Singapore Industry Focus
Singapore REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Jun 2021

Buy REITs for recovery and reflation

- S-REITs remain an attractive inflation hedge as asset reflation remains a key theme
- Prices have baked in interest rate increases in estimates; a moderate increase supported by economic recovery conducive for growth.
- Increasing confidence of an earnings recovery supplemented by accretive acquisitions.

An attractive inflation hedge. The combination of ample liquidity, supply shortages and rising demand from an economic recovery is likely to push inflation rates higher going forward and we believe that real estate (like S-REITs) will be a beneficiary and an inflation hedge. Historical analysis shows a positive correlation between higher inflation and higher share prices with the office S-REITs and Hospitality S-REITs the two subsectors demonstrating higher correlation given their propensity to raise rents/rates higher vs. other sectors.

Interest rates to rise but at a moderate pace. We believe that the market is already positioned for an expected taper from the US Fed come 3Q21/4Q21 if inflation rate continues to rise and we see a gradual rise in rates in 2H21-2022 supported by positive economic growth, according to our economists. We do not envision a repeat of the weakness that we saw in 1Q21 and higher interest rates should not be a major hurdle for most S-REITs given (i) increasing confidence of a robust earnings growth of c.18% in FY21, (ii) still attractive spread vs. 10-year yields, and (iii) ability to deliver acquisitions.

Gaining confidence of an earnings recovery come 2H21 as acquisitions momentum pick up pace. Heading into the 3rd week of the current phase 2 (heightened alert phase), we anticipate that investors have treated this episode as "one-off" and earnings impact (if any) would be confined. Our focus in 2H21 is on the pace of earnings recovery and we believe that there is room for S-REIT prices to "play catch-up" to the actual earnings growth trajectory. Among subsectors, we see value in the Office sector (KREIT, PRIME) whose share prices are lagging earnings recovery. Amongst others, we prefer the "growth focused" names as we see an earnings-led re-rating. Our picks are FCT for retail; KREIT, MCT for commercial; MLT, FLCT, AIMS, ALLT for logistics play; CDREIT, FEHT for hospitality.

Key risks: (i) Clarity from the global minimum tax if it has any possible implications on real estate transactions and REITs. (ii) Potential 3rd wave of COVID-19.

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STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
Mapletree Logistics Trust	2.01	6,154	2.35	9.3	2.1	BUY
Mapletree Commercial Trust	2.09	5,247	2.25	4.5	1.0	BUY
Keppel REIT	1.17	3,248	1.40	0.0	1.7	BUY
Frasers Logistics & Commercial Trust	1.43	3,604	1.85	3.7	20.9	BUY
AIMS APAC REIT	1.44	764	1.60	9.2	11.7	BUY
ARA LOGOS Logistics Trust	0.82	821	0.85	7.1	32.7	BUY
CDL Hospitality Trusts	1.24	1,114	1.35	(3.2)	7.1	BUY
Far East Hospitality Trust	0.59	856	0.70	(0.9)	5.5	BUY
Prime US REIT	0.85	903	1.00	8.3	7.6	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 7 Jun 2021

Legend:
MLT Mapletree Logistics Trust
MCT: Mapletree Commercial Trust
FCT: Frasers Centrepoint Trust
FLCT: Frasers Logistics & Commercial Trust
KREIT: Keppel REIT
AIMS: AIMS APAC REIT
ALLT: ARA LOGOS Logistics Trust
CDREIT: CDL Hospitality Trust
FEHT: Far East Hospitality Trust
PRIME: Prime US REIT

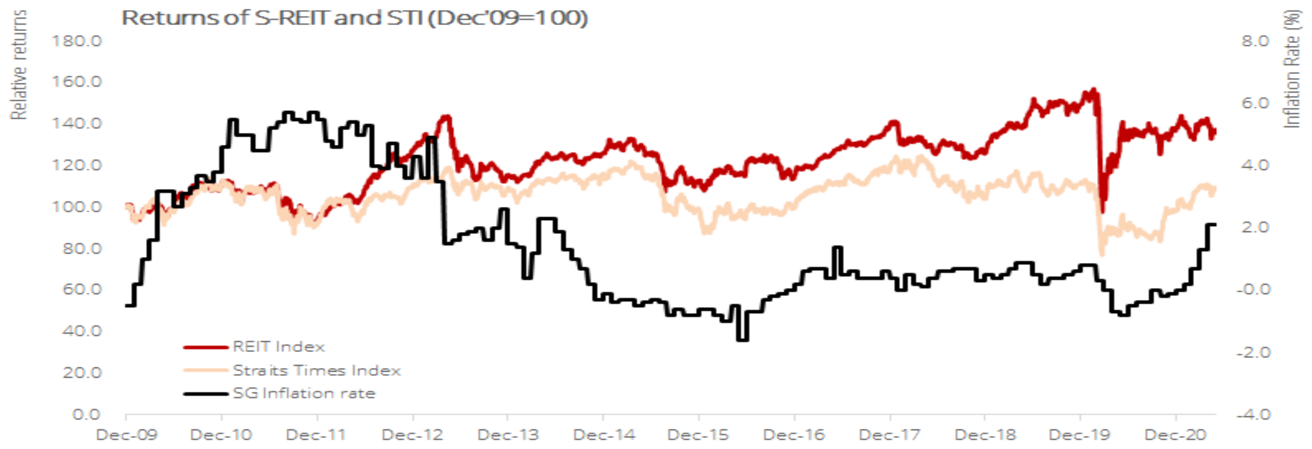
An attractive inflation hedge

Asset reflation trade to continue and supportive of S-REIT valuations. The combination of improving economic outlook and supply chain disruption (that resulted in higher commodity prices and loose monetary policy), has lifted inflation rate expectations and inflation is expected to inch higher going forward. With the Fed signalling its intent to tolerate higher inflation rates and keeping interest rate low in the early recovery phase of economic growth, this combination of higher inflation and low interest rates is expected to continue to drive allocations into real estate and we believe that S-REITs, as real estate proxies, will see increased interest going forward.

