

# CapitaLand Retail China Trust

Chengdu beckons: First acquisition since 2013

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- Acquisition of Galleria in South Chengdu.
- Mall opened in 2010, with stable historical footfall and tenant sales.
- NPI yield of 5.4% lower than FY15 portfolio NPI yield of 5.8% but management aims to boost this through readjusting tenant mix and improving operational efficiency.
- Pure debt and cash acquisition increases DPU-accretiveness of mall due to lower cost of debt vs equity – but execution risks remain.
- Maintain ACCUMULATE with increased target price of S\$1.62.

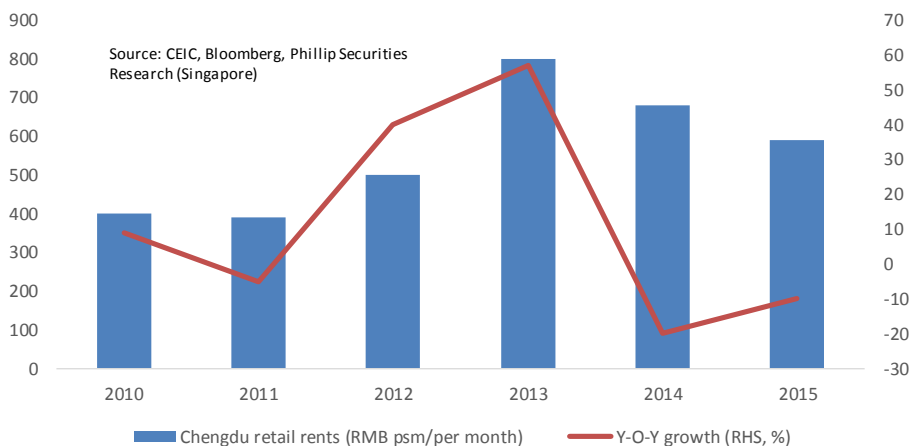
## What is the news?

CapitaLand Retail China Trust (CRCT) announced the acquisition of Galleria, a relatively new mall opened in 2010, located in Xinnan Tiandi, a well-established retail precinct in Chengdu. With 100% occupancy currently, Galleria has achieved stable historical footfall and tenant sales since opening. With an estimated total cost of RMB1,571.4m (\$\$320m or 13% of total portfolio size), the acquisition is expected to be funded via 90% debt and 10% internal cash.

## Analyst Briefing Key Takeaways and How do we view this?

**Galleria's NPI yield of 5.4% lower than FY15 portfolio NPI yield of 5.8% but management aims to boost this through readjusting tenant mix and improving operational efficiency.** Management aims to boost earnings of mall through topline rental growth (by re-adjusting tenant mix) and bottom line growth (by improving operational efficiency of the mall). While we remain confident of management's ability to adjust tenant mix and attract quality tenants through CapitaLand's strong relationship with tenants, we note the generally sluggish retail rent growth for Chengdu over the last two years. The next round of rental renewals will be mostly for contracts signed over 2013/2014 which were the two peak years for rentals. Against this backdrop, we do not expect double digit rental reversions that Galleria witnessed for the first round of rental renewals (for the first batch of contracts when the mall first opened in 2010) to repeat. We expect flat to low single digit growth from organic rental reversions from the mall over the next year.

**Figure 1: Chengdu mid to high end ground floor retail rents**



22 August 2016

## ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 1.600
FORECAST DIV	SGD 0.101
TARGET PRICE	SGD 1.620
TOTAL RETURN	7.6%

## COMPANY DATA

O/S SHARES (MN) :	855
MARKET CAP (USD mn / SGD mn) :	980 / 1330
52 - WK HI/LO (SGD) :	1.65 / 1.3
3M Average Daily T/O (mn) :	0.71

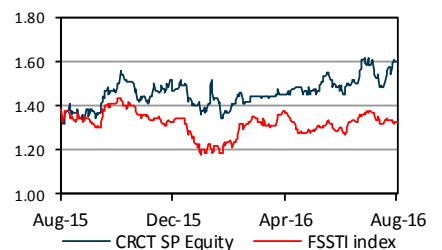
## MAJOR SHAREHOLDERS (%)

RETAIL CROWN PTE LTD	18.9%
CAPITAMALL TRUST	14.4%
MATTHEWS INTERNATIONAL CAPITAL	6.78%
AMERICAN INTERNATIONAL ASSURANCE	5.18%
CAPITARETAIL CHINA TR. MGMT	4.52%

## PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	4.2	13.9	21.7
STI RETURN	(1.0)	5.4	(2.8)

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Dec	FY14	FY15	FY16e	FY17e
Gross Rev. (SGD mn)	203	220	216	255
NPI (SGD mn)	132	141	138	158
Dist. Inc (SGD mn)	81	89	86	93
P/NAV (x)	0.98	0.80	0.89	0.94
DPU (Cents)	9.8	10.6	10.1	11.0
Dist. Yield	6.1%	7.4%	6.8%	7.4%

