Singapore Industry Focus

Singapore REITs

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Sep 2020

Turn of the tide

- Time to venture out of safe industrials S-REITs as valuation disparity stretches beyond 1SD
- Channel checks and macro datapoints signal broadening recovery across various sectors
- Financial metrics for S-REITs pass the litmus test; downside risk dissipating
- Yield disparity attractive except for Industrial and Healthcare S-REITs

Valuation discount for "COVID-19 impacted" sectors too wide to ignore. We maintain our stance that we expect the S-REIT rally to broaden out in 2H20 as per our report - Singapore REITs: The next chapter. While investors have been rewarded for sticking with the large cap industrial S-REITs in YTD20, the valuation disparity between these and COVID-19 impacted sectors (retail, office and hospitality) has widened to more +1 standard deviation (SD) since the pandemic struck. We believe this warrants a relook and switch. Supported by positive datapoints in our recent channel checks coupled with expected gradual upturn in economic metrics, these sectors should play catch up. We believe that office (**KREIT, MCT**) and retail (**FCT, CMT, LREIT**) will outperform but there is value from taking a rotational strategy in the industrial space (**A-REIT, FLT**). Hospitality will take time to recover but given minimal (or no) expectations, we like **ART** and **FEHT** for its good value.

Financial metrics stable; book value deterioration lesser than expected. We see risk abating as financial metrics remain stable (gearing has inched higher but remains <38%, ICR healthy at >4.0x) despite one of the worst quarters in S-REITs' history. Supported by government incentives and managers' proactive cash preservation strategy and access to capital markets has enabled S-REITs' balance sheets to pass the litmus test. We estimate that revenues will have fall by >80% before ICR hits 1.0x, a remote scenario in our view. In addition, strong liquidity and low interest rates have kept the decline in book valuations at a marginal 1.5%-3.0%.

Yield disparity attractive at -1SD to mean except for Industrial and Healthcare. Our overall FY20F DPU estimates are -1% to +2% of FY21 DPU, led by industrial (excluding potential acquisitions) and retail (+1% to +2%) followed by office ex-hospitality (+0.5% to +1%) supported by contributions from new assets. As such the yield disparity is attractive at -1SD of the mean except for Industrial and Healthcare which are trading close to above +1SD.

STI : 2,532.51

Analyst

Derek TAN +65 6682 3716 derektan@dbs.com

Rachel TAN +65 6682 3713 racheltanlr@dbs.com

Dale LAI +65 66823715 dalelai@dbs.com

Singapore Research Team equityresearch@dbs.com

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
ARA LOGOS Logistics Trust	0.64	513	0.70	18.5	(10.5)	BUY
Ascendas REIT	3.32	8,850	4.00	5.1	9.8	BUY
Ascott Residence Trust	0.90	2,055	1.10	(6.3)	(30.8)	BUY
CapitaLand Mall Trust	1.96	5,326	2.40	(4.9)	(26.0)	BUY
Far East Hospitality Trust	0.55	793	0.60	8.9	(16.7)	BUY
Frasers Centrepoint Trust	2.52	2,080	2.95	1.2	(8.4)	BUY
Frasers Logistics & Commercial Trust	1.34	3,363	1.60	16.5	9.8	BUY
Keppel REIT	1.05	2,628	1.35	(5.4)	(14.6)	BUY
LendLease Global Commercial REIT	0.66	569	0.85	(5.0)	N.A	BUY
Mapletree Commercial Trust	1.92	4,685	2.25	(6.3)	(15.5)	BUY
Soilbuild Business Space Reit	0.43	402	0.50	11.7	(21.1)	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 31 Aug 2020

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

Time to venture out

Divergent share price performance among S-REITs. While the S-REITs have been strong performers year to date (YTD), the share prices are still 9% lower compared to the start of 2020 but have outperformed the Straits Times Index (STI) which is down 21%. However, compared to the lows in 1Q20, the FSTREI has rebounded 38% (vs 13% rise in the STI).

We note that the share price rebound since the low in March 2020 has seen divergence across 2 broad categories – the "COVID resistant" subsectors i.e. Industrial and Healthcare S-REITs. The COVID resistant subsectors have done well (industrial S-REITs have turned in flat) or up 12% (Healthcare S-REITs), and have hit new highs in terms of valuations at P/NAV of 1.6x-1.7x. That said, if we look at the top 5 industrial S-REITs in terms of market cap (A-REIT, MLT, MINT, KDCREIT and FLT), their share prices are 8-40% higher compared to the start of the year. Valuations of these large caps are now between 1.6x -2.3x P/NAV.

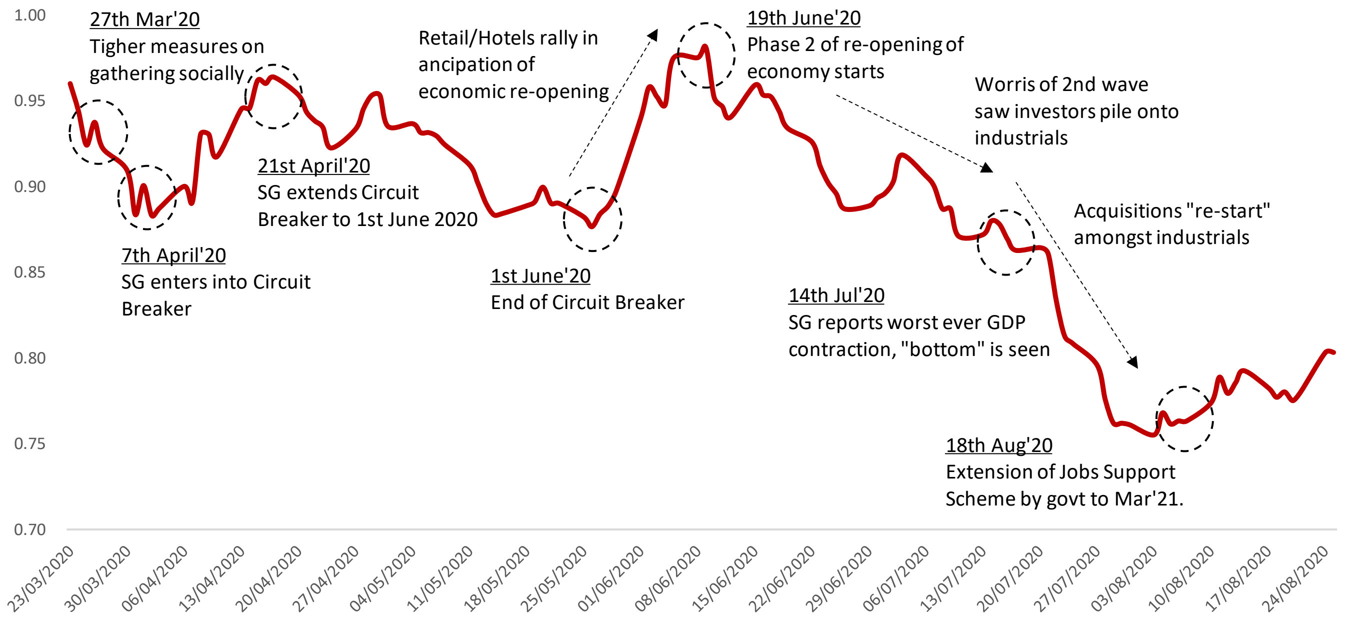
On the other hand, the "COVID impacted" sectors (retail, office and hotels are 18% to 27% lower YTD. However, retail and hospitality S-REITs are still 25% to 27% lower due to the more significant disruption to earnings and operations.

Valuation disparity too large to ignore. Investors have rightfully stuck and been rewarded with positive returns in Industrial S-REITs (especially large cap S-REITs) given their relative earnings resilience against the COVID-19 pandemic coupled with acceleration in medium term structural drivers. That said, the performance disparity is noteworthy as the valuation gap between these industrial S-REITs and the other sub-sectors has broadened to 0.75x, the widest since the start of the pandemic. This is unwarranted in our view, given the positive market datapoints that point to a gradual recovery in the economy.

Economy is on a gradual mend, further support from government is positive for "risk trade". According to our DBS economist, Irvin Seah, the steep contraction of Singapore's economy in 2Q20 marks a turn for the better starting from 3Q20, as per DBS Economics & Strategy: Singapore: The economy has bottomed out . With the economy on the mend coupled with the recent extension of the Jobs Support Scheme (JSS) till March 2021 and selective opening of the borders with a focus on "green lanes" to kickstart travel, these will be positive for firms and consumers, especially within the commercial and hospitality sector in the medium term.

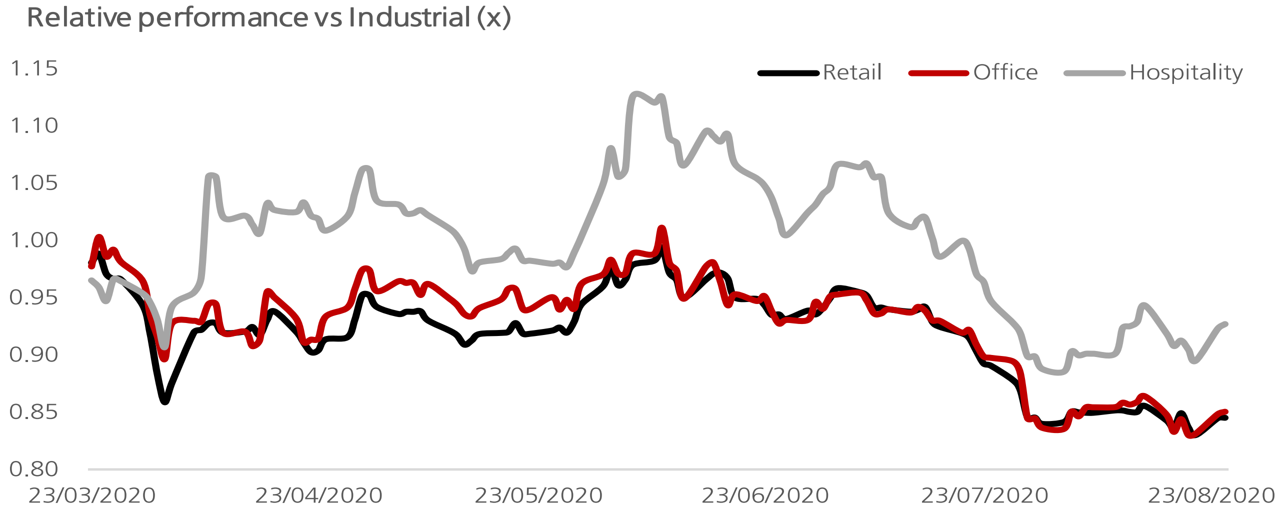
With low or no expectations, valuations for COVID impacted sectors are below mean. We believe this is an opportune time to re-look at these subsectors.

Relative unperformance of retail, hospitality, office



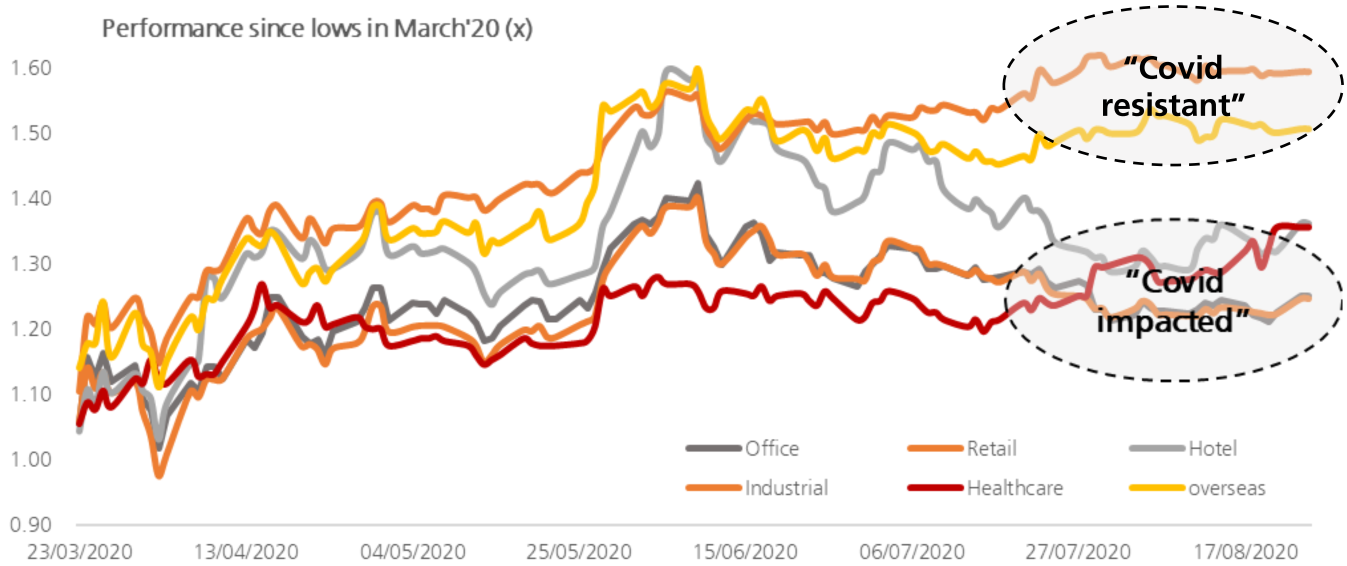
Source: Bloomberg Finance L.P., DBS Bank

Relative share price performance



Source: Bloomberg Finance L.P., DBS Bank

Share price performance



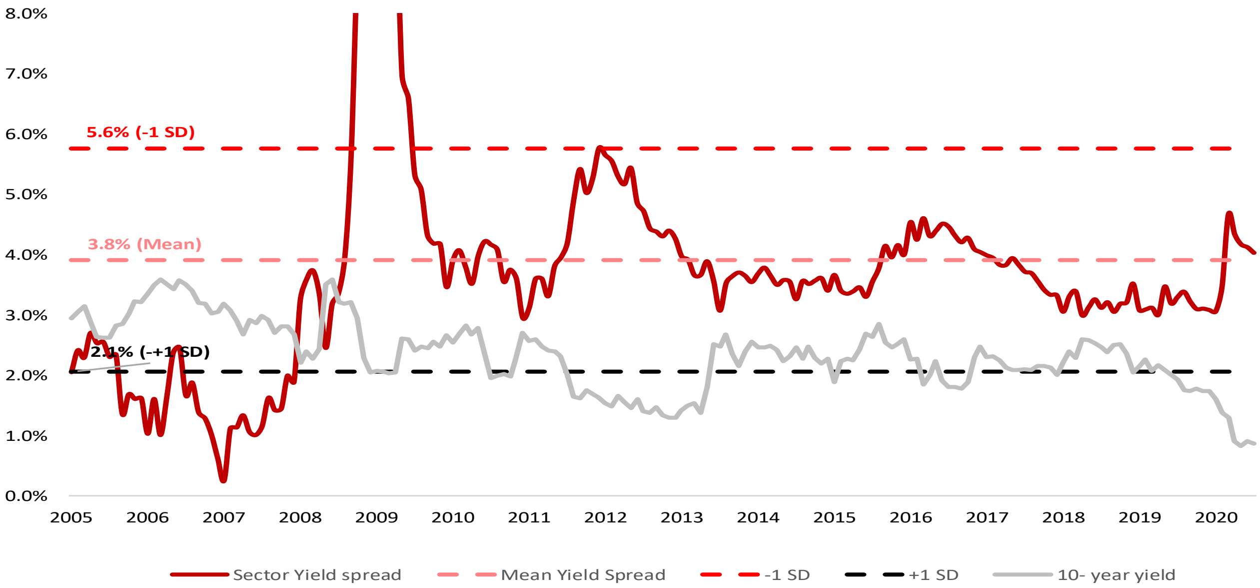
Source: Bloomberg Finance L.P., DBS Bank

Summary of performance by subsectors

	1Q20 % chg	2Q20 % chg	July % chg	Aug % chg	2020 YTD % chg
Office	-28.4%	9.9%	-3.8%	1.9%	-18%
Retail	-32.4%	12.7%	-4.7%	1.5%	-25%
Industrial	**-22.5%**	**18.8%**	**7.3%**	**-1.5%**	**-2%**
Hospitality	-33.7%	14.3%	-3.3%	2.6%	-27%
Healthcare	-7.7%	12.6%	3.8%	4.8%	+12.3%
Office (US)	-32.4%	19.6%	3.1%	-0.7%	-17%
Office (EUR)	-33.5%	22.8%	2.9%	-1.9%	-16%
Retail (Others)	-28.3%	10.3%	-4.3%	1.4%	-18%
FSTREI	-22.9%	13.8%	2.9%	-0.1%	-9%
FSSTI	-22.7%	1.9%	-1.7%	1.2%	-21%

Source: Bloomberg Finance L.P., DBS Bank

Yield and yield spread



Source: Bloomberg Finance L.P., DBS Bank

Financial metrics stand the test

Financial metrics stable. S-REITs' overall financial metrics were stable in 1H20, despite the weakening operating environment, and impact on cashflows due to landlords offering rental assistance programs to their tenants. While gearing has crept up and some weakening in interest coverage ratios (ICR), overall, we feel that the impact of the crisis is well managed with assistance from government grants that have helped to sustain landlords' financials.

Modest decline in valuations – better than expected. Valuations during 2Q20 declined by 1.5-3.0% for commercial properties, which was better than market expectations, resulting in gearing levels remaining at comfortable levels.

On the back of improving operating conditions expected in 2H20, we believe downside risks for S-REITs are minimal.

Healthy ICR ratios. Overall S-REIT sector ICR ratios was around 4.38x, a decline from 4.81x as of end December 2019. The range was rather wide, from 3.35x for hotels to 6.1x for industrials/15.8x for healthcare. We estimate that EBIT would have to fall by 77% (range 61% to 94%) before ICR drops to 1.0x, implying that the current financial positions remain strong as ICR ratios will most likely be above financial covenants and MAS requirements of 2.5x (which is similar to an investment grade rating) even if REITs raise their gearing to 50%.

EBIT projections on track despite COVID-19 hit. EBIT projections remain on track, with 1H20 EBIT at 46.6% (ranging 37%-52%) of our full year forecasts, impacted by 1H20 rental rebates. This implies that even if the rebate program tapers off, we may not need to trim our estimates if economic recovery takes hold. We highlight that industrial S-REITs and US Office REITs are in fact tracking ahead of our forecasts, driven by acquisitions. Thus, if the momentum continues, full year projections are likely to come in ahead of expectations.

Summary of key financial metrics

	Gearing		ICR			
	End Dec'19	End Jun'20	End Dec'19	End Jun'20	% EBIT drop for ICR to drop to 1.0x	% EBIT in 1H20 vs forecasts
Office	35.7%	36.8%	4.28	3.97	73%	46%
Retail	32.4%	34.1%	5.31	4.49	77%	46%
Retail Overseas	35.4%	36.0%	3.55	3.95	77%	37%
Hotels	35.2%	36.8%	4.76	3.35	61%	46%
Industrials	35.0%	36.9%	6.49	6.09	81%	52%
Healthcare	37.1%	38.3%	14.10	15.80	94%	48%
US Office	36.0%	37.0%	4.45	4.44	78%	51%
S-REIT	**35.3%**	**36.5%**	**4.81***	**4.38***	**77.3%**	**46.6%**

*we have excluded ICR for healthcare as it is an outlier
Source : Companies, DBS Bank

Summary of change in valuations in recent results release

	Property type	Dec'19 Valuation	Jun'20 Valuation	% chg	Cap rates
CMT	Retail	10,404	10,139	-2.5%	Stable
CCT	Office	10,210	10,007	-2.0%	Stable
UOL	Retail/Office	10,578	10,405	-1.6%	n.a.
LREIT (313@Somerset)	Retail	1,003	1,008	-	Stable
SGREIT	Retail/Office	2,116	2,063	-2.5%	Stable

Source: Company, DBS Bank

Overall financial metrics

	Gearing		Reported ICR		Forecast ICR			
	Dec-19	Jun-20	End Dec-19	End Jun-20	FY20F	Annualised 1H20 EBIT	How much EBIT has to drop for ICR to hit 1x	% of 1H20 EBIT vs. FY20F EBIT
Office								
CCT	35.1%	36.4%	5.60	5.30	4.90	4.76	80%	49%
KREIT	35.8%	36.3%	3.80	3.50	3.53	3.37	72%	48%
MCT	33.4%	33.7%	4.40	4.10	4.63	4.37	78%	47%
SUN	37.7%	41.3%	2.90	2.70	2.33	1.85	57%	40%
OUECT	40.3%	40.1%	3.30	2.80	3.05	2.71	67%	44%
			4.28	*3.98*	*3.98*	*3.73*	*73%*	*46%*
Retail								
CMT	32.9%	34.4%	4.70	4.30	4.26	3.52	77%	41%
FCT	33.2%	35.0%	5.93	4.80	4.54	5.29	78%	58%
LREIT	34.9%	35.1%	10.80	4.60	5.04	3.44	80%	34%
SPH REIT	27.5%	29.3%	5.30	n.a.	5.40	5.70	81%	53%
SGREIT	36.3%	39.7%	3.60	2.90	3.29	2.49	70%	38%
			4.37	*3.56*	*3.54*	*3.17*	*81%*	*46%*
Retail Overseas								
CRCT	36.7%	33.6%	5.00	4.00	4.57	3.42	78%	37%
MAGIC	37.1%	39.6%	2.50	3.60	4.20	2.75	76%	33%
SASSEUR	27.8%	28.1%	4.80	5.00	5.18	5.05	81%	49%
			3.59	*3.96*	*4.48*	*3.34*	*78%*	*37%*
Hotels								
ART	33.6%	36.1%	5.60	3.60	2.90	2.58	66%	44%
CDREIT	35.4%	37.1%	6.10	3.40	2.93	1.45	66%	25%
FEHT	39.2%	39.2%		2.70	2.42	2.20	59%	45%
FHT	35.5%	35.9%	5.70	3.20	1.65	2.82	40%	85%
			4.77	*3.35*	*2.65*	*2.31*	*61%*	*46%*
Industrials								
a-itrust	28.0%	29.0%	3.60	4.00	4.39	3.96	77%	45%
A-REIT	35.1%	36.1%	4.30	4.20	4.37	4.36	77%	50%
ALLT	40.1%	40.4%	3.80	3.60	3.44	3.70	71%	54%
EREIT	41.5%	41.8%	3.70	3.40	3.29	3.23	70%	49%
MINT	34.1%	38.8%	6.80	7.20	6.29	8.35	84%	66%
MLT	37.5%	39.6%	5.20	4.80	4.95	5.11	80%	52%
SBREIT	38.2%	36.9%	3.70	3.60	3.72	3.55	73%	48%
KDCREIT	30.7%	34.5%	13.30	12.80	13.87	14.03	93%	51%
AIMS	35.2%	35.4%	5.30	3.80	2.40	2.33	58%	49%
FLT	35.5%	35.0%	9.90	7.50	9.29	7.98	89%	43%
ECWREIT	38.7%	39.1%	3.70	2.45	2.62	2.38	62%	45%
			6.46	*6.06*	*6.28*	*6.52*	*81%*	*52%*
Healthcare								
P-Life	37.1%	38.3%	14.10	15.80	16.35	15.85	94%	48%
US Office								
KORE	36.9%	37.4%	4.80	4.40	4.33	4.57	77%	53%
MUST	37.7%	39.1%	3.80	3.80	3.93	3.94	75%	50%
PRIME	33.7%	33.0%	5.10	5.40	5.82	5.86	83%	50%
			4.45	*4.44*	*4.61*	*4.69*	*78%*	*51%*

Source : Companies, DBS Bank

A rebound back to pre-COVID levels

Despite the weak operating results in 2Q20, share prices for the S-REITs have remained firm, which justifies our call for further broadening of the S-REIT rally, in line with our previous report issued in July 2020: Singapore REITs: The next chapter.

While the economic environment remains fragile, anecdotal datapoints we have tracked over the past weeks suggest that a gradual recovery is already underway. This means a possible turn of the tide towards the more beaten subsectors in retail, office and hospitality in the coming months. Looking ahead, a phased return of office workers back to the CBD will further boost office and selected retail S-REITs performance. In our report, Singapore Office REITs: Grab it while it lasts, we suggested that investors should focus on the positive implications of a possible supply crunch in 2H20-2020 rather than structural changes in demand which would unravel in the next 3-5 years. Over time, we see resilience in being positioned in Grade A office space (**KREIT, CCT**) and decentralised office space (**MCT**).

In the retail space, we maintain our preference for suburban over tourist focused malls as discretionary spending will likely recover slower. Please see our report on Singapore Retail REITs: Near the end of a storm and Singapore Retail REITs: Ready, set, shop! . We see value in retail landlords **CMT** and **FCT** in 2H20.

While our call may be early, we believe investors should start dipping into the hospitality sector given expectations of a gradual and selective re-opening of our borders. While government stay-home-notice (SHN) and recent re-opening of hotels to staycations will boost occupancy in times when demand is weak. We like it that investors' expectations are low or even zero within the hospitality space which is offering good value at 0.67x P/NAV, -2 standard deviations of its 10-year mean. We acknowledge that the sector remains the least preferred subsector among investors given its more gradual pace of recovery compared to other subsectors, but this is expected to change in the coming months if travel momentum picks up gradually. Our picks are **Ascott Residence Trust (ART)** and **Far East Hospitality Trust (FEHT),** and **CDL Hospitality Trust (CDREIT)** by virtue of its 65% exposure to the Singapore hospitality market.

Where is the rebound trade?

SREITs FY21F DPU growth ranges from -1% to 3%; industrial (ex- acquisitions) and retail to lead. While the impact of the COVID-19 pandemic on FY20F DPU is well expected by the market and our estimates have factored in a decline in DPU ranging from -0.4% to -54% vs FY19 DPU, we expect a gradual recovery in 2H20 (vs 1H20) leading to some level of normalcy in FY21F.

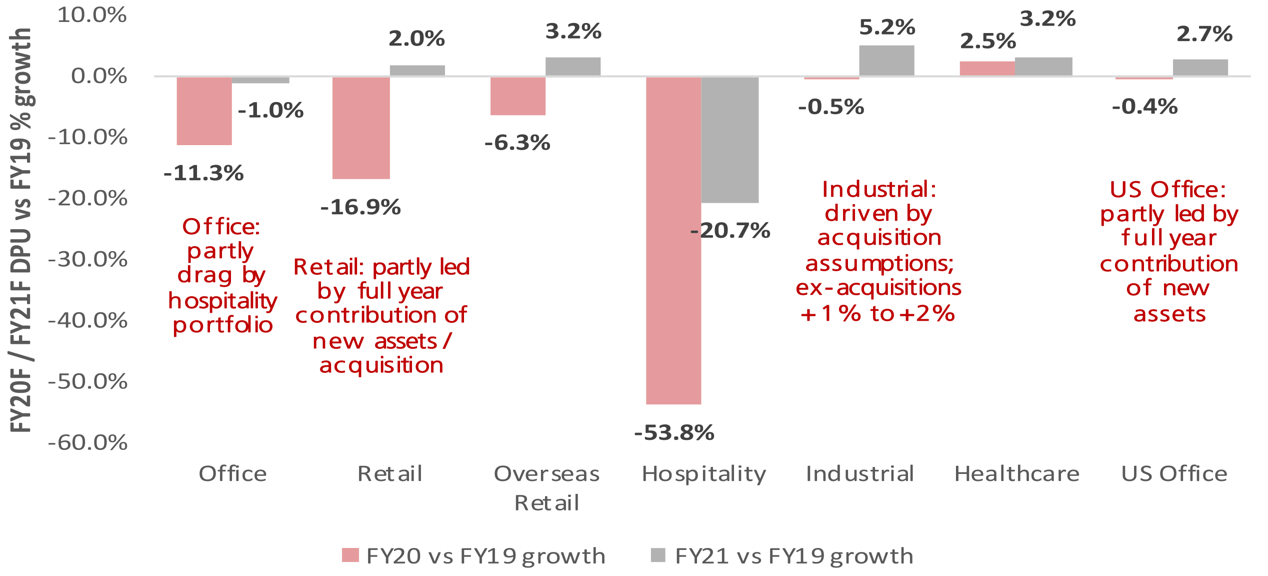
Broadly, our estimates point to SREITs' FY21F DPU growing by -1% to 3% vs FY19A DPU. Any growth is mostly driven by full-year contribution of newly acquired assets in FY19 / FY20.

By asset classes, our estimates for Industrials appears to have the strongest growth of c.5% in FY21F vs FY19 led by assumed potential acquisitions. Excluding these potential acquisitions, the rebound is estimated to range between +1% to +2%. As such, among the four major asset classes, retail and industrial would lead the rebound at +1% to +2% while office lags at -1% dragged down by hospitality portfolio. Excluding the hospitality portfolio, we estimate FY21F DPU estimates could range between +0.5% to +1% of FY19 DPU. Given the extended travel restrictions, we expect recovery in hospitality to be the slowest.

Similarly, FY21F DPU in healthcare, US office SREITs and overseas retail (China) is estimated to rebound by c.3% vs FY19 DPU, mainly driven by full-year contribution of newly acquired assets.

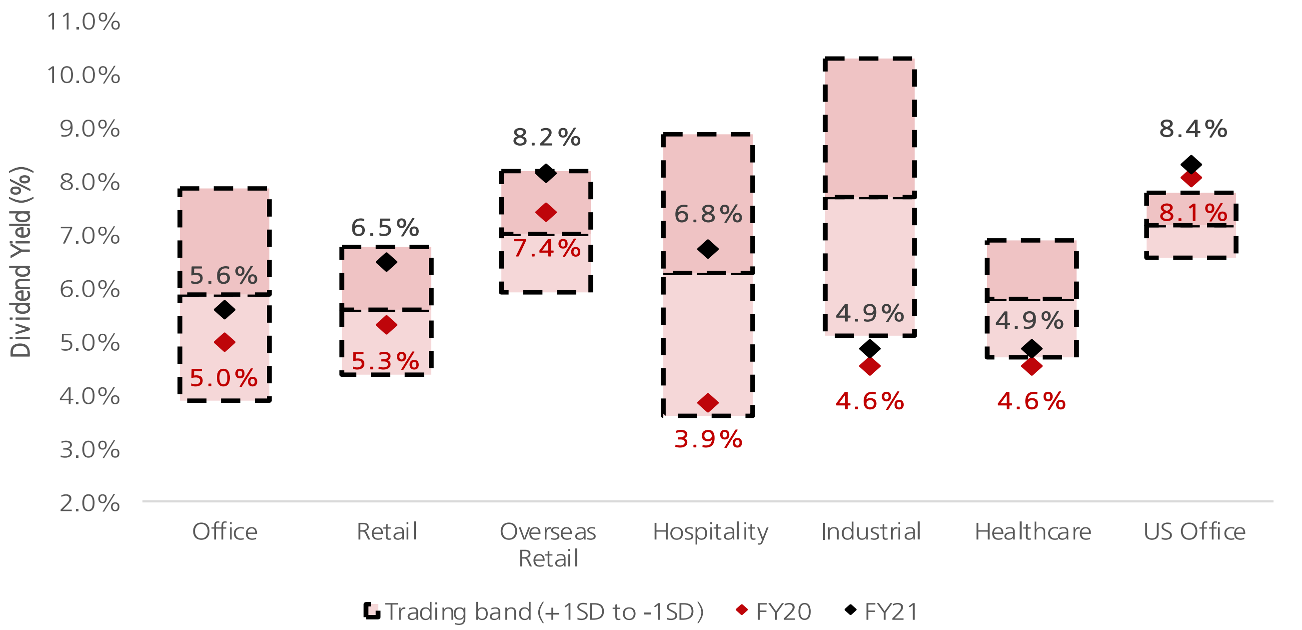
Yield disparity is attractive - FY21F yield at -1SD to mean except for industrial and healthcare. FY21F dividend yield of all asset classes are trading at -1SD to mean levels except industrial and healthcare which are currently trading at close to or above +1SD given the projected inorganic growth profile for industrial and earnings visibility of healthcare. As such, we maintain our stance that the yield disparity between the 'COVID resistant' (industrial, healthcare) and 'COVID impacted' (retail, office and hospitality) is attractive as the latter ride on a gradual return to normalcy.

Summary of rebound of earnings



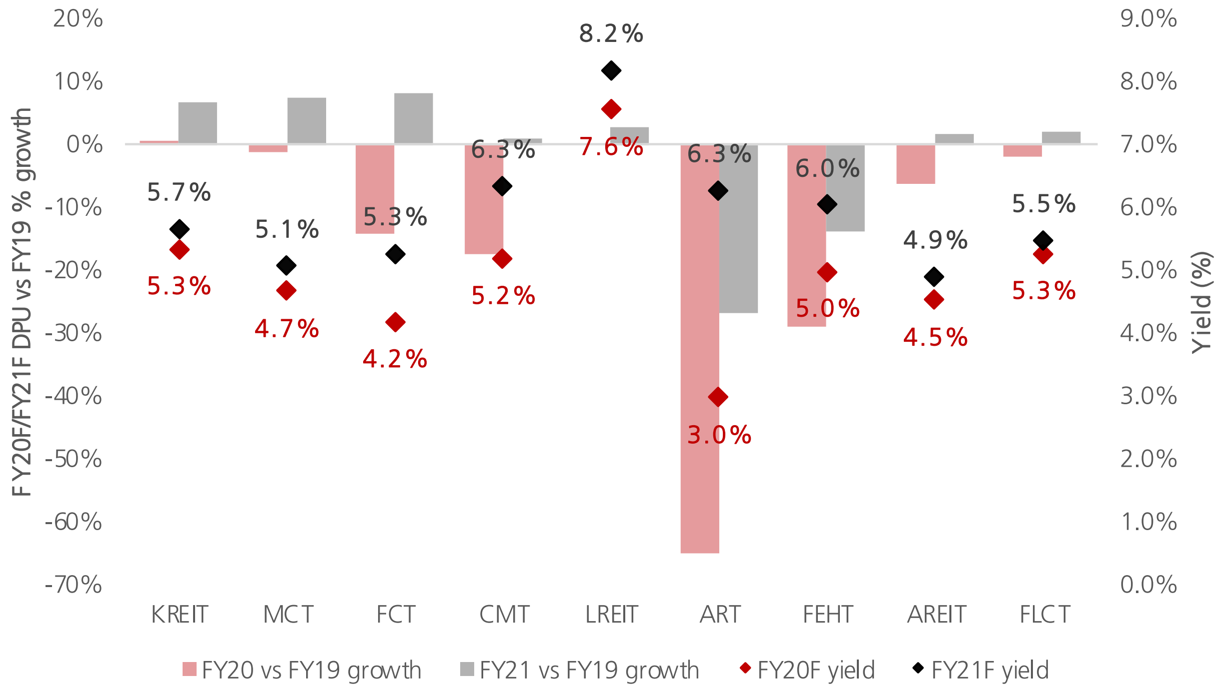
Source: DBS Bank

FY20F / FY21F yield vs historical trading band



Source: Thomson Reuters Analytics, DBS Bank

Our Top Picks - earnings rebound vs FY20F / FY21F yield



Source: Thomson Reuters Analytics, DBS Bank

Summary of subsector views

	Recovery post circuit break	Near Term view	Long term view ?	Picks
Industrial	Fast	• Industrial sector expected to remain resilient • Landlords with more exposure to SME tenants may have to make more provisions to provide rental waivers/rebates	• Business parks and data centres expected to remain robust due to limited new supply • REITs with strong acquisition pipelines are expected to resume growth plans.	AREIT, FLT, ARA LOGOS, SBREIT
Office	Fast	• Progressive return to office bodes well for landlords • Risk of downsizing and bankruptcy due to weaker GDP outlook	• Recovery could be faster than expected given very limited upcoming net supply in the next 3 years	KREIT, MCT
Office – USA	Fast	• Improved sentiment with progressive return to office post re-opening of the US economy • Leases remain sticky due to safe distancing and moving office remains challenging	• Risk of downsizing and bankruptcy on sectors impacted by COVID-19 / trade war such as retail trades, travel related and O&G • Risk of a 2nd wave of outbreak leading to another lockdown	Prime
Retail	Moderate	• Suburban Retail to do better • Gradual reopening of offices to boost performance of centrally located malls. • Tourist dependent malls to likely see slowest recovery pace	• Faster adoption of e-commerce • Low competing retail supply pipeline to mitigate downside risk in the next 3 years	FCT, CMT Lendlease
Retail - Overseas	Moderate	• Moderate pace of recovery with traffic recovering 70% - 85% in the various markets Threat of second wave in China	• Recovery of consumption to pre-COVID levels, which is generally seen within China (c.5-6% y-o-y retail sales growth) • Faster adoption of e-commerce	-
Hotels	Moderate/slow	• Expectations for recovery earliest in 2021 • Sponsor backed rental income to provide an income floor	• Anticipate recovery in travel to approach normalisation only in 2022	ART, FEHT

Source: Bloomberg Finance L.P., DBS Bank

Singapore Company Guide
ARA LOGOS Logistics Trust

Version 20 | Bloomberg: ALLT SP | Reuters: ARAL.SI **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 29 Jul 2020

BUY

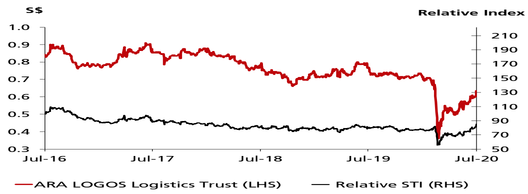
Last Traded Price (28 Jul 2020): S$0.635 **(STI :** 2,582.97)
Price Target 12-mth: S$0.70 (10% upside)

Analyst
Dale LAI +65 66823715 dalelai@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- DPU increased 33% q-o-q to 1.326 Scts in 2Q20; outperforming its peers
- Only S$0.5m of retained income has been disbursed and remaining S$2.0m to provide buffer for next two quarters
- Increase in demand from tenants who are stockpiling and those in e-commerce
- Maintain BUY with TP of S$0.70

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	122	114	121	122
Net Property Inc	90.9	85.8	83.8	84.2
Total Return	29.7	(7.7)	46.3	45.6
Distribution Inc	80.1	65.3	52.3	54.4
EPU (S cts)	4.78	4.59	4.25	4.14
EPU Gth (%)	(14)	(4)	(8)	(3)
DPU (S cts)	7.43	6.04	4.80	4.95
DPU Gth (%)	13	(19)	(20)	3
NAV per shr (S cts)	66.2	58.9	58.3	57.6
PE (X)	13.3	13.8	15.0	15.3
Distribution Yield (%)	11.7	9.5	7.6	7.8
P/NAV (x)	1.0	1.1	1.1	1.1
Aggregate Leverage (%)	37.1	38.2	38.2	38.1
ROAE (%)	7.0	7.3	7.2	7.1
Distn. Inc Chng (%):			0	0
Consensus DPU (S cts):			5.00	5.20
Other Broker Recs:		B: 3	S: 0	H: 3

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

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

Stockpiling its way forward

Maintain BUY with TP of S$0.70. ARA LOGOS Logistics Trust (ALLT) reported a 33.0% q-o-q increase in DPU in 2Q20, outperforming the rest of its peers. ALLT's 1H20 DPU of 2.323 Scts makes up more than 48% of our FY20 projection and it has a remaining S$2.0m of retained earnings to support distribution over the next two quarters. We do not expect ALLT to make any further provisions or income retention, and any unutilised retained earnings made previously will be distributed in FY20.

