Daiwa Capital Markets

Sector

Financials / Singapore
11 September 2013

The 10-second briefing

Fundamentals slightly better, unit prices now much lower

- We upgrade our sector rating to Positive; unit prices have fallen by up to 12.2% YTD, while fundamentals have improved
- Upgrading CMT and SGREIT to Outperform (2) from Hold (3) as they look attractive on yield, Daiwa NAV and yield spread
- Maintain Outperform (2) for FCT; positive on Yishun Central

Singapore Retail REITs

- **Positive** (from Neutral)
- Neutral
- Negative

How do we justify our view?

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■ What's new

We believe the retail S-REIT sector deserves to be looked at again following our report, *Recalibrating investment stance*. Since then, unit prices have continued to fall, but the sector's fundamentals have improved slightly.

■ What's the impact

We believe the Singapore Government's upgrade of its 2013 GDP growth forecast, to 2.5-3.5% YoY from 1-3% YoY, is positive for the retail S-REITs, as the outlook for domestic consumption, which has been stable but subdued over the past year, should improve immediately, raising the prospect of better retail sales and firmer retail rents.

Subsequently, the median 2013 GDP forecast, according to the Monetary Authority of Singapore's (MAS) *Survey of Professional Forecasters: September 2013*, was raised to 2.9% from 2.3% three months ago. We also see some evidence of underlying resilience, judging by the single-digit, but mostly positive YoY growth for the retail sales index components (the most recent data, for June, was released on 15 August). Moreover, compared with the other major S-REIT property sectors (office, industrial, and hospitality), we believe the retail-property sector's supply-demand outlook over the next one-to-three years looks the most favourable.

■ What we recommend

We upgrade our sector rating to Positive from Neutral as unit prices have fallen (by up to 12.2% YTD and 13.0% since the end of May 2013) to levels at which all the retail S-REITs are now attractively valued relative to our DDM-derived six-month target prices. Meanwhile, the underlying fundamentals of the retail-property sector have improved slightly. We upgrade CapitaMall Trust (CMT) to Outperform (2) from Hold (3), We believe CMT is now trading at attractive valuations, at a price to Daiwa NAV (our DDM valuation) of 0.89x vs. the median of 0.97x since August 2004, and a 2014E DPU yield of 6% vs. the median forward yield of 5.3% over the same period. We raise our target price, pegged to parity with our DDM valuation, to SGD2.10 from SGD2.09 due to a higher present value arising from the passage of time (since our last report on 31 July 2013). Now finally trading at undemanding valuations, sector heavyweight CMT is our top pick among the retail S-REITs.

We upgrade Starhill Global REIT (SGREIT) to Outperform (2) from Hold (3) and regard the absolute yield spread of 4.0% (the highest among the retail S-REITs) as attractive given the resilience we expect in its DPU over 2013-15. We maintain our six-month DDM-derived target price of SGD0.87. We maintain our Outperform (2) rating for Frasers Centrepoint Trust (FCT). In line with our upward DPU revisions following the 3Q FY13 results, we raise our target price, pegged to parity with our DDM valuation, to SGD2.03 from SGD2.01.

A risk to our positive view for the S-REIT sector remains interest rates, as the future direction and level of the 10-year Singapore government securities (SGS) yield is highly uncertain, and any further rise in the bond yield could put pressure again on unit prices.

■ How we differ

We are now firmly more positive than the market, which has, on aggregate, 30 Hold ratings and 22 Buy ratings for the three retail S-REITs based on the Bloomberg consensus.

Key stock calls

	New	Prev.
CapitaMall Trust (CT SP)		
Rating	Outperform	Hold
Target	2.100	2.090
Upside	▲ 12.3%	
Starhill Global REIT (SGREIT SP)		
Rating	Outperform	Hold
Target	0.870	0.870
Upside	▲ 13.7%	
Frasers Centrepoint Trust (FCT SP)		
Rating	Outperform	Outperform
Target	2.030	2.010
Upside	▲ 12.2%	

Source: Daiwa forecasts.

- **Positive** (from Neutral)
- Neutral
- Negative

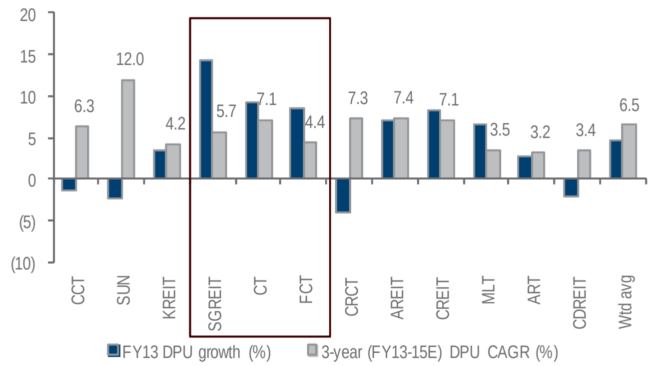
How do we justify our view?

- Growth outlook
- Valuation
- Earnings revisions

Growth outlook

For its defensiveness, the retail S-REIT sector's DPU-growth outlook (by YoY growth for FY13 or FY13-15E DPU CAGR) does not really lag behind the overall S-REIT sector. In fact, the DPU growth we forecast (of 9.3% YoY for 2013 and a CAGR of 7.1% over 2013-15) for heavyweight CMT, underpinned by net-property income (NPI) growth from asset enhancements and investments already announced, is higher than those of many other S-REITs.

FY12-15E DPU CAGR (%) for selected S-REITs



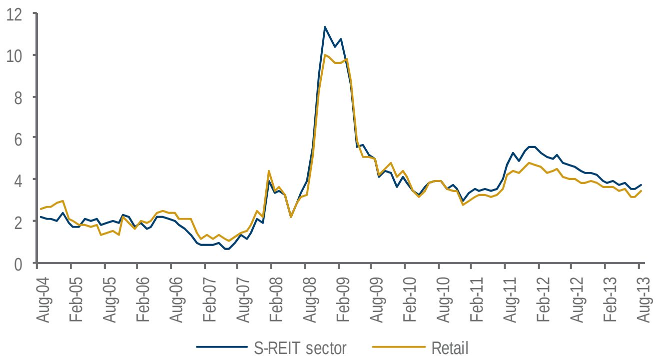
Source: Daiwa forecasts

Valuation

At the end of August 2013, the average yield spread of the retail S-REITs (CMT, FCT, and SGREIT) was 3.5% compared with the median yield spread of 3.3% since August 2004.

For the overall S-REIT sector under our coverage, the weighted average (by market cap) yield spread at the end of August was 3.7% compared with the median yield spread of 3.5% since August 2004. For both the retail S-REITs and the S-REIT sector, we estimate that their yield spreads are about 20bps higher than their median values since August 2004. We also believe that on an absolute basis, their current yield spreads are attractive (compared with REITs in other markets).

Yield spread: S-REIT sector and retail S-REITs (%)

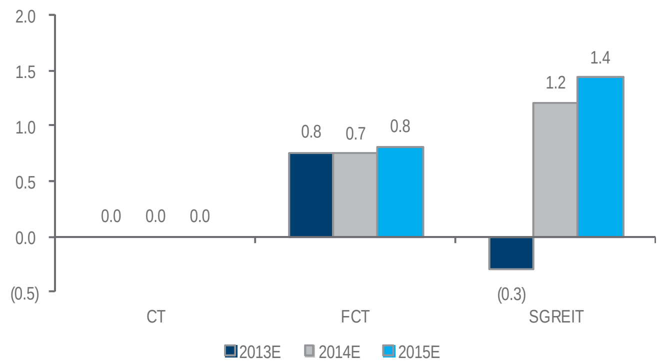


Source: Bloomberg, MAS, Daiwa

Earnings revisions

We have made minor changes to our DPU forecasts given the slight improvement in the underlying fundamentals of the Singapore retail-property sector over the past two-to-three months.

