Maybank

Singapore REITs

Shifting Focus

POSITIVE *[Unchanged]*

REITs

Singapore

Earnings/TPs trimmed on interest rate and cost rises

Funding cost concerns have gained prominence with the Fed's steepening rate hike path. While balance sheets are strong, interest costs for S-REITs are set to rise after 1Q22. We factor in a more aggressive interest rate growth profile, and our DPUs/TPs fall by 2-8% as a result (Fig 1). Interest rate volatility remains high, with DPUs for industrial REITs better cushioned from further rate increases than office and hospitality. Sector fundamentals are improving into 2H22, with rents accelerating from demand growth and benign supply. We see capital recycling gaining pace, as fast-tracked divestment programs support acquisition pipelines. Our top BUYs are AREIT, CICT, CDLHT, and SUN as they trade at 5-6% yields and could deliver 5-22% DPU growth.

Rates on the rise, paring dividends, TPs

The S-REITs had anticipated higher rates and so pushed up their fixed-rate borrowings, to c.73% on average, while gearing stayed low at c.37%, and interest cover manageable at c.5x. The sector's borrowing costs likely bottomed in 1Q22, and could increase by 100bps for floating-rate debt (vs +50bps), as our year-end 3M SIBOR and 3M SORA forecasts are raised (see Singapore Economics 23 May 2022 - Core Inflation Hits Decade High in April; Raise 3M SIBOR & SORA Forecasts). This is predicated on the Fed hiking a total of +275bps this year. Assuming rates rise a further 50bps above our new base case, then DPUs could fall by another 1-5%, with the industrial REITs less sensitive due to lower gearing and higher fixed-rate debt.

Watching margins, eyeing growth

Core CPI, having climbed to a decade high in April from surging electricity and gas prices, highlights near-term margin pressures for REITs with concentrated Singapore AUM. Electricity expenses represent 2-15% of opex for many REITs, but their margins are largely cushioned, with costs for some, recoverable from tenants due to pass-through leases, while others could see <5% lower FY22-23E NPIs/DPUs. We expect the stronger-than-expected lift in revenues from higher rents and sales contribution for the commercial and hospitality REITs to offset their higher costs in FY23E.

Resilient occupancies, stronger rental outlook

We see improving sector metrics with resilient occupancies and recovering rents. Increasing leasing momentum and tight vacancies should underpin a stronger rental growth outlook, especially as office landlords gain pricing power against tight supply. We maintain our rental growth forecasts, led by a 13% 2-year CAGR for office rents, and 6% for retail assets. Industrial rents have bottomed, and should climb at 2-5% pa. RevPARs could jump 13-17% YoY in 2022-23, with upside risk from China's re-opening.

Analysts

Chua Su Tye
(65) 6231 5842
chuasutye@maybank.com

Li Jialin
(65) 6231 5845
jialin.li@maybank.com

Co. Reg No: 198700034E MICA (P) : 099/03/2012

Fig 1: Forecast changes - DPUs lowered by 1-9%, TPs cut by 2-8%

REIT	Current DPU (SGD cts)		Revised DPU (SGD cts)		% Change		TP (SGD)	New TP (SGD)	% Change
	Y1	Y2	Y1	Y2	Y1	Y2			
FCT	12.61	12.76	12.30	12.35	-2.5	-3.2	2.90	2.80	-3.4
SPHREIT	5.45	5.55	5.40	5.42	-0.9	-2.3	0.95	0.93	-2.1
CICT	11.88	12.20	11.56	11.91	-2.7	-2.4	2.60	2.55	-1.9
MCT	9.36	9.70	9.07	9.36	-3.1	-3.5	2.35	2.25	-4.3
SUN	9.64	10.08	8.95	9.17	-7.1	-9.0	2.00	1.85	-7.5
KREIT	6.12	6.23	5.80	5.73	-5.2	-8.0	1.30	1.20	-7.7
AREIT	16.41	16.94	15.88	16.40	-3.2	-3.2	3.65	3.50	-4.1
MINT	13.65	13.91	13.13	13.29	-3.8	-4.5	3.10	3.00	-3.2
MLT	8.86	8.92	8.60	8.58	-2.9	-3.8	2.25	2.15	-4.4
AAREIT	9.60	10.02	9.51	9.86	-0.9	-1.6	1.70	1.65	-2.9
ART	4.95	5.67	4.73	5.36	-4.4	-5.5	1.35	1.30	-3.7
CDLHT	5.77	7.36	5.48	6.97	-5.0	-5.3	1.45	1.40	-3.4
FEHT	2.77	3.27	2.68	3.17	-3.2	-3.1	0.80	0.77	-3.8
FHT	2.06	2.19	1.94	2.02	-5.8	-7.8	0.60	0.55	-8.3
SASSR	7.43	7.79	7.27	7.63	-2.2	-2.1	1.10	1.08	-1.8
MUST	5.44	5.55	5.36	5.45	-1.5	-1.8	0.90	0.88	-2.2
PRIME	7.15	7.46	7.02	7.28	-1.8	-2.4	1.10	1.07	-2.7

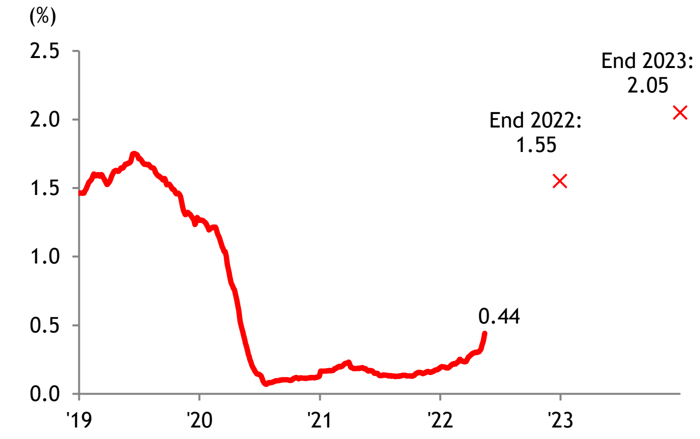
Source: Maybank IBG Research

Fig 2: Capital management and DPU sensitivity - interest costs bottomed in 1Q22, industrial REITs better cushioned going forward

REIT	Total debt (SGD m)	Fixed-rate debt (%)		Debt maturity (Years)	Cost of debt (%)			Gearing (%)	Interest cover (x)	DPU change @ +50bps
		1Q22	4Q21		1Q22	4Q21	1Q21			
FCT	1,817	68.0	54.0	2.1	2.20	2.20	2.20	33.3	5.7	-1.4%
SPHREIT	1,300	73.0	76.0	2.6	1.66	1.68	1.84	30.1	7.7	-1.8%
CICT	8,800	85.0	83.0	3.9	2.30	2.30	2.40	39.1	4.2	-0.8%
MCT	3,014	80.3	75.3	3.3	2.40	2.39	2.48	33.5	4.8	-1.7%
SUN	4,949	51.0	53.0	2.7	2.31	2.35	2.40	43.3	2.6	-4.6%
KREIT	3,485	71.0	63.0	3.1	1.81	1.98	2.01	38.7	3.8	-2.4%
OUECT	2,257	72.4	81.3	3.0	3.20	3.20	3.10	38.7	3.0	-2.5%
AREIT	6,500	79.1	79.4	3.5	2.20	2.10	2.20	36.8	5.7	-1.2%
MINT	2,904	70.5	79.7	3.8	2.40	2.30	2.80	38.4	5.7	-1.0%
MLT	4,958	79.0	79.0	3.8	2.20	2.20	2.20	36.8	5.0	-0.9%
KDCREIT	1,400	76.0	74.0	3.8	1.80	1.60	1.50	36.1	10.0	-0.5%
FLT	2,576	71.3	71.6	2.9	1.60	1.60	1.90	33.1	12.5	-0.7%
AAREIT	859	62.0	57.0	3.3	2.70	2.80	3.00	37.5	5.1	-0.6%
ESR-REIT	1,185	93.3	92.1	2.2	3.34	3.31	3.52	39.5	3.5	-0.6%
ART	2,769	70.0	74.0	2.6	1.60	1.60	1.70	37.8	3.5	-2.5%
CDLHT	1,121	63.5	61.3	2.1	2.10	2.00	1.90	39.8	3.4	-3.0%
FEHT	739	67.6	52.7	3.1	1.70	1.90	2.20	33.4	3.7	-2.0%
FHT	991	77.1	77.3	2.0	2.20	2.10	2.20	42.3	2.4	-2.0%
SASSR	517	72.0	72.0	1.0	4.40	4.40	3.30	26.2	5.1	-1.0%
MUST	975	86.5	86.5	2.6	2.86	2.82	3.18	42.8	3.4	-0.7%
PRIME	663	83.0	87.0	2.7	2.70	2.50	2.80	39.1	5.2	-0.7%
Average		**73.9**	**72.8**	**2.9**	**2.37**	**2.35**	**2.42**	**37.0**	**5.0**	**-1.6%**

