

# Singapore REITs

# NEUTRAL

[Unchanged]

## Waiting for Godot

### 3Q preview

Repricing of debt and FX-translation losses are likely to outweigh operational resilience across most sub-sectors leading to lower distribution. Low-base effects caused by the pandemic are dissipating, which sets companies up for tougher comparisons for 3Q/2H. Reversions will be positive as Covid-era rents are marked to market. Any weakness in SGD/change in MAS policy may bring some relief but it would also weigh on flows. Volatile yield curve and uneven recovery keep our preference for liquid, large caps. Top Picks - CICT, MLT.

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### Macro update

10-year SGD government yields are up c.40bps from end-2Q, which mirrors the c.9% decline in the SREIT index over the same period. Meanwhile, REIT bond and perp. prices are down 4.5% over the past three months on average. Yield curve is less inverted limiting opportunities to lower funding cost. 3-month rates for SGD and USD has inched up 4-5bps over the quarter. Strength of the SGD (+1.5% QoQ, +7% YoY against key functional currencies) should weigh on FX translation. Consensus DPU estimates are down 1.5%. All in financial conditions have tightened through the period but relative yield spreads have not corrected enough as yet. Figures 2 to 11 illustrate the key macro changes.

### Focus on debt metrics and operational resilience

The market's focus is likely to be on operations and funding cost in this quarter's results updates. The re-opening tailwinds and easier comparisons from the pandemic era are behind us. As such, topline growth should represent more of normalized levels, albeit with some help from reversions of pandemic-era leases. Some of the input costs, such as utilities, are plateauing while hiring norms have become more flexible for sectors like hospitality. This should stabilize margins. Debt costs are likely to inch up with additional headwind from rate and FX hedges. Capital recycling is likely to remain a focus area with office and hospitality yielding negative spreads, as opposed to the retail and industrial sectors. We summarize stock-specific items and key sector trends to monitor on pages 2 and 3.

### Remain selective

We maintain a NEUTRAL view on the sector. Our preference is for liquid large caps on the back of volatile yield curve and uneven growth patterns. While we continue to prefer the industrial sub-sector, it's not immune to the broad slowdown. We maintain our view that bonds are better than buildings. The SREIT stocks will witness relief rallies from any pullback in 10-year yields providing tactical opportunities. Preferred picks - CICT, MLT

# 1. Coverage SREITs - reporting timeline & key discussion points

Fig 1: SREITs under coverage - reporting timeline and key questions/items to monitor

