Maybank Kim Eng

REITs

Singapore

Singapore REITs

POSITIVE *[Unchanged]*

Raising Limits, Adding Growth

Acquisition growth levers arising

We see potential DPU growth levers arising in the coming quarters as MAS seeks feedback on its proposal to increase the leverage limits for S-REITs, which should help support valuations. S-REITs have acquired overseas for diversification and growth; yet maintain strong balance sheets. An increase in leverage from 45% to 50% raises debt headroom by 10-14% for AUMs and opportunities for DPU-accretive deals. We see industrial S-REITs as likely beneficiaries, especially as they push further into Europe and the US. AREIT, MINT, FCT, CDLHT and FEHT remain our top picks due to DPU recovery, yields and acquisition-growth upside.

S-REITs acquisitive, overseas deals up DPU visibility

S-REITs have been acquiring assets since 2015, especially overseas. Contributions from their overseas investments have risen steadily from 27% in 2014 to 60% of total investments in 1H 2019. Overseas assets (mostly freehold, backed by longer WALEs and favourable annual rental-escalation clauses) comprise 5-84% of AUMs and we expect this to grow. Currency risks are well-managed with low balance sheet exposure. For S-REITs under coverage, a 5% variation in respective market currencies against the SGD impacts DPUs by up to 11%.

BS(s) strong, higher debt headroom adds to growth

The sector's 35% average leverage as at end-Jun 2019 remains below the 45% regulatory limit while interest-coverage ratios are healthy at 5.7x on average. S-REITs have extended their debt maturities in recent years, while maintaining their fixed-debt ratios (now just above 81.0% on average) due to lower interest rates over the past year. Further interest rate cuts could support DPU upside. We estimate debt headroom at between 11-39% of their AUMs, which could rise to 21-53%.

Growth skewed to industrial REITs pushing overseas

A wider compression in yields across office, retail and hospitality assets have spurred capital-recycling efforts in Singapore but industrial S-REITs have pushed faster overseas for growth, as supply-led fundamentals are positive but demand recovery remains soft. We see a positive-carry for assets in Europe and the US, hence opportunities for further DPU-accretive deals.

Analyst

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Top Picks and stocks mentioned

Ascendas REIT (AREIT)
AREIT SP, SGD3.07, BUY, TP SGD3.30

CDL Hospitality Trusts (CDLHT)
CDREIT SP, SGD1.63, BUY, TP SGD1.80

Frasers Centrepoint Trust (FCT)
FCT SP, SGD2.69, BUY, TP SGD2.80

Far East Hospitality Trust (FEHT)
FEHT SP, SGD0.68, BUY, TP SGD0.80

Mapletree Industrial Trust (MINT)
MINT SP, SGD2.33, BUY, TP SGD2.50

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

1. Stock selections

Fig 1: Top S-REIT BUYs (see Fig 21 for our full stock coverage)

Company	Investment thesis
AREIT	Largest and most liquid industrial S-REIT. Rising overseas exposure to offset lower Singapore contributions near term. We continue to favour its scale and see it as the best proxy for a recovering industrial sector, given its concentrated business-park and high-spec portfolio, which contributes 60% to AUM. Following its UK entry and a stronger sponsor pipeline after the CAPL-Ascendas Singbridge merger, further diversification is possible which could provide upside to our FY19-21E 3.0% DPU CAGR. AREIT 30 Jul 2019 - Recovery Underway AREIT 2 Jul 2019 - Growth Backing Yield AREIT 30 Apr 2019 - Growth From A Broader Base
MINT	Visible growth drivers from its (1) AEI at 30A Kallang Place, (2) recently completed Sunview 1 BTS data centre, and (3) recent acquisition of 18 Tai Seng from sponsor. US data-centre contributions could rise in FY20. Low 33.4% gearing as of end-Jun 2019 and clear acquisition-growth potential could provide upside to our 3-year 5.0% DPU CAGR forecast. MINT 17 Sep 2019 - Upping Stability And Growth MINT 24 Jul 2019 - Higher On High-Tech MINT 10 Jul 2019 - Another Growth Phase MINT 23 Apr 2019 - Hi-Tech Play
CDLHT	Top hospitality pick, as scale and liquidity render it a good proxy for a sustained recovery in Singapore's hospitality sector. Overseas expansion has gained traction, with its continued push into Europe supported by positive carry from low funding costs. Low 35.2% gearing and an estimated SGD550m of debt headroom suggest upside from potentially DPU-accretive deals. CDLHT 21 Jul 2019 - Slow Quarter, Recovery Intact CDLHT 2 May 2019 - Recovery Slower, But Intact
FEHT	The only pure exposure to our expected rebound in Singapore hospitality. Rising contributions from its recently-acquired Oasia Downtown, an expected 2-5% YoY annual recovery in hotel RevPARs and management fees from three Sentosa properties opening this year are expected to anchor its strongest DPU CAGR in FY18-20E. We see stronger DPU upside potential from its higher Singapore RevPAR sensitivity and visible sponsor's ROFR pipeline. FEHT 30 Jul 2019 - Slow Quarter, Stronger 2H FEHT 25 Apr 2019 - Slow Start; Recovery Underway
FCT	Our only BUY among retail REITs for its strengthening suburban-mall footprint, visible growth drivers and potential acquisition catalysts. Gearing of 23.5% and SGD800m of debt headroom should support acquisitions. Sponsor's pipeline assets – Northpoint City's South Wing and 33% interest in Waterway Point acquired in May 2019 - could strengthen its growth profile. FCT 24 Jul 2019 - Rerating On Retail FCT 16 May 2019 - Deepening Suburban Reach FCT 24 Apr 2019 - On Track For Growth
MUST	First pure-play US office REIT to be listed in Asia - 55% of leases have fixed rental escalations averaging 2.5% pa, 39% under periodic rental increases; should support stable income growth and DPU visibility. Has completed five acquisitions totalling USD842m since IPO and expected to scale up AUM, supported by sponsor Manulife's asset pipeline. MUST 19 Aug 2019 - Fundamentally Sound MUST 29 May 2019 - US Asset Tour Highlights MUST 2 May 2019 - Accretive Deal MUST 25 Apr 2019 - A Strong Start MUST 22 Mar 2019 - A Play On Work

