

CapitaLand Mall Trust (CT SP)

Expanding The Store

HOLD

Share Price SGD 2.27
 12m Price Target SGD 2.25 (-1%)
 Previous Price Target SGD 2.20

Adjusting estimates post FY18, maintain HOLD

We revised forecasts following in-line 4Q18 results. CMT has worked hard on its recycling efforts; Westgate deepens its long-term suburban footprint while a rejuvenated Funan should support DPUs. Retail sector fundamentals are still soft, with near-term demand-supply balance to be tested by Jewel's opening in Mar 2019. We introduce FY21 estimates and roll-forward our DDM-based TP to SGD2.25 (COE: 6.8%, LTG: 1.5%), HOLD. CMT's results reinforce our positive bias towards suburban/ outlet malls. FCT (FCT SP, SGD2.27, BUY, TP SGD2.55) remains our preferred retail REIT given its strengthening suburban mall footprint, visible growth drivers, strong balance sheet and potential acquisition catalysts.

In line - higher occupancies, +0.7% rental reversion

4Q18 revenue rose 4.7% YoY/5.8% QoQ and NPI grew 4.3% YoY/1.4% QoQ with the consolidation of Westgate and improved portfolio occupancy, which increased QoQ from 98.5% to 99.2% at end-Dec 2018. CMT reported a +0.7% rental reversion for FY18, up slightly from +0.6% for 9M18, and versus -1.7% for FY17. Shopper traffic declined 0.9% YoY whilst tenants' sales rose 0.5% YoY which was attributed to the stronger performances at its suburban malls. Tenant sales growth was led by sporting goods (+11.5% YoY) and jewellery & watches (+5.9% YoY), while leisure and entertainment (-9.1% YoY) and IT & communications (-9.2% YoY) were the weakest. Occupancy cost dipped marginally from 18.5% to 18.4% in FY18; we expect near-term rental growth to remain stable. AUM rose 12% HoH at the annual half-year revaluation, primarily due to the completion of Westgate acquisition (70% interest); there were no changes in cap rate assumptions in 2H18.

Sector fundamentals weak, earlier capital recycling efforts to support DPUs

FY18 was marked by its divestment of Sembawang Shopping Centre (at a 3.9% cap rate), followed by the acquisition of its remaining 70% interest in Westgate from its sponsor (at 4.3% NPI yield). Following the deal completion, gearing has risen to 34.2% as at end-Dec 2018. Funan is set to open in 2Q19, with pre-committed occupancies based on leases signed and in advanced negotiations at 80% for its retail and office components and we expect revenue contribution from 2H19. Other DPU drivers include recently-completed AEI works at Westgate and Tampines Mall.

FYE Dec (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	682	698	748	818	835
Net property income	478	494	531	567	585
Core net profit	413	429	446	474	489
Core EPU (cts)	11.6	12.0	12.1	12.9	13.2
Core EPU growth (%)	(2.8)	3.3	0.4	6.4	3.0
DPU (cts)	11.2	11.5	11.5	12.3	12.8
DPU growth (%)	0.3	3.1	0.3	6.9	3.5
P/NTA (x)	1.1	1.1	1.1	1.1	1.1
DPU yield (%)	5.2	5.1	5.1	5.4	5.6
ROAE (%)	9.3	9.2	5.8	8.1	9.3
ROAA (%)	4.0	3.9	3.8	4.0	4.1
Debt/Assets (x)	0.30	0.32	0.32	0.32	0.31
Consensus DPU	-	-	11.7	12.1	na
MKE vs. Consensus (%)	-	-	(1.6)	1.7	na

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Company Description

CapitaLand Mall Trust operates as a real estate investment trust.

