

CapitaLand Retail China Trust

Weaker RMB and higher property tax provisions for Beijing properties dented earnings amidst stable mall operations

26 October 2016

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- 3Q 2016 NPI in RMB terms grew 0.6% y-o-y. RMB weakened against SGD by c.8.1% from 3Q15 to 3Q16.
- New Value-Added Tax (VAT) and property tax provisions also impacted earnings.
- New acquisition Galleria to boost portfolio earnings from 1 Oct 2016.
- We remain positive on China's retail sales and CRCT's portfolio of shopping malls.
- Maintain ACCUMULATE with unchanged DDM-derived target price of S\$1.62.

Results at a glance

(SGD mn)	3QFY16	3QFY15	y/y (%)	Comments
Gross Revenue	50.6	55.3	↓ -8.5%	Weaker RMB against SGD. Gross Revenue declined 1.2% in RMB terms, owing to new 5% VAT implemented from 1 May 2016, which would be offset from revenue.
Net property income	32.8	35.2	↓ -6.9%	Mainly due to VAT, higher property tax provisions and weaker RMB against SGD. Gained 0.6% in RMB terms.
Distributable income	20.6	22.3	↓ -7.6%	
DPU (Cents)	2.36	2.64	↓ -10.6%	Increased number of issued units

Source: Company, Phillip Securities Research (Singapore)

What is the news?

CapitaLand Retail China Trust (CRCT) announced a 3Q 2016 DPU of 2.36 Singapore cents, a 10.6% y-o-y drop. Weaker growth from Beijing malls due to higher property tax provisions to cater to a change in Beijing property tax policies, VAT expenses and a weaker RMB against the SGD contributed to a 10.6% y-o-y fall in 3Q DPU. Portfolio occupancy remained stable at 95.2% from 95.1% in FY15, and YTD rental reversions came in at 5.6% (vs 8.1% in FY15).

Higher property tax provisions, VAT, and weaker RMB adding to retail headwinds.

On top of slower YTD tenant sales growth of 1.8% (vs 11.6% in FY15), CRCT had to contend with higher property tax provisions, VAT, and a weaker RMB. Excluding the impact of the additional property taxes, 3Q16 NPI in RMB terms would have been 7.4% higher y-o-y.

How do we view this?

Light at the end of the tunnel for CapitaMall Minzhongleyuan in December 2016.

The road closure of Zhongshan Avenue for the construction of the new Subway Line 6 station impacted the operations of CapitaMall Minzhongleyuan. The road and new Subway station is now slated to reopen on 28 December 2016. Occupancy for the mall improved to 80.1% from 70.5% in 2Q16 with leasing momentum increasing. With the impending light at the end of the tunnel approaching, we expect Minzhongleyuan to start registering strong y-o-y growth in tenant sales and NPI from 4Q16.

Portfolio tenant sales stabilizing at low single digits growth.

Despite slowing portfolio tenant sales growth, we note that tenant sales growth y-o-y has been stabilizing at low single digit for the past three quarters. (Q1: 1%, Q2: 1.2%, Q3: 1.8%). We also note China's improving sentiment and retail sales data in recent months since hitting a bottom of 10% y-o-y growth in May 2016. We remain confident of management's ability and strong relationships with retailers to continue to attract quality retailers to boost tenant sales and mall rental revenue.

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 1.560
FORECAST DIV	SGD 0.101
TARGET PRICE	SGD 1.620
TOTAL RETURN	10.3%

COMPANY DATA

O/S SHARES (MN):	870
MARKET CAP (USD mn / SGD mn):	975 / 1357
52 - WK HI/LO (SGD):	1.67 / 1.34
3M Average Daily T/O (mn):	1.36

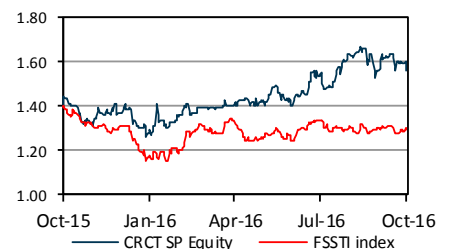
MAJOR SHAREHOLDERS (%)