Source: Maybank Kim Eng

Sector research

Singapore REITs 6 Jun 2019 - Stronger Growth Amid Tighter Yields

Singapore REITs 3 Apr 2019 - Patience Rewarded

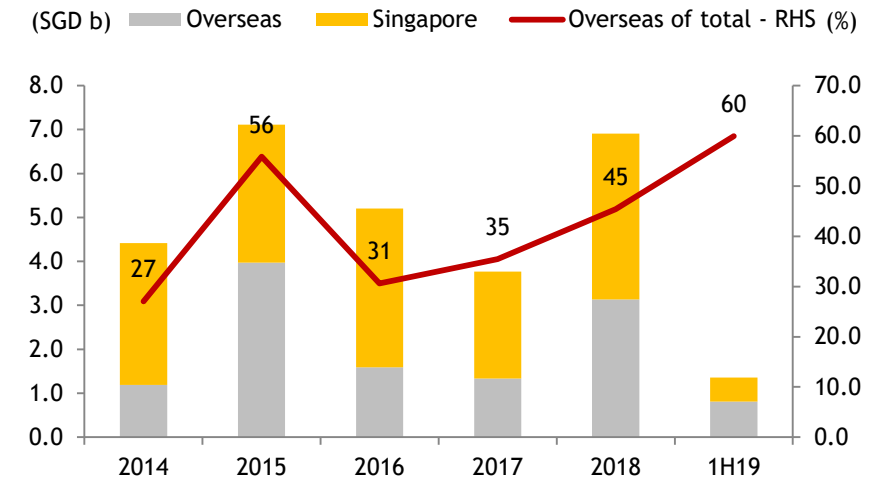
Singapore REITs 27 Feb 2019 - Easing Into Recovery Mode

Singapore REITs 17 Jan 2019 - Yielding Growth

2. S-REITs acquisitive - overseas deals up DPU visibility

S-REITs have been acquiring assets since 2015 with deals concentrated overseas, and their contribution to the sector's investments rose steadily from 27% in 2014 to 60% of total investments in 1H 2019.

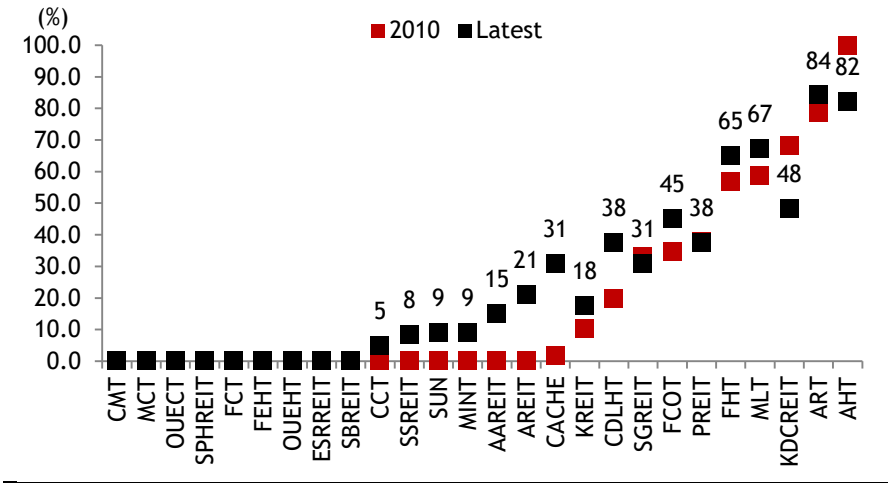
Fig 2: S-REITs Singapore and global investments



Source: CBRE, Maybank Kim Eng

Overseas assets are mostly freehold and backed by longer WALEs and more favourable annual rental-escalation clauses. They now comprise between 5-84% of the S-REITs' AUMs and we expect this to grow.

Fig 3: Overseas properties as % of AUM comparison



Source: Company data, Maybank Kim Eng

Currency risks meanwhile have been well-managed as S-REITs aim to naturally hedge their investments – resulting in mostly limited balance sheets net exposure.

