Asia Credit Research

OCBC Bank

Singapore Retails REITs: 2016 Outlook – Suburban Conundrum

Thursday, 31 March 2016

Key Takeaways

- **Steady increase in retail space:** Singapore retail space to grow ~4% per annum over the next 3 years. Mostly outside the Orchard Road shopping belt.

- **Retail demand looks mixed:** Singapore retail sales (ex-Motor Vehicle sales, SA) were negative in 2014 and 2015. With the domestic economy looking sluggish, and STB's forecast for tourist receipts to be flattish, the outlook for 2016 retail sales looks tepid.

- **Vacancies & lease rates souring:** Since end-2013, based on URA data, the trend of vacancy deterioration has been observed for Orchard Road, RCA and OCA regions. Though the OCA regions have outperformed in general, there was some convergence in the most recent quarter. The URA retail rental index declined 4.1% y/y for 2015.

- **Expectations:** Though we expect suburban malls to continue to outperform, we expect some convergence to the broad market as well as specific areas of heightened competition. We believe that potential asset injection by sponsors may stress credit profiles, and are particularly wary of non-stabilized assets on temporary rental support. The expanded development bucket for REITs has and will spur more redevelopment projects such as Park Mall and Funan Digitalife Mall. Retailers in Singapore continue to face pressure, and the exit of anchor tenants like departmental stores could prove detrimental to retail properties. In aggregate, portfolio revaluation gains decelerated, and revaluation losses occurred on specific properties. As such, improvements to credit profiles from portfolio gains will decelerate as well.

- **2015 Performance:** In general, the retail REITs that we cover have performed well in 2015 with revenue and NPI growth remaining positive across the board. Though some underlying assets faced pressure, none were sizable. We observed some weakness in 4Q2015 results, which could be a hint of things to come.

- **Occupancies strong, lease expiry manageable:** Portfolio occupancy levels were strong, reflecting the well-positioned, stabilized assets that these REITs hold. We do see some lease softness though. 2016 lease expiries look manageable.

- **Similar credit profiles, minimal near-term financing needs:** Aggregate leverage kept at mid-30% in general. Trends in interest coverage were mixed, due to increased borrowings but lower cost of debt. 2016 maturities largely accounted for except for FCT.

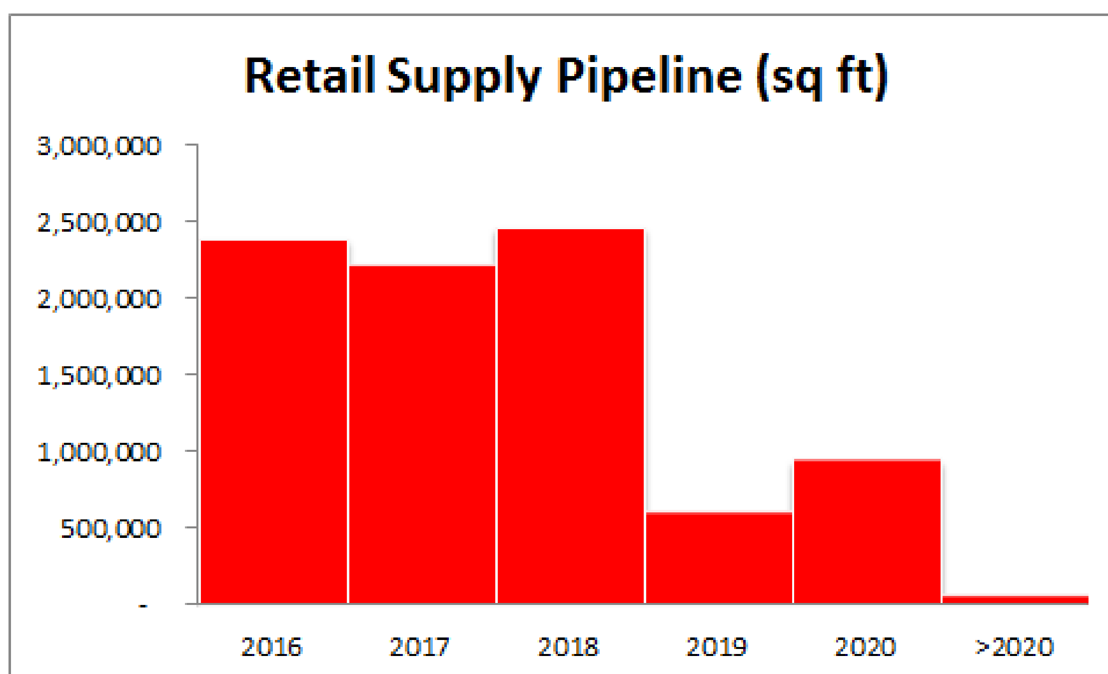
- **Recommendation:** We have **reaffirmed our Neutral Issuer Profile for CMT, FCT, SGREIT, MCT and SUN**. We continue to like the FCTSP'19s and FCTSP'20s, and prefer the CAPITA'24s over the MCTSP'23s on valuation.

