Singapore

Overweight *(no change)*

Highlighted Companies

Ascendas REIT
ADD, TP S$3.20, S$2.83 close

AREIT is trading at 5.8% FY22F dividend yield or at a 380bp spread over the Singapore 10-year bond yield. The yield spread has reverted to its average 5-year and 10-year yield spread range of 370-400bp.

CapitaLand Integrated Commercial
ADD, TP S$2.57, S$2.14 close

CICT is trading at 5.2% FY22F dividend yield and is projected to grow its DPU by 6.2% in FY22F. Potential re-rating catalysts are new acquisitions, which have not been factored into our current estimates.

ESR-REIT
ADD, TP S$0.50, S$0.445 close

EREIT is trading at an attractive 5.6% FY22F dividend yield spread which is wider than its 5-year historical DPU yield spread of 4.7%. We expect it to deliver stable income on diversified portfolio. Further price upside will come from a successful merger with ALOG to create the 13th largest SREIT by AUM.

Summary Valuation Metrics

P/E (x)	Dec-21A	Dec-22F	Dec-23F
Ascendas REIT	12.06	17.31	16.68
CapitaLand Integrated Commercial	13.21	19.30	18.89
ESR-REIT	21.15	16.21	16.01
P/BV (x)	**Dec-21A**	**Dec-22F**	**Dec-23F**
Ascendas REIT	1.16	1.15	1.15
CapitaLand Integrated Commercial	1.03	1.08	1.08
ESR-REIT	1.07	1.14	1.16
Dividend Yield	**Dec-21A**	**Dec-22F**	**Dec-23F**
Ascendas REIT	5.39%	5.83%	6.05%
CapitaLand Integrated Commercial	4.86%	5.16%	5.25%
ESR-REIT	6.71%	7.01%	7.09%

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REIT

Looking towards a recovery

- After a robust FY21, SREITs are projected to deliver DPU growth of 6-7% in FY22F and 3% in FY23F.
- Improving operating metrics and inorganic growth should underpin DPU expansion, in our view.
- Reiterate sector Overweight. Our preferred picks are CICT and AREIT. We also like EREIT for its attractive valuation.

SREITs impacted by rising interest rate outlook…

We think SREITs' underperformance YTD has priced in c.50bp of interest rate hikes. While we think the market will remain choppy in the near term over uncertainty over the quantum of rate hikes and the elevated inflation outlook, we think this has been partly reflected in share prices. Anecdotal evidence shows that performance of SREITs tends to be choppy as the market digests the expectations of rate hikes. However, SREITs' performance tends to catch up, when the hikes begin, as tapering signals an improving economic outlook, which should boost the rental and capital value outlook in the medium term.

…despite improving outlook on operating metrics

In the recent results update, retail and industrial REITs showed slight qoq improvements in rental reversions and we expect the recovery to continue at a moderate pace as borders reopen and on robust economic activity. On occupancies, industrial REITs saw portfolio take-up rates inching up qoq while retail REITs' take-up rates generally stayed stable. Occupancy for office REITs was dragged by some frictional vacancies but landlords remained confident about backfilling the vacated spaces in 2022F amid single-digit positive rental reversions. While elevated inflation could mean a rise in operating costs, inorganic growth prospects could provide another growth driver for SREITs.

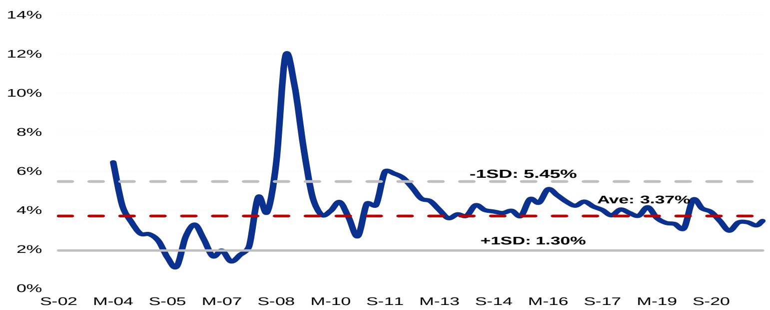
Projected DPU growth of 6-7% in FY22F and 3% in FY23F

We expect SREIT sector DPU to grow by 6-7% in FY22F and another 3% in FY23F, therefore eroding some of the impact of yield spread compression due to rising rates. We do not believe the impact of rising rates will have a significant impact on earnings and valuations. By our estimates, a 0.1% pt rise in average cost of borrowings and cost of equity could impact SREITs' DPU by 0.2-1.9% and DDM-based valuations by 1.4-3%.

Reiterate sector Overweight

We stay sector Overweight on SREITs. We update our sector top picks to CICT, AREIT and EREIT as a small cap pick. CICT is trading at 5.2% FY22F dividend yield, which is a 390bp spread over the Singapore 10-year bond yield (and above the average 5-year/10-year bond yield spread), with DPU growth of 6.2%. Potential re-rating catalysts include accretive new acquisitions. We also like AREIT and EREIT on valuation grounds. AREIT is trading at 5.8% FY22F dividend yield or at 380bp yield spread, higher than its 5-year/10-year yield spread average while EREIT is trading at 7% FY22F yield. Upside risks for the SREIT sector include moderated pace of rate hikes while downside risks include higher-than-anticipated rate hikes and an elevated cost inflation outlook.

Figure 1: SREIT yield spread over the 10-year government bond yield

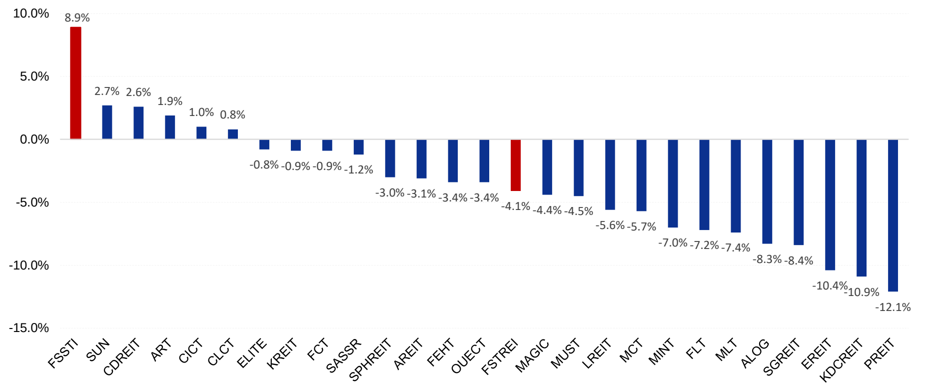


SOURCES: CGS-CIMB RESEARCH, COMPANY

A robust end to 2021

SREITs delivered a decent round of results in the recent reporting season and notched 7-8% DPU growth for FY21, based on our coverage universe, thanks to accretive acquisitions, improving operating metrics backed by lower rental rebates, higher occupancy and stabilisation in rental reversions as well as accretive acquisitions. Yet, SREIT performance YTD since end-Dec continued to face roadblocks, with the FSTREI (REIT index) down 4.1% vs. the 8.9% rise in the broader market, as concerns over the pace and quantum of interest rate hikes intensified.

