

SECTOR UPDATE

REITs – Singapore

The Uneven Pace Of Monetary Easing

Interest rates have peaked but the pace of monetary easing is uneven. The ECB is likely to cut interest rates ahead of the FED. Maintain OVERWEIGHT. Our top picks are hospitality and retail plays, which benefit from a continued recovery in visitor arrivals and resilient consumer spending: BUY CLAS (Target: S\$1.45), FEHT (Target: S\$0.82), FCT (Target: S\$2.73) and LREIT (Target: S\$0.93). BUY FLT (Target: S\$1.52) and KDCREIT (Target: S\$2.10) due to a high proportion of Euro-denominated borrowings.

WHAT'S NEW

- While the easing cycle appears to have descended broadly across developed countries, the timing and pace of rate cuts differ from one country to another.
- **SNB fired the first salvo in March.** Swiss National Bank (SNB) was the first central bank to start easing monetary policy with a 25bp cut to its main policy rate to 1.5% on 21 Mar 24. Inflation has dipped to 1.2% in Feb 24, staying within SNB's target of 0-2% for nine consecutive months. SNB expects inflation to remain within the targeted range over the next few years. The move caught the market by surprise.
- **ECB anticipates commencement of monetary easing in June.** Economic growth is slowing in the euro zone with consumers holding back purchases, while companies are reducing capex. The European Central Bank (ECB) has lowered its GDP forecast from 0.8% to 0.6% for 2024. Inflation has receded rapidly from its peak of 10.6% in Oct 22. The ECB projected inflation at 2.3% in 2024 and 2.0% in 2025, inching ever closer to the target of 2.0%. Christine Lagarde, the president of ECB, guided the first rate cut in Jun 24 if upcoming data on inflation and wages are in line with projections.
- **FED to commence tapering pace of QT.** The Fed is currently reducing its holdings of Treasury securities by up to US\$60b per month and agency mortgage-backed securities by up to US\$35b per month. The Fed has already reduced the size of its balance sheet by US\$1.5t. Chairman Jerome Powell has confirmed that it would be appropriate to slow the pace of run-off for the Fed's balance sheet "fairly soon" during the last FOMC meeting on 20 Mar 24. The move could potentially reduce volatility in treasury markets.
- **FED adopting wait-and-see approach for rate cuts.** The Fed paused rate hike for the fifth consecutive FOMC meeting on 20 Mar 24. The median projected path for Fed Funds Rate is 4.6% by end-24 (unchanged) and 3.9% by end-25 (previous: 3.6%), indicating rate cuts of 75bp in 2024 (unchanged) and 75bp in 2025 (previous: 100bp). While the Fed is on track to cut interest rates within 2024, the timing and magnitude of rate cuts remain uncertain. Data on inflation were "bumpy" in January and February. The Fed could afford to be patient before making the first decisive rate cut given current resilient economic growth and strong labour market.

ACTION

- **Maintain OVERWEIGHT.** We focus on blue chip S-REITs with resilient balance sheets to weather external uncertainties. Hospitality REITs: BUY CLAS (Target: S\$1.45) and FEHT (Target: S\$0.82). Retail REITs: BUY FCT (Target: S\$2.73) and LREIT (Target: S\$0.93). S-REITs with high proportion of Euro-denominated borrowings: BUY FLT (Target: S\$1.52) and KDCREIT (Target: S\$2.10).

PEER COMPARISON – TOP BUYS

Name	Ticker	Rec	Price 3 Apr 24	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	0.94	1.45	2,625	7.0	6.0	6.5	6.6	70.0	37.9	0.81
Far East HTrust	FEHT SP	BUY	0.63	0.82	934	6.5	6.5	6.2	6.1	39.6	31.3	0.68
Frasers Centrepoint	FCT SP	BUY	2.16	2.73	2,888	5.6	5.4	5.6	5.6	48.6	37.2	0.93
Lendlease REIT	LREIT SP	BUY	0.57	0.93	1,003	8.2	7.8	8.3	8.2	85.4	40.5	0.74
Frasers L&C Trust	FLT SP	BUY	1.05	1.52	2,913	6.7	6.3	6.4	6.4	46.5	30.7	0.90
Keppel DC REIT	KDCREIT SP	BUY	1.70	2.10	2,166	5.5	5.3	5.5	5.5	64.0	37.4	1.27

