

Croesus Retail Trust (CRT SP)

Buy (Maintained)

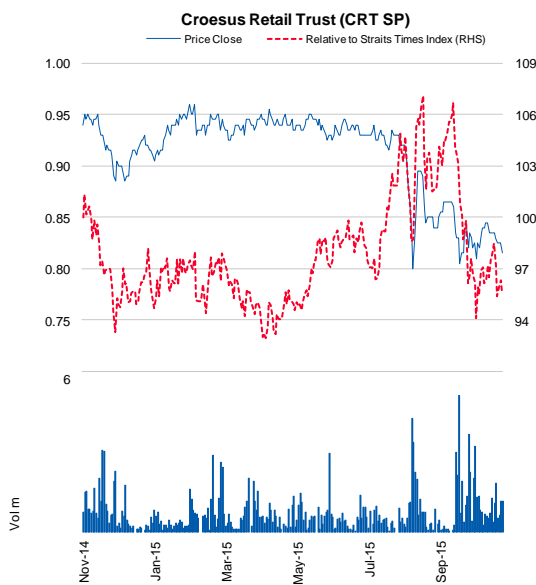
Property - REITS

 Target Price: **SGD0.93**

Market Cap: USD364m

 Price: **SGD0.82**

Torius Coming Only In 2QFY16

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

| | |
|----------------------------|-------------|
| Avg Turnover (SGD/USD) | 0.88m/0.63m |
| Cons. Upside (%) | 12.2 |
| Upside (%) | 14.1 |
| 52-wk Price low/high (SGD) | 0.80 - 0.96 |
| Free float (%) | 90 |
| Share outstanding (m) | 635 |
| Shareholders (%) | |
| Target Asset Management | 7.5 |
| DBS Bank | 6.5 |
| AR Capital Pte Ltd | 4.7 |

Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------|--------|-------|--------|--------|--------|
| Absolute | (11.9) | (0.6) | (12.4) | (13.3) | (13.8) |
| Relative | (1.0) | (0.6) | (6.2) | (0.1) | (5.0) |

Jarick Seet +65 6232 3891
jarick.seet@rhbgroup.com

CRT reported positive 1QFY16 (Jun) results, with gross revenue up 17.2% YoY and NPI rising 10.7% YoY – in line with our FY16 estimates. With an attractive 9% FY16F yield, we maintain BUY with a DDM-backed TP of SGD0.93 (14% upside). 1QFY16 DPU came in at 2.08 SG cents. Going forward, DPU will temporarily be hit negatively before normalising in FY17 as CRT would book only 8.5 months of contribution from the Torius property, with a further 22% dilution for FY16.

- ◆ **A steady 1QFY16.** Croesus Retail Trust (CRT) reported a 17.2% increase in gross revenue to JPY2,006.6m in 1QFY16 from JPY1,712.5m in 1QFY15. Net property income (NPI) for 1Q16 was higher at JPY1,232.8m, (+10.7% YoY). A distribution per unit (DPU) of 2.08 SG cents was declared for 1QFY16, as the financial effects from the acquisition of Torius, as well as the rights issue, would only be realised from 2QFY16 onwards. In addition, management has also highlighted that the majority of the DPU for FY16F and FY17F has been well-hedged at JPY85.03 and JPY84.16 respectively for every SGD1.00.
- ◆ **Torius – rental revisions and AEIs in FY17.** Management is currently still planning potential asset enhancement initiatives (AEIs) and rental revisions for its recently-acquired Torius property. We can most likely expect a rental uplift from tenants whose leases expire in 2016 as Torius average rentals are around JPY5,000/tsubo, while the average rents in surrounding suburban malls are between JPY6,000/tsubo and JPY8,000/tsubo per month.
- ◆ **DPU impacted by only partial contribution from the Torius property.** Due to only an 8.5-month contribution from the Torius property – along with an additional 22% dilution for FY16 – DPU will be temporarily impacted negatively, before normalising in FY17. However, we still expect a DPU of about JPY6.38 per share for FY16, representing an attractive dividend yield of 9% at current levels.
- ◆ **Steady trust with an attractive yield.** With an attractive FY16F yield of 9%, coupled with AEI possibilities and potential rental reversions in FY17, we maintain BUY on CRT with a DDM-backed TP of SGD0.93. We also like CRT for its stability and defensive suburban assets.

