

# CapitaLand Retail China Trust

Stabilisation in rental reversions but tenant sales lagging



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## SINGAPORE | REAL ESTATE (REIT) | FY17 RESULTS

- FY17 NPI and DPU were within our expectations.
- Stable portfolio occupancy with rental reversion inching up from FY16.
- S\$3.7mn capital distribution from CapitaMall Anzhen's divestment gains.
- 20.6% yoy drop in 4Q17 NPI at CapitaMall Grand Canyon (CGC) due to operational review checks by authorities.
- Maintain NEUTRAL with unchanged DDM-derived target price of S\$1.66.

### Results at a glance

| (SGD mn)              | FY17         | FY16         | YoY (%) | Comments  |
|-----------------------|--------------|--------------|---------|---|
| Gross Revenue         | 229.2        | 214.4        | 6.9%    | Up 9.2% 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 from 1 July 2017 |
| Net property income   | 149.2        | 139.7        | 6.8%    |   |
| Distributable income  | 91.1         | 86.7         | 5.1%    | Higher property management and finance fees from Xinnan acquisition in Sept 2016  |
| <b>DPU (SG Cents)</b> | <b>10.10</b> | <b>10.05</b> | 0.5%    | Higher number of units in issue   |

Source: Company, PSR

### The positives

+ **Stable portfolio occupancy with rental reversion inching up from FY16.** FY17 Portfolio occupancy remains stable at 95.4%, with rental reversions inching up to 5.6%, led by the two largest malls in the portfolio Wangjing and Xizhimen.

+ **S\$3.7mn capital distribution from CapitaMall Anzhen's divestment gains.** This is to make up for the loss of income from the property from 1 July 2017. Total net gain from the Anzhen divestment was c.S\$32mn.

### The negatives

- **20.6% yoy drop in 4Q17 NPI at CapitaMall Grand Canyon (CGC) due to disruptions to trading activities.** An operational review by authorities leading up to the 19<sup>th</sup> National Congress led to disruptions in trading activities in CGC in Fengtai district, Beijing. Contributing to the drop was also the absence of a tax refund which took place in 4Q16. We expect the impact to be one-off in nature.

- **Effective tax rate higher at 31% for FY17 (vs 28.6% FY16).** As a result, taxes paid was 54% higher yoy. This is due to under provision of taxation from prior years and withholding tax payment on disposal of equity interest in Anzhen.

### Outlook

We expect flat DPU growth for FY18e, with revenue contribution from Rock Square starting Feb'18, partially offset by a higher number of units in issue post private placement. Portfolio rental reversion should hover in the mid-single digit range led by Wangjing and Xizhimen.

### Maintain NEUTRAL with unchanged target price of S\$1.66.

We roll our forecasts forward to FY18 and target price remains unchanged. This translates to a FY18e yield of 6.1% and P/NAV of 1.02. Our forecast assumes a flat SGD/RMB exchange rate. We also prefer to see a more sustainable pick-up in rental reversions accompanied by corresponding improvement in tenant sales before relooking at our recommendation.

1 February 2018

## NEUTRAL (Maintained)

|                     |             |
|---------------------|-------------|
| LAST DONE PRICE     | SGD 1.670   |
| FORECAST DIV        | SGD 0.101   |
| TARGET PRICE        | SGD 1.660   |
| <b>TOTAL RETURN</b> | <b>5.4%</b> |

### COMPANY DATA

|                               |             |
|-------------------------------|-------------|
| BLOOMBERG CODE                | CRCT SP     |
| O/S SHARES (MN):              | 966         |
| MARKET CAP (USD mn / SGD mn): | 1248 / 1633 |
| 52 - WK HI/LO (SGD):          | 1.7 / 1.38  |
| 3M Average Daily T/O (mn):    | 1.22        |

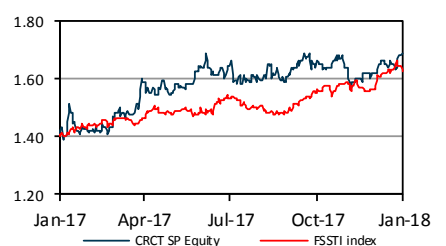
### MAJOR SHAREHOLDERS (%)

|                                  |       |
|----------------------------------|-------|
| CAPITALAND LIMITED               | 25.8% |
| CAPITAMALL TRUST                 | 13.6% |
| MATTHEWS INTERNATIONAL CAPITAL   | 5.6%  |
| AMERICAN INTERNATIONAL ASSURANCE | 4.6%  |
| SUMITOMO MITSUI ASSET MGMT       | 3.4%  |

