

Singapore Industry Focus

Singapore REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Jun 2019

A premium for your assurance

- A more gradual climb from hereon
- Stronger position to pursue growth; fund-raising might offer attractive re-entry levels
- S-REITs to benefit from Fed "insurance cuts"
- Top picks: AREIT, CRCT, FCT, KORE, MAGIC, Suntec

A more gradual climb from hereon. Our bull call on S-REITS since the start of the year was a profitable trade. S-REITs have delivered a total return of c.20% YTD. Most of the S-REITs are now trading at -1.0 or -1.5 SD yield spread ranging from 2% to 4%. Average S-REIT P/Bk of 1.17x and yield of 5.4% is approaching +1SD of 1.23x and -1SD yield of 4.8%. Notwithstanding potential profit-taking along the way, the next leg up should be more modest and gradual. This should be driven by DPU growth as S-REITS benefit from tailwinds of an upturn in the Singapore property sector and a dovish Federal Reserve (Fed).

A stronger position to acquire and deliver accretion; S-REITs' equity re-taps could be a more attractive re-entry level. Strong investor support for recent equity fund-raising (EFR) and the current low cost of capital will position S-REITs to deliver value-accretive acquisitions. Thus, we expect more S-REITs to tap the market to fund their inorganic strategy which may present better attractive entry points. For selected mid-cap REITs such as ART, MUST and KDCREIT which may be at the cusp of inclusion in major property indexes, additional EFR might trigger greater interest and fund flows from global investors, a positive to the overall S-REIT market.

Potential upside from lowering interest rate assumptions While a large part of consensus expectations of 2-3 interest rate cuts by the Fed in 2019 has been priced in, our scenario analysis illustrates a 50-bp cut in risk-free and debt costs could bring 5-14% upside to our TPs. These expected rate cuts act as an insurance policy to US/global growth and safeguard the upturn in Singapore rents and acceleration in DPU growth. Furthermore, S-REITs still offer the highest absolute yields globally, which should lend support to valuations.

A continued search for relative value. Despite pushbacks to re-enter selected stocks at current levels, we believe that value is still present for the likes of CRCT and KORE which are trading at or around their respective historical average yield spreads. Among the larger-cap REITs we prefer are AREIT, FCT, MAGIC and Suntec REIT given attractive relative value or a longer runway for future growth.

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STOCKS

	Price S\$	Mkt Cap US\$m	12-mth Target Price S\$	Performance (%)		Rating
				3 mth	12 mth	
Ascendas REIT	3.05	7,008	3.21	4.5	18.2	BUY
CapitaLand Retail China Trust	1.54	1,135	1.65	(2.5)	4.8	BUY
Fraser's Centrepont Trust	2.58	2,121	2.85	7.6	19.0	BUY
Keppel-KBS US REIT	0.76	625	0.90	9.4	(7.0)	BUY
Mapletree North Asia Commercial Trust	1.42	3,335	1.60	8.4	25.7	BUY
Suntec REIT	1.94	4,002	2.20	(2.0)	16.2	BUY

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 26 Jun 2019



Tighter-yield S-REITs justified.

Over the past 12-18 months, we had advocated investors remaining vested in S-REITs. This was on the back of an improving DPU growth profile moving from an oversupplied to undersupplied market across the office, industrial, retail and hotel sectors in Singapore which should result in compression in yields and yield spreads, and a rally in share prices. In addition, despite the strong run in share prices, in April, we saw strong prospects for S-REITs to rally another 10% as investors priced in interest rates being "lower for longer" with valuations approaching May 2013 levels. In May 2013, consensus was also expecting low interest rates for the foreseeable future.

This has largely played out with the S-REIT index up 5% or 7% including distributions since our April report and many S-REITs trading at -1.0 SD or -1.5 SD yield spreads. This is contrary to many other market participants who at the start of the year or even in April 2019 argued that investors should take profits given yields and yield spreads were below the 5-year historical average. Our contention was justified given a more positive organic growth outlook and support from a "dovish" US Fed.

Two to three interest rate cuts supportive of S-REITs and economic growth.

Heading into 2H19, the market and our DBS economists are expecting 2-3 rates cuts by the Fed. While this could be taken negatively, our DBS house view is that interest rate cuts are expected to provide an insurance policy against the impact of the recent trade tensions on US/global economic growth. Such a scenario has a historical precedent, when the Fed cut interest rates three times from 6.0% to 5.25% between July 1995 and January 1996. Back then, there were concerns that the Fed's rate hikes could be overdone, with growth and inflation both moderating, and a president seeking a re-election, which has some parallels with the current situation. However, current demand outlook remain healthy, supporting our thesis of a continued upturn of rent hikes across the office, retail, industrial and hotel sectors leading to improving DPU growth.

Beyond interest expense savings, valuations of S-REITs should be supported by declines in the cost of capital. Based on our estimates, if we were to reduce our risk-free rate by 50bps from 3.0% to 2.5% and lower our debt assumptions by 50bps while keeping our rental assumptions, our TP's would

increase by 5-14% which provides, another 1-33% capital upside from current levels. Thus, while a significant proportion of lower interest rate expectations have been priced in, we believe there is still some potential upside and any correction in share prices should be shallow.

Kicker from acquisitions to take S-REITs to the next level.

Acquisitions will be the next major re-rating catalyst for S-REITs, thanks to the lower cost of capital. Based on the average cost of capital for most REITs and prospective asset yields, equity raisings to fund acquisitions should be DPU/yield accretive. This, in our view, should take overall share prices for S-REITs to the next level.

In addition, for select stocks which are on the cusp of index inclusion in major property indexes, the increase in market cap or free-float-adjusted market cap may cause a material increase in stock prices. For example, when FLT was added to the FTSE EPRA/NAREIT Global Real Estate Index in March 2019, it outperformed by c.4% despite concerns over a depreciating AUD versus SGD.

The criteria for index inclusion in the FTSE EPRA NAREIT Developed Asia index includes:

1. Common stock listed in an eligible country and stock exchange
2. Classified in ICB Supersector Real Statesecto Rela Estate
3. Deriving at least 75% of EBITDA from relevant real estate activities
4. Minimum free float of 5%
5. Minimum 0.3% of the index market cap
6. Median daily turnover greater than 0.05% of a securities market cap
7. Detailed annual report in English

Based on these criteria, we have identified ART, KDCREIT and MUST as stocks that could be included in the index after another S\$100-200m round of equity-raising.