Compared to the other Straits Times Index (STI), we found that the SREIT Index also showed similar positive correlation with inflation rates. We believe that this correlation will continue going forward on the back of stronger economic growth and is expected to drive continued asset inflation on the back of cheap liquidity. With the prospects of higher inflation rates going forward being led by demand and given the lack of new supply in the market over the coming years, which we believe allows S-REITs to start pushing rents higher, we reckon that there will be a steady rebound in DPUs going forward.

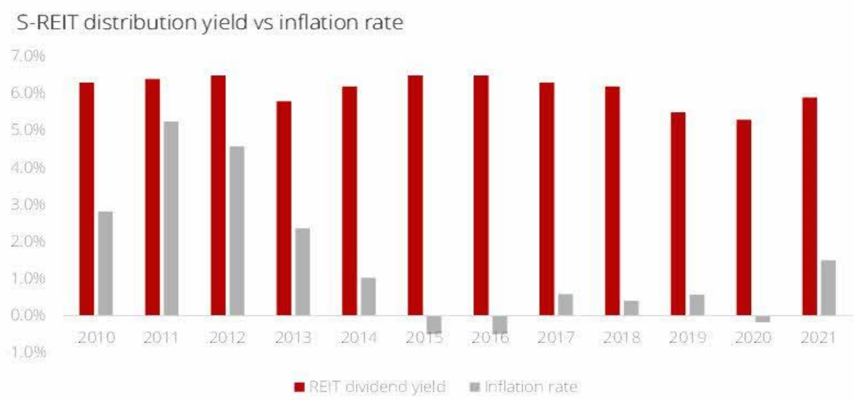
In terms of income return, S-REITs are expected to continue outpacing the inflation rate and on an adjusted basis, as of FY21, S-REITs still offering a compelling 4.4% adjusted return.

Performance of the S-REITs / STI vs. Inflation rate



Source: Bloomberg Finance L.P., DBS Bank

S-REIT income return will continue to outpace inflation rate



Remarks:
With dividend yields expected to rise by 13% in FY21 towards 6.0%, this represents a return that is c.4.4% higher than the expected inflation rate of 1.5% in FY21F.

Source: Bloomberg Finance L.P., DBS Bank

Cyclical plays to outperform as inflation picks up. Overall, we saw a stronger correlation in the past five years compared to the past 10 years as low interest rates supported economic growth. From a subsector perspective, we found that office and hospitality S-REITs have shown a stronger correlation over time. This is in anticipation that office landlords and hospitality S-REITs will take more time to recover, as their incomes are more closely intertwined with economic conditions. Apart from supportive supply conditions, stronger economic conditions are expected to be a firm driver for rental growth prospects for these two sectors.

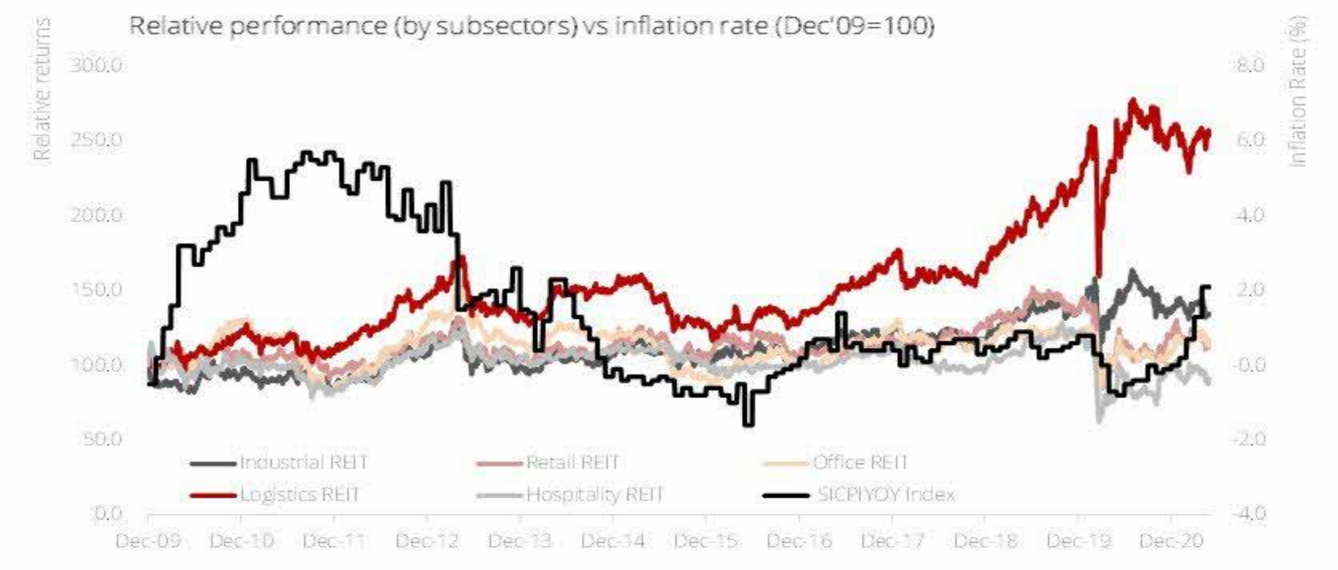
In addition, the expected gradual re-opening of the economy post Phase 2 (heightened alert), coupled with government assistance, should limit the downside risk for the affected retail S-REIT subsector, in our view – which we believe also provides relief to investors, as it caps the potential DPU downside risk to -3% to -5% in our estimation.

