

# Singapore Industry Focus

# Singapore REITs

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DBS Group Research . Equity

5 Jul 2018

## Keeping our ears on the ground

- Thai investors return to a “uniquely Singapore” 3-day tour
- Positive feedback on the ground; turning into a landlords' market soon
- Time to re-enter into selective REITs with growth

**Thai investors return in force!** On the back of a successful “familiarisation trip” a year ago, we hosted an even bigger group of institutional funds from Thailand to a 3-day tour of Singapore recently. Building on the past insights gained in previous meetings with various S-REIT managers, the investors this time, sought to explore new names and also re-visited a selected group of S-REIT managers for an update on the market outlook. Our site visits included a visit to key properties across the island (currently owned by S-REITs and pipeline assets). We also met with SingPost to gain a deeper understanding of their distribution business (logistics and mail), providing us insights into what happens in a warehouse.

**Positive feedback loop from “the ground”; market turning into a landlords' market soon.** The on-the-ground feel we got in our property visits was generally positive. Through talking to the property and REIT managers, operationally, most are seeing an uptick in tenant demand for most sectors (office, industrial and hotels) and have increased ability to price up. Even for the retail sector, which is widely perceived to be the most “challenged” given the threat of e-commerce, selective malls continue to see good demand for space and tenant sales had been inching higher. This implies that the worst for retail could be over. With property market dynamics pointing towards lower supply risk across most real estate subsectors over 2018-2019, we believe that, with the economic environment remaining stable, we will see a landlords' market over the next few years.

**Timing the re-entry into REITs selectively.** Timing of the visits was apt, especially when the S-REITs' (FSTREI) share prices have fallen of late (9% YTD vs 5% YTD drop in the Straits Times Index), weakened by fund outflows on the back of tightening yield spreads. With rising 10-year bond rates (UST up 45 bps YTD and SG 10-year up 50 bps YTD) which are expected to hit 2.7% by end 2018 and 2.9% by end 2019, according to DBS economists, we believe that share prices will likely remain volatile. Therefore, our strategy will be to pick winners among subsectors, with a preference for S-REITs with an ability to continue tapping a potent mix of organic and inorganic opportunities.

STI : 3,244.89

### Analyst

Derek TAN +65 6682 3716  
derek.tan@db.com

Carmen Tay +65 6682 3719  
carmen.tay@db.com

Rui Wen LIM +65 66823720  
rui.wenlim@db.com

Mervin SONG, CFA +65 6682 3715  
mervinsong@db.com

Rachel TAN +65 6682 3713  
rachel.tanlr@db.com









### Featured companies

	Price S\$	Mkt Cap US\$m	12-mth		Performance (%)		Rating
			Target Price S\$		3 mth	12 mth	
Ascendas REIT	2.64	5,667	3.00		0.0	0.8	BUY
Cache Logistics Trust	0.76	596	0.88		(8.4)	(14.7)	HOLD
AIMS AMP Capital Industrial REIT	1.38	691	1.55		0.0	(6.4)	BUY
CapitaLand Mall Trust	2.03	5,277	2.19		(1.0)	3.3	BUY
CDL Hospitality Trusts	1.55	1,367	2.00		(8.3)	(4.3)	BUY
Fraser's Centrepont Trust	2.19	1,486	2.45		(0.5)	2.3	BUY
Fraser's Property Ltd	1.64	3,499	2.35		(15.9)	(12.1)	BUY
Mapletree Industrial Trust	1.96	2,707	2.22		(3.0)	6.0	BUY
SPH REIT	1.00	1,873	1.07		0.0	(0.5)	BUY
SPH	2.59	3,032	2.60		5.3	(18.8)	HOLD
SingPost	1.28	2,122	1.55		(1.5)	(4.5)	BUY

