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Your Partner In Finance

Company Results

Nam Lee Pressed Metal

Old Chang Kee, Singapore O&G

Croesus Retail Trust

OCBC, DBS, UOB

Sector Report

Singapore REITs Sector

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Nam Lee Pressed Metal Industries

Still a yield play

Richard Leow

Phillip Securities Research Pte Ltd

20 February 2017

Nam Lee Pressed Metal Industries

(Buy, TP:S$0.52, FY17e DPS: 2.0 cents (5.5%), Last:S$0.365)

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Results at a glance

(SGD mn)	1Q17	1Q16	yoy (%)	Comments
Revenue	**39.53**	**39.09**	**1.1**	
Gross profit	5.88	8.96	(34.3)	Lower gross margin of 14.9% from 22.9% due to change in product mix with lower margin
EBIT	1.60	3.83	(58.3)	Effect of the lower gross profit, despite 16.5% yoy lower OpEx
PATMI	**3.19**	**3.41**	**(6.5)**	**EBIT boosted by other income from a foreign exchange gain in 1Q17, compared to a loss in 1Q16; offset by 19% higher tax; higher tax rate of 18.0% from 15.0%**

Source: Company, Phillip Securities Research (Singapore)

Negative surprise from the lower GPM, but PATMI higher than expected

- 14.9% GPM below expectations of high-teens to low-twenties
- PATMI exceeded our forecast of $3.08mn by 3.4%.

Keeping our full year forecast intact

- Lumpy revenue recognition, because of project-based demand → volatile qoq results

Clean balance sheet with cash hoard

- Net cash position (cash less total borrowings): $0.130
- Debt-to-equity ratio: 2.7%; net interest income

Old Chang Kee Ltd.

Delivered as promised

Soh Lin Sin

Phillip Securities Research Pte Ltd

20 February 2017

Old Chang Kee Ltd

(◀▶BUY, ◀▶TP:S$0.98, Last:S$0.86)

(SGD mn)	3Q17	3Q16	y-y (%)	Comments
Revenue	20.3	18.9	7.5%	Contributions from new outlets mitigated lower revenue from existing outlets and temporary closure of outlets due to mall revamps
Gross profit	12.9	11.8	9.6%	Improved factory efficiency
EBITDA	3.2	2.9	11.1%	
Net profit	1.4	1.2	11.1%	

Source: Company, Phillip Securities Research Pte Ltd estimates

Turnaround in sight and materialising its growth strategy

- Expansion in distribution channel and product range should continue to lift sales
  a. No. of outlets ↑ *(+6 new outlets to 88 in end-Dec 16)*
  b. 3QFY17 sales for puffs (main revenue contributor) increased c.12% yoy
- New factories increased production capacity and enhanced economies of scale

(Gross Margin 3Q/ 9M FY2017: 63.8%/ 63.4%   vs FY2016's 63.1%)

- Expect FY2017 NPAT to grow 2.8% yoy after two consecutive years of contraction; 9MFY17 NPAT growth was flattish at -0.9% yoy

Reconstruction of 2 Woodlands Terrace is slated to be completed by 1QFY18; integration with the adjacent new factory would be the inflection point

Singapore O&G Ltd.

Business grown out of the baby stage

Soh Lin Sin

Phillip Securities Research Pte Ltd

20 February 2017

Singapore O&G Ltd

(▲BUY, ▲TP:S$1.57 (previous S$1.37), Last:S$1.26)

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Results at a glance

S$' mn	FY16	FY15	*y-y (%)*	Comments
Obstetrics & Gynaecology	17.4	14.9	*17.3%*	Higher patient loads and total delivery of babies (+5.8% yoy)
Cancer-related	2.8	1.5	*79.9%*	Higher patient loads and a new Specialist joined in May-16
Dermatology	8.5		*n.m.*	Started in Jan-16
Revenue	**28.7**	**16.4**	***74.7%***	Higher contributions from O&G and Cancer-related segments; maiden contribution from Dermatology
Gross	24.3	14.6	*67.0%*	Higher usage of consumables and medical supplies, especially by Dermatology segment; Gross Profit Margin fell 3.9 percentage points (pps) to 84.8%
EBIT	10.4	6.1	*71.7%*	EBIT Margin relatively stable at c.36%
PATMI	8.8	5.3	*64.8%*	FY2016 PATMI at S$9.3mn if excludes non-cash finance expense of S$0.45mn
DPS (Cents)	3.10	2.03	*52.7%*	

Source: Company, PSR est.

O&G gained market share amid challenging environment

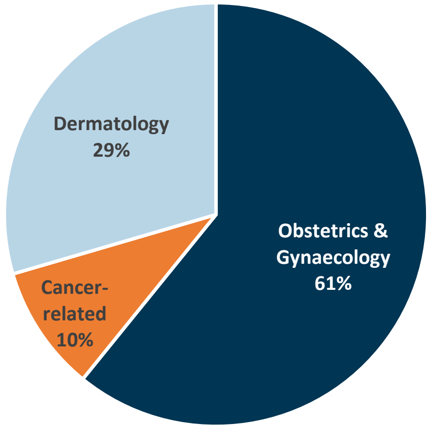
Dermatology and Aesthetic business forms a strong second growth pillar

Cancer-related segment turned profitable from effective marketing strategy to increase productivity.

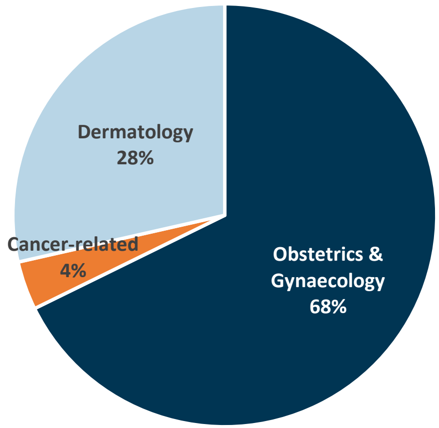
Singapore O&G Ltd

(▲BUY, ▲TP:S$1.57 (previous S$1.37), Last:S$1.26)

FY2016 Revenue by Segment



FY2016 EBIT by Segment



Lower FY17F EBIT margin at c.36% due to change in business mix

- EBIT margin: O&G (40%), Dermatology (35%), and Cancer-related (14%)
- Expect O&G to remain as its core business, providing a relatively resilient profit base, while Cancer-related and Dermatology segments to drive growth in FY2017

Potential re-rating catalysts:

- Successful new recruits of medical practitioners to expand its current three growth pillars
- Better-than-expected margin improvement, particularly its Cancer-related segment
- Expansion into complementary medical services, such as Paediatrics (in line with SOG's Whole-of-Life concept), and In-Vitro Fertilisation ("IVF") (to complement its O&G segment)

Singapore O&G Ltd

(▲BUY, ▲TP:S$1.57 (previous S$1.37), Last:S$1.26)

Item	
EPS FY17F (Cents)	4.32
Simple Average P/E FY17F (Excl. SOG)	45.6
20% discount due to liquidity risk	*20%*
Actual P/E multiple used	36.5
Target price (S$)	1.57
FY17F dividends (Cents)	3.67
Closing price	1.26
Potential upside	28.0%

