Singapore Industry Focus

Singapore Property

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 May 2018

Room to Upgrade

- Demand for new private homes projected to remain above historical average
- Foreigner purchases which average c.9% of annual demand, is the wild card to fuel a further rise in prices
- Average property unit prices expected to be S$1.9m-S$2.5m, with smaller unit sizes exacerbating psf pricing

Demand for primary private homes to stay above historical average, supported by upgraders and new home formations. At our assumed population range of 6.3m-6.5m by 2030, we project annual demand for primary homes will come in at 13k-16k till 2023, before tapering off to an average of 12k-13.5k units. These forecasts are above the historical average of 12k units transacted over 2001-2017. We believe that the upgraders market will be a key driver with c.17,000 HDB households per year eligible to upgrade to the private sector after the 5-year minimum occupation period. A wild card will come from potential foreigner purchases, which are not factored in our numbers, and could be as high as an additional 10% of total transactions.

Average property prices to rise to S$1.9m-S$2.5m by 2030. This implies a CAGR of 1.5%-3.2% over 12 years. Supporting these forecasts is sustained income growth of 2.0%-2.5% p.a. and transaction velocity is expected to remain at/above historical average. The supply absorption rate is also projected to remain healthy at <4.0years, underscoring the case for higher property prices. With our expectations that income growth will keep pace with projected rise in property prices, we believe that household affordability should remain close to the historical average in 2030. With developers cognisant that households are "quantum sensitive", the average home size is projected to shrink by c.20% to 840 square feet. On a per square foot (psf) basis, this will translate to a range of c.S$2,300-S$2,900,psf from S$1500 currently.

Risks to our view. Demand and property prices are closely linked to economic prospects and any unexpected economic disruption resulting in higher unemployment rates or income growth could lead to fall/slower growth in prices. In addition, the sector is also susceptible to policy risk which could have an impact on demand for property.

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STOCKS

	Price	Mkt Cap	12-mth Target Price	Performance (%)		
	S$	US$m	S$	3 mth	12 mth	Rating
City Developments	12.53	8,527	15.40	2.3	16.2	BUY
UOL Group	8.72	5,498	10.23	4.6	22.6	BUY
CapitaLand	3.67	11,539	4.35	5.8	0.8	BUY
Roxy-Pacific	0.52	509	0.63	3.1	15.6	BUY
Chip Eng Seng	0.95	442	1.18	2.2	34.8	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 11 May 2018

The DBS Asian Insights SparX report is a deep dive look into thematic angles impacting the longer term investment thesis for a sector, country or the region. We view this as an ongoing conversation rather than a one off treatise on the topic, and invite feedback from our readers, and in particular welcome follow on questions worthy of closer examination.

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Note: Prices used as of 11 May 2018

1. Singapore population to rise to 6.3m-6.5m by 2030

Re-visiting the Population White Paper to ascertain long term demand drivers. With the current property market on an upswing, we are starting to see more commentaries in the media and from brokers and agents that buyers and investors should re-enter the Singapore property market in anticipation of higher future property prices. One of the key reasons is the high land prices and momentum seen in the collective sales (en-bloc) market where developers have invested close to S$27bn in over 60 development sites since early 2017. These sites are expected to yield more than 26,000 units, which will be launched in 2018-2019.

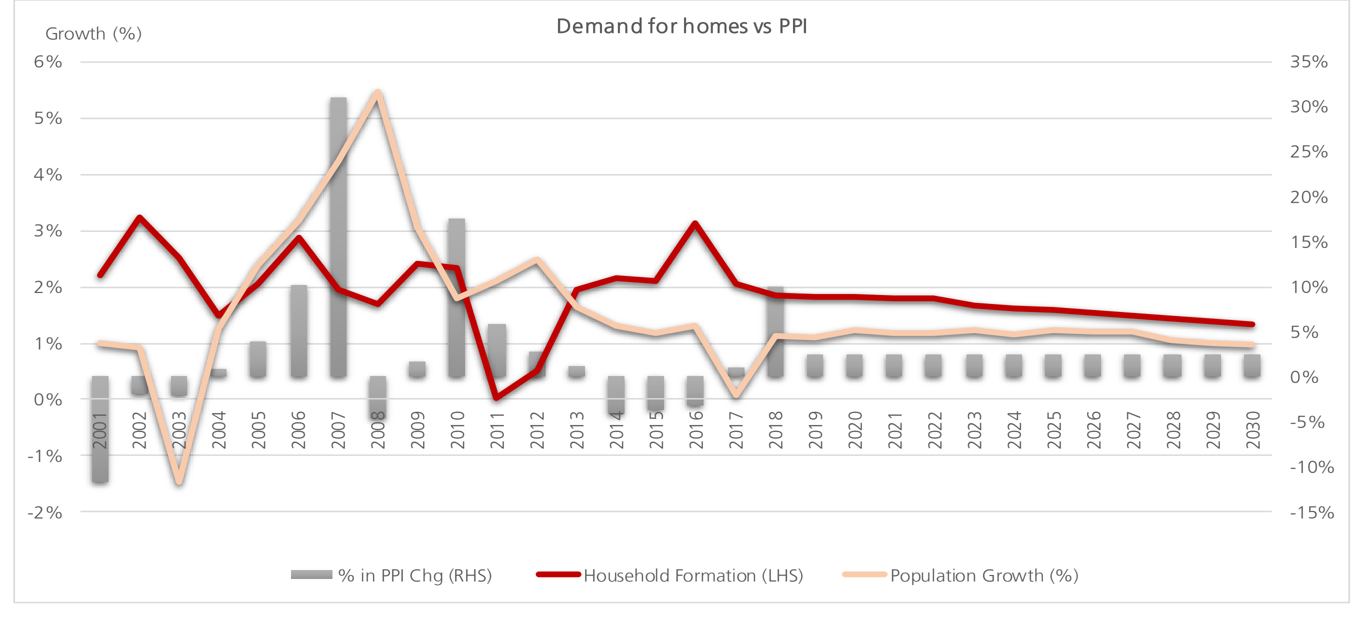
With displaced households waiting to buy a replacement home, coupled with expectations of higher selling prices by developers in the medium term, indicators point towards a sustained rise in prices. This is evidenced by the 11% rise in transaction volumes in 1Q18 and 3.9% y-o-y rise in the property market index. While home owners and investors appear to be jumping onto the property bandwagon once again, we felt it is also timely to take stock of the longer term demand drivers in the property market that would drive up property prices.

A population of 6.3m-6.5m is achievable. In a 2013 population white paper report, the government has put in place planning parameters to support a potential population of 6.5m-6.9m people. This is close to 1m more people living in Singapore in 12 years' time.

While these planning parameters are not official targets, assuming the population figures are achieved by 2030, this implies an annual growth rate of between 1.2% and 1.7%, which is higher than the c.1.0% population growth rate seen since 2013. Assuming the citizen population growth rate stays at c.0.8%, this would imply a revisit of the pace of the current immigration flow to our city.

In fact, based on the extrapolation of current population growth rate (both citizen growth rates and foreigner inflow) over the 2015-2017, total population is projected to grow to only 6.3m by 2030, which in our view is a bear case scenario.

Singapore home formations vs Property Price index (based on 6.5m population by 2030)



Source: DOS, DBS Bank

2. Singapore population: heading towards 6.5m by 2030

A greying population. In 2013, the Singapore government published a population white paper which mapped out the changes and challenges that the country will face in 2030. While 12 years is not a long time away, the white paper stated that Singapore's population could range between 6.5m and 6.9m by 2030. Citizens aged 65 and above will triple to 900,000 (as at 2017, residents aged 65 stood at 516,692) and the old-age support ratio for citizens will fall to 2.1 by 2030 from 5.1 in 2017.

With higher life expectancy and falling birth rates, the declining dependency ratio could mean a higher burden on the working population which might have the unintended overhang on demand for properties, consumption, etc. This could mean lower business opportunities and a less vibrant economy. As such, the population white paper looked at potential opportunities to grow the citizen core in the medium term.

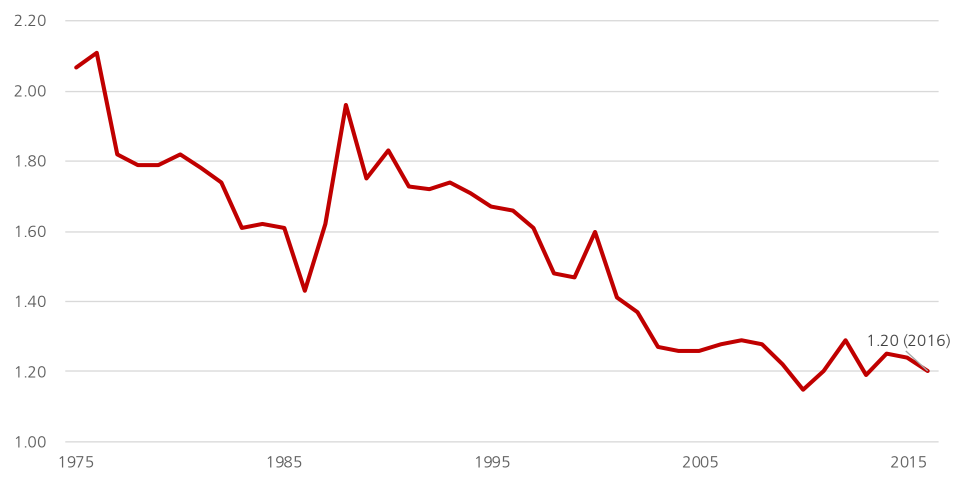
Decline in reproduction rate. The total fertility rate (TFR) has been declining over time and as of 2016, the TFR is at 1.20. The current TFR is one of the lowest in recent years, and while it may rise, it is still a long way to the full replacement level of 2.1. Due to lifestyle changes and practical considerations about access to housing and the availability and cost of child care, more Singaporeans are marrying later or not having children. The total number of singles between the ages of 30 years to 40 years has also been increasing and forms 67% of the total population as of 2017.

Singapore population – planning parameters

	2013	2017	2030 (Base)	2030 (Bull)
Singapore total population	5,399,162	5,612,253	6,500,000	6,900,000
Residents	3,844,751	3,965,796	4,200,000	4,400,000
Non-residents	1,554,411	1,646,457	2,300,000	2,500,000
Age: 0 – 19 years	870,309	827,454	900,000	935,000
Age: 20 – 64 years	2,570,005	2,358,999	2,300,000	2,415,000
Age: More than 65 years	404,437	516,692	1,000,000	1,050,000
Dependency ratio for residents	6.4	5.1	2.3	2.3

Source: DOS, DBS Bank

Singapore Total Fertility Rate (TFR) is falling



Remarks

Singapore TFR has been declining over time and has remained low at the 1.2 level since 2005

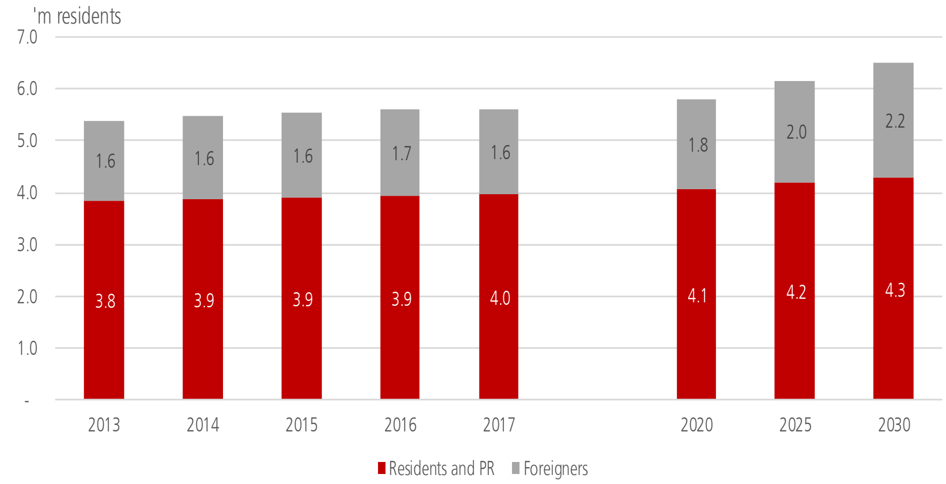
Source: DOS, MND, DBS Bank

A more targeted approach towards immigration and foreign talent to calibrate an overall rise in population. According to the population white paper, it was noted that a commitment to maintain a strong Singaporean core, while encouraging families to have children remains a key strategy to increase the TFR, immigration will also be a complementary strategy. We note that the Singapore government could look to add 15,000 to 25,000 new citizens every year in order calibrate the core citizen population base to between 3.6m and 3.8m, according to the population white paper. These projections will be reviewed regularly based on changing population needs.

The Singapore government is also selective in offering permanent residency to foreigners who have the intention to sink their roots here. The total permanent resident population is projected to be close to 0.5m to 0.6m in the longer term. Together with a core Singaporean citizen base, it is projected that the resident population (citizen and permanent residents) form two-thirds of the overall population.

While Singapore's immigration framework has been tightened over time, we believe that foreigners can play an important role in Singapore's development. Therefore, the ability to continue attracting foreign talent to contribute to the long- term economic growth of Singapore remains key. As of 2017, close to one-thirds of the population are foreigners and this is likely to remain in the medium term.

Singapore population growth projected to reach 6.5m by 2030

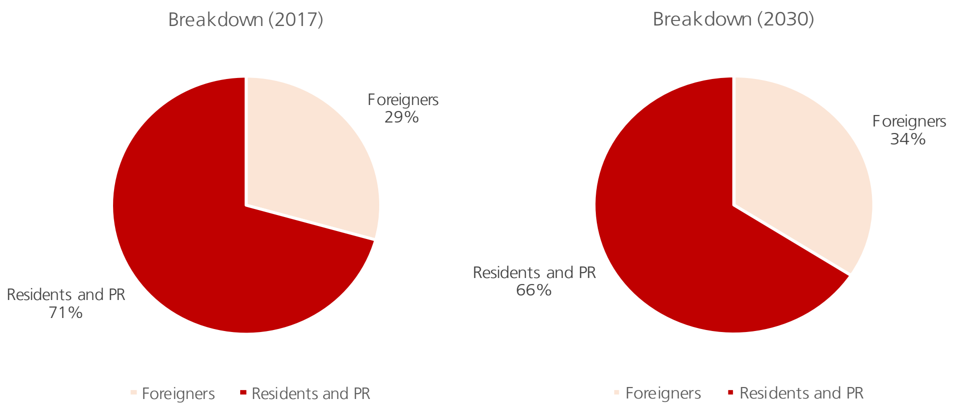


Source: DOS, MND, DBS Bank

Remarks

Base-case scenario that a population of 6.5m is achieved in 2030.

Breakdown of population



Source : DOS, MND, DBS Bank

Remarks

The target is to maintain a residence core comprising of citizens and permanent residents to form at least 65% of the total population.

3. Demand for private homes: 12,000 to 13,500 units annually; bull case 17,250 units

Population increase is a key strategy; 6.5m population is our base case assumption. To reach the assumed population range of 6.5m-6.9m by 2030, Singapore's population is set to grow by close to 0.9m-1.3m people in the next 12 years. This rate of increase represents an annual compounded growth rate of 1.3%-1.8%, which appears optimistic, given that the Singapore population only grew at a slow rate of 1.0% per annum in the past three years (2014-2017).

To achieve a re-acceleration of the population growth rate in the coming 12 years may entail an increase in the TFR, accompanied by a review of the current immigration policy. If we extrapolate the population growth rate at 1.0% per annum over the next 12 years, a bear case scenario, the overall population will grow only to close to 6.3m people.

Smaller family nucleus as family size shrinks. Due to lifestyle preferences (marrying later) and rising cost of raising children, household sizes have also been declining over time from an average of 3.47 (over 2000-2005) to a low of 3.11 as of 2017. Based on our projections, household sizes are also expected to decline to an average of 2.75-2.89 over the next 12 years.

Based on our analysis, our projections for new home demand will come from (i) household formation, (ii) upgrader demand and (iii) foreigner purchases for investment. Our estimates for the following are discussed in the following paragraphs:

(i) Demand from Household Formation

Household formation to outpace population growth, can potentially result in 20,000 (6.3m) to 25,000 (6.5m) new units annually. One of the primary demand drivers for property is household formation (which we assumed to be marriages which has averaged 25,000 a year in the past decade) and has outpaced the growth in population. In our assumed population range of 6.3m-6.5m or an additional 0.6m-0.9m more people, this may translate to a potential demand of 241,000-311,000 more homes. This is based on an average household size of 2.85, based on our estimate from 2018-2030, and translates to demand of 18,500 to 23,700 homes per annum over the next 12 years.

Based on Singapore's Department of Statistics (DOS) and our estimates, new household formation has been growing at an average of 2.0% (ranging from 2.0%-3.1%) for the past five years, translating to an annual demand of close to 25,000 homes per annum. Through the property cycle, investment demand from households and foreigner purchases have provided somewhat of a swing factor, generating volatility in price movements.

Demand for private homes to range from 6,000 units to 7,500 units. The government, through Housing Development Board (HDB), has historically catered to c.70% of the demand for new household formations, meaning a remainder of 6,000 households (based on 6.3m population) and 7,500 households (6.5m population) will need to find a home in the private or resale market.

(ii) Upgrader demand

Robust upgrader demand to yield another 6,000 units per annum. We find that the "upgraders" (homeowners who have bought their first HDB homes) and looking to buy a bigger home due to an expanding family nucleus or aspiration reasons is a big source of demand. In our analysis, the number of HDB flats that would have achieved the minimum occupation period (MOP) is estimated to increase to 17,000-19,000 per annum over the next 10 years. This means that these households will be eligible to purchase a new home and sell their existing flats to fund the purchase of a new home. Assuming 35% of these homeowners upgrade to a new home, we estimate that demand will average 6,000 units p.a. over the coming decade.

(iii) Foreigner demand

Averaging about 9% of total primary sales. Foreigner purchases have historically ranged between 4%-18% (average of 9%) across the property cycle. While demand from foreigners can be cyclical, an increased number of foreigner participation in our property market will be a key driver to push prices higher (upcycle) or lower (downcycle). Based on our estimates, foreigner purchases average about 9% of total primary sales across the cycle.

Without assuming foreigner demand in our estimates, we believe that sustainable demand for new homes will range between 12,000 units to 13,500 units. Based on our estimates for household formation and upgraders' demand, we project a total demand of 12,000 to 13,500 new units annually till 2030. This is at or above the average number of transactions in the primary market of close to 12,500 units over 2001-2017. At this rate, we believe that property prices have room to move higher in the medium term.

Other cyclical demand factors in the medium term.

Replacement demand for new homes as en-bloc households look for a new home. The current en-bloc craze has seen developers investing close to S$34bn into the Singapore property market (S$26bn in en-bloc transactions and S$8bn into government land sales programmes). With a total of 6,500 households displaced, the near-term demand over the next two years could rise above the historical norm.

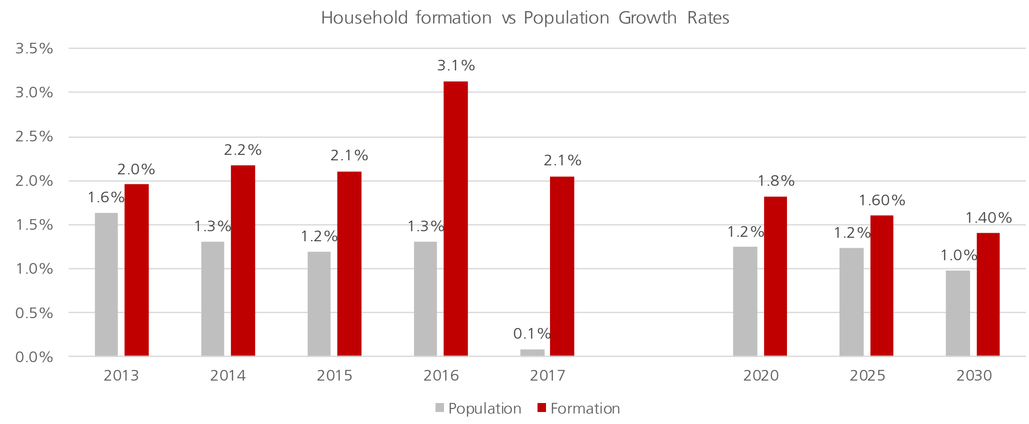
A bull case scenario of 6.9m population; total demand for new private homes to increase to 17,250 units, >50% above historical average. In the event that the Singapore population reaches 6.9m in 2030, we estimate that total demand for homes could reach 37,500 new units, split into 26,250 HDB units and 11,250 units in the primary market. Together with assumed upgrader demand of 6,000 units per annum, total demand for homes may reach a high of 17,250 units, which is more than 50% the average number of transactions per annum over 2001-2017.

Our assumptions on demand for primary homes

	2017	2030 (Bear)	2030 (Base)	2030 (Bull)
Population assumptions				
Singapore total population	5,612,253	6,300,000	6,500,000	6,900,000
Residents	3,965,796	4,200,000	4,300,000	4,500,000
Non-residents	1,646,457	2,100,000	2,200,000	2,400,000
Assumed population growth rates				
Annual growth rates (%)		1.0%	1.3%	1.8%
Resident growth rates		0.8%	0.8%	0.8%
Non-resident growth rate		2.0%	2.3%	2.5%
Assumed demand for homes				
Increase in population from 2017		687,000	887,000	1,287,000
Total Demand for homes (2018-2030)		241,000	311,000	450,000
Assumed Average Household Size (2018-2030)		2.85	2.85	2.85
Annual Demand for homes from new home formation		20,000	25,000	37,500
Annual Demand for homes (HDB)		14,000	17,500	26,250
Annual Demand for Homes (Private Market)		6,000	7,500	11,250
Assumed Annual Demand (Upgrader)		6,000	6,000	6,000
Total Annual Demand for Homes (Primary Market) - Locals		12,000	13,500	17,250
Upside from: Foreigner demand (9% of annual demand)		1,080	1,215	1,550
Total Demand for Homes (Primary Market) – Local + Foreigners		13,080	14,715	18,800
Average Primary Sales (2001-2017)	12,500			
Average Primary Sales (2001-2017) without Foreigners	11,250			
Above/Below Average		Above	Above	Above

Source: DOS, DBS Bank

Growth in household formation to exceed population growth rates

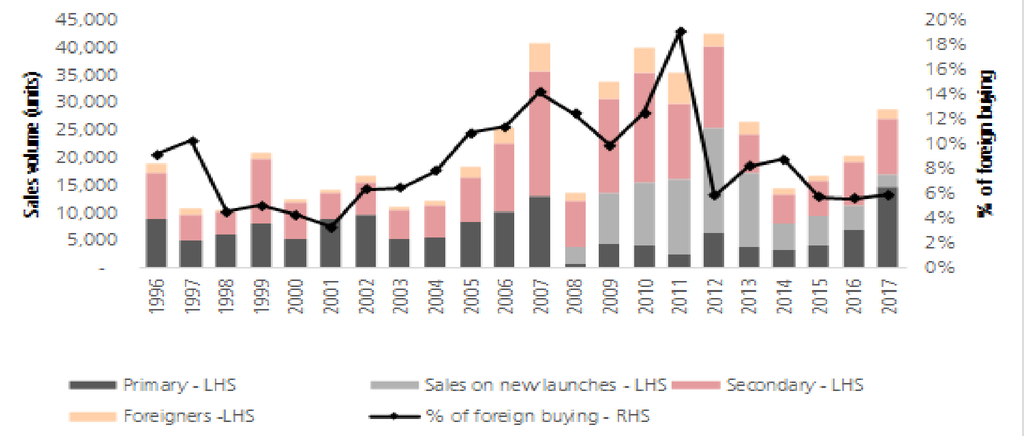


Source: DOS, MND, DBS Bank

Remarks

Household formation rates are projected to outpace population growth rates.

Foreigner demand averaged 9% of total primary home sales

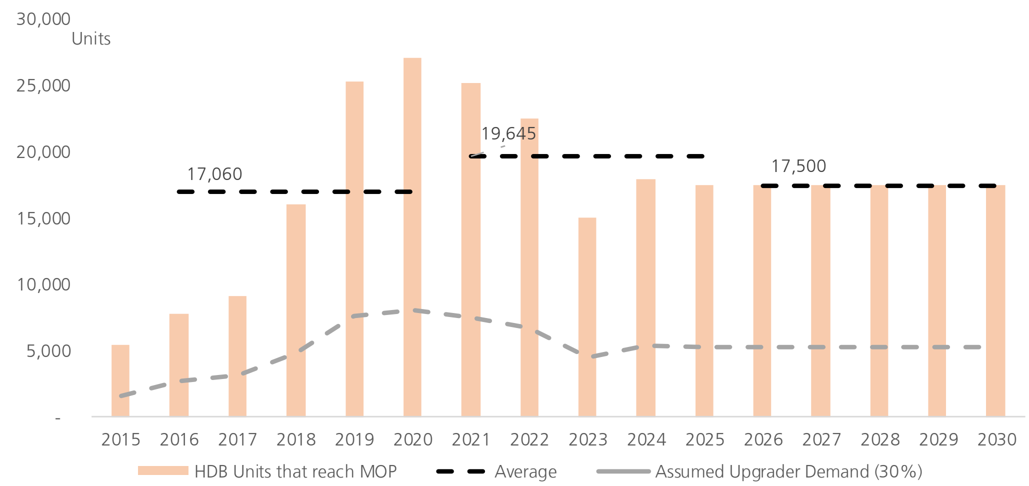


Source: DOS, MND, DBS Bank

Remarks

Though cyclical in nature, primary sales form close to 9% of total sales in the primary home market

Number of HDB units that will achieve 5-year minimum occupation period (MOP)



Source: DOS, MND, DBS Bank

Remarks

Households eligible to upgrade will spike to 17,000-19,000 per year from 2018 onwards.

In the medium term from 2024-2030, we assume 17,500 units per annum based on the annual run rate of HDB units launched for sale from 2018 onwards.

4. Government has levers to regulate supply

Government with levers to regulate supply. The Singapore Government has historically kept a close watch on supply, easing or tightening the supply levers over time in order to stabilise the property market. While the government has put a lid on supply as public tenders through the GLS has been fairly flattish at c.8,000 units for the period from 2013 till current, developers have gone into the collective sales market (i.e. en-bloc) to land-bank.

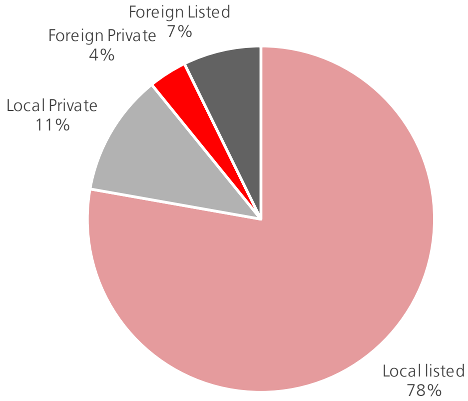
Looking ahead, we see a spike in supply completions in the next two years coming from the en-bloc sites that were sold since 2017. While most of this supply will enter the market within 2018-2019, implying a near term supply overhang, we believe these numbers can be absorbed over time. This will mainly come from upgrader demand. Based on our estimates, near term demand will see a boost from c. 6,200 displaced households who might be looking for a replacement home and thus enter the property market in the immediate term.

Singapore-listed and Singapore-based developers took the lion's share of land sites in 2017. Based on transactions in the GLS and en-bloc markets made to date, local developers were active in adding to their landbank in 2017-2018.

Developers that have added more significantly to residential landbank include the likes of listed companies like Oxley, City Developments, UOL, Singhaiyi, Keppel Land, and Wing Tai. New-to-market developers include HK-listed Logan Property Holdings, which has close to S$2.1bn in gross development value (GDV) in Singapore via two sites. The developer who won the largest land site is Sim Lian (privately held), who will be looking to launch up to 2,600 units (subject to approvals after a traffic study). The site itself has an estimated GDV of close to S$2.5bn.

Take-up of new launches a data-point to watch to see if current en-bloc craze continues. The take-up rates at these new sites will be a key data-point to ascertain if the Singapore property market still has legs to run in 2018-2019, especially when developers have priced in an implied increase in average price on a per sq ft basis for most sites to break even. Strong take-up rates will also provide confidence for them to continue to top up their land-bank.

End-buyer of GLS / En-bloc projects in 2017-2018 (by units) – 37,000



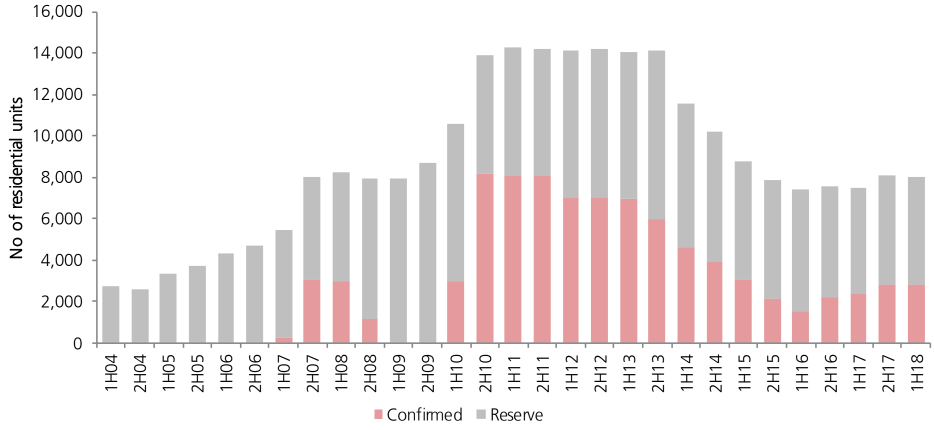
Source: URA, media, DBS Bank

End-buyer of GLS / en-bloc projects in 2017-2018 (by GDV) – S$50bn in GDV

No	Developer	GFA (m'sqft)	Units to be launched	GDV (S$'m)
1	City Developments	2.9	3,414	4,766
2	Oxley	2.1	2,863	2,971
3	Sim Lian	2.2	2,871	2,813
4	Logan Property	1.7	2,146	2,657
5	Kingsford	1.5	2,026	2,367
6	UOL	0.9	1,164	1,707
7	CapitaLand	0.7	800	1,406
8	Frasers Property	0.5	525	1,406
9	Chip Eng Seng	0.7	850	1,164
10	Allgreen	0.7	537	955

Source: URA, media, DBS Bank

Likely supply pipeline from GLS

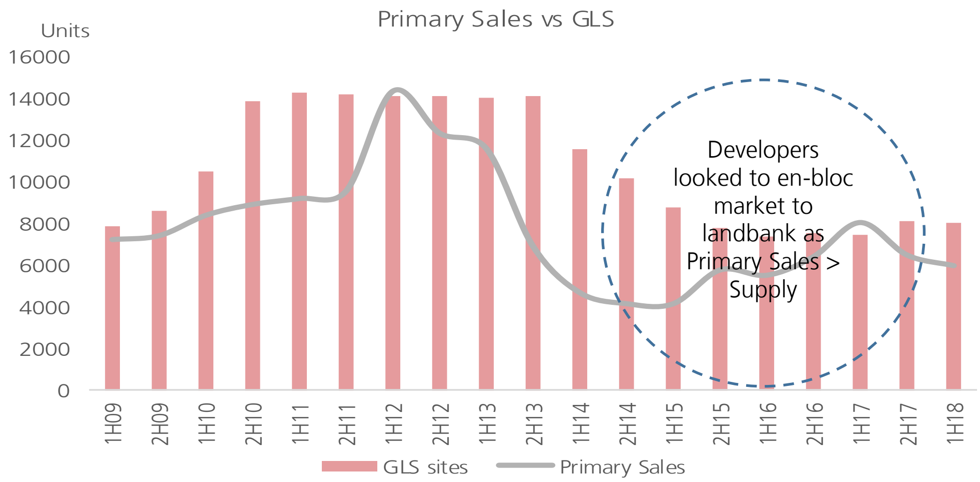


Source: URA, DBS Bank

Remarks

The supply from the GLS has been fairly stable at about 8,000-8,5000 units per half year.

