

Sector Update

Singapore REITs Monthly

Company Update

First REIT Keppel DC REIT

Weekly updates

China Phillip Weekly Musings

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S-REITs Monthly

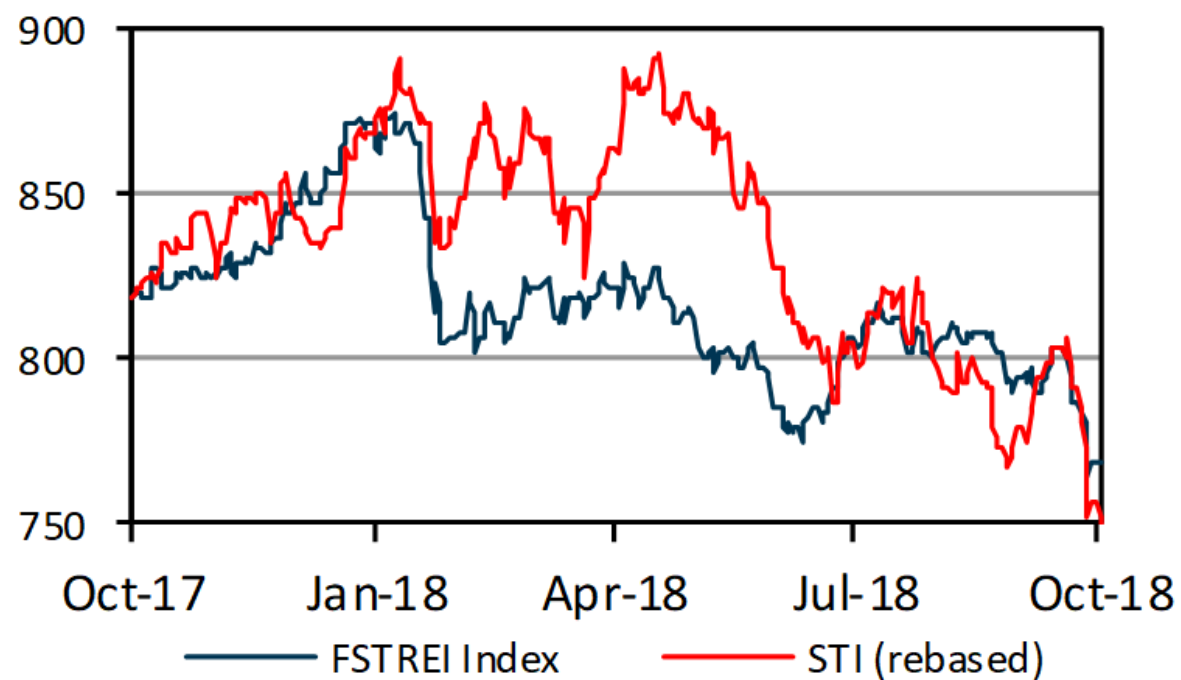
Monthly Tracker: October 2018

Tara Wong

Phillip Securities Research Pte Ltd

22 October 2018

FTSE S-REIT Index declined 5.8% YTD



	1M TH	3M TH	YTD	1YR
FSTREI RETURN	(3.1)	(2.9)	(5.8)	(0.1)
STI RETURN	(3.6)	(5.1)	(7.4)	(4.8)