Retail S-REITs: DPU-forecast changes (%)



Source: Daiwa forecasts

Sector stocks: key indicators

		Share	Rating		Target price (local curr.)			EPS (local curr.)					
								FY1			FY2		
Company Name	Stock code	Price	New	Prev.	New	Prev.	% chg	New	Prev.	% chg	New	Prev.	% chg
Ascendas Real Estate Investment Trust	AREIT SP	2.21	Hold	Hold	2.23	2.23	0.0%	0.167	0.167	0.0%	0.185	0.185	0.0%
Ascott Residence Trust	ART SP	1.210	Outperform	Outperform	1.420	1.420	0.0%	0.084	0.084	0.0%	0.091	0.091	0.0%
Cambridge Industrial Trust	CREIT SP	0.665	Hold	Hold	0.710	0.710	0.0%	0.085	0.085	0.0%	0.065	0.065	0.0%
CapitaCommercial Trust	CCT SP	1.370	Outperform	Outperform	1.650	1.650	0.0%	0.088	0.088	0.0%	0.207	0.207	0.0%
CapitaLand	CAPL SP	3.040	Sell	Sell	2.600	2.600	0.0%	0.224	0.224	0.0%	0.268	0.268	0.0%
CapitaMall Trust	CT SP	1.870	Outperform	Hold	2.100	2.090	0.5%	0.147	0.147	0.0%	0.177	0.177	0.0%
CapitaRetail China Trust	CRCT SP	1.360	Outperform	Outperform	1.560	1.560	0.0%	0.162	0.162	0.0%	0.133	0.133	0.0%
CDL Hospitality Trusts	CDREIT SP	1.555	Outperform	Outperform	1.780	1.780	0.0%	0.170	0.170	0.0%	0.184	0.184	0.0%
City Developments	CIT SP	10.16	Sell	Sell	9.50	9.50	0.0%	0.778	0.778	0.0%	0.734	0.734	0.0%
Frasers Centrepoint Trust	FCT SP	1.810	Outperform	Outperform	2.030	2.010	1.0%	0.228	0.207	10.1%	0.141	0.138	2.6%
Global Logistic Properties	GLP SP	2.770	Outperform	Outperform	3.250	3.250	0.0%	0.121	0.121	0.0%	0.136	0.136	0.0%
Keppel REIT	KREIT SP	1.205	Outperform	Outperform	1.280	1.280	0.0%	0.060	0.060	0.0%	0.125	0.125	0.0%
Mapletree Logistics Trust	MLT SP	1.055	Hold	Hold	1.070	1.070	0.0%	0.073	0.073	0.0%	0.073	0.073	0.0%
Starhill Global REIT	SGREIT SP	0.765	Outperform	Hold	0.870	0.870	0.0%	0.139	0.108	28.3%	0.088	0.083	6.3%
Suntec REIT	SUN SP	1.545	Buy	Buy	2.010	2.010	0.0%	0.053	0.053	0.0%	0.170	0.170	0.0%

Source: Daiwa forecasts

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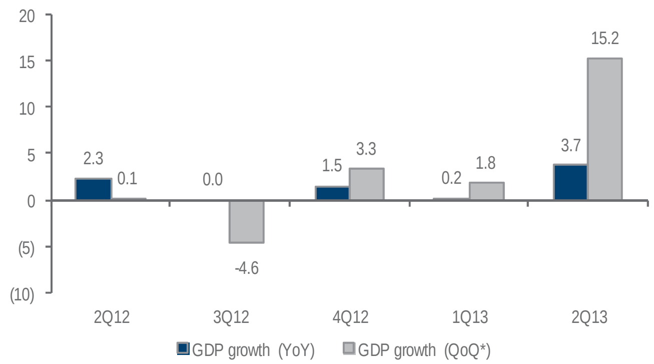
Growing divergence between these two trends only makes retail S-REITs more attractive

Fundamentals: improving modestly

Government upgrades GDP-growth outlook

On 12 August, the Singapore Ministry of Trade and Industry (MITI) raised its GDP-growth forecast for 2013 to 2.5-3.5% YoY from 1-3% YoY. MITI's brighter outlook was based on the view that "externally-oriented sectors like manufacturing and transportation & storage are likely to provide support to growth, in line with the gradual pick-up in the global economy, while domestically-oriented sectors such as construction and business services are also expected to remain resilient".

■ Singapore: quarterly GDP growth (%)



Source: Singapore MITI.
*Note: *Seasonally-adjusted, annualised*

Shortly afterwards, it was reported (in the *Singapore Business Times* on 5 September 2013) that the median 2013 GDP growth forecast based on a poll by the MAS of 19 private-sector economists and analysts, conducted in mid-August, was 2.9% YoY, compared with a median forecast of 2.3% in the previous poll in June. The biggest upward revision came in the finance and insurance sector: 10.6% YoY compared with 6.1% YoY previously. The outlook for the unemployment rate (at the end of 2013) was unchanged, at 2.0%.

Among the property segments in the S-REIT universe, we believe the upward revision to 2013 GDP growth clearly will be positive for the retail S-REITs, as the outlook for domestic consumption, which has been stable but subdued over the past 12 months, should immediately improve, raising the prospect of better retail sales and firmer retail rents.

Daiwa's GDP forecast is below consensus

Daiwa's Singapore economic-growth forecast is 1.5% YoY for 2013, 2.0% YoY for 2014, and 2.3% YoY for 2015. The main risk to our base case remains the uncertainty with the Fed's monetary policy. The details are discussed in our 17 July 2013 report, *Fed's exit, China's structural slowdown and a paradigm shift*.

The median GDP forecasts, according to the MAS *Survey of Professional Forecasters: September 2013*, is 2.9% YoY for 2013 and 3.5% YoY for 2014.

Retail sales: some underlying strength?

The headline retail-sales index (including motor vehicles) has not impressed the market lately, but we see some evidence of possible underlying strength, judging by the single-digit, but mostly positive YoY growth for many of its key components (the most recent data for June was released on 15 August). Moreover, assuming that the economy recovers further in 2H13, in line with the median GDP-growth forecast from the latest MAS survey, we would expect the YoY growth of the retail sales index to strengthen in the coming months.

■ **Singapore retail sales index and selected components (% chg YoY)**

	Total sales*	Dept stores	Super-markets	F&B	Apparel & footwear	Watches & jewellery
Jan-12	3.5	3.1	8.5	14.1	1.9	8.3
Feb-12	8.4	4.7	2.3	(3.0)	3.2	6.3
Mar-12	6.3	5.4	7.2	5.3	6.9	9.9
Apr-12	3.2	0.4	6.4	3.7	1.6	3.8
May-12	0.9	(2.0)	4.8	3.5	(0.4)	(2.2)
Jun-12	2.4	0.8	10.7	0.4	1.4	(9.4)
Jul-12	(0.7)	(1.9)	5.8	3.8	(1.1)	(4.5)
Aug-12	3.3	2.7	8.2	4.0	6.2	(2.1)
Sep-12	4.2	3.3	13.8	6.5	3.7	(1.9)
Oct-12	1.1	0.4	6.5	(0.3)	1.2	(3.2)
Nov-12	1.7	1.8	8.7	4.8	3.7	1.9
Dec-12	(0.7)	0.3	7.3	6.3	(2.0)	0.1
Jan-13	(5.3)	(9.1)	(8.7)	(22.3)	(8.1)	(6.6)
Feb-13	9.9	19.4	24.6	55.7	24.0	9.6
Mar-13	0.8	5.5	7.2	7.0	1.7	1.3
Apr-13	0.1	0.3	4.4	4.8	(2.7)	6.6
May-13	3.0	5.4	7.1	7.4	0.8	7.5
Jun-13	2.6	6.2	7.7	7.8	0.9	4.4

*Source: Singapore Department of Statistics; *excluding motor vehicles; note that the January and February 2013 changes were distorted by the occurrence of the Chinese Lunar New Year in January 2012 but February 2013*

Supply-demand: not too bad

Compared with the other major S-REIT property sectors (office, industrial, and hospitality), the retail-property sector's supply-demand outlook over the next 1-3 years looks the most favourable, in our view.

Although the CBD office sector faces a benign supply outlook up to the end of 2015, we think office-space demand, especially for larger spaces (those over 10,000 sq ft) remains highly uncertain, with almost no visibility. Meanwhile, most segments of the industrial-property sector and the hotel sector will face considerable new space in 2013-14.

One advantage of retail supply: high pre-commitment levels

The retail-property sector is not immune to supply risk, but we believe the impending addition of new retail space is well known, and, more importantly, the strong rate of pre-leasing for the major new malls and retail additions (including refurbished space) ahead of their openings, for many close to 100%, is what separates the shopping-mall sector from the other commercial-property sectors. Jem (at Jurong East) and phase 1 of the current Suntec City retail refurbishment had high levels of pre-commitments ahead of their openings recently and we would expect similarly strong take-ups for the other major mall openings over the next few quarters including Westgate (retail) and Bedok Mall.

