

SECTOR UPDATE

REITs – Singapore

3Q23: CLAR (In Line); 9M23: PREIT (In Line)

BUY CLAR (Target: S\$3.13) for excellence in execution to sustain strong positive rental reversion, maintain high occupancies and orchestrate a string of successive redevelopment projects. BUY PREIT (Target: S\$4.19) for rent step-up of 25.3% for Singapore hospitals in 2026 after upgrading MEH to a modern and integrated multi-service medical hub. Maintain OVERWEIGHT on S-REITs.

RESULTS

CapitaLand Ascendas REIT (CLAR SP/BUY/Target: S\$3.13)

- CapitaLand Ascendas REIT (CLAR) provided 3Q23 business update:
 - Stable occupancies across Singapore, Australia and the UK/Europe.** Portfolio occupancy was stable at 94.5% in 3Q23. Occupancy rate for Singapore improved 0.4ppt qoq to 92.7%, which is offset by a marginal easing of occupancy rate for Australia and the UK/Europe by 0.5ppt and 0.2ppt qoq respectively to 99.0% and 99.3%. Australia and the UK/Europe remain near full occupancy.
 - Strong positive rental reversion for logistics properties.** CLAR recorded positive rental reversion of 10.2% for leases renewed in multi-tenant buildings in 3Q23 (Singapore: +9.8%, the US: +8.5% and the UK/Europe: +28.8%). Logistics properties registered exceptionally strong rental reversion at 25.5% in Singapore and 28.8% in the UK/Europe due to tight supply and adoption of just-in-case supply chain management. Management expects positive rental reversion at high single digit for full-year 2023.
 - Further expansion in data centres.** CLAR completed the acquisition of two-storey high specification colocation data centre at Watford in North-West London for £125.1m (S\$209.4m) on 17 Aug 23. This is CLAR's 5th data centre in the UK. Its data centre portfolio will expand 15% to S\$1.5b, representing 9% of its total investment properties. The data centre is 80% occupied by five investment-grade tenants. The acquisition is accretive to pro forma 2022 DPU by 0.7%.
 - Embarked on four redevelopment and convert-to-suit projects.** CLAR has embarked on a S\$107m redevelopment to transform two blocks of traditional warehouses with cargo lifts at 5 Toh Guan Road East in Singapore into a modern six-storey ramp-up logistics facility. The redevelopment utilises untapped plot ratio to increase GFA by 71% to 50,920sqm and is scheduled to complete in 4Q25. In total, CLAR has four ongoing redevelopment and convert-to-suit projects (1 Science Park Drive, 27 IBP and 5 Toh Guan Road East in Singapore and 6055 Lusk Boulevard in San Diego, California) worth S\$600m to enhance return from its existing portfolio.
 - Coping with higher cost of debt.** Aggregate leverage remains healthy at 37.2% as of Sep 23. Average cost of debt was stable at 3.3%. The debt maturity profile is well-spread with less than 15% of borrowings due for renewal in any single year for the next five years. Interest coverage ratio was healthy at 3.8x.
 - Maintain BUY.** Our target price of S\$3.13 is based on DDM (cost of equity: 7.25%, terminal growth: 2.5%).

KEY OPERATING METRICS – CLAR

Year to 31 Dec	3Q22	4Q22	1Q23	2Q23	3Q23	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	7.93	n.a.	7.72	n.a.	n.a.	n.a.
Occupancy	94.5%	94.6%	94.4%	94.4%	94.5%	0ppt	0.1ppt
Aggregate Leverage	37.3%	36.6%	38.2%	36.7%	37.2%	-0.1ppt	0.5ppt
Average Cost of Debt	2.2%	2.5%	3.3%	3.30%	3.30%	1.1ppt	0ppt
% Borrowing in Fixed Rates	78.0%	79.4%	77.0%	81.5%	80.6%	2.6ppt	-0.9ppt
WALE by NLA (years)	3.9	3.8	3.8	3.9	3.9	0yrs	0yrs
Weighted Debt Maturity (years)	3.5	3.7	3.2	3.3	3.3	-0.2yrs	0yrs
Rental Reversion	5.4%	8.0%	11.1%	14.2%	10.2%	4.8ppt	-4ppt

