

Singapore Industry Focus

Singapore REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity

31 May 2018

Spring is here

- Underlying property fundamentals in Singapore improving with office sector leading the way
- Pressure on rents easing as supply tapers off and leasing enquiries pick up
- Opportunity to accumulate S-REITs as the overhang from potential large equity raisings has likely passed
- Top picks: AREIT, CCT, CDREIT, FCT, FCOT and Suntec

Rotation amongst S-REITs as the market digests recent equity raisings. S-REITs have raised close to S\$4.0bn (excluding IPOs) in the last nine months, which has been one of the busiest periods for S-REITs since 2011. Most of the proceeds have been channeled into acquisitions, which cements a steady 1-2% rise in DPU over 2018-2019. However, since April 2018, the SREIT index is down 2.4% (including distributions) partially attributed to investors pricing in the impact of four rate hikes (vs three previously), and also rotation among various S-REITs in view of the strong take-up seen in recent fund raisings. Looking ahead, while the timing of further fund raisings is hard to predict, we believe the majority of the large equity raisings are likely behind us. With nascent signs of a sustainable recovery in the Singapore property market boosted by an inorganic strategy, in our view, should result S-REITs in rallying with yield spreads compressing to 3.0% from 3.4% currently.

But green shoots abound. The muted S-REIT performance and y-o-y decline in DPUs for several REITs owing to the negative impact from the oversupplied market over the past few years belies the turnaround in the Singapore property market. Leading the way is the office sector with Grade A CBD office rents rising faster than expected to S\$9.70 per square foot per month (psf/mth) (+3% q-o-q; +8% y-o-y) and close to our year-end target of S\$10 psf/mth. Leasing enquiries have picked up and this trend is also starting to occur in the industrial sector. The retail sector, which many investors have shun, is showing green shoots with a rebound in retail sales; and CMT reported positive rental reversions in over a year. Finally, hotels in Singapore are reporting a y-o-y increase in revenue per available room (RevPAR) for the first time in over two years.

Time to accumulate selected office and hotel names. With the office and hotel sectors improving on easing supply pressures, we believe it is time to accumulate **CCT (TP S\$2.10)**, **Suntec (TP S\$2.30)**, **FCOT (S\$1.65)**, and **CDREIT (TP S\$2.00)**. We also like **AREIT (TP S\$3.00)** given exposure to the potential turnaround of the industrial sector. Finally, **FCT (TP S\$2.45)** remains a favourite, given strong near term DPU growth outlook.

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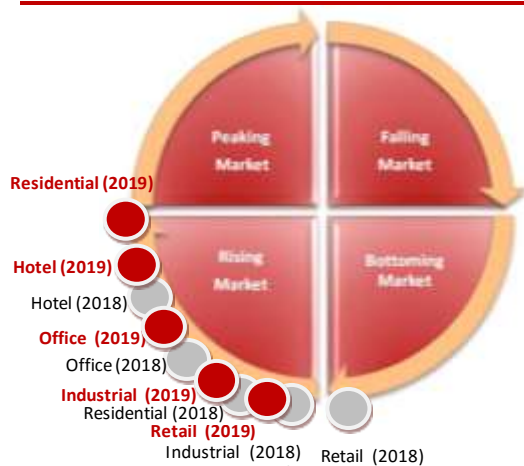
STOCKS

	Price S\$	Mkt Cap US\$m	12-mth		Rating
			Target Price S\$	Performance (%) 3 mth 12 mth	
Ascendas REIT	2.64	5,773	3.00	(0.4) 1.9	BUY
CapitaLand Commercial Trust	1.70	4,585	2.10	(1.7) 5.8	BUY
CDL Hospitality	1.65	1,478	2.00	(0.6) 6.2	BUY
Frasers Centrepoint Trust	2.22	1,535	2.45	0.5 6.7	BUY
Frasers Commercial Trust	1.36	894	1.65	(4.9) (1.5)	BUY
Suntec REIT	1.76	3,498	2.30	(11.1) (3.3)	BUY

