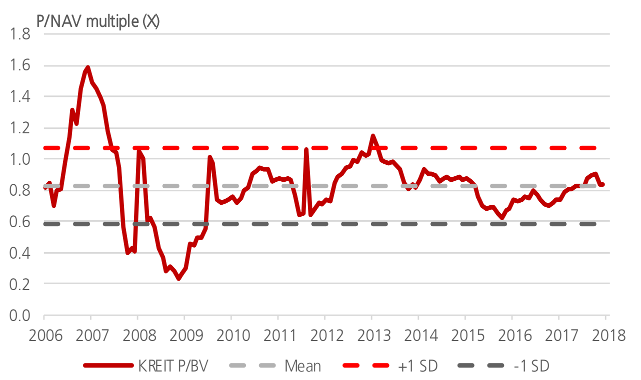
Source: DBS Bank

Debt Expiry Profile



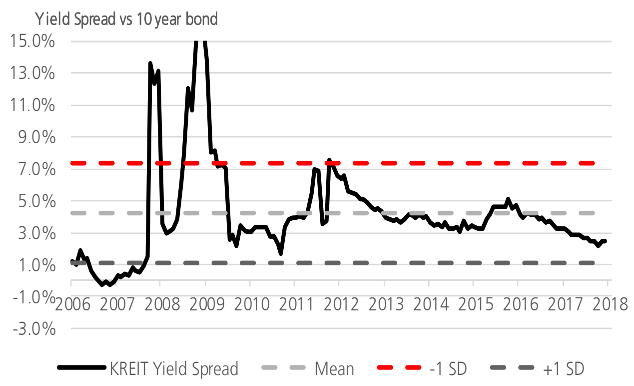
Source: DBS Bank

P/NAV



Source: DBS Bank

Yield Spread Chart



Source: DBS Bank

Keppel Data Centre REIT

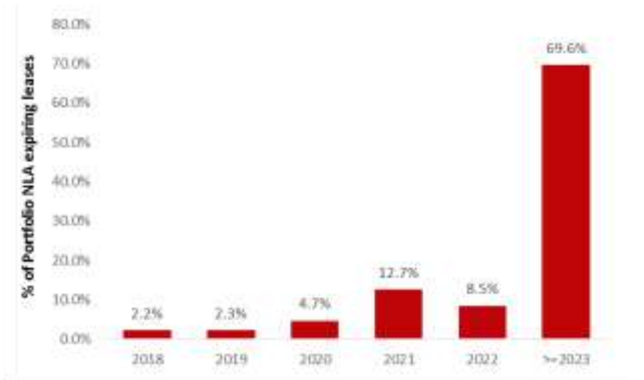
Bright prospects. Keppel DC REIT offers investors a unique leverage on the robust outlook for data centres globally. Its current portfolio comprises 13 high-quality data centres strategically located in key data centre hubs. With an aggregate lettable area of c.0.9m sqft, the portfolio spans nine cities in seven countries in Asia Pacific and Europe.

An acquisition-driven 2018. Acquisition momentum to continue; possible equity fund raising post completion of maincubes in 2Q18. Portfolio gearing remains at a conservative 32.6% (vs 28.3% a year before), implying ample capacity for debt-funded opportunities. On our estimates, the committed acquisition of maincubes (Main, Germany) in 2Q18, will bring AUM to S$1.65bn, and push gearing towards 38%.

That said, the Manager has alluded to looking at further acquisition opportunities and maintains that a S$2bn AUM target by end of 2018 is attainable. To part fund these acquisitions, an equity fund raising is likely and we have priced that into our estimates. An acquisition is likely to be accretive given the REIT's attractive cost of capital.

