Singapore Industry Focus

Singapore Office REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Jun 2020

Grab it while it lasts

- Office sector is near an inflection point
- Minimal office completions to support a gradual recovery till 2022
- Longer-term structural demand shift to be partially mitigated by short-term COVID-19 demand
- Top picks KREIT and MCT; upgrade CCT on the re-rating of CMT

Office sector near an inflection point. Despite facing a steep economic recession in 2020, we believe that Singapore's economy is near an inflection point with the steepest GDP contraction expected in 2Q20. Based on historical trends over the past three recessions, we note that this period will also coincide with the bottom in both office demand and office S-REIT share prices. We believe it pays to be early in our call, given attractive risk/reward ratios for the sector which is trading at 0.8x P/NAV, below its historical mean. Our top picks for the sector are KREIT and MCT. We upgrade CCT to BUY from HOLD, led by the repricing of our target price for CMT.

Minimal net supply until 2022 with project delays. While economic recovery is projected to be gradual from 2H20, we see downside risk mitigated by the lack of new supply completions until 2022. Over 2020-2022, with projected construction delays, only c.71k sqft of new net supply in downtown core will be completed. This is far less than the supply in previous crises (range 818k-2,842k sqft). Therefore, we believe the low levels of net incoming supply, coupled with record low vacancies (<5% in downtown core), will mitigate a steeper fall in office fundamentals and set the stage for a faster recovery into 2021 and beyond when the economy recovers.

The future of work spaces – not a clear downtrend as feared. We believe it is too early to turn cautious on potential structural demand shifts with the adoption of work-from-home ("WFH") practices. While flexible working policies will be core, we do not see a 180-degree pivot towards WFH but a balance will be sought. In fact, we see Office S-REITs upping the game by offering flexible workspace to meet their tenants' evolving needs and integrating with sustainability practices. A near-term supporting factor is demand for more space for safe distancing requirements and Business Continuity Plan (BCP) needs.
Risks: (i) slower-than-expected recovery, (ii) supply completions being earlier than expected.

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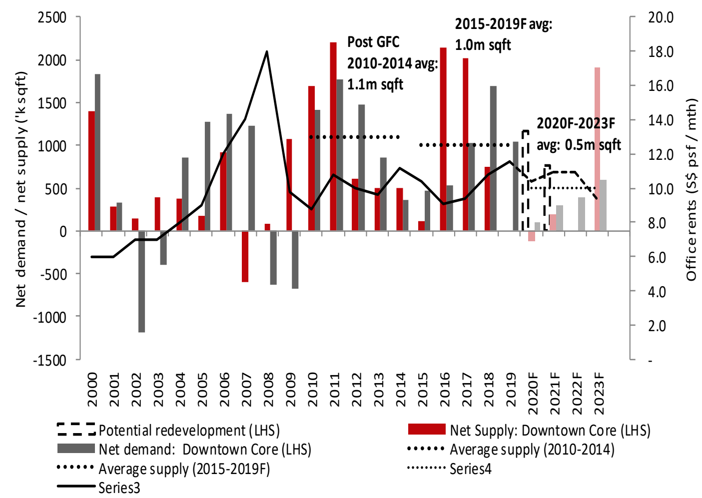
STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	Performance (%) 12 mth	Rating
CapitaLand Commercial Trust	1.82	5,044	1.95	(9.5)	(8.5)	BUY
Keppel REIT	1.16	2,822	1.35	(4.1)	(4.9)	BUY
Mapletree Commercial Trust	2.12	5,040	2.25	(7.0)	8.0	BUY
OUE Commercial REIT	0.40	1,551	0.50	(16.7)	(17.5)	BUY
Suntec REIT	1.60	3,234	1.81	(9.6)	(11.6)	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 5 Jun 2020

Restrictive supply outlook



Source: DBS Bank

ed: TH/ sa: AS,, PY, CS

Grab it while it lasts

A lesson from history – office sector nearing inflection point

Close correlation between office demand and GDP across the past three recessions. While the office sector has been the least impacted by COVID-19 directly thus far, we are cautious on the potential economic impact it might have on office demand as we move into the phased reopening post Circuit Breaker. The stock market has been exuberant with the end of Circuit Breaker on 1 June, but the critical factor for the office sector is how quickly the economy can recover.

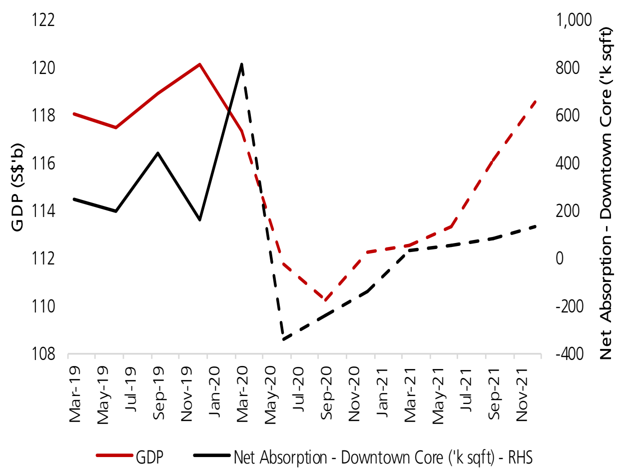
Based on the past three economic crises (Asian Financial Crisis (AFC), SARS and Global Financial Crisis (GFC), we observed that office demand in downtown core tracks very closely to GDP, both bottoming out in tandem. On trade sectors, office demand remains most positively correlated to GDP from the finance and insurance sector despite increasing demand in the past few years from the information and technology trade sector, and real estate business and services trade sector.

Similarly, during the GFC, office REITs' share prices tracked closely to GDP and GDP from finance and insurance sector, hitting a trough at similar period when GDP bottomed out.

2Q20 will be the bottom for the current COVID-19 recession. Our DBS economist forecasts FY20F GDP to decline by 5.7% y-o-y before recovering to 3.5% y-o-y growth in FY21F. Headline GDP growth figure will contract the most in 2Q20 by 8% y-o-y but GDP (in value) will likely bottom out in 3Q20.

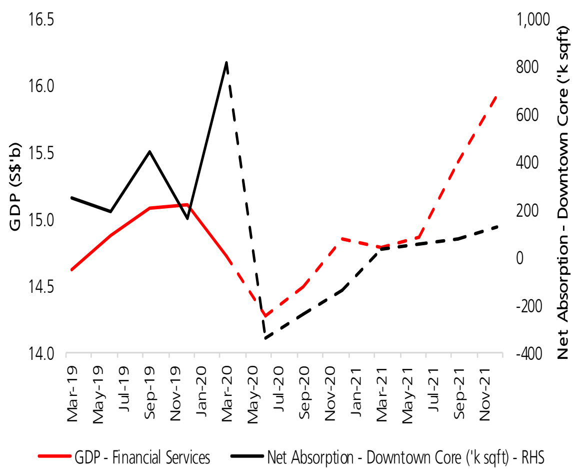
As such, while we expect office net demand to start declining in 2Q20 in tandem with the GDP, it will also likely mark the bottom. Post 2Q20, we believe office net demand can start to recover when GDP bottoms and drive the re-rating of office REITs.

Current: GDP (S$'b) vs Office net absorption ('k sqft)



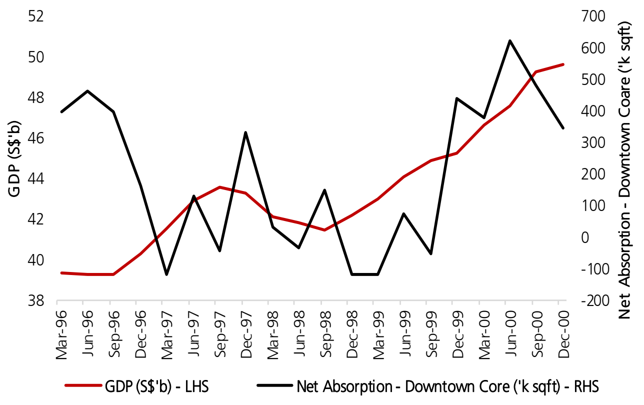
Source: URA, CEIC, DBS Bank

Current: GDP from finance & insurance sector (S$'b) vs Office net absorption ('k sqft)



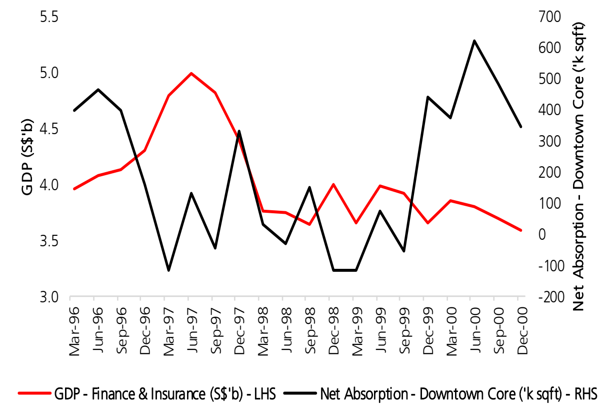
Source: URA, CEIC, DBS Bank

AFC: GDP (S$'b) vs Office net absorption ('k sqft)



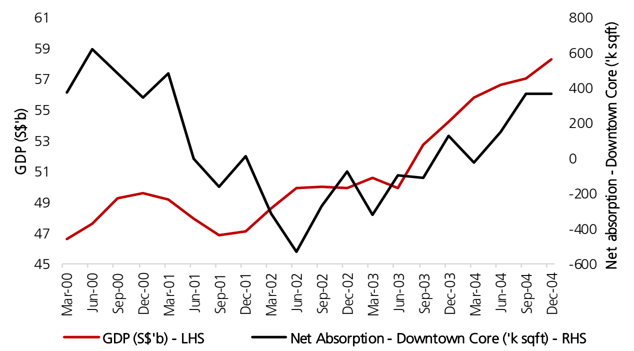
Source: URA, CEIC, DBS Bank

AFC: GDP from finance & insurance sector (S$'b) vs Office net absorption ('k sqft)



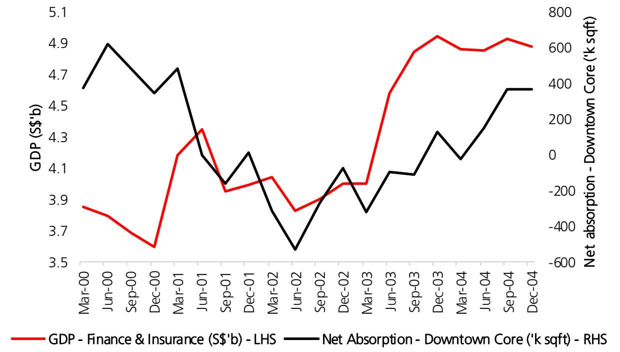
Source: URA, CEIC, DBS Bank

2001-2003 SARS / crisis: GDP (S$'b) vs Office net absorption ('k sqft)



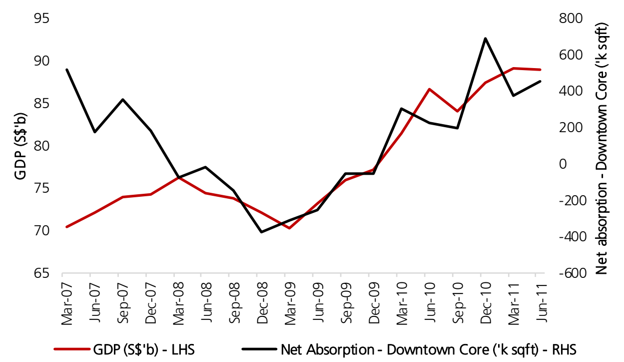
Source: URA, CEIC, DBS Bank

2001-2003 SARS / crisis: GDP from finance & insurance sector (S$'b) vs Office net absorption ('k sqft)



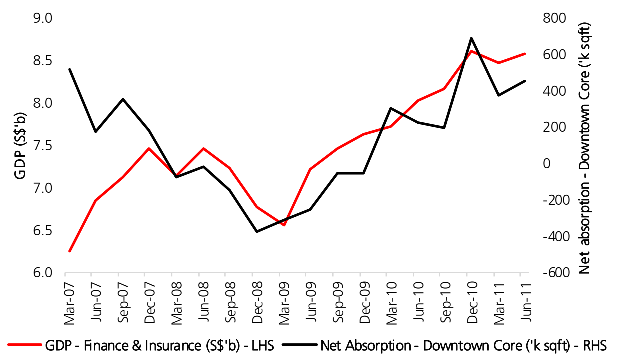
Source: URA, CEIC, DBS Bank

GFC: GDP (S$'b) vs Office net absorption ('k sqft)



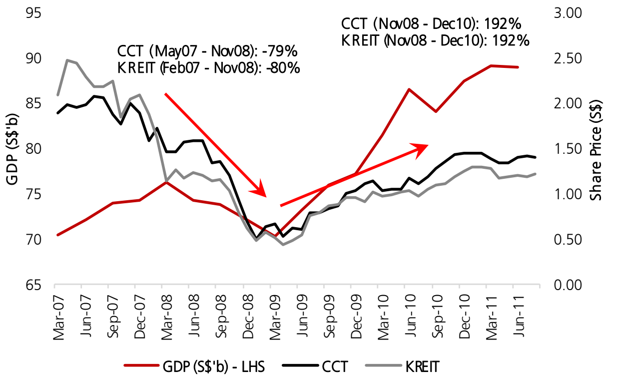
Source: URA, CEIC, DBS Bank

GFC: GDP from finance & insurance sector (S$'b) vs Office net absorption ('k sqft)



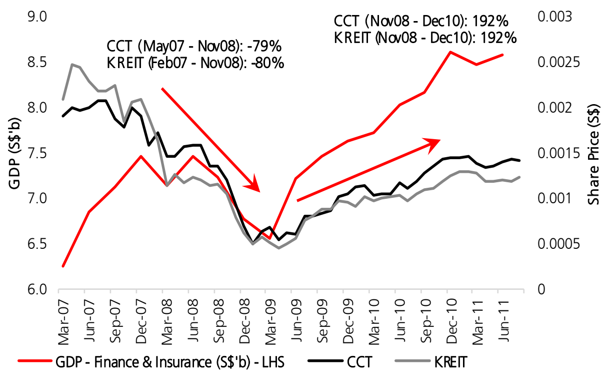
Source: URA, CEIC, DBS Bank

GFC: GDP (S$'b) vs CCT's & KREIT's share prices



Source: URA, CEIC, DBS Bank

GFC: GDP from finance & insurance sector (S$'b) vs CCT's & KREIT's share prices



Source: URA, CEIC, DBS Bank

Supply conducive for recovery

Minimal net supply until 2022 a catalyst for a quicker recovery. We estimate that there will be little to no net supply until 2022 that could possibly be a push factor to drive the next wave of recovery in the office sector. As we head into an economic downturn, we believe the low levels of net supply, coupled with record-low vacancies currently, are saving graces in facing the economic uncertainties, limiting the risk of a significant deterioration of fundamentals. These two factors, in our view, would set this economic crisis apart from previous economic crises. We believe that this current downcycle will likely be shorter and less steep leading to a quicker recovery in office sector post COVID-19. We believe the tight supply will better help support the demand and supply balance in the office market.

Over the next three years (FY20F-FY22F), we estimate a total of only 71k sqft of new net supply in downtown core assuming that i) two major office buildings slated to complete in FY22F previously, Central Boulevard Tower and Guoco Midtown, will be delayed by one year due to the delays in construction caused by the COVID-19 pandemic, ii) redevelopment of office buildings previously highlighted will proceed according to plan, resulting in displacement of demand.

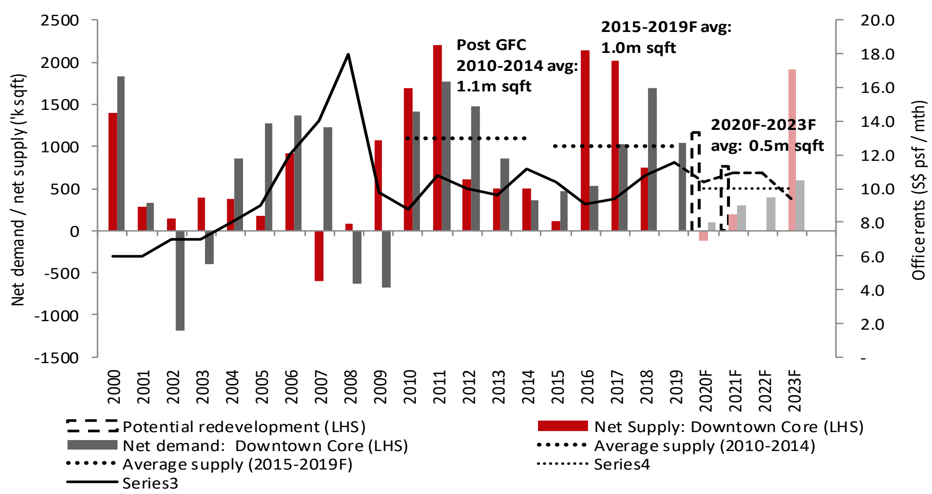
This is the lowest level of net supply during an economic crisis. During past economic crises (AFC, 2001-2003 crisis / SARS, GFC), total net supply over a 3-year period ranged from 818k-2,842k sqft.