Source: CLAR, UOB Kay Hian * hoh % chg for DPU

OVERWEIGHT

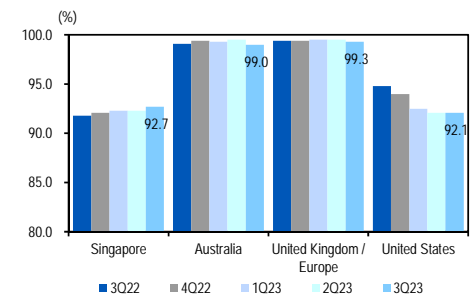
(Maintained)

KEY PICKS

Company	Rec	Share Price (\$S)	Target Price (\$S)
FEHT	BUY	0.59	0.76
FCT	BUY	2.07	2.42
KREIT	BUY	0.80	1.06
LREIT	BUY	0.51	0.79
MINT	BUY	2.15	2.69

Source: UOB Kay Hian

PORTFOLIO OCCUPANCY



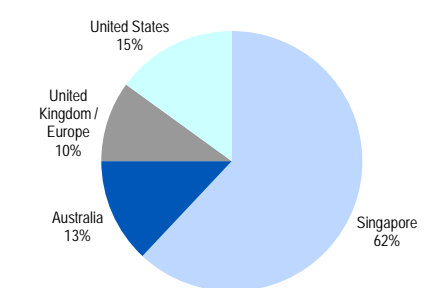
Source: CLAR

POSITIVE RENTAL REVERSIONS

% Change in Renewal Rates	3Q22	4Q22	1Q23	2Q23	3Q23
SINGAPORE	4.4%	6.0%	11.2%	19.5%	9.8%
- Business Space & Life Science	3.2%	1.8%	11.5%	17.9%	6.4%
- Logistics	14.6%	13.1%	23.6%	39.1%	25.5%
- Industrial & Data Centres	2.8%	3.7%	6.4%	9.7%	8.6%
AUSTRALIA	0.2%	n.a.	14.3%	12.9%	n.a.
- Business Space	0.2%	n.a.	18.1%	12.9%	n.a.
- Logistics	n.a.	n.a.	2.0%	n.a.	n.a.
UNITED STATES	48.0%	39.0%	11.3%	11.0%	8.5%
- Business Space	10.6%	30.9%	11.3%	9.5%	8.5%
- Logistics	60.0%	42.6%	n.a.	11.3%	n.a.
UNITED KINGDOM / EUROPE	n.a.	n.a.	0.0%	n.a.	28.8%
- Data Centres	n.a.	n.a.	0.0%	n.a.	n.a.
- Logistics	n.a.	n.a.	n.a.	n.a.	28.8%
Total Portfolio	5.4%	8.0%	11.1%	18.0%	10.2%

Source: CLAR

PORTFOLIO VALUATION BY GEOGRAPHICAL REGION



Source: CLAR

ANALYST(S)

Jonathan Koh, CFA, MSc Econ
 +65 6590 6620
 jonathankoh@uobkayhian.com

Parkway Life REIT (PREIT SP/BUY/Target: S\$4.19)

9M23 RESULTS

Year to 31 Dec (S\$m)	9M23	yoy % chg	Remarks
Gross Revenue	110.9	+24.6	Positive impact from renewed lease for Singapore hospitals.
Net Property Income	104.5	+26.2	Acquired five nursing homes in Sep 22.
Distributable Income	66.5	+2.8	Includes straight-line rental adjustment.
DPU (S cents)	10.99	+2.8	

Source: PREIT, UOB Kay Hian

- Parkway Life REIT (PREIT) reported DPU of 10.99 S cents for 9M23 (+2.8% yoy), which is in line with our expectation.
- **Resilient growth from healthcare.** Gross revenue and NPI increased 24.6% and 26.2% yoy respectively in 9M23 due to contribution from five nursing homes acquired in Sep 22 and higher rent from the Singapore properties under the new master lease agreements that commenced in Aug 22, partially offset by depreciation of the Japanese yen against the Singapore dollar. Finance costs surged 110% yoy due to funding for capex and acquisitions and higher interest rates for SGD debts. Distributable income normalised to growth of 2.8% yoy after straight-line rental adjustment.
- **Reaping the fruits from renewal capex.** Singapore hospitals will benefit from rent step-up of 25.3% in 2026 after the completion of Project Renaissance. The S\$350m Project Renaissance, jointly funded by sponsor IHH Healthcare and PREIT (PREIT's share in renewal capex is S\$150m), will transform Mount Elizabeth Hospital (MEH) into a modern and integrated multi-service medical hub over three years.
- **Further expansion for nursing homes in Japan.** PREIT has completed the acquisition of two nursing homes in the Osaka Prefecture, namely HIBISU Shirokita Koendori and HIBISU Suita, for total consideration price of ¥1,766.4m (S\$16.4m) on 27 Oct 23. The two freehold properties are well-located in residential areas in close proximity to central Osaka City. They have long average lease term of 29 years. The acquisition was made at 11.9% below valuation and will be fully funded by JPY debts.
- **Prudent capital management.** PREIT has healthy aggregate leverage of 36% and low all-in cost of debt at 1.32%. Interest coverage ratio is high at 12.8x. There is no long-term debt refinancing needed till Feb 24. PREIT adopts a natural hedge strategy for its Japanese investments to maintain a stable NAV. About 74% of its interest rate exposure is hedged. It uses JPY forward contracts to hedge JPY income till 1Q27.
- **Maintain BUY** and target price of S\$4.19 based on DDM (cost of equity: 6.75%, terminal growth: 3.0%).

KEY OPERATING METRICS - PREIT

	3Q22	4Q22	1Q23	2Q23	3Q23	yoy % chg	qoq % chg*
DPU (S cents)	n.a.	7.32	n.a.	7.29	n.a.	n.a.	n.a.
Occupancy	99.7%	99.7%	99.7%	99.7%	99.7%	0ppt	0ppt
Aggregate Leverage	34.7%	36.4%	37.5%	35.3%	36.0%	1.3ppt	0.7ppt
Average Cost of Debt	0.72%	1.04%	1.19%	1.19%	1.32%	0.6ppt	0.13ppt
WALE by Gross Revenue (years)	17.2	17.0	16.8	16.7	16.5	-0.7yrs	-0.2yrs
Average Debt Maturity (years)	2.9	3.4	3.1	2.9	2.8	-0.1yrs	-0.1yrs

Source: PREIT, UOB Kay Hian * hoh % chg for DPU

ACTION

- BUY CLAR (Target: S\$3.13) and PREIT (Target: S\$4.19).

SECTOR CATALYSTS

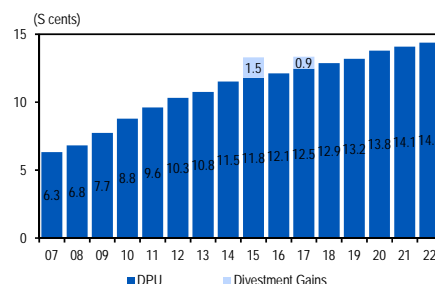
- Hospitality, retail and office REITs benefitting from the reopening of the economy and easing of COVID-19 restrictions in Singapore and around the region.
- Limited new supply for logistics and retail segments in Singapore.

PEER COMPARISON

Name	Ticker	Rec	Price 31 Oct 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 Ascendas	CLAR SP	BUY	2.60	3.13	8,334	6.1	5.9	6.0	6.0	64.3	37.2	1.12
PLife REIT	PREIT SP	BUY	3.36	4.19	1,484	4.3	4.2	4.2	4.3	57.3	35.3	1.44

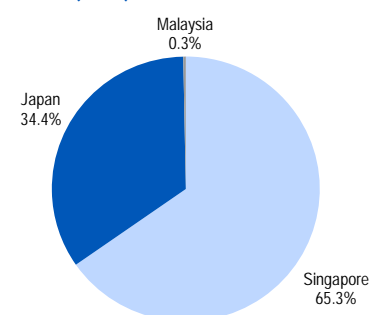
Source: Bloomberg, UOB Kay Hian

UNINTERRUPTED DPU GROWTH SINCE IPO



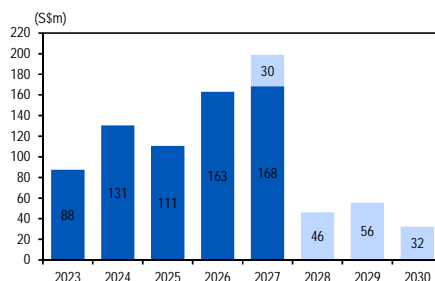
Source: PREIT

ASSET MIX (3Q23)



Source: PREIT

DEBT MATURITY PROFILE (3Q23)



Source: PREIT

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