Maybank

# Singapore REITs

# Rates fall, SREITs rise

POSITIVE *[Upgrade]*

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## Green shoots reappear: Upgrade sector to POSITIVE

The US Fed's strong signaling of rate cuts should lower the discount rate for the REITs sector in Singapore and improve sentiment. Sustained rate cuts should also eventually lower borrowing rates. As such, we upgrade our sector stance. We also rehash how REITs stack up for rate cuts. This quarter's results yielded no surprises with falling distributions, and we expect the trend to persist. Our core preference remains CICT, CLAR and FCT. Additionally we include LREIT, MLT and OUEREIT due to their rate/FX sensitivity and valuation.

## Classical conditioning

Sentiment and flows have been/will be boosted by expectations and the initial round of US rate cuts. This, in turn, will lower the cost of capital and discount rate and improve fair value estimates in our dividend discount model. Every 50bps decrease in the discount rate improves fair value by about 10% on average. Further, lower cost of capital should help to put a floor on asset values, reignite the transaction market and accelerate capital recycling. Lower repricing of debt on floating rates will help to soften the growth of financing expenses. Finally, if rate cuts lead to higher nominal growth, they can also lead to topline growth in some of the REITs. Overall, borrowing cost will decline only if rate cuts are deep and sustained. Every 50bps fall in base rates leads to a 3.4% increase in distribution on average (Figs 4-6).

## No surprises in REIT results

Distribution and NAV for the REITs we cover fell 5.5% and 1.0% YoY on average. Finance expenses, FX headwinds and income vacuum from divestments/asset enhancements offset resilient operations. Commercial and industrial REITs continue to show healthy low-teen positive reversion. CLAR raised reversion guide to a high-single digit. Office reversions are likely to normalise as spot rent growth slows down. We expect retail reversion to trend in line with tenant sales growth. Hospitality RevPAR was impacted by seasonality and slower-than-expected growth in tourist arrivals. Forward bookings are facing tough comps of last year. Sector margins were down on the year but sequentially improved due to lower utility costs. Cost of debt inched up while coverage ratio fell at a more gradual pace than prior quarters, which suggests stabilization of financial metrics. Singapore asset values are resilient (Figs 8-10).

## Broaden sector picks to include rate sensitive REITs

CICT, CLAR, and FCT remain our core picks with Singapore-centric revenue stream and/or diversified presence in high-growth sectors and good hedging practices. These names also enjoy strong credit metrics. While valuations are tight, these attributes are comforting in a period of volatile transition from a high level of interest rates to a normalized level. We also include LREIT, MLT and OUEREIT in our picks due to their rate/FX sensitivity and valuations. Our preferred sub-sectors are industrial and retail, while we are neutral on office and cautious on hospitality.

REITs
Singapore



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## Fig 1: MIBG coverage and estimates

| Ticker | Price, SGD | Rating | TP, SGD | FY1 DY (%) | Total return (%) | 2yr DPU cagr (%) | MIBG est. FY0 DPU | FY1 DPU | FY2 DPU | FY3 DPU | FY0 NAV | FY1 NAV | MIBG vs. cons. FY1 DPU, % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Commercial** | | | | | | | | | | | | | |
| CICT | 2.13 | Buy | 2.25 | 5.2 | 10.8 | 1.8 | 10.76 | 10.99 | 11.15 | 11.96 | 2.13 | 2.16 | 1.4 |
| MPACT | 1.36 | Hold | 1.30 | 6.2 | 1.7 | (1.3) | 8.91 | 8.38 | 8.69 | 9.16 | 1.75 | 1.77 | -0.5 |
| FCT | 2.37 | Buy | 2.40 | 5.0 | 6.3 | (0.3) | 12.11 | 11.96 | 12.04 | 12.28 | 2.33 | 2.30 | 0.2 |
| SUN | 1.24 | Hold | 1.10 | 5.0 | (6.3) | (2.9) | 7.14 | 6.19 | 6.74 | 6.95 | 2.11 | 2.08 | 1.0 |
| KREIT | 0.89 | Buy | 1.00 | 6.7 | 19.0 | 1.5 | 5.81 | 5.93 | 5.99 | 6.17 | 1.32 | 1.32 | 0.1 |
| LREIT | 0.59 | Buy | 0.65 | 6.2 | 17.3 | (3.4) | 3.87 | 3.60 | 3.61 | 3.98 | 0.76 | 0.76 | -6.6 |
| OUECT | 0.29 | Buy | 0.30 | 6.8 | 10.2 | 0.7 | 2.09 | 1.97 | 2.12 | 2.17 | 0.60 | 0.61 | 2.5 |
| **Industrial** | | | | | | | | | | | | | |
| CLAR | 2.88 | Buy | 2.90 | 5.1 | 5.8 | 0.3 | 15.16 | 14.74 | 15.26 | 15.96 | 2.26 | 2.29 | -2.4 |
| MLT | 1.37 | Buy | 1.50 | 5.8 | 15.3 | (8.1) | 9.00 | 8.00 | 7.60 | 7.71 | 1.38 | 1.37 | -1.3 |
| MINT | 2.43 | Hold | 2.15 | 5.2 | (6.3) | (4.8) | 13.43 | 12.75 | 12.18 | 12.59 | 1.76 | 1.75 | -3.8 |
| EREIT | 0.27 | Buy | 0.32 | 8.6 | 27.2 | (3.9) | 2.56 | 2.33 | 2.37 | 2.38 | 0.32 | 0.31 | 3.7 |
| AAREIT | 1.29 | Buy | 1.39 | 7.4 | 15.2 | 2.8 | 9.36 | 9.60 | 9.89 | 10.05 | 1.31 | 1.28 | 3.2 |
| **Hospitality** | | | | | | | | | | | | | |
| CLAS | 0.91 | Buy | 1.10 | 6.5 | 27.4 | (0.7) | 6.36 | 5.93 | 6.27 | 6.51 | 1.16 | 1.05 | 1.3 |
| CDLHT | 0.93 | Buy | 1.00 | 5.9 | 14.0 | (0.4) | 5.70 | 5.43 | 5.65 | 5.47 | 1.51 | 1.53 | -3.5 |
| FEHT | 0.64 | Buy | 0.75 | 6.2 | 23.4 | (1.2) | 4.09 | 3.99 | 3.99 | 3.99 | 0.93 | 0.96 | -2.8 |
| FHT | 0.44 | Buy | 0.51 | 5.3 | 22.5 | (2.3) | 2.44 | 2.29 | 2.33 | 2.35 | 0.66 | 0.69 | -8.7 |
| **Healthcare** | | | | | | | | | | | | | |
| FIRST | 0.26 | Buy | 0.28 | 9.4 | 19.2 | (0.5) | 2.48 | 2.40 | 2.45 | 2.48 | 0.30 | 0.30 | 0.6 |

