

# REIT Sector Still outperform the benchmark!

## Report type: Update

### Sector Overview

The Real Estate Investment Trust (REIT) Sector in our Singapore coverage consists of 26 REITs listed on Singapore exchange with a market capitalization of USD46 billion.

- Year-to-date, S-REIT continued to beat the broad market (4.6%) by a margin, registering price return of 5.2%
- S-REIT yield spread and forward dividend yield remain appealing compared to some developed REIT markets
- PLife REIT is our top pick as it would benefit from elevated inflation and possible new acquisitions

### REIT performance

Following the strong bull run in S-REIT last year, the bull run is now showing some signs of tiredness. Nevertheless, S-REIT continued to beat the broad market (4.6%) by a margin year-to-date, registering price return of 5.2%.

S-REIT P/B ratio of 1.14 lingered around +2 STD (1.15) for the past three months and had struggled to break above it. On the yield spread, the increase in 10-yr government bond yield may provide less scope for yield compression going forward. In comparison with other developed REIT markets in Asia Pacific region and USA, S-REIT yield spread and forward dividend yield remain appealing for income investors.

### Recommendation

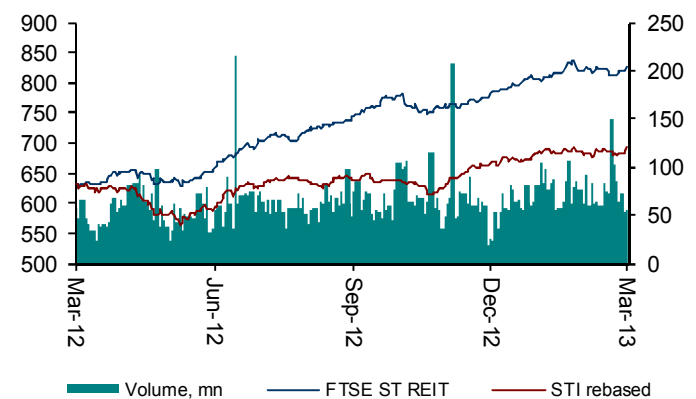
We believe that PLife REIT would benefit from elevated inflation as its Singapore property portfolio (64% of gross revenue) has annual rental revisions that are pegged to 1% above the increase in CPI level.

The trust also has a sizeable portfolio in Japan (33 nursing homes and medical facilities) that is undergoing Asset Enhancement Initiatives (AEI) to enhance their value. With the retention of ~S\$3mn for capital expenditure and "Refurbishment AEI" concept in place, we expect DPU to surprise on the upside in 2013. Besides organic growth opportunities, the trust is also well-positioned to acquire new properties with debt headroom of \$175mn (based on gearing of 40%). We have yet to incorporate new acquisitions into our model. Therefore there could be potential upsides should there be any new acquisitions. By assuming that the trust acquires S\$50mn of new property assets at NPI yield of 6% while interest cost at 1.62% in the second half of this year. The fair value can potentially increase from S\$2.45 to S\$2.53.

### REIT Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (US\$m n)
<b>REIT</b>					
CDLH Trust	Neutral	2.090	2.13	1.9%	1,629
Parkway Life REIT	Accumulate	2.480	2.45	-1.2%	1,205
Sabana REIT	Neutral	1.265	1.19	-5.9%	652

Source: Bloomberg, PSR



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**The interest for high-yielding stocks follows through into 2013**

Following the strong bull run in S-REIT last year, the bull now is showing some signs of tiredness. Nevertheless, S-REIT continued to beat the broad market (4.6%) by a margin year-to-date (YTD), registering price return of 5.2%.

The top three performing REITs are from the healthcare and industrial sector. On the other extreme, the bottom three is affiliated to CapitalLand. The probable reason for the price overhang on Ascott Residence Trust (ART) and CapitaMall Trust (CMT) could be due to short term dilution caused by the private placement done recently without accompanying any acquisition.

