Malaysian Property

Prime for an uplift

- **Uplift in activity level and prices for the property sector** expected in view of: (1) recent slew of incentives offered to attract foreigners and spur the market, which is likely to also be extended to REITs; (2) attractive macro backdrop (low interest rates, pump-priming, a strengthening ringgit and cheap capital values).
- **Capital values will rise 30% on average for Grade A offices and 15-20% for retail space** in Klang Valley in the next 24 months, in our view. Due to the supply shortage, rentals for Grade A offices have risen 15-18% Y/Y, implying attractive net yields of 8-10% (4% in Singapore). We believe the upcoming launches of commercial/office projects with new benchmark prices will be key catalysts for higher asset values.
- **Uptick in residential sales/earnings expected by 2H07/2008; we prefer Klang Valley (and Penang) to pure Johor land plays.** In the next 24 months, we expect land/residential property prices to rise 50-70% in the prime KL area, 20-50% for high-end prime sub-urban Klang Valley and Penang areas, and 8-12% in Johor. Despite government efforts to revive South Johor, we prefer companies with larger exposure to Klang Valley (and Penang), which offer not just strong asset-backing/large land bank but also good earnings visibility from niche or proven projects.
- **Our top picks** are **IGB** (PT: M$3.40, 26% upside) in the commercial segment and small cap developer, **YNH** (PT: M$4.50, 35% upside), in that order. We maintain **Overweight** on commercial play, **KLCC Property,** and residential plays**, SP Setia,** and **E&O Property**. For exposure to REITs, we maintain **Overweight** on **Axis.** We stay **Underweight** on **MK Land.**

Malaysia
Property

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Residential prices

	Residential overall price (US$ psf)	Initial yield %
Sydney	112	2.8
Shanghai	100	6.5
Hong Kong	495	4.5
Tokyo	556	5.5
Kuala Lumpur	106	6.0
Manila	170	7.0
Singapore	420	3.2
Bangkok	98	NA

Source: JPMorgan.

Prime office space

	Prime office overall price (US$ psf)	Initial yield %
Sydney	720	6.0
Shanghai	332	8.5
Hong Kong	1680	5.8
Tokyo	2091	3.4
Kuala Lumpur	171	7.5
Manila	109	9.9
Singapore	1259	5.0
Bangkok	192	7.5

Source: JPMorgan.

Property valuation comparisons

	Rating	Price (M$)	CY P/E 2007E	CY P/E 2008E	CY EPS gwth (%) 2007E	CY EPS gwth (%) 2008E	Net yield FY08E (%)	ROE FY08E	RNAV (M$)	(Disc) to RNAV (%)	Target price (M$)
SP Setia	OW	8.35	21.5	18.6	6	16	3.1	16.0	7.90	6%	9.50
E&O Prop	OW	3.40	22.5	16.8	38	33	0.8	11.1	5.00	-32%	4.00
MK Land	UW	1.15	57.5	39.6	-22	45	0.6	3.1	2.30	-51%	0.93
Landmarks	OW	2.18	21.1	19.1	10	10	0.7	9.5	4.35	-50%	3.50
IGB	OW	2.70	25.2	19.6	17	28	1.6	7.7	3.40	-21%	3.40
KLCCP	OW	3.84	23.5	21.0	14	12	1.7	8.6	4.20	-9%	4.20
Axis REIT	OW	2.06	14.8	13.8	9	7	5.1	10.5	1.43	44%	2.50
YNH Prop	OW	3.34	12.6	9.8	29	29	4.1	20.6	3.80	-12%	4.50
Average			20.0	16.6	19	21	2.7	12.4		-11%	

Source: JPMorgan estimates. Share prices as at 20 April 2007.

See page 52 for analyst certification and important disclosures, including investment banking relationships.

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Companies

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Executive summary

Prime for an uplift

Government incentives and attractive macro backdrop have improved sector outlook

The property sector is primed for an overall uplift in activity levels and prices, in our view, driven by recent positive regulatory changes/incentives to attract foreigners and spur the market (see Table 1) and the attractive macro environment (low interest rates, government pump-priming, a strengthening M$ and cheap capital values). We believe REITs are likely to be the next focus of regulatory change/incentives.

Rentals and capital values for office and retail space on the rise

We estimate capital values will rise 30% on average for Grade A offices and 15-20% for retail spaces in Klang Valley in the next 24 months. This is being driven by the supply shortage of Grade A offices, strong rises in rentals and upcoming launches of new projects with higher benchmark prices. Recent rental renewals for Grade A offices in Klang Valley translate into a 15-18% Y/Y rise with attractive implied net yields of 8-10%.

Residential property prices and transactions also expected to pick up

Uptick in residential sales/earnings by 2H07/2008. Regulatory changes and increased foreign buying as a result should help absorb anticipated oversupply of high-end condos near KLCC area, while property prices in prime locations should continue to rise. In the next 24 months, we forecast land/property prices to rise 50-70% in prime KL areas, 20-50% for the higher-end prime suburban Klang Valley and Penang properties, and by just 8-12% in Johor due to the large overhang in the state.

We prefer Klang Valley (and Penang) plays to land owners in South Johor

South Johor—how real is the potential? Despite aggressive government incentives to revive South Johor, we expect the benefits to be much longer-term. We believe that property plays with larger exposure to Klang Valley (and Penang) still offer better upside and sustainability in the next 24 months. In other words, we prefer companies which offer not just asset backing/large land banks (i.e., the pure, large Johor landlords), but also good earnings visibility from proven/niche projects. To play the long-term potential in Johor, SP Setia is our preferred exposure given its 2,057-acre land bank and 40% earnings contribution from Johor, with the remaining largely from Klang Valley.

IGB still our top pick, YNH our key pick in the small cap space

Our top picks are **IGB** in the commercial segment, and **YNH**, a small cap developer. We remain **Overweight** on commercial play, **KLCC Property** (KLCCP) and residential developers **SP Setia** and **E&O Property** (E&OP). For exposure to REITS, we maintain **Overweight** on **Axis**. We stay **Underweight** on **MK Land**.

Table 1: Recent property sector regulatory changes/incentives

Announcements	Date Effective
1) Foreigners no longer need approval from the Foreign Investment Committee to purchase residential properties worth over M$250,000	21-Dec-06
2) The number of residential properties that can be purchased by a foreigner has been waived including previously strict conditions that the homes have to be owner-occupied	21-Dec-06
3) Bank Negara abolished the limit on the number of residential or commercial property loans that can be obtained by non-residents	1-Apr-07
4) Removal of the Real Property Gains Tax (RPGT). Previously, locals were taxed at 5-30% on a sliding scale, and foreigners flat at 30% for disposals within five years of purchase	1-Apr-07
5) Three key approaches to cut red tap and improve delivery systems for housing: a) Approval for developments to be cut from 1-2 years to 4-6 months. b) Incentives given to developers to 'build-and-sell' such as exemption from low-cost housing 30% quota and priority in terms of processing and approvals. c) Certificate of compliance and completion to be issued by professionals (i.e. architects, engineers etc) instead of by local government authorities.	13-Apr--07

Source: Bank Negara, Government announcements.

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Valuations

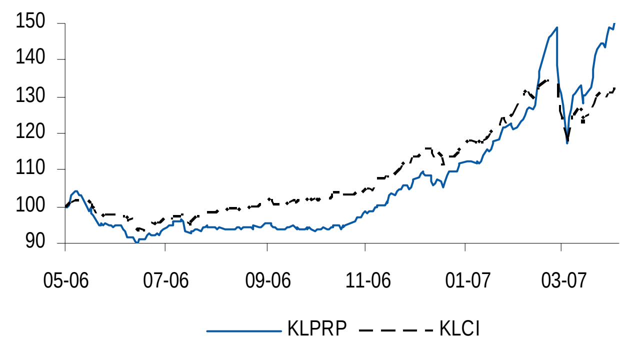
The Malaysian property sector has performed strongly, but we remain positive

Table 2: JPMorgan property universe - performance by country

	1M	3M	6M	12M	YTD	24M
China	18.9%	9.1%	67.6%	58.0%	3.9%	310.0%
HK	3.7%	3.9%	18.7%	20.3%	8.0%	59.0%
Japan	-6.8%	13.5%	22.4%	34.1%	12.9%	212.0%
Australia	-1.6%	1.0%	8.8%	25.2%	-1.2%	42.0%
Singapore	7.1%	22.2%	47.3%	55.1%	23.8%	148.0%
Malaysia	18.9%	45.1%	100.8%	101.2%	48.9%	117.0%
Phils	5.5%	16.1%	42.0%	76.6%	18.1%	117.0%
Thailand	5.4%	19.6%	-2.9%	-8.9%	7.8%	73.0%
Taiwan	9.8%	8.9%	16.1%	53.0%	0.1%	79.0%

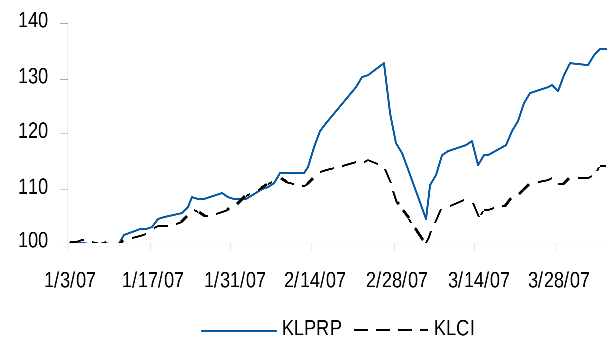
Source: JPMorgan.

Figure 1: Relative performance of KL Property Index (12 months)



Source: Bloomberg.

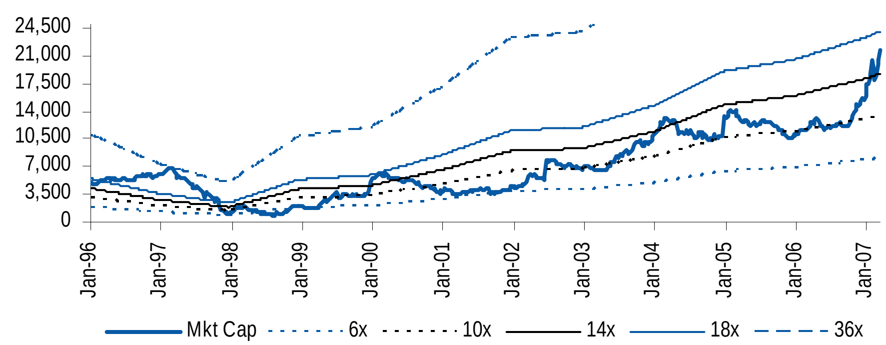
Figure 2: Relative performance of KL Property Index (YTD)



Source: Bloomberg.

Sector trading on 17x 2008E, versus its peak of 36x pre-crisis and 18x post crisis in 2000

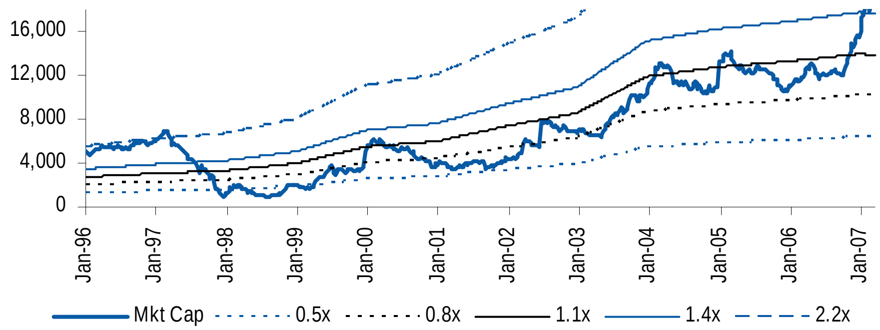
Figure 3: Property sector—12-month forward P/E band



Source: Bloomberg, Company, JPMorgan.

The sector's P/B is 1.9x for 2008E versus its peak P/E of 2.4x pre-crisis and 1.2x post-crisis

Figure 4: Property sector—12-month forward P/B band



Source: Bloomberg, Company, JPMorgan.

Table 3: Malaysian Property—Valuation comparison

	Rating	Price (M$)	CY P/E 2007E	CY P/E 2008E	EPS gwth (%) 2007E	EPS gwth (%) 2008E	Net yield FY08E	P/NTA FY08E	ROE (%) FY08E	FY08 op margin (%)	Price target (M$)	Upside (%)	RNAV (M$)
SP Setia	OW	8.35	21.5	18.6	6%	16%	3.1%	2.9	16.0	26%	9.50	14%	7.90
E&O Prop	OW	3.40	22.5	16.8	38%	33%	0.8%	2.2	11.1	28%	4.00	18%	5.00
MK Land	UW	1.15	57.5	39.6	-22%	45%	0.6%	1.2	3.1	18%	0.93	-57%	2.30
Landmarks	OW	2.18	21.1	19.1	10%	10%	0.7%	1.8	9.5	41%	3.50	61%	4.35
IGB	OW	2.70	25.2	19.6	17%	28%	1.6%	1.5	7.7	34%	3.40	26%	3.40
KLCC Prop	OW	3.84	23.5	21.0	14%	12%	1.7%	1.4	8.6	73%	4.20	9%	4.20
Axis REIT	OW	2.06	14.8	13.8	9%	7%	5.1%	1.4	10.5	75%	2.50	21%	1.43
YNH Prop	OW	3.34	12.6	9.8	30%	29%	4.1%	1.9	20.6	39%	4.50	35%	3.80
Average			20.0	16.6	19%	21%	2.7%	1.9	12.4				

Source: JP Morgan estimates. Share prices as at 20 April

Table 4: Regional valuations by country—JPMorgan universe

	Disc. To NAV/NPV	P/E 2007E	P/E 2008E	Core P/E 2007E	Core P/E 2008E	Div. yield 2007E	Div. yield 2008E	ROE 2007E	ROE 2008E
China	16.6%	20.7	13.5	21.8	13.7	1.6%	2.1%	18.9%	21.9%
Hong Kong	-15.0%	19.8	18.9	25.0	20.5	2.6%	2.8%	7.2%	6.7%
Japan		55.2	47.0	43.4	40.8	0.3%	0.3%	8.1%	8.6%
Australia	4.7%	19.2	18.5	19.2	18.5	5.4%	5.7%	7.8%	7.8%
Singapore	3.1%	30.5	27.8	30.7	28.3	2.4%	2.1%	8.2%	8.3%
Malaysia	-11.1%	20.0	16.6	20.0	16.6	2.3%	2.7%	10.9%	12.4%
Phils	-11.2%	28.6	26.0	28.6	25.6	1.2%	1.1%	11.5%	7.5%
Thailand		13.9	11.9	13.9	11.9	0.9%	1.1%	17.5%	18.0%
Taiwan	-4.6%	64.6	58.2	64.6	58.2	2.8%	3.0%	9.2%	9.0%

Source: JPMorgan estimates.

Table 5: Regional valuations by segment—JPMorgan universe

	Disc. To NAV/NPV	P/E 2007E	P/E 2008E	Core P/E 2007E	Core P/E 2008E	Div. yield 2007E	Div. yield 2008E	ROE 2007E	ROE 2008E
Developers	-1.90%	25.6	22.1	27.2	22.4	1.7%	1.8%	10.9%	11.1%
Investors	-8.90%	41.7	35.3	33.9	30.6	1.7%	1.8%	7.0%	7.3%
REIT	3.40%	27.6	26.4	27.7	26.5	4.8%	5.0%	7.4%	7.4%

Source: JPMorgan estimates.

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Recommendations

Commercial stocks

We prefer IGB to KLCCP, although both are OWs

Our top pick is IGB; but we maintain OW on KLCCP

Our top pick in the commercial segment remains IGB. We prefer IGB to KLCCP given its stronger growth, steeper discount to RNAV, and higher leverage to rising market rentals while 50% of KLCCP's earnings are based on locked in rentals at average increases of 3% pa up to 2012.

Our RNAV assumes fair cap rates of 6%...

Will rental yields compress beyond 6%?

Our RNAV or fair values for IGB and KLCCP are currently based on fair cap rates of 6%, the lower-end of transacted yields of 6-7% in the market recently, given their prime assets. This is also close to the current average net yield of 5.6% for Malaysian REITs.

For our RNAVs to rise further, the key question would be whether transacted yields in Malaysia will compress from the current 6-7%. In comparison, Singapore REITS are trading at 4% net yields, while net rental yields for prime office space are at 5%. The key difference between Singapore and Malaysia are that:

- The REIT market in Singapore is more developed and disciplined with greater quality assets, more attractive regulations, and lower taxes on dividends, which help drive the commercial market.
- Demand for commercial/office space in Klang Valley, Malaysia is being driven mainly by organic growth from business expansion against a shortage in Grade A office buildings. This compares to the more powerful combination of supply shortage and strong new demand from relocation of regional offices/MNCs in a bigger way in Singapore given its financial centre status.

…but a further compression in yields would provide the upside

Hence, the emergence of any of the above catalysts is what would be required to see a more significant compression in yields for Malaysia. However, in our individual company notes for IGB and KLCCP, we have provided a RNAV sensitivity to show the impact of a compression in fair cap rates or yields to 5%.

Property developers or residential stocks

YNH Property—prime land bank and strong earnings growth

Our top pick is YNH; we maintain OW on SP Setia and E&OP

Our key pick in this segment is YNH Property as its property development projects sits on prime land in Klang Valley, and is well position to benefit from the improved residential outlook and upturn in the office segment.

SP Setia and E&OP—strong asset backing/large land bank with earnings pick-up by 2008

We remain Overweight on SP Setia and E&OP. Both have not only strong asset-backing or large land bank, but also the visibility to deliver earnings, given the success or proven track record of their projects. SP Setia also offers investors exposure to the longer-term potential from government incentives to spur South Johor given its large land-bank (2,057 acres) and established projects/branding in the state.

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Table 6: Land bank size, GDV and unbilled sales

	Remaining land bank (acres)	Remaining GDV (M$ MM)	Unbilled sales (M$ MM)	Unbilled sales / hist. revenue
SP Setia	4,328	16,000#	997	1.1
E&O Property	1,684	10,000**	300	0.6
MK Land	5,498@	14,000	297	0.8
Mah Sing	570*	2,221	423	0.9
Sunrise	830	4,800	1,000	2.8
Sunway City	2,380	11,100	702	1.2
YNH Holdings	1,027	4,500	350	1.3

Source: Company. *Of which 80 acres is in prime Mont Kiara area. # Conservatively at today's selling prices. **Taking into account Phase 2 & Phase 3 of Tanjung Pinang project in Penang. @Of which over 500 acres, or 10%, is in prime Damansara Perdana area.

REITs and others

Maintain OW on Axis REIT

Axis is one of the more aggressive among M-REITs in acquisitions

Axis will benefit from possibly more attractive incentives/tax cuts for REITs in the upcoming Budget in September, and is one of the more aggressive among M-REITs in acquiring assets to grow yields.

Landmarks (OW): Event-driven play

For investors with a higher risk appetite, Landmarks is a play on potential appreciation in value of its land in Bintan island, Indonesia, given its close proximity to Singapore and market speculation (*The Edge*, a business weekly) of a possible or eventual gaming license in the island.

Table 7: Non-rated property companies—Valuations based on consensus estimates

	Price	FYE	Market cap (M$MM)	Market cap (US$MM)	EPS 2007E	EPS 2008E	P/E (x) 2007E	P/E (x) 2008E	1-yr hist net gearing	1-yr hist P/B (x)	1-yr hist ROE (%)
Mah Sing	5.35	Dec-06	962	281	0.39	0.46	13.8	11.7	56.5	2.58	20.56
Glomac	1.76	Apr-06	384	112	0.21	0.23	8.2	7.8	49.4	0.98	10.31
Sunrise	3.74	Jun-06	1,654	483	0.30	0.33	12.3	11.3	35.5	2.84	20.00*
Sunway City	4.46	Jun-06	1,875	548	0.32	0.36	14.1	12.5	29.0	1.66	NA
Bandaraya	2.29	Dec-06	1,091	319	0.19	0.09	12.1	NA	19.8	0.79	-5.64
IOI Properties	12.20	Jun-06	4,059	1,186	0.84	0.92	14.5	13.2	-16.2	2	17.83

Source: Bloomberg, Company reports. *Based on 2-year historical data, as FY06 profits or ROEs distorted by one-off provisions. Share prices as at 20 April.

