

CapitaLand Commercial Trust (CCT SP)

Share Price: SGD1.44

MCap (USD): 3.0B

Singapore

Target Price: SGD1.25 (-13%)

ADTV (USD): 10M

REITs

HOLD

 (Unchanged)

No catalysts, but best-positioned

- 3Q15 DPU of 2.14 SGD cts in line. 9M15 at 75% of FY15F.
- Higher occupancy at CapitaGreen eclipsed by weakness at Capital Tower & Twenty Anson. Overall occupancy fell.
- Maintain HOLD & SGD1.25 TP, based on 7% yield target. In our coverage, we believe CCT is better-positioned to weather office headwinds.

Slight fall in occupancy

3Q15 DPU of 2.14 SGD cts (+2.4% YoY, -2.3% QoQ) is in line with expectations, with 9M15 at 75.3% of our FY15F. Committed leases at 40%-owned CapitaGreen increased to 87.7% as of 27 Oct 2015 (2Q15: 80.4%). Rents committed at the new building were stable at SGD11.90-14.00 psf pm (2Q15: SGD12.05-16.00). Despite higher occupancy at CapitaGreen, overall occupancy was pulled down to 96.4% (2Q15: 98.0%) by tenant exits at Capital Tower (92.2%) and Twenty Anson (97.9%). These were previously full. Debt metrics changed minimally, with aggregate leverage down to 30.1% from 30.2% in 3Q14 and all-in financing cost at 2.4%, from 2.3%.

Maintain HOLD

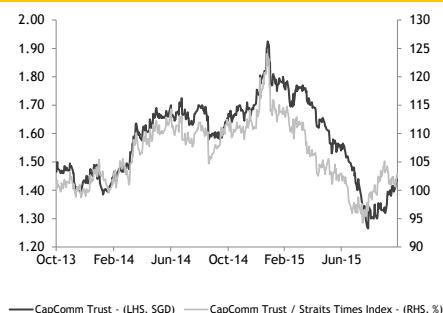
Although CCT lacks catalysts, we believe it is best positioned among its peers to weather an oncoming office supply glut. Its exposure to this oversupply is low as only 14% of its office space will be up for renewal in 2016. This compares favourably with 16% for KREIT and 21% for Suntec REIT. Furthermore, with its low leverage of 30.1% (KREIT: 42.6%, Suntec REIT: 36.7%), it has more room to explore acquisitions which could limit DPU downside even if market rents decline significantly. We forecast organic DPU growth of 2+% pa into FY17, from incremental contributions from CapitaGreen. After factoring in forward DPU yields of 6%, we expect total downside to be less than 10%. Maintain HOLD and SGD1.25 TP, based on a 7.0% yield target for FY16E.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	251.5	262.6	273.7	268.7	276.2
Net property income	197.1	205.2	215.6	212.9	218.8
Distributable income	234.2	249.2	252.4	258.5	265.7
DPU (cts)	8.1	8.5	8.6	8.8	9.0
DPU growth (%)	23.2	3.9	1.3	2.3	2.7
Price/DPU(x)	17.6	17.0	16.7	16.4	15.9
P/BV (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	5.7	5.9	6.0	6.1	6.3
ROAE (%)	4.9	5.0	4.9	5.0	5.2
ROAA (%)	3.5	3.9	3.9	4.0	4.1
Debt/Assets (x)	0.2	0.2	0.2	0.2	0.2

Key Data

52w high/low (SGD)	1.93/1.27
3m avg turnover (USDm)	10.2
Free float (%)	66.8
Issued shares (m)	2,951
Market capitalization	SGD4.2B
Major shareholders:	
-CapitaLand Ltd.	31.9%
-CBRE Clarion Securities LLC	5.0%
-LaSalle Investment Management Securities	2.0%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	7.9	(3.0)	(12.8)
Relative to index (%)	0.1	5.2	(7.8)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	12	7	2
	Maybank Consensus		% +/-
Target Price (SGD)	1.25	1.48	(15.3)
2015 DPU (cts)	8.6	8.7	(1.8)
2016 DPU (cts)	8.8	9.0	(2.6)

Source: FactSet; Maybank

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Figure 1: Quarterly profit and loss

FYE 31 Dec	3Q14	2Q15	3Q15	Change		YTD15	% of FY	FY15E
	(SGD m)	(SGD m)	(SGD m)	(QoQ %)	(YoY %)	(SGD m)		(SGD m)
Property income	66.4	69.1	68.3	(1.1)	2.9	205.6	75.1	273.7
Property expenses	(14.5)	(15.3)	(15.7)	2.8	8.0	(45.1)	77.7	(58.1)
Net property income	51.9	53.9	52.7	(2.2)	1.5	160.5	74.4	215.6
Share of results of associates & JVs	18.6	35.1	16.5	(53.0)	(11.4)	68.3	78.8	86.6
Distributable income to unitholders	61.6	64.4	63.2	(2.0)	2.6	190.3	75.4	252.4
Distribution per unit	2.09	2.19	2.14	(2.3)	2.4	6.45	75.3	8.57
NAV per unit (SGD)	1.69	1.76	1.74	(1.2)	3.0			
Aggregate leverage (%)^	30.2	29.5	30.1	60	(10)			
All-in financing cost (%)^	2.3	2.4	2.4	0	10			