Figure 2: SREIT share price performance YTD



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Summary of key highlights

REITs generally reported in-line results, with the positive outliers being FEHT, which beat our FY21 core net profit projection by 5.4% on lower interest expenses, and SASSR, which exceeded our projection by 6% on better-than-expected operating performance. Below are the results highlights of the various sub-sectors:

Retail

In FY21, retail REITs' committed occupancy rate remained stable qoq at 97% to 100%. Rental reversions were mostly still in the negative range but improved on a qoq basis since 1Q21. As expected, suburban malls delivered stronger rental reversion vs. the downtown malls. Generally, suburban malls delivered low single-digit negative rental reversions while downtown malls' rental reversions declined by double-digits in the range of 10% to 15% in 2021. Retail REITs' tenant sales improved yoy in 2021 with suburban malls achieving near or above pre-Covid-19 levels while downtown malls achieved 70-90% of pre-Covid-19 levels. Overall Singapore retail sales also showed encouraging recovery despite the lack of tourist spending. Retail sales in Sep-Dec 2021 rebounded to close to pre-Covid-19 levels, driven by all categories, except department stores, food and alcohol, cosmetics, apparel and footwear.

Office

Portfolio occupancy of office REITs was weaker qoq in 4Q21, with some downsizing activities. However, most office landlords said that leasing demand seemed to have improved, with a pick-up in enquiries and progressive backfilling of spaces, particularly in 4Q21. This was evidenced by an uptick in the URA

Central Region rental index, which showed a 0.9% qoq increase in 4Q21 after a qoq decline in 3Q21 and up 1.9% yoy for the whole of 2021. In addition, REITs have been active in deploying capital into new acquisitions in 4Q21; for instance, CICT made purchases in Australia and continues to be on the lookout for accretive buys.

Industrial

Operating metrics for industrial REITs were stronger in 4Q21 vs. a year ago, with MLT delivering rental reversions of +2.5% and AREIT +4.5% while MINT's rental renewals remained relatively stable. Portfolio occupancy also continued to improve on a qoq basis. Industrial assets, particularly in Australia, continued to enjoy cap rate compression. With tighter yields, industrial REITs are signalling a slower acquisition pace whilst looking for better returns from pre-stabilised assets, redevelopment/asset enhancement opportunities and potential divestment opportunities.

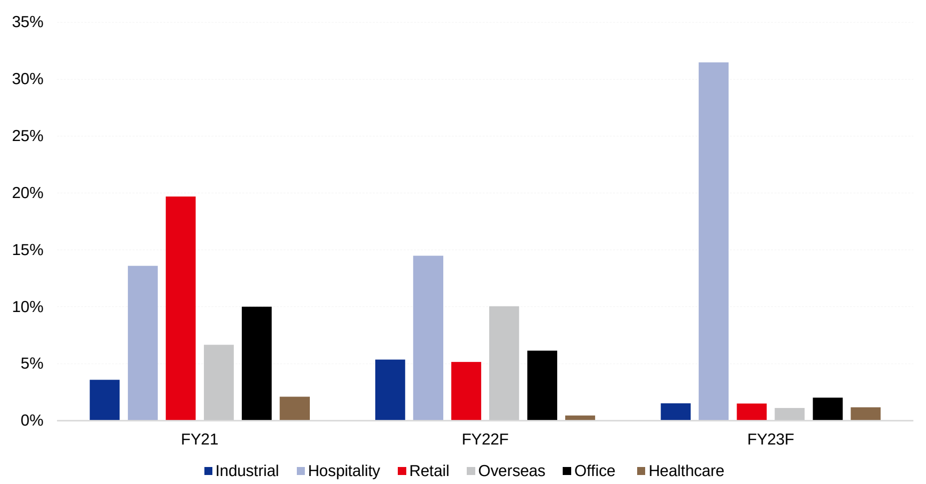
Hospitality

The hospitality REITs saw encouraging RevPAR/RevPAU improvement in 2H21 yoy in most of the markets, largely driven by the easing of domestic travel and border restrictions in 2H21. ART's portfolio RevPAU continued its upward trajectory, rising over six consecutive quarters since 2Q20 and reported the strongest qoq RevPAU increase (+24%) in 4Q21. CDLHT has also delivered stronger RevPAR in 3Q-4Q21 vs. 1Q21 in most of its markets. Similarly, FEHT posted much stronger hotel RevPAU and serviced residence RevPAU in 4Q21 vs. the previous quarters of the year.

Outlook

We project SREITs under our coverage to deliver DPU growth of 6-7% in FY22F and a further 3% in 2023F, underpinned by expectations of an improvement in operating performance such as better rental reversion outlook and a pick-up in occupancy levels. We have not factored in any preemptive acquisitions into our current estimates. Our current assumptions have baked in low single-digit positive rental reversions for retail, office and industrial REITs on the back of a slight increase in occupancies. For the hospitality REITs, we assume a RevPAR growth of 20-25% yoy in 2022F (back to 60% of pre-Covid level), a further yoy rise of 30-40% in 2023F (back to 80-90% of pre-Covid level) and back to 100% of pre-Covid level in 2024F, as more countries reopen their borders.

Figure 3: FY21-23F DPU growth by sector



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Retail – improving operating environment

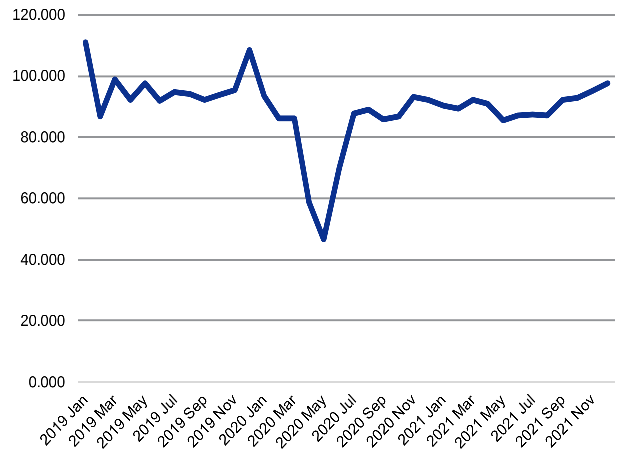
Singapore eased the dine-in limit and social gatherings to groups of five in Nov 2021 and has since maintained these measures despite the spike in cases recently. In fact, the country has eased some measures such as allowing larger work-related events of up to 1,000 persons and work-from-home is no longer a default. It also eased testing measures for both non-VTL and VTL travellers. From 25 Feb 2022 onwards, households will also be allowed to host five visitors at any one time (instead of five visitors a day) and social gatherings at workplaces will also be allowed to resume in groups of up to five. Safe distancing is also no longer mandatory as long as masks remain on.