CapitaCommercial Trust (CCT) was the only REIT that recorded negative YTD return. Apprehension on income loss at One George Street due to the yield protection coming to an end next year and revaluation gains in end-Dec 2012 sent CCT back into NAV discount after it had managed to trade above its NAVPS during our last update report on 31 Dec 2012.

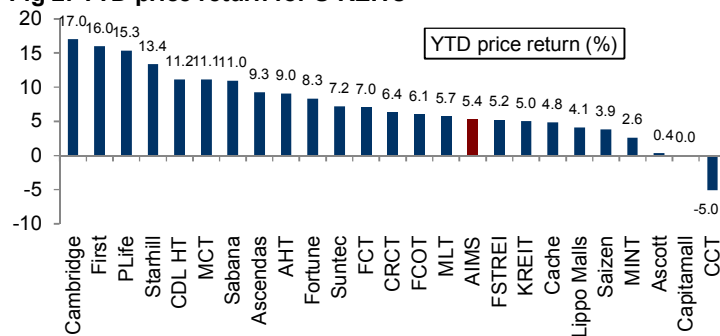
Parkway Life REIT (PLife REIT) and First REIT held on to their first and second place, trading above 45% to its net asset value per share (NAVPS). We observed that Starhill Global REIT has gained significantly for the first three months and traded above its book value since inception. This was partly attributed to 10% increase in the base rate for Ngee Ann City with Toshin.

**Fig 1: Relative monthly price performance between FSSTI and FSTREI**

	FSTREI Index	FSSTI Index
Jan-12	3.3%	9.8%
Feb-12	5.5%	3.0%
Mar-12	0.9%	0.5%
Apr-12	3.3%	-1.1%
May-12	-1.7%	-6.9%
Jun-12	4.5%	3.8%
Jul-12	5.6%	5.5%
Aug-12	2.7%	-0.4%
Sep-12	3.2%	1.2%
Oct-12	2.2%	-0.7%
Nov-12	0.2%	1.0%
Dec-12	2.3%	3.2%
2012	36.7%	19.7%
Jan-12	3.2%	3.6%
Feb-12	1.8%	-0.6%
MTD	0.0%	1.3%
YTD	5.2%	4.6%

