Singapore REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity 24 Aug 2018

Flight to Safe Havens

- Marketing feedback signals revival in demand for SREITs despite interest rate fears
- Signs of sustained turnaround in various property subsectors in Singapore fuels confidence that the rally can continue
- Office is our top subsector, followed by a switch to industrials over hospitality given softness in latter's overseas hotel markets
- Top picks* – AREIT, CCT, SUN, CDREIT and MLT

Flight to safety driving investor interest in REITs. There has been good interest in SREITs over the last couple of months. With the sector bouncing 4.6% from the lows in June as property funds switched from developers due to the additional property cooling measures in Singapore and generalist funds seeking yield given the uncertain macro backdrop arising from the trade war between China and the US. This was despite interest rate fears and the US Federal Reserve lifting the Fed Funds rate by another 25 basis points (bps) in June with yield spreads compressing to 3.2% from 3.7%. With the expected improvement in fundamentals given easing supply pressures and investors refocusing on yield instruments, we believe SREITs are poised to sustain their rally to bring yield spreads towards the c.3% level.

Further growth in green shoots across all real estate subsectors. The green shoots we saw in the prior quarter was sustained with grade A office rents rising 4% q-o-q to $10.10 per square foot per month (psf/mth) with office REITS fast approaching a period of positive rental revisions. In Singapore's hospitality sector, the uptrend in revenue per available (RevPAR) was also intact, jumping 4% y-o-y. However, hospitality REITs with a bigger exposure to upscale hotels disappointed due to softer corporate bookings during the Trump-Kim summit and difficulty in maximising yields due to late bookings by guests. In the retail sector, the pace of negative rental revisions moderated, while industrial rents are bottoming with the odds of a recovery next year increasing.

Position in office and industrial REITs. The office sector remains our preferred sector with CCT (TP S$2.12) as our top pick given sustained improvement in office rents. We now also advocate a larger weighing in the industrial sector ahead of hospitality REITs (previously our second favourite sector) as we are now 12 months away from a recovery in industrial rents while overseas hotel markets that the REITs are exposed to are facing near term softness. AREIT (TP S$3.00) and MLT (TP S$1.53) are our preferred industrial REIT picks while we remain bullish on CDREIT (TP S$1.95) for its attractive valuation. Our top retail pick is FCT; TP, $2.45) due to the strong near term DPU growth owing to the completion of asset enhancement initiatives (AEIs) at Northpoint City. Upside will come from potential acquisitions.

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STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
Ascendas REIT	2.73	5,824	3.00	3.0	2.6	BUY
CapitaLand Commercial Trust	1.77	4,824	2.12	4.1	4.8	BUY
Mapletree Logistics Trust	1.25	2,952	1.53	1.6	3.8	BUY
Suntec REIT	1.88	3,651	2.30	5.0	0.3	BUY
CDL Hospitality Trusts	1.52	1,333	1.95	(8.4)	(6.5)	BUY
Frasers Centrepoint Trust	2.28	1,538	2.45	4.6	8.1	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 23 Aug 2018

** Acronymns for the various REITs are detailed below*
AREIT – Ascendas REIT
CCT – CapitaLand Commercial Trust
SUN – Suntec REIT
CDREIT – CDL Hospitality Trust
MLT – Mapletree Logistics Trust

ed: JS / sa:SM, CW, CS

Marketing Feedback

Time for S-REITs to shine. In our marketing sessions in the region, we noted that there was strong interest from investors to return to "safer havens" like S-REITs given the macro uncertainties while the recent government tightening in the property sector kept sentiment subdued in the developer space. Among S-REITs, most investors acknowledge that the office sector appears the most interesting subsector given improving fundamentals which historically have been a key driver to share price. That said, expectations are already largely priced in, which makes it hard for **office S-REITs** to outperform expectations. That said, we prefer to be remain long in office REITs as we are still early in the upcycle.

Our preference for **industrial REITs** was well received by investors given that this subsector (i) has quality large cap and quality names, (ii) offers yields above the S-REIT sector average with a yield spread of 6.2% (vs the sector's 3.7%) which is an added buffer against the 10-year yield, and (iii) has upside earnings risk from acquisitions, when executed upon.

Retail S-REITs attracted interest and has performed well YTD as the stock market had corrected in 1H18. This was largely due to the perception that the retail sector is resilient against macro uncertainties. With investor expectations for retail REITs still fairly subdued, we believe that the retail S-REITs can hold onto most of their recent gains.

Hotel S-REITs continue to garnet interest but investors have turned a little cautious given the mixed operating numbers in 2Q18 while global uncertainties kept most investors away given the sector's volatility. That said, most investors continue to remain vested given attractive valuations in hotel REITs.

Many positives from recent reporting season

During the recent reporting season, results for the June quarter were generally in line with expectations with the exception of hospitality REITs which disappointed largely due to exposure in the upscale hotel category which has lagged the overall recovery in the Singapore hospitality market as they were more impacted by corporate travellers who avoided Singapore during the Trump-Kim summit, and difficulty in maximising yields as hotel guests made late bookings. Nevertheless, for the second consecutive quarter, the Singapore-focused hospitality REITs delivered y-o-y increases in DPU, after a challenging 3-4 years which was characterised by an oversupplied market. Going forward, with new supply muted, growing between 1-2% p.a., and demand still healthy as seen by 7.6% y-o-y in tourist arrivals in 1H18, we believe the disappointment is temporary and we expect to see a sustained multi-year recovery in hotel room rates and occupancy.

Meanwhile, office REITs reported flat to slight y-o-y declines in DPU. This was largely due to the impact of the negative rental reversions. However, with Grade A office rents reported to have increased by another 4% q-o-q or 13% y-o-y to S$10.10 psf/mth, up from the low of S$8.95 psf/mth in 1H17, and the continued recovery in office rents expected over the next few years due to limited supply until 2020/2021, we expect the flattish to negative rental reversions to turn positive soon, translating to a y-o-y increase in DPU.

The positive tone we are starting to see was also extended to the retail sector, as the downward pressure on DPU from negative rental reversions is easing. Index heavy weight CapitaLand Mall Trust (CMT) has now reported two consecutive quarters of positive rental reversions, following the declines during 2017. While supply pressures are expected to continue until the opening of Changi Jewel in 2019, we believe we are a close to the bottom in terms of pressure on rents, given that a majority of the new retail space is already committed and the Singapore economy remains buoyant; our DBS economists are projecting 3% GDP growth for this year.

As expected, the smaller industrial REITs struggled due to the declines in industrial rents and their smaller and concentrated portfolios. However, the larger industrial REITs continued to deliver steady DPU growth largely on the back of acquisitions made over the past year as well as higher income from properties located outside Singapore which has justified their decision to expand overseas over the past few years.

Office remains our preferred sector with a switch to industrial from hospitality as our second preferred sector

The office sector remains our preferred sector on the back of a sustained improvement in office rents, modest increase in new supply over the next three years, and that office REITs are fast approaching a period of positive rental reversions.

A change we have made in this report is the industrial sector is now being our second preferred pick (vs the hospitality sector previously) as we are now 12 months away from a recovery in industrial spot rents. Furthermore, with the large cap industrial REITs are trading at 6.1-6.2 yields, we believe they are in a strong position to pursue DPU accretive acquisitions. In addition, we have downgraded the hospitality sector to third ranking in terms of our sector preference as the overseas markets that the hospitality REITs are exposed to, namely Australia and Japan, are facing near term headwinds due to the high base effect and new supply. Nevertheless, we remain bullish on the prospects of a recovery in the Singapore hospitality market on expectations of multi-year recovery in RevPAR.

Finally, while the retail REITs have rallied YTD as investors have sought more defensive investments given the more volatile and uncertain macro backdrop, we believe retail REITs are unlikely to break out of the their current trading range in the near term given investors' concerns over structural headwinds from e-commerce.

Top picks

Line with our preference for office and industrial sectors, in the large-cap space, we prefer AREIT, CCT and MLT. For mid-cap REITs, we like CDREIT and FCT.

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

Large-cap top picks

REIT	Current Price (S$)	12 mth TP (S$)	Expected 12-month Total Return	FY18/19F yield	FY18/19F P/Bk	Rationale
AREIT	2.73	3.00	16%	5.9%	1.30	Steady consistent performer with scale. Overhang from lack of CEO now removed.
CCT	1.77	2.12	25%	4.9%	1.00	Leveraged to a multi-year recovery in the Singapore office market and trades at 1.0x P/Book, but during an upcycle CCT can trade up to 1.2x P/Book.
MLT	1.26	1.53	28%	6.3%	1.07	We believe that MLT's brighter earnings prospects through organic improvement in its core markets as well as recent acquisitions should translate to a higher share price going forward.
Suntec	1.89	2.30	27%	5.3%	0.90	Play on the turnaround of Suntec Mall and recovery in the Singapore office market, with upside from a potential takeover.

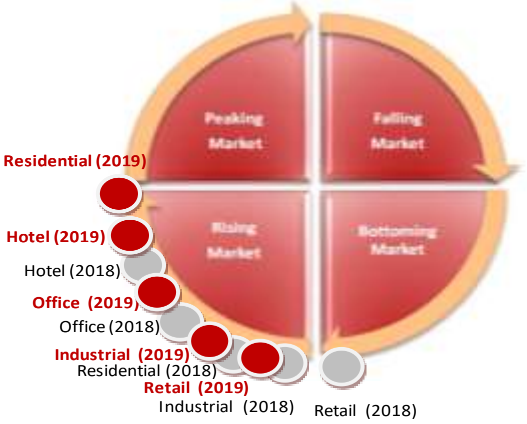
Source: Bloomberg Finance L.P,, DBS Bank

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	1.55	1.95	32%	6.4%	1.01	Leveraged to the multi-year recovery in the Singapore hospitality market.
FCT	2.28	2.45	13%	5.4%	1.12	Strong DPU growth on the back of the completion of AEI at NorthPoint.

Source: Bloomberg Finance L.P., DBS Bank

Positive outlook with Office and Hotels leading the cyclical upturn



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

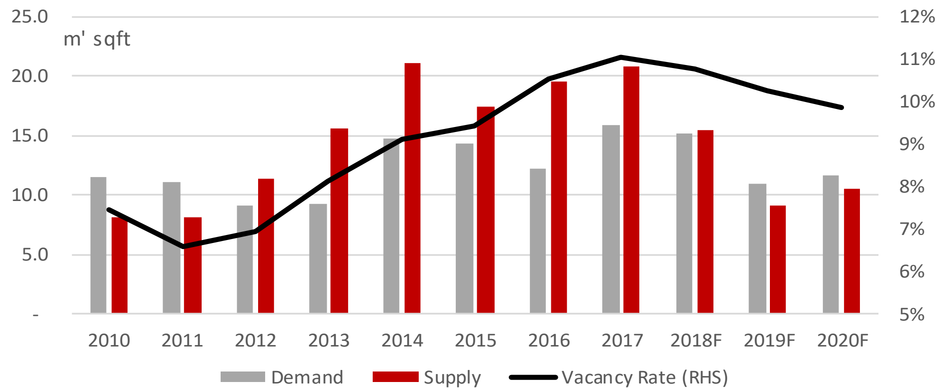
Source: JTC, URA, DBS Bank

Remarks

After a 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 landlords market.

Industrial space to see a drop in supply in 2018



Source: JTC, URA, DBS Bank

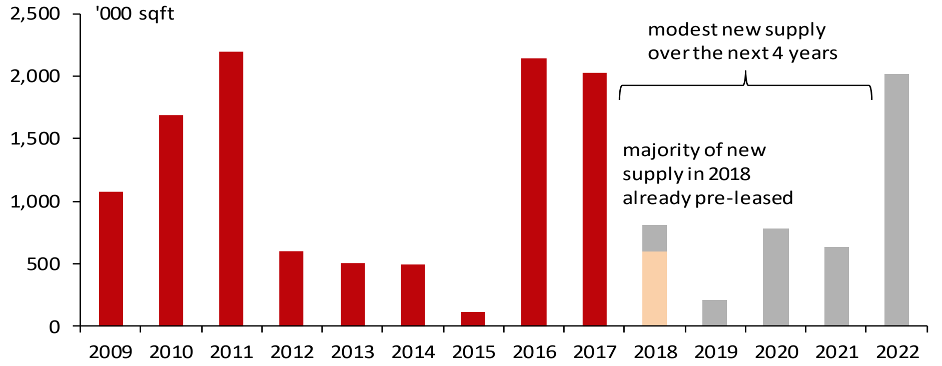
Remarks

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 take time to be absorbed.

The segment 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

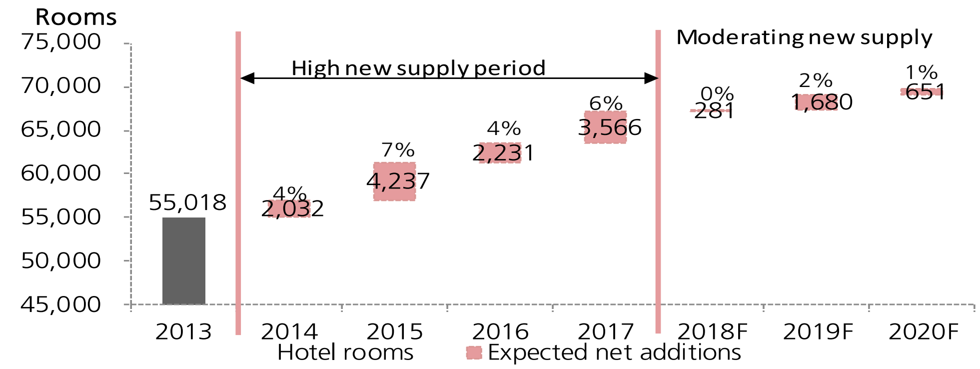


Source: URA, DBS Bank

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



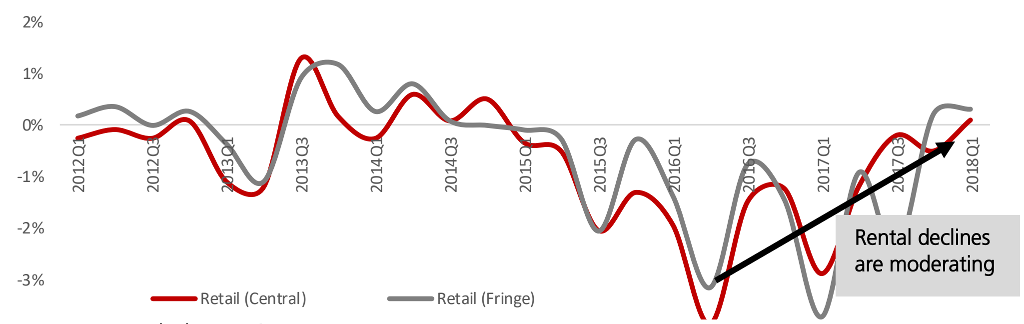
Source: STB, DBS Bank

Remarks

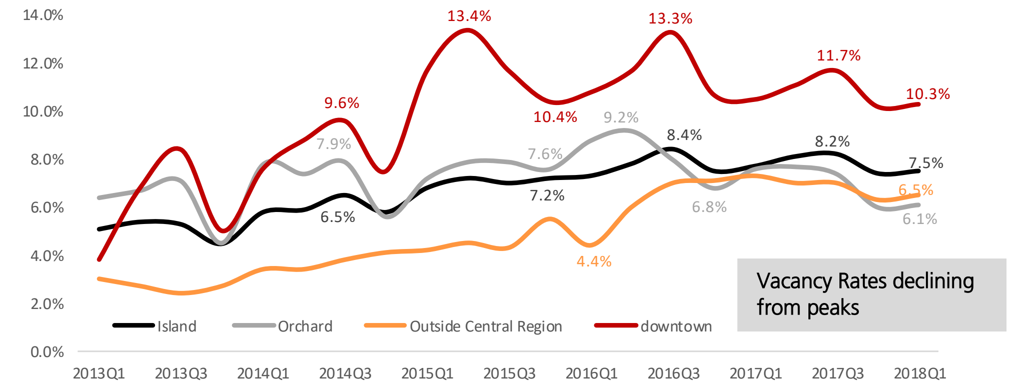
After a period of high supply between 2014 and 2017, we expect supply to moderate over the next three years.

Retail operating metrics bottoming out

Retail Index Growth (q-o-q)



Vacancy Rates (%) over time



Source: Various REITs, DBS Bank

Remarks

Retail rents in the Central and Fringe areas have been under pressure, declining by c.10% since 2015.

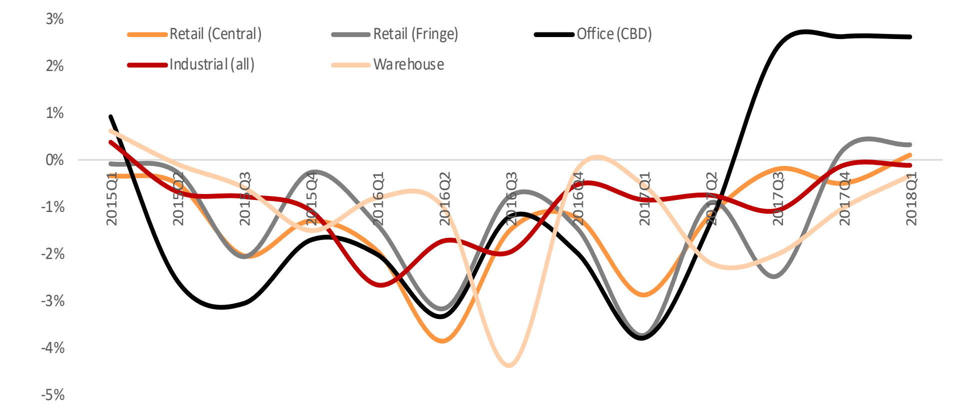
This has mainly been due to weak retail sales from (i) competition from e-commerce platform, (ii) changing consumer spending trends, and (iii) increased expenditure outside Singapore. But rentals have found a base in recent quarters and turned positive in 1Q18 (Fringe).

Vacancy rates have stabilised. We note that vacancy rates have remained below its 5-year mean, implying that supply will likely tighten.

Orchard Road vacancy of 6.1%, while high is currently below its 5-year mean of 6.7%.

Suburban retail space is seeing vacancy rates creep up as new supply is added.

Market rents are rising (q-o-q), led by office

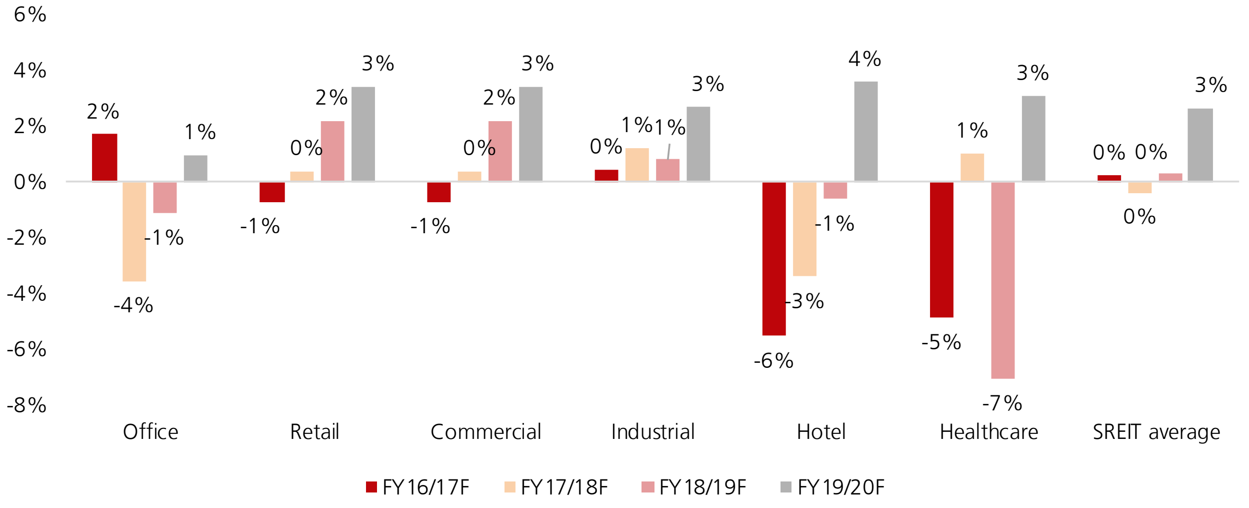


Source: URA, DBS Bank

Remarks

Rents have been rising q-o-q led by office and retail which is positive while other subsectors are seeing smaller declines.

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



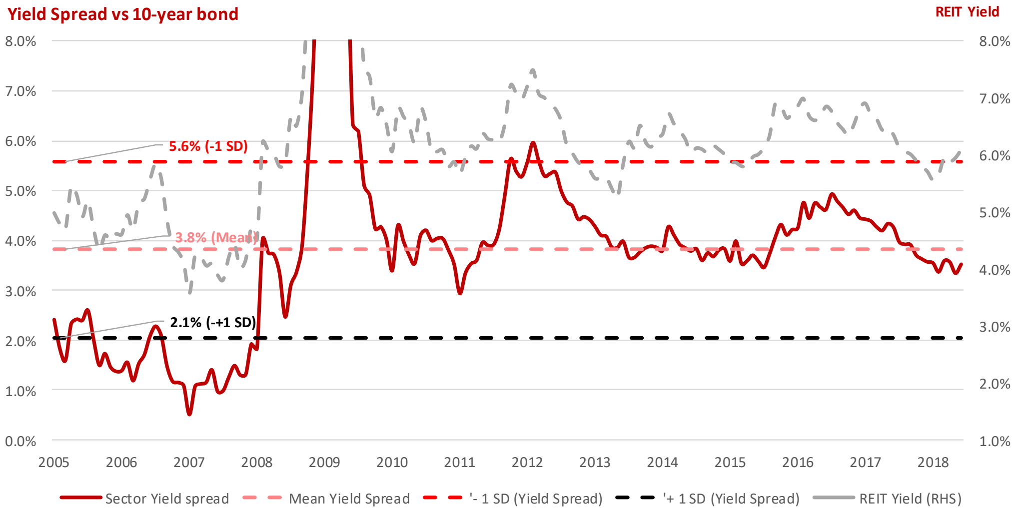
Source: Various REITs, DBS Bank estimates

Selected S-REITs with strong growth profile

REIT	Sector	Sector Growth	FY18-19 DPU growth	Growth driver
FCT	Retail	2.2%	4.0%	Completion of Northpoint AEI.
CDREIT	Hospitality	(0.6)%	6.8%	Boost from acquisitions in the previous year and recovery in the Singapore hospitality market.
KDCREIT	Data centre (industrial)	0.8%	4.2%	Acquisition of data centres.
AIT	India Business Park	0.8%	12.3%	Improvement in the US office market and contribution from 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 and increase in 10-year Singapore bond yield, the spot yield spread has reduced to 3.5%, below mean yield spread of 3.8%.

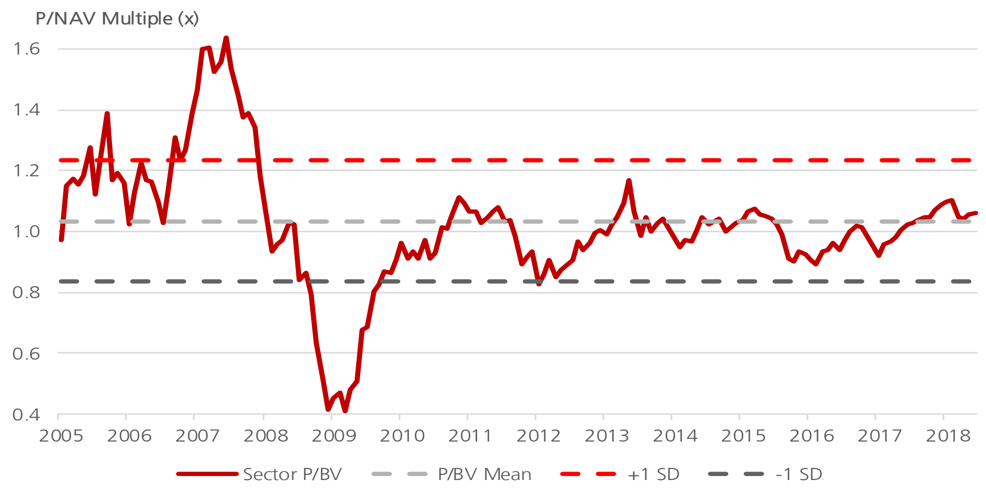
We believe once investors refocus on the recovery in DPU and multi-year upturn in various property markets, the yield spread will start to compress from current levels.

