

Mapletree Commercial Trust

Edition 1 Version 1 | Bloomberg: MCT SP | Reuters: MACT.SI

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DBS Group Research . Equity

22 Oct 2015

BUY (Upgrade from HOLD)

Last Traded Price: S\$1.32 (STI : 3,025.70)

Price Target : 12-Month S\$ 1.40 (6% upside) (Prev S\$1.35)

Potential Catalyst: Better occupancy at PSAB

Where we differ: We are in line with consensus

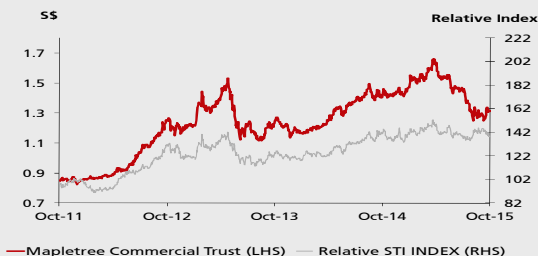
Analyst

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Price Relative



Forecasts and Valuation

FY Mar (\$\$ m)	2014A	2015A	2016F	2017F
Gross Revenue	267	282	298	312
Net Property Inc	195	212	223	235
Total Return	343	312	165	174
Distribution Inc	153	168	174	184
EPU (S cts)	6.8	7.4	7.7	8.0
EPU Gth (%)	24	8	4	4
DPU (S cts)	7.4	8.0	8.2	8.5
DPU Gth (%)	13	9	2	4
NAV per shr (S cts)	116.5	123.9	123.7	123.4
PE (X)	19.3	17.9	17.1	16.4
Distribution Yield (%)	5.6	6.1	6.2	6.4
P/NAV (x)	1.1	1.1	1.1	1.1
Aggregate Leverage (%)	38.6	36.3	35.7	35.1
ROAE (%)	6.2	6.2	6.3	6.6

Distn. Inc Chng (%): (3) (3)

Consensus DPU (S cts): 8.2 8.5

Other Broker Recs: B: 5 S: 2 H: 5

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

UPSIDE FROM VIVOCITY

Best of both worlds

Mapletree Commercial Trust (MCT) offers investors exposure to resilient retail and office assets amid industry and economic headwinds. MCT owns VivoCity (c.65% of NPI), Singapore's largest mall, which has by and large bucked Singapore's overall retail sales slowdown. It is one of the best performing malls in Singapore by virtue of its popularity with families and close proximity to Sentosa. In addition, the low level of office lease expiries until FY17/18 minimises potential volatility in rents and occupancy when a large supply of office space enters the CBD in the next 1-2 years.

Manager focussing on improving the trading performance of Vivocity.

Given that rising labour costs have affected retailers' profitability, the Manager is focussed on retaining tenants rather than driving rents. Over the next 18 months, close to 30% of MCT's leases will be due for renewal, a large proportion of which comes from VivoCity. Rather than being a risk, we believe that the large number of expiries could result in positive earnings surprise, as it will give the Manager flexibility in reconfiguring the mall and refreshing the tenant mix, in order to maximise trading performance.

Retail reversions of 13.2% outperforms other retail S-REITs.

Retail rental reversions of 13.2% demonstrate the strong retailer demand at VivoCity. 2Q16 (FYE Mar) shopper traffic and tenant sales grew 3.1% and 5.5% y-o-y respectively, on the back of several long weekends during the quarter (National Jubilee, Election Day), as well as a full quarter of trading from new tenants post completion of AEI works at basement 1. Occupancy costs are in the 18% range, which the Manager considers comfortable.

Valuation:

We have raised our DCF-backed target price to S\$1.40 as we roll forward our valuations. At current price, the stock offers 6.2% dividend yield for FY15/16, which is attractive in our view, and total potential returns of 12%. As such, we upgrade our recommendation to BUY.

Key Risks to Our View:

Vacancy risk

While large lease expiries give the Manager the flexibility in refreshing the tenant mix and positioning of the mall, changes have to be timed carefully. Should any of the Manager's plans involve its anchor tenants, there could be some disruptions to the trading of the mall as well as higher frictional vacancies in the near term.

