

SECTOR UPDATE

REITs – Singapore

3Q24 Round-up: Steady Results But Battered By Macro Headwinds

Three out of 20 S-REITs under our coverage beat our expectations, namely DCREIT (successfully backfilled two LA data centres), KDCREIT (positive reversion of >40% for a major colocation contract in Singapore) and FEHT (benefitting from a surge in Chinese tourists). Many blue-chip S-REITs are trading at attractive yields of 6-7% after the recent correction. Maintain OVERWEIGHT. BUY DCREIT (Target: US\$0.95), FCT (Target: S\$2.79), LREIT (Target: S\$0.77) and MINT (Target: S\$3.05).

WHAT'S NEW

- Data centre: Positive surprise from hefty positive rental reversion.** KDCREIT achieved positive reversion of >40% for the renewal of a major colocation contract in Singapore in 3Q24. It will actively rebalance its portfolio to capitalise on structural trends, including generative AI. DCREIT has leased out 60% its two LA data centres and generated positive triple-digit rental reversion for the new colocation leases. Management expects them to be 80% leased by year-end.
- Retail: Demonstrating resiliency.** FCT's Causeway Point and Northpoint City demonstrated resiliency with healthy rental reversion of 8.8% and 6.9% respectively. They maintained high occupancies of 99.8% and 100.0% respectively. FCT will proceed with the AEI for NEX and Hougang Mall next. LREIT maintained positive double-digit rental reversion of 11.4% on an average vs average basis in 1QFY25 (313@Somerset: high teens, Jem: high single digit). Occupancy at Building 3 of Sky Complex will rise above 30% if leases with two prospective new tenants are successfully concluded.
- Logistics: Australia thrived but China languished.** FLT achieved positive rental reversion of 39%, 58.1% and 31.1% respectively for logistics properties in New South Wales, Victoria and Queensland in 4QFY24. It has restored occupancy for its logistics properties in Australia back to 100%. MLT's China portfolio incurred negative rental reversion of -12.2% and the weakness is expected to persist over the next few quarters.
- Hospitality: Positive boost from Chinese tourists.** CLAS' gross profit grew 8% yoy in 3Q24, comprising same-store growth of 2% yoy and boost from acquisitions of 6% yoy. Portfolio RevPAU expanded 3% yoy to S\$158, driven by higher portfolio occupancy of 79%, which is 2ppt higher yoy. FEHT's upscale and mid-tier hotels captured a bigger slice of the surge in Chinese tourists. Chinese guests accounted for 20% of its hotel guests, which is double the contribution compared with pre-pandemic levels.

TOP-20 S-REITS RANKED BY MARKET CAPITALISATION – VITAL STATISTICS

Name	Ticker	Rec	Curncy	Price 19 Nov 24	Target Price	Mkt Cap (US\$m)	--- DPU (¢) ---	--- Yield (%) ---	--- Yield Spread* (%) ---	Interest Coverage (x)	Aggregate Leverage (%)	WALE (years)			
CapLand Int Comm Trust	CICT SP	BUY	S\$	1.95	2.59	10,611	10.7	11.4	5.5	5.8	2.6	2.9	3.0	39.4	3.5
CapLand Ascendas	CLAR SP	BUY	S\$	2.56	3.74	8,406	15.4	16.2	6.0	6.3	3.1	3.4	3.7	38.9	3.7
Mapletree Pan Asia	MPACT SP	BUY	S\$	1.23	1.71	4,835	8.3	8.5	6.7	6.9	3.8	4.0	2.8	38.4	2.3
Mapletree Ind Trust	MINT SP	BUY	S\$	2.27	3.05	4,822	13.6	14.1	6.0	6.2	3.1	3.3	4.7	39.1	4.4
Mapletree Log Trust	MLT SP	HOLD	S\$	1.26	1.45	4,756	8.4	8.3	6.6	6.6	3.7	3.7	3.5	40.2	2.8
Fraser's Centrepoint	FCT SP	BUY	S\$	2.12	2.79	2,878	12.0	12.0	5.6	5.7	2.7	2.8	3.4	38.5	2.1
Keppel DC REIT	KDCREIT SP	BUY	S\$	2.19	2.64	2,822	9.1	10.6	4.2	4.8	1.3	1.9	5.1	39.7	6.3
Fraser's L&C Trust	FLT SP	BUY	S\$	0.95	1.44	2,669	6.6	6.7	7.0	7.0	4.1	4.1	5.0	33.0	4.2
CapLand Ascott	CLAS SP	BUY	S\$	0.88	1.38	2,495	5.5	5.9	6.2	6.7	3.3	3.8	3.6	38.3	n.a.
Suntec REIT	SUN SP	HOLD	S\$	1.14	1.18	2,487	6.2	6.4	5.5	5.6	2.6	2.7	1.9	42.3	4.0
Keppel REIT	KREIT SP	BUY	S\$	0.86	1.25	2,469	5.8	6.2	6.7	7.2	3.8	4.3	3.0	41.9	4.6
PARAGON REIT	PGNREIT SP	NR	S\$	0.87	n.a.	1,845	4.6	4.4	5.3	5.1	2.4	2.2	3.4	35.9	3.1
PLife REIT	PREIT SP	BUY	S\$	3.62	5.12	1,764	14.4	15.0	4.0	4.1	1.1	1.2	10.2	37.5	15.8
ESR-LOGOS REIT	EREIT SP	NR	S\$	0.26	n.a.	1,552	2.2	2.1	8.5	8.1	5.6	5.2	2.6	36.0	3.2
OUÉ REIT	OUEREIT SP	NR	S\$	0.28	n.a.	1,149	2.0	2.2	7.1	7.9	4.2	5.0	2.2	39.3	2.8
Lendlease REIT	LREIT SP	BUY	S\$	0.555	0.77	984	3.9	3.9	7.0	7.0	4.1	4.1	2.9	40.7	4.7
Cromwell REIT EUR	CERT SP	NR	€	1.60	n.a.	952	14.2	14.0	8.9	8.8	6.6	6.4	3.6	41.0	4.7
CapLand China Trust	CLCT SP	NR	S\$	0.735	n.a.	944	6.1	6.2	8.3	8.4	5.4	5.5	3.2	41.6	1.8
Far East HTrust	FEHT SP	BUY	S\$	0.615	0.82	925	4.0	4.1	6.5	6.7	3.6	3.8	2.9	30.8	n.a.
Starhill Global	SGREIT SP	NR	S\$	0.495	n.a.	847	3.8	3.8	7.7	7.7	4.8	4.8	3.1	37.2	8.0