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 30 May 2018

Positive outlook with Office and Hotels leading the cyclical upturn



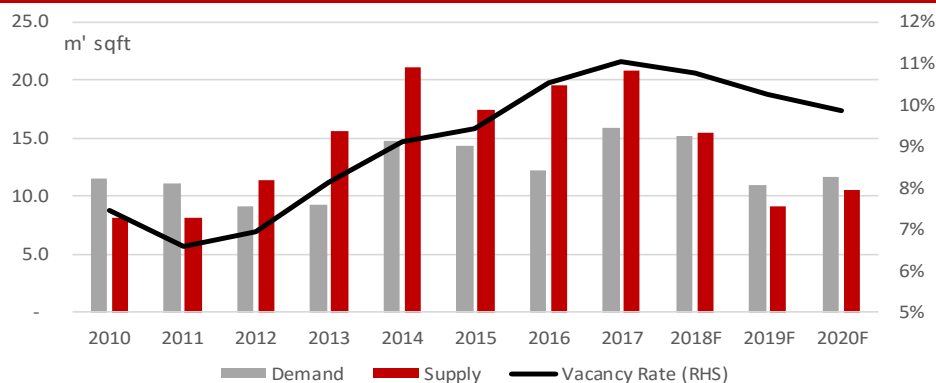
Sector	2018 Outlook	2019 Outlook
Residential	↑	↑
Office	↑	↑
Retail	→	↗
Industrial	↘	↑
Hospitality	↑	↑
Healthcare	↑	↑

Remarks

After a downturn over the past 3-4 years in various property submarkets, we believe we are at the cusp of a 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 3.0% in 2018 and 2.7% in 2019, and easing supply pressures. This should result in the market moving from an oversupplied situation to a landlord's market.

Industrial space to see a drop in supply in 2018



Source: JTC, URA, DBS Bank

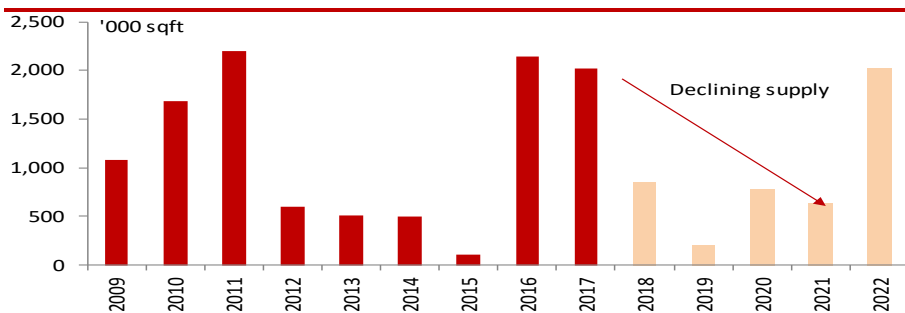
Remarks

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

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

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

Moderating supply in office space from 2018 onwards



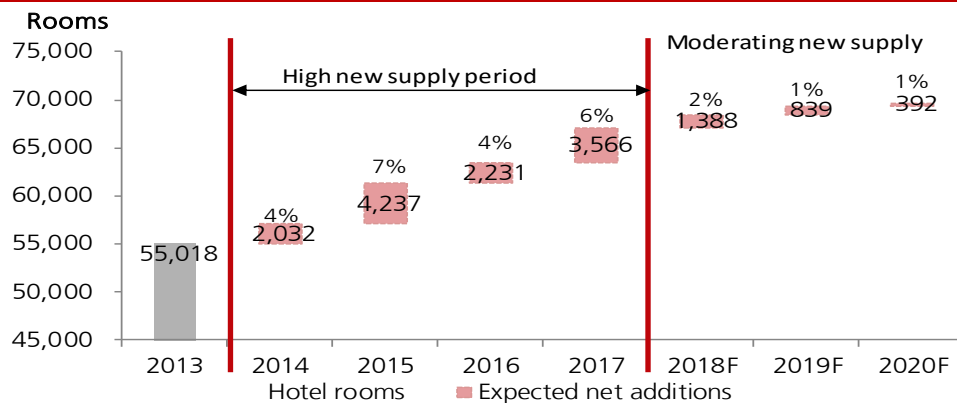
Source: URA, DBS Bank

Remarks

Office space supply 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

Remarks

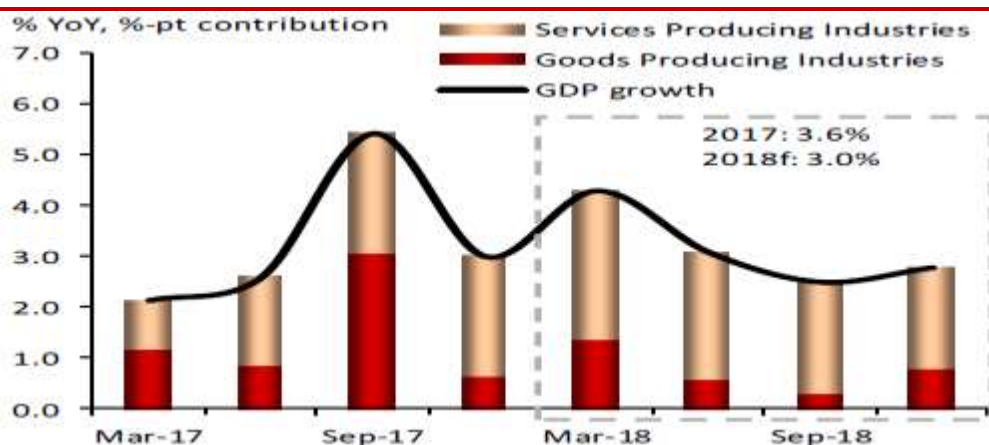


Source: STB, DBS Bank

After a period of high supply between 2014 and 2017, we expect supply to moderate over the next three years.