### PRICE PERFORMANCE (%)

|            | 1MTH | 3MTH | 1YR  |
|------------|------|------|------|
| COMPANY    | 4.3  | 5.9  | 31.2 |
| STI RETURN | 4.3  | 5.5  | 19.5 |

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

| Y/E Dec             | FY16 | FY17 | FY18e | FY19e |
|---------------------|------|------|-------|-------|
| Gross Rev. (SGD mn) | 214  | 229  | 251   | 257   |
| NPI (SGD mn)        | 140  | 149  | 163   | 168   |
| Dist. Inc (SGD mn)  | 87   | 91   | 98    | 98    |
| P/NAV (x)           | 0.86 | 1.04 | 1.02  | 1.03  |
| ROE (%)             | 7.3% | 9.2% | 5.5%  | 5.7%  |
| DPU (Cents)         | 10.1 | 10.1 | 10.1  | 10.1  |
| Dist. Yield         | 7.1% | 6.1% | 6.0%  | 6.0%  |

Source: Company Data, Bloomberg

### Valuation Method

**DDM (Cost of equity 7.82%, Terminal Growth 1.5%)**

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**Figure 1: CRCT portfolio statistics – Rental reversions stabilizing in mid-single digits, though tenant sales has yet to catch up**

|      | 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                   |
| 2017 | 0.8                         | 10.2                       | 4.7                  | 5.6                   |

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 | PSR Target | Mkt Cap (SGD mn) | Last Close (\$) | Dvd Yld:D-1 | P/B  | Latest Gearing (%) |
|-------------------------------|----------|------------|------------------|-----------------|-------------|------|--------------------|
|                               |          | Price      |                  |                 |             |      |                    |
| CAPITALAND RETAIL CHINA TRUST | NEUTRAL  | 1.66       | 1,633            | 1.69            | 5.98        | 1.05 | 28.0               |
| CAPITALAND MALL TRUST         | NEUTRAL  | 2.03       | 7,447            | 2.10            | 5.31        | 1.07 | 34.2               |
| FRASERS CENTREPOINT TRUST     | NEUTRAL  | 2.14       | 2,101            | 2.27            | 5.29        | 1.12 | 29.0               |
| SPH REIT                      |          |            | 2,696            | 1.05            | 5.27        | 1.11 | 25.3               |
| MAPLETREE COMMERCIAL TRUST    |          |            | 4,865            | 1.69            | 5.34        | 1.23 | 36.4               |
| STARHILL GLOBAL REIT          |          |            | 1,680            | 0.77            | 6.14        | 0.83 | 35.2               |
| SUNTEC REIT                   |          |            | 5,508            | 2.07            | 4.83        | 0.97 | 35.0               |

Source: Bloomberg, PSR

## Financials

### Statement of Total Return and Distribution Statement

| Y/E Dec, SGD mn                            | FY15         | FY16         | FY17         | FY18e        | FY19e        |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Gross Revenue</b>                       | <b>220.3</b> | <b>214.4</b> | <b>229.2</b> | <b>250.6</b> | <b>257.4</b> |
| Total Property expenses                    | (79.2)       | (74.6)       | (80.0)       | (87.4)       | (89.8)       |
| <b>Net Property Income</b>                 | <b>141.1</b> | <b>139.7</b> | <b>149.2</b> | <b>163.1</b> | <b>167.6</b> |
| Net Finance (Expense)/Inc                  | (19.2)       | (19.4)       | (21.0)       | (28.5)       | (30.4)       |
| Net Inc before tax and FV changes          | 108.3        | 105.5        | 113.0        | 119.0        | 122.3        |
| FV changes and forex gain/(loss)           | 44.8         | 41.2         | 41.5         | -            | -            |
| Tax expense                                | (43.4)       | (41.6)       | (64.2)       | (29.8)       | (30.6)       |
| <b>Net Income after tax and FV changes</b> | <b>109.3</b> | <b>104.0</b> | <b>143.1</b> | <b>89.3</b>  | <b>91.7</b>  |
| Net Inc attributable to Unitholders        | 114.0        | 106.6        | 144.7        | 87.3         | 89.6         |
| Distribution adjustments                   | (24.8)       | (19.9)       | (57.3)       | 6.5          | 6.7          |
| <b>Income available for distribution</b>   | <b>89.2</b>  | <b>86.7</b>  | <b>91.1</b>  | <b>97.6</b>  | <b>97.8</b>  |

### Per share data (SGD)

| Y/E Dec     | FY15 | FY16 | FY17 | FY18e | FY19e |
|-------------|------|------|------|-------|-------|
| NAV         | 1.77 | 1.65 | 1.60 | 1.64  | 1.61  |
| DPU (cents) | 10.6 | 10.1 | 10.1 | 10.1  | 10.1  |