Treasury Advisory
Corporate FX & Structured Products
Tel: 6349-1888 / 1881
Interest Rate Derivatives
Tel: 6349-1899
Investments & Structured Products
Tel: 6349-1886

GT Institutional Sales
Tel: 6349-1810

OCBC Credit Research
Nick Wong Liang Mian, CFA
+65 6530-7348
NickWong@ocbc.com

A) Shopaholics not included



Source: URA 4th Quarter 2015 real estate statistics, OCBC

Over the next three years, we estimate a ~4% increase in retail space per annum (Singapore currently has about 64mn sqft worth of retail space). As a comparison, domestic retail space increased by 1% in 2015, 4% in 2014 and 2% in 2013.

Snapshot of major retail projects			
Building	**NLA (sqft)**	**Location**	**Expected TOP***
OUE Downtown retail podium	250,000	Tanjong Pagar	2016
Guoco Tower retail	200,000	Tanjong Pagar	2016
Marina One retail	140,000	Marina Bay	December 2016
SingPost Mall	270,000	Paya Lebar	Mid-2017
Northpoint City	420,000	Yishun	2018
Changi Project Jewel	970,000	Changi	End-2018

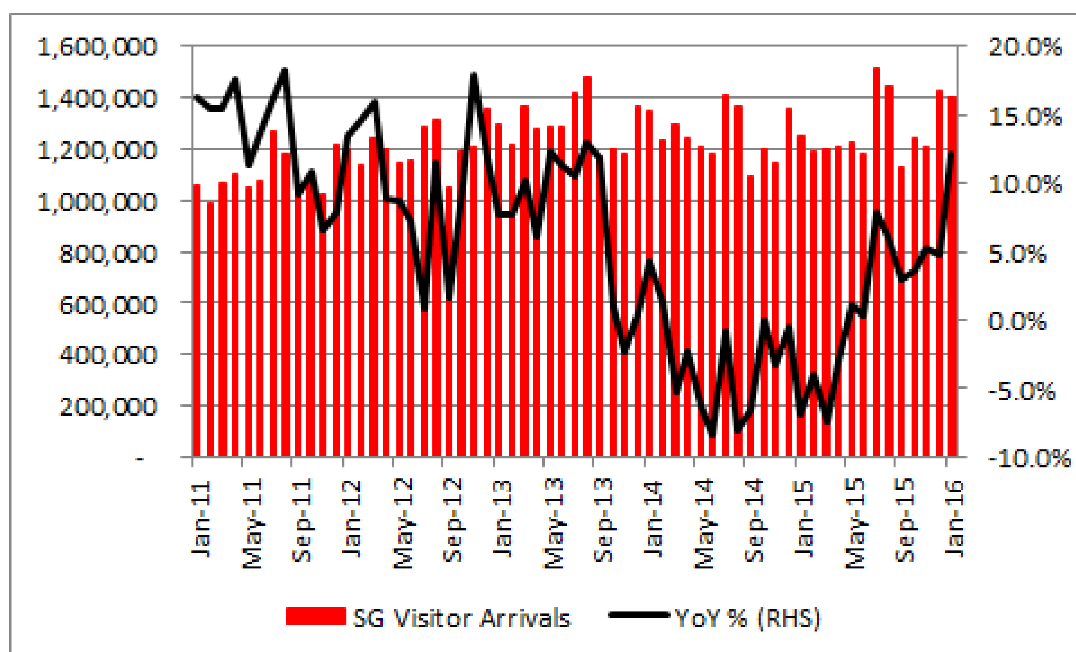
Source: URA – Commercial Projects in Pipeline 4Q2015, OCBC

In general, the supply of retail commercial property coming on stream the next few years is outside of the Orchard Road shopping belt. In fact, the only new supply of space along Orchard Road would be 268 Orchard Road (~150,000 sqft of NLA, already completed, but has been sitting empty). Aside from this, Orchard Central looks to be executing its AEI while Park Mall will be demolished for redevelopment. Looking at the pipeline, it would seem that most of the incoming supply is either in the city fringe (as part of mixed-use developments such as OUE Downtown), or out in the suburbs. It is worth noting that the suburbs have recently seen significant supply, such as the Waterway Point (370,000 sqft) at Punggol.

Though compared to the stark oversupply situation for office property[1], the pipeline for retail property looks to be more manageable. That said, we expect there to be some leasing pressure, particularly for the properties in the city fringe. Even for assets in the suburbs, there is some evidence of overbuilding in certain markets.

[1] OCBC Asia Credit - Commercial REIT Update (7 Mar 2016)

B) Demand factors mixed



Source: Singapore Tourism Board, OCBC

After a weak 1H2015, with Singapore visitor arrivals declining 3% y/y, 2H2015 saw a distinct recovery, with arrivals increasing 0.9% y/y to 15.2mn for the whole of 2015. In fact, July 2015 saw 1.52mn monthly visitors, the highest number on record. January 2016 numbers remain robust, with a y/y gain of 12.2%. However, tourism receipts declined sharply by 6.8% y/y to SGD22.0bn for 2015. The Singapore Tourism Board ("STB") attributed this mainly to the shift in visitor mix, with the decline in business travellers & meetings, incentives, conventions and exhibition ("BTMICE") travellers being offset by the increase in leisure arrivals[2]. STB has indicated that BTMICE travellers tend to spend two times more than a typical leisure traveller. Other headwinds include the uncertain global economic outlook and the strength of the SGD relative to some of Singapore's top source markets. Looking forward, STB forecasted visitor arrivals for 2016 to be in the range of 15.2mn – 15.7mn (0% – 3%), with tourism receipts to be in the range of SGD22.0bn – SGD22.4bn. As such, we expect tourism to have a neutral impact on retail property revenue, particularly for assets along the Orchard Road shopping belt.

