

CapitaLand Retail China Trust

Mall rejuvenations at multi-tenanted malls driving NPI



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SINGAPORE | REAL ESTATE (REIT) | 3Q17 RESULTS

24 October 2017

- 3Q17 NPI and DPU were within our expectations.
- Portfolio occupancy (95.6%) and rental reversions (7.5%) remain healthy.
- Stable average cost of debt at 2.42%.
- Tenant sales slowing, 3Q17 down 2.0% YoY.
- Maintain NEUTRAL with unchanged DDM-derived target price of S\$1.64.

NEUTRAL (Maintained)

LAST DONE PRICE	SGD 1.675
FORECAST DIV	SGD 0.101
TARGET PRICE	SGD 1.640
TOTAL RETURN	3.9%

Results at a glance

(SGD mn)	3Q17	3Q16	YoY (%)	Comments
Gross Revenue	56.0	50.6	10.7%	Up 10.5% in RMB terms. Contribution from CapitaMall Xinnan acquired in Sept 2016, and rental growth from multi tenanted malls. Offset by weaker revenue from Qibao (competition in vicinity) and divestment of Anzhen.
Net property income	36.0	32.8	9.7%	Higher property expenses from Xinnan
Distributable income	21.4	20.6	4.2%	Higher management and finance fees from Xinnan acquisition
DPU (SG Cents)	2.37	2.36	0.4%	

Source: Company, PSR

COMPANY DATA

BLOOMBERG CODE	CRCT SP
O/S SHARES (MN):	902
MARKET CAP (USD mn / SGD mn):	1115 / 1520
52 - WK HI/LO (SGD):	1.7 / 1.33
3M Average Daily T/O (mn):	1.20

MAJOR SHAREHOLDERS (%)

CAPITALAND LIMITED	25.8%
CAPITAMALL TRUST	13.6%
MATTHEWS INTERNATIONAL CAPITAL	5.99%
AMERICAN INTERNATIONAL ASSURANCE	4.89%
SUMITOMO MITSUI ASSET MGMT	3.59%

The positives

+ **Stripping out impact from acquisition (Xinnan) and divestment (Anzhen), NPI grew 6.1% YoY in RMB terms.** Multi-tenanted (non-Master lease) malls grew NPI by 4.9%, excluding new acquisition Xinnan. This is driven by stable portfolio occupancy (3Q17: 95.6% vs 2Q17: 96.2%) and positive rental reversions of 7.5% for the 20,283 sqm of leases renewed in the quarter.

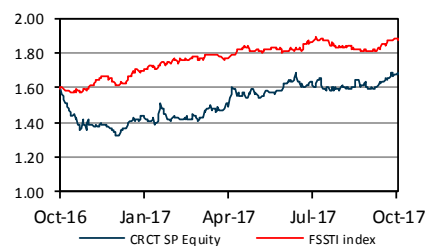
+ **Stable average cost of debt at 2.42%:** This compares with 2.44% as at 2Q17. The stable cost of debt is achieved despite the re-financing of a S\$300mn 1-year bridging term loan secured in FY16 for the financing of Xinnan's acquisition into longer term debt. The new loan now expires >2021. Gearing remains stable at 35.4%.

+ **Gradual shifting away from underperforming department stores into higher yielding trade sectors:** Percentage of total rental income as at Sept17 (disclosed in results slides) from department stores saw a significant drop YoY to 6.5% (FY16: 16.8%). The shift is towards higher yielding trade sectors such as fashion and F&B.

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	4.0	6.2	12.2
STI RETURN	3.8	2.8	21.5

PRICE VS. STI



Source: Bloomberg, PSR

The negatives

- **Tenant sales slowing, 3Q17 down 2.0% YoY (2Q up 1.9% YoY):** YTD tenant sales is up 0.8%. Weaker trade sectors include leisure (cinema) and supermarkets, while stronger sectors include fashion and F&B.

Outlook

We expect flat DPU YoY for FY17e and a 5.1% increase for FY18e. Tenant sales should stabilise after falling the past 2 years as CRCT's malls mature. Mall rejuvenations at CapitaMall Wangjing, Xinnan and Minzhongleyuan are expected to drive FY18 tenant sales and rental reversions.

Maintain NEUTRAL with unchanged target price of S\$1.64.

This translates to a FY18e yield of 6.4% and P/NAV of 1.0. At a current yield of 6.0%, CRCT is trading at -1s.d. for post-GFC yields (Figure 2), which we deem fair given that tenant sales and rental reversions are stabilising around mid-single digits as malls mature. We also prefer to see a more sustainable pick-up in rental reversions or more accretive acquisitions before relooking at our recommendation.