Correlations by subsector vs. inflation rate (with selected S-REITs as proxy)

	Correlation vs. Inflation	
Subsectors:	10-yr	5-yr
Industrial	(0.57)	0.05
Retail	(0.39)	0.27
Office	0.04	0.46
Logistics	(0.45)	0.02
Hospitality	(0.16)	0.36
S-REIT Index	(0.55)	0.32
STI	(0.04)	0.58
Developers	0.50	0.54

Source: Bloomberg Finance L.P., DBS Bank

Performance of the S-REITs (by subsectors) vs. Inflation rate



Source: Bloomberg Finance L.P., DBS Bank

Rise in interest rates a near-term speed bump

Watching out for taper talk to kick start the next round of yield steepening sometime in 2H21. DBS Bank economists believe that the Fed will likely hold interest rates at record-low levels and be more reactive to higher inflation rates. That said, talks of the Fed looking to taper will likely come as inflation picks up momentum in 2H21. While this may result in expected outflows from yield-focused instruments like S-REITs, we believe that the positive momentum gained from the robust earnings growth outlook will drive the continued performance of the sector.

DBS economists are projecting a 40bps steepening in the US yield curve from the current 142bps (as of end-2Q21) to 185 bps by end-2022. For Singapore, given the close correlation in interest rates movement between the US and Singapore (SG), we expect the yield curve to steepen by 23 bps from the current 117 bps (as of 1H21) to 140 bps (as of end-2022).

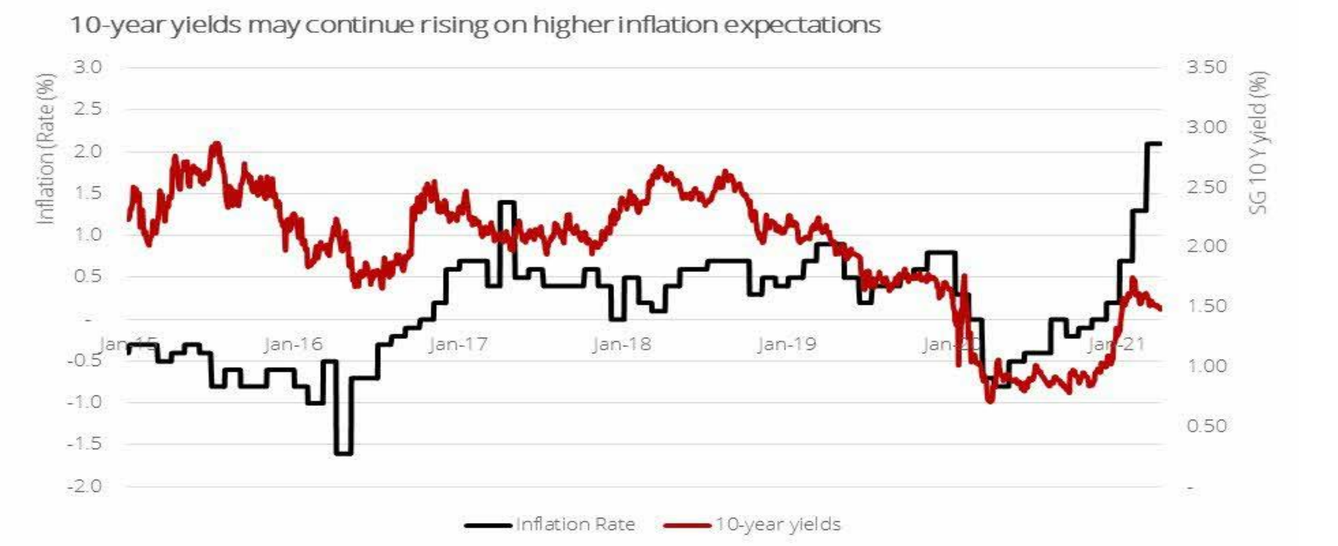
This more modest rise in yields (of 50bps) in the 10-year yield in Singapore over the course of 1.5 years, while acting as a near-term speed bump for the sector, does not pose a major de-rating for the sector, in our view.

