

# Singapore REITs

## From Delta To Alpha

**POSITIVE** [Unchanged]

### Making headway into new economy

S-REITs have lagged the market's YTD recovery despite improving fundamentals. The sector now trades at 290bps above the SG 10-year, and offers c.9% DPU CAGR from 2020-22E. Industrial REITs remain our preferred exposure given their resilient DPUs, stronger AUM profiles, and multiple catalysts. Office REITs have pulled back to offer a better risk-reward amid recovering Grade A rents, further overseas diversification, and Singapore's clearer reopening pace. The push into new economy and longer WALE AUMs will underpin DPU visibility, while sound balance sheets and low interest rates should support acquisition growth upside. AREIT, CICT, MCT, MINT and FCT remain our top BUYs.

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### Multiple catalysts for industrial names

We expect acquisitions to gain traction, as the industrial REITs move past resilient DPUs in 1H21, and grow their business park, data centre and logistics AUMs. Redevelopment opportunities have arisen amid tightening cap rates, and we estimate c.6-7% yield-on-cost for AREIT on its proposed 1 Science Park Drive project. Transparency has improved with the recent interims, and rents could bottom out by end-2021. ESR Cayman's proposed acquisition of ARA to gain scale in new economy AUM could spur interest in related small-cap REIT names given their overlapping asset portfolios and room to lower average financing costs at 3.1% vs 2.1% for their large-cap peers.

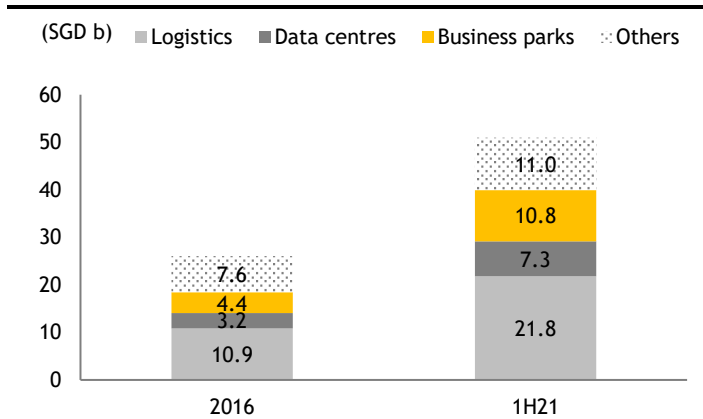
### Offices a play into reopening recovery

Office REITs saw weak leasing in 2Q21, from the tightened Covid measures in May, but demand is turning a corner, and the sector offers a cyclical opportunity as staff return to workplaces. Grade A office rents will likely be flat this year, against our initial -5% estimate. KREIT has pulled back following KEP's proposed SPH privatization announcement, and while tenant-downsizing risk remains, its DPUs are cushioned by low supply and recovering rents, with its low c.37% gearing supporting deal catalysts. Valuations are undemanding at 5-6% div yield, 15-35% below book and against 3.25-3.75% cap rates.

### Hospitality in slow transition, RevPAR visibility low

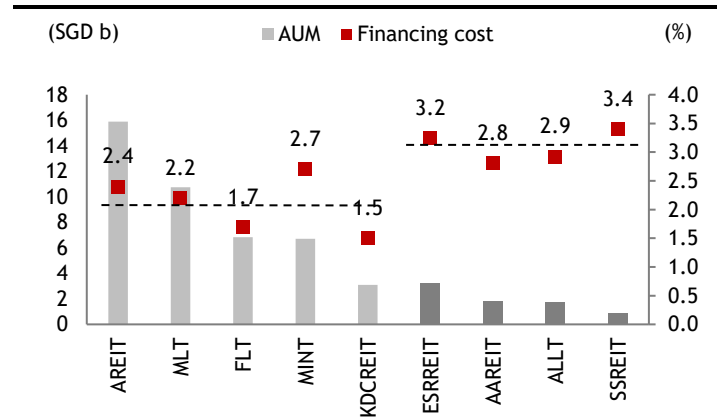
Occupancies at 60-78% across the REIT portfolios, are artificially supported by government isolation demand, and should ease in 4Q21, while RevPAR recovery remains slow into 2022. Capital is eyeing long-stay rental housing and purpose-built student accommodation (PBSA) assets, which will figure more significantly in AUMs. ART remains best placed on execution, given its diversified portfolio, strong balance sheet, and >SGD300m in residual divestment gains to support capital distributions amid slower DPU growth.