Source: Company Data, Bloomberg

## Valuation Method

**DDM (Cost of equity 8.41%, Terminal Growth 1.8%)**

Dehong Tan (+65 6212 1849)

tandh@phillip.com.sg

**Strategic location near transportation hubs with good surrounding enclave of complementary retail offerings and surrounding big-box retailers.** Strategically located in the heart of Xinnan Tiandi, Galleria enjoys good neighboring complementary retail offerings such as IKEA, Decathlon, and Fusen-Noble House (see Figure 2). Renowned tenants in the mall include H&M, Innisfree, Nike, Starbucks, Swarovski and UNIQLO.

**Figure 2: Galleria and surrounding complementary retail options**



Source: Company, Phillip Securities Research (Singapore)

**Pure debt and cash acquisition increases DPU-accretiveness of mall due to lower cost of debt vs equity – but execution risks remain.** With the acquisition to be funded by c.90% debt topped up with internal cash, the DPU-accretiveness of the acquisition is boosted by the use of a huge percentage of debt (average cost of debt for CRCT as at 2Q16 is 2.97%). While Galleria is positioned as a fashion and dining mall, we remain cognisant of the possible impact on sales and footfall once the recent opened family mall CapitaMall Tianfu (Dec 2014), which is directly connected to subway Lines 1 and 7, further ramps up its operations. Management though, has not seen any major impact on sales or footfall of Galleria since the opening of CapitaMall Tianfu.

#### Investment Action

**Maintain ACCUMULATE with new higher target price of S\$1.62 from 1.55.** We maintain our FY16 DPU forecasts and adjust upwards our FY17e DPU forecast from 10.5cents to 11 cents. Correspondingly we adjust our DDM-derived target price upwards from \$1.55 to \$1.62 and maintain our ACCUMULATE call on CRCT.

## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
<b>Gross Revenue</b>	<b>160.1</b>	<b>203.3</b>	<b>220.3</b>	<b>216.1</b>	<b>254.9</b>
Total Property expenses	(57.0)	(70.9)	(79.2)	(77.8)	(96.9)
<b>Net Property Income</b>	<b>103.0</b>	<b>132.4</b>	<b>141.1</b>	<b>138.3</b>	<b>158.0</b>
Net Finance (Expense)/Inc	(17.7)	(18.5)	(19.2)	(25.7)	(47.2)
Net Income before tax and FV changes	83.8	98.7	108.3	104.8	113.7
FV changes and forex gain/(loss)	100.7	104.8	44.8	-	-
Tax expense	(48.5)	(57.1)	(43.4)	(23.1)	(25.0)
<b>Net Income after tax and FV changes</b>	<b>135.9</b>	<b>146.4</b>	<b>109.3</b>	<b>81.8</b>	<b>88.7</b>
Net Inc attributable to Unitholders	132.9	144.6	114.0	79.9	86.7
Distribution adjustments	(62.9)	(63.7)	(24.8)	5.5	6.3
<b>Income available for distribution</b>	<b>70.1</b>	<b>80.9</b>	<b>89.2</b>	<b>85.5</b>	<b>93.0</b>

### Balance Sheet

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
<b>ASSETS</b>					
Investment properties	2,058	2,251	2,413	2,556	2,556
Trade and Other Receivables	11.4	11.3	12.8	13.4	15.8
Cash and Cash Equivalents	105.5	86.6	126.3	86.8	81.2
<b>Total Assets</b>	<b>2,184</b>	<b>2,358</b>	<b>2,570</b>	<b>2,673</b>	<b>2,669</b>
<b>LIABILITIES</b>					
Trade and other payables	57.7	51.1	59.5	68.3	80.6
Security deposit	35.0	41.2	43.3	41.2	48.5
Interest bearing borrowings	712.3	671.7	706.0	986.6	986.6
Other liabilities	165.4	216.2	246.4	216.2	216.2
<b>Total Liabilities</b>	<b>970.4</b>	<b>980.2</b>	<b>1,055.2</b>	<b>1,312.3</b>	<b>1,331.9</b>
<b>EQUITY</b>					
<b>Shareholder Equity</b>	<b>1,213.9</b>	<b>1,377.8</b>	<b>1,515.1</b>	<b>1,360.5</b>	<b>1,336.8</b>

### Per share data (SGD)

Y/E Dec	FY13	FY14	FY15	FY16e	FY17e
NAV	1.48	1.63	1.77	1.60	1.57
DPU (cents)	9.0	9.8	10.6	10.1	11.0

