

CapitaLand Mall Trust

Sale of Sembawang Shopping Centre at 2x FY17 valuation



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SINGAPORE | REAL ESTATE (REIT) | 1Q18 RESULTS

23 April 2018

- 1Q18 NPI and DPU within our estimates.
- Higher occupancy and lower operating expenses supported 1.8% YoY increase in DPU.
- Overall tenant sales still sluggish, but with a few outperforming subsectors.
- Sale of Sembawang Shopping Centre (SSC) at 1.97x FY17 valuation a positive surprise.
- Maintain Neutral with higher TP of S\$2.05 (from S\$2.03) to account for divestment gains.

Results at a glance

(SGD mn)/Dec Yr End	1Q18	1Q17	YoY (%)	Comments
Gross Revenue	175.2	172.0	1.8	Higher occupancy for IMM, Clarke Quay, The Atrium@Orchard and Plaza Singapura
Net property income	125.7	120.1	4.7	Drop in operating expenses due to lower marketing and utilities expenses
Distributable income	99.0	97.0	2.1	Lower contributions for Associates and JVs
DPU (Cents)	2.78	2.73	1.8	

Source: Company, PSR

The positives

+ **Higher occupancy and lower operating expenses propped up DPU amidst still challenging operating environment in terms of tenant sales.** These came against the backdrop of flat rental reversions and tenant sales YoY. We are heartened to see the moderation in negative rental reversion (-1.7%) from FY17. Nonetheless, we believe tenant sales need to improve for this trend to sustain, given the elevated occupancy cost of 18.7%.
 + **Sale of SSC to Lian Beng at 1.97x FY17 valuation a positive surprise.** This translates to an exit cap rate of c.2.6%. We think the willingness of the buyer to pay the huge premium boils down to the 999-year lease of SSC. Leases of the other malls in CMT's portfolio range from 60-99 years. SSC represents <2% of Group total investment properties as at FY17.
 + **No more debt expiries in FY18.** Management refinanced S\$605mn worth of loans and a 6-year MTN in 1Q18. These loans were due to expire in 2018. Refinancing were done at lower interest rates (albeit using loans with shorter tenures ranging from 1-4 years). There is no more debt expiring in 2018 and hence little refinancing risk this year.

The negatives

- **Overall tenant sales still sluggish, down 0.2% YoY.** This is comparable to the flat YoY change for FY17. The three biggest trade sectors by GRI (F&B, Fashion, Beauty and Health) continue to struggle to post meaningful YoY sales growth. These sectors contribute c.55% of FY17 GRI.

Outlook

Despite generally rising interest rates, financing costs for FY18 should remain stable with the re-financing of expiring loans with shorter tenure debt at lower interest costs. Divestment proceeds from SSC could also be used to further pare down debt and for Funan's redevelopment capex. We have assumed a S\$3mn/S\$6mn cash top-up from divestment proceeds to DPU for loss in income from SSC in FY18e/FY19e. Our DPU forecasts remain unchanged. Tenant sales has not picked up enough for us to foresee a more meaningful uptick in rental reversions.

Maintain NEUTRAL with higher target price of S\$2.05 (from \$2.03).

We adjust our forecast to factor in the SSC divestment. Increase in target price is factoring in divestment gains of c.S\$122mn and our assumption of cash top-ups to DPU from FY18-FY20 in the absence of SSC's rental income.

Neutral (Maintained)

LAST DONE PRICE	SGD 2.10
FORECAST DIV	SGD 0.11
TARGET PRICE	SGD 2.05
TOTAL RETURN	3.0%

COMPANY DATA

BLOOMBERG CODE:	CT SP
O/S SHARES (MN):	3,548
MARKET CAP (USD mn / SGD mn):	5656 / 7451
52 - WK HI/LO (SGD):	2.17 / 1.92
3M Average Daily T/O (mn):	12.82

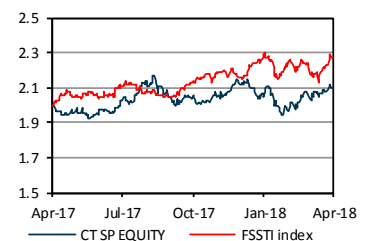
MAJOR SHAREHOLDERS (%)

CAPITALAND	30.53%
BLACKROCK	6.07%
NATIONAL TRADES UNION CONGRESS	4.89%
SUMITOMO MITSUI ASSET MGMT CO	3.10%
VANGUARD GROUP	2.29%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	10	2.9	10.3
STIRETURN	19	10	17.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD mn	FY 16	FY 17	FY 18 e	FY 19 e
Gross Revenue	690	682	686	689
NPI	480	478	489	492
Dist Inc.	394	396	404	408
P/NAV (x)	1.07	1.04	1.02	1.06
ROE (%)	6.0	5.9	5.9	6.1
DPU (Cents)	11.10	11.20	11.40	11.50
Dist yield %	5.50	5.50	5.60	5.60

Source: Company Data, PSR est.

