

CapitaLand Mall Trust (CT SP)

Less An Impulse Purchase

Raise DPU but maintain HOLD

CMT's shares have held up well against the market in spite of underlying sector weakness. We remain cautious, though, given soft retail sales, rising online penetration and declining tourist spending on shopping. Its malls have lagged peers in growth metrics, although a sizeable portfolio and strong sponsorship could support longer-term upside. We raise DPUs by 1-7% to factor in its recently-completed Westgate deal. Still, maintain HOLD on our new SGD2.20 DDM-based TP (COE 7.0%, LTG 1.5%), in view of its slower DPU growth than peers and history. FCT (FCT SP, SGD2.16, BUY, TP SGD2.55) remains our preferred S-REIT retail exposure, for its strengthening suburban-mall footprint and potential acquisition catalysts.

Sector fundamentals weak; some malls doing better

Retail remains our least-preferred subsector due to its soft macros and weak growth prospects. Online retail penetration jumped from 4.1% at the start of 2018 to 4.9% by September; it is set to rise further. Visitor arrivals may have risen 7.5% YoY in 9M18 but 6M18 tourist shopping receipts fell 15% YoY, their steepest decline since GFC. (Accommodation receipts were also down 1% YoY, in line with flat tourism receipts). We expect large destination malls to perform better, as evident from the stronger shopper traffic and tenant sales profiles at MCT's VivoCity and FCT's portfolio in 3QCY18. We further expect expansion by F&B and sports brands to support demand and maintain our rental-growth estimates of 0-2% for 2019-20E.

Positioned for mid- to longer term

CMT's leading 14% market share of Singapore's retail-mall footprint has been further strengthened by its recent acquisition of the remaining 70% interest in Westgate. Government decentralisation policies should back longer-term suburban retail demand, based on existing catchment populations and official planning parameters. These imply a 48% increase in 1.05m dwelling units as of end-Mar 2018 to 1.55m over the next 10-20 years, which could potentially support CMT's suburban properties. Near term, its scale has further enabled growth from experimental concepts such as NomadX at Plaza Singapura and Funan repositioning. Balance sheet remains strong with just 31.7% gearing. Sponsor-owned Changi Airport Jewel also aims for a strong opening in Feb 2019, with the mall remaining a possible medium-term pipeline deal.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	690	682	699	758	827
Net property income	480	478	496	538	573
Core net profit	424	413	421	453	483
Core EPU (cts)	12.0	11.6	11.8	12.3	13.1
Core EPU growth (%)	3.1	(2.8)	1.5	3.9	6.7
DPU (cts)	11.1	11.2	11.5	11.9	12.7
DPU growth (%)	(1.1)	0.3	2.7	4.0	6.8
P/NTA (x)	1.0	1.1	1.0	1.0	1.0
DPU yield (%)	5.9	5.2	5.2	5.4	5.7
ROAE (%)	6.7	9.3	20.8	3.8	7.4
ROAA (%)	4.1	4.0	3.7	3.8	4.0
Debt/Assets (x)	0.32	0.30	0.27	0.27	0.26
Consensus DPU	-	-	11.4	11.8	12.4
MKE vs. Consensus (%)	-	-	0.6	1.5	3.1

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HOLD

Share Price	SGD 2.22
12m Price Target	SGD 2.20 (-1%)
Previous Price Target	SGD 2.15

Company Description

CapitaLand Mall Trust operates as a real estate investment trust.

