Maybank Kim Eng

Singapore REITs

Good Yield Hunting

POSITIVE *[Unchanged]*

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Sector stands out as investors eye yield

S-REITs have gained 2.4% MoM to outperform the market, helped by a 20-30bps pull-back in the UST 10-year yield since end-Apr. Capital flows into yield names remain strong, underpinned by recovering cashflows and DPUs. S-REITs currently trade at 2.7% above the 10-year gov't bond yield, undemanding versus peers, and should remain in favour against rising inflation pressures and expectations of stronger DPUs into 2H21. Sector-wide DPUs are more resilient from AUM expansion, with sound balance sheets and low interest rates supporting acquisition upside in the next 12-24 months. AREIT, CICT, FCT and MCT remain our top BUYs, while SASSR, MUST and PRIME are set to deliver above-sector yield and growth.

Industrial rents bottoming out, deal momentum up

Industrial REITs were the most aggressive in raising new equity or perps over the past 12 months and made up c.60% of a total SGD7.6b raised, to fund acquisitions. DPU uplift is not yet fully factored into estimates, as YTD deals for AREIT and MINT will be completed after their upcoming EGMs, while they are trading at their recent placement valuations. Rents have further appreciated by 0.6% QoQ in 1Q21, from +0.3% QoQ in 4Q20, in line with the stronger GDP recovery. Vacancies have tightened for warehouse space, which will lead sector recovery. We expect the REITs to deliver DPU growth and for accretive acquisitions to pick up pace into the coming quarters.

Reopening plays drive stronger 2H21 DPU recovery

We continue to back the reopening plays, as the falling Covid case numbers since heightened measures introduced on 14 May, have afforded an ease in restrictions, including larger group sizes (from 2 to 5), and resumption of dining-in from 21 Jun. We expect S-REIT DPUs to rise at a 2-year CAGR of c.6%, led by a +8-20% jump for retail REITs. They have not disclosed rental waivers (to offset weaker tenant sales), but we see limited impact to DPU at 0.5-1.5%. Retail REITs are down c.1-5% since end-Apr, and imply attractive FY21 dividend yields of 5-7%.

Yield+growth picks should continue to deliver

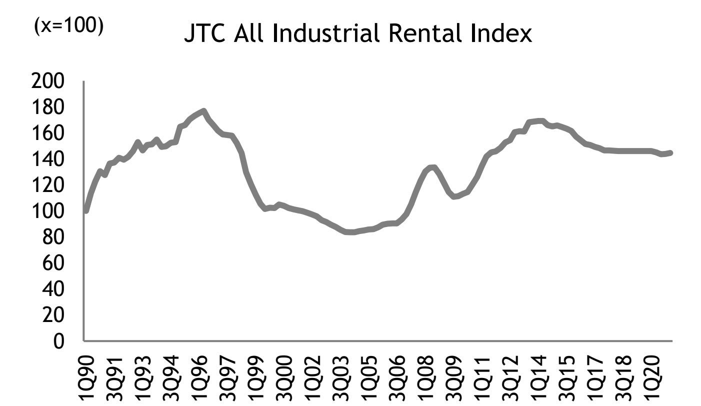
We flag three small-cap BUYs – MUST, PRIME and SASSR, that fit well into an S-REIT 'yield+growth' screen, as their total returns at 12.0-13.0%, are above the sector average; this premium is more significant if we exclude hospitality names (as average total return falls to 9.0%), given poor RevPAR visibility into 2022. We see tailwinds for US office REITs from improving market fundamentals, declining new infections and higher vaccination rates, with DPUs cushioned by low FY21-22 lease expiries, supported by well-placed assets and quality tenancies.