	FY year end	Qtr reporting	Result date	Comments
CLAR	Dec	3Q	TBC	Occupancy - Singapore same store and business park occupancy/pre-commits in Singapore/US Reversion - Guidance for logistics with increased supply and tenant resisting beyond SGD2psf/pm Guide on avg debt cost (earlier c.3.5%) Update on potential Europe acquisition
MLT	Mar	2Q	24-Oct post market	Occupancy - China Tier-2, Stabilization of operating margins Reversion - Guidance in China Impact of weaker FX (CNY, JPY), Update on CNY/CNH debt issuance Update on earlier announced potential acquisition in China, divestment in HK
MINT	Mar	2Q	25-Oct post market	Occupancy - US DC and Singapore Flatted factories/Hi-tech spaces - Any impact of manufacturing slowdown & bankruptcies Reversion - Trends in Hi-tech and Flatted factories NPI margins - Stabilization of utility costs? Outlook on JPY funding environment and currency hedging
EREIT	Dec	3Q	TBC	Occupancy & reversions - any slowdown in leasing momentum reversion at newly TOP-ed 7002 AMK B/S: COD, deal outlook, potential acquisition/redevelopment at Fishery Port, divestments pipeline, valuation change
AAREIT	Mar	2Q	3-Nov pre market	Occupancy & reversions - any slowdown in leasing momentum Property update - current AEI, whether BAU at 61 Yishun Industrial Park A
CICT	Dec	3Q	20-Oct pre market	Office rent reversion trend given negative QoQ office spot rent growth, Tenant sales and Retail rent reversion trend given weaker retail sales and patchy tourist arrivals, Downtown mall rent reversion trend, Margin outlook, Guide on debt cost (earlier low to mid 3%), Update on Clarke Quay AEI, Gallileo AEI and transactions in Australia
MPACT	Mar	2Q	26-Oct post market	Update on debt cost and FX impact, rent reversion, especially for HK Festival Walk anchor leases, Greater China and Google leases, update on capital recycling
SUN	Dec	3Q	23-Oct pre-market	Update on debt cost (earlier guide c.4%), capital recycling, office occupancy and retail rent reversion as leases come up for renewal and spot rents growth slow downs
FCT	Sep	4Q	25-Oct pre-market	Valuation update, rental reversion, tenant sales growth, update on debt cost, capital management and acquisition pipeline
KREIT	Dec	3Q	17-Oct post market	Singapore office rent reversion trend, Australia office occupancy as major leases expire, B&W committed occupancy trend, gearing outlook
LREIT	Jun	1Q	7-Nov pre market	Occupancy and rent reversion for SG malls, AEI update for car park and 313 extra space, The Sky complex outlook, acquisition pipeline, debt-cost guidance
CLAS	Dec	3Q	2-Nov pre-market	Update on acquisition, occupancy and room rate trend especially with patchy visitor arrivals, update on corporate travel, margin and funding cost outlook esp. with easing of hiring norms in Singapore for hospitality sector
CDLHT	Dec	3Q	27-Oct pre-market	RevPAR trend, impact of FX movements, debt cost, supply situation in Singapore, cap rates and deal outlook
FEHT	Dec	3Q	25-Oct pre-market	RevPAR trend and any impact of slowdown in residential rents on SR business, operating cost trend, cap rates and deal outlook
FHT	Sep	4Q	7-Nov	Full-year results: Outlook for FY24, forward booking, RevPAR trend, FX impact Fraser's Suite in Singapore, potential acquisitions, re-financing in FY24 and COD

Source: Maybank IBG Research, Company Data, FactSet

## 2. Key things to monitor in the sector

- The guidance on interest rates at the most recent Fed dot plots suggests rates will stay higher for longer; the 3-month SORA stays flat and the yield curve becomes less inverted.
- Impact from weakening CNY and JPY, and rising yields for both currencies.

### Commercial

- Commercial rent reversion trend - stalling of growth in office rents but supply remains tight. Large leases for offices coming up for renewal.
- Low-to-mid teens occupancy cost suggests room for positive retail rent reversion, but retail sales growth is coming in at below inflation, despite a higher population.
- Frasers' group annual valuation likely to shine light on Singapore retail and Australian industrial asset values. NAVs likely to have downward bias.
- Update on acquisition/M&A/divestment plans - CICT, FCT, LREIT, SUN.

### Hospitality

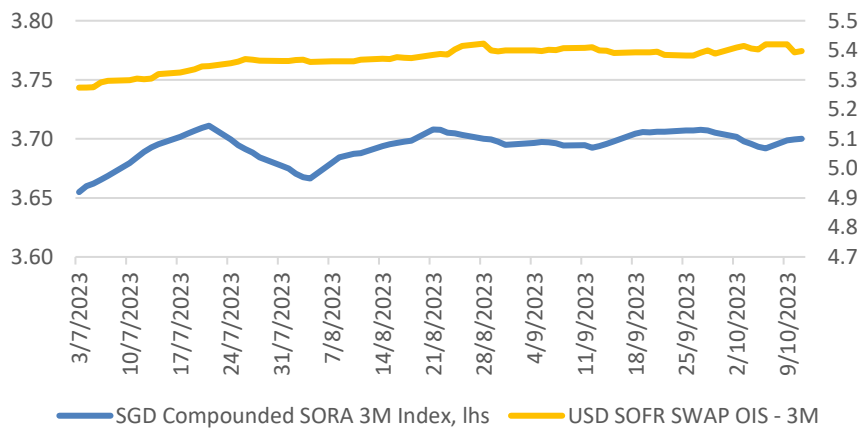
- Outlook for hotel room rates - increase in visitor arrivals remains patchy, room nights increasing.
- Easing of hiring of foreign manpower should ease costs pressure and enable operators to lower room rates.