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%; 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)	2.5%	6.0 %	3.5%	1%	1.06	
	Normalised (FY18F)	2.9%	6.0%	3.1%	1%	1.06	

Source: Bloomberg Finance L.P., DBS Bank

S-REITs' P/Bk NAV during market cycles

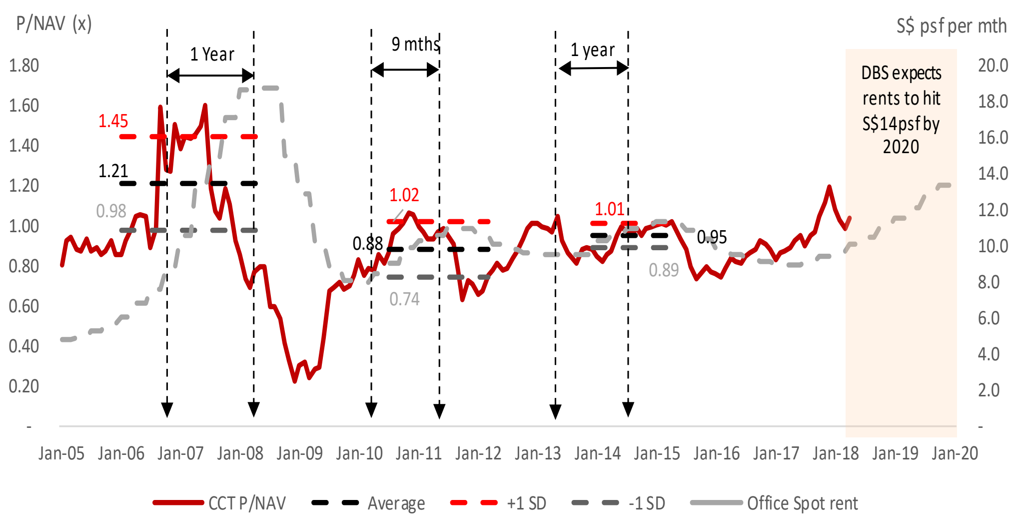


Source: Bloomberg Finance L.P., DBS Bank

Remarks

With a return to growth, we believe the P/Book 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



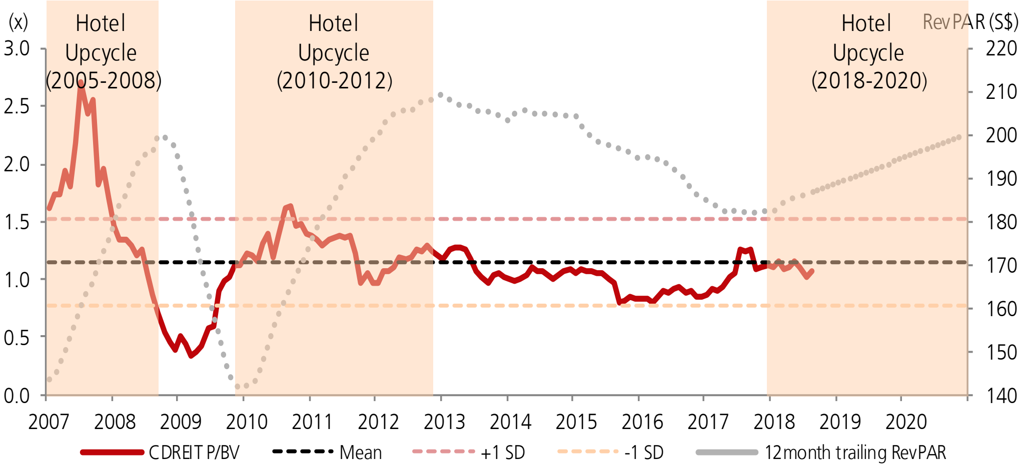
Source: Various REITs, DBS Bank

Remarks

During the last sustained upswing in the Singapore office market between 2005 and 2008, office REITs traded 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.

CDL Hospitality Trusts' P/Bk 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/Book) and 1.3x P/Book (+0.5 SD above CDREIT's average P/Book).

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

S-REITs operational statistics - June 2018 quarter

		< ------		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	2Q18	98.0	12%	2%	77.7	12%	1%	38%	1.84	-5%	5%	2.16	-4%	2%
FCOT	3Q18	32.5	-15%	-2%	20.4	-27%	-9%	35%	1.50	-1%	-1%	2.40	0%	0%
KREIT	2Q18	51.7	30%	30%	43.2	35%	38%	39%	1.40	0%	-2%	1.42	0%	0%
OUECT	2Q18	43.1	-3%	-2%	33.9	-2%	-4%	40%	0.92	7%	2%	1.06	-8%	-5%
Suntec	2Q18	90.5	4%	0%	60.7	2%	-4%	38%	2.10	-1%	0%	2.47	-1%	2%
Retail/Mixed														
CRCT	2Q18	56.8	-4%	3%	37.6	-6%	1%	32%	1.71	8%	2%	2.64	1%	-4%
FCT	3Q18	48.3	11%	-1%	35.0	14%	1%	29%	2.02	5%	0%	3.05	2%	-2%
MCT	1Q19	108.5	1%	0%	85.9	2%	2%	35%	1.49	9%	0%	2.23	0%	-2%
MAGIC	1Q19	94.4	6%	5%	76.8	7%	5%	39%	1.32	6%	-4%	1.88	2%	-1%
SPHREIT	3Q18	51.8	-3%	-3%	40.6	-4%	-4%	25%	0.94	0%	0%	1.37	0%	-2%
SGREIT	4Q18	51.6	-4%	0%	40.0	-3%	-1%	36%	0.91	-1%	-1%	1.09	-8%	0%
Industrial														
AIMS	1Q19	28.9	-5%	3%	19.4	-3%	10%	34%	1.37	0%	0%	2.50	0%	-5%
AIT	1Q19	44.9	-3%	-9%	33.6	10%	0%	31%	0.91	12%	1%	1.60	22%	-3%
AREIT	1Q19	216.6	2%	0%	159.2	4%	1%	36%	2.07	0%	-2%	4.00	-1%	2%
Cache	2Q18	30.0	8%	3%	21.6	0%	-5%	35%	0.70	-9%	0%	1.42	18%	-6%
ESR	2Q18	32.5	18%	-3%	23.4	22%	-1%	31%	0.58	-8%	0%	1.00	5%	18%
MINT	1Q19	91.5	3%	1%	69.5	2%	2%	35%	1.48	6%	1%	3.00	3%	2%
MLT	1Q19	105.4	10%	-2%	89.8	11%	-2%	36%	1.12	2%	2%	1.96	1%	1%
SBREIT	2Q18	18.7	13%	-4%	16.2	-13%	-4%	38%	0.63	13%	-2%	1.26	14%	-5%
Hospitality														
ASCHT	1Q19	44.9	-7%	10%	18.7	-6%	-15%	24%	1.01	13%	10%	1.35	3%	22%
ART	2Q18	130.5	6%	16%	63.1	7%	30%	36%	1.23	0%	1%	1.84	0%	36%
CDREIT	2Q18	47.7	0%	-8%	33.6	-4%	-11%	33%	1.52	-2%	1%	2.14	3%	-1%
FEHT	2Q18	28.5	10%	11%	25.7	11%	12%	40%	0.87	0%	0%	1.01	4%	7%
FHT	3Q18	38.2	-2%	2%	28.5	-3%	3%	34%	0.78	3%	-3%	1.12	-9%	1%
OUEHT	2Q18	30.7	-1%	-6%	26.5	0%	-6%	39%	0.76	0%	0%	1.17	-3%	-7%
Healthcare														
PREIT	2Q18	28.1	1%	1%	26.2	1%	1%	38%	1.75	2%	0%	3.19	-4%	1%
RHT	1Q19	22.0	-9%	-5%	12.6	-7%	-8%	24%	0.81	-5%	-2%	0.49	57%	-5%
US office														
MUST	2Q18	32.5	63%	4%	20.4	59%	4%	37%	0.83	-1%	2%	1.30	10%	14%
KORE	2Q18	22.6	NA	NA	13.8	NA	NA	33%	0.89	NA	1%	1.50	NA	0%
Europe														
IREIT	2Q18	8.7	-2%	1%	7.9	1%	2%	39%	0.45	7%	5%	1.49	3%	2%
CERT	2Q18	31.8	NA	NA	20.7	NA	NA	34%	0.57	NA	NA	1.10	NA	NA
Others														
KDCREIT	2Q18	34.5	18%	-9%	38.1	21%	12%	32%	1.01	60%	5%	1.82	5%	1%

Source: Bloomberg Finance L.P., DBS Bank

S-REIT peer comp (as at 21 August 2018)

REIT	FYE	Last Price (S$)	Rec	12 mth Target Price (S$)	Mkt Cap S$'m	Total Return (%)	Yield FY17/18F	Yield FY18F/19F	Yield FY19/20F	P/NAV FY17/18F	P/NAV FY18F/19F	P/NAV FY19/20F
Office												
CCT	Dec	1.770	BUY	2.12	6,626	25%	4.9%	4.9%	5.0%	1.00	1.00	1.00
FCOT	Sep	1.400	BUY	1.65	1,240	25%	7.0%	6.9%	6.9%	0.87	0.91	0.92
KREIT	Dec	1.180	BUY	1.41	4,023	24%	4.8%	4.7%	4.7%	0.84	0.85	0.86
OUECT	Dec	0.680	HOLD	0.67	1,054	5%	6.9%	6.9%	6.9%	0.75	0.75	0.76
Suntec	Dec	1.890	BUY	2.30	5,042	27%	5.3%	5.3%	5.3%	0.89	0.90	0.91
Retail							5.3%	5.2%	5.3%	0.91	0.92	0.92
CRCT	Dec	1.450	BUY	1.70	1,406	25%	7.0%	7.4%	7.4%	0.90	0.93	0.93
FCT	Sep	2.280	BUY	2.45	2,112	13%	5.2%	5.4%	5.6%	1.13	1.12	1.13
SPH REIT	Aug	0.995	BUY	1.07	2,559	13%	5.6%	5.6%	5.9%	1.05	1.06	1.06
MCT	Mar	1.630	BUY	1.80	4,706	16%	5.5%	5.6%	5.8%	1.10	1.10	1.10
MAGIC	Mar	1.150	BUY	1.45	3,618	33%	6.5%	6.6%	6.7%	0.84	0.87	0.87
SGREIT	Dec	0.690	BUY	0.75	1,505	15%	7.1%	6.6%	6.7%	0.75	0.76	0.75
Industrial							5.7%	5.8%	5.9%	1.03	1.04	1.04
AIMS	Mar	1.390	BUY	1.55	953	19%	7.9%	7.4%	7.4%	1.01	1.01	1.01
a-itrust	Mar	1.150	BUY	1.25	1,193	15%	5.3%	6.0%	6.6%	1.27	1.27	1.27
A-REIT	Mar	2.730	BUY	3.00	8,000	16%	5.9%	5.9%	6.0%	1.29	1.30	1.30
Cache	Dec	0.725	HOLD	0.88	778	30%	9.1%	8.3%	8.7%	1.01	1.02	1.02
EREIT	Dec	0.515	BUY	0.63	816	30%	7.5%	7.7%	7.9%	0.87	0.90	0.91
FLT	Sep	1.090	BUY	1.20	2,188	16%	6.4%	6.2%	6.3%	1.23	1.20	1.21
MINT	Mar	1.980	BUY	2.22	3,736	18%	5.9%	6.0%	6.1%	1.30	1.34	1.35
MLT	Mar	1.260	BUY	1.53	4,091	28%	6.1%	6.3%	6.5%	1.04	1.07	1.13
SBREIT	Dec	0.645	HOLD	0.62	681	5%	8.9%	7.8%	7.9%	1.01	1.02	1.02
Hospitality							6.2%	6.2%	6.4%	1.20	1.22	1.23
ASCHT	Mar	0.810	BUY	0.98	917	28%	7.2%	7.2%	7.4%	0.88	0.80	0.80
ART	Dec	1.090	BUY	1.25	2,357	21%	6.5%	6.2%	6.3%	0.87	0.88	0.89
CDREIT	Dec	1.550	BUY	1.95	1,867	32%	5.9%	6.4%	6.6%	1.01	1.01	1.01
FEHT	Dec	0.655	BUY	0.74	1,224	20%	6.0%	6.5%	6.6%	0.75	0.76	0.77
FHT	Sep	0.705	BUY	0.80	1,318	20%	7.2%	6.6%	7.0%	0.86	0.87	0.87
OUEHT	Dec	0.765	BUY	0.90	1,393	24%	6.7%	6.4%	6.7%	1.01	1.02	1.02
Healthcare							6.5%	6.5%	6.7%	0.91	0.90	0.91
P-Life	Dec	2.700	BUY	3.15	1,634	21%	4.9%	4.7%	4.8%	1.53	1.53	1.53
RHT	Mar	0.770	HOLD	0.85	625	17%	7.7%	6.7%	7.0%	0.91	0.92	0.94
US Office												
KORE	Dec	0.825	BUY	0.95	703	22%		7.2%	7.6%	0.99	0.99	1.00
MUST	Dec	0.840	BUY	0.97	1,440	22%	6.5%	6.6%	7.4%	1.02	1.03	1.03
European Commercial												
CERT	Dec	0.590	BUY	0.66	1,475	19%		7.4%	7.6%	1.12	1.07	1.08
IREIT	Dec	0.770	HOLD	0.75	485	5%	7.5%	7.5%	7.5%	1.14	1.13	1.12
Others												
KDCREIT	Dec	1.400	BUY	1.52	1,892	14%	5.1%	5.3%	5.4%	1.45	1.35	1.35
Sector Average							5.7%	5.9%	6.0%	1.03	1.06	1.07

Source: Bloomberg Finance L.P., DBS Bank

COMPANY GUIDES

Singapore Company Guide

Ascendas REIT

Version 12 | Bloomberg: AREIT SP | Reuters: AEMN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Apr 2018

BUY

Last Traded Price (23 Apr 2018): S$2.71 (**STI :** 3,579.54)
Price Target 12-mth: S$3.00 (11% upside) (Prev S$2.85)

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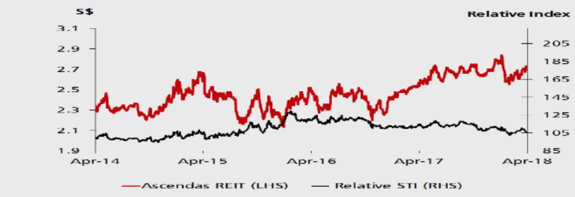
What's New

- FY18 DPU in line with estimates
- Improved portfolio metrics with firepower to grow; manager targets to deepen presence in core markets
- Exploring opportunities in other developed markets in the USA and Europe which offer attractive returns with similar risk profiles
- TP raised to S$3.00 as we roll forward valuations

Price Relative



Forecasts and Valuation

FY Mar (S$m)	2017A	2018A	2019F	2020F
Gross Revenue	831	862	878	900
Net Property Inc	611	629	641	658
Total Return	413	480	458	467
Distribution Inc	446	468	471	481
EPU (S cts)	15.5	16.3	15.6	15.9
EPU Gth (%)	11	5	(4)	2
DPU (S cts)	15.7	16.0	16.1	16.4
DPU Gth (%)	2	1	1	2
NAV per shr (S cts)	206	211	211	210
PE (X)	17.5	16.7	17.3	17.0
Distribution Yield (%)	5.8	5.9	5.9	6.0
P/NAV (x)	1.3	1.3	1.3	1.3
Aggregate Leverage (%)	33.4	34.0	34.4	34.6
ROAE (%)	7.5	7.8	7.4	7.6

Distn. Inc Chng (%):			(2)	0
Consensus DPU (S cts):			16.6	17.0
Other Broker Recs:		B: 14	S: 1	H: 7

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Future Proofing its portfolio

Maintain BUY, TP raised to S$3.00. Ascendas REIT (A-REIT) remains one of the must-haves among Singapore REITs. Priced at a premium, A-REIT offers a steady c.1% growth in DPU backed by a solid portfolio with the ability to acquire creatively. Maintain BUY!

Where we differ. Conservative estimates but see upside bias if acquisitions materialise. FY18 DPU was in line and the momentum could surprise in FY19, and given the REIT's leading operational scale in Singapore and its focus on the business park space (37% of earnings), which is in a strong position to capture the changing needs of doing business in the "New Economy". In fact, we see ample opportunities for the Manager to deliver earnings surprises which include (i) the REIT's ability to re-let close to 12% of vacant space in its portfolio, and (ii) acquisitions which the street has not priced in.

Exploring new markets. The Manager also alluded to potentially diversifying into new markets in Europe and the USA, which in their view, are developed markets that offer similar risk profiles as its current stronghold in Singapore. While there are abundant opportunities available, the Manager remains disciplined in its investment approach, which we believe is to buy more "income producing" assets rather than speculative builds.

Valuation:

Our DCF-based TP is raised to S$3.00 as we roll forward valuations. Maintain BUY on the back of total potential returns of c.15%.

Key Risks to Our View:

Interest-rate risk. An increase in lending rates will negatively impact dividend distributions. However, A-REIT's strategy has been to actively manage its exposure and it currently has c.80% of its interest cost hedged with fixed rates.

At A Glance

Issued Capital (m shrs)	2,888
Mkt. Cap (Sm/USm)	7,826 / 5,945
Major Shareholders (%)	
TJ Holdings	20.2
Blackrock	7.0
Mondrian Investment	7.0
Free Float (%)	66.1
3m Avg. Daily Val (US$m)	20.4
ICB Industry : Financials / Real Estate Investment Trust	

WHAT'S NEW

Future Proofing its portfolio

(+) Gross Revenues and net property income ended the year higher. A-REIT reported full year revenues that was 3.8% higher y-o-y at S$862.1m and net property income 3.0% higher at S$629.4m. While the REIT had 131 properties at the end and start of the financial year, higher revenues was achieved through active portfolio reconstitution where the Manager shifted the portfolio mix towards higher yield assets. The increase came from 3 properties acquired in Australia, which offset the 3 properties divested in Singapore. The completion of the asset enhancement at 50 Kalland and The Gemini also contributed to higher revenues.

Distributable income grew by 4.9% to S$468.0m, translating to a DPU growth 1.6% y-o-y to 15.988 Scts (4Q rose 1.5% y-o-y), in line with expectations.

(+) Improving portfolio metrics: Portfolio occupancy rate improved to 91.5% (vs 90.2% in Mar'17, 91.1% in Dec'17). The steady take-up rates were mainly due to higher occupancies at Techpoint, 20 Tuas Avenue 6 and Xilin Districentre Building D. Demand for space came from a wide spectrum of industries consisting of Transport, Biomedical, Precision Engineering, etc. In Australia, occupancy levels remained strong at c.98.5%.

Rental reversions positive. While rental reversions for the year came in 0.8% higher y-o-y, 4Q18 reversions was 6.8% lower mainly due to a major lease expiry at the Hi-Tech segment (-18.8% drop in rents) which was a showroom unit and likely to be one-off. The forward outlook for rental reversions appear to be brighter with the Manager seeing good demand and compressing leasing spreads (passing vs market levels).

(+) Stable financial metrics. Balance sheet remains healthy with aggregate leverage remaining at a conservative 34.4%, with a well staggered debt expiry profile of 3.2 years. In the quarter, the REIT issued a new S$200m 7-year MTN at 3.14% (SOR + 70 bps) representing still strong demand for quality paper in the current environment.

While the expected hikes in interest rates will have an impact on distributions, we note that the REIT has close to 71.9% of the interest cost hedged into fixed rates. In fact, with topline expected to still generate growth in the coming years, we believe this will more than compensate the risk of rising interest rates. Every 0.5% hike in overall interest costs will decrease distributions by 1.1%.

Plans to "future proof portfolio". New CEO, Mr. William Tay outlined his plan to drive value for A-REIT in the future which hinges on the REIT's core values of creating value for unitholders through active asset management to reposition the assets to remain relevant to changing tenant needs while also looking to scale up and deepen its presence in its core markets of Singapore and Australia through value-accretive acquisitions. A-REIT's gearing of 34.4% empowers the REIT with more than S$1bn in firepower to capture any opportunities.

New markets for growth. The Manager also alluded to potentially diversifying into new markets of Europe and the USA, which in their view, are developed markets that offer similar risk profiles as its current stronghold in Singapore. While there are abundant opportunities available, the Manager remains disciplined in their investment approach. The preference is to buy "income" in these new markets, which imply that the REIT will unlikely take on speculative ventures.

Quarterly / Interim Income Statement (S$m)

FY Mar	4Q2017	3Q2018	4Q2018	% chg yoy	% chg qoq
Gross revenue	209	217	216	3.3	(0.7)
Property expenses	(54.9)	(59.7)	(57.9)	5.5	(3.0)
Net Property Income	154	158	158	2.5	0.2
Other Operating expenses	(16.7)	(14.8)	(14.4)	(13.8)	(3.2)
Other Non Opg (Exp)/Inc	(5.9)	(7.6)	17.3	nm	nm
Net Interest (Exp)/Inc	(34.3)	(25.2)	(25.9)	(15.5)	1.7
Exceptional Gain/(Loss)	(18.4)	0.0	0.72	nm	nm
Net Income	**79.0**	**110**	**136**	**72.0**	**23.3**
Tax	(1.5)	(1.1)	(1.1)	(26.8)	4.0
Minority Interest	0.01	0.0	0.02	28.6	-
Net Income after Tax	**77.5**	**109**	**135**	**73.9**	**23.6**
Total Return	77.5	109	139	78.8	27.0
Non-tax deductible Items	26.4	7.21	(33.4)	nm	nm
Net Inc available for Dist.	104	116	105	1.2	(9.6)
Ratio (%)					
Net Prop Inc Margin	73.7	72.5	73.2		
Dist. Payout Ratio	107.7	100.0	108.9		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Rebound in occupancy rates to provide upside to earnings. A-REIT's Singapore portfolio's occupancy rate is projected to remain stable in the medium term and hover around the 85-88% level as the Manager looks to actively engage tenants and new prospects. Given A-REIT's scale in Singapore, the Manager continues to attract a diverse tenant base to its properties, despite the competitive operating environment. The key reasons are the variety of asset types and its focus on the business parks and hi-tech properties, which continue to see good demand.

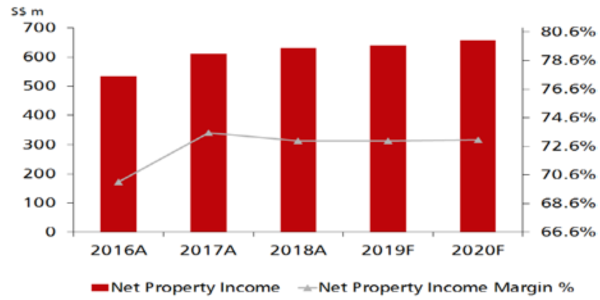
Looking ahead, with close to c.10% of the portfolio still vacant, the ability to back-fill the unoccupied space provides potential upside to our earnings estimates. A long portfolio-weighted average lease expiry (WALE) profile of 4.2 years means good earnings visibility for the REIT.

Potential upside to DPUs as Business Park segment outlook remains bright; Australia exposure offers upside to earnings. Rental reversionary trends are moderating but is expected to remain in the low-mid single digit in the coming year (A-REIT achieved c.0.7% in FY18) which is commendable. Given the narrowing spread between passing and market rents, we expect rental reversionary trends to remain flattish or even turn negative for selected sectors.

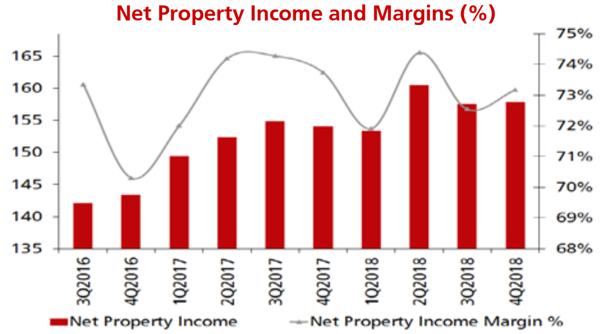
We are positive on A-REIT's business and science park exposure which accounts for close to 37% of portfolio value. We project its Australian portfolio to deliver resilient earnings. backed by a weighted average lease expiry (WALE) of 4.9 years

Inorganic growth to drive contributions in Australia and Singapore. A-REIT has regularly embarked on acquisitions and development projects, which have helped the REIT deliver sustained growth in distributions over time. Given the limited opportunities in Singapore and the fragmented market in China, the Manager has looked overseas for higher returns. The Manager remains focused on deepening its presence in the core markets of Singapore, Australia and might consider new developed markets of Europe or USA given similar risk profiles.

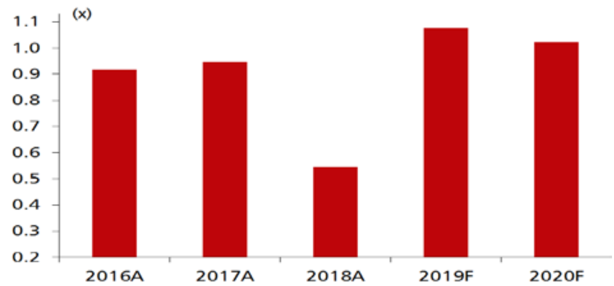
Net Property Income and Margins (%)



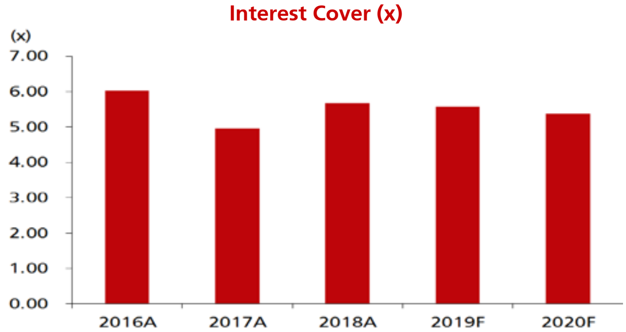
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



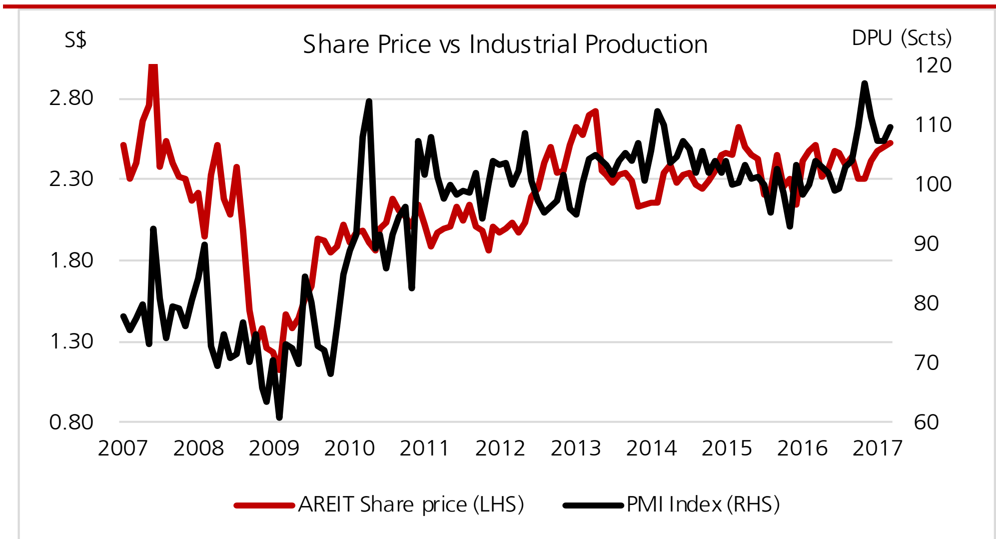
Interest Cover (x)



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

Manufacturing Sector business expectations point to improving sentiment



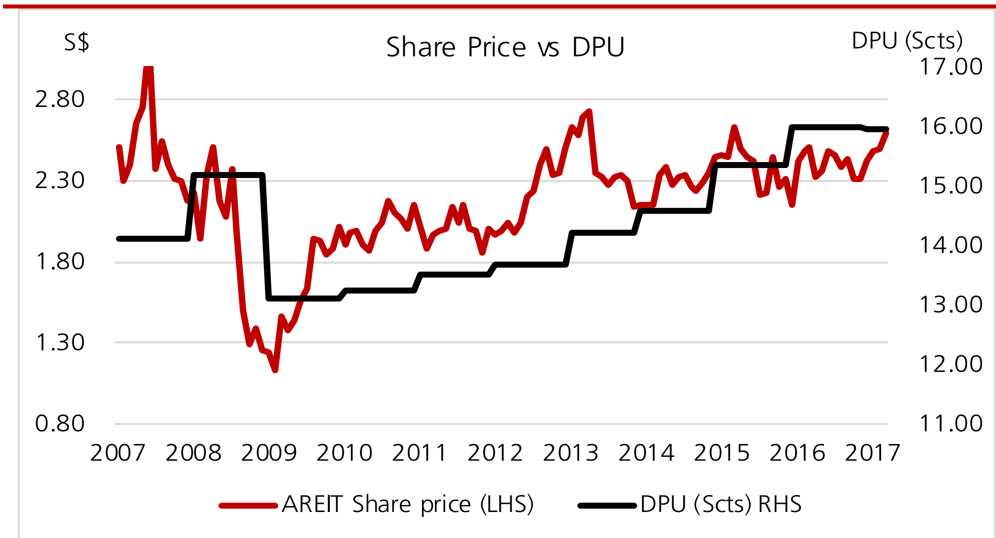
Source: EDB, Singstat, DBS Bank

Remarks

A-REIT is seen as a proxy to the Singapore economy as shown in its historical price performance, it is closely correlated with the pace of growth in Singapore's industrial production.

