

# CapitaLand Commercial Trust

Continued recovery in office rents



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## SINGAPORE | REAL ESTATE (REIT) | 2Q18 RESULTS

- 1H18 revenue and DPU at 49% of our FY18e expectations.
- Office rents continue to stage strong recovery, growing 4.1% QoQ in 2Q18.
- Increase in portfolio valuation due to capitalisation and discount rate compression.
- Expect negative rental reversion trend to turnaround in 2019.
- Maintain Accumulate with unchanged TP of S\$1.88.

### Results at a glance

(SGD mn)/Dec Yr End	2Q18	2Q17	YoY (%)	Comments
Gross Revenue	98.0	87.5	12.0	Contribution from new acquisition Asia Square Tower 2 (AST2) in Sept 2017 offset loss in revenue from divestments of One George St., GSCP and Wilkie Edge
Net property income	77.7	69.1	12.5	In line with above
Distributable income	79.4	69.5	14.3	
DPU (Cents)	2.16	2.25	(4.0)	
DPU, adjusted (Cents)	2.16	2.19	(1.4)	Adjusted for enlarged number of units mainly from rights issue for Galileo acquisition. Galileo contributions to earnings only started 18 June 2018

Source: Company, PSR

### The Positives

+ **Office rents continue to stage strong recovery.** Grade A office rents, as measured by CBRE continue to recover since bottoming in 2Q17. Rents grew 4.1% QoQ in 2Q18, and are up 7.4% YTD. We maintain our expectations for a 5-10% overall growth in office rents for 2018.

+ **Increase in portfolio valuation due to capitalisation and discount rate compression.** Across the board, these rates were compressed 10-25bps vs 6 months ago. Overall Singapore portfolio valuation grew 1.3% or S\$134mn (translating to 3.6c increase in NAV) from end FY17. Management noted the appraisers' adjustments came after taking into account strong investment sentiment and recent bullish physical office transactions.

+ **Expect negative rental reversion trend to turnaround in 2019.** While the portfolio could still face headwinds of negative rental reversions over the next two quarters for projects such as Asia Square Tower 2, remaining leases due for renewal in 2H18 account for only c1.5% of total portfolio revenue. We expect overall rental reversions to turn positive in 2019 and gradually improve till 2020, partially due to lower expiring rents over the next two years. Average rents expiring in 2019 and 2020 are c.6.7% higher and 5.5% lower respectively vs current average Grade A office rents.

### The Negatives

+ **Slow ramp up in occupancy for Asia Square Tower 2 (AST2).** AST2's occupancy improved to 91.9% as at 2Q18, from 88.7% when CCT acquired it in 3Q17. Nonetheless, management commented that negotiations are in advanced stages for the remaining one full floor left vacant. Assuming occupancy at AST2 can be increased to full from current level, we estimate this could add an extra 1-2% to annualised FY18 net property income.

### Outlook

With only c.2% of leases due for expiry this year, we opine that CCT's exposure to negative rental reversions are largely behind them. Expiring rents in 2019 and 2020 are c.2.8% and 14% lower than the expiring rents this year, and would support organic growth from positive rental reversions over the next two years. Interest rate risks are mitigated in the near term with zero debt expiring this year and 85% of debt on fixed rate.

### Maintain Accumulate with unchanged target price of S\$1.88

Our target price translates to an FY18e yield of 4.7% and P/NAV of 1.03x.

20 July 2018

### Accumulate (Maintained)

LAST DONE PRICE	SGD 1.75
FORECAST DIV	SGD 0.09
TARGET PRICE	SGD 1.88
<b>TOTAL RETURN</b>	<b>12.4%</b>

### COMPANY DATA

BLOOMBERG CODE	CCT SP
O/S SHARES (MN):	3,743
MARKET CAP (USD mn / SGD mn):	4786 / 6550
52 - WK HI/LO (SGD):	2.05 / 1.61
3M Average Daily T/O (mn):	1186

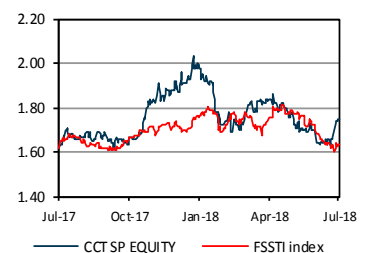
### MAJOR SHAREHOLDERS (%)

