

Neutral

Property Sector

Outperformers in recent market rally

Developers outperformed in recent market rally. After hitting a 52-week low on 9th March, the STI has since recovered strongly and gained 24% to yesterday's close of 1,802.39. The FTSE Real Estate Holding and Development Index (FSTREH) outperformed the STI and gained 31.1% over the same period. Gains were largely driven by the large and mid-cap developers as their share prices increased by an average of 24.5% and 24.2%, respectively. Among the large-cap developers, gains were not widespread, with CapitaLand, City Developments and Keppel Land being the best performers. Small-cap developers continued to underperform the FSTREH, gaining 14.4% during the period, as the market remains cautious over the health of their balance sheets and financing capabilities.

Fundamentals still look fragile. Last week, URA's release of its 1Q08 flash estimate for the private property price index showed that property prices fell by 13.8% QoQ, which is a record quarterly decline since the index was started in 1975. Sharp decline in prices had brought about improvement in developers' sales figure in 1Q09, but we believe that this could be driven by the pent-up demand in the market after months of slowing sales and also, the narrowing of price gap between HDB flats and mass market properties. Sustainable demand will still have to depend on the economy, wages and unemployment, which are still looking fragile at the moment.

Downgrading CapitaLand and Keppel Land to HOLD. In light of the recent run-up in share prices of property developers, we now re-look at our ratings for the developers. With no catalyst in sight for a sustainable recovery in the property market, we prefer to remain conservative and maintain the current discount rates (30% for CapitaLand and City Developments, 40% for UOL Group, 50% for Soilbuild and 60% for Keppel Land) to our valuations of the developers' residential projects, landbank and investment properties. Differences in discount rate reflect our perception of risk exposure of the developers and the differences in their balance sheet strength. However, we have adjusted our fair value of the developers to reflect the change in the market valuation of their investments in listed REITs and companies. With reference to our new fair value (refer to table below), we maintain **BUY** ratings for **UOL Group** and **Soilbuild** and **HOLD** for **City Developments**. As we see limited share price upside potential for **CapitaLand** and **Keppel Land**, we are now downgrading them to **HOLD**.

	Price	Rating	Fair	Price/	RNAV	Premium/	FY08 Div
	(\$S)		Value	NAV	(\$S)	(Discount)	Yield
			(\$S)	(x)		to RNAV	(%)
						(%)	
CapitaLand Ltd	2.57	HOLD	2.51	0.87	3.06	-16.0	2.7%
City Developments	5.82	HOLD	5.53	0.97	7.56	-23.0	1.3%
Keppel Land	1.64	HOLD	1.79	0.48	3.70	-55.7	4.9%
UOL Group	2.00	BUY	2.58	0.47	3.25	-38.5	3.8%
Soilbuild Group	0.500	BUY	0.79	0.55	1.58	-68.4	8.0%

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CapitaLand Ltd: Looks fairly-valued now

CapitaLand (CapLand) had just completed its Rights issue last month and raised gross proceeds of S\$1,835.5m. After taking into consideration of CapLand's subscription in CapitaMall Trust's Rights issue, CapLand currently has a cash hoard of S\$5,698.1m and its net gearing has fallen from 0.46x to 0.3x. Focus will now be on the deployment of the funds raised, which could be a potential catalyst to the re-rating of CapLand's shares. Its acquisition of Char Yong Garden (at S\$1,788 psf ppr) and Farrer Court (at ~S\$780 psf ppr) could be at risk to write-down. Taking into consideration its effective stakes in these two acquisitions, its total exposure is ~S\$877m and the exposure on CapLand's book value is limited as these account for ~6.3% of CapLand's book value. Our RNAV estimate of CapLand has now been raised to S\$3.06 (previously S\$3.00) to account for the increase in market valuation of its listed REITs and investments. We maintain our 30% discount on our valuation of CapLand's development profits and investment properties and no discount for its listed investments. Our fair value of CapLand has now been raised to S\$2.51. As upside potential looks limited now, we are downgrading CapLand to **HOLD**.

