Headline	Singapore vs Malaysia REITs: Why the big difference?		
MediaTitle	The Edge		
Date	04 Nov 2019	Language	English
Circulation	25,910	Readership	77,730
Section	Corporate	Color	Full Color
Page No	14,16,18	ArticleSize	2804 cm²
Journalist	TONG KOOI ONG	PR Value	RM 145,951

Singapore vs Malaysia REITs: Why the big difference?

BY **TONG KOOI ONG** · **ASIA ANALYTICA**

Amid low interest rates, real estate investment trusts have been one of the better-performing asset classes on both sides of the causeway in recent years, especially in Singapore. Defensive income bases, attractive yields and earnings-accretion exercises have boosted the appeal of REITs in Singapore and Malaysia.

Malaysian REITs (MY REITs), as measured by the Bursa Malaysia REIT index launched in October 2017, has declined 4.1%, outperforming the FBM KLCI's 9.6% fall in the same period. Singapore REITs (SG REITs), on the other hand, have performed far better. The Standard & Poor's Singapore REIT Singapore Dollar Index has surged 16.1% over the same time frame, better than both MY REITs and the Straits Times Index's 1.7% decline.

What drives the performance of REITs? Low interest rates are the main factor, as REITs are priced off risk-free rates in a yield spread. Low interest costs also enable them to make earnings-accretive acquisitions. The ability to raise income through value-accretive exercise, rental revisions or enhancements to assets is the other key factor, and that is more prevalent among SG REITs.

REIT prices typically move in the opposite direction of interest rates. Over the past five years, interest rates in Malaysia have fallen, whereas Singapore's have risen — yet, SG REIT prices have risen. Since January 2014, yield on five-year government securities, which we use as the "risk-free rate", has fallen from 3.68% to 3.36% in Malaysia, and risen from 1.11% to 1.63% in Singapore. Clearly, investors are favouring Singapore over Malaysia REITs, but why?

We looked at the performance of several major SG and MY REITs, their price performance relative to interest rates, gross and net yields over the past five years (see Charts 1 to 7). We have also done a comparative list of MY and SG REITs (see Tables 1 and 2), comparing their valuation, size and yields, as a starting reference point for investors. There are some interesting observations from these tables and charts, and why SG REITs are outperforming their Malaysian counterparts.

Gross and net yields

As can be seen in Charts 1 to 7, prices of the major REITs in Singapore and Malaysia have appreciated over the past five years. As a result, gross yields for REITs in both markets have generally declined, but remain well above domestic interest rates. Net yield, or the yield spread (gross yield less the risk-free rate), has also been declining for SG REITs, but remained fairly constant for MY REITs.

Capital appreciation of SG REITs has been driven by a combination of yield compression for gross and net yield, and higher distribution per unit. The latter has been a trend, as SG REITs are actively engaged in value-accretive exercises and acquisitions (see Chart 8).

MY REITs, on the other hand, have depended largely on rental revisions rather than acquisitions for income growth. Only Sunway REIT has actively acquired properties, mostly from within Sunway. The four major MY REITs hold more iconic and defensive assets, notably Kuala Lumpur City Centre and the country's biggest malls, and rental revisions have anchored distribution growth over the past three years (see Chart 9). Unlike SG REITs, net yield for the major MY REITs have stayed relatively stable. The smaller MY REITs, though, have seen falling income and prices in the last five years.

Gross yield for the bigger SG REITs are currently 4.2% to 5.2%, whereas the bigger MY REITs yield 4.7% to 5.2% (see Tables 1 and

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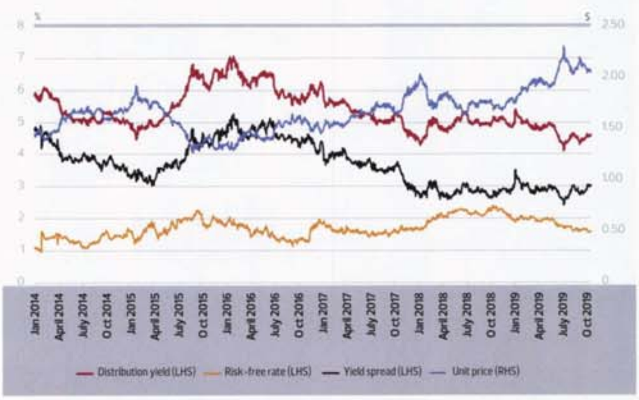
Chart 1: **Singapore REIT: CapitaLand Commercial Trust**