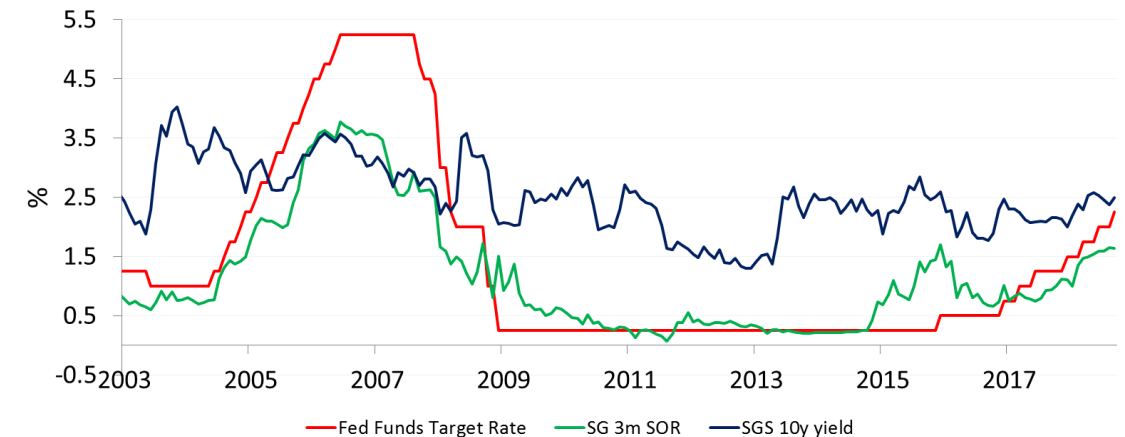
S-REIT yield spread compressed 5.87bps YTD in Sep

FTSE Straits Times REIT Index Yield Spread over 10YSGS



- **S-REIT dividend yield: 5.5%**
- **10YSGS yield: 2.50%**
- Current **yield spread** of 300bps remains close to the -1SD range (historical average: 358bps)
- Rising interest rates will be a headwind for S-REITs from a yield and interest expense perspective, but it does not necessarily lead to a bearish state as rental growth can be a mitigating tailwind.

Fed Fund Rates vs SG rates



- **3-month SOR: 1.63%**
- **Higher near-term financing costs largely mitigated** as 33 out of 40 of all S-REITs, have at least 70% of their debt hedged against interest rates

Sub-sector Snapshot

Retail	<ul style="list-style-type: none">▪ Jewel @ Changi Airport: 90% take-up rate for its retail component ahead of its launch in Mar 2019.▪ Funan: 70% and 60% take-up rate for its retail and office components, respectively – subsequent to this, news of one of its anchor tenants, Newstead Technologies, being in liquidation surfaced.▪ Retail sales (excl. motor vehicle sales) ticked up marginally by 2.4% YoY in August, with Fashion (+6.0% YoY) and Watches and Jewellery (+6.3% YoY) being some of the top contributors. The food and beverage (F&B) index was up 3.2% YoY in August.
Commercial	<ul style="list-style-type: none">▪ Core-flex model: SMEs in co-working spaces can choose to lease workspaces as they grow while conventional tenants have the option of flexible space if they need it.▪ CapitaLand had invested S\$27 million in co-working operator The Work Project Kingdom (TWPK), which will lease space at Capital Tower and Asia Square Tower 2 from CapitaLand Commercial Trust.
Industrial	<ul style="list-style-type: none">▪ Scheme of arrangement for the merger between ESR-Reit and Viva Industrial Trust (VIT) became effective and binding on Oct 15. VIT's stapled securities are expected to be delisted on Oct 22.<ul style="list-style-type: none">○ The enlarged trust will have combined portfolio of 56 properties, worth about S\$3.0 billion and spanning a total gross floor area of 13.6mn sqft.
Hospitality	<ul style="list-style-type: none">▪ RevPAR has been trending upwards YoY, up 5.53% to S\$202 in August, on both higher occupancy and average room rate. RevPAR is now at a 5-year high.▪ Historically, the months of July and August had clocked the highest monthly occupancy rates for the past three years (FY14-FY17).

Remain NEUTRAL on S-REITs sector

While S-REITs are currently trading below the -1SD level since the global financial crisis, strong rental growth should offset any adverse effects from rising interest rates.

Maintain Neutral on the S-REITs sector on declining tenant sales in the Retail sub-sector and slower-than-expected net absorption of Industrial space.

