Singapore REITs Sector

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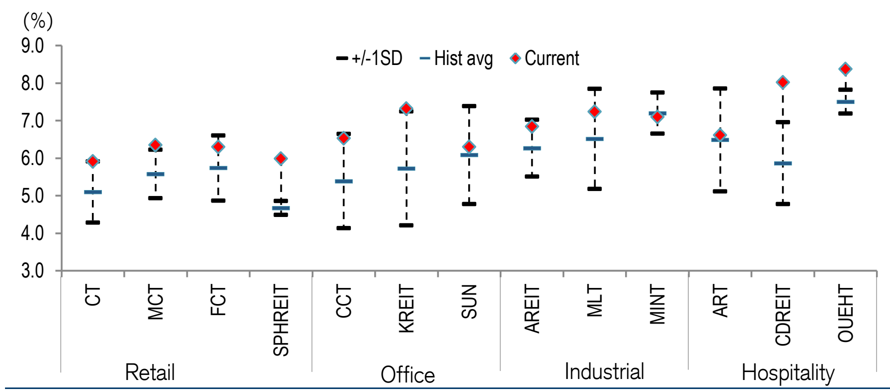
SECTOR REVIEW

Some bright spots in retail

Figure 1: **Singapore REIT yields at ~1 s.d. above historical average**

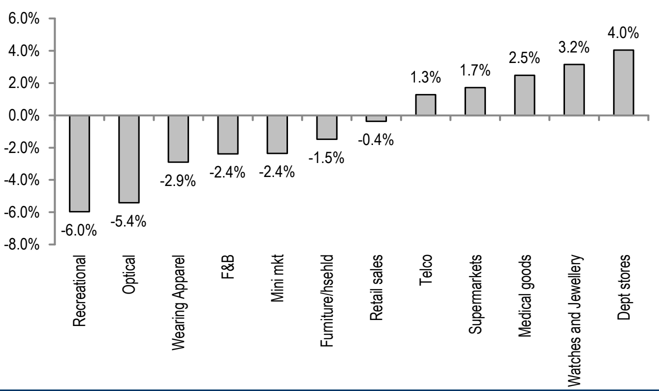


Source: Company data, Credit Suisse estimates

- **More sales stability for suburban malls.** Island-wide retail sales (ex. motor) remained weak in 2015, but tenant sales at REIT malls started to recover in 2015 and have outperformed island-wide sales. Additionally, the more stable retail sectors, F&B and supermarkets make up 35-50% of the rental income at suburban malls, while there are still some expansions and new brands entering the market.
- **Over the hump on retail supply.** Retail stock is expected to grow at a manageable 1.7-2.3% p.a. from 2015-18, after peaking at +3.9% in 2014. Orchard Road and fringe areas should see the least supply pressures, in our view. Over half of the incoming supply is expected to be suburban; however, this is mainly spread across six malls, two of which are at the airport. The downtown core will the main area facing supply pressures due to supply peaking in 2015 (+6.8%) and remaining relatively high in 2016 (+5.4%).
- **Attractive valuations.** Performance of the REITs have largely been driven by fears over a rate hike during the past six months with most names being sold down 15-20%. Retail REIT yields are at attractive levels, ~1 s.d. over historical averages, offering yields of 6.1-6.5%. There are risks to asset values if cap rates expand, but we note that the actual Net Property Income yields of key retail assets already provide a buffer of ~0.5 pp while P/Bs are already ~1 s.d. below historical averages. Retail is our preferred REIT subsector and we believe suburban retail will be the most resilient. We have Outperforms on CMT (6.1% yield), MCT (6.5%) and FCT (6.4%). Top pick is CMT; TP down to S$2.30 (vs S$2.36).

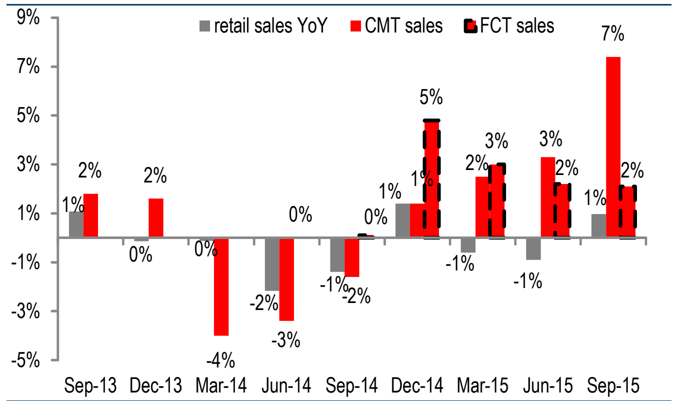
Focus charts and table

Figure 2: **Growth YoY in retail sales YTD by sector**



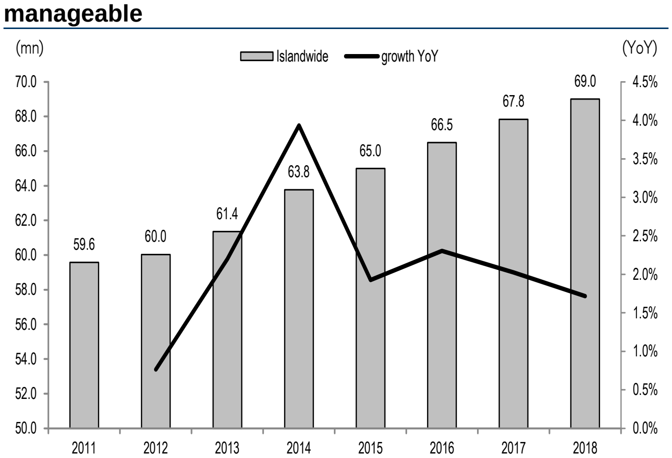
Source: DOS, Credit Suisse

Figure 3: **Stronger retail sales recovery for suburban malls in 2015 vs. island-wide retail sales**



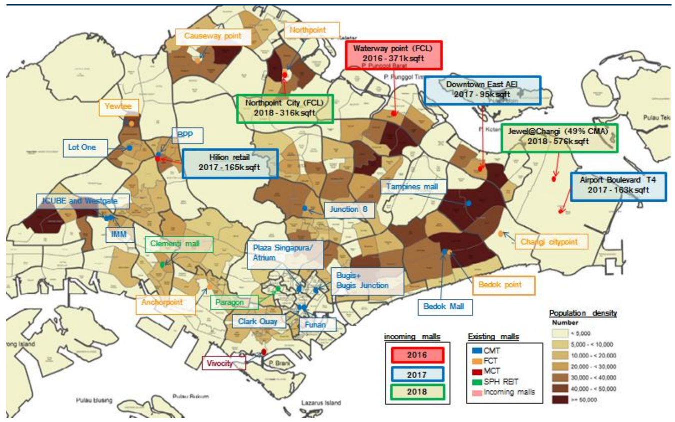
Source: Company data, Credit Suisse, Note CMT quarterly growth based on equal quarterly weighting of sales

Figure 4: **Island-wide retail supply growth more manageable**



Source: Company data, URA, CBRE, Credit Suisse estimates

Figure 5: **Incoming suburban supply spread out over several malls**



Source: Company data, URA, CBRE, Credit Suisse estimates

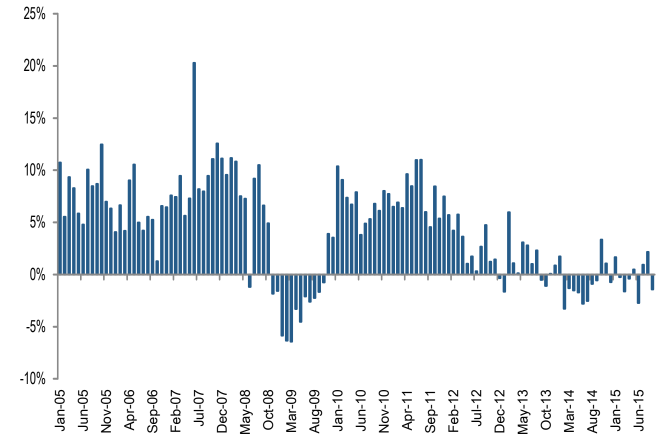
Figure 6: **Singapore REIT valuation comparison – top pick CMT**