**Fig 1: New economy assets have risen over 5 years from c.70% to c.78% of industrial REITs' AUM**



Source: Company data, Maybank Kim Eng

**Fig 2: Smaller REITs' financing cost average 3.1% versus 2.1% for their large-cap peers**



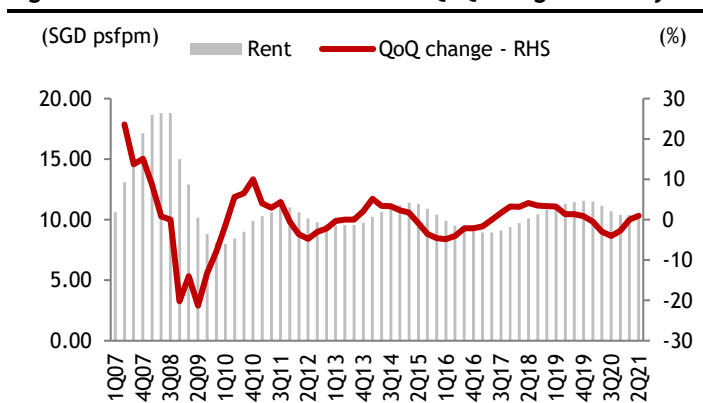
Source: Company data, Maybank Kim Eng

**Fig 3: AREIT yield-on-cost estimates for 1 Science Park Drive redevelopment**

	Assumptions/ workings
Existing GFA (sqm)	32,013
New GFA (in sqm)	112,046
New GFA (in sf)	1,206,048
NLA @ 85% efficiency (in sf)	1,025,141
Business Park (70% of NLA)	717,598
Office (15%)	153,771
Retail (15%)	153,771
Avg passing rent (in SGD psfpm)	
Business Park	5.50
Office	7.50
Retail	9.00
Revenue (SGD m)	77.8
NPI @ 75% margin (SGD m)	58.4
Yield-on-cost @ SGD800m development cost (%)	7.3
Yield-on-cost @ SGD1b development cost (%)	5.8

