

CapitaLand Mall Trust

High occupancy costs taking its toll



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SINGAPORE | REAL ESTATE (REIT) | FY17 RESULTS

- FY17 gross revenue and DPU within our estimates.
- NPI margins improved YoY from 69.5% to 70.1%.
- Rental reversions came in at -1.7% for FY17, dragged down by Westgate, Bedok Mall.
- Expect continued pressure for rental reversions for FY18 on the back of high occupancy costs and upcoming supply.
- Maintain Neutral with higher TP of S\$2.03 (from S\$2.01).

Results at a glance

(SGD mn)/Dec Yr End	FY17	FY16	YoY (%)	Comments
Gross Revenue	682.5	689.7	(1.1)	Mainly due to closure of Funan Mall for redevelopment from 1 July 2016, partially offset by higher rental for IMM, JCube, Clarke Quay. Excluding Funan, up 0.6% yoy
Net property income	478.2	479.7	(0.3)	Same reason as above, excluding Funan up 1.2% yoy
Distributable income	395.8	394.3	0.4	Higher distributions from Associate (CRCT)
DPU (Cents)	11.16	11.13	0.3	

Source: Company, PSR

The positives

+ **Net Property Income (NPI) margins improved YoY from 69.5% to 70.1%.** Property operating expenses were S\$1.6mn lower yoy mainly due to lower utilities expenses. Utility cost savings could be expected for the next 2 FYs as these costs are hedged 2-year forward.

+ **Gross revenue stable (excluding Funan) despite negative reversions.** Higher revenue from better performing malls such as IMM building and Clarke Quay (higher occupancy yoy despite negative reversions) was sufficient to offset weakness in Bedok Mall and Tampines Mall.

The negatives

- **Rental reversions came in at negative 1.7% for FY17, dragged down by Westgate, Bedok Mall and Tampines Mall.** High occupancy costs and flat retail sales have cumulated to negative reversion pressures for most parts of 2017. FY17 occupancy cost at 18.7% are at close to record levels.

- **Flat retail sales underperforming general retail sales index.** FY17 tenant sales came in flat YoY, a trend that has held stable throughout the year. This contrasts with the slight recovery in overall industry retail sales where July-Nov 17 averaged 2.9% growth ex Motor Vehicles. Interestingly, management guided that in-mall luxury brands seem to be turning around.

Outlook

Although retail sentiment is expected to improve, we expect continued pressure for rental reversions for FY18 on the back of high occupancy costs. On top of the ongoing e-commerce threat, there is major supply of retail space over the next two years such as Northpoint City, Paya Lebar Quarter and Jewel (totalling 1.1 mn sq ft). This will exert further pressure on rents for malls especially in the eastern region going forward.

Maintain NEUTRAL with higher target price of S\$2.03 (from \$2.01).

Our DPU forecasts for FY18e and FY19e are adjusted upwards by 0.8% and 0.7% as we factor in lower utilities expenses. Our new target price translates to a FY17e yield of 5.6% and P/NAV of 1.02.

26 January 2018

Neutral (Maintained)

LAST DONE PRICE	SGD 2.10
FORECAST DIV	SGD 0.11
TARGET PRICE	SGD 2.03
TOTAL RETURN	2.0%

COMPANY DATA

BLOOMBERG CODE:	CT SP
O/S SHARES (MN) :	3,546
MARKET CAP (USD mn / SGD mn) :	5745 / 7518
52 - WK HI/LO (SGD) :	2.17 / 1.92
3M Average Daily T/O (mn) :	1132

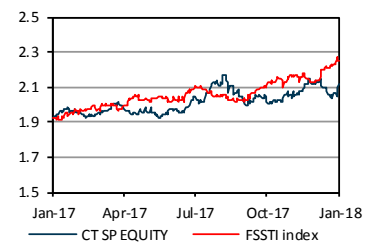
MAJOR SHAREHOLDERS (%)

CAPITALAND	30.53%
BLACKROCK	6.07%
NATIONAL TRADES UNION CONGRESS	4.89%
SUMITOMO MITSUI ASSET MGMT CO	3.08%
SCHRODER INVESTMENT MGMT	1.57%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(0.9)	4.9	14.7
STI RETURN	5.5	7.2	21.3

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD mn	FY 16	FY 17	FY 18 e	FY 19 e
Gross Revenue	690	682	692	700
NPI	480	478	485	491
Dist Inc.	394	396	397	400
P/NAV (x)	1.07	1.04	1.02	1.04
ROE (%)	6.0	5.9	5.8	5.9
DPU (Cents)	11.10	11.20	11.40	11.50
Dist yield %	5.50	5.50	5.50	5.60

Source: Company Data, PSR est.

