

REITS Sector

Neutral

Class gap implies different valuation catalysts

Class gap between S-REITs. Consensus forward yields, ranging from 7-38%, are showing a wide divergence in valuations across the S-REIT sector. Our thesis is that the S-REIT sector is now broadly segregated into two camps - the "haves" (large, blue-chip sponsored REITs with strong balance sheets) and the "have-nots" (smaller, non-sponsored REITs with high gearing). Valuation catalysts also vary accordingly - we believe the market focus for the weaker "have-nots" is still on their ability to secure refinancing but the focus for the "haves" is on 1) how the macroeconomic picture affects earnings and 2) the need for equity issues to recapitalize balance sheets. Investors can expect some key data points on both the refinancing and the earnings fronts in the coming months.

Refi news impacts "have-nots" more. MacarthurCook Industrial REIT [NOT RATED] announced yesterday that it has received a 60 day extension for its loan facility worth S\$220.8m maturing on 18 April. MI-REIT is geared at almost 40% and this facility constitutes the bulk of its borrowings. The extension buys MI-REIT some time to continue negotiations with its lenders, National Australia Bank and Commonwealth Bank of Australia. Its inability to secure a resolution by April is a disappointment, in our view. MI-REIT's refinancing efforts will likely be benchmarked against the Dec 2008 refinancing completed by peer Cambridge Industrial Trust [NOT RATED] as both S-REITs are relatively smaller, non-sponsored and industrial focused. We expect negative refinancing news to further widen the valuation gap between the two S-REIT classes. For the broader sector, such refinancing news may be indicative of lender risk appetite. Tighter loan-to-value demands may trigger a sector-wide overhaul of capital structures, potentially via equity issues.

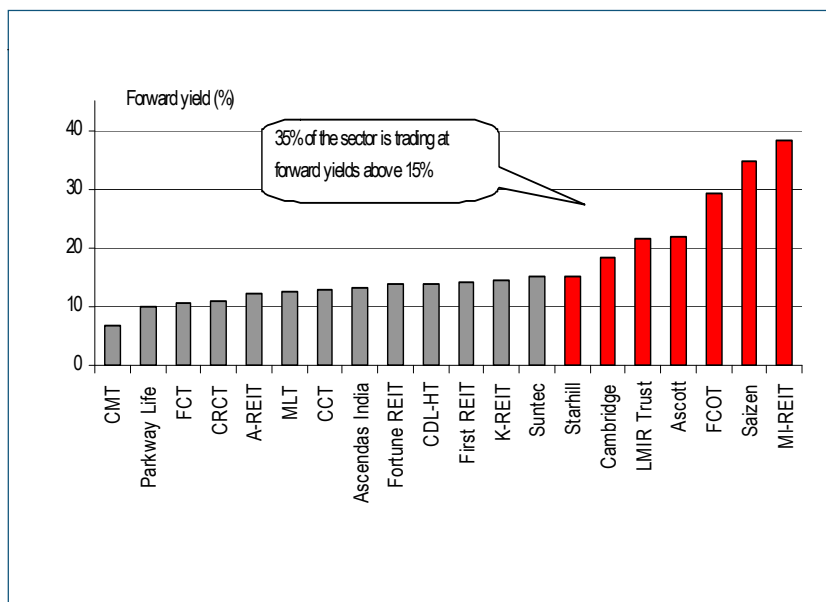
Watch rents & vacancy data points for the "haves". Most S-REITs should report 1Q CY09 earnings over the last two weeks in April. We believe that 1H09 earnings are worth watching as the impact of macroeconomic events slowly filters through to the S-REIT bottom-line. For the office sector, we will be watching the pace of the decline in achieved rents as well as any change in occupancy levels. Given the economic slowdown, occupancy levels will be the key metric to watch in the industrial space. We are also looking out for an update on the post-CNY retail landscape and validation of the consensus 'suburban means defensive' view. We maintain our **NEUTRAL** call on the sector and leave our estimates and ratings for individual S-REITs unchanged in anticipation of 1Q results.

Meenal Kumar
(65) 6531 9112
e-mail: MeenalK@ocbc-research.com

	Share price (\$)	FY09 DPU (S-cents)	FY09 DPU Yield (%)	Price/NAV (x)	Fair Value (\$)	Rating
CapitaMall Trust	1.32	9.1	6.9	0.84	1.26	BUY
Frasers Centrepoint Trust	0.63	6.8	10.7	0.52	0.62	HOLD
LMIR Trust	0.22	4.7	21.6	0.31	0.24	HOLD
Mapletree Logistics Trust	0.38	4.7	12.4	0.42	0.45	BUY
Suntec REIT	0.63	9.4	14.9	0.31	0.80	BUY

Valuation gap between S-REITs. The Business Times reports¹ that Ernst & Young expects "some form of consolidation in [the S-REIT] sector, especially with its refinancing needs and the continuing pressure on rents" if the economic downturn is prolonged or worsens. We think the valuation gap between the "haves" (large, blue-chip sponsored REITs with strong balance sheets) and the "have-nots" reflects these concerns to some extent: Exhibit 1 shows that consensus forward yields range from 7-38% across the sector. We note that some sponsored S-REITs are also trading at high forward yields but this may be due to earnings uncertainty or because of market expectations of a potential capital call.