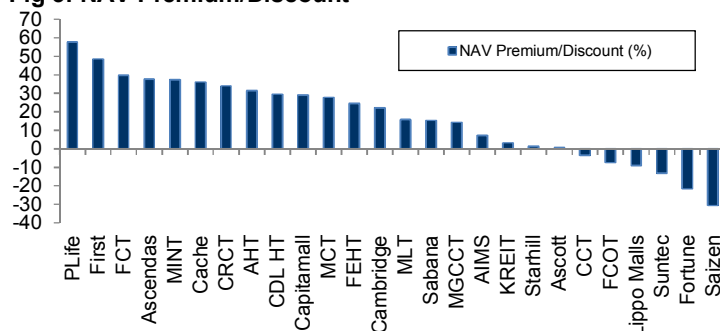
Source: Bloomberg, PSR

**Fig 2: YTD price return for S-REITs**



Source: Bloomberg, PSR

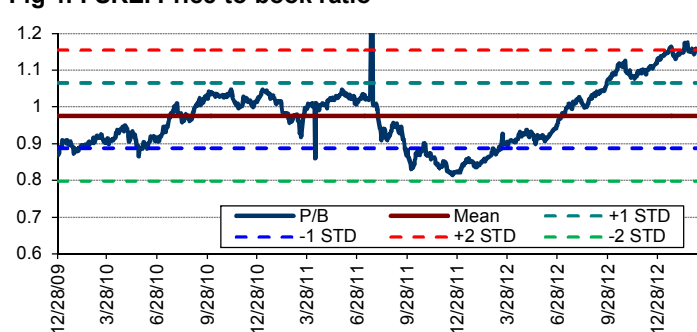
**Fig 3: NAV Premium/Discount**



Source: Bloomberg, PSR

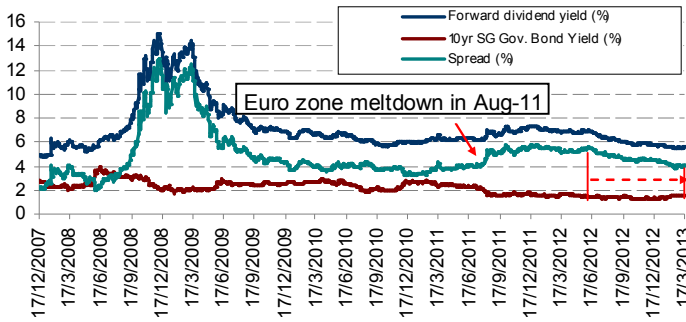
S-REIT P/B ratio of 1.14 lingered around +2 STD (1.15) for the past three months and had struggled to break above it. This was not unexpected as +2 STD is a strong resistance to overcome. On the yield spread, the increase in 10-yr government bond yield may provide less scope for yield compression going forward. In comparison with other developed REIT markets in Asia Pacific region and USA, S-REIT yield spread and forward dividend yield remain appealing for income investors.

**Fig 4: FSREI Price-to-book ratio**



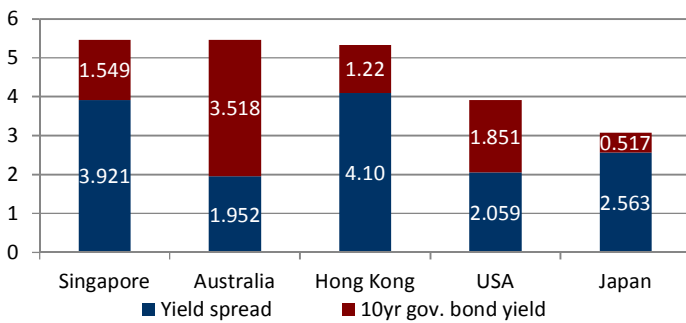
Source: Bloomberg, PSR

**Fig 5: Spread between forward S-REIT dividend yield and 10yr bond yield**



Source: Bloomberg, PSR

**Fig 6: Composition of yield spread and bond yield with respect to developed REIT markets in Asia Pacific region and USA**



Source: Bloomberg, PSR

**Debunk the misperception on rising interest rate**

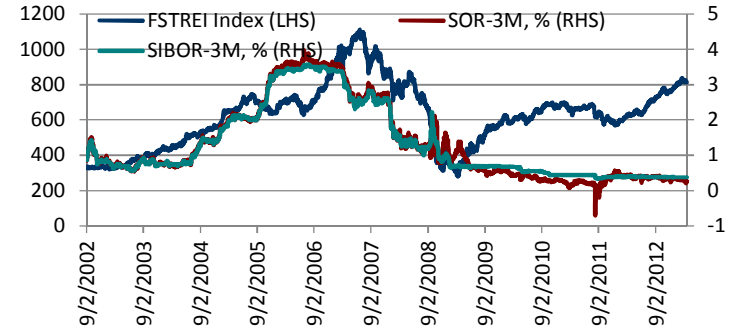
Since we are discussing the yield in the context of income stock, one will wonder how rising interest rate affects the price performance of S-REIT. It is conceivable among investors that interest rate hike will crimp profits because of higher interest expenses resulting in lesser DPU. In this instance, some investors may think it is time to take profit and exit from REITs.

On contrary, investors should hang on to their REIT holdings when interest rate “starts” to creep up. Why do we say so? REIT managers usually cap their gearing ratio up to 40%-45% which limits the extent on borrowing costs. Some of these loan interests are in fixed rate term while floating rate loans could be hedged through interest rate swap to reduce the exposure in interest rate fluctuation. Hence, rising interest rate may not have an immediate impact on the S-REIT until the next extension of hedging derivatives and refinancing of loans take place.

