Singapore Industry Focus

Singapore Retail REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Dec 2020

Defend and conquer

- Selected retail S-REITs with "dominant malls" to emerge as winners in the new retail normal
- Capturing the locals' outbound expenditure can more than compensate for the lack of tourist spend in 2021
- Landlords may benefit as retailers' ongoing consolidations may be an opportunity to "right-size" tenant exposures
- Top picks are CICT, FCT and LREIT for their "dominant malls"; CRCT for its attractive pipeline

Navigating the new retail normal; focus on "dominant malls" the way to go. We believe that the sector's overall occupancies and rental reversions will remain lower post COVID-19 as retail sales will take time to normalise given the lack of tourists (for now). Retailers will continue to rationalise their operational footprint while malls need to adopt and embed themselves in the new retail ecosystem amidst structurally higher online spend. That said, we maintain our view that malls with "dominant characteristics" will emerge as winners in this new normal as retailers handpick their physical storefronts to maximise visibility and sales. We believe that the likes of **CICT**, **FCT** and **LREIT** have portfolios that can "buck the trend" and deliver close to/above pre-COVID-19 levels ahead of the sector.

Capturing opportunities in 2021. Given the inability to travel, we believe that retailers (and landlords) can capture a significant part of the outbound expenditure (by locals) that totalled US$24.5bn in 2017 in the near term. This accounts for close to c.73-75% of domestic retail sales and more than compensate for the close to 20-25% sales that is lost due to the lack of contribution from tourists. We see opportunities to be captured within the fashion & apparel, electronics and food & beverage sectors as consumers open their wallets in the coming months. In addition, ongoing retailer consolidations can be an opportunity for landlords to tweak their tenant mix and "right-size" their exposure to department stores and brand representatives in order to emerge with a refreshed offering and stay relevant in the new retail landscape.

Valuations support a positive weight in the sector. With a cyclical upturn in sentiment coupled with attractive valuations at -0.5x standard deviation and a robust 2-year DPU growth CAGR of 13% (FY20 – FY22), we believe that investors should stay vested in our selected retail S-REITs. Apart from the above Singapore landlords, we like **CRCT** for its attractive yields in excess of 8.0% with an attractive pipeline to further propel its growth as a premier China proxy.

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STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
CapitaLand Integrated Commercial Trust	2.04	9,876	2.50	1.0	(20.3)	BUY
Frasers Centrepoint Trust	2.42	3,059	3.00	(8.8)	(10.8)	BUY
CapitaLand Retail China Trust	1.26	1,355	1.70	8.7	(21.9)	BUY
LendLease Global Commercial REIT	0.71	625	0.90	10.8	(22.6)	BUY
SPH REIT	0.83	1,713	0.80	(7.3)	(23.4)	HOLD
Starhill Global REIT	0.48	790	0.55	5.5	(34.3)	HOLD
Sasseur REIT	0.82	739	0.90	8.0	(8.4)	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 8 Dec 2020

Legend:
CICT: CapitaLand Integrated Commercial Trust
FCT: Frasers Centrepoint Trust
CRCT: CapitaLand Retail China Trust
LREIT: Lendlease Global Commercial
SPH REIT: SPH REIT
SGREIT: Starhill Global REIT
SSREIT: Sasseur REIT

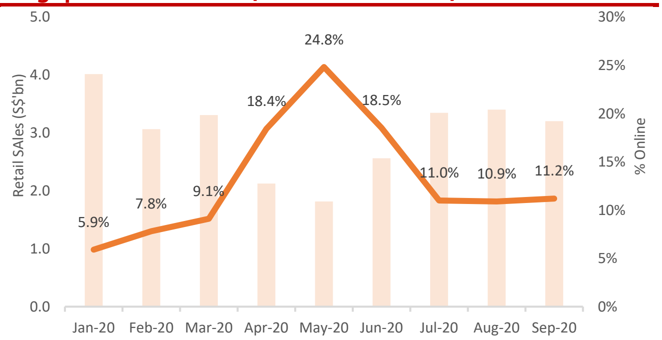
Suburban retail maintains its lead in the recovery

Sales index stagnates at c.90% of pre-pandemic levels. The retail sales index (ex-motor sales) declined 12.7% y-o-y in September. This represents a 4.2% m-o-m decline from August figures, primarily due to a high base last year that was boosted by strong sales in electronics. Total food & beverage sales declined 30% y-o-y in September, of which a significant 20% of total sales were derived from online orders. Broader retail sales stagnated at c.90% of pre-pandemic levels in the previous three months, which we see as a positive development given the lack of tourists in Singapore in 2020.

Suburban retail sales lead a recovery in retail sales. Conversely, suburban retail sales have benefitted at the expense of central retail sales due to locational proximity to residential areas as highlighted in our report: Singapore Retail REITs: Ready, set, shop!. In 3Q20, Frasers Centrepoint Trust's tenant sales recovered to 96% of pre-COVID levels, while CapitaLand Integrated Commercial Trust's tenant sale, which recovered to 89% of pre-COVID levels, continues to be hit by the slower sales recovery within central malls. Orchard mall owners such as SPH REIT and Starhill Global REIT (SGREIT) are also enduring a lower footfall (40-50% of pre-COVID levels) and tenant sales (c.60-70% of normalised levels), due to a lack of tourist footfall which usually contributes c.30% of total sales receipts for prime Orchard malls.

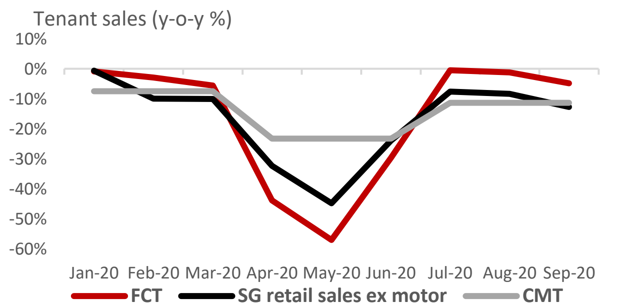
E-commerce retreats from peak in May. Approximately 11.2% of sales value was contributed by e-commerce in September which saw a prominent retreat since May during the Circuit Breaker peak, when it contributed 24.8% of total retail sales for the month. That said, there may be a reversal of trend as we near the year-end, with many shopping events such as Singles' Day being primarily led by e-commerce.

Singapore retail sales (Total & % Online)

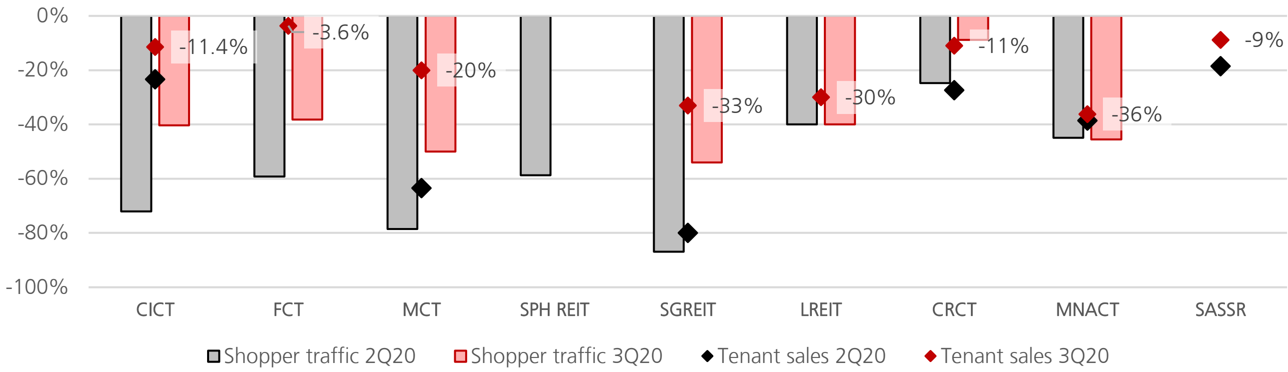


Source: Singstat, DBS Bank

Retail sales recovery led by suburban retail sales



Shopper traffic and tenant sales 3Q20 vs 2Q20 (y-o-y)



** Includes only VivoCity, SG Retail segment, and Festival Walk for MCT, SG REIT and MNACT respectively.*
Source: Company, DBS Bank

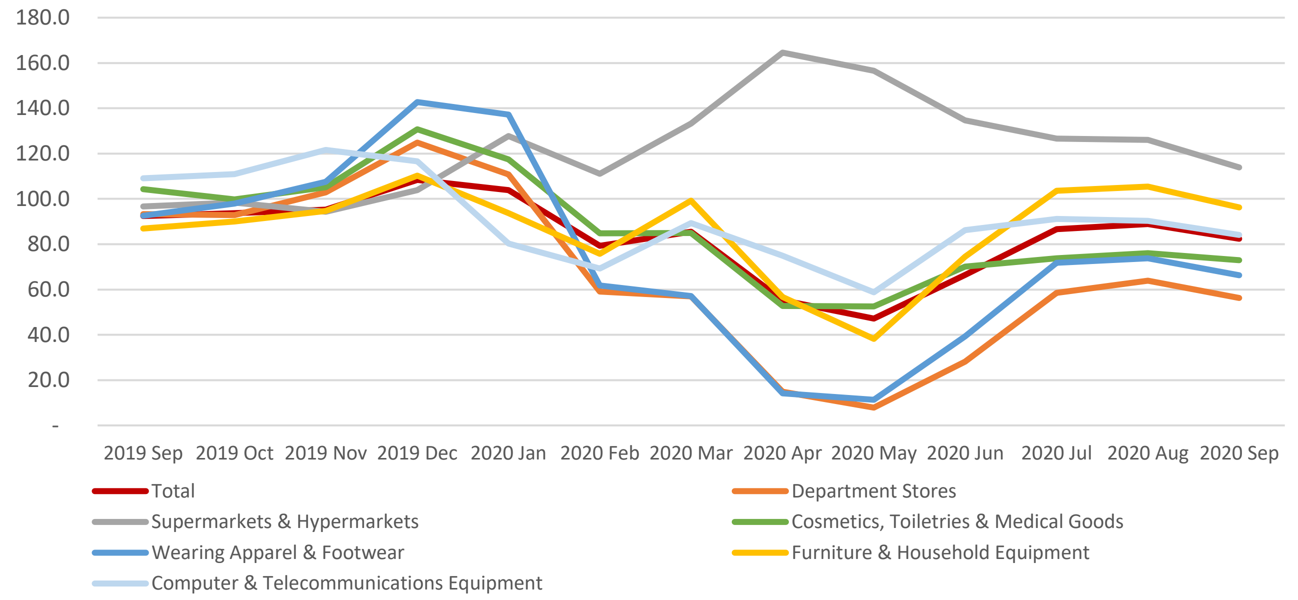
Recovery unbalanced across trade sectors. Recovery remains unbalanced across the various trade sectors as an estimated 70% of the total workforce are still working from home. Consumer spending pattern has seen a drastic change since the start of the year. Expenditure within supermarkets & hypermarkets saw a sharp pick-up, which peaked in the Circuit Breaker month of April, at the expense of sales in all other trade categories.

Recent closures coincided with trade sectors that were the worst hit in terms of sales; supermarkets and housing goods outperformed. For the month of September, food & alcohol (-41% y-o-y), department stores (-40% y-o-y) and apparel & footwear (-28% y-o-y) sectors remain at a delay in terms of recovery. This coincides with closures within these trade sectors this year, including department store Isetan (Westgate) and various fashion labels such as Topshop and Brooks Brothers. On the other hand, supermarkets & hypermarkets (+18% y-o-y) and furniture & household equipment (+11%) lead the recovery.

Consumption pattern may reverse course as early as year-end. As the year-end nears, we believe that retailers will jump on the opportunity to launch sales and clear inventory to capture the pent-up demand amongst consumers. The fourth quarter is a seasonally strong quarter for consumer demand by a few folds. There is a time and event for consumers to open their wallets every month, with shopping events such as Black Friday (27 November) and Christmas (25 December) well lined-up during the course of the quarter.

The lack of travel and year-end holiday period could mean that families will be spending more locally. We see opportunities within the fashion & apparel (-28% y-o-y), electronics (-23% y-o-y), and food & beverage segments (-30% y-o-y).

Retail sales index by categories



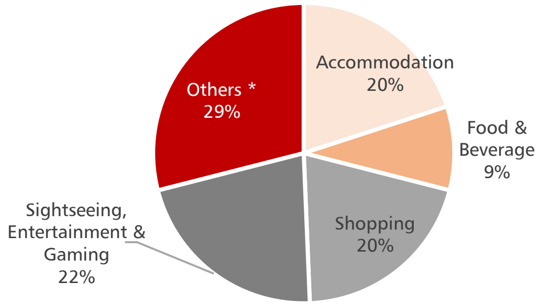
Source: Singstat, DBS Bank

Opportunities in 2021: "Lost sales" for retailers to capture

Watching for travel bubbles to key tourist source markets will boost spending. Singapore welcomed 19m tourists in 2019, or a monthly average of 1.6m tourists. Since the effected border closures on 24 March, tourist arrivals have plummeted to a halt and averaged at c.4,800 arrivals per month between April and September, a steep 100% y-o-y decline. A recovery of demand will likely see first light in 2021, as vaccine development and availability accelerates and travel bubbles gain more meaningful traction. We continue to track travel bubbles linked to key visitor source markets of China, Indonesia, Australia, India and Malaysia for both leisure and business travel demand that will supplement a more meaningful rebound in tourist arrivals.

Tourist receipts typically contribute c.one-fifth of total retail sales. Based on 2019 figures, tourists spent a total S$27.7bn in Singapore, with airfare, business, medical & education (classified as others*), sightseeing, entertainment & gaming and accommodation & shopping (20% respectively), forming the main bulk of tourist receipts. That said, shopping, F&B and entertainment tourist receipts (which we estimate c.20% will be expensed at retail malls) will directly flow towards the retail index, or roughly one-fifth of total retail sales in 2019. On a similar note, retail malls that derive significant footfall and sales from tourist will include central malls, airport malls and malls that are located near key tourism landmarks such as VivoCity. These malls typically garner 25-30% of their total tenant sales from tourists and will be the prime beneficiaries should travel bubbles and arrivals kick-start again next year.

Tourism receipts by category, 2019 (% total)

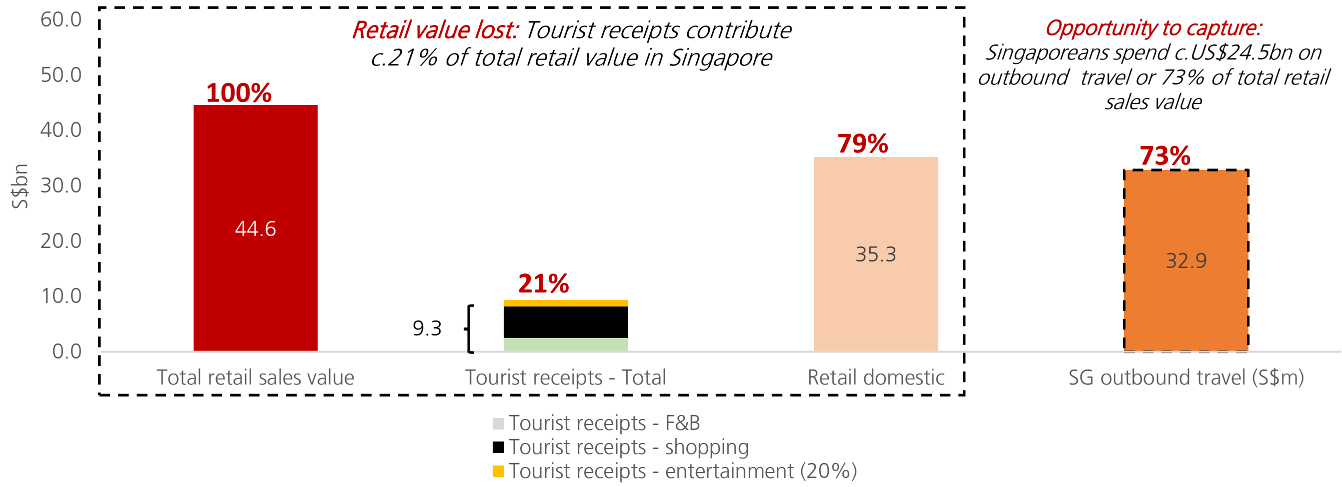


Source: Singstat, DBS Bank

Capturing the "lost opportunity" from Singaporeans who spend almost the same amount on shopping and travel. Singaporeans spent a total of US$24.5bn on outbound expenditure in 2017, based on data from the World Tourism Organisation. That equates to c.72% of total retail sales value derived locally and far outweighs tourist retail expenditure in Singapore, which we estimate to make up c.22% of total retail sales derived in that year.

With local Singaporeans spending c.3.3x in travel as compared to tourist retail receipts, we have good reasons to believe that some of the travel savings this year and pent-up demand could be reflected in more domestic shopping instead.

Comparison between inbound tourist receipts and outbound travel expenditure (S$bn) and % of total retail sales value



Source: WTO, Singstat, DBS Bank

"Dominant malls" to emerge stronger in a year of retailer consolidation

Many high-profile retailers shut doors in 2021. Fashion is one of the trade categories that had been bearing the brunt of the pandemic, with slower-than-average recovery pace in comparison to the broader retail index. Notable retailers that have shut their operations in Singapore include department store operators such as Robinsons, with sales still at just 60% of normalised levels (September 2020). Many others fall under the fashion and footwear categories such as Topshop and Esprit Group, with this category's sales remaining at c.72% of normalised levels (in September 2020).

Retail groups that failed to establish a meaningful omnichannel presence were the first few to fold. Two well-known British fashion groups, Arcadia Group and Debenhams are at the brink of collapse. Arcadia Group, which is the owner of brands such as Topshop and Dorothy Perkins, recently filed for insolvency proceedings, while department store owner Debenhams failed to seek a buyer while operating under administration since April this year. Both retail giants had longstanding problems in establishing a meaningful omnichannel retail presence as online players such as Boohoo and Asos grew their slice of the retail pie.

Arcadia has 466 stores under its operations, out of which 444 are within the UK. Within Singapore, some of their brands such as Miss Selfridge, Topman, and Topshop were previously represented by Wing Tai Holdings. The last Topshop and Topman stores at Vivocity closed their doors in September this year. Arcadia's brands are currently represented by only two Dorothy Perkins stores at Raffles City Shopping Centre and Plaza Singapura, and their impact on the Singapore market had been greatly reduced over the years from the chain closures.