Company	Mkt Cap (SGD mn)	P/E TTM	P/E FY1	P/E FY2	Net D/E (%)	ROA (%)	ROE (%)	P/B
Singapore O&G Ltd	299	33.6	27.3	22.8	Net Cash	25.1	29.8	11.4
Singapore								
IHH Healthcare Bhd	16,381	N/A	53.8	44.0	19.5	3.0	4.8	N/A
Raffles Medical Group Ltd	2,589	36.0	36.1	32.2	Net Cash	8.9	11.6	4.0
Talkmed Group Ltd	805	21.9	20.4	20.4	Net Cash	60.8	73.4	15.1
Q&M Dental Group Singapore Ltd	578	46.2	38.2	33.0	13.5	5.7	14.0	6.0
Cordlife Group Ltd	249	N/A	N/A	N/A	Net Cash	-2.8	-5.3	2.0
ISEC Healthcare Ltd	143	28.4	N/A	N/A	Net Cash	9.7	10.4	2.6
International Healthway Corp	176	N/A	N/A	N/A	166.4	-2.0	-5.5	0.8
Healthway Medical Corp Ltd	101	N/A	N/A	N/A	8.2	-0.1	-0.1	0.5
Singapore Medical Group Ltd	154	210.8	79.3	27.8	Net Cash	4.0	6.9	13.9
AsiaMedic Ltd	30	N/A	N/A	N/A	Net Cash	-9.7	-15.7	1.8
Simple Average (Excl. SOG)		**68.7**	**45.6**	**31.5**	**51.9**	**7.8**	**9.4**	**5.2**

Source: Bloomberg, Phillip Securities Research (Singapore) Estimates

Croesus Retail Trust

Driven by new acquisitions and cost savings from manager internalisation

Tan Dehong

Phillip Securities Research Pte Ltd

20 February 2017

Croesus Retail Trust

(ACCUMULATE, TP:S$0.93, FY17e DPS: 7.48 cents (8%), Last:S$0.85)

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Results at a glance

(JPY 'mn)	1H17	1H16	y-o-y (%)	Comments
Revenue	**6,307**	**4,440**	**42%**	Contributions from 4 newly acquired malls from Oct 2015 to May 2016
Net Property Income	3,281	2,601	26%	Higher expense ratios in newly acquired properties
Distributable Income	**2,333**	**1,892**	**23%**	Higher finance costs incurred from issuance of MTN in April and Oct 2016
DPU, adjusted (SGD Cents)	**3.60**	**3.35**	**7%**	1H16 restated to reflect new units from Preferential Offering

Source: Company, Phillip Securities Research (Singapore)

4 newly acquired malls from October 2015 drove 2Q17 earnings growth

Tenant replacement at Feeal Asahikawa still ongoing

- Ongoing since acquisition in May 2016. Mgmt confident of achieving 5-6% NPI yield on cost as originally targeted.

Bulk of debt maturing in FY17 refinanced in Jan 2017. Annual cost savings of JPY 152mn from lower refinanced interest rates

- c.3.3% of annualised available income for distribution for 1H17.

Croesus Retail Trust

(ACCUMULATE, TP:S$0.93, FY17e DPS: 7.48 cents (8%), Last:S$0.85)

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	2Q FY2017 NPI %	Occupancy (1)	WALE by NLA (1) (yrs)	Lease Expiry Profile	
				FY2017	FY2018
Aeon Town Moriya	12.2%	100%	10.5	-	-
Aeon Town Suzuka	8.9%	100%	10.5	-	-
Croesus Shinsaibashi	7.0%	100%	5.2	0.3%	0.2%
Mallage Shobu	30.2%	98.1%	5.2	1.7%	2.5%
Luz Omori	3.3%	96.2%	14.8	0.4%	-
Croesus Tachikawa	9.9%	100%	3.6	-	1.9%
One's Mall	8.9%	99.0%	3.6	1.1%	0.7%
Torius	9.1%	94.1%	5.9	4.0%	1.8%
Fuji Grand Natalie	3.1%	100.0%	7.3	-	-
Mallage Saga	5.0%	98.1%	4.0	1.6%	1.9%
Feeeal Asahikawa	2.4%	94.8%	2.9	1.4%	0.5%

24.2% of NPI secured through master leases with high quality tenant (Aeon Town and Fuji Grand)

98.0% occupancy rate across all properties

Total WALE of 6.6 years

~89.5% of FY2017 and ~80.0% of FY2018 rentals have been locked in

(1) As at 31 Dec 2016.

Croesus Retail Trust

(ACCUMULATE, TP:S$0.93, FY17e DPS: 7.48 cents (8%), Last:S$0.85)

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New Shop Openings

Feeeal Asahikawa: United Arrows

Feeeal Asahikawa: Wacoal

Feeeal Asahikawa: IMAZU

Feeeal Asahikawa: Cordier

Promotional Events

Feeeal Asahikawa: United Arrows opening

Feeeal Asahikawa: Christmas & Year-End Sale

Oversea-Chinese Banking Corp

Tough Operating Environment weighs on Performance

Jeremy Teong

Phillip Securities Research Pte Ltd

20 February 2017

Oversea-Chinese Banking Corp

(Downgrade Reduce, previously Neutral. Lower TP:S$8.48, previously S$8.55. Last:S$9.52)

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Results at a glance

(SGD mn)	FY16	FY15	y-o-y(%)	4Q16	4Q15	y-o-y (%)	3Q16	q-o-q (%)	4Q16 Results Comments
Net interest income	5,052	5,189	-3%	1,251	1,341	-7%	1,234	1%	NIMs -11bps y-o-y. Loans +4.3% y-o-y
Fees & Comm	1,638	1,655	-1%	420	402	4%	428	-2%	Higher Fund mgmt and WM income
Insurance	649	781	-17%	182	272	-33%	199	-9%	Lower profit from life assurance
Other NII	1150	1109	4%	324	286	13%	343	-6%	Boosted by gains from sale of properties and investment securities
Total income	**8,489**	**8,734**	-3%	**2,177**	**2,301**	**-5%**	**2,204**	**-1%**	
Expenses	-3788	-3664	3%	-981	-974	1%	-953	3%	
PATMI	**3473**	**3903**	-11%	**789**	**960**	**-18%**	**943**	**-16%**	

Source: Company, PSR

4Q16 Net Interest Income declined 7% y-o-y to SGD1.25bn

- Average rate on *non-bank customers loans* declined 16bps y-o-y, offsetting an increase in loans volume (net of allowance) growth of 4.3%.
- Excluding acquisition of Barclays Wealth business in Hong Kong and Singapore, loans growth would be c.3%.

NPLs rose SGD814mn, or 33bps, y-o-y

- About 60% (SGD488mn) of the increase was contributed by Offshore Oil & Gas sector.

Volatile Life Assurance profit

- Non-participating fund profit of SGD71.2mn (4Q15: SGD163.7mn, 3Q16: SGD83.9mn).

Continued boost from net gain from disposal of investment properties

- 4Q16 net gain of SGD82mn (4Q15: SGD41mn, 3Q16: SGD51mn).