### Industrial

- The outlook for industrial and business park rents - impact from manufacturing slowdown and uncommitted industrial supply (especially business parks and hi-tech spaces). Any signs of slowdown in spot rents for logistics.
- The value of logistics assets in Australia.
- Update on the proposed transactions highlighted during the equity fund raising - CLAR (asset purchase in Europe), MLT (potential acquisition in China, divestment in Hong Kong, CNH debt issuance), AAREIT (identification of assets for redevelopment), ESR-LOGOS (plans for recycling proceeds, perpetual redemption).

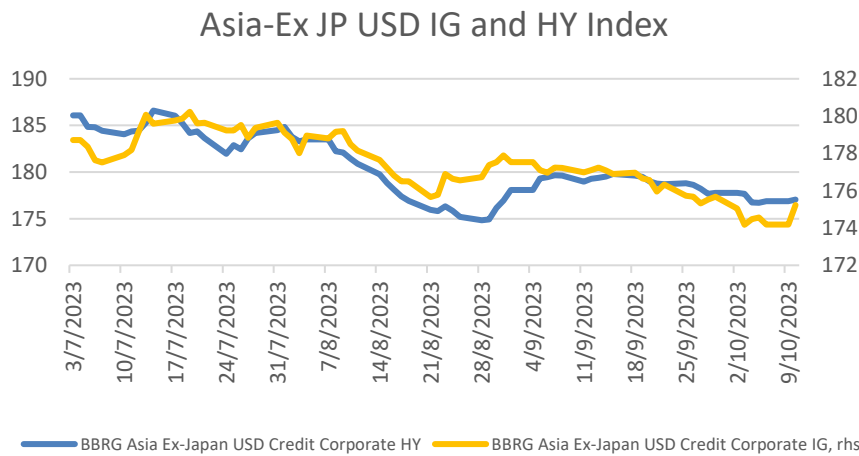
### 3. Key macro charts

**Fig 2: 3QTD - Short-term SGD and USD rates are marginally up**



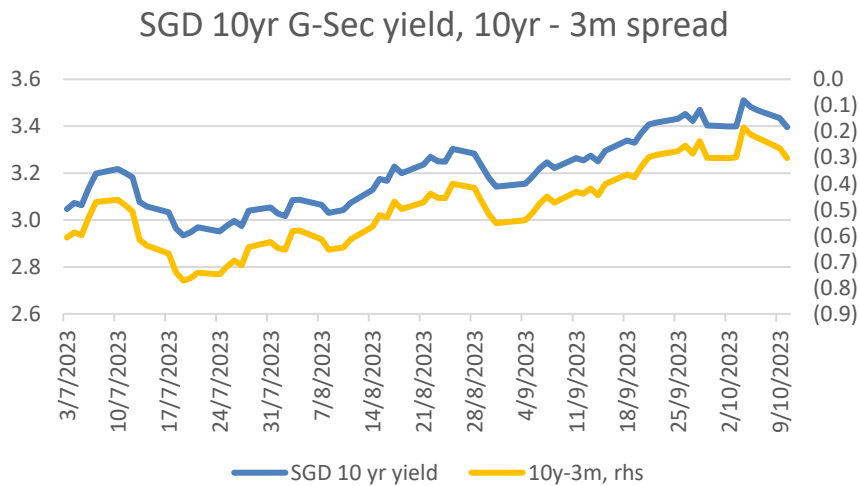
Source: Maybank IBG Research, FactSet

