

REITS Sector

Neutral

4Q CY08 report card

4Q earnings steady. S-REITs within our coverage universe generally delivered a fairly steady set of 4Q CY08 results. The results were in line with our expectations, excluding LMIR Trust. CapitaMall Trust and Suntec REIT reported similarly marginal QoQ increases in distribution income of 0.3% and 0.6%, respectively. Frasers Centrepoint Trust experienced some disruptions from asset enhancement works at one mall, but its other properties enjoyed both earnings growth and strong occupancy levels. We believe this quarter's performance was not evidence of stability or invulnerability but more a function of timing lags. In fact, other indicators like reversionary rents - achieved office rents at Suntec City fell 11% QoQ - point to a different trend.

No big NAV shake-up yet. The same inertia played out in net asset values. Excluding FCT (year end: Sep); the other S-REITs carried out their annual property revaluations in 4Q CY08. CapitaMall Trust registered a marginal 1.9% increase in property values over its last valuation in June 2008. Suntec REIT saw property values fall 7% against its 3Q CY08 revaluation. LMIR Trust also recorded a revaluation deficit, the bulk of which was driven by the adverse SGD-IDR movement over the year. Overall, we feel cap rates used by the independent valuers still do not fully reflect the downwards trend in capital values.

LTV is more important than reported leverage. Because of this timing lag, we believe reported balance sheet figures are under-estimating leverage and over-estimating balance sheet strength. In fact, the market is currently valuing these S-REITs on an average 61% discount to reported NAV. Lenders' appetite for loan-to-value (LTV) have fallen because of both an expectation of falling capital values and a decreased appetite and capacity for risk.

Maintain NEUTRAL view. In our view, unit prices more than reflect the realities of falling capital values and refinancing risks. We feel the focus is now on how deeply S-REIT earnings will be affected by deteriorating economic conditions - and consequently what is the 'real' distribution yield. Meanwhile, we continue to believe S-REITs will need to re-capitalize their balance sheets. The recent equity fund raising announcements from blue-chips like Ascendas REIT (raising S\$408m) and CapitaMall Trust (S\$1.23b) have set the tone for the year. However, the sector is competing for limited resources - for instance, we believe rights issues would need to be underwritten in order to succeed. Once again, the strength of the sponsor (and the size of its stake) will make a difference.

	Share price (\$)	FY09 DPU (S-cents)	FY09 DPU Yield (%)	Price/NAV (x)	Fair Value (\$)	Rating
CapitaMall Trust	1.08	9.1	8.4	0.8	1.26	BUY
Frasers Centrepoint Trust	0.59	6.8	11.6	0.5	0.62	HOLD
LMIR Trust	0.19	4.7	25.7	0.3	0.24	HOLD
Mapletree Logistics Trust	0.36	4.7	13.1	0.4	0.45	BUY
Suntec REIT	0.54	9.8	18.2	0.3	0.90	BUY

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Exhibit 1: Overview of S-REITs under coverage

	Rating	Fair Value (\$)	4Q CY08 Performance	OIR's key valuation assumptions	Forward-looking comments
CapitaMall Trust	BUY	1.26	In-line	- 5% decline p.a. in new rentals/ renewals over FY09-10	- Refinancing concerns removed after rights issue
Frasers Centrepoint Trust	HOLD	0.62	In-line	- 5-7% decline p.a. in new rentals/ renewals over FY09-10	- Defensive, with a relatively 'safer' suburban portfolio and mass-market consumer focus
LMIR Trust	HOLD	0.24	Below	- Still has S\$19m in receivables, or 19% of total FY08 revenue.	- Earnings uncertainty coming from potential early termination of leases
Mapletree Logistics Trust	BUY	0.45	N/A	- 90% portfolio wide occupancy over FY09-10.	- Can deliver reasonably stable income to unitholders over next two years.
Suntec REIT	BUY	0.90	In-line	- Achieved office rents down to high single digits this year. 8-10% p.a. decline in Suntec City Mall rentals over FY09-10	- Refinancing overhang; 44% of total borrowings up for refinancing in the next 12 months

