

SECTOR UPDATE

REITs – Singapore

Focus On Enduring Investment Themes

Interest rates are near peak but likely to stay higher for longer. We focus on S-REITs with enduring investment themes and resilient balance sheets due to: a) normalisation of business and leisure travel: CLAS (Target: S\$1.35) and FEHT (Target: S\$0.75); b) AI expanding to mainstream applications: MINT (Target: S\$2.89) and DCREIT (Target: US\$0.73); and c) Singaporean companies' tightening hybrid working policies: CICT (Target: S\$2.20) and KREIT (Target: S\$1.12). Maintain OVERWEIGHT.

WHAT'S NEW

• **Who is the fairest of them all?** We assessed the resiliency of S-REITs' balance sheet based on the following five criteria:

- Aggregate leverage: FLT (divestment of Cross Street Exchange) and PGNREIT have the lowest aggregate leverage of 28.6% and 29.8% respectively. Conversely, SUN has the highest aggregate leverage of 42.6%.
- Adjusted interest coverage ratio (ICR): PREIT has the highest adjusted ICR of 13.8x (low cost of debt of 1.2%), followed by FLT at 8x. LREIT and SUN have the lowest adjusted ICR of about 2x.
- Weighted debt maturity: CICT has the longest weighted debt maturity of 4.3 years (MTN accounted for 50% of total borrowings). KDCREIT, MINT and MLT are also well supported by banks with weighted debt maturity of about 3.8 years. CDREIT and LREIT have the lowest weighted debt maturity of 2.1 years.
- Percentage of borrowings on fixed interest rates: PGNREIT has the highest proportion of borrowings on fixed interest rates at 85%, followed by CLAR and MLT at about 82%. CDREIT hedged the least at 48%.
- Percentage of borrowings due for refinancing in 2024: PGNREIT has the highest proportion of borrowings due for refinancing at 33.4%, followed by CDREIT at 32.4%. KDCREIT has the least refinancing at 4.1% for 2024.

BALANCED SCORE CARD TO ASSESS RESILIENCY OF S-REITS

Ranking	S-REIT	a) Aggregate Leverage	b) Adjusted ICR*	c) Weighted Debt Maturity	d) % Debt on Fixed Rates	e) % of Refinancing in 2024	Combined Scoring
1	KDCREIT	36.3	6.0	3.9	73.0	4.1	63
2	CLAR	36.7	4.1	3.3	81.5	13.1	62
3	MINT	38.2	4.4	3.7	78.0	13.4	60
4	PREIT	35.3	13.8	2.9	77.0	20.4	58
5	CLAS	38.6	4.3	3.6	80.0	19.2	55
6	MLT	39.5	3.3	3.8	82.0	14.0	54
7	CICT	40.4	3.3	4.3	78.0	15.3	51
8	FLT	28.6	8.0	2.2	75.4	26.6	45
9	PGNREIT	29.8	3.4	2.3	85.0	33.4	45
10	KREIT	39.2	3.0	2.9	76.0	21.8	35
11	FCT	40.2	3.9	2.5	63.0	17.1	34
12	MPACT	40.7	3.2	2.9	74.2	22.0	28
13	EREIT	39.4	2.5	2.6	74.8	26.2	27
14	LREIT	40.6	2.0	2.1	61.0	7.0	23
15	CDREIT	37.9	3.2	2.1	47.9	32.4	21
16	SUN	42.6	2.1	2.9	58.0	20.8	19

*Based on MAS Code on Collective Investment Schemes and 12M trailing financial performance. Adjusted for perpetual securities.

Source: UOB Kay Hian

PEER COMPARISON

Name	Ticker	Rec	Price 14 Sep 23	Target Price	Mkt Cap (US\$m)	Yield (%)	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
CapLand Int Comm Trust	CICT SP	BUY	1.90	2.20	9,291	5.6	68.3	40.4	0.90
CapLand Ascendas	CLAR SP	BUY	2.80	3.30	9,033	5.6	64.3	36.7	1.20
CapLand Ascott	CLAS SP	BUY	0.99	1.35	2,721	5.8	74.5	38.6	0.86
Frasers L&C Trust	FLT SP	BUY	1.15	1.56	3,151	6.6	43.4	28.6	0.90
Mapletree Ind Trust	MINT SP	BUY	2.27	2.89	4,725	6.0	58.9	38.2	1.23

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

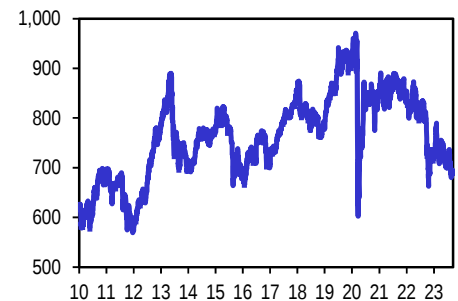
(Maintained)

TOP BUYS

Company	Rec	Share Price (\$S)	Target Price (\$S)
CICT	BUY	1.90	2.20
CLAR	BUY	2.80	3.30
CLAS	BUY	0.99	1.35
FLT	BUY	1.15	1.56
MINT	BUY	2.27	2.89

