

Singapore REITs Monthly

Monthly Tracker: September 2019



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23 September 2019

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- FTSE S-REIT index return gained 0.4% MTD and 21.7% YTD. Strongest gains were from the Commercial sector (+2.8% MTD) and weakest showing at the Retail (1.4% MTD).
- Performance in September: Best – Keppel DC REIT (+16.3%), Worst – Soilbuild REIT (-7.6%)
- Sector yield spread of 263bps is -1.3 standard deviation (s.d.) over the benchmark 10-year SGS (10YSGS) yield.
- 3-month SOR was flat at 1.75% at 20 September 2019 versus 1.74% last month. Elevated P/NAVs expected to persist in the lower interest rate environment.
- Remain NEUTRAL on S-REITs sector. Sub-sector preferences: Office and Hospitality.

SECTOR SNAPSHOT

S-REIT yield spread declined 30bps YTD to 263bps as at end-September at the -1.3 s.d level. Although still below the -1s.d. level, this is a recovery from the 226bps (-67bps) low in May 2019. The S-REIT dividend yield was 4.38% as at 20 September 2019.

3-month SOR has fallen 29bps YTD to 1.68% while the 10YRSGS yield fell 39bps YTD to 1.74%. The lower interest rate environment is conducive for REIT in terms of lower cost of borrowings which makes acquisitions more accretive. The greater investor appetite for yield instruments has also resulted in the oversubscription of private placements ranging 1.2x to 9.3x, despite high P/NAVs valuations. Since the start of 2019, REITs have raised S\$3,171mn (figure 1) through equity fund raising (2018: S\$4.3bn), predominantly to finance asset acquisition. Ascott Residence Trust (ART) has also reaped cost saving of c.S\$1.68mn p.a. by replacing S\$150mn 5% callable perps with S\$150mn 3.88% callable perps. Including the S\$2,038mn (figure 2) raised through the fixed income markets, a total of S\$5,209mn has been raised by REITs in 2019.

September saw asset acquisitions by three SREITs. The dual acquisition of KDC4 and 1NN by **Keppel DC**, a pivotal acquisition of 13 data centers by **MapleTree Industrial Trust** that will increase the DC proportion in the portfolio from 9.1% to 31.5%, as well as the acquisition of 400 Capitol in Sacramento by **Manulife US Trust**.

Frasers Centrepoint Trust and **Keppel DC REIT** will be admitted into the FTSE ERPA NAREIT Developed Index while **MapleTree Commercial Trust** will join the Straits Time Index, effective 23 September 2019.

Lendlease Global REIT lodged their prospectus with MAS on 16 September 2019 to raise c.S\$1,027.8mn from the IPO, of which 38.8% and 27.2% has been subscribed by cornerstone investors and the Sponsor respectively. The IPO has an offering price of S\$0.88 per unit. The initial portfolio will comprise of a 99-year leasehold retail mall in Singapore (313@Somerset) and a Sky Complex, a freehold office asset located in Milan, Italy. The appraised value of the diversified portfolio is c.S\$1,405.3mn. Sponsor, Lendlease Corporation, is part of the Australian Securities Exchange-listed Lendlease Group. The REIT has a global mandate and ROFR assets.

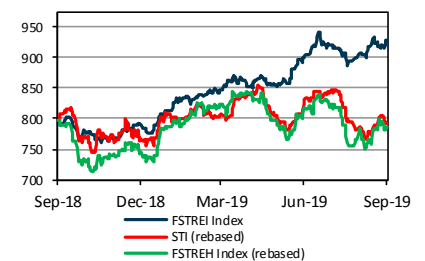
Retail: Retail sales (excluding motor vehicle sales) declined -2.5% YoY in July, on a seasonally adjusted basis, The RSI (excl. MV) growth has been in the red since the start of 2019. July's figures were dragged down largely by the furniture & household equipment (-8.2%) and the computer & telecom equipment (-7.9%) sectors. The F&B index was up +3.9% YoY (seasonally adjusted) in July.

