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Singapore REITs and Property Developers

2018 Strategy

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Phillip Securities Research Pte Ltd

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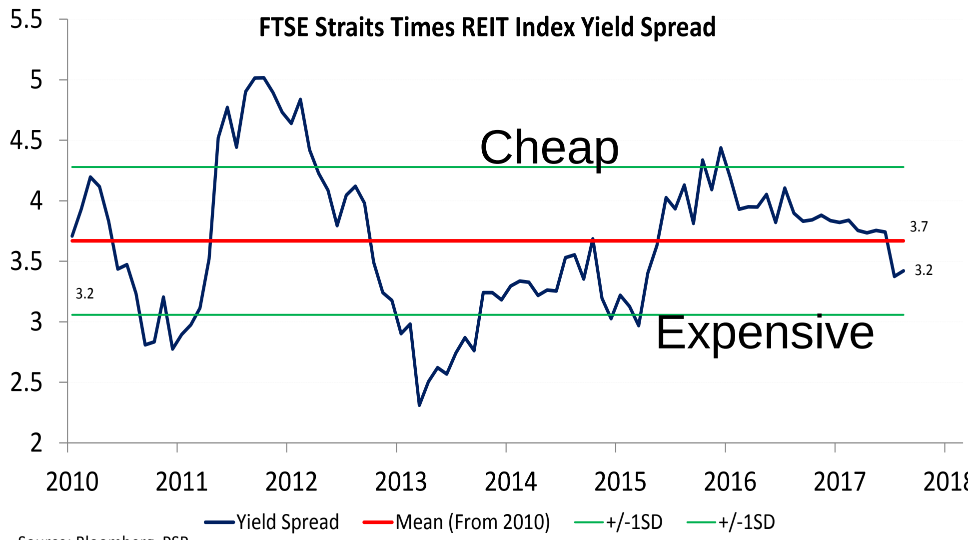
REITs – Stay cautious on macro headwinds

FTSE REIT Index Yield Spread below post-GFC average



Source: Bloomberg, PSR

- 3 interest rate hikes expected in 2018 and Fed balance sheet tapering. Upwards pressure on yields from Fed Balance Sheet tapering. Reflationary risks.
- Current sector valuations now more expensive than post-GFC average.
- Retail (**Neutral**): Operating environment in malls challenging with high occupancy costs.
- Office (**Neutral**): Tapering supply and recovering demand. Grade A office rents to grow 5-7% in 2018.
- Hospitality (**Overweight**): Winding down of hotel supply from 2018 and return of biennial events

SG Residential Property – Strong momentum to continue

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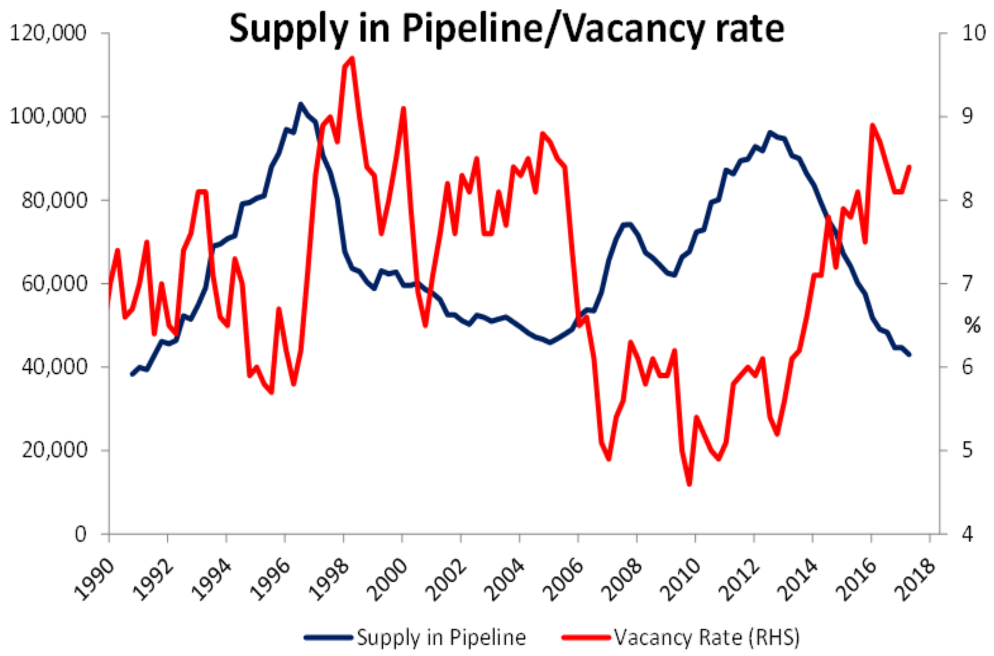
Supply in pipeline lowest since 1991

