

Singapore Industry Focus

Singapore REITS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Feb 2020

When the world sneezes...

- The New Year cheer has been thwarted with a turn in sentiment following the outbreak of the coronavirus
- Maintain our preference in Industrial (A-REIT, MINT, MLT, KDCREIT) for resilience and sustainable growth.
- FCT's resilience will stand out; AIT's execution on its robust growth pipeline will drive further re-rating.
- K-REIT amongst office names preferred for its value and potential acquisitions/developments to surprise positively.

Preferred picks holding up despite uncertainty. The New Year cheer was very soon thwarted with a turn in sentiment following the outbreak of the coronavirus in the middle of January. While FSTREI Index (REIT Index) rose 6.6% since the low in December 2019, it has fallen 3.5% since 17 January 2020, when a few cases of coronavirus outside China were reported. At this point, the FSTREI index is up 2.0% since the start of 2020, outperforming the STI which is down 2.1%. Its relative high yield spreads of 3.1%, coupled with c.3.0% growth, will continue to attract investors to seek shelter in S-REITs in the mist of heightened volatility.

Given the uncertainty brought about by the recent travel ban and likely lower growth prospects going forward, we maintain our preference for subsectors with structural growth themes in place and are less elastic to economic gyrations. We maintain our preference for industrial REITs (AREIT, MINT, MLT and KDCREIT) while remaining cautious on hospitality and selected retail S-REITs which are more sensitive to tourist arrivals. Selectively, we prefer FCT for its resilience as a pure play suburban landlord and AIT for its robust inorganic growth pipeline. We like K-REIT for its pure office play and its relative value amongst its peers. The ability to deploy capital to accretive acquisitions or developments will surprise investors, underpinning longer-term NAV growth.

Industrial sector remains our favourite; offering a potent mix of earnings growth and resilience. We still favour the industrial sector, especially REITs with a heavy weightage within the data centres (MINT, KDCREIT), business parks (AREIT, AIT) and logistics space (MLT) which we believe can continue to deliver a sweet mix of resilience and industry-leading c.5.0% growth in distributions for FY2020. In addition, recent meetings indicate that most S-REIT managers remain on the hunt for more inorganic growth, which we believe consensus has yet to price in.

Wait for a better entry opportunity for Hospitality S-REITs.

While we had previously pitched Hospitality as a "dark horse" for 2020, the onset of the virus spread made us relook this call as we see near-term earnings risks given the vulnerability of the sector to tourism demand. While share prices have fallen by an average of 7.6% since 20 January 2020, we will only turn buyers near the -1 SD P/NAV level which, based on our estimates, is at another 5-15% from current levels.

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STOCKS

| | Price S\$ | Mkt Cap US\$m | 12-mth Target Price S\$ | Performance (%) | | Rating |
|----------------------------|--------------|------------------|-------------------------------|-----------------|--------|--------|
| | | | | 3 mth | 12 mth | |
| Ascendas REIT | 3.13 | 8,262 | 3.45 | 2.5 | 17.2 | BUY |
| Mapletree Logistics Trust | 1.85 | 5,132 | 1.90 | 8.2 | 35.0 | BUY |
| Mapletree Industrial Trust | 2.78 | 4,470 | 3.00 | 9.0 | 38.3 | BUY |
| Frasers Centrepoint Trust | 2.84 | 2,319 | 2.95 | 5.2 | 25.8 | BUY |
| Ascendas India Trust | 1.58 | 1,320 | 1.65 | (2.5) | 42.3 | BUY |
| Keppel DC REIT | 2.27 | 2,707 | 2.40 | 13.5 | 60.4 | BUY |
| Keppel REIT | 1.21 | 2,976 | 1.45 | (0.8) | 2.5 | BUY |

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 3 Feb 2020

Legend:

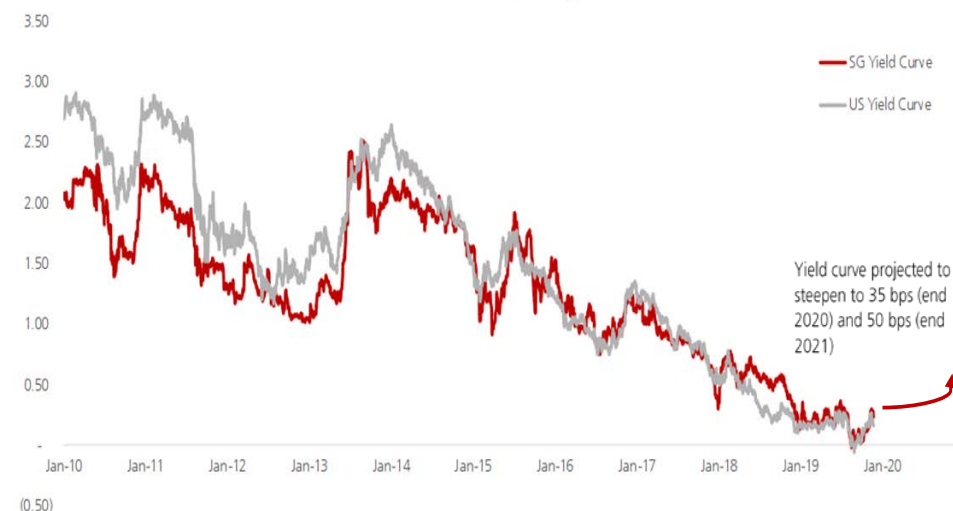
A-REIT: Ascendas REIT
AIT: Ascendas India Trust
MINT: Mapletree Industrial Trust
MLT: Mapletree Logistics Trust
FCT: Frasers Centrepoint Trust
KDCREIT: Keppel DC REIT
KREIT: Keppel REIT



Live more, Bank less

Singapore REITs (S-REITs analysis)

SG and US yield curves (10Y-2Y)



Remarks

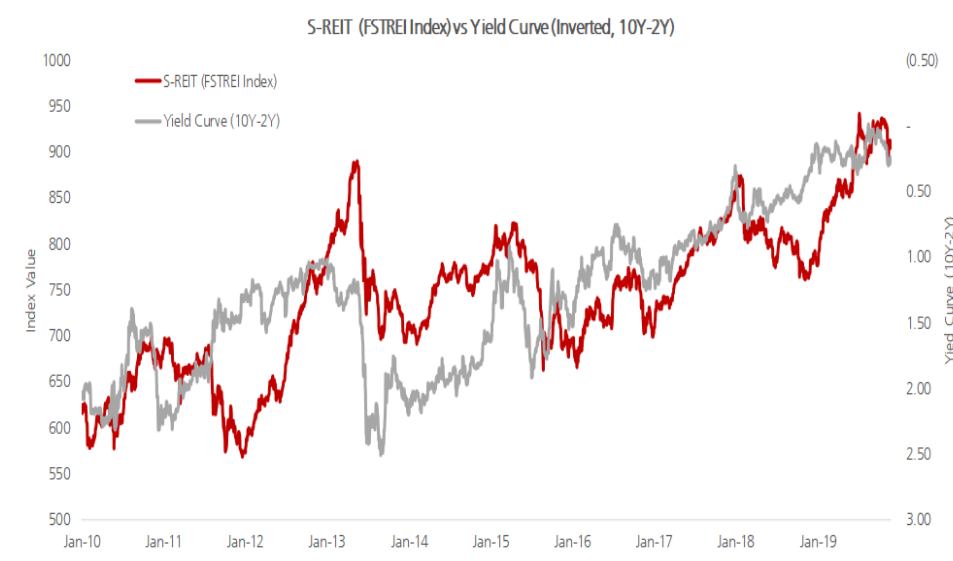
- Yields (3M, 10Y and 2Y) are projected to rise in 2020-2021 on the back of strong economic environment.
- SG interest rates have a close correlation with US interest rates.
- The yield curve (10Y-2Y) projected to steepen by 35bps (end-2020) to 50bps (end-2021).

