

Singapore REITs Monthly: Sep23

Repositioning for the Fed pause



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SINGAPORE | REAL ESTATE (REIT) | UPDATE

- S-REITs Index fell 3.2% MoM, with the bulk of the losses coming in the last 2 weeks after the FOMC held interest rates unchanged and indicated that rates will likely remain higher for longer.
- S-REITs are now trading at a forward dividend yield of c.6.4%, 0.5 s.d. above the mean of 6.1% and a P/NAV of 0.86x, 2.0 s.d. below the mean of 1.03x. We think this could signal an attractive opportunity to reposition into S-REITs for the eventual interest rate pause and decline.
- We remain OVERWEIGHT on S-REITs but are more selective. We prefer REITs with a healthy balance sheet, strong sponsor and improving operating metrics such as the hospitality and retail sub-sector. Catalysts are expected from pick-up in the economy and asset recycling. Top picks are CapitaLand Ascott Trust (CLAS SP, ACCUMULATE, TP S\$1.20) and Frasers Centrepoint Trust (FCT SP, ACCUMULATE, TP S\$2.35).

SECTOR ROUND-UP

The FOMC held the federal funds rate unchanged at 5.25-5.5% on 20 Sep 23, and Fed policymakers at the median still see another 25bps hike by the end of this year. However, the updated dot plot shows rates falling by only half a percentage point in 2024. This compares with the full percentage point decrease anticipated at the meeting in June, indicating that interest rates are likely to remain higher, for longer. The decline c.5% for the S-REITs Index since the meeting suggests that part of this has already been priced in.

EC World REIT (ECWREIT SP Equity, Not Rated) has been suspended from trading since 31 Aug for not meeting its financing obligations. It has also updated that it will be unable to make distributions to unitholders and that the payment will be deferred to a later date when it has sufficient free cash. ECW Group are owed more than RMB148.8mn in overdue rent by its sponsor Forchn Holdings Group.

CapitaLand Ascott Trust's (CLAS SP, TP S\$1.20) share price has experienced a decline of c.10% from its preferential offering price of S\$1.025, which was undersubscribed at 64.7%, including excess rights. The joint lead managers, bookrunners and underwriters subscribed for the remaining portion that was not subscribed. Together with the S\$200mn raised through the private placement at S\$1.043, gross proceeds of S\$303.1mn was raised from this equity fundraising – 56.1% of which will be used to fund the c.1.8% DPU accretive acquisition of S\$530.8mn in assets. Considering CLAS's share price's post-issue performance in this weak market, we believe REITs will hold off any equity fund-raising plans in the foreseeable future, unless as a last resort to reduce leverage, or a highly promising acquisition opportunity arises.

Retail

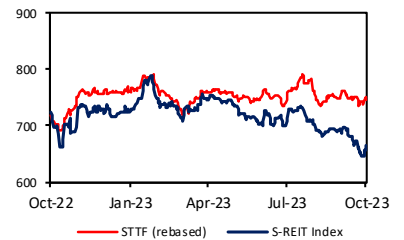
Aug 23 retail sales index (excluding motor vehicles) grew 3.7% YoY, extending the 0.6% growth the previous month and is now at 11.3% above Aug 19 pre-COVID levels. Most sectors recorded YoY growth, with food & alcohol (+24.1%) being the outperformer due to increased sales of alcoholic products while department stores (-5.2%) was the laggard. Excluding motor vehicles, 13.8% of total retail sales were from online channels. The F&B services index grew 8.6% YoY in Aug 23 with food caterers (+29.8%) experiencing the largest growth due to increased gatherings. We believe the gradual increase in international visitor arrivals will help to underpin retail sales growth going forward.

OVERWEIGHT

INDEX RETURN (%)

	1MTH	3MTH	YTD	1YR
S-REIT Index	(3.2)	(5.7)	(7.3)	(8.8)
STTF RETURN	(0.9)	(1.9)	(1.9)	5.0

S-REIT Index VS. STTF



10-year SGS (%) & 3-month SOR (%)



Source: Bloomberg, PSR

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Hospitality

Singapore's international visitor arrivals grew 45% YoY in Sep 23 to 1.13 mn, dipping from 1.31 mn in Aug 23 due to a drop in seasonal tourism demand post mid-year school holidays. It is still at 23% below pre-COVID September 2019. Indonesia is the top source of visitors to Singapore in Sep 23, followed by China, Australia, and Malaysia respectively. We expect China to regain its top position as a source country to Singapore as outbound travel from China continues to recover. Additionally, it's worth noting that this year's F1 Singapore Grand Prix in September saw a decline in visitors, with 264k attendees compared to a record high of 302k from the previous year, partly due to the closure of the Bay Grandstand. RevPAR, although down 7% MoM from its all-time highs of S\$261 in Jul 23 due to seasonality, grew 26.5% YoY in Aug 23 to S\$244 on the back of higher room rates and occupancy.

