

Croesus Retail Trust

Visible growth drivers over next two years

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- Revenue and DPU growth on the back of contributions from newly acquired malls and tenant renewals.
- Non-property related savings such as savings from internalisation of asset manager and cheaper refinancing costs to boost bottom line in FY17 and FY18.
- Concerns about the longer term prospects of the last 2 acquisitions due to deteriorating demographics.

Results at a glance

(JPY 'mn)	4Q16	4Q15	y-o-y (%)	Comments
Revenue	2,675	1,986	↑35%	Mainly due to acquisition of Torius on 16 October 2015, Fuji Grand Natalie on 17 April 2016, and Mallage Saga and Feeeal Asahikawa on 27 May 2016
Net Property Income	1,440	1,206	↑19%	Higher expense ratios in newly acquired properties
Distributable Income	1,068	877	↑22%	
DPU, adjusted (SGD Cents)	1.70	1.59	↑7%	Blgger Unit Base due to Rights and Preferential Offering

Source: Company, Phillip Securities Research (Singapore)

What is the news and how do we view this?

- Revenue and DPU growth on the back of contributions from newly acquired malls and a successful tenant renewal exercise.** Croesus Retail Trust (CRT) made 4 acquisitions since 2Q16, with these 4 properties Torius, Fuji Grand Natalie, Mallage Saga and Feeeal Asahikawa pushing 4Q16 revenue up 34.5% y-o-y. The higher expense ratios of these new malls are due to the multi-tenanted nature of the malls and the cooler weather conditions in Hokkaido, resulting in higher utilities expenses.
- Non-property related savings such as savings from internalisation of asset manager and cheaper refinancing costs to boost bottom line in FY17 and FY18.** Management guided that cost savings from non-property related aspects such as cheaper refinancing costs, more favourable FX hedge rates and internalization of asset manager could bring about as much as JPY 800m-1b in cost reductions annually by FY18. This compares with an income available for distribution of c.JPY 4b for FY16.
- Concerns about the longer term prospects of the last 2 acquisitions due to deteriorating demographics.** Saga City and Asahikawa City, where the latest 2 acquisitions Mallage Saga and Feeeal Asahikawa are located, are cities with small declining populations, unlike most of the other cities where CRT's other malls are located. We think this could pose a concern for the longer term prospects of the latest 2 acquisitions. Notwithstanding the longer term repercussion, management has previously pointed out that the historical sales for these 2 malls have been stable. We will be closely monitoring the performance of these two malls closely. These 2 malls take up 6% of the total valuation of CRT's portfolio.

Investment Action:

- Upgrade to ACCUMULATE with an unchanged DDM-derived target price of S\$0.93.** Though with some longer term concerns about the latest 2 acquisitions, these 2 malls take up only 6% of CRT's total portfolio by valuation. We continue to like CRT for its long WALE and visible strong growth drivers over the next two FYs.

29 August 2016

ACCUMULATE (Upgraded)

LAST DONE PRICE	SGD 0.855
FORECAST DIV	SGD 0.07
TARGET PRICE	SGD 0.93
TOTAL RETURN	18.1%

COMPANY DATA

O/S SHARES (MN) :	745
MARKET CAP (USD mn / SGD mn) :	468 / 637
52 - WK HI/LO (SGD) :	0.87 / 0.76
3M Average Daily T/O (mn) :	166

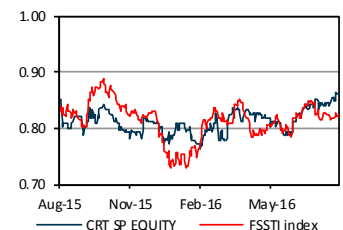
TOP FIVE SHAREHOLDERS (%)

GKG INVESTMENT HOLDINGS PTE	6.9%
DBS GROUP HOLDINGS	5.7%
VALUE PARTNERS LTD	5.6%
BLACKROCK	4.8%
TARGET ASSET MANAGEMENT	3.7%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	2.6	5.1	16.4
STIRETURN	(105)	4.73	3.39

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY 15	FY 16	FY 17e	FY 18e
Revenue (JPYmn)	7,635	9,581	12,328	12,337
NPI	4,681	5,449	6,608	6,612
Inc Av for Dist.	3,358	3,981	4,523	4,642
P/BV, x	0.90	0.84	0.84	0.86
DPU (SG cents)	8.1	7.1	7.5	8.3
Div Yield, %	9.6%	8.9%	9.4%	10.4%
Gearing	47.3%	45.3%	45.8%	45.6%

Source: Bloomberg, PSR est.

