

Singapore Flash Note

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DBS Group Research . Equity

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Singapore REITs

Analyst

Geraldine WONG +65 6682 3719; geraldinew@dbs.com

Derek TAN +65 6682 3716; derektan@dbs.com

More boosters to drive a further re-rating

- Solid close to 2023 as S-REITs saw accelerated return of c.9.1% in Dec '23, up 15% from end-Oct lows
- Near-term profit take inevitable given the strong rebound in prices; we see overall net allocation to S-REITs in 2024
- Year-end valuations to validate our thesis that S-REITs are financially sound
- Time to pick value over safety in allocation strategy; prefer Retail > Office > Hotels > Industrials

What's New

A solid close to 2023. Investors continued to add to the sector in Dec '23 as global yields continued retreating. The US 10-year and SG 10-year yields declined by 40 basis points and 28 basis points m-o-m to 3.87% and 2.69% respectively. In Dec '23, Singapore REITs (FSTREI index) continued to build on Nov '23's momentum of a +6.7% return, delivering a further c.9.1% rebound in prices, outperforming the developers (FTREH index) and the Straits Times Index ("STI") both of which rebounded by c.5.6% and c.5.4% respectively.

In Dec '23, most subsectors have seen higher share prices and we note that Office (or commercial) S-REITs were relative outperformers – at +10.8% m-o-m, following our upgrade of the sector to "overweight" from "cautious" followed by the retail S-REITs (+c.6.9% m-o-m). Industrial S-REITs, despite our more cautious stance for 2024, did well overall at +7.0%. However, we noted that it was largely pulled up by the mid-cap industrial S-REITs (+7.4%) and data-centre S-REITs (+7.0%). Overseas-focused S-REITs saw an overall rebound of 11.3% (EU-focused) and a steep +65% m-o-m share price run in the US office S-REITs. Nevertheless, we are not chasers due to a low base effect.

What to look out for?

Near term approaching "overbought" territory? The combined c.15% rise in Singapore REITs (FSTREI index) since the markets concluded that FED is "done hiking" in early Nov '23 mirrors the playbook that we saw in 2018-1H19, which saw Singapore REIT and developers rebounding by c.20% from their lows over a six-month period.

While certainly susceptible to a **near-term profit taking** (if any), we maintain our belief that the S-REITs will be net outperformers through 2024 as interest rates continue to recede through the course of the year. After the rebound in prices, S-REITs' FY24F yields have compressed to c.6.5%, implying a spread of c.3.9% against the 10-year yields.

Investors did well if they "hid" in industrials for 2023, but it is now time to switch to other subsectors for outperformance in 2024. While 2023 is one "to forget" for S-REITs, the strong rebound in share prices in the past two months enabled the FSTREI Index to deliver a slight positive return of 0.4% (before dividends) with an industrial large cap S-REITs (+8.5%) and data-centre S-REITs (+13.5%) being the subsectors that held the fort. Other sectors saw a negative return. Looking ahead to 2024, while the macro environment has turned conducive for S-REITs, in our outlook report: < [Singapore REITs - Time to board the S-REIT train](#)>, we noted that "value" ranks higher than "safety" in the current cycle and that re-allocations will feature more heavily into retail S-REITs (FCT, LREIT), commercial S-REITs (KREIT, MPACT), and hospitality S-REITs (CLAS) as these sectors trade close to -1 SD in P/BV and yield terms. We still like industrial S-REITs, though valuations are less attractive on relative terms and will likely "market perform". Despite this, we remain firmly vested in multi-year secular trends of logistics (FLT, MLT) and data centres (DCREIT).

Flash Note

Year-end valuations to validate our view that S-REITs are financially sound, providing a “catalyst” for a further re-rating. We believe that S-REITs are financially sound and that the upcoming valuation exercises in Jan '24 and Apr '24 will validate our view that c.90% (or more) of S-REITs will see gearing remaining below the “market comfortable” level

of c.45%, implying that subsectors that are “hardest hit” on share prices – given the uncertainty to book values – will have more room to run in the coming months.