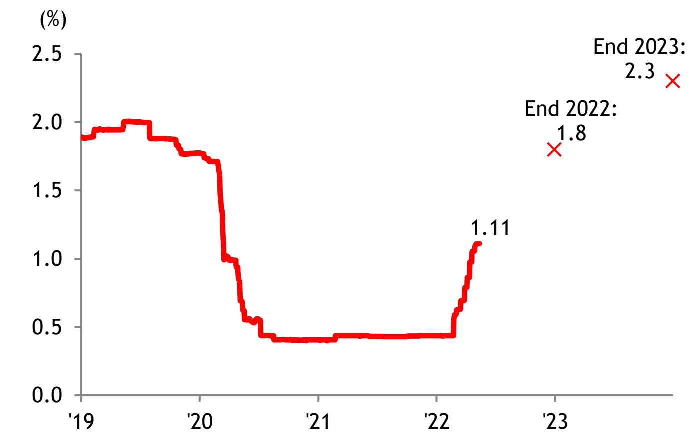
Source: Maybank IBG Research

Fig 3: We raised our 3M SORA forecast to 2.05% (from 1.55%)



Source: MAS, Maybank IBG Research

Fig 4: ... while 3M SIBOR increased to 2.3% (from 1.8%)



Source: MAS, Maybank IBG Research

Fig 5: Electricity costs and DPU impact

REIT	Electricity cost as % of opex	Arrrangements/ Expiry of hedged contracts	% of NPI/DPU
FCT	7%	Feb 2023.	FY23 DPU could be lower by <1%.
SPHREIT	4-6%	Fixed-rate arrangement in Australia, floating-rate contract in Singapore till end-FY22.	FY23 DPU could be lower by <1%.
CICT	9%	Fixed-rate contract till end-FY22.	Rates have doubled YoY, which could result in 4-5% lower FY22 DPU.
MCT	7%	Oct 2022.	Doubling of utility cost could result in 1.4% lower FY23 NPI.
SUN	3%	Fixed-rate contract in Singapore at ORQ and MBFC, with Suntec's MCST charges increasing in FY23.	Higher MCST charges could result in c.2% lower FY23 NPI.
KREIT	9%	Fixed-rate contract in Singapore, with first expiring end-FY22.	FY23 DPU could be lower by 1-2%.
OUECT	5%	Blended fixed-floating contracts with bulk discount, all expiring in FY23.	-
AREIT	8%	Cost expected to rise at c.50% YoY in FY22.	FY22 DPU could be lower by 1-2%.
MINT	4%	May 2022, with cost expected to rise by SGD10-12m.	FY23 DPU could be lower by 2-3%.
MLT	2-3%	Cost could double YoY.	FY23 DPU could be lower by <1%.
KDCREIT	NA	>90% of colocation costs passed through. Singapore fixed-rate contract till end-FY22 (and expiries in FY23-24).	10% increase in cost could result in 3% lower FY22 DPU.
FLT	10%	Renewed at fixed rate recently.	FY23 DPU could be lower by <1%.
AAREIT	NA	Entered into new contract in Jan 2022.	FY23 DPU could be lower by <1%.
ART	5%	Expecting to renew at higher rates in 2H22.	10% increase in cost could result in <1% lower FY22 DPU.
CDLHT	8-15%	Fixed-rate contract in Singapore til end-FY22, with different expiries for other markets.	10% increase in cost could result in <1% lower FY22 NPI.
FEHT	7%	Fixed for two years, expiry end-FY22.	FY23 DPU could be lower by <1%.
FHT	3-17%	Forward contracts with suppliers as far as possible.	FY23 DPU could be lower by <1%.
MUST	12%	Blended fixed-floating contracts entered into before energy price spike.	FY22 DPU could be lower by <1%.
PRIME	12%	Increased costs 100% recoverable for triple-net leases. Higher operating expenses mostly offset by higher reimbursement income from tenants for gross leases.	FY22 DPU could be lower by <1%.

Source: Company data, Maybank IBG Research

Fig 6: Key sector assumptions and forecasts

	Unit	2018	2019	2020	2021	2022E	2023E
Retail							
Stock	m sf	66.4	67.1	66.1	66.7	67.6	67.6
YoY	*%*	*1.5*	*1.0*	*-1.4*	*1.0*	*0.6*	*0.7*
Downtown occupancy	%	92.3	91.7	89.0	88.7	89.0	91.0
Suburban occupancy	%	89.0	92.5	92.7	95.5	96.0	96.5
Prime Orchard Road rent	SGD psfpm	38.64	38.64	35.60	34.20	34.20	35.50
YoY	*%*	*1.3*	*0.0*	*-7.9*	*-3.9*	*0.0*	*3.8*
Suburban rent	SGD psfpm	29.65	29.65	29.50	30.10	30.25	30.50
YoY	*%*	*1.2*	*0.0*	*-0.5*	*2.0*	*0.5*	*0.8*
Office							
CBD stock	m sf	30.4	30.2	31.2	32.0	32.0	33.3
YoY	*%*	*2.2*	*-0.6*	*3.3*	*2.5*	*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	87.2	88.0	88.0
Spot rent - Grade A	SGD psfpm	10.80	11.55	10.40	10.80	11.50	12.20
YoY	*%*	*14.9*	*6.9*	*-10.0*	*3.8*	*6.5*	*6.1*
Spot rent - Grade B (core CBD)	SGD psfpm	8.30	8.70	7.90	7.80	8.00	8.20
YoY	*%*	*11.4*	*4.8*	*-9.2*	*-1.3*	*2.6*	*2.5*
Industrial							
Factory stock	m sf	386.5	392.4	395.3	399.2	406.2	408.3
YoY	*%*	*0.7*	*1.5*	*0.7*	*1.0*	*1.7*	*0.5*
Occupancy	%	89.5	89.8	90.2	90.5	90.8	91.5
Spot rent	SGD psfpm	1.57	1.57	1.50	1.54	1.57	1.60
YoY	*%*	*-1.3*	*0.0*	*-4.5*	*2.7*	*1.9*	*1.9*
Warehouse stock	m sf	115.0	118.2	119.2	122.3	126.1	127.6
YoY	*%*	*2.4*	*2.8*	*0.8*	*2.6*	*3.1*	*1.2*
Occupancy	%	89.5	88.0	89.9	90.0	91.0	91.5
Spot rent	SGD psfpm	1.58	1.58	1.58	1.66	1.74	1.78
YoY	*%*	*-0.6*	*0.0*	*0.0*	*5.1*	*4.8*	*2.3*
Business Park stock	m sf	23.5	23.7	23.7	24.5	26.0	26.7
YoY		*2.0*	*0.7*	*-0.1*	*3.7*	*5.9*	*2.8*
Occupancy	%	84.9	86.2	85.8	84.5	86.0	87.0
Spot rent	SGD psfpm	4.13	4.25	4.00	4.13	4.20	4.30
YoY	*%*	*1.0*	*2.9*	*-5.9*	*3.3*	*1.7*	*2.4*
Hospitality							
Available rooms		66,994	68,697	68,440	69,261	71,202	73,922
YoY	*%*	*-0.1*	*2.5*	*-0.4*	*1.2*	*2.8*	*3.8*
Occupancy	%	85.5	86.3	55.0	71.0	80.0	85.0
Tourist arrivals	m	18.5	19.1	2.7	0.3	4.0	12.0
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	156.0	175.8	205.4
YoY	*%*	*-4.0*	*1.0*	*-38.4*	*20.5*	*12.7*	*16.9*

Source: URA, JTC, CBRE, Maybank IBG Research

Sector outlook

Office – Tightening vacancies, accelerating rents

Demand growth, comeback of co-working

Singapore office occupancies were higher in 1Q22, with CICT at 92.3% (vs 90.4% in 4Q21) and SUN at 97.8% (vs 97.5%), while it remained at c.96% for KREIT, as net absorption stayed positive for a third consecutive quarter. Islandwide vacancy tightened to 5.8% (from 6.3% in 4Q21), while Grade A vacancy fell to 4.4% (from 4.5%). Occupier demand has broadened out from tech, with co-working operators also in expansion mode. Leasing activity for KREIT rose c.59% QoQ in 1Q22, with new demand/ expansion led by real estate & property, manufacturing & distribution, as well as banking, insurance and financial sector tenancies. CICT saw leasing volume jump c.213% QoQ, driven by tech, finance and commodities, while SUN's new leases contributed c.44% of total leasing activity in 1Q22 (from c.39% in FY21). While the co-working segment represented c.5% of total commercial space, this could rise to 6-7% in the medium term (according to CBRE).