Singapore Retail Sales (excluding Motor Vehicles, SA) Y/Y percentage change:

2012	2013	2014	2015
1.7%	1.3%	-0.9%	-0.8%

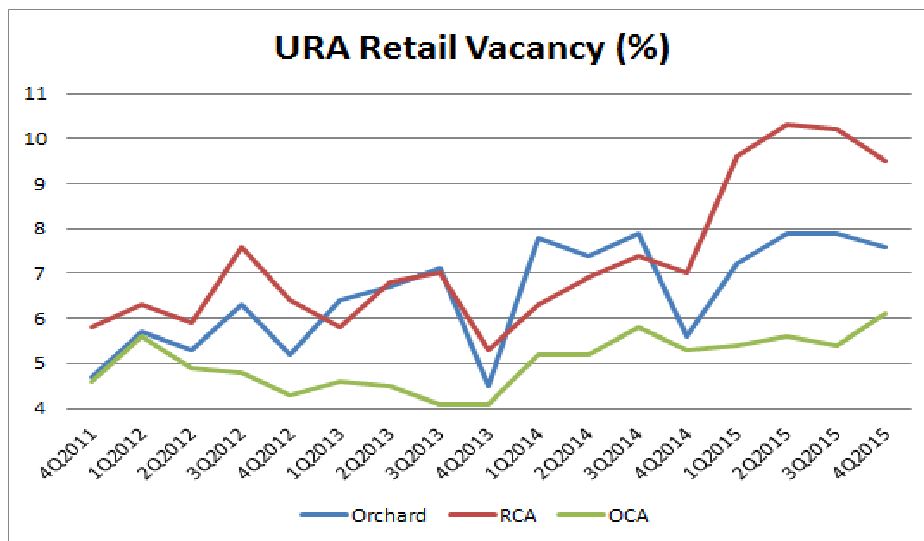
Source: Singapore Department of Statistics

Retail sales for the last couple of years have remained soft. Currently, OCBC's house view[3] for Singapore's economy is for growth to remain sluggish, but still positive for 2016 (with a GDP y/y growth forecast of 2.0% for the year). Our house view also highlighted risks on the downside, particularly given how economic indicators during January and February have been softer than expected. It is within this context that we believe retail sales in Singapore to remain soft for 2016

As such, with both internal and external sources of demand soft, we believe that aggregate retail spending would be weak in 2016 for both assets along the Orchard Road shopping belt (more tourist driven) as well as those beyond. Furthermore, the risk of disintermediation due to the rise of ecommerce cannot be ignored. Research firm Frost & Sullivan expects Singapore to remain the largest ecommerce market in Southeast Asia, with a 16% annual growth over the next five years[4].

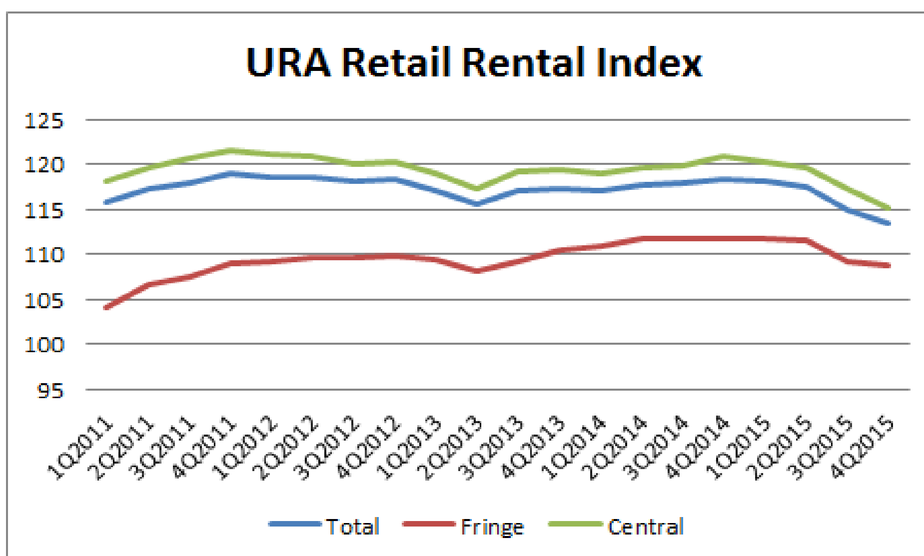
[2] https://www.stb.gov.sg/news-and-publications/lists/newsroom/dispform.aspx?ID=643
[3] OCBC – Singapore's FY2016 Pre-Budget Thoughts 14/03/16
[4] http://www.channelnewsasia.com/news/business/singapore/e-commerce-sector-feeling/2574004.html

C) Market impact



Source: URA 4th Quarter 2015 real estate statistics, OCBC

From the chart above, it can be seen that in terms of vacancy rates, suburban malls (represented by the Outside City Area, "OCA") have continued to outperform both the Orchard Road shopping belt ("Orchard") and the non-Orchard central areas (Rest of City Area, "RCA"). That said there is a distinct trend of deterioration across all categories since end 2013, likely to be a function of the influx of retail property supply and weak retail spending in 2014 and 2015. For OCA, vacancy rates increased from 5.3% (end-2014) to 6.1%. For Orchard, vacancy rates jumped from 5.6% (end-2014) to 7.6%. Finally, RCA vacancies continue to be elevated at 9.5% compared to 7% (end-2014). Looking forward, we expect vacancy rates to continue to trend upwards, with potentially more weakness for the non-Orchard retail assets given the looming pipeline.