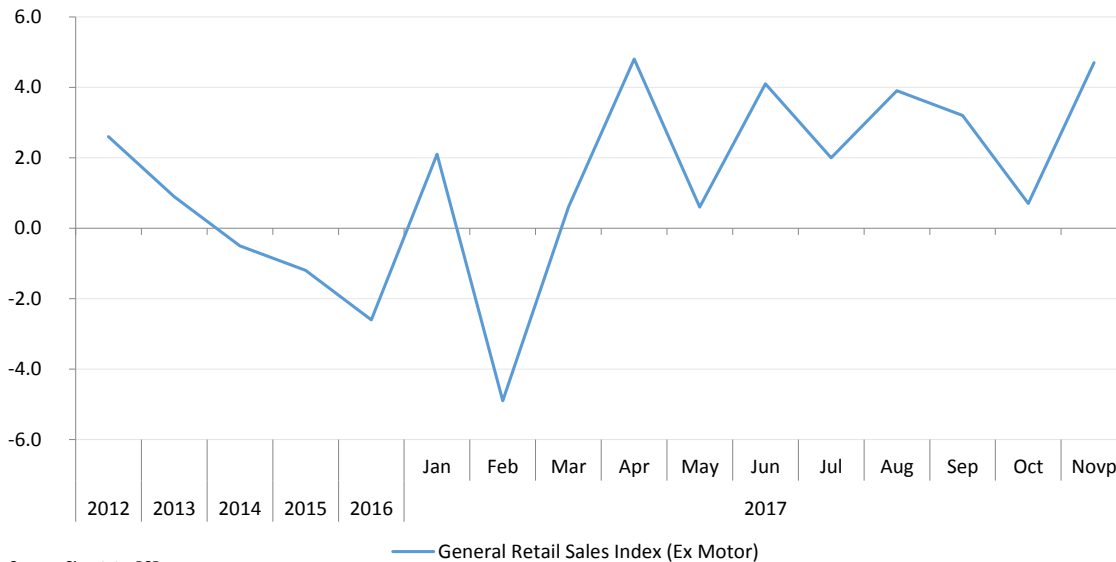
Valuation Method

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

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Figure 1: Gradual pick up in retail sales index from 2H17