In general, the period when a central bank starts to raise interest rate is when the economy is on the road to firm recovery. Further interest rate hike will be used to tame the inflation in the wake of overheated economy. As Singapore economy does not heavily depend on domestic consumption and thus it does not adopt interest rate policy to dampen inflation but rather using currency as a tool to reduce the cost of imported goods. To monitor the possible interest rate hike in Singapore, one has to watch closely to the SIBOR which is closely pegged to US fund rate.

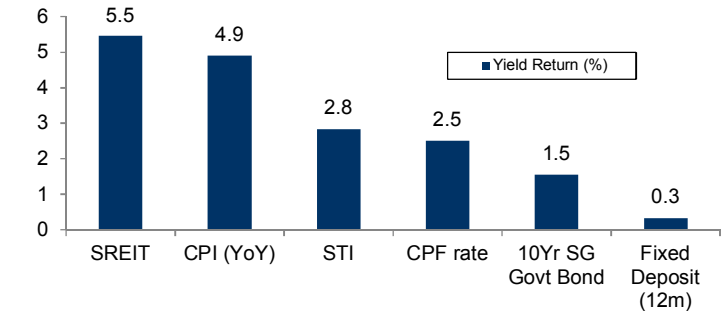
Because of its open economy, Singapore will largely benefit from the spillover effect during a global economic recovery. In such situation, demand for property space is expected to increase and may even outstrip the supply. Thus landlords are emboldened to raise the rents and it should be able to offset the higher interest expense. On the flip side, DPU may suffer in the event of oversupply. However, at the point of writing, we do not see a supply glut in any of the Singapore property sectors.

**Fig 7: Relationship between FSTREI Index and interest rates**



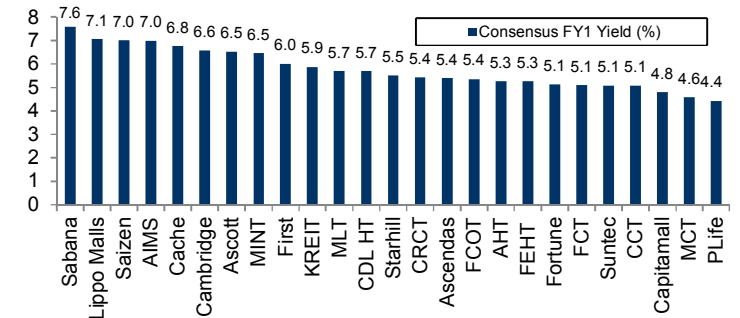
Source: Bloomberg, PSR

**Fig 8: Yield Comparison**



Source: Bloomberg, PSR

**Fig 9: Consensus yield estimates for FY1**



Source: Bloomberg, PSR

**Recommendation**

For those investors who have locked in at lower prices, they should stay on course as dividend distributions are likely to continue to increase through organic and inorganic growths. Under the current low interest rate and high inflation environment, the demand for S-REIT will still be there in a bid to achieve either capital preservation or capital appreciation. Given improving macroeconomic data, we opine that there is still room for multiple expansions in

regard to P/B ratio despite the strong resistance at +2 STD. We do not expect S-REIT to retrace their gains given the lofty valuation but rather to be selective on picking one that can ride the trend.

With high level of inflation in Singapore, we reckon that REITs with underlying properties with annual rental escalation clauses, which are pegged to the CPI, should have a favourable earnings outlook. We believe that PLife REIT would benefit from this trend as its Singapore property portfolio (64% of gross revenue) has annual rental revisions that are pegged to 1% above the increase in CPI level.

The trust also has a sizeable portfolio in Japan (33 nursing homes and medical facilities) that is undergoing Asset Enhancement Initiatives (AEI) to enhance their value. With the retention of ~S\$3mn for capital expenditure and "Refurbishment AEI" concept in place, we expect DPU to surprise on the upside in 2013. Besides organic growth opportunities, the trust is also well-positioned to acquire new properties with debt headroom of \$175mn (based on gearing of 40%). We have yet to incorporate new acquisitions into our model. Therefore there could be potential upsides should there be any new acquisitions. By assuming that the trust acquires S\$50mn of new property assets at NPI yield of 6% while interest cost at 1.62% in the second half of this year. The fair value can potentially increase from S\$2.45 to S\$2.53.

