

31 March 2009

Update

REAL ESTATE INVESTMENT TRUSTS

Sensitivity Analysis On Impact Of Scrip Dividend

OVERWEIGHT

We have analysed the sensitivity on DPU, target prices and gearing from the implementation of the Dividend Reinvestment Scheme (DRS) for a period of three years. Our conclusions:

- a) Implementation of DRS dilutes FY11 DPU by 7-14% and target prices by 2-12% if all unitholders elect to receive dividends in new units. Real estate investment trusts (REIT) that are overvalued will issue fewer units in lieu of cash dividend and will experience less dilution. Conversely, dilution is more severe if a REIT is undervalued as more units are issued in lieu of cash dividend. CapitaMall Trust is trading above its fair value, thus it experiences less dilution. By the same reasoning, high-yield REITs such as Ascendas REIT and Suntec REIT will experience more dilution.
- b) The impact on reduction of gearing is likely to be significant if the scheme is implemented for three consecutive years. High-yield REITs are better able to reduce their borrowings but their FY11 DPUs and target prices suffer more dilution. REITs with high ROAs and interest cover also are better able to reduce their gearing.

We need to stress that no REIT has implemented DRS at this stage. The sensitivity analysis serves to illustrate the potential impact of DRS.

OVERWEIGHT REITs. US Federal Reserve's zero interest rate policy and plans to purchase mortgage-backed and treasury securities will keep bond yields low for an extended period, ensuring that yield spread provided by Singapore REITs remains attractive. **BUY** Ascendas REIT, CapitaCommercial Trust and Suntec REIT. **SELL** CapitaMall Trust.

Figure 1: Key Recommendations

Name	Bloomberg Code	Rec	Price 30 Mar 09 (\$)	Target Price (\$)	Market Cap (\$m)	Yield Hist (%)	Yield Curr (%)	Yield Fwd (%)	Debt to Asset (%)	NAV ps	P/NAV (x)
Ascendas REIT	AREIT SP	BUY	1.18	1.59	1,986.5	12.0	13.0	11.2	35.8	1.67	0.71
CapitaCommercial Trust	CCT SP	BUY	0.81	0.96	1,134.3	13.6	14.3	10.7	37.3	2.97	0.27
CapitaMall Trust	CT SP	SELL	1.29	1.17	4,091.4	9.0	8.4	6.2	29.7	1.65	0.78
Suntec REIT	SUN SP	BUY	0.605	0.65	955.2	17.6	18.2	12.9	34.3	2.20	0.28

Source: UOB Kay Hian

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Sensitivity Analysis on Impact of Scrip Dividend

Various REITs, such as Ascendas REIT and CapitaCommercial Trust, are evaluating the possibility of implementing DRS. DRS is widely adopted by listed companies, such as Oversea-Chinese Banking Corporation, Keppel Land and First Ship Lease Trust. REITs are also studying the feasibility of DRS to replenish capital and provide an opportunity for unitholders to reinvest, possibly at a discount to market prices.

CASE STUDIES

Case study 1: Saizen REIT. Saizen REIT proposed a scrip-only dividend scheme in Jan 09. The scheme is mandatory in that unitholders have no choice but to receive dividends in new units. Cash is conserved for loan repayment. The scheme is intended to be a temporary survival tactic in this tumultuous period when access to credit markets is limited.

Saizen REIT has, however, decided not to proceed with the scheme after consultation with Singapore Exchange (SGX). It did not provide further details of its reason for aborting the plan. Saizen REIT owns 166 residential properties with 6,000 apartments in 13 regional cities in Japan. It is subjected to withholding tax of 20% but distribution received from Japan is exempted from Singapore tax.

Case study 2: First Ship Lease Trust (FSLT). FSLT, a business trust, has adopted a DRS whereby unitholders can elect to receive dividends in the form of new units in lieu of cash. Unitholders have the flexibility to choose the proportion of distribution to be received in new units and the remaining distribution in cash. Unitholders who elect not to participate in the scheme will continue to receive their distributions fully in cash.

Although the scheme was approved by SGX and unitholders, FSLT decided not to apply DRS to distribution for 4Q08 due to the current low unit price. Management will provide guidance on DPU on a quarterly basis until visibility returns. For 1Q09, management targets a payout ratio of 75-80% to retain cash for reduction of gearing and fund growth opportunities. The Board of Directors will decide whether to implement DRS on a quarter-by-quarter basis depending on the need to retain cash and the prevailing unit price.