Ticker	Singapore REITs	Price (S$)	Rating	TP (S$)	Up/Dn %	Mkt Cap (S$mn)	Yield T+1	Yield T+2	Yield T+3	ROE (%) T+1	P/B (x)	Debt/ Asset (%)	Price performance 1M (%)	3M (%)	6M (%)	1Y (%)	Change in DPU T+1	T+2
	Retail						**6.9**	**7.0**	**7.2**	**5.6**	**0.89**	**32.8**						
CT SP	Capitaland Mall Trust	1.88	O	2.30	23	6,640	5.9	6.1	6.4	6.2	1.04	33.8	-9%	1%	-15%	-5%	-0.3%	-2.1%
MCT SP	Mapletree Comm. Trust	1.29	O	1.62	26	2,734	6.3	6.5	6.6	6.1	1.04	36.4	-8%	3%	-16%	-9%	0.2%	2.3%
SPHREIT SP	SPH REIT	0.93	N	1.10	18	2,356	5.9	6.0	6.0	4.8	1.00	25.7	-2%	2%	-14%	-12%	-	-
FCT SP	Frasers Centrepoint Trust	1.89	O	2.24	18	1,734	6.2	6.4	6.4	5.8	1.02	28.2	-6%	2%	-11%	-2%	-	-
	Office						**6.9**	**7.1**	**7.1**	**4.8**	**0.73**	**36.4**						
CCT SP	Capitaland Commercial Trust	1.30	U	1.43	10	3,824	6.6	6.8	7.0	4.5	0.75	29.5	-8%	2%	-22%	-24%	-	-
SUN SP	Suntec REIT	1.53	U	1.57	3	3,854	6.3	6.4	6.7	5.0	0.73	35.8	-9%	3%	-16%	-20%	-	-
KREIT SP	Keppel REIT	0.93	N	1.11	19	2,989	7.4	7.3	7.5	3.7	0.67	42.6	-6%	1%	-22%	-24%	-	-
	Industrial						**7.8**	**8.1**	**8.3**	**7.3**	**1.01**	**34.9**						
AREIT SP	Ascendas REIT	2.28	O	2.60	14	5,494	6.7	7.1	7.3	6.5	1.11	34.6	-9%	3%	-10%	0%	-	-
MLT SP	Mapletree Logistics Trust	1.02	N	1.08	6	2,516	7.3	7.2	7.3	8.7	1.00	38.8	0%	5%	-16%	-14%	-	-
MINT SP	Mapletree Industrial Trust	1.51	O	1.74	15	2,674	7.0	7.3	7.7	7.7	1.14	29.7	-2%	10%	-4%	2%	-	-
	Data Centre						**6.3**	**6.8**	**6.8**	**7.7**	**1.20**	**26.4**						
KDCREIT SP	Keppel DC REIT	1.05	O	1.17	12	923	6.3	6.8	6.8	7.7	1.20	26.4	-1%	6%	0%	-	-	-
	Hospitality						**8.3**	**8.2**	**8.0**	**5.1**	**0.83**	**37.2**						
ART SP	Ascott Residence Trust	1.19	N	1.37	15	1,843	6.6	6.9	6.9	4.4	0.87	35.8	-2%	3%	-8%	-5%	-	-
CDREIT SP	CDL Hospitality Trusts	1.31	N	1.66	27	1,293	8.1	8.4	8.5	6.4	0.81	32.0	-6%	4%	-23%	-22%	-	-
OUEHT SP	OUE Hospitality Trust	0.80	N	0.94	18	1,062	8.4	8.4	8.4	6.2	0.88	42.1	-3%	6%	-17%	-12%	-	-

Source: Company data, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

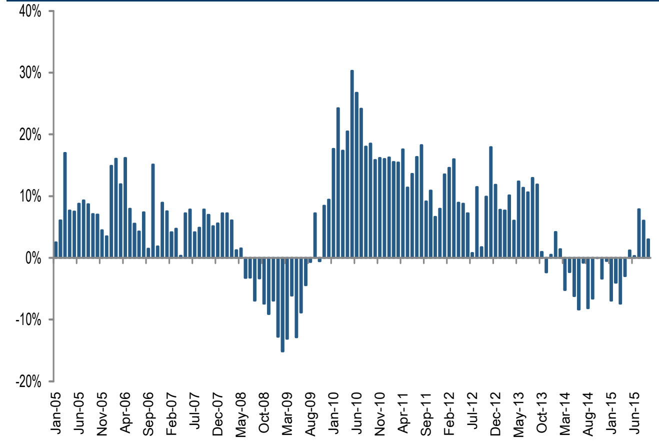
Some bright spots in retail

Figure 7: **Growth YoY of island-wide retail sales**



Source: DOS

Figure 8: **Growth YoY of tourist arrivals**



Source: DOS

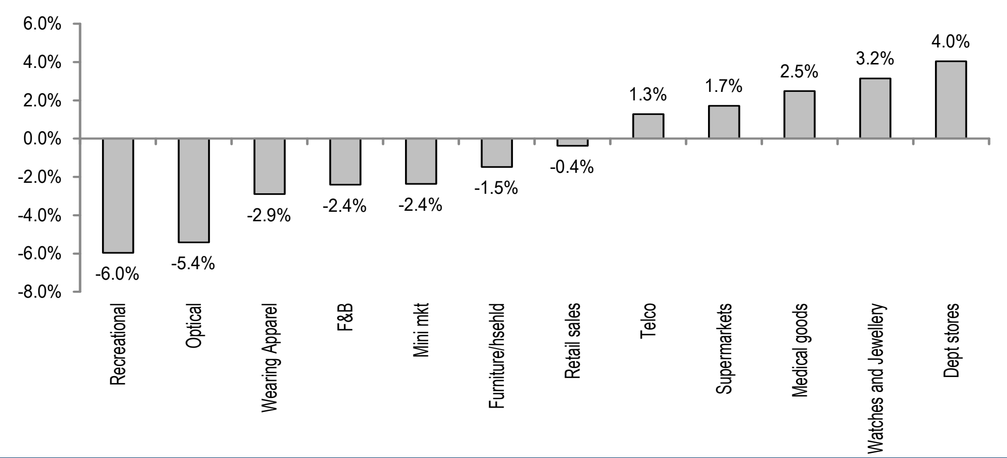
Singapore's retail sales (ex. motor sales) showed some relief in July and August rising 1-2% YoY and 1-5% MoM after several months of negative growth. Part of this relief came from the rebound in tourist arrivals which grew 6-8% YoY, mainly led by the return of the Chinese (+37-53% YoY), Indians and Europeans. However, September retail sales dipped back into the red, as the increase in tourists was subdued.

Strong tourist arrivals only brought retail sales relief in July and August

9M15 retail sales are down 0.4% YoY with the worst-performing sectors being recreational goods, optical and fashion The best-performing sectors have been department stores followed by watches and jewellery, and medical goods.

The worst-performing retail sales sectors: recreational goods, optical and fashion

Figure 9: **Growth YoY in retail sales YTD by sector**



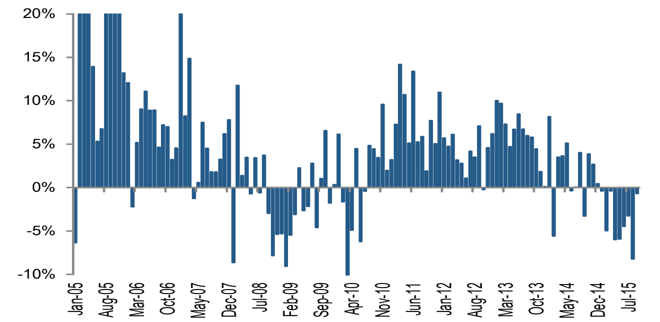
Source: DOS, Credit Suisse estimates

Stability in F&B for the REITs

F&B island-wide has faltered so far this year, with 9M15 sales down 2.4% YoY. However, the REITs have continued to see stable sales for their F&B tenants suggesting that better performing outlets are in the REIT malls—CMT's F&B tenants sales psf/month have risen 3.5% YoY, while FCT and SPH REIT's F&B tenants have continued to record stable sales.