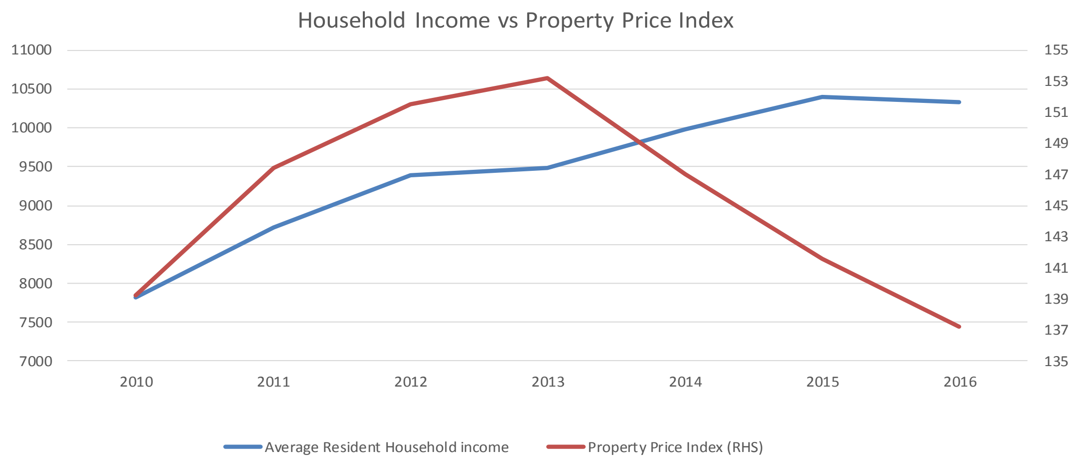


Source: CEIC, PSR

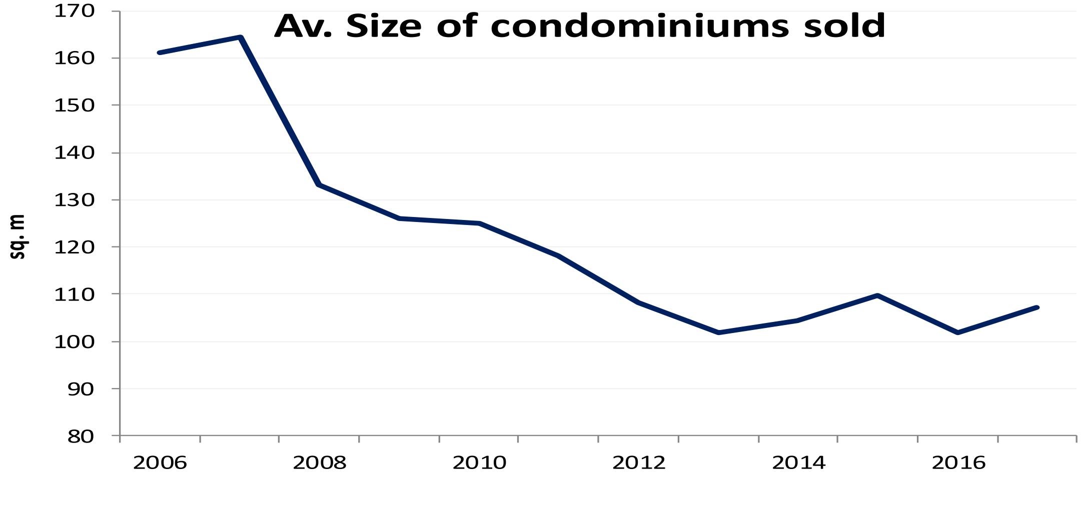
- Volumes to continue the momentum into 2018, led by more launches.
- Forecast private residential prices to rise between 5%-10% in 2018.
- Supply in pipeline lowest since 1991
- Affordability improving as average size sold shrank 40% to 100sqm from a decade ago
- Improving rental market with low upcoming completion numbers
- Rating: **OVERWEIGHT**

