Economics

DBS Flash

Top-10 investment strategies for 2019: #10 Long S-REITS as a defensive play

Group Research

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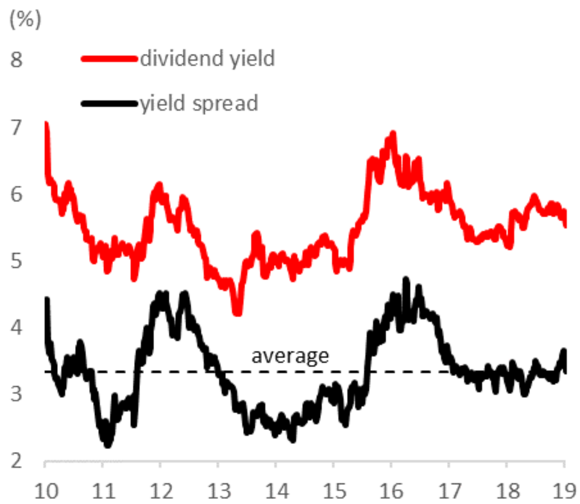
#1 Bet on more rate hikes by the Fed
#2 Looking for USDSGD to hit 1.40
#3 Long Indonesian equities
#4 Support for high grade credit, especially BBB
#5 Bullish 10Y China govvies
#6 Short AUD
#7 We like short-dated Chinese BBs for carry
#8 India govview curve to steepen
#9 Short CNY

- *Search for protection in yield plays, such as S-REITs, will continue amid macro uncertainties*
- *A more dovish FED has set the tone for S-REITs to perform well in 2019*
- *Economic growth slowdown a major headwind for rental revisions – retail and industrial subsegments should be more resilient*
- *We look for yield compression and DPU growth to support capital gain, plus average dividend yield of 5.5% for the sector*

A relatively more dovish FED will set the tone for S-REITs to perform well in 2019, with an expectation of a compression in yield spreads. While most S-REITs are projected to still face higher interest costs during refinancing, we take comfort that impact on distributions will be marginal. Our sensitivity analysis showed that a 1% hike in interest rates will cut FY19-20F distributions by 1.1-1.2%.

Macro uncertainties amidst global trade tensions will likely weigh on investors' minds in 2019, resulting in a continued search for protection in yield plays like S-REITs. The sector currently trades at 5.5% dividend yield and a yield spread of 3.4% over Singapore 10-year government bond yields, which is in line with historical average, hence attractive in our view.

Singapore REITS sector — historical dividend yield and yield spread vs Singapore 10-year bond yield



Source: Thomson Reuters, DBS

Year 2018 was a record year for acquisitions with the REITs collectively acquiring close to S$10bn worth of assets, raising S$4.5bn in new equity. This will partially drive a projected acceleration in DPUs from 1.9% in 2019 to 2.3% in 2020. Supporting higher DPU growth is a cyclical upturn in rents across the different property submarkets as supply pressures ease, offsetting headwinds from higher borrowing costs. REITs in the commercial (including retail) and logistics subsectors are expected to grow at the higher end of that range.

We are cautious that uncertainty from a slowing economy will result in potential downside in "expectations" on more cyclical sectors like the office, hotel and industrial (factory space) subsectors where demand for space has historically been most closely co-related to Singapore's economic growth. We prefer to stay vested in the more resilient retail and industrial (warehouse and business parks) subsegments given their domestic focus and fairly sticky demand respectively.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).