Asia Credit

Earnings Review: CapitaLand Mall Trust ("CMT")

Issuer Profile: Neutral (3)

Ticker: **CAPITA**

Background

Listed on the SGX in 2002, CapitaLand Mall Trust ("CMT") is the largest REIT by market capitalization. CMT's portfolio consists of 16 malls in Singapore, including Plaza Singapura, IMM Building, Bugis Junction, Tampines Mall, a 40% stake in Raffles City and a 30% stake in Westgate. In addition, CMT owns ~14% interest in CapitaLand Retail China Trust ("CRCT"), the first China shopping mall REIT listed on the SGX. CMT is ~30%-owned by CapitaLand Ltd ("CAPL").

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Recommendation

- In general, CMT's assets look to be performing despite the tough environment for retail assets. The divestment of Sembawang Shopping Centre is a credit positive, driving aggregate leverage lower. That being said, we remain cognizant of potential sponsor asset injections given the debt headroom created. We will retain our Neutral (3) Issuer Profile.
- The CAPITA curve looks fully valued, particularly the CAPITA 3.15% '20s and CAPITA 2.8% '23s which each only offer ~40bps above swaps. A possible switch could be the AREIT 2.47% '23s offering 64bps above swaps.
- We have both CMT and AREIT at Neutral (3) Issuer Profile.

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
CAPITA 2.8% '23s	13/03/2023	33.5%	2.79%	40bps
AREIT 2.47% '23s	10/08/2023	34.4%	3.07%	64bps

Indicative prices as at 25 April 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter

Key Considerations

- **Picking up steam though Bedok Mall remains weak:** CMT reported 1Q2018 results, with gross revenue up 1.8% y/y to SGD175.2mn while NPI increased 4.7% y/y to SGD125.7mn. Results were decent, with most of CMT's assets reporting higher y/y property revenue (the exception being Lot One Shopper's Mall). It should also be noted that as of this quarter, CMT stopped disclosing property-level information for Bukit Panjang Plaza. Management had attributed performance to higher occupancy. This in turn drove portfolio NPI higher. The exception to trend would be Bedok Mall. Though property revenue was flat y/y, NPI fell 3.8% to SGD10.1mn. This might have been driven by the negative rental reversion of 6.5% which Bedok Mall saw in 2017.

- **Recovery in rental trends**: Portfolio rental reversion trends look to be improving, with 1Q2018 portfolio rental reversion at +0.8% (compared to -1.7% seen in 2017). The more challenged assets (in terms of rental reversion) such as Tampines Mall (2017: -3.2%), Westgate (2017: -10.2%) and Bedok Mall (2017: -6.5%) have shown improvement to +1.7%, -3.3% and -0.9% respectively. Rental pressure looks to be worsening at Raffles City Singapore ("RCS", 2017: -1.5%, 1Q2018: -2.6%) though leased space in 1Q2018 was modest at 4.2% of property NLA and may not be reflective. Portfolio retention rates have remained healthy at 82.9% (2017: 79.3%) reflecting demand for CMT's largely suburban malls.

- **Occupancy strong though sectorial pressures persist**: Portfolio committed occupancy remains high at 98.9% (4Q2017: 99.2%). Lease expiry for the balance of 2018 stands at 17.0% of NLA, with largest expiries at Lot One Shopper's Mall and IMM Building. These two assets have printed positive rental reversion for 1Q2018, and hence should be able to manage their lease renewals. Though in general, CMT had performed well given structural issues facing the domestic retail market, it is not immune. Areas of concern include shopper traffic (-2.1% y/y) as well as tenant sales (-0.2% y/y) for the quarter, deteriorating from 2017 figures of -0.3% and flat respectively.

- **Strong credit profile, though acquisitions remain a risk:** Reported interest coverage had improved to 5.4x (4Q2017: 4.8x) on lower borrowings. Aggregate leverage had improved as well, falling q/q to 33.5% (4Q2017: 34.2%). This was driven by total borrowings declining SGD153.5mn q/q. The declines were driven by CMT refinancing its USD400mn (~SGD505.2mn) in bonds due March 2018 with unsecured bank debt as well as cash on hand. The JV that holds RCS (CMT holds 40%) also refinanced its debt due in 2018 with SGD275mn 7-year bond. As such, CMT no longer has any maturities due for the balance of 2018. We note that 2019's maturities are now heightened at SGD619.6mn, as part of the 2018 refinancing looks to be a bridge loan maturing in 2019 (increased SGD172.9mn q/q). That being said, the proceeds from the recent divestment of Sembawang Shopping Centre (refer to OCBC Asian Credit Daily (19 Apr 2018)) totalling SGD248.0mn could be used to retire debt. Estimated pro-forma aggregate leverage could fall to ~31.5%. That being said, CMT does have a few sponsor assets that it could acquire, such as the balance 70% stake in Westgate still held directly by CAPL. The stake was valued at SGD675.5mn as of end-2017, and could drive pro-forma aggregate leverage higher to ~35.7%.

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Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.