Figure 2: Dividend Reinvestment Scheme

Oversea-Chinese Banking Corp	<ul style="list-style-type: none"> • Reactivated Scrip Dividend Scheme approved in 1996, giving shareholders the option to receive FY08 final dividend in new shares instead of cash. • New shares are priced at a 10% discount to the average closing price from the ex-dividend date to the book closure date.
Keppel Land	<ul style="list-style-type: none"> • Proposed Dividend Reinvestment Scheme has obtained in-principle approval from SGX. • Details of the Scheme and the related amendment to the Articles of Association will be provided in a circular to be despatched.
First Ship Lease Trust	<ul style="list-style-type: none"> • New units priced at a 10% discount to volume-weighted average traded price. • Scheme only offered to unitholders with registered addresses in Singapore.

Source: Respective companies

Minimum payout ratio remains at 90%. The Ministry of Finance and the Monetary Authority of Singapore have decided to maintain minimum payout ratio at 90% to preserve the key characteristics of REITs as stable, high-payout, pass-through vehicles. REITs maintaining a minimum payout ratio of 90% are accorded the "tax transparency treatment" by the Inland Revenue Authority of Singapore. The government decided against making changes to the minimum payout ratio as there were no strong grounds to justify a special tax treatment for REITs not available to other companies.

Alternatives available to REITs. REITs will not be able to implement DRS as proposed by Saizen REIT in our case study 1 as we believe it will affect REITs' tax transparency status. Most REITs will be looking at DRS as proposed by FSLT in our case study 2, which offers unitholders more choices. We need to stress that no REIT has implemented DRS at this stage. The sensitivity analysis serves to illustrate the potential impact of DRS.

Sensitivity Analysis

We have analysed the sensitivity on DPU, target prices and gearing from the implementation of DRS for a period of three years. The usual policy of maintaining payout ratio at 100% resumes thereafter. The degree of dilution from DRS depends on the percentage of unitholders opting to receive dividends in new units. We have assumed new units are priced at a 10% discount to current market prices in our analysis.

Our conclusions:

a) **Impact on FY11 DPU and target prices.** Implementation of DRS dilutes FY11 DPU by 7-14% and target prices by 2-12% if all unitholders agree to receive dividends in new units. The quantum of dilution depends on the following:

1. Whether the REIT is undervalued or fairly valued. REITs that are overvalued will issue fewer units in lieu of cash dividend for DRS and will experience less dilution. Conversely, dilution is more severe if a REIT is undervalued as it needs to issue more units in lieu of cash dividend. CapitaMall Trust is trading above fair value, thus it experiences less dilution. By the same reasoning, high-yield REITs such as Ascendas REIT and Suntec REIT will need to issue more new units in lieu of cash dividend and will experience more dilution. Similarly, low-yield REITs such as CapitaMall Trust will experience less dilution.

Our analysis is sensitive to changes in market prices, especially given the recent high volatility in the stock market. We have used the closing prices of REITs on 30 Mar 09 in our analysis (Ascendas REIT: S\$1.18, CapitaCommercial Trust: S\$0.81, CapitaMall Trust: S\$1.29 and Suntec REIT: S\$0.605). We have assumed market prices for REITs increase 2% per quarter or 8.2% per year. We have also assumed new units issued for DRS are priced at a 10% discount to market prices at the end of each quarter.

Figure 3: Potential Upside for Singapore REITs

	Rec	Price @ 30 Mar 09	Target Price (S\$)	Potential Upside (%)
Ascendas REIT	BUY	1.18	1.59	34.7
CapitaCommercial Trust	BUY	0.81	0.96	18.5
CapitaMall Trust	SELL	1.29	1.17	(9.3)
Suntec REIT	BUY	0.605	0.65	7.4

Source: UOB Kay Hian

2. The level of EBIT margin and interest cover. REITs with lower EBIT margins and interest cover will experience more improvements in earnings when gearing is reduced with the implementation of DRS. This effect is akin to operating leverage. CapitaMall Trust has the lowest EBIT margin among the four large-cap REITs, thus experiences less dilution. Ascendas REIT and Suntec REIT have high interest cover, thus experiences more dilution when implementing DRS.