Lowest total net supply during a crisis vs previous crises – AFC, 2001-2003 SARS / crisis, GFC

Period	Total net supply ('k sqft)	Total net demand ('k sqft)	Office Rents - downtown core (URA)	S$ psf/mth		S$ psf/mth	% chg	CCT (share price) Peak to trough (May07-Nov08)	CCT (share price) Trough to Peak (Nov08-Dec10)	KREIT (share price) Peak to trough (Feb07-Nov08)	KREIT (share price) Trough to Peak (Nov08-Dec10)
1998 - 2000	1,970	2,207	Dec-98	5.34	Dec-00	5.43	2%				
2001 - 2003	818	(1,249)	Dec-01	5.14	Dec-03	4.02	-22%				
2008 - 2010	2,842	108	Dec-08	10.53	Dec-10	8.87	-16%	-76%	192%	-80%	192%
2020F - 2022F	71	800	Mar-20	9.21				-19%		-13%	

Source: DBS Bank, URA, Thomson Reuters

Net demand (downtown core) vs Net supply (downtown core) vs Grade A office rents

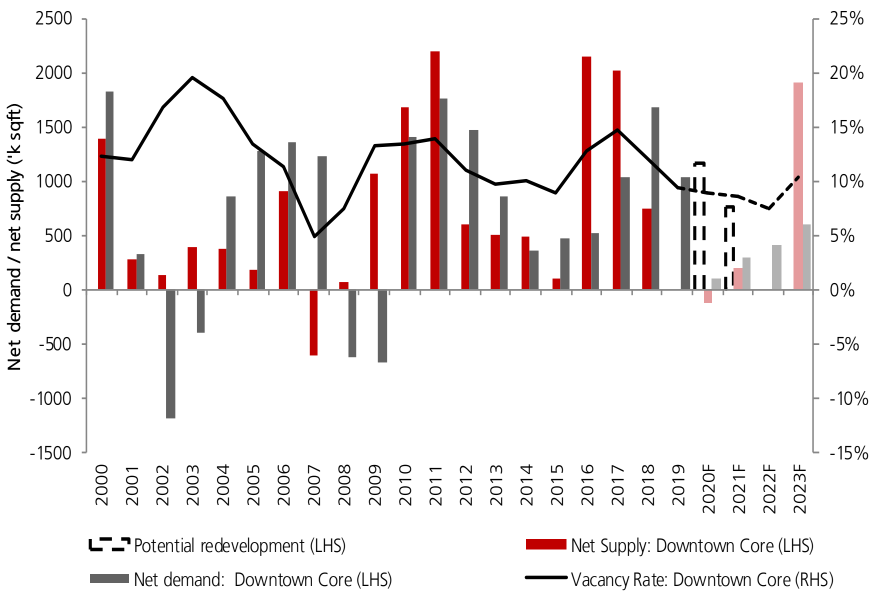


Source: URA, CBRE, DBS Bank

Remarks

- 1Q20 Grade A CBD rents moderated to S$11.50 psf/mth from peak of S$11.55 psf/mth in 4Q19.
- 1Q20 net demand was strong at 818k sqft fully met by equivalent net supply.
- We expect net supply to fall to average of 0.5m sqft in FY20F-FY23F with little or no new upcoming net supply up to FY22F due to redevelopment and delay in completions.

Office vacancies to improve but still elevated in the near term

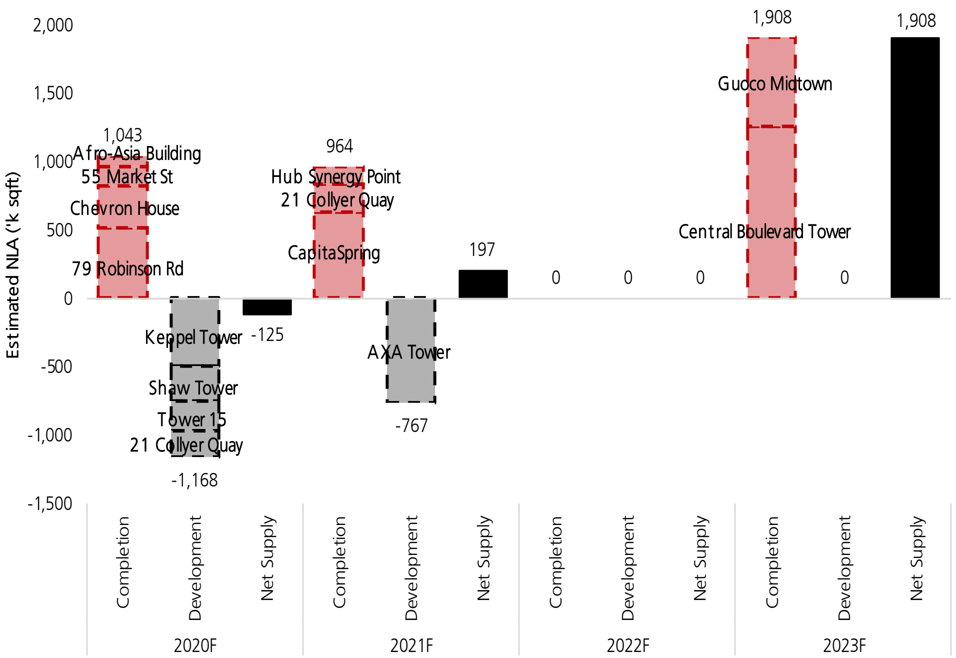


Source: URA, CBRE, DBS Bank

Remarks

- Vacancy rates continued to fall in 1Q20 to 9.3% vs 9.4% in 4Q19, close to the trough in the past 10 years.
- We expect vacancy rates to stabilise or reduce further as new upcoming supply is offset by supply taken off for redevelopment.
- We expect the next large wave of supply to be delayed to 2023 from 2022 due to COVID-19
- Vacancy rates are only expected to trend up when these new supply (Central Boulevard, Guoco Midtown) hit the market in 2023.

Office supply in Central Business District areas



Source: URA, CBRE, DBS Bank

Remarks

- Very little to no new net supply from FY20F-FY22F with new completions offset by redevelopment.
- Delayed completion for Central Boulevard Tower and Guoco Midtown from 2022 to 2023 due to COVID-19.

How does the future of work look like?

Impact from structure changes on office demand will be progressive. The COVID-19 pandemic has changed many norms and quickened the adoption of technology in many aspects including work. The successful implementation of work-from-home (WFH) thus far has change the conventional perception on the need to work in the office. Given the uncertain economic outlook, corporates are becoming increasingly more cost conscious and would likely reduce their budget allocations on office renovations/relocations to necessary basis only. This pushes corporates to right-size their office space needs and they are likely to prefer renewals of existing leases vs relocation.

Near-term demand drivers. Aside from economic impact on office demand, we believe there are a few moving parts that may cause changes to office space needs in the near and longer terms, post Circuit Breaker. While these dynamics are mixed, we expect longer-term structural impact to be partially offset by shorter-term needs to cope with safe distancing measures.

- Office rationalisation decisions to take time. As more and more recognise that WFH is possible, more flexible work arrangements may lead corporates to review their office space needs to right-size their needs partly to conserve cash and manage costs. However, we expect these structural changes to impact a portion of the office space and to be executed progressively when leases are up for renewals.
- Safe distancing in the work place – more space may be needed, instead of lesser. Although the Circuit Breaker has been lifted, we believe safe distancing measures will remain until the spread of the virus is under control. Hence, the average space per employee in office may increase to accommodate safe distancing between employees. In the short term, corporates may retain existing office space and readjust working arrangements in order to ensure a safe working environment for all staff. We do not rule out the possibility of some companies requiring more office space to cater for these needs.
- Business continuity plan needs to drive split office sites. We believe there may be some increasing demand for business continuity plans (BCP). While we do not know how long this pandemic will last, we believe the longer safe distancing measures are required, the higher the office demand for BCP needs, particularly regional office space and even business parks.

Given the uncertainty for now, we believe that corporates are likely to prefer rent renewals rather than relocations not only for cost purposes

Flexible space needs will increase post COVID-19; landlords to put their game. Co-working operators are one of the few office tenants that are most impacted by COVID-19. Co-working centres have not been able to operate at full capacity owing to Circuit Breaker and safe distancing guidelines. In addition, very short lease terms allow subscribers/tenants to easily suspend/reduce rents paid.

However, we expect the need for flexible space remains and will increase post COVID-19 in line with increasing structural shift to accommodate a "core + flex" in working operational needs. However, these demand for flexible space may not entirely be translated into demand for co-working spaces. We see increasing need for office landlords to up their service provision to meet the short-term needs of tenants within their buildings especially common areas such as meeting rooms with conference call facilities. This caters for more privacy and exclusivity compared to co-working centres.

Rental waiver Bill mandates a higher out-of-pocket rental support but to targeted tenants. The new rental waiver bill will make it mandatory for office landlords to provide more out-of-pocket rental waivers to their office tenants with the mandatory top-up of one month vs previously when most office landlords have been just passing through property tax rebates up to 0.5 month of top-ups only for targeted tenants. With more clarity on the eligibility of tenants to rely on this bill, the mandatory rental support is more targeted vs a portfolio-wide provision.

We understand that among the five office S-REITs, the SME tenants account for 5-40% within their office portfolio while its retail segment sees a higher composition of >50%.

Summary of COVID-19 impact / relief program prior to the new rental waiver bill

S$'m	est % of high-risk tenants	COVID support	Gov rebates	Net gov rebates	Total retention	DI retention	Cap Dist retained	% of DI	Support
CCT	25.0%	25.8	majority	n/a	19.0	19.0		21%	- Office: 30% property tax rebate (PTR); - Retail: 100% PTR; Apr/May rents waived - Hospitality: 100% PTR; waived turnover rent for Apr
KREIT	6.3%	9.5	8.2	1.3	n/a				- Office: 30% PTR - Retail: 100% PTR, waive Apr rents; utilise 1 month security deposit for May rents - Aust & Korea: in line with gov advisories
MCT	<10.0%	50.0	16.0	34.0	43.7	43.7		37%	- Office: 30% PTR - Retail: 100% PTR; 0.5 mths Mar/Jun/Jul rents; waive Apr/May rents
OUECT*	31.4%	18.8	13.3	5.5	n/a				- Office: 30% PTR - Retail: 100% PTR; waive Apr rents - Hospitality: 100% PTR
Suntec*	15.6%	22.1	10.7	11.4	12.0	5.5	6.5	18%	- Office: 30% PTR - Retail: 100% PTR; 0.5 mths Mar renst; waive Apr/May rents; offset 1 mth security deposit with Jun rents

Source: DBS Bank, Company
** est % of high-risk tenants: OUECT includes non-fixed rent of hospitality (c.10%); Suntec includes Suntec convention center (c.5%)*

Top picks are KREIT and MCT for the quality of their portfolio and pure plays by asset class/geography. In view of the expected GDP contraction in 2Q20 and 3Q20, we acknowledge that the recent stock market rally is likely to be liquidity driven rather than an expectation of a rebound in fundamentals. That said, we do see that a recovery is upon us in due course. While we may be a little early in this upgrade call for office sector, we see attractive risk/reward ratios at an average of 0.8x P/NAV for the office S-REITs. We believe the sector remains attractive to ride on potential recovery post COVID-19 and any potential share price weakness upon the release of GDP data would be a good entry opportunity.

Our **top picks** for the sector are **KREIT** and **MCT** with **TP of S$1.35 and S$2.25** respectively, for the quality of their portfolio and pure plays by asset class and geography respectively.

We **upgrade CCT to BUY** from HOLD and raised our **TP to S$1.95** riding on the re-rating of CMT's share price due to the merger of both companies.

We **maintain our BUY rating** on **Suntec REIT** and **OUECT** but lower our **TP to S$1.81** and **S$0.50 respectively**.

Key risks. Factors that could derail our thesis include i) slower-than-expected rebound in the economy, ii) office buildings' redevelopment plans are delayed given the slowdown in economic growth and supply chain disruptions due to COVID-19, and iii) ongoing projects, especially Central Boulevard Towers and Guoco Midtown, remaining on track to complete in 2022.

Singapore Office REITs valuation table

	Price (S$)	Market Cap (S$'m)	12-mth Target Price (S$)	Rating	Yield FY19	Yield FY20F	Yield FY21F	P/NAV FY19	DPU growth (%) FY20F	DPU growth (%) FY21F
CCT	1.79	6,913	1.95	BUY	5.0%	4.2%	4.7%	1.0	-16%	12%
KREIT	1.15	3,899	1.35	BUY	4.9%	4.9%	5.2%	0.9	1%	6%
MCT *	2.08	6,891	2.25	BUY	3.8%	4.3%	4.7%	1.2	13%	9%
OUECT	0.41	2,216	0.50	BUY	8.1%	6.3%	6.6%	0.7	-22%	5%
Suntec	1.57	4,422	1.81	BUY	6.1%	4.5%	5.7%	0.7	-26%	27%
Average		**24,340**			**5.6%**	**4.8%**	**5.4%**	**0.9**	**-10%**	**12%**

Source: DBS Bank, Thomson Reuters, Company
** MCT's financials are based on FYE Mar20, FYE Mar21F and FYE Mar22F*

Company Guides

CapitaLand Commercial Trust

Version 21 | Bloomberg: CCT SP | Reuters: CACT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Jun 2020

BUY (upgrade from HOLD)

Last Traded Price (5 Jun 2020): S$1.82 **(STI :** 2,751.50)
Price Target 12-mth: S$1.95 (7% upside) (Prev S$1.55)

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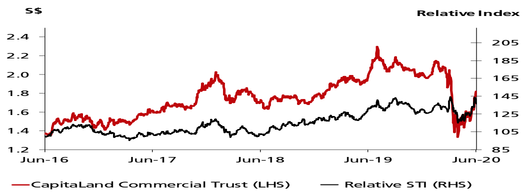
What's New

- Upgrade CCT to BUY; TP of S$1.95 on the back of the upgrade and repricing of CMT's target price
- Merger allows CCT to ride on the phased reopening of retail malls via CMT while positioned for recovery in the office sector when GDP starts to recover from 2Q20
- Average expiring rents at S$9.37 to S$10.68 in FY20-FY22 provides a buffer for positive rental reversions
- CCT's new/renovated office space in CBD could be a silver lining if office demand recovers faster than expected

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	394	412	390	416
Net Property Inc	315	321	310	329
Total Return	442	434	281	301
Distribution Inc	322	338	304	324
EPU (S cts)	8.73	8.85	7.26	7.76
EPU Gth (%)	15	1	(18)	7
DPU (S cts)	8.70	8.88	7.45	8.36
DPU Gth (%)	0	2	(16)	12
NAV per shr (S cts)	184	186	186	186
PE (X)	20.8	20.6	25.1	23.4
Distribution Yield (%)	4.8	4.9	4.1	4.6
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	34.9	35.1	35.5	35.8
ROAE (%)	4.9	4.8	3.9	4.2
Distn. Inc Chng (%):			(4)	(2)
Consensus DPU (S cts):			8.20	8.70
Other Broker Recs:		B: 9	S: 1	H: 7

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

Potential merger boost

Upgrade to BUY; raise TP to S$1.95. We upgrade our rating to BUY from HOLD on CapitaLand Commercial Trust (CCT) and raise our TP to S$1.95 from S$1.55. Our upgrade was mainly led by the upgrade and repricing of CMT's target price, assuming the merger is successful, which we admit was a quick revision from our previous call.

Where we differ: Benefitting from a mixed portfolio with the potential merger. Assuming the merger will proceed as planned, we believe CCT will ride on the phased reopening of retail malls within CMT's portfolio while being positioned for the progressive recovery in the office sector when GDP starts to recover from 2Q20. In addition, average expiring rents at S$9.37-10.68 in FY20-FY22 provides buffer to maintain positive rental reversions.

New/newly refurbished office space in CBD could be a silver lining if demand recovers faster than expected. While we acknowledge that CCT has upcoming supply from CapitaSpring (expected completion in FY21) and expected vacancies from tenants' movement prior to COVID-19, it could be a silver lining if demand recovers faster and stronger than expected as it is possibly the only REIT with some new/newly refurbished office space in the CBD expected to complete in FY21 with minimal net office supply in downtown core in FY20F-FY22F.

Valuation:

We raised our DCF-based TP to S$1.95 from S$1.55 previously based on lower beta of 0.8 (0.9 previously) on the back of gradual economic recovery following the phased reopening and repricing of CMT's target price.

Key Risks to Our View:

Key risks to our view are an economic downturn and a longer-than-expected recovery.

At A Glance

Issued Capital (m shrs)	3,862
Mkt. Cap (Sm/USm)	7,029 / 5,044
Major Shareholders (%)	
CapitaLand Ltd	39.5
BlackRock Inc	7.1
Free Float (%)	53.4
3m Avg. Daily Val (US$m)	23.3

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

Live more, Bank less

CRITICAL DATA POINTS TO WATCH

Critical Factors

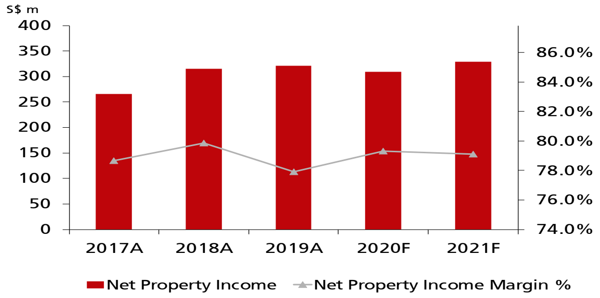
Recovery in spot office rents. Thus far, we have seen more than seven consecutive quarterly increases in rents. Spot office rents have increased c.29% from the lows in 1H17, reaching S$11.55 psf/mth at the end of 4Q19, according to CBRE estimates. With the current COVID-19 pandemic leading to an expected economic crisis, this could put pressure on spot office rents. However, recovery from the current crisis with limited office supply could lead to a recovery in spot office rents.

Low lease expiry profile in the near term provides earnings stability. With approximately 10% of office leases up for renewal (by gross rental income [GRI]) in FY20 and WALE of 3.7 years, we believe CCT has reduced its risks of potential earnings volatility in the near term. CCT is well placed to capture the potential recovery in overall office rents when the economy recovers as it has c.47% of leases up for renewal over the next two years.

