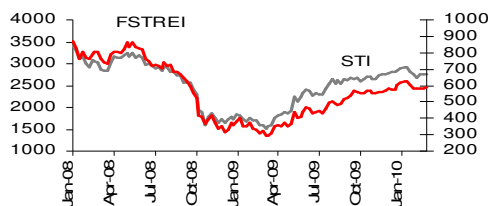


4 March 2010

# Overweight



## S-REITS

**Upgrading view to OW; Ascott & Suntec top picks.**

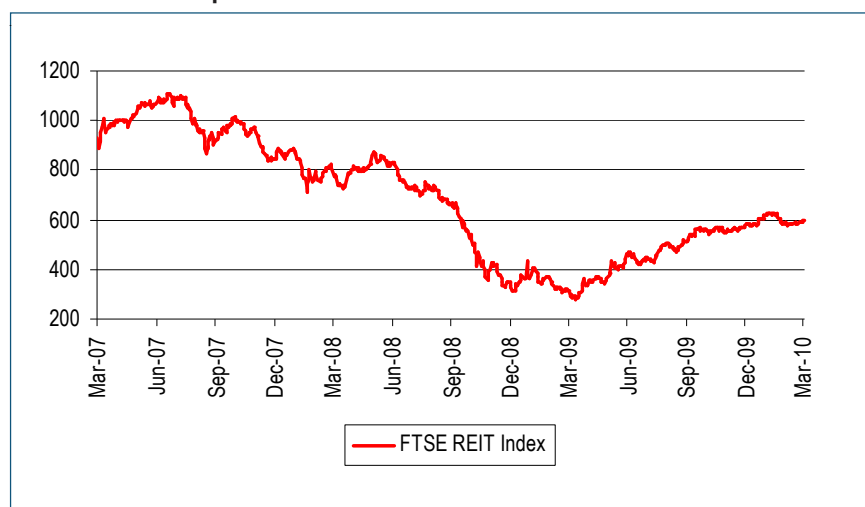
**4Q CY2009 results review.** Five out of the eight S-REITs under our coverage reported earnings in line with our estimates, with quarterly DPU differing 0-4% from our estimates. A-REIT, Mapletree Logistics Trust (MLT), and CapitaCommercial Trust (CCT) beat our DPU estimates by 9%, 9.5% and 17.5% respectively.

**Significant activity year-to-date.** In the past two months, the S-REIT sector has announced a sizeable S\$1,218m worth of acquisitions. These have primarily been funded on the back of proceeds from equity issues completed in 2009 and 2010. K-REIT [NOT RATED] and CDL Hospitality Trusts [NR] made their maiden foray outside of Singapore into Australia. We believe this was primarily motivated by a search for value - distressed or even stressed opportunities are currently more plentiful in regions such as Australia and Japan vis-à-vis Singapore. Meanwhile, CCT agreed to divest *Robinson Point* for S\$203.3m or roughly S\$1527 per square feet of net lettable area to a private real estate fund. It also announced it was exploring options to re-develop *Starhub Centre* and change its use to a mix of residential and commercial. The equity market was also active with Frasers Centrepoint Trust raising S\$182.2m to fund the purchase of two retail malls from its sponsor. ARA Asset Management [NR] and CWT Ltd [NR] also announced plans to launch a new logistics REIT. We expect REIT managers to continue down the acquisition path with stressed opportunities emerging as the broader market deleverages and with investors demanding yield growth. In turn, this growth push is likely to require further equity issues due to increased leverage conservatism.

S-REIT	Analyst	Rating	Fair Value (\$)	Current Px (\$)
A-REIT	Foo	HOLD	1.76	1.950
AscottREIT	Kumar	BUY	1.38	1.170
CCT	Foo	HOLD	1.16	1.110
CMT	Foo	BUY	1.93	1.820
FrasersCT	Kumar	BUY	1.50	1.370
LMIR Trust	Kumar	BUY	0.59	0.490
MapletreeLog	Kumar	BUY	0.91	0.790
Suntec REIT	Kumar	BUY	1.44	1.330

