Singapore Industry Focus

Singapore Retail REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Jun 2020

Retail Sector – Poised for recovery

- Listed landlords outperformed retail sector in overall operational metrics as occupancy remained resilient, supported by positive mid-single-digit rental reversions in 1Q20
- Preferred sector to ride the gradual reopening of Singapore's economy, earlier-than-anticipated mall openings will bode well for both landlords and tenants in 3Q20
- Acquisitions poised for a return in 2H20 if trading metrics support such activities. Frasers Centrepoint Trust (FCT), Lendlease (LREIT) may be prime candidates as the managers look to steer them back to the growth path
- Despite recent rally, the retail S-REITs still trade below NAV at 0.95x vs 10-year average of 1.11x. Prefer Frasers Centrepoint Trust, CapitaLand Mall Trust, Lendlease Global REIT, Mapletree Commercial Trust

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STOCKS

	Price S$	Mkt Cap US$m	12-mth Target S$	Performance 3 mth	12	Ratin
CapitaLand Mall Trust	2.13	5.585	2.15	(10.8)	(14.5)	BUY
Frasers Centrepoint Trust	2.53	2,013	2.65	(12.3)	2.9	BUY
LendLease Global Commercial REIT	0.73	602	0.85	(16.8)	N.A	BUY
SPH REIT	0.88	1,724	0.80	(15.5)	(18.8)	HOLD
Mapletree Commercial Trust	2.07	4,865	2.25	(4.2)	7.8	BUY
CapitaLand Retail China Trust	1.38	1,199	1.55	(5.0)	(10.5)	BUY
Mapletree North Asia Commercial Trust	0.90	2,066	1.05	(19.2)	(34.5)	BUY
Sasseur REIT	0.80	677	0.80	(0.6)	0.7	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 2 Jun 2020

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ed: TH / sa: YM, PY, CS

Contents

Market Feedback

Key observations

Sector-wide decline in rents, led by fringe region retail spaces. Rental index across the central area, central region and fringe area fell 1.5%, 2.3% and 5.1% q-o-q respectively as the impact of COVID-19 took a toll on leases expiring in the past quarter. Among the listed landlords, occupancy saw a similar sector-wide dip of 60bps since 4Q19. Rental reversions however, held up relatively well with a positive mid-single-digit average reversion clocked for 1Q20.

Low future supply of prime retail malls. Approximately 18,100 sqm of retail spaces were completed in 1Q20, or 30% of total retail pipeline for the year, adding to downtown and suburban retail stock. We continue to take comfort in the low retail supply in 2020 and 2021, which will help cushion a hike in vacancy rates islandwide.

Central retail malls impacted by lower tourist and office worker traffic. Retail malls located within the central region were observed to be feeling the brunt from COVID-19 to a greater extent than suburban malls due to the absence of the usual tourist and office crowd. Tourist arrivals to Singapore in March suffered an 85% y-o-y decline as global travel experienced a cliff drop from border closures and lockdown measures. This was accompanied by the nation's two-month Circuit Breaker, which mandated office workers within the non-essential trades to work from home.

What are we are watching?

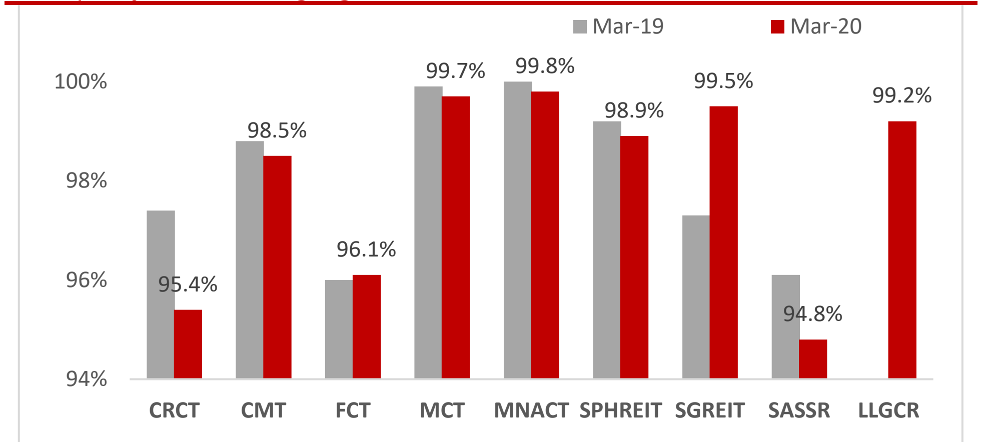
Income retention in 2Q20. Selected retail REITs retained 50-80% of their distributable income in 1Q20, which we estimate will sufficiently tide through operational and interest obligations for the quarter. We anticipate further income retention in 2Q20 by most of the landlords in anticipation of two new COVID-19 bills to be tabled in June to allow tenants to defer rental obligations and mandate landlords to grant rental waivers of up to two months to qualifying SME tenants.

Phased in reopening of retail malls. Retail malls and tenants within most trade categories (estimated to be c.90-95%) will be given the green light to resume business during phase 2 of post-Circuit Breaker measures, which was announced to be within the first week of July. There is a possibility of an earlier-than-anticipated reopening by mid-June, subject to the pandemic situation remaining stable, which will bode well for both retail landlords and tenants.

Risk of tenant defaults and rent deferrals. While we understand from the latest quarter updates that the risk of tenant defaults is low, limited to a handful within the REIT space, this figure may trend up in the coming quarter. We await the fine prints of the COVID-19 bill, which will be tabled in June, to understand the impact of rent deferral on cash flows for the rest of the year. Nonetheless, government cash grants and further mandatory rent waivers for qualifying SME tenants should help to suppress the trend of tenant defaults.

Key Metrics

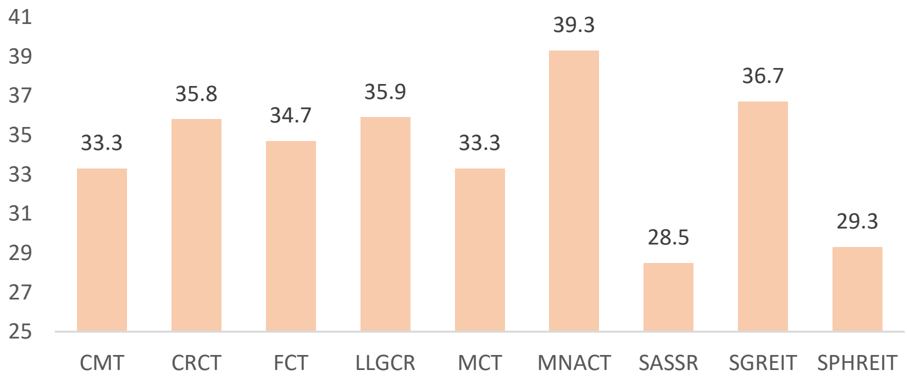
Occupancy rates trending higher for most S-REITs