CHARTS BY COMPANY REPORTS, ABSOLUTELYSTOCKS & BLOOMBERG

Chart 2: **Singapore REIT: CapitaLand Mall Trust**

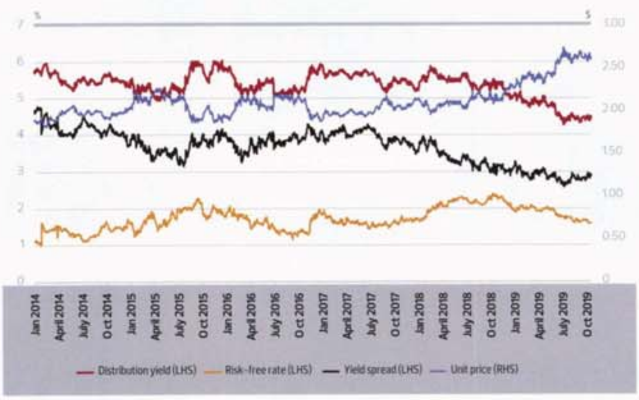


Chart 3: **Singapore REIT: Ascendas REIT**

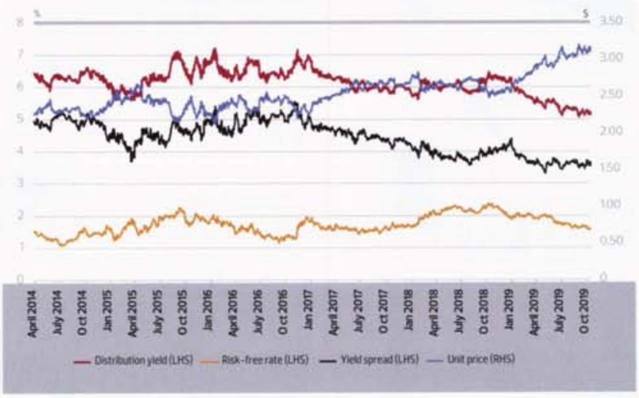


Chart 4: **Singapore REIT: Mapletree Commercial Trust**

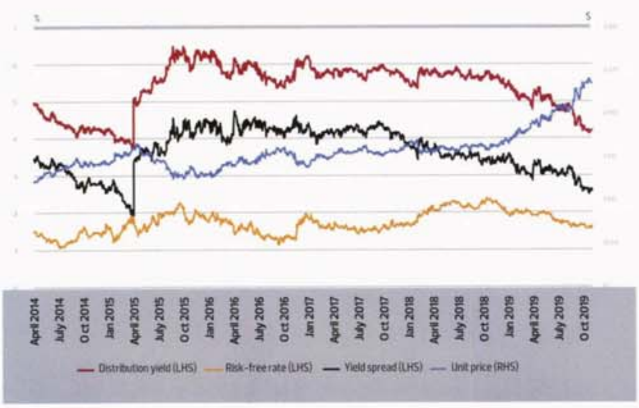
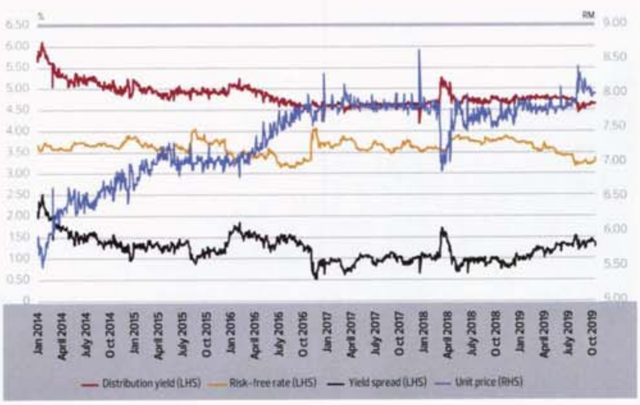


Chart 5: **Malaysia REIT: KLCCP Stapled Group**



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MY REIT sector has less depth and liquidity than SG REIT sector

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2). Yields on some of the smaller SG and MY REITs can reach as high as 7% to 9%, but one has to assess sustainability in terms of quality of assets and length of leases. Relative to domestic interest rates, net yield on the bigger REITs are about 3% in Singapore and about 2% in Malaysia.