At A Glance

Issued Capital (m shrs)	2,116
Mkt. Cap (S\$m/US\$m)	2,794 / 2,003
Major Shareholders	
Temasek Holdings (%)	37.0
Schroders (%)	7.0
AIA Group Ltd (%)	5.8
Free Float (%)	50.2
3m Avg. Daily Val (US\$m)	2.4

ICB Industry : Real Estate / Real Estate Investment Trusts

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Cost savings drive earnings growth. MCT's 2Q16 distributable income grew 3.3% to S\$43m, as (a) full-quarter contribution from completed AEI works at Vivocity and (b) lower utilities expenses was mitigated by (a) frictional office vacancies at PSAB (93.4%) and Mapletree Anson (91.8%) and (b) higher interest expenses (which grew 15% y-o-y). DPU grew 2.5% to 2.02Scts, bringing 1H16 DPU to 4.03Scts, which comprises c.49% of our full year estimates.

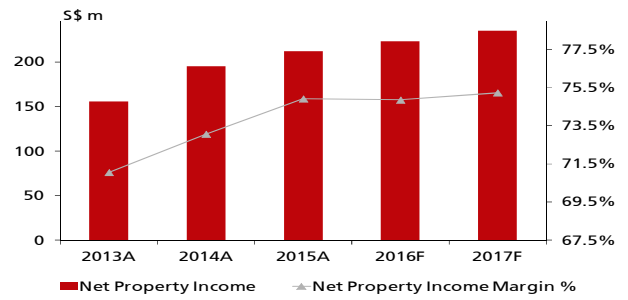
Many opportunities for the Manager to refresh VivoCity. In FY16/17, we estimate that 35% of Vivocity's leases by gross rental income will be due for renewal. This will give the Manager ample flexibility to refresh tenant mix, relocate tenants, and reconfigure spaces in order to rejuvenate the mall and optimise trading performance, which will in turn support rental growth over the medium term. Given the Manager's excellent track record so far, we believe that there remain pockets of opportunity for the Manager to improve the efficiency and performance of the mall.

Minimal office expiries until FY17/FY18. Over the next two years, only 2% of the Trust's expiring leases (by gross rent) come from the office sector. This will help to minimise the risk of negative office rental reversions, particularly at Mapletree Anson, should CBD office rents start to decline across the market. Amid potential volatility in office rents and vacancies due to (a) lack of strong demand drivers and (b) large office supply completing over the next two years, MCT offers investors both earnings visibility as well as downside protection.

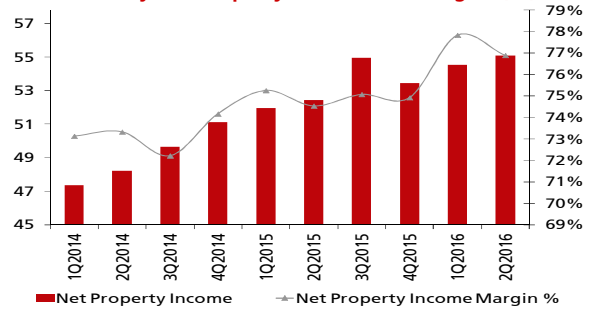
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>Potential acquisitions unlikely in the near term. Mapletree Investments' progressive redevelopment of the Harbourfront and Alexandra precincts ensures a steady pipeline of refurbished or newly developed assets ready to be injected into the REIT. At present, the most likely acquisition target for MCT would be Mapletree Business City 1 (MBC 1), which was completed in 2010. However, we understand that near-term acquisition potential is limited due to certain zoning restrictions relating to the ongoing development of Mapletree Business City 2, which is located next to MBC 1.

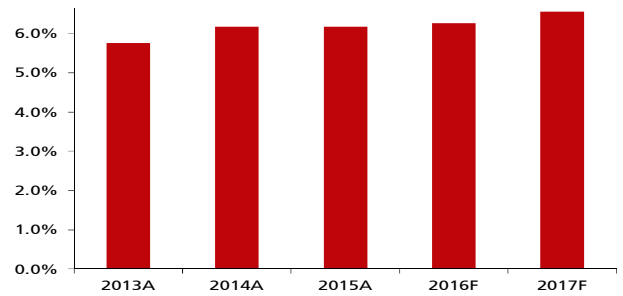
Net Property Income and Margins (%)



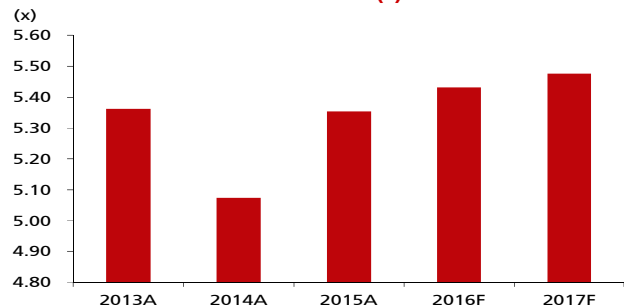
Quarterly Net Property Income and Margins (%)



ROE (%)



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Lower gearing provides more headroom for inorganic growth. MCT's gearing remains stable at 36.4%, which provides the REIT with flexibility to gear up for debt-funded acquisitions. In addition, the REIT has an ongoing Dividend Reinvestment Plan (DRP), which allows it to fund maintenance capex without having to take on additional debt.