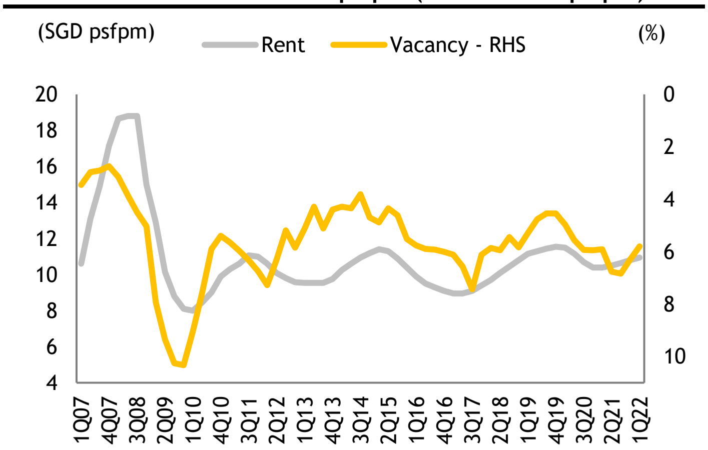
Rents accelerating, expecting 12% growth through 2023E

Grade A office rents rose 1.4% QoQ to SGD10.95 psfpm in 1Q22 and should accelerate, with CICT signing rents at CapitaSpring at c.SGD16 psfpm, and OUECT asking for c.SGD17 psfpm for remaining vacancies at OUE Bayfront. KREIT upped its guidance of FY22 rental reversion to mid-to-high single-digit positive (from low-to-mid single-digit) after delivering +7.9% in 1Q22, (from +1.9% in 2H21). Supply remains constrained at 1.2m sf pa from 2022-25E (vs 1.5m sf pa from 2012-21), while secondary space remains low at 0.9% of total stock, and vacancies look set to tighten further, from 5.8%. We see upside to our assumptions of c.7% YoY by end-2022 and c.6% YoY in 2023.

DPU growth levers from asset recycling, capital top-ups

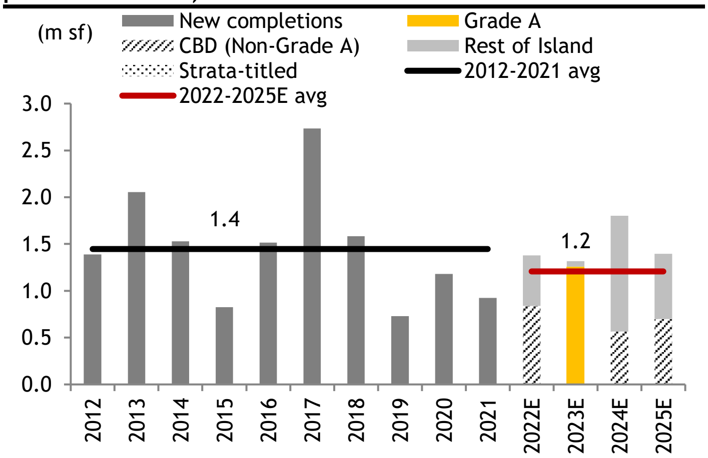
CICT's new Australian assets and the 79 Robinson Road acquisition helped offset its divestment of JCube in 1Q22. We think management is likely eyeing a more sizeable Singapore acquisition from its sponsor, which could be potentially timed with an EFR. SUN is eyeing Singapore AUM growth, which could be timed with divestments (in Australia). Its recent strong share price action offers scope for EFR opportunities, which could strengthen its balance sheet and support accretion from potential deals. Leasing velocity is strong for KREIT, and we see >SGD500m in capital distributions helping to cushion downtime and DPUs.

Fig 7: Office vacancy tightened to 5.8% in 1Q22 (from 6.3%) while rents rose to SGD10.95 psfpm (vs SGD10.80 psfpm)



Source: URA, CBRE

Fig 8: New supply falls to 1.2m sf pa from 2022-25 (vs 1.4m sf pa from 2012-21)



Source: URA, CBRE

Retail - Occupancies resilient, rents on the rise

Resilient occupancies, especially for suburban malls

FCT's portfolio occupancy climbed to 98.7% (from 97.2% previously), as all nine suburban malls reported stable or higher occupancy, and two were fully occupied. CICT's retail occupancy was lower at 96.6% in 1Q22 (vs 96.8% in 4Q21 and 97.1% in 1Q21), due we think to Raffles City's ongoing AEI. Paragon's occupancy dipped to 98.8% (vs. 99.7%), while occupancies were maintained at Clementi Mall (at 99.9%) and the Rail Mall (100%). Suntec City mall's performance improved further, underpinned by higher occupancy of 96.0% (from 94.7%) and new tenants (48% of leases, from 40% in FY21). At VivoCity, occupancy rose to 98.6% (from 98.4%), with committed occupancy higher at 99.2%. Retailer sentiment has improved, and should support further upside to occupancies, especially for the suburban malls.

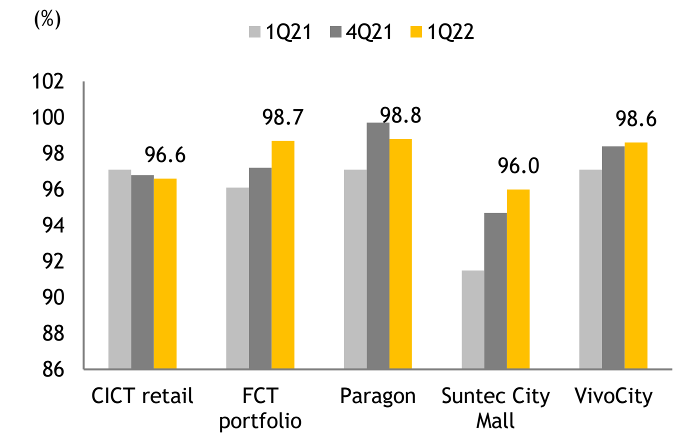
Sales recovery expected to rise ahead of costs

Tenant sales have risen to above pre-pandemic levels, despite the slower pace of footfall, and they were at 104-113% for FCT in 2Q22 (vs 100-106% in 1Q22), and also ahead of shopper traffic, which rose to 66-69% (vs 54-66%). While tenant sales rose faster at Clementi Mall (at +6% YoY), to above pre-pandemic levels, than Paragon (+1% YoY). We see upside to revenue growth projections for the REITs with increasing GTO contribution, rebounding atrium sales, and higher carpark income, which could add c.7-10% to gross rental income. We had penciled in lower margins from higher property expenses, but expect limited impact to NPIs for FCT and SUN from higher utility costs; the former's hedged contracts mostly expire from Feb 2023, while SUN funds higher MCST charges in FY23E.

Improving reversions, rents set to climb

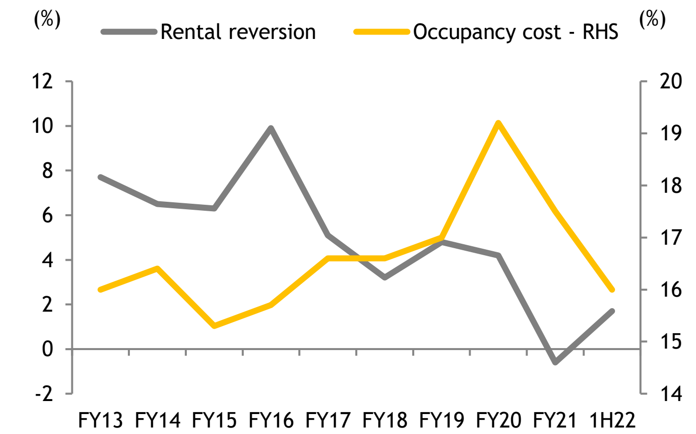
Rental reversion for FCT turned positive at +1.7% for 1H22 (vs -0.6% for FY21), and should strengthen with lower occupancy cost, which was at 16.2% (vs 17.5%). Rental reversion for CICT improved to -1.3% in 1Q22 (vs -3.2% for FY21) and was better at its suburban malls at +1.0% (vs +0.2%), vs its downtown assets at -3.1% (from -7.7%). MCT's retail reversions were +2.1% in FY22 (vs +3.5% in 1H22 and -9.6% in FY21), and management is targeting positive reversions in FY23. We expect rental improvement to be supported by tight vacancies, and improving tenant sales. The gap between prime Orchard Road rents narrowed further in 1Q22 to 13.4% (vs 13.6% in 4Q21) and we expect earlier recovery in suburban mall rents.