Figure 4: Operating Matrix

	FY08	FY09F	FY10F	FY11F
NPI Margin (%)				
Ascendas REIT	74.6	76.1	76.1	76.1
CapitaCommercial Trust	69.6	70.6	69.6	69.5
CapitaMall Trust	66.8	66.5	66.5	66.5
Suntec REIT	72.7	70.8	68.9	69.0
EBIT Margin (%)				
Ascendas REIT	65.6	67.4	66.7	66.4
CapitaCommercial Trust	60.7	63.3	62.9	63.0
CapitaMall Trust	60.2	59.9	60.1	60.2
Suntec REIT	85.4	83.5	81.1	68.3
ROA (%)				
Ascendas REIT	4.5	4.4	3.9	3.7
CapitaCommercial Trust	2.0	2.1	1.8	1.3
CapitaMall Trust	3.2	3.5	3.7	3.4
Suntec REIT*	2.6	2.4	2.3	2.3
Interest Cover (x)				
Ascendas REIT	4.5	4.5	4.2	4.0
CapitaCommercial Trust	2.4	2.1	1.7	1.4
CapitaMall Trust	3.0	3.6	3.6	3.0
Suntec REIT*	3.4	2.8	2.4	2.1

*Adjusted for amortisation costs.

Source: UOB Kay Hian

Figure 5: Assumptions for Dividend Discount Model (DDM)

	Risk-free Rate (%)	Beta (x)	Equity Risk Premium (%)	Required Rate Of Return (%)	Growth (%)
Ascendas REIT	3.5	1.0	5.5	9.00	2.5
CapitaCommercial Trust	3.5	1.0	5.5	9.00	2.5
CapitaMall Trust	3.5	0.95	5.5	8.73	3.0
Suntec REIT	3.5	1.0	5.5	9.00	2.5

Source: UOB Kay Hian

Figure 6: Sensitivity Analysis - FY11 DPU (cents)

Company	% of unitholders deciding to receive dividends in new units					
	100%	80%	60%	40%	20%	0%
Ascendas REIT	9.8	10.0	10.3	10.6	10.8	11.2
- Dilution	-12.6%	-10.3%	-8.1%	-5.6%	-3.0%	0.0%
CapitaCommercial Trust	5.6	5.8	5.8	5.9	6.1	6.2
- Dilution	-8.4%	-6.7%	-5.2%	-3.7%	-1.6%	0.0%
CapitaMall Trust	6.3	6.4	6.5	6.7	6.8	6.8
- Dilution	-7.2%	-5.7%	-4.2%	-2.5%	-1.0%	0.0%
Suntec REIT	4.3	4.4	4.6	4.7	4.9	5.0
- Dilution	-14.3%	-11.8%	-9.4%	-6.6%	-3.4%	0.0%

Source: UOB Kay Hian

Figure 7: Sensitivity Analysis - Target Price (S\$)

Company	% of unitholders deciding to receive dividends in new units					
	100%	80%	60%	40%	20%	0%
Ascendas REIT	1.40	1.43	1.47	1.51	1.55	1.59
- Dilution	-11.9%	-10.1%	-7.5%	-5.0%	-2.5%	0.0%
CapitaCommercial Trust	0.89	0.90	0.92	0.93	0.95	0.96
- Dilution	-7.3%	-6.2%	-4.2%	-3.1%	-1.0%	0.0%
CapitaMall Trust	1.14	1.15	1.15	1.16	1.17	1.17
- Dilution	-2.6%	-1.7%	-1.7%	-0.9%	0.0%	0.0%
Suntec REIT	0.58	0.59	0.60	0.61	0.63	0.65
- Dilution	-10.8%	-9.2%	-7.7%	-6.2%	-3.1%	0.0%

Source: UOB Kay Hian

We believe most unitholders will elect to receive dividends in cash as REITs' core investor base is predominantly insurance companies, income-oriented funds and high-net worth individuals. Thus, the actual quantum of dilution could be less than 5%. Among the four large-cap REITs, CapitaMall Trust is expected to experience the least dilution and, thus, has more incentive to implement DRS.

b) **Impact on level of gearing.** The impact on reduction of gearing is likely to be significant if the scheme is implemented for three consecutive years. High-yield REITs, such as Ascendas REIT and Suntec REIT, are better able to reduce their borrowings but also suffer more dilution to their FY11 DPU and target prices. REITs with high ROAs and interest cover also are better able to reduce their gearing.

