Perennial Real Estate Holdings

Recently Completed RTO @ 0.57x RNAV

SINGAPORE | REAL ESTATE | INITIATING COVERAGE

4 February 2015

- 0.57x RNAV, trading below peer First Sponsor.
- Owner of CHIJMES, Capitol Singapore etc.
- PRC real estate have great connectivity.
- Helmed by veteran Pua Seck Guan.
- Initiate Coverage. **"Buy"** Rating.

Company Background

Perennial Real Estate Holdings ("PREH") was founded in 2012 by Mr. Kuok Khoon Hong and Mr. Pua Seck Guan, but its history dates back earlier to 2009, when Mr. Pua first begun with Perennial Real Estate Pte Ltd which subsequently sponsored the IPO of Perennial China Retail Trust ("PCRT") in 2011. Mr. Pua himself has over 20 years of real estate experience and was previously the CEO of CapitaLand Retail (now known as CapitaMalls Asia, which was recently taken private) from 2004 to 2008, CEO of CapitaLand Financial also from 2004 to 2008, and CEO of CapitaMall Trust Management from 2002 to 2008. In the last few months, PREH has completed the reverse takeover of St. James Holdings, and privatised its associate PCRT. Today, PREH is a property company with $1.3b market cap, rising to $1.7b upon acquisition of the 30.0% and 23.3% interests in Beijing Tongzhou Phase 1 and 2 respectively.

We think that PREH is severely underappreciated by the market, and perhaps overly penalized for its PRC exposure which comprises of 1) development properties in Beijing, Chengdu, Xi'an, Zhuhai and 2) completed properties in Shenyang, Foshan, Chengdu. Even then, the smaller PRC-only peer First Sponsor trades at a higher 0.60x RNAV. Investors might have also overlooked its substantial Singapore portfolio, which we conservatively value at $1.1b Gross Development Value ("GDV") using reasonable inputs as stated below.

Although overall sentiments on PRC real estate are mixed, and more on the bearish side, outlook does differ from city to city, and even within the sub-sector itself (retail, office, residential, hospitality). PREH's constant focus on good locations with great connectivity (readily accessible via HSR or metro lines), integrated developments that diversify its exposure to any single sub-sector + increase overall appeal + long-term investment holding horizon on at least 50% gross floor area ("GFA"), should shield it from short-term volatility.

Not only are its PRC developments valued using realistic assumptions, they are presently fully equity funded. Implication: overcapitalized balance sheet with an opportunity to lever up to take on more projects, and credit tightening should have little impact on its day-to-day.

Lastly, around 70% of the shares would be held by reputable names after all acquisitions close: Mr. Kuok, Mr. Ron Sim (founder of OSIM), Mr. Pua, and Wilmar. It's hard to ask for a better all-star team whose interest is more well-aligned to minority shareholders than this.

Investment Merits

- Attractive valuations of 0.57x RNAV, lower than smaller SGX-listed First Sponsor.
- SG real estate underpinned by iconic properties, ie. CHIJMES, Capitol Singapore.
- PRC real estate primarily well-located, and developments are self-funding.
- Capable management with high insider ownership of 70% shareholdings.

Investment Actions

We initiate coverage on PREH with **"Buy"** rating and **P/RNAV-derived TP of $1.28**.

BUY (Initiation)

CLOSING PRICE	SGD 1.040
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 1.280
TOTAL RETURN	23.1%

COMPANY DATA

O/S SHARES (MN) :	1,265
MARKET CAP (USD/ SGD mn) :	972 / 1,316
52 - WK HI/LO (USD) :	3.85 / 1.03
3M Average Daily T/O (mn) :	0.73

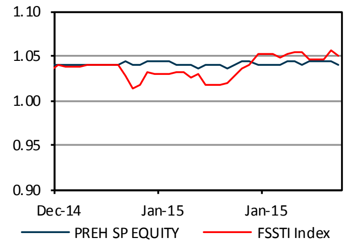
MAJOR SHAREHOLDERS (%)

KUOK KHOON HONG	35.1%
RON SIM CHYE HOCK	12.2%
PUA SECK GUAN	8.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.5	N.A.	N.A.
STI RETURN	1.6	N.A.	N.A.

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD	Pro Forma 31/12/2013
Investment Properties ($m)	1,943
Development Properties ($m)	400
Associates & JVs ($m)	1,432
Bank Borrowings ($m)	1,381
Attributable Equity ($m)	1,888
Book Value Per Share	1.53

Source: Company Data, PSR est.

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Investment Thesis

PREH currently consists of 3 main segments:

1) Singapore – investment properties that would generate recurring rental revenues;
2) China – development properties that are either located at key transport nodes (integrated with High-Speed Railways), or at tier 1-2 cities (Beijing Tongzhou, Chengdu).
3) China – completed properties (previously held under PCRT) that are mostly earning substantially below-market rents, now undergoing repositioning and rental reversions;

As seen below, we derived $1.83/share RNAV based on our calculations, which we think is reasonable and still offers plenty room for upside. For instance, we valued the 157-room luxury boutique hotel of Capitol Singapore at $930,000 per key on a capitalisation-of-income approach, even though Westin Hotel (in the same category) had recently transacted at a higher $1.53m per key. This difference alone works out to $94.3m, and its 50% attributable interest would have otherwise added 3-cent to per share RNAV.

SINGAPORE REAL ESTATE	Effective Interest (%)	NLA (sqft)	Tenure (Years)	Leasehold as % of Freehold Value	Cap Rate	Attributable Valuation
1 CHIJMES	51.61%	112,100	75	88.5%	4.8%	SGD 138,244,068
2 TripleOne Somerset	50.20%	564,774	59	79.5%	4.0-5.0%	SGD 437,939,390
3 Capitol Singapore (U/C)	50.00%	131,202	95	95.6%	4.8%	SGD 213,782,122
		157 rooms	95	95.6%	4.6%	SGD 72,950,706
		129,296	95	*For-Sale*	---	SGD 175,978,939
4 House of Tan Yeok Nee	50.00%	22,637	Freehold	---	N.A.	SGD 37,100,000
5 Chinatown Point	1.47%	212,328	64	---	N.A.	SGD 6,240,150
6 112 Katong	1.46%	207,161	63	---	N.A.	SGD 6,409,400
						SGD 1,088,644,776
				Req. CapEx for Completion:		(SGD 123,600,000)

CHINA REAL ESTATE	Effective Interest (%)	GFA (sqm) excl carpark	Saleable GFA (sqm)	Investment Holding GFA (sqm)	Cap Rate	Attributable Valuation (Net Sale Proceeds + Inv Ppty)
Development Properties:						
1 Beijing Tongzhou Devt Phase 1	40.00%	326,087	163,043	163,043	5.8-6.0%	CNY 4,574,173,428
2 Beijing Tongzhou Devt Phase 2	23.30%	290,784	145,392	145,392	5.8-6.0%	CNY 2,330,587,556
3 Chengdu East HSR Devt Plot C & D	50.00%	758,082	400,409	357,674	6.2-6.6%	CNY 5,041,972,892
4 Perennial Dongzhan Mall, Chengdu	80.00%	280,000	NIL	280,000	6.6%	CNY 2,884,000,000
5 Xi'an North HSR Devt Plot 4 & 5	51.00%	641,026	345,596	295,429	6.6-7.2%	CNY 3,898,714,291
6 Zhuhai Henqin Integrated Devt	20.00%	140,282	70,141	70,141	6.2-6.6%	CNY 769,902,928
						CNY 19,499,351,095
				Req. CapEx for Completion:		(CNY 7,500,000,000)
Completed Properties:						
1 Shenyang Red Star Macalline Mall	50.00%	276,474	NIL	276,474	7.2%	CNY 409,955,157
2 Shenyang Longemont Shopping Mall	50.00%	327,789	NIL	327,789	7.2%	CNY 680,368,581
3 Shenyang Longemont Offices	50.00%	197,803	NIL	197,803	6.6%	CNY 1,144,834,750
4 Perennial Jihua Mall, Foshan	100.00%	66,064	NIL	66,064	7.2%	CNY 676,330,299
5 Perennial Qingyang Mall, Chengdu	100.00%	90,000	NIL	90,000	6.6%	CNY 941,142,315
						CNY 3,852,631,102
				GDV lest CapEx =		SGD 4,388,799,030
				Net Cash/ (Debt) =		(SGD 1,362,300,000)
				Fully Diluted Share Count =		1,654,965,437
				RNAV Per Share =		**SGD 1.83**

Source: Company, PSR

SINGAPORE

CHIJMES

CHIJMES is a 99-year leasehold property (commencing 1991) located within Singapore's Civic District, and was once the Convent of the Holy Infant Jesus, established in 1854. Two historic buildings located within CHIJMES, namely the Old Convent of the Holy Infant Jesus Chapel, and Caldwell House, were gazetted as National Monuments in 1990.

Today, CHIJMES is a retail, dining, entertainment and cultural destination located directly opposite Raffles City, and accessible on foot via City Hall MRT Station. Its prime location is further complemented by retail offerings at Raffles City, Raffles Hotel, Funan DigitaLife Mall, and the upcoming Capitol Singapore to be completed in early 2015.

PREH acquired this property from Suntec REIT in 2011 for $177m in partnership with SGX-listed Breadtalk Group, Mrs Gloria Lee's family office and Mr. Ronald Ooi, mother and son who founded Kim Eng Group in 1972 before they sold it to Maybank. Back then, CHIJMES had a net lettable area ("NLA") of 79,794 sqft, which has since increased 40.5% to 112,100 sqft after completion of asset enhancement initiatives ("AEI") by PREH.

In our valuation model, we considered $15 psf per month (psfpm) passing rent, 95% occupancy, 75% net property income ("NPI") margins, and 4.75% capitalisation rate for an unique asset (in comparison, CapitaMall Trust valued its Raffles City Singapore retail component at 5.25% capitalisation rate). Given that CHIJMES has 75 years lease remaining, we also discounted its value by 11.5% compared to if it had been freehold.

On a 100% basis, this values CHIJMES at $267.9m, which works out to 20% discount to the $335m gross development value ("GDV") stated in its circular. Much of this difference could be attributable to future rental increases that have yet to materialize, and hence we have excluded. **PREH's 51.61% interest in CHIJMES amounts to $138.2m.**

TripleOne Somerset

TripleOne Somerset is a 99-year leasehold property (commencing 1975) formerly known as Singapore Power Building until Pacific Star's AREIF acquired it in 2008 for $1.01b, then invested an additional $50m sprucing up the building and converting the first two floors into retail. PREH acquired it from AREIF in 2013 for a lesser $970m, significantly below initial estimates of $1.2b, and in partnership with Mrs Gloria Lee's family office and Mr. Ronald Ooi, and SGX-listed Boustead Singapore, Breadtalk Group and SingHaiyi Group.

Today, TripleOne Somerset is a 17-storey commercial building comprising 494,522 sqft NLA office and 70,252 sqft NLA retail, and sited at the junction of Somerset Road and Grange Road. Its less-than-ideal location, away from the main Orchard Road shopping belt, puts its 2-storey retail space at a slight disadvantage, although that is offset by foot traffic from the office crowd above and around (eg. Singtel Comcentre). Meanwhile, in the immediate vicinity are 3 shopping malls completed in recent years – 313 Somerset, Orchard Central, and Orchard Gateway, while directly across TripleOne Somerset are Pan Pacific Serviced Suites and *Scape. We think there is already a critical mass of retail offerings in the area. Future development of open-air carpark beside Pan Pacific Serviced Suites, and/or vacant land next to TripleOne Somerset, would further enhance its value.

PREH has applied to relevant authorities for approval to initiate AEI at TripleOne Somerset, at an estimated cost of $150m that would, in addition to other works, possibly convert the third and fourth floor into retail space as well. Upon completion in 2017, TripleOne Somerset would have a GDV of $1.4b, translating to NAV increase of $267m.

In our valuation model, we temporarily excluded any NAV increase attributable to AEI pending more certainty. At the same time, we separately considered $9 | $13 psfpm passing rent, 90% | 95% occupancy, 80% | 65% NPI margins, and 4% | 5% capitalisation rates for office and retail respectively. TripleOne Somerset has 59 years lease remaining, hence we also discounted the property by 20.5% compared to if it had been freehold.

On a 100% basis, TripleOne Somerset is valued at $872.4m, which actually works out to 90% of its $970m purchase price. Again, this could be due to differing assumptions from those used by the independent valuer, although we are comfortable with the inputs we have utilised. **PREH's 50.20% interest in TripleOne Somerset amounts to $437.9m.**

Capitol Singapore

Capitol Singapore is a 99-year leasehold property (commencing 2011) at the heart of Singapore's Civic District and surrounded by historic landmarks. Located at the junction of North Bridge Road and Stamford Road, it was first completed in 1933 and listed for preservation in 1983 by Urban Redevelopment Authority ("URA"), before the tender was awarded in 2010 to a PREH-led consortium to construct, and restore the iconic building.

A mixed-use development, Capitol Singapore is scheduled for completion in early 2015 and comprises a new 15-storey building accommodating a 4-storey retail podium below (Capitol Piazza), luxury apartments (Eden Residences) above, while a luxury boutique hotel (The Patina) and heritage retail arcade are housed in the restored Capitol Building and Stamford House. In addition, Capitol Theatre will be conserved, refurbished and furnished with state-of-the-art systems that will allow customised seating configuration.

Capitol Piazza
131,202 sqft NLA retail space would be available, consisting of four floors in a new building (two basement levels, two above-ground levels) and directly connected to City Hall MRT station, while level one of Capitol Building would be refurbished as a retail arcade with heritage street-front shops and a sheltered pedestrian mall. Capitol Piazza could possibly command similar rental rates and occupancies as nearby Raffles City.

Eden Residences
Residents of the 39 ultra-luxurious apartments, spanning 10 levels and totalling 129,296 sqft saleable area, would enjoy views of Marina Bay, and bespoke concierge and personal services provided by The Patina. At least 15 apartments have been sold at an average $3,009 psf amidst minimal publicity, for proceeds in excess of $100m. We acknowledge the local residential market is soft now, but remain confident that remaining units can similarly fetch $3,000 psf or more given the prime location and lack of alternatives in the vicinity. 190-unit South Beach Residences, just 1 street away, toyed with the idea of $4,000 psf, which in turn provides pricing support for Eden Residences.

The Patina
The 157-room luxury boutique hotel will be managed by Pontiac Land Group, led by the Kwee family who also owns Ritz-Carlton, Regent, and Capella Hotel in Singapore.

In our valuation model, we assumed $21.85 psfpm passing rent | 95% occupancy | 65% NPI margin | 4.75% capitalisation rate for Capitol Piazza, and $403.92 revenue per available room ("RevPar") | 30% NPI margin | 4.55% capitalisation rate for The Patina.

On a 100% basis, together with after-tax proceeds from Eden Residences in the fully-sold scenario, values Capitol Singapore at $925.4m, 18% below stated GDV. The difference could be partly attributable to how The Patina is accounted, which is likely worth more on per key basis. **PREH's 50.00% interest in Capitol Singapore amounts to $462.7m.**

House of Tan Yeok Nee
Chinatown Point
112 Katong

PREH also owns 50.00% interest in House of Tan Yeok Nee, 1.47% interest in Chinatown Point, and 1.46% interest in 112 Katong. As their combined valuations do not move the overall needle, and capital values appear reasonable relative to peers, we chose to use their attributable valuations provided by PREH at face value, **which amounts to <u>$49.7m</u>.**

CHINA – DEVELOPMENT PROPERTIES

Many of the development opportunities arose from Mr. Pua and Mr. Kuok's vast network in China, and the different proposition PREH has to offer: unlike many mainland developers, PREH only intends to sell up to 50% of the property (proceeds recycled to fund the development till completion), and the rest held on as investment property to earn recurring rental revenue. Its majority ownership ensures ongoing and timely maintenance of the property, which is a huge concern for property buyers in China.

Meanwhile, PREH can leverage on Mr. Pua's decades of real estate experience to position the property for maximum value creation. Not only is PREH awarded state tenders, but also generate respectable 50% gross margins (compared to 10% locally). In total, PREH has fractional or full interest in 13 properties. For the sake of simplicity, we would present the two plots of land at Chengdu East as one; same for Xi'an and Beijing.

Our preferred methodology to value development properties is to first derive the GDV, based on summing up after-tax sale proceeds and valuation of the "investment property" portion, then subtract the attributable capex to arrive at the residual value. Given that most developments are scheduled for completion for 2016 (except for Beijing Tongzhou Phase 1 and 2), and a fellow analyst was flown there for a site visit (previously reported here), we are of the opinion that execution risk is likely to be manageable.

For some brief background on China real estate cost structure, there is 5.6% Business Tax levied on gross sale proceeds, 30-60% tiered Land Appreciation Tax ("LAT") applied on the difference between sales and 120% allocated cost, and 25% Corporate Income Tax. We have fully factored these variables into our valuation model. Attributable capex necessary to complete the development properties is tougher to estimate, as they were injected into PREH at valuation rather than cost, but we managed to nail down the lump sum of CNY 6.5b by subtracting residual land valuation and deferred taxes from GDV.

Finally, we referenced capitalisation rates from reputable listed property companies, ie. Wharf Holdings (HKD 187b market cap) and Hui Xian REIT (CNY 18.4b market cap), to ensure that our property valuations are in line with the market and peers in general, and NPI margin of 70% (retail) and 85% (office) is also in line with what we have observed.

At this point in time, only 10.00% stake in Beijing Tongzhou Phase 1 has been injected into PREH, as part of the takeover of PCRT. Another 30.00% interest in Beijing Tongzhou Phase 1, and 23.30% interest in Phase 2, are waiting to be injected into PREH pending the obtaining of Land Use Rights Certificates from PRC government. Long-Stop Date for this acquisition is 6 months after St. James EGM, ie. 10 April 2015, failing which the agreements will lapse and terms need to be renegotiated. We have brought up this technicality with PREH, who clarified that the 6 months deadline was stipulated by SGX, not sellers. If the agreements do lapse, PREH has reassured that the sellers, ie. Mr. Kuok, Mr. Sim, and Mr. Pua, will agree to reinstate the acquisition on essentially same terms.

Beijing Tongzhou Integrated Development Phase 1 & 2

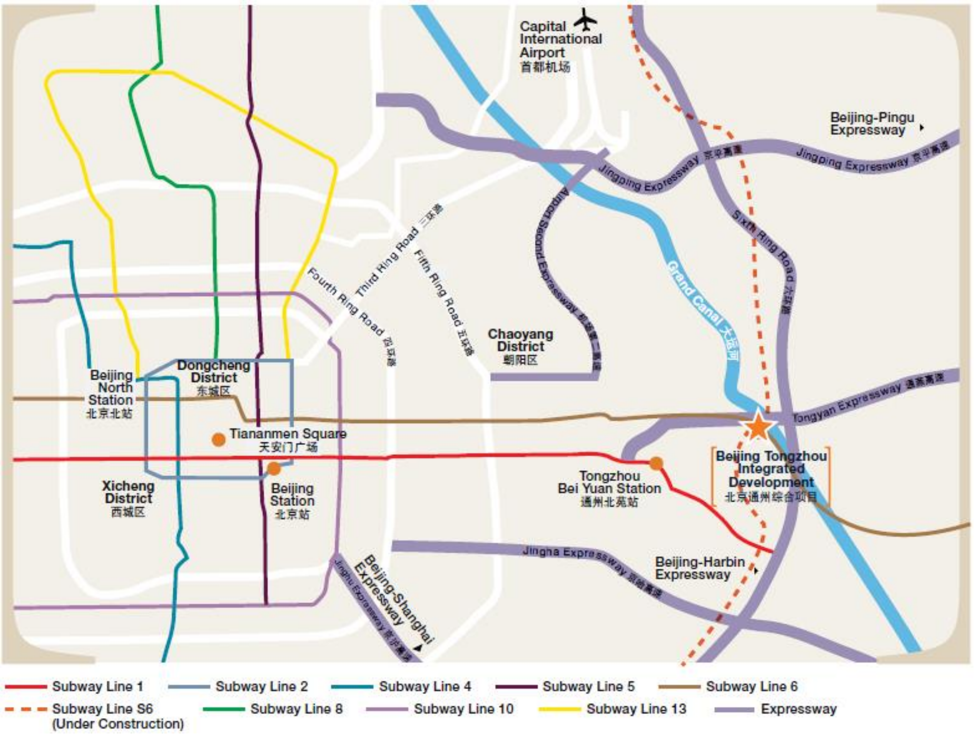
Beijing Property Market Snapshot
Beijing is a city that needs little introduction: the capital of China, and home to the central government, most financial institutions, SOEs and MNCs. Its GDP growth has mirrored China's own GDP growth, powering ahead at 7.7% in 2013 and amounts to CNY 1,950b. At CNY 40,321 per capita disposable income, Beijing is one of the most affluent cities in China, clocking CNY 838b "Total Retail Sales of Consumer Goods", up 8.7% y-o-y.

We understand that Beijing's Dongcheng District and Xicheng District in downtown area are landlocked and all new developments within Fourth Ring Road have been halted to avoid worsening congestion. As such, it instead directed the development of Chaoyang and Tongzhou, the latter first mentioned in Beijing Urban Master Plan (2004-2020) and is to be positioned as secondary centre to perform certain important functions such as administration, finance, business and residential. Infrastructure are currently in place to support the many new developments that have sprung up, such as Metro Line M6.

Beijing's retail space increased substantially after the 2008 Olympic Games, reaching 7.3 million sqm as of June 2014, while overall vacancy is a comfortable 13%. Current outlook remains stable, given that new supply is geographically spread out and not in direct competition with each other, whereas robust consumption underpinned rents ranging from CNY 500 psmpm in non-core retail areas to CNY 1,900 psmpm in prime downtown.

Meanwhile, Grade A office stock is 7 million sqm, with most new supply located in CBD, Wangjing and Zhongguancun near city centre. Rental rates have also more than doubled since 2006 to CNY 300 psmpm, due to strong demand uptake of net 1.2 million sqm per annum in 2010 and 2011 and low vacancy rates, while ASP averaged CNY 64,000 psm.

Finally, first-hand residential transaction was up 95% q-o-q in Q4 2014 to 4 million sqm, partly bolstered by lower benchmarks rates and relaxation of restrictions on residential properties, particularly the recent requirement of 30-percent down payment for second homes, halving from the previous mandatory minimum of 60-percent down payment. High-end apartments launched in Q4 2014 are concentrated in the city centres and Chaoyang District, with pre-sale ASP ranging from CNY 56,000 psm to CNY 165,000 psm.



Beijing Tongzhou Integrated Development Phase 1 & 2

Phase 1 & 2 are waterfront developments adjacent to the Grand Canal in Tongzhou District, and a short 13km and 16km drive away from Beijing city centre and Beijing Capital Airport respectively. Both would be accessible in the future by subway lines R1 and S6. Comprising of a total of 6 plots, each phase would house a 5-storey retail podium and 3 office and apartment towers, arising to a combined GFA of 616,871 sqm. **We have assumed that PREH divests its residential component totalling 129,134 sqm GFA, and 179,301 sqm GFA retail space, while the rest held for long-term appreciation.**

In the immediate vicinity, Wanda Tongzhou Plaza has fully sold out its apartments at CNY 28,000 psm, while its strata retail area are priced at CNY 61,000 psm. In our opinion, Phase 1 & 2 should rightfully deserve a premium given its full frontage of Grand Canal River, as well as connection to subway lines M6, S6 and R1, but we prefer to err on caution given uncertainty and overall weak sentiments, using the same ASP as the basis of our valuation. On a 100% basis, net after-tax sales proceeds would total CNY 10.8b.

Although we are positive of Tongzhou's prospects, the area has yet to prove itself in terms of foot traffic and rental rates it can command relative to Beijing downtown. Huixian REIT's Beijing Oriental Plaza has CNY 1,035 psmpm passing rent, which most malls, especially those in Tongzhou, would find tough to replicate. After discussions with PREH, we agreed that the remaining unsold 109,625 sqm GFA retail space could possibly achieve CNY 311 psmpm, ie. 70% discount of that currently generated by Beijing Oriental Plaza. At 95% occupancy and 6.0% capitalisation rate, it would be valued at CNY 4.6b.

As for its 198,811 sqm GFA office space, we referenced public listings to arrive at CNY 180 psmpm rental rates, which appears to be reasonable when compared to the CNY 300 psmpm average observed earlier. At 90% occupancy and 5.8% capitalisation rate, the office area would be worth CNY 6.0b. On a 100% basis, Phase 1 and 2 would have a total combined valuation of CNY 21.4b, generally in line with the stated CNY 22.6b GDV.

PREH's 40.00% and 23.30% respective interest in Phase 1 & 2 amounts to CNY 6,905m.

Chengdu East High Speed Railway Integrated Development Plot C & D

Chengdu Property Market Snapshot

Chengdu is the capital city of Sichuan Province, and fourth most populous PRC city with 14m inhabitants as of 2012. Its GDP has grown by at least 10% rate annually between 2009 and 2013, ranging from 10.2% to 15.2%, and currently amounts to CNY 911b. Its rapid economic growth is historically driven by industries such as conferences, exhibitions, aerospace, and tourism etc. "Total Retail Sales of Consumer Goods" has also closely tracked GDP growth, increasing 92.5% in the same timeframe to CNY 375b.

By 2014, total retail space in Chengdu is expected to be more than 4 million sqm, although occupancy is still likely to remain high at 95% driven by demand from fast fashion, F&B, supermarket etc. Average retail rents have spiked upwards from 2011 to 2013, reaching CNY 800 psmpm, and show no signs of slowing down amidst continuous entry of international brands that should continue to drive up demand for retail space.

Meanwhile, supply in the office market exceeded demand. Annual absorption volume was 423,000 sqm in 2013, largely driven by relocation needs, even as 1 million sqm of office space is forecasted to enter the market in 2014 and 2015 each. Average office rents had last peaked at CNY 140 psmpm, and has since weakened to CNY 110 psmpm in lieu of the oversupply. As a result, overall vacancy rate for Grade A supply is a high 28%.

Lastly, Average Sales Price ("ASP") and transaction volume for residential real estate have both risen in 2012 and 2013. In fact, purchases have outpaced new supply every quarter since Q1 2013, helping to diminish stock and propel ASP to CNY 11,000 psm in prime areas, whereas high-end residential prices fetched a higher CNY 19,000 psm. In general, residential property buyers are on the sideline waiting for policy changes that relax house ownership rules, and price decline, which in turn weighed down sentiments.

Chengdu East HSR Development Plot C & D

Plot C & D will be located next to the Chengdu East HSR Station, a major transportation hub comprising inter-city railway, intra-city subway, long and short distance bus terminals, and taxi services. Its immediate surrounding area, Intercity Travel Business City, is designated as Chengdu's new CBD – 10km from existing CBD, and 25km from Chengdu Shuangliu International Airport. Plot C is a 522,000 sqm GFA development with 6-storey retail podium, two 60-storey office towers, and two 35-storey office towers. Plot D is similarly sized at 512,000 sqm GFA, consisting of 4-storey retail podium, and ten 35-storey office/apartment towers. **In our valuation model, we have assumed that PREH will sell the entire Plot D, and retain Plot C for investment holding purpose.**

Plot C comprises of 83,612 sqm GFA retail, and 274,062 sqm GFA office. Retail is still the bright spot in Chengdu, and we foresee that retail rents remain resilient given ongoing demand growth coming from both tenants and consumers. As such, assumptions we have adopted to value the retail component include 95% occupancy, 6.6% capitalisation rate, and CNY 167 psmpm passing rent when the retail mall begins to stabilise in 2017, the rent being 30% below Wharf Chengdu IFS. In light of the existing oversupply situation in Chengdu office market, we chose to discount current rents by 20% to obtain CNY 88 psmpm going forward, 6.2% capitalisation rate, and 79% occupancy. On a 100% basis, Plot C would be valued at CNY 5.4b GDV, below CNY 6.2b GDV stated in circular.

Plot D comprises of 113,341 sqm GFA retail, 233,185 sqm GFA office, and 53,883 sqm residential, and earmarked to be fully sold. If we apply CNY 23,000 psm, CNY 13,500 psm, and CNY 11,000 psm ASP respectively to retail, office, and residential (materially below high-end pricing), then deduct relevant taxes ie. Business, LAT, CIT, then net sales proceeds on 100% basis will total CNY 4.7b, significantly below the stated CNY 5.9b GDV.

PREH's 50.00% interest in Chengdu East HSR Plot C & D amounts to CNY 5,042m.

Perennial Dongzhan Mall, Chengdu

Perennial Dongzhan Mall is a 80%-owned development that was acquired together with the rest of the PCRT portfolio. It is scheduled to commence operations in end 2015, and strategically located next to the Chengdu East HSR too, directly across Plot C & D. As previously announced, anchor tenants such as cinema and ice-skating rink have already been secured, and a MOU signed with Yonghui Supermarket. At 280,000 sqm GFA retail area, this mall would be larger than the combined retail space of Plot C & D above.

Assumptions adopted are naturally in line with those of Plot C & D, namely 95% occupancy, 6.6% capitalisation rate, and CNY 167 psmpm passing rent, the rent being 30% below Wharf Chengdu IFS. However, that would value Dongzhan Mall at CNY 5.6b, a massive 57% higher than its stated GDV of CNY 3.6b. For the sake of prudence, and maintaining our conservative stance, we temporarily opted for the lower CNY 3.6b valuation. As Dongzhan Mall turns operational from end 2015 onwards, we would observe its performance and subsequently revise its valuation with the latest inputs.

PREH's 80.00% interest in Perennial Dongzhan Mall amounts to CNY 2,884m.

Xi'an North High Speed Railway Integrated Development Plot 4 & 5

Xi'an Property Market Snapshot

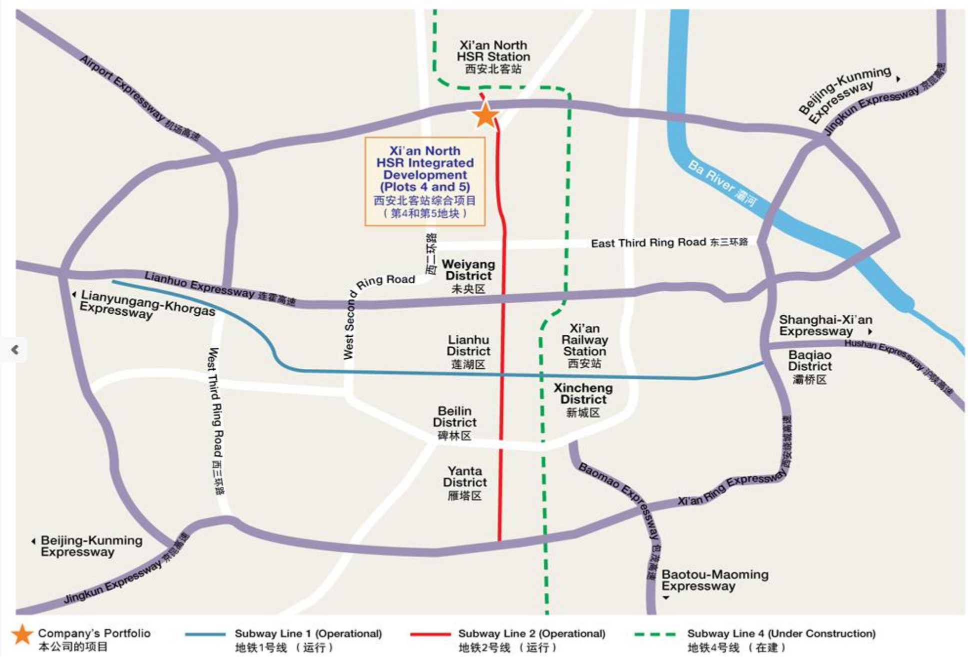
Xi'an is the capital city of Shaanxi Province, one of four ancient capitals of China with more than 3,000 years history. Akin to Chengdu, Xi'an has also experienced double-digit % GDP growth rate since 2009, ranging from 11.1% to 15.0%, and currently amounts to CNY 448b. Its rapid economic growth is mainly driven by equipment manufacturing and tourism, where Xi'an is well-known for the huge archaelogical discovery of Terracotta Army (兵马俑), near Emperor Qin Shi Huang's tomb. "Total Retail Sales of Consumer Goods" far outpaced GDP growth, increasing 84.5% in the same timeframe to CNY 255b.

Xi'an is uniquely positioned as a major retail hub in northwest China, and the market is dominated mostly by the big players in the form of department stores and street retail, including Parkson, Minsheng, Century Ginwa and Wanda. Demand continues to be robust as reflected by the strong retail sales growth of 84.5% in five years, and retail rents for prime floor spaces can reach a high of CNY 450-900 psmpm for Bell Tower area. That being said, retail space is expected to rise to projected 5.8 million sqm in 2016, up from 3.2 million sqm three years ago. It remains to be seen if the supply can be taken up.

Information on the Xi'an office market isn't as readily available, although we did learn that there is a lack of Grade A office supply in northern Xi'an, even as MNCs increased their local presence from a low base of 15%. As at end 2013, total office stock in Xi'an was shared between 0.6 million sqm Grade A, 1.4 million sqm Grade B. Overall vacancy rate is 21%, although certain clusters such as City Centre have achieved full occupancies.

Hospitality industry has been buoyant; 79m PRC citizens visited Xi'an in 2012, growing at 20% CAGR between 2008 and 2012. Average daily rates of five-star hotel is CNY 580/room/night, with 61% occupancy. Addition of 2,700 hotel rooms over the next three years will increase supply by 20%, possibly exerting some downward pressure on RevPar.

Lastly, residential ASP and transaction volume showed an upward trend since 2011, reaching CNY 7,300 psm and 12.2 million sqm respectively in 2013. In the downtown area, ASP is an even higher CNY 10,000 psm. It is speculated that limited land supply in the downtown will lead to demand spillover to other submarkets, providing a positive backdrop for residential prices to increase and gradually catch up with downtown ASP.



Xi’an North HSR Development Plot 4 & 5

Plot 4 & 5 will be located next to the Xi’an North HSR Station, the largest train station in northwest China connecting Xi’an to Zhengzhou, Wuhan, Changsha, Guangzhou and Shenzhen. It is sited north of Xi’an, 15km from the city centre, 17km from Xi’an International Airport, and 5km from Xi’an municipal government offices. In contrast to the Chengdu East HSR development, Plot 4 & 5 are actually close to existing office and retail centres of Jingkai, hence making it easier to forecast future demand and prices. **For the purpose of valuation, we assumed PREH would sell half the retail and office component each in Plot 4 & 5, and all the apartments, while retaining the rest.**

Plot 4 and 5 have a combined 207,172 sqm GFA retail, 157,005 sqm GFA office, 113,341 sqm GFA hotel (1,425-room), and 163,508 sqm GFA residential, of which 61,315 sqm GFA retail, 78,502 sqm GFA office, and all the residential would be sold. If we apply CNY 24,840 psm, CNY 13,200 psm, and CNY 9,000 psm ASP respectively to retail, office, and residential, then deduct relevant taxes, net sales proceeds (100% basis) total CNY 3.0b.

Meanwhile, we chose to discount current retail rents by 10% to obtain CNY 180 psmpm, which reflects the effect of Xi’an retail space nearly doubling within three years to 5.8 million sqm by 2016, though the supply coming online will be absorbed by strong consumer demand and its strategic location as major retail hub of northwest China. 95% occupancy is achievable, whereas 7.2% capitalisation rate is 60 bp more than Chengdu.

Similarly, projected average daily rates for its 1425-room hotel are also discounted by 10% to arrive at CNY 522/room/night, while holding 61% occupancy steady. If it can generate 20% NPI margin, and valuing the remaining vacancies at 30-50% haircut, the hotel component would be worth CNY 628m, a staggering 73% below its stated CNY 2.3b GDV and values each hotel room at CNY 441,000 (SGD 95,000). In comparison, Ascott Residence Trust recently acquired 251-unit Citadines Gaoxin Xi’an for CNY 1m per key. This is just one of many examples that highlights our conservative bias in valuation.

Finally, we are confident that its office component can command CNY 97 psmpm when completed, vs the current average of CNY 106 psmpm. As mentioned earlier, there is a lack of Grade A office supply in Xi’an, hence the basis for 90% occupancy, while separately using a 6.6% capitalisation rate (40 bp more than Chengdu). In all, Plot 4 & 5 would be worth CNY 7.7b on 100% basis, a full billion below their stated CNY 8.7b GDV.

PREH’s 51.00% interest in Xi’an North HSR Plot 4 & 5 amounts to <u>CNY 3,942m</u>.

Zhuhai Hengqin Integrated Development

PREH only has a 20.00% minority stake in this development, which we valued at CNY 770m (SGD 166m). In the grander scheme of picture, this is a much smaller component of its asset base, compared to other PRC developments worth CNY 2b and above. Consequently, we will also spent considerably less time elaborating on this project.

Zhuhai Henqin Integrated Development is designed to be an iconic mixed use development adjacent to Hengqin Port, linked to Macau's Cotai Strip via Lotus Bridge, and originally positioned to benefit from Macau's expansion. Now that China clamped down hard on corruption, VIP gambling revenues in Macau has plummeted by double-digit % every month since September 2014, and the fate of gaming uncertain. While we lack a crystal ball to gaze into, it is safe to say that casinos are here to stay, and the opening of various family-oriented resorts from now till 2018 should breathe new life into the city. Moreover, Macau's limited land supply has pushed up prices over the years: apartment units at Cotai are selling for HKD 10,000 psf. In contrast, Zhuhai Henqin residential ASP is 43% cheaper at CNY 50,000 psm, thus offering great value proposition.

In our valuation model, we have assumed that PREH will sell all the residential apartments, half the retail area, and some office space subject to its self-imposed cap of selling not more than 50% of the property. At CNY 50,000 psm, CNY 28,000 psm, and CNY 50,000 psm for retail, office, and residential respectively (from PREH's guidance), and deducting relevant taxes, net sales proceeds on a 100% basis would equal CNY 2.3b.

After accounting for the GFA already set aside for divestment, Zhuhai Henqin Integrated Development still retained 20,903 sqm GFA retail, 31,587 sqm GFA office, and 216-room hotel. At projected rents of CNY 300 psmpm retail rent, CNY 120 psmpm office rent, and CNY 700/room/night average daily rates for the hotel, and 6.6% | 6.2% | 6.6% capitalisation rates on par with Chengdu, the investment property portion would be worth CNY 1.5b. Again, we valued the hotel component at only CNY 678,000 (SGD 146,000) per key, even as 262-room three-star hotel Best Western Taipa a short drive away in Macau recently transacted at HKD 900m (SGD 595,000 per key) in early 2014. In all, the entire development would be worth CNY 3.8b, 35% below CNY 6.0b stated GDV.

PREH's 20.00% interest in Zhuhai Henqin Development amounts to CNY 770m.

CHINA – COMPLETED PROPERTIES

All 5 completed properties are inherited from the recent privatisation of PCRT:

1) 50.00% interest in Shenyang Red Star Macalline Mall [Retail]
2) 50.00% interest in Shenyang Longemont Shopping Mall [Retail]
3) 50.00% interest in Shenyang Longemont Offices [Office]
4) 100.00% interest in Perennial Jihua Mall, Foshan [Retail]
5) 100.00% interest in Perennial Qingyang Mall, Chengdu [Retail]

Its malls in Foshan and Chengdu are the best-performing among the five properties. Jihua Mall commenced operations in August 2013, and has achieved 100% commited occupancy so far, whereas Qingyang Mall which opened its doors on April 2014 similarly has a high 94.6% occupancy. While passing rents derived from the Q3 2014 quarterly presentation are in the range of CNY 56-57 psmpm, we found out that spot rents for Jihua Mall has climbed to average CNY 3 psm per day, ie. CNY 90 psmpm or 57% higher. Collectively, Jihua Mall and Qingyang Mall should be worth CNY 1.6b based on capitalisation rates of 7.2% and 6.6% respectively, and normalized occupancies of 95%. Incidentally, this figure is close to the CNY 1.5b market price in PCRT FY12 presentation.

Although Red Star Macalline Mall also boasts 92.8% occupancy as of Q3 2014, the mall is largely leased to two master lease tenants (Red Star Macalline furniture operator, and Guangcai Group antique wholesaler), proving to be a drag on overall rental rates. Indeed, average passing rents worked out to CNY 16.42 psmpm, way below the CNY 360 psmpm chargeable by prime ground floor retail. Given some time, PREH should be able to reposition tenant mix to yield higher rents, albeit with temporary drop in occupancy.

Shenyang Longemont Shopping Mall, with 89.1% occupancy, is doing somewhat better, but average passing rents is still CNY 25.58 psmpm. While the city has the highest retail GFA per capita in China, disposable income and consumption power is also higher among major Chinese cities. Though it might sound ambitious to expect PREH to increase overall rental rates in both malls by 50% over the next 2-3 years, bear in mind that they are starting from an extremely low base. Even with a 50% increase, CNY 38.37 psmpm is barely 10% that of the prime ground floor retail. Red Star and Longemont retail malls would be worth a combined CNY 2.2b under that scenario, on the basis of 7.2% capitalisation rate and a higher 77% NPI margin for Red Star Macalline. Note that this valuation is i) 1/3 that of their stated CNY 6.3b GDV, and ii) works out to CNY 3,608 psm GFA, materially below their original CNY 9,293 psm GFA purchase price. At the very least, both malls should be worth much more on replacement-cost basis rather than NPI.

Lastly, 47% occupancy for Shenyang Longemont offices look terrible at first glance. However, leasing efforts were previously concentrated on one tower, helping it to achieve 94% effective occupancy. Now that the first tower is mostly leased out, leasing for the second office tower has commenced. Acknowledging the oversupply situation among Shenyang offices, we modelled in a blended 10% discount to market rent to obtain CNY 86.49 psmpm, while overall occupancy hovers at an achievable 62.0%. At a valuation of CNY 2.3b, it is close to the stated CNY 2.2b GDV. In all, the five completed properties would be worth CNY 6.1b, a hefty 43% discount to the stated CNY 10.6b GDV.

PREH's attributable interests in the above five properties amount to CNY 3,853m.

VALUATIONS

SINGAPORE REAL ESTATE	Effective Interest (%)	NLA (sqft)	Tenure (Years)	Leasehold as % of Freehold Value	Cap Rate	Attributable Valuation
1 CHIJMES	51.61%	112,100	75	88.5%	4.8%	SGD 138,244,068
2 TripleOne Somerset	50.20%	564,774	59	79.5%	4.0-5.0%	SGD 437,939,390
3 Capitol Singapore (U/C)	50.00%	131,202	95	95.6%	4.8%	SGD 213,782,122
		157 rooms	95	95.6%	4.6%	SGD 72,950,706
		129,296	95	*For-Sale*	---	SGD 175,978,939
4 House of Tan Yeok Nee	50.00%	22,637	Freehold	---	N.A.	SGD 37,100,000
5 Chinatown Point	1.47%	212,328	64	---	N.A.	SGD 6,240,150
6 112 Katong	1.46%	207,161	63	---	N.A.	SGD 6,409,400
						SGD 1,088,644,776
				Req. CapEx for Completion:		(SGD 123,600,000)

CHINA REAL ESTATE	Effective Interest (%)	GFA (sqm) excl carpark	Saleable GFA (sqm)	Investment Holding GFA (sqm)	Cap Rate	Attributable Valuation (Net Sale Proceeds + Inv Ppty)
Development Properties:						
1 Beijing Tongzhou Devt Phase 1	40.00%	326,087	163,043	163,043	5.8-6.0%	CNY 4,574,173,428
2 Beijing Tongzhou Devt Phase 2	23.30%	290,784	145,392	145,392	5.8-6.0%	CNY 2,330,587,556
3 Chengdu East HSR Devt Plot C & D	50.00%	758,082	400,409	357,674	6.2-6.6%	CNY 5,041,972,892
4 Perennial Dongzhan Mall, Chengdu	80.00%	280,000	NIL	280,000	6.6%	CNY 2,884,000,000
5 Xi'an North HSR Devt Plot 4 & 5	51.00%	641,026	345,596	295,429	6.6-7.2%	CNY 3,898,714,291
6 Zhuhai Henqin Integrated Devt	20.00%	140,282	70,141	70,141	6.2-6.6%	CNY 769,902,928
						CNY 19,499,351,095
				Req. CapEx for Completion:		(CNY 7,500,000,000)
Completed Properties:						
1 Shenyang Red Star Macalline Mall	50.00%	276,474	NIL	276,474	7.2%	CNY 409,955,157
2 Shenyang Longemont Shopping Mall	50.00%	327,789	NIL	327,789	7.2%	CNY 680,368,581
3 Shenyang Longemont Offices	50.00%	197,803	NIL	197,803	6.6%	CNY 1,144,834,750
4 Perennial Jihua Mall, Foshan	100.00%	66,064	NIL	66,064	7.2%	CNY 676,330,299
5 Perennial Qingyang Mall, Chengdu	100.00%	90,000	NIL	90,000	6.6%	CNY 941,142,315
						CNY 3,852,631,102
				GDV lest CapEx =		SGD 4,388,799,030
				Net Cash/ (Debt) =		(SGD 1,362,300,000)
				Fully Diluted Share Count =		1,654,965,437
				RNAV Per Share =		**SGD 1.83**

Source: Company, PSR

As mentioned earlier, 30.00% interest in Bejing Tongzhou Phase 1, and 23.30% interest in Beijing Tongzhou Phase 2, have yet to be injected into the asset, pending fulfillment of the condition of them obtaining Land Use Rights Certificates. Purchase consideration is in the form of PREH shares at issue price of $1.3353/share, 28% above the last closing price of $1.045/share and hence accretive. As construction of Phase 1 & 2 are ongoing, it is certain their NAV have increased and subsequently a larger number of shares would be issued, but conversely PREH would incur a lower attributable capex than calculated.

In order to be comparable with PREH's pro-forma financials, all numbers in this report (eg. valuations, balance sheet) are correct as of 31 March 2014, and assumed Phase 1 & 2 have been fully acquired. Issued Shares then totals 1.6 billion shares. Exchange rate as of 03 Feb 2015 is fixed at SGD 1 = CNY 4.63. Today, PREH trades at 0.57x RNAV, which appears attractive in light of our conservative assumptions and ample discounts to their stated GDV. **Key Question: Does PREH deserve to trade at such aggressive discount?**

According to the St James RTO Circular, Mr. Kuok, Mr. Sim, Mr. Pua, and Wilmar, would own a total 68.43% shareholding in PREH post-acquisition of all target assets and privatisation of PCRT. Mr. Kuok has bought up another 12.2m PREH shares on the open market since trading resumed on 26 Dec 2014, which can be construed as a show of confidence. Apart from the heavy insider ownership, recall that all 3 substantial shareholders are also extremely competent and capable managers who can be trusted to captain the ship and navigate the complexities of the Chinese real estate market, while anchored by Singapore assets that make up 20% in value of its property portfolio.

In particular, Mr. Pua was previously the CEO of CapitaLand Retail (now known as CapitaMalls Asia, which was recently taken private), CapitaLand Financial, CapitaMall Trust Management, and also pioneered CapitaRetail China Trust which remains the only China shopping mall REIT in Singapore. PREH was created from scratch less than 6 years ago, and has since rapidly scaled up to manage more than S$6b worth of assets, not including Chinatown Point and 112 Katong valued at more than $800m combined. Now that PREH is his listed vehicle with improved access to capital markets, we foresee speedier value creation and the ability to take on more opportunities by themselves.

Already, PREH announced over the weekend the acquisition of AXA Tower for $1.17b, of which it would have a 31.2% stake. At $1,735 psf NLA, the purchase price is reasonable given the building has 66 years lease left, but the additional kicker is unutilised plot ratio that allows for an additional 212,000 sqft GFA, possibly constructed as an annexe adjacent to the original building. If office/retail/medical suite split is 55/30/15, we estimate a net $100m incremental boost to the property valuation after deducting for construction, refurbishing and other related costs. The acquisition is expected to close in April 2015, after which we would include AXA Tower into our valuations going forward.

First Sponsor, a China-only property developer backed by Hong Leong Group, listed on SGX in July 2014. It had "Adjusted Appraised NAV" of S$1.9957/share, and priced its IPO at S$1.50/share back then. Although investor sentiments of the Chinese property market is more muted now, First Sponsor still trades at 0.60x RNAV today even though its property portfolio is one-fifth the size of PREH, and wholly operates in China while PREH has a partial local presence. PREH could possibly trade at a narrower 30% discount to RNAV, reflecting the stability of Singapore assets, its significantly larger PRC portfolio whose developments are either located at key transport nodes (Chengdu East, Xi'an North HSR stations) or tier 1-2 cities (Beijing, Zhuhai), and strong management (Mr Pua).

At 0.7x RNAV, we have a Target Price of $1.28, reflecting 23% potential upside.

Again, the numbers are correct as of 31 March 2014, and would need to be readjusted after the release of PREH full-year results. Net Debt might increase, while partially/fully offset by a similar decrease in attributable capex that PREH expects to incur. At today's market valuation of 0.57x RNAV, PREH is already trading below its peer First Sponsor. Furthermore, we believe we have used conservative assumptions to arrive at the individual project valuations, which is repeatedly (though unintentionally) below the stated GDVs as appraised by independent valuers. Hence, downside is likely limited.

Financials

Income Statement

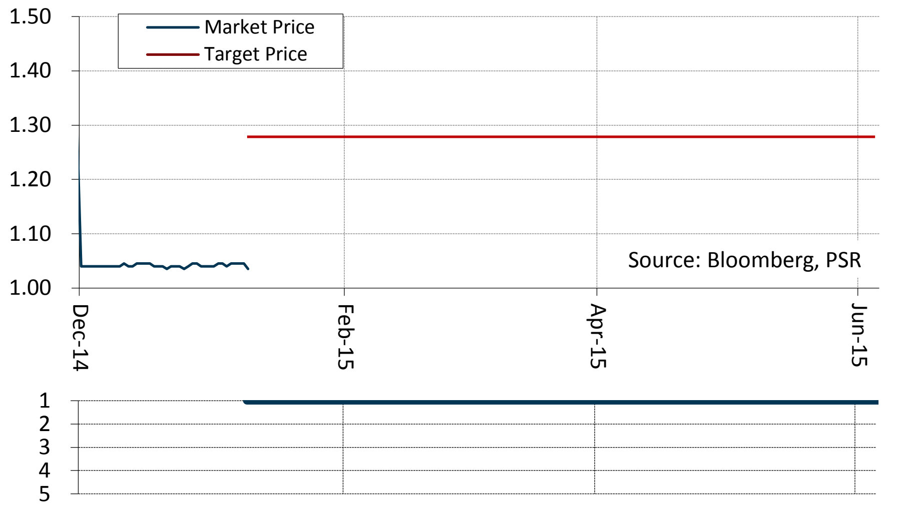
Y/E Dec, SGD mn	FY13
Gross Revenue	**18**
Cost of Goods Sold	(9)
Gross Profit	**10**
Other Income	15
Administrative Expenses	(4)
Operating Income	**21**
Net Finance Cost	(10)
Share of Profits (Associates & JVs)	8
Profit Before Tax	**19**
Taxation	(1)
Profit After Tax	**18**
Non-controlling interest	0
Net Profit, Attributable	**18**

Balance Sheet

Y/E Dec, SGD mn	FY13
ASSETS	
Plant & Equipment	1
Investment Properties	1,943
Associates & JVs	1,432
Intangible Assets	109
Other Assets & Receivables	57
Total Non-Current Assets	**3,541**
Development Properties	400
Trade & Other Receivables	39
Cash & Cash Equivalents	98
Total Current Assets	**536**
Total Assets	**4,077**
LIABILITIES	
Trade & Other Payables	270
Current Tax Liabilities	3
Total Current Liabilities	**273**
Bank Borrowings	1,381
Junior Bonds	144
Redeemable Pref Shares	48
Other Payables	9
Deferred Tax Liabilities	42
Total Non-Current Liabilities	**1,623**
Total Liabilities	**1,896**
EQUITY	
Non-Controlling Interests	293
Attributable Shareholder Equity	**1,888**

Source: Company, Phillip Securities Research (Singapore) Estimates
*Forward multiples & yields based on current market price; historical mul

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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