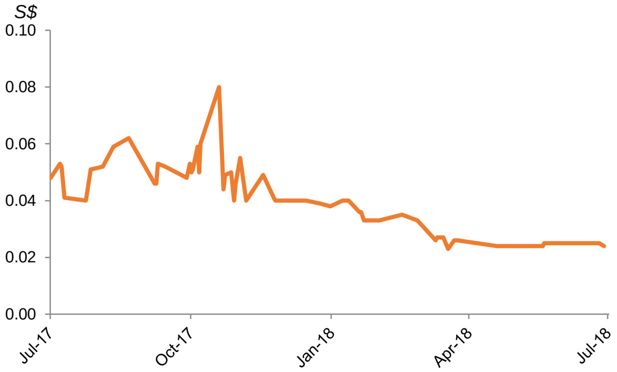
Pollux Properties Limited

Date: 10th July 2018

Non Rated

POLUX SP Equity

Price: S$0.024 (as at 9th July 2018)



Share price	1M	3M	6M	1Y
Pollux Properties Ltd	(4.0%)	(7.7%)	(38.5%)	(50.0%)
Catalist Index	(5.9%)	(11.3%)	(17.4%)	(17.9%)

Market capitalisation	S$68.9 million
Current price	S$0.025
Shares outstanding	2,759,468,325
Free Float	10.01%
Major shareholders	Pollux Holdings Pte Ltd. 89.99% CGS-CIMB Securities (S) Pte Ltd. 1.20%
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SAC Advisors

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Under-radar Premier Luxury Property Developer

Shift towards the higher-margin and recurring revenue stream. Pollux Properties Ltd., together with its subsidiaries, ("**Pollux**", "**Company**" or the "**Group**") holds several investment properties following the successful acquisition of Pollux Alpha Investments ("**PAI**") in November 2017. The acquisition includes *The MacDonald House* and 14 residential properties, all of which are located in the prime districts of Singapore. Together with its existing 96 serviced apartments and the 2 retail investment properties along Balestier Road, the Group is now less prone to the volatility of property development sales. It is poised to enjoy greater income stability from the recurring income of its serviced apartments and rentals.

Strong holding power of properties located in prime locations. The increasing number of residents seeking for temporary or permanent housing due to the en-bloc fever, coupled with the decreased pipeline supply in the prime districts of Singapore, Q1 2018's rental index for non-landed units in the Core Central Region ("**CCR**") has increased by 0.58% q-o-q – the largest increase in 5 years. Moreover, Colliers International reported that the strong economic fundamentals are driving an uptick in the demand for office rental in the Central Business District ("**CBD**") this year. Hence, with the heightened leasing demand for both residential and commercial units, it ensures that the Group's investment properties are able to consistently achieve a high occupancy rate.

Timely construction and effective sales strategy. With cooling measures such as the Qualifying Certificate ("**QC**") and Additional Buyer Stamp Duty ("**ABSD**"), the Group's strength in ensuring the timely construction and the sales of its developmental properties alleviates the risk of Pollux incurring hefty penalties.

Key risks: (i) Additional cooling measures, and ii) higher interest rates.

Key Historical Financials

Year ended 31st March (S$'000)	FY2014	FY2015	FY2016	FY2017	FY2018
Revenue	24,117	37,881	48,271	29,878	15,303
% Growth	N/A	57.1%	27.4%	(38.1%)	(48.8%)
Gross profit	2,685	3,697	5,116	3,345	3,828
Gross profit margin	11.1%	9.8%	10.6%	11.2%	25.0%
Profit/(loss) before tax	702	2,202	1,961	2,612	51,459
Profit/(loss) before tax margin	2.9%	5.8%	4.1%	8.7%	336.3%
Profit/(loss) attributable to owners	228	2,118	1,656	2,576	51,775
EPS/(LPS) (Singapore cents)	0.03	0.34	0.27	0.41	0.02
P/E (x)	302.9	32.6	41.6	26.8	1.3
P/B (x)	1.5	1.4	1.4	1.3	0.4
Net Debt/Equity	141.7%	140.6%	115.2%	103.1%	88.2%

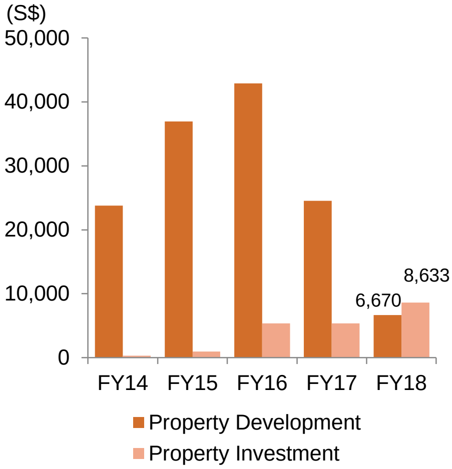
^EPS is computed based on the profit from continuing operations attributable to owners of the company divided by total shares outstanding

Investment Highlights

Business Overview:

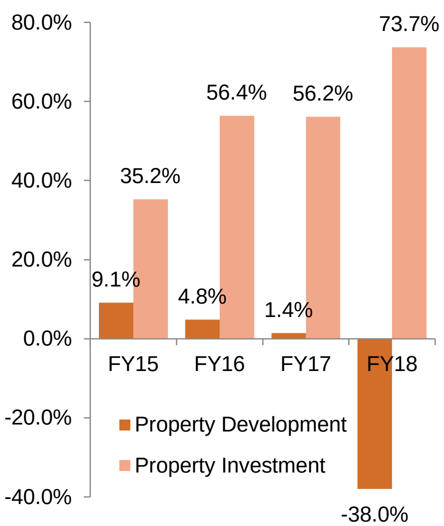
Pollux Properties Ltd. is a property developer and property investment firm which focuses primarily on the development of premium residential and commercial properties in Singapore.

Segmental breakdown, Revenue, FY2014 – FY2018



Source: SAC Advisors, Company Data

Segmental breakdown, Gross Margin, FY2015 – FY2018



Source: SAC Advisors, Company Data

Shift towards the higher-margin and recurring revenue stream. Atop its 2 shop units in Balestier Road and the 96 serviced apartments at Louis Kienne Serviced Residences, the successful acquisition of PAI in November 2017 has seen the Group acquire the *MacDonald House*, a commercial property as well as residential properties which include the *St. Regis Residences* (1 unit), *The Orchard Residences* (1 unit) and *The Suites @ Central* (12 units).

With this new arsenal of properties, the Group is poised to enjoy greater income stability from the recurring income nature of its serviced apartments and rentals. In FY2018, income from its serviced apartments and rentals made up 34.4% and 22.0% of the total revenue respectively. Retrospectively, revenue from serviced apartments and rental only made up 17.4% and 0.5% of the FY2017 revenue respectively.

Although FY2018's Property Investment increase in make-up percentage was primarily due to the relatively lower Property Development revenue (72.8% decrease), it nevertheless witnessed a 61.1% increase from FY2017.

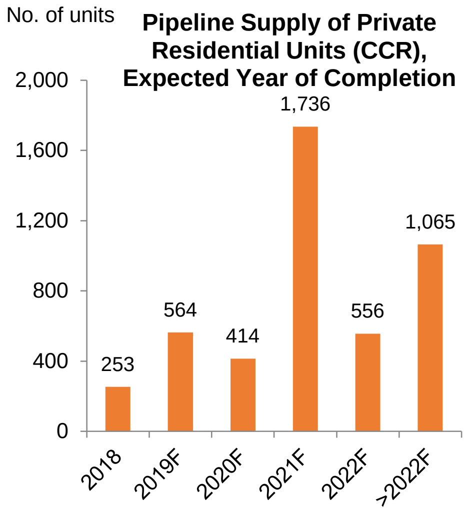
As such, this acquisition represents a shift away from the uneven nature of the property development and into the stability of property investment, as the Group continues to tap on the potential of the properties' high occupancy rates. For instance, the MacDonald House has consistently achieved 100% occupancy rates with its three anchor tenants; namely, CMG Group (Singapore) Pte. Ltd., McCann Worldgroup (Singapore) Pte. Ltd. and Citibank N.A.. Moreover, the 14 newly acquired residential properties were fully tenanted as of FY2017.

