

### SECTOR UPDATE

## REITs – Singapore

Gradual Easing Of Inflation Positive For S-REITs

We expect the Fed Funds Rate to peak at 5.0% by mid-23 and remain at elevated levels in 2H23. Singapore government bond yields have receded, indicating that inflation and interest rates would eventually ease. We focus on SREITs with resilient balance sheets to weather a protracted period of elevated interest rates. **BUY CLAS (Target: S\$1.37), CLAR (Target: S\$3.27), FLT (Target: S\$1.56), MINT (Target: S\$3.30) and MLT (Target: S\$1.99). Maintain OVERWEIGHT.**

### WHAT'S NEW

- **Higher terminal Fed Funds Rate.** Fed chairman Jerome Powell has warned that the Fed has “some ways to go” in its efforts to tame inflation. He cautioned that the terminal level (peak) of interest rates could be higher than previously anticipated. The Fed raised the target for Fed Funds Rate by 50bp to 4.25% on 14 Dec 22. Based on the Fed’s dot plot, the median projection for Fed Funds Rate is 5.1% by end-23, an increase of 50bp compared to the previous survey conducted in Sep 22. We expect the Fed to hike 50bp on 1 Feb 23 and taper to a 25bp hike on 22 Mar 23. The Fed Funds Rate should reach a peak of 5.0% by mid-23 (previous: 4.5%) and remain at elevated levels in 2H23.
- **Inflation has eased for two consecutive months.** US CPI has eased for two consecutive months by 0.5ppt in Oct 22 and 0.6ppt in Nov 22. The latest reading for CPI of 7.1% is much lower compared to the peak of 9.1% in Jun 22. The sequential mom momentum has also moderated to 0.1% in Nov 22 compared to 0.4% in Oct 22. The biggest contributor to the slowdown was energy, which declined 1.6% mom (gasoline: -2.0% mom, electricity: -0.2% mom and piped gas: -3.5% mom). Used cars and medical care also dropped 2.9% and 0.7% mom respectively.
- **Lower government bond yield.** We attribute the slower inflation to easing of supply chain disruptions as economies reopened after weathering the wave of Omicron variant infections in early-22. We expect inflation in the US to have already peaked in Sep 22 and would continue easing gradually in 1H23. In response to the lower inflation, 10-year Singapore government bond yield has eased 40bp to 3.08% in 4Q22.

### ACTION

- **Maintain OVERWEIGHT.** The Fed expects core PCE inflation to recede gradually to 3.5% in 2023 and 2.5% in 2024. Based on the Fed’s dot plot, the Fed Funds Rate would be cut by 100bp to 4.1% in 2024. Thus, S-REITs have to weather higher interest rates in 2023 before the pressure eases in 2024. The sector provides attractive distribution yield of 5.97%, which is 1.1SD above long-term mean. Downside is limited to a correction of 8.4% if distribution yield spikes to 2SD above mean at 6.52%.
- **S-REITs weathering headwinds from higher interest rates.** We have revised our DPU forecasts and target prices due to:
  - a) Higher peak interest rates based on revised forecasts by UOB Global Economics & Markets Research:
    - o 3M SIBOR: 4.55% (previous: 3.85%)
    - o 3M Compounded SORA: 4.31% (previous: 3.86%)
    - o USD Fed Funds Rate: 5.00% (previous: 4.75%)
    - o EUR Refinancing Rate: 2.75% (previous: 1.75%)
    - o GBP Repo Rate: 4.00% (previous: 5.25%)
    - o AUD Official Cash Rate: 3.10% (previous: 3.10%)
    - o JPY Policy Rate: -0.10% (previous: -0.10%)

### PEER COMPARISON

Name	Ticker	Rec	Price 6 Jan 23	Target Price	Mkt Cap (US\$m)	Yield (%) Hist	Yield (%) Curr	Yield (%) Fwd 1Y	Yield (%) Fwd 2Y	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
CapLand Ascott	CLAS SP	BUY	1.03	1.37	2,634	4.2	5.2	6.0	6.3	71.7	35.8	0.89
CapLand Ascendas	CLAR SP	BUY	2.73	3.27	8,518	5.6	5.8	5.6	5.6	63.7	37.3	1.14
Frasers L&C Trust	FLT SP	BUY	1.17	1.56	3,223	6.5	6.1	6.2	6.2	43.4	27.4	0.90
Mapletree Ind Trust	MINT SP	BUY	2.25	3.30	4,547	6.1	6.0	6.0	6.1	56.5	37.8	1.17
Mapletree Log Trust	MLT SP	BUY	1.60	1.99	5,711	5.5	5.6	5.5	5.5	70.6	37.0	1.10

