

Property Sector

Results Season Takeaways

Report type: Update

Sector Overview

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

- Diversified developers focused on commercial assets
- Higher interim dividends from CMA and OUE
- Still early for bottom-fishing of undervalued high-end developers
- Residential sales improved quarter-on-quarter

Summary

Diversified developers such as Keppel Land and CapitaLand had been active in acquisitions of commercial assets over the past 6 to 12 months. Having committed to investment totaling \$2.4bn YTD, CapitaLand remains in investment mode, looking into more acquisition opportunities.

Higher interim dividends have been proposed by commercial/hotel asset-focused developers CMA and OUE following stronger operating cash flows from operating assets.

High-end residential developers SC Global and Ho Bee remained undervalued and we think upside is not insight yet, given uncertain future earnings outlook. We expect SC Global to return to black in 2H12 with recognition of sales in project in China and sale of completed units in Singapore. Ho Bee will see no major project completions in FY13 except commercial project The Metropolis.

In Singapore, developers generally sold more residential units in 2Q12 compared to the preceding quarter. In China, both Keppel Land and CapitaLand saw higher sales in 2Q12 after the sentiments in residential market improved following interest rate cuts by the central bank.

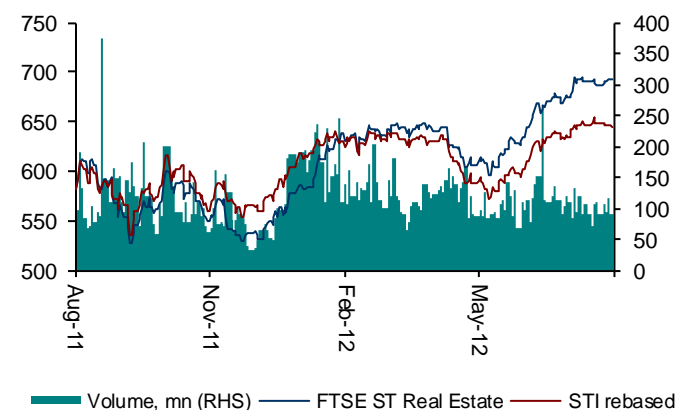
Most developers were seen gearing up over the past 3 quarters, except CDL and Ho Bee which maintained relatively stable gearing over the period.

We keep CMA as our top pick given its strong development pipeline and resilient retail consumption growth in Asia's developing countries.

Property Sector

Company	Rating	Price (\$)	TP (\$)	Upside (%)	M.Cap. (US\$m)
Developer					
CapitaLand	Accumulate	3.050	3.27	7.2%	10,361
CapitaMalls Asia	Buy	1.645	1.82	10.6%	5,111
Ho Bee Investment	Neutral	1.305	1.27	-2.7%	732
Keppel Land	Neutral	3.430	3.24	-5.5%	4,233
OUE	Accumulate	2.440	2.83	16.0%	1,774
SC Global	Neutral	0.985	1.00	1.5%	327

Source: Bloomberg, PSR



Source: Bloomberg, PSR

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Diversified developers focused on commercial assets

Keppel Land reported 25% y-y higher revenue of \$130.3mn for 2Q12 due to higher contributions from property development, fund management and hotel segments. PATMI was further lifted by contribution from Reflections at Keppel Bay, increased 88% to \$94.7mn. We expect China residential projects to underpin its 2H12 earnings with a number of completions in the pipeline. Having completed and (partially) divested Marina Bay Financial Centre and Ocean Financial Centre in Singapore, Keppel Land has been deploying capital into overseas commercial developments, such as commercial development in Beijing's CBD, Saigon Centre Phase 2 in HCMC, Vietnam and redevelopment of IFC Jakarta Tower 2, Indonesia. CapitaLand's results were in-line with our expectations with PATMI at \$385.9mn, or 3.3% y-y lower mainly due to lower reval gains and higher financial costs. On adjusted basis, it would have been 4.7% y-y higher. Having committed to investment totaling \$2.4bn YTD, it remains in investment mode, looking into more acquisition opportunities. Note that most of the acquisitions had been on commercial assets, except the \$359mn Somerset Grand Cairnhill which is an integrated development of serviced apartment cum residential.

