

23 March 2009

Update

REAL ESTATE INVESTMENT TRUSTS

Lower Bond Yield, Higher Yield Spread

OVERWEIGHT

Interest rates to remain low for extended period. The US Federal Reserve (FED) intends to maintain the target range for its federal funds rate at 0% to 0.25% and expects the rate to remain exceptionally low for an extended period due to prevailing economic conditions. It also announced plans to purchase an additional US\$750b of mortgage-backed securities, bringing total purchases to US\$1.25 trillion in 2009, and up to US\$300b of longer-term treasury securities over the next six months.

FED's zero interest rate policy and plans to purchase mortgage-backed and treasury securities will ensure interest rates and bond yields remain low for an extended period, thus enhancing yield spread provided by real estate investment trusts (REITs). Yield spread between Singapore REITs and 10-year government bonds has again returned to an elevated level of 8.1%. Yield spread is attractive at three standard deviations above mean.

Sensitivity analysis. We have conducted sensitivity analysis for office rents at S\$4-10psf pm and office occupancy at 70-90%. Similarly, we have also analysed the impact of a correction in retail rents ranging from 5% to 25% and retail occupancy from 80% to 96%. Our sensitivity analysis indicates that Ascendas REIT and CapitaCommercial Trust provide the most upside, followed by Suntec REIT.

Figure 1: Key Recommendations

Name	Bloomberg Code	Rec	Price 20 Mar 09 (S\$)	Target Price (S\$)	Market Cap (S\$m)	Yield Hist (%)	Yield Curr (%)	Yield Fwd (%)	Debt to Asset (%)	NAV ps	P/NAV (x)
Ascendas REIT	AREIT SP	BUY	1.21	1.60	2,037.0	11.7	12.7	11.0	35.8	1.67	0.7
CapitaMall Trust	CT SP	SELL	1.12	1.15	3,552.2	10.4	9.7	7.2	29.7	1.65	0.7
CapitaCommercial Trust	CCT SP	BUY	0.72	0.98	1,008.3	15.3	16.0	12.0	37.3	2.97	0.2
Suntec REIT	SUN SP	BUY	0.525	0.63	828.9	20.3	20.9	14.8	34.3	2.20	0.2

Source: UOB Kay Hian

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