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT

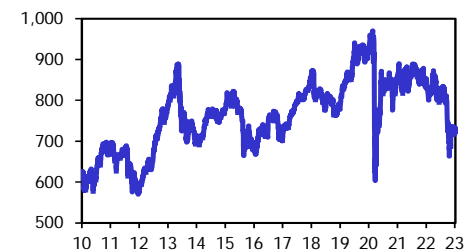
(Maintained)

### TOP S-REIT PICKS

Company	Rec	Share Price (S\$)	Target Price (S\$)
CLAS	BUY	1.03	1.37
CLAR	BUY	2.73	3.27
FLT	BUY	1.17	1.56
MINT	BUY	2.25	3.30
MLT	BUY	1.60	1.99

Source: UOB Kay Hian

### FTSE ST ALL-SHARE REITS INDEX (FSTREI)



Source: UOB Kay Hian

### S-REIT DISTRIBUTION YIELD



Source: UOB Kay Hian

### ANALYST(S)

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- b) We lowered our risk-free rate from 3.25% to 3.00%.
- c) We adjusted terminal growth for hospitality REIT slightly higher from 2.6% to 2.8% due to China reopening its international borders.
- On average, we have cut FY24 DPU by 1.8% but raised target prices by 3.5%.

### POLICY RATES

	Dec 22	1Q23F	2Q23F	3Q23F	4Q23F
SGD 3M SIBOR	4.17	4.45	4.55	4.55	4.55
SGD 3M Compounded SORA	2.92	3.99	4.31	4.31	4.31
USD Fed Funds Rate	4.00	5.00	5.00	5.00	5.00
EUR Refinancing Rate	2.00	2.75	2.75	2.75	2.75
GBP Repo Rate	3.00	4.00	4.00	4.00	4.00
AUD Official Cash Rate	2.85	3.10	3.10	3.10	3.10
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10

Source: UOB Global Economics & Markets Research

### IMPACT ON DPU AND TARGET PRICES

Name	Ticker	Rec	Price (S\$)		2024 DPU (S ¢)		% Chg	2024 Yield (%)		% Chg	Target Price (S\$)		% Chg
			6 Jan 23	Old	New	Old		New	Old		New		
CapLand Int Comm Trust	CICT SP	BUY	2.00	11.7	11.5	-2.0	5.9	5.7	-0.1	2.14	2.29	7.0	
CapLand Ascendas	CLAR SP	BUY	2.73	15.7	15.4	-1.9	5.7	5.6	-0.1	3.21	3.27	1.9	
Mapletree Pan Asia	MPACT SP	BUY	1.69	10.6	10.2	-4.3	6.3	6.0	-0.3	2.00	2.02	1.0	
Mapletree Log Trust	MLT SP	BUY	1.60	8.8	8.8	0.0	5.5	5.5	0.0	1.87	1.99	6.4	
Mapletree Ind Trust	MINT SP	BUY	2.25	13.8	13.8	-0.4	6.1	6.1	0.0	3.12	3.30	5.8	
Frasers L&C Trust	FLT SP	BUY	1.17	7.3	7.2	-0.7	6.2	6.2	0.0	1.48	1.56	5.4	
Suntec REIT	SUN SP	HOLD	1.37	7.8	7.7	-1.0	5.7	5.6	-0.1	1.39	1.37	-1.4	
Frasers CT	FCT SP	BUY	2.04	12.0	11.6	-3.3	5.9	5.7	-0.2	2.46	2.46	0.0	
Keppel REIT	KREIT SP	BUY	0.90	6.3	6.0	-3.5	7.0	6.7	-0.2	1.24	1.17	-5.6	
CapLand Ascott	CLAS SP	BUY	1.03	6.6	6.5	-1.7	6.4	6.3	-0.1	1.27	1.37	7.9	
Lendlease REIT	LREIT SP	BUY	0.68	4.6	4.6	0.0	6.8	6.8	0.0	0.82	0.87	6.1	
CDL HTrust	CDREIT SP	BUY	1.25	7.1	7.0	-2.7	5.7	5.6	-0.2	1.37	1.47	7.3	
Average													+3.5

Source: UOB Kay Hian

### SECTOR CATALYSTS

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

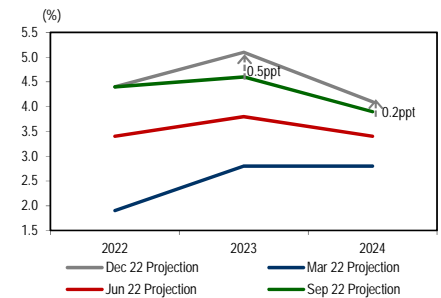
### ASSUMPTION CHANGES

- As stated in the above table.