*Source: Maybank IBG Research, Company Data, FactSet Current price as of 23rd Aug 2024, Target price and NAV in SGD, DPU in SGDc.*

## Fig 2: DPU estimate changes after June quarter results, %

| | FY1 | FY2 |
|---|---|---|
| CICT | 0.0 | -2.4 |
| FCT | -0.9 | -1.5 |
| KREIT | 2.3 | 0.8 |
| LREIT | -13.7 | -14.7 |
| OUECT | -1.1 | -4.5 |
| EREIT | -1.3 | -1.1 |
| AAREIT | -3.9 | -4.8 |
| CDLHT | -8.5 | -7.5 |
| FEHT | -2.5 | -2.8 |
| FHT | -1.1 | -0.9 |

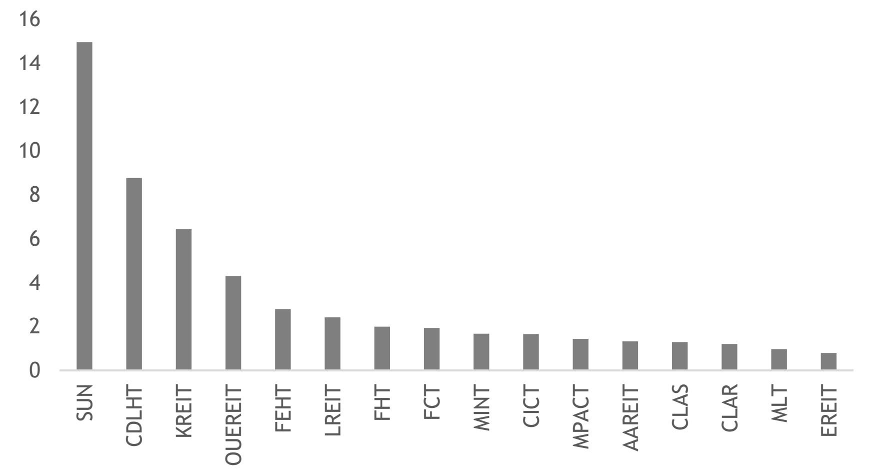
*Source: Maybank IBG Research No DPU estimate change for MPACT, SUN, CLAR, MLT, MINT, CLAS, FIRST*

## Fig 3: Valuations (based on FactSet Consensus)

| Name | Short Name | Price, Lcy | M Cap (SGDb) | Rating | TP, SGD | Current Div. Yield, % | FY1 Div. yoy, % | FY2 Div. yoy, % | Avg. 2Yr. Div growth, % | P/B,x | Leverage, FactSet | Analyst |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Commercial (avg. for coverage names)** | | | | | **5.8** | **(1.7)** | **1.7** | - **0.0** | **0.85** | **39** | |
| CapitaLand Integrated Commercial Trust | CICT | 2.13 | 14.1 | BUY | 2.25 | 5.1 | 0.4 | 0.7 | 0.6 | 1.00 | 40 | KG |
| Mapletree Pan Asia Commercial Trust | MPACT | 1.36 | 6.9 | HOLD | 1.30 | 6.8 | -2.8 | 2.0 | -0.4 | 0.78 | 40 | KG |
| Suntec Real Estate Investment Trust | SUN | 1.24 | 3.5 | HOLD | 1.10 | 5.9 | -7.3 | 4.3 | -1.5 | 0.59 | 43 | KG |
| Frasers Centrepoint Trust | FCT | 2.37 | 4.3 | BUY | 2.40 | 5.1 | -0.9 | 0.7 | -0.1 | 1.02 | 33 | KG |
| Keppel REIT | KREIT | 0.89 | 3.4 | BUY | 1.00 | 6.6 | 1.1 | 0.5 | 0.8 | 0.66 | 38 | KG |
| OUE Real Estate Investment Trust | OUECT | 0.29 | 1.5 | BUY | 0.30 | 7.0 | -4.1 | 8.2 | 2.0 | 0.48 | 38 | KG |
| Lendlease Global Commercial REIT | LREIT | 0.59 | 1.4 | BUY | 0.65 | 7.6 | -10.8 | 1.3 | -4.7 | 0.77 | 52 | KG |
| | **Industrial (avg. for coverage names)** | | | | | **6.0** | **(0.9)** | **1.2** | **0.1** | **1.18** | **41** | |
| CapitaLand Ascendas REIT | CLAR | 2.88 | 12.5 | BUY | 2.90 | 5.3 | -0.2 | 1.9 | 0.9 | 1.24 | 43 | KG |
| Mapletree Logistics Trust | MLT | 1.37 | 6.7 | BUY | 1.50 | 6.6 | -3.8 | 0.1 | -1.9 | 0.99 | 40 | KG |
| Mapletree Industrial Trust | MINT | 2.43 | 6.8 | HOLD | 2.15 | 5.6 | -0.7 | 0.7 | 0.0 | 1.38 | 36 | KG |
| ESR-LOGOS REIT | EREIT | 0.27 | 2.0 | BUY | 0.32 | 8.0 | 3.1 | 0.6 | 1.9 | 0.83 | 51 | JL |
| AIMS APAC REIT | AAREIT | 1.29 | 1.0 | BUY | 1.39 | 7.3 | -0.3 | 3.2 | 1.4 | 0.97 | 52 | JL |
| | **Hospitality (avg. for coverage names)** | | | | | **6.6** | - **1.8** | **1.8** | **0.0** | **0.72** | **40** | |
| CapitaLand Ascott Trust | CLAS | 0.91 | 3.4 | BUY | 1.10 | 7.3 | -5.7 | 1.9 | -1.9 | 0.78 | 45 | KG |
| CDL Hospitality Trusts | CDLHT | 0.93 | 1.1 | BUY | 1.00 | 6.3 | -0.7 | 4.0 | 1.7 | 0.61 | 42 | KG |
| Far East Hospitality Trust | FEHT | 0.64 | 1.3 | BUY | 0.75 | 5.8 | 5.6 | 0.0 | 2.8 | 0.69 | 28 | KG |
| Frasers Hospitality Trust | FHT | 0.44 | 0.8 | BUY | 0.51 | 5.3 | 1.4 | 1.1 | 1.2 | 0.66 | 37 | JL |
| | **Healthcare** | | | | | | | | | | | |
| First Real Estate Investment Trust | FIRST | 0.26 | 0.5 | BUY | 0.28 | 9.5 | -1.9 | 2.2 | 0.1 | 0.84 | 45 | JL |