DBS Group Holdings Ltd

Lower FY16 Profit amid Rising Non-Performing Loans

Jeremy Teong

Phillip Securities Research Pte Ltd

20 February 2017

DBS Group Holdings Ltd

(Downgrade Reduce, previously Neutral. Lower TP:S$16.73, previously S$16.85. Last:S$18.60)

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Results at a glance

(SGD mn)	FY16	FY15	y-o-y (%)	4Q16	4Q15	y-o-y (%)	3Q16	q-o-q (%)	4Q16 Results Comments
Net interest income	7,305	7,100	2.9%	1,824	1,854	-1.6%	1,815	0.5%	NIMs -13bps y-o-y, loans +6.4% y-o-y
Net Fees & Comm income	2,331	2,144	8.7%	515	485	6.2%	614	-16.1%	Higher WM, Transaction services and Cards y-o-y
Other Non-interest income	1,853	1,693	9.5%	437	310	41.0%	500	-12.6%	Higher net income from investment securities and net trading Income y-o-y
Total Income	**11,489**	**10,937**	**5.0%**	**2,776**	**2,649**	**4.8%**	**2,929**	**-5.2%**	
Expenses	4,972	4,900	1.5%	1,223	1,242	-1.5%	1,199	2.0%	
Credit Allowance	1,434	743	93.0%	462	247	87.0%	436	6.0%	Higher allowances from stresses in O&G support services sector
Net Profit	**4,360**	**4,567**	**-4.5%**	**945**	**1,027**	**-8.0%**	**1,102**	**-14.2%**	

Source: Company, PSR

4Q16 Net interest income declined 2% y-o-y to SGD1.82bn

- Avg. Rates on *Customer non-trade loans* fell 11bps y-o-y. Avg. Rates on *Customer deposits* increased 1bps y-o-y.
- *Customer non-trade loans* increased 7.3% y-o-y. *Customer deposits* increased 6.5% y-o-y. DBS' 4Q16 Loan-to-Deposit ratio is 86.8%, lower than 4Q15's 88.5%.

Coverage ratio declined to 97% from 100% in 3Q16 and 148% in 4Q15

- 4Q15 NPL ratio of 0.9% vs. 4Q16 NPL ratio of 1.4%.
- SGD350mn PwC Building divestment gain will be set aside for *General Allowance.*
- For coverage ratio to remain at 104%, we estimate NPL must not rise beyond 1.54% based on our 4Q17F gross loans of SGD314bn.

Boost from ANZ acquisition wealth and retail business in five markets

- Slated to integrate 4 out of 5 markets of ANZ's wealth business in Asia by end of 2017.
- ANZ acquisition will give DBS access to Credit cards business in Taiwan and Indonesia.

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United Overseas Bank Limited

Excellent Risk Management kept 4Q16 Performance Steady

Jeremy Teong

Phillip Securities Research Pte Ltd

20 February 2017

United Overseas Bank Limited

(Maintain Reduce. Lower TP:S$18.92, previously S$18.97. Last:S$21.18)

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Results at a glance

(SGD mn)	FY16	FY15	y-o-y (%)	4Q16	4Q15	y-o-y (%)	3Q16	q-o-q (%)	4Q16 Comments
NII	4,991	4,926	1%	1,276	1,277	0%	1,230	4%	Higher loans growth y-o-y, Lower NIM y-o-y
Fees & Comm	1,931	1,883	3%	531	480	11%	492	8%	Higher Fund Mgmt fees, Cards and WM
Other Non Int Income	1,140	1,237	-8%	222	323	-31%	318	-30%	Lower Net Gain from Inv Securities. Lower Net Trading Income
Total Revenue	**8,061**	**8,048**	0%	**2,028**	**2,080**	**-3%**	**2,040**	**-1%**	
Expenses	3,696	3,597	3%	957	964	-1%	919	4%	Higher SP offset by utilisation of GP
Net Profit	**3,096**	**3,209**	-4%	**739**	**788**	**-6%**	**791**	**-7%**	

Source: Company, PSR

4Q16 Net interest income growth flat y-o-y at SGD1.276bn

- Avg. rates on *Customer loans* fell 20bps y-o-y. Avg. rates on *Customer deposits* increased 5bps y-o-y.
- *Customer loans* increased 8.8% y-o-y. *Customer deposits* increased 6.1% y-o-y. UOB’s 4Q16 Loan-to-Deposit ratio is 86.8%, higher than 4Q15’s 84.7%.
- Expect stronger wholesale funding growth to bolster overall liquidity.

Non-interest income declined 6.3% y-o-y

- 98.8% y-o-y decline in *Net gain from investment securities* and a 20.3% y-o-y decline in *net trading income.*
- *Credit Cards*, up 14.1% y-o-y; *Fund management*, up 13.5% y-o-y and *Wealth management*, up 17.1% y-o-y.

Singapore REITs

Industrial sub-sector: Possibility of rents bottoming this year

Richard Leow

Phillip Securities Research Pte Ltd

20 February 2016

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Key points

- Lower yoy sector-wide occupancy and rental; qoq improvement in occupancy
- Sector's Rental Index has fallen below 2012 levels, with rental reversions likely to maintain at negative high single-digit to negative low double-digit
- Multiple-User Factory and Warehouse rental reversions maintained at negative double-digit from previous quarter and likely to be maintained in 2017
- Factory space was the hardest hit in 4Q 2016 with an onslaught of new supply
- Supply pressure in 2017 for Warehouse space is going to be worse than 2016
- Expect reversions for Business Parks to be flat
- We believe rents could bottom in 2017, but emphasize that negative rental reversions to persist

Key points

- **Upgrade Industrial sub-sector to "Equal Weight" on optimism of bottoming of rents**
- **Maintaining our "Underweight" view on the overall S-REITs sector**

What is the news?

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JTC released its Quarterly Market Report of Industrial Properties for 4Q 2016

Summary of Rental & Occupancy rate, as at 4Q 2016

		3Q 2016	4Q 2016	%qoq	%yoy
Rental	All Industrial	94.3	93.8	(0.5)	(6.8)
	Multiple-User Factory	92.2	91.7	(0.5)	(7.7)
	Single-User Factory	101.8	100.9	(0.9)	(6.6)
	Business Park	104.2	105.4	1.2	0.5
	Warehouse	91.2	91.0	(0.2)	(6.4)
Occupancy	All Industrial	89.1%	89.5%	0.4	(1.1)
	Multiple-User Factory	87.1%	87.3%	0.2	0.1
	Single-User Factory	90.6%	90.9%	0.3	(1.4)
	Business Park	81.1%	83.0%	1.9	(1.1)
	Warehouse	89.1%	89.7%	0.6	(1.7)

Source: JTC, Phillip Securities Research (Singapore)

Key takeaways from the quarter

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Reversions were generally negative, again only a minority bucked the trend

- Generally negative reversions across Industrial REITs; oversupply condition persists
- Exceptions to *portfolio weighted average* rental reversions: A-REIT +3%, MINT +2.1%

Certain portfolios revalued downwards

- All Industrial REITs with FY Dec 2016 recorded fair value losses to investment properties
- Exception: VIT

Possible bottoming of rents, but still a tenants' market

- Stabilisation of *asking rents* posted by leasing agents
- Channel check suggests fair amount of leasing activity on the ground and rents may be bottoming; corroborated by one REIT CEO during results briefing who opined that we are close to the bottom

Investment Actions

"Underweight" view on overall S-REITs sector

"Equal Weight" view on Industrial sub-sector within the S-REITs sector

Industrial REITs under our coverage

	Rating	Target Price (S$)	Last Close Price (S$)
Cache Logistics Trust	Reduce	0.730	0.810
Keppel DC REIT	Neutral	1.150	1.175
Mapletree Industrial Trust	Accumulate	1.740	1.660
Soilbuild Business Space REIT	Neutral	0.680	0.650

Source: Phillip Securities Research (Singapore)

