

# Singapore Property

**POSITIVE** [Unchanged]

## Back to Tightening Mode

### Downside to estimates for residential developers

The Singapore government [announced](#) new policy measures to cool the residential property market. We expect them to dampen investment demand, which accounted for roughly half of overall transactions in 2016. While the 5% tightening of LTV limits will also affect first-time home buyers, we believe the impact is more muted as their ABSD rates are unchanged. These could weigh on transaction volumes and bring downside risks to our estimates. The introduction of a non-remittable tax on residential sites will also weigh on returns for residential developers. We see negative stock reactions for developers with large exposure to the Singapore residential market. Nonetheless, with weak share price performance of developer stocks in recent months, downside risk could be limited. Sector benchmark City Developments currently trades at 21% discount to its RNAV, which is slightly above its 10-year average discount of 19%, and implies share price downside of just 10% to its -1SD discount of 31%.

### Raising ABSD and tightening LTV limits

Additional Buyer's Stamp Duty (ABSD) rates for individuals buying their second and subsequent properties will be raised by 5%, while that for corporate entities will be increased by 10%. ABSD rates for Singaporeans and Permanent Residents purchasing their first residential property is unchanged. Loan-to-value (LTV) limits for all housing loans granted by financial institutions will be tightened by 5ppt.

### New non-remittable tax will affect demand for new sites and weigh on project IRRs

The government has also introduced a new non-remittable ABSD of 5% on the purchase price or market value of residential properties purchased for housing development. This new measure, along with the revised ABSD of 25% (remittable with conditions), will lead to significantly higher risk and upfront cash outlay for residential developers and affect demand for new development sites. As such, we expect a significant slowdown in enbloc transactions. This should address government concerns over potential oversupply in the medium term. The high upfront cash outlay will also weigh on project IRRs for new residential developments.

### Expect dampening effect on investment demand

The revised measures will have a dampening effect on investment demand. Using the number of ABSD transactions in 2016 (latest available) and buyer's profile from URA, we estimate about half of private housing transactions were from first-time local home buyers. If we classify all transactions from Singaporean investors, foreigners, PRs and companies as investment demand, the revised measures could potentially weigh on half of market demand. This could bring downside risks to our volumes and ASP outlook.

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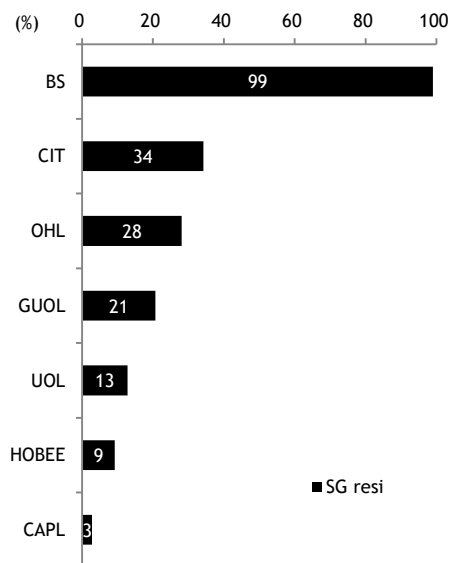
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### Property Developers

BBG Ticker	Rating	Price (SGD)	TP (SGD)	RNAV disc. (%)	P/BV (x)
<b>Large cap. developers</b>					
UOL	Buy	7.75	10.85	(36)	0.68
CIT	Buy	11.21	14.20	(21)	1.05
CAPL	Buy	3.18	4.10	(42)	0.71
<b>Mid-cap. developers</b>					
GUOL	Buy	1.99	3.00	(47)	0.59
BS	Buy	5.81	8.55	(46)	1.21
HOBEE	Buy	2.36	3.30	(50)	0.52
OHL	Buy	0.41	0.56	(42)	1.32

