

CapitaLand Mall Trust

Journey to the West

SINGAPORE | REAL ESTATE (REIT) | 3Q18 RESULTS (CHANGE OF ANALYST)

- Acquisition of remaining 70% of Westgate approved by unitholders on Oct 25. Funding via private placement (c.\$245.6mn) and debt (c.\$552mn) will be accretive to FY18e and FY19e DPU. Targeted completion of transaction by Nov 1.
- 3Q18 NPI/DPU within our estimates. 9M18 NPI/DPU at 75% and 74% of our FY18e estimates.
- Tepid tenant sales growth, dragged by F&B sector, CMT's biggest tenant sector by GRI. Shopper traffic continued to decline for the third consecutive quarter this year.
- Maintain Neutral with adjusted TP of S\$2.09 (prev S\$2.05).

Results at a glance

(SGD mn)	3Q18	3Q17	YoY (%)	9M18	9M17	YoY (%)	Comments
Gross Revenue	170.5	169.4	0.7%	517.1	510.1	1.4%	Higher revenue from Junction 8, IMM, Plaza Singapura, Bedok Mall, Tampines Mall. Partially offset by lower revenue from SSC (divested on 18 June 2018).
Net Property Income	122.7	121.4	1.1%	369.1	359.0	2.8%	Lower finance costs due to refinancing at lower interest rates, partial repayment of loans with net proceeds from divestment of SSC, and repayment of bank borrowings.
Distributable Income	103.5	98.7	4.9%	302.5	292.9	3.3%	
Annualised DPU (Cents)	2.92	2.78	5.0%	11.38	11.04	3.1%	

Source: Company, PSR

The Positives

+ Acquisition of remaining 70% of Westgate approved. CMT's unitholders have approved the acquisition of the remaining 70% of Westgate (through Infinity Mall Trust (IMT)) on Oct 25. Total acquisition outlay of S\$797.6mn (excl. Acquisition fee of S\$7.9mn that will be paid in units) will be funded via a c.\$245.6mn Private Placement and the remaining via debt (S\$392mn of which are bank loans owed by IMT). Assuming CMT's current funding cost of 3.2%, this funding structure of c.70% debt would be accretive to FY18e and FY19e DPU. Transaction is expected to be completed by Nov 1 and contribution from the remaining 70% of Westgate will commence then. *See Appendix for more details.*

+ Stable portfolio occupancy despite ongoing AEI at Westgate and Tampines Mall. Occupancy remains stable at 98.5%, with >97% occupancy achieved at its top four malls (by GRI) – Plaza Singapura, IMM, Bugis Junction, Tampines Mall.

The Negatives

- Tepid tenant sales growth and continued decline in shopper traffic. Tenant sales was flat (+0.5% YoY) for 9M18 with tenant sales growth for the food & beverage (F&B) sector (the largest trade sector contributor by GRI; 31% of CMT's FY17 GRI) still leaving much to be desired (+0.1% YoY for 9M18 vs -0.6% YoY for 1H18). Shopper traffic continued to decline for the third consecutive quarter this year, by -1.8% YoY for 9M18.

Outlook

Catalysts for growth would be the contribution from the remaining 70% of Westgate and the upcoming completion of Funan. As at end-Sep, leases signed and in advanced negotiations at Funan reached 70% (retail) and 60% (office) – subsequent to this, one of Funan's anchor tenants, Newstead Technologies, filed for liquidation. This might affect the amount of contribution from Funan that will start coming in in 2H19. On recurring revenue, rental reversions have weakened to 0.6% in 9M18 (1H18: 0.8%). We opine that tenant sales would need to catch up for more meaningful upsides in rental growth.



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NEUTRAL (Maintained)

LAST DONE PRICE	SGD 2.17
FORECAST DIV	SGD 0.113
TARGET PRICE	SGD 2.09
TOTAL RETURN	1.4%

COMPANY DATA

BLOOMBERG CODE:	CT SP Equity
O/S SHARES (MN):	3,549
MARKET CAP (USD mn / SGD mn):	5584 / 7701
52 - WK HI/LO (SGD):	2.25 / 1.95
3M Average Daily T/O (mn):	9.87

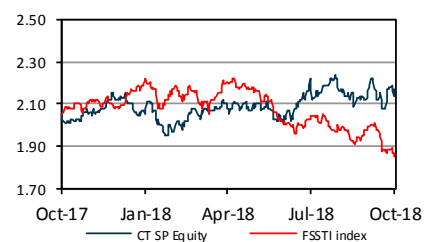
MAJOR SHAREHOLDERS (%)

CAPITALAND	30.5%
BLACKROCK	6.1%
NATIONAL TRADES UNION CONGRESS	4.9%
SUMITOMO MITSUI ASSET MGMT CO	3.1%
VANGUARD GROUP	2.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.5	(2.3)	10.2
STIRETURN	(5.8)	(6.4)	(5.7)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept	FY 16	FY 17	FY 18	FY 19 e
Gross Rev (SGD mn)	690	682	702	765
NPI (SGD mn)	480	478	496	533
Dist Inc. (SGD mn)	394	396	400	420
P/NAV (x)	1.14	1.11	0.99	1.02
DPU, adj (Cents)	11.1	11.2	11.3	11.8
Distribution Yield, %	5.2%	5.2%	5.2%	5.5%