Near term, we expect some S-REITs to be range bound as investors wait for the equity- fund raisings.

Preferred picks

Our top large-cap picks are AREIT, Suntec REIT, FCT and MAGIC. We also see value in CRCT and KORE. Detailed below are our investment rationales for our preferred picks.

Overview of our top picks

REIT	Current Price (\$)	Rec	12-mth TP (\$)	Capital Upside	Yield FY19/20F	Investment Rationale	Risks
AREIT	3.02	BUY	3.21	10%	5.3%	<ul style="list-style-type: none"> REIT with consistent track record of delivering steady DPU growth Bottoming of industrial rents with prospects of improvement in rents going forward Upside risk to NAV and medium-term earnings from the redevelopment of AREIT's older properties at Science Park Boost from potential acquisitions in Singapore, Australia and Europe post completion of merger between CapitaLand and its Sponsor Ascendas-Singbridge given current low cost of capital 	<ul style="list-style-type: none"> Major downturn in manufacturing sector resulting in declines in industrial rents contrary to our expectations Significant depreciation of AUD and GBP
CRCT	1.52	BUY	1.65	13%	6.7%	<ul style="list-style-type: none"> Attractive valuations with current yield spreads at historical average compared to other S-REITs at -1.0 or -1.5SD plus attractive 6.7% yield Benefits from recent portfolio reconstitution (selling mature low-growth assets and recycling into higher-yield or growth malls) yet to flow through Healthy rental reversion ahead and recent acquisitions to translate into 3-year DPU CAGR of c.3% 	<ul style="list-style-type: none"> Competition from online or slowdown in the Chinese economy resulting in lower-than-expected rents Depreciation of the RMB versus SGD
FCT	2.61	BUY	2.85	14%	4.6%	<ul style="list-style-type: none"> Exposure to North Point and Causeway Point, dominant malls in the North of Singapore which is a region with higher-than-average population growth and lower-than-average retail space per capita Potential inclusion in FTSE Nareit index to drive greater investor interest and fund flows into the stock Recent acquisition of one-third interest in Waterway point and stake in PGIM portfolio to drive near-term and medium-term growth 	<ul style="list-style-type: none"> Competition from online or slowdown in the Singapore economy resulting in lower-than-expected rents

Source: Bloomberg Finance L.P., DBS Bank

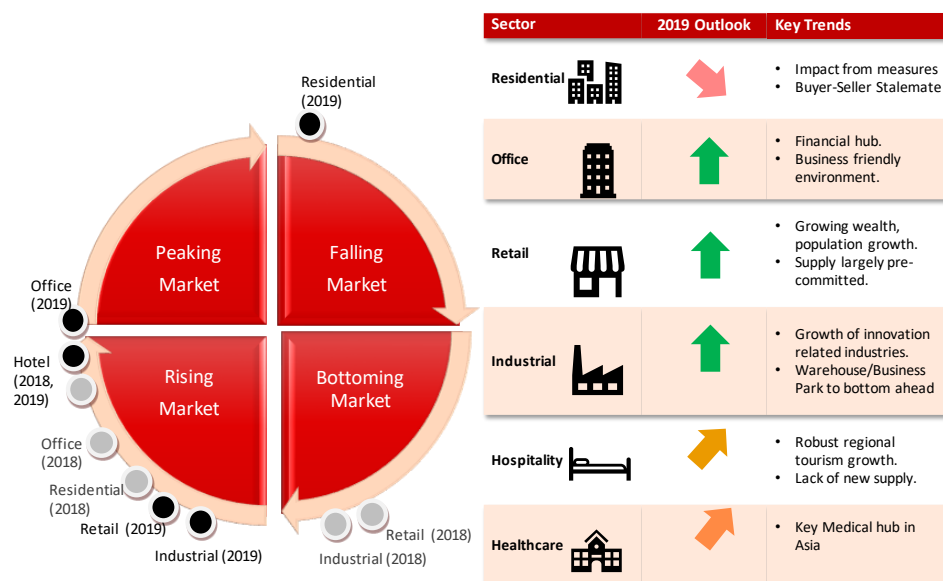
Overview of our top picks (cont'd)

REIT	Current Price (\$)	Rec	12-mrh TP (\$)	Capital Upside	Yield FY19/20F	Investment Rationale	Risks
KORE	0.76*	BUY	0.90*	27%	8.3%	<ul style="list-style-type: none"> Poised to benefit from growing demand for office space from the technology sector with c.61% of the portfolio located in Seattle and Austin Attractive valuations with KORE trading at an 8.2% yield with its yield spread above its mean at +0.8 SD Strong DPU growth profile (3-year DPU CAGR of c.8% arising from recent acquisitions, prior rental reversions and rise in spot rents) 	<ul style="list-style-type: none"> Slowdown in the US economy resulting in lower-than-expected rents Adverse tax changes in Singapore or US which results in the need to restructure the REIT's corporate structure and greater-than-expected tax leakage
MAGIC	1.41	BUY	1.60	19%	5.6%	<ul style="list-style-type: none"> Portfolio anchored by Festival Walk (c.62%) in HK which is a best-in-class mall with strong track record of resilience and ability to drive healthy rental growth Earnings tailwinds from 2-28% positive rental reversions achieved in FY18 with expectations of positive rental reversions ahead Attractive 5.5% yield which is high relative to other large-cap S-REITs 	<ul style="list-style-type: none"> FX volatility arising from movements in the HKD, RMB and JPY exchange rates Slowdown in the HK retail market affecting MAGIC's ability to drive rents higher at Festival Walk
Suntec	1.94	BUY	2.20	19%	5.1%	<ul style="list-style-type: none"> Beneficiary of rise in office rents and turnaround of Suntec City Mall Trades at c.0.90 P/Bk with upside risk of at least S\$0.15 to Suntec's NAV of c.S\$2.09 if pegged to recent market transactions Proceeds from recent equity-raising yet to be deployed, presenting upside risk to earnings which has yet to be incorporated into consensus estimates 	<ul style="list-style-type: none"> Slower-than-expected increase in office rents Failure to sustain improvement at Suntec City Mall Significant depreciation in the AUD