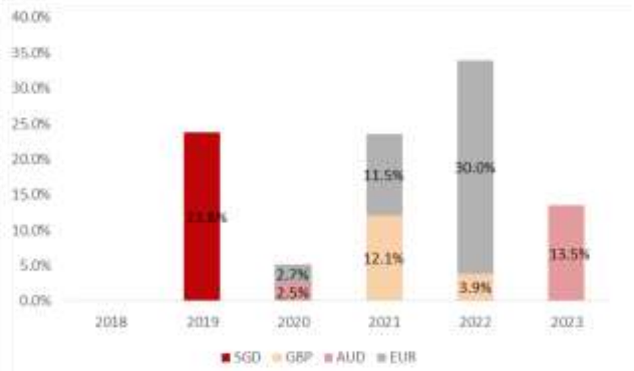
Stable financial metrics and currency hedges to limit volatility. All-in cost of debt is low at 2.2% and is likely to remain stable. As at end-4Q17, 86% of the Trust's borrowings were hedged into fixed rate debt, which will provide earnings visibility in a volatile interest rate environment. Major currencies that will impact earnings - AUD and EUR - have been hedged for two years up to 1H19 through foreign currency forward contracts, thereby minimising currency fluctuations going forward.

Weighted Average Lease Expiry (WALE)



Source: DBS Bank

Debt Expiry Profile



Source: DBS Bank

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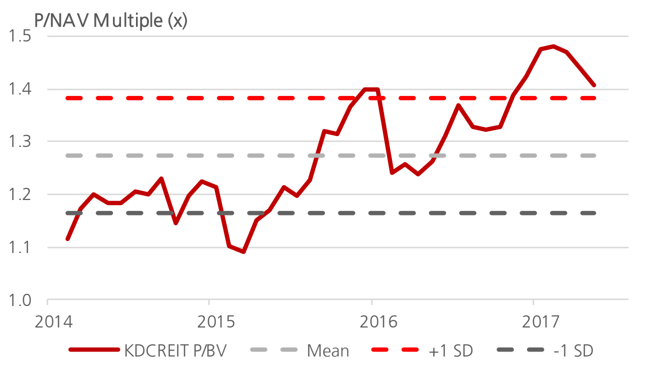

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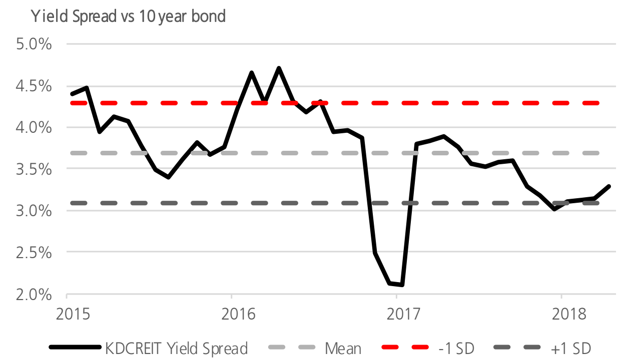


Source: DBS Bank

Lippo Malls Indonesia Trust

Unique Indonesia retail exposure. Lippo Malls Indonesia Retail Trust (LMIRT) invests in a diversified portfolio of quality retail assets – 20 retail malls and seven retail spaces – in major cities in Indonesia, capitalising on the country's economic growth and rapidly expanding consumer class. The portfolio was valued at S$1.9bn as of 4Q17.

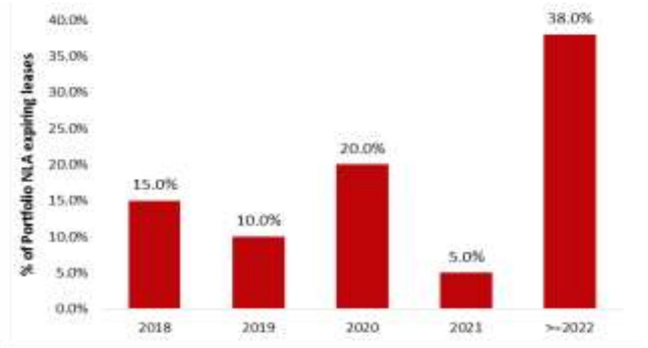
Operational performance has been increasing steadily over the years with gross revenues and net property income increasing by 5.0% and 7.2% y-o-y, reaching a record S$197.4m and S$184.3m respectively. Distributable income rose 1.6% to S$96.9m, translating into a DPU of 3.44 Scts (0.9% increase due to higher base). Higher revenues were largely driven by acquisitions of three properties (Lippo Plaza Kendari, Jogja and Kediri Town Square) in FY17. Portfolio rental reversions have generally been stable at >5.0% since 2011 but moderated to 2.6-2.9% in 3Q-4Q17.

