

CapitaLand Commercial Trust (CCT SP)

Divests Twenty Anson

Slight DPU cut; Maintain HOLD

CCT announced the divestment of Twenty Anson. We view this deal positively as it allows the REIT to cash out of a mature property at an attractive premium. The deleveraged balance sheet also leaves more capacity to fund overseas expansion. Our FY18E DPU is largely unchanged, but we lower FY19-20E by 1% after factoring in the divestment. We trim TP by 1% to SGD1.80, based on an unchanged target yield of 5%. Maintain HOLD. Risks come from sharp falls in office rents and overpaying for acquisitions. Prefer developer landlords, UOL and GuocoLand, for office exposure.

Divests mature asset at attractive premium

CCT will divest Twenty Anson for SGD516m or SGD2,503 psf NLA. The sale price is an attractive 19% premium over its latest carrying value of SGD433m and 20% higher than its purchase price of SGD430m in 2012. After accounting for transaction cost of c.SGD3.5m, this deal should allow it to book a net gain of about SGD80m or 2cts per share. The sale price implies a narrow exit cap rate of 2.7%, based on the property's NPI of SGD13.8m over the past year.

Lower gearing frees up capacity for next acquisition

This divestment will lower its leverage to 35.7% from 39% after the recent acquisition of Germany property [Galileo](#). We estimate decent debt headroom of SGD0.75b and SGD1.8b to aggregate leverage limits of 40% and 45% respectively. The reduced gearing offers significant flexibility in funding its overseas expansion. CCT plans to allocate 10-20% of its assets into overseas investments from 5% currently.

Small DPU cut

Twenty Anson accounts for 4% of its assets and contributes 5% to our FY19E NPI. While the divestment will lead to lower property income, it is largely offset by interest savings from debt repayment and lower asset management fees. As such, we lower our FY19-20E DPU by just 1%. By assuming a completion in 3Q18, FY18E DPU is largely unchanged.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	299	337	396	393	400
Net property income	231	265	314	318	324
Core net profit	239	330	224	314	318
Core EPU (cts)	7.8	10.1	6.1	8.4	8.5
Core EPU growth (%)	10.5	29.6	(39.5)	37.6	1.0
DPU (cts)	9.1	8.7	8.9	9.0	9.0
DPU growth (%)	5.3	(4.6)	3.0	0.7	0.3
P/NTA (x)	0.8	0.9	0.9	0.9	0.9
DPU yield (%)	6.3	5.3	5.4	5.4	5.4
ROAE (%)	5.0	9.9	4.7	4.7	4.8
ROAA (%)	3.3	3.8	2.4	3.3	3.3
Debt/Assets (x)	0.33	0.29	0.28	0.29	0.29
Consensus DPU	-	-	8.9	9.0	9.0
MKE vs. Consensus (%)	-	-	0.3	(0.2)	0.1

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HOLD

Share Price	SGD 1.66
12m Price Target	SGD 1.80 (+8%)
Previous Price Target	SGD 1.82

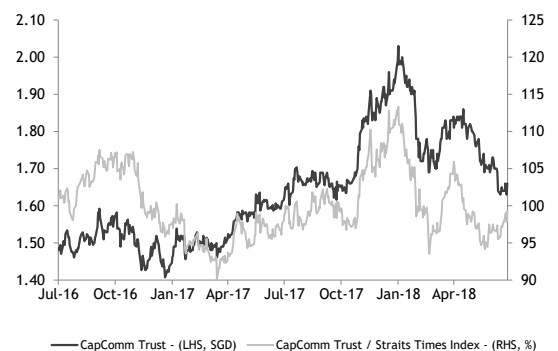
Statistics

52w high/low (SGD)	2.03/1.60
3m avg turnover (USDm)	14.0
Free float (%)	31.9
Issued shares (m)	3,742
Market capitalisation	SGD6.2B
	USD4.6B

Major shareholders:

CapitaLand Ltd.	31.9%
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Price Performance



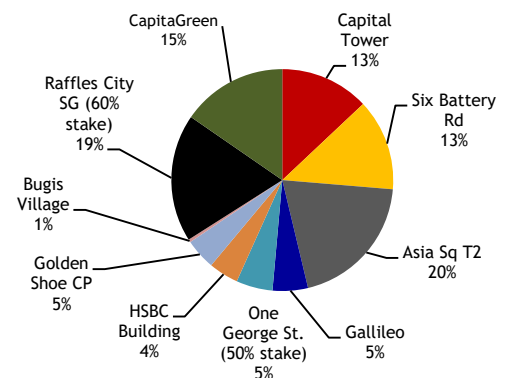
	-1M	-3M	-12M
Absolute (%)	(2)	(9)	4
Relative to index (%)	5	(5)	3