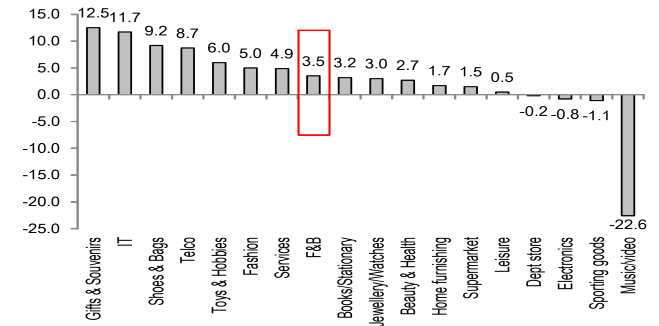
Retail REIT F&B has been resilient despite island-wide declines

Figure 10: Island-wide F&B sales down in 2015…



Source: DOS

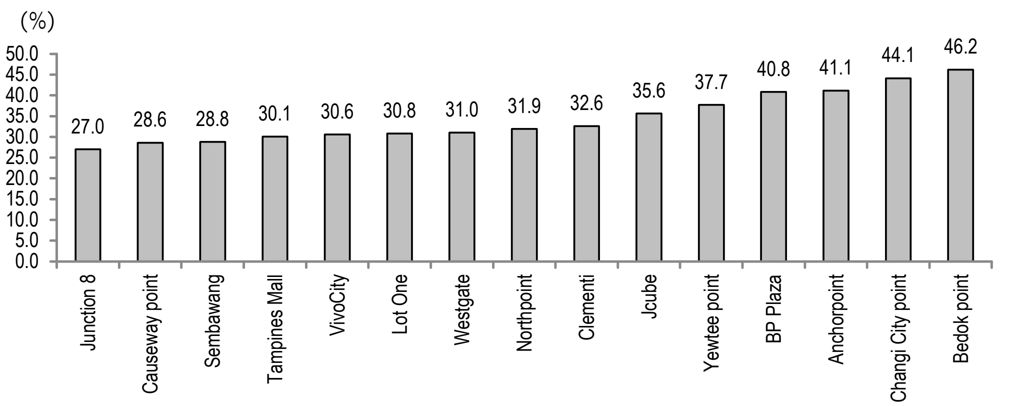
Figure 11: ... but continues to show growth at CMT malls



Source: DOS

The F&B sector has grown in importance for the suburban malls and accounts for the largest portion of rental income at suburban malls at 27%-46%.

Figure 12: F&B is a big portion of suburban malls



Source: Company data, Credit Suisse estimates

Resilient earnings reported for F&B in 3Q15

Japan foods, owner of Ajisen Ramen and several Japanese restaurant chains, reported a 2.5% rise in revenue in 3QCY15 (year end March) and improvement in gross margins given better pricing and cost controls. Additionally, although several outlet closings were reported, the overall number of outlets remained flat YoY, as this was matched by new openings.

Listed F&B companies' earnings have been resilient

Breadtalk continued to report same store sales growth for food atrium and bakery divisions. For restaurants division, Breadtalk closed six ramen play outlets last year, but Din Tai Fung is performing well; meanwhile, it also introduced Sanpoutei and moving forward, there is the potential to replace poor performing brands with better performing ones.

Old Chang Kee, reported 5.7% growth in revenues YoY due to both contribution from new outlets and higher sales at existing outlets. Gross margins also benefitted from better cost controls. Other listed F&B retailers that have showed stronger sales include ABR Holdings (Franchisee for Swensens') while Auric Pacific Group's food junction grew turned profitable in 3Q15 despite lower sales.

Fashion, watches and jewellery most volatile

Fashion, watches and jewellery: 5-15% of suburban malls but over 50% of Orchard malls

More discretionary trades, such as fashion, watches and jewellery have shown amongst the greatest degree of volatility. The trades make up a smaller 5-15% for suburban malls in general but tend to make up over 50% of rental income for Orchard road malls and 20-30% for malls downtown.

YTD, the fashion sector has largely shown declines YoY with improvement over the past three months given the growth in tourists. Watches and Jewellery reported the strongest sales growth YoY, but that is off a low base with monthly declines of up to 16% YoY in 2014. However, we would note that tenants from the fashion sector account for a significant portion of new entrants into Singapore.

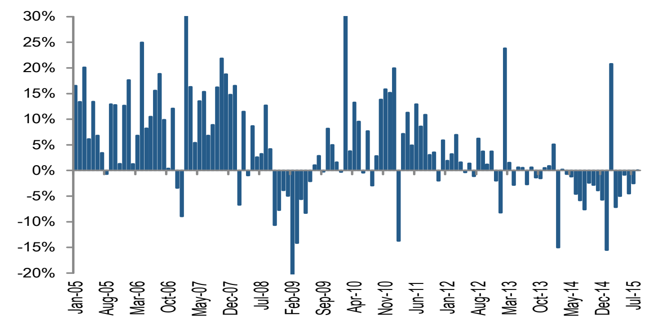
Retail consolidation continues

Fashion and watch retailer, FJ Benjamin (Brands include Celine, Givenchy, Raoul, Banana Republic, Gap, Guess, Watchzone) has closed five stores (out of 40) in the country, but rationalisation plans are expected to complete by year-end.

Some brands are still expanding, while new brands continue to enter the market

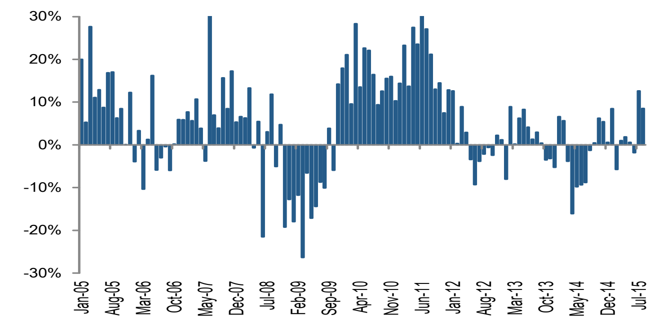
WingTai's retail arm (brands such as Uniqlo and G2000) has closed several outlets of non-performing brands over the past one to two years but this has also been offset by further openings of performing brands, such as Uniqlo

Figure 13: **YoY growth in fashion sales has been weak**



Source: DOS

Figure 14: **Sales watches and jewellery grew in 2015 but on a lower base in 2014**



Source: DOS

Some resilience in department stores and supermarkets

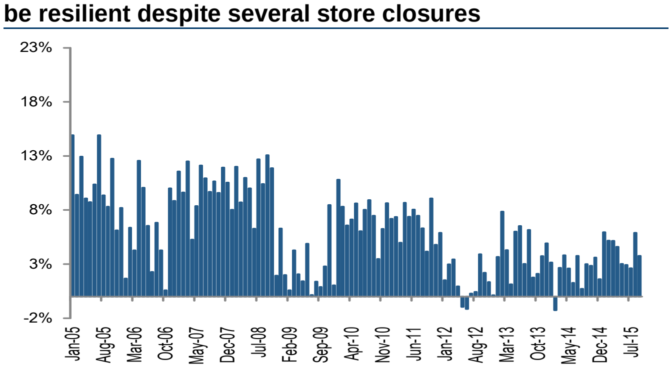
Department stores and supermarkets make up about 10-20% of suburban malls. News flow has been negative for department stores with several store closings for operators, such as Metro, Marks & Spencer,, John Little and Isetan. However, these have particularly been in poorer performing malls, such as Marina Square, Wisma Atria and Compass Point (closing for renovation).

Department stores and supermarkets make up 10-20% of suburban malls

For supermarkets, Dairy Farm's (Cold Storage and Giant) same-store sales have been flat, while Sheng Siong has continued growing at 1-2% and management is still looking to expand.