Source: Company Data, Bloomberg

Valuation Method

DDM (Cost of equity 7.25%, Terminal Growth 1.5%)

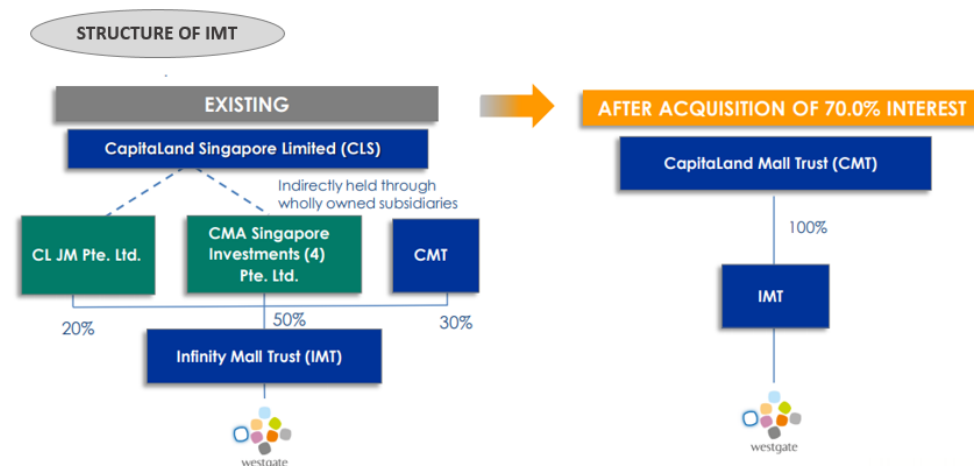
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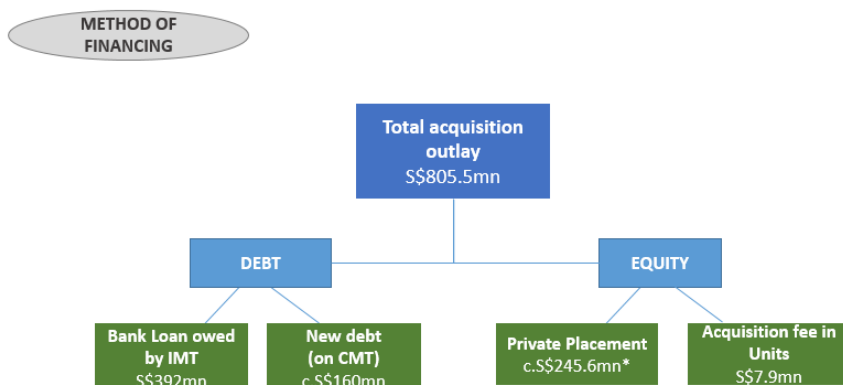
Maintain NEUTRAL with adjusted target price of S\$2.09 (prev S\$2.05).

This translates to a FY18e yield of 5.2% and P/NAV of 0.99x. We adjust our DPU estimates - and correspondingly, our target price - upwards to factor in the contribution from the remaining 70% of Westgate. In addition, there have been adjustments on assumptions on rental rates and financing costs, following a change in analyst.

Appendix


Source: Company

- CMT’s unitholders have approved the acquisition of the remaining 70% of the units in IMT, which holds Westgate, on Oct 25
- Transaction is expected to be completed on Nov 1



* Assuming the Upsize Option of the Private Placement is not exercised

Source: PSR

- Total acquisition outlay of S\$805.5mn (incl. acquisition fee of S\$7.9mn to be paid in units)
 - Private placement of c.S\$245.6mn (excl. placement fees)
 - S\$392mn of bank loans owed by IMT to financial institutions
 - Remaining c.S\$160mn to be funded via debt
- Acquisition is expected to be accretive to FY18e and FY19e DPU

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross Revenue	669	690	682	702	765
Total Property expenses	(203)	(210)	(204)	(206)	(233)
Net Property Income	466	480	478	496	533
Net Finance (Expense)/Inc	(92)	(95)	(94)	(101)	(100)
Net Income before tax and FV changes	329	336	335	342	379
Share of results from associate	18	15	19	17	18
Share of results from JV	54	52	52	100	100
Tax expense	(1)	(1)	(0)	(1)	(1)
Net Income after tax and FV changes	401	403	406	458	497
Distributable income to unitholders	392	394	396	400	420

Per share data (SGD)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV	1.89	1.89	1.95	2.19	2.13
DPU (cents)	11.3	11.1	11.2	11.3	11.8