Source: FactSet

Stocks mentioned

UOL (UOL SP, CP SGD7.62, BUY, TP SGD10.85)
 GuocoLand (GUOL SP, CP SGD2.03, BUY, TP SGD3.00)

Exposure summary (% of assets)



Source: Maybank Kim Eng, Company

Fig 1: Earnings revisions (SGD m)

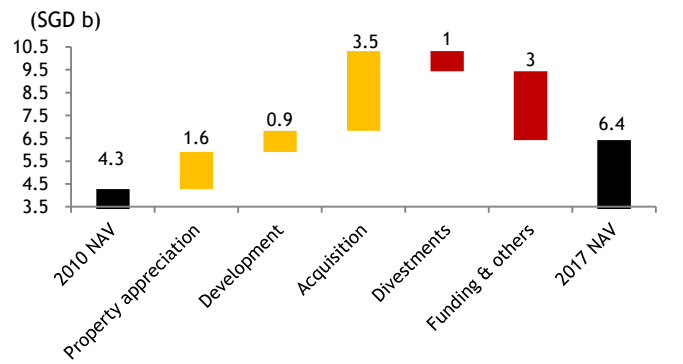
	<u>New</u>			<u>Old</u>			<u>Change (%)</u>		
	<i>FY18E</i>	<i>FY19E</i>	<i>FY20E</i>	<i>FY18E</i>	<i>FY19E</i>	<i>FY20E</i>	<i>FY18E</i>	<i>FY19E</i>	<i>FY20E</i>
Revenue	396	393	400	401	416	423	(1.4)	(5.5)	(5.4)
NPI	314	318	324	319	336	342	(1.4)	(5.2)	(5.4)
DPU (SGD cts)	8.9	9.0	9.0	8.9	9.1	9.1	(0.1)	(1.3)	(1.4)
TP (SGD)		1.80			1.82			(1.1)	

Source: Maybank Kim Eng

Value Proposition

- CCT is a commercial REIT with most of its office buildings in Singapore's CBD. Backed by CapitaLand, one of the largest property developers in Singapore.
- Good proxy for Singapore's commercial property market with SGD10.5b worth of assets.
- Good track record of value creation for unit holders. Redeveloped Market Street Carpark into a new office building, CapitaGreen.
- Ongoing redevelopment of Golden Shoe Carpark is an avenue of future value creation. Inorganic acquisitions would further lift DPU.

NAV changes

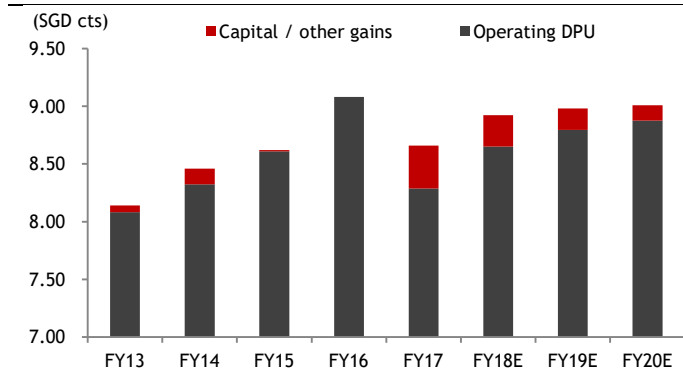


Source: Company

Financial Metrics

- We forecast a flat DPU profile. Incremental contribution from AST2 and the strengthening office market is partially offset by the loss of income from Bugis Village.
- CCT could mitigate income losses from the redevelopment of Golden Shoe and recent asset sales by distributing SGD27m worth of tax-exempt income on its books.
- Distribution yields could stay low on narrowing office cap rates. Golden Shoe redevelopment offers DPU upside beyond our forecast horizon.
- DPU dipped in FY17 due to enlarged share base from rights issue and CB conversion.