The Property Investment segment is also one of higher margin. Consisting of revenue from its serviced apartments and rental income from the residential and commercial properties, it has consistently generated a higher gross profit margin compared to its Property Development segment. Notably, accounting for the recently acquired aforementioned properties, the Group's gross profit margin has increased from 11.2% in FY2017 to 25.0% in FY2018.

Strong holding power of properties located in prime locations. One of the selling points of the Group is the locality of its high-end residential properties and serviced apartments, located in the CCR. According to the Urban Redevelopment Authority ("**URA**"), CCR denotes luxurious properties located in postal districts 9, 10, 11, the Downtown Core and Sentosa.

According to EdgeProp, these prime locations are popular with foreigners as they lie within the shopping and entertainment belt of Orchard Road.

Investment Highlights



Source: SAC Advisors, Company Data

Furthermore, in the event of an island-wide oversupply, the prices and rental rates in the CCR is likely to be the least affected compared to the private residential units in the Rest of the Central Region ("**RCR**") and Outside of Central Region ("**OCR**"). This is evidenced by the dry-spell during 2016 where the rental index for CCR units only fell by 3.8% as compared to the 5.6% declines seen in the RCR and OCR private residential units.

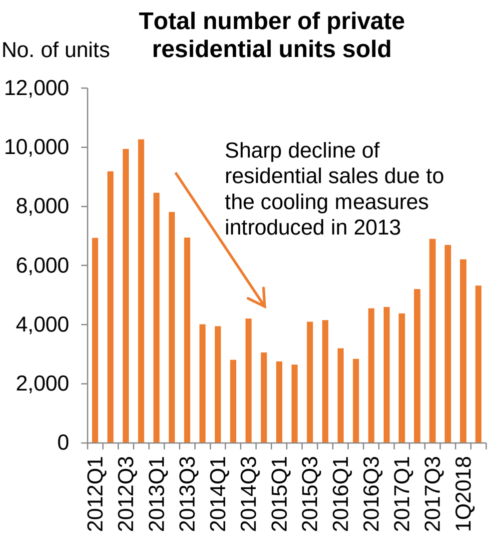
Moreover, the current rental market is benefiting from the industry tailwinds. With the en-bloc fever driving up more displaced residents, coupled with the pipeline supply decrease in the CCR, Q1 2018's rental index for non-landed units in CCR has increased by 0.58% q-o-q – the largest increase in 5 years. This rise in demand alongside the reduction in pipeline supply is set to move the landlords' favour such as Pollux, as it can capitalise on the rise in rental income.

Hence, with the consistent 100% occupancy rates at its 3 residential properties as well as the c. 80% occupancy rate at its Louis Kienne Serviced Residences, Pollux Properties is well-positioned to benefit from the recovery of the rental market.

Timely construction and effective sales strategy. As of FY2018, the Group's 3 current developmental projects were completely sold. On average, Pollux Properties only takes about 1 year from completion, to completely sell off its developmental properties. Notwithstanding the delay in completion of the joint-venture development, Pavilion Square, the benefits associated with the Group's timely construction and the ability to effectively make sales are two-fold: i) greater profit visibility and ii) avoiding the hefty QC penalties and ABSD. Since the revenue for the sale of development property under construction is recognised using the percentage of completion method, the timeliness in completion coupled with the Group's ability to sell is highly beneficial to both its top- and bottom-line.

Latest Projects	Equity Stake	Year of Completion	% sold			
			FY2015	FY2016	FY2017	FY2018
Berkeley Residences	100%	2015	100%	-	-	-
Garden Park Residences	100%	2016	100%	-	-	-
Metro Loft	100%	2016	100%	97%**	100%	-
MayFair Residences	100%	2017	80%	85%	85%	100%
Pavilion Square*	50%	Uncompleted	-	100%	-	-

*Termination of main contractor, Wei Kiat Construction Pte Ltd.
** 1 unit remained unsold.



Source: SAC Advisors, URA

Investment Highlights

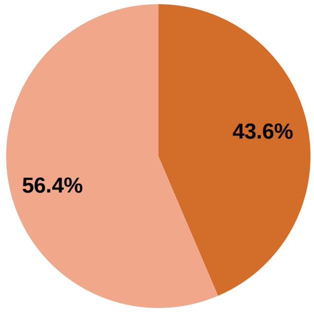
The Group's second advantage – their strength in the sales of development properties within a tight timeframe, allows the Group to quickly recycle capital and avoid penalties. As Pollux has foreign shareholders, it is under the purview of the QC Scheme which affects foreign property developers (meaning companies with non-Singaporeans as their directors or shareholders). The QC scheme holds 2 conditions: 1) the development site must be developed and completed within 5 years after purchase and, 2) units have to be 100% sold within 2 years after completion. According to the Singapore Land Authority ("**SLA**"), the penalties for extending the time frame incurs 8% of the land purchase consideration for the first year and an additional 8% thereafter, up to 3 years.

Another cooling measure, the ABSD posits that all property developers have to ensure that their residential properties are 100% sold within 5 years, failing which, they would have to incur between 10-15% of the land purchase consideration. According to SRX Property, developers have paid a total of S$380 million for the ABSD and QC penalties in 2017.

It is also worthy to note that the sales of the Group's Garden Park Residences, Mayfair Residences, Pavilion Square and Berkeley Residences in 2013, was during a period of declining sales of private residential units due to the tightening of government measures such as the ABSD as well as the Loan-to-Value limits ("**LTV**"), which tightened the amount of housing loan an individual or company can receive. Their sales record during the tough periods is a testament of the Group's effective sales and marketing strategy.

Company Background

Segmental Breakdown, Revenue, FY2018



Source: Company data, SAC Advisors

- Pollux Properties Ltd (together with its subsidiaries) is a property developer in Singapore with an exclusive focus on the development of residential and commercial properties, developing premium real estate projects with distinguished style and luxurious quality.
- The Group owns 96 serviced apartments at the *Louis Kienne Serviced Residences* and 2 retail investment properties along Balestier Road. Currently, it has 3 ongoing projects namely, the *Metro Loft*, *Mayfair Residences* and the *Pavilion Square*; all of which are fully sold.
- Hoping to improve the stability of its recurring income, the Group acquired PAI in November 2017. Thereafter, it owns the *MacDonald House*, a commercial property located within the Central Business District of Singapore as well as 14 other residential properties – *St. Regis Residences* (1 unit), *The Orchard Residences* (1 unit) and *The Suites @ Central* (12 units), all of which are within the Orchard Road shopping and entertainment belt.
- The Group operates 2 business segments:

(a) Property Development; and

(b) Property Investment

Property Development

• Acquisition and development of residential properties for sale.

• Past freehold residential projects include *Park Residences Kovan*, *Berkeley Residences* and *Garden Park Residences*, which were fully sold.