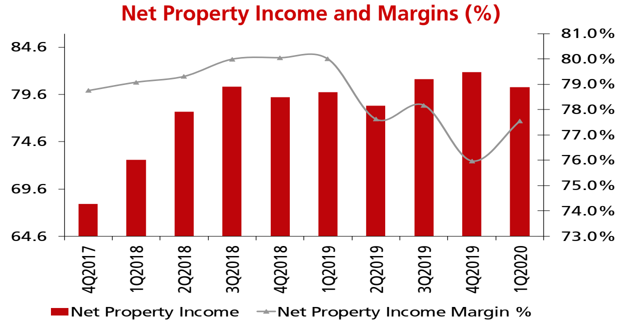
Medium-term upside from redevelopment of Golden Shoe Car Park. CCT has a joint venture (JV) with its sponsor, CapitaLand Limited (CAPL) and Mitsubishi Estate Co., Ltd (MEC), to redevelop its Golden Shoe Car Park property into a 635,000-sqft office tower with a 299-room serviced apartment block. CCT and CAPL will hold a 45% stake each, with MEC having 10%. Costing S$1.82bn with a targeted yield on cost of 5% and scheduled to be completed in 1H21, the property will provide a medium-term uplift to CCT's earnings and its current NAV per unit (excluding distributions) of S$1.79. To date, CCT has secured JP Morgan as an anchor tenant, which will occupy 24% of the office space in the building.

Overseas expansion. CCT recently expanded overseas with its maiden acquisition of an office building, Galileo in Frankfurt, Germany on a 4% NPI yield. We expect this to provide another leg of growth for the trust, but more importantly to limit downside risk to CCT's book value given Galileo's freehold status.

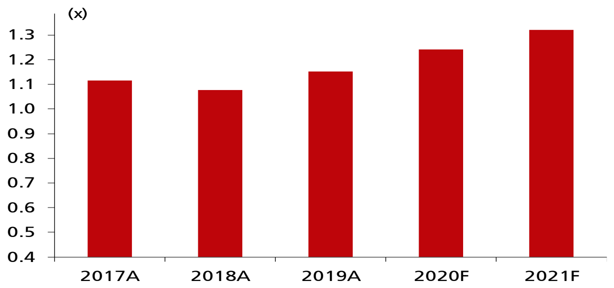
Net Property Income and Margins (%)



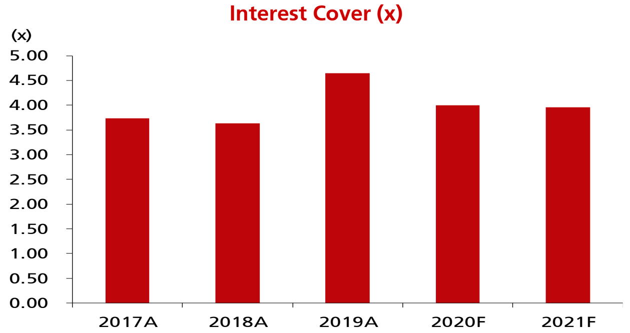
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



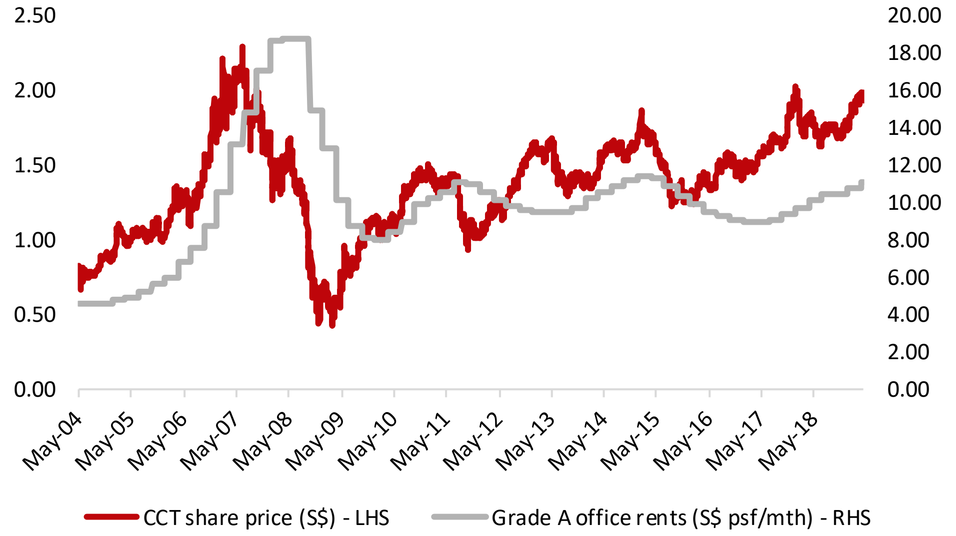
Interest Cover (x)



Source: Company, DBS Bank

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

CCT's share price versus Singapore office rents



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

Remarks

CCT's share price has historically led the upturn and downturn in spot office rents by 6-12 months.

Over the past year, CCT's share price has rebounded in anticipation of a recovery in the office market, which we believe has been validated by the four consecutive quarterly increases in spot rents since 2Q17.

Balance Sheet:

Gearing to settle at around 36-37%. Going forward, we expect CCT's gearing to be between 36% and 37%, leaving sufficient debt headroom to fund its AEIs and redevelopment of CapitaSpring.

High proportion of fixed-rate debt. As at 31 Dec 2019, around 91% of CCT's borrowings were on fixed rates.

Share Price Drivers:

Recovery in the office market. With CCT's share price historically tracking the office market by 6-12 months, we believe a recovery in office rents next year will lead to a further re-rating in CCT's share price. In our view, further market transactions above the implied psf price of CCT's Singapore office portfolio should also drive its share price higher.

Acquisitions. Should CCT identify more DPU-accretive acquisitions in Europe or even in Singapore, we believe they would act as a re-rating catalyst by accelerating CCT's medium-term growth profile.

Key Risks:

Competition from other landlords. While pre-commitment levels of recently completed office buildings in Singapore are high, CCT could face more competition from buildings which have lost tenants to the new office buildings.

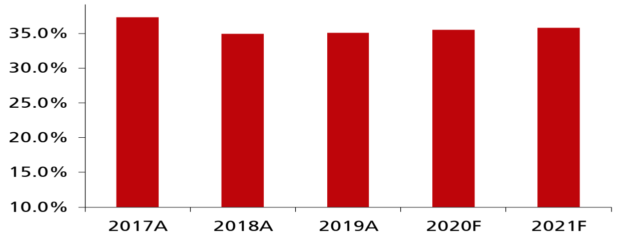
Pressure on rents from shadow space. We see some downsizing activity from banks and financial institutions. Shadow space (particularly in the Marina Bay area) could put some pressure on rents for CCT's portfolio, whose properties are located primarily in the Raffles Place/Tanjong Pagar areas.

Interest rate risk. Any increase in interest rates will result in higher interest payments. Nevertheless, the risk is partially mitigated as c.92% of CCT's debts are on fixed rates.

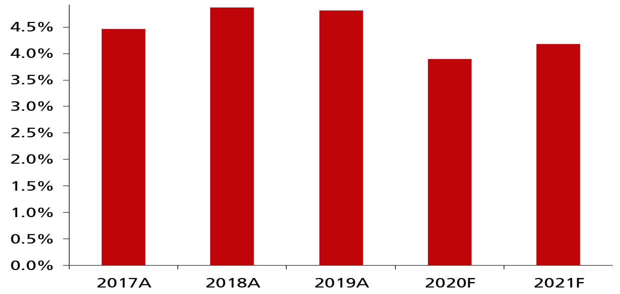
Company Background

CapitaLand Commercial Trust (CCT) is the first and largest commercial REIT listed in Singapore. It owns nine properties located in Singapore's CBD (worth c.S$11bn) and expanded into Europe with an office building in Frankfurt in 2018.

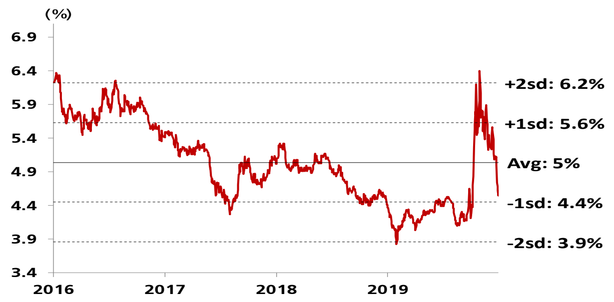
Aggregate Leverage (%)



ROE (%)



Distribution Yield (%)



PB Band (x)

Source: Company, DBS Bank

Live more, Bank less

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	337	394	412	390	416
Property expenses	(72.0)	(79.4)	(91.1)	(80.8)	(86.8)
Net Property Income	265	315	321	310	329
Other Operating expenses	(19.0)	(24.9)	(26.6)	(26.8)	(27.9)
Other Non Opg (Exp)/Inc	(0.5)	3.29	2.82	3.06	3.06
Associates & JV Inc	84.9	118	116	77.0	84.3
Net Interest (Exp)/Inc	(66.0)	(79.7)	(63.5)	(70.7)	(76.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	265	331	350	292	312
Tax	(3.7)	(6.3)	(8.3)	(10.0)	(10.1)
Minority Interest	0.0	(0.8)	(2.0)	(1.3)	(1.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	261	324	339	281	301
Total Return	579	442	434	281	301
Non-tax deductible Items	(294)	(121)	(96.3)	22.8	23.1
Net Inc available for Dist.	289	322	338	304	324
Growth & Ratio					
Revenue Gth (%)	13.0	16.7	4.7	(5.3)	6.4
N Property Inc Gth (%)	14.8	18.5	2.1	(3.6)	6.2
Net Inc Gth (%)	11.8	24.1	4.6	(17.3)	7.2
Dist. Payout Ratio (%)	100.0	100.0	100.0	95.0	100.0
Net Prop Inc Margins (%)	78.7	79.9	77.9	79.3	79.1
Net Income Margins (%)	77.4	82.3	82.3	71.9	72.4
Dist to revenue (%)	85.6	81.7	81.9	77.8	77.9
Managers & Trustee's fees	5.6	6.3	6.5	6.9	6.7
ROAE (%)	4.5	4.9	4.8	3.9	4.2
ROA (%)	3.0	3.4	3.4	2.7	2.9
ROCE (%)	2.8	3.0	2.9	2.7	2.9
Int. Cover (x)	3.7	3.6	4.6	4.0	4.0

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Gross revenue	99.8	101	104	108	104
Property expenses	(20.0)	(22.6)	(22.7)	(25.9)	(23.3)
Net Property Income	79.8	78.4	81.1	81.9	80.3
Other Operating expenses	(6.3)	(6.4)	(4.2)	(9.7)	(5.5)
Other Non Opg (Exp)/Inc	1.50	0.0	1.32	0.0	0.0
Associates & JV Inc	85	118	116	77	84
Net Interest (Exp)/Inc	(15.7)	(16.0)	(15.4)	(16.3)	(14.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**81.4**	**84.2**	**83.7**	**100**	**83.1**
Tax	(1.5)	(1.4)	(1.6)	(3.8)	(2.0)
Minority Interest	(0.2)	(0.2)	(0.2)	(1.4)	(0.3)
Net Income after Tax	**79.7**	**82.6**	**81.8**	**95.1**	**80.7**
Total Return	0.0	0.0	0.0	0.0	0.0
Non-tax deductible Items	0.0	0.0	0.0	0.0	0.0
Net Inc available for Dist.	82.7	82.4	84.8	87.6	70.2
Growth & Ratio					
Revenue Gth (%)	1	1	3	4	(4)
N Property Inc Gth (%)	1	(2)	4	1	(2)
Net Inc Gth (%)	(1)	4	(1)	16	(15)
Net Prop Inc Margin (%)	80.0	77.6	78.2	76.0	77.5
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	90.8

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	7,408	7,614	8,092	8,136	8,181
Other LT Assets	1,781	1,812	1,831	1,863	1,863
Cash & ST Invts	123	175	205	226	232
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	42.7	49.4	61.8	48.9	52.1
Other Current Assets	0.0	40.7	0.27	0.27	0.27
Total Assets	9,354	9,691	10,191	10,275	10,328
ST Debt	0.0	121	42.7	42.7	42.7
Creditor	90.3	63.7	75.0	63.1	67.2
Other Current Liab	7.27	40.3	23.1	23.1	23.1
LT Debt	2,720	2,493	2,768	2,847	2,895
Other LT Liabilities	119	63.4	67.7	67.7	67.7
Unit holders' funds	6,417	6,892	7,185	7,200	7,200
Minority Interests	0.0	17.1	29.3	30.6	31.8
Total Funds & Liabilities	9,354	9,691	10,191	10,275	10,328
Non-Cash Wkg. Capital	(54.8)	(13.9)	(36.1)	(37.0)	(37.9)
Net Cash/(Debt)	(2,598)	(2,439)	(2,605)	(2,663)	(2,706)
Ratio					
Current Ratio (x)	1.7	1.2	1.9	2.1	2.1
Quick Ratio (x)	1.7	1.0	1.9	2.1	2.1
Aggregate Leverage (%)	37.3	34.9	35.1	35.5	35.8
Z-Score (X)	1.2	1.4	1.3	1.2	1.2

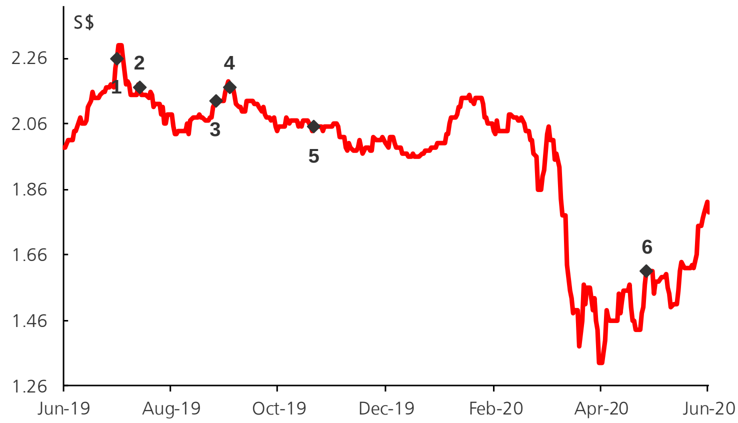
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	265	331	350	292	312
Dep. & Amort.	3.51	3.51	5.03	3.51	3.51
Tax Paid	(3.7)	(6.3)	(5.4)	(10.0)	(10.1)
Associates &JV Inc/(Loss)	(84.9)	(118)	(116)	(77.0)	(84.3)
Chg in Wkg.Cap.	(2.5)	(16.5)	7.57	0.94	0.91
Other Operating CF	73.5	88.1	65.6	22.8	23.1
Net Operating CF	**251**	**282**	**307**	**232**	**245**
Net Invt in Properties	(837)	(37.6)	(346)	(47.8)	(48.3)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(159)	0.0	0.0	(31.6)	0.0
Div from Assoc. & JVs	98.9	106	99.6	77.0	84.3
Other Investing CF	(5.3)	0.0	(2.6)	0.0	0.0
Net Investing CF	**(902)**	**68.4**	**(249)**	**(2.4)**	**36.0**
Distribution Paid	(280)	(304)	(354)	(288)	(324)
Chg in Gross Debt	271	(104)	175	79.4	48.3
New units issued	689	214	217	0.0	0.0
Other Financing CF	(66.9)	(95.3)	(66.0)	0.0	0.0
Net Financing CF	**614**	**(288)**	**(27.7)**	**(209)**	**(276)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(37.4)	62.1	30.6	20.9	5.68
Operating CFPS (S cts)	7.35	8.04	7.81	5.98	6.31
Free CFPS (S cts)	(17.0)	6.58	(1.0)	4.77	5.08

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	04 Jul 19	2.26	2.40	BUY
2:	17 Jul 19	2.17	2.40	BUY
3:	29 Aug 19	2.13	2.30	BUY
4:	06 Sep 19	2.17	2.30	BUY
5:	24 Oct 19	2.05	2.30	BUY
6:	30 Apr 20	1.61	1.55	HOLD

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

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

Singapore Company Guide
Keppel REIT

Version 21 | Bloomberg: KREIT SP | Reuters: KASA.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Jun 2020

BUY

Last Traded Price (5 Jun 2020): S$1.16 (STI : 2,751.50)
Price Target 12-mth: S$1.35 (16% upside) (Prev S$1.45)

Analyst
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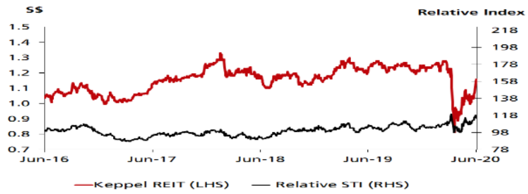
What's New

- KREIT's best-in-class office portfolio is well-positioned to benefit from a potential recovery in a very tight net supply market
- The only pure office REIT left post CMT-CCT merger will be highly valued
- Less impacted by new rental waiver bill as portfolio comprises minimal SME tenants
- Maintain BUY; lower TP to S$1.35

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	166	164	146	154
Net Property Inc	133	129	122	128
Total Return	146	120	120	137
Distribution Inc	189	189	191	205
EPU (S cts)	3.33	2.90	3.52	3.98
EPU Gth (%)	(8)	(13)	21	13
DPU (S cts)	5.56	5.58	5.62	5.95
DPU Gth (%)	(2)	0	1	6
NAV per shr (S cts)	140	136	133	131
PE (X)	34.8	40.0	33.0	29.1
Distribution Yield (%)	4.8	4.8	4.8	5.1
P/NAV (x)	0.8	0.9	0.9	0.9
Aggregate Leverage (%)	36.3	33.8	33.8	33.8
ROAE (%)	2.4	2.1	2.6	3.0
Distn. Inc Chng (%):			0	0
Consensus DPU (S cts):			5.70	5.70
Other Broker Recs:		B: 9	S: 4	H: 4

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

Style, quality, excellence

Maintain BUY; lower TP to S$1.35. We maintain our BUY call on Keppel REIT (KREIT) but lower our TP to S$1.35 from S$1.45 to factor in some downside risk from weaker economic outlook. We believe KREIT's best-in-class office portfolio anchored by Singapore Grade A offices in prime CBD locations is well-positioned to benefit from a potential recovery in a very tight net supply market. Current valuations at 0.77x P/NAV, below historical average, is still attractive to ride on potential recovery from 2Q20F onwards.

Where we differ – The only pure office REIT. Post the potential CMT-CCT merger, KREIT is soon to be the only pure office REIT, which we believe will be highly valued by investors. In addition, average expiring rents at less than S$10 psf/mth in FY20-FY21 provide sufficient buffer to weather through rent declines impacted by economic downturn, contrary to consensus' hold rating.

