

Overweight

| | |
|-----------------|---------|
| Current Price | S\$1.79 |
| Fair Value | S\$2.78 |
| Up / (downside) | +55% |

Stock Statistics

| | |
|---------------|-----------|
| Market cap | S\$454.3m |
| 52-low | S\$1.600 |
| 52-high | S\$2.450 |
| Avg daily vol | 408,881 |
| No of share | 253.8m |
| Free float | 33% |

Key Indicators

| | |
|-------------|-------|
| ROE 14F | -1.0% |
| ROA 14F | -0.5% |
| P/BK | 0.40x |
| Net gearing | 30% |

Major Shareholders

| | |
|------------------|--------|
| Nan Fung | 29.98% |
| Pacific Alliance | 18.20% |
| Credit Suisse | 10.10% |

Historical Chart



Source: Bloomberg

Shanghai is “The Place” to be

- **Earnings in line.** Forterra’s 1Q14 net loss of S\$10.6m was in line with our estimates. The losses were mainly due to cessation of property rental from properties under construction/renovation, which we estimate will begin positive earnings contribution from 1Q15 onwards.
- **Maintain Overweight recommendation.** We maintain our forecasts given that construction progress remains on track with “The Place” (previously known as The HQ) and maintain our valuation method at 0.6x PBR FY14F. As a result, our target price remains at S\$2.78. We are positive on its prospects and will likely revise our valuations in 2H14 based on contribution from The Place beginning 4Q14, successful refinancing of its borrowings and updates on the resumption of distribution in FY15. With a 55% upside to current prices, maintain **Overweight**.
- **Around 80% of portfolio expected to be stabilised by year’s end.** Building progress for The Place remains on track with The Place Phase 1 expected to be completed by 3Q14 and The Place Phase 2 and 3 to be completed by 4Q14. As The Place makes up around 70% of the group’s total portfolio based on the valuation as at end Dec-13, having this asset contributing by 4Q14 will significantly improve its operational performance. We believe the rebranding of The HQ to The Place is a positive development in the long term as it will be able to leverage on the wider recognition of Nan Fung’s existing assets of other retail malls in China that are under the same name.
- **Sale of Beijing Logistics Park at 25% premium.** Another positive development was the sale of Beijing Logistics Park in 2Q14 at a 25% premium over the last valuation price as at end Dec-13, which was a surprise in comparison to the 8% discount of the sale of Central Plaza last year. It expects to recognise a net gain of S\$13.2m and net cash of S\$44.9m in its 2Q14 results (we have not factored in the numbers in our estimates).
- **1Q14 revenues declined by 36% yoy to S\$15.0m,** led mainly by the cessation of contribution from the retail podium of The Place Existing due to refurbishment works and from Central Plaza as a result of the divestment in May 2013.
- **Still healthy balance sheet.** Forterra spent S\$21m on development costs in 1Q14 on The Place. However, net gearing decreased from 30.8% as at end 4Q13 to 29.6% as at end 1Q14 as a result of revaluation of RMB denominated loans from the appreciation of SGD relative to RMB. It has around S\$500m or 78% of its loans maturing next year and which the management is currently in active discussions with its bankers to renew. We believe that risks of refinancing is mitigated by the supportive backing of major unitholder Nan Fung who invested last year.

Key Financial Data

| (\$ m, FYE Dec) | 2012 | 2013 | 2014F | 2015F | 2016F |
|----------------------|--------|---------|--------|-------|-------|
| Gross revenue | 99.1 | 77.3 | 80.4 | 144.9 | 153.9 |
| Net property income | 58.8 | 48.9 | 50.7 | 89.8 | 95.4 |
| Net operating income | 7.1 | (56.5) | (29.2) | 9.0 | 14.9 |
| Net profit | 42.4 | (49.3) | (13.5) | 6.8 | 10.1 |
| EPS (cents) | 16.7 | (19.4) | (5.3) | 2.7 | 4.0 |
| EPS growth (%) | (68.7) | (216.1) | 72.6 | 150.6 | 48.2 |
| PER (x) | 10.7 | (9.2) | (33.6) | 66.3 | 44.8 |
| NAV/share (\$) | 444.3 | 468.8 | 463.5 | 456.2 | 455.2 |
| DPU (cents) | 0.0 | 0.0 | 0.0 | 5.0 | 5.0 |
| Div Yield (%) | 0.0 | 0.0 | 0.0 | 2.8 | 2.8 |