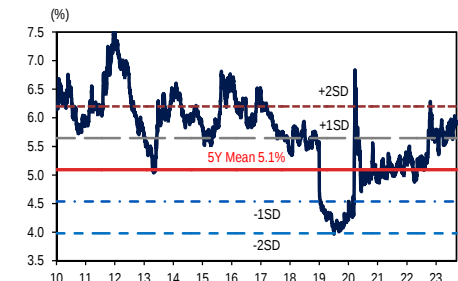
Source: UOB Kay Hian

FTSE ST ALL-SHARE REITS INDEX



Source: UOB Kay Hian

S-REIT DISTRIBUTION YIELD



Source: UOB Kay Hian

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ESSENTIALS

• **Support of strong sponsor matters.** KDCREIT, CLAR and MINT are assessed to have the most resilient balance sheet, followed by PREIT, CLAS, MLT and CICT. Eight of the top 10 most resilient S-REITs have the backing of strong sponsors in Mapletree Investments, CapitaLand Investment, Frasers Property and Keppel Capital. The benefits of having a strong sponsor are:

- Sponsor imposes discipline and prudent culture and ensures that S-REIT adopts a conservative approach to capital management, and
- S-REITs are able to harness the strong relationship with banks within their respective real estate conglomerate.

ACTION

• **Monetary policy already in restrictive territory.** The Fed has tightened the monetary policy significantly after raising Fed Funds Rate by 5.25ppt over a span of 18 months. The pace of rate hike has also moderated from 75bp per meeting to 25bp in alternate meetings. Interest rates are already near peak and any further tweak to the Fed Funds Rate is expected to be marginal. The Fed is, however, likely to keep the elevated interest rates higher for longer to maintain downward pressure on inflation, which is seen as too high.

POLICY RATES

	Jun 23	3Q23F	4Q23F
SGD 3M SIBOR	3.74	3.50	3.20
SGD 3M Compounded SORA	3.65	3.86	4.03
USD Fed Funds Rate	5.25	5.50	5.50
EUR Refinancing Rate	4.00	4.25	4.25
GBP Repo Rate	4.50	5.00	5.00
AUD Official Cash Rate	4.10	4.35	4.35
JPY Policy Rate	-0.10	-0.10	-0.10

Source: UOB Global Economics & Markets Research

• **Maintain OVERWEIGHT.** Yield spread above 10-year government bond yield has improved 52bp yoy to 2.70% after S-REITs corrected 15.0% in 2022 and 4.3% in 8M23. Resiliency of balance sheets is of paramount importance as S-REITs weather a protracted period of elevated interest rates.

• **The trend is your friend.** We focus on enduring investment themes as the timing for rate cuts is difficult to predict:

- Normalisation of business and leisure travel.** BUY hospitality REITs CLAS (Target: S\$1.35) and FEHT (Target: S\$0.75) as they benefit from pent-up demand for travel and the return of Chinese tourists.
- AI expanding to mainstream applications.** BUY data centre REITs MINT (Target: S\$2.89) and DCREIT (Target: US\$0.73).
- Singaporean companies' tightening of hybrid working policies.** BUY office REITs CICT (Target: S\$2.20) and KREIT (Target: S\$1.12) as offices in Singapore have high physical occupancy of 64%, compared with 50% for Europe and the US.

SECTOR CATALYSTS

- Hospitality, retail and office REITs benefitting from the 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

- We maintain our exiting DPU forecasts.

RISKS

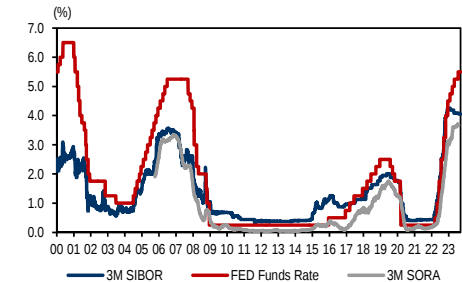
- Interest rates staying at elevated levels for a prolonged period of time. Escalation of the Russia-Ukraine war beyond Ukraine.