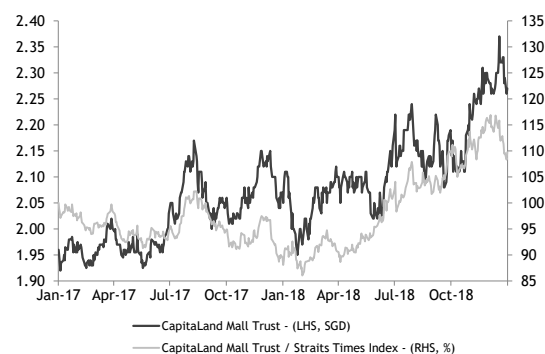
Statistics

52w high/low (SGD)	2.37/1.95
3m avg turnover (USDm)	17.7
Free float (%)	66.5
Issued shares (m)	3,546
Market capitalisation	SGD8.1B USD5.9B

Major shareholders:

CapitaLand Ltd.	28.0%
NTUC Enterprise Co-operative Ltd.	5.5%
The Vanguard Group, Inc.	2.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	4	10
Relative to index (%)	(6)	(1)	22

Source: FactSet

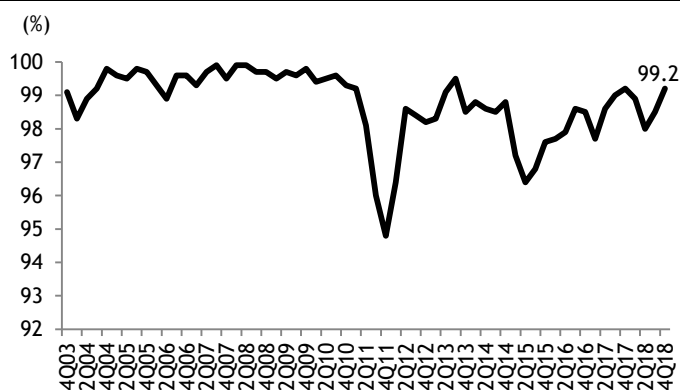
Fig 1: Summary 4Q18A financials and comparison vs. prior periods

FYE 31 Dec	4Q17 (SGD m)	3Q18 (SGD m)	4Q18 (SGD m)	Change		YTD18 (SGD m)	% of FYE	FY18E (SGD m)
				(% YoY)	(% QoQ)			
Gross revenue	172.4	170.5	180.5	4.7	5.8	697.5	99.8	698.9
Property expenses	(53.1)	(47.8)	(56.0)	5.4	17.1	(204.0)	100.4	(203.2)
Net property income	119.3	122.7	124.4	4.3	1.4	493.5	99.6	495.6
Borrowing costs	(26.1)	(22.7)	(27.0)	3.3	18.8	(98.2)	92.9	(105.7)
Distributable income to unitholders	102.9	103.5	108.1	5.1	4.4	410.7	100.6	408.1
Distribution per unit (SGD cts)	2.90	2.92	2.99	3.1	2.4	11.50	100.3	11.47
NAV per unit (SGD)	1.95	2.03	2.02					
Aggregate leverage (%)^	34.2	31.7	34.2	0	250			
All-in financing cost (%)^	3.2	3.1	3.1	(10)	0			
Occupancy (%)^	99.2	98.5	99.2	0	70			
Rental reversion (%)^	(1.7)	0.6	0.7	240	10			
NPI margin (%)^	69.2	71.9	68.9	(23)	(299)			

