

SECTOR UPDATE

REITs – Singapore

Rate Cuts Coming But Not Too Much

S-REITs have weathered the sell-down caused by interest rates staying higher for longer. The easing of core PCE inflation in May 24 gave reassurance that rate cuts should commence as anticipated in 4Q24. Maintain OVERWEIGHT. Many blue-chip S-REITs are trading at attractive distribution yields of 6-7%. We picked blue-chip S-REITs from a bottom-up basis: BUY FEHT (Target: S\$0.77), KREIT (Target: S\$1.15), LREIT (Target: S\$0.85), MINT (Target: S\$2.78) and MPACT (Target: S\$1.73).

WHAT'S NEW

- The US a laggard in rate cuts.** Swiss National Bank cut its main policy rate by 25bp to 1.5% in Mar 24. Bank of Canada lowered its overnight rate by 25bp to 4.75% in Jun 24, the first G-7 country to cut interest rates. European Central Bank cut the interest rate on its main refinancing operations by 25bp to 4.25% in Jun 24. With inflation slowly and gradually receding, the Fed is expected to institute the first rate cut in 4Q24.
- The Fed adopting wait-and-see approach for rate cuts.** The Fed paused rate hikes for the seventh consecutive FOMC meeting on 12 Jun 24. The median projected path for Fed Funds Rate is 5.1% by end-24 and 4.1% by end-25, indicating rate cuts of 25bp in 2H24 (previous: 75bp) and 100bp in 2025 (previous: 75bp). We expect the Fed to institute the first decisive rate cut in 4Q24. The Fed can afford to wait for clearer signs of disinflation given the current resilient economic growth and tight labour market.
- Gradual deceleration towards inflation target of 2%.** Core PCE inflation has eased 0.2ppt to 2.6% yoy in May 24. The mom momentum has also moderated to an acceptable 0.1%, compared with the firmer 0.3% in April. While the data release met expectations, it is encouraging because core PCE inflation has been stagnant at 2.8% for the past three months (February to April). While one swallow does not make a summer, the deceleration of inflation, as seen in the core PCE inflation figure for May, is a welcomed relief.
- US labour market remains too tight.** The US economy added 272,000 jobs and unemployment rate was low at 4.0% in May 24. Labour force participation rate for those aged 25 to 54 improved 0.3ppt yoy to 83.6% in May 24, remaining above pre-pandemic levels. Average hourly earnings eased slightly to 4.0% yoy in May 24.
- Higher for potentially longer time frame.** Ben Bernanke & Oliver Blanchard published a paper entitled An Analysis of Pandemic-Era Inflation in 11 Economies in May 24. It observed that labour market tightness has become a more important source of inflation during the last mile to get inflation under control. The Fed may need to loosen labour market conditions to achieve its inflation target. It suggests that the vacancy-employment ratio needs to fall below 1.2x to get inflation down to 2%.
- Finetuned the pace of quantitative tightening.** The Fed has tapered the pace of reduction for its holdings of Treasury securities from US\$60b to US\$25b per month with effect from Jun 24. The pace of reduction for agency mortgage-backed securities remains unchanged at US\$35b per month. The move could reduce volatility in treasury markets. The Fed has already reduced the size of its balance sheet by US\$1.5t as of Mar 24.

PEER COMPARISON – INDUSTRIAL REITs

| Name | Ticker | Rec | Price 1 Jul 24 | Target Price | Mkt Cap (US\$m) | Yield (%) | | Debt to Equity (%) | Debt to Assets (%) | P/NAV (x) |
|---------------------|----------|-----|-------------------|-----------------|--------------------|-----------|------|-----------------------|-----------------------|--------------|
| | | | | | | Hist | Curr | | | |
| Far East HTrust | FEHT SP | BUY | 0.63 | 0.77 | 935 | 6.5 | 6.5 | 40.2 | 31.5 | 0.69 |
| Keppel REIT | KREIT SP | BUY | 0.84 | 1.15 | 2,367 | 6.9 | 7.2 | 73.2 | 38.9 | 0.63 |
| Lendlease REIT | LREIT SP | BUY | 0.56 | 0.85 | 986 | 8.4 | 7.7 | 86.5 | 41.0 | 0.73 |
| Mapletree Ind Trust | MINT SP | BUY | 2.11 | 2.78 | 4,416 | 6.4 | 6.4 | 59.9 | 38.7 | 1.20 |
| Mapletree Pan Asia | MPACT SP | BUY | 1.24 | 1.73 | 4,811 | 7.2 | 7.0 | 73.9 | 40.5 | 0.71 |