Looking ahead, DBS' economist expects growth in Singapore's industrial production to remain positive, albeit at a more conservative rate, meaning that the REIT's share price should remain well supported.

DPU key driver to share price



Source: EDB, Singstat, DBS Bank

Remarks

DPU is a key driver of its share price. Given low gearing and the propensity to acquire, we believe that A-REIT can surprise on the upside.

Balance Sheet:

Optimal gearing level of c.34%. A-REIT's gearing is stable at close to the lower end of management's comfortable 35-40% range. We believe that there is still capacity for management to utilise its debt headroom for further acquisitions but any significant deals could mean potential issuance of new equity.

Well-staggered debt maturity profile. The Manager adopts a prudent interest-rate risk management strategy with a weighted average cost of debt of 3.0% with >70% hedged with fixed rates. The debt tenure is long at c.3.0 years, with a well spread-out refinancing profile ensuring no concentration risk.

Share Price Drivers:

Direction of 10-year long bonds impacts share price. Seen by investors as a key S-REIT proxy, A-REIT's share price has typically been closely linked to investors' perception on the direction of the US benchmark 10-year bond yields. A fall in 10-year bond yields on the back of a delay in Fed hikes is likely to mean a higher share price.

Capital recycling strategy. With limited acquisition opportunities in Singapore, A-REIT regularly looks to divest older, lower-yielding properties and re-cycle the capital into asset- enhancement exercises (AEI), development projects or acquisitions. The aim is to optimise the portfolio returns and distributions which have a positive impact on its share price.

Key Risks:

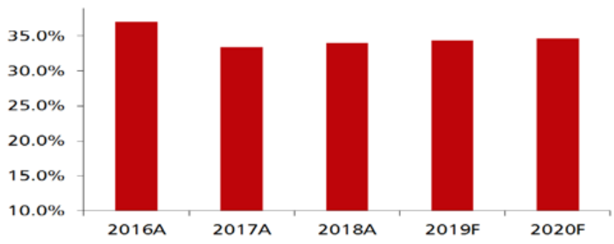
Interest rate risk. Any increase in interest rates will result in higher interest payments, which will reduce income available for distribution and result in lower distribution per unit (DPU) to unitholders.

Economic risk. A deterioration in the economic outlook could have a negative impact on industrial rents and occupancies as companies cut back production and require less space, given that industrial rents have a strong correlation with GDP growth.

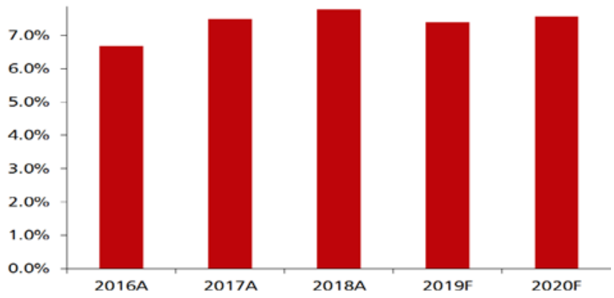
Company Background

A-REIT is Singapore's first and largest listed business space and industrial real estate investment trust. It has a diversified portfolio comprising assets in Singapore, China and Australia. A-REIT is managed by Ascendas Funds Management (S) Limited, a wholly owned subsidiary of the Singapore-based Ascendas-Singbridge.

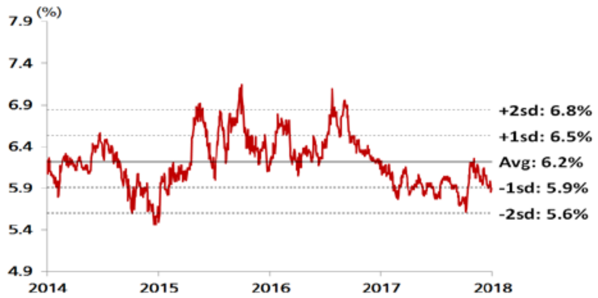
Aggregate Leverage (%)



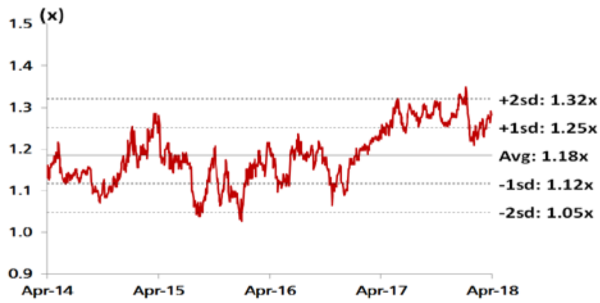
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Gross revenue	761	831	862	878	900
Property expenses	(227)	(220)	(233)	(237)	(242)
Net Property Income	**534**	**611**	**629**	**641**	**658**
Other Operating expenses	(67.4)	(60.7)	(58.4)	(56.3)	(56.7)
Other Non Opg (Exp)/Inc	(5.7)	(13.0)	17.1	0.0	0.0
Net Interest (Exp)/Inc	(77.5)	(111)	(101)	(105)	(112)
Exceptional Gain/(Loss)	0.0	0.0	5.31	0.0	0.0
Net Income	**383**	**427**	**493**	**480**	**489**
Tax	(25.1)	19.0	(2.8)	(7.4)	(7.7)
Minority Interest	0.0	0.0	0.02	0.0	0.0
Preference Dividend	(6.6)	(14.3)	(14.3)	(14.3)	(14.3)
Net Income After Tax	**351**	**432**	**476**	**458**	**467**
Total Return	349	413	480	458	467
Non-tax deductible Items	26.9	33.1	(26.1)	13.3	13.3
Net Inc available for Dist.	378	446	468	471	481
Growth & Ratio					
Revenue Gth (%)	13.0	9.1	3.8	1.8	2.5
N Property Inc Gth (%)	15.3	14.5	3.0	1.8	2.6
Net Inc Gth (%)	0.2	22.8	10.3	(3.8)	2.0
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	70.1	73.6	73.0	73.0	73.1
Net Income Margins (%)	46.2	52.0	55.2	52.2	51.9
Dist to revenue (%)	49.7	53.7	54.3	53.7	53.4
Managers & Trustee's fees	8.9	7.3	6.8	6.4	6.3
ROAE (%)	6.7	7.5	7.8	7.4	7.6
ROA (%)	3.9	4.3	4.6	4.4	4.4
ROCE (%)	5.0	5.6	5.7	5.6	5.7
Int. Cover (x)	6.0	5.0	5.7	5.6	5.4

Source: Company, DBS Bank

Driven by contributions from past acquisitions and positive rental reversions.

Quarterly / Interim Income Statement (S$m)

FY Mar	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Gross revenue	209	213	216	217	216
Property expenses	(54.9)	(59.9)	(55.3)	(59.7)	(57.9)
Net Property Income	154	153	161	158	158
Other Operating expenses	(16.7)	(14.5)	(14.8)	(14.8)	(14.4)
Other Non Opg (Exp)/Inc	(5.9)	3.23	4.22	(7.6)	17.3
Net Interest (Exp)/Inc	(34.3)	(24.8)	(25.0)	(25.2)	(25.9)
Exceptional Gain/(Loss)	(18.4)	0.0	4.59	0.0	0.72
Net Income	**79.0**	**117**	**130**	**110**	**136**
Tax	(1.5)	0.72	(1.4)	(1.1)	(1.1)
Minority Interest	0.01	0.01	0.0	0.0	0.02
Net Income after Tax	**77.5**	**118**	**128**	**109**	**135**
Total Return	77.5	118	128	109	139
Non-tax deductible Items	26.4	(6.4)	(16.3)	7.21	(33.4)
Net Inc available for Dist.	104	112	112	116	105
Growth & Ratio					
Revenue Gth (%)	0	2	1	1	(1)
N Property Inc Gth (%)	(1)	0	5	(2)	0
Net Inc Gth (%)	(48)	53	9	(15)	24
Net Prop Inc Margin (%)	73.7	71.9	74.4	72.5	73.2
Dist. Payout Ratio (%)	107.7	105.9	106.0	100.0	108.9

Balance Sheet (S$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Investment Properties	9,599	9,999	10,214	10,314	10,354
Other LT Assets	96.2	71.8	62.5	62.5	62.5
Cash & ST Invts	56.2	22.0	25.0	15.0	27.4
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	89.3	63.5	28.3	103	106
Other Current Assets	35.6	14.3	23.5	23.5	23.5
Total Assets	**9,876**	**10,171**	**10,354**	**10,518**	**10,573**
ST Debt	1,180	824	910	1,010	1,050
Creditor	172	193	144	198	203
Other Current Liab	43.5	105	49.7	50.1	50.5
LT Debt	2,485	2,576	2,609	2,609	2,609
Other LT Liabilities	199	138	142	165	188
Unit holders' funds	5,797	6,335	6,499	6,485	6,472
Minority Interests	0.02	0.03	0.0	0.0	0.0
Total Funds & Liabilities	**9,876**	**10,171**	**10,354**	**10,518**	**10,573**
Non-Cash Wkg. Capital	(90.6)	(220)	(142)	(122)	(125)
Net Cash/(Debt)	(3,608)	(3,378)	(3,494)	(3,604)	(3,632)
Ratio					
Current Ratio (x)	0.1	0.1	0.1	0.1	0.1
Quick Ratio (x)	0.1	0.1	0.0	0.1	0.1
Aggregate Leverage (%)	37.1	33.4	34.0	34.4	34.6
Z-Score (X)	1.1	1.3	1.3	1.3	1.3

Stable metrics

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Pre-Tax Income	383	427	493	480	489
Dep. & Amort.	0.18	0.0	0.0	0.0	0.0
Tax Paid	(4.5)	(7.9)	(24.7)	(7.0)	(7.4)
Associates &JV Inc/(Loss)	0.0	(0.5)	(0.5)	0.0	0.0
Chg in Wkg.Cap.	11.5	(23.8)	(55.0)	(20.1)	2.38
Other Operating CF	91.5	135	126	(14.3)	(14.3)
Net Operating CF	**482**	**529**	**539**	**438**	**470**
Net Invt in Properties	0.0	0.0	0.0	0.0	0.0
Other Invts (net)	(1,496)	(138)	(299)	(100.0)	(40.0)
Invts in Assoc. & JV	0.04	0.0	0.52	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	5.50	0.0	23.0	23.0	23.0
Net Investing CF	**(1,491)**	**(138)**	**(275)**	**(77.0)**	**(17.0)**
Distribution Paid	(442)	(501)	(295)	(471)	(481)
Chg in Gross Debt	1,218	(72.7)	121	100	40.0
New units issued	342	155	0.0	0.0	0.0
Other Financing CF	0.0	(7.2)	(134)	0.0	0.0
Net Financing CF	**1,118**	**(426)**	**(308)**	**(371)**	**(441)**
Currency Adjustments	(1.7)	0.27	47.3	0.0	0.0
Chg in Cash	108	(34.2)	3.02	(10.0)	12.4
Operating CFPS (S cts)	18.6	19.8	20.3	15.6	15.9
Free CFPS (S cts)	19.1	19.0	18.4	15.0	16.0

Source: Company, DBS Bank

Target Price & Ratings History

S. No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Apr 17	2.60	2.65	BUY
2:	17 May 17	2.58	2.65	BUY
3:	26 Jul 17	2.71	2.78	BUY
4:	28 Jul 17	2.71	2.85	BUY
5:	28 Aug 17	2.64	2.85	BUY
6:	31 Oct 17	2.74	2.85	BUY
7:	15 Dec 17	2.68	2.85	BUY
8:	26 Jan 18	2.84	2.85	BUY
9:	20 Feb 18	2.61	2.85	BUY
10:	19 Mar 18	2.67	2.85	BUY

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Derek TAN
Carmen Tay
Mervin SONG, CFA

DBS Bank recommendations are based an 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

Completed Date: 24 Apr 2018 08:53:17 (SGT)
Dissemination Date: 24 Apr 2018 09:23:38 (SGT)

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CapitaLand Commercial Trust

Version 15 | Bloomberg: CCT SP | Reuters: CACT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Jul 2018

BUY

Last Traded Price (19 Jul 2018): S$1.75 (**STI :** 3,277.58)
Price Target 12-mth: S$2.12 (21% upside)

Analyst
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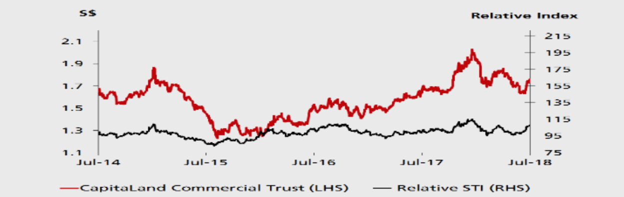
What's New

- 2Q18 DPU of 2.16 Scts (-1.6% y-o-y adjusted for rights issue impact) in line with expectations
- Benefit from Asia Square Tower 2 and Gallileo acquisitions not fully realised yet
- Negative rental reversions but narrowing gap between expiring and spot rents bodes well for positive rental reversions in the future
- Upside risk to DPU estimates from deployment of proceeds from sale of Twenty Anson

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2017A	2018F	2019F	2020F
Gross Revenue	337	394	409	430
Net Property Inc	265	313	327	345
Total Return	579	302	267	326
Distribution Inc	289	322	331	347
EPU (S cts)	7.57	8.13	8.30	8.70
EPU Gth (%)	(4)	7	2	5
DPU (S cts)	8.66	8.69	8.85	9.26
DPU Gth (%)	(2)	0	2	5
NAV per shr (S cts)	178	177	177	177
PE (X)	23.1	21.5	21.1	20.1
Distribution Yield (%)	4.9	5.0	5.1	5.3
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	37.3	38.7	38.9	39.2
ROAE (%)	4.5	4.6	4.7	4.9
Distn. Inc Chng (%):		-	-	-
Consensus DPU (S cts):		9.0	9.0	9.0
Other Broker Recs:		B: 13	S: 1	H: 10

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Leader of the pack

Undervalued. We keep our BUY call on CapitaLand Commercial Trust (CCT) with a TP of S$2.12. With the correction over the past few months, we believe CCT remains undervalued ahead of a multi-year upturn in office rents in Singapore. In addition, with its property valuations below physical market transactions, CCT is trading at attractive valuations at the current share price. Also, the recent expansion into Europe provides another growth avenue which we believe the market has not fully appreciated.

Where we differ – Deserves a bigger premium. Consensus' TPs have moved from a discount to a premium to CCT's book value since we advocated that CCT should trade at a premium, as it demonstrated the conservative valuation of its properties via the sale of three office buildings at 14-39% premiums to book. But the 1.08x P/Bk accorded by the market is still too low and CCT should trade at a P/Bk of 1.2x which is a typical level during upcycles. Its book also remains understated with buildings such as Capital Tower and 999-year leasehold HSBC Building priced at S$1,847 and S$2,275 psf respectively, a discount to recent transactions of S$2,400-2,700 for comparable buildings.

Multi-year upturn in rents. With Singapore office rents rising faster than expected and increasing for the fourth consecutive quarter, hitting S$10.10 psf/mth at end-2Q18, up 13% from the lows in 1H17, we believe this should generate increased investor interest in CCT. Focus should turn to the expected multi-year recovery in office rents as new supply over the coming three years is limited. This, and the continued rise in office rents, should act as re-rating catalyst for CCT's share price.

Valuation:

We maintain our DCF-based TP of S$2.12. With 20% capital upside and 4.9% yield, we retain our BUY call and CCT as our top pick in the office sector.

Key Risks to Our View:

Key risks to our positive view are weaker-than-expected rents.

At A Glance

Issued Capital (m shrs)	3,743
Mkt. Cap (Sm/USm)	6,550 / 4,798
Major Shareholders (%)	
CapitaLand Limited	30.0
BlackRock	7.4
Free Float (%)	62.6
3m Avg. Daily Val (US$m)	15.6
ICB Industry : Financials / Real Estate Investment Trust	

ed: TH / sa: AS, CW, CS

WHAT'S NEW

2Q18 results in line

(+/-) 2Q18 DPU of 2.16 Scts

- CCT delivered 2Q18 DPU of 2.16 Scts which was down 4% y-o-y or adjusting for the rights issue in the prior year, down 1.6% y-o-y. This took 1H18 DPU to 4.28 Scts (-6.1% y-o-y or -3.7% after adjustment for rights issue) which represents c.48% of our FY18F forecasts and is in line with our expectations.
- The decline in 2Q18 DPU was mainly due to the drag from the higher shares on issue from the recent equity placement and rights issue in the prior year as well as loss of income from the sale of Wilkie Edge and redevelopment of Golden Shoe.
- However, underlying 2Q18 revenue and NPI rose 12.0% and 12.5% y-o-y respectively, largely due to the acquisition of Asia Square Tower 2 (AST2) and Gallileo. Excluding the acquisitions and asset sales, CCT's core Singapore portfolio revenue and NPI would have fallen 1.4% and 1.0% y-o-y respectively. This was largely due to the impact from the negative rental reversions over the past year.
- Overall portfolio occupancy remains healthy at 97.8%, marginally up from 97.3% and 97.6% at end-1Q18 and 2Q17 respectively. The uptick in occupancy was largely due to improvements at 6 Battery Road (99.9% versus 98.5% in 2Q17) and Twenty Anson (95.8% versus 84.2% in 2Q17). Further progress has been made at AST2 with occupancy now at 91.9% compared to 90.8% at the end of 1Q18.

(+/-) Negative rental reversions but gap between expiring rent and spot rents narrowing

- Based on the disclosed expiring rents and committed rents achieved over the quarter, it appears CCT may have faced negative rental reversions in 2Q18, following small positive rental reversions in 1Q18.
- However, the gap between spot Grade A office rents and average expiring rents has narrowed. For 2Q18, spot rents of S$10.10 psf/mth are now marginally below average expiring rents of S$10.73 psf/mth. This compares to spot rents of S$9.40 psf/mth and average expiring rents of S$11.09 psf/mth in 4Q17. The narrowing gap and if spot rents continue to climb as expected, should bode well for CCT starting to deliver positive rental reversions ahead.
- In addition, signing rents for CCT's various buildings remain above the various sub market rents. Over the quarter, AST2 achieved committed rents of S$11.00-12.00 psf/mth versus average expiring rents of S$13.26 psf/mth and submarket rents of S$9.50-10.95. For CapitaGreen, signing rents were S$10.50-14.00 psf/mth versus average expiring rents of S$12.30 psf/mth and submarket rents of S$9.50-10.00 psf/mth. Meanwhile, at Six Battery Road, signing rents achieved was between S$10.00-13.80 psf/mth versus average expiring rents of S$12.37 psf/mth and submarket rents of S$8.40-9.86 psf/mth. Finally, One George Street, reported committed rents of S$9.10-9.50 psf/mth versus average expiring rents of S$9.22 and submarket rents of S$8.40-9.86 psf/mth.
- Post the leases signed in 2Q18, only 2% and 24% of office leases by gross rental income are up for renewal for the remainder of FY18 and FY19, down from 5% and 31% respectively.

(+) Revaluation gains from further compression of cap rates

- On the back of a 10-bp compression in cap rates for CCT's Singapore office buildings, CCT reported a 1.3% increase in property values for its Singapore portfolio, resulting in NAV per unit (excluding distribution income) rising to S$1.80 from S$1.74. CCT's Singapore office buildings are now valued using a cap rate of between 3.5-4.0% versus 3.6-4.10% previously.
- The higher property values resulted in aggregate leverage being stable at 37.9% offsetting the impact from higher borrowings to fund the acquisition of Gallileo.
- On the back of higher benchmark interest rates, average borrowing costs ticked up marginally to 2.8% from 2.7% at end-2Q18.
- The proportion of fixed rate borrowings fell to 85% from 90% in the preceding quarter.

(+) Upside risk to earnings estimates

- Following the divestment of Twenty Anson on an exit yield of 2.7%, CCT's gearing is projected to drop to c.35%, should it use the proceeds from the sale to pare down debt. Completion of the sale is expected to be in 3Q18.
- This provides debt headroom should it deploy its strong balance sheet for acquisitions in Europe which we assume would be around the 3-4% yield, leading to upside risk to our earnings/DPU estimates.
- We believe the likelihood of CCT expanding into Europe is high given the need to build scale in Europe following its maiden acquisition there, the lack of investment opportunities for prime Grade A offices in Singapore and the better yield spreads on offer in Europe.

- Europe currently represents c.5% of CCT's portfolio by asset value versus its long-term target of having 10-20% of assets outside Singapore.
- Given our view that CCT is likely to buy in Europe sometime in 2H18, we maintain our earnings and DPU estimates for now.

Maintain BUY

- With 2Q18 results in line with expectations, we maintain our BUY call with TP of S$2.12.
- CCT remains out top pick in the office space, as it is the largest and most liquid office REIT. Furthermore, we continue to like CCT for its exposure to the expected multi-year recovery in office rents due to minimal new office supply over the next three years.

Quarterly / Interim Income Statement (S$m)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Gross revenue	87.5	91.8	98.0	12.0	6.8
Property expenses	(18.4)	(19.2)	(20.3)	10.3	5.6
Net Property Income	69.1	72.6	77.7	12.5	7.1
Other Operating expenses	(5.2)	(5.6)	(5.8)	10.2	3.1
Other Non Opg (Exp)/Inc	(4.2)	1.65	0.0	nm	nm
Net Interest (Exp)/Inc	(17.4)	(18.1)	(21.2)	(21.5)	(16.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	**68.1**	**73.5**	**98.7**	**45.0**	**34.3**
Tax	(0.2)	(1.1)	(2.2)	1,172.0	96.5
Minority Interest	0.0	0.0	(0.4)	nm	nm
Net Income after Tax	**67.9**	**72.4**	**96.1**	**41.5**	**32.8**
Total Return	0.0	0.0	0.0	-	-
Non-tax deductible Items	0.0	0.0	0.0	-	-
Net Inc available for Dist.	69.5	76.6	79.4	14.3	3.6
Ratio (%)					
Net Prop Inc Margin	79.0	79.1	79.3		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Recovery in spot office rents. Thus far, we have had four consecutive quarterly increases in rents. Spot office rents have increased 12% from the lows in 1H17, reaching S$10.10 psf/mth at the end of 2Q18, according to CBRE estimates. Given CCT's share price has historically led a recovery in spot rents by 6-12 months, with a potential multi-year upturn in rents due to limited new supply over the next 3-4 years, this should result in a rally in CCT's share price.

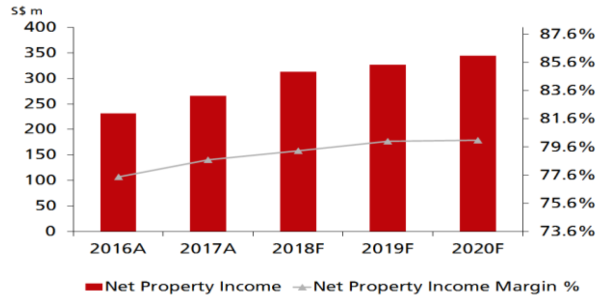
Staggered weighted lease expiry profile. In 1Q18, CCT surprised on the upside by reporting positive rental reversions. However, there are still high expiring rents over the next few quarters which present some risk of negative rental reversions. Nevertheless, with a staggered lease expiry profile, only 5% and 31% of office leases are up for renewal (by GRI) for the remainder of FY18 and FY19 respectively, Thus, the impact of these negative reversions is contained. Beyond this, a weighted average lease expiry (WALE) of 5.7 years by net lettable area (NLA) provides the REIT some measure of earnings stability.

Medium-term upside from redevelopment of Golden Shoe Car Park. CCT has announced that it has entered into a JV with its sponsor, CapitaLand Limited (CAPL) and Mitsubishi Estate Co., Ltd (MEC), to redevelop its Golden Shoe Car Park property into a 635,000-sqft office tower with a 299-room serviced apartment block. CCT and CAPL will hold 45% interest each, with MEC owning 10%. Costing S$1.82bn with a targeted yield on cost of 5% and to be completed in 1H21, the property will provide a medium-term uplift to CCT's earnings and its current NAV per unit (excluding distributions) of S$1.74. To date, CCT has secured an anchor tenant in the form of JP Morgan which will take 24% of the office space in the building.

