Singapore Industry Focus

Singapore Retail REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 May 2020

Near the end of a storm

- Retail S-REITs on an upward trajectory as c.90% of traders plan to resume business by first week of July 2020
- Holistic government assistance package to limit retailers' downside risk, more forward visibility for retail landlords
- Sector's valuation is poised to revert to mean, implying upside in excess of 15-30%

Worst is over for retail REITs. We believe that the worst is over for retail S-REITs. With malls expected to resume business in July 2020 and more retail outlets reopening, we believe the sector is returning to operational normalcy. In addition, we believe that downside risks have been greatly minimised with new government grants and assistance for the retail trade. With the worst behind us and retail S-REITs still trading at c.0.9x P/NAV (-1 SD of their 10-year mean), we see favourable risk-reward ratios. We upgrade CMT and FCT to BUY with revised TP of S$2.15 and S$2.65 respectively. SPH REIT is upgraded to HOLD.

Phased opening of retail malls should be read positively. The planned gradual reopening of the retail malls starting from phase 2 (at the end of June 2020) supported by lower community spread numbers in our view, imply a steeper "recovery curve" back towards pre-COVID-19 levels. We believe that consumers will likely be more confident in heading back to the malls to shop, dine and even hang out, albeit with social distancing measures in place. This momentum, if sustained, bodes well for the retail ecosystem (retailers, landlords and the supporting trades).

More ammunition for retail landlords to assist retailers. Additional grants from the Fortitude Budget will provide more meaningful rental assistance to retailers which are badly affected by mall closures since April 2020. Landlords have provided an estimated 0.8-2.5 months of out-of-pocket rental rebates and may cough up a little more to match the government's support of two months' rental. The overall rental support of up to four months is generous, and together with the Job Support Scheme (JSS) for retailers will (i) set out a clearer pathway to recovery; and (ii) reduce default risks for retailers which need time to find their footing. In addition, we remain comfortable that Retail S-REITs have sufficient buffers to adequately cover their operational cost obligations.

"Dominant malls"to anchor retail malls' position as heart of the future retail ecosystem. Although shopping has fundamentally changed post COVID-19 with a greater adoption of e-commerce, we believe that retail malls can still remain at the heart of the entire retail ecosystem. We see "dominant malls" rising in importance. These malls continue to offer a diverse offering and experience and are able to capture traffic from their primary catchments supported by transportation infrastructure. With only 11 such malls in Singapore among the REITs, we estimate that FCT, CMT and MCT will derive 75%, 52% and 40% of their revenues respectively from these "dominant malls".

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STOCKS

	Price S$	Mkt US$m	12-mth Target S$	Performance (%) 3 mth	12 mth	Rating
CapitaLand Mall Trust	1.93	5,014	2.15	(22.3)	(23.3)	BUY
Frasers Centrepoint Trust	2.27	1,789	2.65	(23.5)	(7.5)	BUY
SPH REIT	0.83	1,602	0.80	(22.4)	(22.4)	HOLD
Starhill Global REIT	0.46	708	0.50	(34.8)	(38.3)	HOLD
LendLease Global Commercial REIT	0.63	515	0.85	(30.9)	N.A	BUY
Mapletree Commercial Trust	1.96	4,564	2.25	(13.0)	0.9	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 28 May 2020

Up to 90% of retail tenants to reopen come July 2020

Singapore and malls to reopen by July 2020; c.90% of retail tenants allowed to resume business by then. As Singapore approaches the end of a two-month Circuit Breaker on 1 June, the government has announced post-Circuit Breaker measures to transit to a 'new normal' in three phases. The first phase, starting 2 June 2020 and expected to last at least four weeks, will allow a small portion of the workforce to return to their offices and schools to gradually reopen. We, however, do note that most workers will likely be telecommuting and working from home during phase 1 and malls will remain substantially closed. Only retail outlets offering essential services (especially F&B) are expected to open but no dine-in at restaurants is allowed for now.

Subject to favourable supporting data, the phase 2 period will represent the biggest leap in terms of sector resumptions and will be the time when malls will substantially reopen for consumers to come back for dining, entertainment and shopping. Based on our estimates, more than 90% of all retail tenants in the various malls will reopen during phase 2, up from the c.25-35% currently operating. This will be positive for retailers and retail S-REITs. The F&B outlets at centrally located malls (including those near Orchard and the Central Business District [CBD] will also benefit from i) a larger pool of workers returning to office, ii) consumers revisiting malls over the weekends. If this positive momentum continues, it will be positive for the overall retail sector.

A positive surprise to look forward to for the retail S-REITs. While most are focused on the July 2020 timeline four weeks after phase 1, depending on the community spread seen during the first few weeks in June 2020, an earlier-than-expected transition to phase 2 would be a positive surprise for retail S-REITs.

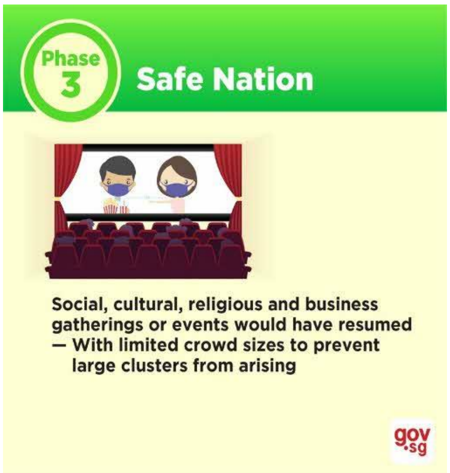
The phased opening of Singapore's economy post COVID-19 Circuit Breaker ("CB")

DBS Commentary:

- Most office workers will be likely to still telecommute (unless necessary to be in office).
- More sectors in the manufacturing sector likely to be heading back towards full capacity.
- Retail malls to remain closed for most trades.

DBS Commentary:

- Targeted to be four weeks after phase 1, subject to favourable supporting data (community spreads remaining low or at zero).
- Safe distancing measures likely to be still practised.
- c.90% of the trades in the retail malls will likely be allowed to open during phase 2.



DBS Commentary:

- Likely to be towards the end of 2020, subject to favourable supporting data.

Source: gov.sg, DBS Bank

DBS
Live more, Bank less

Food & Beverage and Beauty & Health to lead demand recovery

FCT, CMT and LREIT will have most trades recovering the fastest on the back of pent-up demand. We see recovery among retail landlords to likely be mixed, with dominant suburban malls paving the way for retail recovery. Disparity in the speed of recovery may be seen across malls within the central business district, central Orchard precinct and suburban regions. Suburban malls will likely be the prime beneficiary to welcome the first flock of shoppers once phase 2 of post-Circuit Breaker measures start.
Centrally located malls with a focus on tourist traffic are expected to lag but may see demand from returning office workers in the coming months.

(i) Fast-growth sectors: 18-49% of revenues

In terms of trade sectors, we believe that the F&B and Beauty & Health segments will lead the recovery back to pre-COVID-19 levels on the back of pent-up demand from consumers. The suburban malls, on average, have a larger proportion of F&B outlets as compared to Orchard Road malls. Although dine-in option will be slowly phased in for F&B operators to recoup lost revenues during the Circuit Breaker period, albeit with social distancing capacity constraints, we expect F&B operators to stagger their operating times to turn their tables more over an extended lunch/dinner period. The Beauty & Health segment will also likely be one of the faster-growing segments as consumers resume their postponed treatments. These personal services are unlikely to be replaced by e-commerce.

(ii) Moderate-growth sectors: 31-64% of revenues

Most sectors will fit into this segment. Anchored by fashion, sportswear, luxury jewelry & watches, we believe that consumers may be hesitant to spend more here, given the overhang of a recession in Singapore while e-commerce adoption has been a strong alternative. That said, the upside will come from consumers potentially channeling their expenditure here, as leisure travel is unlikely to resume, especially in 2020.

(iii) Slow-growth sectors: 12-20% of revenues

Tenants providing entertainment and selected services will likely open at a later date, after phase 2 of post-Circuit Breaker measures, given that most of these tenants serve larger crowds and their operations will be constrained by social-distancing measures. Supermarkets will likely remain stable and serve as an anchor to pull traffic in for the malls. That said, exposures to these sectors are small at 12-20% of revenues.

Recovery analysis by trade sectors post COVID-19

	Rate of Recovery	Constraints	CMT	FCT	MCT	LREIT	SPH REIT	SGREIT (Wisma Atria)
Singapore retail (% total GRI)			91%	100%	41%	76%	75%	25%
Trade Categories (GRI)								
F&B (including food courts)	Fast	Capacity	31%	38%	31%	39%	18%	24%
Fashion, Lifestyle & Shoes	Moderate	Inventory	16%	14%	42%	29%	34%	43%
Luxury, Jewellery & Watches	Moderate	Demand	3%	3%	0	0%	16%	16%
Beauty & Health	Fast	Capacity	12%	11%	6%	6%	0	12%
Services	Slow	Capacity	4%	9%		0	0	0
Dept Stores, Supermarkets	Moderate	Capacity	11%	8%	9%	0	21%	0
Dept Stores	Slow	Capacity	7%	3%	0	0	0	0
Supermarkets	Slow	Pare down	4%	5%	9%	0	0	0
Education	Moderate	Capacity	2%	2%	4%	0%	0%	0
Entertainment	Slow	Capacity	5%	3%	3%	0%	0%	0
Others	Moderate	n.a.	16%	12%	5%	26%	11%	5%
% recovery by categories.								
	Fast		43%	49%	37%	45%	18%	36%
	Moderate		37%	31%	51%	55%	61%	64%
	Slow		20%	20%	12%	0%	0%	0%

Source: DBS Bank, various companies

Fortitude Budget: Additional rental support for SME tenants

Cash grants for qualifying SME businesses. In a targeted approach to further help Small & Medium Enterprises (SMEs), the government will aid those eligible through cash grants. These will be disbursed to the landlords, which are in turn required to pass them on to their SME tenants. Retail SME tenants will receive a new cash grant of about 0.8 month of rent to offset their rental costs. This will bring total rental rebates provided by the government to about two months, including property tax rebates passed on by landlords as announced in the previous budgets.

New bill to mandate landlords to grant waivers. A new Bill will be tabled in June 2020 which will mandate landlords to grant rental waivers to qualifying SME tenants which have suffered a significant revenue drop as a result of COVID-19. If the new Bill is passed by Parliament, qualifying SME tenants in retail properties will benefit from a total of four months of rental relief shared equally between the government and landlords.

Retailers are well supported, in our view. With most S-REIT landlords proactively offering rental assistance since the start of the COVID-19 outbreak, the new bill is likely to have minimal impact. We estimate that most retail S-REITs will have to cough out up to an additional 1.2 months of rental rebates, with the exception of MCT and SPHREIT which are well covered. Most retailers will not need to pay rent from March-July 2020. Together with various schemes offered by the government, this will alleviate the cashflow stress felt by retailers when malls remain closed and during the early recovery period. These measures will put retailers in a better footing in the medium term.

Summary of rental rebates provided by the retail landlords (by months)

	Rental Rebates (No of Months)				Fortitude Budget		Total	Total	Total
	REIT	Govt	Security Deposit	Total	Gov Grants	REIT	Govt	REIT (w/o SD)	(with SD)
CMT	1.0	1.0	1.0	**3.0**	+1.0	+1.0	2.0	2.0	5.0
FCT	1.5	1.0	1.0	**3.0**	+1.0	+0.5	2.0	2.0	5.0
SGREIT	0.8	1.0	0.0	**1.9**	+1.0	+1.2	2.0	2.0	4.0
MCT	2.5	1.0	0.0	**3.5**	+1.0	-	2.0	2.0	4.5
LREIT	1.0	1.0	0.0	**2.0**	+1.0	+1.0	2.0	2.0	4.0
SPHREIT	2.3	1.0	0.0	**3.3**	+1.0	-	2.0	2.0	4.3
Suntec	1.0	1.0	1.0	**3.0**	+1.0	+1.0	2.0	2.0	5.0
CDL	2.0	1.0	1.0	**4.0**	+1.0	-	2.0	2.0	5.0
UOL	2.0	1.0	0.0	**3.0**	+1.0	-	2.0	2.0	4.0

Source: DBS Bank, various companies

Breakdown of rental rebate utilisation (by months)

	Mar'20	Apr'20 Circuit Breaker	May'20 Circuit Breaker	Jun'20 Phase 1	Jul'20 Malls Reopen	Aug'20	Total (w/o SD)	Total (with SD)
CMT	1.0	1.0	1.0	1.0*	1.0*	-	**4.0**	**5.0**
FCT	0.5	1.0	1.0	1.0	1.0*	-	**4.0**	**5.0**
SGREIT	-	0.8	1.0	1.0*	1.0*	1.0*	**4.0**	**4.0**
MCT	0.5	1.0	1.0	0.5	0.5	1.0*	**4.5**	**4.5**
LREIT	-	1.0	1.0	1.0*	1.0*		**4.0**	**4.0**
SPHREIT	0.3	1.0	1.0	0.5	0.5	1.0*	**4.3**	**4.3**
Suntec	1.0	1.0	1.0	1.0*	1.0*		**4.0**	**5.0**
CDL	1.0	1.0	1.0	0.5	0.5	1.0*	**4.0**	**5.0**
UOL	-	1.0	1.0	0.5	0.5	1.0*	**4.0**	**4.0**

** additional months of rental waivers under the Fortitude Budget*
Source: DBS Bank, various companies

Cash retention in 1Q20 to provide a buffer of 0.5-1.5 months' worth of expenses

Sufficient buffers built up for most retail S-REITs. The retention of income in 1Q20 for most retail S-REITs ranging from 50-79% may appear to be significant. But this is a prudent approach given the uncertainty faced by managers as only c.20-30% of retail tenants remain operational during the two-month Circuit Breaker while operational costs (maintenance, utilities) and interest to the banks need to be paid.

Furthermore, the COVID-19 Bill, to be tabled in June 2020 which will allow selected tenants to defer rents and provide additional rental waivers, is another layer of uncertainty to cash flows for landlords. While the most recent cash grants offered by the government may alleviate some of these concerns in the medium term, there is still the possibility of tenants seeking further deferments post-rental relief period. However, the likelihood of this happening is lower when compared to a month back.

The major cost components for S-REITs. Property and interest expenses are the two largest cost components for retail S-REITs, at approximately 25% and 12% of gross rental revenues respectively and are also recurring in nature. When comparing the total cash retained to the respective S-REITs' operational and interest expenses, we estimate that it is sufficient to cover the operational costs in the months when rents are not collected (rebates offered). Based on our estimates, there is additional buffer which translates into c.0.6-1.4 months of expenses (operational costs + interest costs).

As such, we believe that the cash retention will be continued in 2Q20 for a selected list of retail S-REITs, albeit at a smaller percentage. SGREIT and LREIT will likely have to retain some form of income in the coming quarter, to cover the additional two-month rental waiver for eligible SME tenants as mandated by the upcoming Bill.

Monthly expense buffer supported by income retained in 1Q20

	CMT	SPH REIT	SGREIT	FCT	LREIT
Amount retained 1Q20 (S$m)	70	33	0	18	0
Retention ratio	70%	79%	0%	50%	0%
Yearly expenses (S$m) (based on FY19 w/o property tax rebates)					
Property expenses	(213.6)	(48.9)	(46.8)	(57.1)	(22.2)
Interest expense	(118.5)	(30.5)	(38.7)	(24.6)	(10.7)
Other expenses (after property tax rebates)	9.9	(5.7)	(6.5)	(1.5)	(4.0)
Total expenses	(322.2)	(85.0)	(92.0)	(83.3)	(37.0)
Expenses on a monthly basis	**(26.9)**	**(7.1)**	**(7.7)**	**(6.9)**	**(3.1)**
Expense buffer					
Total rental rebates months	2	3.3	1.4	2	2
Expenses expected to be incurred during Months of nil rent collection (S$m)	-53.7	-23.4	-10.7	-13.9	-6.2
Buffer (S$m)	16.3	9.6	-10.7	4.1	-6.2
Expenses buffer (mths)	**0.61**	**1.36**	**-1.40**	**0.59**	**-2.00**

Source: DBS Bank, various companies

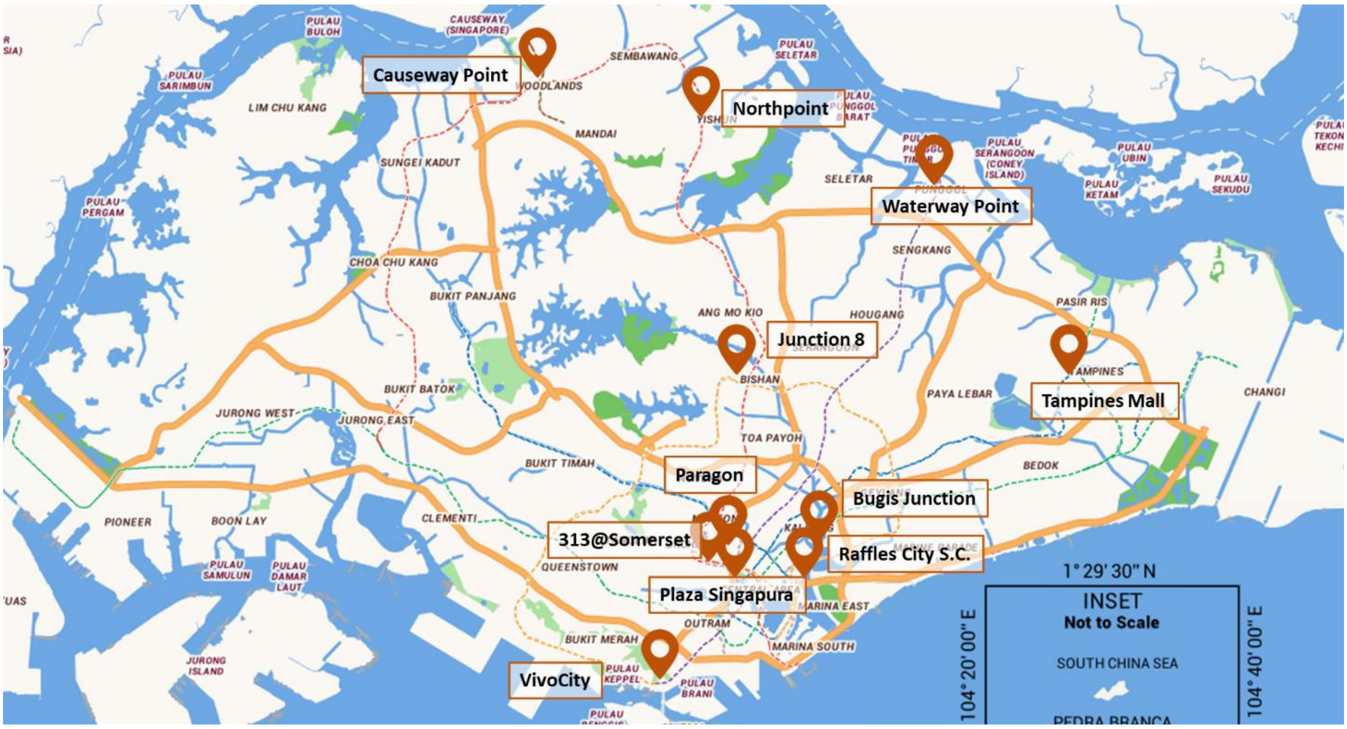
The emergence of dominant malls for long-term resilience

A renewed focus on "dominant malls". Although shopping has fundamentally changed post COVID-19 with a greater adoption of e-commerce, we believe that retail malls can still remain at the heart of the entire retail ecosystem. We see "dominant malls" rising in importance in the medium term. These malls will be able to better serve e-commerce and delivery to shoppers in their residential catchment areas due to locational proximity and an agile transport network. We classify these dominant malls based on i) sizeable footprint (>300k sqft), ii) direct connectivity to MRT, and iii) the ability to generate superior tenant sales in comparison to peer retail malls.

A force of their own. Dominant malls have long undergone the necessary measures to 'future-proof' themselves to anchor their position as the heart of the entire retail ecosystem in Singapore. These malls continue to deliver diverse offerings and experiences, while incorporating omni-channel retail capabilities to complement the e-commerce operations of their tenants. The adoption of e-commerce has accelerated drastically during the Circuit Breaker period to grow from less than 5% of total retail sales in Singapore a year ago to capture c.8% of total retail sales now.

These malls continue to offer a diverse offering and experience, and are able to capture traffic from their primary catchment supported by transportation infrastructure. With only 11 such malls in Singapore among the REITs, these anchor properties will augment the stability of the respective S-REITs' portfolios across cycles. We estimate that FCT, CMT and MCT will derive 75%, 52% and 40% of their revenues respectively from these "dominant malls".