Fig 1: S-REITs' fund raising and acquisitions in the past 12 months

REIT	Date	Value (m)	Transaction type	Acquisition	Segment	Geography	DPU accretion (pro-forma)
MINT	23-Jun-20	410.0	Private placement	Remaining interest in 14 US data centres	Industrial	US	3.4
AAREIT	6-Aug-20	125.0	Perpetuals	7 Bulim Street	Industrial	Singapore	1.9
KREIT	11-Sep-20	150.0	Perpetuals				
IREIT	18-Sep-20	142.8	Rights issue	Remaining interest in 4 properties	Office	Spain	-18.9
LMIRT	18-Sep-20	280.0	Rights issue	Lippo Mall Puri	Retail	Indonesia	-
FCT	28-Sep-20	1,327.3	Private placement, preferential offering	Remaining interest in PGIM Real Estate ARF	Retail/ Office	Singapore	4.7
SUN	19-Oct-20	200.0	Perpetuals				
MLT	19-Oct-20	644.0	Private placement, preferential offering	24 logistics properties	Industrial	China, Malaysia, Vietnam	1.3
ALLT	2-Nov-20	100.0	Private placement, preferential offering	5 properties and 2 funds	Industrial	Australia	-1.9
AREIT	10-Nov-20	1,200.0	Private placement, preferential offering	1 suburban office, data centre portfolio, 2 office properties	Industrial / Office	Australia, Europe, US	2-2.5
CLCT	17-Nov-20	326.1	Private placement, preferential offering	5 business park properties, remaining interest in Rock Square	Industrial / Retail	China	5.1
KREIT	18-Feb-21	270.0	Private placement	Keppel Bay Tower	Office	Singapore	2.9
MINT	4-May-21	300.0	Perpetuals				
MINT	20-May-21	823.3	Private placement, preferential offering	29-data centre portfolio	Industrial	US	3.3
AREIT	4-May-21	420.0	Private placement	Remaining interest in Galaxis (75%)	Industrial	Singapore	0.5
ESR-REIT	6-May-21	150.0	Private placement, preferential offering	1 logistics facility, 10% interest in 35 properties and 2 land parcels	Industrial	Singapore, Australia	0.4
FLT	24-May-21	335.8	Private placement	5 logistics and industrial properties, and 1 business park	Industrial	Germany, Netherlands, UK	1.8
MNACT	1-Jun-21	250.0	Perpetuals				
SUN	7-Jun-21	150.0	Perpetuals				
Total		**7,604.3**					
Industrial		**4,508.1**					

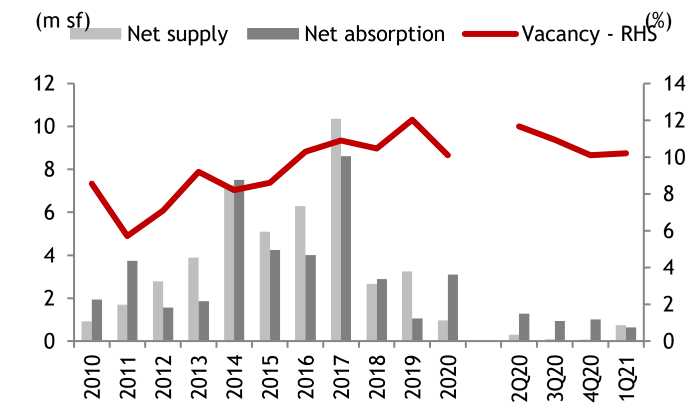
Source: Company data, Maybank Kim Eng

Fig 2: Industrial rents have bottomed out, with recovery in sight



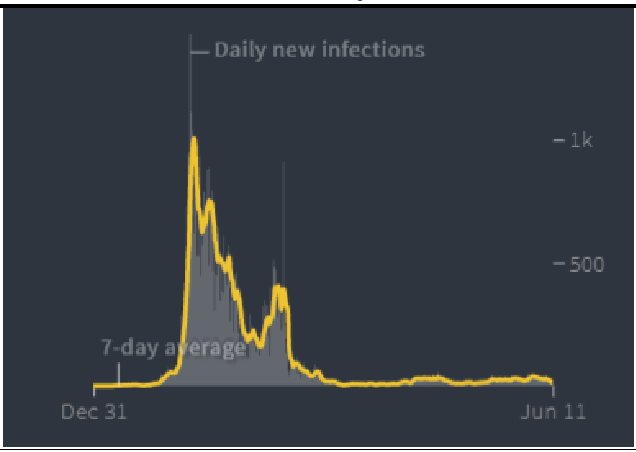
Source: JTC

Fig 3: Singapore warehouse net supply and absorption - vacancies have tightened, strengthening rental growth



