CIMB PREFERRED INSIGHTS

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Key Highlights

- **Singapore Banks expected to weather uncertainty.** CGS-CIMB's top picks are **UOB (UOB SP), DBS (DBS SP)** and OCBC.
- **Buying opportunity for REITS.** CGS-CIMB Research believes any share price weakness in Retail REITS should be an opportunity to accumulate. We take a look at some REITS in the market:
  - **Frasers Centrepoint Trust (FCT SP)**
  - **Ascendas REIT (AREIT SP)**
  - **Frasers Logistics & Commercial Trust (FLT SP)**
  - **Mapletree Industrial Trust (MINT SP)**
  - **Manulife US REIT (MUST SP)**
- **Sustainable Opportunities**. We explore some Unit Trust funds that are centered around sustainability that investors can consider for their portfolios:
  - **Fidelity Sustainable Asia Equity Fund**
  - **Blackrock Sustainable Energy Fund**

Singapore entered into heightened alert Phase 2 (not a total lockdown) from 16 May to 13 June. The government has imposed stricter social gathering guidelines and will review this two weeks after implementation to adjust for the next course of action; it does not rule out more stringent measures if the situation does not improve.

Social gathering size has been reduced to two (from five). Eateries will only offer takeaway and delivery services. Work from home is again the default (from 50% capacity of the respective workplace), according to CGS-CIMB Research.

The operating capacity for attractions has been reduced from 50% to 25%. More Covid-19 tests which include rapid antigen testing regime will be rolled out progressively in addition to the more accurate PCR test. The government will provide one-month rental waivers for eateries in government-owned premises. Commercial landlords are urged to support F&B outlets during this period.

Singapore banks. We expect banks to weather the uncertainty, with FY2021 net profit still on a trajectory to pre-Covid 19 levels. The main risks would be if the tighter movement restrictions are prolonged which could pose key risks to overall economic recovery.

CGS-CIMB Research reiterated the key drivers of wealth and treasury income, which are partly dependent on financial market performance, and liquidity deployment will sustain net profit growth back to pre-Covid 19 levels. While credit costs could rise q-o-q amidst lower costs in 1Q21, they are likely to remain low with guidance.

Singapore banks will seek further asset quality stabilisation and a more reassuring pace of economic recovery before considering any write-backs. Therefore they will likely take on a "more conservative" stance with slightly higher general provisions in the 2QFY21 given the recent movement restrictions, although full year impairments will remain within guidance. This is because of the milder movement restrictions and increasing regional Covid-19 vaccination adoption.

Monetary Authority of Singapore (MAS) may remove its dividend cap on Singapore banks (cap is in effect until 1Q21 dividends) given the stabilisation in asset quality, the staggered tapering of extended government support over the coming year and strong capital build-up gives hope of Singapore banks reinstating dividend payouts towards pre-Covid-19 levels. MAS may conservatively prolong the dividend cap. Notably, DBS and UOB seem likely to reinstate dividend payouts to previous levels as and when the cap is lifted; OCBC's stance is less clear.

CGS-CIMB Research reiterate their Overweight stance in SG Bank sector with United Overseas Bank ("UOB") as the top pick, followed by DBS and OCBC. Their stance is underpinned by progressive improvement in business volumes supported by stronger broad-based fees and wealth management income, as well as a rebound in credit demand. The significantly lower impairment provisions should make up for the volatility in treasury revenue, bringing net profit, and consequently ROEs, back to pre-Covid-19 levels.

UOB (UOB SP) could outperform peers on the back of stability in its earnings going forward given its lower reliance on trading income and the absence of MTM volatility. Trading at 1.0x FY21F P/BV, UOB may close the valuation gap against peers as Covid-19 infections in regional economies start easing, raising the pace of business transactions as the economies reopen.

The key downside risk is larger-than-expected asset quality deterioration from moratorium loans.

DBS (DBS SP) has proven its ability in raising fee income over past year and capitalising on its treasury income management, its valuations are relatively more expensive than peers at 1.4x FY21F P/BV. We believe DBS's earnings boosted by model-driven write-backs, resulting in total impairment provisions of just S$10m in 1Q21. Key revenue drivers of wealth and treasury income will remain intact through the tighter movement restriction orders, supporting robust net profit recovery.

