Perennial China Retail Trust (PCRT) is an owner of retail malls in China and seeks to raise S$776mil in a public offering. Buy, stag or avoid?

Upsides

- Offers investment exposure to the Chinese retail market, forecasted to growth at 12.2% CAGR to 2015
- No debt at start of trading. Post-IPO NAV/share is 67c, just 3c below offer price

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- Expected appreciation of Chinese Yuan could provide upside on portfolio NAV and yield in the next few years

Downsides

- PCRT's malls are mainly located in tier-two Chinese cities, such as Shenyang and Foshan
- Pipeline of $3bil is nearly 3 times that of $1.1bil initial portfolio and if funded by debt would make PCRT one of the highest-geared S-Reit or business trust
- Despite being led by former CapitaMall Trust head, Perennial Real Estate (the sponsor) is not backed by a blue-chip giant
- On completion of IPO, the sponsor and trustee-manager will own just 4.8% of the trust
- Yield is expected at 5.3% in 2011 and 5.51% in 2012, which are below the current

average of more than 6% of all S-Reits. PCRT's closest peer CapitaRetail China offers 6.6% yield and boasts a stronger sponsor (CapitaMalls Asia)

- Unlike a Reit, a business trust such as PCRT is not obliged to distribute a minimum percentage of its income to unit holders
- Institutional interest in PCRT is probably very weak. PCRT's IPO was postponed from Mar 2011, at which time a higher amount of $1.1bil was targeted to be raised. In the revived IPO, price was also set the low end of the 70c to 76c range. More tellingly, the under-writers seem to have done away with the customary over-allotment option that would have allowed them to stabilize the price when trading commences

Similar to

- CapitaRetail China Trust
- Bund Centre
- Fortune Reit

Conclusion

- Strong avoid
- Offer opens 28 May 2011 and closes 7 Jun (10 a.m.)

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