* Yield spread above 10-year government bond yield
Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

SEGMENTAL RATING

S-REITs	OVERWEIGHT
Healthcare REITs	MARKETWEIGHT
Hospitality REITs	OVERWEIGHT
Data Centre REITs	OVERWEIGHT
Office REITs	MARKETWEIGHT
Retail REITs	OVERWEIGHT

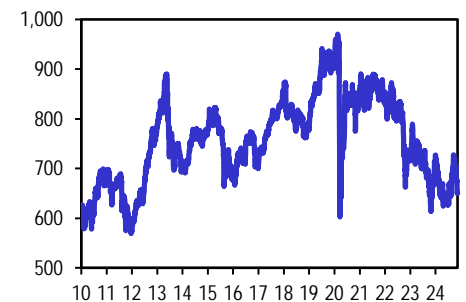
Source: UOB Kay Hian

TOP S-REIT PICKS

Company	Rec	Share Price (S\$)	Target Price (S\$)
DCREIT (US\$)	BUY	0.605	0.95
FCT	BUY	2.34	2.79
LREIT	BUY	0.56	0.77
MINT	BUY	2.38	3.05

Source: UOB Kay Hian

FTSE ST ALL-SHARE REITS INDEX (FSTREI)

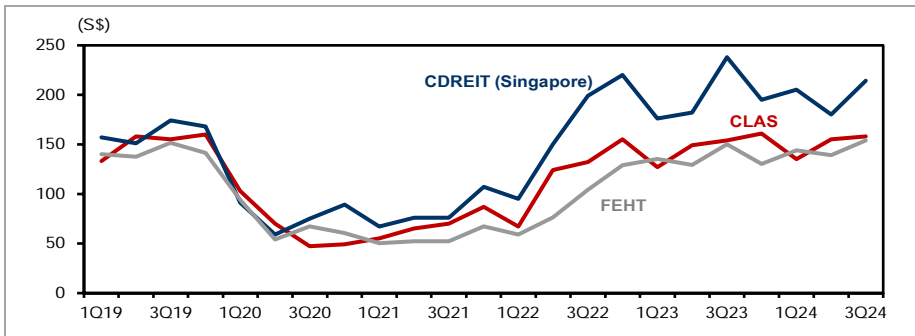


Source: UOB Kay Hian

ANALYST(S)

Jonathan Koh, CFA, MSc Econ
+65 6590 6620
jonathankoh@uobkayhian.com

REVPAR – HOSPITALITY



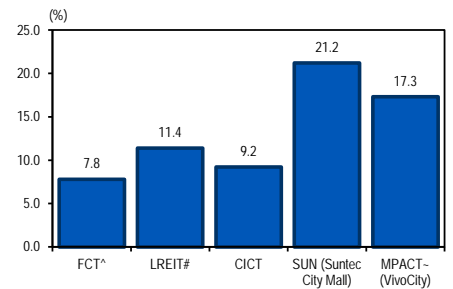
Source: Respective S-REITs

- **Office: Valuation losses from overseas offices.** SUN's management has cautioned that its Australia portfolio could experience revaluation losses due to cap rate expansion of 50-100bp. Fujitsu, the sole tenant at Fujitsu Makuhari Building, has notified MPACT of its intention not to renew its lease upon expiry on 31 Mar 26. MPACT has conducted an interim valuation for its three office properties in the Makuhari sub-market of Chiba, Japan, which reduced valuation by 17% or S\$114m.

