

Property Sector

Neutral

4Q08 report card

A mixed bag of 4Q08 results. Property developers came under heavy scrutiny as they reported their 4Q08 results. Much of the focus had been placed on issues like fair value loss in investment properties, potential write-down in landbank, defaults by property buyers under the Deferred Payment Scheme (DPS) and recapitalization of developers' balance sheets. Taking out one-off gains, UOL Group performed above our 4Q08 expectation due to higher revenue recognition from development properties. Performance of Keppel Land was in line. CapitaLand and Soilbuild Group failed to meet our expectation due to slower-than-expected construction schedule.

Asset write-downs and financing remain key issues for developers.

No surprises from the bleak outlook guided by the developers. For the big-cap developers, they continue to exhibit strong financial health and we see asset write-downs as the key threat to them, especially those with substantial exposure to office properties and acquired landbank late in the upcycle. Small-cap developers do not have the financial prowess of the big-cap developers and we see financing as their key concern going forward. The weak property market has delayed new launches and a prolonged inability to move inventories could ultimately affect their debt servicing ability.

Reality check on the risk of buyers defaulting. With the weak economic outlook and rising unemployment rate in Singapore, risk of defaults by property buyers will remain a lingering concern. However, we believe that earlier assumptions of increasing risk of property buyers under DPS defaulting at 10-20% loss threshold, which is equivalent to the amount that they had put up as down-payment, may have been overstated. The sale and purchase agreement is a legally binding document and most developers said that they will take a tough stance, possibly legal actions, against those buyers who can afford the properties but would want to walk out of the deal.

Weak outlook but cheap valuations. Although the outlook of the property sector remains weak, valuations of some developers have already fallen below their previous troughs. Our sector strategy is to stay defensive and stick with developers with strong balance sheet, diversified earnings stream, low exposure to the high-end residential segment and now trading at valuation beyond previous trough. In these aspects, **UOL Group (BUY, FV: S\$2.59)** meets our criteria and remains our top pick for the property sector. We also have **BUY** recommendations on CapitaLand (FV: S\$2.42), Keppel Land (FV: S\$1.77) and Soilbuild Group (FV: S\$0.79).

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	Price	Rating	Fair	Price/	RNAV	Premium/	FY08
	(S\$)		Value	NAV	(S\$)	(Discount)	Div Yield
			(S\$)	(x)		to RNAV	(%)
						(%)	
CapitaLand Ltd	1.89	BUY	2.42	0.64	3.00	-37.0	3.7%
Keppel Land	1.21	BUY	1.77	0.36	3.68	-67.1	6.6%
UOL Group	1.63	BUY	2.59	0.38	3.40	-52.1	4.6%
Soilbuild Group	0.535	BUY	0.79	0.59	1.58	-66.1	7.5%

Exhibit 1: Developers' 4Q 2008 results overview

	Revenue (in S\$m)			PATMI (in S\$m)			Comments
	4Q08	4Q07	% chge	4Q08	4Q07	% chge	
CapitaLand	703.7	1,324.3	-46.9	78.0	674.7	-88.4	- Lower sales in Australia and China - Revaluation loss of S\$103.9m in 4Q08
City Developments	717.5	765.7	-6.3	100.0	235.0	-57.4	- Hotel revenue affected by strong SGD against Sterling pound - Net impairment losses of S\$90.8m
Keppel Land	197.4	371.4	-46.8	68.5	572.3	-88.0	- Lower revenue after completion of several trading projects - Fair value gain of S\$4.5m from investment properties
UOL Group	260.3	195.0	33.5	-114.1	331.9	NA	- Higher revenue from development projects and rental income - Impairment charge of S\$37m for hotel development - Fair value loss of S\$174.5m on investment properties
Soilbuild Group	50.0	34.2	46.1	30.5	19.1	59.7	- Higher revenue from progressive recognition of revenue from projects - Fair value gain of S\$25.6m after the completion of Tuas Connection

Source: Company announcements

Exhibit 2: Developers' balance sheet condition

	4Q 2008					Cash (S\$m)	Total Equity (S\$m)	Net Debt/Equity (x)
	Total debt (S\$m)	Current debt (S\$m)	% of current debt to total debt	Non-current debt (S\$m)	% of NC debt to total debt*			
CapitaLand**	9,829.3	1,875.2	19.1	7,954.1	80.9	4,228.4	11,987.8	0.47
City Developments	4,153.5	860.3	20.7	3,293.1	79.3	775.9	7,022.3	0.48
Keppel Land	2,121.8	184.1	8.7	1,937.8	91.3	626.4	2,896.9	0.52
UOL Group	1,884.7	518.4	27.5	1,366.3	72.5	263.9	3,815.2	0.42
Soilbuild	406.7	186.8	45.9	219.8	54.1	28.8	198.0	1.91