Singapore has shifted its approach to live with Covid-19. Despite the expectations that daily Covid-19 cases would stay high in the immediate term and although it had just eased some Covid-19 measures which will take effect from 25 Feb 2022, Singapore is still looking to relax more measures when Omicron cases peak. Given its eagerness in reopening the economy coupled with the less severe symptoms caused by current Covid-19 variants as well as the availability of Covid-19 vaccines and pills, we believe that the operating environment for retailers is now more stable as compared to last year. Although daily Covid-19 cases have been rising recently, ICU occupancy rate has declined from the peak of c.90% in Oct 2021 to c.50% currently. ICU occupancy rate is one of the key metrics that the authorities is monitoring to decide on its approach in implementing Covid-19 measures.

With a more stable Covid-19 approach, we think pressure on rental reversion would ease gradually as tenants slowly gain more confidence that the situation is stabilising. With this, we have assumed flat to low positive rental reversion in our FY22 forecast vs. single-digit to double-digit negative rental reversion delivered by the retail REITs in 2021. The REITs provided two weeks of mandatory rental rebates to eligible tenants in 2Q21 and 3Q21. If the operating environment does not deteriorate, we expect minimal rental rebates although some REITs remain committed to dishing out rebates to selective tenants.

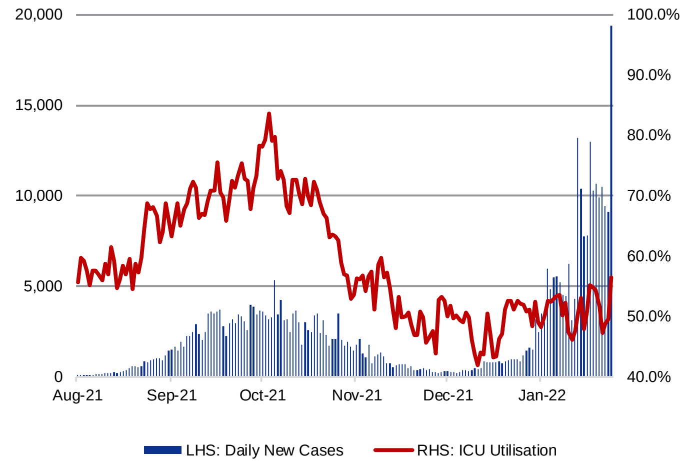
Our top pick for the sector is Lendlease Global Commercial REIT (Add, TP: S$0.95). 313@Somerset is a domestic and border reopening play. We also like its resilient income, supported by Jem and Sky Complex as well as the sizeable sponsor pipeline. LREIT is trading at an undemanding FY22 dividend yield of 5.7%.

Figure 4: Singapore retail sales recovered to near pre-Covid 19 levels



SOURCES: CGS-CIMB RESEARCH, SINGSTATS

Figure 5: ICU utilisation rate remains relatively low despite the surge in Covid-19 cases

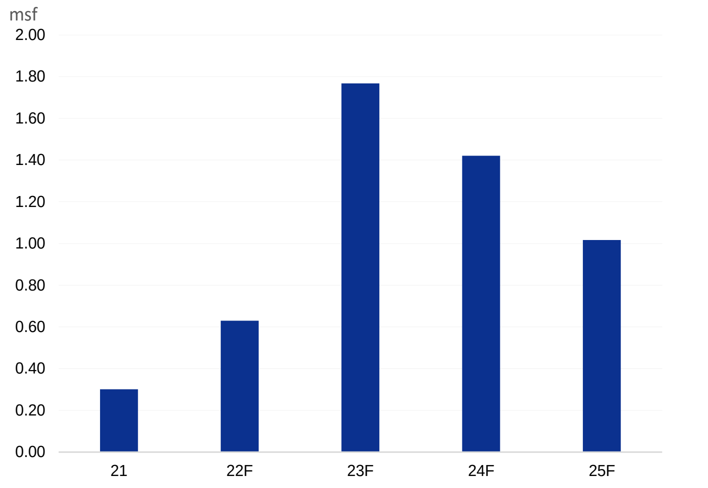


SOURCES: CGS-CIMB RESEARCH, MOH

Office – Expecting continued positive reversions into 2022F

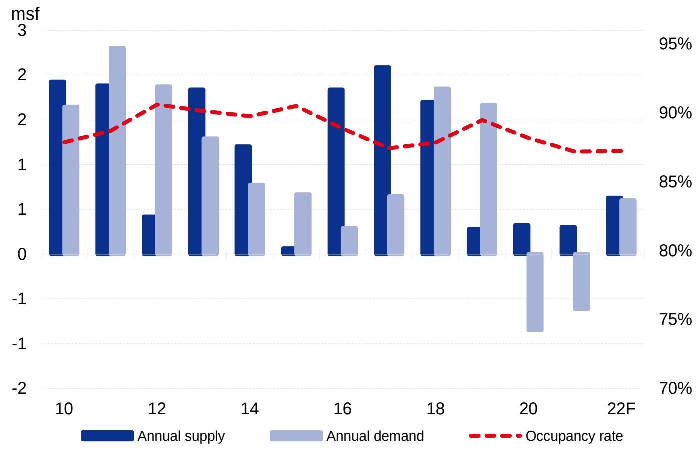
We think that office rents should continue to improve by a further 5% yoy in 2022F, on the back of improved demand due to continued economic expansion and moderating new incoming supply. We believe that physical occupancy should increase due to 1) the relaxation in the requirement for safe-distancing in mask-on settings such as the workplace, 2) 50% of those who can work from home being allowed to return to the office, and 3) no restrictions on cross-deployment across workplaces. Most office REITs are guiding for single-digit positive rental reversion in 2022F with confidence in backfilling vacated spaces. REITS such as CICT have highlighted that it could be looking to redeploy proceeds into Singapore. CICT divested One George St and JCube for S$1.07bn and acquired S$1.1bn worth of Australia commercial assets in 4Q21.

