

CapitaLand Commercial Trust

Driven by CapitaGreen acquisition

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- CapitaGreen acquisition boosted gross revenue by 9.6% (Without acquisition: -1.2%)
- Minimal occupancy risk in FY17. But FY18 could be worse than FY16 and FY17 for rental reversions.
- Golden Shoe Car Park (GSCP) re-development commencement expected in 2H17. Estimated completion of GSCP could clash with potential release of 1m sq ft of competition office space.
- Net office demand likely to have bottomed in 2016.
- Upgrade to NEUTRAL with a higher target price of \$1.63.

Results at a glance

(SGD mn)/Dec Yr End	FY16	FY15	y/y (%)	Comments
Gross Revenue	298.6	273.2	9.3	Contribution of \$528.6m from CapitaGreen offset lower revenue from other portfolio properties
Net property income	231.3	212.8	8.7	
Distributable income	269.0	254.5	5.7	
DPU (Cents)	9.08	8.62	5.3	In-line with higher distributable income

Source: Company, PSR

Operational Updates

	FY16	FY15	Comments
Gearing Ratio	37.8%	29.5%	Acquisition of CapitaGreen pushed up debt levels
% debt on fixed rate	80.0%	84.0%	
Portfolio occupancy	97.1%	97.1%	Maintained at healthy level despite drop in tenant retention Flight to quality seen as tenants migrate to newer completed offices as office rents drop
Tenant retention ratio	62%	83%	

Source: Company, PSR

What is in the news?

CapitaGreen acquisition boosted gross revenue by 9.6% (Without acquisition: -1.2%)

Negative rental reversions and lower occupancies hit revenue and NPI in One George Street and Capital Tower. Despite the drop in tenant retention from 83% to 62%, portfolio occupancy remained high at 97.1%. CCT has managed to maintain occupancy at such levels even through GFC. (low was 94.8% in 2009)

Minimal occupancy risk in FY17. But FY18 could be worse than FY16 and FY17 for rental reversions. With only close to 5% of leases expiring in 2017, CCT could be pretty insulated this year. Nonetheless, we expect office rents to recover only in 2018 and negative rental reversions in FY18 to be worse than FY16 and FY17 as most of the expiring leases then are signed close to the peak in office rentals in FY15. ~14% of leases expire in 2018. Vacancy risks are low given the central locations of CCT's properties but property gross revenue could take a hit from lower reversions.

Golden Shoe Car Park (GSCP) re-development commencement expected in 2H17. Estimated completion of GSCP could clash with potential release of 1m sq ft of competition office space. Management targets completion of GSCP redevelopment to be in 2021. With an estimated GFA of 1m sq. ft. of new commercial space in this project, the completion timing could coincide with the launch of the IOI Group's new office project also in CBD. IOI's project is expected to yield at least 1m sq. ft. of office space. Average annual net demand from 2010 to 2014 was 1.2m sq. ft.

24 January 2017

Neutral (Upgraded)

LAST CLOSE PRICE	SGD 1.56
FORECAST DIV	SGD 0.09
TARGET PRICE	SGD 1.63
TOTAL RETURN	10.4%

COMPANY DATA

O/S SHARES (MN) :	2,963
MARKET CAP (USD mn / SGD mn) :	3255 / 4623
52 - WK HI/LO (SGD) :	164 / 127
3M Average Daily T/O (mn) :	9.95

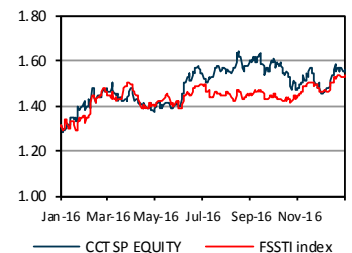
MAJOR SHAREHOLDERS (%)

CAPITALAND LTD	32.1%
BLACKROCK	5.0%
CBRE CLARION SECURITIES	4.9%
SUMITOMO MITSUI ASSET MGMT	2.7%
LASALLE INVESTMENT MGMT	2.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.7	(2.8)	24.3
STI RETURN	3.43	6.35	22.17

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD mn	FY 15	FY 16	FY 17e	FY 18e
Gross Revenue	273.2	298.6	367.4	356.9
NPI	212.8	219.3	289.6	275.0
Dist Inc.	254.5	269.0	275.2	267.7
P/NAV (x)	0.88	0.88	0.88	0.88
DPU (Cents)	8.62	9.08	9.26	8.97
Dist yield %	5.53%	5.58%	5.90%	5.70%

Source: Company Data, PSR est.

