

SECTOR UPDATE

Retail REITs – Singapore

Recovery From Downtown Malls, Resiliency From Suburban Malls

Retailers and F&B operators are back operating at full capacity after the economy reopened in Apr 22. Penetration for e-commerce has receded. Pick-up in visitor arrivals is an added catalyst for downtown malls in 2H22. Downtown malls offer better upside from reopening, while suburban malls are more defensive. Maintain **OVERWEIGHT**. BUY for FCT (Target: S\$2.74), LREIT (Target: S\$0.96) and MPACT (Target: S\$2.22).

WHAT'S NEW

- **Retailers operating at full capacity without restrictions.** Safe distancing between individuals and the cap on group size of 10 persons for dining in at F&B establishments were lifted on 26 Apr 22. Wearing of masks is no longer required indoors starting 29 Aug 22. Masks are only mandatory in two settings: a) healthcare facilities, such as ambulances, hospitals, polyclinics and residential care homes, and b) public transport, such as the MRT, LRT, buses and boarding areas.
- **Consumer spending picking up.** Retail sales excluding motor vehicles grew 18.1% yoy in Jul 22, the 4th consecutive month of double-digit growth. It increased 10.4% yoy volume-wise after adjusting for inflation at 7.0%. On a seasonally adjusted basis, retail sales expanded 0.5% mom. F&B generated strong growth of 41.9% yoy driven by restaurants (easing of restrictions) and food caterers (return of large-scale events). Apparel & footwear, department stores, watches & jewellery, cosmetics & healthcare and recreational goods registered double-digit growth of 68.3%, 42.9%, 41.7%, 25.5% and 16.9% yoy respectively.
- **Online retail sales have normalised lower.** Penetration of e-commerce has declined from the peak of 24.5% during Circuit Breaker in May 20 to 12.7% in Jul 22. Physical stores continue to provide irreplaceable shopping touchpoints and experience. They remain relevant to consumers in the densely populated Singapore.
- **Tourists returning to shop at Orchard Road.** Singapore abolished the requirement for pre-departure COVID-19 tests and fully reopened its international borders on 26 Apr 22. Visitor arrivals have increased 34% mom to 726,601 in Jul 22, reaching 40.3% of pre-pandemic levels. Indonesia was the top source of arrivals, followed by India, Australia and Malaysia. Visitor arrivals are expected to recover with the Formula 1 Singapore Grand Prix in September and Tour de France Singapore Criterium in October. The return of Mice activities with more than 66 international events in 2H22 will also bring back business travellers.
- **Suburban malls fundamentally more attractive.** Rents for Orchard Road have stabilised at S\$34.20psf/month for the 4th consecutive quarter in 2Q22. Rents for suburban malls maintained its gradual upward trend and increased 1.3% yoy to S\$30.20psf/month. The gap in rents between Orchard Road and suburban malls continues to narrow. Occupancy for suburban malls has improved 1.1ppt yoy to 93.7% in 2Q22 compared with trough of 89.3% during the Circuit Breaker in 2Q20.

PEER COMPARISON – RETAIL REITS

Company	Ticker	Rec	Curr	Price 12 Sep 22	Target Price	Mkt Cap (US\$m)	Yield (%)	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
CapLand Int Comm Trust	CICT SP	HOLD	S\$	2.11	2.34	10,025	4.9	68.9	40.6	0.99
Fraser's CT	FCT SP	BUY	S\$	2.29	2.74	2,792	5.3	47.2	33.9	0.99
Landlease REIT	LREIT SP	BUY	S\$	0.83	0.99	1,392	5.9	83.4	40.0	1.06
Mapletree Pan Asia	MPACT SP	BUY	S\$	1.94	2.22	7,274	4.9	52.0	33.8	1.11
SPH REIT	SPHREIT SP	NR	S\$	0.94	n.a.	1,891	5.7	50.2	30.2	1.02
Starhill Global	SGREIT SP	NR	S\$	0.585	n.a.	939	6.5	62.1	36.2	0.75

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

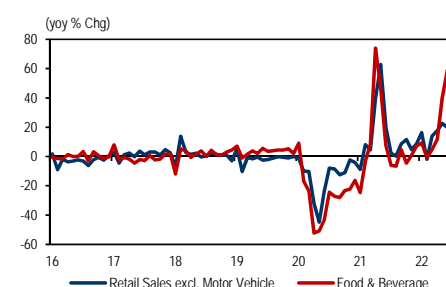
(Maintained)