Locations of dominant malls



Source: URA, DBS Bank

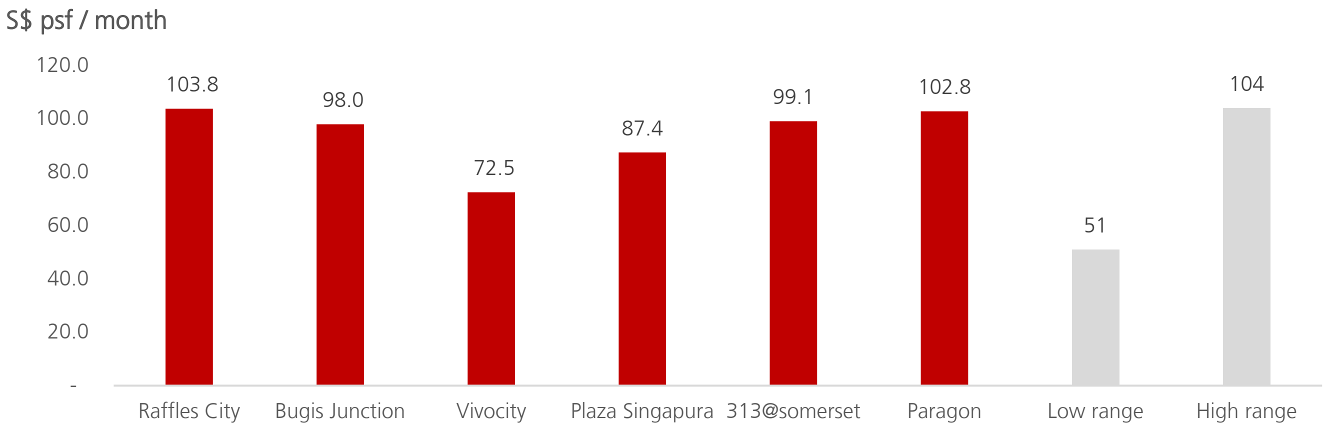
Superior metrics will draw tenants. While size matters, our estimates that operating metrics for these malls tend to be at the higher end of peer ranges in the respective precinct. Using data across the various landlords, we found that occupancy cost, which is tabulated as rental income/tenant sales, is typically lower for suburban malls (17.0-22.7%) and higher for Orchard malls (18.2-24.0%) while monthly sales on a S$ psf basis, range from S$51-104 psf per month for CBD/regional malls, S$59.1-142 psf per month in Orchard, and S$36.5-116.7 psf per month for suburban malls.

Ranges of operating statistics based on mall precinct

Location	Occupancy cost	Tenant sales (sqft/month)	Annual Shopper Traffic per sqft
Central Business District	18.2% - 23.3%	S$51.0 - S$103.8	42.3 - 100.6
Orchard	18.2% - 24.0%	S$59.1 - S$142.4	38.5 - 177.4
Suburban	17.0% - 22.7%	S$36.5 - S$116.7	16.8 - 161.9

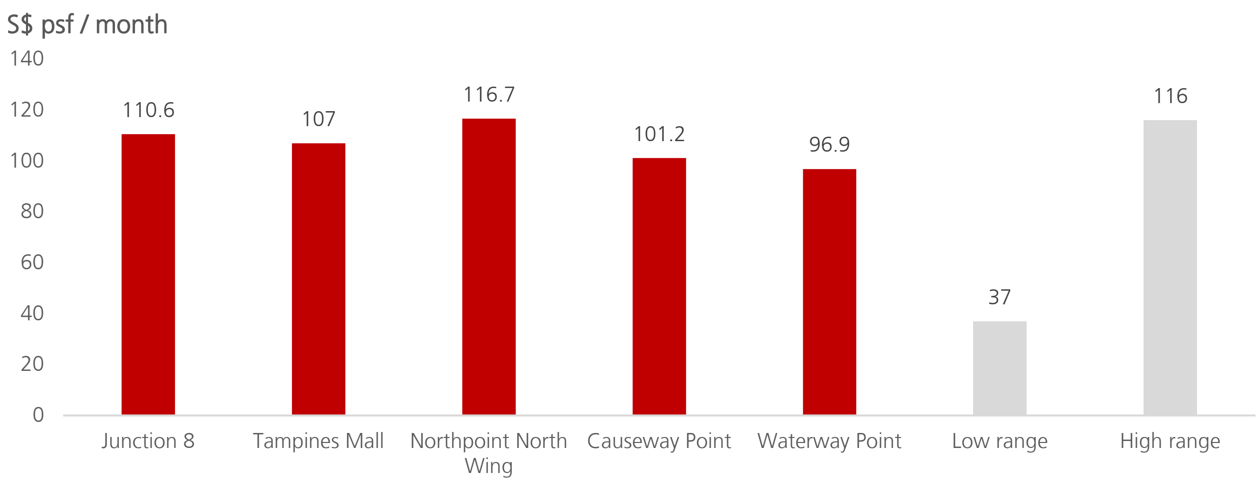
Source: DBS Bank, various companies

Dominant Malls in the CBD/Southern Waterfront/Orchard region



Source: DBS Bank, various companies

Dominant Malls in the Suburban region



Source: DBS Bank, various companies

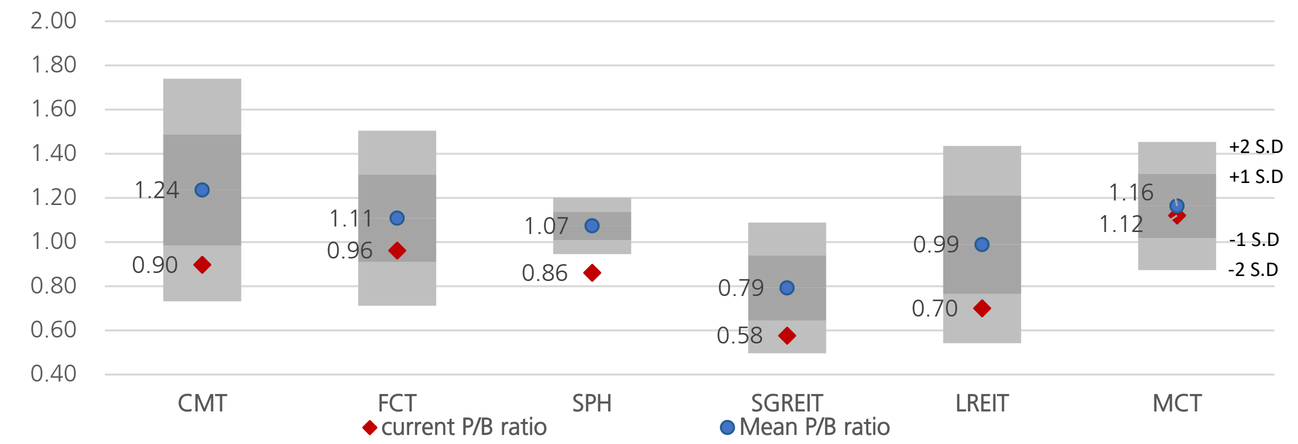
Valuations off the charts; vying for a DPU recovery in FY21

Below historical mean. Most of the retail S-REITs are currently trading within the -1 to -2 SD levels on a 5-year historical P/BV, with the exception of SPH REIT, which is trading beyond -2 SD levels.

While dividend yields may be impacted in the near term due to rental rebates offered to tenants, based on our estimates, this is still close to 100-340bps above 5-year historical low dividend yields. We remain confident in the sector in view of a recovery in DPUs in FY21.

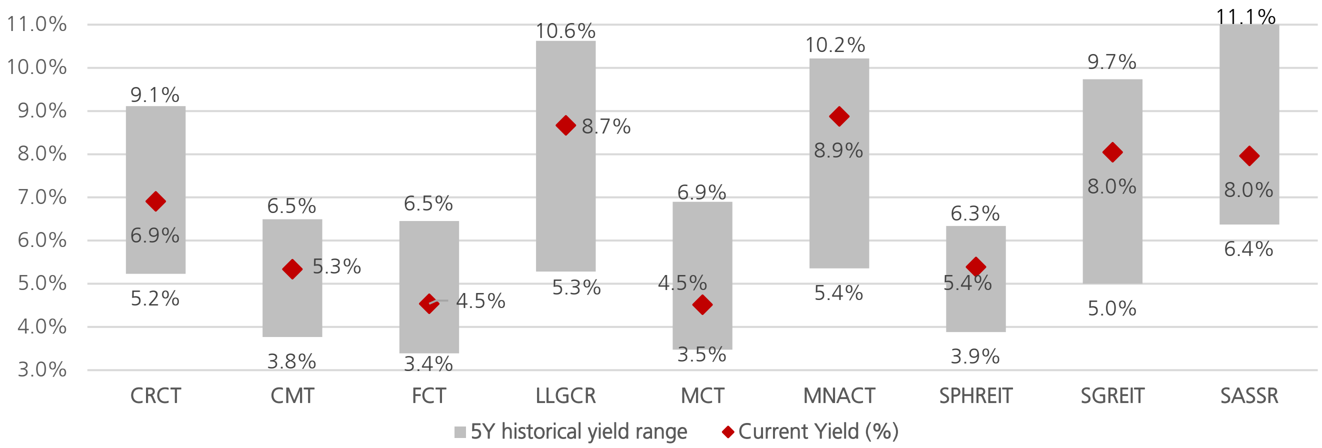
Upgrade FCT and CMT to BUY. Given attractive P/NAV valuations amidst abating risk-reward ratios, we upgrade FCT and CMT to BUY with revised TP of S$2.65 and S$2.15 respectively. This is mainly on the back of lower cost of equity assumptions as we now price in a recovery in our discount rate.

5-year historical P/BV trading range



Source: DBS Bank

5-year historical dividend yield trading range



Source: DBS Bank

Company Guides

CapitaLand Mall Trust

Version 16 | Bloomberg: CT SP | Reuters: CMLT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 May 2020

BUY (Upgrade from HOLD)

Last Traded Price (28 May 2020): S$1.93 (**STI :** 2,515.24)
Price Target 12-mth: S$2.15 (11% upside) (Prev S$1.75)

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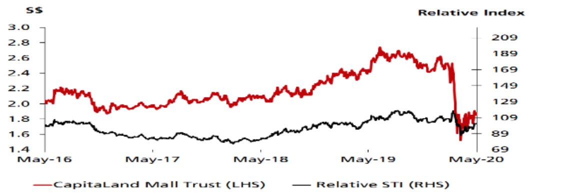
What's New

- 90% of tenants allowed to resume operations as early as the first week of July
- Suburban retail malls likely lead retail recovery
- We estimate that c.52% of CMT's revenue originate from dominant malls
- Target price pegged to 1.0x P/BV

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019F	2020F	2021F
Gross Revenue	698	772	776	801
Net Property Inc	494	558	505	560
Total Return	677	715	402	460
Distribution Inc	429	462	405	464
EPU (S cts)	13.2	13.1	10.9	12.5
EPU Gth (%)	16	(1)	(17)	14
DPU (S cts)	11.5	12.0	9.87	12.1
DPU Gth (%)	3	4	(18)	22
NAV per shr (S cts)	202	211	212	212
PE (X)	14.6	14.8	17.7	15.5
Distribution Yield (%)	6.0	6.2	5.1	6.3
P/NAV (x)	1.0	0.9	0.9	0.9
Aggregate Leverage (%)	32.6	32.0	31.0	31.0
ROAE (%)	6.7	6.3	5.2	5.9

Distn. Inc Chng (%):			0	0
Consensus DPU (S cts):			9.6	12.1
Other Broker Recs:		B: 12	S: 1	H: 6

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

Breaking free

Upgrade to BUY; TP revised to S$2.15. We upgrade our rating to BUY on CapitaLand Mall Trust (CMT) with a revised target price of S$2.15 as retail tenants will be given the green light to resume operations as early as the first week of July. CMT is currently trading at a P/NAV of 0.9x, at -2 standard deviation (SD) levels. History shows that CMT does not trade below book for long, and the current range represents an attractive risk-to-reward ratio. Our new target price implies a price-to-book of 1.0x and a target yield of 4.6% on our FY20 dividend estimates.

Where we differ: Portfolio malls will not recover at the same pace. We believe that dominant suburban malls will take the lead in shopper traffic recovery post Circuit Breaker. Dominant retail malls contributed c.52% of CMT's revenue in FY19, of which half was from suburban malls. While central retail malls continue to face moderately weak sentiments, the pace of recovery may surprise on the upside with demand from returning workers and pent-up demand from local shoppers. Additional government support and waivers from retail landlords will also help to accelerate the ramp-up process for the tenants most affected by the pandemic.

Vast majority of tenants allowed to reopen as early as first week of July. Approximately 90% of retail tenants within CMT's portfolio will be allowed to resume operations within phase 2 of post Circuit Breaker measures from the current c.30% of tenants. We estimate that half of these tenants (Food & Beverage and Beauty & Health) are from trade sectors that will see a sharp recovery.

Valuation:

We raised our DCF-based TP to S$2.15 from S$1.75 as we reduced beta by 10bps.

Key Risks to Our View:

Key risks to our positive view is a spike in new COVID-19 cases to delay the start of phase 2 of post-Circuit Breaker measures and further tenant rebate measures to impact our FY20 estimates.

At A Glance

Issued Capital (m shrs)	3,690
Mkt. Cap (Sm/USm)	7,122 / 5,024
Major Shareholders (%)	
Capitaland Limited	28.5
Blackrock Inc	7.0
National Trades Union	4.80
Free Float (%)	59.7
3m Avg. Daily Val (US$m)	38.9

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

CRITICAL DATA POINTS TO WATCH

Critical Factors

A bellwether for REITs. CMT, being the first and longest-running REIT in Singapore which has gone through different growth phases at a market cap of close to S$7.0bn and an asset base of over S$10bn, remains a bellwether for the REIT industry. While CMT had seen better growth back in 2003-2009 and increased challenges disrupting the retail sector over the past few years, we believe that the worst could be over, given the REIT's improving rental reversionary prospects in recent times.

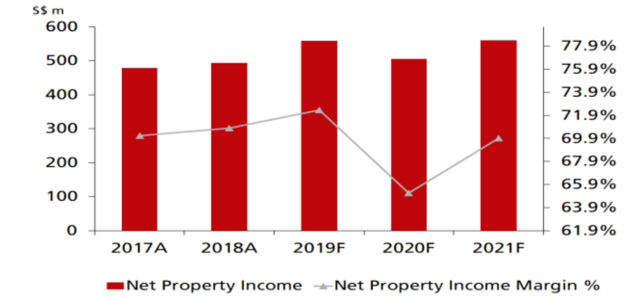
Most importantly, we believe that given the REIT's track record and having positioned its exposure towards more non-discretionary spending, we remain confident on the REIT's ability to continue paying steady distributions across market cycles.

Feeling the heat from COVID-19. CMT suffered a recent sell-down as the COVID-19 situation worsened in Singapore. The suspension of selected tenants' operations, crowd density control measures and potential cash flow crunch (given a new bill proposed to enhance tenant protection) will likely take a toll on operations in the coming quarters. In view of the situation, we believe that SPH REIT's dividend cut may set a precedence for other retail REITs in the sector as the retail landlords will look to retain cash to tide through the coming quarters.

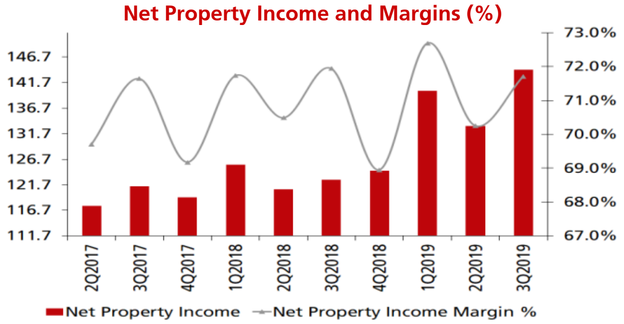
Recovery will come in the form of mall reopenings as early as the first week of July (phase 2 of post Circuit-Breaker measures), where c.90% of CMT's retail tenants will be given the green light to resume business operations. We anticipate recovery to be led by CMT's dominant suburban malls such as Junction 8 and Tampines Mall. S

Supply risk dissipation a medium- to long-term catalyst. While supply in retail remained high in 2018-2019, we note that pre-commitment rates for upcoming malls have been strong (Paya Lebar Quarter has pre-leased c.90% of its retail mall) with strong anchors. Apart from Paya Lebar Quarter Mall, we believe most of the other major retail assets coming on stream do not pose direct competition to the catchment areas of CMT's malls. This will bode well for the retail sector as a whole in the medium-to-long term when the current COVID-19 situation improves.

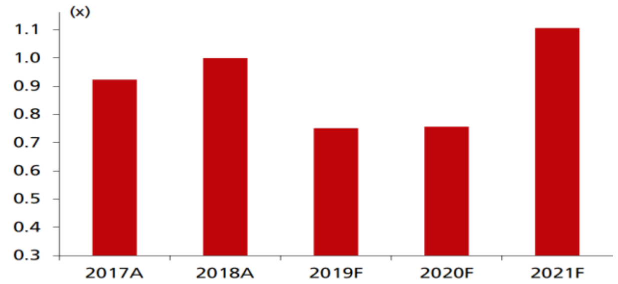
Net Property Income and Margins (%)



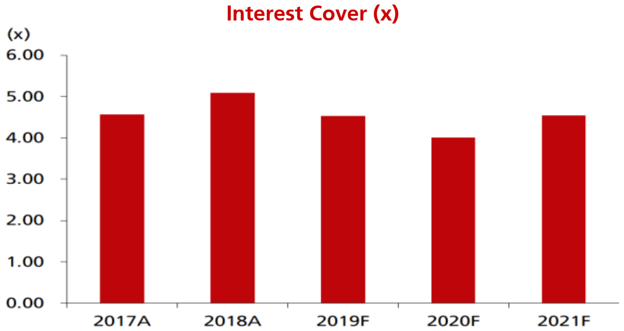
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Cost of debt to remain stable. The average debt cost is 3.2%, which should remain stable in the immediate term, maintaining an interest coverage ratio of 4.7x.

Share Price Drivers:

Acquisitions to drive earnings. CMT has the right of first refusal to acquire its sponsor's retail assets in Singapore. Beyond Westgate, we note that CapitaLand has several other retail assets in its portfolio which could be injected into the REIT, including Star Vista.

Steady operational results. We believe that CMT's portfolio will remain resilient despite headwinds. The trust's ability to maintain a steady growth in top line while holding occupancies will be a strong test to the manager's capability to maintain resilience among its peers.

Key Risks:

Downside risk to portfolio metrics. A worse-than-expected slowdown in consumer sentiment and consumption outlook may result in lower reversionary potential and a hike in occupancy as COVID-19 challenges persist. We are expecting occupancy to be lowered by 5% across CMT's portfolio and 5% negative rental reversions for FY20.

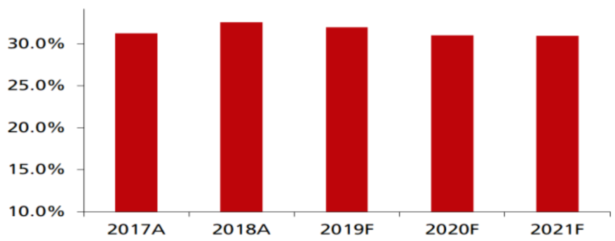
Environment, Social, Governance:

CMT has good disclosure with clarity and transparency in ESG and financial reports. CMT has more than 90% of operating properties achieving at least Green Mark Gold certification and aims to continue reducing energy and water intensity and carbon emissions going forward. CMT also aims to maintain high business ethics and compliance of laws in its business dealings and aims to safeguard its staffs' and customers' safety and health at its properties.

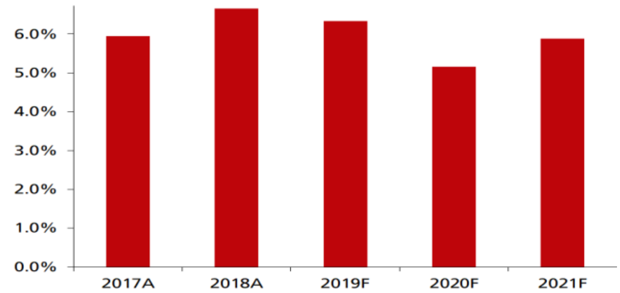
Company Background

CapitaLand Mall Trust (CMT) is a real estate investment trust which owns and invests in retail properties in the suburban areas and downtown core of Singapore.