*Source: Maybank IBG Research, FactSet KG – Krishna Guha, JL – Jialin Li*

### Fig 4: DPU sensitivity to 50bps change in base rates (%), June 2024




*Source: Maybank IBG Research, Company Data*

### Fig 5: Other key metrics to track (As of June 2024)

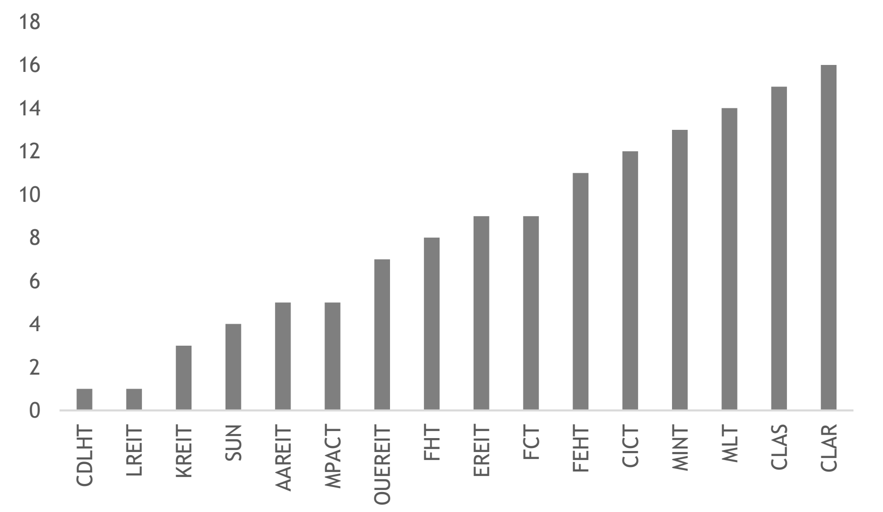
| | % fixed rate hedges | Debt to maturity, yrs | % debt maturing in FY1 | % debt maturing in FY1&2 | Gearing, % | ICRx |
|---|---|---|---|---|---|---|
| CICT | 76 | 3.8 | 13 | 26 | 40.0 | 3.1 |
| MPACT | 79 | 3.1 | 13 | 30 | 40.5 | 2.8 |
| FCT | 67 | 2.8 | 0 | 16 | 39.1 | 3.3 |
| SUN | 55 | 3.3 | 0 | 15 | 42.3 | 1.9 |
| KREIT | 65 | 3.0 | 0 | 23 | 41.3 | 2.8 |
| LREIT | 61 | 2.8 | 0 | 23 | 41.0 | 1.8 |
| OUEREIT | 61 | 2.7 | 0 | 14 | 38.7 | 2.2 |
| | | | | | | |
| CLAR | 83 | 3.7 | 7 | 20 | 37.8 | 3.5 |
| MLT | 83 | 3.7 | 3 | 16 | 39.6 | 3.1 |
| MINT | 82 | 3.6 | 6 | 28 | 39.1 | 4.3 |
| EREIT | 75 | 2.1 | 0 | 12 | 36.5 | 2.5 |
| AAREIT | 74 | 2.1 | 14 | 27 | 33.1 | 2.5 |
| | | | | | | |
| CLAS | 82 | 3.6 | 10 | 21 | 37.2 | 3.7 |
| CDLHT | 52 | 1.8 | 31 | 52 | 37.7 | 2.7 |
| FEHT | 36 | 3.3 | 0 | 22 | 30.8 | 3.1 |
| FHT | 76 | 1.8 | 0 | 36 | 35.3 | 3.0 |

*Source: Maybank IBG Research, Company Data*

Average 3.4% higher DPU for every 50bps decrease in base rates. Larger sensitivity corresponds with names having lower hedge ratio and/or higher gearing

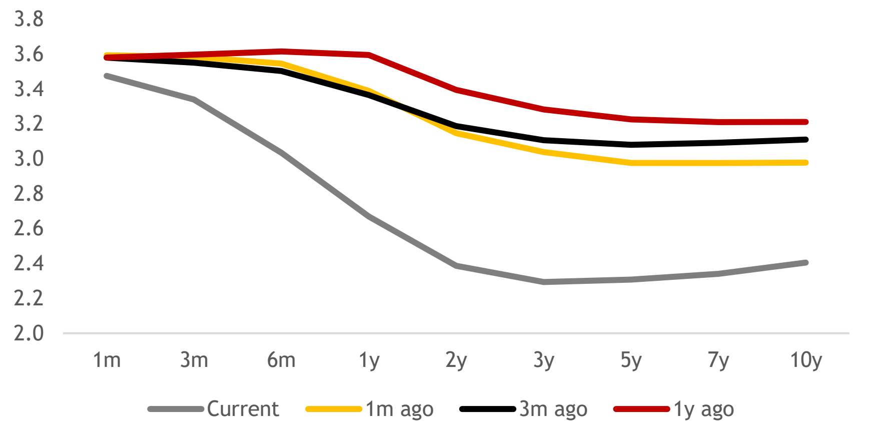
Lower fixed rate hedge ratio and lower average debt maturity should benefit from rate cuts, although a lot will depend upon cost of maturing debt. REITs with higher gearing and lower ICRx should benefit from better sentiment. Figure 6 ranks the SREITs that we cover based on the metrics of Figure 5. All factors are equally weighted.