Table 8: REIT valuations

REITS	Mkt cap (US$MM)	Current gross yield (%)	Current net yield (%) (Assume 20% tax)*	Current net yield (%) (Assume 10% tax)#	IPO date	IPO price	Current price	Price performance since IPO
Axis REIT	115	6.40	5.10	5.80	2-Aug-05	1.25	2.06	64.8%
Starhill REIT	316	6.33	5.06	5.69	15-Dec-05	0.96	1.04	8.3%
UOA REIT	81	7.45	5.96	6.71	29-Dec-05	1.15	1.13	-1.7%
Tower REIT	77	7.41	5.93	6.67	10-Apr-06	1.07	0.95	-11.7%
KPJ REIT	94	7.71	6.16	6.93	9-Aug-06	0.95	0.95	0.0%
Hektar REIT	102	8.16	6.52	7.34	1-Dec-06	1.05	1.09	3.8%
AM First REIT	113	7.93	6.34	7.13	21-Dec-06	1.00	0.91	-9.5%
Quill Capita	120	3.49	2.79	3.14	8-Jan-07	0.84	1.72	104.8%
Amanahraya REIT	47	7.44	5.95	6.70	26-Feb-07	0.94	0.88	-6.9%
Atrium REIT	34	7.43	5.94	6.69	2-Apr-07	1.05	0.95	-9.5%
M'sia (average)		7.03	5.63	6.33				
10-year govt bond			3.47	3.47				
Net yield spread			2.16	2.86				
S'pore (average)			3.95	3.95				
10-year govt bond			2.77	2.77				
Net yield spread			1.18	1.18				

Source: Bloomberg, Company, JPMorgan. Share prices as at 20 April. *Current withholding tax rate for foreign institutions. # Assume tax for foreign institutions drops to 10% in line with Singapore.

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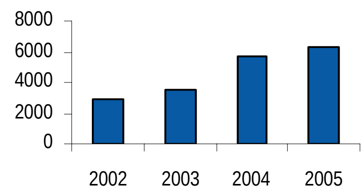
Commercial property: Rising capital values & rentals apparent

Figure 5: Commercial property transactions in Klang Valley



Source: CEIC.

In our November 2006 Malaysian Property review, we had highlighted the pick-up in transactions and interest among local and foreign investors in commercial properties fueled by the set-up of REITs since 2005, Malaysia's attractive capital values/yields regionally, low interest rates, and the expected strengthening in the M$.

Surge in value of commercial transactions in later part of 2006

The pick-up in commercial activities was clearly seen in 3Q06 with an estimated M$1.4B worth of properties sold in Klang Valley, up from M$388MM in 2Q06. The biggest deal reported was the City Square Centre (this includes The Empire Tower office block, Crown Princess Hotel and City Square Shopping Centre) that was sold to Hong Kong based fund, Macquarie Global Property Advisors for a total value of M$680MM, which is probably the largest in the history of the local property market.

Yield spreads - looking most attractive regionally and across the region

Malaysia's prime office net rental yield spread over the 10-year government bond yield has expanded significantly over the past 10 years to 4% currently and also stands as about the most attractive in the region, besides China (see tables below).

Table 9: Major Klang Valley transactions—3Q06/2Q06

Commercial property	En-block price (M$MM)
Menara Lien Hoe	53
Empire Tower	270
Crown Princess Hotel	240
City Square retail	170
The Westin Hotel	455
Sheraton Subang Hotel	140
Others	68
Total 3Q06	1396
Total 2Q06	388
Q/Q growth (%)	260

Source: E&O Property.

Table 10: Malaysia's prime office rental yield versus 10-year government bond yield

	Prime rentals (M$MM) (average)	Overall rentals (M$MM) (average)	Prime office cap values (M$MM)	Net rental yield (%) (prime) ...(1)	Malaysia's 10-yr govt bond yield (%) ...(2)	Yield spread (%) ...(1) – (2)
1997	5.01	4.46	650	6.47		
1998	4.53	4.15	590	6.45	6.81	(0.36)
1999	3.78	3.40	490	6.47	6.50	(0.03)
2000	3.89	3.44	500	6.54	5.86	0.68
2001	3.87	3.36	500	6.50	4.18	2.32
2002	3.90	3.28	500	6.55	4.15	2.40
2003	3.92	3.30	500	6.59	3.91	2.68
2004	4.06	3.39	510	6.69	4.93	1.76
2005	4.32	3.56	520	6.98	4.30	2.68
2006	4.86	3.74	560	7.29	4.35	2.94
2007E	5.47	3.92	600	7.50	3.47	4.03

Source: JPMorgan, CEIC, *The Edge*.

Table 11: Prime office capital values and yields—A regional comparison

	Prime office overall price US$/psf	Prime office rent US$/psf	Initial yield % ...(1)	5-yr govt bond yield % ...(2)	10-yr govt bond yield % ...(3)	Net yield spread % ...(1) – (3)
Australia	720	3.6	6.0%	6.15%	5.95%	0.05%
China	332	3.9	8.5%	3.03%	3.11%	6.29%
Hong Kong	1680	8.6	5.8%	4.05%	4.26%	1.24%
Japan	2091	4.6	3.4%	1.26%	1.67%	1.83%
Malaysia	171	1.2	7.5%	3.40%	3.47%	4.03%
Philippines	109	1.7	9.9%	6.67%	9.25%	0.65%
Singapore	1259	5.6	5.0%	2.42%	2.77%	1.33%
Thailand	192	1.2	7.5%	3.74%	4.18%	3.32%

Source: JPMorgan, Bloomberg.

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What's new?

Steady rental rate increases for retail space

Rental rate increases for retail space in the Klang Valley have remained steady at 8-12% pa in prime areas, and translates into attractive net initial yields of 7-9% (see Table 12 in the column at the side). Hence, in line with the rental rate increases, we foresee at least 15-20% appreciation in the value for retail/commercial complexes mainly in prime locations (i.e., KLCC, Mid Valley) in the next 24 months.

Table 12: Retail yields in prime locations (Klang Valley)

Mall/ Retail space	Value (M$ psf)	Net yield (%)
Mid-Valley City	1,000	7%
Suria KLCC	2,274	7%
Sunway Pyramid	800	9%
Starhill Shopping	1,627	8%
Bangsar Shopping	1,038	8%

Source: JPMorgan.

Rental rates have started to rise more strongly mainly for Grade A offices

However, due to limited supply of prime or Grade A office space in the Klang Valley (occupancy rates >90% currently), rentals in this segment have risen by a stronger 15-18% pa for recent renewals compared to average rises of 4-6% pa over 2003-05, and just 2% pa post crisis from 2000 to 2005. (Please refer to Appendix section for more details on commercial/office property demand and supply dynamics).

Table 13: Recent rent renewals for very prime office buildings (KL)

Office building	Recent rent renewals (M$ psf)	Implied yield (%)
IMC	6.00-7.00	8-10
Prudential	6.00-7.00	8-10
Stanchart	6.00-7.00	8-10

Source: JPMorgan. Implied yields based on cap values of M$600 psf.

Recent rent renewals for Grade A office imply net yields of up to 8-10%

Recent rent renewals in selective prime office buildings in Kuala Lumpur (i.e., Menara IMC, Menara Prudential, StanChart building) have reached M$6-7 psf from M$5-6 psf in 2006, or a rise of 18% Y/Y. The new rentals translate to implied yields of 8-10% versus recent transacted yields at 6-7% for selected office buildings in KL (see Table 14), implying strong upside in Grade A office capital values.

Table 14: Selected significant office building transactions in KL (2006/07)

Date	Office building	Location	Transacted price (M$ psf)	Gross rental (M$ psf)	Net yield (%)
1Q06	Menara HLA	Jalan Kia Peng (Freehold)	557	4.50	6.8
1Q06	Menara ING	Jalan Raja Chulan (Freehold)	495	4.25	7.2
2Q06	Bangunan MAS	Jalan Sultan Ismail (Leasehold)	481	3.00	5.2
3Q06	Empire Tower	Jalan Ampang (Freehold)	465	4.00	7.2
4Q06	Kenanga International	Jalan Sultan Ismail (Freehold)	555	4.25	6.4
1Q07	Wisma Denmark	Jalan Dang Wangi (Freehold)	530	4.75	7.5
1Q07	Menara Maxis* (super prime)	KLCC area	1,038*	7.20	5.8
		Average			6.8

Source: *The Edge*, JPMorgan. * Represents recent values by independent valuers.

New pricing benchmarks from upcoming projects

Highest transacted value for office in KL at M$557psf in 2006

Capital values for prime office space have yet to recover to their peak pre-crisis levels. Despite the 23 major office buildings sold last year, values did not rise above M$557 psf in 2006, 15% below the peak value of M$655 psf pre-crisis back in 1994.

New office projects targeting prices at M$700-900 psf

Hence, given the above factors, we see strong prospects for appreciation in capital values of commercial/office properties in the next two years. As it is, new upcoming commercial/office projects in central KL (aside from potential future transactions of existing space) are seen as catalysts to provide new pricing benchmarks. For instance, the listed company YNH will be developing its flagship commercial Grade A office project, Wisma YNH, in a JV with Capital Land, Singapore, to be launched at a potential selling price of M$900 psf. Listed residential play, Mah Sing will also launch its new Grade A office project 'The Icon' this year at M$700 psf.

30% average rise in office capital values next 12-24 months

….up to 50% in KL

….20% outside KL and sub-urban areas

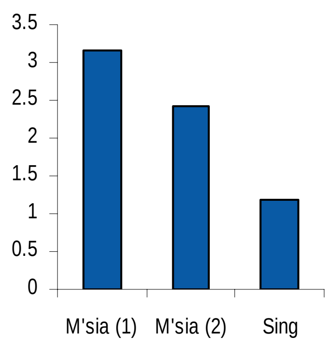
About 30% average rise in capital values for Grade A offices in 12-24 months
At the target selling prices for new projects in Table 15 below, and based on recent/forecast rental renewals for prime office space in the vicinity, the implied net yield is 6-7%. This is in line with recent transacted yields and hence deemed fair. This also represents an expected appreciation in commercial/office capital values by an average of 30% in the next 12-24 months (up to 50% for very prime office buildings in the KL city centre and 20% outside KL city and sub-urban areas).

Table 15: Pricing of new upcoming commercial/office projects and implied yields (Klang Valley)

Developer	Project	NLA (MM sq ft)	Location	Current cap values in the area (M$psf)	Forward values based on new projects or our estimates (M$psf)	Recent/rental forecast for comparable buildings (M$psf)	Implied net yields at forward values
KLCC	90% office 10% retail	1.0	KLCC	1,038 (super prime)	-	7.20	6%
YNH Holdings	90% office 10% retail	1.1	Very prime KL city centre	600	900 (new project*)	6.00-7.20	6-7%
Mah Sing	Office	0.48	KL city centre	500-550	700 (new project*)	5.00-6.00	6-7%
IGB (Mid Valley)	Office	0.94	15-20 mins from KL city centre	500-550	600-650 (estimates#)	4.50-5.00	6-7%
MRCB (KL Sentral)	Office/retail	3.0**	15 mins from KL city centre	500-550	600-700 (new projects*)	5.00	6-7%
Sunrise	Office/retail	>1.5-2.0	Sub-urban prime (20 mins from KL)	400-450	500 (estimates#)	3.50-3.80	6%

Source: JPMorgan. **3million sqft estimated to come on-stream in the next three years. *Based on target pricing for new projects to be launched. #Based on our estimates.

Figure 6: REITS yield spread (%) in Malaysia versus Singapore



Source: JPMorgan.

Note: M'sia (1) is assuming 10% withholding tax on dividends.

M'sia (2) is based on current 20% withholding tax on dividends.

REITS: Likely the next focus of regulatory change/liberalization
The Star newspaper has speculated that more favorable tax incentives may also likely be introduced for REITS to spur this segment, which has been lagging the overall property sector. We believe this is possible given the government's more liberal regulatory stance on the sector following the removal of property gains tax recently, improvement in delivery systems and relaxation in foreign home ownership in December 2006.

Assuming a cut in the withholding tax on dividends for foreign institutions from 20% currently to 10% for REITs to be in line with Singapore, this will raise average net yields for M-REITs from 5.6% to 6.3%. This, in turn, will raise the net yield spread from 2.2% to 2.9% versus Singapore's 1.2%. The more favorable tax incentive for REITs should also benefit the more liquid, non-REIT, commercial plays, namely KLCC Property and IGB, in the form of potentially higher interest and transactions in the segment overall, which will help enhance their long-term asset values.

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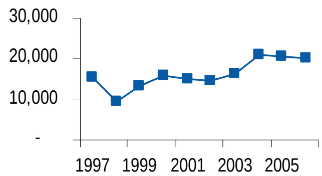
Residential property: Expect stronger sales/earnings in 2H07/2008

Figure 7: Value of urban residential transactions
M$ MM

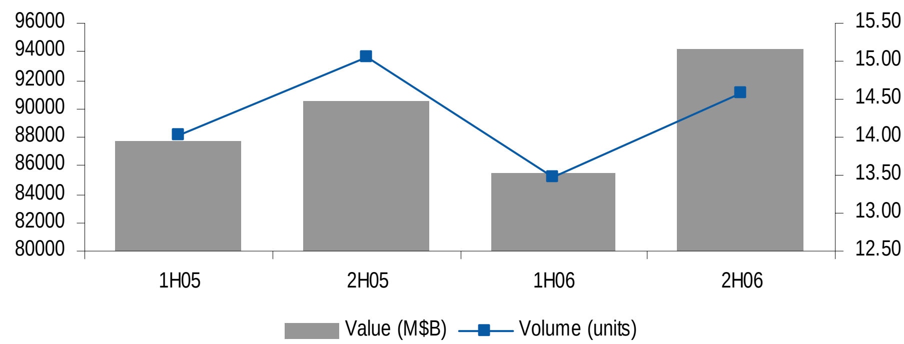


Source: CEIC.

2H06 nationwide property transaction values rose 12% versus 1H06

Some pick-up in property transacted volumes and value in 2H06 versus 1H06
In our previous sector review, we highlighted that the residential property market generally recorded softer performances over 2005/06 with fewer launches due to interest rate hikes, subdued stock market, and continued large increases in overhang and unsold units. Recently released data shows that total nationwide property transactions dropped by 3% Y/Y in volume terms, and remained flat in value terms at M$28.7B in 2006. But, an H/H comparison, showed that total volumes picked up 7%, while values increased by 12% in 2H06 versus 1H06.

Figure 8: Nationwide residential property transactions (2005/2006)



Source: Property Market Report, CEIC.

Residential property outlook has significantly improved

Macro environment and regulatory change has improved outlook…
Going forward, the improved economic fundamentals, flattening interest rates, attractive capital values regionally, government pump-priming under the Ninth Malaysia Plan, and recent measures to liberalize/spur the sector has significantly improved residential property outlook. To recap, key positive regulatory changes recently include relaxation in foreign home ownership, removal of the property gains tax, and improvement in the delivery systems to cut red tap.

Government incentives will help absorb potential oversupply in high-end condos near KLCC area

...and will help absorb some of the large property overhang
We reiterate that one of the key rationales for the above regulatory changes is to help absorb the excess supply of properties in the market given the surge in property overhang from M$1.3 billion in 1Q04 to M$3.1 billion in 1Q06, and M$4.4 billion in 3Q06. The oversupply however is largely concentrated in the low-end segment below M$250,000/unit, and in Johor. There is also over M$5.5 billion worth of high-end condo supply coming on-stream around the KLCC area, which we believe local money alone will not be able to fully absorb. The key segment where the demand-supply dynamics remain healthy, and which will also benefit from the regulatory changes above is the mid- to high-end landed segment above M$350-400,000/unit.

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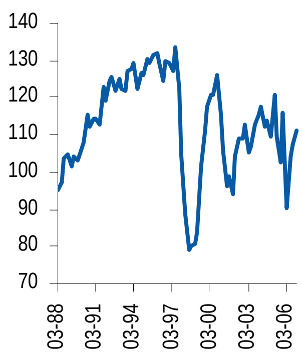
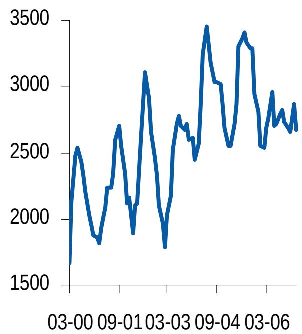
Figure 9: Consumer sentiment index



Source: CEIC.

Figure 11: Property loan approvals

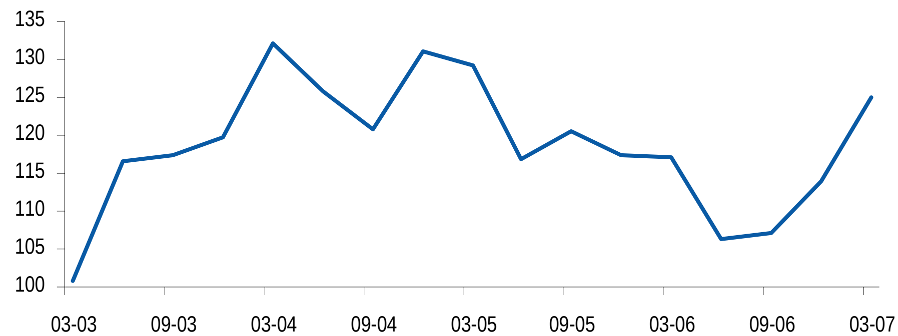


Source: Bank Negara.

More significant pick-up in transactions/earnings expected from 2H07/2008
Recent data on residential property loan approvals as shown in Figure 11 has not shown any huge or significant pick-up in residential property transactions (though the new property regulatory change/measures were only just introduced).

However, sentiment has clearly improved with the recent uptick in consumer sentiment and residential property indexes as seen in Figure 9 and Figure 10. Overall, we therefore expect a more significant pickup in property sales/transactions as we enter into 2H07, and this should translate to a stronger uptick in earnings for listed property developers mainly from 2008 onwards.

Figure 10: Residential Property Index by MIER



Source: CEIC.

Anecdotal evidence and our visits and conversations with property developers/real estate agents however positively reveal the following: (1) There have been more interest and queries from locals and especially foreigners. (2) The secondary market has seen a pickup in interest, although sellers are now holding out for higher prices. (3) Sales/take-up rates for projects by quality developers and in good locations have continued to be strong as shown in Table 16 below.

Table 16: Strong take-up rates from recent key launches by quality developers in good locations

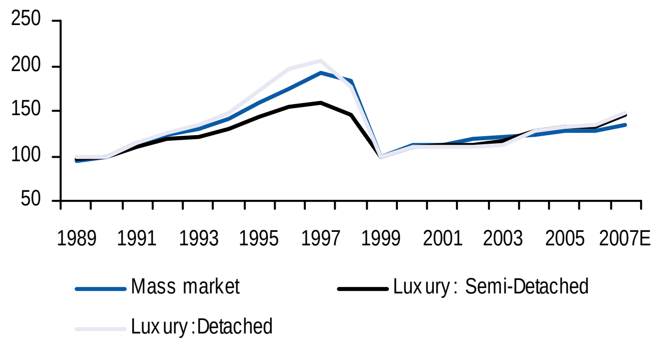
Company	Development	Location	Launch date	Take-up rates
Sunrise	MK-10 luxury condos with total GDV of M$500MM priced at M$2MM per unit	Prime sub-urban Klang Valley	Soft launch late 2006, official launch in Feb-07	80-90% sold to date
Wing Tai (Singapore based)	The Meritz luxury condos with total GDV of M$120MM priced at over M$1MM per unit	Near KLCC area	Official launch 1Q07	70% sold to date
Bandaraya	One Menerung high end condos with total GDV of M$600MM priced at estimated M$1.5-2MM per unit	Bangsar, Prime sub-urban Klang Valley	Soft launched in late-2006	60% sold at point of launch, and now over 80-90% sold.
SP Setia	High-end bungalows with a total GDV pf M$100MM	Ampang, KL City	1Q07	Over 80-90% sold
	Terrace houses with a total GDV of over M$150MM, priced at over M$0.5MM per unit	Penang island	Mar-07	Over 80-90% sold
IGB Corp	High end service apartments with a total GDV of M$115MM, priced at over M$700,000 per unit	Near KLCC area	Apr-07	50% sold

Source: Companies, JPMorgan.

