

## Singapore REITs

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### S-REIT perpetuals market reopens

- Year-to-date issuance of c.S\$575m of perpetual securities a sign that demand is returning to perpetuals
- Proceeds have been utilised to fund acquisitions and refinancing driving 1-1.9% to distributions
- Ascott REIT may consider calling back its recently reset perpetual securities at the next available call date in December 2020

#### What's New

##### Perpetuals market reopens

The low interest rate environment has led to the return of life in the S-REIT perpetuals space, which was previously "shut" due to the heightened volatility and cashflow uncertainty among the S-REITs back in 1H20. However, with a rebound in markets fuelled by liquidity infusion and an extended period of low interest rates, we are seeing a gradual reopening of the S-REIT perpetuals market. In 3Q20, we saw the issuance of three perpetual securities totalling S\$575m. Proceeds have been utilised for either funding of acquisitions or refinancing existing perpetual securities prior to their first upcoming reset dates.

#### Our thoughts:

##### Perpetual security market offers S-REITs wider financing options.

While S-REITs have not tapped the perpetuals market in a big way (c.S\$2.4bn of perpetuals v S\$45bn in debt instruments [including bank loans] and equity value of S\$105bn), this however opens up another funding option for the S-REITs to tap.

Based on our initial estimates, other S-REITs with upcoming perpetuals reset dates (nearest being Frasers Hospitality Trust's 100m 4.45% perps in May 2021) may potentially explore the market again to refinance their perpetual securities at upcoming call dates, subject to the ability to achieve lower/similar spreads (vs choosing to let it reset rates). This will over time infuse confidence in investors on the viability of the perpetuals market over time. We believe that the ability for the S-REITs to maintain fairly healthy financial metrics through the depth of the recession in 1H20, could have led to improved confidence on the financing/re-financing ability of these S-REITs. <[Singapore REITs: Turn of the tide](#)>

##### Positive impact on Ascendas REIT of +1% (BUY call, TP S\$4.00).

We understand that the issuance saw strong institutional demand coming in at more than 2x the offer (S\$725m over S\$300m issuance quantum). We estimate that the issuance of the new perpetual security will result in a savings of close to S\$5m for A-REIT going forward, representing c.1% of its distributable income. While not material, it goes towards limiting downside risks on earnings and creates more buffer for A-REIT to manoeuvre the fragile economic outlook.

##### Ascott Residence Trust (BUY, TP S\$1.10) – ample liquidity to consider a call of its perpetual security in December 2020.

We recall Ascott Residence Trust's (ART) previous decision in June 2020 to allow its perpetual securities to reset to 3.07% (vs 4.68% previous coupon rate) rather than calling back at the first call date <[Singapore REITs: Brave move in these extraordinary times](#)>.



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## Flash Note

While unprecedented, we maintain that the manager's decision was sound given the heightened uncertainty in operating outlook (hotels were being shut down vs re-opening currently). Back then, the global economy remained under stress from the COVID-19 pandemic and we believe that the manager's focus on improving the REIT's liquidity position is paramount in maintaining overall soundness of its capital structure.

Since then, we have seen improvement in its liquidity position (1H20: S\$620m available cash and credit facilities +

S\$163m (cash proceeds received for Somerset Liang Court post quarter end) + S\$60m (additional facility secured in Jul 20). In addition, the manager has been consistently recycling capital, out of which we estimate net proceeds in excess of S\$230m to be received in 2H20-1Q21. This improved liquidity position puts the manager in good stead to consider a call of its S\$250m 3.07% perpetual securities at the next call date in December 2021 or redeploy them into other yield-accretive acquisitions.

### Summary of selected perpetuals issuances in 2020 for S-REITs

Recently issued Perpetuals	Issue Date	Annual Coupon Rate	Next Reset Date	Reference Rate	Issue Size (S\$m)	Use of proceeds	Financial impact
AIMS APAC REIT	14-Aug-20	5.65%	14-Aug-25	SOR + 5.207%	125.0	To be used to fund acquisition of 7 Bulim Street	c.+1.9% accretion to distributions
Keppel REIT	11-Sep-20	3.15%	11-Sep-25	SOR + 2.577%	150.0	Refinance existing perpetual KREIT 4.98% (S\$150m) at call date 02-Nov-20	c.+1% accretion to distributions
Ascendas REIT	17-Sep-20	3.0%	17-Sep-25	SOR + 2.48%	300.0	Refinance existing perpetual AREIT 4.75% (S\$300m) at call date 14-Oct-20	c.+1% accretion to distributions
<b>Total Perpetuals issuance</b>					<b>575.0</b>		

Source: Companies, DBS Bank

### Summary of asset recycling activities

Divestment	Period announced	Details	Payment Proceeds
Citadines Didot Montparnasse Paris	1H20	Divested EUR 23.6m ( <b>S\$36.4m</b> ) Net gain of S\$3.8m Completion by 4Q20	Net cash proceeds of EUR 17.7m ( <b>S\$27.3m</b> ) 5% of consideration received as initial deposit
Ascott Guangzhou	1H20	Divested at RMB780m ( <b>S\$155m</b> ) Net gain of S\$19.4m Completion by 1Q21	5% property value paid upon signing, another 10% paid three days after, the rest upon completion (15% at <b>S\$23.25m</b> )
Somerset Liang Court	4Q19	Sale of partial GFA completed on 15 July 2020	<b>S\$163.3m</b> cash proceeds collected
Citadines Xinghai Suzhou and Citadines Zhuankou Wuhan	1Q20	Divestment estimated at RMB500m (c.S\$100m) 18% of sales proceeds collected as at 1Q20 (S\$18m) Completed in 2H20	Deal not updated in latest slides, but should have been completed in 2H20.

Source: Companies, DBS Bank

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

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**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

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*\*Share price appreciation + dividends*

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