* In US\$

Source: Bloomberg Finance L.P., DBS Bank

Positive outlook with Office and Hotels leading the cyclical upturn



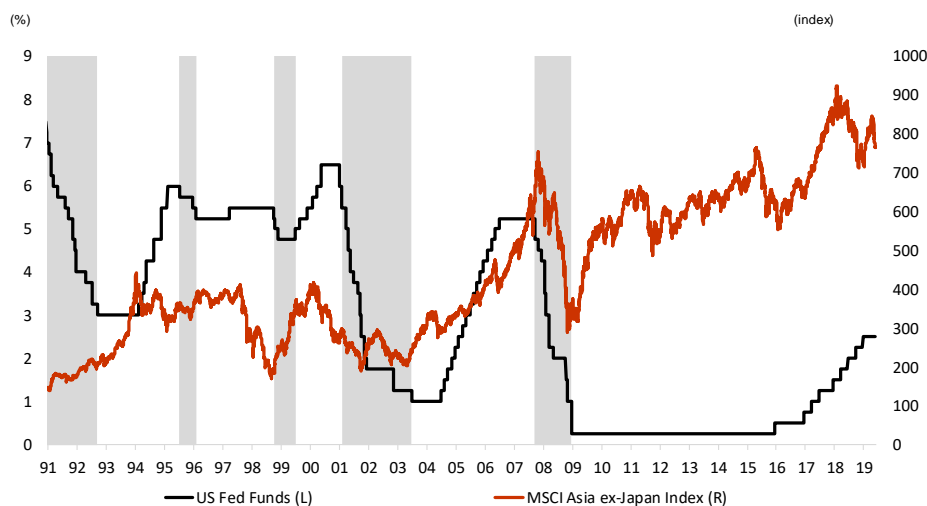
Source: JTC, URA, DBS Bank

Remarks

After a downturn over the 2015-2017 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 growing Singapore economy which our DBS economists are projecting to grow by 2.1% p.a. in 2019 albeit slower than the 3.1% growth recorded in 2018 and easing supply pressures. This should result in the market moving from an oversupplied situation to a landlord's market.

"Insurance cut" from the Fed had occurred previously without a recession ensuing



Source: Bloomberg Finance L.P., DBS Bank

Remarks

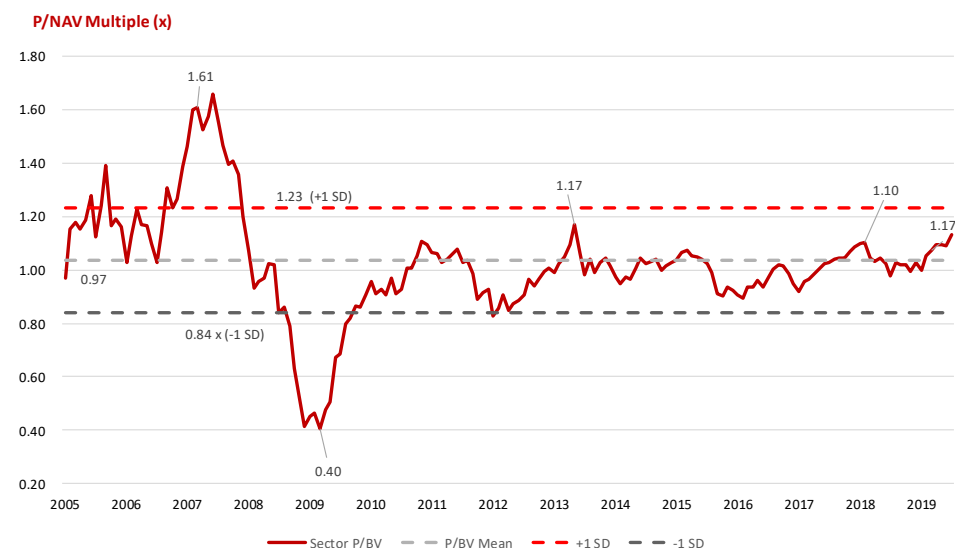
We believe that the next Fed cut could look like an insurance cut similar to the one in 1995.

Back then, the first rate cut came in July 1995, after a 6-month rate pause and after an aggressive one-year rate hike cycle.

Concerns that the Fed's rate hikes could be overdone, with growth and inflation both moderating, and a president seeking a re-election, are some of the parallels between then and now.

P/Bk hitting May 2013 highs

Remarks



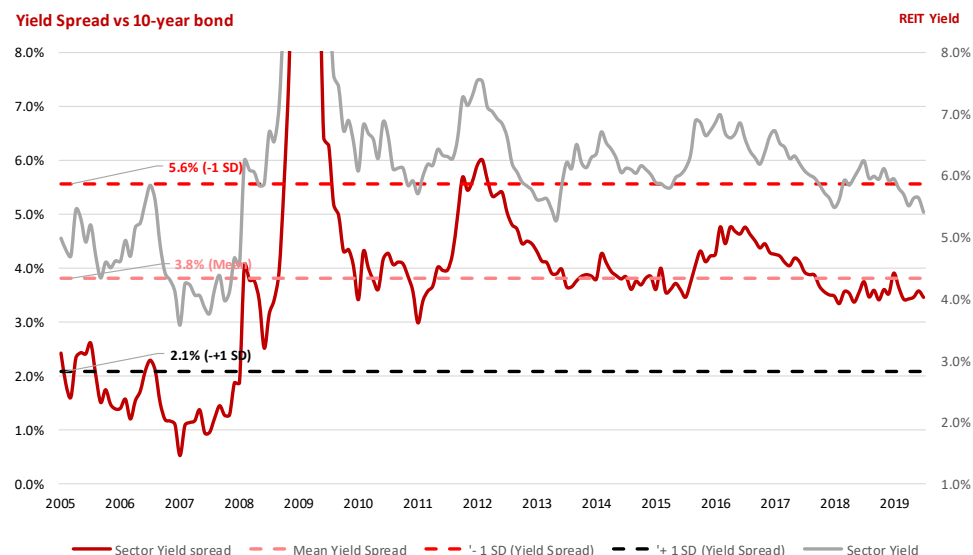
Following the recent rally, P/Bk has hit 1.17x which the peak levels in May 2013 before the taper tantrums.

Near term, we believe P/Bk may continue to hold or even increase marginally given expectations of interest rates being lower for longer.

