

CapitaLand Mall Trust

No signs of recovery in tenant sales yet



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SINGAPORE | REAL ESTATE (REIT) | 3Q17 RESULTS

- 9M17 net property income, DPU within our estimates.
- Improvements in NPI margins sustained a 1.6% increase in NPI despite flat revenue.
- No signs of recovery in tenant sales yet and rental reversions under pressure.
- Maintain Neutral with unchanged TP of S\$2.01.

Results at a glance

(SGD mn)/Dec Yr End	3Q17	3Q16	YoY (%)	Comments
Gross Revenue	169.4	169.7	(0.2)	Lower rental from Bedok Mall, Plaza Singapura, Junction 8
Net property income	121.4	119.5	1.6	Lower property tax and utilities expenses which improved NPI margins
Distributable income	98.7	98.4	0.3	
DPU (Cents)	2.78	2.78	-	

Source: Company, PSR

The positives

+ **Net Property Income (NPI) margins improved YoY from 70.4% to 71.6%**. This is a result of the bigger 4.2% drop in property expenses vs the 0.2% drop in gross revenue. Lower property tax and utilities expenses YoY contributed to the improvement in margins.

The negatives

- **No signs of recovery in retail sales yet:** Tenant sales came in flat YoY, continuing the slow trend in FY17 (1H: 0%, 1Q: -0.7%). This contrasts with the slight recovery in overall retail sales tracked by Singstats (average 3.1% growth ex Motor Vehicles since April) (Figure 1). This suggests the improvement could be led by online sales or petrol sales.

- **Selected malls continue to be under pressure in rental reversion, especially in the east:** On top of the weaker malls this year Westgate and Bedok Mall, Tampines Mall also saw significant reversal in rental for 9M17, down 4.3%. This contrasts with the 0.6% reversions for 1H17. This suggests the 8,823sq ft renewed in 3Q17 experienced a massive negative reversion, as much as -29%. Major supply of retail space in the East these 2 years in Singapore Post Centre, Paya Lebar Quarter, and Jewel (Total 1.1 mn sq ft) could exert further pressure on rents for malls in the east going forward.

Outlook

We expect continued pressure for rental reversions until end FY17. The tough operating retail environment is expected to continue with the ongoing threat of e-commerce, in particular Amazon's recent launch into Singapore. We do not see any clear near-term catalysts for the operating performance of CMT.

Maintain NEUTRAL with unchanged target price of S\$2.01.

This translates to a FY17e yield of 5.6% and P/NAV of 1.00.

23 October 2017

Neutral (Maintained)

LAST DONE PRICE	SGD 2.04
FORECAST DIV	SGD 0.11
TARGET PRICE	SGD 2.01
TOTAL RETURN	4.0%

COMPANY DATA

BLOOMBERG CODE:	CT SP
O/S SHARES (MN):	3,546
MARKET CAP (USD mn / SGD mn):	5307 / 7233
52 - WK HI/LO (SGD):	2.17 / 1.87
3M Average Daily T/O (mn):	12.89

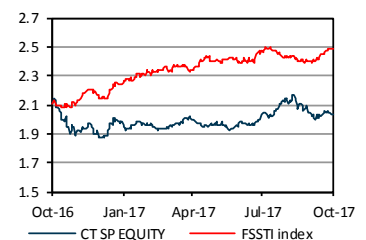
MAJOR SHAREHOLDERS (%)

CAPITALAND	30.53%
BLACKROCK	5.00%
NATIONAL TRADES UNION CONGRESS	4.89%
SUMITOMO MITSUBISHI ASSET MGMT CO	3.18%
VANGUARD GROUP	2.88%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(0.5)	3.4	17
STIRETURN	3.8	2.8	215

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD mn	FY 15	FY 16	FY 17e	FY 18 e
Gross Revenue	669	690	684	692
NPI	466	480	480	485
Dist Inc.	392	394	396	400
P/NAV (x)	102	102	100	102
ROE (%)	6.0	6.0	5.9	6.1
DPU (Cents)	1130	1110	1120	1130
Dist yield %	5.90	5.80	5.80	5.90

Source: Company Data, PSR est.

