

# Croesus Retail Trust

Higher rental reversions at Mallage Shobu kicking in

## SINGAPORE | REAL ESTATE (REIT) | RESULTS

Croesus Retail Trust (CRT) reported their 1Q16 results yesterday morning. Below are some of the key numbers reported:

### Results at a glance

(JPY mn)	1Q16	1Q15	y-y (%)	Comments
Gross Revenue	2,007	1,712	17.2	Acquisition of One's Mall in October 2014 and higher rental reversion
Net property income	1,233	1,113	10.8	at Mallage Shobu
Distributable income	918.5	791.0	16.1	
DPU (Cents)	2.08	2.08	-	Higher number of units due to private placement in September 2014

Source: Company, PSR

### Key highlights:

- Effect of recent acquisition of Torius Property and Rights Issue to be fully reflected in 2Q16 numbers.** About 30% of Torius' leases offer a variable rent component as compared to 9.9% on a portfolio wide basis. This offers CRT higher income upside potential should tenant sales improve with Prime Minister Shinzo Abe's push for higher real wage growth and consumption spending in Japan. Downside risks are minimal as tenant sales for Torius over the past 5 years have stayed pretty stable.
- Drop in occupancy rate at Croesus Tachikawa due to transitional fit-out period.** Occupancy at Tachikawa dropped to 88.4% from 100% in 4Q15. Management pointed out that this is transitional due to the termination of an existing tenant. A new replacement tenant has already been signed on in October at the same rental rate at the previous tenant. The other malls in CRT's portfolio have close to 100% occupancy.
- No major tenant expiries in FY2016 and FY2017.** Post the Torius property acquisition, weighted average lease expiry (WALE) of CRT's enlarged portfolio would have been reduced from 8.6 years to 8.2 years as at 30 June 2015. In addition to the stability of the long WALE, we expect minimal non-renewal risks over the new 2 years as c.95% of FY2016 and c.92% of FY2017 rentals have been locked in.
- Occupancy costs remain low, at the low end of sustainable range.** Management reported that occupancy cost of the entire portfolio has declined slightly from the 8.3% as at 4Q15. The average suburban occupancy cost in Japan ranges from 12-15%.

### Investment Actions

We maintain our BUY call with a reduced DDM-derived target price of S\$0.93 from \$0.96, adjusted for the 22-for-100 rights issue undertaken for the Torius Property acquisition. We also adjusted our forecasted payout ratio upwards to 100% (from previous 90%) for FY16 to FY18 (thereafter from FY19: 90%). At a forward FY16F yield of 9.5%, CRT offers an attractive yield for a stable portfolio (WALE of 8.2 years), with distributions hedged on a fixed SGD/JPY exchange rate until FY17.

12 November 2015

### BUY (Maintained)

LAST DONE PRICE	SGD 0.815
FORECAST DIV	SGD 0.08
TARGET PRICE	SGD 0.93
<b>TOTAL RETURN</b>	<b>23.7%</b>

### COMPANY DATA

O/S SHARES (MN) :	635
MARKET CAP (USD mn / SGD mn) :	366 / 518
52 - WK HI/LO (SGD) :	0.92 / 0.75
3M Average Daily T/O (mn) :	1.13

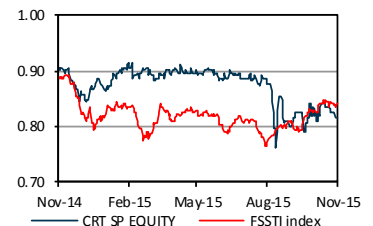
### TOP FIVE SHAREHOLDERS (%)

TARGET ASSET MGMT PTE LTD	6.1%
DBS BANK LTD	5.3%
AR CAPITAL PTE LTD	3.8%
VALUE PARTNERS LTD	3.3%
BLACKROCK	2.7%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(0.6)	(3.8)	(2.3)
STI RETURN	(0.45)	(4.68)	(6.38)

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

JPY MN	FY 15	FY 16 e	FY 17 e	FY 18 e
Revenue	7,635	9,515	10,172	10,180
NPI	4,681	5,643	5,940	5,945
Inc Av for Dist.	3,358	4,024	4,365	4,434
P/BV, x	0.90	0.85	0.86	0.88
DPU (SG cents)	8.1	7.8	7.5	7.2
Div Yield, %	9.6%	9.6%	9.3%	8.9%
Gearing	47.3%	42.3%	41.8%	41.5%

Source: Bloomberg, PSR est.

