

CapitaLand Retail China Trust

Sentiment little impacted by stock market rout

26 October 2015

SINGAPORE | REAL ESTATE (REIT) | RESULTS

CapitaLand Retail China Trust (CRCT) reported its 3Q 2015 results last Friday evening. Helped by the strong RMB against SGD, CRCT registered strong growth across most metrics. Despite concerns on retail sentiment with the Chinese stock market rout, tenant sales remained strong with a 12.7% y/y and 1.3% q/q growth. Shopper traffic registered a 2.4% y/y and 6.5% q/q growth.

Results at a glance

(SGD mn)	3Q15	3Q14	y-y (%)	Comments
Gross Revenue	55.3	51.4	7.5	Mainly driven by strong RMB against SGD. Revenue in RMB terms flat y/y
Net property income	35.2	32.3	9.1	Lower rental income at Minzhongleyuan(subway line constuction) and Wuhu (tenant adjustments) offset by rental growth in other multi-tenanted malls
Distributable income	22.3	19.5	14.2	
DPU (Cents)	2.64	2.35	12.3	

Source: Company, PSR

Results at a glance

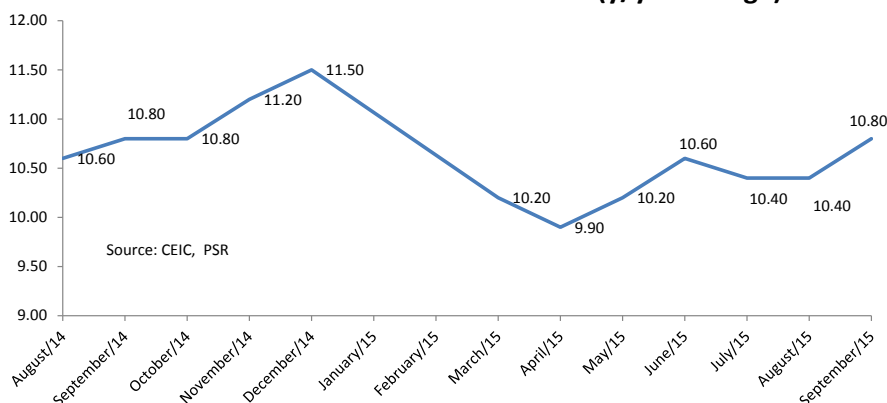
(SGD mn)	9M15	PSR FY15 Estimates	% of PSR Est	Comments
Gross Revenue	164.1	221.1	74.2%	YTD Results broadly in-line with forecasts
Net property income	105.8	141.5	74.8%	
Distributable income	67.4	89.8	75.1%	
DPU (Cents)	8.01	10.80	74.2%	

Source: Company, PSR

Some key points:

- June-August stock market rout - Consumers don't seem to bother.** Despite concerns on the impact of the Chinese market crash starting June this year, retail sentiment remained strong on the ground. 3Q tenant sales grew 1.3% q/q and 12.7% y/y. Shopper traffic also grew 2.4% y/y and 6.5% q/q, reflecting strong sentiment on the ground despite lacklustre stock market performance after 2Q15.

China Retail Sales of Consumer Goods (y/y % change)



Source: CEIC, PSR

China's September retail sales registered a 10.8% y/y growth, the highest y/y growth this year, not including the volatile Chinese New Year effect in Jan-Feb.

- Healthy occupancy except for malls under stabilization.** The 3 multi-tenanted malls in Beijing, which takes up c.63% of CRCT's portfolio (by valuation) continue to see healthy near-full occupancy.

BUY (MAINTAINED)

LAST CLOSE (26 OCT)	SGD 1.555
FORECAST 1YR DIV	SGD 0.115
TARGET PRICE	SGD 1.900
TOTAL RETURN	29.6%

COMPANY DATA

O/S SHARES (MN)	840
MARKET CAP (USD mn / SGD mn)	1003 / 1369
52 - WK HI/LO (SGD)	178 / 1295
3M Average Daily T/O (mn)	126

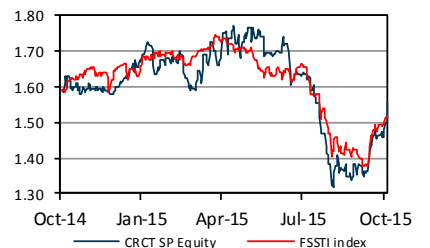
MAJOR SHAREHOLDERS (%)

RETAIL CROWN PTE LTD	19.2%
CAPITAMALL TRUST	14.4%
MATTHEWS INTERNATIONAL CAPITAL	6.9%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	8.7	(8.3)	(5.7)
STIRETURN	8.3	(8.5)	(4.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY13	FY14	FY15e	FY16e
Gross Rev.	160	203	221	245
NPI	103	132	141	159
Dist. Inc	70	81	90	97
P/NAV (x)	0.90	0.98	1.06	1.09
DPU (Cents)	9.0	9.8	10.8	11.6
Dist. Yield	6.8%	6.1%	6.2%	6.7%