Figure 8: Sensitivity Analysis - Estimated Gearing* at Dec 11

Company	% of unitholders deciding to receive dividends in new units					
	100%	80%	60%	40%	20%	0%
Ascendas REIT	24.5	27.1	29.6	32.2	34.7	37.2
CapitaCommercial Trust	48.7	50.5	52.4	54.3	56.1	58.0
CapitaMall Trust	29.4	31.3	33.3	35.2	37.3	39.9
Suntec REIT	46.5	49.1	51.8	54.3	56.8	59.2

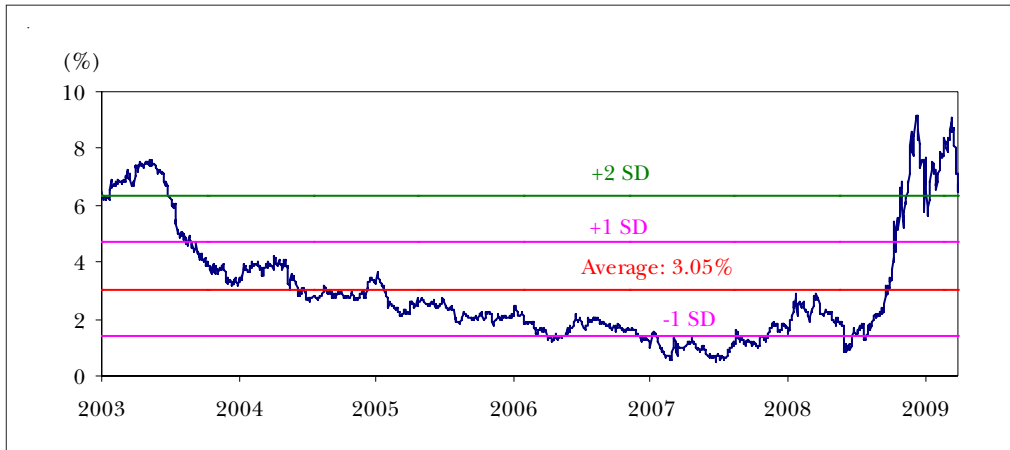
*Gearing is defined as total debt/total assets. Gearing as at Dec 11 had factored in revaluation based on our estimates for rental income and cap rates.

Source: UOB Kay Hian

Valuation

US Federal Reserve's zero interest rate policy and plans to purchase mortgage-backed and treasury securities will keep bond yields low for an extended period, ensuring that yield spread provided by Singapore REITs remains attractive. BUY Ascendas REIT, CapitaCommercial Trust and Suntec REIT. SELL CapitaMall Trust.

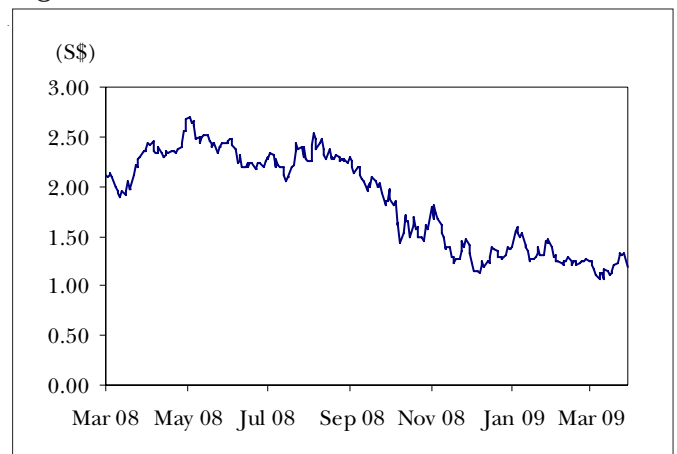
Figure 9: Yield Spread Between Singapore REITs and 10-Year Government Bond



Source: UOB Kay Hian

Ascendas REIT (BUY/S\$1.18/Target: S\$1.59)

