Standard Chartered

Singapore | Real Estate Investment Trusts

14 November 2013

Clearing skies with a chance of equity raising

3Q13 results wrap

REITs	Ticker	Mkt cap (mn)	Price as of 13-Nov-13	2014E DPU yield	Old PT	New PT	% Change	Up/ Down to PT	Rating (old)	P/NAV
CapitaMall Trust	CT SP	SGD 6,849	1.98	5.3%	2.00	2.10	5.0%	6.1%	IL	1.18
Ascendas REIT	AREIT SP	SGD 5,474	2.28	6.7%	2.34	2.43	3.8%	6.6%	IL	1.20
CapitaCommercial Trust	CCT SP	SGD 4,217	1.47	5.5%	1.41	1.49	5.7%	1.7%	IL (UP)	0.89
Suntec REIT	SUN SP	SGD 3,681	1.63	5.9%	1.69	1.76	4.1%	8.3%	IL	0.80
Keppel REIT	KREIT SP	SGD 3,303	1.19	6.8%	1.21	1.26	4.1%	6.3%	IL (UP)	0.95
Mapletree Logistics Trust	MLT SP	SGD 2,610	1.07	7.0%	1.13	1.17	3.5%	9.3%	OP (IL)	1.18
Mapletree Commercial Trust	MCT SP	SGD 2,509	1.21	6.2%	1.34	1.40	4.5%	15.7%	OP	1.13
Mapletree Gtr China Commercial Trust	MAGIC SP	SGD 2,349	0.88	7.3%	1.03	1.08	4.9%	22.7%	OP	0.90
Mapletree Industrial Trust	MINT SP	SGD 2,265	1.36	7.1%	1.50	1.52	1.3%	11.8%	OP	1.23
Ascott Residence Trust	ART SP	SGD 1,835	1.21	6.7%	1.21	1.20	-0.8%	-0.4%	IL (UP)	0.87
Starhill Global REIT	SGREIT SP	SGD 1,712	0.80	6.1%	0.91	0.95	4.4%	19.5%	OP	0.92
CDL Hospitality Trusts	CDREIT SP	SGD 1,593	1.64	6.7%	1.78	1.85	3.9%	13.1%	OP	1.03
Far East Hospitality Trust	FEHT SP	SGD 1,551	0.88	6.9%	0.87	0.91	4.6%	3.4%	IL	0.92
Frasers Centrepoint Trust	FCT SP	SGD 1,484	1.80	6.3%	2.04	2.18	6.9%	21.1%	OP	1.02
OUE Hospitality Trust	OUEHT SP	SGD 1,140	0.87	7.8%	0.98	1.01	3.1%	16.1%	OP	0.96
Lippo Malls Indonesia Retail Trust	LMRT SP	SGD 947	0.43	7.8%	0.46	0.46	0.0%	7.0%	OP (IL)	0.95
Cache Logistics Trust	CACHE SP	SGD 901	1.16	7.9%	1.21	1.24	2.5%	6.9%	IL	1.20
Cambridge Industrial Trust	CREIT SP	SGD 857	0.70	8.3%	0.81	0.77	-4.9%	10.8%	OP	1.00
Frasers Commercial Trust	FCOT SP	SGD 836	1.25	7.0%	1.25	1.29	3.2%	3.2%	IL (UP)	0.80
AIMS AMP Capital Industrial REIT	AAREIT SP	SGD 792	1.51	7.8%	1.66	1.69	1.8%	12.3%	OP	0.99
Ascendas Hospitality Trust	ASHT SP	SGD 779	0.76	7.5%	0.85	0.74	-12.9%	-2.0%	IL	0.99
Religare Health Trust	RHT SP	SGD 632	0.80	9.0%	0.96	0.89	-7.3%	11.3%	OP	1.01
Perennial China Retail Trust	PCRT SP	SGD 613	0.54	7.2%	0.63	0.63	0.0%	17.8%	IL	0.73
Ascendas India Trust	AIT SP	SGD 605	0.66	8.1%	0.72	0.70	-2.8%	6.1%	IL	1.16

Source: Companies, Standard Chartered Research estimates

- **Retail REITs that benefitted from tourist spending outperformed, but hotels and industrial assets remained weak.**
- **More SREITs could launch rights issues. Historically, buying a SREIT after a rights issue has yielded a 25% return.**
- **We lift our SREIT price targets by an average 3% on lower 4Q14 UST forecasts; we upgrade office SREITs to In-Line from Underperform. Our top picks are MAGIC, SGREIT and CDREIT.**

Key findings in 3Q13 results. (1) Retail REITs that benefitted from tourist spending, like SGREIT, MCT, OUEHT and MAGIC, outperformed expectations, while suburban malls showed subdued growth. (2) Singapore hotel room rates continued to fall by 3-6% y/y, except for those on Orchard Road. (3) Demand for business parks and factories was weak. (4) Office pre-leasing activities picked up in Sep-Nov 2013.

If SREITs launch rights issues, buy them. ART and CRCT recently launched rights issues at 10-27% discounts to NAV. In the past four years, investors who bought a SREIT after a rights issue made a 25% return on average over the next 12 months.

Standard Chartered economists now expect QE tapering in June 2014 and have lowered their 4Q14 UST yield forecast to 3.4% from 3.75%. We now assume a risk-free rate of 3.0% (3.25% earlier) in our valuations and lift our price targets by 3% on average. We upgrade office REITs to In-Line from Underperform on valuations.

SREITs seem to price in a 3.25% risk-free rate, and look attractive with 6.5% 2014 yield and 9% upside. Our 2014-16E industrial, retail, hotel and office annual rental growth of -3%, 0%, 3.5% and 6%, respectively could be conservative, as we expect Singapore's GDP growth rate to accelerate to 5% p.a. in 2014-15, from 3.5% in 2013.

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Important disclosures can be found in the Disclosures Appendix

Top picks and changes to our views

Retail REITs benefiting from tourist spending outperformed expectations. In 3Q13, tenant sales in SGREIT's Wisma Atria, OUEHT's Mandarin Gallery and MCT's VivoCity rose 6-12% y/y in 3Q13, much higher than the 1.7% y/y growth in Singapore retail sales. Suburban malls owned by CT and FCT tracked inflation.

Hotel room rates remained weak in 3Q13, except for Orchard Road. Despite strong industry statistics, revenue per available room (RevPar) of hotels owned by CDREIT and FEHT fell 3-6% y/y, similar to the 0-9% y/y decline in 2Q13. However, RevPar for OUEHT's Mandarin Orchard rose 11% y/y in 3Q13, compared to 3% y/y growth in 2Q13. We believe this was due to tight supply on Orchard Road.

Demand for business parks and industrial space was weak. Overall, 10-50% of newly completed industrial buildings were taken up. This was slower than we expected. For AREIT's Nexus@one-north, the office space was almost fully leased, while the business park component was 74% pre-committed. Warehouse demand was reasonably strong.

