

# CapitaLand Commercial Trust

Record office property transactions not indicative of REIT future performance

## SINGAPORE | REAL ESTATE (REIT) | 1Q17 RESULTS

- Net property income and DPU was within our forecasts.
- Negligible (5% by gross rental income) of portfolio expiring for rest of 2017.
- Recent record office transactions and optimistic land tender not necessarily indicative of forward stock price performance for the coming year.
- Maintain NEUTRAL with unchanged target price of \$1.63.

### Results at a glance

(SGD mn)/Dec Yr End	1Q17	1Q16	y/y (%)	Comments
Gross Revenue	89.5	66.9	↑ 33.9	Higher year-on-year occupancy for Capital Tower and Acquisition of remaining 60% of CapitaGreen
Net property income	69.9	52.0	↑ 34.3	
Distributable income	71.3	64.8	↑ 9.9	
<b>DPU (Cents)</b>	<b>2.40</b>	<b>2.19</b>	<b>↑ 9.6</b>	<b>In-line with higher distributable income</b>

Source: Company, PSR

### What is in the news and What do we think?

**Lesser leasing activity q-o-q as only c.5% of leases is due for expiry this year. Raffles City weakness offset by CapitaGreen contribution.**

Recall that CCT has proactively forward renewed half of 2017 expiring leases by end FY16 in December 2016. Only 5% of leases (by gross rental income) are due for renewal in 2017. A notable weakness within the portfolio comes from Raffles City, which saw a 5.3% drop in NPI as a result of lower hotel turnover rent. This was offset by 39.7% increase in NPI from CapitaGreen, post 100% ownership. We expect the pace of decline for Raffles City to improve and keep to our projected 1.6% y-o-y drop in NPI for Raffles City for FY17.

**Recent slew of transactions reflect optimism at longer term outlook for Singapore office properties. Bullish transacted prices not necessarily indicative of forward stock price performance.** 2016 saw a 103% jump in total physical office investment transaction volume to S\$7.5bn from S\$3.7bn in 2015. The rekindled interest in office properties, including the record price paid for Straits Trading Building (c.S\$3,500psf) has led to renewed optimism about the sector.

We think these physical office transactions reflect the buyers' optimism at the longer term outlook for Singapore office properties but may not be correlated with the 1-year performance of REIT prices, which are more sensitive to other variables driving short term sentiment such as near term economic indicators.

We note that prior to this record breaking transaction, the previous record paid was S\$3,125psf in April 2008 for 71 Robinson Road. That quarter happened to mark the peak of the office price index before the GFC effects set in. The Singapore office price index took 12 quarters before it recovered above that peak level in 3Q11. The FTSE Straits Times REIT Index returned -17.6% over that period.

20 April 2017

## Neutral (Maintained)

LAST DONE PRICE	SGD 1.63
FORECAST DIV	SGD 0.09
TARGET PRICE	SGD 1.63
<b>TOTAL RETURN</b>	<b>5.7%</b>

### COMPANY DATA

O/S SHARES (MN) :	2,969
MARKET CAP (USD mn / SGD mn) :	3462 / 4840
52 - WK HI/LO (SGD) :	164 / 137
3M Average Daily T/O (mn) :	7.51

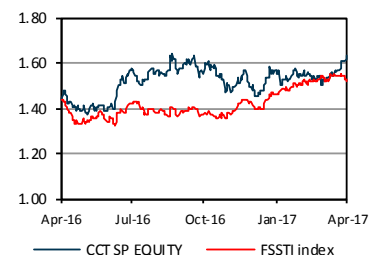
### MAJOR SHAREHOLDERS (%)

SBR PTE LTD	216%
E-PAVILION PTE LTD	6.2%
BLACKROCK INC	5.0%
CBRE CLARION SECURITIES, LLC	4.9%
CAPITACOMMERCIAL TRUST MGMT	4.4%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	7.6	6.7	210
STIRETURN	(0.99)	5.06	1193