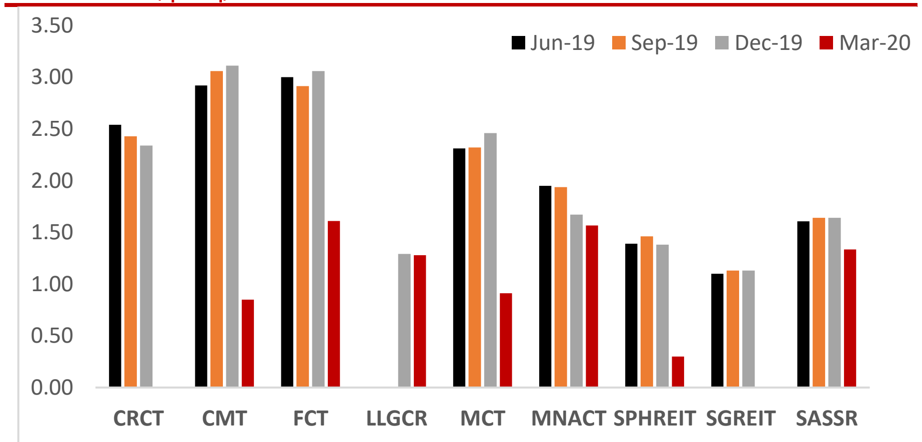
Rental reversions and outlook

Rental Reversions	FY19		Outlook
CapitaLand Retail China Trust		n.a.	Mixed
CapitaLand Mall Trust	▲	1.6%	Mixed
Frasers Centrepoint	▲	5.2%	Positive
Lendlease Global Comm	▲	0.6%	Positive
Mapletree Commercial	▲	6.7%	Positive
Mapletree North Asia Commercial Trust	▲	8.0%	Bottoming out
SPH REIT	▲	6.7%	Mixed
Starhill Global REIT		n.a.	Mixed
Sasseur REIT		n.a.	Mixed

Gearing for the sector (%)



DPU trends (q-o-q) trends



*Source: Various companies, DBS Bank   *Operating data for MCT, MNACT and LLGCR pertains solely to VivoCity, Festival Walk and 313@somerset respectively*

Key Observations

Retail REITs	Current Price	12-mth Target Price	Rec.	Key Observations & Drivers of DPU in 1Q20
CapitaLand Retail China Trust	$1.38	$1.55	BUY	- All of CapitaLand Retail China Trust's (CRCT) 13 retail malls in China have since reopened with c.90% of tenants back in operation; portfolio occupancy inched down 1.3ppts to 95.4% - Several portfolio reconstitution catalysts to materialise in the short term, including the hohhot bundle swap and further divestment of non-core, master-lease retail malls - S$45m of capital reserve to buffer any income loss caused by the current COVID-19 events
CapitaLand Mall Trust	$2.13	$2.15	BUY	- 1Q20 revenue in line with estimates; cash retention of 70% of distributable income to maintain financial fluidity - Approximately 90% of tenants will be allowed to resume operations as early as mid-June; recovery to be led by dominant malls (c.52% of FY19 revenue contribution), especially those within the suburban space - Proposed merger with CapitaLand Commercial Trust likely delayed to for now, but will give way to a more diversified portfolio and a reduction in exposure to a pure-play retail sector
Frasers Centrepoint Trust	$2.53	$2.65	BUY	- FCT retained 50% of 1Q20 DPU or a quantum of c.S$18m to tide through working capital and operational expenses for April and May - Portfolio occupancy dipped 1.2ppts to 96.1% while rental reversion was a positive 5.2%. - Further unwinding of sponsor's stake in PGIM ARF to lengthen inorganic growth runway as early as 2H20
Lendlease Global Commercial REIT	$0.72	S$0.89	BUY	- Results exceeded IPO forecasts for the quarter, with payout ratio to be maintained at 100% as the LLGCR stands on a comfortable liquidity position - Central mall, 313@somerset saw tenant sales dipping 15-20% y-o-y, occupancy held steady at 99.2% with reversions positive at +0.6% - Additional 1,008 sqm of GFA to be potentially deployed at 313@somerset to remain a work in progress, with c.1.5 years to completion

Source: Various companies, DBS Bank

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Key Observations (continued)

Retail REITs	Current Price	12-mth Target Price	Rec.	Key Observations & Drivers of DPU
Mapletree Commercial Trust	$2.07	$2.25	BUY	- COVID-19 impact on VivoCity partly mitigated by stable earnings and strong tenant profile at MBC I and MBC II - Longer runway of growth driven by the acquisition of MBCII; a larger MCT would now have room to take on development projects (Harbourfront Centre)
Mapletree North Asia Commercial Trust	$0.90	$1.05	BUY	- Bottoming out of rental income as anchor asset, Festival Walk, reopens ahead of expectations - REIT will gradually diversify its exposure away from Festival Walk. In FY21F, Festival Walk is projected to contribute c.55% of NPI vs 62% previously
SPH REIT	$0.88	$0.80	HOLD	- Positive 6.7% rental reversion across all Singapore retail malls and stable occupancy at 98.9% - c.80% cut in DPU for the quarter to retain cash and go towards 2.3 months of rental rebates to selected tenants - SPH REIT will unlikely have to provide further rental relief under the Fortitude Budget - Mixed outlook for Paragon asset in the face of COVID-19; tenant sales dipped 22% y-o-y
Sasseur REIT	$0.80	$0.80	BUY	- All four of Sasseur REIT's outlet malls are now in full operation and reopened to an encouraging 129% hike in tenant sales - 70% fixed rental income at an escalation of 3% per annum should provide a buffer to revenues - Lowest gearing within the sector at c.28% gives Sasseur REIT sufficient gun powder for yield-accretive acquisitions, which we have not priced into our model

Source: Various companies, DBS Bank

Valuations

Current trading yields worth accumulating. The retail REITs are currently trading at an average P/NAV of 0.9x, between -1 standard deviation (SD) and -2 SD levels on historical 5-year range. FCT and MCT are currently trading above average mean at 0.96x and 1.12x P/NAV respectively. Share price resilience stems from FCT's full exposure within the suburban retail mall space, which we anticipate to lead recovery once malls reopen, and MCT's 60% exposure to business park and offices, which is relatively sheltered from the impact of the pandemic. REITs with exposure to central retail malls (CMT, SPH REIT and LREIT) will likely lag in footfall recovery in office worker shopper flow while tourist traffic is unlikely to see normalisation in the immediate-to-short term.