**Upgrading sector view.** In a volatile market, we believe yield is an increasingly important contributor of overall return. Greater visibility may also drive further price-to-book compression. Ascott Residence Trust continues to be one of our top picks as a proxy to corporate investment and travel. We replace MLT with Suntec REIT as our second top pick on Suntec's often over-looked retail portfolio and a possible shift in sentiment towards office REITs on increasing leasing activity, active supply management, and a slowing rate of decline in office rents. MLT continues to be a viable investment option, in our view, for investors seeking yield and stability. We upgrade our view on S-REITs to **OVERWEIGHT** from **NEUTRAL**. Key risks to our thesis are macro-economic risk, interest rate hikes (more of an issue for big caps REITs that have re-rated strongly, in our view) and an uncertain policy climate (the easy liquidity regime has to end at some point).

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**Exhibit 1: S-REIT performance Mar 2007 to Mar 2010**

Source: Bloomberg

The FTSE S-REIT index is up 114% from its March 2009 low of 279.74 points. To put this gain in perspective, the sector is still 85% shy of its June 2007 high of 1,110.29 points. Year-to-date performance has been lackluster - the sector is down 2.9% from 31 Dec 2009 - but outperforms the Straits Times Index's 4% decline YTD.

**Exhibit 2: 4Q CY2009 earnings review**

	Vs OIR	4Q CY2009 DPU (S cents)		
	Expectations	OIR Est	Actual	% Var
<b>A-REIT</b>	Above	3.00	3.27	9.0%
Ascott Residence Trust	In line	1.90	1.87	-1.5%
CapitaCommercial Trust	Above	1.60	1.88	17.5%
CapitaMall Trust	In line	2.50	2.40	-4.0%
Frasers Centrepoint Trust	In line	1.91	1.91	0.1%
LMIR Trust	In line	1.16	1.16	0.0%
Mapletree Logistics Trust	Above	1.45	1.59	9.5%
Suntec REIT	In line	2.59	2.66	2.6%

Note: Suntec DPU figures used here based on units at end of period. Actual payout per unit differs due to advanced distribution / placement during the quarter.

Source: OIR estimates

**4Q CY2009 earnings review.** Five out of eight S-REITs under our coverage reported 4Q CY2009 earnings in line with our expectations. Mapletree Logistics Trust, A-REIT, and CapitaCommercial Trust were the positive exceptions. We have had a fairly conservative view on industrial REITs, but both A-REIT and MLT exhibited stable portfolio performance with occupancy rates significantly higher than the market (and higher QoQ, in MLT's case). CCT outperformed on lower-than-expected property, tax and trust expenses. Again, the resilience in occupancy rates of CCT's Grade A office buildings impressed. Guidance was positive but cautious. Several managers indicated they were reviving acquisition plans.

### Exhibit 3: Acquisitions announced

REIT	Assets	Location	Type	Cost ('000 000)	Vendor	Funding
CDL Hosp Trust	5 freehold hotels in Brisbane & Perth with a total of 1,139 rooms. Leased and managed by Accor Group	Australia	Hotels	AS\$175 (\$S\$221)	Third-party	Debt
FrasersCT	Suburban YeeTee Point & Northpoint 2	Singapore	Retail malls	S\$290.2	Sponsor	Debt + Jan '10 private placement
K-REIT	50% stake of Grade A commercial development in Brisbane's Central Business District at 275 George Street.	Australia	Office	AS\$166 (\$S\$210.4)	Third-party	Proceeds from Nov '09 rights issue
A-REIT	i) DBS Asia Hub at Changi Business Park ii) Light industrial building at Joo Koon iii) Jurong property completed in 2011/2012	Singapore	Industrial	S\$228.5	Sponsor / Third-party	Proceeds from Aug '09 private placement (for first two ppty's)
CapitaMall Trust	Clarke Quay	Singapore	F&B / Entertainment	S\$268	Sponsor	Debt (TBC)

Source: S-REITs, media reports, OIR

**Acquisitions back in play.** S\$1,218m worth of acquisitions have been announced year-to-date. These have primarily been funded on the back of proceeds from equity issues completed in 2009 and 2010. CDL-Hospitality Trust purchased assets utilizing its large debt headroom due to low existing leverage of 19.1% (as of 31 Dec). CDREIT and K-REIT made their maiden foray outside Singapore into Australia. Meanwhile, retail landlords CapitaMall Trust and Frasers Centrepoint Trust acquired sponsor-owned assets - both sets of purchases had been long-anticipated by the market.