• Ongoing projects: *Metro Loft, Mayfair Residences* and *Pavilion Square.*

Property Investment

• Rental of residential and commercial properties and the operation of *Louis Kienne Serviced Residences.*

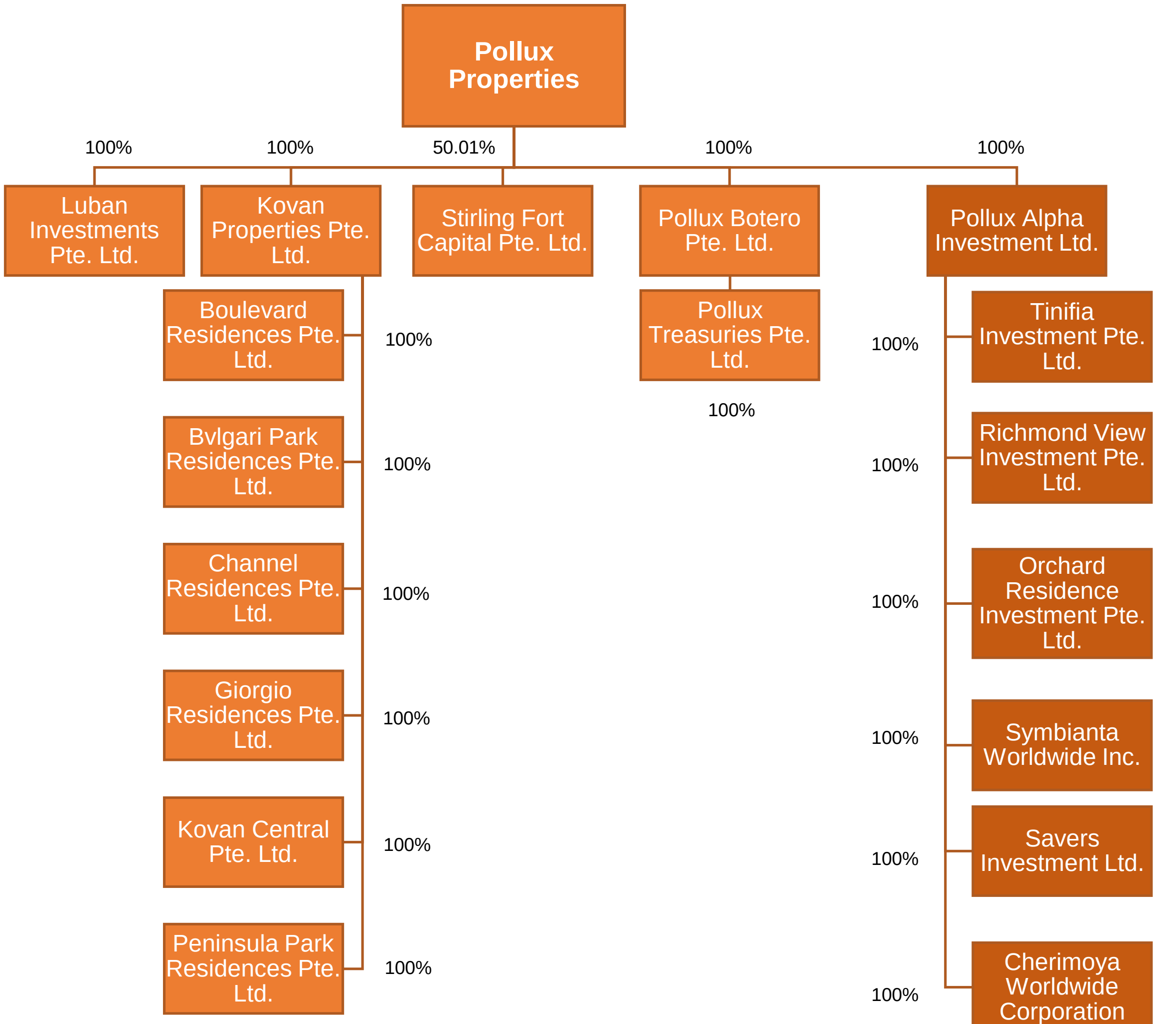
• **Residential**: *St. Regis Residences, The Orchard Residences and The Suites @ Central*

• **Commercial**: *MacDonald House* and 2 retail investment properties along Balestier Road.

Corporate Structure

History

Formerly known as Shining Corporation Ltd., Pollux Properties Ltd. was incorporated in Singapore on 1999 and was listed on the SGX-SESDAQ July 2000 before transiting to the Catalist Board on November 2009. Shining Corporation Ltd. started as a sole proprietorship in 1952, as a design, renovation and sign craft contractor in Singapore. Its building construction business then began in 1968, securing its first S$1 million industrial building contract a year later. To broaden its earnings base, it formed Builders Shop in 1981, to import, retail, distribute and install building materials. After its listing in 2009, Shining Corporation Ltd. was renamed to Pollux Properties Ltd, which sought to venture into the Property Development segment. It unveiled its inaugural project, the Park Residences Kovan in 2011. Thereafter, the Group continued to build up its land bank for its residential developments over the next few years.



Source: Company data, SAC Advisors

Investment & Development Properties Held

Name of Subsidiary	Development Properties Held	Lettable Floor Area/Gross Floor Area (sq ft)	Tenure
Boulevard Residences Pte. Ltd.	Garden Park Residences	27,213	Freehold
Bvlgari Park Residences Pte. Ltd.	Berkeley Residences	18,661	Freehold
Channel Residences Pte. Ltd.	Metro Loft	14,617	Freehold
Giorgio Residences Pte. Ltd.	Mayfair Residences	23,142	Freehold
Kovan Central Pte. Ltd.	Park Residences Kovan	17,000	Freehold
Pollux Treasuries Pte. Ltd.	Pavilion Square	N/A	Freehold
Name of Subsidiary	**Serviced Apartments and Residential /Commercial Properties Held**	**Lettable Floor Area/Gross Floor Area (sq ft)**	**Tenure**
Tinifia Investment Pte. Ltd.	40A Orchard Road MacDonald House Singapore 238838	88,727	Freehold
Luban Investments Pte. Ltd.	2, shop units, No. 432 Balestier Road #01-438 and #01-440	#01-438 – 540 #01-440 – 1,689	Freehold
Peninsula Park Residences Pte. Ltd.	Louis Kienne Serviced Residences	60,277	Leasehold
Richmond View Investment Pte. Ltd.	31 Tanglin Road, St. Regis Residences, #11-02, Singapore 247912	2,486	999 years commencing 24 November 1995
Orchard Residence Investment Pte. Ltd.	238 Orchard Boulevard, The Orchard Residences, #41-05, Singapore 237973	2,852	99 years commencing 13 March 2006
Symbianta Worldwide Inc.	57B Devonshire Road, The Suites @ Central, #02-06, #03-06, #26-06, Singapore 239899	#02-06 – 1,442 #03-06 – 1,475 #26-06 – 3,670	Freehold
Savers Investment Ltd.	57B Devonshire Road, The Suites @ Central, #02-04, #03-04, #04-04, #05-04, #06-04, #07-04, Singapore 239899	#02-04 – 1,453 #03-04 – 1,367 #04-04 – 1,410 #05-04 – 1,345 #06-04 – 1,378 #07-04 – 1,378	Freehold
Cherimoya Worldwide Corporation	57B Devonshire Road, The Suites @ Central, #04-05, #05-05, #07-05, Singapore 239899	#04-05 – 1,679 #05-05 – 1,765 #07-05 – 1,733	Freehold

Source: Company data, SAC Advisors

Past Developmental Projects

Source: SAC Advisors, Company Data

Park Residences Kovan

- Location: 831 Upper Serangoon Road
- Description: 5 storey residential apartments consisting of 41 units, with a roof top swimming pool and communal facilities

Source: SAC Advisors, Company Data

Berkeley Residences

- Location: 11 Lorong N Telok Kurau
- Description: 5 storey residential apartments consisting of 22 units, with a swimming pool and communal facilities