NEUTRAL (Maintained)

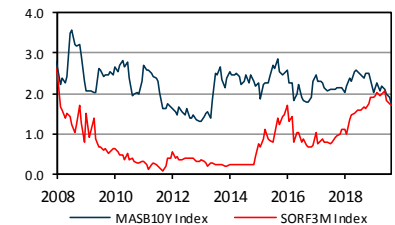
INDEX RETURN (%)

	1MTH	3MTH	YTD	1YR
FSTREI RETURN	0.4	7.3	21.7	18.6
FSTREH RETURN	(5.0)	(1.6)	8.0	(1.5)
STI RETURN	(5.6)	(0.4)	5.5	1.6

FSTREI VS. STI



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



Source: Bloomberg, PSR

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Hospitality: The SG hospitality segment was expected to benefit from the tapering room supply coming onto the market (2019-2021 CAGR: 1.5% vs 3-year historical CAGR: 4.4%). However, recovery this was dampened by the absence of biennial events in the first half of 2019 and weaker economic outlook due to the US-China trade uncertainty.

The hospitality sector was off to a promising start 2H19. July saw visitor arrivals increase 4% YoY. Average RevPAR improved 1.8% YoY in July on the back of higher average room rate (ARR) and occupancy. All segments recorded RevPAR growth, with the mid-tier sector coming in highest at +6.3% and luxury bringing up the rear at +1.3%.

Figure 1: Equity Fund Raising and acquisitions by REITs from May to September 2019

Date	Company	Total Proceeds (\$\$mm)	Private Placement (\$\$mm)	Preferential Offering (\$\$mm)	Times subscribed (x)	Proportion financed by equity (%)	Increase in unit base (%)	DPU Accretion (%)	Increase in AUM (%)	Disc. to VWAP: Private Placement	Disc. to VWAP: Offering	Acquisition Value (\$\$mm)	Asset Acquired
18 Sep 19	Manulife US Trust	196.7	110.3	86.4	7.0	49.0	8.1	2.3	10.6	3.6	5.4	276.4	400 Capitol (Scaremto)
17 Sep 19	MapleTree Industrial Trust	400.0	400.0	-	6.3	20.7	8.7	3.5	44.4	1.5	-	1900.3	13 DC assets in US & SG
16 Sep 19	Keppel DC REIT	478.2	235.4	242.8	9.3	73.2	20.5	12.4	30.7	2.5	4.4	599.0	KDC4 & INN
11 Sep 19	Dasin Retail Trust	68.8	68.8	-	1.2	19.3	14.7	12.1	21.8	2.4	-	317.1	Doumen Metro Mall
1 Aug 19	CapitalLand Retail China Trust	279.4	154.3	125.1	3.0	54.3	19.2	1.7	20.8	5.2	7.1	505.4	3 Malls in China
30 Jul 19	Frasers Logistics & Industrial Trust	258.1	258.1	NA	3.2	39.6	10.8	1.1	22.1	3.2	-	612.5	12 Logistic assets in Australia and Germany
18 Jul 19	CapitalLand Commercial Trust	220.0	220.0	NA	5.0	55.6	2.8	1 - 2.5	5.1	3.7	-	390.0	Main Airport Center
21 Jun 19	Cromwell REIT	152.0	100.0	NA	NA	24.4	14.8	6.5	13.8	5.9	-	375.3	6 Properties in France and Poland
17 Jun 19	ESR REIT	150.0	100.0	50.0	2.5	89.0	6.1	0.4	3.9	8.3	NA	101.3	45% of 48 Pandan Road/AE/Debt Repayment
17 May 19	Frasers Centrepoint Trust	437.4	369.6	67.7	2.3	54.4	20.4	0.7	13.8	1.5	3.6	775.4	33.3% Waterway Point/PGIM
30 Apr 19	Manulife US Trust	129.6	129.6	NA	NA	77.0	8.9	3.3	11.8	5.8	NA	168.3	Centerpointe in Fairfax, Virginia
24 Apr 19	Suntec REIT	200.0	200.0	NA	NA	100.0	4.1	0.8	2.2	4.8	NA	140.9	55 Currie Street, Adelaide, Australia
11 Feb 19	MapleTree Industrial Trust	201.0	201.0	NA	2.2	65.6	5.5	0.7-3.1	6.8	2.3	NA	262.2	18 Tai Seng
Total		3,171.2	2,547.1	572.0									