### 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.

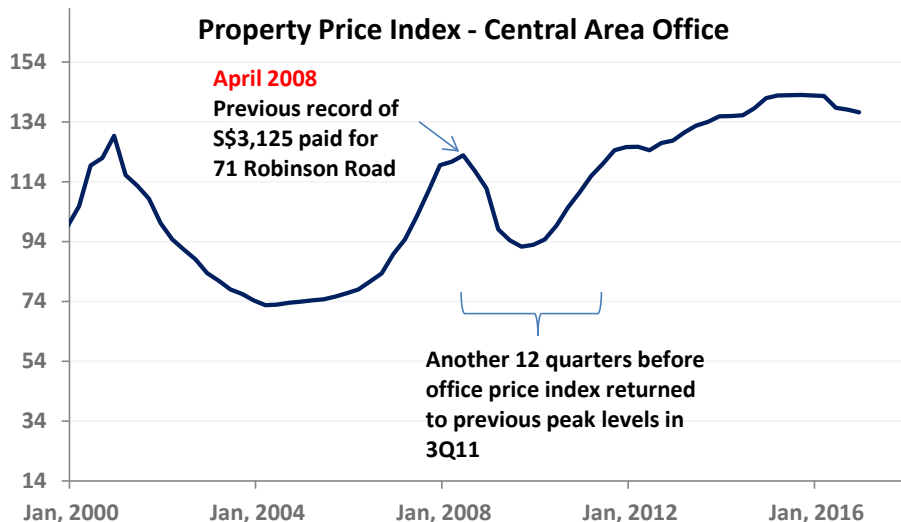
### Valuation Method

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

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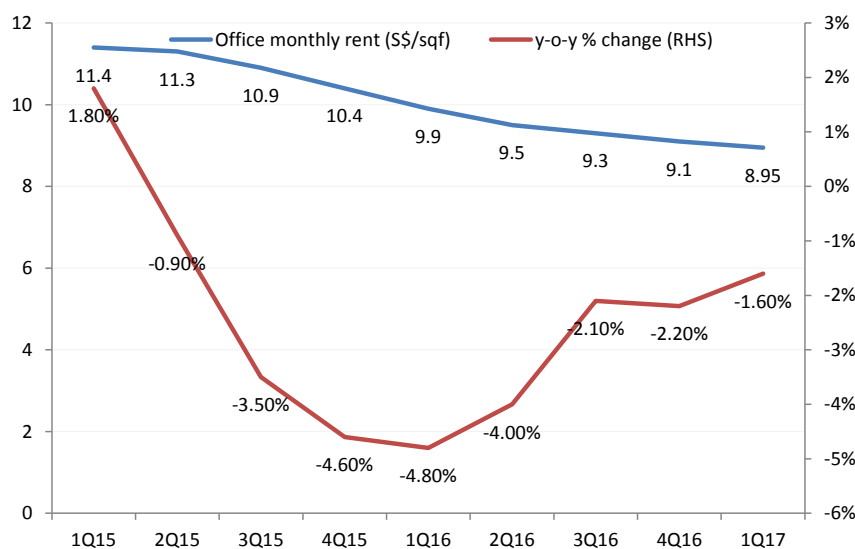
**Figure 1: Previous record price paid for an office property in 2Q08 marked the peak of the office property price index before GFC. Price Index recovered to 2Q08 levels only in 3Q11 (after 12 quarters).**



Source: CEIC, Phillip Securities Research (Singapore)

**Pace of office rental decline abating. We maintain our view that office rentals should bottom in 2018.** Post its peak in 1Q15, average monthly Grade A office rents dropped c.21% from S\$11.4 to S\$8.95 in 1Q17. However, the pace of decline is starting to slow. We maintain our view that we will see a bottom in office rents only in 1H2018.

**Figure 2: Pace of office rent decline abating**



Source: Company, Phillip Securities Research (Singapore)