Downside risks are reduced business volumes and asset quality deterioration.

CGS-CIMB Research remains positive on S-REITs given their robust fundamentals and growth outlook and see any weakness as an opportunity to accumulate SREITs at attractive prices.

CGS-CIMB Research expects S-REIT share price performance to be underpinned by DPU growth in FY21F and inorganic growth potential via strong balance sheets.

Retail REITs. Sentiments on retail REITs may be weak due to the recent spike in Covid-19 cases. However, landlords, tenants and the government are now better equipped to deal with Covid-19. Therefore the sector should reasonably expect a quicker recovery rebound vs early-2020 when Covid-19 first hit Singapore. Unless substantial rental rebates are given out, tighter measures should not have a substantial impact on the REITs' financials as the impact from rental reversion will be spread out. Retail lease renewals each year usually account for only 10-30% of total income.

CGS-CIMB Research believes any share price weakness should be an opportunity to accumulate. Its top pick in this space is **Frasers Centrepoint Trust (FCT SP)**, which has pure exposure to suburban malls and should recover faster than its peers. We believe the recent tightening measures will have a larger impact on downtown malls. Key risks include weaker-than-expected recovery and weaker rental reversions.

Industrial REITs. Industrial REITs continue to demonstrate their stability, with generally positive rental reversions and high occupancy across their geographic footprint, as well as new contributions from new acquisitions.

In 1Q21, overall occupancy for the industrial property market rose 0.1% pt qoq to 90%. Meanwhile, price and rental for overall industrial space picked up by 0.9% and 0.6%, respectively, qoq. CGS-CIMB Research expects declines of 1-3% in industrial rents (for warehouse) and 3-5% in factory in 2021F.

CGS-CIMB Research's top pick in the industrial space is **Ascendas REIT (AREIT SP)**. We like AREIT for its diversified and resilient portfolio and strong inorganic growth visibility. It recently announced the purchase of the remaining 75% stake in Galaxis from its sponsor. The purchase will expand AREIT's asset to S$15.79bn and raise its exposure to business parks to 49% of AUM. This should enable AREIT to cater to demand from the technology, biomedical, R&D and new economy industries. The acquisition will also deepen its focus in Singapore to 62% of AUM from 59%.

Key risks include protracted economic slowdown and drop in risk appetite for inorganic deals.

We like **Frasers Logistics & Commercial Trust (FLT SP)**, for its diversified portfolio of logistics and commercial assets across Australia, Europe and Singapore, with high occupancy rates and long lease and income resilience, backed by a long WALE. It also offers an attractive 5.4% yield in FY21. At the point of writing, the stock is in trading halt due to an announcement on a proposed acquisition of six freehold logistics/ industrial properties in Germany, the Netherlands and the UK. The deal is expected to be DPU and NAV accretive.

Key risks include a drag from retail operations which accounted for 2% of overall income and volatility around AUD and EUR.

We look at **Mapletree Industrial Trust (MINT SP)** which we are positive on as an emerging data centre play with solid acquisition growth prospects, while providing a decent 4.8% DPU yield. Most recently, MINT announced acquisitions of 29 data centres in the US for USD 1.3 bn. Its portfolio exposure to data centers will increases from 41.2% to 53.6% and would make MINT one of the largest data-centers owners among the Asia Pac REITs. This acquisition will be financed by equity and debt, and the deal is expected to be completed in 3QFY21. The deal is expected to be DPU accretive.

Key risks include protracted recovery leading to longer recovery period in vacancies and rentals.

Commercial. Demand for office space in 1Q came mainly from renewals and technology and banking and financial services sectors. In the longer run, as employer adopt a more hybrid way of working, office occupancy depends on how tenants reassess their new office core/ flex workspace requirements. Potential upside risks to office rents include delayed new supply and demand from Chinese tech companies.

CGS-CIMB Research maintained its expectation for spot rents to decline by up to 5% in 2021F, likely to be front-loaded. It anticipate office REITs to achieve flat-to-slightly-higher rental reversions in 2021F.