Office demand started to recover in September-November 2013. In 3Q13, office REITs with Grade A assets reported resilient occupancy rates, while we expect vacancy rates at older office assets such as Capital Tower to remain high. However, pre-leasing activities picked up in September-November and rents have started to rise, according to property consultants. If leasing of the prime office buildings completing in 2014 continues to progress, prime and Grade A office rents could beat our forecasts of 18% and 30% growth, respectively, over 2014-15. **We upgrade our ratings for office REITs to In-Line from Underperform on valuation grounds.**

Our top picks:

- **Mapletree Greater China Commercial Trust (MAGIC):** MAGIC owns Festival Walk in Hong Kong (70% of income) and Gateway Plaza in Beijing. In 3Q13, Festival Walk achieved 22% rental reversion, higher than the 11% that we and management forecasted. We expect MAGIC's DPU to grow from 6.5% this year to 7.3% next year, the highest among retail REITs. If MAGIC's assets are revalued by 5-10% to account for the strong income growth, gearing would fall to 36-38%, which would allow MAGIC to acquire assets accretively. Asset enhancements, such as conversions of lobby and car park spaces to retail use, could also be 2-3% accretive to earnings.

- **Starhill Global REIT (SGREIT):** Orchard Road assets, Wisma Atria and Ngee Ann City, comprise c.70% of SGREIT's portfolio value. We expect central area retail rents to outperform suburban retail rents, given significantly lower supply in the pipeline and healthy demand from robust tourism arrival growth. Our forecast of a 2% p.a. increase in Orchard Road rents in 2014-16 could be conservative, with retail sales at Wisma Atria rising 12% y/y in 3Q13. We estimate that SGREIT is trading at a c.15% discount to RNAV of SGD 0.94, based on recently transacted NPI yields of 4.0% for retail and office assets. With debt headroom of c.SGD 450mn before reaching 40% leverage, we think SGREIT could grow via asset enhancements or acquisitions.

- **CDL Hospitality Trusts (CDREIT):** We believe CDREIT is undervalued given our expectation of a 2014 recovery in hotel RevPar on improving supply/demand dynamics. We expect RevPar growth of 3.5% p.a. in 2014-16E as supply increases by 5% p.a., while tourist arrivals rise 8.5% p.a. CDREIT has underperformed the SREIT sector by 10% in the past 12 months, and we believe its current price implies a 3% RevPar decline in 2014E. Management is looking for assets in Japan, the Maldives, Hong Kong, Singapore and Dubai, where it expects strong RevPar growth due to rising Chinese tourist arrivals. We estimate debt headroom of c.SGD 430mn before leverage reaches 40%. We estimate that acquisitions of this quantum could be 8% accretive to our valuation.

Other model updates. Apart from using a 3.0% risk free rate (3.25% earlier), we made minor model updates for the following SREITs after the 3Q13 results (details can be found from page 12):

Figure 1: Valuation changes

SREIT	Old PT	New PT	% change	2014E EPU (S¢)	% change	2014E DPU (S¢)	% change
FCT	2.04	2.18	6.9%	10.98	0.3%	11.39	0.9%
FCOT	1.25	1.29	3.2%	7.46	-4.1%	8.72	-2.0%
CREIT	0.81	0.77	-4.9%	5.37	-6.5%	5.75	-4.6%
AIT	0.72	0.70	-2.8%	5.47	-4.1%	5.34	-4.4%
RHT	0.96	0.89	-7.3%	5.96	-6.4%	7.19	-12.0%
ASHT	0.85	0.74	-12.9%	5.32	-10.7%	5.69	-9.1%

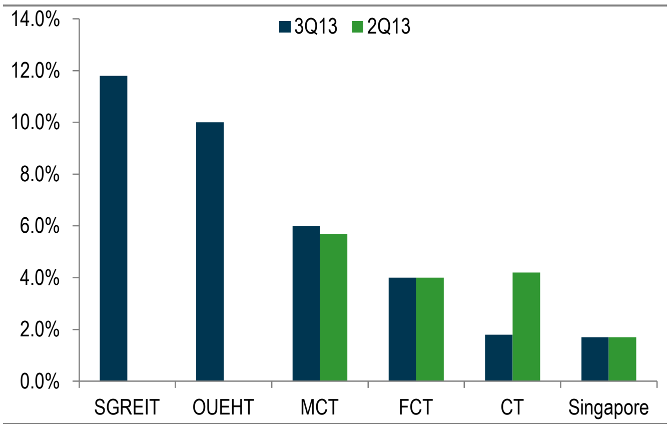
Source: Standard Chartered Research estimates

Retail REITs benefit from tourists, proactive management

Proactive mall management yields strong results: MAGIC, SGREIT and MCT

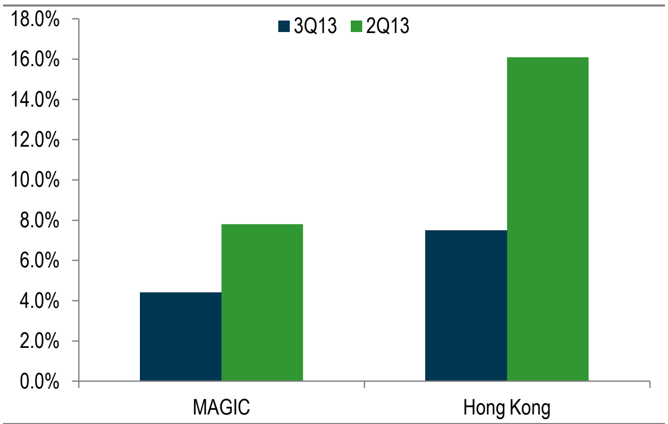
MAGIC's 2QFY13/14 results beat management and Bloomberg consensus estimates, as retail rents in Festival Walk were renewed at rates 22% higher than expiring leases signed 3-4 years ago. This was substantially higher than the 11% forecast by management. While the rental income for SGREIT's Wisma Atria, OUEHT's Mandarin Gallery and MCT's VivoCity were in line with expectations, tenant sales in these assets rose 6-12% y/y in 3Q13, much higher than the 1.7% y/y growth in Singapore retail sales. We believe this strong performance is a result of proactive mall management and a sharp improvement in tourist arrivals in 3Q13. Our rental growth forecast of 2% p.a. for these assets could be too conservative in light of the tenant sales observed.

Figure 2: SREIT retail sales and Singapore retail sales



Source: Companies, Singapore Department of Statistics, Standard Chartered Research

Figure 3: MAGIC tenant sales and HK retail sales



Source: Company, Hong Kong Department of Statistics, Standard Chartered Research

Suburban landlords just tracking inflation. For suburban retail landlords CT and FCT, tenant sales rose just 1.8% and 3-5% y/y, respectively in 3Q13. This is largely in line with shopper traffic growth of 2-4% y/y and Singapore retail sales growth of 1.7% y/y. While we still expect retail sales growth to follow rising wages, this could be partially offset by population growth falling to just 1.6% y/y, from 3.2% in 2006-12. In 1H13, Singapore retail sales rose 1.8% y/y, despite 4.5% y/y growth in wages.