Where we differ: A new sponsor with a sizeable pipeline. We are excited that LOGOS brings about a new paradigm for ALLT to grow into. A vertically integrated logistics player, LOGOS offers significant inorganic growth potential, having a logistics portfolio valued at S$9.4bn located throughout Asia Pacific. In addition, ALLT can also ride on the strategic partnership with Yang Kee Logistics in Singapore as it harnesses the longer-term structural e-commerce growth trends in Asia.

Potential catalysts: Stronger-than-anticipated take up of logistics space. A bright spark amid the COVID-19 pandemic has been the increase in stockpiling by businesses and the proliferation of e-commerce. ALLT's Singapore portfolio occupancy in 2Q20 increased by 1.4ppts to 98.6%, and it was partly due to increased demand from third-party logistics players and businesses looking to stockpile. Going forward, a stronger-than-anticipated expansion by these tenants would mitigate potential weaknesses in other sub-sectors and boost ALLT's earnings.

Valuation:
We maintain our BUY recommendation on ALLT with a DCF-based TP of S$0.70. At the current share price, a prospective 8% yield for FY20F is on offer.

Key Risks to Our View:
Non-accretive acquisitions. Given the high portfolio NPI yield of around 7%, it may be difficult to source for acquisitions that are yield-accretive immediately. The value-add will have to come from strong cashflows and eventually higher capital values.

At A Glance

Issued Capital (m shrs)	1,087
Mkt. Cap (Sm/USm)	690 / 501
Major Shareholders (%)	
Lim Hwee Chiang	11.5
LOGOS China Inv Ltd	11.0
Prudential PLC	4.9
Free Float (%)	72.6
3m Avg. Daily Val (US$m)	0.95

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

Live more, Bank less

WHAT'S NEW

Stockpiling its way forward

Robust operating performance: DPU increased 33% q-o-q

- Gross revenue of S$29.0m in 2Q20 was 0.8% higher q-o-q due to commencement of new leases
  - Mainly from Commodity Hub, Cold Centre and Gul Logiscentre
- NPI of S$21.9m in 2Q20 was 0.6% lower q-o-q due to higher property expenses
  - Higher property expenses incurred for precautionary measures taken at its Singapore properties to combat the COVID-19 pandemic
- 2Q20 distributable income was 33.0% higher q-o-q
  - Including the impact of S$2.5m retained in 1Q20, followed by the disbursement of S$0.5m in 2Q20
  - Excluding the retention and disbursement, distributable income would have been up 4.6% q-o-q
- S$0.5m in retained income has been disbursed in 2Q20
  - To offset some provisions made for doubtful debt and rental rebates made in 2Q20
- Rental collection rate remains very robust at more than 94% to date
- Its 1H20 DPU of 2.323 Scts is 18.0% lower y-o-y mainly due to one-off divestment gains in 1H19
  - c.S$3.8m in divestment gains and capital distribution were included in 1H19 DPU
  - Excluding the one-off distribution in 1H19 and excluding the income retained in 1H20, DPU would have been 1.8% higher y-o-y

Capital management: Gearing inched down to 40.4%

- Its gearing of 40.4% in 2Q20 was 0.4% lower q-o-q
- All-in cost of borrowing of 3.45% in 2Q20 was 0.18ppt lower q-o-q
- Weighted average debt maturity of 3.5 years; no refinancing required until December FY21

Healthy portfolio metrics: Occupancy of Singapore portfolio increased 1.4ppts q-o-q

- Portfolio occupancy was relatively stable at 97.0% in 2Q20 as compared to 97.1% in 1Q20
  - Singapore portfolio occupancy increased 1.4%ppts to 98.6%
  - Australia portfolio occupancy declined 2.2ppts q-o-q to 94.7%, due to non-renewal at one asset
- Rental reversions in 1H20 declined 0.5%; declined c.1.8% in 2Q20
  - Negative rental reversion in 2Q20 mainly attributed to a tenant expanding its lease at lower rents
  - Excluding this lease, rental reversions would have been relatively flat
- 1.5m sqft of leases renewed and signed in 1H20
  - Expecting an increase in demand for tenants who are stockpiling and are in the e-commerce sub-sectors
  - Demand in also driven by tenants who are undergoing consolidation and expansion
- Only 5.2% of leases (by GRI) are due to expire for the rest of FY20.
  - Expiries mainly from third-party logistics tenants at Commodities Hub; expect forward rental reversions to be mainly flat
  - May see some negative rental reversion for leases that were signed 3-4 years ago; signing rents then were very high
- S$2.2m in property tax rebates have been passed on to tenants
  - c.20 SME tenants have enquired about rental deferments

Looking forward: Exciting prospects ahead

- ALLT continues to be in the hunt for acquisitions both from its new Sponsor, as well as from third parties
- Pipeline acquisitions from LOGOS are mainly in Asia and Australia
  - Properties in Singapore, Australia, China and Korea would complement ALLT's portfolio
- Will evaluate potential acquisitions based on a combination of factors including accretion to DPU, future earnings upside, long and stable leases, ability to extend portfolio land lease tenure, etc.

Our views:

We remain positive about the outlook for ALLT as its 2Q20 results were in line with our projections. 1H20 DPU makes up more than 48% of our full-year FY20 forecast even after the retention of income in the previous quarter. During the quarter, revenues inched up with the commencement of recently signed leases and we believe that the rental escalations (between 1% and 4%) for its master-leases and Australian leases will help mitigate further negative reversion.

Of the S$2.5m of income retained in 1Q20, S$0.5m has been disbursed in 2Q20. The remaining S$2.0m should be gradually disbursed over the next two quarters to offset further rental waivers/rebates. As such, we do not expect ALLT to make any further provisions or income retention as it has sufficient retained income.

Looking ahead, ALLT is keeping its eyes on pipeline acquisitions from its new Sponsor mainly in Singapore, Australia, China and Korea. ALLT will evaluate potential acquisitions based on yield accretion, future earnings upside, and potential to improve its portfolio metrics (extend WALE, lengthen land lease expiry, income diversification, etc.). The on-going expansion and consolidation from logistics tenants who are increasing their stockpiling activities will drive demand and rents going forward.

ALLT has so far reported the best performance among its peers and we maintain our BUY recommendation with a TP of S$0.70.

Critical Factors

Warehouse oversupply situation in Singapore is tapering off. With the Singapore warehouse sector in an oversupply situation over the past few years, the committed occupancy of ALLT's portfolio has remained at c.95% through the years, higher than the industry average of c.88%. As industry new supply tapers off from 2020 onwards, we believe that the risk of more downside to occupancy rates is mitigated.

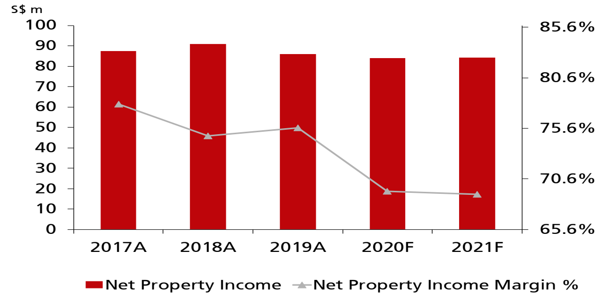
Rental reversions should begin to stabilise in the medium term. Rental reversions have been negative but were showing signs of bottoming out in 2019. We believe that the worst may be over for the REIT, supported by more favourable supply/demand dynamics. Apart from selected assets which are currently facing higher transitional vacancies like CWT commodity Hub & Cache Gul LogisCentre where vacant spaces have been progressively filled up, we believe that the future is turning bright for the REIT. However, given the on-going COVID-19 outbreak, rental rates may face some near-term pressure before stabilising in the medium term.

Looking overseas for inorganic growth. ALLT has over the past few years built a significant footprint in Australia with 17 properties worth c.A$428.4m (S$404.6m) valued at an estimated cap rate of 6.3%. With an enlarged presence in Australia, ALLT benefits from having a larger proportion of its portfolio on a freehold tenure and lengthens the Trust's WALE, which improves earnings visibility. As its ability to deliver DPU growth and address shorter land lease tenures remains a key priority, we believe that acquisitions will remain a key theme for the REIT in the medium term.

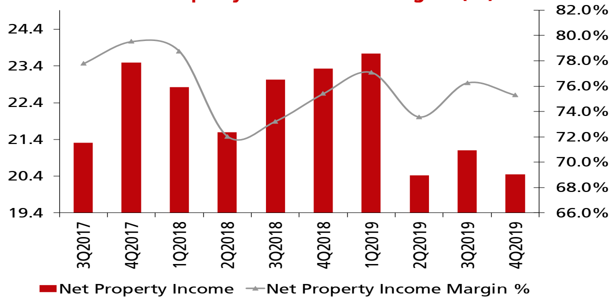
Yield curve to steepen progressively in 2020-2021. As a REIT, movement in interest rates will have an impact on investors' returns on investments. Over time, we have found a close correlation between the steepening of the yield curve and ALLT's share price. While we see DPU growth as a compensating factor, given a flattish DPU outlook over 2020-2021, we believe that its share price is likely to remain rangebound.

Tie-up with LOGOS Property Group to offer potential acquisition possibilities. ARA Asset Management (ARA) recently completed the tie-up with LOGOS to establish a best-in-class logistics real estate development and investment management partnership in the Asia Pacific region. We believe things are turning up for ALLT, which has the opportunity to work with a vertically integrated player with management expertise in various aspects of logistics real estate. We look forward to potential acquisitions from LOGOS over time as ALLT looks to build up its AUM.

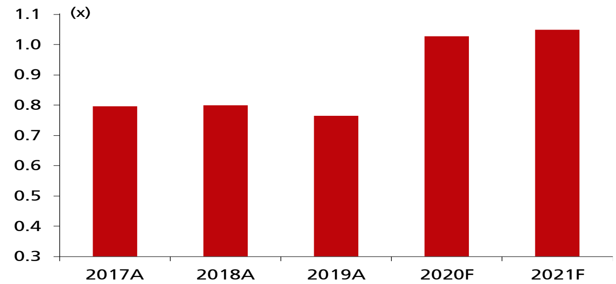
Net Property Income and Margins (%)



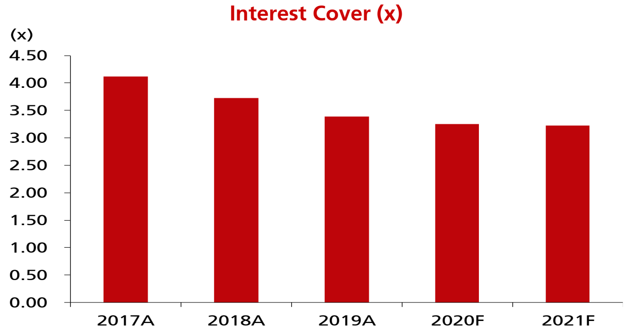
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing hovering at the 40% levels. While gearing has nudged higher following its recent acquisition, ALLT continues to enjoy financial flexibility for further acquisitions, if any, which we believe is important from a diversification and portfolio enhancement standpoint.

Average debt maturity of 3.5 years. After successfully refinancing all loans that were due in FY20, ALLT's weighted average debt-to-maturity has been extended substantially to 3.5 years currently. The recent disencumbering of its Singapore assets should also help drive improvements in operational flexibility.

Share Price Drivers:

Acquisition of assets. Moving forward, the Manager is casting its focus on ARA's and LOGOS' network in the Asia Pacific region. While Australia remains an attractive market for ALLT, China may also be of interest given freehold land tenures. The delivery of accretive acquisitions should help mitigate concerns in the Singapore market, which is still bottoming out, and help drive a recovery in share price.

Asset divestments. ALLT has been actively selling non-core properties in Singapore and looking to redeploy into higher-yielding properties, mainly in Australia where assets are freehold and offer stronger cashflows.

Key Risks:

Non-accretive acquisitions: The high portfolio NPI yield of around 7% implies that the acquisition hurdle remains higher. That said, proceeds from recent divestment of assets and deployment into new assets will help to improve portfolio quality.

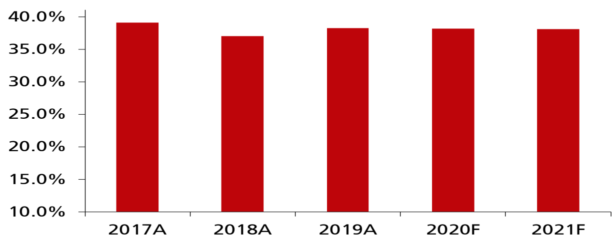
Environment, Social, Governance:

ALLT's Sustainability Working Committee is at the forefront of initiating responsible business practices, boosting performance, and improving sustainability reporting disclosures. A solar power agreement had also been signed with Sembcorp Industries in January 2019 for the installation of rooftop solar farms at three of its logistics warehouses. ALLT's dedication towards maintaining the wellbeing and safety of its workers is evident from its annual site inspections and safety audits.

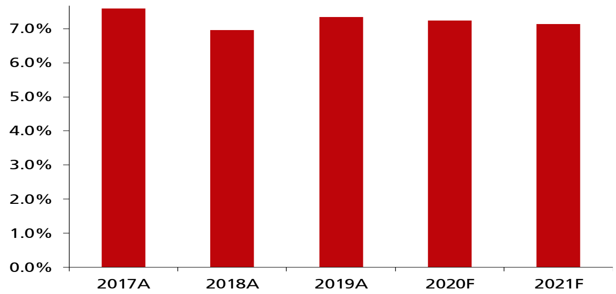
Company Background

ARA LOGOS Logistics Trust (ALLT) is a REIT whose investment mandate is to invest primarily in logistics properties located in the Asia Pacific region. The REIT has presence in Singapore and Australia.

Aggregate Leverage (%)

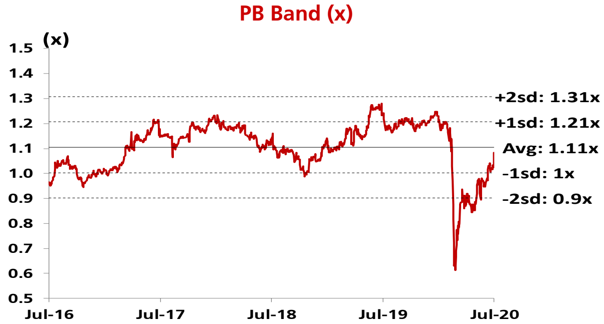


ROE (%)



Distribution Yield (%)

PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	112	122	114	121	122
Property expenses	(24.7)	(30.6)	(27.7)	(37.1)	(37.8)
Net Property Income	**87.3**	**90.9**	**85.8**	**83.8**	**84.2**
Other Operating expenses	(10.6)	(22.3)	(13.0)	(12.3)	(13.2)
Other Non Opg (Exp)/Inc	(1.0)	0.94	0.33	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(18.6)	(18.4)	(21.5)	(22.0)	(22.0)
Exceptional Gain/(Loss)	0.0	2.85	0.0	0.0	0.0
Net Income	**57.0**	**54.0**	**51.7**	**49.6**	**49.0**
Tax	(1.3)	(2.5)	(2.0)	(3.2)	(3.4)
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	**55.7**	**51.5**	**49.7**	**46.3**	**45.6**
Total Return	23.9	29.7	(7.7)	46.3	45.6
Non-tax deductible Items	40.5	27.8	67.2	6.02	6.08
Net Inc available for Dist.	66.0	80.1	65.3	52.3	54.4
Growth & Ratio					
Revenue Gth (%)	0.6	8.6	(6.6)	6.5	0.9
N Property Inc Gth (%)	(0.8)	4.2	(5.6)	(2.3)	0.4
Net Inc Gth (%)	(1.9)	(7.6)	(3.5)	(6.7)	(1.7)
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	78.0	74.8	75.6	69.3	69.0
Net Income Margins (%)	49.7	42.3	43.7	38.3	37.3
Dist to revenue (%)	59.0	65.9	57.5	43.3	44.6
Managers & Trustee's fees	9.5	18.4	11.4	10.1	10.8
ROAE (%)	7.6	7.0	7.3	7.2	7.1
ROA (%)	4.5	4.1	3.7	3.4	3.4
ROCE (%)	6.1	5.2	5.3	5.0	4.9
Int. Cover (x)	4.1	3.7	3.4	3.3	3.2

Source: Company, DBS Bank

Lower NPI due to rental rebates/waivers amid COVID-19 pandemic

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	31.0	30.8	27.8	27.7	27.2
Property expenses	(7.6)	(7.1)	(7.3)	(6.6)	(6.7)
Net Property Income	23.4	23.8	20.5	21.1	20.5
Other Operating expenses	(6.6)	(2.7)	(5.1)	(5.4)	0.17
Other Non Opg (Exp)/Inc	(0.1)	0.05	0.21	(0.5)	(0.2)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(4.9)	(5.2)	(5.4)	(5.4)	(5.4)
Exceptional Gain/(Loss)	0.12	0.0	0.0	0.0	0.0
Net Income	**11.9**	**15.9**	**10.2**	**9.79**	**15.0**
Tax	(1.2)	(0.6)	(0.5)	(0.5)	(0.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**10.7**	**15.4**	**9.64**	**9.34**	**14.5**
Total Return	(11.1)	14.6	8.88	9.34	(40.5)
Non-tax deductible Items	2.82	1.73	1.73	6.26	47.2
Net Inc available for Dist.	(8.3)	16.3	10.6	14.2	14.4
Growth & Ratio					
Revenue Gth (%)	(2)	(1)	(10)	0	(2)
N Property Inc Gth (%)	1	2	(14)	3	(3)
Net Inc Gth (%)	(18)	44	(37)	(3)	56
Net Prop Inc Margin (%)	75.4	77.1	73.6	76.3	75.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	200.0	300.0

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	1,138	1,269	1,334	1,336	1,338
Other LT Assets	2.27	1.27	1.05	1.05	1.05
Cash & ST Invts	15.0	33.3	15.3	11.8	7.23
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	4.76	5.91	8.21	1.86	1.88
Other Current Assets	69.0	0.14	0.21	0.21	0.21
Total Assets	**1,229**	**1,310**	**1,359**	**1,351**	**1,348**
ST Debt	125	28.1	116	116	116
Creditor	15.2	14.9	18.5	7.58	7.65
Other Current Liab	1.07	0.78	0.13	3.24	3.40
LT Debt	320	442	471	471	471
Other LT Liabilities	2.39	9.14	11.3	11.3	11.3
Unit holders' funds	766	815	741	741	738
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**1,229**	**1,310**	**1,359**	**1,351**	**1,348**
Non-Cash Wkg. Capital	57.6	(9.6)	(10.2)	(8.8)	(9.0)
Net Cash/(Debt)	(430)	(437)	(573)	(576)	(581)
Ratio					
Current Ratio (x)	0.6	0.9	0.2	0.1	0.1
Quick Ratio (x)	0.1	0.9	0.2	0.1	0.1
Aggregate Leverage (%)	39.1	37.1	38.2	38.2	38.1
Z-Score (X)	0.9	1.1	0.8	0.9	0.9

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	57.0	54.0	51.7	49.6	49.0
Dep. & Amort.	2.33	1.66	1.42	0.0	0.0
Tax Paid	(1.0)	(2.8)	(2.4)	0.0	(3.2)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	0.16	(3.4)	0.43	(4.7)	0.05
Other Operating CF	23.9	31.0	28.6	6.02	6.08
Net Operating CF	**82.4**	**80.5**	**79.7**	**50.9**	**51.8**
Net Invt in Properties	(2.9)	(127)	(47.9)	(2.0)	(2.0)
Other Invts (net)	0.0	16.2	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	0.04	0.15	0.15	0.0	0.0
Net Investing CF	**(2.9)**	**(110)**	**(47.8)**	**(2.0)**	**(2.0)**
Distribution Paid	(65.6)	(64.3)	(61.0)	(52.3)	(54.4)
Chg in Gross Debt	(95.9)	35.6	35.8	0.0	0.0
New units issued	100	0.0	0.0	0.0	0.0
Other Financing CF	(17.0)	77.6	(26.1)	0.0	0.0
Net Financing CF	**(78.4)**	**48.8**	**(51.3)**	**(52.3)**	**(54.4)**
Currency Adjustments	0.29	(0.7)	1.31	0.0	0.0
Chg in Cash	1.41	18.4	(18.1)	(3.4)	(4.6)
Operating CFPS (S cts)	8.20	7.78	7.33	5.10	4.70
Free CFPS (S cts)	7.92	(4.3)	2.94	4.48	4.53

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Jan 20	0.73	0.75	HOLD
2:	29 Apr 20	0.53	0.56	HOLD
3:	15 Jun 20	0.53	0.70	BUY

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

Source: DBS Bank

Analyst: Dale LAI

Derek TAN

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

**Share price appreciation + dividends*

Completed Date: 29 Jul 2020 08:54:53 (SGT)
Dissemination Date: 29 Jul 2020 09:04:28 (SGT)

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

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 ARA LOGOS Logistics Trust recommended in this report as of 30 Jun 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 ARA LOGOS Logistics Trust recommended in this report as of 30 Jun 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 ARA LOGOS Logistics Trust as of 30 Jun 2020.

Compensation for investment banking services:

5. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

6. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

[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.

Ascendas REIT

Version 17 | Bloomberg: AREIT SP | Reuters: AEMN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Jul 2020

BUY

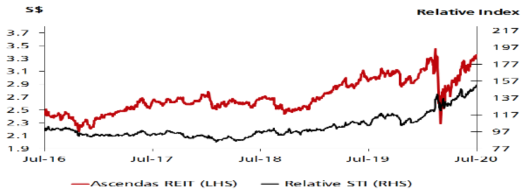
Last Traded Price (23 Jul 2020): S$3.43 (STI : 2,612.35)
Price Target 12-mth: S$4.00 (17% upside) (Prev S$3.45)

Analyst
Derek TAN +65 6682 3716 derektan@dbs.com
Dale LAI +65 66823715 dalelai@dbs.com

What's New

- 1H20 operating and financial metrics remain resilient
- Brighter reversionary prospects a bright spot; organic growth outlook stable.
- Acquisitions is a catalyst to reaccelerate growth momentum.
- Riding on multiple tailwinds; BUY, lift TP to S$4.0

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2019A	2020F	2021F	2022F
Gross Revenue	699	1,072	1,094	1,110
Net Property Inc	538	775	846	860
Total Return	377	523	586	591
Distribution Inc	375	543	606	611
EPU (S cts)	9.78	14.5	15.9	15.8
EPU Gth (%)	(36)	48	10	(1)
DPU (S cts)	11.5	15.0	16.2	16.4
DPU Gth (%)	(28)	31	8	1
NAV per shr (S cts)	216	215	216	215
PE (X)	35.1	23.7	21.5	21.7
Distribution Yield (%)	3.3	4.4	4.7	4.8
P/NAV (x)	1.6	1.6	1.6	1.6
Aggregate Leverage (%)	38.6	39.3	39.5	39.6
ROAE (%)	4.6	6.7	7.4	7.3
Distn. Inc Chng (%):		(7)	2	1
Consensus DPU (S cts):		15.3	16.0	16.3
Other Broker Recs:		B: 18	S: 1	H: 2

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

BrainBox

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

Fuel cells of the new economy

Maintain BUY, TP raised to S$4.00. We have raised our TP for Ascendas REIT (A-REIT) to S$4.00 in anticipation that A-REIT will catch up with its large cap peers in terms of valuation. We believe that investors have neglected A-REIT's myriad of structural tailwinds which will drive earnings and capital values higher in the longer term. The REIT remains in a virtuous cycle of growth and we see a boost from potential accretive acquisitions. We lift our TP to S$4.00 as we lower our WACC assumptions and assume S$500m worth of acquisitions.

Where we differ: Multiple structural tailwinds. A-REIT's value is in its diversity and exposure to multiple structural tailwinds. While investors have focused on acceleration in demand for logistics (27% of AUM) and datacenters (5%), most have largely ignored A-REIT's valuable business parks exposure (43% of AUM - 32% in SG, 11% in the US) which would benefit from the future trend towards decentralised offices as more companies adopt flexible working arrangements.

Where will A-REIT's next billion in Acquisition come from? A-REIT's share price is trading within a virtuous cycle at an implied cost of capital that is conducive for accretive acquisitions We believe the next billion in deals will likely come from its Singapore business park properties in One North region, which its Sponsor may be looking to divest and should be well received by investors. We have assumed conservatively assumed S$500m in our estimates.

Valuation:

Our DCF-based TP is raised to S$4.00 as we assume (i) lower WACC of 5.8% (from 6.1%); and (ii) acquisitions of S$500m.

Key Risks to Our View:

Interest-rate risk. An increase in lending rates will negatively impact dividend distributions.

At A Glance

Issued Capital (m shrs)	3,620
Mkt. Cap (Sm/USm)	12,417 / 8,959
Major Shareholders (%)	
Ascendas Pte Ltd	19.2
Blackrock	6.0
Free Float (%)	74.8
3m Avg. Daily Val (US$m)	29.2

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

WHAT'S NEW

DBS
Live more, Bank less

ed: JS/ sa: AS, PY, CS

Fuel cells of the new economy

(+) 1H20 DPU of 7.2 Scts (-11% y-o-y, -3% h-o-h).
Ascendas REIT (A-REIT) reported a 14.6% and 11.1% rise in 1H20 revenues and net property income (NPI) to S$521.2m and S$388.0m respectively. The stronger performance was largely driven by contribution from 28 properties in the US and two business parks acquired in December 2019. This was partially offset by rental rebates provided to eligible tenants (c.S$9.6m), income vacuum from divestments and ongoing developments, and lower occupancies in Singapore. Distributable income rose by 3.7% y-o-y to S$263.2m. The drop in DPU was largely due to the enlarged unit base and a one-off DPU boost of 0.25 Scts a year ago from a rollover tax adjustment excluding this, the drop would have been lower at 8.0%.

(+) Balance sheet metrics stable; natural hedges in place defend NAV against forex volatility.
Gearing stayed stable at 36.1% (vs 35.1% a quarter ago) which was due to incremental debt taken to fund the recent acquisition of a 25% stake in The Galaxis. Overall financial metrics remain stable - ICR ratio at 4.2x and 92% of its properties are unencumbered. Debt cost remained stable at 2.9% with c.81% of interest costs fixed. A-REIT has taken a natural hedging strategy in its overseas investments with Australia (77% hedged), GBP (100%) and USD (100%) implying minimal volatility to NAVs from currency movements.

Outlook & Our recommendation
(+) Quiet optimism that the worst is over.
Stripping off the contribution from new acquisitions in the US, organic performance was respectable. While we understand A-REIT estimates rental rebates to be S$20m in total (before property tax rebates of a similar amount), close to half of this has been disbursed. Depending on the trajectory of the economic recovery, the actual amount may be lesser than expected. That said, we have been conservative and have assumed rebates of S$20m in our FY20F earnings projections.

(+) Slight dip in occupancy rates expected; but brighter outlook for reversions.
A-REIT's portfolio occupancy rates maintained stable, dipping 2 ppts to 91.5%, driven from Australia (98.4%, +1.1 ppt q-o-q, with marginal dips in Singapore (87.9%,-0.7ppt), UK (97.5%, stable) and USA (92.1%, -0.8ppt). A-REIT's same-property occupancy for Singapore properties remained flattish at 85.0% in June 2020, arresting the dip seen in this segment over the past few quarters.

Rental reversions have been tracking above our estimates at 4.3% in 1H20 (4.3% in 2Q20, 8.0% in 1Q20). We saw strong rental reversions across its markets (Singapore +4.0%, Australia +16.6%, US +16.2%). We note that the Singapore's rental reversionary performance was impacted by a tenant in the Hi-specs segment (-30.6% negative rent reversions).

Looking ahead, the sense we get from management is one of quiet optimism as the economy gradually grinds itself back towards pre-COVID levels. A-REIT's leading position within the business parks, hi-spec industrial properties, and logistics sectors will enable the REIT to capture a wider spectrum of industries. Key sources of demand for 1H20 mainly came from the logistics, engineering & IT/datacenters.

(+) The world is its oyster as acquisition momentum to restart and drive further upside. With A-REIT trading at a conducive cost of capital, we believe that acquisitions will remain a big part of its strategy in 2H20, augmenting a stronger growth profile in 2021 and beyond. We have assumed S$500m in acquisitions in our estimates (60% equity/40% debt) which we believe can be achieved through (i) acquiring a part of its Sponsor's pipeline of business park assets, and (ii) third party acquisitions in UK, Australia and the US.

(+) Time to fuel multiple structural tailwinds; TP raised to S$4.00, implying target FY21 yield of 4.0%. A-REIT has been lagging its other industrial S-REIT leaders (MINT and MLT) YTD and we believe it is time for A-REIT to reclaim its spot among the top. We see multiple structural tailwinds for A-REIT: (i) Greater adoption of e-commerce driving demand for logistics properties (in SG, UK and Australia totalling 27% of AUM); (ii) Increasing demand for datacenters (c.5% of AUM) from IoT, cloud adoption etc.; (iii) Unique to A-REIT is its deep seated exposure in the business parks segment (43% of AUM - SG: 32%, US: 11%). The trend towards more flexible working arrangements by companies may drive a decentralisation trend which would benefit A-REIT and fuel redevelopment of its older science park properties with higher plot ratios.

(-) Estimates revised. We have revised our estimates down by 7% in FY20F on the back of rental rebates coupled with lower occupancy assumptions and higher unit base. We have also priced in acquisitions of S$500m by end of FY20F.

Half year financial metrics

Summary of results (S$'m)	1H20	1H19	% y-o-y	2H19	% Chg
Revenue	521.2	455	14.6%	469	11%
Net property income	388	349	11.1%	360	8%
Distributable income	263.2	254	3.7%	251	5%
DPU (est)	7.27	8.153	-10.8%	7.49	-3%
Quarterly rental reversion (%)	4.30%	2.7%	-	6.0%	-
Aggregate leverage	36.10%	37.2%	-	35.1%	-
Interest Coverage Ratio	4.2x	4.2x	-	4.0x	-

Source of all data: Company, DBS Bank

Relative performance vs industrial large caps

Source: Bloomberg Finance L.P., DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Rebound in occupancy rates to provide upside to earnings. A-REIT's Singapore portfolio's occupancy rate is projected to remain stable in the medium term and hover around the c.85% level as the Manager looks to actively engage tenants and new prospects. Given A-REIT's scale in Singapore, the Manager continues to attract a diverse tenant base to its properties, despite the competitive operating environment. The key reasons are the variety of asset types and its focus on business parks and hi-tech properties, which continue to see good demand.

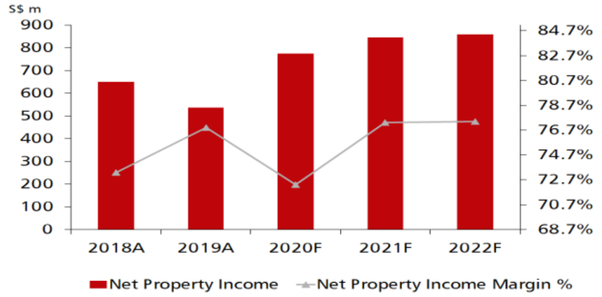
Looking ahead, with close to c.10% of the portfolio still vacant, the ability to backfill the unoccupied space provides upside potential to our earnings estimates. A long portfolio-weighted average lease expiry (WALE) profile of 4.2 years means good earnings visibility for the REIT.

Potential upside to DPUs on bright outlook from Business Park segment and Australia exposure. Rental reversionary trends are moderating but are expected to remain in the low- to mid-single-digit range in the coming year, which is commendable. Given the narrowing spread between passing and market rents, we expect rental reversionary trends to remain flattish or even turn negative for selected sectors. We are positive on A-REIT's business and science park exposure which accounts for close to 37% of portfolio value. We project its Australian portfolio to deliver resilient earnings, backed by a weighted average lease expiry (WALE) of 4.5 years.

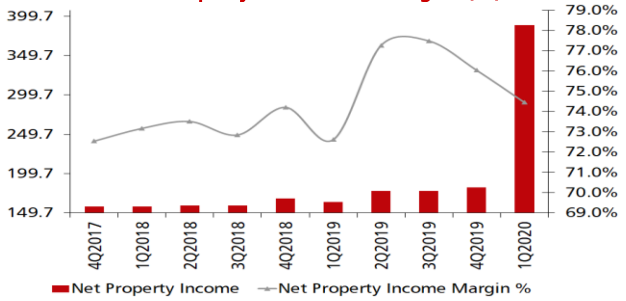
Overseas acquisitions to infuse diversity and stability to the REIT. A-REIT has regularly embarked on acquisitions and development projects, which have helped the REIT deliver sustained growth in distributions over time. The Manager has, over time, built up a substantial presence in Australia and the UK and now the US which forms c.30% of assets. The Manager remains focused on deepening its presence in its core markets to add diversity to the REIT's exposure and build resilience across business cycles.

US diversification brings benefits. While a new geography brings about its own element of risk, we believe that the US portfolio will over time prove to be beneficial for A-REIT. The properties are in key technology hubs in San Diego, Raleigh and Portland which see strong technology push in these cities' GDP, employment and leasing demand. We anticipate upside to the initial yield of 6.4% for the US portfolio when the leases are due in the coming years. In-built escalations of 2.5-4.0% anchor the REIT's organic growth.

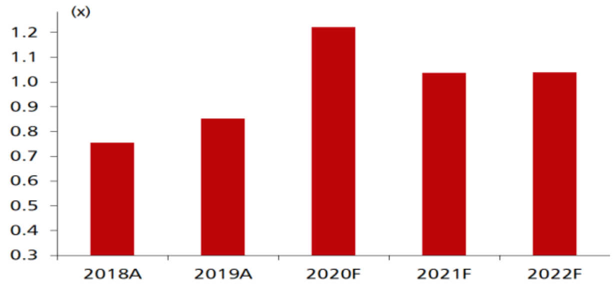
Net Property Income and Margins (%)



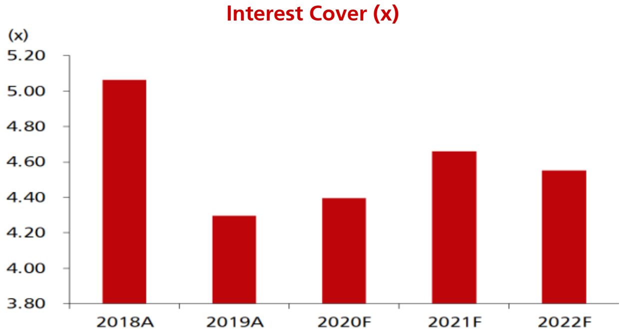
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Optimal gearing level of c.35%. A-REIT's gearing is stable at close to the lower end of management's comfortable 35-40% range. We believe that there is still capacity for management to utilise its debt headroom for acquisitions, but any significant deals could mean potential issuance of new equity.

Well-staggered debt maturity profile. The Manager adopts a prudent interest-rate risk management strategy with a weighted average cost of debt of 3.0% and c.80% hedged to fixed rates. The debt tenure is long at c.3.7 years, with a well spread-out refinancing profile ensuring no concentration risk.

Share Price Drivers:

Direction of 10-year long bonds impacts share price. Seen by investors as a key S-REIT proxy, A-REIT's share price has typically been closely linked to investors' perception on the direction of the US benchmark 10-year bond yields. A fall in 10-year bond yields on the back of a delay in Fed hikes is likely to mean a higher share price.

Capital recycling strategy. With limited third-party acquisition opportunities in Singapore, A-REIT regularly looks to divest older, lower-yielding properties and recycle the capital into asset-enhancement exercises (AEI), development projects or acquisitions. The aim is to optimise portfolio returns and distributions which have a positive impact on its share price.

Key Risks:

Interest rate risk. Any increase in interest rates will result in higher interest payments, which will reduce income available for distribution and result in lower distribution per unit (DPU) to unitholders.

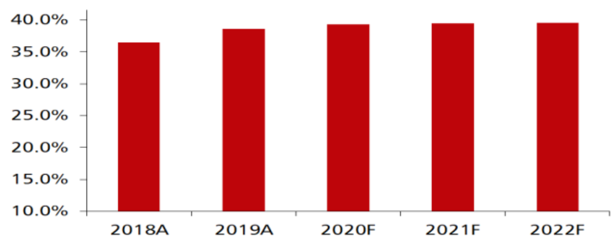
Environment, Social, Governance:

A-REIT is committed to upholding high standards of corporate governance, transparency, and accountability. The REIT has also enacted a Green Policy which details environmental targets and guidelines for implementation across its businesses. Its carbon emissions and electricity consumption for Singapore operations fell by 1.53% and 0.52% respectively over the course of the year.