Property price increases so far moderate relative to rises in the pre-crisis period

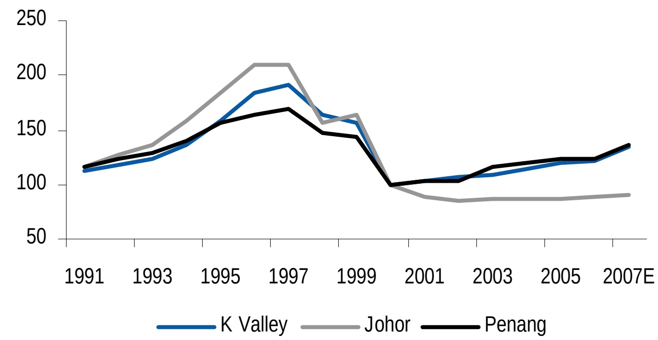
Property price rises post-crisis generally moderate, and still cheap regionally
Malaysia's house price index (HPI) shows property prices rose about 90% in urban centers (Klang Valley, Johor, Penang) over the seven-year period from 1990-97 before the Asian crisis in 1998. Post crisis, on a cumulative basis from 2000 however, prices have risen by 30-35% (or 5-6% average pa), with higher increases seen in Penang, followed by Klang Valley, while prices in Johor have continued to languish due to the large oversupply in the state.

Figure 12: Property price index by segments



Source: CEIC.

Figure 13: Property price index by location



Source: CEIC.

Table 17: Residential prices (regional comparison)

	Residential overall price (US$psf)	Initial yield %
Sydney	112	2.8
Shanghai	100	6.5
Hong Kong	495	4.5
Tokyo	556	5.5
Kuala Lumpur	106	6.0
Manila	170	7.0
Singapore	420	3.2
Bangkok	98	NA

Source: JPMorgan.

Strong prospects for asset/land prices to appreciate much further
Hence, property price rises in Malaysia post crisis have generally been moderate. This is with the exception of the mid-to-high-end properties in prime locations in the Klang Valley which have risen strongly by 20-30% pa in the last three to four years due to limited supply. Also, pricing for new luxury condos (near the KLCC area) and landed launches above M$1 million in prime locations have risen significantly to record levels.

Still, even the most prime high-end property near KLCC area priced at US$290 psf currently is still much cheaper than for instance Singapore's US$1,700 psf. Hence, going forward, with the attractive macro environment and recent regulatory changes, we believe there are strong prospects for asset/land prices to appreciate further.

Impact of higher material prices
In total, material prices (i.e., steel structures, cement, sand etc) have increased by 20% Y/Y. Materials account for an estimated 40% of construction cost which in turn account for up to 60-70% of total operating cost for property developers.

To absorb recent material cost increases, property prices would have to rise up to 3-4%

The said rise in material cost hence translates to an estimated increase of up to 5% in overall operating cost. To compensate for this cost increase, we estimate that property selling prices would have to rise by up to 3-4%, which we believe can be easily passed on to consumers.

Klang Valley: 20-70% price increase likely next 24 months

High-end segment to lead overall price increases

All eyes on pricing for new prime developments at KLCC area

We believe the high-end segment will lead overall price increases. For instance, two upcoming high-end residential projects near the KLCC area, 'The Binjai' and 'Four Seasons' mixed development, may be priced up to M$1,500-2,000 psf (versus market value of M$800-1,000 psf in the area). If successfully launched at these new prices, it is likely that the trend will spill over to the prime sub-urban developments (for instance Sunrise's Mont Kiara developments currently priced at M$500-600 psf), and eventually also to the newer developing suburban areas (i.e., SP Setia's current Setia Alam projects priced at M$260 psf for the higher-end bungalow developments).

Prices to appreciate 20-70% next 24 months in Klang Valley (mid-high end)

Over the next 24 months, we expect price rises of…

… 50-70% in KLCC area

…20-50% in prime sub-urban Klang Valley and Penang

…8-12% in Johor due to the larger overhang in the state

Overall, in the next 24 months, we foresee land/property price appreciation of about 50-70% in the KLCC area, and 20-50% for mid-to-high-end properties in well located sub-urban areas in Klang Valley. In fact, comparing previous launches, we see prices are up by 20-40% in small pockets or select prime developments, mainly in KLCC, suburban Mont Kiara and Bangsar areas. For instance, Suncity's recent launch of its new high-end condo project in Mont Kiara (initial launch in Singapore, 30% taken-up) is at M$800 psf versus Sunrise's previous development at M$535 psf. Separately, Bandaraya launched 'One Menerung' high-end condo units in Bangsar late last year at M$750 psf versus the going rate of over M$600 psf in the area, and the units are over 80-90% sold to date.

Outside the Klang Valley, we expect price appreciation of about 20-30% in Penang, and just 8-12% in Johor overall due to the large overhang in the state.

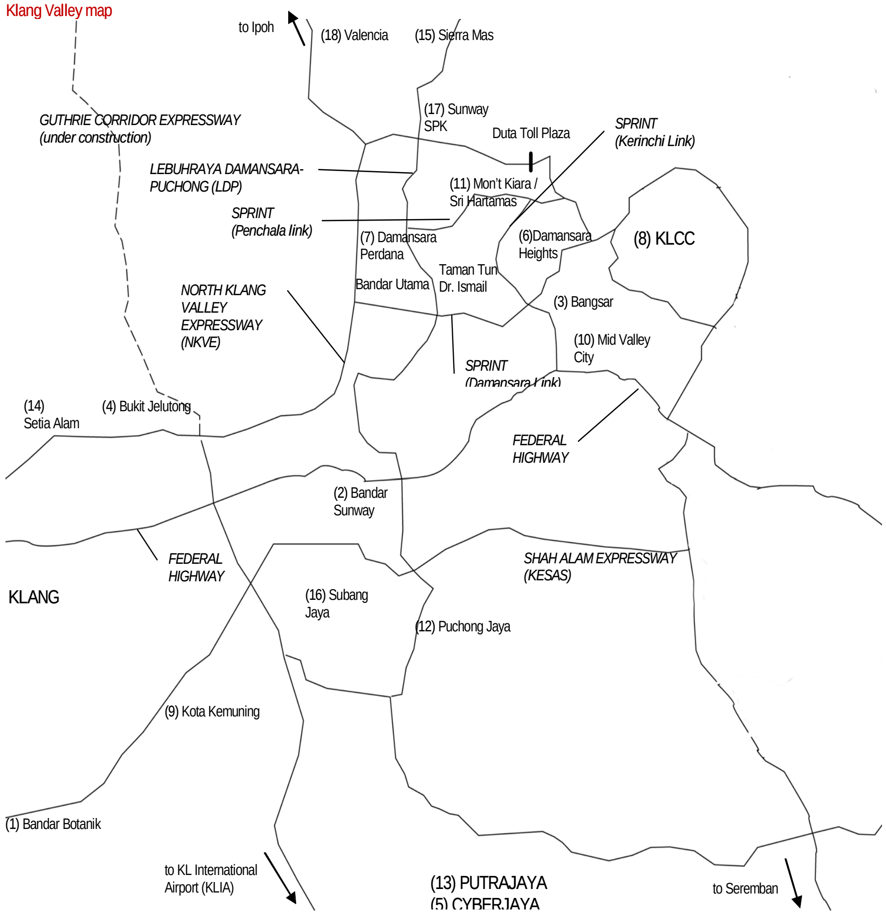
Table 18: Current land/property prices in key areas

Area	Developers	Current prices Of land (M$ psf) (residential)	Current prices Built-up area (M$ psf) (residential)	Potential rise in prices next 24 months (M$ psf) (residential)
Klang Valley				
KLCC area	E&O, IGB, YNH, Bandaraya	800-1,000 up to 1,700 (central KLCC area)	800-1,000	50-70%
KL Sentral	MRCB	1,000-1,400 (commercial)	400-500	20-30%
Prime sub-urban areas				
—Mont Kiara	Sunrise, Suncity	200-300	500-600*	30-50%
—Bangsar	Bandaraya, E&O	300-400	600-700#	30-40%
Good, developing sub-urban areas				
— Setia Alam, Sunway, Damansara	SP Setia, Sunway City	30-100	250-400 (high-end)	15-20% mid-range, 20-30% high-end
Penang	E&O, SP Setia	30-50	250-300	20-30%
Johor	SP Setia, Mah Sing, IOI Properties	10-20 (residential) 30-80 (commercial in prime areas)	110-140	8-12% overall (residential) 15-20%:prime commercial

Source: Companies, JPMorgan. Note: Commercial land values are about 30-50% higher than residential prices in the same area. Note: *Recent transaction in Mont Kiara area done over M$800psf (new high) for Suncity's new high-end condo development. # Recent transaction in Bangsar done at M$750 psf (new high) for Bandaraya's 'One Menerung' development.

Map of Klang Valley: Key property developments/land-bank

Klang Valley map



Source: JPMorgan.

Key developments

Map Key	Location	Developer
1	Bandar Botanik	Gamuda
2	Bandar Sunway	Sunway City
3	Bangsar	Bandar Raya Developments
4	Bukit Jelutong	Kumpulan Guthrie
5	Cyberjaya	MK Land (Cyberia)
6	Damansara Heights	E&O Property Development (The Peak, Seventy Damansara etc.)
7	Damansara Perdana	MK Land (Armanee Terrace, Metropolitan Square)
8	Kuala Lumpur City Center	Bandar Raya Developments (Capital Square, Binjai Apartments) E&O Property Development (Dua Residency) KLCC Holdings (Suria KLCC Shopping Mall, KLCC Apartments)
9	Kota Kemuning	HICOM-Gamuda joint venture
10	Mid Valley City	IGB Corp
11	Mon't Kiara / Sri Hartamas	Sunrise (Mon't Kiara condos Sunway City (Kiara Hills) SP Setia (Duta Nusantara, Duta Tropika)
12	Puchong Jaya	IOI Properties (Bandar Puteri Puchong)
13	Putrajaya	Putrajaya Holdings IOI Properties (IOI Resort) SP Setia (Setia-Putrajaya)
14	Setia Alam	SP Setia
15	Sierra Mas	Tan & Tan (subsidiary of IGB Corp)
16	Subang Jaya	Sime UEP
17	Sunway SPK	Sunway City
18	Valencia	Gamuda

Source: JP Morgan estimates

New hot spot areas: Real potential?

Increased infrastructure spending in Penang and Johor

The property sector should also benefit from increased infrastructure spending in Penang and Johor. To recap, in Penang, the budget allocation under the Ninth Malaysia Plan has risen 37% to M$6.6 billion versus the Eighth Malaysia Plan. The government has also set in a motion a 20-year development plan to transform The Iskandar Development Region (IDR) in South Johor into a new economic hub. Total investments of M$20 billion have been announced in IDR over entire development period, with initial investments at M$7.7 billion mostly in infrastructure works.

IDR in South Johor

Cautious on execution, potential if at all seen only much longer term
The government recently announced new incentives for the IDR as below.

Aggressive government incentives mainly in IDR in South Johor…

Table 19: Recent government incentives for the IDR

Incentives
Applicable for companies in six sectors, namely creative industries, education, financial advisory/consulting, healthcare, logistics, and tourism-related
1) Exemption from corporate income tax for 10 years 2) Exemptions from withholding tax on royalty and technical fee payments to non-residents for ten years 3) Exemption from Foreign Investment Committee (FIC) rules 4) Unrestricted employment of foreign employees 5) Freedom to source capital globally

Source: Government announcements.

But, more immediate focus mainly in Nusajaya and Danga Bay, less than 1% of the South Johor area

The IDR covers the key areas/zones within the triangle of Senai Airport, Tanjung Pelepas Port and Pasir Gudang in South Johor as shown in the map below, However, in the more immediate term, the focus will be centered mainly in specific zones in Bandar Nusajaya (to be transformed into the key administrative centre of the IDR) and Danga Bay, which cover approximately 1,780ha or less than 1% of South Johor.

Execution concerns; we believe spillover benefits on property will likely much longer-term

We remain cautious on the government's ability to execute, and key success here also depends much on foreign capital inflow rather than just local demand. Overall, we believe any positive spillover benefits on the property sector from the government efforts and incentives to spur the IDR will be much longer-term.

Johor still suffers from large property overhang, and low wealth levels

Johor still suffers from large inventory levels of unsold property stock (the largest in Malaysia), and hence poorer pricing power compared to Klang Valley and Penang (See Appendix under residential section for overhang data). Also, unlike Penang where the rate of manufacturing or industrial development is much more advanced with higher wealth levels, the southern Johor region still lags far behind.

UEM Land, KSL, and Mulpha—land owners located in the key immediate IDR focus areas…

While SP Setia's recent sale of commercial land near IDR at a new high of M$65 psf (versus market value M$20-30 psf at most) had raised interest, the land sits in a much more developed area equipped with infrastructure relative to most areas in IDR.

SP Setia, Mah Sing, Bandaraya, Tebrau Teguh—outside key focus areas, but within IDR

Still, the government incentives are aggressive, and in the longer term could potentially benefit developers located in the key focus areas of IDR (Nusajaya,

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Danga Bay). Landowners with direct exposure here are UEM Land, KSL Holdings and Mulpha.

Nevertheless, other developers not centered in the said immediate focus areas, but still located within IDR (SP Setia, Mah Sing, Bandaraya, Tebrau Teguh) could also potentially benefit from the spill-over effects in the longer term. This would possibly involve higher selling prices and appreciation in land values, especially as commercial land in Johor for instance currently at M$20-30 psf on average and M$60-80 psf in more prime, developed areas, is only 4-10% of the value in Singapore.

Players with large land banks and good earnings visibility preferred in South Johor—e.g., SP Setia

Prefer established land owners with good earnings visibility in IDR

For exposure to the much-longer-term potential of IDR, our preference remains with the more established players which offer strong asset backing/large land banks and good earnings visibility from proven or niche projects. This would include SP Setia.

Penang island

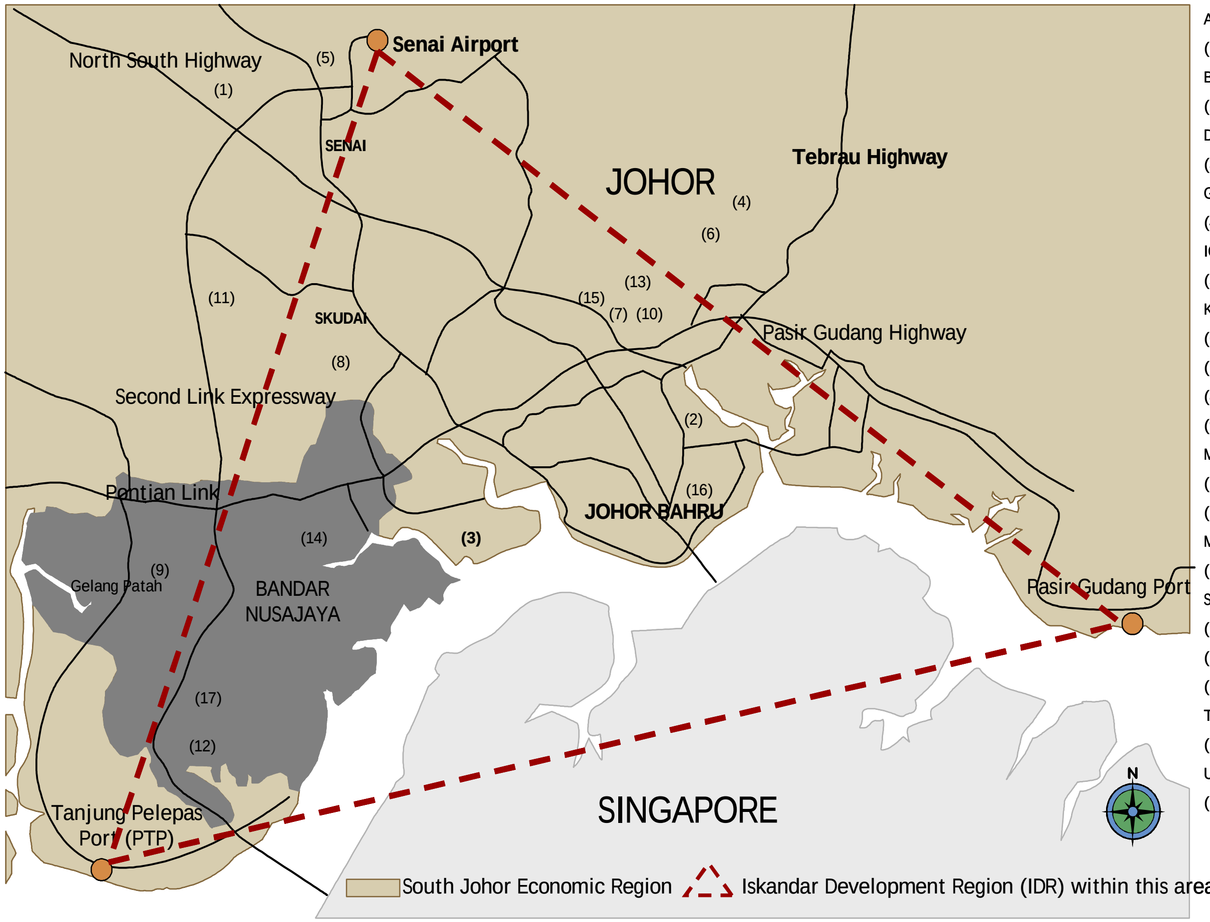
Key beneficiaries from pump-priming in Penang—SP Setia, E&O Property

More immediate benefits from pump-priming seen

The scarcity of land and higher wealth levels in Penang island (versus South Johor) means that government pump-priming is likely to result in more immediate benefits for the property sector. Key beneficiaries in our view are quality developers with a focus on landed properties—namely E&O Properties and SP Setia. E&O's flagship, Sri Tanjung Pinang (STP) project has seen encouraging sales since its launch in late-2005, while SP Setia's recent launch in Penang has seen strong take-up rates.

Under the Ninth Malaysia Plan, three major infrastructure projects have been announced—the Penang Outer Ring Road (PORR), the Second Penang Bridge, and the monorail. The PORR, to be the primary expressway servicing the Penang island, will stretch along Tanjung Tokong, where E&O's STP project is located.

Map of Johor: Key property developments/landbank



Asiatic Development
(1) Indahputra
Bandar Raya
(2) Bandar Permas Jaya
Danga Bay
(3) Danga Bay
Glomac
(4) Sri Saujana
IOI Properties
(5) Bandar Putra Kulai
KSL Holdings
(6)
(7)
(8) Taman Nusa Bestari 2
(9) Taman Nusa Perintis
Mah Sing
(10) Austin Perdana
(11) Sri Pulai Perdana
Mulpha
(12) Leisure Farm Resort
SP Setia
(13) Setia Indah
(14) Bukit Indah
(15) Setia Tropika
Tebrau Teguh
(16) Bayu Puteri
UEM World
(17) Bandar Nusajaya

Source: JPMorgan, *The Edge*, SP Setia.

