SECTOR UPDATE

REITs – Singapore

The Test Of Fire Makes Fine Steel

Our stress test reveals that CLAS, FLT, MINT and MLT provide upside of 7%, 14%, 19% and 18% respectively even if interest rates maintain at peak levels on a permanent basis. We focus on S-REITs with resilient balance sheets to weather a protracted period of elevated interest rates. BUY CLAS (Target: S$1.37), CLAR (Target: S$3.27), FLT (Target: S$1.56), MINT (Target: S$3.30) and MLT (Target: S$1.99). 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 four criteria:

  a) Aggregate leverage: FCT and FLT have the lowest aggregate leverage of 33% and 27% respectively after completing sizeable divestments.

  b) Percentage of borrowings on fixed interest rates: FLT and MLT have the highest proportion of borrowings on fixed interest rates at 82%.

  c) Weighted average debt maturity: CICT has the longest weighted average debt maturity of 4.1 years. CLAR, CLAS, MLT and MINT are also well supported by banks with weighted average debt maturity of about 3.5 years.

  d) Adjusted interest coverage ratio (ICR): FLT has the highest adjusted ICR of 13x (post-divestment of Cross Street Exchange). CLAR, MINT and FCT have ICR of above 5x.

BALANCED SCORE CARD TO ASSESS RESILIENCY OF S-REITS

Ranking	S-REIT	1. Aggregate Leverage	2. % Borrowings on Fixed Rates	3. Weighted Average Debt Maturity	4. Adjusted Interest Coverage Ratio*	Combined Scoring
1	MLT	37.0	82.0	3.6	3.9	38
2	FLT	27.4	81.7	2.7	13.0	38
3	CLAR	37.3	78.0	3.5	5.6	38
4	CLAS	35.8	76.0	3.5	4.3	34
5	MINT	37.8	74.2	3.5	5.2	32
6	CICT	41.2	80.0	4.1	3.9	29
7	FCT	33.0	71.0	2.0	5.2	26
8	MPACT	40.1	72.5	3.0	4.4	24
9	KREIT	38.4	72.0	2.8	3.6	20
10	CDREIT	39.4	64.4	1.7	3.7	13
11	LREIT	39.4	61.0	2.8	2.3	12
12	SUN	43.1	58.0	2.7	2.5	8

*Based on MAS Code on Collective Investment Schemes and 12M trailing financial performance. Adjusted for perpetual securities.
Source: UOB Kay Hian

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

  a) Sponsor imposes discipline and prudent culture and ensures that the S-REIT adopts a conservative approach to capital management, and

  b) S-REITs are able to harness a strong relationship with banks within their respective real estate conglomerate.

OVERWEIGHT

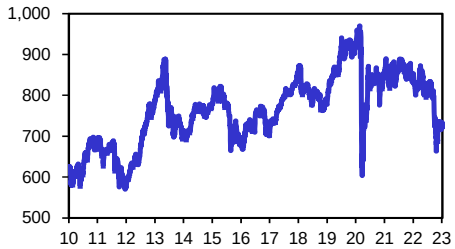
(Maintained)

TOP BUYS

Company	Rec	Share Price (S$)	Target Price (S$)
CLAS	BUY	1.04	1.37
CLAR	BUY	2.73	3.27
FLT	BUY	1.15	1.56
MINT	BUY	2.25	3.30
MLT	BUY	1.63	1.99

Source: UOB Kay Hian

FTSE ST ALL-SHARE REITS INDEX (FSTREI)



Source: UOB Kay Hian

S-REIT DISTRIBUTION YIELD

Source: UOB Kay Hian

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PEER COMPARISON

Name	Ticker	Rec	Price 10 Jan 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 Ascott	CLAS SP	BUY	1.04	1.37	2,634	4.2	5.2	6.0	6.3	71.7	35.8	0.89
CapLand Ascendas	CLAR SP	BUY	2.73	3.27	8,518	5.6	5.8	5.6	5.6	63.7	37.3	1.14
Frasers L&C Trust	FLT SP	BUY	1.15	1.56	3,223	6.5	6.1	6.2	6.2	43.4	27.4	0.90
Mapletree Ind Trust	MINT SP	BUY	2.25	3.30	4,547	6.1	6.0	6.0	6.1	56.5	37.8	1.17
Mapletree Log Trust	MLT SP	BUY	1.63	1.99	5,711	5.5	5.6	5.5	5.5	70.6	37.0	1.10

Source: Bloomberg, UOB Kay Hian

- **Stress test to probe for vulnerability.** We performed a stress test on S-REITs assuming interest rates for all currencies stay at peak levels on a permanent basis. We utilise peak interest rates based on revised forecasts by UOB Global Economics & Markets Research (3M SIBOR: 4.55%, 3M Compounded SORA: 4.31%, USD Fed Funds Rate: 5.00%, EUR Refinancing Rate: 2.75%, GBP Repo Rate: 4.00%, AUD Official Cash Rate: 3.10% and JPY Policy Rate: -0.10%).