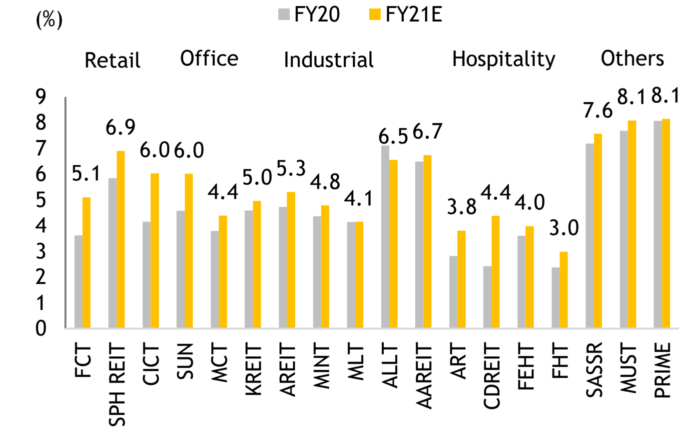
Source: CBRE

Fig 4: Covid cases have been falling



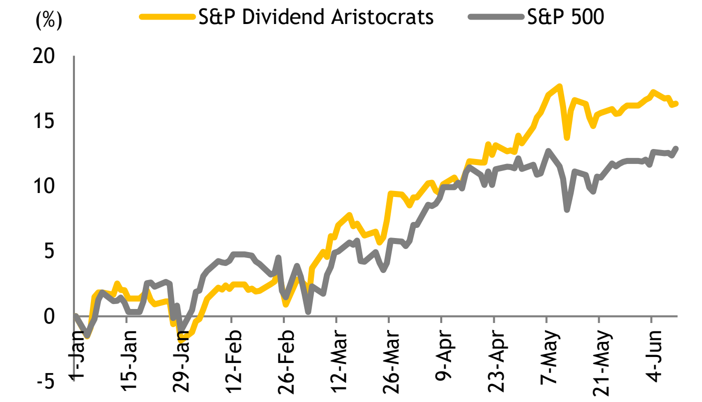
Source: MOH

Fig 5: Retail recovery implies FY21 yields of 5-7%



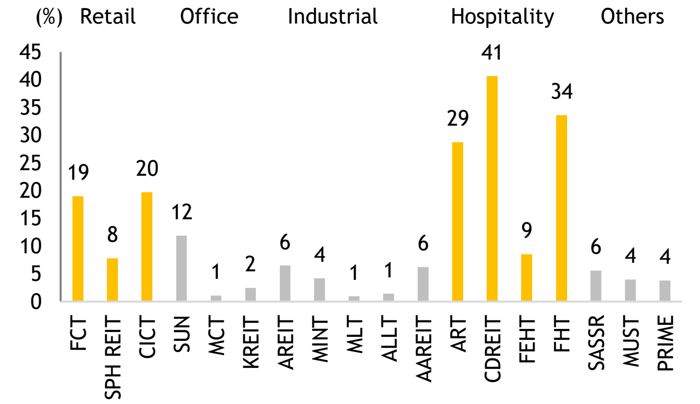
Source: Maybank Kim Eng

Fig 6: Relative performance YTD - capital flows into yield names remain strong



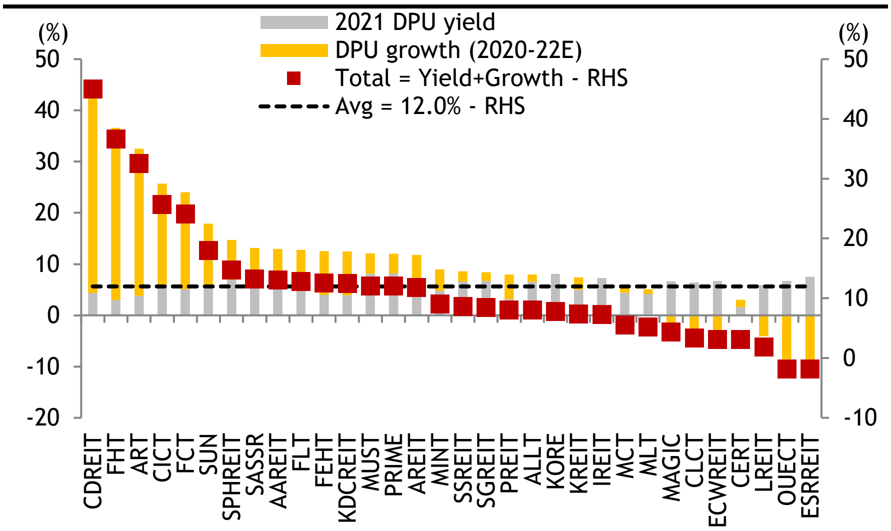
Source: Bloomberg

Fig 7: DPUs to rise at a 6.2% 2-year CAGR on average, led by retail & hospitality



Source: Maybank Kim Eng

Fig 8: Comparison of yield and growth



Source: Maybank Kim Eng

Fig 9: Top picks

REIT	Investment thesis	Valuation	Risks
AREIT	AREIT's diversified SGD15.1b portfolio and resilient operating metrics stand out as key strengths. Management has guided for a low single-digit positive reversion for 2021, and we maintain an optimistic outlook for its rental growth, which is likely to be led by its business parks, suburban office and logistics properties, which now contribute 79% to its AUM. Fundamentals are strong, backed by its scale, rising DPU visibility, and upside growth levers from a strong balance sheet. Following the recent completion of its European data centre deal, we believe AREIT could revisit its sponsor's SGD1b Singapore pipeline at the Science Park in the near to medium term.	Our TP is based on DDM valuation with a COE of 6.3% 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.
CICT	CICT is now past the peak of rental waivers and should benefit from the completion of various office AEIs and lower borrowing costs. We expect negative rental reversions to moderate as social-distancing measures continue to ease, with retail recovery gaining traction in 2H21. We see near-term catalyst from DPU recovery in 2021 and medium-term earnings upside as it leverages added development capacities in value-accretive AEIs and redevelopment opportunities.	Our TP is based on DDM valuation with a COE of 5.9% and long-term growth assumption of 1.5%.	(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.
