

## SECTOR UPDATE

### REITs – Singapore

Strength Of Balance Sheet Being Stressed And Tested

The rapid surge in interest rates affects S-REITs who have not adequately hedged their cost of borrowings. We cut DCREIT's 2023 DPU by 15% but upgrade the S-REIT to BUY after the recent 35% sell-off. MLT has only 11% of its borrowings exposed to rising interest rates. Stay invested in hospitality, retail and office REITs as reopening plays. BUY ART (Target: S\$1.31), FCT (Target: S\$2.74), FEHT (Target: S\$0.77) and LREIT (Target: S\$0.95). Maintain OVERWEIGHT.

#### WHAT'S NEW

- **The Fed's renewed fervour to clamp down on inflation.** The Fed has accelerated the tempo of interest rate hikes to quell inflationary pressures. It hiked the Fed Funds Rate by a massive 75bp to 1.50% after the FOMC meeting on 15 Jun 22. Based on the Fed's dot plot, the median projected path for Fed Funds Rate would hit 3.4% by end-22 and 3.8% by end-23. The forecast translates to four hikes totalling 200bp in 2H22, and we expect another 75bp hike on 27 July. The rate hikes are front-loaded in 2022 and the intensity of rate hikes could ease after the FOMC meeting on 21 Sep 22.
- **Interest rates in Singapore have moved up accordingly.** Higher inflation and the Fed's intervention have caused short-term interest rates to surge. The US yield curve has flattened, indicating a slowdown in economic growth. Fortunately, the 10-year – 2-year term spread has stayed marginally positive at 0.1%. The current short-end of the yield curve implies forward short-term interest rates at 2.7% for one year, 3.4% for two years and 3.4% for three years. Three-month SIBOR and three-month compounded SORA have rose 147bp and 57bp respectively to 1.91% and 0.76% in 1H22. UOB Global Economics & Markets Research forecasts three-month SIBOR and three-month compounded SORA to reach 2.75% (+2.31ppt yoy) and 2.29% (+2.10ppt yoy) respectively by end-22.

#### ACTION

- **Maintain OVERWEIGHT.** S-REITs are not out of the woods yet but the gradual easing of inflationary pressure provides some respite. Real estate is a hedge against inflationary pressure, which could potentially push rents higher. Downside for the S-REITs sector is limited to 13.6% if distribution yield yield spikes to 2x SD above long-term mean.
- **The good, the bad and the ugly.** SASSR has the most conservative aggregate leverage of 26.2%. Conversely, SUN and MUST are more highly geared with aggregate leverage of 43.3% and 42.8% respectively. LREIT hedges 90% of its borrowings on fixed rates. CICT, KORE and MUST also have a high proportion of borrowings on fixed rates of 85%, 84.2% and 86.5% respectively. DCREIT and SUN hedge a lower 50% and 51% of their borrowings to fixed rates.
- **Impact of higher interest rates.** We now expect US Fed Funds Rate to hit 3.25% by end-22 (previous: 2.5%). We have factored in the negative impact on DPU from the accelerated hikes in interest rates around the globe based on forecasts by UOB Global Economics & Markets Research. On average, we have adjusted 2023 DPU lower by 2.1% for 20 S-REITs under our coverage.

#### PEER COMPARISON

Name	Ticker	Rec	Price 30 Jun 22	Target Price	Mkt Cap (US\$m)	Yield (%)				Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
						Hist	Curr	Fwd 1Y	Fwd 2Y			
Ascott Trust	ART SP	BUY	1.16	1.31	2,694	3.8	4.6	5.6	5.7	70.4	37.8	0.98
Far East HTrust	FEHT SP	BUY	0.64	0.77	913	4.1	4.6	6.0	6.3	44.8	33.4	0.76
Fraser CT	FCT SP	BUY	2.29	2.74	2,802	5.3	5.6	5.7	5.5	46.1	33.3	0.99
Lendlease REIT	LREIT SP	BUY	0.795	0.950	1,341	5.9	5.7	6.5	6.5	68.3	27.7	0.99