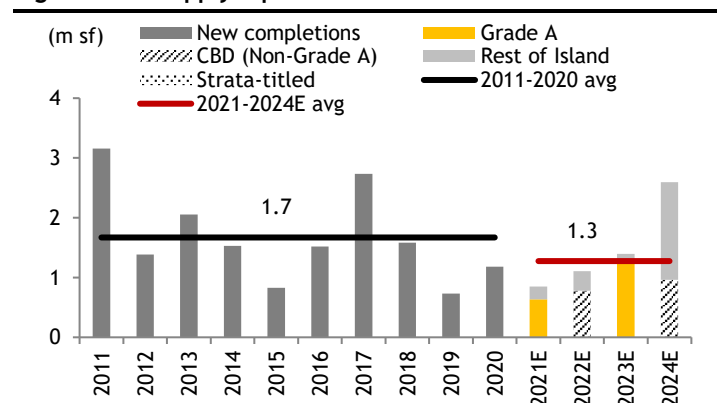
Source: Maybank Kim Eng

**Fig 4: Grade A office rents rose 1.0% QoQ on tight vacancy**



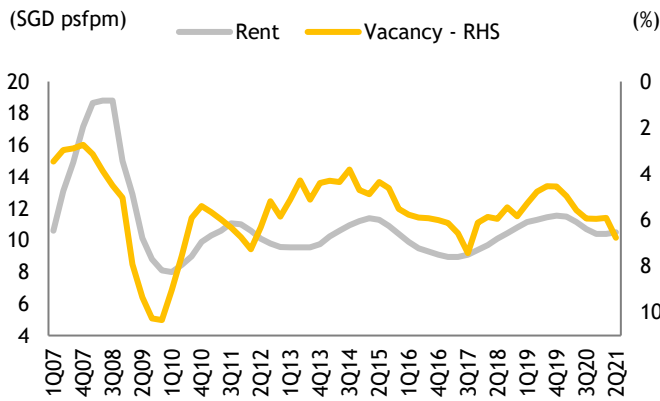
Source: CBRE

**Fig 5: Office supply tapers off from 2021-23E**



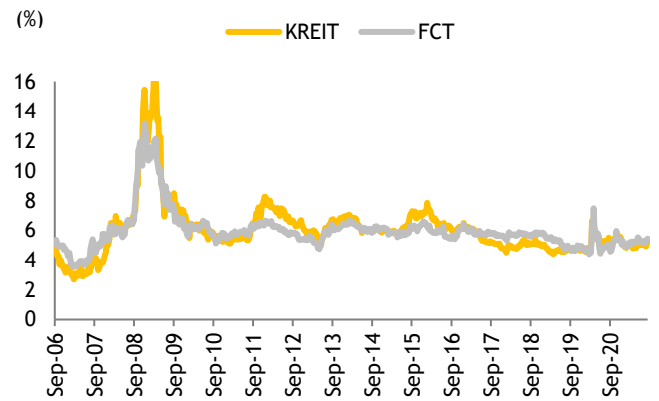
Source: URA, CBRE

Fig 6: Rental recovery to strengthen on improving vacancy



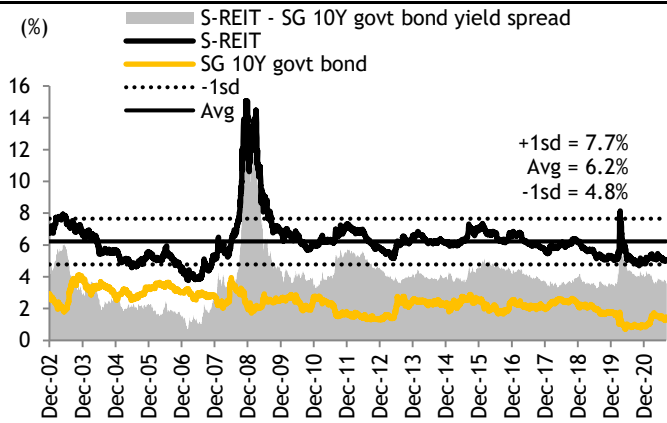
Source: Company data, Maybank KE

Fig 7: KREIT yield spread to FCT



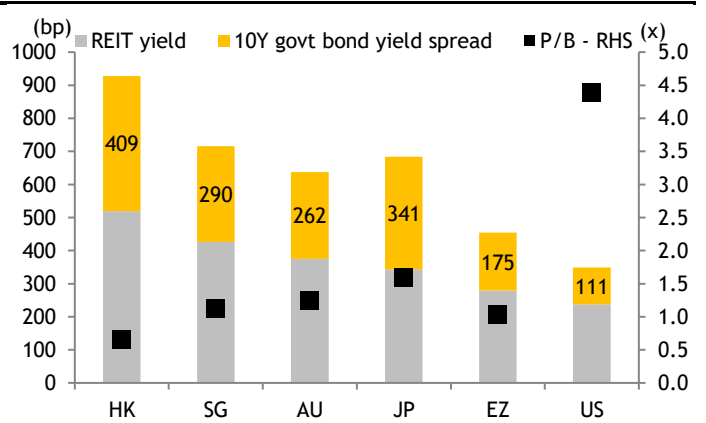
Source: FactSet, Maybank Kim Eng

Fig 8: S-REITs' dividend yields and spreads over SG 10-year government bonds: spreads are at 18-year averages



Source: Bloomberg, Maybank

Fig 9: S-REITs offer second-highest dividend yields and rank third on yield-spreads



Source: Bloomberg, Maybank Kim Eng

Fig 10: Forecast changes

REIT	DPU - old (SGD cts)		DPU (SGD cts)*		TP - old (SGD)	TP (SGD)	Rating
	FY21E	FY22E	FY21E	FY22E			
KREIT	5.90	5.88	5.94	5.95	0.95	1.00	HOLD (from SELL)
SUN	8.69	8.80	8.74	8.89	1.25	1.30	HOLD

Source: Maybank Kim Eng, \*DPU revisions reflect change in office rental assumptions from -5% in 2021 to 0%