Spotlight on local retail distributors. The spotlight has been on the Dubai-based Al Futtaim group which owns the recently closed department store Robinsons. Robinsons's last two shop fronts at Raffles City Shopping Centre and The Heeren had swiftly rolled out closing down sales after more than a decade of operations: Singapore Retail REITs: Survival of the fittest.

Besides Al-Futtaim, Jay Gee Group and Wing Tai holdings are also retail distributors that sit within the same peer group. We further highlight the store exposure of brands held by the various local brand representatives, with Uniqlo and G2000 having the largest store exposure at 25 and 20 stores respectively. Based on data gathered through various online sources such as official brand websites and store directories, we note that approximately half of these store fronts are currently at malls owned by the S-REITs, while about 6-19% of the store fronts are currently situated in department stores such as Isetan and OG.

'Survival of the fittest'. Weaker brands and less popular retail formats were the first to crumble under the pandemic pressure. With a steep 62% y-o-y uptick in e-commerce in Singapore from 6.9% to 11.2% of total retail sales value in September 2020, adaptation from a pure brick-and-mortar presence was also key. From our understanding, Topshop continues to serve its Singapore fans through an online presence in partnership with Zalora, an alternative for brands that have exited from their physical locations. Going into 2021, we expect further retailer consolidation and greater volatility in rents. Shop closures will likely be carefully reviewed on a store-by-store and brand-by-brand basis in order to maximise profitability.

When one door closes, another opens. The closure of department stores in Singapore is widely viewed as a risk to retail landlords given their chunky retail plots and anchor tenant positions within the respective malls. Nonetheless, we see opportunities in this arena for luxury beauty booths owned by brands such as Chanel. They were previously represented by department stores and could venture out on their own to open physical store fronts. We see this as a net positive and believe that selected malls across the island that enjoy strong traffic and sales will benefit from the trend.

At the end of the day, retailers that view Singapore as a significant consumer market will protect their local market share and brand positioning. Chanel's beauty retail outlet can now be found at one of the best frequented foot paths in Ion that was previously occupied by Kikki. K. We believe that the dominant malls across Singapore's landscape can continue to capture demand from tenants and should remain resilient despite a year of continued retailer consolidations. Please see the following report for further details: Asian Insights SparX: Singapore F&B and Retail malls: The New Norm – Shopping and dining at your convenience

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Notable retailer brand and store closures in recent years

Retailer	Trade Category	Number of shops closed in Singapore	Outlets remaining in operations	Previously occupied retail malls
Isetan	Department Store	1	4 (Isetan Scotts, Tampines Mall, Parkway Parade, NEX)	West Gate
Metro	Department Store	1	2 (Paragon, Causeway Point)	Centrepoint
MPH bookstores	Lifestyle goods	2	1 (SingPost Centre)	Raffles City, Parkway Parade
Forever 21	Fashion	3	1 (313@Somerset)	Kallang Wave Mall, VivoCity, Orchard MRT station
Home Fix	Household	23 closed since 2014	no retail outlets, warehouse remains	Tampines One, Tanglin Mall
Ministry of Food	Food & Beverage	54	26	Bukit Panjang Plaza, Lot One
SaSa	Beauty & Health	22	0	Wisma Atria, Westgate
Esprit Group	Fashion	12	0	JEM, Ion, Paragon
Kikki K	Stationaries	2	0	Ion, VivoCity
DFS	Department Store	3	0	Changi Airport (Terminal 1-4), T Galleria
Habitat by Honest Bee	Food & Beverage	1	0	Six storey warehouse along Pasir Panjang Road
Crate & Barrel	Household	1	0	Orchard Gateway @ Emerald
Kapok	Lifestyle goods	1	0	National Design Centre
Crabtree & Evelyn	Beauty & Health	12	0	Suntec City, Plaza Singapura, Raffles City, Paragon, VivoCity
Muji	Lifestyle goods	1	10 (Ion, Jewel Changi, Plaza Singapura, 313@Somerset, Paragon, VivoCity)	Marina Square
Brooks Brothers	Fashion/Luxury	1	2 (Paragon, Takashimaya Department Store)	Raffles City
Sperry	Fashion	1	0	VivoCity
Robinsons	Department Store	3	0	3 (The Heeren, Raffles City, JEM)
Topshop	Fashion	2	0	Ion, VivoCity

Source: Various, DBS Bank
Updated as at 30/11/2020

Selected retailer brands in Singapore by brand distributorship and REIT exposure (total outlets, total brands, % within REITs, % in department stores, top 3 brands & store count each)

	Total outlets	Total brands	% outlets / store fronts within REITs	% outlets / store fronts within department stores	Top brands
Al-Futtaim Group	96	23	47%	9%	Royal Sporting House - 15 stores Marks & Spencer - 11 stores Lacoste - 10 stores Zara - 10 stores
Jay Gee Group	130	19	46%	19%	ALDO - 14 stores Holland & Barrett - 9 stores T.M. Lewin - 8 stores
Wing Tai Holdings	81	14	47%	6%	Uniqlo - 25 stores G2000 - 20 stores Adidas - 22 stores (9 operated by Wing Tai)

Source: Various, DBS Bank
Updated as at 30/11/2020

Green shoots emerge within China Retail; riding on the momentum in 2021

China retail sales reversed decline trend in August. China's retail sales index turned positive for the first time this year in August 2020 as retail sales rose 0.5% y-o-y. This contrasts against a trough in January and February (both -20.5% y-o-y), which coincide with the pandemic peak in China where malls were primarily shut in accordance with provincial regulations and Chinese New Year holidays were extended to about 10 days. Similarly, CRCT's malls observed directed closures or shorter operating hours during the period and have all since reopened from 2 April. Government support packages were directly channelled towards tenants in the form of preferential electricity tariffs, lower borrowing costs for business and tax subsidies. September retail sales posted an even stronger growth of +3.3% y-o-y, providing confirmation that retail is kicking back with a vengeance.

CRCT's shopper traffic and tenant sales have recovered beyond pre-COVID levels. Similar to the broader retail sales trend, CRCT's shopper traffic and tenant sales had recovered to 103.4% and 102.1% of pre-COVID levels for the enlarged portfolio in August. A second lockdown in Beijing resulted in a kink in the recovery curve in June, which has eased since July. On the same-mall basis, traffic and sales have recovered to 76% and 78% of pre-COVID levels, with CRCT's portfolio reconstitution coming into play here. With green shoots emerging within the broader market, we continue to hold our belief that China will set the stage for a retail recovery globally.

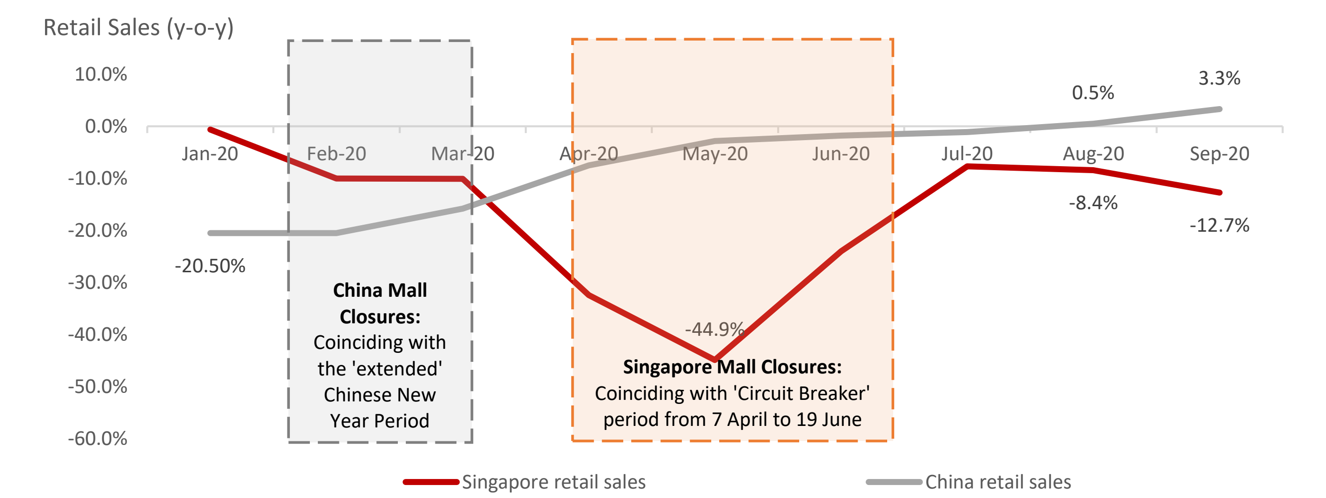
Upward trajectory may likely continue towards year-end as the peak season approaches. Retail sales grew 8.0% y-o-y in China last year, in comparison to an average 8.7% decline for 8M20, which may indicate further room for 'normalisation'. Moreover, the fourth quarter will see a slew of shopping events that are historically spending peaks for the Chinese. These include the greatly popular Singles' Day shopping event hosted by e-commerce giant Alibaba, which set a record of RMB 498bn in sales this year (+86% y-o-y), another yard stick showing strong consumer spending sentiments.

CRCT – Portfolio shopper traffic and tenant sales had recovered to 103.4% and 102.1% of pre-COVID levels for the month of August. New Yuquan mall targeted for launch at year-end has achieved a solid 94% committed occupancy.

Sasseur REIT - Tenant sales had normalised to c.91% of pre-COVID levels in the latest reported quarter; seasonal uplift to further boost sales come next quarter.

Looking forward, following the ongoing recovery in the retail sales scene while international borders remain closed in the near term, we believe that China's retail malls will continue to report strong operational metrics come 2021.

China retail sales leading the way



Source : Singstat, National Bureau of Statistics of China, DBS Bank

Revision in FY21 estimates

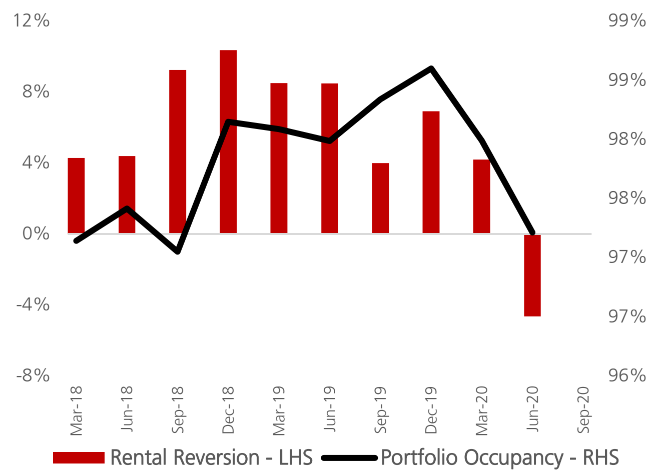
Retailers likely to take a 'wait-and-see' approach next year. 2021 will likely be a year where retailers take a 'wait-and-see' approach and consider to either consolidate, restructure or 'right-size' leases. Any significant expansion will likely happen from 2022 onwards as retailers may pump in more capex in 2021 should the coming quarters look rosier. That said, well-anchored tenants that are generally resilient (in both suburban and central malls) may make use of the current circumstances to snap up and lock in prime retail plots amidst the higher turnover.

Sticking to dominant malls as always. Dominant malls across Singapore will continue to attract tenants to maintain their occupancies in the longer term as highlighted in our report: Singapore F&B and Retail malls: The New Norm – Shopping and dining at your convenience. On this front, the listed landlords should continue to see higher-than-industry occupancy rates. Thus, we pick CICT, FCT and LREIT for their dominant mall exposures.

Uncertainty to persist as retailers consolidate in FY21. We revise our operating metrics to take into account:

1. **Occupancy:** 95% occupancy for FY20 to be extended to FY21, from the sector average of 96.6% as at end-September 2020
2. **Rental reversion:** Broad-based negative 5% rental reversion assumed for FY21
3. **Rental rebates/waivers:** Assumed to be marginal in FY21 given the extension in FY20. Most trade sectors assumed to be operational, including entertainment tenants, come Phase 3 of post-Circuit Breaker Measures, albeit at lower capacities.
   The REITs currently report just a handful (less than 1 - 2% of total tenants) requesting for additional rebates.

Retail REITs' average rental reversion and portfolio occupancy



Source: Company, DBS Bank

Operating metrics as at Sep-20 (3Q20)

	Portfolio Occupancy	Rental Reversion
CICT	98.0%	-4.4%
FCT	94.9%	n.a.
MCT	97.9%	-8.9%
SPH REIT	97.7%	5.9%
SG REIT	99.5%	n.a.
LREIT	98.0%	n.a.
CRCT	93.7%	n.a.
MNACT	96.6%	-12%
SASSR	93.1%	n.a.

** Includes only VivoCity, SG Retail segment, and Festival Walk for MCT, SG REIT and MNACT respectively.*
Source: Company, DBS Bank

Valuations

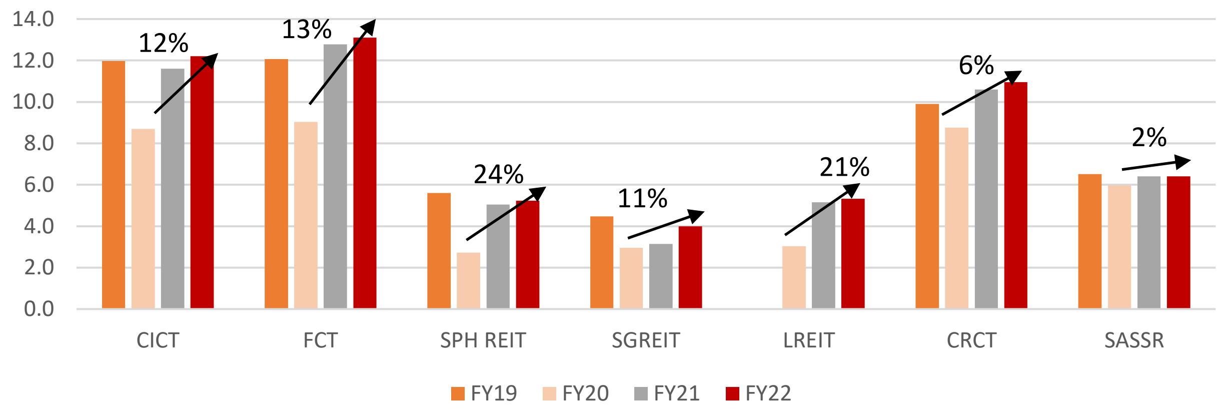
Compelling valuations given a 13% DPU CAGR. Sector valuations are currently at 0.92x price-to-book, landing between the -1 standard deviation level (0.87x) and mean level (1.11x). The larger-cap REITs such as CICT and FCT, with an exposure to defensive suburban retail, are trading near book but remains below mean p/bk at 1.1x. Laggards within the sector continue to be REITs with Orchard exposure such as SGREIT (0.60x P/Bk) and LREIT (0.81x P/Bk). We estimate a 13% DPU CAGR between 2020 and 2022 to land at an average sector yield of 6.8%/7.2% for FY21/FY22, or 6.2%/6.8% for Singapore-focused retail REITs.

This is broadly led by Singapore-focused retail malls, from a trough this year given the impact of the pandemic and inorganic growth through acquisitions that benefitted the likes of FCT (PGIM portfolio acquisition) and CRCT (business park & Rock Square acquisition).

Maintaining Overweight as conservative estimates extend to FY21. We remain positive on the retail sector given that (i) retail sales continue to see a normalisation trend with an opportunity to capture greater domestic expenditure, (ii) vaccine development could further boost travel bubbles to welcome our first flock of tourists and benefit Orchard and central malls, and (iii) sector valuations remain broadly below 5-year mean with attractive forward yields attractive of 7.0%/7.4% for FY21/FY22 at current prices.

We extend our conservative estimates going into FY21 with expectations for occupancy to hover at c.95% (average occupancy at 97% as at 30 September 2020), and a -5% rental reversion for leases expiring next year. Our top sector picks remain to be CICT, FCT and LREIT.

Retail REITs' DPU estimates and CAGR growth from FY20-FY22



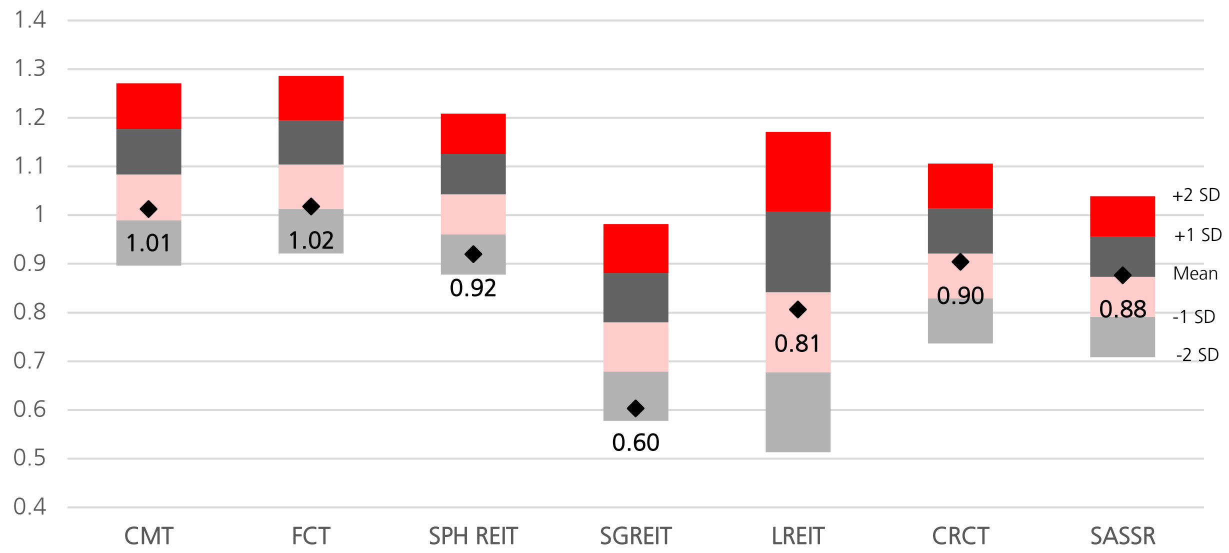
Source: DBS Bank

Peer Comparison range

	Price (S$)	Reco	12-mth TP	DBS estimates				Current yield			Target yield		
				FY19	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
CICT	$ 1.99	BUY	$ 2.50	12.0	8.7	11.6	12.2	4.4%	5.9%	6.2%	3.5%	4.6%	4.9%
FCT	$ 2.35	BUY	$ 3.00	12.1	9.0	12.8	13.1	3.8%	5.4%	5.6%	3.0%	4.3%	4.4%
SPH REIT	$ 0.83	HOLD	$ 0.80	5.6	2.7	5.0	5.2	3.3%	6.1%	6.3%	3.6%	6.6%	6.9%
SGREIT	$ 0.49	HOLD	$ 0.55	4.5	3.0	3.1	4.0	6.1%	6.5%	8.2%	5.4%	5.7%	7.3%
LREIT	$ 0.68	BUY	$ 0.90	0.0	3.0	5.2	5.3	4.5%	7.6%	7.9%	3.4%	5.7%	5.9%
Average SG								4.4%	6.2%	6.8%	3.7%	5.3%	5.8%
CRCT	$ 1.24	BUY	$ 1.70	9.9	8.8	10.6	11.0	7.2%	8.8%	9.1%	5.2%	6.2%	6.4%
SASSR	$ 0.81	BUY	$ 0.90	6.5	6.0	6.4	6.4	7.4%	7.9%	7.9%	6.6%	7.1%	7.1%
Average Overseas								7.3%	8.3%	8.5%	5.9%	6.7%	6.8%
Average								5.2%	6.8%	7.2%	4.4%	5.7%	6.1%

Source: company, DBS Bank

Historical 5-year price-to-book range as compared to current valuations



Source: DBS Bank

COMPANY UPDATE

Singapore Company Update

CapitaLand Integrated Commercial Trust

Bloomberg: CT SP | Reuters: CMLT.SI **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 9 Dec 2020

BUY

Last Traded Price (8 Dec 2020): S$2.04 (STI : 2,825.63)
Price Target 12-mth: S$2.50 (23% upside) (Prev S$2.40)

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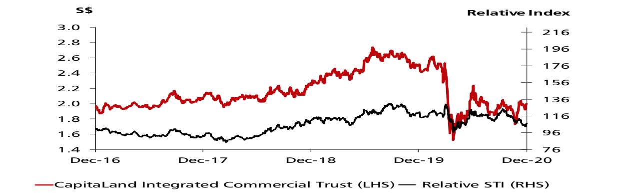
What's New

- CICT, the combined entity of CMT-CCT merger is the largest SREIT offering the highest yield of c.6% among its large cap peers
- FY21 will remain a year of cyclical recovery as the country emerges from the pandemic
- Rapid progress on vaccine to normalise valuations
- Maintain BUY; raise TP to S$2.50.