CAPITALAND LIMITED	18.6%
CAPITAMALL TRUST	14.1%
MATTHEWS INTERNATIONAL CAPITAL	6.67%
AMERICAN INTERNATIONAL ASSURANCE	5.09%
CAPITARETAIL CHINA TR. MGMT	4.59%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.6	4.6	14.8
STI RETURN	0.0	(1.4)	(3.2)

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%)

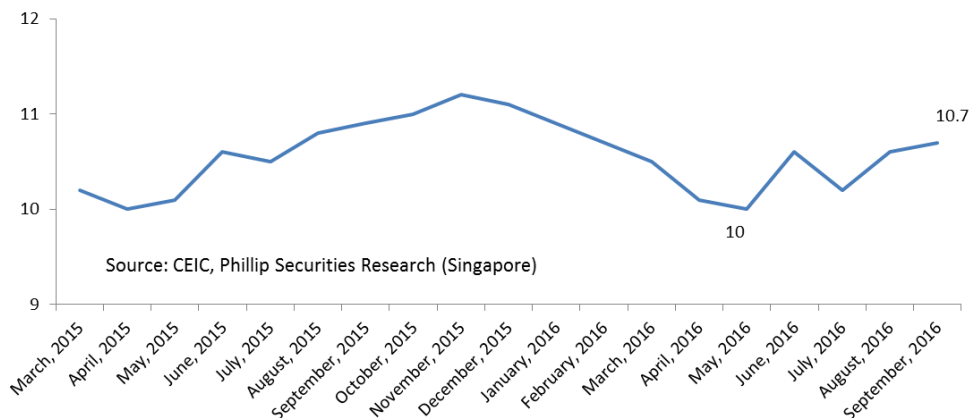
Dehong Tan (+65 6212 1849)
tandh@phillip.com.sg

Figure 1: Ability to attract quality tenants to improve tenant sales and mall rental

2016 New Tenants	Mall	Sales Growth over previous tenant
Binkeke (滨可可)	CapitaMall Qibao	>70%
Xiao Niu Niu (小牛牛)	CapitaMall Xizhimen	>100%
PANDORA and BOY LONDON	CapitaMall Wangjing	>100%
UNIQLO	CapitaMall Grand Canyon	>95%

Source: Company, Phillip Securities Research (Singapore)

Ability to continuously attract quality tenants to improve tenant sales and mall rental revenues.

Figure 2: China Monthly Retail Sales y/y growth

China general retail sales growth data improving in recent months.

Figure 3: CRCT Portfolio Statistics and Rental Reversions

	Year-on-Year Change (%)			
	CRCT Portfolio Tenant Sales	Shopper Traffic	China General Retail Sales	Rental Reversion
2010	24.6	15.4	18.3	5.1
2011	26.1	9.8	17.1	11.5
2012	13.4	23.5	14.3	17.5
2013	9.2	5.4	13.1	13.8
2014	16.2	3.9	10.3	23.1
2015	11.6	1.8	10.7	8.1
1H16	1.2	-0.7	10.3	5.9
YTD16	1.8	-0.9	10.4	5.6

Source: Company, Phillip Securities Research (Singapore)

Notwithstanding slowing tenant sales growth in 2016 vs 2015, CRCT tenant sales growth has stabilized at low single digits in first 3 quarters.

Investment Action

Maintain ACCUMULATE with unchanged target price of S\$1.62.

