



NikkoAM-StraitsTrading Asia ex Japan REIT ETF

Resilient dividends despite rate hikes

24 April 2024

SINGAPORE | ETF | INITIATION

- We value NikkoAM-StraitsTrading Asia ex Japan REIT ETF (AXJREITS) using a combination of historical dividend yield spread and price-to-book ratios. Using these two valuation methods, the target price are S\$0.80 and S\$0.84, respectively. Applying equal weightage to both valuations, we initiate coverage with an ACCUMULATE recommendation and target price of S\$0.82.
- AXJREITS gives exposure to 44 REITs across the Asia ex-Japan region. It is the largest REIT ETF listed in Singapore in terms of market cap and the only Singapore REIT ETF that pays dividends quarterly. This ETF offers investors stable income, attractive book value, and diversified, convenient, and efficient access to REITs across the Asian markets.
- We expect dividends from REITs to remain under pressure from higher interest rates. Due to interest rate hedges, effective interest rates will still creep up until 2025. In contrast, property valuations in Singapore have been stable, supported by transaction prices. Interest rate cuts can provide REITs the triple benefit of a yield that is more attractive to bonds, lower interest expenses, and increase valuations as cap rates compress. Hong Kong retail spending is recovering, supporting tenant sales and improving rent. However, the office market in Hong Kong remains challenging, with vacancies jumping to record levels. Rental reversion for offices in Hong Kong is expected to be negative in 2024.

ETF Background

The AXJREITS is an investment product that provides investors with exposure to a diversified portfolio of Real Estate Investment Trusts (REITs) listed across developed and emerging economies in Asia, including Singapore (73.6% of portfolio), Hong Kong (13.5%) and India (6.8%). It closely replicates the performance of the FTSE EPRA Nareit Asia ex Japan REIT 10% Capped Index. Established in 2017, AXJREITS comprises of 44 securities with a market cap of S\$350 mn as of 18 Apr 2024. Among the five REITs ETFs in Singapore, it is the largest in terms of market cap.

Investment Merits

- Investors gain the opportunity to participate in the potential income and capital appreciation generated by the Asian markets, offering convenient and efficient access to this segment of the real estate sector.
- Sustainable income over the years (Figure 2). AXJREITS dividends have been stable since its IPO, maintaining around 4 to 6 cents.
- The book value of the ETF has become more attractive over the last two years (Figure 6). It historically traded at a high of 1.2x price to book but now trades at a 10% discount to book.

ETF Benchmark

AXJREITS replicates as closely as possible the performance of the FTSE EPRA Nareit Asia ex Japan REITs 10% Capped Index, which is designed to track the performance of REITs in both developed and emerging markets in Asia excluding Australia, New Zealand, and Japan.

ACCUMULATE (Initiation)

CLOSING PRICE	SGD 0.754
CURRENT DIV	6.28%
TARGET PRICE	SGD 0.820
TOTAL RETURN	15.03%

ETF DATA

ETF NAME	NIKKOAM ST A EJP REITETF-SG
BLOOMBERG CODE:	AXJREIT SP
O/S SHARES (MN):	413
MARKET CAP (SGD MN):	311
52 - WK HI/LO (USD):	0.93 / 0.73
3M AVERAGE DAILY T/O (MN):	2.69
TRACKING ERROR (1YR %):	0.04
TRACKING ERROR (3YR %):	0.06
REBALANCE FREQUENCY	QUARTERLY
DIVIDEND FREQUENCY	QUARTERLY
MANAGEMENT FEE	0.50%
MANAGER	IKKO ASSET MANAGEMENT ASIA

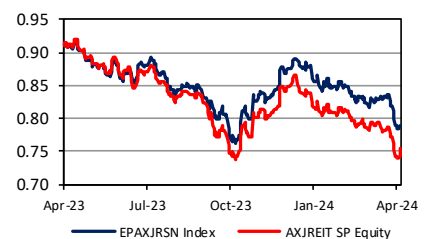
TOP THREE HOLDINGS

CapitaLand Ascendas REIT	9.5%
CapitaLand Integrated Commercial Trust	9.4%
Link REIT	8.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
ETF	(4.9)	(7.5)	(12.8)
EPAXJRSN INDEX	(3.3)	(6.3)	(10.1)

PRICE COMPARISON



Source: Bloomberg, P SR

KEY FINANCIALS

31st Dec	2021	2022	2023	Current
Dividend/unit (cents)	5.0	5.2	4.7	4.7
Price to Book Value (x)	0.77	0.76	0.84	0.9

Source: Bloomberg, P SR

VALUATION METHOD

Historical Dividend Yield Spread 50%, P/B(x) 50%

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Valuation

Dividend Yield Spread valuation

Dividend Yield measures the annual value of dividends received relative to the market price per unit of the ETF. To value AXJREITS, we will use the average dividend yield spread to a 10-year bond (Figure 4). Since its inception, AXJREITS has had an average 2.37% spread to a 10-year bond. The three-year average is 2.64%, and the current spread is 3.17%.