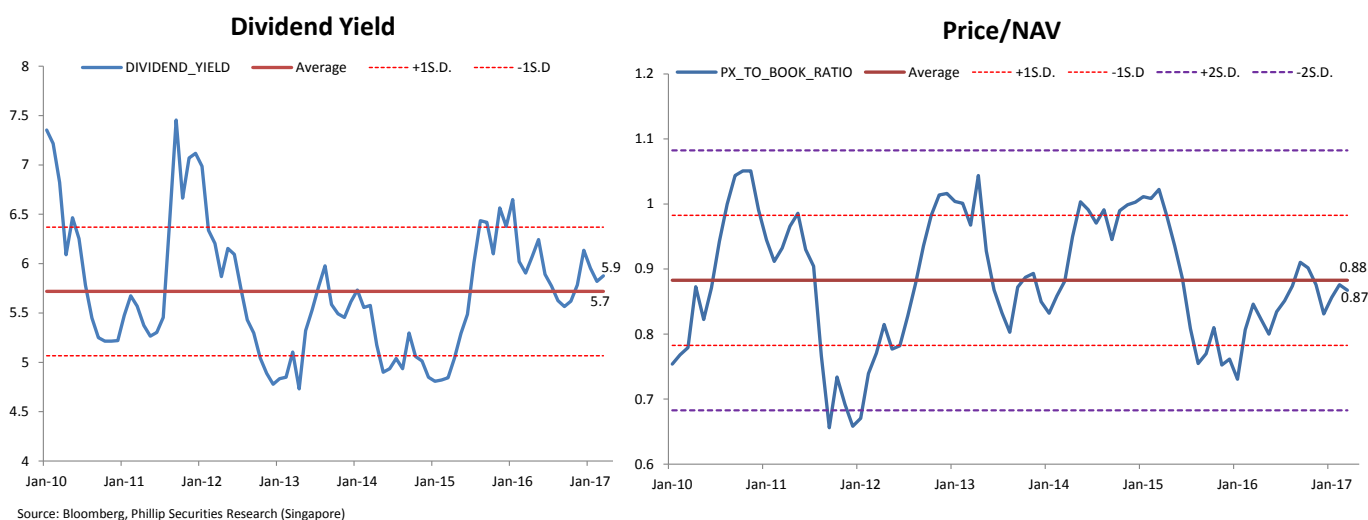
**Minimal lease expiring this year mitigate downside risk for FY2017. But FY18 could be worse for rental reversions.** We expect office rents to recover only in 2018 and negative rental reversions in FY18 to be worse than FY16 and FY17 as most of the expiring leases then are signed close to the peak in office rentals in FY15. c.13% of CCT’s 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.

**Awaiting assessment of differential premium (DP) payable for Golden Shoe redevelopment.** URA has given provisional permission for the proposed redevelopment of Golden Shoe. CCT now awaits the Singapore Land Authority’s assessment of the differential premium payable for the potential enhancement in land use before completing its feasibility study of the proposed redevelopment.

**Investment Actions**

At an FY17e yield of 5.7% and Price/NAV of close to 0.92, CCT is trading close to the average yields of 5.7% and P/NAV of 0.88 since 2010 (post GFC). **We maintain our “NEUTRAL” call on CCT with an unchanged DDM-derived target price of S\$1.63**

**Figures 3 and 4: CCT trades at close to post GFC average dividend yields and Price/NAV**



Source: Bloomberg, Phillip Securities Research (Singapore)

**Figure 5: Peer comparison table**

Name	PSR CALL	Mkt Cap (SGD mn)	Last Close (\$)	Dvd Yld:D-1	P/B	Latest Gearing (%)	Average Cost of debt
CAPITALAND COMMERCIAL TRUST	NEUTRAL	4,840	1.63	5.70	0.93	38.1	2.60%
SUNTEC REIT		4,478	1.76	5.68	0.82	36.4	2.60%
KEPPEL REIT		3,518	1.06	6.01	0.74	32.9	2.50%
FRASERS COMMERCIAL TRUST		1,071	1.34	7.36	0.86	35.9	3.00%
QUE COMMERCIAL REAL ESTATE I		1,067	0.70	7.45	0.75	37.7	3.60%
MAPLE TREE COMMERCIAL TRUST		4,493	1.57	5.32	1.17	35.1	2.60%

Source: Bloomberg (Updated 19 April 2017), Various company results as of 31 Dec 2016, Phillip Securities Research (Singapore)

## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>Gross Revenue</b>	<b>262.6</b>	<b>273.2</b>	<b>298.6</b>	<b>367.4</b>	<b>356.9</b>
Total Property expenses	(57.4)	(70.9)	(79.2)	(77.8)	(81.9)
<b>Net Property Income</b>	<b>205.2</b>	<b>212.8</b>	<b>219.3</b>	<b>289.6</b>	<b>275.0</b>
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
<b>Total distributions for the year</b>	<b>249.1</b>	<b>254.5</b>	<b>269.0</b>	<b>275.2</b>	<b>267.7</b>

### Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>ASSETS</b>					
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
<b>Total Assets</b>	<b>6,521</b>	<b>6,593</b>	<b>8,051</b>	<b>8,045</b>	<b>8,037</b>
<b>LIABILITIES</b>					
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
<b>Total Liabilities</b>	<b>1,368</b>	<b>1,358</b>	<b>2,773</b>	<b>2,769</b>	<b>2,769</b>
<b>EQUITY</b>					
<b>Shareholder Equity</b>	<b>5,153</b>	<b>5,234</b>	<b>5,279</b>	<b>5,276</b>	<b>5,268</b>