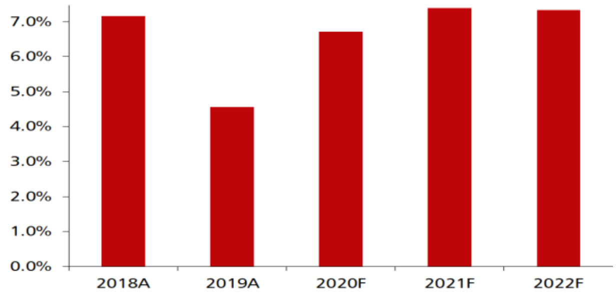
Company Background

A-REIT is Singapore's first and largest listed business space and industrial real estate investment trust. It has a diversified portfolio comprising assets in Singapore, UK, Australia and recently the US. A-REIT is managed by Ascendas Funds Management (S) Limited, a wholly owned subsidiary of the Singapore-based Ascendas-Singbridge.

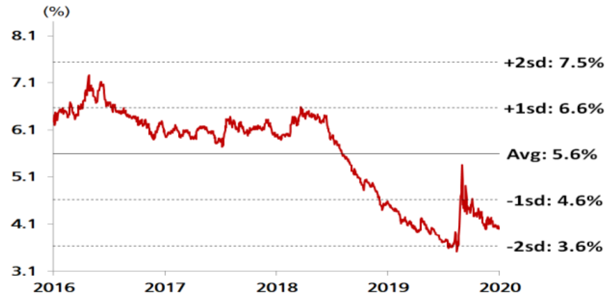
Aggregate Leverage (%)



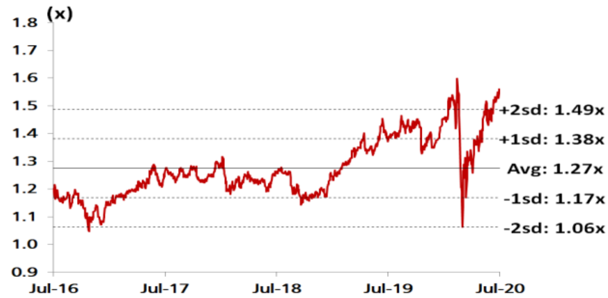
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross revenue	886	699	1,072	1,094	1,110
Property expenses	(237)	(161)	(296)	(248)	(251)
Net Property Income	650	538	775	846	860
Other Operating expenses	(62.1)	(50.3)	(76.0)	(77.6)	(79.0)
Other Non Opg (Exp)/Inc	11.1	(17.1)	0.0	0.0	0.0
Associates & JV Inc	0.49	0.41	6.12	6.12	6.12
Net Interest (Exp)/Inc	(116)	(113)	(159)	(165)	(172)
Exceptional Gain/(Loss)	5.09	3.22	0.0	0.0	0.0
Net Income	488	360	546	610	615
Tax	(14.4)	(20.7)	(12.1)	(13.1)	(13.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	(14.3)	(10.7)	(10.7)	(10.7)	(10.7)
Net Income After Tax	460	329	523	586	591
Total Return	489	377	523	586	591
Non-tax deductible Items	(17.4)	(12.5)	13.6	13.9	14.2
Net Inc available for Dist.	486	375	543	606	611
Growth & Ratio					
Revenue Gth (%)	2.8	(21.1)	53.3	2.1	1.5
N Property Inc Gth (%)	3.2	(17.2)	44.2	9.1	1.6
Net Inc Gth (%)	(3.5)	(28.4)	59.1	11.9	0.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	73.3	76.9	72.3	77.3	77.4
Net Income Margins (%)	51.9	47.1	48.8	53.6	53.2
Dist to revenue (%)	54.8	53.7	50.7	55.4	55.1
Managers & Trustee's fees	7.0	7.2	7.1	7.1	7.1
ROAE (%)	7.2	4.6	6.7	7.4	7.3
ROA (%)	4.2	2.6	3.8	4.1	4.1
ROCE (%)	5.3	3.7	5.0	5.4	5.4
Int. Cover (x)	5.1	4.3	4.4	4.7	4.6

Source: Company, DBS Bank

Driven by acquisitions

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Gross revenue	225	230	230	240	521
Property expenses	(61.6)	(52.2)	(51.7)	(57.5)	(133)
Net Property Income	163	177	178	182	388
Other Operating expenses	(15.2)	(16.2)	(16.3)	(17.8)	(38.5)
Other Non Opg (Exp)/Inc	3.27	17.2	(0.7)	(33.6)	19.3
Associates & JV Inc	0	0	6	6	6
Net Interest (Exp)/Inc	(30.2)	(38.3)	(37.3)	(37.8)	(83.1)
Exceptional Gain/(Loss)	0.0	0.0	3.22	0.0	5.39
Net Income	**121**	**140**	**127**	**93.3**	**294**
Tax	(6.6)	(2.5)	(3.9)	(14.3)	(14.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**115**	**138**	**123**	**79.0**	**279**
Total Return	144	138	123	127	279
Non-tax deductible Items	(31.0)	(29.0)	(16.1)	(20.1)	(15.9)
Net Inc available for Dist.	113	109	107	107	263
Growth & Ratio					
Revenue Gth (%)	(1)	2	0	4	117
N Property Inc Gth (%)	(3)	9	0	2	113
Net Inc Gth (%)	(11)	20	(11)	(36)	253
Net Prop Inc Margin (%)	72.6	77.3	77.5	76.0	74.4
Dist. Payout Ratio (%)	114.2	114.6	115.8	118.7	100.0

Balance Sheet (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Investment Properties	11,236	13,543	13,653	14,183	14,213
Other LT Assets	82.2	69.4	75.5	81.6	87.7
Cash & ST Invts	52.3	95.7	47.3	45.7	42.5
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	39.6	36.3	47.9	48.9	49.7
Other Current Assets	4.11	119	119	119	119
Total Assets	**11,414**	**13,864**	**13,943**	**14,479**	**14,513**
ST Debt	612	614	754	784	814
Creditor	158	256	191	195	198
Other Current Liab	54.8	109	112	113	113
LT Debt	3,486	4,615	4,615	4,815	4,815
Other LT Liabilities	157	159	180	200	221
Unit holders' funds	6,946	8,111	8,092	8,371	8,351
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**11,414**	**13,864**	**13,943**	**14,479**	**14,513**
Non-Cash Wkg. Capital	(169)	(209)	(136)	(140)	(143)
Net Cash/(Debt)	(4,045)	(5,134)	(5,322)	(5,554)	(5,587)
Ratio					
Current Ratio (x)	0.1	0.3	0.2	0.2	0.2
Quick Ratio (x)	0.1	0.1	0.1	0.1	0.1
Aggregate Leverage (%)	36.5	38.6	39.3	39.5	39.6
Z-Score (X)	1.5	1.2	1.4	1.4	1.4

Source: Company, DBS Bank

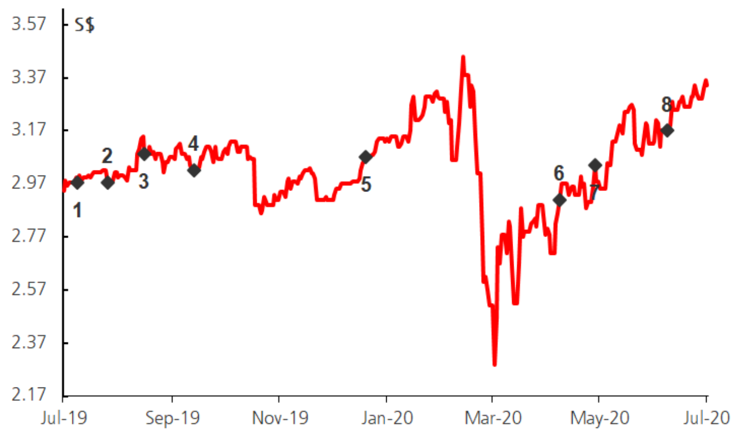
Gearing to remain stable

Cash Flow Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	488	360	546	610	615
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(5.7)	(3.6)	(9.1)	(12.1)	(13.1)
Associates &JV Inc/(Loss)	(0.5)	(0.4)	(6.1)	(6.1)	(6.1)
Chg in Wkg.Cap.	19.7	96.7	(76.1)	2.99	2.20
Other Operating CF	111	136	(10.7)	(10.7)	(10.7)
Net Operating CF	**612**	**589**	**444**	**584**	**588**
Net Invt in Properties	0.0	0.0	0.0	0.0	0.0
Other Invts (net)	(1,053)	(1,746)	(110)	(530)	(30.0)
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.51	0.36	0.0	0.0	0.0
Other Investing CF	24.4	20.6	20.6	20.6	20.6
Net Investing CF	**(1,028)**	**(1,725)**	**(89.5)**	**(509)**	**(9.5)**
Distribution Paid	(463)	(502)	(543)	(606)	(611)
Chg in Gross Debt	610	539	140	230	30.0
New units issued	448	1,298	0.0	300	0.0
Other Financing CF	(150)	(149)	0.0	0.0	0.0
Net Financing CF	**444**	**1,186**	**(403)**	**(75.9)**	**(581)**
Currency Adjustments	(1.2)	(0.6)	0.0	0.0	0.0
Chg in Cash	27.9	49.6	(48.4)	(1.6)	(3.2)
Operating CFPS (S cts)	19.6	14.6	14.4	15.8	15.7
Free CFPS (S cts)	20.3	17.5	12.3	15.9	15.7

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 Jul 19	2.97	3.33	BUY
2:	16 Aug 19	2.97	3.33	BUY
3:	06 Sep 19	3.08	3.33	BUY
4:	04 Oct 19	3.02	3.33	BUY
5:	10 Jan 20	3.07	3.45	BUY
6:	29 Apr 20	2.91	3.45	BUY
7:	19 May 20	3.04	3.45	BUY
8:	29 Jun 20	3.17	3.45	BUY

Source: DBS Bank

Analyst: Derek TAN
Dale LAI

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: 24 Jul 2020 08:17:31 (SGT)
Dissemination Date: 24 Jul 2020 08:45:21 (SGT)

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS") or their subsidiaries and/or other affiliates have proprietary positions in Ascendas REIT, Mapletree Industrial Trust, Mapletree Logistics Trust, recommended in this report as of 30 Jun 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 Ascendas REIT, Mapletree Industrial Trust, Mapletree Logistics Trust, recommended in this report as of 30 Jun 2020.
4. DBS Bank Ltd, DBS HK, DBSVS, DBSVUSA, their subsidiaries and/or other affiliates beneficially own a total of 1% of any class of common securities of Mapletree Industrial Trust, Mapletree Logistics Trust, as of 30 Jun 2020.

Compensation for investment banking services:

5. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Ascendas REIT, Mapletree Industrial Trust, Mapletree Logistics Trust, as of 30 Jun 2020.
6. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for Ascendas REIT, Mapletree Industrial Trust, Mapletree Logistics Trust, in the past 12 months, as of 30 Jun 2020.
7. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

---

[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.

Singapore Company Guide

Ascott Residence Trust

Version 18 | Bloomberg: ART SP | Reuters: ASRT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Jul 2020

BUY

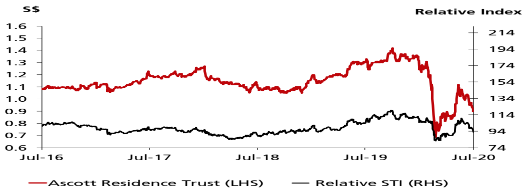
Last Traded Price (28 Jul 2020): S$0.90 (**STI :** 2,582.97)
Price Target 12-mth: S$1.10 (23% upside)

Analyst
Singapore Research Team equityresearch@dbs.com..
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- 1H20 DPU missed estimates
- Seven out of 88 properties closed at the moment and rescheduled to open in 3Q20
- Portfolio RevPAU declined 52% y-o-y but portfolio operates above breakeven
- Capital and liquidity reserves of S$850m to provide a strong buffer

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2019A	2020F	2021F	2022F
Gross Revenue	515	413	669	766
Net Property Inc	253	175	291	381
Total Return	197	49.4	143	210
Distribution Inc	166	81.3	172	241
EPU (S cts)	(1.9)	1.60	4.62	6.77
EPU Gth (%)	nm	nm	188	47
DPU (S cts)	7.61	2.64	5.56	7.77
DPU Gth (%)	6	(65)	111	40
NAV per shr (S cts)	125	125	124	123
PE (X)	nm	55.8	19.4	13.2
Distribution Yield (%)	8.5	2.9	6.2	8.7
P/NAV (x)	0.7	0.7	0.7	0.7
Aggregate Leverage (%)	34.3	37.7	36.8	37.5
ROAE (%)	(1.5)	1.3	3.7	5.5
Distn. Inc Chng (%):		0	0	0
Consensus DPU (S cts):		4.70	6.50	7.00
Other Broker Recs:		B: 6	S: 1	H: 3

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

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

Down but not out

Maintain BUY. We maintain our BUY recommendation on Ascott Residence Trust (ART) despite its earnings miss in 1H20. ART's appetite for portfolio rejuvenation remains robust despite on-going headwinds, powered by a debt headroom of above S$1bn. Capital and liquidity reserves of S$850m will serve as a safety net towards lessee rental reliefs and potentially supplement distributions. Target price implies a target FY21F yield of 5.1% and a price-to-book of 0.88x.

Where we differ: Appetite and capacity for portfolio rejuvenation remains ART announced the divestment of Ascott Guangzhou and Citadines Didot Montparnasse Paris for an exit yield of c.3-4% on pre-COVID earnings and 52%/69% above property book valuations respectively. Development projects involving Somerset Liang Court and lyf one-north have also resumed works and remain on schedule for completion. Despite the macro headwinds, on-going efforts to extract value from ART's current portfolio remain at work.

Sufficient reserves to cover c.2 years' worth of fixed cost. Current capital and liquidity reserves of c.S$850m will serve as a shield to tide through two years' worth of cash burn under the worst-case scenario where the REIT receives zero income and provide some form of comfort to investors. The divestments will bring forth an additional c.S$190m upon completion in 1Q21, which we think will be recycled to pare down debt, fund further acquisitions or pay off fixed expenses.

Valuation:

We lower our operating margin assumptions for FY20 and FY21. Our DCF-backed target price remains unchanged as we roll forward to FY21 earnings. Our S$350m acquisition assumption remains intact, with completion targeted by end-2020.

Key Risks to Our View:

Slower recovery in FY21 as the COVID-19 pandemic protracts.

At A Glance

Issued Capital (m shrs)	3,101
Mkt. Cap (Sm/USm)	2,776 / 2,013
Major Shareholders (%)	
CapitaLand Ltd	24.8
AIA	15.4
Free Float (%)	59.8
3m Avg. Daily Val (US$m)	6.4

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

DBS
Live more, Bank less

WHAT'S NEW

Early issuance of profit warning; 1H20 DPU misses estimates

- 1H20 revenue and gross profit declined by 16% and 28% y-o-y to S$208.5m and S$88.6m respectively.
- The lower topline was attributed to lower contributions from ART's portfolio amid the COVID-19 pandemic as well as divestments and acquisitions over the past year.
- Contributions decreased from the divestment of Ascott Raffles Place Singapore and Somerset West Lake Hanoi and increased from Ascendas Hospitality's portfolio and the acquisition of Quest Macquarie Park Sydney and Citadines Connect Sydney Airport.
- ART announced a 1H20 distributable income of S$32.6m (-56% y-o-y), which includes a S$5m capital distribution.
- DPU for 1H20 is 1.05 Scts (-69% y-o-y), and makes up 23% of our full-year forecast at 4.53 Scts.
- ART will be maintaining a 90% distribution policy for the full year, with the inclusion of net overseas income.

Seven out of 88 within ART's portfolio closed at the moment

- 21 properties undergone temporary closures in 1H20, of which only seven are currently still shut and are rescheduled to open in 3Q20
- International tourist arrivals fell 22% y-o-y globally in the first quarter of 2020, with the World Tourism Organisation forecasting a 58% to 78% decline for 2020.
- International demand in APAC and Europe is expected to recover ahead of the US, with ART having a 68% and 20% exposure in these two markets respectively.
- With domestic travel anticipated to make up the first wave of demand, ART has leveraged from the 'work from home' trend to introduce work-stay packages at some of the properties.
- Portfolio occupancy in 1H20 averaged 50% (1H19 occupancy: c.80%), but remains above breakeven levels.

Capital and liquidity reserves a strong safety buffer

- ART has capital and liquidity reserves amounting to c.S$850m, comprising of S$620m in available cash & credit facilities, S$163m in cash divestment proceeds to be received from Somerset Liang Court and S$60m in additional credit facility secured this month.
- These reserves will be sufficient to cover 2 years' worth of fixed cost under the worst-case zero income scenario.
- In addition, ART's divestment of Ascott Guangzhou and Citadines Didot Montparnasse Paris for S$191.4m will realise net gains of c.S$23.2m upon completion.
- Cost of borrowing remains low at 1.8% per annum with c.80% of debt hedged on a fixed rate.
- Gearing remains healthy at 36.1% with ICR at 3.6 x.

Our recommendation and Outlook

Master leases and MCMGI to provide a barrier of safety (c.45% of income with in-built stability on a normalised basis)

- Master lease revenue held up well, increasing 51% y-o-y, due to the inclusion of eight master lease assets from AHT's portfolio.
- Management contracts with minimum guaranteed income (MCMGI) and management contracts dipped 39% and 27% y-o-y, respectively, from weaker demand and lower RevPAU.
- For the period, master leases : MCMGI : management contracts contributed 59% : 7% : 34% to gross profits respectively.
- On-going developments at Somerset Liang Court and lyf one-north have also resumed and remain on track for completion.

Focus on domestic travel; further relaxation of measures anticipated in the next quarter

- RevPAU in China and Singapore held up relatively better, declining 34% and 25% y-o-y in 1H20.
- Room rate recovery in China will give us a sense of where RevPAU might recover to towards 2H20
- Within Singapore, government hotel bookings for stay home notice residences may reflect occupancy strength in the 2Q20 but may see a declining momentum for the rest of the year.
- We view phased reopening as a positive sign that portfolio assets have attained at least a breakeven level of operations and the relaxation of mandatory hotel closures to be a positive sign within the respective markets.
- 1H20 results will likely represent a trough, and we anticipate a better 2H20, led by markets that saw weaker demand or temporary closures (the UK, US and Japan)

We cut our DPU assumptions by 42% / 22% to 2.64 / 5.56 scts for FY20 / FY21 to factor in a slower growth profile. We maintain our initial assumption of a two-year normalisation period for DPU to recover to pre-COVID levels at 7.77 Scts in FY22, implying an attractive yield of 8.4% at current price. Target price remains unchanged at S$1.10 as we roll forward our DCF backed valuation to FY21F.

Summary of 1H20 results

Summary of results	1H20	1H19	%y-o-y
Revenue (S$m)	208.5	248.4	-16%
Gross Profit (S$m)	88.6	122.3	-28%
DI (S$m)	32.6	74.6	-56%
DPU (Scts)	1.05	3.43	-69%
Key Financial Metrics	**1H20**	**1H19**	**%y-o-y**
Gearing	36.1%	32.8%	3.3 ppt
Average cost of debt	1.80%	2.10%	-0.3 ppt
ICR	3.6	5.2	(1.6)
Debt hedging rate	80%	88%	-9%
RevPAR	**1H20**	**1H19**	**%y-o-y**
Portfolio RevPAR (S$)	70	146	-52%
Australia RevPAR (AUD)	61	138	-56%
China (RMB)	296	452	-35%
Japan (JPY)	3,903	12,216	-68%
Singapore (S$)	147	197	-25%
United Kingdom (GBP)	12	148	-92%
United States (USD)	77	190	-59%
Vietnam (VND)	989	1,587	-38%

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

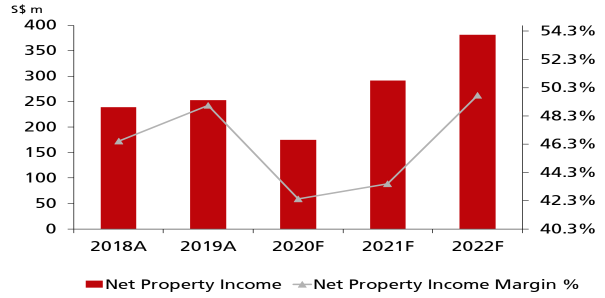
Asset reconstitution. ART has engaged in a more active asset reconstitution strategy whereby it sells properties which are low yielding or have limited growth potential and recycles the proceeds into assets which are better yielding and/or provide a longer sustainable growth profile. Beyond increasing its overall portfolio earnings power and a resultant higher DPU, the strategy has allowed the trust to crystallise the value of its book. In addition, the ability to recycle capital reduces the reliance on equity-raising to fund its expansion plans. These two factors should help reduce doubts that investors may have on the true value of ART's NAV per share and eliminate the discount to book that the market has placed on ART.

Boost from merger with ASCHT and acquisitions. We expect the merger with AHT to enhance ART's medium-term earnings profile. ART has also completed several acquisitions over the past 1-2 years including Ascott Orchard Singapore, Citadines Michel Hamburg, Citadines City Centre Frankfurt, and DoubleTree by Hilton New York, Times Square South. These acquisitions should help to underpin DPU growth ahead.

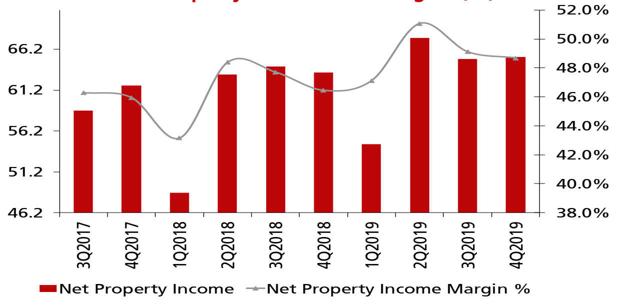
Steady income base. Around 38% of ART's NPI comes from properties under master leases and properties with income guarantees which offer strong income visibility. The remaining c.62% are diversified across nine markets which are expected to see varying levels of growth.

Seeing far horizons. Notwithstanding the near-term uncertainty of the COVID-19 global pandemic, we believe that the long-term trajectory of ART remains undeterred by the short-term headwinds. Asset reconstitution strategy remains intact as ART may look to escalate growth once the short-term risks dissipate, fuelled by the recent merger with ASCHT and debt headwind in excess of S$1.5bn. Catalysts that were previously timed for FY20 will likely be revisited in FY21/FY22. These include the Tokyo 2020 Olympics that will be postponed to 2021, and favourable supply and demand matrix for ART's operations in the US.

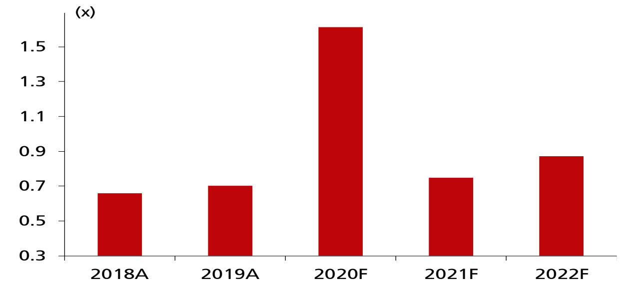
Net Property Income and Margins (%)



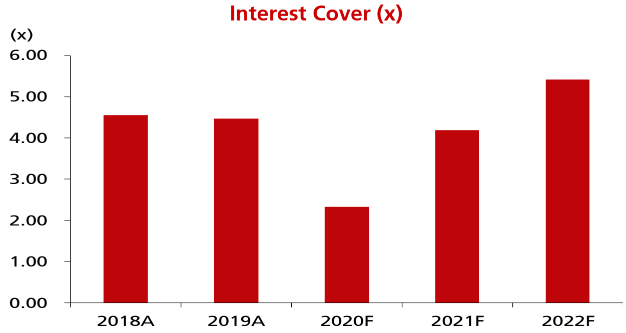
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing to settle around 37-38%. With assumed acquisitions, we project gearing to head up towards the 37-38% level, which we believe is optimal vs. the current c.36%.

Share Price Drivers:

Crystallisation of book value. Going forward, we believe as ART continues to demonstrate its ability to sell its assets at or above the latest valuations as it executes its portfolio reconstitution strategy, we believe ART's share price will head higher to trade at a premium to book. There remains to be hidden value in ART as its properties are conservatively valued. The conservative valuation can be demonstrated by several properties being sold at 16-69% premium to book in the past year.

Index inclusion post merger. We believe post the merger of ART and ASCHT, the enlarged ART should meet the criteria to be added to various property indexes. This should translate into greater investor interest and potentially additional fund flows which may in turn trigger a further re-rating of ART's share price and ART trading at a structurally lower yield.

Key Risks:

Interest rate risks. Any increase in interest rates will result in higher interest payments and reduce the income available for distribution, which will result in lower distribution per unit (DPU) for unitholders. As at 30 June 2020, c.80% of ART's debts were hedged on fixed rates.

Currency risk. As ART earns rental income in various currencies, a depreciation of any foreign currency against the SGD could negatively impact DPU.

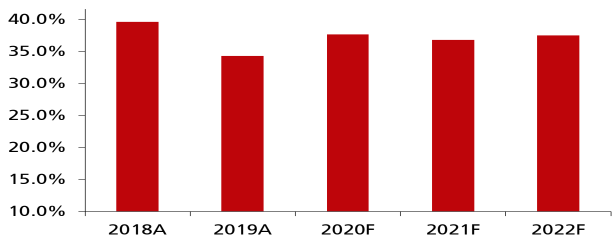
Environment, Social, Governance:

ART hosts a regular ESG review, assessment, and feedback project which involves an annual CapitaLand Group-wide Risk and Control Self-Assessment exercise. This entails the identification, assessment, and documentation of physical risks and corresponding internal controls. The ART team has also spearheaded numerous environmental, health, and safety initiatives to ensure the safety of its employees and sustainability of its assets.

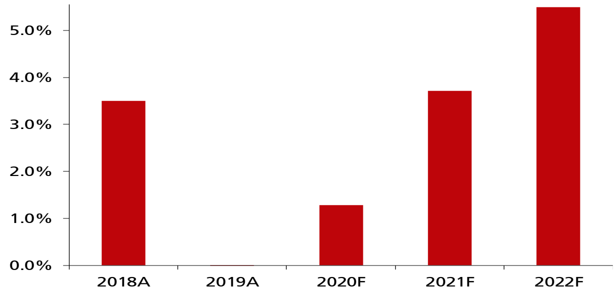
Company Background

Ascott REIT's (ART's) investment portfolio primarily comprises real estate used mainly for hospitality purposes or as rental housing properties (including investments in real estate-related assets and/or other related value-enhancing assets or instruments).

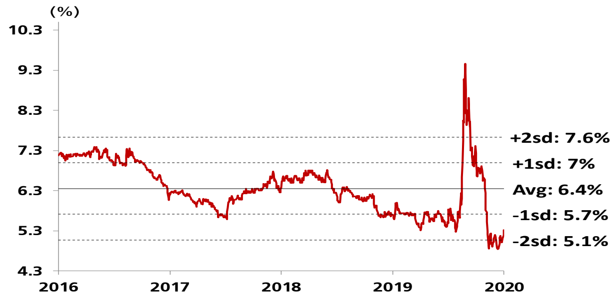
Aggregate Leverage (%)



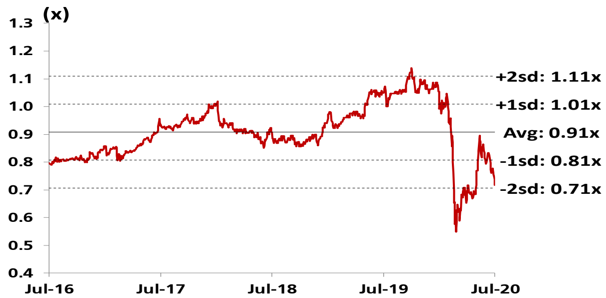
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Gross revenue	514	515	413	669	766
Property expenses	(275)	(262)	(238)	(378)	(385)
Net Property Income	239	253	175	291	381
Other Operating expenses	(30.3)	(30.2)	(31.0)	(35.3)	(39.0)
Other Non Opg (Exp)/Inc	(2.9)	1.96	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.20	0.20	0.20
Net Interest (Exp)/Inc	(45.9)	(49.7)	(62.1)	(61.0)	(63.1)
Exceptional Gain/(Loss)	0.0	(160)	0.0	0.0	0.0
Net Income	160	14.8	82.4	195	279
Tax	(43.5)	(44.7)	(14.4)	(34.1)	(48.9)
Minority Interest	(4.2)	(0.1)	(2.0)	(4.8)	(6.9)
Preference Dividend	(19.2)	(19.7)	(16.5)	(13.3)	(13.3)
Net Income After Tax	93.3	(49.7)	49.4	143	210
Total Return	128	197	49.4	143	210
Non-tax deductible Items	19.9	(48.5)	26.9	29.1	30.9
Net Inc available for Dist.	155	166	81.3	172	241
Growth & Ratio					
Revenue Gth (%)	3.6	0.1	(19.8)	62.0	14.5
N Property Inc Gth (%)	5.5	5.5	(30.6)	66.0	31.0
Net Inc Gth (%)	(15.2)	nm	nm	188.7	47.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	46.5	49.1	42.4	43.5	49.8
Net Income Margins (%)	18.1	(9.6)	12.0	21.3	27.4
Dist to revenue (%)	30.1	32.1	19.7	25.7	31.5
Managers & Trustee's fees	5.9	5.9	7.5	5.3	5.1
ROAE (%)	3.5	(1.5)	1.3	3.7	5.5
ROA (%)	1.7	(0.8)	0.7	1.9	2.7
ROCE (%)	2.9	(7.2)	1.6	2.8	3.8
Int. Cover (x)	4.6	4.5	2.3	4.2	5.4

Source: Company, DBS Bank

Lower operating margins assumed for FY20 and FY21

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	137	116	132	132	134
Property expenses	(73.1)	(61.3)	(64.8)	(67.4)	(68.8)
Net Property Income	63.4	54.6	67.7	65.0	65.3
Other Operating expenses	(7.5)	(7.0)	(7.7)	(7.5)	(7.9)
Other Non Opg (Exp)/Inc	(4.0)	0.20	3.75	(0.5)	(1.5)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(11.5)	(13.0)	(12.6)	(12.3)	(11.8)
Exceptional Gain/(Loss)	3.70	0.0	0.0	0.0	(160)
Net Income	**44.1**	**34.8**	**51.0**	**44.7**	**(116)**
Tax	(19.0)	(4.3)	(12.7)	(6.2)	(21.5)
Minority Interest	2.71	(1.6)	1.20	(1.7)	1.99
Net Income after Tax	**27.9**	**28.9**	**39.6**	**36.8**	**(135)**
Total Return	36.4	164	48.6	36.8	(33.1)
Non-tax deductible Items	14.9	(128)	(0.6)	6.03	87.4
Net Inc available for Dist.	46.5	31.5	43.1	41.6	49.3
Growth & Ratio					
Revenue Gth (%)	2	(15)	14	0	1
N Property Inc Gth (%)	(1)	(14)	24	(4)	0
Net Inc Gth (%)	(36)	4	37	(7)	(467)
Net Prop Inc Margin (%)	46.4	47.1	51.1	49.1	48.7
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	4,745	6,171	6,527	6,397	6,447
Other LT Assets	64.2	657	656	663	673
Cash & ST Invts	228	276	228	272	294
Inventory	0.33	0.67	0.67	0.67	0.67
Debtors	56.9	62.5	45.4	72.7	83.2
Other Current Assets	215	256	256	256	256
Total Assets	**5,309**	**7,423**	**7,714**	**7,662**	**7,755**
ST Debt	70.1	355	355	355	355
Creditor	141	173	112	179	205
Other Current Liab	6.80	37.1	37.1	37.1	37.1
LT Debt	1,835	2,286	2,654	2,544	2,617
Other LT Liabilities	125	229	229	229	229
Unit holders' funds	3,041	4,257	4,239	4,225	4,212
Minority Interests	89.7	85.5	87.5	92.3	99.2
Total Funds & Liabilities	**5,309**	**7,423**	**7,714**	**7,662**	**7,755**
Non-Cash Wkg. Capital	124	109	153	114	98.3
Net Cash/(Debt)	(1,678)	(2,366)	(2,781)	(2,627)	(2,678)
Ratio					
Current Ratio (x)	2.3	1.1	1.1	1.1	1.1
Quick Ratio (x)	1.3	0.6	0.5	0.6	0.6
Aggregate Leverage (%)	39.6	34.3	37.7	36.8	37.5
Z-Score (X)	1.0	0.7	0.7	0.8	0.8

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	160	14.8	82.4	195	279
Dep. & Amort.	13.3	13.3	13.3	13.3	13.3
Tax Paid	(19.8)	(23.2)	(14.4)	(34.1)	(48.9)
Associates &JV Inc/(Loss)	0.02	0.01	(0.2)	(0.2)	(0.2)
Chg in Wkg.Cap.	0.92	(6.0)	(44.3)	39.6	15.4
Other Operating CF	72.0	230	13.7	15.8	17.7
Net Operating CF	**227**	**229**	**50.4**	**229**	**276**
Net Invt in Properties	(27.6)	(31.7)	(12.4)	(20.1)	(23.0)
Other Invts (net)	25.1	304	(356)	130	(50.0)
Invts in Assoc. & JV	0.0	(15.5)	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.78	1.95	0.0	0.0	0.0
Net Investing CF	**(0.7)**	**259**	**(368)**	**110**	**(73.0)**
Distribution Paid	(149)	(160)	(81.3)	(172)	(241)
Chg in Gross Debt	(35.0)	(198)	368	(110)	73.0
New units issued	0.0	(1.2)	0.0	0.0	0.0
Other Financing CF	(69.7)	(80.5)	(16.5)	(13.3)	(13.3)
Net Financing CF	**(254)**	**(440)**	**271**	**(295)**	**(181)**
Currency Adjustments	(1.9)	(0.7)	0.0	0.0	0.0
Chg in Cash	(29.7)	47.2	(47.4)	44.2	22.1
Operating CFPS (S cts)	10.5	8.96	3.07	6.14	8.42
Free CFPS (S cts)	9.23	7.52	1.23	6.77	8.17

Source: Company, DBS Bank

Divestment of Ascott Guangzhou and Citadines Didot Montparnasse Paris completed by 1Q21

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	31 Jul 19	1.31	1.45	BUY
2:	05 Aug 19	1.31	1.45	BUY
3:	02 Sep 19	1.30	1.45	BUY
4:	06 Sep 19	1.31	1.45	BUY
5:	31 Oct 19	1.38	1.45	BUY
6:	22 Nov 19	1.32	1.45	BUY
7:	31 Jan 20	1.26	1.50	BUY
8:	21 Apr 20	0.85	1.10	BUY
9:	13 Jul 20	1.00	1.10	BUY

***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: 29 Jul 2020 09:51:34 (SGT)
Dissemination Date: 29 Jul 2020 09:52:33 (SGT)

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

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 Ascott Residence Trust recommended in this report as of 30 Jun 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.

Compensation for investment banking services:

3. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

4. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

[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.

CapitaLand Mall Trust

Version 17 | Bloomberg: CT SP | Reuters: CMLT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Jul 2020

BUY

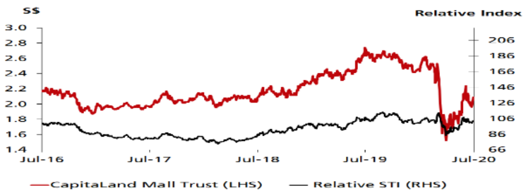
Last Traded Price (6 Jul 2020): S$2.09 (STI : 2,689.61)
Price Target 12-mth: S$2.40 (15% upside) (Prev S$2.15)

Analyst
Singapore Research Team equityresearch@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Returning office crowds a boost to central malls such as Raffles City and Bugis Junction
- Portfolio income at risk well-contained at c.24%
- Trading yield premium of 70bps against FCT, alongside a 22% y-o-y DPU recovery next year, a strong value proposition
- New TP implies 1.13x P/Bk and 5% forward dividend yield

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	698	772	776	801
Net Property Inc	494	558	505	560
Total Return	677	715	402	460
Distribution Inc	429	462	405	464
EPU (S cts)	13.2	13.1	10.9	12.5
EPU Gth (%)	16	(1)	(17)	14
DPU (S cts)	11.5	12.0	9.87	12.1
DPU Gth (%)	3	4	(18)	22
NAV per shr (S cts)	202	211	212	212
PE (X)	15.8	16.0	19.2	16.8
Distribution Yield (%)	5.5	5.7	4.7	5.8
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	32.6	32.0	31.0	31.0
ROAE (%)	6.7	6.3	5.2	5.9
Distn. Inc Chng (%):			0	0
Consensus DPU (S cts):			9.1	12.0
Other Broker Recs:		B: 13	S: 0	H: 6

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

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

Jumping on the bandwagon

Maintain BUY; TP raised to S$2.40. We maintain our BUY recommendation on CapitaLand Mall Trust (CMT) with a revised target price of S$2.40 given a potential boost to CMT's central malls as the office crowds return. As the worst looks to be over, CMT offers a strong value proposition as it trades near a historical high yield premium of 70bps against peer, FCT, with DPU recovering 22% y-o-y in FY21 based on our estimates. Our new target price implies a 1.13x price-to-book and 5.0% forward dividend yield.

Where we differ: Strong suburban recovery with central malls next in line. Dominant suburban malls continue to be at the forefront of shopper traffic recovery with number of visits normalising to >70% of pre-COVID levels. We believe that this uplift in footfall will soon rotate to central malls as workers return to the office. CMT's central malls such as Raffles City Shopping Centre and Bugis Junction will likely benefit from a bigger weekday and lunch crowd as Singaporeans return to the Central Business District. An analysis of high-risk assets and trade sectors shows that gross rental income at risk is contained to c.24% of CMT's portfolio. We currently classify central malls within this risk band but foresee a near-term turnaround should shopper and sales recovery happen earlier than expected.

Widening yield disparity between CMT and FCT too large to be ignored. CMT now trades at a 70-bp yield premium to FCT, which we believe is too large to be ignored in comparison to a 20-bp premium mean yield to FCT. Coupled with a DPU recovery of 22% y-o-y in FY21, CMT offers a strong value proposition to ride on Singapore's retail recovery.

Valuation:
We raised our DCF-based TP to S$2.40 from S$2.15 as we reduced beta from 0.85 to 0.8 to reflect lower recessionary risk (pre-COVID beta at 0.75).