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

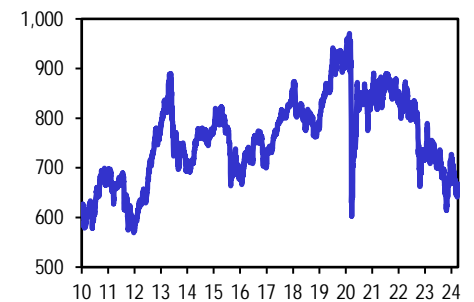
(Maintained)

TOP BUYS

Company	Rec	Share Price (S\$)	Target Price (S\$)
CLAS	BUY	0.94	1.45
FEHT	BUY	0.63	0.82
FCT	BUY	2.16	2.73
LREIT	BUY	0.57	0.93
FLT	BUY	1.05	1.52
KDCREIT	BUY	1.70	2.10

Source: UOB Kay Hian

FTSE ST ALL-SHARE REITS INDEX



Source: UOB Kay Hian

S-REIT YIELD SPREAD



Source: UOB Kay Hian

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- Hospitality REITs.** Visitor arrivals in Singapore grew 50% yoy to 1.44m in Feb 24, boosted by the mutual visa-free travel arrangement between Singapore and China that took effect starting Feb 24. The outlook is positive due to an active event calendar and strong line-up of megastars performing at the National Stadium. Singapore Tourism Board forecast visitor arrivals to hit 15-16m in 2024, representing growth of 10-18%.

**CapitaLand Ascott Trust (CLAS SP/BUY/Target: S\$1.45)**

- Portfolio RevPAU increased 4% yoy to S\$161 in 4Q23, 3% above pre-pandemic levels. There is more upside for recovery as average portfolio occupancy was stable at 77% in 4Q23 and remains below pre-pandemic levels of 84%. Management has medium-term plans to raise asset allocation of longer-stay assets, such as student accommodation and rental housing, to 25-30% of portfolio valuation (Dec 23: 17%).

**Far East Hospitality Trust (FEHT SP/BUY/Target: S\$0.82)**

- FEHT is a pure play on the hospitality sector in Singapore. Five hotels (51% of portfolio valuation) are near private hospitals popular among medical tourists. RevPAR for hotels increased 19.9% yoy to S\$140 in 2H23. FEHT intends to diversify into gateway cities in developed markets, supported by its low aggregate leverage of 31.3% as of Dec 23. FEHT could distribute the incentive fee of S\$18m from the divestment of Central Square to unitholders to cushion the negative impact from higher interest rates.

- Retail REITs.** According to CBRE, leasing demand was strong in 4Q23 driven by F&B operators, fashion brands and proliferation of pop-up stores. Rents for Orchard and suburban areas increased 5.1% and 3.1% yoy respectively in 4Q23. Downtown malls benefit from back-to-office momentum and the recovery of visitor arrivals. Tourists accounted for 22.3% of retail sales excluding motor vehicles pre-pandemic (2019).

**Frasers Centrepoint Trust (FCT SP/BUY/Target: S\$2.73)**

- FCT focuses on defensive and dominant suburban malls. Essential services account for 45% of total NLA and contribute 53% of gross rental income. Occupancy cost improved 0.6ppt to 15.6% in FY23, providing headroom for rental growth. FCT has completed the acquisition of an additional 24.5% stake in Nex in Mar 24, which will start contributing in 3QFY24. NEX could be enhanced by decanting existing car park space for conversion into 60,000sf of commercial space. FCT was included in the STI with effect from 18 Mar 24.

**Lendlease Global Commercial REIT (LREIT SP/BUY/Target: S\$0.93)**

- LREIT achieved strong positive rental reversion of 15.7% (313@Somerset: >20%, Jem: 10%) in 2QFY24. Committed occupancy for its two retail properties in Singapore remains high at 99.6%. LREIT has received supplementary rent, estimated at S\$13m and equivalent to 0.55 S cents per unit, from Sky Italia for Building 3. Euro-denominated debts accounted for a sizeable 28% of LREIT's total borrowings.

- Exposure to Euro-denominated borrowings.** UOB Global Economics & Markets Research forecast EUR Refinancing Rate declining 100bp to 3.5% by end-24. FLT and KDCREIT could benefit from lower cost of debt gradually over time.