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 4 Jul 2018

Post-meeting thoughts

Sector	S-REITs Met / Visited			Rental Trends		Meeting / Visit Takeaways
	S-REITs	Mgmt Meeting	Site Visit	FY18F	FY19F	
Industrial	AIMS AMP Capital Industrial REIT	x	x			Managers are starting to see an uptick in enquiries for industrial spaces this year, which further affirms our view that market rents are bottoming out and set to recover in FY19F/20F as the supply-demand gap narrows. Meanwhile, business parks – for which rental reversions have been positive given the lack of supply, are set to perform better.
	Ascendas REIT	x	x			
	Keppel DC REIT	x				
	Mapletree Industrial Trust		x			
	Cache Logistics Trust	x	x			
Retail	Frasers Centrepoint Trust		x			Net absorption for the sector is expected to remain weak in the immediate term, but there are exceptions. During our visits, we observe that suburban (but well-connected) and/or uniquely positioned malls had higher footfall and amid supply-side challenges, should remain more resilient. The introduction of new retail concepts and repositioning of malls into integrated, lifestyle hubs are likely to be the recurrent themes.
	CapitaLand Mall Trust		x			
	SPH REIT		x			
	SPH					
Hotels	CDL Hospitality Trusts	x				Despite the influx of new supply in 2H17, Singapore hotels have achieved improved RevPAR and F&B sales performance YTD, which suggest that the sector's anticipated multi-year recovery is well underway. Ahead, the projected growth in visitor arrivals and moderating supply from 2018 onwards should continue to translate into higher rents.
Office	-					No meetings held but DBS Research believes that limited supply of new office space over 2018F-2020F, coupled with robust demand for Grade A facilities, will see a multi-year upturn in office rents in Singapore.

Source: DBS Bank

### Post Meeting thoughts

Sector	Company	Mgmt Meeting	Site Visit	Earnings Trend		Meeting / Visit Takeaways
				FY18F	FY19F	
Industrials	Singapore Post		x	↑	↑	SingPost continues to benefit from eCommerce-related activities. The Regional eCommerce Logistics Hub continues to see higher utilisation: 96% utilisation for warehousing and 21% for parcel sorting as it continues to drive the scale of eCommerce warehouse and fulfilment. SingPost Centre retail mall's rental income will add to SingPost's core income, with committed occupancy at 95.6% as at 31 March 2018.

### The Singapore Tour



Source: DBS Bank, URA

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

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**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

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*Share price appreciation + dividends*

Completed Date: 5 Jul 2018 17:30:09 (SGT)

Dissemination Date: 5 Jul 2018 18:52:18 (SGT)

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## DBS Regional Research Offices

### HONG KONG

#### DBS Bank (Hong Kong) Limited

Contact: Carol Wu  
18th Floor Man Yee Building  
68 Des Voeux Road Central  
Central, Hong Kong  
Tel: 65 6878 8888  
Fax: 65 65353 418  
e-mail: equityresearch@dbs.com  
Participant of the Stock Exchange of Hong Kong

### MALAYSIA

#### AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)  
19th Floor, Menara Multi-Purpose,  
Capital Square,  
8 Jalan Munshi Abdullah 50100  
Kuala Lumpur, Malaysia.  
Tel.: 603 2604 3333  
Fax: 603 2604 3921  
e-mail: general@alliancedbs.com

### SINGAPORE

#### DBS Bank Ltd

Contact: Janice Chua  
12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel: 65 6878 8888  
Fax: 65 65353 418  
e-mail: equityresearch@dbs.com  
Company Regn. No. 196800306E

### INDONESIA

#### PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel: 62 21 3003 4900  
Fax: 6221 3003 4943  
e-mail: research@id.dbsvickers.com

### THAILAND

#### DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul  
989 Siam Piwat Tower Building,  
9th, 14th-15th Floor  
Rama 1 Road, Pathumwan,  
Bangkok Thailand 10330  
Tel. 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: research@th.dbs.com  
Company Regn. No 0105539127012  
Securities and Exchange Commission, Thailand