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2019A	2020F	2021F	2022F
Gross Revenue	787	714	1,319	1,368
Net Property Inc	558	464	1,013	1,057
Total Return	735	374	700	758
Distribution Inc	462	408	755	814
EPU (S cts)	13.6	8.53	10.8	11.6
EPU Gth (%)	3	(37)	26	8
DPU (S cts)	12.0	8.71	11.6	12.2
DPU Gth (%)	4	(27)	33	5
NAV per shr (S cts)	211	209	208	207
PE (X)	15.0	23.9	18.9	17.5
Distribution Yield (%)	5.9	4.3	5.7	6.0
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	32.0	35.3	34.9	34.9
ROAE (%)	6.6	3.5	5.2	5.6
Distn. Inc Chng (%):		1	63	73
Consensus DPU (S cts):		9.10	11.7	12.1
Other Broker Recs:		B: 13	S: 0	H: 5

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

Biggest SREIT at a bargain!

Investment Thesis

Big, cheap and fresh! The merger of CapitaLand Mall Trust (CMT) and CapitaLand Commercial Trust (CCT) led to the combined entity CapitaLand Integrated Commercial Trust (CT) the largest integrated commercial Singapore Real Estate Investment Trust (SREIT) at attractive valuations close to 1.0x price/net asset value (P/NAV). With forward yields of c.6%, CT offers the highest yield among its large cap peers which are trading at c.5% yield.

Riding the cyclical recovery trend. FY21 will continue to be a year of recovery as we progressively emerge from the COVID-19 pandemic and head towards a new normal.

Imminent vaccine to normalise valuations. With the rapid progress of COVID-19 vaccines, we believe that a V-shaped recovery will be the key catalyst to drive valuations close to its historical average (since it was listed) of 1.24x P/NAV.

Valuation:

Maintain BUY, raise TP to S$2.50. Following the merger, we raised our target price (TP) from S$2.40 to S$2.50 which implies P/NAV of 1.24x, its historical average since listing.

Where we differ:

Too big to ignore. We believe that as the largest SREIT, CT will be too big to ignore. The company's integrated commercial assets will drive synergistic value from its existing portfolio. In addition, its size offers a bigger platform and opportunity to grow with acquisitions of integrated development led by the rising global trend of live-work-play.

Key Risks to Our View:

The key risks to our view are an economic downturn, as well as a prolonged recovery and weak sentiment. Setbacks to vaccine distribution and new waves of the pandemic could further delay CT's recovery.

At A Glance

Issued Capital (m shrs)	6,471
Mkt. Cap (Sm/USm)	13,200 / 9,876
Major Shareholders (%)	
CapitaLand Ltd	16.3
Free Float (%)	83.7
3m Avg. Daily Val (US$m)	28.7

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

Quarterly / Interim Income Statement (S$m) – CMT financials up to 3Q2020

FY Dec	3Q2019	2Q2020	3Q2020	% chg yoy	% chg qoq
Gross revenue	201	114	150	(25.3)	31.7
Property expenses	(56.9)	(46.0)	(45.8)	(19.4)	(0.5)
Net Property Income	144	68.1	104	(27.6)	53.5
Other Operating expenses	(14.0)	(10.4)	(11.9)	(15.0)	14.0
Other Non Opg (Exp)/Inc	(17.6)	0.0	4.03	nm	nm
Associates & JV Inc	21.9	(41.5)	9.62	(56.1)	(123.2)
Net Interest (Exp)/Inc	(28.1)	(27.9)	(28.4)	(1.2)	(1.9)
Exceptional Gain/(Loss)	0.0	0.0	(6.6)	nm	nm
Net Income	106	(11.8)	71.2	(33.2)	nm
Tax	0.0	0.0	0.0	-	-
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	106	(11.8)	71.2	(33.2)	(705.8)
Total Return	106	(291)	71.2	(33.2)	(124.4)
Non-tax deductible Items	(4.0)	19.8	7.89	(299.2)	(60.2)
Net Inc available for Dist.	126	54.9	81.9	(34.9)	49.1
Ratio (%)					
Net Prop Inc Margin	71.7	59.6	69.5		
Dist. Payout Ratio	89.8	142.2	139.5		

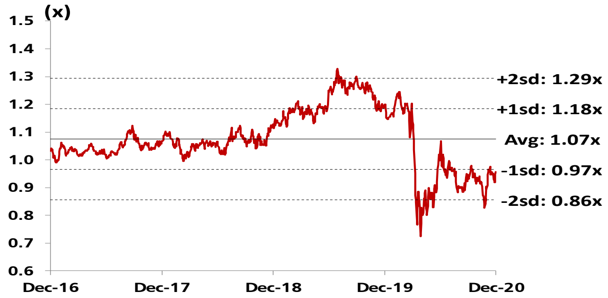
Source of all data: Company, DBS Bank

Historical dividend yield and PB band

Distribution yield (%)

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

PB band (x)



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

Income Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross Revenue	698	787	714	1,319	1,368
Property Expenses	(204)	(229)	(250)	(306)	(310)
Net Property Income	**494**	**558**	**464**	**1,013**	**1,057**
Other Operating Expenses	(48.6)	(33.9)	(57.1)	(98.0)	(99.9)
Other Non Opg (Exp)/Inc	(9.0)	0.0	0.76	3.06	3.06
Associates & JV Inc	129	89.2	110	17.4	38.8
Net Interest (Exp)/Inc	(87.5)	(111)	(143)	(236)	(241)
Exceptional Gain/(Loss)	0.14	0.0	0.0	0.0	0.0
Net Income	**478**	**502**	**374**	**700**	**758**
Tax	0.39	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	**478**	**502**	**374**	**700**	**758**
Total Return	677	735	374	700	758
Non-Tax Deductible Items	(48.6)	30.4	33.4	55.0	56.0
Net Inc Available for Dist.	429	462	408	755	814
Growth & Ratio					
Revenue Gth (%)	2.2	12.8	(9.3)	84.8	3.6
N Property Inc Gth (%)	3.2	13.1	(16.9)	118.4	4.3
Net Inc Gth (%)	18.0	5.1	(25.4)	86.9	8.3
Dist. Payout Ratio (%)	95.6	95.6	93.7	97.5	97.5
Net Prop Inc Margins (%)	70.8	71.0	65.0	76.8	77.3
Net Income Margins (%)	68.5	63.8	52.4	53.0	55.4
Dist to revenue (%)	61.6	58.7	57.1	57.2	59.5
Managers & Trustee's fees	7.0	4.3	8.0	7.4	7.3
ROAE (%)	6.7	6.6	3.5	5.2	5.6
ROA (%)	4.3	4.3	2.2	3.2	3.5
ROCE (%)	4.1	4.6	2.5	4.3	4.5
Int. Cover (x)	5.1	4.7	2.8	3.9	4.0

Source: Company, DBS Bank

Merged full-year financials of CMT and CCT.

Quarterly Income Statement (S$m)

FY Dec	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020
Gross Revenue	201	203	204	114	150
Property Expenses	(56.9)	(62.6)	(56.0)	(46.0)	(45.8)
Net Property Income	144	141	148	68.1	104
Other Operating expenses	(14.0)	(13.7)	(13.8)	(10.4)	(11.9)
Other Non Opg (Exp)/Inc	(17.6)	0.0	4.82	0.0	4.03
Associates & JV Inc	21.9	27.3	13.5	(41.5)	9.62
Net Interest (Exp)/Inc	(28.1)	(28.9)	(28.1)	(27.9)	(28.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	(6.6)
Net Income	**106**	**126**	**125**	**(11.8)**	**71.2**
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	**106**	**126**	**125**	**(11.8)**	**71.2**
Total Return	106	239	125	(291)	71.2
Non-tax Deductible Items	(4.0)	(6.1)	(15.3)	19.8	7.89
Net Inc Available for Dist.	126	107	106	54.9	81.9
Growth & Ratio					
Revenue Gth (%)	6	1	0	(44)	32
N Property Inc Gth (%)	8	(2)	5	(54)	53
Net Inc Gth (%)	(1)	18	(1)	(109)	(706)
Net Prop Inc Margin (%)	71.7	69.2	72.6	59.6	69.5
Dist. Payout Ratio (%)	89.8	107.2	29.8	142.2	139.5

CMT quarterly financials.

Balance Sheet (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Investment Properties	9,411	10,416	18,494	18,504	18,514
Other LT Assets	1,715	1,087	2,683	2,683	2,683
Cash & ST Invts	349	202	355	600	613
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	27.5	26.4	33.7	62.3	64.6
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	**11,502**	**11,732**	**21,565**	**21,849**	**21,874**
ST Debt	529	260	513	513	513
Creditor	199	167	357	660	684
Other Current Liab	99.9	68.1	2.54	2.54	2.54
LT Debt	3,099	3,301	6,971	6,981	6,991
Other LT Liabilities	145	169	169	169	169
Unit holders' Funds	7,429	7,767	13,553	13,524	13,515
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**11,502**	**11,732**	**21,565**	**21,849**	**21,874**
Non-Cash Wkg. Capital	(272)	(209)	(326)	(600)	(622)
Net Cash/(Debt)	(3,279)	(3,359)	(7,130)	(6,894)	(6,892)
Ratio					
Current Ratio (x)	0.5	0.5	0.4	0.6	0.6
Quick Ratio (x)	0.5	0.5	0.4	0.6	0.6
Aggregate Leverage (%)	32.6	32.0	35.3	34.9	34.9
Z-Score (X)	5.0	5.1	4.9	4.9	4.9

Source: Company, DBS Bank

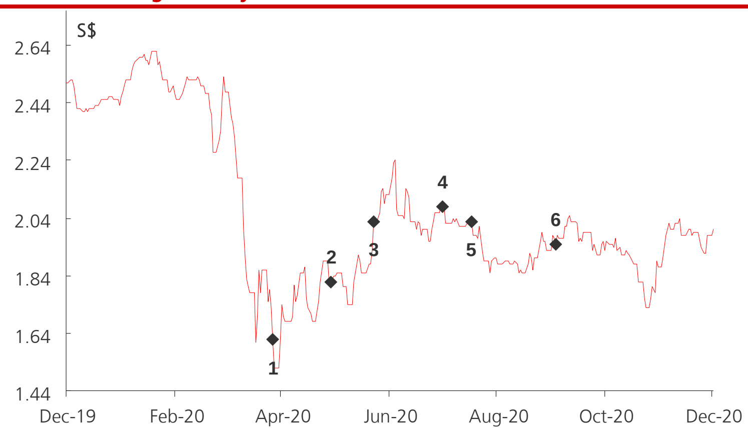
Merged full-year financials of CMT and CCT.

Cash Flow Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	478	735	374	700	758
Dep. & Amort.	0.0	1.73	0.0	0.0	0.0
Tax Paid	0.0	0.0	(0.2)	0.0	0.0
Associates &JV Inc/(Loss)	(129)	(89.2)	(110)	(17.4)	(38.8)
Chg in Wkg.Cap.	19.4	5.79	117	274	21.8
Other Operating CF	87.9	(142)	0.0	0.0	0.0
Net Operating CF	**456**	**512**	**382**	**956**	**741**
Net Invt in Properties	(316)	0.0	(10.0)	(10.0)	(10.0)
Other Invts (net)	0.0	(1.0)	(994)	0.0	0.0
Invts in Assoc. & JV	0.0	(126)	0.0	0.0	0.0
Div from Assoc. & JVs	81.0	77.0	110	17.4	38.8
Other Investing CF	0.26	(8.4)	0.0	0.0	0.0
Net Investing CF	**(235)**	**(58.2)**	**(894)**	**7.43**	**28.8**
Distribution Paid	(456)	(384)	(382)	(755)	(793)
Chg in Gross Debt	(114)	(212)	1,031	10.0	10.0
New Units Issued	272	0.0	16.4	26.2	26.7
Other Financing CF	(97.1)	(3.7)	0.0	0.0	0.0
Net Financing CF	**(395)**	**(600)**	**665**	**(718)**	**(757)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(174)	(146)	153	245	12.8
Operating CFPS (S cts)	12.1	13.7	6.02	10.5	11.0
Free CFPS (S cts)	3.86	13.9	8.47	14.6	11.2

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	02 Apr 20	1.62	1.75	HOLD
2:	05 May 20	1.82	1.75	HOLD
3:	29 May 20	2.03	2.15	BUY
4:	07 Jul 20	2.08	2.40	BUY
5:	23 Jul 20	2.03	2.40	BUY
6:	09 Sep 20	1.95	2.40	BUY

Note : Share price and target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Rachel TAN
Geraldine WONG
Derek TAN

CapitaLand Retail China Trust

Bloomberg: CRCT SP | Reuters: CRCT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Dec 2020

BUY

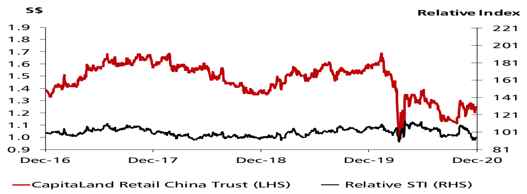
Last Traded Price (8 Dec 2020): S$1.26 (STI : 2,825.63)
Price Target 12-mth: S$1.70 (35% upside) (Prev S$1.55)

Analyst
Geraldine WONG +65 6682 3719 geraldinew@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Shopper traffic and tenant sales at c.90% of normalised levels
- Yuquan mall to prepare for year-end launch at a 94% committed occupancy
- 8% DPU CAGR as we price in the recent S$1bn acquisition deal; compelling 8.5% forward yield at current trading price
- Reiterate BUY call with S$1.70 target price

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2019A	2020F	2021F	2022F
Gross Revenue	238	260	420	430
Net Property Inc	165	171	288	297
Total Return	165	91.0	152	159
Distribution Inc	111	106	165	171
EPU (S cts)	6.01	7.53	9.82	10.0
EPU Gth (%)	(3)	25	30	2
DPU (S cts)	9.90	8.76	10.6	11.0
DPU Gth (%)	(3)	(12)	21	3
NAV per shr (S cts)	155	146	146	141
PE (X)	21.0	16.7	12.8	12.6
Distribution Yield (%)	7.9	6.9	8.4	8.7
P/NAV (x)	0.8	0.9	0.9	0.9
Aggregate Leverage (%)	36.3	38.6	38.4	38.7
ROAE (%)	3.8	4.4	6.7	7.0
Distn. Inc Chng (%):		(1)	34	32
Consensus DPU (S cts):		7.70	9.40	10.3
Other Broker Recs:		B: 6	S: 0	H: 0

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

Brain Box
(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

New horizons beyond scale

Investment Thesis

Compelling value for a morphing China behemoth. We re-iterate our BUY recommendation on CRCT with a revised target price of S$1.70 as we price in the recent S$1bn deal. Post-consolidation, yield accretion to our revised FY21 forecasts is attractive at 5.0%, while forward yields are at a compelling 8.5% on current trading levels.

China is leading the recovery post COVID-19. Green shoots emerged within China retail in August as the sector turned positive for the first time this year, which we see translating into similar shopper footfall and tenant sales trend for CRCT. September retail sales figure posted even stronger growth at +3.3% y-o-y, providing confirmation that retail spending may kick back with a vengeance during this festive shopping period.

Inorganic growth to supplement a 5.0% yield accretion. We remain excited that CRCT will emerge as the group's pure play into China with an addressable pipeline of more than S$33bn. The recent deal is likely one of many to come as CRCT steers towards an asset class mix comprised of mixed development/business parks/retail at 40%/30%/30% respectively. The transformation will bring about new horizons for the REIT beyond scale, with greater income visibility and "future-proofed" earnings beyond the initial 5.0% yield accretion.

Valuation:

Maintain BUY and revise TP to S$1.70 (S$1.55 previously). The acquisition has been priced into our estimates and as we roll forward valuations into FY21.

Where we differ:

Upward trajectory in China sales not priced in. We think that there may be further room for 'normalisation' in retail sales within China given the slew of shopping events in 4Q20 which will entice consumers to open up their wallets further.