**Fig 10: SREIT valuation and dividend information**

REIT	Rating	Cmncy	Last Price	TP	Upside (%)	Mkt Cap. (US\$m)	Free Float (%)	Cmncy	Bvps	P/B	Dividend Frequency	Cmncy	Latest reported DPU (Cents)	T12M Div. Yield (%)	Consen. FY1 DPU (Cents)	Consen. FY2 DPU (Cents)	FY1 Yield (%)	FY2 Yield (%)	Gearing (%)
<b>Industrial (7)</b>																			
AIMS AMP CAPITAL	N.R.	SGD	1.575 -	-	-	568.9	92.4	SGD	1.47	1.07	Quarter	SGD	2.58	6.53	11.00	11.80	6.98	7.49	29.53
ASCENDAS REAL ES	N.R.	SGD	2.590 -	-	-	4993.8	78.6	SGD	1.88	1.38	Quarter	SGD	2.70	5.47	14.00	14.60	5.41	5.64	36.53
CACHE LOGISTICS	N.R.	SGD	1.300 -	-	-	734.9	87.0	SGD	0.96	1.36	Quarter	SGD	2.12	6.46	8.80	9.00	6.77	6.92	31.25
CAMBRIDGE REIT	N.R.	SGD	0.790 -	-	-	777.1	94.7	SGD	0.65	1.22	Quarter	SGD	1.23	6.06	5.20	5.50	6.58	6.96	37.82
MAPLETREE INDUST	N.R.	SGD	1.395 -	-	-	1840.4	69.5	SGD	1.02	1.37	Quarter	SGD	2.32	6.52	9.00	9.20	6.45	6.59	37.75
MAPLETREE LOG TR	N.R.	SGD	1.210 -	-	-	2365.2	58.8	SGD	1.04	1.16	Quarter	SGD	1.72	5.64	6.90	7.20	5.70	5.95	41.26
SABANA SHARIAH	Neutral	SGD	1.265	1.190	-5.9	652.2	87.5	SGD	1.10	1.15	Quarter	SGD	2.41	7.34	9.60	9.40	7.59	7.43	38.30
<b>Total:</b>						<b>11932.5</b>	<b>Average:</b>		<b>1.16</b>	<b>1.25</b>			<b>Average:</b>	<b>6.29</b>	<b>Average:</b>		<b>6.50</b>	<b>6.71</b>	<b>36.06</b>
<b>Residential (1)</b>																			
SAIZEN REIT	N.R.	SGD	0.188 -	-	-	214.4	93.7	SGD	0.27	0.74	Semi-Anl	SGD	0.66	6.86	1.30	1.30	7.00	6.98	31.40
<b>Total:</b>						<b>214.4</b>	<b>Average:</b>		<b>0.27</b>	<b>0.74</b>			<b>Average:</b>	<b>6.86</b>	<b>Average:</b>		<b>7.00</b>	<b>6.98</b>	<b>31.40</b>
<b>Hospitality (4)</b>																			
ASCENDAS HOSPITA	N.R.	SGD	1.025 -	-	-	662.6	63.2	SGD	0.78	1.31	Semi-Anl	SGD	1.26	1.23	5.40	7.50	5.27	7.32	31.70
ASCOTT RESIDENCE	N.R.	SGD	1.365 -	-	-	1382.1	50.5	SGD	1.35	1.01	Semi-Anl	SGD	4.24	6.87	8.90	9.10	6.52	6.67	38.99
CDL REIT	Neutral	SGD	2.090	2.130	1.9	1629.5	64.7	SGD	1.61	1.30	Semi-Anl	SGD	5.62	5.42	11.90	12.20	5.69	5.84	24.83
FAR EAST H TRUST	N.R.	SGD	1.160 -	-	-	1498.2	37.2	SGD	0.93	1.25	Quarter	SGD	2.09	1.80	6.10	6.50	5.26	5.60	30.16
<b>Total:</b>						<b>5172.4</b>	<b>Average:</b>		<b>1.17</b>	<b>1.22</b>			<b>Average:</b>	<b>3.83</b>	<b>Average:</b>		<b>5.69</b>	<b>6.36</b>	<b>31.42</b>
<b>Healthcare (2)</b>																			
FIRST REIT	N.R.	SGD	1.230 -	-	-	658.6	70.5	SGD	0.83	1.49	Quarter	SGD	0.70	4.33	7.40	7.60	6.02	6.18	25.68