Our REIT in the commercial space is **Manulife US REIT (MUST SP)**, for clients looking for yield in USD terms (8% DPU yield) and for exposure in the US office market. In its latest 1QFY21 business update, its portfolio occupancy stood at 92% with +2.1% rental reversal for leases renewed in 1Q. WALE of 5.3 years provides income visibility as well while balance sheet was stable qoq with a gearing of 41.3%.

Key risks include protracted slowdown in the US economy and a dampened appetite for office space.

For Property, Capitaland (CAPL SP): we remain positive on its latest restructuring news. CAPL plans to 1) consolidate its investment management and lodging business into CapitaLand Investment Mgmt (CLIM) to list on the SGX; and 2) privatize the development business (i.e CapitaLand to be delisted). Post restructuring, CLIM will be the largest real estate investment manager (REIM) in Asia and the 3rd largest listed REIM globally. This shall sharpen its focus on being an asset-light and capital efficient business through CLIM and unlocks value for investors. The privatized CapitaLand will be able to develop and incubate projects as a key source pipeline for CLIM.

Key risks include weaker-than-expected macro outlook (including potential regulatory changes).

Recap Biden's infrastructure plan. US President Joe Biden introduced a USD 2.25 trn infrastructure plan in April 2021.

The plan is divided across four main pillars of 1) Transportation Infrastructure (USD 621bn); 2) Quality of Life at Home (USD 650bn); 3) Caregivers for Elderly and those with disabilities (~USD 400 bn) and 4) R&D/ Manufacturing. The details of each pillars are listed in the table below.

Key areas of spending
Transportation Infrastructure ($621 bn)
• **$174 bn** on EVs including 500K charging stations + tax incentives/ rebates for EVs • **$115 bn** for fixing roads/ bridges/ highways/ main streets in critical need for repair • **$85 bn** to modernize public transit – double federal spending • **$80 bn** for Amtrak's repair backlog, improvements and route expansions. • **$50 bn**- Infrastructure resiliency to withstand climate-related disasters • **$25 bn** – Airport Upgrades/ **$20 bn** Improve road safety/ **$17 Bn** Ports & Waterways
Quality of life ($650 bn)
• **$213 bn** to build, preserve, retrofit >2 mil affordable homes and commercial buildings. • **$111 bn** – water infrastructure towards clean drinking water, incl $45 bn to eliminate all lead pipes and $56 bn to modernize America's drinking water, wastewater etc • **$100 bn** to improve the Electric Grid/ clean energy • **$100 bn** to expand high-speed broadband networks throughout the country • **$100 bn** – upgrade and build public schools
Caregivers for elderly & disabled ($400 bn)
• To pump $400 bn to improve access to quality, affordable homes or community-based care for the elderly and people with disabilities
R&D and Manufacturing
• **~$300 bn** in manufacturing including support for domestic production of technologies and critical goods. This includes ~$50 bn will go towards semicon manufacturing & research; $30 bn for pandemic preparedness; $52 bn for domestic manufacturers. • **~$180 bn** on new R&D with an emphasis on clean energy, fewer emissions and climate change research; also includes $50 bn in the National Science Foundation and $35 bn to achieve tech breakthroughs that address the climate crisis • **~$100 bn** for worker training and increase of worker protection

Source: Compiled from various sources/ Bloomberg/ CNBC

- The **Transportation Infrastructure** pillar called for a significant investment into fixing US's roads, bridges, highways; modernize its public transit system, improve infrastructure resiliency to climate-related disasters, upgrade airports, ports, waterways. It would also spend on Electric Vehicles, including a network of EV stations, and will be offering tax incentives and rebates.
- The **largest part of the Quality of Life pillar** (USD 213 bn) focuses on building, preserving and retrofitting more than 2 mil affordable homes and commercial buildings; while and additional USD 111 bn goes towards clean drinking water, including replacement of all lead pipes and service lines. The plan also sets side USD 100 bn for constructing/ improve public schools with $100 bn to build out high speed broadband networks.

- **The 3rd pillar on Caregivers** will see US pumping $400 bn to improve access to quality and affordable home / community care for the eldering and people with disabilities.
- **The final pillar on R&D and Manufacturing** would see roughly $300 bn to be invested in manufacturing, including support for domestic production of technologies and critical goods. Specifically, around $50 bn would go towards semiconductor manufacturing and research.