Figure 1: 10% Sensitivity analysis for Dividend Yield valuation of AXJREITS.

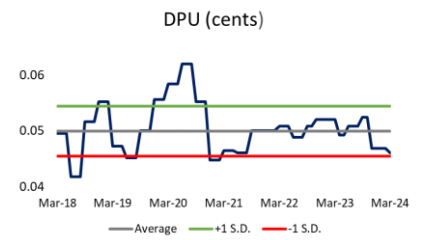
Dividend Yield Spread	Dividend		
	0.041	0.046	0.051
10.00%	0.69	0.77	0.84
5.00%	0.70	0.78	0.86
0.00%	0.72	0.80	0.88
-5.00%	0.74	0.82	0.90
-10.00%	0.76	0.84	0.92

Source: Bloomberg, PSR # We assume a cash component of 2%

We value AXJREITS at S\$0.80 at a 2.64% dividend yield spread, its 3-year average spread. We believe that is appropriate given the recent rise in interest rates.

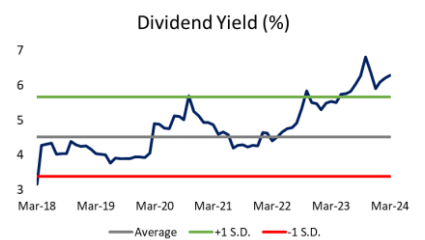
To determine the range of valuations, we applied a 5% and 10% discount and premium to both Dividend Yield Spread and Forward Dividend (Figure 1). At the bottom end of our valuation range, with a 10% higher projected dividend yield spread and a 10% lower forward dividend, the ETF price is S\$0.69 (Figure 1). At the top end of our valuation range, we use a 10% lower projection of Dividend Yield Spread and a 10% higher Forward Dividend, and the ETF price is S\$0.92.

Figure 2: Dividend distribution remains stable over the years



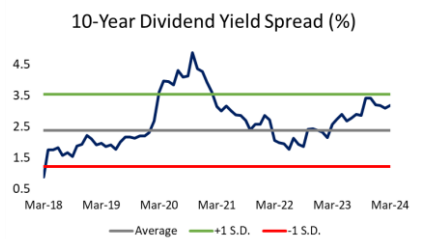
Source: Bloomberg, PSR

Figure 3: Dividend yield of AXJREITS trending upwards



Source: Bloomberg, PSR

Figure 4: Dividend yield spread of AXJREITS to 10 years bond relatively stable in recent years



Source: Bloomberg, PSR

Price-to-Book valuation

A company's book value is its total assets minus its total liabilities. We will be using the Price-to-Book ratio (Figure 7), which is calculated by weighting the average of ETF constituents' Price-to-Book ratios. AXJREITS has traded at an average P/B of 1.05x since its inception. The three-year average is 1.01x. The current P/B is 0.89x.

Figure 5: 10% Sensitivity analysis for Price-to-Book valuation of AXJREITS

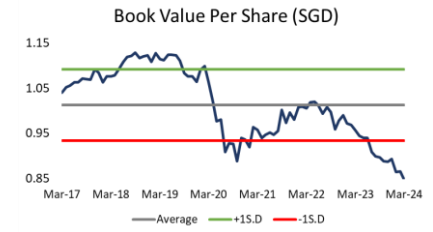
Book Value	P/B(x)		
	0.91	1.01	1.12
10.00%	0.83	0.93	1.02
5.00%	0.80	0.88	0.97
0.00%	0.76	0.84	0.93
-5.00%	0.72	0.80	0.88
-10.00%	0.68	0.76	0.83

Source: Bloomberg, PSR # We assume a cash component of 2%

We peg our valuation at 1.01x P/B, its 3-year average P/B. We believe that is appropriate to account for the recent rise in interest rates. On this basis, we value AXJREITS at S\$0.84 (1.01x P/B).