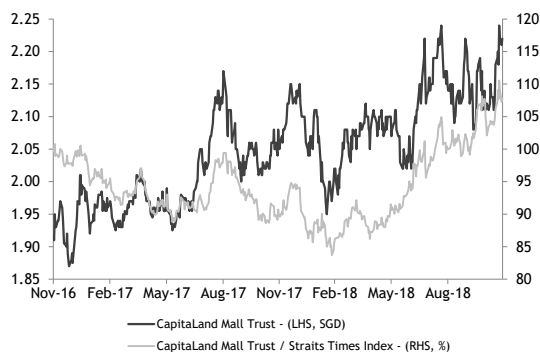
Statistics

52w high/low (SGD)	2.24/1.95
3m avg turnover (USDm)	15.1
Free float (%)	66.5
Issued shares (m)	3,546
Market capitalisation	SGD7.9B
	USD5.7B

Major shareholders:

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

Price Performance

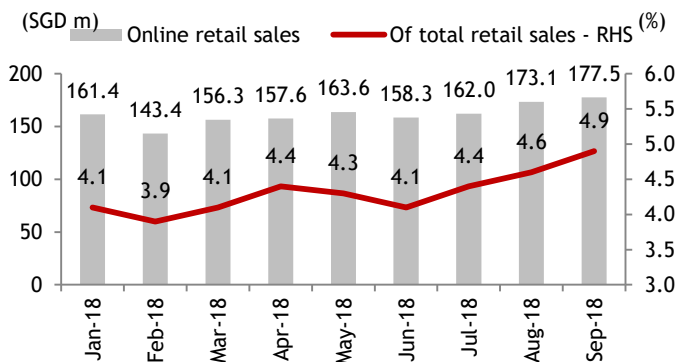


	-1M	-3M	-12M
Absolute (%)	5	2	9
Relative to index (%)	1	7	21

Source: FactSet

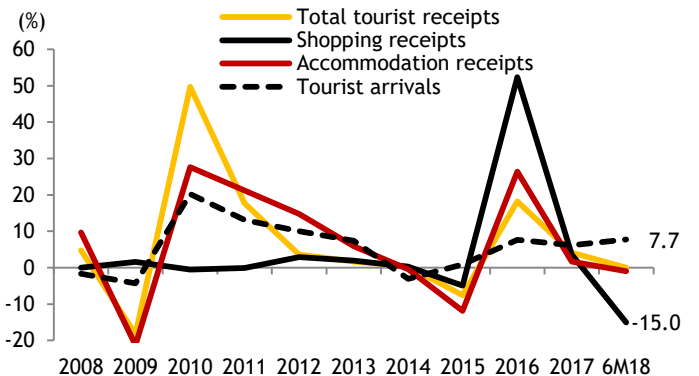
1. Sector still weak, some malls doing better

Fig 1: Online retail sales penetration rose steadily to 4.9% in Sep 2018



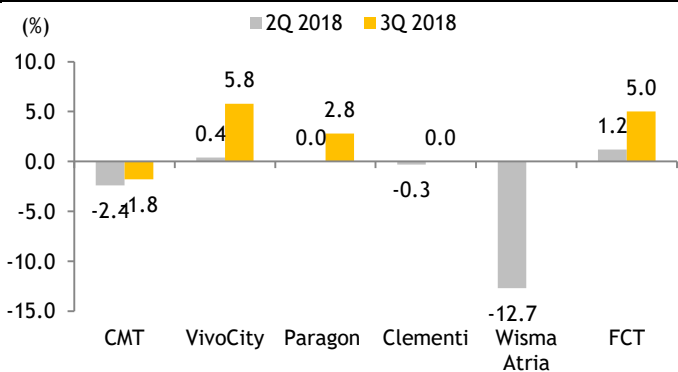
Source: Singstat

Fig 2: Growth in tourist arrivals, shopping and accommodation receipts: shopping fell sharply despite strong visitor growth



