

Jamaica, West Indies

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Kingston Properties Ltd-KPREIT

A Good Opportunity to Diversify ones Portfolio via Exposure to Real Estate

What is KPREIT

Kingston Properties Ltd (KPREIT) is a Real Estate Investment Trust (REIT). Like other typical REIT's, the company is dedicated to owning and, in some cases, operating income-producing real estate, such as apartments, shopping centres, offices and warehouses. It has one wholly-owned subsidiary, Carlton Savannah REIT (St. Lucia) Limited, incorporated in St. Lucia. Prior to its name change on October 8, 2009, Kingston Properties Limited was initially named Carlton Savannah REIT (Jamaica) Limited and was incorporated on April 21, 2008.

The company's primary objective is the acquisition of a diversified portfolio of real estate properties throughout the Caribbean and in other markets. The company maintains an asset allocation and income distribution policy that is similar to that of North American REITs. This includes the distribution of 90% of its net taxable income to shareholders.

The small scale of the Caribbean region, along with the potential volatility in these markets due to global shocks, requires that the directors of the REIT pursue an aggressive diversification strategy in order to prudently mitigate risk. The company's target portfolio allocation and associated rationale is outlined below:-

Property Type	Tagret Portfolio Allocation	Rationale
Hotels/Lodings/ Resorts	30%	Rates & Occupancy levels depend on origination of traveller; area provides USD exposure; largest property type in the Caribbean
Residential Buildings	15%	Population growth expected primarily in developing economies; increased urbanization levels expected in capital cities.
Office	20%	Caribbean governments likely to seek ways to efficiently manage spending on office space increasing opportunities for private ownership with lease back arrangements.
Health Care	10%	Growth in Caribbean economies may drive need for First World health facilities.
Industrial	10%	Government incentives expected to drive job creation in the Caribbean.
Retail	10%	Driven by underlying economies and expected population growth

Source: KPREIT

Apart from a diversified property allocation base, the company also plans to diversify into other Caribbean and Central American Countries. Ten per cent of the total portfolio is projected to be exposed to Panama because of its quality in terms of rating (rated investment grade "BBB-"), the fact that it is the largest economy in Central America and has a thriving international business centre. Similar (10%) exposure is projected for Puerto Rico because it has the largest number of companies involved in high tech manufacturing and knowledge based sectors compared to the rest of the region.

Countries like Trinidad (oil sector, 6%), Dom Rep (10%, -strong GDP growth), Costa Rica (most visited country in Central America, 10%) and the Bahamas (5%), one of the wealthiest countries (tourism, offshore banking) in the region are worth mentioning.

Source: JMMBIR estimates, company financial statements, Bloomberg.

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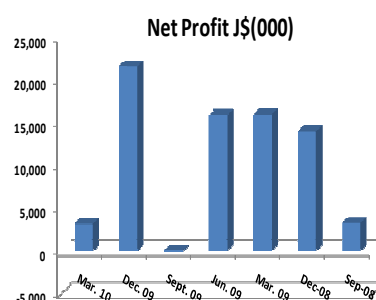
RECOMMENDATION BUY

Price at July 26, 2010	\$4.20
Price target (J\$)/Intrin. Value	\$7.27
52-week range (J\$)	\$4.0 – \$6.70

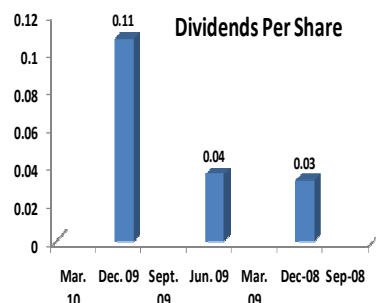
Company Profile

Kingston Properties Limited, formerly Carlton Savannah REIT is domiciled in Jamaica with offices at 7 Stanton Terrace, Kingston 6. The company is dedicated to owning & in some cases, operating income-producing real estate such as apartments, shopping centres, offices and warehouses.