### Fig 6: REIT ranking for interest rate cuts – lower the rank, better positioned



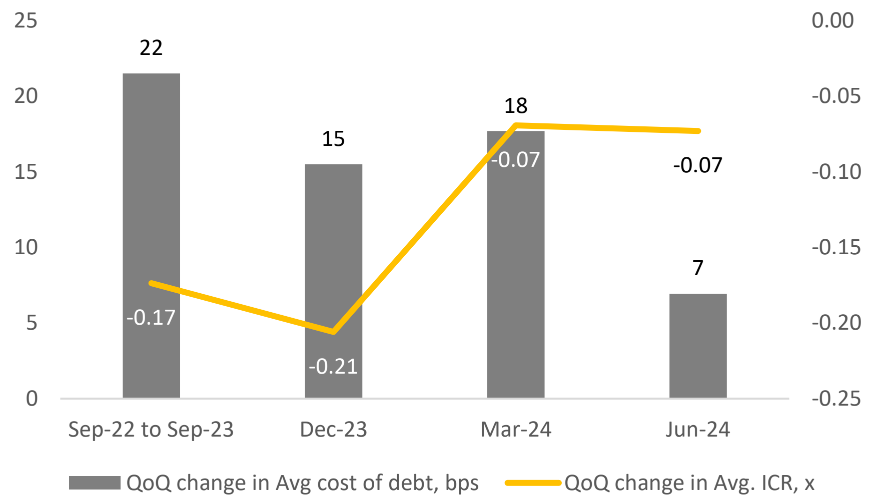

*Source: Maybank IBG Research*

**Fig 7: 3-year SGD swap rates are down by 80bps in past three months**




*Source: Maybank IBG Research, Bloomberg*

**Fig 8: Cost of debt is rising slowly, coverage ratio stabilizing**




*Source: Maybank IBG Research, Company Data Cost of debt and ICR (Interest Coverage Ratio) is average for coverage REITs. Sep 2022 to Sep 2023 is average for 4 quarters.*

**Fig 9: Estimated borrowing spreads, bps - current vs. June 2021**

| | Borrowing Cost, % | | | Est. Base Rates, % | | | Borrowing spread, bps | |
|---|---|---|---|---|---|---|---|---|
| | Jun-24 | Jun-21 | Chg, bps | Jun-24 | Jun-21 | Chg, bps | Jun-24 | Jun-21 |
| CICT | 3.50 | 2.40 | 110 | 2.47 | 0.42 | 205 | 83 | 198 |
| MPACT | 3.54 | 2.44 | 110 | 2.44 | 0.63 | 181 | 90 | 181 |
| FCT | 4.20 | 2.20 | 200 | 2.43 | 0.45 | 198 | 137 | 175 |
| SUN | 4.02 | 2.41 | 161 | 2.82 | 0.42 | 240 | 96 | 199 |
| KREIT | 3.31 | 1.97 | 134 | 2.61 | 0.44 | 217 | 24 | 153 |
| LREIT | 3.58 | 0.88 | 270 | 2.42 | 0.34 | 208 | 52 | 54 |
| | | | | | | | | |
| CLAR | 3.70 | 2.40 | 130 | 2.85 | 0.39 | 246 | 45 | 201 |
| MLT | 2.70 | 2.20 | 50 | 2.37 | 0.83 | 154 | 13 | 137 |
| MINT | 3.20 | 2.70 | 50 | 2.86 | 0.40 | 246 | 34 | 230 |
| EREIT | 4.03 | 3.24 | 79 | 2.59 | 0.42 | 217 | 134 | 282 |
| AAREIT | 4.30 | 3.30 | 100 | 2.74 | 0.43 | 231 | 126 | 287 |
| | | | | | | | | |
| CLAS | 3.00 | 1.60 | 140 | 2.56 | 0.20 | 235 | -16 | 140 |
| CDLHT | 4.20 | 1.90 | 230 | 2.78 | 0.36 | 242 | 142 | 154 |
| FEHT | 4.10 | 2.10 | 200 | 2.43 | 0.45 | 198 | 77 | 165 |
| FHT | 3.50 | 2.00 | 150 | 2.92 | 0.31 | 262 | 18 | 169 |
| Average | 3.66 | 2.25 | 141 | 2.62 | 0.43 | 219 | 70 | 182 |

*Source: Maybank IBG Research, Company Data, Bloomberg*

We expect funding costs to rise as borrowing spreads at 70bps are still below the ones before rate hikes. Banks have provided support by lowering margins but, once base rates fall, margins should go up. In Fig 9, base rates are estimated based on asset mix at cost price in individual currencies. This assumes natural hedging and ignores the effects of funding arbitrage and cross-currency hedges.

## Fig 10: Summary of June quarter results

| | Industrial | | | Commercial | | | Hospitality | | |
|---|---|---|---|---|---|---|---|---|---|
| | YoY | QoQ/HoH | Comments | YoY | QoQ/HoH | Comments | YoY | QoQ/HoH | Comments |
| DPU, % | -6.1 | -2.6 | DPU declines barring MINT (on both yoy and qoq) and CLAR (on HoH) basis | -8.3 | -6.3 | Impacted by LREIT, OUEREIT and MPACT. Only SUN saw sequential growth while CICT was near flat | -2.1 | -21.2 | HoH impacted by seasonality. YoY lower due to higher borrowing cost and slower RevPAR growth |
| NAV, % | -4.6 | -1.1 | Broad based decline - mix of reval. losses, FX translation, capex not translating to valuation gains as yet and below book placements | -0.8 | -0.3 | | 2.2 | -1.0 | Mix of reval. gains offset by payouts and FX movements |
| | | | | | | | | | |
| Occupancy, bps | -122 | -16 | Broad based decline across coverage REITs, Only MINT showed gains QoQ | -106 | -24 | Retail stable. Slippage in overseas and SG office. FCT saw some sillpage in same-store occupancy | 2 | -4 | RevPAR flat-lining, Lower room rates offste by higher occupancy |
| Reversion, for the reporting period & prior qtr., % | 10 | 12 | +ve reversion for all REITs led by logistics, China continues to negatively impact MLT. Guidance upped for CLAR to high single digit from mid-single digit | 11 | 11 | Strong reversion, sequential slowdown in SG office | | | |
| NPI Margin, bps | -135 | 86 | Utlities and property taxes normalizing | -99 | -177 | CICT improved margin by change in property mgmt contract, LREIT impacted by lower office occupancy | | | |
| | | | | | | | | | |
| Leverage, bps | -12 | 10 | | -3 | 56 | Higher for KREIT (due to M&A); LREIT, FCT, OUEREIT - mix of capex, revals and FX movement | -70 | 15 | |
| Funding cost, bps | 15 | 2 | QoQ flat to lower for MLT, CLAR, ESR-REIT. CLAR guidance lowered from previous qtr - around 3.7% vs. 4% | 50 | 19 | Barring SUN and FCT, sequential debt cost was higher for the rest | 55 | 40 | |
| ICR,x | -0.1 | 0.0 | Flat to lower | -0.3 | -0.1 | Inches lower, LREIT lowest within coverage names | -0.5 | -0.3 | ICR starts to fall for hospitality sector, Earlier operational gains were stronger to offset higher interest cost |
| WADE, yrs | -0.24 | -0.04 | | 0.04 | -0.06 | | -0.2 | -0.4 | |
| % fixed rate hedge, bps | -124 | 156 | AAREIT has lowered hedge ratio | -186 | -250 | Barring FCT and MPACT, hedge ratios lower for rest | -73 | -93 | Hospitality sector further lowers hedge ratio |