Source: Company Data, Bloomberg

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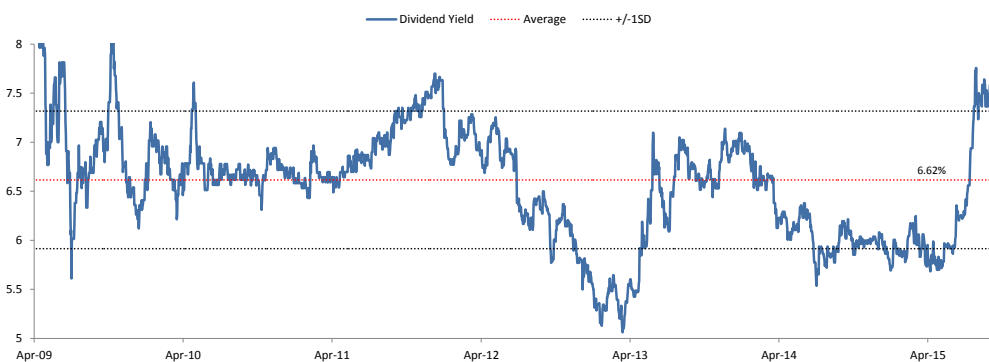
CapitaMall Minzhong Leyuan and CapitaMall Wuhu remain the malls under stabilization, impacted by road closure for subway line construction and ongoing tenancy adjustments respectively. The former should see improvements in performance in 2H16 when the new subway line becomes operational, while tenancy adjustments for the latter will likely take until end 2015. These two malls under stabilization take up around 7% of CRCT's portfolio by valuation.

OCCUPANCY TABLE Location Mall	MASTER LEASES											Overall
	XIZHIMEN	BEIJING WANGJING	GRAND CANYON	BEIJING ANZHEN	ZHENGZHOU ERQI	BEIJING SHUANGJING	MINZHONG LEYUAN	WUHAN	SHANGHAI QIBAO	HUHHOT SAIHAN	ANHUI WUHU	
2010	99.5%	98.7%	NA	100.0%	100.0%	100.0%	NA	91.3%	97.7%	97.8%	98.1%	
2011	98.4%	99.8%	NA	100.0%	100.0%	100.0%	94.7%	94.4%	98.1%	96.3%	98.1%	
2012	94.8%	99.5%	NA	100.0%	100.0%	100.0%	81.3%	97.4%	99.9%	90.3%	97.2%	
2013	98.3%	99.0%	95.9%	100.0%	100.0%	100.0%	AEI	97.1%	99.9%	90.9%	98.2%	
2014	97.0%	99.3%	99.7%	100.0%	100.0%	100.0%	73.9%	96.1%	100.0%	73.9%	95.9%	
3Q15	98.9%	99.2%	99.2%	100.0%	100.0%	100.0%	73.1%	94.1%	99.7%	62.3%	94.8%	
Valuation (FY2014) (RMB, m)	2,777	2,050	1,948	973	606	558	564	485	400	260	10,621	
% of portfolio	26%	19%	18%	9%	6%	5%	5%	5%	4%	2%		

Source: Company, PSR

- **Renewals in stabilizing malls in 4Q15 likely to be a drag on rental reversions.** 12.5% of NLA for CapitaMall Minzhongleyuan still remains up for renewal for FY15. With the subway line construction not expected to end until end 2016, rental reversions should continue to be weak. This could be a temporary drag on reversion levels in 4Q.
- **Stable cost of borrowing, with healthy debt headroom.** Cost of borrowing remained stable at 2.98% with c.84.7% of debt hedged on fixed interest rates (excluding RMB denominated loans)

CRCT Dividend Yield (Post Global Financial Crisis)



Source: Bloomberg, PSR

Investment Actions

We maintain our BUY call with an unchanged DDM-derived target price of S\$1.90. Results were broadly in line with expectations. CRCT is currently trading at an annualised yield of c.6.58%, which offers an attractive spread vs the Singapore 10-year government bond yield of 2.5% and China's at 3.3%. We remain optimistic on the Chinese consumer strength on the back of rising middle class income and rapid urbanization.

