

12 May 2010

Neutral

Previous Rating: Overweight



S-REITS

1Q10 results review; downgrade sector to NEUTRAL

1Q CY2010 results review. Four out of the eight S-REITs under our coverage reported earnings in line with our estimates. **CapitaCommercial Trust** (CCT) and **Frasers Centrepoint Trust** (FCT) beat our DPU estimates by 7.8% and 6.7% respectively. CCT benefited from positive rent reversions and lower property tax that drove a 11% YoY increase in net property income. FCT, meanwhile, beat our estimates (and the manager's own guidance) on the back of a strong performance from Northpoint post asset enhancement works. Conversely, **A-REIT** and **LMIR Trust** missed our earnings expectations for 1Q CY10; with A-REIT missing our DPU estimates because of one-off upfront fees for loans. As a gauge, in 4Q CY09 five REITs reported results in line, three above our expectations and none below.

Guidance was 'cautiously optimistic', and growth-oriented. Several managers indicated an intention to optimize yield and grow the portfolio both organically (asset enhancement initiatives, including **CapitaMall Trust** (CMT) and **Ascott Residence Trust** (ART)) and inorganically (acquisitions, including **Mapletree Logistics Trust** (MLT)). With this focus on growth, we believe S-REIT's balance sheet capacity and ability to raise capital will remain key valuation differentiators. It may also be the first time the relatively young S-REIT sector will see REITs refresh their portfolios through divestments and re-developments in a big way (**Cambridge Industrial Trust** [NOT RATED] has been leading the pack as it de-leverages its balance sheet). Another price differentiator, in our opinion, will be the manager's skill in optimizing yield through asset works: CMT and FCT, for instance, have a proven track record in this area in our view.

Volatility in the near term. Year-to-date performance of the S-REIT index is slightly negative (-0.7%) at 613.58 points. The recent volatility in the market has led to ~100 basis point movements in yields - we think this volatility will continue as macro-economic concerns, this time in Europe, take a front seat again. In our view, investors may consequently ascribe a higher risk premium (that is, higher yields and lower price-to-book ratios) to the S-REIT sector in the near-term. Nonetheless, we see selective opportunities to pick up strong REITs at attractive valuations (on a longer time horizon), after careful scrutiny of return versus risk. In an uncertain environment, we prefer REITs with a strong earnings outlook and strong balance sheets. We tilt slightly defensive in our top picks and favor FCT, MLT and ART with estimated total returns of 19%, 19.8%, and 21.7% respectively. Downgrade broader sector to **NEUTRAL** on a more cautious view.

S-REIT	Analyst	Rating	Fair Value (\$)	Current Px (\$)
A-REIT	Foo	HOLD	1.85	1.880
AscottREIT	Kumar	BUY	1.32	1.150
CCT	Foo	BUY	1.26	1.160
CMT	Foo	HOLD	1.93	1.930
FrasersCT	Kumar	BUY	1.50	1.330
LMIR Trust	Kumar	BUY	0.55	0.485
MapletreeLog	Kumar	BUY	0.93	0.830
Suntec REIT	Kumar	BUY	1.44	1.300

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Exhibit 1: 1Q CY2010 earnings review

	Vs OIR	1Q CY2010 DPU (S cents)			OIR
	Expectations	OIR Est	Actual	% Var	Comments
A-REIT	Below	3.32	2.73	-17.8%	Due to one-off upfront fees for loans
Ascott Residence Trust	In line	1.87	1.66	-11.2%	DPU below estimate due to one-off variances in the tax line
CapitaCommercial Trust	Above	1.79	1.93	7.8%	Positive rent reversions and lower property tax drove a 11% YoY increase in NPI
CapitaMall Trust	In line	2.32	2.23	-3.9%	Lower-than-expected DPU was due to the retention of distribution
Frasers Centrepoint Trust	Above	1.93	2.06	6.7%	Strong performance of <i>Northpoint</i> post AEI
LMIR Trust	Below	1.26	1.20	-4.8%	Retail mall occupancy fell due to expiry of rental guarantees
Mapletree Logistics Trust	In line	1.55	1.50	-3.2%	We had assumed earlier completion dates for two acquisitions
Suntec REIT	In line	2.59	2.51	-3.0%	Revenue and distributable profit within 3% of our estimates.

Note: Part of FrasersCT DPU paid out mid-way through 1Q10 because of placement during the quarter.

Source: OIR estimates

Four out of eight S-REITs under our coverage reported 1Q CY2010 earnings in line with our expectations.

Exhibit 2: Asset enhancement & acquisition plans

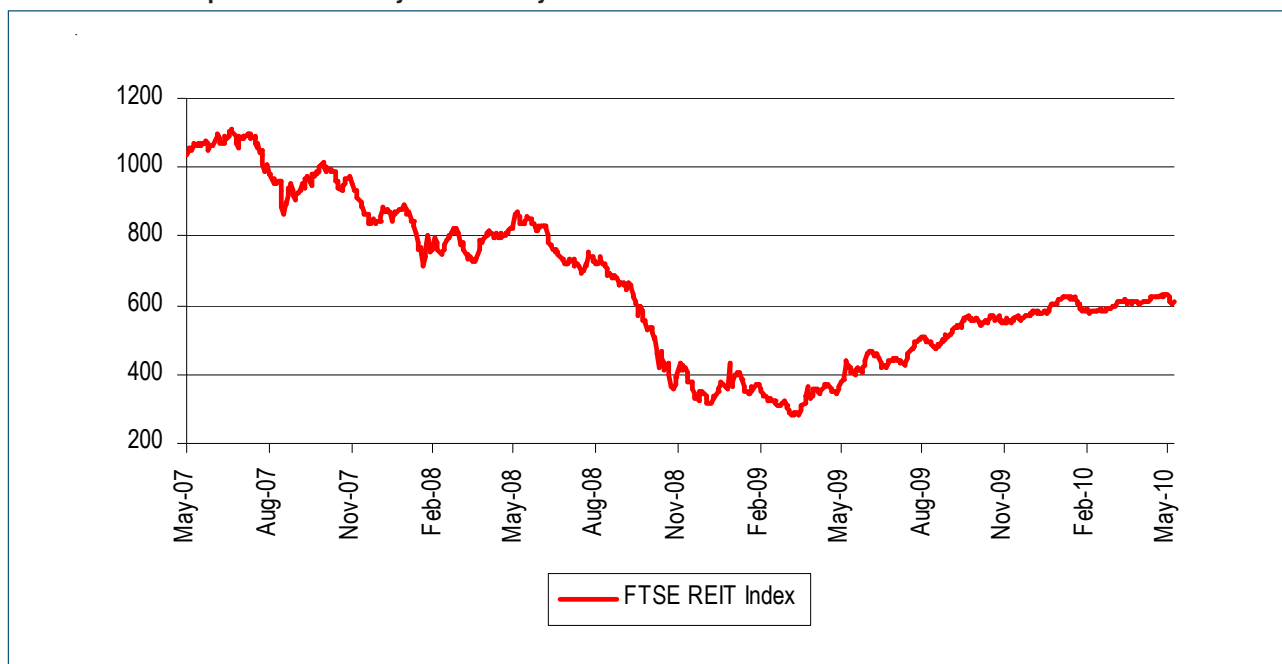
	Asset enhancement plans	N/T plans to acquire	Others
A-REIT	✓ 1 Senoko Avenue and 10 Toh Guan Road	-	Development program ongoing
Ascott Residence Trust	✓ Assets in Singapore (ongoing) & Vietnam	✓ Looking for yield-accretive acquisitions	Asset divestments
CapitaCommercial Trust	✓ Raffles City basement (ongoing)	-	Asset review of <i>Starhub Centre</i>
CapitaMall Trust	✓ Raffles City basement and Jurong Entertainment Centre (ongoing)	-	
Frasers Centrepoint Trust	✓ Causeway Point	-	Pipeline asset <i>Bedok Point</i> on track to receive TOP by 2H CY10. In our view, ready for acquisition as early as mid-2011
LMIR Trust	✓ Plaza Semanggi (ongoing)	✓ Looking for yield-accretive acquisitions	
Mapletree Logistics Trust	-	✓ S\$300m worth of assets in sponsor-pipeline are at or nearing completion	Plans to enter BTS space
Suntec REIT	✓ Works linking entrance of Promenade MRT station to <i>Suntec City Mall</i> nearing completion (ongoing)	-	

Source: S-REITs, OIR

Several managers discussed asset enhancement and acquisition plans. S\$300m worth of assets in Mapletree Logistics Trust's sponsor pipeline are at or nearing completion and the manager indicated that we could expect more acquisition announcements in the coming months. MLT's aggregate leverage stands at 38.6% debt-to-assets versus a medium-term target of around 45%. Frasers Centrepoint Trust, meanwhile, is already focused on its proposed *Causeway Point* AEI, and we understand plans may be released soon. We believe this is a great opportunity to maximize returns from FCT's portfolio, both to refresh the mall and also to optimize income.

Asset works are already ongoing at Ascott Residence Trust, and ART's manager noted it was also considering asset divestments and yield accretive acquisitions. CapitaCommercial Trust said the development plan for *StarHub Centre* is still pending government approval. We believe the most likely outcome of the asset review would be a divestment of the asset for redevelopment into a condominium.

Exhibit 3: S-REIT performance May 2007 to May 2010



Source: Bloomberg

The FTSE S-REIT index is up 119% from its March 2009 low of 279.74 points. To put this gain in perspective, the sector is still 81% shy of its June 2007 high of 1,110.29 points. Year-to-date performance has been slightly negative - the sector is down 0.7% from 31 Dec 2009 - outperforming the Straits Times Index's 1.4% decline YTD.

Exhibit 4: Sector valuations snapshot

	Bloomberg Ticker	Last Price	Cmcy	Market Cap (in \$m)	Cons FY-1 DPU (in \$)	Cons FY-2 DPU (in \$)	FY-1 Yield (%)	FY-2 Yield (%)	Leverage ratio (%)	Book value per unit (in S\$)	Price-to-book (x)
Office											
Frasers Commercial Trust	FCOT SP	0.140	SGD	429.5	0.010	0.011	7.1	7.9	40.1	0.27	0.52
CapitaCommercial Trust*	CCT SP	1.160	SGD	3,270.0	0.072	0.073	6.2	6.3	33.8	1.37	0.85
K-REIT Asia	KREIT SP	1.070	SGD	1,434.5	0.068	0.068	6.4	6.4	25.2	1.47	0.73
Suntec REIT*	SUN SP	1.300	SGD	2,346.8	0.095	0.093	7.3	7.1	33.4	1.77	0.73
Office Average							6.8	6.9	33.1	1.22	0.71
Retail											
CapitaMall Trust*	CT SP	1.930	SGD	6,140.4	0.097	0.010	5.0	0.5	34.7	1.54	1.25
Frasers Centerpoint Trust*	FCT SP	1.330	SGD	1,020.0	0.083	0.085	6.2	6.4	31.4	1.23	1.08
Starhill Global REIT	SGREIT SP	0.560	SGD	1,083.7	0.039	0.039	7.0	7.0	29.3	0.81	0.69
Retail Average							6.1	4.6	31.8	1.19	1.01
Healthcare											
Parkway Life REIT	PREIT SP	1.340	SGD	809.7	0.084	0.087	6.3	6.5	28.2	1.37	0.98
Healthcare Average							6.3	6.5	28.2	1.37	0.98
Hospitality											
Ascott Residence Trust*	ART SP	1.150	SGD	710.7	0.074	0.079	6.5	6.9	42.1	1.32	0.87
CDL Hospitality REIT	CDREIT SP	1.950	SGD	1,635.3	0.106	0.117	5.4	6.0	30.9	1.41	1.38
Hospitality Average							6.0	6.4	36.5	1.36	1.13
Industrial											
Ascendas REIT*	AREIT SP	1.880	SGD	3,517.8	0.138	0.145	7.3	7.7	31.6	1.58	1.19
Cambridge Industrial Trust	CREIT SP	0.495	SGD	430.7	0.050	0.050	10.1	10.1	42.6	0.59	0.83
AIMS AMP Capital Indus REIT	AAREIT SP	0.215	SGD	315.3	0.050	0.020	23.3	9.3	28.9	0.31	0.69
Mapletree Logistics Trust*	MLT SP	0.830	SGD	1,705.1	0.064	0.064	7.7	7.7	38.6	0.87	0.96
Cache Logistics Trust	CACHE SP	0.960	SGD	606.9	0.050	0.090	5.2	9.4	25.9	0.87	1.10
Industrial Average							10.7	8.8	33.5	0.84	0.96
Overseas											
Ascendas India Trust	AIT SP	0.985	SGD	751.0	0.076	0.085	7.7	8.6	19.0	0.90	1.09
CapitaRetail China Trust	CRCT SP	1.220	SGD	760.7	0.081	0.081	6.6	6.6	33.8	1.07	1.14
First REIT	FIRT SP	0.835	SGD	230.4	NA	NA	NA	NA	15.7	0.98	0.85
Fortune REIT (in HK\$)	FRT SP	3.600	HKD	5,990.2	0.240	0.250	6.7	6.9	23.7	5.19	0.69
Lippo-Mapletree Indonesia*	LMRT SP	0.485	SGD	522.9	0.050	0.052	10.3	10.7	10.2	0.84	0.58
Saizen REIT	SZREIT SP	0.165	SGD	157.2	NA	NA	NA	NA	43.5	0.40	0.41
Overseas Average							7.8	8.2	24.3	1.56	0.79
S-REITs Average							7.8	7.3	30.6	1.25	0.89

* DPU and Yields are based on OIR estimates

After funding for acquisition of DBS Asia Hub, AREIT's leverage will rise to 34%

Updated as at 11 May

Source: Bloomberg, OIR and consensus estimates

The broader S-REIT sector is trading at an average forward yield of 7.8%. It trades, on average, at 0.89x book. Our top picks are Frasers Centrepoint Trust, Mapletree Logistics Trust, and Ascott Residence Trust.

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	HOLD	SGD 1.85	SGD 1.880	-1.6%	5.7%	1.19	31.6	7.3	7.7
Ascott Residence Trust	Meenal Kumar	BUY	SGD 1.32	SGD 1.150	14.8%	21.7%	0.87	42.1	6.5	6.9
CapitaCommercial Trust	Foo Sze Ming	BUY	SGD 1.26	SGD 1.160	8.6%	14.9%	0.85	33.8	6.2	6.3
CapitaMall Trust	Foo Sze Ming	HOLD	SGD 1.93	SGD 1.930	0.0%	5.2%	1.25	34.7	5.0	5.2
Frasers Centrepoint Trust	Meenal Kumar	BUY	SGD 1.50	SGD 1.330	12.8%	19.0%	1.08	31.4	6.2	6.4
LMIR Trust	Meenal Kumar	BUY	SGD 0.55	SGD 0.485	13.4%	24.1%	0.58	10.2	10.3	10.7
Mapletree Logistics Trust	Meenal Kumar	BUY	SGD 0.93	SGD 0.830	12.0%	19.8%	0.96	38.6	7.7	7.7
Suntec REIT	Meenal Kumar	BUY	SGD 1.44	SGD 1.300	10.8%	17.9%	0.73	33.4	7.3	7.1
Average					8.9%	16.0%	0.94	32.0	7.1	7.2

After funding for acquisition of DBS Asia Hub, AREIT's leverage will rise to 34%

Source: OIR estimates

SHAREHOLDING DECLARATION:

Meenal Kumar's immediate family owns units in:

- Ascott Residence Trust
- Ascendas India Trust
- Indiabulls Properties Invt 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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