Fig 4: Balance sheet hedging – net currency exposure

	Net exposure - % of market AUM						
REIT/ Currency	AUD	EUR	GBP	JPY	HKD	USD	CNY
AREIT	0.3	-	0.0	-	-	-	-
MINT	-	-	-	-	-	0.5	-
MLT	2.0	-	-	(0.1)	0.7	-	64.4
CACHE	(18.2)	-	-	-	-	-	-
AAREIT	23.0	-	-	-	-	-	-
ART	6.3	20.2	2.9	0.1	-	6.1	(7.5)
CDLHT	42.4	(89.5)	(57.2)	(47.3)	-	-	-
FHT	1.8	1.2	0.9	1.4	-	-	-

Source: Maybank Kim Eng

For S-REITs under our coverage, we estimate a 5% variation in their respective market currencies against the SGD will increase or decrease their DPUs by up to 11%.

Fig 5: Impact to current DPU estimates

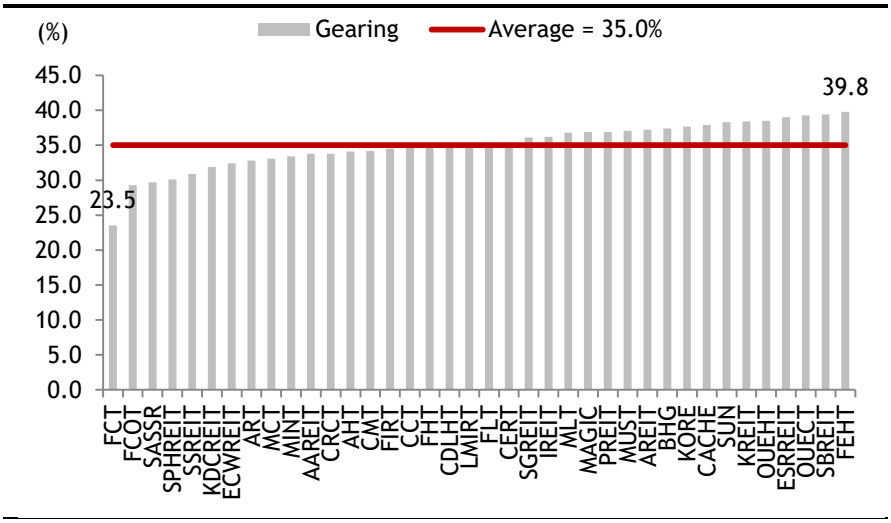
	% increase/ decrease if currency appreciates 5% against SGD						
REIT/ Currency	AUD	EUR	GBP	JPY	HKD	USD	CNY
AREIT	-	-	-	-	-	-	-
MINT	-	-	-	-	-	(0.1)	-
MLT	0.2	-	-	(0.0)	0.3	(1.7)	4.0
CACHE	10.9	-	-	-	-	-	-
AAREIT	0.1	-	-	-	-	-	-
ART	0.5	5.8	0.4	0.0	-	1.2	0.0
CDLHT	2.7	(9.5)	(5.0)	(0.2)	-	(1.5)	-
FHT	0.6	0.4	0.4	0.3	-	-	-

Source: Maybank Kim Eng

3. Strong balance sheets, higher debt headroom adds growth

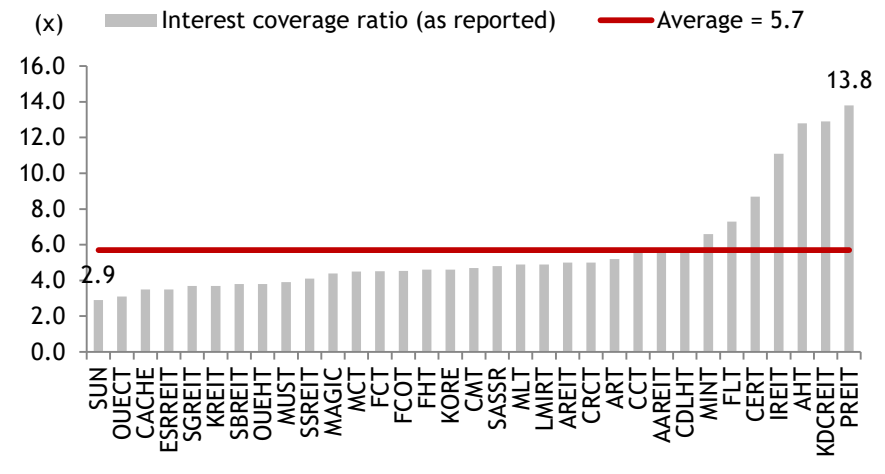
S-REITs have strong balance sheets in general, both in terms of leverage and interest-coverage ratios. S-REITs have also been opportunistic in extending debt tenures due to low interest rates, while maintaining their fixed-debt ratios at 81% on average, as the interest rate regime remains benign. Further interest rate cuts could imply DPU upside.

