



S-REITs Update

A lesson to stick to quality REITs

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- **Eagle Hospitality Trust-No-More.** Based on the latest announcements released on SGX, it turns out that investors (and analysts alike regrettably) have been kept in the dark about many, many things – both on the part of EHT’s management as well as the trustee. Up to US\$20 million in security deposits were never fulfilled by EHT’s sponsor – Urban Commons; EHT has not been receiving rents since January 2020; EHT’s manager had breached MAS’s requirements since December 2019.
- **But retail REITs – better than any other cashback program.** Since the announcement of the extended circuit breaker measures, retail REITs we previously recommended have taken a slight dip after a week of run up. While surely, another month of closures will affect DPU for FY20 a little more, we still believe that there are significant upsides for when life begins to even marginally, resemble normalcy.

Eagle Hospitality Trust. According to the latest announcement ‘Regulatory Actions by SGX::MAS and SGX RegCo to Safeguard Interests of Unitholders of Eagle Hospitality Trust’ on the 20th April 2020 by MAS/SGX, EHT has not been receiving rental payments since January 2020. In addition, EHT has also been in breach of MAS’s requirement to have a minimum base capital of S\$1 million, since December 2019. This suggests that EHT and its Sponsor already had underlying financial difficulties from before the Covid-19 outbreak hit the US in late February. We find this to be a conscious, purposeful deceit from a corporate governance standpoint, considering EHT had proceeded with its full year results earlier in February without any disclosure of the above information, and further announced master lease amendments. Even when questioned, time after time, regarding the financial standing of its Sponsor towards the end of last year when concerns over Queen Mary were raised, EHT’s management deliberately made no note or statement of, or even hint at its weakness, despite being aware of payment delinquencies and missing security deposits of up to US\$20 million.

To EHT unitholders. At this point, it is unlikely that investors will get much, if any, of their money back (refer to Figure 1 below) – not any time in the near future at least, given that its syndicate lenders have restricted access to EHT’s subsidiaries under EH-REIT (who own the assets). Even if MAS and SGX do find breaches of relevant laws, it will be a long drawn out process before any money will be received at the end of the day, assuming it doesn’t all go towards paying for lawyer and other fees. It is truly regrettable that EHT has taken such a turn for the worse since our initiation, but we now know better to keep our investments in stable, reputable and with sponsors who have proven track records.

What about the other US Hospitality REIT? Besides competing in a completely different segment of the hospitality sector, along with what seems like a vastly different management style, ARA US Hospitality Trust (ARA) is backed by ARA Asset Management Limited (ARA Group). ARA’s sponsor is ARA Real Estate Investors 23 Pte. Ltd., an indirect wholly-owned subsidiary of ARA Group – a global integrated real estate asset fund manager headquartered in Singapore. As at 31 December 2019, the gross assets managed by ARA Group and its associates is approximately S\$88 billion across 28 countries. The Group directly manages Fortune REIT, which is primary listed in Hong Kong since 2003 and secondary listed in Singapore since 2010; Singapore-listed Suntec REIT since 2004 and Cache Logistics Trust since 2010; and Prosperity REIT and Hui Xian REIT which are solely listed in Hong Kong since 2005 and 2011 respectively. So despite its assets being in the same far-away place we can’t actually see or touch, we believe that ARA’s Sponsor is much more robust, reliable, and trustworthy considering its long-standing track record.

While we have yet to update our target price for ARA since the Covid-19 pandemic spread across to the US, we still believe that it remains undervalued for the strength of its assets, and the support of its sponsor. The US hospitality market has been significantly impacted given that the US is now the epicentre of the outbreak, but we continue to like ARA and will give a more comprehensive update on its operations and financial position after 1Q results.

Retail REITs, better than cashback. In this environment, we continue to like the stronger, larger, yet undervalued retail REITs such as CapitaLand Mall Trust (CMT), Mapletree Commercial Trust (MCT), and Frasers Centrepoint Trust (FCT).

While most are conserving cash for the sole purpose of being prudent in such an uncertain, volatile time, they are doing so under the Capital Allowance Claim, that will eventually be returned to investors should they not utilise it.

We maintain that investors should look beyond FY20 and the temporary Covid-19 impact on retail, as not only will pent up demand be substantial post the extended circuit breaker period, but catalysts especially for CMT and MCT remain.