PARKWAYLIFE REIT	Accumulate	SGD	2.480	2.450	-1.2	1205.9	57.3	SGD	1.57	1.58	Quarter	SGD	2.69	4.16	11.00	11.00	4.44	4.44	32.76
<b>Total:</b>						<b>1864.5</b>	<b>Average:</b>		<b>1.20</b>	<b>1.53</b>			<b>Average:</b>	<b>4.25</b>	<b>Average:</b>		<b>5.23</b>	<b>5.31</b>	<b>29.22</b>
<b>Office (3)</b>																			
CAPITACOMMERCIAL	N.R.	SGD	1.600 -	-	-	3658.6	64.2	SGD	1.66	0.96	Semi-Anl	SGD	4.08	5.02	8.10	8.10	5.06	5.06	25.34
FRASERS COMMERCIAL	N.R.	SGD	1.400 -	-	-	736.9	72.6	SGD	1.51	0.92	Quarter	SGD	1.58	4.52	7.50	8.50	5.36	6.07	31.94
KEPPEL REIT	N.R.	SGD	1.360 -	-	-	2925.6	28.5	SGD	1.32	1.03	Quarter	SGD	1.35	8.51	8.00	8.00	5.88	5.88	39.46
<b>Total:</b>						<b>7321.2</b>	<b>Average:</b>		<b>1.50</b>	<b>0.97</b>			<b>Average:</b>	<b>6.02</b>	<b>Average:</b>		<b>5.43</b>	<b>5.67</b>	<b>32.25</b>
<b>Retail (5)</b>																			
CAPITAMALL TRUST	N.R.	SGD	2.130 -	-	-	5918.3	61.3	SGD	1.65	1.29	Quarter	SGD	0.81	3.36	10.20	10.90	4.79	5.12	36.07
CAPITARETAIL	N.R.	SGD	1.750 -	-	-	1053.4	60.2	SGD	1.31	1.34	Semi-Anl	SGD	1.50	4.59	9.50	10.00	5.43	5.71	28.22
FORTUNE REIT	N.R.	HKD	6.900 -	-	-	1511.3	66.2	HKD	8.81	0.78	Semi-Anl	HKD	16.53	4.70	35.40	37.60	5.13	5.45	23.12
FRASERS CENTREPO	N.R.	SGD	2.140 -	-	-	1416.9	58.9	SGD	1.53	1.40	Quarter	SGD	2.40	4.77	10.90	11.10	5.09	5.19	30.10
LIPPO MALLS	N.R.	SGD	0.510 -	-	-	899.5	51.8	SGD	0.56	0.91	Quarter	SGD	0.74	5.78	3.60	3.50	7.06	6.86	23.84
<b>Total:</b>						<b>10799.4</b>	<b>Average:</b>		<b>2.77</b>	<b>1.14</b>			<b>Average:</b>	<b>4.64</b>	<b>Average:</b>		<b>5.50</b>	<b>5.67</b>	<b>28.27</b>
<b>Mixed Commercial (3)</b>																			
MAPLETREE COMMERCIAL	N.R.	SGD	1.350 -	-	-	2243.6	60.8	SGD	1.06	1.28	Quarter	SGD	1.67	5.14	6.20	6.70	4.59	4.96	37.52
MAPLETREE GREATER	N.R.	SGD	1.040 -	-	-	2224.2	51.5	SGD	0.91	1.14	Semi-Anl	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	43.62
STARHILL GLOBAL	N.R.	SGD	0.890 -	-	-	1389.9	70.5	SGD	0.88	1.01	Quarter	SGD	1.13	4.93	4.90	5.00	5.51	5.62	30.12
SUNTEC REIT	N.R.	SGD	1.795 -	-	-	3249.5	93.7	SGD	2.07	0.87	Quarter	SGD	2.33	5.29	9.10	9.60	5.07	5.35	36.66
<b>Total:</b>						<b>9107.1</b>	<b>Average:</b>		<b>1.23</b>	<b>1.08</b>			<b>Average:</b>	<b>5.12</b>	<b>Average:</b>		<b>5.06</b>	<b>5.31</b>	<b>36.98</b>
<b>S-REIT Aggregate</b>																			
<b>26 REITs</b>						<b>46411.4</b>	<b>Average:</b>		<b>1.49</b>	<b>1.17</b>			<b>Average:</b>	<b>5.25</b>	<b>Average:</b>		<b>5.79</b>	<b>6.05</b>	<b>32.85</b>