Key Risks to Our View:

Tightening pandemic measures following a second wave of COVID-19 pertaining to imported cases or a return of COVID clusters.

At A Glance

Issued Capital (m shrs)	1,437
Mkt. Cap (Sm/USm)	1,811 / 1,355
Major Shareholders (%)	
CapitaLand Ltd	21.7
CapitaLand Integrated Commercial Trust	9.3
Capital and Retail China	5.4
Free Float (%)	63.6
3m Avg. Daily Val (US$m)	6.7

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

ed: TH/ sa: AS, PY, CS

WHAT'S NEW

Revision of estimates

(+) Recovery momentum sustained for both shopper traffic and tenant sales

- CRCT's shopper traffic has recovered to 89% of pre-COVID levels (3Q19) while tenant sales have recovered to 92% of pre-COVID levels.
- Recovery momentum remains strong with a 35% and 26% q-o-q improvement in shopper traffic and tenant sales respectively.
- Broader portfolio occupancy improved by 0.3ppt to 93.7% in the quarter.
- We note that leasing momentum within Beijing malls, that was hit in the past quarter by city-wide lockdown measures, had since eased in 3Q20.
- Occupancy amongst the Beijing malls improved 1ppt to 94.7% q-o-q, led by Xizhimen (+2.6ppts to 95.2%).
- Occupancy amongst the non-Beijing malls retreated 0.3ppt to 89.9% in the quarter, with weakness within Rock Square (91.9% occupancy) which is undergoing AEI.
- 10.4% of leases by GRI will be up for renewal in 4Q20, with 32% expiring next year.
- A big portion of lease expiries originate from Yuhuating which has an upcoming lease expiry of an anchor tenant (contributing c.50% of NLA at the mall).

(+) Area reconfiguration at Rock Square; Yuquan mall launch targeted for year-end

- Rock Square is undergoing a reconfiguration project at level 3 to generate five smaller and higher-yielding retail plots in 2020.
- Project ROI is expected to be c.15% and new plots will be leased to tenants in the F&B space.
- CRCT has plans to extract an additional 1,000 sqm in portfolio NLA over the next 2-3 years.
- The launch of Yuquan mall to replace Saihan mall in the 'Hohhot bundle swap' remains on track and scheduled for year-end.
- The mall surprised with a strong 94% committed occupancy and will place emphasis on concepts such as edutainment and feature 'eco-garden' aesthetics.

(+) Higher target price as we price in the recent S$1bn deal; attractive 5.0% yield accretion on revised FY21 DPU.

- We price in the recent deal comprising business park assets/portfolios, acquired at an initial yield of 6.8% and on the assumption of a 75% NPI margin and the remaining 49% stake in Rock Square at a 4.4% NPI yield.
- Revised DPUs of 10.6 Scts/11.0 Scts come FY21/FY22 represent a 5.0% yield increment from our previous FY21 forecast.
- Our assumptions follow a 44% debt: 40% equity: 16% equity & perpetuals (S$100m) funding structure with revenue contribution to begin at the start of 2021.
- Following the acquisition, CRCT's enlarged portfolio will consist of 18 properties, with its AUM enlarged by 28.5% to S$4.5bn and GFA increasing by 76% to 1.77m sqm.
- Business parks and industrial spaces will contribute 15% and 5% respectively to the enlarged portfolio by GRI by asset class from the existing full retail exposure with more deals to ensue.

Going into the medium term, this deal will likely be the first of many as CRCT steers the ship towards a target asset exposure comprised of mixed development/business park/retail sectors targeted at 40%/30%/30%.

We reiterate our BUY recommendation with a higher target price of S$1.70 as we price in the recent deal and roll forward valuations to FY21F.

Company Background

CapitaLand Retail China Trust (CRCT) is a real estate investment trust which invests in income-producing real estate assets in China, Hong Kong and Macau that are used primarily for retail, office and industrial purposes.

Income Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross revenue	223	238	260	420	430
Property expenses	(75.3)	(72.8)	(88.5)	(133)	(134)
Net Property Income	147	165	171	288	297
Other Operating expenses	(16.2)	(5.7)	(20.8)	(25.5)	(25.9)
Other Non Opg (Exp)/Inc	(2.4)	0.0	0.0	0.0	0.0
Associates & JV Inc	7.25	8.57	5.31	0.0	0.0
Net Interest (Exp)/Inc	(20.4)	(29.4)	(36.2)	(47.8)	(48.2)
Exceptional Gain/(Loss)	0.0	2.37	0.0	0.0	0.0
Net Income	116	141	120	214	223
Tax	(56.5)	(74.6)	(28.6)	(53.6)	(55.7)
Minority Interest	1.09	(1.2)	0.0	(4.9)	(5.0)
Preference Dividend	0.0	0.0	0.0	(3.4)	(3.4)
Net Income After Tax	60.1	65.3	91.0	152	159
Total Return	129	165	91.0	152	159
Non-tax deductible Items	(34.8)	(54.6)	7.85	12.5	12.9
Net Inc available for Dist.	99.7	111	106	165	171
Growth & Ratio					
Revenue Gth (%)	(2.8)	6.9	9.0	61.9	2.3
N Property Inc Gth (%)	(1.2)	12.2	3.5	67.9	3.2
Net Inc Gth (%)	(41.7)	8.7	39.3	67.5	4.1
Dist. Payout Ratio (%)	100.0	96.2	100.0	100.0	100.0
Net Prop Inc Margins (%)	66.2	69.4	65.9	68.4	69.0
Net Income Margins (%)	27.0	27.4	35.0	36.3	36.9
Dist to revenue (%)	44.8	46.5	40.8	39.2	39.9
Managers & Trustee's fees	7.3	2.4	8.0	6.1	6.0
ROAE (%)	3.9	3.8	4.4	6.7	7.0
ROA (%)	2.1	1.9	2.2	3.3	3.4
ROCE (%)	2.9	2.7	3.2	4.8	5.0
Int. Cover (x)	6.4	5.4	4.2	5.5	5.6

Source: Company, DBS Bank

Consolidation of income from Rock Square

Balance Sheet (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Investment Properties	2,441	3,168	4,400	4,413	4,426
Other LT Assets	260	264	1.26	1.26	1.26
Cash & ST Invts	174	140	85.6	123	140
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	107	124	42.1	68.1	69.7
Other Current Assets	0.12	109	109	109	109
Total Assets	**2,983**	**3,806**	**4,638**	**4,714**	**4,745**
ST Debt	161	207	207	207	207
Creditor	60.7	151	78.7	127	130
Other Current Liab	29.2	59.5	59.5	59.5	59.5
LT Debt	877	1,173	1,583	1,605	1,628
Other LT Liabilities	283	342	342	342	342
Unit holders' funds	1,553	1,874	2,369	2,369	2,369
Minority Interests	18.3	0.0	0.0	4.92	9.88
Total Funds & Liabilities	**2,983**	**3,806**	**4,638**	**4,714**	**4,745**
Non-Cash Wkg. Capital	17.3	23.2	13.1	(9.5)	(10.9)
Net Cash/(Debt)	(864)	(1,240)	(1,704)	(1,689)	(1,695)
Ratio					
Current Ratio (x)	1.1	0.9	0.7	0.8	0.8
Quick Ratio (x)	1.1	0.9	0.7	0.8	0.8
Aggregate Leverage (%)	34.8	36.3	38.6	38.4	38.7
Z-Score (X)	0.9	0.7	0.8	0.8	0.8

Source: Company, DBS Bank

Acquisition deal of S$1,006m to be completed by FY20 through 44% debt, 40% EFR and cash & perpetuals

Includes equity fund raising and issuance of S$100m in perpetuals for business park and Rock Square deal

Cash Flow Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	116	167	120	214	223
Dep. & Amort.	1.73	1.73	1.73	1.73	1.73
Tax Paid	(56.5)	(74.6)	(28.6)	(53.6)	(55.7)
Associates &JV Inc/(Loss)	(7.2)	(8.6)	(5.3)	0.0	0.0
Chg in Wkg.Cap.	(57.5)	(18.4)	10.0	22.7	1.38
Other Operating CF	122	60.6	6.12	10.8	11.1
Net Operating CF	**118**	**127**	**104**	**196**	**181**
Net Invt in Properties	(11.4)	(155)	(1,232)	(12.6)	(12.9)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(327)	(393)	268	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	2.43	2.55	0.0	0.0	0.0
Net Investing CF	**(336)**	**(546)**	**(964)**	**(12.6)**	**(12.9)**
Distribution Paid	(44.3)	(68.3)	(106)	(165)	(171)
Chg in Gross Debt	291	205	409	22.6	22.9
New units issued	(0.1)	276	402	0.0	0.0
Other Financing CF	(35.2)	(5.6)	100	(3.4)	(3.4)
Net Financing CF	**212**	**407**	**806**	**(146)**	**(152)**
Currency Adjustments	(5.6)	(22.1)	0.0	0.0	0.0
Chg in Cash	(12.6)	(34.0)	(54.3)	37.6	16.3
Operating CFPS (S cts)	18.1	13.4	7.74	11.2	11.4
Free CFPS (S cts)	11.0	(2.6)	(93.3)	11.8	10.6

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	10 Feb 20	1.51	1.75	BUY
2:	13 Apr 20	1.32	1.55	BUY
3:	08 Oct 20	1.20	1.55	BUY
4:	06 Nov 20	1.23	1.55	BUY

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

Source: DBS Bank

Analyst: Geraldine WONG

Derek TAN

Frasers Centrepoint Trust

Bloomberg: FCT SP | Reuters: FCRT.SI **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 4 Nov 2020

BUY

Last Traded Price (3 Nov 2020): S$2.11 (STI : 2,497.22)
Price Target 12-mth: S$3.00 (42% upside) (Prev S$2.94)

Analyst
Geraldine WONG geraldinew@dbs.com
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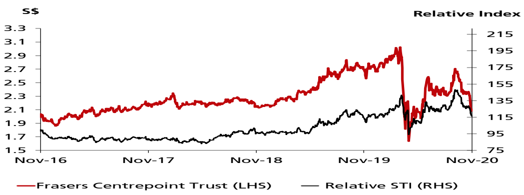
What's New

- Distributions to rise past pre-COVID levels with PGIM acquisition in FY21
- Operational metrics stable; a majority of tenant trades showing promise with minimal further assistance expected
- Phase 3 reopening to further boost tenants' sales
- Worst potentially over, TP raised to S$3.00

Price Relative



Forecasts and Valuation

FY Sep (S$m)	2019A	2020A	2021F	2022F
Gross Revenue	196	164	397	425
Net Property Inc	139	111	281	300
Total Return	206	152	201	213
Distribution Inc	119	101	214	227
EPU (S cts)	10.1	13.1	14.1	12.4
EPU Gth (%)	(10)	30	8	(13)
DPU (S cts)	12.1	9.04	12.8	13.1
DPU Gth (%)	0	(25)	42	3
NAV per shr (S cts)	221	227	223	222
PE (X)	20.9	16.1	14.9	17.1
Distribution Yield (%)	5.7	4.3	6.1	6.2
P/NAV (x)	1.0	0.9	0.9	1.0
Aggregate Leverage (%)	28.8	32.2	41.5	41.6
ROAE (%)	5.1	5.9	6.3	5.6

Distn. Inc Chng (%):			47	51
Consensus DPU (S cts):			12.6	13.0
Other Broker Recs:		B: 15	S: 0	H: 4

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

Back in the groove

Investment Thesis

Maintain BUY, TP revised to S$3.00. FCT has entered a new era of growth with the completion of the acquisition of PGIM portfolio. With one of the largest exposures in the suburban retail portfolio in Singapore, we remain excited that FCT can deliver a potent mix of growth and stability in the medium term. We project DPU in FY21 to be c.6% higher than pre-COVID-19 levels. TP is raised to S$3.00, implying a target yield of 4.5%.

Where we differ: Retail sales rebound may be sustainable. Retail sales in 4QFY20 narrowed to c.3% below normalised levels and we believe the momentum can be sustained, given that majority of the trades are essential services. We expect the phase 3 reopening of the Singapore economy to boost its portfolio performance, especially when rules may be relaxed for atrium sales and higher group sizes to drive sales in the F&B space.

More deals in the pipeline. We believe that PGIM is not the end game for FCT and there are further acquisitions that can be executed in the medium term, including Northpoint City South Wing and further stakes in Waterway point.

Valuation:

We have revised our estimates after accounting for the recent acquisition of the former PGIM portfolio in our estimates.

Where we differ:

We remain positive than peers on the prospects of retail, which is expected to do better than peers in the current environment.

Key Risks to Our View:

A 2nd wave in Singapore potentially curbing consumer spent.

At A Glance

Issued Capital (m shrs)	1,689
Mkt. Cap (Sm/USm)	3,563 / 2,619
Major Shareholders (%)	
TCC Assets Ltd]	25.1
Free Float (%)	74.9
3m Avg. Daily Val (US$m)	8.4

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

WHAT'S NEW

Phase 3 reopening to further boost performance

Top-line weakness from rental reliefs

- Gross revenue and NPI for full-year 2020 was S$164.38m (-16% y-o-y) and S$110.89m (-20.4% y-o-y) respectively.
- Excluding the rental relief of S$27.4m provided to tenants this year, decline in revenue and NPI would have narrowed at -2.4% and -0.7% respectively, mainly due to the loss in ancillary income (i.e. car park and atrium space rental).
- Correspondingly, distributable income declined 15% y-o-y to S$101.1m, while DPU for FY20 declined 25% to 9.042 Scts.

Operational performance

- Occupancy rate increased marginally q-o-q to c.94.9%, mainly from better take-up rates at Yew Tee Point (c.97.1%) and Waterway Point (c.96.0%) which more than offset the slight drop in occupancies at Northpoint City North Wing and Causeway Point.
- Rental reversion for FY20 was a positive c.4.2% (average growth in rental rates between new and expiring leases) but if we compare expiring to new rental rates, this would have been flattish.

Outlook – suburban malls to continue to excel when phase 3 re-opening comes.

- Tenant retail sales have rebounded close to pre-COVID-19 levels, contracting by only 3.0% y-o-y in 4QFY20, while shopper traffic was c.38% lower y-o-y. We understand that most retailers, except a few family karaoke and travel agencies (c.1% of revenues), have resumed business.
- Retailers within the essential service trade, which is a majority of the tenant trades with FCT mall, continue to do well while its department store operator – Metro is seeing stable operational metrics.
- We understand that c.20% of the tenants are currently seeing operational statistics at 20% below pre-COVID-19 levels and may need additional assistance. The manager is looking to assist through active marketing and promotion to boost tenant sales rather than offering further rebates.
- The continued reopening the Singapore economy into phases 3 is positive for operating metrics. We anticipate the resumption of atrium sales and potentially bigger group sizes (from 5 pax to 8 pax) to drive consumption, especially for the food & beverage (F&B) sector.

PGIM acquisition to drive performance in FY21

- With the completion of the acquisition of PGIM portfolio and planned sale of Bedok Point, we see a c.6% increase in DPU for FY21 vs pre-COVID-19 DPU of 12.1 Scts.
- This is mainly driven from the anticipated higher leverage taken to fund the acquisition, coupled with the unwinding of the private fund into a tax transparent structure.
- Our TP is raised to S$3.00 with a target yield of 4.5%.

Company Background

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

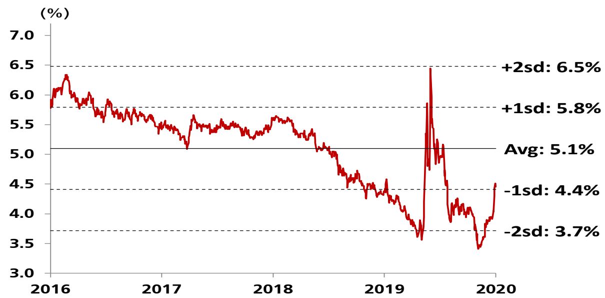
Quarterly / Interim Income Statement (S$m)

Summary of results	2H20	2H19	%y-o-y	FY20	FY19	%q-o-q
Revenue (S$m)	64.5	97.4	-34%	164.4	196.4	-16%
NPI (S$m)	38.6	67.5	-43%	110.9	139.3	-20%
Income contribution from JV (S$m)	24.3	11.5	111%	43.8	13.7	220%
DI (S$m)	30.1	62.2	-52%	101.2	118.7	-15%
DPU (Scts)	4.372	5.913	-26%	9.042	12.070	-25%
Key Financial Metrics				**FY20**	**FY19**	**%q-o-q**
Gearing				35.9%	32.9%	3 ppt
Average cost of debt				2.40%	2.60%	-0.2 ppt
ICR (x)				5.0	5.3	(0.4)
NAV per unit (S$)				2.27	2.21	3%
Key Operational Data		**FY20**	**3Q20**	**%q-o-q**	**FY19**	**%q-o-q**
Portfolio occupancies		94.9%	94.6%	0.3 ppt	96.5%	-1.6 ppt
Rental reversions (%)		4.2%	n.a.	-	5.2%	-1 ppt
WALE (years)		1.55	1.69	(0.1)	1.72	(0.2)
Leases expiring FY20/FY21:						
FY21		32.6%	29.6%	3 ppt	26.9%	5.7 ppt
FY22		33.6%	32.3%	1.3 ppt	28.0%	5.6 ppt

Source of all data: Company, DBS Bank

Historical Distribution yield and PB band

Distribution yield (%)



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

PB band (x)

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

Income Statement (S$m)

FY Sep	2018A	2019A	2020A	2021F	2022F
Gross revenue	193	196	164	397	425
Property expenses	(56.2)	(57.1)	(53.5)	(117)	(125)
Net Property Income	**137**	**139**	**111**	**281**	**300**
Other Operating expenses	(17.2)	(18.7)	(20.7)	(36.0)	(37.0)
Other Non Opg (Exp)/Inc	0.0	0.13	(0.5)	0.0	0.0
Associates & JV Inc	3.77	15.8	88.7	20.7	20.9
Net Interest (Exp)/Inc	(20.0)	(24.1)	(27.6)	(64.4)	(70.7)
Exceptional Gain/(Loss)	0.37	0.17	(3.8)	0.0	0.0
Net Income	**104**	**113**	**147**	**201**	**213**
Tax	0.0	0.0	(0.1)	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	**104**	**113**	**147**	**201**	**213**
Total Return	167	206	152	201	213
Non-tax deductible Items	(3.5)	9.77	35.7	13.1	13.4
Net Inc available for Dist.	111	119	101	214	227
Growth & Ratio					
Revenue Gth (%)	6.5	1.6	(16.3)	141.8	7.0
N Property Inc Gth (%)	5.9	1.5	(20.4)	153.3	6.8
Net Inc Gth (%)	4.6	8.2	30.4	36.9	6.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	71.0	70.9	67.5	70.7	70.6
Net Income Margins (%)	53.8	57.4	89.4	50.6	50.2
Dist to revenue (%)	57.6	60.5	61.5	53.9	53.3
Managers & Trustee's fees	8.9	9.5	12.6	9.1	8.7
ROAE (%)	5.5	5.1	5.9	6.3	5.6
ROA (%)	3.7	3.5	3.9	3.8	3.1
ROCE (%)	4.4	3.8	2.4	4.7	3.9
Int. Cover (x)	6.0	5.0	3.3	3.8	3.7