Valuation Method

DDM (Cost of equity 6.76%, Terminal Growth 1.3%)

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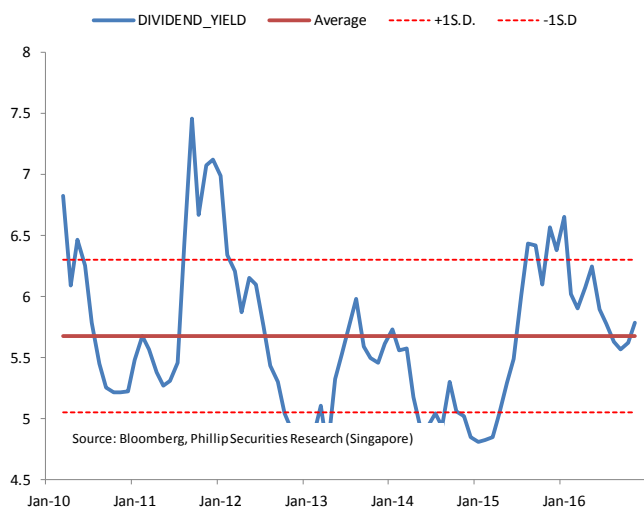
Net office demand likely to have bottomed in 2016.

We think net office demand could have seen a bottom in 2016 and would likely pick up in 2017 on the back of stabilising and gradually improving economic conditions especially in developed US and Europe. The huge supply in 2017 though could force rents to see a bottom only in 2018.

Investment Actions

At an FY17e yield of 6% and Price/NAV of close to 0.9, CCT is trading close to the average yields of 5.67% since 2010 (post GFC). On the back of improving office demand, **we upgrade our “REDUCE” call on CCT to “NEUTRAL” with a higher DDM-derived target price of S\$1.63 (from S\$1.29).**

Dividend Yield



Price/NAV



Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Gross Revenue	262.6	273.2	298.6	367.4	356.9
Total Property expenses	(57.4)	(70.9)	(79.2)	(77.8)	(81.9)
Net Property Income	205.2	212.8	219.3	289.6	275.0
Finance costs	(36.4)	(36.0)	(50.1)	(80.4)	(81.4)
Base Asset management Fees	(4.9)	(5.1)	(5.9)	(6.6)	(6.6)
Performance Asset management fees	(8.7)	(9.3)	(9.3)	(12.3)	(11.8)
Net income before JV and associates	152.8	162.6	160.4	195.7	188.2
Net tax and other adjustments	9.1	6.8	15.1	12.5	12.4
Distribution from JVs	83.2	84.8	93.5	67.1	67.1
Total distributions for the year	249.1	254.5	269.0	275.2	267.7

Per share data (SGD)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
Net asset value per unit	1.75	1.77	1.78	1.77	1.77
DPU (\$)	0.085	0.086	0.091	0.093	0.090

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Total return for the year before tax	448.9	307.4	261.8	270.2	262.7
Adjustments	(255.8)	(106.6)	(42.5)	6.1	5.7
WC changes	(4.6)	(4.0)	(15.9)	-	-
Net cash from operating activities	188.5	196.8	203.1	276.3	268.4
CFI					
Net cash from investing activities	51.7	63.7	(259.4)	73.1	72.8
CFF					
Interest Paid	(30.7)	(33.4)	(71.5)	(80.4)	(81.4)
Distributions to Unitholders	(242.8)	(251.9)	(257.1)	(275.2)	(267.7)
Net cash used in financing activities	(223.2)	(280.4)	135.1	(355.6)	(349.0)
Net (decrease)/increase in cash/equivalents	17.0	(19.9)	78.8	(6.3)	(7.8)
Cash and cash equivalents at 31 Dec	101.1	81.2	160.0	153.7	145.8