■ **Singapore: stock of private retail space**

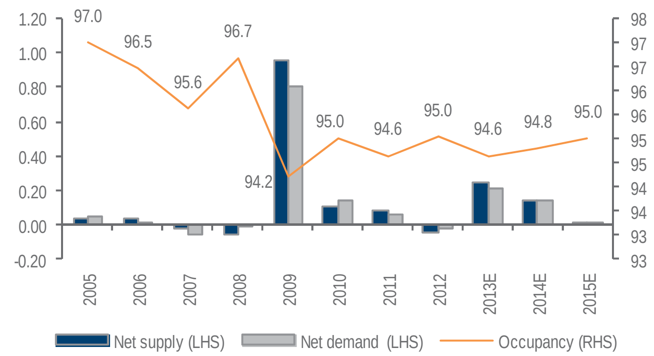
	sq m ('000)	sq ft (m)	% of total
Downtown core	284	3.06	11.9
Orchard	478	5.15	20.1
Rest of Singapore	1,615	17.38	67.9
Total	2,377	25.59	100.0

Source: Singapore Urban Redevelopment Authority

New supply no threat on Orchard Road

For Orchard Road, there will be a few new mall openings (and re-openings) over 2013-14, but we do not expect much disruption since the new additions represent a fraction of the supply that came on stream in 2009. Moreover, the new retail space scheduled for completion will be situated in (arguably) slightly less desirable locations along the Orchard Road corridor, so we do not expect it to create much competition for existing retail properties (with the possible exception of Centrepoint). We also expect strong demand for the new space since Orchard Road space remains scarce and highly prized for those international retailers looking to open their first outlet in Singapore.

■ **Orchard Road: annual supply, demand (m sq ft) and occupancy rate (%)**

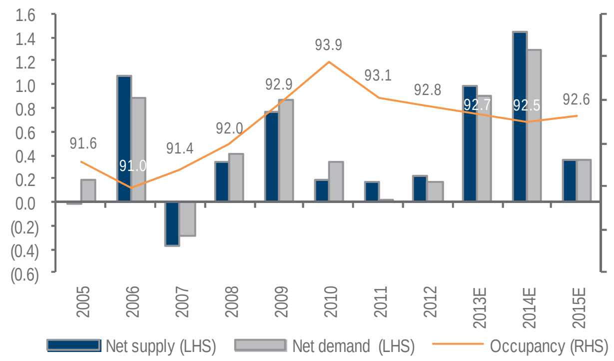


Source: Singapore URA, Jones Lang LaSalle, Daiwa forecasts

New supply concentrated in the suburbs

There will be a considerable supply of new retail space in the rest of Singapore (excluding the downtown core and Orchard Road), mostly in the suburbs as the government steadily introduces more and more retail space to a few decentralised commercial centres and suburban housing estates. Owing to the sheer size of the new supply (we estimate about 7-10% of existing suburban [rest of Singapore] retail stock for 2013 and 2014), we expect a slight decline in the occupancy rate for 2013 and 2014. However, since the new shopping malls are being introduced in population catchments that are probably underserved currently, we would expect reasonably healthy take-up and pre-commitments for the new malls.

■ **Rest of Singapore: annual supply, demand (m sq ft) and occupancy rate (%)**



Source: Singapore URA, Jones Lang LaSalle, Daiwa forecasts

■ **Singapore retail-space pipeline**

	Project	Location	NLA (sq ft)
	2013 Supply		
A	Orchard Gateway	Orchard Road	144,000
A	The Heeren	Orchard Road	165,075
B	Chinatown Point	New Bridge Road	205,000
B	Asia Square Tower 2 - retail	Marina View	27,000
B	Suntec City - phase 1	Temasek Boulevard	187,000
B	Connexion	Farrer Park	9,343
B	Bugis Cube	North Bridge Road	46,630
C	JEM by Land Lease	Boon Lay Way	572,600
C	Westgate	Boon Lay Way	402,272
C	CT Hub	Kallang Bahru	43,099
C	East Coast Village	East Coast Road	47,000
C	Empress Square	Clementi	81,400
C	Digitsun Mall	Ang Mo Kio	50,000
C	Days Hotel and Ramada Sq	Balestier Road	46,941
		2013 subtotal	2,027,360
	2014 Supply		
A	268 Orchard	Orchard Road	103,226
A	Refurbished Shaw Centre	Orchard Road	71,795
B	One Raffles Place refurbishment	Raffles Place	6,893
B	Capitol Piazza	Stamford Road	160,000
B	Marina Square refurbishment	City Hall	140,000
C	Bedok Mall	Bedok Town Centre	262,683
C	Big Box	Jurong Gateway	258,334
C	Fairprice at Benoit Rd	Benoi Road	65,703
C	Shopping at Sports Hub	Stadium Boulevard	370,000
C	Aperia at Lavender St	Lavender	96,746
C	Fusionopolis Way	Fusionopolis	42,270
C	One KM	Tanjong Katong Road	210,000
C	The Seletar Mall	Fernvale Road	188,000
C	Refurbished Eastpoint Mall	Simei Drive	190,000
C	Warehouse/shopping	Sungei Kadut Drive	20,796
C	Paya Lebar Square	Paya Lebar Road	95,000
		2014 subtotal	2,281,446
	2015 Supply		
A	Tangs - additional retail	Orchard Road	7,000
B	South Beach	Beach Road	110,610
B	OUE Downtown	Shenton Way	160,000
B	V on Shenton	Shenton Way	4,898
C	Waterway Point	Punggol Central	365,020
C	CentroPod @ Changi	Changi Road	12,809
C	Alexandra Central	Alexandra Rd	47,899
C	The Springside	Springsdale Av	26,070
		2015 subtotal	734,306
	2013-15 total		5,043,112

Source: Jones Lang LaSalle, Daiwa estimates
Note: A = Orchard Road, B= downtown core, C= rest of Singapore including the suburbs

Subdued outlook for rents

Since we are forecasting a slight increase in the (island-wide, private) retail vacancy rate from 6.4% at the end of 2012 to 6.6% by the end of 2013, and to 6.7% by the end of 2014 (before recovering to 6.5% by the end of 2015) due to the concentration of new supply in the suburban areas, we expect retail rental growth to remain muted: 0% YoY for both suburban and Orchard Road for 2013, improving slightly to 1% YoY for 2014 and 2% YoY for 2015 for suburban; and 2% YoY for 2014 and 2015 for Orchard Road. This stable, but subdued rental-growth outlook has not changed much since our last comprehensive report on the retail S-REIT on 18 September 2012, *Coping with slow growth*.

Sector rating: Upgrade to Positive

With the underlying fundamentals of the Singapore retail property sector improving slightly given the government's upgrade of the 2013 GDP forecast in mid-August and resilience of the recent retail-sales index combined with the YTD and 3-month decline in unit prices (by as much as 12%) of the retail S-REITs (for those with assets in Singapore), we upgrade our rating for the retail S-REITs to Positive from Neutral. All retail S-REITs now have attractive potential upsides to our six-month target prices, pegged to our DDM valuations. The DDM valuations have changed little YTD.

Rating upgrades: CMT and SGREIT

CMT: upgrade to Outperform from Hold

We upgrade CMT to Outperform (2) from Hold (3), after the unit price's YTD (and 3-month) underperformance vs. the FSTREI and FSSTI.

We believe CMT is now trading at attractive valuations, at a price to Daiwa NAV (our DDM valuation) of 0.89x vs. the median of 0.97x since August 2004, and a 2014E DPU yield of 6% vs. the median forward yield of 5.3% over the same period.

Now finally trading at undemanding valuations, sector heavyweight CMT is our top pick among retail S-REITs.

We have not changed our DPU forecasts.

Target price raised to SGD2.10

We raise our target price, pegged to parity with our DDM valuation, to SGD2.10 from SGD2.09 due to a higher present value arising from the passage of time (since our last report on 31 July 2013).

A risk to our new rating would be a sharp increase in the 10-year SGS yield.

SGREIT: upgrade to Outperform from Hold

We upgrade SGREIT to Outperform (2) from Hold (3) and regard the absolute yield spread of 4.0% (the highest among the retail S-REITs) as attractive given the resiliency (based on our forecasts) of its DPU for 2013-15.

We maintain our six-month DDM-derived target price of SGD0.87.

One risk to our new rating would be a severe downturn in Orchard Road rents.

FCT: maintain Outperform rating

We maintain our Outperform (2) rating for FCT, and believe the sponsor's aggressive winning bid for the Yishun Central mixed development site would allow the sponsor (and we believe eventually, FCT) to add a sizable and complementary mall with direct connection to Northpoint to its portfolio.