Developers driven to en-bloc market

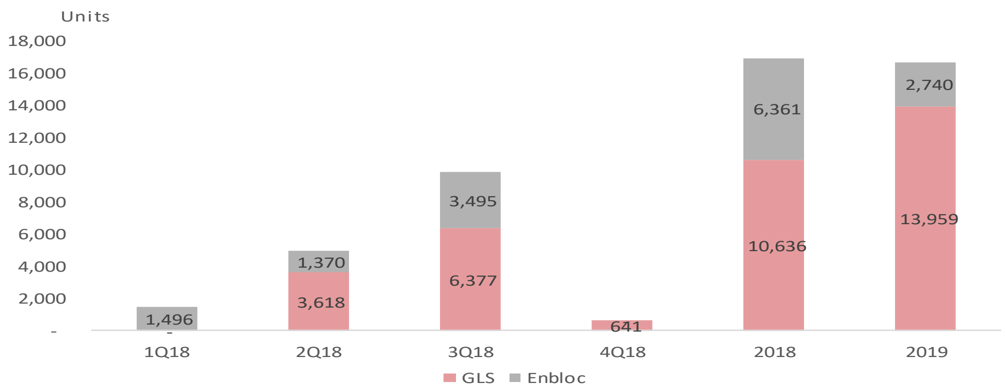


Source: URA, DBS Bank

Remarks

The falling supply in the GLS have resulted in developers heading to en-bloc market ot landbank

Likely supply pipeline (by type of sale)



Source: URA, DBS Bank

Remarks

Based on estimates, close to 37,000 units will be introduced to the market over 2018-2019.

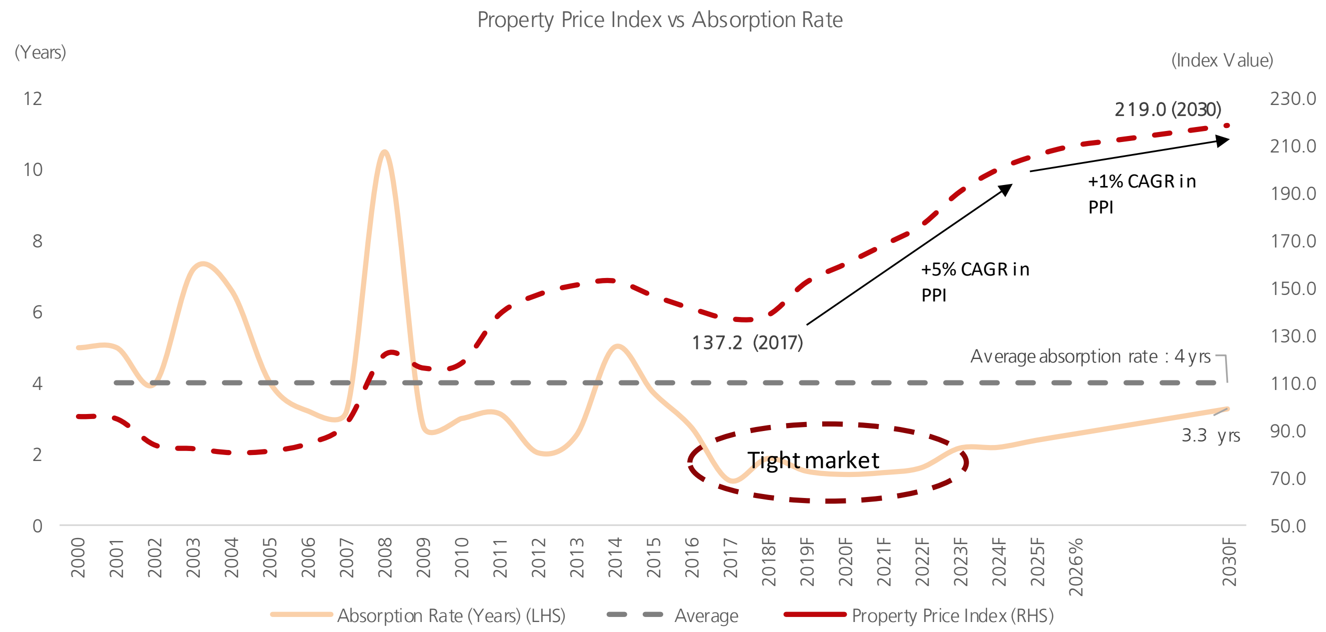
The government land sales (GLS) programme. The GLS have been low at about c.8,000 units available for developers to bid through the confirmed and reserve list. Over time, to regulate the supply in the market, the government has kept a larger proportion of sites in the reserve list, which will only be triggered upon a developer willing to meet a certain asking price for the site. This strategy would ensure that supply entering the market is at a sustainable rate going forward.

Looking ahead, we believe that the government could look to calibrate its land sales programme to meet the planned growth in demand from a rising population. We believe a sustainable level to be close to 15,000 units in any year from 2019 onwards.

Absorption rate to remain below 3.0 years, supportive of a sustained rise in property prices. History has shown that the property price index (PPI) will increase when the market absorption rates fall below 4 years, which is the market average since year 2000 – 2017. These instances were seen back in 2005-2006 (average of 3.3 years) and in 2009-2013 (c. 2 years).

On the assumption of 15,000 new units added to the market a year, we estimate that absorption rate - calculated as total unsold inventory over annual sales - is estimated to remain tight over 2018-2025 (at < 2.5 years) before increasing to 2.5-2.9 years over 2023-2030. As such, we project that prices will increase by 5% CAGR up to 2025 before dipping to 1.0% CAGR over 2025-2030.

Our assumptions on market absorption rates vs property prices



Source: URA, DBS Bank

5. Home transactions quantum to rise by 14%- 50%

Households are "upgrading" to smaller units, home sizes projected to decline to 840 sq ft by 2030. Developers have kept the price quantum fairly constant over the past few years and the average transaction value has remained stable at c.S$1.5m since 2010. However, given the robust bids for land prices, we believe that the average transaction value per unit will start to rise more significantly from 2018 onwards.

Over the last 5 years, developers kept the transaction quantum stable by shrinking house sizes. In 2001, average unit size was 1,400 sq ft but this declined by 40% to 1,083 sqft by 2016. This trend will continue. We forecast unit sizes to shrink to 840 sqft by 2030,above the government's guideline that the average size of each development should not be smaller than 70 sqm (750 sqft).

Income Growth projected to grow between 2.0%-2.5% from 2018F-2030F. Income growth will be the key driver to support the rise in property prices. We have assumed a population range of 6.3m-6.5m and income to grow at an average of 2.0% and 2.5% respectively till 2030.

Property prices to grow at 1.5%-3.2% CAGR till 2030. Given different demand and income growth projections, we project property prices to grow by 1.5% (at 6.3m population) to 3.2% (at 6.5m population) CAGR. This will translate to an average price ranging from c.S$2,300 psf to c.S$2,900psf, from S$1,446 psf in 2017.

Average home transaction quantum to increase to S$1.9m to S$2.5m. Based on the above estimates, we project that the average property price quantum will range from S$1.9m to S$2.5m, representing c.14% to 50% increase in home prices over the next 12 years.

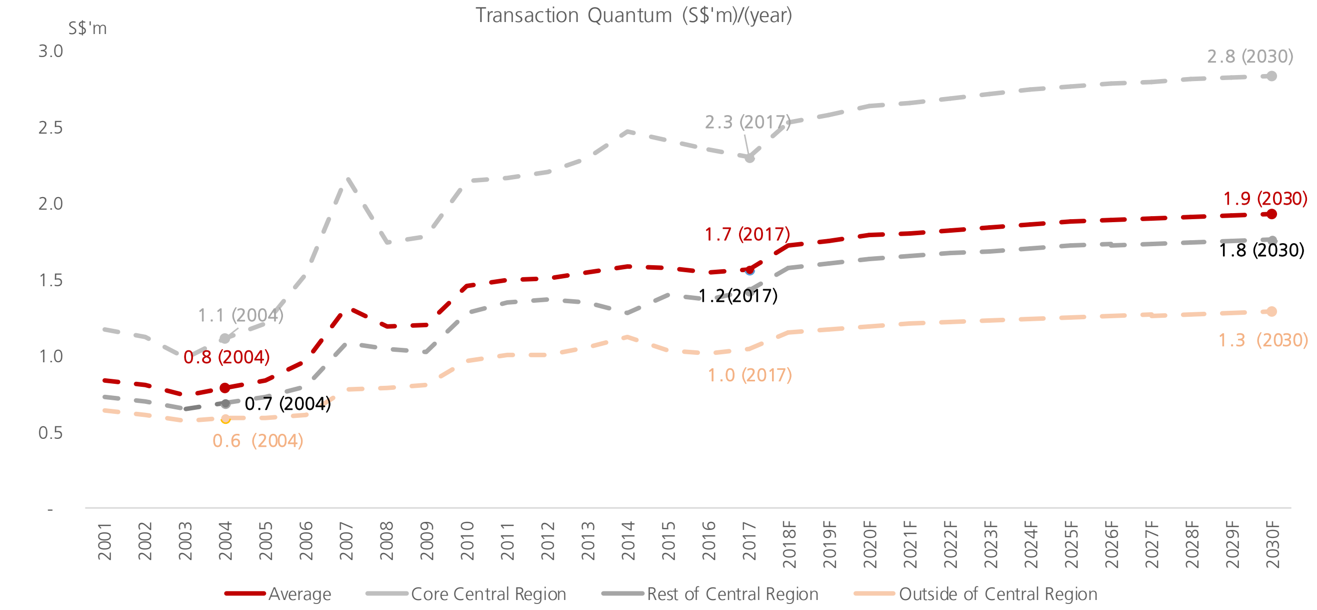
Assumptions for home prices based on a population size of 6.3m – 6.5m

		Period 2018F-2020F	Period 2021F-2025F	Period 2026F-2030F	At 2030
At 6.5m population					
Income Growth	(%)	2.50%	2.50%	2.5%	2.5%
Demand for homes (Primary Market) w/o Foreigners	Number	+13,500/yr	+13,500/yr	+13,500/yr	+13,500/yr
Average projected growth in property price	(%)	7.0%	3.0%	2.0%	2.0%
Price on S$psf basis	S$ psf	1,759	2,198	2,727	2,908
Average size of a private property	Sqft	1,030	950	862	840
Average property quantum	S$'m	1.8	2.1	2.4	2.5
At 6.3m population					
Income Growth	(%)	2.00%	2.0%%	2.0%%	2.0%
Demand for homes (Primary Market) w/o Foreigners	Number	+12,000/yr	+12,000/yr	+12,000/yr	+12,000/yr
Property Price Growth	(%)	5.0%	1.0%	0.5%	0.5%
Price on S$psf basis	S$ psf	1,707	1,946	2,219	2,299
Average size of a Private Property	Sqft	1,030	950	862	840
Average Property Quantum	S$'m	1.8	1.8	1.9	1.9

Source, DBS Bank

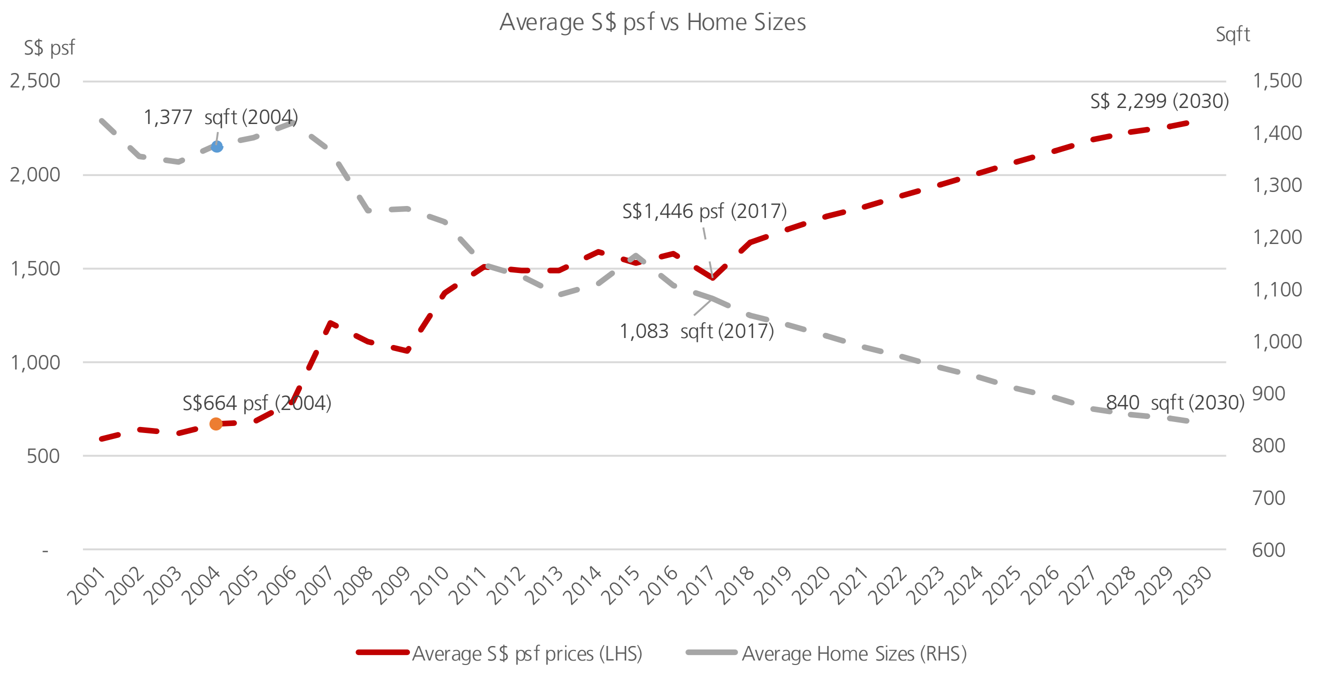
Based on 6.3m population:

Forecast of average home unit prices (6.3m population)



Source: DOS, MND, DBS Bank

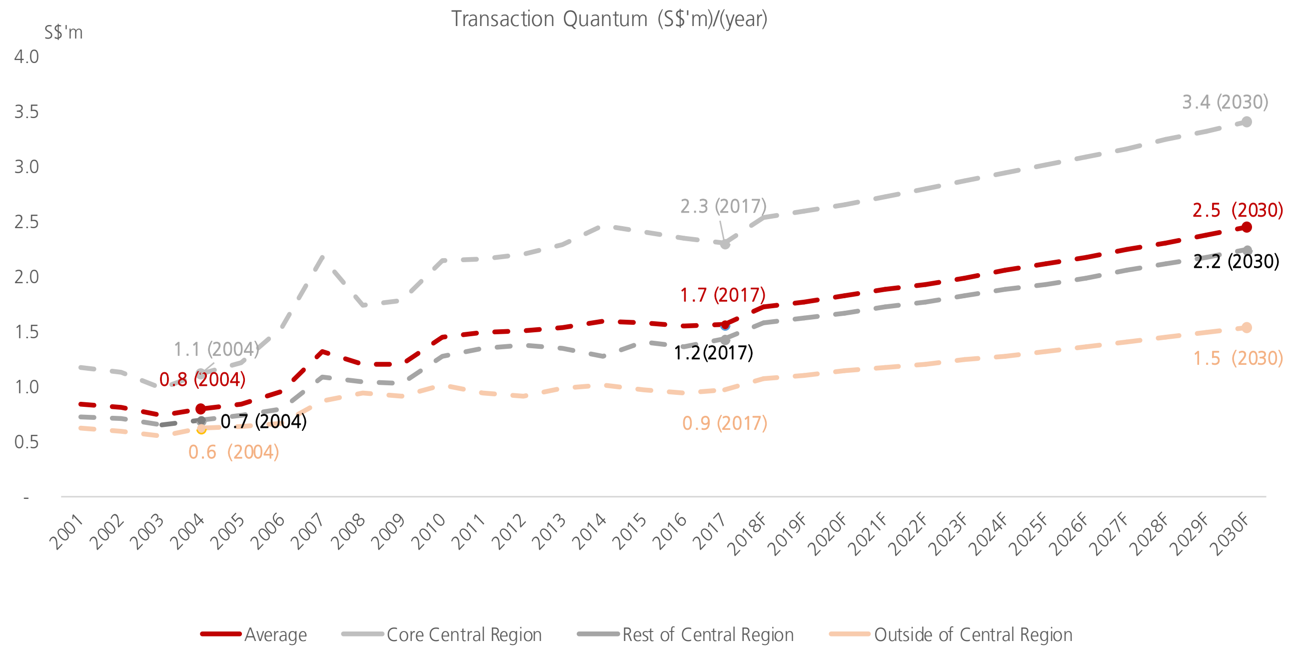
Forecast of average home prices (6.3m population) – size and on S$ psf



Source: DOS, MND, DBS Bank

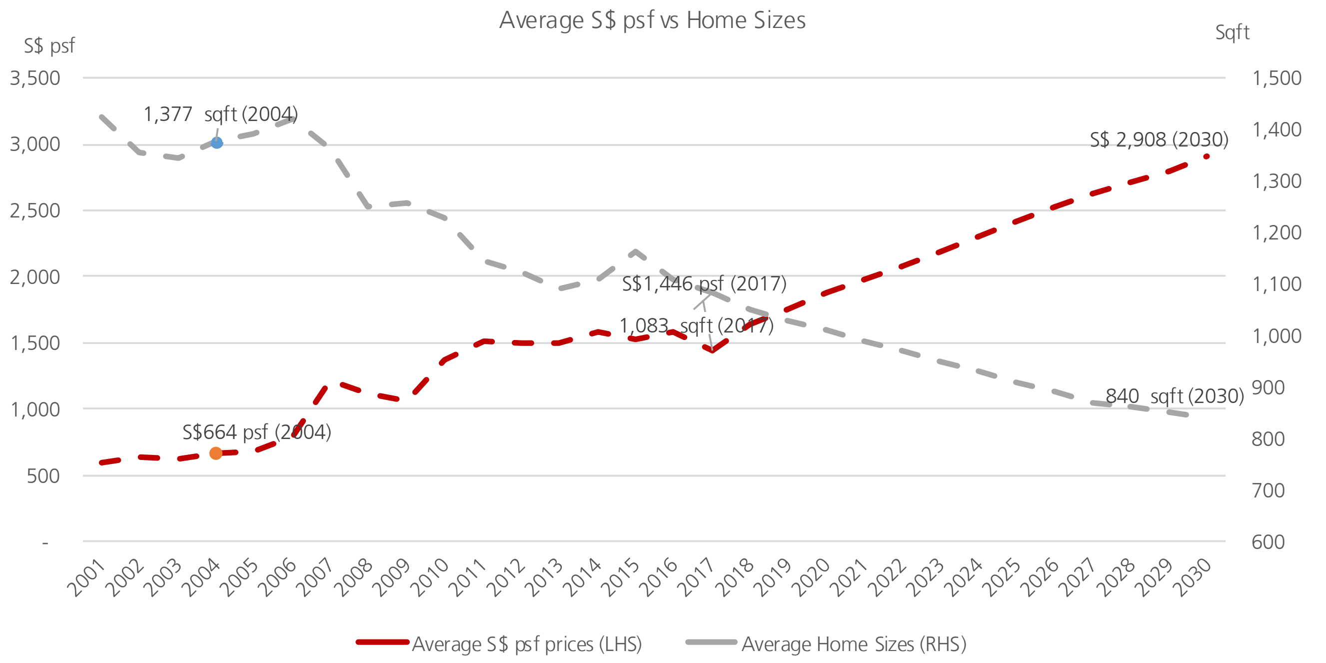
Based on 6.5m population,

Forecast of average home unit prices (6.5m population)



Source: DOS, MND, DBS Bank

Forecast of average home prices (6.5m population) – size and on S$ psf



Source: DOS, MND, DBS Bank

6. Affordability: Home price-to-income ratio to remain within historical range over time

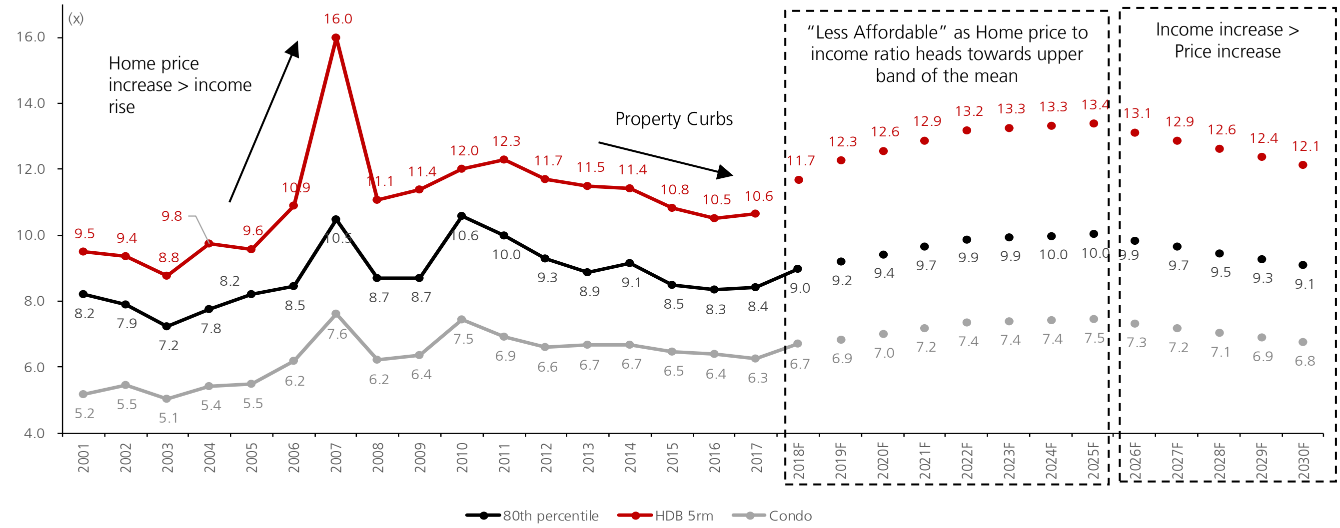
Price-to-income ratio has room to rise. In supporting our call on home prices and to measure affordability for households looking to upgrade, we look at the affordability ratio – measured as the average home transacted quantum for private property divided over household income ratio (home price-to-income ratio) at every given year.

Based on our calculation, we found that home price to income ratio for the 80th income percentile and 5-room HDB householders has averaged 8.8x and 11.0x respectively since 2001. The ratio stands at 6.3x for condominium dwellers.

A steady rise in price supported by income growth, by 2030 Price to income ratio to be close to historical average. In the next 5-7 years, based on our projection of home price increase, we expect that homes will be less affordable as price-to-income ratios trend towards the upper end of the band given the tighter operating conditions.

Assuming a stable economic environment as well as a long-term income growth rate of 2.5% per annum over the next 12 years, we forecast the home price-to-income ratio to remain within the historical range at the 80th percentile (9.1x as of 2030), 5-room HDB (12.1x as of 2030), and 6.8x (as at 2030) for residents currently staying in condominiums .

Forecasted Home Price to Income ratio (x)



Source: DOS, MND, DBS Bank

Assumptions for different household types to upgrade to a private property

		2005	2010	2015	2017	2020F	2025F	2030F
Average size of a Private Property	Sqft	1,392	1,228	1,163	1,083	1,010	910	840
Price on a psf basis	S$ psf	589	1,366	1,532	1,446	1,809	2,328	2,924
Total Quantum for	S$'000	819	1,677	1,782	1,566	1,827	2,118	2,456
House Income (80th Percentile)	S$/mth	8,500	11,550	15,500	15,500	16,800	19,000	22,000
% Chg	(%)					2.5%	2.5%	2.5%
Ratio (average of 8.8x)	(x)	8.0	12.1	9.6	8.4	9.1	9.3	9.1
Household Income (5-room)		7,295	9,200	12,200	12,300	12,600	14,250	16,300
% Chg	(x)					2.50%	2.50%	2.50%
Ratio (average of 12.1x)		9.4	15.2	12.2	10.6	12.1	12.4	12.1

Source: DOS, MND, DBS Bank

7. A masterplan to support a larger population

Infrastructure and land-use planning comes hand-in-hand with population growth. To support a larger population, the Singapore government has a longer term master plan that involves a more efficient allocation of land use. Based on the 2030 masterplan, the plan was to have up to 76,600ha of land will be needed to support a higher population, an increase from the 71,000ha as of 2013.

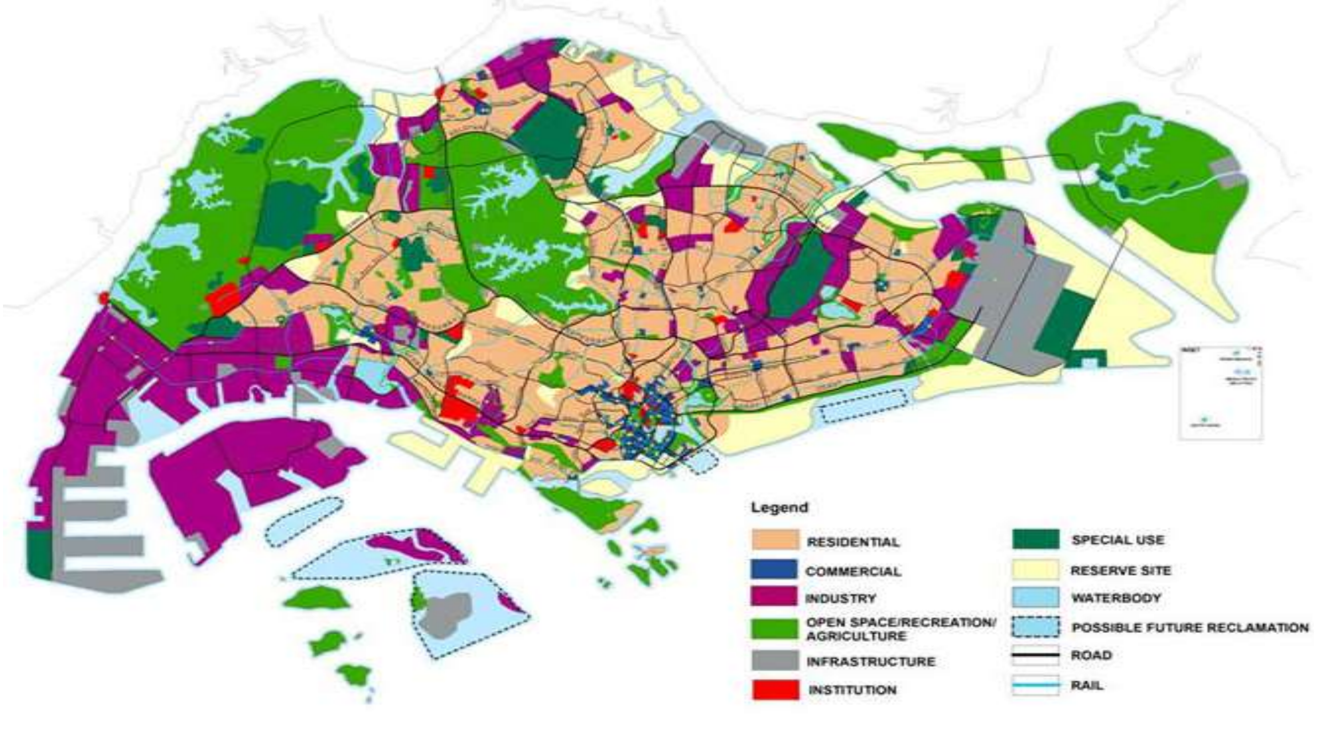
Based on the planned change in use of land in Singapore, the intensification of use will come mainly from (i) land reclamation, (ii) development of land reserve, (iii) intensification of current development, and (iv) urban redevelopment which involves intensification of use from existing industrial estates and golf courses.

Singapore has 14 private golf courses, which takes up about 1,500ha or about 2% of land. In recent years, a selected list of golf courses will not have their land lease extended due to redevelopment plans. An estimated close to 200ha of land will be slated for redevelopment. This includes the likes of Marina Bay Golf Course (68ha by 2024), Keppel Club (44ha by 2021) which are located in prime spots in and close to the Core Central Region (CCR) of Singapore.

Most of the increase in land use by 2030 is planned for housing (30% increase), Industry and commerce (32% increase), most of which, will come from land that are undeveloped.

Another key consideration is to improve connectivity round the island. The eventual aim is to not over-burden the current transport and infrastructure development, whilst achieving the goal to have more than 90% of Singapore households living within ten minutes of a train station (MRT). This will involve close to a doubling of the train network from 170km to 360km by 2030, according to the 2013 land transport masterplan.

Singapore 2030 Masterplan – land have been set aside to support a larger population



Source: DOS, MND, DBS Bank

Significant supply of land available to build a further 1.3m homes. Based on our estimates, the Ministry of National Development (MND) has put in place a land use plan which will cater for the longer-term growth in Singapore's population. According to the Master Plan 2030, an additional 3,000ha of land is available and is planned for residential use by 2030.

In square meter terms, this is an additional 30m sqm of land available for development into residential homes. Taking into account different plot ratios (ranging from 1.4x-3.0x), we estimate that up to 1.3m homes can be built on these land sites in the longer term.

These houses can support up to another 3.8m in population. Based on an average household size of 3.0 persons, we estimate that these can support up to another 3.8m population (1.8m-3.8m) in the longer term, when it happens.

We note that these are long-term estimates, which the government has the levers to pull from both the population growth (residents, immigration) and supply front to ensure a stable property market.

