

CapitaLand Mall Trust

Uphill from here

SINGAPORE | REAL ESTATE (REIT) | 2Q20 RESULTS

- 1H20 DPU of 2.96cents was -49% YoY and included one-third (\$23.2mn) of the distributable income retained in 1Q20.
- The worst is over, barring a second wave of the virus. Footfall has recovered to 53% of January levels. 1H20 tenant sales fell -15.4% YoY, better than expected, while portfolio occupancy remained high at 97.7%, clocking +0.1% rental reversions for 2Q20.
- Maintain BUY with an unchanged TP of \$2.33. We are keeping our estimates unchanged as we have previously incorporated c.\$80mn of out-of-pocket (OOP) rental rebates, above the \$76.5mn OOP rebates guidance for 1H20.

Results at a glance

(SGD mn)	2Q20	2Q19	YoY	1H20	1H19	YoY	Comments
Gross Revenue	114.1	189.5	-39.8%	318.4	382.3	-16.7%	Lower gross rental income in 2Q20 due to rental waivers of \$76.5mn, lower gross turnover rent and car park income during the circuit breaker period. 2Q/1H20 revenue was partly mitigated by contribution from Funan which commence operations in end-June2020
Net Property Income	68.1	133.2	-48.9%	216.4	273.3	-20.8%	NPI for 1H20 was partially mitigate by the com
Income Available for Distribution	54.9	107.7	-49.0%	160.9	229.1	-29.8%	For 1H 2020, in view of the challenging operating environment due to the COVID-19 pandemic, CMT had retained S\$46.4 million of its taxable income available for distribution to Unitholders.
Distributable Income	78.1	107.7	-27.5%	109.72	214.01	-48.7%	In 2Q20, CMT released \$23.2mn, one-third of the \$69.6mn of taxable income available for distribution that was retained in 1Q20
DPU (Cents)	2.11	2.92	-27.7%	2.96	5.80	-49.0%	

Source: Company, PSR

The Positives

+ **Tenant sales fell by a smaller magnitude (-15.4%) compared to footfall (-40.6%).** This was due to the strong performance by Supermarkets (+18.6%) and pent-up demand for Books & Stationery (+0.7%). CapitaLand also launched e-commerce platform (eCapitaMall) and online food ordering platform (Capita3Eats) on 1 June 2020 which was able to help tenants capture some sales, adding to tenant sales.

+ **Eked out +0.1% rental reversions in 2Q20 (1Q20: 1.6%).** Reversions were a mixed, with with downtown and suburban malls clocking both positive and negative rental reversions. There were non-renewals of c.2% of NLA in the quarter. 7.6% of leases by GRI remains for the FY20. Occupancy remained high at 97.7%, although it has come down from 99.3% as at 31 December 2020. We are expecting a softer leasing environment for the 2H20.

The Negatives

- **Amount of rental rebates increased from \$114mn to \$154.5mn.** The amount of rental relief committed as at 30 June 2020 was \$154.4.5mn which comprised rental waivers from landlord, property tax rebates and cash grant (to be reimbursed by the government) and rental relief to qualifying SME tenants (based on CMT's estimation of 60% SME tenants). This was \$40.5mn higher than the \$114mn (including property tax rebates) committed in April 2020, but largely attributed to the cash grant for SMEs from the government which are on a pass-through basis. Pending clarification from the authorities on definition and prescription of SMEs under the "New Rental Relief Framework for SMEs" (COVID-19 Bill), CMT may have to increase the amount of rental support given.

- **Portfolio valuations fell 2.5% (including RCS 2.7%).** Valuations were lower by -0.6% (Junction 8) to -4.8% (Clark Quay). The valuations were largely driven by lower market rents and rental growth rates due to economic uncertainties and COVID-19. There was no change in capitalisation rate assumptions.



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24 July 2020

BUY (Maintained)

LAST DONE PRICE	SGD 2.03
FORECAST DIV	SGD 0.108
TARGET PRICE	SGD 2.33
TOTAL RETURN	20.3%

COMPANY DATA

BLOOMBERG CODE:	CT SP Equity
O/S SHARES (MN) :	3,690
MARKET CAP (USD mn / SGD mn) :	4744 / 6716
52 - WK HI/LO (SGD) :	2.75 / 1.49
3M Average Daily T/O (mn) :	27.79

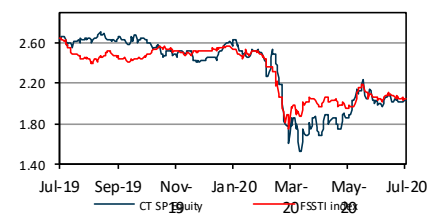
MAJOR SHAREHOLDERS

CAPITALAND	28.5%
BLACKROCK INC	5.9%
NATIONAL TRADES UNION CONGRESS	4.8%
SCHRODERS PLC	3.3%
VANGUARD GROUP INC	2.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	19.7	(27.2)	(22.7)
STI RETURN	7.7	(19.2)	(21.6)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY18	FY19e	FY20e	FY21e
Gross Rev (SGD mn)	682	787	719	830
NPI (SGD mn)	478	558	481	589
Dist Inc. (SGD mn)	396	442	398	473
P/NAV (x)	1.29	1.17	0.97	0.96
DPU, adj (Cents)	11.2	12.0	10.8	12.8
Distribution Yield	4.4%	4.9%	5.3%	6.3%