FCT target price raised to SGD2.03

In line with our slight upward DPU revisions after the 3Q FY13 results announcement, we raise our target price, pegged to parity with our DDM valuation, to SGD2.03 from SGD2.01.

A risk to our call would be an unforeseen disruption to one of its assets or a sudden downturn in the suburban retail-property sector.

The SPH REIT effect

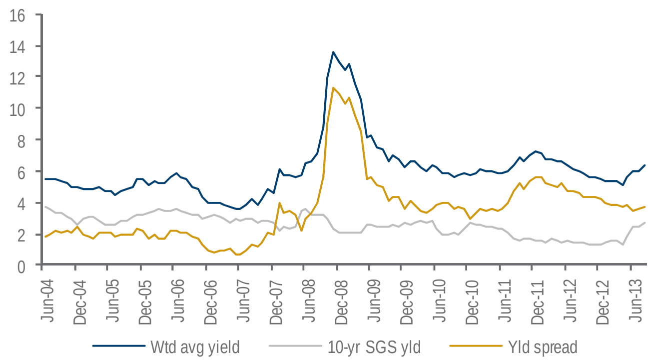
The lingering weakness in unit prices of the retail S-REIT sector since the public offer of SPH REIT (Not rated) on 17 July 2013 could have been partly caused by asset allocation to the SPH REIT IPO, as well as possibly other S-REIT IPOs during the period. SPH REIT attracted some big-name cornerstone investors including NTUC Co-operative, Great Eastern Life Assurance, Hong Leong Asset Management, Morgan Stanley Investment Management, Newton Investment Management, and Norges Bank.

The SPH REIT unit price has held up well relative to its offer price of SGD0.90 per unit. At the latest closing price of SGD0.96, its FY14 (financial-year end September) DPU yield based on the prospectus forecast of 5.21¢ is 5.4% (5.2% excluding income support), the lowest among its peers. On an FY14E DPU yield basis, all other retail S-REITs now look cheap vs. SPH REIT, and their DPU-growth prospects could even be stronger, in our opinion, than that of SPH REIT.

Major concern: interest-rate risk

For the S-REIT sector, we remain wary of lingering interest-rate risk, as the future direction and level of the 10-year Singapore government securities (SGS) yield still looks highly uncertain, and any further rise in the bond yield, which is near parity with the US 10-year bond yield, could put pressure again on S-REIT unit prices. At the end of August, the sector's weighted-average yield spread, based on our calculations, was 3.7%, slightly higher than its long-term (since June 2004) median yield spread 3.5%.

■ S-REIT: weighted-average sector DPU yield, 10-year SGS yield, and yield spread (%)



Source: Bloomberg, Daiwa

■ Singapore retail-property market: core assumptions

Singapore retail		2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	Comment
Supply (private island-wide)	m sq ft	(0.42)	0.20	1.70	0.80	0.28	0.09	1.62	1.83	0.59	New supply for 2013-14 concentrated in the suburbs
Demand (private island-wide)	m sq ft	(0.27)	0.30	1.59	0.89	0.19	0.05	1.48	1.68	0.60	We still expect healthy take-up rates
Vacancy (end of year)	%	7.2	6.7	6.7	6.1	6.3	6.4	6.6	6.7	6.5	Stable; set to subside from 2015
Rents (4Q)											
Prime grade-A Orchard	SGD/sq ft/mth	40.70	41.20	37.90	38.10	37.80	37.66	37.65	38.41	39.18	Stable growth, assuming no severe economic downturn
YoY change	*%*	*2.9*	*1.2*	*(8.0)*	*0.5*	*(0.8)*	*(0.4)*	*(0.0)*	*2.0*	*2.0*	
Prime grade-A suburban	SGD/sq ft/mth	28.25	28.45	27.00	27.60	28.20	28.19	28.19	28.47	29.05	New supply to limit rental growth for 2013-14
YoY change	*%*	*2.8*	*0.7*	*(5.1)*	*2.2*	*2.2*	*(0.0)*	*0.0*	*1.0*	*2.0*	
Capital values (end of year)											
1st storey Orchard	SGD/sq ft	3,555	3,660	3,345	3,450	3,700	3,940	4,080	4,162	4,246	We expect resilient capital values even with Fed unwinding.
YoY change	*%*	*14.3*	*3.0*	*(8.6)*	*3.1*	*7.2*	*6.5*	*3.6*	*2.0*	*2.0*	
1st storey suburban	SGD/sq ft	1,185	1,230	1,130	1,185	1,350	1,418	1,470	1,485	1,515	New supply should help moderate suburban capital-value growth
YoY change	*%*	*16.2*	*3.8*	*(8.1)*	*4.9*	*13.9*	*5.0*	*3.7*	*1.0*	*2.0*	
Yield (Orchard) (end of quarter)	%	5.3	5.6	5.5	5.0	4.9	4.9	4.9	4.9	4.9	

Source: Singapore URA, Jones Lang LaSalle, Daiwa forecasts

■ S-REITs: comparison

S-REIT	Capita Commerc'l	Suntec REIT	Keppel REIT	Starhill Global REIT	CapitaMall Trust	Frasers Centrepoint	CapitaRetail China Trust	Ascendas REIT	Cambridge Ind Trust	Mapletree Logistics	Ascott Residence	CDL Hospitality	Daiwa sector
Bloomberg code	CCT SP	SUN SP	KREIT SP	SGREIT SP	CT SP	FCT SP	CRCT SP	AREIT SP	CREIT SP	MLT SP	ART SP	CDREIT SP	wgt-avg
Financial year end	Dec	Dec	Dec	Dec	Dec	Sep	Dec	Mar	Dec	Dec	Dec	Dec	
Daiwa numerical rating	2	1	2	2	2	2	2	3	3	3	2	2	
Daiwa rating	O/P	Buy	O/P	O/P	O/P	O/P	O/P	Hold	Hold	Hold	O/P	O/P	
Unit price (SGD) at 10-Sep-13	1.37	1.545	1.205	0.765	1.87	1.81	1.36	2.21	0.665	1.055	1.21	1.555	
Market cap (USDbn)	3.1	2.7	2.5	1.3	5.1	1.2	0.8	4.2	0.6	2.0	1.2	1.2	
Avg daily turnover (USDm)	9.4	10.0	6.7	1.5	14.5	1.7	1.0	15.7	1.6	3.0	1.0	2.6	8.8
Total assets (USDbn)	5.5	6.2	4.9	2.2	7.7	1.5	1.3	5.5	1.0	3.3	2.4	1.8	
FY13 DPU Yield (%)	5.8	6.0	6.7	6.8	5.5	6.0	6.7	6.7	7.8	6.9	7.4	7.1	6.3
FY14 DPU Yield (%)	6.1	7.3	7.0	6.7	6.0	6.1	7.8	7.4	8.2	7.1	7.6	7.4	6.8
DPU growth FY13 (%)	*(1.3)*	*(2.4)*	*3.3*	*14.3*	*9.3*	*8.4*	*(4.1)*	*7.1*	*8.3*	*6.7*	*2.6*	*(2.1)*	*4.6*
DPU growth FY14 (%)	*4.5*	*21.5*	*5.2*	*(0.4)*	*8.1*	*2.2*	*15.5*	*11.7*	*5.7*	*2.5*	*2.4*	*4.4*	*8.0*
DPU growth FY15 (%)	*16.6*	*18.6*	*4.0*	*0.4*	*4.1*	*2.5*	*11.4*	*3.5*	*7.4*	*1.3*	*4.6*	*8.1*	*7.1*
Latest book value (SGD)	1.64	2.06	1.29	0.87	1.70	1.54	1.33	1.94	0.65	0.92	1.32	1.60	
PBR (x)	0.84	0.75	0.93	0.88	1.10	1.17	1.02	1.14	1.03	1.15	0.92	0.97	1.00
Book value FY13E (SGD)	1.69	2.03	1.30	0.95	1.72	1.66	1.51	1.98	0.70	0.93	1.35	1.66	
PBR (13E) (x)	0.81	0.76	0.93	0.80	1.09	1.09	0.90	1.12	0.95	1.14	0.90	0.94	0.98
Latest gearing (%)	30.0	38.6	44.2	30.3	34.3	30.4	25.6	28.5	35.3	33.8	35.3	29.7	33.5
DDM valuation (SGD)	1.65	2.01	1.28	0.87	2.10	2.03	1.56	2.23	0.71	1.07	1.42	1.78	
Daiwa target (SGD)	1.65	2.01	1.28	0.87	2.10	2.03	1.56	2.23	0.71	1.07	1.42	1.78	
Avg remaining leasehold (years)	96	83	98	75	83	82	30	48	43	83	98	81	78
Upside to target (%)	***20.4***	***30.1***	***6.2***	***13.7***	***12.3***	***12.2***	***14.7***	***0.9***	***6.8***	***1.4***	***17.4***	***14.5***	***12.2***

