Singapore
Flash Note

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Singapore retail landlords

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In for a rough ride

- Suspension of Entertainment and Leisure businesses till end April-20 will impact overall retail scene
- Retail landlords face operational uncertainties as malls cope with tighter measures (shorter operating hours and higher social distancing measures) or closures
- Affected businesses may seek more help and rebates in our view
- Sensitivity analysis: Our FY20F DPU estimates could drop by 4-13% (vs 2-4% previously) to factor in the impact of above measures

What's New

Stricter measures were announced by the government yesterday (on 24 March 2020) in relation to retail malls and retail tenants to enforce social distancing within retail malls as the number of COVID-19 cases spiked up in the past week.

In view of operational disruptions and crowd density control within malls, and closure of entertainment and leisure outlets and education centres until the end April 2020, we would see a further dip in shopper traffic island-wide come 2Q20.

Moreover, potentially shorter operating hours and inability to operate at full capacity for tenants in a bid to fulfil crowd density requirements could see more affected businesses asking for help from retail landlords in the form of rental rebates.

Among the Singapore focused retail S-REITs, CMT will likely be the most impacted, having the greatest exposure to tenants within the affected trade sectors of entertainment & leisure (5% of GRI), education (2%) and food & beverage (31%).

We have revised our sensitivity analysis to assess the impact of higher rental rebates given to tenants (one month for all tenants) and a greater loss in FY20's GTO rental income (asumed 3 months loss of GTO rental income). We now estimate that our FY20F DPUs could drop by 4-13% (vs 2-5% previously). Our retail landlords now trade at a yield of 5.6-10.7% on our FY20F DPU forecast derived through our sensitivity analysis.

Key highlights

COVID-19 updates: Stricter measures on retail malls and tenants to enforce social distancing will have a deeper impact on landlords.

- New pre-emptive measures were announced by the government on 24 March following a spike in new COVID-19 cases in the past week.
- There was a record of 54 new cases on Monday (23 March), shortly after Singapore announced the nation's first two COVID-19 related deaths on 21 March.
- In a bid to ensure social distancing to reduce speed of community spread, the government has imposed stricter operating measures that must be strictly adhered by retail malls and retail tenants.

- Operators and tenants found to be non-compliant will incur penalties, which we suspect could be a revocation of operating licenses and/or fines.

(-) From Thursday (26 March) to 30 April (with the potential for extension), the following measures have been imposed:

(i) Bars, cinemas and all entertainment outlets to be closed; this includes night clubs, theatres and karaoke outlets.
(ii) All centre-based tuition and enrichment classes to be suspended
(iii) Malls, museums and restaurants to reduce crowd density to no more than one person per 16 sqm of usable space
(iv) Open atrium events to be disallowed within retail malls, with the exception of supermarket retailers, to disperse crowds
(v) All groups (outside of work) must not exceed 10 persons

(-) With the closure of Leisure and Entertainment outlets, foot traffic at malls will likely fall in the coming month.

- While not all will be impacted, Leisure and Entertainment tenants will be the most impacted given the complete shutdown for a period of c.1 month. These tenants may seek further help (in terms of rental rebates, rental holiday) to assist in the affected month and beyond.

- Restaurants likely to operate at 25-30% below full capacity following social distancing measures, which includes the zoning out of alternate seats, and inability to host groups above 10 people.
- Museums and malls likely to see an even thinner crowd given the lack of tourist traffic, while subject to crowd density restrictions.
- Centre-based tuition and enrichment classes may continue operations online and conduct e-learning instead of physical classes.
- Retail malls will no longer be allowed to hold events within main atriums of retail malls.

(-) Impact to various retail S-REITs: CMT the most impacted with the revised guidelines but landlords generally not spared.