Source: Bloomberg, respective company announcements, PSR

Figure 2: Fixed income issuance by REITs in 2019

Issuer Name	Coupon	Issue Date	Maturity Type	Curr	\$ mn	\$ \$ mn
Ascott Residence Trust	3.88	4/9/2019	PERP/CALL	SGD	150	150
SPH REIT	4.1	30/8/2019	PERP/CALL	SGD	300	300
LMIRT Capital Pte Ltd	7.25	19/6/2019	CALLABLE	USD	250	344.6
Keppel REIT	1.9	10/4/2019	CONV/PUT	SGD	200	200
CMT MTN Pte Ltd	3.609	4/4/2019	EMTN	USD	300	413.52
Mapletree Industrial Trust	3.58	26/3/2019	MTN	SGD	125	125
Ascendas REIT	3.57	20/3/2019	EMTn	HKD	1450	254.62
Keppel DC Reit Mtn Pte Ltd	0.482	28/2/2019	EMTn	EUR	50	50
CMT MTN Pte Ltd	3.15	11/2/2019	MTN	SGD	100	100
Suntec REIT MTN Pte Ltd	3.355	7/2/2019	MTN	SGD	100	100
Total						2,038

Source: Bloomberg, respective company announcements, PSR

INVESTMENT ACTIONS

Remain **NEUTRAL** on the S-REITs sector, with selective sub-sector preferences.

Strong rally in prices due to the dovish stance communicated by the FED has resulted in the FTSE S-REIT index return gains of 22.0% YTD. Most of the upside from the lower interest rate stance have been priced in, with many REITs trading at rich valuations (+2 std. dev. P/NAV). The P/NAV is supported by investor's appetite for yield instruments. The current interest rate environment is conducive for REITs, which have been busy with acquisitions and equity fund raising, as well as terming out loan maturities to lock in the lower interest rates.

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 due to the softer retail outlook as seen by the weaker retail sales index.

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 3: S-REITs under our coverage

	PSR RATING	PSR TARGET PRICE (\$\$)
ASCOTT RESIDENCE TRUST	ACCUMULATE	1.36
CAPITALAND MALL TRUST	NETURAL	2.68
FRASERS CENTREPOINT TRUST	ACCUMULATE	2.77
CAPITALAND RETAIL CHINA TRUST	ACCUMULATE	1.66
DASIN RETAIL TRUST ¹	ACCUMULATE	0.94
CAPITALAND COMMERCIAL TR	NETURAL	2.18
ASCENDAS REAL ESTATE INV TR	ACCUMULATE	3.31
MAPLETREE INDUSTRIAL TRUST	NETURAL	2.03
KEPPEL DC REIT	ACCUMULATE	2.00
CACHE LOGISTICS TRUST	NETURAL	0.75
EC WORLD REIT ¹	BUY	0.87