MY REITs are mostly retail mall-based

Investors are clearly more bullish on Singapore rather than Malaysia REITs. Why is that so?

With very low interest rates in Singapore (half of Malaysia's), gross yield from SG REITs are 2.5 to three times that of bank deposits, while, in Malaysia, it is 1.5 times. Thus, there is probably still some room for gross and net yields for SG REITs to compress, but probably not for MY REITs.

The difference in size, depth and development of the REIT markets between Singapore and Malaysia is staggering. SG REITs have a total market capitalisation of $108 billion, which accounts for 11.8% of the Singapore Exchange's total market cap. MY REITs have a total market cap of just RM43.9 billion or under 2.7% of the market cap on Bursa Malaysia.

In addition, one-third, or nearly RM15 billion, of the Malaysian REIT market size is

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BLOOMBERG, COMPANY REPORTS & PRESENTATIONS

Table 1: Malaysia REITs

NAME	CURRENCY	PRICE AS AT OCT 30 (RM)	MARKET CAP (RM MIL)	FINANCIAL YEAR-END	CURRENT DPU (SEN)	CURRENT YIELD (%)	NET DEBT/ ASSETS* (%)	PRICE-TO-NAV^ (TIMES)
Diversified REITs								
KLCCP Stapled Group	RM	8.000	14,442.7	December	37.2	4.65	17.8	1.10
Axis Real Estate Investment Trust	RM	1.720	2,128.1	January	9.5	5.53	38.0	1.28
Al-Salam Real Estate Investment Trust	RM	0.870	504.6	May	5.6	6.46	47.1	0.81
AmanahRaya Real Estate Investment Trust	RM	0.765	438.5	July	5.8	7.59	40.9	0.57
Amanah Harta Tanah PNB	RM	0.770	169.4	December	5.8	7.57	34.7	0.60
Atrium Real Estate Investment Trust	RM	1.050	216.6	December	7.5	7.14	25.4	0.74
Healthcare REIT								
Al-'Aqar Healthcare REIT	RM	1.480	1,089.3	March	7.8	5.25	35.4	1.15
Hospitality REIT								
YTL Hospitality REIT	RM	1.290	2,198.7	June	7.9	6.10	38.2	0.80
Office REIT								
MRCB-QUILL REIT	RM	1.010	1,082.5	February	7.3	7.21	37.0	0.81
UOA Real Estate Investment Trust	RM	1.220	515.9	April	9.3	7.65	26.4	0.71
AmFIRST Real Estate Investment Trust	RM	0.480	329.5	March	4.0	8.33	47.6	0.40
Tower Real Estate Investment Trust	RM	0.880	246.8	June	5.9	6.74	0.0	0.47
Retail REITs								
IGB Real Estate Investment Trust	RM	1.920	6,813.7	December	9.2	4.81	19.1	1.73
Sunway Real Estate Investment Trust	RM	1.840	5,418.9	June	9.6	5.21	37.9	1.23
Pavilion Real Estate Investment Trust	RM	1.760	5,348.7	December	8.8	5.00	28.9	1.37
Capitaland Malaysia Mall Trust	RM	1.030	2,113.3	December	7.1	6.89	30.9	0.83
Hektar Real Estate Investment Trust	RM	0.990	457.3	June	8.3	8.42	43.6	0.73
KIP REIT	RM	0.855	432.0	June	6.0	6.96	13.9	0.85