| Forecasts and Valuations | Jun-14 | Jun-15 | Jun-16F | Jun-17F | Jun-18F |
|-------------------------------------|--------|--------|---------|---------|---------|
| Total turnover (JPYm) | 6,261 | 7,635 | 9,371 | 9,834 | 9,834 |
| Net property income (JPYm) | 4,029 | 4,681 | 5,461 | 5,646 | 5,646 |
| Reported net profit (JPYm) | 4,793 | 7,579 | 3,547 | 3,728 | 3,727 |
| Total distributable income (JPYm) | 3,180 | 3,358 | 4,109 | 4,253 | 4,253 |
| DPS (JPY) | 7.37 | 6.86 | 6.38 | 6.52 | 6.44 |
| DPS growth (%) | 0.0 | (7.0) | (6.9) | 2.2 | (1.3) |
| Recurring P/E (x) | 6.3 | 4.8 | 12.8 | 12.3 | 12.5 |
| P/B (x) | 0.89 | 0.84 | 0.85 | 0.80 | 0.75 |
| Dividend Yield (%) | 10.4 | 9.7 | 9.0 | 9.2 | 9.1 |
| Return on average equity (%) | 0.0 | 19.5 | 7.3 | 6.7 | 6.2 |
| Return on average assets (%) | 0.0 | 8.5 | 3.4 | 3.4 | 3.4 |
| Interest coverage ratio (x) | 4.64 | 3.83 | 3.93 | 4.07 | 4.07 |
| Our vs consensus EPS (adjusted) (%) | | 111.6 | (24.5) | (21.7) | (22.7) |

Source: Company data, RHB

Figure 1: 1QFY16 results review

| FYE Jun (JPYm) | 1QFY15 | 4QFY15 | 1QFY16 | QoQ (%) | YoY (%) | Comments |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|--|
| Revenue | 1,712.5 | 1,988.6 | 2,006.6 | 0.9 | 17.2 | The increase was mainly due to the acquisition of One's Mall on 16 Oct and the tenant renewal exercise at Mallage Shobu. |
| Net property income | 1,113.5 | 1,205.6 | 1,232.8 | 2.3 | 10.7 | Due to the addition of properties and savings in property operating expenses. |
| Net finance cost | (233.8) | (259.6) | (257.4) | (0.8) | 10.1 | |
| Pretax profit | 855.5 | 7,030.9 | 160.2 | (97.7) | (81.3) | |
| <i>Pretax margin (%)</i> | <i>50%</i> | <i>354%</i> | <i>8%</i> | | | |
| Tax | (181.8) | (1,358.0) | (173.9) | (87.2) | (4.3) | |
| <i>Effective tax rate (%)</i> | <i>-21%</i> | <i>-19%</i> | <i>-109%</i> | | | |
| Net profit | 673.6 | 5,672.9 | (13.7) | (100.2) | (102.0) | The decline was due to fair value losses on derivative financial instruments. |
| <i>Net margin (%)</i> | <i>39%</i> | <i>285%</i> | <i>-1%</i> | | | |

Source: RHB

Financial Exhibits

| Profit & Loss (JPYm) | Jun-14 | Jun-15F | Jun-16F | Jun-17F | Jun-18F |
|--|---------------|----------------|----------------|----------------|----------------|
| Total turnover | 6,261 | 7,635 | 9,371 | 9,834 | 9,834 |
| Property operating expenses | (2,232) | (2,954) | (3,909) | (4,187) | (4,187) |
| Net property income | 4,029 | 4,681 | 5,461 | 5,646 | 5,646 |
| Management fees | (128) | (137) | (192) | (198) | (198) |
| Trust expenses | (621) | (697) | (921) | (939) | (944) |
| Operating EBIT | 3,280 | 3,847 | 4,348 | 4,509 | 4,505 |
| Amortisation of intangible assets | (267) | (55) | - | - | - |
| Operating EBITDA | 3,547 | 3,902 | 4,348 | 4,509 | 4,505 |
| Net income from investments | 3,784 | 6,706 | 809 | 853 | 857 |
| Interest income | 2 | 3 | - | - | - |
| Interest expense | (707) | (1,004) | (1,107) | (1,107) | (1,107) |
| Exchange gains | (15) | 114 | (94) | (98) | (98) |
| Pre-tax profit | 6,343 | 9,666 | 3,957 | 4,157 | 4,156 |
| Taxation | (1,551) | (2,087) | (409) | (429) | (429) |
| Profit after tax & minorities | 4,793 | 7,579 | 3,547 | 3,728 | 3,727 |
| Reported net profit | 4,793 | 7,579 | 3,547 | 3,728 | 3,727 |
| Adjustment for distributable income | (1,613) | (4,221) | 561 | 526 | 526 |
| Total distributable income | 3,180 | 3,358 | 4,109 | 4,253 | 4,253 |