Source: Daiwa estimates

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The 10-second briefing

CapitaMall Trust
CT SP

Target (SGD): **2.090 → 2.100**
Upside: **12.3%**
10 Sep price (SGD): **1.870**

More enticing valuations

- We upgrade CMT to Outperform (2) from Hold (3), after the unit price's YTD underperformance vs. the FSTREI, FSSTI
- Now trading at undemanding valuations vs. its median price to Daiwa NAV and forward DPU yield since August 2004
- We raise our DDM-derived target price to SGD2.10 from SGD2.09 on a higher present value from the passage of time

1 Buy
2 **Outperform** (from Hold)
3 Hold
4 Underperform
5 Sell

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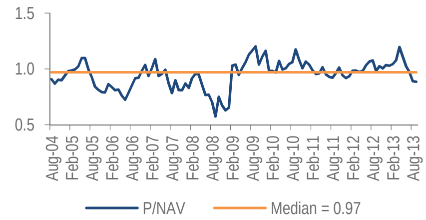
■ What's new

We reconsider the investment merits of CapitaMall Trust (CMT) in view of the underperformance of its units (YTD and over the past three months) compared with the S-REIT sector (the FSTREI) and the FSSTI.

■ What's the impact

We believe CMT is now trading at attractive valuations, at a price to Daiwa NAV (our DDM valuation) of 0.89x vs. the median of 0.97x since August 2004, and a 2014E DPU yield of 6% vs. the median forward yield of 5.3% over the same period.

■ CMT: price to Daiwa NAV (x)



Source: Bloomberg, Daiwa

The outlook for the retail-property sector has not changed over the past few months, and has even (arguably) improved slightly.

■ What we recommend

With the unit price sold down to what we regard as an attractive level, we upgrade our rating to Outperform (2) from Hold (3). We raise our target price, pegged to parity with our DDM valuation, to SGD2.10 from SGD2.09 due to a higher present value arising from the passage of time since our 31 July 2013 report, *Solid, but still looks fully valued.* We have not made any changes to our DPU forecasts, and still expect CMT to deliver above-average (relative to both the overall S-REIT sector and to its retail S-REIT peers) DPU growth of 8.1% YoY for 2014E and a 2013-15E CAGR of 7.1%. We believe a positive catalyst could come from more acquisition or asset-enhancement initiative (AEI) announcements over the next few quarters. A risk to our new rating would be a sharp increase in the 10-year SGS yield.

■ CMT: Daiwa DDM valuation

Wtd-average remaining leasehold (years)	83
Cost of equity	7.0%
Long-term growth rate	1.5%
Effective cap rate	5.5%
PV of 10-year DPU forecasts (SGD)	0.85
PV of terminal value (SGD)	1.26
PV of debt obligation (SGD)	(0.00)
DDM valuation (SGD)	2.10

Source: Daiwa estimates

■ How we differ

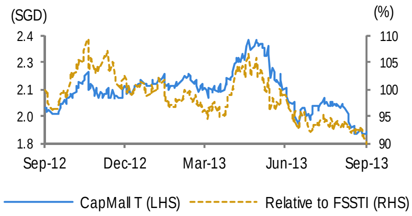
Our DPU forecasts are 0.3-2.1% higher than consensus as the market might still be underestimating CMT's DPU-growth potential.

Forecast revisions (%)

Year to 31 Dec	13E	14E	15E
Revenue change	-	-	-
Net-property-income chg	-	-	-
DPU change	-	-	-

Source: Daiwa forecasts

Share price performance



12-month range	1.850-2.380
Market cap (USDbn)	5.09
3m avg daily turnover (USDm)	14.26
Shares outstanding (m)	3,460
Major shareholder	CapitaMalls Asia/CapitaLand (27.6%)

Financial summary (SGD)

Year to 31 Dec	13E	14E	15E
Revenue (m)	730	773	805
Net property income (m)	497	531	556
Distribution (m)	357	396	421
DPU	0.103	0.112	0.116
DPU change (%)	9.3	8.1	4.1
Daiwa vs Cons. DPU (%)	0.3	1.6	2.1
DPU yield (%)	5.5	6.0	6.2
PER (x)	12.7	10.6	10.7
Core EPU (fully-diluted)	0.147	0.177	0.175
P/BV (x)	1.1	1.0	1.0
ROE (%)	8.8	10.0	9.5

Source: FactSet, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Funds from operations (SGDm)	212	235	256	268	287	358	395	429
FFO per unit (SGD)	0.127	0.081	0.080	0.084	0.086	0.104	0.112	0.118
Adjusted FFO (SGDm)	195	216	236	248	265	334	369	401
Adjusted FFO (SGD)	0.117	0.074	0.074	0.077	0.079	0.096	0.104	0.111
Gross debt to assets (%)	42.2	30.3	35.1	37.4	36.2	33.3	29.0	28.3
Portfolio occupancy (retail) (%)	99.7	99.8	99.3	94.8	98.2	99.4	99.5	99.5

Profit and loss (SGDm)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Total revenue	511	553	581	631	662	730	773	805
Operating expenses	(170)	(176)	(182)	(212)	(216)	(233)	(242)	(249)
Net property income	341	377	399	418	445	497	531	556
Other income	0	0	0	0	0	0	0	0
Management fees	(31)	(34)	(36)	(39)	(43)	(45)	(47)	(49)
Other operating expenses	(4)	(6)	(3)	(4)	(5)	(5)	(5)	(5)
Depreciation and amortisation	0	0	0	0	0	0	0	0
EBIT	306	337	360	375	397	447	479	502
Net-int. income/(expenses)	(101)	(104)	(116)	(133)	(132)	(117)	(106)	(98)
Share of associates	8	4	13	26	20	29	23	25
Revaluation gains/(loss)	323	(302)	10	121	166	148	231	206
Except./other inc./(exp.)	26	2	4	(5)	84	4	0	0
Profit before tax	562	(63)	270	384	534	510	627	635
Taxation	(1)	(2)	0	(0)	2	(0)	0	0
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit	561	(65)	270	384	536	510	627	635
Total return	561	(65)	270	384	536	510	627	635
Adjustments	(323)	347	35	(86)	(204)	(143)	(216)	(196)
Distributable income	238	282	305	298	332	366	411	439
Distribution rate	1.00	1.00	0.97	1.01	0.95	0.98	0.96	0.96
Distribution	238	282	295	302	317	357	396	421
EPU (SGD)	0.337	(0.022)	0.085	0.120	0.161	0.147	0.177	0.175
DPU (SGD)	0.143	0.089	0.092	0.094	0.095	0.103	0.112	0.116

Cash flow (SGDm)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Profit before tax	562	(63)	270	384	534	510	627	635
Depreciation and amortisation	0	0	0	0	0	0	0	0
Net-interest expenses	101	104	116	133	132	117	106	98
Share of associate	(8)	(4)	(13)	(26)	(20)	(29)	(23)	(25)
Change in working capital	28	5	17	0	55	(57)	0	0
Tax paid	(1)	(0)	(0)	0	1	0	0	0
Other operating CF items	(334)	315	(8)	(109)	(243)	(182)	(217)	(193)
Cash flow from operation	348	356	383	381	459	360	493	515
Capex	(226)	(66)	(62)	(132)	(241)	(51)	(51)	(51)
Net investment and sale of FA	(885)	0	(261)	(596)	101	(39)	0	0
Other investing CF items	9	11	12	12	21	15	21	24
Cash flow from investing	(1,102)	(54)	(311)	(716)	(119)	(75)	(30)	(28)
Change in debt	1,164	(973)	669	551	208	(355)	0	0
Equity raised/(repaid)	0	1,232	0	250	250	0	0	0
Distribution paid	(216)	(266)	(295)	(300)	(312)	(303)	(397)	(428)
Other financing CF items	(95)	(112)	(84)	(121)	(126)	(102)	(96)	(93)
Cash flow from financing	853	(119)	290	380	20	(760)	(494)	(522)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	99	182	362	45	361	(476)	(31)	(35)

Source: FactSet, Daiwa forecasts

Financial summary continued ...

