

Singapore REITs Monthly

Monthly Tracker: June 2019



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18 June 2019

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- FTSE S-REIT index return gained 4.4% MTD and 14.8% YTD. Strongest gains were from the Healthcare sector (+3.9% YTD) and weakest showing at the Hospitality sector (-2.3% YTD).
- Sector yield spread still below the -1 standard deviation (s.d.) level as at end-May, at 272bps, over the benchmark 10-year SGS (10YSGS) yield.
- 3-month SOR rose to 2.05% as at end-May.
- Remain NEUTRAL on S-REITs sector. Sub-sector preferences: Office and Hospitality.

SECTOR SNAPSHOT

S-REIT yield spread declined 39bps YTD as at end-May. The S-REIT yield spread eased to 272bps as at end-May, still below the -1 standard deviation (SD) level. The S-REIT dividend yield was 4.81% as at end-May. The 10YRSGS yield eased 8bps MoM, to end at 2.09% as at end-May.

3-month SOR eased to 2.05% as at end-May.

Eagle Hospitality Trust, a pure-play US upscale select-service hospitality trust, debuted on the SGX on 24 May 2019. It has forecasted an indicative yield of 8.2% for FY2019. Share price is now trading at a 10.3% discount to IPO issuance price.

Retail: Retail sales (excluding motor vehicle sales) declined -2.0% YoY in April, on a seasonally adjusted basis, dragged down largely by the furniture & household equipment (-6.4%) and the computer & telecom equipment (-6.2%) sectors. The F&B index was up +3.82% YoY (seasonally adjusted) in April. Funan Mall, under CapitaLand Mall Trust, has achieved 92% and 98% commitment for its retail and office components, respectively, ahead of its scheduled opening on June 28, 2019. The serviced residence component, lyf Funan, is slated to open in by 4Q19. In transactions, CapitaLand and City Developments Ltd had successfully acquired Liang Court Mall for S\$400mn.

Office: Co-working operators continue to mushroom Singapore office space, with SPACES – owned by flexible workspace provider IWG, opening two new locations at TripleOne Somerset and Clarke Quay, with plans to open two more locations at One Raffles Place and Paya Lebar Quarter. Singapore CBD space is still retaining its shine, with the city-state being ranked as Asia’s top commercial real estate locations for technology, media and telecommunications (TMT) occupiers, according to a research report by Colliers International.

Industrial: Two new REITs under Mapletree Investments could be in the launch pipeline for the next five years, according to a media interview report. These could include assets ranging from student housing in the UK and the US, corporate housing in the US, data centres in the US, logistics facilities in Europe and offices in Europe. Separately, ESR Cayman, through its subsidiaries, had entered into agreements to raise its effective ownership of Sabana REIT to 21.4%.

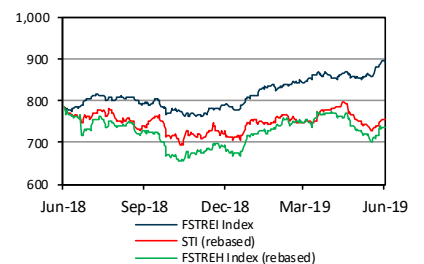
Hospitality: Average RevPAR saw a slight decline of -1.60% YoY in April, on both hotel occupancy and average room rate. The luxury segment was the only segment which recorded growth, of +3.4% YoY, in April 2019. Visitor arrivals was flat in April.

NEUTRAL (Maintained)

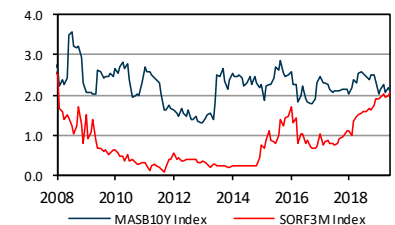
INDEX RETURN (%)

	1M TH	3M TH	YTD	1Y R
FSTREI RETURN	4.4	5.3	14.8	13.7
FSTREH RETURN	0.4	(2.5)	9.0	(6.6)
STIRETURN	(0.3)	0.5	4.7	(4.3)

FSTREI VS. STI



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



Source: Bloomberg, PSR

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INVESTMENT ACTIONS

Remain NEUTRAL on the S-REITs sector

While the S-REIT yield spread is currently below the -1SD level since the global financial crisis, strong rental growth should offset any adverse effects from rising interest rates – with the 3MSOR still rising despite the Federal Reserve’s recent dovish stance.

We maintain NEUTRAL on the S-REITs sector, with selective sub-sector preferences.

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 leave much to be desired.

