

# Singapore REITs Monthly

Monthly Tracker: September 2018



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19 September 2018

## SINGAPORE | REAL ESTATE (REIT) | UPDATE

- FTSE S-REIT Index declined 2.6% YTD. Weakness across all sub-sectors over the past month, with Starhill Global REIT being the top performer (+5.1% MTD) and OUE Commercial REIT being the worst performer (-11.7% MTD).
- Sector yield spread of 296bps over the benchmark 10-year SGS (10YSGS) yield remains close to the -1 standard deviation (SD) level as at end-August.
- 3m SOR rose to 1.65% as at end-August, near 10-year highs.
- Remain NEUTRAL on S-REITs sector. Sub-sector preferences: Office and Hospitality.

### SECTOR SNAPSHOT

**S-REIT yield spread declined 28bps YTD in August**, remaining close to the -1SD level – historical average is 359bps. The 10YRSGS yield currently stands at 2.38%. Rising interest rates will be a headwind for S-REITs from a yield and interest expense perspective, but it does not necessarily lead to a bearish state as rental growth can be a mitigating tailwind.

**3-month SOR near 10-year highs in August.** Currently at 1.65%, the 3-month SOR is near 10-year highs, and will continue to rise with the next Fed rate hike expected by end-September.

**Retail:** CapitaLand Mall Trust (CMT) will be acquiring the remaining 70% interest in Westgate Mall for S\$806mn, through a combination of debt and equity. Assuming a cost of debt of 3.2%, we estimate the acquisition will only be accretive to FY19e DPU if funded by at least 70% debt. Moody's changed the outlook on all CMT's ratings from "stable" to "negative", following the announcement, although it had affirmed the A2 unsecured ratings of most of CMT's debt. Retail sales (excl. motor vehicle sales) performance is still sluggish in Singapore, down -0.2% YoY in July, with department stores and supermarkets posting declines. Fashion was up 2.1% YoY. The food and beverage (F&B) index was down -0.3% YoY in July.

**Office:** HSBC Singapore will be relocating from HSBC Building to Marina Bay Financial Centre Tower 2 from April 2020. This comes after news of HSBC's one-year lease extension with CapitaLand Commercial Trust (CCT) at its current premises at HSBC Building, for a 36% increase in rental at S\$11.54psf/month, which will push NPI yield from 4% to 6%. OUE Commercial REIT will be buying the office component of OUE Downtown from its sponsor, OUE Limited, for S\$908mn (S\$1,713psf) through a mix of debt and equity (S\$587.5mn rights issue). NPI yield for the OUE Downtown offices is about 5.0%, which is in line with the compressing office capitalisation rates in Singapore that we had observed last quarter (2Q18), from valuers' assessment of recent office transactions. In overseas acquisitions, Ascendas-Singbridge Group, the sponsor of Ascendas REIT – among others, marked its foray into the U.S. with the purchase of 33 office properties spanning 3.30mn sqft, for an undisclosed amount.

**Industrial:** Burgeoning demand for data centre in Singapore is intact, with Facebook's upcoming S\$1.4bn data centre in Singapore. At 1.7mn sqft, the new data centre is >6x Keppel DC REIT's combined GFA in Singapore. The proposed merger between ESR-REIT and Viva Industrial Trust will be concluded, as unitholders at both sides approved the merger, pending court approval. Ascendas REIT had announced a successful private placement (2.2x subscribed) of S\$452.1mn, at S\$2.54 per share, which represents a 6.09% discount to its VWAP on 6 Sep 2018.

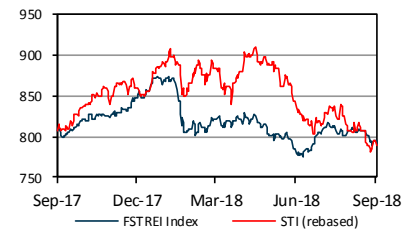
**Hospitality:** RevPAR has been trending upwards YoY, up 3.0% to S\$203 in July, on both higher occupancy and average room rate. RevPAR is now at more than 2.5 year highs. Historically, the months of July and August had clocked the highest monthly occupancy rates for the past three years (FY14-FY17).