Top-down view

- We like the Office and Hospitality sub-sectors due to tapering supply after the surge in supply in the prior two to three years.
- Cautious on the Singapore Retail sub-sector as retail sales and shopper footfall both remain lacklustre, due to e-commerce competition.

Tactical bottom-up view (unchanged)

For investors with concerns on rising interest rates, look for REITs with:

1) Low gearing, 2) High-interest coverage, 3) Long weighted average debt to maturity, 4) A high proportion of debt on fixed interest rates

.....such as *CapitaLand Retail China Trust* (ACCUMULATE, TP:S\$1.66), and *Keppel DC REIT* (ACCUMULATE, TP:S\$1.45)

S-REITs under our coverage

	PSR RATING	PSR TARGET PRICE (S\$)
FIRST REAL ESTATE INVT TRUST	NEUTRAL	1.31
CAPITALAND MALL TRUST	NETURAL	2.05
FRASERS CENTREPOINT TRUST	NEUTRAL	2.15
CAPITALAND RETAIL CHINA TRUST	ACCUMULATE	1.66
DASIN RETAIL TRUST ¹	ACCUMULATE	0.97
CAPITALAND COMMERCIAL TR	ACCUMULATE	1.88
ASCENDAS REAL ESTATE INV TR	ACCUMULATE	2.82
MAPLETREE INDUSTRIAL TRUST	NEUTRAL	2.09
KEPPEL DC REIT	ACCUMULATE	1.45
CACHE LOGISTICS TRUST	NEUTRAL	0.82

Source: PSR

¹ Covered by PSR under the 'SGX Stockfacts' scheme

S-REITs Universe

	Mkt. Cap. (S\$mn)	Price (S\$)	PSR RATING	PSR TARGET PRICE (S\$)	P/NAV	Trailing yield (%)	Total Returns 1M (%)	Total Returns YTD (%)	Gearing (%)	Approximate % of debt on fixed rate	ROE (%)	All-in borrowing cost (%)	% debt expiring in 2018/current FY	% debt expiring in 2019/next FY
Healthcare														
PARKWAYLIFE REAL ESTATE	1,646	2.720	NEUTRAL	1.31	1.5	5.0	(5.5)	(10.4)	38.1	99.0	9.6	0.93	4.5	7.2
FIRST REAL ESTATE INVT TRUST	975	1.240			1.2	7.3	(4.9)	(11.8)	34.2	60.7	8.8	4.00	20.4	2.0
Average					1.33	6.14	-5.18	-11.07	36.15	79.85	9.20	2.47		
Hospitality														
ASCOTT RESIDENCE TRUST	2,357	1.090			0.9	6.6	0.0	(7.0)	35.7	84.0	5.6	2.30	9.0	7.0
CDL HOSPITALITY TRUSTS	1,855	1.540			1.0	6.2	(1.9)	(4.2)	33.2	66.3	8.5	2.40	10.5	32.4
FAR EAST HOSPITALITY TRUST	1,196	0.640			0.7	6.5	(4.7)	(12.3)	40.3	46.9	1.5	2.50	14.7	9.7
OUE HOSPITALITY TRUST	1,265	0.695			0.9	7.3	(3.5)	(15.1)	38.7	71.0	5.6	2.30	0.0	0.0
FRASERS HOSPITALITY TRUST	1,262	0.675			0.9	7.1	0.0	(9.2)	34.0	87.8	11.2	2.60	13.9	45.2
ASCENDAS HOSPITALITY TRUST	906	0.800			0.8	7.5	(1.9)	(5.1)	30.8	90.5	16.0	2.60	3.6	30.6
Average					0.86	6.87	-2.00	-8.81	35.45	74.42	8.05	2.45		
Retail														
CAPITALAND MALL TRUST	7,524	2.120	NETURAL	2.05	1.0	5.3	(1.9)	2.2	31.5	93.0	9.4	3.10	0.0	12.1
MAPLETREE NORTH ASIA COMM	3,601	1.140			0.8	6.8	(3.5)	(5.3)	38.8	90.0	15.1	2.44	4.0	7.0
SPH REIT	2,572	1.000			1.1	5.5	0.5	(0.8)	26.3	69.8	5.7	2.85	23.5	31.3
FRASERS CENTREPOINT TRUST	2,094	2.260	NEUTRAL	2.15	1.1	5.4	(1.8)	3.7	29.3	55.0	11.0	2.40	11.7	14.8
STARHILL GLOBAL REIT	1,560	0.715			0.7	6.8	(6.3)	(9.4)	35.5	96.0	5.2	3.13	0.0	9.8
CAPITALAND RETAIL CHINA TRUST	1,377	1.420			0.8	7.2	(2.8)	(11.8)	32.1	80.0	10.0	2.48	0.2	25.0
LIPPO MALLS INDONESIA RETAIL	756	0.265			0.9	11.4	(7.5)	(34.9)	36.0	45.2	5.9	5.53	43.1	0.0
BHG REIT	357	0.710			0.8	7.9	(1.4)	0.1	31.8	NA	5.2	4.10	NA	NA
DASIN RETAIL TRUST ¹	473	0.850			0.6	9.1	0.6	6.0	31.5	NA	NA	4.80	0.6	35.0
SASSEUR REIT	832	0.705			NA	2.3	(4.9)	NA	33.2	NA	NA	5.40	NA	NA
Average					0.87	6.78	-2.90	-5.59	32.60	75.57	8.42	3.62		