TOP BUYS

Company	Ticker	Rec	Share Price	Target Price
Fraser's Centrepoint Trust	FCT SP	BUY	2.29	2.74
Landlease Global Comm	LREIT SP	BUY	0.83	0.99
Mapletree Pan Asia	MPACT SP	BUY	1.94	2.22

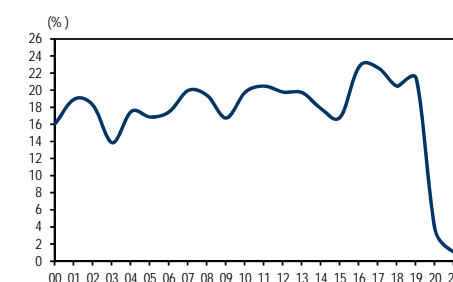
Source: UOB Kay Hian

RETAIL SALES INDEX



Source: DOS

TOURIST EXPENDITURE*/RETAIL SALES EXCLUDING MOTOR VEHICLE SALES



Source: STB *Shopping and Food & Beverage.

ANALYST(S)

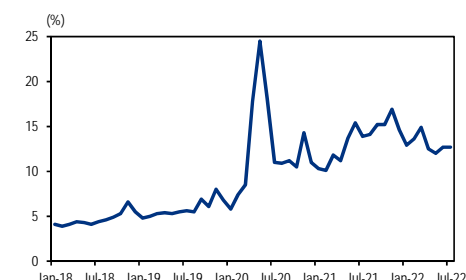
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- **Orchard Road catching up on recovery.** Orchard Road is expected to see stronger recovery due to: a) recovery of air travel and the return of more tourists in 2H22, and b) employees patronising downtown malls after they return to work in their offices. Suburban malls have registered healthy growth in rents since 2021 and should see modest recovery in 2H22. F&B operators are the key driver for demand of retail space. Supermarkets and gyms are expanding to capitalise on growth in consumption. CBRE expects more meaningful recovery in retail rents in 2023.
- **Limited upcoming supply.** Many projects experienced delays in construction and there were no significant completions in 1H22. The supply of new retail space is limited at 1.59m sf between 2H22 to 2025, equivalent to average annual supply of 0.40m sf over the next four years (51% below average completion of 0.82m sf over the past five years in 2017-21). Outside central region (Pasir Ris Mall: 288,100sf) and fringe areas (Woodleigh Mall: 208,000sf) accounted for 44.5% and 34.5% of future supply.

ACTION

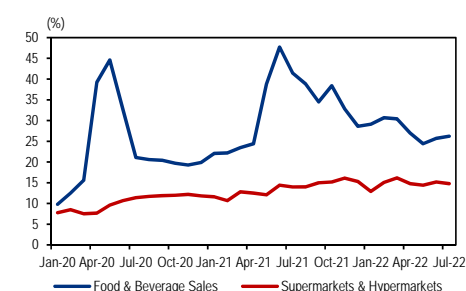
- **Singaporeans are living with COVID-19 as endemic.** Consumer spending has normalised and is registering healthy growth. Downtown malls offer better upside from reopening, while suburban malls provide defensive and stable contributions.
- **CapitaLand Integrated Commercial Trust (CICT SP/HOLD/ Target: S\$2.34).**
 - Suburban malls accounted for 24% of portfolio valuation as of Dec 21. The potential acquisition of Mercatus Portfolio, comprising AMK Hub (NLA: 320,000sf), Jurong Point (NLA: 720,000sf), NEX (NLA: 630,000sf) and Swing By @ Thomson Plaza (NLA: 110,000sf), would strengthen CICT's defensive posture but requires an equity fund raising exercise.
 - CICT has commenced asset enhancement at Raffles City Singapore (RCS) to reconfigure 111,000sf of retail space to accommodate more specialty retail and large format stores. A new line-up of international brands, such as Chanel, Dior, Gucci, Guerlain and Givenchy, will enhance RCS' premium positioning. These international brands are expected to progressively reopen their stores from 3Q22 to 1Q23.
 - CICT will invest S\$62m to transform Clarke Quay from a nightlife attraction to a day-and-night destination. It will recreate a new warehouse facade and refresh dining areas and community spaces. It will also improve the infrastructure for thermal comfort. Pre-commitment and leases in advanced negotiations accounted for 70% of NLA. Asset enhancement works will be carried out in phases from 3Q22 to 3Q23.
 - **Maintain HOLD.** Our target price of S\$2.34 is based on DDM (cost of equity: 7.0%, terminal growth: 2.0%).
- **Frasers Centrepoint Trust (FCT SP/BUY/Target: S\$2.74).**
 - Essential services account for 45% of its total NLA and contribute 54.4% of gross rental income. FCT can weather uncertainties due to its strong balance sheet with low aggregate leverage of 33.9% as of Jun 22. Suburban malls accounted for 96.4% of portfolio valuation as of Jun 22.
 - Tenant sales have surpassed pre-pandemic levels since Oct 21, and were 11% above pre-pandemic levels in Jun 22. There is room for FCT to push for higher rents as retailers' occupancy costs have eased.
 - **Maintain BUY.** Our target price of S\$2.74 is based on DDM (cost of equity: 7.0%, terminal growth: 2.6%).