Fig 9: Retail occupancies were mostly better in 1Q22, especially for suburban malls



Source: Company data, calendarised

Fig 10: Rental reversion turned positive for FCT in 1H22, with improvement supported by lower occupancy cost



Source: Company data

Industrial – Demand recovery, upping capital recycling pace

Occupancies resilient, should rise for logistics

Occupancies were resilient for industrial REITs in 1Q22 even as they dipped in the logistics segment. AREIT's occupancy fell to 92.6% (vs 93.2% in 4Q21), mainly at its Australia assets with tenant expiries. Occupancy for MINT was stable, with improvement in Singapore, while it fell for MLT in South Korea, Singapore and China. We think occupancies will stay resilient, but see near-term vacancy risk at the lower-tier Chinese cities, as pandemic-induced headwinds slow expansionary demand. KDCREIT reported better occupancy, while AAREIT maintained a 97.6% occupancy with strong leasing, and FLT saw 100% occupancy for its overseas logistics and industrial assets. Demand growth is improving, to support a stronger leasing momentum into 2H22. We expect occupancies to remain stable, and rise for logistics properties.

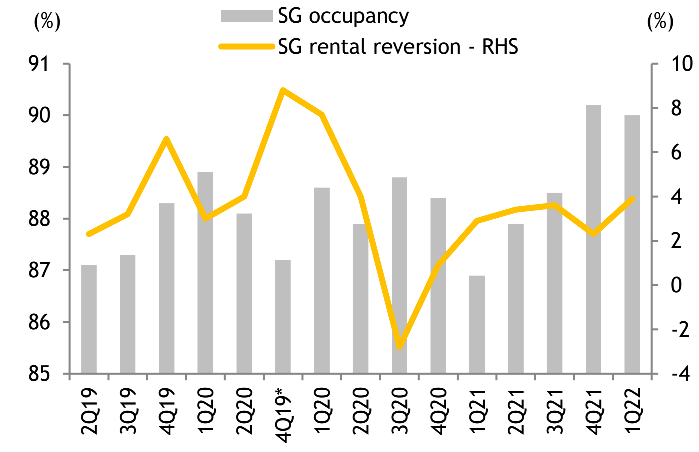
Reversions improving, rental recovery underway

Industrial REITs saw better rental reversions in 1Q22, with AREIT at +4.6% (from +2.9% in 4Q21), underpinned by its Singapore assets at +3.9% (vs +2.3%) and double-digit jumps in Australia (at +16.5%) and the US (+14.0%). MINT maintained a +1.1% rental reversion at its business park buildings (at +8.3%) which offset weaker hi-tech buildings performance (-c.29%). Reversion for MLT was stronger at +2.9% (from +2.5%), led by its assets in India (+5.0%), Vietnam (+4.0%), South Korea (+3.9%), and China (+3.1%). AAREIT delivered a strong +14.7% rental reversion (vs +0.2%) with renewal of its llumina lease (for 10 years at +16%). We expect industrial rents to rise at +2-5% YoY in 2022 (similar to 2021), with Singapore warehouse rents rising faster at +5% YoY, ahead of factory and business parks.

Cap rates compressed for logistics, data centre assets; demand strong

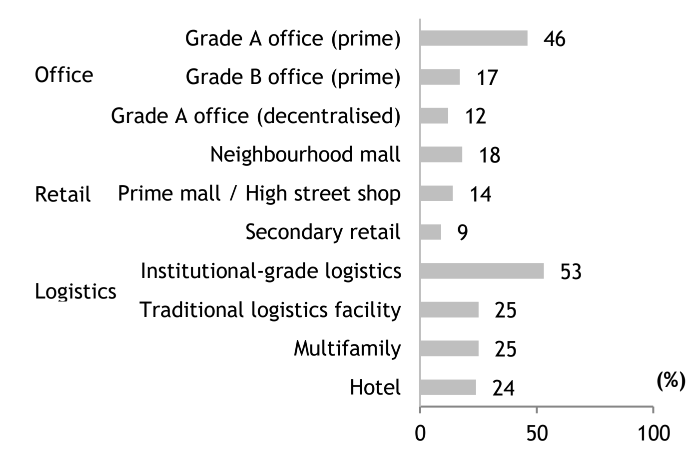
MINT saw its AUM rise c.29% YoY to SGD8.8b at end-Mar 2022, as cap rates compressed (by 50-125bps) for its 29 US data centres (to 5.00-6.75%). MLT saw tighter cap rates in Australia (of 75-100 bps), Hong Kong (10-60bps) and China (25-60bps). AAREIT saw lower cap rates in Australia at 4.5% (vs 4.8% in 1H22) as valuations increased (at Optus and Boardriders). Investment demand for prime-grade logistics properties (and Grade A offices) remains strong, as they continue to receive increasing enquiries, and this should support the REITs' capital recycling efforts.

Fig 11: AREIT's occupancy was lower in 1Q22 but rental reversions in Singapore improved



*Source: Company data, *FY was changed from Mar to Dec*

Fig 12: Institutional-grade logistics and prime offices remain the most popular sectors with higher enquiries in 1Q22



Source: CBRE May 2022, with survey conducted from 11-29 Apr

Hospitality - RevPAR recovery to strengthen on pent-up demand

RevPAR higher on stronger ADRs

RevPAR rose in 1Q22 alongside reopening borders and an easing of restrictions. While the pace of recovery slowed in Jan-Feb (from 4Q21), it picked up strongly in Mar, as Covid cases receded and demand jumped with international corporate and leisure bookings. ART's Singapore RevPAU rose 7% YoY while CDHLT's Singapore hotels RevPAR jumped c.41% YoY (vs +20% YoY in 4Q21), backed by demand from staycations and corporate project groups. Forward booking at the W is strong with ADR above pre-Covid levels, with RevPAR expected to rise to 70-75% of pre-Covid levels in FY22E, with the return of long-haul leisure travel and a stronger 2H22 event calendar. FEHT's hotels, backed by minimum fixed rents, saw RevPAR rise c.16% YoY as ADRs jumped c.32% YoY, while occupancy fell to 67.7% (vs 76.1% in 1Q21), with expiring government contracts, and remaining three rolled over into 2Q22.

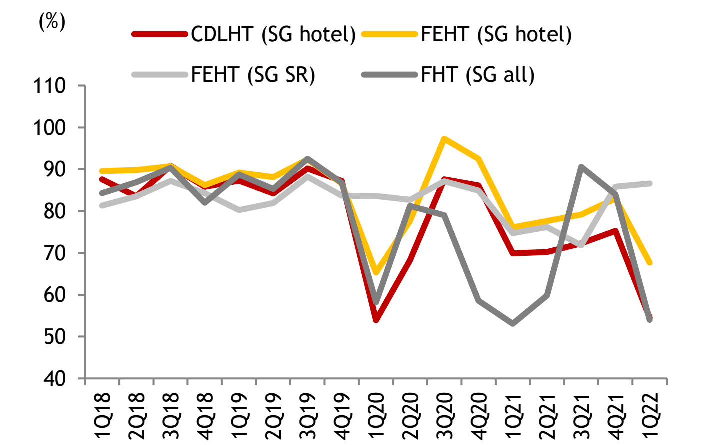
Overseas hotels performed better, China recovery slow

The REITs' overseas hotels reported improved performance and profitability on the back of pent-up demand. CDLHT's NPI improvement was driven by its assets in the Maldives, UK, Germany and Italy. All of FHT's markets saw GOR (gross operating revenue) increase YoY, and (except for Malaysia) also positive and better GOP (gross operating profit). RevPAU improved YoY in five of ART's eight key markets, including Australia (at +6%), Japan (+37%), the UK (+400%), and the US (+31%), while revenue was higher in France (at +8%). China's RevPAU fell 4% YoY, suggesting an uneven RevPAU recovery, with its contribution to recovery likely meaningful from 2023. We expect visibility to improve, as the recovery gains momentum. We see long-haul travel recovery determining the trajectory of earnings, with risk on the upside, given better-than-expected pricing power, against rising demand.