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

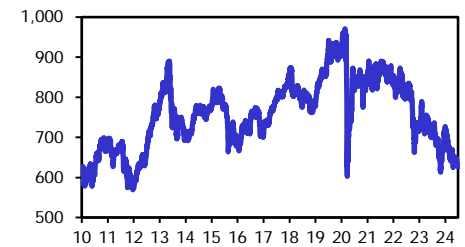
(Maintained)

SECTOR PICKS

| Company | Rec | Share Price (\$) | Target Price (\$) |
|---------|-----|------------------|-------------------|
| FEHT | BUY | 0.63 | 0.77 |
| KREIT | BUY | 0.84 | 1.15 |
| LREIT | BUY | 0.56 | 0.85 |
| MINT | BUY | 2.11 | 2.78 |
| MPACT | BUY | 1.24 | 1.73 |

Source: UOB Kay Hian

FTSE ST ALL-SHARE REITs INDEX



Source: UOB Kay Hian

S-REIT DISTRIBUTION YIELD



Source: UOB Kay Hian

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ACTION

- **Maintain OVERWEIGHT.** S-REITs have weathered the sell-down due to interest rates staying higher for longer. Many blue-chip S-REITs are trading at attractive distribution yields of 6-7% after a long-drawn correction of 7.7% in 2020, 15.0% in 2022 and 14.1% in 1H24. Inflation is expected to moderate at a slow and gradual pace in 2H24, supporting the recovery for S-REITs.
- **Bond yields remain elevated.** The US 10-year government bond yield surged 52bp to 4.40% in 1H24 due to sticky inflation (Dec 23 was a low base). Similarly, the Singapore 10-year government bond yield rose 50bp to 3.21% during the same time frame. Yield spread for S-REITs expanded by 30bp to 2.93% in 1H24.
- **Raising our assumptions for risk-free rate.** We have lowered our target prices for S-REITs by an average of 7% after adjusting our risk-free rate higher by 25bp from 2.75% to 3.00%. For US REITs, we have raised risk-free rate by 25bp from 4.0% to 4.25%. Our target prices for US REITs have similarly been reduced by an average of 3%. We have also tweaked terminal growth for S-REIT with exposures to China lower, such as KDCREIT, MLT and MPACT.

PORTFOLIO VALUATION BY ASSET TYPE (MAR 23)