KEY FINANCIALS

Y/E Dec	FY15	FY16	FY17e	FY18e
Gross Rev. (SGD mn)	220	214	243	224
NPI (SGD mn)	141	140	155	146
Dist. Inc (SGD mn)	89	87	88	92
P/NAV (x)	0.80	0.86	0.98	1.00
ROE (%)	7.5%	7.3%	5.6%	5.2%
DPU (Cents)	10.6	10.1	10.1	10.6
Dist. Yield	7.4%	7.1%	6.1%	6.4%

Source: Company Data, Bloomberg

Valuation Method

DDM (Cost of equity 7.82%, Terminal Growth 1%)

Dehong Tan (+65 6212 1849)

tandh@phillip.com.sg

Figure 1: CRCT portfolio statistics – Rental reversions stabilizing in mid-single digits

	Year-on-Year Change (%)			
	CRCT Portfolio Tenant Sales	China General Retail Sales	CRCT Shopper Traffic	CRCT Rental Reversion
2010	24.6	18.3	15.4	5.1
2011	26.1	17.1	9.8	11.5
2012	13.4	14.3	23.5	17.5
2013	9.2	13.1	5.4	13.8
2014	16.2	10.3	3.9	23.1
2015	11.6	10.7	1.8	8.1
2016	3.1	10.4	-1.5	3.9
1H17	2.2	10.4	7.5	5.2
9M17	0.8	10.4	7.1	5.8

Source: Company, PSR

Figure 2: CRCT trades at close to -1S.D. average yields (post GFC) and above average P/NAV



Source: Bloomberg, PSR

Figure 3: Peer Comparison Table

Name	PSR CALL	Mkt Cap (SGD mn)	Last Close (\$)	Dvd Yld:D-1	P/B	Latest Gearing (%)	Average Cost of debt
CAPITALAND RETAIL CHINA TRUST	NEUTRAL	1,511	1.68	6.03	1.03	35.1	2.44%
CAPITALAND MALL TRUST	NEUTRAL	7,269	2.05	5.43	1.05	34.7	3.20%
FRASERS CENTREPOINT TRUST	NEUTRAL	2,066	2.24	5.24	1.17	28.3	2.20%
SPH REIT		2,620	1.03	5.40	1.09	25.3	2.79%
MAPLE TREE COMMERCIAL TRUST		4,575	1.59	5.55	1.16	36.4	2.66%
STARHILL GLOBAL REIT		1,712	0.79	6.27	0.85	35.2	3.17%
SUNTEC REIT		5,126	1.94	5.19	0.91	36.4	2.42%

Source: Bloomberg, Company, PSR

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Gross Revenue	203.3	220.3	214.4	242.5	224.4
Total Property expenses	(70.9)	(79.2)	(74.6)	(87.3)	(78.5)
Net Property Income	132.4	141.1	139.7	155.2	145.8
Net Finance (Expense)/Inc	(18.5)	(19.2)	(19.4)	(28.5)	(33.3)
Net Income before tax and FV changes	98.7	108.3	105.5	106.6	97.9
FV changes and forex gain/(loss)	104.8	44.8	41.2	-	-
Tax expense	(57.1)	(43.4)	(41.6)	(23.4)	(21.5)
Net Income after tax and FV changes	146.4	109.3	104.0	83.1	76.4
Net Inc attributable to Unitholders	144.6	114.0	106.6	81.3	74.7
Distribution adjustments	(63.7)	(24.8)	(19.9)	6.2	17.6
Income available for distribution	80.9	89.2	86.7	87.5	92.3

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
Investment properties	2,251	2,413	2,628	2,384	2,384
Trade and Other Receivables	11.3	12.8	12.8	15.0	13.9
Cash and Cash Equivalents	86.6	126.3	136.1	360.6	328.6
Total Assets	2,358	2,570	2,783	2,775	2,740
LIABILITIES					
Trade and other payables	51.1	59.5	64.5	76.7	70.9
Security deposit	41.2	43.3	48.8	46.2	42.7
Interest bearing borrowings	671.7	706.0	977.8	977.8	977.8
Other liabilities	216.2	246.4	240.7	216.2	216.2
Total Liabilities	980.2	1,055.2	1,331.8	1,316.8	1,307.6
EQUITY					
Shareholder Equity	1,377.8	1,515.1	1,451.7	1,458.0	1,432.2

Per share data (SGD)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
NAV	1.63	1.77	1.65	1.67	1.63
DPU (cents)	9.8	10.6	10.1	10.1	10.6