Average debt maturity extended to 3.9 years. MCT's cost of debt increased to 2.42% as the Manager termed out its borrowings earlier in the year. MCT's debt tenure stands at 3.9 years, with close to 70% of debt due only from FY19/20 onwards. The Manager is currently looking to refinance its S\$354m debt tranche due Apr 16/Jan 17, and cost of debt is expected to further increase as a result. We have assumed 10bps increase in interest costs p.a. for the next three years.

Share Price Drivers:

Uptick in office performance. While there are minimal office expiries in FY16 and FY17, we note that there are vacancies at PSAB which could take a while to fill, given softness in the leasing market. An improvement in occupancy rates at PSAB could result in some earnings surprise.

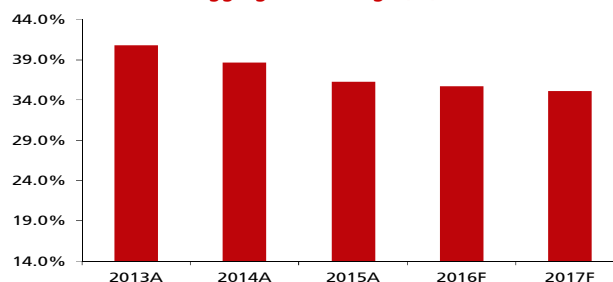
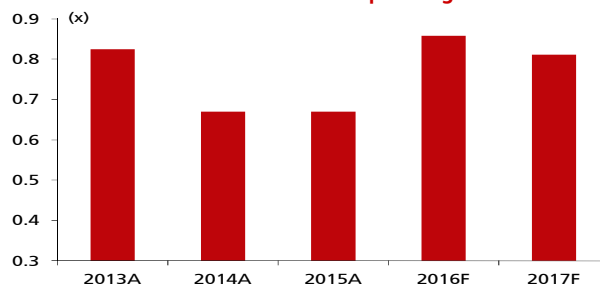
Key Risks:

Sustained drop in CBD office rents could impact office earnings in the medium term. Although the REIT's office portfolio is largely located outside the CBD and therefore less exposed to the large office supply completing from 2016 onwards, any prolonged decline in CBD rents would have a negative spillover effect to the city fringe, as narrowing rental differentials could entice tenants to relocate to the CBD instead.

Vacancy risk as the Manager looks to refresh VivoCity. While large lease expiries gives the Manager the flexibility in refreshing the tenant mix and positioning of the mall, changes have to be timed carefully. Should any of the Manager's plans involve its anchor tenants, there could be some disruptions to the trading of the mall as well as higher frictional vacancies in the near term.

COMPANY BACKGROUND

Mapletree Commercial Trust is a real estate investment trust that invests in income-producing office and retail properties in Singapore. A majority of its earnings is derived from Vivocity, which is the largest retail mall in Singapore, and is located at the gateway of Sentosa.

Aggregate Leverage (%)**Distribution Paid / Net Operating CF****Distribution Yield (%)****P/Bk NAV (x)**

Source: Company, DBS Bank

Mapletree Commercial Trust

Income Statement (\$\$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Gross revenue	219	267	282	298	312
Property expenses	(63)	(72)	(71)	(75)	(77)
Net Property Income	156	195	212	223	235
Other Operating expenses	(16)	(19)	(20)	(21)	(22)
Other Non Opg (Exp)/Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(26)	(35)	(36)	(37)	(39)
Exceptional Gain/(Loss)	0	1	0	0	0
Net Income	114	143	156	165	174
Tax	0	0	0	0	0
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Income After Tax	114	143	156	165	174
Total Return	311	343	312	165	174
Non-tax deductible Items	10	10	13	10	10
Net Inc available for Dist.	124	153	168	174	184
Growth & Ratio					
Revenue Gth (%)	23.8	21.7	5.7	5.5	4.8
N Property Inc Gth (%)	25.8	25.2	8.4	5.4	5.3
Net Inc Gth (%)	30.2	24.7	9.3	5.7	5.8
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	71.1	73.1	74.9	74.9	75.3
Net Income Margins (%)	52.1	53.4	55.1	55.3	55.8
Dist to revenue (%)	56.5	57.3	59.6	58.5	59.0
Operating expenses (%)	7.3	7.2	7.1	7.1	7.0
ROAE (%)	5.8	6.2	6.2	6.3	6.6
ROA (%)	3.3	3.6	3.7	3.9	4.1
ROCE (%)	4.1	4.5	4.6	4.8	5.1
Int. Cover (x)	5.4	5.1	5.4	5.4	5.5

Additional income post completion of AEI at VivoCity will help to compensate for frictional vacancies at PSAB and Mapletree Anson.