Figure 6: Projected new office supply in 2022-25F



SOURCES: CGS-CIMB RESEARCH, URA

Figure 7: Annual demand, supply and occupancy of office space

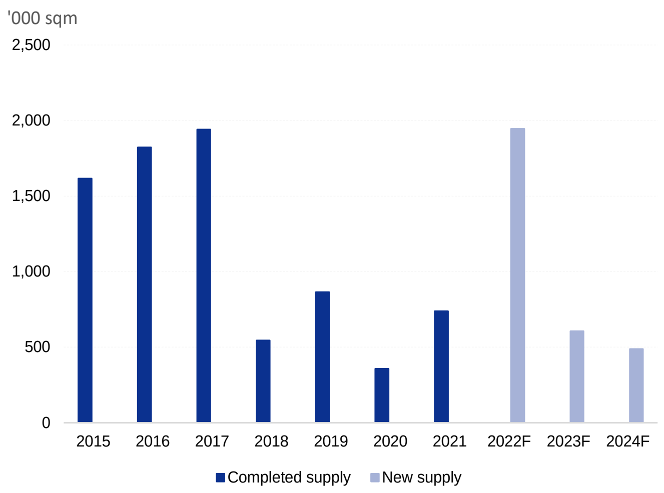


SOURCES: CGS-CIMB RESEARCH, URA

Industrial – improving operating metrics

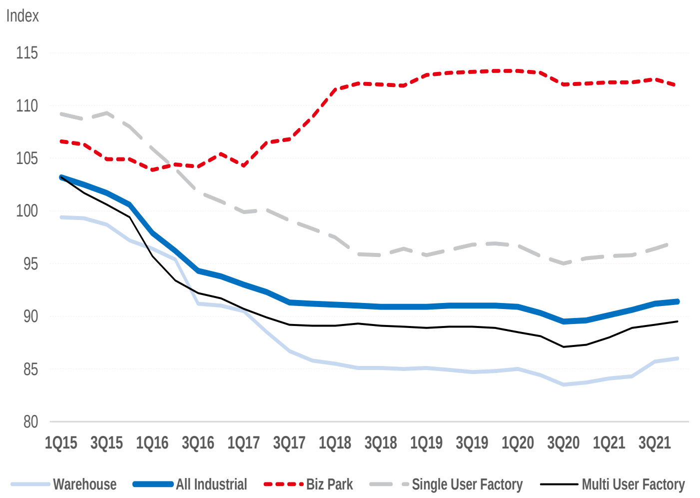
Incoming new supply in 2022F remains high, with an estimated 1.9m sq m of new completions, mainly from single and multi-user factory space. Hence, we anticipate improvements in industrial rents and occupancy to continue to be gradual. That said, this sub-sector remains focused on delivering inorganic growth through new acquisitions and asset enhancement activities. FLCT, which is expected to have a proforma gearing of 29.8% post completion of divestment of Cross Street Exchange is well placed to redeploy capital into logistics & industrial assets. Meanwhile, AREIT also signalled that it continues to be on the lookout for acquisitions, although unlikely to repeat the sizeable S$2bn purchase quantum it achieved in 2021F.

Figure 8: Total supply of industrial space by years



SOURCES: CGS-CIMB RESEARCH, JTC, COMPANY REPORTS

Figure 9: Rental trend of various industrial segments



SOURCES: CGS-CIMB RESEARCH, JTC, COMPANY REPORTS

Hospitality – Fewer travel restrictions this year bode well for the sector

In Singapore, we note that the government has started trimming its exposure to utilising hotels for Covid-19 isolation purposes. CDLHT now has two hotels under government contracts vs. six previously while FEHT has three of its contracts terminated vs. six previously. In Australia, ART's number of properties under government contracts has also been reduced from three to one. As many countries shift their approach from eliminating Covid-19 to living with Covid-19, the release of hotels from contracts was not surprising although it is earlier than expected. The cessation of government contracts would introduce more uncertainties to the properties involved, but we think this will be partially offset by the recovery in travelling activities although there will be a transition period. CDLHT's and FEHT's Singapore hotels are supported by master lease income and are trading at minimum income. Hence, the cessation of government contracts should not have a material financial impact.

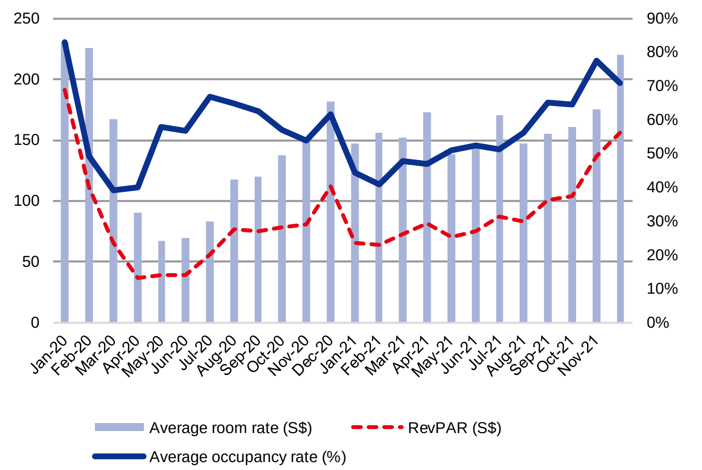
The spike in Covid-19 cases globally recently has delayed the recovery of the tourism industry, but we remain optimistic that the industry will rebound as data such as flight and hotel bookings as well as Google travel search shows that there is a strong desire to travel. We see greater demand from both international and domestic travel as we expect fewer tightening measures domestically and fewer international border restrictions in 2022F vs. 2021F.

On this front, Singapore has expanded its VTL arrangement with more countries to include Israel and the Philippines from 4 Mar 2022 onwards. It also resumed the VTL arrangements with Qatar, Saudi Arabia and UAE from 25 Feb 2022 onwards, expanding its VTL list to 30 countries which represents 64% of the total arrivals in 2019. Sea VTL with Bintan and Batam will also start from 25 Feb 2022 while traveller quota for all air VTLs will be fully restored after the temporary reduction of the quota by 50% due to the spike in Omircon cases. VTL launches from Sep 2021 to Dec 2021 have boosted arrivals by 2-8x and we will not be surprised if Singapore almost fully opens its borders by end-2022, considering the fast pace of Singapore's border reopening thus far.

Other than establishing VTL with more countries, Singapore has simplified border measures for travellers from 21 Feb 2022 onwards. These measures include (i) VTL and those from countries deemed to be of low Covid-19 risk will no longer need to perform an on-arrival PCR test. It will be replaced with supervised antigen rapid test within 24 hours of arrival, (ii) 7-day self-supervised ART testing regime after arrival on VTLs will cease, (iii) travel history requirement will be reduced from 14 to 7 days, and (iv) stay-home-notice duration will be standardised to seven days across all country/region categories. We think that these simplified measures would make travelling less challenging and costly which will help to attract more travellers.