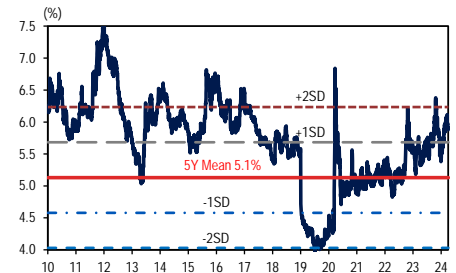
**Frasers Logistics & Logistics Trust (FLT SP/BUY/Target: S\$1.52)**

- FLT rides on growth of logistics rents at 19% for Australia (50.3% of AUM) and 9% for Germany (23.4% of AUM). It could grow via acquisitions, tapping on its sizeable sponsor pipeline (Australia: S\$2,028m, Germany and Netherlands: S\$771m), supported by its low aggregate leverage of 30.7%. Euro-denominated debts accounted for a sizeable 49% of FLT's total borrowings. FLT would benefit from lower Euribor rates when it refinances its euro-denominated borrowings of S\$529m that mature in June and August.

**Keppel DC REIT (KDCREIT SP/BUY/Target: S\$2.10)**

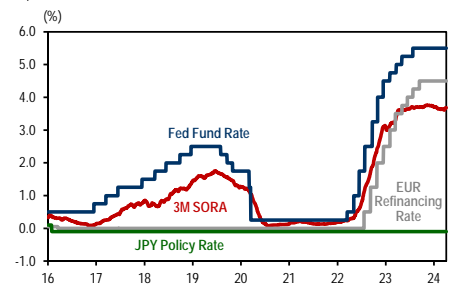
- KDCREIT's colocation leases have short WALE of 1.9 years and could be repriced higher more rapidly to reflect the increased demand generated by AI applications. It has access to a pipeline of data centres under development and managed by Keppel Group's private data centre funds and Keppel T&T worth more than S\$2b. These include colocation data centre SGP 7 at Genting Lane in Singapore, which is AI-enabled. Euro-denominated debts accounted for a sizeable 39% of KDCREIT's total borrowings.

**S-REIT DISTRIBUTION YIELD**



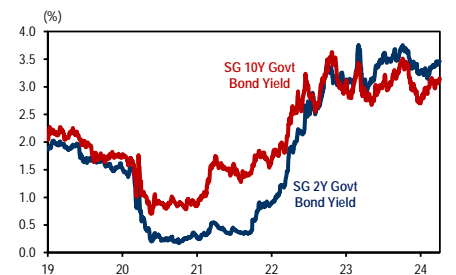
Source: Federal Reserve

**POLICY INTEREST RATES**



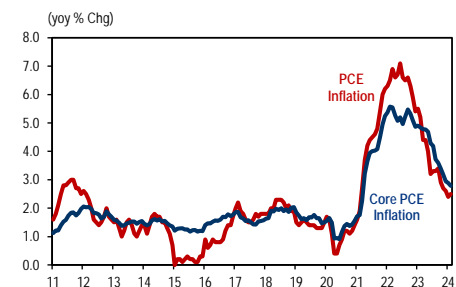
Source: Bloomberg

**SINGAPORE GOVERNMENT BOND YIELDS**



Source: Bloomberg

**US PCE INFLATION VS CORE PCE INFLATION**



Source: Bloomberg

**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.

**ASSUMPTION CHANGES**

- We maintain our existing DPU forecasts.

**RISKS**

- Escalation of the Russia-Ukraine war and Israel-Hamas war.