Exhibit 1: Wide disparity in forward yields



Source: OIR estimates, Bloomberg consensus estimates

1Q CY09 results approaching. Most S-REITs should report 1Q CY09 earnings over the last two weeks in April. Investors can expect some key data points on both the refinancing and the earnings fronts.

¹ "New risks emerge for property companies"; Business Times, 31st March 2009

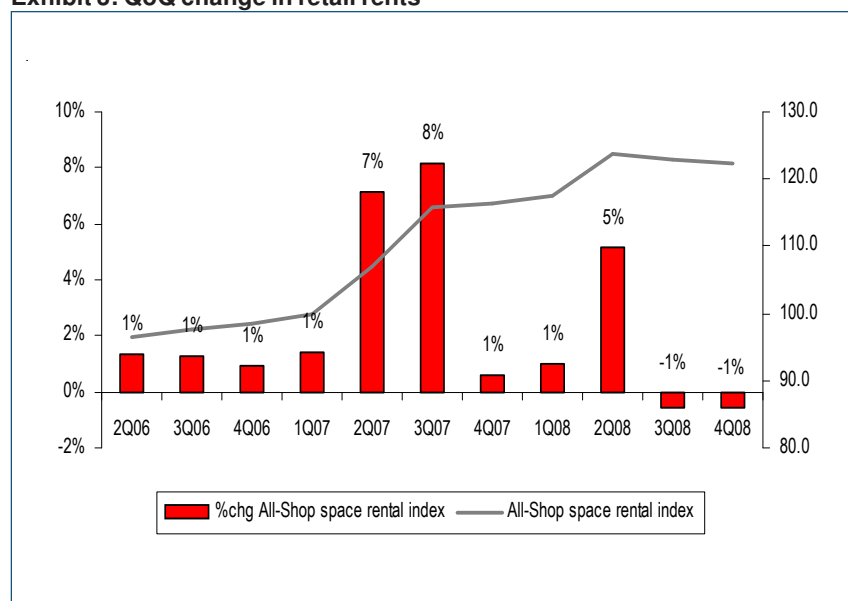
Exhibit 2: Things to watch out for at 1Q CY09 results

Analyst	Rating	Fair Value (\$)	4Q CY08 performance vs OIR	Things to watch out for at 1Q CY09 results	
CapitaMall Trust	Foo Sze Ming	BUY	1.26	In-line	- Achieved rents and vacancy levels
Frasers Centrepoint Trust	Meenal Kumar	HOLD	0.62	In-line	- Re-affirmation of post-asset enhancement guidance for rents and occupancy at <i>Northpoint</i> - Achieved rents and vacancy levels at <i>Causeway Point</i> and <i>Anchorpoint</i>
LMIR Trust	Meenal Kumar	HOLD	0.24	Below	- Update on early lease termination issues and outstanding lease receivables - Earnings and DPU stability after disappointing 4Q08 (4Q distributable income fell 81% QoQ)
Mapletree Logistics Trust	Meenal Kumar	BUY	0.45	N/A	- Vacancy levels for portfolio - Update on refinancing efforts (about S\$217m of debt, or 18.8% of debt, due this year. MLT has said it has sufficient committed lines to meet entire FY09 debt obligations but believes working capital lines of S\$135m will be refinanced.)
Suntec REIT	Meenal Kumar	BUY	0.80	In-line	- Update on refinancing efforts (About S\$825m or 44% of total borrowings up for refinancing over 2009) - Achieved rents, especially for office portfolio, and vacancy levels. Suntec saw an 11% QoQ decline in achieved Suntec City office rents in 4Q CY08.

Source: OIR

Looking for defensive retail REITs. At 1Q CY09 results, we will be looking for an update on the post-CNY retail landscape. CapitaMall Trust (CMT) stands out among other S-REITs for its defensive traits. About 66.3% of its gross rent is exposed to the more defensive necessity retailers. Our valuation for CMT prices in a 5% decline per annum in new rentals/ renewals over FY09-10. Meanwhile, Frasers Centrepoint Trust (FCT) also has a relatively "safer" suburban portfolio with a mass-market consumer focus. The malls are strategically located adjacent to MRT stations and bus interchanges, and enjoy captive markets with strong population catchments and limited alternative shopping choices. The primary focus is on non-discretionary spending. Our valuation for FCT prices in a 5-7% decline p.a. in new rentals/ renewals over the next two years (except for an expected uplift at Northpoint next year post-asset enhancements).