Minimal impact from new rental waiver bill and 1Q20 distribution top-up a testament to KREIT's strength. We believe KREIT is less impacted by the new rental waiver bill as its portfolio of prime assets comprises only minimal SME tenants. In addition, it has made its stance clear with the top-up on 1Q20 distribution to maintain stable DPU. We trim our FY20F-FY21F estimates to factor in some impact from COVID-19 but maintained DIs with top-up from capital distributions.

Valuation:

Our revised DCF-based TP of S$1.35 is based on lower risk-free rate and higher beta assumptions of 2.0% (vs 2.5% previously) and 0.75 (vs 0.7 previously) respectively.

Key Risks to Our View:

Key risks to our positive view are weaker-than-expected rents and vacancies, causing DPU to come in below expectations.

At A Glance

Issued Capital (m shrs)	3,390
Mkt. Cap (Sm/USm)	3,933 / 2,822
Major Shareholders (%)	
Keppel Corp Ltd	44.4
Free Float (%)	55.6
3m Avg. Daily Val (US$m)	8.1

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

ed: TH/ sa: SM, PY, CS

WHAT'S NEW

Style, quality, excellence

1Q20 results – DPU maintained with higher capital distributions:

- 1Q20 DPU rose 0.7% y-o-y despite the divestment of Bugis Junction Tower and the absence of income support, mainly supported by higher capital distributions of S$5m vs S$3m in 1Q19 (S$4m in 4Q19), contrary to what its S-REIT peers are doing.
- Post this quarter's capital distributions, KREIT has S$472m of capital gains remaining.
- Revenue and NPI fell 3% y-o-y and 4% y-o-y to S$39m and S$30m respectively mainly due to the loss of income following the divestment of Bugis Junction Tower, partially offset by contribution from T Tower which was acquired in May 2019.
- Income contribution from associates and JVs fell 2% y-o-y mainly due to lower contributions from MBFC (-13% y-o-y) and ORQ (-8% y-o-y) following the loss of income support and non-renewals which have largely been backfilled.
- Interest expense on borrowings fell 15% y-o-y as average cost of debt fell to 2.58% vs 2.88% in 1Q19 (2.77% in 4Q19)
- Gearing inched up to 36.2% vs 35.8% in 4Q19 following progressive payments for ongoing development of 311 Spencer St.
- As at end of 1Q20, the S$400m loans due in FY20 had been refinanced or received commits/facilities to be refinanced. As such, the weighted average term to maturity had been extended to 3.8 years vs 3.4 years as at December 2019.
- KREIT has in place c.S$966m of undrawn credit facilities available of which c.S$400m are committed facilities.

Operational metrics remain healthy:

- Portfolio occupancy remains healthy at 98.9% despite a 0.2ppt drop q-o-q.
- Lower occupancies were mainly from OFC (-0.4ppt q-o-q), 8 Exhibition St (-1.8ppts) and 275 George St (-1.5ppts). We understand that the lower occupancies in 8 Exhibition St and 275 George St were due to non-renewals. Negotiations are currently ongoing and we should see more updates in the next quarter.
- Average signing rents of S$12.16 psf/mth remains above Grade A core CBD market average but fell 2% from the peak in 4Q19, recording an 18.8% positive rental reversion in 1Q20. However, weighted average rents was flat q-o-q at S$12.08 psf/mth.
- KREIT completed 75.2k sqft leases of attributable NLA in 1Q20 comprising expansions in the real estate and property, financial institutions and tech sectors. As such, lease expiries and rent reviews in FY20 were lowered by 2.4ppts to 8.4% (4.7% expiries and 3.7% rent reviews).

Impact from COVID-19 – estimated <5% impact on income

- KREIT has extended c. S$9.5m of tenant support measures, of which S$8.2m are estimated property tax rebates to be received from the Singapore government. These property tax rebates will be fully passed through to its office and retail tenants.
- KREIT will be extending to eligible retail tenants a full rental waiver in April 2020 and utilise one month's security deposit to offset rent payment. Retail tenants comprise only c.1.8% of KREIT's portfolio NLA.
- For office tenants, besides the pass-through of property tax rebates, KREIT estimates the proportion of high-risk tenants asking for rental rebates/rental deferment to be only c.4.5% of portfolio NLA. They are largely from tourism-related technology, co-working & serviced offices, gyms, medical clinics and hospitality-related trade mix.
- In Australia, the "Mandatory Code of Conduct" issued by the National Cabinet has made it mandatory to extend rent deferment and reductions to SME tenants. KREIT estimates that less 5% of its Australia tenants fall under this category.
- We estimate COVID-19 could impact less than 5% of its income

Outlook – continue to deliver positive rental reversions; downsizing risks in FY21 partially offset by new leases; continue to search for acquisition opportunities

- Despite some pressure on office rental rates, management expects to continue delivering high positive single-digit to low double-digit rental reversions with the buffer from low expiring rents ranging from S$9.37 in FY20 to S$10.20 in FY22.

- As leasing activities slowed, management expects some vacancies/non-renewals to take longer to backfill. As of 1Q20, 17.6% of the UBS space has been backfilled.
- While lease expiries/rent reviews in FY20 have been reduced to below 10%, management expects some downsizing risks from lease expiries/rent reviews in FY21 which contribute 23% of gross rents, comprising some large financial institution leases.
- Similarly in Korea and Australia, management expects some non-renewals when leases expire such as that for Quantium Group at 8 Chifley. In Korea, despite the potential risks in occupancy, management hopes to maintain a healthy occupancy rate of c.90% and expects rents to remain stable.
- These could be partially offset by contributions from HSBC Singapore's 10-year lease expected to begin in May 2020 and Victoria Police's 30-year lease at 311 Spencer Street, Melbourne post completion expected by end-2Q20.
- Management continues to look for acquisition opportunities and may see some opportunities appearing in Australia if cap rates expand to 4.5% - 5%
- Although MAS has increased the gearing limit to 50%, management remains comfortable at the 40-42% range and will utilise its debt headroom for potential acquisitions and capital distributions (if needed).
- KREIT will adopt half-yearly reporting from 2H20.

1Q20 Key Operational Highlights

Summary of results (S$'m)	1Q2020	4Q2019	%q-o-q	1Q2019	% y-o-y
Revenue	38.7	41.7	-7%	40.0	-3.3%
NPI	30.2	33.4	-10%	31.3	-3.7%
Income contribution from assoc & JV	25.9	24.4	6%	26.4	-2.0%
DI	47.3	47.1	0%	47.3	0.0%
DPU	1.40	1.40	0%	1.39	0.7%
Gearing	36.2%	35.8%	0.4 ppt	35.7%	0.5 ppt
Average cost of debt	2.58%	2.77%	-0.2 ppt	2.88%	-0.3 ppt
ICR	3.2	3.8	(0.6)	4.1	(4.7)

Key Operational Data	1Q2020	4Q2019	%q-o-q	1Q2019	% y-o-y
Portfolio occupancies	**98.9%**	**99.1%**	**-0.2 ppt**	**98.7%**	**0.2 ppt**
- SG	98.8%	98.8%	0 ppt	98.5%	0.3 ppt
- AU	98.8%	99.9%	-1.1 ppt	99.4%	-0.6 ppt
- KR	100.0%	100.0%	0 ppt	na	na
WALE (years)	**4.70**	**4.90**	**-0.2**	**5.70**	**-5.9**
- SG	3.70	3.80	-0.1	4.50	-4.6
- AU	8.80	9.00	-0.2	9.60	-9.8
- KR	1.60	1.90	-0.3	na	na
Av signing rents (S$psf pm)					
- SG	12.16	12.42	-2%	12.03	1.1%
Lease expiries/Rent Reviews in FY2020 by Gross Rent	**8.4%**	**10.8%**	**-2.4 ppt**	**12.1%**	**-3.7 ppt**

Source: DBS Bank, Company

Critical Factors

Strong positive rental reversions. Spot office rents jumped to S$11.55 psf/mth as at end-4Q19, up from a low of S$8.95 in 2Q17 (based on CBRE estimates). Given that expiring rents in the next few years are still below S$10 psf/mth, KREIT will still be able to enjoy strong double-digit rental reversions especially when its assets are prime Grade A office buildings that could command higher-than-spot rents.

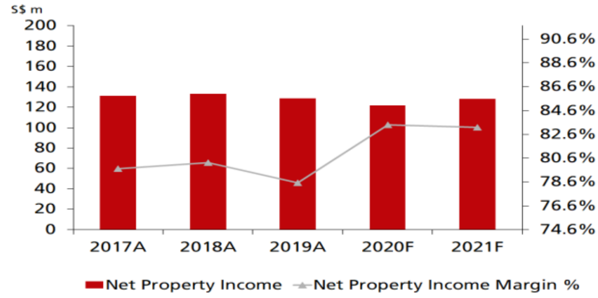
Long WALE offers income visibility. Despite the cyclical nature of the office market, KREIT provides a high degree of income stability. This arises as it has a long weighted average lease expiry (WALE) of c.5 years. In addition, due to the prime locations of its office buildings, including the new CBD in the Marina Bay area, we believe KREIT's offices will continue to command premium rents and remain attractive to prospective and current tenants.

Exposure to Australia is positive. Investors were previously cautious on KREIT's Australian exposure given the depreciation of the AUD. However, with office rents in Melbourne and Sydney rising due to favourable demand-and-supply dynamics, KREIT's Australian properties are now in a tailwind. In addition, KREIT benefits from a WALE profile in excess of 10 years (including 311 Spencer Street), with the majority of leases having annual rental escalation clauses. Furthermore, its 50% stake in a project to develop a Grade A office tower at 311 Spencer Street in Melbourne, scheduled to be completed in 2Q20, provides an additional source of income in the medium term.

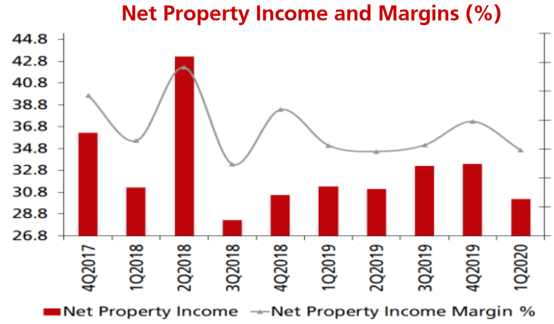
Inorganic opportunities. With a relatively low trading yield for the first time in many years, KREIT is now in a position to fund potential acquisitions through the issuance of new units while still achieving DPU accretion, although we understand it is reluctant to do so as KREIT trades below 1x book. Given the lack of opportunities in Singapore, we understand KREIT is actively assessing investment opportunities in Australia, Japan and Korea.

Share buyback. After conducting its share buyback over recent months, KREIT is seeking a renewal of its buyback mandate at its upcoming AGM. Should it recommence its buyback, the drag on DPU from the issuance of management fee units at below book value should be reduced.

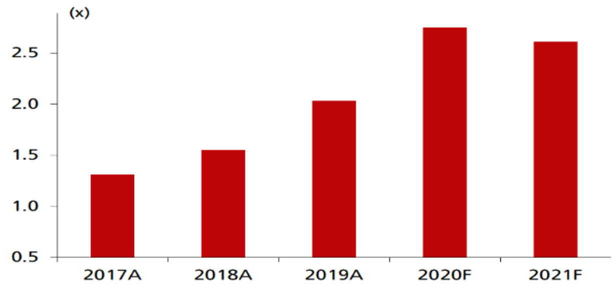
Net Property Income and Margins (%)



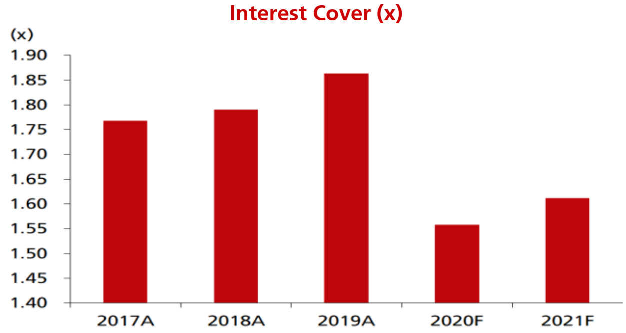
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



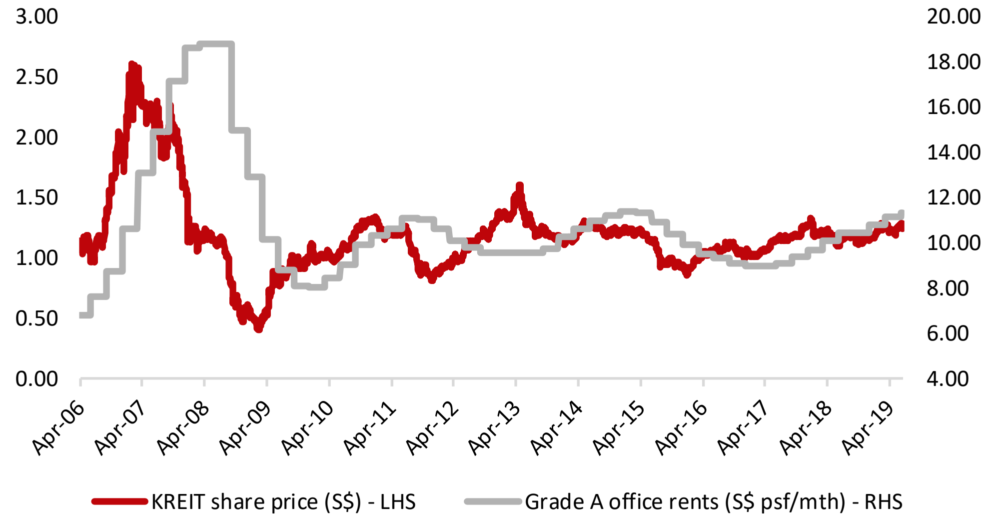
Interest Cover (x)



Source: Company, DBS Bank

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

KREIT's share price versus Singapore office rents



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

Remarks

KREIT's share price typically leads spot office rents by 6-12 months.

With spot rents having jumped 26% from the lows in 1H17, and potentially on a sustained upturn over the next three years, we believe, based on previous correlations, the rally in office S-REITs and KREIT's share price should continue.

Balance Sheet:

Gearing lowered to 36%. KREIT's gearing fell to 36% following the repayment of debt from proceeds received from the divestment of Bugis Junction Tower.

Decent debt maturity. KREIT has a weighted average debt-to-expiry of around three years, with c.76% of debt on fixed rates.

Share Price Drivers:

Upturn in office market. We believe a recovery in office rents over the next few years should translate into higher earnings/DPU. This in turn should trigger a re-rating in KREIT's share price and narrow the c.10% discount to its book value.

Utilising balance sheet capacity. KREIT's gearing stands at c.36%, below the 40-42% level that management is comfortable with, given the quality of its buildings. Should KREIT utilise this available headroom, there would be upside risk to our earnings estimates and KREIT's share price.

Key Risks:

Risks to capital values. Should an increase in office supply and a persistently weak office market outlook lead to a larger-than-expected fall in rents, valuers could downgrade rental and growth outlook, and this could trigger a decline in capital values, which would put the REIT's NAV at risk.

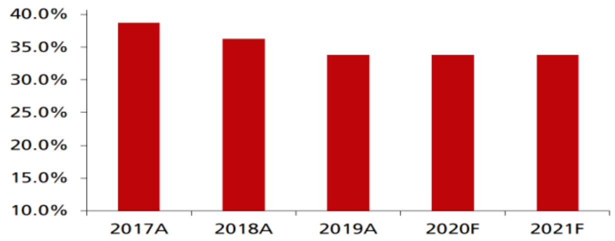
Interest rate risk. Any increase in interest rates will result in higher interest payments that the REIT has to make annually to service its loans. Nevertheless, the risk is partially mitigated by the fact that c.76% of KREIT's debts are on fixed rates.

Currency risk. As KREIT earns rental income from its Australian assets in AUD, any depreciation in the AUD would result in relatively lower contributions from Australia to KREIT's total distributable income.

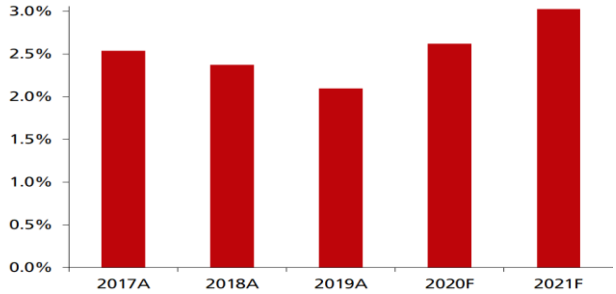
Company Background

KREIT is a real estate investment trust investing predominantly in commercial properties in Singapore and key gateway cities in Australia. It currently owns nine commercial Grade A office assets with another property under development.

Aggregate Leverage (%)

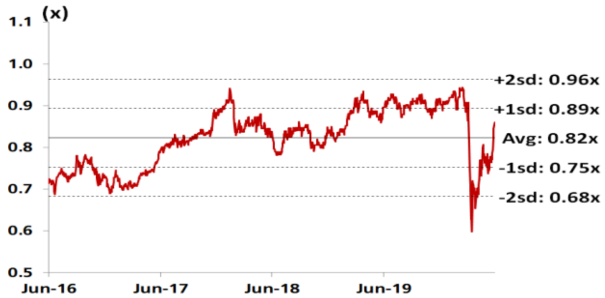


ROE (%)



Distribution Yield (%)

PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	165	166	164	146	154
Property expenses	(33.3)	(32.7)	(35.2)	(24.2)	(25.9)
Net Property Income	131	133	129	122	128
Other Operating expenses	(56.5)	(54.4)	(59.4)	(58.3)	(58.9)
Other Non Opg (Exp)/Inc	(2.6)	(7.0)	(7.5)	0.0	0.0
Associates & JV Inc	116	104	106	117	132
Net Interest (Exp)/Inc	(42.3)	(44.0)	(37.3)	(40.8)	(43.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	146	132	131	140	159
Tax	(17.2)	(10.2)	(11.3)	(5.7)	(5.9)
Minority Interest	(0.1)	(1.0)	(14.3)	(7.3)	(8.0)
Preference Dividend	(7.5)	(7.5)	(7.5)	(7.5)	(7.5)
Net Income After Tax	121	113	98.0	120	137
Total Return	173	146	120	120	137
Non-tax deductible Items	18.1	42.9	69.3	71.5	67.9
Net Inc available for Dist.	191	189	189	191	205
Growth & Ratio					
Revenue Gth (%)	2.0	0.8	(1.1)	(10.9)	5.6
N Property Inc Gth (%)	2.2	1.5	(3.2)	(5.4)	5.4
Net Inc Gth (%)	(7.5)	(6.5)	(13.3)	22.1	14.8
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	79.7	80.3	78.6	83.4	83.2
Net Income Margins (%)	73.5	68.1	59.7	81.9	89.0
Dist to revenue (%)	115.9	114.0	115.4	130.8	133.0
Managers & Trustee's fees	34.3	32.8	36.2	39.9	38.1
ROAE (%)	2.5	2.4	2.1	2.6	3.0
ROA (%)	1.6	1.5	1.3	1.6	1.9
ROCE (%)	0.9	1.0	0.8	0.8	0.9
Int. Cover (x)	1.8	1.8	1.9	1.6	1.6

Source: Company, DBS Bank

Factored in some impact from COVID-19

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Gross revenue	40.0	39.9	42.4	41.7	38.7
Property expenses	(8.7)	(8.9)	(9.2)	(8.4)	(8.6)
Net Property Income	31.3	31.1	33.2	33.4	30.2
Other Operating expenses	(12.5)	(20.6)	(13.4)	(13.0)	(13.3)
Other Non Opg (Exp)/Inc	(1.3)	(5.6)	(0.3)	(0.2)	(7.1)
Associates & JV Inc	116	104	106	117	132
Net Interest (Exp)/Inc	(7.8)	(10.1)	(10.3)	(9.0)	(7.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**36.1**	**21.7**	**37.7**	**35.6**	**28.8**
Tax	(1.5)	(1.3)	(1.3)	(7.2)	(1.8)
Minority Interest	(3.4)	(3.4)	(3.6)	(3.9)	(3.8)
Net Income after Tax	**29.4**	**15.1**	**30.9**	**22.6**	**21.4**
Total Return	29.4	15.1	30.9	44.5	21.4
Non-tax deductible Items	18.0	32.2	16.6	2.61	25.9
Net Inc available for Dist.	47.3	47.3	47.5	47.1	47.3
Growth & Ratio					
Revenue Gth (%)	6	0	6	(1)	(7)
N Property Inc Gth (%)	3	(1)	7	1	(10)
Net Inc Gth (%)	74	(48)	104	(27)	(5)
Net Prop Inc Margin (%)	78.2	77.8	78.3	79.9	77.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	3,775	3,880	3,730	3,735	3,739
Other LT Assets	3,621	3,630	3,577	3,608	3,608
Cash & ST Invts	198	259	125	45.6	35.8
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	8.62	15.1	16.2	8.59	9.08
Other Current Assets	1.53	0.55	1.32	1.32	1.32
Total Assets	**7,604**	**7,784**	**7,449**	**7,398**	**7,393**
ST Debt	425	59.9	99.9	99.9	99.9
Creditor	56.5	64.8	52.9	42.5	45.4
Other Current Liab	11.4	9.46	6.88	6.88	6.88
LT Debt	2,097	2,226	2,022	2,022	2,026
Other LT Liabilities	99.0	88.9	104	104	104
Unit holders' funds	4,913	4,907	4,735	4,693	4,681
Minority Interests	2.13	429	429	429	429
Total Funds & Liabilities	**7,604**	**7,784**	**7,449**	**7,398**	**7,393**
Non-Cash Wkg. Capital	(57.7)	(58.6)	(42.3)	(39.5)	(41.9)
Net Cash/(Debt)	(2,324)	(2,027)	(1,997)	(2,076)	(2,090)
Ratio					
Current Ratio (x)	0.4	2.0	0.9	0.4	0.3
Quick Ratio (x)	0.4	2.0	0.9	0.4	0.3
Aggregate Leverage (%)	38.7	36.3	33.8	33.8	33.8
Z-Score (X)	1.1	1.0	1.1	1.1	1.1

Source: Company, DBS Bank

Gearing decreased as proceeds from divestment of Bugis Junction Tower are being used to repay debt

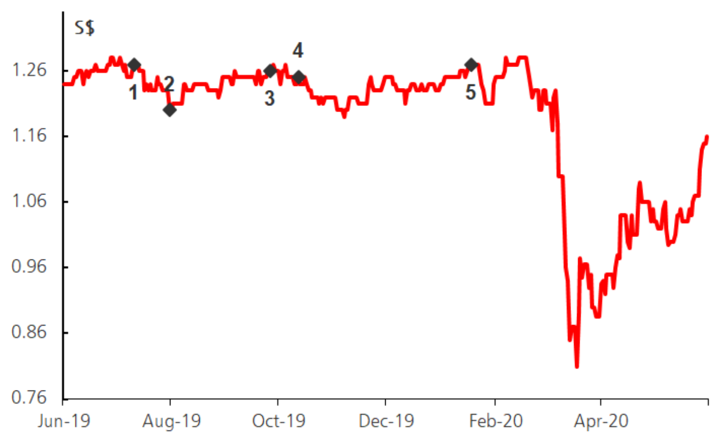
Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	146	132	153	140	159
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(17.2)	(10.2)	(6.4)	(5.7)	(5.9)
Associates &JV Inc/(Loss)	(116)	(104)	(106)	(117)	(132)
Chg in Wkg.Cap.	1.01	(9.7)	(17.9)	(2.8)	2.46
Other Operating CF	106	109	70.3	55.3	55.7
Net Operating CF	**120**	**117**	**92.6**	**69.5**	**78.6**
Net Invt in Properties	(14.4)	(9.4)	418	(4.4)	(4.6)
Other Invts (net)	0.0	0.0	(151)	0.0	0.0
Invts in Assoc. & JV	(143)	(81.3)	(11.5)	(30.9)	0.0
Div from Assoc. & JVs	120	100	103	117	132
Other Investing CF	35.0	470	30.0	0.0	0.0
Net Investing CF	**(2.6)**	**480**	**388**	**82.2**	**128**
Distribution Paid	(157)	(181)	(188)	(191)	(205)
Chg in Gross Debt	46.9	(235)	(270)	0.0	4.63
New units issued	0.0	(32.8)	(82.1)	(25.0)	0.0
Other Financing CF	(71.3)	(77.8)	(77.2)	(14.8)	(15.4)
Net Financing CF	**(181)**	**(527)**	**(618)**	**(231)**	**(216)**
Currency Adjustments	(2.7)	(0.8)	(5.1)	0.0	0.0
Chg in Cash	(66.8)	69.3	(142)	(79.3)	(9.7)
Operating CFPS (S cts)	3.55	3.74	3.27	2.12	2.21
Free CFPS (S cts)	3.15	3.17	15.1	1.91	2.15

Divestment of Bugis Junction Tower

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Jul 19	1.27	1.45	BUY
2:	05 Aug 19	1.20	1.45	BUY
3:	01 Oct 19	1.26	1.45	BUY
4:	17 Oct 19	1.25	1.45	BUY
5:	23 Jan 20	1.27	1.45	BUY

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

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

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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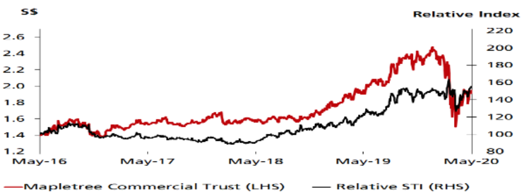
Derek TAN +65 6682 3716 derektan@dbs.com

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; lower 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)

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

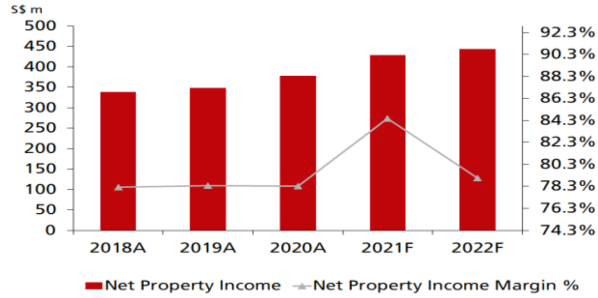
VivoCity is one of the top performing malls in Singapore. VivoCity, which contributes 45-50% of MCT's NPI, is one of the top performing malls in Singapore given its unique attribute of being the only major mall in the southern half of Singapore, a gateway to Sentosa Island, and having excellent connectivity 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.

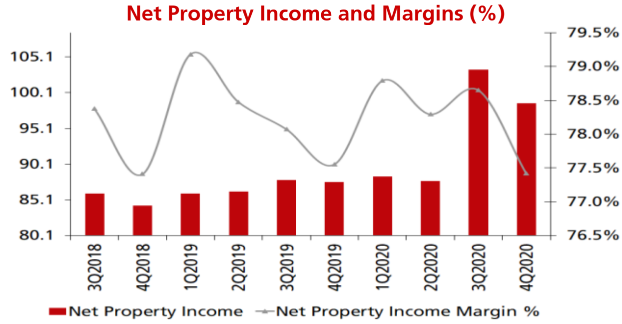
Recovery in spot office rents. Spot office rents have increased from the low in 1H17 of S$8.95 psf per month, reaching S$11.50 psf per month at the end of 4Q20, according to CBRE estimates. Given that over 50% of MCT's earnings are derived from its office/business park properties, we believe it is well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

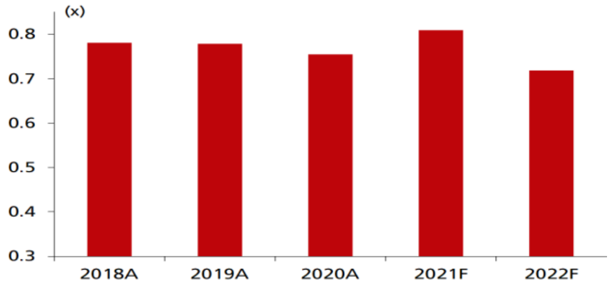
Net Property Income and Margins (%)



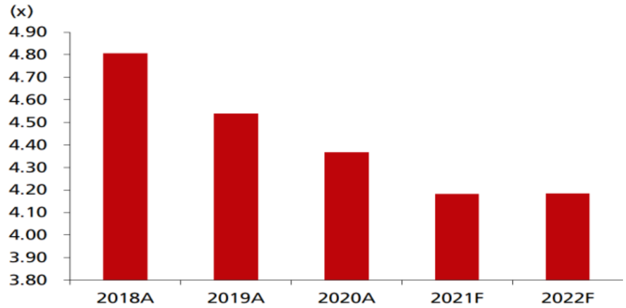
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



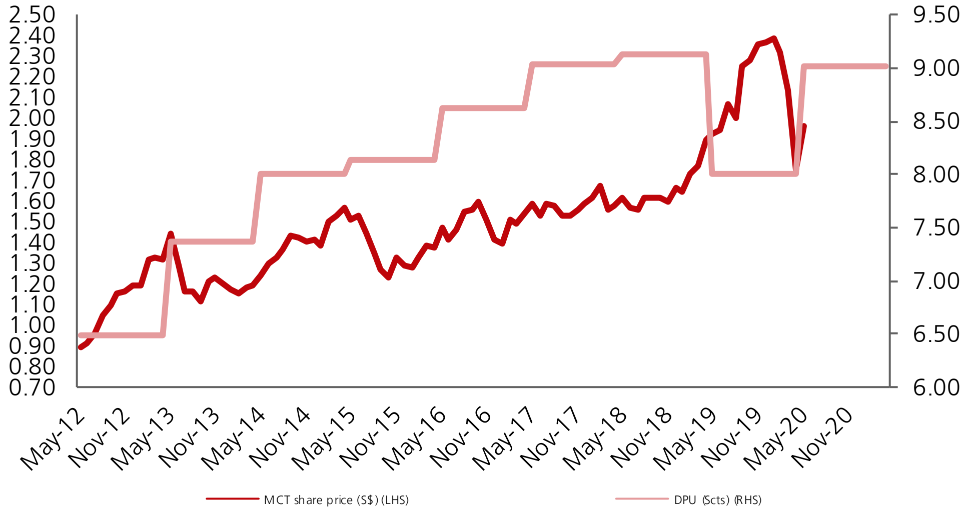
Interest Cover (x)



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:

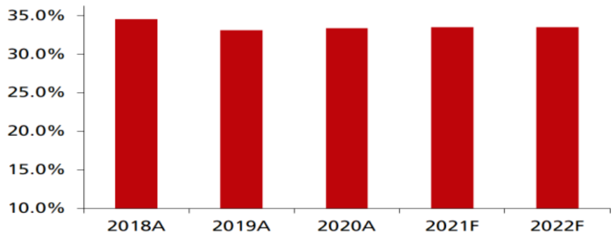
Weaker operational performance from VivoCity. The mall is gradually phasing into a mature stage, with potential slowdown in growth ahead. The timely acquisition of MBC I, still a segment in high demand, plus management's continuous efforts to revamp VivoCity's offerings, should mitigate the slowdown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

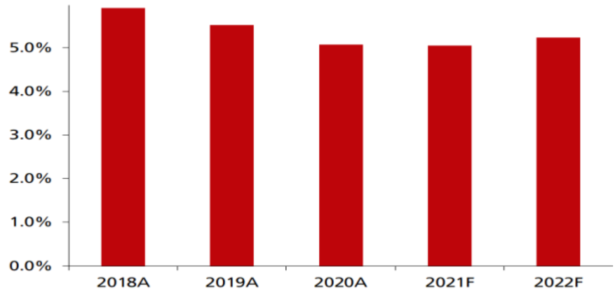
Company Background

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.

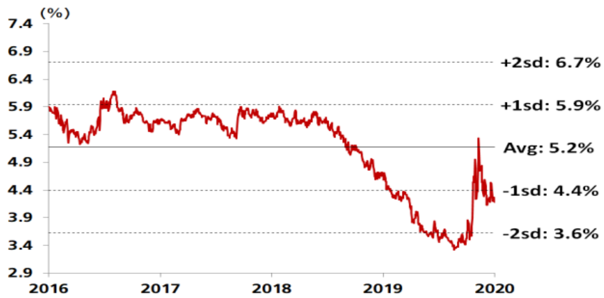
Aggregate Leverage (%)



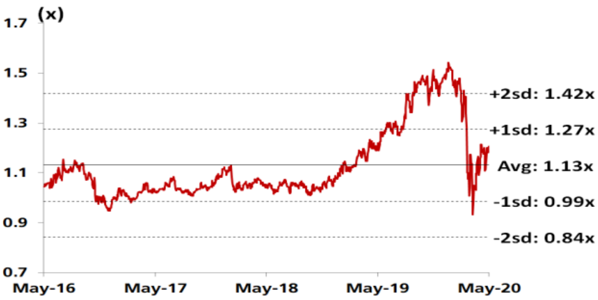
ROE (%)



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)

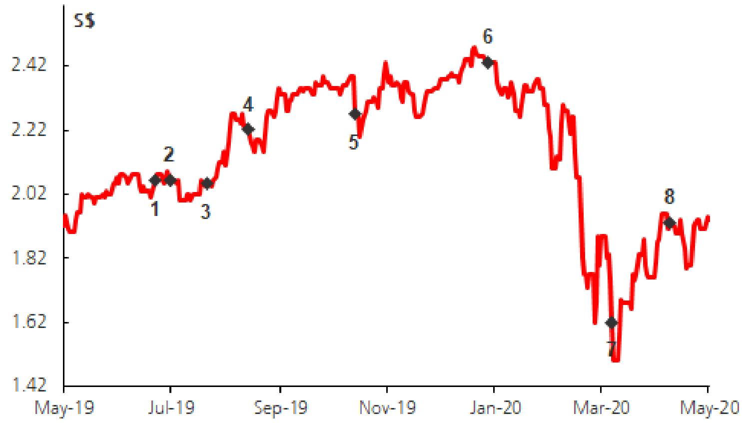
FY Mar	2018A	2019A	2020A	2021F	2022F
Pre-Tax Income	243	246	264	292	303
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	10.0	6.65	13.4	(37.5)	32.0
Other Operating CF	78.9	84.7	93.3	114	118
Net Operating CF	**332**	**337**	**370**	**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

Source: Company, DBS Bank

Acquisition of MBC II

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

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

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: 29 May 2020 08:28:12 (SGT)
Dissemination Date: 29 May 2020 08:58:36 (SGT)

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

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2. Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.

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Singapore Company Guide
OUE Commercial REIT

Version 15 | Bloomberg: OUECT SP | Reuters: OUEC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Jun 2020

BUY

Last Traded Price (5 Jun 2020): S$0.40 (**STI :** 2,751.50)
Price Target 12-mth: S$0.50 (25% upside) (Prev S$0.60)

Analyst
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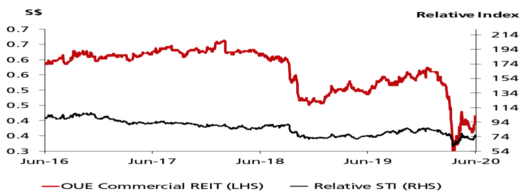
What's New

- Valuation at close to -2SD offers an attractive value proposition as we look forward to recovery
- Worst is over with the start of phased reopening and progressive relaxation of travelling
- Portfolio supported by minimum rent support – hospitality and OUE Downtown
- Maintain BUY; lower TP to S$0.50

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	176	257	316	331
Net Property Inc	138	205	254	267
Total Return	117	119	128	129
Distribution Inc	71.3	147	146	148
EPU (S cts)	2.09	2.37	2.36	2.37
EPU Gth (%)	(14)	13	0	0
DPU (S cts)	3.22	3.31	2.57	2.72
DPU Gth (%)	(22)	3	(22)	6
NAV per shr (S cts)	70.4	61.2	61.0	60.6
PE (X)	19.1	16.9	16.9	16.9
Distribution Yield (%)	8.0	8.3	6.4	6.8
P/NAV (x)	0.6	0.7	0.7	0.7
Aggregate Leverage (%)	39.3	40.3	39.7	39.7
ROAE (%)	2.7	3.6	3.8	3.9
Distn. Inc Chng (%):			(20)	(22)
Consensus DPU (S cts):			3.00	3.20
Other Broker Recs:		B: 1	S: 0	H: 1

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

Too cheap to ignore

Maintain BUY; lower TP to S$0.50. We maintain our BUY rating on OUE Commercial REIT (OUECT) but lower our TP to S$0.50 from S$0.60. Despite cuts in earnings estimates due to COVID-19 impact, OUECT currently trades at 6.3-6.6% FY20F-FY21F yield and 0.65x P/NAV, close to -2SD and offers an attractive value proposition as the economy and businesses gradually recover from COVID-19.