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT

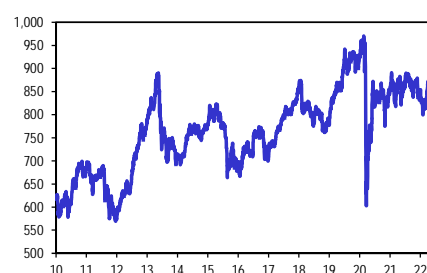
(Maintained)

#### TOP BUYS

Company	Rec	Share Price(S\$)	Target Price (S\$)
ART	BUY	1.16	1.31
FCT	BUY	2.29	2.74
FEHT	BUY	0.64	0.77
LREIT	BUY	0.795	0.950

Source: UOB Kay Hian

#### FTSE ST ALL-SHARE REITS INDEX



Source: UOB Kay Hian

#### S-REIT DISTRIBUTION YIELD



Source: UOB Kay Hian

#### ANALYST(S)

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

### IMPACT ON DPU AND TARGET PRICES

Name	Ticker	Rec	Curr	Price 30 Jun 22	Target Price Old New	2023 DPU (\$) Old New	% Chg	Aggregate Leverage (%)	Cost of Debts 1Q22 (%)	% Borrowings on Fixed Rate (%)	Average Debt Maturity (years)
<b>HEALTHCARE</b>											
PLife REIT	PREIT SP	HOLD	S\$	4.80	4.65 4.65	15.05 15.05	0.0	34.5	0.56	n.a.	3.7
<b>HOSPITALITY</b>											
Ascott Trust	ART SP	BUY	S\$	1.14	1.33 1.31	6.49 6.41	-1.2	37.8	1.60	70.0	2.6
CDL HT Trust	CDREIT SP	BUY	S\$	1.27	1.48 1.42	6.64 6.34	-4.6	39.8	2.10	63.5	2.1
Far East HTrust	FEHT SP	BUY	S\$	0.64	0.78 0.77	3.87 3.82	-1.2	33.4	1.70	67.6	3.1
<b>INDUSTRIAL</b>											
Ascendas REIT	AREIT SP	BUY	S\$	2.77	3.70 3.69	17.02 16.97	-0.3	36.8	2.10	79.1	3.5
DigiCore REIT USD	DCREIT SP	BUY	US\$	0.83	1.03 0.98	4.72 4.01	-15.0	26.0	2.10	50.0	4.7
Mapletree Ind Trust	MINT SP	BUY	S\$	2.44	3.41 3.36	13.84 13.60	-1.7	38.4	2.40	70.5	3.8
Mapletree Log Trust	MLT SP	BUY	S\$	1.63	2.09 2.08	9.23 9.19	-0.5	36.8	2.20	79.0	3.8
<b>OFFICE</b>											
Keppel REIT	KREIT SP	BUY	S\$	1.13	1.41 1.41	5.63 5.63	0.0	38.7	1.81	71.0	3.1
<b>RETAIL</b>											
Fraser's CT	FCT SP	BUY	S\$	2.26	2.79 2.74	13.21 13.00	-1.6	33.3	2.20	68.0	2.1
Lend Lease REIT	LREIT SP	BUY	S\$	0.795	0.960 0.950	5.24 5.20	-0.7	40.7	1.20	90.0	1.8
Sasseur REIT	SASSR SP	BUY	S\$	0.78	1.12 1.12	7.68 7.68	0.0	26.2	4.40	72.0	1.0
<b>DIVERSIFIED</b>											
CapitaLand Int Comm Trust	CICT SP	HOLD	S\$	2.13	2.37 2.34	12.06 11.91	-1.2	39.1	2.30	85.0	3.9
Fraser's L&C Trust	FLT SP	BUY	S\$	1.28	1.68 1.65	7.78 7.62	-2.1	29.5	1.60	82.6	3.1
Mapletree Comm Trust	MCT SP	BUY	S\$	1.77	2.36 2.34	10.19 10.10	-0.9	33.5	2.40	80.3	3.3
Suntic REIT	SUN SP	HOLD	S\$	1.66	1.80 1.73	10.05 9.57	-4.8	43.3	2.31	51.0	2.7
<b>OFFSHORE</b>											
Elite Comm REIT GBP	ELITE SP	BUY	£	0.64	0.83 0.81	4.96 4.86	-2.1	42.8	2.10	63.0	1.8
KepPacOak REIT USD	KORE SP	BUY	US\$	0.70	1.01 0.99	6.06 5.93	-2.0	37.5	2.93	84.2	2.9
Manulife REIT USD	MUST SP	BUY	US\$	0.590	0.800 0.795	5.81 5.77	-0.7	42.8	2.86	86.5	2.6
Utd Hampshire REIT USD	UHU SP	BUY	US\$	0.605	0.910 0.900	6.20 6.12	-1.3	38.9	2.89	79.6	2.3
Average							-2.1	36.0	2.18	73.3	2.9