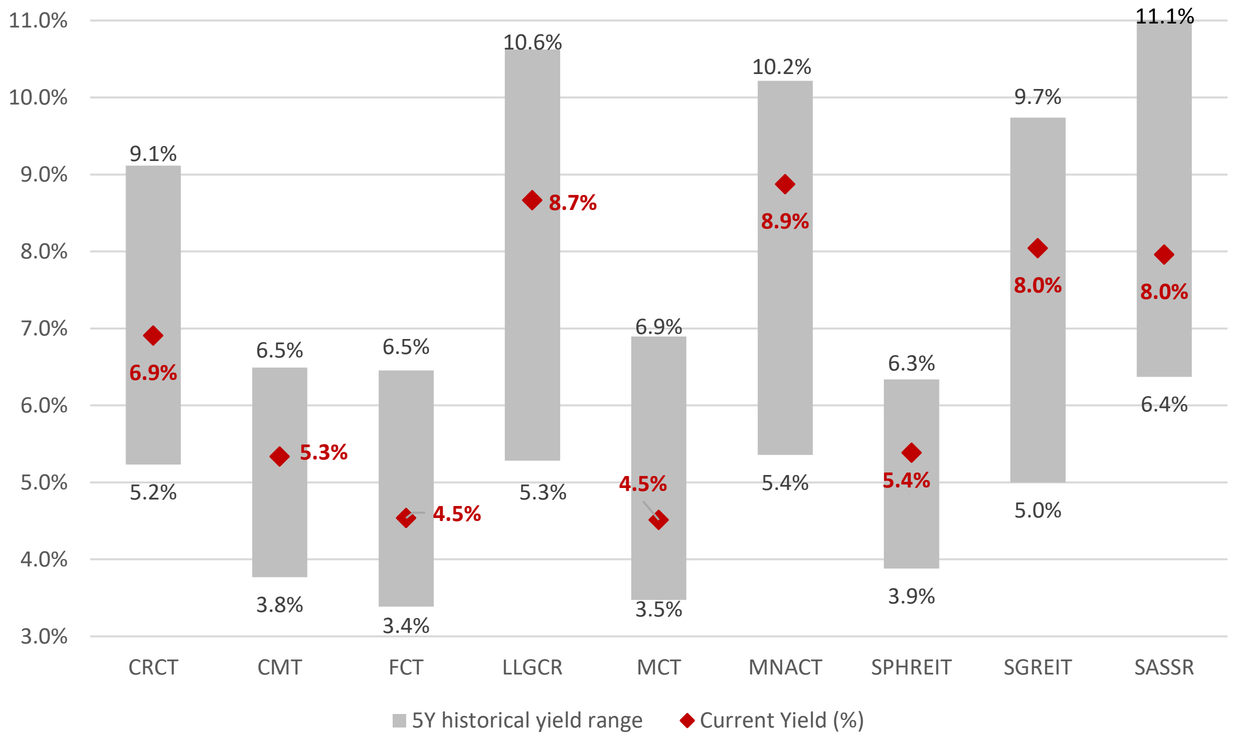
Low gearing and acquisition opportunities likely delayed to beyond FY20. The subsector's average gearing of 34.1% stands as the lowest within the sector, which average at 36.4%. Inorganic growth opportunities are unlikely to be reflected in currently valuation levels as opportunities will likely be delayed to 2H20 and beyond to ensure yield accretion. We have not assumed additional acquisitions at our current target price for the sector.

Market chatter on the following names:

	Yield (FY20)	Growth (FY21 y-o-y)	Market Chatter	DBS acquisition estimates	What can surprise further ?
FCT	4.5%	24%	FCT could acquire further stakes in PGIM ARF from sponsor	-	Additional stakes in Waterway Point
CMT	5.3%	22%	Merger with CapitaLand Commercial Trust to create the third-largest REIT in APAC	-	More acquisitions of third parties and sponsor assets with widened mandate
CRCT	6.9%	14%	Portfolio reconstitute strategy to acquire more sponsor-held retail malls in China, and further divestment of non-core malls to recycle capital	-	Stake in CapitaLand's high-profile Raffles City integrated developments in China

Source: DBS Bank

Retail REITs are currently trading at attractive yields in relation to their 5-year historical yield range



Source: DBS Bank

Remarks

- Most retail REITs tested new highs within their respective 5-year historical range, as fears of COVID-19 resulted in a sector-wide share price plunge in March.
- Trading yields are currently in the range of 4.5-8.7% for local landlords and 6.9-8.9% for foreign retail landlords on our revised FY20 DPUs, recovering from a high at end-March.
- Recovery is led by CapitaLand Retail China Trust and Sasseur REIT as China sets the stage for a recovery in retail post-COVID-19 peak in February and March.

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Key Statistics for industrial sector

Higher supply spike in 2020F is expected to taper off thereafter

Key Indicators	% Chg	4Q19	1Q20
Price Index	-3.1%	114.0	110.5
Rental Index	-2.3%	101.0	98.7
Pipeline of supply (GFA)	+7.5	333k sqm	358k sqm
Vacancy rate	+0.5% point	7.5%	8.0%