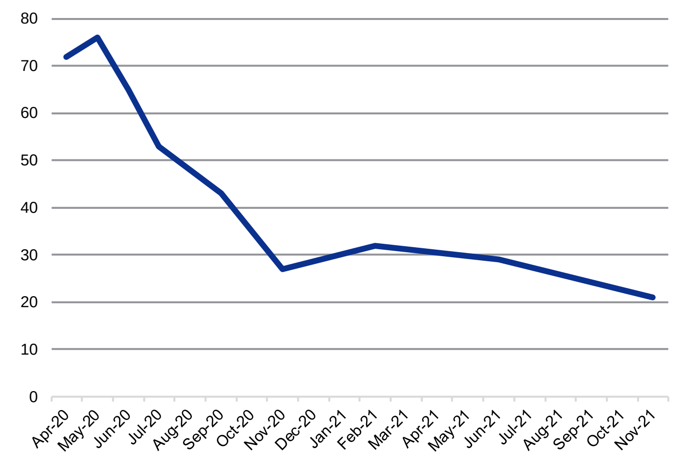
We expect RevPAR for Singapore hotels under the REITs to deliver faster growth of 20-25% yoy in 2022 and 30-40% in 2023 and achieve full recovery by 2024, driven mainly by VTL launches and staycation demand to a lesser extent. The hospitality REITs are trading below NAV at 0.7-0.9x. We see further re-rating on stronger RevPAR. We continue to like ART (Add, TP: S$1.21) due to its higher exposure to domestic demand. We think that domestic demand will recover faster and be more resilient as compared to international travel recovery.

Figure 10: Singapore RevPAR and occupancy rate in Nov 2021 was the highest since the pandemic



SOURCES: CGS-CIMB RESEARCH, STAN

Figure 11: World travel restrictions (% of borders closed)



SOURCES: CGS-CIMB RESEARCH, UNWTO

Figure 12: VTL arrangements boosted arrivals by 2-8x, we expect a larger impact when Singapore sets up VTLs with major countries for arrivals

		Number of arrivals					Increase in arrivals after the launch of VTL (x)	% of total arrivals in 2019
	VTL launch date	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21		
Germany	08-Sep-21	139	769				5.5	2.0%
Canada	19-Oct-21	-	-	121	229		1.9	0.7%
Denmark	19-Oct-21	-	-	74	188		2.5	0.2%
France	19-Oct-21	-	-	423	799		1.9	1.1%
Italy	19-Oct-21	-	-	98	239		2.4	0.5%
Netherlands	19-Oct-21	-	-	208	432		2.1	0.5%
Spain	19-Oct-21	-	-	95	198		2.1	0.3%
UK	19-Oct-21	-	-	964	2,114		2.2	3.2%
US	19-Oct-21	-	-	840	1,888		2.2	3.8%
Australia	08-Nov-21	-	-	263	1,621		6.2	6.0%
Switzerland	08-Nov-21	-	-	78	238		3.1	0.5%
Finland	29-Nov-21				19	157	8.3	0.20%
India	29-Nov-21				7,482	27,672	3.7	7.40%
Indonesia	29-Nov-21				5,753	11,176	1.9	16.30%
Malaysia	29-Nov-21				2,535	10,939	4.3	6.40%
Sweden	29-Nov-21				42	211	5.0	0.30%
Thailand	14-Dec-21				361	1,421	3.9	2.80%

SOURCES: CGS-CIMB RESEARCH, SINGSTATS

Addressing interest rate impact

In their recent report 'Mercury Rising on US Rate Liftoff' (dated 27 Jan 2022), CIMB Treasury and Markets Research team had revised their base case assumptions to factor in the conclusion of Taper as well as four Fed fund rate hikes in 2022F and four rate hikes in 2023F. In Singapore, this translates into a potential 75bp increase in the Singapore 10-year bond yield over 1Q22 to 1Q23. Hence, we think that funding costs for SREITs debt is also likely to increase over time.

Figure 13: CIMB Treasury and Markets Research rates forecasts

Policy rates	1Q22	2Q22	3Q22	4Q22	1Q23
US	0.50	0.75	1.00	1.25	1.50
Malaysia	1.75	1.75	2.00	2.25	2.50
Indonesia	3.50	3.50	3.75	4.00	4.25
Thailand	0.50	0.50	0.50	0.50	0.75
Bond yields	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**1Q23**
UST 2y	1.25	1.45	1.70	1.85	1.90
UST 10y	2.00	2.00	2.40	2.50	2.50
MGS 3y	2.95	3.00	3.10	2.90	2.80
MGS 10y	3.85	4.00	4.10	3.95	3.75
IndoGB 2y	4.40	4.65	4.75	4.95	5.05
IndoGB 10y	6.60	6.85	7.00	7.10	7.05
SGS 2y	1.05	1.25	1.35	1.60	1.70
SGS 10y	1.95	2.20	2.35	2.60	2.70
ThaiGB 2Y	0.75	0.90	1.00	1.00	1.10
ThaiGB 10y	2.25	2.40	2.40	2.20	2.20

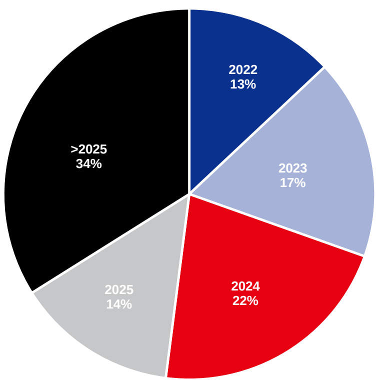
SOURCES: CIMB TREASURY AND MARKETS RESEARCH

Impact of higher interest rates on earnings

Next, we assess the impact of potential higher funding cost on SREIT earnings. With close to 75% of sector debt hedged into fixed rates and a well-spread debt maturity profile, the impact of rising interest rates will likely filter down to SREIT earnings only gradually.

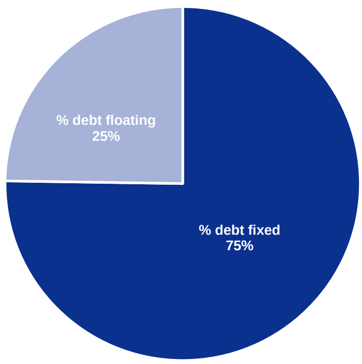
In our analysis below, we look at the sensitivity of SREIT DPUs to rising interest costs. Based on a 10bp rise in average interest cost, SREITs FY22-23F DPUs could be eroded by 0.2-1.9%. The impact is more notable for SREITs with higher gearing or lower proportion of fixed rate debt such as CDREIT, SUN and ESR REIT. While FEHT's current sensitivity appears high, we believe, post the divestment of Central Square and assuming part of the proceeds are utilised to pare down debt, the trust's proforma gearing is likely to decline to a proforma 33.5% and the portion of fixed rate debt rise to 67.6%. Likewise, post the completion of the sale of Cross Street Exchange by Mar 2022, FLCT's proforma gearing is likely to trend lower to 29.8%, in our view.