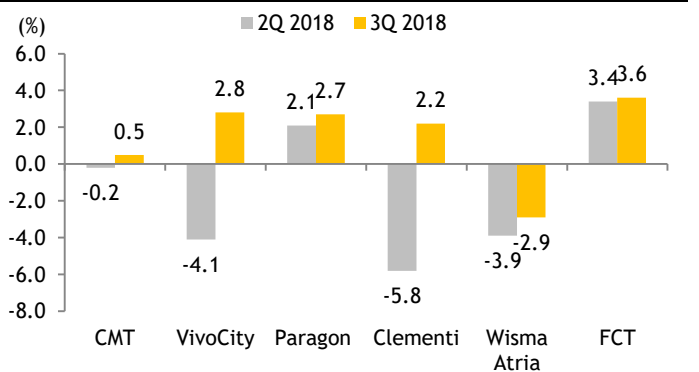
Source: STB

Fig 3: Shopper traffic growth in the Sep 2018 quarter picked up at VivoCity, SPHREIT and FCT's malls



Source: Company data, *up to Aug 2018 for SPH REIT malls Paragon and Clementi

Fig 4: Tenant sales were stronger in the same malls; CMT's malls were fairly weak against +2.2% in Singapore retail sales

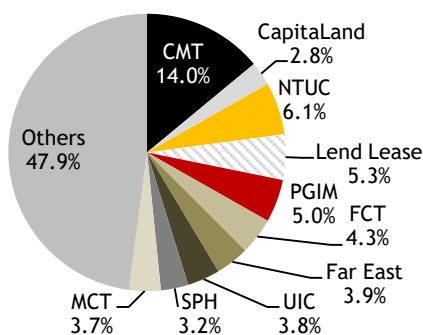


Source: Company data; *up to Aug 2018 for SPH REIT malls Paragon and Clementi

2. Positioned for longer term

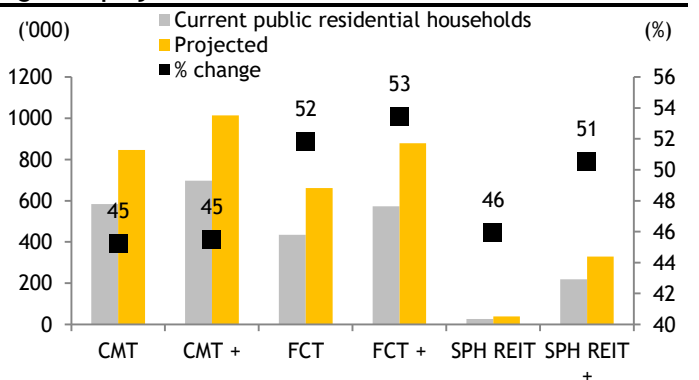
CMT remains the largest owner of Singapore shopping-centre floor space, with a 14.0% share of floor space in shopping malls. Its NLA exceeds 100k sf, excluding CapitaLand's 2.8% market share. The figure could increase to 15.0% by 2022 with the reopening of Funan after AEI. Its sponsor's share could also climb to 3.5% from its interest in Jewel at Changi Airport, which is expected to open in 2QCY19.

Fig 5: Share of major shopping mall floor space by owner as of end-2017



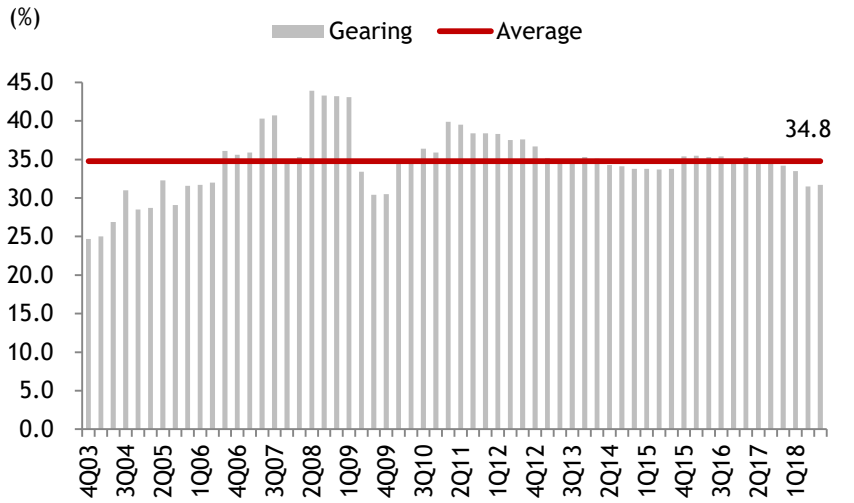
Source: Cistri

Fig 6: Public residential household catchment and current and long-term projected units



