

CapitaLand Commercial Trust (CCT SP)

Sell (Maintained)

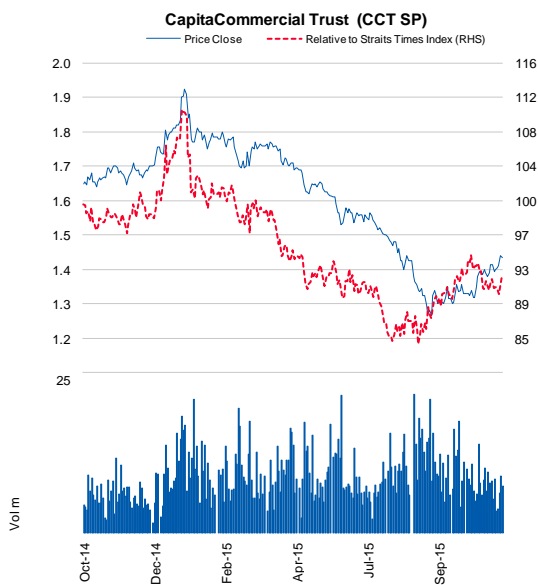
Property – REITS

 Target Price: **SGD1.15**

Market Cap: USD3,041m

 Price: **SGD1.44**

A Pessimistic Outlook For CapitaGreen

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	13.4m/9.53m
Cons. Upside (%)	20.8
Upside (%)	-20.1
52-wk Price low/high (SGD)	1.27 - 1.93
Free float (%)	65
Share outstanding (m)	2,951
Shareholders (%)	
Capital Limited	40.0
CBRE Clarion Securities	5.9
Lasalle Investment	1.9

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(18.2)	7.9	(3.1)	(16.1)	(12.8)
Relative	(8.9)	0.1	4.8	(2.9)	(7.4)

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CapitaLand Commercial Trust (CCT) reported 3Q15 and 9M15 DPU growth of 2.4% and 2.2% YoY respectively, with the latter meeting c.73% of our full-year forecast. **Maintain SELL**, with an unchanged DDM-derived TP of SGD1.15 (20% downside). Despite registering positive rental reversion for the last quarter, we observed a dip in its average occupancy to 96.4%, coupled with declining committed rentals in its new Grade A office building, CapitaGreen.

- ◆ **In line with our expectations.** CapitaLand Commercial Trust (CCT) recorded a 2.4/2.2% YoY increase in 3Q15/9M15 distribution per unit (DPU), with the latter accounting for c.73% of our full-year estimate. 3Q15/9M15 distributable incomes grew 2.5%/2.6% YoY, underpinned by higher income from Raffles City Singapore (in which it holds a 60% stake). Its portfolio average occupancy rate dipped to 96.4%, mainly due to the drop in occupancy in Capital Tower. In addition, the REIT reported positive rental reversion, with average passing rental rates for the overall portfolio inching up a mere 0.1% QoQ to SGD8.89 psf/month.
- ◆ **Committed rentals in CapitaGreen decline as take-ups slow down.** In the last quarter, we note that leasing activity has slowed down, as committed occupancy for the Grade A building inched up to 85.5% (2Q15: 80.4%). In addition, we observed that committed rental rates have been declining (see Figure 1), as the REIT registered SGD11.90psf/month to SGD14.00 psf/month for its new leases in 3Q15. These are in line with our expectations, as we have highlighted our bearish view on the office rental market. We believe that CapitaGreen is more likely to record a further decline in its committed rentals as we note that the asking price for its space has declined from 1 Sep to present day (see Figure 2).
- ◆ **Maintain SELL with an unchanged TP of SGD1.15.** Given the lacklustre office rental outlook, we believe it is unlikely for the REIT to achieve full occupancy in CapitaGreen by the end of 2015. In addition, according to the latest 3Q15 report from CBRE, office rents have corrected 3.5% QoQ to SGD10.90psf/month. We believe that rental rates are more likely to fall further amid a large supply of office space next year. We maintain SELL, with an unchanged TP of SGD1.15.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	251	263	277	284	285
Net property income (SGDm)	197	205	210	214	215
Reported net profit (SGDm)	220	256	156	160	164
Total distributable income (SGDm)	234	249	270	279	284
DPS (SGD)	0.08	0.08	0.09	0.09	0.09
DPS growth (%)	1.3	3.9	4.6	3.0	(2.1)
Recurring P/E (x)	18.6	16.1	27.5	27.6	27.6
P/B (x)	0.84	0.85	0.85	0.85	0.88
Dividend Yield (%)	5.7	5.9	6.2	6.4	6.2
Return on average equity (%)	4.6	5.2	3.1	3.1	3.2
Return on average assets (%)	3.3	4.1	2.5	2.5	2.6
Interest coverage ratio (x)	3.86	4.73	4.73	4.82	5.21