Improving affordability

Household income up CAGR 4.7% since 2010, PPI down 1.5%



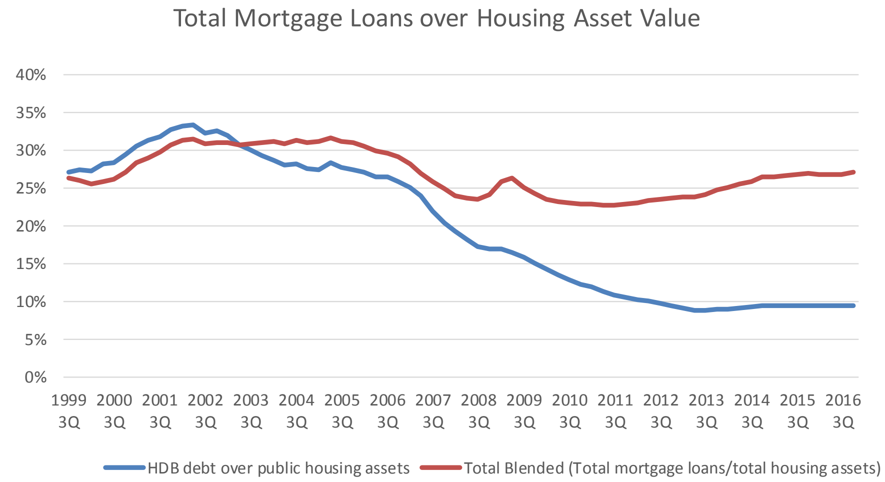
Source: Singstats, PSR



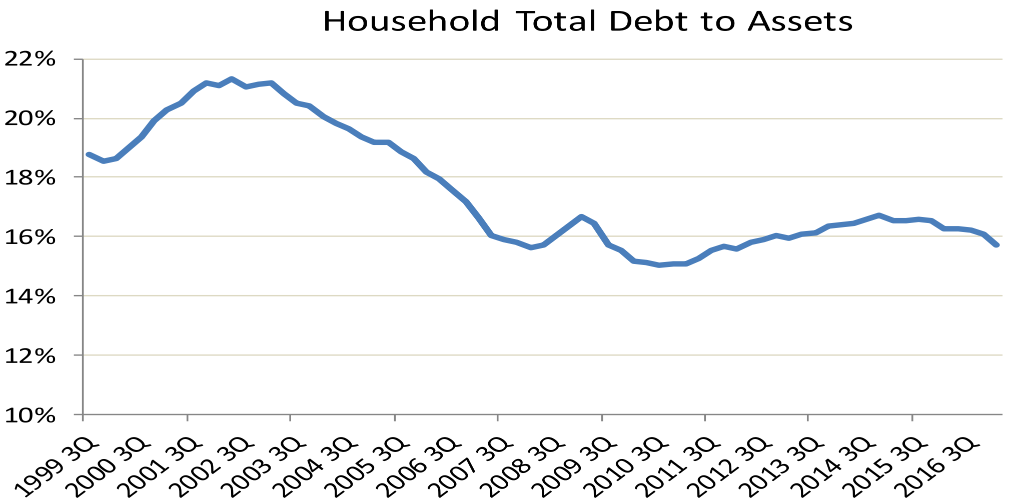
Source: CEIC, REALIS, PSR

- Household income rising, against backdrop of suppressed home prices due to cooling measures.
- CAGR of 4.7% (average household income)
- Unit Prices of homes going opposite direction
- Average size sold shrank 40% to 100sqm from a decade ago

Rise of the HDB upgraders



Source: Singstats, PSR



Source: Singstats, PSR

- Rising HDB asset prices leads to increasing equity amongst households
- Total HDB loans to total public housing asset values dropped substantially over the years