Source: Company data, HDB, Maybank Kim Eng, '+ includes sponsor's pipeline assets

Fig 7: CMT's aggregate leverage of 31.7% as of end-Sep 2018 was below its 15-year average of 34.8%. It implied an estimated SGD1.8b in debt headroom



Source: Maybank Kim Eng

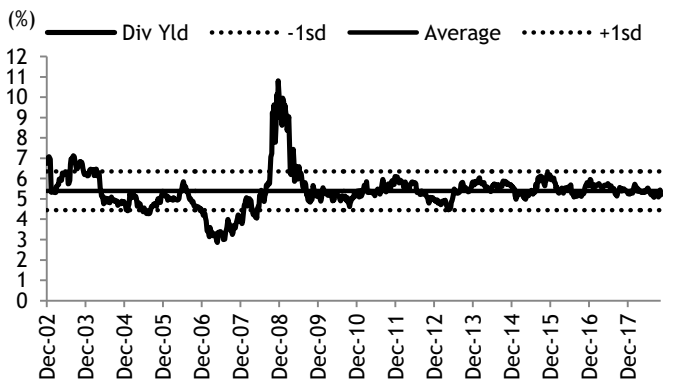
3. Raising DPUs

Fig 8: DPUs raised by 1-7%

	FY18E (old)	FY19E (old)	FY18E	FY19E	FY18E (% change)	FY19E (% change)
Revenue (SGDm)	687.0	685.3	698.9	758.0	1.7	10.6
NPI (SGDm)	487.3	486.9	495.6	537.8	1.7	10.5
DPU (SGD)	11.4	11.2	11.5	11.9	0.8	6.7

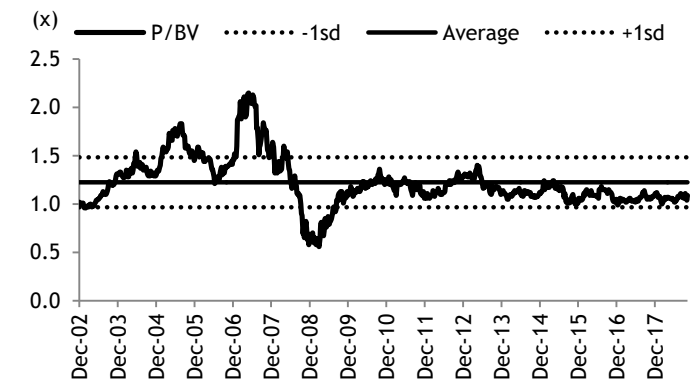
Source: Maybank Kim Eng

Fig 9: CMT's DPU yields are at their 15-year historical average...



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 10: ... though P/BV is undemanding, at close to 1SD below mean



