

SECTOR UPDATE

REITs – Singapore

Rate Hikes Have Reached A Crescendo

While the next two rate hikes will be steep, at 75bp on 2 Nov 22 and 50bp on 14 Dec 22, 4Q22 could be the last quarter of pain as the intensity of rate hikes is expected to be modest in 2023. We like hospitality and retail REITs as reopening plays and logistics and data centre REITs as new economy plays. Our bottom-up and diversified BUY picks are ART (Target: S\$1.29), FCT (Target: S\$2.56), LREIT (Target: S\$0.91), MINT (Target: S\$3.12) and MLT (Target: S\$1.94). Maintain OVERWEIGHT.

WHAT'S NEW

- **Ferocious rate hikes almost reaching a climax.** The Fed has maintained its disciplined and hawkish stance and hiked the Fed Funds Rate by a third consecutive 75bp to 3.00% after the FOMC meeting on 21 Sep 22. Based on the Fed's dot plot, the median projected path for Fed Funds Rate would hit 4.4% by end-22 and 4.6% by end-23. The projection is expected to lead to continued steep rate hikes on of 75bp on 2 Nov 22 and 50bp on 14 Dec 22, bringing the Fed Funds Rate to 4.25 by end-22. The rate hikes are front-loaded in 2022 and the intensity of rate hikes is expected to be modest in 2023.
- **Anticipating pain but striving to engineer a soft landing.** The Fed is concerned that inflation remains elevated, driven by imbalances between demand and supply. It prioritises quelling inflation and has promised to "keep at it until the job is done." Based on economic projections submitted by FOMC participants, GDP growth is expected to slow to 1.2% and unemployment rate should rise to 4.4% in 2023.
- **An inverted yield curve foreshadows risk of a potential US recession.** Inflation has moderated but at a stubbornly slow pace. The US yield curve has flattened in 1H22 but inverted in 3Q22. Yield for 2Y US government bond shot up by 125bp in 3Q22, outpacing the increase of 67bp for 10Y US government bond. The 10Y–2Y term spread has turned negative since Jul 22 and is currently -0.52%. The current short-end of the yield curve implies forward short-term interest rates at 4.0% for 1Y, 4.5% for 2Y and 4.3% for 3Y, indicating a possibility of rate cuts in 2024.
- **US recession is not inevitable.** The strong labour market increases the likelihood of a soft landing for the US economy. The unemployment rate inched higher by 0.2ppt mom to 3.7% in Aug 22, near a 50-year low. Companies added 315,000 non-farm jobs, while average hourly earnings grew 4.4% yoy. There are currently 1.8 job openings for every unemployed worker. The strong labour market supports domestic consumption, which accounts for 68% of US GDP.

PEER COMPARISON

Name	Ticker	Rec	Price 26 Sep 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	1.05	1.29	2,521	4.1	5.1	6.0	6.4	71.7	37.5	0.91
Frasers CT	FCT SP	BUY	2.23	2.56	2,647	5.4	5.8	5.8	5.6	47.2	33.9	0.96
Lendlease REIT	LREIT SP	BUY	0.79	0.91	1,333	6.1	6.1	6.2	6.2	83.4	40.0	1.01
Mapletree Ind	MINT SP	BUY	2.42	3.12	4,564	5.7	5.5	5.5	5.7	58.2	38.4	1.29
Mapletree Log	MLT SP	BUY	1.60	1.94	5,360	5.5	5.7	5.7	5.7	71.4	37.2	1.09

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

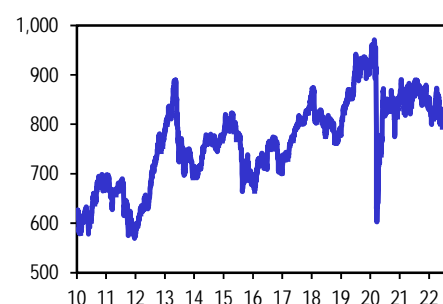
(Maintained)

TOP BUYS

Company	Rec	Share Price(S\$)	Target Price (S\$)
ART	BUY	1.05	1.29
FCT	BUY	2.23	2.56
LREIT	BUY	0.79	0.91
MINT	BUY	2.42	3.12
MLT	BUY	1.60	1.94

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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ACTION