Valuation Method

DDM (Cost of equity 8.5%, Terminal Growth 1%)

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Financials

Income Statement

Y/E June, JPY mn	FY15	FY16	FY17e	FY18e
Gross Revenue	7,635	9,581	12,328	12,337
Property Operating Expenses	(2,954)	(4,132)	(5,721)	(5,725)
Net Property Income	4,681	5,449	6,608	6,612
Finance income	3	10	2	2
Finance Costs	(1,004)	(1,106)	(1,379)	(1,250)
Net Finance costs	(1,001)	(1,096)	(1,377)	(1,248)
Other expenses and fees	(720)	(1,033)	(841)	(841)
Profit before changes in fair value	2,960	3,320	4,390	4,523
Fair value gain/loss	6,706	4,467	0	0
Profit before tax	9,666	7,786	4,390	4,523
Taxation	(2,087)	(1,557)	(878)	(905)
Profit after tax	7,579	5,947	3,512	3,619
Distribution adjustments	(4,221)	(1,966)	969	976
Income available for distribution	3,358	3,981	4,523	4,642

Per share data JPY

Y/E June	FY15	FY16	FY17e	FY18e
DPU (SGD Cents)	8.08	7.10	7.48	8.33
BVPS	83.9	77.1	76.9	75.5

Cash Flows

Y/E June, JPY mn	FY15	FY16	FY17e	FY18e
CFO				
Profit before tax	9,666	7,786	4,390	4,523
Adjustments	275	1,281	1,845	1,715
WC changes	(1,955)	(2,873)	257	4
Cash generated from ops	4,142	2,166	6,491	6,243
Others	(1,266)	(1,415)	(1,904)	(1,791)
Cashflow from ops	3,210	2,427	4,587	4,452
CFI				
CAPEX, net	(11,403)	(19,004)	(113)	(113)
Others	(87)	0	0	(0)
Cashflow from investments	(11,712)	(19,004)	(113)	(113)
CFF				
Share issuance	6,086	10,639	(0)	(0)
Loans, net of repayments	6,252	14,815	986	(558)
Dividends paid	(3,150)	(4,652)	(4,252)	(4,582)
Others	(344)	(551)	0	0
Cashflow from financing	8,642	19,040	(3,266)	(5,141)
Net change in cash	(1,267)	2,463	1,208	(801)
Effects of exchange rates	(7)	(20)	0	0
CCE, end	1,479	5,385	6,594	5,792

Source: Company Data, PSR est

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

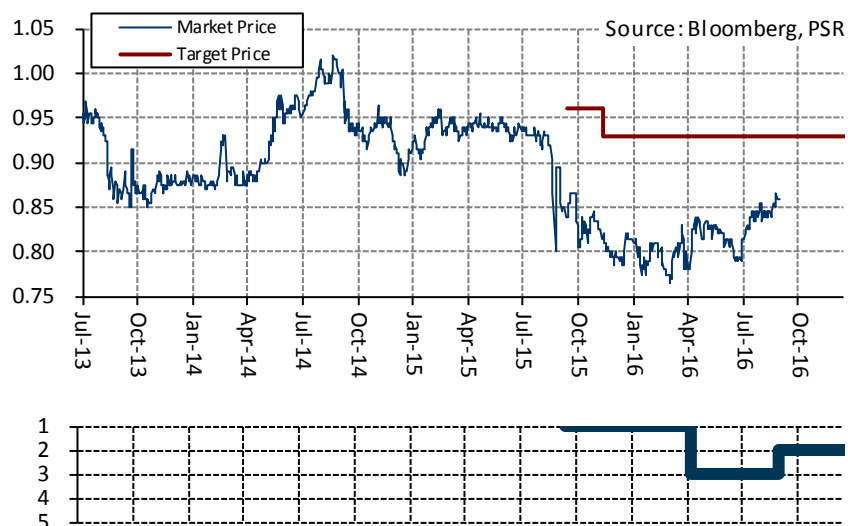
Balance Sheet

Y/E June, JPY mn	FY15	FY16	FY17e	FY18e
ASSETS				
Investment properties	87,930	112,640	112,753	112,865
Non-current restricted cash	3,768	5,584	5,584	5,584
Others	1,295	1,044	1,044	1,044
Total non-current assets	92,993	119,268	119,381	119,494
Cash and cash equivalent	2,942	5,385	6,594	5,792
Receivables	491	1,655	986	987
Current restricted cash	3,300	4,287	4,287	4,287
Others	675	579	579	579
Total current assets	7,408	11,906	12,446	11,646
Total Assets	100,401	131,175	131,827	131,139
LIABILITIES				
Short term loans	647	8,337	24,700	8,300
Trade and other payables	1,219	2,151	2,517	2,519
Others	914	2,112	2,112	2,112
Total current liabilities	2,781	12,600	29,329	12,931
Long term loans	46,840	51,057	35,680	51,522
Others	7,194	11,640	11,213	11,577
Total non-current liabilities	54,034	62,697	46,893	63,099
EQUITY				
Non-controlling interest	0	0	0	0
Shareholder Equity	43,586	55,877	55,605	55,109

Valuation Ratios

Y/E June, JPY mn	FY15	FY16	FY17e	FY18e
P/B (X)	0.90	0.84	0.84	0.86
Dividend Yield (%)	9.6%	8.9%	9.4%	10.4%
Growth & Margins (%)				
Growth				
Revenue	21.9%	25.5%	28.7%	0.1%
Income av. For distribution	5.6%	18.5%	13.6%	2.6%
DPU	2.8%	-12.1%	5.3%	11.3%
Key Ratios				
Net Debt/(Cash)	44,546	54,010	53,787	54,030
Net Gearing	47%	45%	46%	46%

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

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