Financials
Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
Gross Revenue	152.5	160.1	203.3	221.1	245.1
Total Property expenses	(52.9)	(57.0)	(70.9)	(79.6)	(85.8)
Net Property Income	99.7	103.0	132.4	141.5	159.3
Net Income before tax and FV changes	86.1	83.8	98.7	110.5	118.9
FV changes and forex gain/(loss)	104.7	100.7	104.8	-	-
Tax expense	(50.8)	(48.5)	(57.1)	(24.3)	(26.1)
Net Income after tax and FV changes	140.1	135.9	146.4	86.2	92.7
Net Inc attributable to Unitholders	137.0	132.9	144.6	84.1	90.5
Distribution adjustments	(70.2)	(62.9)	(63.7)	5.7	6.4
Income available for distribution	66.8	70.1	80.9	89.8	96.9

Balance Sheet

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
ASSETS					
Investment properties	1,477	2,058	2,251	2,251	2,251
Trade and Other Receivables	9.1	11.4	11.3	13.7	15.2
Cash and Cash Equivalents	140.5	105.5	86.6	86.2	75.7
Total Assets	1,649	2,184	2,358	2,367	2,358
LIABILITIES					
Trade and other payables	34.3	57.7	51.1	69.9	77.5
Security deposit	27.4	35.0	41.2	42.1	46.7
Interest bearing borrowings	465.4	712.3	671.7	671.7	671.7
Other liabilities	120.1	165.4	216.2	216.2	216.2
Total Liabilities	647.1	970.4	980.2	999.9	1,012.1
EQUITY					
Shareholder Equity	1,001.7	1,213.9	1,377.8	1,366.8	1,345.6

Per share data (SGD)

Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
NAV	1.31	1.48	1.63	1.65	1.62
DPU (cents)	9.5	9.0	9.8	10.8	11.6

Cash Flow

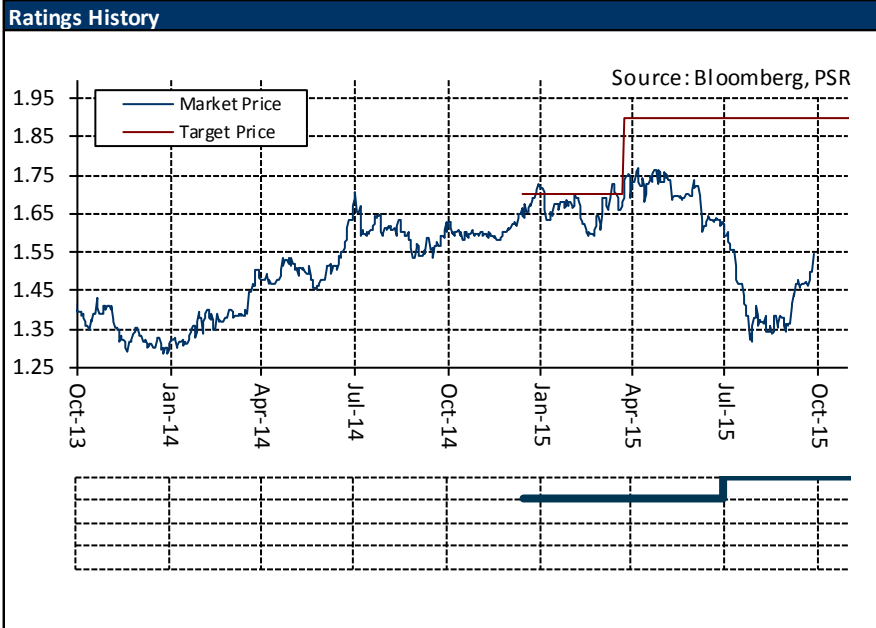
Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
CFO					
Net Income after tax	140.1	135.9	146.4	85.2	91.6
Adjustments	(69.7)	(56.0)	(37.0)	27.5	30.9
WC changes	(13.1)	(11.3)	2.0	16.4	6.1
Cashflow from ops	57.3	68.6	111.4	129.1	128.6
CFI					
Cashflow from investments	(13.8)	(143.3)	(16.7)	(16.8)	(16.7)
CFF					
Share issuance	86.1	59.0	-	-	-
Distributions to unitholders	(86.0)	(37.7)	(49.0)	(89.8)	(96.9)
Cashflow from financing	30.2	34.7	(117.3)	(112.6)	(122.4)
Net change in cash	73.7	(40.0)	(22.5)	(0.4)	(10.5)
CCE, end	140.5	105.5	86.6	86.2	75.7

Valuation Ratios

Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
P/NAV	1.26	0.90	0.98	0.97	0.99
Distribution yield (%)	5.80	6.80	6.10	6.40	6.90
NPI yield (%)	6.7%	5.0%	5.9%	6.3%	7.1%
Growth & Margins (%)					
Growth					
Revenue	19.3%	-0.7%	28.9%	10.0%	10.0%
Net property income (NPI)	16.2%	3.4%	28.3%	7.0%	12.6%
DPU	9.4%	-5.3%	8.9%	10.3%	7.5%
Margins					
NPI margin	65.3%	64.4%	65.1%	64.0%	65.0%
Operating Income Margin	56.5%	52.3%	48.5%	50.0%	48.5%
Key Ratios					
Net Gearing (X)	28.0%	32.6%	28.7%	28.4%	28.5%

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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