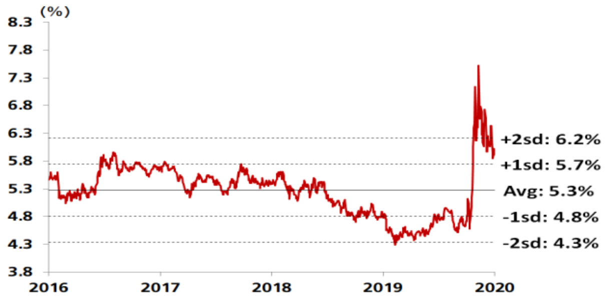
Aggregate Leverage (%)



ROE (%)



Distribution Yield (%)



PB Band (x)

Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Gross revenue	682	698	772	776	801
Property expenses	(204)	(204)	(214)	(271)	(241)
Net Property Income	478	494	558	505	560
Other Operating expenses	(48.9)	(48.6)	(54.2)	(56.7)	(58.1)
Other Non Opg (Exp)/Inc	0.0	(9.0)	0.0	0.0	0.0
Associates & JV Inc	70.4	129	89.2	65.3	68.7
Net Interest (Exp)/Inc	(94.0)	(87.5)	(111)	(112)	(111)
Exceptional Gain/(Loss)	(0.6)	0.14	0.0	0.0	0.0
Net Income	405	478	482	402	460
Tax	(0.2)	0.39	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	405	478	482	402	460
Total Return	658	677	715	402	460
Non-tax deductible Items	8.05	(48.6)	3.93	2.85	3.97
Net Inc available for Dist.	413	429	462	405	464
Growth & Ratio					
Revenue Gth (%)	(1.1)	2.2	10.7	0.6	3.2
N Property Inc Gth (%)	(0.3)	3.2	13.1	(9.5)	10.8
Net Inc Gth (%)	1.0	18.0	0.8	(16.6)	14.5
Dist. Payout Ratio (%)	95.8	95.6	96.0	90.0	96.0
Net Prop Inc Margins (%)	70.1	70.8	72.3	65.1	69.9
Net Income Margins (%)	59.3	68.5	62.4	51.8	57.4
Dist to revenue (%)	60.5	61.6	59.8	52.1	57.9
Managers & Trustee's fees	7.2	7.0	7.0	7.3	7.2
ROAE (%)	5.9	6.7	6.3	5.2	5.9
ROA (%)	3.9	4.3	4.1	3.4	3.8
ROCE (%)	4.2	4.1	4.4	3.9	4.3
Int. Cover (x)	4.6	5.1	4.5	4.0	4.5

Source: Company, DBS Bank

Assumed 5% dip in portfolio occupancy, negative reversion of 5% and one month of tenant rebates

Quarterly / Interim Income Statement (S$m)

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Gross revenue	171	180	193	190	201
Property expenses	(47.9)	(56.0)	(52.6)	(56.4)	(56.9)
Net Property Income	123	124	140	133	144
Other Operating expenses	(12.0)	(12.8)	(13.3)	(13.3)	(14.0)
Other Non Opg (Exp)/Inc	(0.3)	(8.9)	(0.1)	0.0	(17.6)
Associates & JV Inc	70	129	89	65	69
Net Interest (Exp)/Inc	(20.3)	(23.2)	(26.2)	(28.2)	(28.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**148**	**98.6**	**124**	**108**	**106**
Tax	0.0	0.39	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**148**	**98.9**	**124**	**108**	**106**
Total Return	148	123	124	228	106
Non-tax deductible Items	(6.5)	(5.9)	1.02	1.92	(4.0)
Net Inc available for Dist.	106	109	121	108	126
Growth & Ratio					
Revenue Gth (%)	0	6	7	(2)	6
N Property Inc Gth (%)	2	1	13	(5)	8
Net Inc Gth (%)	(39)	(33)	26	(13)	(1)
Net Prop Inc Margin (%)	71.9	68.9	72.7	70.3	71.7
Dist. Payout Ratio (%)	97.5	98.8	87.5	100.0	89.8

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Investment Properties	8,770	9,411	10,416	10,426	10,436
Other LT Assets	1,149	1,715	1,087	1,087	1,087
Cash & ST Invts	523	349	202	387	415
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	32.4	27.5	26.4	36.7	37.9
Other Current Assets	29.4	0.0	0.0	0.0	0.0
Total Assets	10,504	11,502	11,732	11,937	11,976
ST Debt	535	529	260	260	260
Creditor	156	199	167	388	401
Other Current Liab	57.9	99.9	68.1	2.54	2.54
LT Debt	2,648	3,099	3,301	3,311	3,321
Other LT Liabilities	180	145	169	169	169
Unit holders' funds	6,928	7,429	7,767	7,807	7,823
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	10,504	11,502	11,732	11,937	11,976
Non-Cash Wkg. Capital	(152)	(272)	(209)	(354)	(365)
Net Cash/(Debt)	(2,660)	(3,279)	(3,359)	(3,184)	(3,166)
Ratio					
Current Ratio (x)	0.8	0.5	0.5	0.7	0.7
Quick Ratio (x)	0.7	0.5	0.5	0.7	0.7
Aggregate Leverage (%)	31.2	32.6	32.0	31.0	31.0
Z-Score (X)	4.8	4.9	4.9	4.8	4.8

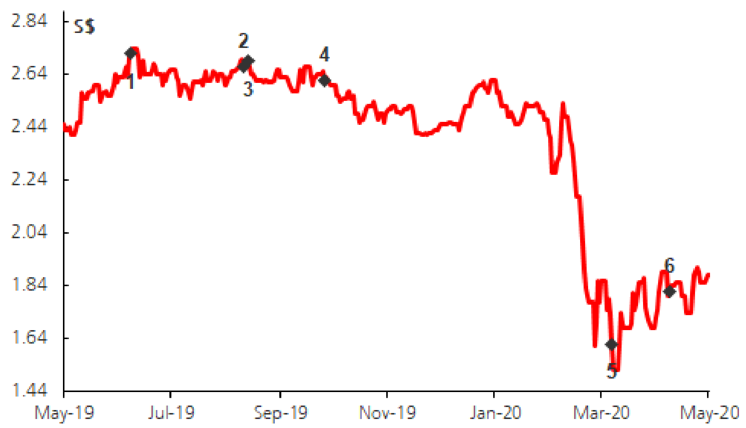
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Income	405	478	715	402	460
Dep. & Amort.	0.70	0.0	1.73	0.0	0.0
Tax Paid	0.0	0.0	0.0	(0.2)	0.0
Associates &JV Inc/(Loss)	(70.4)	(129)	(89.2)	(65.3)	(68.7)
Chg in Wkg.Cap.	(2.3)	19.4	5.79	146	11.3
Other Operating CF	94.6	87.9	(122)	0.0	0.0
Net Operating CF	**428**	**456**	**512**	**482**	**403**
Net Invt in Properties	(99.0)	(316)	0.0	(10.0)	(10.0)
Other Invts (net)	0.0	0.0	(1.0)	0.0	0.0
Invts in Assoc. & JV	98.5	0.0	(126)	0.0	0.0
Div from Assoc. & JVs	80.9	81.0	77.0	65.3	68.7
Other Investing CF	8.77	0.26	(8.4)	0.0	0.0
Net Investing CF	**89.2**	**(235)**	**(58.2)**	**55.3**	**58.7**
Distribution Paid	(395)	(456)	(384)	(364)	(445)
Chg in Gross Debt	21.6	(114)	(212)	10.0	10.0
New units issued	6.50	272	0.0	1.83	1.89
Other Financing CF	(111)	(97.1)	(3.7)	0.0	0.0
Net Financing CF	**(478)**	**(395)**	**(600)**	**(352)**	**(434)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	39.3	(174)	(146)	185	27.8
Operating CFPS (S cts)	12.1	12.1	13.7	9.12	10.6
Free CFPS (S cts)	9.27	3.86	13.9	12.8	10.6

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	04 Jul 19	2.72	2.95	BUY
2:	06 Sep 19	2.67	2.95	BUY
3:	09 Sep 19	2.69	2.95	BUY
4:	22 Oct 19	2.62	2.95	BUY
5:	02 Apr 20	1.62	1.75	HOLD
6:	05 May 20	1.82	1.75	HOLD

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

Source: DBS Bank

Analyst: Singapore Research Team

Derek TAN

Singapore Company Guide

Frasers Centrepoint Trust

Version 21 | Bloomberg: FCT SP | Reuters: FCRT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 May 2020

BUY (Upgrade from HOLD)

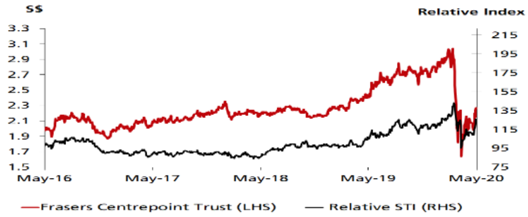
Last Traded Price (28 May 2020): S$2.27 (**STI :** 2,515.24)
Price Target 12-mth: S$2.65 (17% upside) (Prev S$2.05)

Analyst
Singapore Research Team equityresearch@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- c.97% of tenants allowed to reopen doors during phase 2 of Circuit Breaker
- Suburban giants in the best position to capture first flock of shoppers post Circuit Breaker (phase 2)
- Rebound likely to be swift as these dominant malls contribute c.75% of FCT's revenues
- Revised target price implies a 1.2x target P/BV

Price Relative



Forecasts and Valuation

FY Sep (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	193	196	181	203
Net Property Inc	137	139	129	148
Total Return	167	206	117	137
Distribution Inc	111	119	124	143
EPU (S cts)	11.2	10.1	10.4	12.2
EPU Gth (%)	4	(10)	4	17
DPU (S cts)	12.0	12.1	10.3	12.7
DPU Gth (%)	1	0	(15)	24
NAV per shr (S cts)	208	221	221	220
PE (X)	20.2	22.5	21.7	18.6
Distribution Yield (%)	5.3	5.3	4.5	5.6
P/NAV (x)	1.1	1.0	1.0	1.0
Aggregate Leverage (%)	28.6	28.8	29.0	29.2
ROAE (%)	5.5	5.1	4.7	5.5

Distn. Inc Chng (%):		0	0
Consensus DPU (S cts):		9.40	12.4
Other Broker Recs:	B: 10	S: 1	H: 8

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

Suburban giants to lead retail recovery

Upgrade FCT to BUY, TP S$2.65. The worst is likely over for local retail landlords as retail tenants can look to resume operations as early as the first week of July. Dominant suburban malls will likely lead the retail recovery, as the vast majority of FCT's tenants (c.97%) will be allowed to reopen their doors, from the current c.30% that are still maintaining operations. Our revised target price implies a target P/BV ratio of 1.2x, and an implied FY20 target yield of 3.9%.

Where we differ: Dominant malls located within large residential catchment areas to lead recovery. FCT's portfolio of suburban malls will be in the best position to capture immediate shopper traffic and pent-up demand as retail malls reopen during phase 2 of post-Circuit Breaker measures. Rental revenues from suburban giants Northpoint, Causeway Point and Waterway Point contribute c.75% of FCT's annual revenue, of which about half of their tenants are in trade sectors we anticipate to recover swiftly. Moreover, additional support from the government and retail landlords announced in the Fortitude Budget should aid affected retailers in the reopening of their businesses.

PGIM acquisition to return to spotlight in 2H20. The acquisition of additional stakes in PGIM may be revisited at a more favourable capital-raising environment to ensure yield accretion to unitholders. Growth plans will continue to remain at the forefront of investors' expectations, as we anticipate the acquisition to come back into focus in 2H20.

Valuation:

Our revised higher target price factors in a beta lowered by 15bps. .

Key Risks to Our View:

Key risks to our positive view is a spike in new COVID-19 cases to delay the start of phase 2 of post-Circuit Breaker measures and further tenant rebate measures to impact our FY20 estimates.

At A Glance

Issued Capital (m shrs)	1,120
Mkt. Cap (Sm/USm)	2,542 / 1,793
Major Shareholders (%)	
TCC Assets Ltd]	36.4
Schroders Plc	5.1
Free Float (%)	58.5
3m Avg. Daily Val (US$m)	7.7

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

CRITICAL DATA POINTS TO WATCH

Critical Factors

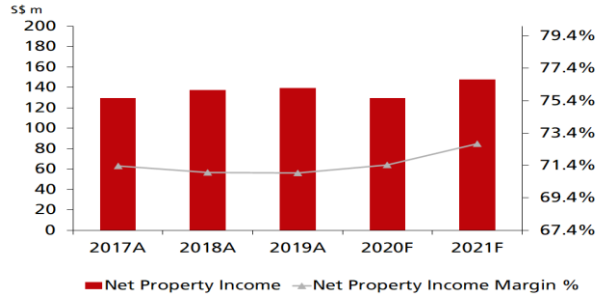
Dominant malls in the north. FCT derives close to 60% of its revenues from two key suburban malls - Causeway Point (CWP) and Northpoint City North Wing (NP), which are located in the densely populated regions in the northern part of Singapore. We believe both CWP and NP are dominant malls and focal points in their respective districts of Woodlands and Yishun. Supported by a public transportation network (MRT), foot traffic through these malls are consistently high throughout the week, resulting in the properties delivering resilient cashflows through various market cycles. As such, rental portfolio reversions have generally stayed positive 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 an organic DPU growth profile of 1-3%.

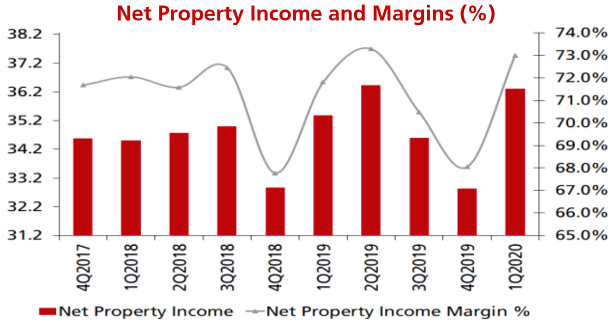
COVID-19 a short-term headwind. With Dorscon level raised to 'Orange', shopping patterns have changed drastically among locals and tourists. Retail malls island-wide are seeing a sharp dip in traffic as people limit their exposure to public places. Prime shopping malls in the central region are suffering a dip of 50-70% while suburban retail malls see a smaller decline of 10-20%. FCT's suburban malls, while resilient, will likely see a dip in tenant salesthis quarter, and face the risk of potential non-renewals of existing leases as tenants feel the heat. We maintain optimistic as retail malls will phase in reopenings during the phase 2 of post Circuit-Breaker measures, or as early as the first week of July. FCT's dominant suburban retail malls, which contribute c.75% to annual rental revenue, will likely lead the recovery in retail and be in prime position to greet the first flock of shoppers.

Acquisitions to drive distributions higher; well anticipated by investors. FCT benefits from having a visible pipeline of acquisition prospects from its sponsor – including its substantial stake in PGIM's AsiaRetail portfolio of five dominant suburban malls in Singapore. Given the tightly held retail mall landscape in Singapore, we see this as a valuable trait. FCT's share price would typically react positively during periods when the REIT announces an acquisition. Following FCT's recently proposed acquisition of the Sponsor's 33% stake in Waterway Point, we look forward to the potential injection of Northpoint City South Wing further down the road.

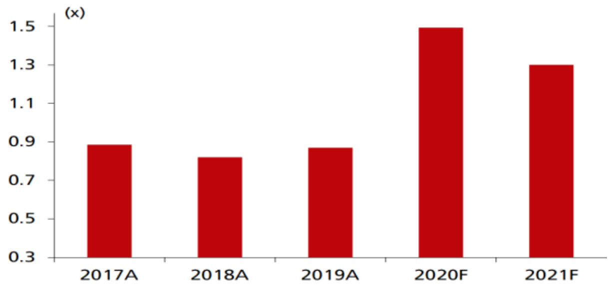
Net Property Income and Margins (%)



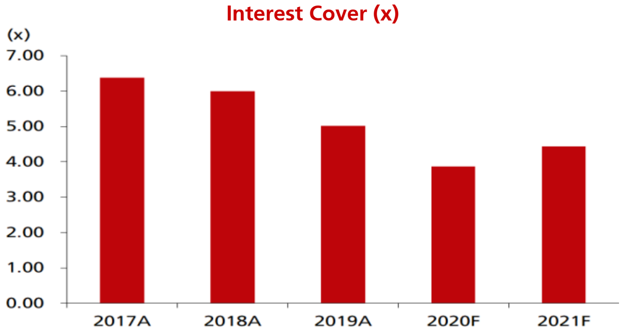
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Healthy balance sheet. FCT's see-through gearing is currently estimated at 37.4%, above sector average of 34.4%.

Higher floating rate exposure vs peers. The percentage of borrowings on fixed rates had been lowered to c.53% as at end-FY19, remaining at the lower end vs peers. We anticipate potentially lower cost of debt (2.57% as at 31 December 2019) as c.43% of debt expiring in FY20/FY21 could be refinanced at a lower rate.

Share Price Drivers:

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

Portfolio reconstitution. With the 40% stake in Waterway Point firmly under its belt, we believe that FCT could upsize its remaining 75.2% stake in PGIM ARF in the coming years. In addition, we believe there are pockets of opportunities in FCT's enlarged portfolio that could be added to the divestment pipeline. The capital recycling could be put forward to acquire additional stakes in PGIM ARF and WWP as FCT 'upcycles' into higher-quality suburban retail malls in Singapore.

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.

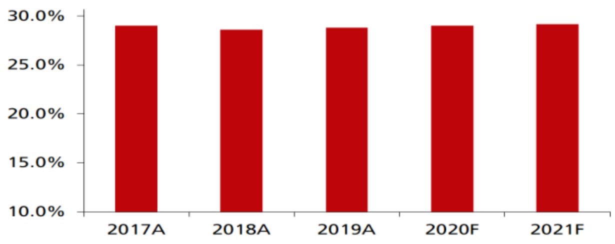
Environment, Social, Governance:

FCT released its fourth Sustainability Report in FY18, with a moderate Bloomberg ESG Disclosure Score. The Trust seeks to encourage good corporate governance through fair and ethical business practices. FCT periodically conducts energy audits for its portfolio, and three of its properties had been certified by BCA Green Mark as at 30 September 2018. In FY18, the Trust achieved a 32.5% increase in waste sent for recycling, and e-waste bins are also available in its malls.

