

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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