Source: UOB Kay Hian

### Digital Core REIT (Upgrade to BUY/DCREIT SP/Target: S\$0.98).

- DCREIT has maintained the proportion of borrowings hedged to fixed rates at 50%, which means the remaining half of its borrowings are exposed to higher US interest rates.
- We expect its cost of debts to increase from the current 2.1% to 3.6% in 2023 assuming US Fed Funds Rate hit 3.25% by end-22. Capitalisation rates for data centres have remained compressed and unchanged at about 4% for developed markets. Thus, we did not factor in any positive impact from the acquisition of data centres. The cut for 2023 DPU forecast is severe at 15% but DCREIT's unit price has already fallen by 35% from the peak of US\$1.20 in Jan 22 to the current US\$0.77. Distribution yield of 5.2% for 2023 is attractive due to its sponsor Digital Realty's pedigree as the largest data centre operator in the world and the more limited future supply of data centres.
- **Upgrade to BUY.** Our target price for DCREIT of US\$0.98 is based on DDM (cost of equity: 6.75%, terminal growth: 2.8%).

### Mapletree Logistics Trust (BUY/MLT SP/Target: S\$2.08).

- MLT has conservatively hedged 79% of its borrowings to fixed rates. 10% of its borrowings are unhedged yen-denominated borrowings but JPY Policy Rate is expected to remain unchanged at -0.1%. This means that only 11% of its borrowings are exposed to rising interest rates (Singapore dollar: 5% and others (USD, AUD, CNH and INR): 6%).
- MLT has switched emphasis from acquisition to redevelopment projects. It has embarked on the redevelopment of 51 Benoi Road into a six-storey ramp-up logistics property with GFA of 865,000sf. It plans to amalgamate and redevelop two newly-acquired parcels of leasehold industrial properties and its existing Subang 3 and 4 properties at Subang Jaya, Selangor into a six-storey ramp-up logistics megahub with GFA of 1.4m sf.
- **Maintain BUY.** Our target price of S\$2.08 is based on Dividend Discount Model (cost of equity: 7.0%, terminal growth: 2.8%).

### SECTOR CATALYSTS

- Hospitality, retail and office REITs benefitting from the reopening of the economy.
- Limited new supply for the office, logistics and retail segments in 2022.

### ASSUMPTION CHANGES

- As stated on table attached above.

### RISKS

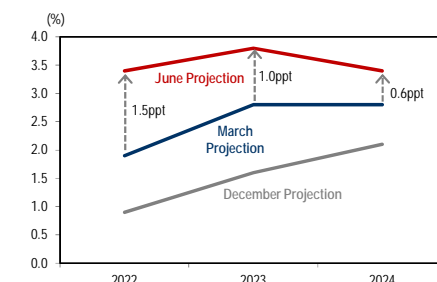
- Escalation of the Russia-Ukraine war beyond Ukraine.