DBS Bank forecasts

| | 3m Sibor | 2Y | 10Y | 10Y-2Y (yield curve) |
|----------------------|----------|------|------|----------------------|
| Current (03/02/2020) | 1.70 | 1.40 | 1.61 | 21 |
| End-2020 | 1.60 | 1.65 | 2.00 | 35 |
| End-2021 | 1.60 | 1.75 | 2.25 | 50 |

Source: Bloomberg Finance L.P., DBS Bank

S-REIT index vs yield curve



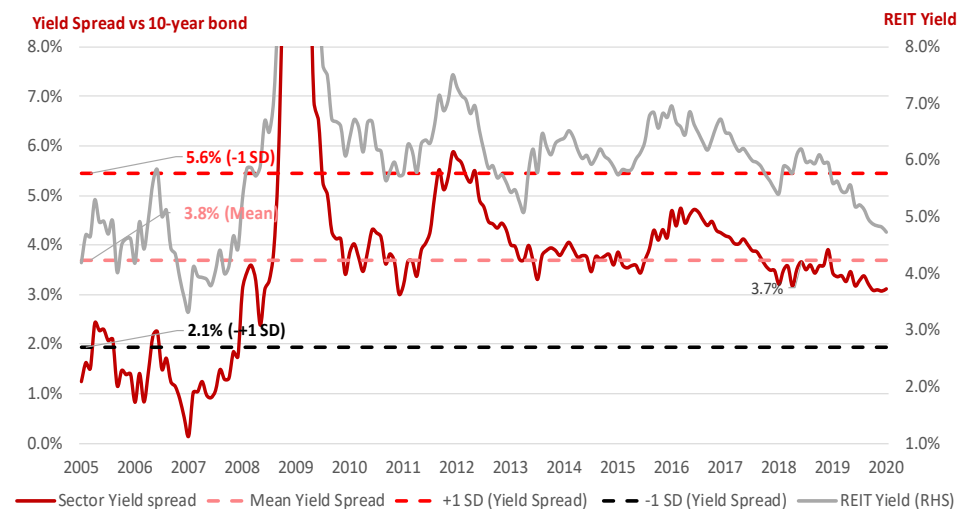
Remarks

- Priced off the 10Y yields, S-REIT rally has been extended due to the flattening of the yield curve over the past few years.
- A reversal of the flattening trend will be a hurdle for the S-REITs to overcome in 2020-2021.
- S-REITs' DPU-growth projects are therefore key for the S-REITs' continued re-rating.

Source: Bloomberg Finance L.P., DBS Bank

S-REIT Valuation multiples

S-REIT Yields and Yield Spread



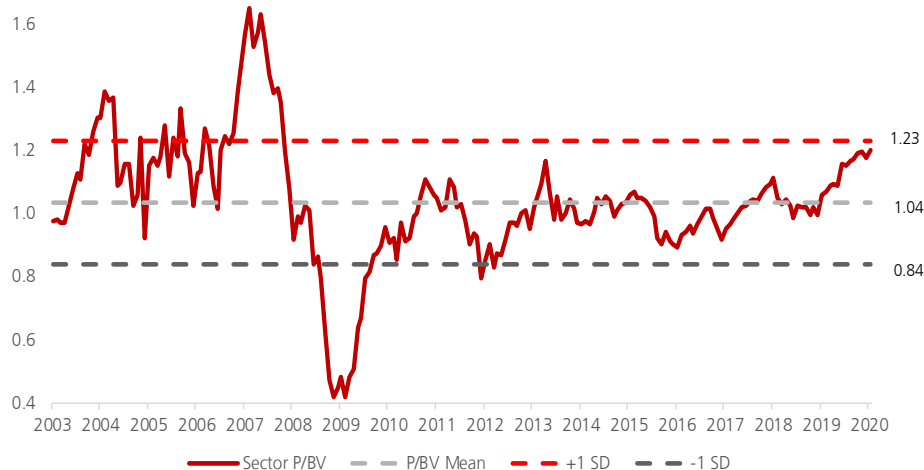
Source: Bloomberg Finance L.P., DBS Bank

Remarks

The S-REITs are trading at close to 4.7% yield and offering a yield spread of 3.1% when compared against the current 10-year bond yield of 1.61%.

With the 10-year bond yield not expected to rise much from current levels, we believe flows into the sector might close the gap even closer towards our 3.0-3.3% fair value level.

S-REIT P/NAV Multiples



Source: Bloomberg Finance L.P., DBS Bank

Remarks

The S-REITs ran up to as high as 1.2x P/NAV before the recent correction in prices brought P/NAV to 1.18x.