Cache Logistics Trust

High gearing of 43.1% is the key idiosyncratic impediment to inorganic growth

- "Reduce" rating from 4Q FY16 results
- Limited scope for organic growth in gross revenue due to oversupply, mitigated by only 4.9% expiry by GRI in FY17
- In the absence of capital distribution from the divestment of Changi Districentre 3 in January 2017, we are expecting lower yoy DPU for all four quarters of FY17e
- Our forecast: 6.44/6.91 cents Distribution per unit (DPU) for FY17e/FY18e, which is 13.0%/6.6% lower than consensus expectation of 7.4/7.4 cents

Keppel DC REIT

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Expecting 30% yoy higher gross revenue in FY17 driven by three acquisitions in FY16

- "Neutral" rating from 4Q FY16 results
- Completed acquisition of three data centres in Cardiff, Wales; Milan, Italy and Singapore
- However, the three acquisitions came at cost – increasing unitholder base following the 274-for-1,000 Preferential Offering in November 2016
- Hedging policy in place to hedge two-years ahead for expected foreign currency denominated income does not detract from the fact that there is country risk and currency risk exposure
- Our forecast: 6.39/6.19 cents DPU for FY17e/FY18e, which is 11.3%/16.4% lower than consensus expectation of 7.2/7.4 cents

Mapletree Industrial Trust

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Firepower to acquire: 29.4% gearing is one of the lowest within the S-REIT universe

- "Accumulate" rating from 3Q FY17 results
- Phase One of HP BTS is already contributing, Phase Two to contribute by 2Q CY17
- Mindful of the 31% of leases expiring in FY18 in an oversupply landscape; about half of leases expiring in FY18 come from the Flatted Factories segment
- Our forecast: 11.22/11.34 cents DPU for FY17e/FY18e, which is broadly in line with consensus expectation of 11.0/11.9 cents

Soilbuild Business Space REIT

Tough year ahead to backfill Loyang Way property

- "Neutral" rating from 4Q FY16 results
- Acquisition of Bukit Batok Connection to just offset the negative effect of the Loyang Way vacancy; Loyang Way property size is 5.2% by portfolio value
- DPU to be weighed down by higher unit base arising from the 1-for-10 Preferential Offering in September 2016
- Expecting lower yoy DPU in all four quarters of FY17e
- Our forecast: 5.47/4.87 cents DPU for FY17e/FY18e, which is 4.0%/11.5% lower than consensus expectation of 5.7/5.5 cents

4Q 2016 JTC market data: Occupancy and Rental Index (Industrial sector)

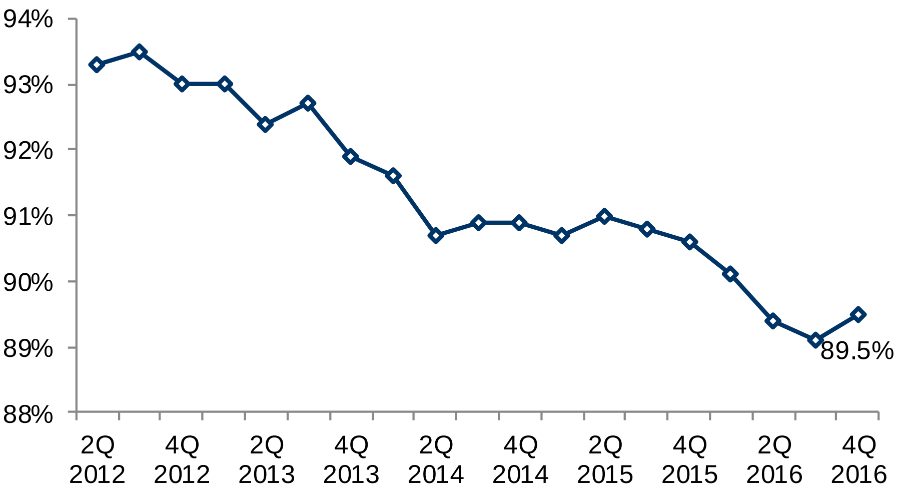
Occupancy

- Higher qoq, lower yoy

Rental Index

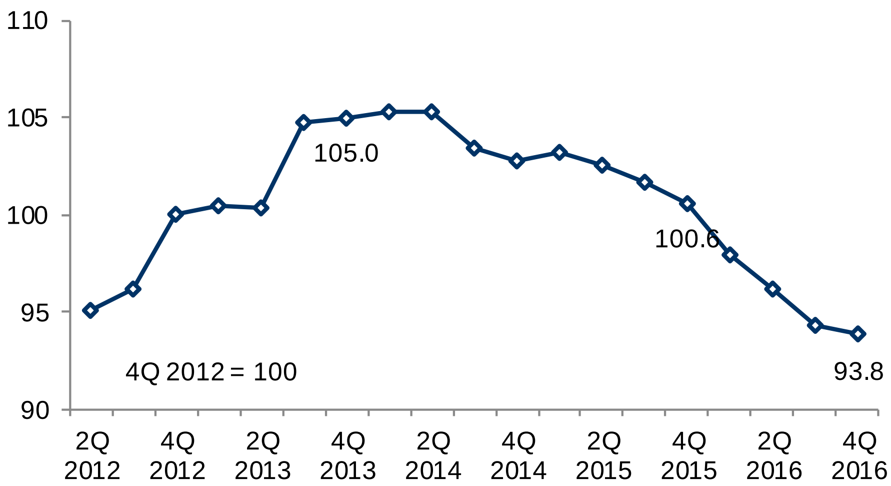
- Lower qoq and yoy
- Expect negative double-digit rental reversions in 2017

Figure 1. Industrial sector occupancy



Source: JTC, Phillip Securities Research (Singapore)

Figure 2. Industrial sector Rental Index



Source: JTC, Phillip Securities Research (Singapore)

4Q 2016 JTC market data: Occupancy and Rental Index (Factory)

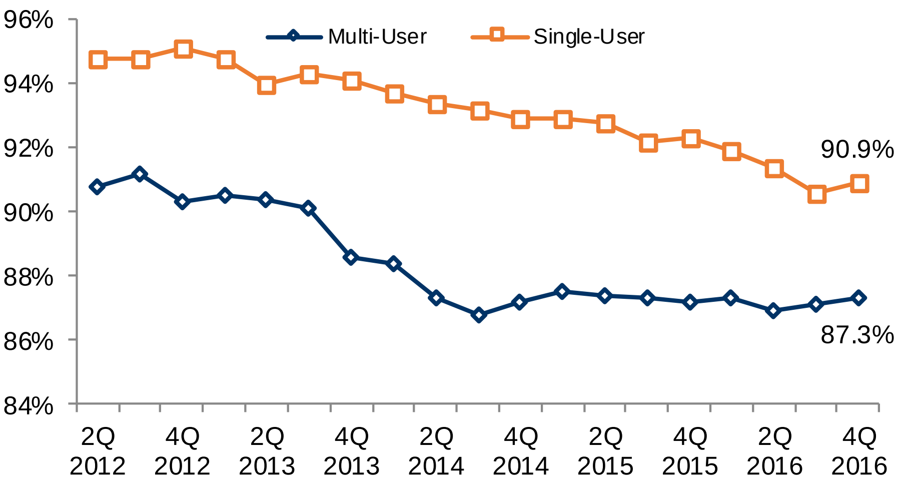
Occupancy (Multiple-User)

- Higher qoq and yoy

Rental Index (Multiple-User)