**Fig 3: 3QTD - Investment Grade and High Yield Indices fell through the quarter**



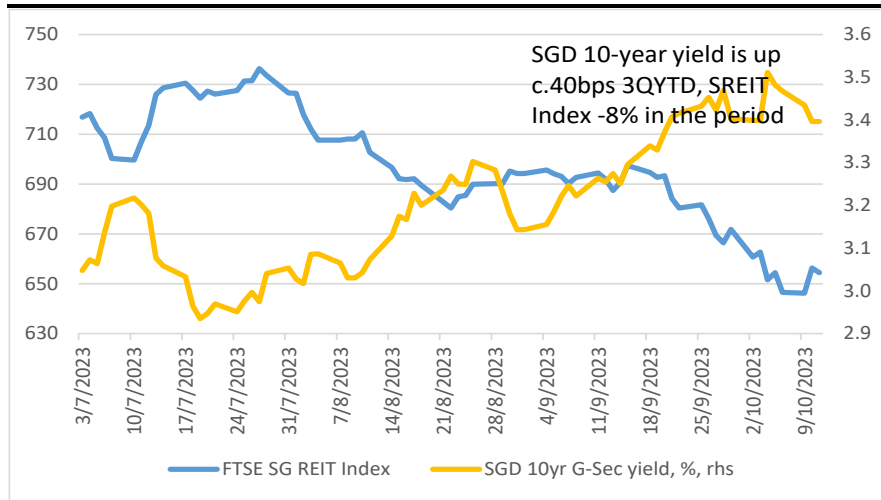
Source: Maybank IBG Research, Bloomberg

**Fig 4: 3QTD - 10 yr. yield up,**



Source: Maybank IBG Research, FactSet

**Fig 5: SREIT Index down c.9% as 10 year yield backed up 40bps**



Source: Maybank IBG Research, FactSet

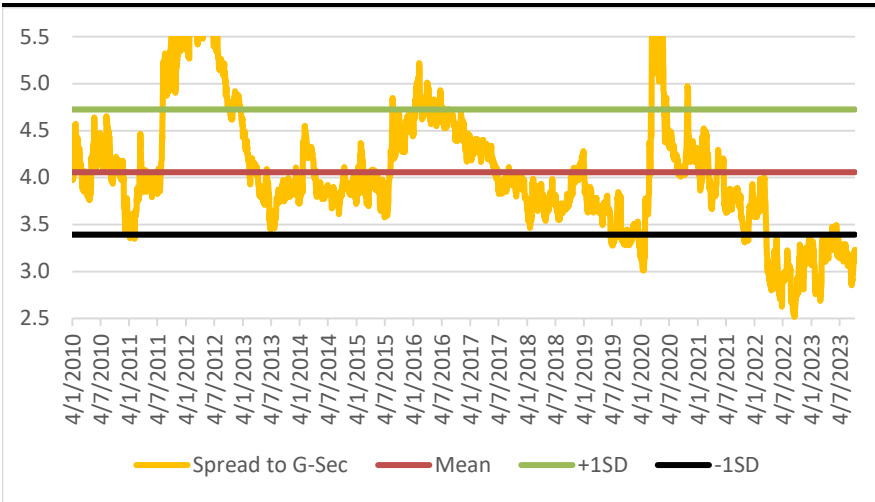
**Fig 6: Percent change in consensus DPU over last 3 months, %**

	FY1 DPU	FY2 DPU
CICT	-1.9	-2.1
MPACT	-5.2	-5.0
SUN	-2.0	-0.7
FCT	-0.9	-0.1
KREIT	-0.4	-1.4
LREIT	-6.5	-2.2
<b>Avg. Commercial</b>	<b>-2.8</b>	<b>-1.9</b>
CLAR	-0.5	-1.0
MLT	-0.5	-0.1
MINT	-0.9	0.1
EREIT	1.9	-4.5
AAREIT	0.1	-0.8
<b>Avg. industrial</b>	<b>-0.5</b>	<b>-1.4</b>
CLAS	-1.2	1.8
CDLHT	-6.6	-7.0
FEHT	0.7	0.2
FHT	1.3	-0.3
<b>Avg. hospitality</b>	<b>-1.0</b>	<b>-1.2</b>