Breakdown of land use by type

Land use type	2010 Supply (ha)	% Split	2030 Supply (ha)	% Split	Increase (ha)	Increase (%)
Housing	10,000	14%	13,000	19%	3,000	30%
Industry and Commerce	9,700	14%	12,800	18%	3,100	32%
Parks and Nature Reserve	5,700	8%	7,250	10%	1,550	27%
Community, Institution and Recreation Facilities	5,400	8%	5,500	8%	100	2%
Utilities (e.g. Power, water treatment plants)	1,850	3%	2,600	4%	750	41%
Reservoirs	3,700	5%	3,700	5%	0	0%
Land Transport Infrastructure	8,300	12%	9,700	14%	1,400	17%
Ports and Airports	2,200	3%	4,400	6%	2,200	100%
Defence Requirements	13,300	19%	14,800	21%	1,500	11%
Others	10,000	14%	2,800	4%	-7,200	-72%
Total Land Area	70,150	100%	76,550	100%	6,400	9%

Source: DOS, MND, DBS Bank

Sensitivity of additional homes to plot rations

Scenarios from different density	Land ('m sqm)	Gross Plot Ratio (x)	Assumed (x)	Gross Floor Area ('m sqm)	Ave home size (sqm)	Number of homes (Number)	Ave Household (Number)	Population (Number)
Very High Density	30	>2.8	3.0	90	70	1,285,714	3.0	3,857,143
High Density	30	up to 2.8	2.8	84	70	1,200,000	3.0	3,600,000
Medium High Density	30	up to 2.1	2.1	63	70	900,000	3.0	2,700,000
Medium Density	30	up to 1.6	1.6	48	70	685,714	3.0	2,057,143
Low Density	30	up to 1.4	1.4	42	70	600,000	3.0	1,800,000
Average	30		2.0	60	70	857,143		2,571,429

Source: DOS, MND, DBS Bank

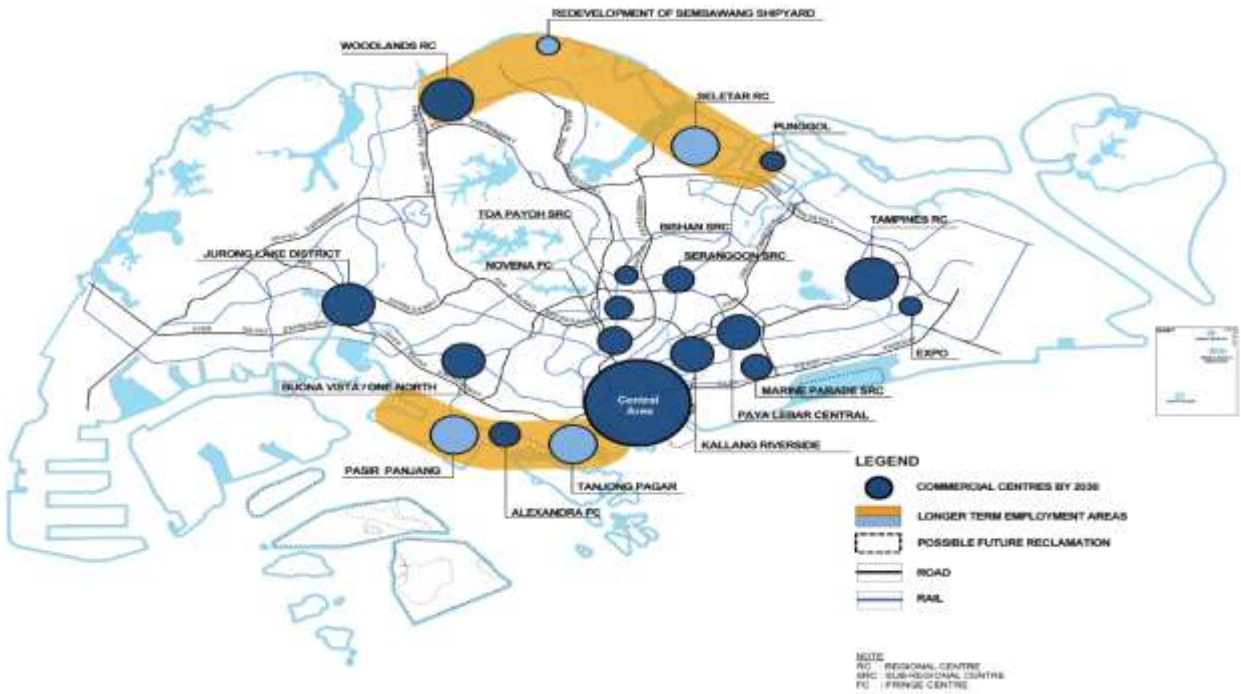
Decentralisation is a key strategy. In line with the concept of live-work-play, the government had plans to decentralize the business district and continue to grow the commercial centres outside of CBD with a targeted industry in each different node. This allows Singapore to expand its business district areas in an organized way, thus reducing travel demands. Each commercial centre would be supported by planned residential developments (new and old) surrounding the commercial centres. In addition, it allows the government to design and build a good living environment in the new areas.

One large commercial centre has been identified in each of the four corners of Singapore, Marina / Southern Waterfront City in the South (main CBD), Tampines Regional Centre in the East, Woodlands Regional Centre in the North and Jurong Lake District in the West. There are smaller commercial nodes in between these centres such as One-North, Jurong Lake District, Punggol from the Woodlands Regional Centre, Paya Lebar Central from Tampines Regional Centre and Kallang / Kampung Bugis partly from the CBD and partly from Paya Lebar Central.

Most of these planned developments are ongoing now with some potentially halfway through the execution stages. Tampines, being the first to be developed is likely the most mature of regional centre. The latest development in focus now would be Jurong Lake District and Woodlands Regional Centre.

Below is a map on the development nodes with the size of the circle denoting the size of the hubs. We also list below each individual regional centre, describing each and individual plan and focus for the area.

Singapore's development and decentralisation of business district



Source: URA

Jurong Lake District – The Second CBD

The 360ha Jurong Lake District is slated to be the second CBD in the West of Singapore and the Gateway to Malaysia with the KL-Singapore High Speed Rail Terminal in Jurong. It will be the largest commercial and regional centre outside the city centre and is expected to have a capacity of more than two and a half times that of Tampines Regional Centre today on the other side of the Island.

Given its strategic location near transportation / logistics hubs; the future Tuas Port and the KL-Singapore High Speed Rail Terminal, the second CBD offers an attractive location especially for regional businesses and firms and its supporting businesses in the maritime services, infrastructure development, oil and gas, petrochemicals, industrial, and logistics industries. In addition, the two upcoming MRT lines; Jurong Region line and Cross Island line by 2025 and 2030 respectively, will further add to the accessibility in the Jurong Lake District.

Envisioned to be a living lab where companies, businesses and research institutions partner with government agencies to test-bed innovative smart and sustainable urban solutions, its close proximity to 2 major research universities; Nanyang Technological University (NTU) and National University of Singapore (NUS), and One-North 'tech corridor' (another business hub focused on high-technology industries and research facilities) would facilitate in the exploration of new urban solutions and intelligent systems.

This vision includes the live, work and play environment with 20,000 new homes with attractive street life and leisure (parks and water features) options for its growing live-in population.

Jurong Lake District is strategically located near transportation / logistics hubs

Source: URA

Remarks

- Near future Tuas Port
- KL-Singapore High Speed Rail Terminal
- Close proximity to NTU and NUS
- Near One-North 'tech corridor'.

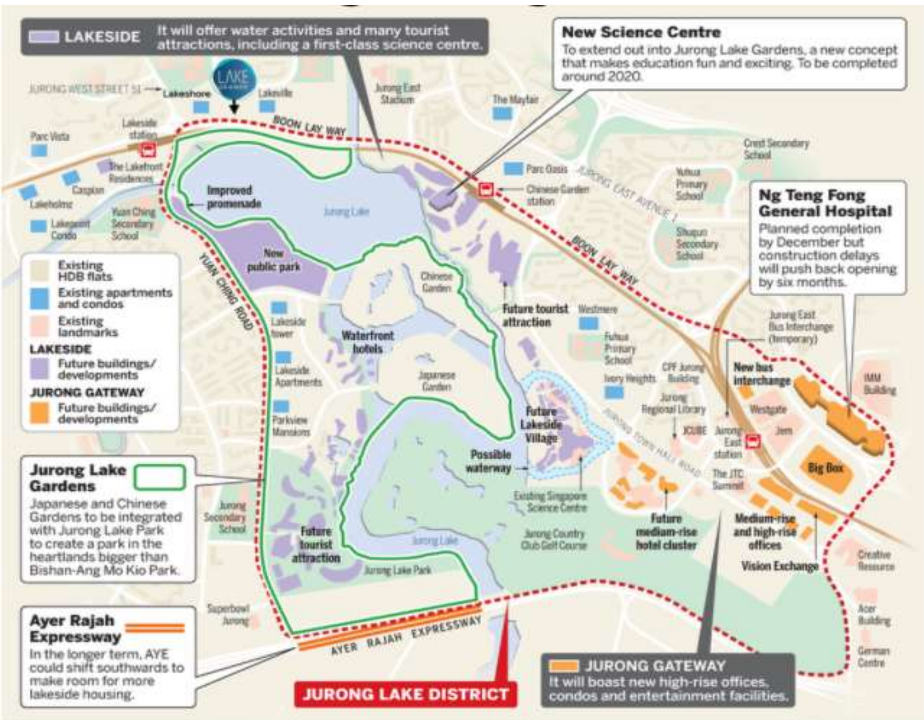
Jurong: Artist illustration on Jurong Gateway

Source: URA

Remarks

- An illustration of potential Jurong Gateway when complete

Jurong: Jurong transformations



Source: URA

Remarks

- Map of potential Jurong transformations

One-North – The Silicon Valley of Singapore

A 200-ha development, One-North, called the Silicon Valley of Singapore, was earmarked to host a cluster of world-class research facilities and business park space, all built to support the growth of Biomedical Sciences, Infocomm Technology (ICT), Media, Physical Sciences and Engineering. In line with the key themes of this hub, it is designed to be the first drone estate in Singapore.

The development has been ongoing largely driven by JTC driving the development of business parks in the area, supported by proximity to educational institutions like National University of Singapore (NUS). Currently, business parks that are already operational includes Biopolis, Fusionopolis, Mediapolis, Pixel and etc which gency for Science, Technology and Research; business schools like INSEAD, ESSEC Business School; government agencies Ministry of Education, Media Development Authority, SPRING Singapore; and companies like Autodesk, Fujitsu, Lucasfilm, Fox International Channels, Discovery Networks, Infinite Studios, Globecast, Bandai Namco, Garena, Canon, Oracle, Novartis, MSD , GlaxoSmithKline, Takeda, Electrolux, Llyod's Register, National Healthcare Group.

One-North: Map of development in One-North

Source: Straits Times, DBS Bank

Remarks

- Comprises business parks (such as Biopolis, Fusionopolis and Mediapolis) to house research & development centres, biotechnology companies and key targeted industrials

One-North: Map of development in One-North

Source: Straits Times, DBS Bank

Remarks

- Comprises business parks (such as Biopolis, Fusionopolis and Mediapolis) to house research & development centres, biotechnology companies and key targeted industrials

Woodlands Regional Centre – The Northern Gateway

As one of the four regional centres, Woodlands Regional Centre will anchor the development of the North Coast into an innovative corridor buzzing with ideas, creative design and new technologies, targeted for SMEs. Slated to be the Northern Gateway, the 100-ha hub is expected to have 700k sqm of new commercial space planned and will house its first business parks in the north of Singapore. Given its location just by the border with Malaysia and with connectivity into Malaysia, the new business hub will be attractive especially to business with Malaysia and ASEAN linkages.

The Woodlands Regional Centre will be served by two MRT lines, the existing North-South Line and the upcoming Thomson Line expected to open phase 1 by 2019. The Thomson Line is planned to be connected to the cross-border rail link to Johor Bahru, Malaysia.

With the landscape that overlooks the Straits of Johor, residential near the coastal line is planned with waterfront living designs and features. Another concept of residential, "housing-in-the-woods" leverages on the greeneries and the hilly terrain of Woodlands with homes that has views on the Straits of Johor and the parks.

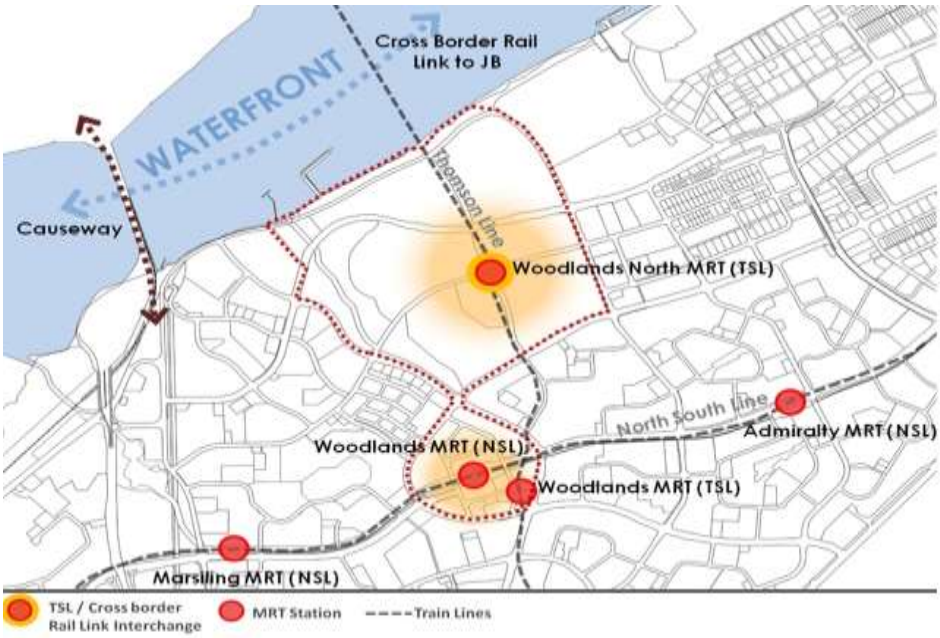
Woodlands: Woodlands Regional Centre

Source: URA

Remarks

- Woodlands Regional Centre consist of Woodlands North Coast and Woodlands Central
- 700k sqm of new commercial space planned
- Estimated 100k new jobs

Woodlands: Transportation and connectivity

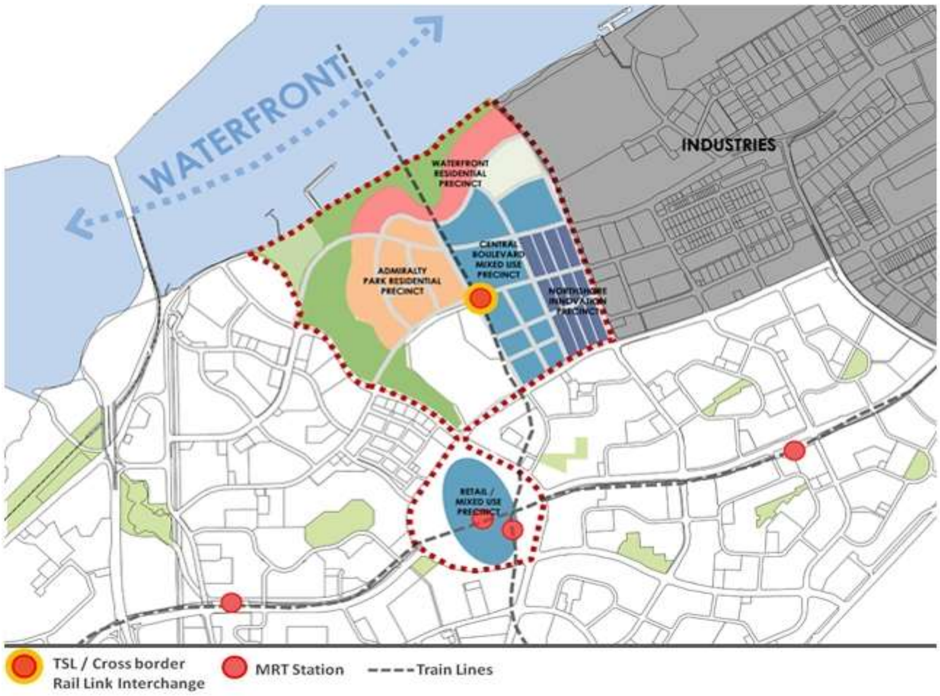


Source: URA

Remarks

- Woodlands will be served by 2 MRT lines; the existing North-South Line and upcoming Thomson Line.
- Thomson Line will be connected to the cross-border rail link to Johor Bahru, Malaysia.

Woodlands: Key potential residential and commercial / business parks in Woodlands



Source: URA

Remarks

- Admiralty Park & Waterfront Residential Precincts - Waterfront and garden residences
- Central Boulevard Mixed Use Precinct - Office and business park uses along signature green boulevards
- Northshore Innovation Precinct - Business opportunities for SMEs

Punggol Digital District

In Jan18, the government unveiled the development plans to turn Punggol into a digital district. The Infocomm Media Development Authority (IMDA), JTC, Singapore Institute of Technology (SIT) and Urban Redevelopment Authority (URA) will jointly develop Punggol Digital District. Punggol Digital District will be the first district to integrate business and education, driven by technology, social and urban innovation. Key industries targeted are businesses within the digital economy, such as cyber security and Internet of Things (IoT). SIT will build a new campus in punggol and with the co-located business parks of digital economy, it is expected to facilitate the cross-fertilisation of knowledge and collation opportunities among students, faculty and industry professionals.

Punggol: Aerial view of locations of seven waterfront housing districts

Source: URA, DBS Bank

Remarks

- Punggol Downtown and Punggol Central District are commercial areas to support the 7 waterfront housing districts
- Estimated to bring 28k jobs

Punggol: Commercial hubs and transportation links

Source: Straits Times, DBS Bank

Remarks

- To be connected by 2 LRT loops; the existing Eastern LRT loop and the upcoming Western LRT loop
- Designated learning and creative clusters to make Punggol a digital district

Tampines Regional Centre – CBD of the East

Tampines Regional Centre is the first and most established regional centre in Singapore. Started in the 1990s, Tampines is now a vibrant commercial hub for the eastern region. It was positioned for back-end offices to be relocated to the business parks in the surrounding areas. Today, major banks and insurance companies, such as AIA, UOB and DBS have established their presence at the Changi Business Parks. Located near the Changi Airport, Tampines Regional Centre is also a good location for industries that serves the airline industries.

Subsequently, the retail hub flourished riding on the development of these business parks and commercial properties. Jewel Changi Airport, expected to open in 2019 will further drive the retail environment at Tampines / Change.

The connectivity improved further now with Downtown Line fully opened adding more MRT stations on top of the existing East West Line. Residential in Tampines continue to flourish as commercial and retail thrive and connectivity improves.

Tampines: The CBD of the East

Source: URA

Remarks

- The successful development of commercial, residential and retail at Tampines Regional Centre, the CBD of the East

Tampines: Changi Business Park

Source: Ascendas REIT's website

Remarks

- Picture of DBS Asia Hub located in Changi Business Park

Paya Labar Central – Fringe CBD location

Paya Lebar Central, located in between the CBD and Tampines Regional Centre is an integrated commercial node with offices and retail. This development has revived the area into a bustling commercial hub. When fully developed, there will be an additional 500k sqm of commercial space including offices, hotels and retail outlets, albeit a smaller node of commercial hub compared to the main regional centres.

The recent successful launch of Park Place Residences (phase 1 in 2017 and phase 2 in 2018) partly shows the confidence of property buyers of the development of Paya Lebar.

Paya Lebar: Aerial view of locations of seven waterfront housing districts

Source: URA

Remarks

- Various commercial / mixed development at Paya Lebar Central

Paya Lebar: SingPost Centre

Source: Singpost

Remarks

- The newly opened SingPost Centre (a mixed development) located next to Paya Lebar Quarters.

Southern Waterfront City – The Greater Southern Waterfront

The Greater Southern Waterfront master plan was first unveiled in 2013. With the planned relocation of the City Terminals and Pasir Panjang Terminal to Tuas, it will free up some 1k ha of land (3 times the size of Marina Bay) for the expansion of the CBD into the Greater Southern Waterfront from 2030 onwards. The leases of these terminal will expire in 2027 and 2040.

The expansion of the CBD will provide new commercial and housing developments on a longer waterfront line in the south of Singapore, giving more space for new business and existing business to expand.

Southern Waterfront City: Relocation of City Terminals and Pasir Panjang Terminals

Source: Sg Property

Remarks

- The planned relocation of the City Terminals and Pasir Panjang Terminal to Tuas will free up about 325 and 600 ha of waterfront land.
- The port leases at Tanjong Pagar, Brani and Keppel are due to expire in 2027 while Pasir Panjang is 2040.
- The development of these area will be the future Southern Waterfront City, an expansion from the existing Marina

Southern Waterfront City: Expansion of the Southern Waterfront City from Marina

Source: Sg Property

Remarks

- Future waterfront city post the relocation of Tanjong Pagar Terminal, Keppel Terminal and Pasir Panjang Terminal

KAMPONG BUGIS

Kampong Bugis, located just across the greater CBD and near 4 MRT stations (Lavender, Kallang, Nicoll Highway and Bendemeer), this is planned to be developed into a car-lite residential precinct with roughly 4k units. Leveraging on the waterfront along the Kallang Basin and the greater Marina Bay, Kampong Bugis will be an attractive residential development for a quieter waterfront living yet in close proximity to the CBD.

Kampung Bugis: The current landscape of Kampong Bugis

Source: Straits Times, DBS Bank

Remarks

- Current landscape of Kampong Bugis

Kampong Bugis: Map of Kampong Bugis

Source: Straits Times, DBS BAnk

Remarks

- The recent call for tender by Singapore land Authority (SLA) on 19Apr to conduct remediation works on the former site of Kallang Gasworks will pave the way for the development of Kampong Bugis

8. Risks

Population growth slower than estimated. Our positive call on the Singapore property market is premised on a 2030 population of 6.5m. However, if Singapore's population misses that target, we could see demand for homes falling below our target of 15k-16k per annum. In our bear case scenario of 6.3m population, demand for homes is projected to be at 12,000 homes, in line with historical demand levels, implying that there is less impetus for prices to rise on a sustainable basis.

Immigration policy remains tight. The government has in the past few years, maintain a tight immigration policy. A further tightening resulting in a lower than projected growth in non-resident growth rates might mean lower rental demand and thus result negatively impact property prices. In achieving our population growth target of 6.5m, we have assumed a 2.3% growth rate, vs 2015-2017 growth rate of 2.0%.

Policy risk. We have not assumed any policy tightening in our forecasts. Recent hawkish tone from the government, warning of an exuberant property market could imply potential tightening measures if prices run up too fast. In our view, a more than 10% rise in property prices in a year may prompt the government to tighten.

Macro-economic uncertainties. Our assumption of a long term income growth of 2.5% over 2018-2030 is supported by stable economic growth conditions over the next 12 years. While we do not foresee any near term trigger for us to turn cautious, any external shock from geo-political risks or economic black swan events resulting in a economic downturn and a rise in unemployment rate will result in a downshift in prices. In our analysis, we find that prices tend to fall when unemployment rate rises to > 3.5%, compared to the current 2.0%.

9. Stocks picks

Riding on Singapore growth story. We believe that companies that are empowered with the ability to ride the Singapore growth story are those that own properties with dominance in the respective submarkets across the island. In addition, management teams who always cast an eye towards future proofing their portfolio to ride the next phase of economic growth will likely emerge as winners in the current economic transformation. These companies in our view are:

City Developments (BUY, TP S$15.40)

We maintain our BUY call on City Dev with a TP of S$15.40. With the Singapore property market in the nascent stages of an upturn and one of the largest landbanks in Singapore, City Dev is largely seen as a key proxy to uptrends in the Singapore residential market and has historically traded up to 1.2-1.3x P/NAV, which is in line with the implied valuation of our TP.

The catalysts will come from a robust pipeline of projects to be launched in 2018 and beyond. On that front, the first to hit the market will be New Futura, 124-unit freehold development at Leonie Hill, District 9 in 1Q18, and an 861-unit suburban condominium in Tampines Avenue 10. City Dev is also preparing for the soft launch of South Beach Residence (190 units) in 1H18.

Where we differ: While City Dev is generally a consensus call to ride the residential wave, we are amongst the more optimistic analysts in the street.

UOL Group (BUY, TP S$10.23)

We maintain our BUY rating on UOL Group, which is trading at an attractive valuation of c.0.8x P/NAV with the consolidation of UIC. Its recently purchased land sites (Raintree Gardens and sites along Meyer/Amber Road) from the en-bloc market will likely see strong buyer interest upon their launch, which we believe will act as re-rating catalysts for the stock. In addition, the group's hotel arm, Pan Pacific, is expected to see stronger RevPAR on the back of abating supply risk in Singapore and as business travel recovers in Asia.

Where we differ:
More positive than consensus as UOL stands to benefit from improved sentiment in the Singapore property and hospitality segments. As the earliest to land bank at a lower price and three sites to be launched in the coming quarters, UOL stands to benefit from the improved sentiment in the Singapore property segment.

CapitaLand Limited (BUY, TP S$4.35)

We maintain our BUY call on CapitaLand With TP S$4.35. The group is one of of Asia's largest real estate companies with a growing regional presence. The group recently returned to Singapore with a bang, scooping up Pearl Bank Apartments in an en-bloc and is hungry for more, albeit selectively.

The catalysts will come from succesful launch of Pearl Bank Apartments and also projects across Asia, namely China and Vietnam. The gorup's recurring income, estimated at 70% of revenues, offer earnings visibiity.

Where we differ: With strong income growth, we project the group to continue delivering a hike in dividends, which we believe will sustain a price increase.

Roxy Pacific (BUY, TP S$0.63)

Roxy Pacific is an over-looked mid-cap developer with an attractive residential land-bank acquired early in the current enbloc cycle. The group is looking to launch 6 projects in 2018, which we believe will see strong take-up rates when launched in a window where competition for buyer attention is not high. In addition, the group has been taking an active reconstitution strategy towards their commercial portfolio and has divested selected assets at premium to NAVs.

Where we differ: A largely uncovered stock, we like Roxy for its quick-turn strategy for its projects while the group's commercial portfolio (office and hotels) continue to churn steady returns.

Chip Eng Seng (BUY, TP S$1.18)

Singapore-based Chip Eng Seng Corporation (CES) has been selectively acquiring projects in Singapore and overseas which are ripe for the picking. Most of the group's residential projects have already been substantially sold and, together with an estimated construction order book of S$560m (as at Jan 2018), CES has locked in at least S$1bn in sales – which will be recognised progressively, underpinning strong earnings visibility in the coming years. Meanwhile, plans to launch recently acquired residential sites at Woodleigh and Changi in 2H18 and 1H19 respectively, should boost the group's earnings and NAV in the medium term.

Where we differ: A largely uncovered stock, we like CES for its strong earnings visibility and the potential to unlock its undervalued hotel portfolio.

Company Guide

Singapore Company Guide

City Developments

Version 11 | Bloomberg: CIT SP | Reuters: CTDM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Mar 2018

BUY

Last Traded Price (7 Mar 2018): S$12.67 (**STI :** 3,450.69)
Price Target 12-mth: S$15.40 (22% upside) (Prev S$14.03)

Analyst
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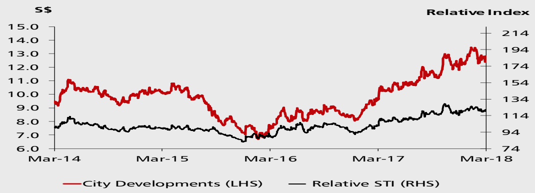
What's New

- Top developer in Singapore residential market with S$6bn in unsold stock, contrary to market perception
- Strong presales at upcoming launch of The Tapestry to drive share price higher
- Renewed focus on growing fund management business to drive recurring income and crystallise NAV

Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2016A	2017A	2018F	2019F
Revenue	3,905	3,829	3,633	4,520
EBITDA	1,050	984	1,313	1,430
Pre-tax Profit	914	780	1,060	1,148
Net Profit	640	525	787	839
Net Pft (Pre Ex.)	474	448	787	839
Net Pft Gth (Pre-ex) (%)	7.2	(5.5)	75.8	6.5
EPS (S cts)	70.4	57.8	86.6	92.2
EPS Pre Ex. (S cts)	52.1	49.2	86.6	92.2
EPS Gth Pre Ex (%)	7	(6)	76	7
Diluted EPS (S cts)	67.1	55.0	82.5	87.9
Net DPS (S cts)	17.4	14.0	16.0	16.0
BV Per Share (S cts)	1,022	1,054	1,127	1,203
PE (X)	18.0	21.9	14.6	13.7
PE Pre Ex. (X)	24.3	25.7	14.6	13.7
P/Cash Flow (X)	9.8	10.7	740.5	5.2
EV/EBITDA (X)	14.9	15.2	12.3	10.3
Net Div Yield (%)	1.4	1.1	1.3	1.3
P/Book Value (X)	1.2	1.2	1.1	1.1
Net Debt/Equity (X)	0.2	0.1	0.2	0.1
ROAE (%)	7.0	5.6	7.9	7.9
Earnings Rev (%):			33	86
Consensus EPS (S cts):			69.1	71.5
Other Broker Recs:		B: 19	S: 1	H: 3

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Undisputed residential champion

Maintain BUY; TP revised to S$15.40. We maintain our BUY call on City Dev with TP of S$15.40 as we fine-tune our residential sales and investment property valuation assumptions. With the Singapore property market in the nascent stages of an upturn, City Dev is largely seen as a key proxy to upward trends in the Singapore residential market and has historically traded up to 1.2-1.3x P/NAV, which our TP implies.

Where we differ: Among the highest TP in the street. We believe that catalysts abound for the group after its successful land-banking activities which added five residential sites over the past year. Based on our analysis, City Dev is the developer with the largest amount of unsold inventory on the books, estimated at close to S$6bn comprising c.3,600 units. These properties are located across various segments of the property market which allow the group to capture the widest market share in 2018. The strong pre-sales of upcoming launch – The Tapestry – will be a catalyst for further re-rating.

Potential catalyst: Strong pre-sales at launch projects/land-banking activities.

Growth in fund management platform a key focus. 4Q17 results were in line with expectations but one key focus was the company's renewed plans to accelerate its efforts to develop a fund management business, targeting to hit US$5bn by 2023. The strategy is to drive recurring income and to achieve a more efficient capital structure and offer recycling opportunities for the group to deploy capital more actively.

Valuation:

We maintain our BUY call, TP of S$15.40, based on a parity to RNAV, which implies 1.2x P/NAV.

Key Risks to Our View:

Non-completion of privatisation. The inability to complete the privatisation exercise could limit potential upside to RNAV.

At A Glance

Issued Capital (m shrs)	909
Mkt. Cap (Sm/USm)	11,521 / 8,767
Major Shareholders (%)	
Davos Investments Holdings Ltd	16.4
Hong Leong Investment	15.4
Standard Life Aberdeen	6.0
Free Float (%)	57.2
3m Avg. Daily Val (US$m)	16.9
ICB Industry : Financials / Real Estate	

WHAT'S NEW

Singapore largest land bank

Undisputed leader in Singapore residential market. Since early 2017, the group has turned more active in building its residential land bank in Singapore After beating the competition in three recent land tenders in January - February 2018, City Development Limited (City Dev) remains the developer with the highest market share in terms of unsold stock in its books. We believe that the group is well positioned to leverage on the residential upcycle with over c.2,750 units in the pipeline from unlaunched residential projects. These properties are across the suburban, mid- to luxury-end segments.

Residential sales momentum has been strong for the group, achieving 1,171 units with sales value of S$1.93bn. From the group's portfolio of launched projects in Singapore, the group has a further 232 unsold inventory on its books (effective stake of 178 units). Based on estimates, the total unsold inventory (launched and unlaunched projects) could be worth up to S$6bn. This will make City Dev the group with the largest share of unsold inventory in the market.