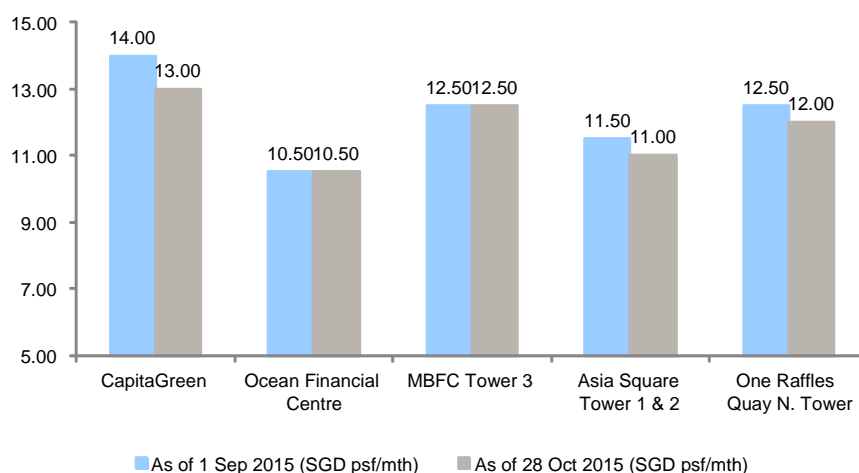
Source: Company data, RHB

Figure 1: Declining committed rental rates and slower leasing activity in CapitaGreen

	4Q14	1Q15	2Q15	3Q15
Occupancy rate (%)	69.3%	69.9%	80.4%	85.5%
Committed rent (min) (SGD psf/mth)	9.80	12.00	12.05	11.90
Committed rent (max) (SGD psf/mth)	16.00	16.00	16.00	14.00

Source: RHB, Company data

Figure 2: Asking rental rate for CapitaGreen has fallen over the past two months



Source: RHB

Figure 3: Performance of key metrics

Operating Performance:	3Q14	4Q14	1Q15	2Q15	3Q15
Portfolio Occupancy: (%)	99.4	96.8	97.0	98.0	96.4
CCT avg office rent (SGD psf/mth)	8.42	8.61	8.78	8.88	8.89
DPU (SG cts)	2.09	2.15	2.12	2.19	2.14
	FY-1	FY-2	FY-3	FY-4	>=FY-5
Lease Expiry Profile: (NLA %)	2.0	16.0	13.0	16.0	53.0
Capital Management:	3Q14	4Q14	1Q15	2Q15	3Q15
All-in cost of borrowing: (%)	2.30	2.30	2.40	2.40	2.90
Aggreg. Leverage: (%)	30.2	29.3	29.9	29.5	30.1
Term of Debt: (yrs)	4.0	3.9	4.1	3.9	3.7

Source: Company data

Figure 4: DDM valuation

	FY15F	FY16F	FY17F	FY18F	Terminal Value
DPU (SG cts):	8.85	9.11	8.92	9.16	114.60
Fair Value:	1.15				
Current Price:	1.44				
Price Upside (%):	(19.9)				
Distribution Yield (%):	6.2				
Total Return (%):	(13.7)				
Assumptions:					
Risk-free rate(%)	3.0				
Beta:	0.9				
Cost of Equity (%):	7.8				