Fig 11: Sector forecasts

Sector	Unit	2018	2019	2020	2021E	2022E	2023E
<b>Retail</b>							
Stock	m sf	66.4	67.1	66.1	66.4	66.7	67.1
YoY	%	1.5	1.0	-1.4	0.4	0.5	0.6
Downtown occupancy	%	92.3	91.7	89.0	89.0	90.5	90.5
Suburban occupancy	%	89.0	92.5	92.7	93.0	93.2	93.5
Orchard Road rent	SGD psfpm	38.64	38.64	35.60	29.00	29.00	29.50
YoY	%	1.3	0.0	-7.9	-18.5	0.0	1.7
Suburban rent	SGD psfpm	29.65	29.65	29.50	29.00	29.25	29.25
YoY	%	1.2	0.0	-0.5	-1.7	0.9	0.0
<b>Office</b>							
CBD stock	m sf	30.4	30.2	31.2	31.9	31.9	33.1
YoY	%	2.2	-0.6	3.3	2.0	0.0	3.9
Grade A stock	m sf	14.4	13.6	14.1	14.8	14.8	16.0
YoY	%	4.8	-5.4	3.8	4.5	0.0	8.5
Overall occupancy	%	87.9	89.5	88.2	87.5	87.0	87.0
Spot rent - Grade A	SGD psfpm	10.80	11.55	10.40	10.50	10.80	11.20
YoY	%	14.9	6.9	-10.0	1.0	2.9	3.7
Spot rent - Grade B (core CBD)	SGD psfpm	8.30	8.70	7.90	7.80	8.00	8.00
YoY	%	11.4	4.8	-9.2	-1.3	2.6	0.0
<b>Industrial</b>							
Factory stock	m sf	386.5	392.4	395.3	400.8	406.0	407.5
YoY	%	0.7	1.5	0.7	1.4	1.3	0.4
Occupancy	%	89.5	89.8	90.2	90.2	90.5	91.0
Spot rent	SGD psfpm	1.57	1.57	1.50	1.50	1.55	1.57
YoY	%	-1.3	0.0	-4.5	0.0	3.3	1.3
Warehouse stock	m sf	115.0	118.2	119.2	121.0	123.4	124.5
YoY	%	2.4	2.8	0.8	1.5	2.0	0.9
Occupancy	%	89.5	88.0	89.9	90.5	91.5	91.5
Spot rent	SGD psfpm	1.58	1.58	1.58	1.65	1.68	1.70
YoY	%	-0.6	0.0	0.0	4.4	1.8	1.2
Business Park stock	m sf	23.5	23.7	23.7	25.0	26.1	26.7
YoY	%	2.0	0.7	-0.1	5.7	4.4	2.4
Occupancy	%	84.9	86.2	85.8	86.0	87.0	87.0
Spot rent	SGD psfpm	4.13	4.25	4.00	4.00	4.10	4.20
YoY	%	1.0	2.9	-5.9	0.0	2.5	2.4
<b>Hospitality</b>							
Available rooms		66,994	68,697	68,440	69,124	71,224	71,562
YoY	%	-0.1	2.5	-0.4	1.0	3.0	0.5
Occupancy	%	85.5	86.3	55.0	70.0	80.0	80.0
Tourist arrivals	m	18.5	19.1	2.7	0.5	3.0	3.0
Average length of stay	Days	3.4	3.4	10.0	12.0	3.4	3.4
RevPAR	SGD	208.3	210.4	129.5	162.0	185.1	203.7
YoY	%	-4.0	1.0	-38.4	25.1	14.3	10.0