- CMT (4.9% sector exposure by GRI), FCT (2.9%) and MCT (2.9%) have the largest exposure to tenants within the leisure and entertainment trade sector with a large percentage in relation to cinemas.
- Food & Beverage tenants have been impacted since the start of the Covid-19 outbreak and will likely to see a further dip in sales with these revised guidelines, and combined with possible shorter operating hours, would face tough operating conditions in the near term.
- Based on our estimates, the Leisure and Entertainment sector represents the single largest trade sector by GRI among the retail S-REITs at 30.9%. This would hit the likes of heartland malls - CMT (31.3%) and FCT (37.8%) - and also Lendlease's 313@somerset (39.4%).
- Impact of a suspension among education tenants likely to be relatively low, as retail malls' exposure is less than 2% (CMT, FCT, MCT).
- Our concern lies on potential for similar restrictive measures to be expanded to tenants within the beauty services sector, which would likely have an impact on all retail S-REITs across the board. Beauty services sector contributes a surprisingly large percentage of gross rental income within the range of c.5.8-12.0%.

Tenant breakdown by Gross Rental Income (GRI)

	Impact on covid-19 (Negative/Positive)	CapitaLand Mall Trust	Frasers Centrepoint Trust	Mapletree Commercial Trust	Lendlease Global Commercial REIT	SPH REIT	SGREIT - Ngee Ann City	SGREIT - Wisma Atria
Retail (SG) – by GRI		91%	100%	41%	76%	75%	26%	25%
Trade Categories (By GRI):								
F&B (including food courts)	Mix	31%	38%	31%	39%	18%	-	24%
Fashion, Lifestyle & Shoes	Negative	16%	14%	42%	29%	34%	-	43%
Luxury, Jewellery & Watches	Negative	3%	3%		0%	16%	-	16%
Beauty & Health	Negative	12%	11%	6%	6%	-	9%	12%
Services		4%	9%		-	-	3%	-
Dept Stores, Supermarkets		11%	8%	9%	-	21%	-	-
Dept Stores	Negative	7%	3%	-	-	-	-	-
Supermarkets	Positive	4%	5%	9%	-	-	-	-
Education	Negative	2%	2%	4%	0%	0%	-	-
Entertainment	Negative	5%	3%	3%	0%	0%	-	-
Others	-	16%	12%	5%	26%	11%	88%	5%

Source: Various Companies, DBS Bank

(-) Sensitivity analysis: FY20F DPU projected to dip by 4.2-12.3%

Our previous sensitivity analysis estimated a dip of 1.7-5.1% to our FY20F DPU for SG-focused retail REITs assuming:

(i) Loss of GTO rents for 2 months (assumed at 5% of total revenue)
(ii) Half-month rental rebate for all tenants, and property tax incentive (Budget 2020)

After revising for the impact of the latest measures announced yesterday, we now estimate that FY20F DPU could drop by 4.2-12.9% for SG-focused retail REITs assuming:

(i) Loss of GTO rents for 3 months (assumed at 5% of total revenue)
(ii) Full month rental rebate for all tenants, and property tax incentive (Budget 2020)

SG focused retail S-REITs	Previous Estimates: FY20F Revenues (S$m)	Previous Estimates: FY20F Distributable Income (S$m)	Previous Estimates: FY20F DPU (Scts)	Sensitivity Analysis: FY20F Revenues (S$m)	Sensitivity Analysis: FY20F Distributable Income (S$m)	Sensitivity Analysis: FY20F DPU (Scts)	% Chg	Share price (S$)	Implied div yield (%)
CapitaLand Mall Trust	806.5	447.2	12.1	751.0	391.7	10.6	-12.3%	1.70	6.2%
Frasers Centrepoint Trust	201.4	143.0	12.8	186.1	127.7	11.4	-10.7%	2.00	5.7%
Mapletree Commercial Trust	562.6	331.4	10.0	545.3	314.1	9.5	-5.2%	1.68	5.6%
Starhill Global REIT	211.6	97.5	4.5	207.4	93.3	4.3	-4.2%	0.40	10.7%
Lendlease Global Comm REIT	87.7	61.4	5.2	83.0	56.7	4.8	-7.7%	0.54	8.9%
SPH REIT	301.8	163.1	5.9	280.8	142.1	5.1	-12.9%	0.78	6.6%

Source: DBS Bank

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**Share price appreciation + dividends*

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