| Name | Ticker | Rec | Price 1 Jul 24 | --- Target (\$\$) -- | | ----- COE (%) ---- | | Ter Growth (%) | |
|----------------------------------|------------|------|-------------------|----------------------|-------|--------------------|-------|----------------|-----|
| | | | | Old | New | Old | New | Old | New |
| HEALTHCARE | | | | | | | | | |
| PLife REIT | PREIT SP | BUY | 3.51 | 5.07 | 4.70 | 6.25 | 6.50 | 3.0 | 3.0 |
| HOSPITALITY | | | | | | | | | |
| CapLand Ascott | CLAS SP | BUY | 0.88 | 1.40 | 1.32 | 7.00 | 7.25 | 2.8 | 2.8 |
| CDL HTrust | CDREIT SP | BUY | 0.95 | 1.48 | 1.39 | 7.00 | 7.25 | 2.8 | 2.8 |
| Far East HTrust | FEHT SP | BUY | 0.63 | 0.82 | 0.77 | 7.25 | 7.50 | 2.8 | 2.8 |
| INDUSTRIAL | | | | | | | | | |
| CapLand Ascendas | CLAR SP | BUY | 2.54 | 3.62 | 3.42 | 6.75 | 7.00 | 2.5 | 2.5 |
| Digi Core REIT USD | DCREIT SP | BUY | 0.58 | 0.85 | 0.80 | 6.50 | 6.75 | 2.2 | 2.2 |
| Keppel DC REIT | KDCREIT SP | BUY | 1.81 | 2.20 | 1.96 | 6.75 | 7.00 | 2.5 | 2.2 |
| Mapletree Ind Trust | MINT SP | BUY | 2.11 | 2.93 | 2.78 | 6.75 | 7.00 | 2.2 | 2.2 |
| Mapletree Log Trust | MLT SP | BUY | 1.30 | 1.89 | 1.59 | 7.00 | 7.25 | 2.8 | 2.2 |
| OFFICE | | | | | | | | | |
| Keppel REIT | KREIT SP | BUY | 0.84 | 1.20 | 1.15 | 6.25 | 6.50 | 1.5 | 1.5 |
| RETAIL | | | | | | | | | |
| Frasers CT | FCT SP | BUY | 2.14 | 2.71 | 2.56 | 6.75 | 7.00 | 2.5 | 2.5 |
| Lendlease REIT | LREIT SP | BUY | 0.56 | 0.90 | 0.85 | 7.00 | 7.25 | 2.2 | 2.2 |
| Sasseur REIT | SASSR SP | BUY | 0.675 | 0.98 | 0.94 | 8.25 | 8.50 | 1.5 | 1.5 |
| DIVERSIFIED | | | | | | | | | |
| CapLand Int Comm Trust | CICT SP | BUY | 1.96 | 2.34 | 2.22 | 6.75 | 7.00 | 2.2 | 2.2 |
| Frasers L&C Trust | FLT SP | BUY | 0.945 | 1.55 | 1.38 | 7.00 | 7.25 | 2.8 | 2.5 |
| Mapletree Pan Asia | MPACT SP | BUY | 1.24 | 1.90 | 1.73 | 6.75 | 7.00 | 2.2 | 2.0 |
| Suntec REIT | SUN SP | HOLD | 1.07 | 1.28 | 1.22 | 6.75 | 7.00 | 1.5 | 1.5 |
| INTERNATIONAL (US/EUROPE) | | | | | | | | | |
| Keppel REIT USD | KORE SP | BUY | 0.131 | 0.35 | 0.34 | 10.00 | 10.25 | 0.0 | 0.0 |
| Manulife REIT USD | MUST SP | BUY | 0.062 | 0.168 | 0.164 | 13.00 | 13.25 | 0.0 | 0.0 |
| Prime US REIT USD | PRIME SP | BUY | 0.114 | 0.35 | 0.34 | 11.50 | 11.75 | 0.0 | 0.0 |
| Utd Hampshire REIT USD | UHU SP | BUY | 0.39 | 0.66 | 0.64 | 8.50 | 8.75 | 1.5 | 1.5 |

Source: Respective S-REITs, UOB Kay Hian

- **We picked a diversified basket of blue-chip S-REITs from a bottom-up basis.** Our top BUY picks are: FEHT (Target: S\$0.77), KREIT (Target: S\$1.15), LREIT (Target: S\$0.85), MINT (Target: S\$2.78) and MPACT (Target: S\$1.73).

Far East Hospitality Trust (FEHT SP/BUY/Target: S\$0.77)

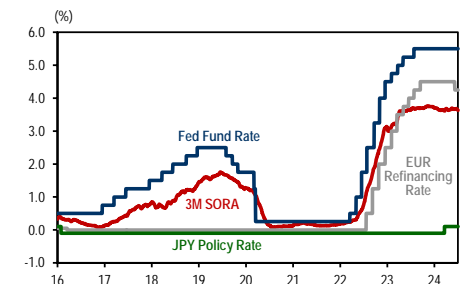
- FEHT is a pure play in the hospitality sector in Singapore. Five hotels (51% of portfolio valuation) are near private hospitals popular among medical tourists. Average daily rate (ADR) increased 8.8% yoy to S\$179 in 1Q24, boosted by MICE events and mega concerts. FEHT intends to diversify into gateway cities in developed markets, supported by its low aggregate leverage of 31.5% as of Mar 24. FEHT could distribute the incentive fee of S\$18m from the divestment of Central Square to unitholders to cushion the negative impact from higher interest rates.