Source: PSR

¹ Covered by PSR under the 'SGX Stockfacts' scheme

MACROECONOMIC ENVIRONMENT

Figure 4: FTSE Straits Times REIT Index Yield Spread over 10YSGS



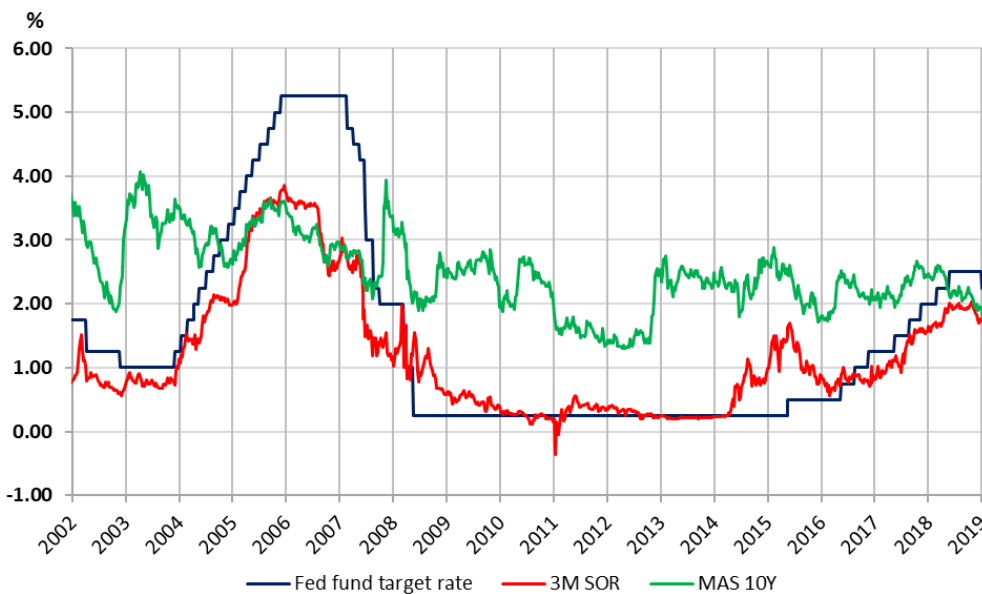
Source: Bloomberg, PSR

S-REIT yield spread expanded 3bps YTD as at end-July, to 264bps, still below the -1SD level.

The S-REIT dividend yield at 4.38% was flat MoM as at 20 September 2019.

The FTSE REIT Index is currently at decade highs given the falling interest rate environment. P/NAVs are expected to remain high given the greater investor appetite for yield instruments.

Figure 5: Fed Fund Rates vs SG rates

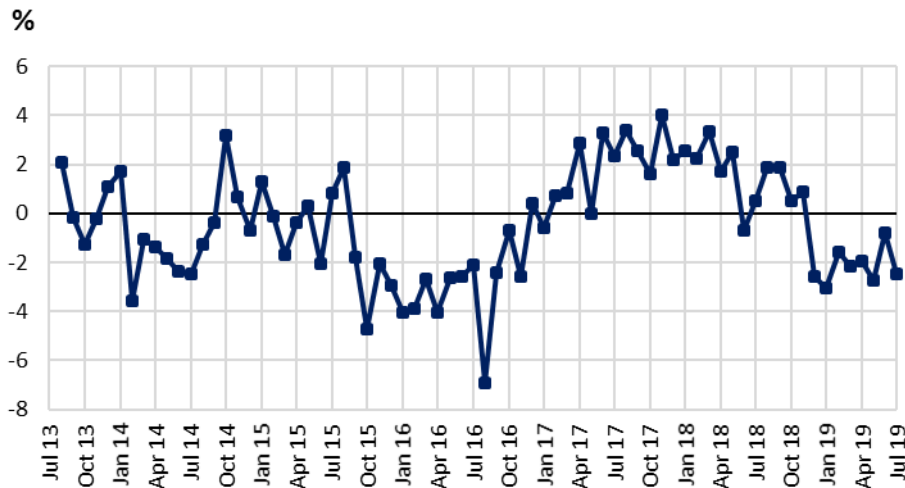


Source: Bloomberg, PSR

3-month SOR has fallen 29bps YTD to 1.68% while the 10YRSGS yield fell 39bps YTD to 1.74%.