Source: OIR

Exhibit 2: S-REITs comparison

	Share price (S\$)	Market Cap (S\$m)	Price/NAV (x)	Curr yr DPU Yield (%)	Borrowings in S\$m (as of 31-Dec)			Total assets in S\$m (at 31-Dec)	Gearing (%)
					Repayable in 1 yr	% of total borrowings	Total borrowings		
Office									
Frasers Commercial Trust	0.145	106.7	0.15	28.3	616.4	65.1	946.4	1,757.9	53.8
CapitaCommercial Trust	0.615	861.3	0.21	18.2	696.0	27.2	2,561.6	6,871.4	37.3
K-REIT Asia	0.490	322.2	0.22	17.6	0.0	0.0	577.1	2,092.3	27.6
Suntec REIT [^]	0.540	833.9	0.27	18.2	823.7	44.3	1,860.8	5,431.6	34.3
Office Total			0.21	20.6	2,136.1	35.9	5,945.9	16,153.2	36.8
Retail									
CapitaMall Trust [^]	1.080	3,422.8	0.84	8.4	652.9	20.7	3,156.9	7,509.0	42.0
Frasers Centerpoint Trust [^]	0.585	364.4	0.48	11.6	62.0	19.3	322.0	1,129.4	28.5
Starhill Global REIT	0.410	393.9	0.28	17.1	17.0	2.6	666.0	2,163.4	30.8
Retail Total			0.53	12.4	731.9	17.7	4,144.9	10,801.7	38.4
Healthcare									
Parkway Life REIT	0.715	431.0	0.53	10.8	34.0	13.6	250.8	1,080.6	23.2
Healthcare Total			0.53	10.8	34.0	13.6	250.8	1,080.6	23.2
Hospitality									
Ascott Residence Trust	0.360	219.9	0.24	24.7	117.5	18.8	624.4	1,687.6	37.0
CDL Hospitality Trusts	0.445	369.5	0.31	17.3	273.0	100.0	273.0	1,501.6	18.2
Hospitality Total			0.28	21.0	390.5	43.5	897.4	3,189.2	28.1
Industrial									
Ascendas REIT	1.100	1,846.4	0.60	13.5	738.1	38.5	1,915.4	4,610.3	41.5
Cambridge Industrial Trust	0.220	175.2	0.30	20.5	369.1	100.0	369.1	977.9	37.7
Macarthurcook Industrial REIT	0.215	56.3	0.17	43.3	224.4	100.0	224.4	566.2	39.6
Mapletree Logistics Trust [^]	0.355	688.5	0.40	13.1	217.7	18.8	1,159.4	3,046.3	38.1
Industrial Total			0.37	22.6	1,549.4	42.2	3,668.4	9,200.6	39.9
Overseas									
Ascendas India Trust	0.510	385.9	0.47	13.5	31.5	51.1	61.6	1,038.8	5.9
CapitaRetail China Trust	0.600	371.4	0.48	13.3	61.0	14.7	414.7	1,325.7	31.3
First REIT	0.450	123.4	0.48	15.8	50.8	100.0	50.8	339.5	15.0
Fortune REIT ^{##}	2.360	1,937.1	0.31	15.6	0.0	0.0	432.2	1,638.8	26.4
Lippo-Mapletree Indonesia [^]	0.185	198.0	0.26	25.7	0.0	0.0	118.9	1,006.1	11.8
Saizen REIT ^{##}	0.100	45.2	0.09	40.6	293.0	69.8	420.0	914.4	45.9
Overseas Total			0.35	20.7	436.3	29.1	1,498.1	6,263.4	23.9
S-REITs Total			0.36	19.3	5,278.2	32.2	16,405.6	46,688.7	35.1

Converted to S\$, based on respective exchange rates at the end of last reported financial period

*Share price and market cap in HK\$

For CMT, ex-Rights gearing level will fall to 29.1%

[^]OIR estimates used for DPU yield. Rest are consensus estimates

Source: Companies, OIR estimates, Bloomberg consensus estimates

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The analyst's immediate family owns 500,000 shares in Mapletree.

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