Source: RHB

Figure 5: CCT's 3Q15 results summary

SGDm	3Q14	2Q15	3Q15	%QoQ	%YoY	Comments
Gross revenue	66.4	69.1	68.3	(1.1)	2.9	Gross revenue of SGD68.3m in 3Q15 was higher than 3Q14's by SGD1.9m or 2.9%. The increase in revenue was due to positive rent reversions for all buildings except for a marginal decrease at Golden Shoe Car Park.
Operating expenses	14.5	15.3	15.7	2.8	8.0	3Q15 property operating expenses of SGD15.7m increased compared with 3Q14 by SGD1.2m or 8.0%, due mainly to higher property taxes and ad hoc maintenance expenses. However, lower utility expenses partially offset the increase.
NPI	51.9	53.9	52.7	(2.2)	1.5	
Managers fees	(3.5)	(3.6)	(3.6)	1.0	2.0	
Trust exp	(0.4)	(0.6)	(0.7)	1.1	66.8	
Other charges	0.0	0.0	0.0	nm	nm	
Amortisation and transaction	(0.7)	(0.2)	(0.8)	267.5	15.9	
Net income before financing cost & tax	47.3	49.4	47.6	(3.6)	0.7	
Interest income	0.9	0.9	1.0	8.4	7.4	
Borrowing costs	(8.5)	(8.6)	(9.3)	7.9	9.7	Finance costs of SGD9.3m for 3Q15 were SGD0.8m or 9.7% higher compared with 3Q14, due mainly to higher interest costs but offset by lower amortisation and transaction costs.
EBT	39.8	41.7	39.3	(5.7)	(1.1)	
Gains from revaluation	0.0	37.4	0.0	nm	nm	
Gains from derivatives	0.0	0.0	0.0	nm	nm	
Share of results of associate	1.0	0.0	0.0	nm	nm	
Share of results of JV	17.6	35.1	16.5	(53.0)	(6.4)	
Total return before tax	57.9	114.2	56.7	(50.3)	(1.9)	
Tax	(0.0)	(0.0)	(0.0)	300.0	300.0	
Total return (reported)	57.8	114.2	56.7	(50.3)	(2.0)	
Total return (ex exceptionals)	57.8	76.8	56.7	(26.2)	(2.0)	
Total return to unitholders	57.8	114.2	56.7	(50.3)	(2.0)	
Add-back: non tax deductibles	3.7	(49.8)	6.4	nm	72.4	
Income available for distribution	61.6	64.4	63.2	(2.0)	2.6	
Distributable to unitholders	61.6	64.4	63.2	(2.0)	2.6	The distributable income to unitholders in 3Q15 of SGD63.2m was 2.6% higher than 3Q14's SGD61.6m, mainly due to higher net property income from CCT and higher distributable income from RCS Trust, albeit partially offset by higher interest expense.
# of units (end of period) (m)	2,939	2,949	2,951	0.1	0.4	
DPU (cents)	2.10	2.19	2.14	(2.3)	1.9	
NAV (SGD)	1.69	1.76	1.74	(1.1)	3.0	
Payout ratio (%)	100.0	100.0	100.0	0.0 ppt	0.0 ppt	
NPI margins (%)	78.1	77.9	77.1	(0.9) ppt	(1.1) ppt	