Source: URA, OCBC

Data from the URA show that retail lease rates have deteriorated through 2015, with the broad index declining by 4.1% y/y. It is worth noting that the decline in retail lease rates was slightly more severe for the Central region (which captures Orchard and RCA) with the region declining 4.6% y/y. We believe that this was driven by the weakness in the RCA region (which includes Bugis, Marina Bay etc). Looking forward, we expect lease rates to remain pressured across the broad spectrum of retail properties.

D) Expectations

With the broad market situation already defined, we can expect the following to occur, as well as the impact on the retail REITs under our coverage.

I) **Not all suburbs are equal**: Though we continue to expect suburban malls to outperform the broad market, overbuilding in certain markets may lead to a "Jurong East" problem. Specifically, there are five malls in Jurong East competing in the same catchment area (the REIT holding the asset in brackets): JCube (CMT), JEM, West Gate (CMT), Big Box and IMM (CMT). Another area that could be seeing competitive pressure is Bedok: Bedok Mall (CMT) and Bedok Point (FCT).

II) **More challenged / non-stabilized assets not in REITs**: At present, the more high-profile assets facing pressure are not owned by REITs, though they may be owned by REIT sponsors. Examples include Orchard Central (Far East Organization), Centrepoint (Fraser Centrepoint Ltd) and Scott Square Retail (Wheelock Properties Singapore). In general, we believe that REITs hold better quality assets. For example, SGREIT's Wisma Atria reported 94.9% committed occupancy as of end-2015, compared to 92.4% for the Orchard region.

III) **Risk remains asset injections / acquisitions**: With the retail market looking soft in general, one area which investors need to be wary of would be sponsors injecting non-stabilized assets into the REITs (using rental support as an interim measure to boost yield).

IV) **AEIs to continue, expanded development bucket invites a new angle**: Given the maturity of the Singapore retail market, there might be limited domestic assets for REITs to acquire. With the new MAS rulings increasing the development limit for REITs from 10% of deposited property previously to 25% (subjected to certain conditions), we may see a trend of more REITs redeveloping some of their older assets, especially for assets that are not fully utilizing their allowable Gross Plot Ratio. For example, SUN has entered into a joint venture to redevelop Park Mall, while CMT has announced that it will be redeveloping Funan Digitalife Mall. We also expect REITs to continue to initiate AEIs as a way to incrementally grow their portfolio and to enhance yields. Some underperforming retail assets are undergoing relatively major AEIs, despite being fairly new. These have the potential to impact the REIT's credit profile (for example, the recently completed Suntec City Mall AEI took 3 years and cost SGD400mn).

V) **Build and they will come**: One interesting development would be integrated sponsors (with residential development arms) looking to be building their own catchment for the retail assets they have exposure to. For example, Fraser Centrepoint Ltd is developing Northpoint City, an integrated residential development, and FCT has initiated an AEI, which would integrate Northpoint Shopping Centre with Northpoint City. There are limits to this strategy though.

VI) **Retailers facing pressure**: Given soft retail sales, there have been several high profile exits by retailers from the Singapore market (eg: Lowrys Farm). Al-Futtaim, the Group that owns Robinsons and John Little, has recently announced that it is seeking to close ~10 loss making stores (out of the ~125 stores they have in Singapore), citing the high operating costs as a factor. The group has already shuttered a few departmental stores last year, such as John Little at Marina Square. Departmental stores typical serve as anchor tenants to malls, and their closure tends to have a pronounced impact on mall traffic.

VII) **Pop-up stores**: With demand looking tepid, or new space being made vacant by stressed retailers, some available retail space has been leased out as pop-up stores, with short lease durations (3 to 6 months). These have been used to temporarily occupy space while a mall is in transition (i.e.: Scotts Square Retail). Though occupancy rates may be boosted in the interim, WALE will be affected.

VIII) **Revaluation losses appearing**: Scotts Square Retail was revalued lower from SGD260mn (end-2014) to SGD234mn (end-2015). JCube's valuation fell from SGD335mn (end-2014) to SGD288mn (end-2015). We expect to see more revaluation losses, particularly if cap rates rise due to higher interest rates.

