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# Singapore Sales Briefing

Head of Research:  
Seah Hiang Hong, CFA  
(65) 6333 4729  
seahhh@kimeng.com

Analysts:  
Stephanie Wong  
(65) 6336 3666  
swong@kimeng.com

Dharmo Soejanto  
(65) 6336 3666  
dharmo@kimeng.com

Lock Mun Yee  
(65) 6336 3666  
lockmy@kimeng.com

Tan Ai Teng  
(65) 6336 3666  
tanaiteng@kimeng.com

Lisa Lee  
(65) 6336 3666  
lislee@kimeng.com

## Highlights

- **Keppel Land & Chip Eng Seng** - to develop Devonshire Rd site
- **A-reit** - to buy C&P Logistics Hub
- **SIA's May traffic statistics**

### Keppel Land & Chip Eng Seng - to develop Devonshire Rd site (MY)

**Keppel Land has tied up with Chip Eng Seng (CES) to develop their Devonshire Rd sites.** Keppel Land will inject their Parc Devon site into the joint venture company while CES will put in their recently acquired Quelin Gardens. The amalgamated land parcel will have 79654sf of site area and a potential GFA of 223031sf which can house about 200 condominiums. Keppel Land will take a 60% stake in the JV company and CES the remaining 40%.

**Keppel Land could writeback as much as \$6.9m worth of provisions as the land was sold to the JV company at a higher value compared to their written down value of \$12.3m.** Keppel Land's Parc Devon will be transferred at \$19.2m (or \$492psf of GFA) which is the same level CES paid for their Quelin Garden plot, after taking into account the development charge payable. The writeback would boost Keppel Land's FY04 earnings by 5% to \$135m. However, there is no significant impact on RNAV which remains unchanged at \$1.99. While CES will enjoy a smaller share of profits following this deal, the take back for them is the advantage of leveraging on the better Devonshire Rd address and a more well known brand name (under Keppel Land) for its first high end development.

**Breakeven cost for this project works out to be about \$800-810psf.** Assuming a selling price of \$950psf, this project could rake in a pre-tax profit of \$28m when fully sold. This project is slated to be launched in 2005.

### A-reit - to buy C&P Logistics Hub (MY)

**A-reit is buying C&P Logistics Hub located at Penjuru Lane, close to Jurong Port and PSA Port for \$225m.** The property comprises of 3 multilevel warehouse buildings of which two are completed and the third scheduled to complete by Oct 2004. The NLA of the 3 buildings is about 1.38msf and would boost A-reit's portfolio NLA to 6.7msf with a book value of \$1.3b. The plot also carries redevelopment potential as the current plot ratio is at 2.04x compared to the allowable 2.5x.

**The deal which is transacted at a net property income yield of 7.8%, is accretive when compared to the current implied yield of 7.6%.** The sale comes with a lease back agreement where the vendor C&P Holdings will lease back the property for 10 years at an initial annual rent of \$17.7m. The lease provides a stepped rental increase of 6% in the fourth and seventh year. Its tenants include Bax Global, Harvey Norman, Nippon Express and others.

**The purchase will be funded through a \$115m new equity issue of 82.1m units at \$1.40 apiece which has been fully subscribed.** This will expand the present share capital by 11.6% to 789.3m shares. post acquisition, gearing is projected to rise to 33.8%.

**The acquisition will lengthen the average lease expiry life from 4.6 years to 5.5 years** and increase the portfolio exposure to the logistics sector to 38%. At the same time, its exposure to the business park segment is reduced from 31% to 25%.

**The purchase is expected to boost distribution per unit by 0.65cts.** Assuming a 6-month contribution in FY05, our projections could be raised to 9.3cts. At the current share price, the stock is offering a yield of 6.4%. Maintain Hold.

### **SIA's May traffic statistics** (HH)

**Strong rebound compared to the SARS-depressed 2003,** and was within expectations. There is no revision to our earnings forecasts and Buy recommendation.