Source: Bloomberg, Maybank Kim Eng

**Exposure to Singapore's residential market (% of valuation)**



Source: Companies, Maybank Kim Eng

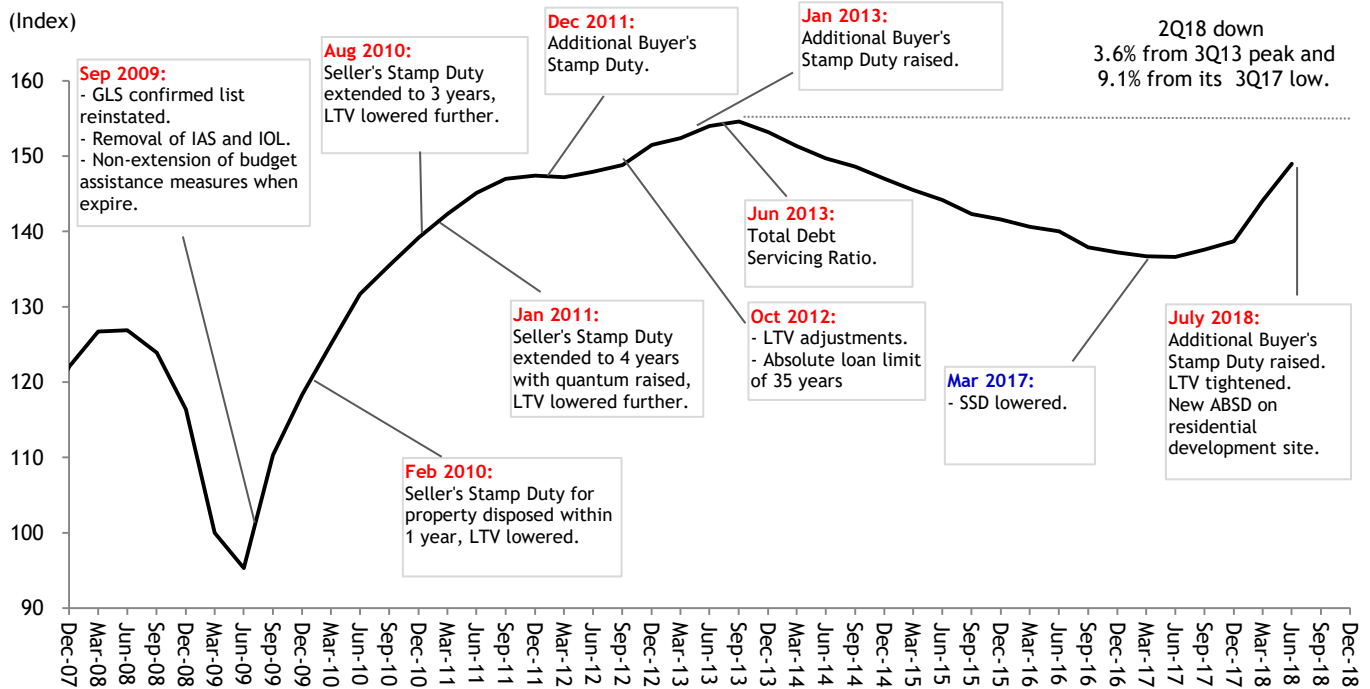
Fig 1: Policy tightening

Change in policy measures	On or before 5 July 2018	On or after 6 July 2018	Change (ppt)
<b>ABSD</b>			
<b>Corporate entities</b>			
First property	15	25	+10
Second property	15	25	+10
Third and subsequent properties	15	25	+10
<b>Foreigners</b>			
First property	15	20	+5
Second property	15	20	+5
Third and subsequent properties	15	20	+5
<b>PRs</b>			
First property	5	5	0
Second property	10	15	+5
Third and subsequent properties	10	15	+5
<b>Singapore citizen</b>			
First property	0	0	0
Second property	7	12	+5
Third and subsequent properties	10	15	+5
Non-remittable ABSD on residential developers	0	5	+5
<b>LTV limits on loans by financial institutions (%)</b>			
For individual borrowers applying for first housing loan.	80	75	-5
If loan tenure exceeds 30yrs or extends beyond retirement age of 65.	60	55	-5
For individual borrowers applying for second housing loan.	50	45	-5
If loan tenure exceeds 30yrs or extends beyond retirement age of 65.	30	25	-5
For individual borrowers applying for third and subsequent housing loan.	40	35	-5
If loan tenure exceeds 30yrs or extends beyond retirement age of 65.	20	15	-5
For non-individuals	20	15	-5

