

CapitaLand Commercial Trust (CCT SP)

Higher Asset Valuation

Maintain HOLD; Capacity for another acquisition

In line with narrowing cap rates seen at recent transactions, the independent valuers have raised the valuation of its Singapore properties. After factoring its impending divestment of Twenty Anson, we believe CCT has the balance sheet capacity to make another acquisition. Assuming similar terms to its recent acquisition of Galileo, we estimate a SGD600m acquisition could lift its FY19E DPU by 3.6%. Maintain HOLD and SGD1.80 TP, based on an unchanged target yield of 5.0%.

1H18 in line; Unlikely to start share buyback

1H18 DPU of 4.28 cts is in line at 48% of our full-year estimates. With the exception of Asia Square Tower 2 which is 91.9% occupied, all other buildings are nearly full. While CCT has the mandate to acquire up to 2.5% of its shares, management commented that it is unlikely to commence a share buyback programme as the stock is currently trading close to its book value.

Higher valuation of Singapore properties

The valuation of its Singapore properties has been raised by an average of 1.3% in its regular half-yearly review. Notably, cap rate assumptions used by the valuers have been cut by 10-15bps with office cap rates now at 3.50-4.00%. The lower cap rate assumptions used are in line with our observations of narrowing cap rates in recent transactions. Even after these revisions, the valuations of its assets remain fairly conservative. For example, HSBC Building is carried at SGD461m or SGD2,300 psf, which is 24% lower than the SGD3,020 psf recently paid for 55 Market Street. Nonetheless, with management more keen on acquiring than divesting properties, this value is unlikely to be unlocked near term.

Room for another acquisition; Potential DPU upside

We estimate CCT's gearing at 35.1% after adjusting for proceeds from the sale of Twenty Anson. This implies estimated debt headroom of SGD0.9b to gearing levels of 40%. Part of this would be used to fund the outstanding capital commitment of SGD276m for CapitaSpring. Assuming the remaining headroom is used to finance a fully-debt funded acquisition worth SGD600m, we estimate a potential 3.6% upside to our FY19E DPU. This assumes similar terms to its recent acquisition of Galileo with an acquisition yield of 4.0% and debt cost of 1.4%.

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	1.0	1.0	1.0
DPU yield (%)	6.3	5.3	5.1	5.1	5.1
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	-	-	8.8	9.0	9.0
MKE vs. Consensus (%)	-	-	1.0	(0.2)	0.1

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HOLD

Share Price	SGD 1.76
12m Price Target	SGD 1.80 (+2%)
Previous Price Target	SGD 1.80

Statistics

52w high/low (SGD)	2.03/1.62
3m avg turnover (USDm)	14.8
Free float (%)	31.9
Issued shares (m)	3,743
Market capitalisation	SGD6.6B USD4.8B

Major shareholders:

CapitaLand Ltd.	31.9%
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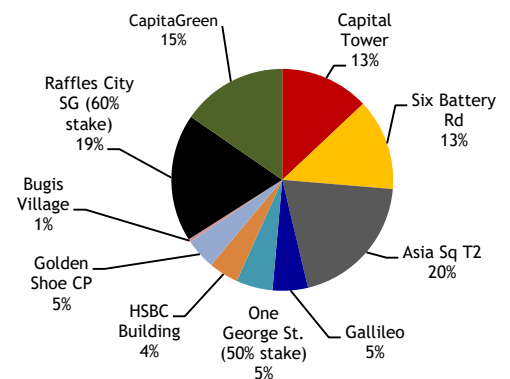
Price Performance



	-1M	-3M	-12M
Absolute (%)	8	(4)	7
Relative to index (%)	11	6	9

Source: FactSet

Exposure summary (% of assets)