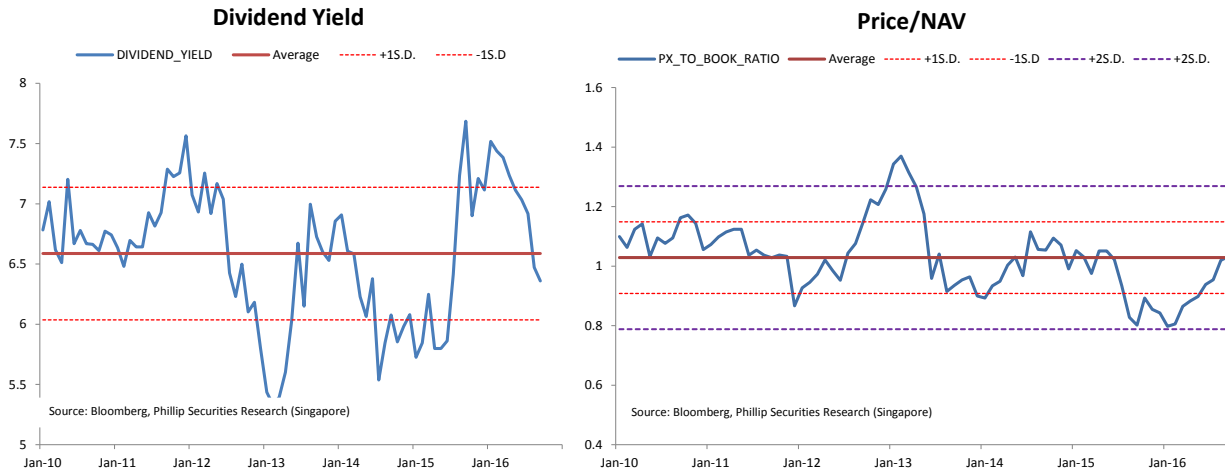
We maintain our ACCUMULATE rating with an unchanged DDM-derived target price of S\$1.62. With most of its main malls in Beijing largely stable operationally, CRCT continues to provide investors with exposure to the growing Chinese consumer spending power stemming from rapid urbanization in China.

Figure 4: Peer Comparison Table

Name	Mkt Cap (SGD mn)	Price	Dvd Yld	Av. Cost of Debt	P/B	Gearing (%)
CAPITALAND RETAIL CHINA TRUST	1,330	1.56	6.58	2.90%	1.00	36.70
MAPLETREE GREATER CHINA COMM	2,965	1.08	6.88	2.87%	0.91	39.36
BHG RETAIL REIT	338	0.60	6.10	N.A	0.74	29.50

Source: Bloomberg, Phillip Securities Research (Singapore)

Figure 5: Historical Dividend Yield and P/NAV Charts



Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
Gross Revenue	160.1	203.3	220.3	216.1	254.9
Total Property expenses	(57.0)	(70.9)	(79.2)	(77.8)	(96.9)
Net Property Income	103.0	132.4	141.1	138.3	158.0
Net Finance (Expense)/Inc	(17.7)	(18.5)	(19.2)	(25.7)	(47.2)
Net Inc 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)
Net Income after tax and FV changes	135.9	146.4	109.3	81.8	88.7
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
Income available for distribution	70.1	80.9	89.2	85.5	93.0

Balance Sheet

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
ASSETS					
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
Total Assets	2,184	2,358	2,570	2,673	2,669
LIABILITIES					
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
Total Liabilities	970.4	980.2	1,055.2	1,312.3	1,331.9
EQUITY					
Shareholder Equity	1,213.9	1,377.8	1,515.1	1,360.5	1,336.8