Key Risks to Our View:
Key risks to our positive view is a spike in new COVID-19 cases to delay the start of phase 2 of post-Circuit Breaker measures and further tenant rebate measures to impact our FY20 estimates.

At A Glance

Issued Capital (m shrs)	3,690
Mkt. Cap (Sm/USm)	7,712 / 5,540
Major Shareholders (%)	
Capitaland Ltd	28.5
Blackrock Inc	5.9
National Trades Union Congress	4.8
Free Float (%)	60.8
3m Avg. Daily Val (US$m)	32.7

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

Live more, Bank less

WHAT'S NEW

Returning office crowds a boost to central malls

- With the onset of post-Circuit Breaker measures in Singapore, workers operating out of the 'essential businesses' segment will gradually be allowed to resume work.
- Workers from the finance and insurance sectors will be allowed to return to the office while enforcing safe management measures to lower transmission risks.
- While CMT's suburban retail malls will likely be the prime beneficiary of higher shopper traffic, the returning office crowd will add a boost to the central malls within CMT's portfolio such as Raffles City Shopping Centre and Plaza Singapura in terms of weekday shopper footfall.
- Central malls contributed c.37% of CMT's GRI in FY19, with footfall originating from the office crowd, tourist traffic and locals.
- Clarke Quay, which we consider a higher risk asset within CMT's portfolio due to a large exposure to entertainment tenants, will likely remain quiet until phase 3 of post-Circuit Breakers when entertainment tenants will be allowed to resume operations.

Downside risks contained at c.24% of portfolio

- Rental revenues from dominant malls contributed c.52% of CMT's revenue in FY19, of which half originated from suburban retail malls.
- Amongst CMT's central malls, we estimate that Raffles City generates the highest revenue amongst dominant central malls owned by REITs landlords at S$104 psf/month.
- Approximately 43% of retail tenants are within the food & beverage and beauty & health trade segments which we think will lead the recovery curve.
- Downside risks pertaining to high-risk assets that are relatively more dependent on tourist footfall and high-risk trade sectors (within the department store and entertainment trade categories) are limited to c.24% and c.11% of GRI respectively.

Widening yield gap between CMT and FCT

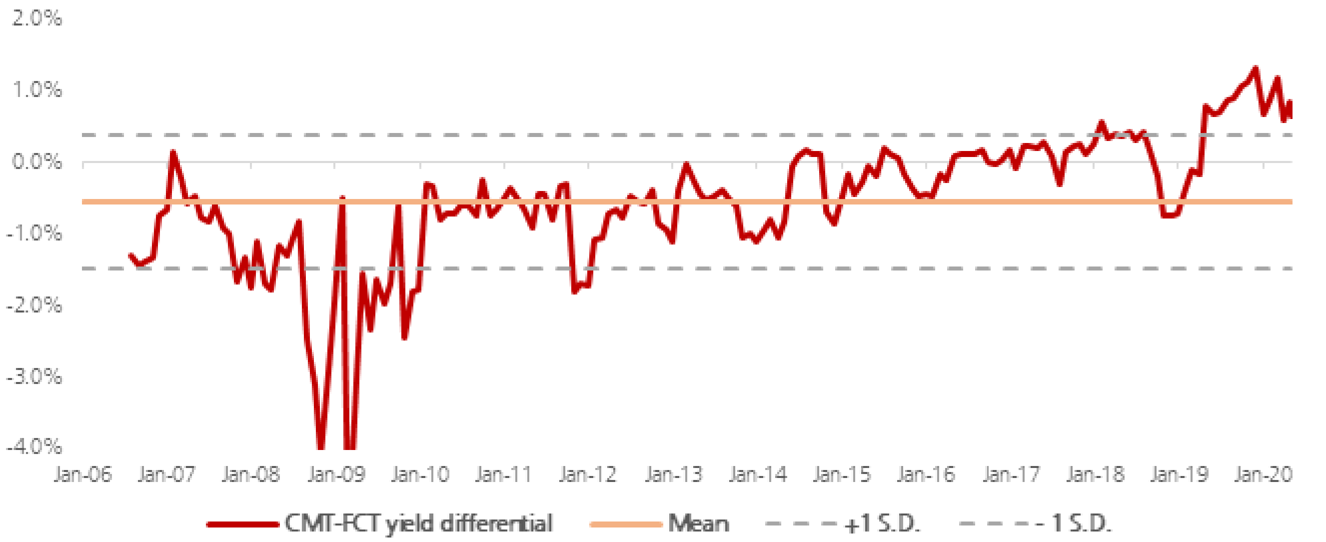
- CMT trades at a 0.2% mean yield discount to FCT based on 5-year historical figures.
- This yield differential has widened to above 0.7%, or +1 standard deviation levels since Jun 2019. We think that the present yield differential gap is too wide to be ignored and puts CMT at a better value at its current trading price as compared to FCT.
- As the worst looks to be over, we urge investors to look beyond the near-term weakness to ride on CMT's operational recovery. We anticipate DPU to recover 22% y-o-y to 12.1 Scts in FY21.

Estimated high risk assets/tenants/industry (% GRI, FY19)

Estimated high risk assets (% GRI)	Clarke Quay	4.0%	Estimated high risk trades	Entertainment	4.5%
	IMM	9.4%		Department Store	6.6%
	Raffles City	11.0%			
		24.4%			**11.1%**

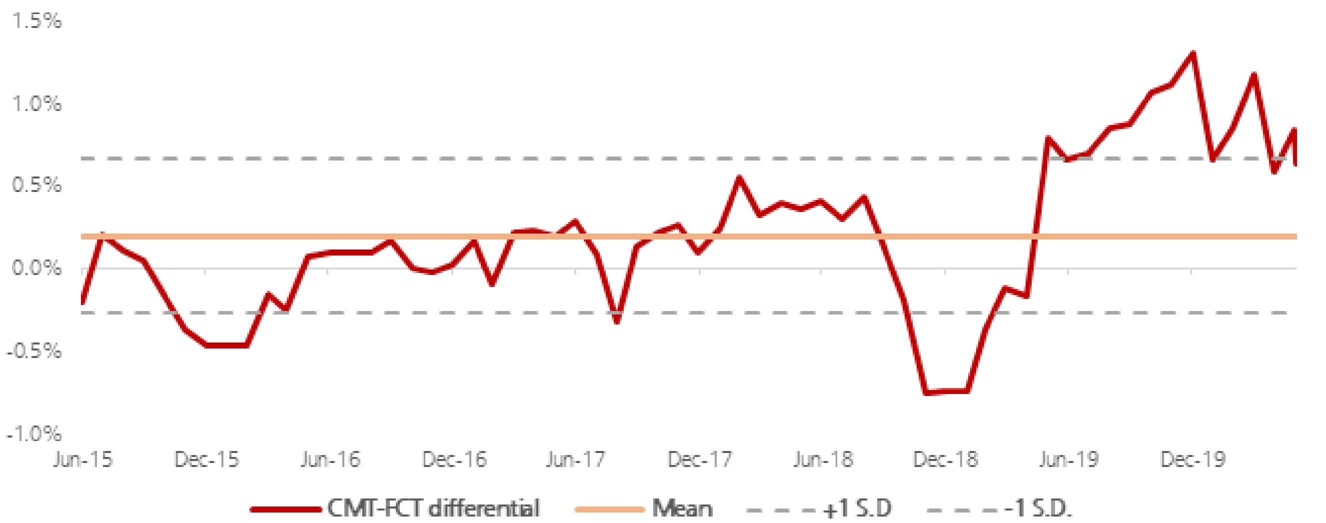
Source: DBS Bank, CMT

CMT-FCT yield differential (%, 2002 – present)



Source: DBS Bank

CMT-FCT yield differential (%, historical 5 years)



Source: DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

A bellwether for REITs. CMT, being the first and longest-running REIT in Singapore which has gone through different growth phases at a market cap of close to S$7.0bn and an asset base of over S$10bn, remains a bellwether for the REIT industry. While CMT had seen better growth back in 2003-2009 and increased challenges disrupting the retail sector over the past few years, we believe that the worst could be over, given the REIT's improving rental reversionary prospects in recent times.

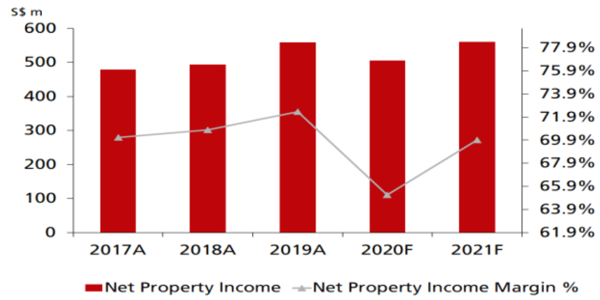
Most importantly, we believe that given the REIT's track record and having positioned its exposure towards more non-discretionary spending, we remain confident on the REIT's ability to continue paying steady distributions across market cycles.

Feeling the heat from COVID-19. CMT suffered a recent sell-down as the COVID-19 situation worsened in Singapore. The suspension of selected tenants' operations, crowd density control measures and potential cash flow crunch (given a new bill proposed to enhance tenant protection) will likely take a toll on operations in the coming quarters. In view of the situation, we believe that SPH REIT's dividend cut may set a precedence for other retail REITs in the sector as the retail landlords will look to retain cash to tide through the coming quarters.

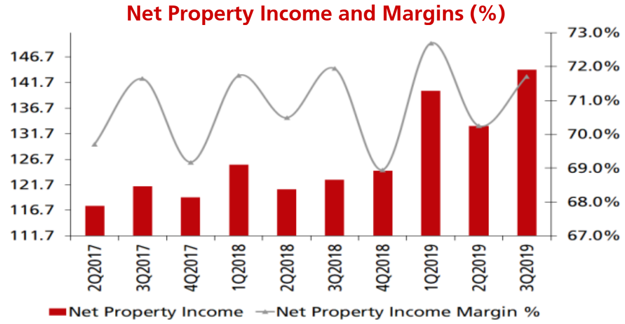
Recovery came in the form of mall re-openings, in late June, earlier than previously expected in July (phase 2 of post Circuit-Breaker measures), where c.90% of CMT's retail tenants has been given the green light to resume business operations. We anticipate recovery to be led by CMT's dominant suburban malls such as Junction 8 and Tampines Mall.

Supply risk dissipation a medium- to long-term catalyst. While supply in retail remained high in 2018-2019, we note that pre-commitment rates for upcoming malls have been strong (Paya Lebar Quarter has pre-leased c.90% of its retail mall) with strong anchors. Apart from Paya Lebar Quarter Mall, we believe most of the other major retail assets coming on stream do not pose direct competition to the catchment areas of CMT's malls. This will bode well for the retail sector as a whole in the medium-to-long term when the COVID-19 situation improves.

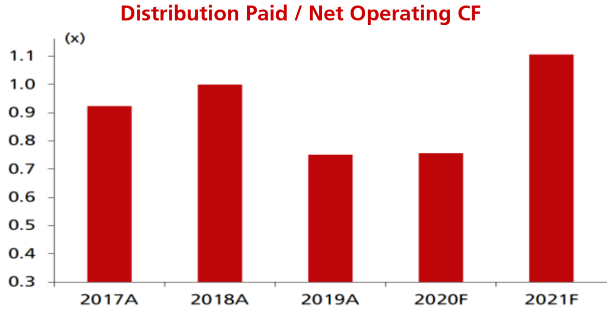
Net Property Income and Margins (%)



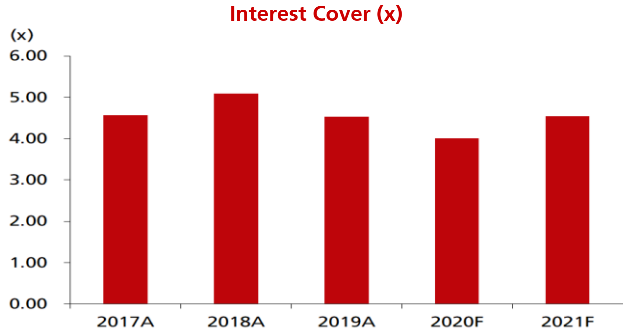
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Cost of debt to remain stable. The average debt cost is 3.2%, which should remain stable in the immediate term, maintaining an interest coverage ratio of 4.7x.

Share Price Drivers:

Acquisitions to drive earnings. CMT has the right of first refusal to acquire its sponsor's retail assets in Singapore. Beyond Westgate, we note that CapitaLand has several other retail assets in its portfolio which could be injected into the REIT, including Star Vista.

Steady operational results. We believe that CMT's portfolio will remain resilient despite headwinds. The trust's ability to maintain a steady growth in top line while holding occupancies will be a strong test of the manager's capability to maintain resilience among its peers.

Key Risks:

Downside risk to portfolio metrics. A worse-than-expected slowdown in consumer sentiment and consumption outlook may result in lower reversionary potential and a hike in occupancy as COVID-19 challenges persist. We are expecting occupancy to be lowered by 5% across CMT's portfolio and 5% negative rental reversions for FY20.

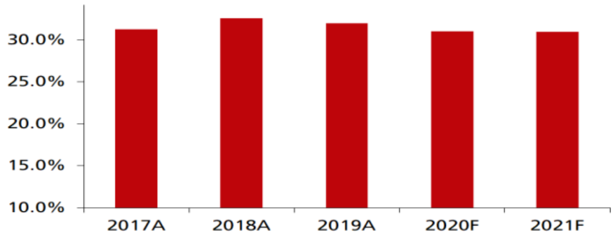
Environment, Social, Governance:

CMT has good disclosure with clarity and transparency in ESG and financial reports. CMT has more than 90% of operating properties achieving at least Green Mark Gold certification and aims to continue reducing energy and water intensity and carbon emissions going forward. CMT also aims to maintain high business ethics and compliance of laws in its business dealings and aims to safeguard its staffs' and customers' safety and health at its properties.

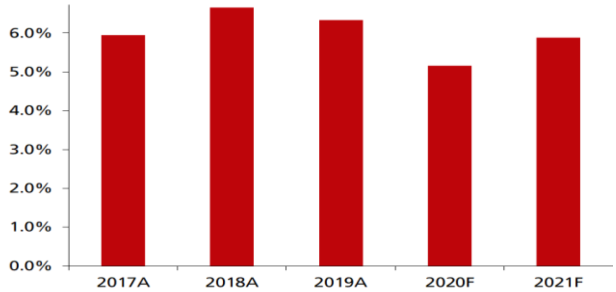
Company Background

CapitaLand Mall Trust (CMT) is a real estate investment trust which owns and invests in retail properties in the suburban areas and downtown core of Singapore.

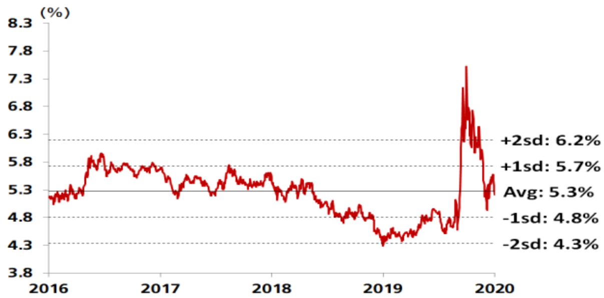
Aggregate Leverage (%)



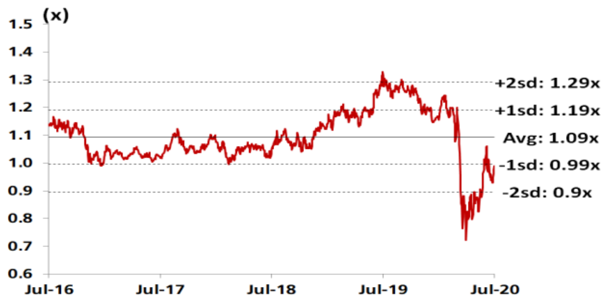
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	682	698	772	776	801
Property expenses	(204)	(204)	(214)	(271)	(241)
Net Property Income	478	494	558	505	560
Other Operating expenses	(48.9)	(48.6)	(54.2)	(56.7)	(58.1)
Other Non Opg (Exp)/Inc	0.0	(9.0)	0.0	0.0	0.0
Associates & JV Inc	70.4	129	89.2	65.3	68.7
Net Interest (Exp)/Inc	(94.0)	(87.5)	(111)	(112)	(111)
Exceptional Gain/(Loss)	(0.6)	0.14	0.0	0.0	0.0
Net Income	405	478	482	402	460
Tax	(0.2)	0.39	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	405	478	482	402	460
Total Return	658	677	715	402	460
Non-tax deductible Items	8.05	(48.6)	3.93	2.85	3.97
Net Inc available for Dist.	413	429	462	405	464
Growth & Ratio					
Revenue Gth (%)	(1.1)	2.2	10.7	0.6	3.2
N Property Inc Gth (%)	(0.3)	3.2	13.1	(9.5)	10.8
Net Inc Gth (%)	1.0	18.0	0.8	(16.6)	14.5
Dist. Payout Ratio (%)	95.8	95.6	96.0	90.0	96.0
Net Prop Inc Margins (%)	70.1	70.8	72.3	65.1	69.9
Net Income Margins (%)	59.3	68.5	62.4	51.8	57.4
Dist to revenue (%)	60.5	61.6	59.8	52.1	57.9
Managers & Trustee's fees	7.2	7.0	7.0	7.3	7.2
ROAE (%)	5.9	6.7	6.3	5.2	5.9
ROA (%)	3.9	4.3	4.1	3.4	3.8
ROCE (%)	4.2	4.1	4.4	3.9	4.3
Int. Cover (x)	4.6	5.1	4.5	4.0	4.5

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Gross revenue	171	180	193	190	201
Property expenses	(47.9)	(56.0)	(52.6)	(56.4)	(56.9)
Net Property Income	123	124	140	133	144
Other Operating expenses	(12.0)	(12.8)	(13.3)	(13.3)	(14.0)
Other Non Opg (Exp)/Inc	(0.3)	(8.9)	(0.1)	0.0	(17.6)
Associates & JV Inc	70	129	89	65	69
Net Interest (Exp)/Inc	(20.3)	(23.2)	(26.2)	(28.2)	(28.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**148**	**98.6**	**124**	**108**	**106**
Tax	0.0	0.39	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**148**	**98.9**	**124**	**108**	**106**
Total Return	148	123	124	228	106
Non-tax deductible Items	(6.5)	(5.9)	1.02	1.92	(4.0)
Net Inc available for Dist.	106	109	121	108	126
Growth & Ratio					
Revenue Gth (%)	0	6	7	(2)	6
N Property Inc Gth (%)	2	1	13	(5)	8
Net Inc Gth (%)	(39)	(33)	26	(13)	(1)
Net Prop Inc Margin (%)	71.9	68.9	72.7	70.3	71.7
Dist. Payout Ratio (%)	97.5	98.8	87.5	100.0	89.8

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	8,770	9,411	10,416	10,426	10,436
Other LT Assets	1,149	1,715	1,087	1,087	1,087
Cash & ST Invts	523	349	202	387	415
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	32.4	27.5	26.4	36.7	37.9
Other Current Assets	29.4	0.0	0.0	0.0	0.0
Total Assets	**10,504**	**11,502**	**11,732**	**11,937**	**11,976**
ST Debt	535	529	260	260	260
Creditor	156	199	167	388	401
Other Current Liab	57.9	99.9	68.1	2.54	2.54
LT Debt	2,648	3,099	3,301	3,311	3,321
Other LT Liabilities	180	145	169	169	169
Unit holders' funds	6,928	7,429	7,767	7,807	7,823
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**10,504**	**11,502**	**11,732**	**11,937**	**11,976**
Non-Cash Wkg. Capital	(152)	(272)	(209)	(354)	(365)
Net Cash/(Debt)	(2,660)	(3,279)	(3,359)	(3,184)	(3,166)
Ratio					
Current Ratio (x)	0.8	0.5	0.5	0.7	0.7
Quick Ratio (x)	0.7	0.5	0.5	0.7	0.7
Aggregate Leverage (%)	31.2	32.6	32.0	31.0	31.0
Z-Score (X)	5.0	5.1	5.2	5.0	5.0

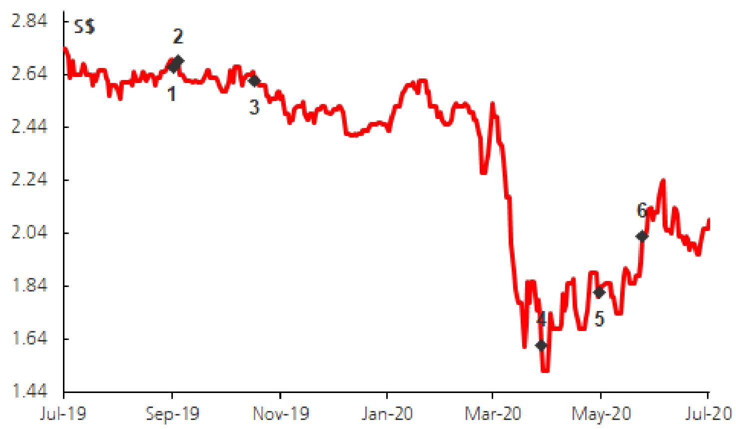
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	405	478	715	402	460
Dep. & Amort.	0.70	0.0	1.73	0.0	0.0
Tax Paid	0.0	0.0	0.0	(0.2)	0.0
Associates &JV Inc/(Loss)	(70.4)	(129)	(89.2)	(65.3)	(68.7)
Chg in Wkg.Cap.	(2.3)	19.4	5.79	146	11.3
Other Operating CF	94.6	87.9	(122)	0.0	0.0
Net Operating CF	**428**	**456**	**512**	**482**	**403**
Net Invt in Properties	(99.0)	(316)	0.0	(10.0)	(10.0)
Other Invts (net)	0.0	0.0	(1.0)	0.0	0.0
Invts in Assoc. & JV	98.5	0.0	(126)	0.0	0.0
Div from Assoc. & JVs	80.9	81.0	77.0	65.3	68.7
Other Investing CF	8.77	0.26	(8.4)	0.0	0.0
Net Investing CF	**89.2**	**(235)**	**(58.2)**	**55.3**	**58.7**
Distribution Paid	(395)	(456)	(384)	(364)	(445)
Chg in Gross Debt	21.6	(114)	(212)	10.0	10.0
New units issued	6.50	272	0.0	1.83	1.89
Other Financing CF	(111)	(97.1)	(3.7)	0.0	0.0
Net Financing CF	**(478)**	**(395)**	**(600)**	**(352)**	**(434)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	39.3	(174)	(146)	185	27.8
Operating CFPS (S cts)	12.1	12.1	13.7	9.12	10.6
Free CFPS (S cts)	9.27	3.86	13.9	12.8	10.6

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	06 Sep 19	2.67	2.95	BUY
2:	09 Sep 19	2.69	2.95	BUY
3:	22 Oct 19	2.62	2.95	BUY
4:	02 Apr 20	1.62	1.75	HOLD
5:	05 May 20	1.82	1.75	HOLD
6:	29 May 20	2.03	2.15	BUY

***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 Jul 2020 08:27:11 (SGT)
Dissemination Date: 7 Jul 2020 08:34:08 (SGT)

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

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 CapitaLand Mall Trust, Frasers Centrepoint Trust, SPH REIT, recommended in this report as of 31 May 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 CapitaLand Mall Trust, Frasers Centrepoint Trust, SPH REIT, recommended in this report as of 31 May 2020.

Compensation for investment banking services:

4. DBS Bank Ltd, DBS HK, DBSVS their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Frasers Centrepoint Trust, as of 31 May 2020.

5. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for Frasers Centrepoint Trust, in the past 12 months, as of 31 May 2020.

Disclosure of previous investment recommendation produced:

6. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

[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.

Far East Hospitality Trust

Version 17 | Bloomberg: FEHT SP | Reuters: FAEH.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Apr 2020

BUY (upgrade from HOLD)

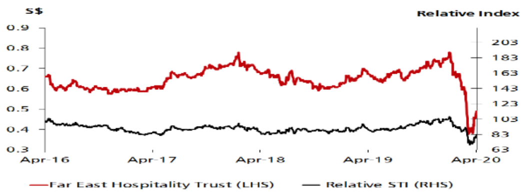
Last Traded Price (20 Apr 2020): S$0.49 (**STI :** 2,614.60)
Price Target 12-mth: S$0.60 (22% upside) (Prev S$0.69)

Analyst
Singapore Research Team equityresearch@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Limited downside earnings risk with 97% of FY20F projections supported by fixed rent
- Despite expected RevPAR dip in FY20F, recovery should be swift when travel demand returns
- Trading below replacement costs; potential privatisation candidate if valuation remains low

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	114	116	92.6	107
Net Property Inc	103	104	83.9	95.6
Total Return	90.6	60.4	39.7	53.9
Distribution Inc	75.4	73.9	53.6	65.7
EPU (S cts)	3.16	2.61	1.98	2.66
EPU Gth (%)	6	(17)	(24)	35
DPU (S cts)	4.00	3.80	2.70	3.27
DPU Gth (%)	3	(5)	(29)	21
NAV per shr (S cts)	84.7	84.1	84.7	84.1
PE (X)	15.5	18.7	24.8	18.4
Distribution Yield (%)	8.2	7.8	5.5	6.7
P/NAV (x)	0.6	0.6	0.6	0.6
Aggregate Leverage (%)	40.3	39.0	38.7	38.7
ROAE (%)	3.7	3.1	2.3	3.2
Distn. Inc Chng (%):			(31)	(21)
Consensus DPU (S cts):			3.20	3.70
Other Broker Recs:		B: 3	S: 1	H: 3

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

BrainBox

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

Master leases a strong safety net

Upgrade to BUY. We upgrade our recommendation on Far East Hospitality Trust (FEHT) to BUY. While its operations remain under pressure, we see limited downside from the master leases for its hospitality and commercial assets. FEHT currently trades at a price/book (P/Bk) of 0.6x (- 2SD (standard deviation) levels) and a discount from its mean P/Bk of 0.75x. FEHT is also trading at an implied valuation 630k/room, below replacement cost, which makes it an attractive takeover target. Our new target price (TP) of S$0.60 implies a target FY21F yield of 5.45% (in line with its historical mean).

Where we differ: Downside risk is limited. We remain comfortable that FEHT can continue to deliver steady returns of c.6.0% at current levels, backed by the fixed rent of its master leases which we estimate to contribute c.97% of our revised FY20F revenues (c.70% on normalised levels). The master lessees are entities and affiliates of its sponsor, Far East Organization, which is expected to support FEHT in these tough times.

Revenue to normalise from FY22F onwards. We revised our portfolio estimates as the COVID-19 pandemic took a turn for the worse in Singapore. Our new forecast is on the basis of a 53% y-o-y dip in revenue per available room (RevPAR) in FY20F, with a partial recovery in FY21F with RevPAR rebounding to 88% of pre-COVID-19 levels, before normalising in FY22F.

Valuation:

Our RevPAR assumes a portfolio-wide RevPAR weakness in FY20 with a partial recovery in FY21 across the sector, while factoring in a higher cost of equity and lower risk-free rate.

Key Risks to Our View:

A slower recovery in FY21 if COVID-19 drags longer could pose a major risk.

At A Glance

Issued Capital (m shrs)	1,946
Mkt. Cap (Sm/USm)	953 / 670
Major Shareholders (%)	
Golden Development Pte Ltd	22.9
Golden Landmark Pte Ltd	10.6
Far East Organization Centre	10.1
Free Float (%)	43.4
3m Avg. Daily Val (US$m)	1.7

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

CRITICAL DATA POINTS TO WATCH

Critical Factors

Positive medium term outlook for hotels but there are short term concerns. The medium term outlook for FEHT remains bright. With no new hotel land sites released by the Singapore government during 2014-2017, supply is constrained. We project new room supply will only grow by 1-2% p.a. during 2020-2023 versus 4-7% over the past few years. We believe the supply curtailment and growing travel demand due to rising Asian affluence should lead to an increase in RevPAR. In addition, FEHT's earnings should benefit from the opening of the first phase of the 850-room Sentosa going forward. However, we believe soft corporate demand on the back of the current macro uncertainties and stiff price competition from recently opened hotels in 2018 will likely cap RevPAR performance in the near term.

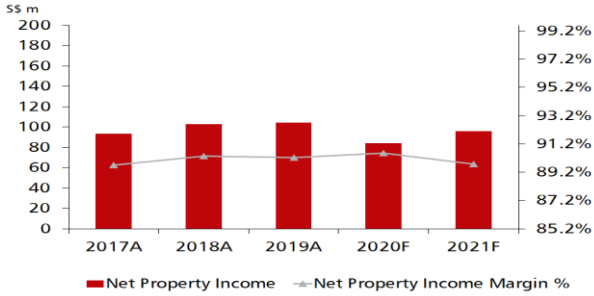
Global travel bans are headwinds to FEHT's operations. Cautious sentiment shrouding hoteliers in Singapore continues alongside the COVID-19 pandemic, with a sharp 52% y-o-y decline in international tourist arrivals in February 2020. Demand for hotel stays for both corporate and leisure travellers will likely trough this year, given the government's push for citizens to restrain from leaving individual households. With ongoing headwinds likely to persist for the rest of FY20, we are estimating 50% portfolio occupancy in FY20, from 88% in FY19, alongside a 25% decline in average daily room rates.

Some headwinds in the serviced residence segment. Following the change in regulations to allow private residential units to be rented out for a minimum of 3 months instead of 6 months previously, the serviced residence industry is facing additional competition. While business sentiment has picked up, corporates remain cautious on their business expenditure. Therefore, room rates for FEHT's serviced residence segment may continue to face some near term pressure, partially offset by FEHT's strategy to target shorter term leisure guests.

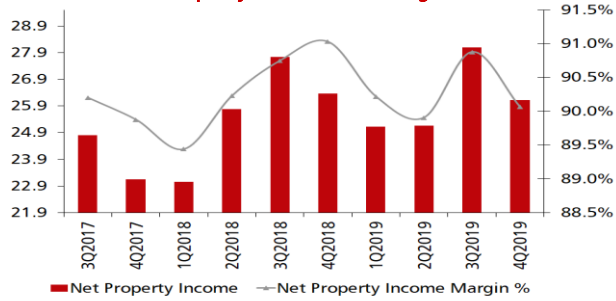
Boost from asset enhancement initiatives (AEI). FEHT has completed several AEIs across its portfolio over the past 12-18 months. Refurbishments should enable FEHT to remain competitive but more importantly drive room rates higher.

Further acquisitions from FEHT's Sponsor. Through its Sponsor, Far East Organization, FEHT has a visible acquisition pipeline. In particular, it has the right of first refusal over seven properties. Should FEHT purchase these properties and subject to price, we anticipate further accretion to FEHT's distribution per unit (DPU).

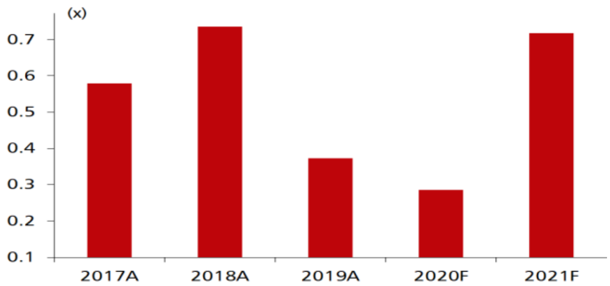
Net Property Income and Margins (%)



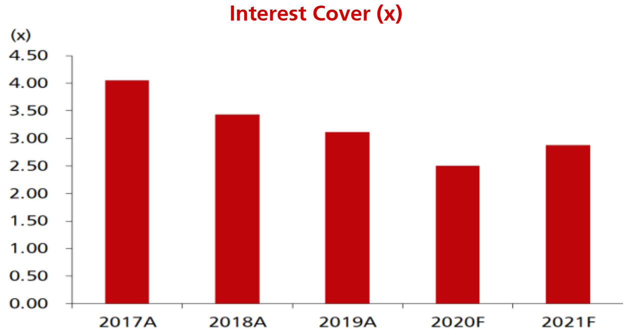
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing at c.40%. FEHT's gearing now stands at c.39% (as at 31 December 2019) post the debt funded acquisition of Oasia Hotel Downtown and drawdown of construction loans for the Sentosa development. With the use of its Distribution Reinvestment Plan (DRP), FEHT's gearing should moderate going forward.

Some exposure to rising interest rates. Around 75% of FEHT's borrowings are under fixed rates, reducing its exposure to volatility in interest rates.

Share Price Drivers:

Current P/Bk near -2 S.D levels. We see valuation support as FEHT trades at 0.6x P/Bk, or a 5-year historical low. FEHT's share price will likely find strong upward momentum and trade towards its historical P/Bk mean of 0.75x once the COVID-19 situation settles down. As the only pure play hospitality real estate investment trust (REIT) in Singapore, we expect mean P/Bk valuation to trade nearer to book.

Key Risks:

Interest rate risk. Any increase in interest rates will result in higher interest payments that the REIT makes annually to service its loans. This reduces the income available for distribution, which will result in lower DPU for unitholders.

Competitive landscape. While supply pressures should increase going forward, the Singapore hospitality market remains competitive and should demand turn weaker than expected, FEHT's earnings may be impacted.

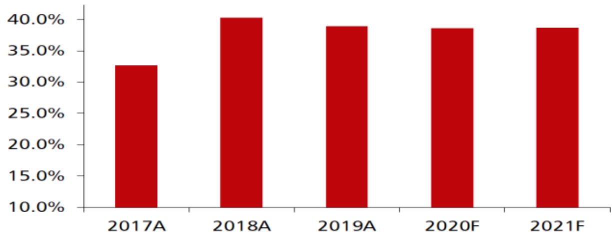
Environmental, Social, Governance (ESG)

FEHT regularly monitors and assesses compliance levels while staying up to date on policy changes to ensure the effectiveness of the corporate governance framework. Energy consumption per occupied hotel room and per occupied serviced residence have been reduced by 3.42% and 4.13% respectively during the year, a testament to the trust's commitment to sustainability. It has also created Company Emergency Response Teams where employees participate in health and safety training to perform emergency response roles.

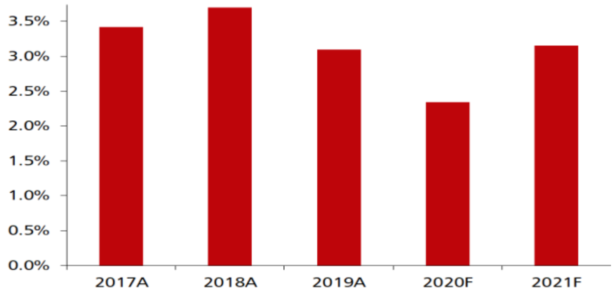
Company Background

Far East Hospitality Trust (FEHT) is a hospitality stapled group comprising Far East H-REIT and Far East H-Business Trust. Far East H-REIT is a Singapore-based real estate investment trust (REIT) which invests in hospitality assets. It owns nine hotels and four serviced residences.