Appendix I: Commercial property dynamics

Commercial property transactions

Table 20: Selected significant office transactions in KL (2004-07)

Date	Office building	Location	Transacted price (M$ psf)
Mar-04	Mui Plaza	Jalan P Ramlee (Freehold)	480
Mar-04	Wisma Cyclecarri	Jalan Raja Laut (Freehold)	362
May-04	Oriental Bank Building	Jalan Hang Lekiu (Freehold)	285
May-04	Bangunan Sime Bank	Jalan Sultan Sulaiman (Freehold)	295
Jul-04	Wisma Nusantara	Lorong P Ramlee (Freehold)	273
Dec-04	Wisma KFC	Jalan Sultan Ismail (Freehold)	513
2004 average			368
Jan-05	Tower 3, Bandar Wawasan	Jalan Sultan Ismail (Freehold)	480
Jul-05	Menara Kemanyan	Jalan Ampang (Freehold)	399
Sep-05	Wisma Technip	Jalan Tun Razak (Freehold)	488
Dec-05	100 Putra Place	Jalan Putra (Freehold)	268
2005 average			409
Y/Y growth (%)			*11%*
Feb-06	Menara HLA (Tower REIT)	Jalan Kia Peng (Freehold)	557
Feb-06	Menara ING (Tower REIT)	Jalan Raja Chulan (Freehold)	495
Jun-06	Menara Genesis	Jalan Sultan Ismail (Freehold)	400
Jun-06	Bangunan MAS	Jalan Sultan Ismail (Leasehold)	481
3Q06	Empire Tower	Jalan Ampang (Freehold)	465
4Q06	Kenanga International	Jalan Sultan Ismail (Freehold)	555
2006 average			492
Y/Y growth (%)			*20%*
1Q07	Wisma Denmark	Jalan Dang Wangi (Freehold)	530
1Q07	Menara Maxis* (super prime next to Twin Towers)	KLCC area	1,038

Source: *The Edge*, JPMorgan. *Represents valuations by independent valuers recently, which translates to a net yield or cap rate of 6% for Menara Maxis.

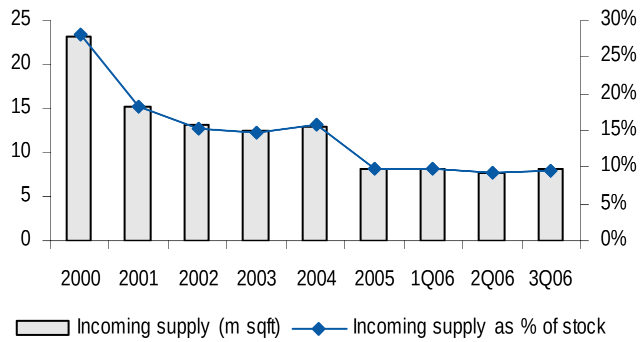
Table 21: Hotel transactions (2004-06)

Year	Hotel	No. of rooms	Valuation (M$MM)	Value per room (M$)	Comments
2004	Mandarin Oriental, KL	643	600	933,126	Open market value upon injection into KLCC Properties listed in 2004
2005	JW Marriott, KL	515	329	638,835	Attached value upon injection into Starhill REITS in 2005
3Q06	Westin, KL	384	455	1,184,896	Sold by Ireka Corp to international property investment company, Newwood Assets Ltd
3Q06	Crown Princess, KL	576	240	416,666	Sold to Hong Kong based fund, Macquarie Global Property Advisors
3Q06	Sheraton, Selangor	502	140	278,884	Sold to The Far East Consortium

Source: E&O Property, JPMorgan.

Office space: Shortage of prime/quality grade space

Figure 14: Klang Valley office space—Incoming supply



Source: CEIC.

Figure 15: Klang Valley—Office occupancy rates

	Prime (%)	Overall (%)
2000	na	78%
2001	na	75%
2002	88%	76%
2003	88%	79%
2004	91%	80%
2005	91%	82%
2006	90-94%	82%
2007E*	>90%	83%
2008E*	90%	83%

Source: CEIC, JPMorgan. *Forecast occupancy rates after factoring in new incoming supply.

Limited office supply due to freeze on office development since 1999…

With the freeze on new office development in Kuala Lumpur in 1999, new supply has been limited since then. The freeze has somewhat been relaxed, and applications are now studied on a case-by-case basis, with the following conditions attached before building approvals are granted:

….freeze lifted, but approvals still subject to strict conditions to prevent over-building

- The developer must confirm that funds are available to complete the construction of the project.
- There must be at least 50-70% occupancy. The developer must show that related companies will occupy the office space or there is a signed MoU with the proposed anchor tenants.

We believe the above will help prevent over-building. New incoming supply of 8 million sq.ft. of office space in the Klang Valley represents 10% of existing stock, (down from 30% in 2000). This is to come onstream over the next three years, translating into a growth in supply of just over 3% pa (2007E GDP growth: 5.5%).

Hence, we expect strong demand and occupancy rates for Grade A office mainly

Taking into account the new supply, we estimate occupancy rates will remain at 82-83% for overall office space, and at 90% and above for prime space up to 2007-08E. (This, however, does suggest that we do expect lower-than-average occupancy rates for the older buildings as corporations/businesses move to the newer better quality buildings now that there is supply as opposed to very limited supply previously).

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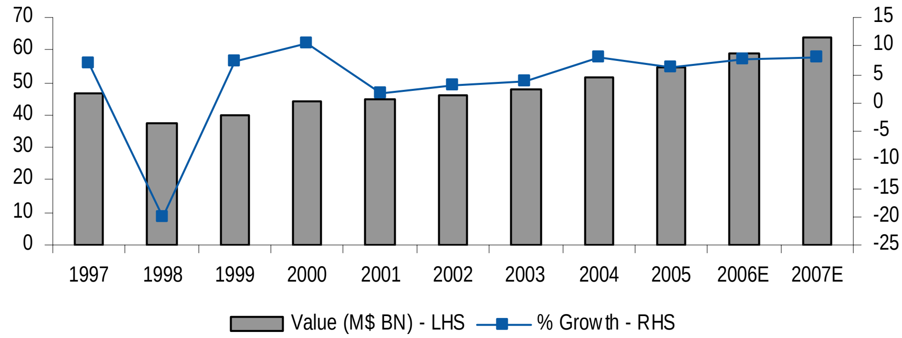
Retail space: Location, location, location

Rising retail sales…

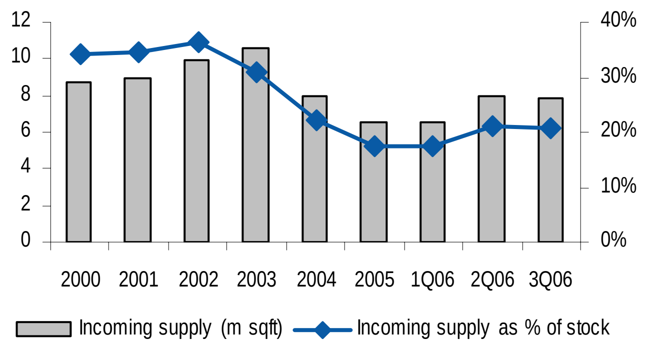
Figure 16: Malaysia—Nationwide retail sales value and growth



Source: JPMorgan.

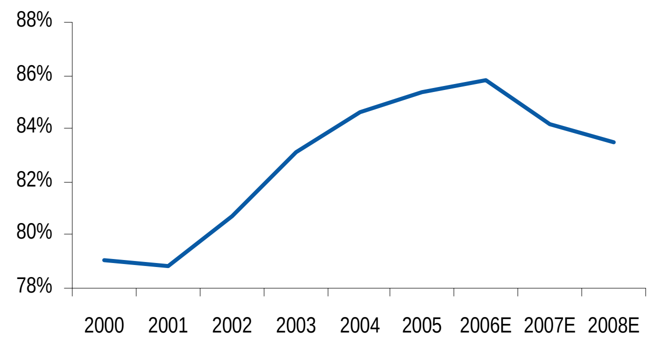
…to drive spending and rentals for retail space. Rentals for prime space in Klang Valley expected to rise by 8-12% pa

Figure 17: Klang Valley—Net incoming supply of retail complex space



Source: CEIC.

Figure 18: Klang Valley retail complex—Occupancy rates



Source: CEIC, JPMorgan.

Table 22: Incoming supply of key retail space in Klang Valley

New retail space	Comp-letion	NLA (MMsqft)
The Pavillion	3Q07	1.37
Mid Valley City 2	Sept-07	0.80
Sunway Pyramid	3Q07	0.70
Suria KLCC	1Q09	0.16
Capsquare	2H07	0.12
Troika	2H07	0.60
Bangsar Shopping	2008/09	0.90
Total		3.30

Source: JPMorgan.

Unlike the current shortage in quality grade office space, there is, however, much more new supply of retail space in the Klang Valley. The Pavillion, to come on-stream by 3Q07, will be the biggest retail space in KL with 1.37 million sq. ft. of net lettable area, accounting for 21% of new incoming supply in the Klang Valley.

Factoring in the new incoming supply, we estimate average occupancy rates for Klang Valley retail space to decline from 86% in 2006 to 84% in 2007 and 83% in 2008. But, we believe established retail space in prime areas (i.e., KLCC and Mid Valley) should continue to fetch good demand or above average occupancy rates.

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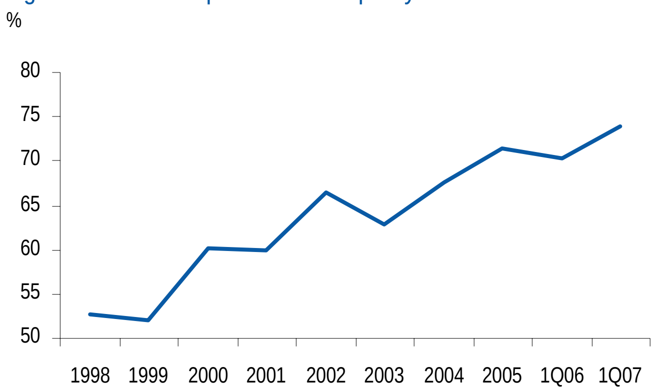
Hotels: Occupancy and average room rates on the rise

Occupancy rates at 80-85% for top-tier KL hotels

ARRs up 15-16% pa last two years

Overall occupancy rates for hotels in Kuala Lumpur have been on an uptrend since 1999, and currently stands at about 70-75%, while occupancy rates in top-tier hotels in prime locations are currently at 80-85%. The up-trend in occupancy rates for KL hotels has been registered despite the increases in average room rates by 15% pa the last two years (16% pa for top-tier hotels). With KL hotel rates still one of the cheapest in the region (see table below), and rising tourist arrivals spurred further by 'Visit Malaysia Year 2007', we expect the positive trends in demand and room rates to continue.

Figure 19: Kuala Lumpur—Hotel occupancy rates



Source: CEIC.

Table 23: Tourist arrivals and average room rates (ARR) for hotels

	2005	2006	2007E
Tourist arrivals - Malaysia (MM)	16.4	17.5	20*
— Y/Y growth (%)		7%	14%
Hotel ARR – KL, Malaysia (M$/day)	201	225	
—Y/Y growth (%)	17%	12%	
Top-Tier Hotel ARR – KL, Malaysia (M$/day)#	436	525	600
—Y/Y growth (%)	12%	20%	14%
Top-Tier Hotel ARR - (US$/day)			
—Malaysia		160	
—Philippines		200	
—Singapore		250	

Source: CEIC, JPMorgan estimates. *Represents target for Visit Malaysia Year 2007. #Based on Mandarin Oriental rates.

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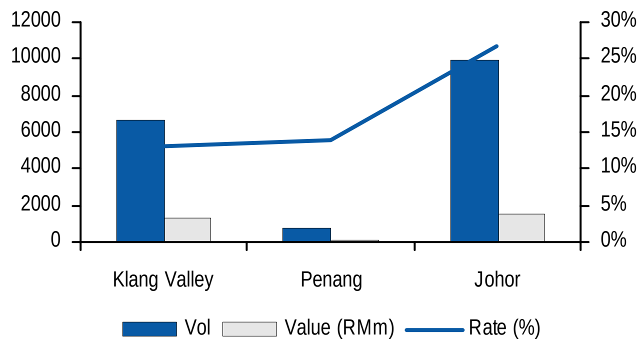
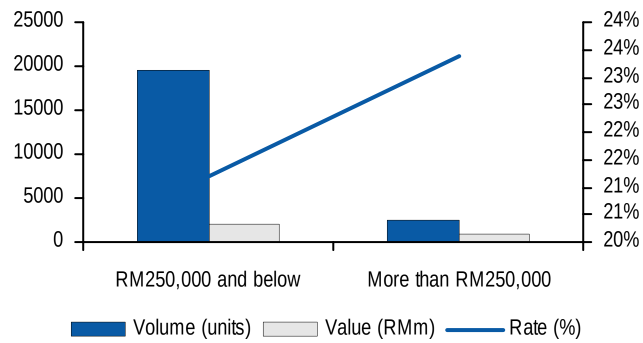
Appendix II: Residential property dynamics

Figure 20: Overhang in urban areas 3Q06



Source: NAPIC.

Figure 21: Overhang by segment (nationwide), 3Q06



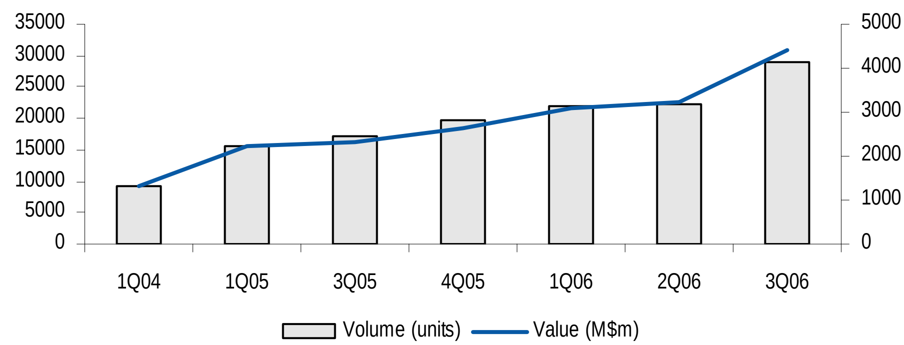
Source: NAPIC.

Overhang has surged from M$1.3B in 1Q04 to M$4.4B in 3Q06…

…In terms of volume, the overhang is highest in Johor and in the low-end segment below M$250,000 per unit

Affordability ratio estimated at 25% in 2007E versus 10-year average of 28% and pre-crisis peak of 35%

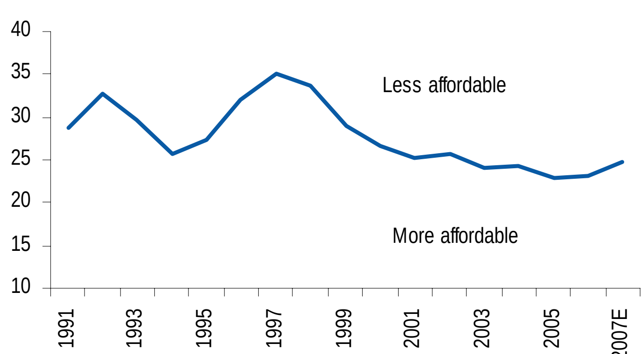
Figure 22: Overhang in units and value since 1Q04



Source: Property market report.

Figure 23: Affordability ratio for residential property

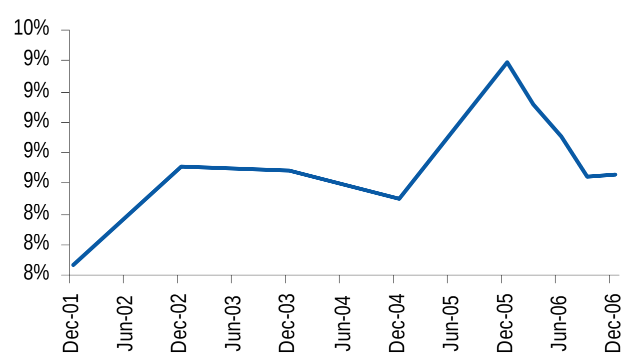
%



Source: JPMorgan estimates, Bank Negara, CEIC.

Figure 24: Residential property NPLs as % of total residential property loans

%



Source: Bank Negara.

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Companies

IGB Corporation

Upward momentum in rentals and asset values

Overweight

M$2.70

20 April 2007
Price Target: M$3.40

Malaysia
Property

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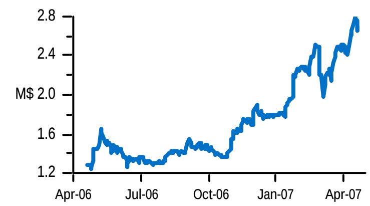
- **New commercial space under 'Gardens' project ahead of schedule.** The expanded retail space is due to come on-stream by Sept-07 as guided earlier. Construction of new office towers and two new hotels is ahead of schedule, and they are now scheduled to come on-stream by Jun-08 (from end-08/09 as previously guided). The new retail space is on track to be 80% occupied upon commissioning, and together with the new office space will raise total net lettable area by 83% to 4.65MM sqft.
- **Rentals on the rise.** IGB's two new 'Centrepoint' office towers, on-stream since early-07, are on track to be fully occupied by mid-2007. Recent renewals for office space in the Mid-Valley area have reached M$4.20-4.50/sqft, average 15% Y/Y rise. Management believes the new Gardens office towers could potentially fetch higher rentals of ~M$5.00psf by Jun-08. Based on current cap values of M$500-550psf in the area, this implies net yield of 8% versus transacted yield of 6-7% for office space in Klang Valley, suggesting upside in its asset values.
- **Maintain OW.** We forecast earnings growth to accelerate from 17% in 07 to 28% in 08. The stock is trading at 9% implied yield for its assets vs. recent market transacted yield of 6-7% for commercial assets. Our new RNAV-based, Dec-07 PT is M$3.40.
- **Key risk is overseas expansion.** IGB plans to expand hotel operations overseas, and is looking at a green-field project in Australia. Given its track record it will execute cautiously, in our view. IGB has exposure in this area in UK and Vietnam, and the Cititel tourist hotel in Malaysia (set up in 01) is generating good profits (investment of M$65MM and a 5-year payback period).

Price Performance



	YTD	-1M	-3M	-12M
Absolute	50.0%	12.5%	37.1%	110.9%

Source: RIMES, Reuters.

Company data

52 week range (M$)	1.23-2.80
Market cap (M$MM)	3,953
Market cap (US$MM)	1,149
Share O/S (MM)	1,464
Free float (%)	38
Avg daily vol (MM shrs)	4.67
Avg daily value (M$MM)	9.59
Avg daily value (US$MM)	2.79
Exchange rate (M$/US$1)	3.4
Index	1315.37
Year-end	Dec

Source: Bloomberg.

Reuters: IGBS.KL; Bloomberg: IGB MK

M$MM, Y/E Dec	FY05	FY06	FY07E	FY08E	FY09E
Sales	619.7	722.0	681.5	781.2	744.5
Core net profit	128.0	135.9	159.4	204.3	217.4
Core EPS (M$)	0.09	0.09	0.11	0.14	0.15
DPS (M$¢)	0.02	0.02	0.03	0.04	0.04
Sales growth (%)	23	17	-6	15	-5
Core net profit growth (%)	26	6	17	28	6
Core EPS growth (%)	22	5	17	28	6
ROE (%)	5.5	5.6	6.3	7.7	7.8
ROCE (%)	4.6	5.0	5.3	6.4	6.4
P/E (x)	30.9	29.5	25.2	19.6	18.5
P/B (x)	1.7	1.6	1.6	1.5	1.4
EV/EBITDA (x)	19.7	17.9	15.6	12.5	11.8
Net dividend yield (%)	1.3	1.6	2.0	3.0	3.1

Source: Company, JPMorgan estimates. Note: Share price and valuations are as of April 20, 2007.

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Table 24: IGB—RNAV

Year–to-December	% owned	Net lett area (msf)	Book value (M$MM)	Market value (M$MM)	Net rev surplus (M$MM)	Market value (M$psf)	Comments
Landbank							
Residential landbank, 1857 acres*		80.88	415	464	18#	6	
Retail							
Mid Valley - Phase 1	75%	1.68	569	1848	959	1100	Cap rates of 6% (7% previously)
Mid-Valley - Phase 2	100%	0.80	600	1003	403	1254	Cap rates of 6% (7% previously)
Office							
Plaza Permata	100%	0.21	37	37	0	177	Cap rates maintained at 8% (non-prime)
Menara IGB	100%	0.25	39	146	107	580	Cap rates at 6% (7% previously)
Menara Tan & Tan	80%	0.34	91	216	100	640	Cap rates maintained at 6%
Ampwalk-office	50%	0.15	45	52	3	350	Cap rates maintained at 6%
Centrepoint - 2 Towers	100%	0.46	140	276	136	600	Cap rates at 6% (7% previously)
The Gardens project – 2 Towers	100%	0.94	235	564	329	600	Cap rates at 6% (7% previously)
Hotels		No of rooms				Market value (M$'000/room)	
Boulevard Hotel, Mid Valley KL	100%	390	80	137	57	350	Based on recent transactions
Cititel Mid Valley	60%	646	103	258	93	400	Based on recent transactions
Renaissance Hotel, KL	50%	910	573	637	32	700	Group looking to sell at M$800,000 per room
Other hotels			380	380	0	307	Based on recent transactions
The Gardens project – 2 hotels	100%	640	220	256	33**	400	
Total revaluation surplus					2271		
Add: FY08E shareholders funds					2716		
Add: ICPS					23		
Total RNAV					5011		
No. of shares (diluted)					1486		
RNAV (fully diluted)					3.40		

Source: JPMorgan estimates. Note: *87% of land outside Klang Valley—hence minimal value attached. # adjusted for various % holdings. **Discounted to FY08 as the Gardens hotels will only be ready by end-2009.