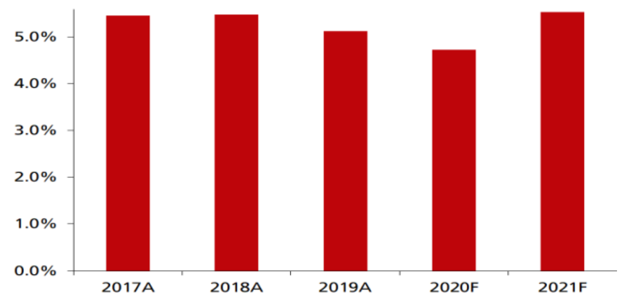
Company Background

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

Aggregate Leverage (%)



ROE (%)



Source: Company, DBS Bank

Income Statement (S$m)

FY Sep	2017A	2018A	2019A	2020F	2021F
Gross revenue	182	193	196	181	203
Property expenses	(52.0)	(56.2)	(57.1)	(51.7)	(55.4)
Net Property Income	130	137	139	129	148
Other Operating expenses	(17.1)	(17.2)	(18.7)	(16.9)	(17.9)
Other Non Opg (Exp)/Inc	0.0	0.0	0.13	0.0	0.0
Associates & JV Inc	4.39	3.77	15.8	33.6	36.3
Net Interest (Exp)/Inc	(17.6)	(20.0)	(24.1)	(29.0)	(29.3)
Exceptional Gain/(Loss)	0.28	0.37	0.17	0.0	0.0
Net Income	99.5	104	113	117	137
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	99.5	104	113	117	137
Total Return	194	167	206	117	137
Non-tax deductible Items	(6.7)	(3.5)	9.77	7.25	5.79
Net Inc available for Dist.	111	111	119	124	143
Growth & Ratio					
Revenue Gth (%)	(1.2)	6.5	1.6	(7.9)	12.3
N Property Inc Gth (%)	(0.2)	5.9	1.5	(7.3)	14.3
Net Inc Gth (%)	4.7	4.6	8.2	3.7	17.1
Dist. Payout Ratio (%)	99.3	100.0	100.0	92.5	97.5
Net Prop Inc Margins (%)	71.3	71.0	70.9	71.4	72.7
Net Income Margins (%)	54.8	53.8	57.4	64.6	67.3
Dist to revenue (%)	60.9	57.6	60.5	68.6	70.2
Managers & Trustee's fees	9.4	8.9	9.5	9.4	8.8
ROAE (%)	5.5	5.5	5.1	4.7	5.5
ROA (%)	3.7	3.7	3.5	3.2	3.8
ROCE (%)	4.3	4.4	3.8	3.2	3.6
Int. Cover (x)	6.4	6.0	5.0	3.9	4.4

Source: Company, DBS Bank

Factoring in rental rebates offered to retail tenants of about one month

Quarterly / Interim Income Statement (S$m)

FY Sep	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Gross revenue	49.3	49.7	49.1	48.3	49.8
Property expenses	(13.9)	(13.3)	(14.5)	(15.4)	(13.4)
Net Property Income	35.4	36.4	34.6	32.8	36.3
Other Operating expenses	(4.2)	(4.4)	(4.7)	(5.4)	(5.5)
Other Non Opg (Exp)/Inc	0.0	(0.2)	(0.4)	(0.2)	0.87
Associates & JV Inc	4	4	16	34	36
Net Interest (Exp)/Inc	(5.4)	(5.5)	(7.2)	(5.9)	(6.8)
Exceptional Gain/(Loss)	0.0	0.0	3.58	(1.4)	(0.4)
Net Income	**26.8**	**26.4**	**33.0**	**26.4**	**40.5**
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	**26.8**	**26.4**	**33.0**	**26.4**	**40.5**
Total Return	26.0	25.7	26.6	24.4	26.8
Non-tax deductible Items	0.89	2.30	(1.9)	2.12	10.1
Net Inc available for Dist.	27.7	28.8	29.9	32.6	35.0
Growth & Ratio					
Revenue Gth (%)	2	1	(1)	(2)	3
N Property Inc Gth (%)	8	3	(5)	(5)	11
Net Inc Gth (%)	10	(2)	25	(20)	53
Net Prop Inc Margin (%)	71.8	73.3	70.5	68.1	73.0
Dist. Payout Ratio (%)	101.2	101.2	100.0	100.0	100.0

Balance Sheet (S$m)

FY Sep	2017A	2018A	2019A	2020F	2021F
Investment Properties	2,668	2,749	2,846	2,851	2,856
Other LT Assets	65.0	66.4	749	749	749
Cash & ST Invts	13.5	21.9	13.1	13.8	22.9
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	4.26	3.00	3.14	3.14	3.14
Other Current Assets	0.0	0.06	0.0	0.0	0.0
Total Assets	**2,751**	**2,840**	**3,611**	**3,616**	**3,630**
ST Debt	152	217	295	295	295
Creditor	32.7	46.2	47.3	39.6	44.5
Other Current Liab	17.3	16.3	22.6	22.6	22.6
LT Debt	646	596	745	754	764
Other LT Liabilities	31.1	31.5	30.1	30.1	30.1
Unit holders' funds	1,872	1,934	2,471	2,475	2,474
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**2,751**	**2,840**	**3,611**	**3,616**	**3,630**
Non-Cash Wkg. Capital	(45.8)	(59.4)	(66.8)	(59.1)	(63.9)
Net Cash/(Debt)	(784)	(791)	(1,027)	(1,036)	(1,036)
Ratio					
Current Ratio (x)	0.1	0.1	0.0	0.0	0.1
Quick Ratio (x)	0.1	0.1	0.0	0.0	0.1
Aggregate Leverage (%)	29.0	28.6	28.8	29.0	29.2
Z-Score (X)	1.2	1.3	1.2	1.2	1.3

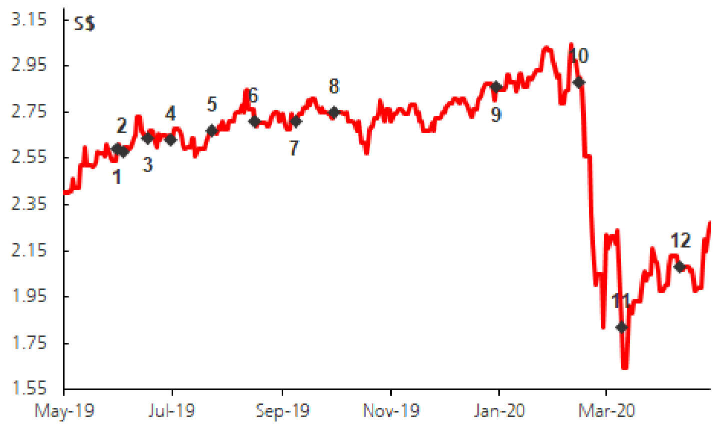
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Sep	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	99.5	104	113	117	137
Dep. & Amort.	0.05	0.03	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates &JV Inc/(Loss)	(4.4)	(3.8)	(15.8)	(33.6)	(36.3)
Chg in Wkg.Cap.	2.01	11.8	4.36	(7.7)	4.87
Other Operating CF	25.0	24.8	29.5	1.40	1.49
Net Operating CF	**122**	**137**	**131**	**76.8**	**107**
Net Invt in Properties	(66.1)	(15.5)	(5.0)	(4.6)	(5.0)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(6.8)	0.0	(668)	0.0	0.0
Div from Assoc. & JVs	4.74	3.99	12.8	33.6	36.3
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	**(68.2)**	**(11.6)**	**(661)**	**29.0**	**31.3**
Distribution Paid	(108)	(112)	(114)	(115)	(139)
Chg in Gross Debt	64.0	15.0	206	9.58	9.95
New units issued	0.0	0.0	431	0.0	0.0
Other Financing CF	(14.9)	(19.8)	(2.5)	0.0	0.0
Net Financing CF	**(59.2)**	**(117)**	**521**	**(105)**	**(129)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(5.2)	8.32	(8.8)	0.70	9.14
Operating CFPS (S cts)	13.0	13.5	11.3	7.56	9.10
Free CFPS (S cts)	6.08	13.1	11.3	6.46	9.09

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Jun 19	2.59	2.85	BUY
2:	27 Jun 19	2.58	2.85	BUY
3:	11 Jul 19	2.64	2.95	BUY
4:	24 Jul 19	2.63	2.95	BUY
5:	16 Aug 19	2.67	2.95	BUY
6:	09 Sep 19	2.71	2.95	BUY
7:	02 Oct 19	2.71	2.95	BUY
8:	24 Oct 19	2.75	2.95	BUY
9:	23 Jan 20	2.86	2.95	BUY
10:	09 Mar 20	2.88	3.35	BUY
11:	02 Apr 20	1.82	2.05	HOLD
12:	05 May 20	2.08	2.05	HOLD

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

Source: DBS Bank

Analyst: Singapore Research Team
Derek TAN

Singapore Company Guide

LendLease Global Commercial REIT

Version 3 | Bloomberg: LREIT SP | Reuters: LEND.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 May 2020

BUY

Last Traded Price (5 May 2020): S$0.565 (**STI :** 2,572.36)
Price Target 12-mth: S$0.85 (51% upside) (Prev S$0.94)

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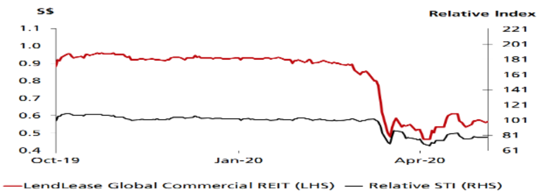
What's New

- 3Q20 results beat IPO forecasts; payout ratio maintained at 100%
- Tenant sales declined 15-20% y-o-y for the quarter
- Softer expectations for 4Q20 as second round of rental relief is expected to set in
- LLGCR currently trades at 0.7x price-to-book, a sharp discount to sector mean of 1.1x

Price Relative



Forecasts and Valuation

FY Jun (S$m)	2020F	2021F	2022F
Gross Revenue	81.5	86.9	91.2
Net Property Inc	60.9	64.9	68.2
Total Return	41.2	45.0	48.1
Distribution Inc	56.9	62.1	63.4
EPU (S cts)	3.48	3.79	3.99
EPU Gth (%)	nm	9	6
DPU (S cts)	4.84	5.24	5.31
DPU Gth (%)	nm	8	1
NAV per shr (S cts)	81.0	80.4	79.7
PE (X)	16.2	14.9	14.1
Distribution Yield (%)	8.6	9.3	9.4
P/NAV (x)	0.7	0.7	0.7
Aggregate Leverage (%)	34.5	34.5	34.6
ROAE (%)	4.3	4.7	5.0
Distn. Inc Chng (%):	(2)	(3)	0
Consensus DPU (S cts):	4.30	5.30	5.30
Other Broker Recs:	B: 2	S: 0	H: 0

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

Steering steady amidst the COVID storm

Maintain BUY; TP revised to S$0.85. Lendlease Global Commercial REIT (LLGCR) continues to bring forth a strong value proposition at its current 0.7x price-to-book level, while delivering another quarter of earnings outperformance. A positive surprise was LLGCR's decision to maintain a 100% payout ratio, stemming from a robust liquidity position. Our revised target price of S$0.85 factors in conservative estimates for FY20/FY21 with a target yield of 6.0% on revised FY21F earnings, and an implied 1.0x P/NAV. We maintain our BUY call on LLGCR as one of our top sector picks.

Structured to weather storms. Despite ongoing COVID-19 disruptions, 313@Somerset continued to show resiliency with a historically high tenant retention of >90% and low risk of non-renewals in the coming quarter with only 2% of lease expiries. Sky Complex (Milan) continues to benefit from a sticky relationship with tenant Sky Italia, grounded by a triple net master lease expiring in 2032. We expect the impact of COVID-19 to heighten in the coming quarter (4Q20), as the REIT has set forth relief arrangements to waive rents for the months of April and May.

Undeployed plot ratio remains a short-medium term catalyst. Plans to deploy an additional 1,008 sqm of GFA is still ongoing and within early stages of planning. The whole process is estimated to take 1.5 years and will be planned alongside the lease expiries of tenants affected by the AEI works.

Valuation:

We revised our TP to S$0.85, factoring in (i) a higher beta of 1.0 on par with peers (previously 0.95); (ii) tenant rental rebates of one month; and (iii) lower GTO income and occupancy for FY20/FY21.

Key Risks to Our View:

Key risks to our view include the threat of a second wave of COVID-19 within Singapore

At A Glance

Issued Capital (m shrs)	1,169
Mkt. Cap (Sm/USm)	661 / 467
Major Shareholders (%)	
Lendlease Sreit Pty Ltd	24.3
Oversea-Chinese Banking Corporation	8.0
Temasek Holdings Pte Ltd	6.0
Free Float (%)	56.8
3m Avg. Daily Val (US$m)	3.1

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

DBS
Live more, Bank less

ed: TH/ sa: AS, PY, CS

WHAT'S NEW

(+) 3Q20 results exceeded IPO forecasts

- Revenue and NPI reported for the quarter were S$21.6m and S$16.6m, exceeding IPO forecasts by 2.2% and 4.0% respectively.
- This was attributed to higher rental income from 313@somerset and higher contribution from Sky Complex due to a stronger Euro.
- DPU of 1.28 Scts is 0.7% higher than IPO estimates, with the REIT in a comfortable liquidity position to maintain a 100% payout ratio. Interest coverage ratio of 11.2x stands as one of the strongest within both the retail sector and among all S-REITs.

(+/-) Operational update: Steering steady amidst the COVID-19 storm

- Portfolio occupancy held steady at 99.8%, with occupancies unchanged at both 313@somerset (99.2%) and Sky Complex (100%).
- Tenant sales took a beating as COVID-19 impacted sales for the months of February and March, dipping 15-20% y-o-y.
- We understand that 60% of 313@somerset's tenants are within the 'essential services' classification, and 36% of mall tenants are currently operational.
- Tenants' rental burden had been lifted for April and May and will be covered by rental rebates provided by LLGCR and government property tax.
- Security deposits are still in place and can be used in the future to fulfil rental obligations should the need arise.
- Rental reversion for the quarter was positive at 0.6% for YTD to 31 March 2020, and may trend lower in the coming quarter as the mall remains partially shut during this Circuit Breaker period in Singapore.
- Nonetheless, we gain comfort from the low lease expiries remaining in the coming quarter (2% of GRI) and past record of high tenant retention of >90% at the mall.

(+) Sky Complex serves as a strategic location for Sky Italia with part of the property used as a data centre

- Sky Complex asset continues to serve as a solid anchor to LLGCR's portfolio.
- The commercial lease is grounded by a triple net lease structure, with a long lease term expiring in 2032.
- We see zero rental escalations (pegged to ISTAT consumer price index) as a bear-case scenario.
- Approximately one-fifth of the asset is made up of data centres to meet the tenant's functionalities and we believe that the building is strategic from Sky Italia's perspective.
- Current passing rents are also at a discount to market rents within Sky Complex's submarket, enhancing tenant stickiness.

(+) Ample cash liquidity for the short term

- LLGCR has an existing cash balance of S$78.2m and uncommitted undrawn debt facility of up to S$20m to fund working capital.
- Gearing stands at 35.9% with an average cost of debt of 0.86% and a robust interest coverage ratio of 11.2x (Adjusted at c.5.2x on our estimates in FY20-21F).
- Non-essential asset enhancement works will be postponed given the current COVID-19 headwinds.
- Near-term plans to deploy an additional 1,008 sqm of GFA is still ongoing and within early stages of planning and is expected to take c.1.5 years to complete.
- A concrete timeline was not provided for the execution plans as management will be timing these works with the lease expiries of the affected tenants.

  LLGCR stands as our top pick within the retail sector given 313@somerset's resiliency and the stability of Sky Complex's lease. Our new target price of S$0.85 implies a target yield of 6.0% for FY21F and a 1.0x P/NAV.

Quarterly / Interim Income Statement (S$m)

FY Jun	2Q2020	3Q2020	% chg qoq
Gross revenue	21.4	21.7	1.2
Property expenses	(5.2)	(5.1)	3.0
Net Property Income	16.2	16.6	2.6
Other Operating expenses	2.13	(0.4)	nm
Other Non Opg (Exp)/Inc	0.0	0.0	-
Associates & JV Inc	0.0	0.0	-
Net Interest (Exp)/Inc	0.0	(2.2)	nm
Exceptional Gain/(Loss)	49.0	(18.5)	nm
Net Income	(32.7)	(6.4)	138.9
Tax	0.0	0.0	-
Minority Interest	0.0	0.0	-
Net Income after Tax	(32.7)	(6.4)	138.9
Total Return	(32.7)	(6.4)	138.9
Non-tax deductible Items	47.7	21.3	(55.3)
Net Inc available for Dist.	15.0	15.0	(0.3)
Ratio (%)			
Net Prop Inc Margin	75.6	N/A	
Dist. Payout Ratio	100.0	100.3	

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

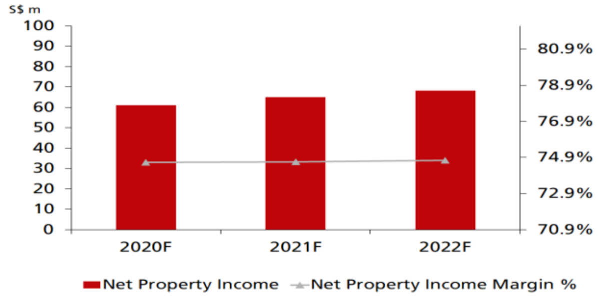
An initial portfolio that is predominantly in Singapore. LLGCR offers an opportunity to invest in a diversified portfolio of stabilised income-producing real estate assets that cater primarily to retail and/or office purposes. While the REIT holds a global investment mandate, its initial portfolio comprises 100% ownership of a 99-year leasehold interest in 313@somerset, a retail property located in prime Orchard Road, Singapore and full ownership of a freehold interest in Sky Complex, which comprises three commercial office buildings located in Milan, Italy. The total appraised valuation of the initial portfolio was c.S$1.4bn as of June 2019, anchored by Singapore (c.71.5% of value) and Italy (c.28.5% of value).

Lease structure is a balance between stability and growth. LLGCR offers investors a visible earnings stream backed by a long weighted average lease expiry (WALE) of 4.9 years by gross rental income (GRI) and 10.4 years by net lettable area (NLA). This is anchored by a long lease at Sky Complex where the sole tenant (blue chip tenant) at Sky Italia has another c.12.9 years to go on its lease. In Singapore, 313@somerset is projected to deliver steady growth given its ongoing tenant retention and remixing strategies. As at June 2019, 92.8% of the portfolio's leases by GRI had step-up structures in the base rent over the term of the lease, of which The Sky Complex, which contributes 28.9% of total GRI, has rental escalation that is pegged to 75% of ISTAT's index variation

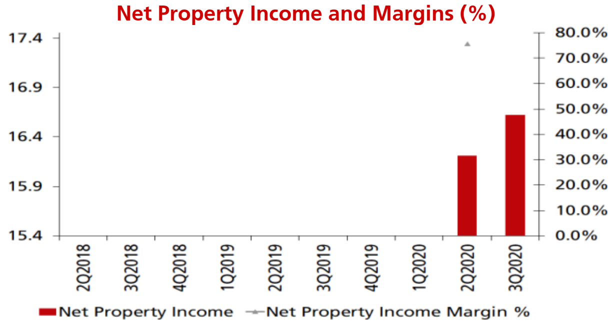
Backed by established Sponsor with a proven global reach. LLGCR's sponsor, Lendlease Corporation Limited, is part of the Lendlease Group, and has a long track record of successfully managing and operating commercial assets globally. The Lendlease group has A$32.5bn worth of assets under management globally. In Singapore, the Lendlease Group is managing some of the highly successful and iconic shopping malls including 313@somerset, Parkway Parade, Jem and Paya Lebar Quarter (PLQ) which was officially launched in October last year.

Additional GFA at 313@somerset. The reversion of plot ratio from 4.9+ to 5.6 according to URA's draft Master Plan 2019 could translate into an additional 1,008 sqm of GFA to be deployed at 313@somerset, and act as a medium-term catalyst for LLGCR. The Manager is currently reviewing potential plans to deploy the additional plot ratio, taking into account current tenants' expansion plans, potential operational disruptions and cost considerations. One option would be the conversion of the sixth floor car park into commercial space.

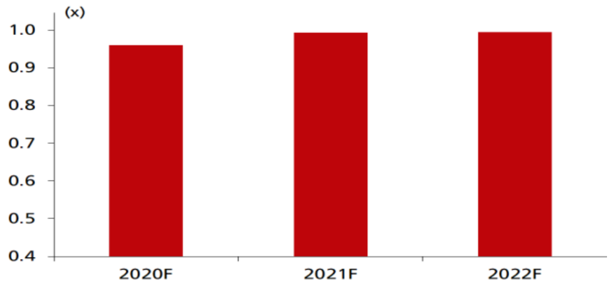
Net Property Income and Margins (%)



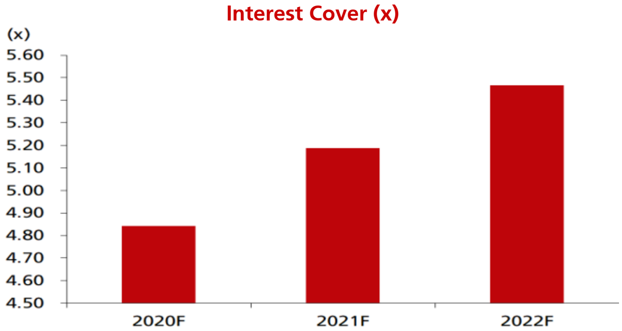
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:
LLGCR's gearing ratio stood at c.35% as at end-2019, well within MAS's 45% gearing limit. Debt headroom stands at c.S$280m based on our estimates and a 45% target gearing, and could be deployed for future acquisitions.

Share Price Drivers:
Rejuvenation of Orchard Road. The Singapore government has plans to rejuvenate the Orchard Road precinct to further enhance the area's vibrancy. This could result in increased foot traffic and retail spending at Orchard Road, benefitting LLGCR's 313@somerset property coupled with potential upside in plot ratio.

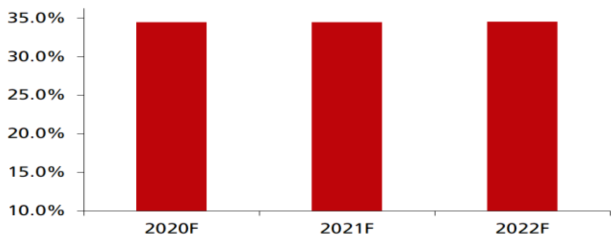
Additional GFA at 313@somerset. The reversion of plot ratio from 4.9+ to 5.6 according to URA's draft Master Plan 2019 could translate into an additional 1,008 sqm of GFA to be deployed at 313@somerset, and act as a medium-term catalyst for LLGCR.

Visible acquisition pipeline. Sponsor, Lendlease Group, has a A$100bn global development pipeline and properties, which includes A$35.2bn held under funds. In Singapore, the Lendlease Group manages highly successful and iconic shopping malls including 313@somerset, Parkway Parade, and Jem and more recently Paya Lebar Quarter (PLQ) which was launched in 3Q19.
(i) Parkway Parade – Sponsor owns a 6.1% stake via Parkway Parade Partnership Limited.
(ii) JEM - Sponsor owns a 20.1% stake via Lendlease Asian Retail Investment Fund 3.
(iii) Paya Lebar Quarter - Sponsor directly owns a 30.0% interest in the development

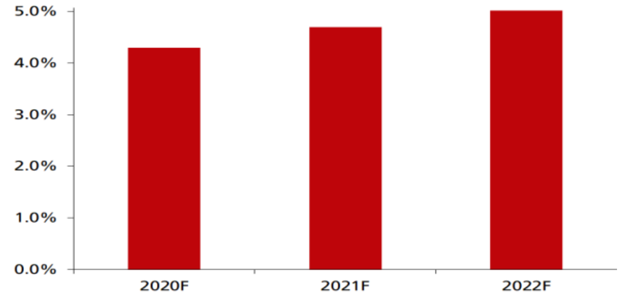
Key Risks:
Concentration risk. Despite LLGCR's initial portfolio being diversified across two countries and various sectors, there is a tight concentration on Sky Italia (single tenant), which contributed c.28.9% to revenues in June 2019. Therefore, a downturn in either key markets of Singapore and Italy could have a disproportionately large impact on the REIT's earnings.