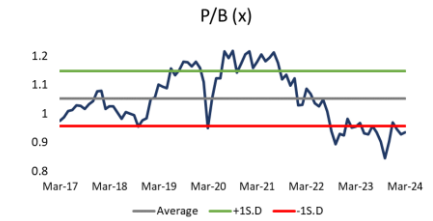
To determine the range of valuations, we applied a 5% and 10% discount and premium to both Book Value and P/B metrics (Figure 5). At the bottom end of our valuation range, with a 10% lower projected book Value and a 10% lower P/B of 0.91x, the ETF price is S\$0.68 (Figure 5). At the top end of our valuation range, we use a 10% higher projection of book value and a P/B of 1.12x, and the ETF price is S\$1.02.

Figure 6: Book Value per Share of AXJREITS



Source: Bloomberg, PSR

Figure 7: P/B of AXJREITS trending downwards

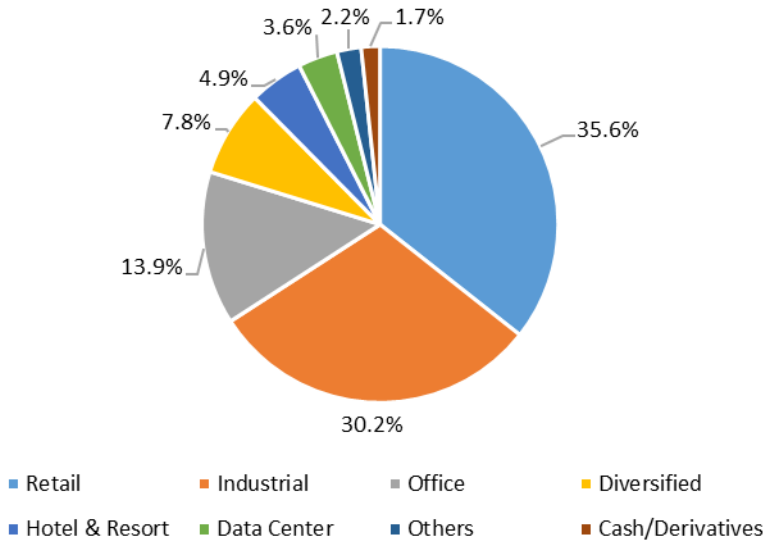


Source: Bloomberg, PSR

ETF Sub Industry Allocation

AXJREITS is well-diversified across industries and focuses on developed and emerging economies in Asia. The 44 REITs can be separated into eight different sectors, with the largest sector being retail at 35.6% and the second largest sector industrial at 30.2%. (Figure 8)

Figure 8: AXJREITS is well diversified across industries, the largest sector is the retail



Source: ETF issuer, PSR

Singapore S-REIT ETF Universe

Five REIT ETFs are listed on the SGX, each with a slightly different focus and composition. Here is their comparison at a glance.

Lion-Phillip S-REIT ETF

Lion-Phillip S-REIT ETF provides exposure to Singapore REITs. It is the only ETF that focuses exclusively on Singapore REITs.

NikkoAM-Straits Trading Asia Ex-Japan REIT ETF

NikkoAM-Straits Trading Asia Ex-Japan REIT ETF provides exposure to high-yielding REITs in Asia. It is the only Singapore REIT ETF focusing exclusively on Asia REITs and pays quarterly dividends.

Phillip SGX APAC Dividend Leaders REIT ETF

Phillip SGX APAC Dividend Leaders REIT ETF tracks the iEdge APAC Ex-Japan Dividend Leaders REIT Index, which weighs REITs based on their dividend yield. This makes it the best choice for investors looking for high dividend payments. The ETF focuses on APAC REITs, with a large country allocation to Australia.

CSOP iEdge S-REIT Leaders Index ETF

CSOP iEdge S-REIT Leaders Index ETF is the only ETF that offers exposure outside the APAC area. It tracks the performance of the iEdge S-REIT Leaders Index, which features the largest, most liquid, and tradeable REITs listed on SGX.