^Change in basis points

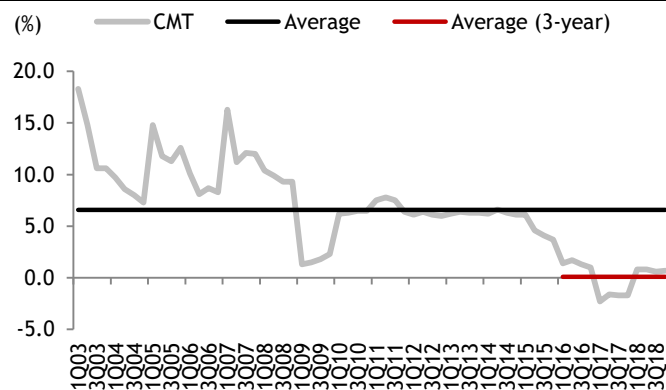
Source: Company data, Maybank Kim Eng

Fig 2: Occupancy (4Q03 to 4Q18) - improvement QoQ



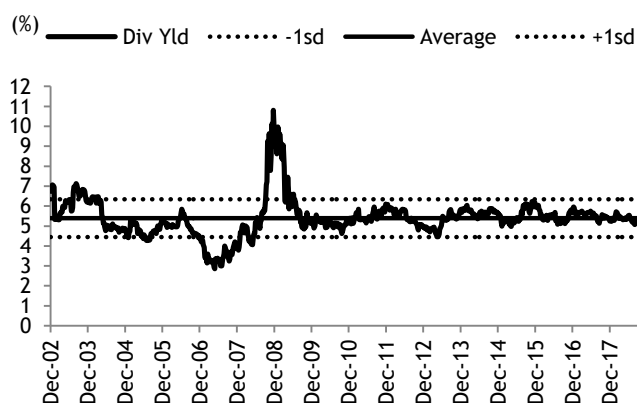
Source: Company data

Fig 3: Rental reversion (1Q03 to 4Q18) - improved to +0.7%



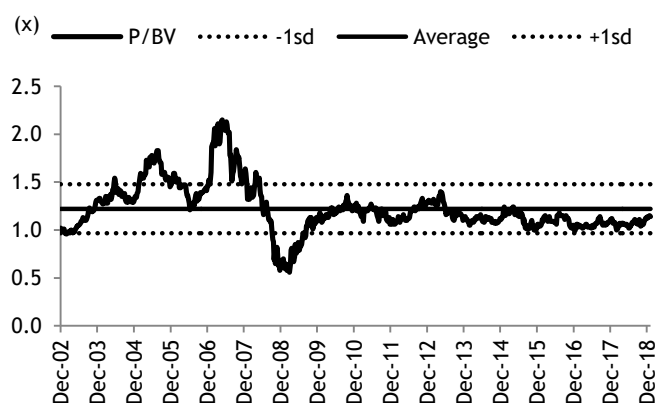
Source: Company data

Fig 4: CMT's DPU yield at its 15-year historical average



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 5: P/BV undemanding at close to 1SD below mean



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 6: DPUs revised by -3% to +3%

	FY19E (old)	FY20E (old)	FY19E	FY20E	FY19E (% change)	FY20E (% change)
Revenue (SGDm)	685.3	826.8	747.7	818.2	9.1	-1.0
NPI (SGDm)	486.9	573.5	531.2	567.1	9.1	-1.1
DPU (SGD)	11.2	12.7	11.5	12.3	3.2	-3.1