Company Background
Lendlease Global Commercial REIT ("LLGCR") was listed on 2 October as a real estate investment trust with the principal objective of owning in-producing real estate across the globe. The initial portfolio will comprise full ownership stakes in two assets, namely retail mall 313@somerset (Singapore) and office asset Sky Complex (Italy).

Aggregate Leverage (%)



ROE (%)



Source: Company, DBS Bank

Income Statement (S$m)

FY Jun	2020F	2021F	2022F
Gross revenue	81.5	86.9	91.2
Property expenses	(20.7)	(22.0)	(23.0)
Net Property Income	**60.9**	**64.9**	**68.2**
Other Operating expenses	(9.0)	(9.2)	(9.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0
Net Interest (Exp)/Inc	(10.7)	(10.7)	(10.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0
Net Income	**41.2**	**45.0**	**48.1**
Tax	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0
Net Income After Tax	**41.2**	**45.0**	**48.1**
Total Return	41.2	45.0	48.1
Non-tax deductible Items	15.7	17.1	15.3
Net Inc available for Dist.	56.9	62.1	63.4
Growth & Ratio			
Revenue Gth (%)	N/A	6.6	5.0
N Property Inc Gth (%)	nm	6.6	5.1
Net Inc Gth (%)	nm	9.2	6.9
Dist. Payout Ratio (%)	100.0	100.0	100.0
Net Prop Inc Margins (%)	74.7	74.7	74.8
Net Income Margins (%)	50.5	51.8	52.7
Dist to revenue (%)	69.8	71.4	69.5
Managers & Trustee's fees	11.0	10.5	10.2
ROAE (%)	4.3	4.7	5.0
ROA (%)	2.8	3.1	3.3
ROCE (%)	3.6	3.9	4.1
Int. Cover (x)	4.8	5.2	5.5

Source: Company, DBS Bank

Revenue revised for one-month rental rebates plus 20% lower GTO income for the

Balance Sheet (S$m)

FY Jun	2020F	2021F	2022F
Investment Properties	1,403	1,405	1,406
Other LT Assets	22.4	22.4	22.4
Cash & ST Invts	36.6	36.9	37.2
Inventory	0.0	0.0	0.0
Debtors	9.05	9.05	9.05
Other Current Assets	0.70	0.70	0.70
Total Assets	1,472	1,474	1,475
ST Debt	0.0	0.0	0.0
Creditor	5.44	5.79	6.08
Other Current Liab	0.0	0.0	0.0
LT Debt	507	509	510
Other LT Liabilities	0.0	0.0	0.0
Unit holders' funds	959	959	959
Minority Interests	0.0	0.0	0.0
Total Funds & Liabilities	1,472	1,474	1,475
Non-Cash Wkg. Capital	4.32	3.96	3.67
Net Cash/(Debt)	(471)	(472)	(473)
Ratio			
Current Ratio (x)	8.5	8.1	7.7
Quick Ratio (x)	8.5	8.1	7.7
Aggregate Leverage (%)	34.5	34.5	34.6
Z-Score (X)	NA	NA	NA

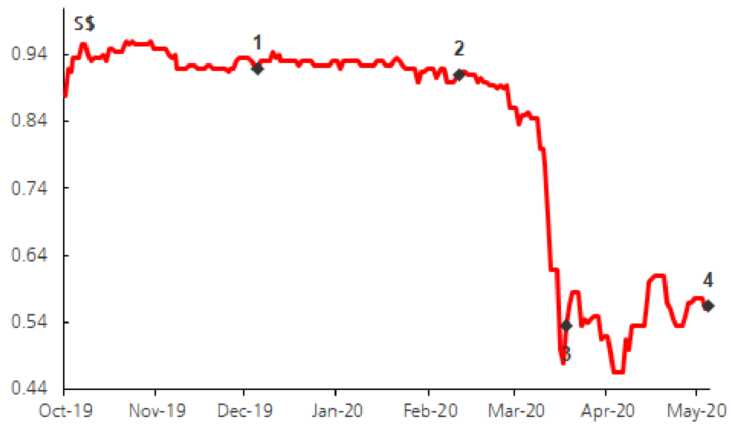
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Jun	2020F	2021F	2022F
Pre-Tax Income	41.2	45.0	48.1
Dep. & Amort.	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0
Associates &JV Inc/(Loss)	0.0	0.0	0.0
Chg in Wkg.Cap.	2.35	0.36	0.29
Other Operating CF	15.7	17.1	15.3
Net Operating CF	**59.2**	**62.4**	**63.7**
Net Invt in Properties	(1.1)	(1.2)	(1.3)
Other Invts (net)	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0
Net Investing CF	**(1.1)**	**(1.2)**	**(1.3)**
Distribution Paid	(56.9)	(62.1)	(63.4)
Chg in Gross Debt	1.11	1.21	1.30
New units issued	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0
Net Financing CF	**(55.8)**	**(60.9)**	**(62.1)**
Currency Adjustments	0.0	0.0	0.0
Chg in Cash	2.35	0.36	0.29
Operating CFPS (S cts)	4.80	5.22	5.27
Free CFPS (S cts)	4.91	5.15	5.18

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Dec 19	0.92	1.05	BUY
2:	11 Feb 20	0.91	1.05	BUY
3:	18 Mar 20	0.54	0.94	BUY
4:	05 May 20	0.57	0.94	BUY

Source: DBS Bank

Analyst: Singapore Research Team

Derek TAN

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*

Completed Date: 6 May 2020 09:55:52 (SGT)
Dissemination Date: 6 May 2020 12:00:07 (SGT)

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

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Mapletree Commercial Trust

Version 19 | Bloomberg: MCT SP | Reuters: MACT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 May 2020

BUY

Last Traded Price (28 May 2020): S$1.96 (**STI :** 2,515.24)
Price Target 12-mth: S$2.25 (15% upside) (Prev S$1.90)

Analyst
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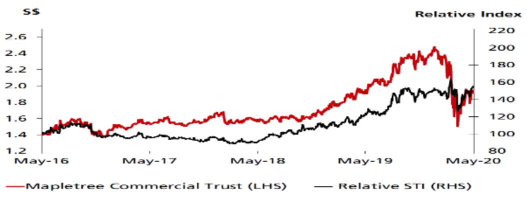
What's New

- Remain bullish on MCT and believe its best-in-class portfolio (VivoCity, MBC I and MBC II) will enable the REIT to weather the storm
- VivoCity, a dominant mall in the Greater Southern Waterfront, will remain a desired mall for retailers post COVID-19
- Less impacted by new bill with generous upfront support of 2.5 months (1.5 months out-of-pocket)
- Maintain BUY; raised TP to S$2.25 from S$1.90

Price Relative



Forecasts and Valuation

FY Mar (S$m)	2019A	2020A	2021F	2022F
Gross Revenue	444	483	507	561
Net Property Inc	348	378	428	443
Total Return	582	543	292	303
Distribution Inc	264	288	315	326
EPU (S cts)	8.50	7.97	8.81	9.11
EPU Gth (%)	1	(6)	11	3
DPU (S cts)	9.14	8.00	9.01	9.80
DPU Gth (%)	1	(12)	13	9
NAV per shr (S cts)	160	175	175	174
PE (X)	23.1	24.6	22.2	21.5
Distribution Yield (%)	4.7	4.1	4.6	5.0
P/NAV (x)	1.2	1.1	1.1	1.1
Aggregate Leverage (%)	33.1	33.4	33.5	33.5
ROAE (%)	5.5	5.1	5.0	5.2
Distn. Inc Chng (%):			(4)	(1)
Consensus DPU (S cts):			8.40	9.40
Other Broker Recs:		B: 4	S: 2	H: 7

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

The Flower that blooms in adversity

Maintain BUY; raise TP to S$1.90. We maintain our BUY call on Mapletree Commercial Trust (MCT) and raised our TP to S$2.25 from S$1.90. Even though the COVID-19 outbreak will continue to impact VivoCity, we believe MCT's earnings will be supported by its prized assets, MBC I and MBC II, with their stable earnings and strong tenant profile. MCT is currently trading at attractive valuations post earnings revision at FY21F dividend yield of 4.6% and P/NAV of 1.1x, close to -1SD.

Where we differ: Best-in-class portfolio to weather the storm. Despite the direct impact on VivoCity from the COVID-19 outbreak and restrictions on movement, we remain bullish on MCT and believe that its best-in-class portfolio will enable the REIT to weather the storm. In addition, FY21 will be boosted by full-year contribution from MBC II. The stock also enjoys a scarcity premium as one of only two 100%-Singapore-focused large-cap REITs which is highly valued by investors.

VivoCity a dominant mall heading towards recovery. We believe MCT is less impacted by the new rental waiver bill as it was one of the few that gave generous upfront support of 2.5 months (1.5 months out-of-pocket) of rental waivers. These amounts had been sufficiently retained in 4QFY20. In addition, we believe VivoCity, as a key destination mall in the Greater Southern Waterfront, will remain a desired mall for retailers post COVID-19.

Valuation:

We raised our DCF-based TP to S$2.25 from S$1.90 based on lower beta of 0.8 from 0.96 previously. We lower our DI estimates for FY20F-FY21F by 1-4% to factor in a higher rental relief for tenants.

Key Risks to Our View:

A key risk to our positive view is a prolonged COVID-19 impacting its retail assets more-than-expected, economic downturn to indirectly impact office/business parks.

At A Glance

Issued Capital (m shrs)	3,308
Mkt. Cap (Sm/USm)	6,483 / 4,573
Major Shareholders (%)	
Temasek Holdings Pte td	33.0
Schroders Plc	6.0
BlackRock Inc	5.0
Free Float (%)	56.0
3m Avg. Daily Val (US$m)	27.0

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

DBS
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WHAT'S NEW

The flower that blooms in adversity

FY20 results: Retention for a rainy day

- MCT reported FY20 revenue and net property income (NPI) of S$482.8m and S$377.9m, up 8.8% and 8.7% respectively. This was mainly driven by contributions from Mapletree Business City Phase II (MBC II). The financial performance of its existing properties remained stable; with revenues and NPI coming in 0.3% higher and flat y-o-y.
- Drivers for the financial performance for 4QFY20 was similar, with revenues and NPI rising by 12.8% and 12.6% to S$127.3m and S$98.6m respectively, which more than offset the S$8.8m in COVID-19 rent rebates offered to its retail tenants. This S$8.8m in rebates will include the 15% in property tax rebates offered by the government in March 2020. Due to rental rebates given by MCT to retail tenants in 4Q20, revenues and NPI declined by c. 7.3% and 8.3% respectively.
- Financial expenses increased by c.24% in 4Q20 to S$21.8m and 12.5% to S$78.8m for FY20 mainly due to additional debt taken to part fund the acquisition of MBC II.
- As a result, distributable income before capital allowance claims and distribution retention was up 10.5% in 4Q20 but after accounting for monies retained (S$43.7m or 60% of distributable income), DPU came in 60% lower at 0.91 Scts. On a full-year basis, DPU dipped 12.5% to 8.00 Scts.

Monies retained: Prudence for an uncertain near-term outlook:

- The S$43.7m retained from distribution is a prudent move in view of the heightened operating uncertainty brought about by the COVID-19 temporary bill in light of the devastating pandemic. The social distancing measures coupled with Circuit Breaker (now extended to 1 June 2020) throws much uncertainty into the operating climate especially when a majority of VivoCity's outlets remain closed, impacting its retailers' ability to generate sales.
- The manager has embarked on a S$50m rental relief programme (S$8.8m disbursed) which will be offered to tide over the tenant's cash flows over the next quarter.
- The manager has waived April 2020 rents for eligible retail tenants.
- Looking ahead, depending on the outlook of rental collections, the manager will look to pay out a majority of the unutilised S$43.7m out to unitholders.

Operational highlights: More pressure in the near term; expect 1QFY21 results to be weak

- Full-year shopper traffic and sales dipped by 6.8% and 3.4% respectively, due to the impact of COVID-19 in 4Q20. We expect sales to remain pressured in the near term given the closure of VivoCity in April - May 2020.
- Committed occupancy remains high at 99.7%.
- For the office properties, committed occupancy remains high at 92.7-100% with PSA Building (88.1% actual, 92.7% committed) seeing a slight dip in occupancy rates q-o-q due to ongoing tenant churn.
- Rental reversions for the year remained positive at 6.7% for retail and 0.7% for office/business park.
- Portfolio WALE stayed stable at 2.6 years (2.2 years for retail and 2.9 years for office/business park space).
- While 8.1% of gross rental income will be up for renewal in the FY21F, we anticipate that the retention rate will likely remain high given VivoCity's commanding positioning in the Southern waterfront corridor.
- That said, the challenging retail operating environment will likely see rental reversions tip towards flattish/negative range in the upcoming financial year.

Balance sheet: Ratios remain strong

- Portfolio valuation remained steady at S$8.9bn with cap rates remaining steady at 4.625% for VivoCity, 3.5-3.9% for office and 4.9-4.95% for business park. Supported by a rise in fair values and new equity raised, NAV rose by 9.4% to S$1.75.
- With stable asset valuation, gearing ratio remained stable at 33.3% (vs 33.4% as of December 2019) with Interest Coverage Ratio (ICR) high at 4.3 years. Average debt maturity remained long at 4.2 years with interest rates staying stable at 2.94%.
- The manager has S$321m of cash and undrawn committed facilities with a well-distributed debt maturity profile with not more than 17% of debt due in any one year.
- The manager has also refinanced in advance term loans expiring in FY21 with S$160m in MTN left for renewal.
- Given its strong financial metrics, we believe that MCT has ample financial resources to refinance the MTN expiring in FY21.

Summary of results / operational data

Summary of results	4Q FY19/20	3Q FY19/20	%q-o-q	4Q FY18/19	% y-o-y
Revenue	127.3	131.3	-3%	112.9	12.8%
NPI	98.6	103.3	-5%	87.6	12.6%
DI	30.1	79.0	-62%	66.9	-55.0%
DPU	0.91	2.46	-63%	2.31	-60.6%
Gearing	33.3%	33.4%	-0.1 ppt	33.1%	0.2 ppt
Average cost of debt	2.94%	2.96%	0 ppt	2.97%	0 ppt
ICR	4.3	4.4	(0.1)	4.5	(0.2)

Key Operational Data	4Q FY19/20	3Q FY19/20	%q-o-q	4Q FY18/19	% y-o-y
Portfolio occupancies	98.7%	98.3%	0.4 ppt	98.1%	0.6 ppt
VivoCity	99.7%	99.2%	0.5 ppt	99.4%	0.3 ppt
MBC I	98.7%	99.7%	-1 ppt	97.8%	0.9 ppt
MBC II	100.0%	99.4%	0.6 ppt	-	n.a.
PSA Building	92.7%	89.1%	3.6 ppt	96.4%	-3.7 ppt
Mapletree Anson	100.0%	97.0%	3 ppt	96.8%	3.2 ppt
MLHF	100.0%	100.0%	0 ppt	100.0%	0 ppt
WALE (years)	**2.6**	**2.6**	**0.0**	**2.9**	**-0.3**
Retail	2.2	2.4	-0.2	2.8	-0.6
Office/Business Park	2.9	2.8	0.1	3.0	-0.1
Rental reversions (%)	**5.0%**	**5.0%**	**0%**	**5.4%**	**-7.4%**
Retail	6.7%	6.7%	0%	3.5%	91.4%
Office/Business Park	0.7%	0.7%	0%	10.3%	-93.2%
Others					
Shopper Traffic (m)	10.3	14.1	-27%	13.1	-21.4%
Tenant sales (S$'m)	193.0	269.8	-28%	221.0	-12.7%

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Mar	4Q2019	3Q2020	4Q2020	% chg yoy	% chg qoq
Gross revenue	113	131	127	12.8	(3.1)
Property expenses	(25.3)	(28.0)	(28.8)	13.5	2.5
Net Property Income	87.6	103	98.6	12.6	(4.6)
Other Operating expenses	(8.2)	(10.3)	(10.1)	23.8	(1.7)
Other Non Opg (Exp)/Inc	0.08	(0.4)	0.69	739.0	nm
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(17.5)	(21.0)	(21.7)	(24.3)	(3.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	62.0	71.7	67.5	8.8	(5.9)
Tax	0.0	0.0	0.0	-	-
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	62.0	71.7	67.4	8.8	(5.9)
Total Return	399	71.7	41.6	(89.6)	(41.9)
Non-tax deductible Items	(332)	8.47	(11.5)	(96.5)	nm
Net Inc available for Dist.	66.9	79.1	30.1	(55.0)	(61.9)
Ratio (%)					
Net Prop Inc Margin	77.6	78.7	77.4		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

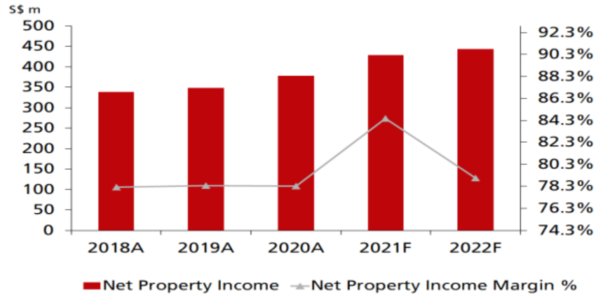
VivoCity is one of the top performing malls in Singapore. VivoCity, which contributes 45-50% of MCT's NPI, is one of the top performing malls in Singapore given its unique attribute of being the only major mall in the southern half of Singapore, a gateway to Sentosa Island, and having excellent connectivity via highways and the subway. With around 55m visitors each year and consistent delivery of tenants' sales growth, VivoCity is one of the go-to malls for prospective retailers. Having just passed its 10-year anniversary, the mall has matured and is therefore no longer delivering double-digit earnings growth. However, we believe MCT's plans to "future and e-commerce proof" the mall via the addition of services and lifestyle options, and ongoing tenant remixing should enable VivoCity to deliver low single-digit rental reversions.

MBC I another crown jewel with inbuilt step-ups. Another key asset for MCT is MBC I, a best-in-class office/business park property which is only 10-15 minutes' drive from Singapore's CBD. MBC I contributes c.30% of MCT's NPI. An attractive feature of the property is that most of the leases have annual rental escalations of around 3%. This provides the REIT with an inbuilt organic earnings growth profile. Due to its choice location, nearby amenities and discounted rents with Grade A office specifications, we believe MBC I will remain a top choice for tenants seeking a decentralised location. This provides earnings resiliency to the REIT.

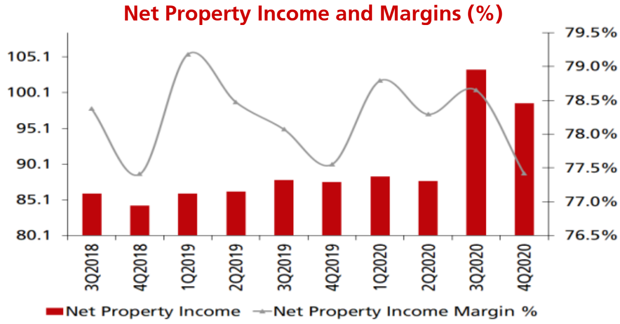
Recovery in spot office rents. Spot office rents have increased from the low in 1H17 of S$8.95 psf per month, reaching S$11.50 psf per month at the end of 4Q20, according to CBRE estimates. Given that over 50% of MCT's earnings are derived from its office/business park properties, we believe it is well placed to benefit from the upturn in office rents as new supply is expected to be muted over the coming 3-4 years.

Transformative MBC II acquisition; room to take on development projects. With the long-awaited acquisition of MBC II now completed, we believe MCT will enjoy a longer runway of growth. Moreover, the larger MCT will now have room to take on development projects (especially Harbourfront Centre) to drive the next phase of growth.