### Cash Flow

| Y/E Dec, SGD mn                | FY15          | FY16         | FY17           | FY18e          | FY19e          |
|--------------------------------|---------------|--------------|----------------|----------------|----------------|
| <b>CFO</b>                     |               |              |                |                |                |
| Net Income after tax           | 109.3         | 104.0        | 143.1          | 89.3           | 91.7           |
| Adjustments                    | 5.9           | 9.3          | (27.8)         | 35.1           | 36.3           |
| WC changes                     | 2.5           | 6.6          | 1.0            | 41.3           | 1.7            |
| Cashflow from ops              | 117.7         | 119.9        | 116.3          | 165.7          | 129.7          |
| <b>CFI</b>                     |               |              |                |                |                |
| Cashflow from investments      | (16.0)        | (313.0)      | 175.0          | (372.6)        | (15.9)         |
| <b>CFF</b>                     |               |              |                |                |                |
| Share issuance                 | -             | -            | 103.8          | -              | -              |
| Net increase in borrowings     | 30.0          | 276.9        | (228.1)        | 178.3          | -              |
| Distributions to unitholders   | (66.1)        | (52.5)       | (82.6)         | (97.6)         | (97.8)         |
| <b>Cashflow from financing</b> | <b>(65.8)</b> | <b>211.0</b> | <b>(238.8)</b> | <b>51.1</b>    | <b>(128.4)</b> |
| <b>Net change in cash</b>      | <b>35.9</b>   | <b>17.9</b>  | <b>52.5</b>    | <b>(155.9)</b> | <b>(14.7)</b>  |
| <b>CCE, end</b>                | <b>126.3</b>  | <b>136.1</b> | <b>186.5</b>   | <b>30.6</b>    | <b>16.0</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       | 2,413          | 2,628          | 2,441          | 2,798          | 2,798          |
| Trade and Other Receivables | 12.8           | 12.8           | 37.1           | 15.5           | 15.9           |
| Cash and Cash Equivalents   | 126.3          | 136.1          | 186.5          | 30.6           | 16.0           |
| <b>Total Assets</b>         | <b>2,570</b>   | <b>2,783</b>   | <b>2,668</b>   | <b>2,855</b>   | <b>2,841</b>   |
| <b>LIABILITIES</b>          |                |                |                |                |                |
| Trade and other payables    | 59.5           | 64.5           | 59.6           | 79.2           | 81.4           |
| Security deposit            | 43.3           | 48.8           | 50.8           | 47.7           | 49.0           |
| Interest bearing borrowings | 706.0          | 977.8          | 747.5          | 925.8          | 925.8          |
| Other liabilities           | 246.4          | 240.7          | 242.1          | 216.2          | 216.2          |
| <b>Total Liabilities</b>    | <b>1,055.2</b> | <b>1,331.8</b> | <b>1,100.0</b> | <b>1,269.0</b> | <b>1,272.4</b> |
| <b>EQUITY</b>               |                |                |                |                |                |
| <b>Shareholder Equity</b>   | <b>1,515.1</b> | <b>1,451.7</b> | <b>1,568.1</b> | <b>1,586.3</b> | <b>1,569.0</b> |

### Valuation Ratios

| Y/E Dec                         | FY15        | FY16        | FY17        | FY18e        | FY19e        |
|---------------------------------|-------------|-------------|-------------|--------------|--------------|
| P/NAV                           | 0.80        | 0.86        | 1.04        | 1.02         | 1.03         |
| PER                             | 13.10       | 13.70       | 17.20       | 18.70        | 19.70        |
| ROE (%)                         | 7.5%        | 7.3%        | 9.2%        | 5.5%         | 5.7%         |
| Distribution yield (%)          | 7.4%        | 7.1%        | 6.1%        | 6.0%         | 6.0%         |
| NPI yield (%)                   | 5.8%        | 5.3%        | 6.1%        | 5.8%         | 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                         | 9.4%        | -3.3%       | 6.3%        | 10.0%        | 2.9%         |
| Net property income (NPI)       | 6.7%        | -1.0%       | 6.8%        | 9.3%         | 2.7%         |
| DPU                             | 7.9%        | -5.2%       | 0.5%        | 0.0%         | -0.1%        |
| <b>Margins</b>                  |             |             |             |              |              |
| NPI margin                      | 64.0%       | 65.2%       | 65.1%       | 65.1%        | 65.1%        |
| Operating Income Margin         | 49.1%       | 49.2%       | 49.3%       | 47.5%        | 47.5%        |
| <b>Key Ratios</b>               |             |             |             |              |              |
| Net Gearing                     | 27.7%       | 35.3%       | 28.0%       | 33.1%        | 33.1%        |



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