Figure 14: SREIT debt maturity profile – as at Dec 21



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 15: SREIT debt profile as at Dec 21



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 16: DPU sensitivity to a 0.1% rise in average debt cost

REIT	Gearing	% fixed debt	% chg in DPU	
			FY22F	FY23F
Hospitality				
ART	37.1%	74.0%	-1.4%	-1.1%
CDREIT	39.1%	61.3%	-1.9%	-1.4%
FEHT	38.3%	52.7%	-1.7%	-1.3%
Industrial				
AREIT	35.9%	79.4%	-0.3%	-0.3%
ALOG	39.5%	66.7%	-1.1%	-1.1%
ESR Reit	40.4%	92.1%	-0.9%	-0.9%
FLCT	34.3%	71.6%	-0.4%	-0.4%
KDC REIT	34.6%	74.0%	-0.6%	-0.6%
MINT	39.9%	79.7%	-0.2%	-0.2%
MLT	34.7%	79.0%	-0.3%	0.3%
Office				
KREIT	38.4%	63.0%	-0.6%	-0.8%
OUECT	38.0%	82.2%	-0.5%	-0.5%
SUN	43.7%	53.0%	-1.2%	-1.3%
Retail				
CICT	37.2%	83.0%	-0.3%	-0.4%
FCT	34.5%	54.0%	-0.9%	-0.8%
MCT	34.1%	75.3%	-1.0%	-0.9%
SPH Reit	30.3%	76.0%	-0.7%	-0.7%
SGREIT	36.1%	90.3%	-1.4%	-1.3%
LREIT	33.5%	90.0%	-1.1%	-1.3%
Overseas-centric				
MUST	42.8%	86.5%	-0.4%	-0.3%
MAGIC	42.1%	82.0%	0.4%	0.4%
SASSR	27.8%	54% (est)	-0.3%	-0.8%
ELITE	42.1%	63.0%	-0.7%	-1.3%
Healthcare				
PREIT	42.1%	70.0%	-0.3%	-0.3%

SOURCES: CGS-CIMB RESEARCH estimates

Impact of higher rates on valuation

From a valuation perspective, a rising interest rate outlook could also mean higher risk-free rates, assuming that the yield curve remains the same. Given that we value SREITs using DDM methodology, any change in cost of equity assumptions will also impact our target prices. In the section below, we detail our cost of equity assumptions and sensitivity of our target prices to a 10bp change in the risk-free rate assumptions.

Our sensitivity analysis show that for every 0.1% increase in cost of equity, the DDM-based TP of SREITs under our coverage could change by a relatively small 1.4-3.0%, the most sensitive to cost of equity changes being PREIT.

Figure 17: DPU sensitivity to rising interest costs

REIT	Current Cost of equity	% chg in DDM-based TP	REIT	Current Cost of equity	% chg in DDM-based TP
Hospitality			**Office**		
ART	7.05%	-1.7%	KREIT	6.92%	-2.3%
CDREIT	7.75%	-1.5%	OUECT	7.42%	-1.4%
FEHT	7.10%	-2.0%	SUN	7.02%	-2.2%
Industrial			**Retail**		
AREIT	7.34%	-1.9%	CICT	6.66%	-1.9%
ALOG	7.50%	-1.7%	FCT	6.50%	-2.2%
ESR Reit	7.40%	-1.4%	MCT	6.80%	-2.3%
FLCT	7.25%	-1.9%	SPH Reit	6.99%	-2.1%
KDC REIT	6.52%	-2.3%	SGREIT	6.98%	-1.5%
MINT	7.16%	-2.3%	LREIT	6.92%	-1.9%
MLT	7.45%	-2.4%			
Overseas-centic			**Healthcare**		
MUST	7.58%	-1.5%	PREIT	5.98%	-3.0%
MAGIC	7.28%	-1.8%			
SASSR	10.60%	-1.4%			
ELITE	7.75%	-1.4%			

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

We list below our latest DPU projections and target prices for SREITs under our coverage following our earnings tweaks in the recent results season. We have pencilled in a Singapore risk-free rate of 2% into our existing models, which is higher than the current rate of 1.9%.

Figure 18: SREITs DPU estimates and target prices at a glance

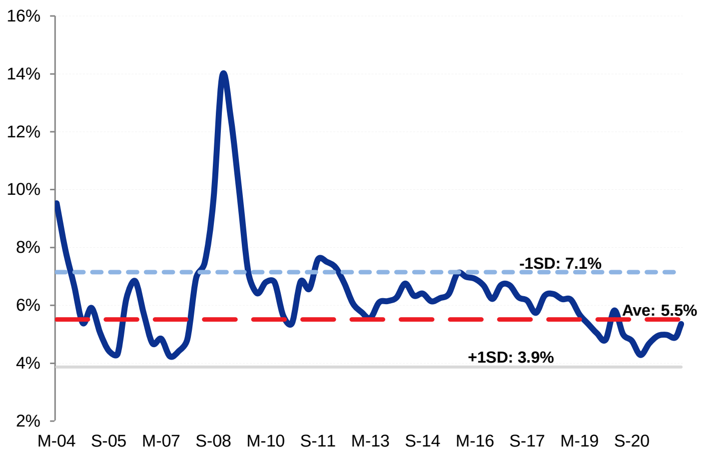
		DPU (LC cts)		Target
REIT	FY22F	FY23F	FY24F	price (LC)
Hospitality				
ART	4.96	6.43	7.25	1.22
CDREIT	4.92	6.86	8.07	1.32
FEHT	2.70	3.42	4.01	0.75
Industrial				
AREIT	16.51	17.13	17.62	3.20
ALOG	5.09	5.19	5.30	0.98
ESR Reit	3.12	3.16	3.20	0.50
FLCT	8.14	7.97	8.09	1.56
KDC REIT	10.63	10.74	10.96	2.70
MINT	13.04	13.96	14.39	3.16
MLT	8.54	8.67	8.65	2.10
Office				
KREIT	5.80	5.96	5.97	1.29
OUECT	2.79	2.80	2.80	0.45
SUN	10.85	11.00	10.63	1.79
Retail				
CICT	11.04	11.23	11.43	2.57
FCT	12.56	12.78	12.94	2.73
MCT	9.50	9.75	9.97	0.95
SPH Reit	5.27	5.26	5.39	2.18
SGREIT	3.52	3.99	4.25	1.03
LREIT	4.77	5.22	5.29	0.71
Overseas-centric				
MUST	5.74	6.11	6.30	0.89
MAGIC	6.90	7.93	7.73	1.13
SASSR	7.39	7.70	8.01	1.06
ELITE	5.10	5.48	5.54	0.77
Healthcare				
PREIT	14.14	14.31	14.59	5.05