FCT	FCT's 1H21 DPU jumped c.28% YoY following the PGIM Asia Retail Fund (ARF) acquisition on 27 Oct 2020, and underpinned by stable portfolio occupancy. The ARF deal has helped to double its AUM to SGD6.4b, and reinforced its market share in the more resilient suburban malls space. We see rent reversions improving on the back of tenant sales traction in 2H21. Proactive capital recycling efforts with the divestments of Anchorpoint and Yew Tee Point have helped strengthened its balance sheet.	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.
MCT	MCT's VivoCity revenue and NPI jumped 15.9% YoY and 15.5% YoY in its 4Q21, driven by recovery in both shopper traffic and tenant sales. The latter has returned to more than 86% of pre-Covid levels (same as 3Q21), from 78.0% in 2Q21 and 36.6% in 1Q21, and ahead of c.74% recovery in shopper traffic. Its performance however, would have trailed FCT (with tenant sales at c.110%) and CICT (c.103%), due to limitations on large-scale sales events, but with upside seen from further easing in capacities in FY22. Contributions from its office and business park assets have risen and should continue to support DPU visibility. Its balance sheet remains strong with valuations undemanding at 5.0% FY22E yield on the back of recovering DPU.	Our TP is based on DDM valuation with a COE of 5.7% 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.
MUST	MUST saw strong leasing momentum in 1Q21 at 5.8% of its NLA (up 4.6x QoQ and 1.8x YoY), driven by renewals. We see tailwinds from improving market fundamentals, with FY21-22 DPUs to be cushioned by its low lease expiries, strong assets and quality tenancies. Valuations are undemanding at 8.0% FY21 yield (as management maintains a 100% payout), backed by high DPU visibility with stable income growth and low leasing risks, and upside as it returns to acquisition mode. With a USD360m debt headroom, management is likely eyeing larger deals (from third parties or through JVs), as it pushes into US 'magnet cities', to boost its 'high-growth tenancies' from 10% now to c.20%.	Our TP is based on DDM valuation with a COE of 7.6% 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.