Source: Company data, RHB

| Cash flow (JPYm) | Jun-14 | Jun-15F | Jun-16F | Jun-17F | Jun-18F |
|--|-----------------|-----------------|----------------|----------------|----------------|
| Operating profit | 3,280 | 3,847 | 4,348 | 4,509 | 4,505 |
| Depreciation & amortisation | 267 | 55 | - | - | - |
| Change in working capital | (2,661) | (344) | (1,356) | (491) | (500) |
| Other operating cash flow | 442 | 585 | 1,282 | 1,285 | 1,288 |
| Operating cash flow | 1,328 | 4,142 | 4,275 | 5,303 | 5,293 |
| Interest received | 2 | 3 | - | - | - |
| Interest paid | (272) | (598) | (1,107) | (1,107) | (1,107) |
| Tax paid | (148) | (337) | (409) | (429) | (429) |
| Cash flow from operations | 909 | 3,210 | 2,759 | 3,767 | 3,757 |
| Capex | (66,053) | (11,712) | (8,397) | (200) | (200) |
| Cash flow from investing activities | (66,053) | (11,712) | (8,397) | (200) | (200) |
| Dividends paid | (1,810) | (3,101) | (4,380) | (4,438) | (4,496) |
| Increase in debt | 40,305 | 5,634 | 4,000 | - | - |
| Other financing cash flow | 29,404 | 6,108 | 5,853 | - | - |
| Cash flow from financing activities | 67,898 | 8,642 | 5,472 | (4,438) | (4,496) |
| Cash at beginning of period | - | 2,754 | 2,942 | 2,776 | 1,905 |
| Total cash generated | 2,754 | 141 | (166) | (871) | (938) |
| Forex effects | 0 | 46 | - | (0) | 0 |
| Implied cash at end of period | 2,754 | 2,942 | 2,776 | 1,905 | 966 |