Exposure to Hypermart and Department store sectors to face challenges. The REIT derives close to 30.4% of its revenues from its top 10 tenants, the largest being Matahari Department Store (13.1% of revenues) and Hypermart (9.2%), both of which are entities of its Sponsor, PT Lippo Karawaci Tbk, one of Indonesia's largest conglomerates with a diverse business.

That said, both the Hypermart and Department store business are facing operational challenges given changing consumer preferences and shopping habits. When leases are due for some of these spaces, we expect the exposure to both tenants to decline over time.

Stable financial metrics and currency hedges to limit volatility. 47% of LMIRT's debts are on fixed rates and the REIT will be refinancing close to S$270m in 2018, most of which are skewed towards the end of 2018. We expect refinancing cost to edge higher in the coming quarters.

Weighted Average Lease Expiry (WALE)

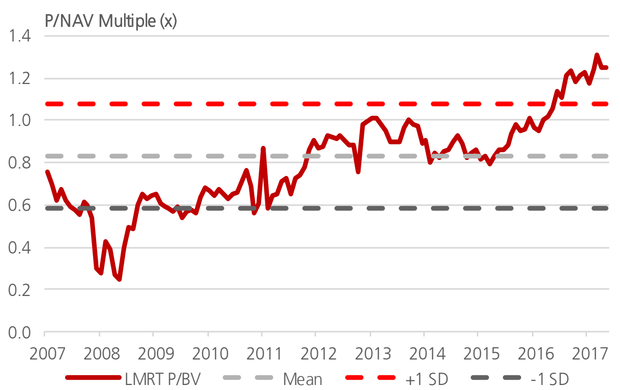


Source: DBS Bank

Debt Expiry Profile

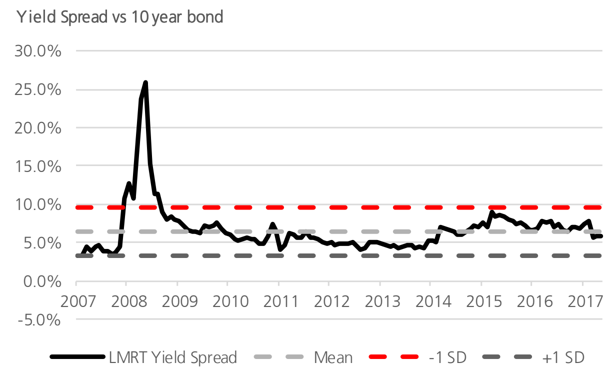
Source: DBS Bank

P/NAV



Source: DBS Bank

Yield Spread Chart



Source: DBS Bank

Mapletree Commercial Trust

One of the best portfolios in Singapore. Mapletree Commercial Trust's (MCT) portfolio comprises one of the best-in-class properties in Singapore. The portfolio comprises five properties located in the Harborfront and Alexandra precincts and in the Central Business District (CBD). The Harborfront and Alexandra precincts, where four out of five properties are located in the Southern part of Singapore, which enjoys good proximity to CBD but sees limited competitive supply.

In fact, key properties – VivoCity and Mapletree Business City Phase 1 (MBC1), which collectively contribute c.76% of top line are seen as dominant properties in their respective locations. Given their superior property attributes, Vivocity and MBC1 are generally price setters when it comes to rent negotiations with tenants and command premium rents.

Asset rejuvenation plans in the works. MCT's portfolio occupancy rates remain high at c.98.7% with stable rental reversionary trends despite market weakness. Tenants sales performance has been improving 1.2% over 9MFY18, a healthy sign, implying that downside to rents is unlikely in our view. MCT have close to 20% of income renewing in FY19F (16.7% from retail leases, 5.9% from office/business park leases).