DBS Interest rate forecasts (as of Jun'21)

	US Rates				SG Rates			
Interest rate forecasts	3m-SOFR OIS (%)	2Y (%)	10Y (%)	10Y-2Y (bps)	3m SORA OIS (%)	2Y (%)	10Y (%)	10Y-2Y (bps)
Current (7th June 2021)	0.10	0.15	1.57	142	0.15	0.35	1.52	117
2H 2021	0.10	0.25	2.00	175	0.15	0.40	1.65	125
1H 2022	0.10	0.35	2.25	190	0.15	0.45	1.80	135
2H 2022	0.10	0.65	2.50	185	0.15	0.60	2.00	140

Source: MAS, DBS Bank

10-year yields will continue to rise on the back of higher inflation; Fed should be looking to taper by end-2021

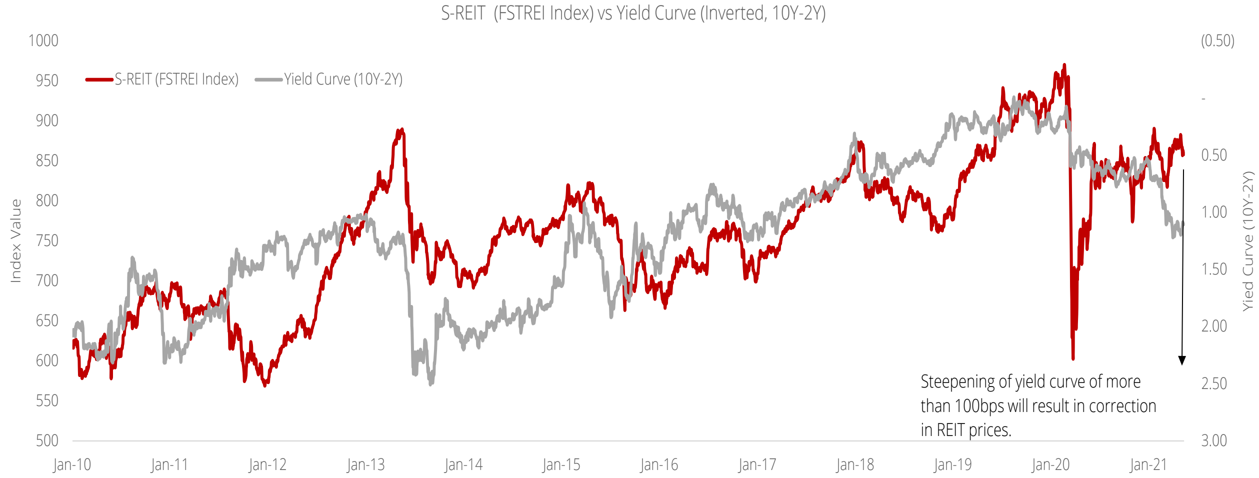


Source: Bloomberg Finance L.P., DBS Bank

Gradual steepening of the yield curve should not have a significant negative impact on S-REIT prices. While we note that there has been negative correlation between a steepening yield curve and S-REIT share price, we believe that this is unlikely to be the case for S-REITs in 2H21 in view of: (i) the gradual nature of the yield curve steepening that would be supported by stronger economic and DPU growth prospects, and (ii) yield spreads that are in excess of 4.5%, which is close to its – 1 standard deviation levels and bodes well for further inflows into the sector in 2021.

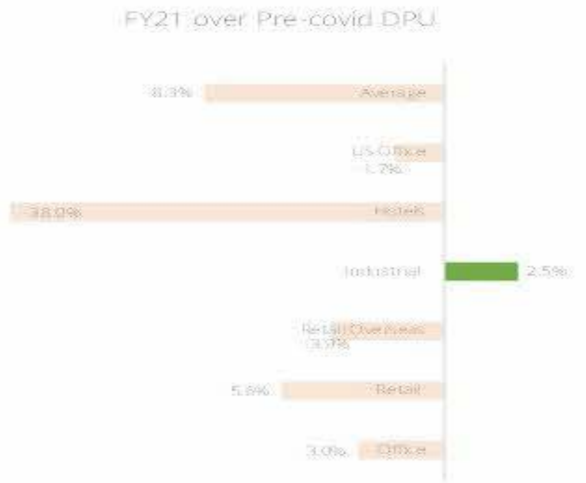
Go for earnings growth. S-REITs trade at an FY21F yield of c.6.0% or a yield spread of 4.5% (vs. the 10-year bond yield of c.1.5%) that we believe will compress further as earnings growth accelerates. We view acquisitions positively as they will complement a DPU recovery of c.13% in FY21 (FY20-22 CAGR of 8.0%, excluding hospitality S-REITs) and maintain our view that investors should continue to broaden their investments within the space to include office, retail and even some beaten down hospitality S-REITs.