Raise price target and RNAV sensitivity

We raise our 12-month, RNAV-based PT from M$3.10 to M$3.40 to factor in cap rates of 6% (6-7% previously). Our valuations for the Mid Valley mall represent a 10% rise for Phase 1 and 25% for Phase 2 from current market values. Phase 1 price increase forecast is in line with the annual rental rate rise, while the higher rise for Phase 2 is due to its higher rentals at 20% above Phase 1 (Phase 2 on track to be 80% leased out when it is on-stream in Sept-07). Our valuations for IGB's prime office properties, at about M$600-640psf, are at 10-15% rise from current market values of M$500-550psf, largely in line with recent increase in rental rate renewals.

At our price target of M$3.40, implied 2007E and 2008E P/E are 32x and 25x; the regional averages for property investors are 34x and 31x, respectively. While our RNAV valuations factor in average 6% cap rates for the group's prime properties, a sensitivity analysis shows that a further 1ppt decline in transacted cap rates to 5% would raise RNAV by 16% to M$3.94/share.

Table 25: IGB—Earnings breakdown

M$MM, Y/E Dec	2004	2005	2006	2007E	2008E	2009E
Property development	46	69	111	70	71	46
Property investment	88	91	103	137	200	242
Hotels	55	65	41	69	76	79
Construction	2	3	3	3	3	3
Others	2	3	-12	-6	-12	-12
Total (with associates)	193	231	247	273	339	358
Unallocated income	5	17	21	18	9	8
Unallocated expense	(21)	(18)	(22)	(20)	(20)	(20)
Finance costs	(36)	(35)	(43)	(39)	(36)	(37)
Pretax profit	142	173*	202	233	292	310

Source: Company, JPMorgan estimates. Note: *After accounting for exceptional item of M$22MM.

IGB Corporation: Summary of financials

Profit and Loss statement					
MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Revenues	620	722	681	781	745
% change Y/Y	22.8	16.5	-5.6	14.6	-4.7
EBIT	213	225	253	319	338
% change Y/Y	23.6	5.4	12.7	25.9	6.1
EBIT Margin (%)	34.4	31.1	37.2	40.8	45.5
Net Interest	-18	-23	-21	-27	-29
Earnings before tax	173	202	233	292	310
% change Y/Y	22.3	16.4	15.3	25.4	6.2
Tax	-60	-57	-64	-77	-82
as % of EBT	34.7	28.3	27.3	26.3	26.3
Net Income (Reported)	105	136	159	204	217
% change Y/Y	4	29	17	28	6
Core Net Profit	128	136	159	204	217
% change Y/Y	26	6	17	28	6
Shares Outstanding	1461	1486	1486	1486	1486
EPS (reported)	0.07	0.09	0.11	0.14	0.15
% change Y/Y	0.9	26.6	17.3	28.2	6.4
Core EPS	0.087	0.091	0.107	0.137	0.146
% change Y/Y	22	5	17	28	6

Cash flow statement					
MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Operating profit	180	183	209	269	286
Depreciation & amortisation	38	57	67	77	81
Change in working capital	33	41	-65	7	-3
Taxes	-60	-57	-64	-77	-82
Cash flow from operations	191	225	147	276	282
Capex	-222	-336	-325	-200	-150
Disposal/ (purchase)	75	101	9	9	9
Net Interest	-18	-23	-21	-27	-29
Free cash flow	27	-33	-189	58	113
Equity raised/ (repaid)	11	-27	0	0	0
Debt raised/ (repaid)	103	-33	-48	5	4
Other	38	-9	0	0	0
Dividends paid	-26	-34	-43	-61	-65
Beginning cash	435	596	535	226	198
Ending cash	596	535	226	198	221
DPS	0.02	0.02	0.03	0.04	0.04

Balance sheet					
MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Cash and cash equivalents	596	535	226	198	221
Accounts receivable	191	183	225	258	246
Inventories	69	87	76	87	83
Others	129	172	172	172	172
Current assets	985	977	699	715	722
LT investments	219	212	212	212	212
Net fixed assets	1,619	1,898	2,156	2,279	2,348
Total assets	3,696	3,831	3,875	4,084	4,232
Liabilities					
ST loans	67	129	81	86	90
Payables	316	408	374	425	406
Others	35	37	37	37	37
Total current liabilities	418	574	492	548	532
Long term debt	700	605	605	605	605
Other liabilities	107	104	104	104	104
Total liabilities	1225	1283	1201	1257	1242
Shareholders' equity	2382	2457	2573	2716	2869
BVPS	1.631	1.653	1.731	1.828	1.930

Ratio Analysis					
%, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Operating margin	29.1	25.3	30.6	34.5	38.4
Pretax margin	28.0	27.9	34.1	37.3	41.6
Net profit margin	17.0	18.8	23.4	26.2	29.2
SG&A/sales					
Sales per share growth	22.8	16.5	-5.6	14.6	-4.7
Sales growth	22.8	16.5	-5.6	14.6	-4.7
Net profit growth	4.3	28.8	17.3	28.2	6.4
EPS growth	0.9	26.6	17.3	28.2	6.4
Interest coverage (x)	5	4	5	7	8
Net debt to total capital	5	6	13	14	13
Net debt to equity	7	8	18	18	17
Sales/assets	17	19	18	19	18
Assets/equity	155	156	151	150	148
ROE	5.5	5.6	6.3	7.7	7.8
ROCE	4.6	5.0	5.3	6.4	6.4

Source: Company, JPMorgan estimates.

YNH Property Berhad

New kid on the block well positioned in both the residential and commercial segments

- **We remain Overweight on YNH Property (YNH)** with a December 2007 price target of M$4.50. We believe YNH is well-positioned to ride the improving outlook and recent government incentives for residential properties, as well as the upcycle in the commercial/office segment in the Klang Valley.

- **Share price drivers:** (1) YNH's key edge for its Klang Valley residential projects is its prime landbank (90%, or 23 acres near popular suburban Mont Kiara area), relatively low entry or land cost and competitive pricing. (2) Its maiden M$1B Grade A office project should benefit from marketing/branding support from JV partner, CapitaLand and shortage of Grade A office in the city center (>90% occupancy rate). (3) We forecast 3-year EPS CAGR of 24% for FY07-09E—about the strongest in the sector.

- **PT and risks.** Its P/E of 10x FY08E is at a 40% discount to the average of 17x for its large-cap peers. This is despite its strong growth, superior FY08E ROE of 21% (peer average: 13.5%) and operating margin of 39% (peer average: 24%). Our December 2007 PT is M$4.50 on 13x FY08E P/E, a 20% discount to large-cap peers. **Risks:** (1) Inability to replenish land to sustain earnings beyond FY11E. (2) Lack of a strong brand name in Klang Valley, though compensated by its prime landbank, JVs, cheap land cost and competitive pricing. (3) High foreign shareholding of 45%.

Bloomberg: YNHB MK; Reuters: YNHB.KL

M$MM, Y/E Dec	FY06	FY07E	FY08E	FY09E
Sales	265.3	297.3	427.7	587.4
Core net profit	71.8	94.0	121.6	138.8
Core EPS (M$)	0.20	0.26	0.34	0.39
DPS (M$¢)	0.10	0.13	0.19	0.24
Sales growth (%)	57	12	44	37
Net profit growth (%)	54	31	29	14
EPS growth (%)	44	29	29	14
ROE (%)	15.4	18.0	20.6	20.9
ROCE (%)	13.0	14.1	17.5	19.2
P/E (x)	16.4	12.6	9.8	8.6
P/B (x)	2.4	2.1	1.9	1.7
EV/EBITDA (x)	12.4	10.6	7.6	6.0
Dividend yield (%)	2.2	2.8	4.1	5.3

Source: Company reports, JPMorgan estimates. Note: Share price and valuations are as of April 20, 2007.

Overweight

M$3.34
20 April 2007
Price Target: M$4.50

Malaysia
Property

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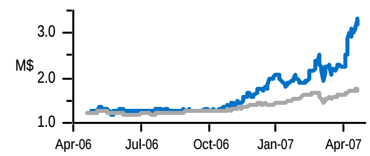
Price Performance



	YTD	-1M	-3M	-12M
Absolute	61.4%	54.6%	73.1%	169.4%
Relative	41.4%	45.5%	59.5%	130.7%

Source: RIMES, Reuters.

Company data

52-wk range (M$)	1.20-3.34
Mkt cap. (M$MM)	1,188.4
Mkt cap. (US$MM)	344.5
Shares O/S (MM)	355.8
Free float (%)	60
Avg. daily volume (MM)	2.0
Liquidity (US$MM)	1.9
Exchange rate	3.45
Index	1315.37
Year-end	December

Source: Bloomberg.

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Valuations

YNH has unbilled sales of M$350MM representing 1.3x of historical FY06 revenue. This, in our view, and good earnings visibility for its new projects given prime land-bank, the sector's up-cycle and recent government incentives, translate into a three-year EPS CAGR of 24% over FY07-09E—strongest in the sector besides E&O Property. The stock currently trades at 10x FY08E, a 40% discount to the average of 17x for its larger cap comparable peers (E&O Property and SP Setia).

We have valued YNH differently versus large land bank owners, where valuations on RNAV is a fairer method given their strong asset backing but longer lead time and capital to turn assets into earnings. YNH's key strategy/focus is: (1) faster-than-normal construction period for its Manjung town-ship at 12 months for link-houses versus the norm of 18-24 months; (2) prime land bank in Klang Valley with almost immediate development potential and quick turnaround time; and (3) replenishment of landbank to sustain longer term earnings. For instance, the recent acquisition of a very prime six-acre land in Mont Kiara for mixed development (service apartments, office blocks and retail) has enhanced FY09E earnings by 20%. Its quick turnaround strategy is a key contributor to above average margins and ROE of 21% for FY08E (peer average: 13.5%), apart from its relatively low land cost.

Thus, we set a December 2007 price target of M$4.50 for YNH, which is based on a fair multiple of 13x P/E, a discount of 20% and 40% respectively to its larger cap peers at current levels and their fair values. YNH's RNAV of M$3.80, based on DCF of future development profits (WACC of 9%), also provides support.

Table 26: YNH Property—RNAV

Undeveloped land	% Held	GDV (M$MM)	Acres	Revaluation surplus* (M$MM)
Manjung, Perak state	100%	2000	782	358
Klang Valley (all on prime land)				
163 Residence, KL , near KLCC	100%	278	1	43
Ceriaan Kiara, Mont Kiara	100%	189	3	38
Wisma YNH (JV with Capital Land)	60%	1000	3	271
Mont' Kiara, next to Plaza Mont' Kiara	70%	550	6	146
Jalan Sultan Ismail	90%	200	2	46
Duta Nusantara, Duta Solaris	90%	712	14	143
Total		4,929	811	1044
Less: Taxation				271
Net revaluation surplus				783
Add: FY07 shareholders funds				554
Total RNAV				1337
No. of existing shares				354
RNAV/share				3.80

Source: Company, JPMorgan estimates. Note: *Arrived at based on future development profits discounted at a WACC of 9%.

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YNH Property Berhad: Summary of financials

Profit and Loss statement					
MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Revenues	169	265	297	428	587
% change Y/Y	38.3	57.3	12.1	43.8	37.4
EBIT	78	103	121	169	212
% change Y/Y	43.2	32.6	27.9	44.5	22.9
EBIT Margin (%)	46.0	38.8	40.6	39.4	36.1
Net Interest	-3	-4	-4	-5	-5
Earnings before tax	75	99	127	185	228
% change Y/Y	47.0	31.6	28.7	45.5	23.4
Tax	-21	-27	-33	-46	-57
as % of EBT	28.6	27.2	26.0	25.0	25.0
Net Income (Reported)	54	72	94	122	139
% change Y/Y	40	34	31	29	14
Core Net Profit	47	72	94	122	139
% change Y/Y	21	54	31	29	14
Shares Outstanding	329	352	356	356	356
EPS (reported)	0.14	0.20	0.26	0.34	0.39
% change Y/Y	-5	44	29	29	14
Core EPS	0.141	0.204	0.264	0.342	0.390
% change Y/Y	-5	44	29	29	14

Cash flow statement					
MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
EBIT	78	103	121	169	212
Depreciation & amortisation	1	2	2	3	4
Change in working capital	-158	-41	-18	-64	-78
Taxes	-21	-27	-33	-46	-57
Cash flow from operations	-101	37	71	62	81
Capex	1	-3	-54	-43	-34
Disposal/ (purchase)	0	-5	0	0	0
Net Interest	-3	-4	-4	-5	-5
Free cash flow	-103	25	12	14	42
Equity raised/ (repaid)	107	7	0	0	0
Debt raised/ (repaid)	51	-20	50	0	0
Other	-1	-5	0	0	0
Dividends paid	25	25	33	49	62
Beginning cash	4	34	15	55	42
Ending cash	34	15	55	42	42
DPS	0.11	0.10	0.13	0.19	0.24

Balance sheet					
MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Cash and cash equivalents	34	15	55	42	42
Accounts receivable	143	120	134	193	265
Inventories	7	18	24	34	47
Others	150	216	216	216	216
Current assets	333	370	430	485	571
LT investments	19	24	24	24	24
Net fixed assets	273	99	127	185	228
Total assets	626	669	781	877	992
Liabilities					
ST loans	88	75	75	75	75
Payables	29	38	39	45	52
Others	11	17	17	17	17
Total current liabilities	129	130	131	137	144
Long term debt	29	22	72	72	72
Other liabilities	29	25	25	42	74
Total liabilities	186	176	227	250	289
Shareholders' equity	439	493	554	627	703
BVPS	1.33	1.40	1.56	1.76	1.98

Ratio Analysis					
%, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
EBIT margin	46.0	38.8	40.6	39.4	36.1
Operating margin	46.0	38.8	40.6	39.4	36.1
Net profit margin	31.8	27.1	31.6	28.4	23.6
SG&A/sales					
Sales per share growth	38.3	57.3	12.1	43.8	37.4
Sales growth	38.3	57.3	12.1	43.8	37.4
Net profit growth	39.7	34.1	30.8	29.4	14.1
EPS growth	-5.3	44.4	29.4	29.4	14.1
Interest coverage (x)	0.0	0.1	0.0	0.0	0.0
Net debt to total capital	14	13	13	13	11
Net debt to equity	19	17	17	17	15
Sales/assets	27	40	38	49	59
Assets/equity	142	136	141	140	141
ROE	12.5	15.4	18.0	20.6	20.9
ROCE	11.7	13.0	14.1	17.5	19.2

Source: Company, JPMorgan estimates.

KLCC Property Holdings

Market asset value disclosure to dictate share price

- **Asset values to be disclosed.** KLCCP will be marking to market the value of its investment properties when results are announced in May. Indications are that the total market value is likely to be at least 50% more than the initial BV of M$4.9B or about M$7.33B. Based on today's rentals, this implies a fair cap rate of 6%, broadly within our estimates. (We have valued assets at a higher M$8.26B in our RNAV based on end-2008 rentals, but it works out to M$7.83B if adjusted for today's rentals). Menara Maxis, in which KLCCP has a 33% stake, was recently valued independently at M$1,038/sq ft, also implying a cap rate of 6%.
- **Key growth drivers.** We expect a 2-year EPS CAGR of 13% over FY08-09E, driven by full impact of 9% rental rate increase for Petronas Towers in Oct-06 (50% of profits), while hotel and retail operations (40% of profits) should benefit from rising tourism/consumption spending. KLCC is an indirect beneficiary of government incentives for the property sector, which will help raise demand for high-end condo units coming up around the KLCC area, hence should help improve its commercial values. Long-term growth will come from expansion of office and retail space involving a rise in net lettable area by 16% from end-2008.
- **Maintain OW.** Our new Dec-07 PT of M$4.20 is based on RNAV. We prefer IGB as it trades at a larger discount of 21% to RNAV vs. KLCCP's 9%, and offers stronger earnings growth and is more geared to rising market rentals (50% of KLCCP's profits are based on locked-in rentals to 2012). Risk too the Price Target is pricey acquisitions as KLCCP may look to acquire prime assets of its parent Petronas.

Bloomberg: KLCC MK; Reuters: KLCC.MK

M$MM, year end Mar-31	FY05	FY06	FY07E	FY08E	FY09E
Sales	598.0	751.9	802.9	856.6	894.1
Operating profit	412.3	539.2	572.0	623.0	656.8
Core net profit	114.4	177.1	188.8	219.5	242.4
Reported EPS (M$)	0.12	0.19	0.20	0.24	0.26
FD core EPS (M$)	0.09	0.14	0.15	0.17	0.19
Gearing (%)	92.8	78.3	67.6	62.8	57.2
ROE (%)	6.1	7.6	7.7	8.6	9.0
ROCE (%)	5.2	7.5	7.5	8.1	8.3
FD P/E (x)	43.5	28.1	26.3	22.6	20.5
FD P/BV (x)	2.2	2.1	2.0	1.9	1.8
FD P/CF (x)	25.1	14.7	15.7	13.6	12.3
EV/EBITDA (x)	10.0	7.2	6.5	5.9	5.5
Dividend yield (%)	0.8	1.9	2.0	2.3	2.6
Dividend pay-out ratio (%)	26.1	38.0	38.0	38.0	38.0

Source: Company, JP Morgan estimates. *FD based on rise in shares from 934MM to 1,295MM with RCULS conversion by Aug-09.

Overweight

M$3.84

20 April 2007
Price Target: M$4.20

Malaysia
Property

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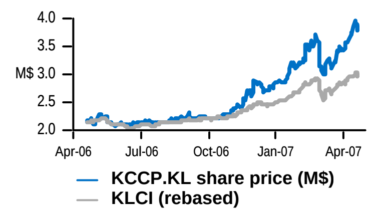
Price Performance



	YTD	-1M	-3M	-12M
Absolute	35.2%	18.5%	21.5%	77.8%
Relative	15.2%	9.4%	7.9%	39.1%

Source: RIMES, Reuters.

Company data

52-wk range (M$)	2.00-4.04
Market cap (M$MM)	3,587
Market cap (US$MM)	1,043
Share O/S (MM)	934
Free float (%)	35%
Ave. daily volume	4.00
Ave. daily value (US$MM)	2.28
Ave. daily value (M$MM)	4.20
Exchange rate	M$3.4/US$1
Index	1315.37
Year-end	Dec

Source: Bloomberg.