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

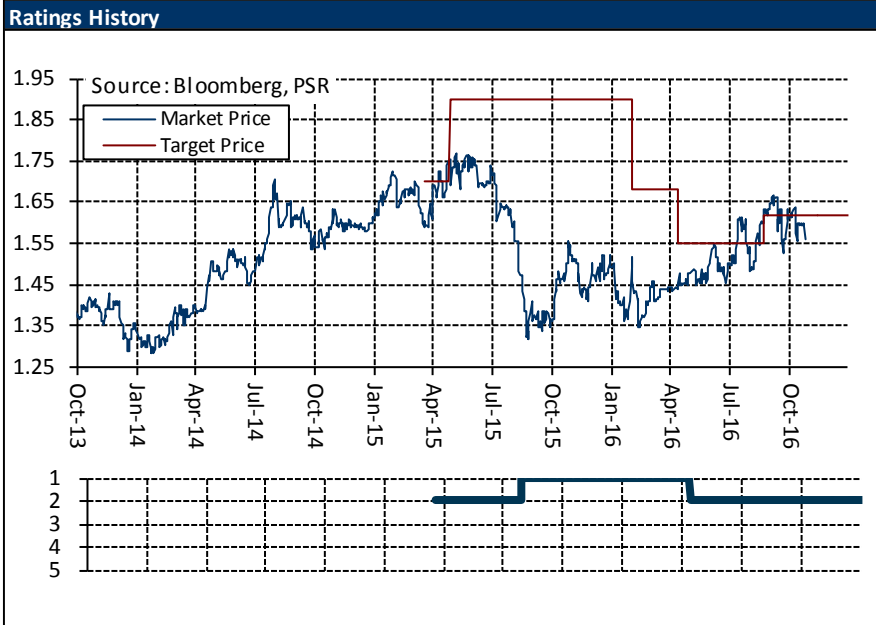
Y/E Dec, SGD mn	FY13	FY14	FY15	FY16e	FY17e
CFO					
Net Income after tax	135.9	146.4	109.3	81.8	88.7
Adjustments	(56.0)	(37.0)	5.9	31.1	53.4
WC changes	(11.3)	2.0	2.5	8.2	9.9
Cashflow from ops	68.6	111.4	117.7	121.1	152.0
CFI					
Cashflow from investments	(143.3)	(16.7)	(16.0)	(336.0)	(16.5)
CFF			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

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%
Growth & Margins (%)	FY13	FY14	FY15	FY16e	FY17e
Growth					
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%
Margins					
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%
Key Ratios					
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.



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

Research Operations OfficerMohamed Amiruddin - amiruddin@phillip.com.sg**Contact Information (Singapore Research Team)****Consumer | Healthcare**Soh Lin Sin - sohls@phillip.com.sg**Property | Infrastructure**Peter Ng - peterngmc@phillip.com.sg**Macro**Pei Sai Teng - peist@phillip.com.sg**Transport | REITs (Industrial)**Richard Leow, CFTe, FRM -
richardleowwt@phillip.com.sg**REITs (Commercial, Retail, Healthcare) | Property**Dehong Tan - tandh@phillip.com.sg**Technical Analysis**Jeremy Ng - jeremyngch@phillip.com.sg**Banking and Finance**Jeremy Teong - jeremyteongfh@phillip.com.sg**US Equity**Ho Kang Wei - hokw@phillip.com.sg**Oil & Gas | Energy**Chen Guangzhi - chengz@phillip.com.sg**Contact Information (Regional Member Companies)****SINGAPORE****Phillip Securities Pte Ltd**Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg**MALAYSIA****Phillip Capital Management Sdn Bhd**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: www.poems.com.my**HONG KONG****Phillip Securities (HK) Ltd**11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk**JAPAN****Phillip Securities Japan, Ltd.**4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp**INDONESIA****PT Phillip Securities Indonesia**ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id**CHINA****Phillip Financial Advisory (Shanghai) Co Ltd**No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn**THAILAND****Phillip Securities (Thailand) Public Co. Ltd**15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website: www.phillip.co.th**FRANCE****King & Shaxson Capital Limited**3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com**UNITED KINGDOM****King & Shaxson Capital Limited**6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com**UNITED STATES****Phillip Futures Inc**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: www.phillipusa.com**AUSTRALIA****Phillip Capital Limited**Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au**SRI LANKA****Asha Phillip Securities Limited**2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net**INDIA****PhillipCapital (India) Private Limited**No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in**TURKEY****PhillipCapital Menkul Degerler**Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr**DUBAI****Phillip Futures DMCC**Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895**CAMBODIA****Phillip Bank Plc**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: www.phillipbank.com.kh

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