

Singapore REITs – Good yield hunting

Yield compression has just begun

The investment case for Income has never been more compelling, with the 10Y UST yield having declined sharply to 3.8%, from 4.3% just a month ago. The US Fed is set to embark on a rate cut cycle, likely starting in September 2024 and lasting till end-2025. We anticipate at least 50bps of rate reductions in 2024F, and possibly a further 125bps in 2025F. This should result in a significant downward re- pricing of global yields over the next 12-18 months.

Have Singapore REITs fully priced in rate cuts? We think not. The S-REIT index has only risen by a mild 5% in the past month. We expect further price upside as yield compression gathers momentum. The sector currently trades at 6.1% forward yield or a wider 230bps above the risk-free rate, vs 200bps a few months ago.

Assuming the 10Y UST yield eventually settles at about 3.5% and the S-REIT index re-prices to around 5.8% yield, we conservatively derive 5% capital upside for unit prices (11% potential total return). Using a bull-case target of 5.5% yield, we estimate 11% capital upside (17% potential total return).

We reiterate our call to Buy Singapore REITs. This report analyses operating metrics from the 2Q24 results season and provides compelling S-REIT recommendations.

Key trends observed in the 2Q24 results

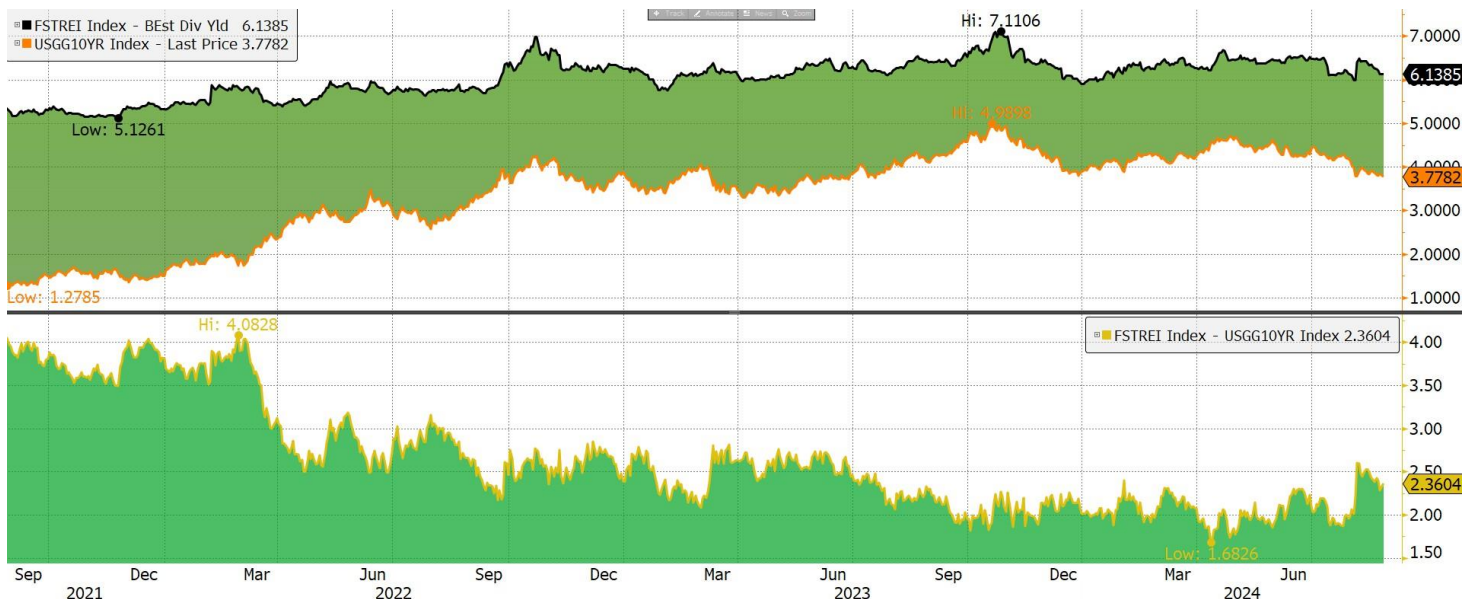
1. Hospitality REITs missed expectations. Some signs that pent-up travel demand is tapering off.
2. Industrial REITs posted strong positive rental reversions. Most have de-gearred their balance sheets and are looking for acquisition opportunities.
3. Office REITs are evaluating asset divestments to reduce high gearing levels. Singapore office market is healthy while overseas markets face challenges.
4. Retail REITs showed resilience in the suburban category. Singapore malls had positive rental reversions but overseas malls were affected by a slowdown in consumer spending.