**PEER COMPARISON – S-REITS**

Name	Ticker	Rec	Curr	Price	Target	Mkt Cap (US\$m)	Yield (%)				Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
				3 Apr 24	Price		Hist	Curr	Fwd 1Y	Fwd 2Y			
<b>HEALTHCARE</b>													
First REIT	FIRT SP	NR	S\$	0.255	n.a.	393	9.7	9.8	10.6	11.0	73.2	38.4	0.84
PLife REIT	PREIT SP	BUY	S\$	3.48	5.07	1,557	4.2	4.1	4.2	5.1	58.4	35.4	1.49
<b>HOSPITALITY</b>													
CapLand Ascott	CLAS SP	BUY	S\$	0.94	1.45	2,625	7.0	6.0	6.5	6.6	70.0	37.9	0.81
CDL HTrust	CDREIT SP	BUY	S\$	0.985	1.48	909	5.8	6.5	6.6	6.6	61.6	36.7	0.66
Far East HTrust	FEHT SP	BUY	S\$	0.63	0.82	934	6.5	6.5	6.2	6.1	39.6	31.3	0.68
Frasers HTrust	FHT SP	NR	S\$	0.46	n.a.	655	5.3	5.9	6.1	7.2	54.9	34.5	0.69
<b>INDUSTRIAL</b>													
AIMS APAC REIT	AAREIT SP	NR	S\$	1.31	n.a.	785	7.6	7.4	7.5	7.6	63.0	32.2	0.97
CapLand Ascendas	CLAR SP	BUY	S\$	2.73	3.62	8,871	5.6	5.6	5.8	5.9	67.8	37.9	1.21
Digi Core REIT USD	DCREIT SP	BUY	US\$	0.60	0.79	785	6.2	5.1	5.5	5.5	70.7	33.5	0.87
ESR-LOGOS REIT	EREIT SP	NR	S\$	0.30	n.a.	1,706	8.5	8.7	9.0	9.0	63.6	35.7	0.94
Keppel DC REIT	KDCREIT SP	BUY	S\$	1.70	2.10	2,166	5.5	5.3	5.5	5.5	64.0	37.4	1.27
Mapletree Ind Trust	MINT SP	BUY	S\$	2.30	2.98	4,821	5.9	5.7	6.0	6.2	59.7	38.6	1.24
Mapletree Log Trust	MLT SP	BUY	S\$	1.47	1.87	5,429	6.1	6.1	5.6	5.6	76.6	38.8	1.05
<b>OFFICE</b>													
Keppel REIT	KREIT SP	BUY	S\$	0.88	1.26	2,477	6.6	7.2	7.0	7.0	73.2	38.9	0.67
<b>RETAIL</b>													
Frasers Centrepoint	FCT SP	BUY	S\$	2.16	2.73	2,888	5.6	5.4	5.6	5.6	48.6	37.2	0.93
Lendlease REIT	LREIT SP	BUY	S\$	0.57	0.93	1,003	8.2	7.8	8.3	8.2	85.4	40.5	0.74
Sasseur REIT	SASSR SP	BUY	S\$	0.685	1.01	631	9.1	9.4	9.7	10.1	43.4	25.3	0.84
PARAGON REIT	PGNREIT SP	NR	S\$	0.84	n.a.	1,766	6.0	5.5	5.2	5.5	49.3	30.0	0.92
Starhill Global	SGREIT SP	NR	S\$	0.48	n.a.	803	7.9	8.1	8.3	8.3	64.2	36.8	0.66
<b>DIVERSIFIED</b>													
CapLand China Trust	CLCT SP	NR	S\$	0.745	n.a.	939	9.0	9.1	9.4	9.7	95.9	42.4	0.62
CapLand Int Comm Trust	CICT SP	BUY	S\$	1.97	2.34	9,808	5.5	5.4	5.5	5.6	66.9	38.9	0.92
Frasers L&C Trust	FLT SP	BUY	S\$	1.05	1.52	2,913	6.7	6.3	6.4	6.4	46.5	30.7	0.90
Mapletree Pan Asia	MPACT SP	BUY	S\$	1.32	1.86	5,128	7.3	6.7	6.6	6.7	75.2	40.8	0.76
OUE Comm REIT	OUECT SP	NR	S\$	0.28	n.a.	1,138	7.5	7.5	7.9	n.a.	70.1	38.2	0.46
Suntec REIT	SUN SP	HOLD	S\$	1.13	1.28	2,432	6.3	5.9	6.1	6.1	70.0	42.3	0.54
<b>INTERNATIONAL (US/EUROPE)</b>													
Cromwell REIT EUR	CERT SP	NR	€	1.42	n.a.	860	11.1	10.4	10.6	10.8	80.1	40.3	0.67
Elite Comm REIT GBP	ELITE SP	NR	£	0.25	n.a.	185	13.7	14.0	15.2	n.a.	93.3	43.7	0.58
IREIT Global	IREIT SP	NR	S\$	0.35	n.a.	348	7.8	8.7	8.3	8.3	68.5	37.7	0.59
KepPacOak REIT USD	KORE SP	BUY	US\$	0.156	0.35	163	16.0	0.0	0.0	27.5	83.2	43.2	0.23
Manulife REIT USD	MUST SP	BUY	US\$	0.076	0.155	135	0.0	0.0	0.0	36.7	151.2	58.3	0.23
Prime US REIT USD	PRIME SP	BUY	US\$	0.134	0.45	175	20.2	17.7	36.5	37.1	97.9	48.4	0.22
Utd Hampshire REIT USD	UHU SP	BUY	US\$	0.44	0.68	257	10.9	10.3	11.0	11.1	75.1	41.7	0.59

Source: Bloomberg, UOB Kay Hian

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