Source: JTC, URA, DBS Bank

Tighter yields and yield spreads justified given positive rental outlook

Remarks

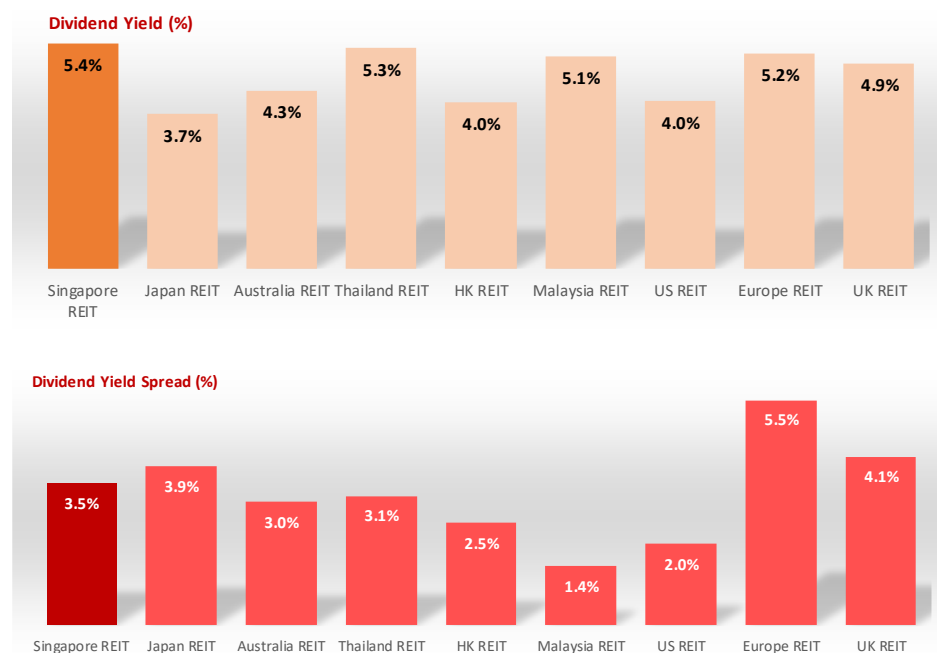


Yields and yield spreads have compressed to 5.4% and 3.5% below -1SD yield of 5.8% (since 2010) and -1SD yield spread of 3.5%.

While appearing "tight" we believe this is justified given tailwinds from rising rents which are still in the early or mid-stage of the property cycle and lower interest rates.

Source: JTC, URA, DBS Bank

S-REITs offer highest yields regionally - continue to attract investor interest



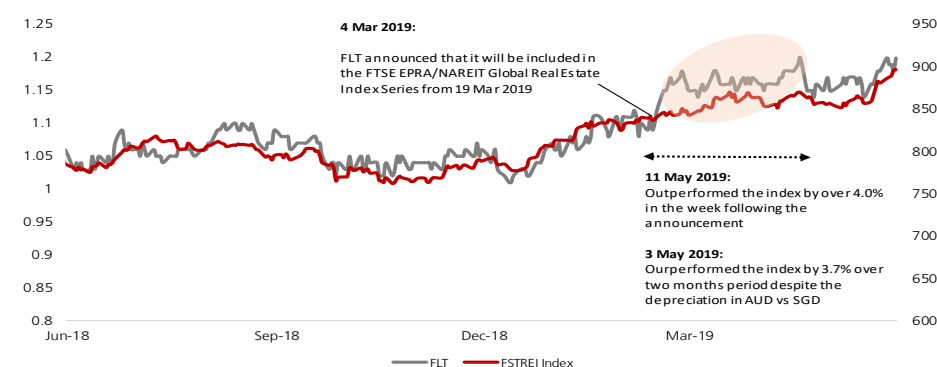
Source: JTC, URA, DBS Bank

Remarks

Despite the compression in yields for S-REITs year to date, they still offer the highest yield among regional markets and globally.

Thus, we believe there should continue to be interest and potential flows into S-REITs as investors seek yield instruments in an uncertain macro environment.

FLT an example of a stock benefitting from index inclusion



Source: Bloomberg Finance L.P., DBS Bank

Remarks

FLT's share price has outperformed the FSTREI Index after indexation announcement in early May 2019; stock is up 7.0% since.

S-REITs with potential inclusion to FSTRE EPRA Nareit Developed Asia Index

Remarks

Key Index Eligibility and Qualification Criteria	(1) Classified under ICB Supersector Real Estate (8600)	(2) Derive at Least 75% of EBITDA from Relevant Real Estate Activities	(3) Minimum Investable Mkt Cap at Least 0.3% of Respective Index	(4) Median Monthly Turnover > 0.05% of OutShares for at Least 10 of Last 12 Months	(5) Minimum Free Float of 5%	(6) Derive at Least 75% of Annual EBITDA from Developed Markets Over Each of Previous Two Years
ART	✓	✓	△ (~S\$130m - S\$150m away)	△ (10, including MTD Jun 2019)	✓	✓
FCT	✓	✓	✓	✓	✓	✓
KDCREIT	✓	✓	△ (~S\$35m - S\$50m away)	✓	✓	✓
MAGIC	✓	✓	✓	✓	✓	△ (c.70% of revenue from developed markets)
MUST	✓	✓	△ (~S\$150m - S\$200m away)	△ (9, including MTD Jun 2019)	✓	✓
PLIFE	✓	✓	△ (~S\$500m away)	✓	✓	✓
CERT	✓	✓	△ (~S\$450m - S\$500m away)	✗ (1, including MTD Jun 2019)	✓	✓

Legend

- ✓ Criteria Fulfilled
- △ Criteria Near Fulfilment

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

We believe several mid-cap REITs are good prospects for index inclusion or only 1-2 equity-raising away from potential index inclusions.

Should index inclusion be achieved, we expect share price outperformance for these stocks.

