

CapitaLand Mall Trust

Reaping the harvest



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SINGAPORE | REAL ESTATE (REIT) | 2Q19 RESULTS

25 July 2019

- 2Q19 NPI and DPU were in line with our forecast. The 2Q19 and 1H19 DPU form 25% and 50% of our DPU forecast respectively.
- Operating statistics were mixed. There were positive rental reversions amidst weaker occupancy. The softer retail sector outlook is still weighing down tenant sales.
- Maintain NEUTRAL with higher TP of \$2.68 (prev. \$2.36). Higher target price due to our lower risk-free rate assumption.

Results at a glance

(SGD mn)	2Q19	2Q18	YoY (%)	Comments
Gross Revenue	189.5	171.4	10.6%	Mainly due to consolidation of Westgate (+\$18.2m) at Group level upon acquisition of remaining 70% on 1 Nov 2018, and reopening of Funan which contributed 3 days of revenue (+\$0.9m), offset by the divestment of Sembawang Shopping Centre on 18 June 2018. On a comparable basis, revenue increased c.1.2%.
Net Property Income	133.2	120.8	10.2%	
Distributable Income	107.7	100.0	7.7%	Lifted by the acquisition of remaining 70% stake in Westgate and reopening of Funan.
DPU (Cents)	2.92	2.81	3.9%	

Source: Company, PSR

The Positives

+ Better rental reversions albeit weaker occupancy. Rental reversions for 2Q19 were +1.8% over the initial signing rents (1Q19 +1.2%). Positive reversions were observed for all malls except Raffles City Singapore (RCS). The highest reversions came from Lot One (+5.6%), Westgate (+4.3%) and IMM Building (+4.2%). However, portfolio occupancy fell by 50bps QoQ from 99.8% in 1Q19 to 98.3% in 2Q19, contributed by CQ (-400 bps), Bedok Mall (-110bps), and IMM (-90bps).

+ Funan did not cannibalize RCS. Due to the different concept and tenant mix at Funan, the opening of Funan did not cannibalise RCS. Contrary, it increased the footfall at RCS.

The Negatives

- Weaker retail sales. Despite an improvement in shopper traffic, tenant sales for 1H19 fell by 0.9% YoY, slightly worse off than 1Q19's -0.5%. Eight out of 14 trade sectors recorded negative growth with Home Furnishing (-22.4%), and IT & Telecommunications (-12.9%) and Electrical & Electronics (-9.8%) recording the worst contraction in sales. The weakness in these trade sectors was due to the softer property market and lengthening of the mobile device replacement cycle. We were comforted that tenant sales psf/month improved 1.2% YoY, and the top five trade categories that contributed >70% of gross rental income (GRI) income were the ones that registered growth in tenant sales. These were the Sporting Goods (+8.5%), Jewellery & Watches (+3.8%), F&B (+3.5%), Fashion (+1.6) and Shoes & Bags (+1.3%).

- Tampines and Bedok Mall cannibalized by Jewel; weaker tenant sales recorded. Since opening in April 2019, Jewel (owned by Sponsor, CapitaLand) has drawn crowds from the Tampines and Bedok Mall. As of 2Q19 (3 months after the opening), tenant sales for Tampines and Bedok Mall have settled at the c.-5% and c.-2%.

NEUTRAL (Maintained)

LAST DONE PRICE	SGD 2.62
FORECAST DIV	SGD 0.116
TARGET PRICE	SGD 2.68
TOTAL RETURN	6.8%

COMPANY DATA

BLOOMBERG CODE:	CT SP Equity
O/S SHARES (MN) :	3,688
MARKET CAP (USD mn / SGD mn) :	7085 / 9664
52 - WK HI/LO (SGD) :	2.75 / 2.07
3M Average Daily T/O (mn) :	1.35

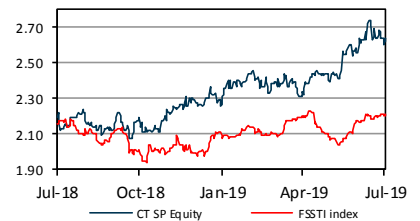
MAJOR SHAREHOLDERS

CAPITALAND	27.2%
BLACKROCK	8.0%
NATIONAL TRADES UNION CONGRESS	4.8%

PRICE PERFORMANCE (%)