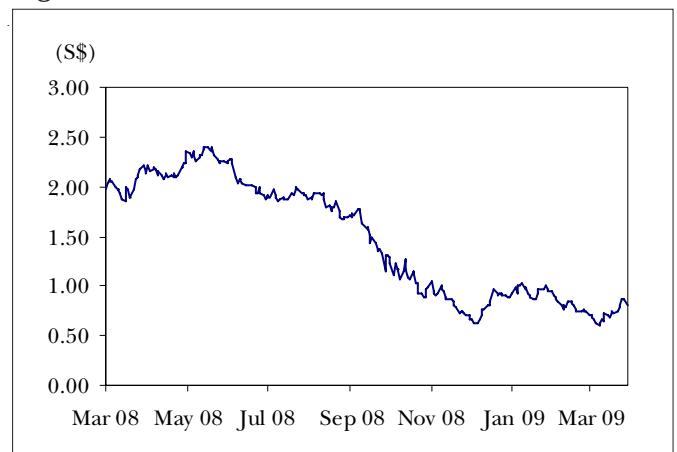
- Average lease term to expiry for AREIT's entire portfolio is 5.3 years. Security deposits of 11 months for sale & leaseback properties.
- Pursuing growth through development projects on a built-to-suit basis, particularly for resilient sectors less affected by the economic slowdown.
- Not as exposed to export-oriented manufacturing as widely perceived. Tenants engaged in conventional manufacturing activities occupy about 21% of portfolio's net lettable area (NLA).

Figure 10: Price Performance

Source: Datastream

CapitaCommercial Trust (BUY/S\$0.81/Target: S\$0.96)

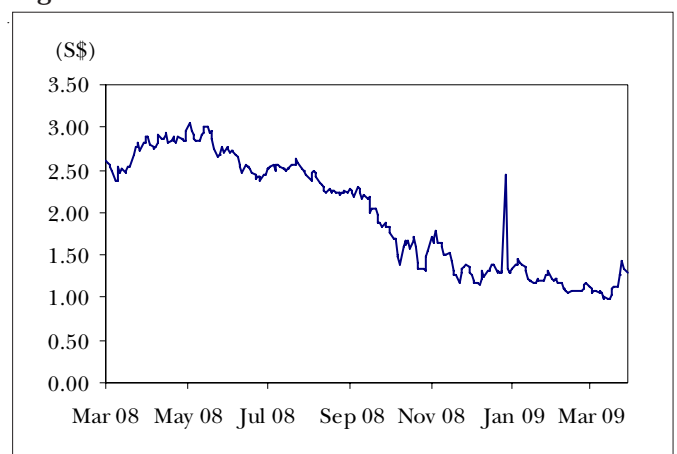
- Continues to achieve signing rents in excess of S\$10psf pm for Grade A office space within the Central Business District.
- Has a total of eight properties valued at S\$2.8b free of any encumbrance, which provides financial flexibility.
- Current share price is 1.4% lower than our extreme worst-case target price, which assumes a 77.8% correction in rents for Grade A office space to S\$4psf pm and a decline in average occupancy to 70%.

Figure 11: Price Performance

Source: Datastream

CapitaMall Trust (SELL/S\$1.29/Fair: S\$1.17)

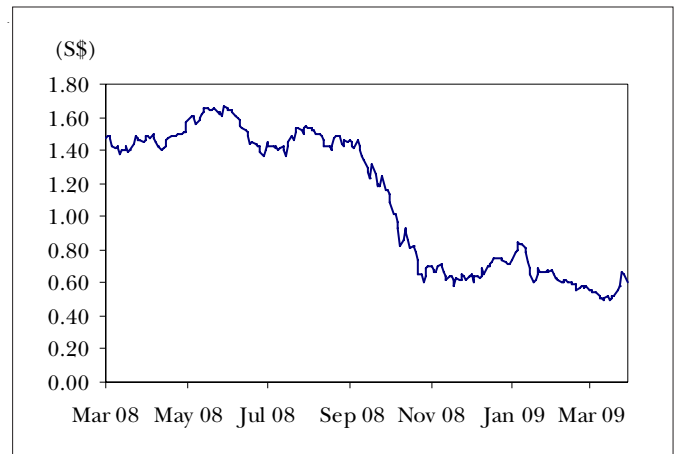
- Quality portfolio of shopping malls in both suburban locations and Downtown Core. We estimate 61.7% of its retail NLA is from suburban malls in the HDB heartlands, which cater to necessity spending.
- The 9-for-10 rights issue dilutes 2009 DPU by 37.6% and the number of shares outstanding will increase from 1,670.8m to 3,174.8m.
- Maintain SELL due to limited upside and potential fall in distribution yield to only 6.3% in FY11.