### RISKS

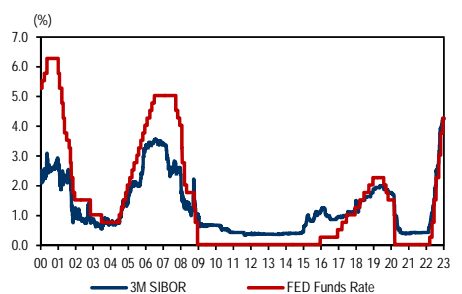
- Escalation of the Russia-Ukraine war beyond Ukraine.

### FED'S DOT PLOT (DEC 22 VS SEP 22)



Source: CEIC

### FED FUNDS RATE VS 3-MONTH SIBOR



Source: CEIC

### 10Y SINGAPORE GOVERNMENT BOND YIELD



Source: CEIC

### PEER COMPARISON

Name	Ticker	Rec	Curr	Price	Target	Mkt Cap	Yield (%)		Debt to		P/NAV (x)		
				6 Jan 23	Price	(US\$m)	Hist	Curr	Fwd 1Y	Fwd 2Y		Equity (%)	Assets (%)
<b>HOSPITALITY</b>													
CapLand Ascott	CLAS SP	BUY	S\$	1.03	1.37	2,634	4.2	5.2	6.0	6.3	71.7	35.8	0.89
CDL HTrust	CDREIT SP	BUY	S\$	1.25	1.47	1,148	3.4	4.3	5.4	5.6	67.6	39.4	0.95
Far East HTrust	FEHT SP	BUY	S\$	0.625	0.71	922	4.2	5.1	5.9	6.2	43.9	33.5	0.74
Frasers HTrust	FHT SP	NR	S\$	0.45	n.a.	643	3.6	4.7	6.7	6.4	60.7	36.4	0.70
<b>INDUSTRIAL</b>													
AIMS APAC REIT	AAREIT SP	NR	S\$	1.26	n.a.	671	7.5	7.0	7.5	7.5	81.0	36.5	0.90
CapLand Ascendas	CLAR SP	BUY	S\$	2.73	3.27	8,518	5.6	5.8	5.6	5.6	63.7	37.3	1.14
DigiCore REIT USD	DCREIT SP	BUY	US\$	0.575	0.90	645	n.a.	6.7	6.8	7.0	35.4	26.2	0.68
ESR-LOGOS REIT	EREIT SP	NR	S\$	0.37	n.a.	1,845	8.1	8.1	7.8	7.8	82.3	40.6	1.01
Keppel DC REIT	KDCREIT SP	NR	S\$	1.81	n.a.	2,309	5.4	5.5	5.6	5.8	57.6	37.5	1.32
Mapletree Ind Trust	MINT SP	BUY	S\$	2.25	3.30	4,547	6.1	6.0	6.0	6.1	56.5	37.8	1.17
Mapletree Log Trust	MLT SP	BUY	S\$	1.60	1.99	5,711	5.5	5.6	5.5	5.5	70.6	37.0	1.10
<b>OFFICE</b>													
Keppel REIT	KREIT SP	BUY	S\$	0.90	1.17	2,500	6.5	6.7	6.1	6.7	68.9	37.9	0.66
<b>RETAIL</b>													
Frasers CT	FCT SP	BUY	S\$	2.04	2.46	2,580	6.0	6.0	5.7	5.7	45.8	33.0	0.88
Lendlease REIT	LREIT SP	BUY	S\$	0.68	0.87	1,143	7.2	6.9	6.6	6.8	81.7	39.4	0.87
Sasseur REIT	SASSR SP	BUY	S\$	0.765	1.12	699	9.3	9.9	10.0	10.4	42.6	26.4	0.80
SPH REIT	SPHREIT SP	NR	S\$	0.905	n.a.	1,890	6.1	6.1	6.1	5.7	49.8	30.1	0.98
Starhill Global	SGREIT SP	NR	S\$	0.54	n.a.	901	7.0	7.4	7.6	7.8	62.0	36.5	0.69
<b>DIVERSIFIED</b>													
CapLand China Trust	CLCT SP	NR	S\$	1.16	n.a.	1,441	7.5	7.3	7.8	8.1	80.5	39.3	0.77
CapLand Int Comm Trust	CICT SP	BUY	S\$	2.00	2.29	9,849	5.2	5.3	5.6	5.7	68.9	41.2	0.94
Frasers L&C Trust	FLT SP	BUY	S\$	1.17	1.56	3,223	6.5	6.1	6.2	6.2	43.4	27.4	0.90
Mapletree Pan Asia	MPACT SP	BUY	S\$	1.69	2.02	6,568	5.6	6.0	6.0	6.0	73.2	40.1	0.93
OUE Comm REIT	OUECT SP	NR	S\$	0.34	n.a.	1,379	7.6	6.2	6.8	6.8	75.8	40.3	0.59
Suntec REIT	SUN SP	HOLD	S\$	1.37	1.37	2,924	6.3	6.6	5.5	5.6	78.7	43.1	0.65

Source: Bloomberg, UOB Kay Hian

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