* NC- Non-current

** Net gearing will fall to 0.28x after rights issue

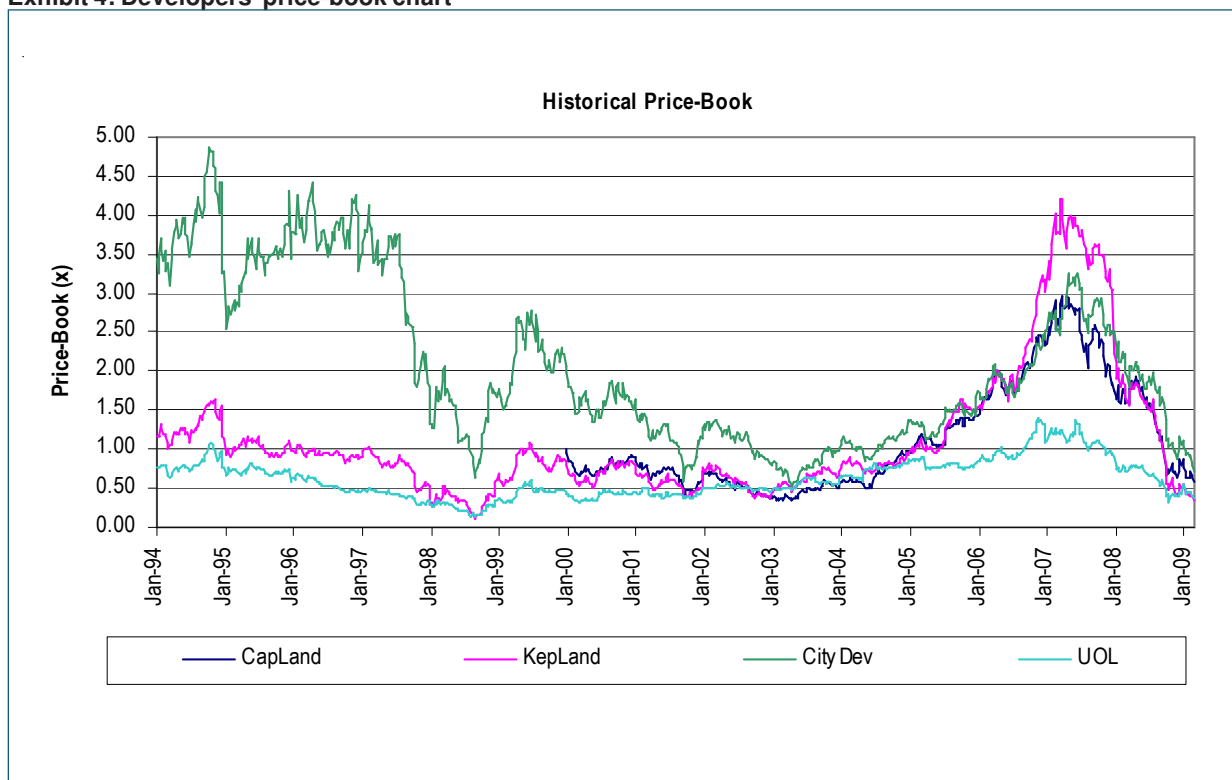
Source: Company announcements

Exhibit 3: Developers' outlook guidance

Outlook Guidance from 4Q 2008 announcements	
CapitaLand	<ul style="list-style-type: none"> - Buyer sentiment to remain fragile in 2009 - Project delays expected - Pursuing acquisitions and investment opportunities
City Developments	<ul style="list-style-type: none"> - Defer further development of its land bank - Hospitality market to decline further before recovery - Expects to continue to perform profitably
Keppel Land	<ul style="list-style-type: none"> - Strong headwinds from global economic crisis - In a better financial position compare to past crises - Looking out for asset acquisitions
UOL Group	<ul style="list-style-type: none"> - Office and retail rentals to face downward pressure - Property buying sentiment to remain weak
Soilbuild	<ul style="list-style-type: none"> - Focus on managing cashflow and capital - Expect to remain profitable

Source: Company announcements

Exhibit 4: Developers' price-book chart



Source: Bloomberg, OIR

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