

# Property Sector

## Results Season Takeaways

### Report type: Update

#### Sector Overview

The Property Sector in our Singapore coverage consists of Property developers engaged in businesses of property development, trading, management and services.

#### Summary

Diversified developers performed well in 3Q12 amid policy risks overhang over the Singapore and China residential markets. CapitaLand 3Q12 earnings beat our expectation with higher progressive recognition of sales from its residential projects, strong performance of shopping malls and fee-based business. CMA earnings improved due to newly acquired assets as well as better performance from shopping malls in China.

Keppel Land sold more residential units q-q in Singapore, but in China sales were below expectation. CapitaLand on the other hand saw improvement in China sales with both value and volume trending higher.

Occupancy growth for new office towers were still making progress amid weak demand as hiring sentiments stayed low in the quarter.

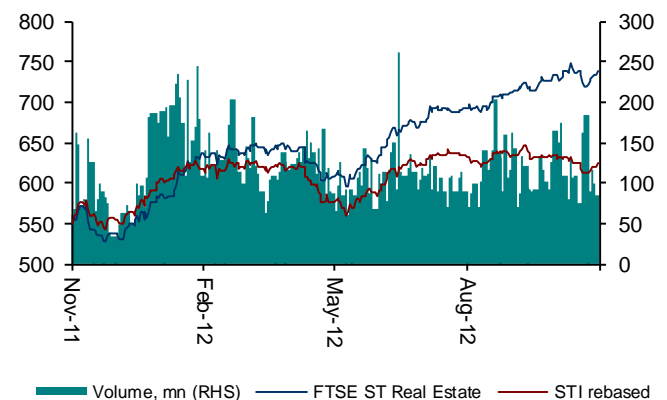
Most of the big cap developers saw net gearing trended up in the quarter, in particular CapitaLand and CMA, as the group continued to deploy capital with the series of acquisitions over the past 2 years.

We continue to like CapitaLand for its diversified portfolio.

#### Property Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (US\$m)
<b>Developer</b>					
CapitaLand	Accumulate	3.430	3.55	3.6%	11,922
CapitaMalls Asia	Accumulate	1.910	1.93	1.0%	6,072
Ho Bee Investment	Neutral	1.600	1.44	-9.8%	913
Keppel Land	Neutral	3.470	3.28	-5.4%	4,382
OUE	Neutral	2.580	2.83	9.8%	1,920
SC Global	Neutral	1.140	1.15	0.6%	387

Source: Bloomberg, PSR



Source: Bloomberg, PSR

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### Developers still performing well

Keppel Land reported PATMI of \$74.5mn for 3Q12, +28.5% y-y, largely in-line with our expectation with the 9M12 PATMI forming 70% of our estimates (see fig 3). Further recognition of sales from its overseas projects in 4Q12 shall support earnings in the coming quarter. Keppel Land bagged a residential site at New Upper Changi Road through a GLS tender in October, but the breakeven price of \$1,200psf is pretty high, in our view, which translates to thin margin of 4.2% - 16%. We expect minimal impact from the new site to its share price.

CapitaLand 3Q12 PATMI of \$148.5mn beat our expectations. Its 9M12 PATMI forms 76% of our FY12 estimate. This is mainly supported by sales recognition from its 3 core countries: Singapore, China and Australia, as well as strong performance of shopping malls and fee-based business. YTD it has committed to ~\$3bn of new investments.

OUE results were slightly below our expectation at the associate co. level due to the subpar occupancy at One Raffles Place Tower 2 (ORPT2), which stayed at 60% in the quarter. Other than that, OUE Bayfront (completed in 2011) and Crowne Plaza Changi Airport (acquired in 2011) were contributing meaningfully to its bottom line. Occupancy rates in the quarter at Mandarin Orchard (MO) and CPCA were 82.9% and 90.8% respectively, slightly lower compared to the 85% and 92% registered in the same period last year, but still within healthy levels in our view. Much of the attention is now centered on OUE's attempt to bid for FNN, which exposes OUE to risk of overpaying for FNN in a bidding war against ThaiBev. Given the uncertain acquisition price at current juncture, we have since downgraded our recommendation for OUE from Accumulate to Neutral.

CMA reported a strong set of 3Q12 results due to new assets that were acquired in Japan in early 2012; and, improved operating income from China shopping malls. In the quarter 6 shopping malls in China were completed by CMA, and we expect contribution from China to improve further in quarters ahead as these malls' operations optimise.

### High-end residential developers have not bottomed-out

SC Global managed to erase the earlier losses to report PATMI of \$2.9mn for the 9M12, buoyed by recognition of sales from its Shenyang, China Kairong's project which completed in the quarter.

Ho Bee results were largely in-line with progressive recognitions from projects and the completion of its JV project the Parvis at Holland contributed positively to its bottom line. For 4Q12, we expect the completion of Trilight to support the earnings in the coming quarter. However, earnings in FY13 are expected to be weaker with no more major residential project completion. Nonetheless, the completion of The Metropolis in 2013 (potential revaluation gain) and the continuous share-buy-back by Ho Bee shall provide some form of support to its share price.