^Change in basis points

Source: Company, Maybank KE

Figure 2: Portfolio occupancy weakened

Portfolio committed occupancy rate⁽¹⁾ consistently above 90%

	2006	2007	2008	2009	2010	2011	2012	2013	2014	1Q 2015	2Q 2015	3Q 2015
Capital Tower	100.0	100.0	99.9	99.9	99.9	100.0	100.0	100.0	100.0	100.0	100.0	92.2
Six Battery Road	100.0	99.9	98.6	99.2	99.7	85.4 ⁽²⁾	93.0 ⁽²⁾	98.6 ⁽²⁾	99.2	99.9	100.0	99.5
Bugis Village	95.3	99.1	96.6	93.8	93.4	98.8	97.1	97.2	94.8	96.5	98.3	100.0
Golden Shoe Car Park	98.0	96.4	100.0	100.0	95.2	100.0	100.0	94.6	100.0	100.0	100.0	97.7
HSBC Building	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Raffles City (60% interest)	99.5	99.3	99.9	99.3	99.1	98.9	100.0	100.0	100.0	100.0	99.0	99.3
Wilkie Edge			52.5	77.9	98.4	98.4	93.9	99.6	100.0	100.0	100.0	100.0
One George Street			100.0	96.3	100.0	93.3	92.5	95.5	100.0	100.0	99.4	99.4
Twenty Anson							100.0	98.1	97.8	97.8	100.0	97.9
CapitaGreen (40% interest) ⁽³⁾									69.3	69.9	80.4	85.5
Portfolio Occupancy	99.6	99.6	96.2	94.8	99.3	95.8	97.2	98.7	96.8	97.0	98.0	96.4⁽⁴⁾

Notes:

(1) For years 2004 to 2009, portfolio occupancy rate includes Starhub Centre and Robinson Point which were divested in 2010

(2) Six Battery Road's AEI was completed in Dec 2013

(3) CapitaGreen is a Grade A office tower on the former site of Market Street Car Park. It obtained TOP on 18 Dec 2014

(4) Portfolio committed occupancy would be 96.6% based on CapitaGreen's occupancy of 87.7% as at 27 Oct 2015.

Source: Company

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
Price/DPU(x)	17.6	17.0	16.7	16.4	15.9
P/BV (x)	0.8	0.8	0.8	0.8	0.8
P/NTA (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	5.7	5.9	6.0	6.1	6.3
FCF yield (%)	35.6	6.4	5.7	5.8	6.0

INCOME STATEMENT (SGD m)

Gross revenue	251.5	262.6	273.7	268.7	276.2
Net property income	197.1	205.2	215.6	212.9	218.8
Net financing costs	(38.8)	(32.7)	(33.6)	(37.1)	(38.9)
Associates & JV	127.4	217.4	86.6	85.8	88.6
Exceptionals	2.5	(2.5)	0.0	0.0	0.0
Other pretax income	106.2	81.2	0.0	0.0	0.0
Total return before tax	374.6	448.9	250.5	244.2	251.4
Income tax	(0.0)	(0.0)	0.0	0.0	0.0
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	374.6	448.9	250.5	244.2	251.4
Distributable inc to unitholders	234.2	249.2	252.4	258.5	265.7

BALANCE SHEET (SGD m)

Cash & Short Term Investments	84.1	101.1	92.8	84.0	74.7
Accounts receivable	33.7	38.3	38.3	38.3	38.3
Property, Plant & Equip (net)	1.5	1.5	1.5	1.5	1.5
Investment properties	4,769.0	4,882.4	4,882.4	4,882.4	4,882.4
Intangible assets	8.3	4.8	3.8	3.3	3.3
Investment in Associates & JVs	1,348.9	1,491.8	1,504.3	1,504.3	1,504.3
Other assets	0.0	1.2	1.2	1.2	1.2
Total assets	6,245.5	6,521.1	6,524.2	6,514.9	6,505.6
ST interest bearing debt	0.0	270.0	270.0	270.0	270.0
Accounts payable	50.9	47.4	47.4	47.4	47.4
LT interest bearing debt	1,218.3	970.2	970.2	970.2	970.2
Other liabilities	63.5	80.0	80.0	80.0	80.0
Total Liabilities	1,332.8	1,367.6	1,367.6	1,367.6	1,367.6
Shareholders Equity	4,912.7	5,153.5	5,156.7	5,147.4	5,138.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	4,912.7	5,153.5	5,156.7	5,147.4	5,138.1
Total liabilities and equity	6,245.5	6,521.1	6,524.2	6,514.9	6,505.6

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Gross revenue growth	(33.7)	4.4	4.2	(1.8)	2.8
Total return before tax growth	(1.7)	19.8	(44.2)	(2.5)	2.9
Total return growth	(2.9)	19.8	(44.2)	(2.5)	2.9
Distributable income growth	(39.3)	6.4	1.3	2.4	2.8
Profitability ratios (%)					
Total return before tax margin	nm	nm	91.5	90.9	91.0
Payout ratio	62.2	54.9	nm	nm	nm
DuPont analysis					
Total return margin (%)	nm	nm	91.5	90.9	91.0
Gross revenue/Assets (x)	0.0	0.0	0.0	0.0	0.0
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.3
ROAE (%)	4.9	5.0	4.9	5.0	5.2
ROAA (%)	3.5	3.9	3.9	4.0	4.1
Liquidity & Efficiency					
Days receivable outstanding	86.8	49.4	50.4	51.4	50.0
Days payables outstanding	168.6	308.3	293.5	306.0	296.9
Dividend cover (x)	1.6	1.8	1.0	0.9	0.9
Current ratio (x)	1.9	0.4	0.4	0.4	0.3
Leverage & Expense Analysis					
Asset/Liability (x)	4.7	4.8	4.8	4.8	4.8
Net debt/equity (%)	23.1	22.1	22.3	22.5	22.7
Net interest cover (x)	4.6	5.7	5.9	5.3	5.2
Debt/EBITDA (x)	6.9	6.7	6.3	6.3	6.1
Capex/revenue (%)	0.4	0.1	0.0	0.0	0.0
Net debt/ (net cash)	1,134.3	1,139.1	1,147.4	1,156.2	1,165.5

Source: Company; Maybank

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