Table 1: KLCCP—RNAV

Year-end Mar-31	% Stake	Net lett area (m sqft)	Book value (M$MM)	Market value (M$MM)	Net rev surplus (M$MM)	Market value (M$ sq ft)	Comments
Retail							
Suria KLCC	60%	1.01	1122	2587	879	2,568	Cap rates of 6% (7% previously)
Office							
Petronas Twin Towers	51%	3.01	2815	4452	827	1,478	Cap rates maintained at 5% (similar to independent valuation in 2004)
Menara Exxon Mobil	100%	0.38	203	307	104	808	Cap rates maintained at 6%
Kompleks Dayabumi	100%	0.68	278	338	60	500	Cap rates maintained at 7% (non-prime)
Menara Maxis	33%	0.53	470	574	34	1,087	Cap rates maintained at 6%
Future development* (discounted)							
Lot C (1.06 acres)							
Retail	100%	0.16	158#	411	253	2,568	Cap rates of 6% (7% previously)
Office	100%	0.74	728#	877	136	1,185	Cap rates maintained at 6%
Lot D1 (1.41 acres)	100%	0.90	867#	1162	209	1,292	Cap rates maintained at 6%
		No of rooms				Mkt value (M'000/room)	
Hotel							
Mandarin Oriental	75%	643	591	762	128	1,185	Based on recent market transaction (i.e. Westin Hotel in 2006).
Total					2631		
NTA as at end-FY09					2782		
Total RNAV					5413		
No of shares (FD)					1295		
RNAV/share (FD)					4.20		

Source: JPMorgan estimates. Note: *Values discounted to end-FY09E at 10% WACC as Lot C and Lot D1 expected to be completed by FY10 and FY13, respectively. # Development cost for future projects. **FD shares take into account conversion of M$714MM RCULS by Aug-09, which will increase share base from 934MM to 1,295MM.

Raising price target and RNAV sensitivity

We raise our RNAV-based price target from M$4.00 to M$4.20 to factor in cap rates of 5-6% for all its prime assets (5-6% for office, 7% for retail previously). At our price target, the implied P/E is 24x for FY08E and 22x for FY09E (regional average: 34x and 31x, respectively, for property investors). A sensitivity analysis shows that a drop in fair cap rates for all its prime assets to 5% raises RNAV by 16% to M$4.86/share.

Sub-leases at Petronas Towers are now enjoying higher rentals of up to M$12.50/sqft versus the current locked-in rentals of M$8.50psf for KLCCP. Fair valuation for the towers based on the sub-lease rentals and cap rates of 6% would add additional 80sen/share to RNAV, but KLCCP would not be able to enjoy the upside from here given the capped rental rate hikes up to 2012. This, however, indicates strong demand for quality office space in KL. (Petronas' sub-lease rates are double that of the recent grade 'A' rental renewals at M$6-7psf for office space in KL).

Earnings breakdown

Table 2: KLCCP—Profit breakdown in segments

Year-end Mar-31	Net lett area (m sqft)	FY05	FY06	FY07E	FY08E	FY09E	FY10E
Petronas Twin Towers	3.01	239	291	305	318	318	333
Suria KLCC mall	1.01	104	148	167	187	216	247
Mandarin Oriental Hotel	643*	37	52	66	83	89	90
Menara ExxonMobil	0.38	13	15	15	15	15	14
Kompleks Dayabumi	0.68	8	10	10	10	10	10
Lot C - retail/office space	0.90	0	0	0	0	0	8
Parking & facilities mgmt		11	23	10	10	10	9
Menara Maxis (associate)	0.53	9	11	11	12	13	13
Net interest expense		-153	-174	-158	-147	-141	-133
Pre-tax		268	376	425	487	529	592

Source: Company, JPMorgan estimates. *Represents number of rooms for Mandarin Oriental.

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KLCC Property: Summary of financials

Profit and Loss statement				
MYR in millions, year-end Mar	FY06	FY07E	FY08E	FY09E
Revenues	752	803	857	894
% change Y/Y	25.7	6.8	6.7	4.4
EBIT	550	583	635	670
% change Y/Y	30.6	6.0	8.8	5.6
EBIT Margin (%)	73.2	72.6	74.1	74.9
Net Interest	-174	-158	-147	-141
Earnings before tax	376	425	487	529
% change Y/Y	40.4	12.9	14.7	8.5
Tax	-89	-119	-132	-138
as % of EBT	23.7	28.0	27.0	26.0
Net Income (Reported)	177	189	220	242
% change Y/Y	55	7	16	10
Core Net Profit	177	189	220	242
% change Y/Y	55	7	16	10
Shares Outstanding	934	934	934	934
EPS (reported)	0.19	0.20	0.24	0.26
% change Y/Y	54.9	6.6	16.3	10.4
Core EPS	0.137	0.146	0.170	0.187
% change Y/Y	55	7	16	10

Cash flow statement				
MYR in millions, year-end Mar	FY06	FY07E	FY08E	FY09E
Operating profit	539	572	623	657
Depreciation & amortisation	14	14	14	20
Change in working capital	49	8	8	6
Taxes	-89	-119	-132	-138
Cash flow from operations	513	475	514	545
Capex	-22	-29	-250	-250
Disposal/ (purchase)	0	0	0	0
Net Interest	-174	-158	-147	-141
Free cash flow	317	288	117	154
Equity raised/ (repaid)	0	0	0	0
Debt raised/ (repaid)	-210	-141	-131	-141
Other	18	-39	0	0
Dividends paid	-67	-72	-83	-92
Beginning cash	561	593	629	532
Ending cash	593	629	532	453
DPS	0.07	0.08	0.09	0.10

Balance sheet				
MYR in millions, year-end Mar	FY06	FY07E	FY08E	FY09E
Cash and cash equivalents	593	629	532	453
Accounts receivable	58	62	67	70
Inventories	0	0	0	0
Others	0	0	0	0
Current assets	652	692	599	523
LT investments	4,989	4,989	4,989	4,989
Net fixed assets	650	665	901	1,131
Total assets	6,422	6,488	6,642	6,809
Liabilities				
ST loans	204	199	204	208
Payables	173	185	197	206
Others	31	31	31	31
Total current liabilities	408	415	432	445
Long term debt	2252	2116	1980	1835
Other liabilities	1383	1461	1598	1747
Total liabilities	4043	3993	4010	4027
Shareholders' equity	2378	2495	2632	2782
BVPS	2.546	2.672	2.817	2.978

Ratio Analysis				
%, year-end Mar	FY06	FY07E	FY08E	FY09E
Operating margin	71.7	71.2	72.7	73.5
Pretax margin	50.1	52.9	56.9	59.2
Net profit margin	23.6	23.5	25.6	27.1
SG&A/sales				
Sales per share growth	25.7	6.8	6.7	4.4
Sales growth	25.7	6.8	6.7	4.4
Net profit growth	54.9	6.6	16.3	10.4
EPS growth	54.9	6.6	16.3	10.4
Interest coverage (x)	3	3	4	4
Net debt to total capital	30	27	26	24
Net debt to equity	78	68	63	57
Sales/assets	12	12	13	13
Assets/equity	270	260	252	245
ROE	7.6	7.7	8.6	9.0
ROCE	7.5	7.5	8.1	8.3

Source: Company, JPMorgan estimates.

JPMorgan

SP Setia

Share liquidity, quality and value enhancing commercial strategy warrants a premium

- **Our estimated RNAV for SP Setia is M$7.90 is based on discounted value of future development profits.** We believe this method is fair for SP Setia given its proven track record and good earnings visibility. Our RNAV assumes an average rise in residential prices by 5% p.a. over the duration of the projects (average 10 years) and a rise of up to 40% in its commercial land values from current prices in the next 24 months.
- **Stronger earnings growth in FY08; upside from commercial projects.** New projects (Penang, Setia Eco-Gardens in Johor, and commercial projects) to be launched in 2007 have raised total GDV by 30% (M$3.8 billion) to M$16 billion. These will contribute more significantly to profits from FY08E. We forecast profit growth to rise from 6% in FY07 to 17% in FY08. Our forecast excludes potential from the 150 acre Setia Alam commercial land as details are being worked out, but this could fetch a GDV of up to M$3-4 billion, with plans for land sales/long-term leases to enhance values.
- **Maintain OW with Dec-07 PT of M$9.50.** Our PT is based on 20% premium to our RNAV which we believe is warranted for its liquidity, quality and proven track record of enhancing values/RNAV via land sales and an overall sound strategy. At our price target, the implied CY07E and CY08E P/E for SP Setia is 25x and 21x, versus the regional average of 27x and 22x for property developers, respectively. Risk to price target is a downturn in property prices.

Reuters: SETI.KL, Bloomberg: SPSB MK

M$ in millions, year-end October

	FY05	FY06	FY07E	FY08E	FY09E
Revenues	1,262	1,155	1,153	1,229	1,363
Net profit	203	240	254	298	324
EPS (M$)	0.32	0.36	0.38	0.44	0.48
DPS (M$)	0.43	0.22	0.22	0.26	0.29
Revenue growth (%)	23	-9	0	7	11
Core net profit growth (%)	26	18	6	17	9
Core EPS growth (%)	25	12	4	17	9
Core ROE (%)	13.7	14.7	14.5	16.0	16.3
ROCE	12.4	12.0	11.3	12.5	13.9
P/E	25.8	23.0	22.1	18.8	17.3
P/B (x)	3.3	3.2	3.1	2.9	2.7
EV/EBITDA (x)	16.6	16.2	16.1	13.9	11.6
Dividend yield (%)	5.1	2.6	2.7	3.1	3.4

Source: Company, JPMorgan estimates.

Overweight

M$8.35

20 April 2007
Price Target: M$9.50

Malaysia
Property

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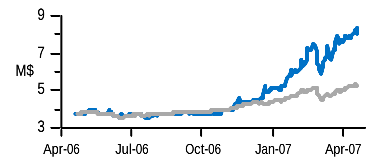
Price Performance



SETI.KL share price (M$)
KLCI (rebased)

	YTD	-1M	-3M	-12M
Absolute	63.7%	18.4%	44.0%	119.7%
Relative	43.7%	9.3%	30.4%	81.0%

Source: RIMES, Reuters.

Company data

52-wk range (M$)	3.46-8.40
Market cap (M$MM)	5,616
Market cap (US$MM)	1,632
Share O/S (MM)	673
Free float (%)	70
Ave. daily volume	3.07
Ave. daily Value (M$MM)	18.14
Avg daily value (US$MM)	5.27
Exchange rate	M$3.4/US$1
Index	1315.37
Year-end	Oct

Source: Bloomberg.

Table 2: SP Setia—Residential landbank

Projects	Undeveloped land (acres)	Remaining GDV (M$MM)	Revaluation surplus (M$MM)	Comments
Klang Valley				
Setia Alam	1,306	4,640	1129	Development profits discounted at 8% over 15 years
Setia Hills Ampang	15	100	6	Development profits discounted at 8% over 2 years
Others	10	-	-	
JV projects				
Setia Eco-Parks (50%-owned)	596	3,040	377	Development profits discounted at 8% over 12 years
Putrajaya (50%-owned)	275	1,635	30	Development profits discounted at 8% over 11 years
Johor Bahru				
Bukit Indah Johor	492	1,600	287	Development profits discounted at 8% over 9 years
Setia Indah Johor	58	570	94	Development profits discounted at 8% over 3 years
Setia Tropika	558	1,790	324	Development profits discounted at 8% over 10 years
Setia Eco Gardens	949	2,000	187	Development profits discounted at 8% over 12 years
Penang				
Relau Land	21	150	15	Development profits discounted at 8% over 2 years
Setia Pearl Island	113	800	90	Development profits discounted at 8% over 3 years
Setia View, Penang (50%-JV)	45	275	15	Development profits discounted at 8% over 4 years
Total residential	4,438	16000*	2,553	

Source: Company, JPMorgan estimates. *GDV based on today's prices. Note: Development profits derived at based on average operating margin of 25% on GDV less corporate tax of 26%.

Table 3: SP Setia—Commercial landbank

Projects	Undeveloped land (acres)	Book value (M$/sqft)	Market value (M$/sqft)	Revaluation surplus (M$MM)	Comments
Klang Valley					
Setia Alam	150	9.60	150	920	Development plans yet to be firmed up, but potentially GDV of M$3-4bn in total.
Setia Alam*	20	9.60	150		8 acres leased to Tesco, remaining 12 acres for own development
Puchong	15	5.25	181	115	Development plans being planned, with potential GDV of M$400m.
KL (recent acquisition)	6	300	500	52	
Johor Bahru					
Bukit Indah Johor	67	10.65	82	207	38acres recently proposed to be sold at M$65/sqft
Setia Indah Johor	24	12.17	82	73	Development plans yet to be firmed up
Setia Tropika	51	9.17	82	161	Development plans yet to be firmed up
Total commercial	333			1527	
Less: Tax				(397)	
Revaluation surplus				1130	

Source: Company, JP Morgan estimates. *Values already reflected in residential GDV for Setia Alam.

Table 4: SP Setia—RNAV (2007E)

	M$MM
Revaluation surplus	
Residential	2,553
Commercial	1,130
Add: book value	1,928
Less: Discounted value of cash outflow for acquisition of Johor and Penang land*	(298)
Total RNAV	5,313
Issued shares	673
Total RNAV/share	7.90

Source: JPMorgan estimates. *Represents remaining outflow to acquire land at Setia Eco Gardens, Johor and Setia View, Penang.

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RNAV sensitivity

Our base RNAV assumes: (1) An overall average rise in residential prices by 5% p.a. over the entire duration of projects (averaging 10 years) with higher increases mainly in next three years ranging from 5-14% p.a. assumed for the various projects.
(2) Cumulative increase in commercial land values by 40% to M$150psf in Setia Alam, Klang Valley and 25% to M$81psf in Johor from current prices in the next 24 months. We believe this is fair given that bungalow plots in Setia Alam are currently being sold at M$110psf, while the recent transaction for SP Setia's commercial land in Johor was at M$65psf. Since then vast incentives have been introduced by the government in South Johor to spur the market.

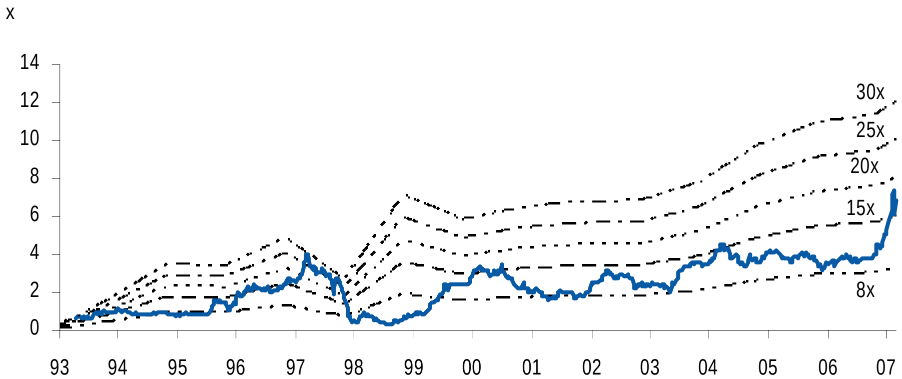
A further 5ppt rise in residential property prices, and 10% rise in commercial land values from our assumptions would raise our RNAV by 14% and 2%, respectively.

SP Setia's historical one-year forward P/E trading range...

...2-30x pre-crisis from 1993-97

...3-17x post crisis from 1999

Figure 25: SP Setia—P/E band chart



Source: Bloomberg, Company, JPMorgan estimates.

Expect stronger growth from FY08

Table 5: SP Setia—Project sales breakdown and forecast

Projects	FY03	FY04	FY05	FY06	FY07E	FY08E	FY09E	FY10E
M$MM								
Johor projects								
Bukit Indah, Johor	119	196	148	167	180	180	180	180
Setia Indah, Johor	178	202	143	151	150	150	150	120
Setia Tropika, Johor	-	-	-	214	150	150	150	150
Setia Eco-Gardens (70%-stake)	-	-	-	-	-	214	150	150
Klang Valley projects								
Duta Nusantara, Hartamas	159	22	-	-	-	-	-	-
Puchong - Commercial	-	-	-	-	50	100	100	70
Other Klang Valley	34	10	7	-	70	30	-	-
Setia Alam	-	405	223	232	316	384	300	300
Duta Tropika	-	69	181	-	-	-	-	-
Setia Eco-Park (50% JV)	-	111	169	179	250	250	250	250
Putrajaya (50% JV)	30	38	355	470	144	144	144	144
Penang projects								
Setia Pearl Island & Relau land	-	-	-	-	50	150	250	250
Total sales	520	1,053	1,226	1,413	1,359	1,751	1,674	1,614
Total sales (excluding Putrajaya)	490	1,015	871	943	1,216	1,608	1,530	1,470

Source: Company, JPMorgan estimates.

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SP Setia: Summary of financials

Profit and Loss statement

MYR in millions, year-end Oct	FY05A	FY06	FY07E	FY08E	FY09E
Revenues	1,262	1,155	1,153	1,229	1,363
% change Y/Y	23.2	-8.5	-0.1	6.6	10.9
EBIT	273	318	341	383	445
% change Y/Y	18.9	16.6	7.2	12.3	16.1
EBIT Margin (%)	21.6	27.5	29.6	31.2	32.6
Net Interest	17	16	4	16	6
Earnings before tax	290	334	345	399	451
% change Y/Y	23.5	15.3	3.4	15.6	13.0
Tax	-86	-94	-91	-99	-117
as % of EBT	29.8	28.1	26.4	24.7	26.0
Net Income (Reported)	203	240	254	298	324
% change Y/Y	26	18	6	17	9
Core Net Profit	203	240	254	298	324
% change Y/Y	26	18	6	17	9
Shares Outstanding	627	661	673	673	673
EPS (reported)	0.32	0.36	0.38	0.44	0.48
% change Y/Y	14	12	4	17	9
Core EPS	0.324	0.364	0.378	0.443	0.482
% change Y/Y	25	12	4	17	9

Cash flow statement

MYR in millions, year-end Oct	FY05A	FY06	FY07E	FY08E	FY09E
EBIT	270	275	277	321	384
Depreciation & amortisation	5	6	6	7	7
Change in working capital	80	-108	32	-16	-15
Taxes	-85	-82	-74	-83	-101
Cash flow from operations	269	91	241	228	274
Capex	31	-22	-20	-22	-24
Disposal/ (purchase)	-45	-62	8	-65	-58
Net Interest	-17	-10	-22	-22	-30
Free cash flow	238	-3	207	120	162
Equity raised/ (repaid)	92	31	0	0	0
Debt raised/ (repaid)	-270	15	262	-45	-47
Other	0	1	0	0	0
Dividends paid	-113	-143	-150	-177	-194
Beginning cash	457	404	304	623	521
Ending cash	404	304	623	521	442
DPS	0.43	0.22	0.22	0.26	0.29

Balance sheet

MYR in millions, year-end Oct	FY05A	FY06	FY07E	FY08E	FY09E
Cash and cash equivalents	404	304	623	521	442
Accounts receivable	297	445	461	492	545
Inventories	20	25	25	26	29
Others	30	31	31	31	31
Current assets	750	805	1,140	1,070	1,048
LT investments	15	18	18	18	18
Net fixed assets	123	140	154	170	187
Total assets	2,435	2,626	3,040	3,135	3,269
Liabilities					
ST loans	92	63	407	443	477
Payables	273	320	288	307	341
Others	14	15	94	91	99
Total current liabilities	380	398	789	842	917
Long term debt	477	520	439	358	276
Other liabilities	3	4	4	4	4
Total liabilities	859	922	1232	1203	1197
Shareholders' equity	1574	1702	1807	1928	2059
BVPS	2.510	2.577	2.686	2.866	3.061

Ratio Analysis

%, year-end Oct	FY05A	FY06	FY07E	FY08E	FY09E
EBIT margin	21.6	27.5	29.6	31.2	32.6
Operating margin	21.4	23.8	24.0	26.1	28.1
Net profit margin	16.1	20.8	22.0	24.3	23.8
SG&A/sales					
Sales per share growth	23.2	-8.5	-0.1	6.6	10.9
Sales growth	23.2	-8.5	-0.1	6.6	10.9
Net profit growth	26.2	18.1	5.8	17.3	8.8
EPS growth	13.6	12.2	4.0	17.3	8.8
Interest coverage (x)	116	157	95	76	96
Net debt to total capital	8	12	8	10	11
Net debt to equity	10	16	12	15	15
Sales/assets	52	44	38	39	42
Assets/equity	155	154	168	163	159
ROE	13.7	14.7	14.5	16.0	16.3
ROCE	12.4	12.0	11.3	12.5	13.9

Source: Company, JPMorgan estimates.