^Trailing 12 months *As at June 30 ^NAV as at June 30

Chart 6: **Malaysia REIT: IGB REIT**

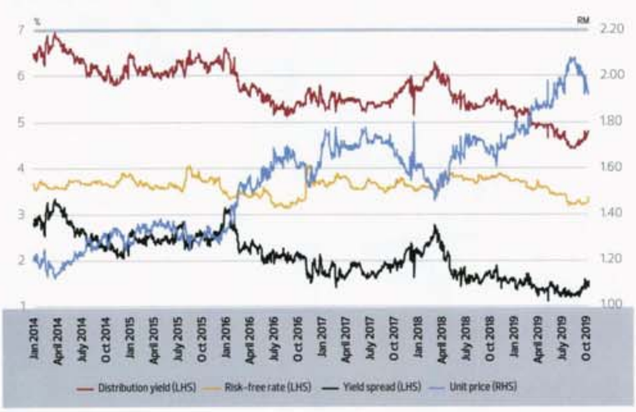


Chart 7: **Malaysia REIT: Sunway REIT**

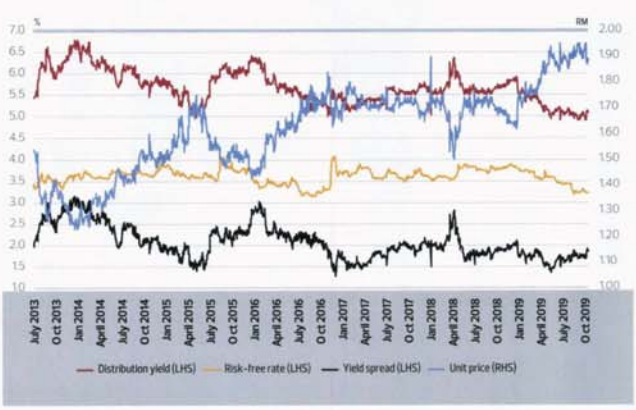


Chart 8: **Singapore REITs: Annual distribution**

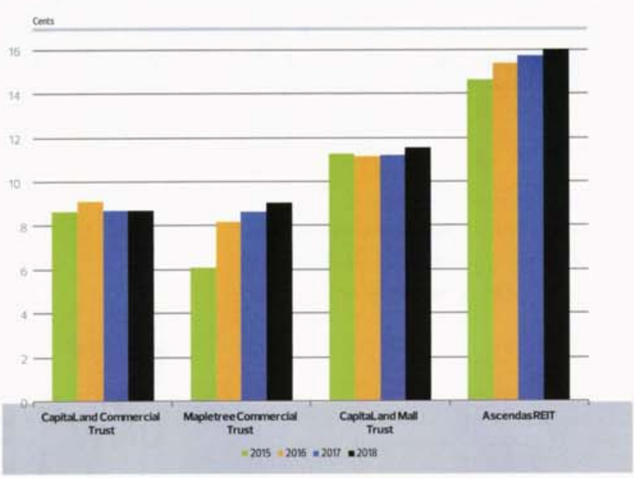
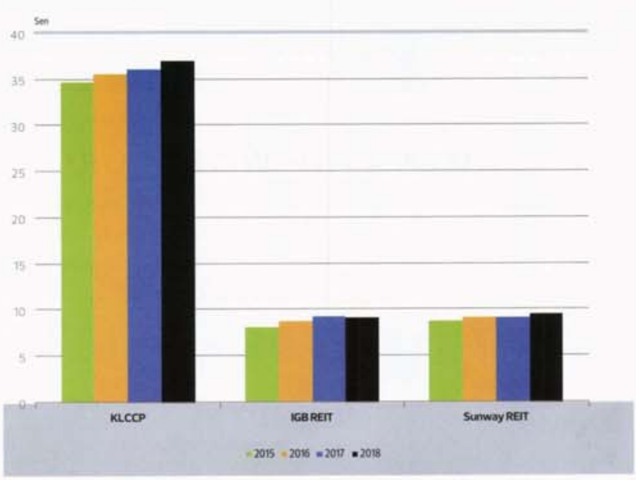


Chart 9: **Malaysia REITs: Annual distribution**



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MY REITs have done little else apart from raising rental rates

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accounted for by just one REIT, KLCCP Stapled Group, owner of the iconic KLCC development and Menara Dayabumi. The REIT derived 42% of income from offices, 36% from a retail mall, 12% from a hotel, and 10% from management services in FY.

Three other retail mall-based REITs — IGB REIT (market cap: RM6.8 billion), Sunway REIT (RM5.4 billion) and Pavilion REIT (RM5.3 billion) — have a combined market cap of RM17.5 billion. This means the four biggest REITs alone account for 73% of the MY REIT market, and are mainly retail mall-based.

For investors who are not keen on the outlook for malls because of disruption by e-commerce, there are very few Malaysian options. There is only one healthcare REIT (Al-Aqar Healthcare REIT, market cap: RM1.1 billion), one hospitality REIT (YTL Hospitality REIT, RM2.2 billion) and four office REITs with a total size of RM2.2 billion. However, most of the smaller MY REITs are not faring well.