Summary of subsector performance

	Jan'23	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sept'23	Oct'23	Nov'23	Dec'23	2023
	% chg	% chg	% chg	% chg	% chg	% chg	% chg	% chg	% chg	% chg	% chg	% chg	% chg
Office	5.2%	-3.5%	-1.4%	-0.8%	-1.5%	-1.2%	0.7%	-9.9%	-2.9%	-4.8%	5.7%	10.8%	-5.7%
Retail	5.6%	-0.6%	-3.2%	-0.2%	-2.2%	0.6%	0.5%	-5.9%	-3.7%	-6.2%	8.7%	6.9%	-1.3%
Industrial (large-caps)	8.5%	-1.4%	2.4%	1.9%	-5.2%	0.0%	1.6%	-0.1%	-3.7%	-8.9%	8.1%	6.9%	8.5%
Industrial (mid-caps)	5.9%	-5.5%	-9.6%	-1.1%	-1.2%	5.7%	-0.6%	-1.5%	-3.2%	-4.5%	7.8%	7.4%	1.1%
Data-center	12.3%	-2.3%	-7.5%	0.8%	-3.6%	4.6%	2.7%	4.7%	-3.9%	-9.4%	12.2%	7.0%	13.5%
Hospitality	8.5%	-6.7%	-4.8%	6.8%	-4.0%	3.2%	1.4%	-7.4%	1.6%	-4.8%	3.8%	4.5%	0.4%
Healthcare	8.0%	5.9%	-7.2%	-2.8%	-7.5%	8.6%	-0.5%	-1.0%	-3.9%	-8.9%	1.2%	7.9%	-2.4%
Office (US)	18.2%	-19.4%	-18.3%	-13.6%	-13.2%	1.7%	-16.0%	-30.9%	-5.4%	-20.4%	24.9%	65.3%	-44.2%
Office (EUR)	8.7%	-0.7%	-7.8%	1.5%	1.4%	-6.2%	1.0%	-10.5%	-4.9%	-13.3%	10.6%	11.3%	-12.1%
Retail (Others)	8.7%	-9.9%	-14.2%	-1.4%	-6.1%	3.3%	3.1%	-5.0%	-1.9%	-6.0%	4.0%	1.4%	-23.2%
FSTREI	6.6%	-4.0%	-0.4%	0.6%	-3.9%	-0.2%	2.0%	-4.4%	-3.2%	-6.9%	6.7%	9.1%	0.4%
FSTREH	4.9%	-4.9%	-2.8%	0.7%	-6.7%	-2.4%	1.2%	-4.5%	-2.2%	-7.3%	0.9%	5.6%	-16.6%
FSSTI	3.5%	-3.1%	-0.1%	0.4%	-3.4%	1.5%	5.2%	-4.2%	-0.5%	-4.7%	0.2%	5.4%	0.0%

	Jan'23	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sept'23	Oct'23	Nov'23	Dec'23	Chg y-o-y
	(ppt)	(ppt)	(ppt)	(ppt)	(ppt)	(ppt)	(ppt)	(ppt)	(ppt)	(ppt)	(ppt)	(ppt)	(ppt)
SORA 3 Mth	3.13	3.24	3.54	3.60	3.62	3.64	3.68	3.69	3.71	3.75	3.75	3.71	0.61
SOR 6 Mth	2.80	3.06	3.33	3.36	3.44	3.60	3.66	3.67	3.69	3.73	3.74	3.72	1.18
SG 10 year	2.97	3.34	2.94	2.76	2.85	3.08	3.05	3.14	3.40	3.38	2.97	2.69	-0.40
US 10 year	3.51	3.92	3.47	3.42	3.64	3.84	3.96	4.11	4.57	4.93	4.33	3.87	0.00

	Jan'23	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sept'23	Oct'23	Nov'23	Dec'23	2023
	% chg	% chg	% chg	% chg	% chg	% chg	% chg	% chg	% chg	% chg	% chg	% chg	% chg
Singapore REIT	6.6%	-4.0%	-0.4%	0.6%	-3.9%	-0.2%	2.0%	-4.4%	-3.2%	-6.9%	6.7%	9.1%	0.4%
Australia REIT	8.1%	-0.8%	-6.9%	5.3%	-1.7%	-1.6%	3.8%	1.7%	-8.7%	-5.8%	11.0%	10.1%	2.3%
US REIT	10.5%	-4.9%	-3.3%	0.7%	-3.2%	4.3%	2.7%	-3.2%	-7.6%	-4.4%	10.2%	10.6%	-0.1%
Japan REIT	-3.5%	0.9%	-3.1%	4.9%	0.4%	-1.0%	0.8%	0.8%	-1.7%	-2.3%	1.6%	-2.1%	-2.6%
HK REIT	14.5%	-5.7%	-5.3%	1.7%	-11.2%	-5.3%	-1.3%	-10.9%	-4.9%	-9.3%	9.3%	6.1%	-27.5%
KL REIT	5.6%	-1.4%	-0.7%	0.7%	-3.0%	-0.5%	0.0%	0.0%	0.0%	-0.2%	1.4%	-0.3%	1.5%
Europe REIT	8.5%	0.8%	-9.6%	4.2%	-6.0%	-3.9%	5.9%	-2.2%	-5.2%	-3.4%	12.3%	9.6%	-1.0%