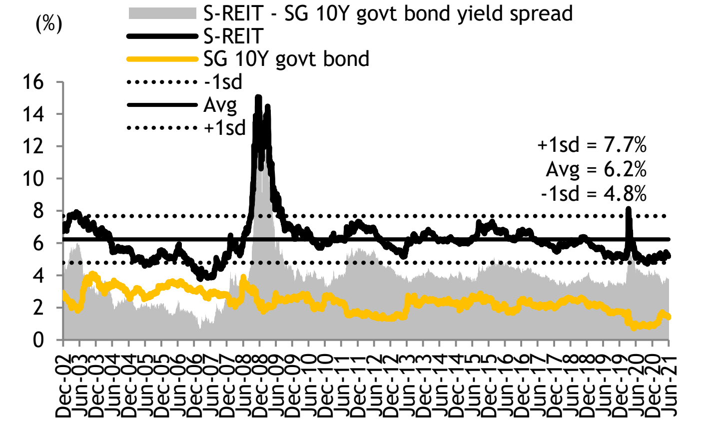
Source: Maybank Kim Eng

Fig 9: Top picks

REIT	Investment thesis	Valuation	Risks
PRIME	PRIME has continued to deliver strong positive rental reversions, DPUs ahead of its IPO projections, and a maiden acquisition of Park Tower in Feb 2020 at 6.9% NPI yield. Improving market fundamentals should drive demand recovery, with occupancies in our view, likely to bottom out in 2H21. DPU visibility remains high, supported by a 4.3-year WALE, strong tenancies, and +2.0% pa growth from its AUM, currently under-rented by 6.5%. We see catalysts from improving leasing activity into FY21, and upside from acquisitions, backed by its strong balance sheet. Valuations are compelling at 8+% FY21 DPU yield, with stronger operational performance and potential acquisitions as re-rating catalysts.	Our TP is based on DDM valuation with a COE of 8.3% 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 is gaining traction post-Covid. We see strong momentum into FY21 as occupancies improve from AEIs and tenant remixing efforts. Better-than-expected portfolio sales growth and upside from potential acquisitions, backed by a strong balance sheet with low 27.6% leverage and visible sponsor pipeline, are key re-rating catalysts.	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.

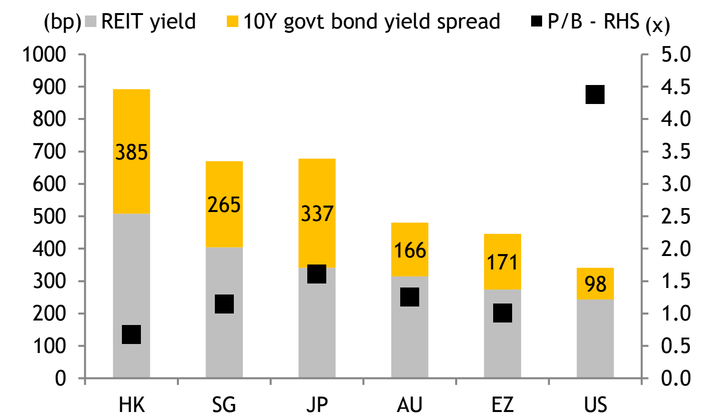
Source: Maybank Kim Eng

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



Source: Bloomberg, FactSet, Maybank Kim Eng

Fig 11: S-REITs offer second-highest dividend yields and rank third on yield-spreads