Where we differ: First and only BUY call. Consensus has a HOLD call on OUECT, given both its retail and hospitality portfolio, which comprise c.40% of the group's revenue, are directly impacted by COVID-19. While we may be early in our positive call, given the attractive valuations, we believe the worst is over with the start of phased reopening and progressive relaxation of travelling between certain countries.

Income supported by minimum rent support. OUECT's income continues to be supported by minimum rent support, particularly from its hospitality portfolio and OUE Downtown, which offer some buffer to the higher rental rebate required by the new rental waiver bill given its higher proportion of SME tenants within its office and retail portfolio. Rental support are provided by its sponsor, OUE Ltd.

Valuation:

Our DCF-based TP of S$0.50 is based on a higher beta of 0.95x to factor in a higher figure for its hospitality portfolio.

Key Risks to Our View:

The key risks to our view are i) slower-than-expected demand for Grade A offices that may negatively impact rental rates, ii) slower-than-expected recovery, iii) S$375m outstanding CPPUs, for which conversion risk is low but potential redemption may require equity placement.

At A Glance

Issued Capital (m shrs)	5,405
Mkt. Cap (Sm/USm)	2,162 / 1,551
Major Shareholders (%)	
OUE Realty Pte Ltd	17.6
Tong Gordon	11.3
Celine Tang	6.5
Free Float (%)	58.1
3m Avg. Daily Val (US$m)	1.0

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

Live more, Bank less

WHAT'S NEW

Too cheap to ignore

1Q20 results led by contribution from merger; office grew while hospitality and retail were impacted by COVID-19:

- 1Q20 DI rose 45% y-o-y to S$37.6m mainly due to contribution from the merger with OUEHT. Similarly, revenue and NPI grew 40.5% y-o-y and 42.5% y-o-y with the contributions from the merger.
- 1Q20 DPU (based on 100% payout) fell 22.6% y-o-y to 0.7 Scts. 1Q20 DPU has not been disclosed as OUECT will review 1H20 financial results to determine the distribution for 1H20.
- Office portfolio revenue is estimated to grow by 11% y-o-y mainly from OUE Downtown (+38% y-o-y) offset by Lippo Plaza (-47% y-o-y).
- Hospitality portfolio revenue fell 27% y-o-y while revenue from Mandarin Gallery decreased 4.1% y-o-y. Hospitality revenue in 1Q20 was at minimum rent of S$16.9m.
- Gearing was stable at 40% while average cost of debt fell marginally to 3.2% from 3.4% in 4Q20.
- Approximately S$596m of borrowings which will be due in 2H20 are expected to be refinanced ahead of maturity with average cost of debt projected to remain stable.

Office and retail occupancy weakened marginally but continue to record strong positive rental reversions with higher average committed rents:

- Overall commercial portfolio occupancy (including Mandarin Gallery) fell marginally q-o-q to 94% vs 95% as at 4Q19. Office portfolio occupancy fell 0.7ppt q-o-q to 93.9% mainly from Lippo Plaza (-4.1ppts) and ORP (-1.1ppts).
- Singapore commercial properties continued to enjoy strong positive rental reversions of between 7.9% and 16.7% in 1Q20 and completed 6.2% of leases expiring in FY20, lowering remaining lease expiries to 14%.
- During the quarter, signed rents were above average expired rents for all three Singapore office properties as average committed rents increased by 3% to 9% q-o-q offset by ORP (-4% q-o-q) and Lippo Plaza (-7% q-o-q).
- Occupancy at Mandarin Gallery inched down 0.5ppt q-o-q and average passing rent was stable at S$22.02 psf/mth (+0.3% q-o-q).

Hospitality – 1Q20 RevPAR fell 40% y-o-y impacted by COVID-19 pandemic

- OUECT's hotel RevPAR fell 40% y-o-y impacted by COVID-19 pandemic which led to travel restrictions.
- Crown Plaza's 1Q20 RevPAR dropped 24% y-o-y to S$141 supported by Singapore Airshow 2020 which proceeded in Feb 2020, business travellers before tighter travel restrictions were implemented, and bulk booking for Singapore residents on 14-SHN.
- Mandarin Orchard Singapore's 1Q20 RevPAR fell 48% y-o-y to S$110.
- Management indicated that the hotel is still profitable.

COVID-19 impact/updates

- OUECT is committed to support its tenants with c.S$18.8m of rental rebates, including S$13.3m of property tax rebates from the government.
- OUECT will pass on all property tax rebates to its tenants, offer full rental waiver for Apr 2020 to eligible retail tenants, and implement other targeted relief measures. OUECT will also extend the property tax rebates for the month of May 2020 for its retail tenants.
- OUECT will extend flexible rental payment schemes to eligible retail tenants.
- While the retail and hospitality portfolios have been directly impacted by the COVID-19 pandemic, its Singapore office portfolio has seen disruption in leasing activities leading to longer leasing lead time. Renewals are being prioritised due to the Circuit Breaker.
- Shanghai office continues to face headwinds with slower leasing momentum due to COVID-19 outbreak and upcoming supply.

Outlook

- Despite the slowdown in leasing activities in its Singapore office portfolio, OUECT continues to expect positive rental reversions at a mid-to-high single digit.
- Management continues to expect the Deloitte lease that is expiring this year to be renewed with positive rental reversions given the low expiring rents.
- While non-essential capex has been withheld, the capex to rebrand MOS will proceed to position the hotel in time for the next MICE events in 2022.
- Hospitality segment will continue to be supported by its minimum rents during this challenging period.

1Q20 Key Operational Highlights

Summary of results (S$'m)	1Q2020	4Q2019	%q-o-q	1Q2019	% y-o-y
Revenue	77.7	86.8	-10%	55.3	40.5%
NPI	62.1	70.6	-12%	43.6	42.5%
DI	37.6	46.6	-19%	26.0	44.5%
DPU *	0.70	0.84	-17%	0.90	-22.6%
Gearing	40.2%	40.3%	-0.1 ppt	39.4%	0.8 ppt
Average cost of debt	3.20%	3.40%	-0.2 ppt	3.50%	-0.3 ppt
ICR	2.9	2.9	-	3.3	(3.3)

Key Operational Data	1Q2020	4Q2019	%q-o-q	1Q2019	% y-o-y
Portfolio occupancies	**94.3%**	**95.2%**	**-0.9 ppt**	**94.0%**	**0.3 ppt**
- Office	93.9%	94.6%	-0.7 ppt	90.4%	3.5 ppt
- Retail	97.0%	98.5%	-1.5 ppt	100.0%	-3 ppt
WALE (years) - Commercial Portfolio	**2.40**	**2.30**	**0.1**	**2.30**	**-2.2**
Av signing rents					
- SG (S$)	8.40 to 15.30	7.10 to 14.40		8.00 to 14.30	
- CN (RMB)	8.10 to 9.50	7.50 to 11.50		9.00 to 11.50	
Lease expiries/Rent Reviews in FY2020 by Gross Rent	**14.0%**	**20.2%**	**-6.2 ppt**	**25.9%**	**-11.9 ppt**
- Office	8.7%	11.6%	-2.9 ppt	25.9%	-17.2 ppt
- Retail	2.4%	4.2%	-1.8 ppt	n/a	
Rental Reversions	7.9% to 16.7%	-5% to 18.5%		8.1% to 22.5%	
Revpar (S$)	121	216	-44%	202	-40.1%

Source: DBS Bank, Company

** 1Q20 DPU calculated based on 100% payout*

CRITICAL DATA POINTS TO WATCH

Critical Factors

Prime office assets in the Central Business District (CBD). OUE Commercial Trust (OUECT) owns four Grade A commercial assets – OUE Bayfront Property and One Raffles Place (ORP) in downtown Central Business District in Singapore, OUE Downtown in Tanjong Pagar, and Lippo Plaza Property in Shanghai, China. The prime location of these assets gives OUECT the ability to charge above-market rents and during market downturns, an edge in attracting and retaining tenants.

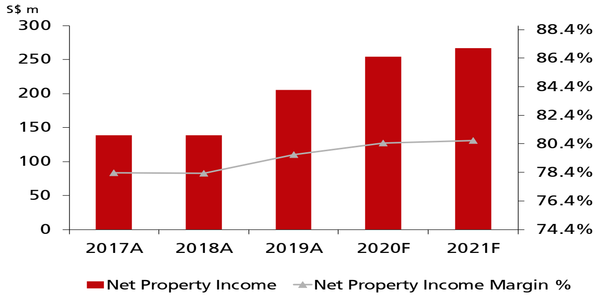
Leverage to recovery in spot office rents. According to CBRE, Grade A spot office rents reached S$11.55 psf/mth at the end of 4Q19, up from a low of S$8.95 psf/mth in 1H17. With office rents expected to increase over the next 3-4 years due to limited new supply, OUECT is well positioned to take advantage of higher market rents.

Recovery in Singapore's hospitality a potential boost. Although the recent outbreak of coronavirus could dampen the hospitality sector in the near term, its new hospitality portfolio is an added boost to ride on a longer-term recovery in Singapore's hospitality sector.

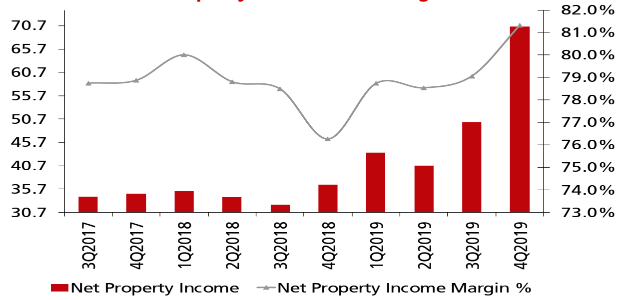
Potential near-term headwinds in Shanghai. Near term, the increase in supply in office space in Shanghai may put pressure on spot rents and vacancy rates. This may result in frictional occupancies at Lippo Plaza and put pressure on rents.

Potential medium-term dilution but Sponsor is "out of the money". OUECT currently has S$375m worth of convertible perpetual preferred units (CPPUs) owned by its Sponsor which is a potential medium-term dilution risk. The CPPUs were originally issued to fund the acquisition of ORP with c.524m OUECT units (conversion price of S$0.7154 per CPPU). OUECT currently has c.2,883m units outstanding. The CPPUs may not be converted into OUECT units for a period of four years commencing from 8 Oct 2015 (expiry on 8 Oct 2019). After Oct 2019, not more than one-third of the total number of CPPUs initially issued can be converted in any financial year (equivalent to S$183m worth of CPPUs). With OUECT's share price currently below the CPPU conversion price, we believe there is limited conversion risk in the near term.

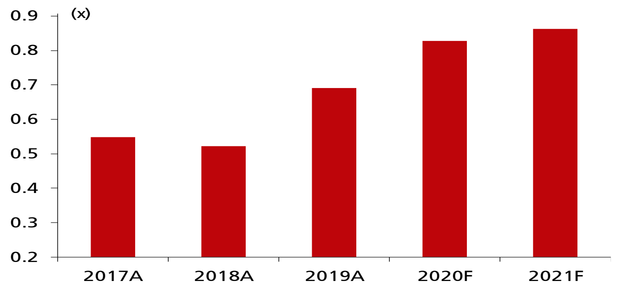
Net Property Income and Margins (%)



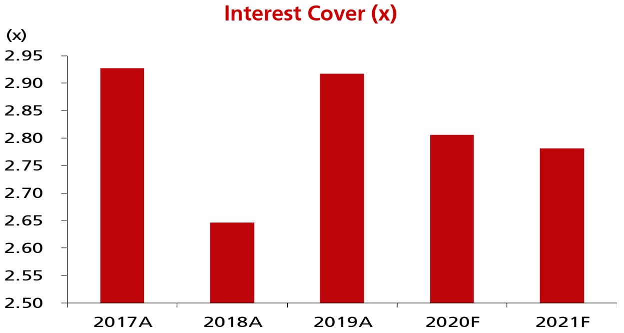
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



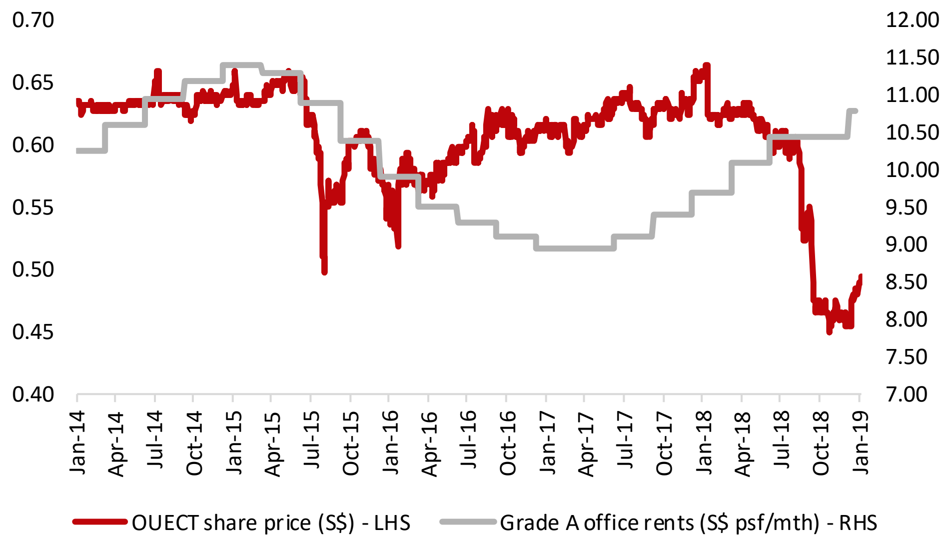
Interest Cover (x)



Source: Company, DBS Bank

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

OUECT share price versus Singapore office rents



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

Remarks

While OUECT has a relatively short history as a listed entity, similar to other office REITs, its share price should correlate with movements in the spot rental market.

Nevertheless, over the last six months, OUECT's share price corrected due to the impact of the recent rights issue. With DPU having now rebased and earnings expected to improve going forward, we believe OUECT's share price will rally as spot office rents continue to climb.

Balance Sheet:

Gearing to remain at around 39-40% levels. Post the merger, OUECT's gearing stands at c.40%. We expect gearing to remain at current levels excluding any revaluation gains.

Refinancing of expiring debt may cause a flat-to-marginal decrease in average cost of debt. OUECT's weighted average debt-to-expiry stood at c.2.2 years as at 31 Dec 2019. Refinancing of expiring debt in FY20F/FY21F may see flat to marginal decrease in average cost of debt.

Share Price Drivers:

Catching up to other office REITs. Any conversion of OUECT's CPPUs into equity would result in dilution to its DPU in the medium term. However, with a conversion price of S$0.71 materially below OUECT's current share price and the yield of the large-cap office REITs approaching the mid-4% level, we believe investors will ignore the potential medium-term dilution and seek OUECT as a laggard office play.

Recovery in the office market. With the share price of office REITs historically tracking the office market by 6-12 months, we believe a recovery in office rents over the next few years may lead to a rally in OUECT's share price.

Key Risks:

Concentration risk. OUECT is heavily exposed to Singapore's CBD office market via One Raffles Place, OUE Bayfront and OUE Downtown, which account for 80% of earnings. Any downturn or weakness in the Singapore office market could have a significant negative impact on OUECT.

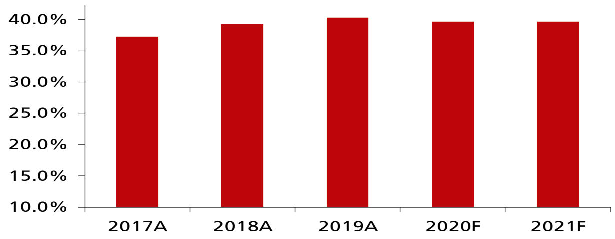
Decline in office rents. Office rents are recovering, but weaker demand ahead could lead to risks that office rents may fall, causing OUECT to miss our DPU estimates.

Interest rate risk. A rise in interest rates will have a negative impact on distributions. However, the Manager is actively overseeing its exposure through forward hedges and has c.76% of its interest cost hedged into fixed rates.

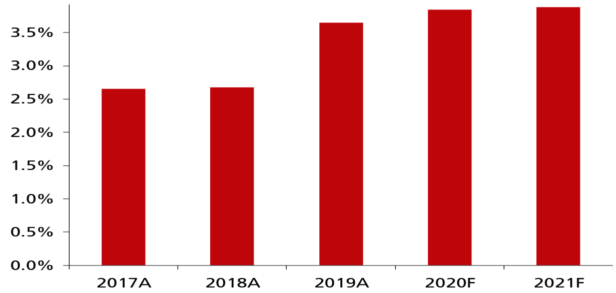
Company Background

OUE Commercial REIT (OUECT) is an office REIT with a portfolio of office assets located in prime CBD locations in Singapore and China.