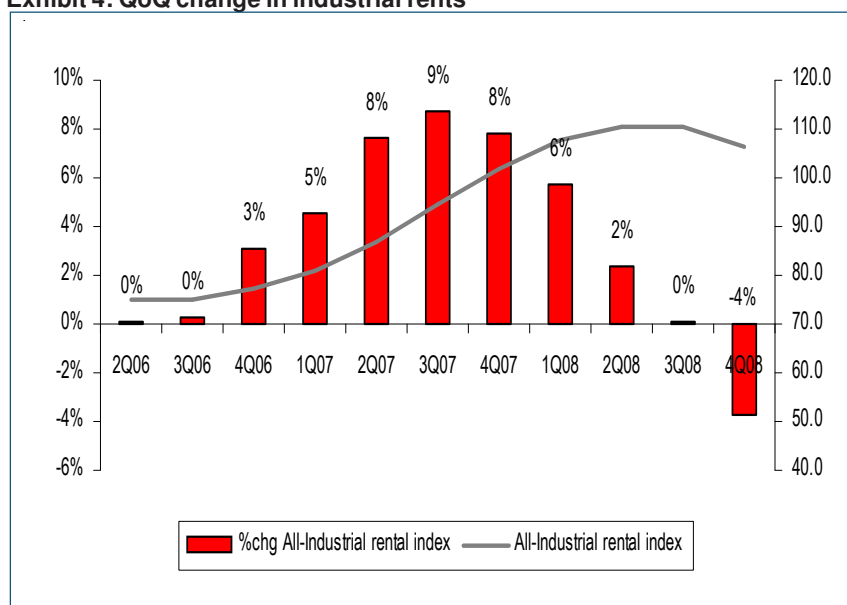
Exhibit 3: QoQ change in retail rents



Source: URA

Occupancy key for industrial space. At 1Q CY09 results, our main focus will be on vacancy levels across the various industrial S-REITs. Deteriorating macroeconomic conditions have dampened the outlook for the industrial REIT/property sector. This, combined with rising supply, is likely to exert pressure on industrial rents. Compared to the office sector however - which saw a huge spike in rental and capital values over the past couple of years - we expect less downside here. Instead, we believe occupancy will be the key performance driver in the industrial space. We estimate that Mapletree Logistics Trust can maintain a dividend yield of about 10% even with a bear case 80% portfolio-wide occupancy scenario (versus 99.6% today).

Exhibit 4: QoQ change in industrial rents

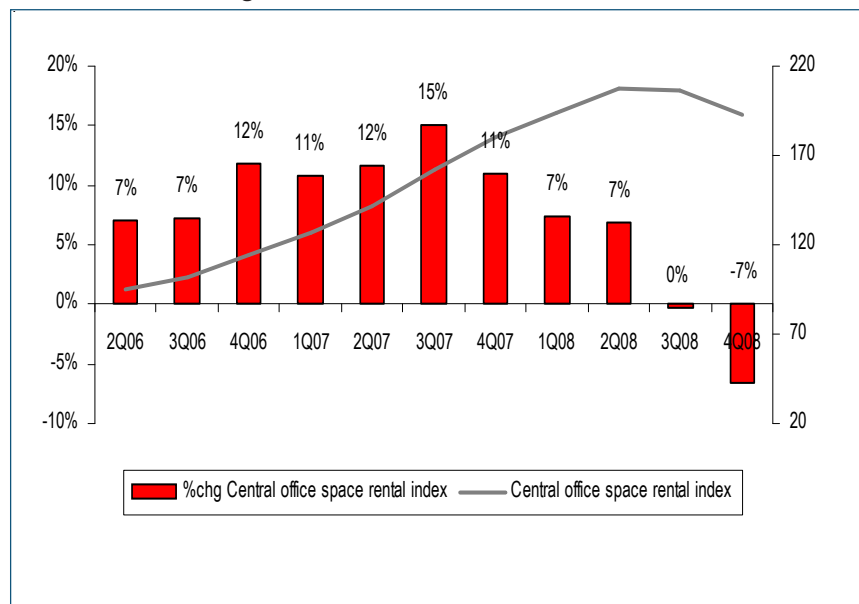


Source: URA

Watching achieved office rents. We will be tracking the pace of decline in achieved rents as well as any change in occupancy levels at office S-REITs in 1Q CY09. According to Cushman & Wakefield², spot prime office rents saw a 17.8% QoQ decline in 4Q08 to S\$12.20 per square foot per month (psf pm). Cushman & Wakefield said that January and February data shows that "the downward momentum in spot rents has not abated" and also noted that the overall prime vacancy rate in February stood at 4.25%, up 1.25% from 4Q08 levels.