S-REITs Peer comp (as at 25 June 2019)

REIT	FYE	Last Price (S\$)	Rec	Target Price (S\$)	Mkt Cap S\$m	Total Return (%)	Yield		P/NAV	
							FY19/20F	FY20/21F	FY19/20F	FY20/21F
Office										
CCT	Dec	2.15	BUY	2.10	8,062	2%	4.1%	4.3%	1.16	1.17
FCOT	Sep	1.58	BUY	1.70	1,431	14%	6.1%	6.2%	1.01	1.02
KREIT	Dec	1.26	BUY	1.40	4,287	16%	4.5%	4.6%	0.91	0.93
OUECT	Dec	0.505	BUY	0.59	1,446	24%	6.7%	6.7%	0.71	0.72
Suntec	Dec	1.94	BUY	2.20	5,422	19%	5.1%	5.2%	0.93	0.94
Retail/Commercial							4.8%	4.9%	1.01	1.02
CMT	Dec	2.64	BUY	2.55	9,738	1%	4.4%	4.6%	1.31	1.31
FCT	Sep	2.61	BUY	2.85	2,907	14%	4.6%	4.9%	1.23	1.24
SPH REIT	Aug	1.06	BUY	1.15	2,742	14%	5.3%	5.5%	1.13	1.13
MCT	Mar	2.06	BUY	2.00	5,963	2%	4.6%	4.7%	1.29	1.30
MAGIC	Mar	1.41	BUY	1.60	4,486	19%	5.6%	5.7%	0.99	0.99
SGREIT	Dec	0.775	BUY	0.80	1,690	9%	5.9%	6.0%	0.85	0.85
Industrial							4.9%	5.0%	1.28	1.29
AIMS	Mar	1.46	BUY	1.50	1,013	10%	7.0%	7.1%	1.09	1.09
a-itrust	Mar	1.35	BUY	1.40	1,407	10%	6.0%	6.8%	1.32	1.30
A-REIT	Mar	3.02	BUY	3.21	9,401	12%	5.3%	5.4%	1.42	1.43
Cache	Dec	0.790	HOLD	0.75	852	2%	7.7%	7.4%	1.21	1.22
FLT	Sep	1.20	BUY	1.20	2,432	6%	5.5%	5.5%	1.27	1.28
MINT	Mar	2.17	BUY	2.30	4,391	12%	5.7%	5.9%	1.44	1.44
MLT	Mar	1.55	BUY	1.60	5,634	8%	5.2%	5.4%	1.34	1.34
SBREIT	Dec	0.615	HOLD	0.63	654	10%	7.8%	8.0%	0.98	0.98
Hospitality							5.8%	5.9%	1.34	1.35
ASCHT	Mar	0.985	BUY	0.98	1,120	6%	6.0%	6.1%	0.98	0.98
ART	Dec	1.30	BUY	1.35	2,827	9%	5.6%	5.6%	1.02	1.03
CDREIT	Dec	1.62	BUY	1.85	1,954	20%	5.9%	6.1%	1.06	1.06
FEHT	Dec	0.665	BUY	0.70	1,276	12%	6.2%	6.3%	0.80	0.78
FHT	Sep	0.70	HOLD	0.77	1,326	16%	6.2%	6.3%	0.92	0.92
OUEHT	Dec	0.705	BUY	0.85	1,294	28%	7.1%	7.2%	0.95	0.96
Healthcare							6.0%	6.2%	0.97	0.97
P-Life	Dec	3.07	BUY	3.10	1,857	5%	4.2%	4.3%	1.63	1.63
China										
CRCT	Dec	1.55	BUY	1.65	1,548	13%	6.7%	7.0%	0.99	1.00
SASSR	Dec	0.79	BUY	0.97	941	31%	8.4%	8.7%	0.88	0.89
ECWREIT	Dec	0.79	BUY	0.86	627	17%	7.9%	7.9%	0.91	0.92
US Office										
KORE	Dec	0.76*	BUY	0.90	844	27%	8.3%	8.6%	0.97	0.98
MUST	Dec	0.87*	BUY	1.00	1,641	22%	7.1%	7.2%	1.06	1.07
European Commercial										
CERT	Dec	0.495**	BUY	0.59	1,678	28%	8.4%	8.5%	0.99	1.00
Others										
KDCREIT	Dec	1.64	BUY	1.60	2,217	2%	4.7%	4.8%	1.53	1.52
Sector Average							5.4%	5.6%	1.17	1.18

* In USD ** In EUR

Source: Bloomberg Finance L.P., DBS Bank

S-REITs P/Bk and Yield spread versus averages since 2010 and May 2013 before the “taper tantrums” and when consensus expected interest rates to be lower for longer