- **Maintain OVERWEIGHT.** S-REITs are not out of the woods yet, but the recent easing of inflationary pressure provides some respite. They own the underlying real estate across various asset types, which provide a hedge against inflation. S-REITs provide an attractive distribution yield of 5.90%, which is 0.9SD above long-term mean. Downside is limited to a correction of 10.1% if yields spike to 2SD above mean at 6.56%.
- **S-REITs weathering headwinds from higher interest rates.** We have revised our DPU forecasts and target prices lower due to the following:
 - a) We expect the Fed Funds Rate to hit 4.25% by end-22 and 4.50% by end-23. We have cut our 2023 DPU by an average of 2% due to higher cost of debt.
 - b) Yield for Singapore 10-year government bond has increased 35bp to 3.33% in 3Q22. We have likewise adjusted the risk-free rate for our DDM valuation from 3.0% to 3.25%. We have cut our target prices by an average of 7%.

IMPACT ON DPU AND TARGET PRICES

Name	Ticker	Rec	Curr	-- Target Price --		- 2023 DPU (¢) -		% Chg	Aggregate	Cost of	% Borrowings	Average Debt
				Old	New	Old	New		Leverage	Debts	on Fixed Rate	Maturity
									(%)	2022 (%)	(%)	(years)
HOSPITALITY												
Ascott Trust	ART SP	BUY	S\$	1.36	1.29	6.4	6.3	-1.6	37.5	1.70	79.0	3.1
CDL HTTrust	CDREIT SP	BUY	S\$	1.54	1.41	7.5	7.2	-4.0	39.5	2.30	63.8	1.9
Far East HTTrust	FEHT SP	BUY	S\$	0.83	0.77	4.1	4.0	-2.4	33.3	1.80	60.9	2.8
INDUSTRIAL												
Ascendas REIT	AREIT SP	BUY	S\$	3.45	3.21	15.8	15.6	-1.3	36.7	2.10	80.0	3.9
DigiCore REIT USD	DCREIT SP	BUY	US\$	0.98	0.90	4.0	3.9	-2.5	25.7	2.30	50.0	4.4
Mapletree Ind Trust	MINT SP	BUY	S\$	3.36	3.12	13.6	13.4	-1.5	38.4	2.50	72.3	3.7
Mapletree Log Trust	MLT SP	BUY	S\$	2.08	1.94	9.2	9.1	-1.1	37.2	2.30	80.0	3.7
OFFICE												
Keppel REIT	KREIT SP	BUY	S\$	1.41	1.33	5.6	5.6	0.0	37.9	1.93	73.0	3.1
RETAIL												
Fraser CT	FCT SP	BUY	S\$	2.74	2.56	13.0	12.9	-0.8	33.9	2.40	69.0	2.3
Lendlease REIT	LREIT SP	BUY	S\$	0.99	0.91	5.1	4.9	-3.9	40	1.69	59.0	2.8
DIVERSIFIED												
CapLand Int Comm Trust	CICT SP	HOLD	S\$	2.34	2.17	11.9	11.7	-1.7	40.6	2.40	81.0	4.4
Fraser L&C Trust	FLT SP	BUY	S\$	1.60	1.51	7.8	7.8	0.0	29.2	1.60	82.6	3.0
Mapletree Pan Asia	MPACT SP	BUY	S\$	2.22	2.07	11.1	10.8	-2.7	33.8	2.53	78.6	3.0
Suntec REIT	SUN SP	HOLD	S\$	1.73	1.57	9.2	8.8	-4.3	43.1	2.51	56.0	3.0
Average								-2.0	36.2	2.15	70.4	3.2

Source: UOB Kay Hian

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.

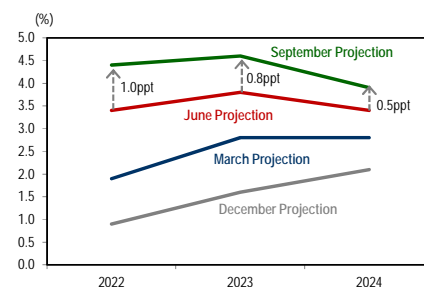
ASSUMPTION CHANGES

- As stated on table attached above.

RISKS

- Escalation of the Russia-Ukraine war beyond Ukraine.

