

# CapitaLand Mall Trust

Entrenching presence in the Jurong Lake District



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SINGAPORE | REAL ESTATE (REIT) | UPDATE

28 August 2018

- CMT to acquire the remaining 70% stake in Westgate for S\$790mn.
- Acquisition based on market value of Westgate at S\$1,128mn (\$2,746psf).
- Recycling of capital from Sembawang Shopping Centre sale into a newer asset at 4.3% entry yield.
- Latest committed occupancy at 98% with a 99y lease tenure from 2011.

## What is the news?

CMT announced the acquisition of the remaining 70% stake in Westgate for S\$789.6mn from sponsor parent CapitaLand Limited. Including acquisition-related expenses, CMT's total outlay is estimated at S\$806mn, to be funded through a combination of debt and equity that will be decided in due course. Transaction is expected to be completed in 4Q18.

## What do we think?

**Entry yield lower than portfolio NPI yield of 5.8%. Acquisition is only accretive if heavily funded by debt by our estimates.** Assuming a cost of debt in line with CMT's current average cost of 3.2% and taking into account incremental management fees, we estimate that the acquisition will only be accretive to FY19e DPU if funded by 70% debt or more. Assuming fully debt funded, the acquisition (at current earnings level) could improve FY19e-FY20e DPU by c.1.2% and potentially our target price by S\$0.02. A fully debt funded acquisition will bring CMT's gearing level up to c.36%.

**Market value of Westgate nudged up 14% in just two months.** At S\$1,128mn, the agreed market value for Westgate is 14% higher than the implied S\$991mn valuation as at June 2018. This is mainly due to compression in cap rates used in the latest valuation.

**Entry yield comparable with Jurong Point transaction last year despite continued compression in cap rates since then.** Despite the higher market value from the level seen just 2 months ago, we note that the entry yield of 4.3% is comparable to that of the S\$2.2bn Jurong Point acquisition in CY2Q17.

**Entrenching their presence in the fast-growing Jurong Lake District.** With the Jurong Lake District slated to become Singapore's second central business district and government plans to develop up to 42,000 new homes in the new Tengah estate, connected via the Jurong Region Line, there is immense potential for future growth in the area.

## Maintain NEUTRAL with unchanged target price of S\$2.05.

We maintain our forecasts pending approval of the interested-party transaction at the upcoming EGM. Depending on the funding capital structure, assuming minimum 70% debt-funded for an accretive acquisition, upside to our target price will range from flat to \$0.02. Our current target price translates to an FY18e yield of 5.6% and P/NAV of 1.03.

## Neutral (Maintained)

LAST DONE PRICE	SGD 2.15
FORECAST DIV	SGD 0.11
TARGET PRICE	SGD 2.05
<b>TOTAL RETURN</b>	<b>0.6%</b>

## COMPANY DATA

BLOOMBERG CODE:	CT SP
O/S SHARES (MN):	3,549
MARKET CAP (USD mn / SGD mn):	5595 / 7630
52 - WK HI/LO (SGD):	2.25 / 1.95
3M Average Daily T/O (mn):	1174

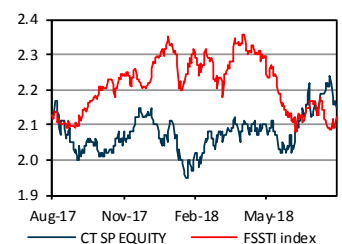
## MAJOR SHAREHOLDERS (%)

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	1YR
COMPANY	19	4.7	8.6
STIRETURN	(19)	(6.8)	2.5

## 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)	107	104	102	106
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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## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>Gross Revenue</b>	<b>669</b>	<b>690</b>	<b>682</b>	<b>686</b>	<b>689</b>
Total Property expenses	(203)	(210)	(204)	(197)	(197)
<b>Net Property Income</b>	<b>466</b>	<b>480</b>	<b>478</b>	<b>489</b>	<b>492</b>
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)
<b>Net Income after tax and FV changes</b>	<b>401</b>	<b>403</b>	<b>406</b>	<b>414</b>	<b>414</b>
<b>Distributable income to unitholders</b>	<b>392</b>	<b>394</b>	<b>396</b>	<b>404</b>	<b>408</b>

