

Malaysia Industry Focus

Property Sector

DBS Group Research Equity

9 Sep 2009

Luxury segment taking off

- Sales of *Binjai on the Park* at KLCC is picking up
- Strong indicator that sector recovery is broadening out to the luxury segment
- Developers with ready-to-launch products will benefit the most. Top picks: DNP, E&O and SP Setia.

Breathtaking visit, positive findings. We recently visited *The Binjai on the Park*, the most prestigious luxury development in Malaysia by KLCC Holdings (unlisted wholly-owned subsidiary of PETRONAS) located on KLCC park with an enviable view of the iconic Twin Towers. Take-up rate has picked up strongly from 10% in Jul09 to 35% (out of 171 units), with en-bloc buying (6-10 units) emerging. 30% of buyers consist of foreigners, while 60% are paying cash. Compared to the initial launch in Aug08 that coincided with the onset of the global financial meltdown, ASP has been reduced from RM2,800psf to RM2,400psf (3,200-3,700sf), while smaller units (2,200sf) were released at RM1,700psf. Management would likely embark on an international marketing roadshow soon, and ASP might be raised after take-up exceeds 40%. The project is expected to be handed-over by Dec09.

KLCI : 1,190.39

Analyst

Yee Mei Hui +603 2711 1332

meihui@hwangdbsvickers.com.my

"Recipients of this report, received from DBS Vickers Research (Singapore) Pte Ltd ("DBSVR"), are to contact DBSVR at +65 6398 7954 in respect of any matters arising from or in connection with this report."

TOP PICKS

	Price (RM)	Mkt Cap (US\$m)	Target Price (RM)	Rating
DNP Holdings	1.69	155	2.60	BUY
Eastern & Oriental	1.57	271	2.10	BUY
SP Setia	4.30	1,252	5.00	BUY

Source: DBS Vickers

DNP Holdings : Niche high-end/luxury developer in KLCC. 54% owned by Wing Tai.

Eastern & Oriental : Niche high-end developer with exposure to prime landbank in Penang and KL

SP Setia : Sector leader - largest residential property developer by market cap and sales

Figure 1: Multi million-dollar view from Binjai on the Park



Source: Mandarin Oriental website

"In Singapore, this research report or research analyses may only be distributed to Institutional Investors, Expert Investors or Accredited Investors as defined in the Securities and Futures Act, Chapter 289 of Singapore."

www.dbsvickers.com

Refer to important disclosures at the end of this report
ed: SGC / sa: WMT

 DBS VICKERS SECURITIES

Highlights

Recent visit to *Binjai on the Park* (BOP) revealed the following:

- BOP is the most prestigious luxury development in Malaysia, being the only residential development on KLCC park with a majestic view of the iconic PETRONAS Twin Towers. Its internationally recognized address, is likened to trophy assets overlooking London's Hyde Park and New York's Central Park. BOP is developed by KLCC Holdings, an unlisted wholly-owned subsidiary of national oil company PETRONAS. The 171-unit twin tower is nearing completion and expected to be delivered by Dec09.
- Take up rate has improved significantly from 10% in Jul09 to 35% currently. About RM100m sales were clinched last month, including RM40m in the last week. The project was first launched in Aug08 with 30% of units taken up, but sales weakened with the onset of the global financial meltdown in 4Q08. Since late Jun09, management has introduced the following changes:
 - a) Reduced selling prices from RM2800-3000psf to RM2200psf for 3000sf units, RM2500psf for 3700sf units, and RM2700psf for penthouses;
 - b) Released units above the 30th storey;
 - c) Released smallest units (2200sf) at RM1700psf; and
 - d) Taken back marketing from a property broker that had exclusive marketing rights.

Management might go on an international roadshow soon to Hong Kong, Singapore, and Shanghai to market BOP. We understand ASP may be raised after take-up rate crosses 40%. KLCC property prices are still c. 30% below the peak in mid-07, compared to Singapore and Hong Kong which are near if not surpassed previous peaks.

- The highest price achieved so far is c. RM19m for a 7000sf duplex penthouse. All the three single floor plate penthouses (5,700sf) were snapped up at RM15-16m/unit.
- The buyers were mainly:
 - a) Prominent Malaysians;
 - b) Businessmen/professionals from the commodities (oil & gas, timber, plantation) and financial services background, with some working overseas; and
 - c) Foreigners from Singapore, Hong Kong, UK and Japan, among others.

We understand 30% of buyers consist of foreigners, while 60% are paying cash. Block buyers have also started to emerge, buying between 6-10 units.