Source: Company data, RHB

Financial Exhibits

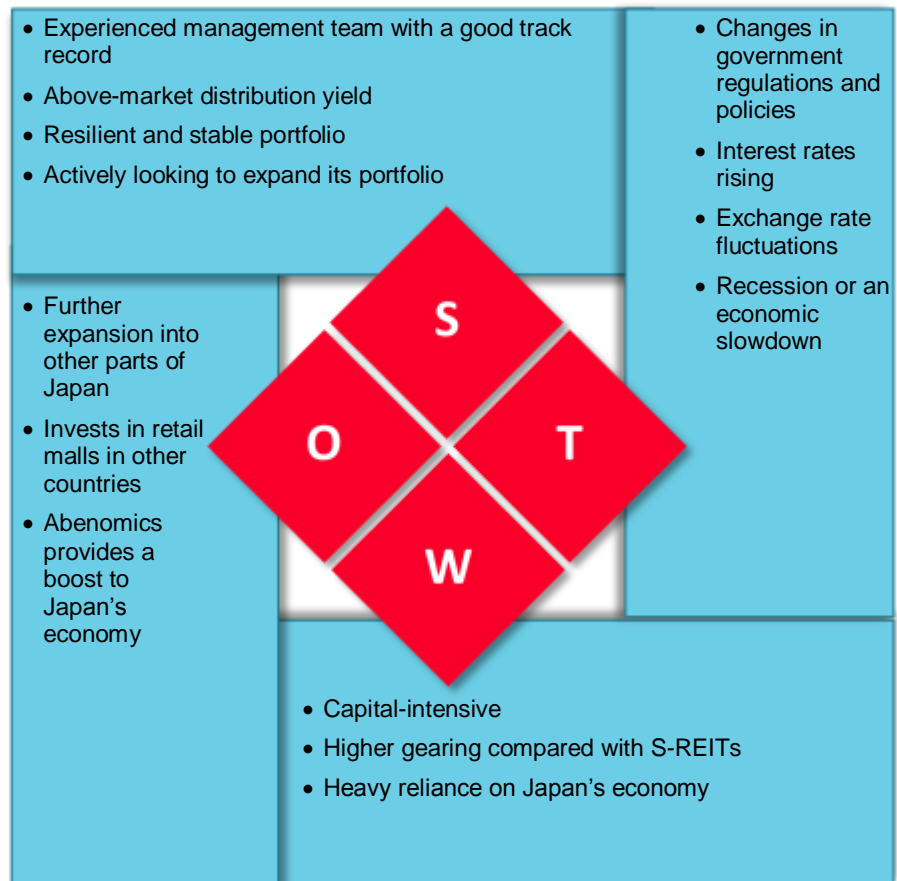
| Balance Sheet (JPYm) | Jun-14 | Jun-15F | Jun-16F | Jun-17F | Jun-18F |
|---------------------------------------|---------------|----------------|----------------|----------------|----------------|
| Total cash and equivalents | 5,570 | 6,596 | 6,430 | 5,559 | 4,620 |
| Other current assets | 776 | 812 | 1,102 | 1,141 | 1,141 |
| Total current assets | 6,346 | 7,408 | 7,532 | 6,699 | 5,761 |
| Total investments | 69,882 | 87,930 | 96,767 | 97,450 | 98,138 |
| Intangible assets | 264 | 398 | 398 | 398 | 398 |
| Total other assets | 2,059 | 4,665 | 4,665 | 4,665 | 4,665 |
| Total non-current assets | 72,205 | 92,993 | 101,830 | 102,513 | 103,201 |
| Total assets | 78,551 | 100,401 | 109,361 | 109,213 | 108,962 |
| Short-term debt | 358 | 647 | 647 | 647 | 647 |
| Accounts payable | 885 | 1,219 | 652 | 698 | 698 |
| Other current liabilities | 681 | 914 | 914 | 914 | 914 |
| Total current liabilities | 1,924 | 2,781 | 2,213 | 2,259 | 2,259 |
| Total long-term debt | 40,244 | 46,840 | 50,840 | 50,840 | 50,840 |
| Other liabilities | 5,470 | 7,194 | 7,194 | 7,194 | 7,194 |
| Total non-current liabilities | 45,714 | 54,034 | 58,034 | 58,034 | 58,034 |
| Total liabilities | 47,638 | 56,815 | 60,247 | 60,293 | 60,293 |
| Share capital | 29,861 | 36,487 | 42,848 | 43,363 | 43,880 |
| Retained earnings reserve | 4,793 | 7,461 | 11,008 | 14,736 | 18,463 |
| Other reserves | (450) | (361) | (361) | (361) | (361) |
| Shareholders' equity | 34,204 | 43,586 | 53,495 | 57,737 | 61,982 |
| Other equity | (3,291) | - | (4,380) | (8,818) | (13,314) |
| Total equity | 30,913 | 43,586 | 49,114 | 48,919 | 48,668 |
| Total liabilities & equity | 78,551 | 100,401 | 109,361 | 109,213 | 108,962 |