POLICY RATES

	Dec 22	1Q23F	2Q23F	3Q23F	4Q23F
SGD 3M SIBOR	4.17	4.45	4.55	4.55	4.55
SGD 3M Compounded SORA	2.92	3.99	4.31	4.31	4.31
USD Fed Funds Rate	4.00	5.00	5.00	5.00	5.00
EUR Refinancing Rate	2.00	2.75	2.75	2.75	2.75
GBP Repo Rate	3.00	4.00	4.00	4.00	4.00
AUD Official Cash Rate	2.85	3.10	3.10	3.10	3.10
JPY Policy Rate	-0.10	-0.10	-0.10	-0.10	-0.10

Source: UOB Global Economics & Markets Research

- **Not as fatal as widely feared.** We observed that:

  a) Most large-cap S-REITs remain profitable and continue to pay distributions even if interest rates stay at peak levels on a permanent basis.

  b) Logistics REITs MLT and FLT provide upside of 18% and 14% respectively even if the stressed scenario materialises. CLAS and MINT also provide attractive upside of 7% and 19%. KREIT is oversold and provides decent upside of 7%. The downside is most significant at 10% and 30% respectively for CICT and SUN.

STRESS TEST ON DPU AND TARGET PRICES

	Price	------- Cost of Debts (%) -------			----- 2024 DPU (S cents) -----			-------- Target Price (S$) --------			Yield	%
	10 Jan 23	Current	Stressed	ppt chg	Current	Stressed	% chg	Current	Stressed	% chg	Spread*(%)	Upside
MLT	1.63	2.9	3.3	0.4	8.8	8.5	-3.8	1.99	1.92	-3.5	2.5	17.8
FLT	1.15	2.2	4.3	2.1	7.2	6.1	-15.6	1.56	1.31	-16.0	3.4	13.9
CLAR	2.73	3.0	4.8	1.9	15.4	12.7	-17.4	3.27	2.73	-16.5	2.7	0.0
CLAS	1.04	2.3	4.1	1.8	6.5	5.2	-19.8	1.37	1.11	-19.0	3.3	6.7
MINT	2.25	3.4	5.7	2.3	13.8	11.0	-20.0	3.30	2.67	-19.1	3.2	18.7
CICT	2.00	3.1	4.8	1.7	11.5	8.9	-22.1	2.29	1.81	-21.0	2.8	-9.5
FCT	2.05	3.8	5.4	1.6	11.6	9.7	-15.9	2.46	2.08	-15.4	2.7	1.5
MPACT	1.72	3.2	4.8	1.6	10.2	8.1	-20.4	2.02	1.64	-18.8	3.0	-4.7
KREIT	0.90	3.6	5.2	1.6	6.0	4.9	-19.4	1.17	0.96	-17.9	3.8	6.7
CDREIT	1.25	3.7	4.8	1.2	7.0	6.1	-12.7	1.47	1.29	-12.2	2.7	3.2
LREIT	0.67	3.4	5.1	1.7	4.6	3.7	-19.0	0.87	0.72	-17.2	3.9	7.5
SUN	1.34	3.8	5.3	1.6	7.7	5.1	-33.2	1.37	0.94	-31.4	2.8	-29.9
Average				+1.6			-18.3			-17.3	3.1	2.7

**Based on current forecast*

Source: UOB Kay Hian

ACTION

- **Maintain OVERWEIGHT.** The Fed expects core personal consumption expenditure inflation to recede gradually to 3.5% in 2023 and 2.5% in 2024. Based on the Fed's dot plot, the Fed Funds Rate would be cut by 100bp to 4.1% in 2024. Thus, S-REITs have to weather higher interest rates in 2023 before the pressure eases in 2024. The sector provides attractive distribution yield of 5.97%, which is 1.1SD above long-term mean. Downside is limited to a correction of 8.4% if distribution yield spikes to 2SD above mean at 6.52%.

- **Weathering headwinds from higher interest rates.** We focus on S-REITs with resilient balance sheets to weather a protracted period of elevated interest rates. BUY CLAS (Target: S$1.37), CLAR (Target: S$3.27), FLT (Target: S$1.56), MINT (Target: S$3.30) and MLT (Target: S$1.99). Maintain OVERWEIGHT.

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.

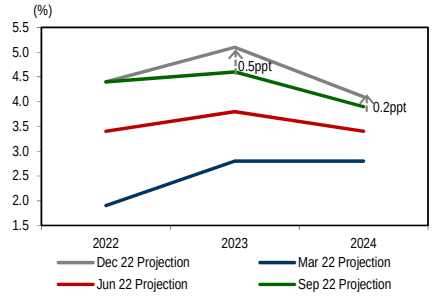
ASSUMPTION CHANGES

- We maintain our exiting DPU forecasts.