S-REIT YIELD SPREAD



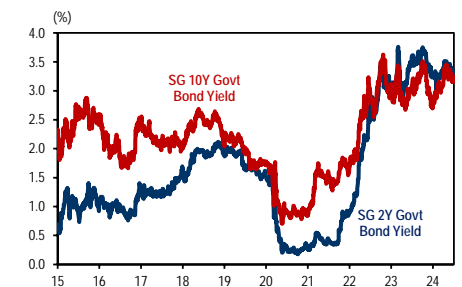
Source: UOB Kay Hian

POLICY INTEREST RATES



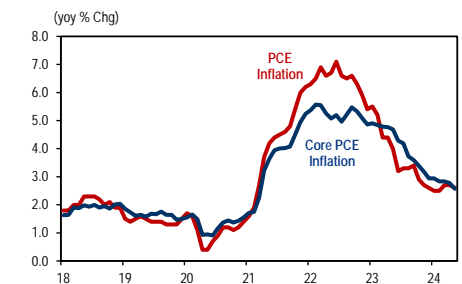
Source: Bloomberg

SINGAPORE GOVERNMENT BOND YIELDS



Source: Bloomberg

US PCE INFLATION VS CORE PCE INFLATION



Source: Bloomberg

Keppel REIT (KREIT SP/BUY/Target: S\$1.15)

- KREIT is the only pure play office REIT listed on the SGX. It achieved positive rental reversion of 10.9% in 1Q24 (Singapore: 10.1%, Australia: 16.4%) (4Q23: 11.3%). In Singapore, Ocean Financial Centre maintained full occupancy of 100%, while occupancy at One Raffles Quay and Marina Bay Financial Centre was stable at 99%. For Australia, 8 Chifley Square in Sydney, Victoria Police Centre in Melbourne and David Malcolm Justice Centre in Perth maintained full occupancy. In Japan, KR Ginza II in Tokyo maintained 100% occupancy. Valuation is attractive with 2024 distribution yield at 7.2% and P/NAV at 0.63x (30% discount to NAV per share of S\$1.32).

Lendlease Global Commercial REIT (LREIT SP/BUY/Target: S\$0.85)

- LREIT achieved strong positive rental reversion of 15.3% (313@Somerset: >20%, Jem: 10%) in 3QFY24. It maintained high committed retail occupancy of 99.4% (313@Somerset: 98.7%, Jem: 99.7%) and healthy tenant retention of 86.2%. We expect construction for multi-functional event space at Grange Road Car Park to commence in 1QFY25 and to take 12-18 months. We expect Live Nation to start contributing to rental income in 1HFY26. LREIT trades at attractive FY25 distribution yield of 8.1% and P/NAV of 0.73x.

Mapletree Industrial Trust (MINT SP/BUY/Target: S\$2.78)

- MINT has secured a replacement tenant from the healthcare services sector for its data centre at Brentwood, Tennessee. The new lease has a long duration of 30 years and provides rental escalation of 2% per year. Occupancy for its US data centres should recover back to 90%. MINT intends to acquire more data centres in Asia Pacific and Europe to increase geographical diversification. MINT provides growth from data centres at a reasonable price with FY25 distribution yield of 6.4%.

Mapletree Pan Asia Commercial Trust (MPACT SP/BUY/Target: S\$1.73)

- VivoCity was fully occupied in 4QFY24 and benefitted from rental uplift of 14.0% in FY24. MBC achieved positive rental reversion of 6.7% in FY24 and generated NPI growth of 6.7% yoy in 4QFY24. Aggregate leverage is expected to reduce from 40.5% to 37.6% after completing the divestment of Mapletree Anson for S\$775m or S\$2,352psf. Management intends to recycle capital by exploring acquisition of retail properties in Singapore and further expansion in Japan. MPACT trades at FY26 distribution yield of 7.2% and P/NAV of 0.71x, which we deem attractive for a blue chip S-REIT.

SECTOR CATALYSTS

- Hospitality, retail and office REITs benefitting from the reopening of the economy and easing of COVID-19 restrictions in Singapore and around the region.
- Limited new supply for the logistics and retail segments in Singapore.