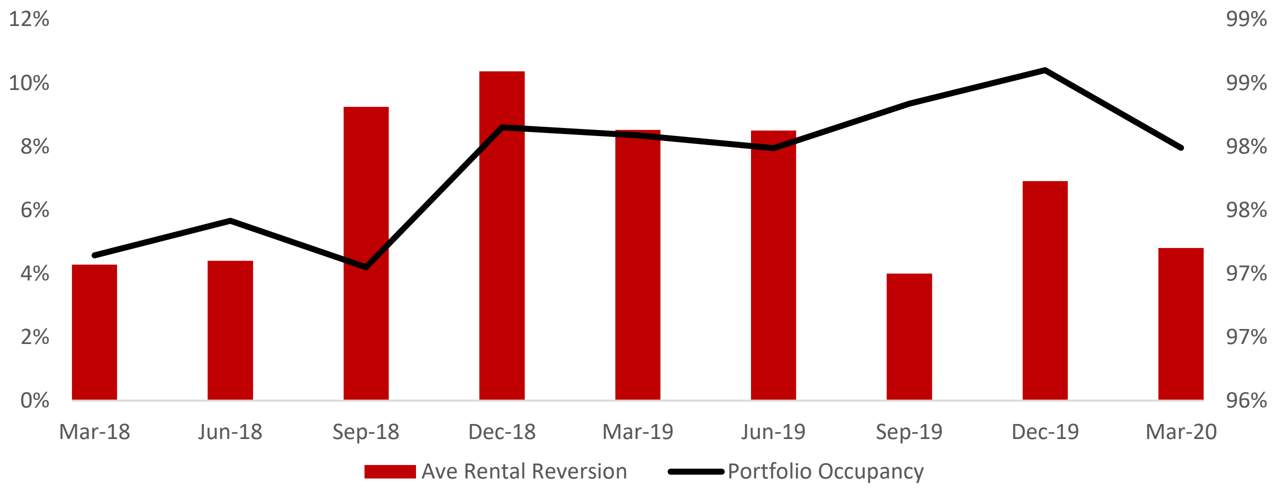
Source: URA, DBS Bank

Key Points

- Rental index across the central area, central region and fringe area fell 1.5%, 2.3% and 5.1% q-o-q respectively.
- COVID-19 impact likely to start flowing through in 2Q20, coinciding with Singapore's Circuit Breaker months of April and May. While occupancy saw a sector-wide decline last quarter, we note that the dip was still relatively marginal, with positive rental reversions registered last quarter. We anticipate operational weakness to peak next quarter, and rental reversion to trend closer to zero.
- Income retained by the retail landlords ranged from 50-80% of last quarter's distributable income, or a quantum in the range of S$18-70m, which we estimate to be more than sufficient to cover operational and interest obligations across the three months in 2Q20. That said, additional income retention is likely in the next quarter in lieu of more rental waivers to be forked out by the landlords in adherence to the Fortitude Budget. The worst is likely over for the sector as malls will look to phase in reopenings as early as mid-June, should phase 2 of post-Circuit Breaker measures be brought forward.
- Low supply will provide stability in 2020. We still take comfort in the low retail supply in 2020 which will help to balance out the lower demand in times of the coronavirus. Future supply pipeline will taper down drastically to an average of 43k sqm per year from 2020F-2023F from a peak of 250k sqm in 2019 and support the recovery of retail rents into the medium term.

Key Charts – Observations from 1Q20

Retail quarterly rental reversion and portfolio occupancy trend



Retail REIT	Rental Reversion (1Q20)		Occupancy (1Q20/ y-o-y)	
CapitaLand Retail China Trust		n.a.	▼	95.4%
CapitaLand Mall Trust	▲	1.6%	▼	98.5%
Frasers Centrepoint	▲	5.2%	▼	96.1%
Lendlease Global Comm	▲	0.6%	flat	99.2%
Mapletree Commercial	▲	6.7%	▼	99.7%
Mapletree North Asia Commercial Trust	▲	8.0%	▼	99.8%
SPH REIT	▲	6.7%	▼	98.9%
Starhill Global REIT		n.a.	▼	99.5%
Sasseur REIT		n.a.	▼	94.8%

Source: Company, DBS Bank

**Operating data for MCT, MNACT and LLGCR pertains solely to Vivocity, Festival Walk and 313@somerset respectively*

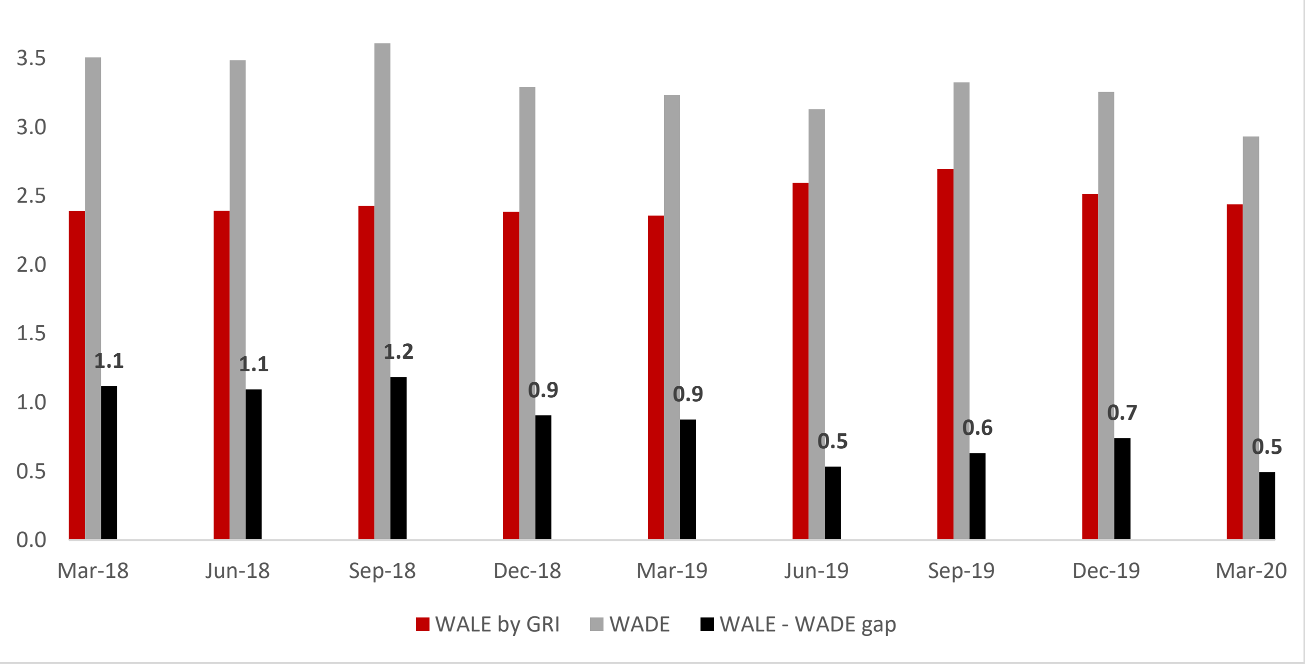
Remarks

1. Healthy levels of rental reversion at an average of 4.8% for 1Q20, a relative decline from 4Q19 (6.9%).

2. Sector-wide dip in occupancy levels recorded over the past quarter, with sector average declining 60bps to 98.0% as impact of COVID-19 takes a toll on lease renewals.

3. We anticipate rental reversions to trend closer to zero in the next quarter, and a further dip in occupancy levels, concentrated within the local retail REITs.

Retail quarterly WALE and WADE trend (years)



Source: Company, DBS Bank

Remarks

1. Sector average WALE by gross rental income was flat since 4Q19 at 2.44 years.
2. WADE of 2.93 years was a relative decline from 4Q19 (3.26 years), while WALE-WADE gap declined to 0.5 years.
3. Retail REITs had taken substantial measures to ensure cash flow fluidity, including cash retention in the range of 50-80% in 1Q20, and existing unutilised credit facilities in place.

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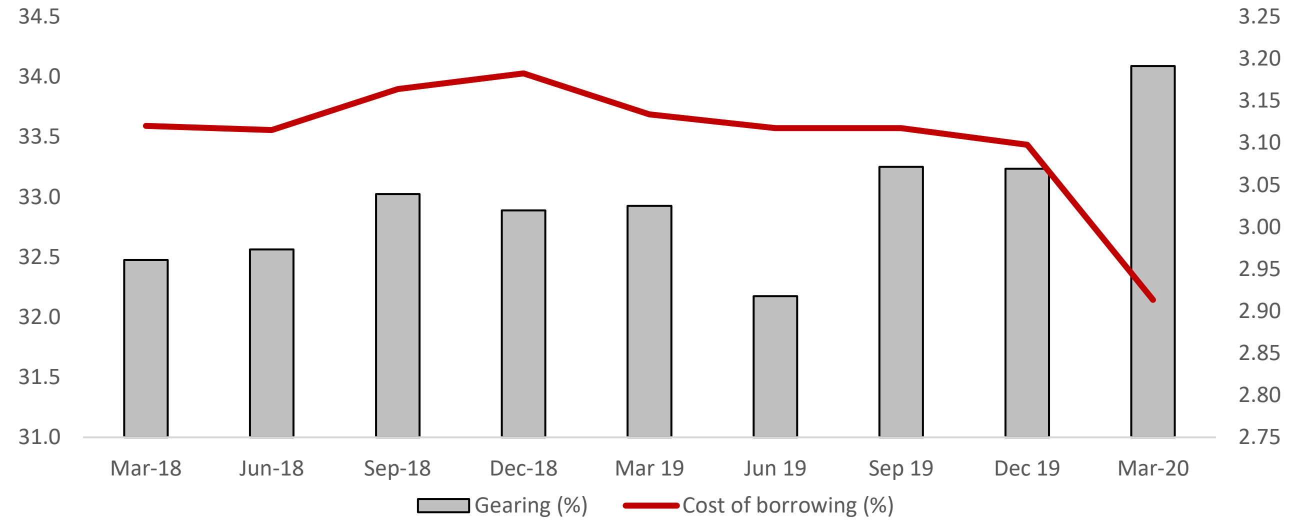
Retail quarterly gearing and cost of borrowing trend