### Cash Flow

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
<b>CFO</b>					
Net Income after tax	135.9	146.4	109.3	81.8	88.7
Adjustments	(56.0)	(37.0)	5.9	31.1	53.4
WC changes	(11.3)	2.0	2.5	8.2	9.9
Cashflow from ops	68.6	111.4	117.7	121.1	152.0
<b>CFI</b>					
Cashflow from investments	(143.3)	(16.7)	(16.0)	(336.0)	(16.5)
<b>CFF</b>					
Share issuance	59.0	-	-	-	-
Distributions to unitholders	(37.7)	(49.0)	(66.1)	(85.5)	(93.0)
<b>Cashflow from financing</b>	<b>34.7</b>	<b>(117.3)</b>	<b>(65.8)</b>	<b>175.4</b>	<b>(141.1)</b>
<b>Net change in cash</b>	<b>(40.0)</b>	<b>(22.5)</b>	<b>35.9</b>	<b>(39.5)</b>	<b>(5.7)</b>
<b>CCE, end</b>	<b>105.5</b>	<b>86.6</b>	<b>126.3</b>	<b>86.8</b>	<b>81.2</b>

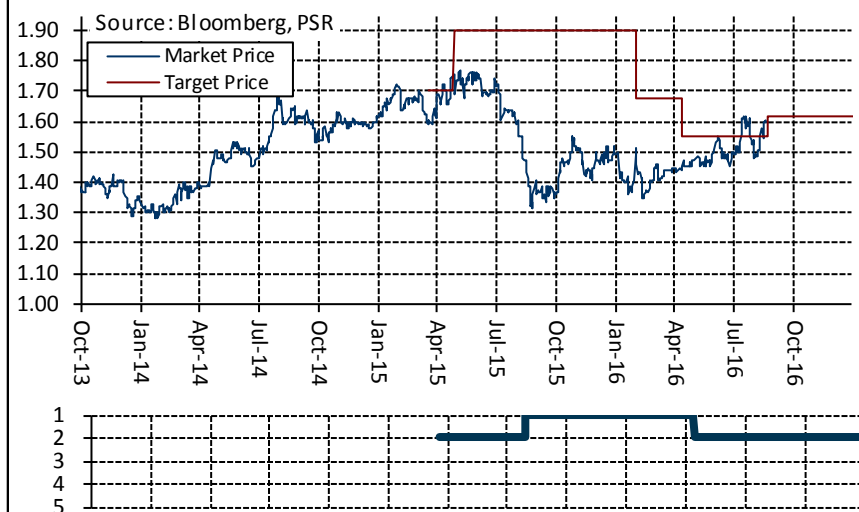
### Valuation Ratios

Y/E Dec	FY13	FY14	FY15	FY16e	FY17e
P/NAV	0.90	0.98	0.80	0.92	0.94
Distribution yield (%)	6.8%	6.1%	7.4%	6.8%	7.4%
NPI yield (%)	5.0%	5.9%	5.8%	5.4%	6.2%
<b>Growth &amp; Margins (%)</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16e</b>	<b>FY17e</b>
<b>Growth</b>					
Revenue	4.9%	28.9%	10.0%	10.0%	10.0%
Net property income (NPI)	3.4%	28.3%	6.7%	-2.0%	14.2%
DPU	-5.3%	8.9%	7.9%	-4.5%	8.4%
<b>Margins</b>					
NPI margin	64.4%	65.1%	64.0%	64.0%	62.0%
Operating Income Margin	52.3%	48.5%	49.1%	48.5%	48.0%
<b>Key Ratios</b>					
Net Gearing	32.6%	28.7%	27.7%	36.9%	37.0%

Source: Company, Phillip Securities Research (Singapore) Estimates

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

## Ratings History



## PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

## Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Contact Information (Singapore Research Team)		
<b>Research Operations Officer</b> Mohamed Amiruddin - <a href="mailto:amiruddin@phillip.com.sg">amiruddin@phillip.com.sg</a>		
<b>Consumer   Healthcare</b> Soh Lin Sin - <a href="mailto:sohls@phillip.com.sg">sohls@phillip.com.sg</a>	<b>Property   Infrastructure</b> Peter Ng - <a href="mailto:peterngmc@phillip.com.sg">peterngmc@phillip.com.sg</a>	<b>Macro</b> Pei Sai Teng - <a href="mailto:peist@phillip.com.sg">peist@phillip.com.sg</a>
<b>Transport   REITs (Industrial)</b> Richard Leow, CFTe, FRM - <a href="mailto:richardleowwt@phillip.com.sg">richardleowwt@phillip.com.sg</a>	<b>REITs (Commercial, Retail, Healthcare)   Property</b> Dehong Tan - <a href="mailto:tandh@phillip.com.sg">tandh@phillip.com.sg</a>	<b>Technical Analysis</b> Jeremy Ng - <a href="mailto:jeremyngch@phillip.com.sg">jeremyngch@phillip.com.sg</a>
<b>Banking and Finance</b> Jeremy Teong - <a href="mailto:jeremyteongfh@phillip.com.sg">jeremyteongfh@phillip.com.sg</a>	<b>US Equity</b> Ho Kang Wei - <a href="mailto:hokw@phillip.com.sg">hokw@phillip.com.sg</a>	<b>Oil &amp; Gas   Energy</b> Chen Guangzhi - <a href="mailto:chengz@phillip.com.sg">chengz@phillip.com.sg</a>