Exhibit 1: CapitaLand's FY09 RNAV estimates

	in S\$m
NPV of development profits	
- Singapore	668.2
- Overseas	824.8
	1,493.0
Valuation of investment properties	5,171.1
Valuation of fund management business	948.6
Stakes in listed entities	3,363.2
Stakes in unlisted funds	2,362.8
Shareholders Equity (ex-AustraLand and TAG)	7,896.9
Less:	
- Book value of investment properties, associates and jointly-controlled €	-10,119.7
RNAV	11,115.9
Gross proceeds from rights issue	1,835.5
Enlarged share base (m)	4,235.5
RNAV per share	3.06
Fair value (Discount for development profits and investment properties pegged at 30% and listed investments kept at market value)	2.51

Source: OIR estimates

City Developments: Slowly building up war-chest

We recently reinitiated coverage on City Developments (CDL). There is no change to our fundamental view on CDL. We continue to like the company for its conservative management, strong balance sheet, diversified operations, low cost landbank with significant mass market exposure and proven track record in the Singapore property market. In addition, we view its recent fund raising exercises as a pre-emptive move to position the company to tap on acquisition opportunities going forward. Having raised S\$100m from its S\$1,000m Islamic Trust Certificate (ITC) Programme in January, CDL is currently in the process of issuing the second tranche of the ITC and expects to raise another S\$300m-400m from the programme. Our RNAV estimate of CDL has now been raised to S\$7.56 (previously S\$7.46), largely attributable to the increase in Millenium & Cophthorne's valuation. We maintain our 30% discount on our valuation of CDL's development profits and investment properties and no discount ascribe to its listed investments. Our fair value of CDL has now been raised to S\$5.53. We maintain our **HOLD** rating on CDL.

Exhibit 2: CityDev's FY09 RNAV estimates

	in S\$m
NPV of development profits	1,846.10
Investment properties	3,690.70
Less:	
- Book value of investment properties	-2,135.00
	1,555.70
Stakes in listed entities	717.8
Less:	
- Book value of listed entities	-2,443.70
Surplus on listed entities	-1,726.00
Net Asset (end FY08)	5,198.80
RNAV	6,874.60
Outstanding share base (m)	909.3
RNAV per share	\$7.56
Fair value (Discount for development profits and investment properties pegged at 30% and listed investments kept at market value)	\$5.53

Source: OIR estimates

Keppel Land: Risk fairly reflected in current market value

Property sale for Keppel Land (KepLand) is expected to remain slow as its unsold properties and landbank are catered towards the high-end segment. Nevertheless, earnings in the property development segment will continue to be driven by the progressive profit recognition of sold projects in Singapore (Marina Bay Residences, The Sixth Avenue Residences, The Suites at Central and Reflections at Keppel Bay) and overseas. Risk for KepLand is relatively higher than its peers, given its higher RNAV exposure (~38% of RNAV, inclusive of K-REIT) to the office sector in Singapore and limited scale of diversification in its operations. Our RNAV estimate of KepLand has now been raised to S\$3.70 (previously S\$3.67), due to the improvement in valuation of K-REIT and Evergro. To reflect its higher risk profile, we have pegged a 60% discount to our valuation of KepLand's development profits and investment properties and no discount has been ascribed to its listed investments. Our fair value of KepLand has now been raised to S\$1.79. As upside potential looks limited from current level, we are downgrading KepLand to **HOLD**.