Fig 6: Leverage comparison (as of end-Jun 2019) – below 45% regulatory limit



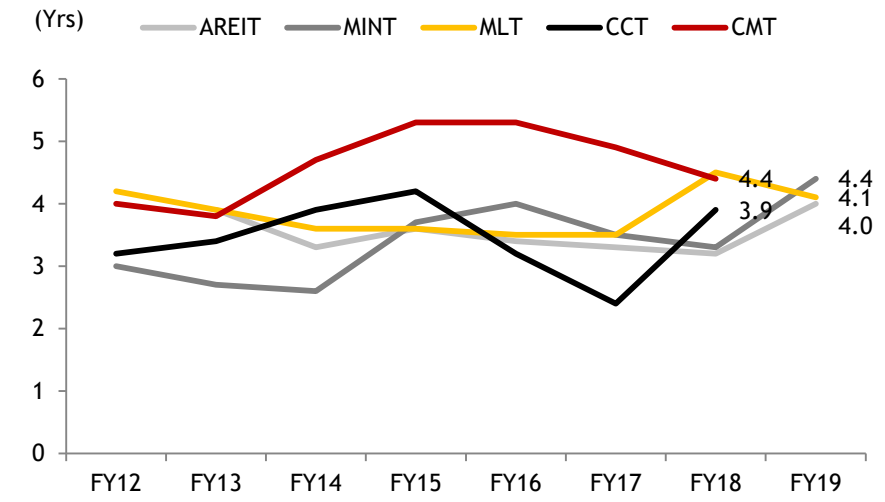
Source: Company data

Fig 7: Interest-coverage ratio comparison (as of end-Jun 2019)



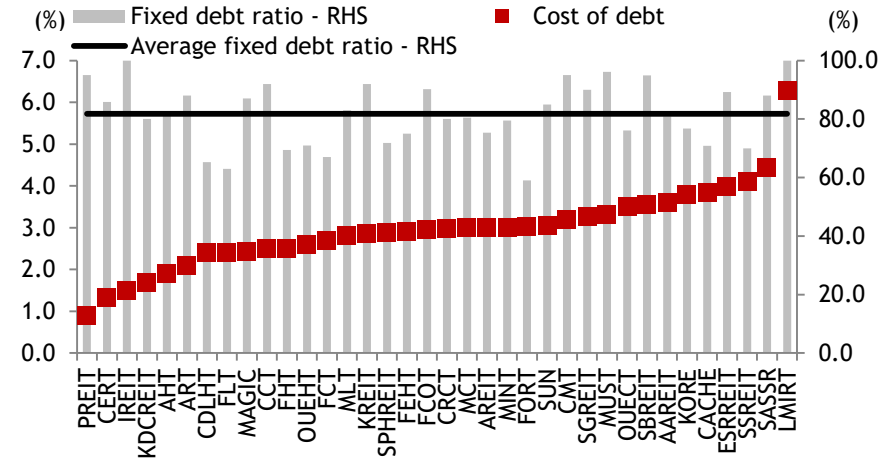
Source: Company data, as reported by REIT

Fig 8: Weighted average debt maturity comparison for large-cap S-REITs



Source: Maybank Kim Eng

Fig 9: Cost of debt and fixed-debt ratio comparison as of end-Jun 2019

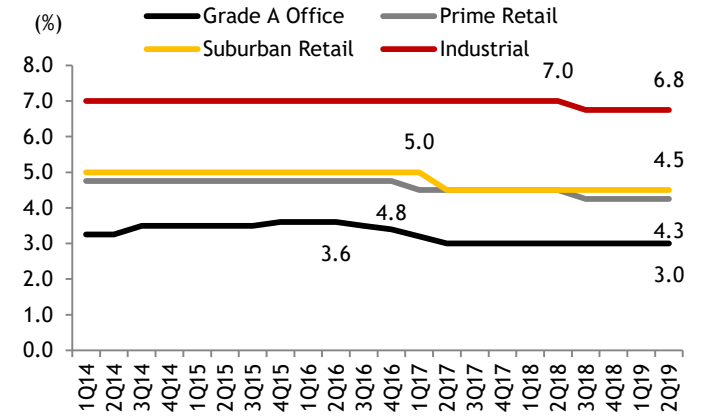


Source: Maybank Kim Eng

4. Growth could be skewed to industrial REITs investing overseas

Office, retail, and hospitality sector S-REITs were opportunistic by divesting their Singapore assets due to a compression in yields at home. Meanwhile, industrial S-REITs were more acquisitive overseas.