Source: Ministry of Finance, Ministry of National Development, Monetary Authority of Singapore, Maybank Kim Eng

Fig 2: Property cooling measures

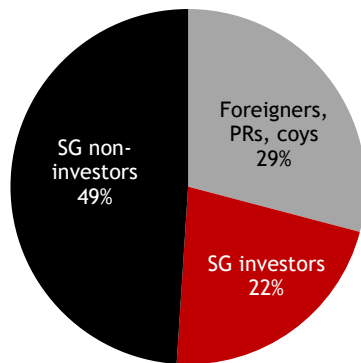
The Singapore government has now switched into tightening mode



Source: URA, MND, IRAS, MAS, Maybank Kim Eng

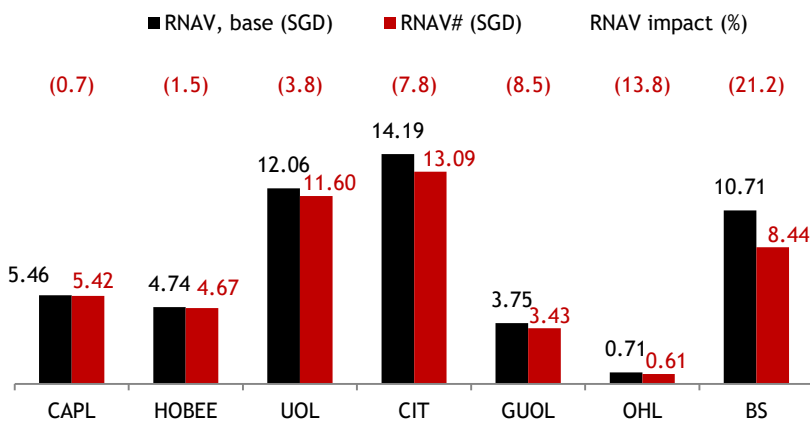
Fig 3: Profile of home buyers in 2016

Change in policy stance could dampen investment demand



Source: IRAS, URA, Maybank Kim Eng estimates

Fig 4: RNAV sensitivity to a 20% cut to our ASP assumptions



Source: Maybank Kim Eng estimates

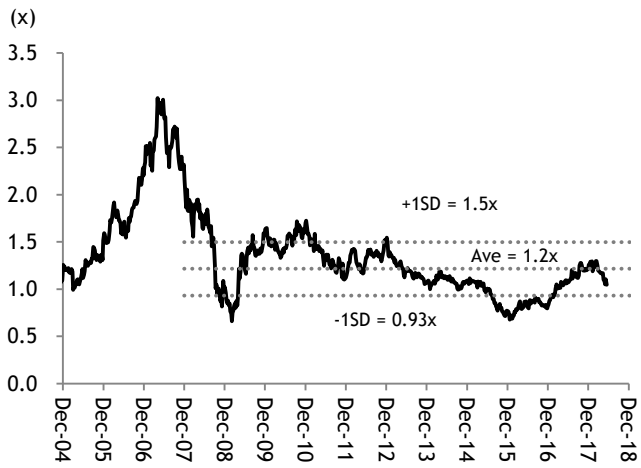
Fig 5: Valuation comparison

Company	Rating	Price (SGD)	TP (SGD)	Upside (%)	MC (SGD b)	ADTV (SGD m)	Free RNAV Float (%)	Curr. prem/ (disc) (%)	Target prem/ (disc) (%)	BVPS (LC)	P/BV (x)	P/E (x)			Yield (%)		Net gearing (ND/E) (%)	
												17A	18E	19E	17A	18E		
CapitaLand	Buy	3.18	4.10	29	13.3	33.2	59	5.46	(42)	(25)	4.51	0.71	8.6	9.0	11.4	3.8	4.1	49
City Developments	Buy	11.21	14.20	27	10.2	20.5	65	14.19	(21)	0	10.71	1.05	18.9	15.4	14.2	1.6	1.6	11
UOL	Buy	7.75	10.85	40	6.5	11.7	64	12.06	(36)	(10)	11.38	0.68	7.3	16.2	13.8	2.3	2.3	21
GuocoLand	Buy	1.99	3.00	51	2.4	1.0	22	3.75	(47)	(20)	3.35	0.59	6.6	7.0	9.0	3.5	3.5	101
Oxley	Buy	0.41	0.56	37	1.7	1.2	20	0.71	(42)	(20)	0.31	1.32	5.5	9.4	7.7	3.7	2.7	239
Bukit Sembawang	Buy	5.81	8.55	47	1.5	0.8	59	10.71	(46)	(20)	4.82	1.21	27.2	9.4	8.7	3.1	3.1	(12)