Source: Maybank Kim Eng

Fig 7: S-REITs' valuation comparison

Company	Rating	Price (SGD)	TP (SGD)	Upside (%)	Yield (%)	Total return (%)	MC (SGD b)	ADTV (SGD m)	Free Float (%)	BVPS (SGD)	P/BV (x)	Dividend yield (%)				Gearing (D/A) (%)
												17	18E	19E	20E	
Retail							14.7	28.3			1.02	5.6	5.6	5.8	5.9	31
Capita Mall Trust (CMT)	Hold	2.27	2.25	(0.9)	5.1	4.2	8.4	24.3	65	2.03	1.12	4.9	5.1	5.1	5.4	32
Frasers Ctr Trust (FCT)	Buy	2.27	2.55	12.3	5.5	17.8	2.1	1.9	58	2.08	1.09	5.2	5.5	5.7	5.7	29
Starhill Global (SGREIT)	Hold	0.71	0.65	(8.5)	6.4	(2.0)	1.5	1.1	63	0.91	0.78	6.9	6.4	6.7	6.7	36
SPH REIT	Hold	1.02	1.02	0.0	5.5	5.5	2.6	1.0	25	0.94	1.08	5.4	5.5	5.6	5.8	26
Retail & Office							10.0	19.3			1.03	5.3	5.4	5.4	5.5	37
Suntec REIT (SUN)	Hold	1.86	1.94	4.3	5.5	9.8	5.0	10.6	62	2.08	0.89	5.4	5.5	5.5	5.7	38
Mapletree Comm. (MCT)	Hold	1.73	1.60	(7.5)	5.2	(2.3)	5.0	8.7	66	1.49	1.16	5.2	5.2	5.3	5.4	35
Office							13.5	26.7			0.83	6.5	6.5	6.5	6.4	35
CapitaLand Comm. (CCT)	Hold	1.83	1.80	(1.6)	4.9	3.2	6.9	19.8	70	1.81	1.01	4.7	4.9	4.9	4.9	35
Keppel REIT (KREIT)	Hold	1.17	1.19	1.7	5.3	7.0	4.0	4.9	53	1.40	0.83	4.9	5.3	5.5	5.6	36
Frasers Comm. (FCOT)	NR	1.45					1.3	1.5	74	1.58	0.92	6.8	6.7	6.6	6.6	28
OUE Comm. (OUECT)	NR	0.48					1.4	0.6	24	0.89	0.54	9.8	9.1	8.8	8.3	40
Industrial							23.5	53.0			1.13	6.9	6.9	7.1	7.2	35
Ascendas REIT (AREIT)	Buy	2.71	2.95	8.9	6.0	14.8	8.4	29.4	81	2.13	1.27	5.9	6.0	6.2	6.4	33
Mapletree Ind. (MINT)	Buy	1.98	2.20	11.1	6.4	17.5	3.8	5.0	68	1.46	1.36	5.9	6.4	6.7	7.1	36
Mapletree Log. (MLT)	Hold	1.34	1.30	(3.0)	5.9	2.9	4.8	11.7	73	1.13	1.19	5.7	5.9	6.0	6.1	39
Cache Logistics Trust	Buy	0.74	0.90	21.6	8.3	30.0	0.8	1.1	90	0.70	1.06	8.9	8.3	8.5	8.8	36
AIMS AMP (AAREIT)	Buy	1.37	1.50	9.5	7.7	17.2	0.9	0.8	65	1.37	1.00	7.1	7.7	7.7	7.7	34
Keppel DC REIT (KDCREIT)	NR	1.44					1.9	2.9	75	1.01	1.43	4.9	5.3	5.6	5.9	31
ESR REIT	NR	0.53					1.7	1.5	58	0.47	1.14	7.2	7.5	7.7	8.1	30
Soilbuild BS REIT	NR	0.62					0.7	0.4	66	0.63	0.99	9.2	8.1	8.1	n.a.	39
Sabana SC Ind. REIT	NR	0.41					0.4	0.2	68	0.53	0.78	n.a.	n.a.	n.a.	n.a.	39
Hospitality & Residential							9.1	6.8			0.90	6.5	6.6	6.8	7.2	36
Ascott Res. Trust (ART)	Hold	1.15	1.15	0.0	6.2	6.2	2.5	2.0	55	1.22	0.95	6.5	6.2	6.3	6.4	36
CDL HT (CDLHT)	Buy	1.57	1.75	11.5	5.8	17.2	1.9	2.2	63	1.49	1.06	5.9	5.8	6.1	6.3	34
OUE HT (OUEHT)	NR	0.70					1.3	0.6	51	0.76	0.92	7.3	7.3	7.7	8.3	39
Far East HT (FEHT)	Buy	0.63	0.75	19.0	6.8	25.8	1.2	0.7	40	0.87	0.73	6.3	6.8	7.1	7.4	40
Frasers HT (FHT)	Buy	0.72	0.80	11.9	6.7	18.6	1.3	0.8	38	0.78	0.92	6.7	6.7	7.0	7.3	34
Ascendas HT (AHT)	NR	0.81					0.9	0.4	64	1.00	0.81	n.a.	n.a.	n.a.	n.a.	31
Offshore REITs							16.4	14.6			0.88	8.2	7.8	8.1	8.3	35
Sasseur REIT	Buy	0.66	0.90	36.4	9.1	45.5	0.8	0.7	22	0.91	0.73	n.a.	9.1	9.4	9.8	33
Mapletree Greater China	NR	1.20					3.8	5.6	69	1.33	0.91	6.2	6.4	6.4	6.5	39
CapitaLand Retail China	NR	1.41					1.4	1.5	62	1.57	0.90	7.2	7.5	7.6	7.9	36
Fortune REIT (HKD)	NR	9.51					3.2	0.5	72	16.09	0.59	5.4	5.5	5.6	6.0	27
Lippo Malls Ind. RT	NR	0.21					0.6	0.6	63	0.28	0.76	16.2	12.4	12.4	12.9	35
Manulife REIT (USD)	NR	0.83					1.4	0.6	93	0.83	0.99	7.1	6.9	7.5	7.6	37
Keppel_KBS US REIT	NR	0.65					0.7	0.7	88	0.89	0.73	n.a.	9.2	9.6	9.7	33
IREIT Global	NR	0.74					0.5	0.1	31	0.71	1.04	n.a.	n.a.	n.a.	n.a.	41
BHG Retail REIT	NR	0.69					0.3	0.0	37	0.78	0.88	n.a.	n.a.	n.a.	n.a.	33
Frasers Log. & Ind. (FLT)	NR	1.08					2.2	4.0	73	0.95	1.14	7.1	6.4	6.4	6.5	35
EC World REIT	NR	0.72					0.6	0.1	41	0.91	0.78	8.3	n.a.	n.a.	n.a.	31
Cromwell REIT (EUR)	NR	0.50					1.7	0.8	46	0.53	0.93	n.a.	8.5	9.3	9.2	35
Healthcare							2.5	2.6			1.28	6.6	6.5	6.8	6.8	36
Parkway Life REIT	NR	2.72					1.6	1.4	64	1.76	1.55	4.9	4.5	4.8	4.8	38
First REIT	NR	1.03					0.8	1.2	61	1.03	1.00	8.3	8.5	8.7	8.8	35
Total REITs							89	151			0.98	6.8	6.8	6.9	7.1	35
S-REIT yield spread																
FSTREI Index																2.6
SGS 10Y bond yield																4.9
																2.2