### FORECASTS FOR INTEREST RATES

Rates (%)	Jun 22	Dec 22	Jun 23
AUD Official Cash Rate	0.85	1.75	2.25
CNY 1Y Loan Prime Rate	3.70	3.55	3.65
EUR Refinancing Rate	0.00	0.75	1.00
GBP Repo Rate	1.25	2.25	2.25
JPY Policy Rate	-0.10	-0.10	-0.10
SGD SORA	0.61	2.29	2.96
SGD 3M SIBOR	1.56	2.75	3.10
US Fed Funds Rate	1.50	3.25	3.75
USD SOFR	0.51	2.99	3.91
USD 3M LIBOR	2.03	3.65	4.10

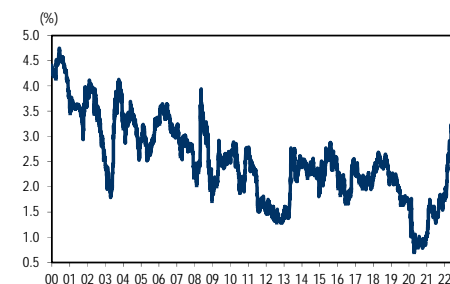
Source: UOB Global Economics & Markets Research

### THE FED'S DOT PLOT (JUN 22 VS MAR 22)



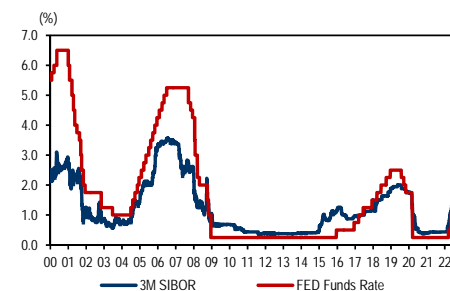
Source: CEIC

### SINGAPORE GOVERNMENT BOND YIELDS



Source: CEIC

### FED FUNDS RATE VS THREE-MONTH SIBOR



Source: CEIC

### PEER COMPARISON

Name	Ticker	Rec	Curr	Price 30 Jun 22	Target Price	Mkt Cap (US\$m)	----- Hist	Yield (%) Curr	----- Fwd 1Y	----- Fwd 2Y	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
<b>HEALTHCARE</b>													
First REIT	FIRT SP	NR	S\$	0.275	n.a.	406	9.5	n.a.	n.a.	n.a.	66.3	35.5	0.80
PLife REIT	PREIT SP	HOLD	S\$	4.87	4.65	2,119	2.9	3.0	3.1	3.1	55.2	34.4	2.05
<b>HOSPITALITY</b>													
Ascott Trust	ART SP	BUY	S\$	1.14	1.31	2,694	3.8	4.6	5.6	5.7	70.4	37.8	0.98
CDL HTrust	CDREIT SP	BUY	S\$	1.27	1.42	1,128	3.4	4.0	5.0	5.6	68.6	39.8	0.96
Far East HTrust	FEHT SP	BUY	S\$	0.64	0.77	913	4.1	4.6	6.0	6.3	44.8	33.4	0.76
Frasers HTrust	FHT SP	NR	S\$	0.70	n.a.	970	1.4	2.7	2.9	4.7	78.7	42.3	1.07
<b>INDUSTRIAL</b>													
AIMS APAC REIT	AAREIT SP	NR	S\$	1.35	n.a.	696	7.0	7.3	7.4	7.4	85.9	37.5	0.97
Ascendas REIT	AREIT SP	BUY	S\$	2.85	3.69	8,610	5.4	6.0	6.0	6.0	61.6	36.8	1.20
DigiCore REIT USD	DCREIT SP	BUY	US\$	0.77	0.98	868	n.a.	5.2	5.2	5.3	35.4	26.0	0.88
ESR-LOGOS REIT	EREIT SP	NR	S\$	0.41	n.a.	1,943	7.4	7.4	7.7	7.9	74.5	39.5	1.10
Keppel DC REIT	KDCREIT SP	NR	S\$	1.97	n.a.	2,433	5.0	5.1	5.3	5.5	56.3	36.1	1.48
Mapletree Ind Trust	MINT SP	BUY	S\$	2.60	3.36	5,026	5.3	5.1	5.2	5.4	58.3	38.4	1.40