We assume that cost of debt will increase by 10bps a year, over the next three years.

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$ m)

FY Mar	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Gross revenue	70	73	71	70	71
Property expenses	(18)	(18)	(18)	(15)	(16)
Net Property Income	52	55	53	54	55
Other Operating expenses	(5)	(5)	(4)	(5)	(5)
Other Non Opg (Exp)/Inc	0	0	0	5	(7)
Net Interest (Exp)/Inc	(9)	(9)	(10)	(9)	(10)
Exceptional Gain/(Loss)	0	0	(1)	(5)	9
Net Income	39	41	38	39	41
Tax	0	0	0	0	0
Minority Interest	0	0	0	0	0
Net Income after Tax	39	41	38	39	41
Total Return	39	41	194	39	41
Non-tax deductible Items	3	3	3	(2)	10
Net Inc available for Dist.	41	44	42	43	43
Growth & Ratio					
Revenue Gth (%)	2	4	(3)	(2)	2
N Property Inc Gth (%)	1	5	(3)	2	1
Net Inc Gth (%)	1	6	(7)	2	7
Net Prop Inc Margin (%)	74.5	75.1	74.9	77.8	76.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (\$\$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Investment Properties	3,831	4,034	4,199	4,205	4,211
Other LT Assets	0	1	5	5	5
Cash & ST Invt	47	70	55	49	58
Inventory	0	0	0	0	0
Debtors	7	4	3	3	4
Other Current Assets	1	1	1	1	1
Total Assets	3,886	4,110	4,263	4,263	4,278
ST Debt	0	339	189	189	189
Creditor	60	54	62	65	67
Other Current Liab	6	8	5	0	0
LT Debt	1,586	1,249	1,358	1,334	1,313
Other LT Liabilities	39	35	32	32	32
Unit holders' funds	2,195	2,426	2,617	2,643	2,676
Minority Interests	0	0	0	0	0
Total Funds & Liabilities	3,886	4,110	4,263	4,263	4,278
Non-Cash Wkg. Capital	(58)	(57)	(63)	(61)	(63)
Net Cash/(Debt)	(1,539)	(1,517)	(1,492)	(1,473)	(1,444)
Ratio					
Current Ratio (x)	0.8	0.2	0.2	0.2	0.2
Quick Ratio (x)	0.8	0.2	0.2	0.2	0.2
Aggregate Leverage (%)	40.8	38.6	36.3	35.7	35.1
Z-Score (X)	1.2	1.2	1.2	1.3	1.3

We assume that the Manager will use proceeds from the DRP to pay down debt

Source: Company, DBS Bank

Mapletree Commercial Trust

Cash Flow Statement (\$\$ m)

FY Mar	2013A	2014A	2015A	2016F	2017F
Pre-Tax Income	114	143	156	165	174
Dep. & Amort.	0	0	0	0	0
Tax Paid	(5)	1	0	(5)	0
Associates & JV Inc/(Loss)	0	0	0	0	0
Chg in Wkg.Cap.	9	3	3	3	2
Other Operating CF	38	42	44	10	10
Net Operating CF	157	189	203	173	186
Net Invnt in Properties	(690)	(4)	(8)	(6)	(6)
Other Invnts (net)	0	0	0	0	0
Invnts in Assoc. & JV	0	0	0	0	0
Div from Assoc. & JVs	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	(690)	(4)	(8)	(6)	(6)
Distribution Paid	(129)	(126)	(136)	(148)	(151)
Chg in Gross Debt	462	0	(40)	(24)	(20)
New units issued	222	0	0	0	0
Other Financing CF	(24)	(35)	(35)	0	0
Net Financing CF	531	(162)	(211)	(173)	(171)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(3)	23	(16)	(6)	9
Operating CFPS (S cts)	7.1	8.9	9.5	7.9	8.5
Free CFPS (S cts)	(25.7)	8.9	9.3	7.8	8.3

Source: Company, DBS Bank

Target Price & Ratings History



Source: DBS Bank

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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