Fig 1: Keppel Land has over 400,000 sqm of prime commercial space under development

Country	Gross Floor Area (Approx.)
China	
Commercial Development, Beijing's CBD	100,000 sm
Seasons City, Tianjin Eco-City	162,000 sm
Vietnam	
Saigon Centre Ph 2, HCMC	90,000 sm
Indonesia	
International Financial Centre Jakarta Tower 2	64,000 sm

Source: Company

Fig 2: New Investments committed YTD 2012 by CapitaLand

Project Name	SBU	Stake (%)	Geography	Project Type	Total GFA (Sqm)	Committed Investment S\$m
Tiangongyuan site, Beijing	CMA	100	China	Shopping Mall	184,097	469.2 ¹
Twenty Anson	CCT	100	Singapore	Office	23,418	430.0
Olinas Mall, Tokyo	CMA	100	Japan	Shopping Mall	54,182	367.3
Somerset Grand Cairnhill	CL	100	Singapore	Serviced Residence	43,332	359.0 ²
Site in Qingdao	CMA	100	China	Shopping Mall	89,700	294.9 ¹
3 Malls from CapitalMalls Japan Fund	CMA	100	Japan	Shopping Mall	46,945	217.4
Site in Taman Melawati, Klang Valley	CMA	50	Malaysia	Shopping Mall	90,036	204.0 ¹
StorHub Shanghai	CCL	62	China	Self storage	7,352	22.0 ²
StorHub Guangzhou	CCL	62	China	Self storage	3,996	9.2 ²

Total new investment commitments ~\$2.4B

¹ Project Development Cost & Land cost ² Property value

Source: Company

Higher interim dividends

OUE bottom-line was slightly below our expectation as One Raffles Place Tower 2 (40%-owned) had not contributed meaningfully with just 6 months into completion of building works. Nonetheless, its hotel operations and other commercial assets continued to strengthen its operating cash flow and thus a 3 cents interim dividend was proposed (2 cents in 2011 interim payout). It is staging for major refurbishment works at DBS Towers and One Raffles Place retail podiums as well as expansion of new wing at its Crowne Plaza Changi Airport Hotel in 2013. Retail mall developer CMA reported a set of encouraging results, with operating income from China improved after Minhang Plaza and Hongkou Plaza heading into second quarter of operations. The improved results also prompted the management to declare a 1.625 cents interim dividend (1.5 cents in 2011 interim payout). Its pipeline of malls opening remains exciting with Star Vista in Singapore set to open in Sept this year and 6 more malls in China to be opened by year end.

Still early for bottom-fishing of undervalued high-end developers

Luxury residential developer SC Global is juggling the hot potatoes of challenging operating condition in Australia residential market and weak luxury residential segment in Singapore. That resulted in net loss of \$31.7mn for 1H12, as opposed to profit of \$119.1mn in 1H11. Nonetheless, with further sales of completed units in Singapore and recognition of sales from China project upon completion in 2H12 should bring SC Global back to black for FY12. Ho Bee reported a lumpy \$72.9mn PATMI for 2Q12 due to recognition of sales from its completed industrial project One Pemimpin. Outlook for 2H12 remain strong with another 2 residential projects to be completed. However, we remained wary of its FY13 earnings as there will be no major residential project completions in FY13, other than potential fair value gain upon completion of its office development The Metropolis.

Sales improved quarter-on-quarter

Developers generally sold more residential units in 2Q12 compared to the preceding quarter. Keppel Land sold about 100 residential units in Singapore, mainly attributable to its mass-market project The Luxurie. The 622-unit project is about 68% sold as of end-July. CapitaLand unloaded 202 units in 2Q12, of which 124 units were attributable to Sky Habitat. CDL sold 1,299 units in 1H12, compared to 809 units in 1H11 and 1,818 units in the whole 2011. In the luxury residential segment, Ho Bee and SC Global sold 10 units and 5 units respectively in 2Q12, compared to just 1 unit sold in the previous quarter.