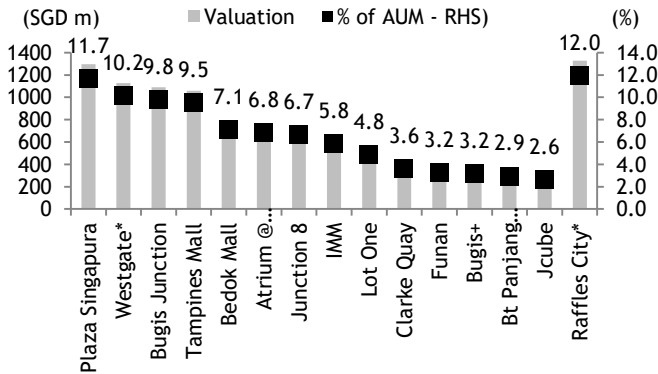
Prices as of 22 Jan 2019. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

Value Proposition

- S'pore's first REIT, listed on the SGX in Jul 2002. It is the second largest S-REIT and largest in the retail sector with 15 properties valued at SGD11.1b at end-Dec 2018.
- Backed by sponsor Capitaland, one of Asia's largest real estate players with a global portfolio valued at SGD92.8b at end-Sep 2018, and a ROFR pipeline based on book value estimated at about 25-30% of its AUM.
- Strong track record in acquisitions and execution on AEI and rejuvenation works with new retail concepts showcased at the upcoming Funan, reopening in 2Q 2019.

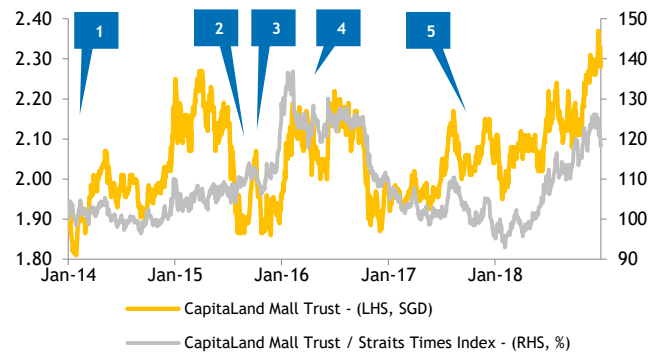
AUM breakdown (as of end-Dec 2018)



Source: Company

Price Drivers

Historical share price trend update chart pls



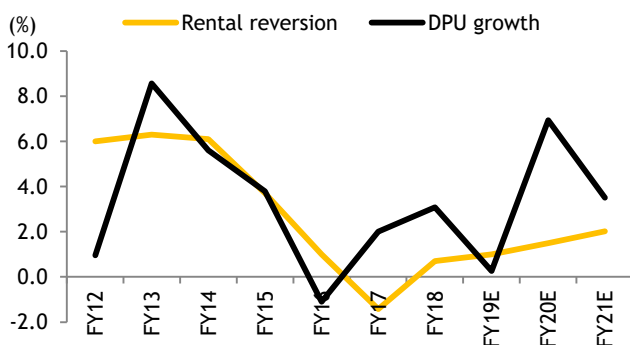
Source: Company, FactSet, Maybank Kim Eng