## NEUTRAL (Maintained)

### INDEX PERFORMANCE (%)

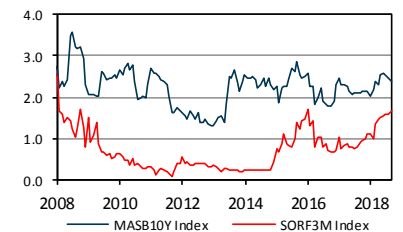
	1MTH	3MTH	YTD	1YR
FSTREIRETURN	(10)	2.9	(2.6)	4.9
STIRETURN	(2.0)	(4.9)	(4.6)	15

### FSTREI VS. STI



Source: Bloomberg, PSR

### 10-year SGS (%) & 3-month SOR (%)



Source: Bloomberg, PSR

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## INVESTMENT ACTIONS

### Remain NEUTRAL on the S-REITs sector

While S-REITs are currently trading below the -1SD level since the global financial crisis, strong rental growth should offset any adverse effects from rising interest rates. As such we have identified pockets of opportunities within each sub-sector that would exhibit these characteristics of healthy reversion rates and strong leasing activity.

We maintain Neutral on the S-REITs sector on declining tenant sales in the Retail sub-sector and sluggish net absorption of Industrial space. A marked improvement in tenant sales would allow the retail S-REITs to improve occupancy levels at sustainable rental levels. However, tighter e-commerce competition and the oncoming retail supply glut would continue to weigh on retail rentals in the medium term. While Industrial rents have been stabilising, occupancy still has some catching up to do in order to provide a meaningful catalyst for a sub-sector upgrade.

### Top-down view (unchanged)

We like the Commercial and Hospitality sub-sectors due to tapering supply after the surge in supply in the prior two to three years. We are cautious on the Retail sub-sector as retail sales and shopper footfall both remain lacklustre, due to e-commerce competition.

### Tactical bottom-up view (unchanged)

REITs that can better weather through the rising interest rate environment would be those with:

- 1) Low gearing; 2) High-interest coverage; 3) Long weighted average debt to maturity; and
- 4) A high proportion of debt on fixed interest rates

.....such as CapitaLand Retail China Trust (ACCUMULATE, TP:S\$1.66), Frasers Logistics & Industrial Trust\*, Keppel DC REIT (ACCUMULATE, TP:S\$1.45), and Keppel-KBS US REIT\*

\* Currently not under PSR coverage

**Figure 1: S-REITs under our coverage**

	PSR RATING	PSR TARGET PRICE (\$\$)
FIRST REAL ESTATE INVNT TRUST	NEUTRAL	1.31
CAPITALAND MALL TRUST	NETURAL	2.05
FRASERS CENTREPOINT TRUST	NEUTRAL	2.15
CAPITALAND RETAIL CHINA TRUST	ACCUMULATE	1.66
DASIN RETAIL TRUST <sup>1</sup>	ACCUMULATE	0.97
CAPITALAND COMMERCIAL TR	ACCUMULATE	1.88
ASCENDAS REAL ESTATE INV TR	ACCUMULATE	2.96
MAPLETREE INDUSTRIAL TRUST	NEUTRAL	2.09
KEPPEL DC REIT	ACCUMULATE	1.45
CACHE LOGISTICS TRUST	NEUTRAL	0.82

Source: PSR

<sup>1</sup> Covered by PSR under the 'SGX Stockfacts' scheme

MACROECONOMIC ENVIRONMENT

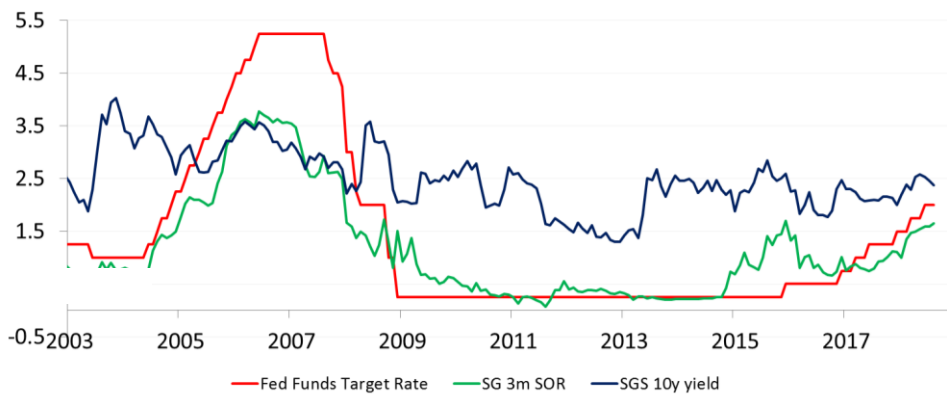
Figure 2: FTSE Straits Times REIT Index Yield Spread over 10YSGS



S-REIT yield spread declined 28bps YTD in August, to 294bps, remaining close to the -1SD level.

The S-REIT dividend yield is currently at 5.34%.

Figure 3: Fed Fund Rates vs SG rates

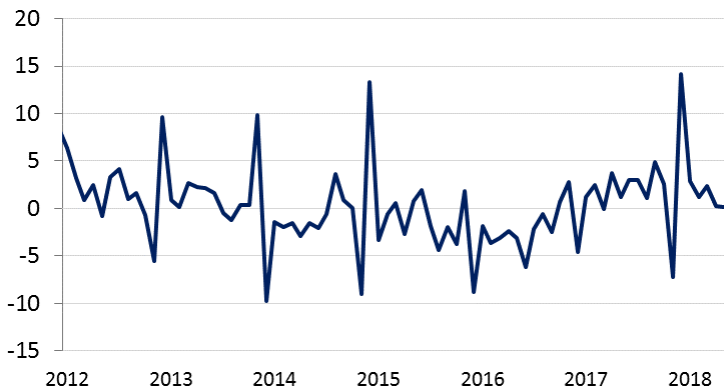


The 3-month SOR continued its ascent in August, rising 54bps YTD to 1.65%.

Source: PSR

SUB-SECTOR MONTHLY INDICATORS

Figure 4: SG Retail Sales YoY% (excl. Motor Vehicle Sales)

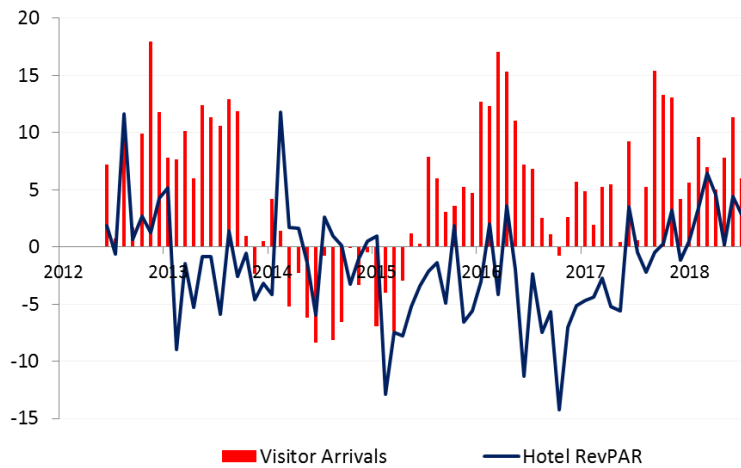


	RSI	RSI (Dept Stores)	RSI (Supermarkets)	RSI (Fashion)	F&B Index
Jul-18	0.2	-4.6	-3.0	2.1	-0.3

Retail sales (excluding motor vehicle sales) YoY was down -0.2% in July, with department stores and supermarkets posting declines. Fashion was up 2.1% YoY.

The F&B index was down -0.3% YoY in July, dragged down by all sub-categories (restaurants, food caterers, other eating places such as cafes) save for fast food outlets.

Figure 5: SG Tourist Arrivals/Hotel RevPAR YoY%



	Visitor Arrivals	Hotel RevPAR (S\$)	Occupancy (%)	Hotel Average Room Rate (S\$)
Jul-18	1,730,428	203	92	219
Jul-17	1,632,135	197	91	215

RevPAR rose 3.05% YoY, to S\$203 in July. RevPAR is now at more than 2.5 year highs. Occupancy in July had its strongest showing YTD, at 92%.

Historically, the months of July and August had clocked the highest monthly occupancy rates for the past three years (FY14-FY17).

Source: PSR

## APPENDIX

### Other news in the past month

- Soilbuild REIT marked its foray into Australia with the acquisition of an office asset for A\$55mn and an Australian poultry processing plant for A\$261.25mn.
- Mapletree Industrial Trust (MIT) has launched a S\$2 billion euro medium term note programme, with DBS Bank and OCBC Bank as joint arrangers and dealers. Net proceeds from the programme will be used by MIT and its subsidiaries for general corporate purposes.
- Sabana Shari'ah Compliant Industrial REIT has issued a notice of termination on Aug 31 to Adviva Distribution, the tenant at 10 Changi South Street 2, due to the tenant's "failure to pay rent and other sums payable" under the lease agreement.
- Frasers Logistics & Industrial Trust has acquired two prime industrial properties in Australia from Frasers Property Australia Pty Limited, a wholly-owned subsidiary of sponsor Frasers Property Limited for a total of A\$62.6 million.

Figure 6: S-REIT Universe

\*Note: Coloured columns below indicate the critical attributes of REITs that should be looked at in a rising interest rates environment. The colour coding represents the severity of the figure for each respective column, green representing better than average and red representing the worse than average.

	Mkt. Cap. (\$mm)	Price (\$)	PSR RATING	PSR TARGET PRICE (\$)	P/NAV	Trailing yield (%)	Total Returns 1M (%)	Total Returns YTD (%)	Gearing (%)	Approximate % of debt on fixed rate	ROE (%)	Average borrowing cost (%)	% debt expiring in 2018/current FY	% debt expiring in 2019/next FY
<b>Healthcare</b>														
PARKWAYLIFE REAL ESTATE	1,646	2,720			1.6	4.8	0.0	(5.9)	38.1	99.0	9.6	0.9	4.5	7.2
FIRST REAL ESTATE INVNT TRUST	975	1,240	NEUTRAL	1.31	1.2	7.0	(3.1)	(6.5)	34.2	60.7	8.9	4.0	20.4	2.0
<i>Average</i>					1.39	5.90	-1.56	-6.18	36.15	79.85	9.23	2.47		
<b>Hospitality</b>														
ASCOTT RESIDENCE TRUST	2,357	1,090			0.9	6.4	0.0	(6.1)	35.7	84.0	5.6	2.3	9.0	7.0
CDL HOSPITALITY TRUSTS	1,855	1,540			1.0	6.1	0.6	(2.3)	33.2	66.3	8.5	2.4	10.5	32.4
FAR EAST HOSPITALITY TRUST	1,196	0,640			0.7	6.2	(1.5)	(7.2)	40.3	46.9	1.5	2.5	14.7	9.7
OUÉ HOSPITALITY TRUST	1,265	0,695			0.9	7.3	(6.7)	(13.9)	38.7	71.0	5.6	2.3	0.0	0.0
FRASERS HOSPITALITY TRUST	1,262	0,675			0.9	7.3	(2.8)	(9.8)	34.0	87.8	11.2	2.6	13.9	45.2
ASCENDAS HOSPITALITY TRUST	906	0,800			0.8	7.3	0.6	(2.7)	30.8	90.5	16.0	2.6	3.6	30.6
<i>Average</i>					0.87	6.76	-1.63	-7.01	35.45	74.42	8.05	2.45		
<b>Retail</b>														
CAPITALAND MALL TRUST	7,524	2,120	NETURAL	2.05	1.1	5.3	(3.2)	4.6	31.5	93.0	9.4	3.1	0.0	12.1
MAPLETREE NORTH ASIA COMM	3,601	1,140			0.9	5.0	(0.9)	(2.7)	38.8	90.0	15.1	2.4	4.0	7.0
SPH REIT	2,572	1,000			1.1	5.5	0.0	(1.3)	25.4	75.9	6.5	2.8	21.8	14.7
FRASERS CENTREPOINT TRUST	2,094	2,260	NEUTRAL	2.15	1.1	5.4	(0.9)	4.6	29.3	55.0	11.0	2.4	11.7	14.8
STARHILL GLOBAL REIT	1,560	0,715			0.8	6.4	5.1	(3.3)	35.5	96.0	5.2	3.1	0.0	9.8
CAPITALAND RETAIL CHINA TRUST	1,377	1,420	ACCUMULATE	1.66	0.8	7.1	(2.8)	(9.3)	32.1	80.0	10.0	2.5	0.2	25.0
LIPPO MALLS INDONESIA RETAIL	756	0,265			0.9	11.0	(10.2)	(29.6)	36.0	45.2	5.9	5.5	43.1	0.0
BHG REIT	357	0,710			0.9	7.7	1.0	3.0	31.8	NA	5.2	4.1	NA	NA
DASIN RETAIL TRUST <sup>1</sup>	473	0,850	ACCUMULATE	0.97	0.6	9.1	(1.6)	5.4	31.5	NA	NA	4.8	0.6	35.0