Yield curve and S-REIT share prices

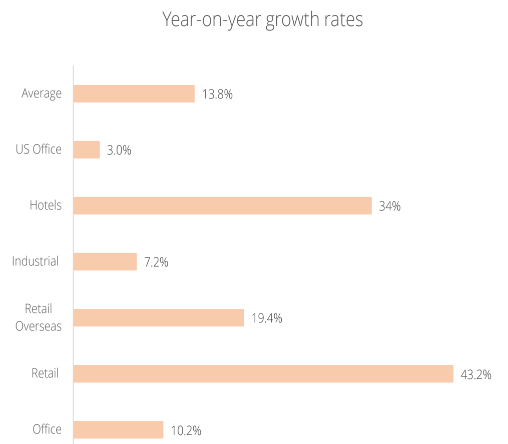


Source: Bloomberg Finance L.P., DBS Bank

Growth



Source: DBS Bank estimates



Source: DBS Bank estimates

Leveraging on "new economy" asset classes

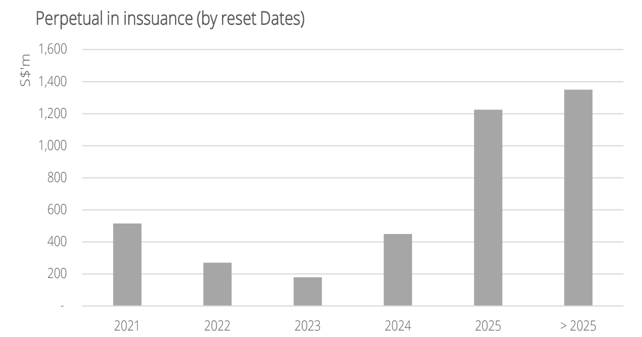
Dialling up on acquisitions. S-REITs have ramped up their acquisitions in 2Q21, boosted by the still conducive cost of capital. We estimate that acquisitions amounted to c.S$5.7bn, of which the majority took place in the industrial space with data-centres, with logistics properties being the key asset classes that S-REITs look to boost their exposure. In our estimation, c.75% of the acquisitions year to date (YTD) are in the logistics and data-centre space with new acquisitions in Europe, the US and Australia – the three foreign jurisdictions that S-REITs continued to pile in.

The sector has also raised or is the midst of raising S$1.6bn in new equity. Close to S$1.0bn in perpetual securities were also issued. The perpetual securities made a "comeback of sorts" and we saw new issuers entering this space. Perpetual securities, also known as "hybrids", get paid a fixed dividend (or coupon) and are ranked on par with equity holders in the capital stack. These hybrids are accounted as equity and provide S-REITs with benefits of better management of the overall capital structure, thus keeping gearing lower. However, we understand from rating agencies that most companies provide a more modest "equity credit" in their internal computations of gearing ratios given that these hybrids have "bond-like structures".

Despite this, we do not see equity holders being placed in a significantly disadvantaged position as: (i) the proportion of perpetual securities is only <5% of total equity capital, and (ii) most of these perpetual issuances were utilised to fund acquisitions, which come with long weighted average lease expiry (WALE) which we believe reduce the volatility of distributions.

Monitoring the reset dates for perpetual securities in the coming years. These perpetual securities are mainly of the non-call 5 (NC5) type, meaning that S-REITs have the option to call or allow the coupon to "reset" to a new rate, which is typically a pre-determined spread higher on the then prevailing interest rates. We however do note that most S-REITs have chosen to refinance the perpetual securities when the 5th year anniversary is up. Depending on the interest rate environment, S-REITs will have to undertake a more comprehensive review of its capital structure then.

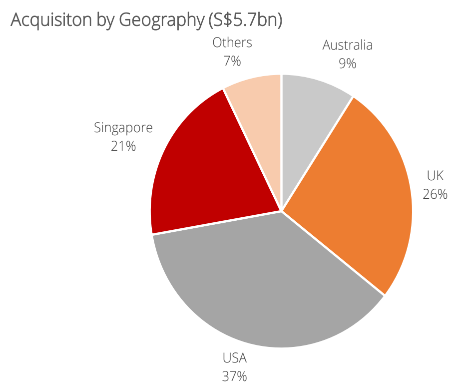
Perpetual securities reset dates



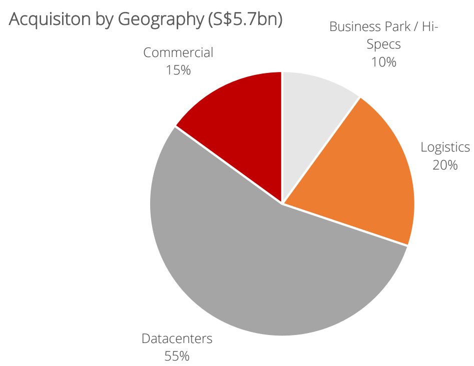
Source: Bloombeg Finance L.P., DBS Bank estimates

More acquisitions on the horizon? With interest rates remaining low and capital still conducive, we believe that S-REITs will continue to ramp up their acquisitions in 2H21 and we see opportunities within the commercial, industrial space, though S-REITs are more likely to be tapping third-party opportunities to grow with the potential Sponsor pipeline.

Summary of acquisitions



Source: DBS Bank estimates



Source: DBS Bank estimates

Earnings recovery heading into 2H21

New normal is living with an endemic COVID-19; earnings / DPU recovery will be the next focus. After about three weeks of the implementation of phase 2 (heightened alert), we finally see some light at the end of the tunnel when the number of community cases fell to the mid-teens level and below ten in the past few days. While the decline in COVID-19 community cases is very encouraging, the Finance Minister and co-chair of multi-ministry taskforce on COVID-19 said that it is "very unlikely" that Singapore will immediately revert to Phase 3 of its reopening when Phase 2 (Heightened Alert) ends on 13 June but a phased recovery is likely to take place, with the COVID-19 seen as an ongoing battle and an endemic rather than a pandemic.