- Total household debt as ratio stable vs decade ago, but down substantially vs 2000

Price to income dropped over the decade

Source: Singstats, PSR

- Price to income down over the years as result of rising household income and decreasing unit sizes
- 3m sibor rose from 0.84% at start of 2004 to peak of c.3.4% in 2007 amidst 52% jump in PPI in that period
- 50 basis points increase for $1mn loan translates to c.$250 increase in monthly mortgage repayment
- Percentage of monthly mortgage repayment as % of monthly household income dropped from c.40% to current c.22%

Banyan Tree: Patience as partnerships bear fruit

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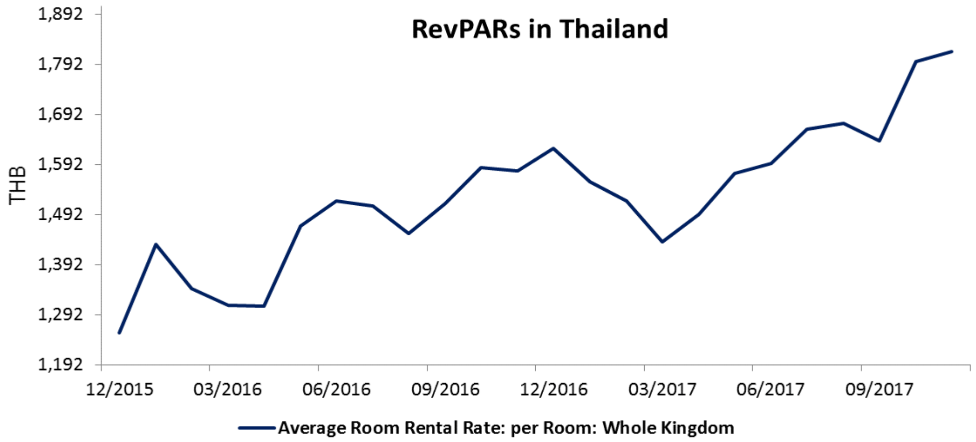
Continued upside for RevPARs in Banyan Tree's biggest market, Thailand