Source: SAC Advisors, Company Data

Garden Park Residences

- Location: 25 Lorong M Telok Kurau
- Description: 5 storey residential apartments consisting of 36 units, with a swimming pool and communal facilities

Source: SAC Advisors, Company Data

Metro Loft

- Location: 5 Lorong 27 Geylang
- Description: 8 storey residential loft apartments consisting of 31 units, with a swimming pool and communal facilities

Source: SAC Advisors, Company Data

Mayfair Residences

- Location: 531 East Coast Road
- Description: 5 storey ultra-luxury residential apartments consisting of 20 units, with swimming pool and communal facilities

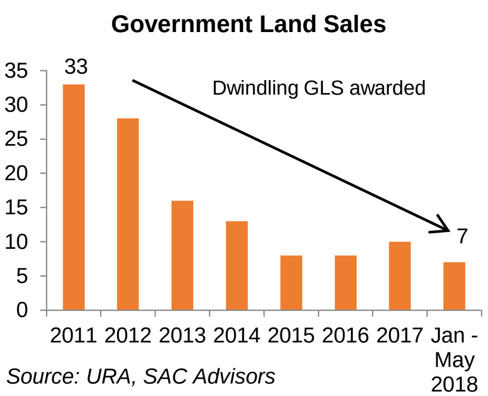
Current Developmental Project


Source: SAC Advisors, Company Data

Pavilion Square

- Location: 345 Geylang Road
- Description: Mixed Development project consisting of 93 commercial & 42 residential units

Source: URA, SAC Advisors



Source: URA, SAC Advisors

Industry Overview

Singapore's housing sector is seeing a rebound again since its last housing peak in 2013. With the relaxation of the cooling measures last year, developers have been ramping up their land bank as evidenced by the en bloc sales fever. According to PropNex, 2018's total collective sales year-to-date amounted to S$9.5 billion, which is a new high since 2007's S$11.5 billion bumper year. On the supply side, the dwindling Government Land Sales ("**GLS**") which leads to a decreased residential units pipeline, have also put upward pressure on the property prices. According to URA, the price index for the residential properties have increased by 3.9% q-o-q in Q1 2018 – the largest increase in 7 years.

With more owners and tenants being displaced by the en bloc sales, the demand for permanent and temporary housing has also been on the rise. Based on URA's data, the 1,121 private homes sold in May 2018 was 53% more than April's figures. Overall, Savills Singapore posits that the property market rebound is expected to last until 2021, when the new developments which take 3-4 years to build are completed.

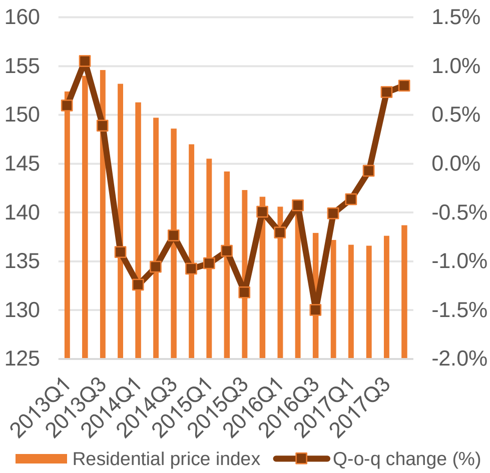
Favourable Macro Indicators

According to the Ministry of Trade & Industry ("**MTI**"), Singapore's economy remained unchanged in Q1 2018, easing from the 2.1% increase during Q4 2017. Nonetheless, Singapore's economy is expected to remain firm in 2018, with growth primarily from the finance & insurance industry. In Q1 2018, the finance & insurance sector expanded by 9.1% q-o-q, an improvement from the 6.3% growth in the preceding quarter. Furthermore, with Singapore's real GDP advancing 4.3% y-o-y in Q1 2018 as reported by the MTI, strong business sentiment is expected to continue. According to Savills Singapore, this strong business sentiment will boost office leasing demand, especially in the CBD.

Industry Overview

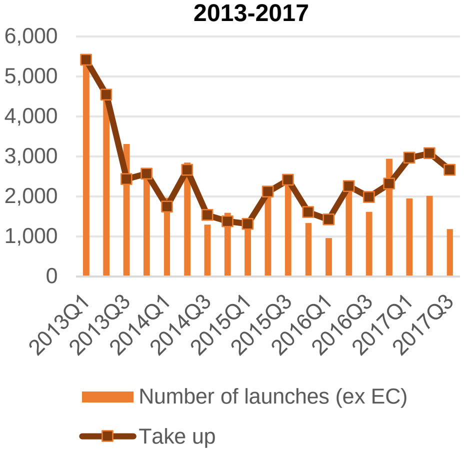
Government's Cooling Measures

Residential Price Index, 2013-2017



Source: URA, SAC Advisors

No. of Launches vs Take Up, 2013-2017



Source: URA, SAC Advisors

Since September 2009, the Singapore government has issued a series of property cooling measures, with the last measure introduced back in December 2013. According to URA's data, the cooling measures resulted in the q-o-q decline of residential properties' price index, spanning from 2013 Q4 until 2017 Q3. The number of private residential property launches have also witnessed a declining trend as developers refrain from launching due to the low property prices. Take up rates have also decreased as home buyers' were also restricted by the cooling measures.

However, on March 2017, the Singapore government relaxed some of its measures such as its Seller's Stamp Duty ("**SSD**") and Total Debt Servicing Ratio ("**TDSR**"). Below is a brief explanation of the types of cooling measures:

TDSR: Introduced in June 2013 by the Monetary Authority of Singapore ("**MAS**"), it limits the total amount a home buyer can borrow. Financial institutions must ensure that a borrower's monthly repayment for their debts does not exceed 60% of their monthly income. While there are no changes to the 60% limit, the 2017 changes will no longer apply to mortgage equity withdrawal loans with loan-to-value ratios of 50% or less.

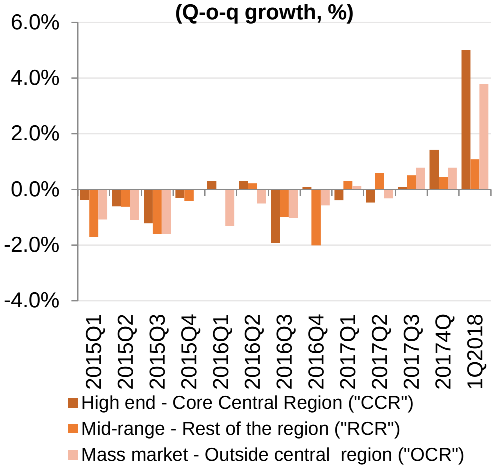
Loan-To-Value ("**LTV**") limits: It restricts the housing loan that can be taken as a percentage of the property's valuation. Effective since January 2013, residential property loans have a maximum tenor of 35 years and refers to the maximum percentage of the property's purchase price that can be borrowed from the bank.

Additional Buyer's Stamp Duty: It is levied on Singaporeans who already own one residential property, as well as foreigners and Singapore permanent residents ("**SPRs**") who are buying residential properties. According to the Inland Revenue Authority of Singapore ("**IRAS**"), the rate ranges from 5% for SPRs and 15% for foreigners to 7% for Singaporeans purchasing their second property and 10% for subsequent properties.

SSD: Duties are levied on property owners who sell their homes within a specified holding period. Since March 2017, it only applies to homes bought on or after 11th March 2017, with the holding period reduced to 3 years. The rates were lowered by 4% for each tier of holding period. For instance, a property held for one year is subjected to 12% in SSD while a property held for two years is subjected to 8%.