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 11: 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							13.9	24.6			0.98	5.9	5.8	6.0	6.2	31
Capita Mall Trust (CMT)	Hold	2.22	2.20	(0.9)	5.2	4.3	7.9	21.0	66	2.03	1.10	5.0	5.2	5.4	5.7	32
Frasers Ctr Trust (FCT)	Buy	2.16	2.55	18.1	5.5	23.6	2.0	1.5	58	2.08	1.04	5.5	5.5	5.7	6.0	29
Starhill Global (SGREIT)	Hold	0.67	0.65	(2.3)	6.8	4.6	1.5	1.1	65	0.91	0.73	7.4	6.8	7.2	7.1	36
SPH REIT	Hold	1.00	1.00	0.5	5.5	6.0	2.6	0.9	25	0.95	1.05	5.5	5.5	5.7	5.8	26
Retail & Office							9.4	16.7			0.97	5.6	5.7	5.7	5.9	37
Suntec REIT (SUN)	Hold	1.75	1.94	10.9	5.8	16.7	4.7	8.9	62	2.08	0.84	5.7	5.8	5.8	6.0	38
Mapletree Comm. (MCT)	Hold	1.63	1.60	(1.8)	5.6	3.7	4.7	7.8	66	1.49	1.10	5.6	5.6	5.7	5.8	35
Office							12.9	24.4			0.80	6.8	6.8	6.7	6.6	36
CapitaLand Comm. (CCT)	Hold	1.72	1.80	4.7	5.2	9.8	6.4	17.0	70	1.81	0.95	5.0	5.2	5.2	5.2	35
Keppel REIT (KREIT)	Hold	1.13	1.19	5.3	5.5	10.8	3.9	5.1	53	1.40	0.81	5.0	5.5	5.7	5.8	39
Frasers Comm. (FCOT)	NR	1.38					1.2	1.6	74	1.60	0.86	7.1	7.0	7.0	7.0	28
OUE Comm. (OUECT)	NR	0.47					1.3	0.8	24	0.78	0.60	10.1	9.3	9.1	8.5	40
Industrial							22.0	53.3			1.03	7.3	7.3	7.5	7.6	35
Ascendas REIT (AREIT)	Buy	2.58	2.95	14.3	6.3	20.6	8.0	28.6	81	2.13	1.21	6.2	6.3	6.5	6.7	33
Mapletree Ind. (MINT)	Buy	1.86	2.20	18.3	6.8	25.1	3.5	5.1	68	1.46	1.28	6.3	6.8	7.2	7.5	36
Mapletree Log. (MLT)	Hold	1.23	1.30	5.7	6.4	12.1	4.4	9.3	69	1.13	1.09	6.2	6.4	6.6	6.6	38
Cache Logistics Trust	Buy	0.68	0.90	33.3	9.1	42.5	0.7	1.5	90	0.70	0.97	9.8	9.1	9.3	9.7	36
AIMS AMP (AAREIT)	Buy	1.36	1.50	10.3	7.7	18.0	0.9	1.5	77	1.37	0.99	7.2	7.7	7.8	7.8	34
Keppel DC REIT (KDCREIT)	NR	1.35					1.8	5.3	75	1.01	1.34	5.3	5.7	5.9	6.3	32
ESR REIT	NR	0.49					1.6	1.0	58	0.68	0.72	7.8	8.1	8.3	8.8	30
Soilbuild BS REIT	NR	0.59					0.6	0.7	66	0.64	0.93	9.7	8.5	8.6	n.a.	39
Sabana SC Ind. REIT	NR	0.40					0.4	0.3	68	0.53	0.75	n.a.	n.a.	n.a.	n.a.	39
Hospitality & Residential							8.7	6.6			0.86	6.8	6.8	7.1	7.5	36
Ascott Res. Trust (ART)	Hold	1.09	1.15	5.5	6.6	12.1	2.4	1.8	55	1.22	0.90	6.8	6.6	6.7	6.8	36
CDL HT (CDLHT)	Buy	1.48	1.75	18.2	6.1	24.4	1.8	2.0	63	1.49	1.00	6.2	6.1	6.4	6.7	34
OUE HT (OUEHT)	NR	0.66					1.2	0.9	51	0.76	0.87	7.7	7.7	8.2	8.8	39
Far East HT (FEHT)	Buy	0.61	0.75	24.0	7.1	31.0	1.1	0.8	40	0.87	0.70	6.5	7.1	7.4	7.7	40
Frasers HT (FHT)	Buy	0.72	0.80	11.1	6.7	17.8	1.4	0.7	38	0.78	0.93	6.6	6.7	7.0	7.3	34
Ascendas HT (AHT)	NR	0.77					0.9	0.4	64	1.00	0.77	n.a.	n.a.	n.a.	n.a.	31
Offshore REITs							14.9	14.8			0.82	8.7	8.5	8.8	9.0	35
Sasseur REIT	Buy	0.70	0.90	29.5	8.6	38.1	0.8	0.4	22	0.91	0.76	n.a.	8.6	9.0	9.3	33
Mapletree Greater China	NR	1.10					3.5	6.3	69	1.33	0.83	6.7	7.0	7.0	7.1	39
CapitaLand Retail China	NR	1.35					1.3	1.4	62	1.71	0.79	7.5	7.8	7.9	8.3	36
Fortune REIT (HKD)	NR	9.00					3.0	0.4	72	16.09	0.56	5.7	5.8	5.9	6.3	27
Lippo Malls Ind. RT	NR	0.20					0.6	1.2	63	0.28	0.72	17.3	13.2	13.2	13.7	35
Manulife REIT (USD)	NR	0.77					1.3	1.1	93	0.83	0.93	7.7	7.4	8.0	8.2	37
Keppel_KBS US REIT	NR	0.56					0.6	0.5	89	0.89	0.63	n.a.	10.7	11.2	11.3	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	0.66					0.3	0.0	37	0.78	0.84	n.a.	n.a.	n.a.	n.a.	33
Frasers Log. & Ind. (FLT)	NR	1.03					2.1	3.5	73	0.95	1.08	7.4	6.7	6.7	6.8	35
EC World REIT	NR	0.70					0.6	0.1	42	0.91	0.77	8.5	n.a.	n.a.	n.a.	31
Cromwell REIT (EUR)	NR	0.46					1.1	0.2	28	0.53	0.86	n.a.	9.2	10.1	10.0	35
Healthcare							2.3	2.7			1.22	7.0	6.9	7.1	7.1	36
Parkway Life REIT	NR	2.60					1.6	1.3	54	1.76	1.48	5.1	4.8	5.0	5.0	38
First REIT	NR	0.98					0.8	1.4	60	1.01	0.97	8.8	9.0	9.2	9.2	35
Total REITs							84	143			0.92	7.2	7.1	7.3	7.5	35
S-REIT yield spread																2.7
FSTREI Index																5.1
SGS 10Y bond yield																2.4