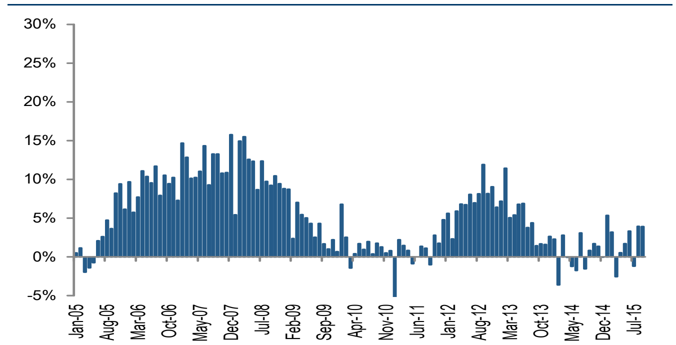
Department store closures mainly in the poorer performing malls

Figure 15: **Island-wide department store sales appear to be resilient despite several store closures**



Source: DOS

Figure 16: **Growth in supermarkets sales are amongst the most resilient**



Source: DOS

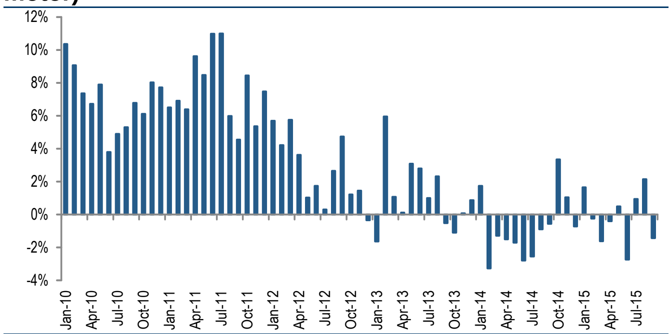
Stronger retail REIT sales

The weaker retail sales environment has been a challenge for all landlords. Retail sales were particularly weak in 2014, but have stabilised more in 2015.

CMT's retail sales have largely tracked the movement in retail sales for Singapore, with 1Q14-3Q14 recording a similar 2-4% decline. The sales momentum turned positive this year and has continued to outpace overall retail sales in Singapore. Similarly, FCT has stayed more resilient given its purely suburban nature, with tenant sales outperforming island-wide retail sales for the past six quarters. MCT's VivoCity has generally outpaced retail sales since FY13 and only started to falter from 3Q14-2Q15.

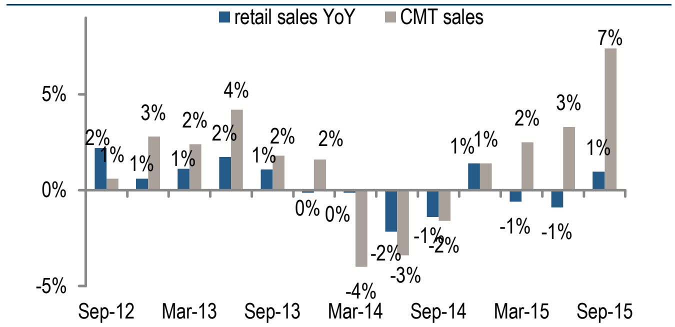
Suburban retail sales (CMT and FCT) have outperformed island-wide retail sales in 2015

Figure 17: Growth YoY for Singapore retail sales (ex. motor)



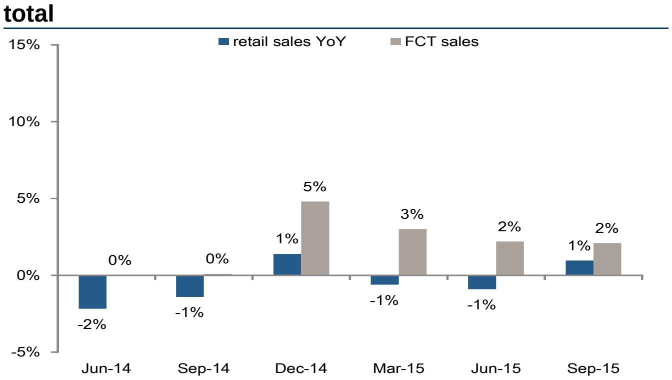
Source: DOS

Figure 18: Growth YoY—CMT retail sales vs Singapore total



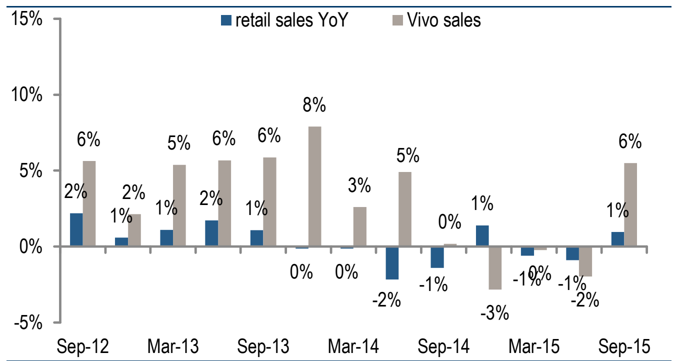
Source: Company data, Credit Suisse, DOS Note CMT quarterly growth based on equal quarterly weighting of sales

Figure 19: Growth YoY—FCT retail sales vs Singapore total



Source: Company data, Credit Suisse, DOS

Figure 20: Growth YoY—VivoCity sales vs Singapore total



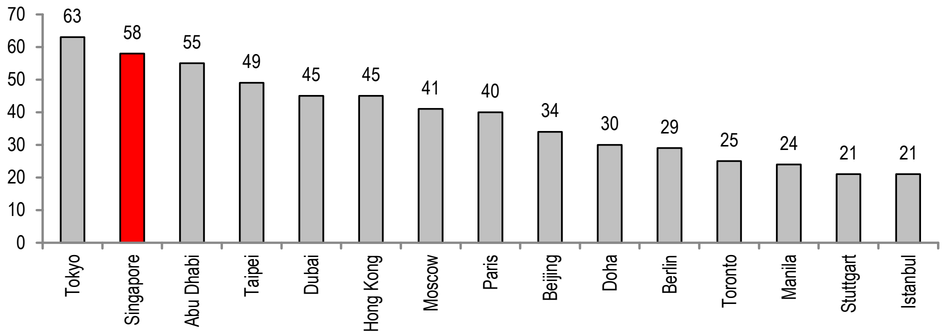
Source: Company data, Credit Suisse, DOS

Entries and exits in retail

Singapore has been an attractive venue for retailers with 58 new retail brands entering the country in 2014, the second-highest globally after Tokyo, according to CBRE. New entrants have continued to enter the market in 2015 and Apple will be opening its first retail store in Singapore in 2016 (also Apple's first store in South-East Asia)

Apple to open first store in Singapore (and South-East Asia) in 2016

Figure 21: Number of new-to-market brands in 2014



Source: CBRE

Figure 22: List of exiting/rationalisation of tenants in 2015

Brand	Trade	Location	Note
Brooks Brothers	Fashion	Knights bridge	Rationalising outlets
Cold storage	Supermarket	Centrepoint	Rationalising outlets
Francfranc	Lifestyle	Jcube, VivoCity	Exiting SG
Global Work	Fashion	Westgate	Exiting SG
Goods of Desire	Lifestyle	Central Mall Clarke Quay	Exiting SG
HMW	Music/Video	Marina Square	Exiting SG
Isetan	Department store	Wisma Atria	Rationalising outlets
John Little	Department store	Marina Square and Tiong Bahru Plaza	Rationalising outlets
Kinokuniya	Books	Ngee Ann City	Rationalising space
Lifebrandz	Entertainment	Clarke Quay	Rationalising outlets
Lowrys Farm	Fashion	Isetan Wisma Atria, Bugis+, Plaza Singapura, VivoCity, 313@Somerset, JEM, Suntec City, Tampines 1	Exiting SG
M)phosis	Fashion	City Link	Exiting SG
Marks & Spencer	Department store	Centrepoint	Rationalising outlets
Metro	Department Store	City Square, compass point	Rationalising outlets
Pure Fitness	Gym	Knights bridge	Rationalising outlets
Ramen Play	F&B	Junction 8, Suntec City Mall, 313	Rationalising outlets
Sashlik	F&B	Far East Shopping Centre	Rationalising outlets
Tommy Hilfiger	Fashion	Knights bridge	Rationalising outlets
Topman/Topshop	Fashion	Knights bridge	Rationalising outlets