Source: Company, DBS Bank

Driven by acquisitions

Balance Sheet (S$m)

FY Sep	2018A	2019A	2020A	2021F	2022F
Investment Properties	2,749	2,846	2,750	6,522	6,530
Other LT Assets	66.4	749	988	288	288
Cash & ST Invts	21.9	13.1	28.6	0.76	4.31
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	3.00	3.14	9.69	9.69	9.69
Other Current Assets	0.06	0.0	108	0.0	0.0
Total Assets	2,840	3,611	3,883	6,820	6,832
ST Debt	217	295	255	255	255
Creditor	46.2	47.3	43.3	95.8	102
Other Current Liab	16.3	22.6	18.8	18.8	18.8
LT Debt	596	745	997	2,573	2,589
Other LT Liabilities	31.5	30.1	30.7	30.7	30.7
Unit holders' funds	1,934	2,471	2,538	3,847	3,836
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	2,840	3,611	3,883	6,820	6,832
Non-Cash Wkg. Capital	(59.4)	(66.8)	55.6	(105)	(112)
Net Cash/(Debt)	(791)	(1,027)	(1,224)	(2,827)	(2,839)
Ratio					
Current Ratio (x)	0.1	0.0	0.5	0.0	0.0
Quick Ratio (x)	0.1	0.0	0.1	0.0	0.0
Aggregate Leverage (%)	28.6	28.8	32.2	41.5	41.6
Z-Score (X)	1.7	1.6	1.4	1.4	1.4

Source: Company, DBS Bank

Gearing estimated at c. 41%

Cash Flow Statement (S$m)

FY Sep	2018A	2019A	2020A	2021F	2022F
Pre-Tax Income	104	113	147	201	213
Dep. & Amort.	0.03	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates &JV Inc/(Loss)	(3.8)	(15.8)	(88.7)	(20.7)	(20.9)
Chg in Wkg.Cap.	11.8	4.36	(19.6)	161	6.68
Other Operating CF	24.8	29.5	39.4	2.16	2.25
Net Operating CF	**137**	**131**	**78.1**	**343**	**201**
Net Invt in Properties	(15.5)	(5.0)	(11.1)	(3,073)	(8.0)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	(668)	(197)	0.0	0.0
Div from Assoc. & JVs	3.99	12.8	44.5	20.7	20.9
Other Investing CF	0.0	0.0	0.01	0.0	0.0
Net Investing CF	**(11.6)**	**(661)**	**(164)**	**(3,052)**	**12.9**
Distribution Paid	(112)	(114)	(84.8)	(214)	(227)
Chg in Gross Debt	15.0	206	186	1,575	16.0
New units issued	0.0	431	0.0	1,320	0.0
Other Financing CF	(19.8)	(2.5)	0.0	0.0	0.0
Net Financing CF	**(117)**	**521**	**101**	**2,681**	**(211)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	8.32	(8.8)	15.5	(27.8)	3.55
Operating CFPS (S cts)	13.5	11.3	8.73	12.8	11.3
Free CFPS (S cts)	13.1	11.3	5.99	(192)	11.2

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	23 Jan 20	2.85	2.94	BUY
2:	09 Mar 20	2.87	3.34	BUY
3:	02 Apr 20	1.81	2.04	HOLD
4:	05 May 20	2.07	2.04	HOLD
5:	29 May 20	2.42	2.64	BUY
6:	02 Jul 20	2.33	2.94	BUY
7:	24 Jul 20	2.38	2.94	BUY

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

Source: DBS Bank

Analyst: Geraldine WONG
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: 4 Nov 2020 08:13:54 (SGT)
Dissemination Date: 4 Nov 2020 08:33:45 (SGT)

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

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LendLease Global Commercial REIT

Bloomberg: LREIT SP | Reuters: LEND.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

17 Sep 2020

BUY

Last Traded Price (16 Sep 2020): S$0.670 (**STI :** 2,505.15)
Price Target 12-mth: S$0.90 (34% upside) (Prev S$0.85)

Analyst
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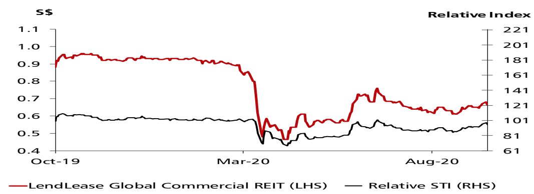
What's New

- Grange Road carpark redevelopment to extend LREIT's footprint to c.330k sqft within Somerset
- Acquisition of a stake in JEM overlooked at current valuations
- Rental disparity gap against Orchard peers may catch up with 313@Somserset's growing dominance
- Maintain BUY, TP S$0.90

Price Relative



Forecasts and Valuation

FY Jun(S$m)	2020F*	2021F	2022F
Gross Revenue	55.5	86.9	92.6
Net Property Inc	40.3	64.8	68.9
Total Return	(8.6)	44.0	48.1
Distribution Inc	35.7	61.0	63.6
EPU (S cts)	0.97	3.70	3.99
EPU Gth (%)	nm	281	8
DPU (S cts)	3.03	5.15	5.33
DPU Gth (%)	nm	70	3
NAV per shr (S cts)	83.8	83.1	82.3
PE (X)	69.1	18.1	16.8
Distribution Yield (%)	4.5	7.7	7.9
P/NAV (x)	0.8	0.8	0.8
Aggregate Leverage (%)	34.0	34.6	34.9
ROAE (%)	1.2	4.4	4.8

Distn. Inc Chng (%):	(37)	(2)	0
Consensus DPU (S cts):	4.0	4.8	5.0
Other Broker Recs:	B: 3	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.
** 2020F: 2 Oct 2019 (Listing Date) to 30 Jun 2020*

Brain Box
(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

Lotus flower in bloom

Investment Thesis

Undervalued Gem. We like Lendlease Global Commercial REIT (LREIT) for its compelling valuation of 0.78x P/NAV (retail peer average of 0.94x P/NAV), yield of 7.7%, anchored by resilient earnings.

Rocking to a new beat at 313@Somerset. We see more upside from the repositioning 313@Somerset's tenant mix in view of its enlarged footprint to c.330k sqft and shopper base following the launch of Grange Road carpark redevelopment in 2Q22. With projected returns of 18% from the redevelopment, we see DPU growing by 3% CAGR in FY21-22.

Acquisitions overlooked at current valuations. We believe that LREIT's first acquisition, which could be a stake in quality suburban mall JEM, may be just around the corner. Likely to be debt funded, the yield accretion will further boost the REIT's DPU profile. Higher DPU growth rates will be a catalyst for a share price re-rating.

Valuation:

Maintain BUY, TP S$ 0.90. Our discounted cash flow valuation factors in (i) 2.0% risk free rate, (ii) 1.0 beta, (iii) 6.31% WACC, and (iv) 2.0% terminal growth to derive a target price of S$0.90.

Where we differ:

Structured to weather storms. 313@Somerset continues to show resiliency with high tenant retention of >90% maintained, while churning a surprise value appreciation amid Covid-19. Sky Complex lease remains rock-solid with a 12-year triple net master lease expiring in 2032.

Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	1,172
Mkt. Cap (Sm/USm)	785 / 578
Major Shareholders (%)	
Lendlease SREIT Pty Ltd	24.3
Temasek Holdings Pte Ltd	4.9
Blackrock Inc	4.9
Free Float (%)	65.9
3m Avg. Daily Val (US$m)	1.6

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

ed: JS/ sa: JC, PY, CS

WHAT'S NEW

Rocking to a new beat at 313@Somerset

Going from strength to strength, 313@Somerset to emerge as the dominant mall within Somerset area. Contrary to investors perception, we believe that the dominant positioning of 313@Somerset and stickiness of its leases are not well understood and yet to be reflected with the stock trading at P/NAV of 0.78x with a forward yield of 7.7%. The mall has proven to be able to hold up amid the Covid-19 storm. We had previously shortlisted 313@Somerset as one of the dominant malls in Singapore due to its (i) prime location along Orchard Road with direct connectivity to Somerset MRT Station, (ii) sizeable footprint of 288k sqft with expansion potential from the uplift in unutilised plot ratio and with additional GFA from Grange Road car park redevelopment, (iii) strong positioning targeting millennials, and (iv) superior tenant sales generation. These qualities could be the factors behind the mall's historically high tenant retention rate at over 90%. With short term catalysts of plot ratio maximisation and redevelopment of Grange Road carpark, 313@Somerset will likely go from strength to strength, and further anchor the mall's strong positioning within the Somerset precinct.

Occupancy steady within 313@Somerset despite the circuit breaker disruption; traffic and sales to head towards pre-COVID levels in coming quarter. Occupancy rate at 313@Somerset dipped 1.4 ppts q-o-q to 97.8% as at end June 2020, with a high tenant retention rate of 87% (c.93% in the previous quarter). We believe the slightly lower occupancy is transitionary in nature. Footfall has recovered to 40% of pre-COVID levels for the month of June with tenant sales recovery led by the electronics and food & beverage trades. Since July 2020, based on our site visits, we understand that traffic and sales are rising towards pre-COVID levels which is a positive sign for LREIT.

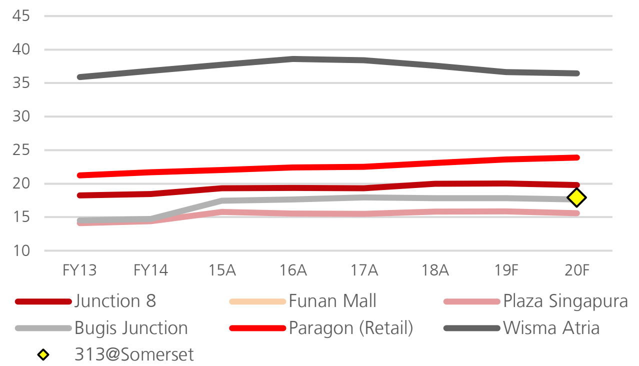
With tenants potentially doing better and starting to clock in more sales, we anticipate lower rental assistance will be required in the coming quarters, implying that the worst is most likely over for LREIT.

Eat play shop. The mall has a large percentage of tenant exposure to the food & beverage (39% of GRI) and fashion (29% of GRI) trade categories, but we note that there are currently only three entertainment tenants at the mall. The new plug-and-play event space at Grange Road carpark will be a step forward for 313@Somerset as a one stop entertainment hub with the inclusion of a cinema operator The Projector, and events promoter Live Nation. The repositioned mall will be able to better compete with neighbouring retail malls with cinema operators such as Orchard Cineleisure and Plaza Singapura, and extend the average shopper's length of stay per trip and dollars spent at the mall.

Valuation gain exceeded expectations. Valuations held up well at Sky Complex due to strong investment interest and solid cash flows from longstanding lease with quality tenant, Sky Italia. LREIT's quality assets were able to generate valuation gains for the latest quarter - 313@Somerset appreciated 0.5% from a year ago, as opposed to a c.3-4% decline in retail valuations reported by peers.

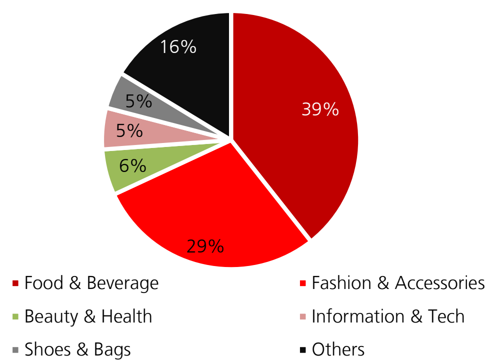
Rental disparity gap may play catch up in the medium term. Passing rent at 313@Somerset at c.S$18 psf pm continues to lag rents along prime Orchard Road which are in the range of c.S$25 - S$30 psf pm. We think that this rental disparity may see some compression in the medium to longer term given the mall's dominant characteristics. Moreover, we estimate tenant sales generation to match that of landmark malls in the precinct such as Paragon Mall.

Central mall estimated passing rents (S$ psf pm)



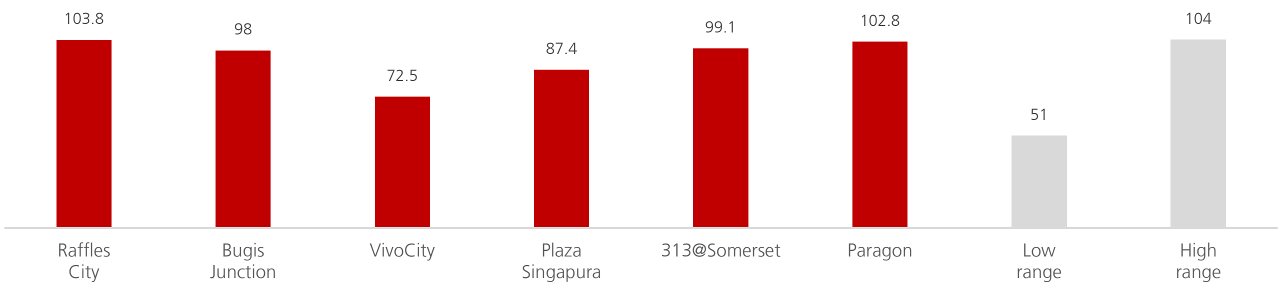
Source: Companies, DBS Bank

313@Somerset tenant breakdown by gross rental income



Source: Mediacorp, DBS Bank

Monthly tenant sales of dominant malls in the central region (S$ psf pm)



Source: Companies, DBS Bank

Leading the pack: Grange Road carpark redevelopment to augment 313@Somerset's leadership in Somerset area.

313@Somerset repositioning in anticipation of an enlarged shopper base. LREIT will be repositioning 313@Somerset's tenant mix given the enlarged shopper base following the launch of Grange Carpark redevelopment in 2Q22. Focus will remain on tenants that embrace omnichannel retail concepts with strong appeal to millennial shoppers. 313@Somerset has continued to deliver resilient performance during a trough, with a high tenant retention ratio of c.90% that provides occupancy stability and pockets of opportunities for LREIT to refresh its portfolio tenant mix.

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Grange Road car park to be transformed into a designed event space next to 313@somerset. LREIT won the tender to redevelop the neighbouring car park at Grange Road into a new 48,200 sqft multi-functional event space, as part of the 2019 URA Master Plan to rejuvenate the Orchard and Somerset areas. The tender stipulates a total tenancy term of not more than 10 years, or 3+3+3+1 years. We see this as a coup for the REIT as the car park's location next to 313@Someset is strategic for the Manager. This will effectively expand LREIT's footprint in the Somerset area to c.330k sqft, making it one of the largest malls in this submarket.

With visible frontage along Orchard Road and Grange Road, we see the expanded 313@Somerset pulling itself ahead of the other malls in the Somerset precinct with wider offerings to attract consumers to open their wallets, and experience new concepts. The proposed new concept replacing the carpark will include multiple dedicated event spaces, an independent cinema and local food & beverage attractions, targeted at millennials and tourists.

Working with Live Nation to infuse new life and exciting concepts to Somerset area. LREIT is collaborating with Live

Nation, an American events promotor, to host concerts, films and events all year round. They have organized concerts and events for the likes of Taiwanese band Mayday and Korea's girl group TWICE. Cinema operator was revealed to be The Projector, a local independent cinema operator currently based in Golden Mile Tower. This will boost the variety of entertainment related tenants at 313@Somerset, which currently comprises of Fat Cat Arcade, HaveFun Family KTV and K Bowling Club.

Target completion in 2Q22; funded by internal working capital. Target completion date for the curated space will be 2Q22, with an estimated development cost of c.S$10m. The development cost will be funded via LREIT's working capital, spread across the development time frame. No additional debt will be expected to be undertaken for the project, with minimal impact on gearing (c.36% at 31 March 2020). While returns have not been provided, we believe that an ROI of at least in the double-digit level will most likely commensurate for the short tenure of 10 years in order for the investment to make sense. We have priced in a conservative ROI of 18% in our estimates, boosting our FY23 revenue by 3.2%.

Why will this concept work in our view. The redevelopment serves as another short to medium term catalyst for LREIT, in addition to the deployment of additional plot ratio at 313@Somerset. Various retail concepts had been previously tested at Grange Road Car Park, including the Flashbang street market, but we believe that the long tenure period will help anchor the area as a designated event space within the Orchard and Somerset precinct. Moreover, we envision that the lease terms for non-anchor tenants will be shorter for this event space to keep concepts fresh and may serve as an expansion or test bed option for new retail concepts for existing tenants at 313@Somerset, putting the mall in the heart of the retail ecosystem.

Potential acquisitions on the horizon. The acquisition of quality suburban malls JEM (Jurong) and possibly Parkway Parade (Marine Parade) or a partial stake in Paya Lebar Quarter (office component) may unfold in the near to medium term horizon. We believe that the acquisition of stakes in either property will likely utilise a greater proportion of debt given its high cost of equity. With a gearing headroom ranging from S$280m (based on 45% gearing) to S$450m (50% gearing), there is capacity for LREIT to drive higher growth in DPUs.

That said, a more sustained recovery in share price will increase the REIT's potential to tap the equity market in order to grow its AUM more meaningfully given its attractive pipeline of properties for acquisition

Maintain BUY, TP S$0.90. We have priced in LREIT's Grange Road carpark redevelopment at 18% ROI, to start contributing to topline income from 2H22, while rolling forward valuations into FY21. Our underlying earnings assumptions remain unchanged at both 313@Somerset and Sky Complex.

Company Background

Lendlease Global Commercial REIT ("LLGCR") was listed on 2 October as a real estate investment trust with the principal objective of owning in-producing real estate across the globe.

The initial portfolio will comprise full ownership stakes in two assets, namely retail mall 313@somerset (Singapore) and office asset Sky Complex (Italy).