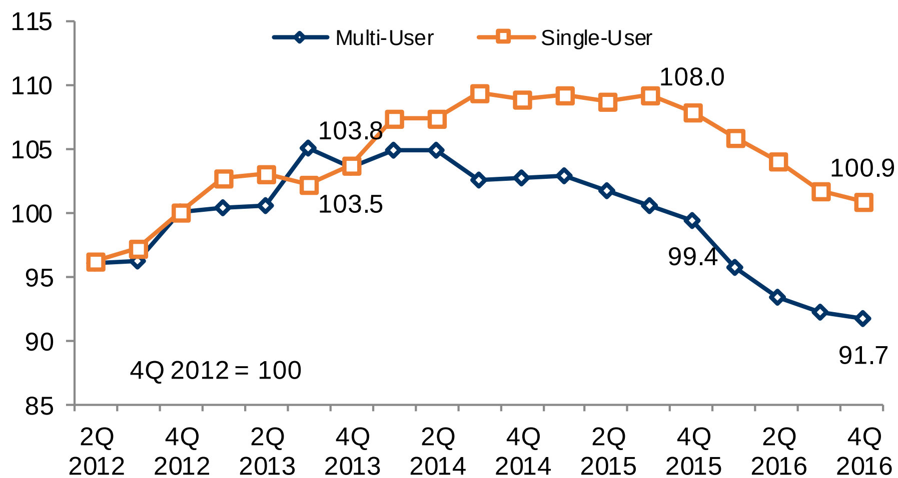
- Lower qoq and yoy
- Expect negative low double-digit reversions in 2017

Figure 3. Factory occupancy



Source: JTC, Phillip Securities Research (Singapore)

Figure 4. Factory Rental Index



Source: JTC, Phillip Securities Research (Singapore)

4Q 2016 JTC market data: Occupancy and Rental Index (Business Park)

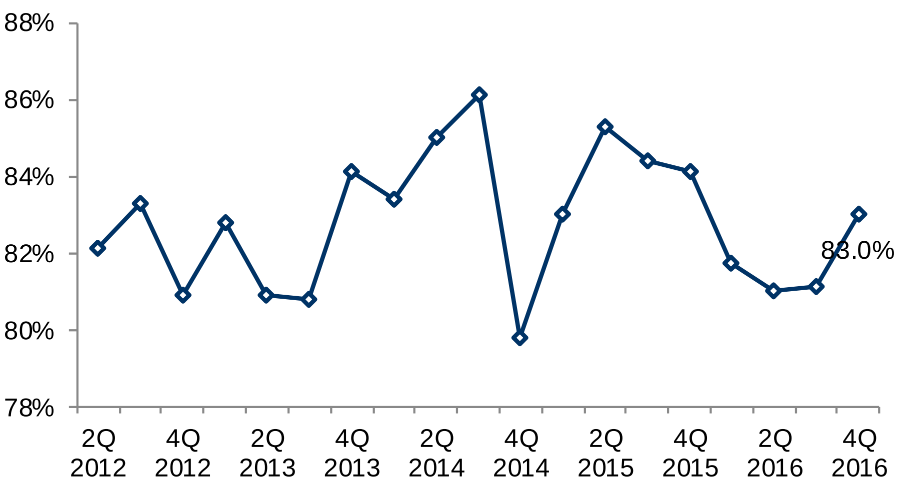
Occupancy

- Higher qoq, lower yoy

Rental Index

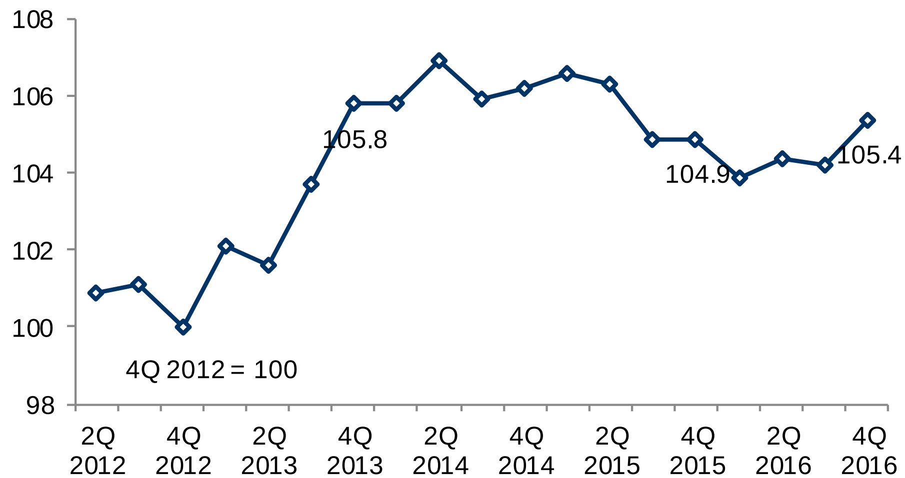
- Higher qoq and yoy
- Expect flat rental reversions in 2017

Figure 5. Business Park occupancy



Source: JTC, Phillip Securities Research (Singapore)

Figure 6. Business Park Rental Index



Source: JTC, Phillip Securities Research (Singapore)

4Q 2016 JTC market data: Occupancy and Rental Index (Warehouse)

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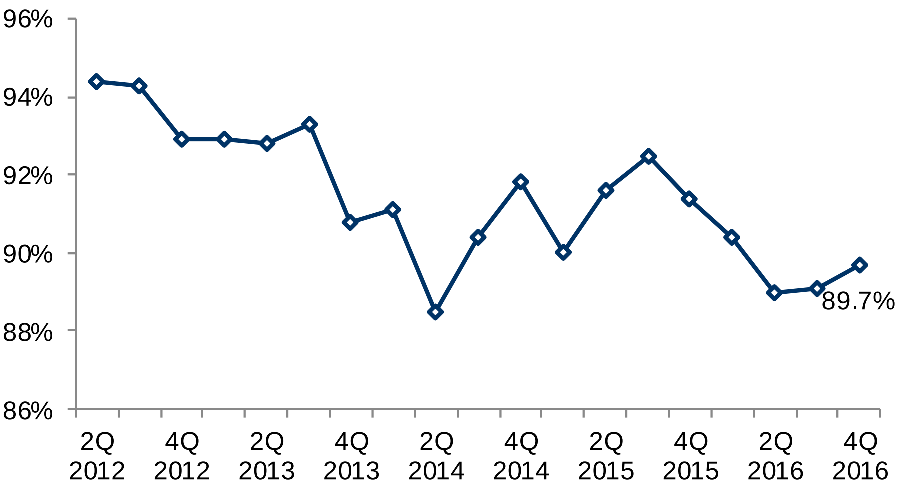
Occupancy

- Higher qoq, lower yoy

Rental Index

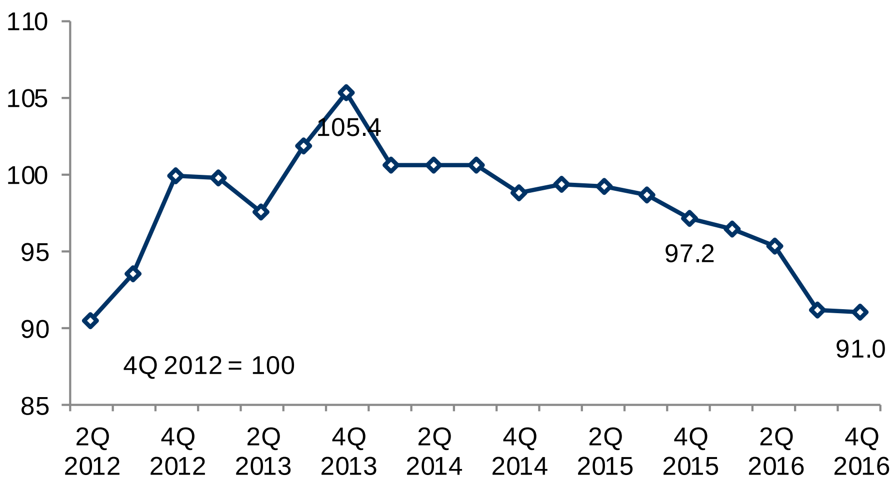
- Lower qoq and yoy
- Expect negative low double-digit reversions in 2017