Source: CBRE, Savills, JLL, channel news asia, straits times

Figure 23: List of tenants expanding/entering in 2015-16

Brand	Trade	From	Location
Alexander McQueen	Fashion	UK	Marina Bay Sands, Scotts Square
American Eagle	Fashion	US	VivoCity's 15k sqft AEI
Apple	Electronics	US	Knightsbridge (2016)
Best Denki	Electronics	Japan	Plan to open 2 more outlets in 2016
Caffebene	F&B	Korea	VivoCity
Carmina	Fashion	Spain	Capitol Piazza
Churro101	F&B	Korea	Bugis+
Emporium Shokuhin	Supermarket	Japan	Marina Square
Four Seasons Duck	F&B	London	Capitol Piazza
Gieves & Hawkes	Fashion	UK	Paragon
Hamley's	Toys	UK	Plaza Singapura
Joe & the Juice	F&B	Denmark	Tbc (2016)
John Lewis	Department store	UK	The Heeren, Raffles City
Joseph	Fashion	UK	Capitol Piazza
Mak's Noodle	F&B	Hong Kong	Centrepoint Orchard
Marimekko	Fashion	Finland	Capitol Piazza
Michael Kors	Fashion	US	Mandarin Gallery
Moncler	Fashion	France	Ion Orchard
MSGM	Fashion	Itlay	Takashimaya
Stenders	Beauty	Latvian	Plaza Singapura
Victoria Secret	Fashion	US	Mandarin Gallery
Weekends	Lifestyle		VivoCity's 15k sqft AEI

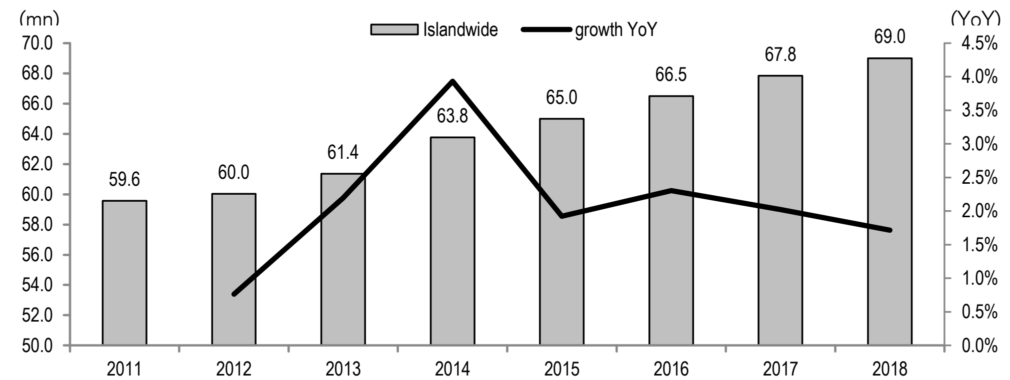
Source: CBRE, Savills, JLL, channel news asia, straits times

Manageable supply pressures

Island-wide retail stock growth peaked in 2014 when 2.3 mn sq ft entered the market (+3.9%). Supply is expected to stay at more moderate levels of 1.2-1.5 mn sq ft p.a. (+1.7-+2.3% p.a.) but the impact should differ slightly across regions:

Growth in island-wide retail stock peaked in 2014

Figure 24: Island-wide retail supply easing



Source: CBRE, URA, Credit Suisse estimates

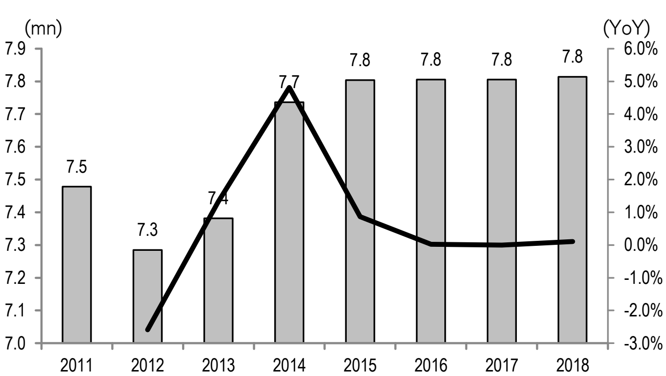
Minimal supply on Orchard road and Fringe areas

Orchard Road and the fringe area will see limited supply until 2018, in our view. Orchard should see only a 1% rise in total stock from 2014-18, mainly from the completion of Asset Enhancement Initiatives (AEIs) at CDLHT's Claymore connect.

The fringe area will see supply grow by 1.7-1.8% in 2016 and 2017 with the reopening of Tiong Bahru Plaza and the completion of AEIs at the Singpost centre (Payalebar). More interestingly, the Singpost centre will be the first integrated mall to offer a complete suite of e-commerce logistics solutions and in-shop online ordering, delivery and pick-up options.

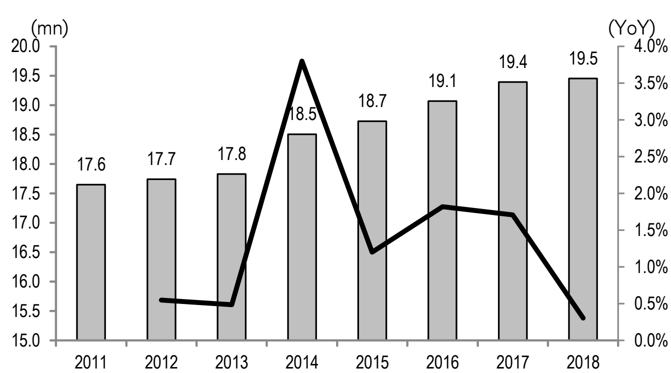
Limited supply for Orchard Road and Fringe areas

Figure 25: No new supply in Orchard in 2016-17



Source: CBRE, URA, Credit Suisse estimates

Figure 26: Fringe area has limited supply



Source: CBRE, URA, Credit Suisse estimates

Suburban supply is spread out

We see suburban retail supply growing by 586k sq ft (+2.8%) in 2016 then rising to 870-890k sq ft (+4.0-4.1%) over 2017-18. We believe the new supply will be manageable at it is well spread-out and focused on several malls:

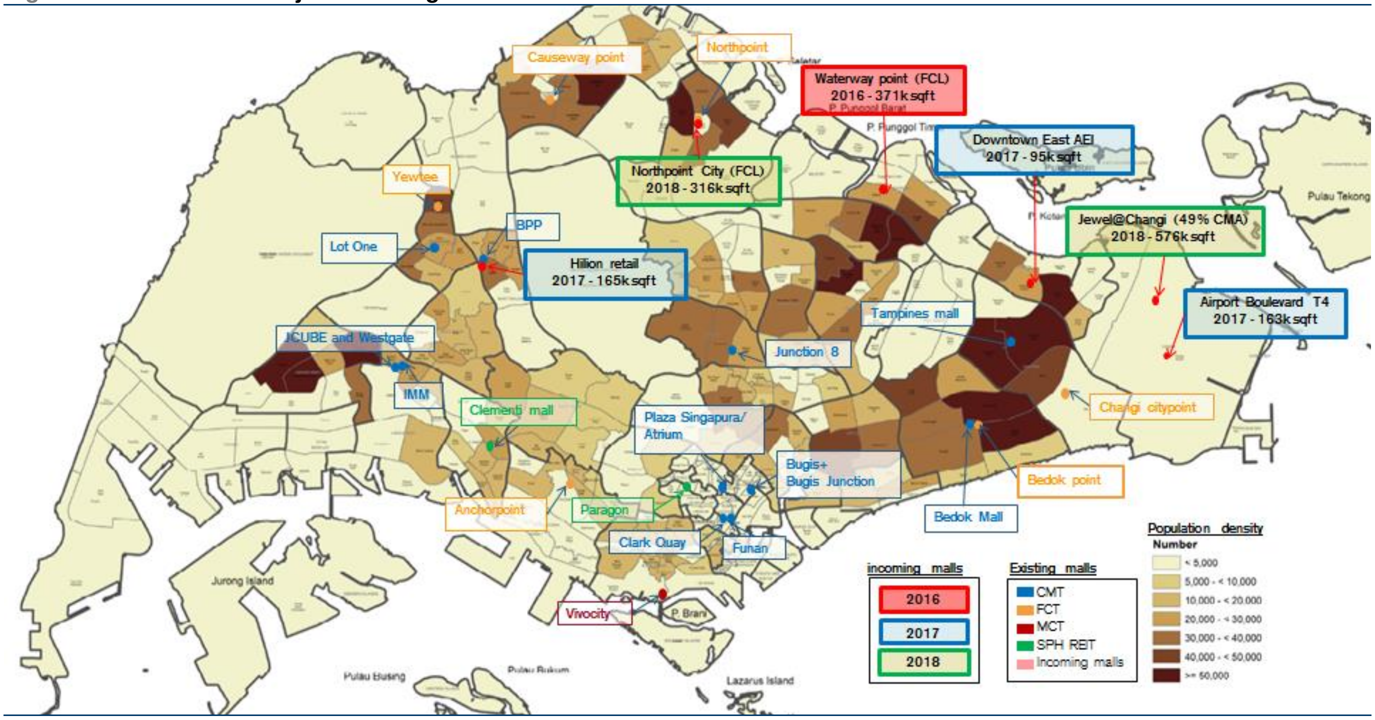
(1) In 2016, 63% of new space will be from the completion of Waterway point (already >90% committed) in Punggol