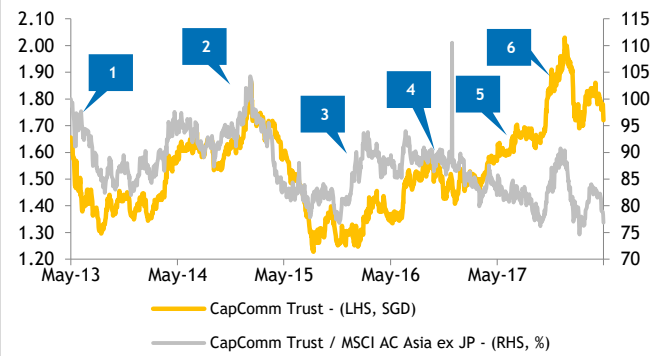
DPU trajectory



Source: Company

Price Drivers

Historical share price trend



Source: Factset, Company, Maybank Kim Eng

1. Fed raised interest rates. Global yield assets sold off.
2. Office rents peaked in Singapore. Concerns about oversupply.
3. Sharp fall in bond yields on heightened risk aversion after Brexit. Rotation to stable income-producing properties.
4. Fed announces second rate hike. Yield sensitive assets under pressure.
5. Sale of a 50%-stake in One George Street and fringe asset Wilkie Edge at significant premiums over book.
6. Acquisition of Asia Square Tower 2.

Swing Factors

Upside

- Appreciation in the capital value of its properties.
- Successful redevelopment of assets, such as Golden Shoe Carpark.
- Earlier-than-expected rebound in office rents.

Downside

- Sharper-than-expected declines in office rents or occupancies.
- Overpaying for acquisitions.
- Cost overruns in redevelopment projects.

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FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
Price/DPU(x)	15.8	18.9	18.6	18.5	18.4
P/BV (x)	0.8	0.9	0.9	0.9	0.9
P/NTA (x)	0.8	0.9	0.9	0.9	0.9
DPU yield (%)	6.3	5.3	5.4	5.4	5.4
FCF yield (%)	37.7	6.9	2.5	7.6	6.9
INCOME STATEMENT (SGD m)					
Revenue	298.6	337.5	395.6	393.2	400.4
Net property income	231.3	265.5	314.2	318.2	324.0
Management and trustee fees	(17.6)	(19.0)	(30.1)	(24.9)	(24.9)
Net financing costs	(46.2)	(66.0)	(63.6)	(63.7)	(68.1)
Associates & JV	85.7	84.9	83.3	86.3	88.6
Exceptionals	(8.9)	0.0	0.0	0.0	0.0
Other pretax income/expenses	27.1	248.4	0.0	0.0	0.0
Pretax profit	261.8	582.5	307.4	319.4	323.1
Income tax	(1.2)	(3.7)	(3.6)	(4.6)	(4.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	260.6	578.8	303.8	314.8	318.4
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Distributable inc to unitholders	269.0	288.9	328.0	336.6	338.3
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	160.0	122.6	48.3	83.2	95.6
Accounts receivable	41.6	42.7	42.7	42.7	42.7
Property, Plant & Equip (net)	1.4	1.0	1.1	1.2	1.3
Investment properties	6,590.5	7,408.0	7,500.6	7,500.6	7,500.6
Intangible assets	2.1	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,189.8	1,732.1	1,808.0	1,908.0	1,988.5
Other assets	65.7	47.5	92.0	48.5	49.0
Total assets	8,051.1	9,354.0	9,492.7	9,584.2	9,677.7
ST interest bearing debt	173.5	0.0	0.0	0.0	0.0
Accounts payable	52.8	90.3	90.3	90.3	90.3
LT interest bearing debt	2,457.2	2,720.2	2,640.0	2,740.0	2,840.0
Other liabilities	89.2	126.6	127.8	129.1	130.4
Total Liabilities	2,772.6	2,937.1	2,858.1	2,959.4	3,060.7
Shareholders Equity	5,278.5	6,416.9	6,622.8	6,612.9	6,605.0
Minority Interest	0.0	0.0	11.8	11.8	11.9
Total shareholder equity	5,278.5	6,416.9	6,634.6	6,624.8	6,617.0
Total liabilities and equity	8,051.1	9,354.0	9,492.7	9,584.2	9,677.7
CASH FLOW (SGD m)					
Cash flow from operations	203.1	250.8	218.1	349.8	311.5
Capex	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)
Acquisitions & investments	(356.9)	(2,067.2)	(75.0)	(100.0)	(80.5)
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	90.7	94.2	82.4	86.3	88.6
Other investing cash flow	7.0	1,071.3	(54.0)	1.2	2.1
CF from investing activities	(259.4)	(902.0)	(46.7)	(12.6)	10.1
Dividends paid	(257.1)	(279.7)	(328.0)	(336.6)	(338.3)
Interest expense	(71.5)	(64.8)	(66.6)	(64.9)	(70.1)
Change in debt	463.7	268.9	(80.2)	100.0	100.0
Equity raised / (purchased)	0.0	689.5	217.9	0.0	0.0
Other financial activities	0.0	0.0	11.3	(0.8)	(0.8)
CF from financing activities	135.1	613.8	(245.7)	(302.3)	(309.2)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	78.8	(37.4)	(74.3)	34.9	12.4