ASSUMPTION CHANGES

- We maintain our existing DPU forecasts.

RISKS

- Escalation of the Russia-Ukraine war and Israel-Hamas war.

PEER COMPARISON – S-REITS

| Name | Ticker | Rec | Curr | Price | Target | Mkt Cap (US\$m) | Hist | Yield (%) | | | Debt to Equity (%) | Debt to Assets (%) | P/NAV (x) |
|----------------------------------|------------|------|------|----------|--------|-----------------|------|-----------|--------|--------|--------------------|--------------------|-----------|
| | | | | 1 Jul 24 | Price | | | Curr | Fwd 1Y | Fwd 2Y | | | |
| HEALTHCARE | | | | | | | | | | | | | |
| First REIT | FIRT SP | NR | S\$ | 0.24 | n.a. | 369 | 10.3 | 10.4 | 10.8 | 12.9 | 72.5 | 38.8 | 0.81 |
| PLife REIT | PREIT SP | BUY | S\$ | 3.51 | 4.70 | 1,567 | 4.2 | 4.1 | 4.2 | 5.0 | 60.2 | 36.2 | 1.52 |
| HOSPITALITY | | | | | | | | | | | | | |
| CapLand Ascott | CLAS SP | BUY | S\$ | 0.88 | 1.32 | 2,459 | 7.5 | 6.9 | 6.8 | 7.1 | 68.0 | 37.7 | 0.78 |
| CDL HTrust | CDREIT SP | BUY | S\$ | 0.95 | 1.39 | 879 | 6.0 | 6.8 | 6.9 | 6.9 | 63.8 | 37.8 | 0.63 |
| Far East HTrust | FEHT SP | BUY | S\$ | 0.63 | 0.77 | 935 | 6.5 | 6.5 | 6.1 | 6.0 | 40.2 | 31.5 | 0.69 |
| Frasers HTrust | FHT SP | NR | S\$ | 0.415 | n.a. | 590 | 5.9 | 6.0 | 6.3 | 7.0 | 59.0 | 35.5 | 0.63 |
| INDUSTRIAL | | | | | | | | | | | | | |
| AIMS APAC REIT | AAREIT SP | NR | S\$ | 1.25 | n.a. | 748 | 7.5 | 7.4 | 7.8 | 7.8 | 65.1 | 32.6 | 0.96 |
| CapLand Ascendas | CLAR SP | BUY | S\$ | 2.54 | 3.42 | 8,243 | 6.0 | 6.0 | 6.2 | 6.4 | 67.2 | 38.3 | 1.12 |
| Daiwa Hse Log Trust | DHLT SP | NR | S\$ | 0.575 | n.a. | 296 | 9.1 | 8.9 | 8.9 | 8.7 | 67.6 | 37.3 | 0.83 |
| Digi Core REIT USD | DCREIT SP | BUY | US\$ | 0.58 | 0.80 | 756 | 6.4 | 5.9 | 6.1 | 6.1 | 50.3 | 35.1 | 0.87 |
| ESR-LOGOS REIT | EREIT SP | NR | S\$ | 0.27 | n.a. | 1,532 | 9.5 | 8.9 | 9.3 | 9.3 | 63.8 | 36.3 | 0.87 |
| Keppel DC REIT | KDCREIT SP | BUY | S\$ | 1.81 | 1.96 | 2,302 | 5.2 | 5.0 | 5.1 | 5.4 | 64.0 | 37.6 | 1.36 |
| Mapletree Ind Trust | MINT SP | BUY | S\$ | 2.11 | 2.78 | 4,416 | 6.4 | 6.4 | 6.4 | 6.6 | 59.9 | 38.7 | 1.20 |
| Mapletree Log Trust | MLT SP | BUY | S\$ | 1.30 | 1.59 | 4,813 | 6.9 | 6.5 | 6.5 | 6.4 | 77.1 | 38.9 | 0.94 |
| OFFICE | | | | | | | | | | | | | |