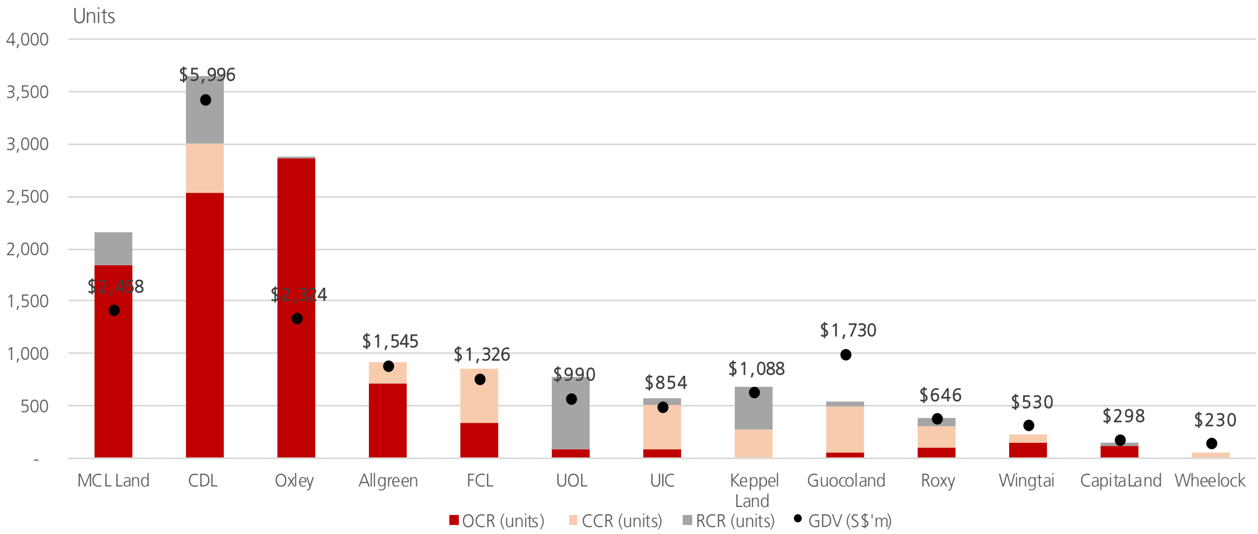
4Q17 results in line. City Dev reported a 24% drop in PATMI of S$187m (4Q16 of S$244m) and S$538.2m for FY17. This was despite a 133.8% rise and 2.0% dip in revenues to S$1,327m (4Q17) and S$3,828m (FY17) respectively. Profit from operations dipped by 29.8% to S$225.8m (4Q17) and fell by 13.4% to S$799.8m (FY17). The drop in operational profits was mainly due to a high-base effect in 2016 where performance was boosted by sizeable contributions from Hong Leong City Center (HLCC) in Suzhou, higher-profit-margin projects like Coco Palms, D'Nest and Lush Acres Executive Condominiums (EC), and gains from selling selected properties into the group's third Profit Participation Securities (PPS).

Gearing remains conservative. City Dev's net gearing ratio remains low at 9% with strong reserves of S$4bn. This financial headroom allows the group to undertake any opportunistic acquisitions in the future.

Higher dividends. The group proposes a higher final dividend per share of 8 Scts (vs 6 Scts in FY16), bringing total dividends to 18 Scts per share (16 Scts in FY16).

Fund management. The group intends to accelerate its efforts to develop a fund management business to drive recurring income and to achieve a more efficient capital structure and offer recycling opportunities for the group to deploy capital more actively. With three PPS already under the fund management platform, the group intends to launch more co-mingled funds or JV, acquire platforms and manage third-party capital. The group aims to build an AUM of US$5bn by 2023.

Estimated attributable developers' unsold inventory (gross development value and units)



Source of all data: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	1,167	863	1,328	13.8	53.8
Cost of Goods Sold	(637)	(437)	(852)	33.6	95.1
Gross Profit	**530**	**427**	**476**	**(10.1)**	**11.6**
Other Oper. (Exp)/Inc	(66.3)	(60.5)	(108)	63.2	78.8
Operating Profit	**322**	**238**	**226**	**(29.8)**	**(5.3)**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	31.0	18.2	29.0	(6.3)	59.1
Net Interest (Exp)/Inc	(21.1)	(15.5)	(15.7)	25.8	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	**332**	**241**	**239**	**(27.9)**	**(0.8)**
Tax	(63.8)	(39.0)	(20.1)	(68.5)	(48.5)
Minority Interest	(24.0)	(45.9)	(32.3)	(34.9)	(29.6)
Net Profit	**244**	**156**	**187**	**(23.4)**	**19.6**
Net profit bef Except.	244	156	187	(23.4)	19.6
EBITDA	418	312	308	(26.3)	(1.2)
Margins (%)					
Gross Margins	45.4	49.4	35.9		
Opg Profit Margins	27.6	27.6	17.0		
Net Profit Margins	20.9	18.1	14.1		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Back to Singapore with a bang! Since early 2017, the group has turned more active in building its residential land bank in Singapore. After beating the competition in three recent land tenders in January-February 2018, City Development Limited (City Dev) remains the developer with the highest market share in terms of unsold stock in its books. We believe that the group is well positioned to leverage on the residential upcycle with over c.2,750 units in the pipeline from unlaunched residential projects. These properties are across the suburban, mid- to luxury-end segments.

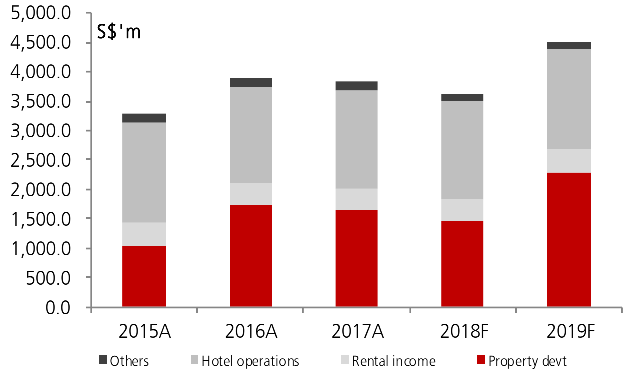
Strong sales momentum seen in existing projects. Residential sales momentum has been strong for the group, achieving 1,171 units with sales value of S$1.93bn. From the group's portfolio of launched projects in Singapore, it has a further 232 unsold inventory on its books (effective stake of 178 units). Based on estimates, the total unsold inventory (launched and unlaunched projects) could be worth up to S$6bn. This will make City Dev the group with the largest share of unsold inventory in the market.

Overseas investments to bear fruit in 2018. In **London** – City Dev will progressively complete projects at Belgravia and Knightsbridge in 2018 while the Teddington Riverside development is planned for completion by end 2019. Other projects like the Stag Brewery Mortlake site and the recently acquired site at Ransomes Wharf (acquired for GBP58m, GDV of GBP222m) is projected to be launched in the medium term.

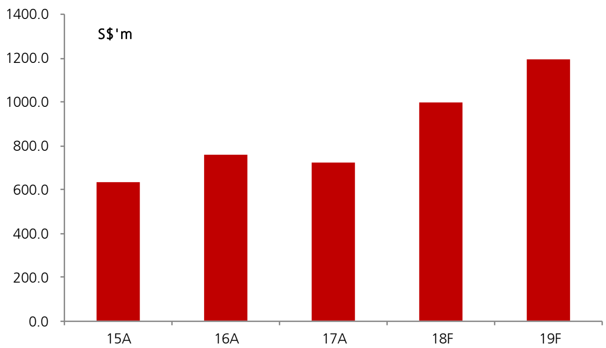
In **China**, City Dev will continue to focus on the execution and delivery of Hong Leong City Center. Phase 1 is 86% sold (sales value RMB2.6bn) and phase 2 is 89% sold with sales value of RMB928m adding to the group's earnings visibility and de-risking its exposure in these properties.

Fund management platform. The group intends to accelerate its efforts to develop a fund management business to drive recurring income and to achieve a more efficient capital structure and offer recycling opportunities for the group to deploy capital more actively. With three PPS already under the fund management platform, the group intends to launch more co-mingled funds or JV, acquire platforms and manage third-party capital. The group aims to build an AUM of US$5bn by 2023.

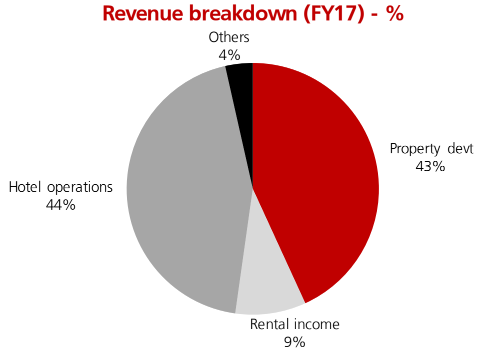
Revenues (S$'m)



Operating Profit (S$'m)



Revenue breakdown (FY17) - %



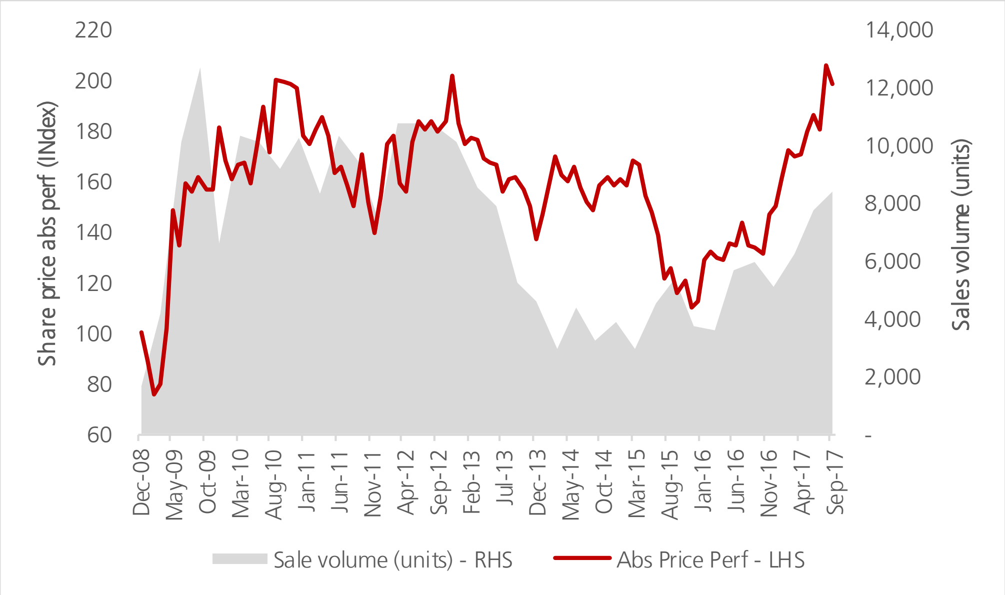
RNAV

RNAV	S$'m
Investment Portfolio (office)	3,434.5
Investment Portfolio (mixed Development)	1,505.1
Investment Portfolio (hotels)	1,071.5
Investment Portfolio (retail)	934.4
Investment Portfolio (industrial and others)	137.4
GDV of residential portfolio	5,561.1
Listed Stakes in	
M&C	3,118.0
CDL HT	412.0
Others	0.0
Gross Asset Value	16,174.0
Less: pref conversion	(211.8)
Less: Net debt	(1,264.7)
RNAV of CDL	14,697.5
No of shares	954.3
RNAV/share	15.4
Discount	0%
TP	15.40

Source: Company, DBS Bank

Appendix 1:

City Dev's absolute performance vs Property sales volume

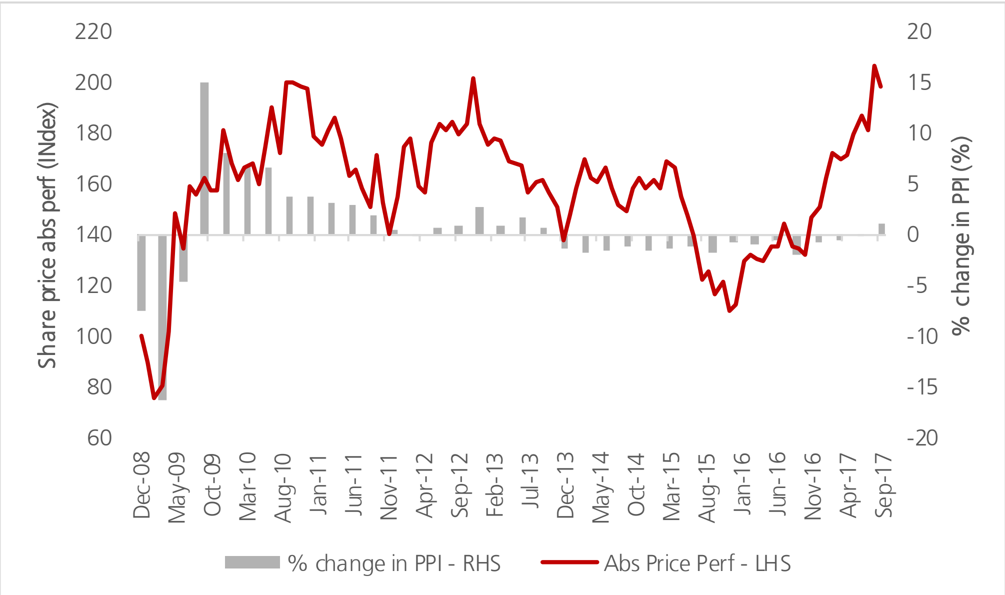


Source: DBS Bank, Thomson Analytics, Company, Bloomberg Finance L.P.

Remarks

Share price performance is positively correlated to the property sales volume.

City Dev's absolute performance vs % change in PPI



Source: DBS Bank, Thomson Analytics, Company, Bloomberg Finance L.P.

Remarks

While the increase in property prices led the share price performance in 2009-2010, we do not see any major correlation thereafter.

Balance Sheet:

Undervalued Net Asset Value (NAV). As the group has chosen to account for investment properties on a historical cost basis, its NAV is conservative as we estimate that current fair values of City Dev's properties are much higher than their carrying values.

Low gearing of 9%. City Dev's gearing is estimated to remain low at 30% (and closer to mid-teens assuming that its investment property values are marked-to-market) which is within management's comfortable range. This provides greater financial flexibility and debt headroom for the group to acquire opportunistically.

Share Price Drivers:

Replenishing land bank is key to income sustainability. The ongoing tight government measures have taken a toll on the group's residential business segment, with the group staying selective on land-banking activities while continuing to clear existing land bank in its portfolio. With 5 sites in the bag, the group remains on track as the developer with the largest land-bank in Singapore.

Successful launch of new residential projects. The successful take-up of its pipeline projects especially the high-value projects in New Futura and South Beach Residences will drive positive investor sentiment on property stocks, which we believe will enable City Dev to maintain its premium-to-NAV valuation.

Key Risks:

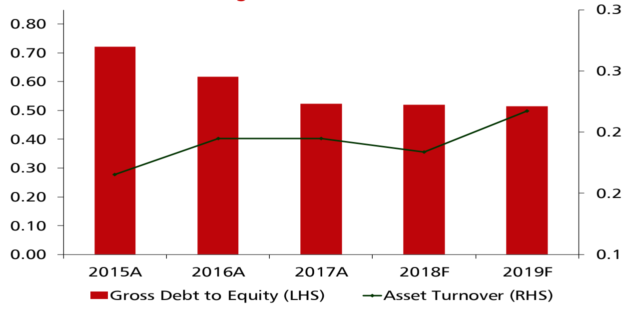
Decline in residential prices in Singapore. Seen as a proxy to Singapore's residential market, a worsening of the operating environment is expected to cap any upside potential for the stock. Unsold inventories are mainly in the high-end and executive segments whose unsold stocks typically take time to clear.

Interest rate risk. A rise in interest rates will have a negative impact on property transactions, given lower affordability and thus could adversely affect the group's outlook.

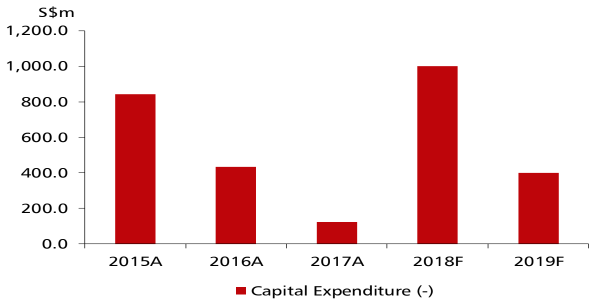
Company Background

City Developments Limited (City Dev) is one of the pioneers in Singapore's property sector. It is a property and hotel conglomerate involved in real estate development and investment, hotel ownership and management, and facility management.

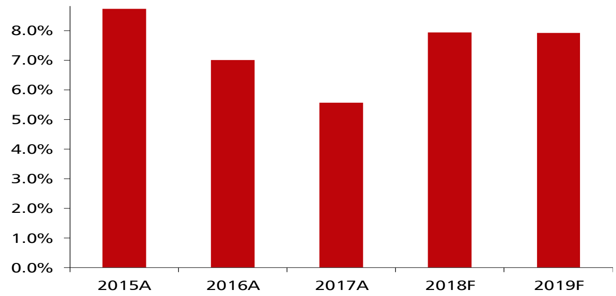
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)

PB Band (x)

Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (S$m)					
Property devt	1,037	1,745	1,653	1,471	2,301
Rental income	405	367	347	366	373
Hotel operations	1,698	1,634	1,694	1,661	1,711
Others	163	160	135	135	135
Others	0.0	0.0	0.0	0.0	0.0
Total	3,304	3,905	3,829	3,633	4,520

Property development drives top-line growth

Income Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	3,304	3,905	3,829	3,633	4,520
Cost of Goods Sold	(1,648)	(2,148)	(2,144)	(1,678)	(2,139)
Gross Profit	**1,656**	**1,758**	**1,685**	**1,955**	**2,381**
Other Opng (Exp)/Inc	(1,024)	(1,001)	(963)	(955)	(1,188)
Operating Profit	**632**	**757**	**722**	**1,000**	**1,193**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	107	70.5	45.5	96.9	21.3
Net Interest (Exp)/Inc	(72.2)	(80.1)	(64.9)	(37.1)	(66.5)
Exceptional Gain/(Loss)	318	166	77.6	0.0	0.0
Pre-tax Profit	**985**	**914**	**780**	**1,060**	**1,148**
Tax	(119)	(151)	(105)	(145)	(169)
Minority Interest	(92.7)	(109)	(137)	(115)	(127)
Preference Dividend	(12.9)	(12.9)	(12.9)	(12.9)	(12.9)
Net Profit	**760**	**640**	**525**	**787**	**839**
Net Profit before Except.	442	474	448	787	839
EBITDA	954	1,050	984	1,313	1,430
Growth					
Revenue Gth (%)	(12.2)	18.2	(2.0)	(5.1)	24.4
EBITDA Gth (%)	1.6	10.1	(6.3)	33.5	8.9
Opg Profit Gth (%)	(7.6)	19.8	(4.6)	38.5	19.3
Net Profit Gth (Pre-ex) (%)	10.2	7.2	(5.5)	75.8	6.5
Margins & Ratio					
Gross Margins (%)	50.1	45.0	44.0	53.8	52.7
Opg Profit Margin (%)	19.1	19.4	18.9	27.5	26.4
Net Profit Margin (%)	23.0	16.4	13.7	21.7	18.6
ROAE (%)	8.7	7.0	5.6	7.9	7.9
ROA (%)	3.8	3.2	2.7	4.0	4.0
ROCE (%)	3.1	3.5	3.5	4.8	5.3
Div Payout Ratio (%)	20.8	24.7	24.2	18.5	17.4
Net Interest Cover (x)	8.8	9.5	11.1	27.0	17.9

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Revenue	1,167	784	854	863	1,328
Cost of Goods Sold	(637)	(418)	(438)	(437)	(852)
Gross Profit	**530**	**366**	**416**	**427**	**476**
Other Oper. (Exp)/Inc	(66.3)	(101)	(85.2)	(60.5)	(108)
Operating Profit	**322**	**133**	**203**	**238**	**226**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	31.0	0.20	(1.9)	18.2	29.0
Net Interest (Exp)/Inc	(21.1)	(18.2)	(15.5)	(15.5)	(15.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**332**	**115**	**185**	**241**	**239**
Tax	(63.8)	(15.6)	(30.8)	(39.0)	(20.1)
Minority Interest	(24.0)	(13.8)	(44.7)	(45.9)	(32.3)
Net Profit	**244**	**85.5**	**110**	**156**	**187**
Net profit bef Except.	244	85.5	110	156	187
EBITDA	418	186	255	312	308
Growth					
Revenue Gth (%)	26.5	(32.8)	9.0	1.1	53.8
EBITDA Gth (%)	33.3	(55.5)	37.1	22.2	(1.2)
Opg Profit Gth (%)	31.2	(58.7)	52.6	17.6	(5.3)
Net Profit Gth (Pre-ex) (%)	43.1	(64.9)	28.6	42.2	19.6
Margins					
Gross Margins (%)	45.4	46.7	48.7	49.4	35.9
Opg Profit Margins (%)	27.6	16.9	23.7	27.6	17.0
Net Profit Margins (%)	20.9	10.9	12.9	18.1	14.1

Balance Sheet (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	5,175	5,136	5,014	5,798	5,982
Invts in Associates & JVs	1,307	1,462	1,558	1,655	1,677
Other LT Assets	2,949	3,120	3,472	3,472	3,472
Cash & ST Invts	3,597	3,690	3,849	3,024	4,966
Inventory	11.2	11.8	11.0	8.62	11.0
Debtors	1,762	1,166	1,036	983	1,223
Other Current Assets	5,519	5,213	4,565	5,117	4,217
Total Assets	**20,319**	**19,797**	**19,503**	**20,056**	**21,546**
ST Debt	1,911	1,783	1,266	1,266	1,266
Creditor	1,602	1,575	1,604	1,256	1,601
Other Current Liab	319	301	391	218	242
LT Debt	4,572	3,955	3,756	4,056	4,356
Other LT Liabilities	702	774	645	645	645
Shareholder's Equity	8,996	9,294	9,584	10,243	10,937
Minority Interests	2,217	2,115	2,258	2,373	2,500
Total Cap. & Liab.	**20,319**	**19,797**	**19,503**	**20,056**	**21,546**
Non-Cash Wkg. Capital	5,371	4,515	3,616	4,635	3,608
Net Cash/(Debt)	(2,885)	(2,047)	(1,172)	(2,297)	(656)
Debtors Turn (avg days)	185.0	136.8	105.0	101.4	89.1
Creditors Turn (avg days)	390.3	301.1	301.0	357.0	271.1
Inventory Turn (avg days)	2.9	2.2	2.2	2.5	1.9
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2
Current Ratio (x)	2.8	2.8	2.9	3.3	3.4
Quick Ratio (x)	1.4	1.3	1.5	1.5	2.0
Net Debt/Equity (X)	0.3	0.2	0.1	0.2	0.1
Net Debt/Equity ex MI (X)	0.3	0.2	0.1	0.2	0.1
Capex to Debt (%)	(13.0)	7.5	2.4	18.8	7.1
Z-Score (X)	1.9	2.1	2.1	2.1	2.0

Conservative gearing

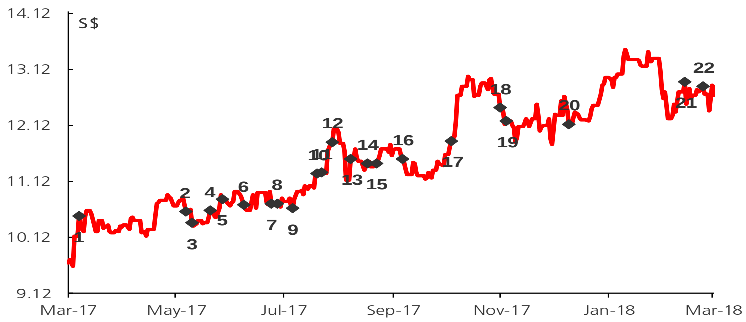
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	985	914	780	1,060	1,148
Dep. & Amort.	215	222	216	216	216
Tax Paid	(194)	(157)	(162)	(318)	(145)
Assoc. & JV Inc/(loss)	(107)	(70.5)	(45.5)	(96.9)	(21.3)
Chg in Wkg.Cap.	(712)	330	286	(845)	1,002
Other Operating CF	(110)	(57.4)	0.93	0.0	0.0
Net Operating CF	**77.8**	**1,181**	**1,076**	**15.6**	**2,200**
Capital Exp.(net)	843	(433)	(123)	(1,000)	(400)
Other Invts.(net)	0.0	0.0	(48.3)	0.0	0.0
Invts in Assoc. & JV	(227)	(113)	(58.6)	(100.0)	(100.0)
Div from Assoc & JV	16.9	53.9	99.6	99.6	99.6
Other Investing CF	(113)	810	38.9	0.0	0.0
Net Investing CF	**520**	**318**	**(91.0)**	**(1,000)**	**(400)**
Div Paid	(271)	(237)	(244)	(140)	(158)
Chg in Gross Debt	(310)	(664)	(458)	300	300
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(333)	(440)	(220)	0.0	0.0
Net Financing CF	**(914)**	**(1,341)**	**(922)**	**160**	**142**
Currency Adjustments	(16.6)	(49.7)	39.6	0.0	0.0
Chg in Cash	(333)	108	103	(825)	1,941
Opg CFPS (S cts)	86.8	93.6	86.9	94.7	132
Free CFPS (S cts)	101	82.3	105	(108)	198

Source: Company, DBS Bank

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Mar 17	10.50	10.52	BUY
2:	12 May 17	10.58	12.63	BUY
3:	16 May 17	10.38	12.63	BUY
4:	26 May 17	10.60	12.63	BUY
5:	02 Jun 17	10.81	12.63	BUY
6:	14 Jun 17	10.70	12.63	BUY
7:	30 Jun 17	10.73	12.63	BUY
8:	03 Jul 17	10.73	12.63	BUY
9:	12 Jul 17	10.64	12.63	BUY
10:	26 Jul 17	11.26	12.63	BUY
11:	28 Jul 17	11.28	12.63	BUY
12:	03 Aug 17	11.83	12.63	BUY
13:	14 Aug 17	11.53	12.63	BUY
14:	23 Aug 17	11.45	12.63	BUY
15:	28 Aug 17	11.45	12.63	BUY
16:	12 Sep 17	11.53	12.63	BUY
17:	10 Oct 17	11.85	12.63	BUY
18:	06 Nov 17	12.44	12.63	BUY
19:	10 Nov 17	12.20	14.03	BUY
20:	15 Dec 17	12.15	14.03	BUY
21:	19 Feb 18	12.90	14.03	BUY
22:	01 Mar 18	12.82	14.03	BUY

Source: DBS Bank

Analyst: Rachel TAN
Derek TAN

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 8 Mar 2018 08:55:22 (SGT)
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UOL Group

Version 10 | Bloomberg: UOL SP | Reuters: UTOS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Mar 2018

BUY

Last Traded Price (5 Mar 2018): S$8.38 (**STI :** 3,438.61)
Price Target 12-mth: S$10.23 (22% upside) (Prev S$10.15)

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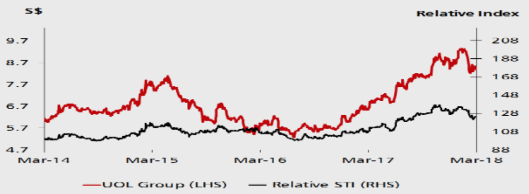
What's New

- Higher dividends in FY17 a surprise
- Three residential sites to be launched in 2018-2019; strong market sales volumes imply strong take-up rates
- Hotels in Singapore, Australia expected to see stronger operational performance
- TP lifted to S$10.23; earnings revision on consolidation of UIC numbers

Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2016A	2017A	2018F	2019F
Revenue	1,441	2,103	2,054	1,728
EBITDA	483	667	963	864
Pre-tax Profit	354	1,049	724	617
Net Profit	287	891	511	419
Net Pft (Pre Ex.)	324	352	511	419
Net Pft Gth (Pre-ex) (%)	(5.3)	8.5	45.2	(17.9)
EPS (S cts)	35.7	106	60.7	49.8
EPS Pre Ex. (S cts)	40.3	41.8	60.7	49.8
EPS Gth Pre Ex (%)	(6)	4	45	(18)
Diluted EPS (S cts)	35.7	106	60.7	49.8
Net DPS (S cts)	15.0	17.5	17.5	17.5
BV Per Share (S cts)	1,010	1,122	1,165	1,198
PE (X)	23.5	7.9	13.8	16.8
PE Pre Ex. (X)	20.8	20.0	13.8	16.8
P/Cash Flow (X)	12.5	7.5	27.7	14.8
EV/EBITDA (X)	19.3	22.0	15.5	17.2
Net Div Yield (%)	1.8	2.1	2.1	2.1
P/Book Value (X)	0.8	0.7	0.7	0.7
Net Debt/Equity (X)	0.2	0.2	0.2	0.2
ROAE (%)	3.6	10.1	5.3	4.2
Earnings Rev (%):		160	14	19
Consensus EPS (S cts):		53.3	51.4	49.1
Other Broker Recs:		B: 12	S: 1	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Firing on all fronts!

Valuations remains attractive post UIC consolidation. We maintain our BUY rating on UOL Group (UOL), now trading at an attractive valuation of c.0.8x P/NAV with the consolidation of UIC. The successful launches of recently purchased land sites in the en-bloc market will be re-rating catalysts for the stock. We have lifted our TP to S$10.23 as we review our portfolio cap rate assumptions. Our earnings forecasts are lifted by 14-19% as we consolidate UIC numbers in our estimates.

Where we differ: More positive than consensus as UOL stands to benefit from improved sentiment in the Singapore property and hospitality segments. As the earliest to land bank at a lower price and three sites to be launched in the coming quarters, UOL stands to benefit from the improved sentiment in the Singapore property segment. In addition, the turnaround in the hospitality segment bodes well for UOL's hotel properties, and now with UIC's hotel properties.

Potential catalysts: More land banking, strong sales take-up, potentially gaining more control on UIC to unlock value.

3Q17 results boosted by gain from acquisition/consolidation of UIC. FY17 net profit of S$891m included gain on acquisition and consolidation of S$542m. Key positives: i) property launches in FY18-FY19 with potential gross development value (GDV) of S$1.4bn or more, and ii) higher dividends of 17.5 Scts (15 Scts in FY16).

Valuation:
Maintain BUY on attractive valuations. We raised our TP to S$10.23, pegged to a 15% discount to our RNAV of S$12.04, taking into account higher stakes in UIC and raising our ascribed value from market price to NAV.

Key Risks to Our View:
Economic slowdown. The downside risk to our projections is if residential sales are slower than our projections or if commercial properties and hotels operations are impacted by slower-than-projected growth in rental/room rates.

At A Glance

Issued Capital (m shrs)	842
Mkt. Cap (Sm/USm)	7,056 / 5,352
Major Shareholders (%)	
CY Wee & Co Pte Ltd	13.9
Wee Investment Pte Ltd	13.4
United Overseas Bank	7.5
Free Float (%)	59.8
3m Avg. Daily Val (US$m)	10.1
ICB Industry : Financials / Real Estate	

WHAT'S NEW

All fired up

UOL FY17F results (+)

- FY17 PATMI of S$891m is 210% higher y-o-y.
- Top line increased by 46% to S$2.1bn mainly due to the consolidation of UIC and JV companies of UIC/UOL Group, which contributed S$544.7m of the increase.
- Stripping out the effect of this consolidation, revenue would have increased marginally by 14% (or S$103m). this is mainly from the progressive recognition of Principal Garden while revenue from hotel operations increased by 3% on the back of contribution from Pan Pacific Melbourne, acquired in July 2017.
- Gross margin was lower at 33% due to a higher contribution from property development division on top of an accelerated depreciation of Pan Pacific Orchard of S$21.9m which is scheduled to be redeveloped into a new 340 "green" hotel.
- On the back of strong FY17 results, the group declared a higher dividend of 17.5 Scts (15 Scts last year) and is expected to maintain this rate going forward.

