

Singapore Flash Note

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DBS Group Research . Equity

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Singapore REITs

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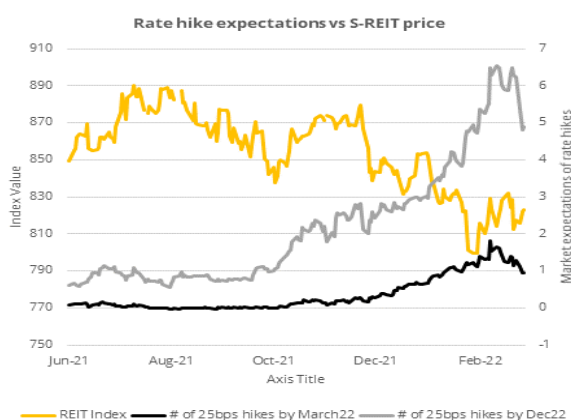
Interest picking up as market dials back on hike expectations

- S-REIT prices were relatively stable in Feb'22 (+2.0%) as risk-off trade from geopolitical tensions drove investors to seek shelter in yields
- Rate hike expectations have dialed back - a boon for yield stocks like S-REITs
- Growth momentum still strong; expect S-REITs to deliver 8.0% CAGR in distribution growth in FY22-23F
- Prefer re-opening beneficiaries; industrial S-REITs is an attractive tactical opportunity given large cap S-REIT prices are still within 5% of 52-week lows

What's New

Stable prices in Feb'22. S-REITs outperformed in Feb'22, rising by 2.1% against the 0.2% drop in the STI. The risk of geopolitical uncertainties had driven a risk-off trade within the market and S-REITs were a beneficiary. With a number of stocks reaching 52-week lows in Jan'22, we saw bargain hunting as buyers emerged, with the office S-REITs leading the recovery (+3.5% month-on-month) followed by hospitality (+1.1% month-on-month) and Office (EUR), which increased by 1.4% month-on-month. Industrial S-REITs' performance was generally flattish at +0.3% while Healthcare S-REITs declined by 6.7% month on month, followed by Hospitality S-REITs (-3.7% month-on-month) and US Office REITs (-1.5% month-on-month).

RATE HIKE EXPECTATIONS VS S-REIT PRICES



Source: Bloomberg Finance L.P., DBS Bank

Key views

Positive read in results reflects diversity in performance. Stable share price is a positive read in our view, which highlights that investors will return to the sector at the right price. While we have seen outflows from tactical repositioning within and out of the S-REITs in recent times, the uncertainty in the market has led to investors taking a reverse strategy as rising geopolitical risks have driven investors to seek shelter in yields once again. With most of the S-REITs having reported earnings by the middle of Feb'2022, we note that earnings momentum is generally improving, and on top of strong growth in DPUs, we remain comforted that most S-REIT managers continue to offer a fairly optimistic outlook for 2022. With the Fed's March'2022 FOMC meeting just a couple of weeks away, all eyes will be on the pace of hikes that the Fed will take in view of sticky inflation rates coupled with uncertainties from the geopolitical tensions between Russia and Ukraine. We maintain our view that S-REITs will bottom out once Fed hikes lift off.



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Markets dialling back on rate hike expectations. Global yields have retreated in recent weeks amid unfolding of geopolitical tensions between Russia and Ukraine with comments from ECB governing council stimulus should be considered alongside the impact of war on the economy. We also note that market rate hike expectations have declined, with 96% chance of a 25bps hike at the upcoming March FOMC meeting (vs. nearly 100% chance of a 50bps hike as of mid-Feb), 100% chance of 4 x 25bps hikes, and 89% chance of a 5th 25bps hike by year-end (vs. nearly 100% chance of 7 hikes as of mid-Feb)

S-REITs still trade close to 52-week lows. Despite the rise in share prices in Feb'22, we note that the sector is still trading near 52-week lows with close to 15 (19 last month) out of 44 S-REITs trading within 5% of their 52-week lows. Six out of the top 15 S-REITs by market cap are within 5% of their 52-week lows, with a majority in the industrial sector. We continue to look to add at current levels, with FY22F yields expanding to 5.8%, implying a spread of 4.0% (10-year yields at 1.8% as of 1st March 22). Even if we assume that 10-year yields rise to c.2.0% in the longer term, we are still looking at a yield spread of 3.8% (in line with historical mean).

Performance Summary

	Sep'21 % chg	Oct'21 % chg	Nov'21 % chg	Dec'21 % chg	Jan'22 % chg	Feb'22 % chg	2021 % chg
Office	1.7%	4.3%	-1.2%	-0.8%	-5.2%	3.5%	2.6%
Retail	0.9%	3.3%	-1.6%	0.9%	-5.0%	-0.7%	15.9%
Industrial	-1.2%	-0.4%	-1.3%	0.7%	-8.0%	0.3%	9.9%
Hospitality	-5.4%	9.1%	-4.5%	1.1%	-3.7%	1.1%	-7.6%
Hospitality (US)	-4.0%	1.0%	-2.1%	5.3%	-3.0%	3.1%	11.1%
Healthcare	-3.9%	0.2%	7.3%	2.6%	-6.6%	-6.7%	34.6%
Office (US)	1.6%	1.3%	-2.6%	-1.1%	-6.1%	-1.5%	2.3%
Office (EUR)	3.0%	1.5%	-3.4%	1.2%	-5.3%	1.4%	4.0%
Retail (Others)	-7.1%	5.4%	-2.2%	-3.0%	-4.3%	0.8%	-14.4%
FSTREI	-1.2%	2.7%	-1.9%	-0.3%	-6.3%	2.1%	0.3%
FSSTI	1.0%	3.6%	-2.4%	0.1%	4.0%	-0.2%	9.7%

Source: Bloomberg Finance L.P., DBS Bank

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DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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