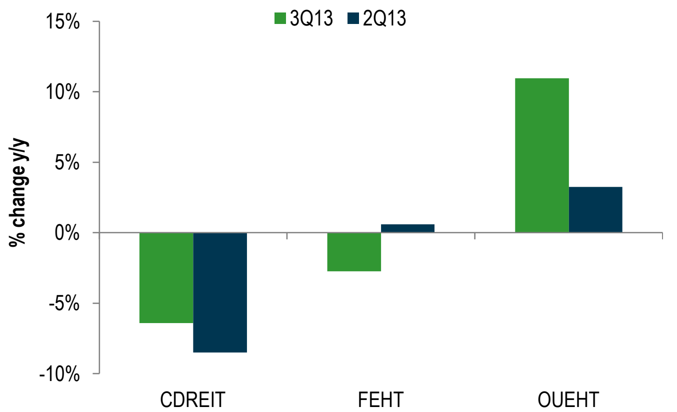
Figure 4: Growth in retail sales and average monthly wages, y/y

Source: Singapore Department of Statistics, Standard Chartered Research

Hotel room rates did not improve in 3Q13, except for Orchard Road

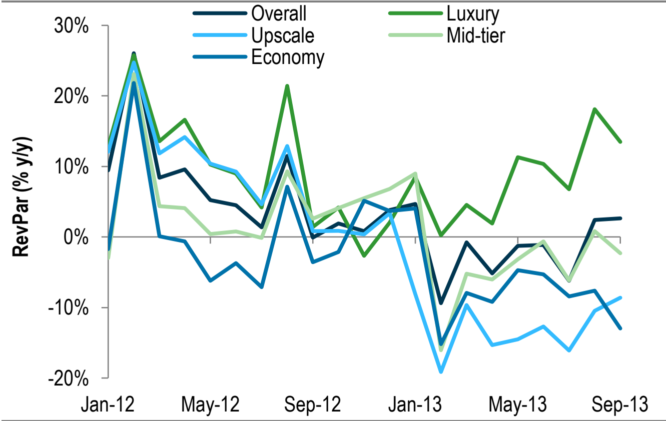
In 3Q13, OUEHT's Mandarin Orchard was the most resilient with RevPar rising 11% y/y compared to 3% y/y growth in 2Q13. We believe this was due to tight supply on Orchard Road. The operator also attracted more transient and corporate travellers, who paid higher rates. Hotels owned by CDREIT and FEHT did not show any material improvements in 3Q13. CDREIT's hotels average RevPar fell 6.4% y/y in 3Q13, compared to 8.5% y/y in 2Q13. Average RevPar in FEHT's portfolio fell 3% y/y, in line with the Singapore average mid-tier hotel RevPar trend. However, this is a slight disappointment from the 0.6% y/y rise in 2Q13. FEHT's management saw an improvement in October RevPar, outperforming both September and 3Q13.

Figure 5: Change in hotel RevPar, y/y



Source: Companies, Standard Chartered Research

Figure 6: Hotel RevPar y/y growth



Source: Singapore Tourism Board, Standard Chartered Research

Bright spots appearing in Singapore office leasing market

In 3Q13, office REITs with Grade A assets reported resilient occupancy rates. CCT managed to lease out 70% of the vacated space in One George Street, but we expect Capital Tower's vacancy rate to rise further in 1H14, as tenants move out to business parks before CapitaLand begins its phased move-in.

Figure 7: Office demand was weak in 3Q13 in Singapore and Australia

Office SREIT	Demand indicator
CCT	70% of vacated space in One George Street was leased
	Occupancy rate at 6 Battery Road rose to 98%, from 94% in 2Q13
	0% leased for CapitaGreen (completing in 4Q14)
	Capital Tower vacancy held at 10%, and could rise in 1H14
FCOT	Occupancy rate at Central Park fell to 94%, from 99%
KREIT	Occupancy of 77 King Street in Sydney declined q/q to 95%, from 97%
	Pre-commitment for 8 Chifley Square in Sydney rose q/q to 70%, from 56%

Source: Standard Chartered Research

However, **pre-leasing activities picked up in October-November 2013.** According to property consultants, Rabobank has pre-committed to a 26,000sqf lease at South Beach office tower (which is understood to be achieving rents of almost SGD 10psfpm) a year ahead of its completion. More than 100,000sqf of space at the 520,000sqf office tower is currently under leasing negotiations, according to property consultant Jones Lang LaSalle (JLL). Financial services firm Citco has leased 11,000sqf of space at Asia Square Tower 2, which was completed in September 2013. We expect CapitaGreen to secure pre-commitments in the next three months ahead of completion in December 2014.

Figure 8: Major office leasing deals in the past 5 months

Leases	Building	NLA (sqf)
3Q13		
Amazon	Capital Square	30,000
City Hub Serviced office	Tung Centre	19,000
Louis Dreyfuss	MBFC T3	20,000
Trammo Pte Ltd	MBFC T3	20,000
National Australia bank	Asia Square T2	30,000
Swiss Reinsurance	Asia Square T2	30,000
Mundipharma	Asia Square T2	17,000
Lloyds of London	Asia Square T1	32,500
HIS Global	Asia Square T1	32,500
October-November 2013		
Rabobank	South Beach	26,000
Citco	Asia Square T2	11,000
Booking.com	MBFC T3	45,000
Gunvor	MBFC T3	22,000
Mizuho Bank	CapitaGreen (negotiating)	c.50,000

MBFC: Marina Bay Financial Centre

Source: Corporate Locations, Standard Chartered Research

Demand for existing office buildings also appears to have improved. JLL sees strong leasing demand and activity for spaces under 30,000sqf from smaller financial institutions and the petrochemical and pharmaceutical industries. MBFC Tower 3 will also see several new tenants, including Booking.com (45,000sqf) and commodity trading firm Gunvor (22,000sqf). Another office leasing agent commented that rents at older CBD office buildings have been driven up by leases for small spaces, with 6 Battery Road and Tung Centre signing rents at SGD 10-12psfpm. In its latest quarterly report, DTZ reported that Marina Bay office rents rose to SGD 11.0psfpm in 3Q13, from SGD 10.5psfpm in 2Q13.

Figure 9: Singapore office rent forecasts

Office rent	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Grade A (SGD psfpm)	11.0	9.6	9.6	10.8	12.7	12.7
Prime (SGD psfpm)	9.2	8.0	8.0	8.7	9.5	9.5
% change in Grade A	11%	-13%	0%	13%	18%	0%
% change in prime rent	11%	-13%	0%	9%	9%	0%
Initial yield	3.4%	3.2%	3.3%	3.7%	3.9%	3.9%
Prime capital values (SGD psf)	2,500	2,350	2,270	2,230	2,280	2,280
Change in capital value	14%	-6%	-3%	-2%	2%	0%

Source: Standard Chartered Research estimates

We believe these trends are supportive of our view that prime and Grade A office rents could rise 18% and 30% respectively over 2014-15. We still expect office demand to increase by 1.1msf in 2013, after demand reached 0.96msf in the first nine months. If leasing of the prime office buildings completing in 2014 continues to progress, we believe rents could rise more sharply than the market expects, as there are no new non-strata office buildings in the CBD in 2015. **We upgrade office REITs CCT, KREIT and FCOT to In-Line from Underperform on valuation grounds.**

Weak demand for business parks and industrial

Industrial REITs reported weak industrial and business park demand. However, demand for warehouses was resilient. All the industrial REITs reiterated that acquisitions in Singapore and ASEAN are challenging given low market cap rates.