E&O Property Development

Strong asset backing; all in place for launch ramp-up

Overweight

M$3.40

20 April 2007
Price Target: M$4.00

Malaysia
Property

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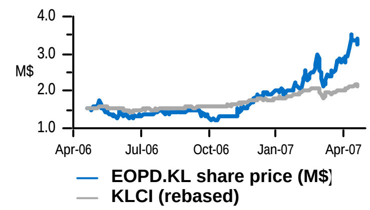
- **All in place for ramp-up in launches:** Apart from recent government incentives for property, all approvals are in for ENOP to launch the remainder M$2B GDV for Phase 1 of Sri Tanjung Pinang (STP) project. STP project has achieved accumulated sales of ~M$300MM since its launch in late-05. In Klang Valley, ENOP will launch its high-rise development in the prime KL area, in a 45:55 JV with Lion Group (GDV: M$500MM), by 4Q07. ENOP targets property sales of M$600MM for Y/E Mar-08 (we forecast M$640MM) from M$320MM in FY07.
- **ENOP looking for landbank in Klang Valley:** Besides the 980 acre land in STP, Penang, ENOP is now actively scouting for land within 10km radius of KL city. (Its prime KL landbank stands at 20 acres, including 1.3 acres acquired near KLCC at M$850psf—in line with the current market rate.) After accounting for the recent share placement which raised M$92MM, FY07E net gearing is 0.4x; ENOP intends to keep this ratio below 1x with potential acquisitions.
- **We maintain OW:** We expect recent delivery of the first batch of properties at STP, government's incentives for the sector and the entry of hypermarket Tesco Stores in the STP project area to help improve overall land values for development. Our M$5 RNAV assumes 15-20% appreciation in land prices for STP from current transacted levels of M$200-220psf. Our Dec-07 PT is M$4 on a 20% discount to RNAV. At our PT, P/E is 27x for 07E and 20x for 08E versus regional average of 27x and 22x, respectively for property developers. Risk to our PT is downturn in property prices.

Reuters: EOPD.KL; Bloomberg: ENOP MK

M$MM, Y/E March	FY05	FY06	FY07E	FY08E	FY09E
Sales	441.7	762.5	692.0	518.6	605.5
Core net profit	31.0	63.6	73.9	108.5	141.6
Core EPS (M$)	0.05	0.10	0.11	0.16	0.21
DPS (M$)	0.00	0.00	0.04	0.04	0.04
Sales growth (%)	-8	73	-9	-25	17
Net profit growth (%)	162	105	16	47	31
EPS growth (%)	162	105	11	47	30
ROE (%)	5.3	9.9	9.2	11.1	13.1
ROCE (%)	5.7	7.9	8.5	8.1	8.7
P/E (x)	68.7	33.5	30.3	20.7	15.9
P/B (x)	3.1	2.9	2.4	2.2	1.9
EV/EBITDA (x)	24.3	14.3	11.3	10.8	9.6
Dividend yield (%)	0.0	0.0	0.8	0.8	0.8

Source: Company, JPMorgan estimates. Note: Share price and valuations are as of April 20, 2007.

Price Performance



	YTD	-1M	-3M	-12M
Absolute	70.0%	31.8%	70.0%	119.4%
Relative	50.0%	22.7%	56.4%	80.7%

Source: RIMES, Reuters.

Company data

52 week range (M$)	1.10–3.60
Market cap (M$MM)	2,222
Market cap (US$MM)	646
Share O/S (MM)	653
Free float (%)	55
Avg daily value (US$MM)	0.81
Avg daily value (M$MM)	2.80
Exchange rate (M$/US$1)	3.44
KLCI Index	1315.37
Year-end	March

Source: Bloomberg.

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Table 27: E&O Property—RNAV

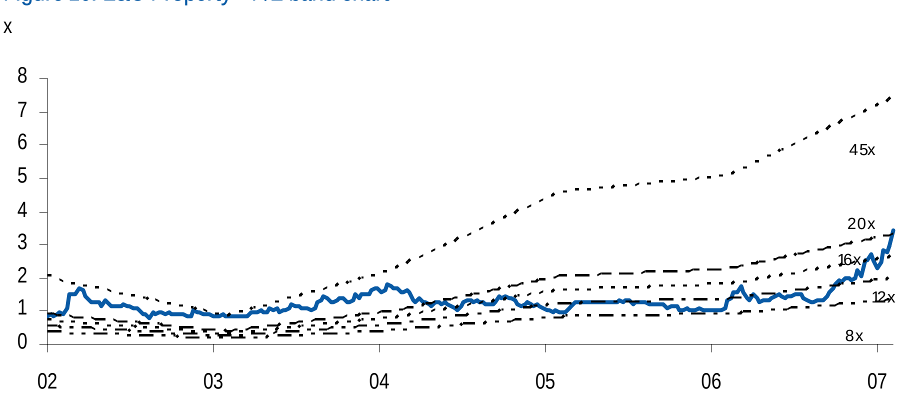
	% owned	Acres	Market value (M$psf)	Market value (M$MM)	Book value (M$MM)	Book value (M$psf)	Reval. surplus to E&OP (M$MM)
Landbank (in Penang and Klang Valley)							
Kemensah Heights	88%	309.5	30	404	103	8	265
Tanjung Pinang Ph 1* (Penang)	70%	136.0	250	1481	533	90	664
Tanjung Pinang Ph 2 & 3*, (Penang)	66%	401.0	250	4367	1572	90	1841
The Peak	100%	4.0	450	78	48	277	30
Selangor Prop JV	40%	6.6	440	126	126	440	0
Lion JV, Klang Valley	45%	4.1	800	143	77	431	30
Conlay/Kia Peng	100%	4.0	900	157	96	550	61
Gertak Sanggul	100%	365.0	20	325	111	7	214
Ukay Heights, Ulu Kelang, Ampang	100%	10.1	50	22	3	43	19
Jalan Mayang, Kuala Lumpur	100%	0.4	295	5	0	295	5
Jalan Yap Kwan Seng, Kuala Lumpur	100%	1.3	850	48	48	850	0
Cash outflow for recent acquisitions							(107)
Total revaluation surplus							3021
Less: Taxation							(816)
Net revaluation surplus							2205
Add: Cash proceeds from recent share placement and warrant conversion							100
Add: FY08E shareholders funds							1022
Add: Remaining warrant proceeds not converted							9
RNAV							3,337
Fully diluted no. of shares							662
Fully diluted RNAV/share							5.04

Source: Company, JPMorgan estimates. Note: *Represents net saleable area.

RNAV sensitivity to higher land prices

The biggest component to RNAV for ENOP is its Penang landbank, where we assume prices to appreciate by 15-20% to M$250psf from recent transacted prices of M$200-220psf in the next 12 months. Every 10% rise in land values in Penang from our assumption should raise RNAV by 9%. For the group's prime Klang Valley landbank in turn, every 10% rise in the land values should raise RNAV by just 2%.

Figure 26: E&O Property—P/E band chart



Source: Company, Bloomberg, JPMorgan estimates.

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E&O Property Development: Summary of financials

Profit and Loss statement					
MYR in millions, year-end Mar	FY05A	FY06A	FY07E	FY08E	FY09E
Revenues	442	762	692	519	606
% change Y/Y	-8.3	72.6	-9.2	-25.1	16.8
EBIT	69	118	152	188	244
% change Y/Y	41.0	72.2	27.9	23.8	30.2
EBIT Margin (%)	15.6	15.5	21.9	36.2	40.4
Net Interest	-15	-16	-18	-13	-14
Earnings before tax	62	103	186	175	230
% change Y/Y	36.3	64.4	81.4	-5.9	31.4
Tax	-13	-28	-52	-43	-52
as % of EBT	21.0	27.3	28.0	24.6	22.6
Net Income (Reported)	38	64	127	108	142
% change Y/Y	221	67	100	-15	31
Core Net Profit	31	64	74	108	142
% change Y/Y	162	105	16	47	31
Shares Outstanding	557	569	611	653	653
EPS (reported)	0.06	0.11	0.12	0.17	0.22
% change Y/Y	111	101	8	37	31
Core EPS	0.050	0.101	0.112	0.164	0.214
% change Y/Y	162	105	11	47	30

Cash flow statement					
MYR in millions, year-end Mar	FY05A	FY06A	FY07E	FY08E	FY09E
EBIT	71	122	155	163	184
Depreciation & amortisation	3	3	3	3	3
Change in working capital	-34	-74	-17	-17	-17
Taxes	-13	-28	-52	-43	-52
Cash flow from operations	27	23	89	106	119
Capex	-189	-39	-226	-160	-53
Disposal/ (purchase)	49	1	49	25	60
Net Interest	-15	-16	-18	-13	-14
Free cash flow	-129	-31	-106	-42	112
Equity raised/ (repaid)	-3	0	134	0	0
Debt raised/ (repaid)	152	145	-100	-100	-100
Other	-5	-5	0	0	0
Dividends paid	0	0	0	-19	-19
Beginning cash	71	84	192	120	-41
Ending cash	84	192	120	-41	-48
DPS	0.00	0.00	0.04	0.04	0.04

Balance sheet					
MYR in millions, year-end Mar	FY05A	FY06A	FY07E	FY08E	FY09E
Cash and cash equivalents	84	192	120	-41	-48
Accounts receivable	200	228	217	206	196
Inventories	41	39	41	43	46
Others	338	418	428	438	448
Current assets	663	877	806	646	641
LT investments	56	64	74	108	142
Net fixed assets	832	103	133	175	230
Total assets	1,568	1,814	1,966	1,964	2,008
Liabilities					
ST loans	47	116	116	116	116
Payables	235	326	309	294	279
Others	112	53	53	53	53
Total current liabilities	393	495	479	463	449
Long term debt	413	488	388	288	188
Other liabilities	154	159	167	190	227
Total liabilities	960	1143	1033	942	864
Shareholders' equity	608	672	932	1022	1145
BVPS	1.09	1.18	1.43	1.56	1.75

Ratio Analysis					
%, year-end Mar	FY05A	FY06A	FY07E	FY08E	FY09E
EBIT margin	16.1	16.1	22.4	31.4	30.4
Operating margin	16.1	16.1	22.4	31.4	30.4
Net profit margin	8.6	8.3	18.3	20.9	23.4
SG&A/sales					
Sales per share growth	-8.3	72.6	-9.2	-25.1	16.8
Sales growth	-8.3	72.6	-9.2	-25.1	16.8
Net profit growth	221.1	67.2	99.5	-14.5	30.5
EPS growth	110.6	100.8	8.1	37.2	30.5
Interest coverage (x)	0.5	0.3	0.2	0.1	0.1
Net debt to total capital	31	29	24	28	21
Net debt to equity	62	61	41	44	31
Sales/assets	28	42	35	26	30
Assets/equity	258	270	211	192	175
ROE	5.3	9.9	9.2	11.1	13.1
ROCE	5.7	7.9	8.5	8.1	8.7

Source: Company, JPMorgan estimates.

Axis REIT

Proven track record of DPU accretive acquisitions

- **Beneficiary from possible tax incentives for REITS:** Assuming a cut in tax on dividends for foreign institutions from 20% to 10% (in line with Singapore) in the upcoming budget this Sept, Axis' FY07E net div yield would rise from 5.1% to 5.8%. This translates into a spread of 2.3% over the 10-year bond yield versus Singapore's 1.2%.
- **Looking for new acquisitions:** Currently**,** Axis has a portfolio of nine properties (up from five when it was listed in 2005), comprising commercial/office assets and industrial lots. The assets, we estimate, currently on a cumulative basis generate a net yield of 8%. Management has just proposed a recent acquisition of industrial property for M$18MM to be funded via debt which will enhance FY08E DPU by 0.5%, and raise gearing from 21.4% to 24.8%. We believe the group still plans to acquire and has the capacity to raise additional debt of up to M$180MM based on the maximum gearing ratio of 50% for REITS. Given its current debt cost of 5%, any acquisition with yields above this would be DPU-accretive if fully debt-funded. Axis has the option to also issue new shares to grow more aggressively given its proposal to place out up to a maximum of 50MM new units or up to 24% of the current share base. Management has assured that the share placement, if opted for in future acquisitions, will not be earnings-dilutive.
- **Maintain OW:** We raise our Dec-07 PT to M$2.50 from M$2.30 based on DDM rolled forward to FY08. Axis is one of the most aggressive Malaysian REITS in terms of acquiring assets to grow yields. At our PT, implied 2007E net dividend yield is 4.4% vs. industry average of 5.6%, and 2.8% for Quill Capita (owned by Capital Land). Risk - higher interest rates which could widen expected yields, but we do not expect any rise in rates for now.

Bloomberg: AXRB MK; Reuters: AXSR.KL

Year end December	FY05	FY06	FY07E	FY08E	FY09E
Revenues (M$MM)	33.0	41.0	46.4	49.0	52.6
Core net profit (M$MM)	24.0	26.4	28.7	30.8	34.0
EPU (M$)	0.12	0.13	0.14	0.15	0.16
DPU (M$)	0.11	0.13	0.14	0.15	0.16
Revenue growth (%)	NM	24	13	6	7
EPU growth (%)	NM	10	9	7	10
DPU growth (%)	NM	15	6	7	10
ROE (%)	8.7	9.2	9.8	10.5	11.5
P/E (x)	18.2	16.6	15.3	14.3	13.0
Prem/(Disc) NAV (%)	58	49	49	49	49
Dividend yield (pre-tax) (%)	5.3	6.1	6.4	6.9	7.5
Dividend yield (post-tax) (%)	3.8	4.9	5.1	5.5	6.0

Source: Company and JPMorgan estimates.

Overweight

M$2.06

23 April 2007
Price Target: M$2.50

Malaysia
Property

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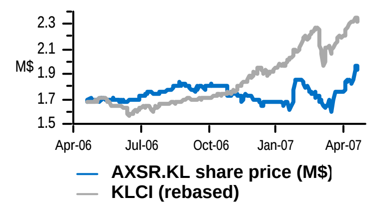
Price Performance



	YTD	-1M	-3M	-12M
Absolute	14.9%	10.3%	15.6%	14.9%
Relative	-5.1%	1.2%	2.0%	-23.8%

Source: RIMES, Reuters.

Company data

52-wk range	M$1.60-2.13
Market cap (M$MM)	397
Market cap (USDMM)	115
Share O/S (MM)	205.9
Free float (%)	52%
Ave. daily volume	0.19
Ave. daily value (M$MM)	0.33
Ave. daily value (US$MM)	0.10
Exchange rate	M$3.4/US$1
Index	1315.37
Year-end	Dec

Source: Bloomberg.

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Table 28: Axis REIT NAV

Existing asset base	NLA (sq ft)	M$ psf	Market value M$MM
Axis Business Park	340,233	275	93.6
Menara Axis	171,967	477	82.0
Crystal Plaza	200,386	339	68.0
Infinite Centre	150,388	216	32.5
Axis Plaza	118,173	237	28.0
Kompleks Kemajuan	201,972	180	36.3
Axis North Port Logistics Centre 1	130,000	104	13.5
Kayangan Depot	162,206	113	18.4
Wisma Bintang	172,967	208	36.0
	1,648,292		
Total market value of assets			408.3
Other assets			3.5
Total assets			411.8
Less: Borrowings			-88.1
Less: Other payables			-29.6
NAV			294.1
NAV/share (M$/share)			1.43

Source: Company and JPMorgan estimates.

Table 29: Details on recent factory / warehouse acquisition and potential DPU enhancement

Location	Shah Alam
Gross floor area (sf)	Factory / warehouse—100,985 ft Double storey office—9,606 sf
Occupancy rate	100%
Acquisition price (M$ MM)	18.5
Gross annual rental	1.5
Gross yield (%)	8.2%
Est. net rental	1.2
Less: mgmt fee	-0.13
Less: trustee fee	-0.01
Net income before interest	1.1
Net yield (%)	5.8%
Less: funding cost (cost of debt of 5%)	0.93
Net earnings accretion	0.15
Payout ratio	95%
Outstanding units	206
DPU enhancement (sen)	0.07
FY08E DPU enhancement	14.71
% enhancement	0.5%

Source: Company, JPMorgan estimates.

Axis REIT: Summary of financials

Profit and Loss statement					
MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Revenues	33	41	46	49	53
% change Y/Y	140.0	24.0	13.3	5.7	7.2
EBIT	25	30	35	37	40
% change Y/Y	NM	18.7	16.5	6.5	8.8
EBIT Margin (%)	76.0	72.7	74.8	75.4	76.5
Net Interest	-1	-3	-5	-5	-5
Earnings before tax	24	27	30	32	35
% change Y/Y	NM	10.7	10.9	7.1	10.3
Tax	0	0	-1	-1	-1
as % of EBT	0.3	1.0	3.0	3.0	3.0
Net Income (Reported)	24	43	29	31	34
% change Y/Y	NM	10	9	7	10
Core Net Profit	24	26	29	31	34
% change Y/Y	NM	10	9	7	10
Units Outstanding	206	206	206	206	207
EPU (reported)	0.12	0.13	0.14	0.15	0.16
% change Y/Y	NM	10	9	7	10
Core EPU	0.117	0.128	0.140	0.149	0.164
% change Y/Y	NM	10	9	7	10

Cash flow statement					
MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
EBIT	25	30	35	37	40
Depreciation & amortisation	0	0	0	0	0
Change in working capital	12	4	1	1	1
Taxes	0	0	-1	-1	-1
Cash flow from operations	37	33	34	37	40
Capex	-332	-76	0	0	0
Disposal/ (purchase)	0	0	0	0	0
Net Interest	-1	-3	-5	-5	-5
Free cash flow	-296	-46	29	32	35
Equity raised/ (repaid)	277	16	0	0	0
Debt raised/ (repaid)	40	48	0	0	0
Other	0	0	0	0	0
Dividends paid	-23	-27	-28	-30	-33
Beginning cash	0	5	0	0	1
Ending cash	5	0	0	1	3
DPU	0.11	0.13	0.14	0.15	0.16

Balance sheet					
MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Cash and cash equivalents	5	0	0	1	3
Accounts receivable	0	0	0	0	0
Inventories	0	0	0	0	0
Others	0	0	0	0	0
Current assets	5	0	0	1	3
LT investments	0	0	0	0	0
Net fixed assets	332	408	408	408	408
Total assets	330	398	399	400	401
Liabilities					
ST loans	40	88	88	88	88
Payables	12	16	16	17	18
Others	0	0	0	0	0
Total current liabilities	52	104	104	105	106
Long term debt	0	0	0	0	0
Other liabilities	0	0	0	0	0
Total liabilities	52	104	104	105	106
Shareholders' equity	278	294	294	295	295
BVPS	1.349	1.428	1.429	1.431	1.425

Ratio Analysis					
%, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
EBIT margin	76.0	72.7	74.8	75.4	76.5
Operating margin	76.0	72.7	74.8	75.4	76.5
Net profit margin	72.8	104.8	61.9	62.7	64.6
SG&A/sales					
Sales per share growth	140.0	24.0	13.3	5.7	7.2
Sales growth	140.0	24.0	13.3	5.7	7.2
Net profit growth	NM	10.0	8.7	7.1	10.3
EPS growth	NM	10.0	8.7	7.1	9.8
Interest coverage (x)	14	10	7	7	8
Net debt to total capital	11	23	23	23	22
Net debt to equity	13	30	30	29	29
Sales/assets	10	10	12	12	13
Assets/equity	119	135	135	136	136
ROE	8.7	9.2	9.8	10.5	11.5
ROCE	8.0	8.5	8.8	9.4	10.2

Source: Company, JPMorgan estimates.