DPUs have generally recovered close to / surpassed pre-COVID levels in 6-9 months after Circuit Breaker, except for sectors reliant on tourists such as hospitality and retail. Over the past year, we note that all the sectors within SREITs were impacted by the lockdown / Circuit Breaker in varying degrees. The lowest quarterly DPU (ex-retained distributions) of SREITs in FY20 vs. 2019 (pre-COVID) ranged between -71.6% and +0.7%. As expected, the hospitality sector was the worst hit by the pandemic and recorded the largest decline. Retail was second hardest hit whose DPU recorded a 67% decline vs. 2019 (pre-COVID). As such, commercial SREITs (mixed portfolio of office, retail and some hospitality) saw their DPU fall 22.9% vs. the pre-COVID level. The decline was less supported by a stable office portfolio. Pure office portfolio (KREIT) recorded stable DPU growth of +0.7% despite the lockdown. The well-loved industrial sector was not spared and recorded a DPU decline of 5.4% vs. the pre-COVID level, or -10.7% when Keppel DC REIT was excluded.

SREIT share prices are c.10% below pre-COVID levels; share price recovery complements DPU recovery, with the exception of office whose share price lags DPU performance. Despite the recent setback caused by the new wave of transmissions, SREIT share prices have recovered almost close to the pre-Phase 2 share price levels (-1.4% of pre-Phase 2 levels) after shedding c.7% to its trough during the start of the tightening of COVID-19 measures.

When compared to the pre-COVID share prices (Jan 2020), we note that SREIT share prices are on average just c.10% below the pre-COVID levels. When we review the share price performance by sectors, industrial share prices have performed in line with the latest earnings / DPU recovery, with both (earnings & share price performance) rebounding close to / slightly ahead of the pre-COVID levels. The office sector appears to be the biggest laggard. Despite the sector's latest DPU growing to 5.9% above the pre-COVID level, its share prices are still 8.7% below the pre-COVID levels. Similarly, the commercial sector recorded a DPU that is 2.4% below the pre-COVID levels but share prices are showing a deeper discount of -16.5% vs. the pre-COVID levels. US office SREIT share prices are showing a deeper discount of -15.2% vs. the pre-COVID levels compared to its latest DPU that has declined 4.4% vs. the pre-COVID level.

Retail and hospitality showed slower a recovery in both share prices that would have complemented the slower recovery in their DPU. When compared to the pre-COVID levels, retail share prices are still down 14.7% vs. a decline of 16.4% for DPU, while for hospitality the numbers are -20.8% and -47.7% respectively.

DPU vs. share price decline and recovery during COVID-19 pandemic

Sectors	Est. DPU decline due to lockdown Lowest quarter in FY20 vs. 2019	Est. DPU recovery post CB Latest quarter (Dec20 / Mar21) vs. 2019	Trough vs. pre-COVID (Jan20 to Oct20)	Before Phase 2 to trough	Now vs. pre-COVID (Jan20 to Jun21)	Before Phase 2 vs. pre-COVID (Jan20 to Apr21)
Office / Commercial	-22.9%	-12.4%	-28.4%	-7.8%	-16.5%	-13.8%
Office (KREIT)	0.7%	5.9%	-19.7%	-6.4%	-8.7%	-1.6%
US Office	-3.6%	-4.4%	-21.8%	-2.2%	-15.2%	-15.3%
Retail	-67.0%	-16.4%	-28.6%	-7.4%	-14.7%	-13.0%
Industrial	-5.4%	3.9%	-6.8%	-4.6%	0.0%	0.7%
Industrial (ex-KDC)	-10.7%	-0.1%	-10.4%	-4.5%	-1.8%	-1.1%
Hospitality	-71.6%	-47.7%	-36.4%	-9.0%	-20.8%	-18.8%
SREIT	-28.3%	-11.8%	-21.8%	-6.8%	-9.5%	-8.1%

Source: Company, DBS, Bloomberg Finance L.P.

Outlook (pre-phase 2 heightened alert) turning more positive. In the past 1QCY21 results / business updates, most SREITs have turned more positive on the outlook in the coming year compared to the guidance given in the previous quarter. The managements of some SREITs the Industrial and hospitality sector saw sentiment turning positive, while selective retail and office SREITs have become more positive than others.

Despite the implementation of phase 2 heightened alert that could delay some of the expected recovery this year, , we believe that phase 2 heightened alert could be short term in nature and the economy could likely return to the new normal quicker than expected on the back of encouraging signs and the accelerated vaccination programme in Singapore.

Industrial SREITs continue to expect strong demand from logistics, riding on the uptrend in e-commerce and inorganic growth from potential acquisitions.

Hospitality SREITs are looking forward to the reopening of travel borders especially, when vaccination programmes are being rolled out globally and accelerated in selected countries.

Office SREITs expect the momentum to pick up in 2H21, with rents expected to bottom soon. While domestic retail sales remain strong, retail SREITS continue to expect negative rental reversions in FY21 as some retailers have yet to see their sales recover back to the pre-COVID levels and tourists spending has yet to return until the travel borders reopen.