Figure 10: Demand for industrial properties in 3Q13

SREIT	Demand Indicator
Business Park	
AREIT	74% of Nexus@one-north business park was leased (completed)
MINT	10% of non-anchor space at Kulicke&Soffa was leased (completed)
	14% of 170,000sqf given up by Credit Suisse at Signature was leased
Industrial	
AREIT	High-specs industrial 31 Ubi Road 1 is 47% leased (completed)
MINT	Extension at Woodlands Central (completed) now 67% leased
	Extension at Toa Payoh North 1 now 20% committed (4Q13 completion)
Warehouses	
AREIT	Warehouse Xilin Districentre D 61% leased + 34% under offer (completed)
MLT	21 Benoi redevelopment now 94% pre-leased (4Q13 completion)

Source: Standard Chartered Research

SREITs could surprise with more rights issues

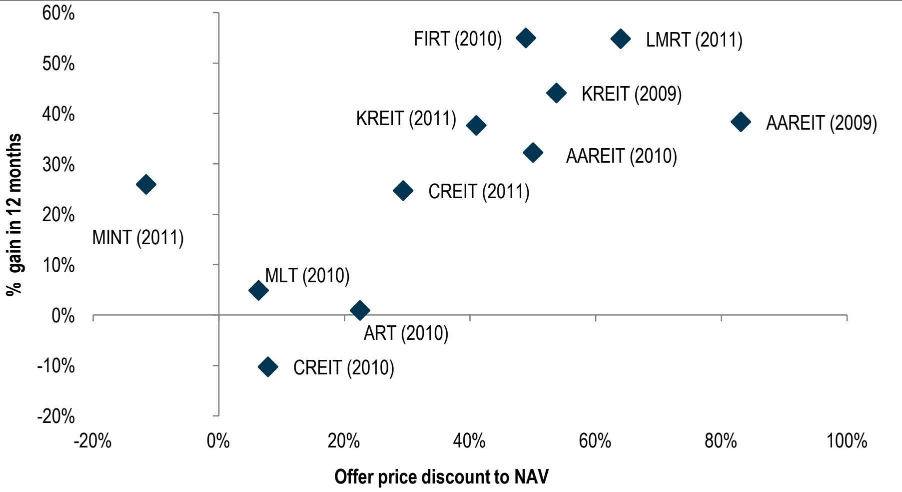
In the past two years, SREITs have raised equity via private placements or preferential offerings at tight discounts. In this results season, CRCT and ART surprised the market by launching rights issues at a discount to NAV. ART announced on 4 November that it would raise SGD 254mn from a renounceable one-for-five rights issue at SGD 1.0/unit, a 22.5% discount to last close and 27.5% discount to NAV. On 24 October, CRCT launched a 6-for-100 rights issue to raise SGD 59mn at SGD1.3/unit, a 10.4% discount to NAV. Both REITs hope to use the proceeds for acquisitions in the next 6-9 months. In the past four years, **buying a REIT after a dilutive rights issue has provided investors with an average 25% return over the following 12 months**.

Figure 11: Rights issues in SREIT space since September 2009

Announced Date	Company	Offer size (SGD mn)	Offer price (SGD)	Effective Date	Ex date price	% gain in 6 months	% gain in 12 months
5-Nov-13	ART	253.7	1.00	12-Nov-13	1.22	NA	NA
23-Oct-13	CRCT	59.0	1.30	29-Oct-13	1.40	NA	NA
30-May-13	ASHT	56.7	0.88	5-Jun-13	0.89	NA	NA
17-Oct-11	KREIT	983.8	0.85	14-Nov-11	0.95	18%	38%
30-Sep-11	LMRT	336.8	0.31	2-Nov-11	0.43	32%	55%
28-Jul-11	MINT	124.0	1.06	2-Aug-11	1.17	2%	26%
11-Mar-11	CREIT	56.7	0.43	16-Mar-11	0.48	13%	25%
9-Nov-10	FIRT	172.8	0.50	1-Dec-10	0.74	54%	55%
21-Oct-10	CREIT	20.4	0.53	27-Oct-10	0.53	-5%	-10%
21-Sep-10	MLT	133.9	0.82	27-Sep-10	0.89	9%	5%
13-Sep-10	ART	72.6	1.07	17-Sep-10	1.15	7%	1%
23-Aug-10	AAREIT	79.6	0.16	16-Sep-10	1.10	29%	32%
1-Feb-10	FCOT	116.8	1.00	5-Feb-10	0.70	-25%	-13%
6-Nov-09	AAREIT	155.1	0.16	25-Nov-09	0.96	18%	38%
30-Sep-09	KREIT	620.0	0.93	23-Oct-09	0.99	22%	44%
Total		**3,242.1**				**14%**	**25%**

Source: Bloomberg, Standard Chartered Research

Figure 12: Discount to NAV of rights offer price vs. gain in first 12 months



Source: Bloomberg, Standard Chartered Research

More SREITs could potentially raise funds via placements or rights issues below NAV if REIT managers want to acquire assets to grow, but believe that the cost of equity could rise in 2014 as interest rates begin to rise. News reports indicate that AXA Tower is on sale for c.SGD 1.35bn (SGD 2,000psf), implying a c.3.0-3.7% NPI yield assuming passing rents of SGD 6.5-8.0psfpm, which could improve to c.4.4-5.0% assuming a retail podium is added. We think **CCT** could raise some equity to acquire the asset. **SUN** (leverage: 37%), **KREIT** (leverage: 44%), and **FCOT** (leverage: 38%) could also raise funds to acquire Straits Trading Building, MBFC Tower 3 and Alexandra Point, respectively. **LMRT** may raise equity to partially finance acquisitions in the next three to six months. Based on the current gearing for these SREITs and the debt headroom available, we estimate that these SREITs could raise up to SGD 1bn in the next six months for acquisitions.

Figure 13: Potential acquisitions and equity needed based on current gearing

SREIT	Potential asset	Asset value (SGD mn)	Potential equity needed (SGD mn)
CCT	AXA Tower	1,350	250
SUN	Straits Trading Building	360	0
	Australian office asset	470	250
KREIT	MBFC T3	1,150	300
FCOT	Alexandra Point	400	200
FCT	Changi City Point	300	80
LMRT	Kemang Village	125	60

Source: Standard Chartered Research

QE tapering from June 2014, or later

Standard Chartered economists have moved back their forecasts of a rate hike (*United States – Hitting the snooze button*, 8 November 2013) to 1Q16 from 3Q15, as they expect economic growth to improve gradually. Our economists now expect QE tapering in June 2014 (instead of March) as: (1) the uptrend in inflation may be more gradual with lowered GDP growth expectations for 1H14; (2) changes in the Fed's stance towards forward guidance as a policy tool; and (3) potentially dovish sentiment from the Federal Open Market Committee (FOMC). However, once tapering begins, our economists expect the Fed to take major reduction steps of USD 20bn at every meeting.

Our economists have adjusted their US Treasury yield forecasts in line with their downward revision of 4Q13 and 1Q14 growth estimates. While they still expect an uptrend in 2014, they now expect a more gradual increase and they reduce their 4Q14 UST forecast by 35bps to 3.4%, from 3.75% previously.