Source: URA, JTC, CBRE, Maybank Kim Eng

Fig 12: S-REITs valuation comparison

Company	Rec.	Price	TP	Upside	Yield	Total	MC	ADTV	Free	BVPS	P/BV	Dividend yield (%)				Gearing
		(SGD)	(SGD)	(%)	(%)	return	(SGD b)	(SGD m)	Float	(SGD)	(x)	19	20	21E	22E	(D/A)
<b>Retail</b>							<b>7.8</b>	<b>11.6</b>			<b>0.89</b>	<b>6.3</b>	<b>4.0</b>	<b>5.9</b>	<b>6.1</b>	<b>33</b>
Frasers Ctr Trust (FCT)	Buy	2.34	2.90	23.9	5.2	29.1	4.0	8.4	59	2.21	1.06	5.1	3.9	5.2	5.5	34
Starhill Global (SGREIT)	NR	0.60					1.3	1.6	62	0.81	0.74	7.4	5.0	6.6	7.0	36
SPH REIT (SPHREIT)	Hold	0.89	0.80	(10.1)	5.9	(4.2)	2.5	1.5	29	1.02	0.87	6.3	3.1	5.9	5.9	30
<b>Retail &amp; Office</b>							<b>25.8</b>	<b>79.3</b>			<b>0.95</b>	<b>5.4</b>	<b>4.5</b>	<b>5.3</b>	<b>5.5</b>	<b>37</b>
Cap. Int. Comm. Trust (CICT)	Buy	2.11	2.55	20.9	5.1	25.9	13.7	37.7	37	2.05	1.03	5.7	4.2	5.1	5.6	34
Mapletree Comm. (MCT)	Buy	2.09	2.35	12.4	4.7	17.1	6.9	17.6	61	1.72	1.21	3.9	4.4	4.7	4.7	34
Suntec REIT (SUN)	Hold	1.46	1.30	(11.0)	6.0	(5.0)	4.2	24.0	46	2.18	0.67	6.5	4.8	6.0	6.1	43
Lendlease REIT (LREIT)	NR	0.85					1.0		75	0.96	0.88	n.a.	4.4	5.6	5.8	35
<b>Office</b>							<b>6.3</b>	<b>11.5</b>			<b>0.77</b>	<b>6.6</b>	<b>5.5</b>	<b>6.6</b>	<b>6.1</b>	<b>38</b>
Keppel REIT (KREIT)	Hold	1.13	1.00	(11.5)	5.3	(6.3)	4.2	10.5	58	1.32	0.86	5.0	5.1	5.3	5.3	39
OUE Comm. (OUECT)	NR	0.40					2.2	1.0	27	0.58	0.68	8.3	6.0	7.9	7.0	38
<b>Industrial</b>							<b>43.8</b>	<b>123.6</b>			<b>1.36</b>	<b>5.2</b>	<b>5.1</b>	<b>5.5</b>	<b>5.7</b>	<b>37</b>
Ascendas REIT (AREIT)	Buy	3.09	3.65	18.1	5.1	23.2	12.9	34.7	82	2.27	1.36	3.7	4.8	5.1	5.3	38
Mapletree Ind. (MINT)	Buy	2.90	3.35	15.5	4.6	20.1	7.7	23.3	77	1.86	1.56	4.2	4.3	4.6	4.8	31
Mapletree Log. (MLT)	Buy	2.08	2.35	13.0	4.2	17.2	8.9	24.6	68	1.32	1.58	3.9	4.0	4.2	4.3	38
Keppel DC REIT (KDCREIT)	NR	2.54					4.1	17.8	79	1.21	2.10	3.0	3.6	3.9	4.2	37
Frasers Log. & Ind. (FLT)	NR	1.51					5.6	14.5	72	1.14	1.33	4.5	4.6	5.1	5.2	36
ARA Logos Trust (ALLT)	Buy	0.88	0.95	8.0	6.1	14.1	1.3	2.7	90	0.67	1.31	6.3	6.0	6.1	6.4	40
AIMS APAC (AAREIT)	Buy	1.50	1.60	6.7	6.5	13.1	1.1	1.7	60	1.53	0.98	6.3	6.0	6.5	6.6	34
ESR REIT (ESREIT)	Buy	0.46	0.55	19.6	6.7	26.3	1.8	4.1	70	0.40	1.16	8.6	6.1	6.7	7.2	43
Sabana SC REIT (SSREIT)	NR	0.44					0.5	0.3	59	0.52	0.84	6.6	6.3	7.0	7.5	35
<b>Hospitality</b>							<b>6.7</b>	<b>7.4</b>			<b>0.82</b>	<b>7.3</b>	<b>5.1</b>	<b>5.5</b>	<b>6.1</b>	<b>40</b>