Quarterly / Interim Income Statement (S$m)

FY Jun	3Q2020	4Q2020	% chg qoq
Gross revenue	21.7	12.5	(42.5)
Property expenses	(5.1)	(5.0)	(2.2)
Net Property Income	16.6	7.51	(54.7)
Other Operating expenses	(0.4)	(0.6)	74.6
Other Non Opg (Exp)/Inc	0.0	0.0	-
Associates & JV Inc	0.0	0.0	-
Net Interest (Exp)/Inc	(2.2)	(2.2)	0.6
Exceptional Gain/(Loss)	(18.5)	27.2	-
Net Income	**(6.4)**	**30.4**	**-**
Tax	0.0	0.0	-
Minority Interest	0.0	0.0	-
Net Income after Tax	**(6.4)**	**30.4**	**(578.0)**
Total Return	(6.4)	30.4	nm
Non-tax deductible Items	21.3	(24.7)	(215.8)
Net Inc available for Dist.	15.0	5.69	(62.0)
Ratio (%)			
Net Prop Inc Margin	N/A	60.3	
Dist. Payout Ratio	100.0	100.0	

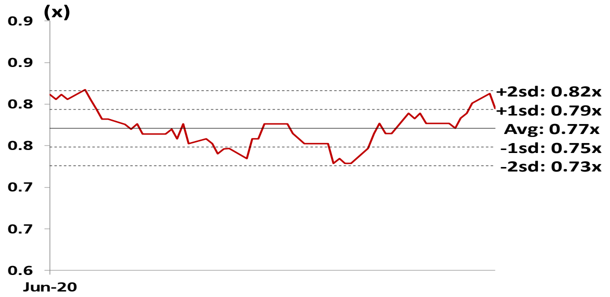
Source of all data: Company, DBS Bank

Historical PE and PB band

Forward PE band (x)

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

PB band (x)



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

DBS
Live more, Bank less

Income Statement (S$m)

FY Jun	2020F	2021F	2022F
Gross revenue	55.5	86.9	92.6
Property expenses	(15.2)	(22.0)	(23.7)
Net Property Income	40.3	64.8	68.9
Other Operating expenses	(6.8)	(9.7)	(9.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0
Net Interest (Exp)/Inc	(6.7)	(11.2)	(11.3)
Exceptional Gain/(Loss)	(15.3)	0.0	0.0
Net Income	11.5	44.0	48.1
Tax	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0
Net Income After Tax	11.5	44.0	48.1
Total Return	(8.6)	44.0	48.1
Non-tax deductible Items	44.3	17.1	15.5
Net Inc available for Dist.	35.7	61.0	63.6
Growth & Ratio			
Revenue Gth (%)	N/A	56.4	6.6
N Property Inc Gth (%)	nm	60.9	6.3
Net Inc Gth (%)	nm	282.8	9.4
Dist. Payout Ratio (%)	100.0	100.0	100.0
Net Prop Inc Margins (%)	72.5	74.6	74.4
Net Income Margins (%)	20.7	50.6	51.9
Dist to revenue (%)	64.2	70.3	68.7
Managers & Trustee's fees to sales %)	12.3	11.1	10.2
ROAE (%)	1.2	4.4	4.8
ROA (%)	0.7	2.8	3.1
ROCE (%)	2.3	3.8	4.1
Int. Cover (x)	5.0	4.9	5.3

Source: Company, DBS Bank

S$1.5m revenue estimated from Grange carpark redevelopment

Balance Sheet (S$m)

FY Jun	2020F	2021F	2022F
Investment Properties	1,443	1,449	1,455
Other LT Assets	14.0	14.0	14.0
Cash & ST Invts	83.7	67.6	68.0
Inventory	0.0	0.0	0.0
Debtors	10.6	10.6	10.6
Other Current Assets	4.66	4.66	4.66
Total Assets	1,555	1,546	1,552
ST Debt	0.0	0.0	0.0
Creditor	21.8	5.79	6.17
Other Current Liab	0.32	0.32	0.32
LT Debt	529	535	542
Other LT Liabilities	12.1	12.1	12.1
Unit holders' funds	992	992	992
Minority Interests	0.0	0.0	0.0
Total Funds & Liabilities	1,555	1,546	1,552
Non-Cash Wkg. Capital	(6.9)	9.11	8.72
Net Cash/(Debt)	(445)	(468)	(473)
Ratio			
Current Ratio (x)	4.5	13.6	12.8
Quick Ratio (x)	4.5	13.6	12.8
Aggregate Leverage (%)	34.0	34.6	34.9
Z-Score (X)	NA	NA	NA

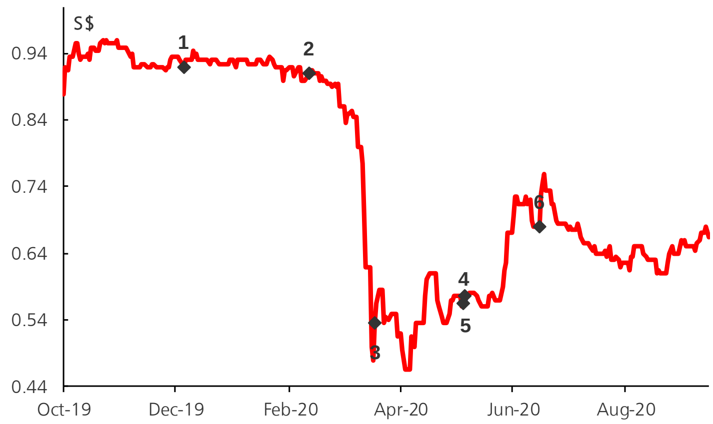
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Jun	2020F	2021F	2022F
Pre-Tax Income	(8.6)	44.0	48.1
Dep. & Amort.	3.87	0.0	0.0
Tax Paid	0.0	0.0	0.0
Associates &JV Inc/(Loss)	0.0	0.0	0.0
Chg in Wkg.Cap.	(3.4)	(16.0)	0.38
Other Operating CF	44.5	17.1	15.5
Net Operating CF	**36.4**	**45.0**	**64.0**
Net Invt in Properties	(1,452)	(6.2)	(6.3)
Other Invts (net)	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0
Other Investing CF	0.53	0.0	0.0
Net Investing CF	**(1,451)**	**(6.2)**	**(6.3)**
Distribution Paid	(15.1)	(61.0)	(63.6)
Chg in Gross Debt	511	6.22	6.30
New units issued	1,002	0.0	0.0
Other Financing CF	0.0	0.0	0.0
Net Financing CF	**1,498**	**(54.8)**	**(57.3)**
Currency Adjustments	0.23	0.0	0.0
Chg in Cash	83.7	(16.0)	0.38
Operating CFPS (S cts)	3.36	5.13	5.28
Free CFPS (S cts)	(120)	3.26	4.79

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Dec 19	0.92	1.05	BUY
2:	11 Feb 20	0.91	1.05	BUY
3:	18 Mar 20	0.54	0.94	BUY
4:	05 May 20	0.57	0.94	BUY
5:	06 May 20	0.58	0.85	BUY
6:	15 Jun 20	0.68	0.85	BUY

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

Source: DBS Bank

Analyst: Singapore Research Team

Derek TAN

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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: 17 Sep 2020 06:58:47 (SGT)
Dissemination Date: 17 Sep 2020 07:11:30 (SGT)

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[1] An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

[2] Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

Sasseur REIT

Bloomberg: SASSR SP | Reuters: SASS.SI

DBS Group Research . Equity

16 Nov 2020

BUY

Last Traded Price (13 Nov 2020): S$0.795 (**STI :** 2,711.39)
Price Target 12-mth: S$0.90 (13% upside) (Prev S$0.80)

Analyst
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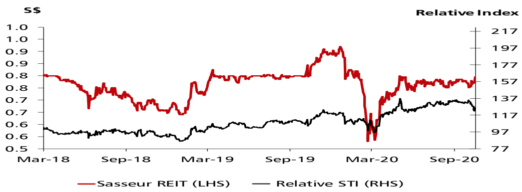
What's New

- DPU rose 7.6% y-o-y and 17% q-o-q on strong EMA rent recovery
- Tenant sales normalised to c.91% of pre-COVID levels in the quarter; seasonal uplift to further boost sales come next quarter
- Market demand resilient with >80% occupancy for sponsor's newly launched malls
- Maintain BUY, higher TP at S$0.90

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2019A	2020F	2021F	2022F
Gross Revenue	118	119	127	131
Net Property Inc	118	119	127	131
Total Return	126	62.5	66.8	70.0
Distribution Inc	77.9	72.2	78.2	79.1
EPU (S cts)	10.5	5.18	5.46	5.68
EPU Gth (%)	(26)	(51)	6	4
DPU (S cts)	6.51	5.98	6.40	6.41
DPU Gth (%)	27	(8)	7	0
NAV per shr (S cts)	89.4	88.5	87.5	86.7
PE (X)	7.5	15.4	14.5	14.0
Distribution Yield (%)	8.2	7.5	8.1	8.1
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	28.5	28.7	28.8	29.0
ROAE (%)	11.8	5.8	6.2	6.5
Distn. Inc Chng (%):		-	-	-
Consensus DPU (S cts):		6.10	6.50	6.80
Other Broker Recs:		B: 5	S: 0	H: 0

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

Brain Box
(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

Up, up and away

Investment Thesis

Maintain BUY; TP revised to S$0.90. Sasseur REIT may be one of the first retail REITs to post a y-o-y growth in DPU at an 8% y-o-y increase in the quarter, which should bode well with investors. This is by virtue of the escalation that is built into the EMA rental structure and strong recovery in tenant sales to c.90% of pre-COVID levels. Sasseur REIT currently trades at an attractive forward yield of 8.2% with further DPU upside from higher variable EMA rents which we have not priced into our current estimates.

Tenant sales normalisation to pose upside to variable rents. Fixed EMA rents, which escalated at c.3% per annum, made up 67% of total rents for the quarter. Variable rents that are tied to tenant sales, while still at a c.10% y-o-y decline, may see upside from seasonally stronger 4Q20 sales numbers for Sasseur REIT. Tenant sales improved 33% q-o-q to RMB1,111m in the quarter. We think that Sasseur REIT is on track to exceed our tenant sales estimates (15% y-o-y dip in FY20), supported by strong pent-up demand and diversion of outbound travel expense towards retail expenditure for the average Chinese consumer.

Valuation:

We maintain our BUY recommendation with a revised DCF-based TP of S$0.90 after rolling forward valuations into FY21.

Where we differ:

Maintaining conservative tenant sales estimates. Our top-line rental revenue is in conjunction with a 15% y-o-y dip in tenant sales for FY20 (as opposed to a previous growth forecast of 5-15%) to account for an approximate two-month temporary closure period this year. We also expect tenant sales in FY21 to normalise back to FY19 levels within our conservative estimates, omitting organic growth across this period.

Key Risks to Our View:

Tightening pandemic measures following a second wave of new COVID-19 infections pertaining to imported cases.

At A Glance

Issued Capital (m shrs)	1,204
Mkt. Cap (Sm/USm)	957 / 710
Major Shareholders (%)	
Sasseur Cayman Holding II Ltd	57.7
Free Float (%)	42.3
3m Avg. Daily Val (US$m)	0.52

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

ed: TH/ sa: YM, PY, CS

WHAT'S NEW

Strong pick-up in tenant sales in 3Q20

(+) DPU rose 7.6% y-o-y in 3Q20

- EMA rental income recorded for the quarter was S$30.3m, a marginal 1.0% decline y-o-y.
- The fixed component, which rose 2.5% y-o-y, made up 67% of total EMA rental income.
- The variable component, which is tied to tenant sales, declined 10.4% y-o-y.
- Distributable income and DPU rose 8.5% and 7.6% y-o-y to S$21.2m and 1.764 Scts respectively.

(+) Tenant sales normalised to 91% of pre-COVID levels this quarter

- Portfolio occupancy declined by 50bps q-o-q to 93.1%, led by a decline in the range of 1.2-2.7 ppts at three outlet malls.
- Tenant sales improved 32.9% q-o-q to RMB1,111m, but declined 8.8% y-o-y from 3Q19 sales figures.
- Tenant sales continue to lag on a YTD basis, declining 28% in 9M20 as compared to 9M19.
- International, domestic fashion and sporting goods lead space demand for Sasseur's portfolio.
- VIP membership increased 23.4% from end-2019 to reach 1.96 million members.

(+) Financial metrics stable and healthy

- Leverage remained unchanged q-o-q at a robust 27.8%, one of the lowest within the sector.
- Average debt maturity extended from 2.5 years to 2.7 years this quarter post refinancing exercise in September.
- Interest savings will come into full effect come next quarter.
- ICR improved y-o-y from 4.8x to 5.3x, while weighted average cost of debt declined by 30bps y-o-y to 4.11% per annum.
- Existing debt headroom stands at S$774m on a 50% target gearing.

Outlook & Recommendation

(+) Outlet mall demand proved to remain resilient amidst consumption volatility

- Sasseur REIT's sponsor launched two new malls in the past quarter in Yangzhou and Xiamen, expanding the number of sponsor pipeline properties from seven to nine.
- We understand that launch occupancy for the new malls would have at least met a threshold of 80-90%, pointing to demand resilience for outlet malls.

(+) Good reasons to anticipate further sales growth next quarter

- The fourth quarter tends to be seasonally strong for Sasseur REIT due to sales of bigger-ticket winter items.
- We anticipate a further surge in tenant sales q-o-q come year-end as the fourth quarter tends to be seasonally strong for consumer demand.
- This would be due to sales of pricier winter fashion items and several key shopping events such as singles day sales and Christmas.
- With travel still at a standstill for the Chinese, domestic retail would likely eat into the outbound travel pie for consumers.

We currently have a BUY recommendation with a higher target price of S$0.90 as we roll forward valuations.

Company Background

Sasseur REIT is a Singapore REIT established with an initial portfolio of four retail outlet malls located in China, offering investors the opportunity to invest in the country's fast-growing retail outlet mall sector.

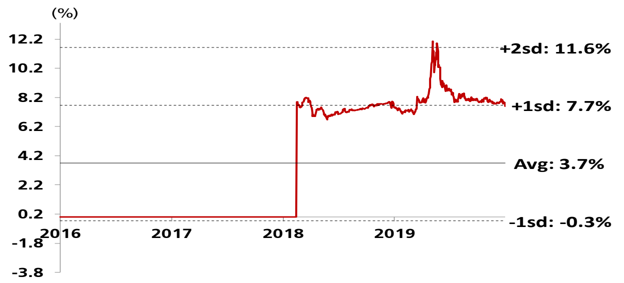
Quarterly / Interim Results Summary

Summary of results	3Q20	2Q20	%q-o-q	3Q19	% y-o-y
EMA rental income (S$m)	30.3	28	8%	30.6	-1.0%
Distributable Income (S$m)	21.2	18.2	16%	19.6	8.2%
DPU (Scts)	1.764	1.512	17%	1.64	7.6%
NAV per unit (Scts)	92.2	90.3	2%	85.0	8.5%
Key Financial Metrics	**3Q20**	**2Q20**	**%q-o-q**	**3Q19**	**% y-o-y**
Gearing	27.8%	28.1%	-0.3 ppt	29.0%	-1.2 ppt
Average cost of debt	4.11%	4.17%	-0.1 ppt	4.43%	-0.3 ppt
ICR	5.3	5.0	0.3	4.8	0.5
WADE (yrs)	2.49	2.23	0.26	2.98	-0.49
RevPAR	**3Q20**	**2Q20**	**%q-o-q**	**3Q19**	**% y-o-y**
Portfolio Occupancy Rate	93.1%	93.6%	-1%	95.4%	-2.4%
WALE (yrs, NLA)	2.8	2.7	0.1	3.1	-0.3
Tenant sales (RMB m)	1110.6	835.7	33%	1218.4	-8.8%

Source of all data: Company, DBS Bank

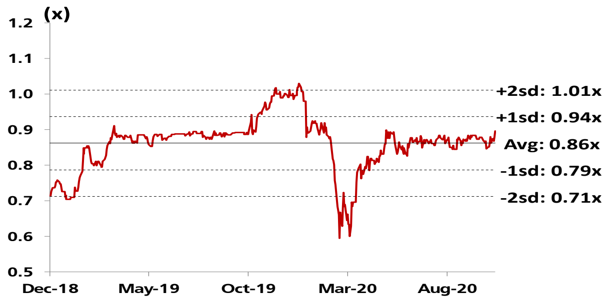
Historical Dividend yield and PB band

Distribution yield (%)



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

PB band (x)



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

Income Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross revenue	93.5	118	119	127	131
Property expenses	0.0	0.0	0.0	0.0	0.0
Net Property Income	**93.5**	**118**	**119**	**127**	**131**
Other Operating expenses	(17.3)	(10.1)	(9.2)	(11.3)	(10.0)
Other Non Opg (Exp)/Inc	(0.2)	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(21.5)	(27.7)	(26.2)	(27.1)	(27.8)
Exceptional Gain/(Loss)	183	95.2	0.0	0.0	0.0
Net Income	**237**	**175**	**83.4**	**89.0**	**93.4**
Tax	(68.1)	(49.3)	(20.8)	(22.3)	(23.3)
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	**169**	**126**	**62.5**	**66.8**	**70.0**
Total Return	169	126	62.5	66.8	70.0
Non-tax deductible Items	(109)	(48.2)	9.70	11.4	9.06
Net Inc available for Dist.	60.5	77.9	72.2	78.2	79.1
Growth & Ratio					
Revenue Gth (%)	N/A	26.2	0.6	7.2	3.0
N Property Inc Gth (%)	nm	26.2	0.6	7.2	3.0
Net Inc Gth (%)	nm	(25.5)	(50.4)	6.8	4.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	100.0	100.0	100.0	100.0	100.0
Net Income Margins (%)	180.9	106.9	52.7	52.4	53.4
Dist to revenue (%)	64.7	66.0	60.8	61.4	60.3
Managers & Trustee's fees	18.5	8.6	7.8	8.8	7.6
ROAE (%)	31.5	11.8	5.8	6.2	6.5
ROA (%)	19.1	7.1	3.5	3.8	3.9
ROCE (%)	8.1	5.7	5.9	6.2	6.4
Int. Cover (x)	3.6	3.9	4.2	4.3	4.4