Aggregate Leverage (%)



ROE (%)



Distribution Yield (%)

PB Band (x)

Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	176	176	257	316	331
Property expenses	(38.1)	(38.2)	(52.4)	(61.7)	(64.1)
Net Property Income	**138**	**138**	**205**	**254**	**267**
Other Operating expenses	(13.0)	(11.1)	(7.2)	(13.1)	(18.8)
Other Non Opg (Exp)/Inc	0.0	0.0	(0.4)	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(42.8)	(48.0)	(67.8)	(85.9)	(89.2)
Exceptional Gain/(Loss)	(0.3)	0.01	0.0	0.0	0.0
Net Income	**82.1**	**79.0**	**130**	**155**	**159**
Tax	(36.1)	(19.7)	(17.5)	(14.9)	(15.4)
Minority Interest	(11.4)	(13.2)	(14.5)	(12.5)	(14.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**34.7**	**46.1**	**97.7**	**128**	**129**
Total Return	136	117	119	128	129
Non-tax deductible Items	(61.1)	(42.5)	32.0	22.4	22.6
Net Inc available for Dist.	70.0	71.3	147	146	148
Growth & Ratio					
Revenue Gth (%)	(0.9)	0.1	45.9	22.7	4.8
N Property Inc Gth (%)	(0.3)	0.0	48.3	24.0	5.0
Net Inc Gth (%)	(5.0)	32.9	111.9	30.8	1.0
Dist. Payout Ratio (%)	100.0	100.0	100.0	95.0	100.0
Net Prop Inc Margins (%)	78.4	78.3	79.6	80.5	80.6
Net Income Margins (%)	19.7	26.1	37.9	40.5	39.0
Dist to revenue (%)	39.7	40.4	57.1	46.4	44.7
Managers & Trustee's fees	7.4	6.3	2.8	4.1	5.7
ROAE (%)	2.7	2.7	3.6	3.8	3.9
ROA (%)	1.0	1.1	1.7	1.9	1.9
ROCE (%)	2.1	2.4	3.1	3.2	3.3
Int. Cover (x)	2.9	2.6	2.9	2.8	2.8

Source: Company, DBS Bank

Boost from the acquisition of OUE Downtown and OUEHT's merger

Factored in COVID-19 impact

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	48.0	55.3	51.9	63.3	86.8
Property expenses	(11.4)	(11.8)	(11.1)	(13.3)	(16.2)
Net Property Income	36.6	43.6	40.8	50.1	70.6
Other Operating expenses	4.53	(0.4)	(0.9)	(2.9)	(3.1)
Other Non Opg (Exp)/Inc	0.0	0.06	(0.2)	(0.2)	0.0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(14.2)	(14.0)	(15.3)	(16.9)	(21.6)
Exceptional Gain/(Loss)	71.4	0.0	0.0	(16.8)	37.9
Net Income	**98.3**	**29.2**	**24.3**	**13.3**	**83.8**
Tax	(6.4)	(4.6)	(3.9)	(4.2)	(4.8)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**91.9**	**24.7**	**20.5**	**9.09**	**79.0**
Total Return	84.1	22.7	18.6	7.27	70.2
Non-tax deductible Items	(61.7)	4.28	4.89	23.2	(22.6)
Net Inc available for Dist.	21.5	26.0	22.5	29.5	46.6
Growth & Ratio					
Revenue Gth (%)	17	15	(6)	22	37
N Property Inc Gth (%)	13	19	(6)	23	41
Net Inc Gth (%)	566	(73)	(17)	(56)	769
Net Prop Inc Margin (%)	76.3	78.7	78.5	79.1	81.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	96.8

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	3,515	4,495	6,770	6,771	6,773
Other LT Assets	5.55	25.0	23.6	23.6	23.6
Cash & ST Invts	40.3	37.1	59.4	78.2	91.3
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	12.6	14.4	35.0	35.0	35.0
Other Current Assets	0.0	0.12	0.0	0.0	0.0
Total Assets	**3,574**	**4,571**	**6,888**	**6,908**	**6,922**
ST Debt	514	1.99	2,112	2,112	2,112
Creditor	157	65.6	48.3	48.3	48.3
Other Current Liab	16.5	13.6	127	127	127
LT Debt	748	1,711	575	575	575
Other LT Liabilities	133	138	97.5	97.5	97.5
Unit holders' funds	1,769	2,400	3,680	3,688	3,688
Minority Interests	235	241	248	260	275
Total Funds & Liabilities	**3,574**	**4,571**	**6,888**	**6,908**	**6,922**
Non-Cash Wkg. Capital	(161)	(64.6)	(140)	(140)	(140)
Net Cash/(Debt)	(1,222)	(1,676)	(2,628)	(2,609)	(2,596)
Ratio					
Current Ratio (x)	0.1	0.6	0.0	0.0	0.1
Quick Ratio (x)	0.1	0.6	0.0	0.0	0.1
Aggregate Leverage (%)	37.3	39.3	40.3	39.7	39.7
Z-Score (X)	0.0	0.0	0.0	0.0	0.0

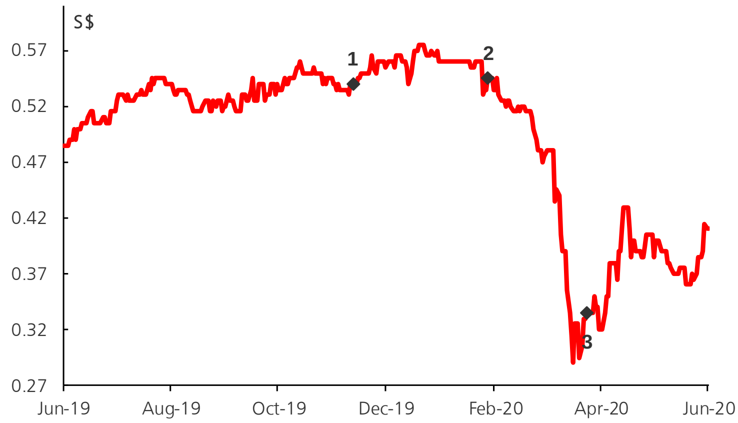
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	82.1	79.0	133	155	159
Dep. & Amort.	0.0	5.29	5.48	5.30	5.30
Tax Paid	(17.0)	(16.9)	(12.7)	(14.9)	(15.4)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	1.81	8.60	(42.3)	0.0	0.0
Other Operating CF	55.1	56.6	77.1	22.4	22.6
Net Operating CF	**122**	**133**	**161**	**168**	**171**
Net Invt in Properties	(19.9)	(940)	(7.8)	(6.3)	(6.6)
Other Invts (net)	0.0	0.0	(51.2)	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	0.44	0.71	0.94	0.0	0.0
Net Investing CF	**(19.4)**	**(939)**	**(58.1)**	**(6.3)**	**(6.6)**
Distribution Paid	(66.9)	(69.3)	(111)	(139)	(148)
Chg in Gross Debt	(36.5)	455	99.2	0.0	0.0
New units issued	150	588	0.0	0.0	0.0
Other Financing CF	(80.5)	(78.9)	(67.5)	(3.8)	(3.8)
Net Financing CF	**(33.9)**	**895**	**(79.5)**	**(143)**	**(152)**
Currency Adjustments	(0.4)	(0.5)	(1.0)	0.0	0.0
Chg in Cash	68.3	87.8	22.3	18.8	13.1
Operating CFPS (S cts)	8.44	5.63	4.92	3.11	3.15
Free CFPS (S cts)	7.17	(36.6)	3.71	2.99	3.03

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Nov 19	0.54	0.60	BUY
2:	31 Jan 20	0.55	0.60	BUY
3:	27 Mar 20	0.34	0.60	BUY

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

Source: DBS Bank

Analyst: Rachel TAN
Derek TAN

Suntec REIT

Version 16 | Bloomberg: SUN SP | Reuters: SUNT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Jun 2020

BUY

Last Traded Price (5 Jun 2020): S$1.60 (**STI :** 2,751.50)
Price Target 12-mth: S$1.81 (13% upside) (Prev S$2.15)

Analyst
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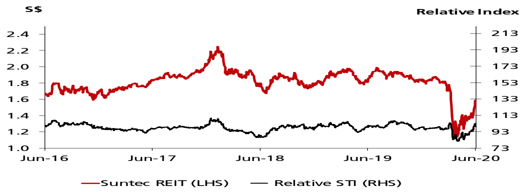
What's New

- The return of workers to workplaces bodes well for Suntec City Mall and its office portfolio
- Risks of higher rental rebates to be partially mitigated by income from completing office buildings in 2H20
- Currently trading at close to -1SD and poised to ride on recovery
- Maintain BUY; lower TP to S$1.81

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	364	367	321	422
Net Property Inc	241	236	232	296
Total Return	307	391	133	183
Distribution Inc	267	237	209	258
EPU (S cts)	7.75	8.60	4.73	6.36
EPU Gth (%)	22	11	(45)	35
DPU (S cts)	9.99	9.51	7.05	8.98
DPU Gth (%)	0	(5)	(26)	27
NAV per shr (S cts)	211	218	212	208
PE (X)	20.6	18.6	33.8	25.1
Distribution Yield (%)	6.2	5.9	4.4	5.6
P/NAV (x)	0.8	0.7	0.8	0.8
Aggregate Leverage (%)	38.1	38.5	39.6	39.7
ROAE (%)	3.7	4.1	2.2	3.1
Distn. Inc Chng (%):			(25)	(10)
Consensus DPU (S cts):			7.90	8.60
Other Broker Recs:		B: 7	S: 6	H: 3

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

Looking ahead to recovery

Maintain BUY; lower TP to S$1.81. We maintain our BUY call on Suntec REIT (Suntec) but lower our TP to S$1.81 from S$2.15. With the end of the Circuit Breaker and potentially earlier start of phase 2 reopening, we believe the return of office workers will bode well for Suntec City Mall and its office buildings as the economy gradually recovers. We believe current valuation at 0.7x P/NAV, close to -1SD, has limited downside risks and is poised to ride on recovery.

Where we differ: Worst is over for retail; portfolio supported by income from office portfolio. While we acknowledge that recovery could be gradual for Suntec City Mall, we believe the returning office workers during phase 2 will imply the restart of the eco-system within the integrated development. Therefore, retailers are likely to be back on the path of recovery, with downside risk likely to be minimised over time. In addition, income from its office portfolio, especially new contributions from completing office buildings in 2H20, will provide some income support.

Risks of higher rental rebates and recapitalisation of its balance sheet. However, we highlight key risks including i) higher rental rebates with the new bill for both retail and office tenants as its portfolio may comprise a higher composition of SME tenants, ii) potential recapitalisation of its balance sheet to improve its credit metrics when share price and timing presents the opportunity, given its high gearing level of close to 40% despite MAS raised gearing levels. We lower our FY20F-FY21F DI estimates by 10% to 25% to factor in the impact from COVID-19.

Valuation:

Our DCF-based TP is S$1.81. With 13% capital upside and 5% average yield in FY20F-FY21F, we maintain our BUY call.

Key Risks to Our View:

The key risks to our bullish view are economic downturn and longer-than-expected recovery.

At A Glance

Issued Capital (m shrs)	2,816
Mkt. Cap (Sm/USm)	4,506 / 3,234
Major Shareholders (%)	
Raffles Investments Ltd	9.8
Tang Gordon	9.1
Celine Tang	7.6
Free Float (%)	48.1
3m Avg. Daily Val (US$m)	19.8

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

WHAT'S NEW

Looking ahead to recovery

1Q20 Operational updates:

- 1Q20 DPU fell 28% y-o-y to 1.76 Scts due to lower contributions from operations which were impacted by COVID-19 and Circuit Breaker; Suntec retained 10% of distribution income and held back its capital distribution.
- 1Q20 revenue and NPI fell 3% y-o-y and 7% y-o-y to S$87m and S$54m respectively largely due to decline in performance from Suntec City Mall (NPI -10% y-o-y) and Suntec Convention Centre (NPI -S$1.7m in 1Q20) which were impacted by the COVID-19 outbreak and the implementation of the Circuit Breaker and weaker AUD, partially offset by contributions from 55 Currie St.
- While rental reversions remained healthy at +13% and +16% for Suntec City Office and Suntec City Mall respectively, occupancies have fallen marginally by 1.3ppts q-o-q.
- Suntec City Office has renewed/completed 52% of leases expiring in FY20, thus bringing down the leases expiring this year from 20% to 8.6%. Also, 5.5% of leases expiring in FY21 have been renewed early.
- Suntec City Mall has renewed/completed c.one-third of leases expiring in FY20, bringing down the lease expiries from 41% to 25.4%.
- Gearing increased to 39.9% vs 37.7% in 4Q19 mainly due to drawdown of loans for the acquisition of 21 Harris St and 477 Collins St which is under development, and weaker AUD. Management expects gearing to increase to 41.5% by end-1H20 post the completion of acquisition of 21 Harris St on 6 Apr 2020 and 477 Collins St.

Impact from COVID-19:

- Singapore office
  - Property tax rebates will be passed on to office tenants
  - estimates 7% of the portfolio's NLA to request for rent deferment and less than 1% of the office tenants by NLA are in vulnerable sectors that could terminate their leases early.
- Suntec City Mall
  - Rental and property tax rebates are granted to tenants between Mar and May 2020. April and May rents will be waived.
  - Option to draw down one month of cash Security Deposits (Jun 2020)
  - Estimates tenants accounting for c.6% and c.8.7% of NLA to request for rent deferment or early termination respectively
- Suntec Convention
  - Controlling costs by closing various sections, and suspending maintenance and service contracts
  - May consider to extend temporary closure if mandated measures are prolonged
- Australia Portfolio
  - Mandated by law for landlords to grant rent reliefs to SME tenants whose revenues are negatively impacted
  - 87% of Australia portfolio comprises leases to large corporations, government tenants and businesses that are not expected to be impacted by the relief measure.
  - Estimates c.7% of the office tenants which might be impacted and granted partial rent rebate and deferment.
  - Estimates rental rebate to be granted to c.6% of eligible retail SME Tenants.
- In summary, based on the above expectations, our ballpark estimates are that c.15% of Suntec's NPI and JV contribution could be impacted either with rent deferment of six months, rent rebates of up to three months and early termination.

Outlook

- Singapore office portfolio has remained resilient during this period. While management expects some weakness from the current 98.8% occupancy level, portfolio occupancy is expected to remain healthy at c.95%.
- Singapore office rental reversions are expected to remain positive given the good buffer from low expiring rents (Suntec City Office's expiring rents in FY20 and FY21 are

S$9.1 psf and S$8.7 psf respectively), and limited office supply.

- Suntec City mall may see negative rent reversions in the remaining quarters and occupancy may trend closer to 90% vs 98.3% currently.

- Suntec Convention - Expect international and large-scale events to remain weak in FY20 while smaller local events/meetings may recover in 2H20 post the end of Circuit Breaker.

- Australia Portfolio – weaker economic activity may put pressure on occupancy and rents but Suntec is supported by the expected completion of 477 Collins Street by mid-2020 and the newly acquired 21 Harris St.

- Management expects to maintain gearing levels at 40-42% with acquisitions and may explore potential divestments.

1Q20 Key Operational Highlights

Summary of results	1Q2020	4Q2019	%q-o-q	1Q2019	% y-o-y
Revenue	86.9	96.7	-10%	89.7	-3.1%
NPI	54.0	63.3	-15%	58.2	-7.2%
Income contribution from JV	23.0	22.4	3%	24.0	-4.2%
DI	55.1	66.0	-17%	58.9	-6.5%
DPU	1.76	2.35	-25%	2.43	-27.7%
Gearing	39.9%	37.7%	2.2 ppt	38.6%	1.3 ppt
Average cost of debt	2.92%	3.05%	-0.1 ppt	3.04%	-0.1 ppt
ICR	2.7	2.9	(0.2)	2.9	(3.1)

Key Operational Data	1Q2020	4Q2019	%q-o-q	1Q2019	% y-o-y
Portfolio occupancies					
- SG Office	98.8%	99.1%	-0.3 ppt	98.6%	0.2 ppt
- SG Retail	98.4%	99.5%	-1.1 ppt	97.8%	0.6 ppt
- AU Office	97.7%	97.8%	-0.1 ppt	99.8%	-2.1 ppt
- AU Retail	92.8%	92.8%	0 ppt	90.9%	1.9 ppt
WALE (years)					
- SG Office	3.26	3.30	0.0	2.98	-3.0
- SG Retail	2.66	2.69	0.0	2.24	-2.3
- AU Portfolio (office for 1Q19)	4.90	5.11	-0.2	5.58	-5.8
- AU Retail	n/a	n/a	n/a	5.37	n/a
Rental reversions					
- Suntec City Office	13.1%	23.0%	-9.9 ppt	n/a	n/a
- Suntec City Mall (cumulative)	16.1%	5.1%	11 ppt	n/a	n/a
Suntec City Mall					
- Footfall	-22.0%	3.9%	-25.9 ppt	3.3%	-25.3 ppt
- Tenant Sales	-20.2%	0.7%	-20.9 ppt	1.3%	-21.5 ppt
Suntec Convention Events	239	454	-47%	453	-47%

Source: DBS Bank, Company

CRITICAL DATA POINTS TO WATCH

Critical Factors

Leveraged to recovery in Singapore office market. Suntec currently owns three office assets in Singapore's CBD – Suntec Office, One Raffles Quay (ORQ; 33%), and MBFC Towers 1 and 2 (33%). We believe prime Grade A office is relatively more resilient and well-positioned for potential economic recovery. Suntec Office has the advantage of ample car parking spaces, connectivity to two MRT stations and a wide choice of amenities, as it is located next to Suntec City Mall.

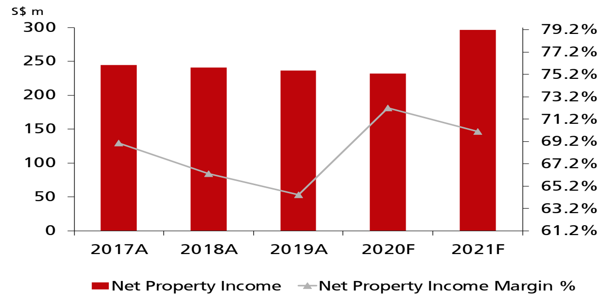
Turnaround of Suntec City Mall despite near-term retail headwinds. Singapore consumers have been cutting back on discretionary spending over the past couple of years. Compared to the initial rents signed at Suntec City Mall during more buoyant times, rents at the mall were under pressure. With renewed focus to drive optimise portfolio tenant mix over the past few years, tenant sales and foot traffic have improved due to the introduction of new-to-market retail brands, improved marketing, greater number of events, as well as better engagement with its tenants.