Outlook

Residential (SG)

- With the lift in residential sentiment in 2017, the group's Singapore projects are substantially sold out, achieving sales of more than S$1.5bn in the year. Principal Garden (663 units, 99.8% sold at average of S$1,648 psf) and The Clement Canopy (505 units, 84% sold at average of S$1,341 psf) are the two wholly owned projects that are still in the market.
- Under UIC, where most projects are more centrally located and have achieved TOP status, sales are moving at a more gradual pace as follows: V on Shenton (510 units, 73.4% sold at S$2,100 psf) and Mon Jervois (109 units, 82.7% sold at S$1,833 psf), Pollen & Bleu (106 units, 75.3% sold at S$1,708 psf) . We note that UIC paid the additional buyer stamp duty of S$14.8m for an unsold project, likely to be Mon Jervois, in our view.
- Looking ahead, UOL has acquired three land sites, totalling close to 925 units which will be launched from 2Q18 onwards. The upcoming launch will be 139-unit Amber 45 in 2Q18 at a target selling price north of S$2,000 psf which will set a new benchmark price in the area.

Residential (Overseas)

- Park Eleven, Shanghai (398 units, 36.7% sold) is close to completion in 2Q18 where the group is expected to book in sales recognition upon TOP. Phase 1 of Park Eleven has achieved a sell-through rate of 88% at c.RMB77,000 psm while the new phase is set to be launched at a target price of RMB80,000 psm.
- Bishopgate works are progressing and the group recorded an impairment charge of c.S$14m due to higher cost increases.

Hotel – Outlook remains bright

- RevPAR increased by c.3.5% y-o-y to S$145.30 mainly driven by the group's hotels in North America which saw a 15% y-o-y increase. Singapore operations appear to be on an uptrend, recording a 1.4% y-o-y rise.
- Looking ahead, the group is looking to rejuvenate the portfolio through the redevelopment of Pan Pacific Orchard into a new "green" hotel, projected to complete in 2021.

Commercial – Mixed; retail malls remain "challenged"

- UIC brings close to 4m sqft of commercial GFA to the group, of which a majority are located in the central business district (CBD). Occupancy rate across the commercial portfolio remained steady at > 95%.
- The group has c.200,000 sqft of office space expiring across its properties (UOL and UIC) and 90,000 sqft of mall space (UOL and UIC) up for renewal in 2018 and is seeing a mixed outlook.
- Management is generally more positive about office rental reversion and retention prospects on the back of the lack of office supply and maintains that the near-term outlook for retail remains challenging.

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	354	538	815	130.6	51.6
Cost of Goods Sold	(238)	(370)	(531)	123.0	43.7
Gross Profit	115	168	284	146.2	69.0
Other Oper. (Exp)/Inc	(55.6)	(72.8)	(121)	117.8	66.4
Operating Profit	59.8	95.3	163	172.5	71.0
Other Non Opg (Exp)/Inc	1.24	5.60	5.14	316.0	(8.3)
Associates & JV Inc	35.0	37.2	1.75	(95.0)	(95.3)
Net Interest (Exp)/Inc	(8.0)	(8.6)	(5.0)	37.5	41.3
Exceptional Gain/(Loss)	(11.0)	527	(2.6)	76.1	(100.5)
Pre-tax Profit	77.0	657	162	110.7	(75.3)
Tax	(12.9)	(17.0)	(23.2)	79.2	36.3
Minority Interest	(10.1)	(21.7)	(55.8)	(455.4)	157.5
Net Profit	54.0	618	83.2	54.1	(86.5)
Net profit bef Except.	65.0	90.9	85.9	32.0	(5.5)
EBITDA	117	175	170	45.0	(3.1)
Margins (%)					
Gross Margins	32.6	31.3	34.8		
Opg Profit Margins	16.9	17.7	20.0		
Net Profit Margins	15.3	114.9	10.2		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Retail and office sub-segments to offer stable returns. UOL Group Limited (UOL) derives a significant 47-58% of its revenues from retail, office and hotel segments which should continue delivering stable cashflows in the coming years. While we see headwinds in both the retail and office segments ahead, we believe that the positioning and location of UOL's portfolio of commercial properties, mainly along the fringe areas of the CBD, will result in lower volatility in rents.

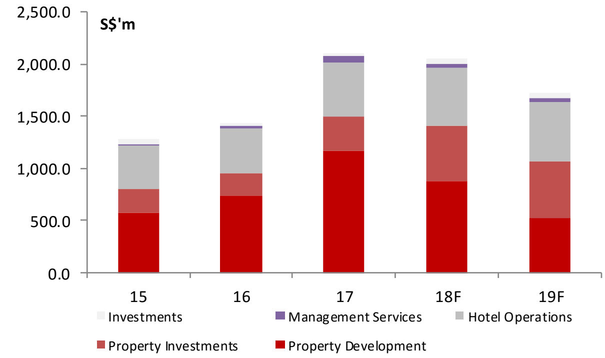
UIC's portfolio of investment properties are complementary to the group's exposure in largely city fringe properties as a majority of the group's properties are located in the central business district (CBD). With close to c.21% of the space up for renewal in 2018, the tight competitive supply within the CBD will, in our view result in potentially stronger rental reversionary prospects.

Its retail malls - United Square and Novena Square - are located in the Novena area, close to the emerging medical hub. The malls have formed a niche, which should result in high tenant stickiness. This is especially so for United Square, which houses tenants well known for providing various children's education programmes. On the other hand, Novena Square's tenant mix mainly caters to necessity shopping and the needs of the vicinity's growth as a medical hub.

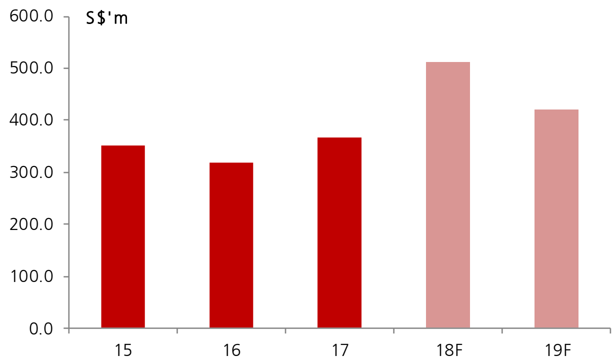
Hotel performance – weakness in Asia; overall outlook stable. Growth will be driven by the acquisition of Pan Pacific Melbourne in 2017 while performances from hotels and serviced residences are expected to turn up on the back of stronger economic growth driving business travel. We expect the operational performance of the group's hotels and residences in Singapore and Australia to turn up. Portfolio RevPAR is expected to improve to the tune of c.3% in 2018. UOL is also revamping Pan Pacific Hotel Orchard into a 340-room "green hotel", completing in 2021.

Presales for residential projects doing well amid muted residential outlook. As of FY17, UOL has substantially sold most of its projects (c.1,090 properties for S$1.05bn) that are completed or currently under development and has added three sites which could yield close to 925 units when launched over the coming two years. Management believes that the Singapore property market has found a steady state at current levels and the increase in industry sales volume has been encouraging. The launch of the recently acquired sites at 45 Amber Road, Nanak Mansions and Raintree Gardens will be keenly watched given the group's dwindling land bank.

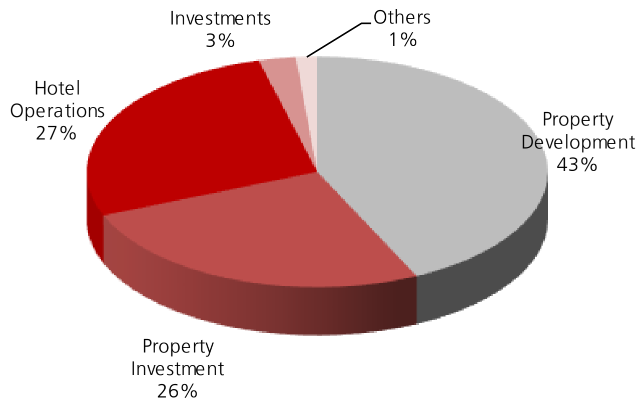
Revenue (S$'m)



Net Profit (ex -exceptionals)



Breakdown of revenue contribution



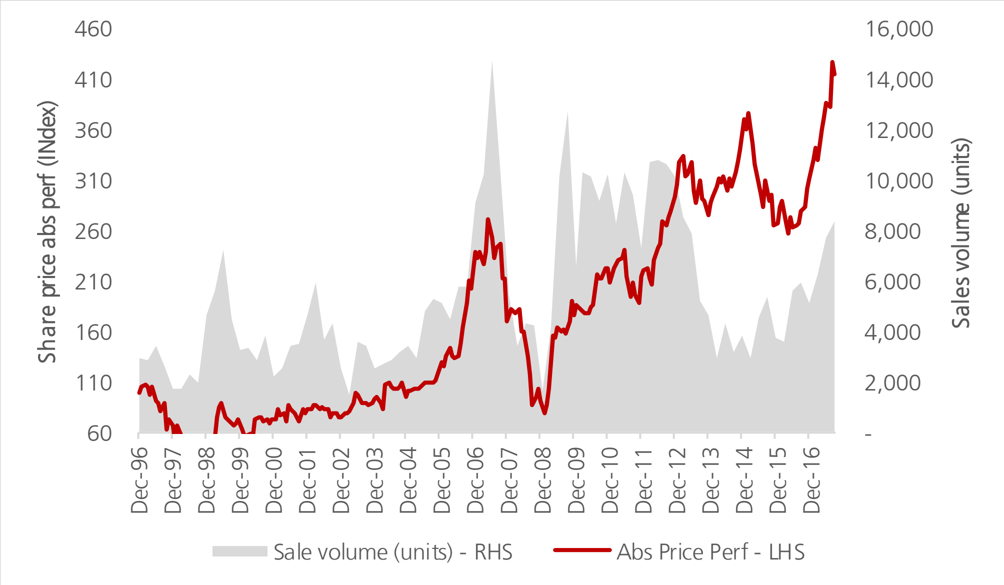
RNAV

Breakdown of RNAV	OMV ($m)	Remarks
Properties		
Investment Properties	4,142	
less book value	-4,243	
Surplus/deficit	**-100**	(a)
NPV of devt profits	**773**	**(b)**
Mark to TP value of quoted holdings		
Listed equities/Strategic Holdings	4,938	
Hotel operations	3,175	
Total	8,113	
less book value	-6,781	
Surplus	**1,332**	**(c)**
Book NAV	**8,127**	**(d)**
RNAV	10,132	SUM
Total Shares	842	
RNAV/share ($)	12.04	
Discount	15%	
Price Target ($)	**10.23**	

Source: Company, DBS Bank

Appendix 1:

UOL's absolute performance vs Property sales volume

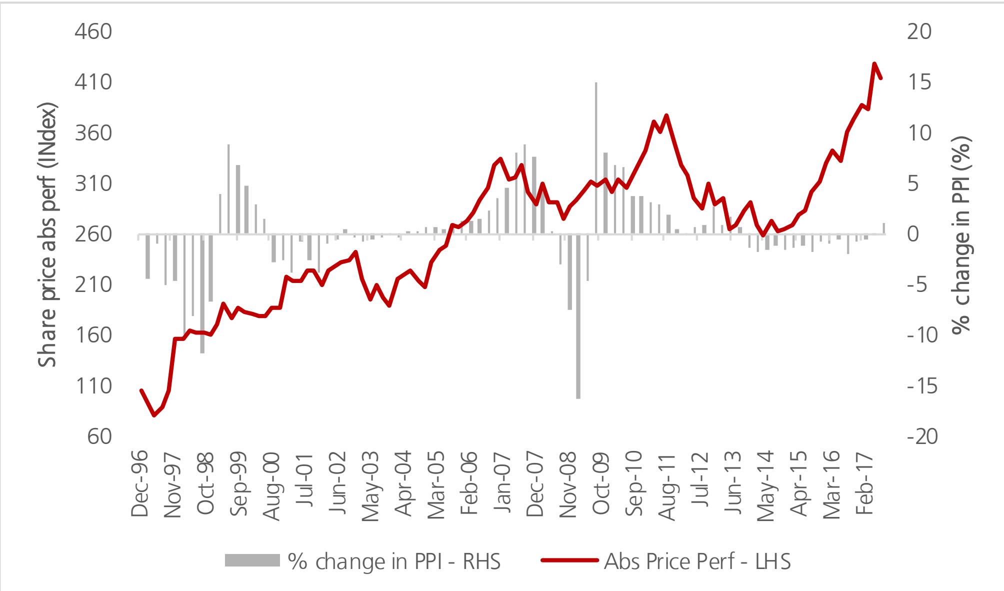


Source: DBS Bank, Thomson Analytics, Company, Bloomberg Finance L.P.

Remarks

Share price performance is positively correlated to the property sales volume.

UOL's absolute performance vs % change in PPI



Source: DBS Bank, Thomson Analytics, Company, Bloomberg Finance L.P.

Remarks

While we saw some positive correlation in 2006-2014, we do not see a major correlation thereafter.

Balance Sheet:

Balance sheet remains strong. Debt-to-equity ratio is expected to remain stable at 0.3x from FY17A-FY18F. This leaves UOL with sufficient headroom to acquire projects/new sites when such opportunities come by.

Share Price Drivers:

Replenishing land bank key to income sustainability. The group turns around its projects quickly and has little land bank on its balance sheet. UOL has always been active in land tenders to replenish its land bank especially in Singapore but remains selective given the high competitive environment seen in recent government land tenders. The ability to secure additional land bank at lower prices will mean upside to RNAVs and this could re-rate the stock

Strong transaction volumes to drive higher margins. With the property market on an uptrend and we project a price increase of 6-10% over 2018-2019. We believe that UOL, as a proxy to the Singapore property market, is expected to see higher share prices in 2018. Stronger-than-expected rise in prices could mean prospects of higher margins for the group's upcoming launches which will act as a catalyst for further re-rating.

Deep value from its hotel business. We believe that deep value lies in the group's portfolio of well-located hotels and serviced residences in Singapore, Malaysia and Australia. These hotels are held on a historical cost basis, which we believe is conservative compared to potential realisable value.

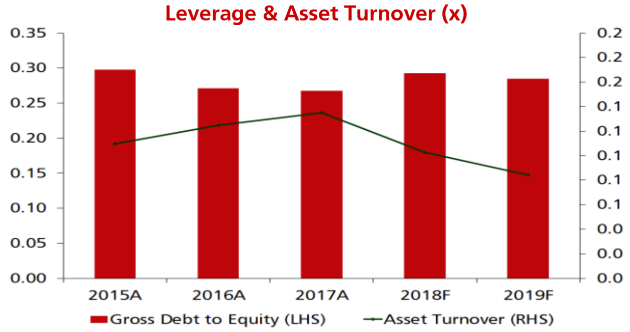
Key Risks:

Economic slowdown. The downside risk to our projections is if residential sales are slower than projected or if its hotel operations are impacted by slower-than-projected RevPAR performance. The upside risks to our view and target price would be higher-than-expected selling prices or upgrades to the target prices of its listed investment holdings.

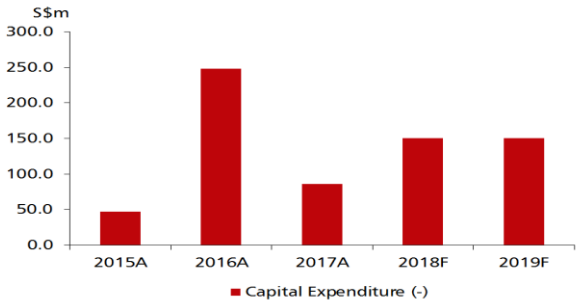
Company Background

With a track record of nearly 50 years, UOL Group's impressive list of property development projects includes best-selling residential units, office towers, shopping centres, hotels and serviced suites.

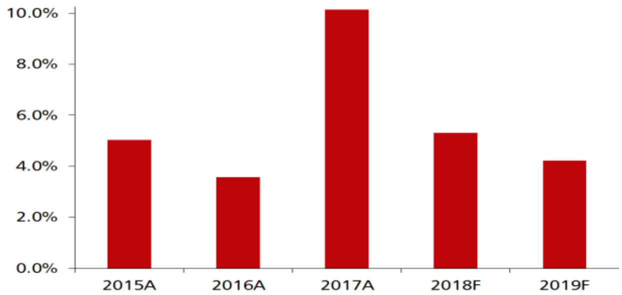
Leverage & Asset Turnover (x)



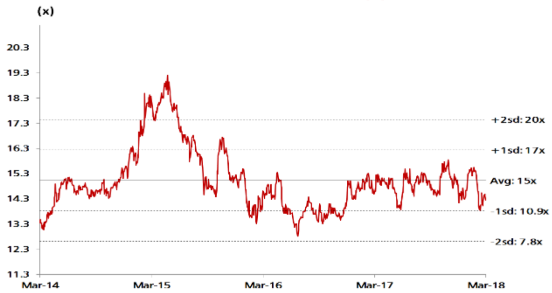
Capital Expenditure



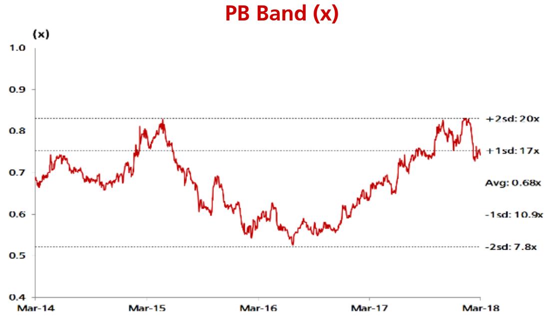
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (S$m)					
Property Development	578	734	1,167	882	526
Property Investment	219	225	327	532	539
Hotel Operations	419	430	526	556	577
Investments	42.3	30.2	53.4	53.4	53.4
Others	20.2	22.0	29.8	30.7	31.6
Total	1,279	1,441	2,103	2,054	1,728

Higher revenues on the consolidation of UIC

Income Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	1,279	1,441	2,103	2,054	1,728
Cost of Goods Sold	(775)	(956)	(1,403)	(1,097)	(921)
Gross Profit	**504**	**485**	**700**	**957**	**806**
Other Opng (Exp)/Inc	(231)	(222)	(302)	(329)	(276)
Operating Profit	**273**	**263**	**398**	**629**	**530**
Other Non Opg (Exp)/Inc	18.4	17.2	19.3	19.3	19.3
Associates & JV Inc	156	136	119	183	183
Net Interest (Exp)/Inc	(35.6)	(24.9)	(26.3)	(107)	(116)
Exceptional Gain/(Loss)	48.8	(37.3)	539	0.0	0.0
Pre-tax Profit	**460**	**354**	**1,049**	**724**	**617**
Tax	(47.2)	(48.3)	(62.0)	(86.9)	(74.0)
Minority Interest	(21.8)	(18.6)	(96.0)	(127)	(123)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**391**	**287**	**891**	**511**	**419**
Net Profit before Except.	343	324	352	511	419
EBITDA	514	483	667	963	864
Growth					
Revenue Gth (%)	(6.0)	12.7	46.0	(2.3)	(15.9)
EBITDA Gth (%)	(14.8)	(6.2)	38.3	44.2	(10.3)
Opg Profit Gth (%)	(26.6)	(3.8)	51.6	57.9	(15.7)
Net Profit Gth (Pre-ex) (%)	(5.9)	(5.3)	8.5	45.2	(17.9)
Margins & Ratio					
Gross Margins (%)	39.4	33.7	33.3	46.6	46.7
Opg Profit Margin (%)	21.4	18.2	18.9	30.6	30.7
Net Profit Margin (%)	30.6	19.9	42.4	24.9	24.3
ROAE (%)	5.0	3.6	10.1	5.3	4.2
ROA (%)	3.4	2.5	5.7	2.6	2.0
ROCE (%)	2.2	2.0	2.5	2.9	2.4
Div Payout Ratio (%)	30.5	42.0	16.5	28.8	35.1
Net Interest Cover (x)	7.7	10.6	15.2	5.9	4.6

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Revenue	354	351	399	538	815
Cost of Goods Sold	(238)	(235)	(267)	(370)	(531)
Gross Profit	115	116	132	168	284
Other Oper. (Exp)/Inc	(55.6)	(53.3)	(54.5)	(72.8)	(121)
Operating Profit	59.8	62.4	77.5	95.3	163
Other Non Opg (Exp)/Inc	1.24	4.58	3.94	5.60	5.14
Associates & JV Inc	35.0	34.4	45.4	37.2	1.75
Net Interest (Exp)/Inc	(8.0)	(4.8)	(8.0)	(8.6)	(5.0)
Exceptional Gain/(Loss)	(11.0)	0.92	13.7	527	(2.6)
Pre-tax Profit	77.0	97.6	132	657	162
Tax	(12.9)	(11.3)	(10.6)	(17.0)	(23.2)
Minority Interest	(10.1)	(6.0)	(12.4)	(21.7)	(55.8)
Net Profit	54.0	80.3	109	618	83.2
Net profit bef Except.	65.0	79.4	95.8	90.9	85.9
EBITDA	117	119	144	175	170
Growth					
Revenue Gth (%)	(10.1)	(0.8)	13.8	34.8	51.6
EBITDA Gth (%)	(4.7)	1.2	21.1	22.1	(3.1)
Opg Profit Gth (%)	(18.9)	4.4	24.1	23.1	71.0
Net Profit Gth (Pre-ex) (%)	(25.4)	22.0	20.7	(5.1)	(5.5)
Margins					
Gross Margins (%)	32.6	33.0	33.1	31.3	34.8
Opg Profit Margins (%)	16.9	17.8	19.4	17.7	20.0
Net Profit Margins (%)	15.3	22.9	27.4	114.9	10.2

Balance Sheet (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	1,179	1,166	2,856	2,875	2,894
Invts in Associates & JVs	3,366	3,488	286	470	653
Other LT Assets	4,981	5,312	12,325	12,325	12,325
Cash & ST Invts	276	302	816	1,274	1,453
Inventory	0.73	0.65	4.99	0.93	0.78
Debtors	197	99.6	395	386	325
Other Current Assets	1,501	1,191	2,939	3,017	2,972
Total Assets	11,501	11,558	19,623	20,348	20,622
ST Debt	523	728	973	973	973
Creditor	238	203	928	685	576
Other Current Liab	42.1	51.0	110	87.6	74.6
LT Debt	1,980	1,614	2,808	3,308	3,308
Other LT Liabilities	317	326	660	660	660
Shareholder's Equity	7,894	8,127	9,445	9,809	10,081
Minority Interests	507	508	4,701	4,828	4,951
Total Cap. & Liab.	11,501	11,558	19,623	20,348	20,622
Non-Cash Wkg. Capital	1,419	1,038	2,301	2,632	2,647
Net Cash/(Debt)	(2,227)	(2,041)	(2,964)	(3,006)	(2,828)
Debtors Turn (avg days)	63.5	37.6	42.9	69.4	75.1
Creditors Turn (avg days)	134.1	90.6	162.3	304.8	291.2
Inventory Turn (avg days)	0.4	0.3	0.8	1.1	0.4
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	2.5	1.6	2.1	2.7	2.9
Quick Ratio (x)	0.6	0.4	0.6	1.0	1.1
Net Debt/Equity (X)	0.3	0.2	0.2	0.2	0.2
Net Debt/Equity ex MI (X)	0.3	0.3	0.3	0.3	0.3
Capex to Debt (%)	1.9	10.6	(2.3)	3.5	3.5
Z-Score (X)	2.6	2.7	2.7	2.7	2.7

Conservative gearing

Source: Company, DBS Bank

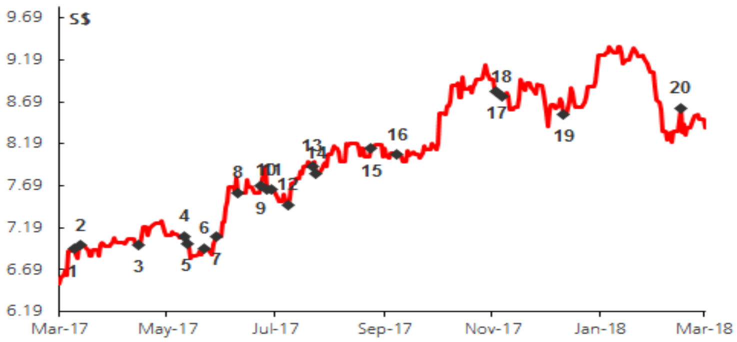
Cash Flow Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	413	354	1,049	724	617
Dep. & Amort.	67.2	66.6	131	131	131
Tax Paid	(66.7)	(33.5)	(50.7)	(109)	(86.9)
Assoc. & JV Inc/(loss)	(156)	(136)	(119)	(183)	(183)
Chg in Wkg.Cap.	259	260	480	(308)	(1.6)
Other Operating CF	(0.1)	27.7	(554)	0.0	0.0
Net Operating CF	**517**	**539**	**936**	**255**	**476**
Capital Exp.(net)	(47.0)	(248)	86.1	(150)	(150)
Other Invts.(net)	0.68	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	79.8	(61.7)	(164)	0.0	0.0
Div from Assoc & JV	42.0	57.4	33.0	0.0	0.0
Other Investing CF	(12.3)	3.12	0.0	0.0	0.0
Net Investing CF	**63.2**	**(249)**	**(45.2)**	**(150)**	**(150)**
Div Paid	(64.3)	(66.3)	(72.0)	(147)	(147)
Chg in Gross Debt	(466)	(105)	(307)	500	0.0
Capital Issues	7.93	1.10	0.0	0.0	0.0
Other Financing CF	(62.1)	(88.2)	3.28	0.0	0.0
Net Financing CF	**(584)**	**(259)**	**(376)**	**353**	**(147)**
Currency Adjustments	(5.7)	(5.9)	0.0	0.0	0.0
Chg in Cash	(10.1)	25.1	515	458	179
Opg CFPS (S cts)	32.4	34.6	54.3	66.9	56.7
Free CFPS (S cts)	59.0	36.1	121	12.4	38.7

Assumed capex for redevelopment of Pan Pacific Orchard

Source: Company, DBS Bank

Target Price & Ratings History



Note: *Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Mar 17	6.94	7.64	BUY
2:	17 Mar 17	6.98	7.64	BUY
3:	19 Apr 17	6.99	7.64	BUY
4:	15 May 17	7.09	8.73	BUY
5:	16 May 17	7.00	8.73	BUY
6:	26 May 17	6.94	8.73	BUY
7:	02 Jun 17	7.08	8.73	BUY
8:	14 Jun 17	7.61	8.73	BUY
9:	27 Jun 17	7.69	8.73	BUY
10:	30 Jun 17	7.64	8.73	BUY
11:	03 Jul 17	7.64	8.73	BUY
12:	12 Jul 17	7.46	8.73	BUY
13:	26 Jul 17	7.92	8.73	BUY
14:	28 Jul 17	7.83	8.73	BUY
15:	28 Aug 17	8.13	8.73	BUY
16:	12 Sep 17	8.06	8.73	BUY
17:	07 Nov 17	8.82	8.73	BUY
18:	10 Nov 17	8.75	10.15	BUY
19:	15 Dec 17	8.54	10.15	BUY
20:	19 Feb 18	8.61	10.15	BUY

Source: DBS Bank
Analyst: Rachel TAN
Derek TAN

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 6 Mar 2018 08:10:29 (SGT)
Dissemination Date: 6 Mar 2018 08:14:31 (SGT)

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Singapore Company Guide
CapitaLand

Version 14 | Bloomberg: CAPL SP | Reuters: CATL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Feb 2018

BUY

Last Traded Price (13 Feb 2018): S$3.52 (**STI :** 3,415.07)
Price Target 12-mth: S$4.35 (24% upside) (Prev S$4.35)

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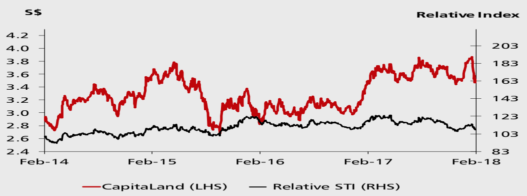
What's New

- FY17F results in line; most business units firing ahead
- S$3.8bn in pre-sales to be recognised in FY18F-19F, offering strong income visibility
- Re-entering Singapore residential market with the successful en bloc of Pearl Bank Apartments
- Maintain BUY, TP S$4.35

Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2016A	2017A	2018F	2019F
Revenue	5,252	4,610	5,491	5,506
EBITDA	2,374	3,118	2,553	2,504
Pre-tax Profit	1,907	2,624	1,805	1,748
Net Profit	1,190	1,551	992	960
Net Pft (Pre Ex.)	1,190	1,551	992	960
Net Pft Gth (Pre-ex) (%)	11.7	30.3	(36.0)	(3.2)
EPS (S cts)	28.0	36.5	23.3	22.6
EPS Pre Ex. (S cts)	28.0	36.5	23.3	22.6
EPS Gth Pre Ex (%)	12	31	(36)	(3)
Diluted EPS (S cts)	28.0	36.4	23.3	22.5
Net DPS (S cts)	9.97	12.0	13.0	14.0
BV Per Share (S cts)	413	433	444	453
PE (X)	12.6	9.6	15.1	15.6
PE Pre Ex. (X)	12.6	9.6	15.1	15.6
P/Cash Flow (X)	4.5	6.9	7.1	nm
EV/EBITDA (X)	13.3	14.0	17.2	18.6
Net Div Yield (%)	2.8	3.4	3.7	4.0
P/Book Value (X)	0.9	0.8	0.8	0.8
Net Debt/Equity (X)	0.4	0.5	0.5	0.5
ROAE (%)	6.7	8.6	5.3	5.0
Earnings Rev (%):		11	23	(8)
Consensus EPS (S cts):		20.6	21.5	22.0
Other Broker Recs:		B: 17	S: 0	H: 5

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Back with a "Bank"

Maintain BUY and TP of S$4.35. We continue to see value in CapitaLand Limited (CAPL) as we anticipate strong catalysts in the medium term to drive its share price higher. A 20% increase in dividend payment in FY17, which is sustainable, provides investors with confidence that all business units are on an uptrend. The stock remains attractive at 0.8x P/NAV compared to sector's average of 0.9x.

Where we differ: Further potential for higher dividends which will surprise investors. FY17F results are in line, driven by stronger recurring income from the group's investment portfolio, given improving business fundamentals while a 20% hike in dividends (DPS) is a nice surprise. In fact, we believe that the group can sustain a further dividend hike in 2018, on the back of (i) gains from sale of 20 retail malls to be completed in 1H18, and (ii) improving operational performance for recently completed retail malls. Unrecognised revenues of close to S$3.8bn (China and Vietnam) offer strong income visibility. Thus, in view of stronger operational results come FY18F, we believe that our above-consensus-average target price of close to 1x forward P/NAV is achievable.

Peal Bank Apartments en bloc – a luxury development to rival the Wallich? CAPL has successfully acquired the centrally located Pearl Bank Apartments through a private treaty collective sale for S$728m, with potential lease top up premium of S$201.4m. At a land price of S$1,515 psf, we believe that it is an attractive rate for a centrally located site, amidst the bullish bids seen in en blocs and in the GLS. With an estimated breakeven at c.S$1,900, we believe that CAPL might look to launch a luxury project that could aim to rival that of Wallich (selling price of S$3,000) come 2H19.

Valuation:

Our target price of S$4.35 is based on a 10% discount to our adjusted RNAV of S$4.81/share.

Key Risks to Our View:

Slowdown in Asian economies. The risk to our view is if there is a slowdown in Asian economies, especially China, which could dampen demand for housing and private consumption.