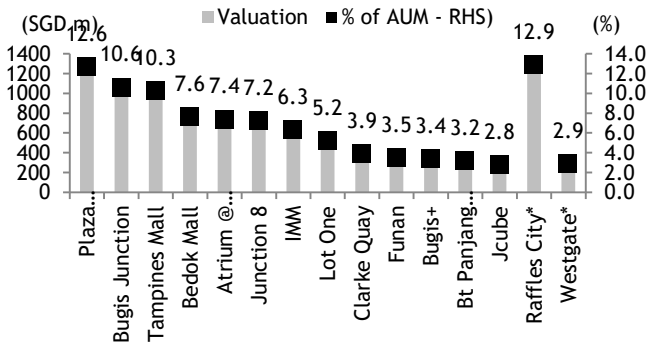
Prices as of 27 Nov 2018. NR = Not Rated.

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 SGD10.0b at end-Sep 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.

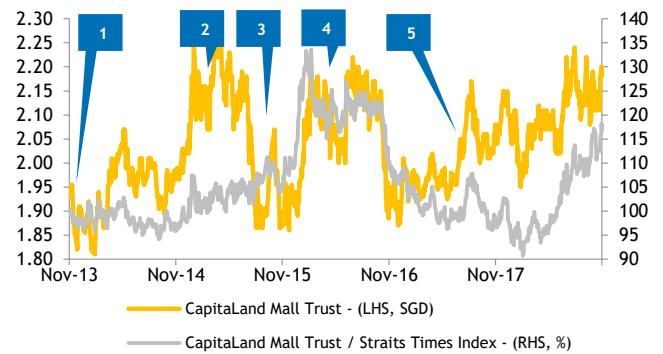
AUM breakdown (as of end-Jun 2018)