SASSEUR REIT	832	0,705			NA	2.3	(0.6)	NA	33.2	NA	NA	5.4	NA	NA
<i>Average</i>					0.89	6.48	-1.39	-3.18	32.51	76.44	8.52	3.62		
<b>Commercial</b>														
CAPITALAND COMMERCIAL TR	6,552	1,750	ACCUMULATE	1.88	1.0	4.8	0.6	(4.5)	37.9	85.0	8.8	2.8	0.0	11.0
SUNTEC REIT	4,935	1,850			0.9	5.4	(1.6)	(10.1)	36.5	70.0	4.6	2.7	17.0	22.5
KEPPEL REIT	4,021	1,180			0.8	4.8	(0.8)	(3.0)	38.6	77.0	3.9	2.8	0.0	22.0
MAPLETREE COMMERCIAL TR	4,706	1,630			1.1	5.5	1.2	5.5	34.7	75.3	13.8	2.9	6.0	11.0
FRASERS COMMERCIAL TRUST	1,262	1,420			0.9	6.8	1.4	(0.6)	35.4	81.0	7.1	3.1	6.7	19.3
OUÉ COMMERCIAL REIT	930	0,600			0.7	10.3	(11.7)	(10.5)	40.3	74.1	10.1	3.5	35.0	0.0
MANULIFE US REIT	1,018	0,800			1.0	6.8	(4.1)	(4.3)	37.3	100.0	7.0	3.3	0.0	16.4
KEPPEL-KBS US REIT	505	0,800			NA	4.8	(1.2)	(6.4)	33.1	75.0	NA	3.4	0.0	0.0
CROMWELL EUROPEAN REIT	915	0,580			NA	4.4	(1.7)	9.0	34.8	85.4	NA	1.5	0.0	8.0
IREIT GLOBAL	473	0,750			1.1	7.8	(1.3)	4.2	38.6	90.0	11.0	2.0	0.0	49.9
<i>Average</i>					0.93	6.13	-1.92	-2.06	36.72	81.28	8.28	2.79		
<b>Industrial</b>														
ASCENDAS REAL ESTATE INV TR	7,531	2,570	ACCUMULATE	2.96	1.2	6.2	(1.7)	1.2	33.6	88.1	8.0	2.9	13.4	13.4
MAPLETREE INDUSTRIAL TRUST	3,755	1,990	NEUTRAL	2.09	1.3	5.9	2.0	2.4	35.0	77.9	11.5	2.9	14.1	20.7
MAPLETREE LOGISTICS TRUST	4,100	1,260			1.1	6.1	0.0	0.0	36.4	82.0	15.7	2.4	0.0	10.0
KEPPEL DC REIT	1,811	1,340	ACCUMULATE	1.45	1.3	5.4	(2.9)	(1.5)	31.7	86.0	6.1	2.1	1.9	19.0
AIMS AMP CAPITAL INDUSTRIAL	974	1,420			1.0	7.3	2.2	8.9	33.6	88.1	6.7	3.6	0.0	16.2
CACHE LOGISTICS TRUST	799	0,745	NEUTRAL	0.82	1.1	8.1	2.1	(7.9)	35.3	61.7	3.5	3.5	3.7	32.9
SOILBUILD BUSINESS SPACE REIT	607	0,575			0.9	9.3	(10.1)	(8.2)	37.6	65.4	(4.2)	3.2	30.9	8.3
SABANA SHARIAH COMP IND REIT	421	0,400			0.7	8.3	(6.8)	10.1	38.2	71.8	0.3	4.0	0.0	35.4
VIVA INDUSTRIAL TRUST	866	0,890			1.2	8.2	(0.1)	1.7	41.0	82.0	5.8	4.0	18.7	0.0
ESR REIT	800	0,505			0.7	7.4	(2.0)	(5.9)	30.5	90.6	0.4	3.8	30.8	21.3
EC WORLD REIT	533	0,675			0.7	8.9	(2.2)	(4.8)	28.9	100.0	6.6	4.5	N.A.	N.A.
FRASERS LOGISTICS & INDUSTRIAL	2,167	1,080			1.2	6.8	0.9	(2.0)	36.3	81.0	7.3	2.9	0.0	27.6
<i>Average</i>					1.05	7.32	-1.54	-0.50	34.84	81.22	5.64	3.31		

Source: Bloomberg (Updated 18 September 2018), Debt data from latest available Company Results, PSR

<sup>1</sup> Covered by PSR on the SGX Stockfacts Scheme

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