Figure 14: Standard Chartered US Treasury forecasts

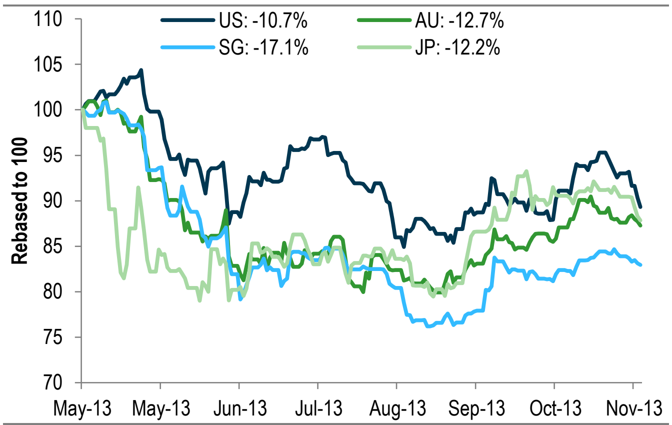
	4Q13	1Q14	2Q14	3Q14	4Q14	4Q15	4Q16	4Q17
2Y UST	0.3%	0.4%	0.5%	0.6%	0.8%	1.6%	2.6%	3.2%
5Y UST	1.3%	1.6%	1.7%	1.9%	2.1%	2.7%	3.3%	3.8%
10Y UST	2.6%	2.8%	2.9%	3.2%	3.4%	3.8%	4.1%	4.4%
10Y UST (previous)		2.9%	3.3%	3.5%	3.75%	4.0%	4.25%	4.5%

Source: Standard Chartered Research estimates

Singapore REITs underperformed global REITs

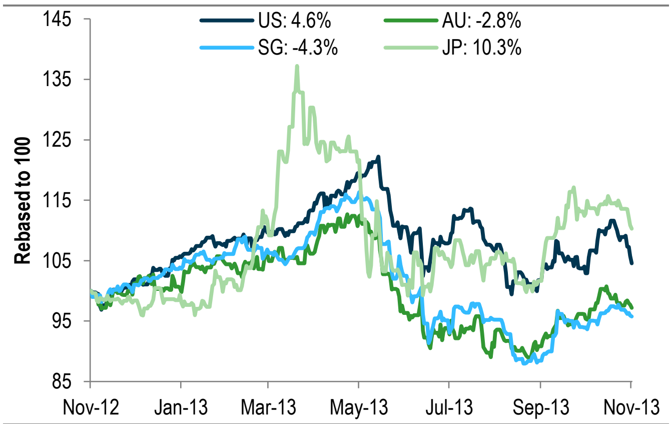
Since 1 May 2013, SREITs have underperformed other key REIT markets in both local currency and USD terms. In USD terms, SREITs are still 17% below 1 May, while other REIT markets have declined 12%. SREITs are also the laggard over the past 12 months.

Figure 15: Performance of REIT markets since 1 May 2013 (USD)



Source: Bloomberg, Standard Chartered Research

Figure 16: Performance of REITs over last 12 months (USD)

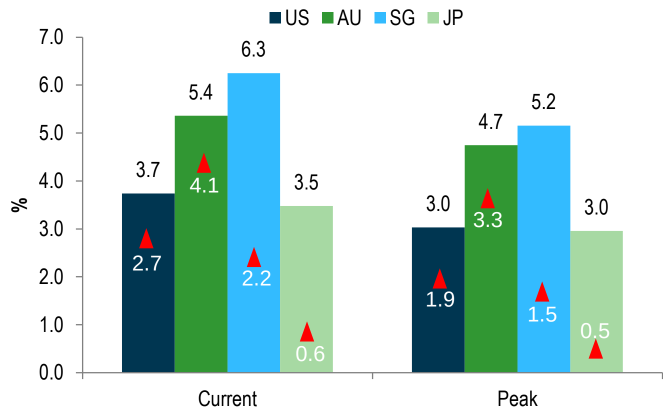


Source: Bloomberg, Standard Chartered Research

Performance since May 2013 peak more than reflects the rise in bond yields

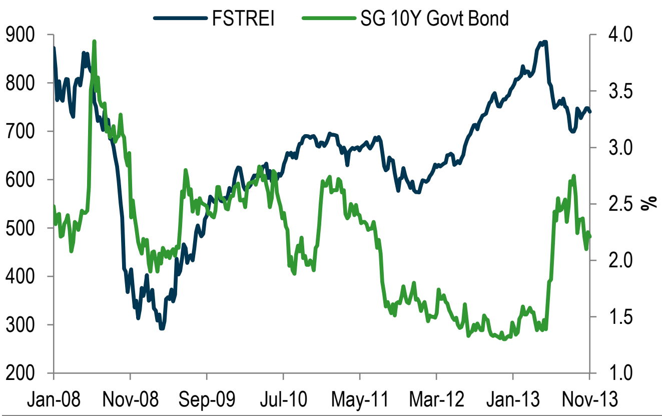
Historically, the FTSE Singapore REIT index outperformed when bond yields rose due to economic growth and stronger rental increases. However, since May 2013, the SREIT index has declined, largely reflecting a spike in bond yields as investors started to price in potential rate hikes in the US.

Figure 17: DPU yield of REIT markets compared to May 2013 peak



Source: Bloomberg, Standard Chartered Research

Figure 18: REIT index versus SG 10Y govt bond yield



Source: Bloomberg, Standard Chartered Research

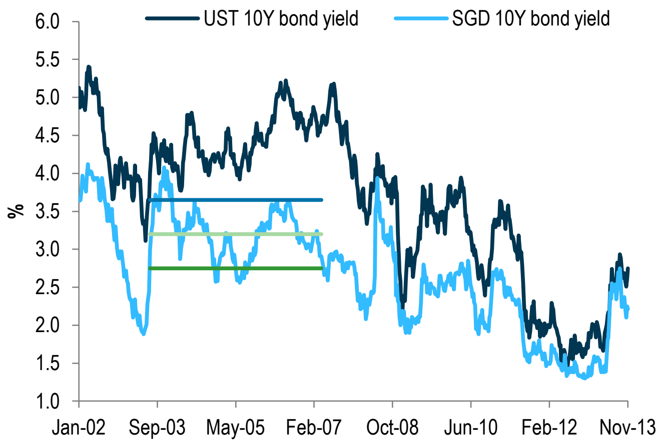
SREITs have the highest yield and widest spread among key REIT markets

Among key REIT markets, SREITs provide the **highest yield of 6.3% and the widest spread of 404bps** over the SGD 10Y bond yield.

Pricing in 3.25% risk-free rate; downside seems limited

We believe SREITs are now **pricing in a risk-free rate of 3.25%,** despite a sharp decline in SGD 10Y government bond yield to 2.3% currently.

Figure 19: UST 10Y bond yield and SGD 10Y bond yield



Source: Bloomberg, Standard Chartered Research

Figure 20: Spread between UST 10Y and SGD 10Y government bond yields

Source: Bloomberg, Standard Chartered Research

In periods when the SGD 10Y bond yield rose above 3.0%, it varied between 2.75% (1 SD below the **mean of 3.20%**) and 3.65% (+1 SD). In our view, it is unlikely that the SGD 10Y bond yield could rise above 3.5% for extended periods. Historically, during periods of high interest rates the spread between the SGD 10Y government bond yield and UST 10Y bond yield has been 100-150bps.