Retail REIT	Gearing (4Q19/ q-o-q)		Cost of borrowing (4Q19/ q-o-q)	
CapitaLand Retail China Trust	▼	35.8%	▼	2.89%
CapitaLand Mall Trust	▲	33.3%	flat	3.20%
Frasers Centrepoint	▲	34.7%	▼	2.44%
Lendlease Global Comm	flat	35.9%	flat	0.86%
Mapletree Commercial	▼	33.3%	flat	2.94%
Mapletree North Asia Commercial Trust	▲	39.3%	▼	2.33%
SPH REIT	▲	29.3%	▼	2.83%
Starhill Global REIT	▲	36.7%	▼	3.25%
Sasseur REIT	▲	28.5%	▼	4.34%

Source: Company, DBS Bank

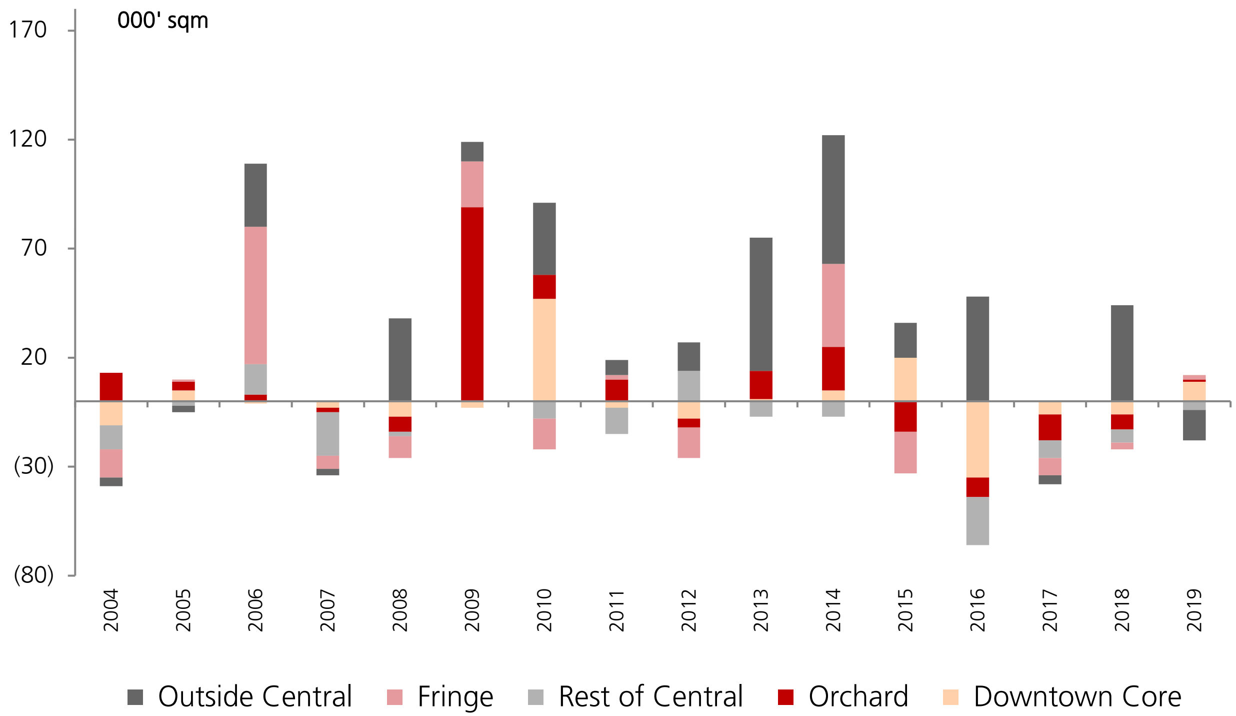
Remarks

1. Average subsector gearing rose 1.2ppts since 4Q19 to land at 34.1% and still stands as the lowest within the sector, which average at 36.4%.

2. Average cost of borrowing declined further this quarter to 2.91% (4Q19: 3.10%) as the Singapore Overnight Rate trended towards zero.

Key Charts – Sector Snapshot

Historical net additions to shop space –Suburban retail stock (Outside Central) which had been growing at a faster pace from 2012-2018 saw shrinkage last year.