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

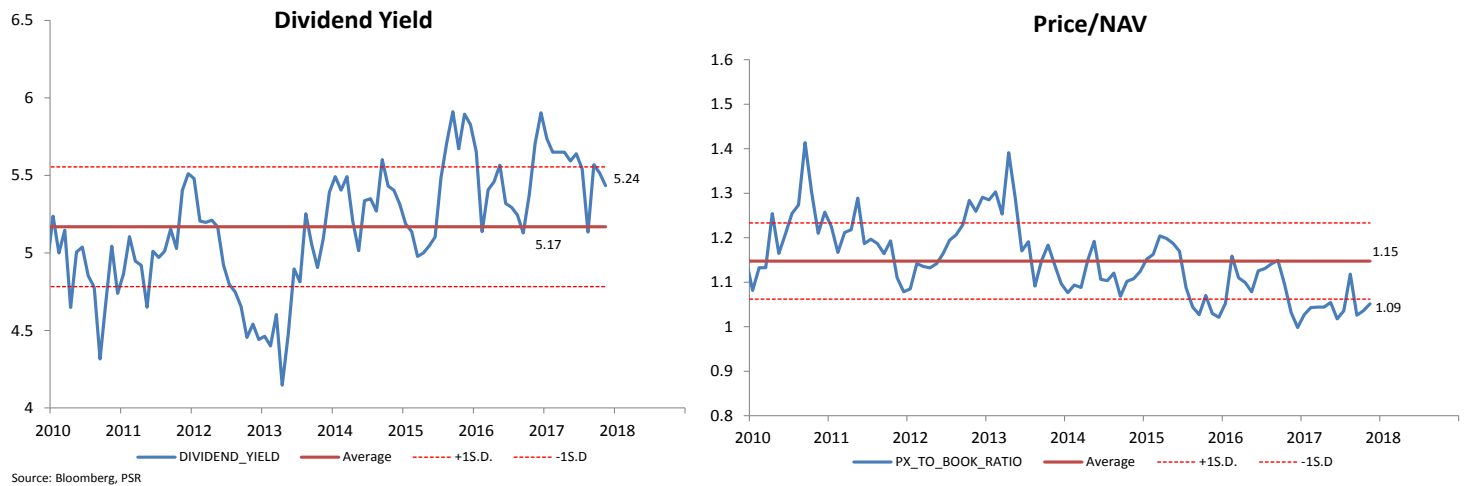


Figure 4: Peer comparison table

Name	PSR CALL	PSR Target	Mkt Cap	Last Close (\$)	Dvd Yld:D-1	P/B	Latest Gearing (%)
		Price	(SGD mn)				
CAPITALAND MALL TRUST	NEUTRAL	2.03	7,377	2.08	5.37	1.06	34.2
FRASERS CENTREPOINT TRUST	NEUTRAL	2.14	2,137	2.31	5.20	1.14	29.0
CAPITALAND RETAIL CHINA TRUST	NEUTRAL	1.66	1,585	1.64	6.16	1.01	35.1
SPH REIT			2,720	1.06	5.22	1.12	25.3
MAPLETREE COMMERCIAL TRUST			4,779	1.66	5.44	1.21	36.4
STARHILL GLOBAL REIT			1,680	0.77	6.26	0.83	35.2
SUNTEC REIT			5,703	2.15	4.65	1.01	35.0

Source: Bloomberg, PSR

Figure 5: High Occupancy maintained across all malls

(%, As at)	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014	31 Dec 2015	31 Dec 2016	31 Dec 2017
Tampines Mall	100.0	100.0	100.0	100.0	100.0	100.0	99.5	100.0	99.2	100.0
Junction 8	100.0	100.0	100.0	100.0	99.6	99.4	100.0	100.0	99.9	100.0
Funan	99.8	99.3	100.0	100.0	100.0	98.2	97.9	95.3	N.A. ⁽¹⁾	N.A. ⁽¹⁾
IMM Building ⁽²⁾	100.0	99.7	100.0	100.0	98.1	99.0	96.0 ⁽³⁾	96.0	97.9	99.5
Plaza Singapura	99.8	100.0	100.0	100.0	91.3	100.0	100.0	99.7	100.0	100.0
Bugis Junction	100.0	100.0	100.0	100.0	100.0	100.0	100.0	99.7	99.9	99.3
Other assets ⁽⁴⁾	100.0	99.8	99.8	80.9 ⁽³⁾	99.8	100.0	98.1	92.6	95.3	96.4
Raffles City Singapore ⁽²⁾	100.0	100.0	99.6	100.0	100.0	100.0	100.0	99.6	99.7	99.9
Lot One Shoppers' Mall	99.3	99.9	99.6	99.7	99.8	100.0	100.0	99.8	99.9	100.0
Bukit Panjang Plaza	100.0	99.8	100.0	100.0	100.0	99.8	100.0	97.8	99.9	98.7
The Atrium@Orchard ⁽⁵⁾	98.0	99.1	93.5	65.5 ⁽³⁾	95.3	99.5	99.9	98.2	97.6	98.6
Clarke Quay			100.0	100.0	97.9	100.0	95.9	88.2	90.7	98.8
Bugis+					99.5	100.0	100.0	99.2	100.0	100.0
Westgate						85.8	97.7	97.6	99.6	98.0
Bedok Mall								99.9	100.0	99.2
CMT Portfolio	99.7	99.8	99.3	94.8	98.2	98.5	98.8	97.6	98.5	99.2

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross Revenue	669	690	682	692	700
Total Property expenses	(203)	(210)	(204)	(200)	(202)
Net Property Income	466	480	478	492	498
Net Finance (Expense)/Inc	(92)	(95)	(94)	(95)	(98)
Net Income before tax and FV changes	329	336	335	348	351
Share of results from associate	18	15	19	15	15
Share of results from JV	54	52	52	53	54
Tax expense	(1)	(1)	(0)	(1)	(1)
Net Income after tax and FV changes	401	403	406	416	419
Distributable income to unitholders	392	394	396	403	407

Per share data (SGD)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV	1.89	1.89	1.95	1.99	1.96
DPU (cents)	11.3	11.1	11.2	11.4	11.5

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Net Income after tax	401	403	406	416	419
Adjustments	21	29	24	28	31
WC changes	1	1	(2)	1	(3)
Cashflow from ops	422	433	428	445	447
CFI					
Capex, net	(95)	(76)	(99)	(166)	(46)
Others	(369)	103	188	(1)	(0)
Cashflow from investments	(464)	27	89	(167)	(46)
CFE					
Share issuance	(2)	(4)	(2)	(2)	(3)
Proceeds from bank borrowings, net	12	(82)	23	120	-
Distributions to unitholders	(389)	(394)	(395)	(403)	(407)
Cashflow from financing	(484)	(581)	(478)	(391)	(515)
Net change in cash	(525)	(121)	39	(112)	(115)
CCE, end	604	483	523	411	296