Evidence of a turnaround can be seen by the mall generating 10 consecutive quarters of positive rental reversions and tenants' sales growth of c.0.7% in FY19, which should translate into higher rents and income for the property ahead. Going forward, we also believe new CEO, Mr Chong Kee Hiong and his COO Ms Dawn Lai, two seasoned property executives, have the necessary expertise to sustain the improvement at the mall.

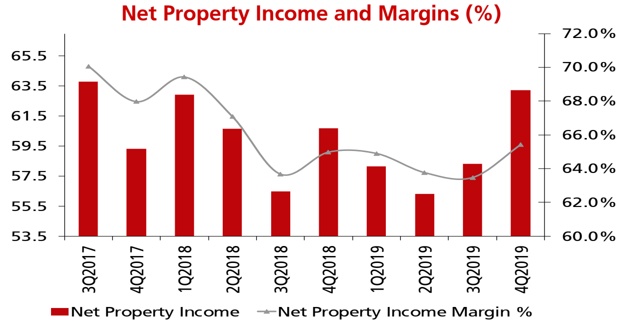
30% stake in Park Mall redevelopment. Suntec completed the sale of Park Mall for S$412m in 4Q15 and took a 30% stake in the JV to redevelop Park Mall into a commercial development, comprising two office towers with an ancillary retail podium. Suntec will subsequently have the option to acquire one of the two office towers. The 9 Penang Road project has obtained TOP and UBS is expected to take occupancy from 2H20.

Acquisition of additional stake in Southgate property and 477 Collins Street in Melbourne. Suntec increased its stake in Southgate, a mixed office-and-retail property in Melbourne, from 25% to 50% in mid-2018. In addition, the acquisition of a 50% interest in 477 Collins Street and 100% interest in 21 Harris Street, which is scheduled to be completed in 2020, provide the REIT with an earnings uplift in the medium term.

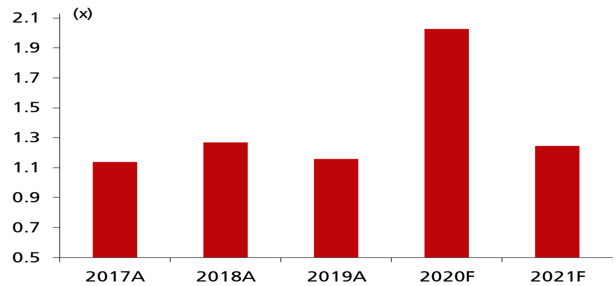
Net Property Income and Margins (%)



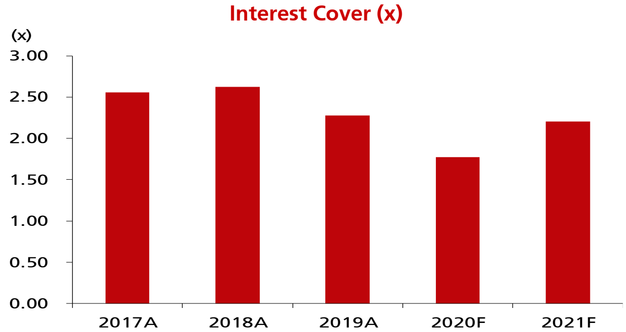
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



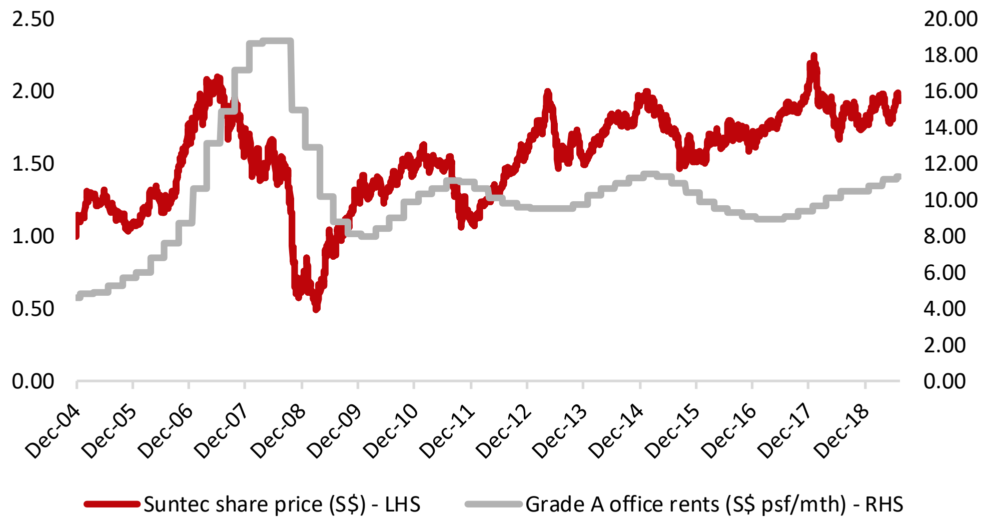
Interest Cover (x)



Source: Company, DBS Bank

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

Suntec's share price versus Singapore office rents



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

Remarks

Suntec's share price performance is highly correlated with the performance of spot office rents and typically leads a recovery or downturn in spot rents by 6-12 months.

On anticipation of a recovery in the office market, we expect Suntec's share price to remain on an uptrend.

Balance Sheet:

Gearing at 38% as at end-2019. Post the recent S$200m equity raising, acquisition of 21 Harris Street, drawdowns of debt to fund the construction of 477 Collins Street and conversion of Suntec's convertible bonds, Suntec's gearing stood at 39% as at end-2019.

Majority of borrowings on fixed rates. Approximately 75% of Suntec's borrowings are on fixed rates which should mitigate any rise in interest rates. Management has guided that it intends to hedge 65-75% of its borrowings going forward.

Share Price Drivers:

Better-than-expected performance at Suntec City Mall. Higher occupancy rates at Suntec City Mall, as well as better-than-expected rental reversions, present potential upside to our earnings estimates.

Recovery in the Singapore office market. Should office rents in Singapore recover as supply eases from 2020 onwards, this will likely translate into higher earnings for Suntec and should lead to a re-rating of the stock.

Key Risks:

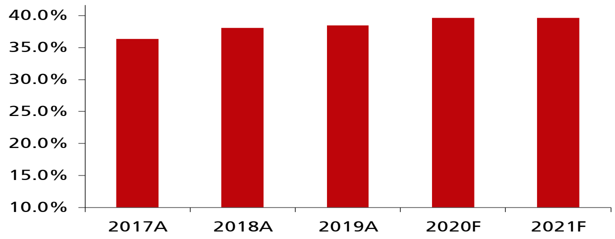
Turnaround of Suntec City Mall. We believe the turnaround of Suntec City Mall, as it closes the large discount in rents to other suburban malls, will drive Suntec's share price higher.

Multi-year recovery in office rents. In past upturns in office rents, office REITs traded at a premium to book. With expectations of easing new supply until 2022 and a pick-up in the Singapore economy, we believe we are at the start of a multi-year growth story. Thus, Suntec's share price rally can continue despite its strong run in 2017.

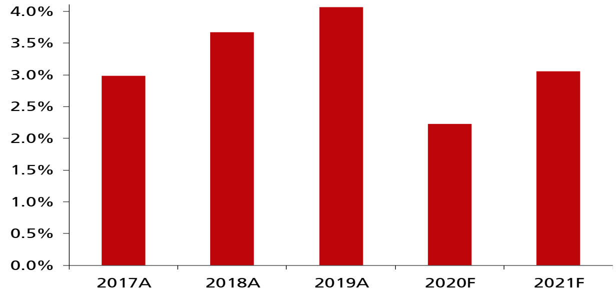
Company Background

Suntec REIT (Suntec) has a portfolio of office and retail properties in Singapore and Australia. Its most prominent asset is Suntec City, which comprises four office towers, a retail mall, and a convention centre, located close to the city area of Singapore.

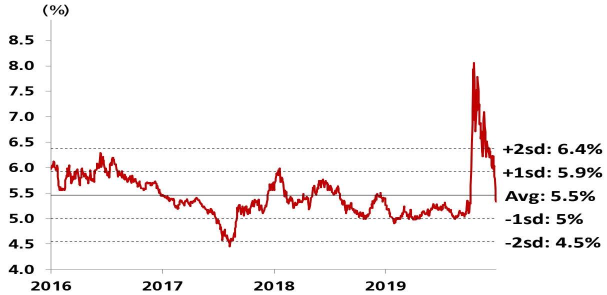
Aggregate Leverage (%)



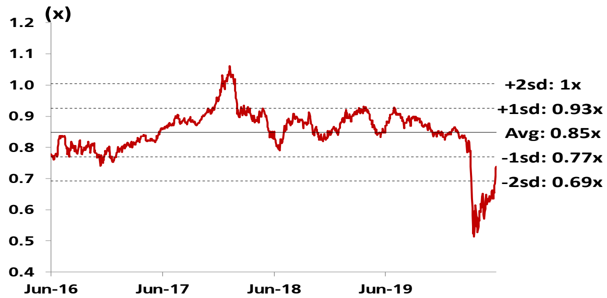
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	354	364	367	321	422
Property expenses	(110)	(123)	(131)	(89.3)	(126)
Net Property Income	244	241	236	232	296
Other Operating expenses	(51.0)	(51.7)	(52.8)	(53.8)	(56.9)
Other Non Opg (Exp)/Inc	0.0	0.0	(4.0)	0.0	0.0
Associates & JV Inc	80.3	108	158	73.4	83.5
Net Interest (Exp)/Inc	(75.6)	(72.2)	(80.6)	(100)	(108)
Exceptional Gain/(Loss)	(5.5)	5.33	0.0	0.0	0.0
Net Income	193	231	257	151	214
Tax	(18.3)	(13.0)	(15.9)	(14.2)	(20.6)
Minority Interest	(8.7)	(11.0)	(4.6)	(3.3)	(10.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	166	207	236	133	183
Total Return	220	307	391	133	183
Non-tax deductible Items	13.7	(79.4)	(154)	75.8	75.3
Net Inc available for Dist.	263	267	237	209	258
Growth & Ratio					
Revenue Gth (%)	7.8	2.6	0.9	(12.4)	31.6
N Property Inc Gth (%)	8.9	(1.4)	(2.0)	(1.9)	27.7
Net Inc Gth (%)	(5.7)	24.9	14.1	(43.5)	37.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	95.0	100.0
Net Prop Inc Margins (%)	69.0	66.3	64.4	72.2	70.1
Net Income Margins (%)	46.8	56.9	64.4	41.6	43.3
Dist to revenue (%)	74.3	73.4	64.6	65.2	61.1
Managers & Trustee's fees	14.4	14.2	14.4	16.8	13.5
ROAE (%)	3.0	3.7	4.1	2.2	3.1
ROA (%)	1.8	2.2	2.4	1.3	1.8
ROCE (%)	1.9	1.9	1.8	1.6	2.1
Int. Cover (x)	2.6	2.6	2.3	1.8	2.2

Source: Company, DBS Bank

Factored in COVID-19 impact on retail and office

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	93.5	89.7	88.4	91.9	96.7
Property expenses	(32.7)	(31.5)	(32.0)	(33.6)	(33.4)
Net Property Income	60.7	58.2	56.4	58.4	63.3
Other Operating expenses	(13.2)	(12.9)	(13.2)	(13.3)	(13.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	80	108	158	73	84
Net Interest (Exp)/Inc	(21.4)	(19.0)	(20.1)	(21.0)	(20.5)
Exceptional Gain/(Loss)	(2.3)	(4.9)	(2.0)	1.81	1.19
Net Income	**68.1**	**39.8**	**63.2**	**46.7**	**107**
Tax	(7.8)	(1.3)	(0.9)	(1.4)	(12.3)
Minority Interest	(5.9)	(0.4)	0.53	(0.5)	(4.2)
Net Income after Tax	**54.4**	**38.1**	**62.8**	**44.8**	**90.4**
Total Return	155	38.1	62.8	44.8	245
Non-tax deductible Items	(97.7)	20.7	(4.2)	15.0	(185)
Net Inc available for Dist.	69.5	65.4	65.2	66.2	66.0
Growth & Ratio					
Revenue Gth (%)	5	(4)	(1)	4	5
N Property Inc Gth (%)	7	(4)	(3)	4	8
Net Inc Gth (%)	56	(30)	65	(29)	102
Net Prop Inc Margin (%)	65.0	64.9	63.8	63.5	65.4
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	6,387	6,494	6,880	7,262	7,272
Other LT Assets	2,663	2,858	2,958	2,958	2,958
Cash & ST Invts	173	137	157	13.5	46.3
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	18.2	23.2	37.0	16.1	21.1
Other Current Assets	0.24	0.94	0.00	0.00	0.00
Total Assets	**9,242**	**9,512**	**10,032**	**10,250**	**10,297**
ST Debt	237	514	589	589	589
Creditor	109	113	138	81.2	115
Other Current Liab	25.8	23.2	31.7	25.9	32.4
LT Debt	2,994	2,978	3,041	3,307	3,316
Other LT Liabilities	109	117	127	127	127
Unit holders' funds	5,639	5,637	5,977	5,988	5,975
Minority Interests	128	132	129	132	143
Total Funds & Liabilities	**9,242**	**9,512**	**10,032**	**10,250**	**10,297**
Non-Cash Wkg. Capital	(116)	(112)	(132)	(91.1)	(126)
Net Cash/(Debt)	(3,058)	(3,355)	(3,473)	(3,883)	(3,859)
Ratio					
Current Ratio (x)	0.5	0.2	0.3	0.0	0.1
Quick Ratio (x)	0.5	0.2	0.3	0.0	0.1
Aggregate Leverage (%)	36.4	38.1	38.5	39.6	39.7
Z-Score (X)	0.6	0.6	0.6	0.6	0.6

Source: Company, DBS Bank

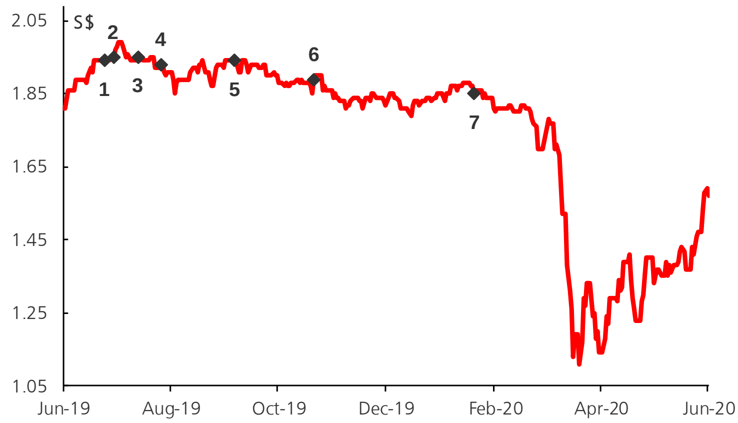
Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	193	231	261	151	214
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.92	0.0	(20.0)	(14.2)
Associates &JV Inc/(Loss)	(80.3)	(108)	(158)	(73.4)	(83.5)
Chg in Wkg.Cap.	(5.5)	(16.8)	8.42	(35.4)	28.7
Other Operating CF	119	104	118	75.8	62.3
Net Operating CF	**226**	**210**	**229**	**98.1**	**207**
Net Invt in Properties	(61.1)	(5.8)	(248)	(383)	(9.0)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(21.4)	(216)	(23.3)	0.0	0.0
Div from Assoc. & JVs	71.8	65.1	78.4	73.4	83.5
Other Investing CF	16.9	20.5	26.9	0.0	0.0
Net Investing CF	**6.22**	**(137)**	**(166)**	**(309)**	**74.5**
Distribution Paid	(257)	(267)	(266)	(199)	(258)
Chg in Gross Debt	103	215	132	266	9.04
New units issued	0.0	0.0	196	0.0	0.0
Other Financing CF	(88.3)	(56.6)	(102)	0.0	0.0
Net Financing CF	**(242)**	**(108)**	**(39.6)**	**67.6**	**(249)**
Currency Adjustments	0.0	(1.7)	(3.3)	0.0	0.0
Chg in Cash	(9.8)	(36.0)	20.5	(144)	32.8
Operating CFPS (S cts)	8.89	8.51	8.05	4.73	6.22
Free CFPS (S cts)	6.34	7.66	(0.7)	(10.1)	6.90

Includes acquisition of 21 Harris Street

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Jun 19	1.94	2.20	BUY
2:	02 Jul 19	1.95	2.20	BUY
3:	16 Jul 19	1.95	2.20	BUY
4:	29 Jul 19	1.93	2.15	BUY
5:	09 Sep 19	1.94	2.15	BUY
6:	24 Oct 19	1.89	2.15	BUY
7:	23 Jan 20	1.85	2.15	BUY

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

Source: DBS Bank

Analyst: Rachel TAN

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: 8 Jun 2020 08:29:58 (SGT)
Dissemination Date: 8 Jun 20208 Jun 2020 07:57:06 (SGT)

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

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2. Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.
3. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates have a net long position exceeding 0.5% of the total issued share capital in Mapletree Commercial Trust, OUE Commercial REIT, Suntec REIT, CapitaLand Mall Trust, recommended in this report as of 30 Apr 2020.
4. DBS Bank Ltd, DBS HK, DBSVS, DBSVUSA or their subsidiaries and/or other affiliates beneficially own a total of 1% of any class of common equity securities of OUE Commercial REIT, Suntec REIT as of 30 Apr 2020.

Compensation for investment banking services:

5. DBS Bank Ltd, DBS HK, DBSVS their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from CapitaLand Commercial Trust, Mapletree Commercial Trust, Suntec REIT as of 30 Apr 2020.
6. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for CapitaLand Commercial Trust, Mapletree Commercial Trust, Suntec REIT in the past 12 months, as of 30 Apr 2020.
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