Outlook brightens in 2H21

Subsectors	1QCY21 updates	1QCY21 guidance / outlook
Retail	• Improved occupancy rates portfolio wide. • Tenant sales improved to pre-COVID levels (-5% to -10% range) for suburban malls and -20% for centrally located malls. • Reversions remain mixed.	• Reduced operational capacity and non-dine in to impact mall performance in the near term but likely confined to 1 month of disruption. • Govt aid with 2 weeks of rental assistance limit downside to earnings.
Office	• Overall occupancy saw slight decline to flat q-o-q • Signing rents stabilised q-o-q • • Mix of expansion and downsizing but saw some tenants reversing downsizing decisions from last year	• Expect momentum to pick up in 2H21 • Rents could bottom either in 2Q21 or 3Q21 • Market absorbing new supply (pre-committed occupancy creeping up)
Industrial	• Overall occupancy and rental reversions remained healthy amid global economic recovery • Logistics assets outperforming the other industrial properties • Almost all industrial S-REITs are looking to grow their exposure to the logistics sub sector	• Positive rental reversions expected from logistics and high-spec industrial properties • Industrial S-REITs looking to AEIs and other improvement initiatives to drive organic portfolio growth • Do not expect further rental rebates and waivers in FY21
Hospitality	• Operating stats for the quarter was down q-o-q from a peak staycation period in 4Q20. • Decline in RevPAR from S$78.7 in 4Q20 to S$64.8 in 1Q21 was primarily due to a drop in occupancies from 56% to 44% as weekday room demand declined. • Average room rates held steady in the range of c.S$145 per night.	• Staycation demand will likely be dampened in the coming weeks and across the June Holiday seasons given social gathering limit of 2 pa • Hotels that are currently on government bookings will likely see extension of their contracts from the initial expiry period at around end 1H21 • Lower demand from MICE and banquets in the current and coming quarter

Source: Company, DBS Bank

Maintain our positive stance on SREITs with a focus on growth and strong recovery. As we look towards a new normal, we maintain our positive stance on SREITs with a focus on growth and strong recovery.

For recovery of earnings from reopening, the retail-focused name is **Frasers Centrepoint Trust (FCT)** and commercial / office names are **Keppel REIT (KREIT)** and **Mapletree Commercial Trust (MCT)**. We maintain our preference for logistics-focused names such as **Mapletree Logistics Trust (MLT)**, **Frasers Logistics & Commercial Trust (FLCT)** and **ARA LOGOS Logistics Trust (ALLT)**.

For hospitality SREITs, we highlight **Far East Hospitality Trust (FEHT)** as it could benefit from the potential reopening of travel borders in Singapore, and **CDL Hospitality Trust (CDLHT)** for the reopening of Europe – riding on pent-up demand in domestic travel within Europe.

Company's 1QCY21 outlook

SREITs	1QCY21 DI/DPU vs. estimates	Key operational metrics	Company's outlook	Sentiment (q-o-q)
Office				
KREIT	Above	• Occupancy: slight decline mainly from AU • Rents: positive reversions; signing rents stabilised	• Expect momentum to pick up in 2H21 • Occupancy may see slight dip in the near-term • Rents expect to recovery in 2H21	positive
MCT	Above	• Occupancy: slight decline from MBC1 and mTower • Rents: Retail still weak; Office / BP positive reversions • Tenant sales: Recovered >90% of pre-COVID	• Office / BP: BP remains resilient; Office should stabilise in 2H21 • Retail: Uneven recovery until borders reopen.	positive
Suntec	Below	• Occupancy: relatively stable • Rents: Office slight negative reversions; Retail negative reversions • Tenant sales: stable q-o-q (c.80% of pre-COVID)	• Office: remain stable • Retail: sales to recover close to pre-COVID by year-end • AU / UK: leasing soft but supported by rental guarantee	stable
OUECT	Above	• Occupancy: relatively stable; office slight decline • Rents: Office positive rental reversions but slightly lower quantum; Retail negative reversions • RevPAR: halved q-o-q due to hotel closure and refurbishments	• Office: remain stable; BAML lease has been renewed at likely higher rents • Retail/Hospitality: do not expect rental relief to increase significantly; expect recovery when the latest situation is under control • Additional distributions: c.S$20m from divestment gains and retained distributions in FY21	stable

Source: Company, DBS

Company's 1QCY21 outlook (cont'd)

SREITs	1QCY21 DI/DPU vs. estimates	Key operational metrics	Company's outlook	Sentiment (q-o-q)
US Office				
MUST	In Line	• Occupancy: declining trend continues • Rents: reversions have declined close to flat; tenant incentives have increased	• Expect leasing momentum to pick up in 2H21 as corporates slowly plan for return-to-office • Rent: reversions remain positive but muted	stable
PRIME	In Line	• Occupancy: declining trend continues • Rents: strong positive reversions	• Leasing momentum still soft but expect recovery in 2H21 • Rent: continue to expect mid-single-digit positive reversions	positive
KORE	Above	• Occupancy: declining trend continues • Rents: lower positive reversions	• Leasing momentum still soft but expect a recovery in 2H21 • Rent: positive reversions but at a lower quantum	stable
Retail				
FCT	In line	•Portfolio occupancy resilient at 96% •Reversions marginally negative at -0.7% •Tenant sales registered a y-o-y growth in January and February across the Chinese New Year months	•Suburban retail rents continue to perform benchmark •Adherence to CoC to cause minimal impact to bottom line	positive
SGREIT	Exceed	•Sharp recovery this quarter as tenant sales at Wisma Atria return to 83% of pre-COVID levels •NPI ahead of full year estimates •Overall occupancy resilient at 97%	•Wisma Atria's AEI n in the works with a S$15m budget and completion by end 2022 •Higher rental outlook post AEI at Wisma in the medium term	stable
SPH REIT	Below	•Portfolio occupancy resilient at 98% with overall positive reversions in SG portfolio • 1H21 made up 46% of our full-year DPU forecast of 5.28 Scts	•Border reopening key catalyst for Paragon	stable
China Retail				
MNACT	Above	• Occupancy: slight weakness in Festival Walk and China assets but committed level remains high • Rents: rental reversions lower than expected for Festival Walk but sentiment should improve as measures on social gathering should ease.	• Possible near-term weakness at Festival Walk and Gateway Plaza but manager focus on retention / replacement. • Manager hopes to continue to acquire to grow and diversify its earnings base.	stable