E) 2015 Review

Issuer	Revenue (SGD'mn)			NPI (SGD'mn)		
	2014	2015	y/y	2014	2015	y/y
CMT	658.9	669.0	1.5%	448.4	466.2	4.0%
FCT [1QFY2016, LTM]	176.0	189.1	7.4%	122.7	131.7	7.3%
SGREIT [2QFY2016, LTM]	195.1	212.1	8.7%	157.4	167.5	6.4%
SUN [Retail]	94.7	124.4	31.3%	71.8	94.0	31.0%
MCT [Retail, 3QFY2016, LTM]	191.9	198.9	3.6%	140.1	150.5	7.4%

CapitaLand Mall Trust ("CMT"): For 2015, gross revenue was slightly higher y/y. However, this masks soft 9M2015 performance, which saw revenue decline 1.0% y/y. This was mainly driven by low occupancy at JCube and Clarke Quay. CMT saw some recovery in 4Q2015, with revenue increasing 9.2% y/y, which drove 2015 revenue growth into positive territory. This was largely due to the Bedok Mall acquisition (which was acquired on 01/10/15) contributing to the bulk of revenue gains in 4Q2015. CMT was able to increase portfolio rental rates by 3.7% (compared to preceding rates committed three years ago). NPI growth was stronger at 4.0% y/y, largely driven by a 20% fall in utility expenses. Distributable income for 2015 was up 4.4%, driven by lower finance costs. Stronger NPI at JVs (Raffles City and Westgate) were also supportive of results.

Fraser Centrepoint Trust ("FCT"): Gross revenue growth for LTM ending 1QFY2016 was 7.4%. However, 1QFY2016 revenue was down 0.2% y/y largely driven by weakness at Bedok Point. For 4QFY2015 and 1QFY2016, Bedok Point saw revenue fall 26.9% y/y and 16.3% y/y respectively. The mall ended 2015 with an occupancy of just 77%. That said, Bedok Point is just ~5% of FCT's portfolio by value. Its largest assets Causeway Point and Northpoint have continued to perform. 1QFY2016 average rental reversion was strong at 13.7% (for 10.3% of portfolio NLA) though FY2015's rental reversion of 6.3% could be more representative as it represents 31.7% of portfolio NLA. NPI for LTM was up 7.3% y/y, though 1QFY2016's NPI growth of 2.0% y/y was more muted due to revenue softness during the quarter.

Starhill REIT ("SGREIT"): SGREIT saw revenue increase 8.7% y/y for the LTM (ending 2QFY2016). This was largely driven by the acquisition of Myer Centre Adelaide in May 2015, which drove 1HFY2016 revenue higher 15.3% y/y. If revenue contribution from Australia was excluded, revenue for 1HFY2016 would have declined 1.1% y/y, driven by weakness at SGREIT's Malaysia (due to MYR depreciation) and Chengdu assets. SGREIT's Singapore assets have performed well, growing 2.9% y/y for 1HFY2016 due to positive rental reversions at Wisma Atria. NPI for 1HFY2016 was up 10.3%, with the contributions from the Adelaide acquisition offsetting weakness at Malaysia and Chengdu. NPI was also weighed down by higher property tax. Distribution income increased (1HFY2016: +4.3%) largely due to the Adelaide acquisition.

Suntec REIT ("SUN"): SUN's retail revenue was up 31.3% y/y for the year, largely driven by the opening of Suntec City mall Phase 2 (June 2014) and Phase 3 (June 2015). It should be noted that SUN divested the bulk of its stake in Park Mall (generates ~SGD15mn in annual retail revenue) in December 2015. If we focus on the remaining retail assets though (Suntec City mall and Suntec Convention – retail), revenue fell by 4.5% q/q. 2015 retail NPI surged 31.0% y/y, largely due to the opening of Suntec City Mall Phase 2 and Phase 3, as well as improved contribution from Suntec Singapore. Distributable income for the entire REIT (including office) jumped 9.4% y/y for similar reasons.

MapleTree Commercial Trust ("MCT"): For LTM ending 3QFY2016 (December 2015), retail gross revenue increased 3.6% y/y. This was largely driven by strong performance at VivoCity, which managed to obtain higher lease rates for new and renewed leases. VivoCity also benefited from the slight increase in NLA (15,000sqft created from AEI in the basement). Though shopper traffic fell slightly, tenant sales managed to increase slightly. Retail NPI grew more strongly by 7.4%. It is worth noting that tenant sales were particularly strong in 3QFY2016, growing 4% y/y.

In aggregate, though retail REITS still saw some revenue growth in 2015, and distributable income benefited from lower utility costs as well as financing costs, we are starting to see some softness q/q between 3Q2015 and 4Q2015.

F) Occupancy & Lease Expiry

Issuer	Occupancy				Lease Expiry (NLA%)		
	2014	1H015	2015		2016	2017	2018+
CMT	98.8%	96.4%	97.6%		24.7%	30.3%	45.0%
FCT [1QFY2016]	96.4%	96.5%	94.5%		18.6%	36.0%	45.4%
SGREIT [2QFY2016]	99.4%	98.2%	98.0%		19.0%	10.8%	70.2%
SUN [Retail]	99.7%	95.1%	97.9%		27.0%	25.7%	47.3%
MCT [Retail, 3QFY2016]	99.7%	99.4%	99.9%		31.5%	22.0%	46.6%

Note: CMT, SGREIT and MCT Lease Expiry based on Gross Rental Income.