- Among the buying trends noted were:
 - a) Bigger units are more popular despite the higher price on psf basis, with most being for own stay;
 - b) Buyers targeted higher floors (for top view of Twin Towers) and low floors (for park view); and
 - c) The smallest units (2200sf priced at RM1700psf) are most popular among investors. The absolute value of RM3.7m/unit or just US\$1m/ S\$1.5m is a comfortable bite size for foreigners. With rentals in the vicinity reaching RM5-6psf/month, rental yield works out to about 4% (vs mortgage rate as low as 3.2%);
- Implications
 - a) Strong indicator that sector recovery is broadening out to even the luxury segment. Just a few weeks ago, this segment was considered dead by many; and
 - b) Positive for developers with ready-to-launch products to capitalise on this early recovery.

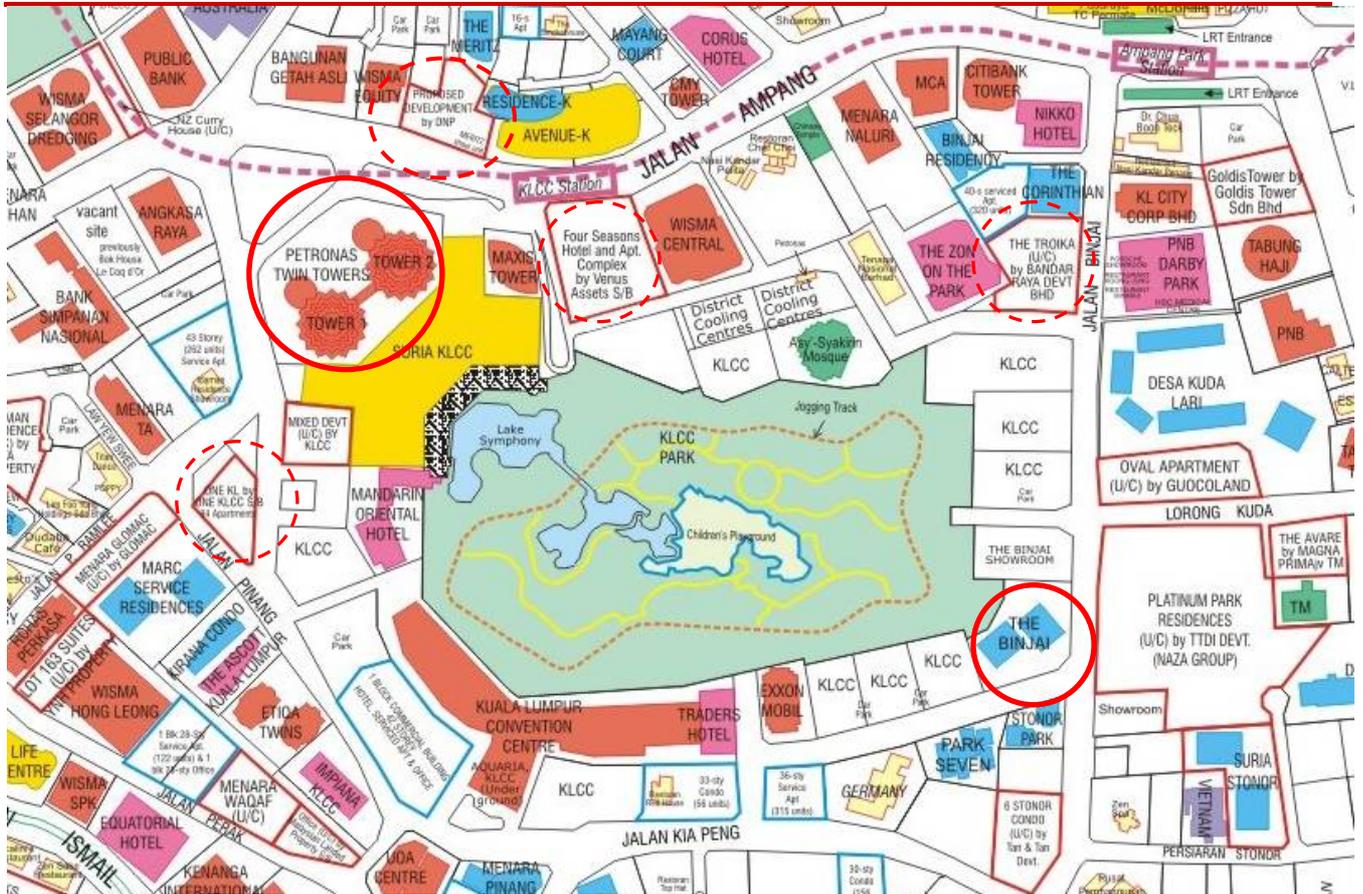
Top picks

DNP (Buy; TP: RM2.60). Niche high-end developer at KLCC that is 54% owned by Wing Tai. It has RM1.5b worth of launches in the pipeline: (i) Verticas Residensi condos at Bukit Ceylon (GDV RM726m, 423 units) – 64% of 70 units soft launched at RM900psf sold since Jul09, international marketing in Hong Kong started last weekend; (ii) U-Thant condos (GDV RM125m, 25 units, ASP: RM1,100psf, expected launch date: end-09); and (iii) KLCC luxury condos (GDV RM803m, 197 units, ASP: RM1,800psf, expected launch date: 2010) – prime location (opposite Twin Towers, diagonally across from upcoming Four Seasons), international design by renowned French architect Jean Nouvel.

E&O (Buy; TP: RM2.10). Niche high-end developer in KL and Penang with RM2.2b worth of launches in the pipeline: (i) St Mary Tower A, KL (GDV RM540m, 288 units, ASP: RM1250psf) – started international marketing in Singapore, East Malaysia, Hong Kong and China; (ii) Seri Tanjung Pinang (STP), Penang condos (GDV RM1.6b, 1200 units, ASP: RM700psf, expected launch date: Oct09), (iii) STP link houses (GDV RM40m, 35 units, ASP: RM1.2m/unit) and detached (GDV RM110m, 33 units, ASP: RM3.3m/unit), expected launch in 2010.

SP Setia (Buy; TP: RM5.00). Proxy for Malaysian property sector, as the largest residential developer by market cap and sales (9M09: RM1.25b vs 9M08: RM1.1b). Bringing forward RM5b mixed development project located opposite Mid Valley in KL. Has a knack for acquiring cheap prime landbank.

Figure 2: Binjai On The Park's Enviabl Location



Source: Ho Chin Soon Research, DBS Vickers

Figure 3: Peer comparison

Company	Rating	Share Price (RM)	Mkt Cap (RMm)	Book Value (RM)	P/BV (x)	RNAV (RM)	P/RNAV (x)	Net Gearing (%)	Major shareholders (%)	Remarks