Balance sheet (SGDm)

As at 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Cash & cash equivalent	168	351	713	758	1,118	643	612	577
Accounts receivable	14	12	8	30	13	13	13	13
Other current assets	5	0	0	0	0	0	0	0
Total current assets	187	363	721	788	1,131	656	625	590
Investment properties	7,174	6,921	7,272	7,849	8,192	8,389	8,671	8,927
Fixed assets	2	2	2	2	2	2	2	2
Associates	144	137	132	139	153	172	180	188
Goodwill and intangible assets	0	0	0	0	0	0	0	0
Other long-term assets	2	0	0	395	411	450	450	450
Total assets	7,509	7,423	8,126	9,172	9,889	9,669	9,928	10,158
Short-term debt	0	0	0	0	0	0	0	0
Accounts payable	157	147	167	255	289	225	225	225
Other current liabilities	2	2	76	71	156	109	109	109
Total current liabilities	158	149	243	326	445	334	334	334
Long-term debt	3,202	2,240	2,860	3,424	3,567	3,212	2,869	2,869
Other non-current liabilities	69	64	83	176	173	182	182	182
Total liabilities	3,429	2,453	3,187	3,926	4,186	3,728	3,385	3,385
Unitholders' funds	4,080	4,970	4,939	5,246	5,703	5,941	6,543	6,773
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	7,509	7,423	8,126	9,172	9,889	9,669	9,928	10,158
Book Value per unit	2.448	1.563	1.551	1.576	1.650	1.717	1.808	1.870

Key ratios (%)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Total revenue (YoY)	18.3	8.2	5.1	8.5	4.9	10.3	5.9	4.1
Net property income (YoY)	18.5	10.4	5.9	4.8	6.5	11.5	6.8	4.7
Net profit (YoY)	(7.7)	n.a.	n.a.	42.3	39.6	(5.0)	23.0	1.3
Distribution (YoY)	12.9	18.3	4.6	2.3	5.1	12.8	10.7	6.5
EPU (YoY)	(12.5)	n.a.	n.a.	41.2	33.9	(8.2)	20.1	(1.0)
DPU (YoY)	7.1	(38.1)	4.4	1.4	1.0	9.3	8.1	4.1
ROE	14.4	n.a.	5.5	7.5	9.8	8.8	10.0	9.5
ROA	8.3	n.a.	3.5	4.4	5.6	5.2	6.4	6.3
ROCE	4.8	4.7	4.9	4.6	4.5	4.9	5.3	5.4
ROIC	4.8	4.9	5.2	5.0	4.9	5.4	5.5	5.6
Debt to asset	42.6	30.2	35.2	37.3	36.1	33.2	28.9	28.2
Net debt to equity	74.4	38.0	43.5	50.8	42.9	43.2	34.5	33.8
Effective tax rate	0.2	n.a.	0.0	0.0	n.a.	0.0	0.0	0.0

Source: FactSet, Daiwa forecasts

Company profile

Listed in July 2002, CapitaMall Trust is the first and largest S-REIT by market capitalisation and asset size. It owns 14 retail properties (valued at SGD8.32bn as at 30 June 2013), all located in Singapore.

The 10-second briefing

Starhill Global REIT

SGREIT SP

Target (SGD): **0.870 → 0.870**
Upside: **13.7%**
10 Sep price (SGD): **0.765**

Descending to an attractive level

- We upgrade our rating to Outperform (2) from Hold (3) and regard the absolute yield spread of 4.0% as highly attractive
- DPU underpinned by Orchard Road rental growth, Toshin master lease, diversified portfolio
- No change to our DDM-derived target price of SGD0.87

1 Buy
2 Outperform (from Hold)
3 Hold
4 Underperform
5 Sell

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What's new

We reconsider the investment merits of Starhill Global REIT (SGREIT), after raising our DPU forecasts from 2014 to factor in the Toshin lease renewal. We also note that the units have corrected such that the absolute yield spread has reached 4%, the widest among the retail S-REITs.

What's the impact

We have made minor revisions (-0.3 to 1.4%) to our DPU forecasts for 2013-15, after incorporating the 2Q13 results (announced on 23 July 2013) into our forecasts. Although the 2Q13 DPU of 1.19 cents was exactly in line with our forecast, the NPI was 3% below due to weaker-than-expected contributions from its properties in Japan, China and Australia. We have also incorporated the base rent increase of 6.7% (over the previous rate) for the Toshin master lease renewal (retail space at Ngee Ann City) for another 12 years from 8 June 2013 (announced on 10 June 2013) into our forecasts. We maintain our six-month, DDM-derived, target price of SGD0.87.

SGREIT: Daiwa DDM valuation

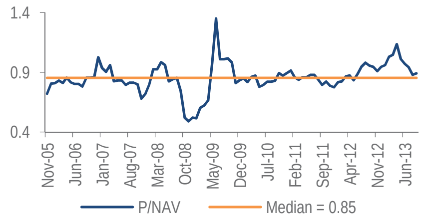
Wtd-average remaining leasehold (years)	75
Cost of equity	7.50%
Long-term growth rate	1.50%
Effective cap-rate	6.0%
PV of 10-year DPU forecasts (SGD)	0.37
PV of terminal value (SGD)	0.51
PV of debt obligation (SGD)	(0.00)
DDM valuation (SGD)	0.87

Source: Daiwa estimates

What we recommend

We upgrade our rating to Outperform (2) from Hold (3). Relative to its trading history since November 2005, SGREIT is not trading below its median price to Daiwa NAV (of 0.85x) or above its median forward yield (of 6.7%). However, we believe its current yield spread of 4.0% (FY14E yield of 6.7% less 10-year bond yield of 2.7%) is highly attractive on an absolute basis. One risk to our call would be a downturn in Orchard Road rents.

SGREIT: price to Daiwa NAV (x)



Source: Bloomberg, Daiwa

How we differ

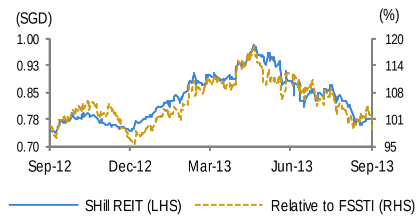
Our DPU forecasts are 3.3-3.7% higher than consensus as the market is probably underestimating the resilience of SGREIT's DPU.

Forecast revisions (%)

Year to 31 Dec	13E	14E	15E
Revenue change	(0.8)	(0.1)	-
Net-property-income chg	(0.8)	(0.3)	(0.2)
DPU change	(0.3)	1.2	1.4

Source: Daiwa forecasts

Share price performance



12-month range	0.740-0.985
Market cap (USDbn)	1.30
3m avg daily turnover (USDm)	1.45
Shares outstanding (m)	2,153
Major shareholder	YTL Group (36.3%)

Financial summary (SGD)

Year to 31 Dec	13E	14E	15E
Revenue (m)	207	213	217
Net property income (m)	164	170	173
Distribution (m)	109	111	112
DPU	0.052	0.052	0.052
DPU change (%)	18.0	(0.4)	0.4
Daiwa vs Cons. DPU (%)	3.6	3.3	3.7
DPU yield (%)	6.8	6.7	6.8
PER (x)	5.5	8.7	12.6
Core EPU (fully-diluted)	0.139	0.088	0.061
P/BV (x)	0.8	0.8	0.8
ROE (%)	15.6	9.1	6.1

Source: FactSet, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Funds from operations (SGDm)	58	63	81	87	97	108	112	113
FFO per unit (SGD)	0.061	0.041	0.042	0.045	0.050	0.052	0.052	0.052
Adjusted FFO (SGDm)	53	57	74	80	89	100	104	104
Adjusted FFO per unit (SGD)	0.056	0.038	0.038	0.041	0.046	0.048	0.048	0.048
Gross debt to assets (%)	31.0	26.9	30.2	30.8	30.4	29.2	28.4	28.3