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

Remarks

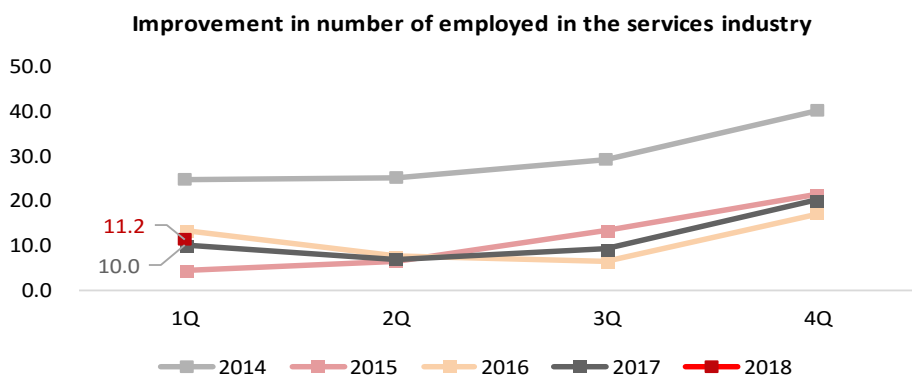


Source: CEIC, DBS Bank

Following a pick-up in manufacturing in early 2017, DBS' 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 the main industry that drives demand for offices.

Green shoots with a rise in employment in the services industry

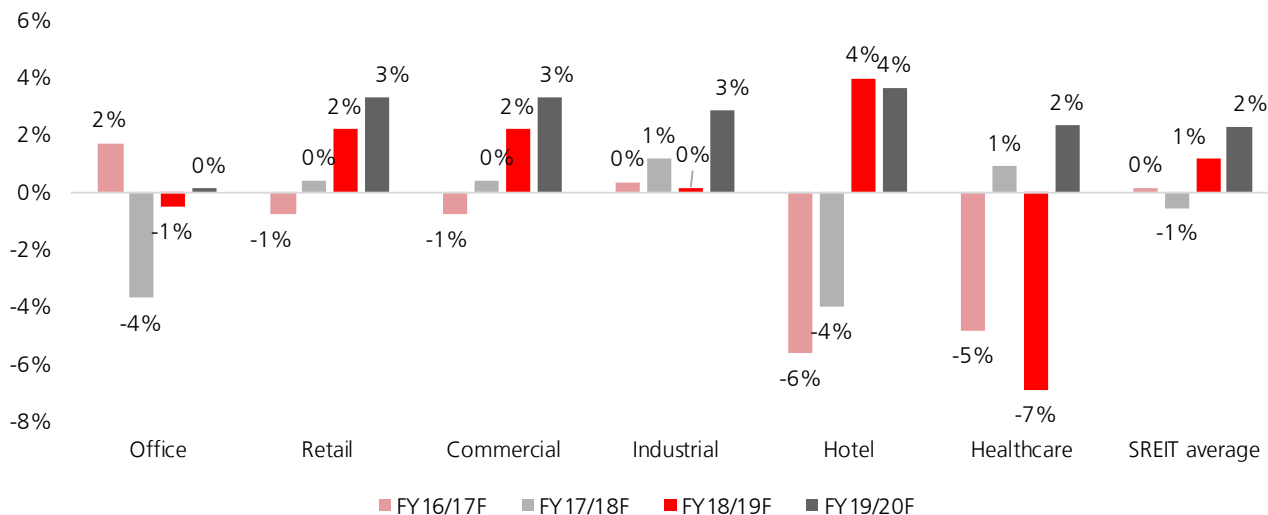
Remarks



Source: CEIC, DBS Bank

Employment growth has had a good start. Around 11,200 new workers were added to the services industry in 1Q18, higher than 10,000 that was added in 1Q17.