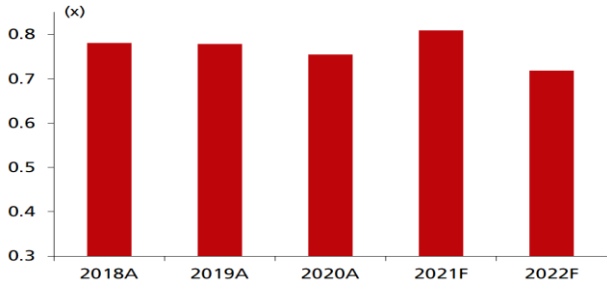
Net Property Income and Margins (%)



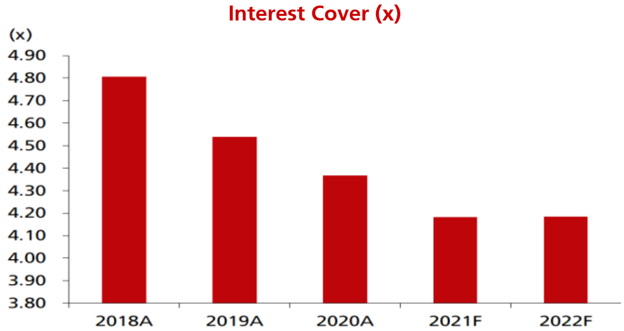
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



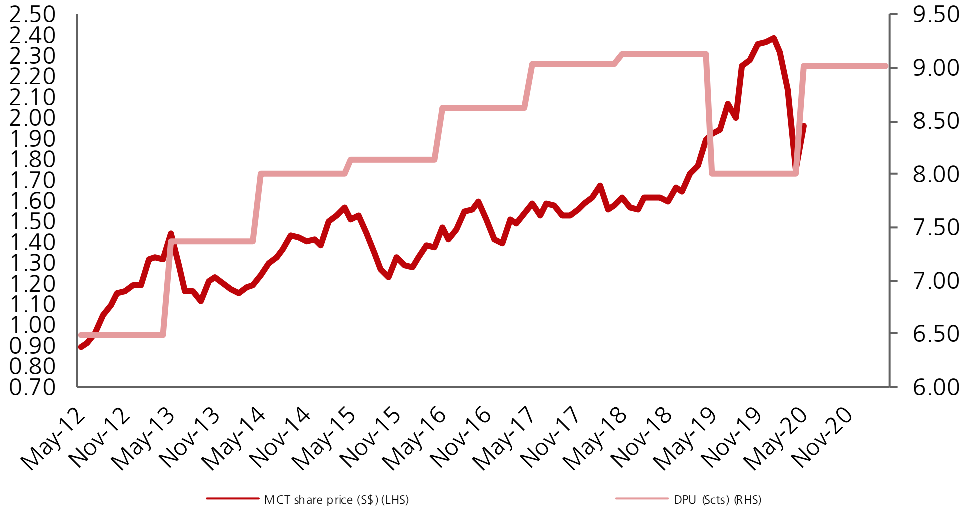
Interest Cover (x)



Source: Company, DBS Bank

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

MCT's share price vs DPU



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

Remarks

MCT's share price typically tracks its DPU. With MCT expected to maintain an upward DPU trajectory and enjoying upside from potential acquisitions, we expect its share price to rally from the current level.

Balance Sheet:

Gearing stood at c.33% post acquisition of MBC II. MCT's gearing stood at c.33% as of March 2020 post acquisition of MBC II. This gives MCT ample debt headroom to weather the storm.

Share Price Drivers:

Continued delivery of steady DPU growth. The market has been concerned about MCT's ability to deliver consistent and steady DPU ahead, given the maturing of VivoCity and headwinds in the retail sector such as e-commerce and large retail supply growth. We believe MCT's recent AEI and addition of a library and resultant bonus 24,000 sqft of GFA should not only build a moat around its current earnings but also drive foot traffic/tenant sales, resulting in higher rents ahead.

Pure-play Singapore REIT. With other S-REITs expanding outside Singapore, MCT is expected to remain focused solely in Singapore. This may attract investors who prefer S-REITs with 100% exposure to Singapore.

Key Risks:

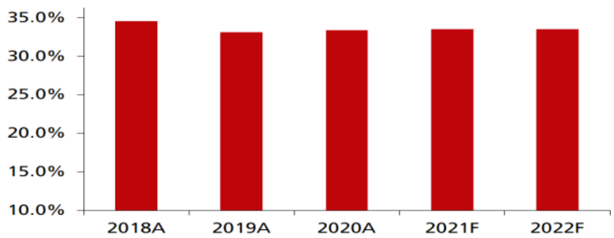
Weaker operational performance from VivoCity. The mall is gradually phasing into a mature stage, with potential slowdown in growth ahead. The timely acquisition of MBC I, still a segment in high demand, plus management's continuous efforts to revamp VivoCity's offerings, should mitigate the slowdown at the portfolio level.

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 MCT's debts are on fixed rates.

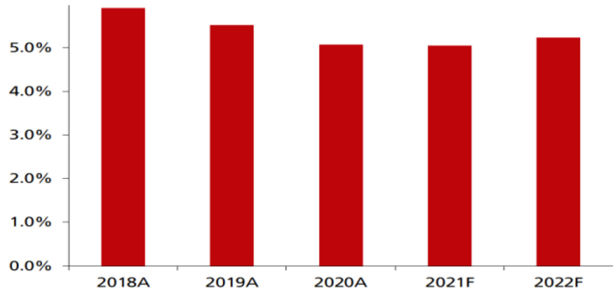
Company Background

Mapletree Commercial Trust (MCT) is a real estate investment trust that invests in income-producing office, business park and retail properties in Singapore. Most of its earnings are derived from VivoCity, one of the largest retail malls in Singapore. In addition, the REIT has four other office and business park properties including Mapletree Business City, a premier decentralised office/business park.

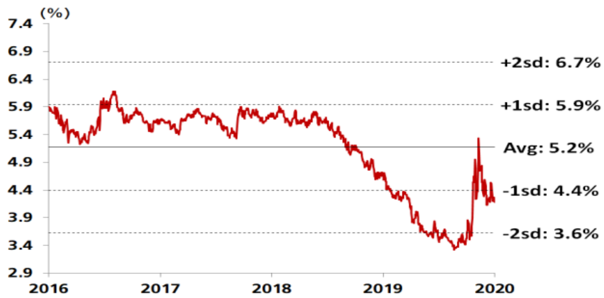
Aggregate Leverage (%)



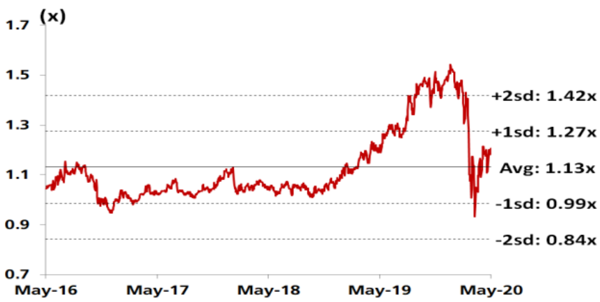
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Gross revenue	434	444	483	507	561
Property expenses	(94.7)	(96.3)	(105)	(79.0)	(118)
Net Property Income	339	348	378	428	443
Other Operating expenses	(31.6)	(32.8)	(37.5)	(43.7)	(44.4)
Other Non Opg (Exp)/Inc	1.62	0.57	(7.9)	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(63.9)	(69.4)	(78.0)	(91.9)	(95.3)
Exceptional Gain/(Loss)	(1.6)	(0.4)	8.89	0.0	0.0
Net Income	243	246	264	292	303
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	243	246	264	292	303
Total Return	568	582	543	292	303
Non-tax deductible Items	(307)	18.3	24.1	22.4	22.7
Net Inc available for Dist.	260	264	288	315	326
Growth & Ratio					
Revenue Gth (%)	14.8	2.4	8.8	5.0	10.6
N Property Inc Gth (%)	15.9	2.6	8.7	13.2	3.5
Net Inc Gth (%)	15.6	1.0	7.3	11.0	3.7
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	78.2	78.3	78.3	84.4	79.0
Net Income Margins (%)	56.1	55.3	54.6	57.7	54.1
Dist to revenue (%)	60.1	59.5	59.6	62.1	58.2
Managers & Trustee's fees	7.3	7.4	7.8	8.6	7.9
ROAE (%)	5.9	5.5	5.1	5.0	5.2
ROA (%)	3.7	3.5	3.3	3.3	3.4
ROCE (%)	4.7	4.6	4.3	4.3	4.5
Int. Cover (x)	4.8	4.5	4.4	4.2	4.2

Source: Company, DBS Bank

Increase in earnings in FY21 led by acquisition of MBC II

Quarterly / Interim Income Statement (S$m)

FY Mar	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
Gross revenue	113	112	112	131	127
Property expenses	(25.3)	(23.8)	(24.3)	(28.0)	(28.8)
Net Property Income	87.6	88.4	87.7	103	98.6
Other Operating expenses	(8.2)	(8.5)	(8.6)	(10.3)	(10.1)
Other Non Opg (Exp)/Inc	0.08	0.22	0.44	(0.4)	0.69
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(17.5)	(17.6)	(17.7)	(21.0)	(21.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**62.0**	**62.5**	**61.9**	**71.7**	**67.5**
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	**62.0**	**62.5**	**61.9**	**71.7**	**67.4**
Total Return	399	62.5	367	71.7	41.6
Non-tax deductible Items	(332)	4.72	(300)	8.47	(11.5)
Net Inc available for Dist.	66.9	67.3	66.8	79.1	30.1
Growth & Ratio					
Revenue Gth (%)	0	(1)	0	17	(3)
N Property Inc Gth (%)	0	1	(1)	18	(5)
Net Inc Gth (%)	0	1	(1)	16	(6)
Net Prop Inc Margin (%)	77.6	78.8	78.3	78.7	77.4
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Investment Properties	6,682	7,039	8,920	8,935	8,952
Other LT Assets	10.2	7.44	13.5	13.5	13.5
Cash & ST Invts	45.1	49.1	65.9	28.9	60.9
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	2.95	4.00	5.03	4.57	5.06
Other Current Assets	0.42	1.08	2.38	2.38	2.38
Total Assets	**6,741**	**7,101**	**9,007**	**8,985**	**9,034**
ST Debt	144	50.0	160	160	160
Creditor	83.2	81.0	104	66.5	99.0
Other Current Liab	0.15	0.01	0.38	0.38	0.38
LT Debt	2,186	2,300	2,848	2,848	2,865
Other LT Liabilities	44.7	53.7	107	107	107
Unit holders' funds	4,283	4,616	5,787	5,803	5,803
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**6,741**	**7,101**	**9,007**	**8,985**	**9,034**
Non-Cash Wkg. Capital	(80.0)	(75.9)	(97.4)	(59.9)	(91.9)
Net Cash/(Debt)	(2,284)	(2,301)	(2,942)	(2,979)	(2,964)
Ratio					
Current Ratio (x)	0.2	0.4	0.3	0.2	0.3
Quick Ratio (x)	0.2	0.4	0.3	0.1	0.3
Aggregate Leverage (%)	34.6	33.1	33.4	33.5	33.5
Z-Score (X)	1.5	1.5	1.3	1.2	1.2

Source: Company, DBS Bank

Cash Flow Statement (S$m)

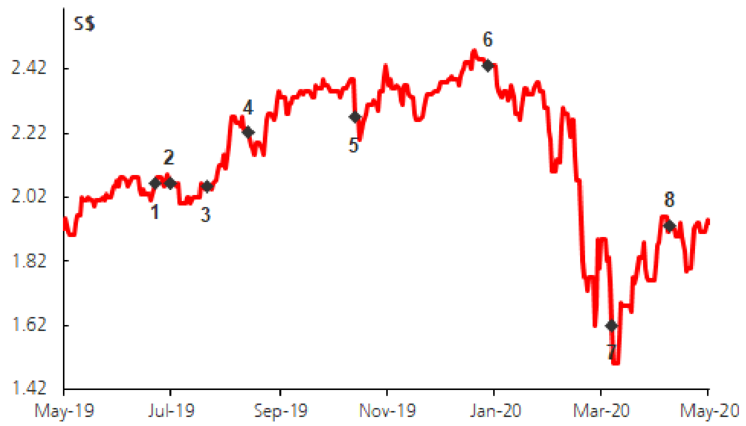
FY Mar	2018A	2019A	2020A	2021F	2022F
Pre-Tax Income	243	246	264	292	303
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	10.0	6.65	13.4	(37.5)	32.0
Other Operating CF	78.9	84.7	93.3	114	118
Net Operating CF	**332**	**337**	**370**	**369**	**453**
Net Invt in Properties	(18.5)	(22.1)	(17.3)	(15.2)	(16.8)
Other Invts (net)	0.0	0.0	(888)	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	0.35	0.0	0.81	0.0	0.0
Net Investing CF	**(18.2)**	**(22.1)**	**(904)**	**(15.2)**	**(16.8)**
Distribution Paid	(260)	(263)	(280)	(299)	(326)
Chg in Gross Debt	0.0	21.4	4.20	0.0	16.8
New units issued	0.0	0.0	919	0.0	0.0
Other Financing CF	(63.2)	(70.4)	(92.4)	(91.9)	(95.3)
Net Financing CF	**(323)**	**(312)**	**551**	**(391)**	**(404)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(8.8)	3.39	16.7	(37.0)	32.0
Operating CFPS (S cts)	11.2	11.4	10.8	12.3	12.7
Free CFPS (S cts)	10.9	10.9	10.7	10.7	13.1

Acquisition of MBC II

Net proceeds from c.S$900m equity-raising

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 Jul 19	2.06	2.24	BUY
2:	26 Jul 19	2.06	2.24	BUY
3:	16 Aug 19	2.05	2.24	BUY
4:	09 Sep 19	2.22	2.39	BUY
5:	08 Nov 19	2.27	2.60	BUY
6:	23 Jan 20	2.43	2.60	BUY
7:	02 Apr 20	1.62	1.90	BUY
8:	05 May 20	1.93	1.90	BUY

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

Source: DBS Bank

Analyst: Rachel TAN
Derek TAN

Singapore Company Guide

SPH REIT

Version 20 | Bloomberg: SPHREIT SP | Reuters: SPHR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 May 2020

HOLD (Upgrade from FULLY VALUED)

Last Traded Price (28 May 2020): S$0.825 (**STI :** 2,515.24)
Price Target 12-mth: S$0.80 (-3% downside) (Prev S$0.70)

Analyst
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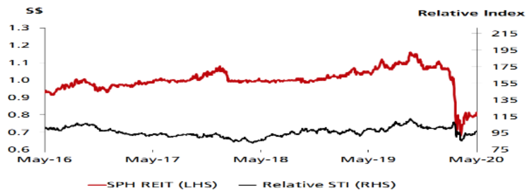
Singapore Research Team equityresearch@dbs.com

What's New

- Fortified by income retention in 2Q19/20
- Limited downside risk from proposed Rental Waiver Bill as SPH REIT has given the most rebates amongst retail landlords
- Upgrade to HOLD given its trough P/NAV; higher TP of S$0.80

Price Relative



Forecasts and Valuation

FY Aug (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	212	229	263	302
Net Property Inc	166	180	195	226
Total Return	123	150	117	144
Distribution Inc	142	145	133	162
EPU (S cts)	4.79	5.79	4.35	5.19
EPU Gth (%)	(22)	21	(25)	19
DPU (S cts)	5.54	5.60	4.31	5.81
DPU Gth (%)	0	1	(23)	35
NAV per shr (S cts)	94.6	94.6	95.2	94.6
PE (X)	17.2	14.2	19.0	15.9
Distribution Yield (%)	6.7	6.8	5.2	7.0
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	26.2	27.6	30.1	30.3
ROAE (%)	5.1	6.1	4.6	5.5
Distn. Inc Chng (%):			0	0
Consensus DPU (S cts):			4.30	5.30
Other Broker Recs:		B: 1	S: 2	H: 3

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

It pays to be prudent

Upgrade to HOLD, TP increased to S$0.80. The 79% cut in DPU to 0.3 Sct for the quarter may come as a shock to investors but could now become the upside surprise. The retained income has been used to offset tenant rentals during the Circuit Breaker period. SPH REIT will be providing up to 2.3 months of rent relief to selected tenants, the most amongst the retail landlords. With landlords having to potentially give up to two months of rental relief (proposed Rental Waiver Bill), SPH REIT will unlikely have to make further provisions or provide further rebates. As the worst of the COVID-19 pandemic is past us, we can see the light at the end of the tunnel with the gradual easing of the Circuit Breaker measures and retail malls reopening as early as July (phase 2 post Circuit Breaker measures). Thus, we increased our TP to reflect the resumption of rental collections in the coming weeks.

Latest government budget and proposed new Bill that will truly set SPH REIT apart. For most commercial property landlords, the latest developments announced in the Fortitude Budget is both a boon and a bane. However, having been the most generous landlord to provide up to c.2.3 months of rental rebates (on top of passing on property tax rebates), SPH REIT will unlikely have to provide more rental relief if the proposed Rental Waiver Bill is passed in June 2020.

Slow recovery for luxury retail malls along the Orchard Road belt. Despite the gradual reopening of retail businesses in Singapore, we expect SPH REIT's Paragon mall to continue facing weakness in the near term. With the ongoing COVID-19 outbreak and the impending economic slowdown, luxury retail will be impacted, and tourist arrivals will continue to be muted.

Valuation:

Upgrade to HOLD, with a higher TP of S$0.80. SPH REIT is currently trading at its trough P/NAV ratio of c.0.86. We have thus upgraded our call to HOLD based on valuations and increased our TP to S$0.80 based on a 10-bp cut to beta.

Key Risks to Our View:

Prolonged COVID-19 situation beyond FY20 as per our base assumption and protracted weakness in tourist arrivals.

At A Glance

Issued Capital (m shrs)	2,758
Mkt. Cap (Sm/USm)	2,275 / 1,605
Major Shareholders (%)	
Singapore Press Holdings Ltd	63.4
National Trades Union Congress	4.9
Free Float (%)	31.7
3m Avg. Daily Val (US$m)	2.3

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

WHAT'S NEW

It pays to be prudent

(+) Reopening of businesses in phases from 2 June 2020

- With the easing of the Circuit Breaker measures from 2 June 2020, businesses will be allowed to resume operations in phases.
- Although most retail tenants in SPH's malls will only be allowed to reopen during the second phase, SPH REIT's tenant relief package should be sufficient to tide them through.
- SPH REIT will be providing tenants with a c.2.3 months' rental rebate, in addition to passing on property tax rebates that approximates 1.0-1.2 months of rents.

(-) Paragon mall expected to see a slow recovery

- Paragon mall's concentration of luxury retail will be impacted by the impending economic downturn.
- Tourist arrivals expected to remain weak even after the lifting of Circuit Breaker measures; affecting malls along the Orchard Road belt.
- However, international luxury brands in Paragon should continue to attract its niche client base.

(+) Strong balance sheet and capital management metrics

- Low gearing of 29.3% provides SPH REIT with the financial flexibility to pursue opportunities and mitigates the need to recapitalise its balance sheet.
- As highlighted in our "The next big test for S-REITs" report on 11 May 2020, SPH REIT has one of the strongest balance sheets among S-REITs.
- SPH REIT's conservative capital structure (gearing of 29.3%) and robust ICR puts it in a good position to weather potential cap rate expansion.
- Its current trading price also provides for upside potential and an attractive dividend yield.

(+) SPH REIT has fortified its position amongst the retail landlords

- In the latest government budget announced on 26 May 2020, qualifying SME retail tenants will receive cash grants amounting to approximately 0.8 month of rent.
- Tenants in the retail and F&B sectors will benefit from the enhanced Jobs Support Scheme that helps to offset local employees' wages by 50-75% as they gradually reopen
- Announced together with the budget was the proposed Rent Waiver Bill that will be tabled in Parliament in June 2020. This is to assist qualifying SME tenants which have suffered significant revenue decline due to COVID-19
- If passed, retail landlords will have to provide two months of rental relief in addition to the two months that the government has given.
- Limited downside risk caused by the proposed new Bill as SPH REIT had already committed to provide its tenants with up to c.2.3 months of rental rebates previously.

(-) 25% of leases due for renewal in FY20

- Despite reporting a 6.7% positive rental reversion for leases that expired in Singapore in 2Q20, rental reversions for the rest of FY20 are expected to weaken.
- Majority of expiries remaining in FY20 will come from Westfield Marion in Adelaide, Australia.
- Weakness in Adelaide's retail rents, coupled with ongoing COVID-19 outbreak, will likely lead to negative rental reversions

Despite ongoing uncertainties caused by the COVID-19 pandemic, we see limited downside risks to SPH REIT's earnings forecasts. Its prudence in making provisions for tenant rental relief should provide some buffer to revenues for the rest of FY20. In response to the gradual lifting of Circuit Breaker measures in Singapore and the phased reopening of businesses, we have lowered our beta for SPH REIT by 10bps to 0.85.

As such, we have upgraded our recommendation on SPH REIT to HOLD, with a higher TP of S$0.80.