Investment asset owners										
KLCC Property	Buy	3.30	3,082.4	3.68	0.90	4.67	0.71	(33)	Petronas (53%), EPF (12%)	Most defensive earnings: locked-in rental income from long-term leases with blue-chip tenants. Prime beneficiary of asset reflation (largest asset owner in super prime KLCC).
IGB	NR	1.80	2,682.5	1.89	0.95	3.30	0.55	(16)	Goldis (26%), EPF (8%)	Defensive earnings, conservative management
Average					0.92		0.63			
Developers Large-cap										
SP Setia	Buy	4.30	4,372.3	1.94	2.22	5.54	0.78	(18)	PNB (33%), EPF (12%), Tan Sri Liew Kee Sin (11%)	Sector leader, proxy to developers. Traded up to 5-10% premium to RNAV during peak cycle in mid-07.
UEM Land	NR	1.65	4,006.5	0.58	2.84	2.59	0.64	(74)	Khazanah (77%)	Beneficiary of policy changes to ease restrictions on foreign investments. Risks: poor execution track record, long gestation period, lack of strong anchor (eg Singapore, Middle East)
Average					2.53		0.71			
Mid-cap										
DNP	Buy	1.69	542.6	2.23	0.76	3.73	0.45	(10)	Wing Tai (54%)	Niche high-end developer at KLCC. Can leverage on Wing Tai's strong brandname and international marketing network.
YTL Land	NR	0.99	789.7	0.67	1.48	2.28	0.43	(26)	YTL Corp (60%), Bara Aktif (8%)	Can leverage on YTL's strong brandname and global presence.
E&O	Buy	1.57	944.9	1.36	1.15	2.66	0.59	(83)	Dato' Terry Tham & GK Goh (25%), Halfmoon Bay (11%)	1 for 2 rights of 8% ICCLS 2009/2019 @ 65sen (completion in Oct 09). RM219m rights proceeds should help strengthen balance sheet (net gearing to improve to 45%) and cashflows. Strong track record as niche high-end developer. RNAV yet to include STP Phase 2 (potential +RM2.40/share)
IJM Land	NR	2.03	2,239.6	1.35	1.50	2.80	0.73	(5)	IJM Corp (66%), GIC (7%)	Launch of Light project in Penang to help realise RNAV. Can leverage on IJM's institutional following.
Sunrise	Buy	2.12	1,050.2	1.86	1.14	3.40	0.62	(38)	Casa Unggul (18%), EPF (11%), Pheoniflex (6%), Lim Kim Huat (5%)	Strong brandname, largest landowner in prime Mont' Kiara.
YNH Prop	NR	1.84	741.9	1.68	1.10	3.30	0.56	(31)	Dr Yu & family (60%)	Still pending sale & purchase agreement with Kuwait Finance House for 50% of Menara YNH's office space (since Jan 08)
SunCity	Buy	3.30	1,550.8	3.69	0.89	4.56	0.72	(79)	Tan Sri Jeffrey Cheah (45%), GIC (21%)	Potential launch of RM3b REIT would unlock property investment assets value and turn high net gearing position into net cash - but may come later rather than sooner as targeting 6-7% yield vs current 10-11% for Msian REIT
Average					1.15		0.59			
Sector Average					1.36		0.62			