Source: Company, NRA Capital forecasts

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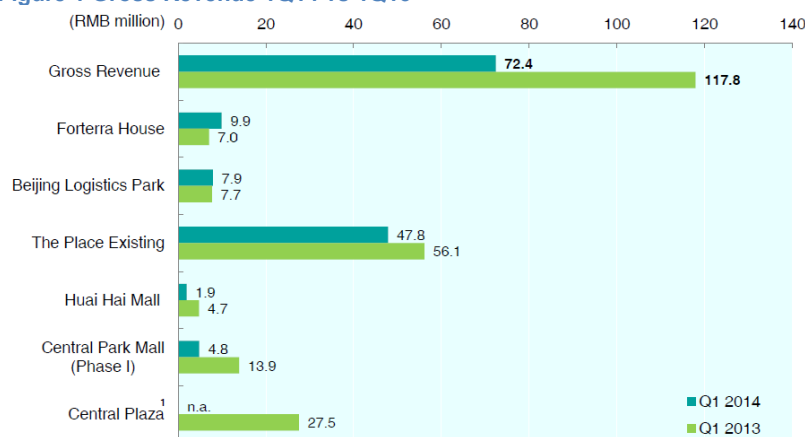
Forterra Trust

Results comparison

| FYE Dec (S\$ m) | 1Q14 | 1Q13 | yoy % chg | 4Q13 | qoq % chg | Prev. 1Q14F | Comments |
|------------------------------|---------------|---------------|--------------|---------------|--------------|----------------|---|
| Revenue | 15.0 | 23.3 | (36) | 15.2 | (1) | 15.3 | In line |
| Property operating costs | (6.5) | (7.8) | (17) | (6.8) | (4) | (6.3) | |
| Net property income | 8.5 | 15.5 | (45) | 8.3 | 2 | 8.9 | |
| <i>NPI margin (%)</i> | 56.5 | 66.4 | | 55.0 | | 58.5 | |
| Admin and mg't fees | (5.2) | (14.9) | (65) | (8.4) | (37) | (5.3) | |
| Financial expenses | (12.1) | (14.8) | (18) | (13.3) | (9) | (13.9) | Lower-than-expected due to decrease in average loan amounts of its properties |
| Net operating income | (8.8) | (14.3) | (38) | (13.3) | (34) | (10.3) | |
| Fair value gains/other gains | 0.1 | 0.3 | (74) | (54.7) | 100 | 0.0 | |
| Divestment of properties | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 | |
| Pretax profit | (8.7) | (13.9) | (37) | (68.0) | (87) | (10.3) | |
| Tax | (1.9) | (2.8) | (34) | 11.3 | (117) | 0.5 | Higher-than-expected tax expenses |
| Tax rate (%) | (21.4) | (20.3) | | 16.6 | | 5.0 | |
| Minority interests | 0.2 | (0.2) | 209 | 2.5 | (92) | (0.7) | |
| Net profit | (10.4) | (16.9) | (39) | (54.2) | (81) | (10.4) | In Line, higher-than-expected pretax profit offset by higher-than-expected tax expenses |
| EPS (cts) | (4.1) | (6.7) | (39) | (21.4) | (81) | (4.1) | |