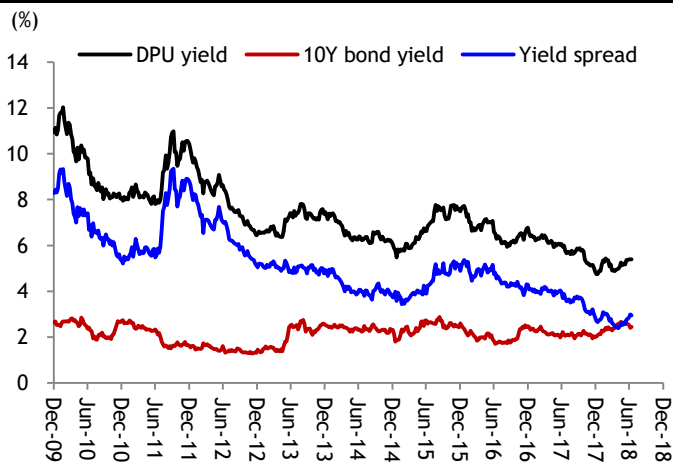
Source: Maybank Kim Eng, Company

Figure 1: Quarterly profit and loss

FYE 31 Dec	2Q17 (SGD m)	1Q18 (SGD m)	2Q18 (SGD m)	Change		YTD18 (SGD m)	% of FY	FY18E (SGD m)
				QoQ %	YoY %			
Property income	87.5	96.4	98.0	1.7	12.0	194.4	49.1	395.6
Property expenses	(18.4)	(19.2)	(20.3)	5.6	10.3	(39.5)	48.5	(81.4)
Net property income	69.1	77.2	77.7	0.7	12.5	154.9	49.3	314.2
Share of results of associates & JVs	25.9	23.0	47.9	108.4	85.1	70.9	85.1	83.3
Distributable income to unitholders	69.5	76.6	78.6	2.6	13.2	155.2	48.8	318.0
Capital/other distributions	0.0	0.0	0.8	n.m.	n.m.	0.8	7.5	10.0
Total distributions to unitholders	69.5	76.6	79.4	3.6	14.3	156.0	47.6	328.0
Distribution per unit[#]	1.89	2.12	2.16	1.9	14.3	4.28	48.0	8.92
NAV per unit (SGD)	1.85	1.76	1.84	4.3	(0.5)			
Aggregate leverage (%) [^]	36.0	37.9	37.9	0	190			
All-in financing cost (%) [^]	2.60	2.70	2.80	10	20			

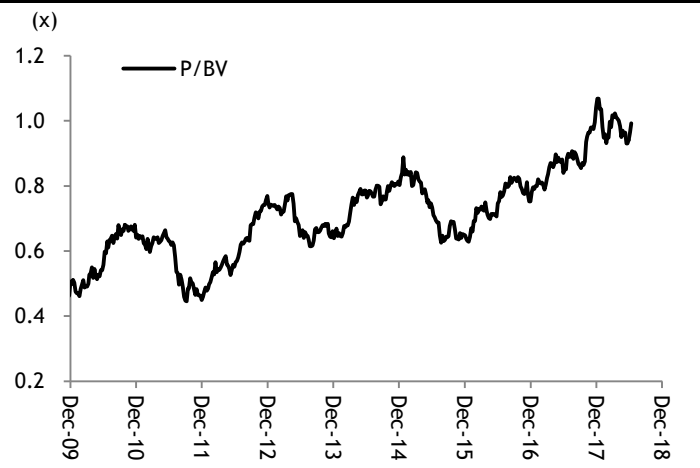
[^]Change in basis points. [#]2Q17 DPU restated for enlarged share base.
Source: Company, Maybank Kim Eng

Fig 2: Trading yields of 5.1%, not attractive against history



Source: Bloomberg, Maybank Kim Eng

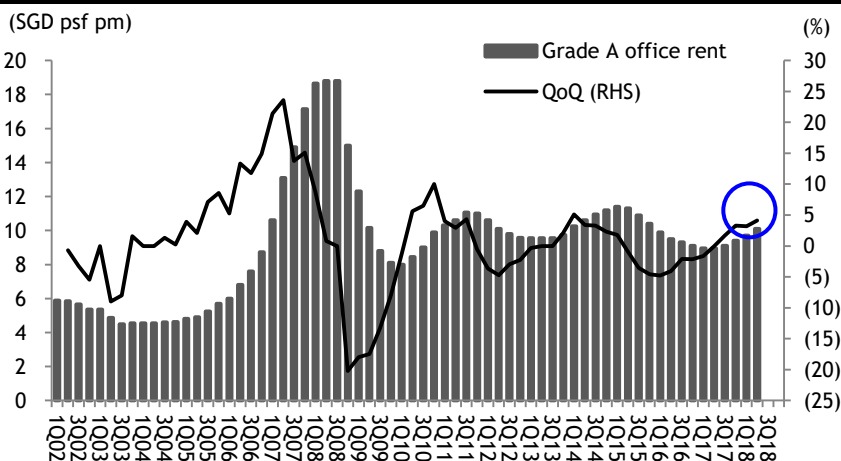
Fig 3: P/BV of 0.95x is near its historical high