Profit and loss (SGDm)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Total revenue	127	135	166	180	186	207	213	217
Operating expenses	(31)	(28)	(35)	(37)	(38)	(43)	(43)	(44)
Net property income	96	107	130	144	148	164	170	173
Other income	0	0	0	0	0	0	0	0
Management fees	(11)	(11)	(13)	(14)	(14)	(14)	(15)	(16)
Other operating expenses	(3)	(6)	(2)	(4)	(2)	(4)	(4)	(4)
Depreciation and amortisation	0	0	0	0	0	0	0	0
EBIT	81	90	115	126	133	146	151	154
Net-int. income/(expenses)	(22)	(23)	(31)	(34)	(32)	(34)	(34)	(37)
Share of associates	0	0	0	0	0	0	0	0
Revaluation gains/(loss)	(161)	(109)	76	28	25	178	78	18
Except./other inc./(exp.)	(34)	(0)	(7)	(11)	10	6	0	0
Profit before tax	(136)	(42)	153	110	136	296	194	135
Taxation	(1)	(5)	(3)	(5)	(4)	(4)	(4)	(4)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit	(137)	(46)	150	104	132	292	190	131
Total return	(137)	(46)	150	104	132	292	190	131
Adjustments	207	122	(73)	(23)	(45)	(180)	(75)	(15)
Distributable income	69	75	77	81	87	113	115	116
Distribution rate	0.99	0.97	0.98	0.98	0.98	0.97	0.97	0.97
Distribution	69	74	76	80	85	109	111	112
EPU (SGD)	(0.144)	(0.031)	0.077	0.054	0.068	0.139	0.088	0.061
DPU (SGD)	0.072	0.057	0.039	0.041	0.044	0.052	0.052	0.052

Cash flow (SGDm)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Profit before tax	(136)	(42)	153	110	136	296	194	135
Depreciation and amortisation	0	0	0	0	0	0	0	0
Net-interest expenses	22	23	31	34	32	34	34	37
Share of associate	0	0	0	0	0	0	0	0
Change in working capital	4	(4)	4	5	(16)	2	(3)	(3)
Tax paid	0	0	0	0	0	0	0	0
Other operating CF items	203	115	(70)	(17)	(36)	(184)	(77)	(18)
Cash flow from operation	93	93	119	132	116	148	148	151
Capex	(2)	(15)	(1)	(16)	(21)	(62)	0	0
Net investment and sale of FA	(0)	(0)	(410)	(2)	(0)	0	0	0
Other investing CF items	(14)	0	1	1	1	1	1	1
Cash flow from investing	(16)	(15)	(410)	(17)	(20)	(61)	1	1
Change in debt	(0)	(47)	221	1	(1)	30	0	0
Equity raised/(repaid)	0	337	0	0	0	0	0	0
Distribution paid	(67)	(73)	(77)	(90)	(92)	(106)	(112)	(113)
Other financing CF items	(23)	(29)	(37)	(32)	(28)	(34)	(35)	(37)
Cash flow from financing	(90)	188	107	(121)	(121)	(110)	(147)	(150)
Forex effect/others	2	(1)	(1)	1	(3)	0	0	0
Change in cash	(10)	265	(185)	(5)	(29)	(23)	2	2

Source: FactSet, Daiwa forecasts

Financial summary continued ...

Balance sheet (SGDm)

As at 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Cash & cash equivalent	41	298	114	108	79	60	63	65
Accounts receivable	5	20	7	8	16	14	14	14
Other current assets	0	0	0	0	0	0	0	0
Total current assets	47	318	121	117	95	75	77	79
Investment properties	2,103	1,982	2,654	2,710	2,713	2,952	3,030	3,048
Fixed assets	1	1	1	2	2	1	1	1
Associates	0	0	0	0	0	0	0	0
Goodwill and intangible assets	13	12	11	11	10	11	11	11
Other long-term assets	0	0	0	0	0	0	0	0
Total assets	2,163	2,312	2,787	2,839	2,820	3,039	3,119	3,139
Short-term debt	0	0	0	0	0	0	0	0
Accounts payable	47	46	55	68	66	69	69	69
Other current liabilities	67	61	68	54	23	22	22	22
Total current liabilities	114	106	123	122	89	92	92	92
Long-term debt	666	620	1,007	1,040	1,023	900	900	900
Other non-current liabilities	0	0	0	0	0	0	0	0
Total liabilities	780	726	1,130	1,162	1,112	991	991	992
Unitholders' funds	1,384	1,587	1,657	1,678	1,709	2,048	2,127	2,147
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	2,163	2,312	2,787	2,839	2,820	3,039	3,119	3,139
Book Value per unit	1.440	0.820	0.853	0.863	0.879	0.951	0.988	0.997

Key ratios (%)

Year to 31 Dec	2008	2009	2010	2011	2012	2013E	2014E	2015E
Total revenue (YoY)	23.4	6.0	23.1	8.7	3.3	11.0	3.0	2.0
Net property income (YoY)	24.8	11.5	22.0	10.1	3.4	10.3	3.7	2.0
Net profit (YoY)	n.a.	n.a.	n.a.	(30.4)	26.1	122.1	(35.0)	(31.0)
Distribution (YoY)	16.2	7.2	3.0	5.7	6.6	27.6	2.1	0.4
EPU (YoY)	n.a.	n.a.	n.a.	(30.6)	26.1	105.4	(36.6)	(31.0)
DPU (YoY)	15.8	(20.6)	(31.5)	5.6	6.6	18.0	(0.4)	0.4
ROE	n.a.	n.a.	9.3	6.3	7.8	15.6	9.1	6.1
ROA	n.a.	n.a.	5.9	3.7	4.7	10.0	6.2	4.2
ROCE	3.8	4.2	4.7	4.7	4.9	5.1	5.0	5.1
ROIC	3.9	4.6	5.1	4.7	4.9	5.2	5.0	5.0
Debt to asset	28.9	13.9	32.0	32.8	33.5	27.6	26.8	26.6
Net debt to equity	45.1	20.2	53.9	55.5	55.2	41.0	39.3	38.9
Effective tax rate	n.a.	n.a.	2.2	4.7	2.9	1.3	2.1	3.2

Source: FactSet, Daiwa forecasts

Company profile

Starhill Global REIT owns 74.2% of Wisma Atria and 27.2% Ngee Ann City, on Orchard Road in Singapore. As at 30 June 2013, its investment-property value was SGD2.74bn, made up of 70% from Singapore, 16% from Malaysia, 7% from Australia, 4% from Japan, and 3% from China.

The 10-second briefing

Frasers Centrepoint Trust

FCT SP

Target (SGD): **2.010 → 2.030**
Upside: **12.2%**
10 Sep price (SGD): **1.810**

Yishun remains central for FCT

- Maintain Outperform (2) rating; DPU-growth outlook has improved after the 3Q FY13 results, Yishun Central tender
- Yishun Central preserves dominant position there, and is a major acquisition opportunity in the longer term for FCT
- Target price (pegged to our DDM valuation) raised slightly to SGD2.03 from SGD2.01

1 Buy
2 Outperform (unchanged)
3 Hold
4 Underperform
5 Sell

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■ What's new

We revisit the investment merits of Frasers Centrepoint Trust (FCT), as we believe the sponsor's winning bid for the Yishun Central site and its solid 3Q FY13 results have improved its DPU-growth outlook.

■ What's the impact

The two major developments since our 3 July S-REIT sector report, *Recalibrating investment stance*, were the announcement of its 3Q FY13 results (on 23 July 2013) and the submission of the highest (and winning) bid by sponsor Fraser and Neave (Not rated) for the Yishun Central mixed development site in the government tender on 5 September. FCT's 3Q FY13 net-property income and DPU of 2.85¢ were higher than our forecasts by 1.3% and 1.5%, respectively. The positive variance at the NPI level came from stronger-than-expected performances from its two core properties. We revise up our FY13-15 DPU forecasts by 0.7-0.8% after fine-tuning our forecasts to incorporate the latest results. In line with our upward DPU revisions, we raise our target price, pegged to parity with our DDM valuation, to SGD2.03 from SGD2.01.

■ FCT: Daiwa DDM valuation

Wtd-average remaining leasehold (years)	82
Cost of equity	7.0%
Long-term growth rate	1.5%
Effective cap rate	5.5%
PV of 10-year DPU forecasts (SGD)	0.88
PV of terminal value (SGD)	1.15
PV of debt obligation (SGD)	(0.00)
DDM valuation (SGD)	2.03

Source: Daiwa estimates

We believe the sponsor's bid for the Yishun Central site was deliberately aggressive because we regard it as a must-have site for the sponsor and FCT. Losing it would have undermined Northpoint's dominance in one of the major public housing estates, while winning it would allow the sponsor (and we believe eventually, FCT) to add a sizeable and complementary mall to its portfolio.

■ What we recommend

With the stronger visibility of its DPU stream, we maintain our Outperform (2) rating. A risk to our call would be an unforeseen disruption to one of its assets or a sudden downturn in the suburban retail-property sector.