| Keppel REIT | KREIT SP | BUY | S\$ | 0.84 | 1.15 | 2,367 | 6.9 | 7.2 | 7.1 | 6.9 | 73.2 | 38.9 | 0.63 |
| RETAIL | | | | | | | | | | | | | |
| Frasers Centrepoint | FCT SP | BUY | S\$ | 2.14 | 2.56 | 2,859 | 5.7 | 5.5 | 5.6 | 5.6 | 49.8 | 38.5 | 0.94 |
| Lendlease REIT | LREIT SP | BUY | S\$ | 0.56 | 0.85 | 986 | 8.4 | 7.7 | 8.1 | 8.0 | 86.5 | 41.0 | 0.73 |
| Sasseur REIT | SASSR SP | BUY | S\$ | 0.675 | 0.94 | 621 | 9.3 | 8.9 | 9.6 | 10.1 | 43.7 | 25.2 | 0.80 |
| PARAGON REIT | PGNREIT SP | NR | S\$ | 0.855 | n.a. | 1,793 | 5.9 | 5.4 | 5.1 | 5.3 | 49.3 | 29.9 | 0.94 |
| Starhill Global | SGREIT SP | NR | S\$ | 0.485 | n.a. | 811 | 7.8 | 8.0 | 8.2 | 8.2 | 64.7 | 37.2 | 0.67 |
| DIVERSIFIED | | | | | | | | | | | | | |
| CapLand China Trust | CLCT SP | NR | S\$ | 0.67 | n.a. | 843 | 10.1 | 10.0 | 10.3 | 10.0 | 91.4 | 40.8 | 0.56 |
| CapLand Int Comm Trust | CICT SP | BUY | S\$ | 1.96 | 2.22 | 9,743 | 5.5 | 5.4 | 5.5 | 5.7 | 66.9 | 40.0 | 0.92 |
| Frasers L&C Trust | FLT SP | BUY | S\$ | 0.945 | 1.38 | 2,621 | 7.4 | 7.3 | 7.2 | 7.2 | 55.3 | 32.7 | 0.82 |
| Mapletree Pan Asia | MPACT SP | BUY | S\$ | 1.24 | 1.73 | 4,811 | 7.2 | 7.0 | 7.2 | 7.3 | 73.9 | 40.5 | 0.71 |
| OUE Comm REIT | OUECT SP | NR | S\$ | 0.265 | n.a. | 1,074 | 7.9 | 7.9 | 8.3 | 7.9 | 71.2 | 38.8 | 0.44 |
| Suntec REIT | SUN SP | HOLD | S\$ | 1.07 | 1.22 | 2,301 | 6.7 | 6.2 | 6.4 | 6.4 | 70.0 | 42.3 | 0.51 |
| INTERNATIONAL (US/EUROPE) | | | | | | | | | | | | | |
| Cromwell REIT EUR | CERT SP | NR | € | 1.40 | n.a. | 847 | 11.2 | 10.1 | 10.3 | 10.4 | 84.1 | 41.3 | 0.66 |
| Elite Comm REIT GBP | ELITE SP | NR | £ | 0.25 | n.a. | 186 | 13.7 | 10.8 | 13.2 | 5.6 | 82.6 | 41.5 | 0.64 |
| IREIT Global | IREIT SP | NR | S\$ | 0.29 | n.a. | 288 | 9.4 | 10.6 | 10.1 | 10.1 | 65.8 | 36.2 | 0.49 |
| KepPacOak REIT USD | KORE SP | BUY | US\$ | 0.131 | 0.34 | 137 | 19.1 | 0.0 | 0.0 | 32.8 | 84.0 | 43.6 | 0.19 |
| Manulife REIT USD | MUST SP | BUY | US\$ | 0.062 | 0.164 | 110 | 0.0 | 0.0 | 0.0 | 45.0 | 151.2 | 56.7 | 0.19 |
| Prime US REIT USD | PRIME SP | BUY | US\$ | 0.114 | 0.34 | 149 | 23.8 | 7.3 | 19.7 | 40.4 | 98.1 | 48.1 | 0.19 |
| Utd Hampshire REIT USD | UHU SP | BUY | US\$ | 0.39 | 0.64 | 228 | 12.3 | 11.2 | 12.1 | 12.2 | 75.1 | 42.2 | 0.53 |

Source: Bloomberg, UOB Kay Hian

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