INVESTMENT RECOMMENDATION

OVERWEIGHT on SREITs

With the share price correction following the recent FOMC meeting, S-REITs are now trading at a forward dividend yield of c.6.4%, 0.5 s.d. above the mean of 6.1% (Figure 4) and a P/NAV of 0.86x, 2.0 s.d. below the mean of 1.03x (Figure 3). We think this could signal an attractive opportunity to reposition into SREITs for the eventual interest rate pause and decline. However, we think it will remain challenging for S-REITs (apart from the hospitality sub-sector) to grow DPU with higher borrowing costs and forex headwinds expected.

Bloomberg consensus forecasts 2023/24 SG10Y yields at 2.97% and 2.83% respectively. The dividend yield spread at 3% is 1.4 s.d. below the mean of 4% (Figure 2) due to the recent spike in the SG10Y yields to 3.4%. We see yield spread widening as the SG10Y yield starts to soften.

Sub-sector preferences: Hospitality and Retail

We think the hospitality sub-sector will be able to generate the most DPU growth on the back of higher RevPAR and the gradual reopening of China as outbound flight capacity from China increases. Suburban retail offers resiliency in a downturn while downtown retail stands to benefit from the recovery of international visitor arrivals, which will in turn lift tenant sales and sentiment.

Retail (OVERWEIGHT). With tenant sales still growing YoY and higher than pre-COVID levels, we believe the potential for positive rental reversions are still intact for both downtown and suburban malls. Downtown malls benefit the most from reopening as international visitor arrivals pick up, while suburban malls which focuses on essential services remain resilient in a downturn. There is also very little new supply hitting the market. Return to office and a pick-up in major events held in Singapore should continue to lift tenant sales and return confidence back to retailers.

Office (NEUTRAL). We think core CBD Grade A office rents at \$11.80 psf pm in 2Q23 will come under pressure as more supply comes into the market in 2024 from IOI Central Boulevard Towers (1.2mn sq ft) and Keppel South Central (600k sq ft). We are also cautious that more downsizing could occur as companies reassess their office space needs from hybrid work arrangements, leading to oversupply in the near term. Furthermore, cap rates of around 3.5% for office properties in Singapore means there is negative carry. We are keeping a watch on office property valuations, especially US office properties.

Industrial (Neutral). Industrial S-REITs share prices YTD rise of 2.2% held up as the only sub-sector that is positive. As a result of its strong share price performance, its forward dividend yield of c.6% is lagging other S-REITs of c.6.4%. Industrial REITs, however, still benefit from the secular growth of new economy tenants such as tech, life sciences, biomedical, semi-con and electronics manufacturing, which typically locate themselves in high-spec, science and business parks and warehouses. Furthermore, warehousing demand remains strong with demand coming from many third-party logistics businesses.

Hospitality (OVERWEIGHT). Aug 23 revenue per available room (RevPAR) jumped 26.5% YoY on the back of higher occupancy and average daily rates, exceeding pre-COVID 19 levels by 17%. With average daily rates already surpassing pre-COVID 19 levels, the future growth in RevPAR will primarily come from higher occupancy. Additionally, the influx of MICE and entertainment events in Singapore will further boost this sector. We believe the hospitality sub-sector has the most potential for DPU growth as its increase in revenue can more than offset any rise in interest expense and operating costs.