Source: Bloomberg, Maybank Kim Eng

Fig 12: S-REITs valuation comparison

Company	Rating	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)	19	20	21E	22E	(%)
Retail							**7.8**	**12.5**			**0.89**	**5.3**	**5.6**	**6.2**	**6.5**	**34**
Frasers Ctr Trust (FCT)	Buy	2.45	2.90	18.4	5.1	23.5	4.2	9.6	59	2.21	1.11	4.9	3.7	5.1	5.2	35
Starhill Global (SGREIT)	NR	0.56					1.2	1.1	62	0.81	0.69	8.0	7.1	6.7	7.3	36
SPH REIT	Hold	0.88	0.80	(8.6)	6.9	(1.7)	2.4	1.7	29	1.02	0.86	3.1	5.9	6.9	6.9	30
Retail & Office							**26.3**	**80.4**			**0.99**	**5.2**	**5.0**	**5.6**	**5.7**	**37**
Cap. Int. Comm. Trust (CICT)	Buy	2.17	2.55	17.5	6.0	23.5	14.1	37.3	46	2.01	1.08	5.4	4.2	6.0	6.0	34
Suntec REIT (SUN)	Sell	1.48	1.25	(15.5)	6.0	(9.5)	4.2	27.0	49	2.12	0.70	6.8	4.9	6.0	6.1	44
Mapletree Comm. (MCT)	Buy	2.15	2.35	9.3	4.4	13.7	7.1	16.1	67	1.72	1.25	3.7	4.4	4.4	4.5	34
Lendlease REIT (LREIT)	NR	0.80					0.9		75	0.85	0.94	4.9	6.7	5.9	6.1	35
Office							**6.6**	**13.1**			**0.78**	**6.2**	**6.5**	**5.8**	**6.0**	**38**
Keppel REIT (KREIT)	Sell	1.19	0.95	(20.2)	5.0	(15.2)	4.4	12.3	58	1.34	0.89	4.7	4.7	5.0	4.9	35
OUE Comm. (OUECT)	NR	0.41					2.2	0.7	27	0.61	0.67	7.7	8.4	6.7	7.0	40
Industrial							**36.5**	**102.6**			**1.38**	**5.9**	**5.8**	**5.7**	**5.9**	**38**
Ascendas REIT (AREIT)	Buy	2.97	3.65	22.9	5.3	28.2	12.3	37.3	82	2.21	1.34	5.5	4.9	5.3	5.6	38
Mapletree Ind. (MINT)	Buy	2.78	3.25	16.9	4.8	21.7	7.1	19.7	76	1.66	1.68	4.5	4.6	4.8	5.0	40
Mapletree Log. (MLT)	Buy	2.01	2.25	11.9	4.1	16.1	8.6	23.2	68	1.33	1.52	4.2	4.2	4.1	4.2	38
ARA Logos Trust (ALLT)	Buy	0.83	0.80	(3.0)	6.5	3.5	1.2	2.1	90	0.53	1.55	7.0	6.4	6.5	6.6	37
AIMS APAC (AAREIT)	Buy	1.45	1.60	10.3	6.7	17.1	1.0	1.2	62	1.54	0.94	7.2	6.2	6.7	7.0	34
Keppel DC REIT (KDCREIT)	NR	2.57					4.2	15.8	79	1.19	2.16	3.0	3.5	3.9	4.1	37
ESR REIT	NR	0.41					1.6	2.9	70	0.40	1.01	9.7	9.6	7.5	7.9	42
Sabana SC REIT (SSREIT)	NR	0.44					0.5	0.4	61	0.51	0.85	6.1	6.7	6.6	7.0	36
Hospitality							**7.0**	**7.5**			**0.90**	**7.3**	**2.9**	**3.8**	**4.7**	**39**