CMT: Portfolio occupancy fell from 98.8% (end-2014) to 97.6% (end-2015). Portfolio figures however masks the fact that most of the vacancies can be attributed to assets in the Jurong area. Specifically, JCube, IMM and Westgate have occupancies of 88.0%, 96.0% and 97.6% respectively. On the plus side, these three assets are just 12% of CMT's total portfolio value. In terms of lease expiry, at the portfolio level things look manageable. However, JCube will see 39.5% of its leases (by gross rental income) expiry during 2016. In terms of rental rates, CMT managed to increase current rental rates by 3.7% (relative to leases committed three years ago). This is the lowest increase since 2009 (saw +2.3%). Every subsequent year saw at least a 6% increase. As CMT is the largest and most diversified player, we believe that rental growth weakness is endemic across retail assets in general.

FCT: Though FCT is known for its suburban mall positioning, it is worth noting that its portfolio occupancy at 94.5% (end-2015) is the worst in our coverage universe (despite suburban malls being relatively resilient). Though we expect occupancy for Changi City Point (13% of portfolio) to stabilize at around ~90%, it is Bedok Point (4% of portfolio) that looks to be the laggard. With competition from the nearby Bedok Mall (in CMT), occupancy has plunged from 90.8% (end-2014) to 76.8% (end-2015). Though FCT indicated that a new anchor tenant (~9% of NLA) is expected to start in March 2016, no updates have been provided so far. On the bright side, FCT's lease expiry profile is manageable, with 80% of NLA expiring in FY2016 in FCT's larger, stronger malls. Rental reversion for 1QFY2016 was strong at 13.7% (FY2015: 6.3%) driven by robust rental growth at the largest three assets. The strong positioning of these malls help to anchor FCT's performance.

SGREIT: The dips in occupancy for SGREIT were driven by Wisma Atria, which saw occupancy fall from 100% (end-2014) to 94.9% (end-2015). This could have been driven by Isetan closing its store (the space is owned by Isetan outright), causing some shifts in tenants. It is worth noting that SGREIT has managed to extend the master lease on its Malaysian properties (12% of portfolio) by another three years (starting from end-June 2016) with a 6.7% increase in rent. This was 2/3 of the leases expiring in FY2016. As such, for the rest of FY2016, the balance lease expiry is manageable. Lease reversions for Singapore assets were flat during 2QFY2016 (an improvement over the negative 7.3% seen in 1QFY2016).

SUN: Suntec City's 3-year AEI was finally completed in June 2015. SUN managed to increase committed occupancy for the AEI from 91.3% (end-2014) to 98.0% (end-2015). However, there seems to be some lease rate weakness, with stabilized committed passing rents (which ignores rent concessions) falling from SGD12.27psf /mth (end-2014) to SGD12.04psf/mth (end-2015). 2H2016 will be a more comparable period, with the effects of the AEI coming online falling off.

MCT: Committed occupancy for VivoCity has improved from 97.5% (end-FY2015) to 99.9% (end-3QFY2016). In aggregate, MCT was able to retain 88% of its retail tenants for 9MFY2015 when leases were up for renewal, and were also able to increase rents by 12.6%. In terms of lease expiry, for FY2017 MCT has about 31.5% of leases expiring. However, we believe that VivoCity (~95% of retail NLA) has a strong position in its catchment area, as reflected in its occupancy, tenant retention

and increase in lease rates. As such, we believe that VivoCity should be able to sustain effectively full occupancy through time.

In general, we have seen a downtrend in occupancy rates from 2014 to 2015 across the retail REITs that we cover. This reflects the overall mixed demand in Singapore retail, coupled with sustained supply of new retail space. The only exception is MCT, which has just one retail asset (VivoCity) and hence faces more idiosyncratic factors. In terms of lease expiry profiles, we believe that in aggregate it is manageable for our coverage universe. It is interesting that both SUN and MCT has a higher percentage of leases expiring in 2016 and that both have concentrated retail assets. Between the two, we believe that SUN may face a more challenging time, given the well-documented troubles facing neighbouring assets (Marina Square, Millennium Walk). Comparatively, VivoCity has monopoly over its catchment area. We have also observed that for some REITs, rental reversions were either flat or even negative, reflecting the trend seen in the URA Retail Rental index. This could indicate that landlords are conceding on lease rates in exchange for occupancy.

G) Leverage & Liquidity

Issuer	Aggregate Leverage		Interest Coverage		Debt Maturities		
	2014	2015	2014	2015	2016	2017	2018+
CMT	33.8%	35.4%	4.5x	4.8x	417.6	395.0	3018.0
FCT [1QFY2016]*	29.3%	28.3%	6.3x	7.1x	284.0	190.0	250.0
SGREIT [2QFY2016]**	28.6%	35.7%	5.4x	4.5x	0.0	15.0	1121.0
SUN [Retail]	35.5%	37.1%	4.3x	4.1x	370.0	200.0	2495.0
MCT [Retail, 3QFY2016]***	37.9%	36.3%	5.5x	5.1x	354.0	68.1	1128.4

Note Interest coverage as reported. Debt maturities include pro-rata share of Associate / JV debt
*FCT debt maturities 2016 refers to FY2016 ending September 2016 and so on.
**SGREIT debt maturities 2016 refers to FY2016 ending June 2016 and so on.
***MCT debt maturities 2016 refers to FY2017 ending March 2017 and so on.