In China, both Keppel Land and CapitaLand saw higher sales in 2Q12 after the sentiments in residential market improved following interest rate cuts by the central bank. Keppel Land sold 490 units in 2Q12, totaling Rmb363mn while CapitaLand sold 812 units on Rmb1.78bn sales. Developers in general remained cautious on the outlook of

2H12 residential market in China, but noted there are pent up demand following quiet sales period in the first half of the year.

Fig 3: Number of residential units sold by developers

Developer	Singapore			China		
	2011	1Q12	2Q12	2011	1Q12	2Q12
Keppel Land (sales value)	480	90 (S\$117 mn)	100 (S\$184 mn)	1400	190 (Rmb137 mn)	490 (Rmb363 mn)
CapitaLand (sales value)	844 (S\$1.35 bn)	57 (S\$88 mn)	202 (S\$379 mn)	1500 (Rmb3.1 bn)	255* (Rmb432 mn)	812* (Rmb1,78 bn)
City Dev (sales value)	1,818 (S\$1.75 bn)	1,299 (S\$1.25bn)				
Ho Bee	40	1	10			
SC Global	16	1	5			

* Including options issued.

Source: Companies, URA, PSR estimates

Uninspiring progress in office space take-up

Office take up rates were slow in the quarter with marginal improvement achieved at new office buildings. At MBFC Tower 3, occupancy rate increased to 70% from the 67% in 1Q12, OUE Bayfront increased to 85.9% from the 84% in 1Q12 and One Raffles Place Tower 2 saw occupancy lifted from 55% in 1Q12 to 60%.

Gearings

Most developers were seen gearing up over the past 3 quarters, except CDL and Ho Bee which maintained relatively stable gearing over the period. CMA had been aggressive in acquisition of retail assets in China, Japan and Malaysia which contributed to the escalating gearing over the period.

Fig 4: Gearing ratio (x) of developers

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

Source: Companies, PSR estimates

Fig 5: Reported results vs PSR estimates

Developer	Revenue		Reported as a % of estimates	PATMI		Reported as a % of estimates	Remarks
	Reported 1H12	PSR FY12		Reported 1H12	PSR FY12		
<i>(S\$m)</i>							
CapitaLand	1,503.6	2,930.9	51%	286.6	565.9	51%	PATMI ex reval
CMA	145.5	230.5	63%	162.7	301.4	54%	PATMI ex reval
Ho Bee	185.8	435.5	43%	88.7	118.6	75%	
Keppel Land	300.5	1,325.7	23%	236.6	426.7	55%	PATMI ex reval
OUE	193.9	381.5	51%	55.1	112.9	49%	PBT ex other gains
SC Global	172.8	566.2	31%	-31.7	23.5	N.A.	

Source: Companies, PSR

Fig 6: 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 (S cent)	T12m Div yield (%)	PER (x)			PBR (x)		
										FY11	FY12E	FY13E	FY11	FY12E	FY13E
Keppel Land	5,297	Neutral	4.99	-35%	3.24	3.43	-5.4	20	5.8	3.5	11.3	15.2	0.94	0.84	0.81
CMA	6,395	Buy	2.15	-15%	1.82	1.645	10.8	3.125	1.9	15.5	16.1	32.1	1.14	1.08	1.06
OUE	2,220	Accumulate	4.36	-35%	2.83	2.44	16.1	14	5.7	8.2	27.4	26.6	0.82	0.79	0.78
Ho Bee	916	Neutral	3.17	-60%	1.27	1.305	-2.8	4	3.1	4.5	7.5	10.8	0.54	0.51	0.49
SC Global	409	Neutral	2.87	-65%	1.00	0.985	2.0	2	2.0	3.1	17.6	8.6	0.63	0.62	0.58
CapitaLand	12,964	Accumulate	3.85	-15%	3.27	3.05	7.3	8	2.6	13.1	17.4	19.4	0.93	0.91	0.87

Source: Bloomberg, Companies, PSR

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