

CapitaLand Retail China Trust

Proactive mall management to boost performance



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SINGAPORE | REAL ESTATE (REIT) | 1Q18 RESULTS

- NPI and DPU were within our expectations.
- Improvement in retail sales, up 2.1% YoY vs 0.8% in FY17.
- S\$3mn capital distribution from CapitaMall Anzhen's divestment gains to top up distributable income.
- No refinancing needs in 2018.
- Upgrade to Accumulate with unchanged DDM-derived target price of S\$1.66.

Results at a glance

(SGD mn)	1Q18	1Q17	YoY (%)	Comments
Gross Revenue	55.4	60.1	-7.9%	Divestment of CapitaMall Anzhen from 1 July 2017. Also lower revenue at CapitaMall Grand Canyon due to restrictions in trading activities at the atrium. (as explained in 4Q17 results)
Net property income	37.2	40.3	-7.7%	Excluding the impact of Anzhen's divestment, same-mall NPI is up 0.6% YoY. Average SGD/RMB exchange rate used for both years is similar at 4.83
Distributable income	26.7	24.4	9.6%	Capital distributions from divestment gains of Anzhen
DPU (SG Cents)	2.75	2.74	0.4%	Higher number of units from private placement in Dec 17

Source: Company, PSR

The positives

+ **Improvement in retail sales, up 2.1% YoY vs 0.8% in FY17.** This is driven by a 7.7% YoY improvement in total shopper traffic. We expect CapitaMall Wangjing's successful AEI where >20 lifestyle retail and gourmet stores will open from 2Q18 and Rock Square's fine-tuned tenant mix post-acquisition to sustain tenant sales. CRCT's biggest malls in Beijing are seeing stable tenant sales growth of close to mid-single digit on average. Above mentioned malls take up 71% of total portfolio mall valuation.

+ **S\$3mn capital distribution from CapitaMall Anzhen's divestment gains to top up distributable income.** This is within our expectation for management to make up for the loss of income from the divestment. Total net gain from the Anzhen divestment (July 2017) was c.S\$32mn. We estimate loss of NPI from Anzhen to be around S\$3.4mn a quarter and expect management to continue utilising divestment gains to top up loss of income.

+ **No refinancing needs in 2018.** Early refinancing of S\$400mn (40% of total) loans due 2019 is underway. 80% of total debt hedged on fixed rates. This will mitigate impact from interest rate volatility over the next two years.

The negatives

- **Struggling malls still showing no signs of improvement.** Overall portfolio occupancy dropped slightly to 94.9%. While the bigger malls remain stable, malls under stabilisation continue to struggle. Nonetheless, these malls take up only 5% of portfolio mall valuation.

Outlook

DPU outlook is stable. Positive rental reversions from the Wangjing AEI and Rock Square will continue to support earnings. No debt expiring this year mitigates impact from interest rate volatility.

Upgrade to Accumulate with unchanged target price of S\$1.66.

Our forecasts and target price remains unchanged. Upgrade comes after recent price weakness on interest rate worries. Our forecast assumes a flat YoY SGD/RMB exchange rate. Management has demonstrated proactive mall management with the Wangjing AEI (ROI>30%) and the successful lifting of Xinnan's yield on cost from 5.4% at acquisition to current estimated 6.3%, as originally targeted.

30 April 2018

Accumulate (Upgraded)

LAST DONE PRICE	SGD 1.550
FORECAST DIV	SGD 0.101
TARGET PRICE	SGD 1.660
TOTAL RETURN	13.6%

COMPANY DATA

BLOOMBERG CODE	CRCT SP
O/S SHARES (MN) :	970
MARKET CAP (USD mn / SGD mn) :	1133 / 1503
52 - WK HI/LO (SGD) :	1.7 / 1.52
3M Average Daily T/O (mn) :	1.32

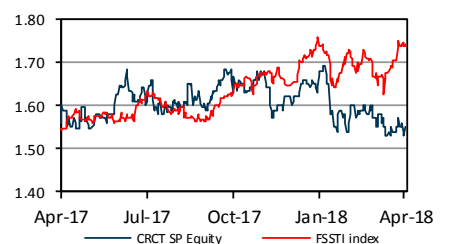
MAJOR SHAREHOLDERS (%)

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	(1.3)	(7.3)	5.7
STI RETURN	5.0	0.8	16.1

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 and tenant sales picked up from 2017

	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
1Q18	2.1	9.8	7.7	12.8

Source: Company, PSR

Figure 2: CRCT trades at close to average yields (post GFC) and below average P/NAV



Source: Bloomberg, PSR

Figure 3: Peer Comparison Table

Name	PSR CALL	PSR TARGET PRICE	Mkt Cap (SGD mn)	Price (S\$)	Dvd Yld: D-1	Latest Gearing	P/B
CAPITALAND RETAIL CHINA TRUST	ACCUMULATE	1.66	1,503	1.55	6.53	32.50	0.93
FRASERS CENTREPOINT TRUST	NEUTRAL	2.14	2,074	2.24	5.36	28.99	1.11
CAPITALAND MALL TRUST	NEUTRAL	2.05	7,380	2.08	5.39	30.30	1.06
BHG RETAIL REIT			388	0.78	7.20	27.19	0.93
MAPLETREE GREATER CHINA COMM			3,278	1.16	6.51	39.15	0.94
MAPLETREE COMMERCIAL TRUST			4,666	1.62	5.80	34.56	1.09
STARHILL GLOBAL REIT			1,560	0.72	6.62	35.23	0.77
SPH REIT			2,542	0.99	5.59	25.32	1.05