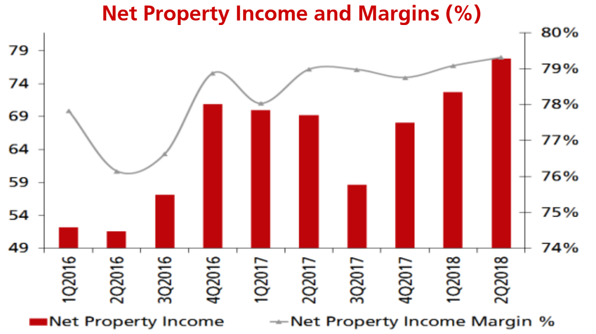
Acquisition of Asia Square Tower 2 to provide additional leverage to office upturn. While we expect dilution to underlying FY18 DPU due to the recent rights issue to fund the acquisition of AST2, we believe the acquisition is a medium-term boost to CCT. Specifically, it improves the quality and resilience of CCT's portfolio, given it provides CCT the option to offer a property in the Marina Bay area should tenants decide to move from Shenton Way or Raffles Place. The expansion of CCT's portfolio also provides additional leverage to the recovering Singapore office market over the coming 3-4 years.

Overseas expansion. CCT recently expanded overseas with its maiden acquisition of an office building, Gallileo in Frankfurt Germany on a 4% NPI yield. We expect this to provide another leg of growth for the trust but more importantly limit downside risk to CCT's book value given Gallileo's freehold status. With the recent sale of Twenty Anson, we believe further expansion into Europe would provide additional upside to our earnings estimates.

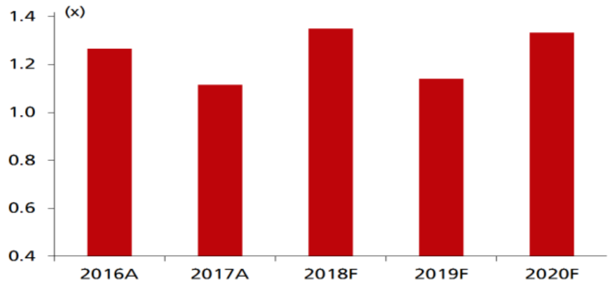
Net Property Income and Margins (%)



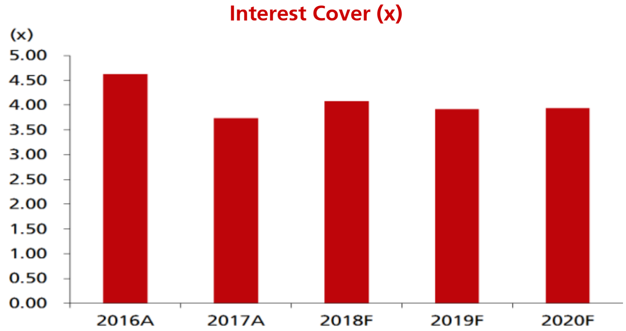
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing to settle around 38-39%. Post the recent divestment of Twenty Anson, gearing is expected to fall to c.35%. However, we expect CCT's gearing to stabilise at around 38-39% should it use these sale proceeds for an acquisition in Europe.

High proportion of fixed rate debt. As at 30 June 2018, around 85% of CCT's borrowings were on fixed rates.

Share Price Drivers:

Recovery in the office market. With CCT's share price historically tracking the office market by 6-12 months, we believe a recovery in office rents next year will lead to a further re-rating in CCT's share price. In our view, further market transactions, which are above the implied price per sqft of CCT's Singapore office portfolio, should also drive CCT's share price higher.

Acquisitions. Should CCT identify more DPU-accretive acquisitions in Europe, we believe this will act as a re-rating catalysts as it would accelerate CCT's medium-term growth profile.

Key Risks:

Competition from other landlords. While pre-commitment levels of the recently completed office buildings in Singapore are high, CCT could face higher competition from buildings which had lost tenants to the new office buildings.

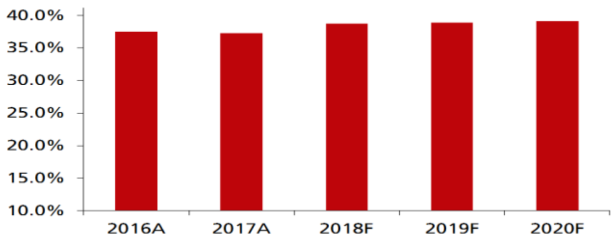
Pressure on rents from shadow space. We see some downsizing activity from banks and financial institutions, and shadow space (particularly in the Marina Bay area) could put some pressure on rents for CCT's portfolio, which is located primarily in the Raffles Place/Tanjong Pagar areas.

Interest rate risk. Any increase in interest rates will result in higher interest payments that the REIT has to make annually to service its loans. Nevertheless, the risk is partially mitigated by the fact that c.85% of CCT's debts are on fixed rates.

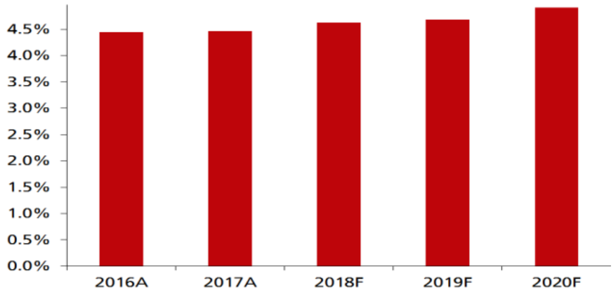
Company Background

CapitaLand Commercial Trust (CCT) is the first and largest commercial REIT listed in Singapore. It owns nine properties located in Singapore's CBD worth c.S$10bn and recently expanded into Europe with the purchase of an office building in Frankfurt.

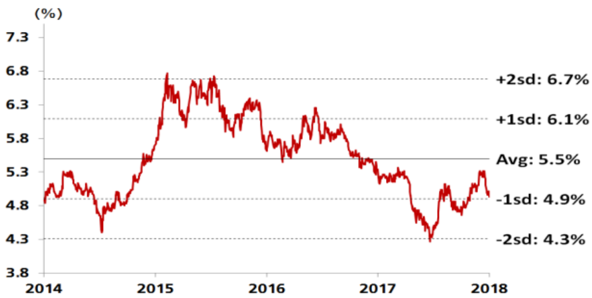
Aggregate Leverage (%)



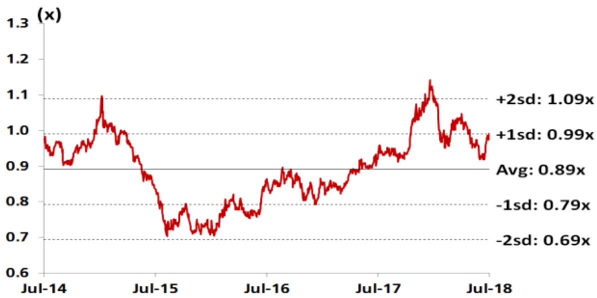
ROE (%)



Distribution Yield (%)

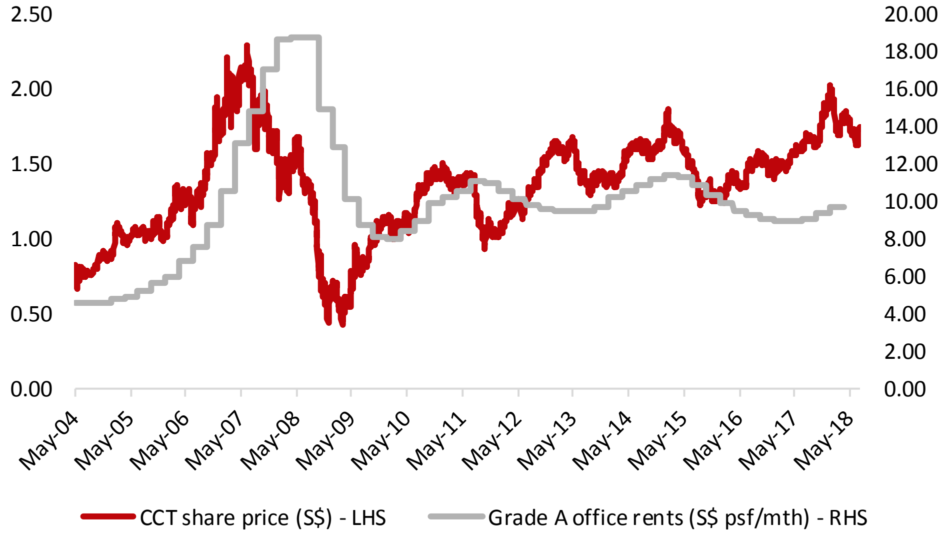


PB Band (x)



Source: Company, DBS Bank

CCT's share price versus Singapore office rents



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

Remarks

CCT's share price has historically led the upturn and downturn in spot office rents by 6-12 months.

Over the past year, CCT's share price has rebounded in anticipation of a recovery in the office market, which we believe has been validated by the four consecutive quarterly increases in spot rents since 2Q17.

Income Statement (S$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Gross revenue	299	337	394	409	430
Property expenses	(67.3)	(72.0)	(81.6)	(81.8)	(85.8)
Net Property Income	**231**	**265**	**313**	**327**	**345**
Other Operating expenses	(17.6)	(19.0)	(24.9)	(25.8)	(26.5)
Other Non Opg (Exp)/Inc	3.59	(0.5)	3.06	3.06	3.06
Net Interest (Exp)/Inc	(46.2)	(66.0)	(70.6)	(76.8)	(80.8)
Exceptional Gain/(Loss)	(22.1)	0.0	0.0	0.0	0.0
Net Income	**235**	**265**	**309**	**318**	**334**
Tax	(1.2)	(3.7)	(6.8)	(6.9)	(7.3)
Minority Interest	0.0	0.0	(0.7)	(0.7)	(0.8)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**234**	**261**	**302**	**311**	**326**
Total Return	261	579	302	267	326
Non-tax deductible Items	8.41	(294)	20.5	64.7	20.9
Net Inc available for Dist.	269	289	322	331	347
Growth & Ratio					
Revenue Gth (%)	9.3	13.0	16.9	3.6	5.3
N Property Inc Gth (%)	8.7	14.8	17.9	4.5	5.4
Net Inc Gth (%)	(3.0)	11.8	15.5	3.0	4.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	77.5	78.7	79.3	80.0	80.1
Net Income Margins (%)	78.2	77.4	76.5	76.0	75.7
Dist to revenue (%)	90.1	85.6	81.6	81.1	80.6
Managers & Trustee's fees	5.9	5.6	6.3	6.3	6.2
ROAE (%)	4.4	4.5	4.6	4.7	4.9
ROA (%)	3.2	3.0	3.1	3.1	3.3
ROCE (%)	2.9	2.8	2.9	3.0	3.1
Int. Cover (x)	4.6	3.7	4.1	3.9	3.9

Source: Company, DBS Bank

Increase in earnings due to the acquisition of AST2 and Gallileo partially offset by sale of Wilkie Edge, Golden Shoe Car Park and 50% interest in OGS

Quarterly / Interim Income Statement (S$m)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Gross revenue	87.5	74.1	86.3	91.8	98.0
Property expenses	(18.4)	(15.6)	(18.3)	(19.2)	(20.3)
Net Property Income	69.1	58.6	68.0	72.6	77.7
Other Operating expenses	(5.2)	(3.5)	(4.8)	(5.6)	(5.8)
Other Non Opg (Exp)/Inc	(4.2)	1.32	(0.1)	1.65	0.0
Net Interest (Exp)/Inc	(17.4)	(13.7)	(17.2)	(18.1)	(21.2)
Exceptional Gain/(Loss)	0.0	72.6	0.0	0.0	0.0
Net Income	**68.1**	**139**	**61.4**	**73.5**	**98.7**
Tax	(0.2)	(0.2)	(3.2)	(1.1)	(2.2)
Minority Interest	0.0	0.0	0.0	0.0	(0.4)
Net Income after Tax	**67.9**	**139**	**58.2**	**72.4**	**96.1**
Total Return	0.0	0.0	0.0	0.0	0.0
Non-tax deductible Items	0.0	0.0	0.0	0.0	0.0
Net Inc available for Dist.	69.5	73.1	75.0	76.6	79.4
Growth & Ratio					
Revenue Gth (%)	(2)	(15)	16	6	7
N Property Inc Gth (%)	(1)	(15)	16	7	7
Net Inc Gth (%)	3	104	(58)	24	33
Net Prop Inc Margin (%)	79.0	79.0	78.8	79.1	79.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Investment Properties	6,591	7,408	7,961	7,921	7,931
Other LT Assets	1,259	1,781	1,812	1,844	1,875
Cash & ST Invts	160	123	134	191	197
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	41.9	42.7	45.4	47.0	49.5
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	**8,051**	**9,354**	**9,952**	**10,003**	**10,053**
ST Debt	173	0.0	0.0	0.0	0.0
Creditor	52.8	90.3	94.0	97.4	103
Other Current Liab	9.92	7.27	7.27	7.27	7.27
LT Debt	2,457	2,720	3,099	3,139	3,183
Other LT Liabilities	79.3	119	119	119	119
Unit holders' funds	5,279	6,417	6,632	6,639	6,639
Minority Interests	0.0	0.0	0.75	1.49	2.25
Total Funds & Liabilities	**8,051**	**9,354**	**9,952**	**10,003**	**10,053**
Non-Cash Wkg. Capital	(20.8)	(54.8)	(55.9)	(57.7)	(60.3)
Net Cash/(Debt)	(2,471)	(2,598)	(2,965)	(2,948)	(2,986)
Ratio					
Current Ratio (x)	0.9	1.7	1.8	2.3	2.2
Quick Ratio (x)	0.9	1.7	1.8	2.3	2.2
Aggregate Leverage (%)	37.5	37.3	38.7	38.9	39.2
Z-Score (X)	1.2	1.3	1.3	1.3	1.3

Source: Company, DBS Bank

Increase in gearing due to debt funding of contribution to the Golden Shoe redevelopment project and Gallileo excluding potential repayment of debt from the divestment of Twenty Anson

Cash Flow Statement (S$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Income	235	265	309	318	334
Dep. & Amort.	3.51	3.51	3.51	3.51	3.51
Tax Paid	(1.2)	(3.7)	(6.8)	(6.9)	(7.3)
Associates &JV Inc/(Loss)	(85.7)	(84.9)	(88.7)	(90.8)	(93.6)
Chg in Wkg.Cap.	18.7	32.3	1.09	1.77	2.66
Other Operating CF	33.0	38.7	20.5	64.7	20.9
Net Operating CF	**203**	**251**	**239**	**291**	**260**
Net Invt in Properties	(374)	(837)	(556)	(8.2)	(12.9)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	(159)	(31.6)	(31.6)	(31.6)
Div from Assoc. & JVs	115	98.9	88.7	90.8	93.6
Other Investing CF	0.0	(5.3)	0.0	7.00	0.0
Net Investing CF	**(259)**	**(902)**	**(499)**	**58.0**	**49.1**
Distribution Paid	(257)	(280)	(322)	(331)	(347)
Chg in Gross Debt	464	271	379	39.7	44.5
New units issued	0.0	689	215	0.0	0.0
Other Financing CF	(71.5)	(66.9)	0.0	0.0	0.0
Net Financing CF	**135**	**614**	**271**	**(292)**	**(302)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	78.8	(37.4)	10.9	57.0	6.93
Operating CFPS (S cts)	6.22	6.33	6.41	7.72	6.87
Free CFPS (S cts)	(5.8)	(17.0)	(8.6)	7.55	6.60

Includes acquisition of Galliléo

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	20 Jul 17	1.67	1.80	BUY
2:	16 Aug 17	1.66	1.80	BUY
3:	23 Oct 17	1.67	1.80	BUY
4:	26 Jan 18	1.92	2.10	BUY
5:	20 Feb 18	1.76	2.10	BUY
6:	12 Apr 18	1.83	2.10	BUY
7:	25 Apr 18	1.78	2.10	BUY
8:	07 May 18	1.79	2.10	BUY
9:	31 May 18	1.71	2.10	BUY
10:	26 Jun 18	1.66	2.12	BUY
11:	29 Jun 18	1.66	2.12	BUY

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Mervin SONG, CFA
Derek TAN

DBS Bank recommendations are based an 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

Completed Date: 19 Jul 2018 18:13:57 (SGT)
Dissemination Date: 19 Jul 2018 18:17:10 (SGT)

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CDL Hospitality Trusts

Version 14 | Bloomberg: CDREIT SP | Reuters: CDLT.SI

DBS Group Research . Equity

30 Jul 2018

BUY

Last Traded Price (27 Jul 2018): S$1.65 (**STI :** 3,324.98)
Price Target 12-mth: S$1.95 (18% upside and 6% yield)
(Prev S$2.00)

Analyst
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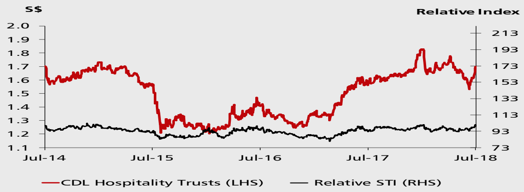
What's New

- 2Q18 DPU of 2.14 Scts (+2.4% y-o-y) was below expectations
- Singapore RevPAR was down 0.9% y-o-y in 2Q18 owing to softer corporate demand from two mid-week public holidays in May and the Trump-Kim summit
- Limited new room supply over next three years gives us confidence that 2Q18 is a temporary dip and we are still on track for a multi-year upturn

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2017A	2018F	2019F	2020F
Gross Revenue	204	214	224	234
Net Property Inc	152	156	163	173
Total Return	129	89.5	94.0	100
Distribution Inc	122	132	137	143
EPU (S cts)	5.87	7.41	7.75	8.21
EPU Gth (%)	(18)	26	4	6
DPU (S cts)	9.22	9.85	10.2	10.6
DPU Gth (%)	(4)	7	3	4
NAV per shr (S cts)	153	153	153	153
PE (X)	28.1	22.3	21.3	20.1
Distribution Yield (%)	5.6	6.0	6.2	6.4
P/NAV (x)	1.1	1.1	1.1	1.1
Aggregate Leverage (%)	32.5	32.3	32.2	32.0
ROAE (%)	3.8	4.8	5.1	5.4
Distn. Inc Chng (%):	(3)	(4)	(5)	
Consensus DPU (S cts):	9.80	10.3	10.7	
Other Broker Recs:	B: 10	S: 3	H: 2	

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Upward trend still intact

Attractive growth profile. We maintain our BUY call on CDL Hospitality Trusts (CDREIT) with a revised TP of S$1.95. With supply expected to ease over the next three years, we project a recovery in the Singapore hospitality market with revenue per available room (RevPAR) potentially growing by 3-5% p.a. This, combined with CDREIT's recent acquisitions, should result in DPU CAGR of 5% between 2017-2020 which compares favourably against the modest 1-3% growth for many other REITs. Moreover, CDREIT's yield is based on a 90% payout ratio versus its peers which typically have a 100% payout ratio.

Where we differ: Should trade at a higher premium to book. Consensus has a HOLD recommendation with a target price at c. S$1.76. This implies CDREIT's Singapore portfolio is valued at c. S$700,000 per key, at the bottom end of the range of other listed Singapore hospitality REITs that are valued between S$700,000 and S$1m per key, and below asking prices for hotels in Singapore of in excess of S$1m per key. With a potential upturn in the Singapore market over the next three years, this is too conservative in our view. Thus, given the quality of its properties, CDREIT should re-rate closer to our TP which implies price per key of closer to c. S$850,000.

Acquisitions the ace in the pack. Post the recent sale of Mercure Brisbane and Ibis Brisbane, CDREIT's gearing stabilised around the 33% level. With the debt headroom, the expected accretion to any debt-funded acquisition would act as the next boost to CDREIT's share price.

Valuation:

On the back of weaker-than-expected 2Q18 results, we lowered our DCF-based TP to S$1.95 from S$2.00.

Key Risks to Our View:

Weaker-than-expected demand supply outlook in Singapore. The key risk to our view is a weaker-than-expected demand-supply outlook for the Singapore hospitality market.

At A Glance

Issued Capital (m shrs)	1,204
Mkt. Cap (Sm/USm)	1,986 / 1,459
Major Shareholders (%)	
Hospitality Holdings Pte Ltd	26.2
M & C Reit Management Ltd	5.7
Republic Hotels & Resorts	5.2
Free Float (%)	62.9
3m Avg. Daily Val (US$m)	3.7
ICB Industry : Financials / Real Estate Investment Trust	

WHAT'S NEW

Softer-than-expected quarter

(-) 2Q18 DPU of 2.14 Scts (+2.9% y-o-y)

- 2Q18 DPU came in at 2.14 Scts, up 2.9% y-o-y resulting in 1H18 DPU of 4.31 Scts (+5.1% y-o-y). This was below expectations given 1H18 DPU only represents 42% of our original FY18F DPU. The 2Q18 DPU was also boosted by c. S$1.1m worth of capital gains from the early divestments of Mercure and Ibis Brisbane. The amount of gains distributed was not disclosed.
- The underperformance was mainly due to a weaker-than-expected performance from the Singapore hotels. 2Q18 RevPAR was down 0.9% y-o-y to S$153, as occupancy dropped 2.7ppts to 83.5%, partially offset by a 2.3% y-o-y increase in ADR to S$184. This compares to a 5.9%, 1.5% and 7.2% y-o-y increase in overall Singapore RevPAR for the month of April, May and June respectively based on STB and STR Global data.
- CDREIT attributed the drop in its RevPAR to corporate demand being adversely impacted by two mid-week public holidays in May and the Trump-Kim summit in June as well as impact from hotels that opened in late 2017. We understand RevPAR in April was up, down in May and flattish in June.
- Owing to the softer RevPAR performance, 2Q18 revenue and NPI for the Singapore hotels fell 2.6% and 2.2% y-o-y respectively. Combined with the absence of income following the sale of Mercure and Ibis Brisbane in January, overall 2Q18 group revenue and NPI fell 0.3% and 3.7% y-o-y respectively.

(-) Generally softer performance outside Singapore

- The softer 2Q18 results were also due to NPI for the New Zealand operations dropping 20% y-o-y. RevPAR fell 11.6% y-o-y due to a high-base effect as there were major sporting events in 2Q17 such as the World Master Games as well as the Irish Lions Rugby Tour.
- Meanwhile, the Maldives properties had a soft quarter (NPI down 55% y-o-y) as expected due to competitive environment as well as the closure and ongoing AEI works to convert Jumeirah Dhevanafushi into a Raffles branded property by year-end. On the positive note, we understand the Maldives government has announced plans to slow down the development of new resorts.
- On the positive side, income from the UK portfolio rose 12% y-o-y, as CDREIT benefitted from an additional 34 days of NPI contribution the Lowry Hotel which was acquired on 4 May 2017. Nevertheless, underlying UK RevPAR was weaker, down 1.1% y-o-y largely due to a decline in RevPAR at Hilton Cambridge City Centre which was affected by new room supply. However, we understand RevPAR for the Lowry Hotel was up y-o-y.
- Japan had a poor quarter with NPI down 8.1% y-o-y as new supply offset the continued growth in inbound tourists into Japan. RevPAR for CDREIT's Tokyo properties reported a 2.2% y-o-y drop over the quarter.

(+) Strong balance sheet maintained

- CDREIT remains in a strong financial position with gearing at 33.2%.
- Average costs of debt increased to 2.4% from 2.1%. This is largely expected as CDREIT refinanced the remaining bridge loan which was used to fund the acquisition of Pullman Hotel Munich.

(+) Potential uplift in 2H18

- For the first 25 days of July, the market remained competitive with RevPAR for the Singapore hotels down 2.2% y-o-y. However, CDREIT guided that based on the strong bookings towards the end of the month, July is likely to be flat y-o-y.
- Beyond July, we understand bookings are on a stronger footing which points to a stronger 2H18.

(+) Medium-term uplift from AEIs

- CDREIT is planning to undertake the renovation of the guest rooms in the Orchard wing at the Orchard Hotel between 4Q18 and 1Q19.
- In addition, CDREIT intends to conduct a phased room refurbishment exercise at Grand Copthorne Waterfront Hotel.
- In the medium term, it is also exploring opportunities to upgrade its other Singapore hotels such as M Hotel and Copthorne King's Hotel.
- We believe while there may some short-term disruptions to CDREIT's operations and earnings, these AEIs should better position CDREIT's properties with a commensurate uplift in ADR over time.

(-) Pricing in softer 2Q18 performance and potential impact from planned AEIs

- To better reflect the weaker-than-expected performance and potential impact from the planned AEI's at Orchard Hotel and Grand Copthorne Waterfront Hotel, we lowered our RevPAR growth assumptions from 4-5% to 2-4% p.a. growth for the Singapore portfolio over FY18-20F. Consequently, we lowered our FY18-20F DPU by 4-5% and reduced our DCF-based TP to S$1.95 from S$2.00.

Maintain BUY, revised TP of S$1.95

- Despite weaker-than-expected 2Q18 results, we maintain our BUY call on CDREIT with a TP of S$1.95. We continue to believe that CDREIT remains leveraged to the expected multi-year upturn and the dip in

RevPAR in 2Q18 is a temporary pause as limited new supply over the next few years should result in an upward squeeze on room rates.

- In addition, CDREIT's share price at current level remains undervalued with the implied value of its Singapore portfolio being c. S$700,000 per key, at the bottom end of the range of other listed Singapore hospitality REITs that are valued between S$700,000 and S$1m per key, and below asking prices for hotels in Singapore of in excess of S$1m per key.