S-REIT YIELD SPREAD



Source: Federal Reserve

FED FUNDS RATE VS THREE-MONTH SIBOR



Source: Bloomberg

10Y SINGAPORE GOVERNMENT BOND YIELD



Source: Bloomberg

PEER COMPARISON

Name	Ticker	Rec	Curr	Price 14 Sep 23	Target Price	Mkt Cap (US\$m)	----- Hist	Yield (%) Curr	----- Fwd 1Y	----- Fwd 2Y	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
HEALTHCARE													
First REIT	FIRT SP	NR	S\$	0.225	n.a.	343	11.7	22.7	23.1	12.0	73.3	38.7	0.73
PLife REIT	PREIT SP	BUY	S\$	3.76	4.49	1,672	3.8	3.7	3.7	3.8	57.3	35.3	1.62
HOSPITALITY													
CapLand Ascott	CLAS SP	BUY	S\$	0.99	1.35	2,721	5.8	5.7	6.3	6.4	74.5	38.6	0.86
CDL HTrust	CDREIT SP	BUY	S\$	1.05	1.48	960	5.4	5.8	6.6	6.7	64.3	37.9	0.74
Far East HTrust	FEHT SP	BUY	S\$	0.625	0.75	919	5.2	6.1	6.4	5.9	40.9	32.0	0.69
Frasers HTrust	FHT SP	NR	S\$	0.50	n.a.	708	3.3	4.6	5.2	6.2	57.2	35.3	0.78
INDUSTRIAL													
AIMS APAC REIT	AAREIT SP	NR	S\$	1.33	n.a.	791	7.5	7.1	7.2	7.3	80.1	32.9	0.99
CapLand Ascendas	CLAR SP	BUY	S\$	2.80	3.30	9,033	5.6	5.5	5.5	5.6	64.3	36.7	1.20
Digi Core REIT USD	DCREIT SP	BUY	US\$	0.585	0.73	659	6.8	6.3	6.1	6.2	54.2	34.2	0.71
ESR-LOGOS REIT	EREIT SP	NR	S\$	0.32	n.a.	1,779	9.5	8.9	8.9	8.9	74.6	39.4	0.93
Keppel DC REIT	KDCREIT SP	NR	S\$	2.16	n.a.	2,731	4.7	4.6	4.9	5.1	60.6	36.3	1.55
Mapletree Ind Trust	MINT SP	BUY	S\$	2.27	2.89	4,725	6.0	6.1	6.2	6.4	58.9	38.2	1.23
Mapletree Log Trust	MLT SP	BUY	S\$	1.69	1.86	6,155	5.3	5.0	4.8	4.9	79.2	39.5	1.19
OFFICE													
Keppel REIT	KREIT SP	BUY	S\$	0.88	1.12	2,438	6.7	6.5	6.6	6.6	73.2	39.2	0.66
RETAIL													
Frasers CT	FCT SP	BUY	S\$	2.21	2.50	2,774	5.5	5.5	5.3	5.3	57.1	40.2	0.95
Lendlease REIT	LREIT SP	BUY	S\$	0.55	0.89	947	8.5	8.4	8.4	8.6	84.9	40.6	0.70
Sasseur REIT	SASSR SP	BUY	S\$	0.68	0.96	620	9.6	9.2	9.6	10.0	43.5	26.2	0.82
PARAGON REIT	PGNREIT SP	NR	S\$	0.895	n.a.	1,864	6.1	5.6	5.9	6.0	49.7	29.8	0.99
Starhill Global	SGREIT SP	NR	S\$	0.48	n.a.	796	7.9	8.1	8.3	8.5	63.6	36.7	0.66
DIVERSIFIED													
CapLand China Trust	CLCT SP	NR	S\$	0.91	n.a.	1,123	8.3	8.7	9.3	9.6	87.8	40.2	0.68
CapLand Int Comm Trust	CICT SP	BUY	S\$	1.90	2.20	9,291	5.6	5.6	5.7	5.8	68.3	40.4	0.90
Frasers L&C Trust	FLT SP	BUY	S\$	1.15	1.56	3,151	6.6	6.2	6.3	6.4	43.4	28.6	0.90
Mapletree Pan Asia	MPACT SP	BUY	S\$	1.49	1.90	5,744	6.4	6.2	6.3	6.4	74.7	40.7	0.85
OUE Comm REIT	OUECT SP	NR	S\$	0.225	n.a.	906	9.4	8.0	8.0	8.4	72.7	39.1	0.38
Suntec REIT	SUN SP	HOLD	S\$	1.21	1.37	2,573	7.3	6.4	6.3	6.4	70.5	42.6	0.57
INTERNATIONAL (US/EUROPE)													
Cromwell REIT EUR	CERT SP	NR	€	1.36	n.a.	821	12.6	11.8	12.1	12.5	82.9	41.5	0.59
Elite Comm REIT GBP	ELITE SP	NR	£	0.25	n.a.	147	19.6	14.7	15.1	15.9	90.9	46.0	0.48
IREIT Global	IREIT SP	NR	S\$	0.39	n.a.	385	10.1	7.9	7.1	11.2	56.3	33.1	0.52
KepPacOak REIT USD	KORE SP	BUY	US\$	0.220	0.50	230	26.4	22.8	17.7	18.1	69.2	38.4	0.27
Manulife REIT USD	MUST SP	BUY	US\$	0.054	0.22	96	88.0	0.0	24.4	25.5	139.4	49.5	0.13
Prime US REIT USD	PRIME SP	BUY	US\$	0.136	0.59	161	48.2	36.8	21.3	22.3	77.4	42.8	0.18
Utd Hampshire REIT USD	UHU SP	BUY	US\$	0.44	0.76	253	13.4	11.5	12.3	12.4	74.3	42.0	0.60

Source: Bloomberg, UOB Kay Hian

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