Better-than-expected residential sales will be the upside catalyst to these high-end residential developers.

### Muted performance for quarter-on-quarter sales

Muted results were observed from developers' residential sales. Keppel Land sold more units in 3Q12 from its Singapore projects, mainly from The Luxurie, while its China operation saw lower sales. CapitaLand sold fewer units in Singapore as there were no new launches from Sky Habitat, but sales progress in China continued to improve since 2Q12. CapitaLand said it has ~800 launch ready units (valued at Rmb1.8bn) to be released for sale and ~1,300 units ready to handover in 4Q12. Ho Bee continued to experience slow sales from its Singapore projects, while SC Global saw moderate improvement, mainly from its completed project Hilltops.

Fig 1: Number of residential units sold by developers

Developer	Singapore			China		
	1Q12	2Q12	3Q12	1Q12	2Q12	3Q12
Keppel Land (sales value)	90 (S\$117 mn)	100 (S\$184 mn)	120 (S\$239 mn)	190 (Rmb 137 mn)	490 (Rmb 363 mn)	290 (Rmb 328 mn)
CapitaLand (sales value)	57 (S\$88 mn)	202 (S\$379 mn)	70 (S\$166 mn)	255* (Rmb 432 mn)	812* (Rmb 1.78 bn)	911* (Rmb 1.96 bn)
City Dev (sales value)	1,299 (S\$1.25bn)		NA			
Ho Bee	1	10	7			
SC Global	1	5	12			

\* Including options issued.

Source: Companies, URA, PSR estimates

### Occupancy rates making progress amid weak demand

Although hiring sentiments had been weak in the quarter, Keppel Land saw occupancy at its MBFC Tower 3 increased from 70% to 76% in 3Q12. Ditto OUE with its OUE Bayfront occupancy inched up to 88% from the 85.9% in 2Q12, except ORPT2 where occupancy remained the same at 60%. Out of the CBD area, Ho Bee said it has not secured any tenants so far for The Metropolis at One North, which is slated to complete the first phase by mid-2013.

### Net gearing

Most of the big cap developers saw net gearing trended up in the quarter, in particular CapitaLand and CMA as the group continued to deploy capital with the series of acquisitions over the past 2 years. Gearing of OUE remained unchanged while Ho Bee and SC Global trended lower over the quarter.

**Fig 2: Gearing ratio (x) of developers**

Developer	Net Debt/Equity				
	4Q10	4Q11	1Q12	2Q12	3Q12
Keppel Land	0.20	0.10	0.16	0.19	0.21
CapitaLand	0.20	0.31	0.36	0.41	0.46
City Dev	0.29	0.21	0.20	0.21	0.23
CMA	-0.11	0.04	0.15	0.25	0.30
OUE	0.46	0.54	0.56	0.61	0.61
Ho Bee	0.45	0.27	0.27	0.26	0.23
SC Global	2.10	1.70	1.79	1.88	1.78

Source: Companies, PSR estimates

**Fig 3: Reported results vs PSR estimates**

Developer	Revenue		Reported as a % of estimates	PATMI		Reported as a % of estimates	Remarks
	Reported 9M12	PSR FY12		Reported 9M12	PSR FY12		
(S\$m)							
CapitaLand	2,190.5	3,010.2	73%	435.1	572.1	76%	PATMI ex reval
CMA	247.6	325.6	76%	225.1	279.6	81%	PATMI ex reval
Ho Bee	244.9	458.4	53%	120.2	143.7	84%	
Keppel Land	466.9	1,041.5	45%	311.1	445.3	70%	PATMI ex reval
OUE	295.9	381.5	78%	82.3	112.9	73%	PBT ex other gains
SC Global	410.6	566.2	73%	2.9	23.5	12%	

Source: Companies, PSR

**Fig 4: Developers dividend yield and valuation ratios**

Company	Mkt Cap (S\$m)	Rating	RNAV (S\$)	Disc / prem to RNAV	TP (S\$)	Last close (S\$)	Upside (%)	T12m DPS (Sgd cent)	T12m Div yield (%)	PER (x)			PBR (x)		
										FY11	FY12E	FY13E	FY11	FY12E	FY13E
Keppel Land	5,359	Neutral	5.05	-35%	3.28	3.47	-5.4	20	5.8	3.5	11.0	15.3	0.95	0.84	0.82
CMA	7,426	Accumulate	2.27	-15%	1.93	1.91	1.0	3.125	1.6	16.4	18.0	36.4	1.20	1.15	1.13
OUE	2,348	Neutral	4.36	-35%	2.83	2.58	9.8	14	5.4	8.2	27.4	26.6	0.82	0.79	0.78
Ho Bee	1,117	Neutral	3.609	-60%	1.44	1.6	-9.8	4	2.5	5.2	7.1	9.7	0.62	0.58	0.55
SC Global	474	Neutral	2.867	-60%	1.15	1.14	0.6	2	1.8	3.6	20.1	9.8	0.72	0.70	0.66
CapitaLand	14,580	Accumulate	4.182	-15%	3.55	3.43	3.6	8	2.3	14.3	18.8	20.7	1.01	0.98	0.95

Source: Bloomberg, Companies, PSR

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