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



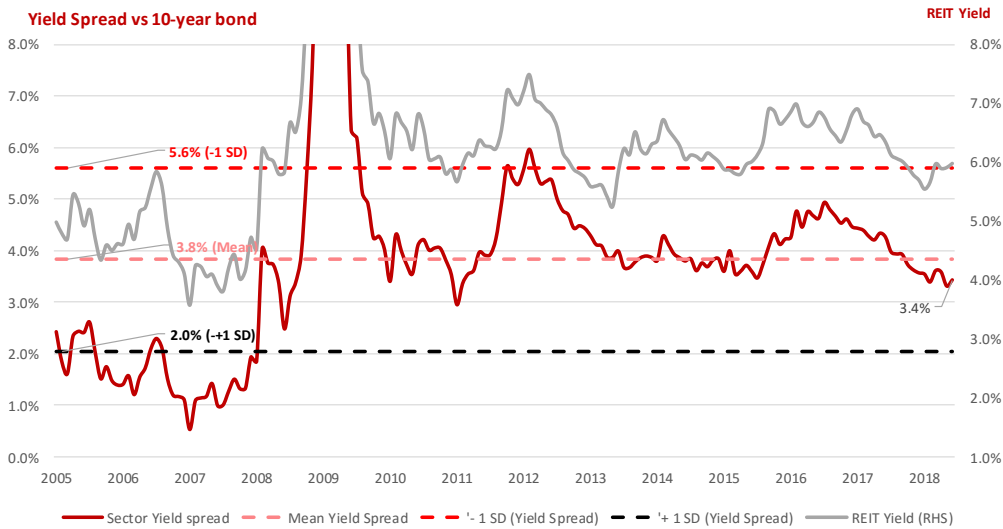
Source: Various REITs, DBS Bank estimates

Selected S-REITs with strong growth profile

REIT	Sector	Sector Growth	FY17-18F DPU growth	Growth driver
FCT	Retail	2.2%	4.0%	Completion of Northpoint AEI.
CDREIT	Hospitality	4.0%	10.3%	Boost from acquisitions in the previous year and recovery in the Singapore hospitality market.
KDCREIT	Data centre (industrial)	0.1%	7.8%	Acquisition of data centres.

Source: Various REITs, DBS Bank estimates

Forward S-REIT yield spread



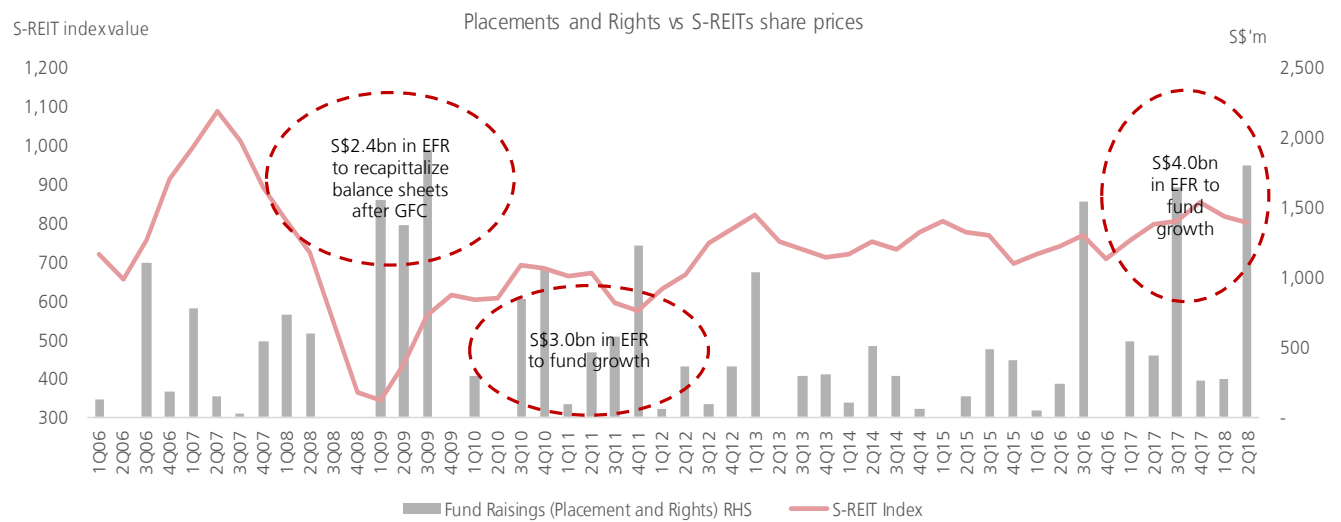
Remarks

Following the recent correction and increase in 10-year Singapore bond yield, the spot yield spread has reduced to 3.4% below 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.