### Valuation Method

DDM (Cost of equity 8.5%, Terminal Growth 1%)

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## Financials

### Income Statement

Y/E Jun, JPY mn	FY15	FY16e	FY17e	FY18e
<b>Gross Revenue</b>	<b>7,635</b>	<b>9,515</b>	<b>10,172</b>	<b>10,180</b>
Property Operating Expenses	-2,954	-3,872	-4,231	-4,236
<b>Net Property Income</b>	<b>4,681</b>	<b>5,643</b>	<b>5,940</b>	<b>5,945</b>
Finance income	3	1	1	1
Finance Costs	-1,004	-877	-730	-615
Net Finance costs	-1,001	-876	-729	-614
Profit before changes in fair va	2,960	3,978	4,413	4,532
Fair value gain/loss	6,706	0	0	0
<b>Profit before tax</b>	<b>9,666</b>	<b>3,978</b>	<b>4,413</b>	<b>4,532</b>
Taxation	-2,087	-796	-883	-906
<b>Profit after tax</b>	<b>7,579</b>	<b>3,182</b>	<b>3,531</b>	<b>3,626</b>
Distribution adjustments	-4,221	804	795	770
<b>Income available for distribution</b>	<b>3,358</b>	<b>4,024</b>	<b>4,365</b>	<b>4,434</b>

### Balance Sheet

Y/E Jun, JPY mn	FY15	FY16e	FY17e	FY18e
<b>ASSETS</b>				
Investment properties	87,930	96,071	96,167	96,263
Non-current restricted cash	3,768	3,726	3,726	3,726
Others	1,295	282	282	282
<b>Total non-current assets</b>	<b>92,993</b>	<b>100,079</b>	<b>100,175</b>	<b>100,271</b>
Cash and cash equivalent	2,942	3,494	3,374	2,734
Receivables	491	761	814	814
Current restricted cash	3,300	4,254	4,254	4,254
Others	675	405	405	405
<b>Total current assets</b>	<b>7,408</b>	<b>8,913</b>	<b>8,846</b>	<b>8,207</b>
<b>Total Assets</b>	<b>100,401</b>	<b>108,992</b>	<b>109,021</b>	<b>108,478</b>
<b>LIABILITIES</b>				
Short term loans	647	8,177	24,700	8,300
Trade and other payables	1,219	1,704	1,862	1,864
Others	914	919	919	919
<b>Total current liabilities</b>	<b>2,781</b>	<b>10,799</b>	<b>27,481</b>	<b>11,083</b>
Long term loans	46,840	37,913	20,888	36,730
Others	7,194	5,963	6,578	6,943
<b>Total non-current liabilities</b>	<b>54,034</b>	<b>43,876</b>	<b>27,466</b>	<b>43,673</b>
<b>EQUITY</b>				
Non-controlling interest	0	0	0	0
<b>Shareholder Equity</b>	<b>43,586</b>	<b>54,316</b>	<b>54,074</b>	<b>53,722</b>

### Per share data JPY

Y/E Jun, JPY mn	FY15	FY16e	FY17e	FY18e
DPU (SGD Cents)	8.08	7.81	7.52	7.17
BVPS	83.9	85.1	83.9	82.6