SOURCES: CGS-CIMB RESEARCH estimates

Sector strategy and recommendation

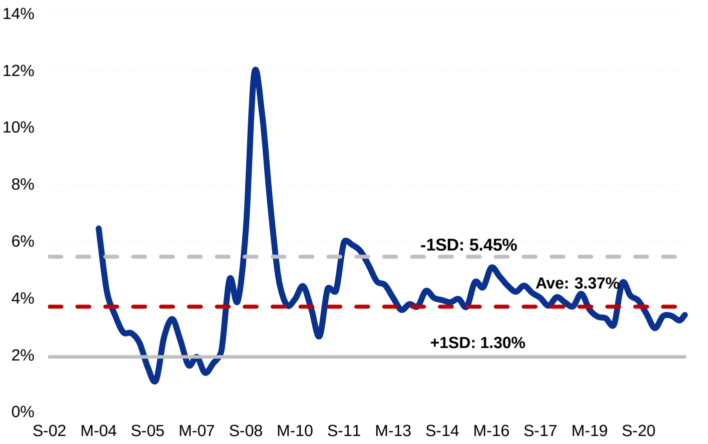
After the decline in share prices, SREITs sector is currently trading at a projected FY22F dividend yield of 5.4% compared to the 4.9% dividend yield it was trading at end-Dec 21, indicating that the market could have priced in a 50bp interest rate hike, in our view. At the current level, the spread between SREIT dividend yield and the 10-year Singapore government bond yield is at c.340bp, or back to the long-term average yield spread.

Figure 19: SREIT forward dividend yield



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 20: SREIT dividend yield spread



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

In terms of sector strategy, given the narrowing yield spread due to rising bond yields, we believe that investors should position themselves in REITs, i) that are attractively priced with robust dividend growth outlook that can maintain yield spread or offset the impact of narrowing yield spread going forward, or ii) SREITs that are trading close to or above their long term yield spread indicating that they are likely to have priced in the rate hike expectations. Within our coverage, REITs that meet these two criteria include CICT, AREIT, MUST and SUN.

Figure 21: SREIT projected FY22F DPU growth and FY21-23F cumulative DPU growth

REIT	FY22F yoy DPU growth	FY21-23F cum DPU growth
CDREIT	21.2%	64.1%
MCT	18.8%	4.9%
ART	16.6%	46.3%
MAGIC	12.9%	12.1%
AREIT	8.2%	6.7%
MUST	7.5%	9.8%
OUECT	7.5%	0.2%
SUN	7.3%	-2.0%
KDC REIT	6.3%	3.1%
CICT	6.2%	3.6%
FLCT	6.0%	-0.6%
MINT	5.6%	10.3%
PREIT	4.9%	3.2%
ESR Reit	4.4%	2.4%
FCT	4.3%	3.0%
MLT	2.6%	1.3%
FEHT	2.5%	48.7%
LREIT	2.2%	10.8%
SASSR	1.2%	8.3%
KREIT	1.2%	2.9%
ALOG	0.0%	4.0%
SPH Reit	-2.2%	2.2%
ELITE	-6.4%	8.7%
SGREIT	-10.7%	20.8%

SOURCES: CGS-CIMB RESEARCH estimates

Figure 22: SREIT current yield spread vs. 5-year and 10-year historical yield spread

REIT	FY22F DPU yield	Current yield spread	5-yr average yield spread (Jan 2016-Jan 2022)	10-yr average yield spread (Jan 2011-Jan 2022)
Hospitality				
ART	4.7%	2.42%	3.5%	4.0%
CDREIT	4.2%	2.72%	3.3%	3.6%
FEHT	4.6%	3.19%	3.5%	3.6%
Industrial				
AREIT	5.9%	3.9%	3.7%	4.0%
ALOG	5.9%	4.4%	5.7%	5.7%
ESR Reit	7.0%	5.6%	4.7%	5.0%
FLCT	5.8%	4.1%	4.4%	4.4%
KDC REIT	4.9%	3.2%	3.2%	3.3%
MINT	5.3%	3.8%	3.9%	4.6%
MLT	4.9%	3.3%	3.9%	4.3%
Office				
KREIT	5.1%	3.4%	3.3%	3.7%
OUECT	6.5%	5.6%	4.8%	4.9%
SUN	6.7%	4.4%	3.6%	3.8%
Retail				
CICT	5.3%	3.9%	3.2%	3.2%
FCT	5.5%	3.8%	3.3%	3.6%
MCT	5.1%	3.6%	3.3%	3.7%
SPH Reit	5.5%	3.7%	3.4%	3.4%
SGREIT	6.8%	5.1%	4.4%	4.1%
LREIT	5.7%	6.1%	6.3%	na
Overseas-centric				
MUST	8.7%	7.2%	5.1%	na
MAGIC	7.2%	5.4%	4.8%	4.8%
SASSR	8.6%	5.6%	5.3%	na
ELITE	7.7%	6.0%	6.5%	na
Healthcare				
PREIT	3.1%	1.3%	2.5%	2.8%

SOURCES: CGS-CIMB RESEARCH estimates

Stock recommendations

We reiterate our Overweight stance on SREITs. Sector re-rating catalysts include lower than projected quantum of rate hikes and active inorganic growth outlook while downside risks include elevated inflation and higher and faster than projected interest rate hikes, which would impact our DDM target prices adversely.

In terms of stock picks, we update our preferred picks to CICT and AREIT. Both REITs are trading at undemanding valuations, with yield spreads back to its 5-year or 10-year yield spread. In our view, this indicates that much of the rising rate outlook has been baked into the current share prices.

Capitaland Integrated Commercial Trust (CICT SP, Add, TP: S$2.57)

We believe that CICT is well placed to benefit from a macro recovery given its diversified and stable earnings profile. Shopper traffic at its malls has recovered, particularly at its suburban malls, while rental reversions are stabilising on a yoy basis. We also anticipate a better 2H22F for offices with new contributions from the WeWork lease at 21 Collyer Quay and completion of AEI at 6 Battery Rd. Balance sheet is robust with divestment of S$1.07bn worth of assets in Singapore and acquisition of S$1bn worth of assets in Australia in 4Q21. It is also on the lookout for new accretive acquisitions, particularly in Singapore. Re-rating catalysts are more clarity on new acquisitions and asset enhancement/redevelopment plans.