At A Glance

Issued Capital (m shrs)	4,247
Mkt. Cap (Sm/USm)	14,950 / 11,301
Major Shareholders (%)	
Temasek Holdings Private Ltd	40.0
Blackrock	6.0
Free Float (%)	54.0
3m Avg. Daily Val (US$m)	27.9

ICB Industry : Financials / Real Estate

WHAT'S NEW

Strong end to 2017

CapitaLand Limited : 4Q17 results

- CapitaLand (CAPL) reported a good set of results, in line with expectations; dividend surprises on the upside to 12 Scts (consensus of 10-11 Scts)
- On an FY17 basis, revenue dipped 13% y-o-y to S$4.6bn but PATMI reached a multi-year high at S$1,550.7m. FY17 Operating PATMI increased 5.0% to S$908.3m on the back of higher contribution from development projects in Singapore, one-off gains of S$160.9m from sale of The Nassim and an expanded retail portfolio in China. Markets of Singapore and China contributed c.77.3% of group revenue.
- On the back of strong operating PATMI, the group's proposed dividend of 12 Scts per share is higher by 20% y-o-y, which is above consensus expectations.

Operational Drivers for FY17F

- **Better prospects for all.** Most business segments are showing stronger business prospects and the forward guidance is generally positive. Top line in FY17 declined mainly due to lower completion and handover units in China, partially mitigated by rental contribution from newly acquired properties and consolidation of revenues from CMT, CRCT, and RCST. Major contributors were Summit Era Ningbo, One iPark in Shenshen, Century Park West in Chengdu, The Beaufort in Beijing and International Trade Centre in Tianjin.
- **Residential sales momentum to pick up; S$3.8bn in lock-in residential sales to be recognised in FY18F-19F.** The group recorded lower sales on the back of a reduced launched pipeline but saw strong sell-through rates of 93% of launched units. Looking ahead, CAPL group have a further 8,000 units worth RMB14.7bn (c.S$3bn) to be handed over and recognised in 2018-2019. About 70% of the value is expected to be recognised in 2018. The group will also be looking to launch over 6,000 units in FY18 which will add to its income visibility.
- CAPL's residential projects in Vietnam are also seeing strong take-up rates (92% of launched units have been sold) and will be handing over close to 2,800 units (valued at S$718m) in FY18F, of which 44% will be recognised in FY18F.
- **Retail portfolio seeing steady returns.** Retail portfolio is also seeing improvement with tenant sales in Singapore and China increasing by 1.5% and 19.8% respectively. Portfolio tenant sales and traffic growth were generally positive across the portfolio. In China, we saw a 3.9% higher recurring income across the group's China portfolio (Tier 1) and significant improvement in yield from the group's China Tier 2 city malls (18.9%). The stabilisation of the newly completed malls in 2018 will underpin higher cashflows from 2018 onwards.
- **Ascott group – strong growth in units.** Ascott Group achieved 80,000 units under management and is targeting to double its global portfolio by 2023.

Outlook.

- **There is scope for further dividend hikes in FY18F**. In view of the improvement in operating cashflows and capital deployment opportunities, management believes that the 12 Scts declared in FY17F is sustainable and we see further scope for higher dividends in FY18F underpinned by the completion of major Raffles City projects and malls in China. In addition, recurring income is expected to grow further given the accelerating pace of Ascott's growing presence and units under management.
- **Targets to grow AUM to S$100bn**. The group targets a S$100bn AUM by 2020 (from S$88.8bn in AUM under management as of 4Q17) and is looking at opportunities within its listed REITs, funds and potentially in the M&A space. With gearing remaining conservative at 41% net debt/equity, this offers debt-funded headroom of S$4.9bn to a net debt/equity ratio of 0.64x.

Pearl Bank Apartment en bloc : We are back!

- In a signal that the group is back in the Singapore residential game, CapitaLand announced that it has secured Pearl Bank Apartments through a private treaty exercise for S$728m.
- Inclusive of a premium of S$201.4m paid to top-up the land lease back to 99-year LH, the estimated capital commitment is close to S$929m to acquire the site. This translates into a total land price of S$1,515 psf. We estimate that breakeven could be close to S$2,000 psf, meaning that selling prices could be close to S$2,200 psf S$2,300 psf or even higher, depending on the product.
- CapitaLand's plans to build a new iconic 800-unit residential on site which is atop a hill could mean that a potential luxury condominium could re-emerge to rival Wallich Residences, which is asking close to S$3,000 psf.

- Given the significant size of the deal, timing of the launch is important and the group could look to launch the project in 2H19, after existing en-bloc projects have been launched for sale. A good sales momentum in the Singapore residential segment will bode well for the group. The location in Outram could potentially attract investors, and homebuyers who are keen to stay close to their work place in the city centre.
- With land prices rising amidst the en-bloc fever, we take comfort that CapitaLand has chosen to set foot closer to town at the Central Business District (CBD). The transaction price is lower than recent sites won in the vicinity (Jiak Kim Site at S$1,733 psf) , Stirling Road at S$1,050 psf and en-bloc deals: Mayfair Gardens (S$1,240 psf) and Nomanton Park (S$1,345 psf) which are priced marginally lower but are located further away from the CBD.

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	1,853	1,507	1,213	(34.6)	(19.5)
Cost of Goods Sold	(1,261)	(1,000)	(592)	(53.1)	(40.8)
Gross Profit	**592**	**507**	**621**	**4.9**	**22.5**
Other Oper. (Exp)/Inc	(143)	(114)	(202)	41.9	77.4
Operating Profit	**449**	**393**	**418**	**(6.8)**	**6.5**
Other Non Opg (Exp)/Inc	153	265	37.2	(75.7)	(85.9)
Associates & JV Inc	195	136	232	18.9	70.3
Net Interest (Exp)/Inc	(90.1)	(129)	(126)	(40.3)	2.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	**707**	**664**	**561**	**(20.6)**	**(15.5)**
Tax	(208)	(87.2)	(82.4)	(60.3)	(5.5)
Minority Interest	(69.0)	(260)	(211)	(206.2)	(18.9)
Net Profit	**431**	**317**	**268**	**(37.8)**	**(15.5)**
Net profit bef Except.	431	317	268	(37.8)	(15.5)
EBITDA	797	810	688	(13.8)	(15.2)
Margins (%)					
Gross Margins	31.9	33.6	51.2		
Opg Profit Margins	24.2	26.1	34.5		
Net Profit Margins	23.2	21.0	22.1		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Growing recurring revenues from retail mall portfolio and Ascott. While trading properties (residential development and strata offices) account for 24% of assets, we see continued strength from CMA (CAPL's retail mall division) and commercial integrated developments, including Ascott Group (its successful serviced residence brand) which form a significant 76% of total assets and are expected to contribute to growing recurring income for the group.

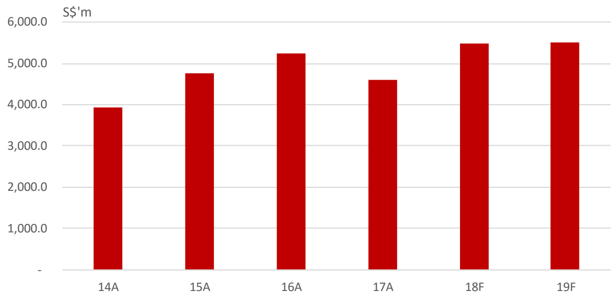
Retail malls seeing good tenant sales growth, operational outlook remains stable. The group's retail malls in China, Singapore and Malaysia are seeing improving operating metrics, tenant Sales in Singapore and China have increased by 1.5% and 19.8% respectively, while portfolio tenant sales and traffic growth were generally positive across the portfolio. Looking ahead, we expect the CMA to drive earnings mainly on the back of the stabilisation of more than 1m sqm of retail space that were completed back in 2017.

Asset reconstitution strategy to crystalise value. The proposed sale of 20 malls, of which mostly are in Tier 2/3 cities at 7% premium above valuation, crystalises value for investors and is a testament of the group's proactive asset management capabilities. Income lost will be more than compensated by the completion of more than 1m sqm of retail GFA in 2017, a majority coming from China (Suzhou Center Mall) and three Raffles City projects (Raffles City Changning, Raffles City Hangzhou and Raffles City Shenzhen) which have seen strong pre-leasing interest with committed rates of more than 90%.

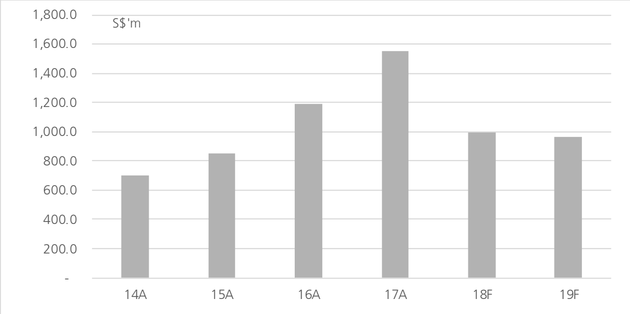
The Ascott Limited remains on the fast track to achieve its 80,000-unit target by year 2020 and now aims to double it by 2023. With scale, we believe that Ascott can achieve better operating efficiency and thus margins and returns. Ascott's investment in China's largest and fastest-growing online apartment sharing platform, Tujia has yet to bear fruit meaningfully but we continue to believe in its longer-term synergies and ability to leverage on Tujia's platform to reach out to a wider addressable market in the medium term.

Residential sales see strong uplift as property market sentiment improves. CAPL continues to see strong momentum in its residential divisions in both Singapore and China. In Singapore, the group has successfully added to its land bank through the en bloc of Pearl Bank Apartments which will be launched in 2019. In China, the group has locked in c.$3.0bn in sales offering strong earnings visibility. In 2018, CAPL will be launching a further 6,000 units for sale.

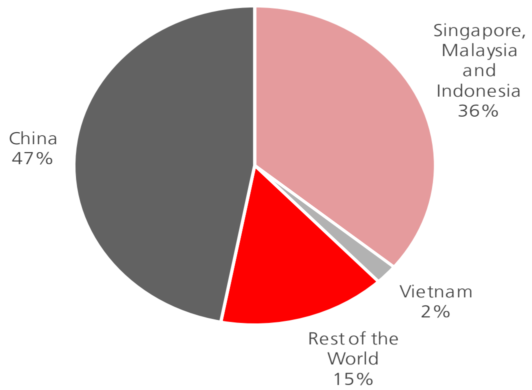
Revenue Growth (S$'m)



PATMI (S$'m)



Real Estate Assets under Management (S$88.8bn)



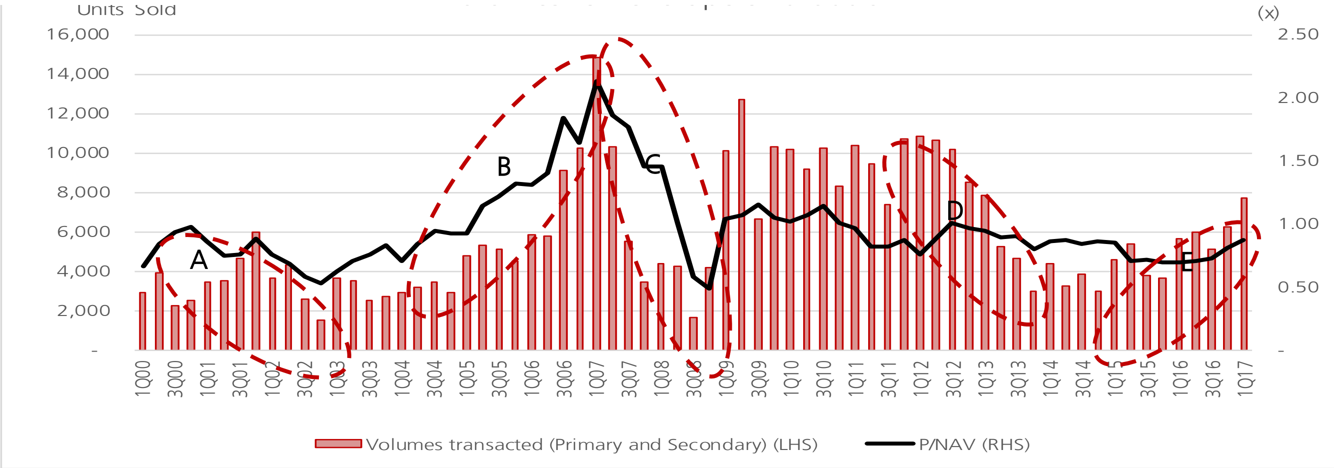
RNAV

RNAV of CapitaLand	S$'bn
Value of CapitaLand Singapore	8,489.6
Value of CapitaLand China	9,805.9
CapitaMalls Asia	17,409.6
Ascott	4,166.3
Others	735.0
GDV of CAPL Group	40,606.4
Less: Net Debt	(11,552.3)
Less: devt capex	(8,471.4)
RNAV of CAPL	20,582.7
Total Shares	4,258.6
RNAV per share	4.83
Discount to RNAV	10%
Target price	**4.35**

Source: Company, DBS Bank

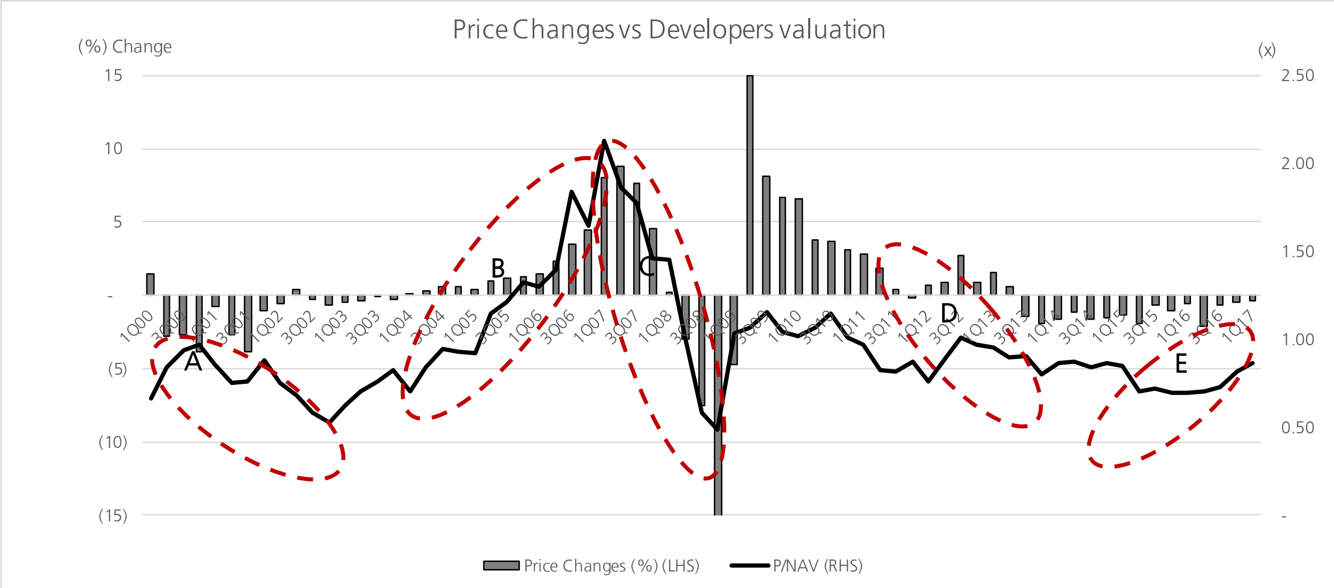
Appendix 1:

CAPL's P/NAV to volumes



Source: URA, Bloomberg Finance, DBS Bank

CAPL's P/NAV to volumes



Source: URA, Bloomberg Finance, DBS Bank

Period		Observations
A	1Q01-1Q03	Developers' prices / P/NAV declined by >40% as volumes tapered off due to SARS
B	3Q03 – 1Q07	Multi-year bull run in prices and volumes, which correspondingly saw developer's P/NAV rise from a low of 0.7x to a peak of more than 2.0x
C	2Q07-1Q09	Global Financial Crisis which saw volumes dry up and prices correct significantly. Developers' shares corrected to multi-year lows
D	3Q12 – 2Q15	A minimal correction in prices and volumes due to eight rounds of cooling measures. Developers' shares corrected from >1.0x P/NAV to as low as 0.65x P/NAV
E	1Q17 onwards	Volumes started to move up in 2016 and 1H17, while prices have yet to do so. Developers' P/NAV have re-rated close to their mean of 0.9x P/NAV.

Source: URA, Bloomberg Finance L.P., DBS Bank

Balance Sheet:

Balance sheet remains strong. We forecast debt/equity ratio to remain stable, at below c.0.6x in the coming years. Debt maturity profile remains long at 3.0 years with an average cost of 3.4%. The group aims to maintain a higher level of interest cost hedged.

Share Price Drivers:

Strong residential sales to translate into higher prices. CAPL has taken advantage of the improved property sentiment in Singapore to sell most of its existing inventory. Key will be potential land-banking opportunities to replenish its balance sheet. In addition, strong sales in China, we believe, will result in higher prices.

M&A and acquisitions. CAPL is looking at opportunities across the region and with the strong residential sales recorded in recent years across Singapore, China and Vietnam, it makes sense to be replenishing land banks in these countries. Acknowledging strong competition for land, management is looking at opportunities to acquire land through JVs or mergers & acquisitions (M&A) which will offer the group an alternative and cheaper entry price. The group remains keen to build on its recurring income base and we could see acquisitions in that space.

Asset recycling into listed S-REITs/funds. CAPL will continue to demonstrate its ability to crystallise value through strategic divestments of mature assets to its listed REITs, which are market leaders in their respective subsectors of retail, office and hospitality. The ability to recycle capital efficiently will enable the group to free up capital, improve its balance sheet position and deploy capital to projects with higher returns.

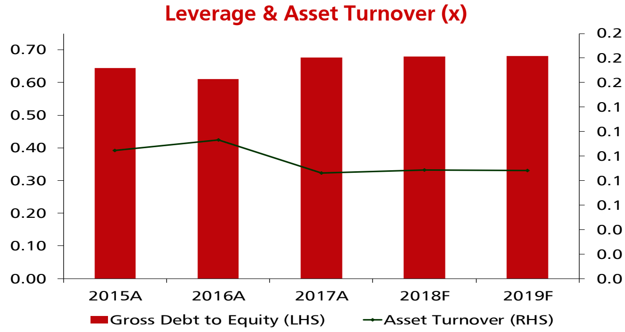
Key Risks:

Slowdown in Asian economies. The risk to our view is a further slowdown in Asian economies which could dampen demand for housing and private consumption expenditure and retail sales. This could, in turn, result in slower-than-expected projections.

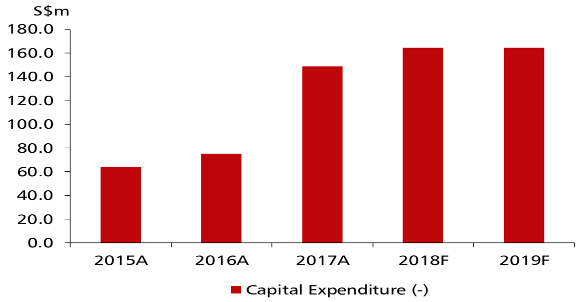
Company Background

CapitaLand (CAPL) is one of Asia's largest real estate companies headquartered and listed in Singapore. Its two core markets are Singapore and China; while Indonesia, Malaysia and Vietnam have been identified as new growth markets.

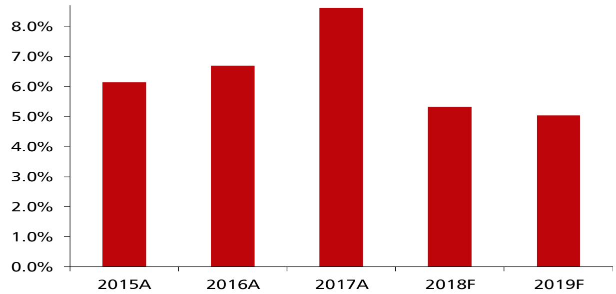
Leverage & Asset Turnover (x)



Capital Expenditure

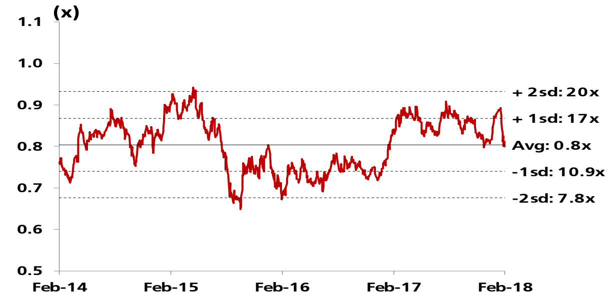


ROE (%)



Forward PE Band (x)

PB Band (x)



Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (S$m)					
CapitaLand Singapore	1,229	1,192	1,190	1,767	948
CapitaLand China	2,039	2,376	1,356	1,625	2,417
CMA	663	588	1,034	1,128	1,148
Ascott	744	1,032	1,000	811	830
Others	86.1	65.3	29.2	160	163
Total	**4,761**	**5,252**	**4,610**	**5,491**	**5,506**

Driven by CMA increasing portfolio of malls

Income Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	4,762	5,252	4,610	5,491	5,506
Cost of Goods Sold	(3,287)	(3,654)	(2,772)	(2,904)	(2,953)
Gross Profit	**1,475**	**1,598**	**1,838**	**2,587**	**2,553**
Other Opng (Exp)/Inc	(431)	(435)	(455)	(478)	(501)
Operating Profit	**1,044**	**1,163**	**1,383**	**2,109**	**2,051**
Other Non Opg (Exp)/Inc	490	437	789	200	200
Associates & JV Inc	726	708	877	174	183
Net Interest (Exp)/Inc	(422)	(401)	(425)	(678)	(686)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**1,839**	**1,907**	**2,624**	**1,805**	**1,748**
Tax	(344)	(403)	(298)	(325)	(315)
Minority Interest	(430)	(314)	(775)	(488)	(473)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**1,066**	**1,190**	**1,551**	**992**	**960**
Net Profit before Except.	1,066	1,190	1,551	992	960
EBITDA	2,325	2,374	3,118	2,553	2,504
Growth					
Revenue Gth (%)	21.3	10.3	(12.2)	19.1	0.3
EBITDA Gth (%)	(4.9)	2.1	31.4	(18.1)	(1.9)
Opg Profit Gth (%)	20.2	11.3	19.0	52.5	(2.7)
Net Profit Gth (Pre-ex) (%)	(8.2)	11.7	30.3	(36.0)	(3.2)
Margins & Ratio					
Gross Margins (%)	31.0	30.4	39.9	47.1	46.4
Opg Profit Margin (%)	21.9	22.1	30.0	38.4	37.3
Net Profit Margin (%)	22.4	22.7	33.6	18.1	17.4
ROAE (%)	6.1	6.7	8.6	5.3	5.0
ROA (%)	2.3	2.6	2.9	1.6	1.5
ROCE (%)	2.0	2.2	2.6	3.1	2.9
Div Payout Ratio (%)	35.9	35.7	32.9	55.7	62.0
Net Interest Cover (x)	2.5	2.9	3.3	3.1	3.0

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Revenue	1,853	898	992	1,507	1,213
Cost of Goods Sold	(1,261)	(564)	(616)	(1,000)	(592)
Gross Profit	592	334	377	507	621
Other Oper. (Exp)/Inc	(143)	(93.2)	(97.9)	(114)	(202)
Operating Profit	449	241	279	393	418
Other Non Opg (Exp)/Inc	153	200	356	265	37.2
Associates & JV Inc	195	169	340	136	232
Net Interest (Exp)/Inc	(90.1)	(94.3)	(91.1)	(129)	(126)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	707	515	883	664	561
Tax	(208)	(55.6)	(72.6)	(87.2)	(82.4)
Minority Interest	(69.0)	(72.3)	(232)	(260)	(211)
Net Profit	431	387	579	317	268
Net profit bef Except.	431	387	579	317	268
EBITDA	797	609	992	810	688
Growth					
Revenue Gth (%)	34.9	(51.6)	10.6	51.9	(19.5)
EBITDA Gth (%)	59.4	(23.6)	62.9	(18.3)	(15.2)
Opg Profit Gth (%)	40.2	(46.4)	15.9	40.8	6.5
Net Profit Gth (Pre-ex) (%)	73.9	(10.2)	49.8	(45.3)	(15.5)
Margins					
Gross Margins (%)	31.9	37.2	38.0	33.6	51.2
Opg Profit Margins (%)	24.2	26.8	28.1	26.1	34.5
Net Profit Margins (%)	23.2	43.1	58.4	21.0	22.1

Balance Sheet (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	808	781	840	935	1,029
Invts in Associates & JVs	12,858	12,617	10,197	10,510	10,829
Other LT Assets	20,760	20,577	38,182	38,539	39,039
Cash & ST Invts	4,257	5,067	6,648	7,167	5,196
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	1,424	1,859	1,471	1,830	1,835
Other Current Assets	6,945	4,839	4,108	3,833	4,026
Total Assets	47,053	45,741	61,446	62,814	61,954
ST Debt	2,246	2,373	2,739	2,739	2,739
Creditor	4,064	4,685	5,442	5,702	3,692
Other Current Liab	620	670	622	647	661
LT Debt	13,812	12,479	18,956	19,456	19,956
Other LT Liabilities	1,373	1,233	1,604	1,604	1,604
Shareholder's Equity	17,905	17,605	18,382	18,864	19,272
Minority Interests	7,032	6,696	13,701	13,802	14,030
Total Cap. & Liab.	47,053	45,741	61,446	62,814	61,954
Non-Cash Wkg. Capital	3,685	1,343	(485)	(686)	1,508
Net Cash/(Debt)	(11,801)	(9,785)	(15,047)	(15,028)	(17,499)
Debtors Turn (avg days)	91.5	114.1	131.8	109.7	121.5
Creditors Turn (avg days)	404.1	444.9	684.0	717.5	594.5
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	1.8	1.5	1.4	1.4	1.6
Quick Ratio (x)	0.8	0.9	0.9	1.0	1.0
Net Debt/Equity (X)	0.5	0.4	0.5	0.5	0.5
Net Debt/Equity ex MI (X)	0.7	0.6	0.8	0.8	0.9
Capex to Debt (%)	0.4	0.5	0.7	0.7	0.7
Z-Score (X)	1.1	1.2	1.2	1.1	1.2

Gearing remains stable

Source: Company, DBS Bank

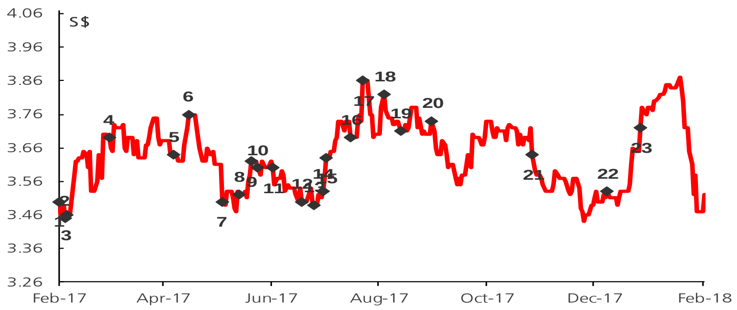
Cash Flow Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	1,839	1,907	2,624	1,805	1,748
Dep. & Amort.	65.0	66.0	69.7	69.7	69.7
Tax Paid	(145)	(350)	(300)	(300)	(300)
Assoc. & JV Inc/(loss)	(726)	(708)	(877)	(174)	(183)
Chg in Wkg.Cap.	1,264	2,292	961	719	(2,209)
Other Operating CF	169	97.5	(311)	0.0	0.0
Net Operating CF	**2,466**	**3,305**	**2,166**	**2,120**	**(874)**
Capital Exp.(net)	(64.0)	(75.2)	(149)	(164)	(164)
Other Invts.(net)	(718)	(575)	(2,893)	(357)	(500)
Invts in Assoc. & JV	509	65.3	1,402	(200)	(200)
Div from Assoc & JV	394	393	262	60.9	64.0
Other Investing CF	33.0	121	(392)	0.0	0.0
Net Investing CF	**154**	**(71.4)**	**(1,770)**	**(661)**	**(800)**
Div Paid	(727)	(752)	(1,022)	(898)	(797)
Chg in Gross Debt	(212)	(809)	1,705	500	500
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(274)	(901)	297	0.0	0.0
Net Financing CF	**(1,213)**	**(2,462)**	**979**	**(398)**	**(297)**
Currency Adjustments	16.9	(153)	(62.9)	0.0	0.0
Chg in Cash	1,424	619	1,313	1,062	(1,971)
Opg CFPS (S cts)	28.2	23.8	28.4	33.0	31.4
Free CFPS (S cts)	56.4	75.8	47.5	46.0	(24.4)

Purchase of Pearl Bank Apartments coupled with sale of 20 malls (net proceeds) and others assets for sale

Source: Company, DBS Bank

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Feb 17	3.50	3.60	BUY
2:	16 Feb 17	3.45	3.85	BUY
3:	17 Feb 17	3.46	3.85	BUY
4:	13 Mar 17	3.69	3.85	BUY
5:	19 Apr 17	3.64	3.85	BUY
6:	27 Apr 17	3.76	4.33	BUY
7:	16 May 17	3.50	4.33	BUY
8:	26 May 17	3.52	4.33	BUY
9:	02 Jun 17	3.62	4.33	BUY
10:	05 Jun 17	3.60	4.33	BUY
11:	14 Jun 17	3.60	4.33	BUY
12:	30 Jun 17	3.50	4.33	BUY
13:	07 Jul 17	3.49	4.33	BUY
14:	12 Jul 17	3.53	4.33	BUY
15:	14 Jul 17	3.63	4.33	BUY
16:	28 Jul 17	3.69	4.33	BUY
17:	04 Aug 17	3.86	4.35	BUY
18:	16 Aug 17	3.82	4.35	BUY
19:	25 Aug 17	3.71	4.35	BUY
20:	12 Sep 17	3.74	4.35	BUY
21:	08 Nov 17	3.64	4.35	BUY
22:	20 Dec 17	3.53	4.35	BUY
23:	08 Jan 18	3.72	4.35	BUY

Source: DBS Bank
Analyst: Derek TAN
Rachel TAN

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 14 Feb 2018 07:54:49 (SGT)
Dissemination Date: 14 Feb 2018 09:34:41 (SGT)

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6. Euleen Goh Yiu Kiang, a member of DBS Group Holdings Board of Directors, is a Non-Exec Director of CapitaLand as of 31 Dec 2017

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Chip Eng Seng

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DBS Group Research . Equity

14 Feb 2018

BUY

Last Traded Price (13 Feb 2018): S$0.95 (**STI :** 3,415.07)
Price Target 12-mth: S$1.18 (24% upside)

Analyst
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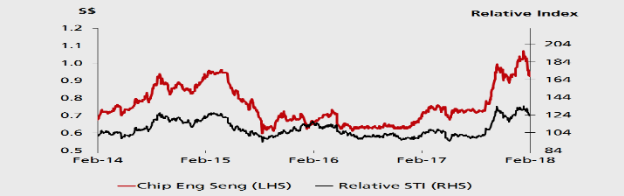
What's New

- FY17 revenue and PATMI of S$859.7m and S$35.5m came in within expectations on higher development sales
- Spotlight for 2018 and 2019 remains on upcoming launches at Woodleigh and Changi
- Meanwhile, growing recurring income and strong dividend track record (even in 2009) are attractive attributes; Proposes 4 Sct dividend for FY17, representing 4.2% yield
- Maintain BUY with TP of S$1.18

Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2016A	2017A	2018F	2019F
Revenue	748	860	799	1,228
EBITDA	98.6	102	108	164
Pre-tax Profit	76.1	70.2	67.2	121
Net Profit	35.7	35.5	31.7	58.3
Net Pft (Pre Ex.)	35.7	35.5	31.7	58.3
Net Pft Gth (Pre-ex) (%)	(43.3)	(0.5)	(10.6)	83.7
EPS (S cts)	5.75	5.72	5.11	9.39
EPS Pre Ex. (S cts)	5.75	5.72	5.11	9.39
EPS Gth Pre Ex (%)	(43)	(1)	(11)	84
Diluted EPS (S cts)	5.75	5.72	5.11	9.39
Net DPS (S cts)	4.00	4.00	4.00	4.00
BV Per Share (S cts)	123	125	126	131
PE (X)	16.5	16.6	18.6	10.1
PE Pre Ex. (X)	16.5	16.6	18.6	10.1
P/Cash Flow (X)	nm	nm	11.0	2.8
EV/EBITDA (X)	13.1	18.6	18.8	12.4
Net Div Yield (%)	4.2	4.2	4.2	4.2
P/Book Value (X)	0.8	0.8	0.8	0.7
Net Debt/Equity (X)	0.9	1.6	1.7	1.5
ROAE (%)	4.7	4.6	4.1	7.3
Earnings Rev (%):		5	27	17
Consensus EPS (S cts):		5.50	4.00	8.00
Other Broker Recs:		B: 2	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Attractive Valuations and Yield

Integrated real estate developer with strong capability to leverage upcoming property upturn. Singapore-based Chip Eng Seng Corporation (CES) has been selectively acquiring projects in Singapore and overseas which are ripe for the picking. Most of the group's residential projects have already been substantially sold and, together with an estimated construction order book of S$560m (as at Jan 2018), CES has locked in at least S$1bn in sales – which will be recognised progressively, underpinning strong earnings visibility in the coming years.