Source: Bloomberg Finance L.P., DBS Bank

Equity Fund Raisings vs S-REIT index



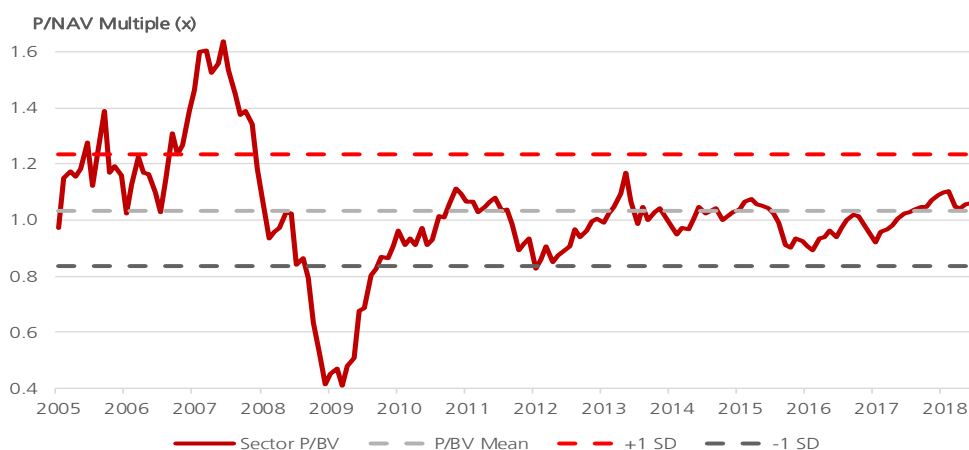
Source: Various REITs, DBS Bank estimates

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%	21%	1.07	Lack of familiarity with new asset class resulting in high yield spreads.
	2006	3.3%	6.5%	3.3%	14%	1.18	
"High Growth"	2005	2.9%	4.8%	2.0%	9%	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%	9%	1.18	
	2007	2.9%	4.1%	1.2%	11%	1.47	
"Aberration in valuations due to the GFC"	2008	2.8%	7.3%	4.5%	13%	0.84	Yield spread expanded due to the financial crisis.
	2009	2.3%	9.6%	7.3%	-10%	0.66	
"Liquidity-driven recovery"	2010	2.4%	6.3%	3.9%	2%	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%	1.01	
	2012	1.5%	6.5%	5.0%	5%	0.92	
	2013	2.0%	5.8%	3.8%	9%	1.04	
	2014	2.4%	6.2%	3.8%	10%	1.01	
"Oversupplied market"	2015	2.4%	6.3%	3.9%	2%	1.00	Growth in supply coinciding with sluggish economic growth resulting in downward pressure on rents and negative rental reversions
	2016	2.0%	6.6%	4.6%	0%	0.96	
	2017	2.2%	5.8%	3.5%	-1%	1.01	
Forward							
Current (FY18F)		2.6%	6.0%	3.4%	1%	1.05	
Normalised (FY18F)		2.7%	6.0%	3.3%	1%	1.05	

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

S-REITs' P/Bk NAV during market cycles



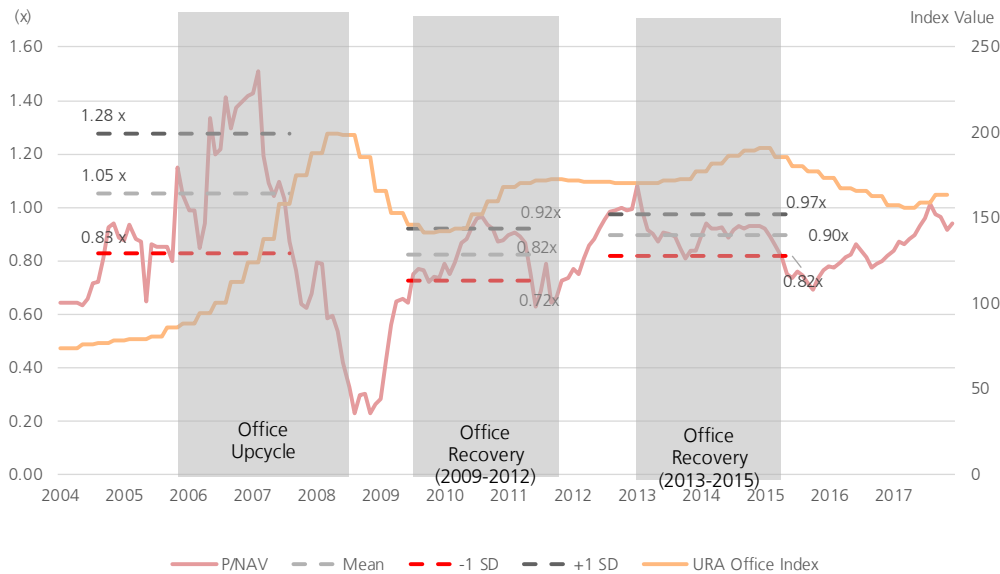
Source: Bloomberg Finance L.P., DBS Bank