Capital top-ups, upside from deals

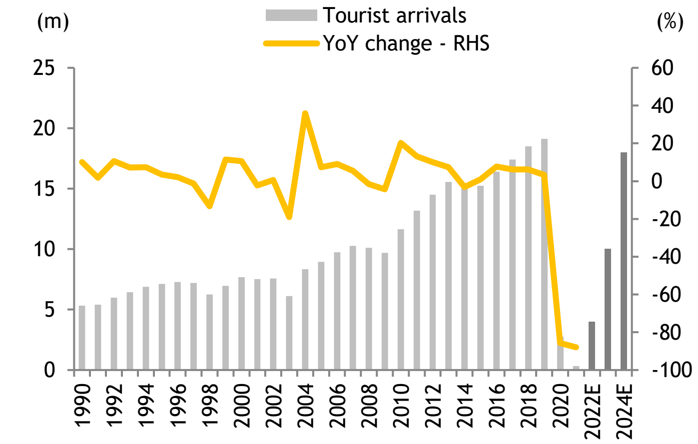
We expect capital top-ups to supplement distributions, funded by earlier divestment gains. Proceeds from FEHT's Central Square divestment has strengthened its balance sheet and provided c.SGD540m in debt headroom (at 45% limit). ART boasts c.SGD300m in residual divestment gains and a strong balance sheet with a SGD1.9b debt headroom (at 50% limit), as it looks to add to its rental housing and student accommodation AUM. CDLHT meanwhile continues to eye growth for its build-to-rent and student accommodation AUM (in Europe, Japan and Australia), and hotel assets backed by master leases. We expect deal activity could pick-up, with the recent deconsolidation of its sponsor's interest in the REIT.

Fig 13: Singapore hotel occupancies fell in 1Q22 with the expiry of government contracts



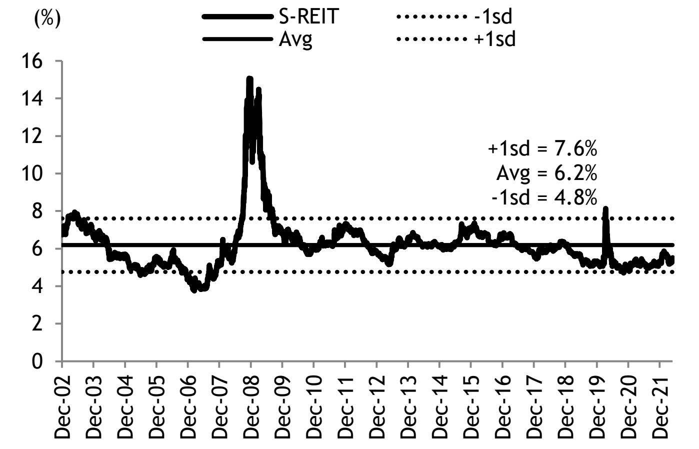
Source: Company data

Fig 14: Visitor arrivals at 0.5m from Jan-Apr 2022 is tracking in line to our c.4m projection for the year



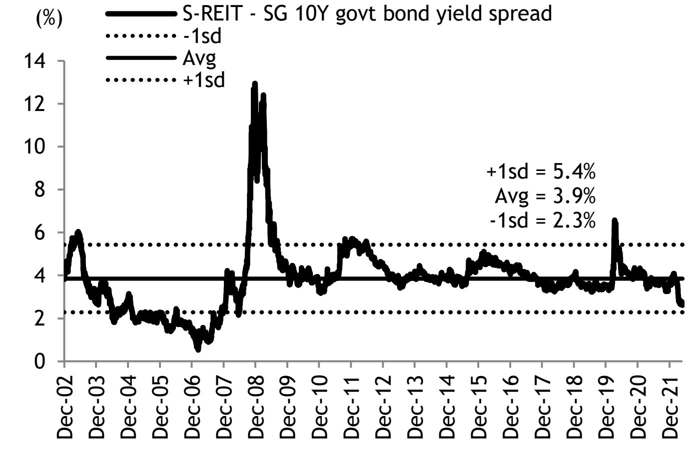
Source: STB, Maybank IBG Research

Fig 15: S-REIT forward dividend yield



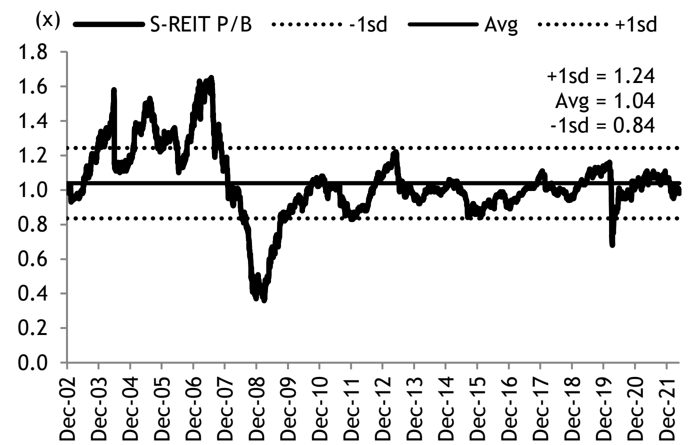
Source: Bloomberg, Maybank IBG Research

Fig 16: S-REIT yield spread



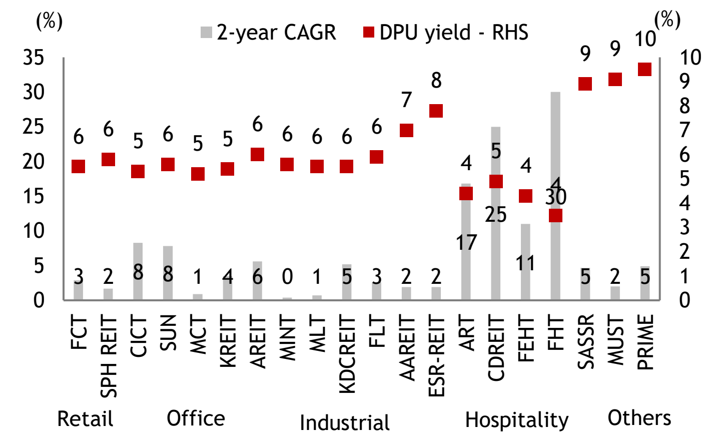
Source: Bloomberg, Maybank IBG Research

Fig 17: S-REIT price-to-book



Source: Bloomberg, Maybank IBG Research

Fig 18: S-REIT DPU growth and yield



Source: Bloomberg, Maybank IBG Research

REITs

Fig 19: Valuations and risks

REIT	Investment thesis	Valuation	Risks
AAREIT	AAREIT's DPUs are expected to be underpinned by resilient portfolio occupancy, and recovering rents. Fundamentals are improving on the back of demand recovery, which suggests a stronger rental reversion outlook for FY23E. Its income visibility has been strengthened by the Woolworths acquisition in Nov 2021, with a longer 5.1-year WALE (from 4.9 years) and weighted average land lease expiry at c.57 years (from c.45 years). Management targets to complete its 315 Alexandra Road acquisition, which at an initial 6.2% NPI yield is expected to lift DPU by c.5%, assuming it is fully debt-funded.	Our TP is based on DDM valuation with a COE of 7.1% and long-term growth assumption of 2.0%.	(a) Slower-than-expected demand for logistics space could result in lower occupancy and rental rates, (b) Termination of long-term leases contributing to weaker portfolio tenant retention rate, (c) Overpaying for acquisitions resulting in lower DPU-accretion.
AREIT	AREIT's occupancy was lower in 1Q22 but it achieved a stronger +4.6% portfolio rental reversion (vs +2.9% in 4Q21) from its Singapore, Australian and US assets. Its diversified SGD16.4b portfolio and resilient operating metrics stand out as key strengths. Management has guided for a low single-digit positive reversion for 2022, and we maintain an optimistic outlook for rental growth, underpinned by its new economy assets of business parks, suburban office and logistics properties, now contributing c.81% to AUM. Fundamentals are strong, backed by its scale, rising DPU visibility, and growth levers from a strong balance sheet, which will be deployed to deepen AUM in its core markets.	Our TP is based on DDM valuation with a COE of 6.2% and long-term growth assumption of 2.0%.	(a) Weaker-than-expected occupancy and rental reversion due to prolonged macroeconomic uncertainties, (b) Higher-than-expected volatility from the overseas portfolio, now a larger proportion of AUM, (c) Overpaying for acquisitions resulting in lower DPU-accretion.
ART	ART's RevPAU growth has picked up pace, as it jumped 22% YoY in 1Q22 (vs +17% YoY in FY21), on the back of better occupancy and higher ADRs, and we see recovery gaining traction in FY22E. We continue to like its diversified portfolio, concentrated long-stay assets, strong balance sheet, and c.SGD300m in residual divestment gains to back capital distributions amid an uneven DPU growth. Having scaled up on US student housing assets, it has raised target allocation in longer-stay accommodation to 25-30% of AUM from 15-20%, with acquisitions expected to provide upside to DPUs and valuation.	Our TP is based on DDM valuation with a COE of 5.6% and long-term growth assumption of 2.0%.	(a) Slower-than-expected recovery in global demand resulting in weak RevPAR growth, (b) Weaker-than-anticipated domestic demand to support occupancies, (c) Decrease in property values resulting in higher leverage.
CDLHT	CDLHT's 1Q22 revenue/NPI rose c.36% YoY/c.23% YoY, driven by RevPAR recovery in Singapore, Japan, Germany, Italy, UK, and the Maldives. While occupancies were softer, ADRs grew with pent-up demand, as travel was relaxed from Mar 2022. We see long-haul travel recovery determining its earnings trajectory, with risk on the upside, given better-than-expected pricing power, against rising demand. Demand visibility in Singapore has improved, and we expect better fundamentals in 2H22. Risk-reward is favourable and we rate CDLHT as the best hospitality sector recovery S-REIT proxy.	Our TP is based on DDM valuation with a COE of 5.9% and long-term growth assumption of 2.0%.	(a) Slower-than-expected reopening of Singapore's borders delaying RevPAR recovery, (b) Weaker-than-expected recovery in global demand curtailing RevPAR growth, (c) Faster-than-expected decline in isolation business in Singapore and weak domestic demand reducing RevPARs, (d) Decrease in property values resulting in higher leverage.
CICT	CICT should see c.10% YoY DPU growth in the absence of rental waivers and as it benefits from the completion of various Singapore office AEIs, and contribution from three new Australian properties. Easing negative retail reversions, tailwinds from office sector recovery, and traction from improving NPI, suggest stronger fundamentals in FY22E. Its balance sheet remains strong, and we expect deal momentum to intensify with the deployment of its JCube divestment proceeds towards its sponsor's Singapore commercial AUM.	Our TP is based on DDM valuation with a COE of 5.9% and long-term growth assumption of 2.0%.	(a) Slower-than-expected sales recovery resulting in weaker retail occupancies and rental reversions, (b) Headwinds from greater flexible work arrangements eroding demand for office space resulting in higher vacancies and larger-than-expected decline in rents, (c) Potential pre-termination or renegotiation of long-term leases contributing to weaker portfolio tenant retention rate.