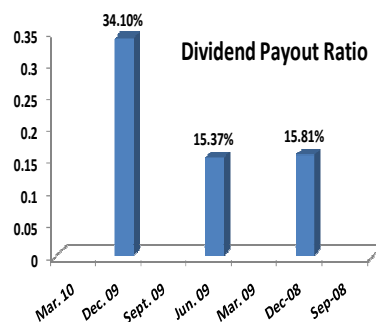
Profitability



Dividends Per Share



Dividend Payout Ratio



Key Ratios

Quarterly Data	Mar-2010	Dec-09	Sep-09	Jun-09	Mar-09
EPS	0.05	0.32	0.00	0.23	0.23
Dividends Per Share	---	0.11	---	0.04	---
Price/Book Value Per share	0.55	0.69	0.58	0.58	0.58
ROE	0.63%	4.35%	-0.02%	3.01%	3.02%

Recent Financial Performance

Net profit for the period March 31, 2010 came in at J\$3.16 million compared to J\$16 million for the similar 3-month period in 2009. The profits reported in 2009 were due to an approximate 25% depreciation of the local currency versus the USD (the KPREIT's assets are denominated in USD) which resulted in annualized gains of J\$15.03 million.

First quarter revenues came in at J\$1.78 million compared to J\$0 for the similar period in 2009. Revenues were generated from the acquisition of the Miami Loft II property as at March 5, 2010. During the similar period last year, the Carlton Savannah Hotel, the company's primary asset at the time, was in construction and consequently generated no revenues.

On the group's balance sheet total current assets of J\$416.7 million consists primarily of cash and cash equivalents (J\$273.9 million) and reverse repurchase agreements (J\$100.8 million). On the non-current assets side, investment property of J\$245.5 million represents the acquisition of 19-condo units in the Miami Loft II building in downtown Miami, Florida USA. The Units were acquired with leases already in place.

The group's balance sheet also shows a deposit of J\$32.1 million on investment properties which represents a deposit on a property on Hagley Park Road in Kingston. The tenant is a subsidiary of a leading global provider of commercial cleaning, sanitation and hygiene solutions for businesses.

What Do We Like About The Stock?

The company has a healthy cash position with cash flow since inception (Sep-08) coming in consistently positive. Compared to the traditional way of owning real estate (property taxes, attorney fees, 15% deposit etc.) the REIT has the advantage of a higher level of liquidity (small investment to buy stock, no tax obligation etc.). The liquidity advantage is further highlighted by the ease with which one can sell stocks compared to selling property (legal fees, etc.).

The company pays dividends in a historically more stable currency (USD). The directors have committed to distributing 95% of its net taxable income at IPO of the company. The company only buys properties with attractive cash flows and strong tenant bases.

Challenges

The company is very young (incorporated April-2008); consequently there is no track record of consistent performance on which to draw reference. Quarterly profits have been inconsistent because of acquisitions, sales and currency volatility. On the flip side, these challenges may be overcome by looking at the make up of the management team and the board of directors. The board of directors include Garfield Sinclair (former COO of DB&G), Fayval Williams (former CIO at JMMB) and Nicole Foga, LLB, LLM (Corporate Secretary), while the management team includes Pierre Shirley.

Is The Stock Properly Priced?

In our opinion, it is not, the stock is actually being sold for half its value using the price to book ratio (0.55). Our opinion is that the p/book value is the best way to price the stock given its high liquidity and cash position, its relatively new entrance to the market and the lack of a comparable company in its line of business.

Conclusion --The KPREIT provides good diversification for an investor's stock portfolio because of its exposure to property. The company is young but the management team is solid and well experienced. Property at times may be illiquid but it does not depreciate on balance sheets and the company's cash position (the lifeblood of any business) is strong. Dividends are paid in a historically stable currency and the stock is being sold at half its book value. Thus if the company is wound up tomorrow the investor would get an immediate 50% (approx.) return.

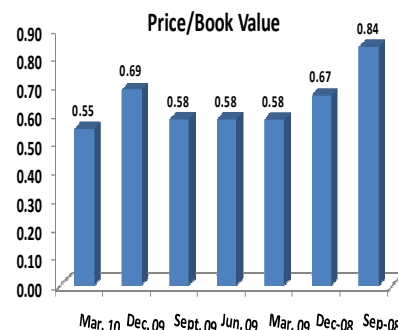
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Price /Book Value



Debt Ratios

