

Earnings Review: CapitaLand Mall Trust (“CMT”)

Recommendation

- In general, CMT’s assets look to be performing despite the tough environment for retail properties in Singapore. Acquisition of the balance 70%-stake in Westgate late last year boosted CMT’s earnings. With credit health intact, we are retaining our Positive (2) Issuer Profile.
- We prefer to front end of the CAPITA curve over the mid to long end. We think the CAPITA ‘21s and ‘23s offer better value than the CAPITA ‘24s and ‘25s.
- Given both AREIT 2.47% ‘23s and CAPITA 2.8% ‘23s are offering ~80bps above swaps, we prefer the latter as it has a ~7 months shorter tenor.
- We have both CMT at Positive (2) Issuer Profile and AREIT at Neutral (3) Issuer Profile.

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
CAPITA 3.08% ‘21s	20/02/2021	34.4%	2.62%	68bps
CAPITA 2.8% ‘23s	13/03/2023	34.4%	2.77%	81bps
CAPITA 3.75% ‘24s	02/08/2024	34.4%	2.90%	89bps
CAPITA 3.48% ‘24s	06/08/2024	34.4%	2.86%	85bps
CAPITA 3.2% ‘25s	21/08/2025	34.4%	3.01%	94bps
CAPITA 3.5% ‘26s	25/02/2026	34.4%	3.12%	103bps
AREIT 2.655% ‘21s	07/04/2021	36.3%	2.55%	60bps
AREIT 2.47% ‘23s	10/08/2023	36.3%	2.78%	80bps

Indicative prices as at 2 May 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter

Issuer Profile: Positive (2)

Ticker: **CAPITA**

Background

Listed on the SGX in 2002, CapitaLand Mall Trust (“CMT”) is the largest Singapore REIT by market capitalization. CMT’s portfolio consists of 15 malls in Singapore, including Westgate, Plaza Singapura, IMM Building, Bugis Junction, Tampines Mall, and a 40% stake in Raffles City. In addition, CMT owns ~12.5% interest in CapitaLand Retail China Trust (“CRCT”), the first China shopping mall REIT listed on the SGX. CMT is ~25%-owned by CapitaLand Ltd (“CAPL”).

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Key Considerations

- **Broad-based growth, led by Westgate:** Gross revenue for 1Q2019 grew 10.0% y/y to SGD192.7mn while NPI increased by 11.5% y/y to SGD140.1mn. This came largely from the acquisition of the balance 70%-stake in Westgate on 1 Nov 2018, which led to the consolidation of Westgate’s results (Westgate’s revenue: +5.1% y/y, NPI: +8.4% y/y). Adjusting out the effects of the consolidation, we find that overall revenue and NPI would have increased by a small extent of 4.8% y/y and 7.7% y/y respectively instead. Westgate aside, most of CMT’s assets recorded low single digit positive y/y growth, with the exception of Atrium@Orchard (revenue: -0.2% y/y, NPI: -3.1% y/y) and the cluster of malls labelled ‘Other Assets’ which we think relates largely to the divestment of Sembawang Shopping Centre in June 2018, though the breakdown was not disclosed.
- **Improvement in rental trends though may not paint the full picture:** While CMT recorded good positive rent reversion of +1.2% in 1Q2019 (FY2018: +0.7%, FY2017: -1.7%, FY2016: +1.0%), we note that this is for 8% of portfolio NLA. IMM Building (“IMM”) in particular saw a strong +4.2% increase in rental rates (1Q2018: 1.3%) for 4.8% of property NLA. IMM has another 28.5% of property NLA expiring within 2019. In contrast, rental pressure may have worsened at Raffles City Singapore (“RCS”), an associate, with rental reversion at -3.1% (1Q2018: -2.6%) for a modest 3.8% of property NLA. RCS has 28.6% of property NLA expiring within 2019. We think it may be premature to draw conclusion from the positive rent reversion given these leases account for 28% of CMT’s expiring leases for 2019 and will monitor the rental reversions in the next two quarters. Overall, CMT also saw high retention rate of 88.9% (1Q2018: 82.9%, 1Q2017: 83.8%).
- **Strong occupancy though sectorial pressures remain:** Portfolio committed occupancy remains high at 98.8% (4Q2018: 99.2%). Lease expiry for the balance of 2019 stands at 21.0% of portfolio NLA, with the largest expiry at Bugis Junction (49.4% of property NLA). Given that Bugis Junction printed +1.6% rental

reversions in 1Q2019 and has always recorded strong occupancy rate (>98.5%), we are not overly concern about the lease renewals. Having said that, we remain cautious as even though shopper traffic was up 2.0% y/y, tenants' sales psf per month dipped 0.4% y/y. The retail sales index (excluding motor vehicle sales), according to Singapore Department of Statistics, increased 5.3% y/y in January this year before shrinking 10.7% y/y the following month (March 2019 figures have yet to be released). We think the retail market continues to face structural issues which CMT is not immune to despite its strong portfolio. Interestingly, the Toys & Hobbies segment saw the most significant growth in tenants' sales psf per month of 36.5% y/y.

- **Decent credit profile, with low refinancing risk:** Aggregate leverage crept marginally higher to 34.4% from 34.2% in the preceding quarter. Reported interest coverage fell to 4.9x (4Q2018: 5.2x) while reported net debt/EBTIDA fell to 6.5x from 6.8x as at 31 Dec 2018. We think both ratios – interest coverage and net debt/EBITDA are likely to improve once contributions from Funan start rolling in to match the debt had been drawn down for the development works. After using the USD300mn 10-year debt issued earlier in April 2019 to refinance its existing bank borrowings maturing 2019, 2020 and 2022, CMT has SGD360.1mn worth of debt coming due within this year. SGD157.6mn of which is a JPY10.0bn 1.309% bond, while the balance is a bank loan secured against Westgate. Given CMT has SGD401.4mn cash and cash equivalents and only Westgate is encumbered (89.8% of assets are unencumbered), refinancing risk is low in our view.
- **Funan to boost future earnings:** Looking forward, Funan is on track to open in mid-2019 and expected to progressively contribute to CMT's figures from 2H2019 onwards. Funan integrated development comprises a mall, two office blocks as a co-living serviced residences. The development is ~90% pre-leased as at 31 March 2019.

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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.

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.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

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