Source: Maybank IBG Research

Fig 20: Valuations and risks (Cont'd)

REIT	Investment thesis	Valuation	Risks
FCT	FCT's portfolio occupancy has been resilient and it climbed to 98.7% in 2Q22 (from 97.2% in 1Q22), with all nine malls reporting stable or higher occupancy, and two being fully occupied. Rental reversion has turned positive, and should strengthen further as tenant sales gain traction into the coming quarters. Strong leasing momentum has helped to de-risk near-term expiries while tenant remixing efforts against high mall occupancies, should support rental growth upside. We continue to see suburban malls leading the retail sector recovery in Singapore's long reopening phase, with stable operating metrics for its more sizeable suburban malls portfolio underpinning DPU visibility.	Our TP is based on DDM valuation with a COE of 6.2% and long-term growth assumption of 2.0%.	(a) Slower-than-expected sales recovery resulting in weaker occupancies and rental reversions, (b) Weaker demand for retail space due to e-commerce competition translating into lower rentals for its properties, (c) Overpaying for acquisitions resulting in lower DPU-accretion.
FEHT	FEHT's hotels RevPAR rose in 1Q22 as higher ADRs offset lower occupancies from expiring government contracts. They continue to be backed by fixed rents, but NPI recovery is underway, as RevPARs strengthen with Singapore's full reopening. Its serviced residences were resilient, with vacancies set to tighten, helped by rising relocation demand and corporate leasing activities, and we see room for ADRs to rise into 2H22. The divestment of Central Square has bolstered its balance sheet, and suggests potential DPU upside from capital distributions.	Our TP is based on DDM valuation with a COE of 5.5% and long-term growth assumption of 2.0%.	(a) Slower-than-expected reopening of Singapore's borders delaying RevPAR recovery, (b) Faster-than-expected decline in isolation business in Singapore and weak domestic demand reducing RevPARs, (c) Decrease in property values resulting in higher leverage.
FHT	FHT has seen gross operating revenue rise YoY across all markets in 1H22, and (except for Malaysia) also positive and better gross operating profit. Sector fundamentals are improving, with reopening borders offering tailwinds to demand recovery. Its assets are well-placed, and we see stronger RevPAR in 2H22. The recent share price surge, suggests a poor risk-reward at 3.5% FY23 DPU yield, and with deal catalysts low. We view larger and more liquid CDLHT as a better proxy to the hospitality sector recovery, and also prefer ART for its more diversified portfolio, concentrated long-stay assets and upside from capital distributions amid uneven RevPAR recovery.	Our TP is based on DDM valuation with a COE of 6.2% and long-term growth assumption of 2.0%.	(a) Slower-than-expected reopening of Singapore's borders delaying RevPAR recovery, (b) Weaker-than-expected recovery in global demand curtailing RevPAR growth, (c) Decrease in property values resulting in higher leverage.
KREIT	KREIT remains the only pure play office S-REIT following the CCT-CMT merger in late 2020, with significant exposure to Singapore Grade A offices at c.78% of AUM. Office demand tailwinds have strengthened its fundamentals, and with leasing velocity strong, we see >SGD500m in capital distributions cushioning downtime and DPUs. We see rents accelerating with supply constrained, and forecast Grade A rents to rise at a +12% through FY23. Management has upped rental reversion guidance for FY22 to a mid-to-high single-digit positive (from low-to-mid single-digit), helped by low expiring rents, and backfilling of DBS and SCB vacancies at MBFC.	Our TP is based on DDM valuation with a COE of 6.6% and long-term growth assumption of 2.0%.	(a) Slower-than-expected pick-up in leasing demand for office space resulting in lower occupancy, (b) Weaker-than-anticipated rental reversions, (c) Overpaying for acquisitions resulting in lower DPU-accretion.
MCT	MCT's portfolio occupancy rose to 94.3% in 4Q22, with improvement broad-based, and committed occupancy higher at 97.0%. VivoCity's tenant sales growth outpaced footfall and returned to pre-Covid levels, with recovery to gain traction in FY23. We see upside as workers return to the office, and the atrium space now re-opened, as it was c.2% of the mall's gross rental income. Retail rental reversions were +2.1% in FY22 (vs -9.6% in FY21), and management is targeting positive reversions in FY23E. Unitholders on 23 May approved its merger with MNACT, and beyond the strong financial accretion, we see strategic merits from increased AUM diversification, stronger DPU growth, and potentially lower cost of capital.	Our TP is based on DDM valuation with a COE of 5.9% and long-term growth assumption of 2.0%.	(a) Slower-than-expected sales recovery resulting in weaker retail occupancies and rental reversions, (b) Headwinds from greater flexible work arrangements eroding demand for office space resulting in higher vacancies and larger-than-expected decline in rents (c) Potential pre-termination or renegotiation of long-term leases contributing to weaker portfolio tenant retention rate.

Source: Maybank IBG Research

Fig 21: Valuations and risks (Cont'd)