S-REITs Universe

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Commercial														
CAPITALAND COMMERCIAL TR	6,552	1.750	ACCUMULATE	1.88	0.9	5.0	(4.5)	(8.3)	37.9	85.0	8.8	2.80	0.0	11.0
SUNTEC REIT	4,935	1.850			0.8	5.6	(4.3)	(14.0)	36.5	70.0	4.6	2.74	17.0	22.5
KEPPEL REIT	4,021	1.180			0.8	5.1	(3.4)	(6.3)	39.1	76.0	3.5	2.80	0.0	20.1
MAPLETREE COMMERCIAL TR	4,706	1.630			1.1	5.7	(3.7)	1.6	34.7	75.3	13.8	2.91	6.0	11.0
FRASERS COMMERCIAL TRUST	1,262	1.420			0.9	6.8	(0.7)	(1.3)	35.4	81.0	7.1	3.05	6.7	19.3
OUE COMMERCIAL REIT	930	0.600			0.6	13.2	(11.7)	(21.0)	40.3	74.1	10.1	3.50	35.0	0.0
MANULIFE US REIT	1,018	0.800			0.9	7.1	(2.5)	(7.8)	37.3	100.0	7.0	3.27	0.0	16.4
KEPPEL-KBS US REIT	505	0.800			NA	5.2	(10.9)	(15.1)	33.1	75.0	NA	3.35	0.0	0.0
CROMWELL EUROPEAN REIT	915	0.580			NA	4.5	(4.3)	4.3	34.8	85.4	NA	1.46	0.0	8.0
IREIT GLOBAL	473	0.750			1.1	7.9	(2.0)	2.9	38.6	90.0	11.0	2.00	0.0	49.9
<i>Average</i>					0.89	6.61	-4.80	-6.49	36.77	81.18	8.24	2.79		
Industrial														
ASCENDAS REAL ESTATE INV TR	7,531	2.570	ACCUMULATE	2.82	1.2	6.3	(3.1)	(2.7)	33.6	88.1	8.0	2.90	13.4	13.4
MAPLETREE INDUSTRIAL TRUST	3,755	1.990	NEUTRAL	2.09	1.3	6.1	(3.0)	(1.2)	35.0	77.9	11.5	2.90	14.1	20.7
MAPLETREE LOGISTICS TRUST	4,100	1.260			1.1	6.3	(0.9)	(1.7)	36.4	82.0	15.7	2.40	0.0	10.0
KEPPEL DC REIT	1,811	1.340	ACCUMULATE	1.45	1.3	5.3	(0.7)	(2.2)	31.7	86.0	6.1	2.10	1.9	19.0
AIMS AMP CAPITAL INDUSTRIAL	974	1.420			1.0	7.6	(4.3)	3.5	33.6	88.1	6.7	3.60	0.0	16.2
CACHE LOGISTICS TRUST	799	0.745	NEUTRAL	0.82	1.0	8.5	(4.1)	(12.2)	35.3	61.7	3.5	3.50	3.7	32.9
SOILBUILD BUSINESS SPACE REIT	607	0.575			0.9	9.4	(1.7)	(9.0)	37.6	65.4	(4.2)	3.20	30.9	8.3
SABANA SHARIAH COMP IND REIT	421	0.400			0.8	7.9	3.8	11.4	38.2	71.8	0.3	4.00	0.0	35.4
VIVA INDUSTRIAL TRUST	866	0.890			1.2	8.0	0.0	2.8	41.0	82.0	5.8	4.00	18.7	0.0
ESR REIT	800	0.505			0.7	5.5	(3.0)	(8.7)	30.5	90.6	0.4	3.75	30.8	21.3
EC WORLD REIT	533	0.675			0.8	8.6	2.2	(2.7)	28.9	100.0	6.6	4.50	N.A.	N.A.
FRASERS LOGISTICS & INDUSTRIAL	2,167	1.080			1.1	7.1	(5.5)	(6.6)	36.3	81.0	7.3	2.90	0.0	27.6
<i>Average</i>					1.04	7.23	-1.69	-2.43	34.84	81.22	5.64	3.31		