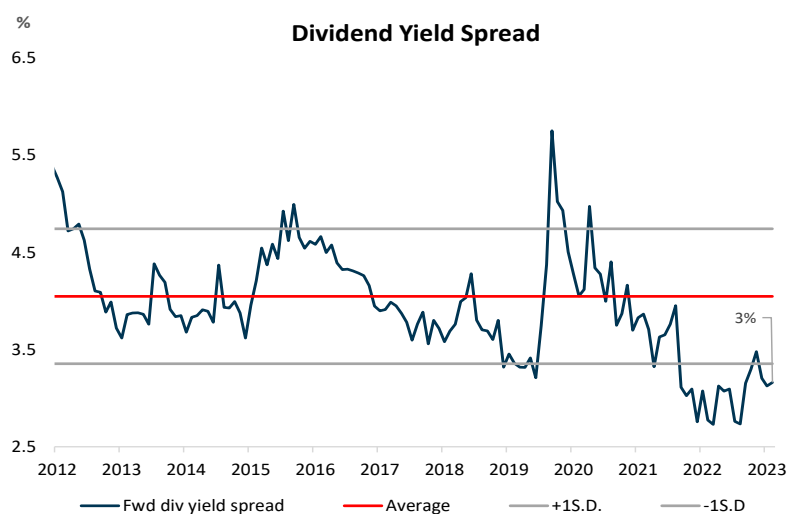
Figure 1: Our stock recommendations

	3M Daily Average Volume (mn)	Share Price S\$	P/NAV (x)	PSR Rating	Target Price S\$	FY20 DPU cents	FY21 DPU cents	FY22 DPU cents	FY23e DPU cents	FY24e DPU cents	FY23e DPU Yield	Total return
CapitaLand Ascott Trust	8.2	0.92	0.80	ACCUMULATE	1.20	3.03	4.32	5.67	6.26	6.86	6.8%	37.2%
Frasers Centrepoint Trust	2.4	2.11	0.91	ACCUMULATE	2.35	9.02	12.09	12.23	12.19	12.67	5.8%	17.2%
Keppel DC REIT	3.2	2.03	1.46	NEUTRAL	2.26	9.17	9.85	10.21	9.91	10.29	4.9%	16.2%
Lendlease Global Commercial	8.0	0.52	0.66	BUY	0.86	4.68	4.85	4.70	4.38	4.63	8.4%	73.8%
Prime US REIT	3.0	0.12	0.16	BUY	0.39	6.94	6.78	6.55	4.92	5.30	42.1%	275.4%
Sasseur REIT	0.7	0.65	0.78	BUY	0.90	6.55	7.10	6.55	6.45	6.61	9.9%	48.4%
Suntec REIT	5.3	1.14	0.54	BUY	1.47	7.40	8.67	8.88	6.83	7.29	6.0%	34.9%

Note: 3M Daily Average Volume is calculated based on the total volume over the last three trading months divided by the number of trading days within the period

Source: Bloomberg (Updated: 13 October 2023), Company Results/Prospectuses, PSR

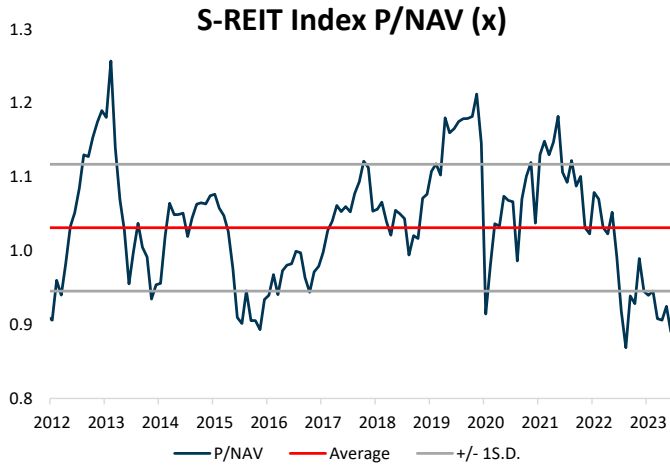
Figure 2: Dividend Yield Spread at 3% and -1.4 s.d.



Dividend yield spread has fallen to 3% and -1.4 s.d. from the mean due to the recent spike in SG10Y.