Figure 7. Warehouse occupancy



Source: JTC, Phillip Securities Research (Singapore)

Figure 8. Warehouse Rental Index



Source: JTC, Phillip Securities Research (Singapore)

4Q 2016 JTC market data: Occupancy and Rental Index

2017 Factory space adding 4.4% to existing stock

- 49% more than net new supply in 2016

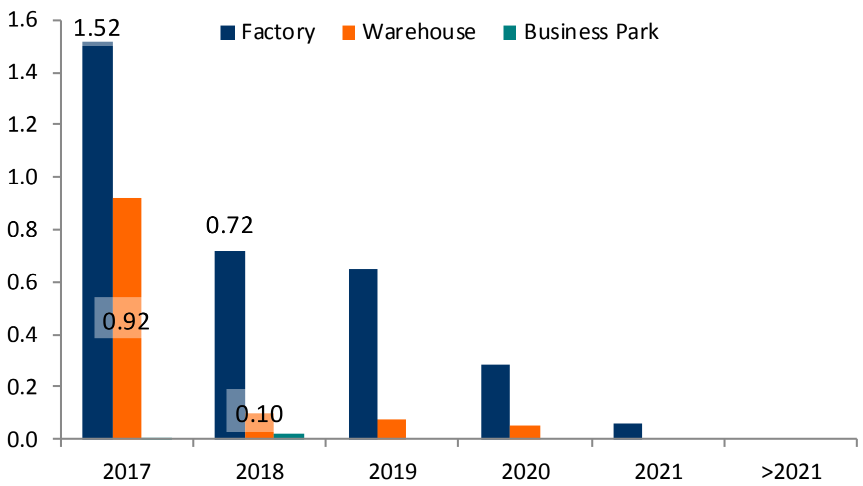
2017 Warehouse space adding 9.7% to existing stock

- 58% more than net new supply in 2016

2017 Business Park space adding 0.2% to existing stock

- No new supply from 2019 onwards

Figure 9. Supply pipeline profile, as at 4Q 2016 (mn sqm)



Source: JTC, Phillip Securities Research (Singapore)

Supply Pipeline as a percentage of existing stock, as at 4Q 2016

(%)	2017	2018	2019	2020	2021	>2021
Factory	4.4	2.1	1.9	0.8	0.2	-
Warehouse	9.7	1.0	0.8	0.5	-	-
Business Park	0.2	1.2	-	-	-	-
Industrial sector	**5.3**	**1.8**	**1.6**	**0.7**	**0.1**	**0.0**

Source: JTC, Phillip Securities Research (Singapore)

How do we view this?

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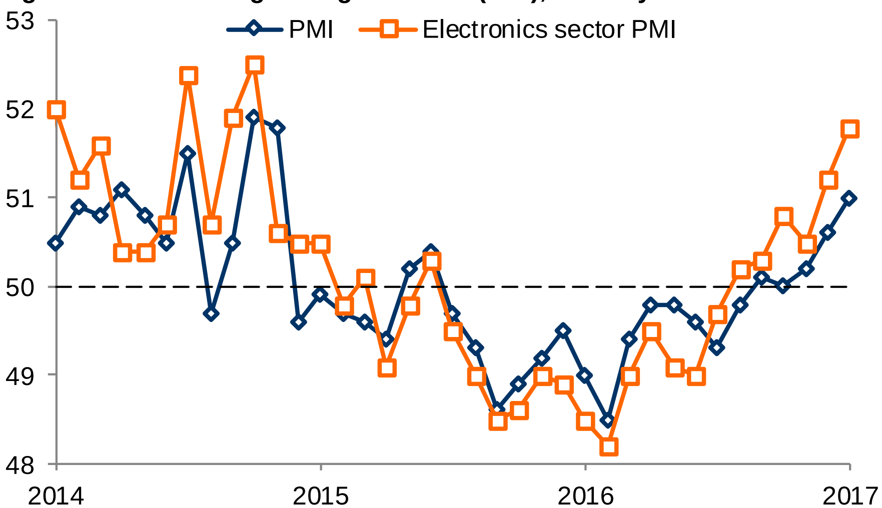
Uptick in Industrial activity, in line with global PMIs

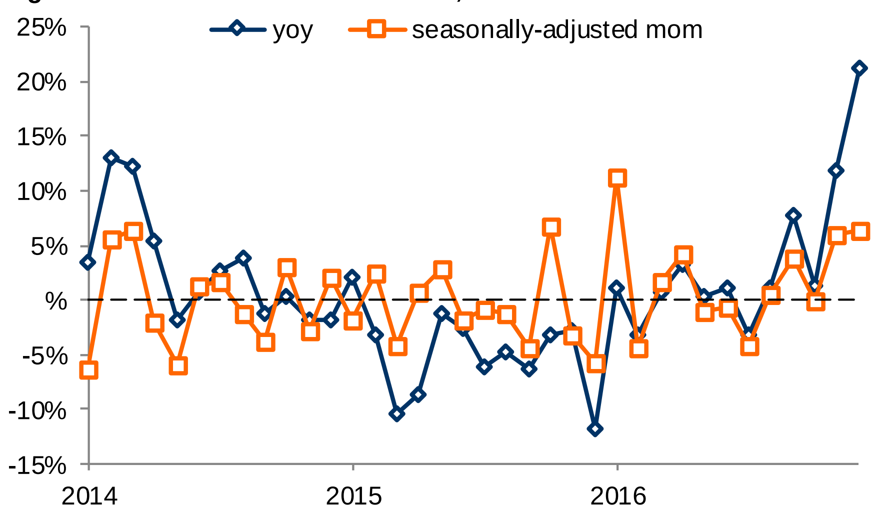
- Singapore PMI has been in expansionary mode since late-2016, in line with Eurozone, USA, China and Japan
- Optimistic on a recovery for PMI and Industrial Production, but not before moderating downwards to a more sustainable level
- Could signal start of higher demand; nonetheless upcoming new supply is still higher than historical supply

Figure 10. Purchasing Managers' Index (PMI), January 2017



Source: Bloomberg, SIPMM, Phillip Securities Research (Singapore)

Figure 11. Industrial Production Index, December 2016



Source: Bloomberg, EDB, Phillip Securities Research (Singapore)

How do we view this?

Continued pressure due to mismatch in supply and demand

- 2016 net increase in Industrial space was 1.82mn sqm; JTC estimates about 2.4mn sqm of new space in 2017
- 2017 new space is significantly higher than the average supply of around 1.8mn sqm in the past three years
- Historical average demand of 1.3mn sqm in the past three years

4Q aggregate reversions extending to double-digits did not come as a surprise

- Rental Index in 4Q 2016 (93.8) compared to three years ago in 4Q 2013 (105.0) implies aggregate negative reversions of -10.7%
- Flagged in previous report in previous report our expectations for aggregate reversions to reach negative double-digit territory into 2017 (No change from previous expectation)

How do we view this?