SUB-SECTOR MONTHLY INDICATORS

Figure 6: SG Retail Sales YoY% (excl. Motor Vehicle Sales) (seasonally adjusted)



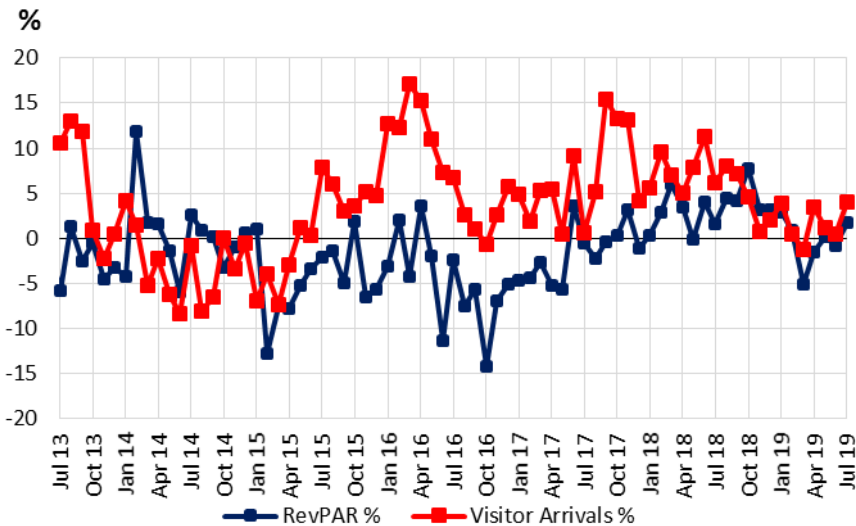
Source: CEIC, PSR

	RSI (excl. motor vehicles)	RSI (Dept stores)	RSI (Supermarkets)	RSI (Fashion)	F&B Index
Jul-19	-2.5	-1.4	1.5	-2.2	3.9
Jul-18	0.5	-2.6	-2.3	1.7	1.0

Retail sales (excluding motor vehicle sales) declined -2.5% YoY in July, on a seasonally adjusted basis. The RSI (excl. MV) growth has been in the red since the start of 2019. July's figures were dragged down largely by the furniture & household equipment (-8.2%) and the computer & telecom equipment (-7.9%) sectors.

The F&B index was up +3.9% YoY (seasonally adjusted) in July.

Figure 7: SG Tourist Arrivals/Hotel RevPAR YoY%



Source: CEIC, PSR

	Visitor Arrivals	Hotel RevPAR (S\$)	Hotel Occupancy (%)	Hotel Average Room Rate (S\$)
Jul-19	1,801,365	204	93.8	217
Jul-18	1,732,871	200	92.5	216
YoY%	3.95%	1.75%		0.40%

Average RevPAR saw improved 1.8% YoY in July on the back of higher average room rate (ARR) and occupancy.

All segments recorded RevPAR growth, with the mid-tier sector coming in highest at +6.3% and luxury bringing up the rear at +1.3%.

Visitor arrivals increased 4% YoY in July.

Figure 8: 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 scale of the figure for each respective column, green representing better than average and red representing worse than average.