FED'S DOT PLOT (SEP 22 VS JUN 22)



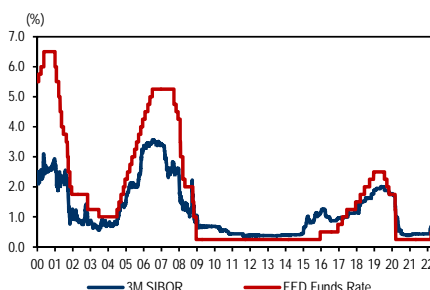
Source: CEIC

SINGAPORE GOVERNMENT BOND YIELDS



Source: CEIC

FED FUNDS RATE VS 3-MONTH SIBOR



Source: CEIC

PEER COMPARISON

Name	Ticker	Rec	Curr	Price 26 Sep 22	Target Price	Mkt Cap (US\$m)	----- Hist	Yield (%) Curr	----- Fwd 1Y	----- Fwd 2Y	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
HOSPITALITY													
Ascott Trust	ART SP	BUY	S\$	1.05	1.29	2,521	4.1	5.1	6.0	6.4	71.7	37.5	0.91
CDL HTrust	CDREIT SP	BUY	S\$	1.25	1.41	1,077	3.4	4.7	5.8	5.8	68.5	39.5	0.95
Far East HTrust	FEHT SP	BUY	S\$	0.61	0.77	845	4.3	5.1	6.6	6.9	43.6	33.3	0.71
Frasers HTrust	FHT SP	NR	S\$	0.51	n.a.	678	1.9	3.8	4.0	6.5	78.7	39.3	0.77
INDUSTRIAL													
AIMS APAC REIT	AAREIT SP	NR	S\$	1.29	n.a.	645	7.3	7.6	7.7	7.8	60.5	37.0	0.93
Ascendas REIT	AREIT SP	BUY	S\$	2.72	3.21	7,970	5.6	5.8	5.7	5.8	63.7	36.7	1.14
DigiCore REIT USD	DCREIT SP	BUY	US\$	0.71	0.90	802	n.a.	5.4	5.5	5.6	35.4	25.7	0.81
ESR-LOGOS REIT	EREIT SP	NR	S\$	0.38	n.a.	1,748	8.0	8.0	8.0	8.3	82.3	40.6	1.03
Keppel DC REIT	KDCREIT SP	NR	S\$	1.79	n.a.	2,145	5.5	5.6	5.9	6.1	57.6	35.3	1.31
Mapletree Ind Trust	MINT SP	BUY	S\$	2.42	3.12	4,564	5.7	5.5	5.5	5.7	58.2	38.4	1.29
Mapletree Log Trust	MLT SP	BUY	S\$	1.60	1.94	5,360	5.5	5.7	5.7	5.7	71.4	37.2	1.09
OFFICE													
Keppel REIT	KREIT SP	BUY	S\$	1.02	1.33	2,655	5.7	5.8	5.5	6.1	68.9	37.9	0.75
RETAIL													
Frasers CT	FCT SP	BUY	S\$	2.23	2.56	2,647	5.4	5.8	5.8	5.6	47.2	33.9	0.96
Lendlease REIT	LREIT SP	BUY	S\$	0.79	0.91	1,333	6.1	6.1	6.2	6.2	83.4	40.0	1.01
Sasseur REIT	SASSR SP	BUY	S\$	0.72	1.12	617	9.9	10.5	10.7	11.1	43.5	26.5	0.75
SPH REIT	SPHREIT SP	NR	S\$	0.90	n.a.	1,763	6.0	6.0	6.2	6.6	50.2	30.2	0.98
Starhill Global	SGREIT SP	NR	S\$	0.56	n.a.	877	6.8	7.3	7.5	7.7	62.1	36.2	0.72
DIVERSIFIED													
CapLand China Trust	CLCT SP	NR	S\$	1.04	n.a.	1,214	8.4	8.4	9.1	9.4	79.3	38.6	0.69
CapLand Int Comm Trust	CICT SP	HOLD	S\$	1.99	2.17	9,206	5.2	5.7	5.9	6.0	68.9	40.6	0.94
Frasers L&C Trust	FLT SP	BUY	S\$	1.28	1.51	3,300	6.0	5.6	6.1	6.2	41.6	29.2	0.97
Mapletree Pan Asia	MPACT SP	BUY	S\$	1.78	2.07	6,498	5.4	6.0	6.1	6.2	52.0	33.8	1.02
OUE Comm REIT	OUECT SP	NR	S\$	0.36	n.a.	1,371	7.2	6.1	6.4	6.4	73.1	39.1	0.63
Suntec REIT	SUN SP	HOLD	S\$	1.57	1.57	3,146	5.5	6.2	5.6	5.6	79.8	43.1	0.74

Source: Bloomberg, UOB Kay Hian

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