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Net Income after tax	401	403	406	458	497
Adjustments	21	29	24	(15)	(17)
WC changes	1	1	(2)	1	(3)
Cashflow from ops	422	433	428	444	477
CFI					
Capex, net	(95)	(76)	(99)	(964)	(166)
Others	(369)	103	188	247	(0)
Cashflow from investments	(464)	27	89	(716)	(166)
CFE					
Share issuance	(2)	(4)	(2)	(2)	(3)
Proceeds from bank borrowings, net	12	(82)	23	613	-
Distributions to unitholders	(389)	(394)	(395)	(400)	(420)
Cashflow from financing	(484)	(581)	(478)	339	(534)
Net change in cash	(525)	(121)	39	67	(223)
CCE, end	604	483	523	589	367

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

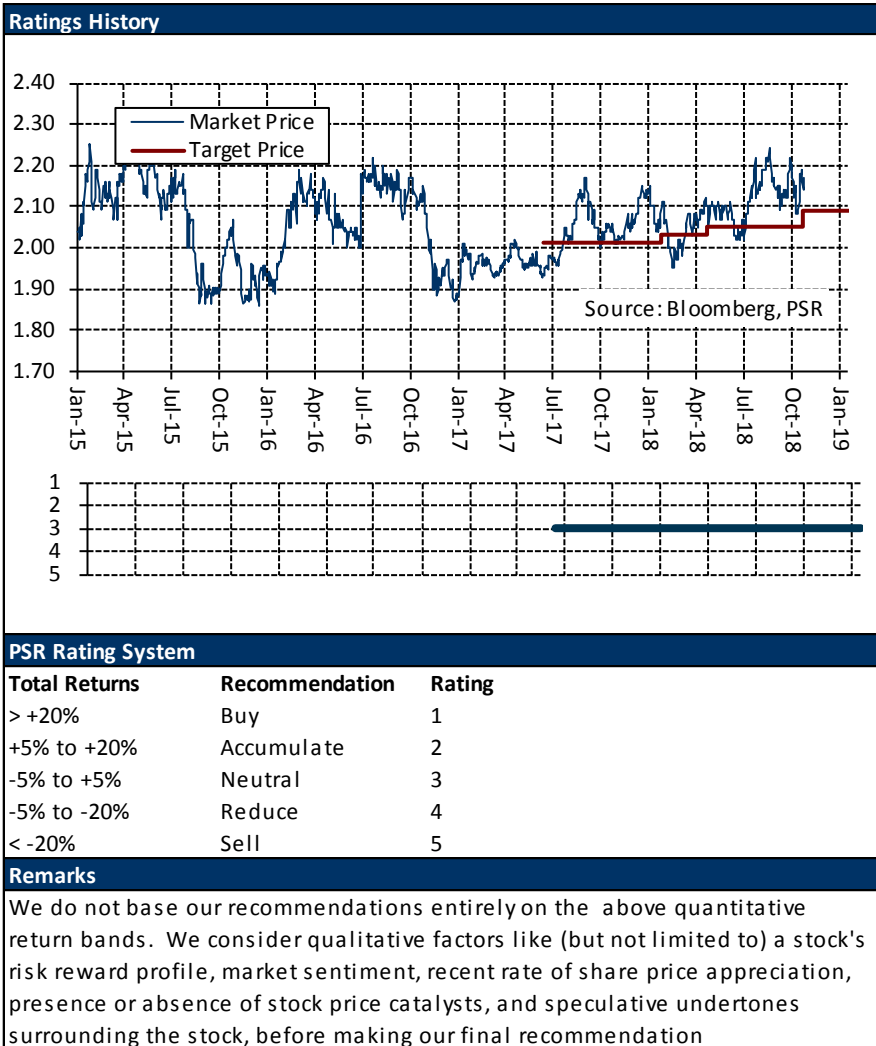
Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
Investment properties	8,366	8,064	8,311	9,050	9,662
Trade and Other Receivabl	29	34	32	32	33
Cash and Cash Equivalent	604	483	523	589	367
Total Assets	10,356	10,327	10,504	11,583	11,361
LIABILITIES					
Trade and other payables	144	160	156	153	156
Interest bearing borrowings	3,312	3,288	3,183	3,444	3,444
Other liabilities	206	186	238	208	209
Total Liabilities	3,663	3,635	3,576	3,806	3,810

EQUITY

Shareholder Equity	6,693	6,692	6,928	7,777	7,551
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Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/NAV	1.14	1.14	1.11	0.99	1.02
Distribution yield (%)	5.2%	5.2%	5.2%	5.2%	5.5%
NPI yield (%)	5.6%	5.9%	5.8%	5.5%	5.5%
Growth & Margins (%)					
Growth					
Revenue	1.5%	3.1%	-1.1%	2.8%	9.1%
Net property income (NPI)	4.0%	2.9%	-0.3%	3.6%	7.5%
DPU	3.8%	-1.1%	0.3%	1.1%	4.9%
Margins					
NPI margin	69.7%	69.5%	70.1%	70.6%	69.6%
Operating Income Margin	62.8%	62.4%	62.9%	63.1%	62.6%
Key Ratios					
ROA	3.9%	3.9%	3.9%	4.0%	4.4%
ROE	6.0%	6.0%	5.9%	5.9%	6.6%
Net Gearing	35.4%	34.8%	36.3%	35.7%	35.7%



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