Source: Company, DBS Bank

Company's 1QCY21 outlook (cont'd)

SREITs	1QCY21 DI/DPU vs. estimates	Key operational metrics	Company's outlook	Sentiment (q-o-q)
Industrial				
MLT	in Line	• Occupancy: relatively stable on q-o-q basis. • Rents: Overall rents positive 2.4% (up from 1.6% a quarter ago). • Acquisitions driven quarter with new assets complementing stable organic performance.	• Occupancy rates remain resilient and expect to back-fill vacancies in Japan with robust demand seen throughout. • China exposure along the east coast should do well compared to properties in the western China. • Expect cap rates to continue compressing and expect more acquisitions to drive performance in FY22.	positive
KDC	In Line	• Occupancy maintained at a very healthy 97.8% • Development of Intellicentre 3 in Sydney is on track for completion in 2Q21. • AEI and expansion of capacity at Keppel DC Dublin 2 and DC1 have been completed; added capacity has been fully contracted by tenants	• Cap rates of data centres have been compressing aggressively, making it increasingly difficult to source for good deals • Recently expanded investment mandate and entered into an agreement with M1 to invest in its network assets • Expanded mandate allows KDC the flexibility to consider other assets that are necessary for the digital economy, and allows them to consider integrated data centre facilities that have infrastructure assets	positive
FLCT	In Line	• Occupancy for logistics and industrial portfolio maintained at 100% • Slight decline in overall portfolio occupancy due to non-renewal of a few tenants at commercial properties in Singapore and the UK • Leasing enquiries picking up for commercial properties, especially in Perth where the commodities sector is recovering	• Rental reversions are expected to trend up given the economic recovery and increase in leasing demand • A total of 4 fully valued assets have been divested and we believe FLCT is on the hunt to recycle its capital and grow its portfolio • Organic growth in its portfolio driven by rental escalations and improvement in commercial portfolio occupancy	positive

Source: Company, DBS Bank

Company's 1QCY21 outlook (cont'd)

SREITs	1QCY21 DI/DPU vs. estimates	Key operational metrics	Company's outlook	Sentiment (q-o-q)
Industrial				
AAREIT	Above	• Strong positive rental reversions of 2.3% during the quarter • Master lease at 541 Yishun Industrial Park A and recent acquisition of 7 Bulim Street drove higher revenues • Healthy demand for logistics space has been driving occupancy and rental rates	• 315 Alexandra Road acquisition expected to complete in the next 1 or 2 months • FY21/22 DPU expected to increase by 11% due mainly to recent acquisitions • 0.5m sqft of untapped GFA within the portfolio, and several older properties could potentially be suitable for conversion into data centres	positive
ALLT	In Line	• Portfolio near full occupancy at 99.1% • Positive rental reversions of 0.9% during the quarter and further positive reversion expected for upcoming expiries • Recently completed Australian portfolio acquisition to commence income contribution	• Rebound in operations and recent Australian acquisition to drive 18% growth in NPI • Seeing increase demand for space from third-party logistics firms that should continue to drive occupancy and rental rates • New Sponsors to provide further acquisition pipeline growth this year	positive
Hospitality				
CDLHT	Below	• General improvement in RevPAR q-o-q as domestic travel (UK, Australia, Maldives) improves, however still remained anchored at low levels. • Selected hotels in SG, New Zealand are secured on government contracts with good visibility up to 1H21. Extension of these contracts (despite low rates) is possible given the rise in community cases and regular number of imported cases arriving to Singapore.	• RevPAR improvement expected as travel restrictions are lifted over time, with the domestic travel (UK, Germany, Australia) to be first to see improvement. • Australia to see some weaknesses in the near term as the master lease has ended and will be converted into a management contract. • For Singapore, New Zealand, the manager intends to continue to engage the government business given its stable business.	positive
FEHT	In Line	•Fixed rents from hotel master leases continues to outshine, supporting 70% of revenues •Hotels RevPAR declined 46% y-o-y to S$51, occupancy trended upwards by 11ppts to 76% •Overall RevPAR declined 21% y-o-y to S$140 contributed by both a decline in occupancy (-9ppts to 74.7%) and room rates (-12.2% to S$187)	•Elizabeth will be undergoing a cosmetic refresh post the expiry of its government contract, FEHT will continue to collect fixed rents from the asset •Substantial RevPAR gap for variable hotels rents to kick in (c.S$110) vs. the current sector RevPAR at S$60 •Catalysts will likely shift towards the performance of service residences and the 'en bloc' of village residences CQ for now.	positive

Source: Company, DBS Bank

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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