Source: RHB

Figure 6: CCT's 9M15 results summary

SGDm	9M14	9M15	%Change	RHB 2015F	% of 2015F	Comments
Gross revenue	196.2	205.6	4.8	277.1	74.2	Gross revenue of SGD205.6m in YTD Sep 2015 was higher than that of YTD Sep 2014 by SGD9.4m or 4.8%. The increase in revenue was due to positive rental reversions and/or higher occupancies for all CCT properties except for Twenty Anson.
Operating expenses	41.6	45.1	8.4	67.0	67.3	Property operating expenses for YTD Sep 2015 of SGD45.1m were SGD3.5m or 8.4% higher than YTD Sep 2014, due mainly to higher property taxes and ad hoc maintenance expenses. However, lower utility expense partially offset the increase.
NPI	154.6	160.5	3.8	210.1	76.4	
Managers fees	(10.2)	(10.9)	6.5	(17.2)	63.3	
Trust exp	(1.7)	(2.3)	39.0	(2.2)	105.7	
Other charges	0.0	0.0	nm	0.0	nm	
Amortisation and transaction	(3.1)	(1.1)	(62.9)	0.0	nm	
Net income before financing cost & tax	139.7	146.2	4.7	190.7	76.6	
Interest income	2.8	2.9	5.3	4.0	73.2	
Borrowing costs	(27.6)	(26.4)	(4.3)	(40.4)	65.5	Finance costs of SGD26.4m for YTD Sep 2015 were SGD1.2m or 4.3% lower than YTD Sep 2014 due mainly to lower amortisation and transaction costs but offset by higher interest costs.
EBT	114.8	122.7	6.8	154.4	79.5	
Gains from revaluation	53.3	37.4	(29.9)	0.0	nm	
Gains from derivatives	0.0	0.0	nm	0.0	nm	
Share of results of associate	3.0	1.8	(39.5)	4.9	37.2	
Share of results of JV	95.1	66.5	(30.1)	90.1	73.8	
Total return before tax	263.8	210.3	(20.3)	249.3	84.3	
Tax	(0.0)	(0.1)	4,450.0	0.0	nm	
Total return (reported)	263.8	210.2	(20.3)	249.3	84.3	
Total return (ex exceptionals)	210.4	172.8	(17.9)	249.3	69.3	
Total return to unitholders	263.8	203.2	(22.9)	249.3	81.5	
Add-back: non tax deductibles	(77.9)	(12.9)	(83.4)	20.9	nm	
Income available for distribution	185.9	190.3	2.4	270.3	70.4	
Distributable to unitholders	185.6	190.3	2.5	270.3	70.4	The distributable income to unitholders in YTD Sep 2015 of SGD190.3m was 2.5% higher than that of YTD Sep 2014 mainly due to higher net property income from CCT and higher distributable income from RCS Trust, albeit offset by higher interest expenses.
# of units (end of period) (m)	2,939	2,951	0.4	3,054	96.6	
DPU (cents)	6.31	6.45	2.2	8.85	72.9	
NAV (SGD)	1.69	1.74	3.0	1.69	102.9	
Payout ratio (%)	99.8	100.0	0.2 ppt	100.0	0.0	
NPI margins (%)	78.8	78.1	(0.7) ppt	75.8	0.0	

Source: RHB

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	251	263	277	284	285
Property operating expenses	(54)	(57)	(67)	(69)	(70)
Net property income	197	205	210	214	215
Management fees	(13)	(14)	(17)	(18)	(18)
Trust expenses	(3)	(3)	(2)	(2)	(2)
Operating EBIT	182	189	191	195	196
Depreciation of fixed assets	(0)	(1)	(1)	(0)	(0)
Operating EBITDA	182	190	191	195	196
Net income from investments	81	103	-	-	-
Interest income	4	4	4	4	4
Interest expense	(47)	(40)	(40)	(40)	(38)
Other non-recurring income	-	-	2	2	2
Pre-tax profit	220	256	156	160	164
Profit after tax & minorities	220	256	156	160	164
Reported net profit	220	256	156	160	164
Adjustment for distributable income	15	(7)	80	110	115
Total distributable income	234	249	237	270	279

