OCBC Investment Research

SINGAPORE Company Update **Results** MITA No. 010/06/2010

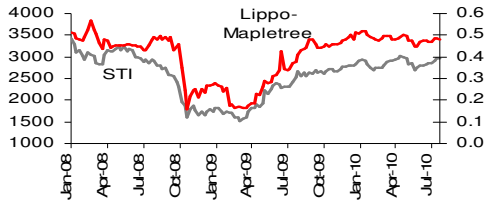
30 July 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S$0.495
Fair Value: S$0.52



Reuters Code	LMRT.SI
ISIN Code	D5IU
Bloomberg Code	LMRT SP
Issued Capital (m)	1,078
Mkt Cap (Sm / USm)	528 / 387
Major Shareholders	
Lanius Ltd	18.3%
Mapletree LM Pte Ltd	13.1%
Algemene Pensioen	9.9%
CPI Capital Partners Asia	8.4%
ABN Amro Asset Mngmt	6.4%
Free Float (%)	43.8%
Daily Vol 3-mth ('000)	1,411
52 Wk Range	0.420 - 0.530

(S$ m)	FY08	FY09	FY10F	FY11F
Revenue	101.8	79.6	124.3	121.2
NPI	88.3	75.1	82.2	80.0
Distributions	59.5	54.0	47.6	49.2
Distr yield (%)	10.1	10.2	8.9	9.1
P/NAV (x)	0.7	0.6	0.6	0.6

Note: FY08 includes LMIR's earnings from 19 Nov 07 to 31 Dec 07.

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Lippo-Mapletree Indonesia Retail

DPU disappoints on higher tax expenses

NPI in line. LMIR Trust (LMIR) reported 92% YoY and 72.5% QoQ gains in 2Q revenue to S$40.1m, this as LMIR collected additional income from services charges receipt and utilities cost recovery on seven of its retail malls with the 31 Dec expiry of the operating costs agreement in place at listing. That additional income was offset by the additional costs incurred, relating to the maintenance and operation of the malls. 2Q10 reflects the full six months effect for 1H10 due to a delay in the transfer of operations. Net property income of S$21.6m was up 17% YoY and 6% QoQ, boosted by the strong Indonesian Rupiah (IDR) against the Singapore Dollar (SGD). NPI was in line with our S$21.6m estimate in both SGD and IDR terms. Retail mall occupancy improved 360 bps to 97.4% from three months ago; this is significantly higher than the market average of 82.7%. LMIR is leveraged at 10.3% debt-to-assets as of 30 Jun.

But DPU disappoints on tax. 2Q10 DPU fell 20% YoY and 13% QoQ to 1.04 S cents. The manager attributed this to the appreciation in the IDR, which has caused the gap between the hedged rate on distributions and the physical rate to reverse unfavorably in the last four quarters. LMIR booked a realized (cash) forex loss this quarter of S$2.4m versus a loss of S$1.7m in 1Q10 and a realized gain of S$1.2m in 2Q09. This is likely to be a continuing issue as we estimate 3Q's hedged rate is roughly 15% higher (unfavorably) than current levels. While we had expected the forex impact, DPU was 14% below our 1.21 S cents estimate due to actual tax expense of S$5.5m versus our S$3.6m estimate. The manager explained that it is now incurring revenue tax on the additional service charge and utilities income. It is exploring options to increase tax, and also operational, efficiencies.

Valuation. We have adjusted our earnings estimates to reflect the additional service charge and utilities income and additional operating expenses; we also incorporate actual 1H10 results. Additionally, we have adjusted our tax estimates upwards. On the plus side, we have increased our occupancy estimates. Our FY10-11F DPU estimates fall 11.5% and 12.6% to 4.4 S cents and 4.5 S cents. Finally, our fair value estimate (at an unchanged 20% discount to SOTP value) falls to S$0.52 from S$0.55 previously. With an estimated total return of 14%, maintain **BUY** on valuation grounds.

Please refer to the important disclosures at the back of this document.

Exhibit 1: Occupancy data for LMIR's retail malls

Retail mall	31-Mar-09	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10	+/- ppt
Gajah Mada Plaza	98.7%	98.3%	89.8%	98.8%	98.4%	98.8%	0.4%
Cibubur Junction	96.7%	96.8%	97.4%	98.3%	96.0%	99.3%	3.3%
The Plaza Semanggi	92.1%	92.2%	92.2%	93.8%	87.8%	96.6%	8.8%
Mal Lippo Cikarang	86.6%	86.5%	86.7%	86.9%	86.2%	99.2%	13.0%
Ekalokasari Plaza	94.4%	95.3%	97.4%	98.2%	90.0%	91.6%	1.6%
Bandung Indah Plaza	98.9%	99.7%	99.3%	99.3%	94.6%	94.7%	0.1%
Istana Plaza	96.0%	95.5%	80.1%	97.1%	98.6%	98.8%	0.2%
Sun Plaza	96.7%	96.4%	96.8%	96.5%	98.7%	98.6%	-0.1%
Average	**95.0%**	**95.0%**	**93.0%**	**96.0%**	**93.8%**	**97.4%**	**3.6%**

Source: LMIR Trust, OIR

Occupancy trends. At 30 Jun, retail mall occupancy of 97.4% was up 360 basis points compared to three months ago; this as 31 Mar occupancy had declined 220 bps versus 31 Dec. The manager had attributed that occupancy decline mainly to the expiry of rental guarantees, granted by the vendor at the time of LMIR's IPO, on spaces that had undergone extensive asset enhancement. LMIR was able to reverse the 1Q10 slide in occupancy with big occupancy increases at *Mal Lippo Cikarang* (+1300bps), *The Plaza Semanggi* (+880bps), and *Cibubur Junction* (+330 bps).