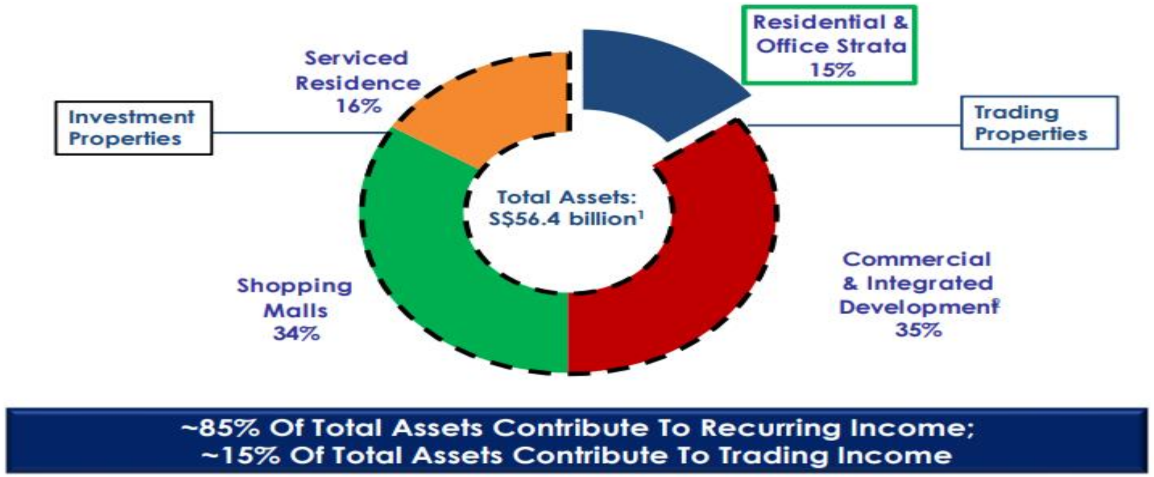


Source: CEIC, PSR

- Partnerships with Vanke and AccorHotels will enable BTH to take on management contracts and scale up at a much faster pace than before.
- Sustained improvements in RevPARs YTD17 for BTH's biggest market Thailand (61% of FY16 revenue for Group-owned hotels).
- Maldives a key drag in FY17 but expected to stabilise and improve from FY18.
- Rating: **ACCUMULATE**; TP: **S$0.71**

CapitaLand Ltd: Stable base of recurring income

Majority of CAPL assets now contribute to stable recurring income



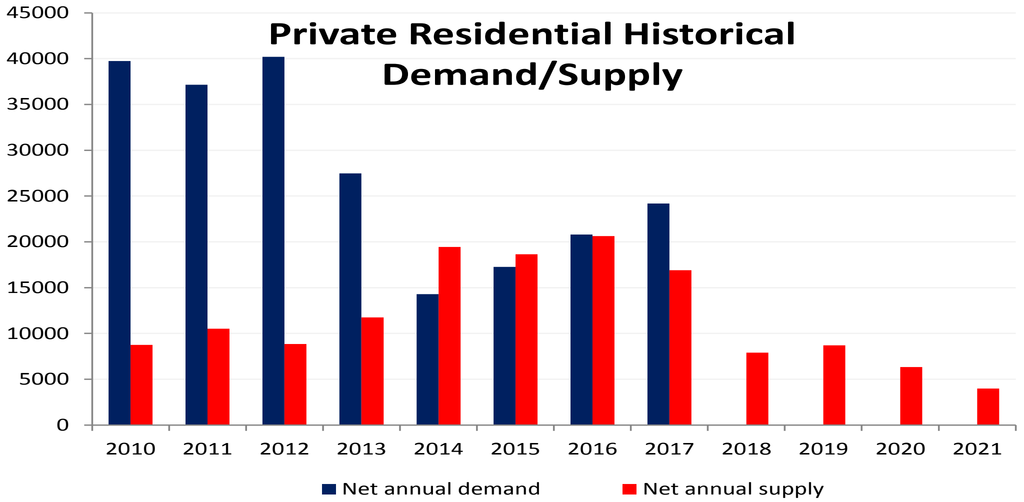
- Stable base of recurring income built up over the years provides income stability. Operating EBIT growth c.16% from 2013-2016.

- Office markets in Singapore and China show signs of improvement, while RevPAUs for serviced residences are seeing recovery in key markets.

- Evolve into Asset-Light Model for more sustainable future growth.

- Rating: **ACCUMULATE**; TP: **S$4.19**

Chip Eng Seng: Riding the SG property cycle well



Source: CEIC, PSR

- Leveraged proxy to current upcycle in Singapore residential property market.

- Construction business equipped with two years revenue visibility and with private sector demand picking up.

- Cancellation of Melbourne Tower purchase contracts could enable Group to move on with other exit options.

- Rating: **BUY**; TP: **S$1.21**

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