Source: Bloomberg, Maybank Kim Eng

Fig 4: Grade A office rents

Preliminary data from CBRE showed a marginal uptick in rents to SGD10.10 psf pm in 2Q18



Source: CBRE

Fig 5: Transactions of commercial properties

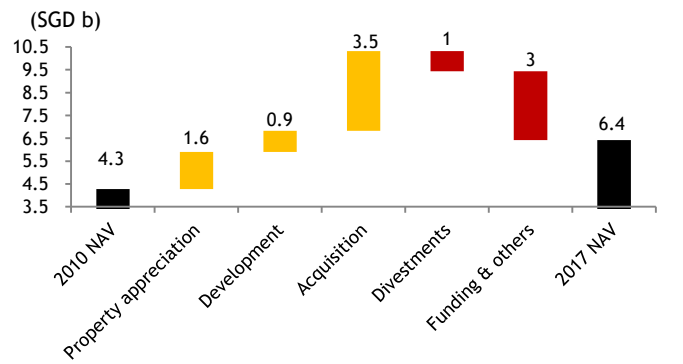
Building	Sector	Date	Price (SGD m)	Unit price (SGD psf)	NPI yield (%)	Land Tenure	Buyer	Seller	Remarks
CapitaGreen (60% stake)	Office	May-16	960	2,276	4.4	99 years	CCT	CAPL, MEA	Balance lease of 57 years. Valuation of a full 99Y lease is SGD2,700 psf.
Asia Square Tower 1	Office	Jun-16	3,380	2,704	3.2	99 years	QIA	BlackRock	Balance lease of 90 years.
Straits Trading Bldg	Office	Jun-16	560	3,524	2.8	999 years	MYP	Sun Venture	
Capital Square	Office	Nov-16	476	2,450	n.a.	99 years	ARA Asset Mgt	Alpha Inv.	
PWC Building	Office	Feb-17	747	2,100	n.a.	99 years	Manulife	DBS	Balance lease of 75.5 yrs.
GSH Plaza (strata)	Office	Feb-17	725	2,900	n.a.	99 years	Fullshare	Plaza Venture	Balance lease of 73 yrs.
Jurong Point	Retail	Apr-17	2,200	3,343	4.2	99 years	Mercatus Coop	Lee Kim Tah, Guthrie	Balance lease of 75.5/88 yrs.
One George Street	Office	May-17	592	2,650	3.2	99 years	FWD Group	CCT	Balance lease of 85 yrs.
Wilkie Edge	Office, Retail	Jul-17	280	1,812	3.4	99 years	Lian Beng	CCT	Balance lease of 88 yrs.
Asia Square Tower 2	Office	Sep-17	2,094	2,689	3.6	99 years	CCT	BlackRock	Balance lease of 89 yrs.
Chevron House	Office, Retail	Dec-17	660	2,526	3.7	99 years	Oxley	Deka Singapore	Balance lease of 71 yrs.
Twenty Anson	Office	Jul-18	516	2,503	2.7	99 years	AEW	CCT	Balance lease of 88 yrs.
55 Market Street	Office	Jul-18	217	3,020	1.7	999 years	Undisclosed	FCOT	

Source: Companies, CBRE, The Business Times, The Straits Times, Maybank Kim Eng estimates

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 over SGD10b 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