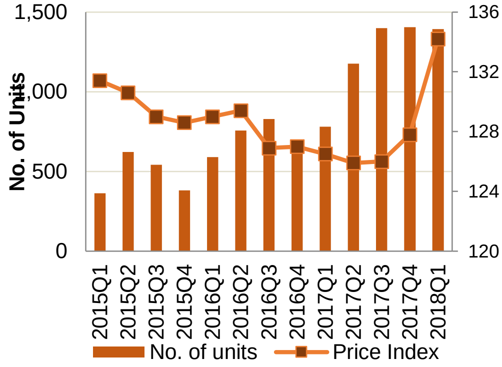
Industry Overview

Strong price growth for high-end segment (Q-o-q growth, %)



Source: URA, SAC Advisors

Increasing number of foreign and SPRs transactions for CCR units



Source: URA, SAC Advisors

High-end Residential Segment

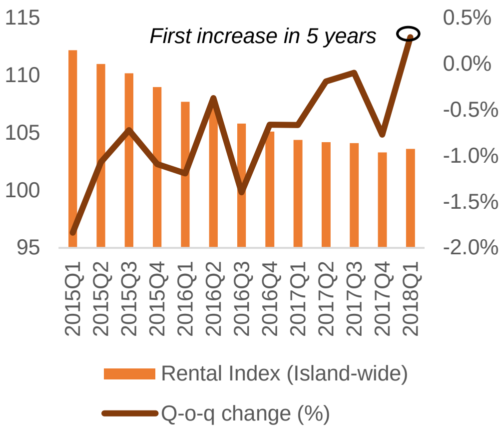
Compared to the other segments, the pickup in the high-end residential segment has been the most substantial. In Q1 2018, it witnessed the highest price growth, registering a 5.0% increase q-o-q – an all time high in 8 years. Meanwhile, the Q1 2018 q-o-q price change for residential units in the OCR and RCR have only increased by 3.8% and 1.1% respectively. According to the Bank of Singapore, much of the bullishness in this CCR segment is driven by the increased foreign interest due to Singapore's relative attractiveness when compared to its city peers. JLL Research posits that the attractiveness of Singapore's property market lies in its early stage of recovery, compared to cities like Hong Kong and Sydney which are near their peak of their market cycles. In terms of housing affordability, Singapore's median multiple of 4.8 in 2018 is deemed more attractive compared to Sydney's 5.9 and Hong Kong's 19.4, where housing affordability have worsened, as reported by Demographia.

Data by the URA also seems to support the increase in foreign interest as the number of CCR units sold to foreigners and SPRs increased by 15.6% since 1Q2017. This increase in foreign interest has also pushed the prices of CCR units, growing at a rate of 1.5% q-o-q since 1Q2017. This uptick in foreign demand was despite the ABSD levied on them, highlighting that the ABSD today remains less of a hurdle to foreigners when compared with the increasingly tightening of regulations in countries such as Hong Kong and China. An example of the increased foreign interest is highlighted by the sale of the Leonie Hill, New Futura – where foreigners and SPRs made up two-thirds of the buyers.

Industry Overview

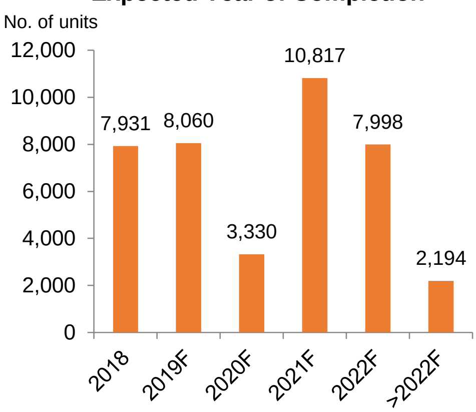
Residential Leasing Market

Rental market reaches an inflection point



Source: URA, SAC Advisors

Island-wide Pipeline Supply of Private Residential Units by Expected Year of Completion



Source: URA, SAC Advisors

Based on URA's Q1 2018 data, island-wide rental index for non-landed properties has increased by 0.3% from the preceding quarter - the first quarterly increase in almost 5 years. According to Savills Singapore, this earlier-than-expected turnaround for the rental market is attributed to the en-bloc fever as well as the reduced stock of private residential properties.

Colliers International also expects the en-bloc fever to continue unabated, buoyed by Singapore's favourable economic outlook. As the en-bloc sales climb on the back of the favourable economic outlook, the number of displaced owners and tenants searching for alternative accommodations continues to rise; since 2016, more than 7,000 household units have been displaced. Leasing demand for private residential housing has also increased by 6.9% q-o-q in Q1 2018, with a total of 20,251 leases being registered island-wide based on data provided by Savills Singapore.

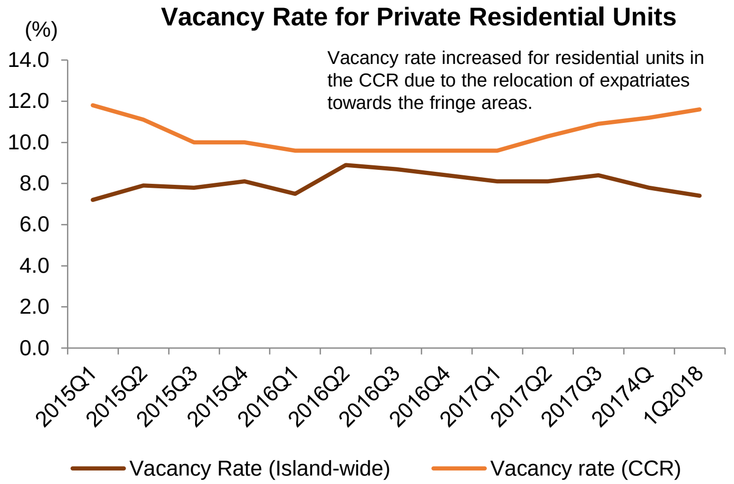
Nevertheless, we acknowledge that that the sales of the en-bloc units does not necessarily translate to an influx of demand for more temporary or permanent housing. With about 59,000 people owning two private residential properties and another 20,000 owning 3 or more according to the Ministry of National Development ("**MND**"), some units of the en-bloc sales could be investment properties. As such, the expected demand from owner-occupiers seeking for replacement housing might be lower than expected.

On the supply side, Savills Singapore posits that until the new developments from the en-bloc sales are built, which takes at least another 3-4 years, the supply of housing is expected to be depressed until 2021. This dwindling supply, alongside increasing demand for housing from the displaced residents, means that Savills expects the rental rates to rise between 2-3% y-o-y by end-2018.

Industry Overview

Residential Leasing Market

Naturally, the uptick in leasing demand will drive down the vacancy rates. This is evidenced by the 0.4% q-o-q decrease in vacancy rate from 7.8% to 7.4% in Q1 2018 for island-wide residential properties. While the vacancy rates for residential properties in the OCR and RCR decreased by 1.0% and 0.2% respectively, the vacancy rate for the CCR segment has instead increased by 0.2% q-o-q, reaching 11.6% in Q1 2018. According to Cushman & Wakefield VHS, this is a result of the tightening of housing allowances for expatriates, forcing them to relocate away from the CCR and towards the fringe areas.