Quarterly / Interim Income Statement (S$m)

FY Aug	2Q2019	1Q2020	2Q2020	% chg yoy	% chg qoq
Gross revenue	58.1	60.1	73.3	26.1	21.8
Property expenses	(12.3)	(13.2)	(16.7)	36.4	27.0
Net Property Income	45.9	47.0	56.5	23.3	20.4
Other Operating expenses	(5.1)	(5.4)	(6.9)	35.3	27.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(7.5)	(6.4)	(8.7)	(16.4)	(35.0)
Exceptional Gain/(Loss)	(14.9)	0.0	(2.3)	nm	nm
Net Income	18.4	35.1	38.7	109.9	10.2
Tax	(0.2)	(0.2)	(1.1)	564.5	425.2
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	18.3	31.8	34.6	89.1	8.5
Total Return	31.9	31.0	18.3	(42.8)	(41.1)
Non-tax deductible Items	17.1	4.93	6.18	(63.8)	25.3
Net Inc available for Dist.	35.3	35.8	41.5	17.6	16.1
Ratio (%)					
Net Prop Inc Margin	78.9	78.1	77.2		
Dist. Payout Ratio	103.1	105.6	19.9		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

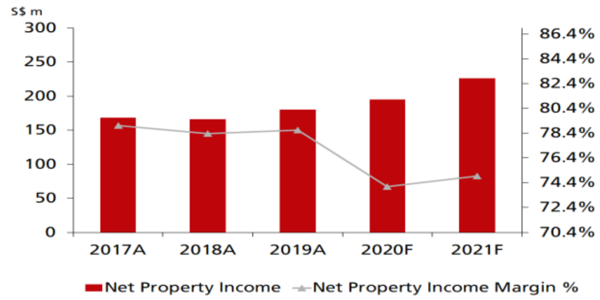
A retail proxy – price driven by rental reversion and Singapore retail sales. With a concentrated portfolio of only five malls, of which c.65% of revenue is derived from Paragon Mall, distributions are highly dependent on Paragon Mall's operational outlook. We believe rental performance of Paragon Mall, and to a lesser extent that of The Clementi Mall, is a good representation of investors' perception and confidence in the direction of the Singapore retail market. Singapore retail sales and SPH REIT's rental reversion rates are in turn strongly correlated, which can be explained by the greater willingness of merchants to renew their tenancies at a higher rent once they have observed positive retail momentum in the previous rental cycle.

SPH REIT's two acquisitions in Australia have upside potential. The incremental yields of the two Australia acquisitions (c.5.6% for Westfield Marion and c.5.7% for Figtree Grove) are also accretive compared to SPH REIT's implied yield of c.5.0%. The two Australian malls are both sizeable in nature (500,000 sqft), have a mix of primarily necessity lifestyle tenants and rely on a strong residential catchment in prominent markets. SPH REIT's total exposure to Australia will increase to 19.7% after the completion of the Westfield Marion acquisition.

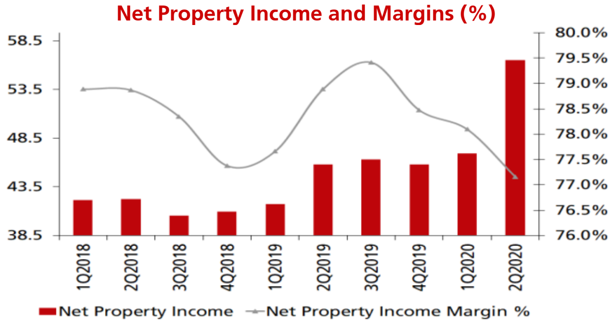
Higher income visibility with Australian malls. While the market's reaction to SPH REIT's venture into the Australian market was mixed, we believe that its longer lease expiries and in-built rental escalations may bring greater stability to SPH REIT's portfolio and reduce exposure to its anchor asset Paragon Mall. Leases in Australia are longer in nature at more than five years compared to Singapore which has lease tenures of about three years. In-built rental escalations are also tied to the Australian CPI, with annual escalations between 2.0-2.5%.

The assets are also dominant in their respective submarkets, and have long-term structural importance. Westfield Marion's Adelaide submarket will see more investments in the Australian Space Agency and the A$3.8bn BioMed City project within the CBD. This will bring more highly skilled jobs to Adelaide and stronger retail spending power in the future. The high income visibility will underpin an upward trajectory in distributions for the REIT.

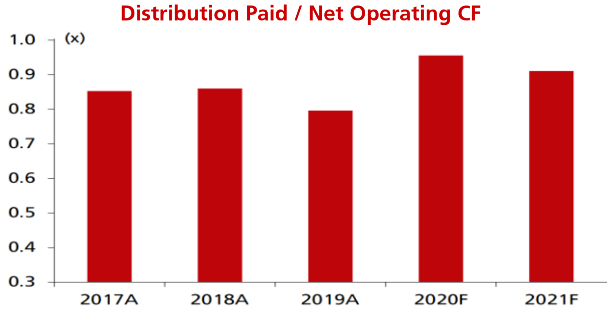
Net Property Income and Margins (%)



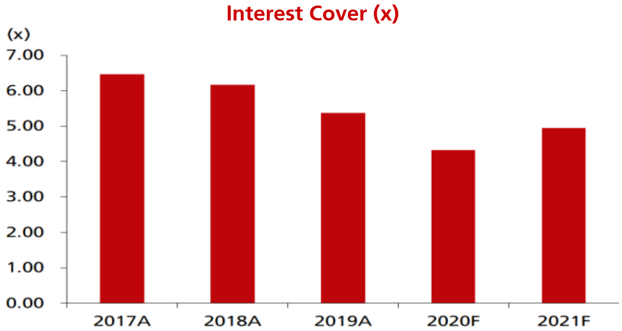
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing ratio remains healthy despite recent acquisitions. Despite SPH REIT's recent twin acquisitions in Australia, we expect its gearing ratio to remain healthy at the 30% level for FY20F. We believe that SPH REIT's acquisition appetite remains strong, with ample debt capacity and lines to take on further debt funding. The REIT's NAV per unit of S$0.95 is underpinned by stable asset valuations and improving cash flows.

Share Price Drivers:

Potential acquisitions and inorganic growth. Inorganic growth will help support DPU growth well into FY21F as Westfield Marion will start contributing from 2Q20 onwards. That said, we believe that SPH REIT is still well poised for further debt-funded acquisitions.

The REIT is on the lookout for further yield-accretive opportunities within the Asia Pacific region, particularly Australia, which could provide further upside to consensus estimates.

Key Risks:

Interest rate risk. A faster-than-anticipated rise in interest rates could be a dampener to distributions as the REIT rolls over its debt obligations. However, the REIT has taken steps to proactively hedge a substantial portion of its debt into fixed rates.

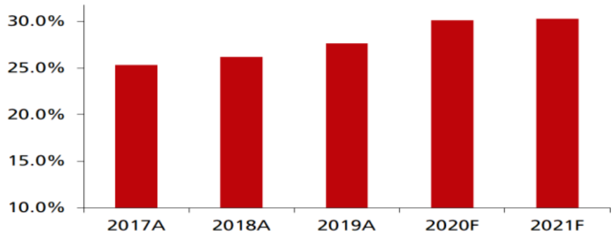
Environment, Social, Governance:

SPH REIT's inaugural Sustainability Report was published in FY18. It has invested in sound corporate governance to maintain the sustainability of SPH REIT's business and safeguard the interests of unitholders. SPH REIT's manager has also implemented a robust, iterative approach to risk management to protect unitholders' assets and stakeholders' interests. Paragon Mall and Clementi Mall attained their Green Mark certifications from BCA in 2018. Both malls have been certified under the Public Utilities Board's (PUB) Water Efficient Building Certification Programme in recognition of their water-efficient initiatives. Total energy consumption and greenhouse gas emissions were reduced by close to 5.3% and 7.8% respectively from FY17 to FY18.

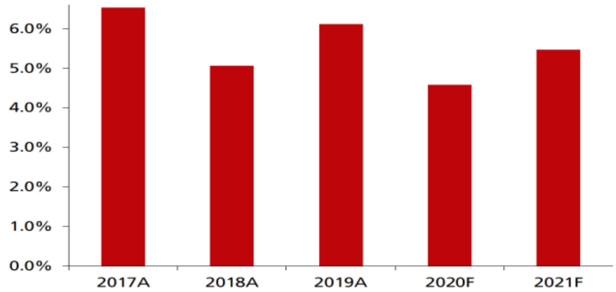
Company Background

SPH REIT is a real estate investment trust that invests in income-producing retail malls in Singapore and Australia. It owns three retail assets in Singapore, with Paragon Mall within the Orchard Road district as its anchor asset in Singapore and two retail malls in Australia.

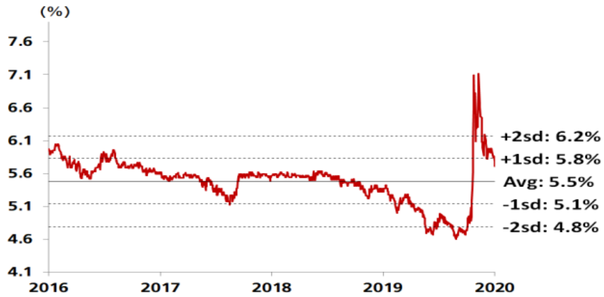
Aggregate Leverage (%)



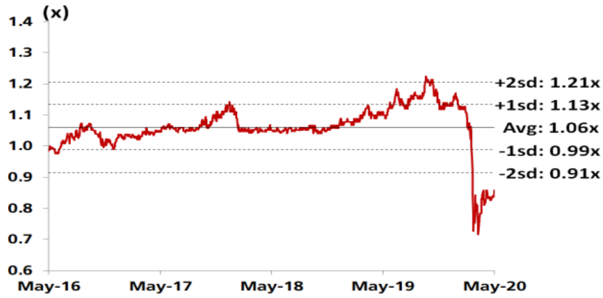
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Aug	2017A	2018A	2019A	2020F	2021F
Gross revenue	213	212	229	263	302
Property expenses	(44.7)	(45.8)	(48.9)	(68.1)	(75.6)
Net Property Income	168	166	180	195	226
Other Operating expenses	(18.3)	(18.3)	(20.3)	(21.9)	(23.5)
Other Non Opg (Exp)/Inc	(4.3)	(0.9)	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(23.2)	(24.0)	(29.7)	(40.0)	(41.0)
Exceptional Gain/(Loss)	34.9	0.0	19.4	0.0	0.0
Net Income	157	123	149	133	162
Tax	0.0	0.0	(0.4)	(3.6)	(4.7)
Minority Interest	0.0	0.0	1.11	(0.2)	(0.6)
Preference Dividend	0.0	0.0	0.0	(12.2)	(12.2)
Net Income After Tax	157	123	150	117	144
Total Return	157	123	150	117	144
Non-tax deductible Items	19.0	19.2	(4.9)	15.9	17.4
Net Inc available for Dist.	141	142	145	133	162
Growth & Ratio					
Revenue Gth (%)	1.5	(0.4)	7.9	15.0	14.8
N Property Inc Gth (%)	4.5	(1.2)	8.3	8.3	16.1
Net Inc Gth (%)	23.2	(21.7)	21.8	(22.1)	23.5
Dist. Payout Ratio (%)	100.0	100.0	100.0	90.0	100.0
Net Prop Inc Margins (%)	79.0	78.4	78.6	74.1	74.9
Net Income Margins (%)	73.9	58.1	65.6	44.4	47.8
Dist to revenue (%)	66.4	67.2	63.4	50.5	53.6
Managers & Trustee's fees	8.6	8.6	8.9	8.3	7.8
ROAE (%)	6.5	5.1	6.1	4.6	5.5
ROA (%)	4.7	3.6	4.1	2.8	3.3
ROCE (%)	4.6	4.4	4.4	4.1	4.6
Int. Cover (x)	6.5	6.2	5.4	4.3	4.9

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Aug	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Gross revenue	58.1	58.3	58.4	60.1	73.3
Property expenses	(12.3)	(12.0)	(12.6)	(13.2)	(16.7)
Net Property Income	45.9	46.3	45.8	47.0	56.5
Other Operating expenses	(5.1)	(5.4)	(5.2)	(5.4)	(6.9)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(7.5)	(8.1)	(8.1)	(6.4)	(8.7)
Exceptional Gain/(Loss)	(14.9)	0.0	34.3	0.0	(2.3)
Net Income	**18.4**	**32.9**	**66.8**	**35.1**	**38.7**
Tax	(0.2)	(0.1)	(0.1)	(0.2)	(1.1)
Minority Interest	0.0	(0.3)	0.0	0.0	0.0
Net Income after Tax	**18.3**	**32.4**	**66.8**	**31.8**	**34.6**
Total Return	31.9	30.2	29.2	31.0	18.3
Non-tax deductible Items	17.1	4.35	(31.1)	4.93	6.18
Net Inc available for Dist.	35.3	36.8	35.4	35.8	41.5
Growth & Ratio					
Revenue Gth (%)	8	0	0	3	22
N Property Inc Gth (%)	10	1	(1)	3	20
Net Inc Gth (%)	(41)	78	106	(52)	9
Net Prop Inc Margin (%)	78.9	79.4	78.5	78.1	77.2
Dist. Payout Ratio (%)	103.1	97.7	106.9	105.6	19.9

Balance Sheet (S$m)

FY Aug	2017A	2018A	2019A	2020F	2021F
Investment Properties	3,278	3,368	3,598	4,240	4,247
Other LT Assets	2.34	0.68	2.50	2.50	2.50
Cash & ST Invts	63.0	36.0	343	68.0	74.9
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	3.35	3.09	5.49	5.49	5.49
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	**3,347**	**3,408**	**3,948**	**4,316**	**4,330**
ST Debt	319	210	280	280	280
Creditor	40.1	40.6	48.3	26.3	30.2
Other Current Liab	0.62	0.0	1.56	5.18	6.26
LT Debt	528	683	812	1,022	1,032
Other LT Liabilities	37.5	35.4	36.0	36.0	36.0
Unit holders' funds	2,421	2,439	2,757	2,933	2,931
Minority Interests	0.0	0.0	14.6	14.9	15.4
Total Funds & Liabilities	**3,347**	**3,408**	**3,948**	**4,316**	**4,330**
Non-Cash Wkg. Capital	(37.3)	(37.5)	(44.3)	(26.0)	(30.9)
Net Cash/(Debt)	(784)	(857)	(748)	(1,233)	(1,236)
Ratio					
Current Ratio (x)	0.2	0.2	1.1	0.2	0.3
Quick Ratio (x)	0.2	0.2	1.1	0.2	0.3
Aggregate Leverage (%)	25.3	26.2	27.6	30.1	30.3
Z-Score (X)	2.3	3.0	2.6	2.3	2.4

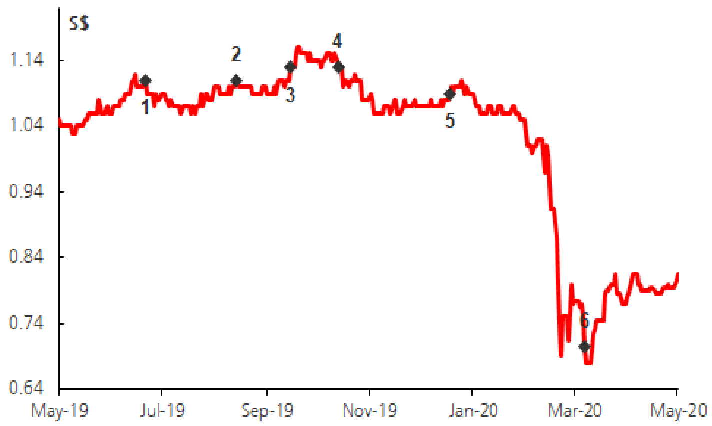
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Aug	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	122	123	130	133	162
Dep. & Amort.	0.21	0.21	0.19	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	(3.6)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(0.3)	(0.1)	4.34	(22.0)	3.90
Other Operating CF	43.0	41.7	46.2	14.0	15.6
Net Operating CF	**165**	**165**	**180**	**125**	**178**
Net Invt in Properties	(6.3)	(72.0)	(216)	(642)	(6.8)
Other Invts (net)	0.0	0.0	(0.1)	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	0.0	0.82	0.76	0.0	0.0
Net Investing CF	**(6.3)**	**(71.2)**	**(215)**	**(642)**	**(6.8)**
Distribution Paid	(141)	(142)	(144)	(119)	(162)
Chg in Gross Debt	0.0	44.1	200	210	10.0
New units issued	0.0	0.0	314	164	0.0
Other Financing CF	(22.5)	(22.9)	(28.9)	(12.2)	(12.2)
Net Financing CF	**(163)**	**(121)**	**341**	**243**	**(164)**
Currency Adjustments	0.0	0.0	(0.2)	0.0	0.0
Chg in Cash	(4.4)	(27.0)	307	(275)	6.86
Operating CFPS (S cts)	6.47	6.42	6.81	5.47	6.25
Free CFPS (S cts)	6.22	3.61	(1.4)	(19.3)	6.15

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	17 Jul 19	1.11	1.20	BUY
2:	09 Sep 19	1.11	1.20	BUY
3:	11 Oct 19	1.13	1.25	BUY
4:	08 Nov 19	1.13	1.25	BUY
5:	13 Jan 20	1.09	1.20	BUY
6:	02 Apr 20	0.71	0.70	FULLY VALUED

Source: DBS Bank

Analyst: Dale LAI

Singapore Research Team

Singapore Company Guide
Starhill Global REIT

Version 13 | Bloomberg: SGREIT SP | Reuters: STHL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 May 2020

HOLD

Last Traded Price (28 May 2020): S$0.46 **(STI :** 2,515.24)
Price Target 12-mth: S$0.50 (9% upside) (Prev S$0.45)

Analyst
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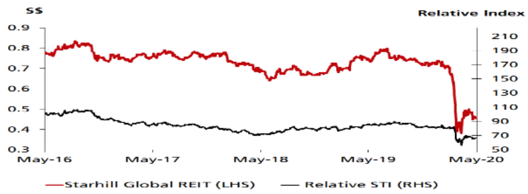
What's New

- c.60% of revenue from relatively stable retail master leases and office leases; portfolio WALE of 5.7 years to provide income stability
- Turning focus to actively managed Singapore retail leases as malls prepare for reopening
- The recently announced Fortitude Budget to provide yet another tier of support as businesses gradually reopen
- Maintain HOLD with a higher TP of S$0.50

Price Relative



Forecasts and Valuation

FY Jun (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	209	206	197	202
Net Property Inc	162	159	146	149
Total Return	84.2	65.6	82.8	83.7
Distribution Inc	103	101	89.8	91.9
EPU (S cts)	4.90	3.94	3.79	3.82
EPU Gth (%)	(8)	(20)	(4)	1
DPU (S cts)	4.55	4.48	3.70	3.99
DPU Gth (%)	(8)	(2)	(17)	8
NAV per shr (S cts)	91.2	88.5	88.3	87.9
PE (X)	9.4	11.7	12.1	12.0
Distribution Yield (%)	9.9	9.7	8.0	8.7
P/NAV (x)	0.5	0.5	0.5	0.5
Aggregate Leverage (%)	36.4	37.1	37.7	38.3
ROAE (%)	5.3	4.4	4.3	4.3
Distn. Inc Chng (%):			0	0
Consensus DPU (S cts):			4.10	4.40
Other Broker Recs:		B: 1	S: 1	H: 5

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

Slowly but surely

Maintain HOLD, with a revised TP of S$0.50. We maintain our HOLD call on Starhill Global REIT (SGREIT) but increased our TP to S$0.50. While a majority of tenanted outlets in SGREIT's Singapore malls remain closed for at least another month, its overseas assets which contribute 35-40% of revenues have resumed operations.

Focus channeled to actively managed retail leases as SG malls prepare to reopen. Retail master leases and office leases make up approximately 46% and 15% of SGREIT's annual revenue, allowing SGREIT to channel its focus to actively managed retail leases within Wisma Atria and Ngee Ann City. As businesses gradually reopen, SGREIT's healthy portfolio occupancy of 99.5% (SG retail) with minimal lease expiries of 4.5% in 2Q20 allows the REIT to focus on ramping up operations and resume rental collections. Government cash grants and other sources of support from the enhanced Jobs Support Scheme and bonus payouts for digitalisation will further fortify food and retail businesses to help them cope in these uncertain times.

The proposed Rental Waiver Bill poses a risk to SGREIT. The new Bill, which will be tabled in June 2020, will mandate landlords to grant rental waivers to qualifying SME tenants which have suffered significant revenue declines as a result of COVID-19. If passed in Parliament, retail landlords will have to provide two months of rental relief in addition to the two months that the government has given.

Valuation:

BUY; DCF-based TP increased to S$0.50. We increased our TP to factor in a lower beta (0.85) as businesses reopen and there is more clarity on projected revenues.

Key Risks to Our View:

Fall in tourist expenditure. A fall in tourist arrivals and receipts in the face of COVID-19 outbreak would impact sales at its tourist-focused malls.