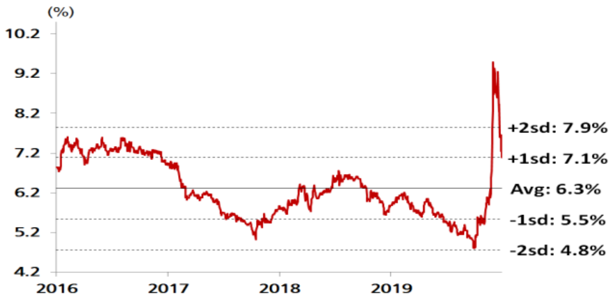
Aggregate Leverage (%)



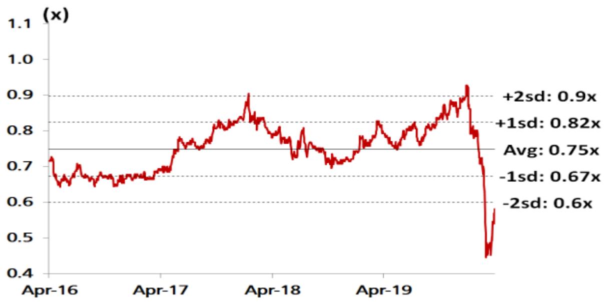
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	104	114	116	92.6	107
Property expenses	(10.7)	(10.9)	(11.2)	(8.7)	(10.9)
Net Property Income	93.2	103	104	83.9	95.6
Other Operating expenses	(12.8)	(13.2)	(14.1)	(13.7)	(14.1)
Other Non Opg (Exp)/Inc	(4.6)	(1.0)	0.0	0.0	0.0
Associates & JV Inc	(0.1)	(2.1)	(6.3)	(2.5)	0.64
Net Interest (Exp)/Inc	(19.8)	(26.1)	(28.9)	(28.1)	(28.3)
Exceptional Gain/(Loss)	0.0	0.0	(3.3)	0.0	0.0
Net Income	55.8	60.5	51.7	39.7	53.9
Tax	0.0	(0.1)	(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	55.8	60.4	51.6	39.7	53.9
Total Return	14.3	90.6	60.4	39.7	53.9
Non-tax deductible Items	16.1	15.0	13.5	13.9	11.8
Net Inc available for Dist.	72.0	75.4	73.9	53.6	65.7
Growth & Ratio					
Revenue Gth (%)	(4.8)	9.5	1.6	(19.9)	15.0
N Property Inc Gth (%)	(5.3)	10.3	1.5	(19.6)	14.0
Net Inc Gth (%)	(6.3)	8.3	(14.6)	(23.1)	35.7
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	89.7	90.4	90.3	90.6	89.8
Net Income Margins (%)	53.7	53.1	44.6	42.8	50.6
Dist to revenue (%)	69.4	66.3	64.0	57.8	61.7
Managers & Trustee's fees	12.3	11.6	12.2	14.8	13.3
ROAE (%)	3.4	3.7	3.1	2.3	3.2
ROA (%)	2.3	2.4	1.9	1.5	2.0
ROCE (%)	3.3	3.5	3.4	2.6	3.1
Int. Cover (x)	4.1	3.4	3.1	2.5	2.9

Source: Company, DBS Bank

Revised from pre-COVID-19 estimates of S$120m factoring in a 53% y-o-y dip in

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	28.9	27.8	27.9	30.9	28.9
Property expenses	(2.6)	(2.7)	(2.8)	(2.8)	(2.9)
Net Property Income	26.3	25.1	25.1	28.1	26.1
Other Operating expenses	(3.4)	(3.4)	(3.4)	(3.7)	(3.5)
Other Non Opg (Exp)/Inc	(3.9)	1.08	(2.8)	(0.5)	0.22
Associates & JV Inc	0	(2)	(6)	(2)	1
Net Interest (Exp)/Inc	(7.3)	(7.4)	(7.5)	(7.1)	(7.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	(1.2)
Net Income	**9.86**	**12.8**	**11.7**	**16.4**	**12.4**
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	**9.85**	**12.8**	**11.7**	**16.4**	**12.4**
Total Return	40.0	12.8	11.7	16.4	21.2
Non-tax deductible Items	9.25	4.61	5.89	4.02	(2.4)
Net Inc available for Dist.	19.1	17.4	17.6	20.4	18.8
Growth & Ratio					
Revenue Gth (%)	(5)	(4)	1	11	(6)
N Property Inc Gth (%)	(5)	(5)	0	12	(7)
Net Inc Gth (%)	(44)	30	(9)	40	(24)
Net Prop Inc Margin (%)	91.0	90.2	89.9	90.9	90.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	2,381	2,634	2,646	2,648	2,652
Other LT Assets	16.7	14.4	8.03	7.78	7.84
Cash & ST Invts	3.91	12.8	5.84	42.0	38.9
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	36.4	38.5	40.0	30.3	33.8
Other Current Assets	0.10	0.44	0.01	0.01	0.01
Total Assets	**2,438**	**2,700**	**2,700**	**2,729**	**2,732**
ST Debt	249	153	16.5	16.5	16.5
Creditor	3.62	4.11	3.67	3.23	3.72
Other Current Liab	9.33	11.0	11.1	11.0	11.0
LT Debt	549	875	976	978	982
Other LT Liabilities	8.41	9.13	11.3	11.3	11.3
Unit holders' funds	1,619	1,648	1,681	1,708	1,708
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**2,438**	**2,700**	**2,700**	**2,729**	**2,732**
Non-Cash Wkg. Capital	23.6	23.9	25.2	16.1	19.1
Net Cash/(Debt)	(794)	(1,015)	(986)	(953)	(959)
Ratio					
Current Ratio (x)	0.2	0.3	1.5	2.4	2.3
Quick Ratio (x)	0.2	0.3	1.5	2.4	2.3
Aggregate Leverage (%)	32.7	40.3	39.0	38.7	38.7
Z-Score (X)	1.0	0.9	0.9	1.0	1.0

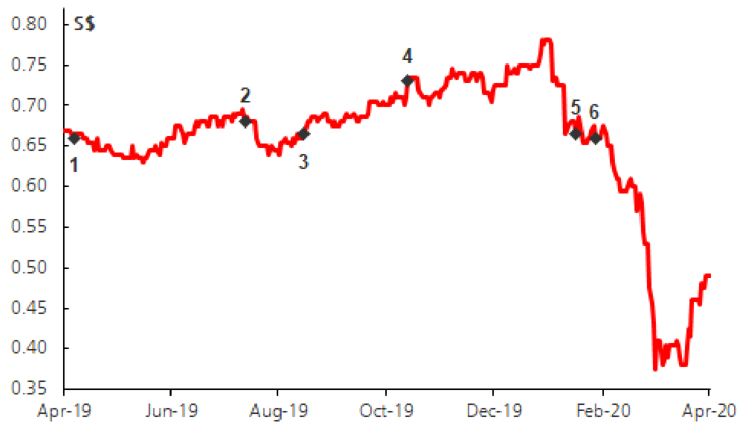
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	55.8	60.5	60.5	39.7	53.9
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	(0.1)	0.0
Associates &JV Inc/(Loss)	0.14	2.09	6.33	2.49	(0.6)
Chg in Wkg.Cap.	(1.8)	0.45	(0.8)	9.18	(3.0)
Other Operating CF	34.4	37.8	35.2	42.7	41.2
Net Operating CF	**88.5**	**101**	**101**	**93.9**	**91.5**
Net Invt in Properties	(3.1)	(222)	(2.8)	(2.8)	(3.2)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	(1.2)	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	(2.2)	0.57
Other Investing CF	0.02	0.01	(1.2)	0.0	0.0
Net Investing CF	**(3.1)**	**(223)**	**(4.0)**	**(5.0)**	**(2.6)**
Distribution Paid	(51.2)	(74.1)	(37.7)	(26.8)	(65.7)
Chg in Gross Debt	(25.0)	231	(66.5)	2.78	3.20
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(20.7)	(26.4)	0.0	(28.8)	(29.4)
Net Financing CF	**(96.9)**	**131**	**(104)**	**(52.8)**	**(91.9)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(11.5)	8.93	(7.0)	36.1	(3.0)
Operating CFPS (S cts)	4.84	5.25	5.17	4.22	4.67
Free CFPS (S cts)	4.58	(6.3)	4.99	4.54	4.36

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Apr 19	0.66	0.70	BUY
2:	31 Jul 19	0.68	0.70	HOLD
3:	02 Sep 19	0.67	0.70	HOLD
4:	31 Oct 19	0.73	0.80	BUY
5:	03 Feb 20	0.67	0.69	HOLD
6:	14 Feb 20	0.66	0.69	HOLD

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: 21 Apr 2020 07:29:16 (SGT)
Dissemination Date: 21 Apr 2020 08:55:29 (SGT)

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.
Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

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 Far East Hospitality Trust recommended in this report as of 31 Mar 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.

Compensation for investment banking services:

3. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

4. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

[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.

Singapore Company Guide

Frasers Centrepoint Trust

Version 22 | Bloomberg: FCT SP | Reuters: FCRT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Jul 2020

BUY

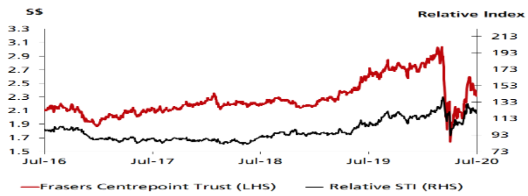
Last Traded Price (1 Jul 2020): S$2.32 (**STI :** 2,610.17)
Price Target 12-mth: S$2.95 (27% upside) (Prev S$2.65)

Analyst
Singapore Research Team equityresearch@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- FCT acquires an additional 12.07% stake within PGIM, with remaining c.63% stake solely held by sponsor
- Full acquisition of PGIM ARF within reach at an additional c.S$1bn
- Downside risk from riskier assets and trade sectors contained at c.17% of portfolio GRI
- New target price implies a 1.45x P/Bk

Price Relative



Forecasts and Valuation

FY Sep (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	193	196	181	203
Net Property Inc	137	139	129	148
Total Return	167	206	118	140
Distribution Inc	111	119	125	146
EPU (S cts)	11.2	10.1	10.5	12.5
EPU Gth (%)	4	(10)	4	19
DPU (S cts)	12.0	12.1	10.3	13.0
DPU Gth (%)	1	0	(14)	26
NAV per shr (S cts)	208	221	221	220
PE (X)	20.7	23.0	22.0	18.5
Distribution Yield (%)	5.2	5.2	4.5	5.6
P/NAV (x)	1.1	1.0	1.0	1.1
Aggregate Leverage (%)	28.6	28.8	32.5	32.7
ROAE (%)	5.5	5.1	4.8	5.7
Distn. Inc Chng (%):			1	3
Consensus DPU (S cts):			9.3	12.4
Other Broker Recs:		B: 9	S: 1	H: 9

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

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

Zeroing in on PGIM acquisition

Maintain BUY, TP revised to S$2.95. FCT's acquisition engine has been restarted with a 12.07% acquisition stake within PGIM ARF to 36.7% ownership. We think that the remaining c.63% held solely by sponsor, worth an approximate S$1bn, is within reach. This will anchor FCT's position as the largest suburban retail landlord in Singapore. We maintain our BUY call and raise our target price to S$2.95 as the end game is near. Our new target price implies a target P/Bk of 1.45x and FY21 dividend yield of 4.3%.

Where we differ: PGIM acquisition returns with a laser-like focus. The acquisition of the remaining c.63% stake within the PGIM ARF fund will close to double AUM to S$6.6bn and allow access to more dominant malls strategically located across key residential areas around the island. This will propel its market capitalisation to be among the top 10 REITs in Singapore.

Value-accretive deal. Assuming target gearing of about 40%, we estimate that FCT will have to raise up to S$1bn in new equity. The consolidation of PGIM ARF will raise our FY21 revenue and distributable income estimates by 39% and 42% respectively. We estimate yield accretion to be in the range of 4.1% should full equity be raised for the acquisition.

Valuation:
Beta revised down to pre-COVID-19 levels while modelling in a 12.07% acquisition stake in the PGIM ARF portfolio to be completed by end-July 2020.

Key Risks to Our View:
Unfavourable capital-raising environment to prolong our acquisition assumption.

At A Glance

Issued Capital (m shrs)	1,120
Mkt. Cap (Sm/USm)	2,598 / 1,864
Major Shareholders (%)	
Frasers Property Ltd]	36.4
Schroders Plc	5.1
Free Float (%)	58.5
3m Avg. Daily Val (US$m)	6.7

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

Live more, Bank less

WHAT'S NEW

Spotlight on PGIM acquisition

Additional 12.07% stake in PGIM acquired by FCT

- Frasers Centrepoint Trust (FCT) announced the acquisition of an additional 12.07% stake within PGIM ARF yesterday for S$197.2m.
- FCT's interest within the fund will rise to 36.89% when the deal is completed by the end of this month.
- Transaction will be fully funded by debt and likely at a similar rate to FCT's current borrowing cost of 2.44%, in our opinion.
- The transaction is priced close to book, with valuations close to FCT's prior acquisition within PGIM.
- Accretion will be marginal for this deal at 0.13% on a pro forma basis.
- The move is a positive surprise since the unwinding of PGIM's acquisition has been sitting at the forefront of investors' expectations.
- Additional contributions from this acquisition will help to cushion DPU impact this year from the overhanging COVID-19 risks.

PGIM acquisition to be revisited with laser-like focus in 2H20

- We reiterate what we had previously written in our report titled 'A perfect match' issued in March and we remain excited that this will be the final move towards a checkmate on PGIM.
- Remaining c.63% stake held by sponsor will likely be next on the table when risks associated with the current COVID-19 pandemic subside and the capital-raising environment becomes more favourable.
- The PGIM acquisition will give FCT the ability to almost double AUM from S$3.6bn to S$6.6bn in the coming years, with a strategic portfolio focus concentrated within the northern and northeastern parts of Singapore.
- These areas represent both the most underserved areas on the island, at 0.5 sqm of retail space/capita (compared to 1.5 sqm of retail space/capita islandwide) and the regions with the largest population growth extrapolated to 2030F (c.55% and 43% for the northern and northeastern regions respectively).
- Non-core assets such as Anchorpoint, Bedok Point and Yew Tee Point as well as FCT's 31.15% stake within the Hektar Portfolio could bring proceeds of c.S$370m and c.S$104m respectively based on the latest valuation review.
- Divestment proceeds could be rechannelled for FCT to restart the acquisition engine and unwind the remaining stake held by sponsor, Frasers Group, in its totality.
- With the full acquisition of the PGIM portfolio, FCT will stand as the last REIT in the sector with a pure play status in Singapore retail after the proposed merger of CapitaLand Mall Trust and CapitaLand Commercial Trust and will grow to become the second-largest retail landlord in Singapore with 8.5% market share.

Target price raised to S$2.95

- We anticipate FCT's see-through gearing to increase to 37-38% from 34.7% reported in the latest quarter, maintained below a comfortable 40% gearing level.
- Our target price assumes an implied FY20/FY21 dividend yield of 3.5%/4.3% and P/NAV of 1.45x for FY21, reflective of FCT's trading metrics prior to the COVID-19 outbreak.
- Beta has been adjusted to 0.75, back to pre-COVID-19 levels.

Dominant malls paving the way for retail recovery, risks contained at c.17% of GRI

- Rental revenues from dominant suburban giants Northpoint, Causeway Point and Waterway Point contribute a resilient c.75% of FCT's annual revenue, driven by superior operational metrics such as revenue-generation abilities.
- Northpoint North Wing generates c.S$116.7 psf/month in tenant sales, which stands as the highest revenue generating mall within the suburban retail space amongst the S-REITs, based on our estimates.
- Approximately half of FCT's retail tenants are within the food & beverage and beauty & health sectors which we anticipate to lead recovery going into the next quarter.
- The downside is likely to be contained at c.17% based on an analysis of high-risk assets (c.17% of GRI) and high-risk trade sectors (c.5.4%).
- We consider Anchorpoint, Bedok Point and Changi City Point as high-risk assets within the portfolio as they represent FCT's smaller-sized, non-core portfolio assets, with a less dominant status within their respective clusters.
- The department store and entertainment trade sectors fall within the high-risk trade sectors in our view, based on recent retail closure trends and prolonged COVID-19 operational risks.

Estimated high risk assets/tenants/industry (% GRI, FY19)

Estimated high risk assets	Anchorpoint	2.7%	**Estimated high risk trades**	Department Store	2.5%
	Bedok Point	1.9%		Entertainment	2.9%
	Changi City Point	12.6%			
		17.2%			**5.4%**

Source: DBS Bank, FCT

Yield and target price scenario analysis

	Revised FY21F Forecast	100% Stake in PGIM ARF (100% Equity)
Revenue (S$m)	203	283
Net property income (S$m)	148	228
Distributable income (S$m, 100% payout ratio)	146	208
shares outstanding (m)	1,122	1,534
DPU Change (Scts)	**13.02**	**13.55**
Potential DPU accretion (%)		**4.1%**

Capital Structure (100% Stake in PGIM ARF)	75% Equity	100% Equity
Projected Gearing	44%	40%
Equity Raised (S$m)	773	1,030
Debt Raised (S$m)	258	-
Incremental Asset Value (S$m)	1,836	1,836
Incremental Enterprise Value (S$m)	1,865	1,865
Implied target PGIM yield	5.0%	5.0%
Shares outstanding (m)	1431	1534
DPU (FY21, Scts)	14.04	13.55
Target price (S$)	**3.25**	**3.00**
Target target Yield	**4.3%**	**4.5%**

Remarks

- Our target price will increase from S$2.95 to S$3.00 with the assumed full stake in PGIM ARF (100% equity).
- Base-case scenario assumes acquisition to be fully funded by equity (S$2.50/unit) to hit a target gearing of 40%.
- Based on precedent transactions, future stakes of PGIM ARF will likely be purchased close to a 1.0x price-to-book.

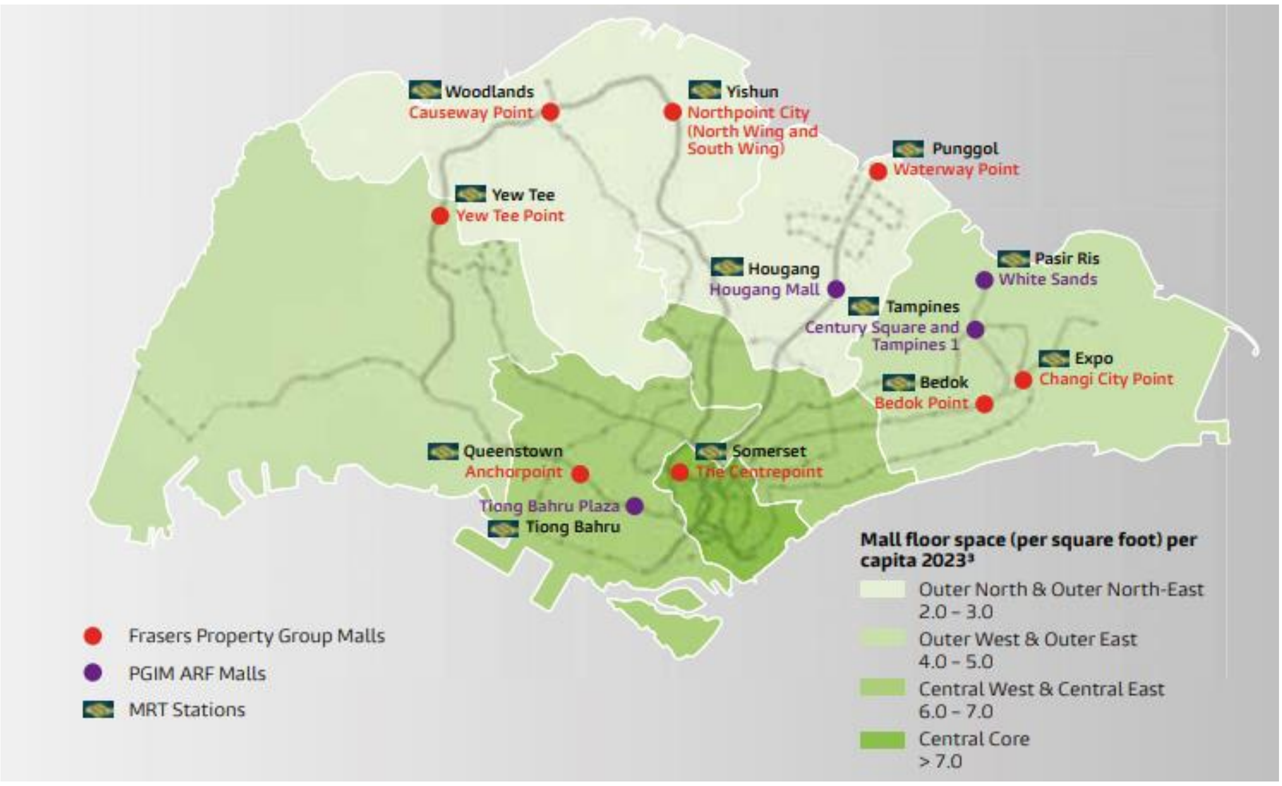
FCT and PGIM ARF's portfolio financial and operating metrics

Properties	Book value as at 30 Sep 2019 (S$m)	Net Lettable Area (sqft)	Prorated Valuation (S$ psf NLA)	Cap rate (2018)	Cap rate (2019)	Occupancy (%)		Lease Expiry
						FY18	FY19	
Frasers Centrepoint Trust								
Anchorpoint	114	70,988	1,599	4.50%	4.50%	79.0	88.8	Freehold
Bedok Point	94	82,713	1,136	5.00%	5.00%	95.7	79.2	2077
Causeway Point	1,298	420,082	3,090	4.70%	4.75%	97.0	98.4	2094
Changi City Point	342	205,028	1,668	5.00%	5.00%	95.9	93.8	2069
Northpoint City North Wing	810	219,365	3,517	4.75%	4.75%	99.0	96.5	2089
YewTee Point	189	73,669	2,566	5.00%	5.00%	97.1	94.3	2105
Waterway Point	520	371,200	1.401	4.70%	4.70%	98.0	99.7	2110
	3,366	**1,443,045**	**2,437**	**4.76%**	**4.78%**	**96.9**	**96.6**	**2093**
PGIM ARF								
Central Plaza	196	172,590	1,136	5.00%				2091
Tiong Bahru Plaza	626	214,710	2,916	4.75%				2090
Century Square	550	211,200	2,604	4.75%				2091
Hougang Mall	410	166,358	2,465	4.75%				2092
White Sands	407	150,319	2,708	4.75%				2092
Tampines 1	720	268,153	2,684	4.75%				2089
	2,909	**1,183,330**	**2,587**	**4.77%***				**2,091**

** Cap rates (2019), DBS estimates*

Source: FCT, DBS Bank

Geographical footprint of retail malls held by FCT and PGIM ARF



Source: FCT, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

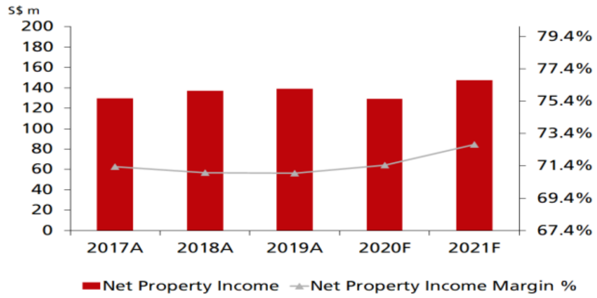
Dominant malls in the north. FCT derives close to 70% of its revenues from two key suburban malls - Causeway Point (CWP) and Northpoint City North Wing (NP), which are located in the densely populated regions in the northern part of Singapore. We believe both CWP and NP are dominant malls and focal points in their respective districts of Woodlands and Yishun. Supported by public transportation network (MRT), foot traffic through these malls are consistently high through the week, resulting in the properties delivering resilient cashflows through various market cycles. As such, rental portfolio reversions have generally stayed positive through market cycles supported by resilient tenant sales. Looking ahead, with tenant sales bottoming out supported by a stable macro environment, we believe that FCT can continue to deliver an organic DPU growth profile of 1-3%. The completion of the asset enhancement at Causeway Point, poised for end-FY19, will also be a key driver for positive reversions.

COVID-19 a short-term headwind. With Dorscon level raised to 'Orange', shopping patterns had changed drastically among locals and tourists. Retail malls island-wide saw a sharp dip in traffic as people limited their exposure to public places. Prime shopping malls in central region saw a dip of 50-70% while suburban retail malls saw a smaller decline of between 10-20%. FCT's suburban malls, while resilient, will likely see a dip in tenant sales in the coming quarter, and faces the risk of potential non-renewals of existing leases as tenants feel the heat. This could flow through to the REIT as lower tenant sales, softer rental reversions and a dip in portfolio occupancy in the coming quarters, despite the manager's prompt damage control measures.

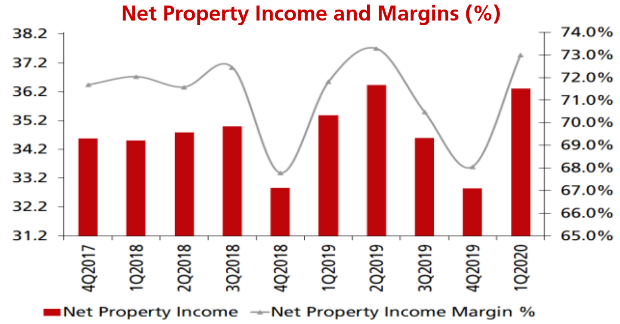
Acquisitions to drive distributions higher; well anticipated by investors. FCT benefits from having a visible pipeline of acquisition prospects from its sponsor – including its substantial stake in PGIM's AsiaRetail portfolio of five dominant suburban malls in Singapore. Given the tightly held retail mall landscape in Singapore, we see this as a valuable trait. FCT's share price would typically react positively during periods when the REIT announces an acquisition. Following the FCT's recently proposed acquisition of the sponsor's 33% stake in Waterway Point, we look forward to the potential injection of Northpoint City South Wing further down the road.

Weak correlation with interest rates. Contrary to common perception, interest rate movements have a weak correlation with FCT's share price or yield. We conclude that interest rate is not a critical factor for FCT's share price performance. However, given its low interest rate hedge at present, unexpected rate hikes could put pressure on its DPU and price.

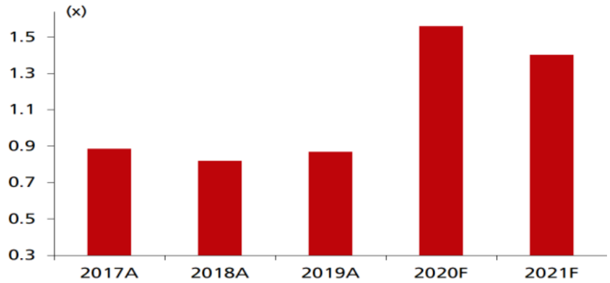
Net Property Income and Margins (%)



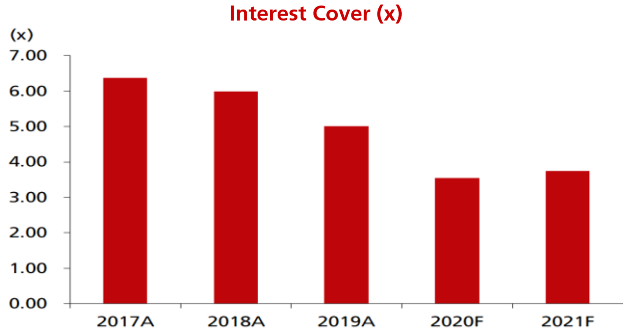
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Healthy balance sheet. FCT's gearing is currently estimated at 33.2%, which is well below the manager's comfortable level of 35%.

Higher floating rate exposure vs peers. The percentage of borrowings on fixed rates had been lowered to c.53% as at end-FY19, which remains at the lower end vs peers. We anticipate potentially lower cost of debt (2.57% as at 31 December 2019 as c.43% of debt expiring in FY20/FY21 could be refinanced at a lower rate.

Share Price Drivers:

Rental reversions at key assets and acquisition pipelines. Higher-than-expected rental reversions from Causeway Point and Northpoint (FCT's largest assets) will likely re-rate the stock.

Portfolio reconstitution. With the 40% stake in Waterway Point firmly under its belt, we believe that FCT could upsize its remaining 75.2% stake in PGIM ARF in the coming years. In addition, we believe there are pockets of opportunities in FCT's enlarged portfolio that could be added to the divestment pipeline. The capital recycling could be put forward to acquire additional stakes in PGIM ARF and WWP as FCT 'upcycles' into higher-quality suburban retail malls in Singapore.

Key Risks:

Interest rate risks. If expectations of rate hikes increase, the relatively high exposure to floating interest rates will amplify the increase in the REIT's cost of debt, putting pressure on valuation.

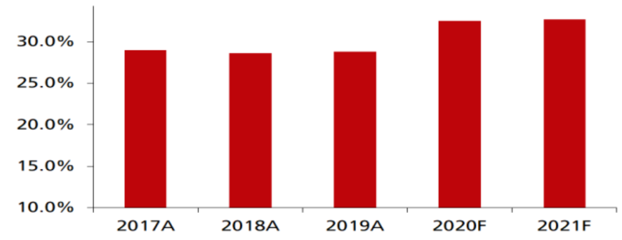
Environment, Social, Governance:

FCT released its fourth Sustainability Report in FY18, with a moderate Bloomberg ESG Disclosure Score. The Trust seeks to encourage good corporate governance through fair and ethical business practices. FCT periodically conducts energy audits for its portfolio, and three of its properties have been certified by BCA Green Mark as at 30 September 2018. In FY18, the Trust achieved a 32.5% increase in waste sent for recycling, and e-waste bins are also available in its malls.

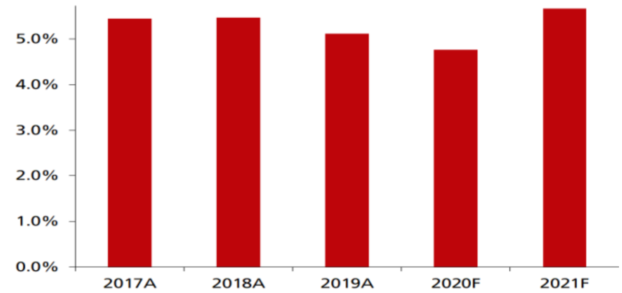
Company Background

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.

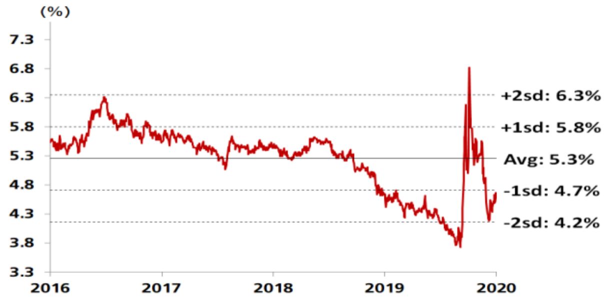
Aggregate Leverage (%)



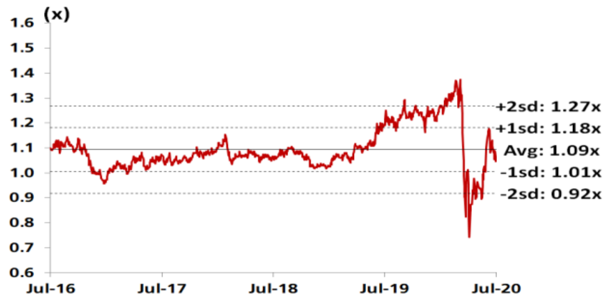
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Sep	2017A	2018A	2019A	2020F	2021F
Gross revenue	182	193	196	181	203
Property expenses	(52.0)	(56.2)	(57.1)	(51.7)	(55.4)
Net Property Income	130	137	139	129	148
Other Operating expenses	(17.1)	(17.2)	(18.7)	(16.9)	(17.9)
Other Non Opg (Exp)/Inc	0.0	0.0	0.13	0.0	0.0
Associates & JV Inc	4.39	3.77	15.8	37.3	45.1
Net Interest (Exp)/Inc	(17.6)	(20.0)	(24.1)	(31.6)	(34.6)
Exceptional Gain/(Loss)	0.28	0.37	0.17	0.0	0.0
Net Income	99.5	104	113	118	140
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	99.5	104	113	118	140
Total Return	194	167	206	118	140
Non-tax deductible Items	(6.7)	(3.5)	9.77	7.25	5.79
Net Inc available for Dist.	111	111	119	125	146
Growth & Ratio					
Revenue Gth (%)	(1.2)	6.5	1.6	(7.9)	12.3
N Property Inc Gth (%)	(0.2)	5.9	1.5	(7.3)	14.3
Net Inc Gth (%)	4.7	4.6	8.2	4.6	19.1
Dist. Payout Ratio (%)	99.3	100.0	100.0	92.5	97.5
Net Prop Inc Margins (%)	71.3	71.0	70.9	71.4	72.7
Net Income Margins (%)	54.8	53.8	57.4	65.2	69.1
Dist to revenue (%)	60.9	57.6	60.5	69.2	71.9
Managers & Trustee's fees	9.4	8.9	9.5	9.4	8.8
ROAE (%)	5.5	5.5	5.1	4.8	5.7
ROA (%)	3.7	3.7	3.5	3.2	3.7
ROCE (%)	4.3	4.4	3.8	3.1	3.5
Int. Cover (x)	6.4	6.0	5.0	3.5	3.8

Source: Company, DBS Bank

Additional contributions from assumed S$350m acquisition at 5% NPI yield

90% payout ratio across calendar year 2020

Quarterly / Interim Income Statement (S$m)

FY Sep	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Gross revenue	49.3	49.7	49.1	48.3	49.8
Property expenses	(13.9)	(13.3)	(14.5)	(15.4)	(13.4)
Net Property Income	35.4	36.4	34.6	32.8	36.3
Other Operating expenses	(4.2)	(4.4)	(4.7)	(5.4)	(5.5)
Other Non Opg (Exp)/Inc	0.0	(0.2)	(0.4)	(0.2)	0.87
Associates & JV Inc	4	4	16	37	45
Net Interest (Exp)/Inc	(5.4)	(5.5)	(7.2)	(5.9)	(6.8)
Exceptional Gain/(Loss)	0.0	0.0	3.58	(1.4)	(0.4)
Net Income	**26.8**	**26.4**	**33.0**	**26.4**	**40.5**
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**26.8**	**26.4**	**33.0**	**26.4**	**40.5**
Total Return	26.0	25.7	26.6	24.4	26.8
Non-tax deductible Items	0.89	2.30	(1.9)	2.12	10.1
Net Inc available for Dist.	27.7	28.8	29.9	32.6	35.0
Growth & Ratio					
Revenue Gth (%)	2	1	(1)	(2)	3
N Property Inc Gth (%)	8	3	(5)	(5)	11
Net Inc Gth (%)	10	(2)	25	(20)	53
Net Prop Inc Margin (%)	71.8	73.3	70.5	68.1	73.0
Dist. Payout Ratio (%)	101.2	101.2	100.0	100.0	100.0

Balance Sheet (S$m)

FY Sep	2017A	2018A	2019A	2020F	2021F
Investment Properties	2,668	2,749	2,846	2,851	2,856
Other LT Assets	65.0	66.4	749	946	946
Cash & ST Invts	13.5	21.9	13.1	4.30	13.5
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	4.26	3.00	3.14	3.14	3.14
Other Current Assets	0.0	0.06	0.0	0.0	0.0
Total Assets	**2,751**	**2,840**	**3,611**	**3,804**	**3,818**
ST Debt	152	217	295	295	295
Creditor	32.7	46.2	47.3	39.6	44.5
Other Current Liab	17.3	16.3	22.6	22.6	22.6
LT Debt	646	596	745	942	952
Other LT Liabilities	31.1	31.5	30.1	30.1	30.1
Unit holders' funds	1,872	1,934	2,471	2,475	2,474
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**2,751**	**2,840**	**3,611**	**3,804**	**3,818**
Non-Cash Wkg. Capital	(45.8)	(59.4)	(66.8)	(59.1)	(63.9)
Net Cash/(Debt)	(784)	(791)	(1,027)	(1,233)	(1,233)
Ratio					
Current Ratio (x)	0.1	0.1	0.0	0.0	0.0
Quick Ratio (x)	0.1	0.1	0.0	0.0	0.0
Aggregate Leverage (%)	29.0	28.6	28.8	32.5	32.7
Z-Score (X)	1.6	1.7	1.6	1.6	1.6

Acquisition of additional S$350m stake in PGIM

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Sep	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	99.5	104	113	118	140
Dep. & Amort.	0.05	0.03	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates &JV Inc/(Loss)	(4.4)	(3.8)	(15.8)	(37.3)	(45.1)
Chg in Wkg.Cap.	2.01	11.8	4.36	(7.7)	4.87
Other Operating CF	25.0	24.8	29.5	1.40	1.49
Net Operating CF	**122**	**137**	**131**	**74.2**	**102**
Net Invt in Properties	(66.1)	(15.5)	(5.0)	(4.6)	(5.0)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(6.8)	0.0	(668)	(197)	0.0
Div from Assoc. & JVs	4.74	3.99	12.8	37.3	45.1
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	**(68.2)**	**(11.6)**	**(661)**	**(164)**	**40.2**
Distribution Paid	(108)	(112)	(114)	(116)	(142)
Chg in Gross Debt	64.0	15.0	206	197	9.95
New units issued	0.0	0.0	431	0.0	0.0
Other Financing CF	(14.9)	(19.8)	(2.5)	0.0	0.0
Net Financing CF	**(59.2)**	**(117)**	**521**	**81.5**	**(132)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(5.2)	8.32	(8.8)	(8.8)	9.23
Operating CFPS (S cts)	13.0	13.5	11.3	7.33	8.62
Free CFPS (S cts)	6.08	13.1	11.3	6.22	8.62

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	11 Jul 19	2.64	2.95	BUY
2:	24 Jul 19	2.63	2.95	BUY
3:	16 Aug 19	2.67	2.95	BUY
4:	09 Sep 19	2.71	2.95	BUY
5:	02 Oct 19	2.71	2.95	BUY
6:	24 Oct 19	2.75	2.95	BUY
7:	23 Jan 20	2.86	2.95	BUY
8:	09 Mar 20	2.88	3.35	BUY
9:	02 Apr 20	1.82	2.05	HOLD
10:	05 May 20	2.08	2.05	HOLD
11:	29 May 20	2.43	2.65	BUY

***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: 2 Jul 2020 08:23:48 (SGT)
Dissemination Date: 2 Jul 2020 08:50:20 (SGT)

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

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 Frasers Centrepoint Trust recommended in this report as of 31 May 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 Frasers Centrepoint Trust recommended in this report as of 31 May 2020.

Compensation for investment banking services:

4. DBS Bank Ltd, DBS HK, DBSVS their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Frasers Centrepoint Trust as of 31 May 2020.
5. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for Frasers Centrepoint Trust in the past 12 months, as of 31 May 2020.
6. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

7. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment

[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.

Frasers Logistics & Commercial Trust

Version 12 | Bloomberg: FLT SP | Reuters: FRAE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Aug 2020

BUY

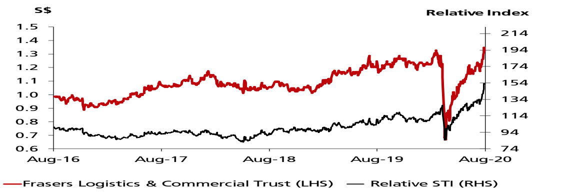
Last Traded Price (4 Aug 2020): S$1.37 (**STI :** 2,515.70)
Price Target 12-mth: S$1.60 (17% upside) (Prev S$1.40)

Analyst
Dale LAI +65 66823715 dalelai@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Accretive acquisition of two 100%-occupied freehold properties from its Sponsor
- Recognised a gain of c.S$7.7m from the divestment of a logistics property in Australia
- Unlocked value in the portfolio by trading a low-yielding asset for two properties with higher yields
- Maintain BUY with an undemanding TP of S$1.60

Price Relative



Forecasts and Valuation

FY Sep (S$m)	2019A*	2020F	2021F	2022F
Gross Revenue	241	346	439	449
Net Property Inc	199	280	355	364
Total Return	226	171	225	232
Distribution Inc	150	208	255	261
EPU (S cts)	4.59	5.01	6.52	6.71
EPU Gth (%)	(26)	9	30	3
DPU (S cts)	7.27	7.12	7.40	7.55
DPU Gth (%)	5	(2)	4	2
NAV per shr (S cts)	102	106	105	105
PE (X)	29.8	27.4	21.0	20.4
Distribution Yield (%)	5.3	5.2	5.4	5.5
P/NAV (x)	1.3	1.3	1.3	1.3
Aggregate Leverage (%)	33.2	37.3	37.2	37.2
ROAE (%)	4.9	5.8	6.2	6.4
Distn. Inc Chng (%):**		(4)	(5)	(5)
Consensus DPU (S cts):		7.40	7.70	7.80
Other Broker Recs:		B: 4	S: 0	H: 2

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

** FY19A figures are reported in A$. FLCT has changed its reporting currency to S$ after the completion of the merger with FCOT in April 2020. **DI changes reflected are due to effects of FX translation.*

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

Trading up in quality

Maintain BUY and raised TP to S$1.60. We maintain our BUY call and raised our TP to S$1.60 for Frasers Logistics & Commercial Trust (FLCT). FLCT has just announced the accretive acquisitions of two freehold properties in Australia and the UK, coupled with the divestment of the remaining 50% stake in a logistics property in Australia. FLCT will recognise a S$7.7m gain on the divestment and a net accretion of more than 0.5% on the two acquisitions to be funded by debt. Our higher TP is driven by (i) net accretion from the sales and purchase of the three properties, and (ii) lower discount rates mainly from lower risk-free and interest rates.