ACTION

- **Majority met expectations.** For the 20 S-REITs under our coverage, three S-REITs performed above our expectations (DCREIT, KDCREIT and FEHT), while 12 were in line.
- **Cost of debt starting to stabilise.** About half of the S-REITs under our coverage saw cost of debt stabilising during the September quarter. DCREIT's cost of debt eased 0.3ppt qoq to 3.9% in 3Q24 by swapping US dollar-denominated loans of US\$50m to euro. KDCREIT saw cost of debt ease 0.2ppt qoq to 3.3% due to drawdown of yen-denominated loans to fund the acquisition of Tokyo Data Centre 1.
- **Headwinds from higher government bond yield.** The incoming Trump Administration's proposed mix of policies, such as tax cuts, tariffs and tightening of immigration, are expected to lead to higher inflation and widening budget deficit. Yield for 10-year US government bond surged 64bp to 4.43% in October and November. Fortunately, the spillover to the local bond market is milder. Yield for 10-year Singapore government bond rose 28bp to 2.90% during the same period, indicating investors' discernment of stronger fundamentals in Singapore.
- **Maintain OVERWEIGHT.** The Fed is expected to proceed with rate cuts in a gradual and measured pace after the initial 50bp cut on 18 Sep 24. The re-election of Trump has triggered correction for S-REITs due to concerns over higher government bond yields. As a result, many blue-chip S-REITs now trade at attractive distribution yields of 6-7%.
- **Data centre REITs.** Data centres in Singapore and the US benefit from rising rents driven by AI demand. BUY Mapletree Industrial Trust (MINT SP/BUY/Target: S\$3.05) due to continued positive rental reversion for industrial properties in Singapore and securing new tenants for data centres in the US. BUY Digital Core REIT (DCREIT SP/BUY/Target: US\$0.95) for successful backfilling of vacant space at its two LA data centres and potential redevelopment for its data centre at Linton Hall Road in Northern Virginia.
- **Retail REITs.** BUY retail REITs for resilient domestic consumption. Many international brands continue to expand in Singapore. BUY Frasers Centrepoint Trust (FCT SP/BUY/Target: S\$2.79) for positive impact from upcoming AEI for NEX and Hougang Mall. BUY Lendlease Global Commercial REIT (LREIT SP/BUY/Target: S\$0.77) due to continued positive rental reversion for 313@Somerset and Jem in Singapore and commencement of construction for the multi-functional event space at Grange Road Car Park.

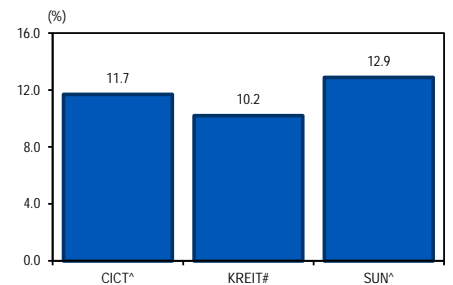
RENTAL REVERSION* – SINGAPORE RETAIL



*Average of new lease versus average of preceding lease.
 ^2HFY24 #1QFY25 -1HFY25

Source: Respective S-REITs

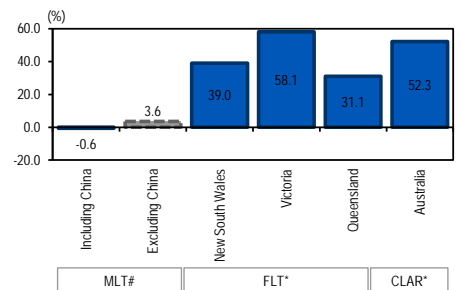
RENTAL REVERSION* – SINGAPORE OFFICE



*Average of new lease versus average of preceding lease.
 ^Singapore. #Group-wide.

Source: Respective S-REITs

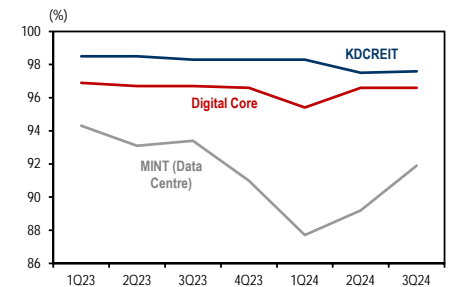
RENTAL REVERSION – LOGISTICS



#First year of new lease versus last year of preceding lease. *Average of new lease versus average of preceding lease.

Source: Respective S-REITs

OCCUPANCY – DATA CENTRE



Source: Respective S-REITs

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