Performance Summary

S-REITs' monthly and YTD performance

| | Dec % chg | Jan % chg | 2019 % chg | 2020 YTD % chg |
|------------------|--------------|--------------|---------------|-------------------|
| Office | 0.4% | -0.8% | 18.9% | -0.7% |
| Retail | 0.1% | 0.9% | 11.6% | 0.9% |
| Industrial | 0.6% | 2.5% | 20.1% | 2.4% |
| Hospitality | -0.2% | -2.4% | 13.4% | -3.7% |
| Hospitality (US) | 2.8% | -4.1% | n.a. | -4.1% |
| Healthcare | -0.6% | 4.7% | 13.6% | 4.7% |
| Office (US) | 1.0% | 4.0% | 29.1% | 4.0% |
| Office (EUR) | 3.4% | 1.7% | 17.2% | 1.7% |
| Retail (Others) | -0.7% | -3.4% | 12.5% | -3.4% |
| FSTREI | 0.2% | 2.0% | 18.8% | 2.0% |
| FSSTI | 0.9% | -2.1% | 5.0% | -2.1% |

Source: Bloomberg Finance L.P., DBS Bank

A sense on the ground post results briefing

| Sector | S-REITs | Results Round-up | | | Rental Trends | | Key Takeaways |
|--------|---|------------------|-------------|-------|---|---|--|
| | | Below | In Line | Above | 4Q19 | Forward | |
| Retail | SG-based Assets: CapitaLand Mall Trust SPH REIT Fraser's Centrepoint Trust Starhill Global Lendlease Global Commercial REIT | | X X - | X |  |  | Feedback & Outlook: Occupancies have largely remained stable or improved across Retail REITs. While tenant traffic saw a general hike across SG malls, tenant sales saw a slight dip on a y-o-y basis as percentage of online sales inched to 8% of total sales, from 6.1% the same period last year. We expect rental reversions to remain positive given the tight supply environment. While sentiments are cautious given lower tourist arrivals following the coronavirus outbreak, we believe that existing leases that average at 2-3 years across SG-focused retail REITs will provide a good buffer to tide through the epidemic. REITs with China exposure will see higher operational risks as selected malls close operations or shorten operating hours due the coronavirus outbreak, as per provincial government policies to prevent the spread of the virus. |
| | Overseas Assets: Mapletree Greater China Commercial Trust CapitaLand Retail China Trust Sasseur REIT | | X - - | |  |  | |

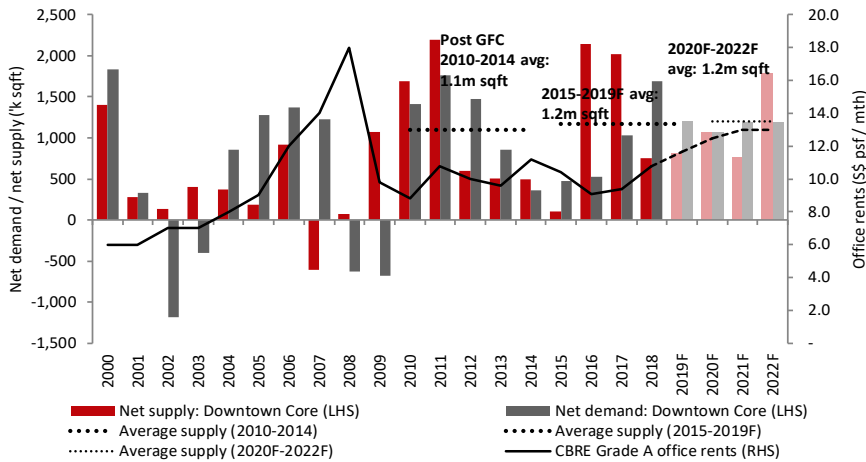
A sense on the ground post results briefing (cont'd)

| Sector | S-REITs | Results Round-up | | | Key Takeaways S-REITs | | Key Takeaways |
|-------------|----------------------------------|------------------|-------|-------|-----------------------|---------|--|
| | | Below | Below | Below | 4Q19 | Forward | |
| Industrial | Ascendas REIT | X | | X | | | <p>Feedback & outlook: Industrial rental rates have shown signs of bottoming out and the overall industrial rental rate in 4Q19 is expected to remain flat or slightly positive. Despite some industrial landlords having reported positive rental reversions towards the end of 2019, some weakness in earnings remain as landlords continue the transition from single-tenanted leases to multi-tenanted leases.</p> <p>While we remain cautious due to economic uncertainties, we expect industrial rents to have already bottomed out, especially in the Business Parks and High-Specifications segments.</p> |
| | Mapletree Logistics Trust | | | X | | | |
| | Mapletree Industrial Trust | | | X | | | |
| | ESR-REIT | X | | | | | |
| | Ascendas India Trust | | X | | | | |
| | AIMS AMP Capital Industrial REIT | | X | | | | |
| Office | Soilbuild Business Space REIT | X | X | | | | <p>Feedback: Expectations that rents will stay elevated given the limited net supply (c.400k sqft excluding Keppel Towers 1 & 2, Tower Fifteen redevelopment). Rental reversions will remain strong with expiring rents in FY2020 at S\$10psf or below from leases signed at the bottom of the previous cycle.</p> |
| | Cache | | X | | | | |
| | CapitaLand Commercial Trust | | X | | | | |
| | Mapletree Commercial Trust | | X | | | | |
| | Keppel REIT | | X | | | | |
| | OUE Commercial REIT | | | X | | | |
| Hospitality | CDL Hospitality Trusts | | X | | | | <p>Feedback: Hoteliers generally did well in the recent quarter, benching on RevPAR growth in the range of 3-5% amidst low supply. We are less optimistic for the coming quarters as the hospitality sector will be the primary sector to feel the heat from the coronavirus outbreak after travel restrictions are imposed on Chinese travellers.</p> <p>Exposure to Chinese guests were in the range of 4-10% across the various hotel REITs. With a higher probability of room cancellations and a drop in RevPAR due to both leisure and corporate demand, we envision flattish growth at best for the coming quarters.</p> |
| | | | | | | | |

Source: DBS Bank

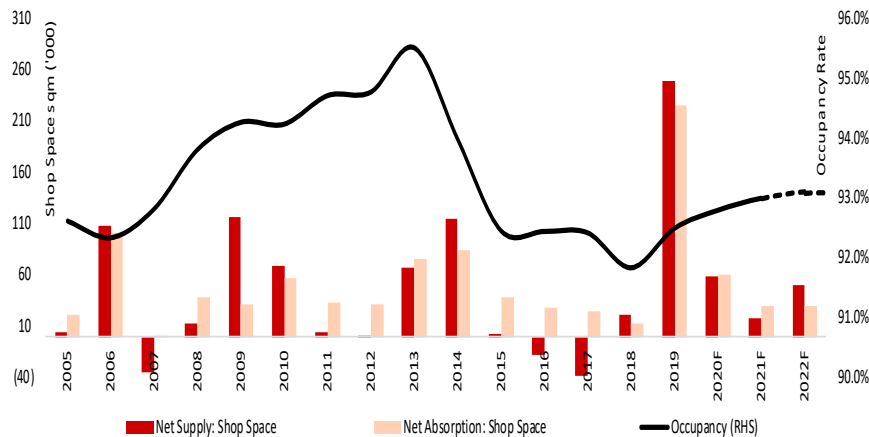
Supply outlook (all sectors)

Office sector enters a multi-year supply drought



Source: URA, DBS Bank

Retail supply peaked in 2019



Source: URA, DBS Bank

Remarks

Rentals on an uptrend due to an office squeeze.

- Demand for office space to be stable; uncertainty is from co-working operators.
- Spot rent outlook remains flattish over 2020-2021.

Supply growth not excessive

- Majority of supply to enter from 2021-2022 onwards will support rents.
- Potential demolitions of Keppel Towers 1 and 2 to constrict supply further in 2020.

Remarks

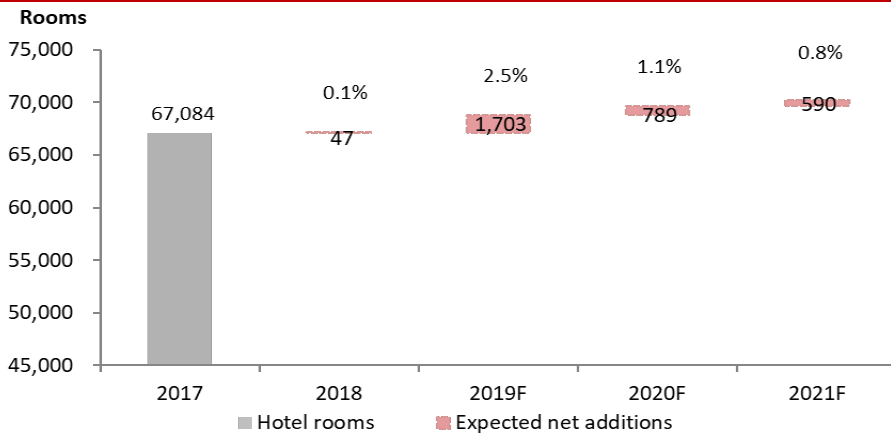
Rental outlook stable.

- Retail rents are projected to remain stable as net absorption is forecast to remain healthy after Funan, Jewel and PLQ see strong take-up.

Supply growth not excessive

- Landlord-favourable market to persist as supply tapers off significantly.

Hotel supply tapers off



Source: URA, DBS Bank

Remarks

Downside to RevPAR estimates.

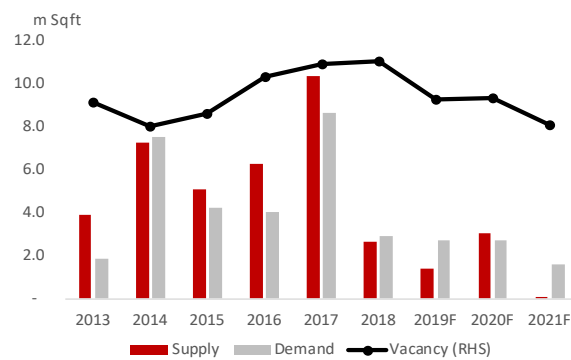
- RevPAR should be on an uptrend in 2020-2021 but given the outbreak of the coronavirus, there could be near-term downside to estimates.

Supply growth not excessive

- Supply growth in the coming years is more modest growing at c.1% in the next two years.