UOB Asia Pacific Green REIT ETF

UOB Asia Pacific Green REIT ETF is the world's first ETF that enables individuals to invest in green REITs across the APAC region with good sustainability performance

Figure 9 : Comparison between Singapore REIT ETFs (data as of 18 Apr 2024)

	Lion-Phillip S-REIT ETF	NikkoAM-Straits Trading Asia Ex-Japan REIT ETF	Phillip SGX APAC Dividend Leaders REIT ETF	CSOP iEdge S-REIT Leaders Index ETF	UOB Asia Pacific Green REIT ETF
Bloomberg Code	SREITS	AXJREIT (SGD)	PAREITS (SGD)	SRT (SGD)	GRN (SGD)
Underlying Index	Morningstar® Singapore REIT Yield Focus Index	FTSE EPRA Nareit Asia ex Japan REITs 10% Capped Index	iEdge APAC Ex-Japan Dividend Leaders REIT Index	CSOP iEdge S-REIT Leaders Index	iEdge-UOB APAC Yield Focus Green REIT Index
Dividend yield (12M)	6.2%	6.6%	5.8%	7.6%	4.2%
Expense Ratio (p.a.)	0.6%	0.6%	1.0%	0.6%	0.8%
Performance (YTD)	-11.2%	-12.4%	-2.6%	-12.7%	-6.0%
Fund size (AUM SGD)	338.1mn	349.8mn	11.4mn	65.7mn	58.7mn
Dividend frequency	Semi-annually	Quarterly	Semi-annually	Semi-annually	Irregular
Inception Date	30/10/2017	29/3/2017	20/10/2016	18/11/2021	23/11/2021
Lot Size	1 Unit / lot	1 Unit / lot	1 Unit / lot	1 Unit / lot	1 Unit / lot
No. of holdings	22	44	33	23	53
Top 5 holdings	CapitaLand Ascendas REIT 9.2%, Frasers Logistics & Industrial Trust 8.5%, Mapletree Logistics Trust 8.6%, CapitaLand Integrated Commercial Trust 9.5%, Mapletree Industrial Trust 9.2%	CapitaLand Ascendas REIT 9.6%, Link REIT 10.3%, CapitaLand Integrated Commercial Trust 9.9%, Mapletree Logistics Trust 6.5%, Mapletree Industrial Trust 6.0%	Link REIT 10.4%, Scentre Group: 8.6%, CapitaLand Integrated Commercial Trust 6.3%, Dexus 5.7%, Vicinity Ltd 5.3%	CapitaLand Ascendas REIT 10.4%, CapitaLand Integrated Commercial Trust 10.4%, Mapletree Logistics Trust 9.1%, Mapletree Industrial Trust 8.7%, Mapletree Pan Asia Commercial Trust 7.6%	Scentre Group 8.2%, CapitaLand Integrated Commercial Trust 7.4%, Stockland 6.4%, Mirvac Group 5.7%, Vicinity Ltd 5.7%
Geography Coverage	SG 100%	SG 73.6%, HK 13.5%, IND 6.8%, KR 2.7%, MY 1%, PH 0.7%, Others 0.7%	AU 52.5%, SG 34.8%, HK 11.5%	SG 100%	AU 41.7%, JP 29.1%, SG 24.2%, HK 4.8%
REIT Industry Allocation	Industrial 41.1%, Retail 19.0%, Office 11.5%, Diversified 8.7%, Specialized 8.5%, Health Care 5.4%, Hotel & Resort 3.7%	Retail 35.6%, Industrial 30.2%, Office 13.9%, Diversified 7.8%, Hotel & Resort 4.9%, Data Center 3.6%, Others 2.2%, Cash/Derivatives 1.7%	Diversified 30.9%, Retail 39.6%, Industrial 12.9%, Office 11.43%, Others 3.96%	Industrial 42.5%, Office 19.7%, Retail 18.4%, Data Centre 7.5%, Multi Asset 6.9%, Health Care 2%, Residential 1.9%, Hotel 1.2%	Retail 37.2%, Diversified 30.4%, Industrial 16.2%, Office 11.5%, Self-Storage 1.2%, Data Center 1.1%, Hotel & Resort 1.1%, Multi-Family Residential 0.5%, Others 0.7%

Source: ETF issuer, PSR

Risks

- **Fund is Not Actively Managed:** The Fund is not actively managed. There is no attempt to select REITs or stocks individually to outperform the market or take defensive positions in declining markets.
- **Tracking Error:** Factors such as the fund's fees and expenses, imperfect correlation between the Fund's assets and the Index Securities constituting the Index, rounding of REIT prices, changes to the Index, and regulatory policies may cause deviation from the Index and cause the fund to not fully track the index's performance.
- **Foreign Market Exposure:** Some of these REITs hold or invest in properties or real estate in other jurisdictions, hence exposure to Foreign Market Risk

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a fund's risk reward profile, market sentiment, recent rate of price appreciation, presence or absence of price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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