Ho Bee	Buy	2.36	3.30	40	1.6	0.2	23	4.74	(50)	(30)	4.53	0.52	6.3	10.7	9.8	4.2	3.4	41
HK Land (USD)	NR	7.10			22.8	14.6	50				15.63	0.45	3.0	16.6	15.6	2.8	3.0	7
UIC	NR	3.27			4.7	0.3	8				4.60	0.71	n.a.	n.a.	n.a.	0.9	n.a.	5
Mand. Orient. (USD)	NR	2.30			4.0	1.1	22				1.01	2.27	n.a.	n.a.	n.a.	1.3	1.3	26
Yanlord	NR	1.53			3.0	4.2	30				2.58	0.59	4.4	3.7	3.2	4.3	5.1	47
Wheelock Properties	NR	1.67			2.0	1.0	24				2.68	0.62	n.a.	n.a.	n.a.	3.6	n.a.	(24)
Hotel Properties	NR	3.50			1.8	0.0	15				3.89	0.90	n.a.	n.a.	n.a.	2.9	n.a.	37
OUE	NR	1.55			1.4	0.6	31				4.50	0.34	14.1	15.1	13.6	1.9	1.9	57
United Engineers	NR	2.78			1.8	1.6	46				3.00	0.93	19.8	75.1	50.2	1.4	1.4	20
Perennial RE	NR	0.82			1.4	0.2	15				1.69	0.48	13.6	>100	>100	1.2	1.2	58
Fragrance	NR	0.15			1.0	0.0	14				0.16	0.92	n.a.	n.a.	n.a.	0.0	n.a.	89
Metro Holdings	NR	1.15			1.0	0.2	52				1.78	0.65	n.a.	n.a.	n.a.	n.a.	n.a.	(4)
Straits Trading	NR	2.04			0.8	0.0	30				3.52	0.58	n.a.	n.a.	n.a.	2.9	n.a.	21
<b>Total</b>				<b>39</b>	<b>83</b>	<b>93</b>			<b>(41)</b>	<b>(18)</b>		<b>0.82</b>	<b>11.3</b>	<b>17.0</b>	<b>14.3</b>	<b>2.5</b>	<b>2.7</b>	<b>41</b>

Prices as of 5 July. NR = Not Rated.

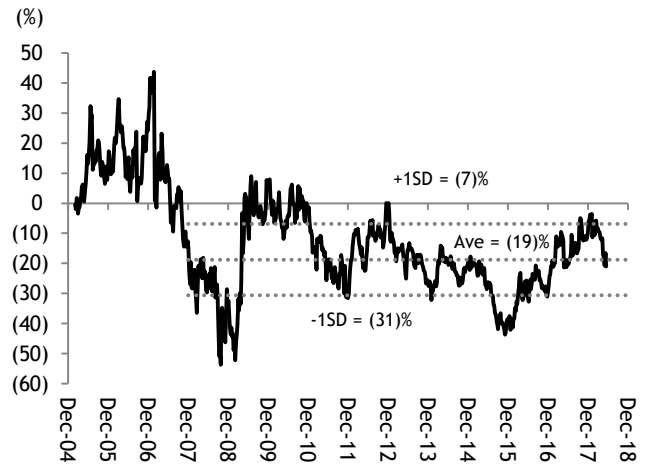
Source: Bloomberg, Factset, Companies, Maybank Kim Eng

Fig 6: City Developments - P/BV



Source: Bloomberg, Company, Maybank Kim Eng

Fig 7: City Developments - RNAV premium/(discount)



Source: Bloomberg, Company, Maybank Kim Eng

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