REITs	Last Price	Rcmd	Target Price	NAV FY19/20F	FY19/20F Yield (%)	PNAV (Since 2010)					Yield Spread (Since 2010)				
						Current	May-13	Mean	Min	Max	Current	May-13	Mean	Min	Max
Office															
CCT	2.150	BUY	2.10	1.85	4.1%	1.16	1.04	0.91	0.63	1.19	2.1%	3.4%	3.5%	2.1%	5.8%
FCOT	1.580	BUY	1.70	1.57	6.1%	1.01	1.03	0.80	0.51	1.03	4.1%	3.6%	4.8%	3.1%	7.5%
KREIT	1.260	BUY	1.40	1.38	4.5%	0.91	1.15	0.83	0.62	1.15	2.5%	3.9%	3.8%	1.7%	8.0%
OUECT	0.505	BUY	0.59	0.71	6.7%	0.71	n.a.	0.76	0.64	0.99	4.7%	n.a.	4.6%	2.9%	6.2%
Suntec	1.940	BUY	2.20	2.09	5.1%	0.93	0.95	0.81	0.54	1.01	3.1%	3.4%	3.9%	2.4%	7.6%
Retail/Commercial															
CMT	2.640	BUY	2.55	2.02	4.4%	1.31	1.39	1.15	1.00	1.39	2.4%	3.2%	3.2%	2.2%	4.3%
CRCT	1.550	BUY	1.65	1.57	6.7%	0.99	1.27	1.01	0.80	1.38	4.7%	4.3%	4.6%	3.5%	6.8%
FCT	2.610	BUY	2.85	2.12	4.6%	1.23	1.46	1.11	0.95	1.50	2.6%	3.5%	3.7%	2.6%	5.5%
MCT	2.060	BUY	2.00	1.59	4.6%	1.29	1.38	1.15	0.89	1.63	2.6%	3.7%	3.6%	2.7%	5.8%
MAGIC	1.410	BUY	1.60	1.43	5.6%	0.99	1.22	0.90	0.72	1.22	3.6%	4.3%	4.7%	3.6%	6.4%
SPHREIT	1.060	BUY	1.15	0.94	5.3%	1.13	n.a.	1.07	0.97	1.18	3.3%	n.a.	3.3%	2.6%	4.1%
SGREIT	0.775	BUY	0.80	0.91	5.9%	0.85	1.09	0.82	0.64	1.09	3.9%	3.7%	4.4%	2.9%	6.3%
Industrial															
AIMS	1.460	BUY	1.50	1.34	7.0%	1.09	1.23	0.93	0.68	1.25	5.0%	5.6%	6.0%	4.0%	9.5%
a-itrust	1.350	BUY	1.40	1.02	6.0%	1.32	1.23	1.28	0.93	1.64	4.0%	4.8%	4.6%	3.2%	7.1%
AREIT	3.020	BUY	3.21	2.13	5.3%	1.42	1.42	1.22	1.03	1.42	3.3%	3.8%	4.1%	3.0%	5.8%
Cache	0.790	HOLD	0.75	0.65	7.7%	1.21	1.45	1.13	0.95	1.45	5.7%	4.6%	6.1%	4.2%	8.7%
FLT	1.200	BUY	1.20	0.95	5.8%	1.27	n.a.	1.16	1.01	1.39	3.8%	n.a.	4.5%	2.9%	5.6%
MINT	2.170	BUY	2.30	1.51	5.7%	1.44	1.43	1.26	1.08	1.57	3.7%	5.1%	4.7%	3.2%	6.7%
MLT	1.550	BUY	1.60	1.16	5.2%	1.34	1.43	1.12	0.91	1.43	3.2%	4.3%	4.7%	2.9%	8.4%
SBREIT	0.615	HOLD	0.63	0.63	7.8%	0.98	n.a.	0.97	0.83	1.24	5.8%	n.a.	5.9%	4.5%	7.8%
Hospitality															
ASCHT	0.985	BUY	0.98	1.01	6.0%	0.98	1.24	0.95	0.77	1.28	4.0%	5.3%	5.4%	4.0%	7.0%
ART	1.300	BUY	1.35	1.27	5.6%	1.02	1.07	0.91	0.73	1.17	3.6%	4.0%	4.8%	3.4%	7.4%
CDREIT	1.620	BUY	1.85	1.52	5.9%	1.06	1.26	1.10	0.80	1.63	3.9%	4.7%	4.7%	2.3%	6.9%
FEHT	0.665	BUY	0.70	0.84	6.2%	0.80	1.18	0.81	0.63	1.21	4.2%	3.8%	4.0%	2.9%	5.5%
FHT	0.700	HOLD	0.77	0.76	6.2%	0.92	n.a.	0.97	0.85	0.97	4.2%	n.a.	4.8%	3.5%	6.2%
OUEHT	0.705	BUY	0.85	0.74	7.1%	0.95	n.a.	0.97	0.82	0.97	5.1%	n.a.	4.8%	3.2%	6.2%
Healthcare															
PREIT	3.070	BUY	3.10	1.88	4.2%	1.63	1.69	1.38	0.88	1.72	2.2%	2.8%	3.2%	2.1%	4.6%
US Office															
KORE	0.760	BUY	0.90	0.79	8.0%	0.96	n.a.	0.93	0.74	1.05	6.0%	n.a.	5.1%	3.9%	7.4%
MUST	0.870	BUY	1.00	0.82	7.1%	1.06	n.a.	1.02	0.89	1.21	5.1%	n.a.	4.7%	3.5%	5.7%
Others															
KDCREIT	1.640	BUY	1.60	1.07	4.7%	1.53	n.a.	1.31	1.09	1.71	2.7%	n.a.	3.5%	2.1%	4.7%



 Close to May 2013 level or max level

 Below May 2013 or close to mean

Source: Bloomberg Finance L.P., DBS Bank

S-REITs' yield spread, implied yield SD and yield spread sensitivity analysis

REITs	Forward FY19/20F DPU (Scts)	Current Price (\$)	Current Forward Yield	Current Yield Spread	Implied Yield Spread SD	-1.0 SD Yield Spread	Implied Yield (- 1.0 SD Yield Spread + 2.0%)	Implied share price using FY19F DPU	Upside/ Downside from current share price	-1.5 SD Yield Spread	Implied Yield (- 1.5SD Yield Spread + 2.0%)	Implied share price using FY19F DPU	Upside/ Downside from current share price	-2.0 SD Yield Spread	Implied Yield (- 2SD Yield Spread + 2.0%)	Implied share price using FY19F DPU	Upside/ Downside from current share price
Office																	
CCT	8.9	2.15	4.1%	2.1%	-1.6	2.6%	4.6%	1.93	-10.3%	2.2%	4.2%	2.13	-1.1%	1.8%	3.8%	2.37	10.2%
KREIT	5.6	1.26	4.5%	2.5%	-1.0	2.5%	4.5%	1.25	-0.4%	1.8%	3.8%	1.46	16.3%	1.2%	3.2%	1.76	39.8%
FCOT	9.6	1.58	6.1%	4.1%	-0.9	4.0%	6.0%	1.60	1.3%	3.6%	5.6%	1.72	8.7%	3.2%	5.2%	1.85	17.3%
QUECT	3.4	0.505	6.7%	4.7%	0.1	3.8%	5.8%	0.58	14.5%	3.4%	5.4%	0.62	22.7%	3.1%	5.1%	0.67	32.3%
Suntec	9.9	1.94	5.1%	3.1%	-0.7	2.8%	4.8%	2.06	6.3%	2.3%	4.3%	2.33	20.0%	1.7%	3.7%	2.67	37.7%
Retail/Commercial																	
CMT	11.7	2.64	4.4%	2.4%	-1.8	2.8%	4.8%	2.45	-7.2%	2.6%	4.6%	2.57	-2.5%	2.3%	4.3%	2.70	2.6%
CRCT	10.4	1.55	6.7%	4.7%	0.2	3.9%	5.9%	1.75	13.2%	3.6%	5.6%	1.86	19.7%	3.3%	5.3%	1.97	27.0%
FCT	12.0	2.61	4.6%	2.6%	-1.7	3.1%	5.1%	2.39	-8.2%	2.8%	4.8%	2.54	-2.3%	2.5%	4.5%	2.72	4.3%
MCT	9.4	2.06	4.6%	2.6%	-1.6	3.0%	5.0%	1.89	-8.1%	2.7%	4.7%	2.02	-1.7%	2.3%	4.3%	2.17	5.7%
MAGIC	7.9	1.41	5.6%	3.6%	-1.9	4.1%	6.1%	1.29	-8.4%	3.8%	5.8%	1.35	-4.0%	3.5%	5.5%	1.42	0.9%
SPHREIT	5.6	1.06	5.3%	3.3%	0.2	3.0%	5.0%	1.14	7.3%	2.8%	4.8%	1.17	10.8%	2.6%	4.6%	1.21	14.6%
SGREIT	4.6	0.775	5.9%	3.9%	-0.7	3.8%	5.8%	0.80	3.1%	3.5%	5.5%	0.84	8.9%	3.1%	5.1%	0.89	15.4%
Industrial																	
AIMS	10.3	1.46	7.0%	5.0%	-0.7	4.7%	6.7%	1.54	6.7%	4.0%	6.0%	1.71	17.1%	3.3%	5.3%	1.92	31.7%
a-itrust	8.1	1.35	6.0%	4.0%	-0.8	3.9%	5.9%	1.38	5.9%	3.5%	5.5%	1.47	8.7%	3.1%	5.1%	1.57	16.5%
AREIT	16.1	3.02	5.3%	3.3%	-1.5	3.6%	5.6%	2.89	5.6%	3.3%	5.3%	3.03	0.4%	3.1%	5.1%	3.19	5.6%
Cache	6.1	0.79	7.7%	5.7%	-0.4	5.1%	7.1%	0.85	7.1%	4.7%	6.7%	0.91	14.6%	4.2%	6.2%	0.97	22.9%
FLT	6.9	1.20	5.8%	3.8%	-1.0	3.8%	5.8%	1.20	5.8%	3.4%	5.4%	1.29	7.2%	3.0%	5.0%	1.38	15.0%
MINT	12.3	2.17	5.7%	3.7%	-1.4	4.0%	6.0%	2.05	6.0%	3.6%	5.6%	2.18	0.7%	3.3%	5.3%	2.33	7.5%
MLT	8.0	1.55	5.2%	3.2%	-1.3	3.5%	5.5%	1.46	5.5%	2.9%	4.9%	1.63	5.3%	2.3%	4.3%	1.85	19.7%
SBREIT	4.8	0.615	7.8%	5.8%	-0.2	5.2%	7.2%	0.67	7.2%	4.8%	6.8%	0.70	13.9%	4.5%	6.5%	0.74	20.3%