Meanwhile, plans to launch recently acquired residential sites at Woodleigh and Changi in 2H18 and 1H19 respectively, should boost the group's earnings and NAV in the medium term.

Where we differ: A largely uncovered stock, we like CES for its strong earnings visibility and the potential to unlock its undervalued hotel portfolio.

Potential catalysts: Successful pre-sales, landbanking activities

Potential unlocking of undervalued hotel portfolio. The group has also built up a sizable hotel and commercial portfolio. The jewel is Park Hotel Alexandra, which is recorded in its book at an estimated S$210m (S$475k/key) but potential realisable value, if sold, could be as high as S$376m (S$850k/key), which means a 27Scts upside to current NAV. While the hotel provides stable recurring cash flow to the group, substantial value could be unlocked, given the robust demand for hotel assets in Singapore.

Valuation:

Maintain BUY and SOTP-based TP of S$1.18. Assuming a conservative 45% discount (vs larger peers' 10%) to RNAV of S$1.88 and valuing its construction business at peers' average of 8x FY18F PE, we arrive at a SOTP-based TP of S$1.18. A prospective 4.2% yield is also on offer.

Key Risks to Our View:

(i) Execution risk, (ii) Weaker demand, (iii) Competition, (iv) Equity fund raising risk

At A Glance

Issued Capital (m shrs)	621
Mkt. Cap (Sm/USm)	590 / 446
Major Shareholders (%)	
Tiam Seng Lim	12.5
Tiang Chuan Lim	7.1
Lee Meng Chia	4.1
Free Float (%)	76.3
3m Avg. Daily Val (US$m)	1.3
ICB Industry : Financials / Real Estate	

WHAT'S NEW

Chip Eng Seng's FY17 results in line; Maintains 4 Sct dividend

FY17 PATMI of S$35.5m; Results in line. In 4Q17, CES delivered PATMI of S$14.5m on revenue of S$256.1m (+22.4% q-o-q), primarily on stronger contributions from the Property Development and Hotel segments, which helped offset weakness in the Construction division.

On a full-year basis, revenue was up 14.9% to S$859.7m, while earnings (PATMI) held relatively steady y-o-y at S$35.5m, in line with our expectations.

The Property Development segment was the key revenue driver for the group this quarter, contributing S$194m (or c.76% of sales) on the progressive recognition of ongoing development projects (High Park Residences and Grandeur Park Residences) and proceeds from the handover of completed townhouses in Doncaster, Melbourne, which should continue to contribute positively to 1Q18 revenue.

The Hospitality division continued to gain traction during the quarter, gaining 31.8% q-o-q to S$13.7m on the back of higher occupancies for its key hotel assets, Park Hotel Alexandra (Singapore) and Grand Park Kodhipparu (Maldives), which only commenced operations in June 2017. Contributions from a newly-added asset, The Sebel Mandurah in Australia, also helped.

Expanding investment portfolio to further boost recurring income. While dwarfed at the top-line (c.6.1% of sales), we estimate that CES' portfolio of investment assets roughly contributed c.13% of FY17 EBIT.

With the recent addition of a Grade-A office building at 205 Queen Street (Auckland) at end-2017 and the proposed acquisition of its fourth hospitality asset, Mercure & Ibis Styles Grosvenor Hotel in Adelaide, we believe contributions from this segment will be even more meaningful in FY18F.

Proposes 4Sct dividend for FY17, which is expected to be paid on 23 May 2018.

Maintain BUY with TP of S$1.18; Offers attractive 4.2% yield. Apart from the strong earnings visibility from ongoing development projects and the potential unlocking of its undervalued hotel portfolio, we also like CES for its strong dividend payment record.

Notably, the company has consistently paid dividends through the property cycle – even in 2008/2009, and has maintained a fixed dividend of 4 Scts over the last eight years.

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	250	209	256	2.4	22.4
Cost of Goods Sold	(204)	(174)	(204)	(0.1)	17.2
Gross Profit	**45.7**	**35.1**	**52.1**	**14.0**	**48.5**
Other Oper. (Exp)/Inc	(10.4)	(4.8)	(21.5)	106.9	349.8
Operating Profit	**35.3**	**30.3**	**30.6**	**(13.4)**	**1.0**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.02	0.39	nm	nm
Net Interest (Exp)/Inc	(4.7)	(5.9)	(4.8)	(1.0)	18.1
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	**30.6**	**24.5**	**26.2**	**(14.3)**	**7.1**
Tax	(7.7)	(5.7)	(4.5)	(41.0)	(21.2)
Minority Interest	0.0	(4.7)	(7.2)	nm	53.9
Net Profit	**22.9**	**14.0**	**14.5**	**(36.6)**	**3.5**
Net profit bef Except.	22.9	14.0	14.5	(36.6)	3.5
EBITDA	37.2	32.9	35.5	(4.4)	7.9
Margins (%)					
Gross Margins	18.3	16.8	20.4		
Opg Profit Margins	14.1	14.5	12.0		
Net Profit Margins	9.2	6.7	5.7		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Substantial proportion of ongoing developments pre-sold ahead of completion. The progressive sale and revenue recognition from six available-for-sale development properties provides earnings visibility over the next few years. Recent launches have been well received. As at 31 Dec 2017, a substantial proportion of units at ongoing developments were pre-sold ahead of their completion – at least 87.5% for Grandeur Park Residences (which was only launched in March 2017) to 100% for High Park Residences (a collaboration between CES, Heeton Holdings, and KSH Holdings).

Growing landbank signals earnings potential beyond 2021. Beyond the existing development projects, we believe that CES' unutilised landbank is indicative of the group's longer-term earnings potential and cash flow generation capability. While the majority of CES' landbank currently lies in Australia, we are comforted by the group's recent moves to replenish its Singapore landbank.

We believe that both the Woodleigh and Changi land plots, which are slated for launch in 2H18 and 1H19 respectively, could add more than 1,000 new units for sale, with an estimated combined GV of close to S$1.5 bn.

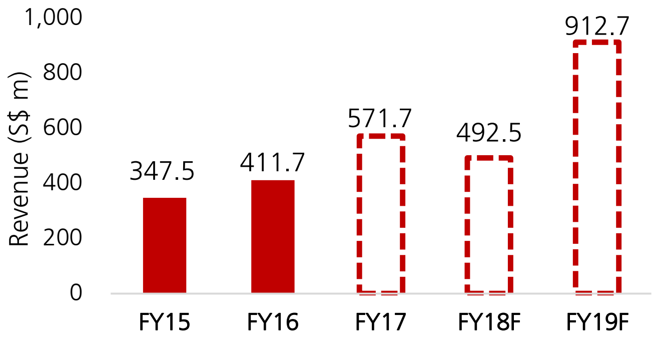
Net construction order book estimated at S$560m. CES' construction revenues are mainly derived from Singapore public housing, public transport infrastructure, and private residential projects. While local construction outlook still appears favourable at this juncture, the extent to which CES is able to truly benefit from these positive trends hinges upon the success and viability of its tenders. Following its recent S$168m contract win in Jan 2018, we estimate CES' construction order book to be closer to S$560m (vs S$397.1m at end-4Q17).

Recurring income pool to see further boost on steady expansion in Hotels and Investments portfolio. Over the years, CES has been increasingly active in the management of its hotel and investment portfolio, resulting in a growing asset base (to c.9 properties at end-FY17) and higher recurring income.

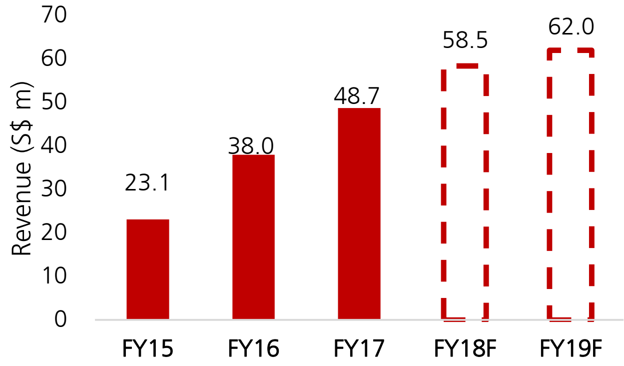
With the recent addition of 4.5-star The Sebel Mandurah (purchase includes strata restaurant property) in Nov 2017 and a Grade-A office building at 205 Queen Street, Auckland - through a 50%-joint venture with Roxy-Pacific, we estimate that CES' recurring income base would see a 20% boost y-o-y to c.S$58.5m in FY18F.

This would represent approximately 6.7% of consolidated revenue, up from 5.1% in FY16. Further acquisitions, including the completion of its proposed acquisition of Mercure & Ibis Styles Grosvenor Hotel in Adelaide, could provide more upside.

FY19F Potentially a Banner Year for Property Development



Recent Acquisitions to Boost Recurring Income



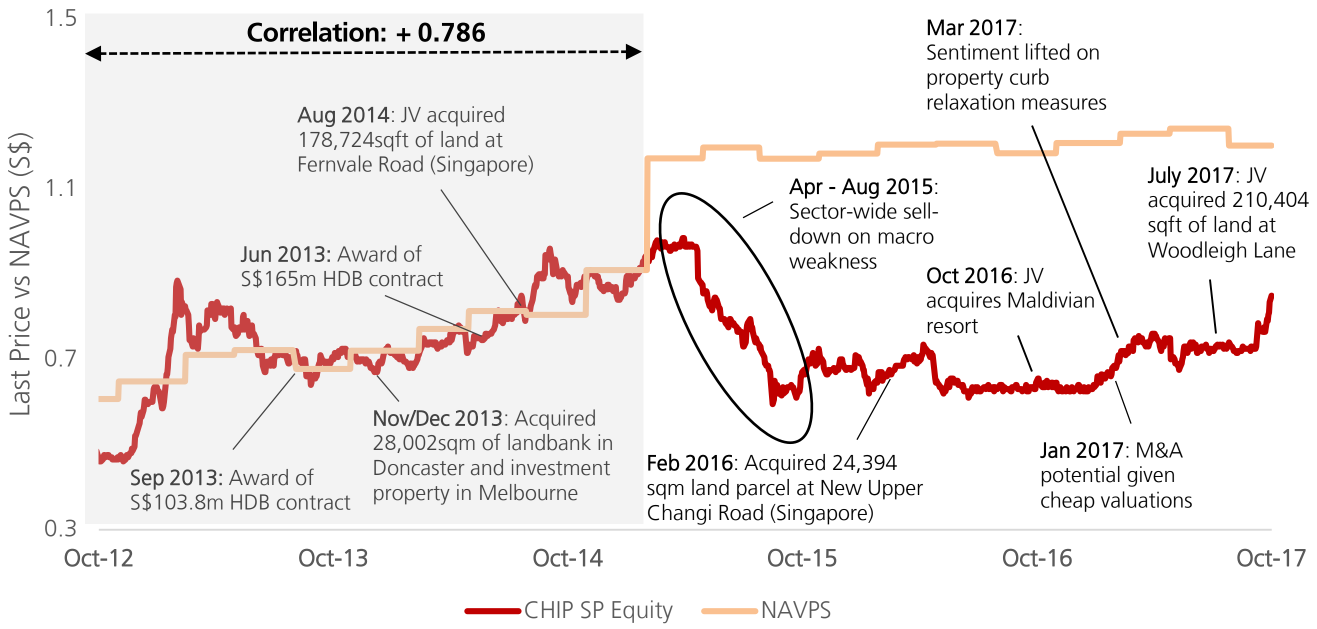
RNAV of S$1.88 and SOTP-based TP of S$1.18

Breakdown of RNAV	OMV ($m)
Investment Properties	
Investment Properties (Revalued)	320
less book value	-320
Surplus / Deficit	0
Development Properties	
NPV of Development Profits	230
Hotel Operations	521
less book value (Hotels + Assoc)	-355
Surplus / Deficit	166
Book NAV	770
RNAV	1,166
Total Shares	621
RNAV / Share (S$)	1.88
Discount	45%
Discounted RNAV / Share (S$)	1.03
SOTP Valuation	**S$**
Discounted RNAV / Share (S$)	1.03
Value of Construction Business / Share	0.15
SOTP-based TP (S$):	1.18

Source: Company, DBS Bank

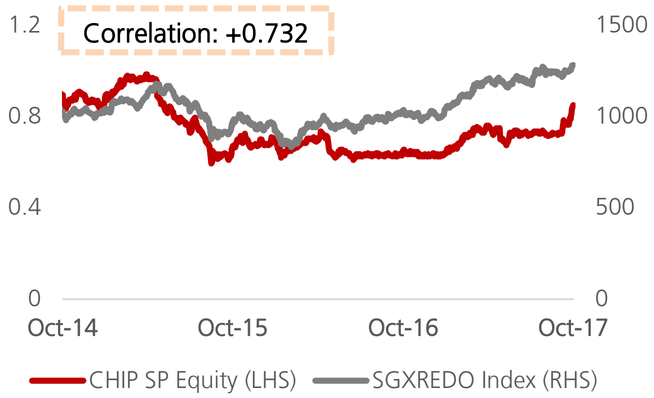
Appendix 1: A look at Company's listed history – what drives its share price?

Prior to May 2015, CHIP SP's share price was mainly driven by NAV growth



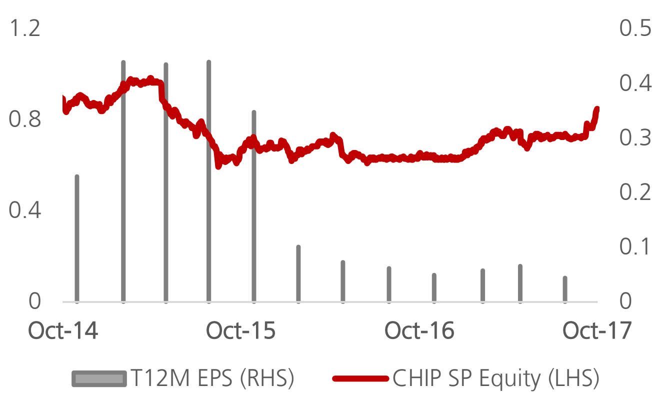
Source: DBS Bank, Bloomberg Finance L.P.

Strong Historical Correlation with SGXREDO Index



Source: DBS Bank, Bloomberg Finance L.P.

Little Correlation with Quarterly Earnings Performance



Source: DBS Bank, Bloomberg Finance L.P.

Balance Sheet:

Net gearing could rise from 0.9x in FY16 to c.2.2x following recent en-bloc and land tender wins. While this appears high at first look, successful sale of the Woodleigh site and Changi Garden will alleviate any potential concerns from its alleviated gearing level.

Share Price Drivers:

Acquisition of further landbank and/or a fourth hotel asset at a reasonable price.

Potential transactions in Singapore hotel space could spark revaluation of CES's Park Hotel Alexandra. On the back of strong transaction velocity in the office sector, investor attention has been moving to the hotel sector. Given robust demand for hotel assets in Singapore, we believe the potential realisable market valuation for Park Hotel Alexandra would be c. S$850 a key (when pegged to peers' average) or close to S$376m vs current book value of c.S$210m.

Key Risks:

Weaker demand for private residential property across CES' key markets of Singapore and Australia could impact the success of its future launches significantly.

Keen competition across Property Development and Construction segments. Judging by the recent spike in en-bloc tenders at record sale prices and heightened competition for landbank, land prices are expected to rise further. This could impact CES' ability to replenish its landbank (at a reasonable price), which is imperative for future profitability and growth.

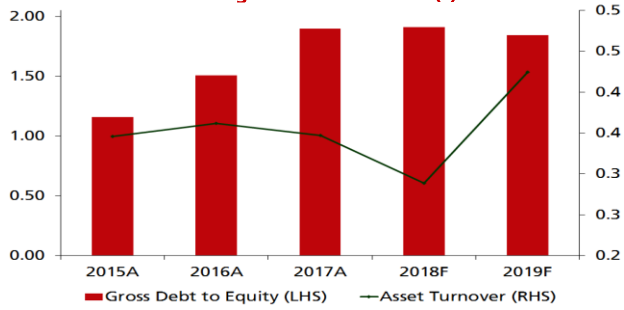
Meanwhile for the construction business, we note that EBIT margins have come off over the years and remain watchful of the competitive landscape in the local construction sphere as this could lead to more aggressive bidding among contractors and ultimately, compression of margins.

Possible equity fund-raising to pare down debt. We project that net gearing will rise to 2.2x over the next two years on the back of a rise in landbanking activity, which are primarily covered by loans. We believe that the company could potentially look at equity fund-raising ahead to pare down gearing to a more sustainable level.

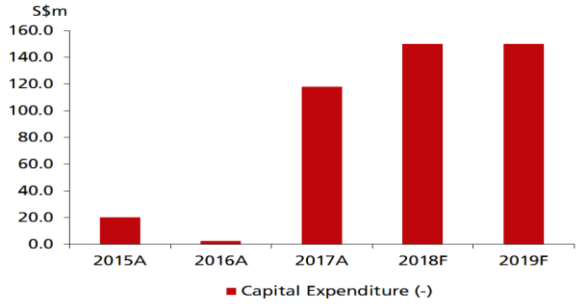
Company Background

Founded in the 1960s as a construction company, Singapore-based Chip Eng Seng Corporation (CES) has expanded its scope and scale over the past five decades, and has gradually diversified into property development, investments, and hospitality businesses.

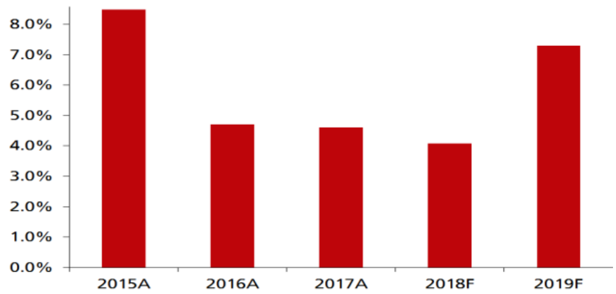
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)

PB Band (x)

Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (S$m)					
Property Development	347	412	572	492	913
Construction	306	298	239	253	258
Hotel Operations	14.1	27.4	38.6	42.9	46.2
Investment Properties	8.97	10.6	10.1	10.4	10.7
Others	0.10	0.06	0.0	0.0	0.0
Total	676	748	860	799	1,228

Income Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	676	748	860	799	1,228
Cost of Goods Sold	(515)	(602)	(707)	(653)	(985)
Gross Profit	161	146	153	146	243
Other Opng (Exp)/Inc	(81.0)	(54.3)	(62.0)	(54.3)	(95.0)
Operating Profit	80.4	92.2	90.5	91.9	147
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	1.02	(0.7)	0.58	5.12	5.12
Net Interest (Exp)/Inc	(13.9)	(15.4)	(20.9)	(29.8)	(31.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	67.6	76.1	70.2	67.2	121
Tax	(10.3)	(24.4)	(20.3)	(21.5)	(38.7)
Minority Interest	5.74	(16.0)	(14.4)	(13.9)	(23.9)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	63.0	35.7	35.5	31.7	58.3
Net Profit before Except.	63.0	35.7	35.5	31.7	58.3
EBITDA	87.5	98.6	102	108	164
Growth					
Revenue Gth (%)	(38.8)	10.6	14.9	(7.1)	53.7
EBITDA Gth (%)	(73.6)	12.6	3.6	5.8	51.4
Opg Profit Gth (%)	(74.1)	14.6	(1.8)	1.5	60.5
Net Profit Gth (Pre-ex) (%)	(77.8)	(43.3)	(0.5)	(10.6)	83.7
Margins & Ratio					
Gross Margins (%)	23.9	19.6	17.7	18.3	19.8
Opg Profit Margin (%)	11.9	12.3	10.5	11.5	12.0
Net Profit Margin (%)	9.3	4.8	4.1	4.0	4.7
ROAE (%)	8.5	4.7	4.6	4.1	7.3
ROA (%)	3.2	1.7	1.4	1.1	2.0
ROCE (%)	2.8	1.1	0.6	0.1	1.0
Div Payout Ratio (%)	39.6	69.6	70.0	78.2	42.6
Net Interest Cover (x)	5.8	6.0	4.3	3.1	4.7

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Revenue	250	182	213	209	256
Cost of Goods Sold	(204)	(153)	(176)	(174)	(204)
Gross Profit	**45.7**	**29.2**	**36.1**	**35.1**	**52.1**
Other Oper. (Exp)/Inc	(10.4)	(11.8)	(23.9)	(4.8)	(21.5)
Operating Profit	**35.3**	**17.4**	**12.2**	**30.3**	**30.6**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.19	0.02	0.02	0.39
Net Interest (Exp)/Inc	(4.7)	(4.7)	(5.6)	(5.9)	(4.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**30.6**	**12.9**	**6.66**	**24.5**	**26.2**
Tax	(7.7)	(2.6)	(1.6)	(5.7)	(4.5)
Minority Interest	0.0	(4.2)	(4.2)	(4.7)	(7.2)
Net Profit	**22.9**	**6.11**	**0.82**	**14.0**	**14.5**
Net profit bef Except.	22.9	6.11	0.82	14.0	14.5
EBITDA	37.2	19.4	14.4	32.9	35.5
Growth					
Revenue Gth (%)	64.7	(27.3)	16.9	(1.6)	22.4
EBITDA Gth (%)	95.3	(47.9)	(25.8)	129.1	7.9
Opg Profit Gth (%)	97.2	(50.8)	(29.8)	148.6	1.0
Net Profit Gth (Pre-ex) (%)	152.1	(73.4)	(86.6)	1,615.0	3.5
Margins					
Gross Margins (%)	18.3	16.1	17.0	16.8	20.4
Opg Profit Margins (%)	14.1	9.6	5.7	14.5	12.0
Net Profit Margins (%)	9.2	3.4	0.4	6.7	5.7

Balance Sheet (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	225	220	324	463	602
Invts in Associates & JVs	12.1	6.36	6.94	12.1	17.2
Other LT Assets	298	302	341	341	341
Cash & ST Invts	442	482	258	186	269
Inventory	625	1,128	1,689	1,714	1,603
Debtors	249	81.2	89.7	79.4	122
Other Current Assets	54.1	13.7	19.2	19.2	19.2
Total Assets	**1,907**	**2,232**	**2,728**	**2,816**	**2,974**
ST Debt	120	234	8.74	8.74	8.74
Creditor	117	86.4	58.5	66.8	101
Other Current Liab	79.6	81.6	95.3	104	121
LT Debt	738	937	1,524	1,574	1,624
Other LT Liabilities	109	117	233	233	233
Shareholder's Equity	748	766	774	781	815
Minority Interests	(5.3)	10.7	34.3	48.2	72.1
Total Cap. & Liab.	**1,907**	**2,232**	**2,728**	**2,816**	**2,974**
Non-Cash Wkg. Capital	733	1,055	1,644	1,642	1,522
Net Cash/(Debt)	(416)	(689)	(1,275)	(1,396)	(1,364)
Debtors Turn (avg days)	125.6	80.6	36.3	38.6	30.0
Creditors Turn (avg days)	81.5	62.3	38.0	35.6	31.4
Inventory Turn (avg days)	555.5	538.2	738.4	968.1	621.6
Asset Turnover (x)	0.3	0.4	0.3	0.3	0.4
Current Ratio (x)	4.3	4.2	12.7	11.1	8.7
Quick Ratio (x)	2.2	1.4	2.1	1.5	1.7
Net Debt/Equity (X)	0.6	0.9	1.6	1.7	1.5
Net Debt/Equity ex MI (X)	0.6	0.9	1.6	1.8	1.7
Capex to Debt (%)	2.3	(0.2)	7.7	9.5	9.2
Z-Score (X)	NA	NA	NA	NA	NA

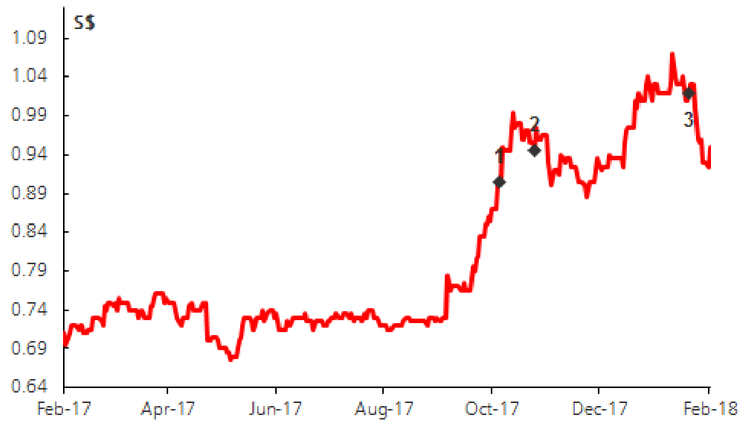
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	67.6	76.1	70.2	67.2	121
Dep. & Amort.	6.09	7.09	11.1	11.1	11.1
Tax Paid	(27.2)	(34.2)	(22.2)	(12.8)	(21.5)
Assoc. & JV Inc/(loss)	(1.0)	0.66	(0.6)	(5.1)	(5.1)
Chg in Wkg.Cap.	255	(292)	(524)	(6.8)	102
Other Operating CF	(0.4)	(14.3)	(25.9)	0.0	0.0
Net Operating CF	**300**	**(257)**	**(492)**	**53.6**	**208**
Capital Exp.(net)	(20.0)	2.28	(118)	(150)	(150)
Other Invts.(net)	(1.1)	(2.5)	72.0	0.0	0.0
Invts in Assoc. & JV	(1.4)	8.20	(28.6)	0.0	0.0
Div from Assoc & JV	4.52	1.07	0.30	0.0	0.0
Other Investing CF	0.0	0.0	(0.1)	0.0	0.0
Net Investing CF	**(17.9)**	**9.03**	**(74.2)**	**(150)**	**(150)**
Div Paid	(37.4)	(24.8)	(24.8)	(24.8)	(24.8)
Chg in Gross Debt	(80.8)	312	364	50.0	50.0
Capital Issues	(6.3)	0.05	3.29	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	**(124)**	**287**	**342**	**25.2**	**25.2**
Currency Adjustments	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Chg in Cash	157	39.1	(224)	(71.4)	82.9
Opg CFPS (S cts)	7.24	5.68	5.25	9.73	17.0
Free CFPS (S cts)	44.9	(41.0)	(98.1)	(15.5)	9.31

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	17 Oct 17	0.91	1.18	BUY
2:	06 Nov 17	0.95	1.18	BUY
3:	01 Feb 18	1.02	1.18	BUY

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank
Analyst: Carmen Tay
Derek TAN

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 14 Feb 2018 09:25:19 (SGT)
Dissemination Date: 14 Feb 2018 10:12:29 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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Roxy-Pacific Holdings

Version 1 | Bloomberg: ROXY SP | Reuters: RXYP.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Feb 2018

BUY

Last Traded Price (14 Feb 2018): S$0.56 (**STI :** 3,402.86)
Price Target 12-mth: S$0.69 (23% upside)

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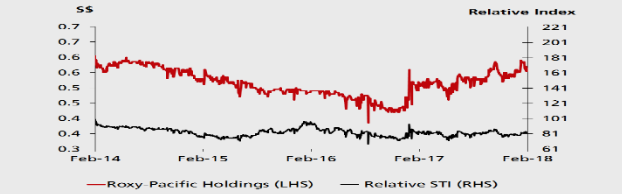
What's New

- FY17 net profit -41% y-o-y; lower development profits and income from investment properties (divestment)
- Unrecognised sales stood at S$459m; largely in Australia with expected completion in FY18/FY19
- First launch in FY18 saw 50% take-up
- Declared final div of 0.771 Scents; maintain 40% payout

Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2016A	2017A	2018F	2019F
Revenue	385	247	190	406
EBITDA	67.6	41.6	77.4	120
Pre-tax Profit	65.6	46.7	54.1	94.8
Net Profit	49.8	29.4	41.2	68.7
Net Pft (Pre Ex.)	33.4	6.51	41.2	68.7
Net Pft Gth (Pre-ex) (%)	(57.4)	(80.5)	532.8	66.6
EPS (S cts)	4.17	2.47	3.46	5.76
EPS Pre Ex. (S cts)	2.80	0.55	3.46	5.76
EPS Gth Pre Ex (%)	(57)	(80)	533	67
Diluted EPS (S cts)	4.17	2.47	3.46	5.76
Net DPS (S cts)	1.67	0.98	0.86	1.44
BV Per Share (S cts)	41.2	42.2	44.6	49.5
PE (X)	13.4	22.7	16.2	9.7
PE Pre Ex. (X)	20.0	102.5	16.2	9.7
P/Cash Flow (X)	88.6	nm	nm	34.4
EV/EBITDA (X)	17.5	29.4	20.3	13.5
Net Div Yield (%)	3.0	1.8	1.5	2.6
P/Book Value (X)	1.4	1.3	1.3	1.1
Net Debt/Equity (X)	1.0	1.1	1.7	1.6
ROAE (%)	10.5	5.9	8.0	12.2
Earnings Rev (%):			-	-
Consensus EPS (S cts):		3.60	19.2	57.0
Other Broker Recs:		B: 2	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Ready, set, go!

Maintain BUY; TP of S$0.69. We are maintaining our BUY rating and TP of S$0.69 (based on 30% discount to RNAV) on Roxy-Pacific Holdings (Roxy). Benefitting from being early in the current en-bloc cycle, Roxy is one of the few "undiscovered" mid-cap developer proxies to ride the recovery of the Singapore property market. BUY!