**Passenger load factor rose 15.1% points to 68.2%. Traffic grew almost 123%, far surpassing the 74% injection in capacity. Year-on-year comparison is rather misleading, given the low base.** Compared to 2002, passenger load factors were lower apart from the Americas routes. But at 68.2%, this was within the 68-71% range that is typical for the month of May.

**Cargo load was down 6.1% points to 64.6%.** We had hoped that cargo load would start to stabilise but this has yet to materialise, due in part to the huge, 24% increase in capacity. According to SIA, loads from Asia to Europe/US had matched capacity increase but the return loads have been weaker.

**On a more positive note, fuel price appears to have peaked.** Spot price in Singapore is now about US\$42 per barrel, down from almost US\$49 back in mid-May. While still significantly higher than the average of US\$33 last financial year, this has been factored into our earnings forecast which has assumed a price level of US\$45.

**Buy recommendation on SIA is intact.** At 1.03x our estimated FY05 book value (of \$9.96), the stock is attractively priced, and suggests that all probable negative newsflow in terms of high oil price and competition from low cost carriers should have been priced in.

SIA Key Indicators	May 2004	May 2003	YOY	Apr May 04	Apr May 03	YOY
<b>Capacity</b>						
Overall (mtk)	1787.6	1248.2	43.2%	3510.5	2751.0	27.6%
Passenger (m seat-km)	8619.0	4966.0	73.6%	16929.7	11786.4	43.6%
Cargo (mtk)	936.3	757.5	23.6%	1838.5	1586.3	15.9%
<b>Traffic</b>						
Overall (mltk)	1174.5	794.2	47.9%	2316.1	1676.1	38.2%
Passenger km(m)	5874.3	2636.0	122.8%	11886.1	5990.4	98.4%
Freight tonne-km (m)	605.3	535.6	13.0%	1167.9	1091.3	7.0%
<b>Load Factors</b>						
Overall (%)	65.7	63.6	2.1	66.0	60.9	5.0
Passenger (%)	68.2	53.1	15.1	70.2	50.8	19.4
East Asia	60.4	45.5	14.9			
Americas	79.2	59.3	19.9			
Europe	68.4	52.6	15.8			
South West Pacific	64.5	55.1	9.4			
West Asia and Africa	69.6	49.4	20.2			
Cargo (%)	64.6	70.7	-6.1	63.5	68.8	-5.3
East Asia	59.1	78.5	-19.4			
Americas	62.6	66.8	-4.2			
Europe	69.6	72.2	-2.6			
South West Pacific	64.4	67.3	-2.9			
West Asia and Africa	66.6	71.9	-5.3			
Fuel price (US\$ per barrel)@	46.81	28.72	63.0%	43.78	29.18	50.0%