CAPITALAND SINGAPORE	30.0%
BLACKROCK INC	7.4%
SCHRODERS PLC	2.7%
VANGUARD GROUP	2.2%
SUMITOMO MITSUI ASSET MGMT	2.1%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	YTD
COMPANY	2.9	(2.4)	(5.4)
STIRETURN	(5.1)	(4.9)	(2.3)

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

SGD mn	FY 16	FY 17	FY 18 e	FY 19 e
Gross Revenue	298.6	337.5	398.5	413
NPI	219.3	265.5	310.9	329.0
Dist Inc.	269.0	288.9	324.4	354.1
P/NAV (x)	0.93	0.93	0.91	0.91
DPU (Cents)	9.1	8.7	8.8	9.4
Dist yield %	5.50%	5.20%	5.30%	5.70%

Source: Company Data, PSR est.

### Valuation Method

**DDM (Cost of equity 6.76%, Terminal Growth 1.85%)**

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## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>Gross Revenue</b>	<b>273.2</b>	<b>298.6</b>	<b>337.5</b>	<b>398.5</b>	<b>411.3</b>
Total Property expenses	(70.9)	(79.2)	(72.0)	(87.6)	(82.3)
<b>Net Property Income</b>	<b>212.8</b>	<b>219.3</b>	<b>265.5</b>	<b>310.9</b>	<b>329.0</b>
Finance costs	(36.0)	(50.1)	(69.0)	(82.7)	(82.7)
Base Asset management Fees	(5.1)	(5.9)	(6.9)	(7.5)	(7.5)
Performance Asset management fees	(9.3)	(9.3)	(9.5)	(11.9)	(12.8)
Net income before JV and associates	162.6	160.4	180.0	210.2	227.3
Net tax and other adjustments	6.8	15.1	(1.2)	1.8	13.1
Distribution from JVs	84.8	93.5	97.8	87.3	88.7
<b>Total distributions for the year</b>	<b>254.5</b>	<b>269.0</b>	<b>288.9</b>	<b>324.4</b>	<b>354.1</b>

### Per share data (SGD)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
Net asset value per unit	1.77	1.78	1.78	1.82	1.83
DPU (\$\$)	0.086	0.091	0.087	0.088	0.094

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Total return for the year before tax	307.4	261.8	582.5	297.5	316.0
Adjustments	(106.6)	(42.5)	-	(2.1)	(3.2)
WC changes	(4.0)	(15.9)	(2.5)	-	-
Net cash from operating activities	196.8	203.1	250.8	295.4	312.7
<b>CFI</b>					
Net cash from investing activities	63.7	(259.4)	(902.0)	(68.2)	16.0
<b>CFF</b>					
Interest Paid	(33.4)	(71.5)	(64.8)	(82.7)	(82.7)
Distributions to Unitholders	(251.9)	(257.1)	(279.7)	(324.4)	(354.1)
Net cash used in financing activities	(280.4)	135.1	613.8	(232.6)	(361.1)
Net (decrease)/increase in cash/equiv	(19.9)	78.8	(37.4)	(5.4)	(32.4)
<b>Cash and cash equivalents at 31 Dec</b>	<b>81.2</b>	<b>160.0</b>	<b>122.6</b>	<b>117.2</b>	<b>84.8</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