Occupancy at *Bandung Indah Plaza* and *Ekalokasari Plaza* remains below 95% but the manager is working on re-mixing its tenant profile and leasing out the space. The manager has previously noted that with improving sentiment, it continues to receive various leasing enquires for vacant space.

Looking at the broader market however, LMIR was more cautious. It said that "with new incoming supply in the coming months, the average occupancy in the short term is expected to remain stable or decline slightly." The REIT also noted that the "Indonesian retail property market is expected to continue to face tight competition for the rest of 2010, and attractive tenancy mix will become a key success factor in this environment." It was more positive on its own outlook, noting its "portfolio is defensively positioned with very low upcoming expiries and already high occupancy levels".

LMRT's Key Financial Data

LMRT Results Year ended 31 Dec (S$ m)	2Q10 (S$m)	2Q09 (S$m)	% Chg (YoY)	1Q10 (S$m)	% Chg (QoQ)
Gross revenue	40.1	20.9	91.7%	23.3	72.5%
Net property income	21.6	18.5	17.1%	20.3	6.3%
Interest income	0.4	0.6	-28.6%	0.4	8.2%
Financial expenses	-2.4	-2.0	21.3%	-2.4	2.2%
Total admin expenses	-1.8	-1.6	16.1%	-1.8	3.8%
Earnings before other credits/revaluations	17.8	15.5	14.9%	16.6	7.3%
Other credits inc realised forex gains	1.5	-47.8	n.m.	-18.7	n.m.
Earnings before revaluation	19.3	-32.2	n.m.	-2.0	n.m.
Change in fair value of invt ppty	0.0	0.0	-	0.0	-
Profit before tax	19.3	-32.2	n.m.	-2.0	n.m.
Profit after tax	13.8	-35.5	n.m.	-5.6	n.m.
Total distribution	11.2	13.9	-19.3%	12.9	-12.7%
Units in issue (m)	1,078.1	1,071.2		1,076.4	
DPU per unit (S cents)	1.04	1.30	-20.0%	1.20	-13.3%

LMIR Trust's Key Financial Data

EARNINGS FORECAST Year Ended 31 Dec (S$m)	FY08	FY09	FY10F	FY11F
Gross revenue	101.8	79.6	124.3	121.2
Net property income	88.3	75.1	82.2	80.0
Management fees	-7.0	-5.7	-6.1	-5.8
Trustee fees	-0.3	-0.2	-0.4	-0.3
Financial expense	-6.4	-8.8	-9.4	-9.3
Other credits	62.5	-91.8	-17.2	0.0
Revaluation net forex change	-99.8	98.8	5.4	-24.1
Tax	-48.6	-29.3	-19.0	-9.3
Net profit after tax	-13.2	39.8	36.8	32.7
Income to be distributed	59.5	54.0	47.6	49.2

BALANCE SHEET As at 31 Dec (S$m)	FY08	FY09	FY10F	FY11F
Cash	94.5	111.3	116.8	122.1
Trade and other receivables	19.2	20.8	24.9	24.2
Investment properties	830.0	1056.0	1085.4	1062.3
Total assets	1006.1	1188.2	1227.1	1208.6
Total current liabilities	21.3	31.5	46.2	45.6
Other financial liabilities	118.9	143.0	153.4	153.4
Total non-current liabilities	225.5	265.2	278.0	270.7
Total liabilities	246.8	296.7	324.2	316.3
Unitholders' funds	759.3	891.5	903.0	892.3
Total liabilities & equity	1006.1	1188.2	1227.1	1208.6

CASH FLOW Year Ended 31 Dec (S$m)	FY08	FY09	FY10F	FY11F
Net operating cash flows	139.1	70.3	63.0	60.3
Net investing cash flows	-927.1	1.5	0.6	0.8
Bank borrowings	118.9	0.0	0.0	0.0
Distributions paid	-56.4	-44.8	-48.8	-49.2
Funds from unitholders	813.4	0.0	0.0	0.0
Net financing cash flows	870.0	-54.0	-54.2	-55.9
Net cashflow	82.0	17.7	9.5	5.2
Net effect of exchange rates	12.5	-0.9	-4.0	0.0
Cash at beg of year	0.0	94.5	111.3	116.8
Cash at end of year	94.5	111.3	116.8	122.1

KEY RATES & RATIOS	FY08	FY09	FY10F	FY11F
Units outstanding (m)	1066.0	1074.8	1083.2	1089.6
DPU (S cents)	5.6	5.0	4.4	4.5
CFPS (S cents)	13.0	6.5	5.8	5.5
NAV (S$)	0.7	0.8	0.8	0.8
NPI margin (%)	86.8	94.3	66.1	66.0
Distr to revenue (%)	58.5	67.8	38.3	40.6
Distr yield (%)	10.1	10.2	8.9	9.1
P/CF (x)	4.2	7.6	8.5	8.9
P/NAV (x)	0.7	0.6	0.6	0.6
Total Debt/Total Assets (x)	0.1	0.1	0.1	0.1

Note: FY08 includes LMIR's earnings from 19 Nov 07 to 31 Dec 07

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:
The analyst/analysts who wrote this report holds NIL shares in the above security.

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