(2) In 2017, half of the space will come from the Hilion Mall (165k sq ft) at Bukit Panjang, Changi Airport (164k sq ft) and Downtown East at Pasir Ris (95k sq ft).

Suburban supply is well spread-out, largely from six main assets

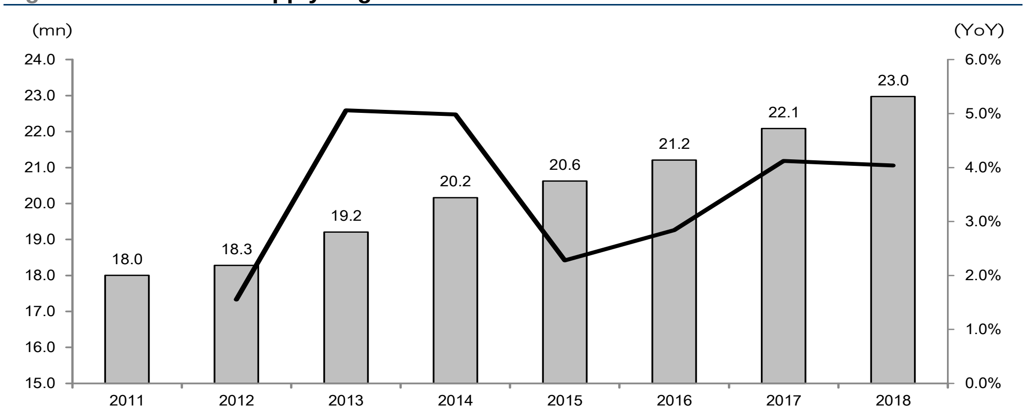
(3) In 2018, the new space will mainly be at Jewel at Changi Airport (576k sq ft) and FCL's Northpoint City (316k sq ft) in Yishun.

Figure 27: **Location of major incoming suburban malls over 2015-18**



Source: CBRE, URA, Credit Suisse estimates, company data

Figure 28: **Suburban supply to grow 2.8-4.1% from 2016-18**



Source: CBRE, URA, Credit Suisse estimates

Natural population growth in estates supports suburban mall catchments

Suburban malls naturally provide the most resilient exposure for retailers given existing catchment areas. Moving forward, the expected completions of public and private residential units will help to naturally increase the population in each estate.

Suburban malls will benefit from natural growth of population catchment

Of the top-10 biggest estates, expected completions (and an assumption of 80% occupancy for HDB and 50% for private, 2.5 occupants per unit) suggest that the biggest population growth until end-2018 will be in Yishun (+15k) , Sengkang (+14k), Hougang (+13k), Choa Chu Kang (+11k) and Woodlands (+11k). This bodes well for the longer term sustainability of FCT as two of their largest malls, Causeway Point and Northpoint (accounting for 73% of NPI), are the incumbent malls in Woodlands and Yishun respectively.

Punggol is the fastest-growing estate with an expected 22k (+23%) more residents, although on a smaller base of 98k residents currently. The growth should support retailers in FCL/Far East's Waterway Point (FCT holds the right of first refusal for the mall)

FCT malls look to be best positioned to benefit from growing estates

CMT's key suburban malls, Bedok Mall and Tampines Mall, should continue to see 4-7k more residents and are already the largest and third-largest estates in Singapore. Jurong is expected to see about 6k (1-2%) more residents by 2018 across Jurong East and West, while nearby estate Bukit Batok could see an increase of 21k more residents. Additionally, there is potential for further growth in Jurong in the longer term with the development of Jurong Lake District and further hotel (target 2,800 rooms), office (target 5 mn sq ft) and industrial developments.

CMT malls should continue to be stable from already-strong catchments

Figure 29: Expected population growth of top-15 largest estates

	Resident population		Growth	
Estate	**2014**	**2018E**	**number of residents**	**2014-2018 change**
Bedok	293,110	297,196	4,086	1.4%
Jurong West	271,930	277,588	5,658	2.1%
Tampines	258,810	265,846	7,036	2.7%
Woodlands	250,180	261,046	10,866	4.3%
Hougang	219,440	232,580	13,140	6.0%
Yishun	192,800	208,191	15,391	8.0%
Sengkang	191,910	206,091	14,181	7.4%
Ang Mo Kio	178,260	183,460	5,200	2.9%
Choa Chu Kang	175,330	186,542	11,212	6.4%
Bukit Merah	156,740	165,839	9,099	5.8%
Bukit Batok	141,560	162,178	20,618	14.6%
Pasir Ris	137,500	141,639	4,139	3.0%
Bukit Panjang	133,020	134,905	1,885	1.4%
Toa Payoh	126,720	132,444	5,724	4.5%
Serangoon	122,100	124,481	2,381	2.0%

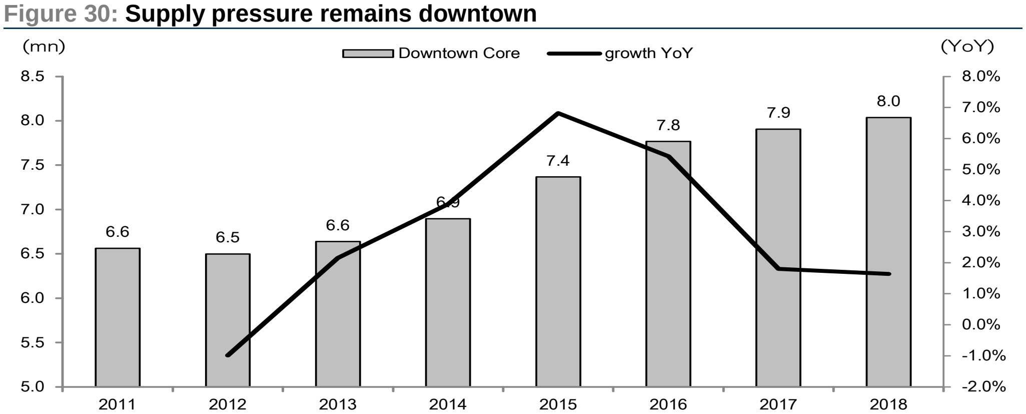
Source: URA, DOS, Credit Suisse estimates

Supply pressure remains downtown

400k sq ft of additional space will enter the downtown core in 2016, mainly in the CBD and driven by Guoco Land's Tanjong Pagar Centre (100k sq ft) and OUE's Downtown Gallery (160k sq ft). The Cityhall area will continue to deal with heightened competition from 471k sq ft worth of completions in 2015, particularly at Suntec City ph3 (125k sq ft), Capitol Piazza (156k sq ft), the Marina Square extension (61k sq ft) and South beach (85k sq ft).

Supply pressure is still high in downtown core

Figure 30: Supply pressure remains downtown



Source: CBRE, URA, Credit Suisse estimates

Attractive valuations

Performance of the REITs over the past six months have largely been driven by fears over a potential fed rate hike. We believe that the retail sector provides the most stability among the REITs and further underperformance post a rate hike in December could provide a buying opportunity. Our preference for exposure to the retail REITs would be CMT, MCT and FCT.