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

Remarks

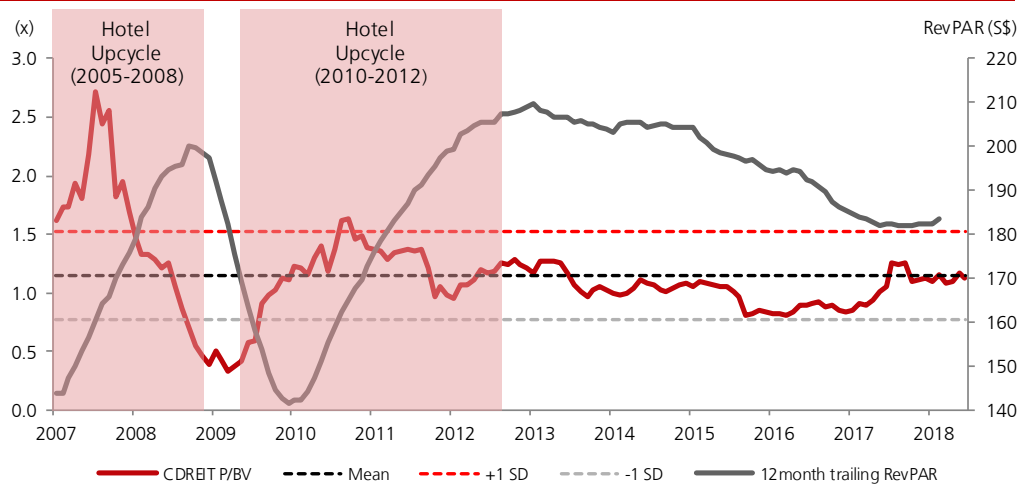


During the last sustained upswing in the Singapore office market between 2005 and 2008, office REITs traded at up to 1.5x book or c.1.3x book (+1SD). With modest new supply over the next 3-4 years, we believe we are on the cusp of another period of sustained improvement in spot rents. Thus, we believe 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 P/Bk from the current 1.0x.

Source: Various REITs, DBS Bank

CDL Hospitality Trusts' P/Bk experience

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 P/Bk (+0.5 SD above CDREIT's average P/Bk).

Source: Bloomberg Finance L.P, DBS Bank

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 and hospitality sectors, in the large-cap space, we prefer CCT and Suntec. For the mid-cap REITs, we like CDREIT and FCOT.

We also like the large-cap industrial REITs for their steady performance. AREIT is our pick.

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

Large-cap top picks

REIT	Current Price (S\$)	12mth TP (S\$)	Expected 12-month Total Return	FY18/19F yield	FY18/19F P/Bk	Rationale
AREIT	2.64	3.00	20%	6.1%	1.25	Steady consistent performer with scale. Overhang from lack of CEO now removed.
CCT	1.70	2.10	29%	5.1%	0.96	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.
Suntec	1.76	2.30	36%	5.7%	0.84	Play on the turnaround of Suntec Mall and recovery in 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\$)	12 mth TP (S\$)	Expected 12-month Total Return	FY18/19F yield	FY18/19F P/Bk	Rationale
CDREIT	1.65	2.00	27%	6.2%	1.08	Leveraged to the multi-year recovery in the Singapore hospitality market.
FCT	2.22	2.45	16%	5.6%	1.09	Strong DPU growth on the back of the completion of AEI at NorthPoint.
FCOT	1.36	1.65	28%	7.1%	0.88	Recent expansion into the 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%.