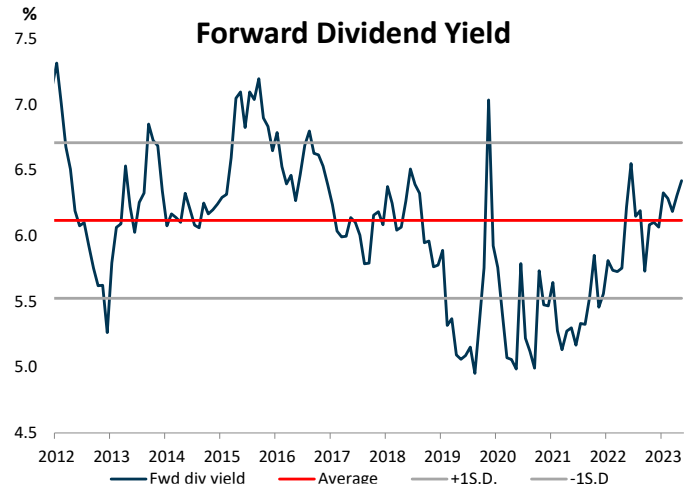
MACROECONOMIC ENVIRONMENT

Figure 3: P/NAV of 0.86x is at -2 s.d.



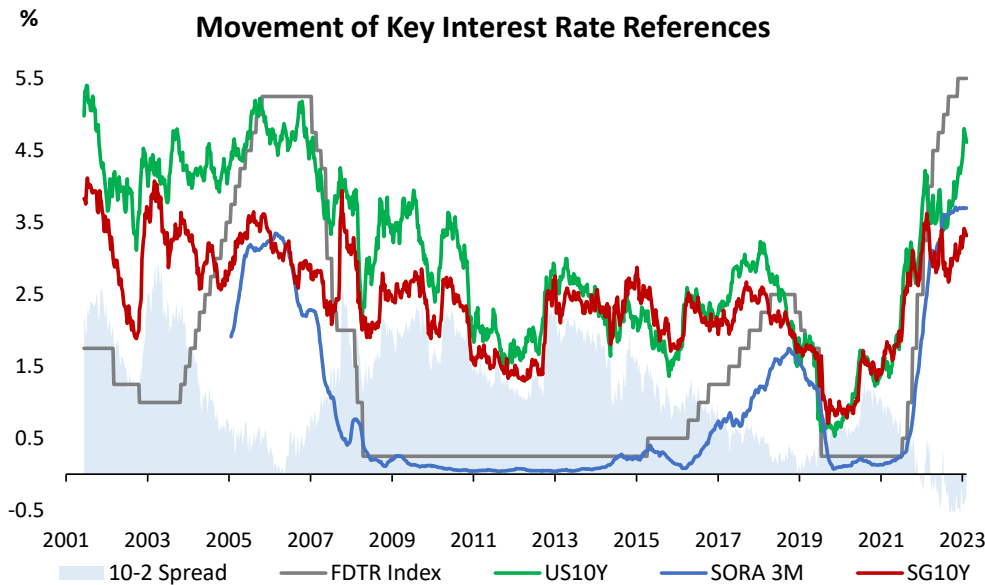
Source: Bloomberg, Phillip Securities, Research

Figure 4: Forward dividend yield of 6.4% is at +0.5 s.d.



Source: Bloomberg, Phillip Securities Research

Figure 5: Fed Funds rates vs Singapore interest rates



Source: Bloomberg, PSR

10YSGS yield rose 26bps and fell 8bps MoM and YoY respectively in Sep23 while 3MSORA was up 1bps and 173bps MoM and YoY respectively.

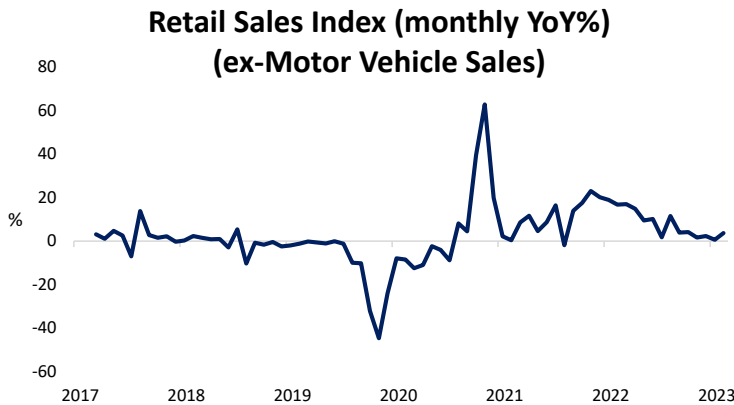
(in %)	SG10Y	3MSORA
29 Sep 2023	3.40	3.71
3Q23 Average	3.19	3.69
2Q23 Average	2.87	3.62
10Y Ave. (2013-2023)	2.13	0.75

Source: Bloomberg, PSR

Bloomberg consensus forecasts that 10YSGS yields will fall to 2.97% and 2.83% by end 2023 and 2024 respectively.