*Source: Maybank IBG Research, Company Data*

## Fig 11: June quarter result summary - Industrial and Healthcare REITs

| | CLAR | MLT | MINT | EREIT | AAREIT | FIRST REIT |
|---|---|---|---|---|---|---|
| Period reported | 1HFY2024 (Dec YE) | 1QFY25 (Mar YE) | 1QFY25 (Mar YE) | 2QFY2024 (Dec YE) | 1QFY24 (Mar YE) | 2QFY2024 (Dec YE) |
| Distribution | SGD7.52c, +1.1%HoH/-2.5%YoY | SGD2.271c, -6.5%QoQ/-8.9%YoY | SGD3.43cts, +2.1% QoQ /1.2% YoY | SGD1.122cts, -5.4% HoH/-18.6% YoY | SGD2.27cts, -3% QoQ/-1.7%YoY | SGD1.2 cts, flat QoQ/-3% YoY |
| Portfolio occupancy | 93.1%, -20bps QoQ/-130bps YoY; SG same store occupancy 92%, -30bps QoQ/YoY, US 87.7% -1.8%QoQ/-4.3%YoY; New demand led by Engineering & Govt. in SG, Financial services & Govt. in overseas | 97.1%, +10bps QoQ/-100bps YoY; QoQ lower occupancy in SG and Vietnam due to leasing downtime, MY asset taken back for redevelopment | 91.9% vs. 91.4% in March, 93.3% a yr ago; QoQ Higher occupancy in data centres, ramp-up and hi-tech buildings was offset by lower occupancy in light industrial and business park assets. | 91.4% vs. 91.7% in March, 92.9% a yr ago; Australia and Japan at full occupancy, weighed down by Singapore portfolio (88.3%), due to redevelopments and newly TOP-ed assets | 97.3% vs. 97.8% in March, 98.1% a yr ago; Transient dip of 50bps in occupancy was from logistics and business park assets at Singapore portfolio, while double-digit rental reversion is sustained. | 100% (financial occupancy) |
| Rental reversion | 2Q24 +11.7% vs. 2Q23 +18% and 1Q24 +16%; Led by logistics in Sg and Industrial & DCs in SG & UK/EU | +2.6% (vs. +2.9% in Mar) +ve rental reversions across the markets ranging from 2.1% in HK to 7.8% in Singapore, except for China which registered negative rental reversion of 11.3%. Ex China, rental reversion +4.6% | +9.2%, the highest since 1Q24. Positive reversion between 2.7% and 12.3% was achieved for renewal leases across Singapore segments. This led to sequentially higher passing rents except for flatted factories | +11.2% (vs. 10.8% in Mar) driven by Singapore portfolio. Low-to-mid-teens positive reversions across all asset classes except for business park. Business park registered positive reversion of +1.5% despite sector headwinds. | +12.8% (vs. 32% in Mar) led by logistics/warehouse (+26.8%) and industrial assets (+7.1%). Full-year guidance for rental reversion remains at high single-digit to low teens. | N.A. |
| Balance sheet (over 3 months), Asset valuation | Leverage 37.8% vs. 38.3% in Mar-24, % debt on fixed rate: 83% vs. 82.6% Avg. cost of debt: 3.7% vs. 3.8% Avg. debt maturity: 3.7yrs. vs. 3.4yrs ICR: 3.5x vs. 3.6x | Leverage 39.6% vs. 38.9% in Mar-24, % debt on fixed rate: 83% vs. 84% Avg. cost of debt: 2.7% vs. 2.7% Avg. debt maturity: 3.7yrs. vs. 3.8yrs ICR: 3.1x vs. 3.1x | Leverage 39.1% vs. 38.7% in Mar-24 % debt on fixed rate: 82.1% vs. 84.6% Avg. cost of debt: 3.2% vs. 3.1% Avg. debt maturity:3.6yrs vs. 3.8yrs ICR: 4.3x unch. | Leverage 36.5% vs. 37.1% in Mar-23 % debt on fixed rate: 75% vs. 63.1% Avg. cost of debt: 4.03% vs. 4.11% Avg. debt maturity: 2.1yrs, no change ICR: 2.5x vs. 2.6x | Leverage 33.1% vs. 32.9% in Jun-23 % debt on fixed rate: 74% vs. 87% Avg. cost of debt: 4.3% vs. 3.9% Avg. debt maturity: 2.1yrs vs. 3yrs ICR: 2.5x vs. 2.4x | Leverage 39.5% vs. 38.7% in Jun-23 % debt on fixed rate: 86.6% vs. 86% Avg. cost of debt: 5% vs. 4.9% Avg. debt maturity: 3.1yrs vs. 4.1yrs |
| Other notable operating trends | Guidance upped for rent reversion for FY24 from mid-single digit to high-single digit Debt cost guide "around 3.7%" vs. earlier of "c.4%" Industrial and DCs are new growth centres while logistics growth is maturing | Negative but receding FX headwind - 1Q gross revenue/NPI -0.3%/-0.9%YoY, constant ccy +2.1%/+1.3%YoY Distribution from operation fell 5%YoY but bottomline DPU fell by 8.9% due to lower amount of divestment gains. New CEO - staying the course with continued portfolio rejuvenation, focusing on Asian logistics, taking a long view of China, potentially working with sponsor to redevelop some of the mature assets | MINT backfilled the Brentwood data centre with a healthcare services tenant. Distribution from JV is higher with previously withheld portions, which was partially offset by higher borrowing costs at the JV level. Earlier, management revised its disposition target to SGD200-500m. | Management will raise services charge in Oct to offset property expense. This is on top of YTD divestments of SGD433.5m (c.10.3% of FY22 revenue). EREIT proposed acquisitions of SGD756.4m in Japan and SG from sponsor's pipeline. Management intends to divest SGD2-300m more of small-ticket non core assets to end-users. | Two proposed AEIs have been identified, with precommitment by master/anchor tenant, respectively. DHL space will be compartmented and backfilled at positive reversion, upon lease expiry in 9 months. | Mgmt expects MPU to meet rental obligations after its asset sale, security deposits can cover 66% of existing arrears. Gearing inched up by 70bps to 39.5% as of Jun'24, as asset valuation were lower in SGD terms. |
| Result Summary | Steady operations but accompanied by margin slippage and lower ICRx. Stable occupancy barring US business park portfolio. Double-digit positive reversions helped by logistics. Focus on DCs but no capex announced for 60MW UK DC | Lower income from China, higher funding cost, FX depreciation and lower top ups led to DPU decline. Frictional occupancy decline and reversions softened mainly due to China and high base effect in other geographies. Growth opportunities in developing mkts (MY, VN). Full fiscal divestment target SGD150-200m, lower than prior target. Divestment gains to be paid for debt repayment. | Contribution from Osaka data centre, positive rental reversions from SG portfolio, and capital top-up of SGD3.35m underpinned the resilient DPU. Excluding divestment gains, distributable income from operations fell 1.4% QoQ, while growing 4.5% YoY | Lower revenue (-4.5% HoH) in 1H24 was led by recent divestments, leasing downtime at 2 Fishery Port redevelopment, and transient occupancy dip. Capital top-up was SGD6m in 1H24 (SGD8.5m in 1H23). | 1Q25 revenue and NPI are +5.6%/+2.8% QoQ (see overleaf). Higher property expenses partially offset topline gains. Upcoming refinancing of SGD100m MTN is due in Nov'24 and currently priced at 3.6%. | In local currency terms, revenue from its Indonesia/Singapore portfolios rose 4.4%/2.0% respectively, and it was flat for its Japan assets. Forex headwinds weighed down 1H24 headline growth (-3.7% YoY). |
| Analyst comments | Diversified franchise, long operating history, A rated credit; While we expect frictional occupancy in SG & US biz. park and capex outlays for the older DCs, maintain BUY on back of defensive attributes and exposure to hi-end mfg/R&D/life sciences | China continues to be the key headwind. We see tactical opportunity as FX headwinds recede. Mgmt. should accelerate pace of recycling to mitigate impact of new supply. Longer term, MLT's regional warehouse footprint is attractive. | For the AT&T-leased data centre in San Diego, management is open to options of further extension, new leases or divestment. In line with its sponsor's growth strategy, MINT will continue to ramp up its data centre AUM. In the near-term, rebalancing the portfolio and divestment remain the focus for the new CEO. | The two acquisitions are estimated to add SGD39m (inc. income support) of NPI in the first year of full income contribution. We raise our FY25E revenue forecast while trimming DPU on larger unitholder base. We see positive DPU growth of +1.7% in FY25E. Meanwhile, we expect incremental upside from 21B Senoko Loop and 7002 AMK post their AEIs. | Mgmt expects higher rental reversions, contribution from 15 Tai Seng commencing in 3QFY25, non-rental income from solar panels, and potential capital top-up to offset impacts from leasing downtime at 7 Clementi Loop. | As part of interest rate hedges roll off by year-end, the fixed rates hedging ratio is likely fall to sub-60%. FIRT could benefit in a declining interest rate environment. Acquisition in Australia is likely after divesting some assets from its existing portfolio. In our view, IAHCC might be more appealing to potential buyers |