### Cash Flows

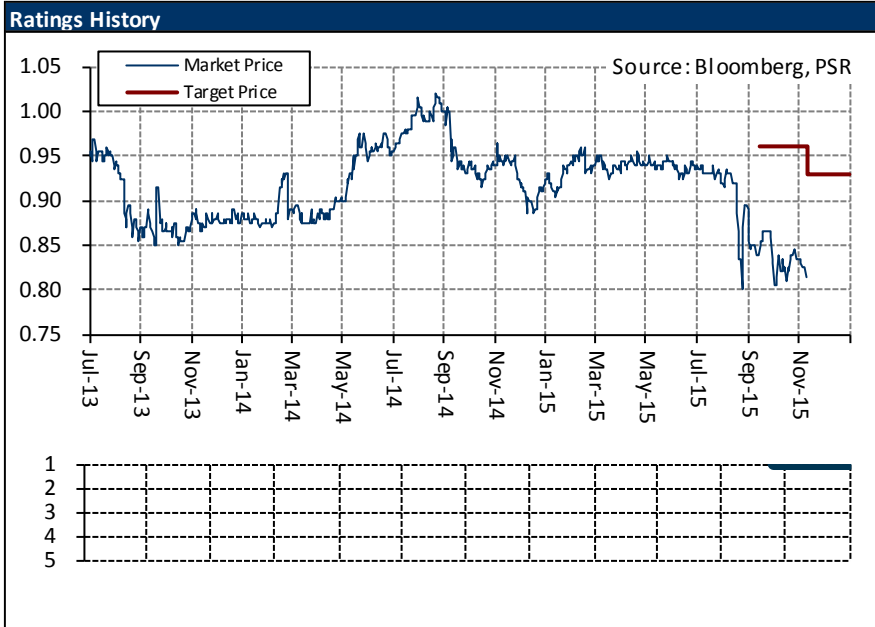
Y/E Jun, JPY mn	FY15	FY16e	FY17e	FY18e
<b>CFO</b>				
Profit before tax	9,666	3,978	4,413	4,532
Adjustments	275	1,290	1,150	1,036
WC changes	-1,955	-1,383	367	4
Cash generated from ops	4,142	3,885	5,931	5,572
Others	-1,266	-1,353	-1,258	-1,158
<b>Cashflow from ops</b>	<b>3,210</b>	<b>2,532</b>	<b>4,672</b>	<b>4,414</b>
<b>CFI</b>				
CAPEX, net	-11,403	-8,141	-96	-96
Others	-87	0	0	0
<b>Cashflow from investments</b>	<b>-11,712</b>	<b>-8,141</b>	<b>-96</b>	<b>-96</b>
<b>CFF</b>				
Share issuance	6,086	5,922	0	0
Loans, net of repayments	6,252	4,000	-501	-558
Dividends paid	-3,150	-3,762	-4,194	-4,399
Others	-344	0	0	0
<b>Cashflow from financing</b>	<b>8,642</b>	<b>6,161</b>	<b>-4,696</b>	<b>-4,958</b>
<b>Net change in cash</b>	<b>-1,267</b>	<b>552</b>	<b>-119</b>	<b>-640</b>
Effects of exchange rates	-7	0	0	0
<b>CCE, end</b>	<b>1,481</b>	<b>3,494</b>	<b>3,374</b>	<b>2,734</b>

### Valuation Ratios

Y/E Jun, JPY mn	FY15	FY16e	FY17e	FY18e
P/B (X)	0.90	0.85	0.86	0.88
Dividend Yield (%)	9.6%	9.6%	9.3%	8.9%
<b>Growth &amp; Margins (%)</b>				
<b>Growth</b>				
Revenue	21.9%	24.6%	6.9%	0.1%
Income av. For distribution	5.6%	19.8%	8.5%	1.6%
DPU	2.8%	-3.4%	-3.6%	-4.7%
<b>Key Ratios</b>				
Net Debt/(Cash)	44,546	42,596	42,214	42,296
Net Gearing	47%	42%	42%	42%

Source: Company Data, PSR est

\*Forward multiples and yields are based on current market price; historical multiples and yields are 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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