CMT: Aggregate leverage increased slightly from 33.8% to 35.4%. This was largely driven by the ~SGD795mn Bedok Mall acquisition, which closed in October 2015. The acquisition was partially funded by SGD137mn in equity raised via rights issue, as well as by SGD188mn in net proceeds from the sale of Rivervale Mall in December 2015. CMT also saw SGD107mn in revaluation gains during the year. Potential asset injections include the balance 70% of Westgate (currently held by Capitaland, valued at SGD745mn). Aside from this, we expect the largest capex in the pipeline to be the redevelopment of Funan Digitalife Mall. Currently, there has been no further updates regarding the expected cost of the redevelopment. Despite the increase in leverage, CMT's interest coverage improved as average cost of debt fell from 3.5% (end-2014) to 3.3% (end-2015). About 80% of CMT's borrowings are fixed rate. Though CMT has about SGD420mn in short-term debt due, all of it relates to CMT's 40% stake in RCS. We believe that RCS will be able to refinance as it was able to generate 74% NPI margins as well as an acceptable aggregate leverage of 32.7%. Aside from this, CMT's maturity profile is well distributed, with SGD400mn – SGD500mn in maturities per year till 2021.

FCT: Leverage profile was stable, with aggregate leverage falling slightly from 29.3% (end-2014) to 28.3% (end-2015), driven by declines in gross borrowings. Portfolio valuations increased as well by 2.7% during FY2015. It is worth noting that the value of Bedok Point was impaired by about 10%. Ultimately, we expect the sponsor to inject The Centrepoint asset (valued at SGD620mn) into FCT. However, as The Centrepoint has yet to stabilize (it is still undergoing AEI), this may not happen in the near future. Interest coverage improved as well, driven by the fall in average cost of borrowings from 2.664% (end-2014) to 2.361% (end-2015). Weighted average debt maturity worsened though, from 2.25 years (end-2014) to 1.45 years (end-2015). FCT's debt is front-loaded, with SGD284mn due in FY2016 and SGD190mn due in FY2017. Most of the near-term borrowings (SGD334mn worth) are secured bank borrowings for Northpoint. As Northpoint is performing relatively well (98.2% occupancy after the fitting out period, positive rental reversions of 5.7% for FY2015), we believe that these secured borrowings will be refinanced. With just SGD22mn in cash on the balance sheet as of

end-2015, FCT would likely have to raise capital to refinance about SGD110mn in unsecured bank loans and SGD30mn in bonds. Fixed rate / hedged borrowings are about 74% of total borrowings.

SGREIT: Aggregate leverage jumped from 28.6% (end-2014) to 35.7% (end-2015). This was largely due to the debt funded acquisition of the Myer Centre Adelaide, for AUD288mn in May 2015. It is worth noting that post the acquisition, S&P affirmed its BBB+ rating on SGREIT. Since end-2015, SGREIT divested an asset in Japan for JPY2.5bn (~SGD30mn) in January 2016. Management indicated that they intend to use the proceeds to repay some JPY loans, and that this would reduce aggregate leverage to 35.1%. This would be SGREIT's third divestment in Japan. With the negative interest rates in Japan, the valuation for SGREIT's Japanese assets may improve, resulting in SGREIT opportunistically divesting more Japanese assets (currently ~2% of the portfolio). Interest coverage has worsened from 5.4x (end-2014) to 4.5x (end-2015). This was largely driven by total borrowings increasing 34% y/y (average interest rate remained constant at ~3.2%). About 100% of SGREIT's debt is fixed rate / hedged. There are minimal debt maturities till end June 2017. Average maturity profile remains manageable at 3.6 years. In FY2018, about SGD400mn in debt (SGD250mn unsecured term loan, AUD145mn secured term loan) comes due (these were originally used to finance the Myers Centre Adelaide acquisition as well as SGD100mn in loan refinancing).

SUN: Aggregate leverage worsened slightly from 35.5% to 37.1%, driven by the ~SGD220mn increase in net borrowings (which includes the SGD105mn bond issue done in November 2015 to finance the 38,000 sqft worth of strata office space at Suntec Tower 2). The increase in valuation for the Singapore assets (adjusting for the acquisition and divestment) was 1.2% for 2015 (2014: +3.4%). It is worth noting that SUN divested the majority of Park Mall (retaining 30% of the JV), at a valuation of SGD411.8mn, into a JV with SingHaiyi Group. The JV will redevelop Park Mall, with SUN obtaining the right of first refusal to some of the assets within the JV. SUN will be providing its share of the JV acquisition & redevelopment cost (~SGD115.2mn). SUN has already received the cash proceeds for Park Mall (~SGD410mn), and management has stated that part of these will be used to pay down debt. Subsequently, early March, SUN redeemed its SGD280mn convertible bond (due 2018), as investors (representing 98.2% of the notional) exercised their put option. SUN had indicated that the redemption will be met using cash on its balance sheet. We estimate that the bond redemption would reduce aggregate leverage to ~34%. Interest coverage has fallen slightly from 4.3x to 4.1x (as average financing cost has increased from 2.44% as of end-2014 to 2.86% as of end-2015). SUN had SGD370mn in short-term debt due as of end-2015. Since then, SUN has already refinanced SGD120mn in term loans (with a new facility maturing in 2021). The balance SGD250mn of debt due can be met with the ~SGD165mn in cash balance (post convertible bond redemption) as well as via tapping ~SGD200mn in unutilized loan facility (maturing 2018).