**Fig 12: June quarter result summary – Industrial and Healthcare REITs**

| Period reported | CLAS<br>2QFY2024 (Dec YE) | CDLHT<br>1HFY2024 (Dec YE) | FEHT<br>1HFY2024 (Dec YE) | FHT<br>3Q24 (Sep YE) |
|---|---|---|---|---|
| Distribution | SGD2.55cts, -33% HoH/-8% YoY | 1H DPU SGD2.51c, -21.3%HoH, flat YoY | 1H DPU: SGD1.96c, +2.1%YoY | N.A. |
| Portfolio RevPAU/RevPAR | RevPAU of SGD145 in 1H24 is -8% HoH/+5% YoY. 2Q24 RevPAU is sequentially higher at SGD155 and 2% above pre-pandemic level on a same-store basis. | Key market SG (c.65% of 1HNPI) saw 2Q RevPAR of SGD180, -1.1% QoQ and YoY. 1H SG RevPAR SGD193, -11.1%HoH, +7.8%YoY. The next big market of UK saw RevpAR of GBP152, higher QoQ and YoY, driven by higher rates but NPI contribution eroded by hgher expenses. 1H RevPAR for Mauritius boosted by 7.4%yoy due to higher tourist arrivals. | 2QFY24 hotel RevPAR SGD139, +6.1YoY, -3.5%QoQ; 1HFY24 hotel RevPAR SGD141, +6%YoY<br>2QFY24 Serviced Resi. RevPAU SGD231, +3.6%YoY, +4.5%QoQ; 1HFY24 SR RevPAR 226, +0.9%YoY<br>High base effect in 1Q and relatively longer time to stabilize assets from govt. contract impacted hotel comps qoq. SRs boosted by higher short stay in the mix and backfill of 1Q vacancy | For 3Q24, RevPAR grew YoY in most markets except for Singapore. Occupancy drove RevPAR growth for its Australian assets. ADR led growth for its Malaysia, Japan and UK assets, suggesting good market sentiment. FHT's RevPar in the UK rebounded strongly in 3Q24 due to peak summer season demand. |
| Balance sheet (over 3 months), Asset valuation | Leverage: 37.2%, vs. 37.7% in 1Q<br>% debt on fixed rates: 82%, flat QoQ<br>Avg. cost of debt: 3%, flat QoQ<br>Avg. debt to maturity: 3.6yrs vs. 3.9yrs<br>ICR: 3.7x vs. 3.7x | Leverage: 37.7% vs. 37.8% in June<br>Debt on fixed rates: 52% vs. 51%<br>Avg. cost of debt: 4.2% vs. 4.3%<br>Avg. debt to maturity: 1.8yrs vs. 2.0yrs<br>ICR: 2.66x vs. 2.73x | Leverage: 30.8% vs. 31.5% in 1Q<br>% debt on fixed rates: 35.9% vs. 40.6%<br>Avg. cost of debt: 4.1% vs. 3.7%<br>Avg. debt to maturity: 3.3yrs vs. 3.5yrs<br>ICR: 3.1x vs. 3.5x | Leverage: 35.3% vs 35.5% 2Q24<br>% debt on fixed rates: 76.1% vs. 75.1%<br>Avg. cost of debt: 3.5% vs. 3.4%<br>Avg. debt to maturity: 1.79yrs vs. 2.08yrs<br>ICR: 3.0x vs. 3.1x |
| Other notable operating trends | Stable revenue from master lease and MCMGI is 32% higher HoH. From the master lease portfolio, all key markets posted higher rents in 1H24. Stronger performance at MCMGI assets in UK and SG came from acquisition and renovation, respectively. Growth revenue from management contracts is lower 16% HoH, mainly on income loss from divestments. | Forward bookings for F1 are mixed for this year compared to last year<br>Singapore focus is on occupancy through group bookings and managing last minute cancellation<br>Increase in hotel supply in Singapore is hurting performance<br>Acquisitions in focus based on total return rather than initial accretion. Opportunistic stance on divestments.<br>Manchester BTR to contribute from to NPI from FY25 | Guidance for stable 3Q notwithstanding high base effect of last year. This is due to focus on occupancy and stabilization of hotels coming out of govt. contracts. Finance expense for 2H inline with 1H before falling in 2025. M&As likely to focus on accretion. In Singapore, FEHT may recycle assets to take advantage of the SDI scheme. Guidance for lower proportion for fees in units to 50% from 80% | In Australia, events in Sydney and Melbourne underpinned stable occupancy YTD. Mgmt. notes that the Melbourne market will take some time to further absorb the new supply. While RevPAR in the UK rebounded strongly in 3Q24, YTD performance (-2.6%) was consistent with the dynamics of normalizing growth. |
| Analyst comments | Forward-booking metrics suggest a brighter 3Q24. Main themes across key markets in 2H24 are: Olympics and other events, summer travel seasons, continued recovery in corporate bookings in select markets. Near-term incremental upside: assets coming out of AEIs could potentially defy the headwinds from weaker market demand. | CDLHT will benefit from fall in interest rates with a sector low hedge ratio and lowest average debt to maturity. Further, continued growth in international travel will also help the franchise | Existing master lease structure and top-ups provide distribution stability amidst slower than expected sector recovery. FEHT has lowest fixed rate hedge ratio and hence high DPU sentivity to lower rates. In addition, low gearing provides room for accretive acquisitions. | Pockets of relative weakness were seen in the SG portfolio as MNCs divert their project-based bookings to regional offices due to cost inflation in Singapore. Accretive acquisition will likely take time. Currently FHT is trading at 0.63x P/B, below 1SD from its 5-year mean. |