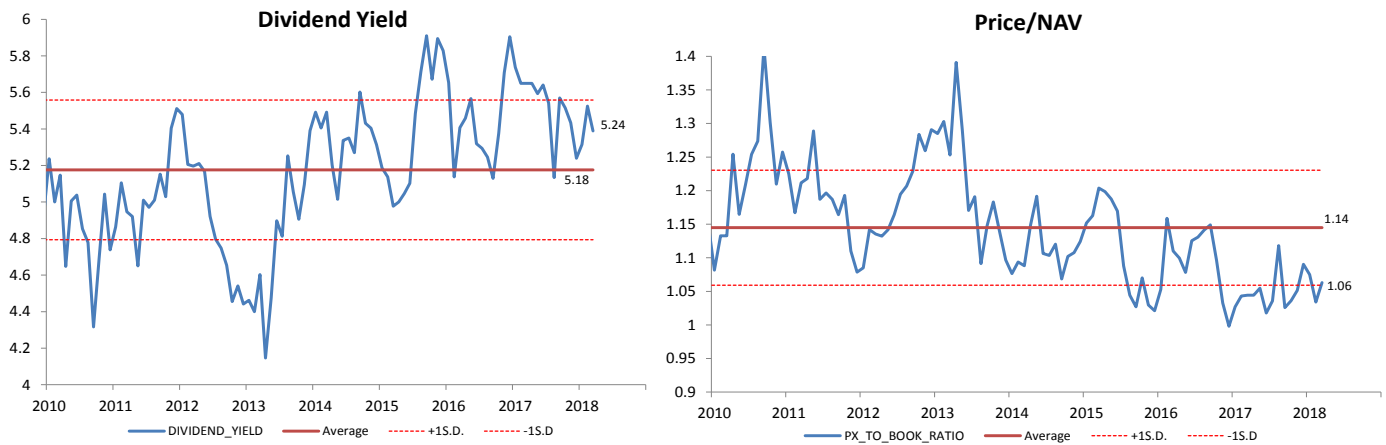
Valuation Method

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

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Figures 1 and 2: CMT trades at cheaper than post GFC average valuations



Source: Bloomberg, PSR

Figure 3: High Occupancy maintained across most malls

(%, As at)	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	31 Mar 2018
Tampines Mall	100.0	100.0	100.0	100.0	100.0	99.5	100.0	99.2	100.0	99.9
Junction 8	100.0	100.0	100.0	99.6	99.4	100.0	100.0	99.9	100.0	100.0
Funan	99.3	100.0	100.0	100.0	98.2	97.9	95.3	N.A. ⁽¹⁾	N.A. ⁽¹⁾	N.A. ⁽¹⁾
IMM Building ⁽²⁾	99.7	100.0	100.0	98.1	99.0	96.0 ⁽³⁾	96.0	97.9	99.5	98.9
Plaza Singapura	100.0	100.0	100.0	91.3	100.0	100.0	99.7	100.0	100.0	99.6
Bugis Junction	100.0	100.0	100.0	100.0	100.0	100.0	99.7	99.9	99.3	99.9
Other assets ⁽⁴⁾	99.8	99.8	80.9 ⁽³⁾	99.8	100.0	98.1	92.6	95.3	96.4	96.3
Raffles City Singapore ⁽²⁾	100.0	99.6	100.0	100.0	100.0	100.0	99.6	99.7	99.9	98.4
Lot One Shoppers' Mall	99.9	99.6	99.7	99.8	100.0	100.0	99.8	99.9	100.0	99.9
The Atrium@Orchard ⁽⁵⁾	99.1	93.5	65.5 ⁽³⁾	95.3	99.5	99.9	98.2	97.6	98.6	99.3
Clarke Quay		100.0	100.0	97.9	100.0	95.9	88.2	90.7	98.8	98.8
Bugis+				99.5	100.0	100.0	99.2	100.0	100.0	100.0
Westgate					85.8	97.7	97.6	99.6	98.0	97.2
Bedok Mall							99.9	100.0	99.2	99.8
CMT Portfolio	99.8	99.3	94.8	98.2	98.5	98.8	97.6	98.5	99.2	98.9

Source: Company

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross Revenue	669	690	682	686	689
Total Property expenses	(203)	(210)	(204)	(197)	(197)
Net Property Income	466	480	478	489	492
Net Finance (Expense)/Inc	(92)	(95)	(94)	(95)	(98)
Net Income before tax and FV changes	329	336	335	346	346
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	414	414
Distributable income to unitholders	392	394	396	404	408

Per share data (SGD)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV	1.89	1.89	1.95	1.99	1.92
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	414	414
Adjustments	21	29	24	28	30
WC changes	1	1	(2)	1	(3)
Cashflow from ops	422	433	428	443	441
CFI					
Capex, net	(95)	(76)	(99)	(166)	(166)
Others	(369)	103	188	247	(0)
Cashflow from investments	(464)	27	89	81	(166)
CFF					
Share issuance	(2)	(4)	(2)	(2)	(3)
Proceeds from bank borrowings, net	12	(82)	23	(80)	120
Distributions to unitholders	(389)	(394)	(395)	(404)	(408)
Cashflow from financing	(484)	(581)	(478)	(591)	(396)
Net change in cash	(525)	(121)	39	(67)	(121)
CCE, end	604	483	523	456	334