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	182	189	191	195	196
Depreciation & amortisation	0	1	1	0	0
Change in working capital	8	(27)	2	(1)	(1)
Other operating cash flow	(22)	70	102	107	108
Operating cash flow	168	233	295	301	302
Cash flow from operations	168	233	295	301	302
Capex	(21)	(20)	(20)	(20)	-
Other new investments	82	1,948	(0)	13	9
Other investing cash flow	0	54	4	4	4
Cash flow from investing activities	61	1,982	(16)	(3)	13
Dividends paid	(231)	(189)	(222)	(232)	(256)
Proceeds from issue of shares	(5)	(10)	(5)	(7)	(6)
Increase in debt	(54)	(754)	(222)	(49)	(118)
Other financing cash flow	(0)	(0)	-	0	0
Cash flow from financing activities	(290)	(953)	(449)	(288)	(380)
Cash at beginning of period	140	84	73	184	181
Total cash generated	(62)	1,262	(170)	11	(65)
Implied cash at end of period	78	1,346	(97)	194	117

Source: Company data, RHB

Financial Exhibits

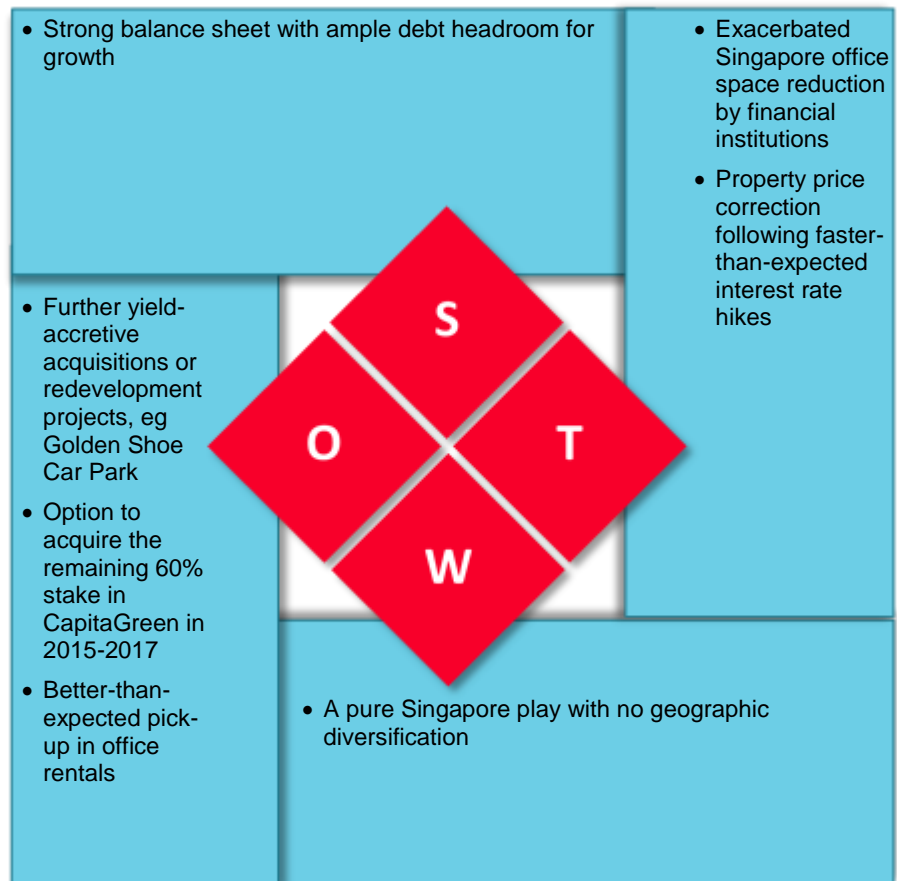
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	84	73	184	181	103
Accounts receivable	34	35	37	39	41
Total current assets	118	109	221	220	144
Total investments	6,118	6,117	6,130	6,144	6,158
Total other assets	10	7	1	1	1
Total non-current assets	6,128	6,124	6,132	6,145	6,159
Total assets	6,245	6,233	6,353	6,365	6,302
Short-term debt	-	-	460	946	175
Accounts payable	51	82	84	83	83
Other current liabilities	12	13	14	16	18
Total current liabilities	63	95	558	1,045	275
Total long-term debt	867	1,252	602	116	812
Other liabilities	403	28	29	30	32
Total non-current liabilities	1,270	1,280	631	146	844
Total liabilities	1,333	1,374	1,189	1,192	1,119
Share capital	4,913	4,858	5,164	5,174	5,183
Shareholders' equity	4,913	4,858	5,164	5,174	5,183
Total equity	4,913	4,858	5,164	5,174	5,183
Total liabilities & equity	6,245	6,233	6,353	6,365	6,302