Retail sector most stable. Prefer CMT, MCT an FCT

- **CMT:** Completion of AEIs across several of CMT's malls, including Tampines (including the creation of 21.5k sq ft NLA), IMM (continued repositioning as an outlet mall), Bukit Panjang Plaza (~12.5k sq ft GFA) and commencement of tenant operations at Clarke Quay should help support DPU growth into 2016 and 2017. Struggling mall, Jcube, in Jurong East, is likely to be less of a drag on rent reversions in 2016 as the main year for expiries was 2015 (65% of the mall by gross rental income expired) while only 13% and 7% of the mall will be expiring in 2016 and 2017. Further upside could come from the potential sale/redevelopment of Funan Digitalife Mall. We have lowered our DPU by 0.3-2.6% to factor in a higher number of payment units to Capitaland for Bedok Mall vs what we had previously estimated and divestment of Rivervale Mall, our new TP is 2.30 (from 2.36)

CMT to benefit from completion of AEIs

- **MCT:** 66% of MCT's NPI is generated from VivoCity, one of the best shopping malls in Singapore, which takes in ~50 mn shoppers annually, the highest reported among the REITs. Rent reversions at VivoCity have been moderating, along with peers; however, they remain at higher levels. We believe there is still potential for more rejigging of space that can support the elevated reversions versus peers'. Vacancy/rent risk on MCT's office portfolio (25% of NPI) is largely out of the way until FY18 as office expiries until then should only account for 1.5% of MCT's gross rental income. Additionally, committed occupancies are 1-7 pp higher than current levels, implying that we should see improvement in MCT's office occupancy over the next several quarters. We have raised our FY16-18 forecasts by 0.2-2.3%, factoring in higher occupancies than what we had previously expected for the office portfolio

MCT: Strongest rent reversions and office portfolio risk out of the way until FY18

- **FCT:** FCT's two-largest contributors to NPI, Causeway Point (44% of NPI) and Northpoint (29% of NPI) have continued to post stable reversions. Changi City Point (CCP) (13% of NPI) is still going through an adjustment of its tenant mix, but should be able to improve its occupancy as the expected opening of the downtown line in early 2017 enhances the proposition for prospective tenants. There is a potential risk from disruption from the 18-month AEI at Northpoint which is expected to start in March 2016. Management is expected to provide further details on the AEIs in due course and are mindful of sustaining DPU.

FCT: key assets continue to remain stable but awaiting details on Northpoint AEI

Yields about 1 s.d. above historical average

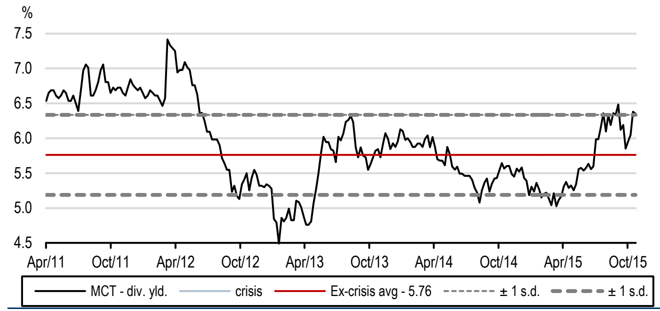
The retail REIT dividend yields are ~1 standard deviation over their historical averages following the recent sell-off from the Fed Reserve's indication that it could raise rates in December.

The retail REIT dividend yields are ~1 s.d. over their historical averages

Figure 31: **CMT's dividend yield band**

Source: Company data, Credit Suisse research, Bloomberg

Figure 32: **MCT's dividend yield band**

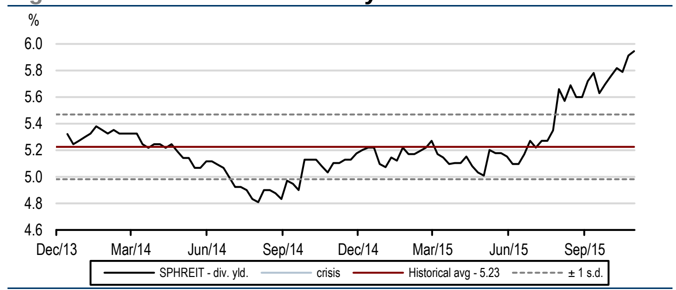


Source: Company data, Credit Suisse research, Bloomberg

Figure 33: **FCT's dividend yield band**

Source: Company data, Credit Suisse research, Bloomberg

Figure 34:**SPH's REIT dividend yield band**



Source: Company data, Credit Suisse research, Bloomberg

Buffer for cap rates for Retail REITs

Key retail assets provide a good buffer to expanding cap rates

Cap rates are expected to rise as we move into an environment of higher rates which would put pressure on asset valuations and subsequently the NAVs of the REITs. Based on latest valuer cap rates and our forecasts on retail NPIs, we believe that key retail assets under the REITs offer a good buffer to rising cap rates. Several smaller assets, such as CMT's JCube (4% of asset value) and FCT's Bedok Point (4% of asset value), could be at risk, but larger assets, such as Tampines Mall, Plaza Singapura, IMM, VivoCity and Northpoint, all offer a clear buffer of 0.5-1.9 pp over valuer cap rates.

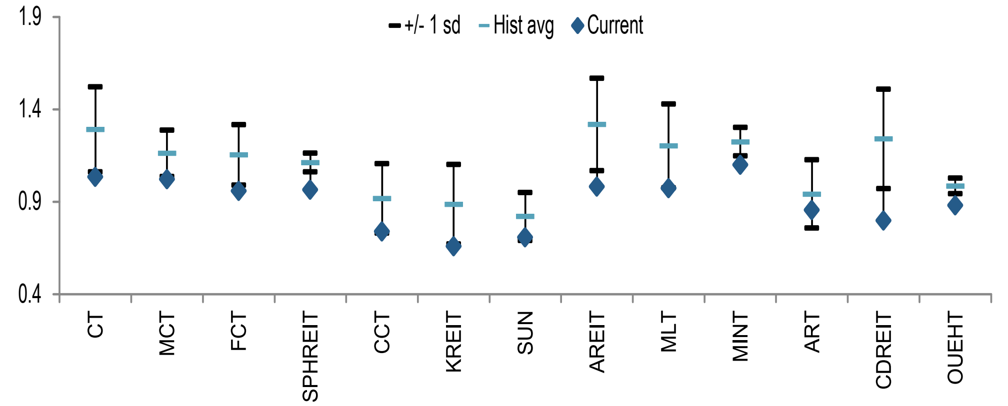
Figure 35: **NPI yield vs cap rates for key retail assets**

	Date	Value (S$ mn)	Cap rate	t+1 NPI (S$ mn)	NPI yield	NPI yield above/(below) cap rate
Plaza Singapura	Jun-15	1235	5.00%	69.4	5.62%	0.6%
Junction 8	Jun-15	691	5.35%	41.4	5.99%	0.6%
Tampines Mall	Jun-15	953	5.35%	56.0	5.88%	0.5%
Bugis Junction	Jun-15	990	5.35%	56.1	5.66%	0.3%
IMM	Jun-15	606	6.50%	50.9	8.39%	1.9%
JCube	Jun-15	288	5.50%	12.6	4.39%	-1.1%
Westgate	Jun-15	319.2	5.20%	13.8	4.33%	-0.9%
Causeway point	Sep-15	1110	5.25%	59.1	5.32%	0.1%
Northpoint	Sep-15	665	5.35%	38.0	5.71%	0.4%
Changi city point	Sep-15	311	5.70%	16.8	5.42%	-0.3%
Bedok Point	Sep-15	108	5.50%	4.2	3.90%	-1.6%
Paragon	Aug-15	2641	4.67%	131.8	4.99%	0.3%
Vivocity	Mar-15	2358	5.15%	138.4	5.87%	0.7%
Mandarin Gallery	Dec-14	536	5.25%	28.8	5.37%	0.1%

Source: Company data, Credit Suisse estimates

We would also note that cap rates have not compressed as much as interest rates since the Global Financial Crisis (GFC) and are unlikely to expand in the same absolute quantum when rates start to rise. Additionally, REIT P/Bs are already pricing in some form of expansion in cap rates with PBs trading 1 standard deviation below historical average.