ONLINE SALES AS % OF TOTAL RETAIL SALES



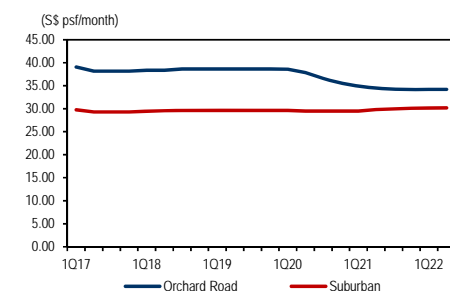
Source: DOS

ONLINE SALES PROPORTION



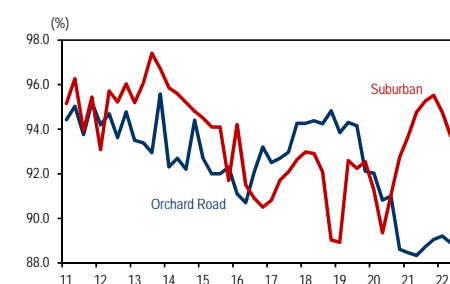
Source: DOS

ORCHARD ROAD VS SUBURBAN RENT



Source: CBRE

ORCHARD ROAD VS SUBURBAN OCCUPANCY



Source: CBRE

• Lendlease Global Commercial REIT (LREIT SP/BUY/Target: S\$0.99).

- Jem, LREIT's largest asset which accounts for 59.3% of its portfolio valuation (suburban mall: 46%, office: 13%), will benefit from the revival of the HSR. The upcoming HSR, if agreed and constructed, would bring more vibrancy to Jurong Gateway as the second CBD in Singapore.
- The multi-functional event space to be built on Grange Road Car Park is expected to be operational by early-23. 313@Somerset benefits from the return of tourists, which typically accounts for 20-25% of its shopper traffic in the past.
- **Maintain BUY.** Our target price of S\$0.99 is based on DDM (cost of equity: 7.25%, terminal growth: 2.2%).

• Mapletree Pan Asia Commercial Trust (MPACT SP/ BUY/Target: S\$2.22).

- Festival Walk benefitted from the easing of restrictions in Apr 22 with negative rental reversion moderating to -7% in 1QFY23 (FY21: -21% and FY22: -27%). Recovery would be strengthened if Hong Kong ends hotel quarantine requirements by Nov 22.
- The trust scheme for the merger of Mapletree Commercial Trust and Mapletree North Asia Commercial Trust to establish MPACT became effective on 21 Jul 22. The merger is accretive to DPU by 8.9%. MPACT has doubled in size and become more geographically diversified.
- **Maintain BUY.** Our target price of S\$2.22 is based on DDM (cost of equity: 7.0%, terminal growth: 2.2%).

SECTOR CATALYSTS

- Recovery in shopper traffic and tenant sales with the easing of COVID-19-related restrictions.
- Limited new supply for retail space during 2H22-25.

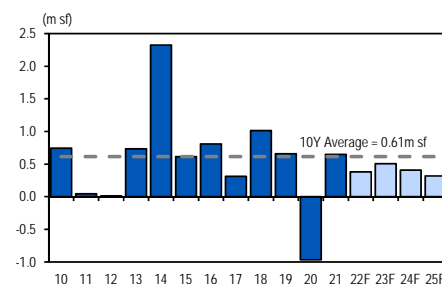
ASSUMPTION CHANGES

- We kept our earnings forecast unchanged.

RISKS

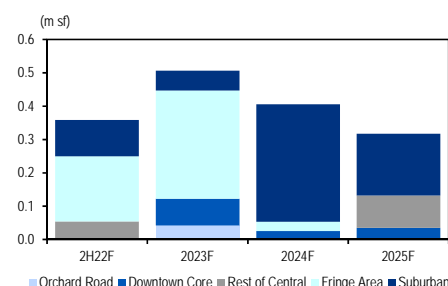
- Escalation of geopolitical tension and trade conflict between the US and China.

ANNUAL SUPPLY OF RETAIL SPACE



Source: CBRE

SUPPLY OF RETAIL SPACE BY MICROMARKET



Source: CBRE

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