Exhibit 3: KepLand's FY09 RNAV estimates

	in S\$m
NPV of development profits	
- Singapore	622.4
- Overseas	422.1
	1,044.5
Surplus on office properties	-665.2
Surplus on industrial and retail properties	2.1
	-663.1
Valuation of fund management business	298.8
Stakes in listed entities	376.2
Less:	
- Book value of listed entities	-833.2
Surplus on listed entities	-457.0
Net Asset (end FY08)	2,442.6
RNAV	2,665.8
Outstanding share base (m)	721.3
RNAV per share	\$3.70
Fair value (Investment and development properties at 60% discount to valuation, no discount on listed investments)	\$1.79

Source: OIR estimates

UOL Group: Underperformer in recent rally

Relative to its peers, UOL had underperformed during the recent market rally, with its share price up by 25.8% from its closing price on 9th March (vs. the 31.1% increase in FSTREH over the same period). The outlook for UOL remains positive and the recent successful launch of Double Bay Residences will extend its earnings visibility into 2013. Following its takeover offer for UIC and recent market purchases, UOL has now raised its stake in UIC from 15.5% to 31.58%. Going forward, UIC will be accounted for as an associate of UOL and will contribute to UOL's bottom-line. We continue to like UOL for its diversified revenue stream from property development, rental income and hotel operations (through Hotel Plaza), exposure towards the more resilient mass market properties and its undemanding valuation. Our RNAV estimate of UOL has now been lowered to S\$3.25 (previously S\$3.40) and this is largely due to the decline in share price of UIC shares (current share price: S\$1.05, takeover price: S\$1.20) after the takeover offer from UOL and we mark down the valuation of UOL's holding in UIC accordingly. We maintain our 40% discount on our valuation of UOL's development profits and investment properties and no discount ascribe to its listed investments. Our fair value of UOL has now been lowered to S\$2.58. We maintain our **BUY** rating on UOL.

Exhibit 4: UOL's FY09 RNAV estimates

Estimated value of investment properties				1,215.19
Book value of investment properties				2,011.87
Surplus from investment properties				-796.67
Surplus from development properties				444.71
Investment in listed equities:	No. of shares	Last price as at 7 Apr 09(S\$)		Market Value (S\$m)
UOB	33.0m	10.48		345.84
UIC	435.1m	1.05		456.82
Hotel Plaza	489.4m	0.93		455.18
				<u>1,257.84</u>
Book value of listed equities				<u>1,715.54</u>
Surplus from listed equities (S\$m)				-457.70
End-FY08 Book value (S\$m)				3,394.70
RNAV (S\$m)				2,585.04
Shares outstanding (m)				796.07
RNAV per share (S\$)				<u>3.25</u>
Valuation				
	Discount	Attributable RNAV	% of total RNAV	Valuation (S\$m)
Holdings in UOB and UIC		802.66	31.05	802.66
Hotel Plaza		455.18	17.61	455.18
Development and Investment properties and others	40%	1,327.20	51.34	796.32
		<u>2,585.04</u>	<u>100.00</u>	<u>2,054.16</u>
Fair value per share (S\$)				2.58

Source: OIR estimates

Soilbuild Group: Bucking the market trend

Soilbuild's share price went against the general market trend during the recent rally, declining by 12.3% since 9th March. However, we do note that prior to the market rally, Soilbuild had outperformed its peers in terms of share price performance, which we attribute to the lack of trading liquidity in its shares. On Soilbuild's short term liquidity needs, we believe that these could be met when it receives payment upon the completion of its residential projects in 2009 and also using its untapped credit facilities of S\$150m. At current share price of S\$0.50, Soilbuild is trading at a hefty discount of 68.4% to our RNAV estimate of S\$1.58 and this is a reflection of the market's risk aversion towards small-cap developers. We maintain our 50% discount on our valuation of Soilbuild's development profits and investment properties and our fair value of Soilbuild remains at S\$0.79. We maintain our **BUY** rating on Soilbuild.

Exhibit 5: Soilbuild's FY09 RNAV estimates

	in S\$m
Surplus from development properties	68.8
Estimated value of investment properties	167.1
Book value of investment properties	149.9
Estimated surplus from investment properties under construction	59.9
Surplus from investment properties	77.2
End FY08 Book value (S\$m)	198.0
RNAV (S\$m)	344.0
Shares outstanding (m)	217.3
RNAV per share (S\$)	1.58
Valuation (at 50% discount to RNAV)	0.79

Source: OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above securities.

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