- The development of the Greater Southern Waterfront would benefit MCT’s assets over the next 3-5 years.
- With the CMT-CCT merger still on track, the merged REIT will be SG’s largest and provide more opportunities for M&A.
- FCT remains a winner with its quality heartland malls that will continue to generate significant footfall and tenant revenues through economic downturns, since it provides for many essentials for the neighbourhoods around them.

Figure 1: Sensitivity table based on arbitrary property values

	Discount				
	-20%	-30%	-40%	-50%	
Property Value	\$ 100	\$ 80	\$ 70	\$ 60	\$ 50
Debt	\$ 40	\$ 40	\$ 40	\$ 40	\$ 40
Equity	\$ 60	\$ 40	\$ 30	\$ 20	\$ 10
Gearing (Debt/Property Value)	40%	50%	57%	67%	80%
Discount to Book Value		-33%	-50%	67%	-83%
P/B		0.67x	0.50x	0.33x	0.17x

Source: KGI Research

Note: Due to the current Covid-19 situation, coupled with a forced sale of its assets, and questionable initial valuations (specifically the Queen Mary), there is a chance that EHT's asset values may plunge, leaving investors with little, if any.

Figure 2: Singapore REIT Watchlist

BB ticker	Company Name	Last Price (local \$)	Currency Adj. Market Cap (\$ m)	Trailing 12M Dividend Yield (%)	FY20F Dividend Yield (%)	FY21F Dividend Yield (%)	Gearing (%)	Current P/B Ratio (x)	6M Average daily trading volume (\$'000)	(YTD) Price Performance	
RETAIL				24,968	6.9	7.9	8.6	35.3	0.7	10,735.5	(25.2)
CT SP	CAPITALAND MALL TRUST	SGD 1.72	6,347	6.8	6.3	7.4	31.5	0.8	40,637	-30.1	
MCT SP	MAPLETREE COMMERCIAL TRUST	SGD 1.83	6,053	3.9	4.8	5.2	34.2	1.0	39,810	-23.4	
MAGIC SP	MAPLETREE NORTH ASIA COMMERC	SGD 0.87	2,794	8.7	8.2	8.6	38.5	0.6	13,973	-25.4	
SPHREIT SP	SPH REIT	SGD 0.78	2,151	5.8	5.5	6.8	28.2	0.7	3,228	-27.1	
FCT SP	FRASERS CENTREPOINT TRUST	SGD 1.99	2,228	4.5	5.3	6.3	29.6	0.9	8,420	-29.2	
SGREIT SP	STARHILL GLOBAL REIT	SGD 0.47	1,028	9.5	8.7	9.4	37.0	0.5	1,810	-35.2	
CRCT SP	CAPITALAND RETAIL CHINA TRUS	SGD 1.33	1,626	7.4	6.5	7.7	43.0	0.9	5,760	-17.4	
LREIT SP	LENDLEASE GLOBAL COMMERCIAL	SGD 0.56	649	2.3	7.7	9.5	35.1	0.7		-40.3	
SASSR SP	SASSEUR REAL ESTATE INVESTME	SGD 0.71	851	9.3	8.7	9.2	30.9	0.8	2,885	-20.3	
LMRT SP	LIPPO MALLS INDONESIA RETAIL	SGD 0.14	416	15.8	17.0	16.3	39.8	0.5	1,068	-37.3	
DASIN SP	DASIN RETAIL TRUST	SGD 0.80	519	2.6	7.8	7.9	44.3	0.6	247	-4.2	
BHGREIT SP	BHG RETAIL REIT	SGD 0.60	306	6.4			32.1	0.7	253	-12.4	
INDUSTRIAL				34,064	7.5	7.8	8.0	39.2	1.1	12,090.8	(15.8)
AREIT SP	ASCENDAS REAL ESTATE INV TRT	SGD 2.82	10,203	5.7	5.5	5.8	39.2	1.3	53,777	-5.1	
MINT SP	MAPLETREE INDUSTRIAL TRUST	SGD 2.43	5,348	5.0	5.1	5.2	31.4	1.5	21,454	-6.5	