Source: Company, Phillip Securities Research (Singapore) Estimates

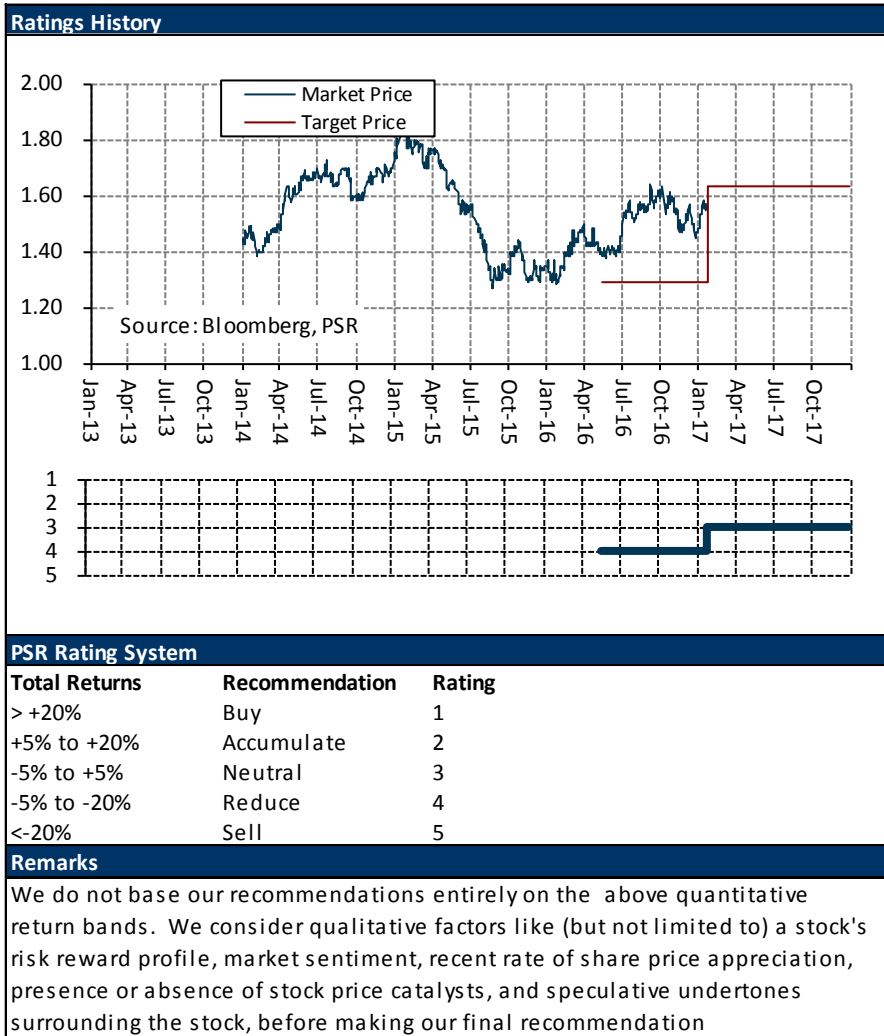
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
Investment properties	4,882	4,962	6,591	6,591	6,591
Trade and other receivables	38	44	42	42	42
Cash and cash equivalents	101	81	160	154	146
JVs	1,428	1,452	1,190	1,190	1,190
Total Assets	6,521	6,593	8,051	8,045	8,037
LIABILITIES					
Trade and other payables	47	37	53	53	53
Interest bearing liabilities (Current)	270	-	-	200	248
Interest bearing liabilities (Non-current)	801	1,084	2,457	2,257	2,209
Convertible bonds	169	171	173	171	171
Total Liabilities	1,368	1,358	2,773	2,769	2,769
EQUITY					
Shareholder Equity	5,153	5,234	5,279	5,276	5,268

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/NAV	0.89	0.88	0.88	0.88	0.88
Distribution yield (%)	5.4%	5.5%	5.8%	5.9%	5.7%
NPI yield (%)	4.2%	4.3%	3.5%	4.4%	4.2%
Growth & Margins (%)	FY14	FY15	FY16	FY17e	FY18e
Growth					
Revenue	4.4%	4.0%	9.3%	23.1%	-2.9%
Net property income (NPI)	4.1%	3.7%	8.7%	24.5%	-2.8%
DPU	3.9%	1.9%	5.3%	1.9%	-3.1%
Margins					
NPI margin	78.2%	77.9%	77.5%	78.4%	78.4%
Operating Income Margin	58.2%	59.5%	53.7%	53.3%	52.7%
Key Ratios					
Net Gearing	29.3%	29.5%	37.7%	37.7%	37.7%



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