### 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
<b>CFO</b>					
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
<b>CFI</b>					
Capex, net	(95)	(76)	(99)	(166)	(166)
Others	(369)	103	188	247	(0)
Cashflow from investments	(464)	27	89	81	(166)
<b>CFF</b>					
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)
<b>Cashflow from financing</b>	<b>(484)</b>	<b>(581)</b>	<b>(478)</b>	<b>(591)</b>	<b>(396)</b>
<b>Net change in cash</b>	<b>(525)</b>	<b>(121)</b>	<b>39</b>	<b>(67)</b>	<b>(121)</b>
<b>CCE, end</b>	<b>604</b>	<b>483</b>	<b>523</b>	<b>456</b>	<b>334</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

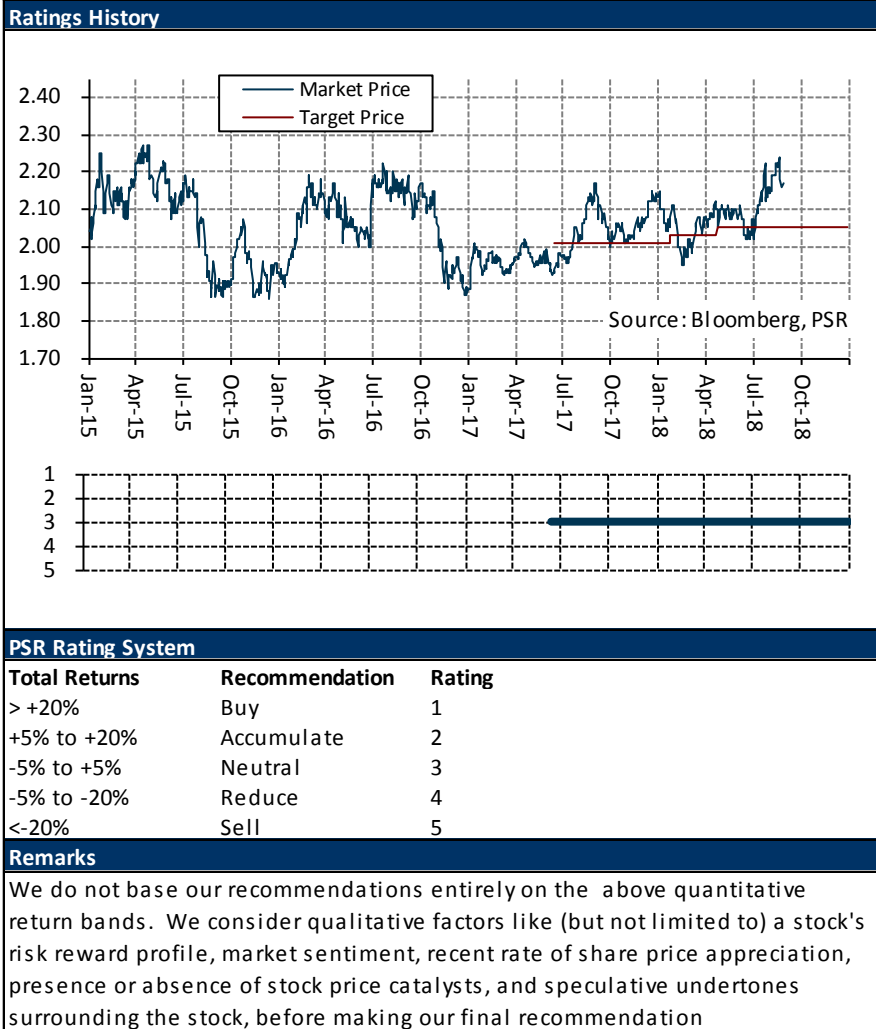
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
Investment properties	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
<b>Total Assets</b>	<b>10,356</b>	<b>10,327</b>	<b>10,504</b>	<b>10,533</b>	<b>10,412</b>
<b>LIABILITIES</b>					
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
<b>Total Liabilities</b>	<b>3,663</b>	<b>3,635</b>	<b>3,576</b>	<b>3,465</b>	<b>3,589</b>
<b>EQUITY</b>					
<b>Shareholder Equity</b>	<b>6,693</b>	<b>6,692</b>	<b>6,928</b>	<b>7,068</b>	<b>6,824</b>

### Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/NAV	1.14	1.14	1.11	1.08	1.12
Distribution yield (%)	5.2%	5.2%	5.2%	5.3%	5.3%
NPI yield (%)	5.6%	5.9%	5.8%	6.0%	6.0%
<b>Growth &amp; Margins (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18e</b>	<b>FY19e</b>
<b>Growth</b>					
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%
<b>Margins</b>					
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%
<b>Key Ratios</b>					
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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