Source: Company, Phillip Securities Research (Singapore) Estimates

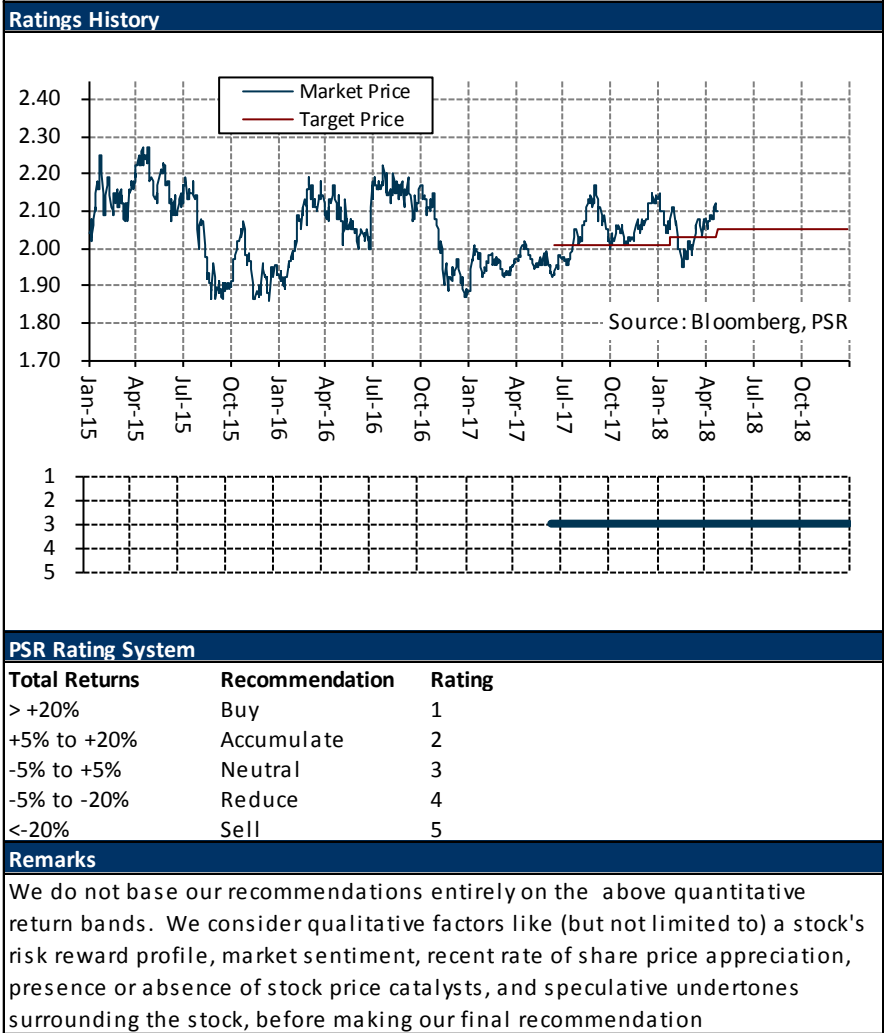
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
Investment properties	8,366	8,064	8,311	8,185	8,185
Trade and Other Receivables	29	34	32	32	33
Cash and Cash Equivalents	604	483	523	456	334
Total Assets	10,356	10,327	10,504	10,533	10,412
LIABILITIES					
Trade and other payables	144	160	156	153	156
Interest bearing borrowings	3,312	3,288	3,183	3,103	3,223
Other liabilities	206	186	238	208	209
Total Liabilities	3,663	3,635	3,576	3,465	3,589
EQUITY					
Shareholder Equity	6,693	6,692	6,928	7,068	6,824

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/NAV	1.08	1.08	1.04	1.02	1.06
Distribution yield (%)	5.5%	5.5%	5.5%	5.6%	5.6%
NPI yield (%)	5.6%	5.9%	5.8%	6.0%	6.0%
Growth & Margins (%)	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	1.5%	3.1%	-1.1%	0.6%	0.4%
Net property income (NPI)	4.0%	2.9%	-0.3%	2.2%	0.6%
DPU	3.8%	-1.1%	0.3%	2.0%	0.9%
Margins					
NPI margin	69.7%	69.5%	70.1%	71.3%	71.4%
Operating Income Margin	62.8%	62.4%	62.9%	64.3%	64.3%
Key Ratios					
ROA	3.9%	3.9%	3.9%	3.9%	4.0%
ROE	6.0%	6.0%	5.9%	5.9%	6.1%
Net Gearing	35.4%	34.8%	36.3%	35.5%	36.9%



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