### 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

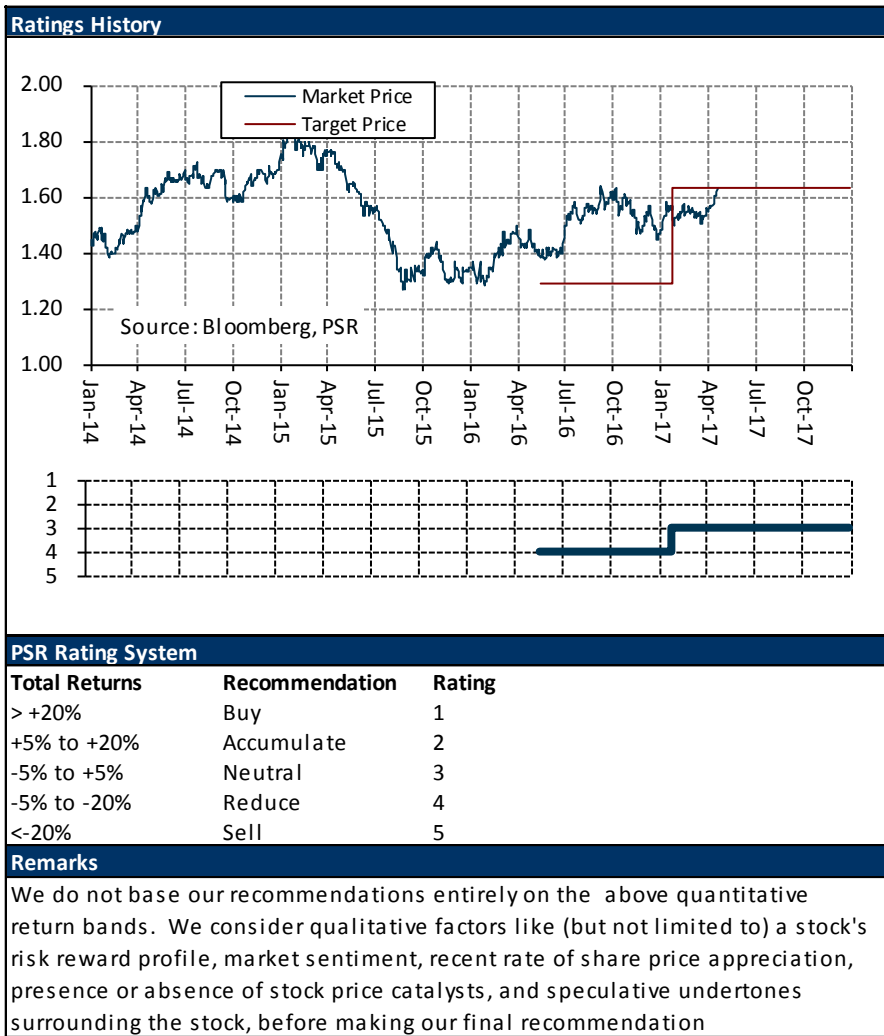
Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>CFO</b>					
Total return for the year before tax	448.9	307.4	261.8	270.2	262.7
Adjustments	(255.8)	(106.6)	(42.5)	6.1	5.7
WC changes	(4.6)	(4.0)	(15.9)	-	-
Net cash from operating activities	188.5	196.8	203.1	276.3	268.4
<b>CFI</b>					
Net cash from investing activities	51.7	63.7	(259.4)	73.1	72.8
<b>CFF</b>					
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)
<b>Cash and cash equivalents at 31 Dec</b>	<b>101.1</b>	<b>81.2</b>	<b>160.0</b>	<b>153.7</b>	<b>145.8</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

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

### Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/NAV	0.93	0.92	0.92	0.92	0.92
Distribution yield (%)	5.2%	5.3%	5.6%	5.7%	5.5%
NPI yield (%)	4.2%	4.3%	3.5%	4.4%	4.2%
<b>Growth &amp; Margins (%)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17e</b>	<b>FY18e</b>
<b>Growth</b>					
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%
<b>Margins</b>					
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%
<b>Key Ratios</b>					
Net Gearing	29.3%	29.5%	37.7%	37.7%	37.7%



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