	1M TH	3 M TH	1Y R
COMPANY	3.1	15.1	27.0
STI RETURN	16	2.1	6.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 17	FY 18	FY 19e	FY 20e
Gross Rev (SGD mn)	682	698	898	969
NPI (SGD mn)	478	494	530	616
Dist Inc. (SGD mn)	396	406	428	511
P/NAV (x)	1.11	1.07	1.09	1.07
DPU, adj (Cents)	11.2	11.5	11.6	13.8
Distribution Yield	5.2%	5.3%	5.4%	6.4%

Source: Company, PSR

Valuation Method

DDM (Cost of equity 6.55%, Terminal Growth 1.5%)

Natalie Ong (+65 6212 1849)
Research Analyst
natalieongpf@phillip.com.sg

Outlook

Funan opened ahead of schedule, on 28 July 2019, with the occupancy of the retail mall in the 80%. Targeting at millennials, 30% of the tenants are new-to-market. More risk-sharing is expected as these new-to-market brands will negotiate for a higher portion (percentage) of variable GTO rent and lower base rent. Revenues will pick up in September 2019, where the majority of the office tenants are scheduled to move in.

7% of the leases by GRI are up for renewal in 2019, which highest lease renewals coming from RCS (17.1%), Tampines Mall (10%) and IMM Building (9.7%).

Tenant rejuvenations are being carried out at J Cube and AEIs Lot One will commence in 3Q19. Estimate cost of AEI is c.\$20mn and will increase the space taken by the library and reconfigure the cinema layouts to increase the number of screens. s

Maintain NEUTRAL with higher TP of S\$2.68 (prev. S\$2.36).

We adjust our forecast to incorporate the revenues from Funan as well as reduced the risk-free rate owing to the lower interest rate environment – and in doing so, our cost of equity is reduced from 6.90% to 6.55%. Our target price translates to a 5.4% distribution yield and a P/NAV of 1.09x.

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	F20e
Gross Revenue	690	682	698	898	969
Total Property expenses	(210)	(204)	(204)	(368)	(354)
Net Property Income	480	478	494	530	616
Net Finance (Expense)/Inc	(95)	(94)	(87)	(104)	(104)
Net Income before tax and FV changes	336	335	348	370	456
Share of results from associate	15	19	14	16	15
Share of results from JV	52	52	115	47	47
Tax expense	(1)	(0)	0	(0)	(0)
Net Income after tax and FV changes	403	406	477	433	518
Distributable income to unitholders	394	396	406	428	511

Per share data (SGD)

Y/E Dec	FY16	FY17	FY18	FY19e	F20e
NAV	1.89	1.95	2.02	1.99	2.02
DPU (cents)	11.1	11.2	11.5	11.6	13.8

Cash Flow

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	F20e
CFO					
Net Income after tax	403	406	477	433	518
Adjustments	29	24	(41)	42	43
WC changes	1	(2)	19	35	(1)
Cashflow from ops	433	428	456	511	560
CFI					
Capex, net	(76)	(99)	(201)	(219)	(158)
Others	103	188	(34)	(0)	(0)
Cashflow from investments	27	89	(235)	(219)	(158)
CFF					
Share issuance	(4)	(2)	(6)	(4)	(4)
Proceeds from bank borrowings, net	(82)	23	(114)	206	459
Distributions to unitholders	(394)	(395)	(456)	(428)	(511)
Cashflow from financing	(581)	(478)	(395)	(338)	(168)
Net change in cash	(121)	39	(174)	(47)	234
CCE, end	483	523	349	302	536