 At or near -1SD yield spread
 At or near average yield spread

Source: Bloomberg Finance L.P., DBS Bank

S-REITs' yield spread, implied yield SD and yield spread sensitivity analysis (cont'd)

REITs	Forward FY19/20F DPU (Scts)	Current Price (\$)	Current Forward Yield	Current Yield Spread	Implied Yield Spread SD	-1.0 SD Yield Spread	Implied Yield (- 1.0 SD Yield Spread + 2.0%)	Implied share price using FY19F DPU	Upside/ Downside from current share price	-1.5 SD Yield Spread	Implied Yield (- 1.5SD Yield Spread + 2.0%)	Implied share price using FY19F DPU	Upside/ Downside from current share price	-2.0 SD Yield Spread	Implied Yield (- 2SD Yield Spread + 2.0%)	Implied share price using FY19F DPU	Upside/ Downside from current share price
Hospitality																	
ART	7.2	1.30	5.6%	3.6%	-1.3	3.9%	5.9%	1.23	-5.5%	3.4%	5.4%	1.33	2.6%	2.9%	4.9%	1.46	12.3%
ASCHT	5.9	0.985	6.0%	4.0%	-2.1	4.7%	6.7%	0.88	-10.2%	4.4%	6.4%	0.93	-5.8%	4.1%	6.1%	0.98	-0.9%
CDREIT	9.5	1.62	5.9%	3.9%	-0.8	3.7%	5.7%	1.66	2.6%	3.2%	5.2%	1.82	12.3%	2.7%	4.7%	2.01	24.0%
FEHT	4.1	0.665	6.2%	4.2%	0.3	3.5%	5.5%	0.76	13.7%	3.2%	5.2%	0.80	19.9%	2.9%	4.9%	0.84	26.8%
FHT	4.3	0.70	6.2%	4.2%	-0.9	4.1%	6.1%	0.71	1.7%	3.7%	5.7%	0.76	8.5%	3.3%	5.3%	0.81	16.3%
QUEHT	5.0	0.705	7.1%	5.1%	0.5	4.1%	6.1%	0.81	15.1%	3.8%	5.8%	0.86	21.3%	3.5%	5.5%	0.90	28.1%
Healthcare																	
PREIT	12.9	3.07	4.2%	2.2%	-1.7	2.6%	4.6%	2.81	-8.4%	2.3%	4.3%	3.00	-2.2%	2.0%	4.0%	3.22	5.0%
Others																	
KDCREIT	7.7	1.64	4.7%	2.7%	-1.3	2.9%	4.9%	1.57	-4.4%	2.6%	4.6%	1.67	2.1%	2.3%	4.3%	1.79	9.4%
US Office																	
KORE	6.1	0.76	8.0%	6.0%	0.8	4.0%	6.0%	1.01	33.5%	3.5%	5.5%	1.12	46.9%	2.9%	4.9%	1.24	63.2%
MUST	6.2	0.87	7.1%	5.1%	0.8	4.2%	6.2%	1.00	14.9%	3.9%	5.9%	1.04	20.0%	3.6%	5.6%	1.09	25.6%

 At or near -1SD yield spread

 At or near average yield spread

Source: Bloomberg Finance L.P., DBS Bank

S-REITs' valuation sensitivity assuming a 50-bp reduction in risk-free rate and cost of debt assumptions ignoring rental impact