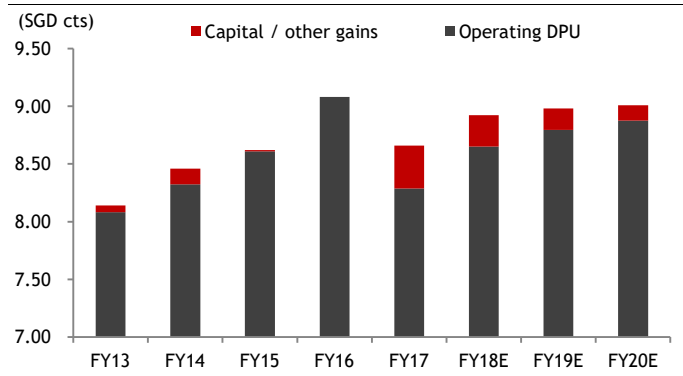


Source: Company, Maybank Kim Eng

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.

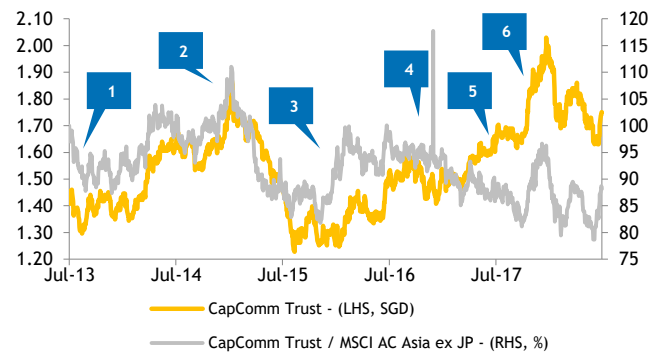
DPU trajectory



Source: Company, Maybank Kim Eng

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.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
Price/DPU(x)	15.8	18.9	19.7	19.6	19.5
P/BV (x)	0.8	0.9	1.0	1.0	1.0
P/NTA (x)	0.8	0.9	1.0	1.0	1.0
DPU yield (%)	6.3	5.3	5.1	5.1	5.1
FCF yield (%)	37.7	6.9	2.4	7.1	6.5

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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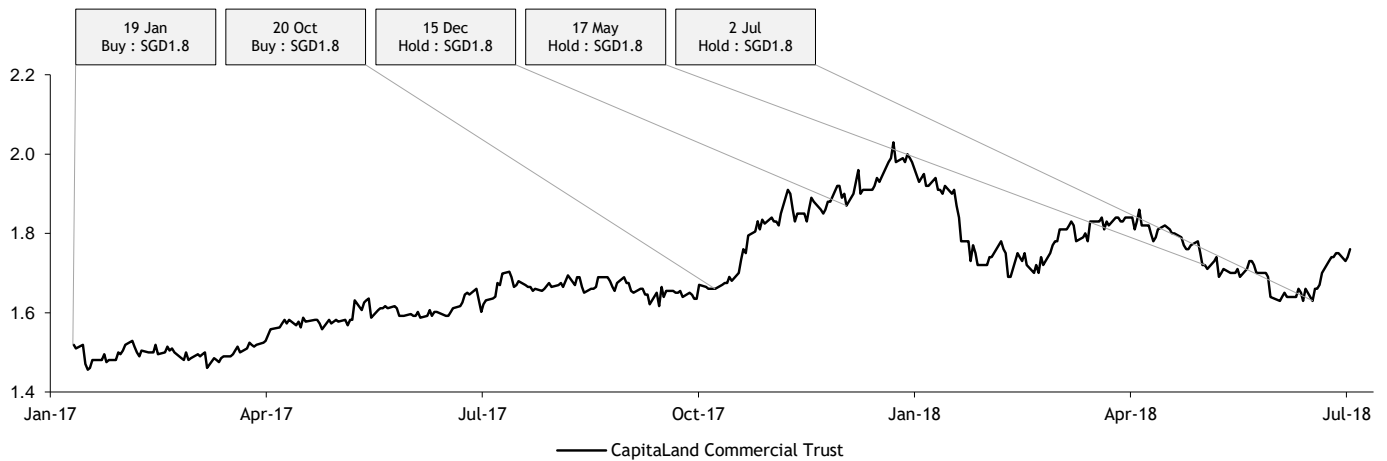
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