Cash Flow

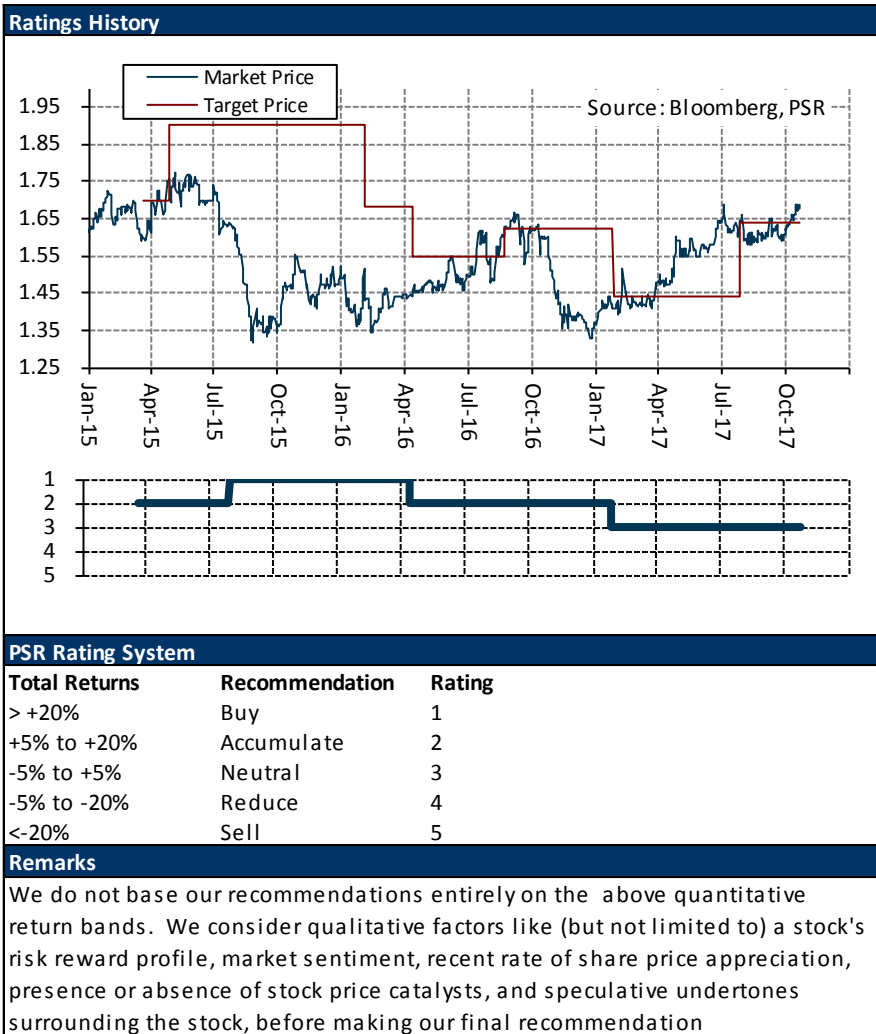
Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Net Income after tax	146.4	109.3	104.0	83.1	76.4
Adjustments	(37.0)	5.9	9.3	34.5	39.1
WC changes	2.0	2.5	6.6	10.0	(4.6)
Cashflow from ops	111.4	117.7	119.9	127.6	110.8
CFI					
Cashflow from investments	(16.7)	(16.0)	(313.0)	213.7	(16.3)
CFF					
Share issuance	-	-	-	-	-
Distributions to unitholders	(49.0)	(66.1)	(52.5)	(87.5)	(92.3)
Cashflow from financing	(117.3)	(65.8)	211.0	(116.8)	(126.6)
Net change in cash	(22.5)	35.9	17.9	224.5	(32.0)
CCE, end	86.6	126.3	136.1	360.6	328.6

Source: Company, Phillip Securities Research (Singapore) Estimates

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

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/NAV	0.98	0.80	0.86	0.98	1.00
PER	9.70	13.10	13.70	17.20	18.70
ROE (%)	10.5%	7.5%	7.3%	5.6%	5.2%
Distribution yield (%)	6.1%	7.4%	7.1%	6.1%	6.4%
NPI yield (%)	5.9%	5.8%	5.3%	6.5%	6.1%
Growth & Margins (%)					
Growth					
Revenue	28.9%	9.4%	-3.3%	14.1%	-8.0%
Net property income (NPI)	28.3%	6.7%	-1.0%	11.1%	-6.0%
DPU	8.9%	7.9%	-5.2%	0.1%	5.1%
Margins					
NPI margin	65.1%	64.0%	65.2%	64.0%	65.0%
Operating Income Margin	48.5%	49.1%	48.5%	47.5%	47.5%
Key Ratios					
Net Gearing	28.7%	27.7%	35.3%	35.2%	35.7%



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin – amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin – sohls@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi – chengz@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

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 Capital 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 10, 330 Collins 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.phillipcapi.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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