SG REITS offer diversity, depth and liquidity

Singapore, on the other hand, has a very large, vibrant and active REIT market. Apart from size and depth, there is ample choice — from office, retail, industrial, hospitality and healthcare to data centres — with assets in Singapore and worldwide. The REITs offer exposure to a wide range of sectors, including logistics, data centres and businesses that cater for the new economy.

Four of the largest SG REITs (CapitaLand Mall Trust, CapitaLand Commercial Trust, Ascendas REIT and Mapletree Commercial Trust) each have a market cap of between $6.8 billion and $9.9 billion. Combined, they total $34.4 billion, or 32% of total SG REITs, as opposed to 74% for the top four MY REITs. They are also far more liquid. These four biggest SG REITs have a large free float of 67% to 80%, as they have been issuing new units to fund acquisitions. In contrast, the four largest MY REITs have a low free float of 10% to 38%, owing to the lack of corporate exercises.

Helped by low interest rates and funding costs in Singapore, SG REITs have been very active in the merger and acquisition and fund-raising scene. They have been actively making value-accretive acquisitions. This year alone, SG REITs have raised more than $4.5 billion in placements and preferential equity offerings, excluding IPOs. In contrast, few MY REITs, except for Sunway REIT, have made major acquisitions since their listing.

A recent example of such a value-accretive exercise was Mapletree Commercial Trust's proposed acquisition of Mapletree Business City Phase 2 for $1.55 billion. This was funded by a combination of debt carrying an interest rate of 2.9% and the issue of new units priced at premiums of 31% to 45% to net asset value. The deal would be 4.5%-accretive to its distributions per unit.

The tax structure for REIT investors is also more favourable in Singapore. In Malaysia, a withholding tax of 10% on distributions from MY REITs is imposed on individual and non-corporate investors (residents and non-residents, including institutional investors) and 24% on non-resident corporate investors. Local corporate investors are subject to the prevailing 24% corporate taxes.

In Singapore, individual investors of SG REITs, irrespective of their resident status, are not subject to any withholding tax in respect of distributions from REITs. A withholding tax of 10% on REIT distributions is imposed on non-resident, non-individual investors, including institutional funds.

This differential tax treatment may partly account for the difference in the performance of REITs in Singapore and Malaysia.

But before anyone jumps to the conclusion that a change in Malaysia's tax structure will have the same result, let me make my view clear: it will NOT, unless more fundamental changes are made in the way REITs in Malaysia are managed, with a far clearer objective of serving investors instead of warehousing and buying properties of the promoters.

Thus, there is a clear distinction in strategy between MY and SG REITs. SG REITs have diversified assets and income bases, with a clear mission to create value. For that, the market has rewarded them with rising REIT prices and a lower required net yield. Singapore has a more favourable tax structure, while its low interest rate regime also promotes debt-funded value-accretive acquisitions.