Where we differ. **Poised to hit an upbeat Singapore property market with six freehold residential developments.** We are one of the first few brokerages to have initiated coverage on Roxy. While the market may have overlooked Roxy for its size, we believe "best things come in small packages". We believe Roxy, being one of the earliest to landbank in the current market cycle, has six freehold residential developments in Singapore which will be ready to launch in 2018, two to three of which will be launched within 1Q18. We see this as a window for the group to capture the rise in buyer demand before its peers.

Potential catalysts: Strong sales take-up, more landbanking, acquisitions of good-quality investment properties.
Lower FY17 results but all eyes on FY18. FY17 net profit fell 41% y-o-y largely from lower contributions from development properties and investment properties (post-divestment). Despite a weak FY17 results, management is upbeat on FY18, anticipating better property sales, contributions from newly-acquired investment properties, and a better outlook on Singapore's hospitality sector. Declared 0.771 Scents final dividend.

Valuation:
Our TP of S$0.69 is based on 30% discount to RNAV of S$0.98. The stock currently trades at 1.2x FY18F P/BV, below historical average. At its peak, Roxy trades at 2.3x P/BV.

Key Risks to Our View:
i) Slower take-up rates, ii) Government regulates more to manage the Singapore property market, iii) AUD / NZD / JPY forex fluctuations, and iv) acquisitions of less-desirable investment properties.

At A Glance

Issued Capital (m shrs)	1,192
Mkt. Cap (Sm/USm)	668 / 508
Major Shareholders (%)	
Kian Lim Investment Pte Ltd	38%
Teo Hong Lim	12%
Sen Lee Development Pte Ltd	11%
Free Float (%)	22%
3m Avg. Daily Val (US$m)	0.13
ICB Industry : Financials / Real Estate	

WHAT'S NEW

Ready, set, go!

FY17 net profit fell 41% y-o-y largely from lower development profits and lower contributions from investment properties: Roxy's FY17 net profit fell 41% y-o-y to S$29m, mainly due to lower revenue (-36% y-o-y) and lower share of results from associates (-30% y-o-y) on the back of lower recognition of Eon Shenton, partially offset by higher fair value gains from investment properties (+40% y-o-y).

Lower revenue was recorded in all segments but mainly in development properties (-41% y-o-y) and investment properties (-14% y-o-y).

The decrease in revenue from development properties was largely due to lower revenue recognised from projects completed or nearing completion in FY17 such as Jade Residences, Whitehaven, and LIV on Wilkie. In addition, there was an absence of revenue recognised from LIV on Sophie which was completed in FY16.

The fall in investment properties was mainly due to the loss of rental income following the divestment of 59 Goulburn Street.

Revenue from hotel properties fell 4% y-o-y mainly due to lower RevPar of Grand Mercure Roxy Hotel, following more subdued corporate activity in FY17 and pricing competition from new hotel supply.

Gross profit margin improved to 24% from 21% in FY16, largely led by better margins of 15% recorded from its development properties (vs 14% in FY16).

Roxy has declared a final dividend of 0.771 Scents. This brings total FY17 dividend to 0.985 Scents vs 1.667 Scents in FY16. The dividend payout ratio remains stable at 40%.

Unrecognised sales stood at S$459m as at FY17: As at FY17, unrecognised sales stood at S$459m largely from its Australia properties (89%) which are expected to be completed in 2018 / 2019.

First launch in FY18 (The Navian) recorded 50% sales take-up in one month; targets to launch six properties (including The Navian) in FY18. Roxy officially launched its first property in FY18, The Navian in Jan18. As at 5 Feb 18, it has sold 23 units, 50% of total units, which is an encouraging sign, in our view. Conservatively, management targets to launch six properties (including The Navian) in FY18 with a total of 440 units. However, management hopes to launch another 1 or 2 more properties in FY18, if ready, to capture the demand as soon as possible. Next in line to be launched are Harbour View Gardens (after Chinese New Year) and Grange Road site (expected in Apr18) while the Upper Bukit Timah site, the River Valley site, and the Guillemard Lane site are expected to be launched in 2Q18 / 3Q18.

Acquired three more land sites in Dec17 / Jan18. Roxy remains active in its landbanking activities and has accumulated another three more sites in Dec17 / Jan18 and now owns 10 development sites, as a mean to replenish its landbank and to capture good opportunities. The sites are located mainly in the RCR. Management expects to launch these properties in FY19.

Received interest to acquire its 117 Clarence Street. According to media reports, we understand that Roxy has received encouraging interest to acquire its 117 Clarence Street office building in Sydney. The building was jointly acquired with Tong Eng Group in Feb16. Management may consider a divestment if the offer price is attractive. We have yet to include the new landbank in the numbers.

Expect to see better RevPar in 2H18. While FY17 was a challenging year for its hotel property in Singapore, Grand Mercure Singapore Roxy, management expects to see some improvement in RevPar in 2H18 as supply starts to taper off, reducing pricing competition. In addition, management is upbeat on the major events to be held in FY18, following encouraging signs seen in the beginning of the year with the Singapore Airshow 2018.

The newly acquired hotel in Osaka (Oct17) has been successfully rebranded to Noku Roxy in Jan18 which will be self-managed.

Noku Maldives started operations in Dec17 and expected to be fully open soon while its hotel in Phuket is expected to be completed and begin operations in FY19.

Maintain BUY; TP of S$0.69. We maintain our BUY rating and target price of S$0.69. We believe Roxy is a good small- to mid-cap proxy to Singapore property and is poised to benefit from upbeat sentiment in the sector from the launch of six freehold residential properties before its peers. In addition, Roxy, being small and nimble, has been selective in small but freehold land sites. This gives them the flexibility i) to launch quickly and hit the market before its peers; ii) to adopt the quick-turnaround model; and iii) to change according to market sentiment. Key potential catalysts are i) strong sales take-up rates upon launch; ii) ability to landbank continually; and iii) acquisition of good-quality investment properties.

Roxy currently trades at 1.3x FY18F P/BV, below historical average. At its peak, Roxy traded at 2.3x P/BV.

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	93.1	60.3	43.3	(53.5)	(28.1)
Cost of Goods Sold	(73.0)	(42.7)	(31.4)	(57.0)	(26.5)
Gross Profit	**20.2**	**17.5**	**11.9**	**(40.8)**	**(32.0)**
Other Oper. (Exp)/Inc	(11.4)	(11.4)	(5.7)	(50.2)	(50.3)
Operating Profit	**8.73**	**6.10**	**6.24**	**(28.6)**	**2.2**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	8.13	0.51	5.22	(35.8)	nm
Net Interest (Exp)/Inc	(3.7)	(3.2)	(2.7)	27.0	15.6
Exceptional Gain/(Loss)	0.17	0.0	0.0	-	-
Pre-tax Profit	**13.3**	**3.39**	**8.75**	**(34.3)**	**158.1**
Tax	(1.4)	(1.1)	(1.4)	1.3	23.8
Minority Interest	(0.7)	(0.8)	(0.1)	nm	nm
Net Profit	**11.3**	**1.50**	**7.27**	**(35.5)**	**385.3**
Net profit bef Except.	11.1	1.51	7.27	(34.5)	383.3
EBITDA	19.1	7.12	13.1	(31.3)	84.6
Margins (%)					
Gross Margins	21.6	29.1	27.5		
Opg Profit Margins	9.4	10.1	14.4		
Net Profit Margins	12.1	2.5	16.8		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Launching six freehold residential projects in Singapore in 2018. As developers now rush to landbank, Roxy can reap the benefits of being one of the earliest to landbank among the mid- to small-cap developers and successfully acquire seven plots of land to be launched in 2018. As such, Roxy has a total of c.476 residential units to be launched in 2018 that could potentially generate more than S$0.5bn in total GDV. Assuming 100% take-up rates, sales volume could potentially grow 8x y-o-y on annualised sales volume for FY17.

Beefing up its recurring-income portfolio. Since the slowdown of the Singapore property market in 2013, Roxy has started to venture out of Singapore and expanded its horizon to build its portfolio of assets to improve recurring income and provide stability in earnings. In FY17, Roxy acquired four commercial buildings, two in Australia, and two in New Zealand, adding to its portfolio of one commercial building (excluding the divestment of 59 Goulburn commercial building).

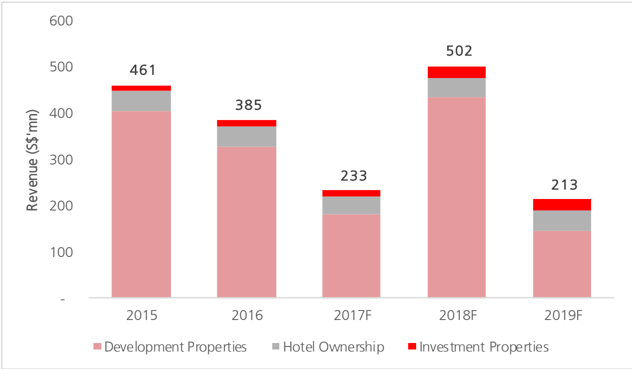
In addition, the Group continues to build its hospitality segment, which will add to its recurring income. In FY17, the Group acquired Tenmabashi Grand Hotel Osaka for JPY3bn.

These properties will start to contribute from FY18 onwards.

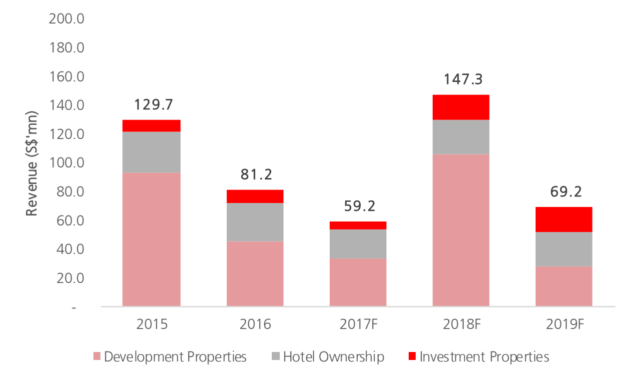
Realisation of development projects in Australia upon completion. Roxy's investments in development projects in Australia in 2015 will soon pay off when five projects are completed by 2018. The projects have all been substantially sold (>95% sold) except the last project launched in 3Q17; Art House at West End Glebe. The units sold have a total sales value of approximately S$300mn and could potentially contribute 21% to 44% of FY18F – FY19F earnings.

Replenishing landbank for sustainability. As Roxy adopts a quick-turnaround model and launches all its landbank in FY18, the ability to replenish its landbank promptly would be crucial in ensuring sustainability of its Singapore residential business if it continues strengthening for a longer period of time. So far, it has historically proven its ability to source for strategic land sites and possibly faces less competition as it typically targets smaller plots of land which may not be attractive to larger developers.

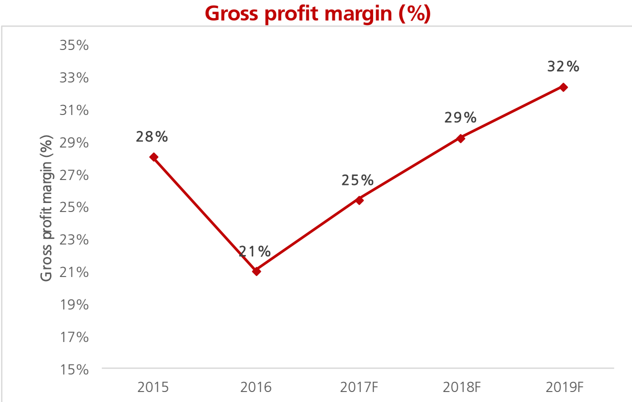
Revenue (FY15 – FY19F)



Gross profit (FY15 – FY19F)



Gross profit margin (%)



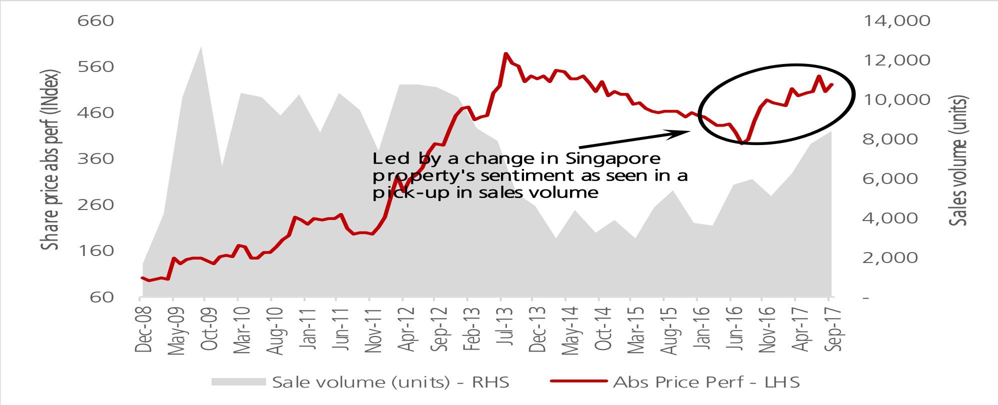
RNAV (S$'mn)

	OMV (S$'mn)
Surplus / deficit of assets:	
Development properties	105.9
Landbank	18.5
Hotel properties	447.2
Investment properties	97.6
	669.2
NAV	504.0
RNAV	**1,173.2**
No of shares	1,193.5
RNAV per share (S$)	**0.98**
Discount	30%
Price Target (S$)	**0.69**

Source: Company, DBS Bank

Appendix 1:

Roxy's absolute performance vs Singapore property industry sales volume

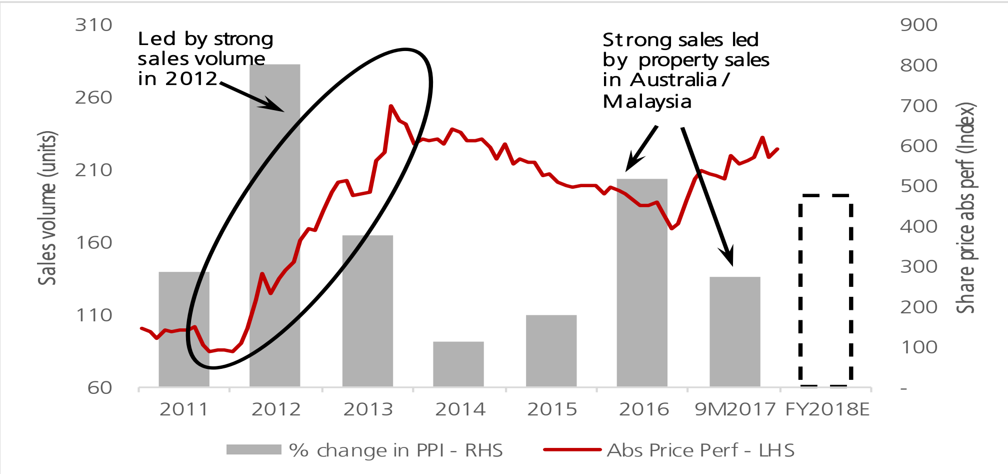


Source: DBS Bank, Thomson Analytics, Company

Remarks

Share price performance is positively correlated with sales volume in the Singapore property industry, especially in the initial stages of an upcycle seen in 2017, when sentiment in the property sector turned positive, supported by an increase in sales volume.

Roxy's absolute performance vs its property sales volume

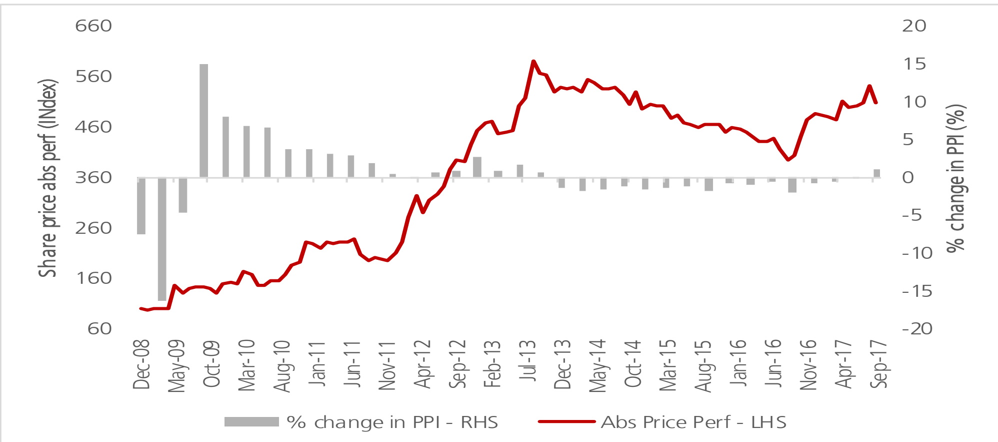


Source: DBS Bank, Thomson Analytics, Company

Remarks

The market did not reward Roxy despite the strong sales performance in 2016. As the strong sales volume was led by sales in Australia and Malaysia, share price performance seemed to be more correlated with its sales volume in Singapore.

Roxy's absolute performance vs PPI changes



Source: DBS Bank, Thomson Analytics, Company, SGX

Remarks

We do not see much correlation between share price performance and property price changes.

Balance Sheet:

Undervalued Net Asset Value (NAV). The group's NAV is conservative largely because the carrying values of its hospitality portfolio is at historical cost. In addition, development properties comprise close to 60% of its total assets, which typically offer more upside upon the realisation of these development properties. Its RNAV is more than double its current NAV.

Net debt to equity stands at 1x in FY17. Roxy's net debt to equity stood at 1x as at FY17. We expect the ratio could increase to 1.7x following the landbanking / development and acquisition of investment properties activities in FY16/FY17. While it may seem high, its NAV could be conservative as mentioned above. The Group's net debt to adjusted NAV (ANAV) stood at 0.6x as at FY17.

Share Price Drivers:

Strong sales take-up rates. Strong sales take-up rates upon launch would boost confidence and ensure sustainable profitability in its development properties. Depending on the prices, it is also a testament that the market is receptive of higher property prices. In addition, share price performance is positively correlated to sales volume, especially the group's sales in Singapore.

Replenishing landbank is key to income sustainability. As Roxy adopts a quick-turnaround model and plans to launch all its landbank ahead of its peers, its ability to replenish landbank is key to income sustainability in the longer term.

Key Risks:

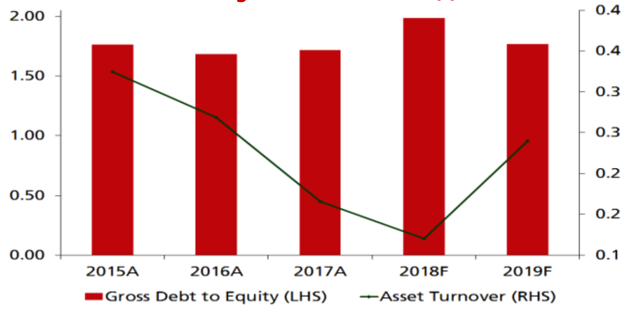
Slower take-up rates. With six developments expected to be launched in FY18, slower take-up rates for its properties would impact the needs for more financing, thus, increasing its costs. In addition, Roxy has the five-year timeline to complete its sales before the ABSD and QC charges kick in.

Government regulates more to manage Singapore property. Despite the multiple 'warnings' by the government to be cautious of excessive exuberance in the property market, the land bids and the property market remain robust and bullish. We remain cautious that the government may decide to implement some measures to ensure that the Singapore property market remains sustainable in the medium term and that it doesn't become a "runaway train". Depending on the measures implemented, it could impact both the demand for its projects or its future landbanking opportunities.

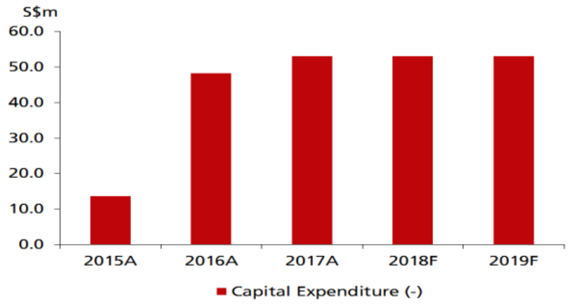
Company Background

Roxy-Pacific Holdings (Roxy) has a long track record in the property and hospitality space since it was established in May 1967. Listed in March 2008, Roxy is one of the reputable small- to mid-cap developers and has established its brand in small- to medium-sized residential developments targeting middle-to-upper-middle-income segments.

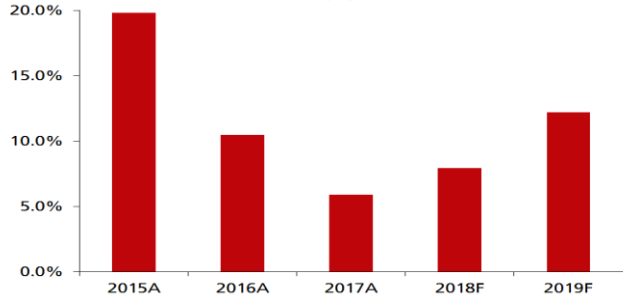
Leverage & Asset Turnover (x)



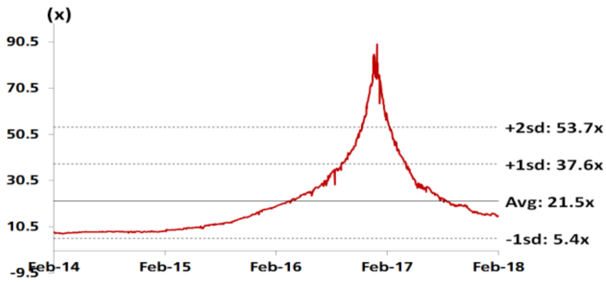
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)

Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (S$m)					
Development Properties	404	327	192	122	338
Hotel Ownership	44.5	46.3	44.3	43.0	43.0
Investment Properties	12.2	12.5	10.8	24.9	24.9
Total	461	385	247	190	406
Gross Profit (S$m)					
Development Properties	93.3	45.3	28.0	20.3	62.8
Hotel Ownership	27.8	26.9	24.0	23.2	23.2
Investment Properties	8.58	9.00	7.59	17.8	17.8
Total	130	81.2	59.5	61.3	104
Gross Profit Margins (%)					
Development Properties	23.1	13.9	14.6	16.6	18.6
Hotel Ownership	62.4	58.1	54.2	54.0	54.0
Investment Properties	70.6	71.9	70.5	71.5	71.5
Total	28.1	21.1	24.1	32.3	25.6

Contributions from development properties in Australia, expected to be completed in FY18, recognised on a completed basis

Higher contributions from newly acquired investment properties

Income Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	461	385	247	190	406
Cost of Goods Sold	(331)	(304)	(187)	(128)	(302)
Gross Profit	130	81.2	59.5	61.3	104
Other Opng (Exp)/Inc	(35.9)	(38.7)	(36.8)	(37.4)	(38.6)
Operating Profit	93.8	42.5	22.8	33.1	74.4
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	11.1	18.6	13.0	38.5	38.5
Net Interest (Exp)/Inc	(10.6)	(11.9)	(12.0)	(17.5)	(18.1)
Exceptional Gain/(Loss)	6.75	16.4	22.9	0.0	0.0
Pre-tax Profit	101	65.6	46.7	54.1	94.8
Tax	(15.9)	(12.7)	(15.4)	(10.3)	(18.0)
Minority Interest	(0.1)	(3.1)	(1.9)	(2.6)	(8.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	85.1	49.8	29.4	41.2	68.7
Net Profit before Except.	78.3	33.4	6.51	41.2	68.7
EBITDA	110	67.6	41.6	77.4	120
Growth					
Revenue Gth (%)	45.0	(16.4)	(36.0)	(23.1)	113.8
EBITDA Gth (%)	(3.6)	(38.5)	(38.5)	86.1	55.0
Opg Profit Gth (%)	69.7	(54.7)	(46.3)	45.2	124.7
Net Profit Gth (Pre-ex) (%)	(12.9)	(57.4)	(80.5)	532.8	66.6
Margins & Ratio					
Gross Margins (%)	28.1	21.1	24.1	32.3	25.6
Opg Profit Margin (%)	20.4	11.0	9.2	17.4	18.3
Net Profit Margin (%)	18.5	12.9	11.9	21.7	16.9
ROAE (%)	19.8	10.5	5.9	8.0	12.2
ROA (%)	6.0	3.5	2.0	2.6	4.1
ROCE (%)	6.0	2.6	1.1	1.8	3.6
Div Payout Ratio (%)	26.8	39.9	39.9	25.0	25.0
Net Interest Cover (x)	8.8	3.6	1.9	1.9	4.1

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Revenue	93.1	65.4	77.8	60.3	43.3
Cost of Goods Sold	(73.0)	(49.1)	(64.1)	(42.7)	(31.4)
Gross Profit	**20.2**	**16.3**	**13.8**	**17.5**	**11.9**
Other Oper. (Exp)/Inc	(11.4)	(7.6)	(7.7)	(11.4)	(5.7)
Operating Profit	**8.73**	**8.75**	**6.07**	**6.10**	**6.24**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	8.13	2.62	4.67	0.51	5.22
Net Interest (Exp)/Inc	(3.7)	(3.8)	(4.0)	(3.2)	(2.7)
Exceptional Gain/(Loss)	0.17	1.55	18.7	0.0	0.0
Pre-tax Profit	**13.3**	**9.17**	**25.4**	**3.39**	**8.75**
Tax	(1.4)	(2.9)	(10.1)	(1.1)	(1.4)
Minority Interest	(0.7)	(0.4)	(0.6)	(0.8)	(0.1)
Net Profit	**11.3**	**5.91**	**14.7**	**1.50**	**7.27**
Net profit bef Except.	11.1	4.36	(4.0)	1.51	7.27
EBITDA	19.1	13.1	12.5	7.12	13.1
Growth					
Revenue Gth (%)	2.4	(29.7)	18.9	(22.6)	(28.1)
EBITDA Gth (%)	20.7	(31.4)	(4.5)	(43.2)	84.6
Opg Profit Gth (%)	(15.8)	0.2	(30.6)	0.6	2.2
Net Profit Gth (Pre-ex) (%)	49.2	(60.7)	(190.8)	(138.0)	383.3
Margins					
Gross Margins (%)	21.6	24.9	17.7	29.1	27.5
Opg Profit Margins (%)	9.4	13.4	7.8	10.1	14.4
Net Profit Margins (%)	12.1	9.0	18.9	2.5	16.8

Balance Sheet (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	130	176	216	263	309
Invts in Associates & JVs	127	158	198	237	275
Other LT Assets	181	200	127	161	161
Cash & ST Invts	395	325	322	175	131
Inventory	0.13	0.78	1.07	1.07	1.07
Debtors	28.9	93.2	53.3	39.2	83.9
Other Current Assets	547	509	598	772	772
Total Assets	**1,409**	**1,462**	**1,516**	**1,648**	**1,733**
ST Debt	485	562	554	554	554
Creditor	11.8	15.6	88.9	9.69	20.7
Other Current Liab	110	85.3	30.9	10.3	18.0
LT Debt	323	271	318	518	518
Other LT Liabilities	21.3	33.1	16.5	16.5	16.5
Shareholder's Equity	458	491	503	532	591
Minority Interests	0.63	3.75	5.07	7.69	15.8
Total Cap. & Liab.	**1,409**	**1,462**	**1,516**	**1,648**	**1,733**
Non-Cash Wkg. Capital	454	502	533	793	819
Net Cash/(Debt)	(413)	(507)	(549)	(897)	(941)
Debtors Turn (avg days)	40.5	57.8	108.3	89.0	55.4
Creditors Turn (avg days)	13.7	16.7	105.0	146.6	18.8
Inventory Turn (avg days)	0.1	0.6	1.9	3.2	1.3
Asset Turnover (x)	0.3	0.3	0.2	0.1	0.2
Current Ratio (x)	1.6	1.4	1.4	1.7	1.7
Quick Ratio (x)	0.7	0.6	0.6	0.4	0.4
Net Debt/Equity (X)	0.9	1.0	1.1	1.7	1.6
Net Debt/Equity ex MI (X)	0.9	1.0	1.1	1.7	1.6
Capex to Debt (%)	1.7	5.8	6.1	4.9	4.9
Z-Score (X)	0.0	NA	NA	NA	NA

Higher gearing from investments made in FY16 / FY17

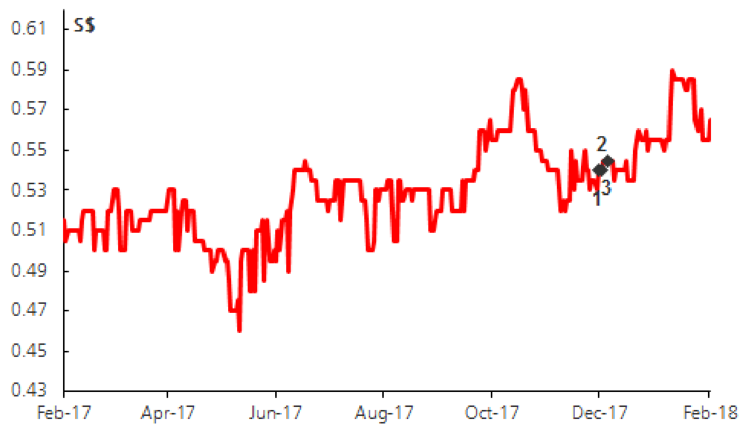
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	101	65.6	46.7	54.1	94.8
Dep. & Amort.	4.90	6.48	5.75	5.75	7.00
Tax Paid	(8.6)	(24.6)	(2.1)	(30.9)	(10.3)
Assoc. & JV Inc/(loss)	(1.1)	(18.6)	(13.0)	(38.5)	(38.5)
Chg in Wkg.Cap.	62.5	(16.7)	(5.6)	(65.1)	(33.6)
Other Operating CF	(6.2)	(4.6)	(51.5)	0.0	0.0
Net Operating CF	**153**	**7.54**	**(19.7)**	**(74.7)**	**19.4**
Capital Exp.(net)	(13.7)	(48.3)	(53.1)	(53.1)	(53.1)
Other Invts.(net)	0.0	0.0	99.2	(33.7)	0.0
Invts in Assoc. & JV	(24.2)	(17.1)	(38.5)	0.0	0.0
Div from Assoc & JV	3.68	13.3	3.34	0.0	0.0
Other Investing CF	1.31	2.36	3.20	(174)	0.0
Net Investing CF	**(32.9)**	**(49.7)**	**14.2**	**(261)**	**(53.1)**
Div Paid	(22.8)	(21.5)	(16.4)	(11.7)	(10.3)
Chg in Gross Debt	(97.0)	19.0	41.9	200	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(102)	(32.4)	(22.6)	0.0	0.0
Net Financing CF	**(222)**	**(34.8)**	**2.85**	**188**	**(10.3)**
Currency Adjustments	0.24	1.28	(0.2)	0.0	0.0
Chg in Cash	(102)	(75.7)	(2.9)	(147)	(44.0)
Opg CFPS (S cts)	7.55	2.03	(1.2)	(0.8)	4.44
Free CFPS (S cts)	11.6	(3.4)	(6.1)	(10.7)	(2.8)

Source: Company, DBS Bank

Target Price & Ratings History



Note: *Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	12 Dec 17	0.54	0.69	BUY
2:	14 Dec 17	0.54	0.69	BUY
3:	17 Dec 17	0.55	0.69	BUY

Source: DBS Bank
Analyst: Rachel TAN
Derek TAN

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Share price appreciation + dividends

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