Ascott Res. Trust (ART)	Buy	1.00	1.30	30.0	4.2	34.2	3.1	4.4	59	1.19	0.84	6.4	3.0	4.2	5.3	36
CDL HT (CDLHT)	Hold	1.18	1.20	1.7	4.0	5.7	1.4	1.9	61	1.29	0.91	7.6	4.1	4.0	4.7	39
Far East HT (FEHT)	Buy	0.59	0.70	18.6	4.4	23.0	1.2	0.8	47	0.79	0.75	6.5	4.1	4.4	5.1	41
Frasers HT (FHT)	Hold	0.52	0.50	(2.9)	9.4	6.5	1.0	0.2	38	0.66	0.78	8.6	9.1	9.4	9.4	42
<b>Offshore REITs</b>							<b>18.2</b>	<b>22.6</b>			<b>0.80</b>	<b>10.4</b>	<b>7.4</b>	<b>7.4</b>	<b>7.7</b>	<b>37</b>
Mapletree N. Asia (MAGIC)	NR	1.01					3.5	6.4	59	1.27	0.79	7.0	6.1	6.9	7.3	42
Capita China Trust (CLCT)	NR	1.30					2.0	4.7	69	1.57	0.83	7.6	4.9	6.8	7.4	36
Ascendas India Trust (AIT)	NR	1.41					1.6	2.6	94	n.a.	n.a.	5.1	6.3	6.5	6.7	30
Sasseur REIT (SASSR)	Buy	0.93	1.05	13.5	7.2	20.8	1.1	1.5	41	0.92	1.00	7.0	7.1	7.2	7.8	28
Dasin Retail Trust (DASIN)	NR	0.51					0.4	0.2	15	1.41	0.36	13.3	7.7	8.8	8.8	37
BHG Retail REIT (BHGREIT)	NR	0.56					0.3	0.0	24	0.89	0.62	n.a.	n.a.	5.4	5.9	35
Lippo Malls Ind. RT (LMIRT)	NR	0.06					0.5	0.1	40	0.10	0.66	33.9	n.a.	n.a.	n.a.	43
Manulife US REIT (MUST)	Buy	0.76	1.00	32.5	7.4	39.9	1.6	1.6	91	0.71	1.07	7.9	7.8	7.4	7.5	42
Prime US REIT (PRIME)	Buy	0.84	1.10	31.0	8.2	39.2	1.3	1.0	51	0.84	1.00	5.9	8.2	8.2	8.5	34
Keppel P.O. US REIT (KORE)	NR	0.75					1.1	1.2	84	0.82	0.92	8.0	8.3	8.0	8.0	37
Cromwell REIT (CEREIT)	NR	2.50					2.2	1.7	83	6.41	0.20	7.2	7.0	7.0	7.2	36
IREIT Global (IREIT)	NR	0.65					0.7	0.5	66	0.79	0.82	7.8	7.8	6.2	6.9	33
EC World REIT (ECWREIT)	NR	0.82					0.7	0.5	42	0.93	0.87	7.4	6.4	7.4	7.4	38
United Hampshire US (UHU)	NR	0.75					0.5	0.2	79	0.75	0.99	5.7	6.9	8.4	8.6	36
Elite Commercial (ELITE)	NR	0.68					0.6	0.4	76	0.62	1.08	n.a.	6.5	7.5	7.6	42
<b>Healthcare</b>							<b>3.3</b>	<b>4.0</b>			<b>1.58</b>	<b>16.4</b>	<b>2.9</b>	<b>2.8</b>	<b>3.0</b>	<b>36</b>
Parkway Life REIT (PREIT)	NR	4.81					2.9	3.4	64	1.98	2.43	2.7	2.9	2.8	3.0	37
First REIT (FIRST)	NR	0.26					0.4	0.6	64	0.35	0.74	30.1	n.a.	n.a.	n.a.	35
<b>Total REITs</b>							<b>112</b>	<b>260</b>			<b>1.00</b>	<b>7.8</b>	<b>5.6</b>	<b>6.2</b>	<b>6.4</b>	<b>37</b>
<b>S-REIT yield spread</b>																<b>2.9</b>
FSTREI Index																4.3
SGS 10Y bond yield																1.4

Prices as of 17 Aug 2021. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

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