Onslaught of Factory space in 2017: Multiple-User Factory space likely to be the laggard for the sub-sector in occupancy recovery

- Previous report: Factory to be hardest hit in 4Q 2016 → Multiple-User and Single-User Factory had the highest negative change in Rental Index for both qoq and yoy
- Multiple-User Factory space in 2017 is 133% more than net new supply in 2016
- Expect negative low double-digit reversions for Multiple-User into 2017 (Previous expectation: up to negative mid-teens)

Supply pressure in 2017 for Warehouse is going to be worse than 2016

- -14% negative reversion, accented by peak rent that occurred exactly three years ago in 4Q 2013
- Planned supply in 2017 is 58% more than net new supply in 2016
- Expecting negative low double-digit reversions in 2017

How do we view this?

Limited new supply for Business Park, expect flat reversions

- Only 0.2% and 1.2% increase in 2017 and 2018 respectively, over current existing stock
- No new supply planned in 2019 onwards
- Expecting rents to remain stable qoq, and reversions to be flat (Previous expectation: flat reversions with slight negative bias going into 2017)

How do we view this?

Strategic top-down view

- Equal Weight on the Industrial S-REITs sub-sector on optimism of bottoming of rents
- Expect demand-supply imbalance to persist, but already see some stabilisation of *asking rents*
- Emphasize the distinction between rental reversions and bottoming of rents

Tactical bottom-up view

- MINT is our top pick for the Industrial S-REIT sub-sector
  - Ability to grow organically with BTS & AEI, while simultaneously managing capital structure
  - Gearing of 29.4% is one of the lowest within the S-REIT universe
  - WADM is 3.2 years, with 2.8%/17.0% of debt maturing in FY17/FY18 respectively. 67.0% of debt is hedged on fixed rate and interest cover ratio of 7.8x, compared to sub-sector average of 5.3x

Quarterly results across the sub-sector

Summary of quarterly results

	Gross revenue (S$ mn)			Net property income (S$ mn)			Distributable income (S$ mn)			DPU (cents)		
Y/E Mar	**3Q17**	**3Q16**	**yoy (%)**	**3Q17**	**3Q16**	**yoy (%)**	**3Q17**	**3Q16**	**yoy (%)**	**3Q17**	**3Q16**	**yoy (%)**
AIMS AMP Capital Industrial REIT	30.4	32.5	(6.7)	19.8	21.1	(6.0)	17.7	18.1	(2.3)	2.77	2.85	(2.8)
Ascendas REIT	208.6	193.8	7.6	155.0	142.2	9.0	115.1	96.6	19.2	3.993	3.946	1.2
Mapletree Industrial Trust	84.5	83.3	1.4	63.4	61.9	2.5	51.1	50.3	1.6	2.83	2.82	0.4
Mapletree Logistics Trust	95.5	88.9	7.4	79.9	74.1	7.7	46.8	46.2	1.4	1.87	1.87	0.0
Y/E Dec	**4Q16**	**4Q15**	**yoy (%)**	**4Q16**	**4Q15**	**yoy (%)**	**4Q16**	**4Q15**	**yoy (%)**	**4Q16**	**4Q15**	**yoy (%)**
Cache Logistics Trust	28.0	23.1	21.2	22.1	18.8	17.5	16.6	16.8	(1.3)	1.847	2.140	(13.7)
Cambridge Industrial Trust	27.8	28.5	(2.5)	19.7	21.6	(8.8)	13.0	14.8	(12.0)	0.996	1.139	(12.6)
Keppel DC REIT	26.8	24.8	8.4	24.9	21.8	14.2	14.8	14.5	2.0	1.31	1.64	(20.1)
Sabana Shari'ah Compliant REIT	22.5	24.6	(8.2)	13.9	16.3	(14.7)	9.3	11.0	(16.1)	0.88	1.50	(41.3)
Soilbuild Business Space REIT	21.7	20.4	6.1	18.9	17.5	8.0	16.4	15.1	8.4	1.570	1.614	(2.7)
Viva Industrial Trust	25.6	19.7	29.8	18.1	13.7	31.7	15.9	12.5	27.9	1.760	1.634	7.7

Source: Various REITs, Phillip Securities Research (Singapore)

Gross revenue growth driven by inorganic & organic growth

- Acquisitions: A-REIT, MLT, Cache and VIT
- BTS: MINT; AEI: MLT

DPU impacted by dilutions from larger Unitholder base

- CIT in line with lower Distributable income
- Rights Issue (SSREIT), Preferential Offering (SBREIT, KDCREIT, VIT), Private Placement (Cache, VIT)

Full year results across the sub-sector

Summary of full year results

	Gross revenue (S$ mn)			Net property income (S$ mn)			Distributable income (S$ mn)			DPU (cents)		
Y/E Dec	**FY16**	**FY15**	**yoy (%)**	**FY16**	**FY15**	**yoy (%)**	**FY16**	**FY15**	**yoy (%)**	**FY16**	**FY15**	**yoy (%)**
Cache Logistics Trust	111.3	89.7	⇧ 24.0	88.0	76.2	⇧ 15.6	69.3	68.0	⇧ 2.0	7.73	8.50	⇩ (9.1)
Cambridge Industrial Trust	112.1	112.2	⇩ (0.1)	82.3	86.2	⇩ (4.5)	54.5	61.8	⇩ (11.9)	4.17	4.79	⇩ (12.9)
Keppel DC REIT	99.1	102.5	⇩ (3.2)	90.9	86.9	⇧ 4.7	61.0	57.4	⇧ 6.3	6.14	6.51	⇩ (5.7)
Sabana Shari'ah Compliant REIT	91.8	100.8	⇩ (8.9)	56.9	71.6	⇩ (20.5)	36.9	50.1	⇩ (26.3)	4.17	5.99	⇩ (30.4)
Soilbuild Business Space REIT	81.1	79.3	⇧ 2.3	70.7	67.8	⇧ 4.3	60.3	57.9	⇧ 4.1	6.09	6.49	⇩ (6.1)
Viva Industrial Trust	95.1	74.0	⇧ 28.6	68.5	50.8	⇧ 34.7	60.9	47.5	⇧ 28.3	6.96	7.00	⇩ (0.6)

Source: Various REITs, Phillip Securities Research (Singapore)

Gross revenue growth driven by inorganic & organic growth

- Acquisitions: A-REIT, MLT, Cache and VIT
- BTS: MINT; AEI: MLT

DPU impacted by dilutions from larger Unitholder base

- CIT in line with lower Distributable income
- Rights Issue (SSREIT), Preferential Offering (SBREIT, KDCREIT, VIT), Private Placement (Cache, VIT)

Performance measures across the sub-sector

Summary of Performance Measures, as at end of December 2016

	Occupancy (%)	WALE by GRI (years)	WALE by NLA (years)	Gearing (%)	WADM (years)	WACD (%)	Interest coverage (x)
AIMS AMP Capital Industrial REIT	94.0	2.5		34.6	2.1	3.7	5.1
Ascendas REIT	90.2	3.7		31.8	3.9	3.0	5.6
Cache Logistics Trust	96.4	3.8	3.9	43.1	2.8	3.6	4.0
Cambridge Industrial Trust	94.7	3.7		37.5	3.1	3.7	3.6
Keppel DC REIT	94.4		9.6	28.3	3.2	2.3	9.4
Mapletree Industrial Trust	92.1	3.2		29.4	3.2	2.6	7.8
Mapletree Logistics Trust	96.1		4.1	38.7	3.5	2.3	5.7
Sabana Shari'ah Compliant REIT	87.2	2.6		43.2	1.9	4.2	3.1
Soilbuild Business Space REIT	89.6	3.4		37.6	2.8	3.4	4.8
Viva Industrial Trust	89.8	3.1		37.2	3.2	4.0	4.2
Average	**92.5**	**3.3**	**5.9**	**36.1**	**3.0**	**3.3**	**5.3**