Biden intends to raise the corporate tax rate to 28% to help finance the plan and also to raise the minimum tax on US MNCs to 21%. Note the above is a multi-year plan (~8 years, subject to Congress approval).

The plan was quickly followed by an announcement in late April on the **American Families Plan** (over a decade, fully offset in 15 years to be financed by taxing the rich). The collection of plan includes $1 trn in new spending and $800 bn in tax credits.

Selected Details of Biden Families Plan
• **$225 bn** towards high quality child care and ensuring families pay only a portion of their income toward child care services, based on a sliding scale
• **$225 bn** to create a national comprehensive paid family and medical leave program
• **$200 bn** for free universal preschool for all 3-& 4-year-olds, offered through a national partnerships with states
• **$109 bn** towards ensuring 2 years of free community college for all students
• **$ 85 bn** towards Pell Grants, and increasing the max award by about $1,400 for low income students
• **$62 bn** grant program to increase college retention and completion rates
• **$39 bn** program that gives 2 yrs of subsidized tuition for students from families earning less than $125K enrolled in a 4-year historically Black college or university, tribal college or university, or minority –serving institution
• **$45 bn** toward meeting child nutritional needs, including by expanding access to the summer EBT program, which helps low income families with children buy food outside the school year
• **$200 bn** to make permanent the $1.9 trn Covid-19 stimulus plan's provision lowering health insurance premiums for those who buy coverage on their own
• Extending through 2025 and making permanently fully refundable, the child tax credit expansion that was included in the Covid relief plan
• Make permanent the recent expansion of the child and dependent care tax credit
• Make permanent the earned income tax credit for childless works

Source: Compiled from various sources/ Bloomberg/ CNBC

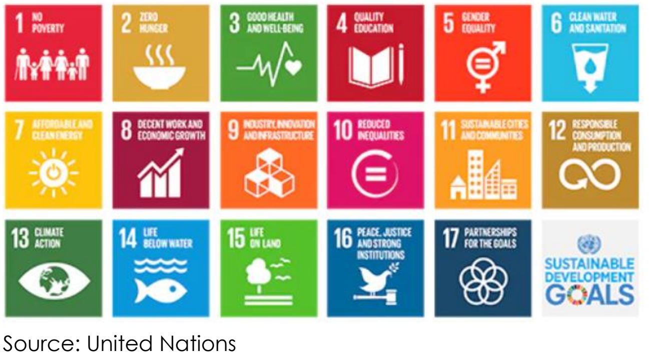
The plan is largely for expanding access to education and child care including financing for universal pre-kindergarten, a federal paid leave program, make childcare more affordable, free community college for all, aid for students at colleagues, expand subsidiaries under Affordable Care Act, etc.

By far, the largest components are a) $225 bn spending on high quality child care and ensuring families pay a portion of their income towards child care services; b) $225 bn spending to create a national comprehensive paid family and medical leave program; c) $200 bn free universal preschool for 3-4 yr olds; d) $109 bn towards ensuring 2-years of free community college for students.

We see Biden's plans as medium term drivers for thematic investing, especially in areas of Sustainable Investing or impact investing. According to Robecco, sustainable investing is a global phenomenon that seeks to provide a framework for including Environment, Social and Governance (ESG) factors into investment decisions, so as to better manage risk and generate sustainable long term returns.

Many investors have taken this meaning further – where they aim to achieve superior investment performance, while contributing to a better world at the same time.

United Nations' (UN's) **Sustainable Development Goals (SDGs)** is a global initiative to try to create a better world while also earning a return of investment as these goals aim to tackle issues. The 17 SDGs are:



Source: United Nations

Investors can target funds that are in some way or other contribute to one or more of the goals. For example, a fund may seek to buy goods producers that are investing in healthier and cheaper products.

Investors that are keen on investments with sustainability as their key focus can consider the **Fidelity Sustainable Asia Equity Fund** or **Blackrock Sustainable Energy Fund**.

Please speak to your Relationship Manager for more details.

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