Quarterly / Interim Income Statement (S$m)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Gross revenue	47.8	51.8	47.7	(0.3)	(7.9)
Property expenses	(12.9)	(14.0)	(14.1)	9.1	1.0
Net Property Income	34.9	37.8	33.6	(3.7)	(11.2)
Other Operating expenses	(14.5)	(7.5)	(7.6)	(47.8)	1.2
Other Non Opg (Exp)/Inc	(0.2)	5.37	0.0	-	-
Net Interest (Exp)/Inc	(6.1)	(6.3)	(7.1)	(16.6)	(12.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	14.2	29.4	18.9	33.1	(35.7)
Tax	(1.2)	(1.4)	(1.7)	34.6	17.3
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	13.0	28.0	17.3	33.0	(38.4)
Total Return	0.0	0.0	0.0	-	-
Non-tax deductible Items	12.2	0.20	7.80	(36.0)	3,840.9
Net Inc available for Dist.	25.2	28.2	25.1	(0.5)	(11.1)
Ratio (%)					
Net Prop Inc Margin	73.0	73.0	70.4		
Dist. Payout Ratio	90.0	90.0	90.0		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Recovery in Singapore on the horizon. CDREIT's profitability is largely dependent on earnings from its Singapore hotels. There is potential for price competition in 2018 due to the new hotel room supply in late 2017 still ramping up occupancy. This may lead to some pressure on ADRs (average room rates). However, as we progress through 2018 and beyond, we expect a recovery in RevPAR (3-5% growth p.a.) as supply pressures ease. New supply over the next three years is expected to grow by 1-2% versus 4-7% growth in the past 2-4 years.

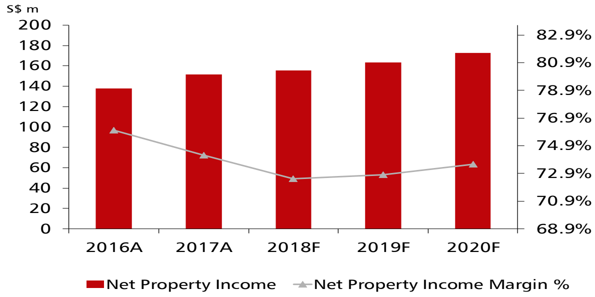
Boost from recent acquisitions in the UK and Europe. Over the past 18 months, CDREIT has acquired Hilton Cambridge Hotel and The Lowry in the UK and Pullman Hotel in Munich, Germany. This should provide the trust with additional growth legs ahead. With CDREIT's gearing settling around 33%, post the disposal of Mercure Brisbane and Ibis Brisbane, we expect further acquisitions to materialise to give a further boost to CDREIT's earnings.

Japan remains a medium-term growth driver. Near term, CDREIT's operations face the challenge of a stronger JPY relative to regional currencies, which has tempered the growth in visitors to Japan. Combined with an increase in supply, this has resulted in some downside pressure on ADR. Nevertheless, in the medium term and ahead of the Tokyo Olympics in 2020, we expect the Japanese hospitality market to resume its growth path as the JPY stabilises. Furthermore, with additional regulations on share accommodation, competition from AirBnb and the like should reduce over the coming quarters. Thus, Japan will remain a key growth driver for CDREIT going forward.

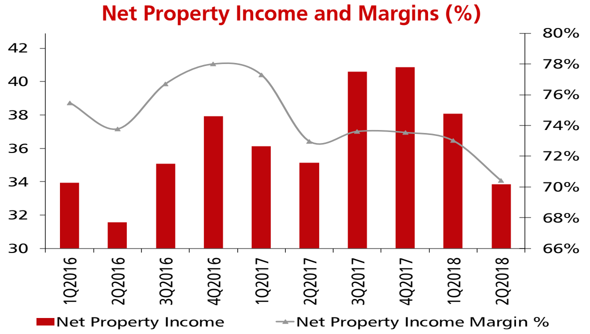
Softness from Maldives. Given the slowdown in Chinese visitors, increased supply and travel advisories issued by several governments to avoid Maldives due to the political situation in Male, we expect performance for CDREIT's Maldives operations to be soft. Furthermore, in 2018, earnings will be impacted by the closure and refurbishment of the Dhevanafushi Maldives Luxury Resort into a Raffles hotel property. However, contribution from the Maldives may bottom in 2018/1H19 as there are signs of a pick-up in European visitors and the government in Maldives is planning to moderate the supply of new resorts in the country.

Asset optimisation. In the medium term, we believe CDREIT can further maximise the returns of its portfolio by undertaking AEIs such as the recently completed refurbishments at Grand Copthorne Waterfront Hotel and M Hotel in Singapore.

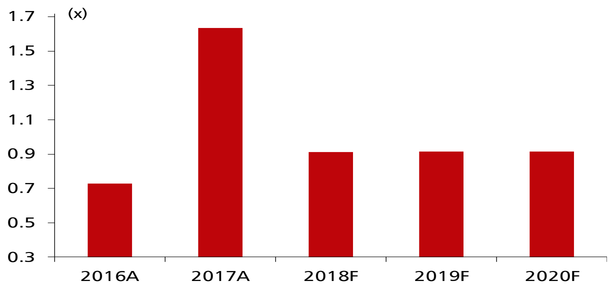
Net Property Income and Margins (%)



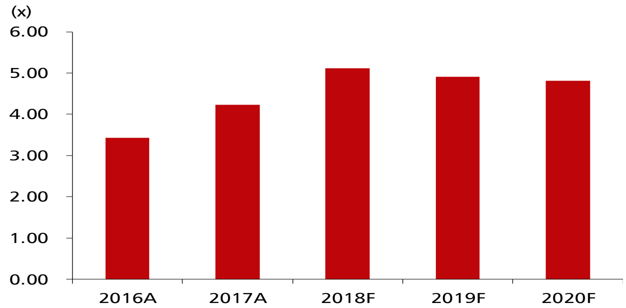
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Low gearing. CDREIT's gearing has settled around 33% post the disposal of Mercure Brisbane and Ibis Brisbane as the proceeds have largely been held as cash rather than paring down debt. Nevertheless, CDREIT is in a strong financial position to pursue future acquisitions.

Moderate exposure to rising interest rates. Approximately 66% of CDREIT's borrowings were on fixed interest rates as at 30 June 2018. This provides a moderate hedge against rising interest rates.

Share Price Drivers:

Recovery in the Singapore hospitality market. We believe the expected recovery in the Singapore hospitality market next year, combined with the additional earnings from recent acquisitions, should result in a healthy 5% DPU CAGR between 2017 and 2020. Delivery of this healthy DPU profile, we believe, will re-rate CDREIT going forward.

Unjustified discount to other hospitality REITs. Compared to other hospitality S-REITs, CDREIT offers one of the cheapest exposure to the eventual upturn in the Singapore market. The implied price per key for other S-REITs stands at between S$700,000 and S$1m versus c. S$700,000 for CDREIT. Given the mid-tier to luxury category of CDREIT's room inventory and its successful track record, we believe CDREIT trading at the bottom end of its peer range is unjustified.

Key Risks:

Interest rate risk. Any increase in interest rates will result in higher interest payments, which could result in lower distribution per unit (DPU) for unitholders.

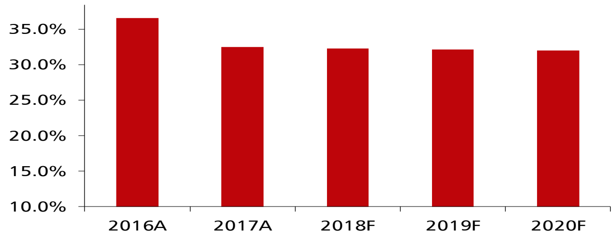
Currency risk. As CDREIT earns rental income in various currencies (AUD, GBP, JPY, NZD, and USD), a depreciation of any foreign currency against the SGD could negatively impact distribution income, which is distributed in SGD.

Brexit. With the UK voting to exit the EU (Brexit), this may negatively impact business activities in the UK and CDREIT's Hilton Cambridge property. In addition, Brexit may result in a depreciation of the GBP versus SGD, which will negatively impact distributions in SGD.

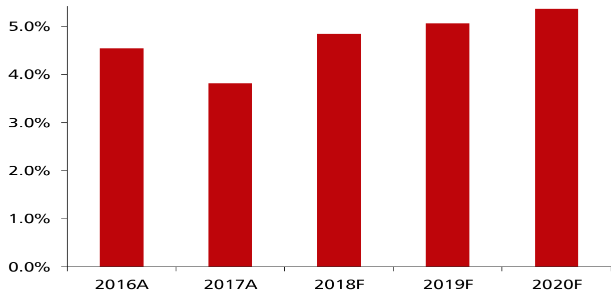
Company Background

CDL Hospitality Trusts (CDREIT) is a stapled group comprising H-REIT and HBT. H-REIT is a real estate investment trust that invests in a portfolio of income-producing hospitality-related properties while HBT is a business trust. CDREIT currently owns hotels in Singapore, Australia, Japan, Germany, Maldives, New Zealand and UK.

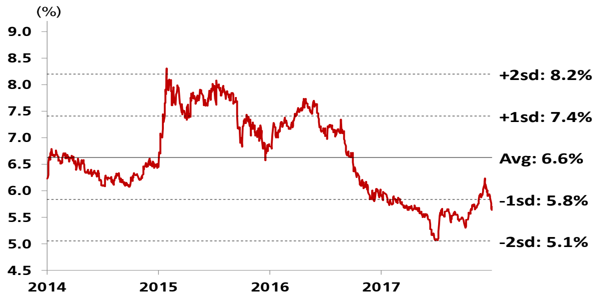
Aggregate Leverage (%)



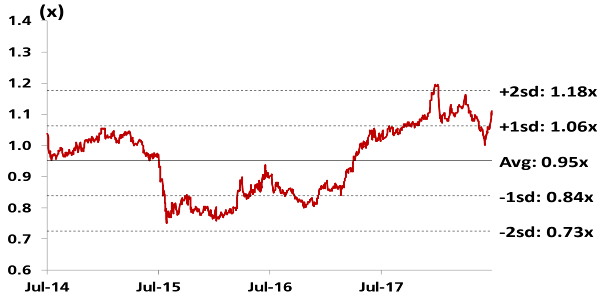
ROE (%)



Distribution Yield (%)

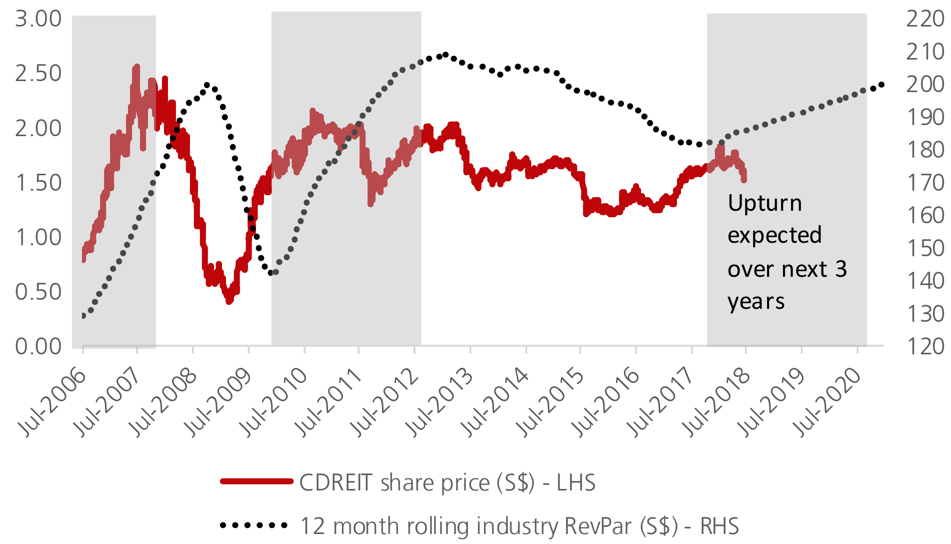


PB Band (x)



Source: Company, DBS Bank

CDREIT share price versus RevPAR



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

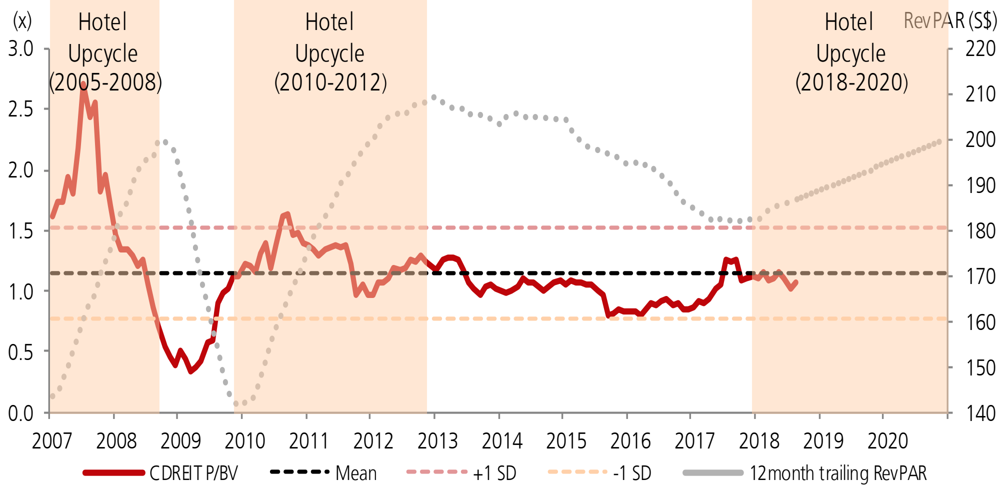
Remarks

CDREIT's share price largely anticipates an upturn or downturn in the Singapore hospitality market by 6-12 months.

With the market anticipating a potential recovery from 2018, CDREIT's share price has started to rally since the start of 2017.

However, we believe this rally is sustainable given the rebound in RevPAR is likely to last for 2-3 years given the lack of supply over the coming three years.

CDL Hospitality Trust P/B experience



Source: Bloomberg Finance L.P., DBS Bank

Remarks

During upturns in RevPAR such as in 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 the Singapore hospitality REITs have the potential to trade up to between 1.1x (CDREIT's average P/B) and 1.3x (+0.5 SD above CDREIT's average P/B).

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

Income Statement (S$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Gross revenue	181	204	214	224	234
Property expenses	(43.3)	(52.6)	(58.8)	(60.9)	(61.9)
Net Property Income	**138**	**152**	**156**	**163**	**173**
Other Operating expenses	(24.6)	(36.3)	(38.8)	(39.4)	(39.9)
Other Non Opg (Exp)/Inc	(8.1)	(11.1)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(32.9)	(27.3)	(22.8)	(25.2)	(27.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**72.0**	**77.1**	**93.9**	**98.6**	**105**
Tax	(1.0)	(12.4)	(4.1)	(4.3)	(4.6)
Minority Interest	0.0	(0.1)	(0.4)	(0.4)	(0.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**71.0**	**64.6**	**89.5**	**94.0**	**100**
Total Return	49.3	129	89.5	94.0	100
Non-tax deductible Items	60.4	(7.1)	38.9	39.3	39.6
Net Inc available for Dist.	110	122	132	137	143
Growth & Ratio					
Revenue Gth (%)	4.9	13.0	4.9	4.6	4.6
N Property Inc Gth (%)	0.4	10.3	2.5	5.0	5.7
Net Inc Gth (%)	(12.3)	(9.0)	38.5	5.1	6.5
Dist. Payout Ratio (%)	90.4	90.5	90.0	90.0	90.0
Net Prop Inc Margins (%)	76.1	74.3	72.6	72.8	73.6
Net Income Margins (%)	39.2	31.6	41.8	41.9	42.7
Dist to revenue (%)	60.6	59.7	61.6	61.1	61.2
Managers & Trustee's fees	13.6	17.8	18.1	17.6	17.0
ROAE (%)	4.5	3.8	4.8	5.1	5.4
ROA (%)	2.8	2.4	3.1	3.3	3.5
ROCE (%)	4.4	3.6	4.0	4.2	4.5
Int. Cover (x)	3.4	4.2	5.1	4.9	4.8

Source: Company, DBS Bank

Recovery in earnings on the back of an upturn in the Singapore hospitality market due to limited new room supply in 2018 as well as recent acquisitions such as The Lowry and Pullman Munich

Quarterly / Interim Income Statement (S$m)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Gross revenue	47.8	54.8	55.2	51.8	47.7
Property expenses	(12.9)	(14.5)	(14.6)	(14.0)	(14.1)
Net Property Income	34.9	40.4	40.6	37.8	33.6
Other Operating expenses	(14.5)	(7.4)	(8.2)	(7.5)	(7.6)
Other Non Opg (Exp)/Inc	(0.2)	0.0	(11.2)	5.37	0.0
Net Interest (Exp)/Inc	(6.1)	(5.7)	(4.5)	(6.3)	(7.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**14.2**	**27.3**	**16.8**	**29.4**	**18.9**
Tax	(1.2)	(1.6)	(8.5)	(1.4)	(1.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**13.0**	**25.8**	**8.29**	**28.0**	**17.3**
Total Return	0.0	0.0	0.0	0.0	0.0
Non-tax deductible Items	12.2	4.68	(35.4)	0.20	7.80
Net Inc available for Dist.	25.2	30.4	37.3	28.2	25.1
Growth & Ratio					
Revenue Gth (%)	3	15	1	(6)	(8)
N Property Inc Gth (%)	(3)	16	1	(7)	(11)
Net Inc Gth (%)	(26)	98	(68)	238	(38)
Net Prop Inc Margin (%)	73.0	73.6	73.5	73.0	70.4
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0

Balance Sheet (S$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Investment Properties	2,175	2,331	2,337	2,344	2,351
Other LT Assets	251	340	340	340	340
Cash & ST Invts	82.2	95.9	175	180	185
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	25.7	20.8	23.8	24.9	26.1
Other Current Assets	1.22	74.3	1.41	1.41	1.41
Total Assets	**2,535**	**2,862**	**2,877**	**2,889**	**2,902**
ST Debt	0.0	286	0.0	0.0	0.0
Creditor	33.4	41.9	46.6	48.7	51.0
Other Current Liab	2.54	4.09	4.09	4.09	4.09
LT Debt	929	644	930	930	930
Other LT Liabilities	24.1	40.7	40.7	40.7	40.7
Unit holders' funds	1,546	1,840	1,850	1,860	1,870
Minority Interests	0.0	4.99	5.35	5.72	6.09
Total Funds & Liabilities	**2,535**	**2,862**	**2,877**	**2,889**	**2,902**
Non-Cash Wkg. Capital	(9.1)	49.0	(25.5)	(26.5)	(27.6)
Net Cash/(Debt)	(847)	(834)	(755)	(751)	(746)
Ratio					
Current Ratio (x)	3.0	0.6	3.9	3.9	3.9
Quick Ratio (x)	3.0	0.4	3.9	3.9	3.8
Aggregate Leverage (%)	36.6	32.5	32.3	32.2	32.0
Z-Score (X)	1.4	1.3	1.6	1.6	1.6

Source: Company, DBS Bank

Decline in gearing due to debt repayment following the sale of Mercure Brisbane and Ibis Brisbane

Cash Flow Statement (S$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Income	72.0	77.1	93.9	98.6	105
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(0.8)	(4.1)	(4.1)	(4.3)	(4.6)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	1.76	(2.2)	1.59	1.05	1.10
Other Operating CF	60.5	(7.1)	38.9	39.3	39.6
Net Operating CF	**133**	**63.8**	**130**	**135**	**141**
Net Invt in Properties	(14.2)	(266)	(5.4)	(6.7)	(7.0)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(3.9)	(3.1)	72.9	0.0	0.0
Net Investing CF	**(18.1)**	**(269)**	**67.5**	**(6.7)**	**(7.0)**
Distribution Paid	(97.2)	(104)	(119)	(123)	(129)
Chg in Gross Debt	15.0	13.1	0.0	0.0	0.0
New units issued	0.0	251	0.0	0.0	0.0
Other Financing CF	(22.9)	(15.6)	0.0	0.0	0.0
Net Financing CF	**(105)**	**145**	**(119)**	**(123)**	**(129)**
Currency Adjustments	(0.6)	(1.0)	0.0	0.0	0.0
Chg in Cash	9.63	(61.4)	79.0	4.70	5.10
Operating CFPS (S cts)	13.3	5.99	10.7	11.0	11.5
Free CFPS (S cts)	12.0	(18.4)	10.4	10.5	11.0

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	31 Jul 17	1.60	1.75	BUY
2:	28 Aug 17	1.62	1.75	BUY
3:	30 Oct 17	1.63	1.75	BUY
4:	15 Dec 17	1.66	1.95	BUY
5:	29 Jan 18	1.83	2.00	BUY
6:	20 Feb 18	1.69	2.00	BUY
7:	30 Apr 18	1.78	2.00	BUY
8:	07 May 18	1.73	2.00	BUY
9:	31 May 18	1.67	2.00	BUY
10:	26 Jun 18	1.61	2.00	BUY
11:	05 Jul 18	1.58	2.00	BUY

***Note** : Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank
Analyst: Mervin SONG, CFA
Derek TAN

DBS Bank recommendations are based an 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

Completed Date: 30 Jul 2018 07:43:15 (SGT)
Dissemination Date: 30 Jul 2018 08:21:11 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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2. Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.
3. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates have a net long position exceeding 0.5% of the total issued share capital in CDL Hospitality Trusts recommended in this report as of 29 Jun 2018.
4. DBS Bank Ltd, DBS HK, DBSVS, DBSVUSA or their subsidiaries and/or other affiliates beneficially own a total of 1% of any class of common equity securities of CDL Hospitality Trusts as of 29 Jun 2018.

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Frasers Centrepoint Trust

Version 12 | Bloomberg: FCT SP | Reuters: FCRT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Apr 2018

BUY

Last Traded Price (25 Apr 2018): S$2.21 (STI : 3,568.01)
Price Target 12-mth: S$2.45 (11% upside) (Prev S$2.48)

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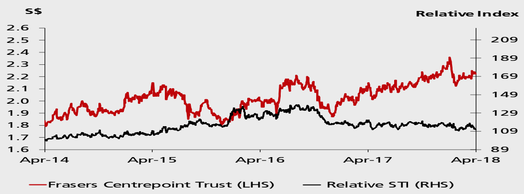
Mervin SONG, CFA +65 6682 3715 mervinsong@dbs.com

What's New

- 2Q18 DPU of 3.10 Scts is a new record
- Operational metrics trending higher; lower gearing empowers the REIT with acquisition capacity
- Estimates tweaked slightly to account for higher interest costs
- Yields of close to 6.0% remains attractive

Price Relative



Forecasts and Valuation

FY Sep (S$m)	2017A	2018F	2019F	2020F
Gross Revenue	182	194	202	211
Net Property Inc	130	140	147	153
Total Return	194	109	114	120
Distribution Inc	111	114	118	123
EPU (S cts)	10.8	11.8	12.3	13.0
EPU Gth (%)	4	9	4	5
DPU (S cts)	11.9	12.4	12.8	13.3
DPU Gth (%)	1	4	3	4
NAV per shr (S cts)	202	203	202	202
PE (X)	20.5	18.7	17.9	17.0
Distribution Yield (%)	5.4	5.6	5.8	6.0
P/NAV (x)	1.1	1.1	1.1	1.1
Aggregate Leverage (%)	29.0	29.0	29.1	29.1
ROAE (%)	5.5	5.8	6.1	6.4
Distn. Inc Chng (%):		(1)	(2)	(5)
Consensus DPU (S cts):		12.2	12.9	13.0
Other Broker Recs:		B: 10	S: 1	H: 4

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Dominance in the North

Northpoint AEI to elevate growth; BUY, TP adjusted to S$2.45. All of Frasers Centrepoint Trust (FCT)'s properties are suburban malls that generate a resilient income stream across market cycles. A low gearing of <30% opens up a myriad of acquisition possibilities, especially from the Sponsor with two income-producing assets that could be injected in the medium term. Offering attractive yields of > 5.5%, we maintain our BUY call.

Where we differ: Our TP is among the street high. We are among the most optimistic compared to street average as we firmly believe on the REIT's ability to deliver on accretive acquisitions on the back of an improving macro backdrop. While our earnings are adjusted downwards by 2%-5% to account for (i) higher medium term interest rates, and (ii) higher proportion of management fees paid in cash, we still see attractive DPU growth of close to a 4% CAGR.

Potential Catalyst: Acquisition of Waterway Point or Northpoint City South Wing which are not priced into consensus estimates.

2Q18 results in line. It was another record quarter for the REIT, with DPU of 3.1 Scts. With operational metrics are trending up and gearing inching down, we see improved financial flexibility for the group to undertake acquisitions, which we believe will be well received by investors.

Valuation:

TP adjusted to S$2.45 as we raise interest cost assumptions. Maintain BUY; total potential return is c.16% inclusive of share price upside and 5.6% forward yield.

Key Risks to Our View:

Interest rate risks. The relatively high exposure to floating interest rates could increase the REIT's finance cost, thereby pressuring DPU, should interest rates creep up unexpectedly.

At A Glance

Issued Capital (m shrs)	926
Mkt. Cap (Sm/USm)	2,046 / 1,540
Major Shareholders (%)	
Frasers Centrepoint Ltd	41.6
Schroders Plc	5.4
Free Float (%)	53.0
3m Avg. Daily Val (US$m)	2.2
ICB Industry : Financials / Real Estate Investment Trust	

WHAT'S NEW

Record Quarter

Another record quarter. DPU of 3.10 Scts, up 2.0% year-on-year (2Q17 DPU: 3.04 Scts), is a new record. This came on the back of a 6.3% rise in Gross Revenue to S$48.6m and 6.9% rise in net property income of S$34.8m. The stronger performance is mainly driven by revenues from Causeway Point, (revenues +1.3%) and Northpoint (revenues +31.7%), which offset the dip at Changi City Point (-3.6%), Bedok Mall (-17.9%), and Yew Tee (-3.6%). Performance from the smaller malls continue to remain mixed from the ongoing tenant churn amid the current challenging operating climate.

Improving metrics. Portfolio occupancy rates improved slightly to 94.0% from 92.6% q-o-q, mainly from higher occupancy rates at Northpoint City North Wing, which rose to 94.0% (vs 86.8% in the last quarter) upon completion of the asset enhancement initiative. Northpoint City North Wing is expected to continue ramping up in the subsequent quarters as operations stabilise. Part of the vacancy was also from Yishun 10, where previous tenants moved into Northpoint City and the manager is now actively marketing the space vacated.

Stable tenant sales. 2Q18 shopper traffic, excluding Northpoint City North Wing, was up 0.5% y-o-y. Portfolio tenant sales dipped slightly by 1.2% in the current quarter. Rental reversions came in strongly at 9.1% (1H18 reversions at 3.9%), mainly due to a 18.9% spike in reversions at Causeway Point, which mainly came from the renewal of an anchor tenant, which accounted for 78% of the space renewed during the quarter. We saw weakness at Northpoint City North Wing (-6.1%) and Bedok Point (-12.5%), attributed to rental adjustments for tactical reasons in order for the Manager to maintain occupancies.

