

CSOP iEdge S-REIT Leaders Index ETF

The deeper discounted Singapore REIT ETF



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SINGAPORE | ETF | INITIATION

12 June 2024

- We value CSOP iEdge S-REIT Leaders Index ETF (SRT) using a combination of historical dividend yield spread and price-to-book ratios. Using these two valuation methods, the target prices are S\$0.93 and S\$0.81, respectively. Applying equal weightage to both valuations, we initiate coverage with a BUY recommendation and target price of S\$0.87.
- SRT gives exposure to 22 REITs across Singapore. It is one of the only two REIT ETFs listed on SGX that focuses solely on Singapore. This ETF offers investors stable income, attractive book value, and diversified, convenient, and efficient access to REITs across Singapore.
- 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.

ETF Background

The SRT is an investment product that provides investors with exposure to a diversified portfolio of Real Estate Investment Trusts (REITs) listed across Singapore. It closely replicates the performance of the iEdge S-REIT Leaders Index. SRT was established in 2021 and comprises 22 securities with a market cap of S\$69 mn as of 12 June 2024.

Investment Merits

- Investors gain the opportunity to participate in the potential income and capital appreciation generated by the Singapore markets, offering convenient and efficient access to this segment of the real estate sector.
- Sustainable income over the years (Figure 2). SRT dividends have been steadily increasing since its IPO, currently maintaining around 5 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 5% discount to book.

ETF Benchmark

SRT replicates as closely as possible the performance of the iEdge S-REIT Leaders Index, which is designed to track the performance of REITs in Singapore. All eligible companies must meet a minimum Average Daily Traded Value of US\$500k, and existing constituents must meet a minimum average daily traded value of US\$400k.

BUY (Initiation)

CLOSING PRICE	SGD 0.743
CURRENT DIV	7.39%
TARGET PRICE	SGD 0.870
TOTAL RETURN	24.48%

ETF DATA

ETF NAME	CSOP IEDGE S-REIT LEADER-SGD
BLOOMBERG CODE:	SRT SP
O/S SHARES (MN):	95
MARKET CAP (SGD MN):	71
52 - WK HI/LO (USD):	0.88 / 0.7
3M AVERAGE DAILY T/O (MN):	0.52
TRACKING ERROR (1YR %):	0.05
TRACKING ERROR (3YR %):	0.05
REBALANCE FREQUENCY	SEMI ANNUALLY
DIVIDEND FREQUENCY	SEMI ANNUALLY
MANAGEMENT FEE	0.50%
MANAGER	IKKO ASSET MANAGEMENT ASIA

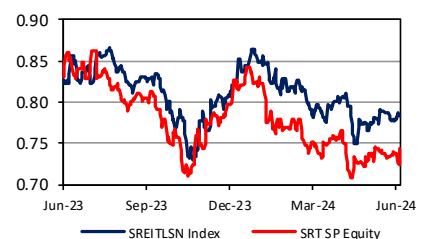
TOP THREE HOLDINGS

CapitaLand Integrated Commercial Trust	10.4%
CapitaLand Ascendas REIT	10.0%
Frasers Logistics & Commercial	9.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
ETF	0.8	(0.8)	(11.8)
SREITLSN INDEX	(1.7)	(3.2)	(11.2)

PRICE COMPARISON



Source: Bloomberg, PSR

KEY FINANCIALS

31st Dec	2021	2022	2023	Current
Dividend/unit (cents)	NA	2.6	5.8	5.4
Price to Book Value (x)	0.92	0.83	0.89	0.92

Source: Bloomberg, PSR

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 SRT, we will use the average dividend yield spread to a 10-year bond (Figure 4). Since its inception, SRT has had an average 2.49% spread to a 10-year bond. The current spread is 4.03%.

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

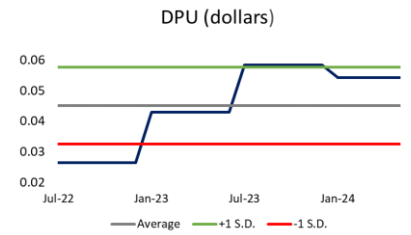
Dividend Yield Spread	Dividend		
	0.049	0.054	0.060
10.00%	0.80	0.89	0.98
5.00%	0.82	0.91	1.00
0.00%	0.83	0.93	1.02
-5.00%	0.85	0.95	1.04
-10.00%	0.87	0.97	1.06

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

We value SRT at S\$0.93 using a 2.49% dividend yield spread.