Figure 12: Price Performance

Source: Datastream

Suntec REIT (BUY/S\$0.605/Target: S\$0.65)

- Management intends to complete the refinancing for S\$700m Commercial Mortgage Backed Securities (CMBS) due Dec 09 ahead of maturity, possibly within 1H09.
- Market has over-reacted to risk of a rights issue. We rate probability of a successful refinancing as high given the following: a) The CMBS secured by Suntec City Mall and Suntec Office Towers are valued at S\$3.9b in Dec 08 and the loan-to-value ratio is only 0.18x, and b) Suntec REIT does not have any refinancing requirement in 2010.
- Accessibility to Suntec City will improve as it will be served by the Esplanade and Promenade MRT stations when the new Circle Line is ready in 2010.

Figure 13: Price Performance

Source: Datastream

Figure 14: Peer Comparison - Singapore REITs

Name	Bloomberg Code	Rec	Price 30 Mar 09	Target Price	Mkt Cap (\$m)	Yield (%)			Debt to Asset (%)	NAV ps	P/NAV (x)
						Hist	Curr	Fwd			
HEALTHCARE											
First REIT	FIRT SP	NR	0.48	n.a.	131.6	15.9	14.8	n.a.	15.0	0.93	0.51
PLife REIT	PREIT SP	BUY	0.745	1.25	449.0	9.2	10.2	10.5	23.6	1.34	0.55
HOSPITALITY											
AscottREIT	ART SP	BUY	0.405	1.06	248.5	21.7	18.6	20.3	37.0	1.47	0.28
CDL Htrust	CDREIT SP	BUY	0.505	1.29	419.4	21.0	17.0	17.1	18.3	1.42	0.36
INDUSTRIAL											
Ascendasreit	AREIT SP	BUY	1.18	1.59	1,986.5	12.0	13.0	11.2	35.8	1.67	0.71
AscendasIndT	AIT SP	NR	0.52	n.a.	415.5	15.5	13.3	12.9	5.9	0.94	0.55
Cambridge	CREIT SP	BUY	0.25	0.62	199.1	24.0	16.8	17.4	37.7	0.74	0.34
MacCookIReit	MIREIT SP	NR	0.225	n.a.	58.9	35.1	39.1	33.3	39.6	1.27	0.18
MapletreeLog	MLT SP	NR	0.38	n.a.	736.9	19.1	13.7	13.7	38.1	0.89	0.43
OFFICE											
CapitaComm	CCT SP	BUY	0.81	0.96	1,134.3	13.6	14.3	10.7	37.3	2.97	0.27
FrasersComm	FCOT SP	NR	0.14	n.a.	103.0	45.4	29.3	27.1	53.8	1.01	0.14
Indiabulls	IPIT SP	NR	0.20	n.a.	471.3	n.a.	25.6	49.1	6.1	1.13	0.18
K-REIT	KREIT SP	BUY	0.57	1.18	374.8	15.6	16.0	15.4	27.6	2.28	0.25
SuntecReit	SUN SP	BUY	0.605	0.65	955.2	17.6	18.2	12.9	34.3	2.20	0.28
RETAIL											
CapitaMall Trust	CT SP	SELL	1.29	1.17	4,091.4	9.0	8.4	6.2	29.7	1.65	0.78
CapitaRChina	CRCT SP	NR	0.69	n.a.	427.1	10.9	11.7	12.3	31.3	1.25	0.55
Fortune Reit (HK\$)	FRT SP	NR	2.69	n.a.	2,208.0	13.8	13.6	11.9	26.4	7.53	0.36
FrasersCT	FCT SP	BUY	0.63	1.15	392.4	11.6	11.8	12.8	28.5	1.23	0.51
LippoMapleT	LMRT SP	NR	0.18	n.a.	192.6	27.8	36.1	31.7	11.8	0.71	0.25
Starhill Gbl	SGREIT SP	BUY	0.455	0.81	437.2	16.2	14.3	13.0	30.8	1.44	0.32
RESIDENTIAL											
Saizen	SZREIT SP	NR	0.12	n.a.	54.2	60.4	33.3	33.9	45.9	65.04	0.12
Average:						20.8	18.5	18.7	29.3	n.a.	0.38
Exclude MacCookIReit, FrasersComm, LippoMapleT and Saizen.						14.5	14.8	14.6	27.3	n.a.	0.42

Source: Bloomberg, UOB Kay Hian

As of 31 March 2009 the analyst and his / her immediate family do not hold positions in the securities recommended in this report.

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