High retention rate expected as the REIT has always kept occupancy costs manageable. Looking ahead, only 9.1% of the portfolio leases will be up for renewal in 2HFY18, of which a majority of the leases will come from Yew Tee Point (35% of the Mall's gross rent) and Causeway Point (14.8% of mall's total rent). We expect high retention ratios for both malls and stable and low-to-mid single digit reversions based on our view that the REIT has always kept occupancy costs manageable at 16%-18%, which enables tenants to remain operating at a fairly healthy level.

Strong balance sheet metrics. Gearing was 29.2% as at 31 March 2018 (31 Dec 2017: 29.4%) with 56% of the cost fixed via interest rate hedges, minimising the impact of rising interest rates on distributions. With ample debt capacity of up to S$800m to fund potential acquisitions, we believe that the REIT is empowered to grow inorganically when the Sponsor is ready to divest (Waterway Point or Northpoint City South Wing).

Quarterly / Interim Income Statement (S$m)

FY Sep	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Gross revenue	45.7	47.9	48.6	6.3	1.5
Property expenses	(13.2)	(13.4)	(13.8)	5.0	3.1
Net Property Income	32.6	34.5	34.8	6.9	0.8
Other Operating expenses	(4.4)	(4.2)	(4.2)	(3.3)	2.0
Other Non Opg (Exp)/Inc	(0.2)	0.17	0.07	nm	(58.4)
Net Interest (Exp)/Inc	(4.3)	(4.9)	(4.8)	11.6	(2.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	**25.0**	**26.0**	**27.0**	**8.0**	**3.8**
Tax	0.0	0.0	0.0	-	-
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	**25.0**	**26.0**	**27.0**	**8.0**	**3.8**
Total Return	21.1	25.1	25.0	18.6	(0.3)
Non-tax deductible Items	3.48	1.93	3.51	0.8	82.1
Net Inc available for Dist.	28.5	28.0	29.3	2.7	4.6
Ratio (%)					
Net Prop Inc Margin	71.2	72.0	71.6		
Dist. Payout Ratio	98.3	99.3	98.1		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Dominant malls in the North. Frasers Centrepoint Trust (FCT) derives close to 70% of its revenues from two key suburban malls - Causeway Point (CWP) and Northpoint City North Wing (NP), which are located in the densely populated regions in the Northern part of Singapore. We believe both CWP and NP are dominant malls and focal points in their respective districts of Woodlands and Yishun. Supported by public transportation network (MRT), foot traffic through these malls are consistently high through the week, resulting in the property delivering resilient cashflows through various market cycles. As such, rental portoflio reversions have generally stayed positive through market cycles supported by resilient tenant sales.

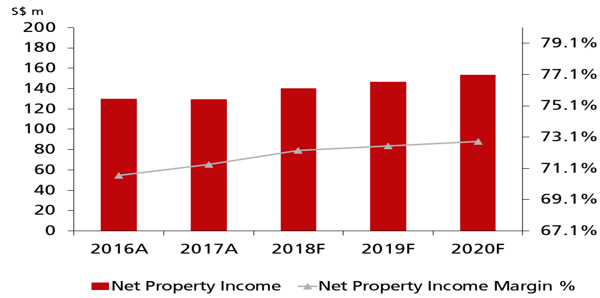
Looking ahead, with tenant sales bottoming out supported by a stable macro environment, we believe that FCT can continue to deliver strong organic DPU growth profile of 3-4%. The completion of the asset enhancement at Northpoint City North Wing will be also a key driver for growth in distributions.

Retail sales recovery will support higher prices. FCT's historical share price performance is tightly correlated with Singapore's retail sales index (ex-motor vehicles). With most of its trade sectors in the malls in the necessity shopping sub-sectors, such as restaurants, supermarkets and F&B tenants, we believe that the recent recovery in macro performance from these retail sub-segments augurs well for the REIT as stronger tenant sales could potentially translate to higher reversions when leases come due. FCT typically renews 25%-30% of its income annually, which is an opportunity for the REIT to mark-to-market rents when leases come due.

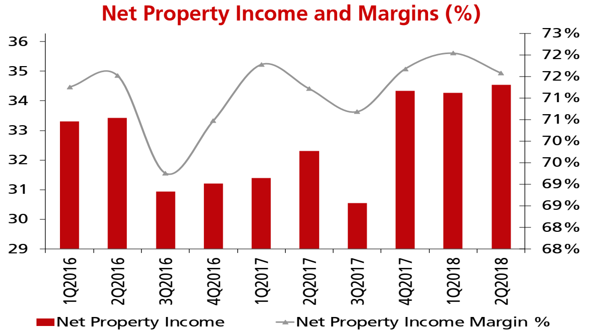
Acquisitions to drive distributions high; well anticipated by investors. FCT benefits from having a visible pipeline of potential acquisition prospects from its Sponsor. Given the tightly held retail mall landscape in Singapore, we see this as a valuable trait. We have observed that FCT's share price typically reacted positively during periods where the REIT announced an acquisition and look forward to the potential injection of either Waterway Point (Sponsor has a 33% stake) or Northpoint City South Wing.

Weak correlation with interest rates. Contrary to common perception, interest rate movements have weak correlation with FCT's share price or yield. We conclude that interest rate is not a critical factor for FCT's share price performance. However, given its low interest rate hedge at present, unexpected rate hikes could put pressure on its DPU and price.

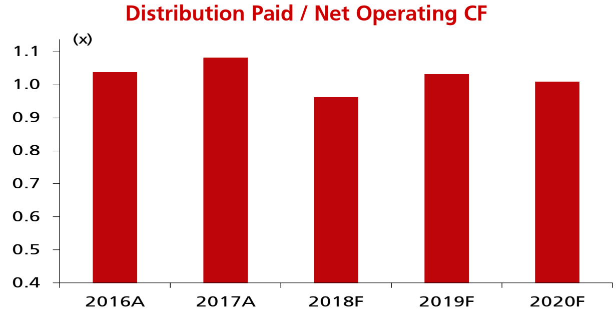
Net Property Income and Margins (%)



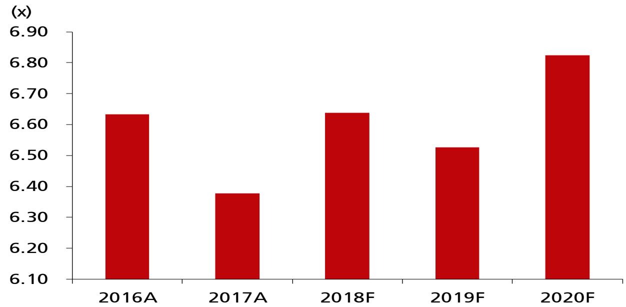
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



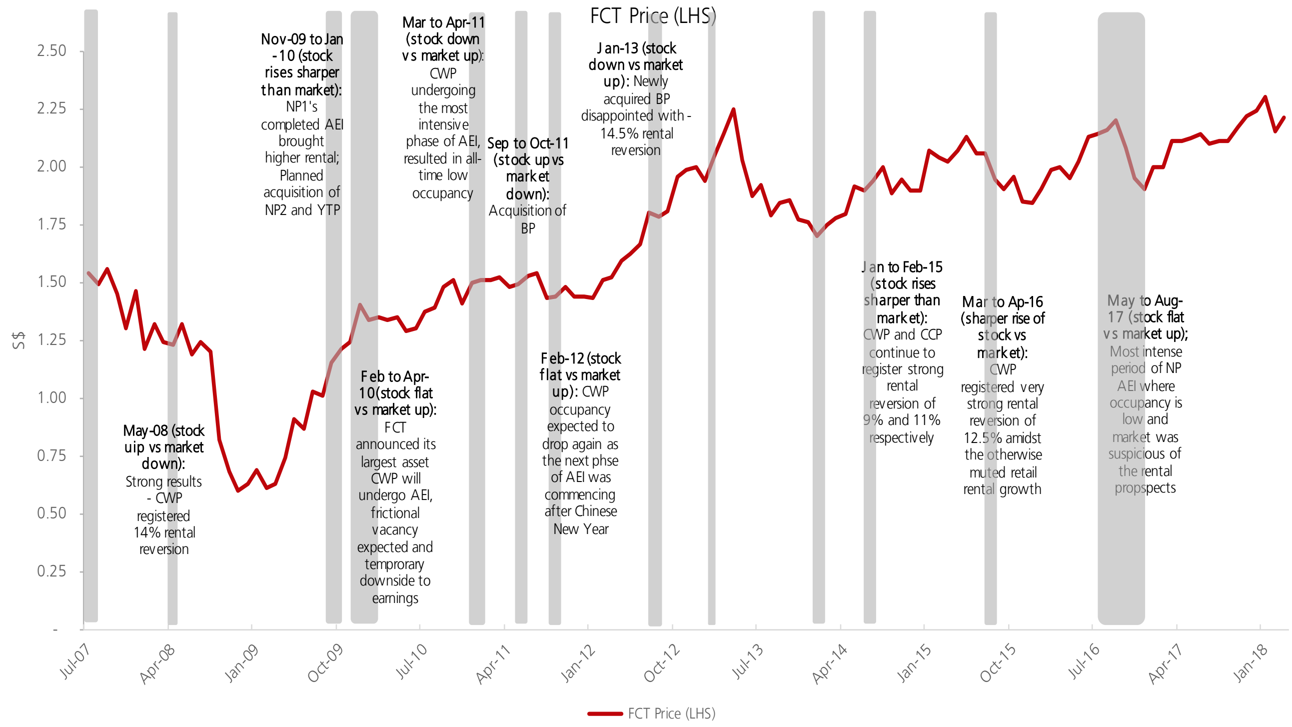
Interest Cover (x)



Source: Company, DBS Bank

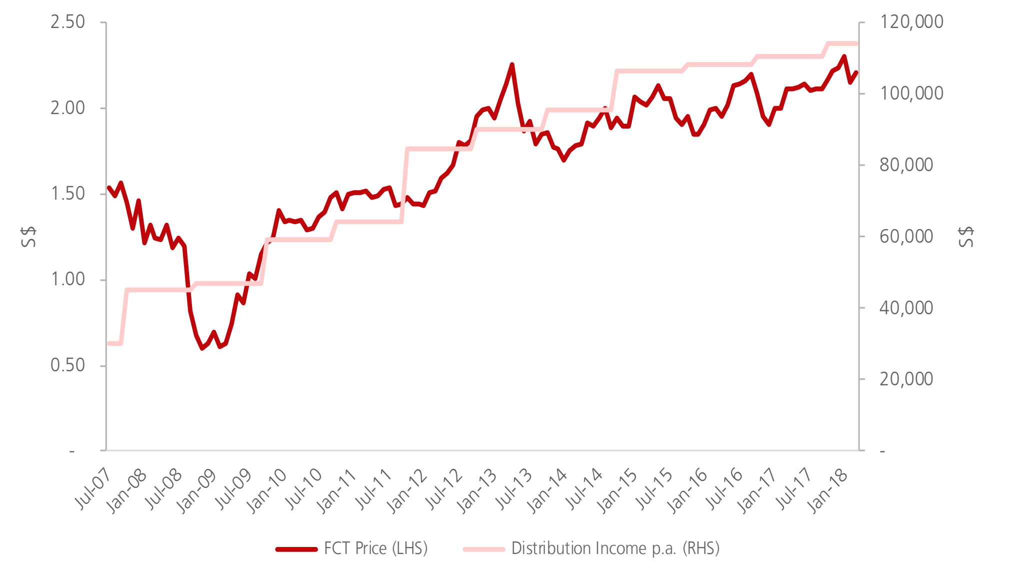
Appendix 1: A look at Company's listed history – what drives its share price?

Historical share price performance



Source: Company, DBS Bank

FCT share price performance vs distributions



Source: Company, DBS Bank

Remarks

There is a close correlation between share price and distributions historically. The ability to drive higher distributions should support share price.

Balance Sheet:

Healthy balance sheet. Gearing at close to 30%, one of the lowest in the S-REIT universe, and is well below the Manager's comfortable level of 35%.

High floating rate exposure. Percentage of borrowings on fixed rates has always been maintained at the c.50%-55% level. While this enables the REIT to benefit from lower cost of debt (its average cost of borrowings of slightly above 2% is among the lowest among S-REITs), unexpected interest rate hikes could add pressure to DPU and price.

Share Price Drivers:

Rental reversion at key assets and acquisition pipelines. Higher than expected rental reversions from Causeway Point and Northpoint, FCT's largest assets (c.70% of NPI), will likely re-rate the stock.

Acquisitions. A potential acquisition from the Sponsor is Waterway Point, in which the Sponsor has a 33% stake. Waterway Point was completed in January 2016. Given a few years of stabilization, a realistic timeline for this acquisition would be around 2018-2019. An acquisition value of S$300-400m would allow FCT to grow its portfolio considerably. Management has also expressed interest in considering third-party assets. However, we believe given the differential between equity market valuation and physical market prices, it would be challenging to acquire a yield-accretive retail asset in Singapore under the current environment.

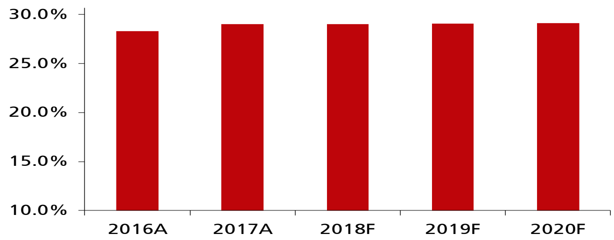
Key Risks:

Interest rate risks. If expectations of rate hikes increase, the relatively high exposure to floating interest rates will amplify the increase in the REIT's cost of debt, putting pressure on valuation.

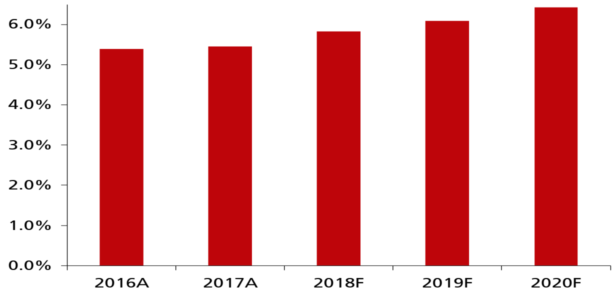
Company Background

Frasers Centrepoint Trust (FCT) is a retail real estate investment trust with a portfolio of shopping malls located in suburban areas in Singapore. Its two largest assets are Causeway Point and Northpoint.

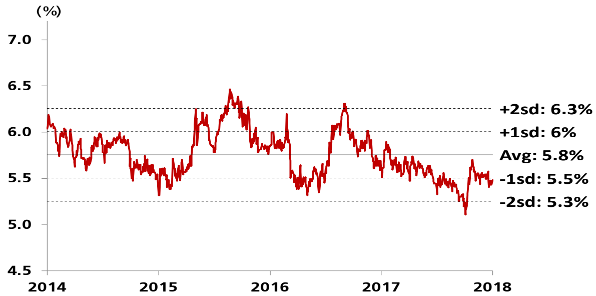
Aggregate Leverage (%)



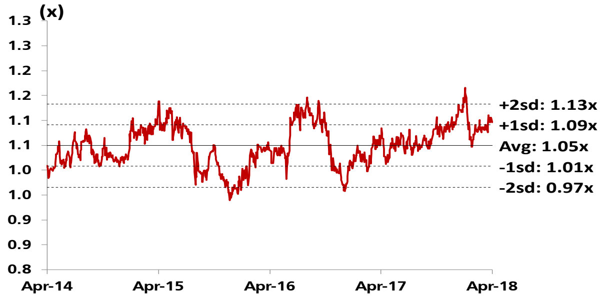
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Sep	2016A	2017A	2018F	2019F	2020F
Gross revenue	184	182	194	202	211
Property expenses	(54.0)	(52.0)	(53.9)	(55.5)	(57.2)
Net Property Income	**130**	**130**	**140**	**147**	**153**
Other Operating expenses	(15.9)	(17.1)	(17.1)	(17.4)	(17.7)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(17.2)	(17.6)	(18.6)	(19.8)	(19.9)
Exceptional Gain/(Loss)	(1.9)	0.28	0.0	0.0	0.0
Net Income	**95.0**	**99.5**	**109**	**114**	**120**
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**95.0**	**99.5**	**109**	**114**	**120**
Total Return	123	194	109	114	120
Non-tax deductible Items	(12.9)	(6.7)	5.36	3.97	2.52
Net Inc available for Dist.	108	111	114	118	123
Growth & Ratio					
Revenue Gth (%)	(2.9)	(1.2)	6.9	4.1	4.2
N Property Inc Gth (%)	(0.9)	(0.2)	8.3	4.5	4.6
Net Inc Gth (%)	(11.5)	4.7	9.6	4.4	5.6
Dist. Payout Ratio (%)	100.0	99.3	100.0	100.0	98.0
Net Prop Inc Margins (%)	70.6	71.3	72.3	72.5	72.8
Net Income Margins (%)	51.7	54.8	56.2	56.3	57.1
Dist to revenue (%)	58.8	60.9	58.9	58.3	58.3
Managers & Trustee's fees	8.6	9.4	8.8	8.6	8.4
ROAE (%)	5.4	5.5	5.8	6.1	6.4
ROA (%)	3.7	3.7	4.0	4.1	4.3
ROCE (%)	4.5	4.3	4.6	4.8	5.0
Int. Cover (x)	6.6	6.4	6.6	6.5	6.8

Source: Company, DBS Bank

Driven by rental reversions and completion of Northpoint CIty North Wing.

Quarterly / Interim Income Statement (S$m)

FY Sep	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Gross revenue	45.7	43.6	48.3	47.9	48.6
Property expenses	(13.2)	(12.8)	(13.7)	(13.4)	(13.8)
Net Property Income	32.6	30.8	34.6	34.5	34.8
Other Operating expenses	(4.4)	(4.3)	(4.4)	(4.2)	(4.2)
Other Non Opg (Exp)/Inc	(0.2)	(0.1)	0.16	0.17	0.07
Net Interest (Exp)/Inc	(4.3)	(4.6)	(4.7)	(4.9)	(4.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**25.0**	**22.7**	**26.7**	**26.0**	**27.0**
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**25.0**	**22.7**	**26.7**	**26.0**	**27.0**
Total Return	21.1	23.5	52.4	25.1	25.0
Non-tax deductible Items	3.48	3.55	(92.9)	1.93	3.51
Net Inc available for Dist.	28.5	26.3	28.2	28.0	29.3
Growth & Ratio					
Revenue Gth (%)	4	(5)	11	(1)	1
N Property Inc Gth (%)	3	(5)	12	0	1
Net Inc Gth (%)	0	(9)	17	(2)	4
Net Prop Inc Margin (%)	71.2	70.7	71.7	72.0	71.6
Dist. Payout Ratio (%)	98.3	105.3	97.5	99.3	98.1

Balance Sheet (S$m)

FY Sep	2016A	2017A	2018F	2019F	2020F
Investment Properties	2,509	2,668	2,672	2,675	2,679
Other LT Assets	60.0	65.0	64.6	64.3	63.9
Cash & ST Invts	18.7	13.6	22.7	23.8	27.5
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	6.80	4.26	4.26	4.26	4.26
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	**2,594**	**2,751**	**2,763**	**2,768**	**2,775**
ST Debt	218	152	152	152	152
Creditor	40.0	32.7	42.5	44.2	46.1
Other Current Liab	20.8	17.3	17.3	17.3	17.3
LT Debt	516	646	649	653	657
Other LT Liabilities	24.0	31.1	31.1	31.1	31.1
Unit holders' funds	1,776	1,872	1,871	1,870	1,872
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**2,594**	**2,751**	**2,763**	**2,768**	**2,775**
Non-Cash Wkg. Capital	(54.0)	(45.8)	(55.6)	(57.3)	(59.2)
Net Cash/(Debt)	(715)	(784)	(778)	(781)	(781)
Ratio					
Current Ratio (x)	0.1	0.1	0.1	0.1	0.1
Quick Ratio (x)	0.1	0.1	0.1	0.1	0.1
Aggregate Leverage (%)	28.3	29.0	29.0	29.1	29.1
Z-Score (X)	1.6	1.5	1.5	1.5	1.5

Conservative gearing

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Sep	2016A	2017A	2018F	2019F	2020F
Pre-Tax Income	95.0	99.5	109	114	120
Dep. & Amort.	(0.5)	0.05	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates &JV Inc/(Loss)	(0.1)	(4.4)	(4.4)	(4.4)	(4.4)
Chg in Wkg.Cap.	7.17	2.01	9.82	1.74	1.86
Other Operating CF	2.77	2.80	4.36	2.97	1.52
Net Operating CF	**104**	**100.0**	**119**	**114**	**119**
Net Invt in Properties	(17.5)	(66.1)	(3.5)	(3.7)	(3.8)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	(6.8)	0.0	0.0	0.0
Div from Assoc. & JVs	4.38	4.74	4.74	4.74	4.74
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	**(13.2)**	**(68.2)**	**1.23**	**1.07**	**0.90**
Distribution Paid	(108)	(108)	(114)	(118)	(120)
Chg in Gross Debt	16.0	64.0	3.51	3.66	3.83
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(17.9)	(14.9)	0.0	0.0	0.0
Net Financing CF	**(110)**	**(59.2)**	**(111)**	**(114)**	**(116)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(19.1)	(27.4)	9.17	1.09	3.66
Operating CFPS (S cts)	10.6	10.6	11.8	12.2	12.7
Free CFPS (S cts)	9.45	3.67	12.5	12.0	12.5

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Apr 17	2.15	2.20	BUY
2:	30 May 17	2.09	2.20	BUY
3:	25 Jul 17	2.14	2.26	BUY
4:	26 Oct 17	2.19	2.37	BUY
5:	15 Dec 17	2.20	2.37	BUY
6:	24 Jan 18	2.31	2.48	BUY
7:	20 Feb 18	2.15	2.48	BUY
8:	13 Apr 18	2.24	2.48	BUY

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Derek TAN
Mervin SONG, CFA

DBS Bank recommendations are based an 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

Completed Date: 26 Apr 2018 08:44:39 (SGT)
Dissemination Date: 26 Apr 2018 09:39:31 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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2. Neither DBS Bank Ltd, DBS HK nor DBSV HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.
3. DBS Bank Ltd, DBS HK, DBSVS, DBSV HK, their subsidiaries and/or other affiliates have a net long position exceeding 0.5% of the total issued share capital in Frasers Centrepoint Trust recommended in this report as of 30 Mar 2018.

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4. DBS Bank Ltd, DBS HK, DBSVS, DBSV HK, their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Frasers Centrepoint Trust as of 30 Mar 2018.
5. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for Frasers Centrepoint Trust in the past 12 months, as of 30 Mar 2018.
6. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

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Mapletree Industrial Trust

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Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Apr 2018

BUY

Last Traded Price (24 Apr 2018): S$2.00 (**STI :** 3,584.56)
Price Target 12-mth: S$2.22 (11% upside) (Prev S$2.15)

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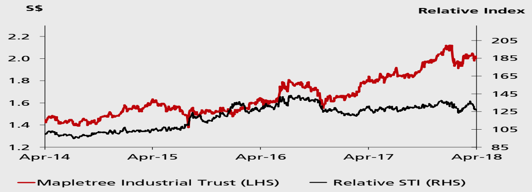
What's New

- Strong end to FY18; operational outlook is bottoming out gradually
- Well-timed completion of development projects to augment a steady growth profile
- Low gearing offers opportunities to acquire
- BUY with raised TP of S$2.22

Price Relative



Forecasts and Valuation

FY Mar (S$m)	2017A	2018A	2019F	2020F
Gross Revenue	341	363	367	373
Net Property Inc	257	278	275	279
Total Return	271	301	221	226
Distribution Inc	205	216	225	229
EPU (S cts)	11.1	12.5	11.7	12.0
EPU Gth (%)	5	12	(6)	2
DPU (S cts)	11.4	11.8	11.9	12.1
DPU Gth (%)	2	3	1	2
NAV per shr (S cts)	141	153	147	147
PE (X)	18.0	16.0	17.0	16.7
Distribution Yield (%)	5.7	5.9	6.0	6.1
P/NAV (x)	1.4	1.3	1.4	1.4
Aggregate Leverage (%)	29.3	30.0	*30.1	*30.2
ROAE (%)	8.0	8.8	8.0	8.1

**including associate level debt, gearing will be c.33%.*

Distn. Inc Chng (%):			(3)	(3)
Consensus DPU (S cts):			13.2	13.3
Other Broker Recs:		B: 7	S: 1	H: 8

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

A better tomorrow

Maintain BUY with a TP of S$2.22. We maintain our BUY call and raise our TP to S$2.22 as we roll forward valuations. We believe that Mapletree Industrial Trust (MINT) can continue to maintain current valuations given its ability to deliver steady earnings profiles, a valued trait in the REIT space. The REIT's conservative gearing of c.33% (see-through basis) empowers it to deliver more inorganic growth surprises.

Where we differ: Diversity is the right strategy. We are firm believers of MINT's overseas ventures. While investors have long attributed MINT's premium valuations to its Singapore "pure-play" status, we believe that this view is changing, especially with a strong share price reaction post its recent fund raising for the acquisition of a portfolio of 14 data centres in the US. We see this as a green light from investors to execute on this diversification strategy as it re-accelerates the REIT's growth profile.

Strong end to FY18; preparing the ground for an even better 2019. MINT ended FY18 well and has set the stage for a strong FY19F and is projected to deliver a steady growth profile on the back of well-timed contribution from its development projects over FY18-19F. Interest cost hedging is at a high of 85.1%, mitigating the impact from higher interest costs on distributions. We trimmed our numbers slightly to account for more modest earnings growth estimates.

Valuation:

MINT's resilience is a value trait in this market but this has yet to be reflected in its current share price. We maintain our BUY call and raise our TP to S$2.22 based on DCF.