**Contact Information (Regional Member Companies)**

<b>SINGAPORE</b> <b>Phillip Securities Pte Ltd</b> Raffles City Tower 250, North Bridge Road #06-00 Singapore 179101 Tel +65 6533 6001 Fax +65 6535 6631 Website: <a href="http://www.poems.com.sg">www.poems.com.sg</a>	<b>MALAYSIA</b> <b>Phillip Capital Management Sdn Bhd</b> B-3-6 Block B Level 3 Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel +603 2162 8841 Fax +603 2166 5099 Website: <a href="http://www.poems.com.my">www.poems.com.my</a>	<b>HONG KONG</b> <b>Phillip Securities (HK) Ltd</b> 11/F United Centre 95 Queensway Hong Kong Tel +852 2277 6600 Fax +852 2868 5307 Websites: <a href="http://www.phillip.com.hk">www.phillip.com.hk</a>
<b>JAPAN</b> <b>Phillip Securities Japan, Ltd.</b> 4-2 Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-0026 Tel +81-3 3666 2101 Fax +81-3 3666 6090 Website: <a href="http://www.phillip.co.jp">www.phillip.co.jp</a>	<b>INDONESIA</b> <b>PT Phillip Securities Indonesia</b> ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A Jakarta 10220 – Indonesia Tel +62-21 5790 0800 Fax +62-21 5790 0809 Website: <a href="http://www.phillip.co.id">www.phillip.co.id</a>	<b>CHINA</b> <b>Phillip Financial Advisory (Shanghai) Co Ltd</b> No 550 Yan An East Road, Ocean Tower Unit 2318, Postal code 200001 Tel +86-21 5169 9200 Fax +86-21 6351 2940 Website: <a href="http://www.phillip.com.cn">www.phillip.com.cn</a>
<b>THAILAND</b> <b>Phillip Securities (Thailand) Public Co. Ltd</b> 15th Floor, Vorawat Building, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel +66-2 6351700 / 22680999 Fax +66-2 22680921 Website: <a href="http://www.phillip.co.th">www.phillip.co.th</a>	<b>FRANCE</b> <b>King &amp; Shaxson Capital Limited</b> 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel +33-1 45633100 Fax +33-1 45636017 Website: <a href="http://www.kingandshaxson.com">www.kingandshaxson.com</a>	<b>UNITED KINGDOM</b> <b>King &amp; Shaxson Capital Limited</b> 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS Tel +44-20 7426 5950 Fax +44-20 7626 1757 Website: <a href="http://www.kingandshaxson.com">www.kingandshaxson.com</a>
<b>UNITED STATES</b> <b>Phillip Futures Inc</b> 141 W Jackson Blvd Ste 3050 The Chicago Board of Trade Building Chicago, IL 60604 USA Tel +1-312 356 9000 Fax +1-312 356 9005 Website: <a href="http://www.phillipusa.com">www.phillipusa.com</a>	<b>AUSTRALIA</b> <b>Phillip Capital Limited</b> Level 12, 15 William Street, Melbourne, Victoria 3000, Australia Tel +61-03 9629 8288 Fax +61-03 9629 8882 Website: <a href="http://www.phillipcapital.com.au">www.phillipcapital.com.au</a>	<b>SRI LANKA</b> <b>Asha Phillip Securities Limited</b> 2 <sup>nd</sup> Floor, Lakshmans Building, No. 321, Galle Road, Colombo 03, Sri Lanka Tel: (94) 11 2429 100 Fax: (94) 11 2429 199 Website: <a href="http://www.ashaphillip.net">www.ashaphillip.net</a>
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<b>CAMBODIA</b> <b>Phillip Bank Plc</b> Ground Floor of B-Office Centre, #61-64, Norodom Blvd Corner Street 306, Sangkat Boeung Keng Kang 1, Khan Chamkamorn, Phnom Penh, Cambodia Tel: 855 (0) 7796 6151/855 (0) 1620 0769 Website: <a href="http://www.phillipbank.com.kh">www.phillipbank.com.kh</a>		

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