Source: Bloomberg, Respective companies, DBS Vickers

DBSV recommendations are based on 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

DBS Vickers Research is available on the following electronic platforms: DBS Vickers (www.dbsvresearch.com); Thomson (www.thomson.com/financial); Factset (www.factset.com); Reuters (www.rbr.reuters.com); Capital IQ (www.capitaliq.com) and Bloomberg (DBSR GO). For access, please contact your DBSV salesperson.

GENERAL DISCLOSURE/DISCLAIMER

This document is published by DBS Vickers Research (Singapore) Pte Ltd ("DBSVR"), a direct wholly-owned subsidiary of DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS") and an indirect wholly-owned subsidiary of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). [This report is intended for clients of DBSV Group only and no part of this document may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of DBSVR.]

The research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. DBSVR accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. DBS Bank Ltd along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. DBSVR, DBSVS, DBS Bank Ltd and their associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

The assumptions for commodities in this report are for the purpose of forecasting earnings of the companies mentioned herein. They are not to be construed as recommendations to trade in the physical commodities or in futures contracts relating to the commodities mentioned in this report.

DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

ANALYST CERTIFICATION

The research analyst primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report. As of 9 Sep 2009, the analyst and his / her spouse and/or relatives who are financially dependent on the analyst, do not hold interests in the securities recommended in this report ("interest" includes direct or indirect ownership of securities, directorships and trustee positions).

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Vickers Securities (Singapore) Pte Ltd and its subsidiaries do not have a proprietary position in the mentioned company as of 07-Sep-2009
2. DBSVR, DBSVS, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the mentioned company as of 9 Sep 2009.
3. Compensation for investment banking services:
 - i. DBSVR, DBSVS, DBS Bank Ltd and/or other affiliates of DBSVUSA may have received compensation, within the past 12 months, and within the next 3 months receive or intends to seek compensation for investment banking services from the mentioned company.
 - ii. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBSVR and DBSVS, which are exempted from the requirement to hold an Australian financial services licence under the Corporation Act 2001 ["CA] in respect of financial services provided to the recipients. DBSVR and DBSVS are regulated by the Monetary Authority of Singapore ["MAS"] under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report is being distributed in Hong Kong by DBS Vickers (Hong Kong) Limited which is licensed and regulated by the Hong Kong Securities and Futures Commission.
Singapore	This report is being distributed in Singapore by DBSVR, which holds a Financial Adviser's licence and is regulated by the MAS. This report may additionally be distributed in Singapore by DBSVS (Company Regn. No. 198600294G), which is an Exempt Financial Adviser as defined under the Financial Advisers Act. Any research report produced by a foreign DBS Vickers entity, analyst or affiliate is distributed in Singapore only to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, Chap. 289 of Singapore. Any distribution of research reports published by a foreign-related corporation of DBSVR/DBSVS to "Accredited Investors" is provided pursuant to the approval by MAS of research distribution arrangements under Paragraph 11 of the First Schedule to the FAA.
United Kingdom	This report is being distributed in the UK by DBS Vickers Securities (UK) Ltd, who is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.
Dubai/ United Arab Emirates	This report is being distributed in Dubai/United Arab Emirates by DBS Bank Ltd, Dubai (PO Box 506538, 3 rd Floor, Building 3, Gate Precinct, DIFC, Dubai, United Arab Emirates) and is intended only for clients who meet the DFSA regulatory criteria to be a Professional Client. It should not be relied upon by or distributed to Retail Clients. DBS Bank Ltd, Dubai is regulated by the Dubai Financial Services Authority.
United States	Neither this report nor any copy hereof may be taken or distributed into the United States or to any U.S. person except in compliance with any applicable U.S. laws and regulations.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Vickers Research (Singapore) Pte Ltd – 8 Cross Street, #02-01 PWC Building, Singapore 048424
Tel. 65-6533 9688, Fax: 65-6226 8048
Company Regn. No. 198600295W