Source: URA, SAC Advisors

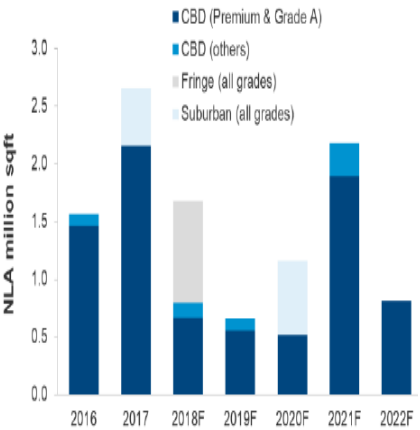
Industry Overview

Average Gross Effective Rents

	Average Gross Effective Rents(SGD psf pm)	Q-o-q change (%)
Premium		
Raffles Place/ New Downtown	10.49	6.70%
Grade A		
Raffles Place/ New Downtown	8.9	4.10%
Shenton Way/ Tanjong Pagar	8.43	4.70%
City Hall	8.89	4.10%
Beach Road	7.6	5.80%
Orchard Road	8.43	4.10%

Source: Colliers International

Pipeline Supply of Offices, 2016- 2022F



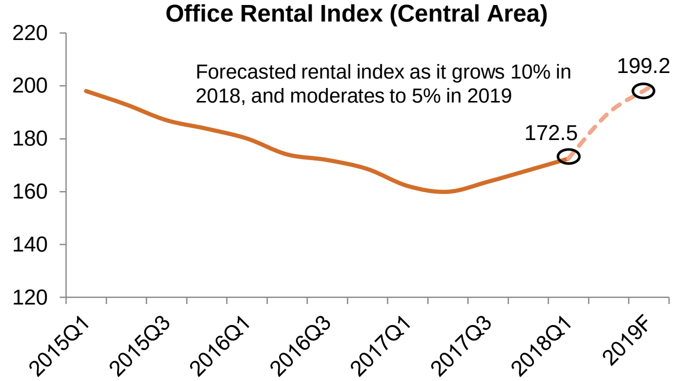
Source: Colliers International

Commercial Leasing Market

On the back of the firm economic fundamentals, the office rental activity is also poised to gain further momentum in 2018. This bullish sentiment saw the rise in CBD Premium and Grade A rents in Q1 2018, climbing 4.8% q-o-q to S$8.60 (US$6.56) per square foot per month ("**psf pm**"), as reported by Colliers International. The technology and law companies, and to a lesser extent the insurance sector, are demand drivers for the CBD office space. Notably, artificial intelligence start-up, Appier, doubled its space take-up in Asia Square Tower 1 and law firm, Reed Smith took up an additional 15,000 sq ft at Ocean Financial Centre in Q1 2018. The rise in leasing demand has resulted in the fall in vacancy rates for CBD Premium and Grade A offices, decreasing by 2.3% q-o-q to reach 5.8% in Q1 2018.

Fuelling this rental rate growth between 2018 and 2019 is also due to the muted supply pipeline through 2020. In the data provided by Colliers International, the decrease in Premium and Grade A office supply between 2018 to 2020 is in stark contrast to the influx of office supply in 2017. Due to this short-term supply cut and the firm office demand in the CBD, office rental rates are expected to rise 10% in 2018 and moderate to 5% over 2019, based on estimates by Colliers International.

Office Rental Index (Central Area)



Source: Colliers International

Source: URA, Colliers International

Competitive Outlook

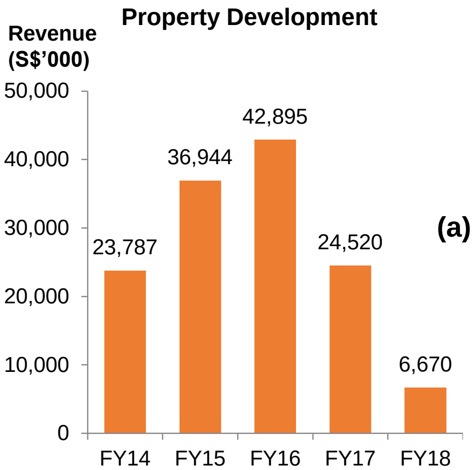
According to JLL Research, Singapore developers face an increasing competition from the cash-rich Chinese developers. One of the reason for their overseas foray is largely due to their slowing domestic market and the depreciation of the yuan.

This include companies such as Fantasia Investment, a subsidiary of a Hong-Kong listed property developer in China, Nanshan Group as well as China Construction Development. The aforementioned developers have won 3 out of the 8 sites between January to August 2017. More recently, Colliers International has also supported the view of the growing foreign interest for development sites as Chinese and Hong Kong snagged 5 out of the 17 residential collective sales transactions in Q1 2018.

Financial Summary

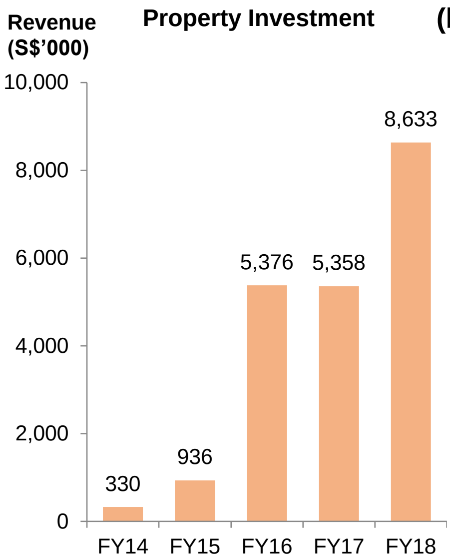
Revenue model

- The Group's business are categorised into 2 business segments: a) **Property Development** and b) **Property Investment.** In FY2018, the Property Development and Property Investment segment accounted for 43.6% and 56.4% of the total revenue respectively. Prior to FY2018, its Property Development business segment has always been the mainstay revenue.



Source: Company data, SAC Advisors

(a) **Property Development**: The Group's property development properties are held through its various wholly-owned subsidiaries, all of which are 100% sold. When the agreement for sale is reached during the construction phase of the development properties, the contract may either be construed in two different manners, based on the Directors' judgement. Under "**A contract to construct a property**", revenue is recognised using the percentage-of-completion ("**POC**") method. This is measured based on the costs incurred as a proportion of the total costs expected to be incurred. Meanwhile, under "**A contract for the sale of completed property**", revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, based on the completed contract method.



Source: Company data, SAC Advisors

(b) **Property Investment**: This segment comprises of the recurring income from the Group's 96 serviced apartments at Louis Kienne Serviced Residences and the rental income generated from from its commercial and residential properties. Its commercial units comprised of their 2 retail investment properties located along Balestier Road and the *MacDonald House.* The residential segment comprise of the newly acquired 14 residential units.

Recent Corporate Developments

FY2018 Financial Performance (Unaudited)

Revenue b/d (S$'000)	FY2017	FY2018
Development Properties	24,520	6,670
Serviced Apartments	5,195	5,268
Rental Income		
-Residential	0	476
-Commercial	163	2,889
Total Revenue	**29,878**	**15,303**
Less: COGS		
-Development Properties	(24,184)	(9,205)
-Serviced Apartments	(2,349)	(2,270)
Gross Profits	**3,345**	**3,828**

Source: Company data, SAC Advisors

The Group's FY2018 revenue comprises of the sale of development properties, income from its serviced apartment and rental income. The rental income is derived from the residential and commercial units and is recognised for the period of 16 November 2017 to 31 March 2018.

Its revenue decreased by S$14.58 million or 48.8% from S$29.88 million in FY2017 as most of the development properties had obtained Temporary Occupancy Permit ("**TOP**") in prior financial years and the revenue from these development properties had already been recognised.

Revenue from its 96 serviced apartments increased by 1.4% to S$5.26 million compared to FY2017's S$5.19 million. On average, the serviced apartments register c.80% occupancy rate throughout the year.

Other income increased by S$61.06 million from S$0.53 million in FY2017 to S$61.59 million in FY2018. This increase was a result of the one-off S$61.31 million gain from the bargain purchased of PAI Group during FY2018. This gain was derived from the differences in fair valuation of purchase consideration against the fair valuation of PAI Group as at the completion date on 16 November 2017.