Fig 10: Singapore property yields (1Q14-2Q19)



Source: CBRE

Fig 11: Property yields and debt costs in developed markets

Source: CBRE, Company data, Maybank Kim Eng

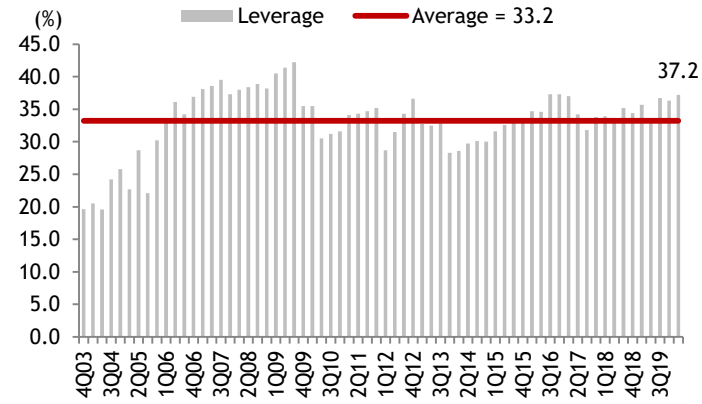
Fig 12: Recent S-REIT divestment transactions

REIT	Annoucement date	Property	Sale price (SGDm)	Last valuation (SGDm)	Last cap rate (%)	Exit yield (%)
CCT	11-Sep-17	Wilkie Edge	280.0	201.0	4.3	3.6
CMT	19-Apr-18	Sembawang Shopping Centre	248.0	126.0	5.1	3.9
CCT	29-Jun-18	Twenty Anson	516.0	433.0	3.7	2.7
ART	9-Jan-19	Ascott Raffles Place	353.3	215.0	-	2.0

Source: Company data, Maybank Kim Eng

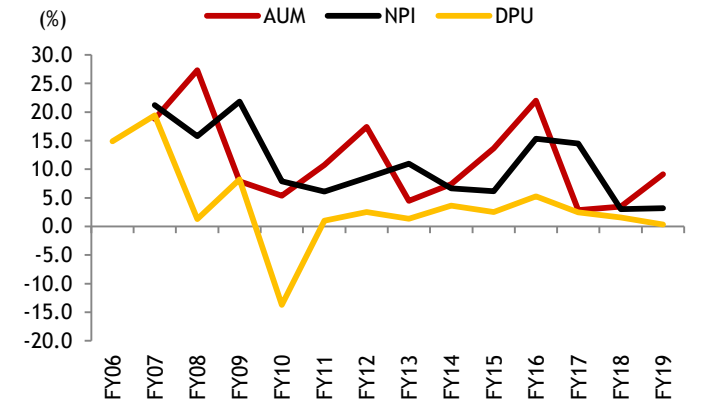
AREIT has instead bulked up its AUM overseas and boosted NPI, while increased leverage since 2016, but DPU growth has been slower due to new units from equity fund raising.

Fig 13: AREIT leverage (4Q03-1Q20) - higher on stronger acquisition growth since 2015



Source: Company data, as of end-Mar 2019

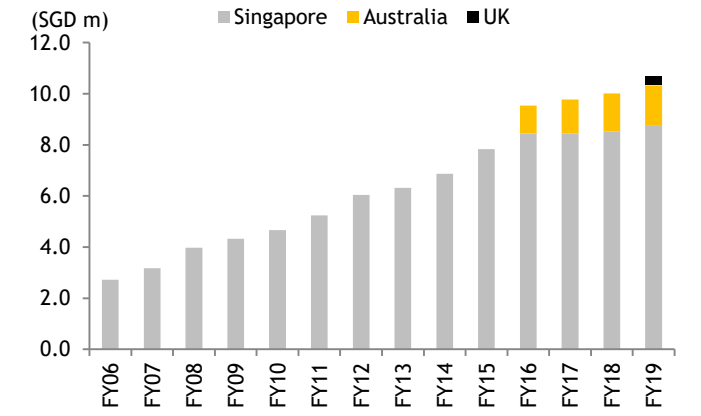
Fig 14: DPU growth has been slower than AUM and NPI due to the increase in new units



Source: Company data, as of end-Mar 2019

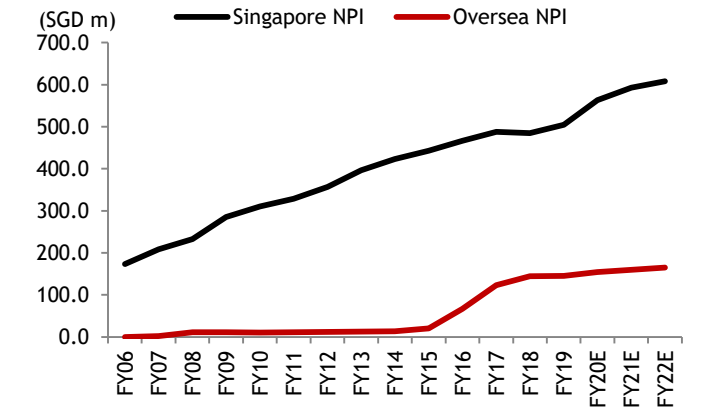
Contributions from its overseas assets have risen, and helped to mitigate stagnant growth in Singapore.