Source: NRA Capital forecasts

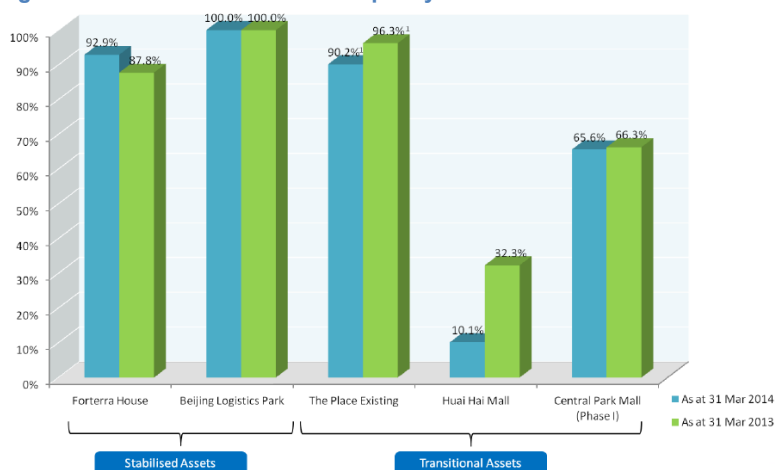
Figure 1 Gross Revenue 1Q14 vs 1Q13



1. The sale of Central Plaza was completed in May 2013.

Source: Company

Figure 2 Committed Portfolio Occupancy



Source: Company

Forterra Trust

| Profit & Loss (\$\$ m, FYE Dec) | 2012 | 2013 | 2014F | 2015F | 2016F |
|---|----------------|----------------|----------------|----------------|----------------|
| Gross revenue | 99.1 | 77.3 | 80.4 | 144.9 | 153.9 |
| Property operating expenses | (40.3) | (28.4) | (29.8) | (55.0) | (58.5) |
| Net property income | 58.8 | 48.9 | 50.7 | 89.8 | 95.4 |
| Non-property expenses | (51.7) | (105.4) | (79.9) | (80.9) | (80.5) |
| Associate's contribution | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net operating income | 7.1 | (56.5) | (29.2) | 9.0 | 14.9 |
| Fair value gain on financial derivatives | (1.1) | 1.1 | 0.0 | 0.0 | 0.0 |
| Net fair value gains on invest. Prop | 70.4 | (13.6) | 12.5 | 12.8 | 13.0 |
| Divestment of properties | 0.0 | 22.2 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 76.4 | (46.9) | (16.7) | 21.8 | 27.9 |
| Tax | (29.7) | (5.6) | 6.7 | (8.7) | (11.2) |
| Minority interests | (4.3) | 3.3 | (3.5) | (6.2) | (6.6) |
| Net profit | 42.4 | (49.3) | (13.5) | 6.8 | 10.1 |
| Wt. shares (m) | 253.6 | 253.6 | 253.6 | 253.6 | 253.6 |
| Shares at year-end (m) | 253.6 | 253.6 | 253.6 | 253.6 | 253.6 |
| Balance Sheet (\$\$ m, as at Dec) | 2012 | 2013 | 2014F | 2015F | 2016F |
| Fixed assets | 1.2 | 1.0 | 0.9 | 0.8 | 0.8 |
| Intangible assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long-term assets | 2,236.7 | 2,438.5 | 2,500.5 | 2,560.2 | 2,596.1 |
| Total non-current assets | 2,237.9 | 2,439.5 | 2,501.4 | 2,561.1 | 2,596.9 |
| Cash and equivalents | 42.1 | 108.2 | 14.7 | 148.0 | 105.7 |
| Stocks | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade debtors | 99.9 | 54.9 | 57.2 | 72.1 | 76.5 |
| Other current assets | 436.7 | 75.5 | 75.5 | 75.5 | 75.5 |
| Total current assets | 578.7 | 238.7 | 147.4 | 295.6 | 257.7 |
| Trade creditors | 103.0 | 102.3 | 96.4 | 124.8 | 132.6 |
| Short-term borrowings | 28.5 | 241.5 | 226.2 | 387.0 | 390.6 |
| Other current liabilities | 340.6 | 0.5 | (10.1) | (1.4) | 9.7 |
| Total current liabilities | 472.2 | 344.3 | 312.5 | 510.5 | 533.0 |
| Long-term borrowings | 718.9 | 617.2 | 629.6 | 651.9 | 623.3 |