Its general and administrative expense increased by S$2.11 million or 30.2% to S$9.10 million in FT2018 due to the S$1.42 million allowance for doubtful debts in relation to an advance payment to the main contractor as well as the increased depreciation expense from the newly acquired investment properties and professional fees from the acquisition of PAI Group.

Without the one-off bargain gain of S$61.31 million, the Group registers a loss of S$9.54 million for FY2018.

Nevertheless, the Group is positioned to benefit from the full year worth of stable and higher-margin rental revenue, derived from its newly acquired residential and commercial properties for FY2019.

Peer Comparables

When we compare Pollux Properties with its peers, it is on the lower end of the scale. It's P/E ratio is 1.3x, compared to the average of 17.3x. However, it is more highly geared as it has a net gearing ratio of 88.2% which is higher than the average of 53.1%. Nonetheless, it has a high interest coverage ratio of 29.0x, meaning that it should be able to meet its finance expenses comfortably, despite its relatively larger-than-average borrowings.

Ticker	Name	Mkt Cap (SGD mm)	P/E Ratio (Latest FY)	P/B Ratio (Latest FY)	Net Debt to Equity (%)	Interest Coverage Ratio (x)
	Average	**1,787.4**	**17.3**	**0.9**	**53.1%**	**11.9**
POLUX SP	**POLLUX PROPERTIES LTD**	**69.0**	**1.3**	**0.4**	**88.2%**	**29.0**
HKL SP	HONGKONG LAND HOLDINGS LTD	23,055.1	3.0	0.5	6.9%	41.1
CAPL SP	CAPITALAND LTD	13,892.1	9.7	0.8	48.7%	3.9
CIT SP	CITY DEVELOPMENTS LTD	10,266.0	21.6	1.2	10.4%	6.0
UOL SP	UOL GROUP LTD	63,78.0	8.2	0.8	21.4%	6.3
UIC SP	UNITED INDUSTRIAL CORP LTD	46,98.5	15.7	0.7	4.8%	29.6
YLLG SP	YANLORD LAND GROUP LTD	3,187.0	4.7	0.7	46.9%	6.4
GUOL SP	GUOCOLAND LTD	2,425.8	5.9	0.6	84.2%	2.8
WP SP	WHEELOCK PROPERTIES (S) LTD	1,986.3	19.7	0.7	-24.5%	-
OHL SP	OXLEY HOLDINGS LTD	1,718.5	7.8	1.6	207.5%	5.5
BS SP	BUKIT SEMBAWANG ESTATES LTD	1,548.3	28.6	1.3	-11.7%	-
HOBEE SP	HO BEE LAND LTD	1,544.5	6.6	0.5	40.0%	6.9
WINGT SP	WING TAI HOLDINGS LTD	1,487.0	76.8	0.5	2.4%	-0.6
OUESP	OUE LTD	1,424.4	17.0	0.4	56.7%	0.8
PREH SP	PERENNIAL REAL ESTATE HOLDIN	1,387.6	14.5	0.5	57.8%	1.7
GLLSP	GL LTD	1,067.1	13.7	0.6	17.4%	6.6
FRAG SP	FRAGRANCE GROUP LTD	1,013.5	23.3	1.0	89.4%	3.9
FSGSP	FIRST SPONSOR GROUP LTD	824.0	9.4	0.8	23.2%	5.4
ROXY SP	ROXY-PACIFIC HLDGS LTD	647.7	21.7	1.3	108.2%	2.8
FEOR SP	FAR EAST ORCHARD LTD	590.9	29.4	0.5	0.2%	2.2
CHIP SP	CHIP ENG SENG CORP LTD	531.0	17.0	0.8	157.7%	2.0
TSHSP	TUAN SING HOLDINGS LTD	498.5	8.5	0.5	124.6%	0.8
SHGSP	SINGHAIYI GROUP LTD	421.8	8.8	0.6	-17.9%	36.5
HIAP SP	HIAP HOE LTD	420.9	5.1	0.5	47.5%	4.8
CENT SP	CENTURION CORP LTD	378.4	12.6	1.0	119.3%	3.1
YINGLISP	YING LI INTERNATIONAL REAL E	291.5	5.3	0.4	62.1%	3.8
LBG SP	LIAN BENG GROUP LTD	277.3	5.6	0.5	73.7%	3.0
AFGSP	AF GLOBAL LTD	227.0	29.7	0.8	12.7%	2.9
HATT SP	HATTEN LAND LTD	212.2	95.0	4.0	119.5%	271.3
ASPEN SP	ASPEN GROUP HOLDINGS LTD	192.7	5.5	1.8	-7.5%	24.3
SLB SP	SLB DEVELOPMENT LTD	181.7	-	-	129.8%	4.2
HTON SP	HEETON HOLDINGS LTD	177.2	2.6	0.4	63.7%	2.2
ASTA SP	ASTAKA HOLDINGS LTD	173.9	18.7	2.4	12.4%	6.2
SING SP	SING HOLDINGS LIMITED	170.4	54.0	0.7	73.7%	0.9
PSTAR SP	PACIFIC STAR DEVELOPMENT LTD	109.9	10.9	3.8	52.6%	18.7
TEE SP	TEE INTERNATIONAL LTD	96.4	-	1.1	137.9%	1.0
GOOD SP	GOODLAND GROUP LTD	90.2	4.8	0.5	32.6%	2.9
TEEL SP	TEE LAND LTD	84.0	-	0.6	92.3%	1.1
PANH SP	PAN HONG HOLDINGS GROUP LTD	53.3	9.7	0.4	-24.5%	10.7
ICLSP	IMPERIUM CROWN LTD	52.1	-	1.2	63.2%	-8.0
OKHSP	OKH GLOBAL LTD	39.5	-	0.6	163.1%	-6.0
IPCSP	IPC CORP LTD	36.7	-	0.4	1.5%	-5.0
HLHG SP	HONG LAI HUAT GROUP LTD	32.0	22.7	0.4	2.6%	17.7
LAFE SP	LAFE CORP LTD	15.2	-	0.3	-17.7%	-33.0
DEBAO SP	DEBAO PROPERTY DEVELOPMENT	12.9	2.0	0.1	137.6%	1.2
CYBP SP	CHINA YUANBANG PROPERTY HOLD	11.8	-	0.1	80.5%	0.3
STHL SP	STARLAND HOLDINGS LTD	10.3	17.1	0.5	-73.7%	9.5

Source: Bloomberg, SAC Advisors

Management

Mr. Timur Pradopo was appointed as an Independent Director of the Company on 18 March 2014. He was the former Head of Indonesian Police from 2010 to 2013. He has 35 years of experience in the Indonesian Police Department and held several high-ranking positions in the Indonesian Police Department such as the Head of Central Jakarta Police Department (in 2010) as well as The Head of West Java Police Department (from 2008 to 2010).

Dr. Nico Purnomo Po is an Executive Director and Chief Executive Officer of the Company. He is responsible for the management and operation of the Group as well as the implementation of the Group's strategies and policies. He was awarded the Young Entrepreneur Of The Year Award under the Asia Corporate Excellence & Sustainability Awards in 2016.Dr. Po holds a Bachelor degree in Computing from National University of Singapore in 2003. The honorary doctorate in business administration was bestowed on him by InterAmerican University in 2011.

Mr. Chan Tee Yong is the Financial Controller of the Company. He joined the Company in August 2014. He is responsible for overseeing the finance and accounting functions of the Company and the Group. Prior to joining the Company, he was an assistant Financial Controller of a company listed on the SGX-ST. Prior to that, he was an auditor in Ernst & Young LLP and Deloitte & Touche (Malaysia). Mr. Chan holds a Bachelor of Business majoring in Accounting and Finance from the University of Technology, Sydney. He is a Certified Public Accountant in Australia and also a Chartered Accountant with the Institute of Singapore Chartered Accountants.