Figure 21: Yield spread for July 2002 to March 2007

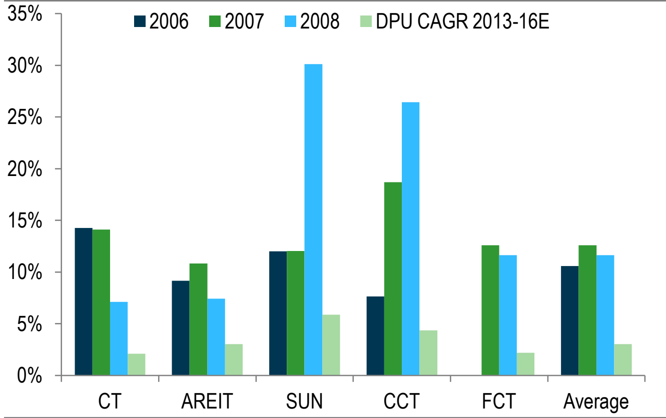
%	Median	SD	1 SD below	1 SD above
SGD 10Y bond yield	3.20	0.45	2.75	3.65
SREIT DPU Yield	5.74	1.18	4.56	6.92
Spread	2.53	1.34	1.19	3.87

Source: Bloomberg, Standard Chartered Research

Assuming 3.0% risk-free rate lifts our price targets by 3%

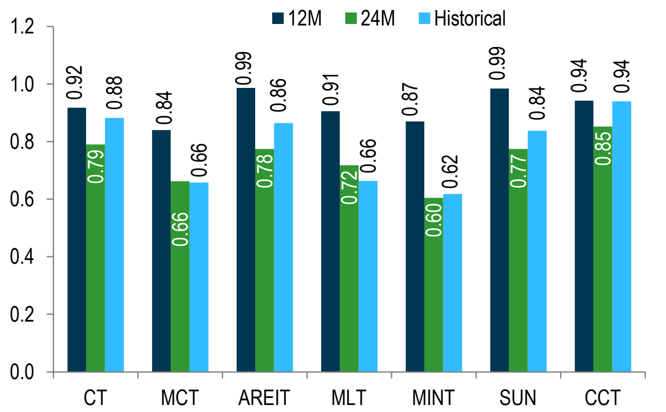
Now that our US economists have lowered their 4Q14 UST forecast by 35bps to 3.4%, we assume a risk-free rate of 3.0% (from 3.25%) in our valuations. This lifts our price targets by 3% on average. **Our price targets provide 9% upside and imply that SREITs trade at a 6.0% 2014E dividend yield**, providing a 300bps spread over the 2014E SGD 10Y bond yield of 3.0%. We believe this is fair and have already accounted for slower DPU growth for SREITs. We expect SREITs' DPU to have a CAGR of 2.5% in 2014-16, compared to the average of 12% in 2006-08. When interest rates were high (July 2002 to March 2007), SREITs traded around 4.6% (-1 SD from the **average of 5.7%)** to 6.9% and the spread over the SGD 10Y bond yield varied between 120bps (-1 SD from the **average of 253bps**) and 387bps.

Figure 22: SREITs DPU CAGR in 2013-16 vs. 2006-08



Source: Bloomberg, Standard Chartered Research estimates

Figure 23: Beta for SREITs



Source: Bloomberg, Standard Chartered Research

Low underlying rent growth assumptions

SREITs continue to enjoy low beta of 0.6-0.8x, providing effective diversification from general equities, in our view. Overall, the sector provides a weighted average lease expiry of 3.7 years and average debt expiry of 3.2 years. Our valuations already account for a sharp increase in borrowing costs, assuming three-year swap offer rates rise to 2.5%. We assume undemanding underlying industrial, retail, hotel and office rental CAGRs of **-2.2%, 0%, 1.3% and 4.4%,** respectively, in 2013-16.

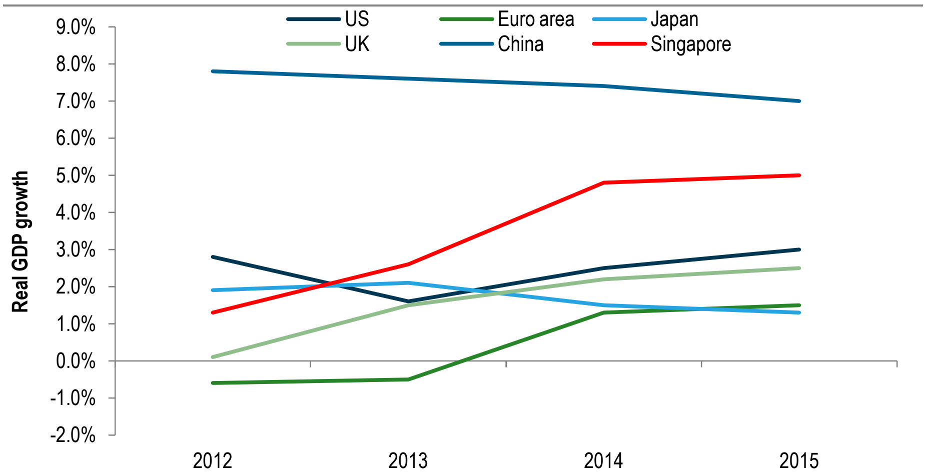
Figure 24: Standard Chartered Research rent forecasts

%	2013E	2014E	2015E	2016E
Prime office	0	9	9	0
Prime retail	0	0	0	0
Multi-tenanted industrial	-3	-3	-3	0
Hotel RevPar	-5	3.5	3.5	3.5

Source: Standard Chartered Research estimates

We may be too conservative: Standard Chartered estimates that global growth should accelerate to 3.1-3.4% p.a. in 2014-15, from 2.7% in 2013. We expect Singapore's major export partners to record economic growth of 3.0% p.a. in 2014-15, up from 2.4% in 2013.

Figure 25: Real GDP growth of major economies in 2012-15



Source: Standard Chartered Research estimates

Other model updates

Frasers Centrepoint Trust
(Analyst: Kai Yip)

We raise our price target by 7% to SGD 2.18 (from SGD 2.04) and maintain our Outperform rating. We lift our FY14-17E DPU estimates by 1% on average as we factor in stronger operational performances at Causeway Point, Northpoint and Yew Tee Point, offset by a weaker performance at Bedok Point. We also factor in a lower risk-free rate of 3.0%.

FCT reported FY13 DPU of S¢ 10.93, 9% higher y/y and in line with our and consensus estimates. NAV rose 16% y/y to SGD 1.77/unit as FCT booked an 11% portfolio revaluation gain, driven by strong rental growth and a 15-25bps cap rate compression to 5.25-5.35%. Gearing fell to 27.6% from 30.4% in June 2013.

We still expect FCT to acquire Changi City Point from its sponsor Fraser and Neave (FNN) in the next six months. According to FNN, Changi City Point is currently valued at SGD 286mn (as of June 2013), and we believe FCT could potentially buy the asset at 5-10% above this valuation. We assume a 4.8% acquisition NPI yield. We expect FCT to fund 25% of the purchase via equity and reach a gearing level of 34%. If FCT fully funds the purchase with debt, this could bring gearing up to 37%, which would be c.2% accretive to our valuations.