SUBSECTOR MONTHLY INDICATORS

Figure 6: Aug 23 RSI up 3.7% YoY



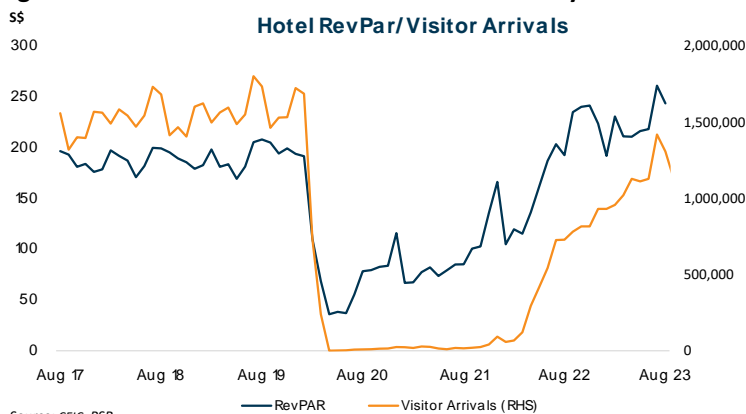
Source: CEIC, PSR

in %	RSI (excl. motor vehicles)	RSI (Dept stores)	RSI (Supermarkets)	RSI (Fashion)	F&B Services Index
Aug-23	3.7	-5.2	1.1	6.7	8.6
Aug-22	16.8	45.1	-5.8	64.9	40.5

August-23 RSI (ex. MV) climbed 3.7% YoY, extending the 0.6% growth in July-23.

Food & alcohol recorded the largest growth of 24.1% YoY mainly due to increased sales of alcoholic products, while department stores and petrol service stations recorded YoY declines in sales of 5.2% and 2.7% respectively.

Figure 7: Tourist arrivals and hotel RevPAR recovery



Source: CEIC, PSR

	Visitor Arrivals		Hotel RevPAR (S\$)	Hotel Occupancy (%)	Hotel Average Room Rate (S\$)
Sep-23	1,130,755	Aug-23	244	85.8	284
Sep-22	782,215	Aug-22	193	77.0	250
YoY%	44.6%	YoY%	26.5%	8.8 ppts	13.6%

August-23 RevPAR and September-23 international visitor arrivals is +17% and -23% of pre-COVID August-19 levels respectively.