| Other long-term liabilities | 369.0 | 393.6 | 393.6 | 393.6 | 393.6 |
| Total long-term liabilities | 1,087.9 | 1,010.8 | 1,023.2 | 1,045.5 | 1,016.9 |
| Shareholders' funds | 1,126.9 | 1,189.0 | 1,175.5 | 1,157.0 | 1,154.4 |
| Minority interests | 129.6 | 134.0 | 137.5 | 143.7 | 150.3 |
| NAV/share (\$\$) | 4.44 | 4.69 | 4.64 | 4.56 | 4.55 |
| Total Assets | 2,816.6 | 2,678.1 | 2,648.8 | 2,856.7 | 2,854.6 |
| Total Liabilities + S'holders' funds | 2,816.6 | 2,678.1 | 2,648.8 | 2,856.7 | 2,854.6 |
| Cash Flow (\$\$ m, FYE Dec) | 2012 | 2013 | 2014F | 2015F | 2016F |
| Pretax profit | 76.4 | (46.9) | (16.7) | 21.8 | 27.9 |
| Depreciation & non-cash adjustments | (44.7) | 7.2 | (3.9) | (25.4) | (0.0) |
| Working capital changes | 20.1 | 44.3 | (7.4) | 14.2 | 4.0 |
| Cash tax paid | (2.3) | (3.7) | (3.9) | (3.8) | (3.9) |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from operations | 49.6 | 0.8 | (31.9) | 6.7 | 27.9 |
| Capex | (0.1) | (0.0) | (0.2) | (0.2) | (0.2) |
| Net investments & sale of FA | (52.7) | 93.0 | (62.0) | (59.8) | (35.9) |
| Others | 0.2 | 0.4 | 0.0 | 0.0 | 0.0 |
| Cash flow from investing | (52.6) | 93.4 | (62.2) | (59.9) | (36.0) |
| Debt raised/(repaid) | 52.2 | 7.0 | (2.9) | 183.1 | (25.1) |
| Equity raised/(repaid) | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | (12.7) |
| Cash interest & others | (44.8) | (31.7) | 3.5 | 3.5 | 3.5 |
| Cash flow from financing | 7.4 | (24.6) | 0.6 | 186.6 | (34.3) |
| Change in cash | 4.4 | 69.7 | (93.5) | 133.3 | (42.4) |
| Change in net cash/(debt) | (47.8) | 62.7 | (90.6) | (49.8) | (17.3) |
| Ending net cash/(debt) | (801.9) | (739.2) | (829.8) | (879.6) | (896.9) |
| KEY RATIOS (FYE Dec) | 2012 | 2013 | 2014F | 2015F | 2016F |
| Revenue growth (%) | 6.3 | (22.0) | 4.1 | 80.1 | 6.2 |
| Net operating income growth (%) | 148.9 | (897.4) | 48.4 | 130.7 | 66.5 |
| Net operating income margins (%) | 7.2 | (73.2) | (36.3) | 6.2 | 9.7 |
| DPU Growth (%) | (100.0) | 0.0 | 0.0 | 500.0 | 0.0 |
| Interest cover ratio (x) | 1.1 | 0.0 | 0.5 | 1.2 | 1.3 |
| Effective tax rates (%) | 38.9 | (11.9) | 40.0 | 40.0 | 40.0 |
| Net dividend payout (%) | 0.0 | 0.0 | 0.0 | 185.8 | 125.4 |
| ROA (%) | 1.5 | (1.8) | (0.5) | 0.2 | 0.4 |

Source: Company, NRA Capital forecasts

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