Key Risks to Our View:

Rising interest rates. An increase in refinancing rates will be negative to distributions. However, we note that MINT has minimised this risk by hedging c.74% of its borrowings into fixed rates.

At A Glance

Issued Capital (m shrs)	1,885
Mkt. Cap (Sm/USm)	3,770 / 2,852
Major Shareholders (%)	
Temasek Holdings	31.4
Schroders Plc	7.0
AIA Group	4.8
Free Float (%)	56.8
3m Avg. Daily Val (US$m)	8.3

ICB Industry : Financials / Real Estate Investment Trust

WHAT'S NEW

Brighter days ahead

FY18 results in line: MINT reported a 6.7% and 8.1% rise in revenues and net property income (NPI) to S$363.2m and S$277.6m respectively. This was mainly due to higher contribution from HP built-to-suit project coupled with pre-termination sum from Johnson & Johnson, Pte Ltd. These partially offset the lower portfolio occupancy rates in Singapore (89.6% vs 90.1% a quarter ago). Expenses increased by 2.3% largely due to higher property taxes and marketing commission.

Amount available for distribution for FY18 was S$215.8m, a 5.3% rise y-o-y translating into a 3.2% y-o-y rise in DPU of 11.75 Scts.

Stable quarterly results. On a q-o-q basis, we note that top line is 1.2% lower y-o-y mainly due to a dip in portfolio occupancy rates and negative rental reversions. However, distributable income rose by 3.8% q-o-q mainly from the full-quarter contribution of its recently purchased 14 data centres in the US, which was accounted for under the associate line.

NAV rose by 3.5% to S$1.47 per unit. This was mainly due to higher valuations across its Singapore properties (fair value gain of S$65.5m and capitalised cost of S$111.8m) and a slight uptick in valuations for its US data centre portfolio. As a result, gearing has dipped slightly to 33.1% on a see-through basis.

Operational outlook still challenging but should start bottoming out by end-2018. The manager continues to see near-term challenges as tenants are still looking to right-size real estate needs and competition remains high in the near term. Rental reversions are still expected to remain under pressure in the coming quarters but should bottom out from the end of 2018 as supply risk taper. The REIT has close to 18% of its income up for renewal in FY19F and we project rental reversion rates to remain flattish or still with a negative bias.

HGST to downsize its space requirements. The manager has managed to secured 23% of the space vacated by Johnson & Johnson at The Strategy. We note that one of the top tenants HGST (c1.1% of revenues) has indicated its intention to downsize at Kaki Bukit Property. As HGST takes up a significant portion of the space at the property, this will empower the manager with the opportunity to reposition the property or for a potential redevelopment.

Our estimates:

Earnings estimates adjusted downwards. We have dropped our rental reversions and occupancy assumptions to account for the potential shadow space in the portfolio (i.e. HGST vacating). Our earnings estimates are thus reduced by 3%.

Target price is raised to S$2.22 as we roll forward our valuations to FY19F. Given attractive total returns of >15%, we maintain our BUY call.

Quarterly / Interim Income Statement (S$m)

FY Mar	4Q2017	3Q2018	4Q2018	% chg yoy	% chg qoq
Gross revenue	87.8	91.5	90.4	2.9	(1.2)
Property expenses	(21.8)	(20.6)	(22.5)	3.1	9.2
Net Property Income	66.0	70.9	67.9	2.9	(4.2)
Other Operating expenses	(7.6)	(7.9)	(7.7)	2.3	(2.2)
Other Non Opg (Exp)/Inc	0.0	0.0	0.02	-	-
Net Interest (Exp)/Inc	(7.1)	(8.4)	(8.3)	16.9	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	**51.3**	**55.3**	**72.9**	**42.1**	**31.8**
Tax	0.0	0.0	0.0	-	-
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	**51.3**	**55.3**	**72.9**	**42.0**	**31.7**
Total Return	122	55.3	138	13.8	150.1
Non-tax deductible Items	(69.8)	(1.9)	(82.9)	18.7	nm
Net Inc available for Dist.	51.8	53.5	55.5	7.2	3.8
Ratio (%)					
Net Prop Inc Margin	75.1	77.5	75.1		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

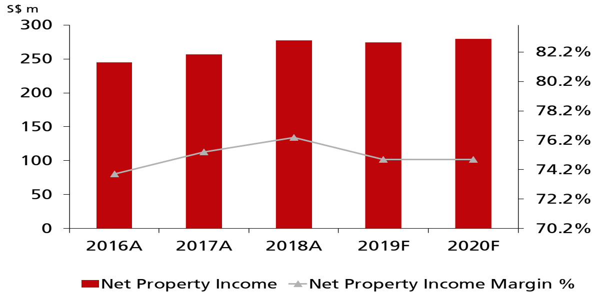
Offering investors a high level of income visibility and stability. MINT has consistently delivered portfolio occupancy rates averaging 95% (ranging from 90.2-95.5%) which is above industry average. This is mainly due to its diversified asset portfolio and wide base of over 1,600 tenants in different industries. There is therefore no industry-specific concentration risk meaning that performance is likely to remain stable across market cycles.

Industrial sector projected to turn around by 2018-2019. We believe that the industrial sector will bottom out in 2018. This is despite the current high number of new industrial supply hitting the market. Our positive stance is premised on (i) spike in new industrial supply is projected to peak in 2017 and fall substantially from 2018 onwards, (ii) recent positive numbers coming out of Singapore industrial production, if sustained, could mean that the slack in vacancy rates could be absorbed from 2018 onwards. MINT has over 18% of its income up for renewal in 2018.

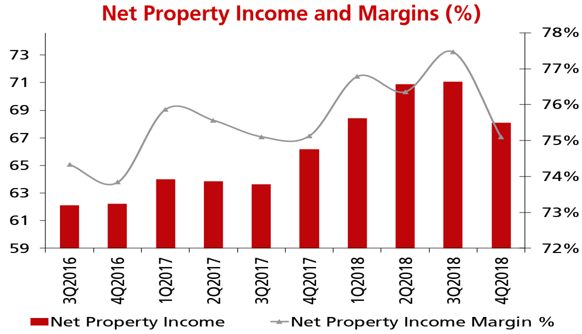
Recent acquisition of portfolio of US data centres to re-accelerate growth. The recently announced joint-acquisition of a portfolio of 14 data centres with sponsor, Mapletree Investments, sets MINT on a new growth path. Taking a 40% stake in the JV, MINT's capital commitment of US$300m (c.S$408m) will form c.10% of the REIT's asset value. We like management taking incremental steps towards diversification which aims to limit earnings volatility for investors. The manager has also undertaken an equity fund raising (EFR) to part-fund the deal, which was well-received by investors. With the target portfolio of data centres offering MINT a long WALE and annual step-ups, our DPU estimates are raised by c.2% p.a. for FY18-20F.

MINT's share price is highly correlated to DPU growth but not to interest rate movements. While most investors believe that higher interest rates will be negative for MINT's share price, we found that the relationship between the two factors is not strong (correlation of 0.5x). We however, found that the correlation of share price movements to distribution growth (or DPU growth) is higher at 0.85x. As such, with MINT expected to deliver a robust 5% CAGR in DPU growth over FY18-19, which is above its peers, we believe that valuations will continue to remain elevated.

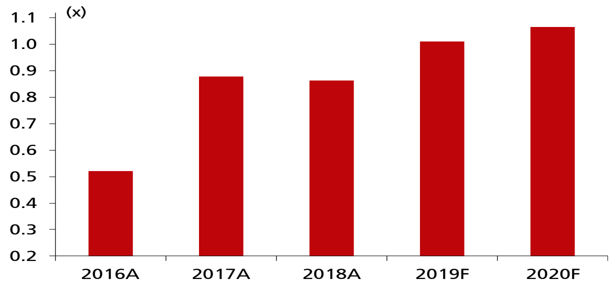
Net Property Income and Margins (%)



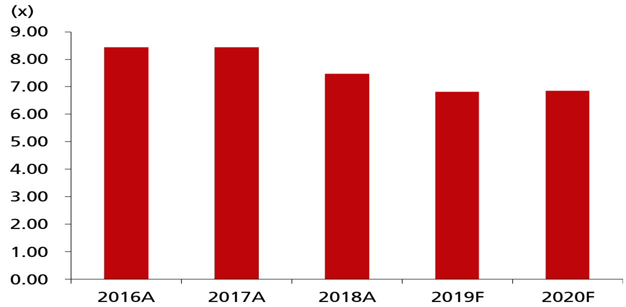
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



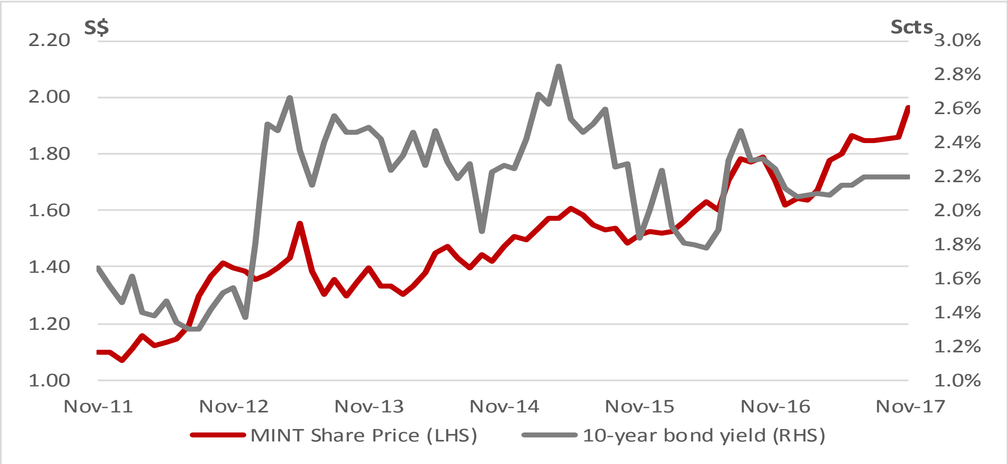
Interest Cover (x)



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

MINT's share price vs10-year bond movements



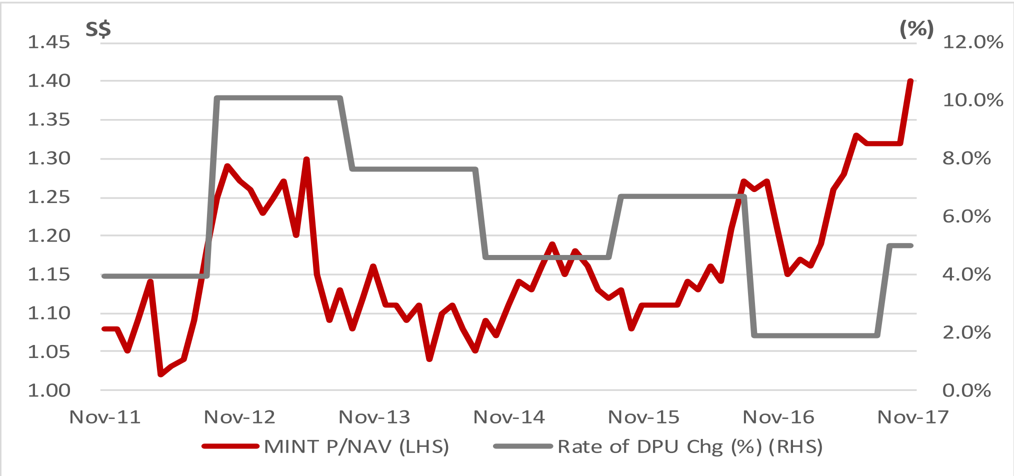
Source: DBS Bank

Remarks

While interest rate hikes will negatively impact share price, the actual impact is not strongly correlated.

Correlation between MINT's share price and 10-year bond yield at 0.5x.

MINT's share price vs DPU growth



Source: DBS Bank

Remarks

We found a strong correlation of 0.8x between MINT's historical share price and DPU growth. Looking ahead, with DPU growth projected to grow at 1%.

Balance Sheet:

Low gearing allows for opportunistic acquisitions, developments. Current gearing is conservative, implying that the manager has the capability to take on debt-funded acquisitions when the opportunity arises. The manager will be utilising its headroom towards higher-yielding development projects (built-to-suit project for phase 2 of HP and Kallang Basin cluster 4 and a new built-to-suit data centre project). Post development, we believe gearing will still be within management's comfortable level at around 35-40%.

Stable weighted average debt-to-maturity. MINT has a well-staggered debt profile with a majority of debt due for repayment only from FY17/18 onwards. With c.74% of its borrowings on fixed interest rates, MINT is well protected against future increases in interest rates.

Share Price Drivers:

Better-than-expected rental reversions/acquisitions will boost earnings and share price. We are forecasting modest rental uplifts of 0-3%. The REIT's ability to maintain or beat expectations will mean upside to our/consensus forecasts. In addition, acquisitions or further development projects which are accretive to earnings will likely result in upside to TP and share price.

Key Risks:

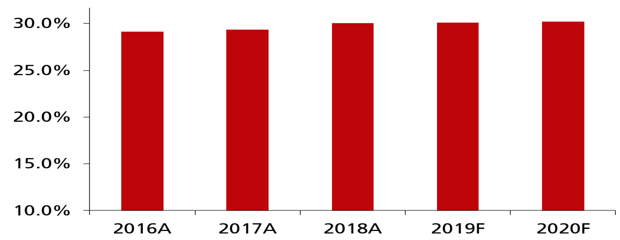
Rising interest rates. An increase in refinancing rates will negatively impact distributions. However, MINT has minimised the impact as c.74% of its interest cost has been fixed.

Economic risk. A deterioration of the economic outlook could have a negative impact on industrial rents and occupancies as companies cut back on production and require less space. Industrial rents have a strong historical correlation with GDP growth.

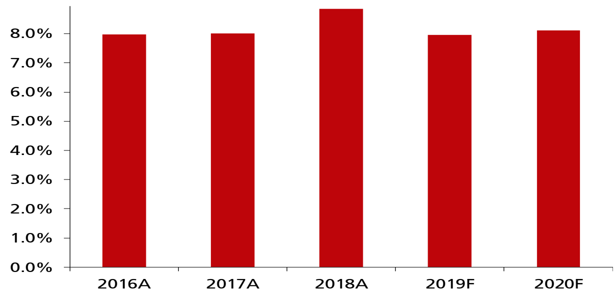
Company Background

Mapletree Industrial Trust (MINT) is a real estate investment trust which invests primarily in income-producing industrial assets located in Singapore. Its portfolio includes a diverse mix of business parks, hi-tech industrial buildings, ramp-up buildings and flatted factories.

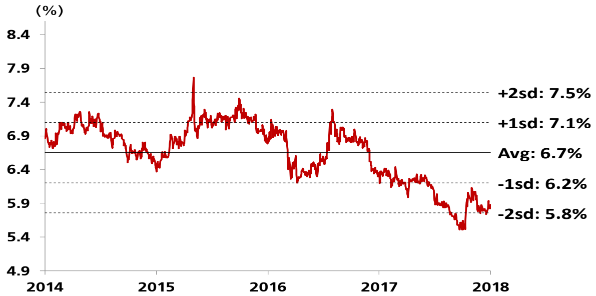
Aggregate Leverage (%)



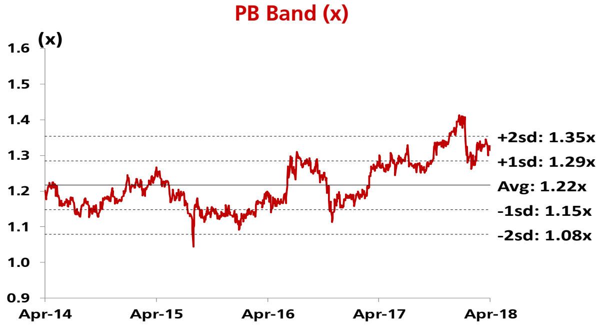
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Gross revenue	332	341	363	367	373
Property expenses	(86.5)	(83.7)	(85.6)	(92.1)	(93.5)
Net Property Income	**245**	**257**	**278**	**275**	**279**
Other Operating expenses	(28.9)	(29.6)	(31.1)	(32.4)	(32.9)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(25.6)	(26.9)	(33.0)	(35.6)	(36.0)
Exceptional Gain/(Loss)	0.0	0.0	(0.2)	0.0	0.0
Net Income	**191**	**200**	**235**	**221**	**226**
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**191**	**200**	**235**	**221**	**226**
Total Return	273	271	301	221	226
Non-tax deductible Items	(74.8)	(65.6)	(84.7)	3.65	3.68
Net Inc available for Dist.	198	205	216	225	229
Growth & Ratio					
Revenue Gth (%)	5.6	2.7	6.7	1.0	1.7
N Property Inc Gth (%)	7.2	4.8	8.1	(1.0)	1.7
Net Inc Gth (%)	7.7	5.1	17.3	(5.9)	1.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	73.9	75.4	76.4	74.9	74.9
Net Income Margins (%)	57.5	58.8	64.7	60.3	60.5
Dist to revenue (%)	59.7	60.2	59.4	61.3	61.5
Managers & Trustee's fees	8.7	8.7	8.6	8.8	8.8
ROAE (%)	8.0	8.0	8.8	8.0	8.1
ROA (%)	5.3	5.4	5.9	5.3	5.4
ROCE (%)	6.2	6.3	6.4	6.0	6.0
Int. Cover (x)	8.4	8.4	7.5	6.8	6.9

Source: Company, DBS Bank

Driven mainly by full-year contribution of HP

Quarterly / Interim Income Statement (S$m)

FY Mar	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Gross revenue	87.8	88.8	92.6	91.5	90.4
Property expenses	(21.8)	(20.6)	(21.9)	(20.6)	(22.5)
Net Property Income	66.0	68.2	70.7	70.9	67.9
Other Operating expenses	(7.6)	(7.6)	(7.8)	(7.9)	(7.7)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.02
Net Interest (Exp)/Inc	(7.1)	(7.9)	(8.4)	(8.4)	(8.3)
Exceptional Gain/(Loss)	0.0	0.0	(0.2)	0.0	0.0
Net Income	**51.3**	**52.6**	**54.2**	**55.3**	**72.9**
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**51.3**	**52.6**	**54.2**	**55.3**	**72.9**
Total Return	122	52.6	54.2	55.3	138
Non-tax deductible Items	(69.8)	0.28	(0.2)	(1.9)	(82.9)
Net Inc available for Dist.	51.8	52.9	54.0	53.5	55.5
Growth & Ratio					
Revenue Gth (%)	4	1	4	(1)	(1)
N Property Inc Gth (%)	4	3	4	0	(4)
Net Inc Gth (%)	4	3	3	2	32
Net Prop Inc Margin (%)	75.1	76.8	76.4	77.5	75.1
Dist. Payout Ratio (%)	200.0	200.0	200.0	200.0	200.0

Balance Sheet (S$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Investment Properties	3,558	3,749	3,908	3,932	3,938
Other LT Assets	0.36	0.00	183	184	185
Cash & ST Invts	54.3	38.0	37.4	68.7	68.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	11.4	11.4	26.0	17.6	17.9
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	**3,624**	**3,798**	**4,154**	**4,202**	**4,208**
ST Debt	47.4	115	185	185	185
Creditor	79.7	109	103	107	109
Other Current Liab	0.0	0.0	0.27	0.27	0.27
LT Debt	974	991	1,033	1,077	1,082
Other LT Liabilities	57.9	50.1	52.7	52.7	52.7
Unit holders' funds	2,465	2,533	2,780	2,779	2,779
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**3,624**	**3,798**	**4,154**	**4,202**	**4,208**
Non-Cash Wkg. Capital	(68.3)	(97.3)	(77.4)	(90.0)	(91.5)
Net Cash/(Debt)	(967)	(1,068)	(1,181)	(1,193)	(1,199)
Ratio					
Current Ratio (x)	0.5	0.2	0.2	0.3	0.3
Quick Ratio (x)	0.5	0.2	0.2	0.3	0.3
Aggregate Leverage (%)	29.1	29.3	30.0	30.1	30.2
Z-Score (X)	2.3	2.1	2.1	2.0	2.0

Source: Company, DBS Bank

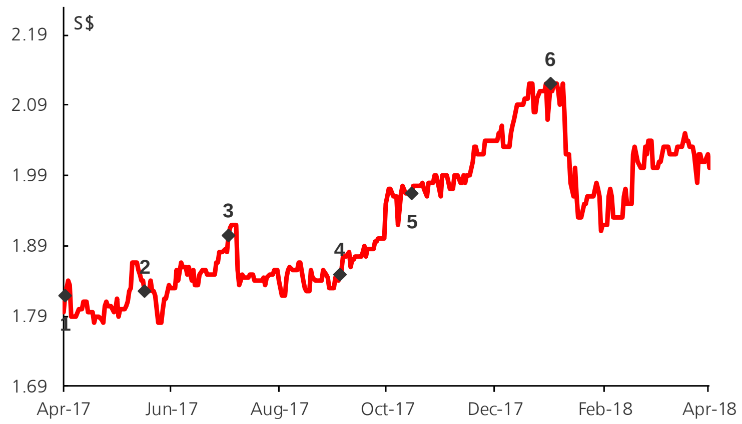
Gearing level to remain stable

Cash Flow Statement (S$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Pre-Tax Income	191	200	301	221	226
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates &JV Inc/(Loss)	0.0	0.0	(21.8)	(14.5)	(14.9)
Chg in Wkg.Cap.	14.3	29.0	(19.9)	12.6	1.52
Other Operating CF	14.8	2.85	(13.3)	3.01	3.06
Net Operating CF	**220**	**232**	**246**	**222**	**215**
Net Invt in Properties	(43.5)	(104)	(101)	(23.7)	(5.6)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	(173)	(1.0)	(1.0)
Div from Assoc. & JVs	0.0	0.0	0.0	14.5	14.9
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	**(43.5)**	**(104)**	**(274)**	**(10.2)**	**8.32**
Distribution Paid	(115)	(204)	(212)	(225)	(229)
Chg in Gross Debt	(53.5)	85.5	122	44.0	5.00
New units issued	0.0	0.0	153	0.0	0.0
Other Financing CF	(25.7)	(28.1)	(35.2)	0.0	0.0
Net Financing CF	**(194)**	**(147)**	**28.1**	**(181)**	**(224)**
Currency Adjustments	0.0	1.80	0.0	0.0	0.0
Chg in Cash	(17.6)	(16.4)	(0.6)	31.3	(0.7)
Operating CFPS (S cts)	11.4	11.3	14.1	11.1	11.3
Free CFPS (S cts)	9.78	7.13	7.66	10.5	11.1

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Apr 17	1.82	1.94	BUY
2:	09 Jun 17	1.83	1.94	BUY
3:	26 Jul 17	1.91	1.94	BUY
4:	27 Sep 17	1.85	1.94	BUY
5:	07 Nov 17	1.97	2.15	BUY
6:	24 Jan 18	2.12	2.15	BUY

***Note** : Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Derek TAN
Carmen Tay
Mervin SONG, CFA

DBS Bank recommendations are based an 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

Completed Date: 25 Apr 2018 09:01:40 (SGT)
Dissemination Date: 25 Apr 2018 09:15:51 (SGT)

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1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), DBSV HK or their subsidiaries and/or other affiliates have a proprietary position in Mapletree Industrial Trust recommended in this report as of 30 Mar 2018.
2. Neither DBS Bank Ltd, DBS HK nor DBSV HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.
3. DBS Bank Ltd, DBS HK, DBSVS, DBSV HK, their subsidiaries and/or other affiliates have a net long position exceeding 0.5% of the total issued share capital in Mapletree Industrial Trust recommended in this report as of 30 Mar 2018.

Compensation for investment banking services:

4. DBS Bank Ltd, DBS HK, DBSVS, DBSV HK, their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Mapletree Industrial Trust as of 30 Mar 2018.
5. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for Mapletree Industrial Trust in the past 12 months, as of 30 Mar 2018.
6. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

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[1] An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

[2] Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

Suntec REIT

BUY

Last Traded Price (25 Jul 2018): S$1.87 (**STI :** 3,326.83)
Price Target 12-mth: S$2.30 (23% upside)

Analyst
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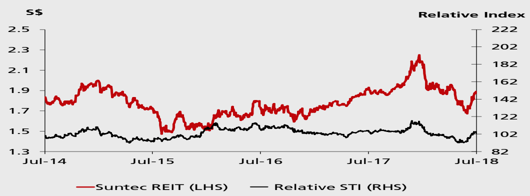
What's New

- 2Q18 DPU of 2.474 Scts (-0.8% y-o-y) in line with expectations
- But underlying DPU down 4.2% y-o-y largely due to transitionary downtime at Suntec Office
- Suntec City Mall's turnaround continues with 2Q18 NPI up 2.4% y-o-y, tenant sales rising 5% and mid-single-digit rental reversions
- Remains leveraged to the upturn in Singapore office rents

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2017A	2018F	2019F	2020F
Gross Revenue	354	360	377	409
Net Property Inc	244	242	256	279
Total Return	220	161	171	189
Distribution Inc	263	268	271	274
EPU (S cts)	6.36	6.02	6.31	6.89
EPU Gth (%)	(8)	(5)	5	9
DPU (S cts)	10.0	10.0	10.0	10.00
DPU Gth (%)	0	0	0	0
NAV per shr (S cts)	212	210	207	206
PE (X)	29.4	31.1	29.7	27.2
Distribution Yield (%)	5.4	5.3	5.3	5.3
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	36.4	37.3	37.9	38.6
ROAE (%)	3.0	2.9	3.0	3.4
Distn. Inc Chng (%):		-	-	-
Consensus DPU (S cts):		10.0	10.0	10.1
Other Broker Recs:		B: 4	S: 4	H: 12

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Ahead of the pack

Market turning around to our expectations. We maintain our BUY call on Suntec REIT (Suntec) with a TP of S$2.30. Since the start of the year, two other sell-side analysts have joined us in being bullish on Suntec. As CEO Mr Chan Kong Leong orchestrates the sustained turnaround of Suntec City Mall, spot office rents maintain their upward trajectory and underlying DPU improves, we believe more investors and other sell-side analysts will become convinced that Suntec is undervalued.