Source: Company

Price Drivers

Historical share price trend



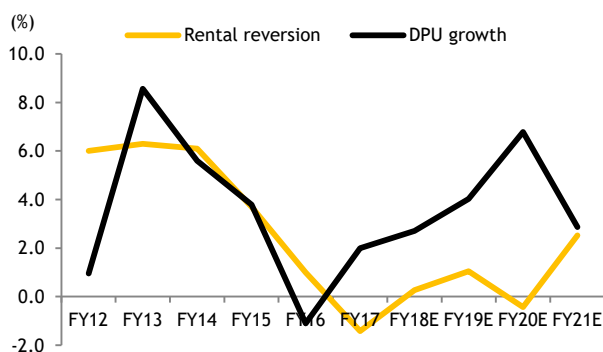
Source: Company, Factset, Maybank Kim Eng

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 FY18E at +2.7%, and to rise to +4.0% in FY19E 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 FY18-20E as demand faces structural challenges from e-commerce competition and sales leakage.

Rental reversion and DPU growth profile



Source: Company, Maybank Kim Eng

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.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
Price/DPU(x)	16.9	19.1	19.4	18.6	17.4
P/BV (x)	1.0	1.1	1.0	1.0	1.0
P/NTA (x)	1.0	1.1	1.0	1.0	1.0
DPU yield (%)	5.9	5.2	5.2	5.4	5.7
FCF yield (%)	6.5	5.7	5.7	6.0	6.4

INCOME STATEMENT (SGD m)

Revenue	689.7	682.5	698.9	758.0	826.8
Net property income	479.7	478.2	495.6	537.8	573.5
Management and trustee fees	(75.1)	(74.9)	(78.7)	(83.0)	(88.4)
Net financing costs	(106.3)	(104.1)	(105.7)	(110.3)	(114.5)
Associates & JV	74.4	70.4	67.7	63.8	65.6
Exceptionals	60.3	252.1	1,202.6	(100.4)	172.9
Other pretax income/expenses	11.3	10.1	10.1	10.1	10.1
Pretax profit	441.4	629.5	1,589.3	315.4	616.4
Income tax	(1.0)	(0.2)	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	445.4	634.3	1,594.3	320.4	621.4
Distributable inc to unitholders	394.3	395.8	408.1	439.5	469.6

BALANCE SHEET (SGD m)

Cash & Short Term Investments	483.5	522.7	781.5	634.6	608.3
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2.4	2.1	2.1	2.1	2.1
Investment properties	8,509.0	8,770.4	10,217.1	10,257.2	10,444.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,135.5	1,132.3	936.8	956.3	981.6
Other assets	196.4	76.9	76.9	76.9	76.9
Total assets	10,326.7	10,504.4	12,014.4	11,927.1	12,113.7
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	160.3	155.6	155.6	155.6	155.6
LT interest bearing debt	3,288.3	3,183.1	3,200.0	3,200.0	3,200.0
Other liabilities	185.9	237.7	237.7	237.7	237.7
Total Liabilities	3,634.5	3,576.4	3,593.3	3,593.3	3,593.3
Shareholders Equity	6,692.2	6,928.0	8,421.1	8,333.8	8,520.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	6,692.2	6,928.0	8,421.1	8,333.8	8,520.5
Total liabilities and equity	10,326.7	10,504.4	12,014.4	11,927.1	12,113.7

CASH FLOW (SGD m)

Cash flow from operations	432.9	427.5	451.3	491.5	524.6
Capex	(0.5)	(0.3)	(0.5)	(0.5)	(0.5)
Acquisitions & investments	(76.0)	(0.5)	(48.6)	(160.0)	(40.0)
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	92.1	80.9	67.7	63.8	65.6
Other investing cash flow	11.8	9.1	8.1	8.1	8.1
CF from investing activities	27.3	89.2	26.7	(88.6)	33.2
Dividends paid	(394.2)	(394.9)	(408.1)	(439.5)	(469.6)
Interest expense	(101.2)	(104.3)	(105.7)	(110.3)	(114.5)
Change in debt	(82.0)	23.1	16.9	0.0	0.0
Equity raised / (purchased)	(3.6)	(1.5)	277.6	0.0	0.0
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	(581.0)	(477.6)	(219.3)	(549.8)	(584.1)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(120.8)	39.1	258.7	(146.8)	(26.3)