Figure 26: DPU/EPU estimates

Year-ending September	2014E	2015E	2016E	2017E
DPU new (S¢)	11.39	11.50	11.75	11.80
DPU old (S¢)	11.28	11.51	11.66	11.62
% change	**1%**	**0%**	**1%**	**1%**
EPU new (S¢)	10.98	11.07	11.32	11.37
EPU old (S¢)	10.94	11.16	11.31	11.28
% change	**0%**	**-1%**	**0%**	**1%**

Source: Standard Chartered Research estimates

Frasers Commercial Trust
(Analyst: Kai Yip)

We raise our price target by 3% to SGD 1.29 and upgrade FCOT to In-Line from Underperform, as we factor in a lower risk-free rate of 3.0%. We adjust our FY14-17E DPU estimates slightly after accounting for the following factors:

- **Slightly higher rents for Alexandra Technopark.** We expect signing rents for this asset to be slightly higher at SGD 3.8psfpm. We forecast a 44% increase in income from this asset when the master lease expires in August 2014, based on an estimated passing rent of SGD 3.6psfpm and the master lease implied rent of SGD 2.5psfpm. If signing rents for the location continue to rise, there could be upside to our valuation, as we expect this asset to contribute c.30% of FCOT's FY15 earnings.
- **Higher interest expenses.** We expect the manager to increase its AUD debt to improve the portfolio's natural hedge to the Australian currency, but this would increase overall borrowing costs. We expect the manager to refinance part of the SGD 128mn debt expiring in FY14 into AUD debt. We adjust our foreign exchange assumptions slightly to factor in the latest estimates by Standard Chartered economists.

Figure 27: SGD-AUD assumptions

	2014E	2015E	2016E
SGD-AUD (new)	1.11	1.07	1.09
SGD-AUD (old)	1.13	1.10	1.07

Source: Standard Chartered Research estimates

- We lower our occupancy assumption for Central Park from 100% to 95%, as management expects the Perth office market to soften slightly. The property's occupancy declined to 93.5% in 4QFY13, from 99.0% in 3QFY13.
- FCOT's 4QFY13 NPI of SGD 21.9mn was 5% lower q/q and 6% below our estimate due to a weaker AUD and a decline in occupancy at Central Park. DPU of S¢ 2.08 was also 5% lower q/q, broadly in line with our and consensus estimates. FCOT booked a revaluation gain of SGD 53.9mn, representing a 3.1% y/y increase in its portfolio valuation despite a decline in AUD-SGD. Alexandra Technopark's valuation rose 19% to SGD 465mn (c.SGD 443psf NLA).

Figure 28: DPU/EPU estimates

Year-ending September	2014E	2015E	2016E	2017E
DPU new (S¢)	8.72	9.50	9.95	9.88
DPU old (S¢)	8.91	9.78	9.71	9.94
% change	**-2%**	**-3%**	**3%**	**-1%**
EPU new (S¢)	7.46	8.21	8.64	8.58
EPU old (S¢)	7.78	8.61	8.54	8.78
% change	**-4%**	**-5%**	**1%**	**-2%**

Source: Standard Chartered Research estimates

Cambridge Industrial Trust
(Analyst: Kai Yip)

We lower our price target by 5% to SGD 0.77 (from SGD 0.81) to account for lower rent reversions after the 3Q13 results. We expect CREIT to continue to convert expiring master leases into multi-tenanted buildings and divest small non-core assets. This is likely to raise revenue slightly, but bring down NPI margin from 81% in 3Q13 to 78% in 2014, and 75% in 2016. We maintain our Outperform rating as we continue to expect CREIT to offer a strong 2013-15E DPU CAGR of 10.2%, driven by completing redevelopments and acquisitions. We now factor in a lower risk-free rate of 3.0%.

Figure 29: DPU/EPU estimates

Year-ending December	2013E	2014E	2015E	2016E
DPU new (S¢)	5.13	5.75	6.23	6.15
DPU old (S¢)	5.13	6.03	6.58	6.63
% change	**0%**	**-5%**	**-5%**	**-7%**
EPU new (S¢)	5.64	5.37	5.77	5.62
EPU old (S¢)	3.26	5.74	6.17	6.11
% change	**73%**	**-6%**	**-7%**	**-8%**

*Including divestment gains
Source: Standard Chartered Research estimates

While CREIT's 3Q13 revenue of SGD 23.8mn was in line with expectations, NPI margin fell to 81% from 85% in 2Q13, due to conversions of master-leased properties into multi-tenanted leases. Single-tenanted properties as a proportion of portfolio rental income fell to 71%, from 81% in 2Q13. 3Q13 NPI of SGD 19.3mn was c.10% below our and consensus estimates. However, DPU of S¢ 1.25 was in line with our and consensus estimates as the manager paid out some divestment gains from the sale of two small assets in the quarter, which were at 23% above book value. CREIT also repaid c.SGD 108mn of its debt with divestment proceeds and has refinanced all of its debt expiring in 2014. Including the refinancing completed in October 2013, CREIT's leverage is now 27.9%, with an all-in cost of debt of 3.9%. We expect the average cost of debt to decline to c.3.7% in June 2014, when the hedging effect of the extension of debt expiry drops off.

Asset-enhancement works at 3 Pioneer Sector 3 and 21B Senoko Loop remain on track for completion in 4Q14, while 30 Teban Gardens Crescent is expected to complete this quarter. Despite flat same-store NPI growth over the next four years, we continue to expect CREIT's to offer a strong 2013-15E DPU CAGR of 9.5%, driven by completing redevelopments and our acquisition assumptions. We expect CREIT to gear up to 35% and use its divestment proceeds to acquire assets or take on new redevelopment projects.

Ascendas India Trust
(Analyst: Meenal Kumar)

We raise our revenue and occupancy assumptions for the portfolio in line with the assets' better-than-expected performance in 3Q13. We adjust our currency assumptions based on updated Standard Chartered Research forecasts. Our economists now expect a 4-10% weaker INR against the SGD in 2013-17E. We adjust our EPU/DPU estimates by -0.5% to -4% and lower our price target by 3% to SGD 0.70. We maintain our In-Line rating based on valuations. We believe continued weakness in the INR-SGD is a key risk to our call.

Figure 30: Revisions to DPU/EPU estimates (S¢)

Year-ending March	2014E	2015E	2016E	2017E
EPU new	4.44	5.47	5.82	6.06
EPU old	4.66	5.70	5.90	6.11
% change	**-4.8%**	**-4.1%**	**-1.4%**	**-0.9%**
DPU new	4.55	5.34	5.70	5.92
DPU old	4.57	5.59	5.78	5.99
% change	**-0.4%**	**-4.4%**	**-1.5%**	**-1.2%**

Source: Standard Chartered Research estimates

AIT reported 2QFY14 (year-ending March 2014) DPU of S¢ 1.10, in line with our S¢ 1.06 estimate despite a weaker INR – revenue was higher than expected in INR terms. Portfolio occupancy was stable q/q at 96% as of September 2013, with committed occupancy of 97%. AIT was able to increase pre-commitment for Aviator, its 600,000sqf multi-tenanted development in Bangalore, to 100% from 26% three months ago. The asset should be completed in December 2013 However, leasing was flat at 41% at a new Hyderabad asset, aVance 3, which is to be acquired by AIT. Currently, AIT is only partially invested in aVance 3, which was completed in June 2013. Further investments could be made as occupancy improves, in our view.