² "A good time to shop for office space", *Business Times*, 26th March 2009

Exhibit 5: QoQ change in office rents



Source: URA

We note that in 4Q CY08, Suntec City office replacement and renewal leases were secured at an average of S\$11.20 psf pm - 11% lower compared to the S\$12.57 psf pm achieved in the previous quarter but higher than preceding rents. We expect achieved rentals to continue softening down to single digits this year. The average passing rent at Suntec City Office of around S\$6.50 psf pm (our estimate) gives some margin of safety.

Exhibit 6: S-REIT peer 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	0.140	103.0	0.14	29.3	616.4	65.1	946.4	1,757.9	53.8
CapitaCommercial Trust	0.880	1,232.4	0.30	12.7	696.0	27.2	2,561.6	6,871.4	37.3
K-REIT Asia	0.595	391.2	0.26	14.5	0.0	0.0	577.1	2,092.3	27.6
Suntec REIT [^]	0.630	994.6	0.31	14.9	823.7	44.3	1,860.8	5,431.6	34.3
Office Total			0.25	17.9	2,136.1	35.9	5,945.9	16,153.2	36.8
Retail									
CapitaMall Trust [^]	1.320	4,186.6	0.84	6.9	652.9	20.7	3,156.9	7,509.0	42.0
Frasers Centerpoint Trust [^]	0.630	392.4	0.52	10.7	62.0	19.3	322.0	1,129.4	28.5
Starhill Global REIT	0.455	437.2	0.32	15.2	17.0	2.6	666.0	2,163.4	30.8
Retail Total			0.56	10.9	731.9	17.7	4,144.9	10,801.7	38.4
Healthcare									
Parkway Life REIT	0.760	458.1	0.57	10.0	34.0	13.6	250.8	1,080.6	23.2
Healthcare Total			0.57	10.0	34.0	13.6	250.8	1,080.6	23.2
Hospitality									
Ascott Residence Trust	0.410	251.6	0.28	21.7	117.5	18.8	624.4	1,687.6	37.0
CDL Hospitality Trusts	0.520	431.8	0.37	13.8	273.0	100.0	273.0	1,501.6	18.2
Hospitality Total			0.32	17.8	390.5	43.5	897.4	3,189.2	28.1
Industrial									
Ascendas REIT	1.220	2,047.8	0.67	12.2	738.1	38.5	1,915.4	4,610.3	41.5
Cambridge Industrial Trust	0.250	199.1	0.34	18.4	369.1	100.0	369.1	977.9	37.7
Macarthurcook Industrial REIT	0.230	60.2	0.18	38.3	224.4	100.0	224.4	566.2	39.6
Mapletree Logistics Trust [^]	0.375	727.2	0.42	12.4	217.7	18.8	1,159.4	3,046.3	38.1
Industrial Total			0.40	20.3	1,549.4	42.2	3,668.4	9,200.6	39.9
Overseas									
Ascendas India Trust	0.525	397.2	0.49	13.1	31.5	51.1	61.6	1,038.8	5.9
CapitaRetail China Trust	0.735	456.1	0.59	11.0	61.0	14.7	414.7	1,325.7	31.3
First REIT	0.500	137.1	0.54	14.2	50.8	100.0	50.8	339.5	15.0
Fortune REIT ^{##}	2.670	2,191.6	0.36	13.7	0.0	0.0	432.2	1,638.8	26.4
Lippo-Mapletree Indonesia [^]	0.220	235.5	0.31	21.6	0.0	0.0	118.9	1,006.1	11.8
Saizen REIT [#]	0.115	52.0	0.11	34.7	293.0	69.8	420.0	914.4	45.9
Overseas Total			0.40	18.1	436.3	29.1	1,498.1	6,263.4	23.9
S-REITs Total			0.39	17.0	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%

Cambridge Industrial Trust has already refinanced all borrowings due this year

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

Source: OIR estimates, Bloomberg consensus estimates, companies

SHAREHOLDING DECLARATION:

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

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

DISCLAIMER FOR RESEARCH REPORT

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. OCBC Investment Research Pte Ltd, OCBC Securities Pte Ltd and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally.

Privileged/Confidential information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of this message to such person), you may not copy or deliver this message to anyone. Opinions, conclusions and other information in this message that do not relate to the official business of my company shall not be understood as neither given nor endorsed by it.

For OCBC Investment Research Pte Ltd

Co.Reg.no.: 198301152E



Carmen Lee
Head of Research

Published by OCBC Investment Research Pte Ltd