### Company Visit Diary

**Recent Visit:**

NA

**Upcoming Visit:**

NA

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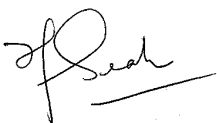
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<p><b>Singapore</b>  <b>Kim Eng Securities Pte Ltd</b>            9 Temasek Boulevard            #39-00 Suntec Tower 2            Singapore 038989</p> <p>Tel: +65 6336 9090            Fax: +65 6339 6003</p> <p>David SYMONS (sales)            dsymons@kimeng.com</p> <p>LAU Wai Kwok (sales)            lauwk@kimeng.com</p> <p>SEAH Hiang Hong (research)            seahhh@kimeng.com</p>	<p><b>London</b>  <b>Kim Eng Securities (London) Ltd</b>            6/F, 20 St. Dunstan's Hill            London EC3R 8HY, UK</p> <p>Tel: +44 20 7621 9298            Dealers' Tel: +44 20 7626 2828            Fax: +44 20 7283 6674</p> <p>David PIRKIS (sales)            dpirkis@kimeng.co.uk</p> <p>Geoff HO (sales)            gho@kimeng.co.uk</p> <p>James JOHNSTONE (sales)            jjohnstone@kimeng.co.uk</p>	<p><b>New York</b>  <b>Kim Eng Securities USA Inc</b>            406, East 50<sup>th</sup> Street            New York, NY 10022, U.S.A.</p> <p>Tel: +1 212 688 8886            Fax: +1 212 688 3500</p> <p>Lynda KOMMEL-BROWNE (sales)            lkommel@kesusa.com</p> <p>Lucy CHUAH (sales)            lchuah@kesusa.com</p>
<p><b>Taiwan</b>  <b>Yuanta Core Pacific Securities</b>            11/F, No 225, Nanking East Rd            Section 3            Taipei, Taiwan</p> <p>Tel: +886 2 2717 6391            Fax: +886 2 2545 6394</p> <p>Gary CHIA (sales)            Gary.chia@yuanta.com.tw</p> <p>Cynthia CHANG (research)            cynthia.chang@yuanta.com.tw</p>	<p><b>Hong Kong</b>  <b>Kim Eng Securities (HK) Ltd</b>            Room 1901, Bank of America Tower            12 Harcourt Road            Central, Hong Kong</p> <p>Tel: +852 2810 7755            Fax: +852 2877 0104</p> <p>Andrew PEARSON (sales)            apearson@kimeng.com.hk</p> <p>Ray LUK (sales)            rluk@kimeng.com.hk</p> <p>Stephen BROWN (research)            sbrown@kimeng.com.hk</p> <p>Eva CHU (research)            echu@kimeng.com.hk</p>	<p><b>Thailand</b>  <b>Kim Eng Securities (Thailand) Public Company Limited</b>            10/F, Mercury Tower            540 Ploenchit Road,            Bangkok 10330, Thailand</p> <p>Tel: +66 2 658 6300            Fax: +66 2 658 6384</p> <p>Vikas KAWATRA (sales)            vkawatra@kimeng.co.th</p> <p>Jason YORK (sales)            jason@kimeng.co.th</p> <p>James MOSS (research)            james.moss@kimeng.co.th</p>
<p><b>Indonesia</b>  <b>PT Kim Eng Securities</b>            9/F, Deutsche Bank Bldg            Jl. Imam Bonjol 80            Jakarta 10310, Indonesia</p> <p>Tel: +62 21 3983 1360            Fax: +62 21 3983 1361</p> <p>Kurnia SALIM (sales)            ksalim@kimeng.co.id</p> <p>Baradita KATOPPO (research)            bkatoppo@kimeng.co.id</p>	<p><b>Philippines</b>  <b>ATR-Kim Eng Securities Inc.</b>            17/F, Tower One &amp; Exchange Plaza            Ayala Triangle, Ayala Avenue            Makati City, Philippines 1200</p> <p>Tel: +63 2 849 8888            Fax: +63 2 848 5738</p> <p>Lorenzo ROXAS (sales)            lorenzo_roxas@atr.com.ph</p> <p>Luz LORENZO (research)            luz_lorenzo@atr.com.ph</p>	<p><b>Malaysia</b>  <b>Kim Eng Research Sdn Bhd</b>            16/F, Kompleks Antarabangsa            Jalan Sultan Ismail            50250 Kuala Lumpur, Malaysia</p> <p>Tel: +603 2141 1555            Fax: +603 2141 1045</p> <p>YEW Chee Yoon (research)            cheeyoon@kimengkl.com</p>
<p><b>South Asia Sales Trading</b>            Viren SHAH            shahvp@kimeng.com            Tel: +65 6333 5775            US Toll Free: +1 866 406 7447</p>		<p><b>North Asia Sales Trading</b>            Andy CLARKE            clarkey@kimeng.com.hk            Tel: +852 2869 0845            US Toll Free: +1 866 598 2267</p>

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Seah Hiang Hong  
 Head of Research