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	9.3	13.0	17.2	(0.6)	1.8
Net property income growth	8.7	14.8	18.4	1.3	1.8
Core net profit growth	11.2	38.2	(32.3)	40.2	1.2
Distributable income growth	5.7	7.4	13.6	2.6	0.5
Profitability ratios (%)					
Net property income margin	77.5	78.7	79.4	80.9	80.9
Core net profit margin	80.1	97.9	56.6	79.8	79.3
Payout ratio	87.1	83.1	108.1	107.2	106.5
DuPont analysis					
Total return margin (%)	87.3	nm	76.8	80.0	79.5
Gross revenue/Assets (x)	0.0	0.0	0.0	0.0	0.0
Assets/Equity (x)	1.5	1.5	1.4	1.4	1.5
ROAE (%)	5.0	9.9	4.7	4.7	4.8
ROAA (%)	3.3	3.8	2.4	3.3	3.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.9	3.2	3.3	3.2	3.2
Net gearing (%) (excl. perps)	46.8	40.5	39.1	40.1	41.5
Net interest cover (x)	4.6	3.7	4.5	4.6	4.4
Debt/EBITDA (x)	12.4	11.1	9.3	9.3	9.5
Capex/revenue (%)	0.1	0.1	0.0	0.0	0.0
Net debt/ (net cash)	2,470.7	2,597.6	2,591.7	2,656.8	2,744.4
Debt/Assets (x)	0.33	0.29	0.28	0.29	0.29

Source: Company; Maybank

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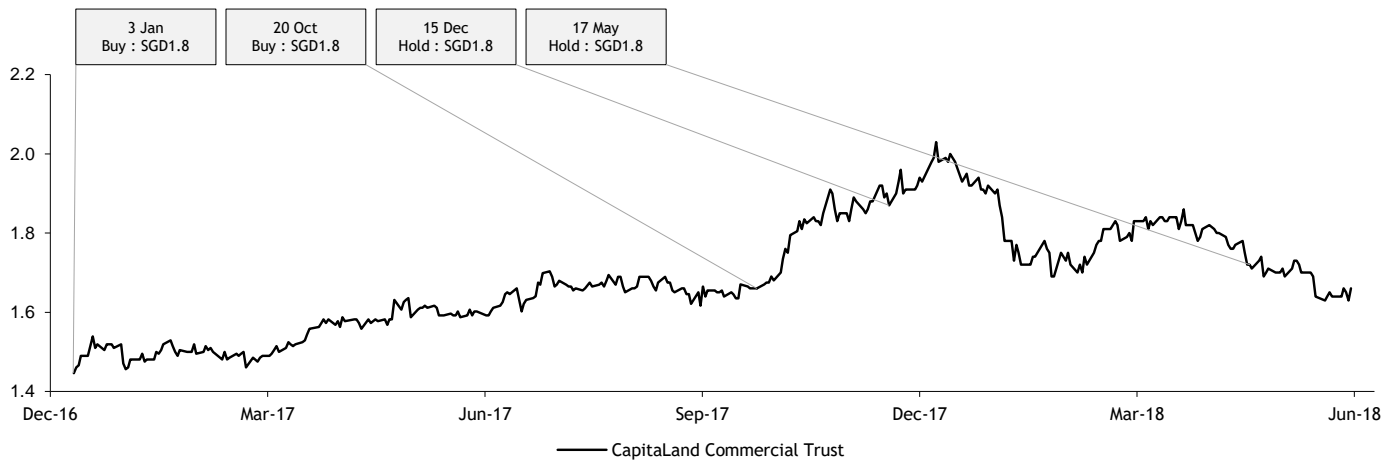
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Historical recommendations and target price: CapitaLand Commercial Trust (CCT SP)



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