Enhanced inorganic growth trajectory not priced in. We remain excited about FLCT's pipeline that amounts to more than S$5.0bn across key gateway cities of Singapore, Australia and Europe (including UK). As one of the key focus for the group, we anticipate the REIT to be active in acquiring assets to continue to bulk up and grow its AUM in the medium term. With expectations for interest rates to remain lower for longer and the tightening in FLCT's yield, we believe that conditions are conducive for accretive acquisitions to be considered.

Built-in rental escalations and portfolio diversification to offset near-term challenges due to the COVID-19 outbreak. The ongoing COVID-19 outbreak is expected to create some weakness in FLCT's portfolio as evident in the marginal dip in occupancies and rental reversions. However, the annual rental escalations (ranging from 2-4%), coupled with the positive rental reversions at some of its newly consolidated commercial assets, will help mitigate these short-term pressures. Moreover, FLCT only has a very small percentage of its portfolio lease expiring in the next two years (1.0% and 8.1% in FY20 and FY21 respectively).

Valuation:
Our DCF-based TP is raised to S$1.60 to take into account the accretive acquisitions and lower discount rate.

Key Risks to Our View:
Currency risk. As the Manager pays its distributions in SGD, the REIT is exposed to currency fluctuations in AUD, EUR and GBP. The Manager attempts to reduce foreign currency fluctuations by hedging distributions regularly.

At A Glance

Issued Capital (m shrs)	3,408
Mkt. Cap (Sm/USm)	4,669 / 3,400
Major Shareholders (%)	
Frasers Prop Ind Trust	22.1
Rojana Industrial Park	4.2
Free Float (%)	73.7
3m Avg. Daily Val (US$m)	10.7

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

WHAT'S NEW

Trading up in quality

Operating highlights: Accretive acquisitions and unlocking of value from the divestment

- 3Q20 revenue of S$103.7m is a 71% increase q-o-q due mainly to the merger with FCOT on 15 April 2020
- Distributable income of S$61.1m for 3Q20; YTD distributable income will make up c.72% of our FY20F projections
  - In line with our FY20F projections (based on two quarters or earnings from enlarged portfolio)
- Announced the acquisition of two accretive assets from its Sponsor and the divestment of one lower-yielding property
  - Acquiring IVE Facility in Melbourne, Australia
    - Freehold logistics property for S$22.2m
    - 100% occupied with a WALE of 4.9 years
    - Estimated yield of 5.85%
  - Acquiring Maxis Business Park in Thames Valley, UK
    - Freehold business park asset for S$67.7m (a further S$53.3m in shareholders' loan)
    - 100% occupied with a WALE of 6.7 years
    - Estimated yield of 6.20%
  - Unlocking value with the divestment of the remaining 50% stake in 99 Sandstone Place, Queensland, Australia
    - Sale consideration of S$150.5m (50% stake)
    - 12.2% premium to book value, and 13.6% higher than initial sale of 50% stake (July 2019)
    - Net gain of S$7.9m over the book value
    - Estimated yield of 5.00%
  - Transactions estimated to be net accretive (c.0.5%); additional S$1.4m in revenues per annum
  - Acquisitions will be funded by existing resources and debt facilities

Robust capital management metrics; debt headroom of S$1.6bn

- Marginal weakening of capital management metrics in 3Q20 mainly due to consolidation with FCOT
  - Consolidated total debt of S$2.3bn
  - Aggregate leverage of 37.4%
  - Strong interest coverage ratio of 6.7x
  - Low all-in borrowing cost of 2.1%
- In advanced negotiations to refinance the remaining S$166m of loans maturing in 4Q20
  - Average weighted debt maturity of 3.2 years

Healthy portfolio metrics post consolidation

- Portfolio occupancy fell to 97.2% in 3Q20 mainly due to consolidation with FCOT's portfolio
  - Logistics and industrial portfolio occupancy inched down 0.2ppt to 99.8% in 3Q20
    - Only one vacancy at a property in South Australia that should be back-filled quickly
  - Commercial portfolio occupancy declined 1.4ppts q-o-q to 93.6% in 3Q20
    - Mainly due to lower occupancies at Cross Street Exchange and Alexandra Technopark
  - Long portfolio WALE of 5.2 years
- Negative rental reversion of c.3.2% for the enlarged portfolio
  - Mainly due to negative rental reversions of 3.9% for the logistics and industrial portfolio
    - Mix of long-term and short-term lease renewals in Australia and Germany
    - Built-in rental escalations at some of its leases that range from 3.0-3.5%; negative rental reversions will be reversed within 1-2 years
  - Commercial portfolio registered a 10.6% positive rental reversion
    - Led by renewals in Singapore and the UK
    - Only Australia reported a negative rental reversion
- Slightly more than half of the 128,000 sqm of renewals in 3Q20 are on short-term leases of 1.0-1.5 years
  - Short-term leases are to assist tenants who are not ready to make long-term commitments amid the uncertain economic landscape
  - FLCT is confident of retaining these tenants once there is more clarity on their business operations
- Only 1.0% of portfolio leases remain to be renewed in FY20 and 8.1% will be expiring in FY21
  - Entire 1.0% of expiries remaining in FY20 are from commercial property leases
  - Expect most of expiring leases in FY21 to be renewed
  - Most of the logistics and industrial renewals should see positive rental reversions due to limited new supply except in West Melbourne

Our views: Consolidation starting to pay off

We continue to like FLCT post-merger with FCOT, and the benefits of its diversification are becoming apparent. Despite the slight weakening of selected portfolio and capital management metrics inherited from FCOT, the enlarged FLCT is now much stronger to tackle the challenging business climate amid the COVID-19 pandemic. An example is the positive rental reversion for the commercial portfolio that helped offset some of the negative reversions for the logistics and industrial portfolio; albeit a very small impact due to the renewal of smaller commercial leases.

The ongoing COVID-19 pandemic is starting to put pressure on FLCT's portfolio as evident in the negative rental reversions in logistics leases in Australia and the decline in occupancy rates in commercial properties in Singapore. However, we believe that the in-built rental escalations for a majority of FLCT's leases will be more than sufficient to offset the downward pressure to earnings in FY20.

Despite the challenging economic environment, FLT has once again proven its ability to trade its lower-yielding assets for higher-yielding ones. With an enlarged ROFR pipeline of more than SS$5.0bn, we are confident that FLCT will be able to continue with accretive acquisitions especially from its Sponsor. Moreover, the two newly announced acquisitions are expected to be completed in September 2020 and the additional income will provide an upside to earnings in FY21.

We maintain our **BUY** recommendation with a higher TP of **S$1.60**. Our higher DCF-based TP is mainly due to the accretion from the acquisitions as well as a lowering of the discount rate to 6.4%

Critical Factors

Merger with Frasers Commercial Trust. The merger between FLT and FCOT was successfully completed on 29 April 2020. The REIT has been renamed to Frasers Logistics and Commercial Trust (FLCT) to align it with the broadened investment mandate to include commercial properties. The enlarged entity will comprise c.59% logistics and industrial properties, and 41% commercial and business park properties. FLCT will continue to have a large exposure in Australia with more than 48% of its portfolio value, followed by Singapore at 22%, Germany at 20%, and the rest in Europe and the UK.

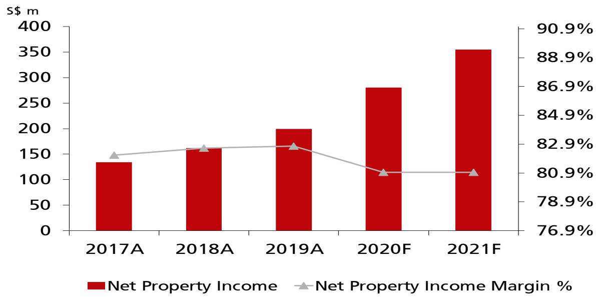
Significant acquisitions in Europe, Australia and UK. FLCT added a total of 13 properties in Australia and Europe in FY19. It has also divested three properties in Australia at premiums to book value. The acquisitions in Europe are mainly modern logistics facilities located within major logistics clusters of Germany and the Netherlands which cater to core distribution needs of both countries. Together with the merger, FLCT also acquired the remaining 50% interest in Farnborough Business Park in the UK. Farnborough Business Park makes up approximately 5.5% of FLCT's portfolio and could be an even bigger contributor as planning permissions have been granted for an additional c.18,000 sqm of office space to be built.

Long WALE of 5.2 years with inbuilt organic growth a key trait. In our view, the long WALE by Adjusted Gross Rental Income of 5.2 years provides strong cashflow visibility which is a valued trait in the current market volatility. In addition, FLCT's organic growth is underpinned by inbuilt rental escalations. The fixed rental increments, which are built into the existing leases and range from 2.5-4.0%, offer an imbedded steady growth profile.

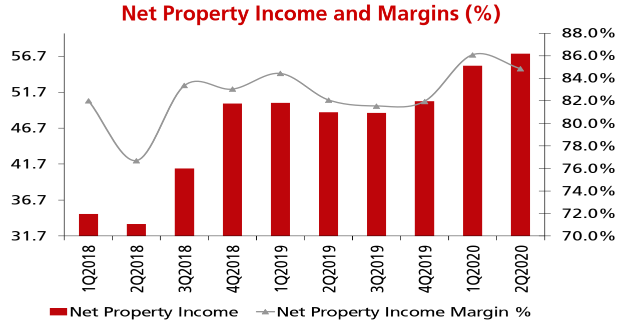
Inorganic growth with the enhanced ROFR pipeline of more than S$5.0bn. Through the merger, FLCT has an enlarged ROFR pipeline from its Sponsor (Frasers Property Limited) that includes industrial and commercial properties, offices and business parks. The majority of the 1.9m sqm of pipeline assets are in Australia, the UK and Germany. With one of the largest ROFR pipelines among S-REITs, FLCT could double its portfolio size through the injection of ROFR properties and redevelopment of older assets.

Sensitivity to interest rates not a major concern. A weighted cost of 2.0-2.5% with c.55% of the interest rates fixed implies that the REIT has substantially hedged its interest rate risk in the medium term. In addition, debt expiring in FY20 could benefit from some cost savings.

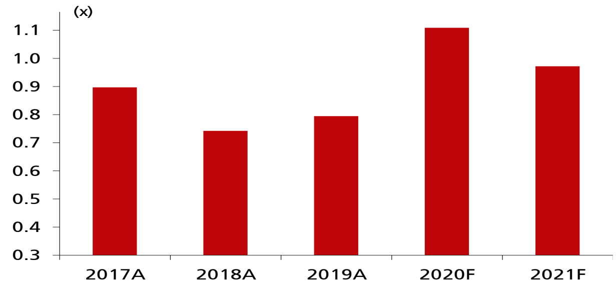
Net Property Income and Margins (%)



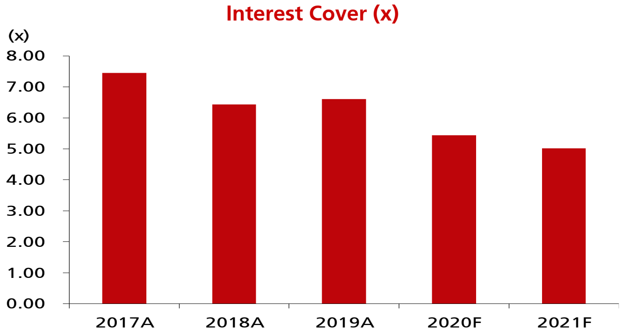
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing up for acquisitions. Gearing has inched up to c.37% with the completion of the merger and acquisition of the 50% interest in Farnborough Business Park. The low gearing level and debt headroom of c.S$1.6bn offer significant headroom for the Manager to execute on opportunistic acquisitions.

Healthy financial metrics. The REIT has minimal debt expiries remaining in FY20 with an estimated weighted average debt expiry of c.3.2 years and average cost of borrowing of 2.0-2.5%. Interest coverage ratio remains very healthy at c.6.7x. Approximately 55% of the debt is hedged, implying minimal volatility to distributions in the event of an interest rate hike.

Share Price Drivers:

Executing on acquisitions. Post the completion of the merger with FCOT and the acquisition of the 50% interest in Farnborough Business Park, gearing remains undemanding at c.37%. We believe that the portfolio remains under-geared in relation to peers and its optimal level. With opportunities abounding in the market and the enlarged ROFR pipeline of more than S$5.0bn, we believe that the execution of more acquisitions, which are projected to be accretive to earnings, will be a catalyst for its stock price.

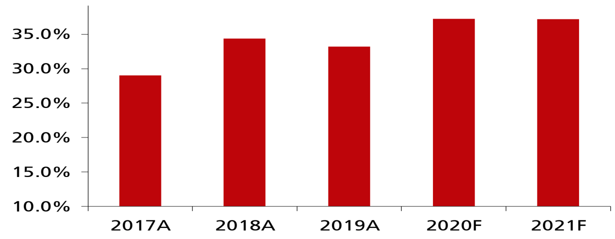
Key Risks:

Economic downturn in Australia, Singapore and Europe. With the ongoing COVID-19 pandemic, occupancy and rental rates could come under pressure amid the economic slowdown in the developed nations of Singapore, Australia and Europe. Despite the high portfolio occupancy and long WALE, the c.1.0% of leases due to expire in the rest of FY20 could face some negative rental reversions. However, the annual rental escalations for most leases should help mitigate some of the weaknesses from the new and renewed leases.

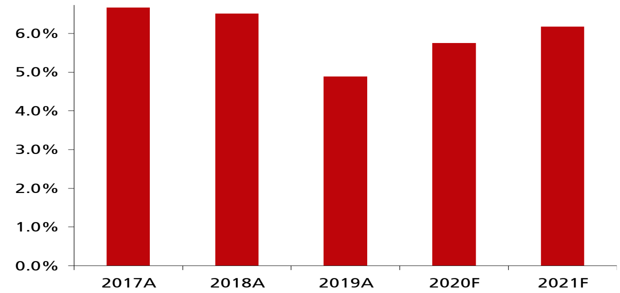
Company Background

FLCT offers investors the opportunity to invest in prime logistics and commercial properties strategically located within five major developed markets. FLCT currently manages 99 properties across Australia, Singapore, Germany, the UK, and the Netherlands, totalling c.2.6m sqm. The appraised value of FLCT's portfolio was S$6.0bn as of 30 June 2020.

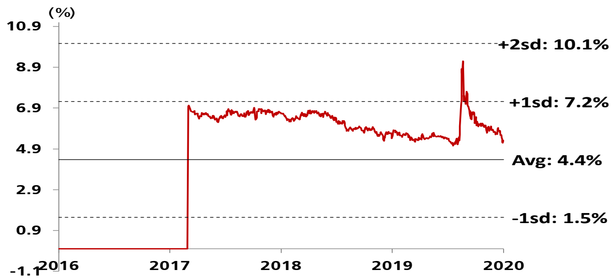
Aggregate Leverage (%)



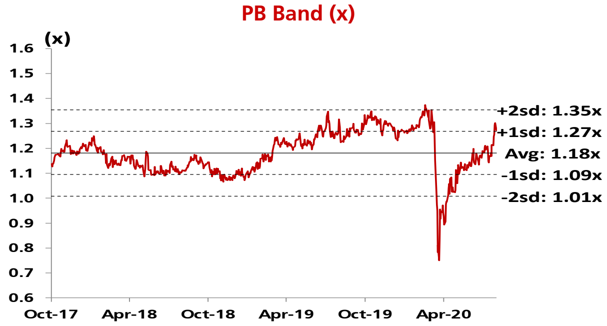
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (A$*/ S$m)

FY Sep	2018A*	2019A*	2020F	2021F	2022F
Gross revenue	196	241	346	439	449
Property expenses	(34.0)	(41.4)	(65.9)	(83.4)	(85.5)
Net Property Income	**162**	**199**	**280**	**355**	**364**
Other Operating expenses	(17.1)	(22.7)	(45.4)	(41.6)	(42.2)
Other Non Opg (Exp)/Inc	(4.1)	(1.2)	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(22.5)	(26.7)	(43.2)	(62.5)	(62.5)
Exceptional Gain/(Loss)	23.4	1.65	0.0	0.0	0.0
Net Income	**142**	**150**	**192**	**251**	**259**
Tax	(34.4)	(44.5)	(19.2)	(25.1)	(25.9)
Minority Interest	(0.9)	(2.3)	(1.2)	(1.2)	(1.2)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**106**	**104**	**171**	**225**	**232**
Total Return	179	226	171	225	232
Non-tax deductible Items	(62.4)	(80.0)	37.1	30.5	29.1
Net Inc available for Dist.	118	150	208	255	261
Growth & Ratio					
Revenue Gth (%)	20.1	23.0	43.8	26.7	2.5
N Property Inc Gth (%)	20.8	23.2	40.6	26.7	2.5
Net Inc Gth (%)	23.2	(2.5)	65.3	31.1	3.3
Dist. Payout Ratio (%)	100.0	100.0	97.0	100.0	100.0
Net Prop Inc Margins (%)	82.6	82.8	81.0	81.0	81.0
Net Income Margins (%)	54.3	43.0	49.5	51.2	51.6
Dist to revenue (%)	60.4	62.2	60.2	58.2	58.1
Managers & Trustee's fees	8.7	9.4	13.1	9.5	9.4
ROAE (%)	6.5	4.9	5.8	6.2	6.4
ROA (%)	4.2	3.0	3.5	3.7	3.8
ROCE (%)	4.4	3.7	4.4	4.7	4.8
Int. Cover (x)	6.4	6.6	5.4	5.0	5.1

Source: Company, DBS Bank

Growth in revenue mainly due to full-year contribution from newly consolidated FCOT portfolio.

Expect a slightly lower payout ratio to account for provisions made for rental rebates/waivers.

** FY18A and FY19A figures are reported in A$. FLCT has changed its reporting currency to S$ after the completion of the merger with FCOT in April 2020.*

Balance Sheet (A$*/ S$m)

FY Sep	2018A*	2019A*	2020F	2021F	2022F
Investment Properties	2,978	3,554	5,844	5,858	5,863
Other LT Assets	1.13	2.12	2.04	2.04	2.04
Cash & ST Invts	106	128	133	127	124
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	9.97	16.2	18.0	22.8	23.4
Other Current Assets	0.0	18.0	17.3	17.3	17.3
Total Assets	3,095	3,719	6,015	6,027	6,029
ST Debt	220	206	198	198	198
Creditor	40.4	53.2	18.0	22.8	23.4
Other Current Liab	6.89	11.5	19.2	25.1	25.9
LT Debt	845	1,030	2,043	2,043	2,043
Other LT Liabilities	39.7	75.6	72.8	72.8	72.8
Unit holders' funds	1,924	2,314	3,634	3,634	3,634
Minority Interests	18.9	28.9	29.0	30.3	31.5
Total Funds & Liabilities	3,095	3,719	6,015	6,027	6,029
Non-Cash Wkg. Capital	(37.3)	(30.5)	(1.9)	(7.8)	(8.6)
Net Cash/(Debt)	(959)	(1,107)	(2,108)	(2,115)	(2,118)
Ratio					
Current Ratio (x)	0.4	0.6	0.7	0.7	0.7
Quick Ratio (x)	0.4	0.5	0.6	0.6	0.6
Aggregate Leverage (%)	34.4	33.2	37.3	37.2	37.2
Z-Score (X)	1.8	1.9	1.4	1.5	1.5

Source: Company, DBS Bank

Net increase in investment properties from the sale and purchase of the three assets.

** FY18A and FY19A figures are reported in A$. FLCT has changed its reporting currency to S$ after the completion of the merger with FCOT in April 2020.*

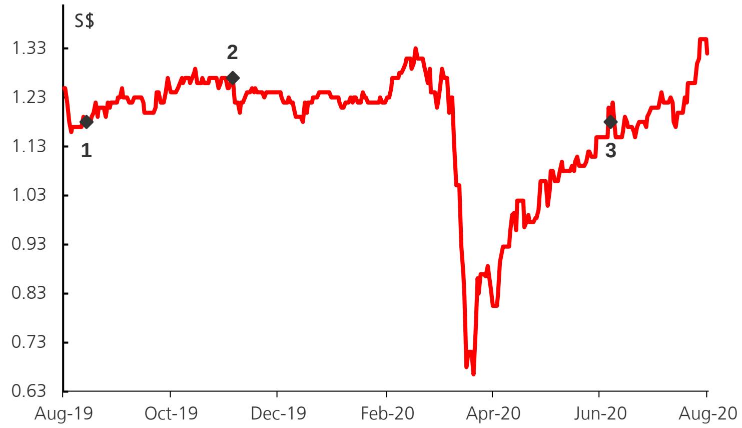
Cash Flow Statement (A$*/ S$m)

FY Sep	2018A*	2019A*	2020F	2021F	2022F
Pre-Tax Income	142	150	192	251	259
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(11.4)	(15.9)	(10.0)	(19.2)	(25.1)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(5.3)	(14.2)	(36.6)	0.0	0.0
Other Operating CF	(1.0)	37.1	37.1	30.5	29.1
Net Operating CF	**124**	**158**	**182**	**262**	**263**
Net Invt in Properties	(490)	23.8	(2,425)	(14.0)	(5.0)
Other Invts (net)	0.0	(13.3)	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	(5.9)	0.0	0.0	0.0
Net Investing CF	**(490)**	**4.54**	**(2,425)**	**(14.0)**	**(5.0)**
Distribution Paid	(91.9)	(125)	(202)	(255)	(261)
Chg in Gross Debt	61.4	43.4	1,052	0.0	0.0
New units issued	470	274	1,402	0.0	0.0
Other Financing CF	(26.6)	(28.9)	0.0	0.0	0.0
Net Financing CF	**412**	**164**	**2,252**	**(255)**	**(261)**
Currency Adjustments	3.58	1.23	0.0	0.0	0.0
Chg in Cash	49.6	327	9.91	(6.8)	(2.9)
Operating CFPS (S cts)	7.58	7.60	6.40	7.61	7.61
Free CFPS (S cts)	(21.5)	8.03	(65.6)	7.21	7.47

Source: Company, DBS Bank

** FY18A and FY19A figures are reported in A$. FLCT has changed its reporting currency to S$ after the completion of the merger with FCOT in April 2020.*

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Aug 19	1.18	1.40	BUY
2:	07 Nov 19	1.27	1.40	BUY
3:	09 Jun 20	1.18	1.40	BUY

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

Source: DBS Bank

Analyst: Dale LAI

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: 5 Aug 2020 07:14:05 (SGT)
Dissemination Date: 5 Aug 2020 07:53:38 (SGT)

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

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 Frasers Logistics & Commercial Trust recommended in this report as of 30 Jun 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 Frasers Logistics & Commercial Trust recommended in this report as of 30 Jun 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 Frasers Logistics & Commercial Trust as of 30 Jun 2020.

Compensation for investment banking services:

5. DBS Bank Ltd, DBS HK, DBSVS their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Frasers Logistics & Commercial Trust as of 30 Jun 2020.
6. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for Frasers Logistics & Commercial Trust in the past 12 months, as of 30 Jun 2020.
7. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

[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.

Singapore Company Guide

Keppel REIT

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

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Jun 2020

BUY

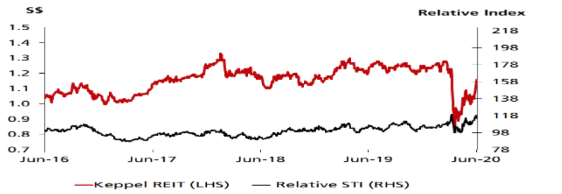
Last Traded Price (5 Jun 2020): S$1.16 (**STI :** 2,751.50)
Price Target 12-mth: S$1.35 (16% upside) (Prev S$1.45)

Analyst
Rachel TAN +65 6682 3713 racheltanlr@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

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

Price Relative



Forecasts and Valuation

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

Distn. Inc Chng (%):			0	0
Consensus DPU (S cts):			5.70	5.70
Other Broker Recs:		B: 9	S: 4	H: 4

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

BrainBox

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

Style, quality, excellence

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

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

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

Valuation:

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

Key Risks to Our View:

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

At A Glance

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

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

Live more, Bank less

WHAT'S NEW

Style, quality, excellence

1Q20 results – DPU maintained with higher capital distributions:

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

Operational metrics remain healthy:

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

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

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

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

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

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

1Q20 Key Operational Highlights

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

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

Source: DBS Bank, Company

Critical Factors

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

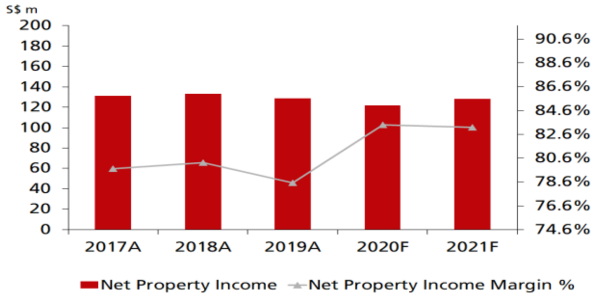
Long WALE offers income visibility. Despite the cyclical nature of the office market, KREIT provides a high degree of income stability. This arises as it has a long weighted average lease expiry (WALE) of c.5 years. In addition, due to the prime locations of its office buildings, including the new CBD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

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

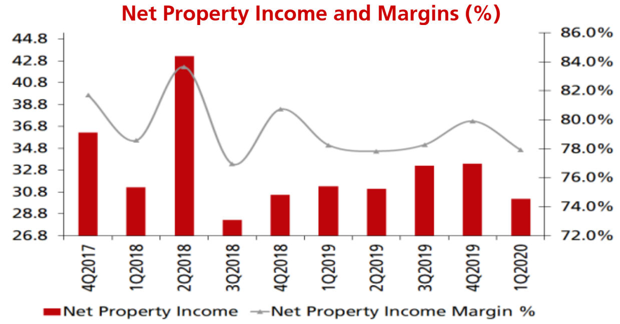
Inorganic opportunities. With a relatively low trading yield for the first time in many years, KREIT is now in a position to fund potential acquisitions through the issuance of new units while still achieving DPU accretion, although we understand it is reluctant to do so as KREIT trades below 1x book.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

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

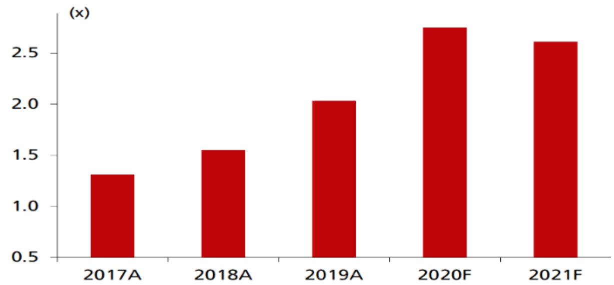
Net Property Income and Margins (%)



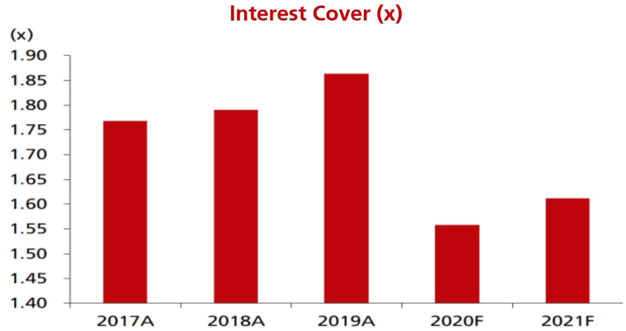
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



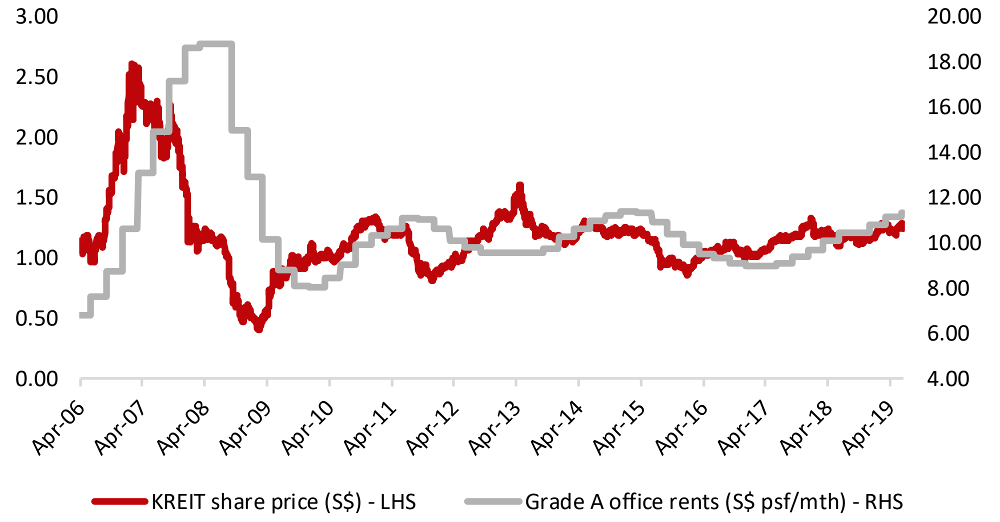
Interest Cover (x)



Source: Company, DBS Bank

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

KREIT's share price versus Singapore office rents



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

Remarks

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

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

Balance Sheet:

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

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

Share Price Drivers:

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

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

Key Risks:

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

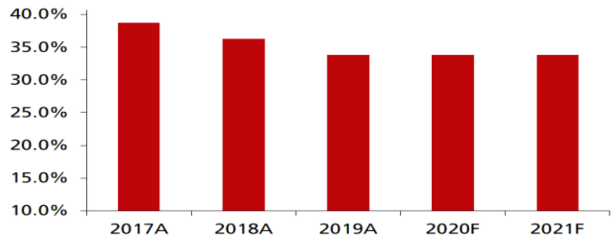
Interest rate risk. Any increase in interest rates will result in higher interest payments that the REIT has to make annually to service its loans. Nevertheless, the risk is partially mitigated by the fact that c.76% of KREIT's debts are on fixed rates.

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

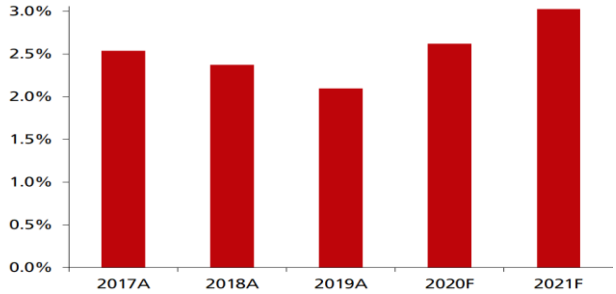
Company Background

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

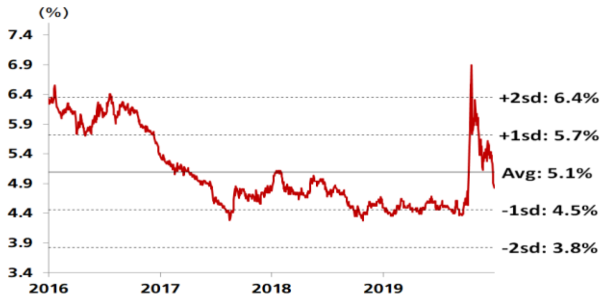
Aggregate Leverage (%)



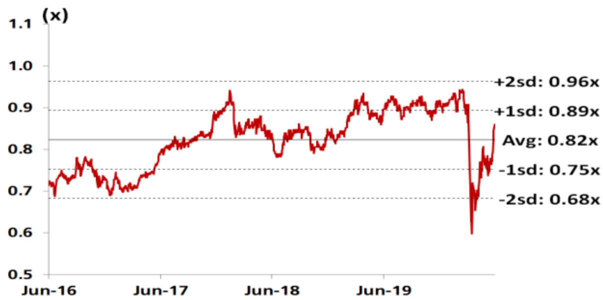
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

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

Source: Company, DBS Bank

Factored in some impact from COVID-19

Quarterly / Interim Income Statement (S$m)

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

Balance Sheet (S$m)

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

Source: Company, DBS Bank

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

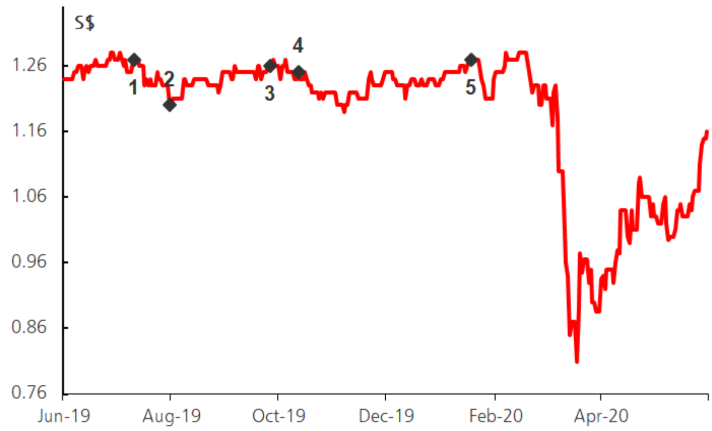
Cash Flow Statement (S$m)

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

Divestment of Bugis Junction Tower

Source: Company, DBS Bank

Target Price & Ratings History



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

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

Source: DBS Bank

Analyst: Rachel TAN
Derek TAN

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

**Share price appreciation + dividends*

Completed Date: 8 Jun 2020 07:40:21 (SGT)
Dissemination Date: 8 Jun 2020 07:49:48 (SGT)

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

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 Keppel REIT recommended in this report as of 30 Apr 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.

Compensation for investment banking services:

3. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

4. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

[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.

LendLease Global Commercial REIT

Version 3 | Bloomberg: LREIT SP | Reuters: LEND.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 May 2020

BUY

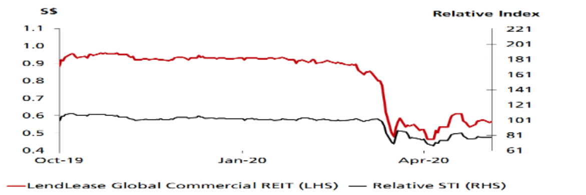
Last Traded Price (5 May 2020): S$0.57 (**STI :** 2,572.36)
Price Target 12-mth: S$0.85 (51% upside) (Prev S$0.94)

Analyst
Singapore Research Team equityresearch@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- 3Q20 results beat IPO forecasts; payout ratio maintained at 100%
- Tenant sales declined 15-20% y-o-y for the quarter
- Softer expectations for 4Q20 as second round of rental relief is expected to set in
- LLGCR currently trades at 0.7x price-to-book, a sharp discount to sector mean of 1.1x

Price Relative



Forecasts and Valuation

FY Jun (S$m)	2020F	2021F	2022F
Gross Revenue	81.5	86.9	91.2
Net Property Inc	60.9	64.9	68.2
Total Return	41.2	45.0	48.1
Distribution Inc	56.9	62.1	63.4
EPU (S cts)	3.48	3.79	3.99
EPU Gth (%)	nm	9	6
DPU (S cts)	4.84	5.24	5.31
DPU Gth (%)	nm	8	1
NAV per shr (S cts)	81.0	80.4	79.7
PE (X)	16.2	14.9	14.1
Distribution Yield (%)	8.6	9.3	9.4
P/NAV (x)	0.7	0.7	0.7
Aggregate Leverage (%)	34.5	34.5	34.6
ROAE (%)	4.3	4.7	5.0
Distn. Inc Chng (%):	(2)	(3)	0
Consensus DPU (S cts):	4.30	5.30	5.30
Other Broker Recs:	B: 2	S: 0	H: 0

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

BrainBox

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

Steering steady amidst the COVID storm

Maintain BUY; TP revised to S$0.85. Lendlease Global Commercial REIT (LLGCR) continues to bring forth a strong value proposition at its current 0.7x price-to-book level, while delivering another quarter of earnings outperformance. A positive surprise was LLGCR's decision to maintain a 100% payout ratio, stemming from a robust liquidity position. Our revised target price of S$0.85 factors in conservative estimates for FY20/FY21 with a target yield of 6.0% on revised FY21F earnings, and an implied 1.0x P/NAV. We maintain our BUY call on LLGCR as one of our top sector picks.

Structured to weather storms. Despite ongoing COVID-19 disruptions, 313@Somerset continued to show resiliency with a historically high tenant retention of >90% and low risk of non-renewals in the coming quarter with only 2% of lease expiries. Sky Complex (Milan) continues to benefit from a sticky relationship with tenant Sky Italia, grounded by a triple net master lease expiring in 2032. We expect the impact of COVID-19 to heighten in the coming quarter (4Q20), as the REIT has set forth relief arrangements to waive rents for the months of April and May.

Undeployed plot ratio remains a short-medium term catalyst. Plans to deploy an additional 1,008 sqm of GFA is still ongoing and within early stages of planning. The whole process is estimated to take 1.5 years and will be planned alongside the lease expiries of tenants affected by the AEI works.

Valuation:

We revised our TP to S$0.85, factoring in (i) a higher beta of 1.0 on par with peers (previously 0.95); (ii) tenant rental rebates of one month; and (iii) lower GTO income and occupancy for FY20/FY21.

Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	1,169
Mkt. Cap (Sm/USm)	661 / 467
Major Shareholders (%)	
Lendlease Sreit Pty Ltd	24.3
Oversea-Chinese Banking Corporation	8.0
Temasek Holdings Pte Ltd	6.0
Free Float (%)	56.8
3m Avg. Daily Val (US$m)	3.1

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

WHAT'S NEW

(+) 3Q20 results exceeded IPO forecasts

- Revenue and NPI reported for the quarter were S$21.6m and S$16.6m, exceeding IPO forecasts by 2.2% and 4.0% respectively.
- This was attributed to higher rental income from 313@somerset and higher contribution from Sky Complex due to a stronger Euro.
- DPU of 1.28 Scts is 0.7% higher than IPO estimates, with the REIT in a comfortable liquidity position to maintain a 100% payout ratio. Interest coverage ratio of 11.2x stands as one of the strongest within both the retail sector and among all S-REITs.