Source: Bloomberg (Updated 17 October 2018), Debt data from latest available Company Results, PSR

¹ Covered by PSR on the SGX Stockfacts Scheme

First REIT

Waiting for a sign

Tara Wong

Phillip Securities Research Pte Ltd

22 October 2018

First REIT

NEUTRAL, TP: \$1.30 (prev \$1.31), Last: \$1.18

Results at a glance

(SGD mn)	3QFY18	3QFY17	YoY (%)	Comments
Gross Revenue	29.24	27.81	5.1%	Contribution from the two properties (Buton and SHYG) acquired in FY17.
Net Property Income	28.94	27.47	5.4%	Higher expenses due to new acquisitions, progress payment for development of new Siloam Hospitals Surabaya in 3Q 2017 and write-off of unamortised loan costs.
Distributable Income	16.94	16.70	1.4%	
DPU (Cents)	2.15	2.14	0.5%	

Source: Company, PSR

The Positives

- Lower property operating expenses
- Potential expanded ROFR pipeline and improvement in tenant concentration

The Negatives

- Receivables collection remains slow, despite S\$17.5mn of rental payments being received on Oct 15, as disclosed by FIRT.

Outlook

- Outlook has improved from a potential positive spillover effect into rentals owed by LPKR but it remains to be seen if there could be any marked improvement in the near-term.
- Current gearing of 36.7% affords a debt headroom of c.S\$44.5m (assuming 40% gearing) to pursue inorganic growth.

Keppel DC REIT

Portfolio remains stable

Richard Leow

Phillip Securities Research Pte Ltd

22 October 2018

Keppel DC REIT

(Accumulate, TP: \$1.45, DPU: 7.04 cents (5.2%) , Last: \$1.35)

Results at a glance

(SGD mn)	3Q18	3Q17	YoY	Comments
Gross revenue	47.6	35.5	34.0%	Contribution from KDC SGP 5 (acquired June 12, 2018), maincubes DC (acquired March 30, 2018) and KDC DUB 2 (acquired Sept. 13, 2017)
Net property income	43.0	32.3	33.4%	40% higher property-related expenses from the acquisition of KDC SGP 5 and KDC DUB 2
Distributable income	26.0	20.2	29.0%	
DPU (cents)	1.85	1.74	6.3%	20% larger unit base, effect of Private Placement in May 2018