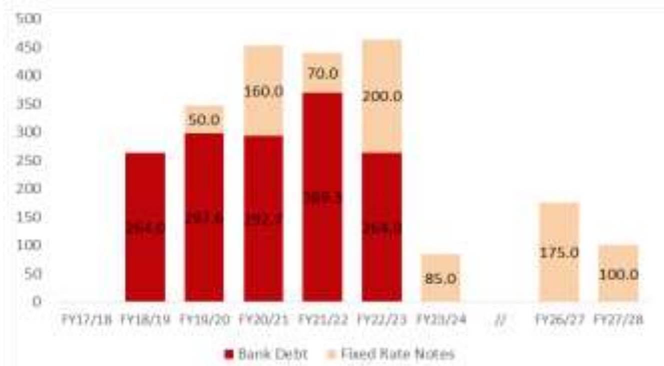
To further improve the shopping experience at VivoCity, and drive higher organic growth, the manager have started on an asset enhancement initiative (AEI) decanting close to 30,000 sqft of space from level 3 (conversion to a public library) to higher-yield space at basement 1. When completed in 2QFY18, it will be a kicker to VivoCity's top line.

Stable financial metrics and currency hedges to limit volatility. The REIT has a well-distributed debt expiry profile standing at 4.3 years with no more than 20% of debt expiry every year. All-in cost of debt remains fairly stable at 2.73% but is noted to be up by 0.1% compared to a year ago. While refinancing cost will edge higher, we see the impact of higher interest cost to be mitigated by having c.78% of the cost hedged into fixed-rate debt.

Weighted Average Lease Expiry (WALE)

Source: DBS Bank

Debt Expiry Profile



Source: DBS Bank

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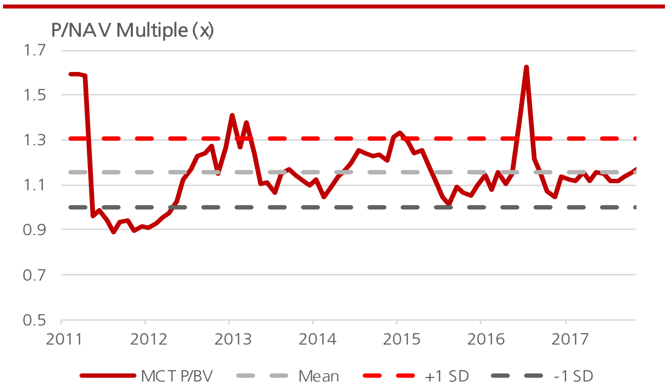
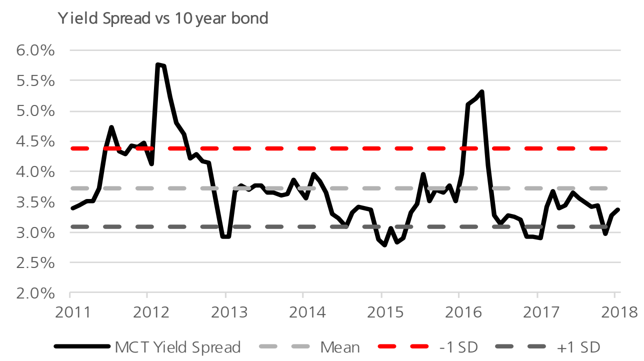


Source: DBS Bank

Yield Spread Chart



Source: DBS Bank

OUE Commercial Trust

Singapore office on an multi-year recovery. We are entering a period of undersupply over 2018-2020 where annual supply of new office is <1m sqft, below annual take-up. Hence, we believe that recovery in Grade A office rents is underway. However, we see a two-tier market led by premium Grade A offices while older Grade A and potentially Grade B buildings lagging. This is because the "flight to quality" trend remains as tenants seek buildings with more efficient floor plates and specifications. OUE Commercial REIT, with prime properties – OUE Bayfront and One Raffles Place, well located assets in core CBD, will stand to benefit from this trend.

A gradual rebound in operational performance. Going forward, the Manager believes that depending on how spot rents in Singapore improve in 2018, there remains risk of negative rental reversion but remain optimistic that rental reversions might turn out better as the market enters a period of tight supply. For Lippo Plaza, the manager remains cautious given an increase new supply in Shanghai.

In terms of renewals over the next few years, around 19.3%, 25.1% and 22.9% of leases by gross rental income are subject to renegotiation in 2018, 2019 and 2020 respectively.