*Source: Maybank IBG Research, Company Data*

## Fig 13: June quarter result summary - Industrial and Healthcare REITs

| | CICT | MPACT | SUN | FCT | KREIT | LREIT | OUEREIT |
|---|---|---|---|---|---|---|---|
| Period reported | 1HFY2024 (Dec YE) | 1QFY25 (Mar YE) | 2QFY2024 (Dec YE) | 3QFY24 (Sep YE) | 1HFY2024 (YE Dec) | FY2024 (June YE) | 1HFY2024 (Dec YE) |
| Distribution per unit or Distribut | 1HFY2024 DPU SGD5.43c, -0.4%HoH/+2.5%YoY | SGD2.09cts, -8.7% QoQ / -4.1% YoY | 3.042cts, -17% HoH/-12.5% YoY | NA | 1H DPU SGD2.8c, -3.4%HoH/YoY | 2H DPU 1.77c, -15.7%HoH/-21.3%YoY | 1H DPU SGD0.93c, -10.6%HoH/-11.4%YoY. |
| Portfolio occupancy | 96.8%, -20bps QoQ, +10bps YoY<br>Retail stable, Broad based weakness in office esp. offshore (Australia and Germany) | 94%, -2.1 ppt QoQ/-1.7ppt YoY. Occupancy dipped by 0.1-3.7ppt across portfolio except for China properties (+70bps). Occupancy at Vivo (99.8%) and FW (99.6%) remained resilient. Mgmt. prioritizes occupancy over rent reversions for FW in the near term, in view of | SG office 99.3%, -10bps QoQ. Unch. YoY<br>AU office 89.1%, +20bps QoQ, -7.5ppt YoY<br>UK office 95.5%, unch. QoQ, -4.5ppt YoY<br>SG Retail 95.6%, -20bps QoQ, -2.6ppt YoY | Retail portfolio: 99.7%, vs. 99.9% in 1Q, 98.7% a year ago; Office occupancy 91.4%, -240bps QoQ, -260bps YoY | 97%, -10bps QoQ/+210bps YoY<br>Occupany higher on YoY due to Japan (KR GinzaII), OFC and Pinnacle Office Park in Sydney | 89.1% vs. 87.9% in 1H. Lower due to vacancy in Milan office | SG office stable 95.2%, Shanghai Lippo Plaza at 76.2% vs. 83.3% in 2HFY23, Mandarin Gallery 98.3% vs. 96.6% |
| Rental reversion | YTD office reversion +15% vs. 1QFY24 +14.1%<br>YTD retail reversion +9.3% vs. 1QFY24 +7.2%<br>Suburban and downtown mall reversion 9.1% and 9.5% respectively, Downtown accelerating more | 5.2%. -ve reversion across all markets ex. Singapore MBC +2.3%, VivoCity +19.9%, Other SG properties +10.2%, Festival Walk -5.0%, China properties -1.3%, JP -12.7%, KR -10.9% | Rent reversion +9.7% for SG office (+10.8% in 1H23), Suntec City mall rental reversions continue to accelerate to +20.8% for 1H24 (+17.5% in 1H23). | NA | Positive reversions but pace is slowing. 1H +9.4% vs. +10.9% in 1Q. SG signing rents inching up to SGD12.63 psf pm for 1H from SGD12.30 in 1Q | 2H retail reversion +14% vs. 15.7% in 1H. 2H office rent reversion +1.2% vs. +1.5% in 1H | SG office +11.7% slowing from 13.7% in 2HFY23, Shanghai Lippo Plaza lower passing rent, Mandarin Gallery +28.4% rent reversion |
| Balance sheet (over 3 months), Asset valuation | Leverage: 39.8% vs. 40.0% in 1Q<br>%debt on fixed rates: 76% unch<br>Avg. cost of debt: 3.5% unch<br>Avg. debt to maturity: 3.5yrs vs. 3.8yrs<br>ICR: 3.0x vs. 3.1x | Leverage: 40.5% unch<br>%debt on fixed rates: 78.9% vs. 77.1%<br>Avg. cost of debt: 3.54% vs. 3.35%<br>Avg. debt to maturity: 3.1yrs vs. 3.0yrs<br>ICR: 2.8x vs. 2.9x | Leverage: 42.3%, +10bps QoQ.<br>% debt on fixed rates: 55% vs. 57% in Dec'23<br>Avg. cost of debt: 4.02% vs. 4.03%<br>Avg. debt to maturity: 3.32yrs vs. 3.57 yrs<br>ICR: 1.9x unch. | Leverage: 39.1% vs. 38.5% in Mar.<br>% debt on fixed rates: 67.2% vs. 68.5%<br>Avg. cost of debt: 4.2% unch.<br>Avg. debt to maturity: 2.78yrs vs. 3.05yrs<br>ICR: 3.26x vs. 3.26x | Leverage: 41.3% vs. 39.4% in Mar.<br>% debt on fixed rates: 65% vs. 74%<br>Avg. cost of debt: 3.31% vs. 3.18%<br>Avg. debt to maturity: 3.0 yrs vs. 2.3 yrs<br>ICR: 2.8x vs. 2.9x | Leverage: 40.9% vs. 41% in 3Q<br>% debt on fixed rates: 70% vs. 61%<br>Avg. cost of debt: 3.58% vs. 3.50%<br>Avg. debt to maturity: 2.5 yrs vs. 2.8 yrs | Leverage: 38.7% vs. 38.8% in 1Q<br>% debt on fixed rates: 61% vs. 60%<br>Avg. cost of debt: 4.7% vs. 4.5%<br>Avg. debt to maturity: 2.7 yrs vs. 2.2 yrs<br>ICR: 2.2x vs. 2.3x |