Fig 15: AREIT AUM – overseas deals from FY16 has raised its Australia and UK contribution to 14% and 7% at end-Jun 2019



Source: Company data, as of end-Mar 2019

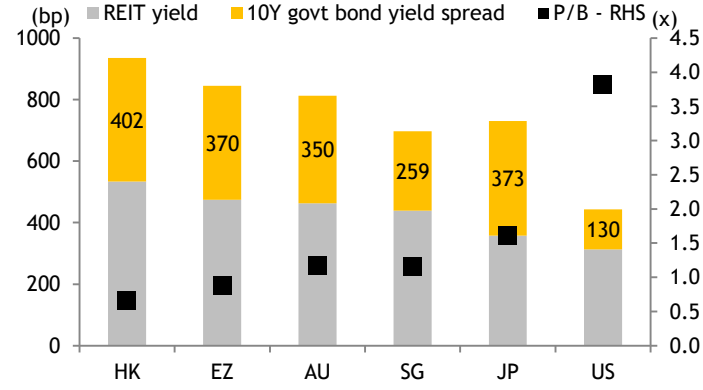
Fig 16: Its Singapore NPI was stagnant from FY17-19, with growth driven primarily by overseas assets



Source: Company data, as of end-Mar 2019

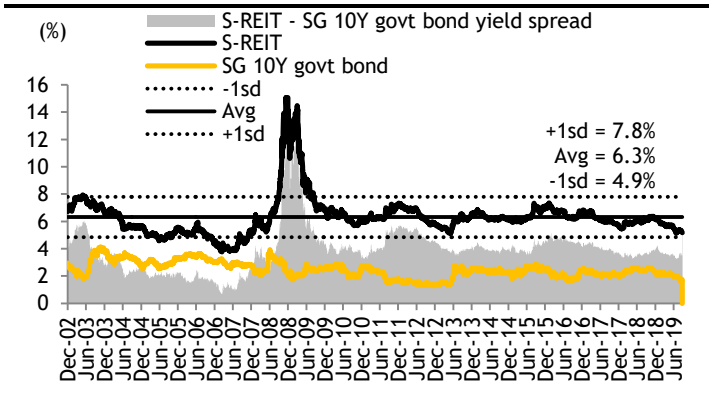
5. Valuation

Fig 17: Developed markets' REIT valuations: S-REITs now offer the fourth-highest dividend yields, ranks fifth in yield spreads



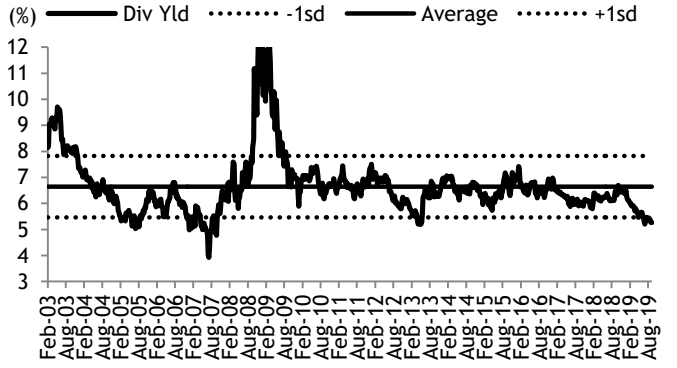
Source: Bloomberg, FactSet, Maybank Kim Eng

Fig 18: S-REIT dividend yields and spreads over SG 10-year government bonds - spreads are at 2018 lows



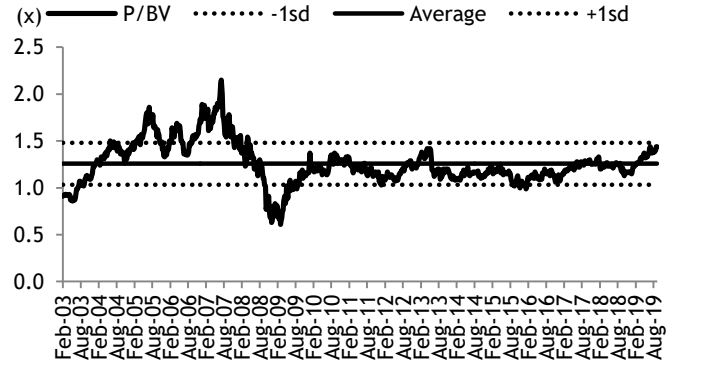
Source: Bloomberg, FactSet, Maybank Kim Eng

Fig 19: AREIT - yield spread to Singapore 10-year government bond to tighten as rental recovery picks up pace