Figure 36: **REIT price to book vs historical average**



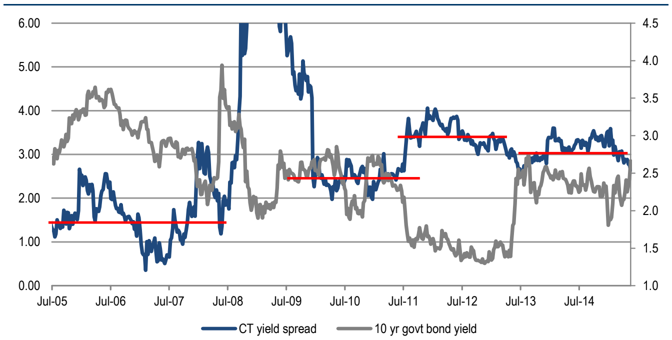
Source: Company data, Credit Suisse research, Bloomberg

Average yield spreads could narrow

The ten-year government bond yields have moved progressively lower since the GFC and while REIT yields have followed suit, the average yield spreads also expanded as interest rates trended down. As such, with the normalisation of US rates, we may see average yield spreads for REITs settle at a lower levels. We do expect that there will be an initial negative knee-jerk reaction to stock prices when interest rates are raised, but we believe that the market will eventually settle at thinner spreads.

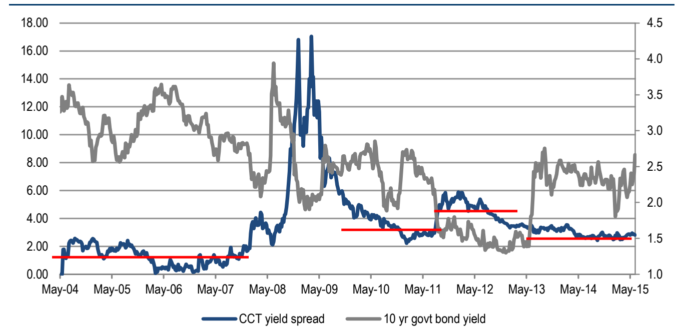
Potential for tighter yield spreads as interest rates rise

Figure 37: **CT's yield spreads vs 10-year government bonds have risen as rates have fallen**



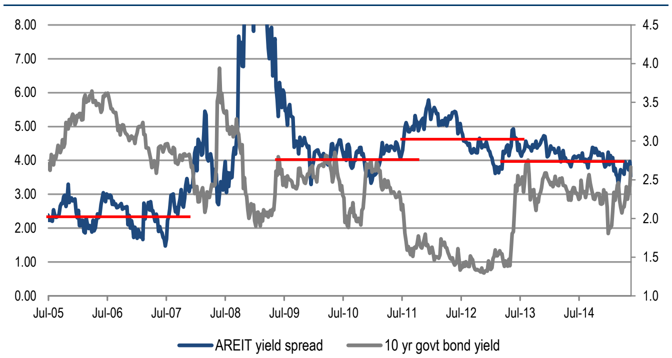
Source: Company data, Credit Suisse research, Bloomberg

Figure 38: **CCT's yield spreads vs 10-year government bonds have risen as rates have fallen**



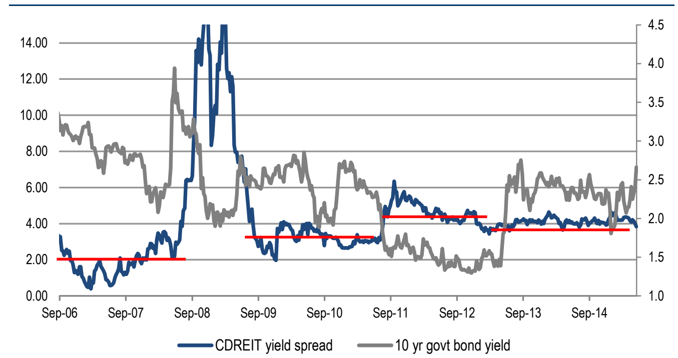
Source: Company data, Credit Suisse research, Bloomberg

Figure 39: **AREIT's yield spreads vs 10-year government bonds have risen as rates have fallen**



Source: Company data, Credit Suisse research, Bloomberg

Figure 40: **CDL's HT yield spreads vs 10-year government bonds have risen as rates have fallen**



Source: Company data, Credit Suisse research, Bloomberg

Companies Mentioned *(Price as of 24-Nov-2015)*

Apple Inc (AAPL.OQ, $117.75)
Ascendas REIT (AEMN.SI, S$2.32)
Ascott Residence Trust (ASRT.SI, S$1.19)
BreadTalk Group (BRET.SI, S$1.13)
CDL Hospitality Trusts (CDLT.SI, S$1.32)
Capitaland Commercial Trust (CACT.SI, S$1.31)
Capitaland Mall Trust (CMLT.SI, S$1.88, OUTPERFORM, TP S$2.3)
F J Benjamin (FJBN.SI, S$0.092)
Far East H-Trust (FAEH.SI, S$0.615)
Frasers Centrepoint Trust (FCRT.SI, S$1.88)
Isetan Singapore (ISET.SI, S$4.44)
Keppel DC REIT (KEPE.SI, S$1.05)
Keppel REIT (KASA.SI, S$0.94)
Mapletree Commercial Trust (MACT.SI, S$1.28)
Mapletree Industrial Trust (MAPI.SI, S$1.53)
Mapletree Logistics Trust (MAPL.SI, S$1.02)
Metro Holdings (MTHL.SI, S$0.885)
OUE Hospitality Trust (OUER.SI, S$0.8)
SPH REIT (SPHR.SI, S$0.92)
Suntec REIT (SUNT.SI, S$1.55)
Wing Tai Holdings (WTHS.SI, S$1.715)

Disclosure Appendix

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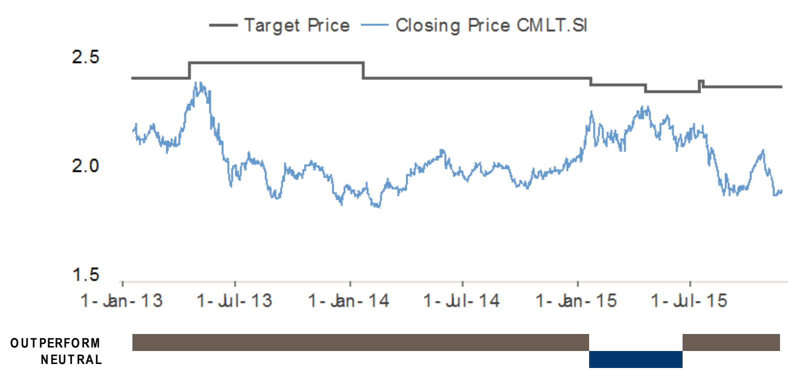
3-Year Price and Rating History for Capitaland Mall Trust (CMLT.SI)

CMLT.SI Date	Closing Price (S$)	Target Price (S$)	Rating
18-Jan-13	2.16	2.40	O
19-Apr-13	2.26	2.47	
22-Jan-14	1.89	2.40	
23-Jan-15	2.25	2.37	N
09-Apr-15	2.25		*
21-Apr-15	2.24	2.34	N
29-May-15	2.17		*
22-Jun-15	2.10	2.34	O
15-Jul-15	2.15	2.39	
22-Jul-15	2.14	2.36	

** Asterisk signifies initiation or assumption of coverage.*



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Price Target: (12 months) for Capitaland Mall Trust (CMLT.SI)

Method: Our S$2.30 target price for CapitaMall Trust is derived using a DDM (dividend discount model) valuation method, assuming a 7% cost of equity and a 1.5% terminal growth rate.

Risk: Key risks to our S$2.30 target price for CapitaMall Trust include: (1) potentially higher stakes in future CapitaLand retail REIT spin-offs to reduce corporate governance control, (2) slower economic growth and recessionary risks, and (3) acquisition and AE execution risks.

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