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	31.0	30.7	29.9	29.2	28.2
Property expenses	0.0	0.0	0.0	0.0	0.0
Net Property Income	31.0	30.7	29.9	29.2	28.2
Other Operating expenses	(1.8)	(2.4)	(2.6)	(2.7)	(2.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(7.0)	(6.9)	(7.0)	(6.9)	(6.8)
Exceptional Gain/(Loss)	(0.2)	0.09	(0.1)	0.01	0.06
Net Income	**22.1**	**21.5**	**20.3**	**19.7**	**18.9**
Tax	(58.3)	(5.1)	(5.2)	(5.2)	(33.8)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**(36.2)**	**16.4**	**15.0**	**14.5**	**(14.8)**
Total Return	23.6	19.7	19.2	19.6	19.5
Non-tax deductible Items	(127)	3.12	4.90	3.77	(60.0)
Net Inc available for Dist.	23.6	19.7	19.2	19.6	19.5
Growth & Ratio					
Revenue Gth (%)	2	(1)	(3)	(2)	(4)
N Property Inc Gth (%)	2	(1)	(3)	(2)	(4)
Net Inc Gth (%)	(321)	(145)	(8)	(4)	(203)
Net Prop Inc Margin (%)	100.0	100.0	100.0	100.0	100.0
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Investment Properties	1,539	1,587	1,591	1,595	1,599
Other LT Assets	0.0	0.0	0.0	0.0	0.0
Cash & ST Invts	229	146	146	146	146
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	0.0	28.5	28.5	28.5	28.5
Other Current Assets	0.0	8.55	8.55	8.55	8.55
Total Assets	**1,769**	**1,770**	**1,774**	**1,778**	**1,782**
ST Debt	7.71	4.08	4.08	4.08	4.08
Creditor	0.0	124	124	124	124
Other Current Liab	150	20.1	20.1	20.1	20.1
LT Debt	486	475	478	482	486
Other LT Liabilities	51.1	78.1	78.1	78.1	78.1
Unit holders' funds	1,074	1,069	1,069	1,069	1,069
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**1,769**	**1,770**	**1,774**	**1,778**	**1,782**
Non-Cash Wkg. Capital	(150)	(108)	(108)	(108)	(108)
Net Cash/(Debt)	(264)	(332)	(336)	(340)	(344)
Ratio					
Current Ratio (x)	1.5	1.2	1.2	1.2	1.2
Quick Ratio (x)	1.5	1.2	1.2	1.2	1.2
Aggregate Leverage (%)	29.0	28.5	28.7	28.8	29.0
Z-Score (X)	1.0	1.1	1.1	1.1	1.1

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	54.6	175	83.4	89.0	93.4
Dep. & Amort.	1.00	1.00	1.00	1.00	1.00
Tax Paid	1.82	(6.3)	(20.8)	(22.3)	(23.3)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(12.7)	5.99	0.0	0.0	0.0
Other Operating CF	59.1	(55.4)	9.70	11.4	9.06
Net Operating CF	**104**	**121**	**73.2**	**79.2**	**80.1**
Net Invt in Properties	(0.9)	(22.3)	(3.6)	(3.8)	(3.9)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	(10.7)	0.0	0.0	0.0
Net Investing CF	**(0.9)**	**(33.0)**	**(3.6)**	**(3.8)**	**(3.9)**
Distribution Paid	(18.7)	(100)	(72.2)	(78.2)	(79.1)
Chg in Gross Debt	121	(7.7)	3.56	3.82	3.93
New units issued	396	0.0	0.0	0.0	0.0
Other Financing CF	(492)	(22.6)	0.0	0.0	0.0
Net Financing CF	**6.78**	**(131)**	**(68.7)**	**(74.4)**	**(75.2)**
Currency Adjustments	(1.3)	(5.2)	0.0	0.0	0.0
Chg in Cash	108	(48.0)	1.00	1.00	1.00
Operating CFPS (S cts)	9.87	9.59	6.06	6.48	6.49
Free CFPS (S cts)	8.72	8.22	5.77	6.17	6.17

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Nov 19	0.85	0.97	BUY
2:	21 Feb 20	0.82	0.93	BUY
3:	14 Apr 20	0.67	0.80	BUY

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

Source: DBS Bank

Analyst: Geraldine WONG
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: 16 Nov 2020 07:34:20 (SGT)
Dissemination Date: 16 Nov 2020 09:00:31 (SGT)

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1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS'') or their subsidiaries and/or other affiliates have a proprietary position in Sasseur REIT recommended in this report as of 31 Oct 2020.
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 Sasseur REIT recommended in this report as of 31 Oct 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 Sasseur REIT as of 31 Oct 2020.

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Disclosure of previous investment recommendation produced:

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SPH REIT

Bloomberg: SPHREIT SP | Reuters: SPHR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Oct 2020

HOLD

Last Traded Price (6 Oct 2020): S$0.885 (**STI :** 2,529.26)
Price Target 12-mth: S$0.80 (10% downside)

Analyst
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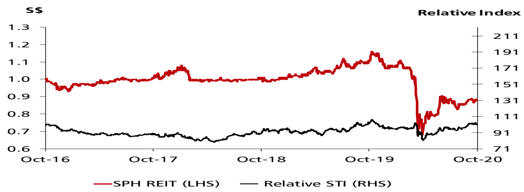
What's New

- Full year DPU missed estimates on lower 79% payout
- Occupancy held up at 97.7%; positive 6.4% rental reversion for Singapore portfolio a positive surprise
- Paragon's valuation was 3.8% lower, in line with expectations
- Forward DPU adjusted to reflect lower payout ratio to conserve cash

Price Relative



Forecasts and Valuation

FY Aug (S$m)	2019A	2020A	2021F	2022F
Gross Revenue	229	241	285	292
Net Property Inc	180	182	210	215
Total Return	150	(74.9)	130	135
Distribution Inc	145	92.2	147	151
EPU (S cts)	5.79	(2.8)	4.70	4.83
EPU Gth (%)	21	nm	nm	3
DPU (S cts)	5.60	2.72	5.28	5.42
DPU Gth (%)	1	(51)	94	3
NAV per shr (S cts)	94.6	90.6	90.6	90.6
PE (X)	15.3	nm	18.8	18.3
Distribution Yield (%)	6.3	3.1	6.0	6.1
P/NAV (x)	0.9	1.0	1.0	1.0
Aggregate Leverage (%)	27.6	30.6	30.9	30.8
ROAE (%)	6.1	(3.0)	5.2	5.3
Distn. Inc Chng (%):			(9)	(8)
Consensus DPU (S cts):			5.40	5.40
Other Broker Recs:		B: 1	S: 1	H: 4

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

Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

Cash conservation mode

Investment Thesis

Maintain HOLD, TP unchanged S$0.80. Paragon continues to lag the broader retail recovery alongside other tourist positioned malls on Orchard Road. Tenants' sales for the full year declined 30% y-o-y to S$508m, pointing to the disparity in recovery compared to suburban asset, Clementi Mall (-13% y-o-y). SPH REIT's dividend payout ratio dropped to 79% in FY20, and we expect the REIT to maintain a conservative stance to build up its cash reserves. This serves as a buffer should additional rental reliefs be required, and would also contribute towards its war chest for future acquisitions.

Suburban exposure may be revisited with ROFR pipeline. Post-pandemic, we think that SPH REIT will look to further diversify its exposure away from Paragon, and perhaps acquire suburban retail assets that are generally more resilient. Woodleigh Mall should come as a second asset from its ROFR pipeline after Seletar Mall and is positioned as a dominant retail mall within a mixed development project in the underserved Bidadari precinct. The mall is currently under construction, and could likely come under consideration only 5 years later i.e. after the first leasing cycle.

Valuation:

Maintain HOLD, unchanged TP of S$0.80. Lower 95% occupancy and negative 5% rental reversion modelled for Paragon given the asset's slow path to normalisation. We have assumed a lower payout of 80% (from 100%) in FY21F and 90% thereafter, while rolling our valuation base to FY21.

Key Risks to Our View:

Border closures beyond 2022 to further impact Paragon and prolong operational weakness beyond FY21.

At A Glance

Issued Capital (m shrs)	2,763
Mkt. Cap (Sm/USm)	2,445 / 1,794
Major Shareholders (%)	
Singapore Press Holdings Ltd	63.4
National Trades Union Congress	5.0
Free Float (%)	31.6
3m Avg. Daily Val (US$m)	1.2

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

WHAT'S NEW

Cash conservation mode

(-) Revenue and NPI increased 5.6% and 1.2% y-o-y respectively

- Revenue and NPI increased by 5.6% and 1.2% y-o-y to S$241.5m and S$181.9m respectively.
- The results reflect incremental contributions from Westfield Marion (S$26.3m) and full year contribution from Figtree Grove (S$12.5m), which more than offsets rental rebates and lower topline contribution from the Singapore portfolio.
- Full year DPU of 2.72 Scts (-51% y-o-y) missed our full year estimate of 4.31 Scts on a lower 79% payout ratio for the full year.
- SPH REIT will be withholding S$14.5m of capital allowances for near term financial flexibility, which will be paid out by August 2021 at the latest in accordance with MAS guideline, based on a 90% distribution policy.

(+) Positive rental reversion maintained with disciplined lease renewals

- Portfolio lease reversion was positive 5.9%, fueled by lease renewals and new leases within the Singapore portfolio prior to COVID-19.
- Paragon achieved positive 7% rental reversion, while the Singapore portfolio recorded positive 6.4% reversion.
- Reversions within the Australia portfolio was -3.2%, which was within expectations, and priced into the agreed purchase price at the time of acquisition.

(+) Building up of cash reserves a priority

- Approximately S$31.8m of rental rebates was provided for tenants in the Singapore portfolio for the financial year, above government tax reliefs.
- S$8.1m rental relief was offered to Australian tenants, which was a reflection of the percentage decline in underlying tenant sales (below 35%) according to the National Cabinet Mandatory Code of Conduct.
- SPH REIT will be extending support in terms of rental rebates in FY21 if required.
- Apart from the S$14.5m withheld (to be distributed in FY21), SPH REIT will be retaining S$15m in capital allowances for working capital needs, bringing the total buffer to S$29.5m.
- Priority has been given to build up internal cash reserves, which may mean that future distribution ratio will range between 90% to 100% as opposed to the historical 100%.

Outlook and Recommendation

(-) Normalisation in operational performance unlikely at Paragon, not until tourists return

- Portfolio occupancy retreated 1.4ppts y-o-y to 97.7%.
- On a full year basis, total footfall fell by 28% y-o-y at Paragon and Clementi and 12% y-o-y at Westfield Marion.
- Tenant sales posted a similar trend, declining 30% y-o-y to S$508m at Paragon, but to a lesser extent at Clementi Mall (-13% y-o-y to S$207m), indicating that consumers continue to open up their wallets but on selected consumption items – mainly F&B and selected services.
- Shopper footfall and tenant sales held up relatively better within Australia, relatively flat at Figtree and declining 11.2% and 9.1% y-o-y at Westfield Marion.

(+/-) Cap rates steady within the Singapore portfolio

- Paragon's valuation declined 3.8% y-o-y to S$2.64bn with cap rate assumptions unchanged at 4.50% for retail and 3.75% for Medical Suites.
- The fall in valuation was in line with the 4.6% drop at Wisma Atria reported earlier.
- Valuers factored in greater weakness among central malls, benchmarking to luxury expenditure, as opposed to defensive suburban malls, suggesting a softer recovery profile for Orchard Road and tourist positioned malls.
- Other portfolio assets declined 2.2%, 4.9% and 7.8% y-o-y at Clementi Mall, Westfield Marion and Figtree Grove respectively.

Softer rental outlook captured within our estimates.

We have factored in a lower occupancy of 95% at Paragon, with a negative rental reversion of 5% in FY21, maintaining a conservative stance that a slower recovery profile is likely. The S$14.5m that was retained this financial year will see mandatory payment by August 2021 under the MAS rule, which may boost DPU in FY21. We think that SPH REIT will likely even out distributions in the coming few years, by adjusting the payout ratio.

We have adjusted the payout ratio to 80% in FY21 and 90% thereafter from the historical 100% in view of the REIT's cash conservation mode. Target price remains unchanged at S$0.80 as we roll forward valuation base to FY21.

Company Background

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

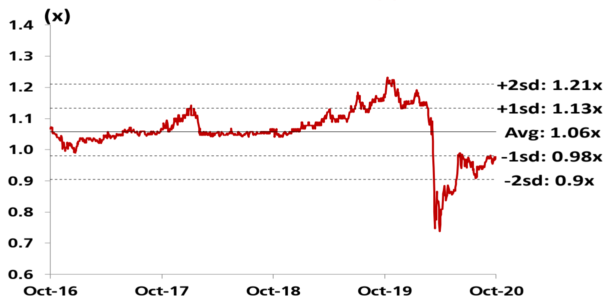
Quarterly / Interim Income Statement (S$m)

Summary of results	2H20	2H19	%q-o-q	FY20	FY19	% y-o-y
Gross revenue (S$m)	108.5	116.7	-7%	241.5	228.6	6%
NPI (S$m)	78.4	92.1	-15%	181.9	179.8	1%
Net Income (S$m)	43.0	65.4	-34%	119.0	129.7	-8%
Distributable Income (S$m)	14.9	72.2	-79%	92.2	145.0	-36%
DPU (Scts)	1.04	2.85	-64%	2.72	5.6	-51%
Key Financial Metrics				**FY20**	**FY19**	**% y-o-y**
Gearing				30.5%	27.5%	3 ppt
Average cost of debt				2.66%	2.91%	-0.3 ppt
WADE (yrs)				2.9	2.5	0.4
Interest coverage ratio				4.7	n.a.	-
NAV per unit (S$)				0.91	0.95	-4%
Key Operational Data				**FY20**	**FY19**	**% y-o-y**
Portfolio occupancies				97.7%	99.1%	-1.4 ppt
SG Rental reversions (%)				5.9%	8.4%	-30%
WALE (years, GRI)				2.6	3.6	-1
SG Leases expiring FY21/22:				48%	41%	7 ppt
FY21				25%	20.0%	5 ppt
FY22				23%	21.0%	2 ppt
Visitor Traffic (millions)				**FY20**	**FY19**	**% y-o-y**
Paragon				13.8	19.0	-27.4%
The Clementi Mall				22.8	31.6	-27.8%
Figtree Grove				4.6	4.6	0.0%
Westfield Marion				11.9	13.4	-11.2%

Source of all data: Company, DBS Bank

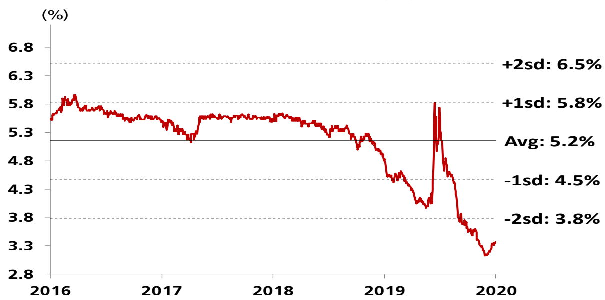
Historical PB and Distribution Yield

Forward PB band (x)



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

Distribution Yield (%)



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

Income Statement (S$m)

FY Aug	2018A	2019A	2020A	2021F	2022F
Gross revenue	212	229	241	285	292
Property expenses	(45.8)	(48.9)	(59.5)	(74.8)	(76.7)
Net Property Income	166	180	182	210	215
Other Operating expenses	(18.3)	(20.3)	(31.8)	(22.4)	(22.6)
Other Non Opg (Exp)/Inc	(0.9)	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(24.0)	(29.7)	(31.1)	(40.6)	(40.7)
Exceptional Gain/(Loss)	0.0	19.4	(179)	0.0	0.0
Net Income	123	149	(60.0)	147	152
Tax	0.0	(0.4)	(4.0)	(4.4)	(4.7)
Minority Interest	0.0	1.11	1.45	(0.6)	(0.6)
Preference Dividend	0.0	0.0	(12.3)	(12.2)	(12.2)
Net Income After Tax	123	150	(74.9)	130	135
Total Return	123	150	(74.9)	130	135
Non-tax deductible Items	19.2	(4.9)	167	16.5	16.8
Net Inc available for Dist.	142	145	92.2	147	151
Growth & Ratio					
Revenue Gth (%)	(0.4)	7.9	5.6	18.1	2.4
N Property Inc Gth (%)	(1.2)	8.3	1.2	15.6	2.4
Net Inc Gth (%)	(21.7)	21.8	nm	nm	3.4
Dist. Payout Ratio (%)	100.0	100.0	79.0	80.0	90.0
Net Prop Inc Margins (%)	78.4	78.6	75.4	73.8	73.8
Net Income Margins (%)	58.1	65.6	(31.0)	45.6	46.1
Dist to revenue (%)	67.2	63.4	38.2	51.4	51.8
Managers & Trustee's fees	8.6	8.9	13.2	7.8	7.8
ROAE (%)	5.1	6.1	(3.0)	5.2	5.3
ROA (%)	3.6	4.1	(1.8)	3.1	3.2
ROCE (%)	4.4	4.4	3.7	4.4	4.5
Int. Cover (x)	6.2	5.4	4.8	4.6	4.7

Source: Company, DBS Bank

Balance Sheet (S$m)

FY Aug	2018A	2019A	2020A	2021F	2022F
Investment Properties	3,368	3,598	4,125	4,132	4,138
Other LT Assets	0.68	2.50	0.59	0.59	0.59
Cash & ST Invts	36.0	343	82.0	42.2	50.5
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	3.09	5.49	32.7	32.7	32.7
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	**3,408**	**3,948**	**4,241**	**4,207**	**4,222**
ST Debt	210	280	215	215	215
Creditor	40.6	48.3	80.0	28.5	29.2
Other Current Liab	0.0	1.56	0.68	5.12	5.38
LT Debt	683	812	1,084	1,084	1,084
Other LT Liabilities	35.4	36.0	46.7	46.7	46.7
Unit holders' funds	2,439	2,757	2,801	2,814	2,827
Minority Interests	0.0	14.6	13.5	14.0	14.6
Total Funds & Liabilities	**3,408**	**3,948**	**4,241**	**4,207**	**4,222**
Non-Cash Wkg. Capital	(37.5)	(44.3)	(48.0)	(1.0)	(1.9)
Net Cash/(Debt)	(857)	(748)	(1,217)	(1,256)	(1,248)
Ratio					
Current Ratio (x)	0.2	1.1	0.4	0.3	0.3
Quick Ratio (x)	0.2	1.1	0.4	0.3	0.3
Aggregate Leverage (%)	26.2	27.6	30.6	30.9	30.8
Z-Score (X)	3.2	2.8	2.5	2.5	2.5

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Aug	2018A	2019A	2020A	2021F	2022F
Pre-Tax Income	123	130	(64.0)	147	152
Dep. & Amort.	0.21	0.19	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	(4.4)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(0.1)	4.34	(10.3)	(51.4)	0.70
Other Operating CF	41.7	46.2	241	14.7	14.9
Net Operating CF	**165**	**180**	**166**	**111**	**163**
Net Invt in Properties	(72.0)	(216)	(628)	(6.3)	(6.5)
Other Invts (net)	0.0	(0.1)	(9.2)	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	0.82	0.76	1.79	0.0	0.0
Net Investing CF	**(71.2)**	**(215)**	**(635)**	**(6.3)**	**(6.5)**
Distribution Paid	(142)	(144)	(95.7)	(132)	(136)
Chg in Gross Debt	44.1	200	184	0.0	0.0
New units issued	0.0	314	163	0.0	0.0
Other Financing CF	(22.9)	(28.9)	(45.6)	(12.2)	(12.2)
Net Financing CF	**(121)**	**341**	**206**	**(144)**	**(148)**
Currency Adjustments	0.0	(0.2)	2.05	0.0	0.0
Chg in Cash	(27.0)	307	(261)	(39.8)	8.32
Operating CFPS (S cts)	6.42	6.81	6.59	5.85	5.84
Free CFPS (S cts)	3.61	(1.4)	(17.2)	3.76	5.63

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	11 Oct 19	1.13	1.25	BUY
2:	08 Nov 19	1.13	1.25	BUY
3:	13 Jan 20	1.09	1.20	BUY
4:	02 Apr 20	0.71	0.70	FULLY VALUED
5:	29 May 20	0.83	0.80	HOLD

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

Source: DBS Bank

Analyst: Singapore Research Team

Derek TAN

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

**Share price appreciation + dividends*

Completed Date: 7 Oct 2020 08:45:53 (SGT)
Dissemination Date: 7 Oct 2020 17:33:58 (SGT)

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

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1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS'') or their subsidiaries and/or other affiliates have a proprietary position in SPH REIT recommended in this report as of 31 Aug 2020.
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 SPH REIT recommended in this report as of 31 Aug 2020.