Source: Bloomberg Finance I.P., DBS Bank

Flash Note

Peer comparison table

	CUR	Price	Rec	12-mth Target Price	Mkt Cap	Total Return	Yield (FY24/25)	Yield FY25/26F	P/B
Office									
CICT	S\$	2.06	BUY	2.30	13,715	17%	5.0%	5.1%	0.98
KREIT	S\$	0.93	BUY	1.15	3,480	30%	6.3%	6.4%	0.68
MPACT	S\$	1.57	BUY	2.00	8,226	34%	5.7%	5.9%	0.90
Suntec	S\$	1.23	HOLD	1.10	3,551	-3%	5.1%	5.3%	0.58
OUECT	S\$	0.29	BUY	0.35	1,559	30%	7.6%	8.1%	0.48
							5.5%	5.6%	0.85
Retail									
FCT	S\$	2.26	BUY	2.60	3,861	15%	5.3%	5.4%	1.02
LREIT	S\$	0.65	BUY	0.90	1,499	39%	6.9%	7.1%	0.77
PGNREIT	S\$	0.89	BUY	1.05	2,488	18%	5.3%	5.5%	0.96
SGREIT	S\$	0.53	BUY	0.68	1,184	30%	7.3%	7.3%	0.60
							5.8%	5.9%	0.91
Retail Overseas									
CLCT	S\$	0.93	BUY	1.20	1,572	37%	7.9%	7.6%	0.70
SASSEUR	S\$	0.69	BUY	1.05	719	64%	10.8%	10.8%	0.83
							8.8%	8.6%	0.74
Hotels									
ARA US REIT	US\$	0.31	BUY	0.45	176	59%	13.3%	14.8%	0.39
CLAS ("ART")	S\$	0.99	BUY	1.20	3,052	28%	7.1%	8.1%	0.88
CDREIT	S\$	1.11	BUY	1.55	1,346	45%	6.0%	6.4%	0.79
FEHT	S\$	0.67	BUY	0.75	1,292	18%	6.0%	6.3%	0.74
FHT	S\$	0.50	BUY	0.62	945	28%	5.3%	5.8%	0.75
							6.4%	7.1%	0.76
Industrials									
AIMS	S\$	1.30	BUY	1.60	898	31%	7.5%	7.5%	0.95
CLINT ("A-itrust")	S\$	1.14	BUY	1.35	1,303	26%	7.4%	7.7%	1.03
CLAR ("A-REIT")	S\$	3.03	BUY	3.40	10,946	18%	5.1%	5.2%	1.32
Daiwa Log	S\$	0.66	BUY	0.80	221	30%	6.4%	6.4%	0.85
Digital Core	US\$	0.65	BUY	0.90	468	45%	5.8%	5.8%	0.79
EREIT	S\$	0.32	BUY	0.34	1,116	15%	7.5%	7.6%	0.91
MINT	S\$	2.51	BUY	2.60	5,073	9%	5.2%	5.2%	1.36
MLT	S\$	1.74	BUY	1.88	6,303	13%	5.0%	5.1%	1.21
KDCREIT	S\$	1.95	BUY	2.45	3,183	31%	5.3%	5.5%	1.42
FLT	S\$	1.15	BUY	1.44	2,598	32%	6.2%	6.3%	0.91
							5.5%	5.6%	1.21
Healthcare									
P-Life	S\$	3.67	BUY	4.80	2,220	35%	3.1%	3.1%	2.33
First REIT	S\$	0.27	BUY	0.30	551	23%	3.1%	3.1%	0.30
									1.44
US Office									
KORE	US\$	0.38	BUY	0.48	350	28%	11.1%	11.1%	0.46
MUST	US\$	0.08	HOLD	0.10	125	25%	41.2%	41.2%	0.19
Prime	US\$	0.24	HOLD	0.18	222	-26%	18.1%	18.3%	0.32
							20.7%	20.7%	0.34
Europe/US									
Cromwell	EUR	1.42	BUY	2.00	1,030	41%	11.4%	11.4%	0.61
IREIT	SG	0.405	HOLD	0.45	572	12%	11.9%	11.9%	1.25
Elite	GBP	0.28	HOLD	0.33	238	18%	13.8%	13.8%	0.62
							12.4%	12.4%	0.82
S-REIT							6.0%	6.1%	0.86

Source: Bloomberg Finance L.P., DBS Bank

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DBS Regional Research Offices

HONG KONG**DBS (Hong Kong) Ltd**

Contact: Dennis Lam
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

SINGAPORE**DBS Bank Ltd**

Contact: Paul Yong
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA**PT DBS Vickers Sekuritas (Indonesia)**

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com

THAILAND**DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand