Property Sector
More downsides ahead

Phillip Securities Research Pte Ltd

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Report type: Update

Sector Overview

The Property Sector in our Singapore coverage consists of Property developers, property investment companies and Real Estate Investment Trusts.

What is the news?

- URA flash estimates released on 2 April show 1Q12 private residential property prices trended 0.1% lower q-q, the first decline since 2Q09.
- Diverged trend in 1Q12 with private residential prices in CCR and RCR declined 0.9% and 0.7% respectively, while prices in OCR increased 1.2%.
- We keep our projection unchanged that prices of private residential property to see ~15% downside correction in the next 18 months.
- 1Q12 saw improved confidence in developer stocks, as reflected by the FTSE ST Real Estate index.
- Developers with diversified portfolio such as Keppel Land and CapitaLand had the discount to NAV narrowed significantly.

How do we view this?

Together with the rising unsold inventory, lower sales volume and softer price in resale market, we see most of the indicators are pointing to higher odds for downward correction in property price. As the mass-market projects continue to see price firming up, we do not rule out the possibility of further cooling measures from the government targeting at the mass-market private residential.

Investment Actions?

We maintain Negative on residential sector, and keep our Reduce rating on **SC Global** (TP $1.00). We still prefer **CMA** (TP $1.77) with key retail exposures in Singapore, China and Malaysia.

Property Sector

Company	Rating	Price (LC)	TP (LC)	Upside (%)	M.Cap. (US$'mn)
Singapore		SGD	SGD		
Keppel Land	Neutral	3.390	2.79	-17.7%	4,011
CapitaMalls Asia	Buy	1.595	1.77	11.0%	4,921
OUE	Accumulate	2.340	2.83	20.9%	1,690
Ho Bee Inv	Neutral	1.400	1.38	-1.4%	783
SC Global	Reduce	1.045	1.00	-4.3%	344
Thailand		THB	THB		
Asian Property	Accumulate	6.25	6.42	2.7%	570
Land and Houses	Accumulate	7.15	7.5	4.9%	2,312
L.P.N. Development	Reduce	16.30	13.4	-17.8%	776
Pruksa Real Estate	Reduce	14.90	12.5	-16.1%	1,062
Quality Houses	Reduce	1.75	1.5	-14.3%	479
San Siri	Neutral	2.00	2	0.0%	461
Supalai	Reduce	15.40	13.4	-13.0%	853
China & Hong Kong		HKD	HKD		
COLI	Accumalate	15.96	16.65	4.3%	16,795
CRL	Accumalate	14.30	15.12	5.7%	10,730
Evergrande	Neutral	4.63	4.30	-7.1%	8,879
Longfor	Accumalate	11.80	11.50	-2.5%	7,833
Country Garden	Accumalate	3.28	3.36	2.4%	7,339
Agile	Neutral	9.87	9.20	-6.8%	4,384
Guanzhou R&F	Reduce	10.20	8.63	-15.4%	4,232
SOHO	Neutral	5.79	5.80	0.2%	3,868
Shimao	Accumalate	9.32	9.36	0.4%	4,163
CSCI	Buy	7.32	8.90	21.6%	3,381
Sino-Ocean Land	Neutral	3.85	3.60	-6.5%	2,807
Franshion	Accumalate	2.02	2.22	9.9%	2,383
Shui On Land	Accumalate	3.30	3.50	6.1%	2,475
New World China	Accumalate	1.99	2.30	15.6%	2,215
Yuexiu Property	Buy	1.63	1.90	16.6%	1,949
Poly Hong Kong	Accumalate	3.94	4.20	6.6%	1,831
COGO	Accumalate	9.20	9.80	6.5%	1,802
KWG	Accumalate	4.94	5.10	3.2%	1,840

Source: Bloomberg, PSR

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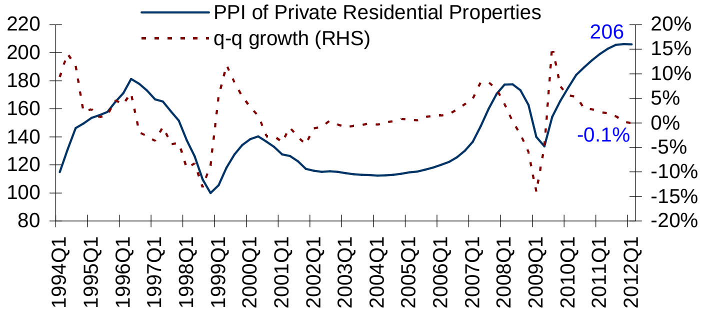
Divergence in property prices

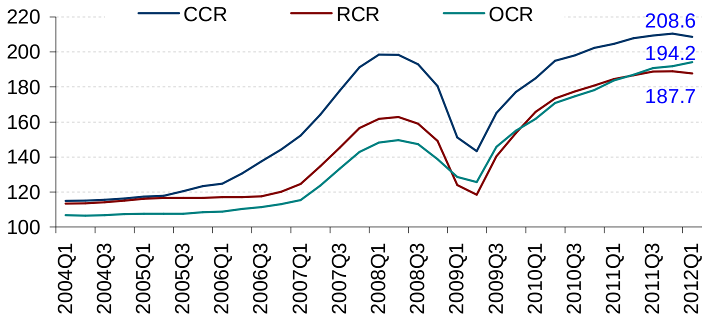
URA flash estimates released on 2 April show 1Q12 private residential property prices trend 0.1% lower q-q, the first decline since 2Q09. Property in the core central region (CCR), or the prime area for private residential, sees prices correct 0.9% q-q, while the rest of central region (RCR) sees prices decline 0.7% q-q. The outside central region (OCR) where the mass-market projects located, shows a diverged trend with prices increase 1.2% q-q, compared to the 0.58% increase in the previous quarter.

Fig 1: PPI of private residential properties (4Q98 = 100, flash estimate for 1Q12)



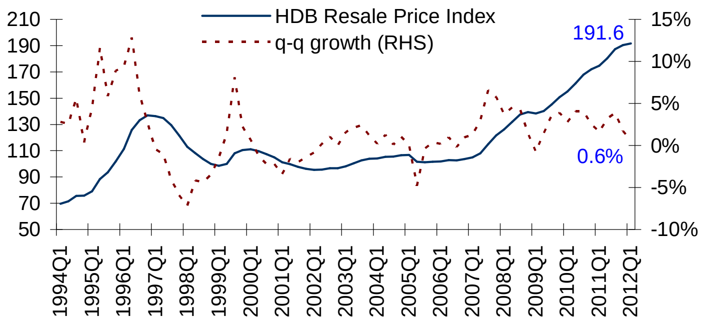
Source: URA

Fig 2: PPI in the respective regions (flash estimates for 1Q12)



Source: URA, PSR estimates

Fig 3: HDB Resale Price Index (flash estimate for 1Q12)



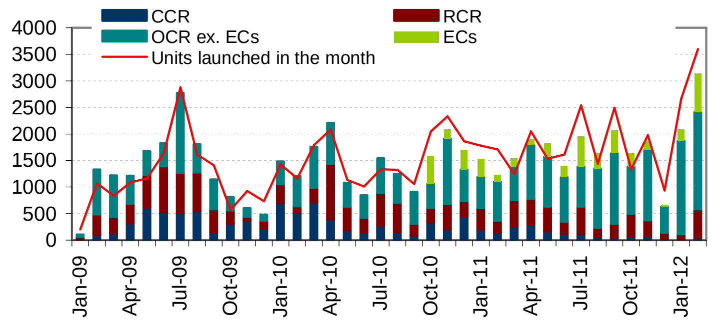
Source: HDB, PSR

The diverged trend in property prices is unsurprising given the distinct contrast in sales activity between CCR and OCR. We believe the strong demand for new launches in the mass market segment has given developers more pricing power and thus resulted in the resilient property prices. In addition, perks given by developers such as cash rebate on stamp duty and furniture vouchers were not captured by the price index as these benefits will usually be given to buyers after the sale and purchase transaction completed.

Strong primary sales despite rounds of cooling measures

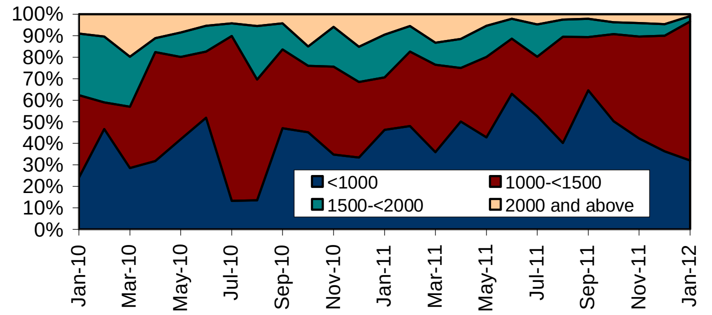
Primary home sales took a dent in December 2011 after the government introduced on 7 Dec the unprecedented Additional Buyer's Stamp Duty (ABSD), which includes a 10% levy on purchase of residential property by foreigner or company. However, buying activity resumed in January and February 2012 with developers offloaded 1,872 and 2,413 units (ex Executive Condos) respectively, both higher than any of the months in 2011. We believe a combination of factors, include ample supply of new launches, attractive discounts and rebates and low interest rates have led to the strong sales. The buoyant sales activity confined mainly to OCR, where the mass-market private residential located. Sales in the CCR remained subdued, due to the uncertain macro economy outlook and the impact of ABSD as foreigner and company purchases have conventionally made up a higher percentage (as high as 50%) of the purchaser profile in this segment.

Fig 4: Total units of private residential properties sold in regions



Source: URA, PSR

Fig 5: Price band of private residential properties sold by developers (S$ psf)

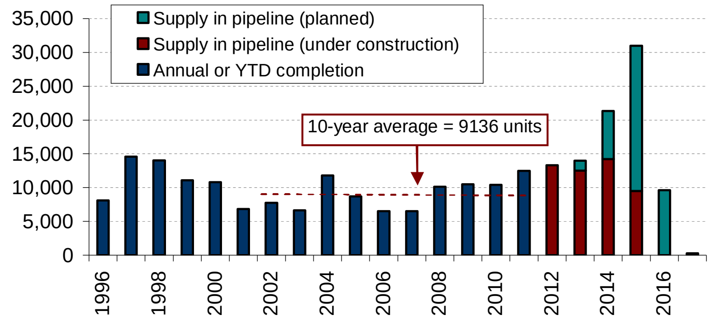


Source: URA, PSR

Ample supply should keep sales high

Based on the high supply of residential land thru government land sales (GLS) since 2H10, we continue to see ample of new launches coming on stream for the rest of 2012. Homebuyers will continue to be spoilt by the variety of new launches available and the attractive perks given by developers.

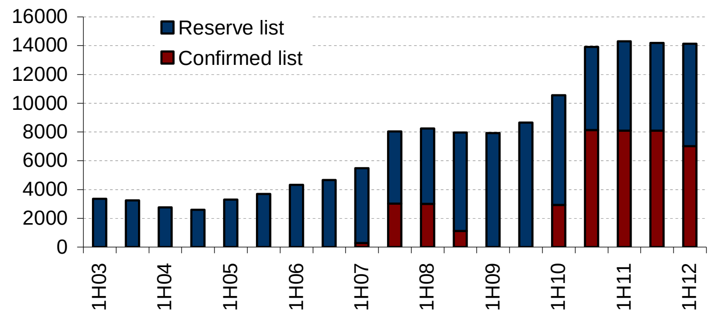
Fig 6: Private sector residential unit completion and supply in the pipeline



Source: Realis, PSR

With the increased supply of residential thru the confirmed list of GLS (~16k units p.a.) since 2H10, that figure must be translated into sales somehow. Given that the Jan and Feb primary sales exceeded our expectations, we increase our sales estimate to 1,350 units per month (previously 1,200 units), or 16,200 units for 2012, comparable to the 16,306 units sold in 2011.

Fig 7: Private residential units released in GLS Programme



Source: URA, PSR

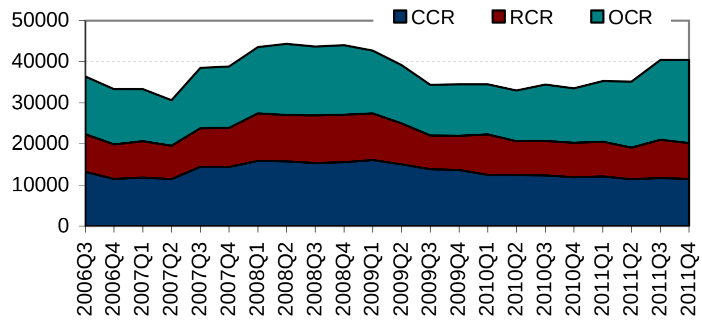
Higher odds for downward correction

Bearing in mind the government's intention of taming property price hike, we believe the ample land supply will continue to feed the strong demand for mass market residential sites. In addition, developers have to sell out the entire project within 5 years on land acquire after 7 December 2011 in order to be remitted from paying ABSD. That should provide further pressure on pricing of future new launches. We already saw prices in the CCR and RCR started to correct in 1Q12 based on the latest URA flash estimates. We therefore keep our projection unchanged that prices of private residential property to see ~15% downside correction in the next 18 months. Together with the rising unsold inventory, lower sales volume and softer price in resale market, we see most of the indicators are pointing to higher odds for downward correction in property price.

Resilient mass-market property price may ignite further policy risk

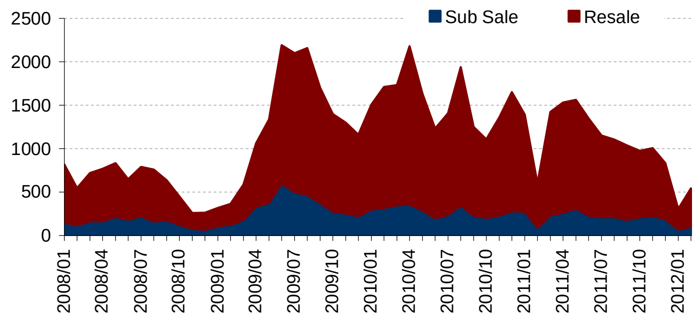
As the mass-market projects continue to see price firming up, we do not rule out the possibility of further cooling measures from the government targeting at the mass market private residential to defy the formation of property bubble.

Fig 8: Unsold private residential units from projects with planning approvals by geographical segment



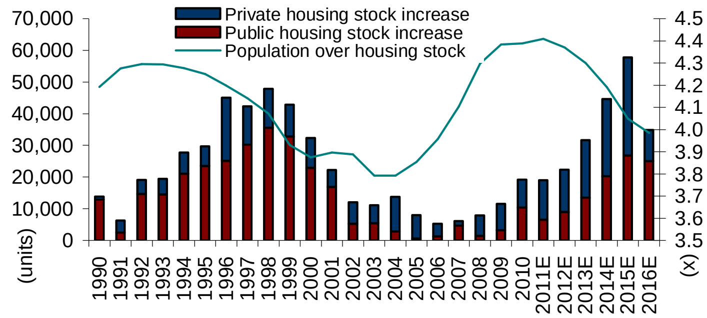
Source: Realis, PSR

Fig 9: Transaction volume of sub sale and resale for all non-landed (ex EC)



Source: Realis, PSR

Fig 10: Ratio of population over total housing stock



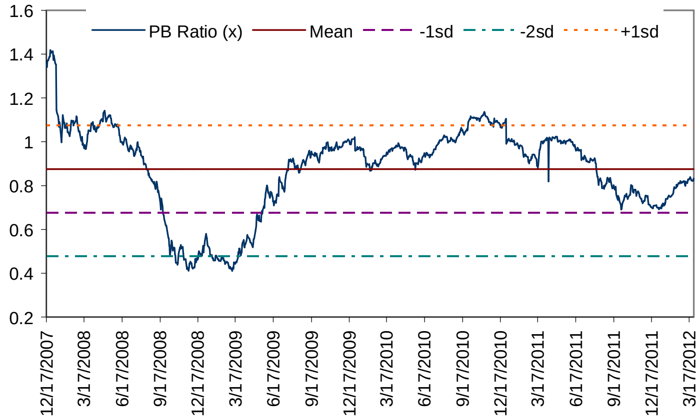
Assumption: Population growth at 1% p.a. for period 2012 – 2016
Source: URA, HDB, PSR estimates

Developer stock price in action

Sentiments had improved in the stock market over Jan – Mar period as compared to 4Q11 due to optimistic economic data from the US and a temporary relieve from Greek's default. The improve confidence is reflected by the FTSE ST Real Estate index, which is trading at 16% discount to NAV, reverting to mean of 12.5% discount from its trough of 31% discount in Oct 2011.

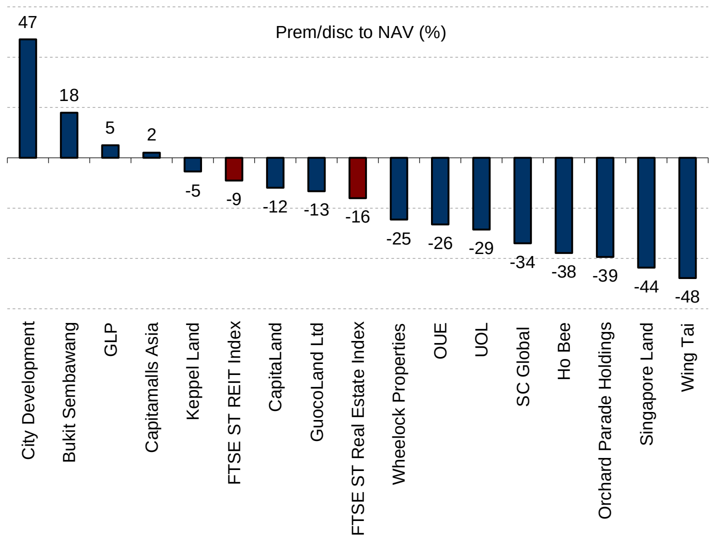
Meanwhile, developers with diversified portfolio such as Keppel Land and CapitaLand had the discount to NAV narrowed significantly, trading at 5% and 12% discount to NAV respectively, and outperformed the FTSE RE index. Developers with substantial exposure to high-end residential segment and office landlord remained heavily discounted at >30% to NAV. Keppel Land and CMA top the YTD recovery with >40% gain in share price.

Fig 11: PBR of FTSE Real Estate Index



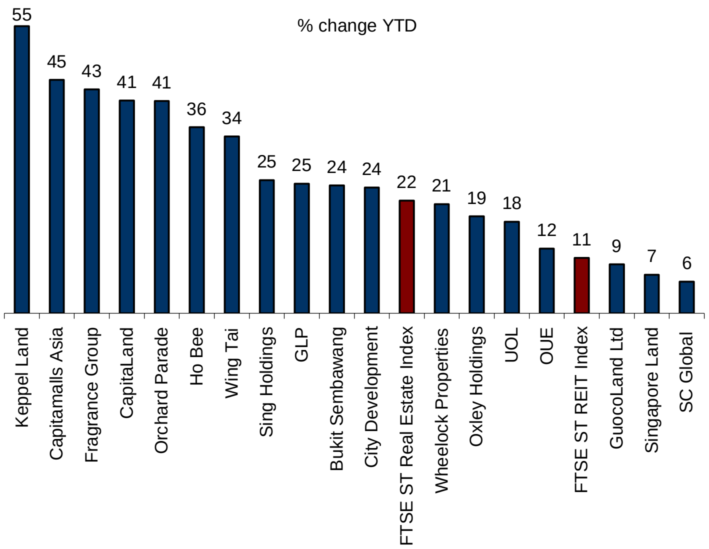
Source: Bloomberg, PSR

Fig 12: Premium and discount of developers share price to NAV



Source: Bloomberg, PSR

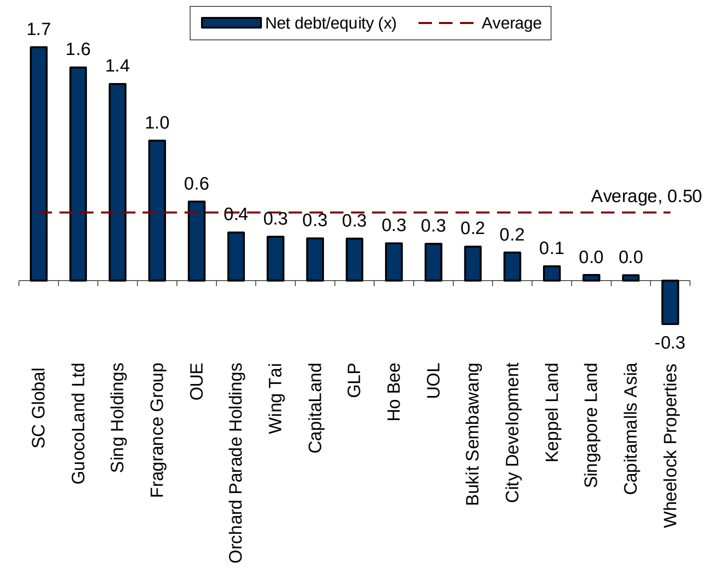
Fig 13: YTD share price performance of developer stocks



Source: Bloomberg, PSR

On average, property developers were ~0.5x geared, suggesting developers generally maintain a healthy balance sheet and allow rooms for further debt expansion.

Fig 14: Net debt to equity ratio of developers as of end-Dec 11



Source: Bloomberg, PSR

Keppel Land

Recently Keppel announced that its JV is appointing Daniel Libeskind, the architect of the Refflections at Keppel Bay, for the development of plot 3 at Keppel Bay. That implies Keppel Land is capitalizing on its strength in waterfront development to keep its SG residential sales in motion. Reflections at Keppel Bay, which completed in 4Q11, is about 74% sold out of the total 1,129 units as at end-February. As sales of mid-to-high-end residential had been hit badly by the ABSD implemented last December, we take a conservative stance on the project if it is going to launch in near term. However, we are optimistic on the longer term when property price stabilised and tightening policies are removed, and the two key selling points: starchitect and premium waterfront residential, shall make the project stand-out.

China residential has just started its correction mode and the Chinese government is unlikely to ease on residential curb before end-2012. We believe this shall cap any upsides on Keppel Land share price going forward. Nonetheless, the stock is currently trading cum dividend of SGD 20cents which will support the current share price. We thus maintain our Neutral recommendation.

Ho Bee

Share price recovered 36% ytd. We believe due to the upbeat sentiment on its office development at One North. According to media reports, sale of strata title office in CBD and regional centre such as Payer Lebar Square have seen overwhelming response from buyers, as property investors switch focus from residential to commercial asset after the ABSD implemented. However, we see such strong buying demand to have limited immediate impact to Ho Bee as its office development at One North, The Metropolis, is not allowed for strata-title sale. Nonetheless, the project will provide NAV accretion upon completion in 2013/14. It could divest partial stakes in the development to realise a proportional gain, but we do not see such need in Ho Bee to do so as its gearing is still low and there are not much good investment opportunities available in the market. We maintain our Neutral recommendation at this juncture given sales in its high-end residential segment remain slow.

We maintain 'Negative' on residential sector, and keep our Reduce rating on **SC Global** (TP $1.00). We still prefer **CMA** (TP $1.77) with key retail exposures in Singapore, China and Malaysia.

Fig 15: Property stocks rating summary

Company	Mkt Cap (S$mn)	Rating	RNAV (S$)	Disc / prem to RNAV	TP (S$)	Last close (S$)	Upside (%)	T12m DPS (Sgd cent)	T12m Div yield (%)	PER (x) FY11	PER (x) FY12E	PER (x) FY13E	PBR (x) FY11	PBR (x) FY12E	PBR (x) FY13E
Keppel Land	5,054	Neutral	5.08	-45%	2.79	3.39	-17.7	20	5.9	3.0	10.0	13.1	0.83	0.76	0.74
CMA	6,201	Buy	2.08	-15%	1.77	1.595	11.0	3	1.9	15.1	36.5	31.4	1.10	1.09	1.07
OUE	2,129	Accumulate	4.36	-35%	2.83	2.34	21.1	13	5.6	8.2	25.5	26.6	0.88	0.86	0.84
Ho Bee	987	Neutral	3.07	-55%	1.38	1.4	-1.3	4	2.9	4.9	5.7	3.4	0.60	0.53	0.46
SC Global	433	Reduce	2.85	-65%	1.00	1.045	-4.5	2	1.9	3.1	20.2	27.0	0.63	0.62	0.61

Source: Bloomberg, Company, PSR estimates

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