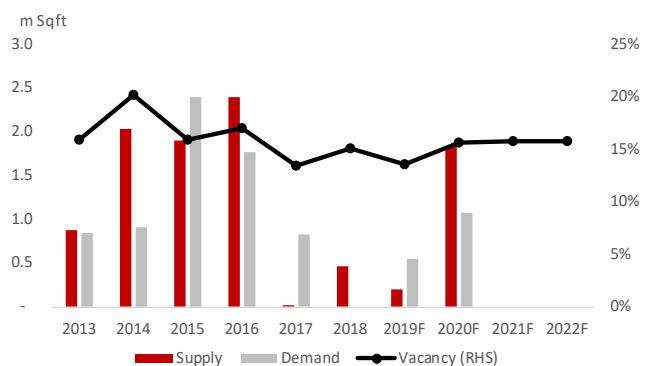
Industrial outlook

Warehouse: Minimal new additions in 2019-2020

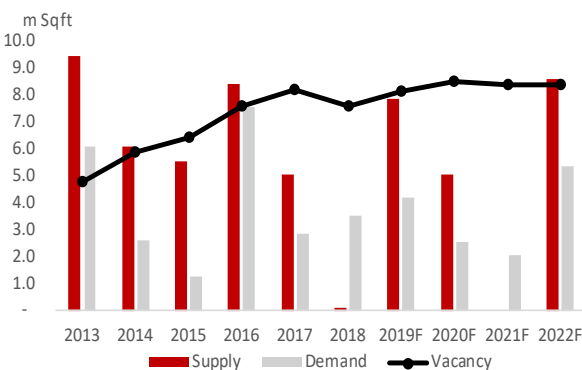


Source: URA, DBS Bank

Business Parks: Supply largely pre-committed

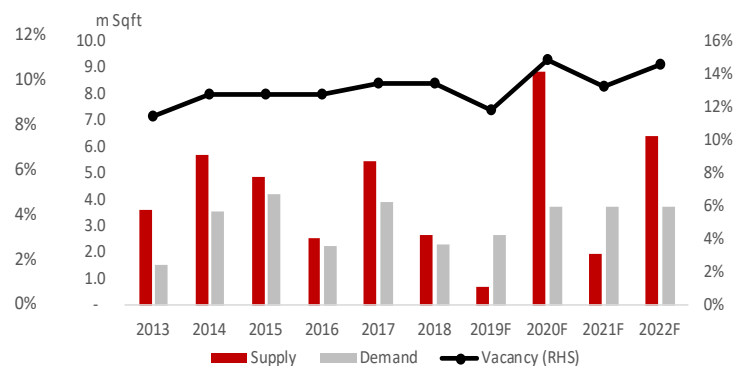


Single-User Factory: Supply still high in 2020/2022



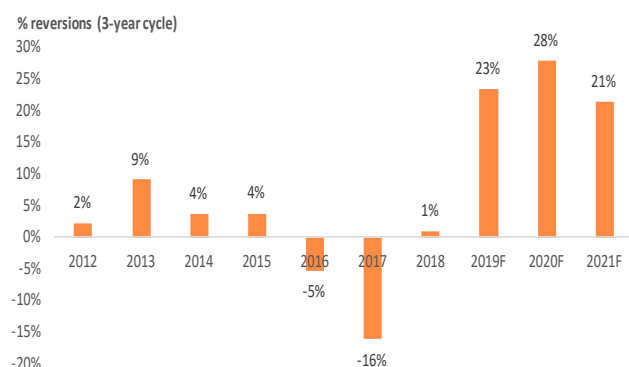
Source: URA, JTC, DBS Bank

Multi-User Factory: Supply still high; potential shadow space



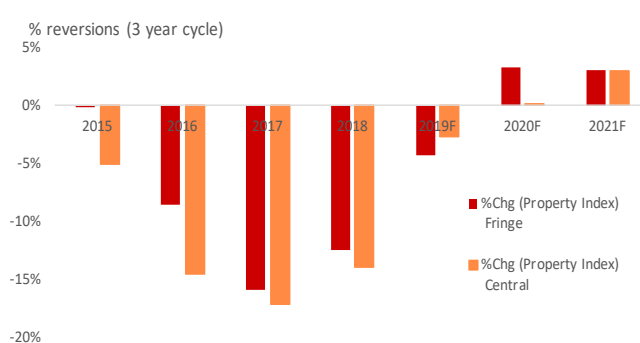
Reversionary prospects

Office: At least 20% reversion (3-year cycle)



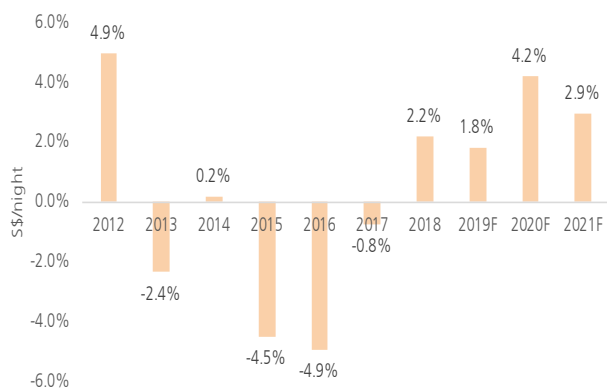
Source: URA, DBS Bank

Retail: Downside pressure easing from 2019



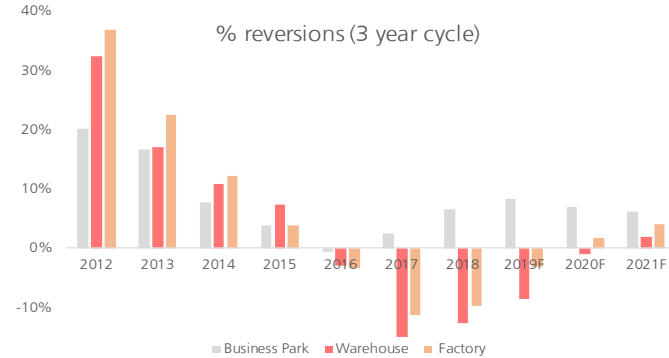
Source: URA, DBS Bank

Hotel: RevPAR growth of close to 3%-4% per year



Source: URA, DBS Bank

Business Park/ Warehouse stable



Source: URA, DBS Bank

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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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