Source: URA, CEIC, DBS Bank

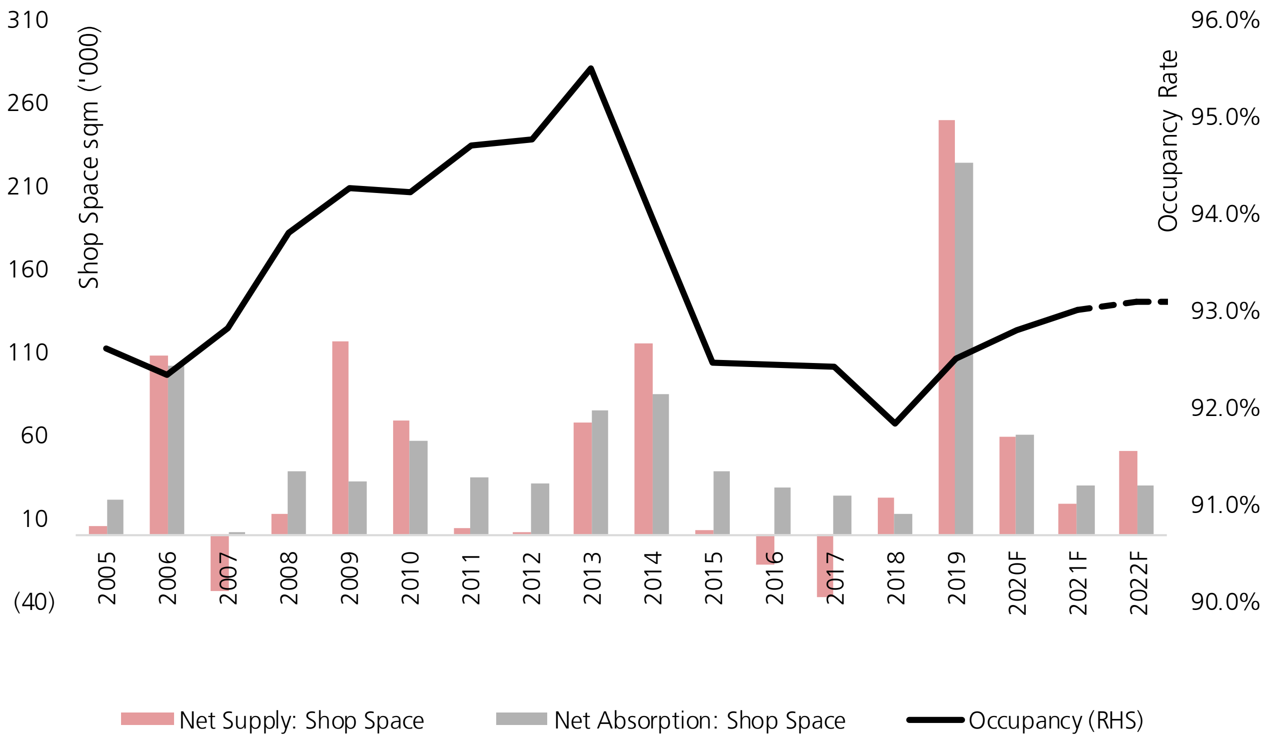
Remarks

1. Net additions to retail supply in the past year have been mainly in the downtown core and central fringe areas.

2. New retail space in 2019 included Funan Mall (downtown core), Jewel Changi Airport and Paya Lebar Quarters.

3. Retail space outside of the central region saw a net reduction of 14k sqm while net supply within Orchard stayed largely flattish over the past year.

Net Absorption of retail supply and Occupancy Rate



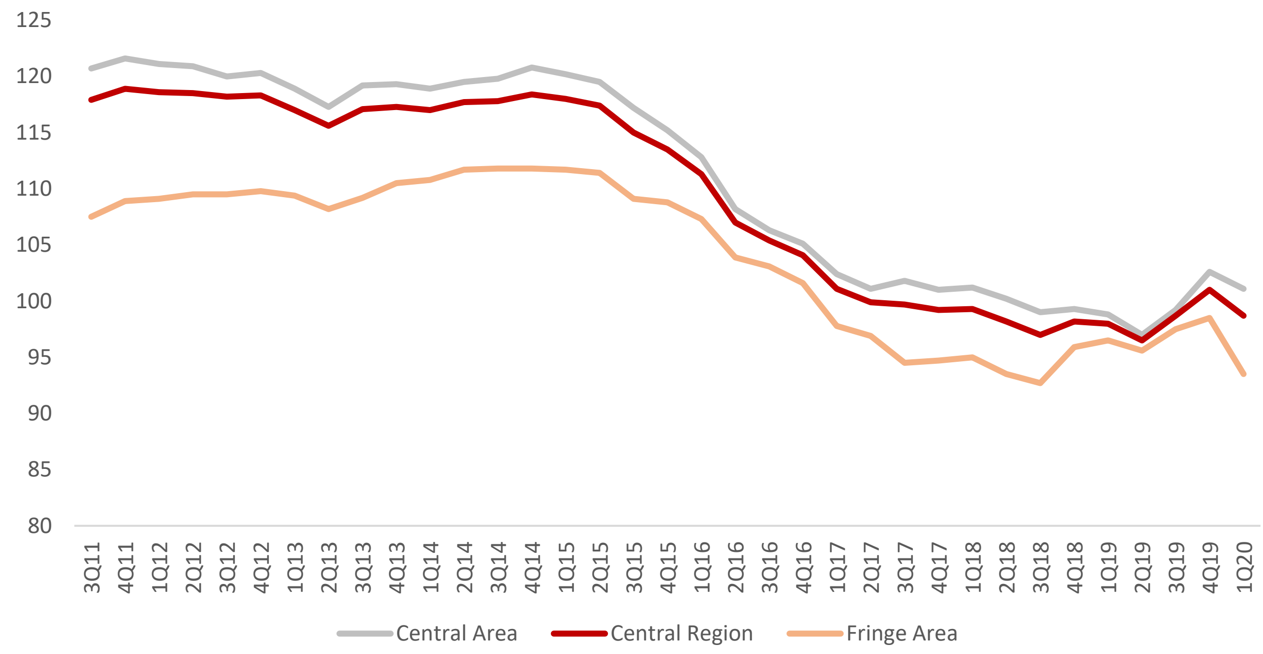
Source: URA, CEIC, DBS Bank

Remarks

1. Despite the robust net supply of retail spaces in the market in 2019, net absorption was relatively healthy with good take-up within the newly completed projects. Funan Mall, Jewel and PLQ which represented c.three-quarters of retail supply in 2019, are currently at occupancy levels of 98.7%, 100% and 90% respectively.

2. Favourable supply market to persist as retail supply is expected to taper off in 2020F-2022F from the peak in 2019. We expect occupancy rates to stabilise at 93%.