Source: Company, PSR

Valuation Method

DDM (Cost of equity 6.75%, Terminal Growth 1.5%)

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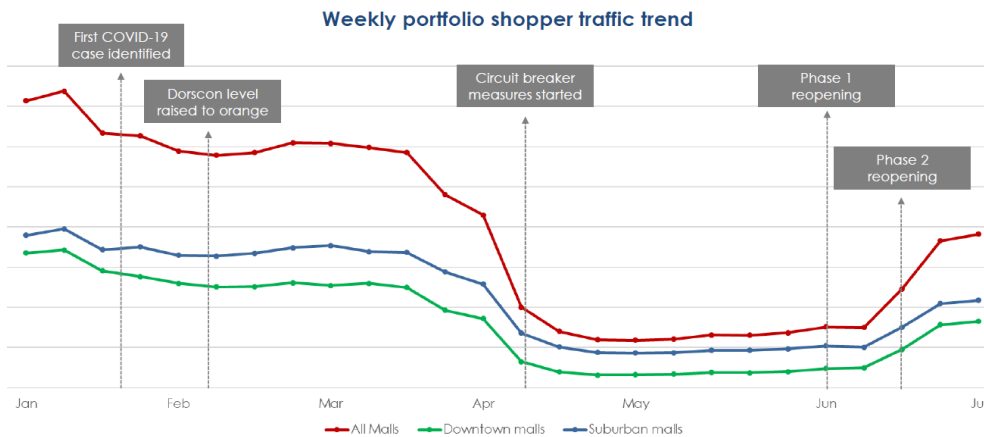
Outlook

95% of CMT's tenants are operating and shopper footfall has recovered to 53% of January 2020 levels as of the first week of July (1H20: 40.6%, Figure 1). Footfall at suburban malls was c.58% of January levels, with stronger suburban mall registering up to 80% of normalised footfall. Footfall at downtown malls ranged between 40-55%, averaging 49%.

Tenant relief package

In addition to the rental rebates of \$154.5mn, CMT has also waived turnover rent and allowed tenants to release one month security deposits to offset rents. On average, CMT collects 3 to 5 months of security deposit from tenants. The release of 1 month's security leaves 2 to 4 months of security deposits as a safety net.

Figure 1: First week of July 2020's shopper footfall recovered to 53% of January 2020 level (portfolio basis)



Source: CCT

Leases with higher risk-sharing

Maintaining occupancy remains a high priority. Apart from granting rental deferments, CMT allowed lease restructuring as a more holistic solution for tenants in this uncertainty environment. Going forward, we can expect the more leases with risk sharing. While structuring leases with higher risk-sharing, CMT will aim to keep occupancy cost between c.18%, consistent with historical occupancy cost. The management shared that they will be prepared to offer leases with more risk-sharing in the initial years for selected new-to-market brands (e.g. 1st year – pure GTO rents, 2nd and 3rd year some fixed rent tagged to certain level of sales).

CMT employed this strategy with Funan, which has a comparatively higher number of tenants on lease structures with a larger GTO component. In the long run, higher risk-sharing may increase the demand for retail space as the lower fixed rents makes it more economically viable for new-to-market brands to give the brick-and-mortar model a go – 30% of Funan's tenant are new-to-market brands.

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Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	F20e	F21e
Gross Revenue	682	698	787	719	830
Total Property expenses	(204)	(204)	(229)	(238)	(241)
Net Property Income	478	494	558	481	589
Net Finance (Expense)/Inc	(94)	(87)	(111)	(109)	(103)
Net Income before tax and FV change	335	348	393	362	432
Share of results from associate	19	14	18	-	-
Share of results from JV	52	115	71	66	74
Tax expense	(0)	0	-	-	-
Net Income after tax and FV changes	406	477	482	428	507
Distributable income to unitholders	396	406	442	398	473

Per share data (SGD)

Y/E Dec	FY17	FY18	FY19	F20e	F21e
NAV	1.95	2.02	2.11	2.10	2.11
DPU (cents)	11.16	11.50	11.98	10.78	12.81

Cash Flow

Y/E Dec, SGD mn	FY17	FY18	FY19	F20e	F21e
CFO					
Net Income after tax	406	477	697	428	507
Adjustments	24	(41)	(191)	44	28
WC changes	(2)	19	6	(12)	71
Cashflow from ops	428	456	512	459	606
CFI					
Capex, net	(99)	(201)	(126)	(33)	(31)
Others	188	(34)	68	64	76
Cashflow from investments	89	(235)	(58)	31	45
CFF					
Share issuance	(2)	(6)	(4)	-	-
Proceeds from bank borrowings, net	23	(114)	(91)	(0)	-
Distributions to unitholders	(395)	(456)	(384)	(398)	(473)
Cashflow from financing	(478)	(395)	(600)	(514)	(587)
Net change in cash	39	(174)	(146)	(23)	65
CCE, end	523	349	202	179	243