Source: Bloomberg ,FactSet, Maybank Kim Eng

Fig 20: AREIT - P/BV has risen to above its historical average of 1.2x



Source: Bloomberg, FactSet, Maybank Kim Eng

Fig 21: S-REITs valuation comparison

Company	Rating	Price (SGD)	TP (SGD)	Upside (%)	Yield (%)	Total return (%)	MC (SGD b)	ADTV (SGD m)	Free Float (%)	BVPS (SGD)	P/BV (x)	Dividend yield (%) 17	18	19E	20E	Gearing (D/A) (%)
Retail							**17.1**	**35.7**			**1.14**	**5.1**	**5.0**	**5.2**	**5.4**	**31**
Capita Mall Trust (CMT)	Hold	2.61	2.60	(0.4)	4.5	4.1	9.6	25.9	67	2.07	1.26	4.3	4.4	4.5	4.8	34
Frasers Ctr Trust (FCT)	Buy	2.69	2.80	4.1	4.8	8.9	3.0	6.8	64	2.11	1.27	4.4	4.4	4.8	5.0	24
Starhill Global (SGREIT)	Hold	0.75	0.70	(6.7)	6.4	(0.3)	1.6	1.8	63	0.88	0.85	6.6	6.1	6.4	6.4	36
SPH REIT	Hold	1.10	1.05	(4.5)	5.1	0.6	2.8	1.2	25	0.93	1.18	5.0	5.1	5.1	5.3	30
Retail & Office							**11.6**	**37.0**			**1.14**	**4.7**	**4.7**	**4.8**	**4.9**	**36**
Suntec REIT (SUN)	NR	1.91					5.3	19.0	63	2.07	0.92	5.2	5.2	5.3	5.2	38
Mapletree Comm. (MCT)	Hold	2.16	2.10	(2.8)	4.3	1.6	6.3	17.9	66	1.59	1.35	4.2	4.2	4.3	4.5	33
Office							**16.7**	**41.8**			**0.96**	**5.9**	**5.8**	**5.8**	**5.7**	**35**
Capita Comm. (CCT)	NR	2.13					8.2	28.6	71	1.85	1.15	4.1	4.2	4.2	4.3	35
Keppel REIT (KREIT)	NR	1.25					4.2	7.8	52	1.37	0.91	4.6	4.8	4.8	5.0	38
Frasers Comm. (FCOT)	NR	1.61					1.5	4.6	74	1.54	1.04	6.1	6.0	6.0	6.0	29
OUE Comm. (OUECT)	NR	0.53					2.8	0.8	57	0.71	0.74	8.9	8.3	8.0	7.6	39
Industrial							**27.4**	**81.8**			**1.24**	**6.6**	**6.4**	**6.6**	**6.5**	**35**
Ascendas REIT (AREIT)	Buy	3.07	3.30	7.5	5.4	12.9	9.6	35.5	80	2.09	1.47	5.2	5.2	5.4	5.7	37
Mapletree Ind. (MINT)	Buy	2.33	2.50	7.3	5.3	12.6	4.7	11.6	68	1.52	1.53	5.0	5.2	5.3	6.0	33
Mapletree Log. (MLT)	Hold	1.58	1.55	(1.9)	5.2	3.3	5.8	18.7	68	1.17	1.35	4.8	5.0	5.2	5.3	37
Cache Logistics Trust	Buy	0.73	0.88	21.4	8.4	29.8	0.8	1.3	90	0.65	1.12	9.1	8.1	8.4	8.7	36
AIMS APAC (AAREIT)	Buy	1.47	1.60	8.8	7.1	16.0	1.0	0.8	61	1.34	1.09	6.7	7.0	7.1	7.1	34
Keppel DC REIT (KDCREIT)	NR	1.93					2.6	7.8	75	1.06	1.82	3.7	4.0	4.2	4.4	32
ESR REIT	NR	0.53					1.8	4.8	60	0.46	1.16	7.2	7.5	7.7	8.1	39
Soilbuild BS REIT (SBREIT)	NR	0.54					0.7	0.9	71	0.62	0.86	10.7	9.4	9.4	n.a.	39
Sabana SC REIT (SSREIT)	NR	0.45					0.5	0.4	71	0.56	0.79	n.a.	n.a.	n.a.	n.a.	31
Hospitality & Residential							**10.0**	**15.9**			**0.99**	**6.2**	**6.2**	**6.3**	**6.7**	**36**
Ascott Res. Trust (ART)	Hold	1.30	1.30	0.0	5.6	5.6	2.8	6.2	55	1.27	1.03	5.7	5.5	5.6	5.8	33
CDL HT (CDLHT)	Buy	1.63	1.80	10.4	5.9	16.4	2.0	3.7	62	1.50	1.09	5.7	5.7	5.9	6.2	35
OUE HT (OUEHT)	NR	0.73					1.3	0.6	90	0.74	0.98	7.0	6.9	7.4	7.9	39
Far East HT (FEHT)	Buy	0.68	0.80	17.6	6.2	23.9	1.3	1.6	40	0.86	0.79	5.8	6.3	6.2	6.7	40
Frasers HT (FHT)	Buy	0.72	0.80	11.9	6.5	18.4	1.4	0.8	38	0.74	0.97	6.7	6.7	6.5	6.6	35
Ascendas HT (AHT)	NR	1.08					1.2	3.0	93	0.99	1.09	n.a.	n.a.	n.a.	n.a.	34
Offshore REITs							**21.0**	**40.4**			**0.90**	**7.6**	**7.2**	**7.5**	**7.7**	**34**
Sasseur REIT	Buy	0.80	0.95	18.8	7.9	26.6	1.0	1.0	22	1.00	0.80	n.a.	7.5	7.9	8.1	30
Dasin Retail Trust	NR	0.86					0.5	0.0	26	1.39	0.62	n.a.	6.3	8.0	8.8	33
Mapletree N. Asia (MAGIC)	NR	1.31					4.2	14.8	66	1.44	0.91	5.7	5.9	5.9	5.9	37
Capita Retail China (CRCT)	NR	1.53					1.8	3.8	66	1.64	0.93	6.6	6.9	7.0	7.3	34
Fortune REIT	NR	9.12					3.1	3.6	73	16.85	0.54	5.6	5.7	5.9	6.2	21
Lippo Malls Ind. RT (LMIRT)	NR	0.24					0.7	0.4	63	0.30	0.80	14.2	10.8	10.8	11.3	35
Manulife US REIT (MUST)	Buy	0.91	1.00	9.9	6.5	16.4	1.8	1.6	91	0.83	1.10	6.5	6.7	6.5	6.8	37
Prime US REIT (PRIME)	Buy	0.90	1.00	11.1	7.0	18.1	1.1	0.5	45	0.86	1.05	n.a.	n.a.	7.0	7.2	35
Keppel P.O. US REIT (KORE)	NR	0.75					0.9	1.1	76	0.89	0.84	n.a.	8.0	8.4	8.4	38
IREIT Global	NR	0.76					0.5	0.3	44	0.76	1.00	n.a.	n.a.	n.a.	n.a.	36
BHG Retail REIT	NR	0.68					0.3	0.7	37	0.84	0.81	n.a.	n.a.	n.a.	n.a.	37
Frasers Log. & Ind. (FLT)	NR	1.22					2.7	9.4	69	0.90	1.36	6.3	5.6	5.7	5.7	35
EC World REIT	NR	0.73					0.6	1.5	50	0.85	0.86	8.2	n.a.	n.a.	n.a.	32
Cromwell REIT (CEREIT)	NR	0.50					1.9	1.6	44	0.53	0.93	n.a.	8.5	9.3	9.2	35
Healthcare							**2.7**	**3.4**			**1.34**	**6.2**	**6.1**	**6.3**	**6.4**	**36**
Parkway Life REIT (PREIT)	NR	3.04					1.8	1.4	64	1.87	1.62	4.4	4.1	4.3	4.3	37
First REIT	NR	1.07					0.9	2.0	60	1.02	1.05	8.0	8.2	8.4	8.5	35
Total REITs							**107**	**256**			**1.05**	**6.3**	**6.3**	**6.5**	**6.6**	**35**
S-REIT yield spread														**2.6**		
FSTREI Index														4.4		
SGS 10Y bond yield														1.8		