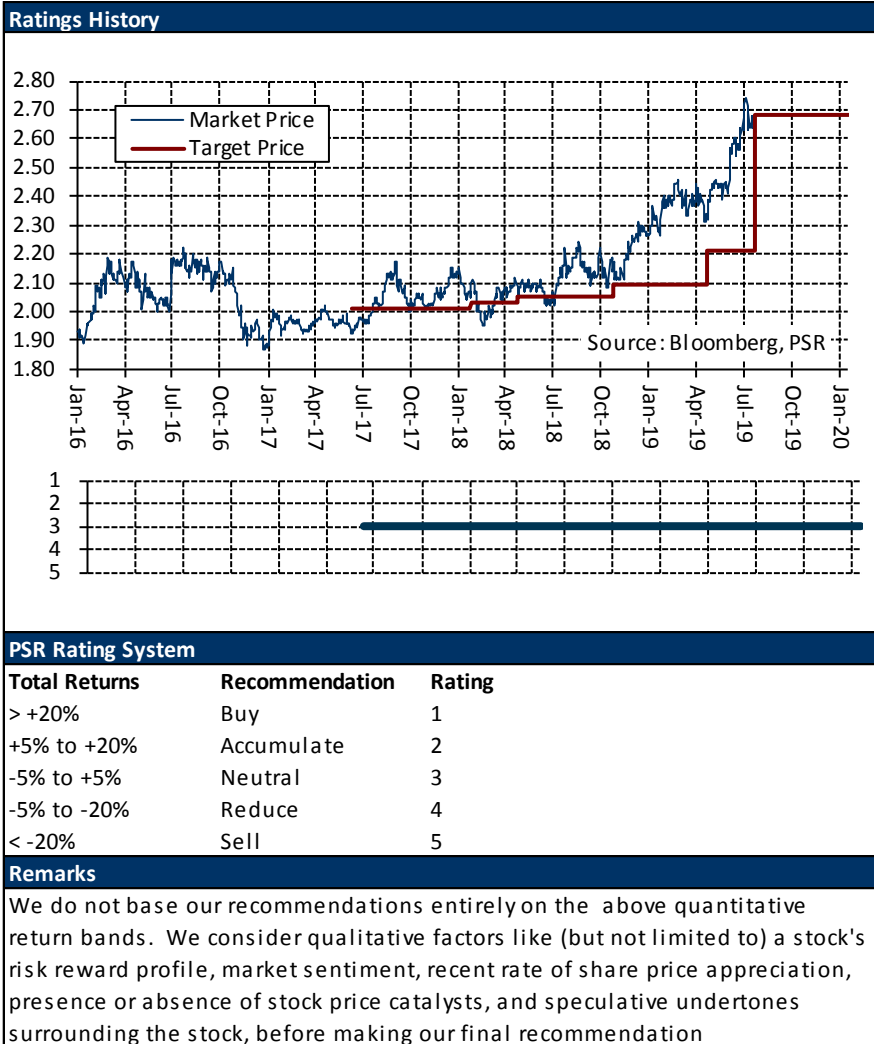
Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	F20e
ASSETS					
Investment properties	8,064	8,311	9,411	9,903	9,777
Trade and Other Receivables	34	32	28	35	38
Cash and Cash Equivalents	483	523	349	302	536
Total Assets	10,327	10,504	11,502	11,378	11,489
LIABILITIES					
Trade and other payables	160	156	199	172	176
Interest bearing borrowings	3,288	3,183	3,628	3,628	3,628
Other liabilities	186	238	245	245	253
Total Liabilities	3,635	3,576	4,072	4,044	4,056
EQUITY					
Shareholder Equity	6,692	6,928	7,429	7,334	7,433

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	F20e
P/NAV	1.14	1.11	1.07	1.09	1.07
Distribution yield	5.2%	5.2%	5.3%	5.4%	6.4%
NPI yield	5.9%	5.8%	5.2%	5.4%	6.3%
Growth & Margins	FY16	FY17	FY18	FY19e	F20e
Growth					
Revenue	3.1%	-1.1%	2.2%	28.7%	8.0%
Net property income (NPI)	2.9%	-0.3%	3.2%	7.4%	16.2%
DPU	-1.1%	0.3%	3.0%	1.1%	19.2%
Margins					
NPI margin	69.5%	70.1%	70.8%	59.0%	63.5%
Operating Income Margin	62.4%	62.9%	62.5%	52.9%	57.8%
Key Ratios					
ROA	3.9%	3.9%	4.2%	3.8%	4.5%
ROE	6.0%	5.9%	6.4%	5.9%	7.0%
Net Gearing	34.8%	36.3%	36.0%	36.6%	37.1%



Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Siti Nursyazwina - syazwina@phillip.com.sg
Banking & Finance | Healthcare

 Tin Min Ying – tinmy@phillip.com.sg
Oil & Gas | Energy

 Chen Guangzhi – chengz@phillip.com.sg
Telco | Technology

 Alvin Chia - alvinchiaw@phillip.com.sg
Property | REITs | Transport

 Natalie Ong - natalieongpf@phillip.com.sg
China/HK Equity

 Zheng Jieyuan – zhengjy@phillip.com.sg
US Equity

 Edmund Xue – edmundxuejj@phillip.com.sg
Technical Analyst

 Chua Wei Ren – chuawr@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

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

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

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

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.phillipcapiatal.in

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

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

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

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

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

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.phillipcapiatal.com.tr

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

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

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

SRI LANKA

Asha Phillip Securities Limited
No. 60, 5th Lane,
Colombo 3, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

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

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