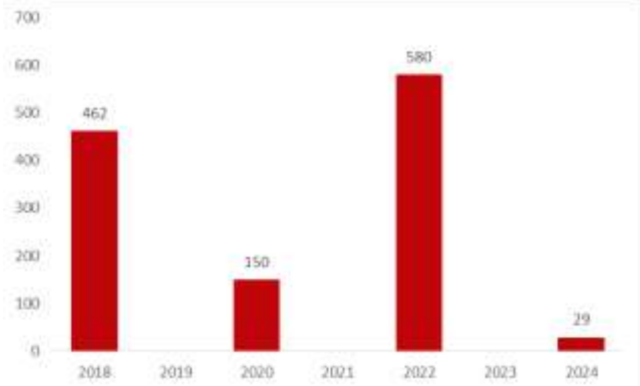
Stable financial metrics and currency hedges to limit volatility. The Manager is in active negotiations to refinance debt expiring in 2H18 and have good access to banks. Cost of funds of 3.5% is likely to inch up slightly when these loans are rolled over.

While gearing as of end-4Q17 stands at 37%, post the retirement of close to S$100m in convertible preference units, gearing will inch up to close to 40%.

Weighted Average Lease Expiry (WALE)

Source: DBS Bank

Debt Expiry Profile



Source: DBS Bank

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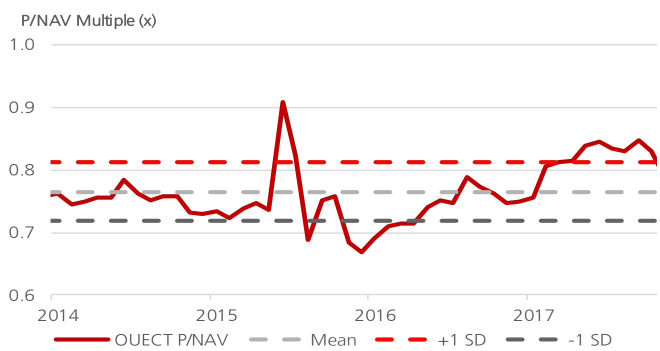
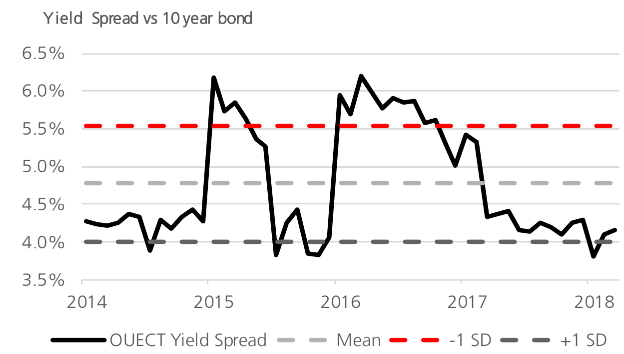


Source: DBS Bank

Yield Spread Chart



Source: DBS Bank

Starhill Global REIT

Prime portfolio located in the Asia Pacific region. Starhill Global REIT's (SGREIT) portfolio comprises prime real estate properties located in Singapore Australia, Malaysia, China and Japan valued at S$3.1bn as at 30 June 2017. The key objectives of the Manager are to deliver stable distributions and long-term NAV growth by actively managing the portfolio and selectively acquiring and divesting properties to optimise returns. SGREIT offers investors strong income visibility by having close to 48% of its gross rents from master-leases and long-term leases, where period rent reviews underpin a steady growth profile in the medium term.

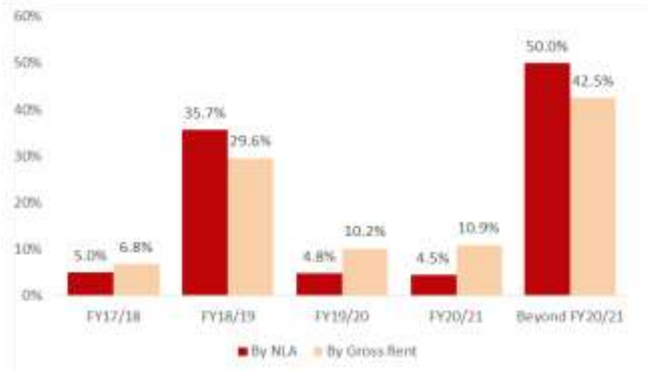
An alternative play to improving tourism outlook. SGREIT derives close to c.60% of its net property income (NPI) from its stakes in Ngee Ann City and Wisma Atria, prime properties located in Orchard road, Singapore's prime shopping belt. The projected rebound in tourist arrivals from 2018 will be a driver for higher tourist spending, a catalyst for stronger operational performance going forward. The lack of competitive supply in Orchard Road will support the REIT's rental negotiations.