RISKS

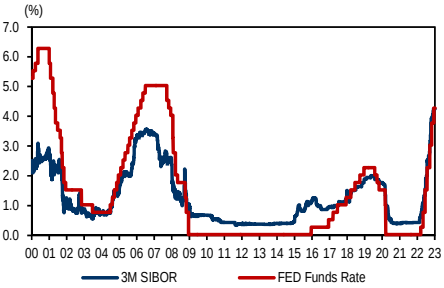
- Escalation of the Russia-Ukraine war beyond Ukraine.

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



Source: CEIC

FED FUNDS RATE VS THREE-MONTH SIBOR



Source: CEIC

10Y SINGAPORE GOVERNMENT BOND YIELD

Source: CEIC

PEER COMPARISON

Name	Ticker	Rec	Curr	Price 10 Jan 23	Target Price	Mkt Cap (US$m)	Yield (%) Hist	Yield (%) Curr	Yield (%) Fwd 1Y	Yield (%) Fwd 2Y	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
HOSPITALITY													
CapLand Ascott	CLAS SP	BUY	S$	1.04	1.37	2,694	4.2	5.2	5.9	6.2	71.7	35.8	0.90
CDL HTrust	CDREIT SP	BUY	S$	1.25	1.47	1,162	3.4	4.3	5.4	5.6	67.6	39.4	0.95
Far East HTrust	FEHT SP	BUY	S$	0.63	0.71	942	4.2	5.0	5.8	6.1	43.9	33.5	0.74
Frasers HTrust	FHT SP	NR	S$	0.45	n.a.	644	3.7	4.7	6.7	6.5	60.7	36.4	0.69
INDUSTRIAL													
AIMS APAC REIT	AAREIT SP	NR	S$	1.24	n.a.	669	7.6	7.1	7.6	7.6	81.0	36.5	0.89
CapLand Ascendas	CLAR SP	BUY	S$	2.73	3.27	8,627	5.6	5.8	5.6	5.6	63.7	37.3	1.14
DigiCore REIT USD	DCREIT SP	BUY	US$	0.565	0.9	633	n.a.	6.8	6.9	7.1	35.4	26.2	0.67
ESR-LOGOS REIT	EREIT SP	NR	S$	0.38	n.a.	1,894	8.0	8.0	7.7	7.7	82.3	40.6	1.03
Keppel DC REIT	KDCREIT SP	NR	S$	1.84	n.a.	2,377	5.4	5.4	5.5	5.7	57.6	37.5	1.35
Mapletree Ind Trust	MINT SP	BUY	S$	2.25	3.30	4,606	6.1	6.0	6.0	6.1	56.5	37.8	1.17
Mapletree Log Trust	MLT SP	BUY	S$	1.63	1.99	5,893	5.4	5.5	5.4	5.4	70.6	37.0	1.12
OFFICE													
Keppel REIT	KREIT SP	BUY	S$	0.90	1.17	2,518	6.5	6.7	6.2	6.7	68.9	37.9	0.66
RETAIL													
Frasers CT	FCT SP	BUY	S$	2.05	2.46	2,625	6.0	6.0	5.6	5.6	45.8	33.0	0.88
Lendlease REIT	LREIT SP	BUY	S$	0.67	0.87	1,135	7.2	7.0	6.7	6.9	81.7	39.4	0.86
Sasseur REIT	SASSR SP	BUY	S$	0.775	1.12	717	9.2	9.8	9.9	10.3	42.6	26.4	0.81
SPH REIT	SPHREIT SP	NR	S$	0.905	n.a.	1,914	6.1	6.0	6.1	5.7	49.8	30.1	0.98
Starhill Global	SGREIT SP	NR	S$	0.545	n.a.	921	7.0	7.3	7.5	7.7	62.0	36.5	0.70
DIVERSIFIED													
CapLand China Trust	CLCT SP	NR	S$	1.17	n.a.	1,472	7.5	7.3	7.7	8.0	80.5	39.3	0.77
CapLand Int Comm Trust	CICT SP	BUY	S$	2.00	2.29	9,975	5.2	5.3	5.6	5.7	68.9	41.2	0.94
Frasers L&C Trust	FLT SP	BUY	S$	1.15	1.56	3,209	6.6	6.2	6.3	6.4	43.4	27.4	0.88
Mapletree Pan Asia	MPACT SP	BUY	S$	1.72	2.02	6,770	5.5	5.9	5.9	5.9	73.2	40.1	0.95
OUE Comm REIT	OUECT SP	NR	S$	0.345	n.a.	1,417	7.5	6.1	6.7	6.7	75.8	40.3	0.60
Suntec REIT	SUN SP	HOLD	S$	1.34	1.37	2,897	6.5	6.8	5.6	5.7	78.7	43.1	0.64

Source: Bloomberg, UOB Kay Hian

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