Mapletree Log Trust	MLT SP	BUY	S\$	1.68	2.08	5,785	5.2	5.5	5.5	5.5	70.1	36.8	1.14
<b>OFFICE</b>													
Keppel REIT	KREIT SP	BUY	S\$	1.09	1.41	2,917	5.3	5.4	5.2	5.7	71.6	38.4	0.84
<b>RETAIL</b>													
Frasers CT	FCT SP	BUY	S\$	2.29	2.74	2,802	5.3	5.6	5.7	5.5	46.1	33.3	0.99
Lendlease REIT	LREIT SP	BUY	S\$	0.795	0.950	1,341	5.9	5.7	6.5	6.5	68.3	27.7	0.99
Mapletree NAC Trust	MAGIC SP	NR	S\$	1.20	n.a.	3,054	5.7	5.8	5.9	6.3	82.3	41.5	0.97
Sasseur REIT	SASSR SP	BUY	S\$	0.78	1.12	687	9.1	9.7	9.8	10.2	42.5	26.2	0.79
SPH REIT	SPHREIT SP	NR	S\$	0.935	n.a.	1,886	5.8	5.9	6.0	6.5	50.2	30.2	1.02
Starhill Global	SGREIT SP	NR	S\$	0.58	n.a.	934	6.8	6.9	7.2	7.4	61.8	36.1	0.72
<b>DIVERSIFIED</b>													
CapLand China Trust	CLCT SP	NR	S\$	1.15	n.a.	1,382	7.6	7.7	8.3	8.8	78.6	38.1	0.74
CapLand Int Comm Trust	CICT SP	HOLD	S\$	2.17	2.34	10,345	4.8	5.2	5.5	5.6	63.2	39.1	1.05
Frasers L&C Trust	FLT SP	BUY	S\$	1.33	1.65	3,530	5.8	5.8	5.7	5.8	55.7	33.1	1.01
Mapletree Comm Trust	MCT SP	BUY	S\$	1.83	2.34	4,380	5.2	5.6	5.5	5.6	52.0	33.5	1.05
OUE Comm REIT	OUECT SP	NR	S\$	0.385	n.a.	1,510	6.8	6.8	6.5	3.1	73.8	39.4	0.67
Suntec REIT	SUN SP	HOLD	S\$	1.62	1.73	3,344	5.3	6.3	5.9	5.7	81.8	43.3	0.76
<b>INTERNATIONAL REITS</b>													
Cromwell REIT EUR	CERT SP	NR	€	1.95	n.a.	1,145	8.7	8.7	9.0	9.2	72.1	38.6	0.79
Elite Comm REIT GBP	ELITE SP	BUY	£	0.625	0.81	363	8.7	8.1	7.8	8.3	79.6	42.8	1.06
IREIT Global	IREIT SP	NR	S\$	0.61	n.a.	507	7.0	7.1	7.1	8.1	53.7	32.1	0.78
KepPacOak REIT USD	KORE SP	BUY	US\$	0.70	0.99	731	9.1	8.8	8.5	8.4	66.4	37.5	0.85
Manulife REIT USD	MUST SP	BUY	US\$	0.570	0.795	1,006	9.4	9.9	10.1	10.5	81.8	42.8	0.85
Prime US REIT USD	PRIME SP	NR	US\$	0.675	n.a.	794	10.0	10.4	10.5	10.7	66.9	39.1	0.80
Utd Hampshire REIT USD	UHU SP	BUY	US\$	0.615	0.900	344	9.9	10.5	10.0	10.0	65.1	38.9	0.82

Source: Bloomberg, UOB Kay Hian

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