Source: Company data, RHB

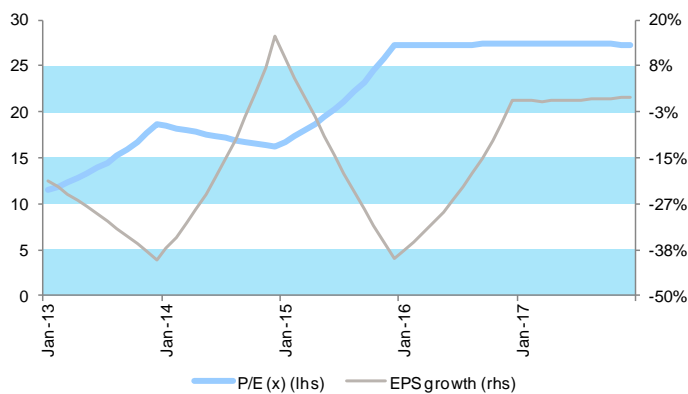
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(33.1)	4.4	5.5	2.3	0.5
Net profit growth (%)	(40.5)	16.6	(39.0)	2.4	2.4
EPS growth (%)	(41.0)	15.7	(40.8)	(0.5)	0.3
BVPS growth (%)	2.9	(1.4)	0.5	(0.1)	(3.5)
Net profit margin (%)	87.4	97.6	56.4	56.5	57.6
Return on average assets (%)	3.3	4.1	2.5	2.5	2.6
Return on average equity (%)	4.6	5.2	3.1	3.1	3.2
Net debt to equity (%)	15.9	24.3	17.0	17.0	17.1
DPS	0.08	0.08	0.09	0.09	0.09
Recurrent cash flow per share	0.06	0.08	0.10	0.10	0.10

Source: Company data, RHB

SWOT Analysis

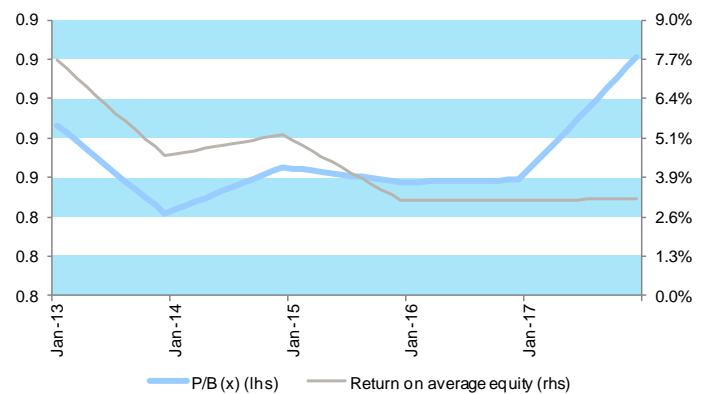


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

CapitaLand Commercial Trust is a property trust company that invests in commercial real estate properties.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-09-01	Sell	1.15	1.30
2015-07-27	Neutral	1.52	1.48
2015-01-21	Buy	1.95	1.90
2014-10-24	Buy	1.80	1.64
2013-07-17	Neutral	1.44	1.48
2013-04-19	Neutral	1.70	1.66
2013-03-26	Neutral	1.70	1.61
2013-01-23	Neutral	1.70	1.71
2013-01-09	Buy	1.77	1.68
2012-12-03	Buy	1.77	1.62

Source : RHB, Bloomberg

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