Figure 31: Standard Chartered Research currency forecasts

	2013	2014	2015	2016	2017
USD-INR	58.5	61.0	59.0	58.5	58.0
USD-SGD	1.25	1.23	1.25	1.22	1.20
SGD-INR	**46.9**	**49.6**	**47.2**	**48.0**	**48.3**
SGD-INR (prev)	**46.9**	**44.5**	**45.2**	**44.6**	**43.6**
% chg	**-0.1%**	**-10.3%**	**-4.2%**	**-6.9%**	**-9.7%**

Source: Standard Chartered Research estimates

Leveraged at 20% as of 30 September, we believe potential upside surprises could stem from further acquisitions or developments. Apart from the committed investment in Aviator and aVance 3, we assume a further SGD 126mn of acquisitions at a 10.5% NPI yield. Without acquisitions, our fair value would be SGD 0.65. AIT has underperformed the SREIT sector by 5% year-to-date, despite the INR's 11% depreciation against the SGD over the same period. AIT is trading at a 6.9% FY14E yield and at 1.2x book.

Religare Health Trust

(Analyst: Meenal Kumar)

We adjust our FY14-17E DPU estimates by -14% to +2% after fine-tuning our acquisition and INR-SGD assumptions, and lower our price target by 7% to SGD 0.89 (from SGD 0.97). RHT has underperformed the SREIT sector by 3% year-to-date, despite the INR's 11% depreciation against the SGD over the same period. RHT is trading at a 10.2% FY14E yield and at 1.01x book. We believe a weaker than expected INR-SGD is a key risk to our call.

Figure 32: Revisions to DPU/EPU estimates (S¢)

Year-ending March	2014E	2015E	2016E	2017E
Adj. EPU old	4.25	6.37	7.13	7.51
Adj. EPU new	4.02	5.96	6.36	6.93
Chg (%)	**-5.5%**	**-6.4%**	**-10.8%**	**-7.7%**
DPU old	8.01	8.17	9.04	9.58
DPU new	8.16	7.19	7.74	8.21
Chg (%)	**2.0%**	**-12.0%**	**-14.3%**	**-14.3%**

Source: Standard Chartered Research estimates

RHT reported 2QFY14 (year-ending March 2014) DPU of S¢ 2.06, in line with our S¢ 2.02 estimate and the S¢ 2.03 consensus estimate. NPI excluding a non-cash straight-lining item was in line with our estimate. While distributions are hedged on a 12-month forward basis, RHT's NAV fell 5% q/q to SGD 0.80/unit due to the weaker INR. Because of the high number of low-yielding dengue/malaria cases in the summer months, 2QFY14 portfolio occupancy rose 8ppt q/q to 86%, while ARPOB declined 2.4% q/q to INR 9.93mn. RHT's new Gurgaon asset, which comprises 26% of portfolio value, saw a 7ppt q/q rise in occupancy to 47%. Its ARPOB of INR 17.5mn was up 13% q/q.

We adjust our currency assumptions based on updated Standard Chartered Research forecasts. Our economists now expect a 4-10% weaker INR against the SGD in 2013-17E. Management plans to continue hedging distributions on a 12-month forward basis, but they said that hedging expenses have increased to c.8.5-9%, from 7% at listing. We adjust our hedged rate assumptions accordingly. We previously assumed that RHT would acquire SGD 100mn worth of assets at a 9% initial yield, funded via SGD debt costing 5%. We now assume a lower acquisition quantum of SGD 70mn and a higher cost of debt of 5.8%.

RHT announced that it has entered into negotiations to acquire the 355-bed Mohali Clinical Establishment from its sponsor, Fortis Healthcare. We estimate the asset could cost c.SGD 70mn (likely to be debt-funded). Management said the company's indicative borrowing cost has increased to 5.5-5.8%, from 4.5% at listing. RHT previously planned to acquire third-party assets, but the assets were acquired by the sponsor instead, because of their high greenfield component and a compressed acquisition timeframe. RHT's parent has sold its overseas assets in Australia, Vietnam and Hong Kong. While the overseas portfolio falls under a ROFR agreement, RHT chose not to buy the assets. The parent's new focus is India. RHT management said the parent is likely to seek greenfield sites, while RHT would prefer to buy stabilised assets, as it already has a high greenfield component in its portfolio.

Ascendas Hospitality Trust

(Analyst: Meenal Kumar)

We adjust our EPU/DPU estimates by -3% to -15% to account for the performance of the Australian hotels, higher gearing for ASHT's Australian assets and currency forecasts. We lower our price target by 13% to SGD 0.74 from SGD 0.85 and maintain our In-Line rating on valuations. We now expect RevPar for ASHT's Australian hotels to fall by 2% this year, versus our previous assumption of a 2% increase. ASHT offers a 7.2% FY14E yield and trades at 0.99x book. We currently assume SGD 125mn of debt-funded acquisitions at a 5% initial yield, bringing leverage to 41% at end-FY15E. Without acquisitions, our price target would be SGD 0.73.

Figure 33: Revisions to DPU/EPU estimates (S¢)

Year-ending March	2014E	2015E	2016E	2017E
Adj. EPU old	5.38	5.95	6.06	5.99
Adj. EPU new	5.14	5.32	5.18	4.99
Chg (%)	**-4.5%**	**-10.7%**	**-14.5%**	**-16.6%**
DPU old	5.67	6.26	6.37	6.30
DPU new	5.47	5.69	5.55	5.37
Chg (%)	**-3.4%**	**-9.1%**	**-12.8%**	**-14.7%**

Source: Standard Chartered Research estimates

ASHT reported 2QFY14 DPU of S¢ 1.41, 7.6% below our S¢ 1.53 estimate due to higher than expected tax expenses. NPI was in line with our expectation. 1HFY14 DPU of S¢ 2.7 met 48% of our FY14E estimate and 47% of the consensus full-year forecast. Portfolio performance was mixed with forex and operational weakness offset by contributions from the recent Singapore acquisition, Park Hotel Clarke Quay. The Australian hotels saw AUD RevPar fall 2% y/y (10% below the prospectus forecast), despite the completion of asset enhancement work in August 2013. However, RevPar improved 12% q/q, because of a 10.6ppt increase in occupancy.

China hotels' RevPar in RMB terms fell 19% y/y, but rose 6% q/q as the hotels cut rates to boost occupancy. Management has changed its hedging policy and will now hedge 100% of its overseas cash flow for up to 15 months forward. Sixty-two percent of total debt is SGD denominated, even though Singapore assets comprise only 23% of its total portfolio value. This allowed ASHT to achieve an average cost of debt of just 2.9% in 2QFY14. Management has revised its funding strategy to better match its assets and liabilities as its borrowings mature. It plans to use 100% local currency debt at c.30-40% loan-to-value by country, versus 50% local currency debt currently. As a result, management expect ASHT's cost of debt to rise over time. We have revised our debt currency assumptions and now expect a 4.2% terminal cost of debt (from 3.4% previously).

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	% of covered companies currently assigned this rating	% of companies assigned this rating with which SCB has provided investment banking services over the past 12 months
OUTPERFORM	54.1%	14.5%
IN-LINE	34.2%	13.6%
UNDERPERFORM	11.7%	8.2%

As of 30 September 2013

Research Recommendation

Terminology	Definitions
OUTPERFORM (OP)	The total return on the security is expected to outperform the relevant market index by 5% or more over the next 12 months
IN-LINE (IL)	The total return on the security is not expected to outperform or underperform the relevant market index by 5% or more over the next 12 months
UNDERPERFORM (UP)	The total return on the security is expected to underperform the relevant market index by 5% or more over the next 12 months

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