Source: Maybank IBG Research, FactSet FY1 and FY2 refers to current and subsequent forecast years

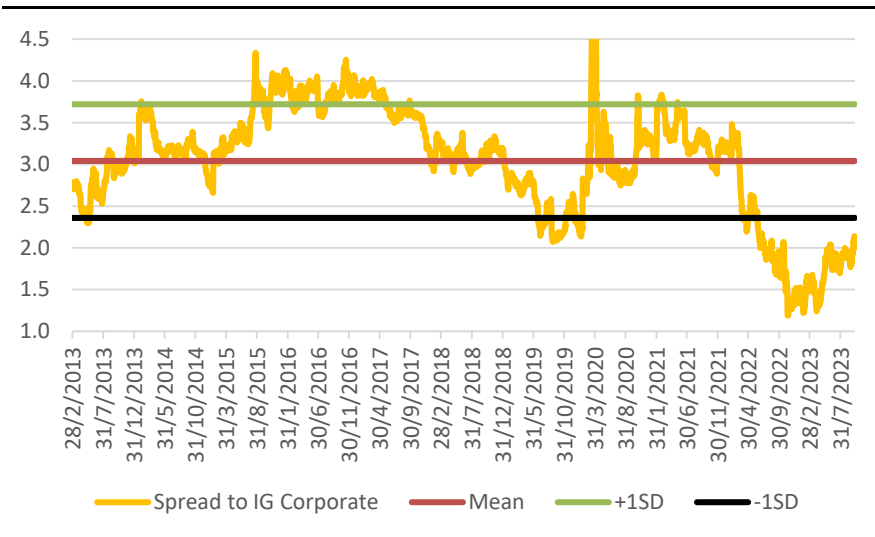
## 4. Valuation

**Fig 7: SREIT Index spread vs. 10 year SGD G-Sec - c. 320bps**



Source: Maybank IBG Research, FactSet

**Fig 8: SREIT Index spread vs. S&P IG Corporate Index - c.205bps**



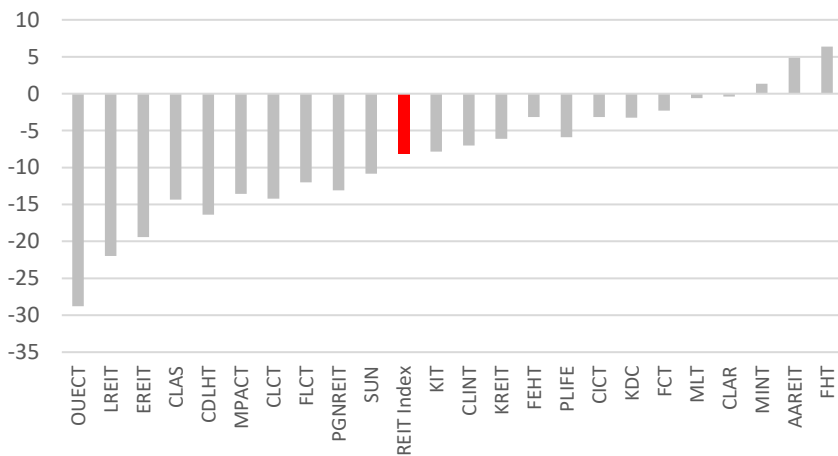
Source: Maybank IBG Research, FactSet

Fig 9: Coverage SREITs - Valuation Table

Short Name	Price, Lcy	M Cap (USD\$b)	Rating	TP, SGD	Current Div. Yield, %	FY1 Div. yoy, %	FY2 Div. yoy, %	Avg. 2Yr. Div growth, %	P/B,x	Leverage, FactSet	Analyst
<b>Commercial</b>					<b>6.3</b>	<b>-1.5</b>	<b>0.7</b>	<b>-0.4</b>	<b>0.77</b>	<b>41</b>	
CICT	1.80	8.8	BUY	2.15	5.9	1.6	0.7	1.1	0.85	41	KG
MPACT	1.38	5.4	BUY	1.70	6.9	-3.6	1.2	-1.2	0.76	43	KG
SUN	1.15	2.4	HOLD	1.30	6.6	-10.7	0.0	-5.3	0.54	43	KG
FCT	2.13	2.7	BUY	2.35	5.7	-0.6	0.4	-0.1	0.91	36	KG
KREIT	0.85	2.3	BUY	1.05	6.3	2.1	-0.2	0.9	0.62	35	KG
LREIT	0.52	0.9	BUY	0.80	9.2	-5.2	1.3	-1.9	0.66	51	KG