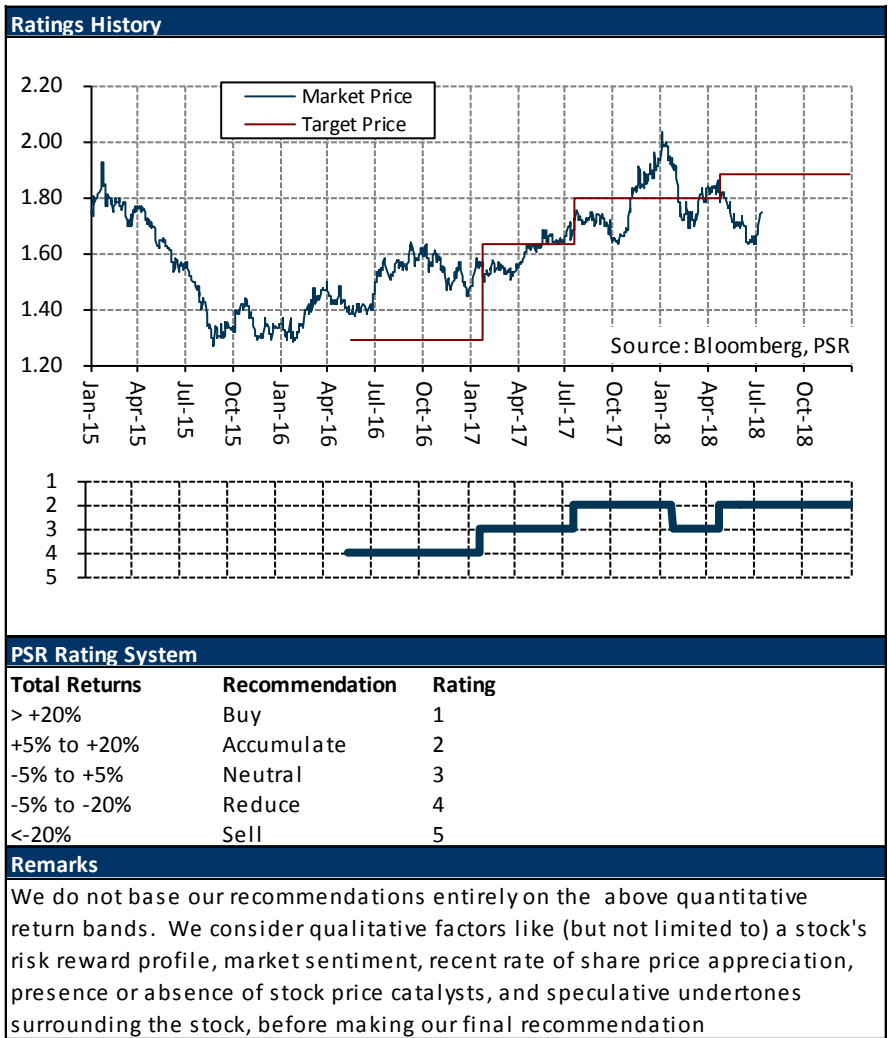
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
Investment properties	4,962	6,591	7,408	7,523	7,523
Trade and other receivables	44	42	43	43	43
Cash and cash equivalents	81	160	123	117	85
JVs	1,452	1,190	1,732	1,858	1,934
<b>Total Assets</b>	<b>6,593</b>	<b>8,051</b>	<b>9,354</b>	<b>9,590</b>	<b>9,633</b>
<b>LIABILITIES</b>					
Trade and other payables	37	53	90	90	90
Interest bearing liabilities (Current)	-	-	-	298	248
Interest bearing liabilities (Non-current)	1,084	2,457	2,720	2,262	2,312
Convertible bonds	171	173	-	-	-
<b>Total Liabilities</b>	<b>1,358</b>	<b>2,773</b>	<b>2,937</b>	<b>2,773</b>	<b>2,773</b>
<b>EQUITY</b>					
<b>Shareholder Equity</b>	<b>5,234</b>	<b>5,279</b>	<b>6,417</b>	<b>6,817</b>	<b>6,860</b>

### Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/NAV	0.94	0.93	0.93	0.91	0.91
Distribution yield (%)	5.2%	5.5%	5.2%	5.3%	5.7%
NPI yield (%)	4.3%	3.5%	3.6%	4.1%	4.4%
<b>Growth &amp; Margins (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18e</b>	<b>FY19e</b>
<b>Growth</b>					
Revenue	4.0%	9.3%	13.0%	18.1%	3.2%
Net property income (NPI)	3.7%	8.7%	14.8%	17.1%	5.8%
DPU	1.9%	5.3%	-4.6%	1.7%	7.0%
<b>Margins</b>					
NPI margin	77.9%	77.5%	78.7%	78.0%	80.0%
Operating Income Margin	59.5%	53.7%	53.3%	52.8%	55.3%
<b>Key Ratios</b>					
Net Gearing	29.5%	37.7%	37.3%	34.0%	34.0%



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