Prices as of 17 Sep 2019. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

6. Macro forecasts

Fig 22: Singapore's macroeconomic indicators and forecasts

	2015	2016	2017	2018	2019E	2020E
Real GDP (%)	1.9	3.0	3.7	3.1	0.6	1.6
Private Consumption (%)	4.9	2.7	3.4	2.7	2.9	2.1
Government Consumption (%)	7.8	3.7	4.5	4.1	3.0	3.3
Gross Fixed Capital Formation (%)	2.2	1.1	6.4	(4.0)	0.1	1.8
Exports of Goods & Services (%)	4.7	0.0	5.7	5.1	(1.0)	1.7
Imports of Goods & Services (%)	4.1	0.1	7.5	4.7	(1.1)	1.8
Current Account Balance (% of GDP)	18.1	17.5	16.0	17.7	16.8	17.0
Fiscal Balance (% of GDP)	(1.0)	1.4	2.3	0.4	(0.7)	1.0
Inflation Rate (%)	(0.5)	(0.5)	0.6	0.4	0.7	0.9
Unemployment Rate (%)	1.9	2.1	2.2	2.1	2.2	2.1
Exchange Rate (per USD, end-period)	1.42	1.45	1.34	1.36	1.40	1.37
3M SIBOR (% p.a., end-period)	1.19	0.97	1.50	1.89	1.60	1.40

Source: CEIC, Maybank Kim Eng

7. MAS's consultation paper on the proposed amendments to requirements for REITs (published on 2 Jul 2019) – key questions

- MAS seeks views on whether the use of interest-coverage ratio (ICR) in combination with leverage limit is appropriate, and are there any other approaches or credit metrics that could be considered in determining the amount of leverage?

- MAS seeks views on the option of allowing a REIT's leverage to exceed 45% but not more than 50% if the REIT has a minimum ICR of 2.5x after taking into account the interest payments arising from new debt?

- MAS seeks views on whether it is appropriate for a REIT that has demonstrated good financial discipline, such as having a higher ICR threshold, to be allowed a higher leverage, say 55%?

- MAS seeks views on the proposal to require REITs to disclose both their leverage ratios and interest-coverage ratios in interim results and annual reports.

- MAS seeks views on the proposal to define the interest-coverage ratio as earnings before interest, tax, depreciation and amortisation (EBITDA) (excluding effects of any fair value changes) divided by interest expense?

- MAS seeks views on the proposed removal of the requirement for REITs to comply with the Notification Requirements when they rely on the section 305 exemption?

We believe MAS could potentially raise the current 45% leverage limit for S-REITs to 50% following feedback to its consultation paper with the proposed amendments to the Code on Collective Investment Schemes, as written submissions closed on 1 Aug 2019. The separate revision that aims to streamline the fund-raising process would enable S-REITs to better compete against private capital and other global REITs on acquisitions, which have been concentrated overseas in recent years.

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