Source: Bloomberg Finance L.P, DBS Bank

S-REITs operational statistics - March 2018 quarter

REIT	Reporting FY	Operating Statistics						Financial Statistics						
		Revenues (\$mio)	% Chg (y-o-y)	% Chg (q-o-q)	NPI (\$mio)	% Chg (y-o-y)	% Chg (q-o-q)	Gearing (%)	NAV (\$)	% Chg (y-o-y)	% Chg (q-o-q)	DPU Scts	% Chg (y-o-y)	% Chg (q-o-q)
Office														
CCT	1Q18	96.4	↑ 8%	↑ 12%	77.2	↑ 11%	↑ 14%	38%	1.76	↑ 2%	↓ -1%	2.12	↓ -12%	↑ 2%
FCOT	2Q18	33.0	↓ -18%	↓ -7%	22.4	↓ -25%	↓ -10%	35%	1.51	↑ 1%	↓ -3%	2.40	↓ -4%	→ 0%
KREIT	1Q18	39.7	↓ 0%	↓ -10%	31.2	↓ -1%	↓ -14%	39%	1.42	↓ -1%	↑ 1%	1.42	↓ -2%	↓ -1%
OUECT	1Q18	44.1	↓ -2%	↑ 0%	35.3	↑ 2%	↑ 2%	41%	0.90	↑ 5%	↓ -1%	1.12	↓ -9%	↓ -2%
Suntec	1Q18	90.7	↑ 3%	↑ 4%	63.0	↑ 2%	↑ 6%	37%	2.10	↓ -2%	↓ -1%	2.43	↑ 0%	↓ -7%
Retail/Mixed														
CRCT	1Q18	55.4	↓ -8%	↑ 2%	37.2	↓ -8%	↑ 13%	33%	1.67	↑ 6%	↑ 4%	2.75	↑ 0%	↑ 16%
CMT	1Q18	175.2	↑ 2%	↑ 2%	125.7	↑ 5%	↑ 5%	34%	1.96	↑ 4%	↑ 1%	2.78	↑ 2%	↓ -4%
FCT	2Q18	48.6	↑ 6%	↑ 1%	34.8	↑ 7%	↑ 1%	29%	2.03	↑ 5%	↑ 0%	3.10	↑ 2%	↑ 3%
MCT	4Q18	108.9	↑ 1%	↓ -1%	84.3	↑ 1%	↓ -2%	34%	1.49	↑ 8%	↑ 9%	2.27	↑ 0%	↓ -1%
MAGIC	4Q18	89.6	↓ -6%	↑ 1%	72.9	↓ -6%	↑ 2%	36%	1.38	↑ 6%	↑ 12%	1.90	↓ -3%	↑ 2%
SPHREIT	2Q18	53.6	↓ -1%	↑ 0%	42.3	↓ -1%	↑ 0%	25%	0.94	→ 0%	→ 0%	1.40	→ 0%	↑ 4%
SGREIT	3Q18	51.7	↓ -3%	↓ -1%	40.3	↓ -2%	↓ 0%	35%	0.92	→ 0%	→ 0%	1.09	↓ -8%	↓ -7%
Industrial														
AIT	4Q18	49.3	↑ 12%	↑ 6%	33.5	↑ 15%	↑ 3%	26%	0.90	↑ 11%	↑ 14%	1.65	↑ 7%	↑ 1%
AREIT	4Q18	215.7	↑ 3%	↓ -1%	157.9	↑ 2%	↑ 0%	34%	2.12	↑ 3%	↑ 2%	3.91	↑ 2%	↓ -2%
Cache	1Q18	29.0	↑ 7%	↓ -2%	22.9	↑ 10%	↓ -3%	39%	0.71	↓ -10%	↓ -2%	1.51	↓ -13%	↓ -6%
CREIT	1Q18	33.6	↑ 21%	↑ 24%	23.8	↑ 21%	↑ 19%	30%	0.58	↓ -8%	↓ -2%	0.85	↓ -16%	↓ -9%
MINT	4Q18	90.4	↑ 3%	↓ -1%	67.9	↑ 3%	↓ -4%	33%	1.47	↑ 4%	↑ 4%	2.95	↑ 2%	↑ 2%
SBREIT	1Q18	19.4	↓ -12%	↓ -6%	17.0	↓ -12%	↓ -4%	40%	0.64	↓ -11%	→ 0%	1.32	↓ -11%	↓ -4%
Hospitality														
ASCHT	4Q18	49.7	↓ -6%	↓ -14%	22.0	↓ -9%	↓ -13%	31%	0.92	→ 0%	↑ 7%	1.72	↑ 26%	↑ 22%
ART	1Q18	112.8	↑ 1%	↓ -16%	48.7	↑ 3%	↓ -21%	36%	1.22	↓ -5%	↓ -2%	1.35	↓ -11%	↓ -34%
CDREIT	1Q18	51.8	↑ 12%	↓ -6%	37.8	↑ 5%	↓ -7%	33%	1.51	↓ -2%	↓ -2%	2.17	↑ 7%	↓ -23%
FHT	2Q18	37.5	↓ -3%	↓ -10%	27.7	↓ -4%	↓ -12%	33%	0.80	↑ 4%	↑ 1%	1.11	↓ -8%	↓ -15%
OUEHT	1Q18	32.7	↑ 2%	↓ -3%	28.3	↑ 3%	↓ -3%	39%	0.76	→ 0%	→ 0%	1.26	↓ -3%	↓ -1%
Healthcare														
PREIT	1Q18	27.8	↑ 3%	↑ 1%	26.0	↑ 3%	↑ 1%	38%	1.75	↑ 2%	↓ -1%	3.17	↓ -3%	↓ -6%
Others														
KDCREIT	1Q18	38.0	↑ 18%	↑ 3%	34.1	↑ 18%	↑ 4%	37%	0.96	↑ 1%	↓ -1%	1.80	↓ -5%	↑ 3%
IREIT	1Q18	8.6	↓ -2%	↓ -1%	7.7	↓ -2%	↓ -3%	41%	0.43	↑ 2%	→ 0%	1.46	↑ 1%	↑ 3%
CREIT	1Q18*	41.0	NA	NA	27.0	NA	NA	35%	0.56	NA	NA	1.45	NA	NA

Source: Bloomberg Finance L.P, DBS Bank

S-REIT peer comp (as at 30 May 2018)