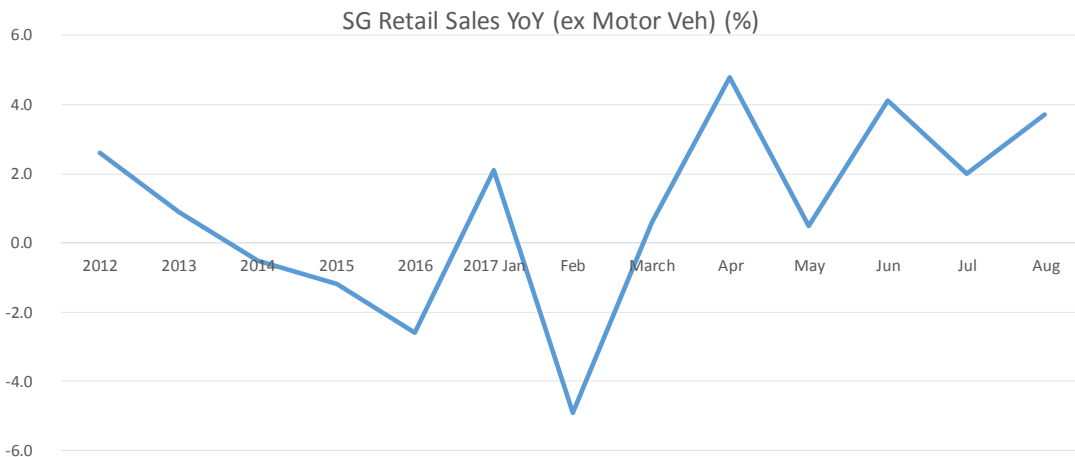
Valuation Method

DDM (Cost of equity 7.25%, Terminal Growth 1.5%)

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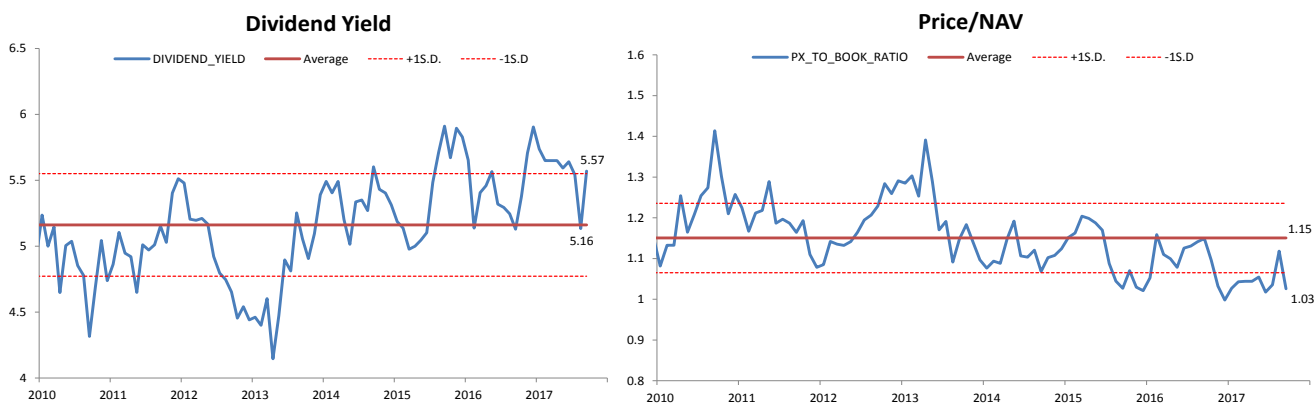
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Figure 1: Gradual pick up in overall retail sales from March this year, which include online sales and non-mall sales such as petrol



Source: Singstat, PSR

Figures 2 and 3: CMT trades at below post GFC average valuations



Source: Bloomberg, PSR

Figure 4: 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 MALL TRUST	NEUTRAL	7,233	2.04	5.46	1.05	34.7	3.20%
CAPITALAND RETAIL CHINA TRUST	NEUTRAL	1,511	1.68	6.02	1.06	35.1	2.44%
FRASERS CENTREPOINT TRUST	NEUTRAL	2,020	2.19	5.36	1.14	28.3	2.20%
SPH REIT		2,620	1.03	5.40	1.09	25.3	2.79%
MAPLETREE COMMERCIAL TRUST		4,460	1.55	5.69	1.13	36.4	2.66%
STARHILL GLOBAL REIT		1,690	0.78	6.35	0.84	35.2	3.17%
SUNTEC REIT		5,060	1.91	5.26	0.90	36.4	2.42%

Source: Bloomberg, Company, PSR

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
Gross Revenue	669	690	684	692	700
Total Property expenses	(203)	(210)	(204)	(206)	(209)
Net Property Income	466	480	480	485	491
Net Finance (Expense)/Inc	(92)	(95)	(98)	(99)	(103)
Net Income before tax and FV changes	329	336	332	336	338
Share of results from associate	18	15	15	15	15
Share of results from JV	54	52	52	53	54
Tax expense	(1)	(1)	(1)	(1)	(1)
Net Income after tax and FV changes	401	403	399	404	407
Distributable income to unitholders	392	394	396	400	404

Per share data (SGD)

Y/E Dec	FY15	FY16	FY17e	FY18e	FY19e
NAV	1.89	1.89	1.91	1.88	1.85
DPU (cents)	11.3	11.1	11.2	11.3	11.4

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
CFO					
Net Income after tax	401	403	399	404	407
Adjustments	21	29	32	33	35
WC changes	1	1	2	1	(3)
Cashflow from ops	422	433	433	438	439
CFI					
Capex, net	(95)	(76)	(152)	(166)	(46)
Others	(369)	103	(1)	(1)	(1)
Cashflow from investments	(464)	27	(153)	(167)	(47)
CFF					
Share issuance	(2)	(4)	(4)	(3)	(3)
Proceeds from bank borrowings, net	12	(82)	100	120	-
Distributions to unitholders	(389)	(394)	(396)	(400)	(404)
Cashflow from financing	(484)	(581)	(407)	(391)	(517)
Net change in cash	(525)	(121)	(127)	(120)	(124)
CCE, end	1,130	604	483	356	236