Source: Various REITs, Phillip Securities Research (Singapore)

WALE: Weighted Average Lease Expiry; WADM: Weighted Average Debt Maturity; WACD: Weighted Average Cost of Debt

GRI: Gross rental income; NLA: Net leasable area

Peer relative valuation vs. 3/6-mths ago

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Industrial S-REITs peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S$ mn)	Price (S$)	Trailing P/NAV (x)	12M trailing yield (%)
Ascendas REIT	7,148	2.48	1.19	7.3
Mapletree Industrial Trust	2,983	1.655	1.21	6.8
Mapletree Logistics Trust	2,650	1.060	1.03	7.0
Keppel DC REIT	1,311	1.165	1.22	5.2
AIMS AMP Capital Industrial REIT	859	1.345	0.91	8.3
Cambridge Industrial Trust	770	0.590	0.93	7.1
Viva Industrial Trust	745	0.775	0.98	9.0
Cache Logistics Trust	729	0.810	1.04	9.5
Soilbuild Business Space REIT	674	0.645	0.89	9.4
Sabana Shari'ah Compliant REIT	463	0.440	0.73	9.5
Average			**1.02**	**7.9**

Source: Bloomberg (Updated: 17 February 2017), Phillip Securities Research (Singapore)

				2M trailing yield (%)
				6.6
				6.7
				7.3
				5.4
				8.4
Cache Logistics Trust	745	0.830	1.00	9.6
Cambridge Industrial Trust	717	0.550	0.82	7.8
Viva Industrial Trust	701	0.755	0.94	10.0
Soilbuild Business Space REIT	688	0.660	0.86	9.2
Sabana Shari'ah Compliant REIT	385	0.520	0.65	10.1
Average			**0.99**	**8.1**

Source: Bloomberg (Updated: 10 November 2016), Phillip Securities Research (Singapore)

			NAV (x)	12M trailing yield (%)
			.20	8.7
			.30	6.3
			.06	7.0
			.31	5.5
			.99	7.8
			.02	9.3
Cambridge Industrial Trust	704	0.540	0.81	8.4
Viva Industrial Trust	640	0.740	0.92	9.0
Soilbuild Business Space REIT	637	0.675	0.86	9.4
Sabana Shari'ah Compliant REIT	380	0.515	0.64	11.3
Average			**1.01**	**8.3**

Source: Bloomberg (Updated: 11 August 2016), Phillip Securities Research (Singapore)

Peer relative valuation vs. 3/6-mths ago

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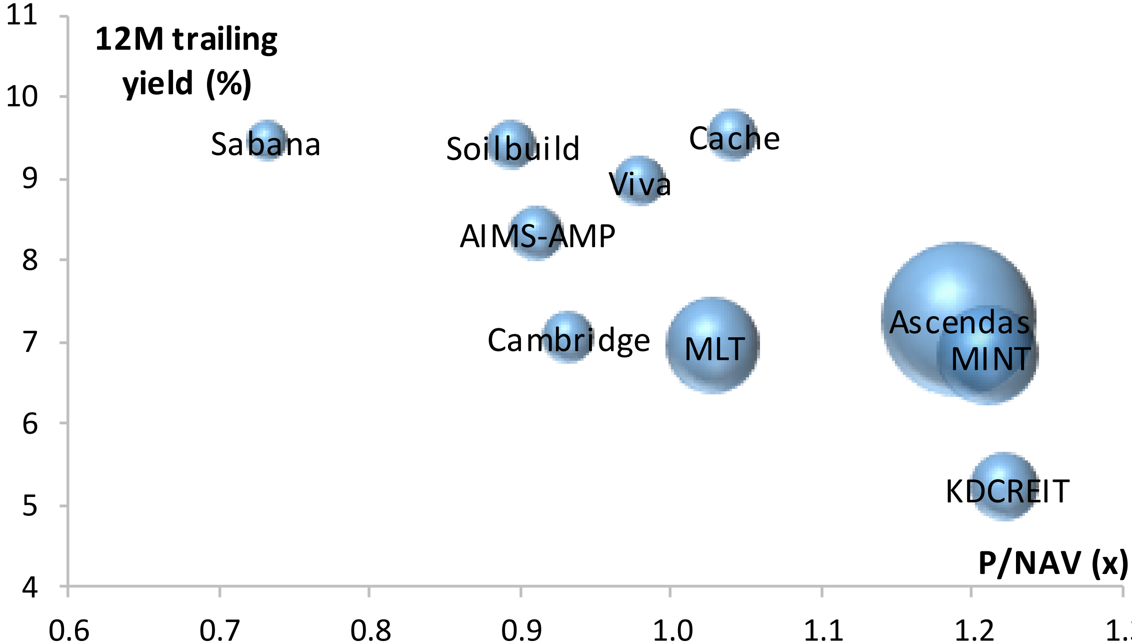
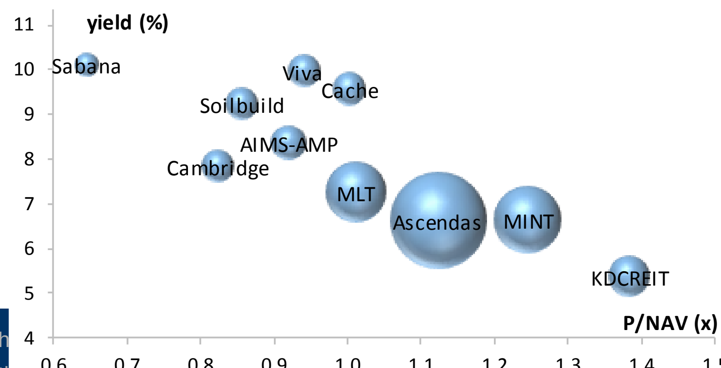
Figure 12. 12M trailing yield (%) vs. P/NAV (x)

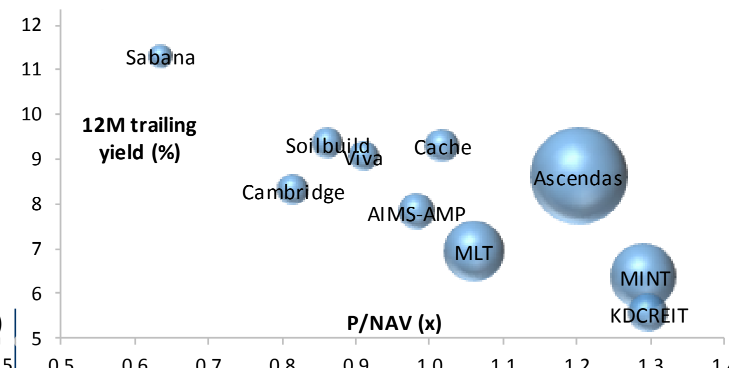


Source: Bloomberg (Updated: 17 February 2017), Phillip Securities Research (Singapore)



Source: Bloomberg (Updated: 10 November 2016), Phillip Securities Research (Singapore)

3. 12M trailing yield (%) vs. P/NAV (x)



Source: Bloomberg (Updated: 11 August 2016), Phillip Securities Research (Singapore)

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