Source: Company data, RHB

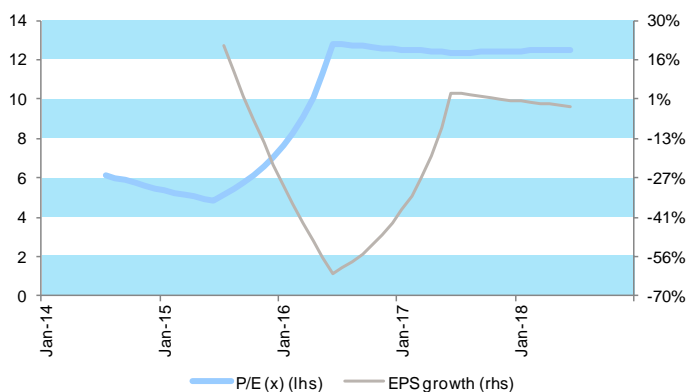
| Key Ratios (JPY) | Jun-14 | Jun-15F | Jun-16F | Jun-17F | Jun-18F |
|-------------------------------|---------------|----------------|----------------|----------------|----------------|
| Revenue growth (%) | 0.0 | 21.9 | 22.7 | 4.9 | 0.0 |
| Net profit growth (%) | 0.0 | 58.1 | (53.2) | 5.1 | (0.0) |
| EPS growth (%) | 0.0 | 31.0 | (62.2) | 3.7 | (1.3) |
| BVPS growth (%) | 0.0 | 5.9 | (1.0) | 6.5 | 6.0 |
| Net profit margin (%) | 76.5 | 99.3 | 37.9 | 37.9 | 37.9 |
| Return on average assets (%) | 0.0 | 8.5 | 3.4 | 3.4 | 3.4 |
| Return on average equity (%) | 0.0 | 19.5 | 7.3 | 6.7 | 6.2 |
| Net debt to equity (%) | 113.3 | 93.8 | 91.7 | 93.9 | 96.3 |
| DPS | 7.37 | 6.86 | 6.38 | 6.52 | 6.44 |
| Recurrent cash flow per share | 2.11 | 6.18 | 4.29 | 5.78 | 5.69 |

Source: Company data, RHB

SWOT Analysis

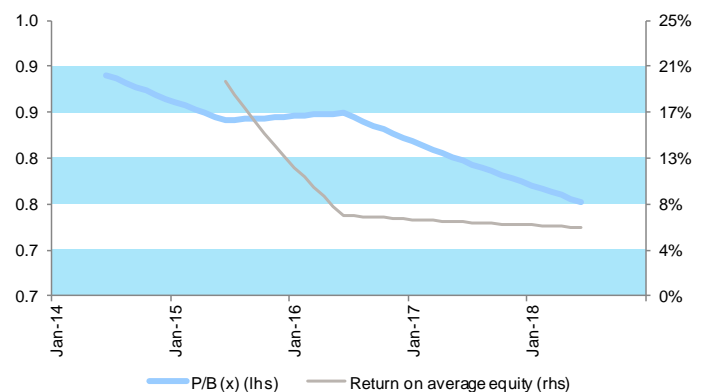


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Croesus Retail Trust (CRT) is the first Asia Pacific retail business trust with an initial core portfolio of six Japanese assets generating stable distribution income. CRT is still actively seeking to develop and acquire Japanese retail real estate to generate long-term capital gains and income returns.

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2015-09-30 | Buy | 0.93 | 0.83 |
| 2015-08-27 | Buy | 1.10 | 0.90 |
| 2015-02-11 | Buy | 1.15 | 0.96 |
| 2014-09-02 | Buy | 1.15 | 0.99 |
| 2014-08-29 | Buy | 1.15 | 1.00 |
| 2014-07-22 | Buy | 1.20 | 0.98 |

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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Kuala Lumpur

RHB Research Institute Sdn Bhd
Level 11, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur
Malaysia
Tel : +(60) 3 9280 2185
Fax : +(60) 3 9284 8693

Hong Kong

RHB Securities Hong Kong Ltd.
12th Floor
World-Wide House
19 Des Voeux Road
Central, Hong Kong
Tel : +(852) 2525 1118
Fax : +(852) 2810 0908

Singapore

**RHB Research Institute Singapore
Pte Ltd (formerly known as DMG & Partners Research
Pte Ltd)**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +(65) 6533 1818
Fax : +(65) 6532 6211

Jakarta

PT RHB Securities Indonesia
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710, Indonesia
Tel : +(6221) 2783 0888
Fax : +(6221) 2783 0777

Shanghai

RHB (China) Investment Advisory Co. Ltd.
Suite 4005, CITIC Square
1168 Nanjing West Road
Shanghai 20041
China
Tel : +(8621) 6288 9611
Fax : +(8621) 6288 9633

Bangkok

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +(66) 2 862 9999
Fax : +(66) 2 862 9799