Source: Company, Phillip Securities Research (Singapore) Estimates

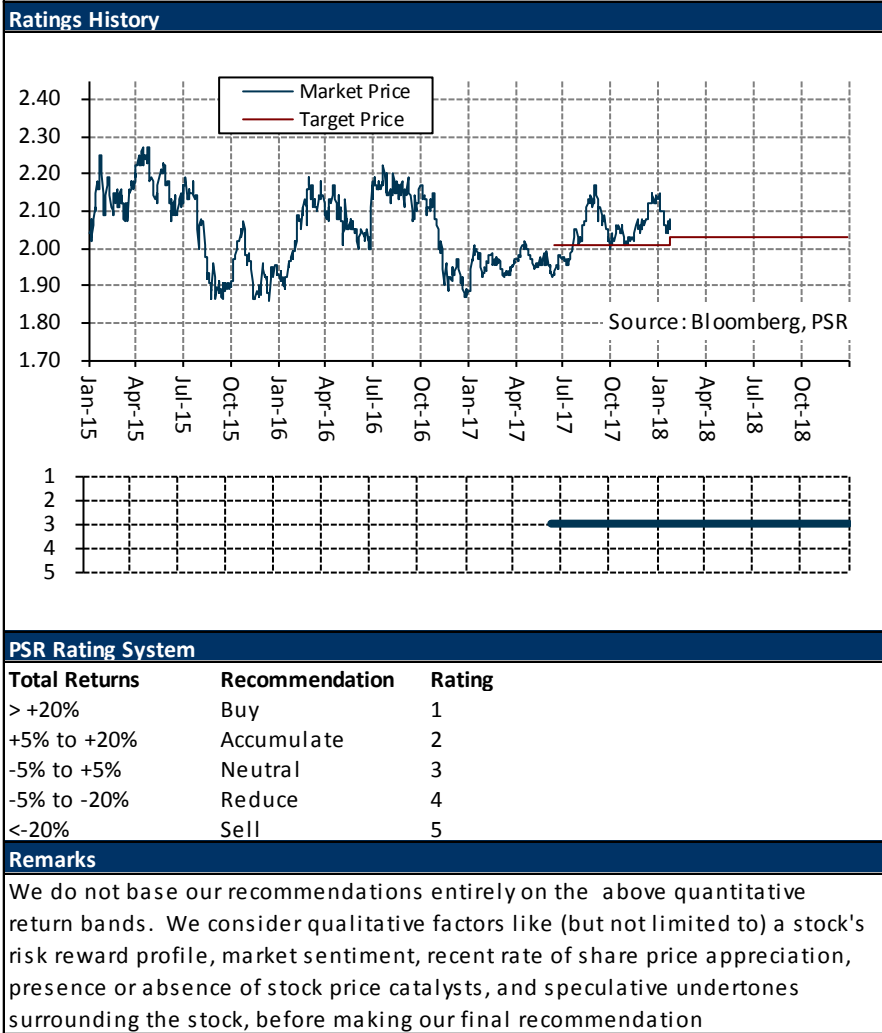
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
Investment properties	8,366	8,064	8,311	8,311	8,311
Trade and Other Receivabl	29	34	32	32	33
Cash and Cash Equivalents	604	483	523	411	296
Total Assets	10,356	10,327	10,504	10,613	10,500
LIABILITIES					
Trade and other payables	144	160	156	153	156
Interest bearing borrowing	3,312	3,288	3,183	3,183	3,183
Other liabilities	206	186	238	208	209
Total Liabilities	3,663	3,635	3,576	3,545	3,549
EQUITY					
Shareholder Equity	6,693	6,692	6,928	7,069	6,951

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/NAV	1.08	1.08	1.04	1.02	1.04
Distribution yield (%)	5.5%	5.5%	5.5%	5.6%	5.6%
NPI yield (%)	5.6%	5.9%	5.8%	5.9%	6.0%
Growth & Margins (%)					
Growth					
Revenue	1.5%	3.1%	-1.1%	1.4%	1.2%
Net property income (NPI)	4.0%	2.9%	-0.3%	2.9%	1.2%
DPU	3.8%	-1.1%	0.3%	1.9%	0.8%
Margins					
NPI margin	69.7%	69.5%	70.1%	71.2%	71.2%
Operating Income Margin	62.8%	62.4%	62.9%	64.1%	64.1%
Key Ratios					
ROA	3.9%	3.9%	3.9%	3.9%	4.0%
ROE	6.0%	6.0%	5.9%	5.9%	6.0%
Net Gearing	35.4%	34.8%	36.3%	35.9%	35.9%



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