At A Glance

Issued Capital (m shrs)	2,187
Mkt. Cap (Sm/USm)	1,006 / 710
Major Shareholders (%)	
YTL Corp Bhd	35.6
AIA Group Ltd	7.6
Free Float (%)	56.8
3m Avg. Daily Val (US$m)	1.4

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

ed: TH/ sa: AS, PY, CS

WHAT'S NEW

Slowly but surely

(+) Reopening of businesses in phases from 2 June 2020.

- With the end of Circuit Breaker measures in sight, businesses will be allowed to resume operations in phases.
- Various essential services will be able to resume operations from 2 June 2020, but most retail outlets and personal services will only be allowed to reopen during the second phase.
- The gradual reopening of businesses will provide some clarity for landlords and enable SGREIT to resume rent collections at its Singapore malls.

(+) Revenue contributions from overseas assets provide some earnings buffer amid the closure of malls in Singapore.

- Overseas assets contribute 35-40% of SGREIT's revenues and most have resumed operations.
- Unlike the other landlords that have a pure-play Singapore portfolio, SGREIT's overseas assets continue to generate revenue that would help offset some costs.

(+) Strong occupancy rates and master leases to provide stability to earnings

- Full occupancy for Japan, China and Malaysia portfolio; close to 95% occupancy for Singapore and Australia.
- With the retail sector expected to face challenges in the near term, SGREIT's high occupancy rates help ensure income stability.
- Master leases by branded retailers to provide stability amidst economic downturn.

(-) Malls in Singapore and Australian expected to face continued challenges in the near term

- In Australia, Myer and UNIQLO have chosen to remain closed in response to heightened social distancing measures.
- In Singapore, most tenants will only be able to resume operations during the second phase of the lifting of Circuit Breaker measures; likely to happen in July 2020.

(-) The proposed Rental Waiver Bill poses a risk to SGREIT.

- The new Bill, which will be tabled in June 2020, will mandate landlords to grant rental waivers to qualifying SME tenants which have suffered significant revenue declines as a result of COVID-19.
- If passed in Parliament, retail landlords will have to provide two months of rental relief in addition to the two months that the government has given. We understand that SGREIT had already previously provided tenants with rental relief amounting to c.0.4 month of rent.
- As such, SGREIT could be liable to provide another c.1.6 months of rent rebates to its SME tenants. However, we do not have a breakdown of the proportion of these qualifying SME tenants in SGREIT's portfolio.

(-) Lack of tourist spending at Wisma Atria and Ngee Ann City

- Despite the reopening on the horizon, tourist spending will be limited as travel restrictions still remain heightened.
- Traditionally, malls along the Orchard Road belt have a higher reliance on tourist spending, thus being a drag on SGREIT's earnings.
- However, we expect a gradual recovery at SGREIT's regional malls in the overseas markets, and it will provide some buffer to the weakness in the Singapore portfolio.

(+) Robust capital management metrics

- SGREIT's relatively low leverage of 36.7% provides it with flexibility to manage near-term operation needs.
- Minimal refinancing risk in the next 12 months with only S$150m in revolving credit facilities and MTNs due.
- Available undrawn committed revolving credit facilities will be more than sufficient to meet refinancing needs.

We maintain our HOLD recommendation amidst the uncertainties in the retail sector caused by the COVID-19 pandemic. Moreover, SGREIT's Singapore malls in the Orchard Road precinct relies heavily on tourist spending which is unlikely to recover in the near term.

However, with the Circuit Breaker measures being lifted gradually in phases, we gain comfort in knowing that malls will reopen in the coming weeks and thus the resumption of rental collections. As such, we lowered our beta estimates by 10bps for SGREIT in deriving a marginally higher TP of S$0.50.

Quarterly / Interim Income Statement (S$m)

FY Jun	2Q2019	1Q2020	2Q2020	% chg yoy	% chg qoq
Gross revenue	51.0	48.0	48.7	(4.5)	1.6
Property expenses	(11.5)	(11.1)	(11.6)	0.3	4.5
Net Property Income	39.5	36.9	37.2	(5.9)	0.7
Other Operating expenses	(5.0)	(4.8)	(5.3)	6.5	11.4
Other Non Opg (Exp)/Inc	(5.2)	(0.5)	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	-	=
Net Interest (Exp)/Inc	(9.6)	(9.7)	(9.7)	(1.7)	(0.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	19.7	22.0	22.1	12.2	0.6
Tax	(0.9)	(0.7)	(0.7)	(20.6)	3.8
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	18.9	21.3	21.4	13.7	0.5
Total Return	0.0	0.0	0.0	-	-
Non-tax deductible Items	6.30	4.00	3.72	(40.9)	(6.9)
Net Inc available for Dist.	24.6	24.7	24.7	0.3	0.1
Ratio (%)					
Net Prop Inc Margin	77.4	76.9	76.3		
Dist. Payout Ratio	98.0	97.4	98.2		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

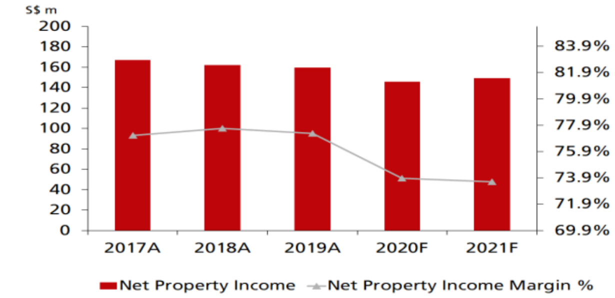
A proxy for tourist spending in Singapore. The most distinctive feature of SGREIT is its exposure to Orchard Road, Singapore's prime shopping district. Historical operations show that performance of malls along Orchard Road is more volatile and sensitive to non-discretionary spending which can be boosted by higher tourist arrivals and spending.

We found that tourist arrivals have a high correlation coefficient of 0.74 with SGREIT's price. This could be explained by high tourist spending translating into retail sales and in turn SGREIT's earnings and distribution, given that its Singapore assets (Wisma Atria and Ngee Ann City) contributed c.63% of SGREIT's NPI in FY18/19. Our earnings are cut by 8-12% on expectation that rentals and tenant sales remain challenged given the measures put in place by the authorities to curb the local transmission risk for the retail sector.

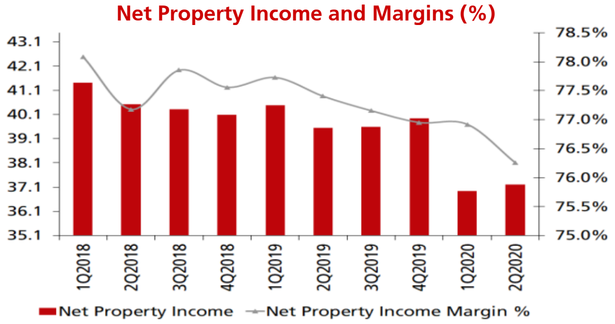
Strong earnings visibility with close to 50% of income pegged to master leases or long leases. Income from master leases and long-term leases with key anchors (Myer Pty Ltd and David Jones Limited in Australia) account for 49% of total revenues, implying good income visibility and steady revenues. In Australia, the major anchor leases at Myer Centre Adelaide and David Jones in Perth have either annual or periodic rent reviews which could offer a medium-term boost to earnings. In Malaysia, the new master lease agreement post Starhill Gallery's redevelopment at end-2021 should see full occupancy at SGREIT's Malaysian properties upon redevelopment.

Future-proofing Starhill Gallery. SGREIT will undertake a two-year asset enhancement initiative (AEI) to refresh and reposition the ageing mall, which will cost an estimated RM175m. During AEI, the Sponsor will also provide a rent rebate of approximately six months' rent p.a. (or RM26m a year), which will help to mitigate the earnings vacuum as the asset undergoes transformation. Competition within the mid- to high-end retail sector in Kuala Lumpur is likely to intensify, with retail supply within a 10-km radius from Starhill Gallery and Lot 10 increasing by approximately 31% over a five-year period to 27m sqft in 2023. Not only will the redevelopment allow Starhill Gallery to reposition and remain competitive within its precinct, the new rents from the renewed master lease is estimated to be 1.5% higher coupled with in-built periodic rental escalations (every three years).

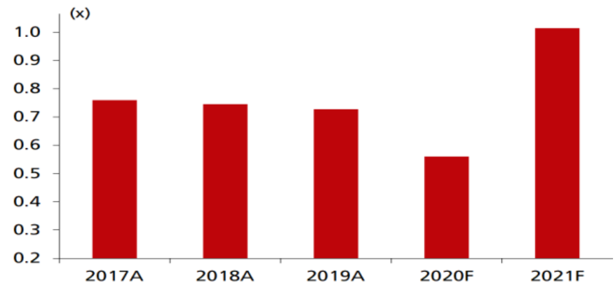
Net Property Income and Margins (%)



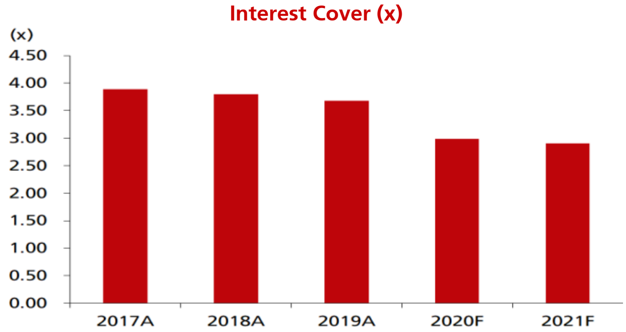
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Future acquisitions to be partly funded via equity. Gearing is expected to remain stable at around 36% post its AEI for Starhill Gallery, within the Manager's comfortable gearing level. This presents the REIT with acquisition capacity to acquire opportunistically when the right opportunity comes along.

Low debt renewal in FY20. Weighted debt tenure is c.2.7 years (as at 31 March 2020) at an average all-in interest cost of 3.3%. With c.90% of debt hedged into fixed rates and minimal debts expiring in FY20, we see limited impact of interest rates on the REIT.

Share Price Drivers:

Turnaround signs from Wisma Atria. Operational metrics have been soft at Wisma Atria, with potential upside in passing rents once the COVID-19 outbreak dissipates.

Extracting value from development in Singapore and Australia. The Manager has several AEI opportunities to reposition its assets in Singapore and Australia. SGREIT has undertaken AEI works in Central Plaza, Perth, renovating the shop façade to incorporate anchor tenants, as well as converting some of the upper floors from office and storage into retail use. Other potential development/AEI opportunities include activating 116,000 sqft of vacant retail space on the fourth and fifth floors of Myer Centre, Adelaide, as well as developing the area between Wisma Atria and Ngee Ann City, where the REIT has unutilised gross floor area of c.100,000 sqft. Capital gains, should divestment of Japanese and China assets be executed, could be used to buffer dividend payouts in the future.

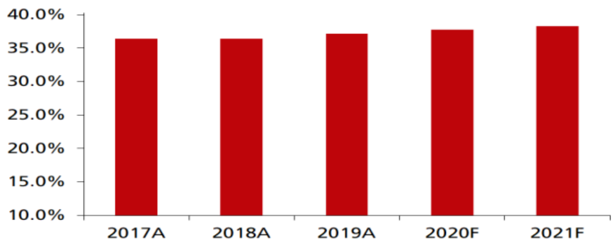
Key Risks:

Fall in tourist expenditure. A fall in tourist arrivals and receipts in the face of COVID-19 outbreak is detrimental to SGREIT's Singapore retail assets.

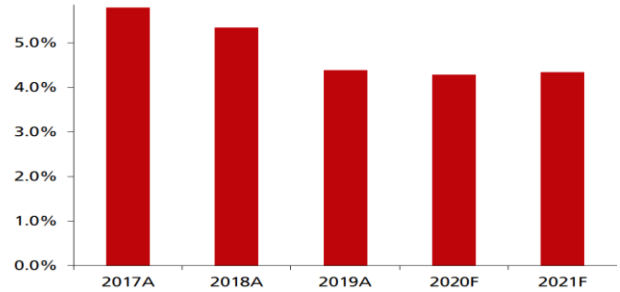
Company Background

Starhill Global REIT (SGREIT) is a real estate investment trust that invests in income-producing upscale retail and/or office assets in the Asia Pacific region. In Singapore, SGREIT owns portions of Ngee Ann City and Wisma Atria. It also owns assets in China, Japan, Malaysia and Australia.

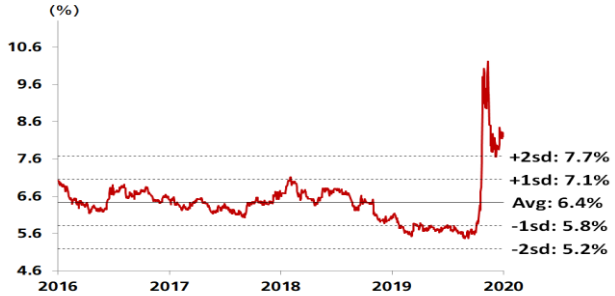
Aggregate Leverage (%)



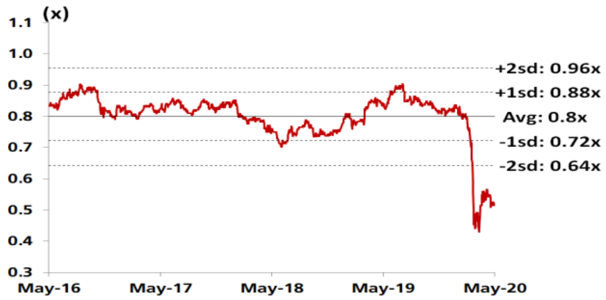
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Jun	2017A	2018A	2019A	2020F	2021F
Gross revenue	216	209	206	197	202
Property expenses	(49.5)	(46.6)	(46.8)	(51.4)	(53.4)
Net Property Income	167	162	159	146	149
Other Operating expenses	(19.8)	(20.2)	(20.5)	(21.5)	(21.7)
Other Non Opg (Exp)/Inc	6.01	5.75	(11.8)	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(37.8)	(37.4)	(37.7)	(41.5)	(43.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	115	110	89.4	82.5	83.4
Tax	1.27	(3.4)	(3.5)	0.28	0.28
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	117	107	85.9	82.8	83.7
Total Return	100	84.2	65.6	82.8	83.7
Non-tax deductible Items	10.2	18.9	35.7	6.99	8.26
Net Inc available for Dist.	110	103	101	89.8	91.9
Growth & Ratio					
Revenue Gth (%)	(1.5)	(3.5)	(1.3)	(4.5)	2.7
N Property Inc Gth (%)	(2.0)	(2.8)	(1.7)	(8.7)	2.3
Net Inc Gth (%)	35.7	(8.3)	(19.7)	(3.6)	1.0
Dist. Payout Ratio (%)	97.2	96.2	96.4	90.0	95.0
Net Prop Inc Margins (%)	77.1	77.7	77.3	73.9	73.6
Net Income Margins (%)	53.9	51.2	41.7	42.0	41.4
Dist to revenue (%)	51.0	49.4	49.1	45.6	45.4
Managers & Trustee's fees	9.1	9.7	10.0	10.9	10.7
ROAE (%)	5.8	5.3	4.4	4.3	4.3
ROA (%)	3.6	3.3	2.7	2.6	2.6
ROCE (%)	4.6	4.3	4.3	4.0	4.0
Int. Cover (x)	3.9	3.8	3.7	3.0	2.9

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Jun	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Gross revenue	51.0	51.3	51.9	48.0	48.7
Property expenses	(11.5)	(11.7)	(12.0)	(11.1)	(11.6)
Net Property Income	39.5	39.6	39.9	36.9	37.2
Other Operating expenses	(5.0)	(5.0)	(5.5)	(4.8)	(5.3)
Other Non Opg (Exp)/Inc	(5.2)	(1.7)	(4.2)	(0.5)	0.0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(9.6)	(9.4)	(9.5)	(9.7)	(9.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**19.7**	**23.5**	**20.6**	**22.0**	**22.1**
Tax	(0.9)	(0.9)	(0.8)	(0.7)	(0.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**18.9**	**22.5**	**19.8**	**21.3**	**21.4**
Total Return	0.0	0.0	0.0	0.0	0.0
Non-tax deductible Items	6.30	2.50	25.4	4.00	3.72
Net Inc available for Dist.	24.6	24.0	24.0	24.7	24.7
Growth & Ratio					
Revenue Gth (%)	(2)	0	1	(7)	2
N Property Inc Gth (%)	(2)	0	1	(8)	1
Net Inc Gth (%)	(24)	20	(12)	8	0
Net Prop Inc Margin (%)	77.4	77.2	77.0	76.9	76.3
Dist. Payout Ratio (%)	98.0	95.8	96.3	97.4	98.2

Balance Sheet (S$m)

FY Jun	2017A	2018A	2019A	2020F	2021F
Investment Properties	3,136	3,118	3,065	3,097	3,129
Other LT Assets	0.10	2.01	0.03	0.03	0.03
Cash & ST Invts	76.6	66.7	72.9	134	131
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	6.34	4.19	3.85	8.36	8.59
Other Current Assets	0.09	0.24	0.30	0.30	0.30
Total Assets	**3,219**	**3,192**	**3,142**	**3,240**	**3,269**
ST Debt	406	63.4	128	158	188
Creditor	38.8	38.6	32.5	98.5	101
Other Current Liab	4.12	2.21	3.18	3.18	3.18
LT Debt	728	1,067	1,004	1,004	1,004
Other LT Liabilities	32.9	30.0	44.1	44.1	44.1
Unit holders' funds	2,009	1,990	1,930	1,932	1,928
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**3,219**	**3,192**	**3,142**	**3,240**	**3,269**
Non-Cash Wkg. Capital	(36.5)	(36.4)	(31.5)	(93.0)	(95.5)
Net Cash/(Debt)	(1,058)	(1,064)	(1,059)	(1,028)	(1,061)
Ratio					
Current Ratio (x)	0.2	0.7	0.5	0.6	0.5
Quick Ratio (x)	0.2	0.7	0.5	0.6	0.5
Aggregate Leverage (%)	36.4	36.4	37.1	37.7	38.3
Z-Score (X)	0.5	0.6	0.6	0.5	0.5

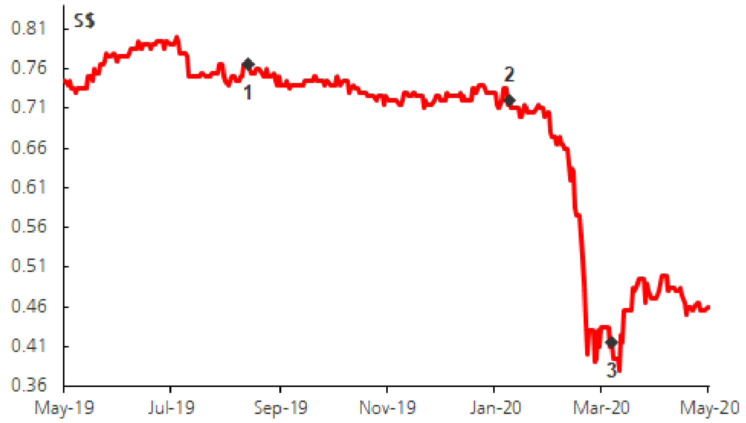
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Jun	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	115	110	89.4	82.5	83.4
Dep. & Amort.	0.36	0.0	0.0	0.0	0.0
Tax Paid	(2.4)	(3.4)	(3.5)	0.28	0.28
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	27.9	29.0	48.1	61.5	2.44
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	**141**	**136**	**134**	**144**	**86.1**
Net Invt in Properties	(4.1)	(6.6)	(6.7)	(32.0)	(32.0)
Other Invts (net)	(0.1)	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	1.09	0.0	0.0	0.0	0.0
Net Investing CF	**(3.1)**	**(6.6)**	**(6.7)**	**(32.0)**	**(32.0)**
Distribution Paid	(107)	(101)	(97.5)	(80.8)	(87.3)
Chg in Gross Debt	7.89	1.21	(22.0)	30.0	30.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(38.5)	(39.1)	0.0	0.0	0.0
Net Financing CF	**(138)**	**(139)**	**(120)**	**(50.8)**	**(57.3)**
Currency Adjustments	(0.5)	(0.1)	(1.5)	0.0	0.0
Chg in Cash	(0.4)	(9.9)	6.22	61.5	(3.2)
Operating CFPS (S cts)	5.19	4.90	3.94	3.79	3.82
Free CFPS (S cts)	6.28	5.93	5.83	5.14	2.47

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	09 Sep 19	0.77	0.80	BUY
2:	04 Feb 20	0.72	0.80	BUY
3:	02 Apr 20	0.42	0.45	HOLD

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

Source: DBS Bank

Analyst: Dale LAI

Singapore Research Team

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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*

Completed Date: 29 May 2020 08:05:04 (SGT)
Dissemination Date: 29 May 2020 09:46:57 (SGT)

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