Property Rental Index (Shops); 1998 = 100



Source: URA, CEIC, DBS Bank

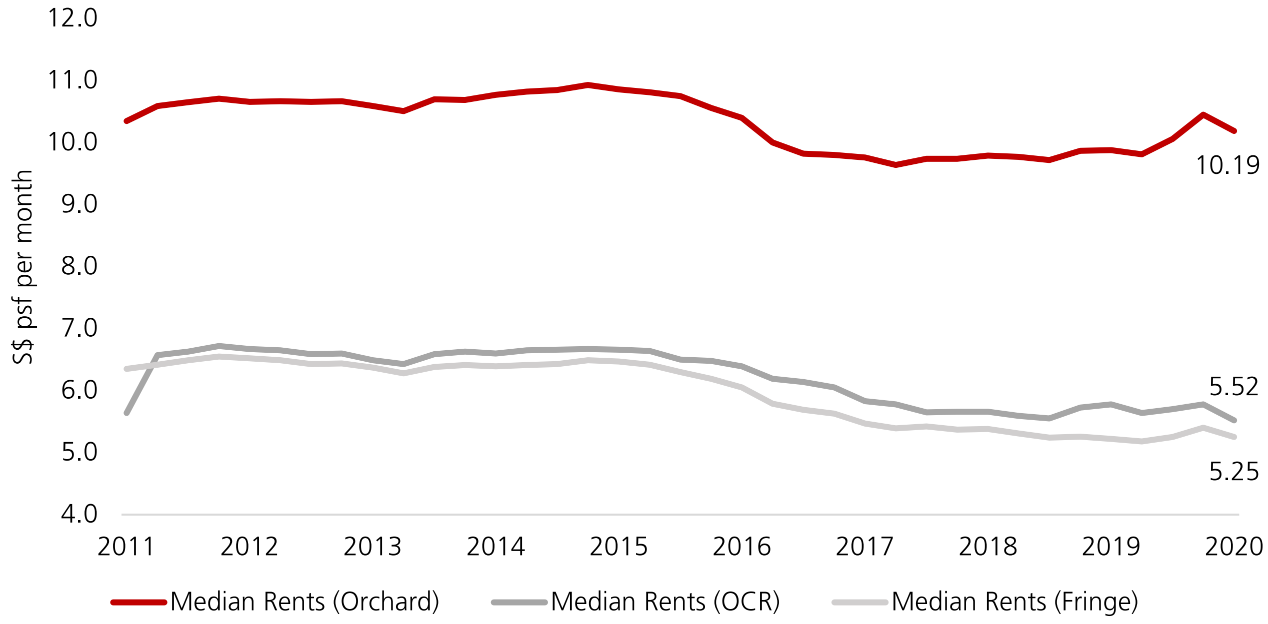
Remarks

1. Sector-wide dip in rental index recorded in 1Q20 as rental index falls 2.3% q-o-q to 98.7 this quarter.

2. Rental index across the central area, central region and fringe area fell 1.5%, 2.3% and 5.1% q-o-q respectively.

3. Rental disparity across the fringe area grew, potentially due to a larger tenant exposure to small & medium enterprises as compared to tenants within the central region, which has a greater exposure to multinational corporations.

Property Median Rents (Shops)



Source: URA, CEIC, DBS Bank

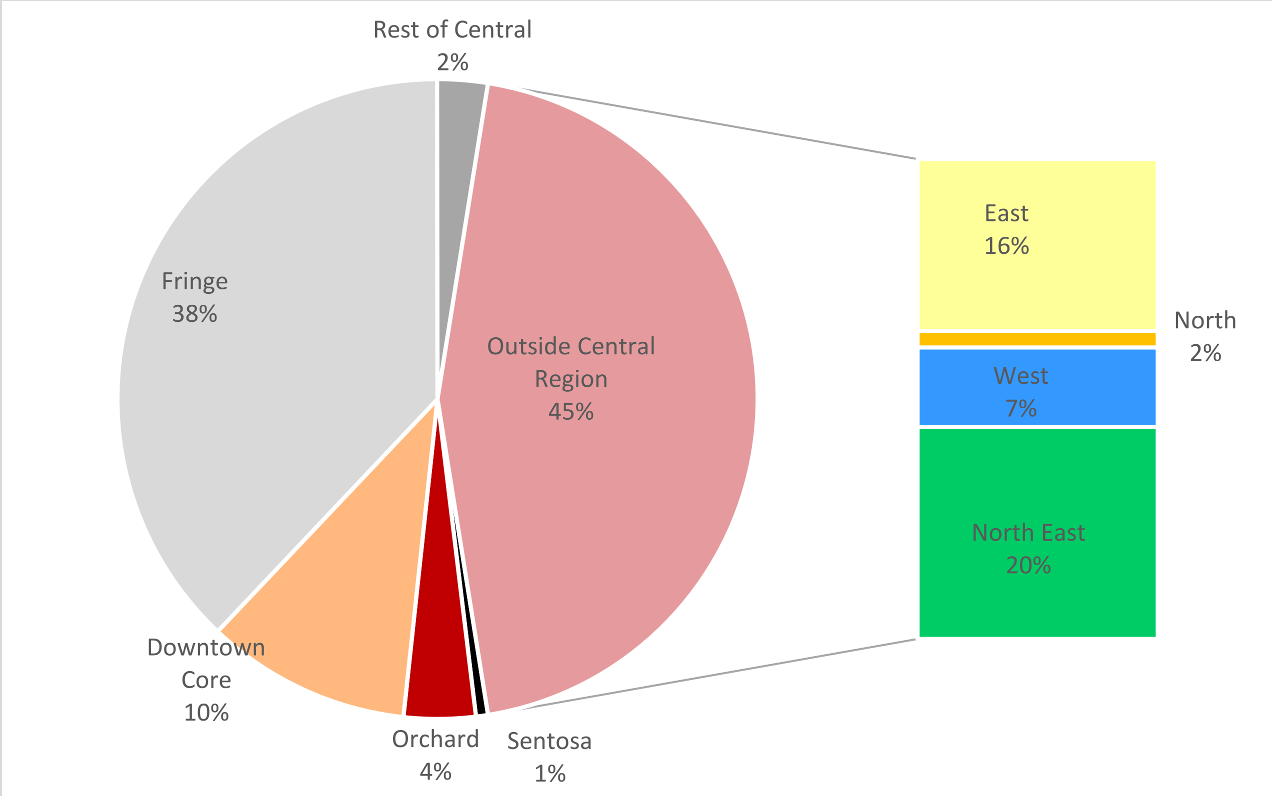
Remarks

1. Downtick registered across median rents for retail leases across all locations.

2. Orchard, central fringe and suburban rents declined 2.5%, 2.8% and 4.5% q-o-q respectively.

3. 1Q20 revealed positive rental reversions for all the listed retail landlords, which we believe stemmed from higher bargaining power from dominant mall retail leases, in comparison to leases that are not owned by the REITs.

Upcoming Retail Developments by Planning Region



Source: URA, CEIC, DBS Bank

Remarks

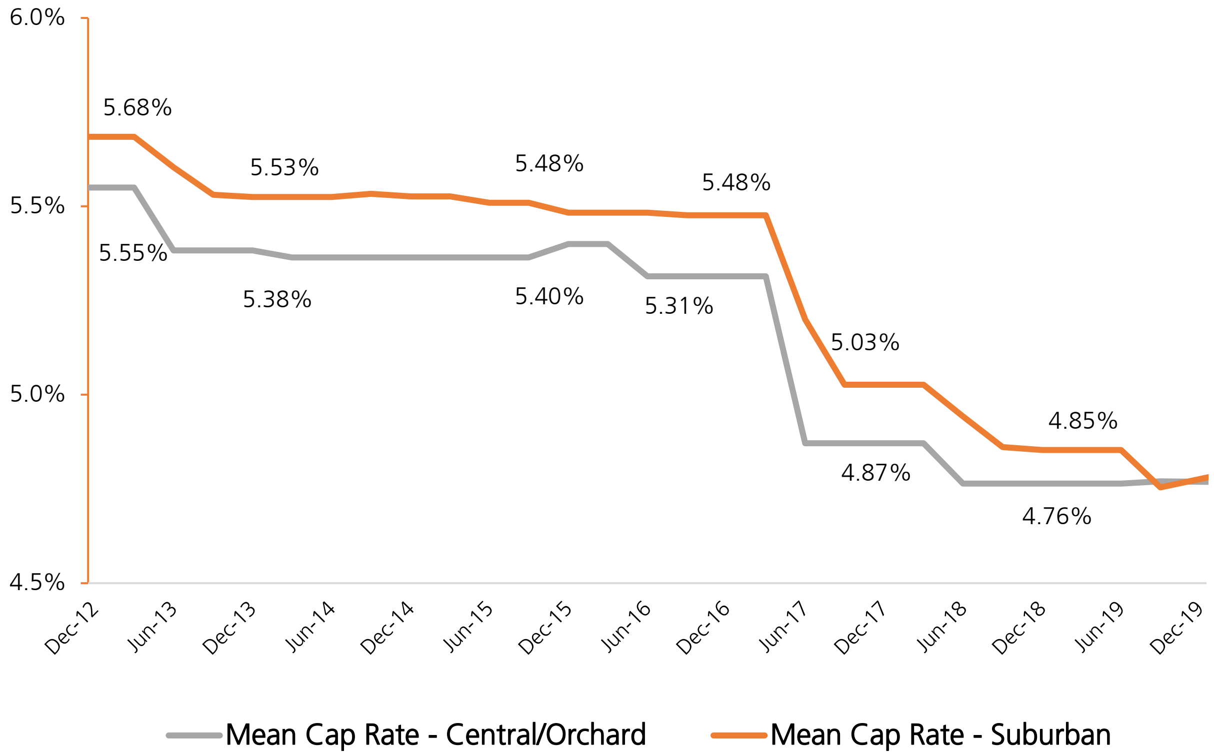
1. Bulk of supply will stem from the central fringe area (38%) and suburban area (45%).

