

Earnings Review: CapitaLand Mall Trust (“CMT”)

Recommendation

- CMT continues to report steady results on the back of subsiding retail headwinds and rents bottoming out. While occupancy dipped slightly to 98.0% (1Q2018: 98.9%), we are not overly worried given CMT’s well-positioned and diversified portfolio.
- Following our upgrade of CMT’s Issuer Profile to Positive (2) in our [Mid-Year Credit Outlook](#), credit metrics have improved with aggregate leverage falling to 31.5% (1Q2018: 33.5%) as SGD223.1mn of net debt was repaid using proceeds from the sale of Sembawang Shopping Centre.
- In general, we think that the CAPITA curve looks fair. However, investors looking for higher yield can consider the CITSP curve, which trades at somewhat wider spreads compared to the CAPITA curve. We rate both CapitaLand Mall Trust and City Developments Ltd at Positive (2) Issuer Profile Rating.

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
CAPITA 3.15 ‘20	18/12/2020	0.32x	2.48%	50bps
CAPITA 2.8 ‘23	13/03/2023	0.32x	2.92%	75bps
CAPITA 3.48 ‘24	06/08/2024	0.32x	3.01%	75bps
CAPITA 3.5 ‘26	25/02/2026	0.32x	3.30%	93bps
CAPITA 2.88 ‘27	10/11/2027	0.32x	3.40%	94bps
CAPITA 3.35 ‘31	07/07/2031	0.32x	3.82%	117bps
CITSP 3.00 ‘20	02/04/2020	0.26x*	2.48%	59bps
CITSP 3.48 ‘23	03/04/2023	0.26x*	3.09%	91bps
CITSP 3.78 ‘24	21/10/2024	0.26x*	3.24%	96bps
CITSP 3.48 ‘26	15/06/2026	0.26x*	3.51%	112bps

*Indicative prices as at 23 Jul 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter
Total Debt / Total Assets

Key Considerations

- **Stable set of results:** CMT reported 2Q2018 results. Gross revenue increased 1.6% y/y to SGD171.4mn while NPI increased 2.8% y/y to SGD120.8mn. This was largely due to higher gross rental income from Plaza Singapura (+4.1% y/y to SGD22.9mn), Bedok Mall (+10.2% y/y to SGD14.1mn), Bugis Junction (+1.9% y/y to SGD21.2mn) and Tampines Mall (+2.5% y/y to SGD20.2mn), though the increase was partially offset by lower occupancy and rental rates at JCube, Bukit Panjang Plaza and the SGD248.0mn divestment of Sembawang Shopping Centre (18 Jun 2018).
- **Some retail headwinds still persist though rents appear to have bottomed:** Shopper traffic (excluding Funan which closed in Jul 2016 for redevelopment and Sembawang Shopping Centre which was sold in Jun 2018) declined by 2.4% y/y in 1H2018, continuing the trend from 2017 (-0.3% y/y). Tenant sales also softened (-0.2% y/y) slightly in 1H2018 (2017: steady y/y). Nevertheless, rental reversion may have bottomed in 1H2018 with a positive print of +0.8%, reversing from the decline of 1.7% in 2017, though this remains lacklustre compared to prior periods in 2014 (+6.1%) and 2015 (+3.7%). However, we note that the unexciting performance is in part weighed down by Bedok Mall (-1.5%) and Westgate (-2.1%), with performance at most of the other malls posting better results compared to 2017.
- **Occupancy dipped slightly though not a cause of concern:** Portfolio occupancy fell to 98.0% (1Q2018: 98.9%), continuing the downward trend q/q (4Q2017: 99.2%). The largest drag was Clarke Quay, which saw occupancy dip to 90.4% (1Q2018: 98.8%) as Shanghai Dolly (which took up ~4% of the space) and an office tenant (~3% of the space) moved out. We think Bukit Panjang Plaza

Issuer Profile: Positive (2)

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 15 malls in Singapore, including Plaza Singapura, IMM Building, Bugis Junction, JCube, Tampines Mall, Bugis+, Clarke Quay, a 40% stake in Raffles City and a 30% stake in Westgate. In addition, CMT owns ~14% interest in CapitaLand Retail China Trust (“CRCT”). CMT is ~28%-owned by CapitaLand Ltd (“CAPL”).

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could also have faced pressure with the opening and ramp up of the nearby Hillion Mall. While Westgate's occupancy also declined by 1.9pp q/q to 95.3%, occupancy may increase with new leases signed, according to management. Meanwhile, we are not overly concerned as we believe that CMT's malls in general are well-positioned, with good catchment areas and located near MRTs. Tenants appear sticky, with 83.8% retention rate.

- **Improved credit metrics:** Aggregate leverage improved to 31.5% q/q (1Q2018: 33.5%) mainly due to the repayment of debt (net repayment: SGD223.1mn) using proceeds from the sale of Sembawang Shopping Centre, as well as SGD55.4mn net valuation gains due to 10-15bps in cap rate compression across most of CMT's assets. We see significant financial flexibility as all properties (aside from jointly-owned ones) are unencumbered, with no refinancing needs in 2018 and well-termed out debt maturity. Reported net debt/EBITDA also improved to 5.3x (1Q2018: 5.8x), together with higher reported interest coverage of 5.7x (1Q2018: 5.4x), which is in-line with the decline in aggregate leverage. That said, the decline in aggregate leverage could be temporary as CMT does have a few sponsor assets that it could acquire, such as the balance 70%-stake in Westgate still held by CAPL.

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Explanation of Issuer Profile Rating (“IPR”) / Issuer Profile Score (“IPS”)

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 (“IPR”) into a 7 point Issuer Profile Score (“IPS”) 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.

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Analyst Declaration

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