1. Dec-13: Opens Westgate in Jurong Gateway precinct, as one of only two developments directly connecting to the Jurong East MRT and bus interchanges.
2. Jul-15: Acquires Bedok Mall from CapitaLand subsidiaries for SGD780m at 5.1% NPI yield, extending its presence in the eastern part of Singapore beyond Tampines Mall.
3. Oct-15: Divests Rivervale Mall for SGD190.5m at 64% premium to last valuation (at end Jun-15).
4. Dec-15: Announces plan to redevelop Funan DigitalLife Mall into an integrated development to unlock about 388k sf of untapped GFA.
5. Aug-17: Divests Funan's serviced residences component to Ascott based on agreed land value of SGD90.5m, resulting in a net gain of SGD20.6m.

Financial Metrics

- We forecast DPUs for FY19-21E at +0.3-6.9%, with higher contributions from Westgate (from 30% to 100% interest) and Funan's opening.
- We expect rental growth to stay at low single-digits from FY19-21E as demand faces structural challenges from e-commerce competition and sales leakage.

Rental reversion and DPU growth profile



Source: Company

Swing Factors

Upside

- Earlier-than-expected pick-up in leasing demand for retail space driving improvement in occupancy.
- Better-than-anticipated rental reversions.
- Accretive acquisitions or redevelopment projects.

Downside

- Prolonged slowdown in economic activity could reduce demand for retail space, resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
Price/DPU(x)	19.1	19.6	19.7	18.4	17.8
P/BV (x)	1.1	1.1	1.1	1.1	1.1
P/NTA (x)	1.1	1.1	1.1	1.1	1.1
DPU yield (%)	5.2	5.1	5.1	5.4	5.6
FCF yield (%)	5.7	5.6	5.8	6.2	6.4
INCOME STATEMENT (SGD m)					
Revenue	682.5	697.5	747.7	818.2	835.3
Net property income	478.2	493.5	531.2	567.1	584.9
Management and trustee fees	(74.9)	(75.3)	(82.5)	(88.0)	(90.0)
Net financing costs	(104.1)	(98.2)	(111.0)	(117.0)	(120.9)
Associates & JV	70.4	129.0	63.4	65.0	66.7
Exceptionals	252.1	199.0	17.1	172.4	273.4
Other pretax income/expenses	10.1	10.7	10.7	10.7	10.7
Pretax profit	629.5	656.5	426.4	607.4	722.0
Income tax	(0.2)	0.4	0.0	0.0	0.0
Minorities	5.0	5.0	5.0	5.0	5.0
Discontinued operations	5.0	5.0	5.0	5.0	5.0
Total return avail to unitholders	634.3	661.9	431.4	612.4	727.0
Distributable inc to unitholders	395.8	410.7	425.5	455.4	471.6
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	522.7	348.5	358.6	337.5	314.6
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2.1	2.8	2.8	2.8	2.8
Investment properties	8,770.4	10,075.6	10,291.0	10,483.3	10,772.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,132.3	1,020.5	982.2	1,002.3	1,026.2
Other assets	76.9	54.3	54.3	54.3	54.3
Total assets	10,504.4	11,501.7	11,688.8	11,880.2	12,170.7
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	155.6	199.3	199.3	199.3	199.3
LT interest bearing debt	3,183.1	3,627.8	3,777.8	3,777.8	3,777.8
Other liabilities	237.7	245.3	245.3	245.3	245.3
Total Liabilities	3,576.4	4,072.4	4,222.4	4,222.4	4,222.4
Shareholders Equity	6,928.0	7,429.3	7,466.5	7,657.8	7,948.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	6,928.0	7,429.3	7,466.5	7,657.8	7,948.3
Total liabilities and equity	10,504.4	11,501.7	11,688.8	11,880.2	12,170.7
CASH FLOW (SGD m)					
Cash flow from operations	427.7	455.9	485.1	518.3	534.9
Capex	(0.3)	(0.2)	(0.5)	(0.5)	(0.5)
Acquisitions & investments	(0.5)	(316.0)	(160.0)	(40.0)	(40.0)
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	80.9	72.3	63.4	65.0	66.7
Other investing cash flow	9.1	9.0	8.5	8.5	8.5
CF from investing activities	89.2	(235.0)	(88.5)	33.1	34.8
Dividends paid	(394.9)	(455.6)	(425.5)	(455.4)	(471.6)
Interest expense	(104.3)	(97.1)	(111.0)	(117.0)	(120.9)
Change in debt	23.1	(114.1)	150.0	0.0	0.0
Equity raised / (purchased)	(1.5)	271.6	0.0	0.0	0.0
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	(477.6)	(395.2)	(386.6)	(572.4)	(592.6)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	39.3	(174.2)	10.0	(21.0)	(22.9)