REIT	Investment thesis	Valuation	Risks
MINT	MINT boasts stronger fundamentals with improved DPU visibility from its increasing data centre tenancies, which have risen to c.54% AUM and c.39% of FY22 gross rental income. We expect the recovery in occupancies and rents for its Singapore portfolio to gain traction in FY23, against the stronger macro backdrop. Growth headwinds from inflationary pressures and rising interest rates are partly offset by retained capital distributions, and a strong balance sheet. We see potential for further DPU-accretive deals, as management advances diversification efforts to deepen data centre concentration to 50-67% of AUM.	Our TP is based on DDM valuation with a COE of 6.6% and long-term growth assumption of 2.0%.	(a) Weaker-than-expected occupancy and rental reversion due to prolonged macroeconomic uncertainties, (b) Higher-than-expected volatility from the overseas portfolio, now a larger proportion of AUM, (c) Overpaying for acquisitions resulting in lower DPU-accretion.
MLT	MLT's DPU visibility remains high, underpinned by (1) resilient occupancy from steady demand growth due to rising e-commerce adoption and supply chain diversification, and (2) rental recovery in FY23E for its well-placed and expanding logistics AUM. Acquisitions have been DPU-accretive, and remain a key catalyst. Its DPU base has expanded from more sizeable deals, and we expect it to eye higher yielding new developments and/or emerging market assets, which could lift its risk profile, and potentially deliver stronger DPU growth. We also see upside from divestment gains, as management ups its pace of asset recycling against tightening cap rates.	Our TP is based on DDM valuation with a COE of 6.1% and long-term growth assumption of 2.0%.	(a) Stronger-than-expected supply growth in its core markets resulting in weaker-than-anticipated rental reversions, (b) ability to acquire third- party assets given competitive environment, (c) Overpaying for acquisitions resulting in lower DPU-accretion.
MUST	MUST's DPU profile has been weak due to higher rental abatements, lower carpark income and higher vacancies. This was despite operational improvements, underpinned by strong leasing momentum and a positive rental reversion guidance into FY22. We see tailwinds from strengthening US fundamentals, while DPU visibility remains high, and well-cushioned by its low FY22-23E lease expiries and quality tenancies. Valuation is undemanding at c.9% FY22E DPU yield, with upside from acquisitions, as management deepens its 'high-growth' sector AUM.	Our TP is based on DDM valuation with a COE of 7.8% and long-term growth assumption of 2.0%.	(a) Slower-than-expected pick-up in leasing demand for office space lowering occupancy, (b) Weaker-than-anticipated rental reversions, (c) Overpaying for acquisitions resulting in lower DPU-accretion.
PRIME	PRIME's distributable income in 1Q22 (at +19% YoY) was bolstered, by contributions from Sorrento Towers and One Town Center, acquired in Jul 2021. Occupancy was lower, but should increase with stronger leasing momentum in FY22. DPU visibility is high, and underpinned by a 4.2-year WALE, and 2.0% p.a. growth from its AUM, currently under-rented by 6.0%. We see better fundamentals as physical occupancy recovers, with catalysts from improving leasing activity, and upside from acquisitions. Valuation is compelling at 9+% FY22 DPU yield.	Our TP is based on DDM valuation with a COE of 8.4% and long-term growth assumption of 2.0%.	(a) Slower-than-expected pick-up in leasing demand for office space lowering occupancy, (b) Weaker-than-anticipated rental reversions, (c) Overpaying for acquisitions resulting in lower DPU-accretion.
SASSR	SASSR has continued to deliver stronger-than-expected results as sales recovery gained traction after its 45-day outlet malls closure in 1Q20. Portfolio occupancy was stronger in 1Q22, driven by improvements at all its four outlet malls, and we expect stronger metrics into FY22E, after AEIs and tenant remixing efforts. We see catalysts from better-than-expected sales growth, and DPU upside from potential acquisitions, backed by a strong balance sheet and visible sponsor pipeline.	Our TP is based on DDM valuation with a COE of 9.8% and long-term growth assumption of 3.0%.	(a) Slower-than-expected sales growth at its malls resulting in lower occupancies (b) Stronger-than-expected new supply in core markets resulting in weaker-than-anticipated rental reversions, (c) Overpaying for acquisitions resulting in lower DPU-accretion.

Source: Maybank IBG Research

Fig 22: Valuations and risks (Cont'd)

REIT	Investment thesis	Valuation	Risks
SPHREIT	SPHREIT's portfolio occupancy fell in 2Q22 due to Paragon and its Australian assets, while the Clementi Mall reported better occupancy (at 99.9%) and tenant sales growth (at +6% YoY). We see improving performance into 2H22, as tenant sales recovery gains traction. While its share price is supported by a chain offer by Cuscaden, following the successful privatization of sponsor SPH, we expect SPHREIT to trade sideways in the near term, until there is visibility on its acquisition growth pipeline.	Our TP is based on DDM valuation with a COE of 7.2% and long-term growth assumption of 2.0%.	(a) Slower-than-expected pick-up in leasing demand for retail space lowering occupancy, (b) Weaker-than-anticipated rental reversions, (c) Overpaying for acquisitions resulting in lower DPU-accretion.
SUN	SUN should achieve a 5+% 2-year DPU CAGR, given (1) rising contributions from its UK acquisitions, (2) improving performance at Suntec Mall on the back of stronger tenant sales and return to office with further easing, (3) capital top-ups from FY22-23, and (4) our expectations of 12% growth in Singapore office rents through FY23E, underpinned by strong demand growth and tight supply. We see the more active physical market and improving outlook increasing inorganic growth opportunities, especially as its cost of capital improves.	Our TP is based on DDM valuation with a COE of 6.8% and long-term growth assumption of 2.0%.	(a) Slower-than-expected pick-up in leasing demand for office or retail space driving improvement in occupancy, (b) Weaker-than-anticipated rental reversions, (c) Overpaying for acquisitions resulting in lower DPU-accretion.

Source: Maybank IBG Research

Fig 23: S-REITs valuation comparison

Company	Rec.	Price	TP	Upside	Yield	Total return	MC	ADTV	Free Float	BVPS	P/BV	Dividend yield (%)				Gearing (D/A)
		(SGD)	(SGD)	(%)	(%)	(%)	(SGD b)	(SGD m)	(%)	(SGD)	(x)	20	21	22E	23E	(%)
Retail							**7.9**	**12.9**			**0.87**	**4.0**	**5.9**	**6.0**	**6.1**	**33**
Frasers Ctr Trust (FCT)	Buy	2.30	2.80	21.7	5.3	27.1	3.9	8.6	59	2.31	0.99	3.9	5.3	5.3	5.4	33
Starhill Global (SGREIT)	NR	0.58					1.3	1.5	38	0.85	0.68	5.2	6.9	6.9	7.2	36
SPH REIT (SPHREIT)	Hold	0.95	0.93	(1.6)	5.7	4.1	2.7	2.8	48	1.02	0.92	2.9	5.7	5.7	5.7	30
Retail & Office							**27.2**	**109.4**			**0.96**	**4.5**	**5.3**	**5.5**	**5.7**	**38**
Cap. Int. Comm. Trust (CICT)	Buy	2.22	2.55	14.9	5.2	20.1	14.7	57.4	79	2.10	1.05	4.0	4.7	5.2	5.4	39
Mapletree Comm. (MCT)	Buy	1.77	2.25	27.1	5.1	32.2	5.9	29.7	61	1.74	1.02	5.2	5.4	5.3	5.1	34
Suntec REIT (SUN)	Buy	1.67	1.85	10.8	5.5	16.2	4.8	22.3	59	n.a.	n.a.	4.2	5.2	5.5	5.7	43
Lendlease REIT (LREIT)	NR	0.80					1.8		73	0.98	0.82	4.7	6.0	5.9	6.5	35
Office							**6.4**	**13.5**			**0.78**	**5.6**	**5.8**	**6.0**	**6.1**	**39**
Keppel REIT (KREIT)	Buy	1.14	1.20	5.3	5.1	10.4	4.2	12.6	57	1.32	0.87	5.1	5.1	5.1	5.2	39
OUE Comm. (OUECT)	NR	0.40					2.2	1.0	28	0.58	0.69	6.1	6.6	6.8	6.9	39
Industrial							**38.1**	**111.0**			**1.07**	**5.7**	**6.1**	**6.1**	**6.1**	**37**
Ascendas REIT (AREIT)	Buy	2.72	3.50	28.7	5.8	34.5	11.4	33.9	62	2.38	1.14	5.5	5.6	5.8	6.0	37
Mapletree Ind. (MINT)	Buy	2.41	3.00	24.5	5.4	29.9	6.5	16.3	77	1.97	1.22	5.2	5.7	5.7	5.4	38
Mapletree Log. (MLT)	Buy	1.62	2.15	32.7	5.3	38.0	7.7	28.4	68	1.48	1.10	5.1	5.4	5.5	5.3	37
Keppel DC REIT (KDCREIT)	NR	1.98					3.4	12.2	79	1.34	1.48	4.6	5.0	5.1	5.2	36
Frasers Log. & Ind. (FLT)	NR	1.33					4.9	13.6	71	1.32	1.01	5.2	5.7	5.9	6.0	33
AIMS APAC (AAREIT)	Buy	1.36	1.65	21.3	7.0	28.3	1.0	1.9	58	1.92	0.71	6.6	7.0	7.1	7.0	38
ESR REIT (ESREIT)	Buy	0.41	0.55	35.8	7.7	43.5	2.7	4.2	79	0.40	1.02	7.0	7.7	7.7	8.0	40
Sabana SC REIT (SSREIT)	NR	0.45					0.5	0.4	57	0.52	0.87	6.1	6.8	n.a.	n.a.	35
Hospitality							**7.7**	**15.5**			**0.91**	**3.1**	**3.3**	**4.0**	**4.6**	**38**
Ascott Res. Trust (ART)	Buy	1.12	1.30	16.1	4.2	20.3	3.7	8.7	61	1.19	0.94	2.7	3.7	4.2	4.8	38
CDL HT (CDLHT)	Buy	1.22	1.40	14.8	4.5	19.2	1.5	3.3	73	1.33	0.92	4.0	3.9	4.5	5.7	40
Far East HT (FEHT)	Buy	0.65	0.77	18.5	4.1	22.6	1.3	1.5	47	0.83	0.78	3.7	4.1	4.1	4.9	33
Frasers HT (FHT)	Hold	0.65	0.55	(15.4)	3.0	(12.4)	1.3	1.9	37	0.65	0.99	2.2	1.5	3.0	3.1	42
Offshore REITs							**18.9**	**39.0**			**0.73**	**8.3**	**8.2**	**8.4**	**8.1**	**38**
Mapletree N. Asia (MAGIC)	NR	1.20					4.2	17.7	61	1.30	0.92	5.1	5.8	5.8	5.9	42
Capita China Trust (CLCT)	NR	1.11					1.9	5.8	70	1.56	0.71	5.8	7.9	8.3	8.8	38
Ascendas India Trust (AIT)	NR	1.12					1.3	3.2	78	1.18	0.95	7.9	8.2	7.8	8.8	35
Sasseur REIT (SASSR)	Buy	0.83	1.08	30.1	8.8	38.9	1.0	2.0	43	0.99	0.84	7.9	8.6	8.8	9.2	26
Dasin Retail Trust (DASIN)	NR	0.31					0.2	0.1	84	1.40	0.22	12.9	14.8	14.8	n.a.	37
BHG Retail REIT (BHGREIT)	NR	0.54					0.3	0.0	24	0.92	0.58	n.a.	5.6	6.1	5.8	35
Lippo Malls Ind. RT (LMIRT)	NR	0.05					0.4	0.1	50	0.09	0.59	n.a.	n.a.	n.a.	n.a.	43
Manulife US REIT (MUST)	Buy	0.60	0.88	46.7	8.9	55.6	1.4	1.6	91	0.67	0.89	9.8	8.9	8.9	9.1	43
Prime US REIT (PRIME)	Buy	0.73	1.07	47.6	9.7	57.3	1.2	0.6	57	0.85	0.86	9.5	9.4	9.7	10.0	39
Keppel P.O. US REIT (KORE)	NR	0.70					1.0	0.6	85	0.82	0.85	8.9	8.6	8.9	9.3	38
Cromwell REIT (CEREIT)	NR	2.00					1.7	0.8	83	6.18	0.16	8.8	n.a.	n.a.	n.a.	39
IREIT Global (IREIT)	NR	0.61					0.7	0.3	66	0.79	0.77	8.3	6.6	7.4	7.2	32
EC World REIT (ECWREIT)	NR	0.63					0.5	0.5	45	0.93	0.67	8.3	9.6	9.6	9.6	37
United Hampshire US (UHU)	NR	0.61					0.5	0.2	91	0.75	0.82	8.4	10.3	10.5	10.3	39
Elite Commercial (ELITE)	NR	0.66					0.5	0.2	76	0.59	1.11	6.7	7.7	7.8	7.8	43
Daiwa House Log (DHL)	NR	0.77					0.5	0.7	77	n.a.	n.a.	n.a.	6.6	6.7	6.5	n.a.
Digital Core REIT (DCREIT)	NR	0.99					1.5	4.4	67	n.a.	n.a.	n.a.	4.2	4.2	4.8	n.a.
Healthcare							**3.5**	**4.0**			**1.41**	**2.9**	**2.8**	**3.0**	**-**	**35**
Parkway Life REIT (PREIT)	NR	4.82					2.9	3.4	64	2.37	2.03	2.9	2.8	3.0	3.0	35
First REIT (FIRST)	NR	0.29					0.6	0.6	50	0.37	0.78	n.a.	n.a.	n.a.	n.a.	36
Total REITs							**110**	**305**			**0.89**	**6.0**	**6.4**	**6.6**	**6.6**	**37**
S-REIT yield spread														**1.6**		
FSTREI Index														4.2		
SGS 10Y bond yield														2.6		