(+/-) Operational update: Steering steady amidst the COVID-19 storm

- Portfolio occupancy held steady at 99.8%, with occupancies unchanged at both 313@somerset (99.2%) and Sky Complex (100%).
- Tenant sales took a beating as COVID-19 impacted sales for the months of February and March, dipping 15-20% y-o-y.
- We understand that 60% of 313@somerset's tenants are within the 'essential services' classification, and 36% of mall tenants are currently operational.
- Tenants' rental burden had been lifted for April and May and will be covered by rental rebates provided by LLGCR and government property tax.
- Security deposits are still in place and can be used in the future to fulfil rental obligations should the need arise.
- Rental reversion for the quarter was positive at 0.6% for YTD to 31 March 2020, and may trend lower in the coming quarter as the mall remains partially shut during this Circuit Breaker period in Singapore.
- Nonetheless, we gain comfort from the low lease expiries remaining in the coming quarter (2% of GRI) and past record of high tenant retention of >90% at the mall.

(+) Sky Complex serves as a strategic location for Sky Italia with part of the property used as a data centre

- Sky Complex asset continues to serve as a solid anchor to LLGCR's portfolio.
- The commercial lease is grounded by a triple net lease structure, with a long lease term expiring in 2032.
- We see zero rental escalations (pegged to ISTAT consumer price index) as a bear-case scenario.
- Approximately one-fifth of the asset is made up of data centres to meet the tenant's functionalities and we believe that the building is strategic from Sky Italia's perspective.
- Current passing rents are also at a discount to market rents within Sky Complex's submarket, enhancing tenant stickiness.

(+) Ample cash liquidity for the short term

- LLGCR has an existing cash balance of S$78.2m and uncommitted undrawn debt facility of up to S$20m to fund working capital.
- Gearing stands at 35.9% with an average cost of debt of 0.86% and a robust interest coverage ratio of 11.2x (Adjusted at c.5.2x on our estimates in FY20-21F).
- Non-essential asset enhancement works will be postponed given the current COVID-19 headwinds.
- Near-term plans to deploy an additional 1,008 sqm of GFA is still ongoing and within early stages of planning and is expected to take c.1.5 years to complete.
- A concrete timeline was not provided for the execution plans as management will be timing these works with the lease expiries of the affected tenants.

LLGCR stands as our top pick within the retail sector given 313@somerset's resiliency and the stability of Sky Complex's lease. Our new target price of S$0.85 implies a target yield of 6.0% for FY21F and a 1.0x P/NAV.

Quarterly / Interim Income Statement (S$m)

FY Jun	2Q2020	3Q2020	% chg qoq
Gross revenue	21.4	21.7	1.2
Property expenses	(5.2)	(5.1)	3.0
Net Property Income	16.2	16.6	2.6
Other Operating expenses	2.13	(0.4)	nm
Other Non Opg (Exp)/Inc	0.0	0.0	-
Associates & JV Inc	0.0	0.0	-
Net Interest (Exp)/Inc	0.0	(2.2)	nm
Exceptional Gain/(Loss)	49.0	(18.5)	nm
Net Income	(32.7)	(6.4)	138.9
Tax	0.0	0.0	-
Minority Interest	0.0	0.0	-
Net Income after Tax	(32.7)	(6.4)	138.9
Total Return	(32.7)	(6.4)	138.9
Non-tax deductible Items	47.7	21.3	(55.3)
Net Inc available for Dist.	15.0	15.0	(0.3)
Ratio (%)			
Net Prop Inc Margin	75.6	N/A	
Dist. Payout Ratio	100.0	100.3	

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

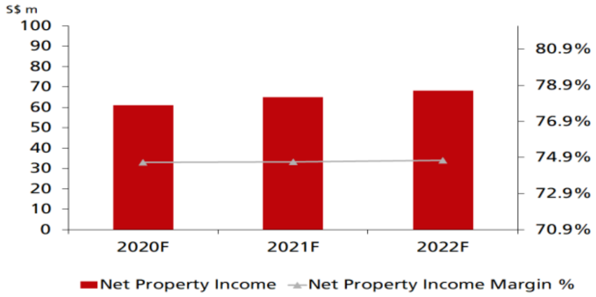
An initial portfolio that is predominantly in Singapore. LLGCR offers an opportunity to invest in a diversified portfolio of stabilised income-producing real estate assets that cater primarily to retail and/or office purposes. While the REIT holds a global investment mandate, its initial portfolio comprises 100% ownership of a 99-year leasehold interest in 313@somerset, a retail property located in prime Orchard Road, Singapore and full ownership of a freehold interest in Sky Complex, which comprises three commercial office buildings located in Milan, Italy. The total appraised valuation of the initial portfolio was c.S$1.4bn as of June 2019, anchored by Singapore (c.71.5% of value) and Italy (c.28.5% of value).

Lease structure is a balance between stability and growth. LLGCR offers investors a visible earnings stream backed by a long weighted average lease expiry (WALE) of 4.9 years by gross rental income (GRI) and 10.4 years by net lettable area (NLA). This is anchored by a long lease at Sky Complex where the sole tenant (blue chip tenant) at Sky Italia has another c.12.9 years to go on its lease. In Singapore, 313@somerset is projected to deliver steady growth given its ongoing tenant retention and remixing strategies. As at June 2019, 92.8% of the portfolio's leases by GRI had step-up structures in the base rent over the term of the lease, of which The Sky Complex, which contributes 28.9% of total GRI, has rental escalation that is pegged to 75% of ISTAT's index variation

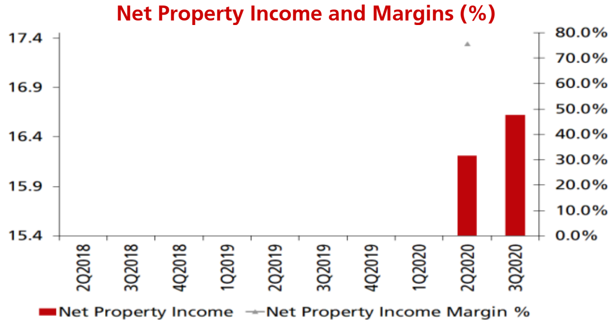
Backed by established Sponsor with a proven global reach. LLGCR's sponsor, Lendlease Corporation Limited, is part of the Lendlease Group, and has a long track record of successfully managing and operating commercial assets globally. The Lendlease group has A$32.5bn worth of assets under management globally. In Singapore, the Lendlease Group is managing some of the highly successful and iconic shopping malls including 313@somerset, Parkway Parade, Jem and Paya Lebar Quarter (PLQ) which was officially launched in October last year.

Additional GFA at 313@somerset. The reversion of plot ratio from 4.9+ to 5.6 according to URA's draft Master Plan 2019 could translate into an additional 1,008 sqm of GFA to be deployed at 313@somerset, and act as a medium-term catalyst for LLGCR. The Manager is currently reviewing potential plans to deploy the additional plot ratio, taking into account current tenants' expansion plans, potential operational disruptions and cost considerations. One option would be the conversion of the sixth floor car park into commercial space.

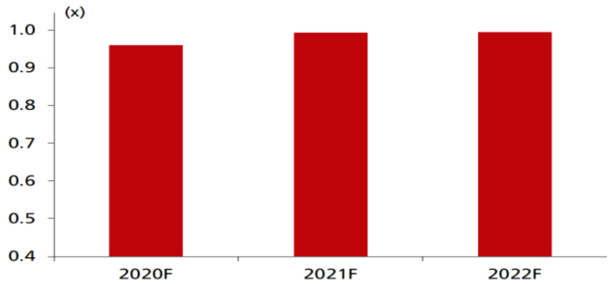
Net Property Income and Margins (%)



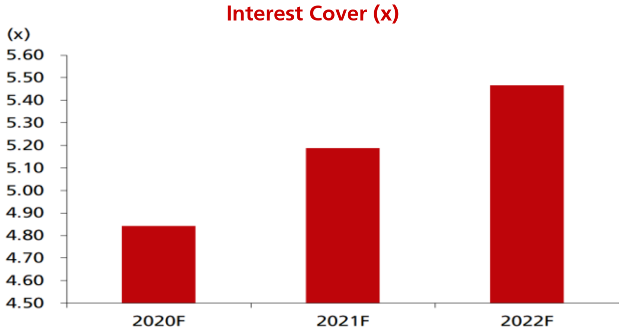
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:
LLGCR's gearing ratio stood at c.35% as at end-2019, well within MAS's 45% gearing limit. Debt headroom stands at c.S$280m based on our estimates and a 45% target gearing, and could be deployed for future acquisitions.

Share Price Drivers:
Rejuvenation of Orchard Road. The Singapore government has plans to rejuvenate the Orchard Road precinct to further enhance the area's vibrancy. This could result in increased foot traffic and retail spending at Orchard Road, benefitting LLGCR's 313@somerset property coupled with potential upside in plot ratio.

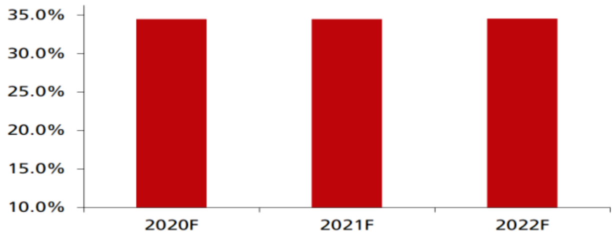
Additional GFA at 313@somerset. The reversion of plot ratio from 4.9+ to 5.6 according to URA's draft Master Plan 2019 could translate into an additional 1,008 sqm of GFA to be deployed at 313@somerset, and act as a medium-term catalyst for LLGCR.

Visible acquisition pipeline. Sponsor, Lendlease Group, has a A$100bn global development pipeline and properties, which includes A$35.2bn held under funds. In Singapore, the Lendlease Group manages highly successful and iconic shopping malls including 313@somerset, Parkway Parade, and Jem and more recently Paya Lebar Quarter (PLQ) which was launched in 3Q19.
(i) Parkway Parade – Sponsor owns a 6.1% stake via Parkway Parade Partnership Limited.
(ii) JEM - Sponsor owns a 20.1% stake via Lendlease Asian Retail Investment Fund 3.
(iii) Paya Lebar Quarter - Sponsor directly owns a 30.0% interest in the development

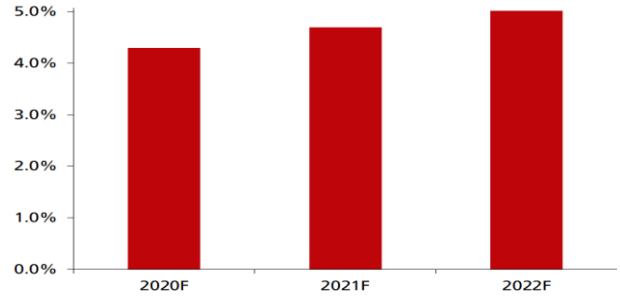
Key Risks:
Concentration risk. Despite LLGCR's initial portfolio being diversified across two countries and various sectors, there is a tight concentration on Sky Italia (single tenant), which contributed c.28.9% to revenues in June 2019. Therefore, a downturn in either key markets of Singapore and Italy could have a disproportionately large impact on the REIT's earnings.

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).

Aggregate Leverage (%)



ROE (%)



Source: Company, DBS Bank

Income Statement (S$m)

FY Jun	2020F	2021F	2022F
Gross revenue	81.5	86.9	91.2
Property expenses	(20.7)	(22.0)	(23.0)
Net Property Income	**60.9**	**64.9**	**68.2**
Other Operating expenses	(9.0)	(9.2)	(9.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0
Net Interest (Exp)/Inc	(10.7)	(10.7)	(10.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0
Net Income	**41.2**	**45.0**	**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	**41.2**	**45.0**	**48.1**
Total Return	41.2	45.0	48.1
Non-tax deductible Items	15.7	17.1	15.3
Net Inc available for Dist.	56.9	62.1	63.4
Growth & Ratio			
Revenue Gth (%)	N/A	6.6	5.0
N Property Inc Gth (%)	nm	6.6	5.1
Net Inc Gth (%)	nm	9.2	6.9
Dist. Payout Ratio (%)	100.0	100.0	100.0
Net Prop Inc Margins (%)	74.7	74.7	74.8
Net Income Margins (%)	50.5	51.8	52.7
Dist to revenue (%)	69.8	71.4	69.5
Managers & Trustee's fees	11.0	10.5	10.2
ROAE (%)	4.3	4.7	5.0
ROA (%)	2.8	3.1	3.3
ROCE (%)	3.6	3.9	4.1
Int. Cover (x)	4.8	5.2	5.5

Source: Company, DBS Bank

Revenue revised for one-month rental rebates plus 20% lower GTO income for the

Balance Sheet (S$m)

FY Jun	2020F	2021F	2022F
Investment Properties	1,403	1,405	1,406
Other LT Assets	22.4	22.4	22.4
Cash & ST Invts	36.6	36.9	37.2
Inventory	0.0	0.0	0.0
Debtors	9.05	9.05	9.05
Other Current Assets	0.70	0.70	0.70
Total Assets	1,472	1,474	1,475
ST Debt	0.0	0.0	0.0
Creditor	5.44	5.79	6.08
Other Current Liab	0.0	0.0	0.0
LT Debt	507	509	510
Other LT Liabilities	0.0	0.0	0.0
Unit holders' funds	959	959	959
Minority Interests	0.0	0.0	0.0
Total Funds & Liabilities	1,472	1,474	1,475
Non-Cash Wkg. Capital	4.32	3.96	3.67
Net Cash/(Debt)	(471)	(472)	(473)
Ratio			
Current Ratio (x)	8.5	8.1	7.7
Quick Ratio (x)	8.5	8.1	7.7
Aggregate Leverage (%)	34.5	34.5	34.6
Z-Score (X)	NA	NA	NA

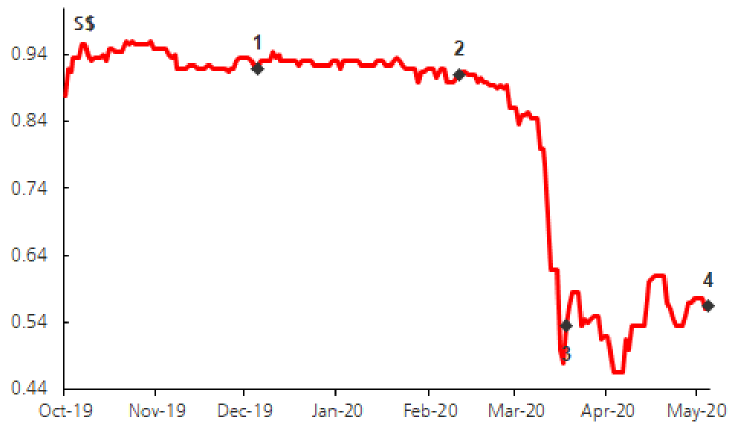
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Jun	2020F	2021F	2022F
Pre-Tax Income	41.2	45.0	48.1
Dep. & Amort.	0.0	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.	2.35	0.36	0.29
Other Operating CF	15.7	17.1	15.3
Net Operating CF	**59.2**	**62.4**	**63.7**
Net Invt in Properties	(1.1)	(1.2)	(1.3)
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	0.0	0.0	0.0
Net Investing CF	**(1.1)**	**(1.2)**	**(1.3)**
Distribution Paid	(56.9)	(62.1)	(63.4)
Chg in Gross Debt	1.11	1.21	1.30
New units issued	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0
Net Financing CF	**(55.8)**	**(60.9)**	**(62.1)**
Currency Adjustments	0.0	0.0	0.0
Chg in Cash	2.35	0.36	0.29
Operating CFPS (S cts)	4.80	5.22	5.27
Free CFPS (S cts)	4.91	5.15	5.18

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

***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: 6 May 2020 09:55:52 (SGT)
Dissemination Date: 6 May 2020 12:00:07 (SGT)

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS'') or their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of 31 Mar 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.

Compensation for investment banking services:

3. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from LendLease Global Commercial REIT, as of 31 Mar 2020.

4. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for LendLease Global Commercial REIT, in the past 12 months, as of 31 Mar 2020.

5. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

6. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

[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.

Singapore Company Guide

Mapletree Commercial Trust

Version 19 | Bloomberg: MCT SP | Reuters: MACT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 May 2020

BUY

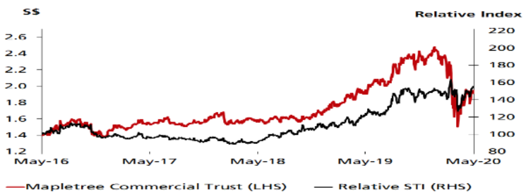
Last Traded Price (28 May 2020): S$1.96 (**STI :** 2,515.24)
Price Target 12-mth: S$2.25 (15% upside) (Prev S$1.90)

Analyst
Rachel TAN +65 6682 3713 racheltanlr@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Remain bullish on MCT and believe its best-in-class portfolio (VivoCity, MBC I and MBC II) will enable the REIT to weather the storm
- VivoCity, a dominant mall in the Greater Southern Waterfront, will remain a desired mall for retailers post COVID-19
- Less impacted by new bill with generous upfront support of 2.5 months (1.5 months out-of-pocket)
- Maintain BUY; raised TP to S$2.25 from S$1.90

Price Relative



Forecasts and Valuation

FY Mar (S$m)	2019A	2020A	2021F	2022F
Gross Revenue	444	483	507	561
Net Property Inc	348	378	428	443
Total Return	582	543	292	303
Distribution Inc	264	288	315	326
EPU (S cts)	8.50	7.97	8.81	9.11
EPU Gth (%)	1	(6)	11	3
DPU (S cts)	9.14	8.00	9.01	9.80
DPU Gth (%)	1	(12)	13	9
NAV per shr (S cts)	160	175	175	174
PE (X)	23.1	24.6	22.2	21.5
Distribution Yield (%)	4.7	4.1	4.6	5.0
P/NAV (x)	1.2	1.1	1.1	1.1
Aggregate Leverage (%)	33.1	33.4	33.5	33.5
ROAE (%)	5.5	5.1	5.0	5.2
Distn. Inc Chng (%):			(4)	(1)
Consensus DPU (S cts):			8.40	9.40
Other Broker Recs:		B: 4	S: 2	H: 7

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

BrainBox

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

The Flower that blooms in adversity

Maintain BUY; raise TP to S$2.25. We maintain our BUY call on Mapletree Commercial Trust (MCT) and raised our TP to S$2.25 from S$1.90. Even though the COVID-19 outbreak will continue to impact VivoCity, we believe MCT's earnings will be supported by its prized assets, MBC I and MBC II, with their stable earnings and strong tenant profile. MCT is currently trading at attractive valuations post earnings revision at FY21F dividend yield of 4.6% and P/NAV of 1.1x, close to -1SD.

Where we differ: Best-in-class portfolio to weather the storm. Despite the direct impact on VivoCity from the COVID-19 outbreak and restrictions on movement, we remain bullish on MCT and believe that its best-in-class portfolio will enable the REIT to weather the storm. In addition, FY21 will be boosted by full-year contribution from MBC II. The stock also enjoys a scarcity premium as one of only two 100%-Singapore-focused large-cap REITs which is highly valued by investors.

VivoCity a dominant mall heading towards recovery. We believe MCT is less impacted by the new rental waiver bill as it was one of the few that gave generous upfront support of 2.5 months (1.5 months out-of-pocket) of rental waivers. These amounts had been sufficiently retained in 4QFY20. In addition, we believe VivoCity, as a key destination mall in the Greater Southern Waterfront, will remain a desired mall for retailers post COVID-19.

Valuation:

We raised our DCF-based TP to S$2.25 from S$1.90 based on lower beta of 0.8 from 0.96 previously. We lower our DI estimates for FY20F-FY21F by 1-4% to factor in a higher rental relief for tenants.

Key Risks to Our View:

A key risk to our positive view is a prolonged COVID-19 impacting its retail assets more-than-expected, economic downturn to indirectly impact office/business parks.

At A Glance

Issued Capital (m shrs)	3,308
Mkt. Cap (Sm/USm)	6,483 / 4,573
Major Shareholders (%)	
Temasek Holdings Pte td	33.0
Schroders Plc	6.0
BlackRock Inc	5.0
Free Float (%)	56.0
3m Avg. Daily Val (US$m)	27.0

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

DBS
Live more, Bank less

WHAT'S NEW

The flower that blooms in adversity

FY20 results: Retention for a rainy day

- MCT reported FY20 revenue and net property income (NPI) of S$482.8m and S$377.9m, up 8.8% and 8.7% respectively. This was mainly driven by contributions from Mapletree Business City Phase II (MBC II). The financial performance of its existing properties remained stable; with revenues and NPI coming in 0.3% higher and flat y-o-y.
- Drivers for the financial performance for 4QFY20 was similar, with revenues and NPI rising by 12.8% and 12.6% to S$127.3m and S$98.6m respectively, which more than offset the S$8.8m in COVID-19 rent rebates offered to its retail tenants. This S$8.8m in rebates will include the 15% in property tax rebates offered by the government in March 2020. Due to rental rebates given by MCT to retail tenants in 4Q20, revenues and NPI declined by c. 7.3% and 8.3% respectively.
- Financial expenses increased by c.24% in 4Q20 to S$21.8m and 12.5% to S$78.8m for FY20 mainly due to additional debt taken to part fund the acquisition of MBC II.
- As a result, distributable income before capital allowance claims and distribution retention was up 10.5% in 4Q20 but after accounting for monies retained (S$43.7m or 60% of distributable income), DPU came in 60% lower at 0.91 Scts. On a full-year basis, DPU dipped 12.5% to 8.00 Scts.

Monies retained: Prudence for an uncertain near-term outlook:

- The S$43.7m retained from distribution is a prudent move in view of the heightened operating uncertainty brought about by the COVID-19 temporary bill in light of the devastating pandemic. The social distancing measures coupled with Circuit Breaker (now extended to 1 June 2020) throws much uncertainty into the operating climate especially when a majority of VivoCity's outlets remain closed, impacting its retailers' ability to generate sales.
- The manager has embarked on a S$50m rental relief programme (S$8.8m disbursed) which will be offered to tide over the tenant's cash flows over the next quarter.
- The manager has waived April 2020 rents for eligible retail tenants.
- Looking ahead, depending on the outlook of rental collections, the manager will look to pay out a majority of the unutilised S$43.7m out to unitholders.

Operational highlights: More pressure in the near term; expect 1QFY21 results to be weak

- Full-year shopper traffic and sales dipped by 6.8% and 3.4% respectively, due to the impact of COVID-19 in 4Q20. We expect sales to remain pressured in the near term given the closure of VivoCity in April - May 2020.
- Committed occupancy remains high at 99.7%.
- For the office properties, committed occupancy remains high at 92.7-100% with PSA Building (88.1% actual, 92.7% committed) seeing a slight dip in occupancy rates q-o-q due to ongoing tenant churn.
- Rental reversions for the year remained positive at 6.7% for retail and 0.7% for office/business park.
- Portfolio WALE stayed stable at 2.6 years (2.2 years for retail and 2.9 years for office/business park space).
- While 8.1% of gross rental income will be up for renewal in the FY21F, we anticipate that the retention rate will likely remain high given VivoCity's commanding positioning in the Southern waterfront corridor.
- That said, the challenging retail operating environment will likely see rental reversions tip towards flattish/negative range in the upcoming financial year.

Balance sheet: Ratios remain strong

- Portfolio valuation remained steady at S$8.9bn with cap rates remaining steady at 4.625% for VivoCity, 3.5-3.9% for office and 4.9-4.95% for business park. Supported by a rise in fair values and new equity raised, NAV rose by 9.4% to S$1.75.
- With stable asset valuation, gearing ratio remained stable at 33.3% (vs 33.4% as of December 2019) with Interest Coverage Ratio (ICR) high at 4.3 years. Average debt maturity remained long at 4.2 years with interest rates staying stable at 2.94%.
- The manager has S$321m of cash and undrawn committed facilities with a well-distributed debt maturity profile with not more than 17% of debt due in any one year.
- The manager has also refinanced in advance term loans expiring in FY21 with S$160m in MTN left for renewal.
- Given its strong financial metrics, we believe that MCT has ample financial resources to refinance the MTN expiring in FY21.

Summary of results / operational data

Summary of results	4Q FY19/20	3Q FY19/20	%q-o-q	4Q FY18/19	% y-o-y
Revenue	127.3	131.3	-3%	112.9	12.8%
NPI	98.6	103.3	-5%	87.6	12.6%
DI	30.1	79.0	-62%	66.9	-55.0%
DPU	0.91	2.46	-63%	2.31	-60.6%
Gearing	33.3%	33.4%	-0.1 ppt	33.1%	0.2 ppt
Average cost of debt	2.94%	2.96%	0 ppt	2.97%	0 ppt
ICR	4.3	4.4	(0.1)	4.5	(0.2)

Key Operational Data	4Q FY19/20	3Q FY19/20	%q-o-q	4Q FY18/19	% y-o-y
Portfolio occupancies	98.7%	98.3%	0.4 ppt	98.1%	0.6 ppt
VivoCity	99.7%	99.2%	0.5 ppt	99.4%	0.3 ppt
MBC I	98.7%	99.7%	-1 ppt	97.8%	0.9 ppt
MBC II	100.0%	99.4%	0.6 ppt	-	n.a.
PSA Building	92.7%	89.1%	3.6 ppt	96.4%	-3.7 ppt
Mapletree Anson	100.0%	97.0%	3 ppt	96.8%	3.2 ppt
MLHF	100.0%	100.0%	0 ppt	100.0%	0 ppt
WALE (years)	**2.6**	**2.6**	**0.0**	**2.9**	**-0.3**
Retail	2.2	2.4	-0.2	2.8	-0.6
Office/Business Park	2.9	2.8	0.1	3.0	-0.1
Rental reversions (%)	**5.0%**	**5.0%**	**0%**	**5.4%**	**-7.4%**
Retail	6.7%	6.7%	0%	3.5%	91.4%
Office/Business Park	0.7%	0.7%	0%	10.3%	-93.2%
Others					
Shopper Traffic (m)	10.3	14.1	-27%	13.1	-21.4%
Tenant sales (S$'m)	193.0	269.8	-28%	221.0	-12.7%

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Mar	4Q2019	3Q2020	4Q2020	% chg yoy	% chg qoq
Gross revenue	113	131	127	12.8	(3.1)
Property expenses	(25.3)	(28.0)	(28.8)	13.5	2.5
Net Property Income	87.6	103	98.6	12.6	(4.6)
Other Operating expenses	(8.2)	(10.3)	(10.1)	23.8	(1.7)
Other Non Opg (Exp)/Inc	0.08	(0.4)	0.69	739.0	nm
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(17.5)	(21.0)	(21.7)	(24.3)	(3.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	62.0	71.7	67.5	8.8	(5.9)
Tax	0.0	0.0	0.0	-	-
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	62.0	71.7	67.4	8.8	(5.9)
Total Return	399	71.7	41.6	(89.6)	(41.9)
Non-tax deductible Items	(332)	8.47	(11.5)	(96.5)	nm
Net Inc available for Dist.	66.9	79.1	30.1	(55.0)	(61.9)
Ratio (%)					
Net Prop Inc Margin	77.6	78.7	77.4		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

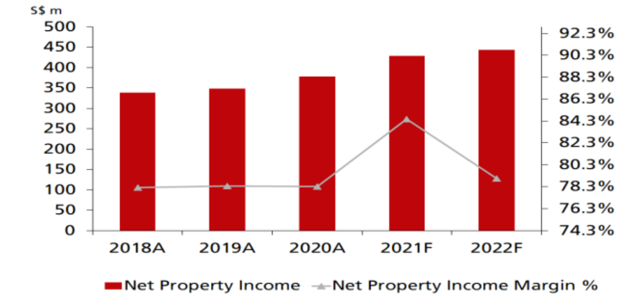
VivoCity is one of the top performing malls in Singapore. VivoCity, which contributes 45-50% of MCT's NPI, is one of the top performing malls in Singapore given its unique attribute of being the only major mall in the southern half of Singapore, a gateway to Sentosa Island, and having excellent connectivity via highways and the subway. With around 55m visitors each year and consistent delivery of tenants' sales growth, VivoCity is one of the go-to malls for prospective retailers. Having just passed its 10-year anniversary, the mall has matured and is therefore no longer delivering double-digit earnings growth. However, we believe MCT's plans to "future and e-commerce proof" the mall via the addition of services and lifestyle options, and ongoing tenant remixing should enable VivoCity to deliver low single-digit rental reversions.

MBC I another crown jewel with inbuilt step-ups. Another key asset for MCT is MBC I, a best-in-class office/business park property which is only 10-15 minutes' drive from Singapore's CBD. MBC I contributes c.30% of MCT's NPI. An attractive feature of the property is that most of the leases have annual rental escalations of around 3%. This provides the REIT with an inbuilt organic earnings growth profile. Due to its choice location, nearby amenities and discounted rents with Grade A office specifications, we believe MBC I will remain a top choice for tenants seeking a decentralised location. This provides earnings resiliency to the REIT.

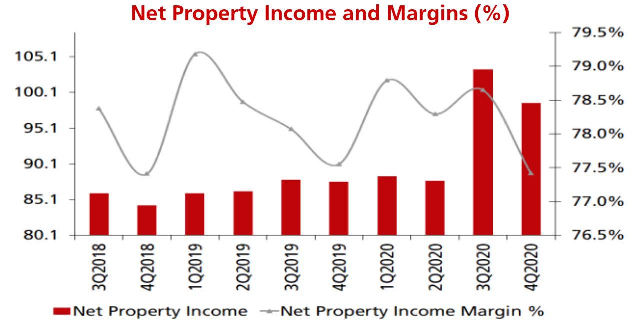
Recovery in spot office rents. Spot office rents have increased from the low in 1H17 of S$8.95 psf per month, reaching S$11.50 psf per month at the end of 4Q20, according to CBRE estimates. Given that over 50% of MCT's earnings are derived from its office/business park properties, we believe it is well placed to benefit from the upturn in office rents as new supply is expected to be muted over the coming 3-4 years.

Transformative MBC II acquisition; room to take on development projects. With the long-awaited acquisition of MBC II now completed, we believe MCT will enjoy a longer runway of growth. Moreover, the larger MCT will now have room to take on development projects (especially Harbourfront Centre) to drive the next phase of growth.

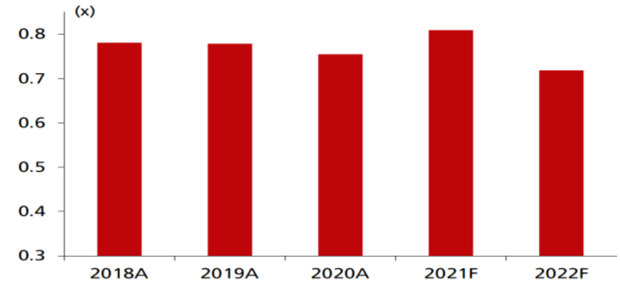
Net Property Income and Margins (%)



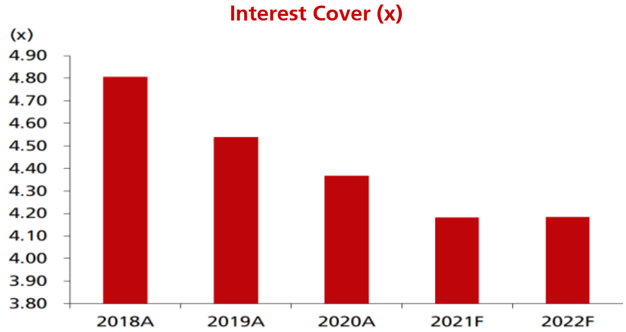
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



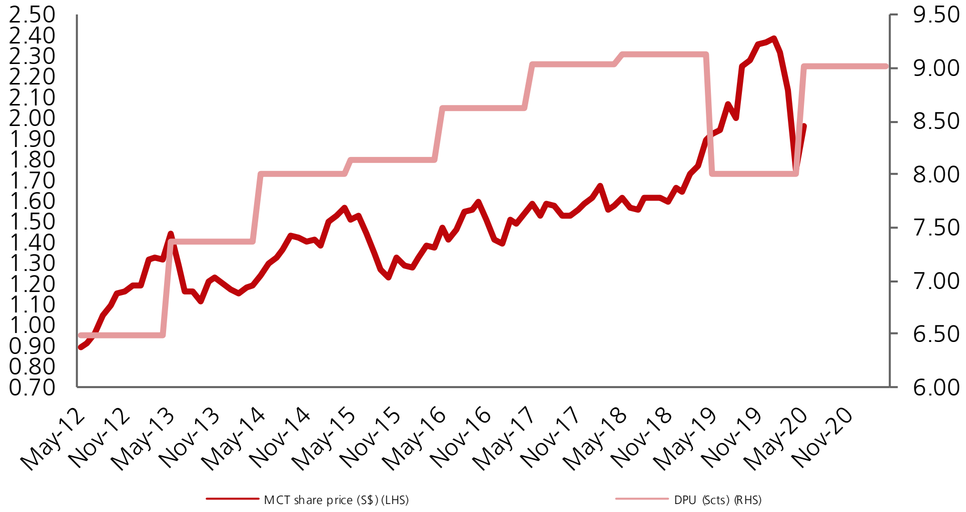
Interest Cover (x)



Source: Company, DBS Bank

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

MCT's share price vs DPU



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

Remarks

MCT's share price typically tracks its DPU. With MCT expected to maintain an upward DPU trajectory and enjoying upside from potential acquisitions, we expect its share price to rally from the current level.

Balance Sheet:

Gearing stood at c.33% post acquisition of MBC II. MCT's gearing stood at c.33% as of March 2020 post acquisition of MBC II. This gives MCT ample debt headroom to weather the storm.

Share Price Drivers:

Continued delivery of steady DPU growth. The market has been concerned about MCT's ability to deliver consistent and steady DPU ahead, given the maturing of VivoCity and headwinds in the retail sector such as e-commerce and large retail supply growth. We believe MCT's recent AEI and addition of a library and resultant bonus 24,000 sqft of GFA should not only build a moat around its current earnings but also drive foot traffic/tenant sales, resulting in higher rents ahead.

Pure-play Singapore REIT. With other S-REITs expanding outside Singapore, MCT is expected to remain focused solely in Singapore. This may attract investors who prefer S-REITs with 100% exposure to Singapore.

Key Risks:

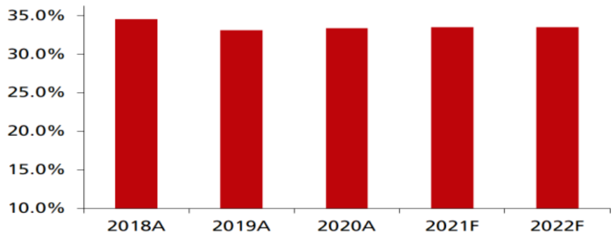
Weaker operational performance from VivoCity. The mall is gradually phasing into a mature stage, with potential slowdown in growth ahead. The timely acquisition of MBC I, still a segment in high demand, plus management's continuous efforts to revamp VivoCity's offerings, should mitigate the slowdown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

Interest rate risk. Any increase in interest rates will result in higher interest payments that the REIT has to make annually to service its loans. Nevertheless, the risk is partially mitigated by the fact that c.85% of MCT's debts are on fixed rates.

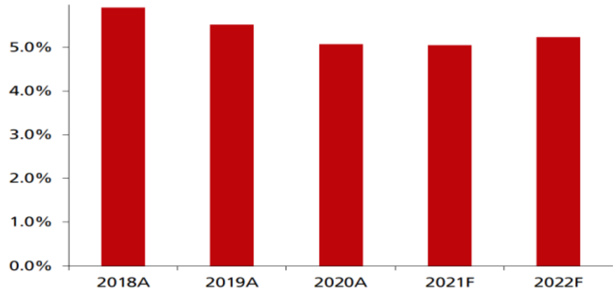
Company Background

Mapletree Commercial Trust (MCT) is a real estate investment trust that invests in income-producing office, business park and retail properties in Singapore. Most of its earnings are derived from VivoCity, one of the largest retail malls in Singapore. In addition, the REIT has four other office and business park properties including Mapletree Business City, a premier decentralised office/business park.