MLT SP	MAPLETREE LOGISTICS TRUST	SGD 1.83	6,955	4.3	4.5	4.5	41.4	1.5	27,974	5.2	
FLT SP	FRASERS LOGISTICS & INDUSTRI	SGD 0.99	2,239	7.1	7.1	7.2	34.5	1.1	10,409	-20.2	
KDCREIT SP	KEPPEL DC REIT	SGD 2.51	4,098	2.8	3.5	3.9	32.6	2.2	15,175	20.7	
AIT SP	ASCENDAS INDIA TRUST	SGD 1.23	1,409	7.0	6.6	7.4	38.9	1.1	2,817	-20.6	
EREIT SP	ESR-REIT	SGD 0.32	1,122	9.5	11.7	12.1	46.1	0.7	6,836	-40.6	
AAAREIT SP	AIMS APAC REIT	SGD 1.16	820	8.8	8.9	9.1	34.9	0.8	2,728	-18.9	
SBREIT SP	SOILBUILD BUSINESS SPACE REI	SGD 0.37	461	10.7	10.1	10.4	40.7	0.6	897	-29.8	
CACHE SP	CACHE LOGISTICS TRUST	SGD 0.52	564	10.7	11.1	11.3	44.2	0.9	1,290	-28.0	
ECWREIT SP	EC WORLD REIT	SGD 0.65	518	9.4	9.6	9.8	48.9	0.8	1,196	-13.4	
SSREIT SP	SABANA SHARIAH COMP IND REIT	SGD 0.31	326	9.4	9.4	9.7	37.4	0.5	535	-32.6	
OFFICE				21,500	7.7	8.2	8.4	35.6	0.7	2,006.5	(26.3)
CCT SP	CAPITALAND COMMERCIAL TRUST	SGD 1.48	5,754	5.7	5.7	6.1	28.0	0.8	26,978	-25.6	
SUN SP	SUNTEC REIT	SGD 1.29	3,633	7.5	6.4	6.7	37.3	0.6	21,229	-29.9	
KREIT SP	KEPPEL REIT	SGD 1.06	3,583	5.3	5.4	5.4	29.1	0.8	10,243	-18.5	
OUECT SP	OUE COMMERCIAL REAL ESTATE I	SGD 0.39	2,076	4.2	8.2	8.7	40.8	0.6	1,654	-31.0	
FCOT SP	FRASERS COMMERCIAL TRUST	SGD 1.30	1,189	7.4	7.7	7.7	30.4	0.8	3,856	-21.7	
KORE SP	KEPPEL PACIFIC OAK US REIT	USD 0.58	770	10.4	10.7	10.7	39.0	0.7	1,658	-25.6	
MUST SP	MANULIFE US REAL ESTATE INV	USD 0.70	1,562	10.8	8.7	9.1	39.2	0.9	5,749	-30.0	
PRIME SP	PRIME US REIT	USD 0.70	1,045	5.9	9.9	9.9	34.4	0.8	1,334	-27.5	
CERT SP	CROMWELL EUROPEAN REIT	EUR 0.38	1,475	10.8	10.1	10.7	38.5	0.7	2,304	-30.6	
IREIT SP	IREIT GLOBAL	SGD 0.65	412	8.7	9.1	9.3	39.5	0.8	1,299	-20.4	
ELITE SP	ELITE COMMERCIAL REIT	GBP 0.67	390	-	-	-	68.4	-	-	-	
HOSPITALITY				6,060	9.0	12.2	14.8	31.3	0.6	4,215.9	(45.8)
ART SP	ASCOTT RESIDENCE TRUST	SGD 0.84	2,580	9.1	6.7	8.9	37.8	0.8	9,931	-37.2	
CDREIT SP	CDL HOSPITALITY TRUSTS	SGD 0.91	1,104	9.9	6.4	8.4	37.2	0.6	6,168	-43.8	
FHT SP	FRASERS HOSPITALITY TRUST	SGD 0.48	917	9.2	6.5	8.8	36.5	0.7	760	-32.4	
FEHT SP	FAR EAST HOSPITALITY TRUST	SGD 0.50	963	7.7	6.1	7.3	37.1	0.6	1,836	-33.1	
ARUS SP	ARA US HOSPITALITY TRUST	USD 0.41	326	-	6.2	15.3	0.0	-	-	-53.4	
EAGLEHT SP	EAGLE HOSPITALITY TRUST	USD 0.14	170	#N/A	N/A	41.6	40.1	39.3	0.2	2,384	-74.9
HEALTHCARE				2,637	7.5	7.5	7.5	37.4	1.3	2,303.9	(10.6)
PREIT SP	PARKWAYLIFE REAL ESTATE	SGD 3.32	2,009	4.0	4.2	4.2	38.6	1.7	2,405	0.0	
FIRT SP	FIRST REAL ESTATE INVNT TRUST	SGD 0.79	628	11.0	10.8	10.7	36.2	0.8	2,203	-21.1	
S-REIT				89,229	7.7	8.7	9.5	35.8	0.9	6,270.5	(24.7)

Source: Bloomberg, KGI Research

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