Prices as of 27 May 2022. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

LEE Ju Ye
Singapore | Thailand | Indonesia
(65) 6231 5844
leejuye@maybank.com

Dr Zamros DZULKAFLI
(603) 2082 6818
zamros.d@maybank-ib.com

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Brian LEE Shun Rong
(65) 6231 5846
brian.lee1@maybank.com

Luong Thu Huong
(65) 62315 8467
hana.thuhuong @maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher WONG
(65) 6320 1347
wongkl@maybank.com.sg

TAN Yanxi
(65) 6320 1378
tanyx@maybank.com.sg

Fiona LIM
(65) 6320 1374
fionalim@maybank.com.sg

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, FCA
(65) 6340 1079
winsonphoon@maybank.com

SE THO Mun Yi, CFA
(603) 2074 7606
munyi.st@maybank-ib.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

ONG Seng Yeow
Research, Technology & Innovation
(65) 6231 5839
ongsengyeow@maybank.com

MALAYSIA

Anand PATHMAKANTHAN *Head of Research*
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Strategy

WONG Chew Hann, CA
(603) 2297 8686
wchewh@maybank-ib.com
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services- Regional
• Automotive

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming – Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property • Glove

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Construction • Renewable Energy • REITs

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Petrochemicals • Technology

Shafiq KADIR
(603) 2297 8691
msshafiqk.abkadir@maybank-ib.com
• Healthcare • Software

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Shipping

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com
• Retail Research

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769 amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840 thilanw@maybank.com
• Banking & Finance - Regional
• Consumer

CHUA Su Tye
(65) 6231 5842 chuasutye@maybank.com
• REITs - Regional

LAI Gene Lih, CFA
(65) 6231 5832 laigenelih@maybank.com
• Technology

Eric ONG
(65) 6231 5924 ericong@maybank.com
• Healthcare • Transport • SMIDs

Kelvin TAN
(65) 6231 5837 kelvintan1@maybank.com
• Telcos

Samuel TAN
(65) 6231 5843 samuel.tan@maybank.com
• Technology

LI Jialin
(65) 6231 5845 jialin.li@maybank.com
• REITs

PHILIPPINES

Jacqui de JESUS *Head of Research*
(63) 2 8849 8840
jacqui.dejesus@maybank.com
• Strategy • Conglomerates

Rachelleen RODRIGUEZ, CFA
(63) 2 8849 8843
rachelleen.rodriguez@maybank.com
• Banking & Finance • Transport • Telcos

Daphne SZE
(63) 2 8849 8847
daphne.sze@maybank.com
• Consumer

Miguel SEVIDAL
(63) 2 8849 8844
miguel.sevidal@maybank.com
• REITs • Property

Fiorenzo de JESUS
(63) 2 8849 8846
fiorenzo.dejesus@maybank.com
• Utilities

VIETNAM

Quan Trong Thanh *Head of Research*
(84 28) 44 555 888 ext 8184
thanh.quan@maybank.com
• Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank.com
• Strategy • Technology • Industrials

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank.com
• Oil & Gas • Logistics

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com
• Consumer

Tyler Manh Dung Nguyen
(84 28) 44 555 888 ext 8085
manhdung.nguyen@maybank.com
• Utilities • Property

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer

Nguyen Thi Ngan Tuyen
Head of Retail Research
(84 28) 44 555 888 ext 8081
tuyen.nguyen@maybank.com
• Retail Research

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Chartist

INDIA

Jigar SHAH *Head of Research*
(91) 22 4223 2632 jigars@maybank.com
• Strategy • Oil & Gas • Automobile • Cement

Neerav DALAL
(91) 22 4223 2606 neerav@maybank.com
• Software Technology • Telcos

Vikram RAMALINGAM
(91) 22 4223 2607
vikram@maybank.com
• Automobile • Media

INDONESIA

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank.com
• Banking & Finance

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank.com
• Consumer

Satriawan, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank.com
• Strategy • Consumer • Materials • Services

Jesada TECHAHUSDIN, CFA
(66) 2658 6300 ext 1395
jesada.t@maybank.com
• Banking & Finance

Vanida GEISLER, CPA
(66) 2658 6300 ext 1394
Vanida.G@maybank.com
• Property • REITs

Yuwanee PROMMAPORN
(66) 2658 6300 ext 1393
Yuwanee.P@maybank.com
• Services • Healthcare

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

Jaroonpan WATTANAWONG
(66) 2658 5000 ext 1404
jaroonpan.w@maybank.com
• Transportation • Small cap

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Malaysia
Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194
Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore
Maybank Securities Pte Ltd
Maybank Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

London
Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

New York
Maybank Securities USA Inc
400 Park Avenue, 11th Floor
New York, New York 10022,
U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500

Hong Kong
MIB Securities (Hong Kong) Limited
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

Indonesia
PT Maybank Sekuritas Indonesia
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

India
MIB Securities India Pte Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

Philippines
Maybank Securities Inc
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888
Fax: (63) 2 8848 5738

Thailand
Maybank Securities (Thailand) PCL
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

Vietnam
Maybank Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

Sales Trading
Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank.com
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

Indonesia
Helen Widjaja
helen.widjaja@maybank.com
(62) 21 2557 1188

London
Greg Smith
gsmith@maybank.co.uk
Tel: (44) 207-332-0221

New York
James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

India
Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91)-22-6623-2629

Philippines
Keith Roy
keith_roy@maybank.com
Tel: (63) 2 848-5288

www.maybank-ke.com | www.maybank-keresearch.com