Source: Company , PSR

The Positives

- Operationally stable
- Stable and predictable cash flow due to limited renewal risk until 2020 and hedging of foreign-sourced distributions
- Low aggregate leverage of 32.0% and no refinancing for the remainder of 2018

Outlook: positive

- Demand remains robust. Healthy occupancy at larger operators; smaller boutique operators tough

Rich valuation at 1.36 times FY18e P/NAV multiple

The Negatives

- Cash available for distribution to unitholders has been lowered by Capex Reserves

China Last Week

Jieyuan Zheng

Phillip Securities Research Pte Ltd

22 October 2018

Macro Last Week

- **Fiscal Policy:** 1. Oct. 16th: The State Council approved the establishment of Hainan free trade pilot area.
2. Oct. 20th: China released a detailed draft plan for personal income tax cuts
Focus: Cost reduction, Boost Consumption
- **Monetary policy:** Reverse repo 30 billion; Treasury fixed deposit expiration 150 billion; MLF returned to maturity at 498 billion; central bank **returned net of about 600 billion**
Highlight: Helping private enterprises financing
- **Economic indicators:** CPI: 2.5% meet expectation (2.5%), compared to August 2.3%
PPI: 3.6% higher expectation (3.5%), compared to August 4.1%
GDP: 6.5% below expectation (6.6%), compared to Q2 6.7%

Corporate

- **Want Want China(0151.HK): HK Recommendation:** Buy; HK PSR target price HKD 6.58
- **Chinasoft International (0354.HK) : HK Recommendation:** Buy; HK PSR target price HKD 5.53
- **Huayu Auto (600566.CH): HK Recommendation:** Accumulate; HK PSR target price CNY 42.2

Week 43 - Phillip Weekly Musings

Paul Chew

Phillip Securities Research Pte Ltd

22 October 2018

Week 43 – Short-term Views

Macro Last Week

- **FOMC Minutes (25-26Sep meeting):** most officials expect 3 rate hikes in 2019; neutral rate seem to be between 2.75%-3%; need to raise above neutral to restrictive to avoid inflation overshooting target;
- **Italy downgrade:** Moody's downgrade Italy to Baa3 due to weak fiscal strength, last notch of investment grade, raise interest borrowing cost and hurt bank balance sheet, ECB cannot buy non-investment grade; low tail risk; Italy-German spread at 5-year highs
- **SG macro:** retail sales still lifeless; exports in September healthy due to 23% spike in chemicals;

Corporate/Sector Last Week

- **SG property measures:** increase in minimum average size from 70sqm to 85 sqm; 9 areas 100 sqm; development applications after 17Jan19; fewer and larger units; 10% bonus area drop to 7%
- **SPH:** dividend cut from 15cts to 13cts (FY14 DPS was 21cts, ordinary dividends down >40% since 2012); exposed to ~\$100mn classifieds and recruitment revenue vs S\$200mn operating earnings;

Tactical

- Cautious backdrop in October: mid-term elections + global growth slowing down + Italian noise
- Defensive dividend stock: SGX; STI valuations have turned attractive

Week(s) Ahead

- 26Oct: US 3Q18 GDP / S&P rating on Italy/ Singapore IPI
- 4Nov: Iran oil ban / 6Nov: US mid-term election

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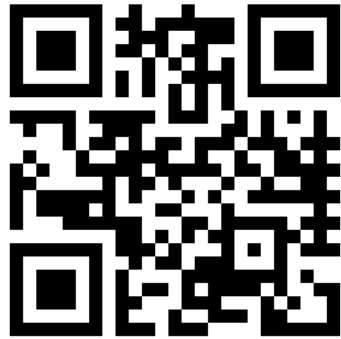
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