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.1	(1.1)	2.4	8.5	9.1
Net property income growth	2.9	(0.3)	3.6	8.5	6.6
Core net profit growth	4.9	(2.7)	1.9	7.5	6.8
Distributable income growth	0.6	0.4	3.1	7.7	6.9
Profitability ratios (%)					
Net property income margin	69.5	70.1	70.9	70.9	69.4
Core net profit margin	61.5	60.5	60.2	59.7	58.5
Payout ratio	92.9	95.8	96.9	97.1	97.2
DuPont analysis					
Total return margin (%)	64.6	92.9	nm	42.3	75.2
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.5	1.5	1.4	1.4	1.4
ROAE (%)	6.7	9.3	20.8	3.8	7.4
ROAA (%)	4.1	4.0	3.7	3.8	4.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.8	2.9	3.3	3.3	3.4
Net gearing (%) (excl. perps)	41.9	38.4	28.7	30.8	30.4
Net interest cover (x)	3.8	3.9	3.9	4.1	4.2
Debt/EBITDA (x)	8.2	7.9	7.7	7.1	6.6
Capex/revenue (%)	0.1	0.0	0.1	0.1	0.1
Net debt/ (net cash)	2,804.9	2,660.4	2,418.5	2,565.4	2,591.7
Debt/Assets (x)	0.32	0.30	0.27	0.27	0.26

Source: Company; Maybank

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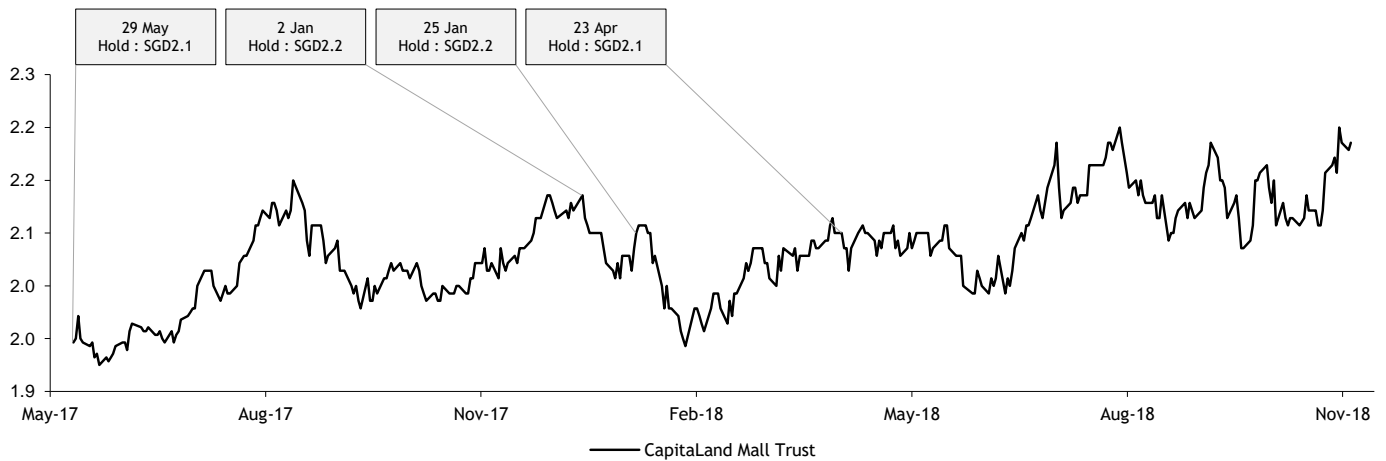
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