

Perennial Real Estate Holdings (PREH SP) : BUY

Mkt. Cap: US\$815m | **3m Avg. Daily Val:** US\$0.03m

Last Traded Price (22 Apr 2019): S\$0.665

Price Target 12-mth: S\$0.83 (25% upside)

Analyst

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Cashing in on Chinatown Point

- PREH cashing in on Chinatown Point for S\$225m; agreed total property price of S\$520m/S\$2,450 psf on NLA
- Agreed price is 9% higher than the last valuation in December 2018; 18% higher than PREH's last acquisition price
- PREH will recognise a divestment gain of S\$17.2m, which will turn 2Q19 into a profitable quarter from an expected 1Q19 net loss
- Once again, PREH has demonstrated the ability to buy, remake and resell!

Forecasts and Valuation

| FY Dec (\$m) | 2017A | 2018A | 2019F | 2020F |
|--------------------------|-------|--------|--------|-------|
| Revenue | 74.5 | 78.3 | 121 | 122 |
| EBITDA | 223 | 381 | 97.2 | 106 |
| Pre-tax Profit | 170 | 292 | 18.8 | 21.1 |
| Net Profit | 100 | 78.1 | 10.2 | 10.1 |
| Net Pft (Pre Ex.) | 100 | 78.1 | 10.2 | 10.1 |
| Net Pft Gth (Pre-ex) (%) | 186.1 | (22.2) | (86.9) | (0.7) |
| EPS (S cts) | 6.02 | 4.69 | 0.61 | 0.61 |
| EPS Pre Ex. (S cts) | 6.02 | 4.69 | 0.61 | 0.61 |
| EPS Gth Pre Ex (%) | 186 | (22) | (87) | (1) |
| Diluted EPS (S cts) | 6.02 | 4.69 | 0.61 | 0.61 |
| Net DPS (S cts) | 1.00 | 0.40 | 0.40 | 0.40 |
| BV Per Share (S cts) | 166 | 164 | 164 | 165 |
| PE (X) | 11.0 | 14.2 | 108.7 | 109.5 |
| PE Pre Ex. (X) | 11.0 | 14.2 | 108.7 | 109.5 |
| P/Cash Flow (X) | nm | nm | nm | nm |
| EV/EBITDA (X) | 20.3 | 13.8 | 56.1 | 52.5 |
| Net Div Yield (%) | 1.5 | 0.6 | 0.6 | 0.6 |
| P/Book Value (X) | 0.4 | 0.4 | 0.4 | 0.4 |
| Net Debt/Equity (X) | 0.6 | 0.7 | 0.8 | 0.8 |
| ROAE (%) | 3.7 | 2.8 | 0.4 | 0.4 |

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

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

Perennial Real Estate Holdings (PREH), together with its consortium of investors, announced the proposed sale of Chinatown Point (retail podium and four office units) for S\$225m which is based on the agreed property price of S\$520m (on a 100% basis). The buyers of the mall is Pan Asia Realty Advisors (Singapore), a JV between Mitsubishi Estate Co. Ltd and CLSA.

The agreed price translates into a S\$2,450 psf on NLA of Chinatown Point Mall. The agreed property price is 9.0% higher than the last valuation of S\$477m as of 31 December 2018. The transaction is expected to be completed in June 2019.

PREH's wholly-owned subsidiary, Perennial (Singapore) Retail Management Pte Ltd will continue in its role as the property manager of Chinatown Point Mall.

Our View

An eye for value; buy, remake, resell! PREH has once again demonstrated the ability to buy and sell at good values coupled with ability to "value-add" ailing real estate in Singapore, as shown from the sale of Chinatown Point. Chinatown Point was acquired by a Perennial-led consortium back in July 2010 for S\$250m. Including a total makeover of the mall costing c.S\$91m, the total consideration invested in the property is estimated to be close to S\$341m (before interest). The average rent is estimated to have increased to S\$13-15 psf from the S\$10 psf while NLA has increased 18% over its ownership post the completion of the AEI.

Over the years, PREH has also increased its stake in Chinatown Point by buying out other investors in the initial



Flash Note

consortium group. The last two purchases by PREH was back in November 2016 and November 2017, when the group paid S\$61.8m (agreed property value of S\$2,077 psf NLA) for a 40% stake and S\$8.48m (agreed property value of S\$2,080psf NLA) for a 5.3% stake to end up with a final stake of 50.64%. We note that the agreed property price is c.18% higher than the acquisition price of the last two transactions above.

“Keeping the faith” in PREH as the group reaps attractive returns for its assets. We estimate that the exit price implies an exit yield of c.4.3-4.5%, which is probably still fairly “decent” in today’s environment where strong demand for income-producing assets in Singapore has brought commercial yields down to the 3-4% yield level. However, we do note that the property has 60 years left on its land tenure, which means that the sale price on an implied “freehold” basis is close to S\$3,000 psf, which is fairly high.

PREH is expected to receive net proceeds of S\$125.3m and a divestment gain of S\$17.2m, subject to final adjustments. This is expected to improve the group’s balance sheet and financials in 2019 (especially in turning around an expected 1Q19 net loss 1Q19 as guided by the company previously). Assuming a 45% gearing on the original acquisition back in 2010, the consortium would make 2.4x its equity invested

from this divestment, higher if there is more gearing to fund the acquisition.

Maintain BUY; TP of S\$0.83. We maintain our BUY rating and TP of S\$0.83 on a 55% discount to RNAV of S\$1.85. We continue to expect near-term earnings to be driven by divestment/fair value gains. Potential assets to be divested include AXA Tower (with additional GFA from higher plot ratio in the URA 2019 draft Masterplan) and Beijing Tongzhou.

We remain positive on its medium- to long-term development plans especially as its investments in China (and its healthcare hub) slowly come to fruition despite potential near-term financial risks. We believe the strength of its stakeholders (79% owned by its four key sponsors including Wilmar’s Mr Kuok, OSIM’s Mr Ron Sim and CEO Mr Pua, and partners and key management team) plays an integral role to execute and mitigate potential financial risks.

Target Price & Ratings History



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

Source: DBS Bank

Analyst: Rachel TAN

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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

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