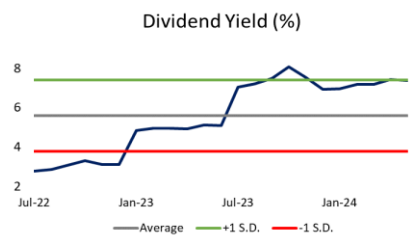
To determine the range of valuations, we applied a 5% and 10% discount and premium to both Dividend Yield Spread and Forward Dividend (Figure 1). At the bottom end of our valuation range, with a 10% higher projected dividend yield spread and a 10% lower forward dividend, the ETF price is S\$0.80 (Figure 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\$1.06.

Figure 2: Dividend distribution steadily increasing over the years



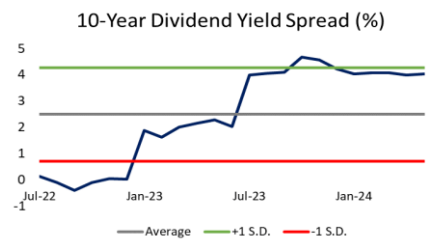
Source: Bloomberg, PSR

Figure 3: Dividend yield of SRT trending upwards



Source: Bloomberg, PSR

Figure 4: Dividend yield spread of SRT to 10 years bond trending upwards



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. SRT has traded at an average P/B of 1.02x since its inception. The current P/B is 0.92x.

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

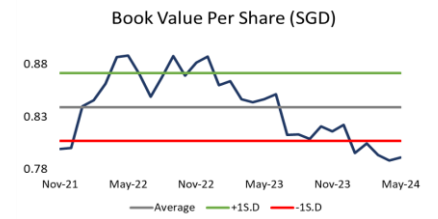
Book Value	P/B(x)		
	0.92	1.02	1.12
10.00%	0.80	0.89	0.98
5.00%	0.77	0.85	0.94
0.00%	0.73	0.81	0.89
-5.00%	0.69	0.77	0.85
-10.00%	0.66	0.73	0.80

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

We peg our valuation at 1.02x P/B. On this basis, we value SRT at S\$0.81.

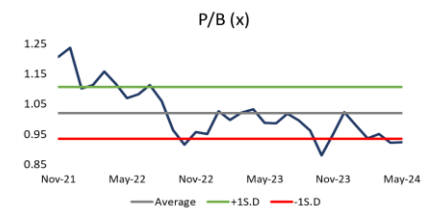
To determine the range of valuations, we applied a 5% and 10% discount and premium to both Book Value and P/B metrics (Figure 5). At the bottom end of our valuation range, with a 10% lower projected book Value and a 10% lower P/B of 0.92x, the ETF price is S\$0.66 (Figure 5). At the top end of our valuation range, we use a 10% higher projection of book value and a P/B of 1.12x, and the ETF price is S\$0.98.

Figure 6: Book Value per Share of SRT



Source: Bloomberg, PSR

Figure 7: P/B of SRT trending downwards

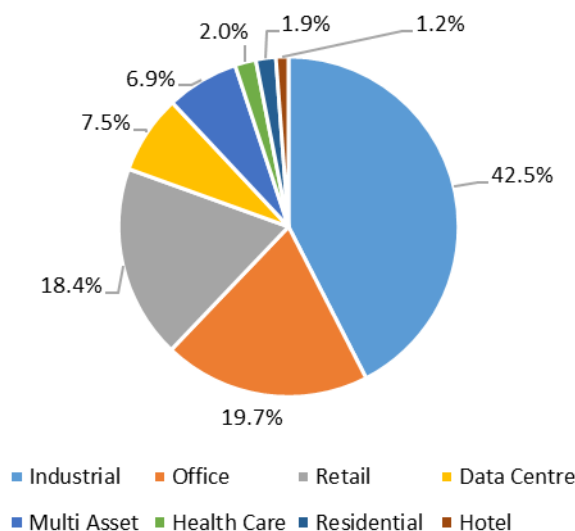


Source: Bloomberg, PSR

ETF Sub Industry Allocation

SRT is well-diversified across industries in Singapore. The 22 REITs can be separated into eight different sectors, with the largest sector being Industrial at 42.5% and the second largest sector Office at 19.7%. (Figure 8)

Figure 8: SRT is well diversified across industries, the largest sector is the Industrial



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 focuses only on SG REITs. 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 12 June 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)	6.1%	6.5%	5.7%	7.5%	4.3%
Expense Ratio (p.a.)	0.6%	0.6%	1.0%	0.6%	0.8%
Performance (YTD)	-10.6%	-10.1%	-7.2%	-11.4%	-8.9%
Fund size (AUM SGD)	363.5mn	325.5mn	11.5mn	69.0mn	57.9mn
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. It does not 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 not fully to 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



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

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