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	(1.1)	2.2	7.2	9.4	2.1
Net property income growth	(0.3)	3.2	7.6	6.7	3.2
Core net profit growth	(2.7)	4.0	3.8	6.5	3.0
Distributable income growth	0.4	3.8	3.6	7.0	3.6
Profitability ratios (%)					
Net property income margin	70.1	70.8	71.0	69.3	70.0
Core net profit margin	60.5	61.6	59.6	58.0	58.5
Payout ratio	95.8	95.7	95.5	96.0	96.5
DuPont analysis					
Total return margin (%)	92.9	94.9	57.7	74.8	87.0
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.5	1.5	1.6	1.6	1.5
ROAE (%)	9.3	9.2	5.8	8.1	9.3
ROAA (%)	4.0	3.9	3.8	4.0	4.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.9	2.8	2.8	2.8	2.9
Net gearing (%) (excl. perps)	38.4	44.1	45.8	44.9	43.6
Net interest cover (x)	3.9	4.2	4.0	4.1	4.1
Debt/EBITDA (x)	7.9	8.7	8.5	7.9	7.7
Capex/revenue (%)	0.0	0.0	0.1	0.1	0.1
Net debt/ (net cash)	2,660.4	3,279.3	3,419.3	3,440.3	3,463.2
Debt/Assets (x)	0.30	0.32	0.32	0.32	0.31

Source: Company; Maybank

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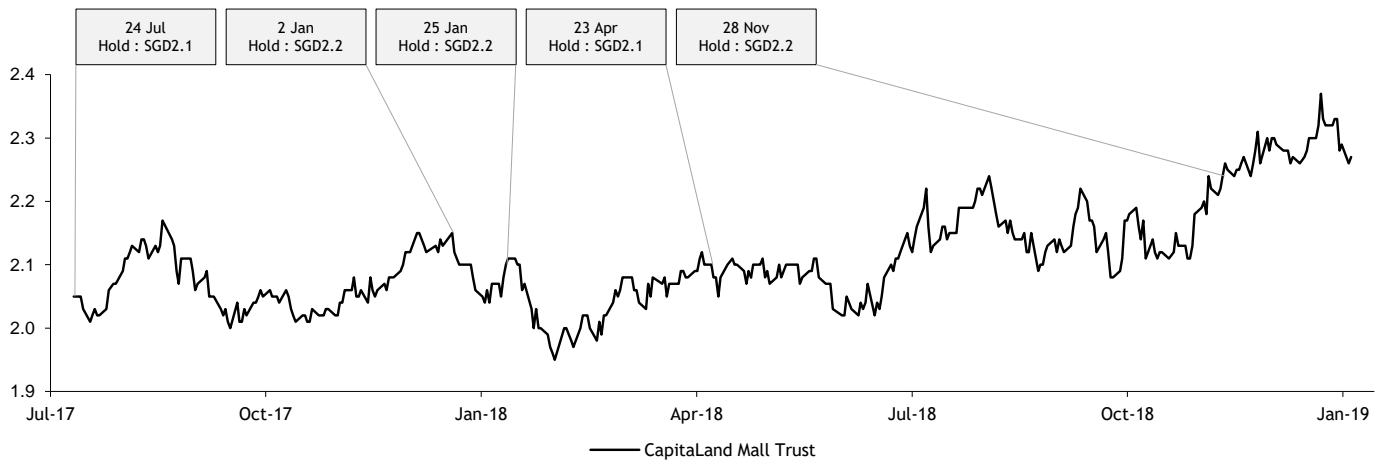
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