■ How we differ

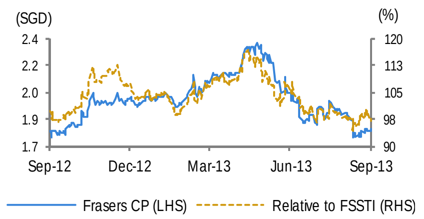
Our DPU forecasts are in line with the market, though we believe the unit price should have reacted more positively to the Yishun Central bid.

Forecast revisions (%)

Year to 30 Sep	13E	14E	15E
Revenue change	0.2	0.5	0.6
Net-property-income chg	-	0.4	0.5
DPU change	0.8	0.7	0.8

Source: Daiwa forecasts

Share price performance



12-month range	1.765-2.320
Market cap (USDbn)	1.17
3m avg daily turnover (USDm)	1.73
Shares outstanding (m)	825
Major shareholder	Frasers Centrepoint (41.0%)

Financial summary (SGD)

Year to 30 Sep	13E	14E	15E
Revenue (m)	157	162	166
Net property income (m)	113	116	119
Distribution (m)	89	92	94
DPU	0.109	0.111	0.114
DPU change (%)	8.4	2.2	2.5
Daiwa vs Cons. DPU (%)	(1.4)	(0.9)	(1.1)
DPU yield (%)	6.0	6.1	6.3
PER (x)	8.0	12.8	12.4
Core EPU (fully-diluted)	0.228	0.141	0.146
P/BV (x)	1.1	1.1	1.1
ROE (%)	14.3	8.5	8.6

Source: FactSet, Daiwa forecasts

Financial summary

Key assumptions

Year to 30 Sep	2008	2009	2010	2011	2012	2013E	2014E	2015E
Funds from operations (SGDm)	40	40	57	60	84	89	89	91
FFO per unit (SGD)	0.065	0.065	0.079	0.078	0.103	0.108	0.108	0.111
Adjusted FFO (SGDm)	37	37	53	56	79	83	83	85
Adjusted FFO per unit (SGD)	0.060	0.060	0.074	0.073	0.096	0.101	0.101	0.103
Gross debt to assets (%)	28.2	29.9	30.3	31.3	30.1	29.1	29.2	29.3

Profit and loss (SGDm)

Year to 30 Sep	2008	2009	2010	2011	2012	2013E	2014E	2015E
Total revenue	85	87	115	118	147	157	162	166
Operating expenses	(28)	(27)	(35)	(35)	(43)	(45)	(46)	(47)
Net property income	57	60	80	83	104	113	116	119
Other income	0	0	0	0	0	0	0	0
Management fees	(6)	(6)	(8)	(9)	(11)	(11)	(12)	(12)
Other operating expenses	(1)	(1)	(1)	(2)	(1)	(1)	(2)	(2)
Depreciation and amortisation	0	0	0	0	0	0	0	0
EBIT	49	52	71	72	92	100	102	105
Net-int. income/(expenses)	(12)	(13)	(18)	(19)	(18)	(18)	(18)	(19)
Share of associates	3	0	5	5	10	7	5	5
Revaluation gains/(loss)	52	4	42	97	101	95	28	29
Except./other inc./(exp.)	(1)	(4)	(5)	(3)	0	4	0	0
Profit before tax	91	41	95	152	186	188	117	120
Taxation	(1)	0	(1)	3	0	0	0	0
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit	91	41	94	155	186	188	117	120
Total return	91	41	94	155	186	188	117	120
Adjustments	(45)	6	(35)	(91)	(103)	(98)	(25)	(26)
Distributable income	45	47	59	64	82	89	92	94
Distribution rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Distribution	45	47	59	64	82	89	92	94
EPU (SGD)	0.146	0.065	0.131	0.200	0.226	0.228	0.141	0.146
DPU (SGD)	0.073	0.075	0.082	0.083	0.100	0.109	0.111	0.114

Cash flow (SGDm)

Year to 30 Sep	2008	2009	2010	2011	2012	2013E	2014E	2015E
Profit before tax	91	41	95	152	186	188	117	120
Depreciation and amortisation	0	0	0	0	0	0	0	0
Net-interest expenses	12	13	18	19	18	18	18	19
Share of associate	(3)	(0)	(5)	(5)	(10)	(7)	(5)	(5)
Change in working capital	4	3	7	4	5	0	0	0
Tax paid	0	0	0	0	0	0	0	0
Other operating CF items	(49)	1	(36)	(89)	(101)	(90)	(25)	(26)
Cash flow from operation	55	56	80	82	98	109	106	108
Capex	(17)	(27)	(10)	(37)	(19)	(15)	(15)	(15)
Net investment and sale of FA	(8)	(0)	(285)	(124)	(13)	0	0	0
Other investing CF items	4	4	4	4	4	4	4	4
Cash flow from investing	(21)	(24)	(291)	(157)	(28)	(11)	(11)	(11)
Change in debt	10	32	111	99	18	15	15	15
Equity raised/(repaid)	0	0	178	63	(1)	0	0	0
Distribution paid	(43)	(47)	(55)	(63)	(78)	(88)	(91)	(93)
Other financing CF items	(11)	(11)	(14)	(13)	(17)	(18)	(18)	(19)
Cash flow from financing	(44)	(26)	219	86	(78)	(90)	(94)	(97)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	(10)	6	8	11	(8)	7	0	0

Source: FactSet, Daiwa forecasts

Financial summary continued …

■ Balance sheet (SGDm)

As at 30 Sep	2008	2009	2010	2011	2012	2013E	2014E	2015E
Cash & cash equivalent	6	12	20	30	23	30	31	31
Accounts receivable	2	3	3	5	6	6	6	6
Other current assets	0	0	0	0	0	0	0	0
Total current assets	8	14	23	36	29	37	37	37
Investment properties	1,063	1,100	1,439	1,697	1,816	1,926	1,969	2,013
Fixed assets	0	0	0	0	0	0	0	0
Associates	55	51	54	54	72	72	72	72
Goodwill and intangible assets	0	0	0	0	0	0	0	0
Other long-term assets	0	0	0	0	0	0	0	0
Total assets	1,126	1,165	1,516	1,787	1,917	2,034	2,077	2,122
Short-term debt	0	0	0	0	0	0	0	0
Accounts payable	19	29	35	41	40	40	40	40
Other current liabilities	0	0	0	0	0	0	0	0
Total current liabilities	19	29	35	41	40	40	40	40
Long-term debt	318	349	460	559	577	592	607	622
Other non-current liabilities	24	24	31	35	37	37	37	37
Total liabilities	360	402	527	635	654	669	684	699
Unitholders' funds	767	764	989	1,152	1,263	1,365	1,393	1,423
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	1,126	1,165	1,516	1,787	1,917	2,034	2,077	2,122
Book Value per unit	1.234	1.220	1.289	1.401	1.534	1.655	1.687	1.720

■ Key ratios (%)

Year to 30 Sep	2008	2009	2010	2011	2012	2013E	2014E	2015E
Total revenue (YoY)	9.2	2.3	32.5	2.7	24.9	6.8	2.9	2.6
Net property income (YoY)	9.4	5.8	33.7	3.2	26.4	7.9	2.9	2.6
Net profit (YoY)	14.2	(55.1)	132.0	64.1	19.8	1.0	(37.7)	3.1
Distribution (YoY)	12.1	3.7	26.0	8.8	27.9	8.6	2.4	2.7
EPU (YoY)	13.7	(55.4)	101.0	52.7	12.7	0.9	(37.8)	3.0
DPU (YoY)	11.3	3.0	9.2	1.5	20.3	8.4	2.2	2.5
ROE	12.2	5.3	10.8	14.5	15.4	14.3	8.5	8.6
ROA	8.3	3.6	7.0	9.4	10.0	9.5	5.7	5.7
ROCE	4.9	5.0	5.8	4.7	5.4	5.5	5.4	5.4
ROIC	4.8	4.9	5.7	4.7	5.4	5.4	5.4	5.4
Debt to asset	28.2	29.9	30.3	31.3	30.1	29.1	29.2	29.3
Net debt to equity	40.7	44.2	44.5	45.9	43.9	41.1	41.4	41.5
Effective tax rate	0.8	n.a.	0.6	n.a.	0.0	0.0	0.0	0.0

Source: FactSet, Daiwa forecasts

■ Company profile

Listed on 5 July 2006, Frasers Centrepoint Trust (FCT) owns a portfolio of suburban malls in Singapore – Causeway Point, Northpoint, Anchorpoint, YewTee Point and Bedok Point – with a combined appraised value of SGD1.82bn as at 30 June 2013. FCT also holds a 31.17% stake in Malaysia's Hektar REIT.

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