2. Central fringe supply will come from several big projects including The Woodleigh Mall and Tekka Place.

3. Approximately 18,100 sqm of retail spaces were completed in 1Q20, or 30% of total retail pipeline for the year.

4. Future pipeline within the Downtown Core, Orchard and Rest of Central consist of smaller projects complementing new office launches (Central Boulevard Towers) and hotel developments.

Cap Rate Compression for CMT and FCT's Portfolio Assets



Source: URA, CEIC, DBS Bank

Remarks

1. Mean cap rates for prime retail malls remained largely unchanged in 4Q19 at 4.76%.

2. Cap rates for suburban retail malls expanded slightly over the past quarter, from 4.75% to 4.87%, and may continue to benefit from their proximity to residential areas and defensive necessity spending.

Completed retail projects in 1Q20

Project Name	Street Name	Developer	Planning Region	Total Retail Space (sqm)	Sub-total (sqm)
Completed retail projects in 1Q20					18,100
Additions/alterations to 55 Market Street	Market Street	Central Capital Holdings Pte Ltd	Downtown Core	900	
Additions/alterations at Oxley @ Raffles	Raffles Place	Oxley Beryl Pte Ltd	Downtown Core	4700	
Additions/alterations to HD 139	Cecil Street	Ececil Pte Ltd	Downtown Core	400	
Bideford Hills	Bideford Road	SC Aetas Holdings Pte Ltd	Orchard	1800	
Le Quest	Bukit Batok Street	Qingjian Realty (BBC) Pte Ltd	West	5100	
Woods Square	Woodlands Square	Woodlands Square Pte Ltd	North	5200	

Source: URA, DBS Bank

Retail supply pipeline

Project Name	Street Name	Developer	Planning Region	Total Retail Space (sqm)	Sub-total (sqm)
2020					42,990
Tekka Place	Serangoon Road	Corwin Holding Pte Ltd	Fringe	10,290	
Additions/alterations to Grantral Mall @ Macpherson	Macpherson Road	Wujie Times Square Pte Ltd	Fringe	8,350	
Northshore Plaza I	Northshore Drive	Housing & Development Board	North East	8,250	
IMall	Marine Parade Central	Marine Parade Central Pte Ltd	Fringe	7,030	
Centrium Square	Serangoon Road	Feature Development Pte Ltd	Fringe	4,010	
Additions/alterations to existing Wilkie Edge	Wilkie Road	Lian Beng (8) Pte Ltd	Rest of Central	2,620	
Cleantech Three	Cleantech Loop	JTC Corporation	Fringe	2,440	
2021					15,790
Additions/alterations to existing Shaw Plaza	Balestier Road	Shaw Properties (1997) Pte Ltd	Fringe	8,440	
Hotel development	Claymore Road	UOL Claymore Investment Pte Ltd	Orchard	2,370	
Rochester Commons	Rochester Park	Ascendas Vista Property Pte Ltd Acting As Trustee Of Ascendas	Fringe	2,090	
Office/retail development	Woodlands Avenue	JTC Corporation	North	1,500	
CapitaSpring	Chulia Street/Church Street/Market Street	CL Office Trustee Pte Ltd/Glory SR Trustee Pte Ltd	Downtown Core	1,390	
2022					72,930

Source: URA, DBS Bank

Retail supply pipeline (continued)

Project Name	Street Name	Developer	Planning Region	Total Retail Space (sqm)	Sub-total (sqm)
Additions/alterations to 112 Katong	East Coast Road	Keppel Land Pte Ltd	East	25,060	
The Woodleigh Mall	Bidadari Park Drive	The Woodleigh Mall Pte LtdThe Woodleigh Residences Pte Ltd	Fringe	12,850	
Office/retail development	Hoe Chiang Road	Mansfield Developments Pte Ltd	Downtown Core	9,310	
Retail Development	Bukit Batok Road	Housing & Development Board	West	9,000	
Boulevard 88	Orchard Boulevard	Granmil Holdings Pte Ltd	Orchard	3,960	
Guoco Midtown	Beach Road	Guoco Midtown Pte Ltd/Midtown Bay Pte Ltd	Downtown Core	3,000	
Hotel/retail development	Club Street	Midtown Development Pte Ltd	Downtown Core	2,710	
Hotel/retail development	Craig Road	Craig Road Property Holdings Pte Ltd	Rest of Central	1,830	
Central Boulevard Towers	Central Boulevard	Wealthy Link Pte Ltd	Downtown Core	1,690	
Hotel/retail development	Mandai Lake Road	Mandai Park Development Pte Ltd	North	1,240	
Hotel development	Alexandra Road	Fragrance Regal Pte Ltd	Fringe	1,220	
Hotel development	Bukit Manis Road	Royal Group Development Pte Ltd	Sentosa	1,060	
2023					43,110

Source: URA, DBS Bank

Retail supply pipeline (continued)

Project Name	Street Name	Developer	Planning Region	Total Retail Space (sqm)	Sub-total (sqm)
Residential apartments/office/retail development	**Punggol Way**	**JTC Corporation**	North East	**19,460**	
Office/retail development	Holland Road	Commons Residential Pte Ltd	Fringe	9,580	
Sengkang Grand Mall	Sengkang Central	Siena Residential Development Pte Ltd	North East	7,010	
Dairy Farm Residences	Dairy Farm Road	UE Dairy Farm Pte Ltd	West	4,000	
Parc Komo/Komo Shoppes	Upper Changi Road North/Jalan Mariam	CEL Real Estate Development Pte Ltd	East	3,060	

Source: URA, DBS Bank

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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