| Other notable operating trends | Retail relatively steady while office saw lower occupancy. Rent reversion guide tracking full year guide of high single digit, but that means negative reversions for office in 2H. Suburban tenant sales continue to show stronger growth, however higher rent reversion for downtown malls. Full year cost of debt is around mid-3% vs. prior "mid-to-high 3%".<br>Mgmt. is agile on undertaking large scale redevelopment or portfolio reconstitution. | Seasonal impacts such as Singaporeans travelling overseas led to a modest cooldown in shopper traffic and tenant sales at VivoCity (-4.3% YoY/-3.4%YoY). Mgmt. expects slight movements in reversions at MBC, as the spread between new signings over expiring rents narrowed.<br>Mgmt. announced an AEI at VivoCity, with a 10% target ROI and estimated capex of SGD42m. | Convention business saw 1H24 gross revenue rise 16.5% YoY, Strong operational performance at ORQ and MBFC drove JV income growth.<br>Management will continue to unlock value from strata office (SGD31.5m divested YTD), working towards its SGD100m target for FY24. Stronger outlook on tenant sales in the back half of FY24 is expected to support full-year high teens reversion guidance. | Inclusion of fully occupied Tampines 1 boosted headline occupancy. On a same-store basis, sequential occupancy trend was mixed - flat to up for NEX, Northpoint, Waterway Point and Tiong Bahru Plaza while down for the rest. Malls in the East were impacted by the proactive changes to the tenant/trade mix necessitated by the opening of Pasir Ris Mall. Shopper traffic rose a mid-single digit. That said, the high base effect is visible with tenant sales eking out sub-1% growth. Guidance for cap rates to stay unchanged for SSG mall and possible upside from operational improvement. Mgmt. does not see the Rapid Transit System to Johor Bahru as a zero-sum game as higher | Strong same-store occupancy growth across geographies. High single digit positive rent reversions. Same store valuation weaker in Australia, stable in Singapore. Gearing and debt cost rose due to acquisition of new asset and refinancing of existing debt. Focus is on optimising portfolio to have a strong and resilient balance sheet. Hold back on share buybacks. | Stable operations in Singapore malls with sub-urb outperforming city centre. Tenant sales shows slowdown due to seasonality. Slippage in pre-commits for Building 3 in Milan office but leasing enquiries are healthy. Hedge ratio is higher. Portfolio value is supported by Singapore. NAV fell 4% yoy despite capex and higher asset value. | Stable operations of Singapore commercial properties. However, office may see some large non-renewals and Mandarin Gallery rent reversion may slow down. Lippo Plaza in Shanghai remains challenging. Hotel RevPAR flat HoH and down from prior quarter. Hilton Singapore Orchard saw a decline in RevPAR whereas Crowne Plaza Changi was stable. On M&A front, mgmt. intends to increase hospitality revenue contribution to 40% (current 32.5%) and is reviewing opportunities in SG and other gateway cities in Australia, HK, JP, UK. |
| Analyst comments | Reversions are likely to soften into FY25. Following outperformance, CICT's valuation is fair. However, CICT offers comfort from a resilient income profile from Singapore centric portfolio with A-rated credit | We expect reversions in VivoCity to remain strong as low leases signed during the pandemic continue to be repriced. MPACT could benefit from lower interest rates due to its floating rate exposure. Management is exploring other financing options such as panda bonds and swaps to lower COD by c.50bps. | Continued softness in its UK and AU portfolio partially offset sustained strength in its SG portfolio. Backfilling at Minister Building is expected to make meaningful rental contribution from FY25 onwards. Mgmt. is working to bring occupancy at 55 Currie up to 60% in 2H24. We think dividend hikes and improving AU/UK | FCT is positioning to grow sustainably. Howver, high base effects, weaker reversions and transitional vacancy may weigh on DPU growth in the near-term with offset from higher fees in unit. FCT should continue to reposition the portfolio and divest underperforming assets. | Occupany trend for AU and SG assets encouraging but risks remain from non-renewal of large expiries in FY25. Gearing is key concern with slow progress on sale of portfolio assets such as in Korea. Distribution profile likely to remain stable helped by top-up of divestment gains. Attractive valuation 6.7%, 0.7x. PB | Attractive valuation (6.1% yield, 0.7x P/BV) which discounts key risks (high gearing, income vacuum from Milan asset, and SG retail sales slowdown). | Inexpensive valuation (7% yield, 60% discount to book) underpins our Buy thesis |

*Source: Maybank IBG Research, Company Data*

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