Source: Bloomberg, PSR estimates  
N.R.: Non-rated, N.A.: Not applicable

**Fig 11: S-REIT Price performance**

REIT	Crncy	Last Price	Mkt Cap. (US\$mn)	Free Float (%)	52 Wk High	52Wk Low	WTD Return %	1M Return %	3M Return %	6M Return %	1Y Return %	YTD Return %
<b>Industrial (7)</b>												
AIMS AMP CAPITAL	SGD	1.575	568.9	92.4	1.64	1.09	0.00	-1.25	6.06	12.10	39.38	5.35
ASCENDAS REAL ES	SGD	2.590	4993.8	78.6	2.72	1.97	0.78	0.78	8.82	7.02	28.22	9.28
CACHE LOGISTICS	SGD	1.300	734.9	87.0	1.35	0.99	0.78	-0.38	5.26	4.84	30.00	4.84
CAMBRIDGE REIT	SGD	0.790	777.1	94.7	0.80	0.52	0.64	6.76	17.04	22.48	46.30	17.04
MAPLETREE INDUST	SGD	1.395	1840.4	69.5	1.45	1.09	0.00	-0.36	4.10	0.00	26.24	2.57
MAPLETREE LOG TR	SGD	1.210	2365.2	58.8	1.25	0.91	0.41	-0.41	6.61	8.04	30.81	5.68
SABANA SHARIAH	SGD	1.265	652.2	87.5	1.28	0.94	0.80	2.02	11.95	10.96	31.77	10.96
<b>Total:</b>			<b>11932.5</b>				<b>Average: 0.49</b>	<b>1.02</b>	<b>8.55</b>	<b>9.35</b>	<b>33.25</b>	<b>7.96</b>
<b>Residential (1)</b>												
SAIZEN REIT	SGD	0.188	214.4	93.7	0.20	0.13	0.53	-0.53	8.05	15.34	31.47	3.87
<b>Total:</b>			<b>214.4</b>				<b>Average: 0.53</b>	<b>-0.53</b>	<b>8.05</b>	<b>15.34</b>	<b>31.47</b>	<b>3.87</b>
<b>Hospitality (4)</b>												
ASCENDAS HOSPITA	SGD	1.025	662.6	63.2	1.06	0.86	0.00	4.06	9.63	N.A.	N.A.	N.A.
ASCOTT RESIDENCE	SGD	1.365	1382.1	50.5	1.42	1.03	0.37	1.49	1.11	8.76	26.39	0.37
CDL REIT	SGD	2.090	1629.5	64.7	2.13	1.71	4.50	1.46	10.58	4.50	19.09	11.17
FAR EAST H TRUST	SGD	1.160	1498.2	37.2	1.22	0.93	2.20	6.42	16.00	N.A.	N.A.	N.A.
<b>Total:</b>			<b>5172.4</b>				<b>Average: 1.77</b>	<b>3.36</b>	<b>9.33</b>	<b>6.63</b>	<b>22.74</b>	<b>5.77</b>
<b>Healthcare (2)</b>												
FIRST REIT	SGD	1.230	658.6	70.5	1.23	0.85	2.50	10.81	16.04	18.84	42.20	16.04
PARKWAYLIFE REIT	SGD	2.480	1205.9	57.3	2.54	1.78	-0.40	2.48	16.43	22.77	37.78	15.35
<b>Total:</b>			<b>1864.5</b>				<b>Average: 1.05</b>	<b>6.65</b>	<b>16.23</b>	<b>20.81</b>	<b>39.99</b>	<b>15.69</b>
<b>Office (3)</b>												
CAPITACOMMERCIAL	SGD	1.600	3658.6	64.2	1.71	1.17	-0.31	-2.14	-4.48	7.02	32.78	-5.04
FRASERS COMMERCIAL	SGD	1.400	736.9	72.6	1.41	0.83	0.72	6.46	8.53	20.17	68.67	6.06
KEPPEL REIT	SGD	1.360	2925.6	28.5	1.40	0.92	1.12	1.49	5.02	14.29	43.16	5.02
<b>Total:</b>			<b>7321.2</b>				<b>Average: 0.51</b>	<b>1.94</b>	<b>3.02</b>	<b>13.83</b>	<b>48.20</b>	<b>2.01</b>
<b>Retail (5)</b>												
CAPITAMALL TRUST	SGD	2.130	5918.3	61.3	2.25	1.75	1.43	-0.47	0.00	6.50	16.39	0.00
CAPITARETAIL	SGD	1.750	1053.4	60.2	1.89	1.22	1.45	-3.05	7.03	19.05	42.28	6.38
FORTUNE REIT	HKD	6.900	1511.3	66.2	7.00	3.86	1.47	1.02	6.65	20.00	67.48	8.32
FRASERS CENTREPO	SGD	2.140	1416.9	58.9	2.15	1.50	0.94	4.39	8.63	20.56	40.79	7.00
LIPPO MALLS	SGD	0.510	899.5	51.8	0.53	0.36	0.00	0.00	5.15	15.91	25.93	4.08
<b>Total:</b>			<b>10799.4</b>				<b>Average: 1.06</b>	<b>0.38</b>	<b>5.49</b>	<b>16.40</b>	<b>38.57</b>	<b>5.16</b>
<b>Mixed Commercial (3)</b>												
MAPLETREE COMMER	SGD	1.350	2243.6	60.8	1.45	0.88	0.37	2.27	11.57	15.88	N.A.	11.11
MAPLETREE GREATE	SGD	1.040	2224.2	51.5	1.08	0.93	0.00	N.A.	N.A.	N.A.	N.A.	N.A.
STARHILL GLOBAL	SGD	0.890	1389.9	70.5	0.92	0.61	0.56	1.71	14.84	15.58	36.92	13.38
SUNTEC REIT	SGD	1.795	3249.5	93.7	1.81	1.24	0.84	0.28	8.13	20.88	44.18	7.16
<b>Total:</b>			<b>9107.1</b>				<b>Average: 0.44</b>	<b>1.42</b>	<b>11.51</b>	<b>17.45</b>	<b>40.55</b>	<b>10.55</b>
<b>S-REIT Aggregate</b>												
<b>26 REITs</b>			<b>46411.4</b>				<b>Average: 0.83</b>	<b>1.81</b>	<b>8.35</b>	<b>13.54</b>	<b>36.74</b>	<b>7.22</b>

Source: Bloomberg, PSR estimates

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