Where we differ – Street-high target price. We have a street-high TP of S$2.30 compared to consensus TP of c.S$1.88. We believe Suntec deserves to trade towards our TP, given office buildings and shopping malls in Singapore have been recently sold on 1.7-2.7% and 3-4% exit yields respectively, below the cap rate of 3.75-4% and 5% used to value Suntec's office and retail properties. Furthermore, with office rents expected to be on a multi-year upturn, this typically coincides with office REITs such as Suntec, trading at a premium to book. Finally, our TP is pegged to a price which would allow any potential bidder to generate a 10% IRR. While we are not privy to any potential takeover offers, our analysis was done to reflect market speculation of a Suntec privatisation over the years.

Closing the rental gap. Passing rents at Suntec City Mall of S$10-11 psf/mth are at a significant discount to other suburban malls of up to S$17-18 psf/mth. We believe as Suntec remixes its tenant mix and picks the low-hanging fruits such as placing children stores next to the playground rather than at opposite ends of the mall, the resultant higher foot traffic, tenant sales and improving rents should act as re-rating catalysts.

Valuation:

We maintain our DCF-based TP of S$2.30. With over 25% total return in the coming year, we reiterate our BUY call.

Key Risks to Our View:

The key risks to our bullish view are a downturn in the office market and the failure to revitalise Suntec City Mall.

At A Glance

Issued Capital (m shrs)	2,664
Mkt. Cap (Sm/USm)	4,982 / 3,668
Major Shareholders (%)	
Raffles Investments Ltd	10.5
Gordon Tang	9.6
ARA Re Investment Group Sg Pte	7.1
Free Float (%)	72.8
3m Avg. Daily Val (US$m)	13.4
ICB Industry : Financials / Real Estate Investment Trust	

WHAT'S NEW

Transitional dip

(+/-) 2Q18 DPU down 0.8% y-o-y

- 2Q18 DPU came in at 2.474 Scts (-0.8% y-o-y) translating into 1H18 DPU of 4.907 Scts (-0.2% y-o-y). 1H18 DPU represented c.49% of our FY18F and was in line with our expectations.
- However, excluding S$10m worth of capital distributions (S$8m in 2Q17), underlying 2Q18 would have been 2.099 Scts (-4.2% y-o-y) which represented c.23% of our FY18F DPU and was below expectations. The underperformance was largely due to weaker NPI margins at Suntec Office (76.9% versus 80% level achieved over FY17) and a weaker AUD compared to our earlier expectations.
- The overall decline in 2Q18 DPU was also attributed to a 1% increase in units on issue, lower contributions from its JV assets (One Raffles Quay and MBFC – impact of prior negative rental reversions and downtime) and 9.8% drop in NPI from Suntec Office.
- Suntec Office suffered despite committed occupancy rising to 99.7% from 97.9% in 2Q18 as the property was impacted by a drop in signing rents in prior quarters, transitionary downtime for replacement leases (effective occupancy of 94%) and contribution to the sinking fund to finance the refurbishment of the lobby and lift areas for the property. Stripping out the contribution to the sinking fund, 2Q18 NPI for Suntec Office would have fallen by 7.4% y-o-y.
- The turnaround at Suntec City Mall continued with 2Q18 revenue and NPI increasing by 2.4% and 2.7% y-o-y respectively, largely on the back of an improvement in occupancy (98.6% versus 96.8% in 2Q17).
- Meanwhile, the convention business had a good quarter with 2Q18 revenue and NPI jumping 30.9% and 110.7% y-o-y respectively as 2018 is an even year which typically results in a higher number of conventions coming to Singapore.
- The Australian properties also had a good quarter despite the headwinds from a weaker AUD, with 2Q18 NPI for 177 Pacific Highway up 4.3% y-o-y. Associate contribution from Southgate rose 191.7% y-o-y as Suntec increased its stake in the property from 25% to 50%. Office occupancy at Southgate improved marginally to 92.7% from 92.5% at end-1Q18 with Suntec guiding that it had subsequently signed a heads of agreement for an additional 7% of NLA.

(+) Upturn in foot traffic and tenant sales at Suntec City Mall continues

- The improvement at Suntec City Mall continued with 1H18 foot traffic up 8.5% y-o-y although slower than the 12.7% and 12.8% y-o-y increase reported in 1Q18 and FY17 respectively.
- The healthy increase in tenant sales was also maintained, rising 5% y-o-y in 2Q18 (+5.2% for 1H18 and +4.8% for FY17).
- We understand that over the quarter, Suntec was able to achieve positive rental reversions in the mid-single digits for Suntec City Mall.
- With management's active tenant remixing as seen by the low 59% tenant retention rate in 2Q18, repositioning of certain sections of the mall (North wing will now be a fitness and wellness zone), reduction in shop unit sizes to maximise sales efficiency, and improvements in the circulation throughout the mall, we remain confident that Suntec in on track to close the discount in rents achieved at the property compared to other suburban malls (average passing rent between S$10-12 psf/mth compared to other suburban malls of up to S$18 psf/mth).
- In addition, over the quarter, with the removal of secondary corridors, Suntec was able to boost net lettable area (NLA) by around 20,000 sqft. We understand that future reconfiguring of the mall, including shifting service desks, should also result in additional NLA.

(+) Stable q-o-q signing rents at Suntec Office

- In 2Q18, average signing rents for Suntec Office stood at S$8.95 psf/mth, flat q-o-q, but up from S$8.79 psf/mth in 2Q17. Based on these signing rents, Suntec reported that it achieved low single-digit rental reversions across its office portfolio.
- Post the renewals over the quarter, another 5.1% of leases by NLA in Suntec's office portfolio are set to expire for the remainder of the year, down 9% in the prior quarter. Another 15.1% of leases are due for renewal in FY19.
- With committed occupancies improving to 99.7% and WeWork which is taking up c.36,500 sqft of space over two floors at Tower 5 commencing in 4Q18, we believe contribution from the office should rebound in 2H, after a poor 2Q18 performance.

- Furthermore, with Suntec embarking on the upgrading of lift lobbies and washrooms at Suntec Office, we believe this should also help improve the positioning and rents of the property over time. The 3-year project is expected to commence in 4Q18 and is targeted to be completed by end-2021. Total cost for the renovation works is approximately S$55m.

(-) Increase in gearing and borrowing costs

- On the back of the acquisition of an additional 25% interest in Southgate, aggregate leverage increased to 37.9% from 36.6% as at end-March 2018.
- However, borrowing cost was relatively stable at 2.74%.
- Meanwhile, the proportion of fixed rate debt inched up to 70% from c.65% in the prior quarter.
- NAV per unit (excluding distributions) was stable at S$2.08.

(-) Moderating underlying DPU

- Due to the lower effective occupancies at Suntec Office and accounting for the depreciation of the AUD, we trimmed our underlying FY18-19F DPU by 2-4%. Nevertheless, we still expect DPU to be maintained over the next three years at around 10 Scts p.a. given management guidance of maintaining a stable DPU with underlying DPU projected to grow by 3% p.a. over the same period.
- With around S$90m worth of capital gains yet to be distributed, we believe with underlying operations improving, Suntec has sufficient cash to maintain a stable DPU until underlying DPU increases beyond 10 Scts in FY21. We project capital distributions of c.S$34m in FY18F before dropping to c.S$10m by FY20F.
- Despite the drop in our earnings estimates, after rolling forward our DCF valuation to FY19, we maintain our TP at S$2.30.

Maintain BUY, TP of S$2.30

- Despite weaker-than-expected contribution from Suntec Office in 2Q18, which in some ways is transitionary in nature, causing underlying 2Q18 to fall short, we reiterate our BUY call with TP of S$2.30.
- We continue to like Suntec for its exposure to the expected multi-year in office rents and the turnaround of Suntec City Mall.

Quarterly / Interim Income Statement (S$m)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Gross revenue	87.3	90.7	90.5	3.7	(0.2)
Property expenses	(27.9)	(27.7)	(29.8)	6.9	7.5
Net Property Income	59.4	63.0	60.7	2.2	(3.6)
Other Operating expenses	(12.7)	(12.7)	(13.0)	1.8	1.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(28.8)	(16.9)	(15.4)	46.6	8.8
Exceptional Gain/(Loss)	0.30	12.5	0.14	(53.3)	nm
Net Income	**35.7**	**63.7**	**61.2**	**71.6**	**(4.0)**
Tax	(1.2)	(1.7)	(1.8)	52.8	4.0
Minority Interest	(0.9)	(1.8)	(2.0)	(125.2)	10.0
Net Income after Tax	**33.6**	**60.2**	**57.4**	**70.8**	**(4.6)**
Total Return	33.6	60.2	57.4	70.8	(4.6)
Non-tax deductible Items	24.4	(1.9)	(1.4)	nm	(25.2)
Net Inc available for Dist.	66.0	64.8	66.0	0.0	1.8
Ratio (%)					
Net Prop Inc Margin	68.1	69.4	67.1		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

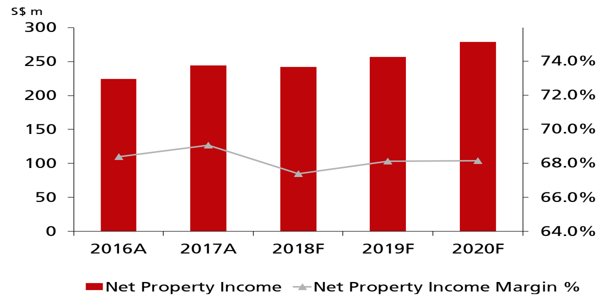
Leveraged to recovery in Singapore office market. Suntec currently owns three office assets in Singapore's CBD – Suntec Office, One Raffles Quay (ORQ; 33%), and MBFC Towers 1 and 2 (33%). With expectations of multi-year recovery in Grade A office rents from 2018 onwards as new supply eases, Suntec is well positioned to ride the uptrend. Nevertheless, in the near term, there remains some downside risks to earnings from the negative rental reversions over the past year. In the medium term, the prime location of ORQ and MBFC places the REIT in a strong position to retain and attract tenants. Suntec Office has the advantage of ample car parking spaces, connectivity to two MRT stations and a wide choice of amenities, as it is located next to Suntec City Mall.

Turnaround of Suntec City Mall despite near-term retail headwinds. With Singapore consumers cutting back on discretionary spending over the past couple of years and compared to the initial rents signed at Suntec City Mall during more buoyant times, rents at the mall had been under pressure. Nevertheless, with the recent appointment of Mr Chan Kong Leong formerly with CapitaMalls Asia, recent changes in tenant mix including the introduction of new-to-market retail brands, improved marketing, greater number of events as well as better engagement with its tenants, tenant sales and foot traffic have improved. We believe Mr Chan has the right strategy in place to turn around Suntec City Mall as he continues to change the tenant mix, thus resulting in higher retail rents over time. Evidence of a turnaround can be seen by the mall finally generating positive rental reversions this year and tenants' sales growth of c.5%.

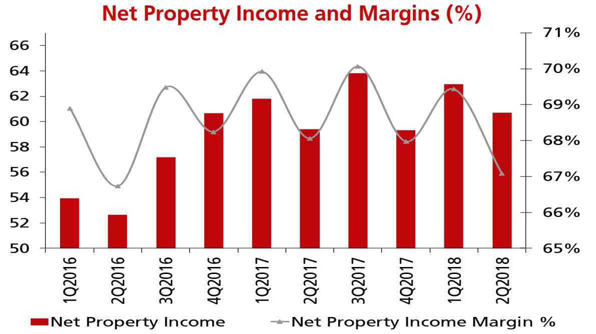
30% stake Park Mall redevelopment. Suntec completed the sale of Park Mall for S$412m in 4Q15, and has taken a 30% stake in the JV which will completely redevelop Park Mall into a commercial development, comprising two office towers with an ancillary retail podium. Suntec will subsequently have the option to acquire one of the two office towers. The redevelopment project and eventual acquisition of the office tower will be a long-term growth driver for the REIT.

Acquisition of additional stake in Southgate property and 477 Collins Street in Melbourne. Suntec recently increased its stake in Southgate from 25% to 50%, a mixed office-and-retail property in Melbourne. In addition, the recent acquisition of a 50% interest in 477 Collins Street, which is scheduled to be completed in mid-2020, provides the REIT an earnings uplift in the medium term.

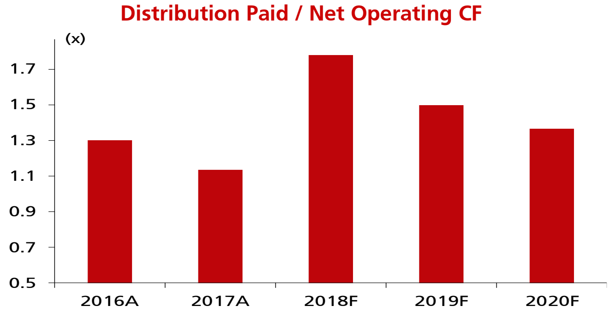
Net Property Income and Margins (%)



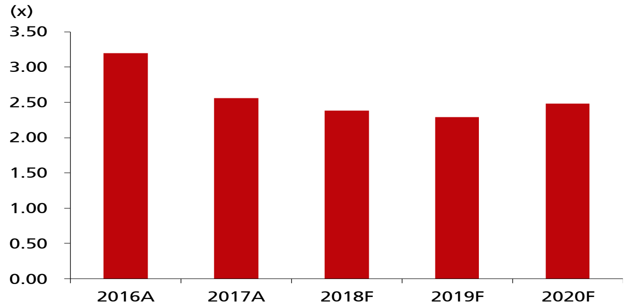
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Uptick in gearing expected. With Suntec likely to increase its effective interest in the Southgate Complex from 25% to 50% and its plans to acquire 477 Collins Street, its gearing is expected to stabilise closer to the 40% level by 2021. This compares to its current gearing of around 38%.

Majority of borrowings on fixed rates. As at 30 June 2018, approximately 70% of Suntec's borrowings were on fixed rates which should mitigate any rise in interest rates. Management has guided that it intends to hedge 65-75% of its borrowing going forward.

Share Price Drivers:

Better-than-expected performance at Suntec City Mall. Higher occupancy rates at Suntec City Mall, as well as better-than-expected rental reversions, present potential upside to our earnings estimates.

Recovery in the Singapore office market. Should office rents in Singapore recover as supply eases from 2018 onwards, this will likely translate into higher earnings for Suntec and likely lead to a re-rating of the stock.

Key Risks:

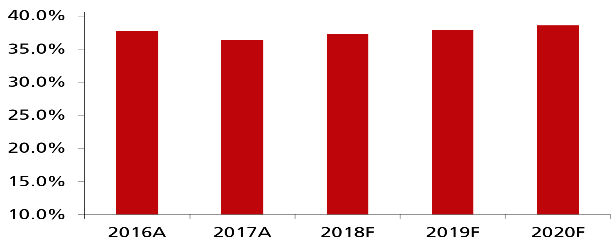
Turnaround of Suntec City Mall. We believe the turnaround of Suntec City Mall as it closes the large discount in rents to other suburban malls will drive Suntec's share price higher.

Multi-year recovery in office rents. In past upturns in office rents, office REITs traded at a premium to book. With expectations of easing new supply until 2022 and a pick-up in the Singapore economy, we believe we are at the start of a multi-year growth story. Thus, we believe the rally in Suntec's share price can continue despite its strong run in 2017.

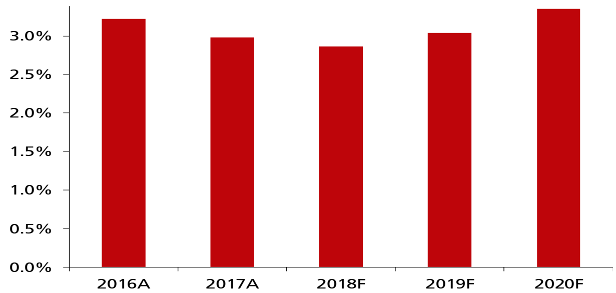
Company Background

Suntec REIT (Suntec) has a portfolio of office and retail properties in Singapore and Australia. Its most prominent asset is Suntec City, which comprises four office towers, a retail mall, and a convention centre, located close to the city area of Singapore.

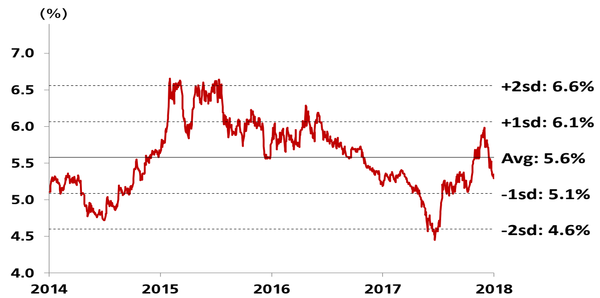
Aggregate Leverage (%)



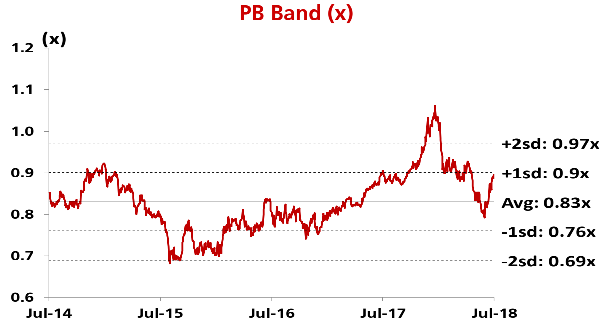
ROE (%)



Distribution Yield (%)

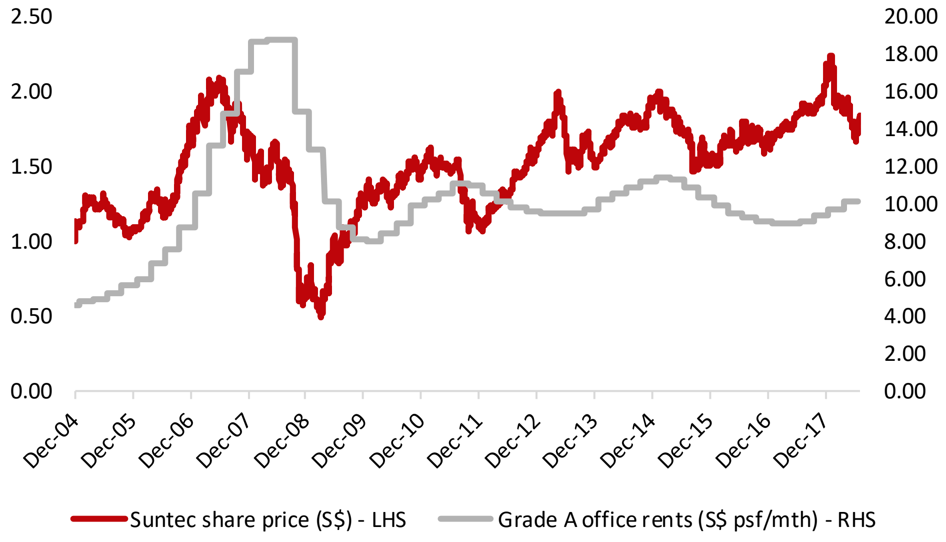


PB Band (x)



Source: Company, DBS Bank

Suntec's share price versus Singapore office rents



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

Remarks

Suntec's share price performance is highly correlated with the performance of spot office rents and typically leads a recovery or downturn in spot rents by 6-12 months.

On anticipation of a recovery in the office market, we expect Suntec's share price to remain on an uptrend.

Income Statement (S$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Gross revenue	329	354	360	377	409
Property expenses	(104)	(110)	(118)	(120)	(131)
Net Property Income	**225**	**244**	**242**	**256**	**279**
Other Operating expenses	(49.8)	(51.0)	(53.1)	(53.9)	(55.2)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(54.7)	(75.6)	(79.4)	(88.3)	(90.1)
Exceptional Gain/(Loss)	(0.4)	(5.5)	0.0	0.0	0.0
Net Income	**205**	**193**	**185**	**196**	**217**
Tax	(14.2)	(18.3)	(14.0)	(15.7)	(17.7)
Minority Interest	(14.7)	(8.7)	(9.5)	(9.1)	(10.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**176**	**166**	**161**	**171**	**189**
Total Return	247	220	161	171	189
Non-tax deductible Items	(16.8)	13.7	107	100	85.3
Net Inc available for Dist.	254	263	268	271	274
Growth & Ratio					
Revenue Gth (%)	(0.3)	7.8	1.7	4.6	8.6
N Property Inc Gth (%)	(2.0)	8.9	(0.8)	5.8	8.7
Net Inc Gth (%)	(22.1)	(5.7)	(2.7)	6.0	10.4
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	68.3	69.0	67.3	68.1	68.1
Net Income Margins (%)	53.5	46.8	44.8	45.4	46.1
Dist to revenue (%)	77.2	74.3	74.4	71.9	66.9
Managers & Trustee's fees	15.1	14.4	14.7	14.3	13.5
ROAE (%)	3.2	3.0	2.9	3.0	3.4
ROA (%)	1.9	1.8	1.7	1.8	2.0
ROCE (%)	1.8	1.9	1.9	2.0	2.2
Int. Cover (x)	3.2	2.6	2.4	2.3	2.5

Source: Company, DBS Bank

Driven mainly by the contribution of 177 Pacific Highway, Southgate and 477 Collins Street in Australia

Quarterly / Interim Income Statement (S$m)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Gross revenue	87.3	91.1	87.3	90.7	90.5
Property expenses	(27.9)	(27.3)	(28.0)	(27.7)	(29.8)
Net Property Income	59.4	63.9	59.4	63.0	60.7
Other Operating expenses	(12.7)	(12.8)	(12.5)	(12.7)	(13.0)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(28.8)	(16.1)	(15.8)	(16.9)	(15.4)
Exceptional Gain/(Loss)	0.30	3.27	(5.6)	12.5	0.14
Net Income	**35.7**	**56.4**	**50.5**	**63.7**	**61.2**
Tax	(1.2)	(1.5)	(11.8)	(1.7)	(1.8)
Minority Interest	(0.9)	(1.7)	(6.0)	(1.8)	(2.0)
Net Income after Tax	**33.6**	**53.2**	**32.7**	**60.2**	**57.4**
Total Return	33.6	53.2	87.3	60.2	57.4
Non-tax deductible Items	24.4	4.68	(28.0)	(1.9)	(1.4)
Net Inc available for Dist.	66.0	65.9	69.3	64.8	66.0
Growth & Ratio					
Revenue Gth (%)	(1)	4	(4)	4	0
N Property Inc Gth (%)	(4)	7	(7)	6	(4)
Net Inc Gth (%)	(27)	58	(39)	84	(5)
Net Prop Inc Margin (%)	68.1	70.1	68.0	69.4	67.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Investment Properties	6,248	6,387	6,470	6,595	6,717
Other LT Assets	2,648	2,663	2,838	2,838	2,838
Cash & ST Invts	182	173	130	90.2	69.9
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	14.8	18.2	18.0	18.8	20.5
Other Current Assets	0.0	0.24	0.24	0.24	0.24
Total Assets	**9,093**	**9,242**	**9,456**	**9,542**	**9,645**
ST Debt	99.8	237	237	237	237
Creditor	93.5	109	102	109	119
Other Current Liab	14.7	25.8	14.5	16.1	18.2
LT Debt	3,206	2,994	3,229	3,301	3,370
Other LT Liabilities	86.1	109	109	109	109
Unit holders' funds	5,469	5,639	5,627	5,623	5,635
Minority Interests	124	128	137	146	157
Total Funds & Liabilities	**9,093**	**9,242**	**9,456**	**9,542**	**9,645**
Non-Cash Wkg. Capital	(93.4)	(116)	(98.6)	(106)	(116)
Net Cash/(Debt)	(3,123)	(3,058)	(3,336)	(3,448)	(3,537)
Ratio					
Current Ratio (x)	0.9	0.5	0.4	0.3	0.2
Quick Ratio (x)	0.9	0.5	0.4	0.3	0.2
Aggregate Leverage (%)	37.7	36.4	37.3	37.9	38.6
Z-Score (X)	0.9	0.9	0.8	0.8	0.8

Source: Company, DBS Bank

Gearing to creep up on announced acquisitions

Cash Flow Statement (S$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Income	205	193	185	196	217
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(3.7)	0.0	(25.4)	(14.0)	(15.7)
Associates &JV Inc/(Loss)	(84.9)	(80.3)	(74.9)	(81.5)	(83.4)
Chg in Wkg.Cap.	(9.5)	(5.0)	(6.3)	6.24	7.67
Other Operating CF	91.1	119	72.5	74.4	75.2
Net Operating CF	**198**	**227**	**151**	**181**	**201**
Net Invt in Properties	(10.8)	(61.5)	(82.7)	(125)	(121)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(285)	(21.4)	(175)	0.0	0.0
Div from Assoc. & JVs	64.7	71.8	74.9	81.5	83.4
Other Investing CF	19.9	16.9	0.0	0.0	0.0
Net Investing CF	**(212)**	**5.76**	**(182)**	**(43.9)**	**(38.0)**
Distribution Paid	(257)	(257)	(268)	(271)	(274)
Chg in Gross Debt	99.3	103	257	94.0	91.1
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(91.4)	(88.3)	0.0	0.0	0.0
Net Financing CF	**(249)**	**(242)**	**(10.6)**	**(177)**	**(183)**
Currency Adjustments	0.36	0.0	0.0	0.0	0.0
Chg in Cash	(263)	(9.8)	(42.3)	(40.1)	(20.4)
Operating CFPS (S cts)	8.16	8.89	5.86	6.44	7.04
Free CFPS (S cts)	7.37	6.34	2.54	2.05	2.89

Acquisition of additional 25% interest in Southgate

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Aug 17	1.90	1.95	HOLD
2:	30 Oct 17	1.95	1.95	HOLD
3:	15 Dec 17	2.12	2.30	BUY
4:	25 Jan 18	2.14	2.30	BUY
5:	20 Feb 18	1.93	2.30	BUY
6:	25 Apr 18	1.90	2.30	BUY
7:	07 May 18	1.92	2.30	BUY
8:	31 May 18	1.80	2.30	BUY
9:	26 Jun 18	1.74	2.30	BUY

Note : Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Mervin SONG, CFA
Derek TAN

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HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
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Share price appreciation + dividends

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Share price appreciation + dividends

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