REITs	Last Price (\$)	Existing Risk free	Existing Cost of debt	Existing Target Price (\$)	Revised Risk free	Revised Cost of debt	Revised TP (\$)	Change in TP (%)	Capital Upside from current price (%)
Office									
CCT	2.15	3.00%	3.25%	2.10	2.50%	2.75%	2.30	9.5%	7.0%
FCOT	1.58	3.00%	3.75%	1.70	2.50%	3.25%	1.80	5.9%	13.9%
KREIT	1.26	3.00%	3.25%	1.40	2.50%	2.75%	1.60	14.3%	27.0%
OUECT	0.505	3.00%	4.50%	0.59	2.50%	4.00%	0.67	13.6%	32.7%
Suntec	1.94	3.00%	3.25%	2.20	2.50%	2.75%	2.46	11.8%	26.8%
Retail/Commercial									
CMT	2.37	3.00%	3.20%	2.44	2.50%	2.70%	2.75	12.7%	16.0%
CRCT	1.55	3.00%	3.30%	1.65	2.50%	2.80%	1.76	6.7%	13.5%
FCT	2.61	3.00%	3.00%	2.85	2.50%	2.50%	3.15	10.5%	20.7%
MCT	2.06	3.00%	3.50%	2.00	2.50%	3.00%	2.15	7.5%	4.4%
MAGIC	1.41	3.00%	3.00%	1.60	2.50%	2.50%	1.80	12.5%	27.7%
SPHREIT	1.06	3.00%	3.00%	1.15	2.50%	2.50%	1.25	8.3%	17.9%
SGREIT	0.775	3.00%	3.60%	0.80	2.50%	3.10%	0.85	6.3%	9.7%
Industrial									
AIMS	1.46	3.00%	4.20%	1.50	2.50%	3.70%	1.60	6.6%	9.6%
AREIT	3.02	3.00%	3.30%	3.21	2.50%	2.80%	3.50	9.1%	15.9%
Cache	0.79	3.00%	4.10%	0.75	2.50%	3.60%	0.80	6.8%	1.3%
FLT	1.20	3.00%	3.20%	1.20	2.50%	2.70%	1.28	6.4%	6.7%
MINT	2.17	3.00%	3.50%	2.30	2.50%	3.00%	2.46	7.1%	13.4%
MLT	1.55	3.11%	3.00%	1.60	2.61%	2.50%	1.77	10.7%	14.2%
SBREIT	0.615	3.00%	3.85%	0.63	2.50%	3.35%	0.67	6.1%	8.9%
Hospitality									
ASCHT	0.985	3.00%	3.75%	0.98	2.50%	3.25%	1.03	5.1%	4.6%
ART	1.30	3.00%	3.00%	1.35	2.50%	2.50%	1.45	7.4%	11.5%
CDREIT	1.62	3.00%	3.20%	1.85	2.50%	2.70%	1.97	6.5%	21.6%
FEHT	0.665	3.00%	3.50%	0.70	2.50%	3.00%	0.76	8.4%	14.3%
FHT	0.70	3.00%	3.25%	0.77	2.50%	2.75%	0.82	6.5%	17.1%
OUEHT	0.705	3.00%	3.60%	0.85	2.50%	3.10%	0.90	5.9%	27.7%
Healthcare									
PREIT	3.07	1.90%	1.00%	3.10	2.50%	0.75%	3.38	9.0%	10.1%
Others									
KDCREIT	1.64	3.00%	2.50%	1.60	2.50%	2.00%	1.73	8.2%	5.5%

Source: Bloomberg Finance L.P., DBS Bank

S-REITs' valuation sensitivity assuming a 50-bp reduction in risk-free rate and cost of debt assumptions ignoring rental impact

REITs	Latest cost of debt	Current Yield	Yield at 5% placement discount	Marginal cost of capital @ 40% gearing	Target acquisition yield	Likelihood of accretion
Office						
CCT	2.5%	4.2%	4.4%	3.6%	3.5%-5.0%	Yes
FCOT	3.0%	6.1%	6.4%	5.0%	3.5%-5.0%	Maybe
KREIT	2.9%	4.5%	4.7%	4.0%	3.5%-5.0%	Yes
OUECT	3.5%	6.7%	7.0%	5.6%	3.5%-5.0%	Difficult
Suntec	3.0%	5.1%	5.4%	4.5%	3.5%-5.0%	Yes
Retail/Commercial						
CMT	3.2%	4.9%	5.2%	4.4%	4.1%-5.0%	Yes
CRCT	3.0%	6.7%	7.1%	5.4%	4.5%-6.0%	Yes
FCT	2.8%	4.7%	5.0%	4.1%	4.1%-5.0%	Yes
MCT	3.0%	4.7%	4.9%	4.1%	3.5%-5.0%	Yes
MAGIC	2.5%	5.5%	5.8%	4.4%	4.0%-5.0%	Yes
SPHREIT	2.9%	5.3%	5.6%	4.5%	4.1%-5.0%	Yes
SGREIT	3.3%	5.9%	6.3%	5.1%	4.1%-5.0%	Maybe
Industrial						
AIMS	3.6%	7.0%	7.4%	5.9%	5.5%-7.0%	Yes
a-itrust	6.0%	5.9%	6.2%	6.1%	10.0%-12.0%	Yes
AREIT	3.0%	5.3%	5.6%	4.5%	5.0%-7.0%	Yes
Cache	3.9%	7.6%	8.0%	6.3%	5.5%-7.0%	Maybe
FLT	2.4%	5.7%	6.0%	4.6%	5.5%-7.0%	Yes
MINT	3.0%	5.7%	6.0%	4.8%	5.5%-7.0%	Yes
MLT	2.7%	5.1%	5.4%	4.3%	5.5%-7.0%	Yes
SBREIT	3.5%	7.9%	8.3%	6.4%	5.5%-7.0%	Maybe
Hospitality						
ASCHT	2.0%	6.1%	6.4%	4.6%	4.5-7.0%	Yes
ART	2.1%	5.6%	5.8%	4.3%	4.5-7.0%	Yes
CDREIT	2.4%	5.9%	6.2%	4.7%	4.5-7.0%	Yes
FEHT	2.9%	6.1%	6.4%	5.0%	4.5-7.0%	Maybe
FHT	2.6%	6.1%	6.4%	4.9%	4.5-7.0%	Maybe
OUEHT	2.6%	7.0%	7.4%	5.5%	4.5-7.0%	Maybe
Healthcare						
PREIT	0.9%	4.2%	4.4%	3.0%	3.5-5.0%	Yes
US Office						
KORE	3.8%	7.9%	8.3%	6.5%	5.0%-7.0%	Maybe
MUST	3.3%	7.1%	7.5%	5.8%	5.0%-7.0%	Yes
Others						
KDCREIT	1.7%	4.7%	5.0%	3.7%	4.5-7.0%	Yes

Source: Bloomberg Finance L.P., DBS Bank

DBS Bank recommendations are based on 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 share price catalysts within this time frame)

**Share price appreciation + dividends*

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9. Su Shan TAN, a member of DBS Group Mgt Committee, is a Director of Mapletree North Asia Commercial Trust as of 4 Jun 2019.

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