MCT: Aggregate leverage has improved from 37.9% (end-9MFY2015) to 36.3% (end-9MFY2016). This was largely driven by revaluation gains at the end of FY2015 (+4.1%, FY2014: +5.3%). There are no major capital needs currently, though we note that the sponsor, Mapletree Investment Pte Ltd, still has some domestic commercial assets (etc: HarbourFront Tower One & Tower Two) which could be injected into MCT in the future. Interest coverage has worsened from 5.5x (end-2014) to 5.1x (end-2015), largely due to average cost of debt increasing from 2.18% to 2.47%. This was due to MCT pushing its average debt maturity longer, from 3.0 years (end-2014) to 3.6 years (end-2015). About 73.8% of MCT's borrowings are fixed rate. MCT has about SGD354mn in debt due in FY2017 (ending March 2017), though on 11/01/16 MCT has announced raising SGD190mn across two 5-year term loans. The proceeds will be used to meet 2016 and 2017 debt maturities. With SGD170.0mn in debt due in 2016, MCT will have adequate liquidity post the loan issue to meet its short-term debt.

H) Summary and Recommendation

The broader softness in the domestic retail industry looks to persist through 2016. With a fair amount of new retail property coming online in the next 3 years (+4% on average per annum), and most of these being outside the Orchard Road shopping belt, we may start to see a deterioration to suburban retail assets performance, reversing their strong run the past few years. Already, we have observed the impact of competition affecting lease rates and occupancy in areas such as Jurong East and Bedok. In general, the retail REITs that we cover have performed well in 2015 with revenue and NPI growth remaining positive across the board. That said there are underlying assets facing pressure, though none of these were a sizable part of the REITs' portfolio. In addition, we have observed some pockets of weakness in the most recent quarterly results, which may be a hint of things to come. The REITs have higher-than-industry average portfolio occupancies, reflecting the well-positioned, stabilized assets that these REITs tend to hold. There is some evidence though, that REIT managers may be conceding on rental rate growth in order to keep occupancy high. The slump in renewal lease rates was pronounced for some of the more pressured assets. In general, the REITs look to be able to successfully manage their lease expiry profile. Again, exceptions do exist, but none are particularly sizable in the context of the overall portfolios.

Finally, the credit profile of the retail REITs we cover have remained similar across the board, with an aggregate leverage around the mid-30s. The exception to this would be FCT. However, with the sponsor consistently highlighting The Centrepoint as a pipeline asset, we expect FCT to eventually acquire the asset, and see its credit profile deteriorate to levels comparable to its peers. We also expect revaluation gains to continue to decelerate, and not meaningfully contribute to improvements to aggregate leverage. Interest coverage has largely remained stable, as REITs managed to push lower their average cost of debt, but seen some increase in borrowings due to acquisitions. While most of the REITs have adequate leeway to meet short-term maturities, we believe that FCT may have to raise capital to refinance its SGD140mn in near-term unsecured obligations. **For the REITs mentioned in this report (CMT, FCT, SGREIT, SUN and MCT), we affirm our Neutral Issuer Profile given their comparable credit profiles** (with the expectation that FCT would eventually acquire The Centrepoint). For bond recommendations, it should be noted that most high-grade rated paper has seen a strong rally through the month of March. As such, in general the bonds are close to fair value. We continue to like the FCTSP'19s and FCTSP'20s, and would prefer the CAPITA 3.48 '24s versus the MCTSP'23s on valuation.

Issuer	Issuer Profile	Issue	Ask Price	Ask YTM	Ratings	Recommendation
CMT	Neutral	CAPITA 3.85 '17	102.00	1.71	NR/A2/NR	UW
CMT	Neutral	CAPITA 3.55 '17	102.25	1.92	NR/A2/NR	UW
CMT	Neutral	CAPITA 3.15 '20	101.75	2.75	NR/A2/NR	N
CMT	Neutral	CAPITA 3.75 '24	102.50	3.40	NR/A2/NR	N
CMT	Neutral	CAPITA 3.48 '24	100.75	3.38	NR/A2/NR	N
FCT	Neutral	FCTSP 2.9 '19	99.25	3.16	BBB+/NR/NR	OW
FCT	Neutral	FCTSP 3 '20	99.00	3.28	BBB+/NR/NR	OW
MCT	Neutral	MCTSP 2.65 '19	101.00	2.36	NR/Baa1/NR	N
MCT	Neutral	MCTSP 3.6 '20	104.00	2.63	NR/Baa1/NR	N
MCT	Neutral	MCTSP 3.2 '21	101.50	2.88	NR/Baa1/NR	N
MCT	Neutral	MCTSP 3.25 '23	101.00	3.09	NR/Baa1/NR	UW
SGREIT	Neutral	SGREIT 3.5 '21	102.00	3.06	BBB+/NR/NR	N
SGREIT	Neutral	SGREIT 3.4 '23	100.35	3.34	BBB+/NR/NR	N
SUN	Neutral	SUNSP 2.83 '18	100.90	2.47	NR/Baa2/NR	N
SUN	Neutral	SUNSP 3.35 '20	101.45	2.95	NR/Baa2/NR	N

* Indicative pricing from Bloomberg (30/03/16)

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product.

OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W