<b>Industrial</b>					<b>6.3</b>	<b>-1.8</b>	<b>0.2</b>	<b>-0.8</b>	<b>1.10</b>	<b>41</b>	
CLAR	2.69	8.7	HOLD	2.65	5.8	-0.2	0.3	0.1	1.13	42	KG
MLT	1.59	5.7	BUY	1.80	5.7	-2.5	0.2	-1.2	1.10	40	KG
MINT	2.20	4.6	HOLD	2.30	6.1	-0.9	1.4	0.2	1.19	34	KG
EREIT	0.27	1.5	BUY	0.38	10.6	-10.5	-3.2	-6.8	0.65	51	JL
AAREIT	1.30	0.8	BUY	1.36	7.6	-2.3	0.1	-1.1	0.95	56	JL
<b>Hospitality</b>					<b>5.9</b>	<b>8.0</b>	<b>5.1</b>	<b>6.6</b>	<b>0.75</b>	<b>42</b>	
CLAS	0.91	2.5	BUY	1.20	6.3	4.0	5.2	4.6	0.79	48	KG
CDLHT	1.02	0.9	BUY	1.25	6.0	5.7	5.2	5.5	0.71	42	KG
FEHT	0.59	0.9	BUY	0.80	5.4	13.2	5.3	9.2	0.65	29	KG
FHT	0.50	0.7	BUY	0.54	4.4	19.2	4.8	12.0	0.77	36	JL

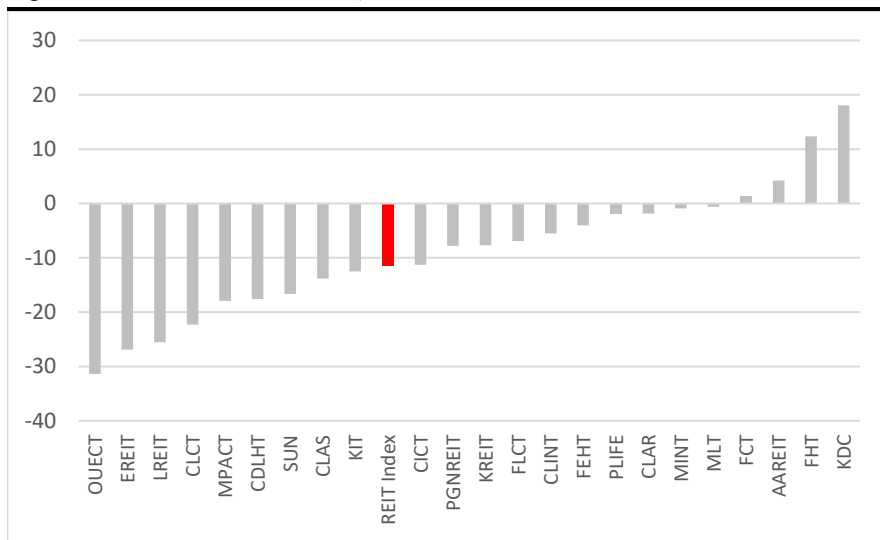
Source: Maybank IBG Research, FactSet KG - Krishna Guha, JL - Jiatin Li Prices are as of 11 Oct 2023

Fig 10: SREIT Performance 3QTD, %



Source: Maybank IBG Research, FactSet

Fig 11: SREIT Performance YTD, %



Source: Maybank IBG Research, FactSet

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