REIT	FYE	Last Price (\$)	Rec	12 mth Target Price (\$)	Mkt Cap S\$m	Total Return (%)	Yield			P/NAV		
							FY17/18F	FY18F/19F	FY19/20F	FY17/18F	FY18F/19F	FY19/20F
Office												
CCT	Dec	1.700	BUY	2.10	6,363	29%	5.1%	5.1%	5.1%	0.96	0.96	0.96
FCOT	Sep	1.360	BUY	1.65	1,201	28%	7.2%	7.1%	7.1%	0.85	0.88	0.90
KREIT	Dec	1.190	BUY	1.41	4,055	23%	4.8%	4.7%	4.7%	0.84	0.86	0.87
OUECT	Dec	0.705	HOLD	0.73	1,090	10%	6.6%	6.6%	6.6%	0.77	0.78	0.79
Suntec	Dec	1.760	BUY	2.30	4,689	36%	5.7%	5.7%	5.7%	0.83	0.84	0.85
Retail							5.4%	5.4%	5.4%	0.88	0.88	0.89
CRCT	Dec	1.590	BUY	1.80	1,542	20%	6.4%	6.7%	6.9%	0.99	0.98	1.01
CMT	Dec	2.100	BUY	2.19	7,452	10%	5.3%	5.4%	5.5%	1.07	1.07	1.07
FCT	Sep	2.220	BUY	2.45	2,056	16%	5.4%	5.6%	5.7%	1.10	1.09	1.10
SPH REIT	Aug	0.995	BUY	1.07	2,557	13%	5.6%	5.6%	5.9%	1.05	1.06	1.06
MCT	Mar	1.580	BUY	1.80	4,560	20%	5.7%	5.8%	6.0%	1.06	1.07	1.07
MAGIC	Mar	1.160	BUY	1.40	3,649	27%	6.4%	6.5%	6.5%	0.90	0.91	0.92
SGREIT	Dec	0.690	BUY	0.82	1,505	25%	7.1%	7.1%	7.2%	0.75	0.75	0.75
Industrial							5.8%	5.9%	6.0%	1.02	1.02	1.02
a-itrust	Mar	1.060	BUY	1.22	1,096	21%	5.8%	6.2%	6.4%	1.17	1.17	1.17
A-REIT	Mar	2.640	BUY	3.00	7,731	20%	6.1%	6.1%	6.2%	1.25	1.25	1.26
Cache	Dec	0.795	HOLD	0.88	852	18%	8.3%	7.6%	7.9%	1.11	1.11	1.12
EREIT	Dec	0.505	BUY	0.63	800	32%	7.6%	7.7%	7.9%	0.85	0.88	0.89
MINT	Mar	1.960	BUY	2.22	3,696	19%	6.0%	6.1%	6.2%	1.28	1.33	1.33
SBREIT	Dec	0.660	HOLD	0.62	696	2%	8.7%	7.7%	7.7%	1.04	1.04	1.04
Hospitality							6.3%	6.3%	6.5%	1.17	1.20	1.20
ASCHT	Mar	0.770	BUY	0.97	871	33%	7.1%	7.5%	7.6%	0.82	0.75	0.75
ART	Dec	1.110	BUY	1.30	2,397	24%	6.4%	6.4%	6.5%	0.89	0.90	0.91
CDREIT	Dec	1.650	BUY	2.00	1,986	27%	5.6%	6.2%	6.4%	1.08	1.08	1.08
FEHT	Dec	0.655	BUY	0.76	1,222	23%	6.0%	6.7%	6.8%	0.75	0.76	0.77
FHT	Sep	0.690	BUY	0.83	1,290	27%	7.3%	7.1%	7.5%	0.84	0.85	0.86
OUEHT	Dec	0.800	BUY	0.93	1,455	23%	6.4%	6.4%	6.8%	1.05	1.06	1.07
Healthcare							6.4%	6.6%	6.8%	0.93	0.92	0.93
P-Life	Dec	2.720	BUY	3.15	1,646	21%	4.9%	4.7%	4.8%	1.54	1.54	1.54
RHT	Mar	0.790	HOLD	0.85	640	14%	7.5%	6.5%	6.8%	0.93	0.95	0.96
US Office												
KORE	Dec	0.885	BUY	0.95	753	14%		6.7%	7.1%	1.06	1.06	1.07
European Commercial												
CERT	Dec	0.625	BUY	0.66	1,532	13%	0.0%	6.9%	7.2%	1.19	1.13	1.14
IREIT	Dec	0.770	HOLD	0.75	485	5%	7.5%	7.5%	7.5%	1.16	1.15	1.14
Others												
KDCREIT	Dec	1.380	BUY	1.60	1,865	22%	5.2%	5.6%	5.9%	1.42	1.42	1.37
Sector Average							5.7%	6.0%	6.1%	1.01	1.05	1.05

Source: Bloomberg Finance L.P., DBS Bank

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

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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