## Exhibit 4: Sector valuations snapshot

	Bloomberg Ticker	Last Price	Cmncy	Market Cap (in \$m)	OIR/ Cons FY-1 DPU (in S\$)	OIR/ Cons FY-2 DPU (in S\$)	FY-1 Yield (%)	FY-2 Yield (%)	Leverage ratio (%)	Book value per unit (in S\$)	Price-to-book (x)
<b>Office</b>											
Frasers Commercial Trust	FCOT SP	0.145	SGD	442.7	0.015	0.011	10.3	7.6	40.4	0.27	0.54
CapitaCommercial Trust*	CCT SP	1.110	SGD	3,126.2	0.067	0.066	6.0	6.0	33.2	1.41	0.79
K-REIT Asia	KREIT SP	1.100	SGD	1,473.0	0.071	0.068	6.5	6.2	27.7	1.48	0.74
Suntec REIT*	SUN SP	1.330	SGD	2,395.8	0.095	0.093	7.2	7.0	33.3	1.97	0.67
Office Average							7.5	6.7	33.7	1.28	0.69
<b>Retail</b>											
CapitaMall Trust*	CT SP	1.820	SGD	5,789.2	0.097	0.101	5.3	5.5	30.5	1.56	1.16
Frasers Centerpoint Trust*	FCT SP	1.370	SGD	1,047.0	0.080	0.084	5.9	6.1	29.7	1.22	1.12
Starhill Global REIT	SGREIT SP	0.550	SGD	1,064.3	0.040	0.038	7.3	6.9	26.8	0.82	0.67
Retail Average							6.2	6.2	29.0	1.20	0.99
<b>Healthcare</b>											
Parkway Life REIT	PREIT SP	1.300	SGD	785.2	0.083	0.086	6.4	6.6	27.4	1.39	0.94
Healthcare Average							6.4	6.6	27.4	1.39	0.94
<b>Hospitality</b>											
Ascott Residence Trust*	ART SP	1.170	SGD	723.1	0.079	0.082	6.8	7.0	41.2	1.34	0.88
CDL Hospitality REIT	CDREIT SP	1.670	SGD	1,398.8	0.103	0.112	6.2	6.7	19.1	1.43	1.17
Hospitality Average							6.5	6.9	30.2	1.38	1.02
<b>Industrial</b>											
Ascendas REIT*	AREIT SP	1.950	SGD	3,648.8	0.125	0.129	6.4	6.6	31.2	1.61	1.21
Cambridge Industrial Trust	CREIT SP	0.455	SGD	394.7	0.049	0.050	10.8	11.0	42.6	0.60	0.76
AIMS AMP Capital Indus REIT	AAREIT SP	0.205	SGD	300.7	0.050	0.020	24.4	9.8	28.9	0.94	0.22
Mapletree Logistics Trust*	MLT SP	0.790	SGD	1,622.9	0.062	0.063	7.8	8.0	36.7	0.85	0.93
Industrial Average							12.4	8.8	34.9	1.00	0.78
<b>Overseas</b>											
Ascendas India Trust	AIT SP	0.960	SGD	731.4	0.071	0.076	7.4	7.9	15.2	0.85	1.13
CapitaRetail China Trust	CRCT SP	1.200	SGD	747.4	0.081	0.084	6.8	7.0	33.8	1.09	1.10
First REIT	FIRT SP	0.825	SGD	227.5	NA	NA	NA	NA	15.5	0.98	0.84
Fortune REIT (in HK\$)	FRT SP	3.410	HKD	5,666.0	0.237	0.247	7.0	7.2	23.7	3.62	0.94
Lippo-Mapletree Indonesia*	LMRT SP	0.490	SGD	527.4	0.052	0.054	10.5	11.0	10.5	0.83	0.59
Saizen REIT	SZREIT SP	0.165	SGD	157.2	NA	NA	NA	NA	43.5	0.41	0.40
Overseas Average							7.9	8.3	23.7	1.30	0.83
S-REITs Average							8.3	7.5	29.5	1.23	0.84