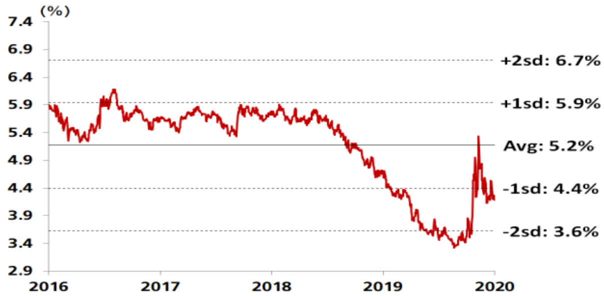
Aggregate Leverage (%)



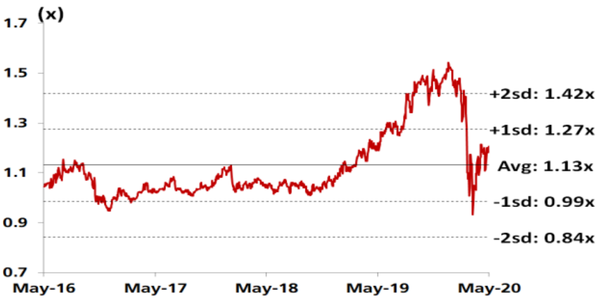
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Gross revenue	434	444	483	507	561
Property expenses	(94.7)	(96.3)	(105)	(79.0)	(118)
Net Property Income	339	348	378	428	443
Other Operating expenses	(31.6)	(32.8)	(37.5)	(43.7)	(44.4)
Other Non Opg (Exp)/Inc	1.62	0.57	(7.9)	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(63.9)	(69.4)	(78.0)	(91.9)	(95.3)
Exceptional Gain/(Loss)	(1.6)	(0.4)	8.89	0.0	0.0
Net Income	243	246	264	292	303
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	243	246	264	292	303
Total Return	568	582	543	292	303
Non-tax deductible Items	(307)	18.3	24.1	22.4	22.7
Net Inc available for Dist.	260	264	288	315	326
Growth & Ratio					
Revenue Gth (%)	14.8	2.4	8.8	5.0	10.6
N Property Inc Gth (%)	15.9	2.6	8.7	13.2	3.5
Net Inc Gth (%)	15.6	1.0	7.3	11.0	3.7
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	78.2	78.3	78.3	84.4	79.0
Net Income Margins (%)	56.1	55.3	54.6	57.7	54.1
Dist to revenue (%)	60.1	59.5	59.6	62.1	58.2
Managers & Trustee's fees	7.3	7.4	7.8	8.6	7.9
ROAE (%)	5.9	5.5	5.1	5.0	5.2
ROA (%)	3.7	3.5	3.3	3.3	3.4
ROCE (%)	4.7	4.6	4.3	4.3	4.5
Int. Cover (x)	4.8	4.5	4.4	4.2	4.2

Source: Company, DBS Bank

Increase in earnings in FY21 led by acquisition of MBC II

Quarterly / Interim Income Statement (S$m)

FY Mar	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
Gross revenue	113	112	112	131	127
Property expenses	(25.3)	(23.8)	(24.3)	(28.0)	(28.8)
Net Property Income	87.6	88.4	87.7	103	98.6
Other Operating expenses	(8.2)	(8.5)	(8.6)	(10.3)	(10.1)
Other Non Opg (Exp)/Inc	0.08	0.22	0.44	(0.4)	0.69
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(17.5)	(17.6)	(17.7)	(21.0)	(21.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**62.0**	**62.5**	**61.9**	**71.7**	**67.5**
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**62.0**	**62.5**	**61.9**	**71.7**	**67.4**
Total Return	399	62.5	367	71.7	41.6
Non-tax deductible Items	(332)	4.72	(300)	8.47	(11.5)
Net Inc available for Dist.	66.9	67.3	66.8	79.1	30.1
Growth & Ratio					
Revenue Gth (%)	0	(1)	0	17	(3)
N Property Inc Gth (%)	0	1	(1)	18	(5)
Net Inc Gth (%)	0	1	(1)	16	(6)
Net Prop Inc Margin (%)	77.6	78.8	78.3	78.7	77.4
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Investment Properties	6,682	7,039	8,920	8,935	8,952
Other LT Assets	10.2	7.44	13.5	13.5	13.5
Cash & ST Invts	45.1	49.1	65.9	28.9	60.9
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	2.95	4.00	5.03	4.57	5.06
Other Current Assets	0.42	1.08	2.38	2.38	2.38
Total Assets	**6,741**	**7,101**	**9,007**	**8,985**	**9,034**
ST Debt	144	50.0	160	160	160
Creditor	83.2	81.0	104	66.5	99.0
Other Current Liab	0.15	0.01	0.38	0.38	0.38
LT Debt	2,186	2,300	2,848	2,848	2,865
Other LT Liabilities	44.7	53.7	107	107	107
Unit holders' funds	4,283	4,616	5,787	5,803	5,803
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**6,741**	**7,101**	**9,007**	**8,985**	**9,034**
Non-Cash Wkg. Capital	(80.0)	(75.9)	(97.4)	(59.9)	(91.9)
Net Cash/(Debt)	(2,284)	(2,301)	(2,942)	(2,979)	(2,964)
Ratio					
Current Ratio (x)	0.2	0.4	0.3	0.2	0.3
Quick Ratio (x)	0.2	0.4	0.3	0.1	0.3
Aggregate Leverage (%)	34.6	33.1	33.4	33.5	33.5
Z-Score (X)	1.5	1.5	1.3	1.2	1.2

Source: Company, DBS Bank

Cash Flow Statement (S$m)

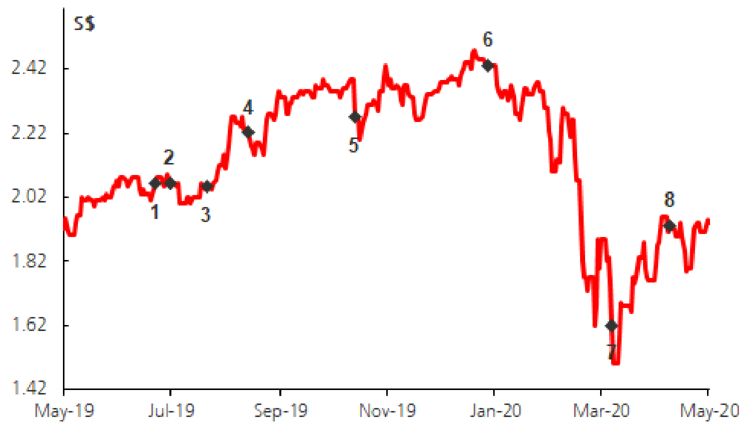
FY Mar	2018A	2019A	2020A	2021F	2022F
Pre-Tax Income	243	246	264	292	303
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	10.0	6.65	13.4	(37.5)	32.0
Other Operating CF	78.9	84.7	93.3	114	118
Net Operating CF	**332**	**337**	**370**	**369**	**453**
Net Invt in Properties	(18.5)	(22.1)	(17.3)	(15.2)	(16.8)
Other Invts (net)	0.0	0.0	(888)	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.35	0.0	0.81	0.0	0.0
Net Investing CF	**(18.2)**	**(22.1)**	**(904)**	**(15.2)**	**(16.8)**
Distribution Paid	(260)	(263)	(280)	(299)	(326)
Chg in Gross Debt	0.0	21.4	4.20	0.0	16.8
New units issued	0.0	0.0	919	0.0	0.0
Other Financing CF	(63.2)	(70.4)	(92.4)	(91.9)	(95.3)
Net Financing CF	**(323)**	**(312)**	**551**	**(391)**	**(404)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(8.8)	3.39	16.7	(37.0)	32.0
Operating CFPS (S cts)	11.2	11.4	10.8	12.3	12.7
Free CFPS (S cts)	10.9	10.9	10.7	10.7	13.1

Acquisition of MBC II

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

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 Jul 19	2.06	2.24	BUY
2:	26 Jul 19	2.06	2.24	BUY
3:	16 Aug 19	2.05	2.24	BUY
4:	09 Sep 19	2.22	2.39	BUY
5:	08 Nov 19	2.27	2.60	BUY
6:	23 Jan 20	2.43	2.60	BUY
7:	02 Apr 20	1.62	1.90	BUY
8:	05 May 20	1.93	1.90	BUY

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

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

**Share price appreciation + dividends*

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

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS'') or their subsidiaries and/or other affiliates have proprietary positions in Mapletree Commercial Trust, recommended in this report as of 30 Apr 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 Mapletree Commercial Trust, recommended in this report as of 30 Apr 2020.

Compensation for investment banking services:

4. DBS Bank Ltd, DBS HK, DBSVS their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Mapletree Commercial Trust, as of 30 Apr 2020.

5. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for Mapletree Commercial Trust, in the past 12 months, as of 30 Apr 2020.

6. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

[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.

Singapore Company Guide

Soilbuild Business Space Reit

Version 16 | Bloomberg: SBREIT SP | Reuters: SBSR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

17 Apr 2020

BUY (Upgrade from HOLD)

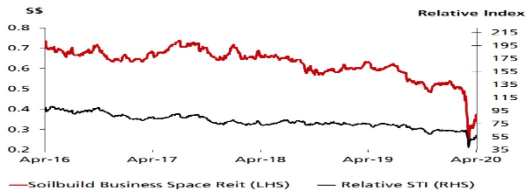
Last Traded Price (17 Apr 2020): S$0.39 **(STI :** 2,614.60)
Price Target 12-mth: S$0.50 (28% upside) (Prev S$0.55)

Analyst
Dale LAI +65 66823715 dalelai@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Achieved 3.9% higher rents for new leases signed in the quarter
- Negative rental reversion of 14.6% recorded for lease renewals, largely from Beng Kuang Marine's lease that was renewed for three years
- Portfolio occupancy rose marginally q-o-q from 84.0% to 84.7%
- 1Q20 DPU of 0.88 Scts was 4.5% lower q-o-q; capital distributions for 1Q20 was withheld

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	83.8	89.1	92.8	93.8
Net Property Inc	69.9	71.0	70.3	72.2
Total Return	50.4	29.9	41.6	42.9
Distribution Inc	55.9	46.0	46.6	47.8
EPU (S cts)	4.64	3.68	3.29	3.37
EPU Gth (%)	(7)	(21)	(11)	3
DPU (S cts)	5.29	4.22	3.68	3.75
DPU Gth (%)	(7)	(20)	(13)	2
NAV per shr (S cts)	62.9	59.2	59.1	58.9
PE (X)	8.4	10.6	11.9	11.6
Distribution Yield (%)	13.6	10.8	9.4	9.6
P/NAV (x)	0.6	0.7	0.7	0.7
Aggregate Leverage (%)	37.3	37.0	37.6	38.5
ROAE (%)	7.3	5.8	5.6	5.7
Distn. Inc Chng (%):			(14)	(14)
Consensus DPU (S cts):			4.50	4.60
Other Broker Recs:		B: 1	S: 0	H: 4

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

BrainBox

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

New leases provide a new lease of life

Upgrade to BUY with a slightly lower TP of S$0.50. Despite lowering Soilbuild Business Space REIT (SBREIT)'s TP to S$0.50, we upgrade our recommendation to BUY as the stock offers 35% upside to price target. We have lowered our TP to factor in disruptions to operations due to the COVID-19 outbreak and Circuit Breaker measures. We have also lowered our rental assumptions for leases to be renewed this year, and moderated occupancy rates at properties with leases expiring this year.

Where we differ: Sufficient buffer to support earnings. SBREIT reported a 2.9% q-o-q increase in revenues but 4.4% lower distributable income due to provisions made for doubtful receivables and the withholding of capital distributions in 1Q20. To conserve cash, capital distribution of S$0.8m for the quarter was withheld. An additional A$10.7m (rental incentives and rental guarantee) in capital distribution is expected going forward. The provisions made for doubtful receivables amounted to c.S$0.6m, and majority relates to rental arrears from NKI Ingredients. SBREIT has been prudent in providing for this and we do not expect any significant increase in provisions going forward.

Potential downside: Prolonged disruptions caused by COVID-19. Our revised forecasts have factored in lower rental rates and occupancies at selected properties. However, prolonged disruptions to the industrial sector due to COVID-19 may lead to a larger-than-anticipated downside risk to rental rates and occupancies.

Valuation:

Upgrade to BUY; DCF-based TP revised to S$0.50 after accounting for potential declines in rental and occupancy rates for leases expiring in FY20.

Key Risks to Our View:

High leverage that will limit growth plans. Gearing is currently above 38% and could be a hindrance to SBREIT's plans for future acquisitions or AEI plans.

At A Glance

Issued Capital (m shrs)	1,264
Mkt. Cap (Sm/USm)	493 / 345
Major Shareholders (%)	
Lim family	26.9
Free Float (%)	65.7
3m Avg. Daily Val (US$m)	0.71

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

Live more, Bank less

WHAT'S NEW

New leases to provide a new lease of life

COVID-19 more of a disruption to ancillary services

- COVID-19 has caused a disruption to SBREIT's operations but core earnings remain relatively intact.
  - Similar to other industrial REITs, the retail/ancillary component has been hit worse than industrial tenants.
  - Singapore – F&B tenants contribute 0.7% to revenues, Ancillary services contribute 1.7% to revenues.
  - Australia – Retail tenants contribute 0.5% to revenues.

- With the ongoing Circuit Breaker measures in Singapore, many industrial tenants continue to operate as they are part of essential services.
  - Tenants at Business Parks may be more affected as they are unlikely to qualify as essential services; we estimate that only 40% of tenants continue to operate as usual.
  - More than 50% of tenants at Industrial factories continue to operate.

- The Temporary Measures Act (Act) in Singapore and Code of Conduct (Code) in Australia were both implemented on 7 April 2020.
  - Both the Act and Code are very similar in nature; tenants who have been significantly affected by COVID-19 can seek up to six months of rental deferment without the risk of being evicted.
  - The principles of both measures are to assist tenants to cope with the current COVID-19 disruptions in the near-term, but it does not waive their obligations.
  - We understand that the intention to seek for rent deferments have come mostly from the retail and F&B tenants; only a handful of industrial tenants have asked for rent deferments.

- SBREIT will pass on the entire 30% property tax rebate (for office and industrial tenants) to tenants.

Gross revenue rose 2.9% q-o-q, and 3.6% y-o-y

- Increase in revenue q-o-q was mainly due to full quarter contribution from 25 Grenfell Street.
- However, DPU fell 4.5% q-o-q mainly due to allowance for doubtful receivables and lack of capital distributions.
- SBREIT chose to defer capital distributions of S$0.8m relating to a minimum rental guarantee and incentives.
  - If capital distribution had not been deferred, DPU would have been 0.95 Scts instead of 0.88 Scts.
  - An estimated A$10.7m of additional capital distributions in the form of rental incentives and guarantees will be available going forward.
  - The lower DPU still translates to a very attractive annualised yield of more than 9.5% based on the current unit price.

Portfolio occupancy rose marginally by 0.7% to 84.7% q-o-q

- Excluding 2 Pioneer Sector 1 which will be redeveloped, portfolio occupancy would have been 90.0%.

- Higher occupancy in 1Q20 was attributed to improved occupancies at West Park BizCentral and 25 Grenfell Street.

- Negative rental reversion of 14.6% was recorded for renewals of more than 197,000 sqft of space.
  - Largely due to the renewal of Beng Kuang Marine's lease that posted c.25% negative rent reversion.
  - Beng Kuang Marine's lease is pegged to the occupancy of a dormitory component that is currently in the 75%-80% range; potential upside if occupancy of dormitory improves.

- New leases amounting to 9,900 sqft recorded an increase of 3.9% in rental rates.

- Only 14.9% of leases (by gross rental income) due for expiry in FY20.
  - Majority of expiries from Solaris and West Park BizCentral in 2H20.
  - Expect positive rental reversions at Solaris, and possibly flat or weaker reversions at West Park BizCentral.

- Valuation of investment properties declined by 1.1% due to weaker AUD exchange rate.

- Redevelopment of 2 Pioneer Sector 1 to proceed; plot ratio to increase from 0.55x to either 1.0x or 1.32x.

- Completed the divestment of 72 Loyang Way for S$33.08m; proceeds will be used to pare down debt.

Leverage ratio to improve to 36.3%

- Gearing increased marginally from 38.2% to 38.5% q-o-q
  - To drop to c.36.3% when divestment proceeds are used to pare down debt.

- No refinancing risks as there is no debt expiring in FY20.
  - Earliest refinancing will be in 1Q21 (S$58.5m).
  - Available committed lines of credit estimated to be c.S$54m after paring down of debt.

- The MAS just announced an increase in leverage limits for REITs from 45% to 50%, and this should remove the gearing overhang for SBREIT.

Our thoughts

Despite lowering our TP from S$0.55 to S$0.50 to account for disruption to earnings caused by the COVID-19 pandemic, we are optimistic on SBREIT's earnings outlook. The full year contribution from 25 Grenfell Street and redevelopment of 2 Pioneer Sector 1 should offer upside to earnings in the mid-term.

SBREIT's prudent approach to account for doubtful receivables and availability of capital distribution reserves should help to support earnings and distributions going forward.

We upgrade our call to BUY on 35% upside potential to our TP and current dividend yield of 9.5%.

Moreover, the higher allowable leverage limit of 50% should immediately remove any overhang on SBREIT's relatively high gearing of 38.5%.

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2019	4Q2019	1Q2020	% chg yoy	% chg qoq
Gross revenue	22.7	22.8	23.5	3.6	2.9
Property expenses	(4.4)	(5.4)	(6.1)	39.8	14.1
Net Property Income	18.3	17.4	17.4	(5.1)	(0.5)
Other Operating expenses	(1.6)	(1.5)	(1.5)	(2.1)	3.2
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(4.6)	(4.8)	(5.0)	(8.6)	(3.7)
Exceptional Gain/(Loss)	0.02	0.87	(7.3)	nm	nm
Net Income	**12.1**	**12.0**	**3.49**	**(71.2)**	**(70.9)**
Tax	(0.1)	(1.4)	(0.2)	153.3	(86.0)
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	**12.0**	**10.6**	**3.30**	**(72.6)**	**(68.9)**
Total Return	12.0	(0.3)	3.30	(72.6)	nm
Non-tax deductible Items	1.29	11.5	7.44	478.2	(35.2)
Net Inc available for Dist.	12.7	11.7	11.2	(12.4)	(4.4)
Ratio (%)					
Net Prop Inc Margin	80.6	76.4	73.9		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

Critical Factors

Newly acquired Australian assets offer resilience. Given a myriad of factors ranging from heightened supply pressures and an unfortunate scenario of tenant defaults, SBREIT has been trading sideways and broadly underperforming the S-REIT market since June 2015. Supply-side challenges resulting in persistent negative rental reversionary trends have also weighed on its operating performance and DPUs.

Given fixed rental escalations, SBREIT's acquisitions in Australia helped to augment stability as softness in the industrial space continues to bottom out. With the addition of a third property, Australia now makes up close to 20% of the REIT's GRI.

Solaris provides additional earnings buffer ahead of a sustained recovery in industrial rents. Following the expiry of its master lease in August 2018, Solaris continues to contribute more meaningfully to SBREIT's top-line performance. Riding on positive reversions of c.10%, contributions to GRI rose to 31% in 1Q20 from 24% in 2018. As the Manager continues to execute on renewals at Solaris, coupled with contributions from its Australian assets, this provides a larger earnings buffer as industrial rents continue to bottom out.

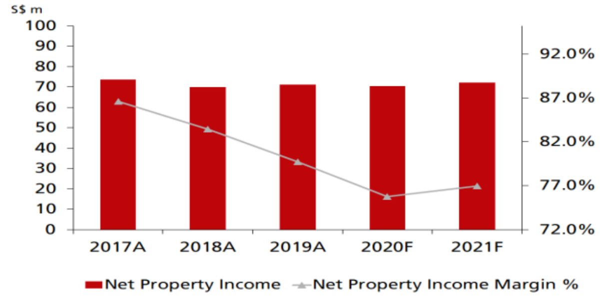
Ability to drive occupancy rates higher will improve earnings outlook in the future. While the REIT maintained full occupancy rates from IPO till 2015, we started to see signs of a deterioration as tenants vacated their premises at its multi-tenanted properties (Tuas Connection and WestPark BizCentral) and the master tenant defaulted at 72 Loyang Way (c.8% of top-line then).

Occupancy levels for non-master lease tenants have improved from a low of 80.2% in 1Q18. However, there remains room for further optimisation, particularly at Eightrium, as the Manager continues to ramp up on marketing efforts for the approximate c.16% vacancies.

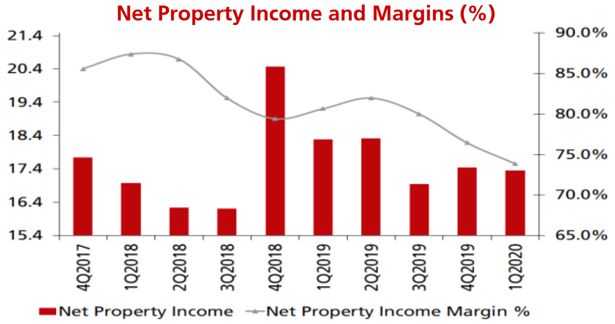
Ability to maintain occupancies and defend current rents amid several asset-specific challenges will be a key indicator of earnings potential over the medium-term.

Interest rate risk is not a major concern for now. We have not found any meaningful correlation between interest rates and SBREIT's price. This could be due to the Manager's proactive management of the REIT's debt profile which has largely mitigated interest rate risks.

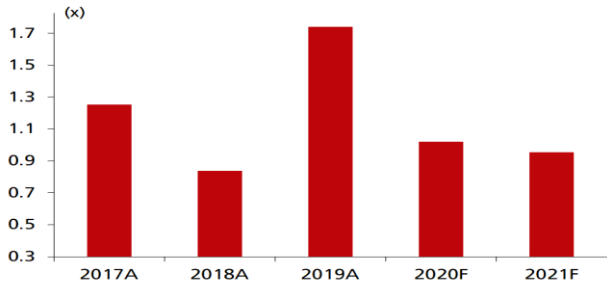
Net Property Income and Margins (%)



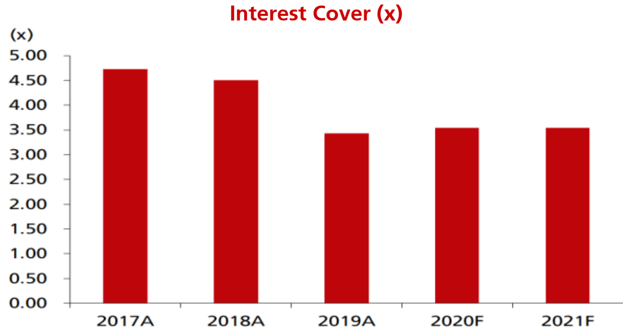
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing currently at 38%. Post-completion of the Grenfell Centre acquisition, SBREIT's gearing is currently at 38.5%. Any acquisition going forward will likely be funded through a mix of equity and debt.

Prudent capital management; c.89% of interest costs hedged into fixed rates. While SBREIT has hedged a higher proportion of its borrowings into fixed rates, it could still enjoy upside from a lower interest rate environment.

Share Price Drivers:

Better-than-expected operational performance. Better-than-projected rental reversions from its main assets – namely Solaris West Park Biz Central and Tuas Connection – will mean upside to our DPU forecasts, implying higher TPs.

Upside from redevelopments. While security deposits have been fully drawn down in July 2019 following tenant NK Ingredients' default in early 2019, we note that SBREIT has been seeking out alternatives for the asset. The redevelopment plans for 2 Pioneer Sector 1 allows SBREIT to maximise GFA due to an increase in plot ratio from 0.55x to either 1.0x or 1.32x.

Acquisitions. Potential acquisitions in Singapore and Australia should support DPUs going forward. After its latest acquisition, the Manager could still be on the lookout for opportunities in Australia to diversify the REIT's earnings base.
However, given the REIT's high implied yields, finding an accretive deal might be tough. The REIT will also have to raise capital to part fund any deal.

Key Risks:

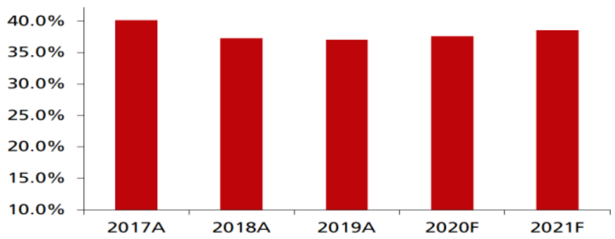
Look out for potential asset revaluations as persistent negative rental reversionary trends for industrial assets may result in lower asset valuations and potential downside to SBREIT's current NAV of S$0.58.

Tenancy defaults, particularly the default by NK Ingredients, has put pressure on DPU. However, provisions have been made and the redevelopment of the property will unlock unutilised GFA.

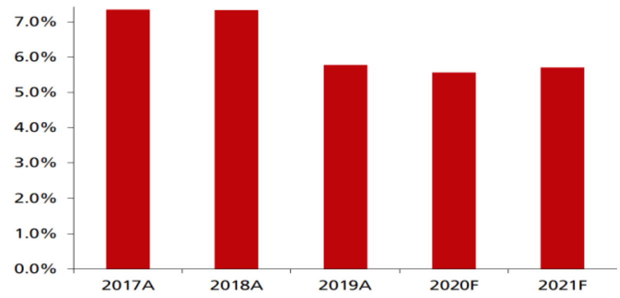
Company Background

Soilbuild Business Space REIT (SBREIT) is a real estate investment trust that invests in income-producing real estate used primarily for business space purposes in Singapore. Its flagship asset is Solaris, located in one-north business park.

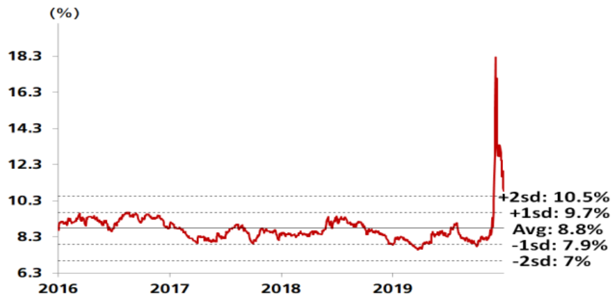
Aggregate Leverage (%)



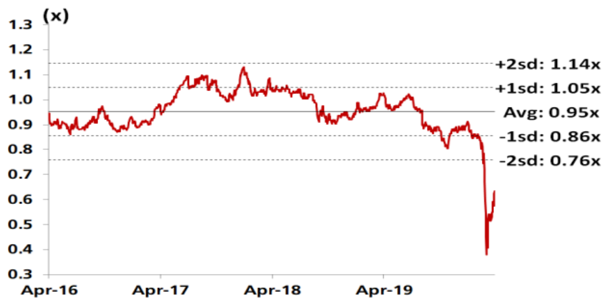
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	84.8	83.8	89.1	92.8	93.8
Property expenses	(11.3)	(13.8)	(18.0)	(22.4)	(21.6)
Net Property Income	**73.5**	**69.9**	**71.0**	**70.3**	**72.2**
Other Operating expenses	(7.3)	(6.8)	(6.0)	(6.1)	(6.0)
Other Non Opg (Exp)/Inc	0.0	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	(14.0)	(14.0)	(19.0)	(18.1)	(18.7)
Exceptional Gain/(Loss)	0.0	1.01	0.31	0.0	0.0
Net Income	**52.2**	**50.1**	**46.3**	**46.1**	**47.5**
Tax	0.0	(0.1)	(1.6)	(0.5)	(0.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	(1.0)	(3.9)	(3.9)	(3.9)
Net Income After Tax	**52.2**	**49.0**	**40.8**	**41.6**	**42.9**
Total Return	(28.3)	50.4	29.9	41.6	42.9
Non-tax deductible Items	88.2	5.46	16.1	4.93	4.82
Net Inc available for Dist.	59.9	55.9	46.0	46.6	47.8
Growth & Ratio					
Revenue Gth (%)	4.5	(1.2)	6.3	4.1	1.1
N Property Inc Gth (%)	4.0	(4.8)	1.6	(1.0)	2.6
Net Inc Gth (%)	3.8	(6.1)	(16.7)	1.9	3.2
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	86.6	83.5	79.7	75.8	77.0
Net Income Margins (%)	61.6	58.5	45.9	44.9	45.8
Dist to revenue (%)	70.6	66.7	51.6	50.2	50.9
Managers & Trustee's fees	8.6	8.1	6.8	6.6	6.4
ROAE (%)	7.4	7.3	5.8	5.6	5.7
ROA (%)	4.2	4.0	3.1	2.9	3.0
ROCE (%)	5.5	5.3	4.8	4.6	4.6
Int. Cover (x)	4.7	4.5	3.4	3.5	3.5

Source: Company, DBS Bank

Higher revenues due to full year contribution from 25 Grenfell Street.

Decline in margins to account for higher vacancies.

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Gross revenue	22.7	22.4	21.2	22.8	23.5
Property expenses	(4.4)	(4.0)	(4.2)	(5.4)	(6.1)
Net Property Income	18.3	18.3	17.0	17.4	17.4
Other Operating expenses	(1.6)	(1.5)	(1.4)	(1.5)	(1.5)
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	(4.6)	(4.8)	(4.7)	(4.8)	(5.0)
Exceptional Gain/(Loss)	0.02	(0.2)	(0.4)	0.87	(7.3)
Net Income	**12.1**	**11.8**	**10.4**	**12.0**	**3.49**
Tax	(0.1)	(0.1)	(0.1)	(1.4)	(0.2)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**12.0**	**11.8**	**10.3**	**10.6**	**3.30**
Total Return	12.0	11.8	10.3	(0.3)	3.30
Non-tax deductible Items	1.29	1.48	1.84	11.5	7.44
Net Inc available for Dist.	12.7	12.6	11.6	11.7	11.2
Growth & Ratio					
Revenue Gth (%)	(12)	(1)	(5)	8	3
N Property Inc Gth (%)	(11)	0	(8)	3	0
Net Inc Gth (%)	(10)	(2)	(12)	3	(69)
Net Prop Inc Margin (%)	80.6	82.0	80.0	76.4	73.9
Dist. Payout Ratio (%)	200.0	200.0	100.0	100.0	200.0

Relates to FX losses on AUD, but have been reversed by hedges set in place.

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	1,111	1,230	1,350	1,321	1,323
Other LT Assets	1.25	0.0	0.91	0.91	0.91
Cash & ST Invts	11.7	15.1	16.2	55.8	79.8
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	3.94	2.58	4.19	0.93	0.94
Other Current Assets	54.1	0.57	35.7	35.7	35.7
Total Assets	**1,182**	**1,248**	**1,407**	**1,415**	**1,441**
ST Debt	147	39.9	0.0	0.0	0.0
Creditor	10.6	14.0	16.2	9.28	9.38
Other Current Liab	21.9	22.2	7.49	8.03	8.07
LT Debt	327	425	521	532	555
Other LT Liabilities	6.04	14.4	49.9	49.9	49.9
Unit holders' funds	669	732	812	816	819
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**1,182**	**1,248**	**1,407**	**1,415**	**1,441**
Non-Cash Wkg. Capital	25.4	(33.0)	16.2	19.3	19.2
Net Cash/(Debt)	(463)	(450)	(505)	(476)	(475)
Ratio					
Current Ratio (x)	0.4	0.2	2.4	5.3	6.7
Quick Ratio (x)	0.1	0.2	0.9	3.3	4.6
Aggregate Leverage (%)	40.1	37.3	37.0	37.6	38.5
Z-Score (X)	0.9	0.8	0.8	0.9	0.9

Source: Company, DBS Bank

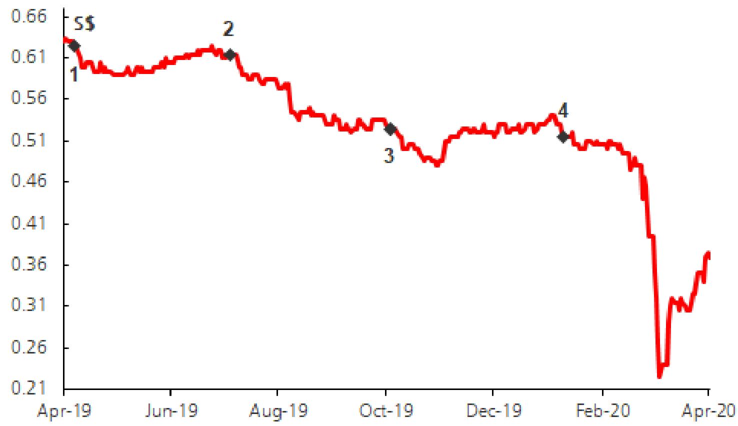
Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	52.2	50.1	46.3	46.1	47.5
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	(0.5)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(37.9)	58.4	(49.2)	(3.6)	0.09
Other Operating CF	34.9	(43.0)	32.9	3.13	3.02
Net Operating CF	**49.3**	**65.6**	**30.1**	**45.6**	**50.0**
Net Invt in Properties	(0.4)	(118)	(130)	29.0	(2.0)
Other Invts (net)	0.0	54.7	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	(1.4)	(1.6)	0.0	0.0
Net Investing CF	**(0.4)**	**(64.8)**	**(131)**	**29.0**	**(2.0)**
Distribution Paid	(61.7)	(55.0)	(52.3)	(46.6)	(47.8)
Chg in Gross Debt	0.0	(10.3)	56.3	10.6	22.8
New units issued	(1.1)	5.58	106	4.93	4.82
Other Financing CF	0.0	63.5	(10.7)	(3.9)	(3.9)
Net Financing CF	**(62.8)**	**3.74**	**99.1**	**(35.0)**	**(24.1)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(14.0)	4.56	(2.1)	39.6	23.9
Operating CFPS (S cts)	8.32	0.68	7.14	3.89	3.92
Free CFPS (S cts)	4.67	(5.0)	(9.0)	5.90	3.77

Mainly due to divestment of 72 Loyang Way

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	22 Apr 19	0.62	0.63	HOLD
2:	19 Jul 19	0.61	0.63	HOLD
3:	18 Oct 19	0.53	0.55	HOLD
4:	24 Jan 20	0.52	0.55	HOLD

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

Source: DBS Bank

Analyst: Dale LAI
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: 17 Apr 2020 18:23:39 (SGT)
Dissemination Date: 17 Apr 2020 18:31:06 (SGT)

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

GENERAL DISCLOSURE/DISCLAIMER
This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

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 Soilbuild Business Space Reit recommended in this report as of 31 Mar 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 Soilbuild Business Space Reit recommended in this report as of 31 Mar 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 Soilbuild Business Space Reit as of 31 Mar 2020.

Compensation for investment banking services:

5. DBS Bank Ltd, DBS HK, DBSVS their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Soilbuild Business Space Reit as of 31 Mar 2020.

6. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for Soilbuild Business Space Reit in the past 12 months, as of 31 Mar 2020.

[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.

7. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Disclosure of previous investment recommendation produced:

8. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

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: 1 Sep 2020 17:21:18 (SGT)
Dissemination Date: 1 Sep 2020 18:33:08 (SGT)

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "**DBS Group**") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

(a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
(b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd (“DBSVS”) or their subsidiaries and/or other affiliates have proprietary positions in CapitaLand Commercial Trust, Keppel REIT, Mapletree Commercial Trust, Suntec REIT, OUE Commercial REIT, CapitaLand Mall Trust, Frasers Centrepoint Trust, LendLease Global Commercial REIT, SPH REIT, Starhill Global REIT, CapitaLand Retail China Trust, Mapletree North Asia Commercial Trust, Sasseur REIT, Ascott Residence Trust, CDL Hospitality Trusts, Far East Hospitality Trust, Frasers Hospitality Trust, Ascendas REIT, ARA LOGOS Logistics Trust, Mapletree Industrial Trust, Mapletree Logistics Trust, Soilbuild Business Space Reit, Keppel DC REIT, Frasers Logistics & Commercial Trust, Manulife US Real Estate Inv, Keppel Pacific Oak US REIT, Prime US REIT, UOL Group, recommended in this report as of 31 Jul 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 Mapletree Commercial Trust, Suntec REIT, OUE Commercial REIT, CapitaLand Mall Trust, Frasers Centrepoint Trust, SPH REIT, Starhill Global REIT, CapitaLand Retail China Trust, Mapletree North Asia Commercial Trust, Sasseur REIT, CDL Hospitality Trusts, Frasers Hospitality Trust, Ascendas REIT, ARA LOGOS Logistics Trust, Mapletree Industrial Trust, Mapletree Logistics Trust, Soilbuild Business Space Reit, Frasers Logistics & Commercial Trust, Manulife US Real Estate Inv, Keppel Pacific Oak US REIT, Prime US REIT, recommended in this report as of 31 Jul 2020.
4. DBS Bank Ltd, DBS HK, DBSVS, DBSVUSA, their subsidiaries and/or other affiliates beneficially own a total of 1% of any class of common securities of Suntec REIT, OUE Commercial REIT, Starhill Global REIT, Mapletree North Asia Commercial Trust, Sasseur REIT, CDL Hospitality Trusts, Frasers Hospitality Trust, ARA LOGOS Logistics Trust, Mapletree Logistics Trust, Soilbuild Business Space Reit, Frasers Logistics & Commercial Trust, Manulife US Real Estate Inv, Keppel Pacific Oak US REIT, Prime US REIT, as of 31 Jul 2020.

[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.

Compensation for investment banking services:

5. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Mapletree Commercial Trust, Suntec REIT, Frasers Centrepoint Trust, LendLease Global Commercial REIT, Starhill Global REIT, CapitaLand Retail China Trust, Ascendas India Trust, Ascendas REIT, Mapletree Industrial Trust, Mapletree Logistics Trust, Soilbuild Business Space Reit, Keppel DC REIT, AIMS APAC REIT, Frasers Logistics & Commercial Trust, Manulife US Real Estate Inv, Keppel Pacific Oak US REIT, Prime US REIT, as of 31 Jul 2020.
6. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for Mapletree Commercial Trust, Suntec REIT, Frasers Centrepoint Trust, LendLease Global Commercial REIT, Starhill Global REIT, CapitaLand Retail China Trust, Ascendas India Trust, Ascendas REIT, Mapletree Industrial Trust, Mapletree Logistics Trust, Soilbuild Business Space Reit, Keppel DC REIT, AIMS APAC REIT, Frasers Logistics & Commercial Trust, Manulife US Real Estate Inv, Keppel Pacific Oak US REIT, Prime US REIT, in the past 12 months, as of 31 Jul 2020.
7. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Directorship/trustee interests:

8. Su Shan TAN, a member of DBS Group Management Committee, is a Director of Mapletree North Asia Commercial Trust as of 03 Aug 2020.

Disclosure of previous investment recommendation produced:

9. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates in the preceding 12 months.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBS Bank Ltd, DBSVS or DBSV HK. DBS Bank Ltd holds Australian Financial Services Licence no. 475946. DBSVS and DBSV HK are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS Bank Ltd and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, and DBSV HK is regulated by the Hong Kong Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report has been prepared by a person(s) who is not licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This report is being distributed in Hong Kong and is attributable to DBS Bank (Hong Kong) Limited, a registered institution registered with the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). DBS Bank Ltd., Hong Kong Branch is a limited liability company incorporated in Singapore. For any query regarding the materials herein, please contact Carol Wu (Reg No. AH8283) at dbsvhk@dbs.com

Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies. Wong Ming Tek, Executive Director, ADBSR
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
United Kingdom	This report is produced by DBS Bank Ltd which is regulated by the Monetary Authority of Singapore. This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom. In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.
Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at units 608 - 610, 6th Floor, Gate Precinct Building 5, PO Box 506538, DIFC, Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.

United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	This report was prepared by DBS Bank Ltd. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Regional Research Offices

HONG KONG
DBS (Hong Kong) Ltd
Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA
AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE
DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com