Asset enhancements in Perth and Malaysia to drive value. The ongoing redevelopment at Plaza Arcade in Perth is on track for completion in 1Q18, anchored by Uniqlo, its first store in Western Australia. The redevelopment will involve the REIT creating c.8,000 sqft of retail area, which will be a driver for revenues in Australia.

In Malaysia, ongoing rejuvenation of Lot 10 which enhanced traffic flow into the property will be completed in 1Q18, which in the longer term, aims to improve visibility and earnings growth.

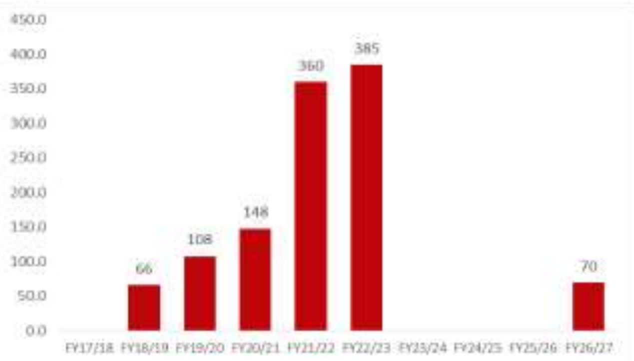
Stable financial metrics. The REIT has a well-distributed debt expiry profile standing at four years with no major refinancing till 2021 onwards. The all-in cost of debt remains stable at 3.1%. While refinancing cost will edge higher, we see the impact of higher interest cost to be mitigated by having c.99% of the cost hedged though swaps or caps. Given its diversified income sources, the Manager limits the impact of foreign currency fluctuations by taking on local foreign denominated debt as a natural hedge and also through short-term foreign currency forward contracts.

Weighted Average Lease Expiry (WALE)



Source: DBS Bank

Debt Expiry Profile



Source: DBS Bank

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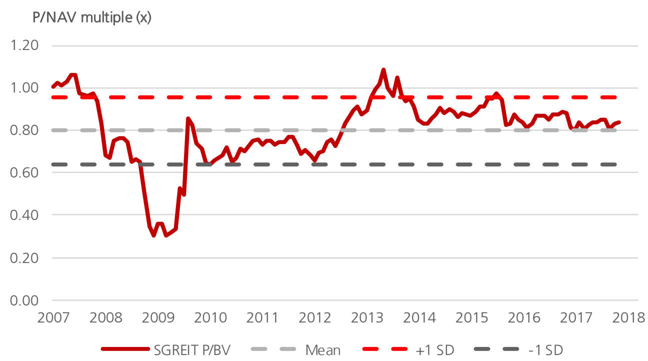
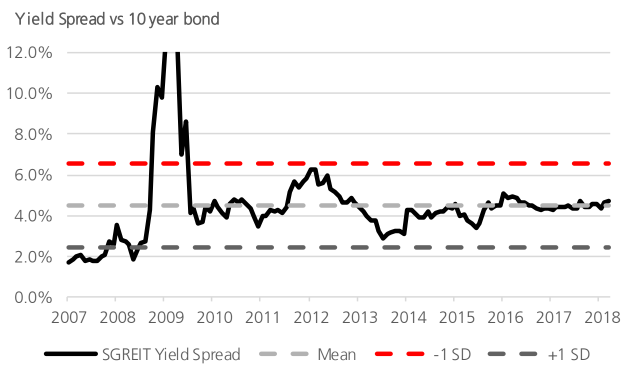


Source: DBS Bank

Yield Spread Chart



Source: DBS Bank

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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)
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Share price appreciation + dividends

Completed Date: 19 Mar 2018 08:12:56 (SGT)
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