Ascendas REIT (AREIT SP, Add, TP: S$3.20)

We like AREIT on valuation grounds as the REIT is trading at a projected FY22F yield of 5.8%. AREIT's size and scale will likely enable the REIT to continue to pursue acquisition growth and continue to pivot into more new economy assets. With a gearing of 35.9% at end-FY21, AREIT has potential debt headroom of S$4.8bn to pursue inorganic growth. Operating performance remains robust with high portfolio occupancy and a 4.5% positive rental reversion in FY21 and management's guidance for a low single-digit positive reversion in FY22F. Potential re-rating catalysts include faster-than-expected global recovery and accretive new acquisitions. Downside risks include a protracted economic downturn.

ESR REIT (EREIT SP, Add, TP: S$0.50)

We also like EREIT for its attractive valuation and stable income. Being a diversified REIT with exposure in different industrial segments, we expect EREIT to deliver stable income and DPU yield of 6-7% in FY22-24 which is above the average sector yield (excluding overseas REITs) of 4% to 5.5%. The successful merger with ALOG would provide further price upside from potential acceleration in inorganic growth on lower funding cost and large sponsor pipeline. The merger will create the 9th largest REIT by free float in Singapore and 13th largest SREIT by AUM (from 17th for EREIT and 25th for ALOG on a standalone basis). To further grow the portfolio and create a flagship New Economy REIT, it aims to recycle a portfolio of non-core assets in the next 18-24 months. We think its current valuation has not factored in the merger with ALOG. On a standalone basis, EREIT's current yield spread of 5.6% is also not demanding vs. its 5-year historical DPU yield spread of 4.7%.

Figure 23: SREITs peer comparison

SREIT	Bloomberg Ticker	Rec.	Price (LC) as at 20 Feb 22	Target Price (LC) (DDM-based)	Mkt Cap (US $m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	FY21F Yield	FY22F Yield	FY23F Yield
Hospitality											
Ascott Residence Trust	ART SP	Add	1.06	1.22	$2,586	37.1%	1.19	0.89	4.0%	4.7%	6.1%
CDL Hospitality Trust	CDREIT SP	Add	1.22	1.32	$1,118	39.1%	1.29	0.94	3.3%	4.0%	5.5%
Far East Hospitality Trust	FEHT SP	Add	0.61	0.75	$891	38.3%	0.83	0.73	4.3%	4.5%	5.7%
Frasers Hospitality Trust	FHT SP	NR	0.45	NA	$658	37.7%	0.65	0.68	4.6%	5.0%	5.1%
	Simple Average					**38.1%**		**0.81**	**4.1%**	**4.5%**	**5.6%**
Industrial											
AIMS AMP	AAREIT SP	NR	1.40	NA	$756	33.6%	1.34	1.04	6.4%	6.7%	6.9%
Ascendas REIT	AREIT SP	Add	2.83	3.20	$8,844	35.9%	2.31	1.23	5.4%	5.8%	6.1%
ARA LOGOS Logistics Trust	ALLT SP	Add	0.86	0.98	$930	39.5%	0.67	1.28	5.9%	5.9%	6.0%
ESR-REIT	EREIT SP	Add	0.45	0.50	$1,337	40.0%	0.40	1.12	6.7%	7.0%	7.1%
Frasers Logistics & Commercial Trust	FLT SP	Add	1.41	1.56	$3,874	34.3%	1.24	1.14	5.4%	5.8%	5.7%
Keppel DC REIT	KDCREIT SP	Add	2.16	2.70	$2,762	34.6%	1.34	1.61	4.6%	4.9%	5.0%
Mapletree Industrial Trust	MINT SP	Add	2.56	3.16	$5,071	39.9%	1.80	1.42	4.9%	5.2%	5.6%
Mapletree Logistics Trust	MLT SP	Add	1.76	2.10	$6,121	34.7%	1.37	1.28	4.7%	4.9%	4.9%
Sabana Shariah	SSREIT SP	NR	0.44	NA	$346	33.4%	0.51	0.86	na	na	na
	Simple Average					**36.2%**		**1.31**	**5.5%**	**5.8%**	**5.9%**
Office											
Keppel REIT	KREIT SP	Add	1.15	1.29	$3,179	38.4%	1.29	0.89	5.1%	5.0%	5.2%
OUE Commercial REIT	OUECT SP	Hold	0.44	0.45	$1,762	38.7%	0.57	0.76	6.0%	6.3%	6.3%
Suntec REIT	SUN SP	Add	1.63	1.79	$3,480	43.7%	2.11	0.77	5.1%	5.7%	5.8%
	Simple Average					**40.3%**		**0.81**	**5.4%**	**5.7%**	**5.8%**
Retail											
CapitaLand Integrated Commercial	CICT SP	Add	2.14	2.57	$10,528	37.2%	2.06	1.04	4.9%	5.2%	5.2%
Frasers Centrepoint Trust	FCT SP	Add	2.31	2.73	$2,926	34.5%	2.30	1.00	5.2%	5.4%	5.5%
Lendlease Global Commercial REIT	LREIT SP	Add	0.84	0.95	$745	33.5%	0.81	1.04	5.6%	5.7%	6.2%
Mapletree Commercial Trust	MCT SP	Add	1.85	2.18	$4,577	34.2%	1.72	1.08	5.1%	5.1%	5.3%
SPH REIT	SPHREIT SP	Add	0.97	1.03	$2,024	30.3%	0.91	1.07	5.6%	5.4%	5.4%
Starhill Global REIT	SGREIT SP	Add	0.63	0.71	$1,039	36.1%	0.80	0.78	6.3%	6.7%	6.9%
	Simple Average					**34.3%**		**1.00**	**5.4%**	**5.6%**	**5.8%**
Overseas-centric											
CapitaLand China Trust	CLCT SP	NR	1.18	NA	$1,467	34.7%	1.55	0.76	7.4%	8.2%	8.6%
Elite Commercial REIT	ELITE SP	Add	0.67	0.77	$431	42.1%	0.63	1.06	8.2%	7.7%	8.2%
Mapletree North Asia Commercial Trust	MAGIC SP	Add	1.09	1.13	$2,863	42.1%	1.27	0.86	5.6%	6.3%	7.3%
Manulife US REIT	MUST SP	Add	0.66	0.89	$1,158	42.8%	0.67	0.99	8.1%	8.7%	9.3%
Sasseur REIT	SASSR SP	Add	0.85	1.06	$770	26.1%	0.99	0.86	8.3%	8.6%	9.0%
	Simple Average					**38.4%**		**0.90**	**0.08**	**0.08**	**0.08**
Healthcare											
Parkway Life REIT	PREIT SP	Add	4.59	5.05	$2,067	37.0%	1.95	2.35	3.1%	3.2%	3.3%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS
NR estimates are based on Bloomberg consensus forecasts

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Description:	Excellent	Very Good	Good	N/A	N/A

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	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** -

Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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