Key Recommendations

Buy these REITs for DPU growth and in anticipation of a rate easing cycle: **CapitaLand Ascendas REIT, Mapletree Industrial Trust, Mapletree Logistics Trust, Frasers Logistics & Commercial Trust, Frasers Centrepoint Trust, Keppel REIT, and Far East Hospitality Trust.**

Our picks have strong track records with diversified exposures across industrial real estate, data centres, logistics assets, suburban retail malls, Grade A office, and mid-range hotels. This basket is suitable for income-seeking investors, offering a blended yield of 6.0% in 2025F.

The S-REIT index trades at an attractive 6.1% forward yield vs the 10Y UST yield of 3.8%



Source: Bloomberg

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## S-REIT valuation table

REIT	Key Assets	Price	Market Cap (USDm)	CY24 Yield	CY25 Yield	CY24 P/NAV	Asset Leverage	YTD Price Performance
<b>Hospitality</b>								
CapitaLand Ascott Trust	hospitality	0.91	2,629	6.5%	6.7%	0.8	37.2%	-9%
CDL Hospitality Trusts	hospitality	0.92	884	6.3%	7.0%	0.6	37.7%	-17%
Far East Hospitality Trust	hospitality	0.64	980	6.5%	6.5%	0.7	30.8%	-5%
<b>Industrial</b>								
CapitaLand Ascendas REIT	industrial	2.86	9,646	5.2%	5.5%	1.3	37.8%	-6%
ESR-Logos REIT	industrial	0.26	1,533	8.8%	8.8%	0.8	36.5%	-19%
Mapletree Logistics Trust	logistics	1.35	5,194	6.2%	6.1%	1.0	39.6%	-22%
Frasers Logistics & Commercial Trust	logistics + office	1.08	3,113	6.5%	6.5%	0.9	33.2%	-6%
Mapletree Industrial Trust	data centres + industrial	2.42	5,263	5.5%	5.5%	1.3	39.1%	-4%
Keppel DC REIT	data centres	2.13	2,815	4.3%	4.4%	1.6	35.8%	9%
<b>Office</b>								
Suntec REIT	office	1.23	2,749	5.0%	5.4%	0.6	42.3%	0%
Keppel REIT	office	0.90	2,621	6.6%	6.6%	0.7	41.3%	-4%
Manulife US REIT	US office	0.09	155	0.0%	0.0%	0.2	56.3%	9%
Elite Commercial REIT	UK office	0.27	210	10.4%	11.5%	0.6	41.4%	-4%
<b>Retail</b>								
Frasers Centrepoint Trust	retail	2.36	3,276	5.1%	5.2%	1.0	39.1%	4%
Paragon REIT	retail	0.89	1,929	5.2%	5.0%	1.0	29.9%	0%
Starhill Global REIT	retail	0.50	869	7.4%	7.6%	0.7	36.8%	-5%
Sasseur REIT	China retail	0.69	659	9.1%	9.4%	0.8	25.3%	1%
<b>Integrated</b>								
CapitaLand Integrated Commercial Trust	retail + office	2.12	10,951	5.1%	5.2%	1.0	39.8%	3%
Lendlease Global Commercial REIT	retail + office	0.59	1,066	6.7%	6.7%	0.8	40.9%	-9%
Mapletree Pan Asia Commercial Trust	retail + office + industrial	1.35	5,444	6.3%	6.5%	0.8	40.5%	-14%
QUE REIT	hospitality + retail + office	0.29	1,222	6.9%	7.6%	0.5	38.7%	2%
Cromwell European REIT	industrial + office	1.43	899	9.8%	9.7%	0.7	38.9%	1%
<b>Healthcare</b>								
Parkway Life REIT	healthcare	3.73	1,731	4.0%	4.0%	1.6	35.3%	2%

Source: Bloomberg, CIMB Chief Investment Office

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