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

Figure 1: S-REITs under our coverage

	PSR RATING	PSR TARGET PRICE (\$\$)
ASCOTT RESIDENCE TRUST	BUY	1.36
CAPITALAND MALL TRUST	NETURAL	2.21
FRASERS CENTREPOINT TRUST	NEUTRAL	2.36
CAPITALAND RETAIL CHINA TRUST	ACCUMULATE	1.66
DASIN RETAIL TRUST ¹	ACCUMULATE	0.94
CAPITALAND COMMERCIAL TR	NEUTRAL	1.93
ASCENDAS REAL ESTATE INV TR	NEUTRAL	2.88
MAPLETREE INDUSTRIAL TRUST	NEUTRAL	2.03
KEPPEL DC REIT	ACCUMULATE	1.59
CACHE LOGISTICS TRUST	NEUTRAL	0.75
EC WORLD REIT ¹	BUY	0.87

Source: PSR

¹ Covered by PSR under the ‘SGX Stockfacts’ scheme

MACROECONOMIC ENVIRONMENT

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

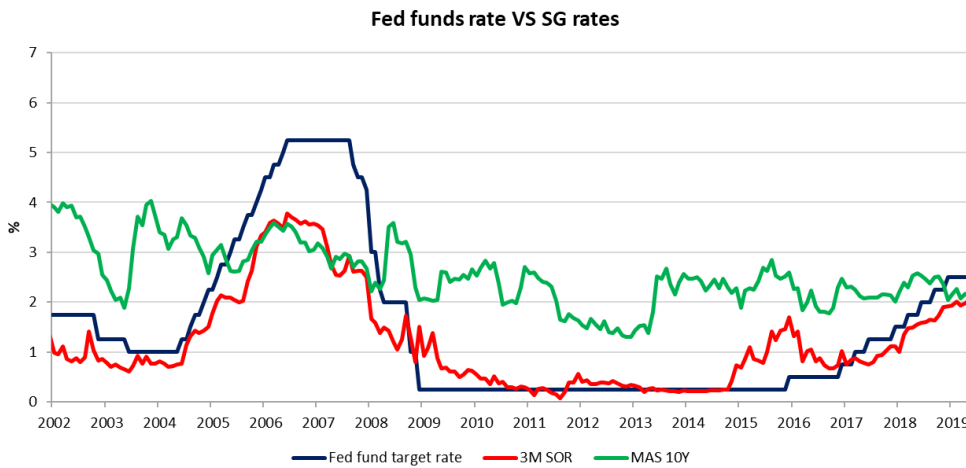


Source: Bloomberg, PSR

S-REIT yield spread declined 38bps YTD as at end-May, to 272bps, still below the -1SD level. This was a bump up from the 241bps recorded as at end-April.

The S-REIT dividend yield as at end-May was at 4.81%, up from 4.58% as at end-April.

Figure 3: Fed Fund Rates vs SG rates



Source: Bloomberg, PSR

The 3-month SOR increased to 2.05% as at end-May.

SUB-SECTOR MONTHLY INDICATORS

Figure 5: SG Retail Sales YoY% (excl. Motor Vehicle Sales) (seasonally adjusted)



	RSI (excl. motor vehicles)	RSI (Dept stores)	RSI (Supermarkets)	RSI (Fashion)	F&B Index
Apr-19	-2.0	-1.1	-0.4	3.3	3.8
Apr-18	1.7	-1.6	-2.2	-2.3	0.2

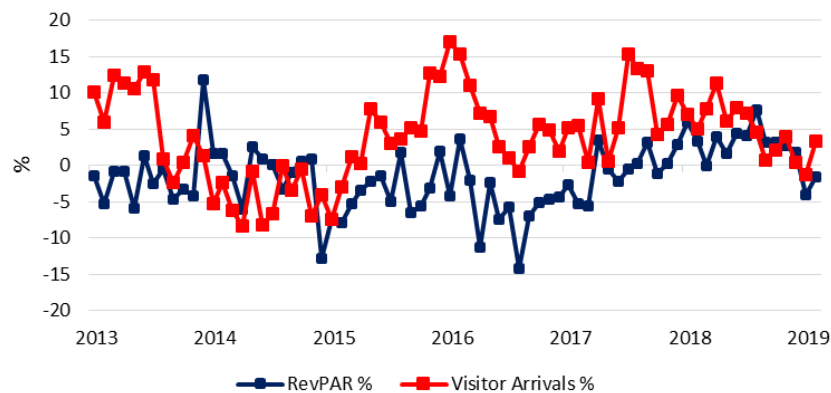
Source: CEIC, PSR

Retail sales (excluding motor vehicle sales) declined -2.0% YoY in April, on a seasonally adjusted basis.

The biggest drags were the furniture & household equipment (-6.4%) and the computer & telecom equipment (-6.2%) sectors.

The F&B index was up +3.82% YoY (seasonally adjusted) in April, with increases across all sub-categories.

Figure 13: SG Tourist Arrivals/Hotel RevPAR YoY%



Source: CEIC, PSR

	Visitor Arrivals	Hotel RevPAR (S\$)	Hotel Occupancy (%)	Hotel Average Room Rate (S\$)
Apr-19	1,562,733	185	85.1	217
Apr-18	1,384,610	188	85.3	220

Average RevPAR saw a slight decline of -1.60% YoY in April, on both hotel occupancy and average room rate.

The luxury segment was the only segment which recorded growth, of +3.4% YoY, in April 2019.

Visitor arrivals were flat in April.

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