	Mkt. Cap. (\$\$mn)	Price (\$\$)	PSR RATING	PSR TARGET PRICE (\$\$)	P/NAV	Trailing yield (%)	Total Returns 1M (%)	Total Returns YTD (%)	Gearing (%)	Approximate % of debt on fixed rate	ROE (%)	Interest Coverage Ratio (x)	Effective interest Rate (%)	% debt expiring in current FY	% debt expiring in next FY
Healthcare															
PARKWAYLIFE REAL ESTATE	1,857	3.07			1.6	4.3	1.0	20.8	36.9	88.0	14.1	13.5	1.02	1.4	10.7
FIRST REAL ESTATE INVST TRUST	859	1.08			1.0	8.1	3.9	15.7	34.5	60.2	9.0	4.7	4.44	0.0	0.0
<i>Average</i>					1.34	6.19	2.44	18.25	35.29	74.10	11.56	9.12	2.73		
Hospitality															
ASCOTT RESIDENCE TRUST	2,873	1.32	ACCUMULATE	1.36	1.0	5.6	2.3	28.9	32.8	88.0	5.9	4.4	2.45	1.0	16.0
CDL HOSPITALITY TRUSTS	1,975	1.63			1.1	5.6	1.9	18.1	35.2	66.0	5.2	5.1	2.28	15.3	7.8
FRASERS HOSPITALITY TRUST	1,364	0.72			1.0	6.4	2.1	5.3	35.0	69.4	4.4	4.9	2.44	0.0	0.0
FAR EAST HOSPITALITY TRUST	1,307	0.68			0.8	5.7	6.3	17.3	39.8	75.0	4.9	3.3	2.93	3.2	10.0
ASCENDAS HOSPITALITY TRUST	1,229	1.08			1.1	5.5	3.8	46.6	34.1	75.0	7.6	4.5	1.97	0.0	11.5
EAGLE HOSPITALITY TRUST	569	0.66			0.7	NA	(5.1)	NA	37.5	93.0	NA	2.8	NA	7.0	29.3
ARA US HOSPITALITY TRUST	504	0.89			NA	NA	1.7	NA	31.9	83.0	NA	NA	NA	NA	NA
<i>Average</i>					0.96	5.77	1.87	23.25	35.59	78.49	5.50	4.17	2.47		
Retail															
CAPITALAND MALL TRUST	9,664	2.62	NETURAL	2.68	1.3	4.5	(0.4)	19.4	31.5	93.0	8.4	4.1	3.18	8.8	8.0
MAPLETREE NORTH ASIA COMM	4,240	1.33			0.9	5.6	(3.7)	20.1	36.9	87.0	14.6	4.1	2.84	7.0	7.0
SPH REIT	2,850	1.10			1.2	5.1	0.0	13.4	26.2	71.8	5.3	6.4	2.64	19.2	25.6
FRASERS CENTREPOINT TRUST	3,047	2.73	ACCUMULATE	2.77	1.3	3.3	2.6	30.8	23.5	67.0	8.2	6.0	2.49	5.7	21.1
STARHILL GLOBAL REIT	1,647	0.76			0.8	6.0	0.7	16.9	36.1	90.0	3.9	3.6	3.42	11.3	12.9
CAPITALAND RETAIL CHINA TRUST	1,821	1.53	ACCUMULATE	1.66	0.9	7.3	3.4	21.3	33.8	87.0	9.8	4.8	3.04	3.7	9.6
SASSEUR REIT	961	0.81			0.8	8.3	1.4	33.6	29.7	12.4	NA	NA	NA	0.0	0.0
LIPPO MALLS INDONESIA RETAIL	695	0.24			0.8	8.4	6.7	40.7	35.2	58.1	6.5	4.3	5.08	10.4	24.2
DASIN RETAIL TRUST ¹	480	0.86	ACCUMULATE	0.94	0.6	4.0	2.2	7.1	33.0	36.0	(5.4)	3.0	3.41	0.9	38.2
BHG REIT	345	0.68			0.8	6.6	1.5	1.3	25.5	10.0	12.8	4.4	4.14	NA	NA
<i>Average</i>					0.94	5.90	1.44	20.47	31.33	61.23	7.10	4.53	3.36		
Commercial															