BLOOMBERG, COMPANY REPORTS & PRESENTATIONS

Table 2: Singapore REITs

NAME	CURRENCY	PRICE AS AT OCT 30 ($)	MARKET CAP ($ MIL)	FINANCIAL YEAR-END	CURRENT DPU* (CENT)	CURRENT YIELD (%)	NET DEBT/ ASSETS^ (%)	PRICE-TO-NAV" (TIMES)
OFFICE REITS								
CapitaLand Commercial Trust	SGD	2.050	7,984.2	December	8.8	4.30	34.8	1.13
Frasers Commercial Trust	SGD	1.620	1,482.1	September	9.6	5.93	29.3	1.07
IREIT Global	SGD	0.795	499.2	December	5.8	7.27	36.2	1.05
Keppel REIT	SGD	1.230	4,242.3	December	5.5	4.50	38.4	0.90
Manulife US REIT	USD	0.910	1,873.0	December	6.1	6.70	37.1	1.15
OUE Commercial REIT	SGD	0.540	2,957.9	December	3.0	5.52	39.3	0.76
Suntec REIT	SGD	1.870	5,343.8	December	9.8	5.21	38.3	0.91
Keppel Pacific Oak US REIT	USD	0.745	864.5	December	5.8	7.72	38.5	0.98
Prime US REIT	USD	0.940	1,191.1	December	NA	NA	37.0	1.12
Retail REITs								
BHG Retail REIT	SGD	0.680	350.1	December	4.5	6.62	37.0	0.81
CapitaLand Mall Trust	SGD	2.560	9,701.1	December	11.9	4.63	34.2	1.24
CapitaLand Retail China Trust	SGD	1.520	1,856.0	December	9.9	6.50	33.8	0.96
Frasers Centrepoint Trust	SGD	2.710	3,103.3	September	12.1	4.45	23.5	1.28
Lendlease Global Commercial REIT	SGD	0.950	1,086.2	June	NA	NA	36.4	1.17
Lippo Malls Indonesia Retail Trust	SGD	0.235	694.8	December	1.9	8.26	35.2	0.79
Mapletree Commercial Trust	SGD	2.350	6,775.8	March	9.9	4.20	31.7	1.38
Mapletree North Asia Commercial Trust	SGD	1.270	3,984.8	March	7.8	6.12	36.9	0.88
SPH REIT	SGD	1.150	2,979.5	August	5.6	4.87	27.5	1.21
Starhill Global REIT	SGD	0.740	1,625.0	June	4.5	6.03	36.1	0.85
Sasseur REIT	SGD	0.795	955.2	December	6.8	8.56	29.7	0.92
Industrial REITs								
AIMS APAC REIT	SGD	1.350	1,031.3	March	10.3	7.59	33.8	1.01
Ascendas REIT	SGD	3.180	9,898.6	March	16.0	5.04	37.2	1.55
Cache Logistics Trust	SGD	0.730	793.4	December	5.6	7.74	37.9	1.13
EC World REIT	SGD	0.725	584.9	December	6.2	8.54	32.4	0.85
ESR-REIT	SGD	0.530	1,862.6	December	4.0	7.58	39.0	1.16
Frasers Logistics & Industrial Trust	SGD	1.260	2,901.1	September	7.1	5.60	35.4	1.40
Mapletree Industrial Trust	SGD	2.550	5,589.2	March	12.4	4.85	33.4	1.68
Mapletree Logistics Trust	SGD	1.700	6,188.0	March	8.1	4.75	36.8	1.45
Sabana REIT	SGD	0.460	479.2	December	2.9	6.22	30.9	0.82
Soilbuild Business Space REIT	SGD	0.500	673.9	December	4.7	9.49	39.4	0.81
Hospitality REITs								
ARA US Hospitality Trust	USD	0.865	675.8	December	NA	NA	31.9	0.99
Ascendas Hospitality Trust	SGD	1.150	1,297.0	March	5.9	5.11	34.1	1.16
Ascott Residence Trust	SGD	1.380	3,004.0	December	7.5	5.43	32.8	1.09
CDL Hospitality Trusts	SGD	1.640	1,999.3	December	9.0	5.50	35.2	1.10
Eagle Hospitality Trust	USD	0.560	786.4	December	NA	NA	37.5	0.63
Far East Hospitality Trust	SGD	0.725	1,336.1	December	3.9	5.32	39.8	0.84
Frasers Hospitality Trust	SGD	0.730	1,373.3	September	4.4	6.05	35.0	0.99
Healthcare REITs								
First REIT	SGD	1.030	811.2	December	8.6	8.35	34.5	1.01
Parkway Life REIT	SGD	3.260	1,960.2	December	13.1	4.01	36.9	1.74
Data Centre REITs								
Keppel DC REIT	SGD	1.980	3,226.0	December	7.6	3.85	28.9	1.82
Other REITs								
Cromwell European REIT	EUR	0.500	1,961.5	December	3.6	7.24	35.4	0.96

*Trailing 12 months ^As at June 30 "NAV as at June 30

One-third of the Malaysian REIT market size is accounted for by just one REIT, KLCCP Stapled Group

MY REITs, on the other hand, were originally created as asset-unlocking exercises for their owners and most appear pretty content with that purpose, having done little else since then, apart from raising rental rates. The more successful ones are concentrated retail mall-based. Relatively higher interest rates in Malaysia also make value-accretive acquisitions more challenging, and a low net yield means further outperformance is unlikely.

The Global Portfolio performed well for the week ended Oct 31, gaining 2.8% and outperforming the benchmark MSCI World Net Return index's 1.3% gain. Total returns since inception rose to 10.3%, matching the benchmark index performance over the same period.

Meanwhile, my Malaysian Portfolio gained 0.7% in the past one-week. This lifted total returns to 49.9% since inception, outperforming the benchmark index, FBM KLCI, which is still down 12.7%, by a long way.