Source: Company, Phillip Securities Research (Singapore) Estimates

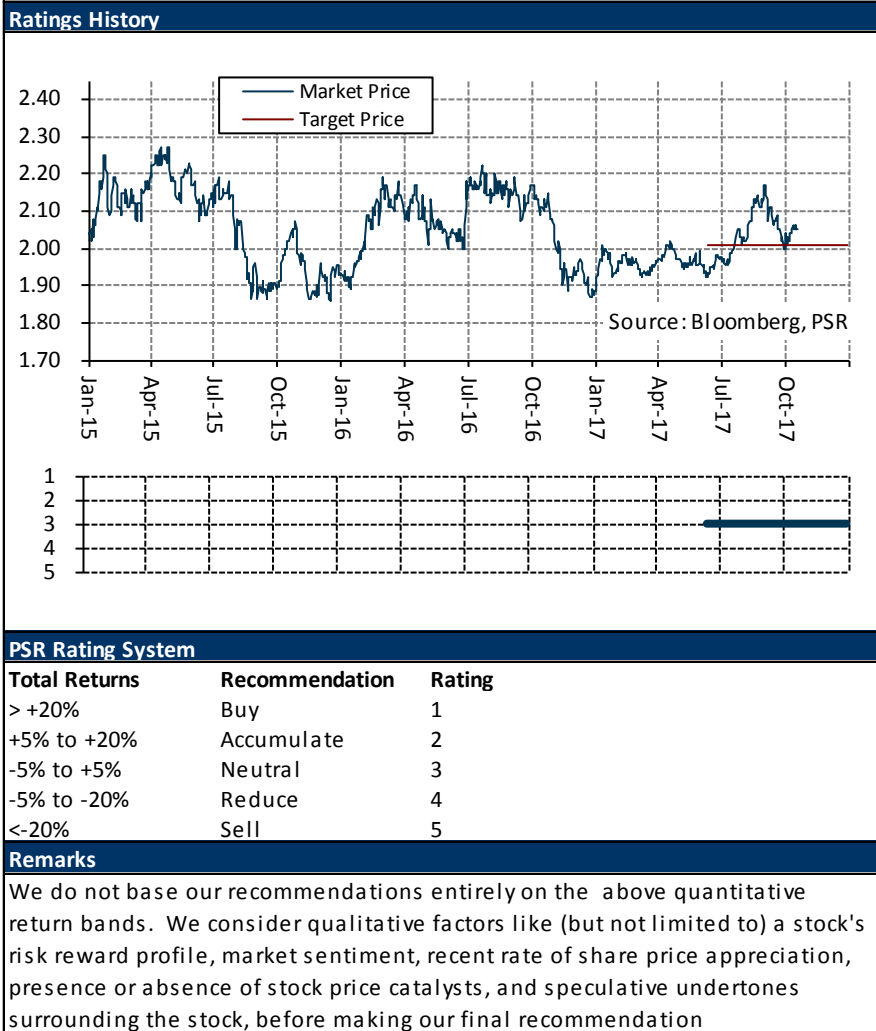
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
ASSETS					
Investment properties	8366	8064	8064	8064	8064
Trade and Other Receivables	29	34	29	31	31
Cash and Cash Equivalents	604	483	483	356	236
Total Assets	10356	10327	10422	10312	10192
LIABILITIES					
Trade and other payables	144	160	153	153	155
Interest bearing borrowings	3312	3288	3288	3288	3288
Other liabilities	206	186	202	198	195
Total Liabilities	3663	3635	3644	3639	3639
EQUITY					
Shareholder Equity	6693	6692	6778	6672	6553

Valuation Ratios

Y/E Dec	FY15	FY16	FY17e	FY18e	FY19e
P/NAV	1.02	1.02	1.00	1.02	1.04
Distribution yield (%)	5.9%	5.8%	5.8%	5.9%	5.9%
NPI yield (%)	5.6%	5.9%	6.0%	6.0%	6.1%
Growth & Margins (%)	FY15	FY16	FY17e	FY18e	FY19e
Growth					
Revenue	1.5%	3.1%	-0.8%	1.1%	1.2%
Net property income (NPI)	4.0%	2.9%	0.0%	1.1%	1.2%
DPU	3.8%	-1.1%	0.5%	0.8%	0.9%
Margins					
NPI margin	69.7%	69.5%	70.2%	70.2%	70.2%
Operating Income Margin	62.8%	62.4%	62.8%	62.9%	63.0%
Key Ratios					
ROA	3.9%	3.9%	3.8%	3.9%	4.0%
ROE	6.0%	6.0%	5.9%	6.1%	6.2%
Net Gearing	35.4%	34.8%	38.2%	38.1%	38.1%



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