\* DPU and Yields are based on OIR estimates

Note: After completion of planned acquisitions, MapletreeLog leverage likely &lt;40%

Updated as at 03 Mar

Source: Bloomberg, OIR and consensus estimates

**Top picks Ascott & Suntec.** The broader S-REIT sector is trading at an average forward yield of 8.3%. It trades, on average, at 0.84x book. Out of the eight REITs under our coverage, we have **BUY** ratings on six. We estimate an average total return of 16.1% for these eight REITs. Our top picks are Ascott Residence Trust and Suntec REIT (new, previously Mapletree Logistics Trust). MLT continues to be a viable investment option, in our view, for investors seeking yield and stability.

Exhibit 5: OIR ratings

S-REIT	Analyst	Rating	Fair value	Current price	Upside/ Downside	Total Return	P/NAV (x)	Leverage (%)	Yield FY-1F	Yield FY-2F
Ascendas REIT	Foo Sze Ming	<b>HOLD</b>	SGD 1.76	SGD 1.950	-9.7%	-3.3%	1.21	31.2	6.4	6.6
Ascott Residence Trust	Meenal Kumar	<b>BUY</b>	SGD 1.38	SGD 1.170	17.9%	24.9%	0.88	41.2	6.8	7.0
CapitaCommercial Trust	Foo Sze Ming	<b>HOLD</b>	SGD 1.16	SGD 1.110	4.5%	10.5%	0.81	33.2	6.0	6.0
CapitaMall Trust	Foo Sze Ming	<b>BUY</b>	SGD 1.93	SGD 1.820	6.0%	11.6%	1.18	30.5	5.3	5.5
Frasers Centrepont Trust	Meenal Kumar	<b>BUY</b>	SGD 1.50	SGD 1.370	9.5%	15.4%	1.13	29.7	5.9	6.1
LMIR Trust	Meenal Kumar	<b>BUY</b>	SGD 0.59	SGD 0.490	20.4%	31.4%	0.59	10.5	10.5	11.0
Mapletree Logistics Trust	Meenal Kumar	<b>BUY</b>	SGD 0.91	SGD 0.790	15.2%	23.2%	0.93	36.7	7.8	8.0
Suntec REIT	Meenal Kumar	<b>BUY</b>	SGD 1.44	SGD 1.330	8.3%	15.2%	0.75	33.3	7.2	7.0

*Note: After completion of planned acquisitions, MLT leverage likely <40%*

Source: OIR estimates

**Why Ascott Residence Trust?** We expect a pick-up in RevPAU in three of ART's major markets - Singapore, China and Australia - this year itself. ART is likely to enjoy strong earnings recovery over 2010 and 2011 on the back of increasing business confidence and a revival of corporate travel. The recent acquisitions announced by peer CDREIT indicates scope for distressed or at least stressed acquisitions in the hospitality space. With the easing of credit conditions and the re-rating of equity markets versus a year ago, we believe ART could make an accretive purchase using a combination of both debt and equity (potentially improving free float).

**Why Suntec REIT?** Suntec has a compelling story - its retail portfolio has been consistently under-appreciated by the market, in our view, considering the opening of two new Circle Line MRT stations at *Suntec City Mall* and the revitalization of the Marina Bay area. These events could be a catalyst for traffic to the mall. Negative office rent reversions are possible in 2010, impacting distributable income - but this risk has been priced into current valuations, in our opinion. In fact, we believe sentiment towards office REITs may tilt positive over 2010 on increasing leasing activity, active supply management by office landlords (with older buildings converted for residential use), and a slowing rate of decline in office rents.

**SHAREHOLDING DECLARATION:**

Meenal Kumar's immediate family owns units in:

- Ascott Residence Trust
- Ascendas India Trust
- Indiabulls Properties Invt Trust
- Fortune REIT
- Mapletree Logistics Trust
- AIMS AMP Cap Industrial REIT
- Saizen REIT

**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.

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