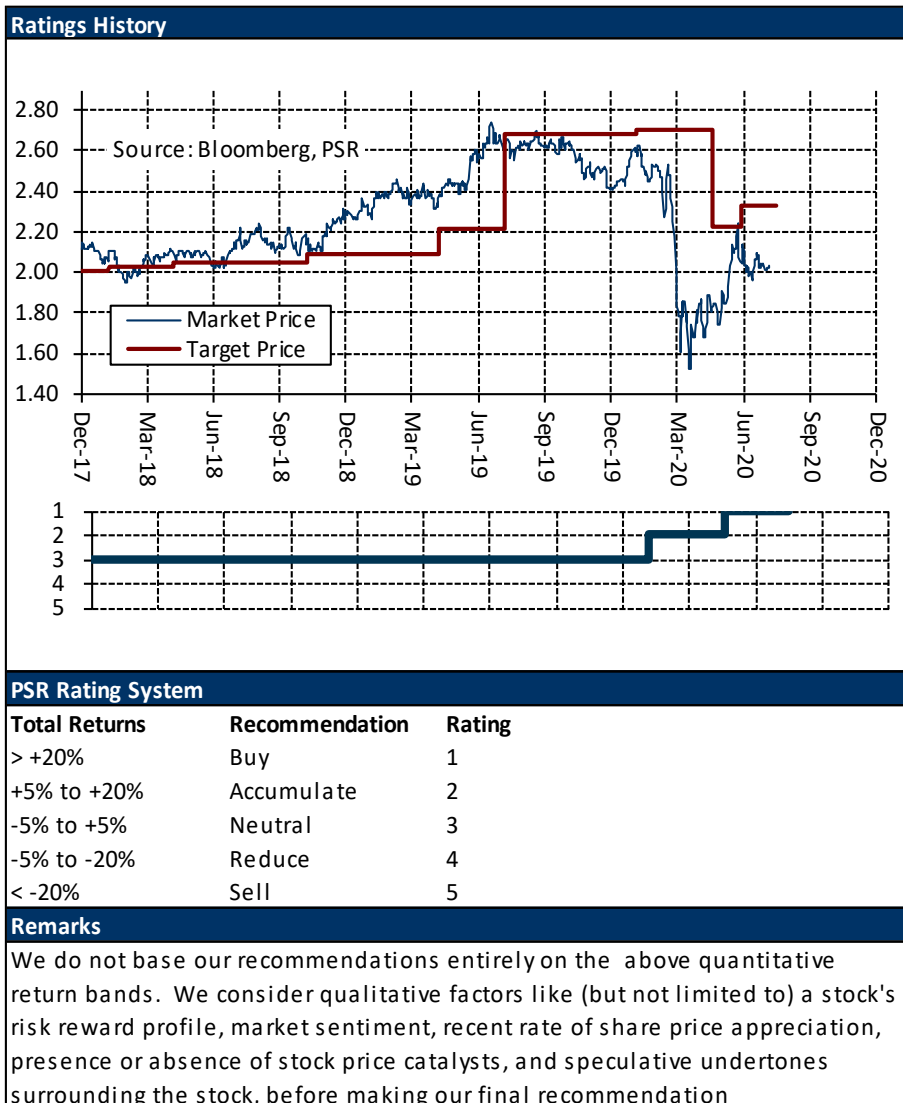
Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	F20e	F21e
ASSETS					
Investment properties	8,311	9,411	10,416	10,448	10,480
Trade and Other Receivables	32	28	26	33	35
Cash and Cash Equivalents	523	349	202	179	243
Total Assets	10,504	11,502	11,732	11,755	11,863
LIABILITIES					
Trade and other payables	156	199	167	177	220
Interest bearing borrowings	3,183	3,628	3,561	3,611	3,611
Other liabilities	238	245	237	220	252
Total Liabilities	3,576	4,072	3,964	4,008	4,083
EQUITY					
Shareholder Equity	6,928	7,429	7,767	7,747	7,780

Valuation Ratios

	FY17	FY18	FY19	F20e	F21e
P/NAV	1.09	1.29	1.17	0.97	0.96
Distribution yield	5.2%	4.4%	4.9%	5.3%	6.3%
NPI yield	5.8%	5.2%	5.4%	4.6%	5.6%
Growth & Margins	FY17	FY18	FY19	F20e	F21e
Growth					
Revenue	-1.1%	2.2%	12.8%	-8.6%	15.4%
Net property income (NPI)	-0.3%	3.2%	13.1%	-13.8%	22.5%
DPU	0.3%	3.0%	4.2%	-10.0%	18.8%
Margins					
NPI margin	70.1%	71.0%	66.9%	71.0%	71.0%
Operating Income Margin	62.9%	64.1%	65.5%	64.4%	64.4%
Key Ratios					
ROA	3.9%	4.2%	4.1%	3.6%	4.3%
ROE	5.9%	6.4%	6.2%	5.5%	6.5%
Net Gearing	36.3%	36.0%	34.2%	32.0%	31.9%



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