Future Opportunities

With no upcoming property development projects in Singapore at the moment, we can expect that the Company will be working towards to improve the stability of its recurring income, by continuing to expand its property investment portfolio.

Key Risks

Introduction of additional cooling measures
The property market is highly susceptible to the changes in government policies as evidenced by the cooling measures introduced between 2009 and 2013. Although some of these measures were relaxed in 2017, the MAS has maintained its stance that the cooling measures remain necessary and that 2017's easing were calibrated adjustments which do not signal the start of an unwinding of cooling measures.

Higher interest rate
The uncertainty in interest rates not only raises concern for higher home loans for the property buyers, but also translates to increased borrowing costs for developers. With a favourable economic outlook, the likelihood of an interest rate hike is inevitable. For instance, OCBC Bank raised its 2-year fixed rate package by 10 basis points to 1.85% earlier this year. The rise in interest rates would dampen the attractiveness of investment properties as it increases the burden of mortgage loans. As the Group employs debt financing for its acquisition of investment properties, an increase in interest rate will restrict the Group's ability to acquire more investment properties.

Dividend Policy

The Company does not have a fixed dividend policy, and has not declared any dividends for the past five years.

Income Statement (S$'000)

	Fiscal Year Ended				
	FY14	FY15	FY16	FY17	FY18
Revenue	**24,117**	**37,881**	**48,271**	**29,878**	**15,303**
Less: Cost of services	(21,432)	(34,184)	(43,155)	(26,534)	(11,475)
Gross Profit	**2,685**	**3,697**	**5,116**	**3,345**	**3,828**
Other Income	210	432	723	615	61,611
Marketing & Distribution	(361)	(659)	(18)	(20)	(19)
General & administrative expenses	(1,961)	(4,585)	(7,177)	(6,990)	(9,100)
Finance costs	(134)	(330)	(891)	(698)	(1,838)
Others	264	3,646	4,209	6,360	(3,023)
Profit before tax	**702**	**2,202**	**1,961**	**2,612**	**51,459**
Income tax expense	(544)	(84)	(305)	(37)	316
Profit from discontinued operations, net of tax	**69**	**-**	**-**	**-**	**-**
Profit/(Loss) for the financial year	**228**	**2,118**	**1,656**	**2,576**	**51,775**
Profit/(Loss) for the year attributable to owners of the Company	**228**	**2,118**	**1,656**	**2,576**	**51,775**
- Basic (SG cents)	0.03	0.34	0.27	0.41	0.02
- Diluted (SG cents)	0.03	0.34	0.27	0.41	0.02
Earnings per share					
- Basic (SG cents)	0.04	0.34	0.27	0.41	0.02
- Diluted (SG cents)	0.04	0.34	0.27	0.41	0.02

Balance Sheet (S$'000)

	Fiscal Year Ended				
	FY14	FY15	FY16	FY17	FY18
As at 31 Mar					
Plant and Equipment	489	2,489	2,138	1,508	2,758
Investment properties	50,539	54,851	52,267	50,988	331,916
Investment in a joint venture	195	3,469	7,309	13,198	9,946
Other non-current assets	-	-	850	847	2,367
Non-current assets	**51,223**	**60,809**	**62,563**	**66,541**	**346,987**
Land held for development	17,957	-	-	-	-
Properties under development	43,997	53,480	41,821	25,754	-
Cash and cash equivalents	9,711	16,851	9,940	3,186	19,166
Other current assets	7,861	8,989	12,555	22,882	21,147
Current assets	**79,525**	**79,320**	**64,316**	**51,822**	**40,313**
Total assets	**130,748**	**140,130**	**126,879**	**118,363**	**387,300**
Trade payables and other payables	7,760	5,039	6,803	5,620	8,436
Loans and borrowings	28,421	52,251	48,987	40,850	51,282
Other current liabilities	1	315	194	619	1,026
Current Liabilities	**36,182**	**57,605**	**55,985**	**47,089**	**60,744**
Deferred tax liabilities	375	444	678	544	203
Loans and borrowings	47,480	33,250	19,433	17,371	135,924
Non-current Liabilities	**47,854**	**33,694**	**20,111**	**17,915**	**136,127**
Total Liabilities	**84,036**	**91,299**	**76,096**	**65,004**	**196,871**
Share capital	54,509	54,509	54,806	54,806	140,100
Revenue reserve	(7,796)	(5,679)	(4,022)	(1,446)	50,329
Total Equity	**46,712**	**48,830**	**50,784**	**53,359**	**190,429**
Total Equity and Liabilities	**130,748**	**140,130**	**126,879**	**118,363**	**387,300**

Cash Flow Statement (S$'000)

	Fiscal Year Ended				
	FY14	FY15	FY16	FY17	FY18
Profit/(Loss) before tax	771	2,202	1,961	2,612	51,459*
Adjustments for:					
Depreciation of PPE and investment properties	46	1,078	3,189	3,378	4,103
Change in working capital	(4,931)	1,119	12,891	9,371	28,207
Others	(3,405)	(4,389)	(4,440)	(5,513)	(54,565)
Net cash from/(used in) operating activities	**(7,519)**	**10**	**13,601**	**9,848**	**29,204**
Cash flows from investing activities					
Purchase of PPE	(8)	(2,612)	(263)	(1)	(502)
Others	2,589	(417)	(3,168)	(6,403)	7,647
Net cash from/(used in) investing activities	**2,582**	**(3,029)**	**(3,431)**	**(6,404)**	**7,145**
Cash flows from financing activities					
Net increase in equity	-	-	-	-	-
Net increase in debt	3,746	10,110	(17,081)	(10,199)	(20,369)
Others	3,901	48	-	-	-
Net cash used in financing activities	**7,647**	**10,158**	**(17,081)**	**(10,199)**	**(20,369)**

Ratios

	Fiscal Year Ended				
	FY14	FY15	FY16	FY17	FY18
Profitability (%)					
Gross profit margin	11.1%	9.8%	10.6%	11.2%	25.0%
Profit/(loss) before tax margin	2.9%	5.8%	4.1%	8.7%	336.3%
Profit/(loss) after tax margin	0.9%	5.6%	3.4%	8.6%	338.3%
Liquidity (x)					
Current ratio	2.2	1.4	1.1	1.1	0.7
Quick ratio	1.0	0.4	0.4	0.6	0.7
Interest coverage ratio	6.2	7.7	3.2	4.7	29.0
Net Debt to Equity	141.7%	140.6%	115.2%	103.1%	88.2%
Valuation (x)					
P/S	2.9	1.8	1.4	2.3	4.5
P/E	302.9	32.6	41.6	26.8	1.3
P/B	1.5	1.4	1.4	1.3	0.4
Cash Conversion Cycle					
Net trade receivable days	27	45	48	122	239
Inventory days	514	520	403	465	410
Trade payable days	59	50	30	48	126
CCC days	483	516	421	538	523
Returns					
Return on equity	0.5%	4.3%	3.3%	4.8%	27.2%
Return on capital employed	0.2%	2.4%	2.2%	3.6%	26.0%
Dividend payout ratio	N/A	N/A	N/A	N/A	N/A

**Includes one-time non-recurring gain from the purchase bargain of PAI*

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Party	Quantum of position
Nil	Nil

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Company	Nature of business relation	Date of business relation
Pollux Properties Limited	Continuing Sponsor	Ongoing

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Analyst name	Quantum of position
Nil	Nil

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(iii) He/she does not on behalf of SAC Advisors or SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and

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