Figure 91: S-REIT universe

REIT INDEX	Mkt. Cap. (\$5mn)	3M Daily Average Volume	Price (\$)	% of REIT Market Cap	PSR RATING	PSR Target Price (\$)	P/NAV	Trailing yield (%)	Returns 1M (%)	Returns YTD (%)	Gearing (%)	ROE (%)	WALE by		Adjusted Interest Coverage Ratio (x)	Cost of Debt (%)	% of debt on fixed rate	% debt expiring in current FY	% debt expiring in next FY
													GRI (years)	NLA (years)					
REIT INDEX	n.a.	151.1	657	n.a.			0.8	5.7	(3.2)	(7.3)	37.4	n.a.					75.9	6.1	16.8
SINGAPORE REITS																			
Healthcare																			
PARKWAYLIFE REAL ESTATE	2,232	0.4	3.69	2.5%			1.6	4.0	(3.9)	(1.9)	36.4	2.8	16.7	-	13.8	1.2	77.0	7.0	20.4
Hospitality																			
CAPITALAND ASCOTT TRUST	3,458	8.2	0.92	3.9%	ACCUMULATE	1.20	0.8	4.7	(1.0)	(8.6)	39.2	5.4			4.3	2.3	80.0	13.0	19.0
CDL HOSPITALITY TRUSTS	1,269	2.2	1.02	1.4%			0.7	6.0	1.0	(16.8)	39.1	11.3			3.2	4.1	47.9	7.6	32.4
FRASERS HOSPITALITY TRUST	963	1.0	0.50	1.1%			0.8	4.4	6.3	13.5	36.4	5.8			3.6	3.0	73.8	0.0	30.0
FAR EAST HOSPITALITY TRUST	1,200	1.3	0.60	1.3%			0.7	6.1	0.0	2.4	28.9	9.9			3.6	3.2	47.2	17.0	21.0
Average				7.7%			0.8	5.1	0.5	(5.1)		7.3			3.8	2.8			
Retail																			
FRASERS CENTREPOINT TRUST	3,605	2.4	2.11	4.0%	ACCUMULATE	2.35	0.9	5.7	(2.2)	4.3	40.2	5.5	1.9	2.0	3.9	3.7	63.0	17.1	22.8
PARAGON REIT	2,339	1.0	0.83	2.6%			0.8	5.9	(7.2)	(7.2)	29.9	-	3.0	5.3	3.4	4.1	85.0	7.3	18.0
STARHILL GLOBAL REIT	1,094	1.8	0.49	1.2%			0.6	7.8	0.0	(10.2)	36.6	4.9	4.3	6.5	3.1	3.7	84.0	0.2	20.4
Average				7.9%			0.8	6.1	(3.5)	(1.8)		3.5			3.6	3.8			
Commercial																			
KEPPEL REIT	3,129	7.4	0.83	3.5%			0.6	7.0	(1.2)	(6.0)	39.2	5.6		5.7	3.0	2.8	76.0	2.0	22.0
Industrial																			
CAPITALAND ASCENDAS REIT	11,811	12.0	2.69	13.2%			1.2	5.7	(0.7)	0.4	38.0	7.2	3.9	-	4.1	3.3	81.5	13.5	13.3
MAPLETREE LOGISTICS TRUST	7,887	12.9	1.59	8.8%			1.1	5.0	0.0	5.7	37.0	7.6		3.1	3.3	2.5	82.0	5.0	13.0
MAPLETREE INDUSTRIAL TRUST	6,317	4.4	2.23	7.1%			1.1	5.5	(1.7)	1.8	33.7	5.0	3.9	-	4.4	3.5	78.0	3.3	14.0
KEPPEL DC REIT	3,494	3.2	2.03	3.9%	NEUTRAL	2.26	1.5	4.9	(5.5)	17.5	35.9	9.7	4.7	8.0	6.0	3.3	73.0	0.0	4.1
ESR-LOGOS REIT	2,113	9.1	0.28	2.4%			0.8	10.9	(9.7)	(24.2)	39.4	1.8	3.1	-	2.5	4.0	74.8	0.0	26.2
AIMS APAC REIT	1,052	1.4	1.30	1.2%			0.9	5.8	3.2	5.0	38.1	9.4	4.3	-	2.2	3.9	87.0	0.0	20.7
SABANA INDUSTRIAL REAL ESTAT	434	0.5	0.39	0.5%			0.7	7.9	2.6	(10.3)	37.2	6.6	2.8	-	3.5	3.9	82.2	0.0	0.0
Average				37.1%			1.1	5.8	(1.6)	2.2		6.8			4.0	3.2			
Diversified																			
CAPITALAND INTEGRATED COMMER	12,111	14.4	1.82	13.6%			0.9	5.2	(3.1)	(9.3)	39.0	4.9	3.6	-	3.3	3.2	78.0	1.0	15.0
SUNTEC REIT	3,298	5.3	1.14	3.7%	BUY	1.47	0.5	6.7	(4.1)	(15.9)	41.4	4.5		-	2.1	3.6	58.0	2.3	20.8
QUE COMMERCIAL REAL ESTATE I	1,233	7.1	0.23	1.4%			0.4	9.3	0.0	(29.9)	39.1	8.3	3.1	-	2.3	4.1	68.2	0.0	0.0