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Disclosure of previous investment recommendation produced:

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Singapore Company Update
Starhill Global REIT

Bloomberg: SGREIT SP | Reuters: STHL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Dec 2020

HOLD

Last Traded Price (8 Dec 2020): S$0.480 (**STI :** 2,825.63)
Price Target 12-mth: S$0.55 (15% upside) (Prev S$0.50)

Analyst
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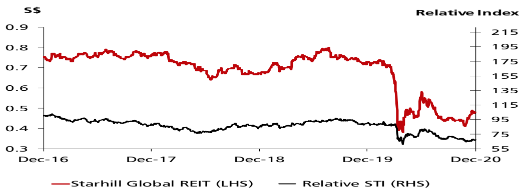
What's New

- An additional S$7.3m in rebates extended in the quarter; relief negotiations with Australian tenants mostly concluded
- Wisma Atria tenant sales and shopper traffic at 67% and 46% of pre-pandemic levels respectively
- Australia retail data trended above pre-COVID levels in August 2020
- Maintain HOLD with higher target price of S$0.55

Price Relative



Forecasts and Valuation

FY Jun (S$m)	2019A	2020F	2021F	2022F
Gross Revenue	206	181	177	204
Net Property Inc	159	132	125	149
Total Return	65.6	69.6	63.7	87.1
Distribution Inc	101	77.4	69.9	93.4
EPU (S cts)	3.94	3.19	2.91	3.96
EPU Gth (%)	(20)	(19)	(9)	36
DPU (S cts)	4.48	2.96	3.15	4.00
DPU Gth (%)	(2)	(34)	6	27
NAV per shr (S cts)	88.5	88.5	88.0	87.7
PE (X)	12.2	15.1	16.5	12.1
Distribution Yield (%)	9.3	6.2	6.6	8.3
P/NAV (x)	0.5	0.5	0.5	0.5
Aggregate Leverage (%)	37.1	37.7	38.3	38.3
ROAE (%)	4.4	3.6	3.3	4.5
Distn. Inc Chng (%):		(14)	(24)	(6)
Consensus DPU (S cts):		3.7	4.1	4.3
Other Broker Recs:		B: 4	S: 1	H:1

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

Brain Box
(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

Bright spots in Australia

Investment Thesis

Maintain HOLD with a revised TP of S$0.55. We maintain our HOLD call on Starhill Global REIT (SGREIT). Accounting impact of rental waivers will continue to be reflected in FY21 revenue and DPU. A key catalyst for the stock will be a rotation of domestic retail spending from suburban to central malls, should tourist traffic return with meaningful traction next year.

Central Orchard malls have recovered to c.70% of normalised levels as further upside ensues. Orchard malls such as SGREIT's Wisma Atria and Ngee Ann City typically derive c.30% of total receipts from tourists. These would have bottomed this year, as upside ensues from a possible return of tourists in 2021 from the easing of travel restrictions. Retail master leases and office leases make up approximately 46% and 15% of SGREIT's annual revenue respectively. They should continue to provide rental stability while allowing SGREIT to channel its focus to actively managed retail leases within Wisma Atria and Ngee Ann City.

Asset enhancement at The Starhill delayed to December 2021. Given Malaysia's MCO, AEI at The Starhill has been deferred to Dec 2021, with rental income during the construction period correspondingly extended for another two months. Master lease income from the asset of c.RM52m per annum has been modelled into our DPU growth of 27% from FY21.

Valuation:

Higher target price of S$0.55. Our DCF-derived target price has increased to S$0.55 (S$0.50 previously) as we roll forward valuations.

Where we differ:

Bright spots in Australia. Retail data in Australia exceeded pre-COVID levels in the previous quarter (up c.4.8-7.5% y-o-y), which came as a positive surprise. This coincides with the conclusion of most relief negotiations with Australian tenants as retail headwinds dissipate in the market.

Key Risks to Our View:

Slower-than-expected return of tourists. A return of tourist traffic will depend on factors such as the availability of vaccine and travel bubble arrangements, which may be subjected to delays.

At A Glance

Issued Capital (m shrs)	2,200
Mkt. Cap (Sm/USm)	1,056 / 790
Major Shareholders (%)	
YTL Corp Bhd	35.6
AIA Group Ltd	7.6
Free Float (%)	56.8
3m Avg. Daily Val (US$m)	0.74

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

WHAT'S NEW

1QFY20/21 Operational Update

(-) Double-digit declines in revenue and NPI given additional rebates extended for the quarter

- Revenue and NPI for 1QFY20/21 declined 10.3% and 19.2% y-o-y to S$43.1m and S$29.8m respectively.
- This was mainly due to additional rental assistance extended to affected tenants, mainly for the Australia properties, and was partially offset by higher contributions from The Starhill and a stronger AUD.
- An additional rental rebate of S$7.3m was extended to tenants in 1QFY20/21, on top of the total relief of S$32.2m provided in FY19/20.
- Most of the additional rebates were likely extended to Australian tenants in the past quarter.
- We recap that SGREIT retained S$4.9m of income in 4QFY19/20 and deferred S$7.7m of distributable income to this financial year.

(+) Encouraging traction in overall portfolio occupancy; bright spots in overseas retail sales

- SGREIT's portfolio occupancy increased 4ppts q-o-q to 96.6%, primarily led by leasing momentum within the Singapore retail (+0.6ppt q-o-q) and Singapore office (+2.7ppts q-o-q) segments.
- Wisma Atria's tenant sales and shopper traffic recovered to about two-thirds (66.5%) and half (45.6%) of pre-pandemic levels on a y-o-y basis.
-

- Australia tenant sales (Perth assets) matched pre-COVID levels in 1QFY20/21, and the manager has concluded most of the rental assistance negotiations with the Australian tenants.
- Retail sales for South Australia and Western Australia grew by 4.8% and 7.5% y-o-y respectively in August 2020.
- In Malaysia, retail trade figures trended closer towards pre-COVID levels at just a 1.5% y-o-y decline in August 2020 (3.8% y-o-y decline in July 2020).

(-) Delays for asset enhancement works at The Starhill

- The completion of The Starhill has been delayed due to Malaysia's movement control order.
- Initial completion scheduled for October 2021 will now be deferred to December 2021.
- Rental rebate extended by sponsor which approximates to 50% of annual rents of RM52m during the first two years of construction will also continue for a corresponding two months.
- Post completion end of next year, the master lease arrangement will build in greater income visibility, with rents estimated to be 1.5% higher and periodic rental escalations of 4.75-6.0% at every three-yearly reviews.

Operational Update

Summary of results	1Q FY20/21	4Q FY19/20	%q-o-q	1Q FY19/20	% y-o-y
Revenue (S$m)	43.1	37.4	15%	48	-10.2%
NPI (S$m)	29.8	22.9	30%	36.9	-19.2%
DI (S$m)	n.a.	2.8	n.a.	25.3	n.a.
DPU (Scts)	n.a.	0.70	n.a.	1.13	n.a.
Key Financial Metrics	**1Q FY20/21**	**4Q FY19/20**	**%q-o-q**	**1Q FY19/20**	**% y-o-y**
Gearing	39.1%	39.7%	-0.6 ppt	36.2%	2.9 ppt
Average cost of debt	3.25%	3.23%	0 ppt	3.31%	-0.1 ppt
ICR (x)	2.6	2.9	(0.3)	3.7	(1.1)
NAV per unit (S$)	0.81	0.81	-	0.88	(0.1)
Key Operational Data	**1Q FY20/21**	**4Q FY19/20**	**%q-o-q**	**1Q FY19/20**	**% y-o-y**
Portfolio occupancy	96.6%	96.2%	0.4 ppt	96.2%	0.4 ppt
SG Retail	99.5%	98.9%	0.6 ppt	99.7%	-0.2 ppt
SG Office	90.3%	87.6%	2.7 ppt	93.6%	-3.3 ppt
Singapore	96.0%	94.6%	1.4 ppt	97.3%	-1.3 ppt
Australia	94.3%	94.3%	0 ppt	92.4%	1.9 ppt
WALE (years, GRI)	5.5	5.6	(0.1)	5.3	0.2
Leases expiring in:					
FY20/21	13.8%	15.8%	-2 ppt	15.5%	-1.7 ppt
FY21/22	14.2%	14.4%	-0.2 ppt	15.6%	-1.4 ppt

Source of all data: Company, DBS Bank

Company Background

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

Quarterly / Interim Income Statement (S$m)

FY Jun	4Q2019	4Q2020	% chg yoy
Gross revenue	51.9	37.4	(27.9)
Property expenses	(12.0)	(14.5)	21.3
Net Property Income	39.9	22.9	(42.7)
Other Operating expenses	(5.5)	(5.0)	(10.1)
Other Non Opg (Exp)/Inc	(4.2)	0.0	nm
Associates & JV Inc	0.0	0.0	-
Net Interest (Exp)/Inc	(9.5)	(9.9)	(4.3)
Exceptional Gain/(Loss)	0.0	(2.8)	nm
Net Income	**20.6**	**5.19**	**(74.8)**
Tax	(0.8)	0.62	(176.1)
Minority Interest	0.0	0.0	-
Net Income after Tax	**19.8**	**5.81**	**(70.6)**
Total Return	0.0	0.0	nm
Non-tax deductible Items	25.4	158	520.0
Net Inc available for Dist.	24.0	15.4	(36.0)
Ratio (%)			
Net Prop Inc Margin	77.0	61.2	
Dist. Payout Ratio	96.3	540.2	

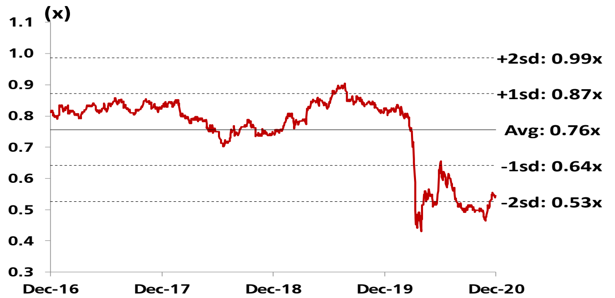
Source of all data: Company, DBS Bank

Historical Dividend yield and PB band

Distribution yield (%)

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

PB band (x)



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

Income Statement (S$m)

FY Jun	2018A	2019A	2020F	2021F	2022F
Gross revenue	209	206	181	177	204
Property expenses	(46.6)	(46.8)	(48.7)	(52.1)	(54.5)
Net Property Income	**162**	**159**	**132**	**125**	**149**
Other Operating expenses	(20.2)	(20.5)	(21.5)	(21.7)	(21.7)
Other Non Opg (Exp)/Inc	5.75	(11.8)	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(37.4)	(37.7)	(39.6)	(38.5)	(38.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**110**	**89.4**	**71.0**	**65.0**	**88.9**
Tax	(3.4)	(3.5)	(1.4)	(1.3)	(1.8)
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	**107**	**85.9**	**69.6**	**63.7**	**87.1**
Total Return	84.2	65.6	69.6	63.7	87.1
Non-tax deductible Items	18.9	35.7	6.99	6.26	6.26
Net Inc available for Dist.	103	101	77.4	69.9	93.4
Growth & Ratio					
Revenue Gth (%)	(3.5)	(1.3)	(12.3)	(2.0)	14.9
N Property Inc Gth (%)	(2.8)	(1.7)	(17.1)	(5.3)	19.1
Net Inc Gth (%)	(8.3)	(19.7)	(19.0)	(8.6)	36.8
Dist. Payout Ratio (%)	96.2	96.4	83.7	90.0	92.0
Net Prop Inc Margins (%)	77.7	77.3	73.1	70.6	73.2
Net Income Margins (%)	51.2	41.7	38.5	35.9	42.8
Dist to revenue (%)	49.4	49.1	42.8	39.5	45.9
Managers & Trustee's fees	9.7	10.0	11.9	12.2	10.7
ROAE (%)	5.3	4.4	3.6	3.3	4.5
ROA (%)	3.3	2.7	2.2	2.0	2.7
ROCE (%)	4.3	4.3	3.5	3.2	3.9
Int. Cover (x)	3.8	3.7	2.8	2.7	3.3

Source: Company, DBS Bank

c.RM52m contributed by The Starhill master lease income

Quarterly Income Statement (S$m)

FY Jun	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
Gross revenue	51.9	48.0	48.7	0.0	37.4
Property expenses	(12.0)	(11.1)	(11.6)	0.0	(14.5)
Net Property Income	39.9	36.9	37.2	0.0	22.9
Other Operating expenses	(5.5)	(4.8)	(5.3)	0.0	(5.0)
Other Non Opg (Exp)/Inc	(4.2)	(0.5)	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(9.5)	(9.7)	(9.7)	0.0	(9.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	(2.8)
Net Income	**20.6**	**22.0**	**22.1**	**0.0**	**5.19**
Tax	(0.8)	(0.7)	(0.7)	0.0	0.62
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**19.8**	**21.3**	**21.4**	**0.0**	**5.81**
Total Return	0.0	0.0	0.0	0.0	0.0
Non-tax deductible Items	25.4	4.00	3.72	0.0	158
Net Inc available for Dist.	24.0	24.7	24.7	0.0	15.4
Growth & Ratio					
Revenue Gth (%)	1	(7)	2	N/A	N/A
N Property Inc Gth (%)	1	(8)	1	nm	nm
Net Inc Gth (%)	(12)	8	0	(100)	nm
Net Prop Inc Margin (%)	77.0	76.9	76.3	N/A	61.2
Dist. Payout Ratio (%)	96.3	97.4	98.2	0.0	540.2

Source: Company, DBS Bank

Balance Sheet (S$m)

FY Jun	2018A	2019A	2020F	2021F	2022F
Investment Properties	3,118	3,065	3,097	3,128	3,130
Other LT Assets	2.01	0.03	0.03	0.03	0.03
Cash & ST Invts	66.7	72.9	130	121	131
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	4.19	3.85	7.67	7.52	8.64
Other Current Assets	0.24	0.30	0.30	0.30	0.30
Total Assets	3,192	3,142	3,235	3,258	3,270
ST Debt	63.4	128	158	188	188
Creditor	38.6	32.5	90.4	88.6	102
Other Current Liab	2.21	3.18	3.18	3.18	3.18
LT Debt	1,067	1,004	1,004	1,004	1,004
Other LT Liabilities	30.0	44.1	44.1	44.1	44.1
Unit holders' funds	1,990	1,930	1,935	1,930	1,929
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	3,192	3,142	3,235	3,258	3,270
Non-Cash Wkg. Capital	(36.4)	(31.5)	(85.6)	(83.9)	(96.0)
Net Cash/(Debt)	(1,064)	(1,059)	(1,032)	(1,071)	(1,061)
Ratio					
Current Ratio (x)	0.7	0.5	0.5	0.5	0.5
Quick Ratio (x)	0.7	0.5	0.5	0.5	0.5
Aggregate Leverage (%)	36.4	37.1	37.7	38.3	38.3
Z-Score (X)	0.6	0.6	0.5	0.5	0.5

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Jun	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	110	89.4	71.0	65.0	88.9
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(3.4)	(3.5)	(1.4)	(1.3)	(1.8)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	29.0	48.1	54.1	(1.7)	12.1
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	**136**	**134**	**124**	**62.0**	**99.2**
Net Invt in Properties	(6.6)	(6.7)	(31.8)	(31.8)	(2.0)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	**(6.6)**	**(6.7)**	**(31.8)**	**(31.8)**	**(2.0)**
Distribution Paid	(101)	(97.5)	(64.8)	(68.9)	(87.9)
Chg in Gross Debt	1.21	(22.0)	30.0	30.0	0.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(39.1)	0.0	0.0	0.0	0.0
Net Financing CF	**(139)**	**(120)**	**(34.8)**	**(38.9)**	**(87.9)**
Currency Adjustments	(0.1)	(1.5)	0.0	0.0	0.0
Chg in Cash	(9.9)	6.22	57.1	(8.7)	9.26
Operating CFPS (S cts)	4.90	3.94	3.19	2.91	3.96
Free CFPS (S cts)	5.93	5.83	4.21	1.38	4.42

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	04 Feb 20	0.72	0.80	BUY
2:	02 Apr 20	0.42	0.45	HOLD
3:	29 May 20	0.49	0.50	HOLD

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

Source: DBS Bank

Analyst: Geraldine WONG
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: 9 Dec 2020 07:26:56 (SGT)
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