Ascott Res. Trust (ART)	Buy	1.04	1.25	20.2	3.8	24.0	3.2	4.3	59	0.97	1.07	6.8	2.9	3.8	4.9	36
CDL HT (CDLHT)	Hold	1.26	1.30	3.2	4.4	7.5	1.5	2.0	61	1.32	0.95	7.7	2.5	4.4	4.9	39
Far East HT (FEHT)	Buy	0.60	0.70	16.7	4.0	20.6	1.2	0.8	41	0.79	0.76	6.5	3.8	4.0	4.5	42
Frasers HT (FHT)	Hold	0.54	0.50	(7.4)	3.0	(4.4)	1.0	0.3	38	0.66	0.82	8.2	2.6	3.0	4.6	38
Offshore REITs							**18.5**	**33.8**			**1.16**	**6.5**	**6.7**	**6.6**	**6.9**	**37**
Sasseur REIT (SASSR)	Buy	0.93	1.05	13.5	7.6	21.1	1.1	1.5	42	0.92	1.00	7.1	7.1	7.6	7.9	28
Dasin Retail Trust (DASIN)	NR	0.70					0.5	0.2	34	1.41	0.50	n.a.	n.a.	6.4	6.9	37
Mapletree N. Asia (MAGIC)	NR	1.06					3.7	7.7	60	1.27	0.83	7.4	7.3	6.6	6.9	42
Capita China Trust (CLCT)	NR	1.38					2.1	4.0	69	1.49	0.93	7.4	7.5	6.4	7.1	35
Lippo Malls Ind. RT (LMIRT)	NR	0.06					0.5	0.3	40	0.10	0.64	n.a.	n.a.	n.a.	n.a.	42
Manulife US REIT (MUST)	Buy	0.76	1.00	32.5	8.1	40.5	1.6	1.5	91	0.83	0.91	7.9	7.5	8.1	8.1	41
Prime US REIT (PRIME)	Buy	0.86	1.10	27.9	8.1	36.0	1.2	0.5	54	0.86	1.00	7.3	8.1	8.1	8.4	34
Keppel P.O. US REIT (KORE)	NR	0.76					1.0	0.9	84	0.89	0.85	7.9	8.3	8.1	8.2	38
IREIT Global (IREIT)	NR	0.66					0.6	0.4	59	0.76	0.87	n.a.	n.a.	7.3	7.4	35
BHG Retail REIT (BHGREIT)	NR	0.56					0.3	0.0	24	0.83	0.67	n.a.	n.a.	n.a.	n.a.	36
Frasers Log. & Ind. (FLT)	NR	1.42					5.2	14.6	72	1.14	1.25	4.8	4.9	5.5	5.6	35
EC World REIT (ECWREIT)	NR	0.82					0.7	0.5	42	0.91	0.90	7.5	8.0	6.7	7.4	38
Cromwell REIT (CEREIT)	NR	2.48					t	1.8	91	0.53	4.67	1.7	1.6	1.6	1.7	39
Healthcare							**3.1**	**3.5**			**1.39**	**17.1**	**17.3**	**3.2**	**3.3**	**43**
Parkway Life REIT (PREIT)	NR	4.43					2.7	2.6	64	1.98	2.24	3.0	3.0	3.2	3.3	38
First REIT	NR	0.28					0.4	0.9	64	0.51	0.54	31.3	31.6	n.a.	n.a.	49
Total REITs							**106**	**253**			**1.13**	**6.8**	**6.3**	**5.7**	**6.0**	**37**
S-REIT yield spread														**2.7**		
FSTREI Index														4.0		
SGS 10Y bond yield														1.4		

Prices as of 11 Jun 2021. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

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