LENLEASE GLOBAL COMMERCIAL	1,210	8.0	0.52	1.4%	BUY	0.86	0.7	9.4	(5.2)	(22.7)	40.6	5.5	5.5	8.2	2.0	2.7	61.0	0.0	26.1
Average				20.0%			0.8	6.1	(3.2)	(12.9)		5.1			2.9	3.3			
OFFSHORE SREITS																			
Overseas Retail																			
SASSEUR REAL ESTATE INVESTME	806	0.7	0.65	0.9%	BUY	0.90	0.8	9.9	(3.6)	(10.6)	27.6	5.7	0.8	2.1	4.0	5.8	77.0	0.0	12.9
LIPPO MALLS INDONESIA RETAIL	139	1.4	0.02	0.2%			0.2	7.2	0.0	(43.3)	42.1	2.2	2.9	2.1	8.7	39.2	16.8	49.1	
DASIN RETAIL TRUST	40	0.0	0.05	0.0%			0.1	-	(13.9)	(76.1)	46.5	(54.6)		-	n.a.	n.a.	n.a.	100.0	0.0
BHG RETAIL REIT	247	0.0	0.48	0.3%			0.6	1.6	7.8	(3.0)	39.3	0.9	3.3	5.4	2.1	5.7	50.0	5.0	0.0
UNITED HAMPSHIRE US REIT	250	0.4	0.43	0.3%			0.6	13.1	0.0	(7.5)	42.8	5.4	7.2	2.8	3.6	80.9	0.0	6.6	
Average				1.7%			0.7	8.6	(1.0)	(13.7)		2.3			3.2	5.5			
Overseas Commercial																			
MANULIFE US REAL ESTATE INV	94	12.6	0.05	0.1%			0.1	89.7	(16.2)	(81.0)	56.7	(44.2)		7.6	2.6	4.1	80.2	3.8	13.8
PRIME US REIT	139	3.0	0.12	0.2%	BUY	0.39	0.2	46.9	0.0	(65.9)	42.8	(5.9)		3.9	3.4	3.9	80.0	0.0	63.5
KEPPEL PACIFIC OAK US REIT	214	1.9	0.21	0.2%			0.3	29.3	0.0	(52.2)	38.4	3.5		3.5	3.4	4.0	77.6	1.7	12.9
IREIT GLOBAL	491	0.7	0.37	0.5%			0.5	8.7	0.0	(20.9)	33.1	(5.9)		5.0	7.1	1.9	96.2	0.0	0.0
ELITE COMMERCIAL REIT	118	0.2	0.25	0.1%			0.5	16	0.0	(46.8)	46.0	(10.8)		4.5	3.4	5.2	62.0	0.0	58.8
Average				1.2%			0.4	26.0	(1.4)	(41.4)		(7.5)			5.0	3.2			
Overseas Industrial																			
DIGITAL CORE REIT MANAGEMENT	614	3.4	0.55	0.7%			0.7	7.0	(4.5)	(3.6)	34.2	-1.2	3.9		n.a.	4.7	72.0	0.0	0.0
EC WORLD REIT	-	-	-	-			-	-	-	-	36.2	7.1	1.2	1.0	2.4	6.2	n.a.	81.7	0.0
DAIWA HOUSE LOGISTICS TRUST	372	0.6	0.54	0.4%			0.7	9.8	(4.3)	(12.6)	35.7	7.8	6.6		11.7	1.0	100.0	0.0	29.4
CAPITALAND INDIA TRUST	1,426	2.6	1.07	1.6%			1.0	6.3	(9.5)	(6.4)	36.0	8.6			2.7	6.3	73.0	37.7	10.9
Average				2.7%			0.9	7.0	(7.4)	(6.6)		6.1			3.4	5.1			
Overseas Diversified																			
CAPITALAND CHINA TRUST	1,478	2.6	0.88	1.7%			0.7	7.3	(2.2)	(21.0)	40.2	4.0	1.8	1.9	3.2	3.5	74.0	0.3	14.8
FRASERS LOGISTICS & COMMERC	3,990	9.0	1.07	4.5%			0.8	7.3	(10.8)	(7.8)	28.6	11.7	4.4	-	8.0	2.0	75.4	6.4	25.9
MAPLETREE PAN ASIA COM TRUST	7,240	8.1	1.38	8.1%			0.8	6.3	(5.9)	(14.4)	40.7	6.4	2.6	-	3.2	3.2	74.2	6.0	22.0
CROMWELL REIT EUR	720	0.2	1.28	0.8%			0.6	13.3	(9.9)	(14.7)	39.5	(2.1)	4.4		4.1	2.9	94.0	0.0	0.0
Average				15.0%			0.8	7.1	(7.2)	(13.1)		7.3			4.7	2.8			
Other Overseas REITS																			
FIRST REAL ESTATE INVNT TRUST	477	2.2	0.23	0.5%			0.7	11.1	(9.8)	(11.5)	38.7	4.7		12.0	4.1	4.9	86.0	0.0	0.0
ARA US HOSPITALITY TRUST	153	0.1	0.27	0.2%			0.3	12	(9.4)	(17.1)	39.7	1.3			2.5	4.6	75.2	0.0	43.5
Average				0.7%			0.6	11.3	(9.7)	(12.9)		3.8			3.7	4.8			

Source: Bloomberg (Updated: 13 October 2023), Company Results/Prospectuses, PSR

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