CAPITALAND COMMERCIAL TR	8,212	2.13	NETURAL	2.18	1.1	4.1	2.4	27.5	27.0	92.0	5.6	3.9	2.75	10.0	8.8
MAPLETREE COMMERCIAL TR	6,660	2.30			1.4	4.0	10.7	42.7	33.1	80.5	13.1	4.7	2.87	2.1	19.3
SUNTEC REIT	5,400	1.93			0.9	5.0	1.0	12.8	38.0	85.0	5.1	2.0	2.83	1.0	8.5
KEPPEL REIT	4,246	1.25			0.9	4.4	0.8	13.5	29.4	92.0	2.5	1.0	2.87	0.0	19.0
QUE COMMERCIAL REIT	2,958	0.55			0.7	5.7	5.8	25.5	39.3	76.1	7.6	2.5	3.39	0.0	8.9
FRASERS COMMERCIAL TRUST	1,500	1.65			1.1	5.9	1.2	24.7	29.3	90.2	10.6	3.0	3.57	0.0	25.1
MANULIFE US REIT	1,282	0.92			1.1	3.3	3.3	26.8	37.1	96.1	4.7	4.3	3.74	0.0	9.6
CROMWELL EUROPEAN REIT	1,259	0.50			1.0	8.3	4.3	19.8	35.4	85.9	NA	NA	NA	52.6	35.4
PRIME US REIT	845	0.92			NA	NA	1.7	NA	NA	NA	NA	NA	NA	NA	NA
KEPPEL PACIFIC OAK US REIT	622	0.76			0.9	7.9	(3.2)	32.2	37.7	76.8	NA	NA	NA	1.2	0.0
IREIT GLOBAL	483	0.76			1.0	7.6	(0.7)	12.3	36.2	100.0	17.2	7.0	2.04	0.0	0.0
<i>Average</i>					1.03	5.40	2.80	25.06	32.67	87.46	7.03	3.07	3.15		
Industrial															
ASCENDAS REAL ESTATE INV TR	9,774	3.14	ACCUMULATE	3.31	1.5	5.1	2.3	24.3	35.9	75.3	8.4	4.8	3.23	15.0	13.4
MAPLETREE LOGISTICS TRUST	5,933	1.63			1.4	4.9	3.2	33.2	36.8	83.0	10.8	4.8	2.53	4.0	11.0
MAPLETREE INDUSTRIAL TRUST	4,979	2.46	NETURAL	2.03	1.6	4.9	8.4	33.5	33.4	79.5	9.5	6.5	2.99	5.4	8.2
FRASERS LOGISTICS & INDUSTRIAL	2,676	1.19			1.4	6.5	0.8	22.6	35.4	63.0	10.9	6.1	2.91	0.0	27.3
KEPPEL DC REIT	2,799	2.07	ACCUMULATE	2.00	2.0	3.4	16.3	60.8	31.9	80.0	10.8	8.0	2.59	17.1	1.8
ESR REIT	1,810	0.54			1.2	5.3	3.8	11.8	39.0	89.2	(15.9)	3.7	2.83	1.6	12.5
AIMS AMP CAPITAL INDUSTRIAL	1,010	1.45			1.1	7.2	0.7	16.0	33.5	86.8	5.3	3.8	3.68	16.3	32.9
CACHE LOGISTICS TRUST	799	0.74	NETURAL	0.75	1.1	7.9	0.0	12.1	37.9	70.9	2.9	3.7	4.00	5.8	9.6
SOILBUILD BUSINESS SPACE REIT	661	0.53			0.8	9.6	(7.6)	(1.6)	37.3	94.9	7.4	4.1	3.27	38.5	36.5
EC WORLD REIT ¹	585	0.74	BUY	0.87	0.9	8.4	0.7	13.1	32.4	100.0	5.9	4.1	4.37	NA	NA
SABANA SHARIAH COMP IND REIT	479	0.46			0.8	6.3	0.0	21.1	30.9	70.0	9.6	3.2	4.07	11.0	33.1
<i>Average</i>					1.25	6.31	2.61	22.44	35.01	81.15	5.96	4.79	3.32		

Source: Bloomberg (Updated 21 July 2019), Returns calculated as at end-July 2019, Debt data from latest available Company Results/Prospectuses, PSR

¹ Covered by PSR on the SGX Stockfacts Scheme

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