Source: Bloomberg, PSR

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross Revenue	220.3	214.4	229.2	250.6	257.4
Total Property expenses	(79.2)	(74.6)	(80.0)	(87.4)	(89.8)
Net Property Income	141.1	139.7	149.2	163.1	167.6
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)
Net Income after tax and FV changes	109.3	104.0	143.1	89.3	91.7
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
Income available for distribution	89.2	86.7	91.1	97.6	97.8

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
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
Total Assets	2,570	2,783	2,668	2,855	2,841
LIABILITIES					
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
Total Liabilities	1,055.2	1,331.8	1,100.0	1,269.0	1,272.4
EQUITY					
Shareholder Equity	1,515.1	1,451.7	1,568.1	1,586.3	1,569.0

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

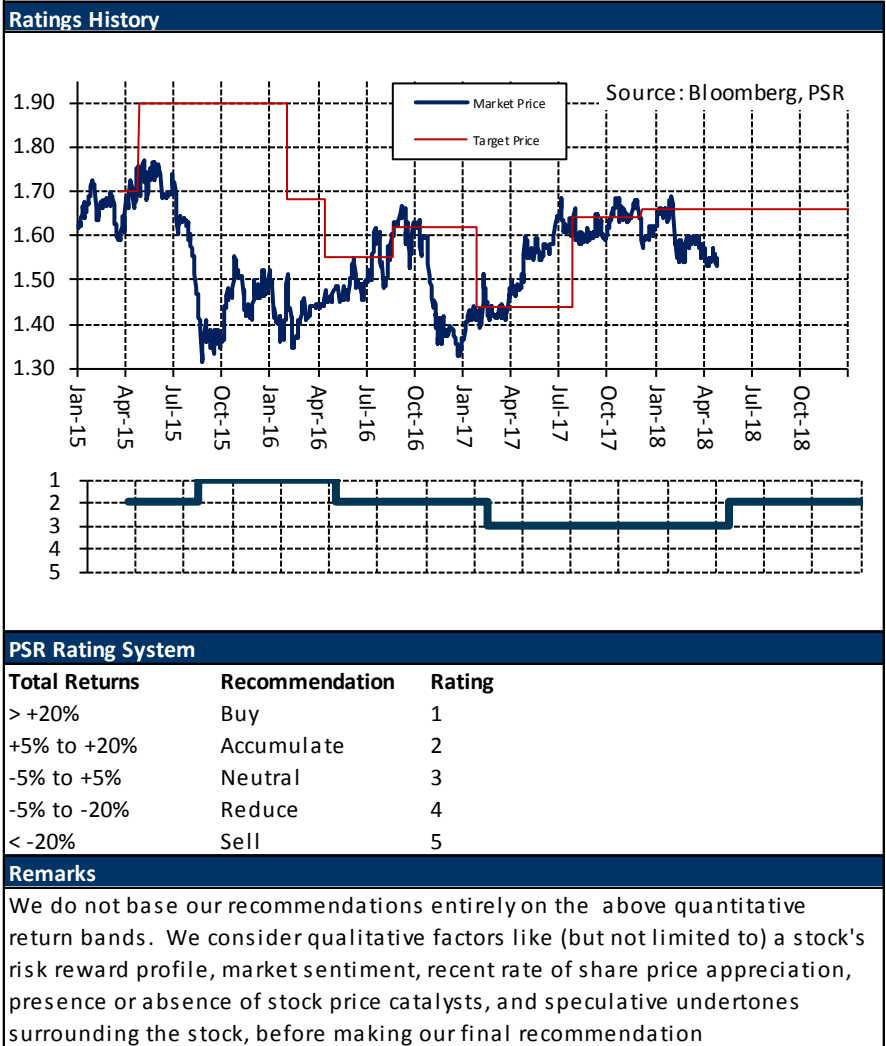
Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Net Income after tax	109.3	104.0	143.1	89.3	91.7
Adjustments	5.9	9.3	(27.8)	35.1	36.3
WC changes	2.5	6.6	1.0	41.3	1.7
Cashflow from ops	117.7	119.9	116.3	165.7	129.7
CFI					
Cashflow from investments	(16.0)	(313.0)	175.0	(372.6)	(15.9)
CFF					
Share 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)
Cashflow from financing	(65.8)	211.0	(238.8)	51.1	(128.4)
Net change in cash	35.9	17.9	52.5	(155.9)	(14.7)
CCE, end	126.3	136.1	186.5	30.6	16.0

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%
Growth & Margins (%)	FY15	FY16	FY17	FY18e	FY19e
Growth					
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%
Margins					
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%
Key Ratios					
Net Gearing	27.7%	35.3%	28.0%	33.1%	33.1%

Source: Company, Phillip Securities Research (Singapore) Estimates

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



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