Landmarks Bhd

Asset play with downside support

Overweight

M$2.18

20 April 2007
Price Target: M$3.50

Malaysia
Property

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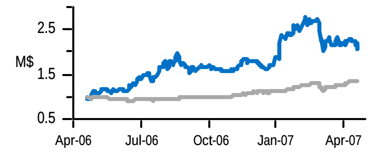
- **Shift in group strategy/focus:** The following in our view signal a clear shift in Landmarks Group strategy/focus: (1) Emergence of Genting Group as major shareholder with a 25% stake since end-2006. (2) Recently-completed purchase of 343ha of land in Bintan island, Indonesia, for property/resort development. *The Edge Weekly* reported Landmarks may bag a gaming license in Bintan.
- **Looking at best case value:** This scenario, which we call Stars Are Aligned value, assumes: (1) land value at Bintan (currently at S$9/sqft vs. S$1,300/sqft in Singapore) rising 5-fold in 3 years in line with trends in Singapore; (2) a gaming license being secured; (3) earnings from the casino in 3 years; and (4) the group selling its other non-core assets to fund the Bintan project, hence eliminating the risk of equity-raising. We arrive at an SAA value of M$6, on a 20% discount to RNAV. On the downside, assuming status quo with no further developments, RNAV is M$2.36/share.
- **Maintain OW:** Rising tourism and Bintan's close proximity to Singapore where wealth levels are rising and property values have appreciated strongly provide upside potential to Bintan's LT land values. Decision by Indonesian government to grant gaming license or liberalize the industry (currently banned) would also be key catalyst. Our Dec-07 RNAV-based PT is M$3.50, assuming 60% and 20% probability, respectively, that land values will appreciate and a gaming license will be secured in Bintan. Risks are Genting selling out of Landmarks as it has secured a gaming license in Singapore and cost-overruns for Bintan development.

Price Performance



	YTD	-1M	-3M	-12M
Absolute	16.6%	0.5%	-9.5%	124.7%
Relative	-3.4%	-8.6%	-23.1%	86.0%

Source: RIMES, Reuters.

Company data

52-wk range (M$)	0.95-2.85
Market cap (M$MM)	1,048
Market cap (US$MM)	305
Share O/S (MM)	464
Free float (%)	70
Ave. daily volume	1.8
Ave. daily value (M$MM)	4.0
Ave. daily value (US$MM)	1.2
Exchange rate	M$3.4/US$1
Index	1315.37
Year-end	Dec

Source: Bloomberg.

Bloomberg: LMK MK; Reuters: LMHS.KL

MS$MM; Y/E Dec	FY05	FY06	FY07E	FY08E	FY09E
Sales (M$MM)	316.3	196.3	201.4	204.7	208.1
Core net profit (M$MM)	37.9	43.3	47.9	52.9	57.3
Core EPS (M$)	0.08	0.09	0.10	0.11	0.12
DPS (M$)	0.01	0.01	0.01	0.01	0.01
Sales growth (%)	10	-38	3	2	2
Net profit growth (%)	52	14	10	10	8
EPS growth (%)	52	14	10	10	8
ROE (%)	10.5	10.0	9.3	9.5	9.5
ROCE (%)	6.8	8.8	6.9	7.2	7.3
P/E (x)	26.7	23.3	21.1	19.1	17.7
P/B (x)	2.7	2.1	1.9	1.7	1.6
EV/EBITDA (x)	23.8	21.3	19.4	18.4	17.5
Net dividend yield (%)	0.7	0.7	0.7	0.7	0.7

Source: Company and JPMorgan estimates.

See page 52 for analyst certification and important disclosures, including investment banking relationships.

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Table 1: Landmarks—RNAV (SAA value versus base case)

	SAA M$/share	Base case M$/share	Comments for base case values
Base case on existing fundamentals	2.36	2.36	Floor in Landmarks value if nothing happens from here
Incremental from land value appreciation at Bintan*	2.37	1.42	60% probability of land values appreciating to SAA scenario
Incremental from casino license/earnings#	2.84	0.57	20% probability of a gaming license/earnings on SAA scenario
Total RNAV	7.57	4.35	
Discount to RNAV	20%	20%	Discount to RNAV warranted in case of equity funding or JVs to develop land to ease funding requirements which will dilute its value
Target price	6.00	3.50	

Source: JPMorgan estimates. *Assumes that Bintan land will appreciate 5x within 2-3 years in line with trends in Singapore. #Assumes a gaming license will be secured.

Table 2: Landmarks—Base case RNAV (based on today's prices) without appreciation in land values and gaming license

	% stake	MV (M$MM)	MV to group (M$MM)	MV to group (M$MM)	Comments
Retail mall					
Sungei Wang Plaza	100%	559	559		
Hotels (Langkawi)					
The Datai hotel	33%	636	210		
Teluk Datai landbank	33%	105	35		
Andaman hotel	100%	150	150		
Associates					
Shangri-La	27%	1047	334		Based on share price of M$2.81 per share
TTPC	20%	600	120		Based on DCF
Wangsa Maju landbank	20%	267	53		
Net revalued assets			1,461		
Cash			131		
Other current assets			105		
Property dev expenditure			-		
Other LT assets			47		
Less: Debt			(453)		
Less: Liabilities			(134)		
Proceeds from private placement			45		
RNAV before sale of SWP and purchase of Bintan land			1,201	1,201	
Less: Mkt value of Sg Wang Plaza			(559)	(559)	
Add: Estimated reduction in debt from sale of SWP and purchase of Bintan land			87	87	Group debt post transactions is M$366MM
Add: Market value of Bintan Land (64.5%-stake)			472		Based on market value at S$9/sqft by independent valuers
Add: Discounted value of future development profits of Bintan				571	Based on discounted value of future development profits less tax of Bintan project (9% WACC)
Adjusted RNAV post-transactions			1,202	1,300	
No of shares			510	510	
RNAV/share			2.36 (based on current market value of Bintan land)	2.55 (based on discounted value of future dvlpt profits at Bintan)	

Source: JPMorgan estimates.

Table 3: Landmarks—RNAV based on various land value appreciation scenarios for Bintan

		Land value appreciation		
	No appreciation inland values (base case)	Scenario 1 2x value appreciation	Scenario 2 3x value appreciation	Scenario 3 5x value appreciation
Land value for Bintan (S$/sqft)	9	18	27	45
RNAV before sale of SWP and purchase of Bintan land	1,201	1,201	1,201	1,201
Less: Mkt value of Sg Wang Plaza	(559)	(559)	(559)	(559)
Add: Estimated reduction in debt from sale of SWP and purchase of Bintan land	87	87	87	87
Add: Market value of Bintan land (64.5%-stake)#	472	794	1192	1986
Less: Discounted value of initial infrastructure cost of M$317MM for Bintan	0	(302)	(302)	(302)
Adjusted RNAV post transactions	1,201	1,221	1,619	2,413
No of shares	510	510	510	510
RNAV/share	2.36	2.40	3.18	4.73

Source: JPMorgan estimates. Note: #For appreciation in values, we have assumed this will take place within two years and discounted the land values back to end-2007E.

Table 4: Landmarks—Incremental value/share if a gaming license is secured in Bintan

	Singapore	Indonesia (Bintan)		
		Scenario 1	Scenario 2	Scenario 3
Land area (sq ft)	5,272,067	36,895,320	36,895,320	36,895,320
Plot ratio	0.7	0.5	0.6	0.7
Est. GFA (sq ft)	3,430,000	18,447,660	22,137,192	25,826,724
Est. Gaming GFA (In sq ft)	150,000	55,343	66,412	81,096
Gaming area as % of GFA	4.4%	0.3%	0.3%	0.3%
No of tables	400	148	182	216
No of tables per 1000 sq ft	3	3	3	3
Win per table per day (In S$)	7000	7000	7000	7000
No of slots	2500	922	1,136	1,352
No of slots per 1000 sq ft	17	17	17	17
Win per slot per day (S$)	150	150	150	150
Revenue (In S$MM)	1,159	428	527	627
EBITDA margins (%)	30%	30%	30%	30%
EBITDA (In S$MM)	348	128	158	188
EBITDA (In M$MM)	800	295	363	432
EV/EBITDA multiple		8	8	8
Gaming EV		2,360	2,908	3,458
Less development cost		(317)	(392)	(466)
		2,043	2,516	2,992
Discounted @ 10% WACC (assuming gaming operations come on stream within three years).		1,535	1,890	2,248
No of shares		510	510	510
Incremental RNAV/share from gaming license (64.5%-stake)		1.94	2.39	2.84

Source: JPMorgan estimates.

Landmarks Berhad: Summary of financials

Profit and Loss statement

MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Revenues	316	196	201	205	208
% change Y/Y	10.5	-37.9	2.6	1.6	1.7
EBIT	100	100	108	113	117
% change Y/Y	-2.0	-0.1	7.8	4.3	4.2
EBIT Margin (%)	31.7	51.1	53.6	55.0	56.4
Net Interest	-37	-33	-27	-25	-22
Earnings before tax	58	147	81	88	96
% change Y/Y	699.6	152.8	-45.2	9.3	8.7
Tax	-10	-15	-27	-29	-32
as % of EBT	16.5	9.9	34.0	33.0	33.0
Net Income (Reported)	32	123	48	53	57
% change Y/Y	-264	282	-61	10	8
Core Net Profit	38	43	48	53	57
% change Y/Y	52	14	10	10	8
Shares Outstanding	464	464	464	464	464
EPS (reported)	0.07	0.27	0.10	0.11	0.12
% change Y/Y	-264	282	-61	10	8
Core EPS	0.082	0.093	0.103	0.114	0.123
% change Y/Y	52	14	10	10	8

Cash flow statement

MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Operating profit	64	72	80	85	90
Depreciation & amortisation	7	7	7	7	7
Change in working capital	23	20	1	1	1
Taxes	-10	-15	-27	-29	-32
Cash flow from operations	85	85	62	64	66
Capex	-6	-10	-10	-10	-10
Disposal/ (purchase)	168	80	0	0	0
Net Interest	-37	-33	-27	-25	-22
Free cash flow	210	122	24	29	35
Equity raised/ (repaid)	1	0	0	0	0
Debt raised/ (repaid)	-163	-76	-47	-47	-119
Other	-64	-9	-5	-6	-7
Dividends paid	-7	-7	-7	-7	-7
Beginning cash	166	130	161	126	96
Ending cash	130	161	126	96	-2
DPS	0.01	0.01	0.01	0.01	0.01

Balance sheet

MYR in millions, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
Cash and cash equivalents	130	161	126	96	-2
Accounts receivable	87	75	77	78	78
Inventories	19	14	14	14	15
Others	0	0	0	0	0
Current assets	236	250	217	188	91
LT investments	390	390	390	390	390
Net fixed assets	96	99	101	104	106
Total assets	1,034	1,079	1,077	1,078	1,011
Liabilities					
ST loans	50	17	21	25	33
Payables	119	123	126	128	130
Others	0	0	0	0	0
Total current liabilities	170	140	148	154	164
Long term debt	443	401	350	299	172
Other liabilities	20	20	20	20	20
Total liabilities	633	561	517	472	355
Shareholders' equity	383	383	383	383	383
BVPS	0.810	1.062	1.151	1.250	1.359

Ratio Analysis

%, year-end Dec	FY05A	FY06A	FY07E	FY08E	FY09E
EBIT margin	31.7	51.1	53.6	55.0	56.4
Operating margin	20.3	36.9	39.8	41.4	43.1
Net profit margin	10.2	62.9	23.8	25.8	27.5
SG&A/sales					
Sales per share growth	10.5	-37.9	2.6	1.6	1.7
Sales growth	10.5	-37.9	2.6	1.6	1.7
Net profit growth	-264.4	282.1	-61.2	10.4	8.4
EPS growth	-264.4	282.1	-61.2	10.4	8.4
Interest coverage (x)	2	2	3	3	4
Net debt to total capital	40	27	26	24	24
Net debt to equity	97	52	46	39	33
Sales/assets	31	18	19	19	21
Assets/equity	270	282	281	282	264
ROE	10.5	10.0	9.3	9.5	9.5
ROCE	6.8	8.8	6.9	7.2	7.3

Source: Company, JPMorgan estimates.

MK Land Holdings

Show me the earnings

- **Some pick-up in sales but still lackluster:** 2Q07 property sales of MK Land improved to M$64MM from M$26MM in 1Q07. Despite this, our cumulative sales estimate of M$200MM for FY07 still represents a decline versus M$235MM in FY06 (M$531MM in FY05 and M$904MM in FY04). This is due to: (1) lack of fresh launches with continued focus solely on marketing and selling of ongoing/completed projects; and (2) general preference for landed-properties versus MK Land's condo projects among buyers.
- **Weak margins:** For the full year, we forecast a plunge in operating margin to 10% for FY07 from 20% in FY06 (operating margin declined to 8.8% in 2QFY07 from 14% in 1Q07 and 20.4% in 2Q06). This is due to: (1) lower operating contribution to absorb fixed overheads and higher financing costs; and (2) progress billings of lower margin projects.
- **Maintain UW.** In tandem with the overall sector re-rating, we raise our Dec-07 PT for MK Land from M$0.50 to M$0.93 based on 1x FY08E price to book, a 50% discount to the current sector average of 1.9x. Our price target implies 60% discount to its RNAV of M$2.30. We believe this is warranted given management's inability to execute, turn assets into earnings, poor earnings visibility, and excessive P/E valuations. Risk to our PT is successful take-off of new launches in the landed segment—the group's semi-detached bungalow project at Damansara Perdana.

Bloomberg: MKL MK; Reuters: MKLH.KL
M$ in millions, year-end June

	FY05	FY06	FY07E	FY08E	FY09E
Sales	903.9	403.0	341.3	329.2	343.7
Core net profit	120.2	47.2	14.5	33.8	36.3
Core EPS (M$)	0.10	0.04	0.01	0.03	0.03
DPS (M$¢)	0.03	0.01	0.01	0.01	0.01
Sales growth (%)	-2	-55	-15	-4	4
Net profit growth (%)	-26	-61	-69	133	7
EPS growth (%)	-27	-61	-69	133	7
ROE (%)	11.8	4.4	1.3	3.1	3.2
ROCE (%)	18.4	7.7	3.5	5.8	5.9
P/E (x)	11.5	29.3	95.7	41.1	38.3
P/B (x)	1.3	1.3	1.3	1.3	1.2
EV/EBITDA (x)	9.8	19.6	39.9	25.6	24.8
Dividend yield (%)	2.5	0.6	0.6	0.6	0.6

Source: Company, JP Morgan estimates. Note: Share price and valuations are as of 20 April 2007.

Underweight

M$1.15

20 April 2007
Price Target: M$0.93

Malaysia
Property

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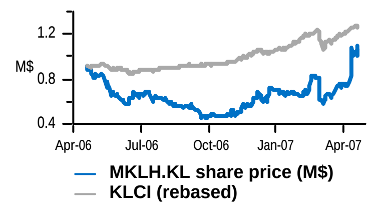
Price Performance



	YTD	-1M	-3M	-12M
Absolute	58.3%	58.3%	63.0%	20.9%
Relative	38.3%	49.2%	49.4%	-17.8%

Source: RIMES, Reuters.

Company data

52 week range (M$)	0.44-1.24
Market cap (M$MM)	1,328
Market cap (US$MM)	386
Share O/S (MM)	1,204
Free float (%)	25
Ave. daily vol (MM)	4.73
Ave. daily value (M$ MM)	3.30
Ave. daily value (US$MM)	0.96
Exchange rate (M$/US$1)	3.4
Index	1315.37
Year-end	June

Source: Bloomberg.

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Table 30: MK Land—RNAV

Residential landbank	Acres	BVpsf	MV psf	Reval surplus
Damansara Perdana, Klang Valley	560	15.00	100.00	2073
Damansara Damai, Klang Valley	28	3.00	50.00	57
Cyberia, Klang Valley	22	6.00	15.00	9
Ipoh projects in Perak state	332	1.70	4.00	33
Bukit Merah Laketown , Perak State	1650	2.63	2.63	0
Bandar Lembah Beriah, Perak State	2906	0.69	1.70	128
				2301
Less: taxation				(644)
				1656
Add: NAV FYE Jun-08				1118
RNAV				2774
No. of shares				1207
Basic RNAV/share				2.30

Source: JPMorgan estimates.

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MK Land Holdings: Summary of financials

Profit and Loss statement					
MYR in millions, year-end Jun	FY05A	FY06A	FY07E	FY08E	FY09E
Revenues	904	403	341	329	344
% change Y/Y	-2.3	-55.4	-15.3	-3.6	4.4
EBIT	174	81	34	60	62
% change Y/Y	-24.7	-53.2	-58.1	74.8	3.9
EBIT Margin (%)	19.2	20.2	10.0	18.1	18.0
Net Interest	-10	-9	-14	-13	-12
Earnings before tax	164	73	20	46	50
% change Y/Y	-25.8	-55.9	-72.2	130.0	7.3
Tax	-44	-25	-6	-13	-13
as % of EBT	26.8	34.9	28.0	27.0	27.0
Net Income (Reported)	120	47	14	34	36
% change Y/Y	-26	-61	-69	133	7
Core Net Profit	120	47	14	34	36
% change Y/Y	-26	-61	-69	133	7
Shares Outstanding	1204	1204	1207	1207	1207
EPS (reported)	0.10	0.04	0.01	0.03	0.03
% change Y/Y	-27	-61	-69	133	7
Core EPS	0.100	0.039	0.012	0.028	0.030
% change Y/Y	-27	-61	-69	133	7

Cash flow statement					
MYR in millions, year-end Jun	FY05A	FY06A	FY07E	FY08E	FY09E
EBIT	174	81	34	60	62
Depreciation & amortisation	11	11	11	11	11
Change in working capital	-11	2	-64	-23	-32
Taxes	-44	-25	-6	-13	-13
Cash flow from operations	130	69	-24	36	28
Capex	-12	-13	-10	-10	-10
Disposal/ (purchase)	-46	-59	0	0	0
Net Interest	-10	-9	-14	-13	-12
Free cash flow	63	-12	-48	12	6
Equity raised/ (repaid)	1	-16	0	0	0
Debt raised/ (repaid)	-13	45	-82	-48	-47
Other	-6	-21	0	0	0
Dividends paid	-35	-9	-9	-9	-9
Beginning cash	131	141	128	-10	-54
Ending cash	141	128	-10	-54	-104
DPS	0.03	0.01	0.01	0.01	0.01

Balance sheet					
MYR in millions, year-end Jun	FY05A	FY06A	FY07E	FY08E	FY09E
Cash and cash equivalents	141	128	-10	-54	-104
Accounts receivable	431	368	181	174	182
Inventories	436	499	524	550	577
Others	95	84	67	66	68
Current assets	1,102	1,079	762	735	723
LT investments	751	831	831	831	831
Net fixed assets	162	164	162	161	159
Total assets	2,044	2,080	1,762	1,734	1,720
Liabilities					
ST loans	138	163	131	133	136
Payables	355	379	137	132	137
Others	102	68	68	68	68
Total current liabilities	595	611	336	334	342
Long term debt	257	276	226	176	126
Other liabilities	128	106	106	106	106
Total liabilities	979	993	669	616	575
Shareholders' equity	1064	1087	1093	1118	1146
BVPS	0.884	0.903	0.906	0.926	0.949

Ratio Analysis					
%, year-end Jun	FY05A	FY06A	FY07E	FY08E	FY09E
EBIT margin	19.2	20.2	10.0	18.1	18.0
Operating margin	19.2	20.2	10.0	18.1	18.0
Net profit margin	13.3	11.7	4.2	10.3	10.6
SG&A/sales					
Sales per share growth	-2.3	-55.4	-15.3	-3.6	4.4
Sales growth	-2.3	-55.4	-15.3	-3.6	4.4
Net profit growth	-25.6	-60.7	-69.3	133.2	7.3
EPS growth	-27.0	-60.7	-69.4	133.2	7.3
Interest coverage (x)	6	6	2	5	5
Net debt to total capital	16	19	24	24	24
Net debt to equity	24	29	34	33	32
Sales/assets	44	19	19	19	20
Assets/equity	192	191	161	155	150
ROE	11.8	4.4	1.3	3.1	3.2
ROCE	18.4	7.7	3.5	5.8	5.9

Source: Company, JPMorgan estimates.

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Companies Recommended in This Report (all prices in this report as of market close on 23 April 2007)
Axis REIT (AXSR.KL/M$2.06/Overweight), E&O Property Development (EOPD.KL/M$3.50/Overweight), IGB Corporation (IGBS.KL/M$2.67/Overweight), KLCC Property Holdings (KCCP.KL/M$3.90/Overweight), Landmarks Bhd (LMHS.KL/M$2.16/Overweight), MK Land Holdings (MKLH.KL/M$1.15/Underweight), SP Setia (SETI.KL/M$8.35/Overweight), YNH Property Berhad (YNHB.KL/M$3.40/Overweight)

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